



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

May 5, 2009

Joint Legislative Commission
on Governmental Operations
North Carolina General Assembly
Raleigh, North Carolina 27601

Re: Quarterly report on Investment Funds for the period ended March 31, 2009.

Gentlemen and Ladies:

Pursuant to G.S.147-68, we are providing a report on the investment activities of the State Treasurer. The report is in summary form.

The Short-Term Investment Fund (STIF), which comprises the vast majority of the assets of the Cash Management Program, produced a fiscal year-to-date annualized cash return of 3.87% for the participants. Short-term interest rates were higher during the current quarter. The investable balances earning income for the General Fund were \$1.6 billion lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$114 million lower than at the same time one year earlier.

The investments held by the STIF on a particular date may be accruing income at different levels from current short-term interest rates. For example, if the investments were made when interest rates were lower, the earnings would continue to be at the lower rates of return, even though current interest rates may have moved higher. This happens in reverse as well.

The Cash Management Program had generated a fiscal year-to-date annualized cash return of 3.84% for its participants through March 31, 2009.

The investment results for the Trust Funds Investment Program are managed and reported on a cumulative total return basis. Total return includes realized income and the appreciation or depreciation of fair market value. Two funds comprise the vast majority of the Trust Funds Investment Program assets. They are the Long-Term Investment Fund (LTIF) and the Equity Investment Fund (EIF).

The interest rate environment was such that longer term interest rates were higher during the current quarter. The LTIF generated a 12, 24, 36 and 60 month trailing returns of 2.84%, 5.75%, 6.18% and 4.55% respectively. Assets of the fund (based on market value) ended the quarter approximately \$1.6 billion lower than at the end of the prior reporting period. Approximately \$875 million was used to pay benefits or was reallocated to other investment funds this quarter. The LTIF's realized earnings for the fiscal year are \$1.3 billion.

The equity market as measured by the DJIA was 1167.47 points lower than at the beginning of the quarter. During this period, assets of the EIF at market value decreased by approximately \$1.8 billion. The

EIF generated a 12, 24, 36 and 60 month trailing returns of -38.47%, -23.12%, -13.29% and -3.64% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of -21.14%, -10.28%, -4.12% and .83% on behalf of its participants through March 31, 2009.

Pursuant to G.S. 116-37 deposits are held for the University of North Carolina Hospitals at Chapel Hill Trust, New Hanover Memorial Hospital, and Margaret R. Pardee Hospital, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending March 31, 2009, the invested assets were valued at \$233 million after returns in the domestic and international accounts of -11.66% and -10.96% respectively.

Pursuant to G.S. 147-69.2(b)(12), up to 20% of the Escheat Fund's assets can be invested in authorized Equity, Real Estate, and Alternative Investments. For the Quarter ending March 31, 2009, \$40 million has been invested in equity; \$20 million has been invested in real estate, and commitments totaling \$65 million have been made to private equity, of which, 31.1 million has been contributed.

Pursuant to G.S. 147-69.4 deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending March 31, 2009, the \$17.8 million invested in domestic and international equity accounts returned -11.66% and -10.96% respectively.

Pursuant to Session Law 2007-323 Sec. 13.2.(b), G.S. 147-68(d1), the Treasurer "shall include a specific listing of all investments made with certified green managers and companies and funds that support sustainable practices, including the names of the companies, managers, and funds, the amount invested, and the State's return on investment." Based on currently available research, there is no validation group or process that certifies green managers for investments, and the statute provides no definition of the term "sustainable practices" that would enable the Treasurer to determine which companies and funds would fall under this provision. Thus, it is not possible to report any relevant data at this time.

No changes in investment policy were made during the last quarter.

It is our pleasure to present this quarterly report to you and we offer additional information upon request.

Sincerely,



Janet Cowell

Attachments

cc: Pamela J. Wortham, CPA, Deputy Treasurer - Financial Operations Division
Patricia Gerrick, Deputy Treasurer - Investments

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2009

	Cash Management Program			Trust Funds Investment Program					Memorandum	
	Short-term	Bond	Subtotal	Long-term	Equity	Real Estate	Alternative	Subtotal	Intrafund	Total
	Investment	Proceeds		Investment	Investment	Investment	Investment		Eliminations	
	Fund	Fund		Fund	Fund	Fund	Fund			
Revenues:										
Investment Income:										
Investment Earnings	\$ 334,391,479	\$ 2,532,780	\$ 336,924,259	\$ 1,271,156,310	\$ (4,724,182,976)	\$ (506,072,898)	\$ 72,188,441	\$ (3,886,911,122)	\$	\$ (3,549,986,864)
Intra-Pool Interest Earnings				19,645,683	18,287,365	1,365,961	2,977,849	42,276,858	(42,276,858)	-
Income from Security Lending	19,727,904		19,727,904	27,330,925	42,719,901			70,050,825		89,778,729
Commission Recapture					477,325			477,325		477,325
Other Income					8,986,364			8,986,364		8,986,364
Subtotal	354,119,383	2,532,780	356,652,163	1,318,132,918	(4,653,712,021)	(504,706,937)	75,166,290	(3,765,119,750)	(42,276,858)	(3,450,744,445)
Net Unrealized Appreciation/Depreciation				(198,770,437)	(9,565,011,967)	(1,025,859,444)	(743,825,280)	(11,533,467,128)		(11,533,467,128)
Total Investment Income	354,119,383	2,532,780	356,652,163	1,119,362,481	(14,218,723,988)	(1,530,566,381)	(668,658,990)	(15,298,586,878)	(42,276,858)	(14,984,211,573)
Expenditures:										
Treasurer's Allocated Cost	(1,131,809)		(1,131,809)	(1,189,215)	(1,279,293)	(3,677,470)	(9,012,132)	(15,158,110)		(16,289,919)
Management Fees		(101,973)	(101,973)		(65,842,391)	(55,635,663)	(49,142,035)	(170,620,088)		(170,722,061)
Foreign Income Tax					(9,694,158)		(8,116)	(9,702,274)		(9,702,274)
Other Cost	(820,780)		(820,780)	(841,858)	(532,110)	(452,916)	(699,812)	(2,526,696)		(3,347,476)
Total Expenditures	(1,952,589)	(101,973)	(2,054,562)	(2,031,072)	(77,347,952)	(59,766,049)	(58,862,095)	(198,007,169)		(200,061,731)
Net Investment Income (Loss)	352,166,794	2,430,807	354,597,601	1,117,331,408	(14,296,071,940)	(1,590,332,430)	(727,521,085)	(15,496,594,047)	(42,276,858)	(15,184,273,304)
Total Investment Income Allocated:										
General Fund	101,415,080		101,415,080							101,415,080
Highway Fund	19,762,631		19,762,631							19,762,631
Highway Trust Fund	828,271		828,271							828,271
University Trust Funds	59,815,237		59,815,237							59,815,237
Pension Trust Funds	15,429,039		15,429,039	1,074,110,690	(14,296,071,940)	(1,590,332,430)	(727,521,085)	(15,539,814,765)		(15,524,385,726)
Other Independent Trust Funds	97,824,533		97,824,533	43,220,718				43,220,718		141,045,251
Local Political Subdivisions	13,774,178		13,774,178							13,774,178
Licensing Boards	1,040,966		1,040,966							1,040,966
Other Investment Funds	42,276,858	2,430,807	44,707,665						(42,276,858)	2,430,807
Total Investment Income Allocated	352,166,794	2,430,807	354,597,601	1,117,331,408	(14,296,071,940)	(1,590,332,430)	(727,521,085)	(15,496,594,046.51)	(42,276,858)	(15,184,273,304)
Cash Return, Fiscal Year-to-Date (Annual	3.871%	1.250%	3.835%							
Total Return, 12, 24, and 36 and 60 months:										
12 months				2.84%	-38.47%	-21.97%	-17.90%	-21.14%		
24 months				5.75%	-23.12%	-6.83%	-4.61%	-10.28%		
36 months				6.18%	-13.29%	1.68%	0.74%	-4.12%		
60 months				4.55%	-3.64%	7.26%	3.41%	0.83%		

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
MARCH 31, 2009

	*Cash Management Program			*Trust Funds Investment Program					Memorandum				
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Long-term Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Subtotal	Escheats External Investments	OPEB External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
Net Assets:													
Investment Securities:													
Cash Equivalents	\$ 1,848,400,000	\$	\$ 1,848,400,000	\$	\$	\$	\$	-	\$	\$	\$	\$	\$ 1,848,400,000
Discount Notes/Bills	-		-					-					-
U.S. Treasury Bills/ Notes/ Bonds	2,674,537,112		2,674,537,112	6,163,945,181				6,163,945,181					8,838,482,293
U.S. Government Agency Notes/ Bonds	6,051,420,151		6,051,420,151	2,862,992,612				2,862,992,612					8,914,412,763
GNMA Certificates	-		-	6,391,872,066				6,391,872,066					6,391,872,066
Corporate Obligations	379,736,247		379,736,247	9,741,181,479				9,741,181,479					10,120,917,727
Investments in Equity Securities	-		-				5,870,559	5,870,559					5,870,559
Bond proceeds Advisory		172,240,019	172,270,474					-					172,270,474
Investments in Equity Trusts	-		-		22,975,211,181			22,975,211,181					22,975,211,181
Investments in Real Estate Trust Funds & Partnerships	-		-			3,986,476,392		3,986,476,392					3,986,476,392
Investments in Alternative Partnerships	-		-				3,179,018,032	3,179,018,032					3,179,018,032
Total Investment Securities	10,954,093,510	172,240,019	11,126,333,529	25,159,991,339	22,975,211,181	3,986,476,392	3,184,888,592	55,306,567,503	-	-	-	-	66,432,931,487
Cash in Bank	(293,446,202)		(293,446,202)										(293,446,202)
Deposits in Equity Investment Fund	-		-					-	26,445,498	11,268,574	233,103,590	(270,817,662)	-
Deposits in Real Estate Investment Fund	-		-					-	17,005,675			(18,374,160)	-
Deposits in Alternative Investment Fund	-		-					-	22,103,886			(20,735,401)	-
Deposits in Short-term Investment Fund	-		-	1,228,609,904	28,487,134	36,231,646	44,022,119	1,337,350,804				(1,337,350,804)	-
Other Assets, Net of Liabilities	103,396,708		103,396,708	273,316,254	-		1,247	273,317,501					376,714,209
Total Net Assets	\$ 10,764,044,016	\$ 172,240,019	\$ 10,936,284,035	\$ 26,661,917,498	\$ 23,003,698,315	\$ 4,022,708,037	\$ 3,228,911,958	\$ 56,917,235,808	\$ 65,555,059	\$ 11,268,574	\$ 233,103,590	\$ (1,647,278,026)	\$ 66,516,199,495
Participant Equity:													
General Fund	\$ 1,188,075,836	\$	\$ 1,188,075,836	\$	\$	\$	\$		\$	\$	\$	\$	\$ 1,188,075,836
Other Funds Which Earn Interest for General Fund	1,478,526,416	172,240,019	1,650,766,435										1,650,796,890
Highway Fund	809,129,922		809,129,922										809,129,922
Highway Trust Fund	2,383,689		2,383,689										2,383,689
University Trust Funds	2,119,936,876		2,119,936,876										2,119,936,876
Pension Trust Funds	197,779,146		197,779,146	25,697,745,390	23,003,698,315	4,022,708,037	3,228,911,958	55,953,063,701					56,150,842,846
Other Independent Trust Funds	2,980,335,279		2,980,335,279	964,172,107				964,172,107					3,944,507,386
Local Political Subdivisions	617,074,233		617,074,233					-					617,074,233
Licensing Boards	33,451,817		33,451,817					-					33,451,817
Other Investment Funds	1,337,350,804		1,337,350,804					-	65,555,059	11,268,574	233,103,590	(1,647,278,026)	-
Total Participant Equity	\$ 10,764,044,016	\$ 172,240,019	\$ 10,936,284,035	\$ 26,661,917,498	\$ 23,003,698,315	\$ 4,022,708,037	\$ 3,228,911,958	\$ 56,917,235,808	\$ 65,555,059	\$ 11,268,574	\$ 233,103,590	\$ (1,647,278,026)	\$ 66,516,199,495
Percent of Total	16.18	0.26	16.44	40.08	34.58	6.05	4.85	85.57	0.10	0.02	0.35	-2.48	100.00

* The Cash Management Program is presented at book value. The Trust Funds Investment Program is presented at market value.