



# NORTH CAROLINA

---

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

May 2, 2013

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, 2013.

Commission Members:

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

- The Cash Management Program – responsible for managing the operating funds of the State. The primary participants in this program are the State's General Fund and Highway Funds.
- The Trust Funds Investment Program – responsible for managing assets of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund. Collectively, these systems and funds are referred to as the North Carolina Retirement Systems or the Pension Fund. The Trust Funds Investment Program also includes other participants such as the State Health Plan, the Disability Income Plan, and the State Educational Assistance Authority.
- The Ancillary Investment Programs - as authorized by the General Assembly, responsible for managing assets for the Escheats Fund, Public Hospital Funds and the Local Government Other Post-Employment Benefits Fund.

### Cash Management Program

The Cash Management Program, composed mostly of the Short-Term Investment Fund ("STIF"), produced a one year return of 0.44% for the participants. It also includes the Bond Proceeds Fund which is a separate investment account for each state bond issue to comply with Internal Revenue Service regulations on bond arbitrage.

Short Term Investment Fund

<u>Historical T-Bill rates</u>	<u>3/31/12</u>	<u>9/30/12</u>	<u>3/31/13</u>
3-Mo. T-Bill	0.068%	0.094%	0.073%
6-Mo. T-Bill	0.133%	0.129%	0.102%

The Short-Term Investment Fund produced a one year return of 0.44% for the participants. The investable balances earning income for the General Fund were \$194 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$129 million higher than at the same time last year.

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 Bond Proceeds Fund is managed by a private investment company under contract with the Department of State Treasurer. The investments are valued at amortized cost, which approximates fair value.

Trust Funds Investment Program

The investment results for the Trust Funds Investment Program (“Trust Funds”) 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 assets. They are the Long-Term Investment Fund (“LTIF”) and the Equity Investment Fund (“EIF”).

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Total Trust Returns:	8.80%	7.01%	8.51%	5.01%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	6.43%	8.87%	8.43%	7.81%

The below table provides a trend comparison of the current Treasury yields to the previous quarter.

<u>US Treasury Yields</u>	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 9/30/12	0.72%	1.76%	2.95%
As of 3/31/13	0.765%	1.849%	3.103%

- Long Term assets (based on market value) ended the quarter approximately \$71 million lower than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$1.05 billion.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	11.45%	5.72%	8.76%	4.03%

The below table provides third quarter equity market returns as measured by major indices.

Quarterly Index Returns:	S&P 500	10.61%	DJIA	11.25%
	Russell 3000	11.07%	MSCI EAFE	5.13%

- Assets of the fund (based on market value) ended the quarter approximately \$2.4 billion higher than at the end of the prior reporting period.
- Approximately \$126 million was used to pay benefits or was reallocated to other investment funds this quarter.

Pursuant to Session Law 2009-98 and G.S.147-69.2, the Treasurer is now authorized to invest in credit and inflation-linked strategies. These new classifications are reflected in the attached report.

Ancillary Investment Programs

The Ancillary Investment Programs, as authorized by the General Assembly, are responsible for managing assets for the Escheats Fund, Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund and the Conservation Easement Endowment Fund.

Pursuant to G.S. 116-37, deposits are held for the Watauga Medical Center, New Hanover Memorial Hospital, Margaret R. Pardee Hospital, and Columbus Regional Healthcare System, 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, 2013, the invested assets were valued at \$87.9 million after returns in the domestic and international accounts of 10.47% and 4.16% 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, 2013, \$40 million has been invested in equity, of which \$40.8 million has been received in distributions; \$20 million has been invested in real estate, of which \$16.5 million has been returned; and commitments totaling \$57 million have been made to private equity, of which \$50.7 million has been contributed.

Pursuant to G.S. 159-30.1, 147-69.2(a)(17g), and 147-69.2(b4), deposits are held for the Local Government Other Post-Employment Benefits Fund. The assets are allocated as follows: STIF, LTIF, and authorized Equity funds. For the quarter ending March 31, 2013, the externally invested assets were valued at \$71.6 million after returns in the domestic and international equity accounts of 10.47% and 4.16% respectively.

Other Reporting Requirements

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.

Thank you for your attention. Please feel free to contact the Department of State Treasurer if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Janet Cowell". The signature is written in a cursive style with a large, looping initial "J".

Janet Cowell

Attachments

cc: Kevin SigRist, Chief Investment Officer  
Fran Lawrence, Chief Financial Officer

**DEPARTMENT OF STATE TREASURER**  
**COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS**  
**MARCH 31, 2013**

	*Cash Management Program			**Trust Funds Investment Program		All Pools
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total
Net Assets:						
Investment Securities:						
Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	14,700,000	-	14,700,000	-	-	14,700,000
Repurchase Agreements	880,000,000	-	880,000,000	-	-	880,000,000
Discount Notes/Bills	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	6,503,755,476	-	6,503,755,476	8,995,088,926	-	15,498,844,402
U.S. Government Agency Notes/ Bonds	4,959,973,915	-	4,959,973,915	1,891,589,500	-	6,851,563,415
GNMA Certificates	-	-	-	7,069,215,496	-	7,069,215,496
Corporate Obligations	5,003,024	-	5,003,024	10,679,860,779	-	10,684,863,803
Other Investments	-	-	-	1,645,476,356	-	1,645,476,356
Investments in RMBS and CMBS	-	-	-	349,873,634	-	349,873,634
Investments in Equity Securities	-	-	-	9,670,674	-	9,670,674
Bond proceeds Advisory	-	55,579,579	55,579,579	-	-	55,579,579
Investments in Equity Trusts	-	-	-	37,249,592,302	-	37,249,592,302
Investments in Real Estate Trust Funds & Partnerships	-	-	-	6,164,917,593	-	6,164,917,593
Investments in Alternative Partnerships	-	-	-	3,754,645,710	-	3,754,645,710
Investments in Credit Partnerships	-	-	-	3,184,748,547	-	3,184,748,547
Investments in Inflation Partnerships	-	-	-	-	-	-
Total Investment Securities	\$ 12,363,432,415	\$ 55,579,579	\$ 12,419,011,994	\$ 80,994,679,517	\$ -	\$ 93,413,691,511
Cash in Bank	389,845,657	-	389,845,657	-	-	389,845,657
Deposits in Short-term Investment Fund	-	-	-	1,088,951,051	(1,088,951,051)	-
Other Assets, Net of Liabilities	19,287,441	-	19,287,441	226,973,722	-	246,261,163
Total Net Assets	\$ 12,772,565,513	\$ 55,579,579	\$ 12,828,145,092	\$ 82,310,604,290	\$ (1,088,951,051)	\$ 94,049,798,331
Participant Equity:						
General Fund	\$ 1,534,983,194	-	\$ 1,534,983,194	\$ -	\$ -	\$ 1,534,983,194
Other Funds Which Earn Interest for General Fund	1,427,052,394	55,579,579	1,482,631,973	-	-	1,482,631,973
Highway Fund	578,265,425	-	578,265,425	-	-	578,265,425
Highway Trust Fund	516,611,830	-	516,611,830	-	-	516,611,830
University Trust Funds	2,805,816,948	-	2,805,816,948	-	-	2,805,816,948
Pension Trust Funds	129,567,151	-	129,567,151	81,053,440,124	-	81,183,007,275
Other Independent Trust Funds	3,781,732,738	-	3,781,732,738	1,257,164,166	-	5,038,896,904
Local Political Subdivisions	882,154,764	-	882,154,764	-	-	882,154,764
Licensing Boards	27,430,018	-	27,430,018	-	-	27,430,018
Other Investment Funds	1,088,951,051	-	1,088,951,051	-	(1,088,951,051)	-
Total Participant Equity	\$ 12,772,565,513	\$ 55,579,579	\$ 12,828,145,092	\$ 82,310,604,290	\$ (1,088,951,051)	\$ 94,049,798,331
Percent of Total	13.59	0.06	13.65	87.51	-1.16	100.00

\* The Cash Management Program is presented at book value.

\*\*The Trust Funds Investment Program is presented at market value. Trust Funds detail is included on Combining Statement of Net Assets and Participant Equity.

**DEPARTMENT OF STATE TREASURER**  
**COMBINING STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - TRUST FUNDS INVESTMENT PROGRAM**  
**MARCH 31, 2013**

	Long-term Investment Fund	External Fixed Inc. Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Credit Investment Fund	Inflation Investment Fund	Totals
Net Assets:								
Investment Securities:								
Cash and Cash Equivalents	\$						\$	
U.S. Treasury Bills/ Notes/ Bonds	8,336,881,208						658,207,718	8,995,088,926
U.S. Government Agency Notes/ Bonds	1,500,761,830	25,956,095					364,871,575	1,891,589,500
GNMA Certificates	7,069,215,496							7,069,215,496
Corporate Obligations	10,679,860,779							10,679,860,779
Other Investments		22,485,326					1,622,991,030	1,645,476,356
Investments in RMBS and CMBS		349,873,634						349,873,634
Investments in Equity Securities					9,670,674			9,670,674
Bond Proceeds Advisory								-
Investments in Equity Trusts			37,249,592,302					37,249,592,302
Investments in Real Estate Trust Funds & Partnerships				6,164,917,593				6,164,917,593
Investments in Alternative Partnerships					3,754,645,710			3,754,645,710
Investments in Credit Partnerships						3,184,748,547		3,184,748,547
Investments in Inflation Partnerships & Other Invest.								-
Total Investment Securities	\$ 27,586,719,313	\$ 398,315,055	\$ 37,249,592,302	\$ 6,164,917,593	\$ 3,764,316,384	\$ 3,184,748,547	\$ 2,646,070,323	\$ 80,994,679,517
Cash in Bank								
Deposits in Short-term Investment Fund	422,097,045	480,978,799	445,875	72,586,768	56,846,499	54,882,177	1,113,888	1,088,951,051
Other Assets, Net of Liabilities	237,389,909	1,245,400					(11,661,587)	226,973,722
Total Net Assets	\$ 28,246,206,267	\$ 880,539,254	\$ 37,250,038,177	\$ 6,237,504,361	\$ 3,821,162,883	\$ 3,239,630,724	\$ 2,635,522,624	\$ 82,310,604,290
Participant Equity:								
Pension Trust Funds	26,989,042,101	880,539,254	37,250,038,177	6,237,504,361	3,821,162,883	3,239,630,724	2,635,522,624	81,053,440,124
Other Independent Trust Funds	1,257,164,166	-	-	-	-	-	-	1,257,164,166
Total Participant Equity	\$ 28,246,206,267	\$ 880,539,254	\$ 37,250,038,177	\$ 6,237,504,361	\$ 3,821,162,883	\$ 3,239,630,724	\$ 2,635,522,624	\$ 82,310,604,290
Percent of Total	34.32	1.07	45.25	7.58	4.64	3.94	3.20	100.00

**DEPARTMENT OF STATE TREASURER  
 ANCILLARY INVESTMENT PROGRAMS  
 MARCH 31, 2013**

	<u>Escheats External Investments</u>	<u>OPEB External Investments</u>	<u>Hospital External Investments</u>	<u>Totals</u>
Net Assets:				
Deposits in Equity Investment Fund	\$ 20,882	71,591,645	87,903,331	\$ 159,515,858
Deposits in Alternative Investment Fund	37,524,426			37,524,426
Total Net Assets	<u>\$ 37,545,308</u>	<u>\$ 71,591,645</u>	<u>\$ 87,903,331</u>	<u>\$ 197,040,284</u>

**DEPARTMENT OF STATE TREASURER  
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS  
FOR THE PERIOD ENDED MARCH 31, 2013**

	Cash Management Program			*Trust Funds Investment Program	Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total
<b>Revenues:</b>						
<b>Investment Income:</b>						
Investment Earnings	\$ 46,632,940	76,486	\$ 46,709,426	\$ 3,211,650,013	\$ -	\$ 3,258,359,439
Intra-Pool Interest Earnings			-	2,375,606	(2,375,606)	-
Income from Security Lending			-	12,895,286	-	12,895,286
Commission Recapture			-	54,885	-	54,885
Other Income			-	4,038,960	-	4,038,960
Subtotal	<u>46,632,940</u>	<u>76,486</u>	<u>46,709,426</u>	<u>3,231,014,750</u>	<u>(2,375,606)</u>	<u>3,275,348,570</u>
Net Unrealized Appreciation/Depreciation				4,550,744,390	-	4,550,744,390
<b>Total Investment Income</b>	<u>46,632,940</u>	<u>76,486</u>	<u>46,709,426</u>	<u>7,781,759,140</u>	<u>(2,375,606)</u>	<u>7,826,092,960</u>
<b>Expenditures:</b>						
Treasurer's Allocated Cost	(1,073,999)		(1,073,999)	(3,450,010)	-	(4,524,009)
Management Fees		(24,256)	(24,256)	(170,747,372)	-	(170,771,628)
Dividend Withholding Tax			-	(15,074,608)	-	(15,074,608)
Other Cost	(1,761,139)		(1,761,139)	(30,801,556)	-	(32,562,695)
<b>Total Expenditures</b>	<u>(2,835,138)</u>	<u>(24,256)</u>	<u>(2,859,394)</u>	<u>(220,073,546)</u>	<u>-</u>	<u>(222,932,940)</u>
<b>Net Investment Income (Loss)</b>	<u>\$ 43,797,802</u>	<u>\$ 52,230</u>	<u>\$ 43,850,032</u>	<u>\$ 7,561,685,594</u>	<u>\$ (2,375,606)</u>	<u>\$ 7,603,160,020</u>
<b>Total Investment Income Allocated:</b>						
General Fund	\$ 9,863,375		9,863,375	\$ -	\$ -	\$ 9,863,375
Highway Fund	1,824,232		1,824,232	-	-	1,824,232
Highway Trust Fund	1,588,073		1,588,073	-	-	1,588,073
University Trust Funds	9,212,141		9,212,141	-	-	9,212,141
Pension Trust Funds	1,232,590		1,232,590	7,526,736,074	-	7,527,968,664
Other Independent Trust Funds	14,703,180		14,703,180	34,949,520	-	49,652,700
Local Political Subdivisions	2,907,454		2,907,454	-	-	2,907,454
Licensing Boards	91,151		91,151	-	-	91,151
Other Investment Funds	2,375,606	52,230	2,427,836	-	(2,375,606)	52,230
<b>Total Investment Income Allocated</b>	<u>\$ 43,797,802</u>	<u>\$ 52,230</u>	<u>\$ 43,850,032</u>	<u>\$ 7,561,685,594</u>	<u>\$ (2,375,606)</u>	<u>\$ 7,603,160,020</u>
<b>Cash Return, Fiscal Year-to-Date (Annualized)</b>	0.4420%	0.010%	0.4420%			

\*Trust Funds detail is included on the Combining Statement of Operations-Trust Funds Investment Program.

**DEPARTMENT OF STATE TREASURER**  
**COMBINING STATEMENT OF OPERATIONS - TRUST FUNDS INVESTMENT PROGRAM**  
**FOR THE PERIOD ENDED MARCH 31, 2013**

	Trust Funds Investment Program							Totals
	Long-term Investment Fund	External Fixed Inc. Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Credit Investment Fund	Inflation Investment Fund	
<b>Revenues:</b>								
<b>Investment Income:</b>								
Investment Earnings	\$ 1,050,082,935	53,288,823	1,426,709,030	150,759,734	246,092,655	232,301,288	52,415,548	\$ 3,211,650,013
Intra-Pool Interest Earnings	822,352	949,709	15,737	166,234	238,466	125,552	57,556	2,375,606
Income from Security Lending			12,895,286					12,895,286
Commission Recapture			54,885					54,885
Other Income			4,038,960					4,038,960
Subtotal	1,050,905,287	54,238,532	1,443,713,898	150,925,968	246,331,121	232,426,840	52,473,104	3,231,014,750
Net Unrealized Appreciation/Depreciation	(260,107,945)	23,039,068	4,456,047,077	257,421,515	(89,835,214)	159,891,102	4,288,787	4,550,744,390
Total Investment Income	790,797,342	77,277,600	5,899,760,975	408,347,483	156,495,907	392,317,942	56,761,891	7,781,759,140
<b>Expenditures:</b>								
Treasurer's Allocated Cost	(1,243,616)	(33,646)	(1,499,389)	(262,720)	(167,567)	(139,646)	(103,426)	(3,450,010)
Management Fees		(20,430,424)	(42,372,915)	(37,058,409)	(35,636,675)	(19,389,226)	(15,859,723)	(170,747,372)
Dividend Withholding Tax			(14,895,652)	(178,585)	(371)			(15,074,608)
Other Cost	(1,065,628)	(528,405)	(1,625,484)	(3,065,964)	(11,352,304)	(7,766,145)	(5,397,626)	(30,801,556)
Total Expenditures	(2,309,244)	(20,992,475)	(60,393,440)	(40,565,678)	(47,156,917)	(27,295,017)	(21,360,775)	(220,073,546)
Net Investment Income (Loss)	\$ 788,488,098	\$ 56,285,125	\$ 5,839,367,535	\$ 367,781,805	\$ 109,338,990	\$ 365,022,925	\$ 35,401,116	\$ 7,561,685,594
<b>Total Investment Income Allocated:</b>								
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highway Fund	-	-	-	-	-	-	-	-
Highway Trust Fund	-	-	-	-	-	-	-	-
University Trust Funds	-	-	-	-	-	-	-	-
Pension Trust Funds	753,538,578	56,285,125	5,839,367,535	367,781,805	109,338,990	365,022,925	35,401,116	7,526,736,074
Other Independent Trust Funds	34,949,520	-	-	-	-	-	-	34,949,520
Local Political Subdivisions	-	-	-	-	-	-	-	-
Licensing Boards	-	-	-	-	-	-	-	-
Other Investment Funds	-	-	-	-	-	-	-	-
Total Investment Income Allocated	\$ 788,488,098	\$ 56,285,125	\$ 5,839,367,535	\$ 367,781,805	\$ 109,338,990	\$ 365,022,925	\$ 35,401,116	\$ 7,561,685,594
<b>Total Return, 12, 24, and 36 and 60 months:</b>								
12 months	6.43%	11.06%	11.45%	8.076%	5.11%	15.01%	-2.841	8.80%
24 months	8.87%	7.81%	5.72%	9.36%	6.51%	7.39%	-5.77%	7.01%
36 months	8.43%	8.91%	8.76%	9.57%	7.75%	11.07%	-8.46%	8.51%
60 months	7.81%	10.54%	4.03%	-5.19%	2.10%	N/A	N/A	5.01%