



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

January 28, 2010

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

Re: Quarterly report on Investment Funds for the period
ended December 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.

Short Term Investment Fund

<u>Historical T-Bill rates</u>	<u>12/31/08</u>	<u>6/30/09</u>	<u>12/31/09</u>
3-Mo. T-Bill	0.08%	0.18%	0.05%
6-Mo. T-Bill	0.26%	0.34%	0.19%

The Short-Term Investment Fund (STIF), which comprises the vast majority of the assets of the Cash Management Program, produced a fiscal year return of 1.73% for the participants. The investable balances earning income for the General Fund were \$302 million lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$460 million higher 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 return of 1.73% for its participants through December 31, 2009.

Trust Fund

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).

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Total Trust Returns:	14.96%	-3.72%	0.13%	3.64%

Long Term Investment Fund (LTIF)

US Treasury Yields	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 9/30/09	2.31%	3.31%	4.05%
As of 12/31/09	2.68%	3.84%	4.64%

- Fixed Income assets (based on market value) ended the quarter approximately \$70 million lower than at the end of the prior reporting period.
- No Long Term Funds were used to pay benefits or were reallocated to other investment funds this quarter.
- The realized earnings for the fiscal year are \$830 million.

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	6.74%	7.07%	7.21%	5.82%

Equity Investment Fund (EIF)

Quarterly Index Returns:	S&P 500	+6.04%	DJIA	+7.37%
	Russell 3000	+5.90%	MSCI EAFE	+2.18%

- Assets of the fund (based on market value) ended the quarter approximately \$901 million higher than at the end of the prior reporting period.
- Approximately \$650 million was used to pay benefits or was reallocated to other investment funds this quarter.

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	32.68%	-9.76%	-4.19%	2.01%

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 December 31, 2009, the invested assets were valued at \$342 million after returns in the domestic and international accounts of 5.60% and 3.97% 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 December 31, 2009, \$40 million has been invested in equity; \$20 million has been invested in real estate, and commitments totaling \$67 million have been made to private equity, of which, \$39.8 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 December 31, 2009, the invested assets were valued at \$21.5 million after returns in the domestic and international equity accounts of 5.60% and 3.97% 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
Michael Williamson, Interim Chief Investment Officer

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED DECEMBER 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	Intrafund Eliminations	Total
Revenues:										
Investment Income:										
Investment Earnings	\$ 100,288,649	\$ 75,479	\$ 100,364,128	\$ 824,427,464	\$ 1,096,653,343	\$ 571,824	43,829,561	\$ 1,965,482,192	\$	\$ 2,065,846,320
Intra-Pool Interest Earnings				7,517,918	92,043	200,176	582,670	8,392,807	(8,392,807)	-
Income from Security Lending			0		20,145,373			20,145,373		20,145,373
Commission Recapture					79,436			79,436		79,436
Other Income					9,981,884			9,981,884		9,981,884
Subtotal	100,288,649	75,479	100,364,128	831,945,382	1,126,952,079	772,000	44,412,231	2,004,081,692	(8,392,807)	2,096,053,013
Net Unrealized Appreciation/Depreciation				668,485,530	5,429,256,871	(356,704,016)	315,503,061	6,056,541,446		6,056,541,446
Total Investment Income	100,288,649	75,479	100,364,128	1,500,430,912	6,556,208,950	(355,932,016)	359,915,292	8,060,623,138	(8,392,807)	8,152,594,459
Expenditures:										
Treasurer's Allocated Cost	(1,061,217)		(1,061,217)	(776,716)	(1,004,955)	(6,451,557)	(5,829,689)	(14,062,917)		(15,124,134)
Management Fees		(32,511)	(32,511)	(237,220)	(40,494,820)	(17,921,221)	(24,253,937)	(82,907,198)		(82,939,709)
Foreign Income Tax					(7,578,563)	(23,940)	-	(7,602,503)		(7,602,503)
Other Cost	(420,655)		(420,655)	(708,845)	(507,675)	(385,946)	(197,742)	(1,800,208)		(2,220,863)
Total Expenditures	(1,481,872)	(32,511)	(1,514,383)	(1,722,781)	(49,586,013)	(24,782,664)	(30,281,368)	(106,372,826)		(107,887,209)
Net Investment Income (Loss)	98,806,777	42,968	98,849,745	1,498,708,131	6,506,622,937	(380,714,680)	329,633,924	7,954,250,312	(8,392,807)	8,044,707,250
Total Investment Income Allocated:										
General Fund	21,569,760		21,569,760							21,569,760
Highway Fund	8,618,889		8,618,889							8,618,889
Highway Trust Fund	263,999		263,999							263,999
University Trust Funds	18,817,774		18,817,774							18,817,774
Pension Trust Funds	3,385,809		3,385,809	1,447,132,850	6,506,622,937	(380,714,680)	329,633,924	7,902,675,031		7,906,060,840
Other Independent Trust Funds	33,049,933		33,049,933	51,575,281				51,575,281		84,625,214
Local Political Subdivisions	4,430,735		4,430,735							4,430,735
Licensing Boards	277,071		277,071							277,071
Other Investment Funds	8,392,807	42,968	8,435,775						(8,392,807)	42,968
Total Investment Income Allocated	98,806,777	42,968	98,849,745	1,498,708,131	6,506,622,937	(380,714,680)	329,633,924	7,954,250,312	(8,392,807)	8,044,707,250
Cash Return, Fiscal Year-to-Date (Annualized)										
Total Return, 12, 24, and 36 and 60 month	1.732%	0.110%	1.730%							
12 months				6.74%	32.68%	-33.18%	-2.47%	14.96%		
24 months				7.07%	-9.76%	-20.60%	-6.21%	-3.72%		
36 months				7.21%	-4.19%	-10.41%	-0.09%	0.13%		
60 months				5.82%	2.01%	0.78%	3.88%	3.64%		

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
DECEMBER 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	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ -	\$ 25
Certificates of Deposit	46,600,000		46,600,000										46,600,000
Repurchase Agreements	1,240,000,000		1,240,000,000										1,240,000,000
Discount Notes/Bills	-		-					-					-
U.S. Treasury Bills/ Notes/ Bonds	3,532,129,136		3,532,129,136	176,539,039				176,539,039					3,708,668,175
U.S. Government Agency Notes/ Bonds	6,243,613,700		6,243,613,700	2,631,876,993				2,631,876,993					8,875,490,693
GNMA Certificates			-	6,149,706,584				6,149,706,584					6,149,706,584
Corporate Obligations	404,667,118		404,667,118	16,558,484,262				16,558,484,262					16,963,151,380
Investments in Equity Securities			-					-					-
Bond proceeds Advisory		102,086,288	102,086,288					-					102,086,288
Investments in Equity Trusts			-		33,960,058,380		7,495,532	33,967,553,912					33,967,553,912
Investments in Real Estate Trust Funds & Partnerships			-			3,524,713,967		3,524,713,967					3,524,713,967
Investments in Alternative Partnerships			-				3,869,091,184	3,869,091,184					3,869,091,184
Total Investment Securities	11,467,009,954	102,086,288	11,569,096,242	25,516,606,903	33,960,058,380	3,524,713,967	3,876,586,716	66,877,965,966	-	-	-	-	78,447,062,208
Cash in Bank	129,344,162		129,344,162										129,344,162
Deposits in Equity Investment Fund			-					-	35,566,776	21,488,076	341,853,691	(398,908,543)	-
Deposits in Real Estate Investment Fund			-					-	12,821,939			(12,821,939)	-
Deposits in Alternative Investment Fund			-					-	32,368,596			(32,368,596)	-
Deposits in Short-term Investment Fund			-	776,299,140	13,290,742	7,093,190	7,310,038	803,993,110				(803,993,110)	-
Other Assets, Net of Liabilities	5,173,246		5,173,246	288,829,961				288,829,961					294,003,207
Total Net Assets	\$ 11,601,527,362	\$ 102,086,288	\$ 11,703,613,650	\$ 26,581,736,004	\$ 33,973,349,122	\$ 3,531,807,157	\$ 3,883,896,754	\$ 67,970,789,037	\$ 80,757,311	\$ 21,488,076	\$ 341,853,691	\$ (1,248,092,188)	\$ 78,870,409,577
Participant Equity:													
General Fund	\$ 1,790,014,467	\$ -	\$ 1,790,014,467	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,790,014,467
Other Funds Which Earn Interest for General Fund	980,154,347	102,086,288	1,082,240,635										1,082,240,635
Highway Fund	1,026,174,734		1,026,174,734										1,026,174,734
Highway Trust Fund	28,697,112		28,697,112										28,697,112
University Trust Funds	2,334,932,500		2,334,932,500										2,334,932,500
Pension Trust Funds	211,888,646		211,888,646	25,642,337,820	33,973,349,122	3,531,807,157	3,883,896,754	67,031,390,853					67,243,279,499
Other Independent Trust Funds	3,819,908,888		3,819,908,888	939,398,184				939,398,184					4,759,307,072
Local Political Subdivisions	578,258,843		578,258,843					-					578,258,843
Licensing Boards	27,504,715		27,504,715					-					27,504,715
Other Investment Funds	803,993,110		803,993,110					-	80,757,311	21,488,076	341,853,691	(1,248,092,188)	-
Total Participant Equity	\$ 11,601,527,362	\$ 102,086,288	\$ 11,703,613,650	\$ 26,581,736,004	\$ 33,973,349,122	\$ 3,531,807,157	\$ 3,883,896,754	\$ 67,970,789,037	\$ 80,757,311	\$ 21,488,076	\$ 341,853,691	\$ (1,248,092,188)	\$ 78,870,409,577
Percent of Total	14.71	0.13	14.84	33.70	43.08	4.48	4.92	86.18	0.10	0.03	0.43	-1.58	100.00

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