



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

February 7, 2011

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, 2010.

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 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 of 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, UNC and Public Hospital Funds, and the Local Government Other Post-Employment Benefits Fund.

Cash Management Program

The Cash Management Program, comprised mostly of the Short-Term Investment Fund ("STIF"), produced a fiscal year return of 1.02% 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>12/31/09</u>	<u>6/30/10</u>	<u>12/31/10</u>
3-Mo. T-Bill	0.05%	0.17%	0.12%
6-Mo. T-Bill	0.19%	0.22%	0.18%

The Short-Term Investment Fund produced a fiscal year return of 1.05% for the participants. The investable balances earning income for the General Fund were \$93 million lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$246 million lower 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:	11.57%	13.25%	1.13%	4.51%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	9.29%	8.01%	7.81%	6.98%

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 9/30/10	1.26%	2.51%	3.69%
As of 12/31/10	2.01%	3.29%	4.33%

- Long Term assets (based on market value) ended the quarter approximately \$578 million lower than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$737 million.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	15.24%	23.65%	-2.10%	3.21%

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

Quarterly Index Returns:	S&P 500	10.76%	DJIA	7.32%
	Russell 3000	11.59%	MSCI EAFE	6.61%

- Assets of the fund (based on market value) ended the quarter approximately \$2.2 billion higher than at the end of the prior reporting period.
- Approximately \$908 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, is responsible for managing assets for the Escheats Fund, UNC and Public Hospital Funds, and the Local Government Other Post-Employment Benefits Fund.

Pursuant to G.S. 116-37, deposits are held for the University of North Carolina Hospitals at Chapel Hill Trust, 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 December 31, 2010, the invested assets were valued at \$392 million after returns in the domestic and international accounts of 11.49% and 7.11% 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, 2010, \$40 million has been invested in equity; \$20 million has been invested in real estate and on commitments totaling \$67 million to private equity, \$42.8 million has been invested. No new commitments have been made since 2008, instead these investments represent capital calls for exiting relationships.

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, 2010, the externally invested assets were valued at \$33.8 million after returns in the domestic and international equity accounts of 11.49% and 7.11% 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.

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

Sincerely,



Janet Cowell

Attachments

cc: Shawn Wischmeier, Chief Investment Officer

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
DECEMBER 31, 2010

	*Cash Management Program			**Trust Funds			All Pools
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total	
Net Assets:							
Investment Securities:							
Cash Equivalents	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Certificates of Deposit	38,100,000	-	38,100,000	-	-	38,100,000	-
Repurchase Agreements	1,600,000,000	-	1,600,000,000	-	-	1,600,000,000	-
Discount Notes/Bills	-	-	-	-	-	-	-
U.S. Treasury Bills/Notes/ Bonds	4,515,800,140	-	4,515,800,140	6,506,492,848	-	11,022,292,988	-
U.S. Government Agency Notes/ Bonds	5,164,762,170	-	5,164,762,170	2,373,271,058	-	7,538,033,228	-
GNMA Certificates	-	-	-	6,656,113,023	-	6,656,113,023	-
Corporate Obligations	394,834,127	-	394,834,127	9,414,737,980	-	9,809,572,107	-
Other Investments	-	-	-	34,267,258	-	34,267,258	-
Investments in RMBS and CMBS	-	-	-	1,200,623,407	-	1,200,623,407	-
Investments in Equity Securities	-	-	-	2,979,730	-	2,979,730	-
Bond proceeds Advisory	216,582,819	-	216,582,819	-	-	216,582,819	-
Investments in Equity Trusts	-	-	-	37,230,541,774	-	37,230,541,774	-
Investments in Real Estate Trust Funds & Partnerships	-	-	-	3,610,773,900	-	3,610,773,900	-
Investments in Alternative Partnerships	-	-	-	3,680,821,204	-	3,680,821,204	-
Investments in Credit Partnerships	-	-	-	1,397,030,009	-	1,397,030,009	-
Investments in Inflation Partnerships	-	-	-	591,121,197	-	591,121,197	-
Total Investment Securities	\$ 11,713,496,437	\$ 216,582,819	\$ 11,930,079,256	\$ 72,698,773,388	\$ -	\$ 84,628,852,644	-
Cash in Bank	108,192,711	-	108,192,711	518,315,251	-	108,192,711	-
Deposits in Short-term Investment Fund	-	-	-	285,878,103	(518,315,251)	-	-
Other Assets, Net of Liabilities	(108,376,279)	-	(108,376,279)	73,502,966,742	(518,315,251)	177,501,824	-
Total Net Assets	\$ 11,713,312,869	\$ 216,582,819	\$ 11,929,895,688	\$ 73,502,966,742	\$ (518,315,251)	\$ 84,914,547,179	-
Participant Equity:							
General Fund	\$ 1,583,989,151	\$ -	\$ 1,583,989,151	\$ -	-	\$ 1,583,989,151	-
Other Funds Which Earn Interest for General Fund							
Highway Fund	1,093,410,016	216,582,819	1,309,992,835	-	-	1,309,992,835	-
Highway Trust Fund	768,048,230	-	768,048,230	-	-	768,048,230	-
University Trust Funds	40,855,749	-	40,855,749	-	-	40,855,749	-
Pension Trust Funds	2,501,993,561	-	2,501,993,561	-	-	2,501,993,561	-
Other Independent Trust Funds	154,159,524	-	154,159,524	72,422,482,140	-	72,576,641,664	-
Local Political Subdivisions	4,316,253,237	-	4,316,253,237	1,080,484,602	-	5,396,737,839	-
Licensing Boards	705,189,290	-	705,189,290	-	-	705,189,290	-
Other Investment Funds	31,098,860	-	31,098,860	-	-	31,098,860	-
Total Participant Equity	518,315,251	-	518,315,251	-	(518,315,251)	-	-
	\$ 11,713,312,869	\$ 216,582,819	\$ 11,929,895,688	\$ 73,502,966,742	\$ (518,315,251)	\$ 84,914,547,179	-
Percent of Total	13.79	0.26	14.05	86.56	-0.61	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
DECEMBER 31, 2010

	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	\$ 6,426,517,511	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,975,337	\$ 6,506,492,848
U.S. Treasury Bills/ Notes/ Bonds	2,373,271,058	-	-	-	-	-	-	2,373,271,058
U.S. Government Agency Notes/ Bonds	6,656,113,023	-	-	-	-	-	-	6,656,113,023
GNMA Certificates	9,414,737,980	-	-	-	-	-	-	9,414,737,980
Corporate Obligations	-	34,267,258	-	-	-	-	-	34,267,258
Other Investments	-	1,200,623,407	-	-	2,979,730	-	-	1,200,623,407
Investments in RMBS and CMBS	-	-	-	-	-	-	-	-
Investments in Equity Securities	-	-	-	-	-	-	-	-
Bond Proceeds Advisory	-	-	-	-	-	-	-	-
Investments in Equity Trusts	-	-	37,230,541,774	3,610,773,900	-	-	-	37,230,541,774
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	3,680,821,204	-	-	3,680,821,204
Investments in Alternative Partnerships	-	-	-	-	-	1,397,030,009	-	1,397,030,009
Investments in Credit Partnerships	-	-	-	-	-	-	591,121,197	591,121,197
Investments in Inflation Partnerships & Other Inv	-	-	-	-	-	-	-	-
Total Investment Securities	\$ 24,870,639,572	\$ 1,234,890,665	\$ 37,230,541,774	\$ 3,610,773,900	\$ 3,683,800,934	\$ 1,397,030,009	\$ 671,096,534	\$ 72,698,773,388
Cash in Bank	-	-	-	-	-	-	-	-
Deposits in Short-term Investment Fund	229,239,683	182,471,914	9,389,115	21,478,204	32,307,668	32,406,514	11,022,153	518,315,251
Other Assets, Net of Liabilities	281,346,255	4,531,848	-	-	-	-	-	285,878,103
Total Net Assets	\$ 25,381,225,510	\$ 1,421,894,427	\$ 37,239,930,889	\$ 3,632,252,104	\$ 3,716,108,602	\$ 1,429,436,523	\$ 682,118,687	\$ 73,502,966,742
Participant Equity:								
Pension Trust Funds	24,300,740,908	1,421,894,427	37,239,930,889	3,632,252,104	3,716,108,602	1,429,436,523	682,118,687	72,422,482,140
Other Independent Trust Funds	1,080,484,602	-	-	-	-	-	-	1,080,484,602
Total Participant Equity	\$ 25,381,225,510	\$ 1,421,894,427	\$ 37,239,930,889	\$ 3,632,252,104	\$ 3,716,108,602	\$ 1,429,436,523	\$ 682,118,687	\$ 73,502,966,742
Percent of Total	34.53	1.93	50.67	4.94	5.06	1.94	0.93	100.00

**DEPARTMENT OF STATE TREASURER
ANCILLARY INVESTMENT PROGRAMS
DECEMBER 31, 2010**

Net Assets:	Escheats External Investments	OP&B External Investments	Hospital Investment Fund	Totals
Deposits in Equity Investment Fund	\$ 40,506,674	33,847,909	392,288,094	\$ 466,642,677
Deposits in Real Estate Investment Fund	13,926,772			13,926,772
Deposits in Alternative Investment Fund	36,055,735			36,055,735
Other Assets, Net of Liabilities				-
Total Net Assets	<u>\$ 90,489,181</u>	<u>\$ 33,847,909</u>	<u>\$ 392,288,094</u>	<u>\$ 516,625,184</u>

Participant Equity:				
General Fund	\$ -	\$ 33,847,909	\$ -	\$ -
Other Investment Funds	<u>\$ 90,489,181</u>	<u>\$ 33,847,909</u>	<u>\$ 392,288,094</u>	<u>\$ 516,625,184</u>
Total Participant Equity	<u>\$ 90,489,181</u>	<u>\$ 33,847,909</u>	<u>\$ 392,288,094</u>	<u>\$ 516,625,184</u>

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED DECEMBER 31, 2010

	Cash Management Program			*Trust Funds Investment Program		Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total	
Revenues:							
Investment Income:							
Investment Earnings	\$ 62,873,924	392,191	\$ 63,266,115	\$ 2,444,149,435	\$ -	\$ 2,507,415,550	
Intra-Pool Interest Earnings			-	3,611,842	(3,611,842)	-	
Income from Security Lending			-	11,699,874	-	11,699,874	
Commission Recapture			-	72,434	-	72,434	
Other Income			-	2,808,454	-	2,808,454	
Subtotal	62,873,924	392,191	63,266,115	2,462,342,039	(3,611,842)	2,521,996,312	
Net Unrealized Appreciation/Depreciation	62,873,924	392,191	63,266,115	5,996,701,242	-	5,996,701,242	
Total Investment Income				8,459,043,281	(3,611,842)	8,518,697,554	
Expenditures:							
Treasurer's Allocated Cost	(538,743)	-	(538,743)	(2,036,226)	-	(2,574,969)	
Management Fees		(101,402)	(101,402)	(98,987,225)	-	(99,088,627)	
Foreign Income Tax			-	(7,098,827)	-	(7,098,827)	
Other Cost	(809,636)		(809,636)	(15,238,998)	-	(16,048,634)	
Total Expenditures	(1,348,379)	(101,402)	(1,449,781)	(123,361,276)	-	(124,811,057)	
Net Investment Income (Loss)	\$ 61,525,545	\$ 290,789	\$ 61,816,334	\$ 8,335,682,005	\$ (3,611,842)	\$ 8,393,886,497	
Total Investment Income Allocated:							
General Fund	\$ 12,967,023	-	12,967,023	-	-	\$ 12,967,023	
Highway Fund	3,972,836	-	3,972,836	-	-	3,972,836	
Highway Trust Fund	218,380	-	218,380	-	-	218,380	
University Trust Funds	13,435,225	-	13,435,225	-	-	13,435,225	
Pension Trust Funds	1,959,054	-	1,959,054	-	-	8,337,641,059	
Other Independent Trust Funds	21,831,396	-	21,831,396	8,335,682,005	-	21,831,396	
Local Political Subdivisions	3,355,222	-	3,355,222	-	-	3,355,222	
Licensing Boards	174,568	-	174,568	-	-	174,568	
Other Investment Funds	3,611,841	290,789	3,902,630	-	(3,611,842)	290,788	
Total Investment Income Allocated	\$ 61,525,545	\$ 290,789	\$ 61,816,334	\$ 8,335,682,005	\$ (3,611,842)	\$ 8,393,886,497	

Cash Return, Fiscal Year-to-Date (Annualized) 1.050% 0.200% 1.023%

* 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 DECEMBER 31, 2010

	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		
Revenues:									
Investment Income:									
Investment Earnings	\$ 736,961,934	150,865,385	1,323,850,270	88,605,867	92,905,706	50,959,851	422 \$	2,444,149,435	
Inter-Pool Interest Earnings	821,374	2,030,956	61,569	215,993	298,373	131,614	51,963	3,611,842	
Income from Security Lending			11,699,874					11,699,874	
Commission Recapture			72,434					72,434	
Other Income			2,808,454					2,808,454	
Subtotal	737,783,308	152,896,341	1,338,492,601	88,821,860	93,204,079	51,091,465	52,385	2,462,342,039	
Net Unrealized Appreciation/Depreciation	(308,324,713)	(19,309,621)	6,208,607,446	173,872,165	59,919,972	13,509,996	(131,569,003)	5,996,701,242	
Total Investment Income	429,458,595	133,586,720	7,547,100,047	262,694,025	153,119,051	64,601,461	(131,516,618)	8,459,043,281	
Expenditures:									
Treasurer's Allocated Cost	(751,437)	(55,812)	(991,368)	(89,912)	(102,746)	(26,063)	(18,888)	(2,036,226)	
Management Fees		(781,313)	(35,849,142)	(15,490,630)	(35,919,501)	(1,631,835)	(9,314,804)	(98,987,225)	
Foreign Income Tax			(7,031,448)	(67,379)				(7,098,827)	
Other Cost	(312,411)	(305,311)	(729,809)	(4,317,551)	(5,888,944)	(1,905,579)	(1,779,393)	(15,238,998)	
Total Expenditures	(1,063,848)	(1,142,436)	(44,601,767)	(19,965,472)	(41,911,191)	(3,563,477)	(11,113,083)	(123,361,276)	
Net Investment Income (Loss)	\$ 428,394,747	\$ 132,444,284	\$ 7,502,498,280	\$ 242,728,553	\$ 111,207,860	\$ 61,037,984	\$ (142,629,703)	\$ 8,335,682,005	
Total Investment Income Allocated:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	
Highway Fund	-	-	-	-	-	-	-	-	
Highway Trust Fund	-	-	-	-	-	-	-	-	
University Trust Funds	-	-	-	-	-	-	-	-	
Pension Trust Funds	411,112,469	132,444,284	7,502,498,280	242,728,553	111,207,860	61,037,984	(142,629,703)	8,318,399,727	
Other Independent Trust Funds	17,282,278	-	-	-	-	-	-	17,282,278	
Local Political Subdivisions	-	-	-	-	-	-	-	-	
Licensing Boards	-	-	-	-	-	-	-	-	
Other Investment Funds	-	-	-	-	-	-	-	-	
Total Investment Income Allocated	\$ 428,394,747	\$ 132,444,284	\$ 7,502,498,280	\$ 242,728,553	\$ 111,207,860	\$ 61,037,984	\$ (142,629,703)	\$ 8,335,682,005	

Total Return, 12, 24, and 36 and 60 months:

12 months	9.29%	12.84%	15.24%	0.29%	5.94%	15.89%	-19.02%	11.57%
24 months	8.01%	16.60%	23.65%	-18.13%	1.65%	N/A	N/A	13.25%
36 months	7.81%	12.27%	-2.10%	-14.17%	-2.32%	N/A	N/A	1.13%
60 months	6.98%	N/A	3.21%	-2.89%	3.58%	N/A	N/A	4.51%