



July 29, 2009

## NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

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

Re: Quarterly report on Investment Funds for the period  
ended June 30, 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 return of 3.41% for the participants. Short-term interest rates were unchanged during the current quarter. The investable balances earning income for the General Fund were \$2 billion lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$20.8 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 3.37% for its participants through June 30, 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 7.75%, 7.84%, 7.38% and 5.86% respectively. Assets of the fund (based on market value) ended the quarter approximately \$870 million lower than at the end of the prior reporting period. Approximately \$911 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 \$1.7 billion.

The equity market as measured by the DJIA was 838.08 points higher than at the beginning of the quarter. During this period, assets of the EIF at market value increased by approximately \$5.4 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of -26.60%, -18.68%, -7.45% and -0.44% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of -13.91%, -8.12%, -1.07% and 2.63% on behalf of its participants through June 30, 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 June 30, 2009, the invested assets were valued at \$278 million after returns in the domestic and international accounts of 16.81% and 27.26% 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 June 30, 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, 33.5 million has been contributed.

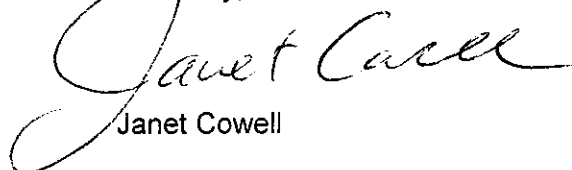
Pursuant to G.S. 147-69.4 deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending June 30, 2009, the invested assets were valued at \$13.9 million after returns in the domestic and international equity accounts of 16.81% and 27.26% 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 JUNE 30, 2009**

	Cash Management Program			Trust Funds Investment Program				
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Long-term Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Subtotal
<b>Revenues:</b>								
<b>Investment Income:</b>								
Investment Earnings	\$ 389,672,654	2,598,143	\$ 392,270,797	\$ 1,676,085,538	(4,997,850,100)	(515,657,463)	80,724,176	\$ (3,756,650)
Intra-Pool Interest Earnings			-	23,988,152	18,492,792	1,578,066	3,138,942	47,190
Income from Security Lending	19,727,904		\$ 19,727,904	27,330,925	61,294,325			88,620
Commission Recapture			-		544,048			544
Other Income			-		11,337,514			11,338
Subtotal	409,400,558	2,598,143	411,998,701	1,727,404,615	(4,906,181,422)	(514,079,397)	83,863,118	(3,608,990)
Net Unrealized Appreciation/Depreciation				216,605,009	(4,880,195,285)	(1,308,187,106)	(828,662,851)	(6,800,440)
<b>Total Investment Income</b>	<b>409,400,558</b>	<b>2,598,143</b>	<b>411,998,701</b>	<b>1,944,009,624</b>	<b>(9,786,376,708)</b>	<b>(1,822,266,503)</b>	<b>(744,799,733)</b>	<b>(10,409,430)</b>
<b>Expenditures:</b>								
Treasurer's Allocated Cost	(1,688,814)		(1,688,814)	(1,698,677)	(1,998,529)	(7,209,799)	(10,393,288)	(21,300)
Management Fees		(126,055)	(126,055)	(61,749)	(82,004,250)	(80,438,905)	(69,189,198)	(231,690)
Foreign Income Tax			0		(18,158,446)		(8,116)	(18,160)
Other Cost	(1,332,885)		(1,332,885)	(1,064,638)	(841,138)	(603,423)	(779,877)	(3,280)
<b>Total Expenditures</b>	<b>(3,021,699)</b>	<b>(126,055)</b>	<b>(3,147,754)</b>	<b>(2,825,064)</b>	<b>(103,002,362)</b>	<b>(88,252,127)</b>	<b>(80,370,479)</b>	<b>(274,450)</b>
<b>Net Investment Income (Loss)</b>	<b>406,378,859</b>	<b>2,472,088</b>	<b>408,850,947</b>	<b>1,941,184,560</b>	<b>(9,889,379,070)</b>	<b>(1,910,518,630)</b>	<b>(825,170,212)</b>	<b>(10,683,880)</b>
<b>Total Investment Income Allocated:</b>								
General Fund	109,213,303		109,213,303					
Highway Fund	24,394,018		24,394,018					
Highway Trust Fund	936,525		936,525					
University Trust Funds	72,049,536		72,049,536					
Pension Trust Funds	17,766,603		17,766,603	1,868,365,269	(9,889,379,070)	(1,910,518,630)	(825,170,212)	(10,756,700)
Other Independent Trust Funds	116,646,463		116,646,463	72,819,291				72,819
Local Political Subdivisions	16,714,344		16,714,344					
Licensing Boards	1,244,681		1,244,681					
Other Investment Funds	47,413,386	2,472,088	49,885,474					
<b>Total Investment Income Allocated</b>	<b>406,378,859</b>	<b>2,472,088</b>	<b>408,850,947</b>	<b>1,941,184,560</b>	<b>(9,889,379,070)</b>	<b>(1,910,518,630)</b>	<b>(825,170,212)</b>	<b>(10,683,880)</b>
<b>Cash Return, Fiscal Year-to-Date (Annual</b>	<b>3.410%</b>	<b>0.980%</b>	<b>3.365%</b>					
<b>Total Return, 12, 24, and 36 and 60 months:</b>								
12 months				7.75%	-26.60%	-31.43%	-21.29%	-13.91%
24 months				7.84%	-18.68%	-13.65%	-7.97%	-8.12%
36 months				7.38%	-7.45%	-4.75%	-1.21%	-1.07%
60 months				5.86%	-0.44%	3.92%	2.65%	2.63%

**DEPARTMENT OF STATE TREASURER**  
**COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS**  
**JUNE 30, 2009**

	*Cash Management Program			*Trust Funds Investment Program					Escheats External Investments	OPEB External Investment
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Long-term Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Subtotal		
<b>Net Assets:</b>										
<b>Investment Securities:</b>										
Cash Equivalents	\$ 1,838,000,000	\$ -	\$ 1,838,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	2,271,068,761	-	2,271,068,761	5,661,505,983	-	-	-	5,661,505,983	-	-
U.S. Government Agency Notes/ Bonds	5,771,476,086	-	5,771,476,086	2,663,816,728	-	-	-	2,663,816,728	-	-
GNMA Certificates	-	-	-	5,867,036,147	-	-	-	5,867,036,147	-	-
Corporate Obligations	404,841,136	-	404,841,136	10,752,209,893	-	-	-	10,752,209,893	-	-
Investments in Equity Securities	-	-	-	-	-	-	5,784,744	5,784,744	-	-
Bond proceeds Advisory	-	141,720,495	141,720,495	-	-	-	-	-	-	-
Investments in Equity Trusts	-	-	-	-	28,309,882,583	-	-	28,309,882,583	-	-
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	3,787,123,575	-	3,787,123,575	-	-
Investments in Alternative Partnerships	-	-	-	-	-	-	3,254,586,772	3,254,586,772	-	-
<b>Total Investment Securities</b>	<b>10,285,385,983</b>	<b>141,720,495</b>	<b>10,427,106,478</b>	<b>24,944,568,751</b>	<b>28,309,882,583</b>	<b>3,787,123,575</b>	<b>3,260,371,516</b>	<b>60,301,946,424</b>	<b>-</b>	<b>-</b>
Cash in Bank	118,531,671	-	118,531,671	-	-	-	-	-	30,275,831	13,895,900
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	-	-
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	13,384,531	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	24,240,533	-
Deposits in Short-term Investment Fund	-	-	-	529,846,700	45,508,602	10,150,528	10,890,079	596,395,910	-	-
Other Assets, Net of Liabilities	(70,396,546)	-	(70,396,546)	316,995,944	-	247,734	1,235	317,244,913	-	-
<b>Total Net Assets</b>	<b>\$ 10,333,521,108</b>	<b>\$ 141,720,495</b>	<b>\$ 10,475,241,603</b>	<b>\$ 25,791,411,395</b>	<b>\$ 28,355,391,185</b>	<b>\$ 3,797,521,837</b>	<b>\$ 3,271,262,830</b>	<b>\$ 61,215,587,247</b>	<b>\$ 67,900,894</b>	<b>\$ 13,895,900</b>
<b>Participant Equity:</b>										
General Fund	\$ 1,568,119,967	\$ -	\$ 1,568,119,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Funds Which Earn Interest for General Fund	1,359,083,556	141,720,495	1,500,804,051	-	-	-	-	-	-	-
Highway Fund	875,398,693	-	875,398,693	-	-	-	-	-	-	-
Highway Trust Fund	43,061,903	-	43,061,903	-	-	-	-	-	-	-
University Trust Funds	1,879,491,281	-	1,879,491,281	-	-	-	-	-	-	-
Pension Trust Funds	160,417,152	-	160,417,152	24,799,869,969	28,355,391,185	3,797,521,837	3,271,262,830	60,224,045,821	-	-
Other Independent Trust Funds	3,302,004,802	-	3,302,004,802	991,541,426	-	-	-	991,541,426	-	-
Local Political Subdivisions	516,086,746	-	516,086,746	-	-	-	-	-	-	-
Licensing Boards	33,461,098	-	33,461,098	-	-	-	-	-	-	-
Other Investment Funds	596,395,910	-	596,395,910	-	-	-	-	-	67,900,894	13,895,900
<b>Total Participant Equity</b>	<b>\$ 10,333,521,108</b>	<b>\$ 141,720,495</b>	<b>\$ 10,475,241,603</b>	<b>\$ 25,791,411,395</b>	<b>\$ 28,355,391,185</b>	<b>\$ 3,797,521,837</b>	<b>\$ 3,271,262,830</b>	<b>\$ 61,215,587,247</b>	<b>\$ 67,900,894</b>	<b>\$ 13,895,900</b>
Percent of Total	14.53	0.20	14.73	36.28	39.88	5.34	4.60	86.10	0.10	0.00