NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

August 8, 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 June 30, 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 0.43% 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.

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Short Term Investment Fund

Historical T-Bill rates	6/29/12	12/31/12	6/28/13
3-Mo. T-Bill	0.083%	0.043%	0.032%
6-Mo. T-Bill	0.153%	0.114%	0.093%

The Short-Term Investment Fund produced a one year return of 0.43% for the participants. The investable balances earning income for the General Fund were $360 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were $4.5 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").

	1 Year	2 Year	3 Year	5 Year
Total Trust Returns:	9.34%	5.79%	9.80%	5.00%

Long Term Investment Fund

	1 Year	2 Year	3 Year	5 Year
LTIF Returns:	-1.10%	5.30%	5.27%	7.30%

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

US Treasury Yields	5 Year UST	10 Year UST	30 Year UST
As of 3/31/13	0.765%	1.849%	3.103%
As of 6/28/13	1.395%	2.487%	3.500%

- Long Term assets (based on market value) ended the quarter approximately $1.1 billion lower than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are $1.37 billion.

Equity Investment Fund

	1 Year	2 Year	3 Year	5 Year
EIF Returns:	18.78%	5.68%	13.45%	4.15%

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

Quarterly Index Returns:	S&P 500	2.91%	DJIA	2.27%
	Russell 3000	2.69%	MSCI EAFE	-0.98%

- Assets of the fund (based on market value) ended the quarter approximately $149 million lower than at the end of the prior reporting period.

- Approximately $268 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 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 June 30, 2013, the invested assets were valued at $96.4 million after returns in the domestic and international equity accounts of 3.31% and -1.90% 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, 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 $57.1 million have been made to private equity, of which $51.0 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 June 30, 2013, the externally invested assets were valued at $75.5 million after returns in the domestic and international equity accounts of 3.13% and -1.90% 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,

Janet Cowell

Janet Cowell

Attachments

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

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET POSITION - ALL POOLS AND ACCOUNTS
JUNE 30, 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	1,426,000,000		1,426,000,000	-	-	1,426,000,000
Discount Notes/Bills			-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	6,193,120,747		6,193,120,747	8,534,305,673	-	14,727,426,420
U.S. Government Agency Notes/ Bonds	5,659,502,226		5,659,502,226	1,804,736,794	-	7,464,239,020
GNMA Certificates			-	7,049,944,989	-	7,049,944,989
Corporate Obligations	5,001,958		5,001,958	10,071,773,530	-	10,076,775,488
Other Investments				5,542,824		5,542,824
Investments in RMBS and CMBS			-	362,411,957		362,411,957
Investments in Equity Securities			-	8,370,536	-	8,370,536
Bond proceeds Advisory		43,151,528	43,151,528	-	-	43,151,528
Investments in Equity Trusts			-	37,096,897,298	-	37,096,897,298
Investments in Real Estate Trust Funds & Partnerships			-	6,481,005,887	-	6,481,005,887
Investments in Alternative Partnerships			-	3,613,781,865	-	3,613,781,865
Investments in Credit Partnerships			-	3,273,420,519	-	3,273,420,519
Investments in Inflation Partnerships & Other Invest.			-	1,427,418,966	-	1,427,418,966
Total Investment Securities	$ 13,298,324,931	$ 43,151,528	$ 13,341,476,459	$ 79,729,610,838	$ -	$ 93,071,087,297
Cash in Bank	199,951,793	-	199,951,793		-	199,951,793
Deposits in Short-term Investment Fund		-	-	1,199,892,360	(1,199,892,360)	-
Other Assets, Net of Liabilities	28,442,305	-	28,442,305	265,851,841	-	294,294,146
Total Net Assets	$ 13,526,719,029	$ 43,151,528	$ 13,569,870,557	$ 81,195,355,039	$ (1,199,892,360)	$ 93,565,333,236
Participant Equity:						
General Fund	$ 2,277,965,890		$ 2,277,965,890	$ -	$ -	$ 2,277,965,890
Other Funds Which Earn Interest				-		
for General Fund	1,248,760,704	43,151,528	1,291,912,232	-	-	1,291,912,232
Highway Fund	490,522,220		490,522,220	-	-	490,522,220
Highway Trust Fund	616,664,115		616,664,115	-	-	616,664,115
University Trust Funds	2,735,732,058		2,735,732,058	-	-	2,735,732,058
Pension Trust Funds	182,610,580		182,610,580	79,994,105,017	-	80,176,715,597
Other Independent Trust Funds	3,927,822,049		3,927,822,049	1,201,250,022	-	5,129,072,071
Local Political Subdivisions	818,800,891		818,800,891	-	-	818,800,891
Licensing Boards	27,948,162		27,948,162	-	-	27,948,162
Other Investment Funds	1,199,892,360		1,199,892,360	-	(1,199,892,360)	-
Total Participant Equity	$ 13,526,719,029	$ 43,151,528	$ 13,569,870,557	$ 81,195,355,039	$ (1,199,892,360)	$ 93,565,333,236
Percent of Total	14.46	0.05	14.51	86.78	-1.29	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 POSITION - TRUST FUNDS INVESTMENT PROGRAM
JUNE 30, 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	7,935,736,330						598,569,343	8,534,305,673
U.S. Government Agency Notes/ Bonds	1,457,092,031	14,259,363					333,385,400	1,804,736,794
GNMA Certificates	7,049,944,989							7,049,944,989
Corporate Obligations	10,071,773,530							10,071,773,530
Other Investments		5,542,824						5,542,824
Investments in RMBS and CMBS		362,411,957						362,411,957
Investments in Equity Securities					8,370,536			8,370,536
Bond Proceeds Advisory								-
Investments in Equity Trusts			37,096,897,298					37,096,897,298
Investments in Real Estate Trust Funds & Partnerships				6,481,005,887				6,481,005,887
Investments in Alternative Partnerships					3,613,781,865			3,613,781,865
Investments in Credit Partnerships						3,273,420,519		3,273,420,519
Investments in Inflation Partnerships & Other Invest.							1,427,418,966	1,427,418,966
Total Investment Securities	$ 26,514,546,880	$ 382,214,144	$ 37,096,897,298	$ 6,481,005,887	$ 3,622,152,401	$ 3,273,420,519	$ 2,359,373,709	$ 79,729,610,838
Cash in Bank								-
Deposits in Short-term Investment Fund	371,802,824	672,342,952	3,645,130	20,798,564	99,814,696	24,379,307	7,108,887	1,199,892,360
Other Assets, Net of Liabilities	272,129,060	988,829					(7,266,048)	265,851,841
Total Net Assets	$ 27,158,478,764	$ 1,055,545,925	37,100,542,428	$ 6,501,804,451	$ 3,721,967,097	$ 3,297,799,826	$ 2,359,216,548	$ 81,195,355,039
Participant Equity:								
Pension Trust Funds	25,957,228,742	1,055,545,925	37,100,542,428	6,501,804,451	3,721,967,097	3,297,799,826	2,359,216,548	79,994,105,017
Other Independent Trust Funds	1,201,250,022	-	-	-	-	-	-	1,201,250,022
Total Participant Equity	$ 27,158,478,764	$ 1,055,545,925	$ 37,100,542,428	$ 6,501,804,451	$ 3,721,967,097	$ 3,297,799,826	$ 2,359,216,548	$ 81,195,355,039
Percent of Total	33.45	1.30	45.69	8.01	4.58	4.06	2.91	100.00

DEPARTMENT OF STATE TREASURER
ANCILLARY INVESTMENT PROGRAMS
JUNE 30, 2013

	Escheats External Investments	OPEB External Investments	Hospital External Investments	Totals
Net Assets:				
Deposits in Equity Investment Fund	$ 7,361	75,562,176	96,416,347	$ 171,985,884
Deposits in Alternative Investment Fund	37,672,626			37,672,626
Total Net Assets	$ 37,679,987	$ 75,562,176	$ 96,416,347	$ 209,658,510

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED JUNE 30, 2013

	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	$ 62,070,119	88,511 $	62,158,630	$ 4,518,513,998	$ - $	4,580,672,628
Intra-Pool Interest Earnings			-	3,671,386	(3,671,386)	-
Income from Security Lending			-	18,312,292	-	18,312,292
Commission Recapture			-	69,800	-	69,800
Other Income			-	5,074,721	-	5,074,721
Subtotal	62,070,119	88,511	62,158,630	4,545,642,197	(3,671,386)	4,604,129,441
Net Unrealized Appreciation/Depreciation				2,880,436,081	-	2,880,436,081
Total Investment Income	62,070,119	88,511	62,158,630	7,426,078,278	(3,671,386)	7,484,565,522
Expenditures:						
Treasurer's Allocated Cost	(1,724,013)		(1,724,013)	(4,383,256)	-	(6,107,269)
Management Fees		(31,214)	(31,214)	(325,591,107)	-	(325,622,321)
Dividend Withholding Tax			-	(27,525,219)	-	(27,525,219)
Other Cost	(2,687,166)		(2,687,166)	(41,095,163)	-	(43,782,329)
Total Expenditures	(4,411,179)	(31,214)	(4,442,393)	(398,594,745)	-	(403,037,138)
Net Investment Income (Loss)	$ 57,658,940 $	57,297 $	57,716,237	$ 7,027,483,533	$ (3,671,386) $	7,081,528,384
Total Investment Income Allocated:						
General Fund	$ 13,077,742		13,077,742	$ -	$ - $	13,077,742
Highway Fund	2,324,074		2,324,074	-	-	2,324,074
Highway Trust Fund	2,176,962		2,176,962	-	-	2,176,962
University Trust Funds	12,085,479		12,085,479	-	-	12,085,479
Pension Trust Funds	1,645,672		1,645,672	7,040,235,970	-	7,041,881,642
Other Independent Trust Funds	18,772,761		18,772,761	(12,752,437)	-	6,020,324
Local Political Subdivisions	3,784,933		3,784,933	-	-	3,784,933
Licensing Boards	119,931		119,931	-	-	119,931
Other Investment Funds	3,671,386	57,297	3,728,683	-	(3,671,386)	57,297
Total Investment Income Allocated	$ 57,658,940 $	57,297 $	57,716,237	$ 7,027,483,533	$ (3,671,386) $	7,081,528,384
Cash Return, Fiscal Year-to-Date (Annualized)	0.4350%	0.010%	0.4330%			

* 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 JUNE 30, 2013

	Trust Funds Investment Program							
	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
Revenues:								
Investment Income:								
Investment Earnings	$ 1,377,602,736	58,693,364	2,374,330,706	216,112,565	314,603,451	269,267,602	(92,096,426) $	4,518,513,998
Intra-Pool Interest Earnings	1,240,034	1,632,092	17,464	220,406	320,022	157,449	83,919	3,671,386
Income from Security Lending			18,312,292					18,312,292
Commission Recapture			69,800					69,800
Other Income			5,074,721					5,074,721
Subtotal	1,378,842,770	60,325,456	2,397,804,983	216,332,971	314,923,473	269,425,051	(92,012,507)	4,545,642,197
Net Unrealized Appreciation/Depreciation	(1,666,984,562)	32,148,450	3,682,747,413	496,862,244	(22,946,803)	318,110,200	40,499,139	2,880,436,081
Total Investment Income	(288,141,792)	92,473,906	6,080,552,396	713,195,215	291,976,670	587,535,251	(51,513,368)	7,426,078,278
Expenditures:								
Treasurer's Allocated Cost	(1,468,468)	(59,475)	(2,020,224)	(340,902)	(194,616)	(174,315)	(125,256)	(4,383,256)
Management Fees		(20,541,780)	(91,142,394)	(67,979,427)	(63,627,955)	(59,415,518)	(22,884,033)	(325,591,107)
Dividend Withholding Tax			(27,221,111)	(303,737)	(371)	-		(27,525,219)
Other Cost	(1,416,953)	(580,855)	(2,096,881)	(3,489,255)	(15,375,525)	(11,753,390)	(6,382,304)	(41,095,163)
Total Expenditures	(2,885,421)	(21,182,110)	(122,480,610)	(72,113,321)	(79,198,467)	(71,343,223)	(29,391,593)	(398,594,745)
Net Investment Income (Loss)	$ (291,027,213)	71,291,796	5,958,071,786	641,081,894	212,778,203	516,192,028	(80,904,961) $	7,027,483,533
Total Investment Income Allocated:								
General Fund	$ - $	- $	- $	- $	- $	- $	- $	-
Highway Fund	-	-	-	-	-	-	-	-
Highway Trust Fund	-	-	-	-	-	-	-	-
University Trust Funds	-	-	-	-	-	-	-	-
Pension Trust Funds	(278,274,776)	71,291,796	5,958,071,786	641,081,894	212,778,203	516,192,028	(80,904,961)	7,040,235,970
Other Independent Trust Funds	(12,752,437)	-	-	-	-	-	-	(12,752,437)
Local Political Subdivisions		-	-	-	-	-	-	-
Licensing Boards	-	-	-	-	-	-	-	-
Other Investment Funds	-	-	-	-	-	-	-	-
Total Investment Income Allocated	$ (291,027,213) $	71,291,796 $	5,958,071,786 $	641,081,894 $	212,778,203 $	516,192,028 $	(80,904,961) $	7,027,483,533
Total Return, 12, 24, and 36 and 60 months:								
12 months	-1.10%	10.78%	18.78%	10.903%	5.81%	17.45%	-2.95%	9.34%
24 months	5.30%	8.44%	5.68%	9.38%	5.60%	8.57%	-6.89%	5.79%
36 months	5.27%	8.60%	13.45%	12.23%	8.39%	10.93%	-10.16%	9.80%
60 months	7.30%	10.61%	4.15%	-4.20%	2.43%	N/A	N/A	5.00%