



JANET COWELL
TREASURER

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION

KEVIN SIGRIST
STATE INVESTMENT OFFICER

November 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
September 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

Short Term Investment Fund

<u>Historical T-Bill rates</u>	<u>9/30/12</u>	<u>3/31/13</u>	<u>9/30/13</u>
3-Mo. T-Bill	0.094%	0.073%	0.007%
6-Mo. T-Bill	0.129%	0.102%	0.030%

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 \$548 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$372 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:	9.76%	11.80%	8.75%	7.78%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	-3.11%	2.54%	4.05%	7.86%

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 6/28/13	1.395%	2.487%	3.500%
As of 9/30/13	1.382%	2.611%	3.686%

- Long Term assets (based on market value) ended the quarter approximately \$153 million higher than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$330 million.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	21.31%	21.85%	12.17%	9.14%

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

Quarterly Index Returns:	S&P 500	5.24%	DJIA	1.48%
	Russell 3000	6.35%	MSCI EAFE	11.56%

- Assets of the fund (based on market value) ended the quarter approximately \$2.5 billion higher than at the end of the prior reporting period.
- Approximately \$866 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 September 30, 2013, the invested assets were valued at \$103 million after returns in the domestic and international equity accounts of 6.34% and 10.50% 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 September 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 \$51.3 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 September 30, 2013, the externally invested assets were valued at \$83.7 million after returns in the domestic and international equity accounts of 6.34% and 10.50% 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

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
SEPTEMBER 30, 2013

	*Cash Management Program		**Trust Funds		All Pools
	Short-term Investment Fund	Bond Proceeds Fund	Investment Program Subtotal	Intrafund Eliminations	Total
Net Assets:					
Investment Securities:					
Cash Equivalents	\$ -	\$ -	\$ -	-	\$ -
Certificates of Deposit	13,700,000	-	-	-	13,700,000
Repurchase Agreements	1,810,000,000	-	-	-	1,810,000,000
Discount Notes/Bills	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	6,002,952,738	-	8,651,398,383	-	14,654,351,121
U.S. Government Agency Notes/ Bonds	6,305,270,148	-	1,774,234,297	-	8,079,504,445
GNMA Certificates	-	-	7,023,946,187	-	7,023,946,187
Corporate Obligations	5,000,886	-	9,991,692,216	-	9,996,693,102
Other Investments	-	-	4,540,393	-	4,540,393
Investments in RMBS and CMBS	-	-	344,432,531	-	344,432,531
Investments in Equity Securities	-	-	1,347,025	-	1,347,025
Bond proceeds Advisory	41,176,172	41,176,172	-	-	41,176,172
Investments in Equity Trusts	-	-	39,591,549,833	-	39,591,549,833
Investments in Real Estate Trust Funds & Partnerships	-	-	6,495,317,304	-	6,495,317,304
Investments in Alternative Partnerships	-	-	3,743,745,455	-	3,743,745,455
Investments in Credit Partnerships	-	-	3,819,226,166	-	3,819,226,166
Investments in Inflation Partnerships	-	-	1,598,121,254	-	1,598,121,254
Total Investment Securities	\$ 14,136,923,772	\$ 41,176,172	\$ 83,039,551,044	\$ -	\$ 97,217,650,988
Cash in Bank	180,371,447	-	180,371,447	-	180,371,447
Deposits in Short-term Investment Fund	-	-	-	-	-
Other Assets, Net of Liabilities	27,236,987	-	1,081,966,475	(1,081,966,475)	-
Total Net Assets	\$ 14,344,532,206	\$ 41,176,172	\$ 84,354,520,297	\$ (1,081,966,475)	\$ 97,658,262,200
Participant Equity:					
General Fund	\$ 2,742,996,787	\$ -	\$ -	-	\$ 2,742,996,787
Other Funds Which Earn Interest for General Fund					
Highway Fund	1,377,810,489	41,176,172	-	-	1,418,986,661
Highway Trust Fund	520,294,891	-	-	-	520,294,891
University Trust Funds	639,668,113	-	-	-	639,668,113
Pension Trust Funds	2,952,278,692	-	-	-	2,952,278,692
Other Independent Trust Funds	250,622,996	-	83,145,298,656	-	83,395,921,652
Local Political Subdivisions	3,909,172,403	-	1,209,221,641	-	5,118,394,044
Licensing Boards	840,718,815	-	-	-	840,718,815
Other Investment Funds	29,002,545	-	-	-	29,002,545
Total Participant Equity	\$ 1,081,966,475	\$ 41,176,172	\$ 84,354,520,297	\$ (1,081,966,475)	\$ 97,658,262,200
Percent of Total	14.69	0.04	86.38	-1.11	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
SEPTEMBER 30, 2013

	Cash Investment Fund	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		8,030,144,611						\$ 621,253,772	\$ 8,651,398,383
U.S. Treasury Bills/ Notes/ Bonds		1,449,765,224	12,740,260					311,728,813	1,774,234,297
U.S. Government Agency Notes/ Bonds		7,023,946,187							7,023,946,187
GNMA Certificates		9,991,692,216							9,991,692,216
Corporate Obligations									4,540,393
Other Investments			4,540,393						344,432,531
Investments in RMBS and CMBS			344,432,531						1,347,025
Investments in Equity Securities									
Bond Proceeds Advisory									
Investments in Equity Trusts				39,591,549,833					39,591,549,833
Investments in Real Estate Trust Funds & Partnerships					6,495,317,304				6,495,317,304
Investments in Alternative Partnerships						3,743,745,455			3,743,745,455
Investments in Credit Partnerships							3,819,226,166		3,819,226,166
Investments in Inflation Partnerships & Other Invest.								1,598,121,254	1,598,121,254
Total Investment Securities		26,495,548,238	\$ 361,713,184	\$ 39,591,549,833	\$ 6,495,317,304	\$ 3,745,092,480	\$ 3,819,226,166	\$ 2,531,103,839	\$ 83,039,551,044
Cash in Bank									
Deposits in Short-term Investment Fund	498,975,057	582,991,418							1,081,966,475
Other Assets, Net of Liabilities	2,610,682	232,646,250	(141,564)					(2,112,590)	233,002,778
Total Net Assets	\$ 501,585,739	\$ 27,311,185,906	\$ 361,571,620	\$ 39,591,549,833	\$ 6,495,317,304	\$ 3,745,092,480	\$ 3,819,226,166	\$ 2,528,991,249	\$ 84,354,520,297
Participant Equity:									
Pension Trust Funds	\$ 501,585,739	26,101,964,265	361,571,620	39,591,549,833	6,495,317,304	3,745,092,480	3,819,226,166	2,528,991,249	83,145,298,656
Other Independent Trust Funds		1,209,221,641							1,209,221,641
Total Participant Equity	\$ 501,585,739	\$ 27,311,185,906	\$ 361,571,620	\$ 39,591,549,833	\$ 6,495,317,304	\$ 3,745,092,480	\$ 3,819,226,166	\$ 2,528,991,249	\$ 84,354,520,297
Percent of Total	0.59	32.38	0.43	46.93	7.70	4.44	4.53	3.00	100.00

DEPARTMENT OF STATE TREASURER
 ANCILLARY INVESTMENT PROGRAMS
 SEPTEMBER 30, 2013

Net Assets:				
Deposits in Equity Investment Fund				
Deposits in Alternative Investment Fund				
Total Net Assets				
	Escheats External Investments	OPEB External Investments	Hospital External Investments	Totals
	\$ 7,351	83,668,979	103,409,009 \$	187,085,339
	37,701,653			37,701,653
	<u>\$ 37,709,004 \$</u>	<u>83,668,979 \$</u>	<u>103,409,009 \$</u>	<u>224,786,992</u>

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED SEPTEMBER 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	\$ 16,182,340	4,688	\$ 16,187,028	\$ 1,154,001,892	\$ -	\$ 1,170,188,920	
Intra-Pool Interest Earnings	-	-	-	556,966	(556,966)	-	
Income from Security Lending	-	-	-	3,162,234	-	3,162,234	
Commission Recapture	-	-	-	30,507	-	30,507	
Other Income	-	-	-	709,247	-	709,247	
Subtotal	16,182,340	4,688	16,187,028	1,158,460,846	(556,966)	1,174,090,908	
Net Unrealized Appreciation/Depreciation	16,182,340	4,688	16,187,028	2,786,606,971	-	2,786,606,971	
Total Investment Income				3,945,067,817	(556,966)	3,960,697,879	
Expenditures:							
Treasurer's Allocated Cost	(430,419)	(6,218)	(430,419)	(1,201,703)	-	(1,632,122)	
Management Fees		(6,218)	(6,218)	(24,283,360)	-	(24,289,578)	
Dividend Withholding Tax		-	-	(5,851,096)	-	(5,851,096)	
Other Cost	(423,647)		(423,647)	(14,287,557)	-	(14,711,204)	
Total Expenditures	(854,066)	(6,218)	(860,284)	(45,623,716)	-	(46,484,000)	
Net Investment Income (Loss)	\$ 15,328,274	\$ (1,530)	\$ 15,326,744	\$ 3,899,444,101	\$ (556,966)	\$ 3,914,213,879	
Total Investment Income Allocated:							
General Fund	\$ 4,249,786		4,249,786	\$ -	\$ -	4,249,786	
Highway Fund	519,981		519,981	-	-	519,981	
Highway Trust Fund	679,076		679,076	-	-	679,076	
University Trust Funds	3,077,300		3,077,300	-	-	3,077,300	
Pension Trust Funds	451,272		451,272	3,892,738,638	-	3,893,189,910	
Other Independent Trust Funds	4,246,864		4,246,864	6,705,463	-	10,952,327	
Local Political Subdivisions	882,945		882,945	-	-	882,945	
Licensing Boards	30,601		30,601	-	-	30,601	
Other Investment Funds	1,190,449	(1,530)	1,188,919	-	(556,966)	631,953	
Total Investment Income Allocated	\$ 15,328,274	\$ (1,530)	\$ 15,326,744	\$ 3,899,444,101	\$ (556,966)	\$ 3,914,213,879	

Cash Return, Fiscal Year-to-Date (Annualized) 0.4330% 0.010% 0.4280%

*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 SEPTEMBER 30, 2013

	Cash Investment Fund	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	\$ 668,529	330,490,779	6,411,102	674,447,548	94,289,942	57,651,405	3,465,173	(13,422,586)	\$ 1,154,001,892
Intra-Pool Interest Earnings		556,966							556,966
Income from Security Lending				3,162,234					3,162,234
Commission Recapture				30,507					30,507
Other Income				709,247					709,247
Subtotal	668,529	331,047,745	6,411,102	678,349,536	94,289,942	57,651,405	3,465,173	(13,422,586)	1,158,460,846
Net Unrealized Appreciation/Depreciation		(178,903,650)	(2,846,717)	2,692,606,223	61,601,476	49,133,824	81,015,578	84,000,237	2,786,606,971
Total Investment Income	668,529	152,144,095	3,564,385	3,370,955,759	155,891,418	106,785,229	84,480,751	70,577,651	3,945,067,817
Expenditures:									
Treasurer's Allocated Cost	(6,265)	(396,850)	(8,758)	(554,053)	(94,433)	(54,121)	(51,512)	(35,711)	(1,201,703)
Management Fees			(195,738)	(2,539,309)	(8,982,104)	(8,741,888)	(419,577)	(3,404,744)	(24,283,360)
Dividend Withholding Tax				(5,827,523)	(23,573)				(5,851,096)
Other Cost	(101)	(306,259)	(63,320)	(1,298,655)	(480,527)	(10,087,364)	(1,264,801)	(786,530)	(14,287,557)
Total Expenditures	(6,366)	(703,109)	(267,816)	(10,219,540)	(9,580,637)	(18,883,373)	(1,735,890)	(4,226,985)	(45,623,716)
Net Investment Income (Loss)	\$ 662,163	\$ 151,440,986	\$ 3,296,569	\$ 3,360,736,219	\$ 146,310,781	\$ 87,901,856	\$ 82,744,861	\$ 66,350,666	\$ 3,899,444,101
Total Investment Income Allocated:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highway Fund	-	-	-	-	-	-	-	-	-
Highway Trust Fund	-	-	-	-	-	-	-	-	-
University Trust Funds	-	-	-	-	-	-	-	-	-
Pension Trust Funds	-	-	-	-	-	-	-	-	-
Other Independent Trust Funds	662,163	144,735,523	3,296,569	3,360,736,219	146,310,781	87,901,856	82,744,861	66,350,666	3,892,738,638
Local Political Subdivisions	-	6,705,463	-	-	-	-	-	-	6,705,463
Licensing Boards	-	-	-	-	-	-	-	-	-
Other Investment Funds	-	-	-	-	-	-	-	-	-
Total Investment Income Allocated	\$ 662,163	\$ 151,440,986	\$ 3,296,569	\$ 3,360,736,219	\$ 146,310,781	\$ 87,901,856	\$ 82,744,861	\$ 66,350,666	\$ 3,899,444,101
Total Return, 12, 24, and 36 and 60 months:									
12 months	N/A	-3.11%	4.84%	21.31%	11.82%	7.71%	15.97%	-5.99%	9.76%
24 months	N/A	2.54%	9.74%	21.85%	9.49%	6.18%	12.26%	-0.75%	11.80%
36 months	N/A	4.05%	7.37%	12.17%	11.77%	8.65%	10.90%	-1.97%	8.75%
60 months	N/A	7.86%	10.59%	9.14%	-3.32%	3.71%	N/A	N/A	7.78%