



# NORTH CAROLINA DEPARTMENT OF STATE TREASURER

RICHARD H. MOORE  
STATE TREASURER

February 14, 2008

325 NORTH SALISBURY STREET  
RALEIGH, NORTH CAROLINA 27603-1385

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, 2007.

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-to-date annualized cash return of 5.29% for the participants. Short-term interest rates were lower during the current quarter. The investable balances earning income for the General Fund were \$424 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$267 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-to-date annualized cash return of 5.27% for its participants through December 31, 2007.

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 lower during the current quarter. The LTIF generated a 12, 24, 36 and 60 month trailing returns of 7.48%, 5.74%, 5.00% and 5.04% respectively. Assets of the fund (based on market value) ended the quarter approximately \$994 million higher than at the end of the prior reporting period. The LTIF's realized earnings for the fiscal year-to-date are \$769 million.

Fax: (919) 508-5167

Phone: (919) 508-5176

website: [www.treasurer.state.nc.us](http://www.treasurer.state.nc.us)

The Department of State Treasurer includes Local Government Commission Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Public Employees' Social Security Agency, Legislative Retirement Fund, Escheats Fund, and Tax Review Board.  
An Affirmative Action/Equal Opportunity Employer

The equity market as measured by the DJIA was 630.81 points lower than at the beginning of the quarter. Approximately \$1.2 billion was used to pay benefits or was reallocated to other investment funds this quarter. During this period, assets of the EIF at market value decreased by approximately \$2 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of 8.03%, 11.73%, 10.69% and 15.52% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of 8.33%, 9.86%, 8.91% and 11.14% on behalf of its participants through December 31, 2007.

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. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending December 31, 2007, the \$389 million invested in domestic and international equity accounts returned -4.61% and -2.46% respectively.

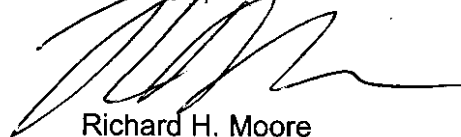
Pursuant to G.S. 147-69.2(b)(12), up to 20% of the Escheat Fund's assets can be invested in authorized Equity, Real Estate, and Alternative Investments. For the Quarter ending December 31, 2007, \$40 million has been invested in equity; \$20 million has been invested in real estate, and \$20.3 million in private equity.

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,

A handwritten signature in black ink, appearing to read 'R. H. Moore', written over a horizontal line.

Richard H. Moore

#### Attachments

cc: Pamela J. Wortham, CPA, Deputy Treasurer  
Financial Operations Division  
Patricia Gerrick, Chief Investment Officer

DEPARTMENT OF STATE TREASURER  
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS  
DECEMBER 31, 2007

	*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	Escrowed External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
Net Assets:												
Investment Securities:												
Cash Equivalents	\$ 205,850,000	\$ -	\$ 205,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,850,000
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	3,719,863,611	-	3,719,863,611	6,901,262,045	-	-	-	6,901,262,045	6,901,262,045	-	-	10,621,125,655
U.S. Government Agency Notes/ Bonds	8,996,393,498	-	8,996,393,498	3,996,182,812	-	-	-	3,996,182,812	3,996,182,812	-	-	12,992,576,310
GNMA Certificates	-	-	-	6,900,485,135	-	-	-	6,900,485,135	6,900,485,135	-	-	6,900,485,135
Corporate Obligations	59,451,188	-	59,451,188	9,626,585,608	-	-	-	9,626,585,608	9,626,585,608	-	-	9,686,036,796
Investments in Equity Securities	-	-	-	-	-	-	8,392,420	8,392,420	-	-	-	8,392,420
Bond proceeds Advisory	-	428,147,625	428,147,625	-	40,733,690,777	4,336,299,621	-	40,733,690,777	4,336,299,621	428,147,625	-	40,733,690,777
Investments in Equity Trusts	-	-	-	-	-	-	-	-	-	-	-	-
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	2,834,209,607	-	4,336,299,621	4,336,299,621	-	-	4,336,299,621
Investments in Alternative Partnerships	-	-	-	-	-	2,834,209,607	-	2,834,209,607	2,834,209,607	-	-	2,834,209,607
Total Investment Securities	12,981,536,297	428,147,625	13,409,705,921	27,424,515,600	40,733,690,777	4,336,299,621	2,842,602,027	75,337,108,025	-	-	-	88,746,813,946
Cash in Bank	138,972,821	-	138,972,821	-	-	-	-	-	45,489,024	432,154,482	(477,643,506)	138,972,821
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	23,681,362	-	(23,681,362)	-
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	20,270,281	-	(20,270,281)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	-	-	(2,387,148,939)	-
Deposits in Short-term Investment Fund	114,257,879	-	114,257,879	44,546,737	2,293,024,759	31,694,936	17,882,508	2,387,148,939	-	-	-	453,214,477
Other Assets, Net of Liabilities	13,234,788,996	428,147,625	13,662,936,621	338,952,596	43,026,715,542	4,367,994,557	3,995	338,956,598	89,440,667	432,154,482	(2,908,744,088)	89,339,001,243
Total Net Assets	13,234,788,996	428,147,625	13,662,936,621	27,808,014,933	43,026,715,542	4,367,994,557	2,860,488,530	78,063,213,561	89,440,667	432,154,482	(2,917,474,883)	89,330,270,448
Participant Equity:												
General Fund	\$ 3,526,314,076	\$ -	\$ 3,526,314,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,526,314,076
Other Funds Which Earn Interest for General Fund	1,179,387,349	428,147,625	1,607,534,974	-	-	-	-	-	-	-	-	-
Highway Fund	799,335,952	-	799,335,952	-	-	-	-	-	-	-	-	1,607,534,974
University Trust Fund	3,609,298	-	3,609,298	-	-	-	-	-	-	-	-	799,335,952
Pension Trust Funds	1,908,241,508	-	1,908,241,508	-	-	-	-	-	-	-	-	3,609,298
Other Independent Trust Funds	222,625,982	-	222,625,982	26,798,257,475	43,026,715,542	4,367,994,557	2,860,488,530	77,053,456,104	-	-	-	1,908,241,508
Local Political Subdivisions	2,788,924,067	-	2,788,924,067	1,009,757,457	-	-	-	1,009,757,457	-	-	-	77,276,082,086
Licensing Boards	390,723,277	-	390,723,277	-	-	-	-	-	-	-	-	3,798,681,524
Other Investment Funds	19,747,753	-	19,747,753	-	-	-	-	-	-	-	-	390,723,277
Total Participant Equity	2,395,879,734	-	2,395,879,734	27,808,014,933	43,026,715,542	4,367,994,557	2,860,488,530	78,063,213,561	89,440,667	432,154,482	(2,917,474,883)	89,330,270,448
	\$ 13,234,788,996	\$ 428,147,625	\$ 13,662,936,621	\$ 27,808,014,933	\$ 43,026,715,542	\$ 4,367,994,557	\$ 2,860,488,530	\$ 78,063,213,561	\$ 89,440,667	\$ 432,154,482	\$ (2,917,474,883)	\$ 89,330,270,448
Percent of Total	14.82	0.48	15.30	31.13	48.17	4.89	3.20	87.39	0.10	0.48	-3.27	100.00

DEPARTMENT OF STATE TREASURER  
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS  
FOR THE PERIOD ENDED DECEMBER 31, 2007

	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	\$ 288,681,701	\$ 12,785,410	\$ 301,467,111	\$ 738,411,969	\$ 3,565,659,691	\$ 149,923,806	\$ 99,957,833	\$ 4,553,953,299	\$ (21,417,746)	\$ 4,855,420,410
Intra-Pool Interest Earnings				2,175,143	15,052,070	2,949,604	1,240,929	21,417,746		-
Income from Security Lending	17,154,398		17,154,398	30,128,766	16,397,385			46,526,151		63,680,548
Commission Recapture					213,399			213,399		213,399
Other Income					11,703,991			11,703,991		11,703,991
Subtotal	305,836,099	12,785,410	318,621,508	770,715,878	3,609,026,536	152,873,410	101,198,761	4,633,814,585	(21,417,746)	4,931,018,347
Net Unrealized Appreciation/Depreciation				1,110,818,957	(3,511,987,752)	123,006,213	60,421,577	(2,217,741,004)		(2,217,741,004)
Total Investment Income	305,836,099	12,785,410	318,621,508	1,881,534,835	97,038,784	275,879,624	161,620,339	2,416,073,582	(21,417,746)	2,713,277,344
Expenditures:										
Treasurer's Allocated Cost	77,781		77,781	(875,715)	(1,459,175)	(3,721,919)	(5,567,692)	(11,624,501)		(11,546,719)
Management Fees		(139,427)	(139,427)		(30,864,834)	(39,622,694)	(27,269,296)	(97,756,823)		(97,896,250)
Foreign Income Tax					(7,511,986)			(7,511,986)		(7,511,986)
Other Cost	34,768		34,768	(224,078)	(135,904)	(307,531)	(417,469)	(1,084,982)		(1,050,214)
Total Expenditures	112,549	(139,427)	(26,878)	(1,099,794)	(39,971,898)	(43,652,144)	(33,254,456)	(117,978,292)		(118,005,170)
Net Investment Income (Loss)	305,948,648	12,645,982	318,594,630	1,880,435,041	57,066,886	232,227,480	128,365,883	2,298,095,290	(21,417,746)	2,595,272,174
Total Investment Income Allocated:										
General Fund	134,193,563		134,193,563							134,193,563
Highway Fund	19,044,353		19,044,353							19,044,353
Highway Trust Fund	1,206,067		1,206,067							1,206,067
University Trust Funds	45,871,402		45,871,402							45,871,402
Pension Trust Funds	7,687,951		7,687,951							7,687,951
Other Independent Trust Funds	72,614,570		72,614,570	1,811,646,960	57,066,886	232,227,480	128,365,883	2,229,307,209		2,236,995,160
Local Political Subdivisions	5,758,456		5,758,456	68,788,081				68,788,081		141,402,651
Licensing Boards	421,050		421,050							5,758,456
Other Investment Funds	19,151,236	12,645,982	31,797,218						(21,417,746)	10,379,472
Total Investment Income Allocated	305,948,648	12,645,982	318,594,630	1,880,435,041	57,066,886	232,227,480	128,365,883	2,298,095,289.98	(21,417,746)	2,595,272,174
Cash Return, Fiscal Year-to-Date (Annual):	5.291%	4.740%	5.275%							
Total Return, 12, 24, and 36 and 60 months:										
12 months				7.48%	8.03%	14.05%	13.26%	8.33%		
24 months				5.74%	11.73%	16.86%	13.05%	9.86%		
36 months				5.00%	10.69%	18.14%	11.16%	8.91%		
60 months				5.04%	15.52%	13.41%	9.29%	11.14%		