



# NORTH CAROLINA DEPARTMENT OF STATE TREASURER

RICHARD H. MOORE  
STATE TREASURER

August 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 June 30, 2008.

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 annualized cash return of 5.19% for the participants. Short-term interest rates were higher during the current quarter. The investable balances earning income for the General Fund were \$393 million lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$66 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 annualized cash return of 5.15% for its participants through June 30, 2008.

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 8.35%, 7.41%, 3.95% and 4.15% respectively. Assets of the fund (based on market value) ended the quarter approximately \$438 million lower than at the end of the prior reporting period. The LTIF's realized earnings for the fiscal year are \$1.6 billion.

The equity market as measured by the DJIA was 912.88 points lower than at the beginning of the quarter. Approximately \$961 million 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 \$1.0 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of -9.91%, 3.93%, 6.74% and 10.52% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of -1.94%, 6.06%, 6.39% and 8.14% on behalf of its participants through June 30, 2008.

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 June 30, 2008, the \$389 million invested in domestic and international equity accounts returned 0.09% and -0.79% respectively.

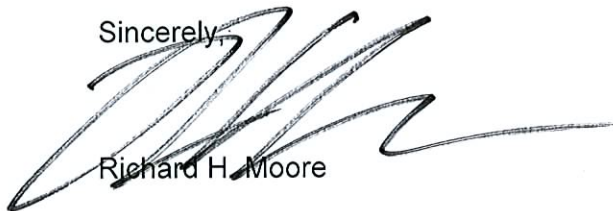
Pursuant to G.S. 147-69.2(b)(12), up to 20% of the Escheat Fund's assets can be invested in authorized Equity, Real Estate, and Alternative Investments. For the Quarter ending June 30, 2008, \$40 million has been invested in equity; \$20 million has been invested in real estate, and \$26.8 million in 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 "Richard H. Moore", with a long horizontal flourish extending to the right.

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**  
**JUNE 30, 2008**

	*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	Escheats External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
Net Assets:												
Investment Securities:												\$ 341,350,000
Cash Equivalents	\$ 341,350,000	\$ -	\$ 341,350,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	9,847,069,651
U.S. Treasury Bills/ Notes/ Bonds	3,078,733,023	-	3,078,733,023	6,768,336,628	-	-	-	6,768,336,628	-	-	-	12,763,949,123
U.S. Government Agency Notes/ Bonds	9,142,954,093	-	9,142,954,093	3,620,995,031	-	-	-	3,620,995,031	-	-	-	7,040,414,757
GNMA Certificates	-	-	-	7,040,414,757	-	-	-	7,040,414,757	-	-	-	10,142,007,932
Corporate Obligations	59,683,699	-	59,683,699	10,082,324,233	-	-	-	10,082,324,233	-	-	-	6,925,467
Investments in Equity Securities	-	-	-	-	-	-	6,925,467	6,925,467	-	-	-	305,118,214
Bond proceeds Advisory	-	305,118,214	305,118,214	-	-	-	-	-	-	-	-	36,101,086,694
Investments in Equity Trusts	-	-	-	-	36,101,086,694	-	-	36,101,086,694	-	-	-	4,716,821,878
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	4,716,821,878	-	4,716,821,878	-	-	-	3,449,655,014
Investments in Alternative Partnerships	-	-	-	-	-	-	3,449,655,014	3,449,655,014	-	-	-	84,714,398,730
Total Investment Securities	12,622,720,814	305,118,214	12,927,839,028	27,512,070,649	36,101,086,694	4,716,821,878	3,456,580,481	71,786,559,702	-	-	-	151,613,212
Cash in Bank	151,613,212	-	151,613,212	-	-	-	-	-	41,396,027	391,836,286	(433,232,313)	-
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	23,699,437	-	(23,699,437)	-
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	23,526,787	-	(23,526,787)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	-	-	(1,145,025,814)	-
Deposits in Short-term Investment Fund	-	-	-	186,796,404	942,156,875	6,218,590	9,853,946	1,145,025,814	-	-	-	522,029,119
Other Assets, Net of Liabilities	133,474,499	-	133,474,499	388,556,004	-	-	(1,384)	388,554,620	-	-	-	-
Total Net Assets	\$ 12,907,808,525	\$ 305,118,214	\$ 13,212,926,739	\$ 28,087,423,057	\$ 37,043,243,568	\$ 4,723,040,468	\$ 3,466,433,043	\$ 73,320,140,136	\$ 88,622,251	\$ 391,836,286	\$ (1,625,484,351)	\$ 85,388,041,061
Participant Equity:												
General Fund	\$ 3,408,125,348	\$ -	\$ 3,408,125,348	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,408,125,348
Other Funds Which Earn Interest for General Fund	1,493,095,274	305,118,214	1,798,213,489	-	-	-	-	-	-	-	-	1,798,213,489
Highway Fund	859,459,885	-	859,459,885	-	-	-	-	-	-	-	-	859,459,885
Highway Trust Fund	38,170,676	-	38,170,676	-	-	-	-	-	-	-	-	38,170,676
University Trust Funds	1,917,596,541	-	1,917,596,541	-	-	-	-	-	-	-	-	1,917,596,541
Pension Trust Funds	364,889,462	-	364,889,462	-	-	-	-	-	-	-	-	72,669,417,927
Other Independent Trust Funds	3,200,527,929	-	3,200,527,929	27,071,811,387	37,043,243,568	4,723,040,468	3,466,433,043	72,304,528,465	-	-	-	4,216,139,599
Local Political Subdivisions	448,752,702	-	448,752,702	1,015,611,670	-	-	-	1,015,611,670	-	-	-	448,752,702
Licensing Boards	32,164,895	-	32,164,895	-	-	-	-	-	-	-	-	32,164,895
Other Investment Funds	1,145,025,814	-	1,145,025,814	-	-	-	-	-	88,622,251	391,836,286	(1,625,484,351)	0
Total Participant Equity	\$ 12,907,808,525	\$ 305,118,214	\$ 13,212,926,739	\$ 28,087,423,057	\$ 37,043,243,568	\$ 4,723,040,468	\$ 3,466,433,043	\$ 73,320,140,136	\$ 88,622,251	\$ 391,836,286	\$ (1,625,484,351)	\$ 85,388,041,061
Percent of Total	15.11	0.36	15.47	32.90	43.38	5.53	4.06	85.87	0.10	0.46	-1.90	100.00

**DEPARTMENT OF STATE TREASURER  
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS  
FOR THE PERIOD ENDED JUNE 30, 2008**

	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
<b>Revenues:</b>										
Investment Income:										
Investment Earnings	\$ 584,601,729	\$ 17,485,227	\$ 602,086,957	\$ 1,539,199,363	\$ 4,258,459,441	\$ 230,019,003	\$ 133,281,550	\$ 6,160,959,357	\$ (63,866,672)	\$ 6,763,046,314
Intra-Pool Interest Earnings				5,299,457	51,235,382	4,242,888	3,088,945	63,866,672		-
Income from Security Lending	44,944,150		44,944,150	97,428,669	46,997,927			144,426,596		189,370,746
Commission Recapture					417,230			417,230		417,230
Other Income					18,917,265			18,917,265		18,917,265
Subtotal	629,545,879	17,485,227	647,031,106	1,641,927,489	4,376,027,245	234,261,891	136,370,495	6,388,587,121	(63,866,672)	6,971,751,554
Net Unrealized Appreciation/Depreciation				524,369,263	(8,419,258,871)	228,253,676	133,732,193	(7,532,903,739)		(7,532,903,739)
Total Investment Income	629,545,879	17,485,227	647,031,106	2,166,296,752	(4,043,231,626)	462,515,567	270,102,688	(1,144,316,618)	(63,866,672)	(561,152,185)
<b>Expenditures:</b>										
Treasurer's Allocated Cost	(1,744,491)		(1,744,491)	(1,508,574)	(2,176,991)	(5,160,737)	(8,762,930)	(17,609,233)		(19,353,724)
Management Fees		(235,421)	(235,421)		(85,753,765)	(84,539,976)	(66,284,543)	(236,578,284)		(236,813,705)
Foreign Income Tax					(24,901,730)			(24,901,730)		(24,901,730)
Other Cost	(416,676)		(416,676)	(458,113)	(390,977)	(541,463)	(744,819)	(2,135,371)		(2,552,047)
Total Expenditures	(2,161,167)	(235,421)	(2,396,589)	(1,966,687)	(113,223,462)	(90,242,176)	(75,792,292)	(281,224,617)		(283,621,206)
Net Investment Income (Loss)	627,384,712	17,249,806	644,634,518	2,164,330,066	(4,156,455,088)	372,273,391	194,310,396	(1,425,541,235)	(63,866,672)	(844,773,390)
<b>Total Investment Income Allocated:</b>										240,367,229
General Fund	240,367,229		240,367,229							39,865,592
Highway Fund	39,865,592		39,865,592							1,638,439
Highway Trust Fund	1,638,439		1,638,439							96,928,653
University Trust Funds	96,928,653		96,928,653							(1,485,871,830)
Pension Trust Funds	18,798,599		18,798,599	2,085,200,872	(4,156,455,088)	372,273,391	194,310,396	(1,504,670,429)		229,811,951
Other Independent Trust Funds	150,682,757		150,682,757	79,129,194				79,129,194		16,425,214
Local Political Subdivisions	16,425,214		16,425,214							1,078,067
Licensing Boards	1,078,067		1,078,067						(63,866,672)	14,983,296
Other Investment Funds	61,600,162	17,249,806	78,849,968						(63,866,672)	(844,773,390)
Total Investment Income Allocated	627,384,712	17,249,806	644,634,518	2,164,330,066	(4,156,455,088)	372,273,391	194,310,396	(1,425,541,235.48)		
<b>Cash Return, Fiscal Year-to-Date (Annual</b>	5.189%	3.670%	5.149%							
<b>Total Return, 12, 24, and 36 and 60 months:</b>										
12 months				8.35%	-9.91%	9.37%	7.60%	-1.94%		
24 months				7.41%	3.93%	12.58%	10.63%	6.06%		
36 months				3.95%	6.74%	16.42%	11.77%	6.39%		
60 months				4.15%	10.52%	13.84%	8.83%	8.14%		