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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 3: DEPOSITS AND INVESTMENTS**

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**A. Deposits and Investments with State Treasurer**

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by wire transfers, ACH transactions, and warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these transactions each day. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, Local Government Other Post-Employment Benefits (OPEB) Trust, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

**External Investment Pool**

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the Public Hospitals, Escheat Fund, and bond proceeds investment accounts, is maintained in the Investment Pool. This pool, a governmental external investment pool, consists of the following individual investment portfolios:

*Short-term Investment* – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund, Highway Fund, and Highway Trust Fund. Other participants include universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer as well as the remaining portfolios listed below.

*Long-term Investment* – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher yield than those held in the Short-term Investment portfolio. The primary participants of the portfolio are the pension trust funds.

*External Fixed Income Investment* – This portfolio holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. The State's pension trust funds are the sole participants in the portfolio.

*Equity Investment* – This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily holds an equity-based trust. The State's pension trust funds are the sole participants in the portfolio.

*Real Estate Investment* – This portfolio holds investments in real estate-based trust funds and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension trust funds are the sole participants in the portfolio.

*Alternative Investment* – This portfolio holds investments in limited partnerships, hedge funds, U.S. Treasuries, and equities received in the form of distributions from its primary investments, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension trust funds are the sole participants in the portfolio.

*Credit Investment* – This portfolio may hold investments in debt-related strategies as defined by General Statutes 147-69.2(b)(6c). The State's pension trust funds are the sole participants in the portfolio.

*Inflation Protection Investment* – This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension trust funds are the sole participants in the portfolio.

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*OPEB Equity Investment* – This portfolio holds equity-based trusts. Pursuant to General Statute 159-30.1, the State Treasurer manages the trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2015, there were sixteen participants. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, most participants have delegated their investment authority to the State Treasurer.

All of the preceding investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed previously. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the Investment Pool. The Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

At year-end, the condensed financial statements for the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

**Statement of Net Position  
June 30, 2015**

<b>Assets</b>	
Cash and cash equivalents.....	\$ 206,411
Other assets.....	244,560
Investments.....	<u>108,714,418</u>
Total assets.....	<u>109,165,389</u>
<b>Liabilities</b>	
Other payables.....	7,887
Obligations under securities lending.....	<u>5,048,143</u>
Total liabilities.....	<u>5,056,030</u>
<b>Net Position</b>	
Internal:	
Primary government.....	99,392,488
Component units.....	3,836,027
External.....	<u>880,844</u>
Total net position.....	<u>\$ 104,109,359</u>

**Statement of Operations and Changes in Net Position  
For the Fiscal Year Ended June 30, 2015**

<b>Revenues</b>	
Investment income.....	<u>\$ 2,712,679</u>
<b>Expenses</b>	
Securities lending.....	6,360
Investment management.....	<u>581,266</u>
Total expenses.....	<u>587,626</u>
Net increase in net position resulting from operations.....	2,125,053
<b>Distributions to participants</b>	
Distributions paid and payable.....	(2,125,053)
<b>Share transactions</b>	
Reinvestment of distributions.....	2,124,772
Net share redemptions.....	<u>(1,779,512)</u>
Total increase in net position.....	345,260
<b>Net position</b>	
Beginning of year.....	<u>103,764,099</u>
End of year.....	<u>\$ 104,109,359</u>

**NOTES TO THE FINANCIAL STATEMENTS**

The external portion of the Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, External Fixed Income Investment, Credit Investment, Inflation Protection Investment, Alternative Investment, and OPEB Equity Investment portfolios is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions. The State reports the assets and liabilities arising from securities lending transactions for component units as part of the State's agency funds, rather than allocate them to the component units.

For most investment holdings, fair values are determined daily for the Long-term Investment, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment portfolio. The Alternative Investment and Credit Investment portfolios are valued quarterly except hedge fund investments, which are valued monthly. The Inflation Protection Investment portfolio consists of limited partnerships that are valued quarterly and futures that may be valued daily or monthly. In the Long-term Investment portfolio, the fair value of fixed income securities is calculated by a third party pricing vendor based on future principal and interest payments discounted using market yields.

For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Credit Investment and Inflation Protection Investment portfolios (limited partnerships, hedge funds, and other non-publicly traded investments), the methodology for determining an estimated fair value is established by the general partner, which may utilize a third party pricing source or an independent real estate appraiser. Contracts with these partnerships, hedge funds, and other investments require an annual audit, except for certain older investments that are immaterial to the financial statements. The general partners' estimated fair values are based on the partnerships and funds respective net asset values (NAV). The most significant input into the NAV of such an entity is the fair value of its holdings. These non-publicly traded assets are valued at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. The fair values of certain investments may require significant management judgment or estimation. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire sale pricing. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values. Additional investment valuation information is provided in Note 1.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2015, \$3.78 million of investment income associated with other funds was credited to the General Fund.

**Deposits**

*Custodial Credit Risk.* For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit in the amount of \$13.6 million. The nonnegotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State and held by an agent.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the North Carolina Administrative Code (Chapter 20 NCAC 7). Deposits to the Investment Pool may be made in any bank, savings and loan association or trust company in the State as approved by the State Treasurer. The North Carolina Administrative Code requires depositories to collateralize all balances that are not insured by the Federal Deposit Insurance Corporation (FDIC). The depositories must maintain specified security types in a third party escrow account established by the State Treasurer. The securities collateral must be governmental in origin (e.g., U.S. Treasury, U.S. agency, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

**NOTES TO THE FINANCIAL STATEMENTS****Investments**

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Debt investments:</b>					
U.S. Treasuries .....	\$ 14,201,782	\$ 8,484,517	\$ 509,654	\$ 2,624,394	\$ 2,583,217
U.S. agencies .....	8,824,189	881,455	7,013,935	152,325	776,474
Mortgage pass-throughs .....	8,681,196	—	293	17,686	8,663,217
Repurchase agreements .....	2,188,000	2,188,000	—	—	—
Collective investment funds .....	203,726	203,726	—	—	—
Domestic corporate bonds .....	8,602,336	4,975	672,042	4,297,749	3,627,570
Foreign government bonds .....	25,021	—	—	25,021	—
Securities purchased with cash collateral under fixed income securities lending program:					
Asset-backed securities .....	184,867	184,867	—	—	—
Negotiable certificates of deposit .....	328,596	328,596	—	—	—
Repurchase agreements .....	631,464	631,464	—	—	—
Money market mutual funds .....	132,785	132,785	—	—	—
Commercial paper .....	67,502	67,502	—	—	—
Domestic corporate bonds .....	1,942,612	1,942,612	—	—	—
Securities purchased with cash collateral under equity securities lending program:					
U.S. Treasuries .....	14,800	14,800	—	—	—
U.S. agencies .....	22,000	22,000	—	—	—
Asset-backed securities .....	269,232	269,232	—	—	—
Negotiable certificates of deposit .....	65,998	65,998	—	—	—
Euro certificates of deposit .....	65,000	65,000	—	—	—
Yankee certificates of deposit .....	782,055	782,055	—	—	—
Repurchase agreements .....	256,628	256,628	—	—	—
Bank notes .....	39,997	39,997	—	—	—
Commercial paper .....	54,972	54,972	—	—	—
	<u>47,584,758</u>	<u>\$ 16,621,181</u>	<u>\$ 8,195,924</u>	<u>\$ 7,117,175</u>	<u>\$ 15,650,478</u>
<b>Other investments:</b>					
Equity based trust - domestic .....	25,081,834				
Equity based trust - international .....	14,188,493				
OPEB equity based trust- domestic .....	90,197				
OPEB equity based trust- international .....	28,758				
<b>Alternative investments:</b>					
Hedge funds .....	277,024				
Private equity investment partnerships .....	4,726,969				
Stock distributions .....	20,074				
Real estate trust funds .....	7,246,950				
Credit investments .....	5,438,220				
Inflation protection investments .....	4,017,541				
<b>Total investments .....</b>	<u><b>\$ 108,700,818</b></u>				

In addition to the total investments above, nonnegotiable certificates of deposit (\$13.6 million) are reported as investments in the Condensed Statement of Net Position presented previously.

**NOTES TO THE FINANCIAL STATEMENTS**

The major investment classifications of the Investment Pool had the following attributes at year-end (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries .....	\$ 13,127,829	0.00%-8.75%
U.S. agencies .....	8,621,956	0.00%-7.125%
Mortgage pass-throughs .....	8,148,736	3.00%-9.00%
Domestic corporate bonds .....	7,944,364	0.625%-10.50%
Foreign government bonds .....	25,000	2.45%
Repurchase agreements .....	2,188,000	0.20%-0.25%
Collective investment funds .....	203,726	0.186%
Securities purchased with cash collateral under fixed income securities lending program:		
Asset-backed securities .....	305,604	0.237%-0.277%
Negotiable certificates of deposit .....	328,585	0.17%-0.26%
Repurchase agreements .....	631,464	0.07%-0.14%
Money market mutual funds .....	132,785	0.163%
Commercial paper .....	67,513	0.18%-0.317%
Domestic corporate bonds .....	1,942,832	0.226%-0.464%
Securities purchased with cash collateral under equity securities lending program:		
U.S. Treasuries .....	14,800	0.00%
U.S. agencies .....	22,000	0.00%
Asset-backed securities .....	271,828	0.00%-1.027%
Negotiable certificates of deposit .....	66,000	0.287%-0.297%
Euro certificates of deposit .....	65,000	0.30%
Yankee certificates of deposit .....	779,500	0.09%-0.585%
Repurchase agreements .....	256,628	0.02%-0.16%
Bank notes .....	40,000	0.361%-0.372%
Commercial paper .....	55,000	0.00%-0.367%
Equity-based trust - domestic .....	n/a	n/a
Equity-based trust - international .....	n/a	n/a

*Equity-based Trust* – The State Treasurer has contracted with an external party (Trustee) to create the “Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust” (the Trust). The State’s pension trust funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. Derivative instruments are also held within the Trust consisting primarily of U.S. dollar and foreign equity futures (see Note 7). The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, engages in securities lending transactions with a third party lender, and maintains all related accounting records. The Trustee also invests residual cash in a cash sweep fund and may be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

*OPEB Individual Equity-based Trusts* – The State Treasurer has contracted with an external party to provide an equity-based investment vehicle for local governments, public authorities, or any entity eligible to participate in the State’s Local Governmental Employees’ Retirement System and the local school administrative units. Each entity has an individual trust agreement with the Trustee and is a participant in a commingled equity investment trust. The State Treasurer employs an investment manager to manage the assets, in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trusts, engages in securities lending transactions, and maintains all related accounting records.

*Interest Rate Risk.* Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.5 years as of June 30, 2015. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems’ liabilities. At year-end, pensions and other employee benefit plans owned 93.9% of the Long-term Investment portfolio.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) mortgage pass-through pools. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are sensitive to the potential of principal prepayments by mortgagees in periods of

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changing interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which may carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates than similar securities without call options.

In addition to the corporate bonds with call options mentioned in the preceding paragraph, there are corporate bonds with variable coupon rates that reset on specific dates. The cash collateral received from securities lending has also been invested in corporate bonds and asset-backed securities with floating rates. Critical to the cash flows and pricing of these securities are the changes in interest rates. The State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than the stated maturity.

*Credit Risk.* General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the Short-term Investment portfolio's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service. General Statute 147-69.2 specifies the cash investment options for the Long-term Investment portfolio. The statute limits credit risk by restricting the Long-term Investment portfolio's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

At year-end, the Investment Pool had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies .....	\$ —	\$ 8,824,189	\$ —	\$ —	\$ —	\$ —
Repurchase agreements .....	—	2,188,000	—	—	—	—
Collective investment funds .....	—	—	—	—	—	203,726
Domestic corporate bonds .....	125,343	598,769	4,145,716	3,428,539	303,969	—
Foreign government bonds .....	—	—	25,021	—	—	—
Securities purchased with cash collateral under fixed income securities lending program:						
Asset-backed securities .....	—	—	—	—	184,867	—
Negotiable certificates of deposit .....	—	—	328,596	—	—	—
Repurchase agreements .....	—	631,464	—	—	—	—
Money market mutual funds .....	132,785	—	—	—	—	—
Commercial paper .....	—	—	67,502	—	—	—
Domestic corporate bonds .....	—	538,126	1,404,486	—	—	—
Securities purchased with cash collateral under equity securities lending program:						
U.S. agencies .....	—	22,000	—	—	—	—
Asset-backed securities .....	7,691	25,620	230,983	641	4,297	—
Negotiable certificates of deposit .....	—	65,998	—	—	—	—
Euro certificates of deposit .....	—	—	65,000	—	—	—
Yankee certificates of deposit .....	—	26,495	755,560	—	—	—
Repurchase agreements .....	—	256,628	—	—	—	—
Bank notes .....	—	39,997	—	—	—	—
Commercial paper .....	—	—	54,972	—	—	—
<b>Total .....</b>	<b>\$ 265,819</b>	<b>\$ 13,217,286</b>	<b>\$ 7,077,836</b>	<b>\$ 3,429,180</b>	<b>\$ 493,133</b>	<b>\$ 203,726</b>

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The State Treasurer's investment policy places no limit on the amount that may be invested in any one issuer other than the General Statute 147-69.2(b)(8) that limits the market value of an investment in the stock of a single corporation to one and one-half percent of the Retirement Systems' assets. At the fiscal year end, there were no stocks of a single corporation that exceeded this limit.

**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* At year-end, the Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type						Total
	Equity	Alternative Investment -		OPEB Equity	Credit		
	Based Trust - International	Private Equity Investment Partnerships	Real-Estate Trust Funds	Based Trust- International	Investment Partnerships		
Euro .....	\$ 3,984,700	\$ 605,035	\$ 179,696	\$ 6,055	\$ 7,376	\$ 4,782,862	
British Pound Sterling ...	2,742,448	58,866	310,551	3,000	—	3,114,865	
Japanese Yen .....	2,419,981	143,335	49,182	4,913	—	2,617,411	
Hong Kong Dollar .....	1,050,978	—	40,542	2,362	—	1,093,882	
Swiss Franc .....	1,002,047	58,800	3,674	1,683	—	1,066,204	
Australian Dollar .....	561,716	6,704	23,590	1,277	—	593,287	
Swedish Krona .....	381,002	—	3,710	341	—	385,053	
South Korean Won .....	376,404	—	—	147	—	376,551	
Canadian Dollar .....	261,090	—	9,189	1,535	—	271,814	
New Taiwan Dollar .....	268,769	—	—	1,449	—	270,218	
Danish Krone .....	219,981	—	—	610	—	220,591	
Singapore Dollar .....	207,621	—	8,652	652	—	216,925	
Indian Rupee .....	175,186	—	—	—	—	175,186	
Other Currencies .....	536,570	—	3,484	4,204	—	544,258	
Total .....	<u>\$ 14,188,493</u>	<u>\$ 872,740</u>	<u>\$ 632,270</u>	<u>\$ 28,228</u>	<u>\$ 7,376</u>	<u>\$ 15,729,107</u>	

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. At year-end, the retirement systems had approximately 18% invested in international securities. The Investment Pool recognized an aggregate foreign currency transaction loss of \$834 million for the fiscal year ended June 30, 2015. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.

Note: The OPEB Equity Based Trust-International total in this table does not agree to the carrying amount disclosed in the investments and maturities table because the investments and maturities table includes American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the OPEB Equity Based Trust-International equity market values in the foreign currency risk table are based on trade date while the carrying amount for this portfolio is reported on settle date in the investments and maturities table.

**Securities Lending**

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's custodian manages the securities lending program for the internally managed fixed income portfolios and a third party lending agent (both are "lending providers") manages the securities lending program for the equity-based trust. During the year, the lending providers lent U.S. government and agency securities, corporate bonds, notes, and equity securities for collateral. The lending programs are permitted to receive cash and U.S. government and agency securities as collateral for the securities lent. In addition, the securities lending program in the internally managed fixed income portfolios may receive irrevocable letters of credit.

The collateral is initially pledged at 102% of the market value of the domestic securities lent in both the fixed income portfolios and the equity-based trust and 105% of the market value of foreign securities lent in the equity-based trust program. Additional collateral is required if its value falls to less than 100% of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the lending providers and held in separate accounts in the name of the State Treasurer. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contracts with the lending providers. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities loans.

At year-end, the State Treasurer had no credit risk exposure to borrowers because the amounts the Treasurer owed the borrowers exceeded the amounts the borrowers owed the State. The lending providers are contractually obligated to indemnify the Treasurer for certain conditions, the most important is default on the part of the borrowers.

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**NOTES TO THE FINANCIAL STATEMENTS**Internally Managed Fixed Income Portfolios

*Interest Rate Risk and Credit Risk.* Under the prior securities lending guidelines for the internally managed fixed income portfolios, asset-backed securities must bear the highest rating of at least one nationally recognized rating service. The expected maturity shall not exceed five years and securities having a final maturity greater than two years will be in floating rate instruments with interest rate resets occurring at no greater than 90-day intervals to minimize the effect of interest rate fluctuations on their valuations. Corporate bonds and notes, including bank holding company obligations, rated AA must have a final maturity no greater than three years. Securities rated A must have a final maturity no greater than two years. No more than five percent of the cash collateral may be invested in a single issue.

Securities purchased under the current securities lending program in the internally managed fixed income portfolios will not have a final maturity greater than 397 days. The custodian is not permitted to make investments where the weighted average maturity of all investments exceeds 60 days. As of June 30, 2015, the weighted average maturity of investments was approximately 25 days. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. At the time of purchase, asset-backed securities are required to have a AAA rating by at least two of the rating agencies. All other eligible securities must have a minimum short-term rating of A-1/P-1 or a long-term rating of A/A2. No more than 5% of the collateral account's total assets may be invested in a corporate or bank obligation, or asset-backed securities of a single issuer or sponsor. As of June 30, 2015, the fair value of loaned securities in the internally managed fixed income program was \$6.5 billion; the fair value of the associated collateral was \$6.5 billion of which \$3.3 billion was cash.

During the market crisis of late 2008, there was a default in a Lehman Brothers floating rate note in which securities lending collateral had been invested. Since that time, several other investments with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a collective investment trust fund, and are included in the Investment Pool's Condensed Statement of Net Position. The purpose of the separate account is to provide a reserve account to offset expected losses. At year-end, the State Treasurer had an unrealized loss in the Securities Lending Collateral pool of \$189.2 million, and had accrued \$187.4 million in the separate account.

Equity-Based Trust

*Interest Rate Risk and Credit Risk.* Under the prior securities lending guidelines, cash collateral was invested by the lending provider in a variety of permitted investments including asset-backed securities, U.S. Treasuries and commingled or mutual funds. These investments had certain credit and concentration restrictions and were managed to ensure that the average effective duration of the fund would not exceed 120 days. In 2010, when the current guidelines were adopted, the remaining balance of these assets was transferred in-kind to a separate account in the name of the State Treasurer with the remainder in a legacy portfolio. As of June 30, 2015, the average duration of these investments was approximately 43 days with an average weighted final maturity of 2,126 days.

Under the current securities lending guidelines for the equity-based trust adopted in 2010, all eligible investments must be rated at least A1, P1 or F1 by at least two nationally recognized rating organizations, except for repurchase agreements, which require the counterparty to have a short-term rating of at least A2, P2 or F2 by at least one of the nationally recognized rating agencies. All eligible securities must be acquired with no more than 13 months remaining to legal final maturity. The dollar-weighted average maturity of the cash collateral account should not exceed 60 days and should not have a dollar-weighted average final maturity in excess of 120 days. The average weighted duration of the investments was approximately 23 days with an average weighted final maturity of approximately 89 days. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. No more than five percent of the cash collateral may be invested in a single issue. As of June 30, 2015, the fair value of loaned securities in the equity-based trust program was \$1.7 billion; the fair value of the associated collateral was \$1.8 billion of which \$1.6 billion was cash.

**NOTES TO THE FINANCIAL STATEMENTS****Bond Proceeds Investment Accounts**

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. In the State's financial statements, each fund's equity in these accounts is reported as investments.

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity (Days)</u>
Debt investments:		
Repurchase agreements .....	\$ 265,543	2
Asset-backed securities .....	15,884	877
Total investments .....	<u>\$ 281,427</u>	

*Interest Rate Risk and Credit Risk.* As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1 and are invested in short-term maturities and/or securities that bear the highest rating of a least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

*Custodial Credit Risk.* Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial policy related to these investments.

**Public Hospitals Investment Account**

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust and Watauga Medical Center Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. One public hospital is a participant in the Investment Pool's Long-term Investment portfolio.

At year-end, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>
Other investments:	
Equity based trust - domestic .....	\$ 174,125
Equity based trust - international .....	55,424
External investment pool - long-term .....	7,987
Total investments .....	<u>\$ 237,536</u>

**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Public Hospitals investment account's exposure to foreign currency risk was as follows (dollars in thousands):

<u>Currency</u>	<u>Carrying Value by Investment Type</u> <u>Equity Based Trust- International</u>
Euro .....	\$ 11,669
Japanese Yen .....	9,469
British Pound Sterling .....	5,782
Hong Kong Dollar .....	4,552
Swiss Franc .....	3,244
Canadian Dollar .....	2,959
Taiwan Dollar .....	2,792
Australian Dollar .....	2,462
Brazilian Real .....	2,053
South African Rand .....	1,327
Singapore Dollar .....	1,257
Thai Baht .....	1,208
Danish Krone .....	1,176
Turkish Lira .....	728
Poland Zloty .....	710
Swedish Krona .....	657
Norwegian Krone .....	555
Other Currencies .....	1,805
Total .....	<u>\$ 54,405</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because the investment table includes American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the equity market values in the foreign currency risk table are based on trade date while the investment table is reported on settle date.

**Escheat Investment Account**

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. The investments are reported at fair value as determined by the investment manager. Factors considered by the investment managers in determining fair value include cost, the type of investment, subsequent purchases of the same or similar investments, the current financial position and operating results of the underlying investments and such other factors as may be deemed relevant. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>
Other investments:	
Private equity investment partnerships .....	<u>\$ 35,505</u>

**NOTES TO THE FINANCIAL STATEMENTS****B. Deposits Outside the State Treasurer**

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained outside the State Treasurer by the primary government and certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

**Primary Government**

The majority of the uninsured and uncollateralized deposits held outside the State Treasurer were maintained by the USS N.C. Battleship Commission. The USS N.C. Battleship Commission does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized.....	<u>\$ 3,473</u>
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**Component Units**

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized.....	\$ 205,116
Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name...	<u>4,715</u>
Total.....	<u>\$ 209,831</u>

**C. Investments Outside the State Treasurer****Primary Government**

At year-end, 87% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan.

**Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan**

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) or the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan). However, in the absence of specific legislation, the form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care.

At December 31, 2014, the 401(k) and 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands). Investments include managed assets of the Pooled Separate Account SA-NC with Prudential Retirement Insurance and Annuity Company as owner and the Plans as beneficial owners. Investments in this Pooled Separate Account total \$6.69 billion. The remainder of the investments is the Stable Value Fund, which consists of four synthetic guaranteed investment contracts, two guaranteed investment contracts, five wrap contracts, a stable return fund, and a government money market fund.

## NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries.....	\$ 304,534	\$ 7,957	\$ 125,469	\$ 131,074	\$ 40,034
U.S. Treasury STRIPS.....	48,924	—	11,399	25,928	11,597
U.S. agencies.....	20,817	—	11,377	3,263	6,177
Mortgage pass-throughs.....	66,518	4,176	11,651	14,683	36,008
Collateralized mortgage obligations.....	91,891	7,072	3,476	20,738	60,605
State and local government.....	6,428	827	4,098	—	1,503
Asset-backed securities.....	48,283	1,826	33,421	7,495	5,541
Collective investment funds.....	1,576,767	78,288	826,243	672,236	—
Money market mutual funds.....	76,511	76,511	—	—	—
Pooled debt funds.....	287,086	—	—	287,086	—
Domestic corporate bonds.....	162,686	32,240	101,335	19,429	9,682
Foreign corporate bonds.....	87,812	22,388	58,764	4,330	2,330
Foreign government bonds.....	83,299	6,868	37,212	25,873	13,346
	<u>2,861,556</u>	<u>\$ 238,153</u>	<u>\$ 1,224,445</u>	<u>\$ 1,212,135</u>	<u>\$ 186,823</u>
Other investments:					
Equity mutual funds.....	1,561,518				
Unallocated insurance contracts.....	762,219				
Domestic stocks.....	3,052,626				
Foreign stocks.....	779,331				
Other.....	663				
Total investments.....	<u>\$ 9,017,913</u>				

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Position, SGICs are reported at contract value. At year-end, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by \$30.3 million. The Plans' investment in the Pooled Separate Account SA-NC is stated at fair value. Units of the Pooled Separate Account SA-NC are reported at fair value, based on the net asset value of the units held by the Plan. Units of common/commingled funds are valued at the net asset value of shares held by the Plan. Investments in fixed income securities (U.S. Treasuries and agency securities, asset-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, domestic corporate bonds, foreign government bonds, foreign corporate bonds, state and local government bonds, and mortgage pass-throughs) are valued on the basis of valuations furnished by independent pricing services. These services determine valuations for normal institutional-size trading units of such securities using models or matrix pricing, which incorporates yield and/or price with respect to bonds that are considered comparable in characteristics such as rating, interest rate, maturity date and quotations from bond dealers to determine current value. If these valuations are deemed to be either not reliable or not readily available, the fair value will be determined in good faith by the custodian. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Contributions to the collective trust and Pooled Separate Account are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings of the Pooled Separate Account, as well as market fluctuations, are reflected in unit values. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

*Interest Rate Risk.* The 401(k) and 457 Plans have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The overall duration of the underlying securities in the Stable Value Fund will be between 2 and 3.5 years. The average duration of the Pooled Separate Account's fixed income fund is targeted to be within plus or minus 25% of the Barclay's Capital Aggregate Bond Index. The average duration of the Pooled Separate Account's inflation responsive fund is not limited by the plans' investment policy. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

**NOTES TO THE FINANCIAL STATEMENTS**

*Credit Risk.* The 401(k) and 457 Plans have a formal investment policy on credit risk. The Plan's investment policy for the Stable Value Fund requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's (S&P) or Fitch rating of BBB- or Moody's rating of Baa3. The average credit quality of the underlying fixed income investments in the Stable Value Fund will be S&P AA or Moody's Aa2. The Plans' investment policy for the Pooled Separate Account's fixed income fund requires that debt securities are intended to have an average quality rating of A- or better. The Plans' investment policy for the Pooled Separate Account's fixed income fund permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets. At December 31, 2014, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ —	\$ 18,955	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs.....	—	63,872	—	—	—	—
Collateralized mortgage obligations.	7,095	66,415	2,130	4,860	5,192	3,485
State and local government.....	—	3,387	3,041	—	—	—
Asset-backed securities.....	36,789	2,199	5,353	1,496	47	2,399
Collective investment funds.....	—	—	—	—	—	1,576,767
Money market mutual funds.....	—	—	—	—	—	76,511
Pooled debt funds.....	—	—	—	—	—	287,086
Domestic corporate bonds.....	295	5,085	55,236	99,385	2,685	—
Foreign corporate bonds.....	3,281	8,862	42,025	25,846	254	7,544
Foreign government bonds.....	20,382	10,103	10,438	19,857	18,429	4,090
	<u>\$ 67,842</u>	<u>\$ 178,878</u>	<u>\$ 118,223</u>	<u>\$ 151,444</u>	<u>\$ 26,607</u>	<u>\$ 1,957,882</u>

*Custodial Credit Risk.* The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. At December 31, 2014, the investments of these Plans maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount
	Held by Counterparty
U.S. Treasuries.....	\$ 304,534
U.S. Treasury STRIPS.....	48,924
U.S. agencies.....	20,817
Mortgage pass-throughs.....	66,518
Collateralized mortgage obligations....	91,891
State and local government.....	6,428
Asset-backed securities.....	48,283
Domestic corporate bonds.....	162,686
Foreign corporate bonds.....	87,812
Foreign government bonds.....	83,299
Domestic stocks.....	3,052,626
Foreign stocks.....	779,331
Total.....	<u>\$ 4,753,149</u>

**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk. At December 31, 2014, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount	
	Foreign stocks	
Euro.....	\$	221,872
Japanese Yen.....		149,860
British Pound Sterling.....		117,497
Swiss Franc.....		48,666
Canadian Dollar.....		35,340
Hong Kong Dollar.....		34,901
Swedish Krona.....		29,784
New Taiwan Dollar.....		21,421
South Korean Won.....		19,866
Danish Krone.....		15,831
Singapore Dollar.....		15,591
South African Rand.....		13,958
Indian Rupee.....		13,817
Australian Dollar.....		12,128
Turkish Lira.....		9,956
Other Currencies.....		18,843
Total.....	\$	<u>779,331</u>

**Other Primary Government Investments**

The other primary government investments held outside the State Treasurer consisted almost entirely of separate investment accounts held by trustees for special obligation and revenue debt issues to comply with IRS regulations on bond arbitrage, and escheated securities held for owners.

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries.....	\$ 27,856	\$ 2,529	\$ 24,971	\$ 332	\$ 24
U.S. Treasury STRIPS.....	75	75	—	—	—
U.S. agencies.....	68,591	12,449	54,113	2,029	—
Asset-backed securities.....	3,097	3,097	—	—	—
Repurchase agreements.....	406,333	406,333	—	—	—
Annuity contracts.....	61,854	5,136	20,544	25,680	10,494
Debt mutual funds.....	457	—	—	457	—
Money market mutual funds.....	142,955	142,955	—	—	—
Pooled debt funds.....	456,470	456,470	—	—	—
	<u>1,167,688</u>	<u>\$ 1,029,044</u>	<u>\$ 99,628</u>	<u>\$ 28,498</u>	<u>\$ 10,518</u>
Other investments:					
International mutual funds.....	500				
Equity mutual funds.....	550				
Real estate investment trust.....	38				
Domestic stocks.....	138,132				
Total investment securities.....	<u>\$ 1,306,908</u>				

**NOTES TO THE FINANCIAL STATEMENTS**

*Interest Rate Risk and Credit Risk.* The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants for certain issues, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank; or 2) any commercial bank, trust company, or national banking association reporting to the Federal Reserve. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate or credit risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ 68,546	\$ —	\$ —	\$ —	\$ —	\$ 45
Asset-backed securities.....	3,097	—	—	—	—	—
Annuity contracts.....	—	61,854	—	—	—	—
Debt mutual funds.....	231	27	51	52	89	7
Money market mutual funds.....	142,940	—	—	—	—	15
Pooled debt funds.....	—	—	—	—	—	456,470
Total.....	<u>\$ 214,814</u>	<u>\$ 61,881</u>	<u>\$ 51</u>	<u>\$ 52</u>	<u>\$ 89</u>	<u>\$ 456,537</u>

*Custodial Credit Risk.* There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end, there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

**Component Units****University of North Carolina System**

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC System). However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill (the University) operates an Investment Fund, which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University and other institutions within the UNC System. Separate financial statements for the Investment Fund may be obtained from the University.

Investments of the University of North Carolina at Chapel Hill for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The majority of private equity limited partnerships and real assets limited partnerships are subject to fair value estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is \$1.61 billion.

**NOTES TO THE FINANCIAL STATEMENTS**

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries.....	\$ 231,311	\$ 3,770	\$ 203,457	\$ 21,954	\$ 2,130
U.S. agencies.....	155,514	11,881	21,841	5,880	115,912
Mortgage pass-throughs.....	19,799	9,555	1,787	3,155	5,302
Collateralized mortgage obligations.....	103,586	53,000	573	313	49,700
State and local government.....	217	32	77	59	49
Asset-backed securities.....	60,350	27,788	2,683	9,076	20,803
Collective investment funds.....	41,691	41,691	—	—	—
Commercial paper.....	860	860	—	—	—
Annuity contracts.....	155	70	35	27	23
Debt mutual funds.....	408,976	25,685	246,597	124,966	11,728
Money market mutual funds.....	473,777	464,712	3,439	2,872	2,754
Pooled debt funds.....	1,983	291	702	540	450
Domestic corporate bonds.....	75,229	18,410	40,184	8,899	7,736
Foreign corporate bonds.....	24,393	3,957	12,012	5,318	3,106
Foreign government bonds.....	1,670	—	1,427	243	—
Other.....	260	260	—	—	—
	<u>1,599,771</u>	<u>\$ 661,962</u>	<u>\$ 534,814</u>	<u>\$ 183,302</u>	<u>\$ 219,693</u>
Other investments:					
Balanced mutual funds.....	4,602				
International mutual funds.....	107,409				
Equity mutual funds.....	143,583				
Investments in real estate.....	34,813				
Real estate investment trust.....	64,359				
Hedge funds.....	2,537,735				
Private equity limited partnerships.....	1,208,823				
Real assets limited partnerships.....	523,045				
Other limited partnerships.....	248,591				
Pooled investments.....	32				
Unallocated insurance contracts.....	627				
Domestic stocks.....	269,556				
Foreign stocks.....	18,185				
Other.....	16,051				
Total investments.....	<u>\$ 6,777,182</u>				

**NOTES TO THE FINANCIAL STATEMENTS**

*Interest Rate Risk and Credit Risk.* The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ 67	\$ 153,445	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs.....	448	99	420	1,893	8,657	8,282
Collateralized mortgage obligations.....	876	552	—	53	90,882	11,223
State and local government.....	93	8	63	53	—	—
Asset-backed securities.....	14,010	1,210	6,298	7,302	29,022	2,508
Collective investment funds.....	7,688	263	477	542	632	1,209
Commercial paper.....	—	—	—	—	—	860
Annuity contracts.....	43	4	29	25	—	—
Debt mutual funds.....	2,645	9,240	186,230	45,281	86,853	43,397
Money market mutual funds.....	444,342	4,390	3,097	2,194	—	17,660
Pooled debt funds.....	847	72	575	489	—	—
Domestic corporate bonds.....	9,395	16,719	28,976	8,405	9,905	98
Foreign corporate bonds.....	—	1,068	2,270	6,436	14,210	—
Foreign government bonds.....	—	—	33	1,020	617	—
Total.....	<u>\$ 480,454</u>	<u>\$ 187,070</u>	<u>\$ 228,468</u>	<u>\$ 73,693</u>	<u>\$ 240,778</u>	<u>\$ 85,237</u>

*Custodial Credit Risk.* The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount	
	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in the entity's name
U.S. Treasuries.....	\$ 24,557	\$ 5,485
U.S. agencies.....	2,069	—
Mortgage pass-throughs.....	8,040	—
State and local government.....	—	217
Asset-backed securities.....	—	3,394
Domestic corporate bonds.....	18,326	7,203
Foreign corporate bonds.....	410	—
Domestic stocks.....	28,043	72
Foreign stocks.....	744	13
Other.....	260	—
Total.....	<u>\$ 82,449</u>	<u>\$ 16,384</u>

**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

Currency	Carrying Amount			
	Hedge funds	Private equity limited partnerships	Real assets limited partnerships	Foreign stocks
Euro.....	\$ 29,242	\$ 82,225	\$ 14,981	\$ —
Canadian Dollar.....	—	—	8,240	6,140
British Pound Sterling....	—	22,013	10,783	—
Australian Dollar.....	—	2,832	—	—
Total.....	<u>\$ 29,242</u>	<u>\$ 107,070</u>	<u>\$ 34,004</u>	<u>\$ 6,140</u>

The UNC System recognized an aggregate foreign currency transaction loss of \$15.33 million for the fiscal year ended June 30, 2015. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.