



JANET COWELL
TREASURER

To: Supplemental Retirement Board of Trustees

From: Loren de Mey, Assistant Investment Director

Date: October 28, 2016

Subject: Discussion/Action: NC 403(b) Program – Fund mapping for the TIAA Stable Value Fund

Staff Recommendation

Staff recommends mapping participants in the TIAA Stable Value Fund into the Vanguard Short-Term Bond Index Fund Admiral Shares (Ticker: VBIRX).

Background

With the transition from TIAA to Prudential as administrator for the NC 403(b) Program, the TIAA Stable Value Fund will no longer be offered as an investment option. Additionally, there are no replacement Stable Value options available on Prudential's platform at this time.

Staff and Prudential spoke with several Stable Value providers to inquire whether they would be interested in offering a Stable Value product to the NC 403(b) Program. All firms declined due to one or more of the following reasons: 1) not having a product available in the 403(b) marketplace; 2) not meeting investment minimum thresholds; 3) not being available in an investment-only scenario (unbundled from the record keeper); and/or 4) the non-exclusive plan design of the NC 403(b) Program, which would allow participants to transfer in and out of a Stable Value investment and a competing fixed income fund(s) based on relative yields.

Analysis and Recommendation

Considering that there is not a Stable Value option for the NC 403(b) Program, staff reviewed available short-term fixed income investment options given their lower volatility profile and higher yield than money market fund options. The Vanguard Short Term Bond Index Fund Admiral Shares employs an indexing investment approach designed to track the performance of the Barclays US 1 -5 Year Government/Credit Float Adjusted Index. This index includes all medium and larger issues of U.S. Government, investment grade corporate, and investment grade international dollar-denominated bonds that have maturities between 1 and 5 years. At least 80% of the Fund's assets will be invested in bonds included in the index. The Vanguard Short Term Bond Index Fund provides a high quality fixed income alternative with a relatively short duration

and low volatility. The Vanguard Short-Term Bond Index Fund will have a lower yield than a stable value product, but will have a higher yield than money market funds except in an environment where the Federal Reserve has significantly inverted the yield curve. The more attractive yield and significant mark-to-market downside protection will allow the Vanguard Short-Term Bond Index Fund to function as the “anchor to windward” within the NC 403(b) Program (which was the role of the TIAA Stable Value Fund).

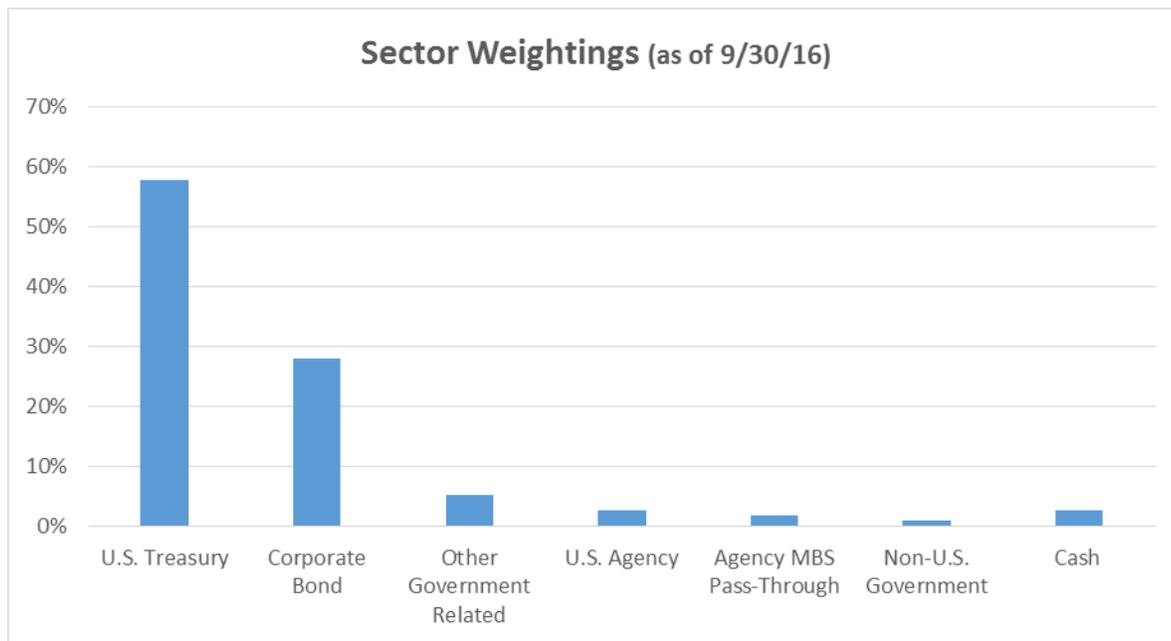
Given these characteristics, staff recommends mapping participants in the TIAA Stable Value Fund into the Vanguard Short-Term Bond Index Fund. If approved, the mapping will occur along with the record keeper transition from TIAA to Prudential, currently proposed for February 22, 2017.

Net Performance (as of 9/30/16)

	Quarter	YTD	1-Yr	3-Yr	5-Yr
Vanguard Short-Term Bond Index Fund	0.09	2.64	1.97	1.65	1.49
Barclays US 1-5 year Government Credit Index	0.04	2.65	2.06	1.73	1.60

Fund Statistics (as of 9/30/16)

Average Effective Duration	2.76 years
Average Credit Quality	AA
Average Coupon	1.96%
Standard Deviation	1.20%



Fund Expense: The expense ratio of the Vanguard Short-Term Bond Index Fund expense ratio is 0.09%.

