
MEMORANDUM

TO: NORTH CAROLINA SUPPLEMENTAL RETIREMENT
BOARD OF TRUSTEES
FROM: MARY BUONFIGLIO, DEPUTY DIRECTOR
SUBJECT: NC 403(b) FUND PERFORMANCE REVIEW
DATE: SEPTEMBER 11, 2014

The Board of Trustees' overriding objective for the NC 403(b) Program is to provide suitable retirement vehicles for the employees of covered employers. The Board recognizes the diverse nature of covered employees' savings requirements, return objectives, and risk tolerance. The Board, therefore, intends to provide a suitable range of investment options through the Program that will meet the needs of employees in numerous life cycle stages, and with different retirement savings requirements.

Program Lineup

In general, the Board may offer funds, or families of funds, of the following types:

Target Date Family of Funds – these funds reflect an appropriate asset allocation and glide path based upon the participant's projected retirement date.

Core Passive Investment Options – index funds, or similarly passive investment options, that cover major asset classes.

Expanded Active Investment Options – actively-managed funds that cover one or more asset classes. Each actively managed fund may be internally allocated between one or more market segments.

TIAA Real Estate Account and Stable Value Fund

Both the Real Estate and Stable Value funds are held as a variable annuity within the NC 403(b) Program. Both investments are available only to TIAA-CREF clients.

Investment Management Fees

It is the Board's preference to utilize the lowest cost share class, and with few exceptions, to not use investment options that pay revenue share. If the Board concludes that it is necessary to adopt an investment option that pays a revenue share, that revenue share will be used to offset the administrative fees that otherwise would be paid by that participant to the Program.

Default Investment Options

The Program is an investment option within an employer's existing Plan and does not have the authority from the employer to designate a Qualified Default Investment Option or "QDIA". The Board has chosen to utilize target date funds consistent with the participant's age as the default investment option in the Program's plan documents. Therefore, if an employer utilizes the Programs' plan documents, the target date funds will be the QDIA for that employer.

Investment Monitoring

All non-index Program investment options should maintain the following characteristics:

- Provide a rate of return that exceeds that generated by the chosen index over rolling five year periods. The Option's returns should remain competitive with the chosen index's returns over rolling three year periods.
- Provide a rate of return that places above the median manager in a universe of its "peers" over rolling five year periods. The Option's returns should remain competitive with the "peer group" universe over shorter, rolling three year periods.

Performance Review Findings

As of July 31, 2014, the NC 403(b) funds performed in line, if not exceeded, performance expectations on a 1 and 5 year basis. Performance was evaluated against a peer group and appropriate index. All funds earned a 3 or better in Morningstar's rating universe. Specifically, there were six 3-star rated funds, 11 4-star rated funds and one 5-star rated fund.

In each instance, the NC 403(b) fund fee is well below its peer group, with fees reported gross of all fund company waivers. While the actual fee to participants may be lower on a net basis, the gross amount is the maximum amount permitted by the prospectus, and therefore the most conservative approach to reporting fees. It is important to note that all NC 403(b) funds are provided as an institutional share class.

The NC 403(b) fund lineup was analyzed utilizing the Morningstar mutual fund database. It is important to note that the peer universe is subject to change once Mercer Investment Consultants assumes responsibility for performance monitoring of the NC 403(b) funds in January 2015. In addition, the Board's Investment Subcommittee will affirm the appropriate performance benchmark for each strategy utilized in the Program.

As of June 30, 2014, the TIAA Real Estate Account held net assets of \$18.3 billion and had operating expenses estimated to be 0.87%. The year-to-date total return was 5.73%, 1-year: 10.98% and 5-year: 7.45%.

The Stable Value portfolio book value was \$288.74 million as of June 30, 2014. The Insurance Company ratings are: A.M. Best: A++, Fitch: AAA, Moody's: Aaa, S&P: AA+. The minimum guaranteed interest rate will always be between 1% and 3%. For the second half of 2014, it is 1.00%

Notes:

(1) The following indices were used in this report:

S&P 500: Vanguard 500 Index, Vanguard Windsor II, PIMCO All Asset, TIAA-CREF Social Choice Equity

Russell 2000: Vanguard Mid-Cap Index, Vanguard Small-Cap

MSCI EAFE: Vanguard Total Int'l Stock Index, American EuroPacific Growth, AllianzGI Int'l Value, DFA Int'l Small Co.

Barclays US Govt 1-3 Yr: Vanguard ST Bond Index

(2) PIMCO Inflation Response and JPMorgan Core Bond are currently utilized in the NC 401(k) / 457 plans in a separate account format.

NC 403(b) Program Lineup (as of 7/31/14)

Fund	Ticker	1 Yr (A/P/I)			5 Yr (A/P/I)			Fee (Gross) (A/P)		MS Rating (Overall)
Wells Fargo Target Date Dow Jones Today	WOTDX	5.17	5.69	tbd	5.23	7.77	tbd	.53%	.97%	3
Wells Fargo Target Date Dow Jones 2020	WFOBX	8.12	8.30	tbd	8.49	9.68	tbd	.50%	1.01%	3
Wells Fargo Target Date Dow Jones 2030	WFOOX	10.96	10.31	tbd	11.24	11.19	tbd	.50%	1.05%	4
Wells Fargo Target Date Dow Jones 2040	WFOSX	13.02	11.56	tbd	13.03	12.05	tbd	.51%	1.07%	4
Wells Fargo Target Date Dow Jones 2050	WFQFX	13.61	12.11	tbd	13.42	12.32	tbd	.53%	1.08%	4
Vanguard 500 Index	VFIAX	16.88	14.32	16.94	16.76	15.16	16.79	.05%	1.16%	4
Vanguard Mid-Cap Index	VIMAX	16.48	12.75	8.56	19.28	16.75	16.56	.09%	1.24%	5
Vanguard Small-Cap Index	VSMAX	12.74	8.71	8.56	18.88	16.27	16.56	.09%	1.31%	4
Vanguard Total Int'l Stock Index	VTIAX	15.22	11.11	15.07	NA	8.48	9.40	.14%	1.29%	3
Vanguard Short-Term Bond Index	VBIRX	1.22	1.07	.53	2.34	2.77	1.18	.10%	.87%	4
Vanguard Windsor II	VWNAX	14.63	12.96	16.94	16.08	14.92	16.79	.28%	1.16%	4
T. Rowe Price Growth & Income	PRGIX	15.85	16.22	16.94	15.19	15.44	16.79	.68%	1.24%	3
American Funds EuroPacific Growth	RERGX	14.99	11.11	15.07	9.42	8.48	9.40	.49%	1.29%	4
AllianzGI NFJ Int'l Value	ANJIX	12.54	12.91	15.07	10.19	8.27	9.40	.95%	1.35%	4
PIMCO Inflation Response Multi-Asset	PIRMX	5.85	6.72	tbd	NA	8.36	tbd	1.16%	1.68%	NA
JPMorgan Core Bond Fund	JCBUX	3.64	3.56	3.97	5.00	5.25	4.47	.48%	.89%	3
PIMCO All Asset Fund	PAAIX	9.11	6.72	16.94	9.22	8.36	16.79	1.00%	1.68%	4
TIAA-CREF Social Choice Equity	TISCX	15.83	14.32	16.94	16.70	15.16	16.79	.18%	1.16%	4
DFA Int'l Small Company Portfolio	DFISX	19.13	14.41	15.07	13.10	12.77	9.40	.54%	1.42%	3