

# North Carolina Supplemental Retirement Plans

401(k) and 457 Plans

Investment Holding Guideline Compliance Summary

As of September 30, 2014

Mercer Investments

**EQUITY PORTFOLIOS - FUND LEVEL**

Category	Applicable asset class	Guideline	LARGE CAP PASSIVE	LARGE CAP VALUE	LARGE CAP GROWTH	MID/SMALL PASSIVE	MID/SMALL VALUE	MID/SMALL GROWTH	INTL PASSIVE	INTL EQUITY	GLOBAL EQUITY
Individual securities	Passive domestic equity	Must mirror index by full replication or sampling	✓	--	--	✓	--	--	--	--	--
	Active domestic equity	Max: greater of 5% or index weight + 2.5%, but must be less than 10%	--	✓	✓	--	✓	✓	--	--	--
	Large cap value equity	ADR/Foreign Max: 20%	--	✓	--	--	--	--	--	--	--
	Large cap growth equity, Mid/Small cap equity	ADR/Foreign Max: 10%	--	--	✗	--	✓	✓	--	--	--
	Passive international equity	Max: greater of 5% or index weight	--	--	--	--	--	--	✓	--	--
	Active international equity	Max: 7.5%	--	--	--	--	--	--	--	✓	✓
	Active equity	Futures, options, swaps RESTRICTED	--	✓	✓	--	✓	✓	--	✓	✓
	Equity	144A Max: 15%	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Manager's own security RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Restricted securities RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sector diversification	Large cap equity	Individual sector weight Max: greater of 25% or 2x index weight	--	✓	✓	--	--	--	--	--	--
	Mid/Small cap equity	Diversification Min: 5 sectors	--	--	--	--	✓	✓	--	--	--
Country diversification	International equity	Max: 2x index weight but must be less than 50%; if index weight < 5%, then must be less than 10%; for global equity, max US weight: 60%	--	--	--	--	--	--	--	✓	✓
Average market cap	Equity	Within benchmark market cap range	--	✓	✓	--	✓	✓	--	✓	✓
Style	Value Equity	P/B, P/E < Broad market	--	✓	--	--	✓	--	--	--	--
	Growth equity	P/B, P/E > Broad market	--	--	✓	--	--	✓	--	--	--
Positioning	Equity	Short positions RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Leverage RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
Currency hedging	Domestic equity	RESTRICTED	✓	✓	✓	✓	✓	✓	--	--	--
Cash reserves	Equity	Must be fully invested	✓	✓	✓	✓	✓	✓	✓	✓	✓

Manager self-report  
 Galliard to monitor  
 Prudential to monitor

✓ In compliance with IPS.

✗ Not in compliance with IPS.

○ In compliance with manager guidelines, but not with fund guidelines.

EQUITY PORTFOLIOS - MANAGER LEVEL

Category	Applicable asset class	Guideline	LARGE CAP PASSIVE	LARGE CAP VALUE			LARGE CAP GROWTH			MID/SMALL CAP PASSIVE	MID/SMALL CAP VALUE			MID/SMALL CAP GROWTH		INTL PASSIVE	INTL EQUITY		GLOBAL EQUITY	
			BlackRock	Hotchkis & Wiley	Wellington	Robeco BP	Sands Capital	Wellington	Loomis	BlackRock	Hotchkis & Wiley	EARNEST	WEDGE	Times Square	Brown Advisory	BlackRock	Baillie Gifford	Mondrian Investment Partners	Wellington	Arrowstreet
Individual securities	Passive domestic equity	Must mirror index by full replication or sampling	✓	--	--	--	--	--	✓	--	--	--	--	--	--	--	--	--	--	
	Active domestic equity	Max: greater of 5% or index weight + 2.5%, but must be less than 10%	--	✓	✓	✓	○	✓	○	--	✓	✓	✓	✓	✓	--	--	--	--	
	Large cap value equity	ADR/Foreign Max: 20%	--	✓	✓	✓	--	--	--	--	--	--	--	--	--	--	--	--	--	
	Large cap growth equity, Mid/Small cap equity	ADR/Foreign Max: 10%	--	--	--	--	○	✓	○	--	○	✓	✓	✓	✓	--	--	--	--	
	Passive international equity	Max: greater of 5% or index weight	--	--	--	--	--	--	--	--	--	--	--	--	✓	--	--	--	--	
	Active international equity	Max: 7.5%	--	--	--	--	--	--	--	--	--	--	--	--	--	✓	✓	✓	✓	
	Active equity	Futures, options, swaps RESTRICTED	--	✓	✓	✓	✓	✓	✓	--	✓	✓	✓	✓	✓	--	✓	✓	✓	
	Equity	144A Max: 15%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Equity	Manager's own security RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Equity	Restricted securities RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Sector diversification	Large cap equity	Individual sector weight Max: greater of 25% or 2x index weight	--	✓	✓	✓	✓	✓	✓	--	--	--	--	--	--	--	--	--	--	
	Mid/Small cap equity	Diversification Min: 5 sectors	--	--	--	--	--	--	--	--	✓	✓	✓	✓	✓	--	--	--	--	
Country diversification	International equity	Max: 2x index weight but must be less than 50%; if index weight < 5%, then must be less than 10%; for global equity, max US weight: 60%	--	--	--	--	--	--	--	--	--	--	--	--	--	✓	✓	✓	✓	
Average market cap	Equity	Within benchmark market cap range	--	✓	✓	✓	✓	✓	✓	--	✓	✓	✓	✓	✓	--	✓	✓	✓	
Style	Value equity	P/B, P/E < Broad market	--	✓	✓	✓	--	--	--	--	✓	✓	✓	--	--	--	--	--	--	
	Growth equity	P/B, P/E > Broad market	--	--	--	--	✓	✓	✓	--	--	--	✓	✓	--	--	--	--		
Positioning	Equity	Short positions RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
	Equity	Leverage RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Currency hedging	Domestic equity	RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	--	--	--	--		
Cash reserves	Equity	Must be fully invested	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		

Manager self-report  
 Gaillard to monitor  
 Prudential to monitor

✓ In compliance with IPS.

✗ Not in compliance with IPS.

○ In compliance with manager guidelines, but not with fund guidelines.

**FIXED INCOME PORTFOLIOS**

Category	Applicable asset class	Guideline	FIXED INCOME PASSIVE	FIXED INCOME	FIXED INCOME		STABLE VALUE
			BlackRock	FUND	JPMorgan	PIMCO	Galliard
Individual securities	Fixed income	Max: 5%	✓	NA	✓	NA	--
	Fixed income	144A Max: 15%	✓	✓	✓	✓	--
	Fixed income	Restricted securities RESTRICTED	✓	✓	✓	✓	--
Sector diversification	Fixed income	Corporate sector allocations similar to benchmark	✓	✗	✓	○	--
Quality	Fixed income	Min average quality: A-; Max HY: 20%; Max non-US Government & Corporates: 20%;	--	✓	✓	✓	--
	Passive fixed income	HY and non-USD-denominated RESTRICTED	✓	--	--	--	--
	Cash	Min average quality: A1/P1	--	--	--	--	NA
Duration	Fixed income	Max: +/- 25% of benchmark	--	✓	✓	✓	--
	Passive fixed income	Must match index	✓	--	--	--	--
Maturity	Cash	Max: 1 year	--	--	--	--	NA
Currency hedging	Fixed income	RESTRICTED at manager level	✓	--	✓	○	--
Cash reserves	Fixed income	Must be fully invested	✓	✓	✓	✓	--

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Galliard to monitor  
Prudential to monitor

 In compliance with IPS.

 Not in compliance with IPS.

 In compliance with manager guidelines, but not with fund guidelines.

**INFLATION SENSITIVE PORTFOLIO**

Category	Applicable asset class	Guideline	INFLATION SENSITIVE
			PIMCO
Individual securities	Fixed income	144A Max: 15%	✓
	Fixed income	Manager's own security RESTRICTED	✓
	Fixed income	Restricted securities RESTRICTED	✓
Sector diversification	Commodities	Max: 40%	✓
	Equity and REITs	Max: 15%	✓
	Gold	Max: 25%	✓
Quality	Fixed income	Min average quality: A-	--
	Cash	Min average quality: A1/P1	--
Maturity	Cash	Max: 1 year	--
Cash reserves	Fixed income	Must be fully invested	✓

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Galliard to monitor  
Prudential to monitor

 In compliance with IPS.

 Not in compliance with IPS.

 In compliance with manager guidelines, but not with fund guidelines.

## EQUITY PORTFOLIOS - MANAGER LEVEL

### SANDS - LARGE CAP GROWTH

Guideline: Max individual security weight: greater of 5% or Index weight + 2.5%, but must be less than 10%

Portfolio largest position size: 6.3%; Portfolio largest excess weight over BM: 5.9%

Manager's contractual guideline: **IN COMPLIANCE.** Max percentage size of largest position: 15%

### Loomis - LARGE CAP GROWTH

Guideline: Max individual security weight: greater of 5% or Index weight + 2.5%, but must be less than 10%

Portfolio largest position size: 5.9%; Portfolio largest excess weight over BM: 5.4%

Manager's contractual guideline: **IN COMPLIANCE.** Max percentage size of largest position: 8%

### SANDS - LARGE CAP GROWTH

Guideline: ADR/Foreign Max 10%

Portfolio ADR exposure 11.8%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding ADR/Foreign Max

### Loomis - LARGE CAP GROWTH

Guideline: ADR/Foreign Max 10%

Portfolio ADR exposure 14.1%

Manager's contractual guideline: **IN COMPLIANCE.** ADR/Foreign Max 15%

### Hotchkis & Wiley - Mid Cap Value

Guideline: ADR/Foreign Max 10%

Portfolio Non-US exposure 20.3%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding ADR/Foreign Max

## FIXED INCOME PORTFOLIOS - FUND LEVEL

### FIXED INCOME FUND

*Individual security weight guideline - Mercer does not have PIMCO's holdings, and cannot calculate aggregate fund exposure to individual securities*

### FIXED INCOME FUND

Guideline: Individual corporate sector weight must be within +/- 5% of Index weight to that corporate sector

Fund allocation to corporates : 17.1%; BM allocation: 23.2%

Largely due to PIMCO's significant underweight

Manager's contractual guideline: **While the fund is out of guideline it is still in-line with the overall objectives of the fund.**

## FIXED INCOME PORTFOLIOS - MANAGER LEVEL

### PIMCO - FIXED INCOME

Guideline: Individual corporate sector weight must be within +/- 5% of Index weight to that corporate sector

Portfolio allocation to Financials: 9.0%; BM allocation: 7.7%

Portfolio allocation to Industrials: 1.0%; BM allocation: 13.8%

Portfolio allocation to Utilities is 0.0%; BM allocation is 1.8%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding corporate sector weight

### PIMCO - FIXED INCOME

Guideline: Currency hedging RESTRICTED

PIMCO employs currency hedging to hedge out non-USD security FX exposure or to take minor positions in FX as a complement to non-US positions

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding currency hedging

## STABLE VALUE

### GALLIARD - STABLE VALUE

*Galliard did not have information available at the time of report production*