

**North Carolina Supplemental Retirement Plans Board of Trustees
Report from the Investment Subcommittee
March 7, 2012**

The Investment Subcommittee of the Supplemental Retirement Board of Trustees met on February 15, 2012 for the purpose of receiving reports and recommendations from Mercer Investment Consulting and Galliard Capital Management.

The Subcommittee received a report on the quarterly performance of all the investment options in the Supplemental Retirement Plans, and there are currently no major performance issues or concerns with any of the funds or any of the fund managers.

The Subcommittee noted the following:

GoalMaker Review and Analysis

Currently, the GoalMaker allocations for the Plans target both active and passive investment management. Mercer stated that an in-depth analysis and review of the GoalMaker allocations may prove beneficial in determining if the allocations are appropriate for each asset class. Mercer also provided a glidepath analysis comparing the GoalMaker equity allocations to the equity allocations of the target date fund universe.

The Subcommittee approved further analysis of the GoalMaker allocations.

Inflation Sensitive Investment Option

The Subcommittee received a report on Mercer's recommendation that the Board consider adding an inflation sensitive option to the Plans' fund lineup. The inflation sensitive option could be used by participants to hedge their portfolio against an inflationary period. Rather than adding only Treasury Inflation Protected Securities (TIPS), Mercer recommends creating an inflation sensitive portfolio consisting of multiple inflation hedges (TIPS, commodities, REITS, etc.)

The Subcommittee asked Mercer to further explore the option.

SMid Cap Growth

Mercer had noted in previous meetings that the Board should consider adding an additional manager to the SMid Cap Growth fund for diversification purposes. Upon further analysis and review, Mercer determined that the existing managers complement each other as well as any option currently available in the SMid Cap Growth universe.

The Subcommittee accepted the analysis and recommends no action be taken to add an additional manager to the fund.

Investment Operations and Foreign Exchange Analysis

Mercer recommended that the Board consider performing a custodial benchmarking and foreign exchange analysis to determine if the Plans were receiving adequate service/benefit for the fees paid to the custodian.

Due to Department of State Treasurer staff currently in the beginning stages of a similar analysis on foreign exchange trading, the Subcommittee recommended delaying the discussion to a later meeting.

Stable Value Fund

Galliard proposed their recommendations on restructuring the Stable Value Fund in 2012. Their proposed changes would:

- Trim allocations to Great West and Prudential management;
- Eliminate PIMCO as an investment manager;
- Replace PIMCO with Jennison as an investment manager;
- Remove the Prudential wrap coverage from Payden & Rygel and wrap Jennison;
- Remove the MetLife wrap coverage from PIMCO and wrap Payden & Rygel;
- Add Babson as a new investment manager; and
- Add Mass Mutual as a new wrap provider.

The Subcommittee asked Galliard to perform some additional comparative analysis of the effect of the changes and present to the Subcommittee at a future date.