North Carolina Supplemental Retirement Plans Board of Trustees
Report from the Investment Subcommittee
June 6, 2012

The Investment Subcommittee of the Supplemental Retirement Board of Trustees met on May 16, 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:

- Galliard presented revised recommended changes to the Stable Value Fund managers per the Subcommittee's instructions from the previous meeting. There was still some concern about moving money away from the Plans' lower cost managers like Great West and Prudential to add a higher fee manager if there was no material difference to the overall risk or performance outcome among the existing managers. We will discuss this issue again at the next Investment Subcommittee meeting.

- The Subcommittee instructed Galliard to change the existing money market fund being used in the SVF to a 100% all Government Money Market Fund. This will bring the total plan in line with what the full board approved at its last meeting when Mercer issued a letter on October 6, 2011 raising concerns about the 23% exposure to Europe the plan had through the SSgA Short-Term Investment Fund (STIF). No vote was required on this action.

- The current Large Cap Growth Fund has a total weight of roughly 9% in Apple Inc. (AAPL) alone. This violates the Investment Policy Statement ("IPS") rule of no more than 5% in any one company (page 19 of the IPS). Since APPL is greater than 5% within the fund's benchmark, Mercer will create an amendment to the Investment Policy Statement regarding the Large Cap Growth Fund. The current policy on diversification states, "No more than 5% of the portfolio should be invested in any one company (valued at market)…" This will be revised to state, "The maximum amount invested into any one company shall be the greater of 5% of the fund portfolio or the fund's benchmark, plus 2.5% up to a cap of 10%." This language may change after Mercer revises the language for consideration by the Board. This modification may benefit other equity asset classes and the change should be considered throughout the IPS.

- The Active vs. Passive allocation will be presented to the full Board for discussion. The recommendation from Mercer to use all active management for the SMid & International equity options within GoalMaker passes a cost-benefit analysis. There is no change to the current investment lineup. The modification only alters GoalMaker allocations to passive investments in the SMid Index and International Index to active management in the same asset classes. The Subcommittee recommends approving this change, but delay implementation until later in 2012 so implementation will coincide with the planned incorporation of the new inflation sensitive investment option, should it be recommended for approval at the next Investment Subcommittee meeting. Formal action of implementation will take place at a future Board meeting.

- The Subcommittee will revisit the inflation sensitive option at the next Investment Subcommittee meeting. Further review will give the Subcommittee additional time to review Mercer's recommendation.

- The GoalMaker glide paths and risk portfolios discussed at previous meetings were revisited. Prudential confirmed that the Morningstar Methodology Study would not be available until the 1st Quarter of 2013. There was consensus that the Subcommittee not wait on the report, but move forward with Mercer providing recommended asset class allocations for GoalMaker. The Subcommittee decided to revisit this at the next Investment Subcommittee meeting. The revised GoalMaker allocations will be implemented later in 2012 to incorporate the pending GoalMaker changes mentioned above.