

# North Carolina Supplemental Retirement Plans Second Quarter Performance Review

September 2014

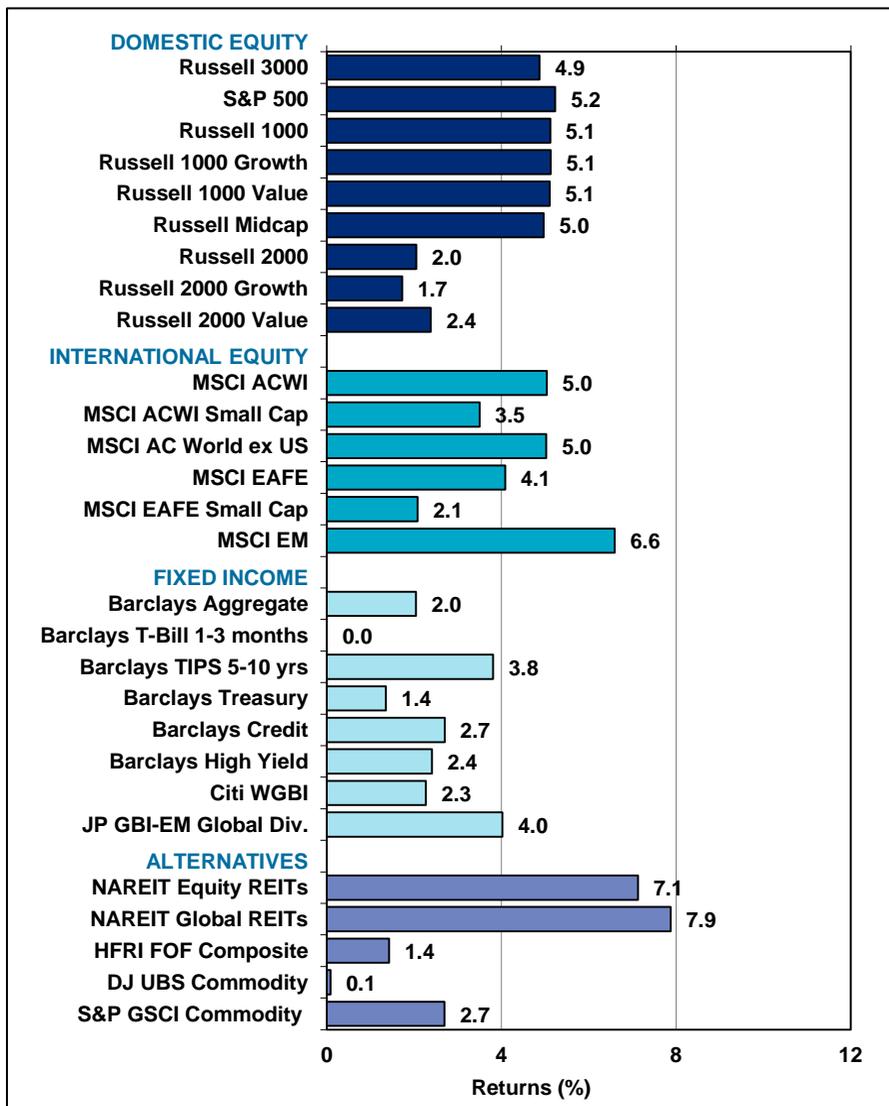
# Agenda

- Capital Markets Review
- Second Quarter Performance
- Appendix

# Capital Markets Review

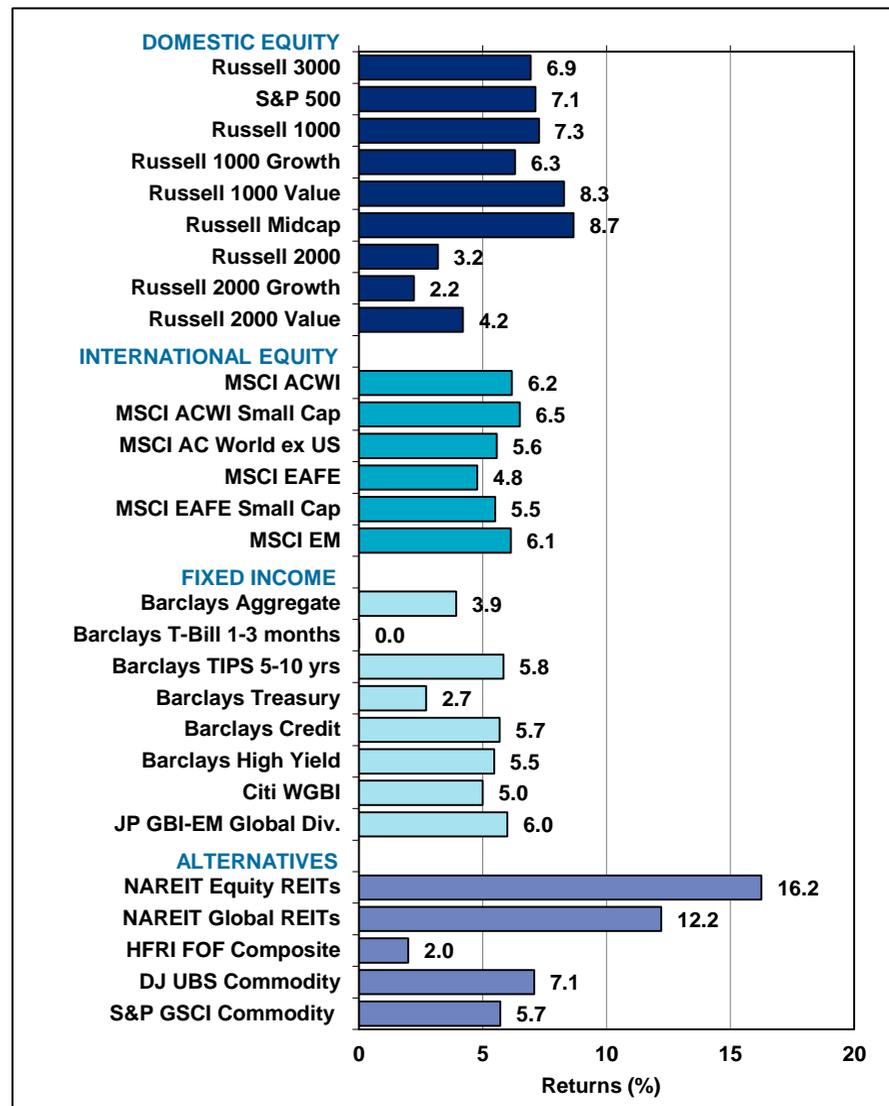
# Performance Summary: Quarter in Review

**Market Performance**  
Second Quarter 2014



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

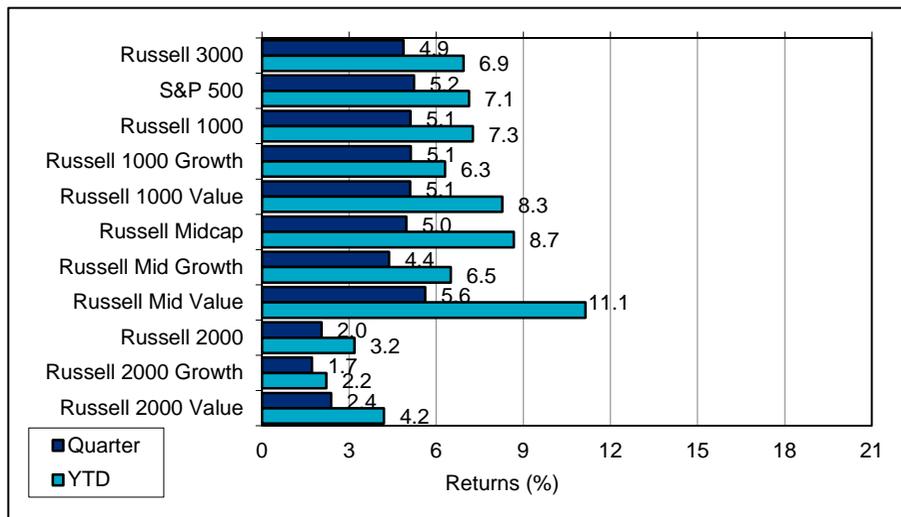
**Market Performance**  
YTD



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

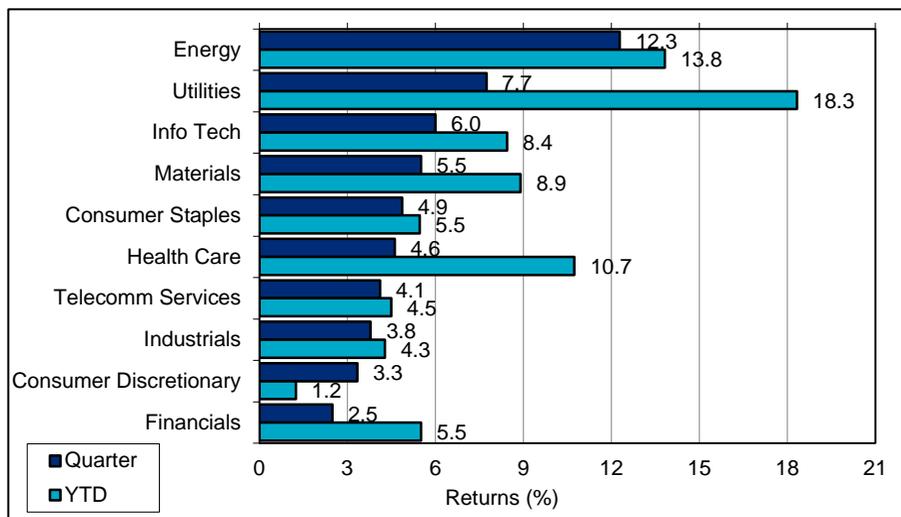
# Asset Class: US Equities – Style, Sector, Cap Performance

## Style and Capitalization Market Performance



Source: Standard & Poor's, Russell, Bloomberg

## Sector Performance



Source: Russell 1000 GICs Sector

## Broad Market

Stocks posted strong gains in the second quarter and broad indices hit new highs. Equity markets benefited from improved economic growth and accommodative monetary policy. The Russell 3000 Index increased 4.9% and is up 6.9% in 2014. US stocks outperformed international developed markets by 80 basis points in the second quarter, but lagged emerging markets by 170 basis points for the quarter.

## Market Cap

- **Large Caps:** The S&P 500 and Russell 1000 Index rose 5.2% and 5.1%, respectively, in the second quarter. For the quarter, large cap stocks outperformed small cap stocks by 310 basis points.
- **Mid Caps:** The Russell Midcap Index advanced 5.0% in the second quarter. Mid caps have outpaced large and small cap stocks year to date.
- **Small Caps:** Small cap stocks underperformed large and mid cap stocks significantly as the Russell 2000 Index rose just 2.0% in the second quarter. Year to date, small cap stocks have underperformed the S&P 500 by 390 basis points.

## Style

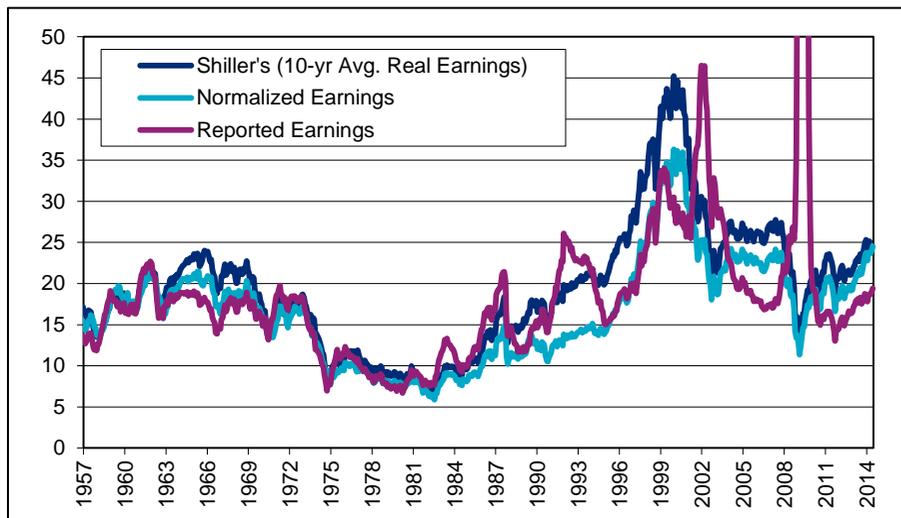
- **Value vs. Growth:** While style performance within large caps was neutral, value surpassed growth within mid and small cap stocks in the second quarter. Small cap growth stocks have struggled in 2014, returning just 2.2% and lagging the broad market by 470 basis points.

## Sector

- The energy, utilities, information technology, and materials sectors outperformed the broad market for the quarter, while financials were the biggest laggard.

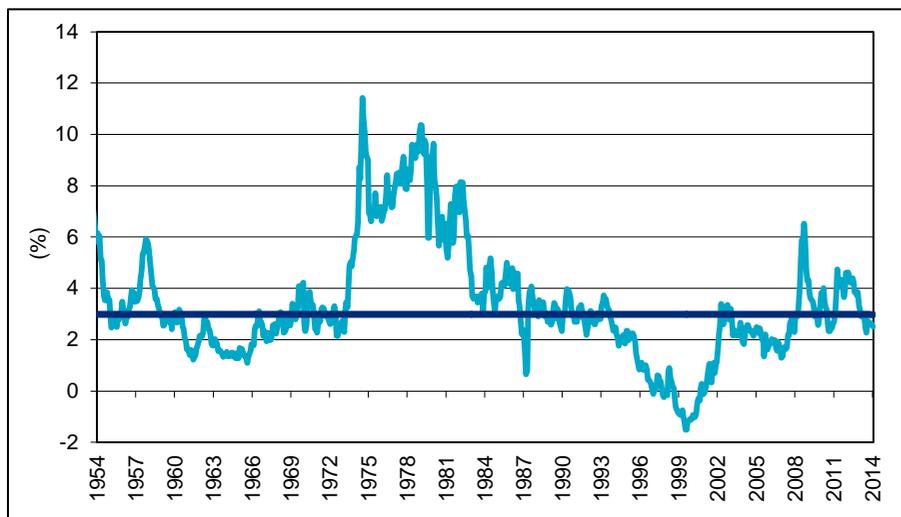
# Asset Class: US Equities – Valuation Review

**S&P500 – P/E Ratio**



Source: S&P, Bloomberg, Mercer

**S&P500 – Estimated Equity Risk Premium<sup>1</sup>**  
Versus Long-Term Treasuries



MERCER Source: S&P, Bloomberg, Mercer

- Valuations on the S&P 500 moved higher for the quarter as price gains exceeded profit growth. The P/E ratio on trailing earnings moved from 18.6 to 19.4, which is above the 17.2 median since 1956.
- Valuations remain very high based on measures that adjust for record high profit margins. The P/E ratio based on normalized earnings stood at 24.5, 47% above the historical median of 16.7 (since 1956), while the P/E based on average 10-year real earnings (Shiller's methodology) finished the quarter at 25.7, compared to a median of 19.0 (since 1956).
- Analysts are calling for 11.7% EPS growth over the next 12-months. These forecasts hinge on the sustainability of elevated profit margins. While margins tend to mean revert, we believe a return to “normal” could take many years as the secular and cyclical forces supporting margins will be slow to unwind. High margins are being driven in large part by a reduced share of revenue going to employees as the slack in the labor market has reduced worker bargaining power. However, we expect downward pressure on margins over the intermediate-term. Wages are increasing marginally faster than productivity growth and this trend could continue. Also, corporate capital investments have been running well below trend, which could hamper future productivity growth.
- While elevated in absolute terms, valuations look reasonable against bonds. We estimate that the equity risk premium over long-term Treasuries declined marginally from 2.6% to 2.5% during the quarter, as lower bond yields offset higher equity valuations. We expect stocks to outperform bonds, but current valuations suggest long-term returns will be below normal, especially if profit margins get squeezed as we expect.

<sup>1</sup> Definitions:

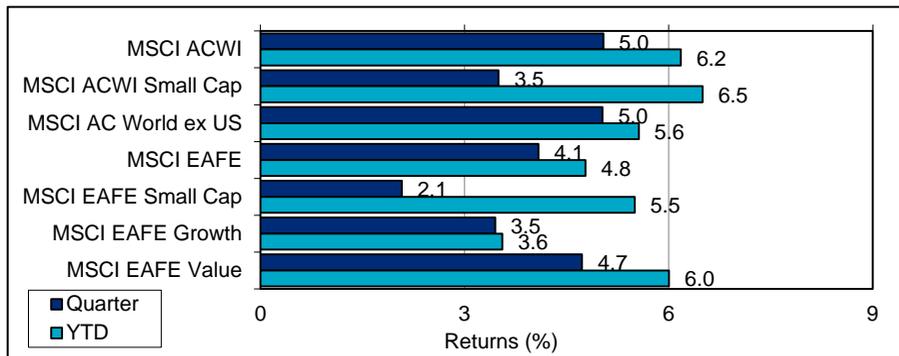
Shiller's P/E= Current S&P 500 price/average 10-year real earnings

Normalized P/E= Current S&P 500 price/(current trailing twelve month sales \* 6.6% profit margin)

Equity Risk Premium= Earnings yield (1/PE) minus the real yield on long-term Treasuries

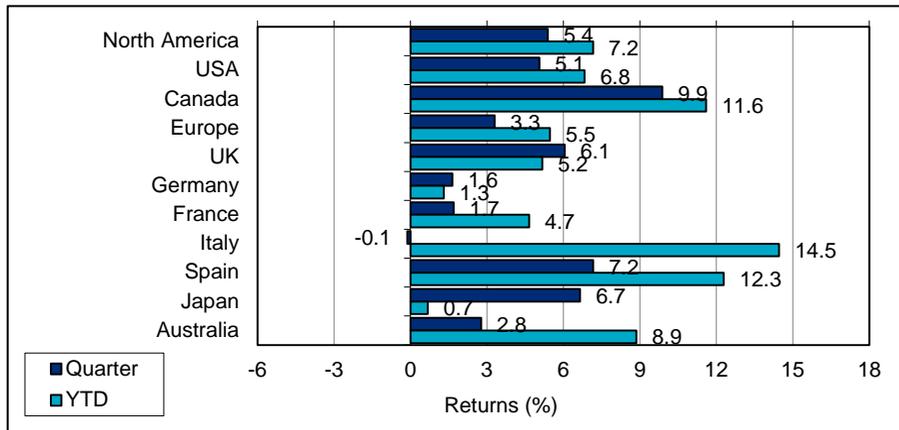
# Asset Class: International Equities – Performance Review

## International Equity Performance



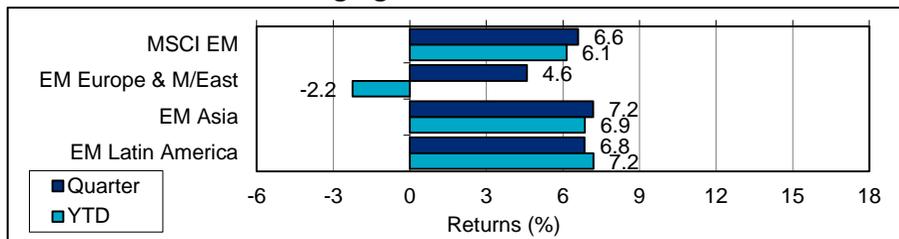
Source: MSCI, Bloomberg

## Developed Country Performance



Source: MSCI, Bloomberg

## Emerging Market Performance



MERCER Source: MSCI, Bloomberg

- International equities** posted a strong quarter with the MSCI ACWI ex-US Index returning 5.0%. Emerging market equities rebounded nicely and outperformed developed equities. Within developed stocks, US equities outperformed non-US markets.

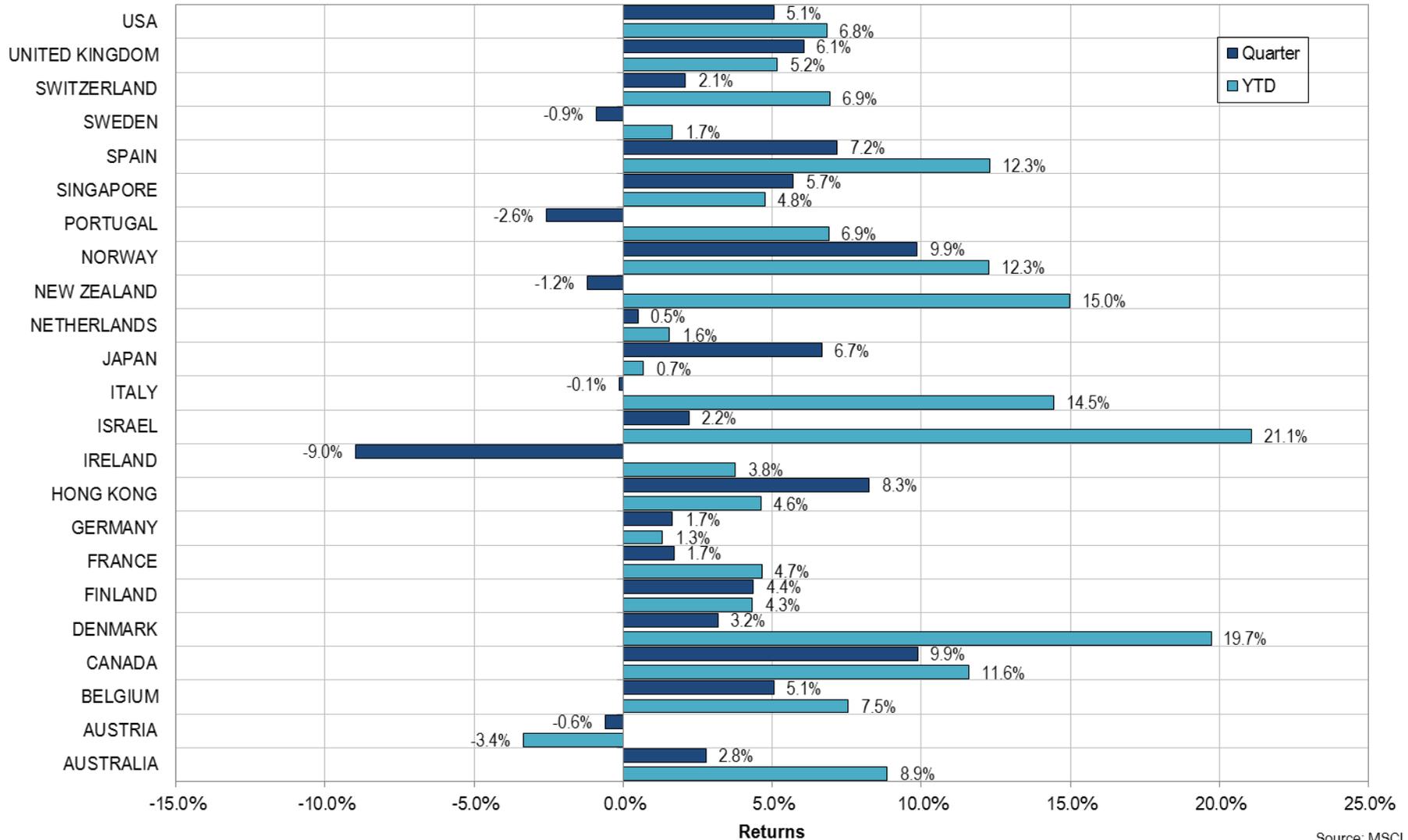
- International developed stocks** rose 4.1% in the second quarter, but lagged the S&P 500 Index by 110 basis points. Year to date, EAFE has underperformed the S&P 500 by 230 basis points. European stocks advanced only 3.3% in the second quarter, suggesting markets may be concerned about the pace of the recovery and the lack of monetary stimulus. Japanese stocks rebounded following the launch of the “third arrow” of structural reforms, returning 6.7%.

- International developed small cap stocks** gained 2.1% during the second quarter, underperforming international large cap stocks (MSCI EAFE) by 200 basis points. However, year to date, international small caps have outperformed by 70 basis points.

- Emerging market stocks** benefited as sentiment and outflows stabilized during the quarter, rising 6.6% and outperforming the S&P 500 by 140 basis points. Asian and Latin America stocks led markets higher in the second quarter as commodity prices rose and growth in China turned upward. For the year, political tensions have weighed on markets in eastern Europe.

# Asset Class: International Equities – Developed Country Performance

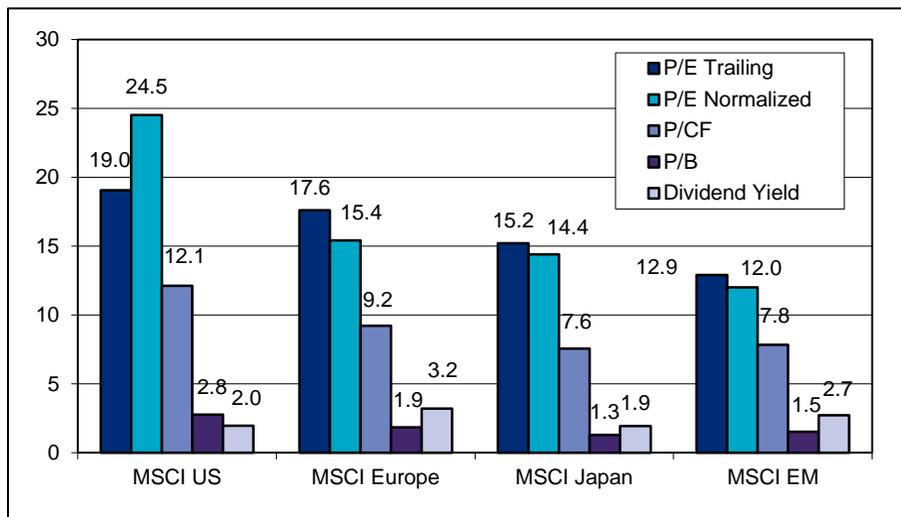
## Developed Country Performance



Source: MSCI

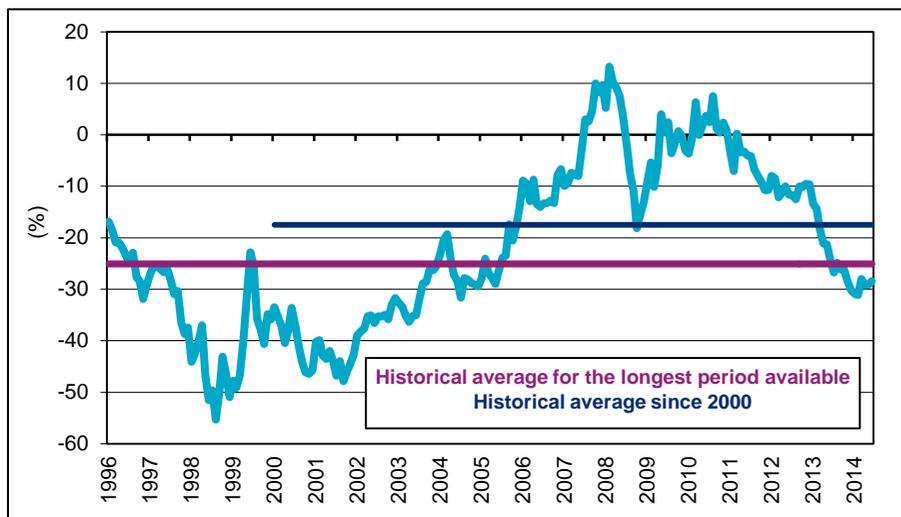
# Asset Class: International Equities – Valuation Review

Global Valuations



Source: MSCI, Bloomberg

Valuation of MSCI Emerging Markets to MSCI World  
(Based on Average of P/E, P/B and P/CF)

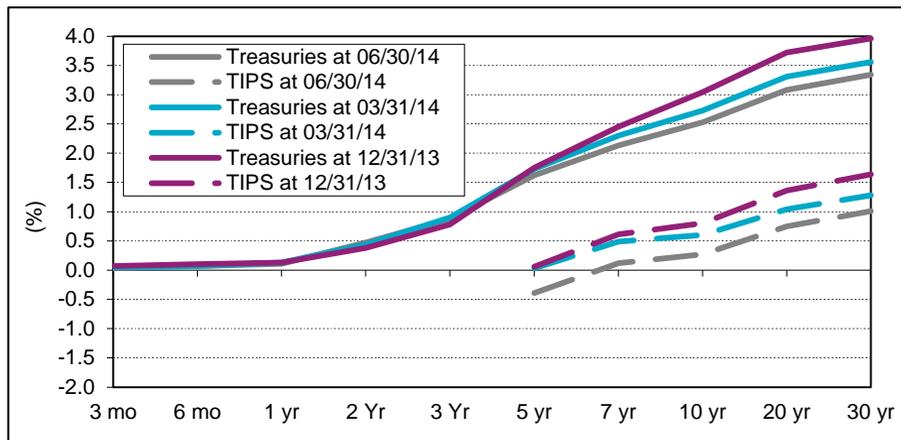


Source: MSCI, Bloomberg

- European firms have struggled as the debt crisis and the recession have weighed on profits. However, earnings are expected to spike nearly 18% in 2014. While overall economic growth remains subpar and the strong euro could crimp export growth, falling borrowing costs and limited wage pressures have the potential to boost profitability. Earnings are 32% below their pre-financial crisis peak and profit margins are 10% below historical averages. The strong returns over the last year have lifted valuations and European stocks are trading at a P/E of 17.6. However, if margins return to historical averages, valuations look more attractive with European stocks trading at a normalized P/E of only 15.4. Based on Shiller's P/E, Europe is trading at a 35% discount to the US compared to a historical average of 15%.
- EPS for Japanese firms have spiked 55% over the last year and earnings have nearly returned to their pre-financial crisis peak, although profit margins remain 20% below 2007-levels. The weak yen and stronger global growth could provide further support to earnings, although a slowdown in domestic growth may weigh on profits. From a structural standpoint, the push for corporate governance reforms has the potential to narrow the profitability gap between Japan and the rest of the world.
- EM profitability has fallen over the last year as slowing growth and higher inflation have weighed on earnings. For example, the ROE on EM equities has fallen an estimated 5% over the last year. Macro tensions appear to have stabilized and currency declines have the potential to lift exports and earnings. However, EM economies remain vulnerable to further monetary tightening and despite new political leadership there is still uncertainty surrounding the potential for structural reform. EM stocks are trading at only 12.9x trailing earnings, a 12% discount to their historical average since 1995. They are also trading at a robust 28% discount to developed stocks. However, discounts are narrowly based, and, accounting for sector differences, relative valuations are less compelling.

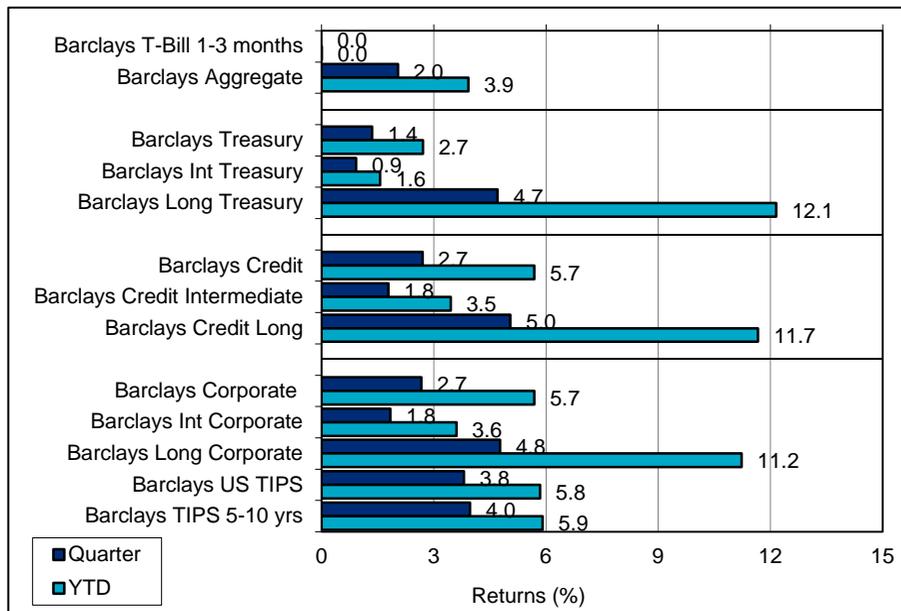
# Asset Class: Fixed Income – Interest Rates and Yield Curve

## Treasury Yield Curve



Source: Federal Reserve

## Bond Performance by Duration

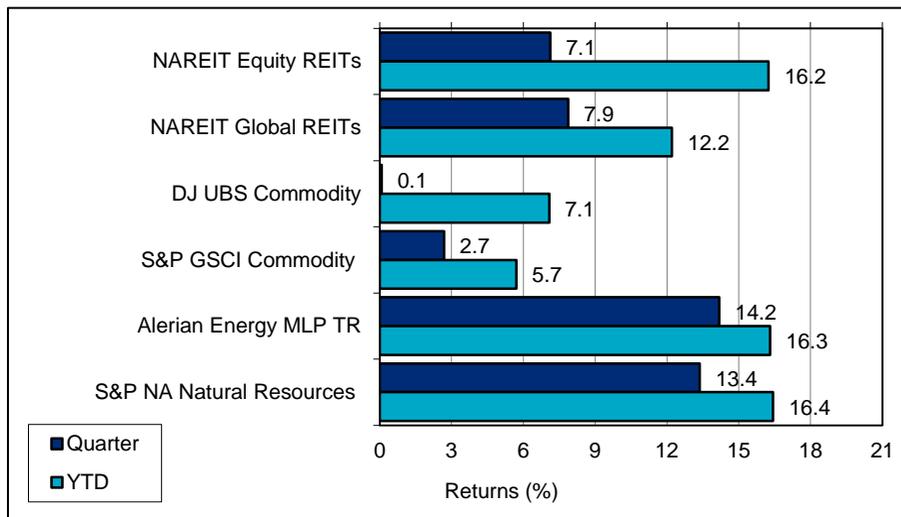


Source: Barclays, Bloomberg

- Interest rates declined in the second quarter with the yield on the 5-year Treasury falling from 1.73% to 1.62%. Treasury yield movements have been mixed in 2014, with shorter-term rates rising slightly, while intermediate-term and long-term rates have declined. As a result, the yield curve has flattened substantially. Year to date, the yield on the 3-year Treasury has risen by 10 basis points to 0.88%, while the yield on the 10-year Treasury has fallen from 3.04% to 2.53%.
- Market expectations on the timing and pace of interest rate increases as well as the ultimate endpoint for the Target Rate are the drivers of yield movements. Despite the looming end of QE3, we still view the Fed as dovish. Bond markets anticipate that the FOMC is likely to keep the Target Rate at zero percent until mid-2015 and slowly increase it afterwards. Absent a significant shift in inflation expectations, the process of interest rate normalization should be gradual.
- US Bonds** rose in the second quarter as yields declined. The Barclays Aggregate Bond Index returned 2.0% and is now up 3.9% in 2014. Credit outperformed Treasuries as spreads continued to tighten.
- Long-Duration Bonds** advanced as the yield on 30-year Treasury decreased by 22 basis points to 3.34%. The Barclays Long Treasury, Credit and Corporate Indexes increased by 4.7%, 5.0% and 4.8% in the quarter and have outperformed equity markets year to date.
- TIPS** outperformed Treasuries, advancing 3.8% in the second quarter. Year to date, TIPS have returned 5.8% while Treasuries have gained 2.7%. TIPS have benefited from their longer duration relative to the Treasury index. Inflation breakeven rates have varied by maturity. For example, 10-year inflation breakeven rates are essentially unchanged in 2014, moving from 2.25% to 2.26%. However, inflation breakeven rates on 5-year TIPS have risen from 1.7% to 2.0%.

# Asset Class: Alternatives – Performance Review

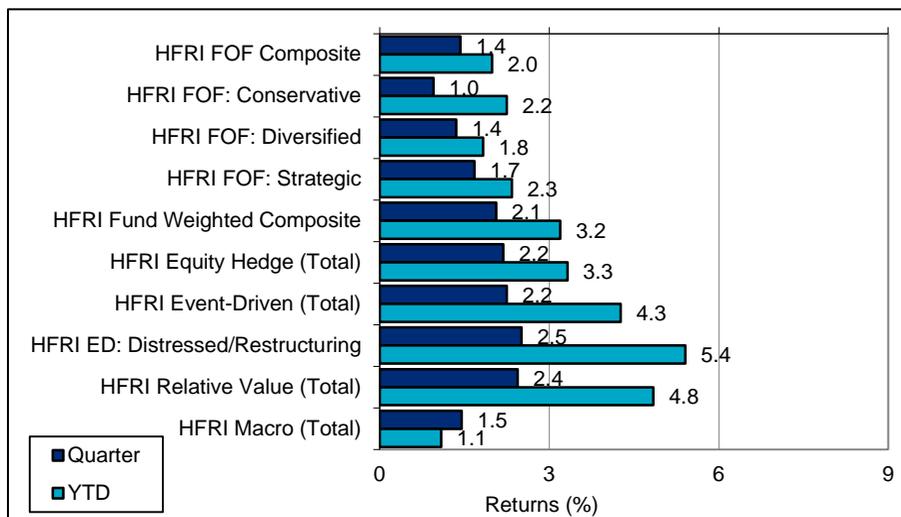
## Real Asset Performance



Source: NAREIT, Dow-Jones, UBS, Goldman Sachs

- **REITs** have benefited from falling yields in 2014. Global and US REITs jumped 7.9% and 7.1%, respectively, for the quarter and are up 12.2% and 16.2%, respectively, year to date.
- **Commodities** benefited from geopolitical tensions and improved growth in the second quarter as oil prices rose 4.8%. The S&P NA Natural Resources Index surged 13.4%, while the DJ-UBS Commodity Index eked out a 0.1% gain.

## Hedge Fund Performance



MERCESource: HFR

- **Hedge funds** lagged global equities in the second quarter. The HFRI Fund of Funds Composite Index gained 1.4%, while the MSCI ACWI index and the Barclays Aggregate index advanced 5.0% and 2.0%, respectively. Macro strategies continued to lag, while distressed and relative value managers were the better performers.

# Second Quarter Performance

The background of the slide is composed of three distinct horizontal bands. The top band is a dark, deep blue. The middle band is a medium teal color. The bottom band is a light, pale blue. The boundaries between these bands are slightly wavy, creating a layered, abstract effect.

# Manager Updates

- **Hotchkis & Wiley:** Mercer upgraded the Hotchkis and Wiley Large Cap Value rating to an “A (T)” in June 2014. Mercer continues to believe in the sector team structure at Hotchkis and feels it fosters great debate among team members.
- **Robeco:** In May 2014, Mercer met with Robeco to discuss their Large Cap Value Equity strategy. We continue to believe in the investment acumen of portfolio managers Mark Donovan and David Pyle. As a result of the meeting, Mercer maintained the “A” rating on the strategy.
- **Wellington:** Wellington informed Mercer that it intends to convert the existing parent company, Wellington Management Company, LLP into a group holding company to be named Wellington Management Group LLP, which will own all of its operating subsidiaries and affiliates globally. Given the assertion that each partner’s ownership interest will remain the same and the company will remain a global partnership, we are not proposing any rating changes.
- **Sands:** Sands recently informed Mercer that John Freeman, partner and senior analyst on its technology team, will be leaving the firm as of June 30, 2014 due to family issues. Mercer believes that Freeman was a valued team member but does not think his departure will significantly impact the investment process or portfolio management.
- **TimesSquare:** Mercer met with TimesSquare to discuss their SMID Cap Growth strategy and reaffirmed the “A” rating due to the quality research and the stable, experienced staff.
- **Mondrian:** Mondrian appointed Clive Gilmore, CIO for Global Equity, as the new Group CIO. Mercer was not surprised by the appointment and is not proposing any rating changes.
- **Arrowstreet:** Mercer met with Arrowstreet in April 2014 to discuss their ACWI product. Mercer continues to believe in Arrowstreet’s forward-thinking research and blend of academic knowledge along with pragmatic market application. As a result of the meeting, Mercer maintained the “A” rating.
- **JP Morgan:** Mercer was recently informed that Chris Wilcox, previous head of JP Morgan’s Global Fixed Income & Liquidity, will be appointed to the newly created role of CEO of Global Investment Management.
- **PIMCO:** PIMCO recently rehired Paul McCulley, a former Managing Director, portfolio manager, and investment committee member, who retired from the firm at the end of 2010. McCulley will assume the newly created role of Chief Economist and will report to Bill Gross. Mercer is not recommending any rating changes as a result of the hiring.

# Performance Scorecard

	Mercer Rating	Return								Risk
		3 Years to 06/30/2014		3 Years to 03/31/2014		3 Years to 12/31/2013		3 Years to 9/30/2013		5 Years to 06/30/2014
		I	U	I	U	I	U	I	U	I
<b>Large Cap Passive Fund (tracked within 20bps)</b>		✓	NA	✓	NA	✓	NA	✓	NA	NA
BlackRock Equity Index Fund	PP	✓	NA	✓	NA	✓	NA	✓	NA	NA
<b>Large Cap Value Fund</b>		✓	✓	✓	✓	✓	✓	✓	✓	NA
Hotchkis & Wiley Large Cap Value	A (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wellington Quality Value	N	✗	✗	✗	✗	✗	✗	✗	✗	✓
Robeco BP Large Cap Value	A	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Large Cap Growth Fund</b>		✗	✓	✓	✓	✓	✓	✓	✓	NA
Sands Capital Large Cap Growth	A (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wellington Opportunistic Growth	A	✗	✗	✗	✗	✗	✗	✓	✓	✓
Neuberger Large Cap Growth	B+	✗	✗	✗	✗	✗	✗	✗	✗	✓

<sup>1</sup> A check mark is given if the fund's/manager's standard deviation is within 150% of the benchmark's. For the International Equity Fund, the stated threshold is within 125%.

\* A Mercer rating signifies our opinion of a strategy's prospects for outperforming a suitable benchmark over a timeframe appropriate for that particular strategy. Strategies rated A are those assessed as having "above average" prospects of outperformance. Those rated B+ are those assessed as having "above average" prospects of outperformance, but which are qualified by at least one of the following: (1) There are other strategies that Mercer believes are more likely to achieve outperformance; (2) Mercer requires more evidence to support its assessment. Strategies rated B are those assessed as having "average" prospects of outperformance. Those rated C are those assessed as having "below average" prospects of outperformance. The R rating is applied in three situations: (1) Where Mercer has carried out some research, but has not completed its full investment strategy research process; (2) In product categories where Mercer does not maintain formal ratings, but where there are other strategies in which we have a higher degree of confidence; (3) Mercer has in the past carried out its full investment strategy research process, but we are no longer maintaining full research coverage on the strategy. If the rating shown is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer. Some strategy ratings may carry a supplemental indicator, such as P (Provisional), Watch (W), or High Tracking Error (T). A Preferred Provider status is assigned to high-conviction strategies within product categories for which the primary goal is not outperformance of a benchmark (for example, passive strategies).

# Performance Scorecard

	Mercer Rating	Return								Risk
		3 Years to 06/30/2014		3 Years to 03/31/2014		3 Years to 12/31/2013		3 Years to 9/30/2013		5 Years to 06/30/2014
		I	U	I	U	I	U	I	U	I
<b>Mid/Small Cap Passive Fund (tracked within 30 bps)</b>		✓	NA	✓	NA	✓	NA	✓	NA	NA
BlackRock Russell 2500 Index Fund	PP	✓	NA	✓	NA	✓	NA	✓	NA	NA
<b>Mid/Small Cap Value Fund</b>		✓	✓	✓	✓	✓	✓	✓	✓	NA
Hotchkis & Wiley SMID Cap Value	B+ (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓
EARNEST Partners SMID Cap Value	B+	✓	✓	✓	✓	✓	✗	✗	✗	✓
WEDGE SMID Cap Value	B+	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Mid/Small Cap Growth Fund</b>		✓	✓	✓	✓	✗	✓	✗	✓	NA
TimesSquare SMID Cap Growth	A	✓	✓	✓	✓	✓	✓	✓	✓	✓
Brown Advisory	R	✗	✗	✓	✗	✓	✗	✓	✓	✓

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		I	U	I	U	I	U	I	U	I
<b>International Passive Fund (tracked within 50 bps)</b>		✓	NA	✓	NA	✓	NA	✓	NA	NA
BlackRock ACWI ex US Fund	PP	✓	NA	✓	NA	✓	NA	✓	NA	NA
<b>International Equity Fund</b>		✓	✓	✓	✗	✓	✗	✓	✗	NA
Baillie Gifford ACWI ex US Growth	A	✓	✗	✓	✗	✓	✗	✓	✓	✓
Mondrian ACWI ex US Value	B+	✓	✗	✓	✗	✓	✗	✓	✗	✓
<b>Global Equity Fund</b>		✓	✓	✓	✓	✓	✓	✓	✓	NA
Wellington Global Opportunities	B+	✓	✓	✓	✓	✓	✓	✓	✓	✓
Arrowstreet Global Equity ACWI	A	✓	✓	✓	✓	✓	✓	✓	✓	✓

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		I	U	I	U	I	U	I	U	I
<b>Inflation Sensitive Fund</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
PIMCO Inflation Response-Multi Asset	B+ (W)	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Fixed Income Passive Fund (tracked within 25 bps)</b>		✓	NA	✓	NA	✓	NA	NA	NA	NA
BlackRock Debt Index Fund	N	✓	NA	✓	NA	✓	NA	✓	NA	NA
<b>Fixed Income Fund</b>		✓	✓	✓	✓	✓	✓	✓	✗	NA
JP Morgan Core Bond	A	✓	✗	✓	✗	✓	✓	✓	✓	✓
PIMCO Total Return Full Authority	A (W)	✓	✗	✓	✓	✓	✗	✓	✗	✓
<b>Stable Value Fund</b>		✓	✓	✓	✓	✓	✓	✓	✓	NA

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# Watch List

Manager	Date Placed on Watch	Mercer Rating *	Recommendation	Comments
Wellington Quality Value	3Q13	N	Monitor	<p>Wellington has underperformed the Russell 1000 Value and the peer group median over the four most recent three-year rolling periods. The strategy continues to focus on high quality securities, which have held the portfolio back in the rising equity market.</p> <p>The Wellington Quality Value strategy slightly trailed the Russell 1000 Value Index over the second quarter but managed to rank near the top half of the peer group universe. Mercer is comfortable with Wellington's performance, as it has been consistent with its philosophy and should perform better when the market favors higher quality securities. The longer-term underperformance of the strategy warrants continued monitoring.</p>
Neuberger Large Cap Growth	4Q12	B+	Replaced with Loomis in August, 2014	<p>The Neuberger Berman Large Cap Disciplined Growth strategy was placed on watch at the fourth quarter of 2012 meeting due to performance struggles over the recent four rolling three-year periods. Neuberger has historically produced solid results, even through the difficult market environment in calendar year 2008. However, since 2009, Neuberger has struggled.</p> <p>After continued underperformance of the strategy, even in markets that should have favored Neuberger's high quality bias, Mercer conducted a search report and identified several alternative candidates. Loomis was chosen to replace Neuberger and this change took place in August, 2014.</p> <p>Neuberger Berman underperformed the benchmark in the second quarter by 150 basis points. The fund ranked in the bottom quartile of its peer group over all time periods evaluated.</p>

\* A Mercer rating signifies our opinion of a strategy's prospects for outperforming a suitable benchmark over a timeframe appropriate for that particular strategy. Strategies rated A are those assessed as having "above average" prospects of outperformance. Those rated B+ are those assessed as having "above average" prospects of outperformance, but which are qualified by at least one of the following: (1) There are other strategies that Mercer believes are more likely to achieve outperformance; (2) Mercer requires more evidence to support its assessment. Strategies rated B are those assessed as having "average" prospects of outperformance. Those rated C are those assessed as having "below average" prospects of outperformance. The R rating is applied in three situations: (1) Where Mercer has carried out some research, but has not completed its full investment strategy research process; (2) In product categories where Mercer does not maintain formal ratings, but where there are other strategies in which we have a higher degree of confidence; (3) Mercer has in the past carried out its full investment strategy research process, but we are no longer maintaining full research coverage on the strategy. If the rating shown is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer. Some strategy ratings may carry a supplemental indicator, such as P (Provisional), Watch (W), or High Tracking Error (T). A Preferred Provider status is assigned to high-conviction strategies within product categories for which the primary goal is not outperformance of a benchmark (for example, passive strategies).

# Fund Review

## Fund Performance as of June 30, 2014

Name	Market Value (\$m)	Market (%)	Inception											
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
<b>Large Cap Passive</b> S&P 500	\$1,235.5	14.1%	5.2%	--	7.0%	--	24.4%	--	16.4%	--	18.7%	--	21.1%	Mar-09
			5.2%	--	7.1%	--	24.6%	--	16.6%	--	18.8%	--	21.2%	Mar-09
<b>Large Cap Value</b> Russell 1000 Value	\$911.4	10.4%	3.6%	84	7.4%	37	23.5%	44	17.2%	15	17.8%	44	20.1%	Mar-09
			5.1%	31	8.3%	14	23.8%	40	16.9%	21	19.2%	19	21.8%	Mar-09
<b>Large Cap Growth</b> Russell 1000 Growth	\$853.4	9.7%	2.4%	90	2.9%	78	25.8%	59	14.7%	49	21.1%	5	24.0%	Mar-09
			5.1%	24	6.3%	14	26.9%	42	16.3%	18	19.2%	20	21.7%	Mar-09
<b>Mid/Small Cap Passive</b> Russell 2500	\$217.9	2.5%	3.5%	--	5.9%	--	25.4%	--	15.5%	--	21.5%	--	24.7%	Mar-09
			3.6%	--	5.9%	--	25.6%	--	15.5%	--	21.6%	--	24.8%	Mar-09
<b>Mid/Small Cap Value</b> Russell 2500 Value	\$448.8	5.1%	5.0%	20	9.2%	12	28.5%	13	19.0%	4	24.6%	6	28.4%	Mar-09
			4.2%	34	7.9%	25	24.9%	51	16.0%	32	21.6%	30	24.5%	Mar-09
<b>Mid/Small Cap Growth</b> Russell 2500 Growth	\$319.5	3.6%	0.0%	73	-1.1%	81	21.0%	70	15.1%	20	20.3%	39	22.8%	Mar-09
			2.9%	25	4.0%	28	26.3%	24	14.9%	22	21.7%	18	25.1%	Mar-09
<b>International Passive</b> MSCI ACWI ex USA Gross	\$42.6	0.5%	5.1%	--	5.6%	--	21.7%	--	5.7%	--	11.0%	--	15.7%	Mar-09
			5.2%	--	5.9%	--	22.3%	--	6.2%	--	11.6%	--	16.3%	Mar-09
<b>International Equity</b> MSCI ACWI ex USA Gross	\$546.7	6.2%	4.3%	30	6.1%	24	21.5%	53	7.7%	46	12.2%	48	16.1%	Mar-09
			5.2%	12	5.9%	27	22.3%	47	6.2%	71	11.6%	63	16.3%	Mar-09
<b>Global Equity</b> MSCI ACWI Gross	\$709.3	8.1%	5.6%	10	4.9%	54	25.6%	22	13.4%	14	15.5%	45	18.5%	Mar-09
			5.2%	15	6.5%	25	23.6%	41	10.9%	55	14.9%	54	18.6%	Mar-09
<b>Inflation Sensitive Fund</b> PIMCO Inflation Response Index	\$325.0	3.7%	4.1%	33	8.2%	22	--	--	--	--	--	--	5.7%	Sep-13
			3.0%	55	7.2%	32	6.3%	75	1.4%	77	6.6%	45	4.8%	Sep-13
<b>Fixed Income Passive Fund</b> Barclays Aggregate	\$324.8	3.7%	2.1%	--	3.9%	--	4.1%	--	3.5%	--	--	--	3.2%	Sep-10
			2.0%	--	3.9%	--	4.4%	--	3.7%	--	4.9%	--	3.3%	Sep-10
<b>Fixed Income Fund</b> Barclays Aggregate	\$559.5	6.4%	2.1%	45	3.5%	55	4.8%	49	4.1%	48	5.6%	54	6.0%	Mar-09
			2.0%	46	3.9%	49	4.4%	55	3.7%	61	4.9%	66	5.0%	Mar-09
<b>Stable Value Fund</b> T-BILLS + 1%	\$2,289.9	26.1%	0.5%	43	0.9%	48	1.8%	40	2.4%	39	3.0%	43	3.0%	Jun-09
			0.3%	99	0.5%	99	1.0%	99	1.0%	99	1.1%	99	1.1%	Jun-09

# Fund Review

## GoalMaker Performance as of June 30, 2014

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
<b>Conservative 0-5 Yrs</b>	<b>1.9%</b>	<b>93</b>	<b>7.8%</b>	<b>94</b>	<b>5.6%</b>	<b>83</b>	<b>7.8%</b>	<b>97</b>
Conservative 0-5 Yrs Benchmark	1.9%	93	7.4%	94	4.8%	93	6.2%	99
<b>Conservative 6-10 Yrs</b>	<b>2.2%</b>	<b>96</b>	<b>9.8%</b>	<b>95</b>	<b>6.6%</b>	<b>91</b>	<b>9.3%</b>	<b>94</b>
Conservative 6-10 Yrs Benchmark	2.3%	96	9.5%	96	5.8%	95	7.6%	98
<b>Conservative 11-15 Yrs</b>	<b>2.8%</b>	<b>99</b>	<b>13.5%</b>	<b>93</b>	<b>8.5%</b>	<b>79</b>	<b>11.3%</b>	<b>99</b>
Conservative 11-15 Yrs Benchmark	3.1%	95	13.4%	94	7.9%	92	10.4%	99
<b>Conservative 16+ Yrs</b>	<b>3.4%</b>	<b>93</b>	<b>17.5%</b>	<b>66</b>	<b>10.3%</b>	<b>42</b>	<b>13.6%</b>	<b>64</b>
Conservative +16 Yrs Benchmark	3.8%	71	17.5%	66	9.8%	52	13.0%	79

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
<b>Moderate 0-5 Yrs</b>	<b>2.4%</b>	<b>92</b>	<b>11.0%</b>	<b>77</b>	<b>7.2%</b>	<b>64</b>	<b>9.8%</b>	<b>82</b>
Moderate 0-5 Yrs Benchmark	2.5%	89	10.8%	78	6.5%	79	8.5%	92
<b>Moderate 6-10 Yrs</b>	<b>2.8%</b>	<b>92</b>	<b>13.5%</b>	<b>67</b>	<b>8.5%</b>	<b>48</b>	<b>11.1%</b>	<b>74</b>
Moderate 6-10 Yrs Benchmark	3.1%	78	13.4%	68	7.9%	67	10.4%	85
<b>Moderate 11-15 Yrs</b>	<b>3.2%</b>	<b>91</b>	<b>16.4%</b>	<b>63</b>	<b>9.8%</b>	<b>35</b>	<b>13.0%</b>	<b>68</b>
Moderate 11-15 Yrs Benchmark	3.6%	62	16.4%	62	9.2%	52	12.2%	87
<b>Moderate 16+ Yrs</b>	<b>3.8%</b>	<b>61</b>	<b>20.6%</b>	<b>14</b>	<b>11.6%</b>	<b>8</b>	<b>15.2%</b>	<b>14</b>
Moderate +16 Yrs Benchmark	4.3%	17	20.8%	11	11.1%	16	14.9%	18

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
<b>Aggressive 0-5 Yrs</b>	<b>2.9%</b>	<b>77</b>	<b>14.2%</b>	<b>28</b>	<b>8.8%</b>	<b>13</b>	<b>11.8%</b>	<b>30</b>
Aggressive 0-5 Yrs Benchmark	3.2%	56	14.1%	31	8.2%	31	10.8%	60
<b>Aggressive 6-10 Yrs</b>	<b>3.2%</b>	<b>65</b>	<b>16.4%</b>	<b>18</b>	<b>9.8%</b>	<b>6</b>	<b>13.2%</b>	<b>18</b>
Aggressive 6-10 Yrs Benchmark	3.6%	28	16.4%	15	9.2%	29	12.2%	46
<b>Aggressive 11-15 Yrs</b>	<b>3.6%</b>	<b>62</b>	<b>19.6%</b>	<b>9</b>	<b>11.3%</b>	<b>4</b>	<b>14.6%</b>	<b>10</b>
Aggressive 11-15 Yrs Benchmark	4.1%	14	19.8%	8	10.7%	6	14.4%	16
<b>Aggressive 16+ Yrs</b>	<b>4.2%</b>	<b>27</b>	<b>23.9%</b>	<b>1</b>	<b>13.0%</b>	<b>1</b>	<b>16.9%</b>	<b>1</b>
Aggressive +16 Yrs Benchmark	4.8%	4	24.2%	1	12.5%	4	17.0%	1

- The GoalMaker Portfolios had competitive performance versus their benchmarks over the time periods evaluated ended June 30, 2014.

# Fund Review

## Manager Performance as of June 30, 2014

Name	Market Value												Inception	
	(\$m)	(%)	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
<b>NCSRP BlackRock Equity Index</b>	<b>\$1,235.5</b>	<b>14.1%</b>	<b>5.2%</b>	--	<b>7.1%</b>	--	<b>24.6%</b>	--	<b>16.6%</b>	--	<b>18.9%</b>	--	<b>21.3%</b>	<b>Mar-09</b>
S&P 500			5.2%	--	7.1%	--	24.6%	--	16.6%	--	18.8%	--	21.2%	Mar-09
<b>NCSRP Hotchkis &amp; Wiley Large Cap Value</b>	<b>\$311.7</b>	<b>3.5%</b>	<b>4.0%</b>	<b>83</b>	<b>9.5%</b>	<b>13</b>	<b>27.9%</b>	<b>15</b>	<b>20.0%</b>	<b>4</b>	<b>22.0%</b>	<b>3</b>	<b>26.2%</b>	<b>Mar-09</b>
Russell 1000 Value			5.1%	40	8.3%	35	23.8%	57	16.9%	46	19.2%	42	21.8%	Mar-09
<b>NCSRP Wellington Value Composite</b>	<b>\$300.4</b>	<b>3.4%</b>	<b>4.7%</b>	<b>56</b>	<b>7.8%</b>	<b>45</b>	<b>21.6%</b>	<b>82</b>	<b>14.9%</b>	<b>84</b>	<b>14.5%</b>	<b>99</b>	<b>14.5%</b>	<b>Mar-09</b>
<b>NCSRP Wellington Quality Value</b>			<b>4.7%</b>	<b>56</b>	<b>7.8%</b>	<b>45</b>	<b>21.6%</b>	<b>82</b>	<b>14.9%</b>	<b>84</b>	--	--	--	<b>Jul-10</b>
<b>Wellington Quality Value Strategy</b>			<b>4.7%</b>	<b>57</b>	<b>7.8%</b>	<b>47</b>	<b>21.6%</b>	<b>83</b>	<b>14.9%</b>	<b>84</b>	<b>17.5%</b>	<b>83</b>	<b>20.1%</b>	<b>Mar-09</b>
Russell 1000 Value			5.1%	40	8.3%	35	23.8%	57	16.9%	46	19.2%	42	21.8%	Mar-09
<b>NCSRP Robeco BP Large Cap Value</b>	<b>\$299.3</b>	<b>3.4%</b>	<b>2.6%</b>	<b>99</b>	<b>5.6%</b>	<b>91</b>	<b>23.0%</b>	<b>67</b>	--	--	--	--	<b>25.3%</b>	<b>Nov-11</b>
<b>Robeco BP Large Cap Value Strategy</b>			<b>2.6%</b>	<b>99</b>	<b>5.5%</b>	<b>91</b>	<b>22.8%</b>	<b>69</b>	<b>18.3%</b>	<b>17</b>	<b>19.7%</b>	<b>30</b>	<b>25.0%</b>	<b>Nov-11</b>
Russell 1000 Value			5.1%	40	8.3%	35	23.8%	57	16.9%	46	19.2%	42	23.4%	Nov-11
<b>NCSRP Sands Capital Large Cap Growth</b>	<b>\$294.7</b>	<b>3.4%</b>	<b>1.4%</b>	<b>99</b>	<b>2.1%</b>	<b>95</b>	<b>33.8%</b>	<b>6</b>	<b>20.2%</b>	<b>2</b>	<b>26.3%</b>	<b>1</b>	<b>29.8%</b>	<b>Mar-09</b>
Russell 1000 Growth			5.1%	34	6.3%	36	26.9%	61	16.3%	39	19.2%	37	21.7%	Mar-09
<b>NCSRP Wellington Opportunistic Growth</b>	<b>\$282.6</b>	<b>3.2%</b>	<b>2.8%</b>	<b>94</b>	<b>4.6%</b>	<b>64</b>	<b>26.5%</b>	<b>68</b>	<b>13.9%</b>	<b>78</b>	<b>19.4%</b>	<b>31</b>	<b>21.8%</b>	<b>Mar-09</b>
Russell 1000 Growth			5.1%	34	6.3%	36	26.9%	61	16.3%	39	19.2%	37	21.7%	Mar-09
Russell 3000 Growth			4.9%	42	6.0%	40	26.8%	65	16.1%	41	19.3%	33	21.9%	Mar-09
<b>NCSRP Neuberger Large Cap Growth</b>	<b>\$276.0</b>	<b>3.1%</b>	<b>3.6%</b>	<b>86</b>	<b>3.0%</b>	<b>89</b>	<b>18.9%</b>	<b>99</b>	--	--	--	--	<b>16.1%</b>	<b>Oct-11</b>
<b>Neuberger Large Cap Growth Strategy</b>			<b>3.6%</b>	<b>85</b>	<b>3.0%</b>	<b>88</b>	<b>19.0%</b>	<b>99</b>	<b>11.7%</b>	<b>97</b>	<b>15.1%</b>	<b>97</b>	<b>15.7%</b>	<b>Oct-11</b>
Russell 1000 Growth			5.1%	34	6.3%	36	26.9%	61	16.3%	39	19.2%	37	20.1%	Oct-11
<b>NCSRP BlackRock Russell 2500 Index Fund</b>	<b>\$217.9</b>	<b>2.5%</b>	<b>3.6%</b>	--	<b>6.0%</b>	--	<b>25.6%</b>	--	<b>15.7%</b>	--	<b>21.8%</b>	--	<b>24.9%</b>	<b>Mar-09</b>
Russell 2500			3.6%	--	5.9%	--	25.6%	--	15.5%	--	21.6%	--	24.8%	Mar-09
<b>NCSRP Hotchkis &amp; Wiley</b>	<b>\$151.5</b>	<b>1.7%</b>	<b>5.8%</b>	<b>13</b>	<b>11.9%</b>	<b>5</b>	<b>29.9%</b>	<b>17</b>	<b>23.7%</b>	<b>1</b>	<b>28.5%</b>	<b>1</b>	<b>33.2%</b>	<b>Mar-09</b>
Hotchkis Custom SMID Value Index			4.2%	49	7.9%	28	24.9%	58	16.0%	39	22.0%	38	25.3%	Mar-09
<b>NCSRP EARNEST Partners</b>	<b>\$150.2</b>	<b>1.7%</b>	<b>5.1%</b>	<b>21</b>	<b>9.4%</b>	<b>14</b>	<b>31.6%</b>	<b>8</b>	<b>16.3%</b>	<b>35</b>	<b>20.9%</b>	<b>53</b>	<b>24.0%</b>	<b>Mar-09</b>
EARNEST Custom SMID Value Index			4.2%	49	7.9%	28	24.9%	58	16.0%	39	20.7%	54	23.5%	Mar-09
<b>NCSRP WEDGE SMID Cap Value</b>	<b>\$147.1</b>	<b>1.7%</b>	<b>4.7%</b>	<b>32</b>	<b>7.6%</b>	<b>37</b>	<b>26.9%</b>	<b>40</b>	--	--	--	--	<b>25.5%</b>	<b>Dec-11</b>
<b>WEDGE SMID Cap Value Strategy</b>			<b>4.7%</b>	<b>36</b>	<b>7.6%</b>	<b>38</b>	<b>27.0%</b>	<b>38</b>	<b>17.3%</b>	<b>22</b>	<b>22.3%</b>	<b>34</b>	<b>25.6%</b>	<b>Dec-11</b>
Russell 2500 Value			4.2%	49	7.9%	28	24.9%	58	16.0%	39	21.6%	46	24.1%	Dec-11
<b>NCSRP TimesSquare Composite</b>	<b>\$163.6</b>	<b>1.9%</b>	<b>2.2%</b>	<b>32</b>	<b>1.1%</b>	<b>54</b>	<b>24.6%</b>	<b>54</b>	<b>18.9%</b>	<b>3</b>	<b>21.9%</b>	<b>36</b>	<b>24.3%</b>	<b>Mar-09</b>
<b>NCSRP TimesSquare SMID Growth</b>			<b>2.2%</b>	<b>32</b>	<b>1.1%</b>	<b>54</b>	<b>24.6%</b>	<b>54</b>	<b>18.9%</b>	<b>3</b>	--	--	--	<b>Jul-11</b>
<b>TimesSquare Growth Strategy</b>			<b>2.2%</b>	<b>32</b>	<b>1.2%</b>	<b>51</b>	<b>24.7%</b>	<b>52</b>	<b>18.9%</b>	<b>3</b>	<b>24.0%</b>	<b>15</b>	<b>26.6%</b>	<b>Mar-09</b>
TimesSquare Custom SMID Growth Index			2.9%	28	4.0%	38	26.3%	40	14.9%	40	21.4%	45	24.6%	Mar-09

# Fund Review

## Manager Performance as of June 30, 2014

Name	Market Value		Inception											
	(\$m)	(%)	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
<b>NCSRP Brown Advisory</b>	<b>\$155.9</b>	<b>1.8%</b>	<b>-1.7%</b>	<b>87</b>	<b>-2.5%</b>	<b>89</b>	<b>19.2%</b>	<b>82</b>	<b>13.3%</b>	<b>59</b>	<b>20.9%</b>	<b>63</b>	<b>23.7%</b>	<b>Mar-09</b>
Brown Custom SMID Growth Index			2.9%	28	4.0%	38	26.3%	40	14.9%	40	20.7%	65	24.5%	Mar-09
<b>NCSRP BlackRock ACWI ex US Fund</b>	<b>\$42.6</b>	<b>0.5%</b>	<b>5.2%</b>	<b>--</b>	<b>5.8%</b>	<b>--</b>	<b>22.0%</b>	<b>--</b>	<b>5.9%</b>	<b>--</b>	<b>11.3%</b>	<b>--</b>	<b>16.0%</b>	<b>Mar-09</b>
MSCI ACWI ex USA Gross			5.2%	--	5.9%	--	22.3%	--	6.2%	--	11.6%	--	16.3%	Mar-09
<b>NCSRP Baillie Gifford ACWI ex US Growth</b>	<b>\$265.6</b>	<b>3.0%</b>	<b>3.1%</b>	<b>77</b>	<b>3.5%</b>	<b>72</b>	<b>21.2%</b>	<b>71</b>	<b>8.5%</b>	<b>58</b>	<b>14.5%</b>	<b>25</b>	<b>19.0%</b>	<b>Mar-09</b>
MSCI ACWI ex USA GrossB			5.2%	19	5.9%	32	22.3%	61	6.2%	87	11.6%	84	16.3%	Mar-09
MSCI AC Wid ex US Growth Gross			4.6%	32	5.0%	45	19.7%	83	5.8%	90	11.7%	82	15.8%	Mar-09
<b>NCSRP Mondrian ACWI ex US Value</b>	<b>\$281.2</b>	<b>3.2%</b>	<b>5.8%</b>	<b>9</b>	<b>9.5%</b>	<b>5</b>	<b>23.2%</b>	<b>54</b>	<b>8.4%</b>	<b>58</b>	<b>11.6%</b>	<b>85</b>	<b>15.2%</b>	<b>Mar-09</b>
MSCI ACWI ex USA Gross			5.2%	19	5.9%	32	22.3%	61	6.2%	87	11.6%	84	16.3%	Mar-09
MSCI AC Wid Ex US Value Gross			5.9%	9	6.8%	21	24.8%	38	6.6%	84	11.4%	87	16.9%	Mar-09
<b>NCSRP Wellington Global Composite</b>	<b>\$351.3</b>	<b>4.0%</b>	<b>5.7%</b>	<b>16</b>	<b>4.1%</b>	<b>79</b>	<b>25.0%</b>	<b>44</b>	<b>14.7%</b>	<b>9</b>	<b>16.6%</b>	<b>33</b>	<b>19.6%</b>	<b>Mar-09</b>
<b>NCSRP Wellington Global Opportunities</b>			<b>5.7%</b>	<b>16</b>	<b>4.1%</b>	<b>79</b>	<b>25.0%</b>	<b>44</b>	<b>14.7%</b>	<b>9</b>	--	--	--	<b>Mar-09</b>
<b>Wellington Global Opportunities Strategy</b>			<b>5.7%</b>	<b>15</b>	<b>4.2%</b>	<b>79</b>	<b>25.5%</b>	<b>37</b>	<b>14.8%</b>	<b>9</b>	<b>18.3%</b>	<b>13</b>	<b>21.6%</b>	<b>Mar-09</b>
MSCI ACWI Gross			5.2%	23	6.5%	39	23.6%	57	10.9%	63	14.9%	61	18.6%	Mar-09
<b>NCSRP Arrowstreet Global Equity ACWI</b>	<b>\$358.0</b>	<b>4.1%</b>	<b>5.9%</b>	<b>11</b>	<b>6.6%</b>	<b>38</b>	<b>27.9%</b>	<b>15</b>	--	--	--	--	<b>18.2%</b>	<b>Mar-12</b>
<b>Arrowstreet Global Equity ACWI Strategy</b>			<b>5.8%</b>	<b>12</b>	<b>8.0%</b>	<b>16</b>	<b>30.4%</b>	<b>6</b>	<b>14.5%</b>	<b>12</b>	<b>18.3%</b>	<b>12</b>	<b>20.1%</b>	<b>Mar-12</b>
MSCI ACWI Gross			5.2%	23	6.5%	39	23.6%	57	10.9%	63	14.9%	61	18.6%	Mar-12
<b>NCSRP PIMCO Inflation Response Multi-Asset</b>	<b>\$325.0</b>	<b>3.7%</b>	<b>4.4%</b>	<b>31</b>	<b>8.7%</b>	<b>18</b>	--	--	--	--	--	--	<b>6.5%</b>	<b>Sep-13</b>
<b>PIMCO Inflation Response Multi-Asset Strategy</b>			<b>5.0%</b>	<b>25</b>	<b>9.3%</b>	<b>13</b>	<b>8.9%</b>	<b>38</b>	--	--	--	--	<b>7.1%</b>	<b>Sep-13</b>
PIMCO Inflation Response Index			3.0%	55	7.2%	32	6.3%	75	1.4%	77	6.6%	45	4.8%	Sep-13
Consumer Price Index			0.9%	94	2.3%	90	2.1%	99	1.8%	73	2.0%	99	1.8%	Sep-13
<b>NCSRP BlackRock Debt Index Fund</b>	<b>\$324.8</b>	<b>3.7%</b>	<b>2.1%</b>	<b>--</b>	<b>4.0%</b>	<b>--</b>	<b>4.4%</b>	<b>--</b>	<b>3.7%</b>	<b>--</b>	--	--	<b>3.3%</b>	<b>Sep-10</b>
<b>BlackRock Debt Index Fund Strategy</b>			<b>2.1%</b>	<b>--</b>	<b>4.0%</b>	<b>--</b>	<b>4.4%</b>	<b>--</b>	<b>3.7%</b>	<b>--</b>	<b>4.9%</b>	<b>--</b>	<b>3.3%</b>	<b>Sep-10</b>
Barclays Aggregate			2.0%	--	3.9%	--	4.4%	--	3.7%	--	4.9%	--	3.3%	Sep-10
<b>NCSRP JP Morgan Core Bond</b>	<b>\$278.1</b>	<b>3.2%</b>	<b>2.0%</b>	<b>77</b>	<b>3.8%</b>	<b>83</b>	<b>4.6%</b>	<b>78</b>	<b>4.3%</b>	<b>72</b>	<b>6.0%</b>	<b>63</b>	<b>5.9%</b>	<b>Mar-09</b>
Barclays Aggregate			2.0%	74	3.9%	76	4.4%	84	3.7%	93	4.9%	94	5.0%	Mar-09
<b>NCSRP PIMCO Total Return Full Authority</b>	<b>\$281.4</b>	<b>3.2%</b>	<b>2.3%</b>	<b>37</b>	<b>3.7%</b>	<b>86</b>	<b>5.8%</b>	<b>38</b>	<b>4.7%</b>	<b>55</b>	<b>6.0%</b>	<b>60</b>	<b>6.9%</b>	<b>Mar-09</b>
Barclays Aggregate			2.0%	74	3.9%	76	4.4%	84	3.7%	93	4.9%	94	5.0%	Mar-09

# Fee Review

Funds and Sub-Advisors	Assets	Inv. Mgmt. Fee	Other Inv. Exp. <sup>1</sup>	R/K Fee	NC Budget <sup>2</sup>	Total Estimated Expense (%)	Total Estimated Expense (\$) <sup>3</sup>	Mercer Median Expense	Difference
<b>North Carolina Stable Value Fund</b>	<b>\$2,289,892,519</b>	<b>0.339%</b>	<b>0.000%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.443%</b>	<b>\$10,144,224</b>	0.48%	-0.04%
Galliard	\$2,289,892,519	0.339%	0.000%				\$7,762,736	0.48%	-0.14%
<b>North Carolina Fixed Income Passive</b>	<b>\$324,763,874</b>	<b>0.020%</b>	<b>0.055%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.179%</b>	<b>\$581,327</b>	0.20%	-0.02%
BlackRock	\$324,763,874	0.020%	0.055%				\$64,953	0.02%	0.00%
<b>North Carolina Fixed Income Fund</b>	<b>\$559,493,747</b>	<b>0.219%</b>	<b>0.077%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.399%</b>	<b>\$2,234,026</b>	0.52%	-0.12%
50% JP Morgan	\$278,066,140	0.188%	0.071%				\$521,620	0.23%	-0.04%
50% PIMCO	\$281,427,606	0.250%	0.082%				\$703,569	0.25%	0.00%
<b>North Carolina Inflation Sensitive Fund</b>	<b>\$324,963,354</b>	<b>0.800%</b>	<b>0.055%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.959%</b>	<b>\$3,116,399</b>	0.86%	0.10%
PIMCO	\$324,963,354	0.800%	0.055%				\$2,599,707	0.86%	-0.06%
<b>North Carolina Large Cap Passive Fund</b>	<b>\$1,235,522,111</b>	<b>0.007%</b>	<b>0.055%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.166%</b>	<b>\$2,050,967</b>	0.20%	-0.03%
BlackRock	\$1,235,522,111	0.007%	0.055%				\$86,487	0.01%	0.00%
<b>North Carolina Large Cap Value Fund</b>	<b>\$911,368,210</b>	<b>0.378%</b>	<b>0.071%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.553%</b>	<b>\$5,041,286</b>	0.77%	-0.22%
33.3% Hotchkis & Wiley	\$311,681,157	0.500%	0.072%				\$1,558,406	0.43%	0.07%
33.3% Wellington Management Company	\$300,433,558	0.290%	0.072%				\$871,257	0.43%	-0.14%
33.3% Robeco BP	\$299,253,495	0.343%	0.071%				\$1,027,539	0.43%	-0.09%
<b>North Carolina Large Cap Growth Fund</b>	<b>\$853,394,325</b>	<b>0.378%</b>	<b>0.072%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.554%</b>	<b>\$4,726,065</b>	0.82%	-0.27%
33.3% Sands Capital Management	\$294,708,773	0.510%	0.072%				\$1,502,686	0.47%	0.04%
33.3% Wellington Management Company	\$282,645,700	0.350%	0.072%				\$989,260	0.47%	-0.12%
33.3% Neuberger Berman	\$276,039,851	0.275%	0.071%				\$759,110	0.47%	-0.20%
<b>North Carolina SMID Cap Passive Fund</b>	<b>\$217,939,258</b>	<b>0.007%</b>	<b>0.055%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.166%</b>	<b>\$361,779</b>	0.30%	-0.13%
BlackRock	\$217,939,258	0.007%	0.055%				\$15,256	0.02%	-0.01%
<b>North Carolina SMID Value Fund</b>	<b>\$448,785,004</b>	<b>0.624%</b>	<b>0.071%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.800%</b>	<b>\$3,588,261</b>	1.00%	-0.20%
33.3% Hotchkis & Wiley	\$151,532,612	0.587%	0.072%				\$889,008	0.62%	-0.03%
33.3% EARNEST Partners	\$150,167,052	0.525%	0.072%				\$788,521	0.81%	-0.28%
33.3% WEDGE Capital Management	\$147,085,340	0.761%	0.071%				\$1,118,991	0.76%	0.00%
<b>North Carolina SMID Growth Fund</b>	<b>\$319,517,491</b>	<b>0.707%</b>	<b>0.071%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.882%</b>	<b>\$2,818,490</b>	1.01%	-0.13%
50% TimesSquare Capital Management	\$163,577,104	0.847%	0.072%				\$1,385,808	0.77%	0.08%
50% Brown Advisory	\$155,940,388	0.566%	0.071%				\$882,821	0.81%	-0.24%
<b>North Carolina International Passive Fund</b>	<b>\$42,609,165</b>	<b>0.025%</b>	<b>0.055%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.184%</b>	<b>\$78,273</b>	0.39%	-0.21%
BlackRock	\$42,609,165	0.025%	0.055%				\$10,524	0.06%	-0.04%
<b>North Carolina International Equity Fund</b>	<b>\$546,737,350</b>	<b>0.453%</b>	<b>0.123%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.680%</b>	<b>\$3,716,831</b>	1.00%	-0.32%
50% Baillie Gifford	\$265,554,774	0.448%	0.124%				\$1,190,204	0.56%	-0.11%
50% Mondrian Investment Partners	\$281,182,576	0.458%	0.122%				\$1,287,381	0.55%	-0.10%
<b>North Carolina Global Equity Fund</b>	<b>\$709,311,391</b>	<b>0.551%</b>	<b>0.088%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.744%</b>	<b>\$5,274,899</b>	1.06%	-0.32%
50% Wellington Management Company	\$351,342,981	0.500%	0.093%				\$1,756,715	0.54%	-0.04%
50% Arrowstreet	\$357,968,411	0.603%	0.083%				\$2,157,581	0.54%	0.06%
<b>Total</b>	<b>\$8,784,297,800</b>	<b>0.340%</b>	<b>0.054%</b>	<b>0.079%</b>	<b>0.025%</b>	<b>0.498%</b>	<b>\$43,732,826</b>	<b>0.630%</b>	

<sup>1</sup>Includes the ongoing administration, legal, accounting, auditing, custody, NAV calculation, reporting, compliance, and other miscellaneous fund expenses associated with the separate account.

<sup>2</sup>The cost of the budget associated with the management of the Supplemental Retirement Plans, borne by each investment option in proportion to the pro-rate share of the applicable assets in that fund.

<sup>3</sup>Manager fee estimates reflect investment management fee only.

# Fee Review

<b>North Carolina 401K Stable Value Total Annual Fund Operating Expenses</b>	<b>Expense Ratio</b>	<b>Per \$1000</b>
Investment Management fee paid to Galliard	0.073%	\$0.73
Investment Management fees paid to Non-Affiliated Investment Advisors	0.057%	\$0.57
Investment Contract Fees*	0.170%	\$1.70
Acquired Fund Fees**	0.047%	\$0.47
Investment Contract Fees	0.012%	\$0.12
Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors***	0.035%	\$0.35
12b-1 Distribution Fee	None	None
Other Expenses	0.104%	\$1.04
<b>Total Annual Fund Operating Expenses****</b>	<b>0.451%</b>	<b>\$4.51</b>

<b>North Carolina 457 Stable Value Total Annual Fund Operating Expenses</b>	<b>Expense Ratio</b>	<b>Per \$1000</b>
Investment Management fee paid to Galliard	0.073%	\$0.73
Investment Management fees paid to Non-Affiliated Investment Advisors	0.058%	\$0.58
Investment Contract Fees*	0.171%	\$1.71
Acquired Fund Fees**	0.045%	\$0.45
Investment Contract Fees	0.012%	\$0.12
Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors***	0.033%	\$0.33
12b-1 Distribution Fee	None	None
Other Expenses	0.104%	\$1.04
<b>Total Annual Fund Operating Expenses****</b>	<b>0.451%</b>	<b>\$4.51</b>

# Appendix

# Net Performance as of June 30, 2014

	Ending June 30, 2014					Inception	
	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	Return	Since
<b>Large Cap Passive</b>	<b>5.2%</b>	<b>7.0%</b>	<b>24.4%</b>	<b>16.4%</b>	<b>18.7%</b>	<b>21.1%</b>	<b>Mar-09</b>
S&P 500	5.2%	7.1%	24.6%	16.6%	18.8%	21.2%	Mar-09
Mercer Mutual Fund US Equity Large Cap Core Median	4.8%	13.4%	20.5%	16.9%	0.062372	18.8%	Mar-09
NCSRP BlackRock Equity Index	5.2%	7.1%	24.6%	16.5%	18.9%	21.3%	Mar-09
S&P 500	5.2%	7.1%	24.6%	16.6%	18.8%	21.2%	Mar-09
Mercer Instl US Equity Large Cap Index Median	5.2%	13.8%	20.9%	18.6%	0.071595	20.7%	Mar-09
<b>Large Cap Value</b>	<b>3.6%</b>	<b>7.4%</b>	<b>23.5%</b>	<b>17.2%</b>	<b>17.8%</b>	<b>20.1%</b>	<b>Mar-09</b>
Russell 1000 Value	5.1%	8.3%	23.8%	16.9%	19.2%	21.8%	Mar-09
Mercer Mutual Fund US Equity Large Cap Value Median	4.5%	7.0%	22.9%	15.7%	0.17661	20.1%	Mar-09
NCSRP Hotchkis & Wiley Large Cap Value	3.9%	9.3%	27.2%	19.4%	21.4%	25.5%	Mar-09
Russell 1000 Value	5.1%	8.3%	23.8%	16.9%	19.2%	21.8%	Mar-09
Mercer Instl US Equity Large Cap Value Median	4.9%	7.7%	24.5%	16.8%	0.188406	21.3%	Mar-09
NCSRP Wellington Value Composite	4.6%	7.7%	21.3%	14.6%	14.1%	14.2%	Mar-09
Russell 1000 Value	5.1%	8.3%	23.8%	16.9%	19.2%	21.8%	Mar-09
NCSRP Robeco BP Large Cap Value	2.5%	5.4%	22.6%	--	--	24.9%	Nov-11
Russell 1000 Value	5.1%	8.3%	23.8%	16.9%	19.2%	23.4%	Nov-11
<b>Large Cap Growth</b>	<b>2.4%</b>	<b>2.9%</b>	<b>25.8%</b>	<b>14.7%</b>	<b>21.1%</b>	<b>24.0%</b>	<b>Mar-09</b>
Russell 1000 Growth	5.1%	6.3%	26.9%	16.3%	19.2%	21.7%	Mar-09
NCSRP Sands Capital Large Cap Growth	1.2%	1.8%	33.1%	19.5%	25.6%	29.1%	Mar-09
Russell 1000 Growth	5.1%	6.3%	26.9%	16.3%	19.2%	21.7%	Mar-09
NCSRP Wellington Opportunistic Growth	2.8%	4.4%	26.0%	13.5%	19.0%	21.4%	Mar-09
Russell 1000 Growth	5.1%	6.3%	26.9%	16.3%	19.2%	21.7%	Mar-09
Russell 3000 Growth	4.9%	6.0%	26.8%	16.1%	19.3%	21.9%	Mar-09
NCSRP Neuberger Large Cap Growth	3.5%	2.8%	18.6%	--	--	15.7%	Oct-11
Russell 1000 Growth	5.1%	6.3%	26.9%	16.3%	19.2%	20.1%	Oct-11
<b>Mid/Small Cap Passive</b>	<b>3.5%</b>	<b>5.9%</b>	<b>25.4%</b>	<b>15.5%</b>	<b>21.5%</b>	<b>24.7%</b>	<b>Mar-09</b>
Russell 2500	3.6%	5.9%	25.6%	15.5%	21.6%	24.8%	Mar-09
NCSRP BlackRock Russell 2500 Index Fund	3.6%	6.0%	25.5%	15.6%	21.7%	24.9%	Mar-09
Russell 2500	3.6%	5.9%	25.6%	15.5%	21.6%	24.8%	Mar-09
<b>Mid/Small Cap Value</b>	<b>5.0%</b>	<b>9.2%</b>	<b>28.5%</b>	<b>19.0%</b>	<b>24.6%</b>	<b>28.4%</b>	<b>Mar-09</b>
Russell 2500 Value	4.2%	7.9%	24.9%	16.0%	21.6%	24.5%	Mar-09
NCSRP Hotchkis & Wiley	5.7%	11.6%	29.1%	22.9%	27.8%	32.4%	Mar-09
Hotchkis Custom SMID Value Index	4.2%	7.9%	24.9%	16.0%	22.0%	25.3%	Mar-09
NCSRP EARNEST Partners	5.0%	9.1%	31.0%	15.7%	20.2%	23.3%	Mar-09
EARNEST Custom SMID Value Index	4.2%	7.9%	24.9%	16.0%	20.7%	23.5%	Mar-09
NCSRP WEDGE SMID Cap Value	4.5%	7.2%	26.0%	--	--	24.7%	Dec-11
Russell 2500 Value	4.2%	7.9%	24.9%	16.0%	21.6%	24.1%	Dec-11
<b>Mid/Small Cap Growth</b>	<b>0.0%</b>	<b>-1.1%</b>	<b>21.0%</b>	<b>15.1%</b>	<b>20.3%</b>	<b>22.8%</b>	<b>Mar-09</b>
Russell 2500 Growth	2.9%	4.0%	26.3%	14.9%	21.7%	25.1%	Mar-09

	Ending June 30, 2014					Inception	
	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	Return	Since
NCSRP TimesSquare	2.0%	0.7%	23.6%	17.9%	21.0%	23.4%	Mar-09
TimesSquare Custom SMID Growth Index	2.9%	4.0%	26.3%	14.9%	21.4%	24.6%	Mar-09
NCSRP Brown Advisory	-1.8%	-2.8%	18.6%	12.7%	20.2%	23.0%	Mar-09
Brown Custom SMID Growth Index	2.9%	4.0%	26.3%	14.9%	20.7%	24.5%	Mar-09
<b>International Passive</b>	<b>5.1%</b>	<b>5.6%</b>	<b>21.7%</b>	<b>5.7%</b>	<b>11.0%</b>	<b>15.7%</b>	<b>Mar-09</b>
MSCI ACWI ex USA Gross	5.2%	5.9%	22.3%	6.2%	11.6%	16.3%	Mar-09
NCSRP BlackRock ACWI ex US Fund	5.2%	5.7%	21.9%	5.8%	11.1%	15.9%	Mar-09
MSCI ACWI ex USA Gross	5.2%	5.9%	22.3%	6.2%	11.6%	16.3%	Mar-09
<b>International Equity</b>	<b>4.3%</b>	<b>6.1%</b>	<b>21.5%</b>	<b>7.7%</b>	<b>12.2%</b>	<b>16.1%</b>	<b>Mar-09</b>
MSCI ACWI ex USA Gross	5.2%	5.9%	22.3%	6.2%	11.6%	16.3%	Mar-09
NCSRP Baillie Gifford ACWI ex US Growth	2.9%	3.2%	20.6%	8.0%	14.0%	18.4%	Mar-09
MSCI ACWI ex USA Gross	5.2%	5.9%	22.3%	6.2%	11.6%	16.3%	Mar-09
MSCI AC Wld ex US Growth Gross	4.6%	5.0%	19.7%	5.8%	11.7%	15.8%	Mar-09
NCSRP Mondrian ACWI ex US Value	5.7%	9.3%	22.7%	7.9%	11.0%	14.6%	Mar-09
MSCI ACWI ex USA Gross	5.2%	5.9%	22.3%	6.2%	11.6%	16.3%	Mar-09
MSCI AC Wld Ex US Value Gross	5.9%	6.8%	24.8%	6.6%	11.4%	16.9%	Mar-09
<b>Global Equity</b>	<b>5.6%</b>	<b>4.9%</b>	<b>25.6%</b>	<b>13.4%</b>	<b>15.5%</b>	<b>18.5%</b>	<b>Mar-09</b>
MSCI ACWI Gross	5.2%	6.5%	23.6%	10.9%	14.9%	18.6%	Mar-09
NCSRP Wellington Global Composite	5.5%	3.9%	24.4%	14.2%	16.1%	19.0%	Mar-09
MSCI ACWI Gross	5.2%	6.5%	23.6%	10.9%	14.9%	18.6%	Mar-09
NCSRP Arrowstreet Global Equity ACWI	5.7%	6.3%	27.1%	--	--	17.5%	Mar-12
MSCI ACWI Gross	5.2%	6.5%	23.6%	10.9%	14.9%	15.0%	Mar-12
<b>Fixed Income Passive Fund</b>	<b>2.1%</b>	<b>3.9%</b>	<b>4.1%</b>	<b>3.5%</b>	<b>--</b>	<b>3.2%</b>	<b>Sep-10</b>
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	4.9%	3.3%	Sep-10
NCSRP BlackRock Debt Index Fund	2.1%	4.0%	4.3%	3.6%	--	3.3%	Sep-10
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	4.9%	3.3%	Sep-10
<b>Fixed Income Fund</b>	<b>2.1%</b>	<b>3.5%</b>	<b>4.8%</b>	<b>4.1%</b>	<b>5.6%</b>	<b>6.0%</b>	<b>Mar-09</b>
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	4.9%	5.0%	Mar-09
NCSRP JP Morgan Core Bond	1.9%	3.7%	4.4%	4.1%	5.8%	5.7%	Mar-09
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	4.9%	5.0%	Mar-09
NCSRP PIMCO Total Return Full Authority	2.3%	3.6%	5.6%	4.4%	5.8%	6.6%	Mar-09
Barclays Aggregate	2.0%	3.9%	4.4%	3.7%	4.9%	5.0%	Mar-09

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