

# North Carolina Supplemental Retirement Plans

401(k) and 457 Plans

Investment Holding Guideline Compliance Summary

As of September 30, 2013

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 | Neuberger | 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<br>RESTRICTED                                       | ✓                    | ✓            | ✓            | ✓     | --           |
| Sector diversification | Fixed income           | Corporate sector allocations similar to benchmark                         | ✓                    | ✗            | ✓            | ○     | --           |
| Quality                | Fixed income           | Min average quality: A-; Max HY: 20%; Max non-US: 20%; Max Corporate: 20% | --                   | ✓            | NA           | ✓     | --           |
|                        | Passive fixed income   | HY and non-USD-denominated<br>RESTRICTED                                  | ✓                    | --           | --           | --    | --           |
|                        | Cash                   | Min average quality: A1/P1  | --                   | --           | --           | --    | NA           |
| Duration               | Fixed income           | Max: +/- 25% of benchmark   | --                   | ✓            | NA           | ✓     | --           |
|                        | 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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 Not in compliance with IPS.

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**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            | ✓                         |

[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**

### **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: 7.3%; Portfolio largest excess weight over BM: 6.1%

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

### **HOTCHKIS & WILEY - MID/SMALL CAP VALUE**

Guideline: Max ADR/Foreign: 10%

Foreign: 12.2%; ADR: 1.3%; Total: 13.5%

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

### **ARROWSTREET- GLOBAL EQUITY**

Guideline: Max individual country weight: 2x Index weight, but must be less than 50%; if Index weight <5%, then must be less than 10%

Portfolio allocation to Japan: 16.9%; BM allocation: 8.1%

Manager's contractual guideline: **IN COMPLIANCE**. Individual country weight must be within 11% of BM weight in that country

## **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 Industrials: 5.7%; BM allocation: 12.4%

Largely due to PIMCO's significant underweight

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

## **FIXED INCOME PORTFOLIOS - MANAGER LEVEL**

### **JPMORGAN - FIXED INCOME**

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

### **PIMCO - FIXED INCOME**

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

Portfolio allocation to Financials: 12.7%; BM allocation: 7.1%

Portfolio allocation to Industrials: 2.6%; BM allocation: 12.4%

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*