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## State of North Carolina Portfolio Review

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February 14, 2013

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# Galliard Capital Management

## Fixed Income and Stable Value Specialists



**GALLIARD** at a glance (as of 12/31/12)

### Fixed Income and Stable Value Specialists

- | Currently managing in excess of \$85.3 Billion
- | 98 professionals on staff<sup>^</sup>
- | Asset growth has been strong (+\$7.7B) for 2012
- | Welcomed 25 new clients in 2012
- | Second largest stable value manager\*
- | Ranked 26<sup>th</sup> in overall institutional assets by *Pensions & Investments*\*\*
- | Ranked 13<sup>th</sup> largest active domestic fixed income manager by *Pensions & Investments*\*\*\*
- | Ranked 11<sup>th</sup> largest defined contribution manager by *Pensions & Investments*\*\*
- | Ranked 73<sup>rd</sup> total worldwide institutional assets under management by *Pensions & Investments*\*\*\*\*

<sup>^</sup> Number of employees as of January 14, 2013

\* *Pensions & Investments*, Largest Money Managers Report, May 28, 2012. The ranking is based on U.S. Institutional, tax-exempt assets in millions, as of December 31, 2011.

\*\* *Pensions & Investments*, Largest Money Managers Report, December 24, 2012. The ranking is based on U.S. Institutional, tax-exempt assets in millions, as of December 31, 2011.

\*\*\* *Pensions & Investments*, Largest Money Managers Report, May 28, 2012. The ranking is based on U.S. Institutional, tax-exempt assets managed internally in millions, as of December 31, 2010.

\*\*\*\* *Pensions & Investments*, Largest Money Managers Report, June 11, 2012. The ranking is based on U.S. Institutional, tax-exempt assets managed internally in millions, as of December 31, 2011.

Our client focus and organizational stability have been the key to our long term success

# Galliard Capital Management

## Composition of Business\*

Galliard Firm Assets Under Management | **\$85.3**  
billion

### Assets Under Management (By Strategy):

- | Short Duration: \$35.8 Billion
- | Intermediate Core: \$17.2 Billion
- | Broad Market Core & Core Plus: \$3.2 Billion
- | Custom: \$29.1 Billion

### Assets Under Management (By Plan Type):

- | Corporate Retirement/Benefit Plans: \$68.5 Billion
- | Operating Funds: \$2.7 Billion
- | Partnerships: \$1.8 Billion
- | Foundation/Endowments: \$183.4 Million
- | Taft Hartley: \$400.3 Million
- | Public Entities: \$11.8 Billion

Stable Value Assets | **\$77.2**  
billion

### 2012 Stable Value Summary

- | \$3.3 Billion new assets
- | 17 new clients

### 2011 Stable Value Summary

- | \$4.7 Billion new assets
- | 18 new clients

### Representative Stable Value Clients:\*\*

- | Archer Daniels Midland
- | AkzoNobel Inc.
- | National Oilwell Varco
- | Halliburton

We have successfully managed portfolios for a broad array of applications and clients

\*As of 12/31/12

\*\*Clients listed above include a sampling of Galliard's clients. Excludes those requesting confidentiality. Inclusion is not performance based nor does it represent any endorsement of Galliard's services by the client.

# Galliard Capital Management

## Organization Chart

### Managing Partners

Carrie Callahan

John Caswell, CFA

Richard Merriam, CFA

Ajay Mirza, CFA

Karl Tourville

### Client Portfolio Management

John Caswell, CFA Managing Partner	Taylor Benson Director
Karl Tourville Managing Partner	Andrea Johnson, CFA Director
Carrie Callahan Managing Partner	Laura Sell, CFA Director
Mike Norman Partner	William Weber Director
Leela Scattum Associate Director	Robert Crandall Associate Director
Erol Sonderegger, CFA Principal	Jennifer Hopper Senior Associate
Andrew Apostol Senior Director	Will Moeller, CFA Senior Associate
David Ferry Senior Director	Doug Rangel, CFA Senior Associate
Nick Gage, CFA Senior Director	Jordan Bewley Associate
Tami Pearse-Byczek Senior Director	Todd Copenhaver Associate

### Fixed Income Sector Teams

<i>Credit</i>	<i>Structured Product</i>
Richard Merriam, CFA Managing Partner Sector Head	Ajay Mirza, CFA Managing Partner Sector Head
Matt Bentley Principal	Matt Robertson, CFA Senior Director
Chad Callahan Principal	Mike Meerovich Director
Rene Hoogmoed, CFA Principal	Marco Perzichilli Director
Brandon Kanz, CFA Senior Director	John Hammar Senior Associate
John Kenley, CFA Associate Director	Gauri Jadhav Senior Associate
Robert Barrett, CFA Senior Associate	Elizabeth Motz Associate
	Tyler Wadsworth Associate

### Portfolio Analysis & Support

Kristin Daniels, CPA Director	Angie Dardis Associate
Brian Brooks Senior Associate	Heather Goserud Associate
Rasaan Ellison Senior Associate	Matt Heutinck Associate
Christina Mosher Senior Associate	Phil Kos Associate
Carmen Rangel, CPA Senior Associate	Suthisa Krupinski Associate
Jason Skull Senior Associate	Terry Larsen Associate
Jesse Ahlbrecht Associate	Leslie Laubach Associate
Scott Baber Associate	Steve Swanson Associate
Anna Cesar Associate	

### Operations & Technology

Chad Foote Senior Principal	Whitney O'Neil Senior Associate
George Jones Director	Stephanie Ripley Senior Associate
Peter Anderson Associate Director	Christopher Smith Senior Associate
Elena Ketter Associate Director	Troy Visnovec Senior Associate
Marylynn Shapiro Associate Director	Mike Bouska Associate
Jennifer deFiebre Senior Associate	Charles Head Associate
Shawn Erwin Senior Associate	Lee Jacobsen Associate
Brian Heruth Senior Associate	Alicia Tompkins Associate
William Ingle Senior Associate	Corey Weber Associate
Deanna Moriarty Senior Associate	

### Marketing & Client Support

Jane Marie Petty Principal	Linh Buoan Senior Associate	Tashana Bennett Associate	Alison Johnson Associate
Sue Stachel Director	Seth Mork Senior Associate	Michelle Boss Associate	Mark Perzichilli Associate
Jennifer Diadoo Associate Director	Jennie Soucheray Senior Associate	Fiona Donahoe Associate	Sarah Wilken Associate
Jennifer Miller Associate Director	Barb Thomas Senior Associate	Jeff Hay Associate	
Andrea Bartz Senior Associate	Jennifer Wedan Senior Associate	Geneva Hanvik Associate	

### Compliance & Risk Management

David Lui, J.D. Chief Compliance Officer Principal	Maya Pillai Senior Associate
Paula Novick, J.D. Associate Director	Brian Renelt Senior Associate
Mark Otto Associate Director	Nicole Berger Associate
Brad Hahn Senior Associate	Andrew McKessock Associate
	Jason Mitchell Associate

### Wells Fargo Resources

Human Resources	Compliance/Risk Mgmt
Legal Department	Economic Research
Trust Operations	Credit Research
Investment Mgmt	Finance
Technology	

New in 2012

New in 2013

# Stable Value Market Update

## Wrap Capacity

### Wrap Market Update

- | Much improvement in wrap capacity with 18 providers currently in the market
- | Currently, wrap providers are predominantly insurance companies and some of which require affiliate investment management
- | Wrap capacity from JP Morgan and Bank of America (who are exiting) will be replaced by new entrants and providers increasing their capacity
- | Galliard has available capacity with new and existing providers\* and is actively on-boarding new entrants\*
  - Existing providers increasing capacity
    - American General Life
    - ING
    - MetLife
    - Royal Bank of Canada
    - Prudential
    - Mass Mutual
    - New York Life
    - Reinsurance Group of America
  - Providers that recently entered or expected to enter
    - Bank of Tokyo-Mitsubishi\*\*
    - TIAA-CREF
    - Lincoln Financial\*\*

### Galliard continues to successfully transition Stable Value Portfolios in this environment:

- | Since 2011, \$7.9 billion transitioned for 35 clients
- | Generated over \$26 billion in new wrap capacity since 2008
- | Galliard has available capacity with new and existing providers and is continually active in on-boarding new providers for additional capacity
- | Galliard continues to generate capacity through customized solutions

Galliard's conservative approach, proven track record and strong relationships within the wrap market have allowed us to deliver client solutions in a challenging market

\*As of 12/31/12

\*\* Pending Galliard approval

## Stable Value Market Update

### Galliard Wrap Issuer Summary

#### As of December 2012:

Name	Accepting Deposits from New Clients*	Accepting Deposits from Existing Clients*	Contract Type**	Asset Management***	S&P Credit Rating	Moody's Credit Rating
American General Life	Yes	Yes	SBIC	Galliard	A+	A2
ING Life Ins. and Annuity Co.	Yes	Yes	SBIC	Galliard, ING, PIMCO, Dodge & Cox	A-	A3
MassMutual Life Ins. Co.	Yes	Yes	SAGIC	Babson	AA+	Aa2
Metropolitan Life Ins. Co.	Yes	Yes	SAGIC	Galliard, PIMCO	AA-	Aa3
New York Life	Yes	Yes	SBIC & SAGIC	New York Life	AA+	Aaa
Prudential Life Ins. Co	Yes	Yes	SBIC	Galliard, Prudential, Jennison	AA-	A2
RGA Reinsurance Company	Yes	Yes	SBIC	Galliard	AA-	A1
Royal Bank of Canada	Yes	Yes	SBIC	Galliard	AA-	Aa3
TIAA-CREF	Yes	Yes	SAGIC	TIAA-CREF	AA+	Aaa
Monumental Life Ins. Co.	No	Yes	SBIC	Galliard, PIMCO, Pyramis, Dodge & Cox	AA-	A1
Pacific Life Ins. Co.	No	Yes	SBIC	Galliard, PIMCO	A+	A1
State Street Bank and Trust Co.	No	No	SBIC	Galliard, PIMCO	AA-	Aa2
Natixis Financial Products, Inc.	No	No	SBIC	Galliard, PIMCO	A	A2
United of Omaha	No	No	SBIC	Galliard	A+	A1
Bank of America, N.A. - <i>exiting</i>	No	No	SBIC	Galliard	A	A3
J.P. Morgan Chase Bank - <i>exiting</i>	No	No	SBIC	Galliard	A+	Aa3

\*Providers accepting deposits on a case by case basis

\*\* Security Backed Investment Contract (SBIC) or Separate Account GIC (SAGIC)

\*\*\*Within Galliard Strategies

# State of North Carolina

## Transition Update

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### Transition to Galliard oversight on December 1, 2010:

- | Assumed responsibility for portfolio's daily valuation
- | Improved wrap issuer diversification with the addition of the United of Omaha and Met Life contracts
- | Enhanced manager style diversification with funding of the Galliard-managed short duration strategy
- | Increased yield on liquidity component by over 200 basis points. The current yield on the Wells Fargo pooled fund is 1.92%.
- | Lowered management cost with Prudential and PIMCO collective funds
- | Reduced custodial costs with transition to Wells Fargo (60% of portfolio assets)
- | Terminated State Street's securities lending program
- | Shortened portfolio duration from 3.10 years to improve responsiveness to changes in interest rates
- | Switched to all Government money market STIF

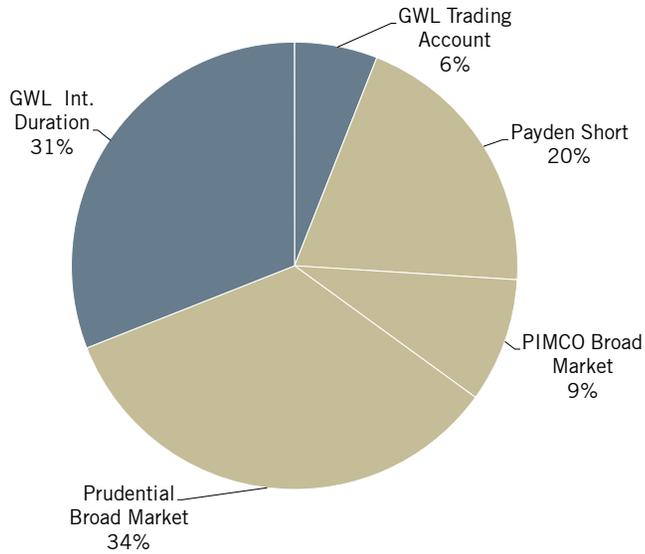
# State of North Carolina Stable Value Funds

## Transition Update

- 
- December 2010**
- Galliard assumes oversight, daily valuations, and administration of stable value funds
  - Transitioned custody of the 457 Plan Payden & Rygel portfolio to Wells Fargo
- 
- January 2011**
- Changed 401(k) Plan's Prudential benchmark from Broad Market to Intermediate Aggregate
  - Transitioned PIMCO to intermediate duration strategy wrapped by MetLife and increase allocation to 15% of assets
- 
- February 2011**
- Began termination of State Street securities lending program in the 401(k) Plan
  - Funded Galliard-managed short duration strategy wrapped by United of Omaha
  - Transitioned 457 Plan's Prudential intermediate duration strategy to Galliard collective trust
  - Liquidation of GWL trading account and funding of the Wells Fargo STIF and Wells Fargo SRF liquidity buffer
  - Transitioned custody of the 401(k) Payden & Rygel portfolio to Wells Fargo
  - New guidelines established for Payden short duration strategy
  - State Street securities lending program terminated
- 
- March 2011**
- Transition 401(k) Plan's Prudential investment to intermediate duration collective trust
- 
- July 2011**
- Moved from declared rate to actual portfolio returns
- 
- 2012**
- Changed STIF to Wells Fargo Government Money Market
  - Finalize portfolio strategy recommendations
- 
- 2013**
- Implementation of strategy recommendation changes
  - Secure wrap coverage for Payden & Rygal
  - Manager on-site compliance reviews

# State of North Carolina 401(k) Plan Transition Update

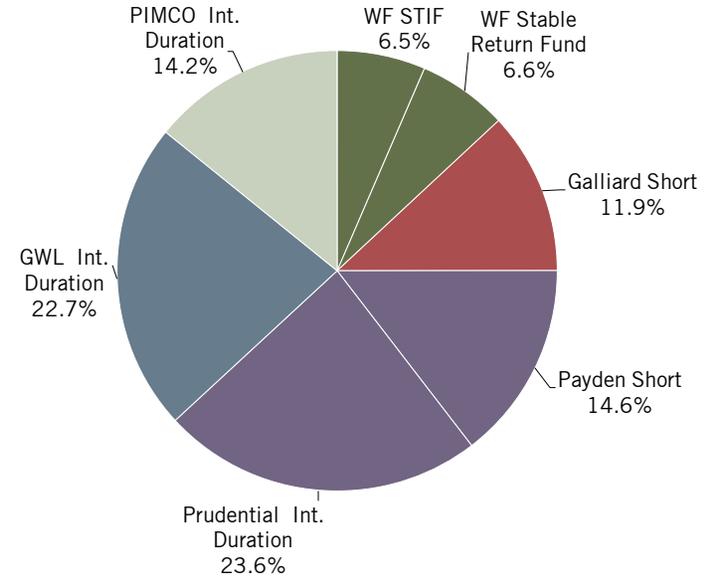
## Initial Portfolio Allocation



= Prudential Wrap  
 = Great West Life Wrap

<b>Duration</b>	3.1 years
<b>Avg. Quality</b>	AA
<b># of Managers</b>	4
<b># of Wrappers</b>	2

## Portfolio Allocation 401(k) 12/31/12



= Liquidity Buffer      = GWL  
 = United of Omaha      = MetLife  
 = Prudential Wrap

<b>Duration</b>	2.61 years
<b>Avg. Quality</b>	AA
<b># of Managers</b>	5
<b># of Wrappers</b>	4

# State of North Carolina Stable Value Funds

## Fee Summary

### 401(k) Plan Stable Value Fund

#### Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential (Weighted Avg.)	0.17%
MetLife	0.20%
United of Omaha	<u>0.25%</u>
<b>Weighted Average Wrap Fee</b>	<b>0.17%</b>

#### Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.23%</u>
<b>Weighted Average Management Fee</b>	<b>0.08%</b>

<b>Galliard Oversight &amp; Management</b>	<b>0.07%</b>
<b>Total Management &amp; Wrap</b>	<b>0.25%</b>
<b>Admin Fee</b>	<b>0.12%</b>
<b>Total Fees</b>	<b>0.44%</b>

### 457 Plan Stable Value Fund

#### Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential (Weighted Avg.)	0.17%
MetLife	0.20%
United of Omaha	<u>0.25%</u>
<b>Weighted Average Wrap Fee</b>	<b>0.17%</b>

#### Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.23%</u>
<b>Weighted Average Management Fee</b>	<b>0.08%</b>

<b>Galliard Oversight &amp; Management</b>	<b>0.07%</b>
<b>Total Management &amp; Wrap</b>	<b>0.26%</b>
<b>Admin Fee</b>	<b>0.12%</b>
<b>Total Fees</b>	<b>0.45%</b>

\*Excludes wrap, admin and subadvisory fees on the Wells Fargo Stable Return Fund that are netted from the yield.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

## Annualized Investment Performance\*

*Periods Ending December 31, 2012*

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
<b>Portfolio (net of all fees)</b>	0.22	0.69	2.75	3.31	---	---	3.04
<b>3 Year Constant Maturity Treasury Yield</b>	0.03	0.09	0.38	0.74	1.17	2.36	0.58
<b>91 Day T-bill + 150 bps</b>	0.14	0.42	1.62	1.62	2.04	3.32	1.62

## Calendar Year Performance

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Portfolio (net of all fees)</b>	2.75	3.27	3.90	---	---
<b>3 Year Constant Maturity Treasury Yield</b>	0.38	0.75	1.10	1.43	2.19
<b>91 Day T-bill + 150 bps</b>	1.62	1.61	1.64	1.72	3.60

### *Market Indices*

<b>Merrill Lynch 3 Month T-Bill</b>	0.11	0.10	0.13	0.21	2.06
<b>Consumer Price Index</b>	2.26	2.96	1.50	2.72	0.09

\*Returns for periods of less than one year are not annualized.

\*\*Galliard's management of this portfolio began December 1, 2010. Periods that exceed Galliard's tenure with the portfolio include Galliard performance linked with historical portfolio returns.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

## Portfolio Characteristics

<b>Total Assets</b>	\$1,829,120,204	<b>Blended Yield (Before fees)*</b>	2.92%
<b>Average Holdings Quality**</b>	A1/AA-	<b>Effective Duration</b>	2.61 years
<b>Number of Contract Issuers</b>	4	<b>Market/Book Value Ratio</b>	104.56%

\*Blended yield is before investment management fees and after wrap fees.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the contracts and cash held by the portfolio as rated by S&P and Moody's.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>12/31/2012</u>	<u>% of Portfolio</u> <u>09/30/2012</u>
<b>Money Market*</b>	<b>118,378,399</b>	<b>6.5</b>	<b>5.2</b>
<b>Stable Value Funds</b>	<b>120,340,807</b>	<b>6.6</b>	<b>6.7</b>
<b>Insurance Separate Accounts</b>	<b>673,805,923</b>	<b>36.8</b>	<b>37.3</b>
Intermediate Portfolio	673,805,923	36.8	37.3
<b>Security Backed Contracts</b>	<b>916,595,075</b>	<b>50.1</b>	<b>50.8</b>
Short Portfolio	485,568,726	26.5	27.0
Intermediate Portfolio	431,026,349	23.6	23.9
<b>Total</b>	<b>\$1,829,120,204</b>	<b>100.0%**</b>	<b>100.0%**</b>

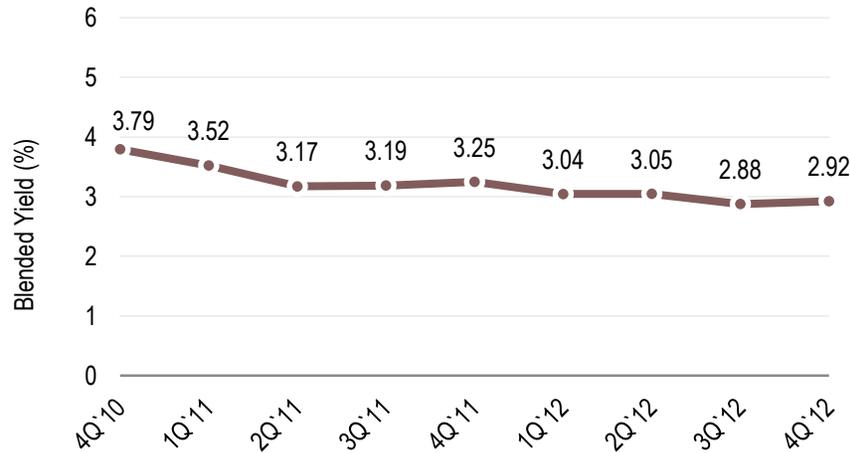
\*Includes Receivables and Payables

\*\*Total % of portfolio may not add to 100% due to rounding

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

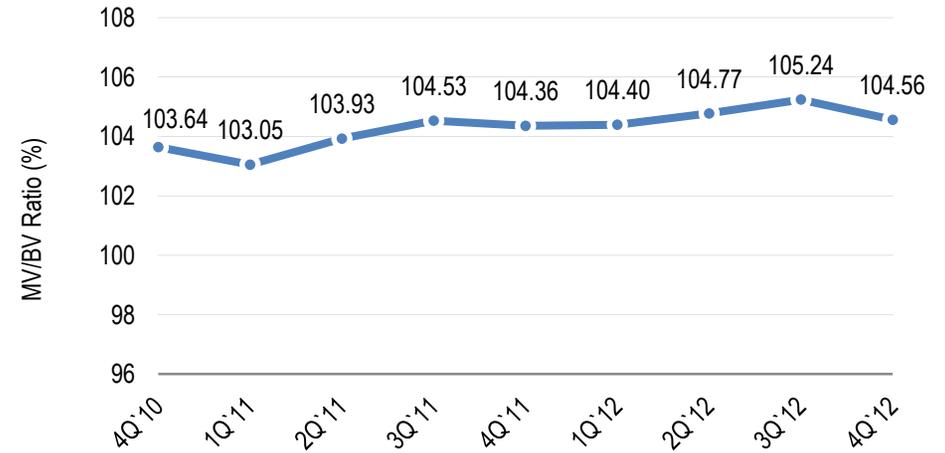
Fourth Quarter 2012

## Historical Blended Yields\*

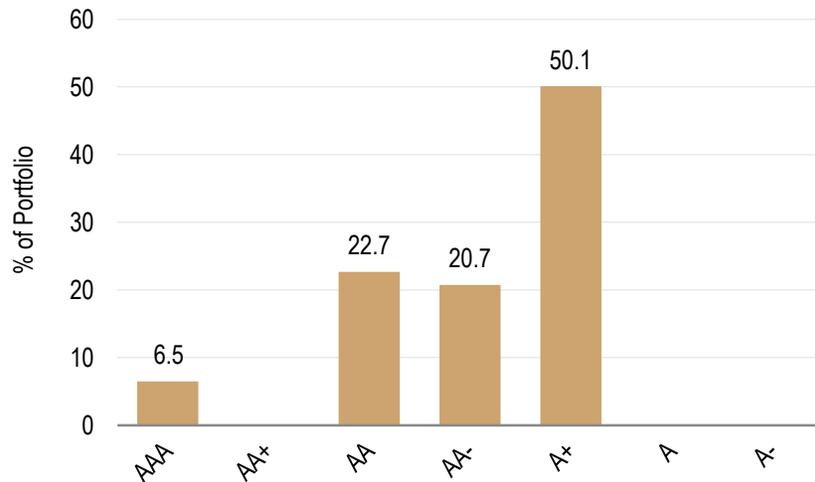


\*As of quarter end. Blended yield is before investment management fees and after wrap fees.

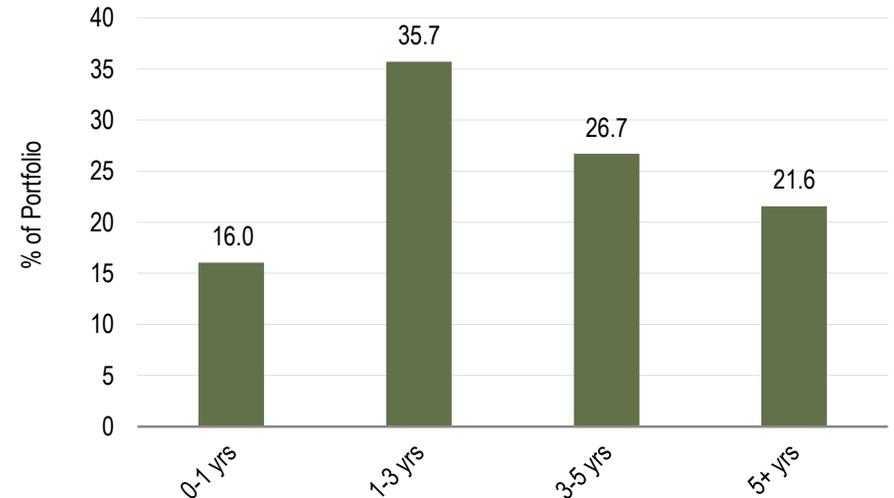
## Market Value to Book Value Ratio\*



## Contract Quality Distribution\*



## Underlying Duration Distribution\*\*



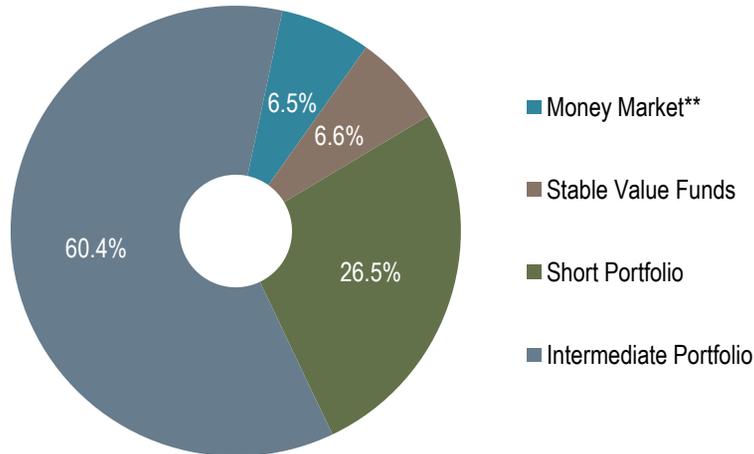
\*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

\*\*Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

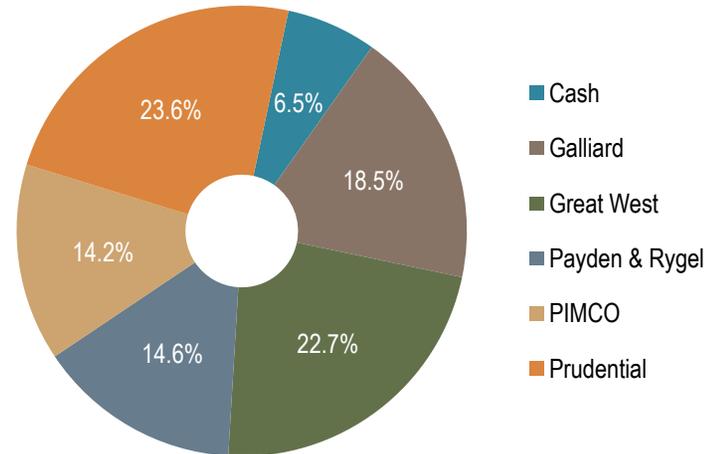
## Portfolio Distribution\*



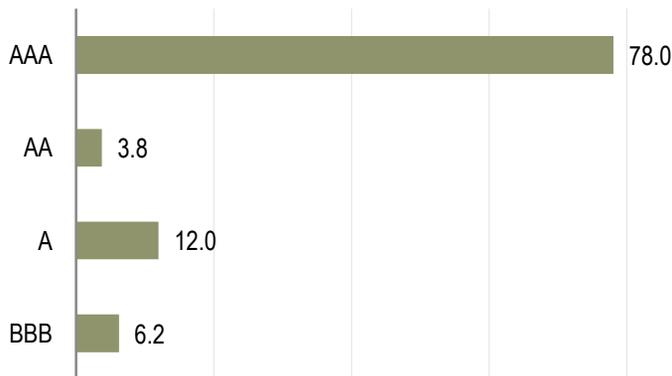
\*Book value

\*\*Includes Receivables and Payables

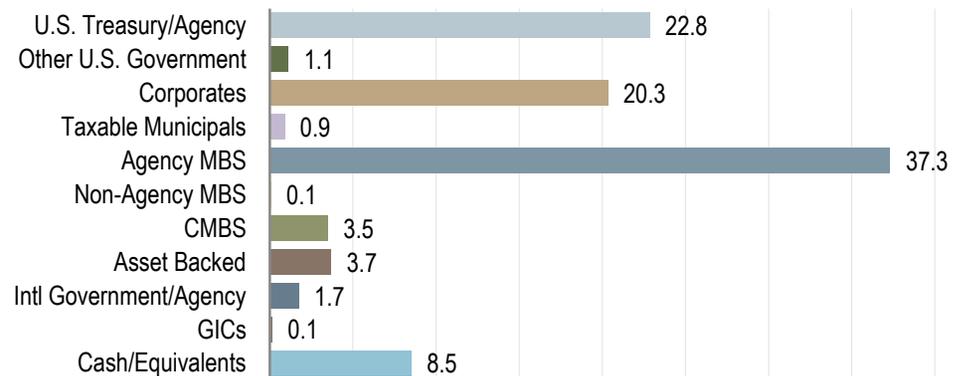
## Manager Distribution\*



## Underlying Fixed Income Credit Quality\*



## Underlying Fixed Income Asset Allocation\*\*



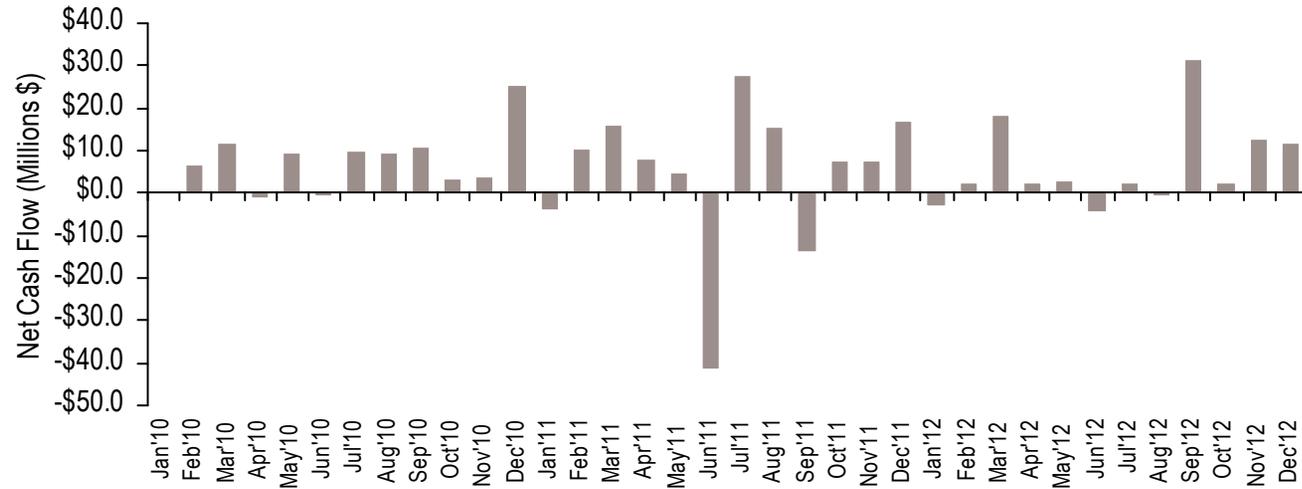
\*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

\*\*Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

## Historical Cashflows



	2012	2011	2010	2009***
<b>Beginning Assets</b>	\$1,702.4	\$1,594.4	\$1,446.1	\$1,384.6
<b>Net Cash Flow (\$)*</b>	\$79.1	\$55.5	\$90.1	\$32.7
<b>Net Cash Flow (%)</b>	4.65%	3.48%	6.23%	2.36%
<b>Estimated Investment Earnings</b>	\$47.6	\$52.5	\$58.1	\$28.9
<b>Ending Assets**</b>	\$1,829.1	\$1,702.4	\$1,594.4	\$1,446.1

\* Contributions, Withdrawals and Investment Transfers

\*\*Cashflows may not net to final assets due to rounding

\*\*\*Beginning July 1, 2009

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>12/31/2012</u>	<u>9/30/2012</u>	<u>12/31/2012</u>	<u>9/30/2012</u>
GreatWest Life Insurance Co.	AA	AA	Aa3	Aa3
Metropolitan Life Ins. Co.	AA-	AA-	Aa3	Aa3
Prudential Ins. Co. of America	AA-	AA-	A2	A2
United of Omaha Life Ins. Co.	A+	A+	A1	A1

### GreatWest Life Insurance Co.

- Aggressive dividend taking by the parent combined with General Account growth results in low capital levels and ratios
- Strong positions in niche markets
- Investment results continue to improve, having moved from below average to slightly above average

### Metropolitan Life Ins. Co.

- Continued oversight by the Fed due to bank holding company structure has resulted in strong capital levels at the parent, for now
- Capital levels at this subsidiary remain below average
- Largest U.S. life insurer by invested assets

### Prudential Ins. Co. of America

- Recent large dividend to parent put some pressure on capital levels
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds
- A leading diversified U.S. life insurer

### United of Omaha Life Ins. Co.

- Medicare Part N business continues to generate losses, which are being offset with a capital infusion and a planned reinsurance transaction
- Stable life product lines focusing on individual/group life & annuities
- Above average exposure to commercial and residential mortgage sectors

## State of North Carolina Stable Value Funds

### Market Value 401(k) Plan Performance Summary

#### *Short Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Payden &amp; Rygel</b>	<b>0.30%</b>	<b>2.88%</b>	<b>2.64%</b>		<b>3.14%</b>	<b>7/1/2009</b>
Barclays Capital 1-3 Yr. Govt/Credit	<u>0.15%</u>	<u>1.26%</u>	<u>1.88%</u>		<u>2.13%</u>	
	0.15%	1.62%	0.76%		1.01%	
<b>Galliard</b>	<b>0.23%</b>	<b>2.68%</b>	<b>3.16%</b>		<b>3.16%</b>	<b>1/1/2010</b>
Barclays Capital 1-3 Yr. Government *	0.07%	0.51%	1.49%		1.49%	
Barclays Capital 1-3 Yr. Gov't/Credit	<u>0.15%</u>	<u>1.26%</u>	<u>1.88%</u>		<u>1.88%</u>	
	0.16%	2.17%	1.67%		1.67%	

#### *Intermediate Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Prudential Investment Management</b>	<b>0.15%</b>	<b>3.85%</b>			<b>4.24%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Aggregate	<u>0.18%</u>	<u>3.56%</u>			<u>4.03%</u>	
	-0.03%	0.29%			0.21%	
<b>PIMCO</b>	<b>0.29%</b>	<b>5.22%</b>			<b>5.88%</b>	<b>2/1/2011</b>
Barclays Capital Intermediate Aggregate	<u>0.18%</u>	<u>3.56%</u>			<u>4.80%</u>	
	0.11%	1.66%			1.08%	
<b>Great West Life</b>	<b>0.03%</b>	<b>4.06%</b>	<b>5.16%</b>		<b>5.80%</b>	<b>7/1/2009</b>
Barclays Capital Intermediate Aggregate (Ex BBB)	0.07%	3.04%	4.93%		5.19%	
Barclays Capital Int. Govt/Credit	<u>0.35%</u>	<u>3.89%</u>	<u>5.19%</u>		<u>5.48%</u>	
	-0.04%	1.02%	0.23%		0.61%	

\* Index being shown for comparison purposes only, the fund is managed to a targeted duration.  
Returns shown are before investment management fees

# North Carolina 401(k) Stable Value Fund Portfolio Review

## Portfolio Holdings

December 31, 2012

CUSIP	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
<b>Money Market</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-1,016,888	-1,016,888	100.0	-0.1	0.01		0.10	AAA	Aaa	
VP45600\$1	WF Adv Government Money Market		119,395,287	119,395,287	100.0	6.5	0.01		0.10	AAA	Aaa	
<b>Total Money Market</b>			<b>118,378,399</b>	<b>118,378,399</b>	<b>100.0</b>	<b>6.5</b>	<b>0.01</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>Stable Value Funds</b>												
949907109	Wells Fargo Stable Return Fund G		120,340,807	120,340,807	100.0	6.6	1.92		1.90	AA	Aa3	
<b>Total Stable Value Funds</b>			<b>120,340,807</b>	<b>120,340,807</b>	<b>100.0</b>	<b>6.6</b>	<b>1.92</b>		<b>1.90</b>	<b>AA</b>	<b>Aa3</b>	
<b>Insurance Separate Accounts</b>												
<b>Intermediate Portfolio</b>												
391997NH2	GreatWest Life Insurance Co.	Great West	414,642,484	438,478,908	105.7	22.7	4.07	N.S.M.	3.24	AA	Aa3	15.0
590994VM8	Metropolitan Life Ins. Co.	PIMCO	259,163,439	276,997,619	106.9	14.2	3.50	N.S.M.	3.46	AA-	Aa3	20.0
<b>Total Intermediate Portfolio</b>			<b>673,805,923</b>	<b>715,476,527</b>	<b>106.2</b>	<b>36.8</b>	<b>3.85</b>		<b>3.32</b>	<b>AA</b>	<b>Aa3</b>	
<b>Total Insurance Separate Accounts</b>			<b>673,805,923</b>	<b>715,476,527</b>	<b>106.2</b>	<b>36.8</b>	<b>3.85</b>		<b>3.32</b>	<b>AA</b>	<b>Aa3</b>	
<b>Security Backed Contracts</b>												
<b>Short Portfolio</b>												
744999CK7	Prudential Ins. Co. of America	Payden & Rygel	267,858,762	273,092,915	102.0	14.6	1.84	N.S.M.	1.82	AA-	A2	21.0
907999UZ7	United of Omaha Life Ins. Co.	Galliard	217,709,964	223,315,046	102.6	11.9	2.36	N.S.M.	1.76	A+	A1	25.0
<b>Total Short Portfolio</b>			<b>485,568,726</b>	<b>496,407,961</b>	<b>102.2</b>	<b>26.5</b>	<b>2.07</b>		<b>1.79</b>	<b>AA-</b>	<b>A2</b>	
<b>Intermediate Portfolio</b>												
744999CV3	Prudential Ins. Co. of America	Prudential	431,026,349	461,928,808	107.2	23.6	3.51	N.S.M.	3.31	AA-	A2	15.0
<b>Total Intermediate Portfolio</b>			<b>431,026,349</b>	<b>461,928,808</b>	<b>107.2</b>	<b>23.6</b>	<b>3.51</b>		<b>3.31</b>	<b>AA-</b>	<b>A2</b>	
<b>Total Security Backed Contracts</b>			<b>916,595,075</b>	<b>958,336,769</b>	<b>104.6</b>	<b>50.1</b>	<b>2.75</b>		<b>2.51</b>	<b>AA-</b>	<b>A2</b>	
<b>Total Fund</b>			<b>1,829,120,204</b>	<b>1,912,532,501</b>	<b>104.6</b>	<b>100.0</b>	<b>2.92</b>		<b>2.61</b>	<b>AA-</b>	<b>A1</b>	

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.30	2.88	2.64	--	3.14
<b>Benchmark***</b>	0.15	1.26	1.88	2.88	2.13

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: July 01, 2009

\*\*\*Barclays Capital 1-3 Year Government/Credit Index

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA-	AA+	<b>Total Assets</b>	\$273.1 million
<b>Weighted Average Maturity</b>	2.31 years	1.95 years	<b>Number of Issues</b>	182
<b>Yield to Maturity</b>	0.82%	0.45%	<b>Weighted Coupon</b>	0.02%
<b>Effective Duration</b>	1.82 years	1.88 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	30.5%	<b>29.1%</b>	76.0%
Other U.S. Government	2.2%	<b>0.9%</b>	0.0%
Taxable Municipal	1.4%	<b>1.4%</b>	0.8%
Corporates	41.2%	<b>41.4%</b>	17.8%
Asset Backed Securities (ABS)	4.0%	<b>6.1%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	12.4%	<b>13.0%</b>	0.0%
Sovereign / Supranationals	7.0%	<b>7.9%</b>	5.4%
Cash / Equivalents	1.4%	<b>0.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	56.1%	<b>55.5%</b>	77.3%
AA	4.5%	<b>4.1%</b>	6.8%
A	21.8%	<b>21.1%</b>	9.5%
BBB	17.6%	<b>19.3%</b>	6.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*Column percentage may not add exactly due to rounding

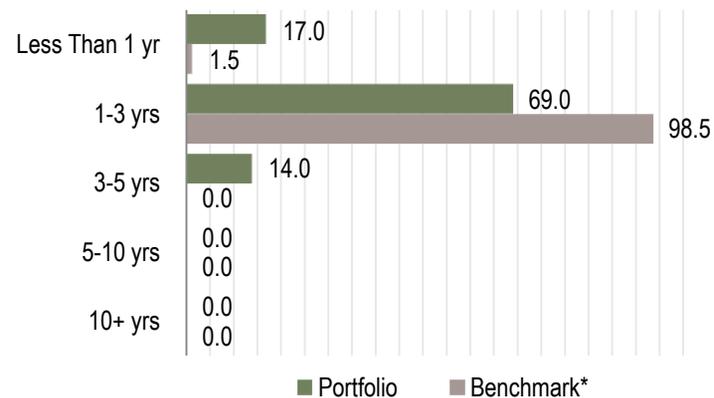
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2012

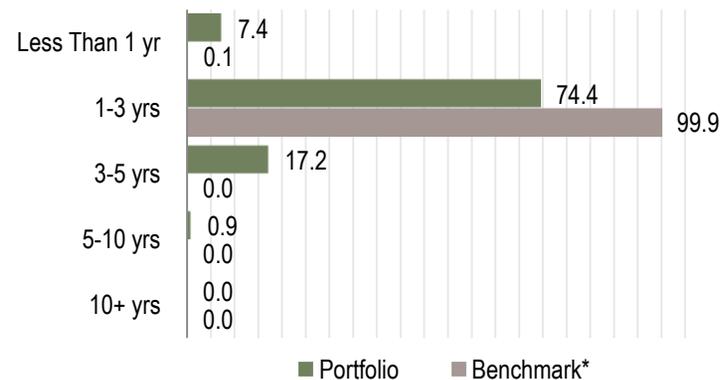
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	25.5%	17.0%	1.5%
1-3 yrs	65.0%	69.0%	98.5%
3-5 yrs	9.6%	14.0%	0.0%
5-10 yrs	0.0%	0.0%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	16.6%	7.4%	0.1%
1-3 yrs	68.0%	74.4%	99.9%
3-5 yrs	15.4%	17.2%	0.0%
5-10 yrs	0.0%	0.9%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.04	0.23	2.68	3.16	--	3.16
<b>Benchmark***</b>	0.03	0.07	0.51	1.49	2.49	1.49

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Galliard Performance Inception: January 01, 2010

\*\*\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA+	AAA	<b>Total Assets</b>	\$2,524.8 million
<b>Weighted Average Maturity</b>	2.38 years	1.94 years	<b>Number of Issues</b>	573
<b>Yield to Maturity</b>	0.82%	0.28%	<b>Weighted Coupon</b>	2.42%
<b>Effective Duration</b>	1.76 years	1.87 years	<b>Estimated Annual Income</b>	\$58.3 million

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	12.5%	<b>13.4%</b>	100.0%
Other U.S. Government	5.0%	<b>5.5%</b>	0.0%
Taxable Municipal	1.8%	<b>2.3%</b>	0.0%
Corporates	14.5%	<b>14.6%</b>	0.0%
Asset Backed Securities (ABS)	16.7%	<b>17.1%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	6.9%	<b>6.7%</b>	0.0%
Mortgage Backed Securities (MBS)	38.8%	<b>36.2%</b>	0.0%
Sovereign / Supranationals	1.4%	<b>1.0%</b>	0.0%
Cash / Equivalents	2.2%	<b>3.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Top 5 Credit Exposure

	<i>% of Portfolio</i> <i>12/31/2012</i>
General Electric Co	0.6%
Bank of Nova Scotia	0.4%
MidAmerican Energy Co	0.4%
JPMorgan Chase & Co	0.4%
HSBC Holdings PLC	0.4%
<b>Total</b>	<b>2.2%**</b>

Total entity exposure – includes all related entities

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	86.5%	<b>85.0%</b>	96.2%
AA	5.1%	<b>6.6%</b>	3.8%
A	8.4%	<b>8.4%</b>	0.0%
BBB	0.0%	<b>0.0%</b>	0.0%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

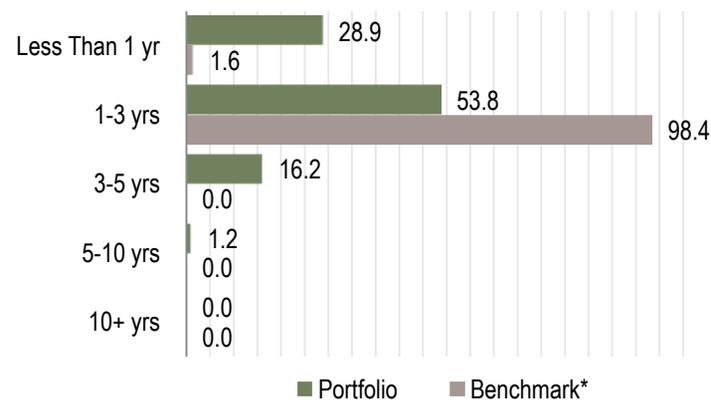
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

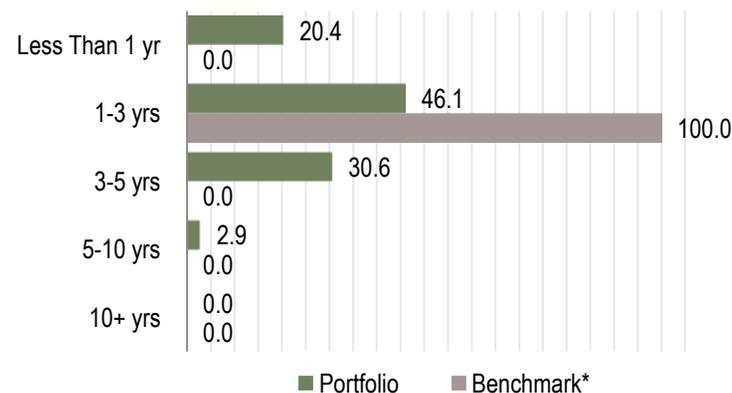
## Duration Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
0-1 yrs	39.2%	<b>28.9%</b>	1.6%
1-3 yrs	44.6%	<b>53.8%</b>	98.4%
3-5 yrs	14.7%	<b>16.2%</b>	0.0%
5-10 yrs	1.5%	<b>1.2%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
0-1 yrs	19.3%	<b>20.4%</b>	0.0%
1-3 yrs	52.5%	<b>46.1%</b>	100.0%
3-5 yrs	25.0%	<b>30.6%</b>	0.0%
5-10 yrs	3.2%	<b>2.9%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.15	3.85	--	--	4.24
<b>Benchmark***</b>	0.18	3.56	5.22	5.39	4.03

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays Capital Intermediate Aggregate

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$2,111.9 million
<b>Weighted Average Maturity</b>	3.86 years	4.42 years	<b>Number of Issues</b>	1023
<b>Yield to Maturity</b>	1.18%	1.46%	<b>Weighted Coupon</b>	3.38%
<b>Effective Duration</b>	3.31 years	3.63 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	39.0%	<b>40.7%</b>	41.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	0.3%	<b>0.3%</b>	0.6%
Corporates	21.9%	<b>21.7%</b>	17.6%
Asset Backed Securities (ABS)	0.2%	<b>0.3%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	3.9%	<b>4.7%</b>	2.1%
Mortgage Backed Securities (MBS)	33.6%	<b>31.3%</b>	34.1%
Sovereign / Supranationals	0.6%	<b>0.6%</b>	3.8%
Cash / Equivalents	0.5%	<b>0.4%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	75.9%	<b>76.5%</b>	77.9%
AA	3.0%	<b>3.1%</b>	4.6%
A	12.8%	<b>11.5%</b>	9.1%
BBB	8.2%	<b>8.9%</b>	8.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

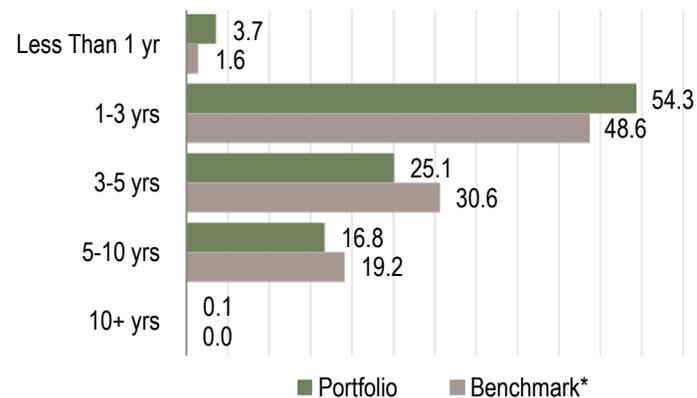
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

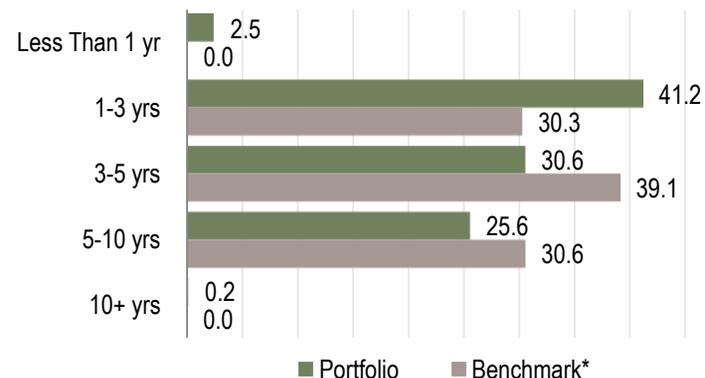
## Duration Distribution

	<i>% of Portfolio</i> 09/30/2012	<i>% of Portfolio</i> 12/31/2012	<i>% of Benchmark*</i> 12/31/2012
0-1 yrs	13.8%	3.7%	1.6%
1-3 yrs	46.6%	54.3%	48.6%
3-5 yrs	23.0%	25.1%	30.6%
5-10 yrs	16.6%	16.8%	19.2%
10+ yrs	0.0%	0.1%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio</i> 09/30/2012	<i>% of Portfolio</i> 12/31/2012	<i>% of Benchmark*</i> 12/31/2012
0-1 yrs	2.1%	2.5%	0.0%
1-3 yrs	53.5%	41.2%	30.3%
3-5 yrs	20.2%	30.6%	39.1%
5-10 yrs	23.9%	25.6%	30.6%
10+ yrs	0.2%	0.2%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.29	5.22	--	--	5.88
<b>Benchmark***</b>	0.18	3.56	5.22	5.39	4.80

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: February 01, 2011

\*\*\*Barclays Capital Intermediate Aggregate

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$1,010.3 million
<b>Weighted Average Maturity</b>	4.40 years	4.42 years	<b>Number of Issues</b>	249
<b>Yield to Maturity</b>	1.61%	1.46%	<b>Weighted Coupon</b>	3.19%
<b>Effective Duration</b>	3.46 years	3.63 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	64.7%	<b>41.3%</b>	41.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	1.5%	<b>1.5%</b>	0.6%
Corporates	17.7%	<b>16.4%</b>	17.6%
Asset Backed Securities (ABS)	0.0%	<b>0.0%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	2.1%
Mortgage Backed Securities (MBS)	44.8%	<b>41.6%</b>	34.1%
Sovereign / Supranationals	2.1%	<b>2.0%</b>	3.8%
Cash / Equivalents	-30.8%	<b>-2.8%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	81.2%	<b>80.1%</b>	77.9%
AA	3.5%	<b>2.6%</b>	4.6%
A	11.4%	<b>13.3%</b>	9.1%
BBB	3.9%	<b>4.1%</b>	8.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

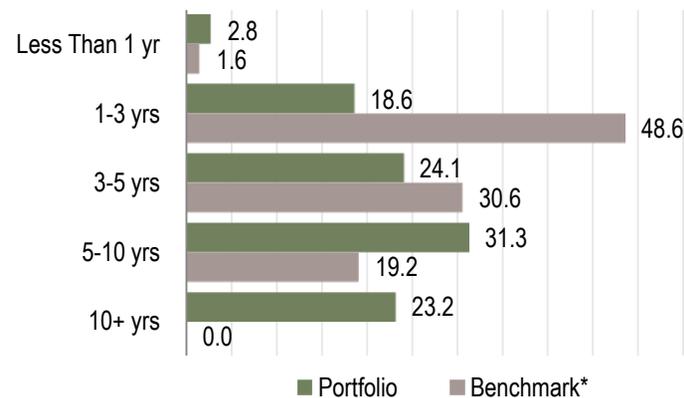
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

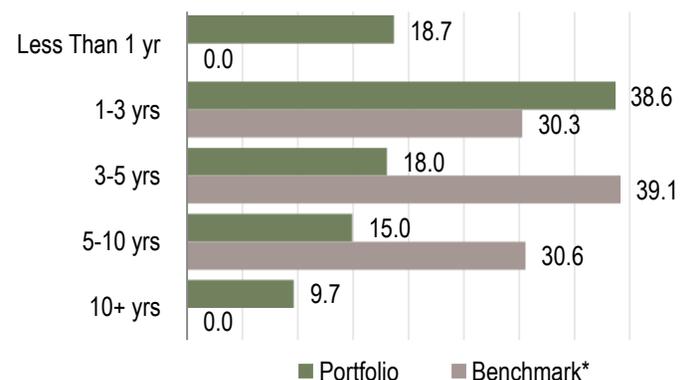
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	8.8%	<b>2.8%</b>	1.6%
1-3 yrs	19.8%	<b>18.6%</b>	48.6%
3-5 yrs	18.2%	<b>24.1%</b>	30.6%
5-10 yrs	35.2%	<b>31.3%</b>	19.2%
10+ yrs	18.0%	<b>23.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	17.6%	<b>18.7%</b>	0.0%
1-3 yrs	42.3%	<b>38.6%</b>	30.3%
3-5 yrs	12.9%	<b>18.0%</b>	39.1%
5-10 yrs	24.4%	<b>15.0%</b>	30.6%
10+ yrs	2.9%	<b>9.7%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.03	4.06	5.16	--	5.80
<b>Benchmark***</b>	0.07	3.04	4.93	5.15	5.19
<b>Benchmark****</b>	0.35	3.89	5.19	5.18	5.48

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: July 01, 2009

\*\*\*BarCap Intern Agg Ex Baa

\*\*\*\*Barclays Capital Int Govt/Credit

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AAA	AAA	<b>Total Assets</b>	\$438.5 million
<b>Weighted Average Maturity</b>	4.35 years	4.27 years	<b>Number of Issues</b>	531
<b>Yield to Maturity</b>	2.01%	1.35%	<b>Weighted Coupon</b>	4.31%
<b>Effective Duration</b>	3.24 years	3.42 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Intern Agg Ex Baa

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	2.1%	<b>2.2%</b>	45.2%
Other U.S. Government	0.5%	<b>0.5%</b>	0.0%
Taxable Municipal	0.0%	<b>0.0%</b>	0.6%
Corporates	18.2%	<b>17.9%</b>	11.3%
Asset Backed Securities (ABS)	1.8%	<b>1.9%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	5.7%	<b>5.7%</b>	2.0%
Mortgage Backed Securities (MBS)	72.8%	<b>71.0%</b>	37.2%
Sovereign / Supranationals	0.0%	<b>0.0%</b>	3.2%
Cash / Equivalents	-1.1%	<b>0.8%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	81.7%	<b>81.8%</b>	85.1%
AA	3.8%	<b>4.3%</b>	5.1%
A	13.2%	<b>12.0%</b>	9.9%
BBB	1.3%	<b>1.9%</b>	0.0%
< BBB	0.1%	<b>0.1%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Interm Agg Ex Baa

\*\*Column percentage may not add exactly due to rounding

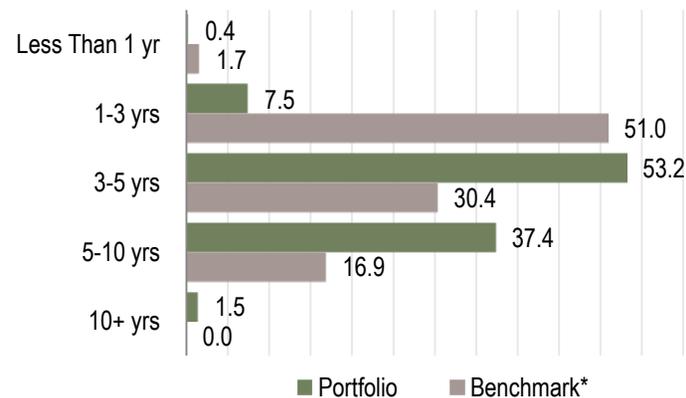
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2012

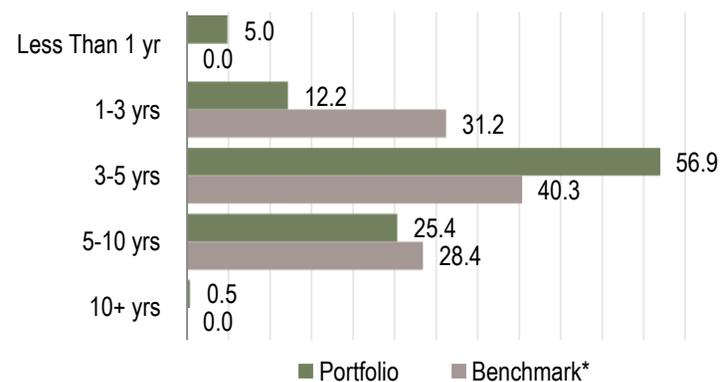
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	0.4%	<b>0.4%</b>	1.7%
1-3 yrs	14.0%	<b>7.5%</b>	51.0%
3-5 yrs	57.0%	<b>53.2%</b>	30.4%
5-10 yrs	28.1%	<b>37.4%</b>	16.9%
10+ yrs	0.4%	<b>1.5%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	3.5%	<b>5.0%</b>	0.0%
1-3 yrs	20.5%	<b>12.2%</b>	31.2%
3-5 yrs	58.8%	<b>56.9%</b>	40.3%
5-10 yrs	17.0%	<b>25.4%</b>	28.4%
10+ yrs	0.1%	<b>0.5%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Intern Agg Ex Baa

\*\*Column percentage may not add exactly due to rounding

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# Stable Value Portfolio Review – North Carolina 457 Stable Value Fund

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
Portfolio (net of all fees)	0.22	0.69	2.77	3.31	---	---	3.07
3 Year Constant Maturity Treasury Yield	0.03	0.09	0.38	0.74	1.17	2.36	0.58
91 Day T-bill + 150 bps	0.14	0.42	1.62	1.62	2.04	3.32	1.62

## Calendar Year Performance

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Portfolio (net of all fees)	2.77	3.30	3.87	---	---
3 Year Constant Maturity Treasury Yield	0.38	0.75	1.10	1.43	2.19
91 Day T-bill + 150 bps	1.62	1.61	1.64	1.72	3.60

### Market Indices

Merrill Lynch 3 Month T-Bill	0.11	0.10	0.13	0.21	2.06
Consumer Price Index	2.26	2.96	1.50	2.72	0.09

\*Returns for periods of less than one year are not annualized.

\*\*Galliard's management of this portfolio began December 1, 2010. Periods that exceed Galliard's tenure with the portfolio include Galliard performance linked with historical portfolio returns.

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2012

## Portfolio Characteristics

<b>Total Assets</b>	\$384,134,971	<b>Blended Yield (Before fees)*</b>	2.93%
<b>Average Holdings Quality**</b>	A1/AA-	<b>Effective Duration</b>	2.66 years
<b>Number of Contract Issuers</b>	4	<b>Market/Book Value Ratio</b>	104.45%

\*Blended yield is before investment management fees and after wrap fees.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the contracts and cash held by the portfolio as rated by S&P and Moody's.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>12/31/2012</u>	<u>% of Portfolio</u> <u>09/30/2012</u>
<b>Money Market*</b>	<b>16,083,173</b>	<b>4.2</b>	<b>3.9</b>
<b>Stable Value Funds</b>	<b>24,938,641</b>	<b>6.5</b>	<b>6.5</b>
<b>Insurance Separate Accounts</b>	<b>144,802,501</b>	<b>37.7</b>	<b>37.8</b>
Intermediate Portfolio	144,802,501	37.7	37.8
<b>Security Backed Contracts</b>	<b>198,310,656</b>	<b>51.6</b>	<b>51.8</b>
Short Portfolio	104,400,836	27.2	27.3
Intermediate Portfolio	93,909,819	24.4	24.5
<b>Total</b>	<b>\$384,134,971</b>	<b>100.0%**</b>	<b>100.0%**</b>

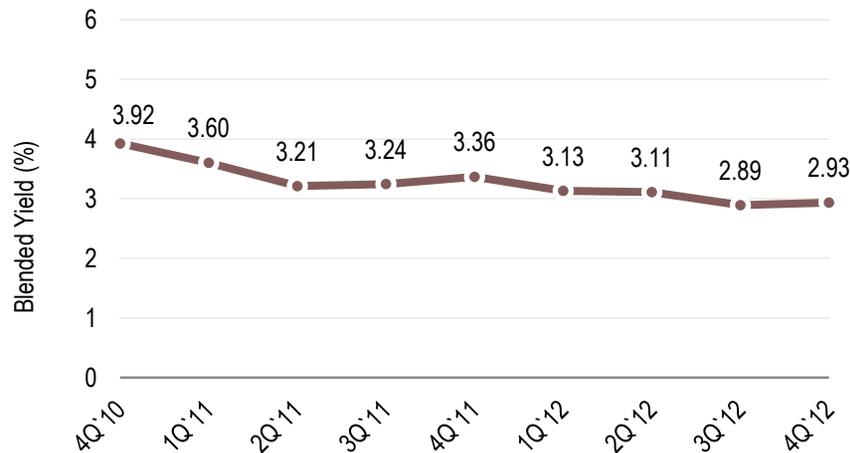
\*Includes Receivables and Payables

\*\*Total % of portfolio may not add to 100% due to rounding

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

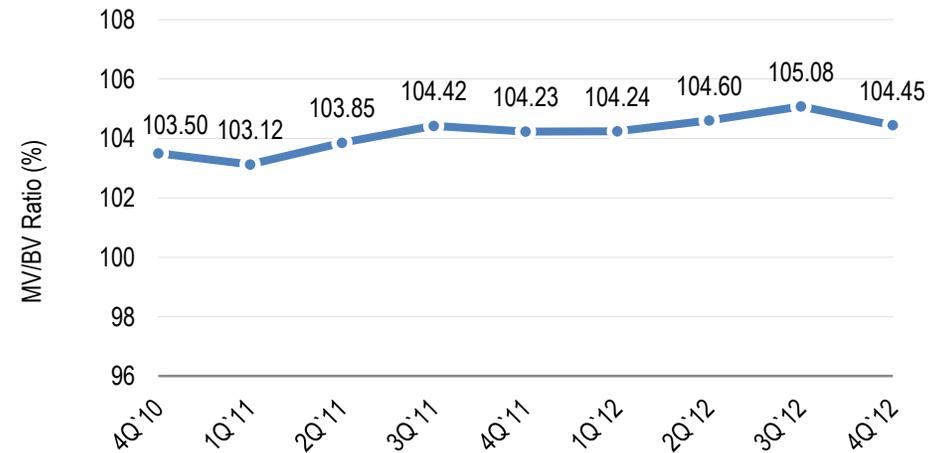
Fourth Quarter 2012

## Historical Blended Yields\*

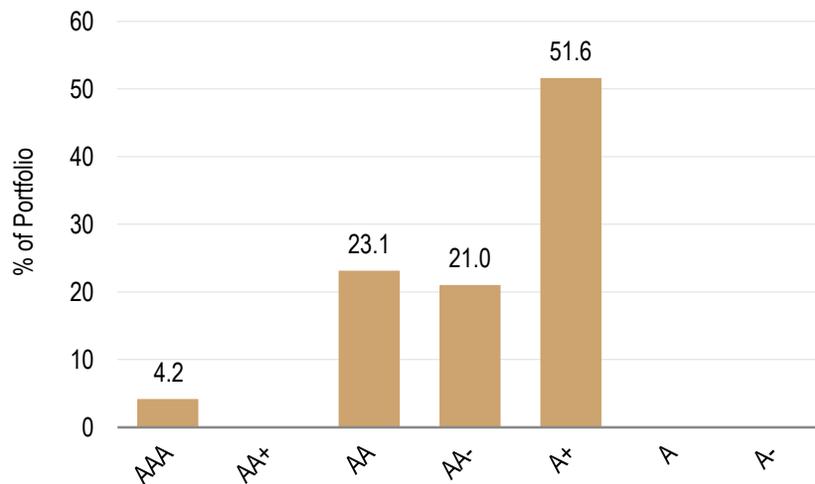


\*As of quarter end. Blended yield is before investment management fees and after wrap fees.

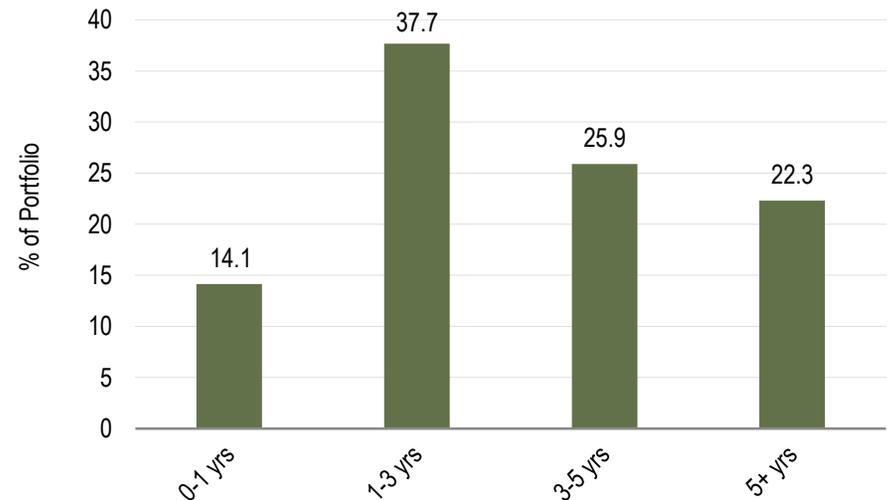
## Market Value to Book Value Ratio\*



## Contract Quality Distribution\*



## Underlying Duration Distribution\*\*



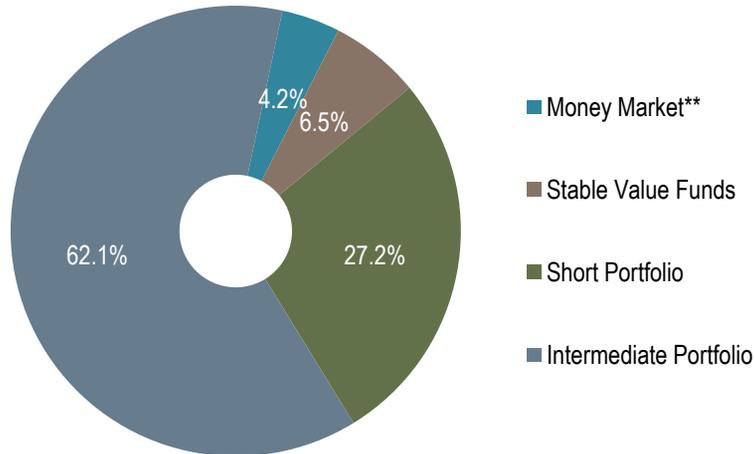
\*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

\*\*Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2012

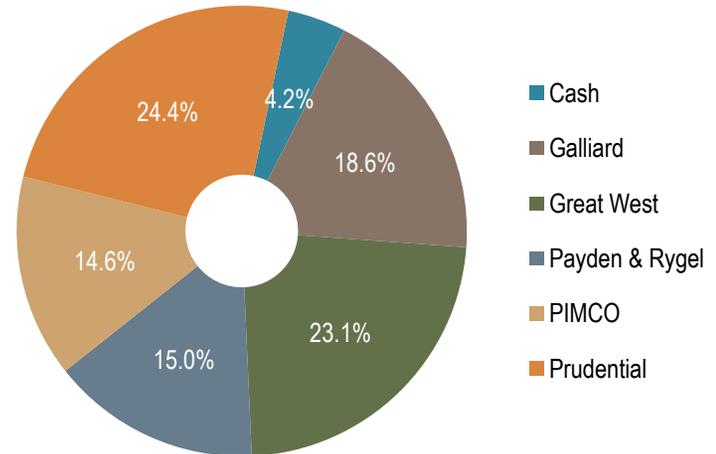
## Portfolio Distribution\*



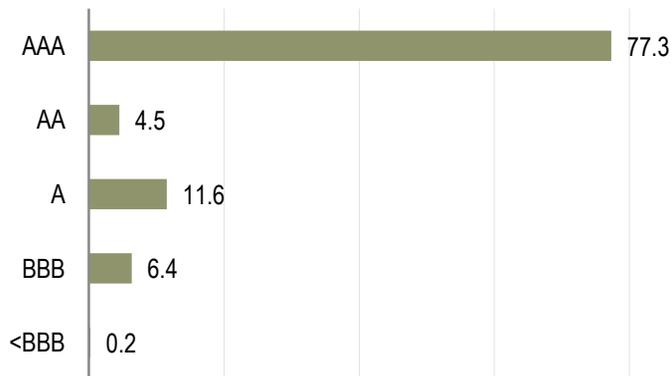
\*Book value

\*\*Includes Receivables and Payables

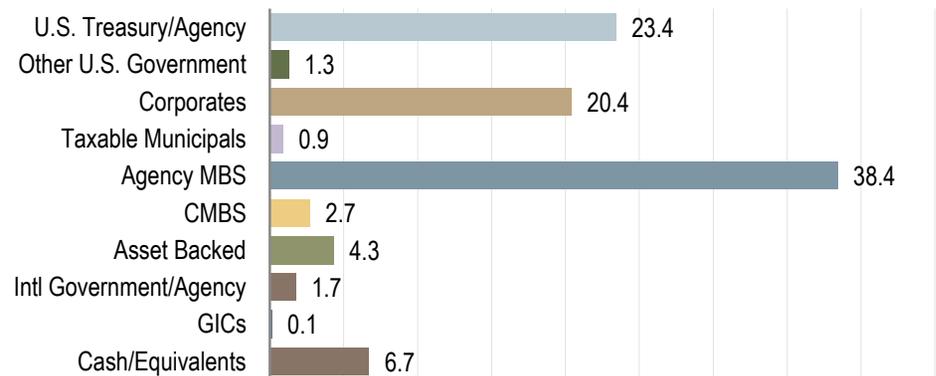
## Manager Distribution\*



## Underlying Fixed Income Credit Quality\*



## Underlying Fixed Income Asset Allocation\*\*



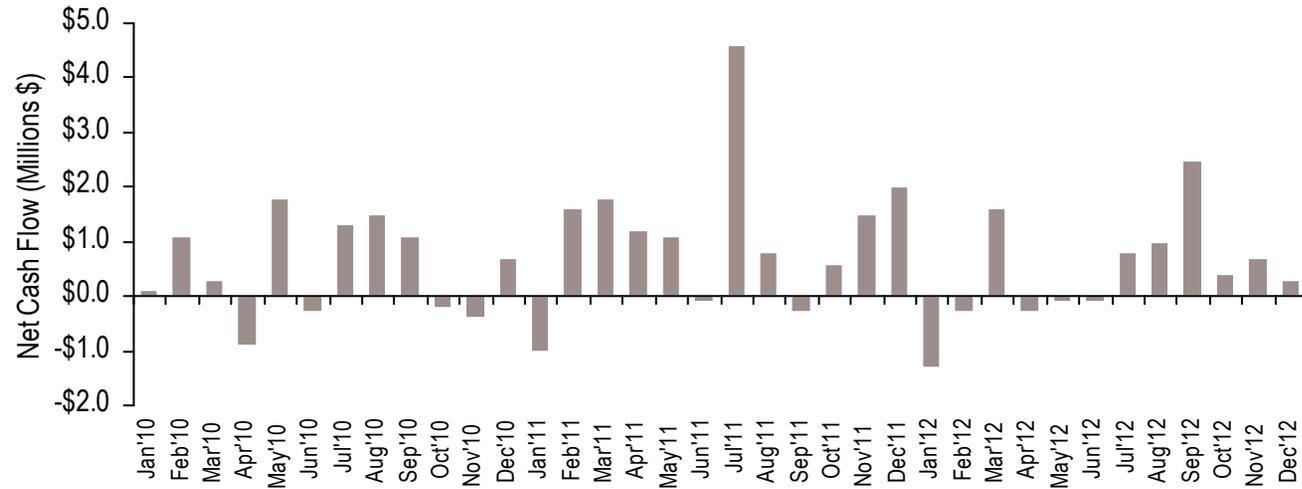
\*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

\*\*Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2012

## Historical Cashflows



	2012	2011	2010	2009***
<b>Beginning Assets</b>	\$368.8	\$343.5	\$324.7	\$319.1
<b>Net Cash Flow (\$)*</b>	\$5.1	\$13.8	\$6.0	-\$1.0
<b>Net Cash Flow (%)</b>	1.38%	4.02%	1.85%	-0.31%
<b>Estimated Investment Earnings</b>	\$10.3	\$11.4	\$12.8	\$6.6
<b>Ending Assets**</b>	\$384.1	\$368.8	\$343.5	\$324.7

\* Contributions, Withdrawals and Investment Transfers

\*\*Cashflows may not net to final assets due to rounding

\*\*\*Beginning July 1, 2009

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2012

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>12/31/2012</u>	<u>9/30/2012</u>	<u>12/31/2012</u>	<u>9/30/2012</u>
GreatWest Life Insurance Co.	AA	AA	Aa3	Aa3
Metropolitan Life Ins. Co.	AA-	AA-	Aa3	Aa3
Prudential Ins. Co. of America	AA-	AA-	A2	A2
United of Omaha Life Ins. Co.	A+	A+	A1	A1

### GreatWest Life Insurance Co.

- Aggressive dividend taking by the parent combined with General Account growth results in low capital levels and ratios
- Strong positions in niche markets
- Investment results continue to improve, having moved from below average to slightly above average

### Metropolitan Life Ins. Co.

- Continued oversight by the Fed due to bank holding company structure has resulted in strong capital levels at the parent, for now
- Capital levels at this subsidiary remain below average
- Largest U.S. life insurer by invested assets

### Prudential Ins. Co. of America

- Recent large dividend to parent put some pressure on capital levels
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds
- A leading diversified U.S. life insurer

### United of Omaha Life Ins. Co.

- Medicare Part N business continues to generate losses, which are being offset with a capital infusion and a planned reinsurance transaction
- Stable life product lines focusing on individual/group life & annuities
- Above average exposure to commercial and residential mortgage sectors

## State of North Carolina Stable Value Funds

### Market Value 457 Plan Performance Summary

#### *Short Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Payden &amp; Rygel</b>	<b>0.29%</b>	<b>2.83%</b>	<b>2.61%</b>		<b>2.71%</b>	<b>8/1/2009</b>
Barclays Capital 1-3 Yr. Govt/Credit	<u>0.15%</u>	<u>1.26%</u>	<u>1.88%</u>		<u>2.04%</u>	
	0.14%	1.57%	0.73%		0.67%	
<b>Galliard</b>	<b>0.23%</b>	<b>2.68%</b>	<b>3.16%</b>		<b>3.16%</b>	<b>1/1/2010</b>
Barclays Capital 1-3 Yr. Government *	0.07%	0.51%	1.49%		1.49%	
Barclays Capital 1-3 Yr. Gov't/Credit	<u>0.15%</u>	<u>1.26%</u>	<u>1.88%</u>		<u>1.88%</u>	
	0.16%	2.17%	1.67%		1.67%	

#### *Intermediate Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Prudential Investment Management</b>	<b>0.15%</b>	<b>3.85%</b>			<b>4.24%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Aggregate	<u>0.18%</u>	<u>3.56%</u>			<u>4.03%</u>	
	-0.03%	0.29%			0.21%	
<b>PIMCO</b>	<b>0.29%</b>	<b>5.22%</b>			<b>5.88%</b>	<b>1/25/2011</b>
Barclays Capital Intermediate Aggregate	<u>0.18%</u>	<u>3.56%</u>			<u>4.80%</u>	
	0.11%	1.66%			1.08%	
Manager	3 Months	1 Year	3 Years	5 Years	10 Years	Inception
<b>Great West Life</b>	<b>0.01%</b>	<b>3.52%</b>	<b>5.03%</b>	<b>5.40%</b>	<b>4.72%</b>	<b>3/1/1999</b>
Barclays Capital Intermediate Aggregate (Ex BBB)	0.07%	3.04%	4.93%	5.15%	4.64%	
Barclays Capital Int. Govt/Credit	<u>0.35%</u>	<u>3.89%</u>	<u>5.19%</u>	<u>5.18%</u>	<u>4.62%</u>	
	-0.06%	0.48%	0.10%	0.25%	0.08%	

\* Index being shown for comparison purposes only, the fund is managed to a targeted duration.  
Returns shown are before investment management fees

# North Carolina 457 Stable Value Fund Portfolio Review

## Portfolio Holdings

December 31, 2012

CUSIP	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
<b>Money Market</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-232,952	-232,952	100.0	-0.1	0.01		0.10	AAA	Aaa	
VP45600\$1	WF Adv Government Money Market		16,316,125	16,316,125	100.0	4.2	0.01		0.10	AAA	Aaa	
<b>Total Money Market</b>			<b>16,083,173</b>	<b>16,083,173</b>	<b>100.0</b>	<b>4.2</b>	<b>0.01</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>Stable Value Funds</b>												
949907109	Wells Fargo Stable Return Fund G		24,938,641	24,938,641	100.0	6.5	1.92		1.90	AA	Aa3	
<b>Total Stable Value Funds</b>			<b>24,938,641</b>	<b>24,938,641</b>	<b>100.0</b>	<b>6.5</b>	<b>1.92</b>		<b>1.90</b>	<b>AA</b>	<b>Aa3</b>	
<b>Insurance Separate Accounts</b>												
<b>Intermediate Portfolio</b>												
391997NC3	GreatWest Life Insurance Co.	Great West	88,896,867	92,725,794	104.3	23.1	3.63	N.S.M.	3.17	AA	Aa3	15.0
590994BY4	Metropolitan Life Ins. Co.	PIMCO	55,905,635	59,829,555	107.0	14.6	3.55	N.S.M.	3.46	AA-	Aa3	20.0
<b>Total Intermediate Portfolio</b>			<b>144,802,501</b>	<b>152,555,349</b>	<b>105.4</b>	<b>37.7</b>	<b>3.60</b>		<b>3.28</b>	<b>AA</b>	<b>Aa3</b>	
<b>Total Insurance Separate Accounts</b>			<b>144,802,501</b>	<b>152,555,349</b>	<b>105.4</b>	<b>37.7</b>	<b>3.60</b>		<b>3.28</b>	<b>AA</b>	<b>Aa3</b>	
<b>Security Backed Contracts</b>												
<b>Short Portfolio</b>												
744999CD3	Prudential Ins. Co. of America	Payden & Rygel	57,769,927	58,918,839	102.0	15.0	1.90	N.S.M.	1.83	AA-	A2	21.0
907999UT1	United of Omaha Life Ins. Co.	Galliard	46,630,909	47,815,588	102.5	12.1	2.33	N.S.M.	1.76	A+	A1	25.0
<b>Total Short Portfolio</b>			<b>104,400,836</b>	<b>106,734,427</b>	<b>102.2</b>	<b>27.2</b>	<b>2.09</b>		<b>1.80</b>	<b>AA-</b>	<b>A2</b>	
<b>Intermediate Portfolio</b>												
744999CF8	Prudential Ins. Co. of America	Prudential	93,909,819	100,906,660	107.5	24.4	3.61	N.S.M.	3.31	AA-	A2	15.0
<b>Total Intermediate Portfolio</b>			<b>93,909,819</b>	<b>100,906,660</b>	<b>107.5</b>	<b>24.4</b>	<b>3.61</b>		<b>3.31</b>	<b>AA-</b>	<b>A2</b>	
<b>Total Security Backed Contracts</b>			<b>198,310,656</b>	<b>207,641,087</b>	<b>104.7</b>	<b>51.6</b>	<b>2.81</b>		<b>2.51</b>	<b>AA-</b>	<b>A2</b>	
<b>Total Fund</b>			<b>384,134,971</b>	<b>401,218,249</b>	<b>104.4</b>	<b>100.0</b>	<b>2.93</b>		<b>2.66</b>	<b>AA-</b>	<b>A1</b>	

# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.29	2.83	2.61	--	2.71
<b>Benchmark***</b>	0.15	1.26	1.88	2.88	2.04

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2009

\*\*\*Barclays Capital 1-3 Year Government/Credit Index

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA-	AA+	<b>Total Assets</b>	\$58.9 million
<b>Weighted Average Maturity</b>	2.32 years	1.95 years	<b>Number of Issues</b>	163
<b>Yield to Maturity</b>	0.82%	0.45%	<b>Weighted Coupon</b>	0.02%
<b>Effective Duration</b>	1.83 years	1.88 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	29.4%	<b>29.8%</b>	76.0%
Other U.S. Government	2.6%	<b>1.0%</b>	0.0%
Taxable Municipal	1.4%	<b>1.4%</b>	0.8%
Corporates	40.5%	<b>40.7%</b>	17.8%
Asset Backed Securities (ABS)	4.6%	<b>5.6%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	12.9%	<b>13.4%</b>	0.0%
Sovereign / Supranationals	6.7%	<b>7.7%</b>	5.4%
Cash / Equivalents	2.0%	<b>0.4%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	56.9%	<b>56.1%</b>	77.3%
AA	4.2%	<b>3.8%</b>	6.8%
A	21.5%	<b>20.9%</b>	9.5%
BBB	17.5%	<b>19.1%</b>	6.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*Column percentage may not add exactly due to rounding

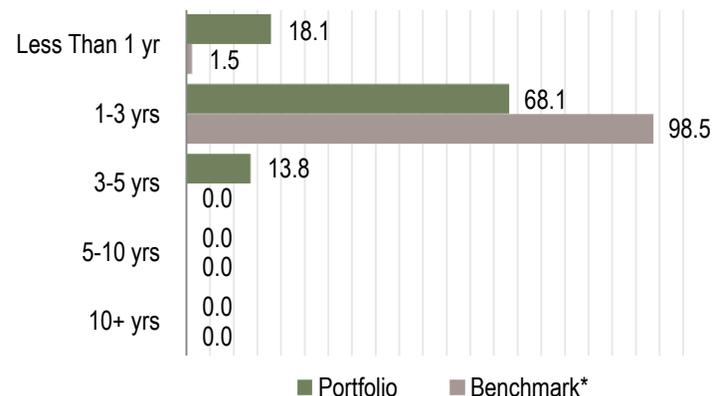
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2012

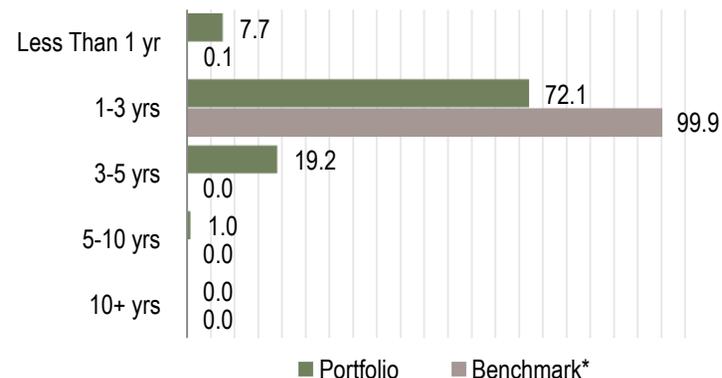
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	25.0%	<b>18.1%</b>	1.5%
1-3 yrs	66.0%	<b>68.1%</b>	98.5%
3-5 yrs	9.0%	<b>13.8%</b>	0.0%
5-10 yrs	0.0%	<b>0.0%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	15.4%	<b>7.7%</b>	0.1%
1-3 yrs	69.8%	<b>72.1%</b>	99.9%
3-5 yrs	14.8%	<b>19.2%</b>	0.0%
5-10 yrs	0.0%	<b>1.0%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital 1-3 Yr Govt/Credit

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.04	0.23	2.68	3.16	--	3.16
<b>Benchmark***</b>	0.03	0.07	0.51	1.49	2.49	1.49

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Galliard Performance Inception: January 01, 2010

\*\*\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA+	AAA	<b>Total Assets</b>	\$2,524.8 million
<b>Weighted Average Maturity</b>	2.38 years	1.94 years	<b>Number of Issues</b>	573
<b>Yield to Maturity</b>	0.82%	0.28%	<b>Weighted Coupon</b>	2.42%
<b>Effective Duration</b>	1.76 years	1.87 years	<b>Estimated Annual Income</b>	\$58.3 million

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	12.5%	<b>13.4%</b>	100.0%
Other U.S. Government	5.0%	<b>5.5%</b>	0.0%
Taxable Municipal	1.8%	<b>2.3%</b>	0.0%
Corporates	14.5%	<b>14.6%</b>	0.0%
Asset Backed Securities (ABS)	16.7%	<b>17.1%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	6.9%	<b>6.7%</b>	0.0%
Mortgage Backed Securities (MBS)	38.8%	<b>36.2%</b>	0.0%
Sovereign / Supranationals	1.4%	<b>1.0%</b>	0.0%
Cash / Equivalents	2.2%	<b>3.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Top 5 Credit Exposure

	<i>% of Portfolio</i> <i>12/31/2012</i>
General Electric Co	0.6%
Bank of Nova Scotia	0.4%
MidAmerican Energy Co	0.4%
JPMorgan Chase & Co	0.4%
HSBC Holdings PLC	0.4%
<b>Total</b>	<b>2.2%**</b>

Total entity exposure – includes all related entities

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	86.5%	<b>85.0%</b>	96.2%
AA	5.1%	<b>6.6%</b>	3.8%
A	8.4%	<b>8.4%</b>	0.0%
BBB	0.0%	<b>0.0%</b>	0.0%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

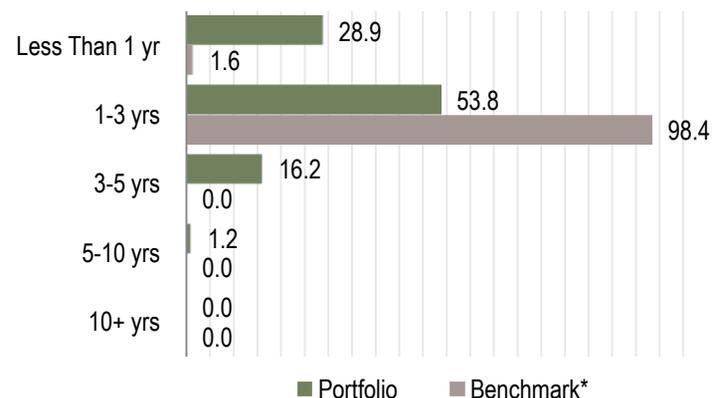
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - B

Fourth Quarter 2012

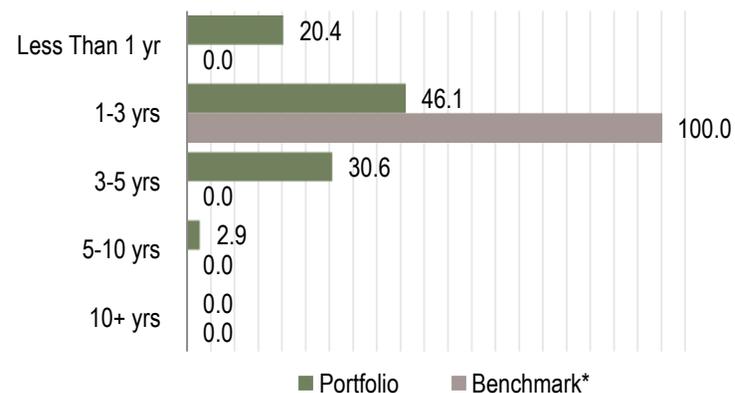
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	39.2%	<b>28.9%</b>	1.6%
1-3 yrs	44.6%	<b>53.8%</b>	98.4%
3-5 yrs	14.7%	<b>16.2%</b>	0.0%
5-10 yrs	1.5%	<b>1.2%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	19.3%	<b>20.4%</b>	0.0%
1-3 yrs	52.5%	<b>46.1%</b>	100.0%
3-5 yrs	25.0%	<b>30.6%</b>	0.0%
5-10 yrs	3.2%	<b>2.9%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.15	3.85	--	--	4.24
<b>Benchmark***</b>	0.18	3.56	5.22	5.39	4.03

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays Capital Intermediate Aggregate

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$2,111.9 million
<b>Weighted Average Maturity</b>	3.86 years	4.42 years	<b>Number of Issues</b>	1023
<b>Yield to Maturity</b>	1.18%	1.46%	<b>Weighted Coupon</b>	3.38%
<b>Effective Duration</b>	3.31 years	3.63 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	39.0%	<b>40.7%</b>	41.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	0.3%	<b>0.3%</b>	0.6%
Corporates	21.9%	<b>21.7%</b>	17.6%
Asset Backed Securities (ABS)	0.2%	<b>0.3%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	3.9%	<b>4.7%</b>	2.1%
Mortgage Backed Securities (MBS)	33.6%	<b>31.3%</b>	34.1%
Sovereign / Supranationals	0.6%	<b>0.6%</b>	3.8%
Cash / Equivalents	0.5%	<b>0.4%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	75.9%	<b>76.5%</b>	77.9%
AA	3.0%	<b>3.1%</b>	4.6%
A	12.8%	<b>11.5%</b>	9.1%
BBB	8.2%	<b>8.9%</b>	8.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

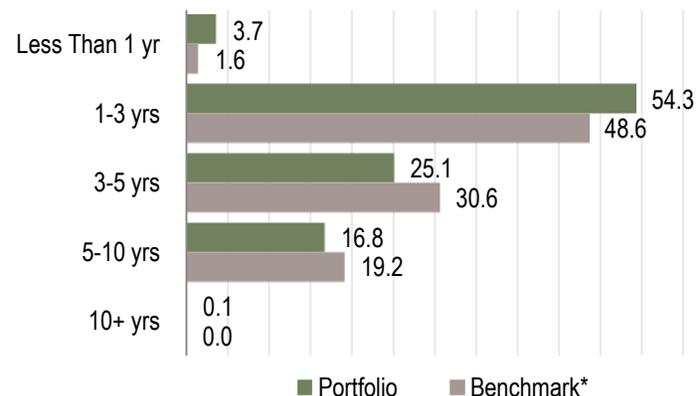
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2012

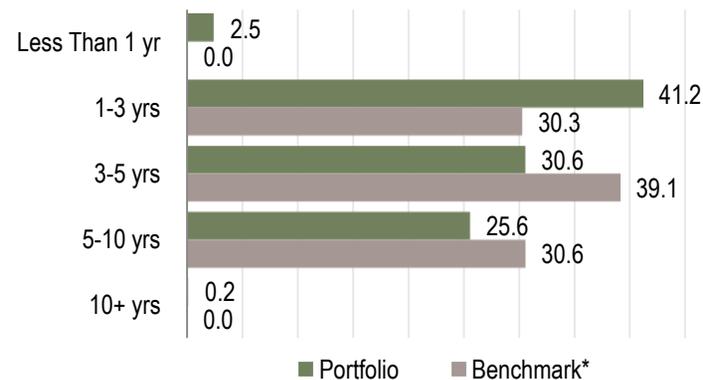
## Duration Distribution

	<i>% of Portfolio</i> 09/30/2012	<i>% of Portfolio</i> 12/31/2012	<i>% of Benchmark*</i> 12/31/2012
0-1 yrs	13.8%	3.7%	1.6%
1-3 yrs	46.6%	54.3%	48.6%
3-5 yrs	23.0%	25.1%	30.6%
5-10 yrs	16.6%	16.8%	19.2%
10+ yrs	0.0%	0.1%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio</i> 09/30/2012	<i>% of Portfolio</i> 12/31/2012	<i>% of Benchmark*</i> 12/31/2012
0-1 yrs	2.1%	2.5%	0.0%
1-3 yrs	53.5%	41.2%	30.3%
3-5 yrs	20.2%	30.6%	39.1%
5-10 yrs	23.9%	25.6%	30.6%
10+ yrs	0.2%	0.2%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.29	5.22	--	--	5.88
<b>Benchmark***</b>	0.18	3.56	5.22	5.39	4.80

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: February 01, 2011

\*\*\*Barclays Capital Intermediate Aggregate

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$1,010.3 million
<b>Weighted Average Maturity</b>	4.40 years	4.42 years	<b>Number of Issues</b>	249
<b>Yield to Maturity</b>	1.61%	1.46%	<b>Weighted Coupon</b>	3.19%
<b>Effective Duration</b>	3.46 years	3.63 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	64.7%	<b>41.3%</b>	41.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	1.5%	<b>1.5%</b>	0.6%
Corporates	17.7%	<b>16.4%</b>	17.6%
Asset Backed Securities (ABS)	0.0%	<b>0.0%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	2.1%
Mortgage Backed Securities (MBS)	44.8%	<b>41.6%</b>	34.1%
Sovereign / Supranationals	2.1%	<b>2.0%</b>	3.8%
Cash / Equivalents	-30.8%	<b>-2.8%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	81.2%	<b>80.1%</b>	77.9%
AA	3.5%	<b>2.6%</b>	4.6%
A	11.4%	<b>13.3%</b>	9.1%
BBB	3.9%	<b>4.1%</b>	8.4%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

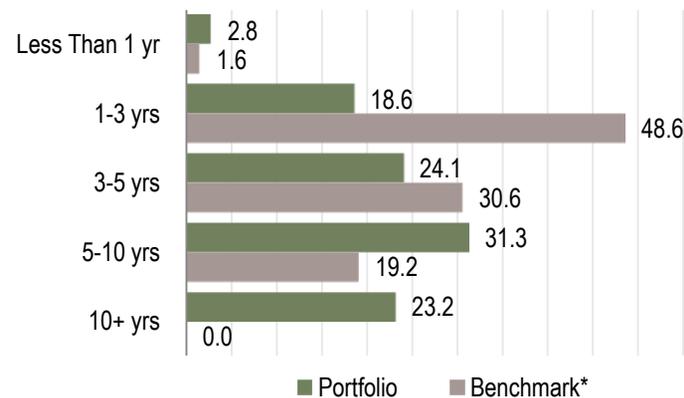
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Metlife Separate Acct 654 - Commingled (PIMCO)

Fourth Quarter 2012

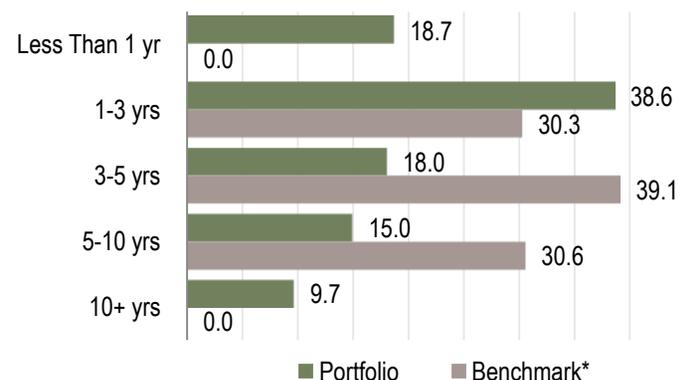
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	8.8%	<b>2.8%</b>	1.6%
1-3 yrs	19.8%	<b>18.6%</b>	48.6%
3-5 yrs	18.2%	<b>24.1%</b>	30.6%
5-10 yrs	35.2%	<b>31.3%</b>	19.2%
10+ yrs	18.0%	<b>23.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	17.6%	<b>18.7%</b>	0.0%
1-3 yrs	42.3%	<b>38.6%</b>	30.3%
3-5 yrs	12.9%	<b>18.0%</b>	39.1%
5-10 yrs	24.4%	<b>15.0%</b>	30.6%
10+ yrs	2.9%	<b>9.7%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays Capital Intermediate Aggregate

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2012

## Annualized Investment Performance\*

Periods Ending December 31, 2012

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
<b>Portfolio</b>	0.01	3.52	5.03	5.40	4.72	5.30
<b>Benchmark***</b>	0.07	3.04	4.93	5.15	4.64	--
<b>Benchmark****</b>	0.35	3.89	5.19	5.18	4.62	5.50

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: March 01, 1999

\*\*\*BarCap Intern Agg Ex Baa

\*\*\*\*Barclays Capital Int Govt/Credit

## Portfolio Characteristics

	<u>Portfolio</u>	<u>Benchmark*</u>		<u>Portfolio</u>
<b>Weighted Average Quality**</b>	AAA	AAA	<b>Total Assets</b>	\$92.7 million
<b>Weighted Average Maturity</b>	4.18 years	4.27 years	<b>Number of Issues</b>	183
<b>Yield to Maturity</b>	2.07%	1.35%	<b>Weighted Coupon</b>	4.22%
<b>Effective Duration</b>	3.17 years	3.42 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Intern Agg Ex Baa

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2012

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
U.S. Government/Agency Debentures	0.4%	<b>1.2%</b>	45.2%
Other U.S. Government	1.2%	<b>1.2%</b>	0.0%
Taxable Municipal	0.0%	<b>0.0%</b>	0.6%
Corporates	17.5%	<b>16.5%</b>	11.3%
Asset Backed Securities (ABS)	5.0%	<b>4.7%</b>	0.4%
Commercial Mortgage Backed Securities (CMBS)	2.5%	<b>2.0%</b>	2.0%
Mortgage Backed Securities (MBS)	72.6%	<b>72.1%</b>	37.2%
Sovereign / Supranationals	0.0%	<b>0.0%</b>	3.2%
Cash / Equivalents	0.8%	<b>2.4%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2012</i>	<i>% of Portfolio</i> <i>12/31/2012</i>	<i>% of Benchmark*</i> <i>12/31/2012</i>
AAA	79.9%	<b>80.6%</b>	85.1%
AA	8.4%	<b>7.5%</b>	5.1%
A	9.6%	<b>9.0%</b>	9.9%
BBB	1.0%	<b>1.8%</b>	0.0%
< BBB	1.1%	<b>1.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Interm Agg Ex Baa

\*\*Column percentage may not add exactly due to rounding

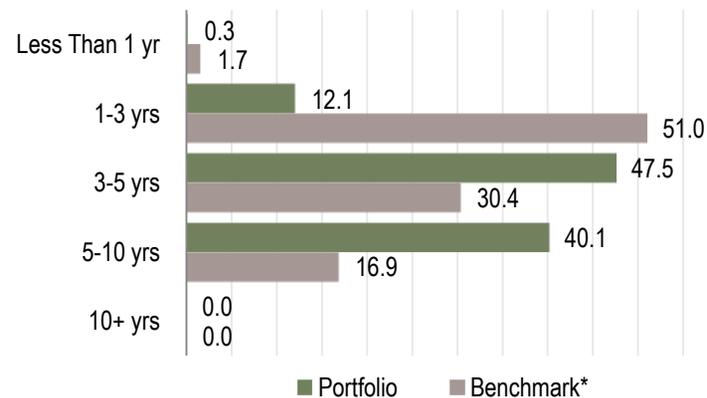
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2012

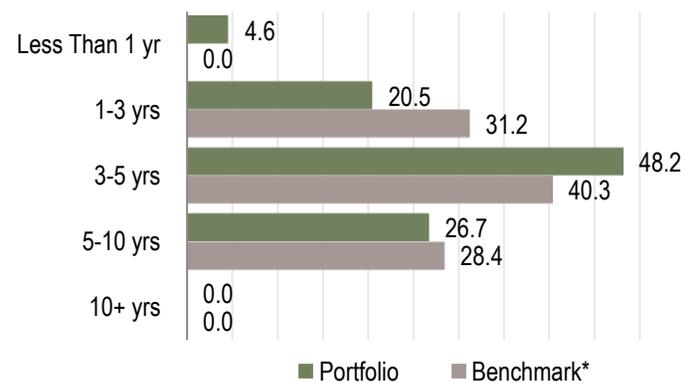
## Duration Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	0.5%	<b>0.3%</b>	1.7%
1-3 yrs	17.1%	<b>12.1%</b>	51.0%
3-5 yrs	58.0%	<b>47.5%</b>	30.4%
5-10 yrs	24.4%	<b>40.1%</b>	16.9%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2012</i>	<i>% of Portfolio 12/31/2012</i>	<i>% of Benchmark* 12/31/2012</i>
0-1 yrs	4.0%	<b>4.6%</b>	0.0%
1-3 yrs	25.5%	<b>20.5%</b>	31.2%
3-5 yrs	56.6%	<b>48.2%</b>	40.3%
5-10 yrs	13.8%	<b>26.7%</b>	28.4%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*BarCap Interm Agg Ex Baa

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# Portfolio Strategy and Positioning

## Economic and Market Outlook

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### Economic Outlook

- | We expect the economic recovery to continue in a muted, uneven fashion; Q4 GDP likely to fall from Q3's 2.7% annualized pace; the looming expiration of lower tax rates and mandatory spending cuts (the "Fiscal Cliff") could materially disrupt 2013 economic growth in the near term if lawmakers are unable to reach a compromise
- | Business confidence and spending have fallen off recently, despite continued improvement in consumer sentiment; while the increased caution among business has been largely attributed to the uncertainty created by the Fiscal Cliff, we are closely watching for any signs that private sector hiring is slowing
- | Heavily supported by low interest rates and streamlined refinancing programs, the US housing market is showing signs of improvement; housing prices are rising nationally, and new home construction is gradually improving
- | European leaders continue to support Greece's austerity efforts, including disbursements of bailout funds despite Greece not meeting prescribed debt reduction targets; Europe news has been mixed, with economic performance generally softer while financial markets have firmed up; we continue to be very cautious on the intermediate-term health of the Eurozone

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### Anticipated Portfolio Strategy

- | Maintain neutral to slightly short duration positioning versus benchmark
- | Corporate bonds are fair to slightly rich; taxable municipal bonds still offer good value relative to other spread sectors; we continue to add selectively in both sectors, emphasizing stable, high quality issuers
- | Structured Government securities and ABS Student Loan ABS remain attractive; MBS valuations have cheapened somewhat and we will look to add stable cashflow MBS on an opportunistic basis
- | We continue to hold TIPS as a portfolio diversifier

The information contained herein reflects the views of Galliard Capital Management, Inc. and sources believed to be reliable by Galliard as of the date of presentation. No representation or warranty is made concerning the accuracy of any data and there is no guarantee that any projection, opinion, or forecast herein will be realized. The views expressed may change at any time. This presentation is for information purposes only; it is not investment advice or a recommendation for a particular security strategy or investment product.

## Senior Professionals



**John R. Caswell, CFA**  
*Managing Partner*  
*Portfolio Management*

John is a Founding Partner and Chairman of Galliard's Fixed Income Committee. He is responsible for overseeing investment policy and strategy formulation. Prior to co-founding Galliard, John was Chief Investment Officer of Norwest Investment Management. John began his investment career in 1975 and holds a BBA degree in Finance and an MBA degree in Finance from the University of Iowa. He has authored and collaborated on many articles and chapters on fixed income and stable value investment management.



**Richard J. Merriam, CFA**  
*Managing Partner*  
*Portfolio Management*

Richard is a Founding Partner and Galliard's Chief Investment Strategist. In this role, he is responsible for asset selection and strategy formulation for the firm's portfolios. He also serves as Corporate Sector Head. Prior to co-founding Galliard, Richard was Chief Investment Officer of Insight Investment Management. He began his investment career in 1985 and holds BA degrees in Economics and English from the University of Michigan and an MBA degree in Finance from the University of Minnesota.



**Karl P. Tourville**  
*Managing Partner*  
*Portfolio Management*

Karl is a Founding Partner and Chairman of Galliard's Management Committee. He is involved in client portfolio management, developing investment strategy and designing new products. Karl also directs marketing and client service for the firm. Karl is a past member of the Board of Directors of the Stable Value Investment Association and has authored and collaborated on many articles and chapters on fixed income and stable value investment management. Prior to co-founding Galliard, Karl was Director of Taxable Fixed Income for Norwest Investment Management. He holds a BA in Economics and an MBA in Finance from the University of St. Thomas.

## Senior Professionals



**Carrie A. Callahan**  
*Partner*  
*Client Service &*  
*Consultant Relations*

Carrie is responsible for client relationship management and consultant relations. Prior to joining Galliard, Carrie was a Group Vice President in consultant relations at Trusco Capital. Prior to Trusco, Carrie was a Senior Vice President for SunTrust Banks where she was responsible for bundled 401K sales and high net worth relationship management. She began her career in investment management, institutional sales and consultant relations in 1991. Carrie holds a BA in economics from the University of Central Florida. She sits on the Investment Committee for the University of Central Florida Foundation.



**Ajay Mirza, CFA**  
*Partner*  
*Portfolio Management*

Ajay is a Partner and serves as Structured Securities Sector Head. Prior to joining Galliard, Ajay was a mortgage backed securities analyst with Insight Investment Management. He also served as a research analyst at Lehman Brothers, where he worked on the mortgage backed securities trading desk. Ajay holds a BE in Instrumentation from the Birla Institute of Technology (India), an MA in Economics from Tulane University, and a MBA from the University of Minnesota. Ajay began his investment career in 1994 and has been with Galliard since the firm's inception.



**Michael D. Norman**  
*Senior Principal*  
*Client Services*

As a Principal, Mike is responsible for client and consultant relationship management. In this capacity, Mike works with current and prospective clients, as well as the consultants who serve them to develop strategy and to assure execution of client mandates. Prior to joining Galliard, Mike served as a Securities Lending Trader and Trust Officer with Norwest Bank. Mike began his investment career in 1993 and has been involved in the stable value industry since 1996. Mike also served on the Stable Value Investment Association's (SVIA) Board of Directors from 2003 – 2006 along with a number of other boards and associations. Mike holds a BA from the University of Notre Dame and an MBA from the University of Minnesota.



**Leela J. Scattum**  
*Senior Principal*  
*Portfolio Management*

As a Client Portfolio Manager, Leela is involved in the management of Galliard's stable value portfolios. Leela began her investment career in 1992 and has been with Galliard since the firm's inception. She holds B.Sc. (Statistics) and B.Ed. (Education) degrees from the University of Bombay. She also completed her course work for Master of Science degree in Applied Mathematics from the University of Bombay, and holds an MBA degree from the University of St. Thomas.

## Senior Professionals



**Chad M. Foote, CPA**  
*Principal*  
*Investment Operations*  
*and Accounting*

Chad is responsible for accounting operations and implementation of new technology and business initiatives. Chad is a CPA and a Certified Investments and Derivatives Auditor. Before joining Galliard, Chad was the head of risk management at Alliance Financial Services. He also served as a Director at PricewaterhouseCoopers (PwC) consulting on financial operations and risk management practices.



**David H. Lui**  
*Principal*  
*Chief Compliance Officer*

David is the Chief Compliance Officer at Galliard. Prior to joining Galliard, David was the Chief Compliance Officer of FAF Advisors and First American Funds. Previously, David was Chief Compliance Officer of Franklin Advisors and Chief Compliance Counsel for Charles Schwab in San Francisco. David earned his B.A. in history from Brown University in Providence, Rhode Island, and a J.D. from the University of California, Hastings college of Law, in San Francisco. He has been admitted to practice law in both California and Minnesota. He is a past Chairman of the Board of Directors of the National Society of Compliance Professionals and is a nationally recognized speaker in compliance issues. David has more than 20 years of experience in compliance and investment law.



**Erol D. Sonderegger, CFA**  
*Principal*  
*Portfolio Management*

Erol is responsible for client portfolio management. Prior to joining Galliard, Erol was a Portfolio Manager with RiverSource Investments and was a member of their Fixed Income Strategy Committee. Erol's portfolio management experience includes co-managing a number of fixed income and balanced investment products. He also has extensive experience in fixed income performance attribution. Prior to working at RiverSource, Erol was an investment analyst for the Minnesota State Board of Investments. Erol earned his BA in International Business, with a concentration in Finance, from George Washington University in Washington D.C.

## Senior Relationship Contacts



**Andy C. Apostol**  
*Senior Director  
Client Services*

Andy is responsible for stable value client relationships and client portfolio management. Prior to joining Galliard, Andy was a Senior Vice President at Dwight Asset Management, overseeing fixed income and stable value portfolios. Prior to joining Dwight Andy was a Senior Account Manager for INVESCO's fixed income and stable value business. Andy earned his B.S. in Business Administration from the University of Oregon.



**David B. Ferry**  
*Senior Director  
Client Services*

David is responsible for client and consultant relationship management. In this capacity, David works with current and prospective clients, as well as the consultants who serve them to develop strategy and to assure execution of client mandates. Prior to joining Galliard, David was a Senior Vice President with SunGard Wealth Management, managing sales and relationships for the SunGard platform. He earned his BS in Business and his MBA in Finance from the University of Minnesota.



**Taylor Benson**  
*Director  
Client Service &  
Consultant Relations*

Taylor is responsible for client service and consultant relationship management. Prior to joining Galliard, Taylor was an Investment Consultant at Segal Advisors for defined benefit and defined contribution plans. Prior to Segal, Taylor was a client service associate for Legg Mason & Co., where she was responsible for servicing the Western Asset Management's Institutional Mutual Fund clients. She began her career in 2003 as a business analyst for Hewitt Associates. Taylor holds a BS in Finance from Providence College.



**William Weber**  
*Associate Director  
Client Service &  
Consultant Relations*

William is responsible for client and consultant relationship management and client portfolio management. Prior to joining Galliard, William was a manager at PricewaterhouseCoopers, LLP in their Advisory Practice, with an emphasis on capital markets. William received a B.S. in Business, Finance and Accounting from the University of Minnesota's Carlson School of Management.

## Appendix - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2012

### Total Annual Fund Operating Expenses

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the rate of return of the investment option.

Expense	Expense Ratio 12/31/12	Per \$1000
Galliard Investment Management Fees	0.075%	\$0.75
Subadvisor Management Fees	0.065%	\$0.65
Investment Contract Fees	0.158%	\$1.58
Acquired Fund Fees and Other Subadvisor Investment Management Expenses	0.031%	\$0.31
- Investment Contract Fees	0.010%	\$0.10
- Other Acquired Fund Fees and Subadvisor Investment Management Expenses	0.021%	\$0.21
12b-1 Distribution Fee	None	None
Other Expenses	0.121%	\$1.21
<b>Total Annual Fund Operating Expense*</b>	<b>0.449%</b>	<b>\$4.49</b>

\*Total Annual Fund Operating Expense will be reflected in the Fund's net asset value.

## Appendix - North Carolina 457 Stable Value Fund

Fourth Quarter 2012

### Total Annual Fund Operating Expenses

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the rate of return of the investment option.

Expense	Expense Ratio 12/31/12	Per \$1000
Galliard Investment Management Fees	0.075%	\$0.75
Subadvisor Management Fees	0.067%	\$0.67
Investment Contract Fees	0.162%	\$1.62
Acquired Fund Fees and Other Subadvisor Investment Management Expenses	0.031%	\$0.31
- Investment Contract Fees	0.010%	\$0.10
- Other Acquired Fund Fees and Subadvisor Investment Management Expenses	0.021%	\$0.21
12b-1 Distribution Fee	None	None
Other Expenses	0.121%	\$1.21
<b>Total Annual Fund Operating Expense*</b>	<b>0.456%</b>	<b>\$4.56</b>

\*Total Annual Fund Operating Expense will be reflected in the Fund's net asset value.