

North Carolina Supplemental Retirement Plans

STATEMENT OF INVESTMENT POLICY

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I. PURPOSE

A. PURPOSE OF THE PLAN

The State of North Carolina (“the Employer”) has established the North Carolina Supplemental Retirement Plans (“Plans”) with the primary purpose of providing for the management of the investment options provided under certain employee benefit plan(s) (the “Plans”) of the State. The Plans were designed to provide a range of managed or pooled investment options that may be offered for investment under the Plans. The Plans are structured such that an investment option may be provided through the use of individual mutual funds or through the use of separate accounts that utilize one or more outside investment advisors to manage the assets directed to that option.

The over-riding objective of the Plans are to provide suitable retirement vehicles for the employees of the Employer. The Plans are intended primarily to provide retirement savings for the employees. The Employer recognizes the diverse nature of its employees’ savings requirements, return objectives and risk tolerance and therefore intends to provide a suitable range of investment options through the Plans which will meet the needs of employees in numerous life cycle stages and with different retirement savings requirements.

The Supplemental Retirement Plans are managed with the recognition that the underlying Plan is intended to meet the requirements of Sections 401(a), 401(k), 457 and 501(a) of the Internal Revenue Code of 1986, as amended (“Code”), and Section 404(c) of the Employee Retirement Income and Security Act of 1974, as amended (“ERISA”).

B. PURPOSE OF THE STATEMENT OF INVESTMENT POLICY

The purpose of this Statement of Investment Policy is to document the objectives and guidelines of the Plans. These objectives and guidelines have been formulated in response to:

- The desire of the Employer to provide its employees with a supplemental retirement and savings vehicle;
- The need to satisfy the fiduciary obligations of the Board of Trustees of the Plan (“Board”) and of the Employer;
- The need to provide a broad range of investment alternatives to meet the needs of a diverse workforce;
- The need to provide a set of policies and guidelines for each investment option to ensure that the Plan assets are managed in a competent and professional manner and that all investments are suitable to the objectives of the investment option;
- The need to provide a set of standards for performance evaluation of each option.

II. RESPONSIBILITIES OF PARTICIPANTS

The assets of the Plan are provided by certain employee benefit plan(s) of the Employer. The Plan(s) are voluntary and/or participant-directed. As such, participants bear responsibility for deciding the amount of current compensation to defer in the Plan(s) and developing a strategy for the investment of deferrals and Employer contributions in the investment options offered in the Plan and for directing the investment of all funds in their accounts. The appropriate asset mix for a participant is a function of multiple factors, including age, income, and length of time before funds are needed, tolerance for volatility risk, accumulation objectives, retirement income replacement objectives and other assets. The participant is best positioned to make the individual decision on how to allocate assets among the investment options.

The specific responsibilities of the Plan participants are as follows:

- Determining amount to contribute to the Plan within guidelines and Internal Revenue Service (“IRS”) limitations.
- Allocating existing account balance, rollover contributions and future contributions (including contributions made on behalf of the participant by the Employer) to the available investment options based on individual circumstances, goals and objectives and risk tolerances.
- Rebalancing account balances to desired allocation when necessary due to market movements and account activity or selecting a Fund Allocation Model with automatic rebalancing.
- Reallocating account balances and direction of future contributions as personal circumstances and goals and objectives change.

It is the responsibility of the Plan participant to determine the combination of contribution level and asset allocation that will meet their individual retirement needs. The Employer expects participants to seek advice from personal advisors, as each participant deems necessary.

III. RESPONSIBLE PARTIES

The fiduciaries of the Plan(s) will act in the sole interest of the Plan participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the Plan. Those fiduciaries exercising investment authority will act as prudent investors. Fiduciaries must comply with the provisions of this Statement of Investment Policy.

The specific responsibilities of the parties are detailed below.

A. BOARD OF TRUSTEES

The Board has the final responsibility for implementing and monitoring the procedures, standards, goals and guidelines set forth in this document. Specific responsibilities for the Board include:

1. Planning

- Determine the types of investment options offered within the Plans so as to provide a broad risk/return spectrum;
- Appoint and remove Investment Managers;
- Select an investment consultant, as necessary or appropriate, to render advice on the investment program, the selection of investment funds or managers, evaluation of investment performance, funds and managers, and other duties, as appropriate;
- Establish performance investment objectives for each investment option and fund or manager;
- Monitor, or cause to be monitored, the investment performance of the Plans' Investment Options and Managers;
- Determine appropriate investment structure for each option taking into consideration the performance, risk and cost of each potential structure;
- Communicate responsibilities, objectives and guidelines to fiduciaries and service providers as described in this policy.

2. Operations

- Delegate responsibilities to the Department of State Treasurer, as appropriate;
- Delegate administrative duties, as appropriate, to the Recordkeeper, Custodian or other service providers;
- Take reasonable steps to communicate the general investment characteristics of each investment option to participants, including risk considerations;

III. RESPONSIBLE PARTIES

3. Control

- Review and evaluate results of the investment options against established performance standards;
- Review and evaluate the results of individual investment managers against established performance standards or other established guidelines;
- Take whatever corrective action is deemed prudent and appropriate when an investment option or investment manager fails to perform against established policy objectives, guidelines and standards. The Board will also monitor the soundness of the investment firms which are retained by the Plan and their investment processes and will take corrective action if necessary;
- The Employer and the selected plan providers will supply information regarding the investment options and basic principles of investing to participants to help address the factors affecting asset allocation. However, the dissemination of information and the provision of investment funds by the Plans do not constitute advice to participants.

Investment Subcommittee

With respect to management of the investments of the Plan, the non-fiduciary oversight responsibility of the Board may be delegated to an Investment Subcommittee of the Board.

The Board will retain the fiduciary responsibilities associated with these functions.

Accordingly, the Investment Subcommittee does not have final discretion to approve relevant items. The Investment Subcommittee is expected to make recommendations for the Board's approval. Following final approval, the Investment Subcommittee may be given the authority to implement all matters relevant to the Board's decision. The Investment Subcommittee must be comprised of Board of Trustees' members appointed by the Board. The responsibilities of the Investment Subcommittee may include the following:

- Make recommendations as to the selection of qualified investment managers which fulfill the criteria of the identified asset class;
- Monitor investment results of each investment manager in the Plans by means of regular review and analyses to determine whether those responsible for investment results are meeting guidelines and criteria;
- Recommend appropriate action to the Board if objectives are not being met or if policies and guidelines are not being followed;
- Review this Policy and recommend modifications to it, as needed;
- Recommend rebalancing policy to the board for approval.

B. INVESTMENT MANAGER

The Board will hire or cause to be hired individual Investment Managers (or Sub-Advisors) to execute the various investment mandates described in this document. The Investment Managers have responsibility for implementing and monitoring the procedures, standards, goals and guidelines prescribed to them by the Board through this document and the agreement between the investor and investment manager, commonly referred to as the Investment Management Agreement (IMA). Specific responsibilities of the Investment Managers include:

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- Accept investment discretion for Plan assets as directed by the Board or its designee, and invest according to the stated investment philosophy and strategy as dictated in: A) the mutual fund prospectus or B) investment guidelines provided to each manager of individual assets.
- Issue prospectuses, quarterly and annual reports and other pertinent information regarding the Plan's assets under their management on a timely basis to the Board and/or their designees.
- Meet as required with the Board and/or their designees to review portfolio and investment results.
- Notify the Board and/or their designees in advance of potential material changes in fund, strategy and firm operation under consideration or about to be implemented. This includes organizational, personnel or strategy changes that may impact asset management.
- Provide the Board or designee with a quarterly accounting of assets.
- Issue a quarterly report to the Board and/or their designees which includes the following information:
 - The market value of account assets as of the last business day of each quarter;
 - Time-weighted rates of return measured net of investment management fees and all expenses or gross of fees (as appropriate) for the current quarter, year-to-date and historical time periods, including returns since inception, compared to appropriate benchmarks;
 - Average account characteristics and number of holdings as of the last business day of each quarter;
 - Expenses;
 - Current investment strategy;
 - Changes implemented over the prior quarter.

C. RECORDKEEPER

The recordkeeper has been delegated by the Board the responsibility for overseeing the custody of Plan assets by a third party custodian, the execution of investment management agreements and directing the rebalancing of assets among investment managers within each option as directed by NCSRP staff. In addition, the Recordkeeper has the following responsibilities:

- Allocate and transfer the Plan assets as directed by the Board or the participants of the underlying Plan(s) through the Plan's recordkeeper among permitted investment options;
- Allocate and transfer assets among Investment Managers within pooled investment options as directed by the Board or its designee;
- Make payments from the Plan to such participants or beneficiaries of the underlying Plan(s) as directed and as permitted by the Plan documents;

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- Provide a written accounting of all investments and all receipts, disbursements, income, expenses and other transactions of the Plan at month end;
- Provide a monthly report detailing the allocation of all Plan assets among investment options and investment managers;
- Reconcile account balances.

D. CUSTODIAN

The duties of the Custodian include:

- Provide custody and safekeeping of Plan assets;
- Allocate and transfer the Plan assets as directed by the Board, Recordkeeper or the participants of the underlying Plan(s) through the Plan's recordkeeper among permitted investment options;
- Allocate and transfer assets among Investment Managers within Plan options as directed by the Board or its designee;
- Make payments from the Plan to such participants or beneficiaries of the underlying Plan(s) as directed and as permitted by the Plan documents;
- Provide a written accounting of all investments and all receipts, disbursements, income, expenses and other transactions of the Plan at month end;
- Reconcile asset account balances with the recordkeeper;
- Reconcile asset account position with investment managers.

E. INVESTMENT CONSULTANT

The duties of the Investment Consultant include:

- Issue a quarterly report to the Board and/or its designees which includes the following information:
 - The market value of Plan assets as of the last business day of the most recent calendar year;
 - The portion of Plan assets allocated to each investment option as of the last business day of the most recent calendar year;
 - Time-weighted rates of return and risk for all options measured net of investment management fees and all expenses or gross (as appropriate) relative to a peer group universe and a market benchmark for the most recent calendar quarter, year-to-date and historical time periods since inception;
 - Time-weighted rates of return and risk for all Investment Managers in pooled investment options measured gross of investment management fees relative to a peer

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group universe and a market benchmark for the most recent calendar quarter, year-to-date and historical time periods including since inception returns;

- Portfolio characteristics (such as sector allocation, market capitalization, valuation ratios, credit quality, etc) as appropriate for each Investment Option and Investment Manager relative to the appropriate benchmark as of the last business day of the most recent calendar quarter;
- A summary of the economic and market environment;
- Reaffirm the adherence of Investment Options and Investment Managers to stated investment policies, objectives and/or style; identify any material deviations from stated investment policies, objectives and/or style.
- Meet periodically with the Board and/or their designees to review performance of the Investment Options within the context of this Statement of Investment Policy.
- Review at least annually this investment policy and recommend modifications to the Board as appropriate.
- Notify the Board and/or their designees of any organizational or strategy changes to the investment funds and Investment Managers and the underlying reasons.
- Keep the Board and/or their designees informed about current investment trends and issues.
- Review the Plan investment option array and make recommendations to the Board.

F. RETIREMENT SYSTEMS DIVISION STAFF

The duties of the Retirement Systems Division staff include:

- Assist Board with review of contracts and Investment Management Agreements;
- Execute contracts at Board direction;
- Facilitate presentation of information to the Board.

G. INVESTMENT MANAGEMENT DIVISION STAFF

- Attend quarterly Board meetings and provide analysis and evaluation of investment managers
- Monitor the performance, risk characteristics and organization of the investment managers in the Plans on a monthly basis and as well as the returns and risk characteristics of each option.
- Provide the Board with quarterly updates and evaluations of investment manager performance.
- Provide recommendations to the Board on manager replacements either as requested by the Board or on their own initiative.
- Provide recommendations to the Board on the structure or number of investment options
- Review Investment Management Agreements

III. RESPONSIBLE PARTIES

- Work with investment consultant and NCSRP staff to review rebalancing of investment managers within fund options as needed

IV. PLAN STRUCTURE

The Board has chosen to provide an array of investment options, each with different risk and return characteristics, which will enable a participant to construct a portfolio that, in the aggregate, should meet his/her own individually desired risk and return characteristics and investment goals through separate, diversified investment Options.

The Board has constructed the following investment options, having the general investment characteristics outlined below:

- **Stable Value Fund.** The primary objective of the Stable Value Portfolio is the preservation and stable growth of principal.
- **Fixed Income Fund.** The primary objective of the Fixed Income Fund is moderate principal growth with low risk of principal loss through investment in a diversified portfolio of bonds. This option will be actively managed to seek above market returns over the long term.
- **Fixed Income Index Fund.** The primary objective of the Fixed Income Index Fund is to track the performance of the Barclay's Capital US Aggregate Bond Index, providing moderate principal growth with low risk of principal loss through investment in a diversified portfolio of bonds.
- **Large Cap Value Fund.** The primary objective of the Large Cap Value Equity Fund is long-term growth of capital through investment in a diversified portfolio of large company stocks which are deemed to have prices that do not reflect the company's asset values or current earnings ability and are thus undervalued.
- **Large Cap Growth Fund.** The primary objective of the Large Cap Growth Equity Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of large companies with above average earnings growth potential.
- **Large Cap Index Fund.** The primary objective of the Large Cap Index Fund is to track the performance of the Standard & Poor's 500 Index.
- **Small/Mid Cap Value Fund.** The primary objective of the Small/Mid Cap Value Fund is long-term growth of capital through investment in a portfolio of small to mid capitalization stocks which are deemed to have prices that do not reflect the company's asset value or current earnings ability and are thus undervalued.
- **Small/Mid Cap Growth Fund.** The primary objective of the Small/Mid Cap Growth Equity Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of mid- and small-capitalization companies with above average earnings growth potential.
- **Small/Mid Cap Index Fund.** The primary objective of the Small/Mid Cap Equity Index Fund is to track the performance of the Russell 2500 Index of smaller capitalization stocks.
- **International Fund.** The primary objective of the International Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of companies located outside the United States.
- **International Index Fund.** The primary objective of the International Index Fund is to track the performance of the MSCI ACWI ex-US Index.

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- **Global Equity Fund.** The primary objective of the Global Equity Fund is growth of capital through investments in listed equities of companies, without geographic limitation.

The Board has also had designed a set of Model Allocations among these investment options for participants that desire a professionally constructed asset/fund allocation. These model allocations are discussed in section VII of this document.

The Board will periodically review the investment needs of the participants of the Plan(s) to determine if these options should be modified, some options eliminated, or additional options added to the Plan. However, at all times the Plan will maintain a minimum of three investment options, as described below:

- Low Risk / Low Return – There will be an option available that offers participants a high probability of capital preservation with some level of income.
- Moderate Risk / Moderate Return – There will be an option that offers participants some potential for moderate capital appreciation while still maintaining an income component.
- High Risk / High Return – There will be an option that offers participants the potential for substantial capital appreciation but may offer very low levels of income and high asset value volatility.

Specific investment guidelines and performance standards and objectives are outlined individually for each Option in the following Sections.

Default Investment Option

The Plan provides for a Default Investment Option when a plan participant has not made an affirmative investment election. The Board has chosen the Moderate Fund Allocation Model with an assumed target retirement age of 65 as the default investment option. The Board shall monitor the investment option in accordance with the investment guidelines and criteria section of this policy.

Investment Manager Selection

The Board will select investment managers for the Plan's assets with the objective of meeting the requirements of each mandate and maximizing prospective risk adjusted return net of fees. The Board will take into consideration:

- Firm Stability
- Investment Team and Process
- Realized and Prospective Performance
- Fees and Expenses

IV. PLAN STRUCTURE

The Board has determined that investment options may be implemented through either a single investment manager or through multiple investment managers. This arrangement permits the creation of an investment program that provides diversification across multiple best in class investment managers where appropriate. This Section of the Investment Policy Statement outlines the guidelines established by the Board for the oversight and management of the investment options.

Each Investment Option will be monitored by the Board and its designees for compliance with all guidelines and criteria of this Investment Policy Statement. The Board will determine when changes to the investment managers or investment allocations are appropriate for each option.

Each Investment Option will have a target allocation to each manager within that option and an allowable range around that target allocation. These targets and ranges are specified for each option in Appendix B to this document. The allocation of assets between multiple investment managers in each option will be monitored. Periodic cash flows into or out of an option will be utilized to move the allocation between managers back toward the target for that Option. On a quarterly basis the allocation between managers will be reviewed and rebalanced if necessary.

Stable Value Fund

The Stable Value Fund is intended to be the lowest risk investment option offered in the Plans. It will be invested primarily in investment contracts with insurance companies and other financial institutions that are backed by fixed income securities. These investment contracts will credit investor's principal accounts with a stable rate of interest. The portfolio is expected to keep pace with inflation over the long term but may not in an inflationary environment.

Investment Objective

The primary objective of the Stable Value Fund is the preservation and stable growth of principal while providing book value liquidity for participant directed transactions.

Investment Management

The Option's assets will be invested in fixed income securities wrapped by investment contracts to provide book value liquidity.

Acceptable Investments

Acceptable investments for this Option are cash equivalent instruments, short and medium duration, investment grade bonds and investment contracts.

Diversification

The Stable Value Fund will be diversified in terms of investment manager exposure, investment contract issuer exposure, fixed income sector exposure and individual security exposure.

- Manager Diversification

Maximum of 30% of Fund assets to the Stable Value Fund manager
Maximum of 30% of Fund assets to any single external manager

- Investment Contract Issuer

	Minimum	Maximum
Liquidity Buffer	5%	50%
Guaranteed Investment Contracts - Exposure to any one issuer is limited to 2% of Fund assets	0%	10%
Insurance Company Separate Accounts - Exposure to any one issuer is limited to 25% of Fund assets	0%	50%
Security Backed Contracts - Exposure to any one issuer is limited to 40% of Fund assets	0%	95%

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

- **Fixed Income Sector Allocation**
 - Maximum 100% in US Treasury/Agency Debentures
 - Maximum 30% in US Corporates
 - Maximum 15% in Non-US Corporates
 - Maximum 20% in Sovereign/Supernationals
 - Maximum 65% in Mortgage related
 - Maximum 60% in Agency MBS
 - Maximum 5% in Non-Agency MBS
 - Maximum 20% in CMBS
 - Maximum 25% in Asset Backed Securities
- **Fixed Income Securities**
 - No more than 5% of Fund assets in any single asset backed or non government mortgage backed issuing trust.
 - No more than 3% of Fund assets in any single corporate issuer.
- Credit Quality**
 - Average credit quality of the underlying fixed income investments will be “AA/Aa2”.
 - Individual fixed income securities must be rated “BBB-/Baa3” or higher at time of purchase.
 - Minimum quality for all book value contract issuers is “A3/A-”.
 - Minimum quality for general obligation contract issues is “A1/A+”.
 - Cash equivalent instruments will be rated “A1/P1”.
- Duration**
 - The overall duration of the underlying securities in the Fund will be between 2.0 and 3.5 years.
- Prohibited Investments**
 - Complex CMO’s such as I/Os, P/Os PAC I/Os, PAC P/Os, Inverse I/Os, Inverse Floaters, Super Floaters and Inverse P/Os.
 - Short Sales (except for permitted derivatives for hedging purposes only and short TBA mortgages).
 - Asset Backed Commercial Paper.
 - Uncovered Calls or Puts.

Performance Objectives

The performance of the portfolio is expected to outperform the 91 Day Treasury Bill Index plus 1% over rolling three year periods. Performance should exceed the median of a universe of stable value funds.

Fixed Income Fund

The Fixed Income Fund is intended to provide exposure to the broad domestic fixed income market.

Investment Objective

The primary investment objective of the Fixed Income Fund is to provide investment growth through interest income with the potential for low to moderate capital appreciation and low volatility. The option will be actively managed to enhance returns.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the Option's assets. This will provide diversification for the Option by investment organization. A table of the current investment managers for this option, their target allocations and the allocation range for each manager is shown in Appendix B.

The option is expected to comply the following guidelines.

Acceptable Investments

This Option will invest in debt instruments of corporations, governments and government agencies and securitized debt instruments.

Diversification

The option's assets should be diversified by issuer, sector and quality. Sector and Quality allocations are expected to be similar to those of the Barclays Capital Aggregate Bond Index. Issues of non-US governments and corporations should not exceed 20% of the option's assets. No more than 5% of the Option should be invested in any one issuer.

Quality

The option's investments are intended to have an average quality rating of A- or better. Investments in issues rated below investment grade are permitted but should not exceed 20% of the option's assets. The option may have a maximum combined allocation of 20% to Non-U.S. Dollar denominated securities

Duration

While no specific ranges are required, it is expected that the average duration of the account will be within +/- 25% of the benchmark, the Barclays Capital Aggregate Bond Index.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds that generated by the Barclays Capital Aggregate Index over rolling five year periods. The Option's returns should remain competitive with the Barclays Capital Aggregate Index returns over rolling three year periods.

Provide a rate of return that places above the median manager in a universe of U.S. core bond fixed income managers over rolling five year periods. The Option's returns should remain competitive with the universe over shorter, rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed 150% of the risk of the Barclays Capital Aggregate Index over rolling five year periods.

Fixed Income Index Fund

The Fixed Income Index Fund is intended to provide passive exposure to the broad domestic fixed income market.

Investment Objective

The primary investment objective of the Fixed Income Index Fund is to provide a low cost passive bond investment option that will provide exposure to the income and capital appreciation of the US bond market.

Investment Management

The Board has determined that this Option will be managed by a single investment manager.

The option is expected to comply with the following guidelines.

Acceptable Investments

This Option will invest in debt instruments of corporations, governments and government agencies and securitized debt instruments.

Diversification

The option's assets should be diversified by issuer, sector and quality. Sector and Quality allocations are expected to be similar to those of the Barclays Capital Aggregate Bond Index. Issues of non-US governments and corporations should not exceed 20% of the option's assets. No more than 5% of the Option should be invested in any one issuer.

Quality

Investments in issues rated below investment grade are not permitted. All investments will be denominated in US Dollars.

Duration

While no specific ranges are required, it is expected that the average duration of the account will closely match that of the Barclays Capital Aggregate Bond Index.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

Performance Objectives

The Option should provide a return that closely tracks that of the Barclays Capital US Aggregate Bond Index. Tracking error to this objective should be less than 0.25% annually gross of fees..

Large Cap Value Equity Fund

The Large Cap Value Fund was established to provide participants of the Plan with an actively managed equity option targeted at the large cap sector of the U.S. equity market and managed in a value style.

Investment Objective

The primary objective of the Large Cap Value Equity Fund is long-term growth of capital utilizing a diversified portfolio of large company stocks which are deemed to have stock prices that do not reflect the company's asset value or current earnings ability and are thus undervalued.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the option's assets. This will provide diversification for the Option by investment organization. A table of the current investment managers for this Option, their target allocations and the allocation range for each manager is shown in Appendix B.

Acceptable Investments

Equity securities, meaning U.S. common stocks or equivalents (American Depositary Receipts (ADRs), convertible bonds, and preferred stocks). ADRs and Non-U.S. equities may comprise up to 20% of the equity holdings.

Capitalization

The average market capitalization of the portfolio should be within the range of the stocks in the Russell 1000 Value Index.

Diversification

The fund's exposure to the securities of any one issuer is limited to the greater of 5.0% of the total account at market value or the weight of the security in the assigned benchmark plus 2.5%, up to an absolute limit of 10% at market value. No more than the greater of two times the Russell 1000 Value Index industry sector weighting or 25% should be invested in any one industry sector.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio

Style

This mandate is intended to provide exposure to the value style of portfolio management. The primary characteristics on which the Option will be evaluated for this measure are Price to Book and Price to Earnings, each of which should be lower than the broad U.S. large cap equity market.

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Cash Reserves

Although the portfolio is expected to generally be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds that generated by the Russell 1000 Value Index over rolling five year periods. The Option's returns should remain competitive with the Russell 1000 Value Index returns over rolling three year periods.

Provide a rate of return that places above the median manager in a universe of U.S. large cap value equity managers over rolling five year periods. The Option's returns should remain competitive with the universe over shorter, rolling three year periods.

Maintain a risk level, as measured by the standard deviation of monthly returns, which does not exceed 150% of the risk of the Russell 1000 Value Index over rolling five year periods.

Large Cap Growth Fund

The Large Cap Growth Fund was established to provide participants of the Plan with an actively managed equity option targeted at the large cap sector of the U.S. equity market and managed in a growth style.

Investment Objective

The primary objective of the Large Cap Growth Equity Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of large companies with above average earnings growth potential.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the Option's assets. This will provide diversification for the Option by investment organization. A table of the current sub-advisors for this Option, their target allocations and the allocation range for each manager is shown in Appendix B.

Acceptable Investments

Equity securities, meaning U.S. common stocks or equivalents (American Depositary Receipts (ADRs), convertible bonds, and preferred stocks). ADRs and NonUS equity may comprise up to 10% of the equity holdings.

Capitalization

The average market capitalization of the Option should be within the range of the Russell 1000 Growth Index.

Diversification

The fund's exposure to the securities of any one issuer is limited to the greater of 5.0% of the total account at market value or the weight of the security in the assigned benchmark plus 2.5%, up to an absolute limit of 10% at market value and no more than the greater of two times the Russell 1000 Growth Index industry sector weighting or 25% should be invested in any one industry sector.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.

Style

This mandate is intended to provide exposure to the growth style of portfolio management. This shall mean that the portfolio should hold securities of companies with above average expected earnings growth. The primary characteristic on which

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

the portfolio will be evaluated for this measure is EPS growth, either trailing or projected, which should be higher than the broad US large cap market. Price to Book and Price to Earnings will also be evaluated and are expected to be higher than the broad U.S. large cap equity market.

Cash Reserves

Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds that generated by the Russell 1000 Growth Index over rolling five year periods. The portfolio's returns should remain competitive with the Russell 1000 Growth Index returns over rolling three year periods.

Provide a rate of return that places above the median manager in a universe of U.S. large cap growth equity managers over rolling five year periods. The portfolio's returns should remain competitive with the universe over shorter, rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed 150% of the risk of the Russell 1000 Growth Index over rolling five year periods.

Large Cap Equity Index Fund

The objective of the Large Cap Index Fund is to provide an equity option that will match the return of US large cap stocks. The Option will be invested in large cap stocks contained in the S&P 500 Index. This Option's goal is long term capital growth through a combination of reinvested dividend income and capital appreciation.

Investment Management

The Board has determined that this Option will be managed by a single investment manager.

Acceptable Investments

Common stocks represented in the S&P 500 Index. The Option may employ either a full replication or a sampling approach to indexing the S&P 500. The Option may make use of index futures or options but may not establish any degree of leverage in the account.

Quality

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained in the Option.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option. Turnover should reflect the activity required to maintain equivalent exposures to the S&P 500 Index.

Diversification

No more than 5% of the Option should be invested in any one company (valued at market) unless such company comprises more than 5% of the S&P 500 Index in which case the exposure should equal the S&P 500 level.

Alternative Investments

The Option is permitted to make use of derivative securities to the extent that such use will improve the tracking error of the Option relative to the benchmark index and minimize the effect of cash flows within the Option. The Option is expected to maintain a zero leverage position.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1.

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

Performance Standards

The Option should provide a rate of return that equals (gross of fees) the S&P 500 Index over rolling one, three and five year periods. The tracking error of the Option should not exceed 20 basis points on an annual basis.

Small/Mid Cap Value Equity Fund

The Small/Mid Cap Value Option was established to provide participants of the Plan with an actively managed equity option targeted at the mid and small cap sectors of the U.S. equity market. The option is intended to have a value bias of investment management..

Investment Objective

The primary objective of the Small/Mid Cap Value Fund is long-term growth of capital through investment in a portfolio of small to mid sized companies which are deemed to have stock prices that do not reflect the company's asset value or current earnings ability and are thus undervalued.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the option's assets. This will provide diversification for the option by investment organization. A table of the current sub-advisors for this option, their target allocations and the allocation range for each sub-advisor is shown in Appendix B.

Acceptable Investments

Equity securities, meaning common stocks or equivalents (American Depositary Receipts (ADRs), convertible bonds, preferred stock) of U.S. companies. It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels, as described below. ADRs may comprise up to 10% of the equity holdings.

Capitalization

The average market capitalization of the Option should be within the range of the lower 2500 of the 3000 largest capitalization stocks in the U.S. markets.

Diversification

The fund's exposure to the securities of any one issuer is limited to the greater of 5.0% of the total account at market value or the weight of the security in the assigned benchmark plus 2.5%, up to an absolute limit of 10% at market value. The Option should maintain exposure to at least five industry sectors at all times.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option.

Style

This mandate is intended to provide exposure to the value style of portfolio management. The primary characteristics on which the Option will be evaluated for this measure are Price to Book and Price to Earnings, each of which should be lower than the broad U.S. small/mid cap equity market.

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds that of the Russell 2500 Value Index over rolling five year periods. The Option's returns should remain competitive with the index returns over rolling three year periods.

Provide a rate of return that exceeds the median in a mid / small cap U.S. equity peer group universe over rolling five year periods. The Option's returns should remain competitive with the universe over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed 150% of the risk of the Russell 2500 Value Index over rolling five year periods.

Small/Mid Cap Growth Equity Fund

The Small/Mid Cap Growth Fund was established to provide participants of the Plan with an actively managed equity option targeted at the mid and small cap sectors of the U.S. equity market. The Option is intended to have a growth bias of investment management.

Investment Objective

The primary objective of the Small/Mid Cap Growth Equity Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of mid- and small-capitalization companies with above average earnings growth potential.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple sub-advisors will be retained to manage portions of the Option's assets. This will provide diversification for the Option by investment organization. A table of the current sub-advisors for this Option, their target allocations and the allocation range for each manager is shown in Appendix B.

Acceptable Investments

Equity securities, meaning common stocks or equivalents (American Depositary Receipts (ADRs), convertible bonds, preferred stock) of U.S. companies. It is anticipated that the manager will invest primarily in companies considered to have mid / small capitalization levels, as described below. ADRs may comprise up to 10% of the equity holdings.

Capitalization

The average market capitalization of the Option should be within the range of the lower 2500 of the 3000 largest capitalization stocks in the U.S. markets.

Diversification

The fund's exposure to the securities of any one issuer is limited to the greater of 5.0% of the total account at market value or the weight of the security in the assigned benchmark plus 2.5%, up to an absolute limit of 10% at market value. The Option should maintain exposure to at least five industry sectors at all times.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option.

Style

This mandate is intended to provide exposure to the growth style of portfolio management. This shall mean that the portfolio should hold securities of companies with above average expected earnings growth. The primary characteristic on which the portfolio will be evaluated for this measure is

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

EPS growth, either trailing or projected, which should be higher than the broad US small/mid cap market. Price to Book and Price to Earnings will also be evaluated and are expected to be higher than the broad U.S. small/mid cap equity market.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds that of the Russell 2500 Growth Index over rolling five year periods. The Option's returns should remain competitive with the index returns over rolling three year periods.

Provide a rate of return that exceeds the median in a mid / small cap U.S. equity peer group universe over rolling five year periods. The Option's returns should remain competitive with the universe over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed 150% of the risk of the Russell 2500 Growth Index over rolling five year periods.

Small/Mid Cap Equity Index Fund

The objective of the Small / Mid Cap Equity Index Fund is to provide an equity option that will match the return of the small and middle capitalization portions of the U.S. stock market. The Option will be invested in mid and small cap stocks contained in the Russell 2500 Index. This Option's goal is long-term capital growth through a combination of dividend income and capital appreciation.

Investment Management

The Board has determined that this Option will be managed by a single investment manager.

Acceptable Investments

Common stocks represented in the Russell 2500 Index. The Option may employ either a full replication or a sampling approach to indexing the Russell 2500. The Option may make use of index futures or options but may not establish any degree of leverage in the account.

Quality

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained in the Option.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option. Turnover should reflect the activity required to maintain equivalent exposures to the Russell 2500 Index.

Diversification

No more than 5% of the Option should be invested in any one company (valued at market) unless such company comprises more than 5% of the Russell 2500 Index in which case the exposure should equal the Russell 2500 level.

Alternative Investments

The Option is permitted to make use of derivative securities to the extent that such use will improve the tracking error of the Option relative to the benchmark index and minimize the effect of cash flows within the Option.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1.

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

Performance Standards

The Option should provide a rate of return that equals (gross of fees) the Russell 2500 Index over rolling one, three and five year periods. The tracking error of the Option should not exceed 30 basis points on an annual basis.

International Equity Fund

The International Fund was established to provide participants of the Plan with an actively managed equity option that will invest in non-U.S. equity markets.

Investment Objective

The primary objective of the International Fund is long-term growth of capital utilizing a diversified portfolio invested in stocks of companies located outside the United States.

Permissible Non Equity Investments

The Option's investment managers may utilize hedging instruments, such as forward currency contracts or options, to reduce the exposure of their non-U.S. investments to fluctuations in the currency markets.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the Option's assets. This will provide diversification for the Option by investment organization. A table of the current sub-advisors for this Option, their target allocations and the allocation range for each manager is shown in Appendix B.

The following guidelines apply to each manager in the management of the International Fund:

Acceptable Investments

Non-U.S. equity securities, meaning common stock or stock equivalents of non-U.S. companies (ADRs, issues convertible into common stock, etc.) traded on U.S. and/or foreign exchanges.

Capitalization

The portfolio should be invested in large cap companies. For the purposes of this policy, large cap companies will be deemed to include companies in the MSCI AC World Ex US Index. This index includes the largest 80% of companies in each country my market cap.

Country/Region Diversification

The maximum allocation to any one country is 50%, regardless of index weight to that country. The allocation to any one country should not exceed 200% of that country's weight in the MSCI AC World Ex US Index, with the exception of countries whose allocation in the index is less than 5%, for which countries the maximum allocation will be 10%.

Issue/Industry Diversification

The exposure to the securities of any one issuer is limited at market value to 7.5% of the portfolio.

V. INVESTMENT OPTION OBJECTIVES, GUIDELINES AND CRITERIA

<i>Turnover</i>	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option.
<i>Hedging</i>	The Option's assets may be hedged to U.S. Dollars to protect against currency fluctuations at the manager(s) discretion.
<i>Cash Reserves</i>	Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds the Morgan Stanley Capital International All Country World (ACWI) ex U.S. Index over rolling five year periods. The Option's returns should remain competitive with the index returns over rolling three year periods.

Provide a rate of return that places above the median of a non-U.S. equity peer group universe over rolling five year periods. The Option's returns should remain competitive with the universe median returns over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed 125% of the risk of the ACWI ex U.S. over rolling five year periods.

International Equity Index Fund

The objective of the International Index Fund is to provide an equity option that will match the return of the international stock market. The Option will be invested in the stocks contained in the MSCI All Country World ex U.S. Index. This Option's goal is long-term capital growth through a combination of dividend income and capital appreciation.

Investment Management

The Board has determined that this Option will be managed by a single investment manager.

Acceptable Investments

Common stocks represented in the MSCI ACWI ex U.S. Index. The Option may employ either a full replication or a sampling approach to indexing the MSCI ACWI ex U.S. Index. The Option may make use of index futures or options but may not establish any degree of leverage in the account.

Quality

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained in the Option.

Turnover

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the Option. Turnover should reflect the activity required to maintain equivalent exposures to the MSCI ACWI ex U.S. Index.

Diversification

No more than 5% of the Option should be invested in any one company (valued at market) unless such company comprises more than 5% of the MSCI ACWI ex U.S. Index in which case the exposure should equal the MSCI ACWI ex U.S. Index level.

Alternative Investments

The Option is permitted to make use of derivative securities to the extent that such use will improve the tracking error of the Option relative to the benchmark index and minimize the effect of cash flows within the Option. The Option is expected to maintain a zero leverage position.

Cash Reserves

Although the Option is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1.

Performance Standards

The Option should provide a rate of return that equals (gross of fees) the MSCI ACWI ex U.S. Index over rolling one, three and five year periods. The tracking error of the Option should not exceed 10 basis points on an annual basis.

Global Equity Fund

The Global Equity Fund was established to provide participants of the Plan with an active equity investment option that invests in stocks of companies without any geographic limitation. The option will invest in both US and non-U.S. equity markets. The manager is expected to seek to outperform the broad global equity market through stock selection as well as sector and country/region selection

Investment Objective

The primary objective of the Option is to outperform global equity markets over the long term on a risk adjusted basis through a diversified portfolio of global equity securities.

Investment Management

The Board recognizes that no investment manager is able to provide consistently superior returns in all time periods. Therefore, the Board has determined that multiple investment managers will be retained to manage portions of the Option's assets. This will provide diversification for the Option by investment organization. A table of the current sub-advisors for this Option, their target allocations and the allocation range for each manager is shown in Appendix B.

Acceptable Investments

US and Non-U.S. equity securities, meaning common stock or stock equivalents of non-U.S. companies (ADRs, issues convertible into common stock, etc.) traded on U.S. and/or foreign exchanges.

Capitalization

The portfolio should be invested in large cap companies. For the purposes of this policy, large cap companies will be deemed to include companies in the MSCI AC World Index. This index includes the largest 80% of companies in each country by market cap.

Country/Region Diversification

The maximum allocation to any one country is 50%, regardless of index weight to that country. The allocation to any one country should not exceed 200% of that country's weight in the MSCI AC World Index, with the exception of countries whose allocation in the index is less than 5%, for which countries the maximum allocation will be 10%.

Hedging

The Option's assets may be hedged to U.S. Dollars to protect against currency fluctuations at the manager(s) discretion.

Cash Reserves

Cash may be used opportunistically. Cash reserves will be limited to cash equivalent instruments of maturities less than one year carrying a credit rating of at least A1/P1 or a commingled money market fund offered by the custodian bank which meets these standards.

Performance Objectives

Provide a rate of return that exceeds the Morgan Stanley Capital International All Country World Index (ACWI) over rolling five year periods with similar or lower return volatility.

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

A. Introduction

The North Carolina Supplemental Retirement Plans were established to provide an investment vehicle for the use of the various retirement programs of the State. Within the Plan, multiple Investment Managers are utilized to manage portions of the Plan's assets. Each Investment Manager is retained with a specific mandate for the assets under their management. This Section of the Investment Policy Statement outlines the investment objectives and associated guidelines and criteria that are applicable to all Investment Managers employed by the Board.

B. Overall Objectives and Structure

All assets will be managed for the benefit of the participants and their beneficiaries of the various plans utilizing the Plan.

C. Objectives and Guidelines for All Plan Investment Managers

- 1) Investment Objective – Specific investment objectives and guidelines are outlined in each investment manager's legal contract. Each Investment Manager has been retained to manage a portfolio with a specific investment mandate. Therefore, it is imperative that each Investment Manager restricts its investment activities to its assigned mandate. Investment Managers are expected to remain fully invested consistent with their assigned mandates at all times.
- 2) Liquidity - Liquidity should not be an operational concern in the management of individual portfolios. The Board may have need from time to time to draw on a portion of any Investment Manager's portfolio assets to meet the cash needs of the Plan. When such situations arise, the Investment Manager will be notified, prior to the withdrawal of funds from the portfolio, of the amount and timing of the withdrawal.
- 3) General Account Diversification - All investment accounts managed for the Plan must maintain sufficient diversification among security issuers and market sectors such that the performance of one security or sector will not have an excessive impact on the manager's portfolio. Specific guidelines applicable to each mandate are described in the section VI.
- 4) Performance Guidelines - The performance of each portfolio will be reviewed quarterly by the Board. Each mandate will be assigned specific target benchmarks and/or peer group universes against which the performance of individual portfolios will be measured. The following are the general performance objectives that each portfolio should meet:
 - (a) Outperformance of Assigned Benchmark: Investment Managers will be assigned a specific benchmark by mandate against which the performance of their portfolio(s) will be measured. Performance will be compared to the assigned benchmark over rolling three and five year periods. Outperformance of the assigned benchmark over a full market cycle is expected.

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- (b) Peer Group Universe Comparison: Investment Managers will be informed of the peer group universe against which their performance will be compared. Investment Managers are expected to place above the median of their assigned peer group over rolling three and five year periods.
 - (c) In assessing an Investment Manager's performance relative to the assigned benchmark and peer group universe, the Board will consider risk adjusted performance as well as absolute and relative returns.
- 5) Asset Restrictions/Exclusions

The Board requires that all Investment Managers comply with the following limitations and restrictions on their investment activities and holdings:

- (a) Restrictions:
 - (i) Securities issued by, or obligations of, the Investment Manager or any Affiliate shall not be held in the account of any Investment Manager;
 - (ii) Investment Managers shall not engage in short sales or margin purchases except where explicitly permitted. All accounts shall be free of leverage;
 - (iii) Restricted securities are prohibited with the following exception: Securities acquired under rule 144A of the Securities Act of 1933 may be purchased with the stipulation that these securities shall not exceed 15% of the Investment Manager's account valued at market prices.
- (b) Derivative securities are prohibited except where specifically permitted in each mandate. Specific mandates may be permitted to make use of derivatives consistent with the overall investment guidelines and objectives of that mandate. Where derivative securities are permitted, they may not be used to establish a leveraged account. The Board is responsible for any required compliance with Rule 4.5 under the Commodity Exchange Act on behalf of the account.
- (c) Investments in commercial paper or other similar securities intended as cash equivalents shall be made only if such paper is rated at least A1/P1 by Standard and Poor's, Moodys or Fitch respectively and has a maturity of less than one year or a commingled money market fund offered by the custodian bank is used which meets these standards. Commercial paper rated below A1/P1 by any of the three rating agencies is not permitted.
- (d) Investment Managers may utilize exchange traded funds ("ETF's") representing their primary assigned benchmark in lieu of cash. Any ETF holdings will be considered part of the manager's allocation to cash and be subject to the cash allocation limits.

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D. Trade Execution

Investment Managers shall effect all purchases and sales of securities for the account(s) managed for the State of North Carolina in a manner consistent with the principals of best execution, taking into account net price (including commissions), execution capability and other services which the broker or dealer may provide. In this regard, the Investment Manager may effect transactions which cause the account to pay a commission or price in excess of a commission or price which another broker or dealer would have charged, provided, however, that the Investment Manager shall have first determined that such commission or cost is reasonable in relation to the value of the brokerage, research, performance measurement service and other services performed by that broker for the account(s).

E. Proxy Voting

All proxies shall be voted by the Department of State Treasurer in accord with the proxy policy approved by the Board.

F. Reporting

- 1) Each Investment Manager is required to submit a written report to the Board and/or its designees of any personnel changes that might impact the management of the Plan's assets. This report should be submitted as soon as the change is known or could be expected.
- 2) Each Investment Manager is directed to perform monthly reconciliations of their account holdings and values with the Plan's custodian. The Investment Manager is directed to provide a written report to the Board and/or their designees of any significant unresolved discrepancies.
- 3) Each Investment Manager is directed to provide, within 30 days of the end of each calendar quarter, a written report to the Board and/or its designees detailing any derivative security holding and their potential impact on the portfolio given a worst case scenario.
- 4) Each Investment Manager is required to submit to the Board and/or its designees annually a written report detailing the firm's soft dollar activity. This report should be submitted within 30 days of the end of each calendar year. The report should list the types of services the firm buys, from whom the services are purchased, total soft dollars generated by the firm, and the percentage of the firm's total soft dollars that are generated by the Plan's portfolio..
- 5) Each Investment Manager should reconcile the performance of its portfolio with the calculations of the custodian on a quarterly basis. Any material discrepancies should be reported to the Board or its designee.
- 6) Each Investment Manager will promptly report any breach of these account guidelines to the Board or its designee, shall correct the breach within 45 days of discovery, and then report to the Board or its designee that the breach has been corrected.

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

G. Reviews

The investment performance results of each Investment Manager will be reviewed quarterly. The Board may, at its discretion, require the appearance of the sub-advisor at its meetings. This review will focus on the following:

- 1) Adherence to the guidelines stated in this Investment Policy Statement;
- 2) Adherence to the Investment Manager's stated investment style and philosophy;
- 3) Comparison of performance results to the benchmarks and peer groups outlined in this Investment Policy Statement, as well as risk and other characteristics of the sub-advisor's performance;

The quarterly review may also focus on any aspect of the quarter's performance or on any occurrences during the quarter. The Board will also review any required reporting that was submitted during the quarter.

H. Securities Lending

The Board has adopted a policy that it will not engage directly in securities lending in its separately managed accounts where securities are custodied with the Plan's custodian. The Board will seek to avoid securities lending in its fund investments. The Board has determined that investments in commingled or mutual funds that engage in securities lending may be permitted in certain circumstances, but each such instance will be evaluated individually, balancing the benefits of the fund (fees, flexibility, etc) with the additional risks of securities lending. In cases where the Plans invest in funds that engage in securities lending, the collateral investment policies of these funds will be evaluated to gauge their level of investment risk. Significant collateral investment risk will not be permitted in any of the Plan's investments.

I. Investment Manager Monitoring, Watch List and Termination Guidelines

The Board may place an Investment Manager on a watch list or terminate a manager for any reason, including but not limited to the following:

- A change in portfolio management personnel or senior executives of the Investment Manager or change in the ownership of the firm;
- A change in investment process or style drift;
- A violation of the rules or regulations of a governmental entity or self-regulatory organization; or
- Any other circumstance regarding the investment option that the Board determines is in conflict with this Policy Statement or the best interests of the Plan.
- Violation of terms of contract
- Restructuring of an Investment Option

In addition, the Board may consider other factors such as general economic and financial market conditions and trends or the structure of investment options in evaluating a particular portfolio's viability within the Plan. Should an Investment Manager fail to satisfy its performance criteria, or

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

should the Board have some other concern about the Investment Manager or portfolio, the Board may take any or all of the following actions:

- Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected;
- Replace the Investment Manager with another Investment Manager for the mandate;
- Terminate the investment manager;

Failure by an Investment Manager to achieve the performance objectives established by the Board over any given rolling three- year period shall cause that manager to be placed on a “watch list”. An Investment Manager may also be placed on watch within a lesser period if the Board believes the Investment Manager’s strategy has deviated from the objective of the mandate. The watch period will be established for the next three quarters, but may be lengthened or shortened at the Board’s discretion. It is anticipated that the typical watch period will not exceed one year. If performance does not improve within a specific time period relative to the benchmark and/or peer group universe, that manager’s mandate will be reviewed with a bias towards termination.

J. Mutual Funds

The Board may choose to use a mutual or commingled fund as the sole vehicle for a Option in the Plan or as part of an option. The qualitative guidelines presented for each Option are intended to represent the general characteristics of the portfolio. In general, deviations from these guidelines should be considered on a case by case basis within the framework of the overall portfolio. The Board recognizes that the guidelines presented here are superseded by the mutual fund’s prospectus. Nevertheless, should a mutual fund violate these standards to a degree deemed significant by the Board, consideration should be given to the fund’s continued suitability to the investment Option objective.

VII. FUND ALLOCATION MODELS

The Board has concluded that asset allocation is the most important determinant of long term investment results. In order to assist participants in making effective asset allocation decisions, the Board has elected to offer participants a set of predetermined fund allocations that have been created by investment experts which utilize the Options offered in the Plan. Participants can elect to have their entire plan balance allocated in accordance with one of the models offered.

Model Allocation Determination

Utilizing the advice of a professional asset allocation specialist firm, the Board has selected a set of Option asset allocation models to be offered. These models were designed to be sensitive to the two primary drivers of optimal asset allocation: Risk Tolerance and Investment Horizon. Accordingly, the models the Board has selected are arrayed on these two dimensions. The Board believes that Long Term Return and Risk are related and that over time higher returns will be generated by taking on higher risk.

Risk Tolerance

Participants are able to select their risk tolerance from one of three levels, Conservative, Moderate and Aggressive. Each model is optimized to provide the highest expected long term return possible at that risk tolerance level.

Participant Investment Horizon

A participant's investment horizon is also a determinant of the level of risk that is appropriate. Participants with longer investment horizons have more time to recover from short term losses and thus are able to invest more aggressively and earn a higher long term return. For each of the three levels of general Risk Tolerance, four investment horizon models have been selected. These Investment Horizon models become more conservative, with higher allocations to bonds and stable value investments, as the horizon becomes shorter. These models were designed to be consistent with the participants' retirement date.

Model Allocation Investments

The Model Allocations are able to utilize all of the investment Options offered by the Plan. However, the models are not required to make use of all Options if it is determined that a particular Option is not appropriate for a given risk tolerance and investment time horizon.

Model Allocation Implementation

These asset allocation models will be implemented by the Plan's recordkeeper. The recordkeeper will automatically allocate any contributions and distributions across the Options in model, in order to maintain the targeted Option allocation. The recordkeeper will rebalance the allocation across the Options back to the target allocation on a quarterly basis or more frequently if necessary due to market movements.

Model Revisions

The Board will re-visit these target allocations periodically to ensure that they continue to be effective as market conditions change. If any new Options are added to the Plan, the model allocations will be revisited to ascertain whether the new options should be included and in what allocation.

VII. FUND ALLOCATION MODELS

The current Model Allocations are shown below.

Conservative

The objective of the Conservative Model Allocation is to achieve long term growth in excess of inflation with a minimal risk of capital loss over a full market cycle.

Conservative	C01	C02	C03	C04
	0-5 Yrs	6-10 Yrs	11-15 Yrs	16+ Yrs
Large Cap Value	2%	3%	5%	6%
Large Cap Index	5%	6%	10%	15%
Large Cap Growth	2%	3%	5%	6%
Small / Mid Cap Value	2%	2%	3%	4%
Small / Mid Cap Index	2%	4%	6%	8%
Small / Mid Cap Growth	2%	2%	3%	4%
Global	2%	4%	4%	6%
International	3%	4%	7%	10%
International Index	4%	5%	8%	11%
Fixed Income	16%	13%	13%	8%
Fixed Income Index	16%	14%	13%	8%
Stable Value	44%	39%	23%	14%

VII. FUND ALLOCATION MODELS

Moderate

The objective of the Moderate Model Allocation is moderate growth of principal with limited downside risk over a market cycle.

Moderate	M01	M02	M03	M04
	0-5 Yrs	6-10 Yrs	11-15 Yrs	16+ Yrs
Large Cap Value	3%	5%	6%	7%
Large Cap Index	8%	10%	13%	16%
Large Cap Growth	3%	5%	6%	7%
Small / Mid Cap Value	2%	3%	3%	5%
Small / Mid Cap Index	6%	6%	8%	10%
Small / Mid Cap Growth	2%	3%	3%	5%
Global	4%	4%	6%	8%
International	6%	7%	10%	13%
International Index	6%	8%	10%	14%
Fixed Income	12%	13%	9%	4%
Fixed Income Index	13%	13%	10%	4%
Stable Value Vehicles	35%	23%	16%	7%

Aggressive

The primary investment objective of the Aggressive Model Allocation is to maximize growth of principal over the long term with a reasonable level of overall volatility.

Aggressive	A01	A02	A03	A04
	0-5 Yrs	6-10 Yrs	11-15 Yrs	16+ Yrs
Large Cap Value	5%	6%	7%	8%
Large Cap Index	11%	13%	14%	18%
Large Cap Growth	5%	6%	7%	8%
Small / Mid Cap Value	3%	3%	5%	6%
Small / Mid Cap Index	6%	8%	10%	14%
Small / Mid Cap Growth	3%	3%	5%	6%
Global	6%	6%	8%	8%
International	7%	10%	12%	16%
International Index	8%	10%	12%	16%
Fixed Income	12%	9%	5%	0%
Fixed Income Index	13%	10%	6%	0%
Stable Value Vehicles	21%	16%	9%	0%

VIII. REVIEW PROCEDURES

To fulfill its ongoing fiduciary responsibility, the Board will, on a periodic basis and not less than annually, review the actual results achieved by the investment options to verify that each Option is being managed in compliance with the investment guidelines and to evaluate the investment return produced in comparison to the performance objectives stated herein. The Investment Consultant will assist the Board in the review and evaluation.

On a periodic basis, the Board will review this Statement of Investment Policy to determine whether any changes should be made.

Adopted by the Board Members:

Date: _____

CODE REFERENCES AND DEFINITIONS

Code References

Section 401(a) – Section 401(a) of the Code provides the general provisions for any tax qualified plan or trust.

Section 401(k) – Section 401(k) of the Code provides the legislation for a defined contribution plan established by an employer in which employees can make pretax contributions.

Section 501(a) – Section 501(a) of the Code provides the legislation for the tax advantaged status of most Section 401 plans.

Section 404(c) - Section 404(c) of ERISA provides a safe haven for plan sponsors regarding participant investment elections. Specifically, the fiduciaries of a plan that meets the requirements of Section 404(c) are relieved of fiduciary obligations related to investment decisions made by participants. The requirements for compliance with Section 404(c) include:

- Plan must offer at least three diversified core Options;
- Participants must be able to switch investments as frequently as appropriate given market conditions;
- Each of the three core Options must permit transfers at least quarterly;
- Participants must be given certain information on each of the investment alternatives “so as to permit informed investment decisions”; and
- If employer stock is offered as an investment alternative, special rules apply.

Section 457 – Section 457 of the Code provides regulation for Plans where payment of compensation is deferred.

Definitions

Investment Option: A specific investment fund offered to a participant; may be composed of a single mutual fund or a group of separate account vehicles.

Pooled Investment: A pooled investment option or fund is a structure where multiple investment managers are responsible for managing a portion of the Option or fund’s assets.

Mandate: A set of objectives and guidelines that describe a type of portfolio. Mandates are assigned to individual portfolio managers.

INVESTMENT FUND MANAGER ALLOCATION TARGETS
Appendix A

Asset Class	Investment Manager	Benchmark	Universe
Stable Value	Galliard	ML 91 Day T-Bill +1%	Stable Value
Fixed Income	PIMCO	Barclays Capital Aggregate	Core Bond
	J.P. Morgan	Barclays Capital Aggregate	Core Bond
Fixed Income Index	Blackrock	Barclays Capital Aggregate	Core Bond
Large Cap Index	Blackrock	S & P 500	Large Cap Core Index
Large Cap Value	Robeco	Russell 1000 Value	Large Cap Value Equity
	Hotchkis & Wiley	Russell 1000 Value	Large Cap Value Equity
	Wellington	Russell 1000 Value	Large Cap Value Equity
Large Cap Growth	Sands Capital	Russell 1000 Growth	Large Cap Growth Equity
	Wellington	Russell 3000 Growth	Large Cap Growth Equity
	Neuberger Berman	Russell 1000 Growth	Large Cap Growth Equity
Small / Mid Cap Index	Blackrock	Russell 2500	SMID Cap Core Index
Small / Mid Cap Value	Hotchkis & Wiley	Russell 2500 Value	SMID Cap Value Equity
	Earnest Partners	Russell 2500 Value	SMID Cap Value Equity
	Wedge Capital Management	Russell 2500 Value	SMID Cap Value Equity
Small / Mid Cap Growth	TimeSquare Capital	Russell 2500 Growth	SMID Cap Growth Equity
	Brown Advisory	Russell 2500 Growth	SMID Cap Growth Equity
International Index	Blackrock	MSCI ACWI ex US	NonUS Equity
International Equity	Baillie Gifford	MSCI ACWI ex US	NonUS Equity
	Mondrian	MSCI ACWI ex US	
Global Equity	Arrowstreet	MSCI ACWI	Global Equity
	Wellington	MSCI ACWI	Global Equity

INVESTMENT FUND MANAGER ALLOCATION TARGETS

Appendix B

The following tables list the current Investment Managers utilized in each fund. Each Investment Manager is assigned a target allocation of the fund and a range around that target which describes the minimum and maximum allocation to that Investment Manager. The Board has charged the Recordkeeper with maintaining each Investment Manager's allocation of the individual funds' assets within these ranges. The Board designates the Recordkeeper and staff with the authority to move assets between the Investment Managers in order to bring the allocation more closely in line with these target allocations.

Large Cap Index Fund

Investment Manager	Target Allocation
Blackrock	100.0%

Large Cap Value Fund

Investment Manager	Target Allocation	Allocation Range
Hotchkis & Wiley	33.3%	+/- 3%
Wellington	33.3%	+/- 3%
Robeco	33.3%	+/- 3%

Large Cap Growth Fund

Investment Manager	Target Allocation	Allocation Range
Sands Capital	33.3%	+/- 3%
Wellington	33.3%	+/- 3%
Neuberger Berman	33.3%	+/- 3%

Small/Mid Cap Index Fund

Investment Manager	Target Allocation
Blackrock	100.0%

Small/Mid Cap Value Fund

Investment Manager	Target Allocation	Allocation Range
Earnest Partners	33.3%	+/- 3%
Hotchkis & Wiley	33.3%	+/- 3%
Wedge Capital Management	33.3%	+/- 3%

Small/Mid Cap Growth Fund

Investment Manager	Target Allocation	Allocation Range
TimeSquare Capital	50.0%	+/- 3%
Brown Advisory	50.0%	+/- 3%

INVESTMENT FUND MANAGER ALLOCATION TARGETS

International Equity Index Fund

Investment Manager	Target Allocation
Blackrock	100.0%

International Equity Fund

Investment Manager	Target Allocation	Allocation Range
Baillie Gifford	50.0%	+/- 3%
Mondrian	50.0%	+/- 3%

Global Equity Fund

Investment Manager	Target Allocation	Allocation Range
Arrowstreet	50.0%	+/- 3%
Wellington	50.0%	+/- 3%

Fixed Income Fund

Investment Manager	Target Allocation	Allocation Range
JP Morgan	50.0%	+/- 3%
PIMCO	50.0%	+/- 3%

Fixed Income Index Fund

Investment Manager	Target Allocation
Blackrock	100%

Appendix C

Service Providers

Recordkeeper:	Prudential Retirement Services
Custodians:	State Street Bank and Trust Wells Fargo Bank Bank of New York Mellon
Investment Consultant:	Mercer Investment Consulting

Appendix D Investment Array

