

# North Carolina Supplemental Retirement Plans

401(k) and 457 Plans

Investment Holding Guideline Compliance Summary

As of December 31, 2015

Mercer Investments

EQUITY PORTFOLIOS - FUND LEVEL

Category	Applicable asset class	Guideline	LARGE CAP PASSIVE	LARGE CAP VALUE	LARGE CAP GROWTH	MID/SMALL PASSIVE	MID/SMALL VALUE	MID/SMALL GROWTH	INTL PASSIVE	INTL EQUITY	GLOBAL EQUITY
Individual securities	Passive domestic equity	Must mirror index by full replication or sampling	✓	--	--	✓	--	--	--	--	--
	Active domestic equity	Max: greater of 5% or index weight + 2.5%, but must be less than 10%	--	✓	✗	--	✓	✓	--	--	--
	Large cap value equity	ADR/Foreign Max: 20%	--	✓	--	--	--	--	--	--	--
	Large cap growth equity, Mid/Small cap equity	ADR/Foreign Max: 10%	--	--	✓	--	✓	✓	--	--	--
	Passive international equity	Max: greater of 5% or index weight	--	--	--	--	--	--	✓	--	--
	Active international equity	Max: 7.5%	--	--	--	--	--	--	--	✓	✓
	Active equity	Futures, options, swaps RESTRICTED	--	✓	✓	--	✓	✓	--	✓	✓
	Equity	144A Max: 15%	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Manager's own security RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Restricted securities RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sector diversification	Large cap equity	Individual sector weight Max: greater of 25% or 2x index weight	--	✓	✓	--	--	--	--	--	--
	Mid/Small cap equity	Diversification Min: 5 sectors	--	--	--	--	✓	✓	--	--	--
Country diversification	International equity	Max: 2x index weight but must be less than 50%; if index weight < 5%, then must be less than 10%; for global equity, max US weight: 60%	--	--	--	--	--	--	--	✓	✓
Average market cap	Equity	Within benchmark market cap range	--	✓	✓	--	✓	✓	--	✓	✓
Style	Value Equity	P/B, P/E < Broad market	--	✓	--	--	✓	--	--	--	--
	Growth equity	P/B, P/E > Broad market	--	--	✓	--	--	✓	--	--	--
Positioning	Equity	Short positions RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Leverage RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓
Currency hedging	Domestic equity	RESTRICTED	✓	✓	✓	✓	✓	✓	--	--	--
Cash reserves	Equity	Must be fully invested	✓	✓	✓	✓	✓	✓	✓	✓	✓

Manager self-report  
 Gaillard to monitor  
 Prudential to monitor

✓ In compliance with IPS.

✗ Not in compliance with IPS.

○ In compliance with manager guidelines, but not with fund guidelines.

EQUITY PORTFOLIOS - MANAGER LEVEL

Category	Applicable asset class	Guideline	LARGE CAP PASSIVE	LARGE CAP VALUE			LARGE CAP GROWTH			MID/SMALL CAP PASSIVE	MID/SMALL CAP VALUE			MID/SMALL CAP GROWTH		INTL PASSIVE	INTL EQUITY		GLOBAL EQUITY	
			BlackRock	Hotchkis & Wiley	Delaware	Robeco BP	Sands Capital	Wellington	Loomis	BlackRock	Hotchkis & Wiley	EARNEST	WEDGE	Times Square	Brown Advisory	BlackRock	Baillie Gifford	Mondrian Investment Partners	Wellington	Arrowstreet
Individual securities	Passive domestic equity	Must mirror index by full replication or sampling	✓	--	--	--	--	--	--	✓	--	--	--	--	--	--	--	--	--	--
	Active domestic equity	Max: greater of 5% or index weight + 2.5%, but must be less than 10%	--	○	✓	✓	○	✓	○	--	✓	✓	✓	✓	✓	--	--	--	--	--
	Large cap value equity	ADR/Foreign Max: 20%	--	✓	✓	✓	--	--	--	--	--	--	--	--	--	--	--	--	--	--
	Large cap growth equity, Mid/Small cap equity	ADR/Foreign Max: 10%	--	--	--	--	✓	✓	○	--	○	✓	✓	✓	✓	--	--	--	--	--
	Passive international equity	Max: greater of 5% or index weight	--	--	--	--	--	--	--	--	--	--	--	--	✓	--	--	--	--	--
	Active international equity	Max: 7.5%	--	--	--	--	--	--	--	--	--	--	--	--	--	✓	✓	✓	✓	✓
	Active equity	Futures, options, swaps RESTRICTED	--	✓	✓	✓	✓	✓	✓	--	✓	✓	✓	✓	✓	--	✓	✓	✓	✓
	Equity	144A Max: 15%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Manager's own security RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Equity	Restricted securities RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sector diversification	Large cap equity	Individual sector weight Max: greater of 25% or 2x index weight	--	✓	✓	✓	✓	✓	✓	--	--	--	--	--	--	--	--	--	--	--
	Mid/Small cap equity	Diversification Min: 5 sectors	--	--	--	--	--	--	--	--	✓	✓	✓	✓	✓	--	--	--	--	
Country diversification	International equity	Max: 2x index weight but must be less than 50%; if index weight < 5%, then must be less than 10%; for global equity, max US weight: 60%	--	--	--	--	--	--	--	--	--	--	--	--	--	✓	✓	○	✓	
Average market cap	Equity	Within benchmark market cap range	--	✓	✓	✓	✓	✓	✓	--	✓	✓	✓	✓	✓	--	✓	✓	✓	✓
Style	Value equity	P/B, P/E < Broad market	--	✓	✓	✓	--	--	--	--	✓	✓	✓	--	--	--	--	--	--	--
	Growth equity	P/B, P/E > Broad market	--	--	--	--	✓	✓	✓	--	--	--	--	✓	✓	--	--	--	--	
Positioning	Equity	Short positions RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Equity	Leverage RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Currency hedging	Domestic equity	RESTRICTED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	--	--	--	--	--	
Cash reserves	Equity	Must be fully invested	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Manager self-report  
 Gaillard to monitor  
 Prudential to monitor

✓ In compliance with IPS.

✗ Not in compliance with IPS.

○ In compliance with manager guidelines, but not with fund guidelines.

**FIXED INCOME PORTFOLIOS**

Category	Applicable asset class	Guideline	FIXED INCOME PASSIVE	FIXED INCOME	FIXED INCOME		STABLE VALUE
			BlackRock	FUND	JPMorgan	Prudential	Galliard
Individual securities	Fixed income	Max: 5%	✓	NA	✓	✓	--
	Fixed income	144A Max: 15%	✓	✗	✓	○	--
	Fixed income	Restricted securities RESTRICTED	✓	✓	✓	✓	--
Sector diversification	Fixed income	Corporate sector allocations similar to benchmark	✓	✓	✓	○	--
Quality	Fixed income	Min average quality: A-; Max HY: 20%; Max non-US Government & Corporates: 20%;	--	✓	✓	✓	--
	Passive fixed income	HY and non-USD-denominated RESTRICTED	✓	--	--	--	--
	Cash	Min average quality: A1/P1	--	--	--	--	NA
Duration	Fixed income	Max: +/- 25% of benchmark	--	✓	✓	○	--
	Passive fixed income	Must match index	✓	--	--	--	--
Maturity	Cash	Max: 1 year	--	--	--	--	NA
Underwriter	Fixed income	Purchases of securities in which JPM is the underwriter from JPM investment bank prohibited	--	--	✓	--	--
Currency hedging	Fixed income	RESTRICTED at manager level	✓	--	✓	✓	--
Cash reserves	Fixed income	Must be fully invested	✓	✓	✓	✓	--

Manager self-report  
 Galliard to monitor  
 Prudential to monitor

✓ In compliance with IPS.

✗ Not in compliance with IPS.

○ In compliance with manager guidelines, but not with fund guidelines.

**INFLATION SENSITIVE PORTFOLIO**

Category	Applicable asset class	Guideline	INFLATION Responsive
			PIMCO
Individual securities	Fixed income	144A Max: 15%	✓
	Fixed income	Manager's own security RESTRICTED	✓
	Fixed income	Restricted securities RESTRICTED	✓
Sector diversification	Commodities	Max: 40%	✓
	Equity and REITs	Max: 15%	✓
	Gold	Max: 25%	✓
Quality	Fixed income	Min average quality: A-	--
	Cash	Min average quality: A1/P1	--
Maturity	Cash	Max: 1 year	--
Cash reserves	Fixed income	Must be fully invested	✓

Manager self-report  
Galliard to monitor  
Prudential to monitor

 In compliance with IPS.

 Not in compliance with IPS.

 In compliance with manager guidelines, but not with fund guidelines.

#### **EQUITY PORTFOLIOS - FUND LEVEL**

Guideline: Max position 5%

Large Cap Growth Fund has positions that exceed 5%: Facebook(5.4%), VISA (5.3%), and Amazon (5.2%)

All three underlying LCG managers have positions in both VISA and Facebook

Manager's contractual guideline: **While the fund is out of guideline, the benchmark position in VISA, Facebook and Amazon is substantial. The Fund is still in-line with the overall objectives**

#### **EQUITY PORTFOLIOS - MANAGER LEVEL**

##### **Hotchkis - LARGE CAP VALUE**

Guideline: Max individual security weight: greater of 5% or Index weight + 2.5%, but must be less than 10%

Portfolio largest position size: 5.06%; Portfolio largest excess weight over BM: 4.3%

Manager's contractual guideline: **IN COMPLIANCE.** Market fluctuations caused position to exceed target, to limit excess trading costs manager not required to immediately sell securities

##### **SANDS - LARGE CAP GROWTH**

Guideline: Max individual security weight: greater of 5% or Index weight + 2.5%, but must be less than 10%

Portfolio largest position size: 8.5%; Portfolio largest excess weight over BM: 7.0%

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

##### **Loomis - LARGE CAP GROWTH**

Guideline: Max individual security weight: greater of 5% or Index weight + 2.5%, but must be less than 10%

Portfolio largest position size: 7.6%; Portfolio largest excess weight over BM: 5.1%

Manager's contractual guideline: **IN COMPLIANCE.** Max percentage size of largest position: 8%

##### **Loomis - LARGE CAP GROWTH**

Guideline: ADR/Foreign Max 10%

Portfolio ADR exposure 14.3%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding ADR/Foreign Max

##### **Hotchkis & Wiley - Mid Cap Value**

Guideline: ADR/Foreign Max 10%

Portfolio Non-US exposure 16.1%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding ADR/Foreign Max

##### **Wellington Global Opportunities**

Guideline: Max US Position 60%

Portfolio US exposure 68.8%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding US Exposure

#### **EQUITY PORTFOLIOS - FUND LEVEL**

Guideline: 14A Max 15%

Fixed Income Fund exposure 19.7%

Fund out of Compliance largely due to Prudential

Manager's contractual guideline: **While the fund is out of guideline it is still in-line with the overall objectives of the fund.**

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

##### **Prudential- FIXED INCOME**

Guideline: 14A Max 15%

14A Allocation 29.5%

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding 14A allocation

##### **Prudential- FIXED INCOME**

Guideline: Corporates allocation to the benchmark

Prudential Allocation 45.7%, benchmark allocation 24.3%

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

##### **Prudential- FIXED INCOME**

Guideline: Duration +/- 25% of the benchmark

Prudential Duration 7.3, 28% of the benchmark

Manager's contractual guideline: **IN COMPLIANCE.** No stipulation regarding duration

#### **STABLE VALUE**

##### **GALLIARD - STABLE VALUE**

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