

North Carolina Public School Teachers' and Professional  
Educators' Investment Plan

Statement of Investment Policy

March 6, 2013

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## **I. Purpose**

### **A. Purpose of the Program**

Under the authority granted by section 115C-341.2 of the North Carolina General Statutes, the North Carolina Department of State Treasurer established this approved third-party investment program, named the North Carolina Public School Teachers' and Professional Educators' Investment Plan (hereinafter referred to as the "Plan" or the "Program"), designed to qualify under § 403(b) of the Internal Revenue Code of 1986. The Program was created to provide eligible employees the opportunity to generate long-term accumulation of retirement savings through employer and employee contributions to individual participant accounts. The Program intends to serve as an investment option within an employer's 403(b) Plan.

The Program is governed and overseen by the Department of State Treasurer and the North Carolina Supplemental Retirement Board of Trustees (hereinafter, the "Board of Trustees"). The Board of Trustees' over-riding objective for the Program is to provide suitable retirement vehicles and retirement savings for the employees of covered employers. The Board of Trustees recognizes the diverse nature of covered employees' savings requirements, return objectives and risk tolerance. The Board of Trustees therefore intends to provide a suitable range of investment options through the Program which will meet the needs of employees in numerous life cycle stages and with different retirement savings requirements.

The Program has an annuity (b)1 component and a custodial account (b)7 component and is not operated as a freestanding plan, but as a product offering allowed under N.C.G.S. § 115C-341.2. The assets in the Program will be self-directed, meaning each participant shall be able to make any investment choice(s) of his or her choosing within the parameters of the investments made available as determined by the Board of Trustees.

The Board of Trustees shall choose and monitor Program investment options.

It is the intent of the Board to provide a range of investment options under the Program that will enable participants to invest according to varying risk tolerances and time horizons.

The Program shall be administered solely in the interests of the Program participants and their beneficiaries.

## **B. Purpose of the Statement of Investment Policy**

This Statement of Investment Policy (“IPS”) is intended to assist the Board in effectively structuring an appropriate investment menu. This includes establishing a prudent process for selecting, monitoring and, as necessary, replacing investment options. The purpose of the IPS is to document the objectives and guidelines of the Program.

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 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 Program assets are managed in a competent and professional manner and that all investments are suitable to the objectives of the investment option; and
- The need to provide a set of standards for performance evaluation of each investment option.

This IPS shall be reviewed at least annually by the Board of Trustees’ Investment Subcommittee. The Board of Trustees may amend this IPS to reflect changes in the capital markets, Program participant objectives, Program participant demographics, legislative and regulatory changes, or other factors relevant to the Program.

## **II. Responsibilities of Participants**

The assets of the Program are provided by certain employee benefit plan(s) of the employer. Program contributions are voluntary and/or participant-directed. As such, participants bear responsibility for deciding the amount of current compensation to defer in the Program and developing a strategy for the investment of deferrals and employer contributions in the investment options offered in the Program 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 Program participants are as follows:

- Determining the amount to contribute to the Program 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 Program 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**

#### **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**

- Determining the types of investment options offered within the Program so as to provide a broad risk/return spectrum;

- Selecting and terminating investment options;
- Selecting an investment consultant, as necessary or appropriate, to render advice on the investment program, the selection of investment options, evaluation of investment performance, funds, and other duties, as appropriate;
- Establishing performance investment objectives for each investment option;
- Monitoring, or causing to be monitored, the investment performance of the Program's investment options; and
- Communicating responsibilities, objectives and guidelines to fiduciaries and service providers as described in this policy.

## **2. Operations**

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

## **3. Control**

- Reviewing and evaluating results of the investment options against established performance standards; and
- Taking whatever corrective action is deemed prudent and appropriate when an investment option fails to perform against established policy objectives, guidelines and standards.
- The Board will also monitor the soundness of the investment firms which are chosen for the Program and their investment processes and will take corrective action if necessary.

## **B. Investment Subcommittee**

With respect to management of the investments of the Program, the non-fiduciary oversight responsibility of the Board of Trustees may be delegated to an Investment Subcommittee. 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 Trustee members appointed by the Board. The responsibilities of the Investment Subcommittee may include the following:

- Making recommendations as to the selection of investment options which fulfill the criteria of the identified asset class;
- Monitoring investment results of each investment option by means of regular review and analyses to determine whether those responsible for investment results are meeting guidelines and criteria;
- Recommending appropriate action to the Board if objectives are not being met or if policies and guidelines are not being followed; and
- Reviewing this Policy and recommending modifications to it, as needed.

## **C. Recordkeeper**

The recordkeeper has been delegated by the Board the responsibility for overseeing the custody of Program assets by a third party custodian. In addition, the Recordkeeper has the following responsibilities:

- Allocating and transferring the Program assets as directed by the Board or the participants of the underlying Program through the Program's recordkeeper among permitted investment options;
- Making payments from the Program to such participants or beneficiaries of the underlying Program as directed and as permitted by the employer's Plan document(s) and the employer's Compliance TPA;

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

#### **D. Third-Party Custodian**

The Program's custodian holds the following responsibilities:

- Providing custody and safekeeping of Program assets;
- Allocating and transferring the Program assets as directed by the Board, Recordkeeper or the participants of the underlying Program through the Program's recordkeeper among permitted investment options
- Providing a written accounting of all investments and all receipts, disbursements, income, expenses and other transactions of the Program at month end; and
- Reconciling asset account balances with the recordkeeper.

#### **E. Investment Consultant or other Board Designee**

##### **PORTFOLIO MONITORING DUTIES**

This designee or consultant shall issue an annual report to the Board and/or its designees which include the following information:

- The market value of Program assets as of the last business day of the most recent calendar year;
- The portion of Program 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 investment options, measured net of investment management fees and all expenses or measured on a gross basis (as appropriate), relative to a peer group



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

The designee or consultant also shall 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.

### INVESTMENT ADVISORY DUTIES

The designee or consultant shall:

- Reaffirm the adherence of investment options to stated investment policies, objectives and/or style, and identify any material deviations from stated investment policies, objectives and/or style.
- 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 options and the underlying reasons.
- Keep the Board and/or their designees informed about current investment trends and issues.
- Review the Program investment option array and make recommendations to the Board.
- Provide recommendations to the Board on investment option 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.

### **F. Retirement Division Staff**

Staff of the Department of State Treasurer shall:

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

## **IV. Program Structure**

The Board of Trustees 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.

While offering a variety of investment options is important, efforts will be made to keep the total number to a prudent level that balances the benefits of broad diversification with the disadvantages of too many choices. At a minimum, the Program shall offer enough investment options to well represent at least three major asset classes: Cash, Fixed Income and Equities. Other alternative asset classes may also be included.

With respect to the establishment of an upper limit on the number of investment options, the Program should not provide so many options as to create excessive redundancy in investment options, generate increased fund monitoring and/or administrative costs, or cause undue complexity in Program design.

### **1. Program Lineup, Generally**

In general, the Board of Trustees may offer funds or families of funds of the following types:

#### **Target Date Family of Funds**

A Target Date family of funds that reflects an appropriate asset allocation and glidepath.

#### **Core Passive Investment Options**

Index funds or similarly passive investment options that cover major asset classes.

#### **Expanded Active Investment Options**

Actively managed funds that cover one or more asset classes. Each actively managed fund may be internally allocated between one or more market segments.

## **2. Asset Classes Guidelines**

The Program has the option (but is not required) to offer investment options through mutual funds, annuity sub-accounts, or an annuity general account in the following asset classes and categories listed below:

Lifecycle/Target-Dates Funds

Lifestyle/Target-Risk Funds

Cash or Equivalents

Guaranteed or Stable Value

U.S. Fixed Income

U.S. and/or Global Inflation-Protected Bond

Global and/or International Bond

U.S. Equities

Global and/or International Equities

Asset Allocation Option

Global Socially Responsible/ESG Equities

U.S. and/or Global REIT & Global Direct Real Estate

## **3. Current Investment Lineup**

The current investment options offered under the Program shall be listed in **Appendix A** to this IPS, together with the appropriate benchmark and peer universe (as applicable) for each such option.

## **4. Default Investment Option**

The Program is an investment option within an employer's existing Plan and does not have the authority from the employer to designate a Qualified Default Investment Option or "QDIA". The Program may provide for a default investment option when a plan participant has not made an affirmative investment election, or if directed by the employer on behalf of their participants (in which the option may become a QDIA). The Board has chosen to utilize target date funds consistent with the participant's age as the

default investment option. The Board shall monitor the investment option in accordance with the investment guidelines and criteria section of this policy.

## **V. Investment Option Selection Criteria and Monitoring**

### **1. Investment Option Selection Process**

When the Investment Subcommittee determines a new Investment Option is necessary, it may:

- Determine the appropriate strategy, asset class, capitalization, style, and region of the Investment Option to be reviewed for inclusion.
- Search Morningstar and other relevant data sources for investment options with an appropriate fit.
- Perform due diligence by reviewing all elements of monitoring procedures, including but not limited to, fund performance, management changes, excessive personnel turnover, strategy, or organizational changes.
- Recommend a new investment option to the Board of Trustees.

It is the Board's preference to utilize the lowest cost share class and with few exceptions, to not use investment options that pay revenue share. If the Board concludes that it is necessary to adopt an investment option that pays a revenue share, that revenue share should be rebated back to the participant directly or used to offset the administrative fees that otherwise would be paid by that participant to the Program.

Additional aspects of investment options may be reviewed at the discretion of the Board of Trustees.

### **2. Selection Guidelines for Investment Options in Particular Asset Classes**

**Cash and/or Stable Value/Guaranteed Option.** The primary objective of the Cash and/or Stable Value Portfolio is the preservation 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.

**Global and/or International Fixed Income Fund.** The primary objective of the Global and/or International Fixed Income Fund is moderate principal growth with low risk of principal loss through investment in a diversified portfolio of global and/or international bonds. This option will be actively managed to seek above market returns over the long term.

**U.S. and/or Global Inflation-Protection Fund.** The primary objective of the U.S. and/or Global Inflation-Protection Fund is to protect against inflation. This objective is achieved through a portfolio that may include TIPS, commodities, precious metals, REITS, natural resources and inflation-sensitive equities. This option will be actively managed to seek above market returns over the long term.

**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.

**Mid Cap Index Fund.** The primary objective of the Mid Cap Index Fund is to track the performance of the CRSP Mid Cap Index.

**Small Cap Index Fund.** The primary objective of the Small Cap Index Fund is to track the performance of the CRSP Small Cap Index.

**International Small/Mid Cap Index Fund.** The primary objective of the International Small/Mid Cap Equity Index Fund is to track the performance of the MSCI World Ex USA Small Cap Index.

**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 EAFE.

**Emerging Markets Index Fund.** The primary objective of the Emerging Markets Index Fund is to track the performance of the MSCI EM Index.

**U.S. and/or Global Socially Responsible/ESG Equities Fund.** The primary objective of the U.S. and/or Global Socially Responsible/ESG Equities Fund is long-term growth of capital through investment in a diversified equity portfolio representing companies which are deemed to operate in a manner consistent with socially responsible principles.

**U.S. and/or Global REIT & Global Direct Real Estate.** The primary objective of the U.S. and/or Global REIT & Global Direct Real Estate Fund is long-term growth of capital through investment in a diversified portfolio of REITs or direct-owned real estate.

### **3. Monitoring & Watch list**

The Board of Trustees recognizes that all investments go through cycles and, therefore, there will be periods of time in which the investment objectives are not met or when specific managers fail to meet their expected performance expectations. The Investment Subcommittee retains the right to use its discretion when reviewing investment options and making recommendations. The participant accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

The Investment Subcommittee will meet quarterly to monitor and review the investment options offered and report back to the Board of Trustees. The consultant or designee will prepare a report each quarter for the committee that includes recommendations on each investment option.

Monitoring will be done on a regular basis by the consultant or designee (including between quarterly meetings) to determine whether the investment options offered under the Program are performing at a satisfactory level or to determine if an investment option should be placed in “Watch” status and added to the Watch list, as follows:

Quarterly, the Investment Subcommittee will:

- Review all investment options for performance relative to a peer group and index
- Review funds for style drift
- Review any management changes
- Review for any excessive personnel turnover
- Research any strategy changes
- Research any organizational changes

The Investment Subcommittee will report any significant changes identified above to the Board of Trustees along with a recommendation. The recommendation for each investment option will be as follows:

- Continue to hold investment option
- Place on Watch list
- Remain on Watch list
- Terminate and replace investment option
- Terminate and map to existing investment option
- Terminate and do not replace

Annually:

- Review Investment Policy
- Review Indexes to determine if they are still appropriate

#### Watch list and Procedures:

The Watch list is maintained for investment options that fail to meet one or more of the standards set in this policy. An investment option may make the Watch list for any of the following reasons:

- Fund manager change
- Expense ratio increase
- Style drift & deviation from prospectus objective
- Underperformance versus peer group and index
- Firm changes (ownership, etc.)
- Dramatic increase in turnover
- Average Credit Quality Change

The investment may be placed on the “Watch list” for a period of 12 months; however, the Committee retains the discretion to extend or reduce the time period that an investment option is on watch and the Committee will review and evaluate the appropriateness of the offering for the Program.

All non-index Program investment options should maintain the following characteristics:

- Provide a rate of return that exceeds that generated by the chosen index over rolling five year periods. The Option’s returns should remain competitive with the chosen index’s returns over rolling three year periods.
- Provide a rate of return that places above the median manager in a universe of its “peers” over rolling five year periods. The Option’s returns should remain competitive with the “peer group” universe over shorter, rolling three year periods.



The members of the Board of Trustees approve and adopt this Statement of Investment Policy, reserving the right to amend or terminate it in the future. On a periodic basis, the Board will review this Statement of Investment Policy to determine whether any changes should be made.

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Date:

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(Name), Chair

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## **APPENDIX A**

**Current Investment Line Up**

**Pending Approval by BOT**