

# *North Carolina Supplemental Retirement Plans*

## STATEMENT OF INVESTMENT POLICY FOR THE NC 401(k) AND NC 457(b)

EFFECTIVE ~~OCTOBER 1~~DECEMBER 2, 2021

#### IV. INVESTMENT OPTION OBJECTIVES

The Plans will offer 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 following investment options, having the general investment characteristics outlined below, are authorized to be offered within the Plan:

Asset Class	Fund	Objective
Principal Preservation	Stable Value Fund	Preservation of principal and stable income
Fixed Income	Fixed Income Index Fund	Track the performance of the Bloomberg <del>Barclays</del> Capital US Aggregate Bond Index
	Fixed Income Fund	Moderate principal growth with low risk of principal loss through investment in a diversified portfolio of bonds
Inflation Sensitive	Inflation Responsive Fund	Provide participants of the Plan with a diversified real assets option focused on providing exposure to asset classes that are positively correlated with inflation, including, but not limited to, TIPS, commodities, and REITs
	TIPS Fund	Track the performance of the Bloomberg <del>Barclays</del> 1 -10 Year U.S. Government Inflation-linked Bond Index
Large Cap US Equity	Large Cap Index Fund	Track the performance of the Standard & Poor's 500 Index
	Large Cap Core Fund	Long-term capital appreciation of larger capitalization stocks while pursuing both value and growth investment styles
Small/Mid Cap US Equity	Small/Mid Cap Index Fund	Track the performance of the Russell 2500 Index of smaller capitalization stocks
	Small/Mid Cap Fund	Long-term capital appreciation of smaller capitalization stocks while pursuing both value and growth investment styles
International Equity	International Index Fund	Track the performance of the MSCI ACWI ex-US IMI Index
	International Fund	Long-term growth of capital utilizing a diversified portfolio of companies, including small, mid and large cap securities, located

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### **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.

#### **Investment Objective**

The primary objective of the Stable Value Fund is the preservation of principal. In addition, the stable value fund seeks to provide a credited rate of interest while providing book value liquidity for participant directed transactions.

#### **Investment Management**

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

#### **Performance Objectives**

The performance of the portfolio is expected to outperform the 3-Year Constant Maturity Treasury (CMT) yield over a full interest/market cycle on a net of fee basis. Performance will be further evaluated against the 91-Day Treasury Bill Index plus 1.50% on a net of fee basis over an interest rate cycle. Performance should be competitive with the median of a universe of stable value funds over three-year periods and outperform over five-year periods.

### **Fixed Income Fund**

The Fixed Income Fund was established to provide participants of the Plan with an actively managed fixed income option that 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.

#### **Performance Objectives**

The fund seeks to:

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- Provide a rate of return that exceeds that generated by the Bloomberg ~~Barelays~~ Capital Aggregate Index over rolling five-year periods. The option's returns should remain competitive with the Bloomberg ~~Barelays~~ 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 or core plus (as appropriate) 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 125% of the risk of the Bloomberg ~~Barelays~~ 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.

#### **Performance Objectives**

The option should provide a return that closely tracks that of the Bloomberg ~~Barelays~~ Capital US Aggregate Bond Index. The tracking error to this objective should be less than 0.15% annually gross of fees.

### **Inflation Responsive Fund**

The Inflation Responsive Fund was established to provide participants of the Plan with a diversified real assets option focused on providing exposure to various asset classes which show a correlation or sensitivity to inflation over various market environments.

#### **Investment Objective**

This fund seeks to provide participants with protection from rising inflation by investing in several asset classes that are expected to be positively correlated to the Consumer Price Index ("CPI"), especially during periods when the CPI is increasing. Since the Consumer Price Index is not an investible index the strategy will not keep up with inflation in all markets and may expose investors to negative returns. The asset classes in which the fund will invest may include, but are not limited to, TIPS, commodities, and REITs.

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### **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.

### **Performance Objectives**

Provide a rate of return that exceeds the MSCI All Country World (ACWI) ex U.S. IMI 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. IMI over rolling five-year periods.

## **International 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. IMI 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.

### **Performance Standards**

The Option should provide a rate of return that equals (gross of fees) the MSCI ACWI ex U.S. IMI Index over rolling one, three and five-year periods. The tracking error of the Option should be less than 0.75% annually gross of fees.

## **TIPS Fund**

The TIPS Fund is intended to provide passive exposure to the Treasury Inflation Protected Securities (TIPS) market.

### **Investment Objective**

The primary investment objective of the TIPS Fund is to provide a low-cost passive investment option that will provide exposure to the Treasury Inflation Protected Securities (TIPS) market.

### **Investment Management**

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

### **Performance Objectives**

The option should provide a return that closely tracks that of the Bloomberg Barclays 1-10 Year U.S. Government Inflation-linked Bond Index. The tracking error to this objective should be less than 0.25% annually gross of fees.

## APPENDIX A

### INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS

## APPENDIX A

Asset Class	Investment Manager	Benchmark	Universe
Stable Value	Galliard	3-Year Constant Maturity Yield	Stable Value
Fixed Income	Total Fund	Bloomberg <del>Barelays</del> Capital Aggregate	Core Plus Bond
	Prudential Global Investment Management	Bloomberg <del>Barelays</del> Capital Aggregate	Core Plus Bond
	TCW	Bloomberg <del>Barelays</del> Capital Aggregate	Core Plus Bond
Fixed Income Index	BlackRock	Bloomberg <del>Barelays</del> Capital Aggregate	Core Bond
Inflation Sensitive Fund	BlackRock	Custom <sup>1</sup>	Real Assets
Large Cap Index	BlackRock	S & P 500	Large Cap Core
Large Cap Core	Total Fund	Russell 1000	Large Cap Broad
	Hotchkis & Wiley	Russell 1000 Value	Large Cap Value Equity
	Macquarie	Russell 1000 Value	Large Cap Value Equity
	Sands Capital	Russell 1000 Growth	Large Cap Growth Equity
	Loomis Sayles & Company	Russell 1000 Growth	Large Cap Growth Equity
	BlackRock	Russell 1000	Large Cap Core
Small / Mid Cap Index	BlackRock	Russell 2500	SMID Cap Core
Small / Mid Cap	Total Fund	Russell 2500	SMID Broad
	Earnest Partners	Russell 2500	SMID Cap Core Equity
	Wedge Capital Management	Russell 2500 Value	SMID Cap Value Equity

<sup>1</sup> Inflation Sensitive Index: Bloomberg ~~Barelays~~-US TIPS Index: 41.4%; FTSE EPRA NAREIT Developed Index: 37.1%; Bloomberg Roll Select Commodity Total Return Index: 21.5%.

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### INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS

	Brown Advisory	Russell 2500 Growth	SMID Cap Growth Equity
	BlackRock	Russell 2500	SMID Cap Core
International Equity Index	BlackRock	MSCI ACWI ex US IMI	Non-US Equity
International Equity	Total Fund	MSCI ACWI ex US IMI	Non-US Equity
	Baillie Gifford	MSCI ACWI ex US	Non-US Equity
	Mondrian	MSCI ACWI ex US	
	Acadian	MSCI ACWI ex US Small Cap	Non-US Small Cap Equity
	WCM	MSCI ACWI ex US Small Cap	Non-US Small Cap Equity
TIPS	BlackRock	Bloomberg Barclays 1-10 Year U.S. Government Inflation-linked Bond	TIPS



### IPS Revision History

Version	Approved	Summary of Changes
1.4	Dec 2011	<ul style="list-style-type: none"> <li>Change Stable Value guidelines to refer to “manager” generically and not Galliard specifically</li> </ul>
1.5	June 2012	<ul style="list-style-type: none"> <li>Change consultant reporting to quarterly</li> <li>Change global equity from “Opportunistic” to just Global Equity Fund, updated guidelines to traditional long equity</li> <li>Add Max 10% security limit to all equity funds</li> <li>Add new managers and update fund target allocations:</li> <li>Neuberger, Robeco, Wedge, Arrowstreet</li> </ul>
1.6	June 2013	<ul style="list-style-type: none"> <li>Move Global Equity country max limit to 60% from 50% (Approved Nov 2012)</li> <li>Add Inflation Fund</li> <li>Add revision history</li> </ul>
1.7	September 2013	<ul style="list-style-type: none"> <li>Clarify language around use of leverage in general; leverage prohibited except where permission granted by the Board.</li> <li>Add prohibition against purchasing initial offerings from affiliated entities of the investment manager</li> <li>Add Exceptions Granted table</li> <li>Modify global equity fund guidelines to allow smaller cap companies and frontier market countries</li> </ul>
1.8	December 2013	<ul style="list-style-type: none"> <li>Prohibited from purchasing securities from affiliates of the Manager in an initial offering, unless granted permission by the Board</li> </ul>
2.0	December 2015	<ul style="list-style-type: none"> <li>Removed detailed investment guidelines for each of the funds</li> </ul>
2.1	May 2016	<ul style="list-style-type: none"> <li>Separate and revise duties of investment consultant and IMD</li> <li>Revise duties of RSD</li> <li>Add delegated glidepath provider to definition of investment manager</li> </ul>
3.0	September 2017	<ul style="list-style-type: none"> <li>Eliminate Large Cap Growth, Large Cap Value, Small/Mid Cap Growth, and Small/Mid Cap Value Funds</li> <li>Add Large Cap Core and Small/Mid Cap Core Funds</li> </ul>

		<ul style="list-style-type: none"> <li>▪ Separate and revise duties of investment consultant and IMD</li> <li>▪ Add glidepath review, recommendation, and approval</li> <li>▪ Make other revisions and clarification</li> </ul>
3.1	March 12, 2018	<ul style="list-style-type: none"> <li>▪ Change default retirement age for asset allocation model</li> <li>▪ Correct the weighting of the JPM Emerging Local Market ELMI Plus Index in the Inflation Sensitive Index in the footnote of Appendix A</li> </ul>
3.2	June 21, 2018	<ul style="list-style-type: none"> <li>▪ Remove the Global Equity Fund</li> <li>▪ Add the TIPS Fund</li> <li>▪ Change the Small/Mid Cap Core Fund to the Small/Mid Cap Fund</li> </ul>
3.3	March 21, 2019	<ul style="list-style-type: none"> <li>▪ Change manager for Inflation Responsive Fund</li> </ul>
4.0	June 20, 2019	<ul style="list-style-type: none"> <li>▪ Conform policy to consolidation of Investment Subcommittee's duties with the Board's, as reflected in the Board's charter</li> </ul>
5.0	December 12, 2019	<ul style="list-style-type: none"> <li>▪ Revise watch list guidelines</li> <li>▪ Revise tracking errors</li> <li>▪ Add total fund benchmarks and universes for actively managed options</li> <li>▪ Make other revisions and clarifications</li> </ul>
5.1	February 27, 2020	<ul style="list-style-type: none"> <li>▪ Remove Hotchkis &amp; Wiley from the NC Small/Mid Cap Fund and reallocate assets to WEDGE and Earnest Partners</li> </ul>
5.2	December 3, 2020	<ul style="list-style-type: none"> <li>▪ Clarify objective of NC Inflation Sensitive Fund</li> <li>▪ Make other minor revisions</li> </ul>
5.3	March 11, 2021	<ul style="list-style-type: none"> <li>▪ Revise the investment objective and manager allocations for the NC Small/Mid Cap Fund</li> </ul>
5.4	October 1, 2021	<ul style="list-style-type: none"> <li>▪ Revise the benchmarks for the NC International Equity Index Fund and the NC International Equity Fund.</li> <li>▪ Revise the manager allocations for the NC International Equity Fund, including adding two International Small Cap managers</li> </ul>
<u>5.5</u>	<u>December 2, 2021</u>	<ul style="list-style-type: none"> <li>▪ <u>Remove references to Barclays in benchmarks</u></li> </ul>