

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

Statement of Investment Policy

| December ~~23~~, 202~~10~~

- 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;
- The need to provide a set of standards for performance evaluation of each investment option; and
- The need to satisfy the fiduciary obligations of the Board of Trustees and of the employer.

This IPS shall be reviewed at least annually by the Department’s Investment Management Division (“IMD”), with any recommended modifications made to the Board of Trustees’ Investment Subcommittee and to the full Board. 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 a 403(b) plan that is sponsored by the employer. Program contributions are participant-directed. As such, participants bear the responsibility for (a) deciding the amount of current compensation to defer in the Program; (b) developing a strategy for the investment of deferrals and employer contributions in the investment options offered in the Program; and (c) 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 their plan’s guidelines and Internal Revenue Service (“IRS”) limitations;
- Allocating existing account balances, 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/or account activity, or selecting a Fund Allocation Model with automatic rebalancing; and

- Review the appropriate strategy, asset class, capitalization, style, or region of the investment option for potential inclusion;
- Search Morningstar and other relevant data sources for potential investment options that would complement the Program’s existing line-up while exhibiting the following characteristics: strong risk-adjusted performance, competitive fees, strong management team and organization;
- Conduct additional due diligence and research to ensure there was no recent excessive personnel turnover or management changes within the organization; and
- 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.

B. Investment Option Objectives

Short-Term Bond Index Fund. The primary objective of the Short-Term Bond Index Fund is to provide broad exposure to U.S. investment grade bonds with maturities from one to five years.

Performance Objectives: Provide a rate of return that closely tracks that of the Bloomberg **Barelays** US 1-5 YR Gov/Credit with minimum tracking error.

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.

Performance Objectives:

- 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 **Barelay’s** 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 150% of the risk of the Bloomberg-~~Barelays~~ Capital Aggregate Index over rolling five-year periods.

Fixed Income Index Fund. The primary objective of the Fixed Income Index Fund is to track the performance of the ~~Barelays~~'s-Bloomberg Capital US Aggregate Bond Index providing moderate principal growth with low risk of principal loss through investment in a diversified portfolio of bonds.

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

Real Asset Fund. The Real Asset Fund was established to provide participants with a primarily actively managed 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 CPI is not an investible index, the strategy will not keep up with inflation in all markets and may expose investors to negative returns. This strategy uses a multi-strategy, multi-manager approach using a broad range of inflation sensitive asset class portfolios. The asset classes in which the fund will invest may include, but is not limited to, US TIPS, commodities, global REITs, global agriculture, global timber, MLPs, global infrastructure, floating rate debt, currency, water and metals, and mining. The underlying weightings to each strategy and manager will reflect the investment manager's outlook for the opportunities within each asset class, as well as the risk characteristics of the overall portfolio.

Performance Objectives:

- Provide a rate of return that exceeds the return generated by the Diversified Real Asset Strategic Index over a full market cycle. The option's returns should remain competitive with the Index returns over 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 Diversified Real Asset Strategic Index* over rolling five-year periods. On an absolute basis, the annualized standard deviation of monthly returns should not exceed 12% over a full market cycle.

**The Diversified Real Asset Strategic Index is a composite index of the following:*

- 35% ~~Barelays~~-Bloomberg Capital US TIPS Index
- 15% Bloomberg Commodity Index
- 20% S&P Global Infrastructure Index
- 20% S&P Global Natural Resources Index
- 10% FTSE /EPRA-NAREIT Global Developed Index

Treasury Inflation Protected Securities (TIPS) Fund. The primary 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

Performance Objectives: The option should provide a return that closely tracks that of the Bloomberg ~~Barelays~~ 0-5 Year U.S. Government Inflation-linked Bond Index. The tracking error to this objective should be less than 0.25% annually gross of fees.

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.

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 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.

Performance Objectives:

- Provide a rate of return that exceeds that generated by the Russell 1000 Growth Index over rolling five-year periods. The option'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 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 Russell 1000 Growth Index over rolling five-year periods.

Large Cap Index Fund. The primary objective of the Large Cap Index Fund is to track

APPENDIX A

Current Investment Line Up

| Investment | Ticker | Benchmark |
|--|--------|---|
| Vanguard Short Term Bond Index Admiral | VBIRX | Bloomberg B Barelays US 1-5 yr Gov Credit |
| Metropolitan West Total Return Bond | MWTSX | Bloomberg Barelays US Aggregate |
| Vanguard Total Bond Market Index Admiral | VBTLX | Bloomberg Barelays US Aggregate |
| Principal Diversified Real Asset | PDARX | Diversified Real Asset Strategic Index* |
| Vanguard Short-Term Inflation-Protected Securities Index Fund Admiral Shares | VTAPX | Bloomberg Barelays 0-5 Year U.S. Government Inflation-linked Bond Index |
| Vanguard Windsor II Admiral | VWNAX | Russell 1000 Value |
| Vanguard Institutional Index Fund Instl Shares | VINIX | S&P 500 |
| T. Rowe Price Blue Chip Growth | TBCIX | Russell 1000 Growth |
| Vanguard Extended Market Index Admiral | VEXAX | S&P Completion |
| DFA U.S. Small Cap | DFSTX | Russell 2000 |
| Vanguard Total International Stock Index Admiral | VTIAX | FTSE Global All Cap ex US |
| Baillie Gifford International Equity Fund | BGIKX | MSCI ACWI ex US |

* Diversified Real Asset Strategic Index is a customized index: 35% Bloomberg ~~Barelays~~ US TIPS Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resource Index, 15%, Bloomberg Commodity Index and 10% FTSE EPRA/NAREIT Developed Markets Index.

IPS Revision History

| Revision Date | Summary of Changes |
|----------------------------------|--|
| December 3, 2020 | <ul style="list-style-type: none">▪ Clarify the objective of the Real Asset Fund▪ Update the Vanguard 500 Index Fund share class to institutional |
| December 2, 2021 | <ul style="list-style-type: none">▪ Remove references to Barclays or change them to Bloomberg in benchmarks▪ Minor clarifying edits |