



MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: June 4, 2019

SUBJECT: Changes to the board's charter and the investment policy statement to incorporate the consolidation of the investment subcommittee's duties with the board's

At its March 21, 2019 meeting, the board voted to eliminate the investment subcommittee and consolidate the subcommittee's duties with the board's. These changes have been incorporated into the board's charter and the investment policy statements for the NC 401(k) and NC 457 Plans and for the NC 403(b) Program. The board's materials for the June 20, 2019 meeting include revised versions of these documents with tracked changes.

The revisions to the investment policy statements also include corrections of typographical errors, formatting, punctuation, omitted conjunctions, and other minor, non-substantive errors. These non-substantive changes are not tracked in the meeting materials.

Staff recommends that the board approve the revised charter and investment policy statements as presented in the meeting materials.

CHARTER

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

I. Purpose and Authority

The North Carolina Supplemental Retirement Board of Trustees (the “Board”), in conjunction with the North Carolina Department of State Treasurer (the “Department”), administers the Supplemental Retirement Income Plan of North Carolina (the “NC 401(k) Plan”), the North Carolina Public Employee Deferred Compensation Plan (the “NC 457 Plan”), and the North Carolina Public School Teachers’ and Professional Educators’ Investment Plan (the “NC 403(b) Program” and with the NC 401(k) and NC 457 Plans, the “Plans”). The Board has a fiduciary duty to establish, manage, and oversee all aspects of the Plans for the exclusive benefit of participants and their beneficiaries. This Charter establishes the general structure of the Board in discharging these duties and is subject at all times to the North Carolina General Statutes. N.C.G.S. §§ 135-91(a), 135-91(c), 135-91(d), 135-96, 115C-341.2, and 143B-426.24.

II. Composition

The composition of the Board and the terms of its members are established by N.C.G.S. § 135-96. The Board consists of nine members, who serve staggered terms.

A. Membership

The Treasurer of the State of North Carolina serves *ex officio*. N.C.G.S. § 135-96(b)(4). The Treasurer may designate a member of the Department to act at any meeting of the Board from which the Treasurer is absent. The Treasurer’s designee may act to the same extent that the Treasurer could act if present in person at such meeting. An ongoing designation – versus a designation for a single meeting – by the Treasurer ~~for~~ must be in writing and filed with the Board. N.C.G.S. § 135-96(d).

Six members serve by appointment of the Governor. These members serve at will and can be removed at any time and for any reason, upon written notice from the Governor. N.C.G.S. § 135-96(b)(1).

One member serves by appointment of the General Assembly, upon the recommendation of the Speaker of the House of Representatives. N.C.G.S. § 135-96(b)(2).

One member serves by appointment of the General Assembly, upon the recommendation of the President Pro Tempore of the Senate. N.C.G.S. § 135-96(b)(3).

B. Terms

The Treasurer, as an *ex officio* member, serves for as long as he or she holds office. N.C.G.S. § 135-96(b)(4).

The two members appointed by the General Assembly shall serve initial terms of three years, from July 1, 2016 to June 30, 2019. Thereafter, such members shall serve three-year terms.

Three of the members appointed by the Governor shall serve initial terms of one year, from July 1, 2016 to June 30, 2017. Thereafter, such members shall serve three-year terms.

Three of the members appointed by the Governor shall serve initial terms of two years, from July 1, 2016 to June 30, 2018. Thereafter, such members shall serve three-year terms.

An appointed member shall continue to serve on the Board until the member's successor is appointed, but such holdover does not affect the expiration date of the successor's term. N.C.G.S. § 135-96(c1).

No appointed member of the Board may serve longer than any of the following: (1) two consecutive three-year terms; (2) three consecutive terms of any length; or (3) eight consecutive years. N.C.G.S. § 135-96(c1).

III. Officers

A. Chair

The Treasurer serves as Chair of the Board *ex officio*. N.C.G.S. § 135-96(b)(4). The Chair's duties and authority include, without limitation, the following: (1) conducting meetings of the Board; (2) calling special and emergency meetings of the Board; (3) appointing members and chairs of the Board's subcommittees (subject to the Board's ratification); (4) enforcing the policies of the Board; and (5) recommending the appointment or removal of members. The Chair may delegate his or her duties to another member during the Chair's absence.

B. Secretary

The Department's Deputy Director of the Supplemental Retirement Plans serves as Secretary of the Board, unless the Treasurer appoints a member of the Board or another member of the Department's staff. The Secretary is responsible for the following: (1) assisting the Chair in conducting meetings in an efficient and effective manner and in compliance with applicable laws and policies; (2) maintaining a current list of Board members, with their contact information and Board terms; (3) providing a meeting

agenda and materials to Board members in advance of each meeting; (4) assisting the Board in scheduling meetings; (5) notifying members of the public of meetings in compliance with North Carolina's open meetings law (N.C.G.S. Chap. 143, Art. 33C, the "Open Meetings Law"); (6) accepting service of process on behalf of the Board; and (7) other duties as assigned by the Chair or the Board.

IV. Meetings

A. Schedule

The Board shall establish an annual schedule of at least quarterly meetings of the Board. Special or emergency meetings of the Board may be called by the Chair or a majority of the current members of the Board.

B. Notices and materials

The annual meeting schedule and notices of all meetings of the Board and its subcommittees shall be posted on the Department's website and as otherwise required by the Open Meetings Law. The agenda and meeting materials for each meeting of the Board or a subcommittee shall be posted on the Department's website.

C. Open meetings

All meetings shall be conducted in compliance with the Open Meetings Law, which applies to meetings of the Board or a subcommittee at which a quorum is present. All meetings shall be open to the public, unless closed by vote of the Board or subcommittee in compliance with the Open Meetings Law. Members of the public shall be permitted to speak at all meetings. The Board Chair or subcommittee chair may reasonably limit the time for public comment.

D. Minutes

Departmental staff shall take the official minutes of all meetings. The minutes are subject to approval by the Board.

E. Quorum and voting

Any action by the Board or a subcommittee requires a majority vote of the members in attendance, provided that a quorum exists at the time the vote is taken. A quorum of the Board or a subcommittee requires a majority of the members currently serving on the Board or the subcommittee. All members of the Board or a subcommittee are voting members and are permitted to make motions.

F. Attendance

Each member of the Board is expected to attend all meetings of the Board and any subcommittee on which the member serves. Members may attend meetings in person or (if available) by phone or videoconference.

G. Proxy

A Board or subcommittee member may delegate his or her vote during a meeting in which such member is absent. The proxy shall be in writing and shall direct the member's proxy how to vote on specific issues that are scheduled to be before the Board or the subcommittee for a vote.

V. Duties

A. Standard of care

Members of the Board shall act at all times:

1. Solely in the best interests of participants and beneficiaries and for the exclusive purpose of providing their benefits; and
2. With the care, skill, and prudence exercised by reasonable people in similar situations.

B. Responsibility

The Board is responsible at all times for the administration of the Plans, including plan design, investment managers and vendors, plan documents, fees, and policies. The Board may delegate primary administrative responsibilities to Departmental staff, Board subcommittees, and vendors but shall remain responsible at all times for the Plans and for the oversight of such delegees.

C. Plan design

The Board is responsible for selecting, monitoring, and (as necessary) replacing the investment options and features of the Plans, including any asset allocation model or target-date fund.

D. Investment managers and vendors

The Board shall select, monitor, and (as necessary) replace investment managers and funds and the recordkeeper, custodian, auditor, and any other key vendor, as determined by the Board.

E. Plan documents, fees, and policies

The Board is responsible for establishing, monitoring, and (as necessary) revising the plan documents, administrative fees, policies, and (as warranted) rules for the administration of the Plans.

F. Delegation

The Board may delegate primary responsibility for the following matters to Departmental staff, a subcommittee of the Board, an investment consultant, and/or another entity or person retained by the Board: (1) selection of non-key vendors; (2) contracting with investment managers and funds and other vendors; (3) day-to-day compliance, monitoring, operations, management, and legal affairs; (4) performance and cost monitoring and reporting; (5) plan design monitoring and reporting; (6) recommendations regarding investment options, managers, and funds and plan features; (7) preparation of financial statements and auditing; and (8) communications and marketing. As noted above, the Board remains ultimately responsible at all times for the Plans and for the oversight of any delegates.

G. Ethics and training

Board members shall file all disclosures and complete all ethics training that are required by the North Carolina State Ethics Commission or state law. Board members shall complete orientation training within 90 days of joining the Board and shall complete fiduciary training on an annual basis. The orientation and fiduciary training shall be provided by Departmental staff.

VI. Subcommittees

The Board has onetwo standing subcommittees – ~~the Investment Subcommittee and the~~ Audit Subcommittee. In addition, the Board may appoint ad hoc subcommittees as needed to address specific issues of limited scope. Subcommittees consist of at least three but not more than four Board members. Members and chairs of subcommittees are appointed by the Board Chair and ratified by Board Members. The chair of a subcommittee may delegate his or her duties to another member of the subcommittee during the chair's absence.

~~A. Investment Subcommittee~~

~~The Investment Subcommittee is primarily responsible for monitoring the performance, cost, and management of and (as warranted) recommending changes to the Plans' investment options, managers, and funds. The subcommittee is also primarily responsible for establishing, monitoring, and (as warranted) recommending changes to the Plans' investment policy statements and other investment related policies. In discharging its duties, the subcommittee shall obtain the assistance of an investment consultant and/or Departmental staff and any other parties as determined~~

~~by the subcommittee. The Investment Subcommittee shall meet at least two weeks prior to each scheduled meeting of the Board.~~

~~B. Audit Subcommittee~~

The Audit Subcommittee oversees the audit process for the NC 401(k) and NC 457 Plans, discusses audit-related issues with the external auditor, accepts the financial statements of the NC 401(k) and NC 457 Plans, and reports to the Board following the subcommittee's meetings. The subcommittee also ensures Departmental and vendor accountability on internal controls, including following up on any management letter comments from the previous year. The subcommittee has two regularly-scheduled meetings – an initial meeting with the external auditor in February and a meeting in July to hear the auditor's report and accept the financial statements.

The primary responsibility for monitoring investment options, managers, and policies rests with the full Board, instead of a separate investment subcommittee. The duties of the investment subcommittee, as described in the Plans' investment policy statements, are consolidated with the functions of the full Board. However, the Board may create an investment subcommittee on a temporary or ad hoc basis as necessary to address specific investment-related issues. In discharging its duties, the Board or an investment subcommittee shall obtain the assistance of an investment consultant and/or Departmental staff and any other parties as determined by the Board or the subcommittee.

VII. Staff

The Treasurer may appoint members of the Department to serve as staff to the Board and its subcommittees, subject to removal or replacement by the Board. The Board and its subcommittees may request legal, compliance, operational, communications, and/or other assistance from staff.

Adopted by the Board, this 20th day of June, 2019.

North Carolina State Treasurer, Dale R. Folwell, CPA, Chair
North Carolina Supplemental Retirement Board of Trustees

North Carolina Supplemental Retirement Plans

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

EFFECTIVE ~~MARCH~~ JUNE ~~201~~, 2019

CONTENTS

I. PURPOSE1

II. RESPONSIBILITIES OF PARTICIPANTS3

III. RESPONSIBLE PARTIES4

IV. PLAN STRUCTURE10

V. INVESTMENT OPTION OBJECTIVES.....12

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA19

VII. FUND ALLOCATION MODELS24

VIII. REVIEW PROCEDURES27

DEFINITIONS28

APPENDICES.....29

I. PURPOSE

A. PURPOSE OF THE PLANS

The State of North Carolina has established the North Carolina Supplemental Retirement Plans with the primary purpose of providing state government and local government employers (the “Employer”) with savings plans for employees to help them financially prepare for retirement. This Statement of Investment Policy covers only the North Carolina Deferred Compensation Plan (NC 457 Plan) and the North Carolina Supplemental Retirement Income Plan (NC 401(k) Plan). Throughout this document, the NC 457 Plan and the NC 401(k) Plan will be referred to as the “Plans.” The Plans are designed to provide participants with a range of 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 (1) mutual funds, collective trusts, or other commingled funds (“Commingled Funds”); and/or (2) separate accounts that utilize one or more outside investment advisors to manage the assets directed to that option (“Separate Accounts”).

The Plans are governed and overseen by the Department of State Treasurer (the “Department”) and the North Carolina Supplemental Retirement Board of Trustees (the “Board”). The overriding objective of the Plans is to provide suitable retirement vehicles for the employees of the Employer. The Board recognizes the diverse nature of employees’ savings requirements, return objectives and risk tolerances, and therefore intends to provide a range of investment options in the Plans which will meet the needs of employees in various life stages and with different retirement savings requirements.

The Plans are managed with the intent that they (1) meet the applicable requirements of the Internal Revenue Code of 1986, as amended (“Code”); and (2) qualify as a participant-directed account under the fiduciary safe harbor in Section 404(c) of the Employee Retirement Income and Security Act of 1974, as amended (“ERISA”), as if the Plans are governed by that provision. Under Section 404(c) of ERISA, plan sponsors and other fiduciaries are relieved of fiduciary responsibility for investment decisions made by participants and beneficiaries if the plan offers individual accounts that permit participants and beneficiaries to exercise control over assets. In general, to qualify for Section 404(c) relief, the plan must offer at least three diversified investment options with at least quarterly liquidity.

B. PURPOSE OF THE STATEMENT OF INVESTMENT POLICY

This Statement of Investment Policy is intended to assist the Board in effectively structuring an appropriate investment menu, including establishing a prudent process for selecting, monitoring and, as necessary, replacing investment options. The purpose of this Statement of Investment Policy is to document the investment objectives and guidelines of the Plans.

These objectives and guidelines have been formulated in response to:

- The need to provide a set of policies and guidelines for each investment option to ensure that the Plans’ assets are managed in a competent and professional manner;
- The need to satisfy the fiduciary obligations of the Board and the Department; and
- The need to provide a set of standards for performance evaluation of each investment option.

I. PURPOSE

This Statement of Investment Policy shall be reviewed at least annually by the Department's Investment Management Division ("IMD"), with any recommended modifications made to the Board's Investment Subcommittee and to the full Board. The Board may amend this policy to reflect changes in the capital markets, participants' objectives or demographics, legislative or regulatory changes, or other factors relevant to the Plans.

II. RESPONSIBILITIES OF PARTICIPANTS

The Plans are voluntary and participant-directed. As such, participants bear responsibility for (1) deciding the amount of current compensation to defer into the Plan(s); (2) developing a strategy for the investment of deferrals and Employer contributions, if applicable, in the investment options offered in the Plans; and (3) 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, length of time before funds are needed, tolerance for volatility risk, accumulation objectives, retirement income replacement objectives and other assets owned. The participant is best positioned to make the individual decision on how to allocate assets among the investment options available.

The specific responsibilities of the Plans' participants include the following:

- Determining an amount to contribute to the Plan(s) within 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 the desired allocation, when necessary, due to market movements and/or account activity or selecting a Fund Allocation Model with automatic rebalancing; and
- Reallocating account balances and directing future contributions as personal circumstances, goals and objectives change.

It is the responsibility of the Plans' participants to determine the combination of contribution level and asset allocation that will meet their individual retirement needs. Participants are responsible for seeking advice from personal advisors, as each participant deems necessary.

Participants may elect the GoalMaker asset allocation service through Prudential as recordkeeper at no additional cost. GoalMaker provides a model portfolio and asset allocation utilizing the investment options available in the Plans based on a participant's years to retirement and risk-tolerance level.

III. RESPONSIBLE PARTIES

The fiduciaries of the Plans will act in the sole interest of the Plans' participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of administering the Plans. Those fiduciaries exercising investment authority will act as prudent investors as defined by the North Carolina Uniform Prudent Investor Act. 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 approving this Statement of Investment Policy and monitoring the execution of the procedures, standards, goals and guidelines set forth in this policy. Specific responsibilities of the Board include:

1. Planning

- Approve the types of investment options offered within the Plans so as to provide a broad range of options along the risk/return spectrum;
- Approve the appointment and removal of investment managers, including any delegated glidepath providers;
- Approve the appointment and removal of an investment consultant(s), as necessary or appropriate, (1) to render advice on the investment program, the selection of investment funds and managers, the evaluation of investment performance, funds and managers; and (2) to perform other duties, as appropriate;
- Approve investment performance objectives for each investment option and manager;
- Monitor, or cause to be monitored, the investment performance of the Plans' investment options and managers;
- Approve the appropriate investment structure for each option, taking into consideration the performance, risk and cost of each potential structure; and
- Approve a glidepath.

2. Operations

- Approve the appointment and removal of the recordkeeper, custodian or other major service providers;
- Delegate responsibilities to the Department of State Treasurer, as appropriate;
- Delegate administrative duties, as appropriate, to the recordkeeper, custodian or other service providers; and
- Approve and monitor participant communications plans and strategies, e.g., the general investment characteristics of each investment option to participants, including risk considerations. 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

III. RESPONSIBLE PARTIES

and the provision of investment options by the Plans do not constitute investment advice to participants.

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 managers which are retained by the Plans and their investment processes and will take corrective action, if necessary; and
- Monitor Plan costs and the effectiveness of operations.

B. INVESTMENT SUBCOMMITTEE

The Board does not currently have an Investment Subcommittee. As provided in the Board's charter, the duties of the investment subcommittee, as described in this policy, are consolidated with the functions of the full Board. However, the Board may create an investment subcommittee, on a temporary or ad hoc basis as necessary to address specific investment-related issues, including the performance of the Investment Subcommittee's functions, as described in this policy. References to the Investment Subcommittee in this Policy apply only if an Investment Subcommittee has been established by the Board and assigned the function assigned to the Investment Subcommittee in such reference.

With respect to management of the investments of the Plans, the oversight responsibility of the Board may be delegated to an Investment Subcommittee of the Board. 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 nominated by the Board Chair and ratified by the Board. The responsibilities of the Investment Subcommittee may include the following:

- Make recommendations regarding the selection of qualified investment managers which fulfill the criteria of the identified asset class;
- Monitor investment results of each investment option and 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;

III. RESPONSIBLE PARTIES

- Review this Statement of Investment policy and recommend modifications to it, as needed;
- Recommend a rebalancing policy to the Board for approval; and
- Recommend a glidepath.

C. 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:

- Accept investment discretion for the Plans' assets as directed by the Board or its designee, and invest according to the stated investment philosophy and strategy as dictated in: A) the Commingled Fund's prospectus or other guidelines; or B) the investment guidelines agreed upon with each manager of individual assets;
- Issue prospectuses, quarterly and annual reports and other pertinent information regarding the Plans' 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 and/or their designees with a monthly or quarterly accounting of assets as requested by the Board or designee;
- Monitor compliance with laws, regulations, and contractual terms, including investment guidelines, and promptly report any violations thereof and proposed resolution plans to designated representatives of the Department and Investment Consultant; and
- Issue detailed quarterly reporting to the Board and/or their designees (including the investment consultant), 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;

III. RESPONSIBLE PARTIES

- Current investment strategy;
- Changes implemented over the prior quarter;
- Personnel changes and other material organizational events; and
- Other items that may be requested from time-to-time by the Board and/or their designees.

D. RECORDKEEPER

The recordkeeper has been delegated by the Board the responsibility for maintaining participant accounts and facilitating participant actions. In addition, the recordkeeper has the following responsibilities:

- Enroll participants;
- Execute the Plans' participant communication activities;
- Allocate and transfer the Plans' assets among permitted investment options as directed by the Board or the participants of the underlying Plan(s) through the Plan's custodian;
- Make payments from the Plans to such participants or beneficiaries of the Plans as directed and as permitted by the Plans' documents;
- Provide a written accounting of all investments and all receipts, disbursements, income, expenses, and other transactions of the Plans at month end; and
- Reconcile account balances with custodian.

E. CUSTODIAN

The duties of the custodian include the following:

- Provide custody and safekeeping of the Plans' assets;
- Allocate and transfer the Plans' assets among permitted investment options as directed by the Board, Departmental staff or the participants of the underlying Plans;
- Allocate and transfer assets among investment managers within the Plans' investment options as directed by the Board or its designee;
- Provide a monthly report detailing the allocation of all of the Plans' assets among the investment options and investment managers;
- Provide a written accounting of all investments and all receipts, disbursements, income, expenses, and other transactions of the Plans at month end;
- Reconcile asset account balances with the recordkeeper;
- Reconcile asset account positions with investment managers;
- Produce manager compliance reports for Departmental staff;
- Provide calculation of an accurate and timely daily NAV; and

III. RESPONSIBLE PARTIES

- Provide calculation and timely provision of accurate performance data.

F. INVESTMENT MANAGEMENT DIVISION STAFF

The duties of the Investment Management Division (“IMD”) staff, working with the assistance of an Investment Consultant, include:

- Regularly monitor the adherence of investment options and investment managers to stated investment policies, objectives and guidelines; identify any material deviations from stated investment policies, objectives and/or guidelines; coordinate the resolution of compliance issues with investment managers and the Investment Consultant, if necessary;
- Provide recommendations to the Board, or the Investment Subcommittee as appropriate, on hiring, terminating, or placing on watch an investment manager, either as requested by the Board or on their own initiative;
- Review the rebalancing of investment managers within fund options as needed;
- Provide recommendations to the Board on the structure or number of investment options;
- Review investment managers’ guidelines and recommend changes as necessary;
- 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 Statement of Investment Policy and recommend modifications to the Board and/or their designees 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;
- Perform due diligence on investment managers and contribute to the negotiation of investment management agreements;
- Provide backup management and oversight of the custodian;
- Recommend a glidepath to the Board and review the glidepath and oversee rebalancing as necessary;
- Review the derivatives holdings in each Separate Account on a quarterly basis and provide a written report to the Board, the Investment Subcommittee, and/or their designees regarding the derivatives holdings and their potential impact on the Plans given a worst case scenario; and
- Oversee and manage the Investment Consultant relationship in order to ensure the duties assigned through this Statement of Investment Policy are performed cost-effectively and consistent with industry standards.

III. RESPONSIBLE PARTIES

G. INVESTMENT CONSULTANT

The duties of the investment consultant include:

- Provide recommendations to the Board, or the Investment Subcommittee as appropriate, on hiring, terminating, or placing on watch an investment manager, either as requested by the Board or on its own initiative;
- Provide recommendations to the Board on the structure or number of investment options;
- Review investment managers' guidelines and recommend changes as necessary;
- Perform due diligence on investment managers;
- Review the rebalancing of investment managers within fund options as needed;
- 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; and
- Issue a quarterly report to the Board, the Investment Subcommittee, and/or their designees that includes the following information:
 - The market value of the Plans' assets as of the last business day of the most recent calendar quarter;
 - The portion of Plans' assets allocated to each investment option as of the last business day of the most recent calendar quarter;
 - 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 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) 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; and
 - A summary of the economic and market environment;

H. RETIREMENT SYSTEMS DIVISION STAFF

The duties of the Department's Retirement Systems Division staff include:

III. RESPONSIBLE PARTIES

- Coordinate presentations of IMD staff and the Investment Consultant to the Board and Investment Subcommittee;
- Coordinate activities of the IMD staff in the fulfillment of duties as assigned by the Board;
- Contribute to the drafting and review of contracts and Investment Management Agreements;
- Execute contracts at the Board's direction;
- Oversee the day-to-day activities of the recordkeeper and custodian;
- Liaise with the Department's Financial Operations Division for purposes of financial reporting and audits; and
- Facilitate the presentation of information to the Board.

IV. PLAN STRUCTURE

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 Barclays 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
	TIPS Fund	Track the performance of the Bloomberg Barclays 1 -10 Year U.S. Government Inflation-linked Bond Index
Inflation Sensitive	Inflation Responsive Fund	Provide participants of the Plan with a passively managed option focused on providing exposure to asset classes that are positively correlated with inflation, including TIPS, commodities, and REITs
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 Index
	International Fund	Long-term growth of capital utilizing a diversified portfolio of companies located outside the United States

IV. PLAN STRUCTURE

Additionally, the Plans are authorized to provide at least three Model Allocation options that reasonably span the risk/return spectrum. These investment options are more fully described in Section VII and are provided for participants that desire a professionally constructed asset/fund allocation. 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 Plans.

Default Investment Option

The Plans provide for a Default Investment Option when a plan participant has not made an affirmative investment election. The Board has chosen the Moderate 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 approve investment managers for the Plans' assets consistent with the requirements of the mandate for the applicable option described in Section V. The Board will take into consideration:

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

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.

Each investment option will have a target allocation to each underlying investment 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 by the custodian. Periodic cash flows into or out of an option may be utilized to move the allocation between investment managers back toward the target for that option. On a quarterly basis the allocation between investment managers will be reviewed and rebalanced if necessary.

IV. PLAN STRUCTURE

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:

IV. PLAN STRUCTURE

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

Performance Objectives

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

Inflation Responsive Fund

The Inflation Responsive Fund was established to provide participants of the Plan with a passively 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 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 include TIPS, commodities, and RETIs.

IV. PLAN STRUCTURE

Investment Management

One manager has been selected for the management of this fund. The manager selected is responsible for the asset allocation of the fund across multiple asset classes. A table of the current investment manager for this Option, their target allocations and the allocation range for each manager is shown in Appendix B. This strategy may utilize sophisticated investment techniques, including the use of derivatives and forward settling security transactions to adjust the portfolio's positioning.

Performance Objectives

The fund seeks to provide a return that closely tracks that of the custom index*. The tracking error to this objective should be less than 0.40% annually gross of fees.

** The benchmark is a custom benchmark according to the following weightings: Bloomberg Barclays US TIPS Index: 41.4%; FTSE EPRA NAREIT Developed Index: 37.1%; Bloomberg Roll Select Commodity Total Return Index: 21.5%. Note: The investment manager will make slight changes to the weightings of the underlying allocations to the custom benchmark annually. This policy will be updated accordingly.*

Large Cap Core Fund

The Large Cap Core Fund was established to provide participants with a primarily active managed equity option targeted at the large cap sector of the U.S. equity market managed in both value and growth styles.

Investment Objective

The primary investment objective of the Large Cap Core Fund is long-term capital appreciation while pursuing both value and growth investment styles. The value portion of the fund will invest in equity securities of large-cap companies that are selling at discounts to their long-term intrinsic values. The growth portion of the fund will invest in large cap companies that offer the potential for above average earnings growth.

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

The fund seeks to:

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

IV. PLAN STRUCTURE

- Provide a rate of return that places above the median manager in a universe of U.S. Large Cap Core Equity manager 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 Index over rolling five year periods.

Large Cap Index Fund

The objective of the Large Cap Index Fund is to provide an equity option that will match the return of U.S. 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.

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 Fund

The Small / Mid Cap Fund was established to provide participants with a primarily active managed equity option targeted at the Small / Mid Cap sector of the U.S. equity market managed in both value and growth styles.

Investment Objective

The primary investment objective of the Small / Mid Cap Core Fund is long-term capital appreciation while pursuing both value and growth investment styles, with an emphasis on value. The value portion of the fund will invest in equity securities of small / mid cap companies that are selling at discounts to their long-term intrinsic values. The growth portion of the fund will invest in small / mid cap companies that offer the potential for above average earnings growth. The fund has a value focus with an approximate 2:1 ratio of the value portion of the fund to the growth portion.

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

IV. PLAN STRUCTURE

The fund seeks to:

- Provide a rate of return that exceeds that generated by the Russel 2500 Index over rolling five-year periods. The portfolio's returns should remain competitive with the Russell 2500 Index returns over rolling three-year periods.
- Provide a rate of return that places above the median manager in a universe of U.S. Small / Mid Cap Core 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 2500 Index over rolling five year periods.

Small/Mid Cap Index Fund

The objective of the Small / Mid Cap 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.

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 20 basis points on an annual basis.

International Fund

The International Fund was established to provide participants of the Plans 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

IV. PLAN STRUCTURE

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. 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.

IV. PLAN STRUCTURE

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. 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. 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.

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

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.

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

A. Introduction

Multiple investment managers are utilized to manage portions of the Plans' assets. Each investment manager is retained with a specific mandate for the assets under its management. This section of the Statement of Investment Policy 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 sole benefit of the participants and their beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of administering the Plans.

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. Investment managers are expected to maintain liquid investment profiles. The Board or its designee may have need from time to time to draw on a portion of any investment manager's portfolio assets to meet participants' disbursement requests. 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 Plans 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.
- 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, after deduction of investment management fees, of the assigned benchmark over a full market cycle is expected.

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

- (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 of Separate Accounts comply with the following limitations and restrictions on their investment activities and holdings, unless specifically negotiated otherwise. Departmental staff will review the guidelines of Commingled Funds; however, the guidelines for Commingled Funds will control over the provisions of this section.

- (a) Securities issued by, or obligations of, the investment manager or any affiliate shall not be held in the account of any investment manager.
- (b) Leverage, short sales, and margin purchases are prohibited except where specifically permitted in this Statement of Investment Policy or by the Board.
- (c) 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 for speculation or to establish a leveraged account without explicit permission from the Board.
- (d) 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, Moody's 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.
- (e) 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.

D. Trade Execution

Investment managers shall effect all purchases and sales of securities for the trust account(s) managed for the Plans 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

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

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).

Investment managers are prohibited from purchasing securities from affiliates of the investment manager in an initial offering, unless granted permission by the Board and/or its designee.

E. Proxy Voting

All proxies for securities held in Separate Accounts shall be voted by the Department in accordance 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 Plans' 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 Plans' 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 required to submit to the Board and/or its designees quarterly a written report detailing any soft dollar activity in which the manager engages. 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.
- 4) 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.
- 5) Each investment manager shall promptly (a) report any breach of these account guidelines to the Board and/or its designee; (b) work in conjunction with the Board and/or designee to assess and develop a risk mitigation plan to address the breach in a timely manner; and (c) then report to the Board and/or its designee the final resolution of the breach.

G. Reviews

The investment performance results of each investment manager will be reviewed quarterly by the Board and the Investment Subcommittee. The Board or the Investment Subcommittee may, at its discretion, require the appearance of the investment manager at its meeting. Review by the Board ~~and/or~~ the Investment Subcommittee will focus on the following:

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

- 1) Adherence to the guidelines stated in this Statement of Investment Policy;
- 2) Adherence to the investment manager's stated investment style and philosophy; and
- 3) Comparison of performance results to the benchmarks and peer groups outlined in this Statement of Investment Policy, as well as risk and other characteristics of the investment manager'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 and the Investment Subcommittee may 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 Separate Accounts where securities are custodied with the Plans' custodian. The Board will seek to avoid securities lending in its fund investments. The Board has determined that investments in Commingled 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 (*e.g.*, fees, flexibility) with the additional risks of securities lending. In cases where the Plans invest in Commingled Funds that engage in securities lending, the collateral investment policies of these funds will be evaluated by the investment consultant and IMD staff to gauge their level of investment risk. Significant collateral investment risk will not be permitted in any of the Plans' investments.

I. Investment Manager Monitoring, Watch List and Termination Guidelines

The Board or the Investment Subcommittee may approve placing an investment manager on a watch list or terminating an investment manager for any reason, including but not limited to the following:

- 1) Failure to meet the performance standards, investment restrictions, or other provisions of this Statement of Investment Policy;
- 2) A change in portfolio management personnel or senior executives of the investment manager or change in the ownership of the firm;
- 3) A change in investment process or style drift;
- 4) A violation of the rules or regulations of a governmental entity or self-regulatory organization;
- 5) Any other circumstance regarding the investment manager that the Board determines is in conflict with this Statement of Investment Policy or the best interests of the Plans;
- 6) A violation of the terms of a contract; and/or
- 7) The 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

VI. GENERAL INVESTMENT MANAGER GUIDELINES AND CRITERIA

portfolio's viability within the Plan. Should an investment manager fail to satisfy its performance criteria, or should the Board have some other concern about the investment manager or portfolio, the Board may approve any or all of the following actions:

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

Failure by an investment manager to achieve the performance objectives established by the Board over four (4) quarterly three-year periods 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 investment manager's strategy has deviated from the objective of the mandate. The watch period will be established for the next three quarters (four quarters in total), but may be lengthened or shortened. 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 investment manager's mandate will be reviewed by the Investment Consultant and IMD staff with a bias toward termination.

J. Commingled Funds

The Board may choose to use a Commingled Fund as the sole vehicle for an investment option or as part of an investment option. The qualitative guidelines presented for each investment 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 Commingled Fund's prospectus or other guidelines. Nevertheless, if a Commingled Fund violates these standards in this Statement of Investment Policy to a degree deemed significant by the Board, consideration should be given to the fund's continued suitability to the investment option's objective.

VII. FUND ALLOCATION MODELS

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 Plans. Participants can elect to have their entire plan balance allocated in accordance with one of the models offered.

Model Allocation Determination

The Board has authorized a set of 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 are arrayed on these two dimensions.

Risk Tolerance

Participants are able to select their risk tolerance from one of three levels, Conservative, Moderate and Aggressive. Each model is designed 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 may be appropriate. Participants with longer investment horizons have more time to recover from short term losses and thus are able to accept more variability in their interim account values and potentially 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 Plans. However, the models are not required to make use of all of the 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 Plans' recordkeeper. The recordkeeper will automatically allocate any contributions and distributions across the investment options in the model, in order to maintain the targeted model allocation. The recordkeeper will generally rebalance the allocation across the investment options back to the target allocation on a quarterly basis.

Model Revisions

The Board will review these target allocations periodically. If any new investment options are added to the Plans, the model allocations will be reviewed 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		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	NC Large Cap Index Fund	27%	24%	20%	17%	14%	13%	11%	10%	9%
	NC Small / Mid Cap Fund	12%	10%	8%	8%	6%	4%	4%	2%	2%
	NC International Fund	32%	28%	25%	18%	16%	12%	9%	9%	8%
	NC Fixed Income Fund	21%	31%	37%	41%	42%	41%	36%	33%	29%
	NC Stable Value Fund	0%	0%	4%	8%	12%	17%	22%	25%	26%
	NC Inflation Responsive Fund	8%	7%	6%	5%	4%	3%	3%	2%	2%
	NC TIPS Fund	0%	0%	0%	3%	6%	10%	15%	19%	24%

Moderate

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

Moderate		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	NC Large Cap Index Fund	33%	30%	27%	24%	21%	19%	18%	16%	14%
	NC Small / Mid Cap Fund	14%	12%	12%	10%	8%	6%	6%	4%	4%
	NC International Fund	38%	36%	32%	28%	24%	19%	15%	14%	12%
	NC Fixed Income Fund	6%	13%	21%	28%	33%	36%	34%	27%	23%
	NC Stable Value Fund	0%	0%	0%	3%	6%	10%	14%	19%	22%
	NC Inflation Responsive Fund	9%	9%	8%	7%	6%	5%	4%	4%	3%
	NC TIPS Fund	0%	0%	0%	0%	2%	5%	9%	16%	22%

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		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	NC Large Cap Index Fund	34%	34%	32%	30%	28%	27%	25%	24%	21%
	NC Small / Mid Cap Fund	14%	14%	14%	12%	10%	10%	8%	6%	6%
	NC International Fund	40%	40%	38%	36%	32%	24%	21%	20%	17%
	NC Fixed Income Fund	2%	2%	7%	13%	21%	27%	26%	19%	19%
	NC Stable Value Fund	0%	0%	0%	0%	1%	3%	8%	14%	17%
	NC Inflation Responsive Fund	10%	10%	9%	9%	7%	6%	4%	3%	3%
	NC TIPS Fund	0%	0%	0%	0%	1%	3%	8%	14%	17%

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.

Adopted by the Board Chair:

Date: _____

APPENDIX A

INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS

Definitions

Investment option (or option): A specific investment fund offered to a participant. May be composed of one or more Commingled Funds and/or Separate Accounts.

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

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

APPENDIX A

Asset Class	Investment Manager	Benchmark	Universe
Stable Value	Galliard	3-Year Constant Maturity Yield	Stable Value
Fixed Income	Prudential Global Investment Management	Bloomberg Barclays Capital Aggregate	Core Plus Bond
	TCW	Bloomberg Barclays Capital Aggregate	Core Plus Bond
Fixed Income Index	BlackRock	Bloomberg Barclays Capital Aggregate	Core Bond
Inflation Sensitive Fund	BlackRock	Custom ¹	Real Assets
Large Cap Index	BlackRock	S & P 500	Large Cap Core Index
Large Cap Core	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

¹ Inflation Sensitive Index: Bloomberg Barclays US TIPS Index: 41.4%; FTSE EPRA NAREIT Developed Index: 37.1%; Bloomberg Roll Select Commodity Total Return Index: 21.5%.

APPENDIX A**INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS**

	Loomis Sayles & Company	Russell 1000 Growth	Large Cap Growth Equity
	BlackRock	Russell 1000	Large Cap Core Index
Small / Mid Cap Index	BlackRock	Russell 2500	SMID Cap Core Index
Small / Mid Cap	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
	Brown Advisory	Russell 2500 Growth	SMID Cap Growth Equity
	BlackRock	Russell 2500	SMID Cap Core Index
International Equity Index	BlackRock	MSCI ACWI ex US	Non-US Equity
International Equity	Baillie Gifford	MSCI ACWI ex US	Non-US Equity
	Mondrian	MSCI ACWI ex US	
TIPS	BlackRock	Bloomberg Barclays 1-10 Year U.S. Government Inflation-linked Bond	TIPS

APPENDIX B

INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS

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 Custodian with maintaining each investment manager's allocation of the individual funds' assets within these ranges. The Board designates Departmental staff with the authority to move assets between the investment managers in order to bring the allocations more closely in line with these target allocations.

Large Cap Index Fund

Investment Manager	Target Allocation
BlackRock	100.0%

Large Cap Core Fund

Investment Manager	Target Allocation	Allocation Range
Hotchkis & Wiley	18.75%	+/- 3%
Macquarie	18.75%	+/- 3%
Sands Capital	18.75	+/- 3%
Loomis Sayles	18.75	+/- 3%
BlackRock Russell 1000 Index	25.0%	+/- 3%

Small/Mid Cap Index Fund

Investment Manager	Target Allocation
BlackRock	100.0%

Small/Mid Cap Fund

Investment Manager	Target Allocation	Allocation Range
Earnest Partners	15.83%	+/- 3%
Hotchkis & Wiley	15.83%	+/- 3%
Wedge Capital Management	15.83%	+/- 3%
Brown Advisory	23.75%	+/- 3%
BlackRock Russell 2500 Index	28.75%	+/- 3%

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%

APPENDIX B

INVESTMENT FUND MANAGER MANDATES AND BENCHMARKS

TIPS Fund

Investment Manager	Target Allocation
BlackRock	100.0%

Inflation Sensitive Fund

Investment Manager	Target Allocation
BlackRock	100%

Fixed Income Fund

Investment Manager	Target Allocation	Allocation Range
TCW	50.0%	+/- 3%
Prudential Global Investment Management	50.0%	+/- 3%

Fixed Income Index Fund

Investment Manager	Target Allocation
BlackRock	100%

Appendix C
Service Providers

Effective on or about ~~January 1, 2016~~March 22, 2019

Recordkeeper: Prudential Retirement

Custodian: Bank of New York Mellon

Investment Consultant: ~~Mercer Investment Consulting~~Callan

Investment Advisor: Galliard Capital Management

Appendix D Investment Array

Tier I Target Date Funds	Tier II - A Passive Core Options	Tier II - B Active Core Options	Tier III Specialty Options
Goal Maker		Stable Value Fund Galliard Stable Value	
	Fixed Income Passive BlackRock Debt Index	Fixed Income Fund TCW Core Plus Bond PGIM Core Plus Bond	
		Inflation Responsive Fund BlackRock Strategic Completion	
	Large Cap Equity Passive BlackRock Equity Index	Large Cap Core Fund Hotchkis & Wiley Large Cap Value Macquarie Large Cap Value Sands Capital Large Cap Growth Loomis Large Cap Growth BlackRock Russell 1000 Index	
	Small/Mid Cap Equity Passive BlackRock Russell 2500 Index	Small/Mid Cap Fund Hotchkis & Wiley SMID Cap Value Earnest Partners SMID Cap Value Wedge SMID Cap Value Brown Advisory SMID Cap Growth BlackRock Russell 2500 Index	
	International Equity Passive BlackRock MSCI ACWI ex US Index	International Equity Fund Baillie Gifford ACWI ex US Growth Mondrian ACWI ex US Value	

GUIDELINE EXCEPTIONS GRANTED BY THE BOARD

Manager	Date	Guideline	Explanation
PIMCO – Inflation Strategy	Sept 2013	Prohibition against leverage	PIMCO utilized forward settling bond purchases in order to adjust their yield curve positioning. PIMCO will remain with the overall duration guidelines of the fund.

IPS Revision History

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

		<p>Funds</p> <ul style="list-style-type: none"> ▪ Separate and revise duties of investment consultant and IMD ▪ Add glidepath review, recommendation, and approval ▪ Make other revisions and clarification
3.1	March 12, 2018	<ul style="list-style-type: none"> ▪ Change default retirement age for asset allocation model ▪ Correct the weighting of the JPM Emerging Local Market ELMI Plus Index in the Inflation Sensitive Index in the footnote of Appendix A
3.2	June 21, 2018	<ul style="list-style-type: none"> ▪ Remove the Global Equity Fund ▪ Add the TIPS Fund ▪ Change the Small/Mid Cap Core Fund to the Small/Mid Cap Fund
3.3	March 21, 2019	<ul style="list-style-type: none"> ▪ Change manager for Inflation Responsive Fund
<u>4.0</u>	<u>June 20, 2019</u>	<ul style="list-style-type: none"> ▪ <u>Conform policy to consolidation of Investment Subcommittee's duties with the Board's, as reflected in the Board's charter</u>

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

Statement of Investment Policy

| ~~June~~~~March~~ 24~~0~~, 2019

TABLE OF CONTENTS

SECTIONS	TOPIC	PAGES
I.	Purpose	3
II.	Responsibilities of Participants	4
III.	Responsible Parties	5
IV.	Program Structure	10
V.	Investment Option Selection Criteria and Monitoring	11
VI.	Fund Allocation Models	18
VII.	Adoption and Approval	21
Appendix A	Current Investment Line Up	22

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 (the “Department”) 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 (the “Board of Trustees” or the “Board”). The Board of Trustees’ over-riding objective for the Program is to provide suitable retirement vehicles for the employees of covered employers. The Board of Trustees recognizes the diverse nature of covered employees’ savings requirements, return objectives and risk tolerance. 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 has a custodial account 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 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 this IPS is to document the investment objectives and guidelines of the Program.

These objectives and guidelines have been formulated in response to:

- 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 allocations when necessary due to market movements and account activity or selecting a Fund Allocation Model with automatic rebalancing; and

- Reallocating account balances and the direction of future contributions as personal circumstances and goals and objectives change.

It is the responsibility of the Program participants to determine the combination of contribution level and asset allocation that will meet their individual retirement needs. Participants are responsible for seeking advice from personal advisors, as each participant deems necessary.

Participants may elect the GoalMaker asset allocation service through Prudential as recordkeeper at no additional cost. GoalMaker provides a model portfolio and asset allocation utilizing the funds available in the program based on a participant's years to retirement and risk-tolerance level.

III. Responsible Parties

A. Board of Trustees

The Board has the final responsibility for approving this Statement of Investment Policy and monitoring execution of the procedures, standards, goals and guidelines set forth in this policy. Specific responsibilities of the Board include:

1. Planning

- Approve the types of investment options offered within the Plans so as to provide a broad range of options along the risk/return spectrum;
- Approve the appointment and removal of investment options, including any delegated glidepath providers;
- Approve the appointment and removal of an investment consultant(s), as necessary or appropriate, to render advice on the investment program and the selection and evaluation of investment options and to perform other duties, as appropriate;
- Monitor, or cause to be monitored, the investment performance of the investment options;
- Approve and monitor of a glidepath for the Program.

2. Operations

- Delegate responsibilities to the Department of State Treasurer, as appropriate;
- Approve the appointment and removal of the recordkeeper, custodian and other major service providers;
- Approve and monitor participant communications plans and strategies, e.g., the general characteristics of each investment option to participants, including risk considerations. The Department and the recordkeeper 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 investment advice to participants.

- Delegate administrative duties, as appropriate, to the recordkeeper, custodian or other service providers.

3. Control

- Review and evaluate results of the investment options against established performance standards;
- Take whatever corrective action is deemed prudent and appropriate when an investment option fails to perform against established policy objectives, guidelines and standards;
- Monitor the soundness of the investment firms which are chosen for the Program and their investment processes and will take corrective action if necessary; and
- Monitor Program costs and effectiveness of operations.

B. Investment Subcommittee

The Board does not currently have an Investment Subcommittee. As provided in the Board's charter, the duties of the investment subcommittee, as described in this policy, are consolidated with the functions of the full Board. However, the Board may create an investment subcommittee, on a temporary or ad hoc basis as necessary to address specific investment-related issues, including the performance of the Investment Subcommittee's functions, as described in this policy. References to the Investment Subcommittee in this Policy apply only if an Investment Subcommittee has been established by the Board and assigned the function assigned to the Investment Subcommittee in such reference.

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 nominated by the Board Chair and ratified 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;

- Recommending a glidepath; 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:

- Enrolling participants;
- Executing the Plan's participant communication activities;
- Accepting contributions and allocating and transferring the Program assets among permitted investment options as directed by the Board or the participants;
- 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;
- Calculating quarterly performance data and using best efforts to provide such data within four weeks of the end of each calendar quarter; and
- Reconciling account balances.

D. 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 or the 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 and account positions with the investment manager.

E. Investment Management Division ~~(IMD)~~ Staff

1. Board Reporting

The Investment Management Division~~(IMD)~~ shall issue a quarterly report to the Investment Subcommittee and Board, which will include the following information:

- The market value of Program assets as of the last business day of the most recent calendar quarter;
- The portion of Program assets allocated to each investment option as of the last business day of the most recent calendar quarter;
- Time-weighted rates of return and risk for all investment options, measured net of fund expenses; and performance relative to a peer group universe and market benchmark for the most recent calendar quarter, year to date, and for historical time periods since inception; and
- Review of fund expense ratios (gross and net).

IMD shall meet quarterly with the Investment Subcommittee and Board to review performance of the investment options within the context of this Statement of Investment Policy.

2. Investment Monitoring

IMD shall perform the following investment monitoring duties:

- Review performance of the fund options;
- Monitor and review fund expense ratios and inform the Investment Subcommittee and Board of any changes;
- 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 Investment Subcommittee and Board as appropriate;
- Notify the Investment Subcommittee and Board 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 Investment Subcommittee and Board;
- Provide recommendations to the Investment Subcommittee and Board on investment option replacements either as requested by the Board or on their own initiative;
- Provide recommendations to the Investment Subcommittee and Board on the structure or number of investment options; and
- Recommend a glidepath.

F. Retirement Systems Division Staff

The duties of the Retirement Systems Division include:

- Coordinate presentations of IMD staff to the Board and Investment Subcommittee;
- Coordinate activities of IMD staff in the fulfillment of duties as assigned by the Board;
- Oversee the day-to-day activities of the recordkeeper and custodian;
- Assist the Board with review of contracts;
- Execute contracts at the Board's 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.

A. Program Lineup, Generally

In general, the Board of Trustees may offer funds or families of funds of the following types: 1) Index funds or similarly passive investment options that cover major asset classes; and 2) Actively managed funds that cover one or more asset classes. Each actively managed fund may be internally allocated between one or more market segments.

B. 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:

- 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
- Emerging Markets Equities
- Asset Allocation Option
- Global Socially Responsible/ESG Equities
- U.S. and/or Global REIT & Global Direct Real Estate

C. 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 for each such option.

D. 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 Program provides for a default investment option when a plan participant has not made an affirmative investment election. The Board has chosen the Moderate 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.

V. Investment Option Selection Criteria and Monitoring

A. Investment Option Selection Process

When the Investment Subcommittee is considering a potential new investment option,

IMD will conduct the following due diligence:

- 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 Investment Subcommittee and 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 Barclays 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 Barclays Capital Aggregate Index over rolling five-year periods. The option's returns should remain competitive with the Bloomberg Barclays' Capital 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 Barclays 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 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.

Performance Objectives: The option should provide a return that closely tracks that of the Barclays Capital US Aggregate Bond Index. The tracking error to this objective should be less than 0.25% 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 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% Barclays 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 Barclays 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 the performance of the Standard & Poor's 500 Index.

Performance Objectives:

- 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.

SMID Cap Index Fund. The primary objective of the SMID Cap Index Fund is to track the performance of the S&P Completion Index.

Performance Objectives:

- The option should provide a rate of return that equals (gross of fees) the S&P Completion 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 Cap Fund. The Small Cap Option was established to provide participants with an actively managed equity option targeted at the small cap sectors of the U.S. equity market.

Performance Objectives:

- Provide a rate of return that exceeds that of the Russell 2000 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 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 2000 Index over rolling five-year periods.

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.

- Provide a rate of return that exceeds the MSCI ACWI ex US 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 foreign large growth 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 MSCI ACWI ex US Index over rolling five-year periods.

International Index Fund. The primary objective of the International Index Fund is to track the performance of the FTSE Global All Cap Index.

Performance Objectives:

- The Option should provide a rate of return that equals (gross of fees) the FTSE Global All Cap 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.

C. Investment Option Monitoring, Watch List and Termination Guidelines

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 investment options 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. IMD will prepare a quarterly report for the Investment Subcommittee to review each investment option.

Monitoring will be done on a regular basis by IMD (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:

The Board or the Investment Subcommittee may approve placing an investment option on the watch list or terminating an investment option 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;
- Any other circumstance regarding the investment option that the Board determines is in conflict with this Statement of Investment Policy or the best interests of the Program;
- Violation of the terms of the contract with the Board; and/or

- 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 investment option's viability within the Plan. Should an investment option fail to satisfy its performance criteria, or should the Board have some other concern about the investment option, the Board may approve 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 option for the mandate; and
- Terminate the investment option.

Failure by an investment option to achieve the three-year performance objectives established by the Board over four (4) consecutive quarters shall cause that investment option to be placed on a "watch list." An investment option may also be placed on watch within a lesser period if the investment option's strategy has deviated from the objective of the mandate or violated another evaluation criterion in this section. The watch period will be established for the next three quarters (four quarters in total), but may be lengthened or shortened in the Board's discretion. It is anticipated that the typical watch period will not exceed one year. If performance does not improve within one year, or other specific time period determined by the Board, relative to the benchmark and/or peer group universe, that investment option' will be reviewed by IMD with a bias toward recommending termination.

VI. Fund Allocation Models

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 Plans. Participants can elect to have their entire plan balance allocated in accordance with one of the models offered.

A. Model Allocation Determination

The Board has authorized a set of 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 are arrayed on these two dimensions.

B. Risk Tolerance

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

C. Participant Investment Horizon

A participant's investment horizon is also a determinant of the level of risk that may be

appropriate. Participants with longer investment horizons have more time to recover from short term losses and thus are able to accept more variability in their interim account values and potentially 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.

D. Model Allocation Investments

The Model Allocations are able to utilize all of the Investment Options offered by the Plans. 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.

E. Model Allocation Implementation

These asset allocation models will be implemented by the Program's recordkeeper. The recordkeeper will automatically allocate any contributions and distributions across the Options in the model, in order to maintain the targeted model allocation. The recordkeeper will generally rebalance the allocation across the Options back to the target allocation on a quarterly basis.

F. Model Revisions

The Board will review these target allocations periodically. If any new Options are added to the Program, the model allocations will be reviewed to ascertain whether the new Options should be included and in what allocation.

G. Current Model Allocations

The current Model Allocations are shown below.

NC 403(b) Program Conservative Model Allocation

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		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	Vanguard 500 Index Fund Admiral	27%	24%	20%	17%	14%	13%	11%	10%	9%
	DFA US Small Cap I	12%	10%	8%	8%	6%	4%	4%	2%	2%
	Baillie Gifford International Equity	32%	28%	25%	18%	16%	12%	9%	9%	8%
	Metropolitan West Total Return Bd Plan	21%	31%	37%	41%	42%	41%	36%	33%	29%
	Vanguard Short-Term Bond Index Adm	0%	0%	4%	8%	12%	17%	22%	25%	26%
	Principal Diversified Real Asset	8%	7%	6%	5%	4%	3%	3%	2%	2%
	Vanguard Short-Term TIPS	0%	0%	0%	3%	6%	10%	15%	19%	24%

NC 403(b) Program Moderate Model Allocation

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

Moderate		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	Vanguard 500 Index Fund Admiral	33%	30%	27%	24%	21%	19%	18%	16%	14%
	DFA US Small Cap I	14%	12%	12%	10%	8%	6%	6%	4%	4%
	Baillie Gifford International Equity	38%	36%	32%	28%	24%	19%	15%	14%	12%
	Metropolitan West Total Return Bd Plan	6%	13%	21%	28%	33%	36%	34%	27%	23%
	Vanguard Short-Term Bond Index Adm	0%	0%	0%	3%	6%	10%	14%	19%	22%
	Principal Diversified Real Asset	9%	9%	8%	7%	6%	5%	4%	4%	3%
	Vanguard Short-Term TIPS	0%	0%	0%	0%	2%	5%	9%	16%	22%

NC 403(b) Program Aggressive Model Allocation

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		Pre-Retirement						Post-Retirement		
		26+	21-25	16-20	11-15	6-10	0-5	0-5	6-10	11+
Fund	Vanguard 500 Index Fund Admiral	34%	34%	32%	30%	28%	27%	25%	24%	21%
	DFA US Small Cap I	14%	14%	14%	12%	10%	10%	8%	6%	6%
	Baillie Gifford International Equity	40%	40%	38%	36%	32%	24%	21%	20%	17%
	Metropolitan West Total Return Bd Plan	2%	2%	7%	13%	21%	27%	26%	19%	19%
	Vanguard Short-Term Bond Index Adm	0%	0%	0%	0%	1%	3%	8%	14%	17%
	Principal Diversified Real Asset	10%	10%	9%	9%	7%	6%	4%	3%	3%
	Vanguard Short-Term TIPS	0%	0%	0%	0%	1%	3%	8%	14%	17%

VII. Adoption and Approval

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.

Date

Chair

APPENDIX A

Current Investment Line Up

Investment	Ticker	Benchmark
Vanguard Short Term Bond Index Admiral	VBIRX	BB Barclays US 1-5 yr Gov Credit
Metropolitan West Total Return Bond	MWTSX	Bloomberg Barclays US Aggregate
Vanguard Total Bond Market Index Admiral	VBTLX	Bloomberg Barclays US Aggregate
Principal Diversified Real Asset	PDARX	Diversified Real Asset Strategic Index*
Vanguard Short-Term Inflation-Protected Securities Index Fund Admiral Shares	VTAPX	Bloomberg Barclays 0-5 Year U.S. Government Inflation-linked Bond Index
Vanguard Windsor II Admiral	VWNAX	Russell 1000 Value
Vanguard 500 Index Admiral	VFIAX	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 Barclays 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.