

August 26, 2021



Stable Value Fund Review

North Carolina Supplemental
Retirement Plans

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Callan

Executive Summary

Stable Value Review – Executive Summary

- Callan held a conference call with Galliard on July 29th, 2021. Callan maintains a positive opinion of Galliard's stable value approach and the internally managed fixed income strategies that underlie stable value accounts.
- Callan continues to monitor stability at the organizational and key personnel levels as a result of changes that began at Galliard and its parent company Wells Fargo in 2019. Succession planning appears to have been effective since the 2019 leadership transition as the team has displayed consistency in its investment process and performance. Assets within the flagship Stable Return Fund have stabilized since late 2020.
- Callan is monitoring the upcoming sale of Wells Fargo Asset Management ("WFAM") to the private equity firms GTCR and Reverence Capital. WFAM will be rebranded as Allspring Global Investments and is expected to retain Galliard as a wholly-owned subsidiary and its revenue sharing agreements. There are details surrounding retention packages and transitioning the back office that have yet to be disclosed.
- The recent departure of Deputy Head of Client Portfolio Management Laura Sell is notable. However, Galliard maintains adequate depth to reassign her responsibilities among the rest of the team.
- A collaborative and structured process has aided in developing wrap contract solutions and maintaining a consistent investment approach. North Carolina's stable value fund has performed in line with expectations and has consistently generated a crediting rate in line with peers.
- Market to book ratios have increased and crediting rates have declined as a result of the Federal Reserve cutting rates in 2020. Going forward, crediting rates are likely to trend downward due to the low interest rate environment.

Callan

Galliard Stable Value

Galliard Stable Value

Organization Review

Callan continues to closely monitor Galliard due to a series of organizational changes that began in 2019. Callan would remove Galliard from the watch list should they continue to exhibit stability among investment personnels, leadership and as a firm through the upcoming sale of WFAM to GTCR and Reverence Capital.

- In March 2019, Galliard announced the retirements of its founding partners and reporting line changes. At the end of 2019, founding partners Richard Merriam and Karl Tourveille, and managing partner Carrie Callahan formally retired. In January 2020, Michael Norman, Chief Administrative Officer, and Andrew Owen, President of Wells Fargo Funds, assumed the roles of co-President of Galliard. Galliard's risk management, technology, and compliance teams began reporting directly to Wells Fargo.
- In April 2019, parent company Wells Fargo announced it would sell its record-keeping division to Principal Financial Group. The sale led to an increase in outflows from the firm's flagship WFAM Stable Return Fund related to accounts record-kept by Wells Fargo. The fund's put queue reached a high water mark in the third quarter 2020, but it has since fallen to its pre-2019 level. Galliard remains one of the largest stable value providers in both collective trust and separate account AUM.
- In February 2021, Wells announced that private equity firms GTCR LLC and Reverence Capital Partners, L.P. entered into an agreement to acquire WFAM. The deal is expected to close in the second half of 2021. Upon the close of the sale, CEO Nico Marais will retire and Joe Sullivan will assume the title of CEO.
- WFAM expects to be rebranded as Allspring Global Investments, but Galliard will retain its own branding. Galliard expects to remain a wholly-owned subsidiary under Allspring Global and that the revenue sharing agreement will be retained under the new ownership. Details surrounding an updated incentive compensation structure, and transitioning back-office support to Allspring have yet to be announced.

Galliard Stable Value

Personnel Review

Galliard's senior leadership and investment personnel have remained relatively stable since the founding partners' retirement in 2019. However, they did experience a notable departure on the client portfolio management team in early 2021.

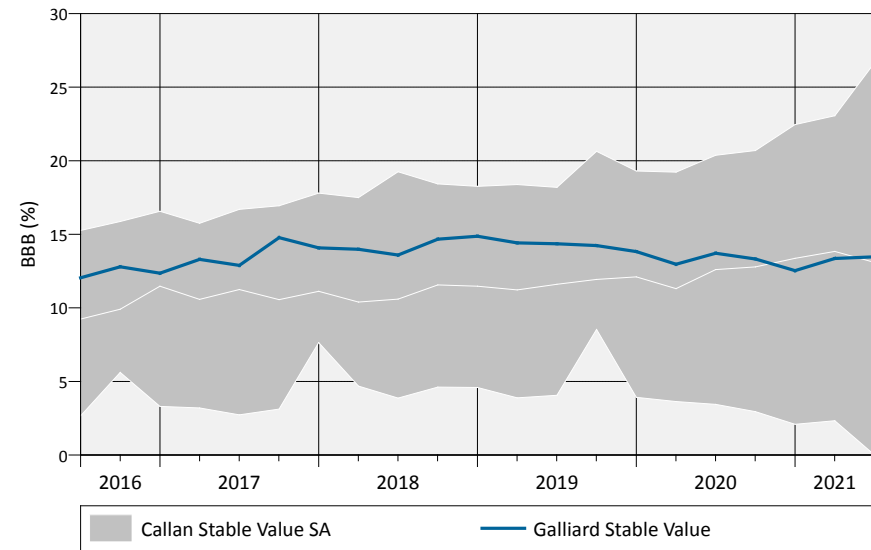
- Ajay Mirza and Brandon Kanz serve as Galliard's key fixed income investment professionals acting as Chair and Vice-Chair of the Investment Committee. Mirza's employment contract is set to expire at the end of 2021.
- Leela Scattum, Partner and Chief Stable Value Strategist, retired in 2020 as a part of the firm's succession planning. Nick Gage had assumed leadership of the stable value strategy prior to her retirement. Gage is a veteran of the stable value team and in the industry. Callan does not have concerns related to this transition in leadership.
- Laura Sell, Deputy Head of Client Portfolio management and co-Chair of the Stable Value Strategy committee, departed the firm in April 2021 to pursue other opportunities. She helped oversee client account implementation of the stable value strategy and adherence to investment guidelines. She also co-chaired the Stable Value Strategy committee alongside Nick Gage from 2016 until her departure. Sell joined the firm in 2009. Depth and experience among the remaining team members alleviates concerns related to interruptions to portfolio management.
- Despite the departure of Laura Sell, Galliard continues to maintain a deep stable value team comprised of eight wrap contract negotiating professionals, four external management oversight professionals, six contract administration professionals and nine stable value accounting and operations professionals.

Galliard Stable Value

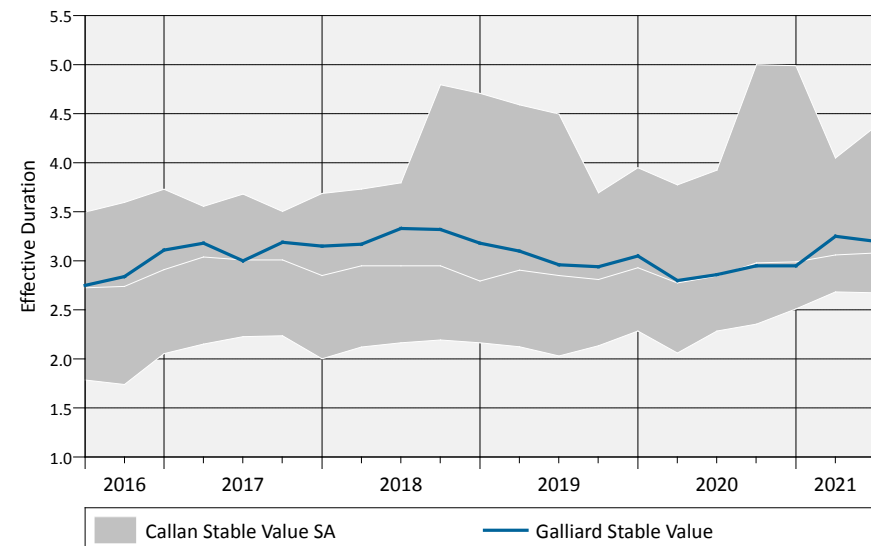
Strategy Review

- Galliard conducts a collaborative and repeatable process in implementing stable value portfolios.
- Wrap negotiation has benefitted from the firm's dedicated resources and experience in wrap contract management as well as asset size.
- Galliard has historically held slightly more corporate credit risk as exhibited by BBB-rated exposure relative to peers.
- The Fund's duration has been managed within an acceptable range through multiple market cycles.
- Galliard has effectively diversified risk utilizing subadvisors with complementing investing styles.
- External management oversight, led by Elizabeth Smithley and Peter Schmit, is robust and requires monthly reviews for compliance.

BBB Exposure
for 5 Years Ended June 30, 2021



Effective Duration
for 5 Years Ended June 30, 2021

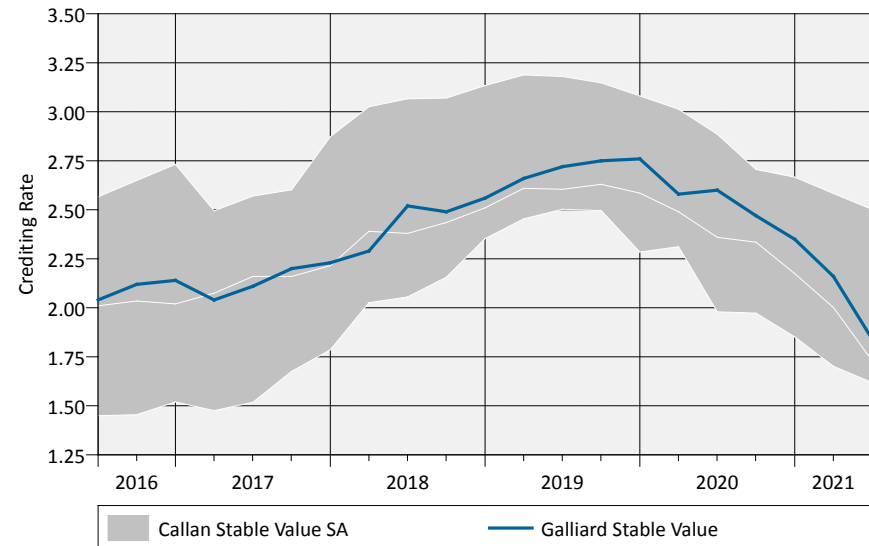


Galliard Stable Value

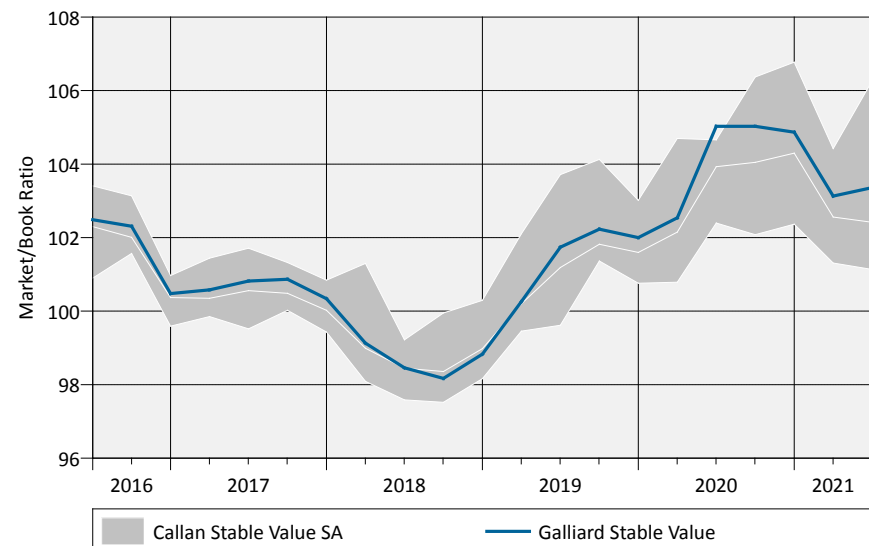
Performance Review

- The fund has generated a crediting rate above the peer median since the second quarter of 2018.
- In December 2018, the fund's market-to-book ratio began increasing as markets experienced a flight-to-quality environment, and in early 2020 it increased further when the Fed began lowering rates in response to the economic shock from the pandemic.
- As outlined on the following slide, the NCSRP stable value fund has performed in line with expectations, producing strong short-term and long-term performance relative to peers.

Crediting Rate
for 5 Years Ended June 30, 2021



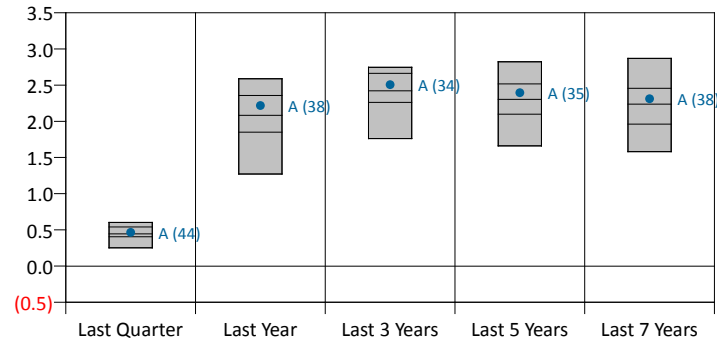
Market/Book Ratio
for 5 Years Ended June 30, 2021



Galliard Stable Value

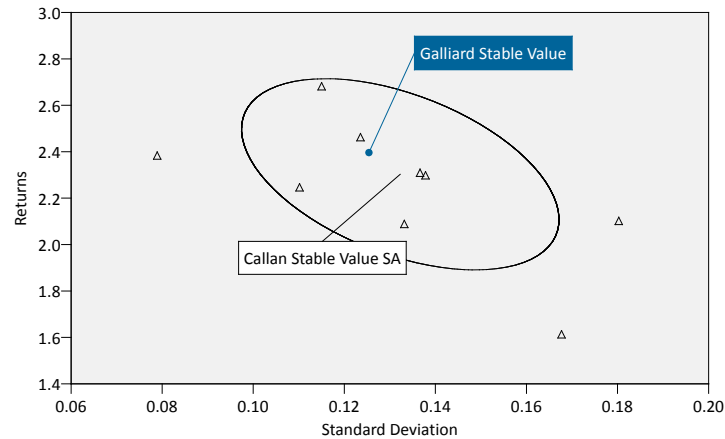
Performance Review

Returns
for Periods Ended June 30, 2021
Group: Callan Stable Value SA

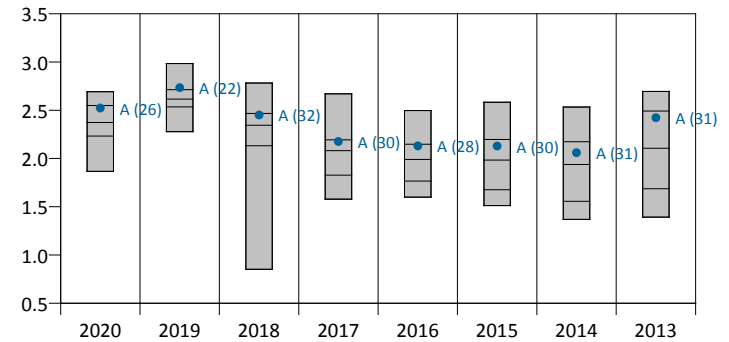


10th Percentile	0.60	2.59	2.75	2.82	2.87
25th Percentile	0.54	2.36	2.66	2.52	2.46
Median	0.44	2.08	2.42	2.30	2.24
75th Percentile	0.41	1.85	2.26	2.10	1.96
90th Percentile	0.25	1.27	1.76	1.66	1.58
Galliard Stable Value	0.47	2.22	2.51	2.40	2.31

Scatter Chart
for 5 Years Ended June 30, 2021

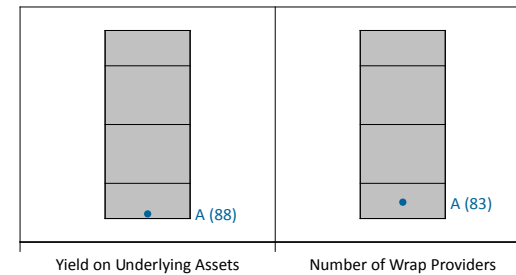


Calendar Year Returns
for Periods Ended December 31, 2020
Group: Callan Stable Value SA



10th Percentile	2.69	2.99	2.78	2.67	2.50	2.58	2.53	2.70
25th Percentile	2.55	2.71	2.47	2.19	2.15	2.20	2.18	2.49
Median	2.37	2.62	2.34	2.08	1.99	1.98	1.94	2.11
75th Percentile	2.23	2.54	2.13	1.83	1.77	1.68	1.56	1.69
90th Percentile	1.87	2.28	0.85	1.58	1.60	1.51	1.37	1.39
Galliard Stable Value	2.52	2.74	2.45	2.18	2.13	2.13	2.06	2.42

Portfolio Characteristics For Periods Ended June 30, 2021
Group: Callan Stable Value SA

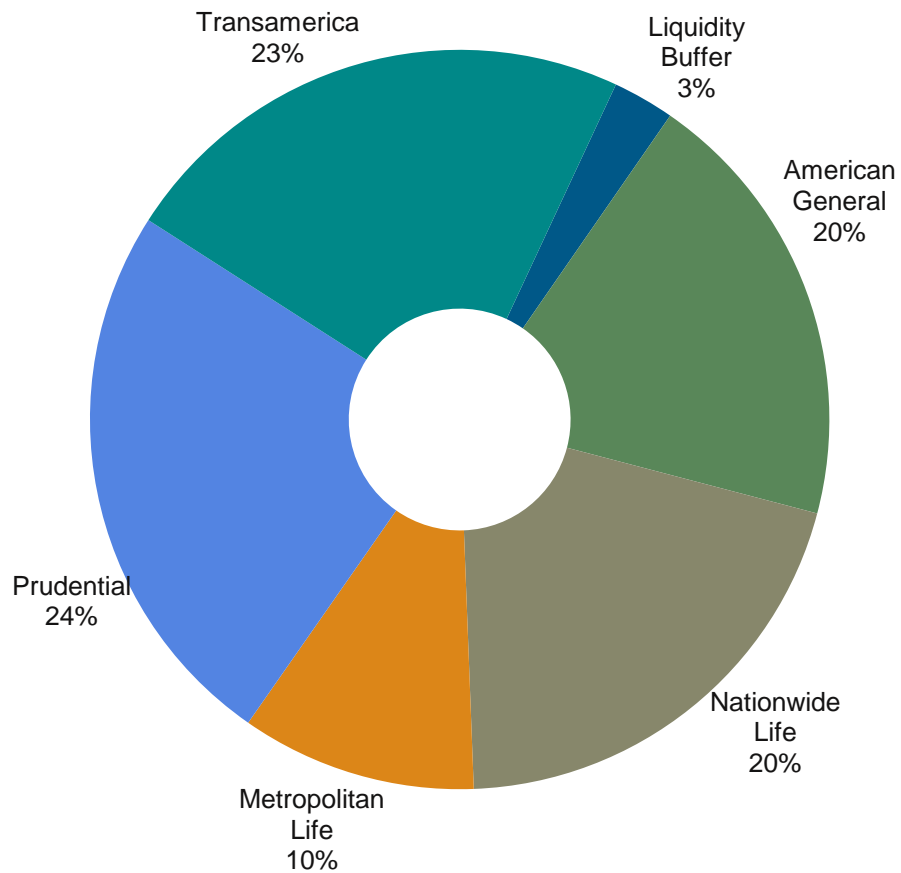


25th Percentile	2.09	99.00
Median	1.13	9.00
75th Percentile	0.95	6.00
90th Percentile	0.93	2.00
Galliard Stable Value	0.93	5.00

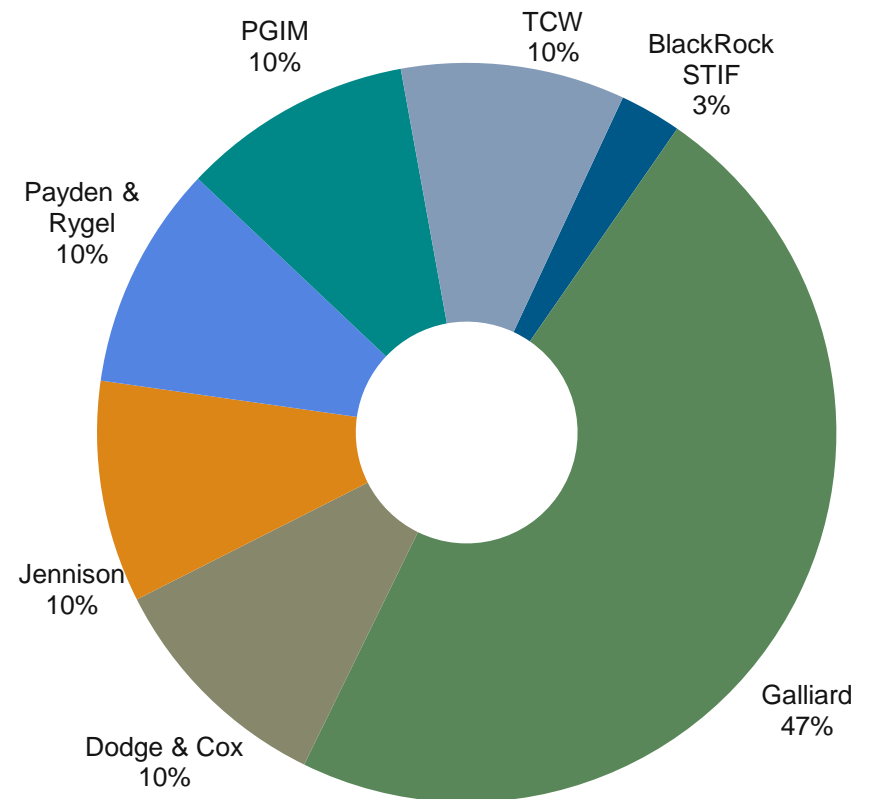
Galliard Stable Value – Performance

Diversification by Wrap Issuers and Subadvisors as of June 30, 2021

Wrap Issuer Exposure



Subadvisor Exposure



Galliard Stable Value – Performance

Subadvisor performance for periods ended June 30, 2021

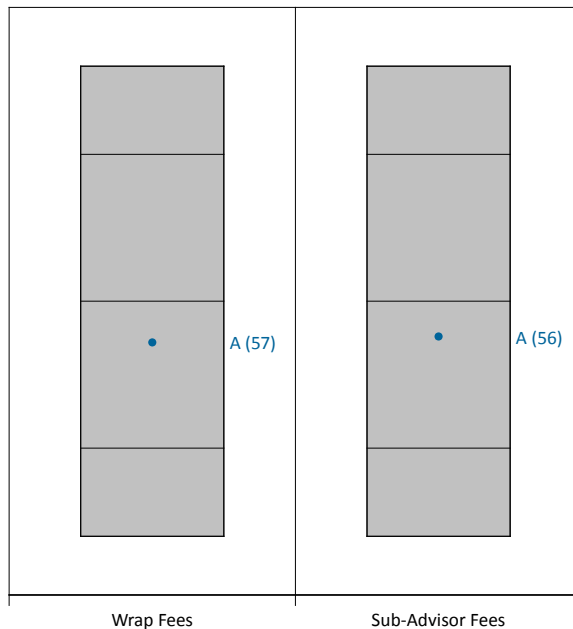
Manager	1 month	1-quarter	YTD	1-years	3-years	5-years	Since Inception	Inception Date
Galliard	-0.12	0.24	0.04	0.88	3.47	-	3.40	June 1, 2018
<i>BB 1-3 yr Gov't/Credit Index</i>	-0.15	0.04	0	0.44	2.96	-	2.88	-
Galliard	0.17	1.07	-0.41	1.14	5.04	-	4.90	June 1, 2018
Dodge & Cox	0.22	0.97	-0.62	1.55	5.18	3.31	3.20	Mar 1, 2015
PGIM Fixed Income	0.14	1.06	-0.72	1.21	4.94	3.08	3.40	Feb 1, 2016
<i>BB Intermediate Aggregate Index</i>	0.04	0.78	-0.84	0.05	4.41	2.53	4.28 / 2.64 / 2.80	-
Payden & Rygel	0.19	0.94	-0.56	1.01	4.83	3.19	2.59	July 1, 2009
¹ <i>Linked Benchmark</i>	0.04	0.78	-0.84	0.05	4.41	2.73	2.07	-
Jennison	0.05	0.91	-1.05	0.01	5.25	3.15	5.16	¹ See Note
TCW	0.04	0.87	-0.62	1.12	5.26	-	5.17	June 1, 2018
<i>BB Intermediate Gov't/Credit Index</i>	0.08	0.98	-0.9	0.19	4.7	2.63	4.62 / 4.54	-

¹Payden Linked BM: Bloomberg Barclays U.S. Intermediate Aggregate Bond Index. Prior to June 1, 2018 benchmark was Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index. Performance inception: June 1, 2018. Prior to June 1, 2018 returns are linked to Wells Fargo Fixed Income Fund N (Jennison).

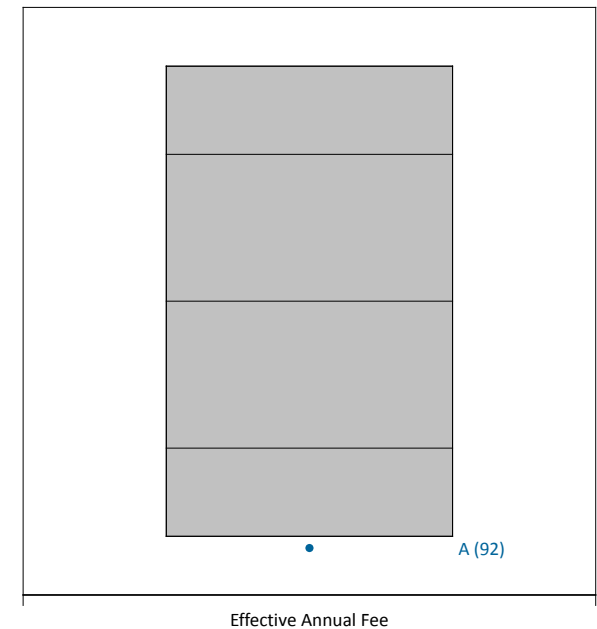
Galliard Stable Value - Fees

Wrap/Subadvisor and Management Fee Comparison

Fee Comparison
Ended June 30, 2021
Group: Callan Stable Value SA



Management Fee Comparison
Ended June 30, 2021
Group: Callan Stable Value SA



- Galliard recently reduced the management fee to 5.86 bps which is competitive among reported management fee schedules.
- Galliard has also been assertive in negotiating wrap contract fees—they expect fees to remain between 15-16 bps for the foreseeable future.

Callan

Stable Value Trends

Factors Impacting Stable Value Environment

Sale of Prudential Financial's Record-keeping Business and its Impact to Wrap Contracts

- In July 2021, Prudential announced Empower Retirement will acquire its record-keeping division. As a result, all related general account and separate account wrap business is expected to transition over to Empower. However, Prudential's investment-only synthetic wrap business will remain at Prudential.
- North Carolina's wrap contracts through Prudential are expected to be transitioned to Empower in 1Q22. However, Galliard is in communication with Prudential to move its contracts back to Prudential and PGIM Fixed Income as Empower (Great West) is not an approved contract provider.

Current Rate Environment

- A period of rising interest rates and increased allocations to spread product helped increase crediting rates from 2017 through 2019.
- Going forward, crediting rates may trend downward.
 - The Covid-19 crisis has spurred central banks to support their economies by lowering interest rates to all time lows.
 - Cash allocations within stable value funds have increased due to the flight to quality, lowering average yields within SV funds.

Wrap Capacity

- Wrap coverage and investment guidelines tightened after the 2008 financial crisis.
- Insurance companies have since become the dominant players within the wrap industry.
 - Increased competition has helped wrap fees decline to 16-17 bps from the 25-30 bps range immediately after the GFC.
 - Investment guideline negotiation leverage has shifted back in favor of stable value managers.
- Wrap coverage has remained robust through the Covid-19 crisis, however, vigilance of the health of the wrap provider community is prudent.

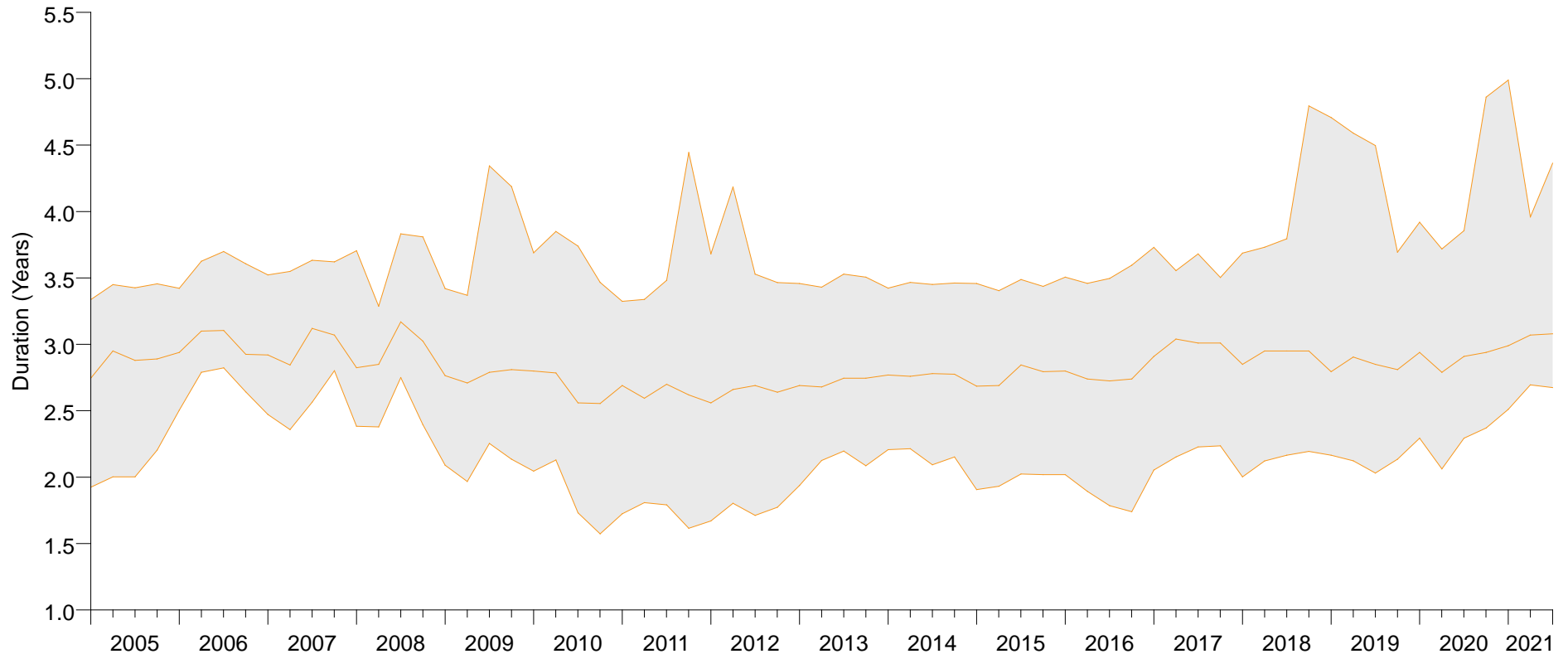
Financial Health of Wrap Issuers

Issuers	Ratings					
	S&P		Moody's		Fitch	
	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020
American General Life	A+	A+	A2	A2	A+	A+
Jackson National Life	AA-	A+	A1	A1	AA-	A+
Lincoln Financial	AA-	AA-	A1	A1	A+	A+
Mass Mutual	AA+	AA+	Aa3	Aa3	AA+	AA+
Metropolitan Life	AA-	AA-	Aa3	Aa3	AA-	AA-
New York Life	AA+	AA+	Aaa	Aaa	AAA	AAA
Pacific Life	AA-	AA-	A1	A1	A+	AA-
Principal Life	A+	A+	A1	A1	AA-	AA-
Protective Life	AA-	AA-	A1	A1	A+	A+
Prudential	AA-	AA-	Aa3	Aa3	AA-	AA-
RGA	AA-	AA-	A1	A1	A	A
Royal Bank of Canada	AA-	AA-	Aa2	Aa2	AA	AA
State Street Bank	AA-	AA-	Aa3	Aa3	AA	AA
Transamerica	AA-	A+	A1	A1	A+	A+
Voya Financial	A	A+	A2	A2	A	A

	Sector outlook - Stable value managers maintain a positive outlook on wrap providers' financial stability, while the major rating agencies maintain a negative-to-stable outlook on the insurance sector as a whole.
Moody's	Negative - Unprecedented economic disruption from the COVID-19 pandemic and a prolonged low-rate environment are negative though the industry has strong capital position.
S&P	Stable - Asset risk is the immediate risk, but life insurers' capital buffers will help cushion the blow. Manageable impact from moderate pandemic stress, gradual impact from lower interest rate. The following would trigger a negative sector outlook: higher than expected corporate downgrades or default, substantial reserve increase due to lower interest rates, higher than expected loss due to hedge breakage from equity market volatility, significant mortality rate increase.
Fitch	Negative - Increased uncertainties due to the material disruption in the financial markets, a spike in mortality risk, the severity of which at this point is highly uncertain, increased concern over protracted low interest rate environment

Source: Goldman Sachs Asset Management, Bloomberg Barclays as of 6/30/19

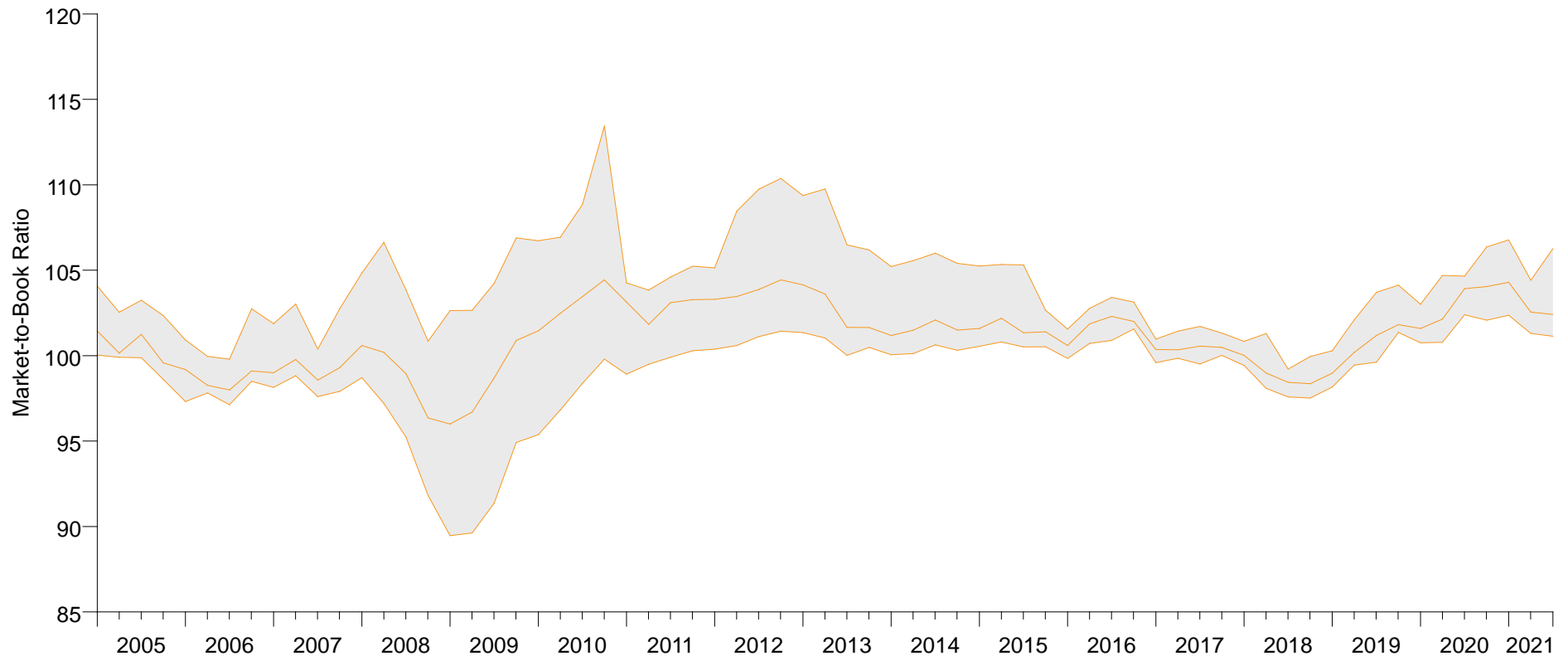
Duration has Increased



Wrap issuers keep a close a eye on interest rate risk.

- After stable value funds experienced volatility in 2008, wrap providers pushed for tighter guidelines.
- More recently, wrap providers have allowed more leeway on duration.

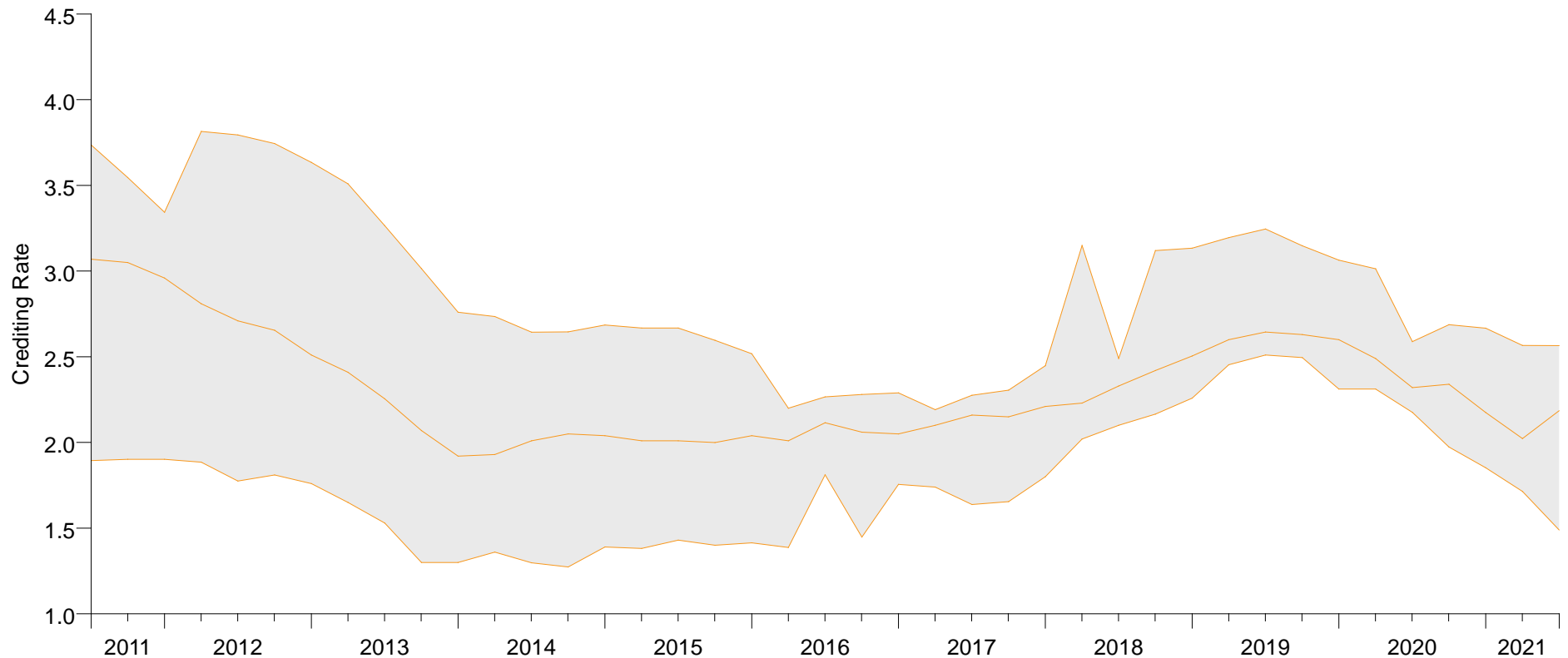
Market-to-Book Ratios Have Increased



Market-to-book value ratio is a measure of the overall health of a stable value fund.

- Market-to-book may increase above par (100) during a declining rate environment.
- Gradual changes in interest rates are manageable.

Crediting Rates May Return to Historic Lows



Post-GFC, crediting rates were impacted by strict investment guidelines and declining rates.

- A period of rising interest rates and increased allocations to spread product helped increase crediting rates.
- However, a return to low interest rates due to the Covid-19 crisis indicate a potential decline in crediting rates.
- Some investment managers have renegotiated broader guidelines, resulting in more parity among the peers.