

V. Investment Option Selection Criteria and Monitoring

B. Investment Option Objectives

~~Real Asset~~**Inflation-Response Fund.** The ~~Real Asset~~ Inflation-Response Fund was established to provide participants with a primarily an-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. ~~Based on the belief that no single asset class provides the highest correlation with CPI during all market conditions, the management team will allocate assets among several asset classes based on its evaluation of market conditions, including expected sources of inflation. 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, but are not limited to, TIPS and other inflation-sensitive bonds, emerging market currencies, real estate investment trusts, commodities, and gold. This strategy may utilize sophisticated investment techniques, including the use of derivatives and forward settling security transactions to adjust the portfolio’s positioning. 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. —PIMCO Inflation ResponseMorningstar Global Allocation Index* and track CPI over rolling five year periods. ~~The option’s returns should remain competitive with the Index Inflation-Response-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*Inflation-Response-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~~

~~*The PIMCO Inflation Response Index is a composite index of five real return asset classes: TIPS, represented by Barclays Capital U.S. TIPS Index; Commodities, represented by DJ-UBS Commodity TR Index; REITs, represented by Dow Jones U.S. Select REIT Index; Emerging Market Currencies, represented by JPM Emerging Local Market ELMI Plus Index; and Gold, represented by DJ-UBS Gold TR Index. The five asset classes have the following weights, to which the index rebalances at the beginning of every month: TIPS—45%, Commodities—20%, REITs—10%, Emerging Market Currencies—15% and Gold—10%. The index was designed by PIMCO to represent a diversified basket of asset classes that it has judged to serve either as an explicit or as an implicit inflation hedge.~~

VI. Fund Allocation Models

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 Responsive Multi-Asset Fund Inst	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 Responsive Multi-Asset Fund Inst	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 Responsive Multi-Asset Fund Inst	10%	10%	9%	9%	7%	6%	4%	3%	3%
	PIMCO Inflation									
Vanguard Short-Term TIPS	0%	0%	0%	0%	1%	3%	8%	14%	17%	

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 PIMCO Inflation Response Multi-Asset Institutional	PDARX PIRMX	Diversified Real Asset Strategic Index PIMCO Inflation Response 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. PIMCO Inflation Response Index is a customized index: 45% Bloomberg Barclays US TIPS Index; 20% Dow Jones UBS Commodity Index; 15% JP Morgan Emerging Local Markets Index; 10% Dow Jones US Select REIT Index; 10% Dow Jones UBS Gold Index.~~