

North Carolina Supplemental Retirement Board of Trustees
Report from the Investment Subcommittee
August 15, 2012

The Investment Subcommittee of the Supplemental Retirement Board of Trustees met on August 15, 2012 for the purpose of receiving reports and recommendations from Galliard Capital Management, Mercer Investment Consulting and SST Benefits Consulting.

Investment Subcommittee members present were Libby George and Mona Keech. Chuck Leedy was unable to attend the meeting. Newly appointed Board of Trustees member Melinda Baran attended the Subcommittee meeting. Ms. Baran offered her comments and questions during the meeting, but did not vote on resolutions, since Ms. Baran had not been appointed to the Investment Subcommittee.

The Subcommittee began by noting its deep appreciation for the service of the former Chair of the Subcommittee, Dexter Perry, who was not reappointed to the Board of Trustees.

Minutes from the May 16, 2012 Investment Subcommittee meeting were reviewed and approved unanimously without modification by a motion from Libby George and a second by Mona Keech.

The Subcommittee received a report on the quarterly performance of all investment options in the Supplemental Retirement Plans, and there are currently no major performance issues or concerns with any of the funds or fund managers.

The Subcommittee noted the following:

- Galliard is preparing a formal strategy recommendation for the next Investment Subcommittee meeting. This recommendation will define future strategy steps for the Stable Value Fund and will address concerns regarding wrap provider and money manager diversification. Mona Keech noted concern about moving money away from the Plans' manager Great West, given Great West's relatively low fees and long relationship with the Supplemental Retirement Plans.
- Galliard reported that it had changed the money market fund used in the Stable Value Fund to a 100% all U.S. Government Money Market Fund. This brings the plan in line with the Board's request to reduce exposure to Europe that existed through the SSgA Short-Term Investment Fund (STIF).
- The Subcommittee reviewed material prepared by Mercer Consulting regarding the implementation of a new inflation-sensitive investment option. The Board considered several options presented by Mercer. The PIMCO Inflation Response Multi-Asset Fund Institutional was recommended by the Subcommittee based upon the fund's low equity beta and inflation hedge characteristics. The motion to make this recommendation was made by Libby George and the second was provided by Mona Keech. The motion was approved unanimously. The Subcommittee noted that the allocation to the PIMCO Inflation Response Fund was yet to be determined.
- A brief discussion regarding the Transfer Benefit Option was held. It was decided to have a presentation on this benefit at our next meeting.
- Scott Dauenhauer of SST Benefit Consulting gave a presentation on the 403(b) plan menu investment options. Mr. Dauenhauer reviewed the restrictions regarding the type of investments that can be

offered by 403(b) plans, then outlined several potential structures for 403(b) plan investment lineups. After this discussion, the Subcommittee and staff agreed that SST Benefit Consulting and staff would present a specific proposal at the next Subcommittee meeting.

- The Subcommittee held a short discussion with the Plans' attorney Blake Thomas, Assistant General Counsel to the Department of State Treasurer, in closed session pursuant to N.C.G.S. § 143-318.11(a)(3).
- With no further business before the Investment Subcommittee, the meeting was adjourned by a motion from Libby George and a second by Mona Keech. The motion was approved unanimously.