

North Carolina Supplemental Retirement Plans Fourth Quarter Performance Review

March 2014

Agenda

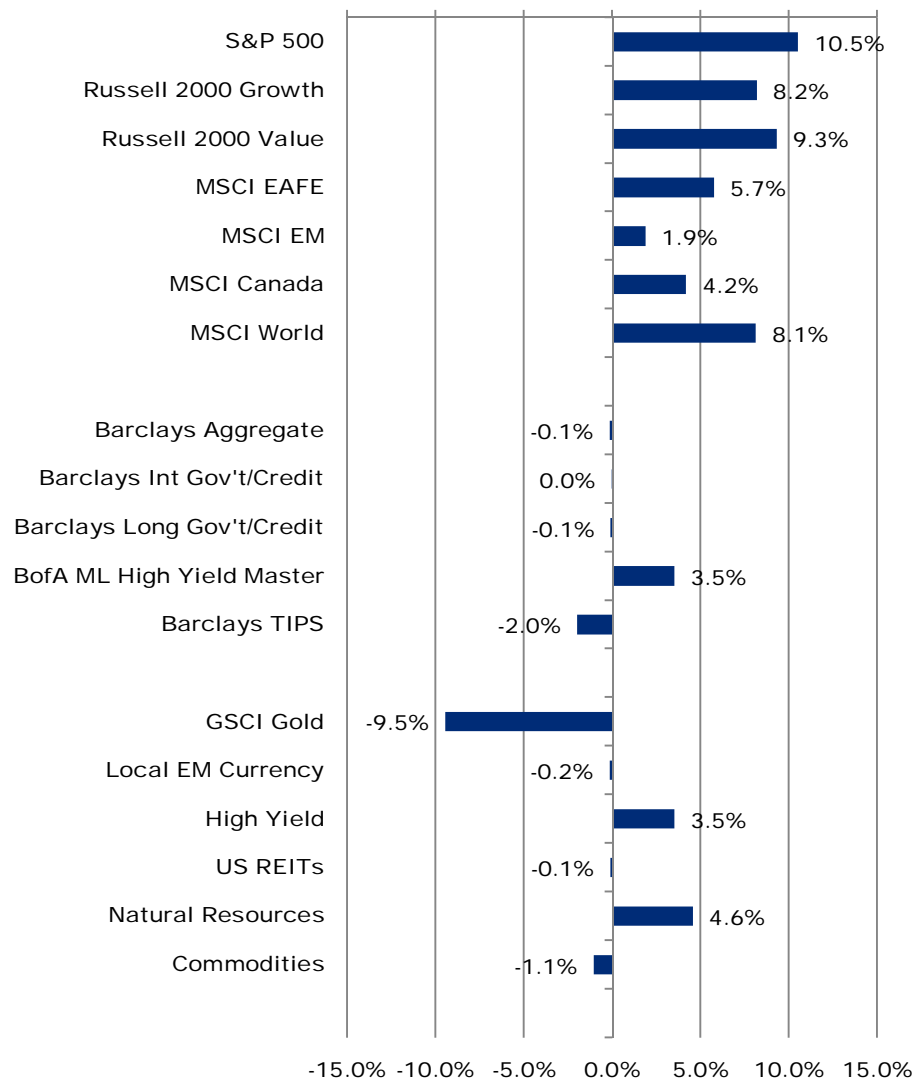
- Capital Markets Review
- Fourth Quarter Performance
- Appendix

Capital Markets Review

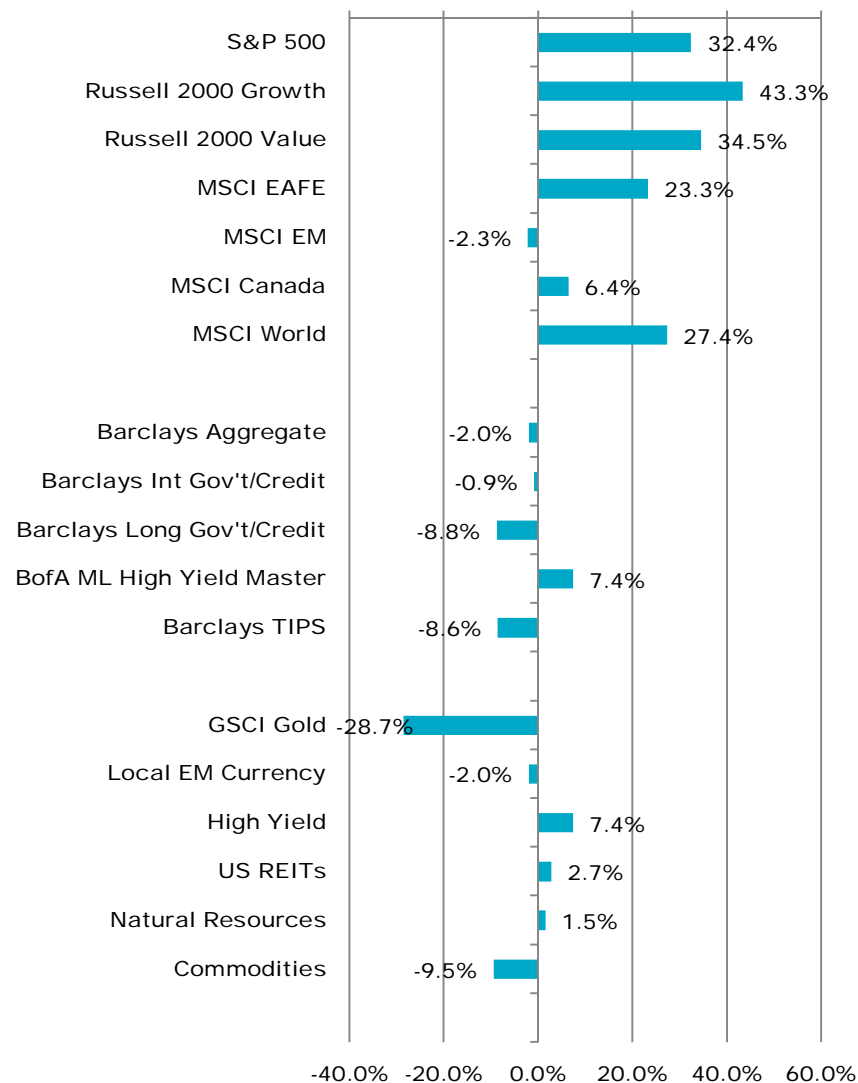


Performance Summary: Quarter in Review

Market Performance
Fourth Quarter 2013

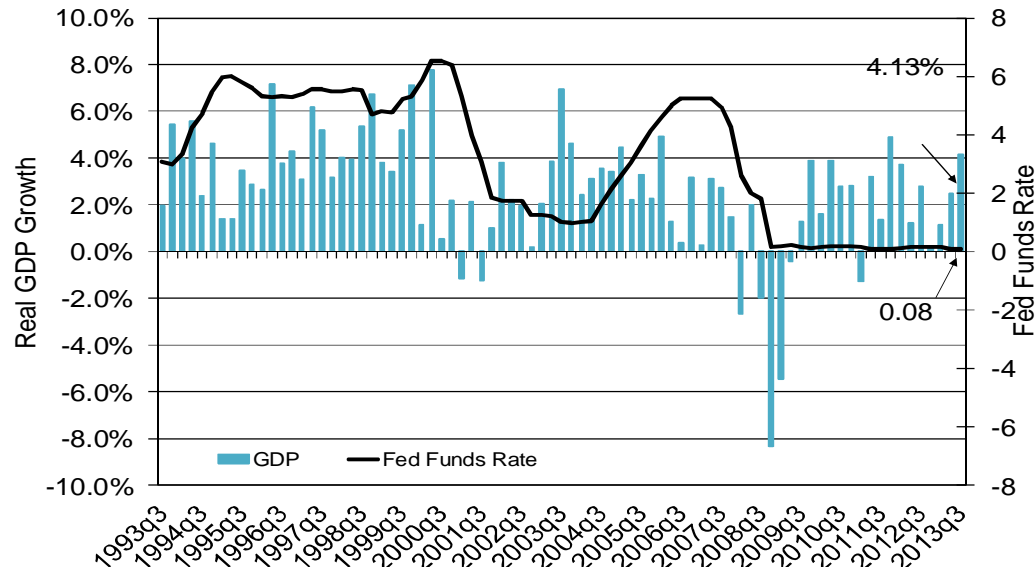
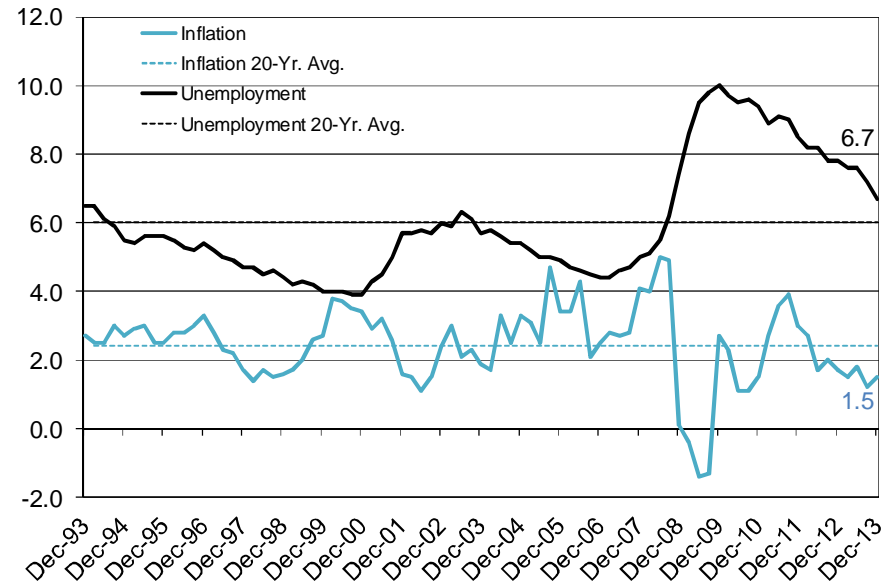


Market Performance
2013

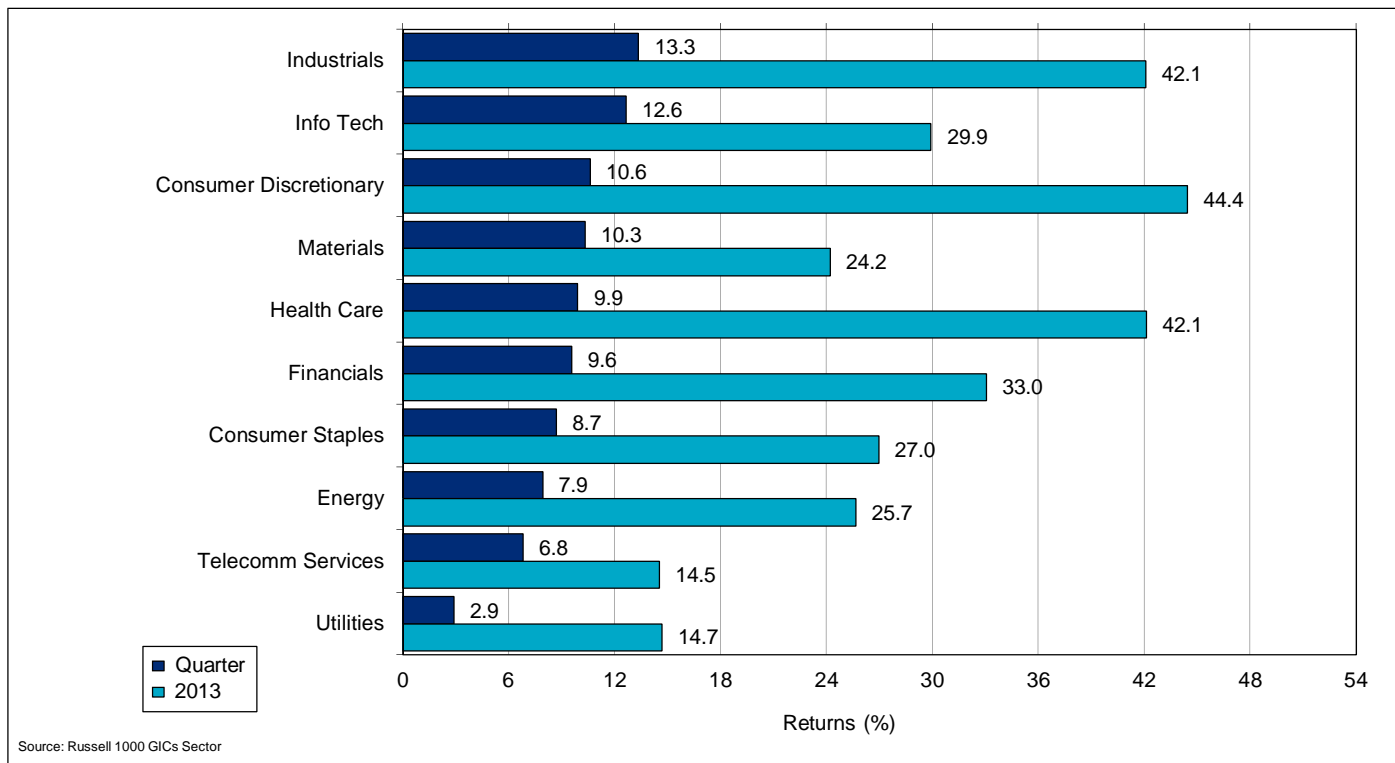


4th Quarter 2013 U.S. Economic Overview

- Unemployment rate dropped from 7.9% to 6.7% in 2013
 - Largely driven by a decline in labor force participation – weak jobs market coupled with an aging population
 - Only 76K hires were made in December
- Year over year actual inflation rose from 1.2% to 1.5% in the fourth quarter
- Estimated U.S. GDP growth of 3.2% in the 4th Qtr.
 - The consensus forecast for 2014 average growth is 2.7%
 - 3rd quarter growth revised upward from 2.9% to 4.1%; 17 consecutive quarters of positive growth
- Fed Funds rate unchanged between 0.0% and 0.25%



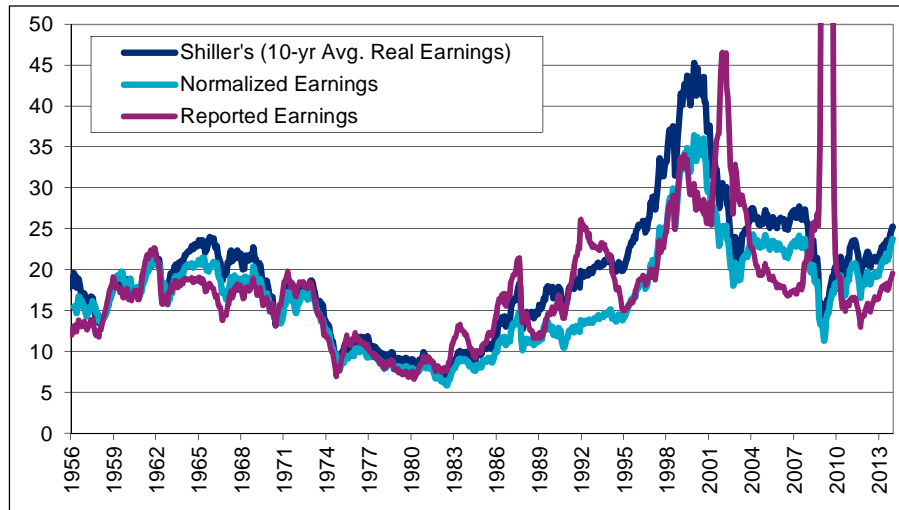
Asset Class: U.S. Equities –Sector Performance



- Defensive sectors struggled for the quarter and year (Utilities and Telecom)
- Economically sensitive sectors led the market for the quarter and year (Industrials, Consumer Discretionary, Technology)

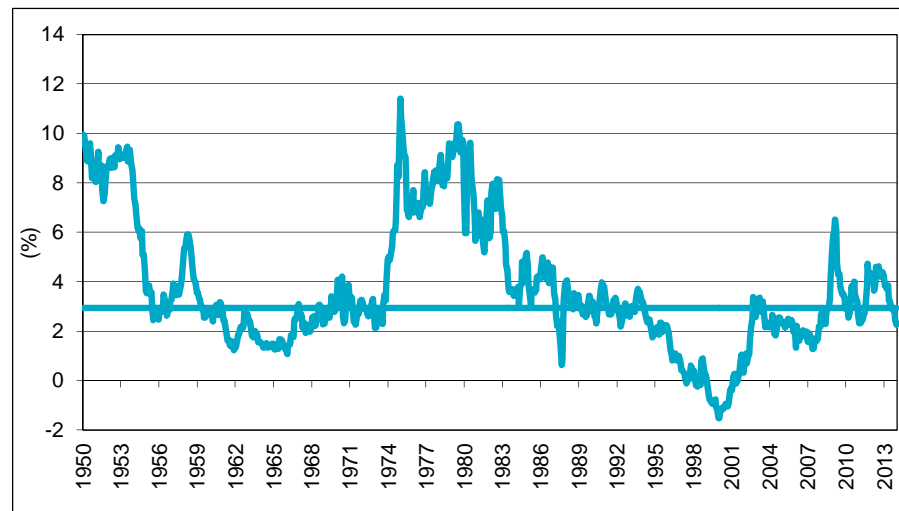
Asset Class: U.S. Equities – Valuation Review

S&P500 – P/E Ratio



Source: S&P, Bloomberg, Mercer

S&P500 – Estimated Equity Risk Premium¹
Versus Long-Term Treasuries



MERCER Source: S&P, Bloomberg, Mercer

- The trailing P/E ratio moved from 16.5 to 19.5 in 2013
 - above the 17.2 median since 1956
- Corporate profitability remains well above normal
- Economic growth is improving and the risk of a recession appears low
- U.S. corporations have refinanced into lower rate debt and extended maturities
 - should continue to keep margins above normal even as rates normalize
- The equity risk premium (ERP) over long-term Treasuries declined from 2.9% to 2.3% during the quarter
 - below the historical median of 3%

¹ Definitions:

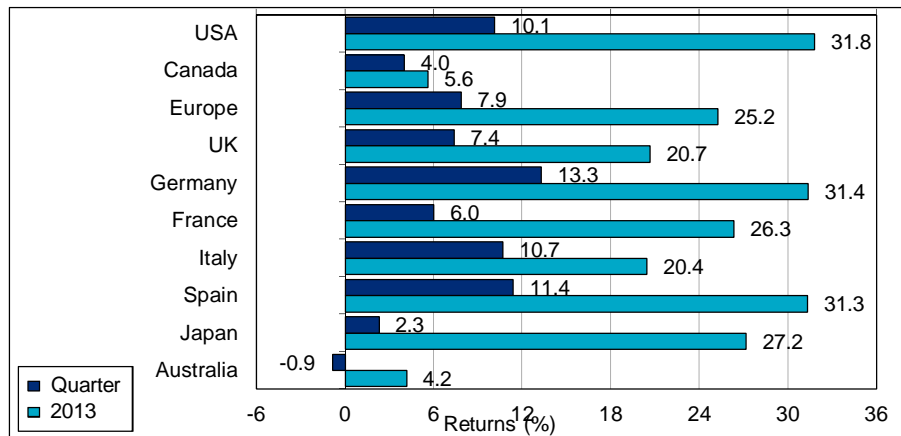
Shiller's P/E= Current S&P 500 price/average 10-year real earnings

Normalized P/E= Current S&P 500 price/(current trailing twelve month sales * 6.6% profit margin)

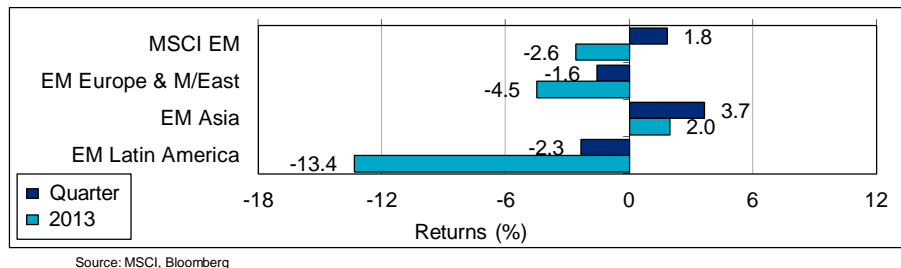
Equity Risk Premium= Earnings yield (1/PE) minus the real yield on long-term Treasuries

Asset Class: International Equities – Performance Review

Developed Country Performance



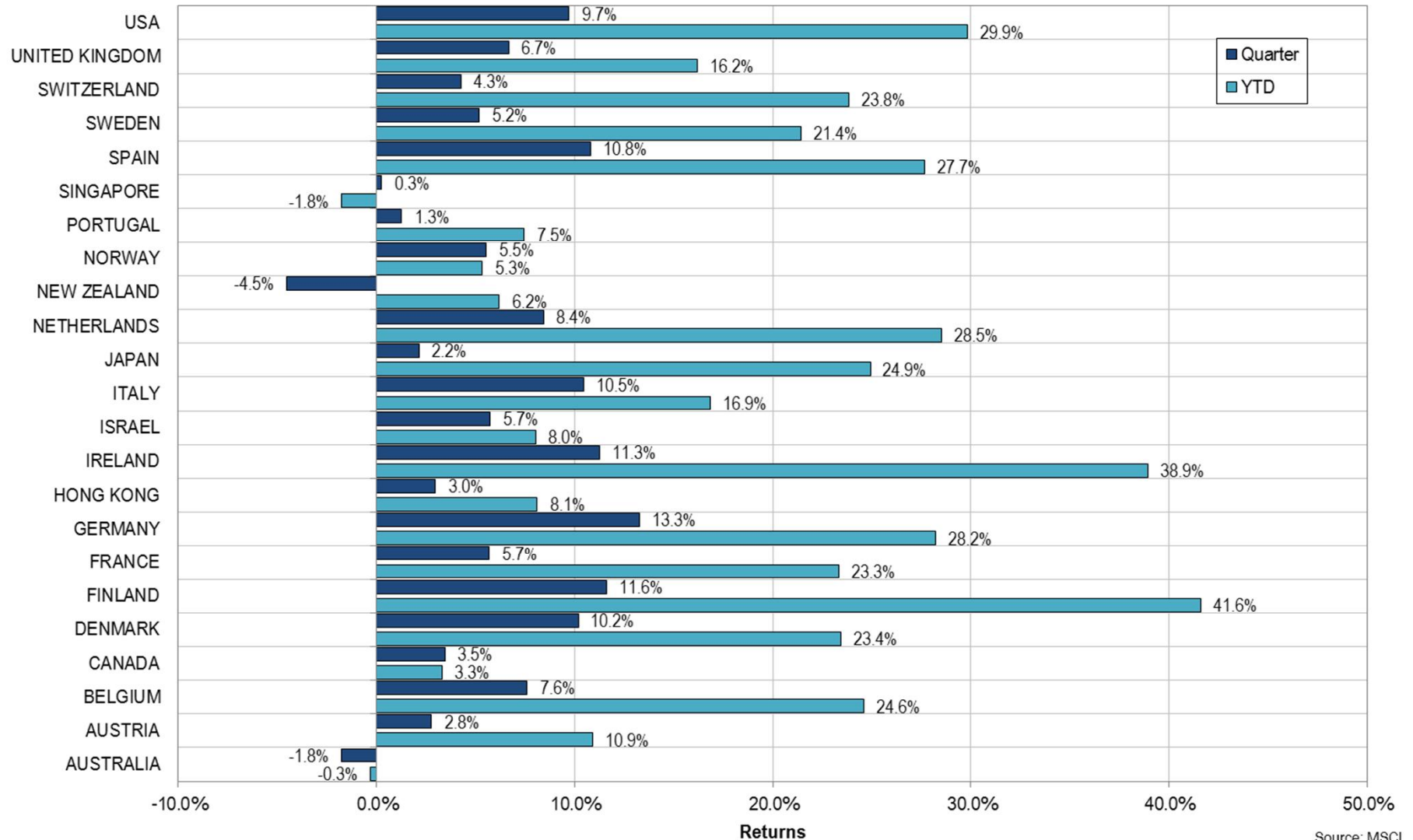
Emerging Market Performance



- Non-U.S. equities trailed U.S. equities for the quarter and the year
- European stocks advanced in the fourth quarter as the region's economy showed signs of recovery
- Japanese stocks benefited from the BOJ's aggressive policies
- International small caps surpassed international developed large cap stocks for both periods
- Emerging markets posted positive results in the fourth quarter but trailed the U.S. and developed markets for the quarter and year

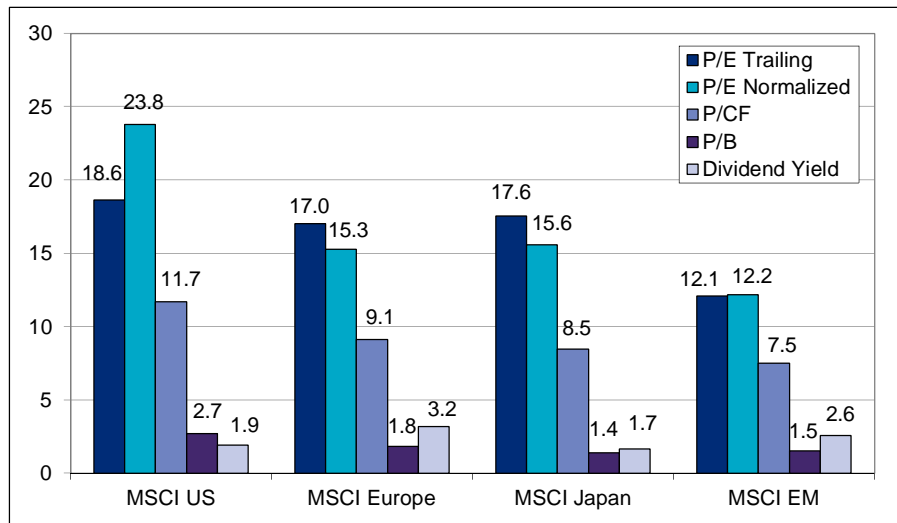
Asset Class: International Equities – Developed Country Performance

Developed Country Performance



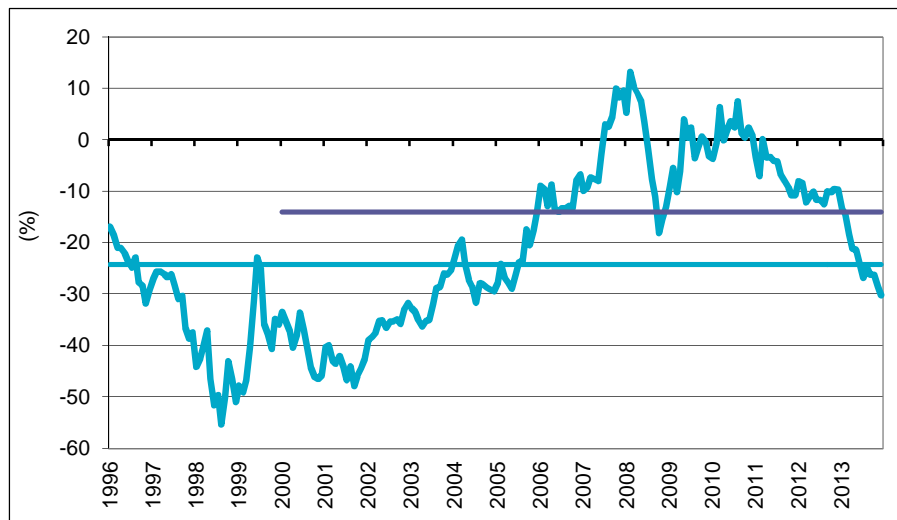
Asset Class: International Equities – Valuation Review

Global Valuations



Source: MSCI, Bloomberg

Valuation of MSCI Emerging Markets to MSCI World
(Based on Average of P/E, P/B and P/CF)

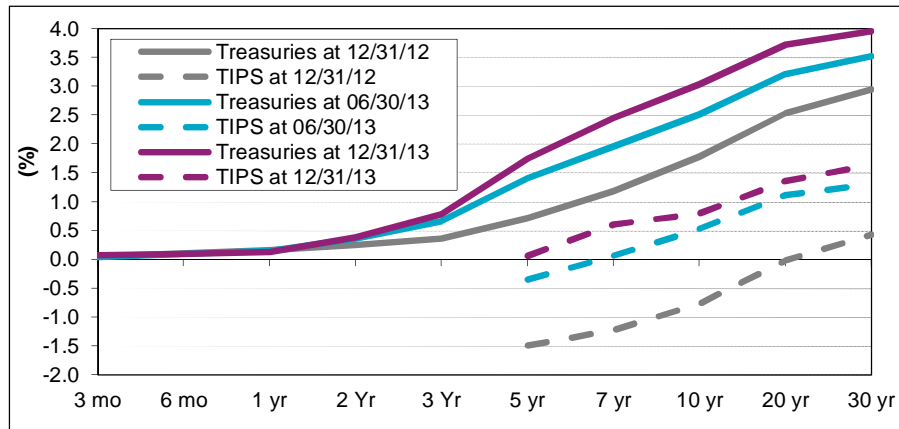


Source: MSCI, Bloomberg

- Improving financial conditions and the end of the recession should lead to an improved earnings outlook for European firms
- European stocks traded at 10% discount to their historical median since 1970
- Based on Shiller's P/E, European stocks traded at nearly a 34% discount to U.S. equities compared to a historical average of 13%
- EPS for Japanese firms spiked in 2013 from the steep slide in the Yen
- EM equities are trading at a 30% discount to developed equities compared to a historical average of 24% (14% since 2000)

Asset Class: Fixed Income – Interest Rates and Yield Curve

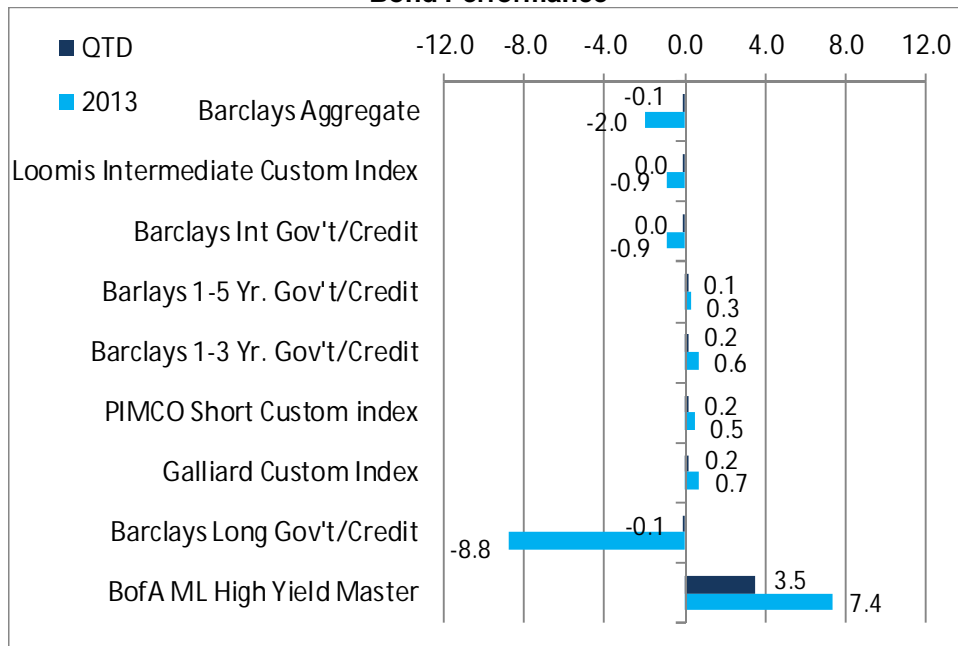
Treasury Yield Curve



Source: Federal Reserve

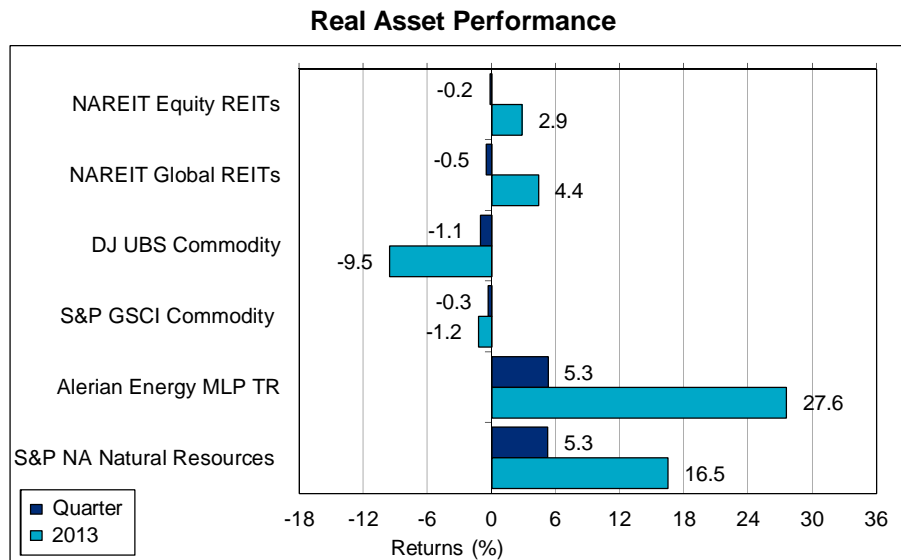
- Interest rates continued to rise after the Fed's decision to taper QE3 purchases by \$10B
- The 10-year Treasury yield moved up from 2.64% to 3.04%
- Real yield on 10-year TIPS jumped from -0.67% to 0.85% last year and the inflation breakeven rate fell from 2.5% to 2.2%
- The yield curve remains very steep as short-term yields remain near zero, and intermediate and long-term rates have increased

Bond Performance



MERCER Source: Barclays, Bloomberg

Asset Class: Alternatives – Performance Review



- Global REITs declined 0.5% in the fourth quarter, but were up 4.4% in 2013 and substantially lagged equities; U.S. REITs underperformed international REITs for the year
- Commodities lost ground in the fourth quarter and shed 9.5% during the year as industrial and precious metals experienced sharp declines

Fourth Quarter Performance

The background of the slide is composed of three distinct horizontal bands of color. The top band is a dark navy blue, the middle band is a medium teal, and the bottom band is a light sky blue. The boundaries between these bands are slightly wavy, creating a layered, abstract effect.

Manager Updates

- **Wellington:** In December 2013, Wellington announced Brendan Swords will succeed Perry Traquina as Chief Executive Officer on July 1, 2014. Mercer has been well-informed regarding the CEO leadership transition since it was announced in July 2012. Mercer does not believe it will have any material impact on any of Wellington's rated investment strategies.
- **Wellington:** Wellington announced effective April 1, 2014, Tim Manning, an Equity Research Analyst on the Opportunistic Growth team, would transition into Phil Ruedi's role which manages the sub portfolio focused on mid-cap stocks. Manning joined Wellington in 2007 and was previously a portfolio manager and Director of Research at RiverSource Investments.
- **Neuberger Berman:** In October 2013, Mercer met with Neuberger Berman to discuss their Large Cap Disciplined Growth strategy. As a result of this meeting, Mercer is maintaining the strategy's "B+" rating.
- **Sands:** In December 2013, Mercer met with Sands Capital Management to discuss their Select Growth Equity strategy. As a result of this meeting, Mercer is maintaining the strategy's "A (T)" rating.
- **EARNEST:** In November 2013, Mercer met with EARNEST Partners to discuss their Mid Cap Value strategy. As a result of this meeting, Mercer is maintaining the strategy's "B+" rating.
- **Baillie Gifford:** In November 2013, Mercer met with Baillie Gifford to discuss their Global Alpha (+2-3%) strategy. As a result of this meeting, Mercer is maintaining the strategy's "A" rating.
- **PIMCO:** In January 2013, PIMCO announced the resignation of CEO Muhamed El-Erian. The abrupt resignation led Mercer to add a "W" or watch designation to all PIMCO strategies, as Mercer would like to see some uncertainties clarified.
- **JPMorgan:** In December 2013, Mercer met with JP Morgan Asset Management to discuss their Core Bond strategy. As a result of this meeting, Mercer is maintaining the strategy's "A" rating.

Performance Scorecard

	Mercer Rating	Return								Risk ¹	
		3 Years to 12/31/2013		3 Years to 9/30/2013		3 Years to 6/30/2013		3 Years to 3/31/2012		5 Years to 12/31/2013	
		I	U	I	U	I	U	I	U	I	
Large Cap Passive Fund (tracked within 20bps)		✓	NA	✓	NA	✓	NA	✓	NA	NA	
BlackRock Equity Index Fund	PP	✓	NA	✓	NA	✓	NA	✓	NA	NA	
Large Cap Value Fund		✓	✓	✓	✓	✓	✓	✗	✓	NA	
Hotchkis & Wiley Large Cap Value	B+ (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Wellington Quality Value	N	✗	✗	✗	✗	✗	✗	✗	✗	✓	
Robeco BP Large Cap Value	A	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Large Cap Growth Fund		✓	✓	✓	✓	✓	✓	✓	✓	NA	
Sands Capital Large Cap Growth	A (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Wellington Opportunistic Growth	A	✗	✗	✓	✓	✗	✓	✗	✗	✓	
Neuberger Large Cap Growth	B+	✗	✗	✗	✗	✗	✗	✗	✗	✓	

¹ A check mark is given if the fund's/manager's standard deviation is within 150% of the benchmark's. For the International Equity Fund, the stated threshold is within 125%.

* A Mercer rating signifies our opinion of a strategy's prospects for outperforming a suitable benchmark over a timeframe appropriate for that particular strategy. Strategies rated A are those assessed as having "above average" prospects of outperformance. Those rated B+ are those assessed as having "above average" prospects of outperformance, but which are qualified by at least one of the following: (1) There are other strategies that Mercer believes are more likely to achieve outperformance; (2) Mercer requires more evidence to support its assessment. Strategies rated B are those assessed as having "average" prospects of outperformance. Those rated C are those assessed as having "below average" prospects of outperformance. The R rating is applied in three situations: (1) Where Mercer has carried out some research, but has not completed its full investment strategy research process; (2) In product categories where Mercer does not maintain formal ratings, but where there are other strategies in which we have a higher degree of confidence; (3) Mercer has in the past carried out its full investment strategy research process, but we are no longer maintaining full research coverage on the strategy. If the rating shown is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer. Some strategy ratings may carry a supplemental indicator, such as P (Provisional), Watch (W), or High Tracking Error (T). A Preferred Provider status is assigned to high-conviction strategies within product categories for which the primary goal is not outperformance of a benchmark (for example, passive strategies).

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		3 Years to 12/31/2013		3 Years to 9/30/2013		3 Years to 6/30/2013		3 Years to 3/31/2012		5 Years to 12/31/2013
		I	U	I	U	I	U	I	U	I
Mid/Small Cap Passive Fund (tracked within 30 bps)		✓	NA	✓	NA	✓	NA	✓	NA	NA
BlackRock Russell 2500 Index Fund	PP	✓	NA	✓	NA	✓	NA	✓	NA	NA
Mid/Small Cap Value Fund		✓	✓	✓	✓	✓	✓	✓	✓	NA
Hotchkis & Wiley SMID Cap Value	B+ (T)	✓	✓	✓	✓	✓	✓	✓	✓	✓
EARNEST Partners SMID Cap Value	B+	✓	✓	✓	✗	✗	✗	✓	✗	✓
WEDGE SMID Cap Value	A	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mid/Small Cap Growth Fund		✓	✓	✗	✓	✗	✓	✗	✓	NA
TimesSquare SMID Cap Growth	A	✓	✓	✓	✓	✓	✓	✓	✓	✓
Brown Advisory	R	✓	✗	✓	✗	✓	✓	✗	✗	✓

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		I	U	I	U	I	U	I	U	I
International Passive Fund (tracked within 10 bps)		✗	NA	✗	NA	✗	NA	✗	NA	NA
BlackRock ACWI ex US Fund	PP	✓	NA	✓	NA	✓	NA	✗	NA	NA
International Equity Fund		✓	✗	✓	✗	✓	✗	✓	✓	NA
Baillie Gifford ACWI ex US Growth	A	✓	✗	✓	✗	✓	✓	✓	✓	✓
Mondrian ACWI ex US Value	B+	✓	✗	✓	✗	✓	✗	✓	✗	✓
Global Equity Fund		✓	✓	✓	✓	✓	✓	✓	✓	NA
Wellington Global Opportunities	B+	✓	✓	✓	✓	✓	✓	✓	✓	✓
Arrowstreet Global Equity ACWI	A	✓	✓	✓	✓	✓	✓	✓	✓	✓

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		I	U	I	U	I	U	I	U	I
Inflation Sensitive Fund		NA	NA	NA	NA	NA	NA	NA	NA	NA
PIMCO Inflation Response-Multi Asset	B+ (W)	NA	NA	NA	NA	NA	NA	NA	NA	NA
Fixed Income Passive Fund (tracked within 25 bps)		✓	NA	✓	NA	NA	NA	NA	NA	NA
BlackRock Debt Index Fund	N	✓	NA	✓	NA	✓	NA	✓	NA	NA
Fixed Income Fund		✓	✓	✓	✓	✓	✗	✓	✓	NA
JP Morgan Core Bond	A	✓	✗	✓	✓	✓	✓	✓	✓	✓
PIMCO Total Return Full Authority	A (W)	✓	✓	✓	✗	✓	✗	✓	✗	✓
Stable Value Fund		✓	✓	✓	✓	✓	✓	✓	✗	NA

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Watch List

Manager	Date Placed on Watch	Mercer Rating*	Recommendation	Comments
Wellington Quality Value	3Q13	N	Monitor	<p>Wellington has underperformed the Russell 1000 value over the four most recent three-year rolling periods. The strategy's high quality focus has held the portfolio back in recent periods.</p> <p>After another quarter of strong returns in the US equity markets, Wellington's quality value strategy failed to keep pace with the Russell 1000 Value, as the higher quality securities Wellington prefers were not in favor. Mercer is comfortable that Wellington's performance is consistent with its philosophy and will recover when the market moves to favor higher quality securities. However, ongoing monitoring is appropriate to ensure this remains the case.</p>
Neuberger Large Cap Growth	4Q12	B+	Monitor	<p>The Neuberger Berman Large Cap Disciplined Growth strategy was placed on watch at the fourth quarter of 2012 meeting due to performance struggles over the recent four rolling three-year periods. Neuberger has historically produced solid results, even though the difficult market environment in calendar year 2008. However, since 2009, Neuberger has struggled.</p> <p>Two primary factors are believed to have driven the underperformance. The first is a series of changes in the portfolio management group, as it went from two decision makers to four, and in 2011 went back to two. It is expected that the smaller decision-making team will be more effective. The other cause of underperformance may have been the strong bull market rally, which favored more cyclical names than Neuberger generally holds.</p> <p>Mercer expects that market environments favoring lower quality and smaller cap names may present performance headwinds for Neuberger. The strategy's underperformance during the recent risk-on/risk-off environment is in line with that expectation, and we believe that performance should be strong in a more fundamentally-driven market environment.</p> <p>Neuberger Berman underperformed the benchmark again over the fourth quarter and has underperformed the benchmark and peer group median over all time periods evaluated. Although the strategy's higher quality bias has been out of favor recently, Mercer recommends continuing to closely monitor Neuberger for improved longer-term performance.</p>

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Fund Review

Fund Performance as of December 31, 2013

Name	Market Value (\$m)	Inception (%)										
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	Return	Since
Large Cap Passive S&P 500	\$1,166.2	13.9%	10.4%	--	32.1%	--	32.1%	--	16.0%	--	21.8%	Mar-09
			10.5%	--	32.4%	--	32.4%	--	16.2%	--	21.9%	Mar-09
Large Cap Value Russell 1000 Value	\$861.2	10.3%	9.9%	49	35.1%	27	35.1%	27	16.2%	27	20.6%	Mar-09
			10.0%	47	32.5%	47	32.5%	47	16.1%	30	22.3%	Mar-09
Large Cap Growth Russell 1000 Growth	\$839.7	10.0%	9.6%	85	36.3%	31	36.3%	31	16.6%	26	26.1%	Mar-09
			10.4%	65	33.5%	58	33.5%	58	16.5%	29	22.7%	Mar-09
Mid/Small Cap Passive Russell 2500	\$207.6	2.5%	8.6%	--	36.6%	--	36.6%	--	16.2%	--	26.1%	Mar-09
			8.7%	--	36.8%	--	36.8%	--	16.3%	--	26.2%	Mar-09
Mid/Small Cap Value Russell 2500 Value	\$418.7	5.0%	8.6%	69	36.6%	42	36.6%	42	18.0%	8	29.4%	Mar-09
			8.8%	63	33.3%	75	33.3%	75	15.4%	42	25.4%	Mar-09
Mid/Small Cap Growth Russell 2500 Growth	\$306.4	3.7%	9.4%	25	41.1%	41	41.1%	41	18.3%	19	25.8%	Mar-09
			8.5%	46	40.7%	44	40.7%	44	17.1%	31	27.1%	Mar-09
International Passive MSCI ACWI ex USA Gross	\$38.4	0.5%	4.7%	--	14.4%	--	14.4%	--	5.1%	--	16.2%	Mar-09
			4.8%	--	15.8%	--	15.8%	--	5.6%	--	16.8%	Mar-09
International Equity MSCI ACWI ex USA Gross	\$518.7	6.2%	5.0%	77	14.9%	86	14.9%	86	7.1%	62	16.5%	Mar-09
			4.8%	80	15.8%	84	15.8%	84	5.6%	82	16.8%	Mar-09
Global Equity MSCI ACWI Gross	\$665.1	7.9%	9.0%	20	32.3%	19	32.3%	19	13.0%	22	19.5%	Mar-09
			7.4%	57	23.4%	68	23.4%	68	10.3%	58	19.2%	Mar-09
Inflation Sensitive Fund PIMCO Inflation Response Index	\$287.1	3.4%	-2.3%	--	--	--	--	--	--	--	-2.3%	Sep-13
			-2.1%	--	-8.8%	--	-8.8%	--	0.5%	--	-2.1%	Sep-13
Fixed Income Passive Fund Barclays Aggregate	\$292.6	3.5%	-0.3%	--	-2.2%	--	-2.2%	--	--	--	2.4%	Sep-10
			-0.1%	--	-2.0%	--	-2.0%	--	3.3%	--	2.6%	Sep-10
Fixed Income Fund Barclays Aggregate	\$529.7	6.3%	0.0%	84	-1.3%	63	-1.3%	63	3.8%	47	5.8%	Mar-09
			-0.1%	88	-2.0%	81	-2.0%	81	3.3%	62	4.7%	Mar-09
Stable Value Fund T-BILLS + 1%	\$2,262.7	27.0%	0.5%	31	2.1%	19	2.1%	19	2.7%	50	3.1%	Jun-09
			0.3%	75	1.0%	79	1.0%	79	1.1%	99	1.1%	Jun-09

Fund Review

GoalMaker Performance as of December 31, 2013

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Conservative 0-5 Yrs	2.1%	89	6.8%	83	5.7%	87	--	--
Conservative 0-5 Yrs Benchmark	2.0%	90	6.0%	88	4.7%	94	6.2%	99
Conservative 6-10 Yrs	2.8%	89	9.5%	77	6.8%	84	--	--
Conservative 6-10 Yrs Benchmark	2.7%	90	8.6%	84	5.7%	93	7.7%	98
Conservative 11-15 Yrs	4.2%	90	14.0%	79	8.5%	76	--	--
Conservative 11-15 Yrs Benchmark	4.1%	90	13.2%	82	7.7%	95	10.5%	99
Conservative 16+ Yrs	5.7%	72	19.4%	45	10.3%	42	--	--
Conservative +16 Yrs Benchmark	5.6%	73	18.5%	49	9.6%	53	13.2%	81

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Moderate 0-5 Yrs	3.3%	72	11.1%	54	7.3%	51	--	--
Moderate 0-5 Yrs Benchmark	3.2%	73	10.2%	63	6.3%	83	8.6%	97
Moderate 6-10 Yrs	4.2%	65	14.0%	36	8.4%	40	--	--
Moderate 6-10 Yrs Benchmark	4.1%	67	13.2%	48	7.7%	59	10.5%	86
Moderate 11-15 Yrs	5.2%	57	17.8%	29	9.7%	37	--	--
Moderate 11-15 Yrs Benchmark	5.2%	68	16.9%	41	9.0%	60	12.5%	99
Moderate 16+ Yrs	6.8%	20	23.7%	3	11.5%	9	--	--
Moderate +16 Yrs Benchmark	6.7%	22	22.7%	6	10.9%	24	15.3%	19

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Aggressive 0-5 Yrs	4.4%	23	14.9%	4	8.9%	8	--	--
Aggressive 0-5 Yrs Benchmark	4.3%	25	14.0%	5	8.0%	39	11.0%	79
Aggressive 6-10 Yrs	5.2%	21	17.8%	4	9.8%	6	--	--
Aggressive 6-10 Yrs Benchmark	5.2%	23	16.9%	7	9.0%	28	12.5%	54
Aggressive 11-15 Yrs	6.4%	7	22.5%	2	11.2%	4	--	--
Aggressive 11-15 Yrs Benchmark	6.4%	8	21.5%	2	10.5%	11	14.7%	19
Aggressive 16+ Yrs	8.0%	1	28.3%	1	12.9%	1	--	--
Aggressive +16 Yrs Benchmark	7.9%	1	27.4%	1	12.4%	3	17.5%	1

- The GoalMaker Portfolios had competitive performance versus their benchmarks over the time periods evaluated ended December 31, 2013.

Fund Review

Manager Performance as of December 31, 2013

Name	Market Value												Inception	
	(\$m)	(%)	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
NCSRP BlackRock Equity Index	\$1,166.2	13.9%	10.5%	--	32.3%	--	32.3%	--	16.2%	--	--	--	22.0%	Mar-09
BlackRock Equity Index Strategy			10.5%	--	32.3%	--	32.3%	--	16.2%	--	18.0%	--	22.0%	Mar-09
S&P 500			10.5%	--	32.4%	--	32.4%	--	16.2%	--	17.9%	--	21.9%	Mar-09
NCSRP Hotchkis & Wiley Large Cap Value	\$289.5	3.4%	9.7%	60	41.2%	7	41.2%	7	18.1%	19	--	--	26.8%	Mar-09
Hotchkis & Wiley Large Cap Value Strategy			9.7%	59	40.9%	8	40.9%	8	17.9%	21	22.0%	4	26.8%	Mar-09
Russell 1000 Value			10.0%	51	32.5%	65	32.5%	65	16.1%	53	16.7%	73	22.3%	Mar-09
NCSRP Wellington Value Composite	\$283.4	3.4%	9.4%	69	28.7%	91	28.7%	91	14.0%	89	--	--	14.4%	Mar-09
NCSRP Wellington Quality Value			9.1%	76	28.4%	92	28.4%	92	13.9%	90	--	--	--	Jul-10
Wellington Quality Value Strategy			9.4%	70	28.6%	91	28.6%	91	14.0%	88	16.6%	75	20.6%	Mar-09
Russell 1000 Value			10.0%	51	32.5%	65	32.5%	65	16.1%	53	16.7%	73	22.3%	Mar-09
NCSRP Robeco BP Large Cap Value	\$288.2	3.4%	10.9%	28	37.5%	27	37.5%	27	--	--	--	--	28.8%	Nov-11
Robeco BP Large Cap Value Strategy			10.8%	29	37.2%	28	37.2%	28	19.0%	8	19.4%	18	28.6%	Nov-11
Russell 1000 Value			10.0%	51	32.5%	65	32.5%	65	16.1%	53	16.7%	73	24.9%	Nov-11
NCSRP Sands Capital Large Cap Growth	\$293.1	3.5%	10.0%	73	43.0%	4	43.0%	4	22.5%	1	--	--	32.8%	Mar-09
Sands Capital Large Cap Growth Strategy			10.0%	72	42.9%	4	42.9%	4	22.5%	1	32.1%	1	32.6%	Mar-09
Russell 1000 Growth			10.4%	61	33.5%	60	33.5%	60	16.5%	42	20.4%	38	22.7%	Mar-09
NCSRP Wellington Opportunistic Growth	\$274.4	3.3%	9.8%	79	37.5%	24	37.5%	24	15.2%	60	--	--	23.2%	Mar-09
Wellington Opportunistic Growth Strategy			9.7%	80	37.4%	25	37.4%	25	15.1%	62	20.4%	37	23.1%	Mar-09
Russell 1000 Growth			10.4%	61	33.5%	60	33.5%	60	16.5%	42	20.4%	38	22.7%	Mar-09
Russell 3000 Growth			10.2%	67	34.2%	55	34.2%	55	16.5%	41	20.6%	36	22.9%	Mar-09
NCSRP Neuberger Large Cap Growth	\$272.1	3.2%	9.4%	87	30.2%	86	30.2%	86	--	--	--	--	18.5%	Oct-11
Neuberger Large Cap Growth Strategy			9.4%	87	30.4%	85	30.4%	85	12.1%	98	16.0%	93	18.1%	Oct-11
Russell 1000 Growth			10.4%	61	33.5%	60	33.5%	60	16.5%	42	20.4%	38	21.8%	Oct-11
NCSRP BlackRock Russell 2500 Index Fund	\$207.6	2.5%	8.6%	--	36.9%	--	36.9%	--	16.4%	--	--	--	26.4%	Mar-09
BlackRock Russell 2500 Index Fund Strategy			8.7%	--	36.9%	--	36.9%	--	16.4%	--	--	--	26.4%	Mar-09
Russell 2500			8.7%	--	36.8%	--	36.8%	--	16.3%	--	21.8%	--	26.2%	Mar-09
NCSRP Hotchkis & Wiley	\$138.4	1.6%	6.9%	85	44.5%	5	44.5%	5	21.0%	1	--	--	34.1%	Mar-09
Hotchkis & Wiley Value Strategy			6.8%	86	44.2%	5	44.2%	5	20.8%	2	30.4%	1	34.4%	Mar-09
Hotchkis Custom SMID Value Index			8.8%	53	33.3%	70	33.3%	70	15.6%	49	20.9%	58	26.3%	Mar-09
NCSRP EARNEST Partners	\$140.3	1.7%	9.5%	38	31.9%	74	31.9%	74	16.1%	40	--	--	24.4%	Mar-09
EARNEST Partners Value Strategy			9.6%	37	32.3%	73	32.3%	73	17.4%	28	19.8%	81	25.4%	Mar-09
EARNEST Custom SMID Value Index			8.8%	53	33.3%	70	33.3%	70	14.5%	65	17.7%	98	24.3%	Mar-09
NCSRP WEDGE SMID Cap Value	\$139.9	1.7%	9.9%	29	36.0%	44	36.0%	44	--	--	--	--	28.1%	Dec-11
WEDGE SMID Cap Value Strategy			9.9%	22	36.2%	43	36.2%	43	17.7%	27	21.9%	44	28.3%	Dec-11
Russell 2500 Value			8.8%	53	33.3%	70	33.3%	70	15.4%	57	19.6%	81	26.1%	Dec-11
NCSRP TimesSquare Composite	\$154.3	1.8%	11.0%	12	42.9%	37	42.9%	37	21.6%	8	--	--	26.9%	Mar-09
NCSRP TimesSquare SMID Growth			9.9%	26	41.4%	47	41.4%	47	--	--	--	--	--	Jul-11
TimesSquare Growth Strategy			11.0%	12	42.8%	38	42.8%	38	21.8%	7	26.7%	24	29.5%	Mar-09
TimesSquare Custom SMID Growth Index			8.5%	44	40.6%	51	40.6%	51	16.9%	60	24.2%	56	26.5%	Mar-09

Fund Review

Manager Performance as of December 31, 2013

Name	Market Value (\$m)	Inception (%)											Return	Since
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank		
NCSRP Brown Advisory	\$152.1	1.8%	8.2%	53	41.4%	47	41.4%	47	17.4%	55	--	--	27.1%	Mar-09
Brown Advisory Growth Strategy			8.4%	45	42.6%	41	42.6%	41	17.6%	54	24.8%	40	27.3%	Mar-09
Brown Custom SMID Growth Index			8.5%	44	40.6%	51	40.6%	51	16.6%	62	22.4%	75	26.4%	Mar-09
NCSRP BlackRock ACWI ex US Fund	\$38.4	0.5%	4.8%	--	14.7%	--	14.7%	--	5.3%	--	--	--	16.5%	Mar-09
BlackRock ACWI ex US Fund Strategy			4.8%	--	14.7%	--	14.7%	--	5.3%	--	13.0%	--	16.5%	Mar-09
MSCI ACWI ex USA Gross			4.8%	--	15.8%	--	15.8%	--	5.6%	--	13.3%	--	16.8%	Mar-09
NCSRP Baillie Gifford ACWI ex US Growth	\$259.4	3.1%	5.3%	75	17.3%	84	17.3%	84	8.6%	53	--	--	20.3%	Mar-09
Baillie Gifford ACWI ex US Growth Strategy			5.3%	78	17.3%	84	17.3%	84	8.6%	51	17.3%	14	20.4%	Mar-09
MSCI ACWI ex USA GrossB			4.8%	87	15.8%	91	15.8%	91	5.6%	92	13.3%	69	16.8%	Mar-09
MSCI AC Wld ex US Growth Gross			4.7%	89	15.9%	90	15.9%	90	5.3%	93	13.3%	70	16.4%	Mar-09
NCSRP Mondrian ACWI ex US Value	\$259.3	3.1%	5.1%	82	15.6%	92	15.6%	92	7.2%	78	--	--	14.7%	Mar-09
Mondrian ACWI ex US Value Strategy			4.9%	85	15.6%	92	15.6%	92	7.3%	76	10.3%	97	14.8%	Mar-09
MSCI ACWI ex USA Gross			4.8%	87	15.8%	91	15.8%	91	5.6%	92	13.3%	69	16.8%	Mar-09
MSCI AC Wld Ex US Value Gross			4.9%	85	15.7%	91	15.7%	91	5.9%	89	13.3%	69	17.2%	Mar-09
NCSRP Wellington Global Composite	\$333.2	4.0%	9.4%	19	34.5%	10	34.5%	10	14.8%	13	--	--	20.9%	Mar-09
NCSRP Wellington Global Opportunities			8.5%	40	33.3%	14	33.3%	14	14.4%	16	--	--	--	Jun-10
Wellington Global Opportunities Strategy			9.7%	17	35.1%	9	35.1%	9	14.8%	13	19.8%	13	23.0%	Mar-09
MSCI ACWI Gross			7.4%	62	23.4%	77	23.4%	77	10.3%	69	15.5%	62	19.2%	Mar-09
NCSRP Arrowstreet Global Equity ACWI	\$331.9	4.0%	8.9%	30	33.2%	15	33.2%	15	--	--	--	--	19.6%	Mar-12
Arrowstreet Global Equity ACWI			9.8%	13	34.5%	10	34.5%	10	13.9%	22	19.5%	15	21.1%	Mar-12
MSCI ACWI Gross			7.4%	62	23.4%	77	23.4%	77	10.3%	69	15.5%	62	15.5%	Mar-12
NCSRP PIMCO Inflation Response Multi-Asset	\$287.1	3.4%	-0.5%	90	--	--	--	--	--	--	--	--	-0.5%	Sep-13
PIMCO Inflation Response Multi-Asset Strategy			-2.1%	99	-9.3%	99	-9.3%	99	--	--	--	--	-2.1%	Sep-13
PIMCO Inflation Response Index			-2.1%	99	-8.8%	99	-8.8%	99	0.5%	73	6.1%	69	-2.1%	Sep-13
Consumer Price Index			0.3%	99	2.0%	19	1.2%	36	2.2%	51	1.3%	99	--	Sep-13
NCSRP BlackRock Debt Index Fund	\$292.6	3.5%	-0.2%	--	-2.0%	--	-2.0%	--	--	--	--	--	2.6%	Sep-10
BlackRock Debt Index Fund Strategy			-0.2%	--	-2.0%	--	-2.0%	--	3.3%	--	4.5%	--	2.6%	Sep-10
Barclays Aggregate			-0.1%	--	-2.0%	--	-2.0%	--	3.3%	--	4.4%	--	2.6%	Sep-10
NCSRP JP Morgan Core Bond	\$263.6	3.1%	0.0%	82	-1.1%	50	-1.1%	50	4.3%	54	--	--	5.7%	Mar-09
JP Morgan Core Bond Strategy			0.0%	81	-1.3%	56	-1.3%	56	4.0%	63	6.1%	62	6.0%	Mar-09
Barclays Aggregate			-0.1%	90	-2.0%	89	-2.0%	89	3.3%	93	4.4%	93	4.7%	Mar-09
NCSRP PIMCO Total Return Full Authority	\$266.2	3.2%	0.1%	66	-0.6%	31	-0.6%	31	4.1%	61	--	--	6.8%	Mar-09
PIMCO Total Return Full Authority Strategy			0.1%	72	-1.5%	66	-1.5%	66	4.4%	48	7.3%	36	7.4%	Mar-09
Barclays Aggregate			-0.1%	90	-2.0%	89	-2.0%	89	3.3%	93	4.4%	93	4.7%	Mar-09

Fee Review

Funds and Sub-Advisors	Assets	Inv. Mgmt. Fee	Other Inv. Exp. ¹	R/K Fee	NC Budget ²	Total Estimated Expense (%)	Total Estimated Expense (\$) ³	Mercer Median Expense	Difference
North Carolina Stable Value Fund	\$2,262,746,823	0.339%	0.000%	0.096%	0.025%	0.460%	\$10,408,635	0.46%	0.00%
Galliard	\$2,262,746,823	0.339%	0.000%				\$7,670,712	0.46%	-0.12%
North Carolina Fixed Income Passive	\$292,636,218	0.070%	0.055%	0.096%	0.025%	0.246%	\$719,885	0.20%	0.05%
BlackRock	\$292,636,218	0.070%	0.055%				\$204,845	0.02%	0.05%
North Carolina Fixed Income Fund	\$529,741,267	0.219%	0.077%	0.096%	0.025%	0.416%	\$2,205,282	0.52%	-0.10%
50% JP Morgan	\$263,562,187	0.188%	0.071%				\$494,412	0.23%	-0.04%
50% PIMCO	\$266,179,080	0.250%	0.082%				\$665,448	0.26%	-0.01%
North Carolina Inflation Sensitive Fund	\$287,063,953	0.800%	0.055%	0.096%	0.025%	0.976%	\$2,801,744	0.87%	0.11%
PIMCO	\$287,063,953	0.800%	0.055%				\$2,296,512	0.87%	-0.07%
North Carolina Large Cap Passive Fund	\$1,166,193,842	0.025%	0.055%	0.096%	0.025%	0.201%	\$2,344,050	0.20%	0.00%
BlackRock	\$1,166,193,842	0.025%	0.055%				\$291,548	0.01%	0.02%
North Carolina Large Cap Value Fund	\$861,169,877	0.378%	0.071%	0.096%	0.025%	0.570%	\$4,910,010	0.78%	-0.21%
33.3% Hotchkis & Wiley	\$289,533,104	0.500%	0.072%				\$1,447,666	0.44%	0.07%
33.3% Wellington Management Company	\$283,400,843	0.290%	0.072%				\$821,862	0.44%	-0.15%
33.3% Robeco BP	\$288,235,930	0.343%	0.071%				\$989,708	0.44%	-0.09%
North Carolina Large Cap Growth Fund	\$839,685,447	0.378%	0.072%	0.096%	0.025%	0.571%	\$4,792,892	0.83%	-0.26%
33.3% Sands Capital Management	\$293,102,479	0.510%	0.072%				\$1,494,496	0.45%	0.06%
33.3% Wellington Management Company	\$274,442,707	0.350%	0.072%				\$960,549	0.46%	-0.11%
33.3% Neuberger Berman	\$272,140,260	0.275%	0.071%				\$748,386	0.47%	-0.19%
North Carolina SMID Cap Passive Fund	\$207,587,329	0.050%	0.055%	0.096%	0.025%	0.226%	\$469,147	0.28%	-0.05%
BlackRock	\$207,587,329	0.050%	0.055%				\$103,794	0.02%	0.03%
North Carolina SMID Value Fund	\$418,675,100	0.624%	0.071%	0.096%	0.025%	0.817%	\$3,418,692	1.00%	-0.18%
33.3% Hotchkis & Wiley	\$138,443,656	0.587%	0.072%				\$812,218	0.61%	-0.03%
33.3% EARNST Partners	\$140,285,723	0.525%	0.072%				\$736,634	0.78%	-0.25%
33.3% WEDGE Capital Management	\$139,945,721	0.761%	0.071%				\$1,064,674	0.78%	-0.02%
North Carolina SMID Growth Fund	\$306,390,093	0.707%	0.071%	0.096%	0.025%	0.899%	\$2,754,779	1.01%	-0.11%
50% TimesSquare Capital Management	\$154,337,835	0.847%	0.072%				\$1,307,534	0.77%	0.08%
50% Brown Advisory	\$152,052,257	0.566%	0.071%				\$860,809	0.81%	-0.25%
North Carolina International Passive Fund	\$38,430,790	0.140%	0.055%	0.096%	0.025%	0.316%	\$121,441	0.40%	-0.08%
BlackRock	\$38,430,790	0.140%	0.055%				\$53,803	0.06%	0.08%
North Carolina International Equity Fund	\$518,675,359	0.453%	0.123%	0.096%	0.025%	0.697%	\$3,614,234	1.01%	-0.31%
50% Baillie Gifford	\$259,361,965	0.448%	0.124%				\$1,162,448	0.55%	-0.10%
50% Mondrian Investment Partners	\$259,313,393	0.458%	0.122%				\$1,187,254	0.56%	-0.10%
North Carolina Global Equity Fund	\$665,097,028	0.551%	0.088%	0.096%	0.025%	0.761%	\$5,059,159	1.07%	-0.31%
50% Wellington Management Company	\$333,214,941	0.500%	0.093%				\$1,666,075	0.54%	-0.04%
50% Arrowstreet	\$331,882,087	0.603%	0.083%				\$2,000,351	0.54%	0.07%
Total	\$8,394,093,126	0.346%	0.053%	0.096%	0.025%	0.520%	\$43,619,950	0.627%	

¹Includes the ongoing administration, legal, accounting, auditing, custody, NAV calculation, reporting, compliance, and other miscellaneous fund expenses associated with the separate account.

²The cost of the budget associated with the management of the Supplemental Retirement Plans, borne by each investment option in proportion to the pro-rate share of the applicable assets in that fund.

³Manager fee estimates reflect investment management fee only.

Fee Review

401(k) Plan Stable Value Fund

Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential	0.20%
MetLife	0.17%
United of Omaha	0.17%
Weighted Average Wrap Fee	0.17%

Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.19%</u>
Weighted Average Management Fee	0.08%

Galliard Oversight & Management 0.07%

Fund Admin / Audit 0.01%

Total Management & Wrap 0.34%

Admin Fee 0.12%

Total Fees 0.46%

457 Plan Stable Value Fund

Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential	0.17%
MetLife	0.20%
United of Omaha	<u>0.17%</u>
Weighted Average Wrap Fee	0.18%

Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.19%</u>
Weighted Average Management Fee	0.08%

Galliard Oversight & Management 0.07%

Fund Admin / Audit 0.01%

Total Management & Wrap 0.34%

Admin Fee 0.12%

Total Fees 0.46%

Appendix

Net Performance as of December 31, 2013

	Ending December 31, 2013					Inception	
	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	Return	Since
Large Cap Passive	10.4%	32.1%	32.1%	16.0%	--	21.8%	Mar-09
S&P 500	10.5%	32.4%	32.4%	16.2%	17.9%	21.9%	Mar-09
NCSRP BlackRock Equity Index	10.5%	32.3%	32.3%	16.1%	--	22.0%	Mar-09
S&P 500	10.5%	32.4%	32.4%	16.2%	17.9%	21.9%	Mar-09
Large Cap Value	9.9%	35.1%	35.1%	16.2%	--	20.6%	Mar-09
Russell 1000 Value	10.0%	32.5%	32.5%	16.1%	16.7%	22.3%	Mar-09
NCSRP Hotchkis & Wiley Large Cap Value	9.6%	40.5%	40.5%	17.5%	--	26.2%	Mar-09
Russell 1000 Value	10.0%	32.5%	32.5%	16.1%	16.7%	22.3%	Mar-09
NCSRP Wellington Value Composite	9.3%	28.3%	28.3%	13.6%	--	14.0%	Mar-09
Russell 1000 Value	10.0%	32.5%	32.5%	16.1%	16.7%	22.3%	Mar-09
NCSRP Robeco BP Large Cap Value	10.8%	37.0%	37.0%	--	--	28.4%	Nov-11
Russell 1000 Value	10.0%	32.5%	32.5%	16.1%	16.7%	24.9%	Nov-11
Large Cap Growth	9.6%	36.3%	36.3%	16.6%	--	26.1%	Mar-09
Russell 1000 Growth	10.4%	33.5%	33.5%	16.5%	20.4%	22.7%	Mar-09
NCSRP Sands Capital Large Cap Growth	9.8%	42.3%	42.3%	21.9%	--	32.1%	Mar-09
Russell 1000 Growth	10.4%	33.5%	33.5%	16.5%	20.4%	22.7%	Mar-09
NCSRP Wellington Opportunistic Growth	9.7%	37.0%	37.0%	14.8%	--	22.8%	Mar-09
Russell 1000 Growth	10.4%	33.5%	33.5%	16.5%	20.4%	22.7%	Mar-09
Russell 3000 Growth	10.2%	34.2%	34.2%	16.5%	20.6%	22.9%	Mar-09
NCSRP Neuberger Large Cap Growth	9.3%	29.9%	29.9%	--	--	18.2%	Oct-11
Russell 1000 Growth	10.4%	33.5%	33.5%	16.5%	20.4%	21.8%	Oct-11
Mid/Small Cap Passive	8.6%	36.6%	36.6%	16.2%	--	26.1%	Mar-09
Russell 2500	8.7%	36.8%	36.8%	16.3%	21.8%	26.2%	Mar-09
NCSRP BlackRock Russell 2500 Index Fund	8.6%	36.8%	36.8%	16.3%	--	26.3%	Mar-09
Russell 2500	8.7%	36.8%	36.8%	16.3%	21.8%	26.2%	Mar-09
Mid/Small Cap Value	8.6%	36.6%	36.6%	18.0%	--	29.4%	Mar-09
Russell 2500 Value	8.8%	33.3%	33.3%	15.4%	19.6%	25.4%	Mar-09
NCSRP Hotchkis & Wiley	6.7%	43.6%	43.6%	20.3%	--	33.3%	Mar-09
Hotchkis Custom SMID Value Index	8.8%	33.3%	33.3%	15.6%	20.9%	26.3%	Mar-09
NCSRP EARNST Partners	9.4%	31.3%	31.3%	15.5%	--	23.7%	Mar-09
EARNST Custom SMID Value Index	8.8%	33.3%	33.3%	14.5%	17.7%	24.3%	Mar-09
NCSRP WEDGE SMID Cap Value	9.6%	34.9%	34.9%	--	--	27.2%	Dec-11
Russell 2500 Value	8.8%	33.3%	33.3%	15.4%	19.6%	26.1%	Dec-11
Mid/Small Cap Growth	9.4%	41.1%	41.1%	18.3%	--	25.8%	Mar-09
Russell 2500 Growth	8.5%	40.7%	40.7%	17.1%	24.0%	27.1%	Mar-09
NCSRP TimesSquare	10.8%	41.7%	41.7%	20.6%	--	26.0%	Mar-09
TimesSquare Custom SMID Growth Index	8.5%	40.6%	40.6%	16.9%	24.2%	26.5%	Mar-09

	Ending December 31, 2013					Inception	
	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	Return	Since
NCSRP Brown Advisory	8.0%	40.6%	40.6%	16.7%	--	26.4%	Mar-09
Brown Custom SMID Growth Index	8.5%	40.6%	40.6%	16.6%	22.4%	26.4%	Mar-09
International Passive	4.7%	14.4%	14.4%	5.1%	--	16.2%	Mar-09
MSCI ACWI ex USA Gross	4.8%	15.8%	15.8%	5.6%	13.3%	16.8%	Mar-09
NCSRP BlackRock ACWI ex US Fund	4.8%	14.5%	14.5%	5.2%	--	16.3%	Mar-09
MSCI ACWI ex USA Gross	4.8%	15.8%	15.8%	5.6%	13.3%	16.8%	Mar-09
International Equity	5.0%	14.9%	14.9%	7.1%	--	16.5%	Mar-09
MSCI ACWI ex USA Gross	4.8%	15.8%	15.8%	5.6%	13.3%	16.8%	Mar-09
NCSRP Baillie Gifford ACWI ex US Growth	5.2%	16.7%	16.7%	8.0%	--	19.7%	Mar-09
MSCI ACWI ex USA Gross	4.8%	15.8%	15.8%	5.6%	13.3%	16.8%	Mar-09
MSCI AC Wld ex US Growth Gross	4.7%	15.9%	15.9%	5.3%	13.3%	16.4%	Mar-09
NCSRP Mondrian ACWI ex US Value	5.0%	15.0%	15.0%	6.7%	--	14.1%	Mar-09
MSCI ACWI ex USA Gross	4.8%	15.8%	15.8%	5.6%	13.3%	16.8%	Mar-09
MSCI AC Wld Ex US Value Gross	4.9%	15.7%	15.7%	5.9%	13.3%	17.2%	Mar-09
Global Equity	9.0%	32.3%	32.3%	13.0%	--	19.5%	Mar-09
MSCI ACWI Gross	7.4%	23.4%	23.4%	10.3%	15.5%	19.2%	Mar-09
NCSRP Wellington Global Composite	9.3%	33.8%	33.8%	14.2%	--	20.3%	Mar-09
MSCI ACWI Gross	7.4%	23.4%	23.4%	10.3%	15.5%	19.2%	Mar-09
NCSRP Arrowstreet Global Equity ACWI	8.7%	32.3%	32.3%	--	--	18.8%	Mar-12
MSCI ACWI Gross	7.4%	23.4%	23.4%	10.3%	15.5%	15.5%	Mar-12
Inflation Sensitive Fund	-2.3%	--	--	--	--	-2.3%	Sep-13
PIMCO Inflation Response Index	-2.1%	-8.8%	-8.8%	0.5%	6.1%	-2.1%	Sep-13
NCSRP PIMCO Inflation Response Multi-Asset	-2.1%	--	--	--	--	-2.1%	Sep-13
PIMCO Inflation Response Index	-2.1%	-8.8%	-8.8%	0.5%	6.1%	-2.1%	Sep-13
Consumer Price Index	-0.5%	1.5%	1.5%	2.1%	2.1%	-0.5%	Sep-13
Fixed Income Passive Fund	-0.3%	-2.2%	-2.2%	3.1%	--	2.4%	Sep-10
Barclays Aggregate	-0.1%	-2.0%	-2.0%	3.3%	4.4%	2.6%	Sep-10
NCSRP BlackRock Debt Index Fund	-0.2%	-2.1%	-2.1%	3.2%	--	2.5%	Sep-10
Barclays Aggregate	-0.1%	-2.0%	-2.0%	3.3%	4.4%	2.6%	Sep-10
Fixed Income Fund	0.0%	-1.3%	-1.3%	3.8%	--	5.8%	Mar-09
Barclays Aggregate	-0.1%	-2.0%	-2.0%	3.3%	4.4%	4.7%	Mar-09
NCSRP JP Morgan Core Bond	-0.1%	-1.3%	-1.3%	4.1%	--	5.5%	Mar-09
Barclays Aggregate	-0.1%	-2.0%	-2.0%	3.3%	4.4%	4.7%	Mar-09
NCSRP PIMCO Total Return Full Authority	0.1%	-0.8%	-0.8%	3.9%	--	6.6%	Mar-09
Barclays Aggregate	-0.1%	-2.0%	-2.0%	3.3%	4.4%	4.7%	Mar-09

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