

North Carolina Supplemental Retirement Plans First Quarter Performance Review

June 2013

Agenda

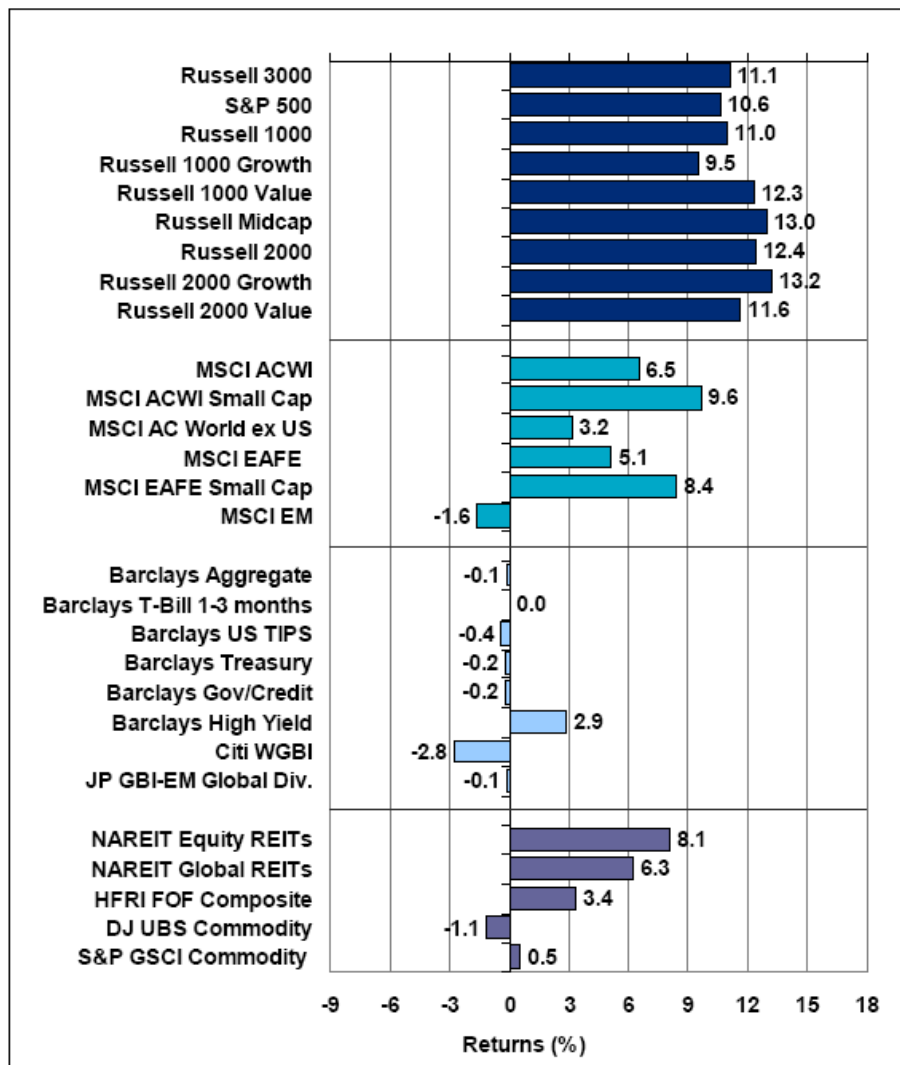
- Capital Markets Review
- First Quarter Performance
- Disclaimer

Capital Markets Review



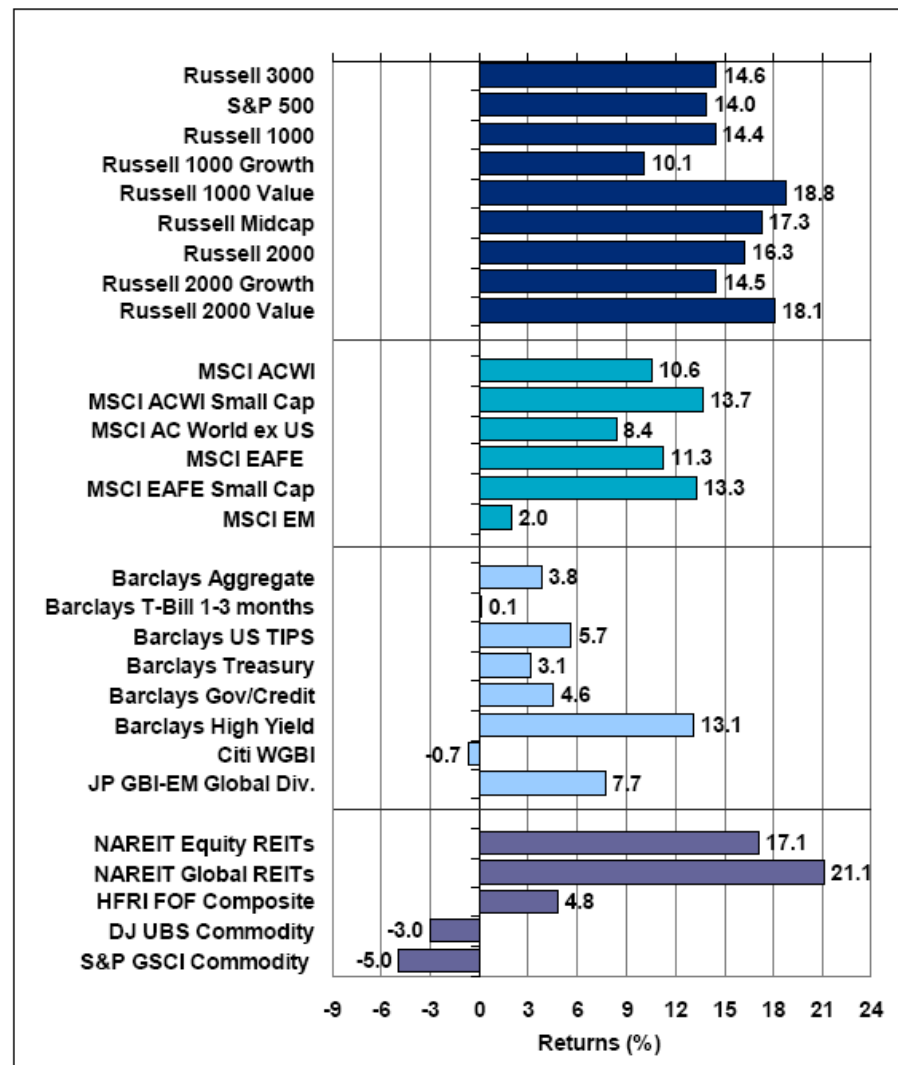
Performance Summary: Quarter in Review

Market Performance
First Quarter 2013



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

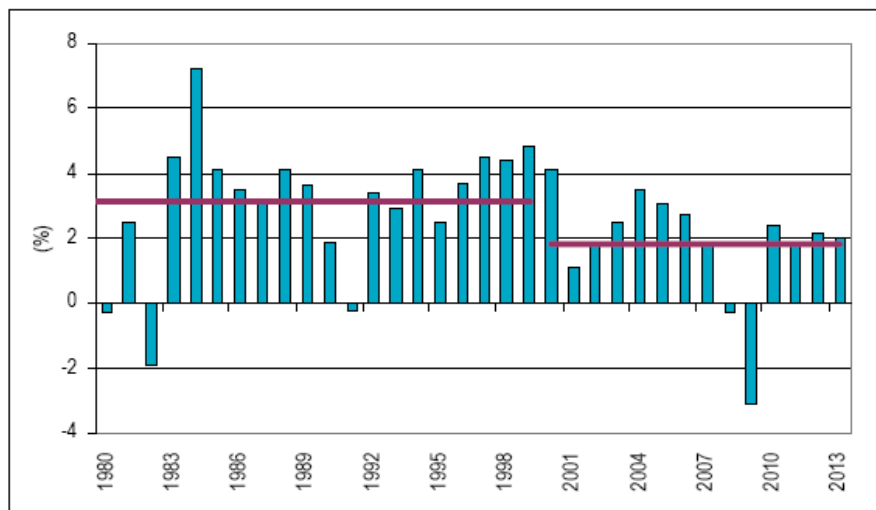
Market Performance
1 Year



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

Macro Environment: Economic Review

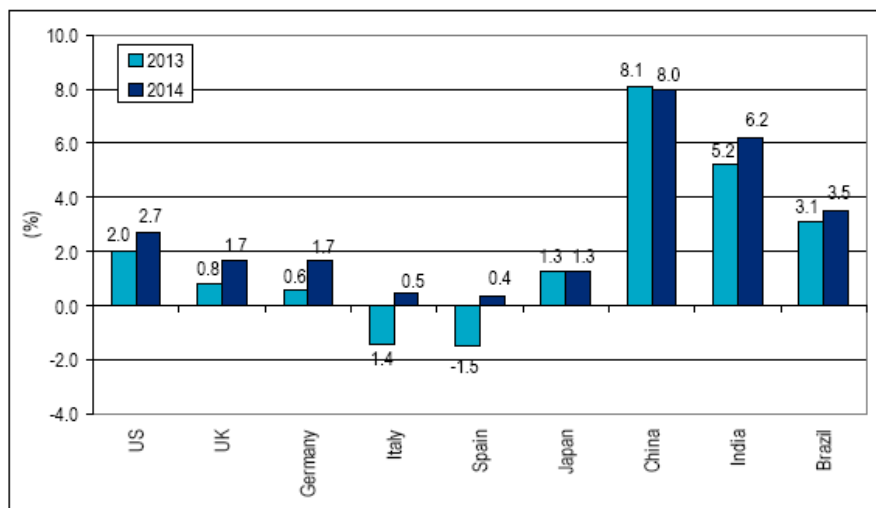
Annual GDP Growth



Source: Bureau of Economic Analysis

World Economic Growth

(Projections as of March 2013)

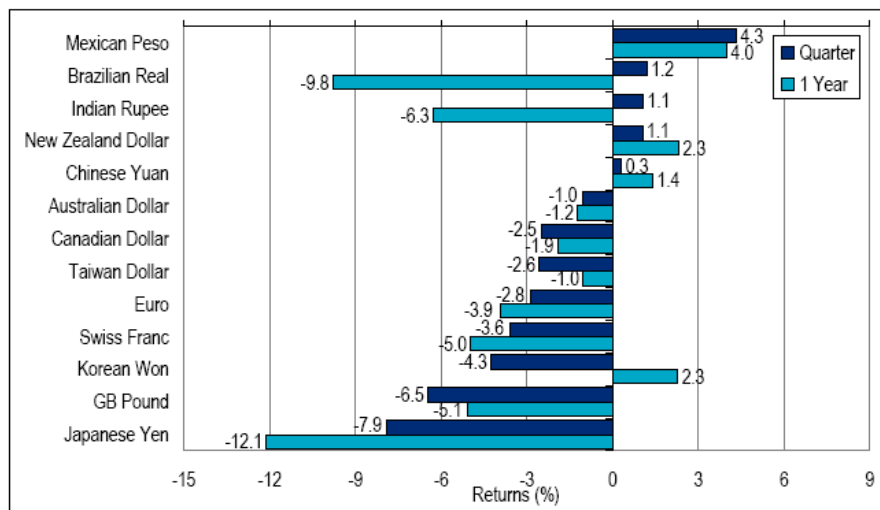


Source: Bloomberg

- The economy added an average of only 168k jobs per month in the first quarter. The unemployment rate fell from 7.8% to 7.6%, but a decline in the labor force accounted for a significant portion of the improvement.
- The consensus forecast for 2013 growth is just 2.0%. Positive catalysts include the housing market, improved household finances, and the further development of domestic energy sources. Although recent data suggests the possibility of another spring slowdown, the risk of a recession in 2013 still appears relatively low. The economy appears to be handling the fiscal drag of higher taxes and lower spending relatively well so far.
- Despite negative headlines in Cyprus and Italy, European bond markets were relatively calm in the first quarter. The ECB's willingness to act as a lender of last resort to governments and banks to prevent a major financial disaster or disorderly collapse has lowered market stress and volatility. However, ongoing economic weakness is intensifying political pressures, increasing the risk that the crisis could resurface due to austerity or bailout fatigue.
- Weak growth in the developed world is weighing on emerging economies through financial and trade links. Foreign direct investment in emerging market economies tumbled 15% last year and imports to the developed world shrunk for the first time since the financial crisis. Despite concerns regarding the ability of countries to transition to the next stage of growth, the prospects for emerging economies are bright, although growth is unlikely to return to heady pre-financial crisis levels for the foreseeable future.

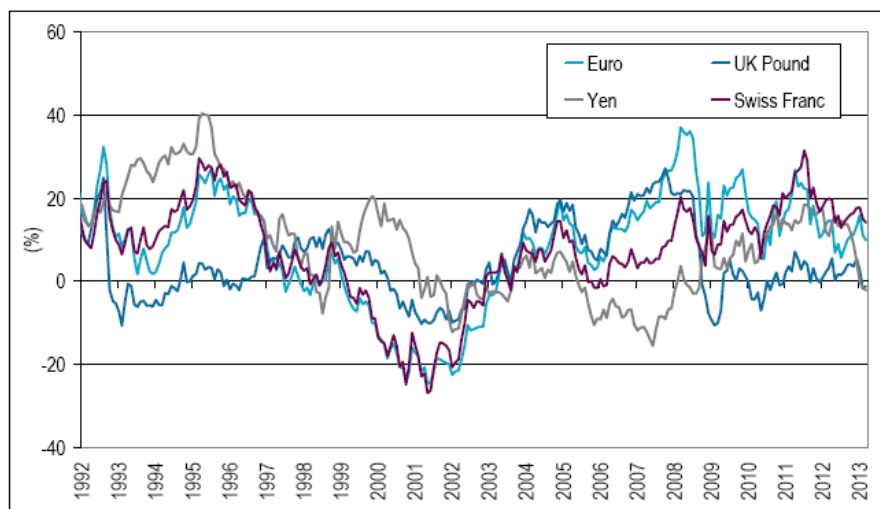
Macro Environment: Currencies

Performance of Foreign Currencies versus the US Dollar



Source: Bloomberg

Currency Valuation versus US Dollar (Based on Relative PPP)



Source: Bloomberg

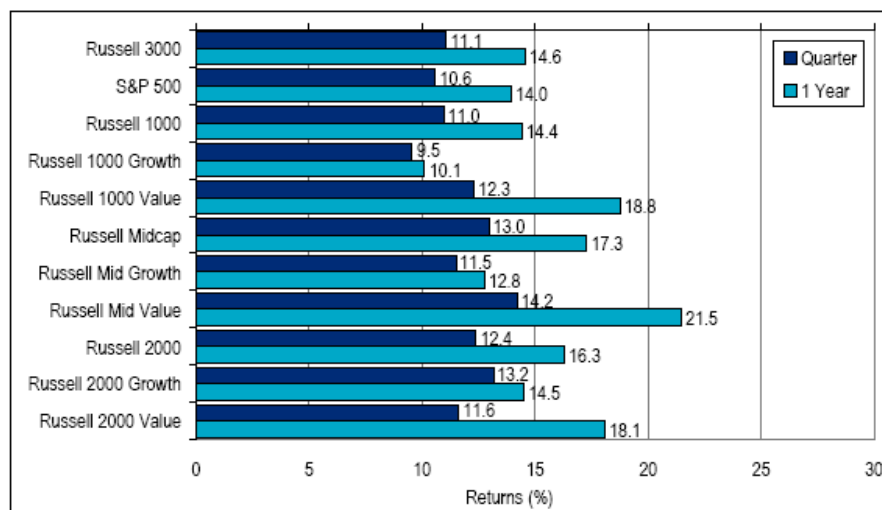
MERCER

- On a trade-weighted basis, the dollar advanced 1.8% in the first quarter. The dollar benefitted from a continued plunge in the yen, which lost 7.9% as the markets anticipated further BoJ policy easing. Uncertainty surrounding the Italian elections and the Cyprus banking system contributed to a 2.8% decline in the euro. Emerging market currencies were generally flat to slightly positive.

- Most currencies look expensive to the dollar based on relative purchasing power parity, but large scale QE and the US current account deficit suggest that this may be warranted. While the Fed continues to expand its balance sheet, US economic growth has been better than most of the rest of the developed world, which could boost the dollar.
- In early April, the BoJ announced a stimulus program in an attempt to hit a 2% inflation target. While new bond purchases were largely anticipated, the scope exceeded market expectations and could further weaken the yen. However, we note that shorting the yen has been a favorite play among currency speculators, hinting the potential for a reversal.
- The ECB has resisted monetary stimulus, which has been a positive for the euro. Nevertheless, the Eurozone still faces daunting economic challenges and a refocus on macro risks leaves the euro susceptible to declines.

Asset Class: US Equities – Style, Sector, Cap Performance

Style and Capitalization Market Performance



Source: Standard & Poor's, Russell, Bloomberg

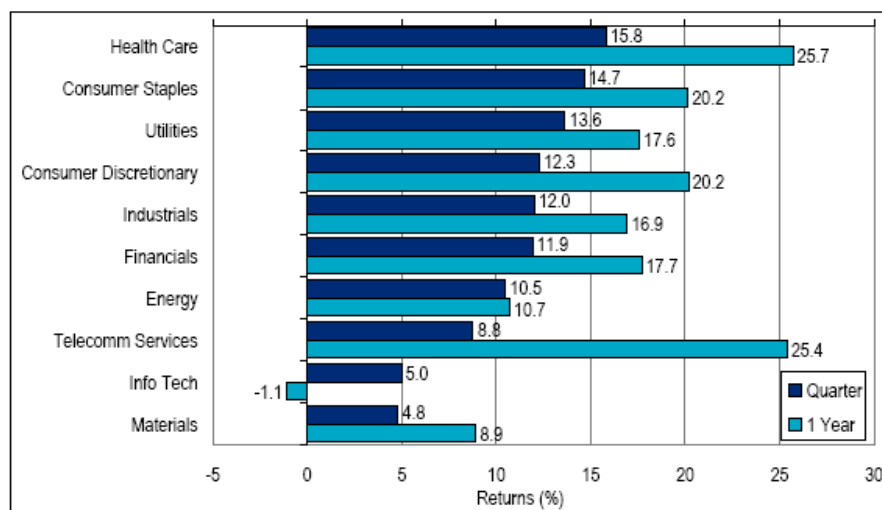
Broad Market

- Stocks posted strong gains in the first quarter with the Russell 3000 Index returning 11.1%.

Market Cap

- Large Caps:** The Russell 1000 Index gained 11.0% in the first quarter and the S&P 500 returned 10.6%. Given the significant spike in the markets, it was not surprising that large cap stocks lagged mid cap and small cap stocks.
- Mid Caps:** The Russell Midcap Index surged 13.0% and was the best performing index for quarter.
- Small Caps:** Small cap stocks outperformed large cap stocks with the Russell 2000 Index returning 12.4%. Over the last year, small cap stocks have outperformed large cap stocks (S&P 500) by 230 basis points.

Sector Performance



Source: Russell 1000 GICs Sector

Style

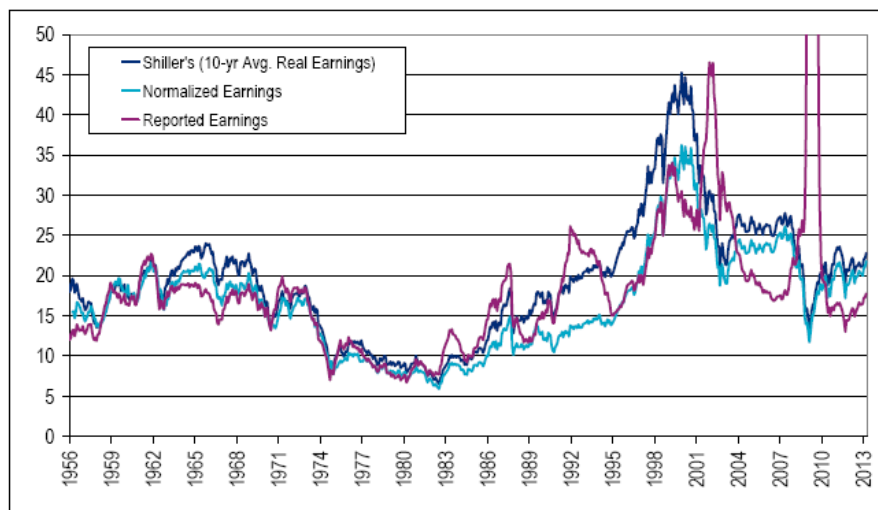
- Value vs. Growth:** Value stocks outperformed growth stocks in the large cap and mid cap segments, while small cap growth surpassed small cap value stocks. Mid cap value was the best performing style, gaining 14.2%.

Sector

- The materials, information technology, and telecommunication services sectors were the laggards for the quarter, while defensive sectors such as health care and consumer staples outperformed the broad market.

Asset Class: US Equities – Valuation Review

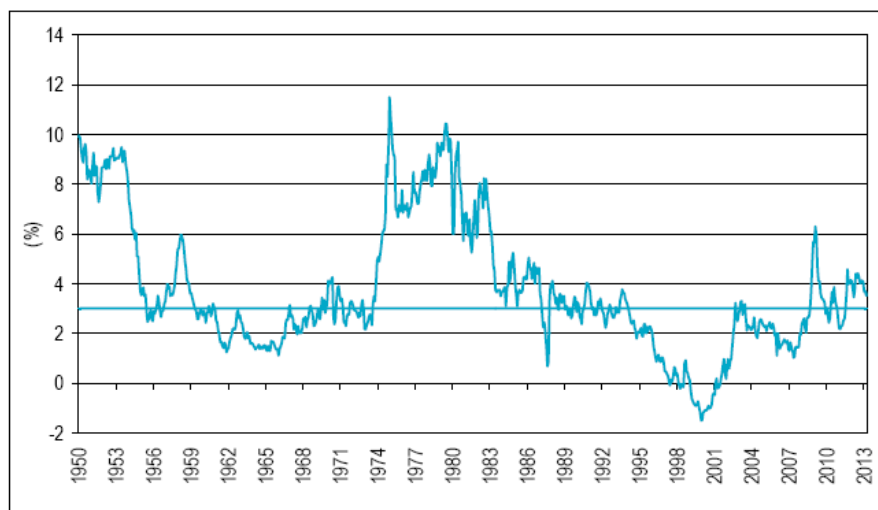
S&P500 – P/E Ratio



Source: S&P, Bloomberg, Mercer

S&P500 – Estimated Equity Risk Premium¹

Versus Long-Term Treasuries



Source: S&P, Bloomberg, Mercer

- Stock valuations show a less favorable picture than a quarter ago. The P/E ratio on trailing reported earnings advanced from 16.5 to 17.7, which is slightly above the median since 1956. The reported P/E ratio continues to be supported by historically high corporate profitability; however, there are signs that profit margins are topping out. Productivity growth has waned in recent quarters and it appears US corporations have exhausted slashing labor costs as a mean of increasing profits. Corporate capital investments will need to rebound from current below trend levels to generate top-line growth, which may take a short-term toll on profits.
- While profit margins are unlikely to expand further, they could remain above average in the near term. Interest rates on corporate bonds are at historical lows. Additionally, many companies can borrow below their cost of equity, effectively allowing cheap share buybacks, which can increase earnings per share growth without aggregate profit growth.
- Cyclically-adjusted valuations, which adjust for abnormally high profit margins remain elevated. The P/E ratio based on normalized earnings stood at 21.8, which is above the historical median of 16.6 (since 1956), while the P/E based on average 10-year real earnings (Shiller's methodology) finished the quarter at 22.8, compared to a median of 18.8 (since 1956).
- While less appealing in absolute terms, equities appear attractive when viewed against bonds. Based on the normalized P/E ratio of 21.8, the S&P 500 is priced to provide a real return of 4% to 4.5%. This compares favorably to Treasury and corporate bond yields. We estimate that the equity risk premium stood at 3.5% at quarter-end, 0.5% above the historical average.

¹ Definitions:

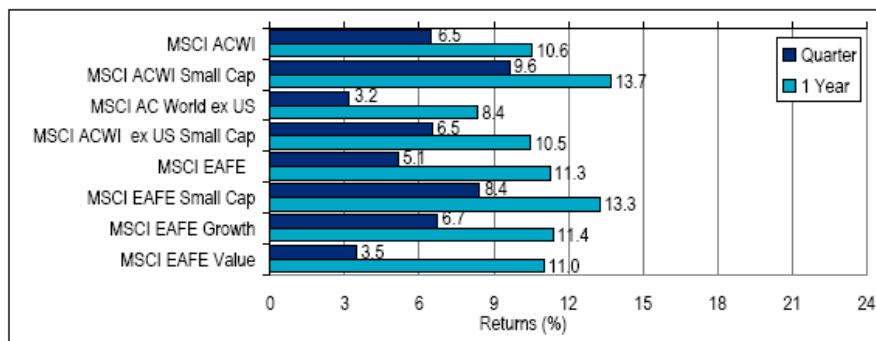
Shiller's P/E= Current S&P 500 price/average 10-year real earnings

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

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

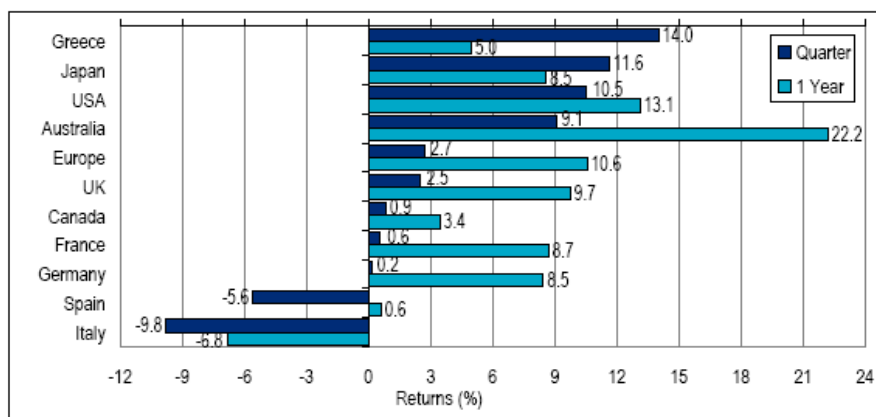
Asset Class: International Equities – Performance Review

International Equity Performance



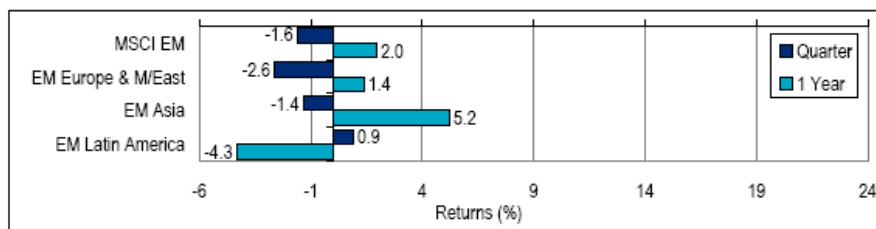
Source: MSCI, Bloomberg

Developed Country Performance



Source: MSCI, Bloomberg

Emerging Market Performance

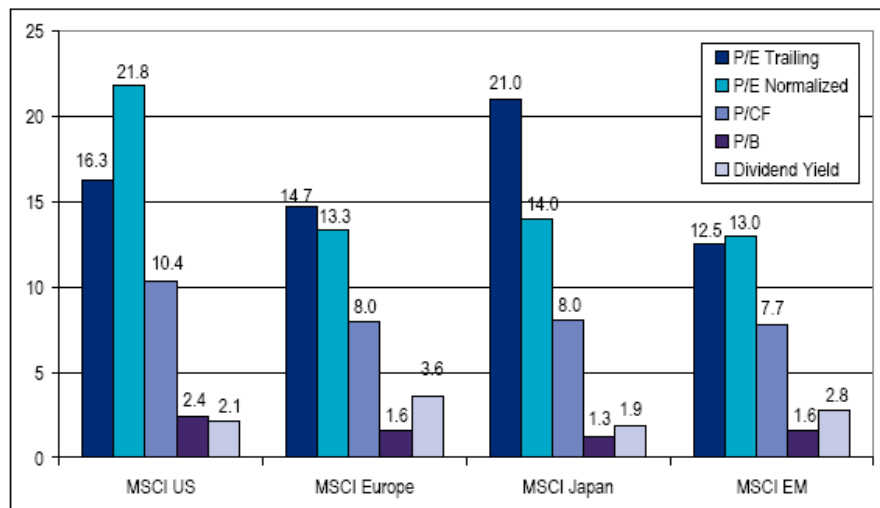


Source: MSCI, Bloomberg

- **International equities** substantially lagged US equities for the quarter. The MSCI ACWI-ex US Index returned just 3.2%, trailing the Russell 3000 by 790 basis points.
- **International developed stocks** rose 5.1% in the first quarter, lagging the S&P 500 by 550 basis points. European stocks returned 2.7% as economic concerns weighed on markets. Japanese stocks soared as the BoJ announced a massive expansion of its balance sheet to hit a 2% inflation target. Japan rose 21.4% in local currency terms as the yen declined sharply. In \$US terms, Japan returned 11.6%.
- **International small cap stocks** outperformed international developed large cap stocks by 330 basis points as the MSCI EAFE Small Cap Index returned 8.4%.
- **Emerging markets** bucked the global trend and declined during the quarter. Concerns regarding their growth outlook and lower commodity prices weighed on emerging market stocks. The MSCI Emerging Markets Index fell 1.6% during the quarter. Regionally, Asian stocks shed 1.4%, with Chinese equities losing 4.5%. Eastern European markets slid 5.3%. Latin American equities rose 0.9%, although Brazil dropped 0.8%. All emerging market sectors lagged their developed market counterparts with the consumer and health care sectors experiencing the worst relative performance.

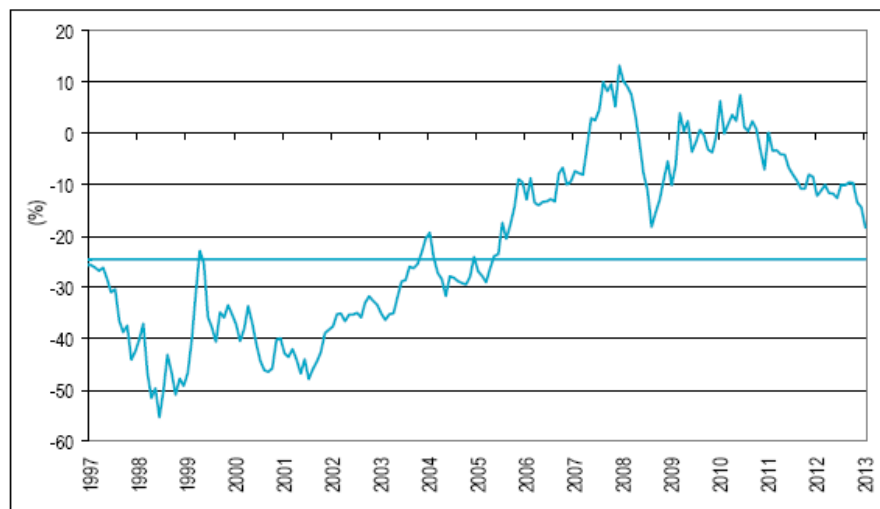
Asset Class: International Equities – Valuation Review

Global Valuations



Source: MSCI, Bloomberg

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

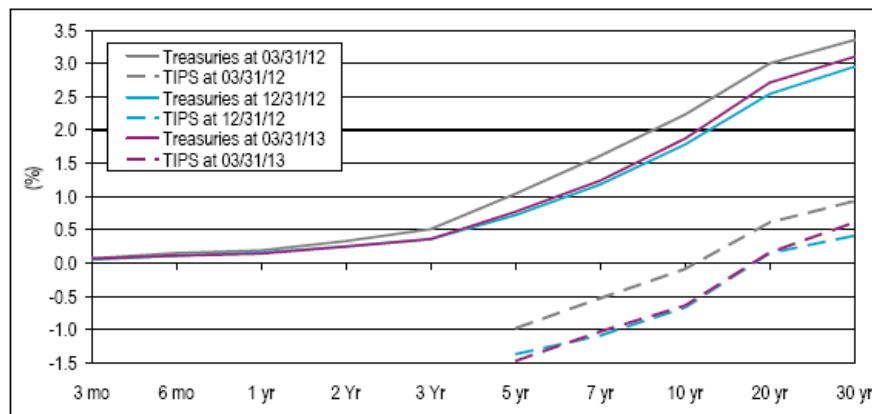


Source: MSCI, Bloomberg

- Tight credit standards and the recession have pressured profitability for European companies and earnings have fallen by 8.3% over the last 12 months. However, sales have grown by 7% over the last year. Elevated unemployment levels are likely to limit labor costs pressures, which would improve profitability. The ECB's measures have reduced financial stress. However, economic weakness is causing political tensions, which could lead to a resurgence in volatility. European equities appear to be pricing in potential risks. Based on 10-year average real earnings, Europe traded at a P/E of just 13.3, a 28% discount to their historical median and a nearly 40% discount to US stocks (13% average). Based on P/B, they traded at a 5% discount to their historical median, although based on P/CF, they traded at an 18% premium.
- The recent performance of Japanese stocks has been driven by the BoJ's policies. The decline in the yen since last fall should help improve the profitability of the export dependent corporate sector. However, the economy faces well known debt and demographic issues and it remains to be seen if the BoJ will be successful in its efforts. Assuming profitability returns to pre-2008 levels, Japan looks attractively valued at a P/E of just 14. However, based on trailing 10-year average earnings, Japan appeared expensive in absolute terms, trading at a P/E of 22, although profitability is likely to be higher going forward.
- Economic growth in emerging market countries is likely to remain robust, although below heady pre-financial crisis levels. As a result of the recent underperformance, emerging market stocks appear attractively valued in absolute and relative terms. They traded at just 7.7x cash flows, which represents a 9% discount to their historical median and a 23% discount to MSCI World. Based on our measure of normalized earnings emerging market equities traded at a P/E of only 13, which represents a 17% discount to our estimate of fair value and nearly a 40% discount to US equities.

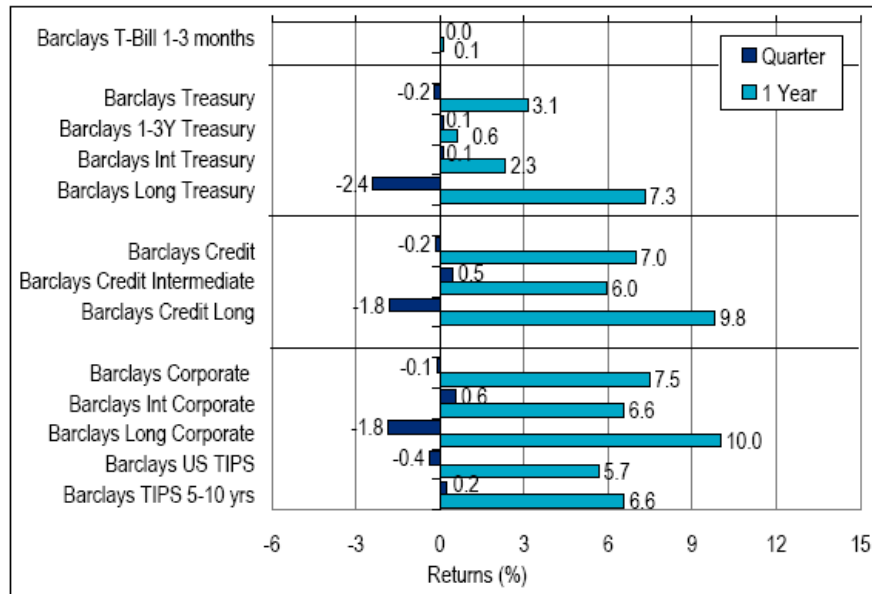
Asset Class: Fixed Income – Interest Rates and Yield Curve

Treasury Yield Curve



Source: Federal Reserve

Bond Performance by Duration



Source: Barclays, Bloomberg

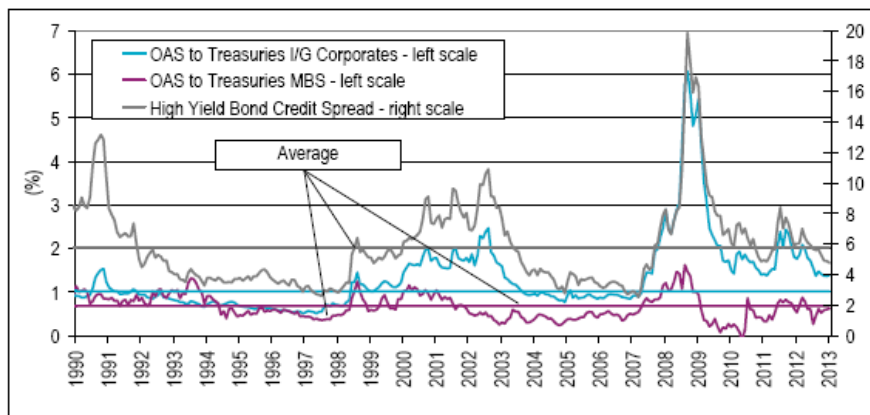
- For the quarter, Treasuries experienced modest losses. The 10-year Treasury yield exceeded 2% for the first time since April of 2012. However, as the Cyprus banking system made headlines, the 10-year yield declined and finished the first quarter at 1.87%, 9 basis points higher than at the end of 2012. Five-year TIPS ended the quarter yielding -1.5% annualized, and 10-year TIPS yielded -0.6%, emphasizing that Treasury investors are all but certain to lose purchasing power parity over the intermediate-term. The inflation breakeven rate on TIPS stood at 2.5% over 10 years.

- The yield curve steepened modestly during the quarter. Fed policy successfully kept short term rates relatively unchanged; however, longer term yields, which are more heavily influenced by market factors, crept upwards. The 20-year Treasury yield increased 17 basis points in the first quarter.

- US Bonds** declined during the quarter with the Barclays Aggregate Index falling 0.1%.
- Long-Duration Bonds** suffered as the yield on the 30-year Treasury rose from 2.95% to 3.10%. The Barclays Long Treasury Index lost 2.4% for the quarter.
- Corporate bonds** outperformed **Treasuries** by 10 basis points in the first quarter.
- TIPS** fell 0.4% as the real yield on 10-year TIPS rose from -0.70% to -0.64%. TIPS underperformed Treasuries due to their longer duration.

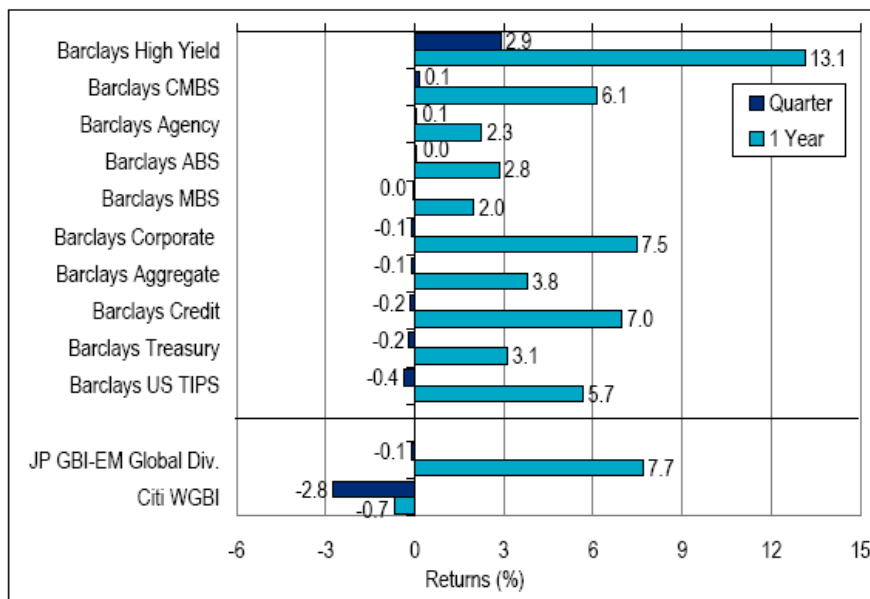
Asset Class: Fixed Income – Credit and Non-US Bonds

Credit Spreads



- Credit spreads narrowed in the first quarter as investors sought out risky assets. The yield on the Barclays I/G Corporate Index remains near a record low at 2.8%, suggesting flat to negative real returns after defaults and downgrades. The option-adjusted spread of 1.4% is above the 1% historical median. I/G corporate bonds offer reasonable value relative to Treasuries. The yield on high yield bonds declined by 47 basis points to reach a new record low of 5.7%. The option-adjusted spread dropped to 4.6%, below the historical median of 4.9%, but in line with our estimate at equilibrium.

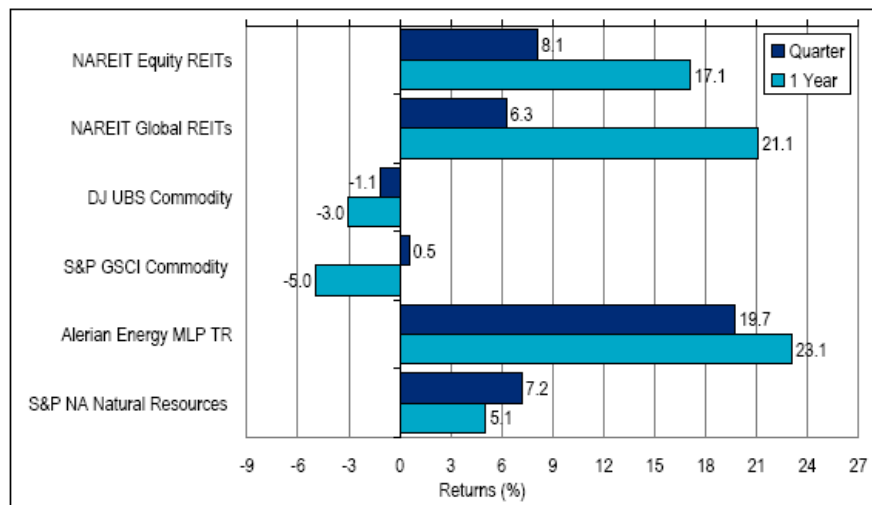
Sector, Credit, and Global Bond Performance



- **US Treasuries** experienced modest losses as Treasury yields rose slightly. The Barclays Treasury Index lost 0.2%, while TIPS shed 0.4%.
- **US Corporate** bonds slightly edged Treasuries, falling 0.1%.
- **US MBS, ABS, CMBS, and Agency** bonds were flat to slightly positive in the first quarter.
- **High Yield** bonds jumped 2.9% as yields declined by 47 basis points to 5.7%.
- **Global Bonds** fell as the yen and the euro declined against the dollar. The Citigroup World Government Bond Index lost 2.8%
- **Local Currency Emerging Market Debt** lost 0.1% in the first quarter. Yields increased by 12 basis points to 5.6%.

Asset Class: Alternatives – Performance Review

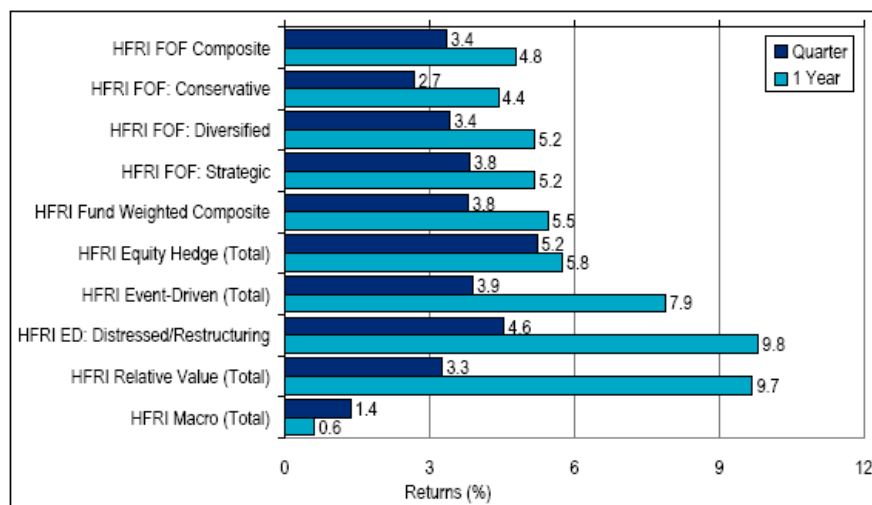
Real Asset Performance



Source: NAREIT, Dow-Jones, UBS, Goldman Sachs

- **Global REITs** rose 6.3% for the quarter. US REITs outperformed international REITs, rising 8.1%.
- **Commodities:** Commodity returns were relatively flat in the first quarter. Higher energy prices were offset by large declines in metals, agriculture, and livestock. The DJ Commodity Index declined 1.1% while the S&P GSCI Index, which has a larger weighting to energy, advanced 0.5%.

Hedge Fund Performance



Source: HFR

- **Hedge funds** posted relatively decent gains for the quarter. As expected, they lagged equities, but outperformed bonds. The HFRI Fund of Funds Composite Index returned a healthy 3.4% in the first quarter.

Macro strategies were the laggard for the quarter, while equity hedged, event driven, and distressed/restructuring strategies posted better returns, benefiting from tightening credit spreads and fairly wide sector dispersion.

First 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 color, which is slightly lighter than the top band. The bottom band is a light sky blue, which is the lightest of the three colors. The bands are separated by thin, slightly irregular white lines, giving the background a layered, watercolor-like appearance.

Manager Updates

- **Robeco:** In February 2013, Rabobank announced that it will sell 90.01% of its stake in Robeco to ORIX Corporation, and the transaction is expected to close by mid-2013. The Robeco BP Large Cap Value strategy's "A" rating currently carries a Watch (W) designator due to the uncertainty surrounding the then-potential sale. At this time, Mercer is maintaining the Large Cap Value strategy's "A(W)" rating.
- **Brown Advisory:** In February 2013, Brown Advisory announced that Brian Finnell, Head of Equity Trading, was asked to step down and has decided to leave the firm. A search for Finnell's replacement is currently underway. As Finnell's departure was not due to a disciplinary action, and should not affect the portfolio managers' ability to implement their investment ideas, this announcement does not affect Mercer's ratings on any of Brown's strategies.
- **Arrowstreet:** In January 2013, Mercer met with Arrowstreet and reaffirmed their Global Equity (ACWI) strategy's "A" rating. In April 2013, Arrowstreet announced that Bruce Clarke will step down as Chief Executive Officer at the end of the year to assume the role of Executive Chairman. Tony Ryan, the firm's Chief Operating Officer, will assume the CEO role effective January 1, 2014. As the transition appears to fall in line with Arrowstreet's succession planning process, this event does not affect Mercer's rating on any of Arrowstreet's strategies.
- **JPMorgan:** In April 2013, JPMorgan announced that the firm is combining its Columbus and New York fixed income teams to form a single fixed income platform. On the surface, Mercer is not overly concerned about this change, provided that there will be no changes at the team or strategy level. As such, this announcement does not affect the Core Bond strategy's "A" rating at this time.
- **PIMCO:** In January 2013, Mercer met with PIMCO to discuss several of their products, including the Total Return Full Authority strategy. As a result of this meeting, Mercer continues to have high conviction in PIMCO and reaffirmed the Total Return Full Authority strategy's "A" rating.

Watch List

Manager	Date Placed on Watch	Mercer Rating	Recommendation	Comments
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 through the difficult market environment in calendar year 2008. However, since 2009, Neuberger has consistently underperformed its benchmark.</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 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>Mercer recommends continuing to closely monitor Neuberger for improved longer-term performance.</p>

Fund Review

Fund Performance as of March 31, 2013

Name	Market Value (\$m)	(%)	Inception						Return Since	Comments
			3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank		
Large Cap Passive S&P 500	\$1,126.7	15.2%	10.6%	--	13.9%	--	12.6%	--	20.9% Mar-09	Closely tracked its benchmark over all time periods measured.
			10.6%	--	14.0%	--	12.7%	--	21.0% Mar-09	
Large Cap Value Russell 1000 Value	\$778.8	10.5%	11.9%	26	16.6%	23	11.6%	33	19.2% Mar-09	Strong performance against the peer group. Top-third universe ranking over all time periods measured.
			12.3%	15	18.8%	7	12.7%	7	21.8% Mar-09	
Large Cap Growth Russell 1000 Growth	\$739.7	10.0%	8.7%	53	8.1%	41	14.4%	6	24.4% Mar-09	Strong performance over longer time periods measured.
			9.5%	22	10.1%	23	13.1%	14	21.3% Mar-09	
Mid/Small Cap Passive Russell 2500	\$392.0	5.3%	12.8%	--	17.8%	--	14.6%	--	25.6% Mar-09	Closely tracked its benchmark over all time periods measured.
			12.8%	--	17.7%	--	14.6%	--	25.7% Mar-09	
Mid/Small Cap Value Russell 2500 Value	\$259.0	3.5%	14.3%	21	21.2%	18	17.3%	4	29.9% Mar-09	Strong performance over all time periods measured.
			13.4%	37	21.2%	18	14.2%	23	25.6% Mar-09	
Mid/Small Cap Growth Russell 2500 Growth	\$154.7	2.1%	11.9%	45	17.0%	10	14.6%	36	24.0% Mar-09	Modestly lagged benchmark over the first quarter, but produced strong results against peers over all time periods.
			12.2%	38	13.7%	26	14.9%	31	25.6% Mar-09	
International Passive MSCI ACWI ex USA Gross	\$309.1	4.2%	2.4%	--	8.4%	--	5.3%	--	17.0% Mar-09	Tracking error largely due to fair value pricing issues.
			3.3%	--	8.9%	--	4.9%	--	16.9% Mar-09	
International Equity MSCI ACWI ex USA Gross	\$457.0	6.2%	3.2%	68	9.2%	54	6.3%	38	16.7% Mar-09	Modest outperformance from both managers (gross of fees) resulted in slight underperformance at the fund level (net of fees).
			3.3%	64	8.9%	59	4.9%	61	16.9% Mar-09	
Global Equity MSCI ACWI Gross	\$177.6	2.4%	8.1%	36	13.2%	26	8.7%	45	17.4% Mar-09	Strong quarterly results from both underlying managers contributed to outperformance at the fund level.
			6.6%	62	11.2%	46	8.4%	49	18.7% Mar-09	
Fixed Income Passive Fund Barclays Aggregate	\$256.5	3.5%	0.0%	--	3.8%	--	--	--	4.1% Sep-10	Closely tracked its benchmark over all time periods measured.
			-0.1%	--	3.8%	--	5.5%	--	4.2% Sep-10	
Fixed Income Fund Barclays Aggregate	\$527.7	7.1%	0.6%	26	6.3%	35	6.3%	39	7.5% Mar-09	Strong results from both managers have driven fund performance.
			-0.1%	91	3.8%	70	5.5%	58	6.1% Mar-09	
Stable Value Fund T-BILLS + 1%	\$2,240.6	30.2%	0.6%	10	2.7%	26	3.2%	57	3.4% Jun-09	Added value.
			0.3%	91	1.1%	99	1.1%	99	1.1% Jun-09	

Fund Review

Manager Performance as of March 31, 2013

Name	Market Value		Inception										Comments
	(\$m)	(%)	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since	
NCSRP BlackRock Equity Index	\$1,126.7	15.2%	10.6%	--	13.9%	--	12.7%	--	--	--	21.1%	Mar-09	Closely tracked its benchmark over all time periods measured.
BlackRock Equity Index Strategy			10.6%	--	13.9%	--	12.7%	--	5.9%	--	21.1%	Mar-09	
S&P 500			10.6%	--	14.0%	--	12.7%	--	5.8%	--	21.0%	Mar-09	
NCSRP Hotchkis & Wiley Large Cap Value	\$264.0	3.6%	13.7%	9	18.4%	22	12.9%	38	--	--	25.6%	Mar-09	The manager focuses on strong fundamentals. Select information technology and financial issues drove outperformance during the quarter.
Hotchkis & Wiley Large Cap Value Strategy			13.7%	10	18.5%	22	12.9%	38	5.8%	48	25.6%	Mar-09	
Russell 1000 Value			12.3%	31	18.8%	19	12.7%	43	4.8%	68	21.8%	Mar-09	
NCSRP Wellington Value Composite	\$250.5	3.4%	10.9%	67	15.0%	66	10.8%	71	--	--	13.0%	Mar-09	Select holdings among several cyclical sectors detracted value.
NCSRP Wellington Quality Value			10.9%	67	15.0%	66	--	--	--	--	--	Jul-10	
Wellington Quality Value Strategy			10.9%	67	14.9%	67	11.6%	59	6.7%	22	20.3%	Mar-09	
Russell 1000 Value			12.3%	31	18.8%	19	12.7%	43	4.8%	68	21.8%	Mar-09	Security selection within the information technology, financials and energy sectors were a bane to relative performance over the first quarter. Longer-term composite performance remained strong.
NCSRP Robeco BP Large Cap Value	\$264.3	3.6%	11.4%	55	17.8%	26	--	--	--	--	26.9%	Nov-11	
Robeco BP Large Cap Value Strategy			11.3%	57	17.7%	27	13.3%	28	8.5%	8	26.6%	Nov-11	
Russell 1000 Value			12.3%	31	18.8%	19	12.7%	43	4.8%	68	25.0%	Nov-11	Three- and five-year results ranked at the top of the peer universe.
NCSRP Sands Capital Large Cap Growth	\$257.5	3.5%	7.3%	85	7.6%	70	19.3%	1	--	--	30.3%	Mar-09	
Sands Capital Large Cap Growth Strategy			7.3%	85	7.5%	71	19.3%	1	12.9%	1	30.2%	Mar-09	
Russell 1000 Growth			9.5%	40	10.1%	43	13.1%	32	7.3%	39	21.3%	Mar-09	Significant overweight in consumer discretionary and strong overall holdings boosted relative results.
NCSRP Wellington Opportunistic Growth	\$248.3	3.3%	10.1%	27	12.1%	23	12.1%	52	--	--	21.2%	Mar-09	
Wellington Opportunistic Growth Strategy			10.1%	25	12.0%	23	12.0%	57	7.5%	34	21.1%	Mar-09	
Russell 1000 Growth			9.5%	40	10.1%	43	13.1%	32	7.3%	39	21.3%	Mar-09	High quality growth has not kept up during speculative rallies nor fully protected during defensive downturns.
Russell 3000 Growth			9.8%	30	10.4%	40	13.2%	31	7.4%	35	21.5%	Mar-09	
NCSRP Neuberger Large Cap Growth	\$234.0	3.2%	9.1%	50	5.8%	83	--	--	--	--	14.4%	Oct-11	
Neuberger Large Cap Growth Strategy			9.1%	48	5.8%	83	9.2%	91	5.0%	80	13.7%	Oct-11	Closely tracked its benchmark over all time periods measured.
Russell 1000 Growth			9.5%	40	10.1%	44	13.1%	32	7.3%	39	17.6%	Oct-11	
NCSRP BlackRock Russell 2500 Index Fund	\$392.0	5.3%	12.9%	--	17.9%	--	14.8%	--	--	--	25.8%	Mar-09	
BlackRock Russell 2500 Index Fund Strategy			12.9%	--	17.9%	--	14.8%	--	--	--	25.8%	Mar-09	Hotchkis's deep value bias had even better absolute results in the SMID cap segment.
Russell 2500			12.8%	--	17.7%	--	14.6%	--	9.0%	--	25.7%	Mar-09	
NCSRP Hotchkis & Wiley	\$86.2	1.2%	17.8%	1	26.4%	1	18.9%	2	--	--	34.6%	Mar-09	
Hotchkis & Wiley Value Strategy			17.7%	1	26.6%	1	19.0%	2	14.7%	2	35.0%	Mar-09	Select energy and consumer staples holdings detracted value over the quarter. Longer-term results remained competitive.
Hotchkis Custom SMID Value Index			13.4%	40	21.2%	19	14.3%	36	8.2%	75	26.7%	Mar-09	
NCSRP EARNEST Partners	\$85.7	1.2%	9.9%	84	15.9%	66	13.6%	53	--	--	23.8%	Mar-09	
EARNEST Partners Value Strategy			10.2%	81	16.1%	63	14.7%	31	8.5%	71	24.9%	Mar-09	Strong performance over all time periods measured.
EARNEST Custom SMID Value Index			13.4%	40	21.2%	19	13.1%	69	7.8%	80	24.3%	Mar-09	
NCSRP WEDGE SMID Cap Value	\$87.2	1.2%	15.5%	2	23.1%	9	--	--	--	--	--	Dec-11	
WEDGE SMID Cap Value Strategy			15.5%	2	23.0%	9	17.2%	6	10.8%	28	28.9%	Dec-11	Strong performance over all time periods measured.
Russell 2500 Value			13.4%	40	21.2%	19	14.2%	41	8.8%	64	26.8%	Dec-11	
NCSRP TimesSquare	\$78.3	1.1%	13.4%	13	22.1%	1	16.7%	29	--	--	25.0%	Mar-09	
TimesSquare SMID Growth			13.4%	13	22.1%	1	--	--	--	--	--	Jul-11	Strong performance over all time periods measured.
TimesSquare Growth Strategy			13.4%	13	22.1%	1	19.2%	10	13.1%	11	28.3%	Mar-09	
TimesSquare Custom SMID Growth Index			12.2%	32	13.7%	37	14.4%	59	8.1%	65	25.0%	Mar-09	

Fund Review

Manager Performance as of March 31, 2013

Name	Market Value (\$m)	(%)	Inception								Return Since		Comments
			3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank			
NCSRP Brown Advisory	\$76.4	1.0%	10.9%	59	14.0%	35	14.6%	58	--	--	25.1%	Mar-09	Weak security selection within the industrials and energy sectors detracted value during the quarter. Longer-term results were competitive.
Brown Advisory Growth Strategy			11.2%	53	14.5%	30	14.6%	58	10.5%	37	25.1%	Mar-09	
Brown Custom SMID Growth Index			12.2%	32	13.7%	37	14.9%	66	9.1%	51	24.8%	Mar-09	
NCSRP BlackRock ACWI ex US Fund	\$309.1	4.2%	2.5%	--	8.6%	--	5.0%	--	--	--	16.8%	Mar-09	Tracking error largely due to fair value pricing issues.
BlackRock ACWI ex US Fund Strategy			2.5%	--	8.6%	--	5.0%	--	0.1%	--	16.9%	Mar-09	
MSCI ACWI ex USA Gross			3.3%	--	8.9%	--	4.9%	--	0.1%	--	16.9%	Mar-09	
NCSRP Baillie Gifford ACWI ex US Growth	\$227.9	3.1%	3.8%	68	11.6%	46	8.9%	17	--	--	20.9%	Mar-09	Select French, German and Dutch holdings added relative value over the quarter. Strong performance over longer time periods measured.
Baillie Gifford ACWI ex US Growth Strategy			3.8%	68	11.4%	48	9.1%	16	3.0%	15	21.0%	Mar-09	
MSCI ACWI ex USA GrossB			3.3%	77	8.9%	73	4.9%	81	0.1%	65	16.9%	Mar-09	
MSCI AC Wld ex US Growth Gross			4.6%	48	9.5%	66	5.8%	68	0.1%	62	16.7%	Mar-09	
NCSRP Mondrian ACWI ex US Value	\$229.2	3.1%	4.0%	62	8.0%	78	5.3%	74	--	--	14.7%	Mar-09	Holdings in the developed markets and underweight exposure to weak materials added value.
Mondrian ACWI ex US Value Strategy			4.2%	58	8.1%	77	5.5%	72	0.2%	61	14.8%	Mar-09	
MSCI ACWI ex USA Gross			3.3%	77	8.9%	73	4.9%	81	0.1%	65	16.9%	Mar-09	
MSCI AC Wld Ex US Value Gross			1.9%	90	8.2%	76	3.9%	88	0.0%	67	17.0%	Mar-09	
NCSRP Wellington Global Composite	\$90.3	1.2%	8.1%	42	15.6%	19	10.0%	36	--	--	18.6%	Mar-09	Strong performance over all time periods measured.
NCSRP Wellington Global Opportunities			8.1%	42	15.6%	19	--	--	--	--	--	Jun-10	
Wellington Global Opportunities Strategy			8.2%	40	15.4%	20	10.6%	27	5.4%	20	21.0%	Mar-09	
MSCI ACWI Gross			6.6%	69	11.2%	60	8.4%	61	2.6%	61	18.7%	Mar-09	
NCSRP Arrowstreet Global Equity ACWI	\$87.3	1.2%	9.2%	22	12.1%	51	--	--	--	--	12.1%	Mar-12	Strong performance over all time periods measured.
Arrowstreet Global Equity ACWI			9.2%	22	13.5%	38	10.2%	30	5.6%	17	13.5%	Mar-12	
MSCI ACWI Gross			6.6%	69	11.2%	60	8.4%	61	2.6%	61	11.2%	Mar-12	
NCSRP BlackRock Debt Index Fund	\$256.5	3.5%	0.0%	--	3.9%	--	--	--	--	--	4.3%	Sep-10	Closely tracked its benchmark over all time period measured.
BlackRock Debt Index Fund Strategy			0.0%	--	3.9%	--	5.6%	--	5.5%	--	4.2%	Sep-10	
Barclays Aggregate			-0.1%	--	3.8%	--	5.5%	--	5.5%	--	4.1%	Sep-10	
NCSRP JP Morgan Core Bond	\$264.1	3.6%	0.4%	35	5.0%	65	7.0%	38	--	--	7.3%	Mar-09	Strong mortgage selection drives outperformance.
JP Morgan Core Bond Strategy			0.3%	42	4.9%	66	6.6%	51	6.9%	46	7.5%	Mar-09	
Barclays Aggregate			-0.1%	91	3.8%	94	5.5%	92	5.5%	95	6.1%	Mar-09	
NCSRP PIMCO Total Return Full Authority	\$263.6	3.6%	1.0%	10	8.3%	11	6.4%	65	--	--	8.6%	Mar-09	Strong issue selection across a variety of sectors drives outperformance.
PIMCO Total Return Full Authority Strategy			0.7%	18	8.0%	14	7.2%	32	7.9%	16	9.5%	Mar-09	
Barclays Aggregate			-0.1%	91	3.8%	94	5.5%	92	5.5%	95	6.1%	Mar-09	

GoalMaker Funds

Performance as of March 31, 2013

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Conservative 0-5 Yrs	2.4%	87	6.0%	92	6.5%	91	--	--
Conservative 0-5 Yrs Benchmark	2.1%	89	4.9%	98	5.0%	98	3.9%	80
Conservative 6-10 Yrs	3.2%	85	7.0%	95	7.3%	89	--	--
Conservative 6-10 Yrs Benchmark	2.9%	90	6.0%	99	5.7%	99	4.1%	80
Conservative 11-15 Yrs	4.5%	74	8.7%	76	8.4%	80	--	--
Conservative 11-15 Yrs Benchmark	4.4%	77	8.0%	89	7.4%	98	4.7%	45
Conservative 16+ Yrs	6.0%	41	10.5%	43	9.4%	39	--	--
Conservative +16 Yrs Benchmark	6.0%	42	10.0%	50	8.7%	68	4.8%	27

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Moderate 0-5 Yrs	3.6%	58	7.6%	73	7.5%	72	--	--
Moderate 0-5 Yrs Benchmark	3.5%	65	6.7%	86	6.2%	91	4.3%	77
Moderate 6-10 Yrs	4.5%	41	8.7%	49	8.3%	59	--	--
Moderate 6-10 Yrs Benchmark	4.4%	49	8.0%	68	7.4%	88	4.7%	38
Moderate 11-15 Yrs	5.6%	35	9.9%	38	9.1%	40	--	--
Moderate 11-15 Yrs Benchmark	5.5%	36	9.4%	48	8.3%	83	4.8%	44
Moderate 16+ Yrs	7.1%	10	11.8%	12	10.1%	16	--	--
Moderate +16 Yrs Benchmark	7.2%	10	11.5%	13	9.5%	38	4.7%	29

Name	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Aggressive 0-5 Yrs	4.8%	14	9.0%	20	8.6%	33	--	--
Aggressive 0-5 Yrs Benchmark	4.6%	19	8.4%	43	7.6%	61	4.8%	49
Aggressive 6-10 Yrs	5.6%	9	9.9%	15	9.3%	16	--	--
Aggressive 6-10 Yrs Benchmark	5.5%	11	9.4%	34	8.3%	58	4.8%	38
Aggressive 11-15 Yrs	6.9%	1	11.4%	5	9.9%	13	--	--
Aggressive 11-15 Yrs Benchmark	6.8%	1	11.1%	6	9.3%	35	4.9%	38
Aggressive 16+ Yrs	8.4%	1	13.2%	3	10.8%	4	--	--
Aggressive +16 Yrs Benchmark	8.5%	1	13.2%	3	10.4%	7	4.7%	30

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

Fee Review

Funds and Sub-Advisors	Assets	Inv. Mgmt. Fee	Other Inv. Exp.*	R/K Fee	NC Budget**	Total Estimated Expense	Mercer Median Expense	Difference
North Carolina Stable Value Fund	\$2,240,625,034	0.321%	0.000%	0.096%	0.025%	0.442%	0.47%	-0.03%
Galliard	\$2,240,625,034	0.321%	0.000%				0.47%	-0.15%
North Carolina Fixed Income Passive Fund	\$256,493,476	0.070%	0.055%	0.096%	0.025%	0.246%	0.20%	0.05%
BlackRock	\$256,493,476	0.070%	0.055%				0.02%	0.05%
North Carolina Fixed Income Fund	\$527,689,691	0.219%	0.076%	0.096%	0.025%	0.416%	0.53%	-0.11%
50% JP Morgan	\$264,138,423	0.188%	0.071%				0.23%	-0.04%
50% PIMCO	\$263,551,267	0.250%	0.081%				0.26%	-0.01%
North Carolina Large Cap Passive Fund	\$1,126,656,557	0.025%	0.055%	0.096%	0.025%	0.201%	0.20%	0.00%
BlackRock	\$1,126,656,557	0.025%	0.055%				0.01%	0.02%
North Carolina Large Cap Value Fund	\$778,751,759	0.379%	0.067%	0.096%	0.025%	0.567%	0.79%	-0.22%
33.3% Hotchkis & Wiley	\$263,990,698	0.500%	0.071%				0.44%	0.06%
33.3% Wellington Management Company	\$250,470,808	0.290%	0.072%				0.44%	-0.15%
33.3% Robeco BP	\$264,290,253	0.347%	0.058%				0.44%	-0.09%
North Carolina Large Cap Growth Fund	\$739,740,359	0.391%	0.067%	0.096%	0.025%	0.579%	0.85%	-0.27%
33.3% Sands Capital Management	\$257,470,895	0.549%	0.071%				0.46%	0.09%
33.3% Wellington Management Company	\$248,283,010	0.350%	0.072%				0.47%	-0.12%
33.3% Neuberger Berman	\$233,986,454	0.275%	0.058%				0.47%	-0.20%
North Carolina SMID Cap Passive Fund	\$391,982,596	0.050%	0.055%	0.096%	0.025%	0.226%	0.29%	-0.06%
BlackRock	\$391,982,596	0.050%	0.055%				0.02%	0.03%
North Carolina SMID Value Fund	\$259,041,504	0.717%	0.066%	0.096%	0.025%	0.905%	1.00%	-0.10%
33.3% Hotchkis & Wiley	\$86,197,249	0.671%	0.071%				0.67%	0.00%
33.3% EARNEST Partners	\$85,680,822	0.631%	0.071%				0.82%	-0.19%
33.3% WEDGE Capital Management	\$87,163,433	0.850%	0.057%				0.82%	0.03%
North Carolina SMID Growth Fund	\$154,688,322	0.798%	0.071%	0.096%	0.025%	0.990%	1.04%	-0.05%
50% TimesSquare Capital Management	\$78,330,822	0.964%	0.071%				0.82%	0.14%
50% Brown Advisory	\$76,357,501	0.633%	0.071%				0.86%	-0.23%
North Carolina International Passive Fund	\$309,096,885	0.140%	0.055%	0.096%	0.025%	0.316%	0.40%	-0.08%
BlackRock	\$309,096,885	0.140%	0.055%				0.06%	0.08%
North Carolina International Equity Fund	\$457,021,701	0.460%	0.119%	0.096%	0.025%	0.700%	1.04%	-0.34%
50% Baillie Gifford	\$227,859,255	0.455%	0.119%				0.57%	-0.11%
50% Mondrian Investment Partners	\$229,162,446	0.465%	0.119%				0.57%	-0.10%
North Carolina Global Equity Fund	\$177,589,416	0.618%	0.092%	0.096%	0.025%	0.831%	1.08%	-0.25%
50% Wellington Management Company	\$90,289,753	0.500%	0.091%				0.64%	-0.14%
50% Arrowstreet	\$87,299,663	0.736%	0.093%				0.65%	0.09%
Total	\$7,419,377,300	0.291%	0.048%	0.096%	0.025%	0.460%	0.563%	

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

**The 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.

Fee Review

401(k) Plan Stable Value Fund

Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential	0.17%
MetLife	0.20%
United of Omaha	<u>0.25%</u>
Weighted Average Wrap Fee	0.17%

Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.23%</u>
Weighted Average Management Fee	0.08%

Galliard Oversight & Management 0.07%

Fund Admin / Audit 0.00%

Total Management & Wrap **0.32%**

Admin Fee 0.12%

Total Fees 0.44%

457 Plan Stable Value Fund

Benefit Responsive Wrap Fees

Great West Life	0.15%
Prudential	0.17%
MetLife	0.20%
United of Omaha	<u>0.25%</u>
Weighted Average Wrap Fee	0.17%

Investment Management Fees

Payden & Rygel	0.14%
Prudential	0.06%
Great West Life	0.05%
PIMCO	<u>0.23%</u>
Weighted Average Management Fee	0.08%

Galliard Oversight & Management 0.07%

Fund Admin / Audit 0.00%

Total Management & Wrap **0.33%**

Admin Fee 0.12%

Total Fees 0.45%

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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 color. The bottom band is a lighter, bright cyan color. The boundaries between these bands are slightly wavy, creating a layered, abstract effect.

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