

North Carolina Supplemental Retirement Plans Third Quarter Performance Review

December 2012

Agenda

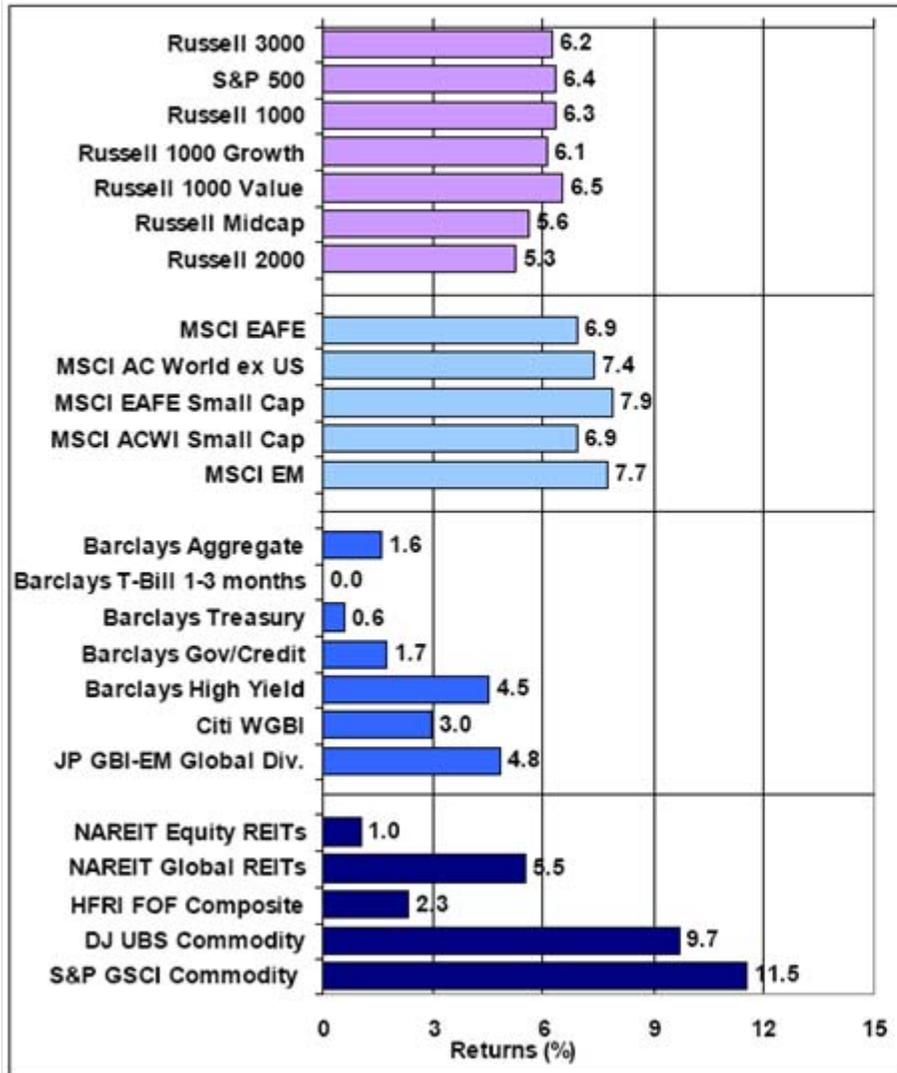
- Capital Markets Review
- Third Quarter Performance
- Disclaimer

Capital Markets Review



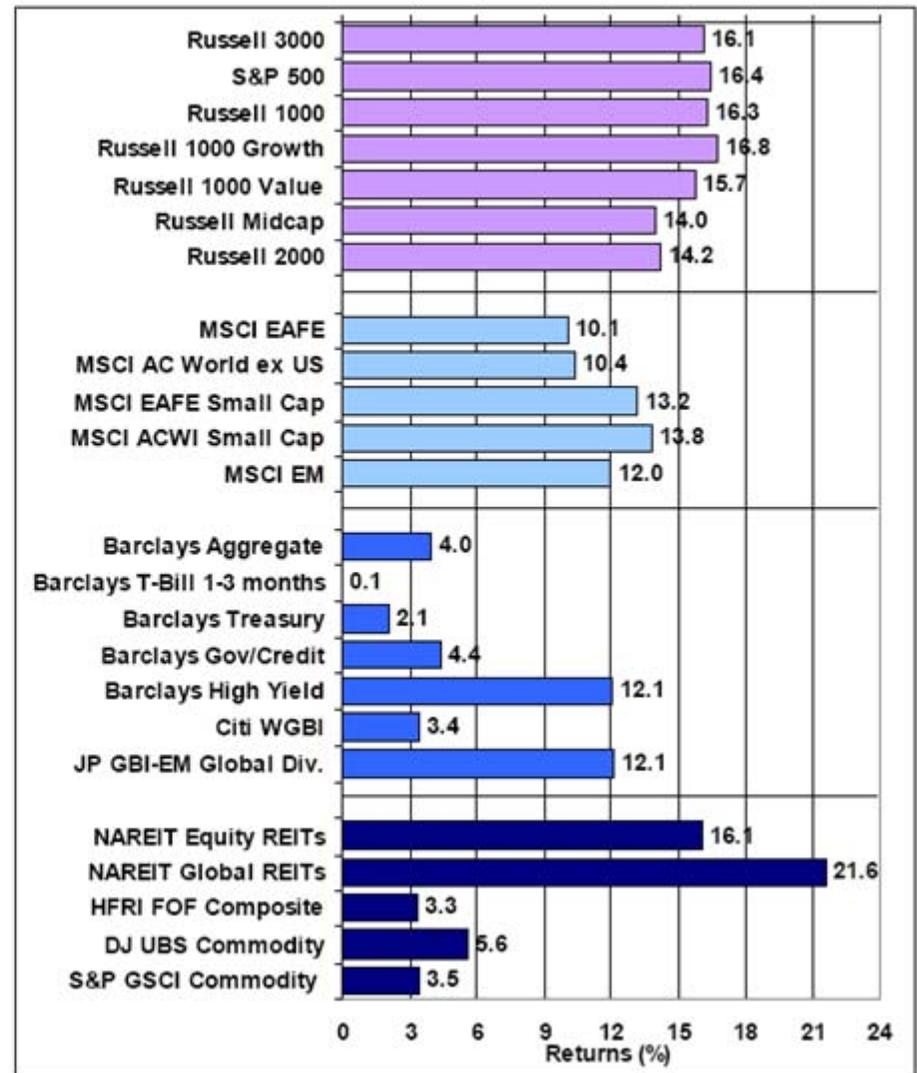
Performance Summary: Quarter in Review

Market Performance
Third Quarter 2012



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

Market Performance
Year-to-Date



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

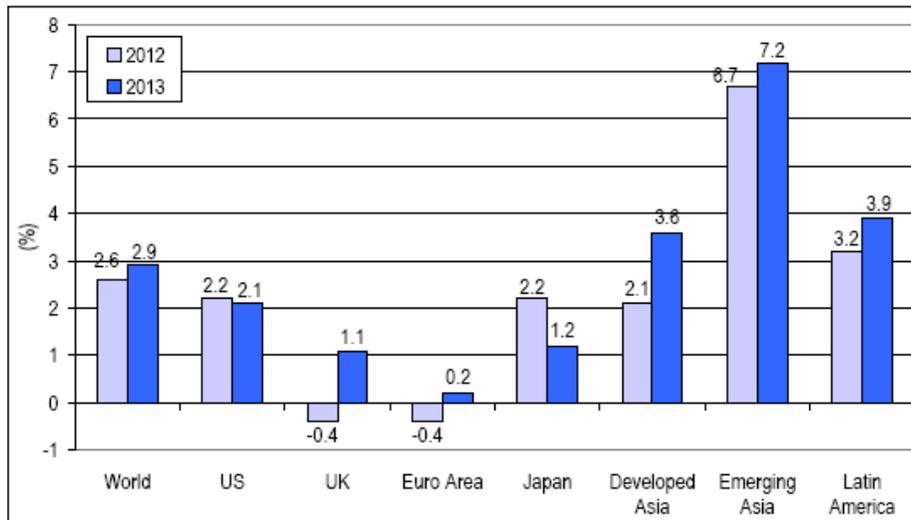
Macro Environment: Economic Review

US GDP Growth

	Q3 2012 Growth (%)	Contribution to Q3 2012 Growth (%)
Personal Consumption Expenditures	2.0	1.4
Residential Fixed Investment	14.4	0.3
Non-Residential Fixed Investment	(1.3)	(0.1)
Government Consumption	3.7	0.7
Change in Inventories	-	(0.1)
Trade Balance	-	(0.2)
GDP		2.0

Source: Bureau of Economic Analysis

World Economic Growth (Projections as of September 2012)

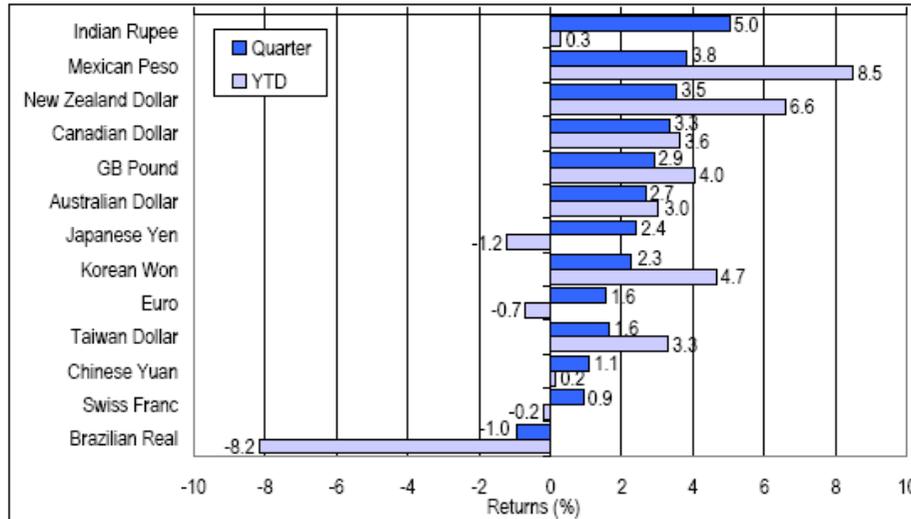


Source: IMF

- The economy grew by an estimated 2.0% in the third quarter. The economy added an average of 146,000 jobs per month in the third quarter, which represents an improvement from the 66,000 pace of the second quarter. The unemployment rate also declined from 8.2% to 7.8%, its lowest level since January 2009.
- The Federal Reserve embarked on another round of quantitative easing at its September meeting. Under QE3, the Fed will purchase \$40B a month in agency MBS on an open-ended basis. The Fed also announced that they would keep interest rates at near zero until at least mid-2015. However, QE3 seems unlikely to significantly improve the economic outlook. The trend of weak growth and elevated unemployment is likely to remain in place due to ongoing private sector deleveraging.
- Depending on the extent of the fiscal cliff, a recession is a potential risk in 2013. The hope is that a deal is reached to limit the amount of spending cuts and tax hikes.
- The ECBs announced outright monetary transactions (OMT) program involves buying unlimited quantities of short-term sovereign bonds. This has reduced tail-risks and led to a sharp decline in Spanish bond yields. Despite lowered short-term risk, the crisis is likely to persist given the complex economic and political challenges.
- The IMF expects growth in China to improve in 2013 due to stimulus measures, although the risk of a hard landing remains due to existing credit and fixed investment excesses. In the near term, issues in the developed world are likely to weigh on EM economic growth. However, the secular growth outlook remains bright given their structural advantages.

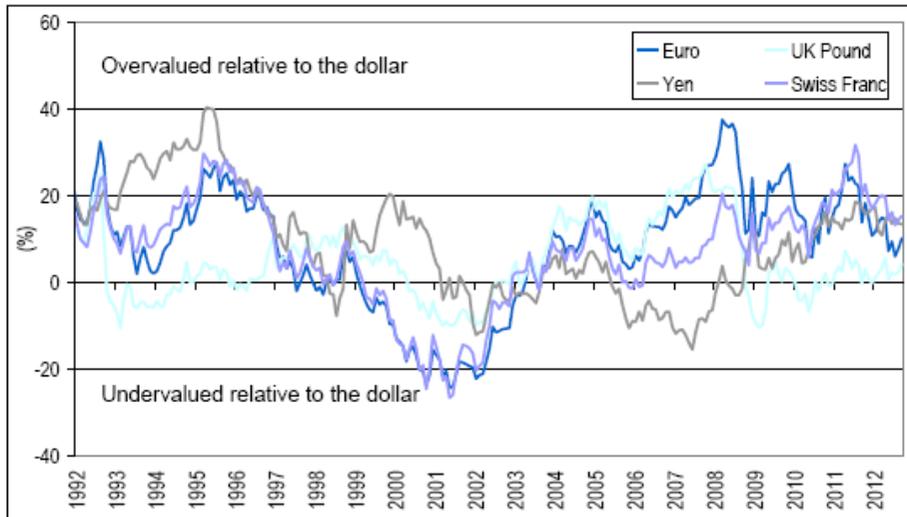
Macro Environment: Currencies

Performance of Foreign Currencies versus the US Dollar



Source: Bloomberg

Currency Valuation versus US Dollar (Based on Relative PPP)



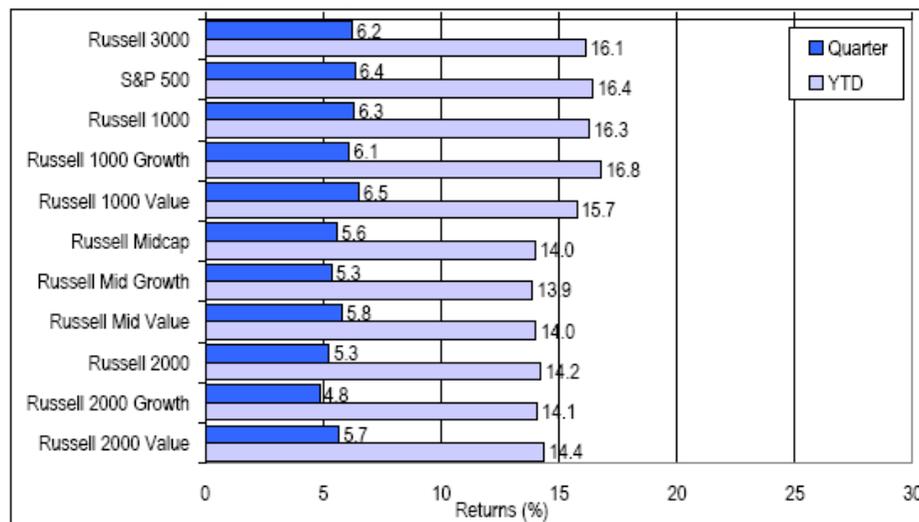
Source: Bloomberg

- Reduced macro tensions and another round of monetary easing contributed to a decline in the dollar. On a trade-weighted basis, the dollar depreciated by 2.9% during the third quarter. The euro rose 1.6% and the Japanese yen appreciated 2.4% relative to the dollar. EM market currencies also enjoyed a strong quarter.

- Ultra-loose monetary policies, persistent current account deficits, and a massive fiscal deficit could continue to weigh on the dollar. However, the dollar remains a safe haven currency and could benefit from bouts of risk aversion. From a long-term valuation perspective, the dollar appears inexpensive against developed market currencies, trading at a discount based on purchasing power parity (PPP). However, given US monetary policies, the dollar could continue to trade at a discount to PPP.
- Aggressive easing measures taken by developed world central banks could be supportive of EM currencies in the near-term. While their short-term performance is likely to remain highly sensitive to macro sentiment, the outlook for emerging market currencies is positive as they are experiencing faster economic growth and have lower levels of debt.

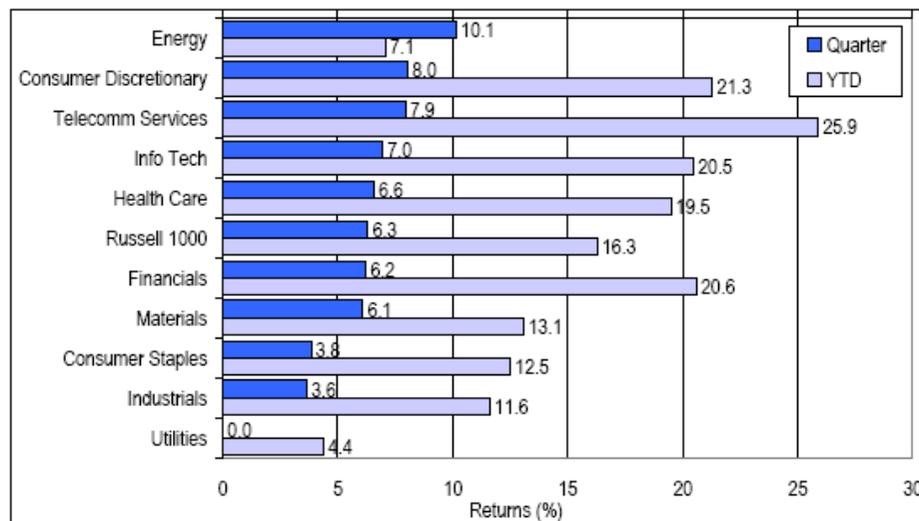
Asset Class: US Equities – Style, Sector, Cap Performance

Style and Capitalization Market Performance



Source: Standard & Poor's, Russell, Bloomberg

Sector Performance



Source: Russell 1000 GICs Sector

Broad Market

- Easing macro tensions and an aggressive round of global monetary stimulus pushed global equity markets higher for the quarter. Domestically, the Russell 3000 index returned 6.2% during the third quarter and is up 16.1% year-to-date.

Market Cap

- **Large Caps:** The S&P 500 gained 6.4% in Q3. Large caps outperformed mid caps and small caps for both the quarter and year-to-date periods.
- **Mid Caps:** The Russell Midcap index rose 5.6% for the quarter, lagging the S&P 500 by 80 basis points.
- **Small Caps:** The Russell 2000 index returned 5.3% in the third quarter, trailing the S&P 500 by 110 bps. YTD, small caps lagged large caps by 220 basis points.

Style

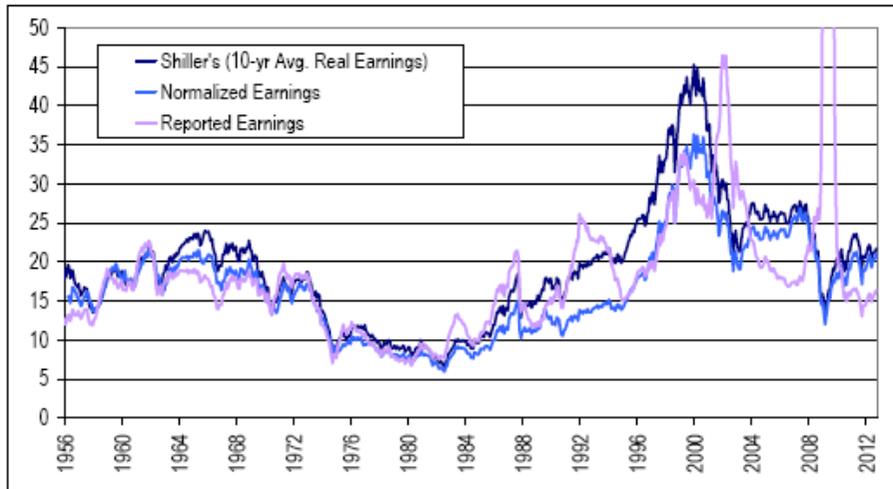
- **Value vs. Growth:** Value stocks outperformed growth stocks across all capitalization segments during the third quarter. Large cap value was the best performing style for the quarter, gaining 6.5%. However, the Russell 1000 Growth index outperformed the Russell 1000 Value index by 110 bps YTD.

Sector

- In Q3, the energy sector posted robust gains, while utilities lagged the index. Telecom stocks were the top performer YTD, returning 25.9%.

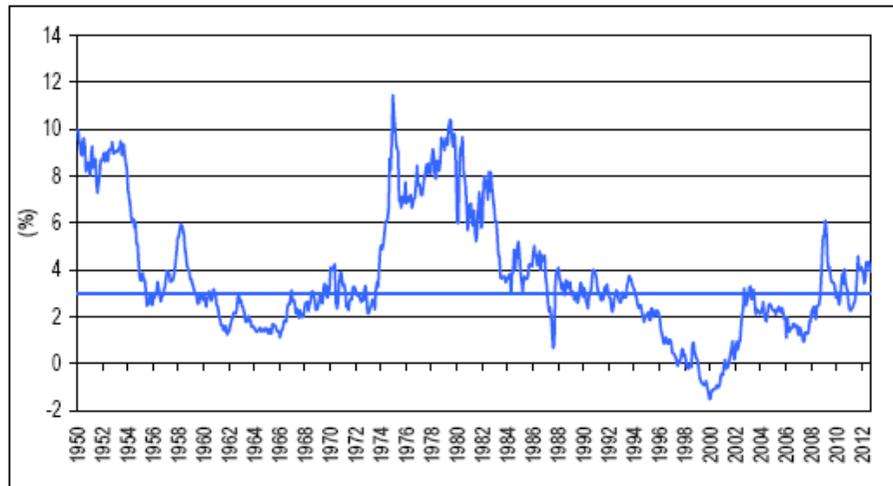
Asset Class: US Equities – Valuation Review

S&P500 – P/E Ratio



Source: S&P, Federal Reserve, Mercer

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



Source: S&P, Federal Reserve, Mercer

- The P/E ratio on trailing reported earnings was a relatively attractive 16.4 at quarter-end. However, current earnings continue to be aided by abnormally high profit margins. Cyclically-adjusted valuations remain elevated. The normalized earnings P/E stood at 21.0, which is above the historical median of 16.4 (since 1956). The P/E based on average 10-year real earnings, finished the quarter at 21.7.
- Based on analysts estimates, earnings per share for S&P 500 firms are expected to decline by 2.7% in Q3. Excluding financials, earnings are expected to fall 5.0%. It appears that corporate profit margins, near multi-decade highs, are being pinched by stagnating top line growth and rising input costs. Still, profit margins could remain above historic averages for an extended period of time given the lack of wage pressures, although a recession would likely act as a drag on profitability.
- While modest economic growth could weigh on sales and earnings growth, equities could earn reasonable returns in a slow growth environment. Corporate balance sheets remain fairly healthy and the trend of returning more earnings to shareholders through dividends, buybacks and cash mergers is likely to persist.
- While less appealing in absolute terms, US equities still appear fairly reasonable in light of ultra low bond yields. Based on the normalized P/E ratio of 21, the S&P 500 is priced to provide a real return of approximately 4.5%. This compares quite favorably to Treasuries and corporate bonds. We estimate that the equity risk premium over long-term Treasuries stood at 3.9% at quarter-end, well above the historical average of 2.9% (since 1950).

¹ Definitions:

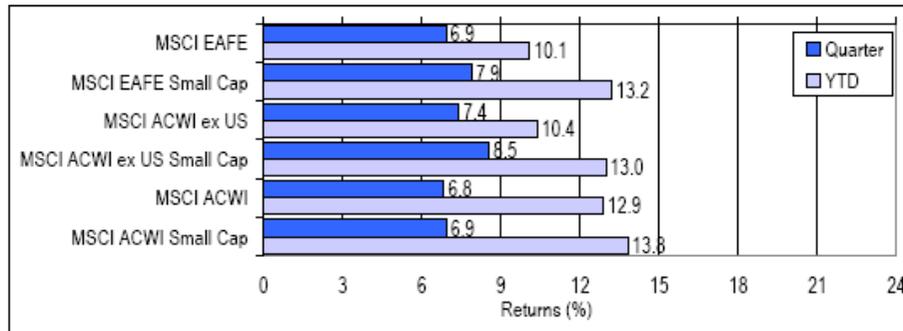
Shiller's P/E= Current S&P 500 price/average 10-year real earnings

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

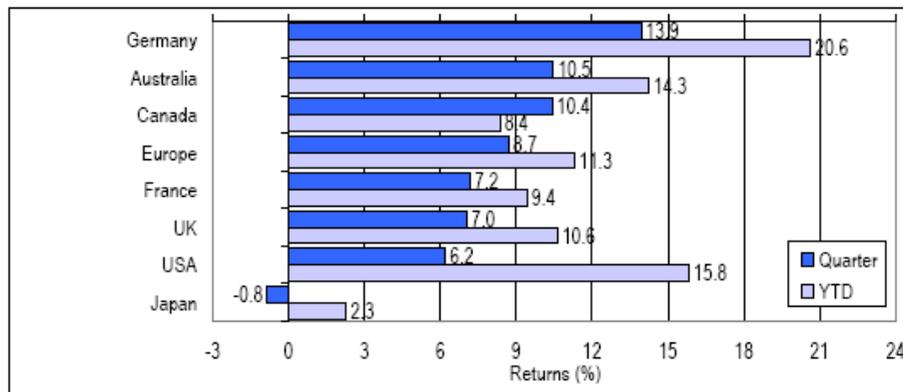
Asset Class: International Equities – Performance Review

International Equity Performance



Source: MSCI, Bloomberg

Developed Country Performance



Source: MSCI, Bloomberg

Emerging Market Performance



Source: MSCI, Bloomberg

- **International** equities outperformed domestic equities in the third quarter. The MSCI ACWI-ex US index rose 7.4% versus a 6.4% gain for the S&P 500. However, year-to-date US equities still remain the top performer, outpacing international equities by 600 bps.

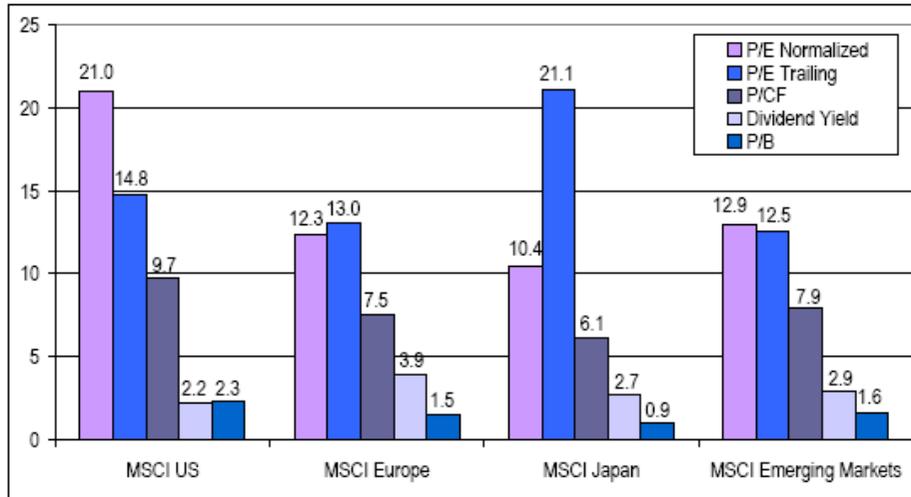
- **International small cap stocks**, as proxied by the MSCI ACWI-ex US Small cap index, outperformed international large cap stocks by 110 bps in the third quarter. YTD, international small caps gained 13.0%.

- **International developed stocks** rose 6.9%, outperforming domestic stocks by 50 basis points. YTD, however, the S&P 500 has outperformed the MSCI EAFE index by 630 basis points. The ECB's OMT proposal pushed European stocks to a 8.7% gain during Q3. Germany rose 13.9% and is up 20.6% YTD. Japanese stocks bucked the global trend, declining 0.8% for the quarter.

- **Emerging markets** outperformed developed markets in Q3, rising 7.7%. YTD, emerging markets have returned 12.0%, outperforming the MSCI EAFE index, but lagging the S&P 500.

Asset Class: International Equities – Valuation Review

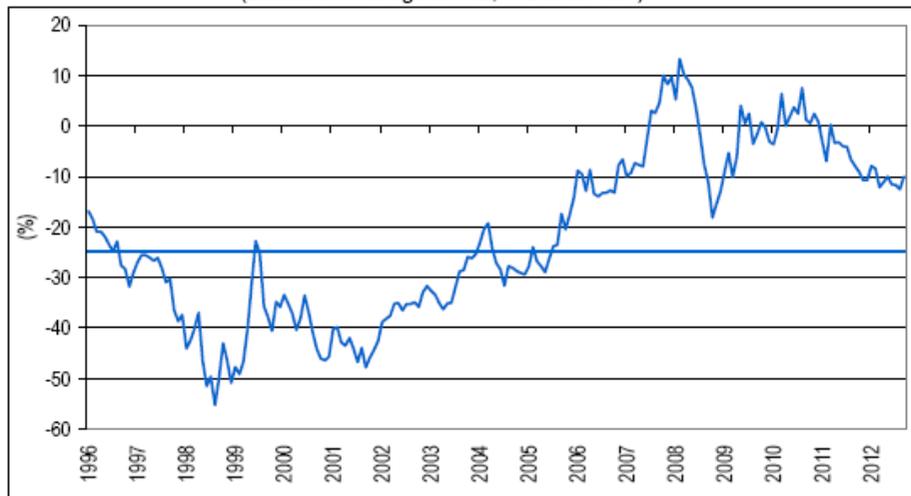
Global Valuations



Source: MSCI, Bloomberg

Valuation of MSCI Emerging Markets to MSCI World

(Based on Average of P/E, P/B and P/CF)

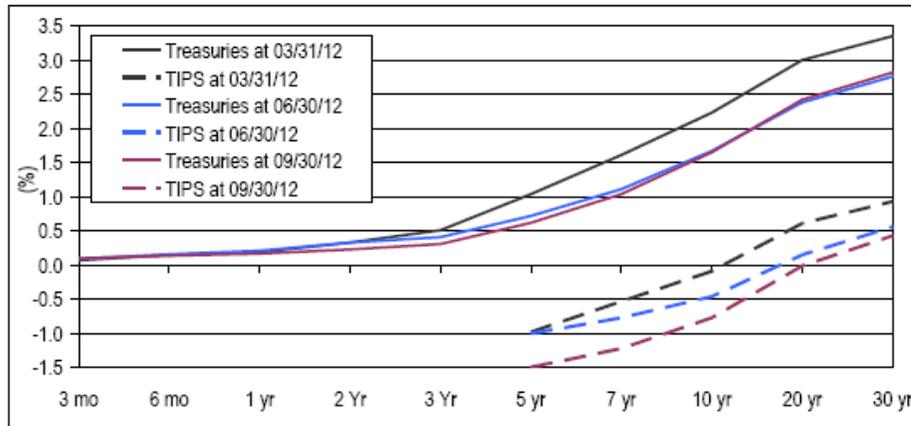


Source: MSCI, Bloomberg

- The ECB's willingness to act as lender of last resort lowered short-term left-tail risk in the region. While the economic outlook remains poor and is likely to weigh on profit margins, the index is dominated by multinationals with significant exposure outside Europe. For example, emerging economies account for 28% of sales for European firms and companies garner 55% of sales from outside the region.
- Eurozone equities also remain attractively valued in absolute and relative terms. Based on 10-year average real earnings, European stocks traded at a P/E of 12, a 28% discount relative to its historical median and 43% discount to US stocks. Europe traded at 7.5x cash flows, which is in-line with their historic median, but a 23% discount to the US.
- The absolute and relative performance of European stocks is likely to be highly correlated to macro sentiment regarding the crisis as well as the actions of monetary and fiscal policy makers. However, cheaper valuations offer investors a margin of safety as well as upside potential if conditions stabilize.
- Slowing growth in China and the developed world along with a strong yen are likely to weigh on Japan. However, valuations are at attractive levels in absolute and relative terms. Japan traded at less than book value and just 6x cash flows. Based on Shiller's P/E, Japan traded at a 25% discount to the US.
- Based on normalized earnings, EM stocks traded at a P/E of just 13, 17% below our estimate of fair value. While they traded at a slight premium to Europe and Japan, they traded at a 40% discount to US stocks on this measure. EM equities are likely to remain highly sensitive to macro sentiment given their high beta and significant exposure to globally-cyclical sectors, but appear attractively valued in absolute and relative terms.

Asset Class: Fixed Income – Interest Rates and Yield Curve

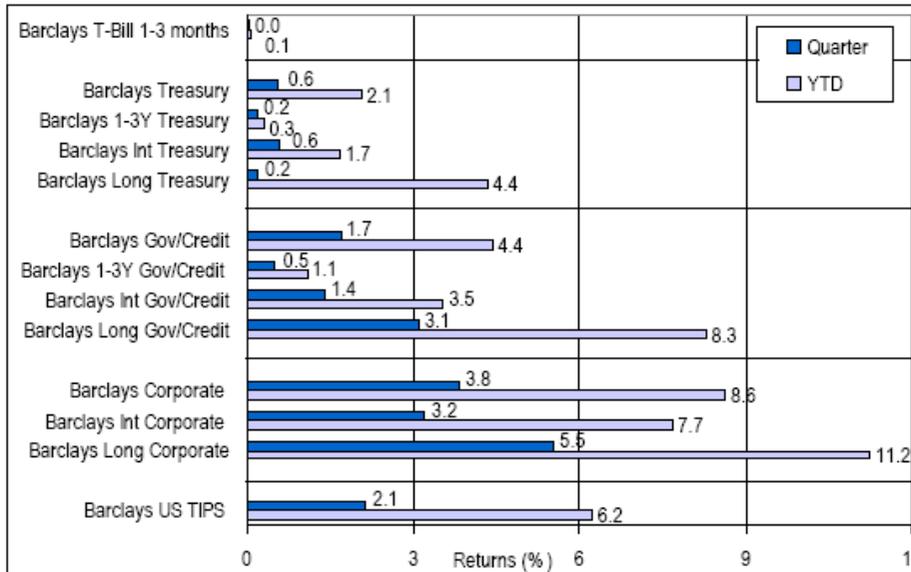
Treasury Yield Curve



Source: Federal Reserve

- QE3 contributed to a rise in inflation breakeven rates and a drop in real yields during the quarter. While the yield on the 10-year Treasury was relatively unchanged, the real yield on 10-year TIPS declined by 33 basis points to -0.77% as inflation breakeven rates rose from 2.13% to 2.41%. The real yield on 5-year TIPS fell to a miserable -1.5% as 5-year inflation breakeven rates rose by 40 basis to 2.1%. Given Fed policy, interest rates are likely to remain at ultra-low levels for at least the next several years.

Bond Performance by Duration

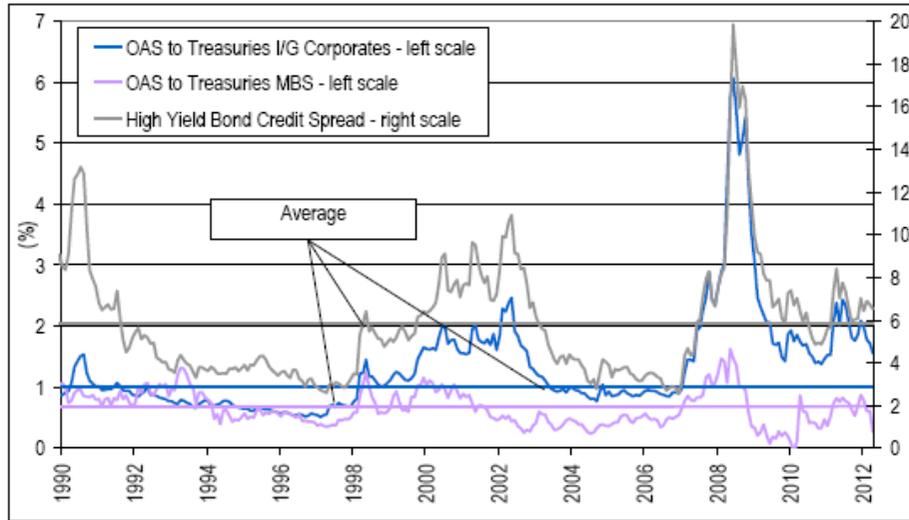


Source: Barclays, Bloomberg

- US Bond** markets continued to post gains as the Fed launched a third round of quantitative easing.
- Long-Duration Bonds** benefited from shifts in the yield curve. The Long Treasury, Government/Credit and Corporate indexes returned 0.2%, 3.1% and 5.5%, respectively, for the quarter.
- Corporate bonds** rallied and outperformed **Treasuries** by 320 bps for the quarter as credit spreads decreased. Year to date long corporate bonds were top performer, returning 11.2%.
- TIPS** rose 2.1% during the quarter as real yields plunged. TIPS continued to outpace Treasuries for both the quarter and the year-to-date periods.

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

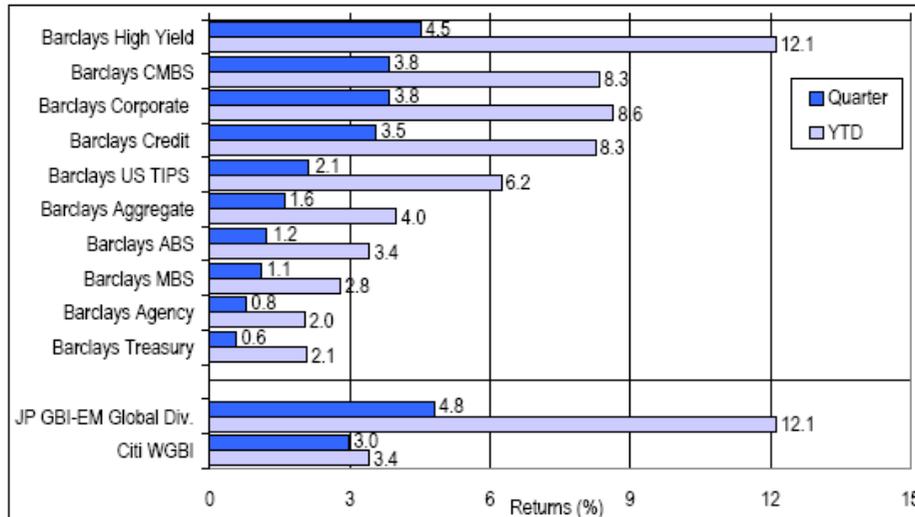
Credit Spreads



Source: Barclays

- Credit spreads decreased during the quarter and investment grade and high yield bonds outperformed Treasuries.
- Investment grade bond yields declined by 49 basis points and finished the quarter at a near record low 2.8%. However, their option-adjusted spread of 1.6% remains above the 1% historical median. The option-adjusted spreads on high yield bonds fell by 64 basis points to 5.5%, which remains above our equilibrium estimate of fair value. However, HY bonds yield just 6.5%, a record low.

Sector, Credit, and Global Bond Performance

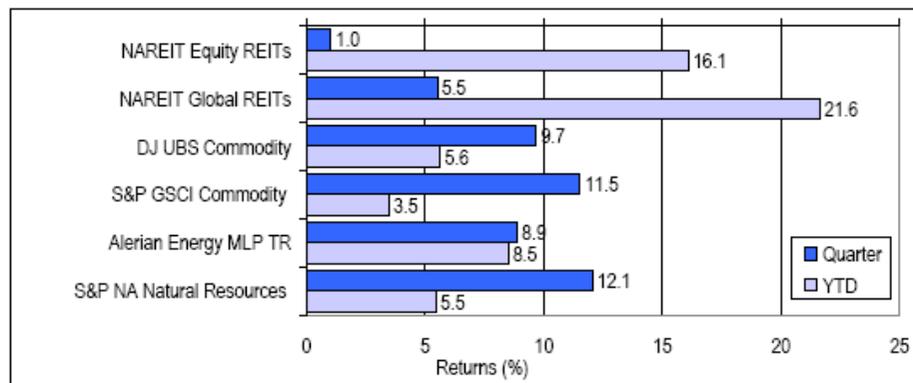


Source: Barclays, Citigroup, JP Morgan, Bloomberg

- **US High Yield, CMBS, Corporate and Credit** returned 4.5%, 3.8%, 3.8% and 3.5%, respectively, in Q3.
- **US ABS, MBS and Agency** indexes posted returns between 1.2% and 0.8% for the quarter.
- **Local currency EMD** increased 4.8% during the third quarter as EM currencies appreciated relative to the dollar.
- The **Citigroup World Government Bond** index rose 3.0%, outpacing US Treasuries by 240 bps for the quarter as the dollar declined against most developed currencies.

Asset Class: Alternatives – Performance Review

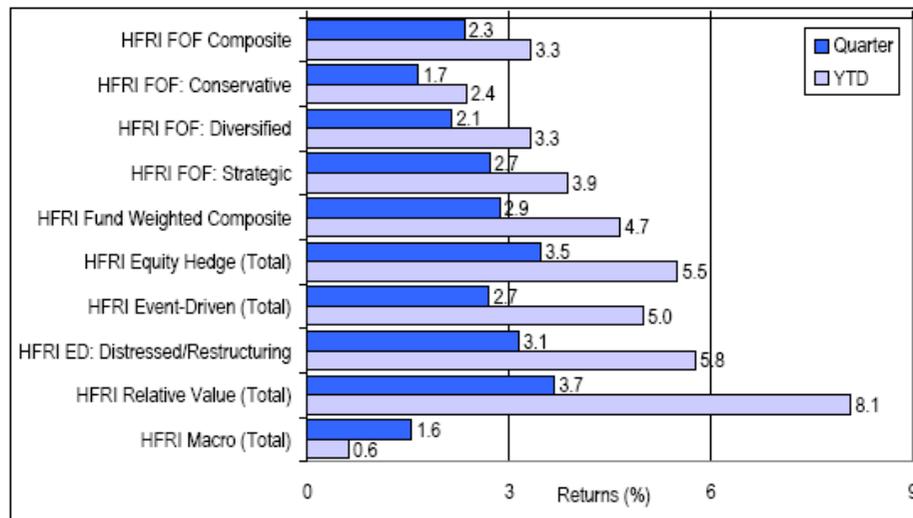
Real Asset Performance



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

- **US and Global REITs** underperformed the broad equity markets for the quarter, posting gains of 1.0% and 5.5%, respectively. YTD, US REITs returned 16.1% and global REITs surged 21.6%.
- **Commodities:** Energy prices increased in Q3, pushing the S&P GSCI to a 11.5% gain. The DJ-UBS Commodity index, which has a lower weighting to energy, increased a more muted by 9.7%. Natural resource stocks returned 12.1%.

Hedge Fund Performance



Source: HFR

- **Hedge funds** trailed equities, but outperformed bonds in the third quarter. The HFRI Fund of Funds Composite index returned 2.3%, while the Russell 3000 Index rose 6.2% and the Barclays Aggregate index gained 1.6%. Year-to-date, hedge funds have trailed both the Russell 3000 and the Barclays Aggregate.
- The HFRI macro index was the worst performer, gaining 1.6% for the quarter, while HFRI Relative Value index posted a robust gain of 3.7%.

Third Quarter Performance

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

Updates

- **BlackRock:** Mercer was informed that BlackRock is making changes to their business management. Mercer views BlackRock as a well-managed firm, yet the scale and complexity of the business present ongoing challenges. The supposed benefits of this most recent change are not immediately obvious to us and do throw up a number of questions in terms of new reporting lines. However, with portfolio managers not directly impacted, this event does not affect Mercer's rating on any of BlackRock's products.
- **Neuberger Berman:** Mercer recently met with Neuberger Berman to discuss their Large Cap Disciplined Growth strategy. As a result of personnel changes due to lackluster relative performance, Mercer no longer considers it one of our best ideas in this asset class but still has confidence in the strategy's potential to outperform over time. Therefore, Mercer downgraded the strategy from an "A" to a "B+".
- **WEDGE:** Mercer recently met with WEDGE and reaffirmed the SMID Cap Value strategy's "A" rating.
- **TimesSquare:** Mercer recently met with TimesSquare and reaffirmed the SMID Cap Growth strategy's "A" rating.
- **Baillie Gifford:** Mercer was informed by Baillie Gifford that the firm's CIO, Gerald Smith, will remove his CIO title. Smith believes the title implies that Baillie Gifford operates a far more hierarchical and centralized decision-making group than has actually existed at the firm. Baillie Gifford stipulated that they are making no changes to the structure of their investment department or to Smith's role within it. Mercer's rating of this strategy remains unchanged at "A".
- **Mondrian:** Mercer recently met with Mondrian and reaffirmed the All Countries World ex-US Equity strategy's "A" rating.
- **PIMCO:** Mercer was informed by PIMCO that the firm has added three new Investment Committee members. Joshua Anderson, Brad Kinkelaar, and Qi Wang are the rotating members of the 11-person Committee. This event does not affect Mercer's rating on any of PIMCO's products.

Fund Review

Fund Performance as of September 30, 2012

Name	Market Value (\$m)	Market (%)									Inception		Comments
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	Return	Since	
Large Cap Passive S&P 500	\$1,028.8	15.0%	6.3%	--	16.4%	--	30.1%	--	13.1%	--	20.8%	Mar-09	Closely tracked its benchmark over all time periods measured.
			6.4%	--	16.4%	--	30.2%	--	13.2%	--	20.9%	Mar-09	
Large Cap Value Russell 1000 Value	\$696.1	10.2%	6.5%	44	16.2%	10	30.7%	17	10.4%	42	17.8%	Mar-09	Robeco BP's strong quarterly results drove performance.
			6.5%	44	15.7%	21	30.9%	13	11.8%	15	20.7%	Mar-09	
Large Cap Growth Russell 1000 Growth	\$692.3	10.1%	6.7%	32	19.3%	16	29.2%	32	16.1%	6	25.4%	Mar-09	Strong performance over all periods measured.
			6.1%	51	16.8%	43	29.2%	32	14.7%	11	21.9%	Mar-09	
Mid/Small Cap Passive Russell 2500	\$336.0	4.9%	5.6%	--	14.5%	--	31.1%	--	14.0%	--	24.3%	Mar-09	Reasonably tracked its benchmark over all time periods measured.
			5.6%	--	14.3%	--	30.9%	--	14.1%	--	24.3%	Mar-09	
Mid/Small Cap Value Russell 2500 Value	\$216.0	3.2%	5.3%	48	16.9%	9	38.5%	3	15.9%	4	27.8%	Mar-09	The fund has performed well over all longer periods measured.
			5.8%	40	14.5%	27	32.2%	24	13.1%	24	23.7%	Mar-09	
Mid/Small Cap Growth Russell 2500 Growth	\$134.1	2.0%	5.0%	45	14.4%	33	32.7%	15	14.3%	40	22.7%	Mar-09	Lagged the benchmark by 20 basis points over the quarter but beat the universe median by the same amount.
			5.2%	38	14.1%	39	29.5%	31	15.2%	30	24.9%	Mar-09	
International Passive MSCI ACWI ex USA Gross	\$270.4	3.9%	7.1%	--	10.4%	--	15.8%	--	4.0%	--	16.7%	Mar-09	Tracking error largely due to fair value pricing issues.
			7.5%	--	10.9%	--	15.0%	--	3.6%	--	16.5%	Mar-09	
International Equity MSCI ACWI ex USA Gross	\$413.8	6.0%	6.8%	55	11.0%	56	16.8%	46	4.9%	34	16.4%	Mar-09	Weak relative results from Mondrian hampered results at the fund level.
			7.5%	34	10.9%	58	15.0%	63	3.6%	48	16.5%	Mar-09	
Global Equity MSCI ACWI Gross	\$154.1	2.2%	6.2%	53	14.2%	29	22.3%	36	7.8%	45	16.2%	Mar-09	Arrowstreet's poor quarterly results drove underperformance.
			7.0%	31	13.4%	38	21.7%	42	7.8%	45	18.5%	Mar-09	
Fixed Income Passive Fund Barclays Aggregate	\$236.5	3.5%	1.7%	--	4.0%	--	5.1%	--	--	--	5.1%	Sep-10	Closely tracked its benchmark over all time periods measured.
			1.6%	--	4.0%	--	5.2%	--	6.2%	--	5.2%	Sep-10	
Fixed Income Fund Barclays Aggregate	\$499.0	7.3%	2.6%	41	7.0%	31	8.4%	32	6.8%	51	8.2%	Mar-09	Strong results from both managers have driven fund results.
			1.6%	77	4.0%	74	5.2%	72	6.2%	60	6.9%	Mar-09	
Stable Value Fund T-BILLS + 1%	\$2,172.6	31.7%	0.7%	9	2.0%	11	2.8%	11	3.4%	34	3.5%	Jun-09	Added value.
			0.3%	99	0.8%	99	1.1%	99	1.1%	99	1.1%	Jun-09	

Fund Review

Manager Performance as of September 30, 2012

Name	Market Value (\$m)	Inception (%)	Performance										Return Since	Comments	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank			
NCSR BlackRock Equity Index	\$1,028.8	15.0%	6.3%	--	16.4%	--	30.1%	--	13.3%	--	--	--	21.0%	Mar-09	Closely tracked its benchmark over all time periods measured.
BlackRock Equity Index Strategy			6.3%	--	16.4%	--	30.1%	--	13.3%	--	1.2%	--	21.0%	Mar-09	
S&P 500			6.4%	--	16.4%	--	30.2%	--	13.2%	--	1.1%	--	20.9%	Mar-09	
NCSR Hotchkis & Wiley Large Cap Value	\$228.9	3.3%	5.4%	81	15.8%	34	30.2%	39	11.5%	47	--	--	23.9%	Mar-09	Sector allocation decisions (overweight utilities and information technology, underweight energy) detracted value.
Hotchkis & Wiley Large Cap Value Strategy			5.4%	80	15.8%	33	30.2%	38	11.6%	45	-1.6%	86	23.9%	Mar-09	
Russell 1000 Value			6.5%	49	15.7%	35	30.9%	32	11.8%	40	-0.9%	77	20.7%	Mar-09	
NCSR Wellington Value Composite	\$229.1	3.3%	6.2%	52	14.3%	53	28.8%	57	9.6%	79	--	--	11.5%	Mar-09	Risk-averse positioning and quality bias hurt returns during the "risk-on" third-quarter environment.
NCSR Wellington Quality Value			6.2%	52	14.3%	53	28.8%	57	--	--	--	--	--	Jul-10	
Wellington Quality Value Strategy			6.2%	54	14.2%	54	28.7%	57	12.0%	37	2.4%	12	19.8%	Mar-09	
Russell 1000 Value			6.5%	49	15.7%	35	30.9%	32	11.8%	40	-0.9%	77	20.7%	Mar-09	
NCSR Robeco BP Large Cap Value	\$238.1	3.5%	8.3%	9	19.7%	3	--	--	--	--	--	--	21.5%	Nov-11	Underweight allocation to utilities and lack of exposure to REITs were a boon to performance.
Robeco BP Large Cap Value Strategy			8.2%	10	19.4%	3	36.0%	3	12.8%	23	2.5%	12	21.2%	Nov-11	
Russell 1000 Value			6.5%	49	15.7%	35	30.9%	32	11.8%	40	-0.9%	77	18.1%	Nov-11	
NCSR Sands Capital Large Cap Growth	\$245.9	3.6%	8.4%	8	25.8%	2	36.8%	1	22.3%	1	--	--	32.9%	Mar-09	Third-quarter "risk-on" environment was advantageous.
Sands Capital Large Cap Growth Strategy			8.4%	8	25.7%	2	36.7%	2	22.2%	1	8.3%	1	32.8%	Mar-09	
Russell 1000 Growth			6.1%	58	16.8%	49	29.2%	42	14.7%	25	3.2%	32	21.9%	Mar-09	
NCSR Wellington Opportunistic Growth	\$222.0	3.2%	6.3%	45	17.9%	31	25.8%	75	12.0%	66	--	--	20.0%	Mar-09	Overweight exposure to top performing energy sector helped.
Wellington Opportunistic Growth Strategy			6.3%	46	17.7%	35	25.7%	77	11.9%	70	2.0%	62	20.0%	Mar-09	
Russell 1000 Growth			6.1%	58	16.8%	49	29.2%	42	14.7%	25	3.2%	32	21.9%	Mar-09	
Russell 3000 Growth			6.0%	60	16.6%	51	29.3%	40	14.7%	25	3.2%	34	22.1%	Mar-09	
NCSR Neuberger Large Cap Growth	\$224.4	3.3%	5.6%	72	15.3%	69	--	--	--	--	--	--	14.0%	Oct-11	High quality growth has not kept up during speculative rallies nor fully protected during defensive downturns. In July 2012, Mercer downgraded this strategy's rating from "A" to "B+".
Neuberger Large Cap Growth Strategy			5.6%	73	15.3%	69	23.5%	89	10.9%	85	2.6%	46	13.0%	Oct-11	
Russell 1000 Growth			6.1%	58	16.8%	49	29.2%	42	14.7%	25	3.2%	32	16.4%	Oct-11	
NCSR BlackRock Russell 2500 Index Fund	\$336.0	4.9%	5.6%	--	14.5%	--	31.2%	--	14.2%	--	--	--	24.5%	Mar-09	Closely tracked its benchmark over all time periods measured.
BlackRock Russell 2500 Index Fund Strategy			5.6%	--	14.5%	--	31.2%	--	14.2%	--	--	--	24.5%	Mar-09	
Russell 2500			5.6%	--	14.3%	--	30.9%	--	14.1%	--	2.8%	--	24.3%	Mar-09	
NCSR Hotchkis & Wiley	\$76.7	1.1%	4.8%	70	25.0%	1	50.3%	1	16.9%	4	--	--	31.9%	Mar-09	Hotchkis's deep value bias has had better results in the SMID cap segment.
Hotchkis & Wiley Value Strategy			4.9%	62	25.3%	1	50.6%	1	17.1%	4	5.2%	16	32.4%	Mar-09	
Hotchkis Custom SMID Value Index			5.8%	37	14.5%	24	32.2%	23	13.4%	35	1.5%	84	25.0%	Mar-09	
NCSR Earnest Partners	\$69.0	1.0%	6.9%	23	12.4%	47	31.7%	29	13.0%	45	--	--	22.2%	Mar-09	Strong performance from consumer discretionary, health care, and utilities holdings helped over the quarter.
Earnest Partners Value Strategy			6.6%	29	12.4%	46	31.1%	36	13.8%	29	2.9%	51	22.3%	Mar-09	
Earnest Custom SMID Value Index			5.8%	39	14.5%	23	32.2%	23	11.8%	73	1.4%	86	22.3%	Mar-09	
NCSR WEDGE SMID Cap Value	\$70.2	1.0%	4.7%	73	14.9%	18	--	--	--	--	--	--	--	Dec-11	"Risk-on" environment punished WEDGE's focus on quality and tendency to overweight lower beta names.
WEDGE SMID Cap Value Strategy			4.7%	75	14.9%	17	32.5%	19	14.1%	25	3.5%	37	15.6%	Dec-11	
Russell 2500 Value			5.8%	37	14.5%	24	32.2%	23	13.1%	44	2.2%	69	16.3%	Dec-11	
NCSR TimesSquare	\$67.1	1.0%	6.4%	31	18.1%	13	39.1%	3	15.4%	45	--	--	23.3%	Mar-09	Strong performance over all time periods measured.
TimesSquare SMID Growth			6.4%	31	18.1%	13	39.1%	3	--	--	--	--	--	Jul-11	
TimesSquare Growth Strategy			6.4%	30	18.2%	11	39.5%	2	18.3%	20	7.9%	5	27.0%	Mar-09	
TimesSquare Custom SMID Growth Index			5.2%	46	14.1%	46	29.5%	38	14.6%	61	2.5%	60	24.2%	Mar-09	

Fund Review

Manager Performance as of September 30, 2012

Name	Market Value		Inception										Comments		
	(\$m)	(%)	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank		Return	Since
NCSR Brown Advisory	\$67.0	1.0%	4.1%	74	12.3%	73	29.0%	41	15.4%	46	--	--	24.4%	Mar-09	Poor security selection in the energy, health care, and materials sectors dragged down performance.
Brown Advisory Growth Strategy			4.2%	73	12.5%	72	29.3%	39	15.2%	51	4.4%	42	24.3%	Mar-09	
Brown Custom SMID Growth Index			5.2%	46	14.1%	46	29.5%	38	14.1%	65	2.9%	57	24.1%	Mar-09	
NCSR BlackRock ACWI ex US Fund	\$270.4	3.9%	7.2%	--	10.6%	--	16.0%	--	3.7%	--	--	--	16.5%	Mar-09	Tracking error largely due to fair value pricing issues.
BlackRock ACWI ex US Fund Strategy			7.2%	--	10.6%	--	16.0%	--	3.7%	--	-3.7%	--	16.5%	Mar-09	
MSCI ACWI ex USA Gross			7.5%	--	10.9%	--	15.0%	--	3.6%	--	-3.7%	--	16.5%	Mar-09	
NCSR Baillie Gifford ACWI ex US Growth	\$218.6	3.2%	8.9%	11	16.0%	10	21.8%	11	8.4%	10	--	--	21.0%	Mar-09	Strong performance over all time periods measured.
Baillie Gifford ACWI ex US Growth Strategy			8.9%	11	15.6%	14	21.5%	13	8.5%	10	-0.4%	14	21.1%	Mar-09	
MSCI ACWI ex USA GrossB			7.5%	46	10.9%	68	15.0%	72	3.6%	70	-3.7%	54	16.5%	Mar-09	
MSCI AC Wld ex US Growth Gross			7.2%	55	11.2%	65	15.8%	65	5.0%	45	-3.4%	50	16.1%	Mar-09	
NCSR Mondrian ACWI ex US Value	\$195.1	2.8%	6.0%	85	7.5%	93	11.5%	91	3.3%	75	--	--	14.1%	Mar-09	Overweight position in declining Japan and underweight exposure to strong financials detracted value.
Mondrian ACWI ex US Value Strategy			6.0%	85	7.5%	93	11.5%	91	3.5%	72	-3.2%	47	14.3%	Mar-09	
MSCI ACWI ex USA Gross			7.5%	46	10.9%	68	15.0%	72	3.6%	70	-3.7%	54	16.5%	Mar-09	
MSCI AC Wld Ex US Value Gross			7.8%	38	10.5%	72	14.2%	75	2.3%	84	-4.0%	62	16.9%	Mar-09	
NCSR Wellington Global Composite	\$78.2	1.1%	7.0%	46	16.4%	16	24.3%	26	9.0%	34	--	--	17.3%	Mar-09	Strong performance over all time periods measured.
NCSR Wellington Global Opportunities			7.0%	46	16.4%	16	24.3%	26	--	--	--	--	--	Jun-10	
Wellington Global Opportunities Strategy			7.1%	43	16.4%	14	24.3%	26	9.9%	21	0.9%	23	20.1%	Mar-09	
MSCI ACWI Gross			7.0%	47	13.4%	46	21.7%	50	7.8%	53	-1.5%	55	18.5%	Mar-09	
NCSR Arrowstreet Global Equity ACWI	\$75.9	1.1%	6.2%	70	--	--	--	--	--	--	--	--	-0.3%	Mar-12	The strategy has performed well over longer periods measured.
Arrowstreet Global Equity ACWI			7.0%	46	13.6%	43	20.6%	59	8.9%	37	0.4%	26	0.3%	Mar-12	
MSCI ACWI Gross			7.0%	47	13.4%	46	21.7%	50	7.8%	53	-1.5%	55	1.2%	Mar-12	
NCSR BlackRock Debt Index Fund	\$236.5	3.5%	1.7%	--	4.1%	--	5.2%	--	--	--	--	--	5.3%	Sep-10	Closely tracked its benchmark over all time period measured.
BlackRock Debt Index Fund Strategy			1.7%	--	4.1%	--	5.2%	--	6.2%	--	6.6%	--	5.1%	Sep-10	
Barclays Aggregate			1.6%	--	4.0%	--	5.2%	--	6.2%	--	6.5%	--	5.1%	Sep-10	
NCSR JP Morgan Core Bond	\$251.2	3.7%	1.8%	88	5.1%	75	6.4%	75	7.8%	43	--	--	8.1%	Mar-09	Has generally outperformed due to strong mortgage selection.
JP Morgan Core Bond Strategy			2.0%	78	5.2%	70	6.4%	75	7.5%	53	7.8%	34	8.4%	Mar-09	
Barclays Aggregate			1.6%	93	4.0%	95	5.2%	93	6.2%	94	6.5%	89	6.9%	Mar-09	
NCSR PIMCO Total Return Full Authority	\$247.8	3.6%	3.2%	19	9.1%	10	11.5%	9	7.7%	45	--	--	9.8%	Mar-09	Has rebounded from weak performance in 2011 due to a large Treasury underweight.
PIMCO Total Return Full Authority Strategy			3.2%	19	9.1%	10	11.4%	9	8.0%	39	9.0%	8	10.3%	Mar-09	
Barclays Aggregate			1.6%	93	4.0%	95	5.2%	93	6.2%	94	6.5%	89	6.9%	Mar-09	

GoalMaker Funds

Performance as of September 30, 2012

Name	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Conservative 0-5 Yrs	2.5%	92	6.2%	89	9.6%	88	7.1%	82	--	--
Conservative 0-5 Yrs Benchmark	2.2%	93	5.0%	93	8.0%	91	5.2%	93	3.2%	20
Conservative 6-10 Yrs	3.0%	99	7.2%	98	11.6%	97	7.9%	85	--	--
Conservative 6-10 Yrs Benchmark	2.7%	99	6.2%	99	10.1%	99	5.8%	99	2.8%	12
Conservative 11-15 Yrs	3.9%	99	9.4%	91	15.6%	94	8.7%	79	--	--
Conservative 11-15 Yrs Benchmark	3.8%	99	8.5%	99	14.3%	99	7.4%	97	2.6%	6
Conservative 16+ Yrs	4.9%	86	11.4%	70	19.6%	76	9.5%	43	--	--
Conservative +16 Yrs Benchmark	4.9%	86	10.6%	88	18.4%	85	8.5%	87	1.7%	10

Name	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Moderate 0-5 Yrs	3.3%	86	7.9%	83	12.9%	78	7.9%	67	--	--
Moderate 0-5 Yrs Benchmark	3.1%	90	6.9%	86	11.5%	81	6.3%	88	2.7%	33
Moderate 6-10 Yrs	3.9%	87	9.4%	82	15.6%	77	8.4%	70	--	--
Moderate 6-10 Yrs Benchmark	3.8%	89	8.5%	88	14.3%	89	7.4%	91	2.6%	13
Moderate 11-15 Yrs	4.6%	80	10.8%	60	18.3%	66	9.3%	48	--	--
Moderate 11-15 Yrs Benchmark	4.6%	81	10.1%	87	17.2%	85	8.2%	91	1.9%	24
Moderate 16+ Yrs	5.6%	36	12.8%	27	22.5%	22	9.9%	22	--	--
Moderate +16 Yrs Benchmark	5.7%	31	12.2%	53	21.4%	31	9.2%	60	0.8%	48

Name	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank
Aggressive 0-5 Yrs	4.1%	64	9.7%	52	16.2%	41	9.0%	28	--	--
Aggressive 0-5 Yrs Benchmark	4.0%	68	8.8%	69	15.0%	64	7.6%	71	2.5%	35
Aggressive 6-10 Yrs	4.6%	56	10.8%	44	18.3%	31	9.5%	19	--	--
Aggressive 6-10 Yrs Benchmark	4.6%	56	10.1%	59	17.2%	53	8.2%	80	1.9%	42
Aggressive 11-15 Yrs	5.3%	30	12.4%	21	21.6%	15	9.7%	27	--	--
Aggressive 11-15 Yrs Benchmark	5.4%	28	11.7%	43	20.5%	24	9.1%	69	1.2%	56
Aggressive 16+ Yrs	6.3%	7	14.3%	1	25.7%	1	10.4%	11	--	--
Aggressive +16 Yrs Benchmark	6.6%	3	13.9%	4	24.8%	1	10.0%	21	-0.1%	81

- The Target Date options had mixed performance versus their benchmarks over the time periods evaluated ended September 30, 2012.

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	\$2,172,626,743	0.333%	0.000%	0.105%	0.025%	0.463%	0.45%	0.01%
Galliard	\$2,172,626,743	0.333%	0.000%				0.45%	-0.12%
North Carolina Fixed Income Passive Fund	\$236,488,756	0.070%	0.055%	0.105%	0.025%	0.255%	0.20%	0.06%
BlackRock	\$236,488,756	0.070%	0.055%				0.06%	0.01%
North Carolina Fixed Income Fund	\$498,993,820	0.219%	0.076%	0.105%	0.025%	0.425%	0.54%	-0.11%
50% JP Morgan	\$251,183,116	0.188%	0.071%				0.23%	-0.04%
50% PIMCO	\$247,810,705	0.250%	0.081%				0.27%	-0.02%
North Carolina Large Cap Passive Fund	\$1,028,753,808	0.025%	0.055%	0.105%	0.025%	0.210%	0.20%	0.01%
BlackRock	\$1,028,753,808	0.025%	0.055%				0.04%	-0.02%
North Carolina Large Cap Value Fund	\$696,083,853	0.381%	0.067%	0.105%	0.025%	0.578%	0.79%	-0.21%
33.3% Hotchkis & Wiley	\$228,947,729	0.500%	0.071%				0.45%	0.06%
33.3% Wellington Management Company	\$229,075,339	0.290%	0.072%				0.45%	-0.16%
33.3% Robeco BP	\$238,060,786	0.353%	0.058%				0.44%	-0.09%
North Carolina Large Cap Growth Fund	\$692,280,437	0.392%	0.067%	0.105%	0.025%	0.589%	0.89%	-0.30%
33.3% Sands Capital Management	\$245,917,908	0.551%	0.071%				0.49%	0.07%
33.3% Wellington Management Company	\$221,961,488	0.350%	0.072%				0.49%	-0.14%
33.3% Neuberger Berman	\$224,401,040	0.275%	0.058%				0.49%	-0.22%
North Carolina SMID Cap Passive Fund	\$335,971,630	0.050%	0.055%	0.105%	0.025%	0.235%	0.30%	-0.07%
BlackRock	\$335,971,630	0.050%	0.055%				0.05%	0.00%
North Carolina SMID Value Fund	\$215,961,212	0.723%	0.066%	0.105%	0.025%	0.919%	0.99%	-0.07%
33.3% Hotchkis & Wiley	\$76,744,740	0.656%	0.071%				0.68%	-0.02%
33.3% EARNEST Partners	\$68,976,318	0.663%	0.071%				0.82%	-0.16%
33.3% WEDGE Capital Management	\$70,240,154	0.850%	0.057%				0.82%	0.03%
North Carolina SMID Growth Fund	\$134,103,271	0.806%	0.071%	0.105%	0.025%	1.007%	1.05%	-0.04%
50% TimesSquare Capital Management	\$67,075,853	0.975%	0.071%				0.83%	0.15%
50% Brown Advisory	\$67,027,418	0.637%	0.071%				0.88%	-0.24%
North Carolina International Passive Fund	\$270,371,256	0.140%	0.055%	0.105%	0.025%	0.325%	0.47%	-0.14%
BlackRock	\$270,371,256	0.140%	0.055%				0.10%	0.04%
North Carolina International Equity Fund	\$413,761,781	0.467%	0.119%	0.105%	0.025%	0.716%	1.04%	-0.32%
50% Baillie Gifford	\$218,649,162	0.457%	0.119%				0.62%	-0.17%
50% Mondrian Investment Partners	\$195,112,619	0.477%	0.119%				0.59%	-0.11%
North Carolina Global Equity Fund	\$154,099,424	0.624%	0.092%	0.105%	0.025%	0.846%	1.10%	-0.25%
50% Wellington Management Company	\$78,160,238	0.500%	0.091%				0.65%	-0.15%
50% Arrowstreet	\$75,939,186	0.749%	0.093%				0.66%	0.09%
Total	\$6,849,495,991	0.295%	0.047%	0.105%	0.025%	0.472%	0.561%	

*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 **0.33%**

Admin Fee **0.13%**

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>0.25%</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 **0.13%**

Total Fees **0.46%**

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