



**State of North Carolina**

FEBRUARY 19, 2015

# STATE OF NORTH CAROLINA

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# GALLIARD CAPITAL MANAGEMENT

## BUSINESS ELEMENTS AS OF 12/31/14

**\$84.8 B**  
TOTAL AUM

### By Plan Type

- Corporate Retirement/Benefit Plans: \$65.2 Billion
- Public Entities: \$14.2 Billion
- Operating Funds: \$2.7 Billion
- Partnerships: \$1.1 Billion
- Foundation/Endowments: \$510.4 Million
- Taft Hartley: \$933.3 Million

**\$75.2 B**  
STABLE VALUE  
AUM

### By Product Type

- Stable Value Separate Account: \$49.2 Billion
- Wells Fargo Stable Return Fund: \$28.3 Billion
- Galliard Managed Income Fund: \$2.9 Billion

### FIRM UPDATE

- **14** new stable value clients in 2014
- **\$3.5** billion in new stable value assets in 2014
- Welcomed **23** new employees in 2014-2015
- **20** fortune 100 clients; **55** fortune 500 clients
- **118** stable value separate accounts

### 2014 ACCOMPLISHMENTS

- Enhancement of internal technology resources
- Expansion of external management oversight program
- Completion of strategic fixed income analytics projects
- Successful onboarding of great talent

### 2015 INITIATIVES

- Further development of new talent
- Completion of technology projects already in process
- Celebration of Galliard's 20th Year Anniversary and recognition of firm accomplishments
- Brand expansion of long duration fixed income product
- Development of high-quality short duration fund product
- Brand enhancement rollout
- Implementation of new client reporting system

# GALLIARD CAPITAL MANAGEMENT

## ORGANIZATION CHART

### EXECUTIVE MANAGEMENT TEAM :

**Carrie Callahan**  
Managing Partner

**John Caswell, CFA**  
Founding Managing Partner

**Richard Merriam, CFA**  
Founding Managing Partner

**Ajay Mirza, CFA**  
Managing Partner

**Karl Tourville**  
Founding Managing Partner

#### Fixed Income Team

##### Credit

Richard Merriam, CFA  
Founding Managing Partner  
Sector Head  
30 yrs in Investments

Matt Bentley  
Principal  
17 yrs in Investments

Chad Callahan  
Principal  
20 yrs in Investments

Rene Hoogmoed, CFA  
Principal  
19 yrs in Investments

Brandon Kanz, CFA  
Principal  
13 yrs in Investments

John Kenley, CFA  
Director  
9 yrs in Investments

Robert Barrett, CFA  
Associate Director  
11 yrs in Investments

Will Moeller, CFA  
Associate Director  
10 years in Investments

##### Structured Product

Ajay Mirza, CFA  
Managing Partner  
Sector Head  
20 years in Investments

Matt Robertson, CFA  
Principal  
13 yrs in Investments

Mike Meerovich  
Director  
13 yrs in Investments

Tyler Wadsworth  
Senior Associate  
4 yrs in Investments

##### Analytics

Marco Perzichilli  
Senior Director  
10 yrs in Investments

John Hammar  
Associate Director  
4 yrs in Investments

Gauri Jadhav  
Associate Director  
6 yrs in Investments

Vani Ramakrishnan\*  
Associate  
7 yrs in Investments

Jimmie Wu\*  
Associate  
1 yr in Investments

##### Investment Compliance

Mark Otto  
Director  
12 yrs in Investments

Jeff Hay  
Senior Associate  
10 yrs in Investments

Andrew McKessock  
Senior Associate  
9 yrs in Investments

#### Client Portfolio Management

Mike Norman  
Partner  
22 yrs in Investments

Leela Scattum  
Partner  
25 yrs in Investments

Erol Sonderegger, CFA  
Principal  
20 yrs in Investments

Taylor Benson  
Senior Director  
12 yrs in Investments

David Ferry  
Senior Director  
30 yrs in Investments

Nick Gage, CFA  
Senior Director  
14 yrs in Investments

Andrea Johnson, CFA  
Senior Director  
13 yrs in Investments

Laura Sell, CFA  
Senior Director  
18 yrs in Investments

William Weber  
Senior Director  
10 yrs in Investments

Robert Crandall, CFA  
Director  
11 yrs in Investments

Matt Kline\*  
Director  
8 yrs in Investments

Helen Lee\*  
Director  
17 yrs in Investments

Doug Rangel, CFA  
Director  
15 yrs in Investments

Pete Schmit, CFA\*  
Director  
9 yrs in Investments

Jordan Bewley  
Senior Associate  
4 yrs in Investments

Jennifer Hopper, CFA  
Senior Associate  
16 yrs in Investments

Suthisa Krupinski  
Senior Associate  
12 yrs in Investments

Seth Mork  
Senior Associate  
9 yrs in Investments

Ryan Olsen\*  
Senior Associate  
10 yrs in Investments

Elizabeth Smithley  
Senior Associate  
4 yrs in Investments

Evan Hewitt\*  
Associate  
4 yrs in Investments

#### Stable Value Contract Negotiation & Issuer Management

David Lui  
Principal  
24 yrs in Investments

Tami Pearce-Byczek  
Senior Director  
25 yrs in Investments

Paula Novick  
Director  
19 yrs in Investments

Eric Vercauteren  
Director  
16 yrs in Investments

Nicole Berger  
Senior Associate

Eric Bloudek  
Senior Associate

Christina Mosher  
Senior Associate

Lisa Bernard\*  
Associate

Christopher Hoffman\*  
Associate

#### Stable Value Contract Management & Administration

Kristin Daniels, CPA  
Senior Director

Brian Brooks  
Associate Director

Rasaan Ellison  
Associate Director

Carmen Rangel, CPA  
Associate Director

Jesse Ahlbrecht  
Senior Associate

Heather Goserud  
Senior Associate

Phil Kos  
Senior Associate

Jason Skull  
Senior Associate

#### Operations & Technology

Chad Foote  
Chief Operating Officer  
20 yrs in Investments

- 13 operations professionals
- 13 technology professionals
- 7 new employees in 2014-15

#### Firm Compliance

Jennifer Lammers  
Chief Compliance Officer  
29 yrs in Investments

Brian Renelt  
Senior Associate

Laurie Kern\*  
Associate

Madonna Mochinski\*  
Associate

Matt Heutinck  
Associate

Adam Maatz  
Associate

Ben Modica  
Associate

Tim Noel  
Associate

Lily Sihavong  
Associate

Brent Thornton\*  
Associate

#### Marketing and Client Support

Jane Marie Petty  
Principal  
32 yrs in Investments

- 15 professionals
- 4 new employees in 2014-15

\*New in 2014-15

Wells Fargo Resources

Human Resources

Legal Department

Trust Operations

Technology

Compliance/Risk Mgmt

Finance

# STABLE VALUE MARKET UPDATE

## STABLE VALUE MARKET VIEW

	MARKET VIEW	GALLIARD POSITIONING
REGULATORY/DC MARKET ENVIRONMENT	<ul style="list-style-type: none"> <li>• Dodd Frank stable value study yet to be completed</li> <li>• SEC approved changes to money market mutual fund regulations</li> <li>• DC plan design evolving to improve participant outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Existing contracts exempt; no detrimental impact expected</li> <li>• Monitoring impact on liquidity vehicles used</li> <li>• Leading industry efforts to ensure stable value meets plan sponsor needs</li> </ul>
CONTRACT ISSUERS	<ul style="list-style-type: none"> <li>• Capacity continues to improve; current supply is greater than the demand</li> <li>• 17 providers in the market currently issuing capacity (4 banks &amp; 13 insurance companies)</li> <li>• Issuers continue to be selective about the managers and portfolio strategies they are willing to wrap</li> <li>• Wrap providers beginning to be more flexible with respect to the investment guidelines</li> <li>• More favorable/balanced approach to contract provisions</li> </ul>	<ul style="list-style-type: none"> <li>• Have negotiated ample capacity for existing and new clients</li> <li>• Galliard has strong relationships with all major market participants</li> <li>• Galliard continues to be a preferred manager</li> <li>• Working with providers to increase investment latitude</li> <li>• Negotiating to standardize more advantageous contract provisions</li> </ul>
PORTFOLIO	<ul style="list-style-type: none"> <li>• Evidence of participant reallocation to riskier assets</li> <li>• Economic data suggests increased likelihood of rising rates</li> <li>• Reinvestment rates remain historically low</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity buffers well positioned to accommodate participant redemptions</li> <li>• Maintaining portfolio durations between 2.5 to 3 years to be more responsive to rising rates</li> <li>• Opportunistically seeking yield in high quality spread assets</li> </ul>

## STABLE VALUE MARKET UPDATE WRAP ISSUER SUMMARY

AS OF JANUARY, 2015

NAME	ACCEPTING DEPOSITS FROM NEW CLIENTS*	ACCEPTING DEPOSITS FROM EXISTING CLIENTS*	CONTRACT TYPE**	ASSET MANAGEMENT***	S&P CREDIT RATING	MOODY'S CREDIT RATING
AMERICAN GENERAL LIFE	Yes	Yes	SBIC	Galliard, Payden & Rygel	A+	A2
MASSMUTUAL LIFE INS. CO.	Yes	Yes	SAGIC	Galliard, Babson	AA+	Aa2
METROPOLITAN LIFE INS. CO.	Yes	Yes	SAGIC	Galliard, PIMCO, Dodge & Cox	AA-	Aa3
NATIONWIDE LIFE INS. CO.	Yes	Yes	SBIC	Galliard	A+	A1
NEW YORK LIFE INS. CO.**	Yes	Yes	SBIC & SAGIC	New York Life	AA+	Aaa
PACIFIC LIFE INS. CO.	Yes	Yes	SBIC	Galliard, PIMCO, Pacific Asset Mgmt.	A+	A1
PRUDENTIAL LIFE INS. CO.	Yes	Yes	SBIC	Galliard, Prudential, Jennison	AA-	A1
RGA REINSURANCE CO.	Yes	Yes	SBIC	Galliard	AA-	A1
ROYAL BANK OF CANADA	Yes	Yes	SBIC	Galliard	AA-	Aa3
STATE STREET BANK AND TRUST CO.	Yes	Yes	SBIC	Galliard	AA-	Aa3
TIAA-CREF LIFE	Yes	Yes	SAGIC	TIAA-CREF	AA+	Aaa
TRANSAMERICA PREMIER LIFE INS. CO.****	Yes	Yes	SBIC	Galliard, PIMCO, Dodge & Cox	AA-	A1
VOYA LIFE INS. AND ANNUITY CO.****	Yes	Yes	SBIC	Galliard, Voya, PIMCO, Dodge & Cox, IR&M	A-	A3

\*Providers accepting deposits on a case by case basis

\*\*Security Backed Investment Contract (SBIC) or Separate Account GIC (SAGIC)

\*\*\*Managers typically utilized within Galliard Stable Value Solutions

\*\*\*\*Previously known as Monumental Life and ING Life, respectively

## STATE OF NORTH CAROLINA STABLE VALUE FUNDS

### RELATIONSHIP MILESTONES

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#### DECEMBER 2010

- Galliard assumes oversight, daily valuations, and administration of stable value funds
- Transitioned custody of the 457 Plan Payden & Rygel portfolio to Wells Fargo

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#### JANUARY 2011

- Changed 401(k) Plan's Prudential benchmark from Broad Market to Intermediate Aggregate
- Transitioned PIMCO to intermediate duration strategy wrapped by MetLife and increase allocation to 15% of assets
- Funded Galliard short duration strategy with United of Omaha Wrap

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#### FEBRUARY 2011

- Began termination of State Street securities lending program in the 401(k) Plan
- Transitioned 457 Plan's Prudential intermediate duration strategy to Galliard collective trust
- Liquidation of GWL trading account and funding of the Wells Fargo STIF and Wells Fargo SRF liquidity buffer
- Transitioned custody of the 401(k) Payden & Rygel portfolio to Wells Fargo
- New guidelines established for Payden short duration strategy

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#### MARCH 2011

- Transition 401(k) Plan's Prudential investment to intermediate duration collective trust

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#### JULY 2011

- Moved from declared rate to actual portfolio returns

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#### 2012

- Changed STIF to Wells Fargo Government Money Market
- Finalize portfolio strategy recommendations

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#### 2013

- Secured wrap coverage for Payden & Rygel with American General Life
- Reduced exposure to PIMCO/Met Life to 13% target
- Allocated 15% to Jennison under Prudential wrap

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#### 2014

- Finalized Nationwide wrap contract to replace United of Omaha
  - Reduced Great West Life allocation to target (20%)
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## STATE OF NORTH CAROLINA EXPENSE DISCLOSURE

### TOTAL ANNUAL OPERATING EXPENSES

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the investment option's rate of return.

	401(k) Plan	401(k) Plan	457 Plan	457 Plan
Expense	Expense Ratio (as of 12/31/14)	Est. Annual Revenue	Expense Ratio (as of 12/31/14)	Est. Annual Revenue
Investment Management Fees paid to Galliard	0.073%	\$1,391,100	0.073%	\$287,708
Investment Management Fees paid to Non-Affiliated Investment Advisors	0.056%	\$1,072,912	0.058%	\$230,001
Investment Contract Fees <sup>1</sup>	0.173%	\$3,293,933	0.177%	\$695,982
Acquired Fund Fees <sup>2</sup>	0.048%	\$909,777	0.044%	\$178,021
-Investment Contract Fees	0.013%	\$243,083	0.013%	\$50,375
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non- Affiliated Investment Advisors <sup>3</sup>	0.035%	\$666,694	0.031%	\$123,302
12b-1 Distribution Fee	None	None	None	None
Other Expenses	0.104%	\$1,980,356	0.104%	\$409,579
<b>Total Annual Fund Operating Expense<sup>4</sup></b>	<b>0.454%</b>	<b>\$8,891,161</b>	<b>0.456%</b>	<b>\$1,796,948</b>

<sup>1</sup>These are fees paid to create and maintain the investments used by a stable value fund

<sup>2</sup>These are fees borne indirectly by the Fund when it acquires an interest in another fund which pays its own separate fees

<sup>3</sup>Includes audit fees for the cost of producing a report by a qualified auditor

<sup>4</sup>Total Annual Fund Operating Expenses are reflected daily in the Fund's net asset value (NAV)



# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

<b>Book Value Performance</b>	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
Portfolio (net of all fees)	0.16	0.46	1.80	2.23	---	---	2.52
Merrill Lynch 3 Month T-Bill + 100 bps	0.08	0.25	1.04	1.08	---	---	1.09
Merrill Lynch 3 Month T-Bill + 150 bps	0.13	0.38	1.55	1.58	1.60	3.08	1.59
3 Year Constant Maturity Treasury Yield	0.09	0.24	0.90	0.61	0.73	2.01	0.65
<b>Market Value Benchmark</b>							
Blended Benchmark***	-0.17	0.77	2.69	1.59	2.66	3.62	2.00

## Calendar Year Performance

<b>Book Value Performance</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Portfolio (net of all fees)	1.80	2.15	2.75	3.27	---
Merrill Lynch 3 Month T-Bill + 100 bps	1.04	1.08	1.12	1.11	---
Merrill Lynch 3 Month T-Bill + 150 bps	1.55	1.58	1.62	1.61	1.64
3 Year Constant Maturity Treasury Yield	0.90	0.54	0.38	0.75	1.10
<b>Market Value Benchmark</b>					
Blended Benchmark***	2.69	-0.41	2.52	4.05	4.53
<b>Market Indices</b>					
Merrill Lynch 3 Month T-Bill	0.03	0.07	0.11	0.10	0.13
Consumer Price Index	-0.65	1.62	2.26	2.96	1.50

\*Returns for periods of less than one year are not annualized.

\*\*Galliard's management of this portfolio began December 1, 2010. Periods that exceed Galliard's tenure with the portfolio include Galliard performance linked with historical portfolio returns.

\*\*\*10% BofAML 3 Month U.S. T-Bills, 30% Barclays 1-3 Yr U.S. Govt/Credit, 60% Barclays Intermediate U.S. Aggregate. This blended market value benchmark approximates the asset allocation target for the State of North Carolina Stable Value Fund. It is important to note that fundamental differences arise when comparing book value performance to a market index, especially when comparing performance for periods shorter than 10 years. Market value indices immediately reflect the gains/(losses) resulting from changing market interest rates while book value performance amortizes these gains/(losses).

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2014

## Portfolio Characteristics

<b>Total Assets</b>	\$1,904,188,369	<b>Blended Yield (After fees)*</b>	1.81
<b>Average Holdings Quality**</b>	AA+	<b>Effective Duration</b>	2.92 years
<b>Number of Contract Issuers</b>	5	<b>Market/Book Value Ratio</b>	102.05%

\*Blended yield is after investment management fees, wrap fees and administration fees.

\*\*The Average Holdings Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Average Holdings Quality shown represents an average quality of the underlying individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>12/31/2014</u>	<u>% of Portfolio</u> <u>09/30/2014</u>
<b>Cash &amp; Equivalents*</b>	<b>68,865,572</b>	<b>3.6</b>	<b>3.8</b>
<b>Stable Value Funds</b>	<b>124,349,826</b>	<b>6.5</b>	<b>6.5</b>
<b>Insurance Separate Accounts</b>	<b>628,870,636</b>	<b>33.0</b>	<b>35.8</b>
Intermediate Portfolio	628,870,636	33.0	35.8
<b>Security Backed Contracts</b>	<b>1,082,102,336</b>	<b>56.8</b>	<b>53.9</b>
Short Portfolio	555,878,177	29.2	26.3
Intermediate Portfolio	526,224,159	27.6	27.6
<b>Total</b>	<b>\$1,904,188,369</b>	<b>100.0%**</b>	<b>100.0%**</b>

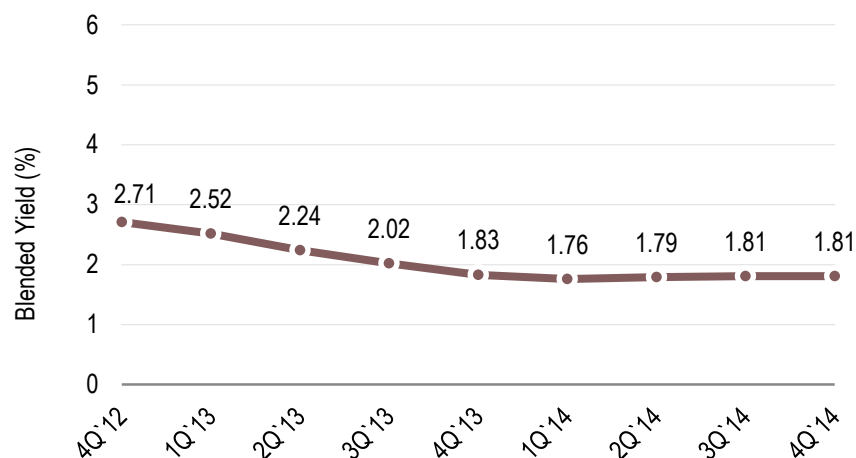
\*Includes Receivables and Payables

\*\*Total % of portfolio may not add to 100% due to rounding

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

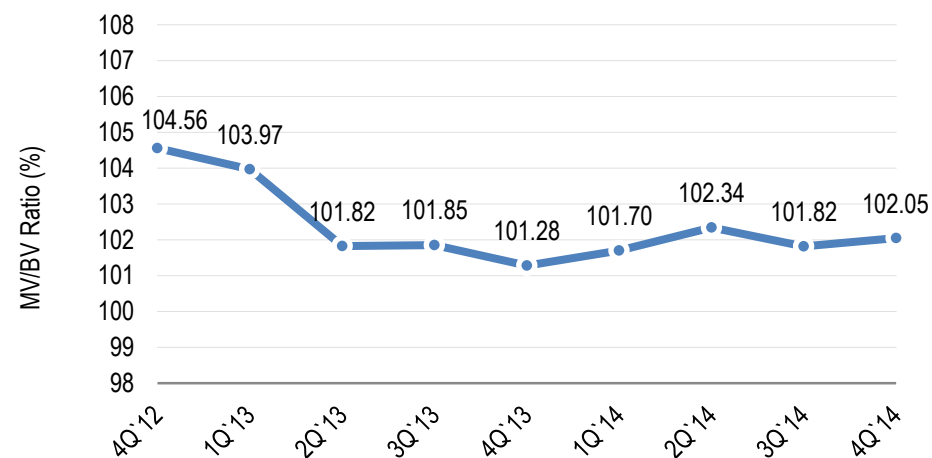
Fourth Quarter 2014

## Historical Book Value Crediting Rate\*

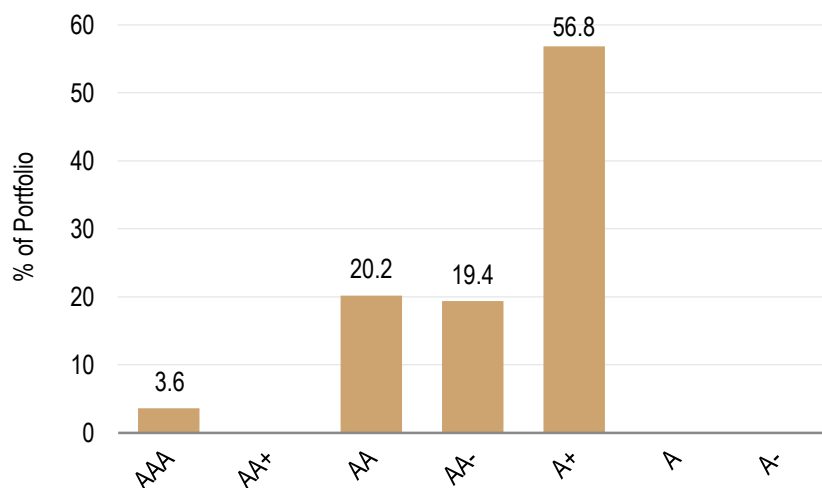


\*As of quarter end. Blended yield is after investment management fees, wrap fees and administration fees.

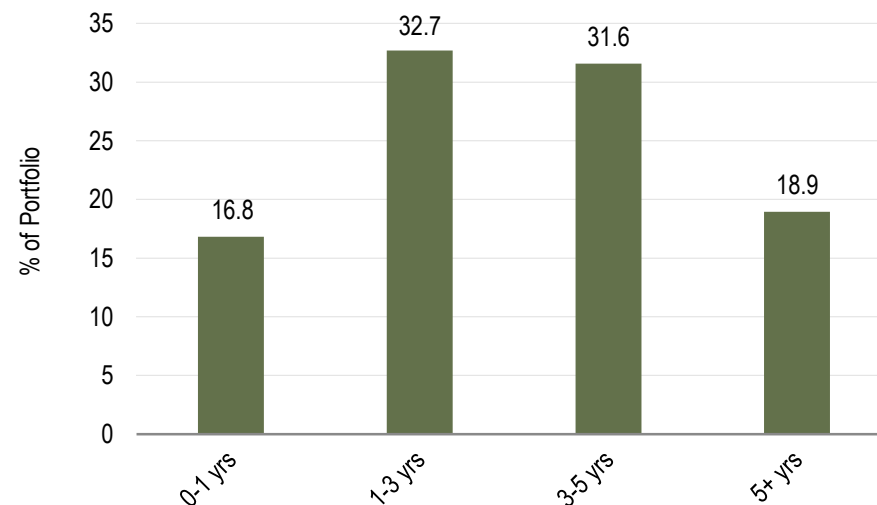
## Market Value to Book Value Ratio\*



## Contract Quality Distribution\*



## Underlying Duration Distribution\*\*



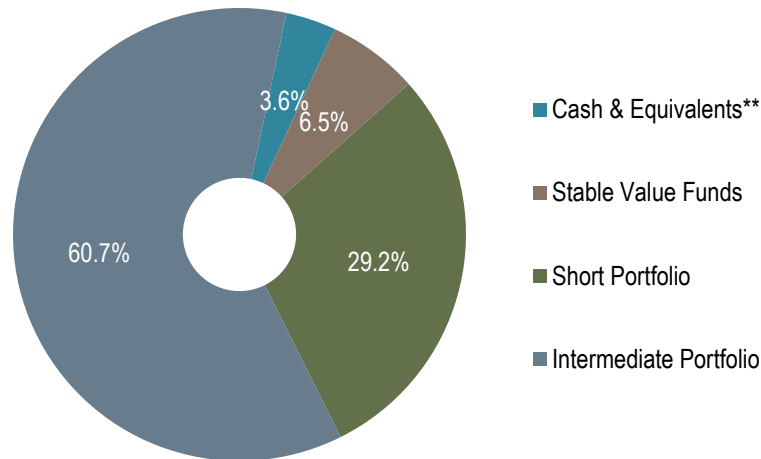
\*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

\*\*Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2014

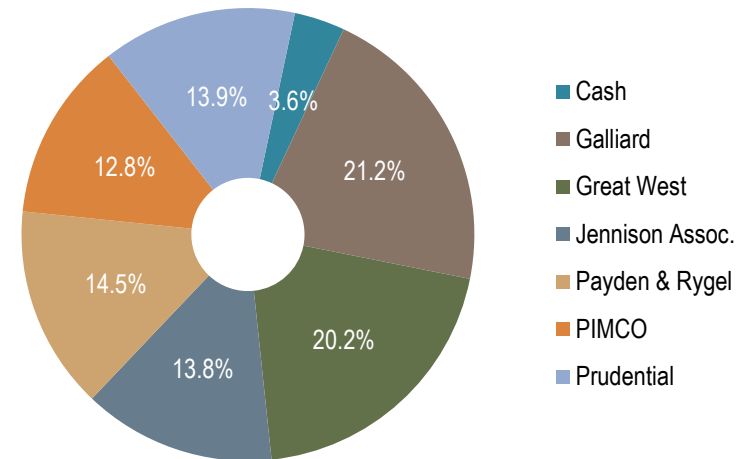
Portfolio Distribution\*



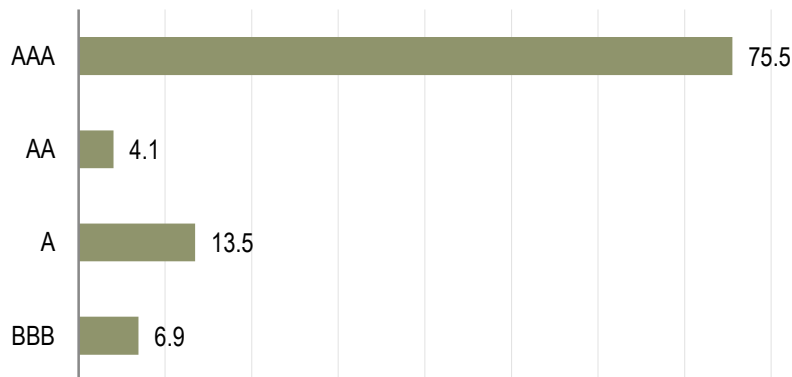
\*Book value

\*\*Includes Receivables and Payables

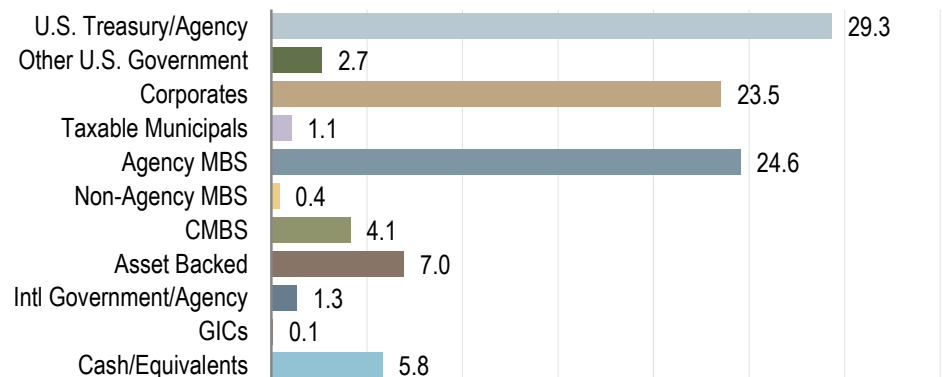
Manager Distribution\*



Underlying Fixed Income Credit Quality\*



Underlying Fixed Income Asset Allocation\*\*



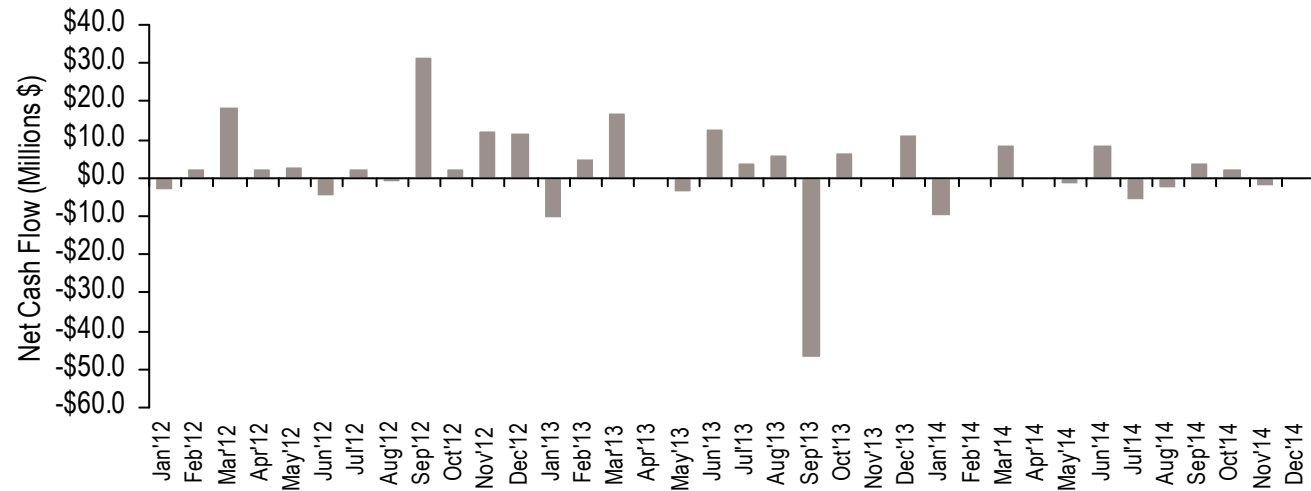
\*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology

\*\*Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2014

## Historical Cashflows



	2014	2013	2012	2011
Beginning Assets	\$1,870.9	\$1,829.1	\$1,702.4	\$1,594.4
Net Cash Flow (\$)*	-\$0.3	\$2.4	\$79.1	\$32.2
Net Cash Flow (%)	-0.02%	0.13%	4.65%	2.02%
Estimated Investment Earnings	\$33.6	\$39.4	\$47.6	\$75.9
Ending Assets**	\$1,904.2	\$1,870.9	\$1,829.1	\$1,702.4

\* Contributions, Withdrawals and Investment Transfers

\*\*Cashflows may not net to final assets due to rounding

## STATE OF NORTH CAROLINA STABLE VALUE FUNDS

### MARKET VALUE 401(K) PLAN PERFORMANCE SUMMARY

#### *Short Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Payden &amp; Rygel</b>	<b>0.14%</b>	<b>0.99%</b>	<b>1.60%</b>		<b>2.35%</b>	<b>7/1/2009</b>
Barclays Capital 1-3 Yr. Govt/Credit	<u>0.17%</u>	<u>0.77%</u>	<u>0.89%</u>		<u>1.61%</u>	
	-0.03%	0.22%	0.71%		0.74%	
<b>Galliard**</b>	<b>0.40%</b>	<b>1.57%</b>	<b>1.40%</b>		<b>2.20%</b>	<b>1/1/2010</b>
Barclays Capital 1-3 Yr. Government *	0.19%	0.64%	0.51%		1.09%	
Barclays Capital 1-3 Yr. Gov't/Credit	<u>0.17%</u>	<u>0.77%</u>	<u>0.89%</u>		<u>1.41%</u>	
	0.21%	0.93%	0.89%		1.10%	

#### *Intermediate Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Prudential Investment Management</b>	<b>1.22%</b>	<b>4.24%</b>	<b>2.32%</b>		<b>3.02%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Aggregate	<u>1.20%</u>	<u>4.12%</u>	<u>2.19%</u>		<u>2.88%</u>	
	0.02%	0.13%	0.13%		0.13%	
<b>PIMCO</b>	<b>0.80%</b>	<b>3.39%</b>	<b>1.96%</b>		<b>3.03%</b>	<b>2/1/2011</b>
Barclays Capital Intermediate Aggregate	<u>1.20%</u>	<u>4.12%</u>	<u>2.19%</u>		<u>3.11%</u>	
	-0.40%	-0.73%	0.12%		-0.08%	
<b>Great West Life</b>	<b>1.05%</b>	<b>4.03%</b>	<b>2.40%</b>		<b>2.50%</b>	<b>10/1/2011</b>
Barclays Capital Intermediate Aggregate (Ex BBB)	<u>1.28%</u>	<u>4.04%</u>	<u>1.96%</u>		<u>2.07%</u>	
	-0.23%	-0.02%	0.44%		0.43%	
<b>Jennison</b>	<b>1.29%</b>	<b>4.40%</b>	<b>2.30%</b>		<b>3.11%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Govt/Credit	<u>0.89%</u>	<u>3.13%</u>	<u>2.03%</u>		<u>2.72%</u>	
	0.40%	1.27%	0.27%		0.39%	

\*Index being shown for comparison purposes only, the fund is managed to a targeted duration. Returns shown are after investment management fees.

\*\*Reflects performance of Galliard Short Duration Fund B through 2/28/14 at which time Fund B was consolidated.

# STATE OF NORTH CAROLINA STABLE VALUE FUNDS

## MANAGER-LEVEL CHARACTERISTICS – 401(K) PLAN

Segment	Manager	Period	Book Value	Market Value	MV/BV Ratio	Market Value Yield	Duration (Years)	Book Value Crediting Rate
Short Duration	Payden & Rygel	9/30/2014	\$ 275,671,228	\$ 278,067,321	100.9%	0.90%	1.63	1.27%
		12/31/2014	<u>\$ 276,695,821</u>	<u>\$ 278,458,463</u>	<u>100.6%</u>	<u>0.98%</u>	<u>1.55</u>	<u>1.19%</u>
			\$ 1,024,593	\$ 391,142	-0.2%	0.08%	(0.08)	-0.08%
	Galliard	9/30/2014	\$ 222,975,984	\$ 225,827,011	101.3%	1.26%	2.03	1.82%
		12/31/2014	<u>\$ 279,182,357</u>	<u>\$ 283,066,543</u>	<u>101.4%</u>	<u>1.27%</u>	<u>1.97</u>	<u>1.79%</u>
			\$ 56,206,373	\$ 57,239,532	0.1%	0.01%	(0.06)	-0.03%
Intermediate Duration	Prudential	9/30/2014	\$ 262,661,951	\$ 270,724,407	103.1%	2.07%	4.03	2.33%
		12/31/2014	<u>\$ 264,205,921</u>	<u>\$ 273,871,776</u>	<u>103.7%</u>	<u>1.92%</u>	<u>3.68</u>	<u>2.37%</u>
			\$ 1,543,970	\$ 3,147,369	0.6%	-0.15%	(0.35)	0.04%
	PIMCO	9/30/2014	\$ 243,064,727	\$ 247,500,575	101.8%	1.88%	3.52	1.98%
		12/31/2014	<u>\$ 244,373,331</u>	<u>\$ 249,426,599</u>	<u>102.1%</u>	<u>1.84%</u>	<u>3.64</u>	<u>2.13%</u>
			\$ 1,308,604	\$ 1,926,024	0.2%	-0.04%	0.12	0.15%
	Great West Life	9/30/2014	\$ 436,714,987	\$ 445,480,149	102.0%	2.25%	3.65	2.64%
		12/31/2014	<u>\$ 384,497,305</u>	<u>\$ 393,541,422</u>	<u>102.4%</u>	<u>2.21%</u>	<u>3.49</u>	<u>2.64%</u>
			\$ (52,217,682)	\$ (51,938,727)	0.3%	-0.04%	(0.16)	0.00%
	Jennison	9/30/2014	\$ 260,208,599	\$ 268,195,748	103.1%	1.56%	3.98	2.33%
		12/31/2014	<u>\$ 262,018,238</u>	<u>\$ 271,604,057</u>	<u>103.7%</u>	<u>1.58%</u>	<u>4.07</u>	<u>2.37%</u>
			\$ 1,809,639	\$ 3,408,309	0.6%	0.02%	0.09	0.04%
Total Fund		9/30/2014	\$ 1,896,296,392	\$ 1,930,794,126	101.8%	1.64%	3.03	2.01%
		12/31/2014	<u>\$ 1,904,188,369</u>	<u>\$ 1,943,184,258</u>	<u>102.0%</u>	<u>1.60%</u>	<u>2.92</u>	<u>2.00%</u>
			\$ 7,891,977	\$ 12,390,132	0.2%	-0.04%	(0.11)	-0.01%

# Stable Value Portfolio Review - North Carolina 401(k) Stable Value Fund

Fourth Quarter 2014

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>12/31/2014</u>	<u>9/30/2014</u>	<u>12/31/2014</u>	<u>9/30/2014</u>
American General Life Ins. Co.	A+	A+	A2	A2
GreatWest Life Insurance Co.	AA	AA	Aa3	Aa3
Metropolitan Life Ins. Co.	AA-	AA-	Aa3	Aa3
Nationwide Life Ins. Co.	A+	A+	A1	A1
Prudential Ins. Co. of America	AA-	AA-	A1	A1

### American General Life Ins. Co.

- Solid capital levels
- All life businesses except New York were consolidated into this subsidiary at year end 2012
- Leading positions in a diverse set of products

### GreatWest Life Insurance Co.

- Aggressive dividend taking by the parent, combined with General Account growth, results in low capital levels and ratios
- Strong positions in niche markets
- Reliant on support from parent company; the leading insurer in Canada which had solid 2013 results

### Metropolitan Life Ins. Co.

- Largest U.S. life insurer by invested assets
- Has been declared a non-bank SIFI by the FSOC; but will fight the designation in court
- Capital ratios have rebounded since 2013 but remain lower than 2011 and 2012

### Nationwide Life Ins. Co.

- Part of a leading mutual group that includes a leading P&C company
- Strong history of earnings
- Significant variable annuity hedging has resulted in volatile investment earnings

### Prudential Ins. Co. of America

- A leading diversified U.S. life insurer
- Surplus continues to show solid growth
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds

The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only.  
For institutional investors only.



# North Carolina 401(k) Stable Value Fund Portfolio Review

## Transaction Report

10/01/2014 - 12/31/2014

Asset ID	Issuer	Par Amount	Maturity*	Trade Date	Settle Date	S&P Rating	Moody's Rating
<u>Purchases</u>							
Security Backed Contracts							
896994GW4	Nationwide Life Ins. Co.	55,000,000	N.S.M.	12/01/2014	12/01/2014	A+	A1
Total Security Backed Contracts		55,000,000					
Total Purchases		55,000,000					
<u>Sales</u>							
Insurance Separate Accounts							
391997NH2	GreatWest Life Insurance Co.	55,000,000	N.S.M.	12/01/2014	12/01/2014	AA	Aa3
Total Insurance Separate Accounts		55,000,000					
Total Sales		55,000,000					

\*N.S.M. = No Stated Maturity

# North Carolina 401(k) Stable Value Fund Portfolio Review

## Portfolio Holdings

December 31, 2014

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
<b>Cash &amp; Equivalents</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-1,130,091	-1,130,091	100.0	-0.1	0.01		0.10	AAA	Aaa	
VP45600\$1	WF Adv Government Money Market		69,995,663	69,995,663	100.0	3.7	0.01		0.10	AAA	Aaa	
<b>Total Cash &amp; Equivalents</b>			<b>68,865,572</b>	<b>68,865,572</b>	<b>100.0</b>	<b>3.6</b>	<b>0.01</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>Stable Value Funds</b>												
949907109	Wells Fargo Stable Return Fund G		124,349,826	124,349,826	100.0	6.5	1.64		2.44	AA-	Aa3	
<b>Total Stable Value Funds</b>			<b>124,349,826</b>	<b>124,349,826</b>	<b>100.0</b>	<b>6.5</b>	<b>1.64</b>		<b>2.44</b>	<b>AA-</b>	<b>Aa3</b>	
<b>Insurance Separate Accounts</b>												
<b>Intermediate Portfolio</b>												
391997NH2	GreatWest Life Insurance Co.	Great West	384,497,305	393,541,422	102.4	20.2	2.64	N.S.M.	3.49	AA	Aa3	15.0
590994VM8	Metropolitan Life Ins. Co.	PIMCO	244,373,331	249,426,599	102.1	12.8	2.13	N.S.M.	3.64	AA-	Aa3	20.0
<b>Total Intermediate Portfolio</b>			<b>628,870,636</b>	<b>642,968,021</b>	<b>102.2</b>	<b>33.0</b>	<b>2.44</b>		<b>3.55</b>	<b>AA</b>	<b>Aa3</b>	
<b>Total Insurance Separate Accounts</b>			<b>628,870,636</b>	<b>642,968,021</b>	<b>102.2</b>	<b>33.0</b>	<b>2.44</b>		<b>3.55</b>	<b>AA</b>	<b>Aa3</b>	
<b>Security Backed Contracts</b>												
<b>Short Portfolio</b>												
946996EE1	American General Life Ins. Co.	Payden & Rygel	276,695,821	278,458,463	100.6	14.5	1.19	N.S.M.	1.55	A+	A2	25.0
896994GW4	Nationwide Life Ins. Co.	Galliard	279,182,357	283,066,543	101.4	14.7	1.79	N.S.M.	1.97	A+	A1	23.0
<b>Total Short Portfolio</b>			<b>555,878,177</b>	<b>561,525,006</b>	<b>101.0</b>	<b>29.2</b>	<b>1.49</b>		<b>1.76</b>	<b>A+</b>	<b>A1</b>	
<b>Intermediate Portfolio</b>												
744999CV3	Prudential Ins. Co. of America	Jennison Assoc.	262,018,238	271,604,057	103.7	13.8	2.37	N.S.M.	4.07	AA-	A1	17.0
744999CV3	Prudential Ins. Co. of America	Prudential	264,205,921	273,871,776	103.7	13.9	2.37	N.S.M.	3.68	AA-	A1	17.0
<b>Total Intermediate Portfolio</b>			<b>526,224,159</b>	<b>545,475,833</b>	<b>103.7</b>	<b>27.6</b>	<b>2.37</b>		<b>3.87</b>	<b>AA-</b>	<b>A1</b>	
<b>Total Security Backed Contracts</b>			<b>1,082,102,336</b>	<b>1,107,000,839</b>	<b>102.3</b>	<b>56.8</b>	<b>1.92</b>		<b>2.79</b>	<b>A+</b>	<b>A1</b>	
<b>Total Fund</b>			<b>1,904,188,369</b>	<b>1,943,184,258</b>	<b>102.0</b>	<b>100.0</b>	<b>2.00</b>		<b>2.92</b>	<b>AA-</b>	<b>A1</b>	

\*N.S.M. = No Stated Maturity

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	0.14	0.99	1.60	1.97	2.35
<b>Benchmark***</b>	0.17	0.77	0.89	1.41	1.61

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: July 01, 2009

\*\*\*Barclays U.S. 1-3 Year Government/Credit Bond Index

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA-	AA+	<b>Total Assets</b>	\$278.5 million
<b>Weighted Average Maturity</b>	2.03 years	1.90 years	<b>Number of Issues</b>	216
<b>Yield to Maturity</b>	0.98%	0.86%	<b>Weighted Coupon</b>	1.26%
<b>Effective Duration</b>	1.55 years	1.85 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	31.4%	<b>34.6%</b>	72.5%
Other U.S. Government	2.4%	<b>2.3%</b>	0.0%
Taxable Municipal	2.0%	<b>2.1%</b>	0.7%
Corporates	44.8%	<b>42.7%</b>	19.5%
Asset Backed Securities (ABS)	9.0%	<b>8.2%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	3.8%	<b>3.6%</b>	0.0%
Sovereign / Supranationals	6.3%	<b>6.4%</b>	7.3%
Cash / Equivalents	0.4%	<b>0.2%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	53.4%	<b>55.1%</b>	75.5%
AA	3.5%	<b>3.9%</b>	6.7%
A	24.2%	<b>24.1%</b>	10.3%
BBB	18.9%	<b>16.9%</b>	7.5%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

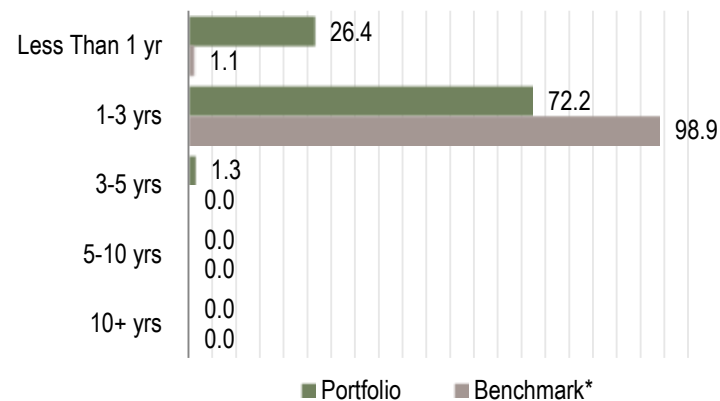
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 401k - Payden & Rygel

Fourth Quarter 2014

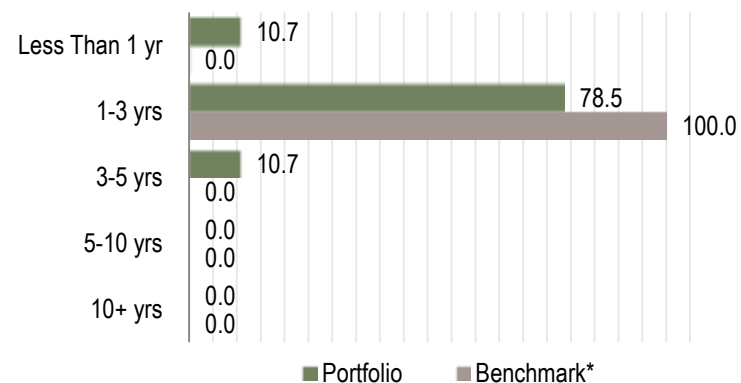
## Duration Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	27.9%	<b>26.4%</b>	1.1%
1-3 yrs	70.0%	<b>72.2%</b>	98.9%
3-5 yrs	2.2%	<b>1.3%</b>	0.0%
5-10 yrs	0.0%	<b>0.0%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	10.3%	<b>10.7%</b>	0.0%
1-3 yrs	77.9%	<b>78.5%</b>	100.0%
3-5 yrs	11.8%	<b>10.7%</b>	0.0%
5-10 yrs	0.0%	<b>0.0%</b>	0.0%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review – Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
<b>Book Value Performance</b>							
Portfolio (net of all fees)	0.16	0.46	1.80	2.23	2.77	---	2.52
Merrill Lynch 3 Month T-Bill + 100 bps	0.08	0.25	1.04	1.08	1.09	---	1.09
Merrill Lynch 3 Month T-Bill + 150 bps	0.13	0.38	1.55	1.58	1.60	3.08	1.59
3 Year Constant Maturity Treasury Yield	0.09	0.24	0.90	0.61	0.73	2.01	0.65
<b>Market Value Benchmark</b>							
Blended Benchmark***	-0.17	0.77	2.69	1.59	2.66	3.62	2.00

\*Returns for periods of less than one year are not annualized.

\*\*Galliard Performance Inception: January 01, 2010

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>1 Mo</i>	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	-0.24	0.40	1.57	1.42	2.52	3.05	3.05
<b>Benchmark***</b>	-0.24	0.19	0.64	0.51	1.09	2.62	2.62

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Galliard Performance Inception: January 01, 2005

\*\*\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA+	AAA	<b>Total Assets</b>	\$13,666.7 million
<b>Weighted Average Maturity</b>	2.36 years	1.90 years	<b>Number of Issues</b>	1415
<b>Yield to Maturity</b>	1.27%	0.67%	<b>Weighted Coupon</b>	1.96%
<b>Effective Duration</b>	1.97 years	1.85 years	<b>Estimated Annual Income</b>	\$263.2 million

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Sector Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
U.S. Government/Agency Debentures	10.8%	10.7%	100.0%
Other U.S. Government	4.2%	4.2%	0.0%
Taxable Municipal	2.0%	2.5%	0.0%
Corporates	18.4%	19.8%	0.0%
Asset Backed Securities (ABS)	19.9%	19.6%	0.0%
Commercial Mortgage Backed Securities (CMBS)	7.9%	7.2%	0.0%
Mortgage Backed Securities (MBS)	25.2%	24.5%	0.0%
Sovereign / Supranationals	0.0%	0.0%	0.0%
Cash / Equivalents	11.5%	11.7%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Top 5 Credit Exposure

	% of Portfolio 12/31/2014
Bank of America Corp	0.6%
JPMorgan Chase & Co	0.6%
Royal Bank of Canada	0.6%
Citigroup Inc	0.6%
Toronto-Dominion Bank/The	0.5%
<b>Total</b>	<b>2.9%**</b>

Total entity exposure – includes all related entities

## Quality Distribution\*\*\*

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
AAA	82.9%	80.5%	96.3%
AA	5.9%	7.1%	3.6%
A	10.9%	12.1%	0.1%
BBB	0.3%	0.2%	0.0%
< BBB	0.0%	0.0%	0.0%
NR/NA	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

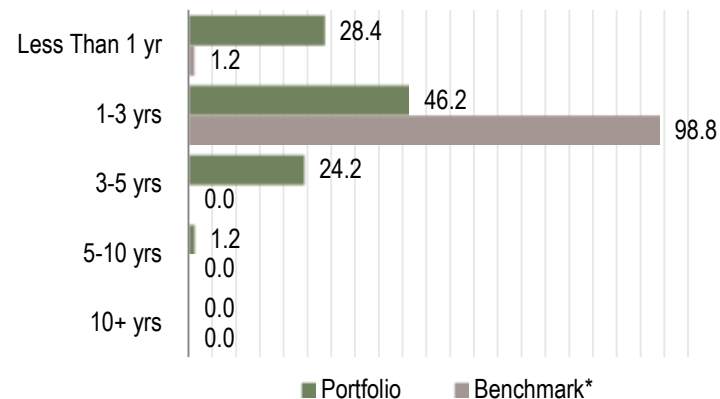


# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

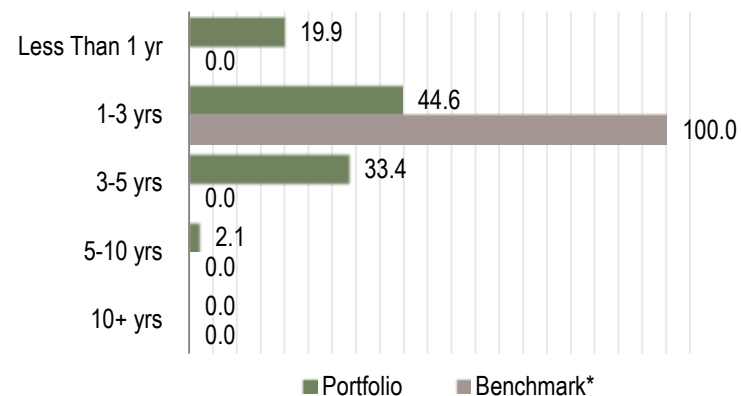
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	29.8%	28.4%	1.2%
1-3 yrs	43.0%	46.2%	98.8%
3-5 yrs	26.0%	24.2%	0.0%
5-10 yrs	1.2%	1.2%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	20.8%	19.9%	0.0%
1-3 yrs	43.1%	44.6%	100.0%
3-5 yrs	34.2%	33.4%	0.0%
5-10 yrs	1.9%	2.1%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

	3 Mos	1 Yr	3 Yr	5 Yr	Since Inception**
<b>Portfolio</b>	1.22	4.24	2.32	--	3.02
<b>Benchmark***</b>	1.20	4.12	2.19	3.72	2.88

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index

## Portfolio Characteristics

	Portfolio	Benchmark*		Portfolio
<b>Weighted Average Quality**</b>	AA+	AA+	<b>Total Assets</b>	\$1,687.8 million
<b>Weighted Average Maturity</b>	4.55 years	4.88 years	<b>Number of Issues</b>	1092
<b>Yield to Maturity</b>	1.92%	1.99%	<b>Weighted Coupon</b>	3.07%
<b>Effective Duration</b>	3.68 years	3.97 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	38.7%	<b>35.3%</b>	39.6%
Other U.S. Government	0.6%	<b>0.8%</b>	0.0%
Taxable Municipal	0.2%	<b>0.2%</b>	0.5%
Corporates	22.2%	<b>21.9%</b>	18.8%
Asset Backed Securities (ABS)	0.5%	<b>0.6%</b>	0.6%
Commercial Mortgage Backed Securities (CMBS)	4.4%	<b>4.3%</b>	2.3%
Mortgage Backed Securities (MBS)	32.3%	<b>32.3%</b>	33.7%
Sovereign / Supranationals	0.6%	<b>0.6%</b>	4.5%
Cash / Equivalents	0.4%	<b>3.9%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	76.0%	<b>76.5%</b>	77.3%
AA	2.7%	<b>2.8%</b>	4.3%
A	11.4%	<b>10.8%</b>	9.4%
BBB	9.9%	<b>9.9%</b>	8.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

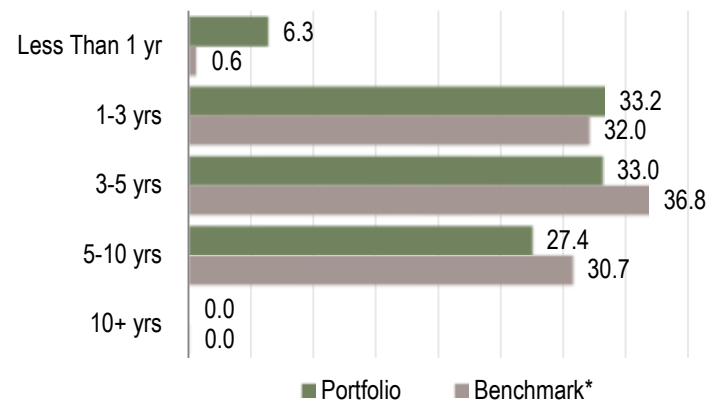
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

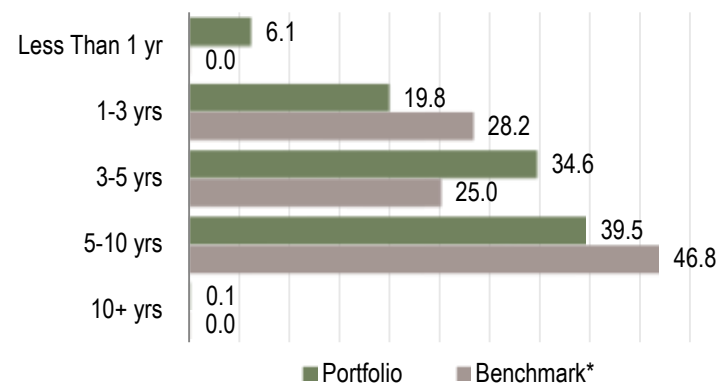
## Duration Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	2.8%	<b>6.3%</b>	0.6%
1-3 yrs	27.7%	<b>33.2%</b>	32.0%
3-5 yrs	40.4%	<b>33.0%</b>	36.8%
5-10 yrs	29.1%	<b>27.4%</b>	30.7%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	2.6%	<b>6.1%</b>	0.0%
1-3 yrs	23.4%	<b>19.8%</b>	28.2%
3-5 yrs	29.2%	<b>34.6%</b>	25.0%
5-10 yrs	44.6%	<b>39.5%</b>	46.8%
10+ yrs	0.1%	<b>0.1%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

	3 Mos	1 Yr	3 Yr	5 Yr	Since Inception**
<b>Portfolio</b>	0.80	3.39	1.96	--	3.03
<b>Benchmark***</b>	1.20	4.12	2.19	3.72	3.11

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: February 01, 2011

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index

## Portfolio Characteristics

	Portfolio	Benchmark*		Portfolio
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$1,326.0 million
<b>Weighted Average Maturity</b>	4.45 years	4.88 years	<b>Number of Issues</b>	171
<b>Yield to Maturity</b>	1.84%	1.99%	<b>Weighted Coupon</b>	2.12%
<b>Effective Duration</b>	3.64 years	3.97 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	60.3%	<b>57.0%</b>	39.6%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	1.3%	<b>1.3%</b>	0.5%
Corporates	22.6%	<b>22.1%</b>	18.8%
Asset Backed Securities (ABS)	0.0%	<b>0.0%</b>	0.6%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	2.3%
Mortgage Backed Securities (MBS)	17.3%	<b>26.2%</b>	33.7%
Sovereign / Supranationals	1.1%	<b>1.1%</b>	4.5%
Cash / Equivalents	-2.6%	<b>-7.7%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	75.6%	<b>75.9%</b>	77.3%
AA	2.8%	<b>2.8%</b>	4.3%
A	14.8%	<b>14.3%</b>	9.4%
BBB	6.7%	<b>6.9%</b>	8.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

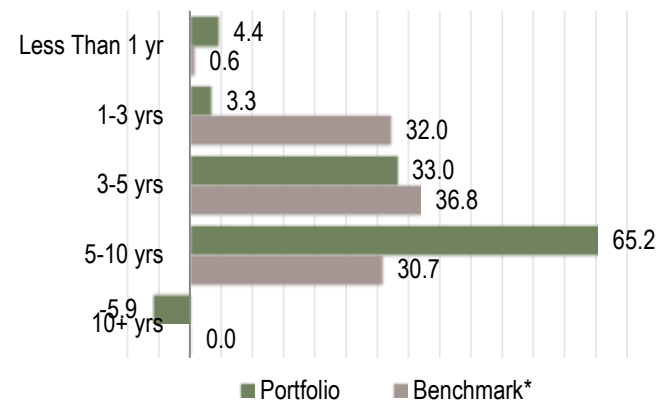
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

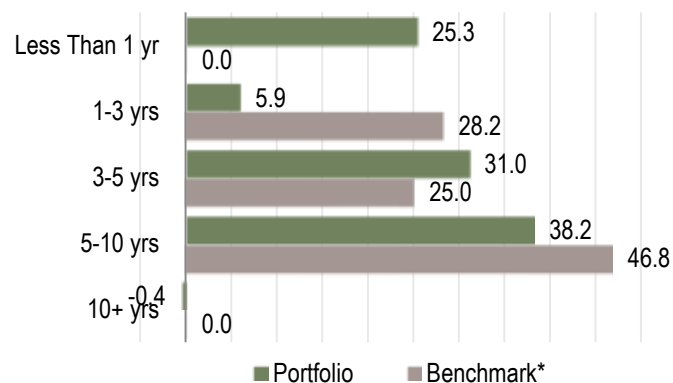
## Duration Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	16.2%	4.4%	0.6%
1-3 yrs	3.7%	3.3%	32.0%
3-5 yrs	30.1%	33.0%	36.8%
5-10 yrs	61.2%	65.2%	30.7%
10+ yrs	-11.3%	-5.9%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	34.8%	25.3%	0.0%
1-3 yrs	5.2%	5.9%	28.2%
3-5 yrs	43.6%	31.0%	25.0%
5-10 yrs	18.0%	38.2%	46.8%
10+ yrs	-1.5%	-0.4%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	1.05	4.03	2.40	--	2.50
<b>Benchmark***</b>	1.28	4.04	1.96	3.51	2.07

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: October 01, 2011

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA+	AA+	<b>Total Assets</b>	\$393.5 million
<b>Weighted Average Maturity</b>	4.65 years	4.85 years	<b>Number of Issues</b>	486
<b>Yield to Maturity</b>	2.21%	1.88%	<b>Weighted Coupon</b>	3.56%
<b>Effective Duration</b>	3.49 years	3.91 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.



# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	3.2%	2.7%	43.4%
Other U.S. Government	5.2%	6.4%	0.0%
Taxable Municipal	0.0%	0.0%	0.6%
Corporates	15.7%	15.4%	12.1%
Asset Backed Securities (ABS)	8.3%	6.9%	0.7%
Commercial Mortgage Backed Securities (CMBS)	10.9%	10.4%	2.4%
Mortgage Backed Securities (MBS)	56.5%	58.7%	37.0%
Sovereign / Supranationals	0.0%	0.0%	3.8%
Cash / Equivalents	0.2%	-0.4%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	83.7%	84.0%	84.9%
AA	4.5%	5.0%	4.7%
A	10.6%	9.8%	10.4%
BBB	1.1%	1.1%	0.0%
< BBB	0.1%	0.1%	0.0%
NR/NA	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*Column percentage may not add exactly due to rounding

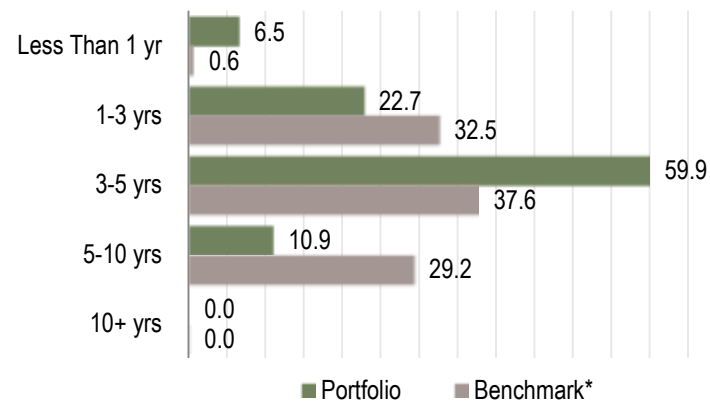
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 401k - Great West ISA

Fourth Quarter 2014

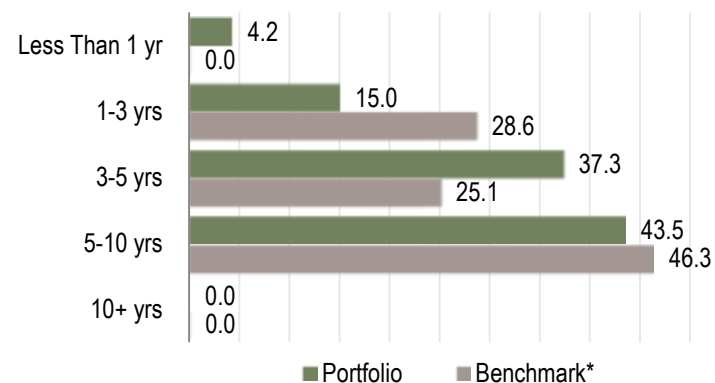
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	9.3%	6.5%	0.6%
1-3 yrs	23.2%	22.7%	32.5%
3-5 yrs	46.6%	59.9%	37.6%
5-10 yrs	20.9%	10.9%	29.2%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	5.8%	4.2%	0.0%
1-3 yrs	16.4%	15.0%	28.6%
3-5 yrs	35.7%	37.3%	25.1%
5-10 yrs	42.1%	43.5%	46.3%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>1 Mo</i>	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	-0.09	1.29	4.40	2.30	--	3.11
<b>Benchmark***</b>	-0.32	0.89	3.13	2.03	3.54	2.72

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays U.S. Intermediate Government/Credit Bond Index

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA+	AA	<b>Total Assets</b>	\$2,799.7 million
<b>Weighted Average Maturity</b>	7.01 years	4.14 years	<b>Number of Issues</b>	210
<b>Yield to Maturity</b>	1.58%	1.66%	<b>Weighted Coupon</b>	2.30%
<b>Effective Duration</b>	4.07 years	3.82 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	65.0%	<b>64.1%</b>	62.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	0.0%	<b>0.0%</b>	0.8%
Corporates	25.2%	<b>29.0%</b>	29.7%
Asset Backed Securities (ABS)	5.8%	<b>5.1%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	0.0%	<b>0.0%</b>	0.0%
Sovereign / Supranationals	1.3%	<b>1.3%</b>	7.1%
Cash / Equivalents	2.7%	<b>0.5%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	74.7%	<b>71.5%</b>	65.2%
AA	1.8%	<b>1.9%</b>	6.3%
A	13.7%	<b>15.2%</b>	14.6%
BBB	9.7%	<b>11.4%</b>	13.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

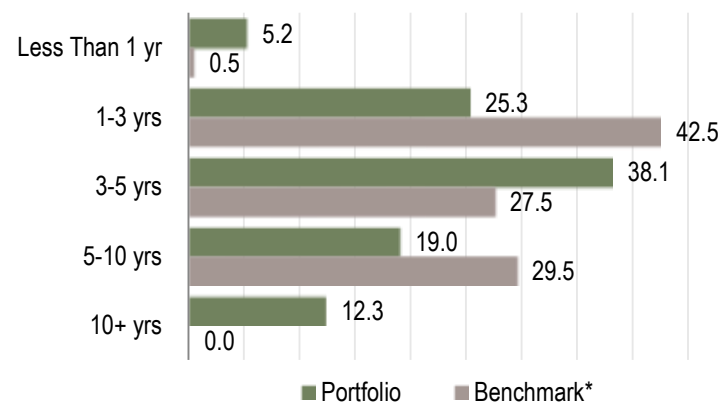
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

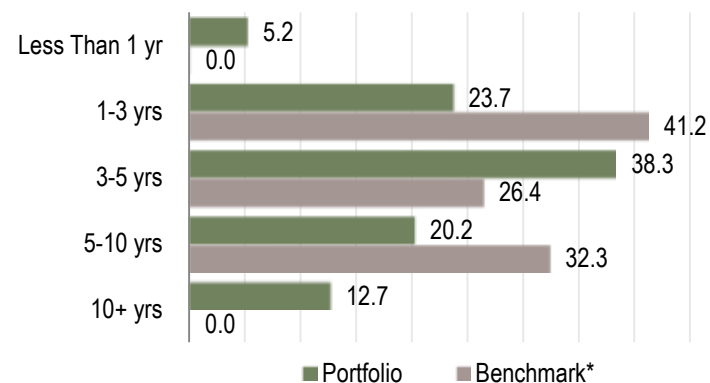
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	13.8%	5.2%	0.5%
1-3 yrs	12.0%	25.3%	42.5%
3-5 yrs	42.2%	38.1%	27.5%
5-10 yrs	19.7%	19.0%	29.5%
10+ yrs	12.2%	12.3%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	13.8%	5.2%	0.0%
1-3 yrs	4.8%	23.7%	41.2%
3-5 yrs	48.1%	38.3%	26.4%
5-10 yrs	21.1%	20.2%	32.3%
10+ yrs	12.3%	12.7%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Stable Value Portfolio Review – North Carolina 457 Stable Value Fund

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

<b>Book Value Performance</b>	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
Portfolio (net of all fees)	0.16	0.47	1.80	2.24	2.78	---	2.53
Merrill Lynch 3 Month T-Bill + 100 bps	0.08	0.25	1.04	1.08	1.09	---	1.09
Merrill Lynch 3 Month T-Bill + 150 bps	0.13	0.38	1.55	1.58	1.60	3.08	1.59
3 Year Constant Maturity Treasury Yield	0.09	0.24	0.90	0.61	0.73	2.01	0.65
<b>Market Value Benchmark</b>							
Blended Benchmark***	-0.17	0.77	2.69	1.59	2.66	3.62	2.00

## Calendar Year Performance

<b>Book Value Performance</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Portfolio (net of all fees)	1.80	2.15	2.77	3.30	---
Merrill Lynch 3 Month T-Bill + 100 bps	1.04	1.08	1.12	1.11	---
Merrill Lynch 3 Month T-Bill + 150 bps	1.55	1.58	1.62	1.61	1.64
3 Year Constant Maturity Treasury Yield	0.90	0.54	0.38	0.75	1.10
<b>Market Value Benchmark</b>					
Blended Benchmark***	2.69	-0.41	2.52	4.05	4.53
<b>Market Indices</b>					
Merrill Lynch 3 Month T-Bill	0.03	0.07	0.07	0.11	0.10
Consumer Price Index	-0.65	1.62	1.62	2.26	2.96

\*Returns for periods of less than one year are not annualized.

\*\*Galliard's management of this portfolio began December 1, 2010. Periods that exceed Galliard's tenure with the portfolio include Galliard performance linked with historical portfolio returns.

\*\*\*10% BofAML 3 Month U.S. T-Bills, 30% Barclays 1-3 Yr U.S. Govt/Credit, 60% Barclays Intermediate U.S. Aggregate. This blended market value benchmark approximates the asset allocation target for the State of North Carolina Stable Value Fund. It is important to note that fundamental differences arise when comparing book value performance to a market index, especially when comparing performance for periods shorter than 10 years. Market value indices immediately reflect the gains/(losses) resulting from changing market interest rates while book value performance amortizes these gains/(losses).

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2014

## Portfolio Characteristics

<b>Total Assets</b>	\$393,826,082	<b>Blended Yield (After fees)*</b>	1.83
<b>Average Holdings Quality**</b>	AA+	<b>Effective Duration</b>	2.95 years
<b>Number of Contract Issuers</b>	5	<b>Market/Book Value Ratio</b>	102.05%

\*Blended yield is after investment management fees, wrap fees and administration fees.

\*\*The Average Holdings Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Average Holdings Quality shown represents an average quality of the underlying individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>12/31/2014</u>	<u>% of Portfolio</u> <u>09/30/2014</u>
<b>Cash &amp; Equivalents*</b>	<b>8,040,049</b>	<b>2.0</b>	<b>2.5</b>
<b>Stable Value Funds</b>	<b>25,769,444</b>	<b>6.5</b>	<b>6.5</b>
<b>Insurance Separate Accounts</b>	<b>133,348,107</b>	<b>33.9</b>	<b>37.0</b>
Intermediate Portfolio	133,348,107	33.9	37.0
<b>Security Backed Contracts</b>	<b>226,668,482</b>	<b>57.6</b>	<b>54.0</b>
Short Portfolio	120,669,678	30.6	27.3
Intermediate Portfolio	105,998,804	26.9	26.8
<b>Total</b>	<b>\$393,826,082</b>	<b>100.0%**</b>	<b>100.0%**</b>

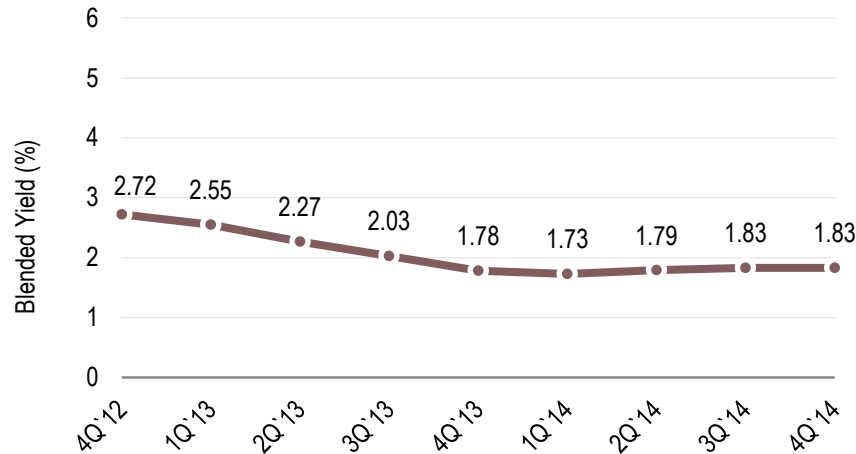
\*Includes Receivables and Payables

\*\*Total % of portfolio may not add to 100% due to rounding

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

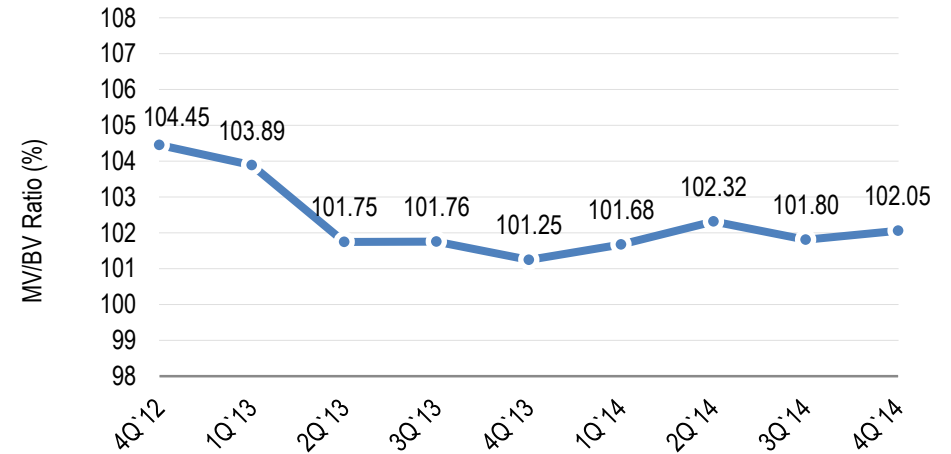
Fourth Quarter 2014

## Historical Book Value Crediting Rate\*

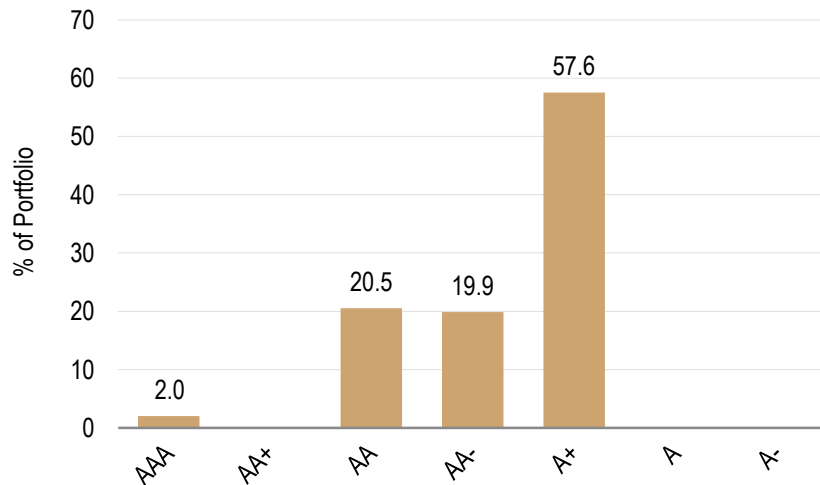


\*As of quarter end. Blended yield is after investment management fees, wrap fees and administration fees.

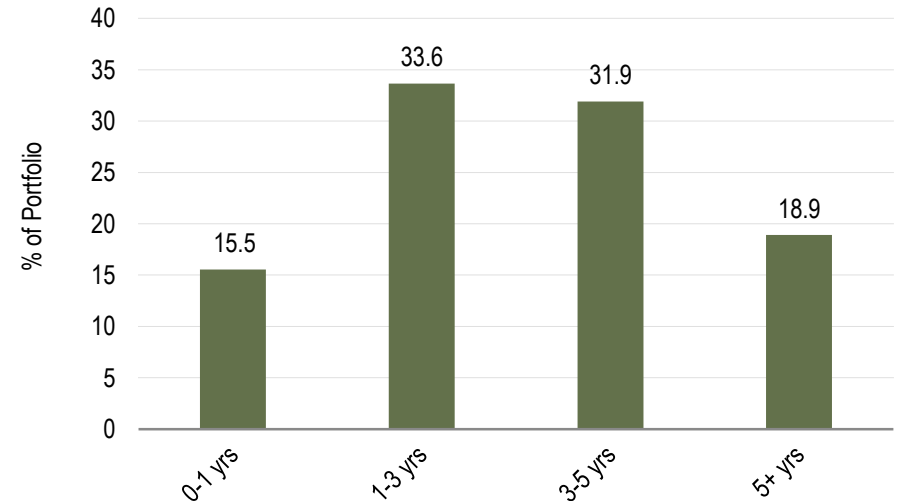
## Market Value to Book Value Ratio\*



## Contract Quality Distribution\*



## Underlying Duration Distribution\*\*



\*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

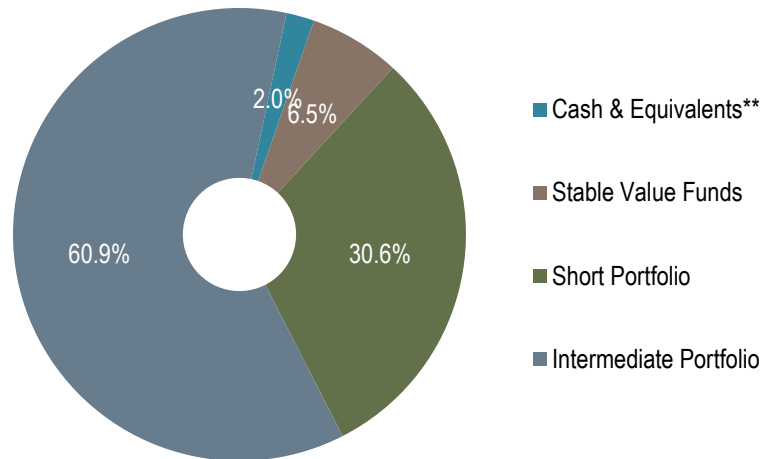
\*\*Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.



# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2014

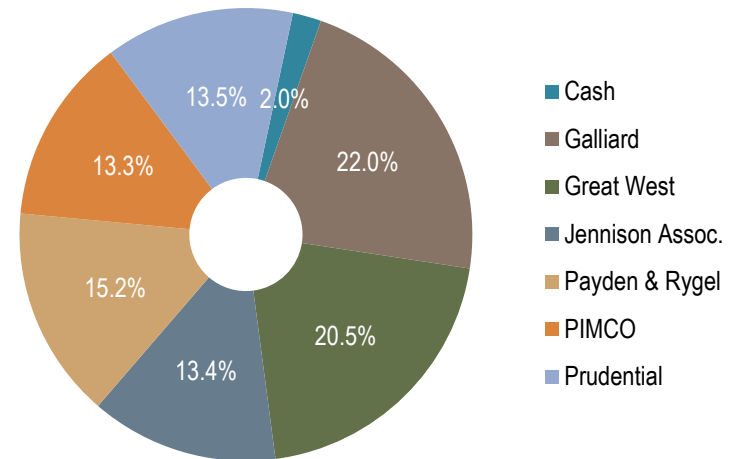
## Portfolio Distribution\*



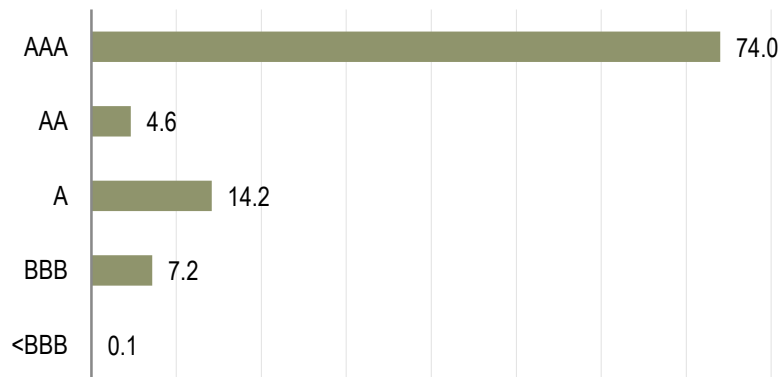
\*Book value

\*\*Includes Receivables and Payables

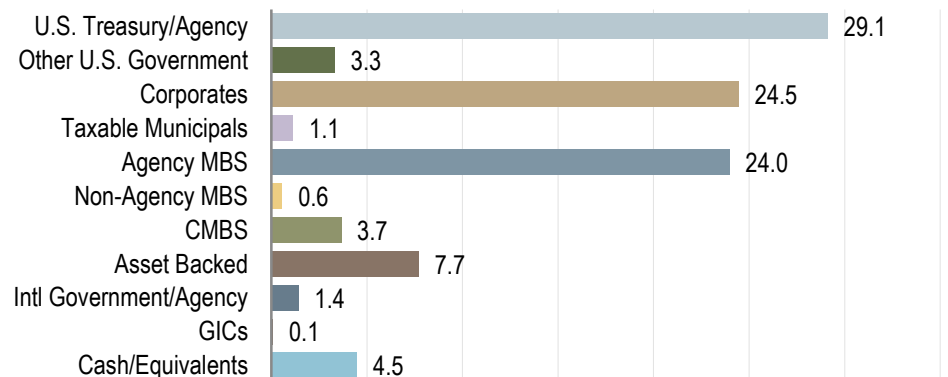
## Manager Distribution\*



## Underlying Fixed Income Credit Quality\*



## Underlying Fixed Income Asset Allocation\*\*



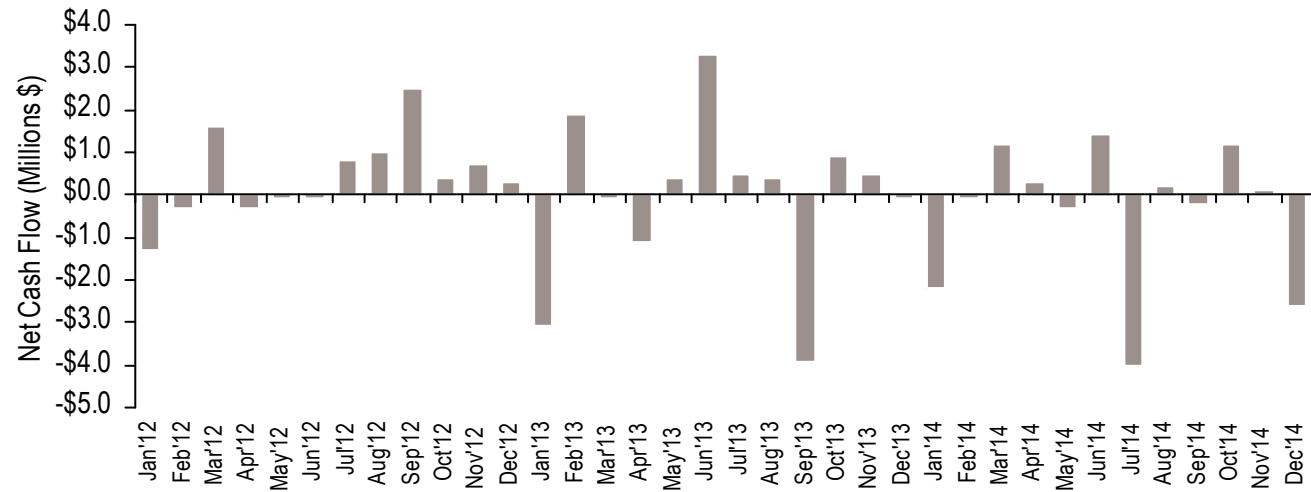
\*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology

\*\*Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2014

## Historical Cashflows



	2014	2013	2012	2011
Beginning Assets	\$392.0	\$384.1	\$368.8	\$343.5
Net Cash Flow (\$)*	-\$5.2	-\$0.4	\$5.1	\$4.1
Net Cash Flow (%)	-1.33%	-0.10%	1.38%	1.19%
Estimated Investment Earnings	\$7.0	\$8.3	\$10.3	\$21.2
Ending Assets**	\$393.8	\$392.0	\$384.1	\$368.8

\* Contributions, Withdrawals and Investment Transfers

\*\*Cashflows may not net to final assets due to rounding

## STATE OF NORTH CAROLINA STABLE VALUE FUNDS

### MARKET VALUE 457PLAN PERFORMANCE SUMMARY

#### *Short Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Payden &amp; Rygel</b>	<b>0.15%</b>	<b>1.02%</b>	<b>1.59%</b>		<b>2.06%</b>	<b>8/1/2009</b>
Barclays Capital 1-3 Yr. Govt/Credit	<u>0.17%</u>	<u>0.77%</u>	<u>0.89%</u>		<u>1.54%</u>	
	-0.02%	0.25%	0.69%		0.52%	
<b>Galliard**</b>	<b>0.40%</b>	<b>1.57%</b>	<b>1.40%</b>		<b>2.20%</b>	<b>1/1/2010</b>
Barclays Capital 1-3 Yr. Government *	0.19%	0.64%	0.51%		1.09%	
Barclays Capital 1-3 Yr. Gov't/Credit	<u>0.17%</u>	<u>0.77%</u>	<u>0.89%</u>		<u>1.41%</u>	
	0.21%	0.93%	0.89%		1.10%	

#### *Intermediate Duration*

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
<b>Prudential Investment Management</b>	<b>1.22%</b>	<b>4.24%</b>	<b>2.32%</b>		<b>3.02%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Aggregate	<u>1.20%</u>	<u>4.12%</u>	<u>2.19%</u>		<u>2.88%</u>	
	0.02%	0.13%	0.13%		0.13%	
<b>PIMCO</b>	<b>0.80%</b>	<b>3.39%</b>	<b>1.96%</b>		<b>3.03%</b>	<b>2/1/2011</b>
Barclays Capital Intermediate Aggregate	<u>1.20%</u>	<u>4.12%</u>	<u>2.19%</u>		<u>3.11%</u>	
	-0.40%	-0.73%	-0.23%		-0.08%	
<b>Great West Life</b>	<b>1.15%</b>	<b>4.15%</b>	<b>2.40%</b>		<b>2.46%</b>	<b>10/1/2011</b>
Barclays Capital Intermediate Aggregate (Ex BBB)	<u>1.28%</u>	<u>4.04%</u>	<u>1.96%</u>		<u>2.07%</u>	
	-0.13%	0.10%	0.44%		0.40%	
<b>Jennison</b>	<b>1.29%</b>	<b>4.40%</b>	<b>2.30%</b>		<b>3.11%</b>	<b>8/1/2010</b>
Barclays Capital Intermediate Govt/Credit	<u>0.89%</u>	<u>3.13%</u>	<u>2.03%</u>		<u>2.72%</u>	
	0.40%	1.27%	0.27%		0.39%	

\*Index being shown for comparison purposes only, the fund is managed to a targeted duration. Returns shown are after investment management fees.

\*\*Reflects performance of Galliard Short Duration Fund B through 2/28/14 at which time Fund B was consolidated.

# STATE OF NORTH CAROLINA STABLE VALUE FUNDS

## MANAGER-LEVEL CHARACTERISTICS – 457 PLAN

Segment	Manager	Period	Book Value	Market Value	MV/BV Ratio	Market Value Yield	Duration (Years)	Book Value Crediting Rate
Short Duration	Payden & Rygel	9/30/2014	\$ 59,466,511	\$ 59,974,401	100.9%	0.91%	1.64	1.28%
		12/31/2014	\$ 59,688,030	\$ 60,065,219	<u>100.6%</u>	<u>0.98%</u>	<u>1.53</u>	<u>1.19%</u>
			\$ 221,519	\$ 90,818	-0.2%	0.07%	(0.11)	-0.09%
	Galliard	9/30/2014	\$ 47,720,505	\$ 48,353,443	101.3%	1.26%	2.03	1.85%
		12/31/2014	\$ 60,981,648	\$ 61,806,321	<u>101.4%</u>	<u>1.27%</u>	<u>1.97</u>	<u>1.76%</u>
			\$ 13,261,143	\$ 13,452,878	0.0%	0.01%	(0.06)	-0.09%
	Prudential	9/30/2014	\$ 52,860,777	\$ 54,642,587	103.4%	2.07%	4.03	2.41%
		12/31/2014	\$ 53,182,047	\$ 55,277,847	<u>103.9%</u>	<u>1.92%</u>	<u>3.68</u>	<u>2.45%</u>
			\$ 321,270	\$ 635,260	0.6%	-0.15%	(0.35)	0.04%
Intermediate Duration	PIMCO	9/30/2014	\$ 52,282,888	\$ 53,287,202	101.9%	1.88%	3.52	2.01%
		12/31/2014	\$ 52,568,301	\$ 53,701,903	<u>102.2%</u>	<u>1.84%</u>	<u>3.64</u>	<u>2.16%</u>
			\$ 285,413	\$ 414,701	0.2%	-0.04%	0.12	0.15%
	Great West Life	9/30/2014	\$ 93,204,518	\$ 94,605,522	101.5%	2.33%	3.74	2.52%
		12/31/2014	\$ 80,779,806	\$ 82,359,353	<u>102.0%</u>	<u>2.25%</u>	<u>3.53</u>	<u>2.57%</u>
			\$ (12,424,712)	\$ (12,246,169)	0.5%	-0.08%	(0.21)	0.05%
	Jennison	9/30/2014	\$ 52,441,574	\$ 54,209,254	103.4%	1.56%	3.98	2.41%
		12/31/2014	\$ 52,816,756	\$ 54,898,161	<u>103.9%</u>	<u>1.58%</u>	<u>4.07</u>	<u>2.45%</u>
			\$ 375,182	\$ 688,907	0.6%	0.02%	0.09	0.04%
	Total Fund	9/30/2014	\$ 393,320,064	\$ 400,415,701	101.8%	1.68%	3.08	2.03%
		12/31/2014	\$ 393,826,082	\$ 401,918,297	<u>102.1%</u>	<u>1.63%</u>	<u>2.95</u>	<u>2.03%</u>
			\$ 506,018	\$ 1,502,596	0.3%	-0.05%	(0.13)	0.00%

# Stable Value Portfolio Review - North Carolina 457 Stable Value Fund

Fourth Quarter 2014

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>12/31/2014</u>	<u>9/30/2014</u>	<u>12/31/2014</u>	<u>9/30/2014</u>
American General Life Ins. Co.	A+	A+	A2	A2
GreatWest Life Insurance Co.	AA	AA	Aa3	Aa3
Metropolitan Life Ins. Co.	AA-	AA-	Aa3	Aa3
Nationwide Life Ins. Co.	A+	A+	A1	A1
Prudential Ins. Co. of America	AA-	AA-	A1	A1

### American General Life Ins. Co.

- Solid capital levels
- All life businesses except New York were consolidated into this subsidiary at year end 2012
- Leading positions in a diverse set of products

### GreatWest Life Insurance Co.

- Aggressive dividend taking by the parent, combined with General Account growth, results in low capital levels and ratios
- Strong positions in niche markets
- Reliant on support from parent company; the leading insurer in Canada which had solid 2013 results

### Metropolitan Life Ins. Co.

- Largest U.S. life insurer by invested assets
- Has been declared a non-bank SIFI by the FSOC; but will fight the designation in court
- Capital ratios have rebounded since 2013 but remain lower than 2011 and 2012

### Nationwide Life Ins. Co.

- Part of a leading mutual group that includes a leading P&C company
- Strong history of earnings
- Significant variable annuity hedging has resulted in volatile investment earnings

### Prudential Ins. Co. of America

- A leading diversified U.S. life insurer
- Surplus continues to show solid growth
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds

The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only.  
For institutional investors only.

# North Carolina 457 Stable Value Fund Portfolio Review

## Transaction Report

10/01/2014 - 12/31/2014

Asset ID	Issuer	Par Amount	Maturity*	Trade Date	Settle Date	S&P Rating	Moody's Rating
<u>Purchases</u>							
Security Backed Contracts							
896994MP2	Nationwide Life Ins. Co.	13,000,000	N.S.M.	12/01/2014	12/01/2014	A+	A1
Total Security Backed Contracts		13,000,000					
Total Purchases		13,000,000					
<u>Sales</u>							
Insurance Separate Accounts							
391997NC3	GreatWest Life Insurance Co.	13,000,000	N.S.M.	12/01/2014	12/01/2014	AA	Aa3
Total Insurance Separate Accounts		13,000,000					
Total Sales		13,000,000					

\*N.S.M. = No Stated Maturity

# North Carolina 457 Stable Value Fund Portfolio Review

## Portfolio Holdings

December 31, 2014

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
<b>Cash &amp; Equivalents</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-252,517	-252,517	100.0	-0.1	0.01		0.10	AAA	Aaa	
VP45600\$1	WF Adv Government Money Market		8,292,566	8,292,566	100.0	2.1	0.01		0.10	AAA	Aaa	
<b>Total Cash &amp; Equivalents</b>			<b>8,040,049</b>	<b>8,040,049</b>	<b>100.0</b>	<b>2.0</b>	<b>0.01</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>Stable Value Funds</b>												
949907109	Wells Fargo Stable Return Fund G		25,769,444	25,769,444	100.0	6.5	1.64		2.44	AA-	Aa3	
<b>Total Stable Value Funds</b>			<b>25,769,444</b>	<b>25,769,444</b>	<b>100.0</b>	<b>6.5</b>	<b>1.64</b>		<b>2.44</b>	<b>AA-</b>	<b>Aa3</b>	
<b>Insurance Separate Accounts</b>												
<b>Intermediate Portfolio</b>												
391997NC3	GreatWest Life Insurance Co.	Great West	80,779,806	82,359,353	102.0	20.5	2.57	N.S.M.	3.53	AA	Aa3	15.0
590994BY4	Metropolitan Life Ins. Co.	PIMCO	52,568,301	53,701,903	102.2	13.3	2.16	N.S.M.	3.64	AA-	Aa3	20.0
<b>Total Intermediate Portfolio</b>			<b>133,348,107</b>	<b>136,061,256</b>	<b>102.0</b>	<b>33.9</b>	<b>2.41</b>		<b>3.57</b>	<b>AA</b>	<b>Aa3</b>	
<b>Total Insurance Separate Accounts</b>			<b>133,348,107</b>	<b>136,061,256</b>	<b>102.0</b>	<b>33.9</b>	<b>2.41</b>		<b>3.57</b>	<b>AA</b>	<b>Aa3</b>	
<b>Security Backed Contracts</b>												
<b>Short Portfolio</b>												
946996DV4	American General Life Ins. Co.	Payden & Rygel	59,688,030	60,065,219	100.6	15.2	1.19	N.S.M.	1.53	A+	A2	25.0
896994MP2	Nationwide Life Ins. Co.	Galliard	60,981,648	61,806,321	101.4	15.5	1.76	N.S.M.	1.97	A+	A1	23.0
<b>Total Short Portfolio</b>			<b>120,669,678</b>	<b>121,871,540</b>	<b>101.0</b>	<b>30.6</b>	<b>1.48</b>		<b>1.75</b>	<b>A+</b>	<b>A1</b>	
<b>Intermediate Portfolio</b>												
744999CF8	Prudential Ins. Co. of America	Jennison Assoc.	52,816,756	54,898,161	103.9	13.4	2.45	N.S.M.	4.07	AA-	A1	17.0
744999CF8	Prudential Ins. Co. of America	Prudential	53,182,047	55,277,847	103.9	13.5	2.45	N.S.M.	3.68	AA-	A1	17.0
<b>Total Intermediate Portfolio</b>			<b>105,998,804</b>	<b>110,176,008</b>	<b>103.9</b>	<b>26.9</b>	<b>2.45</b>		<b>3.87</b>	<b>AA-</b>	<b>A1</b>	
<b>Total Security Backed Contracts</b>			<b>226,668,482</b>	<b>232,047,548</b>	<b>102.4</b>	<b>57.6</b>	<b>1.93</b>		<b>2.75</b>	<b>A+</b>	<b>A1</b>	
<b>Total Fund</b>			<b>393,826,082</b>	<b>401,918,297</b>	<b>102.1</b>	<b>100.0</b>	<b>2.03</b>		<b>2.95</b>	<b>AA-</b>	<b>A1</b>	

\*N.S.M. = No Stated Maturity

# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	0.15	1.02	1.59	1.95	2.07
<b>Benchmark***</b>	0.17	0.77	0.89	1.41	1.54

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2009

\*\*\*Barclays U.S. 1-3 Year Government/Credit Bond Index

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA-	AA+	<b>Total Assets</b>	\$60.1 million
<b>Weighted Average Maturity</b>	2.08 years	1.90 years	<b>Number of Issues</b>	196
<b>Yield to Maturity</b>	0.98%	0.86%	<b>Weighted Coupon</b>	1.26%
<b>Effective Duration</b>	1.53 years	1.85 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.



# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	30.9%	<b>32.7%</b>	72.5%
Other U.S. Government	2.3%	<b>2.2%</b>	0.0%
Taxable Municipal	2.4%	<b>2.5%</b>	0.7%
Corporates	43.2%	<b>42.4%</b>	19.5%
Asset Backed Securities (ABS)	10.5%	<b>9.6%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	4.0%	<b>3.7%</b>	0.0%
Sovereign / Supranationals	6.4%	<b>6.7%</b>	7.3%
Cash / Equivalents	0.3%	<b>0.3%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	54.2%	<b>54.6%</b>	75.5%
AA	3.9%	<b>4.5%</b>	6.7%
A	22.9%	<b>23.4%</b>	10.3%
BBB	19.0%	<b>17.4%</b>	7.5%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

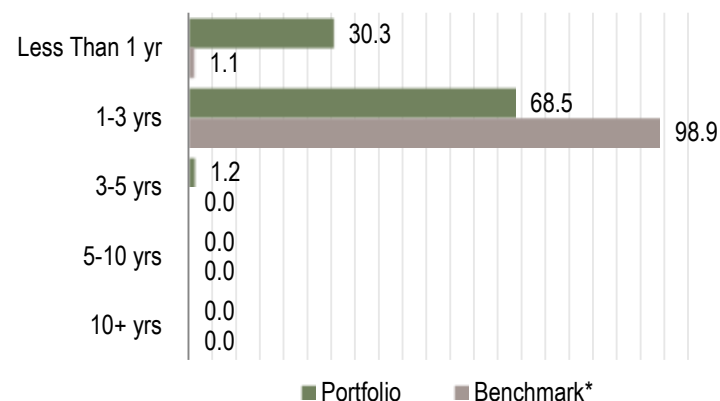
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 457 - Payden & Rygel

Fourth Quarter 2014

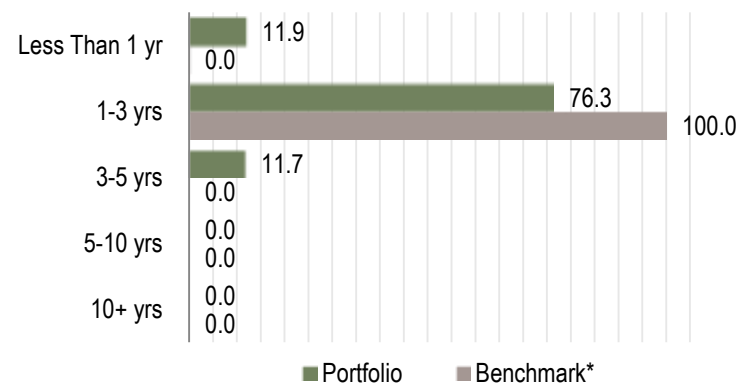
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	30.8%	30.3%	1.1%
1-3 yrs	67.2%	68.5%	98.9%
3-5 yrs	2.0%	1.2%	0.0%
5-10 yrs	0.0%	0.0%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	10.9%	11.9%	0.0%
1-3 yrs	76.3%	76.3%	100.0%
3-5 yrs	12.7%	11.7%	0.0%
5-10 yrs	0.0%	0.0%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. 1-3 Year Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review – Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
<b>Book Value Performance</b>							
Portfolio (net of all fees)	0.16	0.47	1.80	2.24	2.78	---	2.53
Merrill Lynch 3 Month T-Bill + 100 bps	0.08	0.25	1.04	1.08	1.09	---	1.09
Merrill Lynch 3 Month T-Bill + 150 bps	0.13	0.38	1.55	1.58	1.60	3.08	1.59
3 Year Constant Maturity Treasury Yield	0.09	0.24	0.90	0.61	0.73	2.01	0.65
<b>Market Value Benchmark</b>							
Blended Benchmark***	-0.17	0.77	2.69	1.59	2.66	3.62	2.00

\*Returns for periods of less than one year are not annualized.

\*\*Galliard Performance Inception: January 01, 2010

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

	1 Mo	3 Mos	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception**
<b>Portfolio</b>	-0.24	0.40	1.57	1.42	2.52	3.05	3.05
<b>Benchmark***</b>	-0.24	0.19	0.64	0.51	1.09	2.62	2.62

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Galliard Performance Inception: January 01, 2005

\*\*\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

## Portfolio Characteristics

	Portfolio	Benchmark*		Portfolio
<b>Weighted Average Quality**</b>	AA+	AAA	<b>Total Assets</b>	\$13,666.7 million
<b>Weighted Average Maturity</b>	2.36 years	1.90 years	<b>Number of Issues</b>	1415
<b>Yield to Maturity</b>	1.27%	0.67%	<b>Weighted Coupon</b>	1.96%
<b>Effective Duration</b>	1.97 years	1.85 years	<b>Estimated Annual Income</b>	\$263.2 million

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

## Sector Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
U.S. Government/Agency Debentures	10.8%	10.7%	100.0%
Other U.S. Government	4.2%	4.2%	0.0%
Taxable Municipal	2.0%	2.5%	0.0%
Corporates	18.4%	19.8%	0.0%
Asset Backed Securities (ABS)	19.9%	19.6%	0.0%
Commercial Mortgage Backed Securities (CMBS)	7.9%	7.2%	0.0%
Mortgage Backed Securities (MBS)	25.2%	24.5%	0.0%
Sovereign / Supranationals	0.0%	0.0%	0.0%
Cash / Equivalents	11.5%	11.7%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Top 5 Credit Exposure

	% of Portfolio 12/31/2014
Bank of America Corp	0.6%
JPMorgan Chase & Co	0.6%
Royal Bank of Canada	0.6%
Citigroup Inc	0.6%
Toronto-Dominion Bank/The	0.5%
<b>Total</b>	<b>2.9%**</b>

Total entity exposure – includes all related entities

## Quality Distribution\*\*\*

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
AAA	82.9%	80.5%	96.3%
AA	5.9%	7.1%	3.6%
A	10.9%	12.1%	0.1%
BBB	0.3%	0.2%	0.0%
< BBB	0.0%	0.0%	0.0%
NR/NA	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

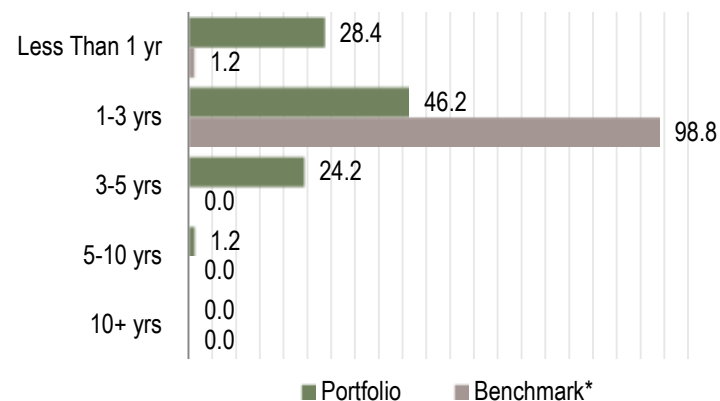
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Galliard Short High Quality Core Fixed Income Fund - F

Fourth Quarter 2014

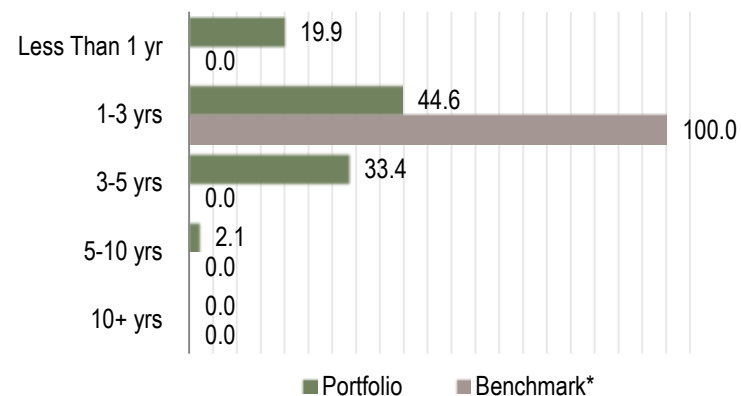
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	29.8%	28.4%	1.2%
1-3 yrs	43.0%	46.2%	98.8%
3-5 yrs	26.0%	24.2%	0.0%
5-10 yrs	1.2%	1.2%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	20.8%	19.9%	0.0%
1-3 yrs	43.1%	44.6%	100.0%
3-5 yrs	34.2%	33.4%	0.0%
5-10 yrs	1.9%	2.1%	0.0%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



\*Barclays Capital 1-3 Yr Government. Benchmark information shown is used for comparative purposes only. The fund is managed to a targeted duration of 2.0 years.

\*\*Column percentage may not add exactly due to rounding

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

	3 Mos	1 Yr	3 Yr	5 Yr	Since Inception**
<b>Portfolio</b>	1.22	4.24	2.32	--	3.02
<b>Benchmark***</b>	1.20	4.12	2.19	3.72	2.88

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index

## Portfolio Characteristics

	Portfolio	Benchmark*		Portfolio
<b>Weighted Average Quality**</b>	AA+	AA+	<b>Total Assets</b>	\$1,687.8 million
<b>Weighted Average Maturity</b>	4.55 years	4.88 years	<b>Number of Issues</b>	1092
<b>Yield to Maturity</b>	1.92%	1.99%	<b>Weighted Coupon</b>	3.07%
<b>Effective Duration</b>	3.68 years	3.97 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	38.7%	<b>35.3%</b>	39.6%
Other U.S. Government	0.6%	<b>0.8%</b>	0.0%
Taxable Municipal	0.2%	<b>0.2%</b>	0.5%
Corporates	22.2%	<b>21.9%</b>	18.8%
Asset Backed Securities (ABS)	0.5%	<b>0.6%</b>	0.6%
Commercial Mortgage Backed Securities (CMBS)	4.4%	<b>4.3%</b>	2.3%
Mortgage Backed Securities (MBS)	32.3%	<b>32.3%</b>	33.7%
Sovereign / Supranationals	0.6%	<b>0.6%</b>	4.5%
Cash / Equivalents	0.4%	<b>3.9%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	76.0%	<b>76.5%</b>	77.3%
AA	2.7%	<b>2.8%</b>	4.3%
A	11.4%	<b>10.8%</b>	9.4%
BBB	9.9%	<b>9.9%</b>	8.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

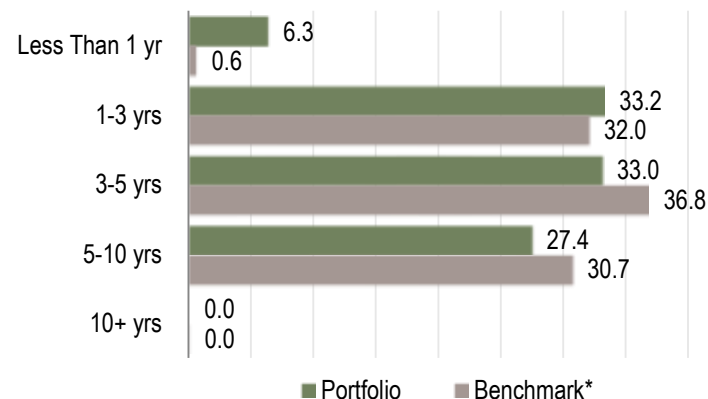


# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund M (Prudential)

Fourth Quarter 2014

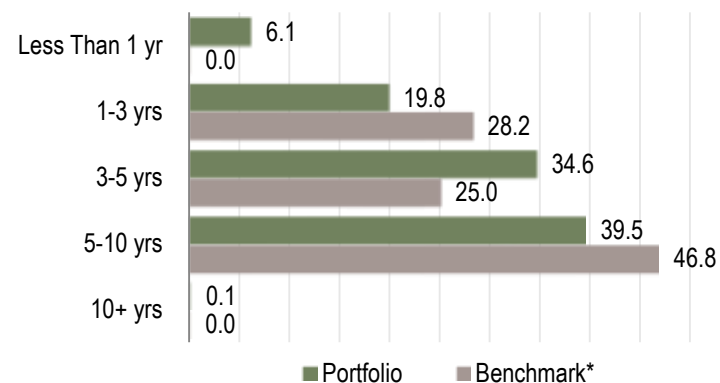
## Duration Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	2.8%	<b>6.3%</b>	0.6%
1-3 yrs	27.7%	<b>33.2%</b>	32.0%
3-5 yrs	40.4%	<b>33.0%</b>	36.8%
5-10 yrs	29.1%	<b>27.4%</b>	30.7%
10+ yrs	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	2.6%	<b>6.1%</b>	0.0%
1-3 yrs	23.4%	<b>19.8%</b>	28.2%
3-5 yrs	29.2%	<b>34.6%</b>	25.0%
5-10 yrs	44.6%	<b>39.5%</b>	46.8%
10+ yrs	0.1%	<b>0.1%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

## Annualized Investment Performance\*

Periods Ending December 31, 2014

	3 Mos	1 Yr	3 Yr	5 Yr	Since Inception**
<b>Portfolio</b>	0.80	3.39	1.96	--	3.03
<b>Benchmark***</b>	1.20	4.12	2.19	3.72	3.11

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: February 01, 2011

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index

## Portfolio Characteristics

	Portfolio	Benchmark*		Portfolio
<b>Weighted Average Quality**</b>	AA	AA+	<b>Total Assets</b>	\$1,326.0 million
<b>Weighted Average Maturity</b>	4.45 years	4.88 years	<b>Number of Issues</b>	171
<b>Yield to Maturity</b>	1.84%	1.99%	<b>Weighted Coupon</b>	2.12%
<b>Effective Duration</b>	3.64 years	3.97 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	60.3%	<b>57.0%</b>	39.6%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	1.3%	<b>1.3%</b>	0.5%
Corporates	22.6%	<b>22.1%</b>	18.8%
Asset Backed Securities (ABS)	0.0%	<b>0.0%</b>	0.6%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	2.3%
Mortgage Backed Securities (MBS)	17.3%	<b>26.2%</b>	33.7%
Sovereign / Supranationals	1.1%	<b>1.1%</b>	4.5%
Cash / Equivalents	-2.6%	<b>-7.7%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	75.6%	<b>75.9%</b>	77.3%
AA	2.8%	<b>2.8%</b>	4.3%
A	14.8%	<b>14.3%</b>	9.4%
BBB	6.7%	<b>6.9%</b>	8.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

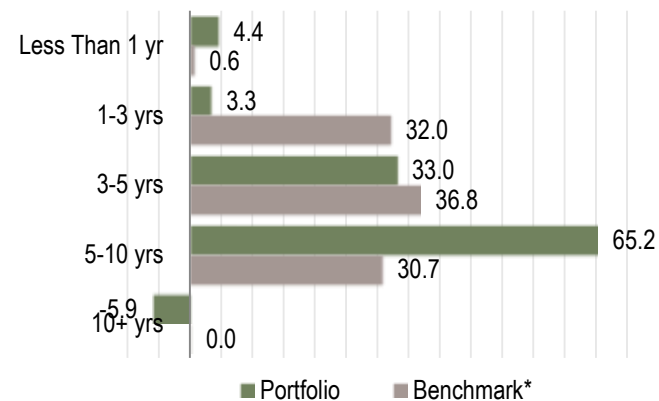
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - MetLife Separate Account 654/695/737 - Commingled PIMCO

Fourth Quarter 2014

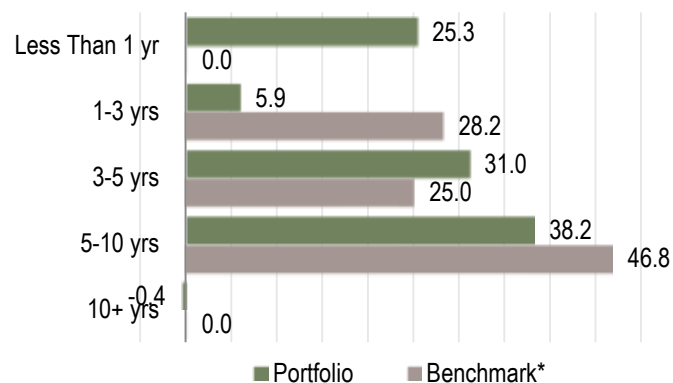
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	16.2%	4.4%	0.6%
1-3 yrs	3.7%	3.3%	32.0%
3-5 yrs	30.1%	33.0%	36.8%
5-10 yrs	61.2%	65.2%	30.7%
10+ yrs	-11.3%	-5.9%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	34.8%	25.3%	0.0%
1-3 yrs	5.2%	5.9%	28.2%
3-5 yrs	43.6%	31.0%	25.0%
5-10 yrs	18.0%	38.2%	46.8%
10+ yrs	-1.5%	-0.4%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index

\*\*Column percentage may not add exactly due to rounding

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# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	1.15	4.15	2.40	--	2.46
<b>Benchmark***</b>	1.28	4.04	1.96	3.51	2.07

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: October 01, 2011

\*\*\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA+	AA+	<b>Total Assets</b>	\$82.4 million
<b>Weighted Average Maturity</b>	4.55 years	4.85 years	<b>Number of Issues</b>	187
<b>Yield to Maturity</b>	2.25%	1.88%	<b>Weighted Coupon</b>	3.53%
<b>Effective Duration</b>	3.53 years	3.91 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	1.2%	<b>1.6%</b>	43.4%
Other U.S. Government	9.4%	<b>9.4%</b>	0.0%
Taxable Municipal	0.0%	<b>0.0%</b>	0.6%
Corporates	19.9%	<b>18.0%</b>	12.1%
Asset Backed Securities (ABS)	9.4%	<b>8.5%</b>	0.7%
Commercial Mortgage Backed Securities (CMBS)	7.4%	<b>7.7%</b>	2.4%
Mortgage Backed Securities (MBS)	52.1%	<b>54.5%</b>	37.0%
Sovereign / Supranationals	0.0%	<b>0.0%</b>	3.8%
Cash / Equivalents	0.7%	<b>0.3%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	77.2%	<b>79.0%</b>	84.9%
AA	7.0%	<b>6.9%</b>	4.7%
A	13.6%	<b>12.4%</b>	10.4%
BBB	1.9%	<b>1.5%</b>	0.0%
< BBB	0.3%	<b>0.3%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*Column percentage may not add exactly due to rounding

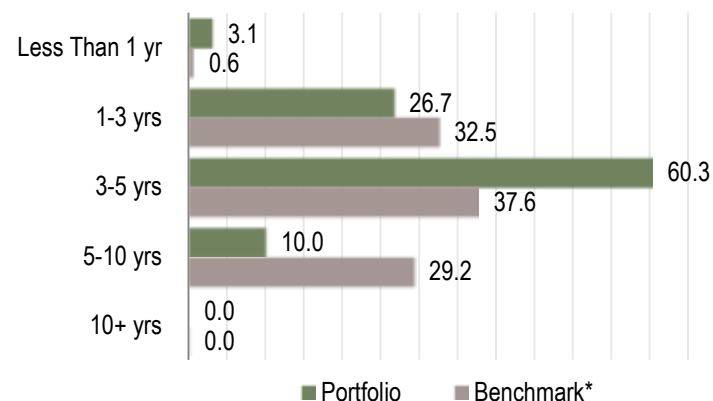
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - North Carolina 457 - Great West ISA

Fourth Quarter 2014

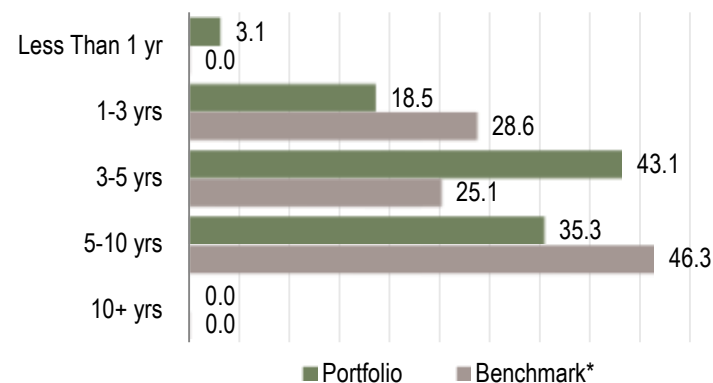
## Duration Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	5.8%	3.1%	0.6%
1-3 yrs	24.8%	26.7%	32.5%
3-5 yrs	47.8%	60.3%	37.6%
5-10 yrs	21.6%	10.0%	29.2%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	% of Portfolio 09/30/2014	% of Portfolio 12/31/2014	% of Benchmark* 12/31/2014
0-1 yrs	4.1%	3.1%	0.0%
1-3 yrs	19.2%	18.5%	28.6%
3-5 yrs	36.9%	43.1%	25.1%
5-10 yrs	39.7%	35.3%	46.3%
10+ yrs	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Aggregate Bond Index A or Better

\*\*Column percentage may not add exactly due to rounding

Disclosure: Galliard Capital Management has exercised reasonable professional care in the preparation of this material. We cannot, however, guarantee the accuracy of all information contained herein.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

## Annualized Investment Performance\*

*Periods Ending December 31, 2014*

	<i>1 Mo</i>	<i>3 Mos</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>Since Inception**</i>
<b>Portfolio</b>	-0.09	1.29	4.40	2.30	--	3.11
<b>Benchmark***</b>	-0.32	0.89	3.13	2.03	3.54	2.72

\*Returns for periods of less than one year are not annualized. Returns shown are before fees.

\*\*Performance Inception: August 01, 2010

\*\*\*Barclays U.S. Intermediate Government/Credit Bond Index

## Portfolio Characteristics

	<i>Portfolio</i>	<i>Benchmark*</i>		<i>Portfolio</i>
<b>Weighted Average Quality**</b>	AA+	AA	<b>Total Assets</b>	\$2,799.7 million
<b>Weighted Average Maturity</b>	7.01 years	4.14 years	<b>Number of Issues</b>	210
<b>Yield to Maturity</b>	1.58%	1.66%	<b>Weighted Coupon</b>	2.30%
<b>Effective Duration</b>	4.07 years	3.82 years		

Portfolio characteristics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.



# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

## Sector Distribution

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
U.S. Government/Agency Debentures	65.0%	<b>64.1%</b>	62.4%
Other U.S. Government	0.0%	<b>0.0%</b>	0.0%
Taxable Municipal	0.0%	<b>0.0%</b>	0.8%
Corporates	25.2%	<b>29.0%</b>	29.7%
Asset Backed Securities (ABS)	5.8%	<b>5.1%</b>	0.0%
Commercial Mortgage Backed Securities (CMBS)	0.0%	<b>0.0%</b>	0.0%
Mortgage Backed Securities (MBS)	0.0%	<b>0.0%</b>	0.0%
Sovereign / Supranationals	1.3%	<b>1.3%</b>	7.1%
Cash / Equivalents	2.7%	<b>0.5%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

## Quality Distribution\*\*\*

	<i>% of Portfolio</i> <i>09/30/2014</i>	<i>% of Portfolio</i> <i>12/31/2014</i>	<i>% of Benchmark*</i> <i>12/31/2014</i>
AAA	74.7%	<b>71.5%</b>	65.2%
AA	1.8%	<b>1.9%</b>	6.3%
A	13.7%	<b>15.2%</b>	14.6%
BBB	9.7%	<b>11.4%</b>	13.9%
< BBB	0.0%	<b>0.0%</b>	0.0%
NR/NA	0.0%	<b>0.0%</b>	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>

Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

\*\*Column percentage may not add exactly due to rounding

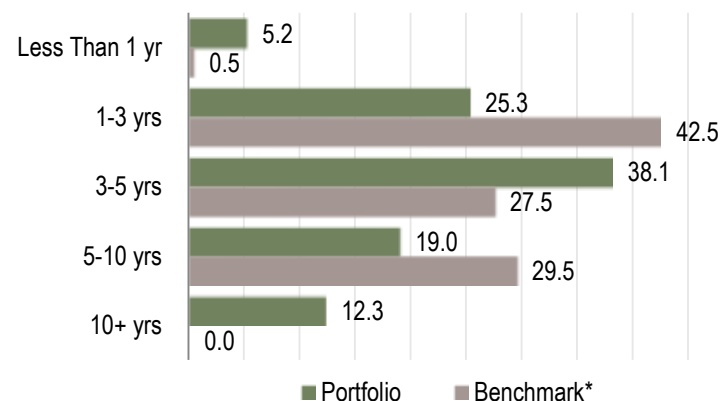
\*\*\*The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.

# Fixed Income Portfolio Review - Wells Fargo Fixed Income Fund N (Jennison)

December 2014

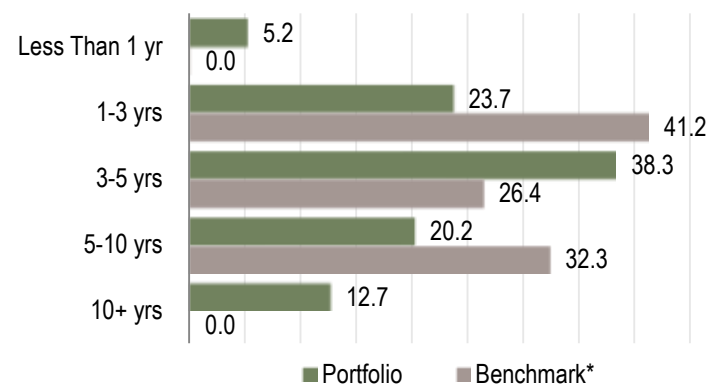
## Duration Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	13.8%	5.2%	0.5%
1-3 yrs	12.0%	25.3%	42.5%
3-5 yrs	42.2%	38.1%	27.5%
5-10 yrs	19.7%	19.0%	29.5%
10+ yrs	12.2%	12.3%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



## Maturity Distribution

	<i>% of Portfolio 09/30/2014</i>	<i>% of Portfolio 12/31/2014</i>	<i>% of Benchmark* 12/31/2014</i>
0-1 yrs	13.8%	5.2%	0.0%
1-3 yrs	4.8%	23.7%	41.2%
3-5 yrs	48.1%	38.3%	26.4%
5-10 yrs	21.1%	20.2%	32.3%
10+ yrs	12.3%	12.7%	0.0%
<b>Total</b>	<b>100.0%**</b>	<b>100.0%**</b>	<b>100.0%**</b>



Portfolio statistics are calculated by Galliard based on external manager supplied holdings.

\*Barclays U.S. Intermediate Government/Credit Bond Index

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## ECONOMIC OVERVIEW

### FOURTH QUARTER 2014

#### U.S. Economic Growth Strengthens

- Third quarter GDP real growth surpassed market expectations with a +5.0% Q-o-Q annualized advance. Fourth quarter GDP growth is expected to be a bit more muted, but could approach +3.0%.
- Improving household balance sheets, falling unemployment and, more recently, a sharp drop in gasoline prices all helped boost consumer confidence to levels not seen since 2007.
- With improved wherewithal to spend and growing confidence about the future, we expect the U.S. consumer to drive real GDP growth above the +3.0% level in 2015.

#### Global Growth Concerns Remain

- Sharply lower oil prices have caused significant budgetary pressures for energy-exporting nations such as Russia and Venezuela. Given the global importance of the energy sector, ripple effects may create instability across global markets.
- Sputtering economic growth in Europe and Asia could tip the global scale into a more deflationary mode, exacerbating slowdown concerns and dimming export demand for U.S. goods.
- The December ISM manufacturing data indicated a slowdown in exports, as global growth cooled and the rising U.S. dollar made U.S. goods more expensive.

Real GDP Growth



Source: Bloomberg

Consumer Confidence



Source: Bloomberg

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## ECONOMIC OVERVIEW

### FOURTH QUARTER 2014

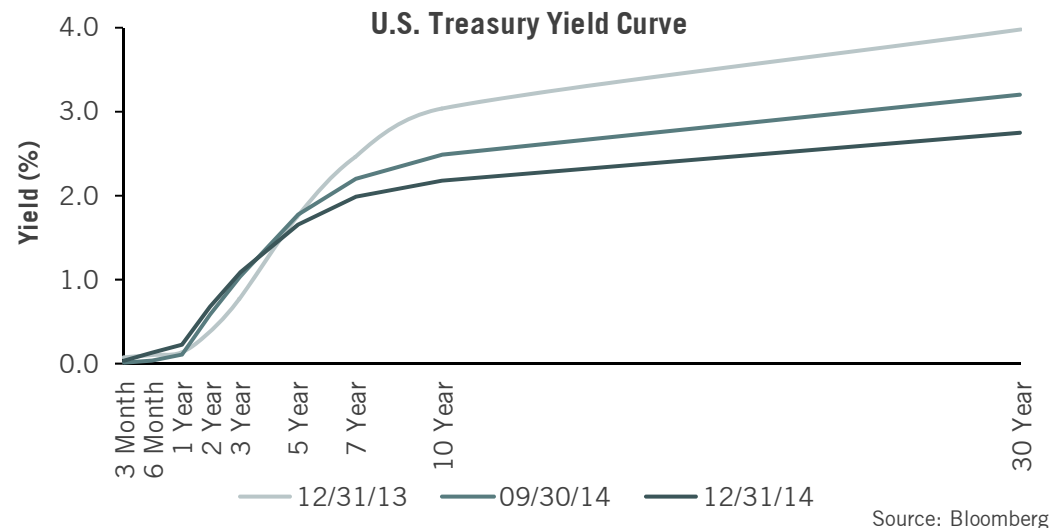
#### Fed Focused on Normalizing Policy

- With its Quantitative Easing programs now dormant, markets expect the Fed to concentrate on timing of normalizing short-term interest rates in 2015.
- As the headline unemployment rate declines nearer to the Fed's target level, policy makers will increasingly focus on wage growth as the primary indicator of labor market improvement.
- The Fed's recent official statements imply that it intends to begin hiking rates sometime early in the second half of the year, global disinflation pressures notwithstanding.



#### Long Rates Dip; Short Rates Rise

- Shorter maturity interest rates moved slightly higher in the fourth quarter even as longer-dated maturity rates declined, as the market remained convinced that the Fed will act to raise policy rates before too long.
- For the full year, the yield on the 10-year U.S. Treasury Note declined 83 basis points (“bps”) to 2.17%, while the 30-year U.S. Treasury Bond yield declined by 120 bps to 2.75%.
- With this tailwind, fixed income markets posted strong positive returns for 2014 following a (mostly) negative 2013. The 10-year U.S. Treasury Note returned over +10%, while most intermediate (4-5 year) fixed income securities posted gains of between +3% and +5%.
- The yield curve remains steep as markets anticipate that the Fed will begin raising its policy rate in mid-2015.

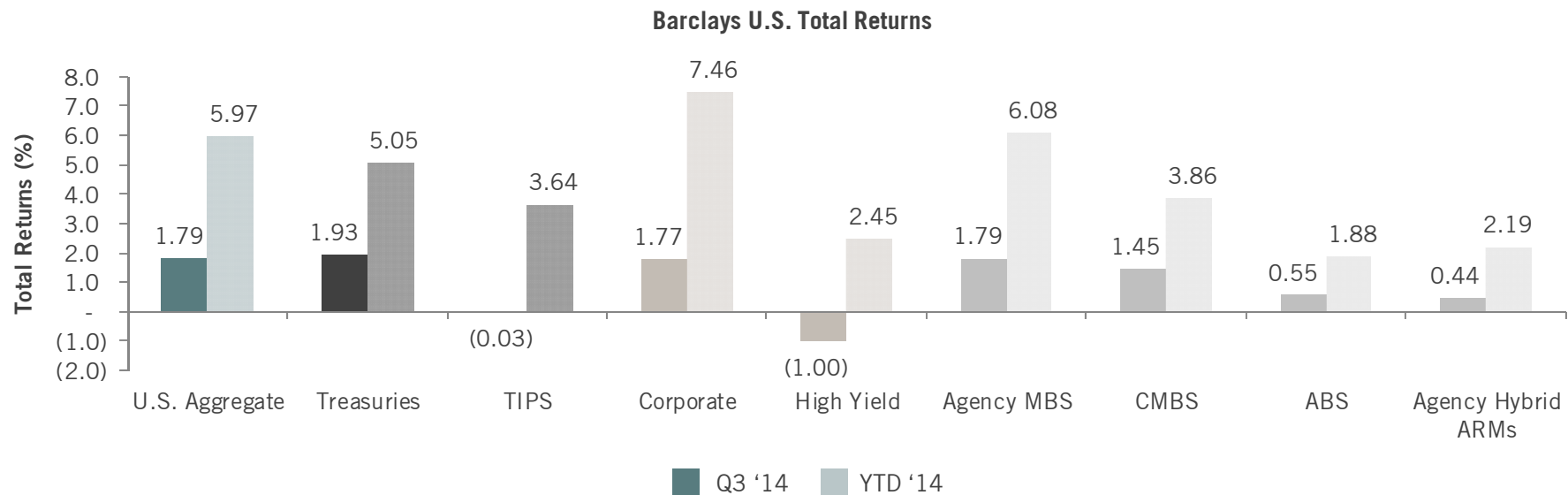


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## ECONOMIC OVERVIEW

### FOURTH QUARTER 2014

#### Rally in Treasury Yields Leads the Way, Spread Sectors Try to Keep up



Source: Barclays

- The U.S. Treasury yield curve flattened in the fourth quarter as yields on shorter maturities moved slightly higher while yields on longer bonds declined. The 10-year U.S. Treasury yield declined 83 basis points in 2014, and the 30-year U.S. Treasury bond's yield fell 120 basis points.
- Despite this move, the yield curve remains relatively steep as the market still anticipates the Fed beginning to raise its policy rate in 2015. The 3-7 year part of the yield curve remains attractive. Galliard is maintaining an overall neutral duration position versus benchmarks.
- Corporate credit posted negative excess returns for the second quarter in a row amid increased volatility. For the year, intermediate term corporates outperformed U.S. Treasuries, while longer corporates were not able to keep up with the strong rally in Treasuries at the long end.
- Within structured products, mortgage returns held steady despite the official end of QE3 and the rally in Treasury yields, which might normally have led to concerns over higher refinancing activity. The Agency MBS sector posted strong returns for the full year. ABS and CMBS continued to outperform in Q4, and finished 2014 with strong returns relative to similar-duration Treasuries.
- CMBS valuations are full, especially in light of deteriorating underwriting standards and some relative cheapening within the corporate sector.
- As corporate spreads widened modestly during the quarter, particularly as a result of pressure in the Energy and Metals and Mining sectors, we continue to add to our corporate overweight while being very cautious about issue selection.

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## ECONOMIC OVERVIEW

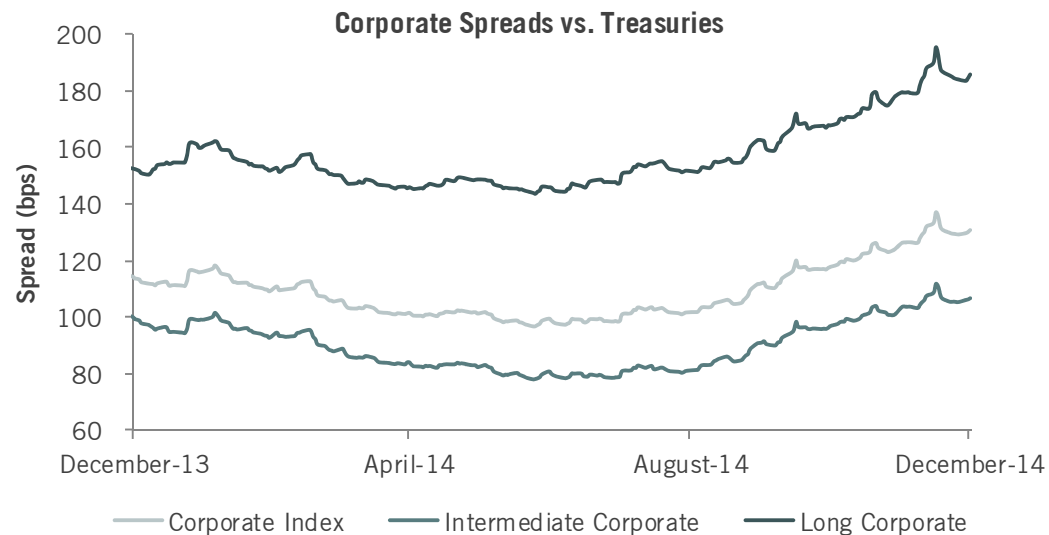
### FOURTH QUARTER 2014

#### Corporate Volatility Returns

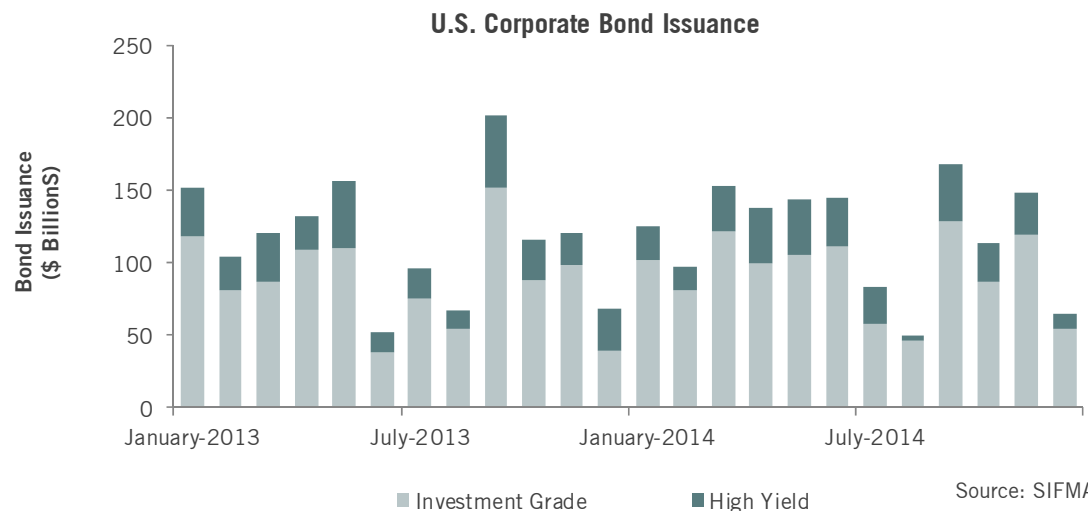
- The fourth quarter brought continued volatility as corporate spreads widened across all subsectors, with energy and basic materials lagging most. Lower-rated credit also underperformed higher quality issuers as investors sought relative safety as volatility spiked.
- Oil prices made a dramatic move lower following the Thanksgiving Day OPEC meeting and Saudi Arabia's message that OPEC would not slow production to support prices.
- A strengthening U.S. dollar also pressured commodity prices during the quarter. The strong dollar and weakening oil prices had a material negative impact on EM currencies and EM bond spreads, particularly for commodity exporters such as Russia, Brazil, Mexico and Chile.

#### Corporate New Issuance Strong to End 2014

- Fourth quarter new issuance reached over \$250 billion, which brought total new issuance for the calendar year to approximately \$1.1 trillion.
- The volume of investment grade new issuance rebounded from a relatively light third quarter. November was the heaviest new issuance month during the quarter and represented the third most active month for the year.



Source: Barclays



Source: SIFMA

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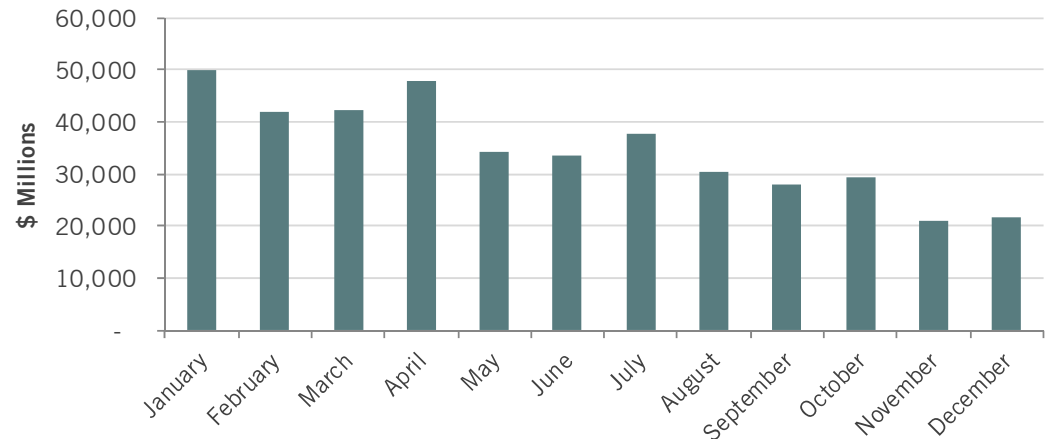
## ECONOMIC OVERVIEW

### FOURTH QUARTER 2014

#### QE3 Complete, Quiet on the Agency MBS Front

- As expected, the Federal Reserve ended its Agency MBS purchase program in October. The Fed's reinvestment of its MBS portfolio cash flows should absorb a large portion of MBS issuance into 2015, as it did in 2014, resulting in dampened net supply.
- During 2014, gross Agency MBS supply totaled \$925 billion, with net supply of only \$67 billion. For perspective, gross Agency MBS issuance was approximately \$1.7 trillion and \$1.6 trillion in 2012 and 2013 respectively.
- The S&P Case-Shiller Home Price Index registered a 4.5% year-over-year increase in October. If housing market sustains its improvement, positive spillover effects should support additional Agency MBS supply.

Fed Agency MBS Purchases - 2014

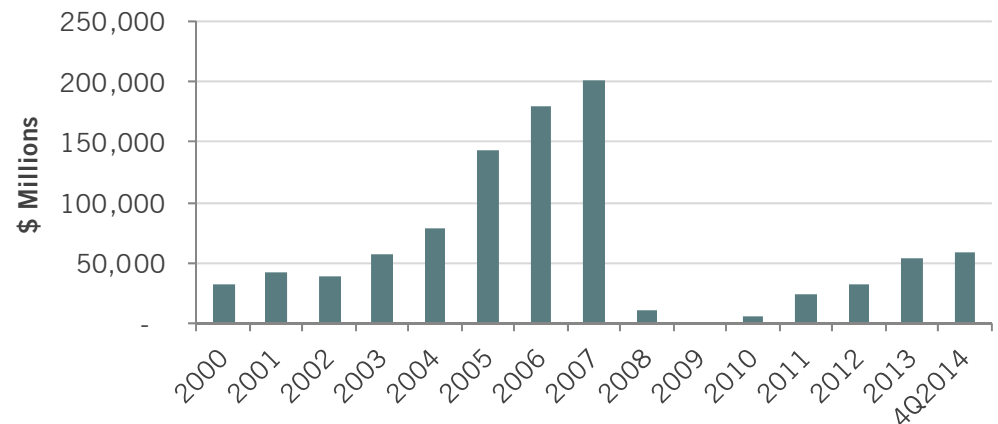


Source: New York Federal Reserve

#### CMBS and ABS Issuance Remains Robust

- The ABS primary market had total new supply of approximately \$200 billion in 2014, 11% higher than 2013's new supply. Looking ahead, continued expansion of consumer credit should support consumer ABS supply.
- The CMBS new issue market was busy in 2014 with approximately \$88 billion in total supply, comprised of \$58 billion of conduit and \$30 billion of single asset/single borrower and large loan floaters. This marked the highest new issue volume since 2007.
- ABS and CMBS markets have gained issuance momentum since the financial crisis. While the market expects this to continue in 2015, deteriorating underwriting standards in both sectors will be worth monitoring.

US CMBS Conduit Supply



Source: Citi Research

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## GALLIARD CAPITAL MANAGEMENT PROFESSIONALS

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**William Weber***Senior Director*

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**Responsibilities**

William is a member of the client service and stable value portfolio management teams, serving primarily as an institutional relationship manager for Galliard's stable value clients.

**Experience**

- Joined Galliard in 2009
- Previously a manager at PricewaterhouseCoopers, LLP

**Education**

BS, Business, Finance, Accounting, University of Minnesota Carlson School of Management