

State of North Carolina Stable Value Funds Investment Recommendation

Galliard's Mandate: Upon award of the State of North Carolina Stable Value Fund management assignment, Galliard was instructed to achieve the following goals:

- a) Increase manager diversification, and
- b) Increase book value wrap issuer diversification.

Objectives: The objectives of these goals were to:

- a) Lower exposure to individual wrap contract issuers,
- b) Lower exposure to any single manager (improving style diversification),
- c) Reduce the risk that an unexpected event with a manager or wrap issuer could have a significant impact to the stable value funds, and
- d) Improve risk adjusted returns.

Initial diversification was added in the short duration segment with the Galliard-managed portfolio and the United of Omaha wrap agreement. Book value issuer diversification was also expanded by transitioning the PIMCO portfolio to a MetLife book value contract.

Recommended Allocation Revisions: Galliard is proposing adding Jennison as the sixth manager for the Stable Value Funds:

Manager	Jennison Associates (owned by Prudential)
Benchmark	Intermediate Government Credit Index
Allocation	15% or approximately \$328 million
Funding Period	6 to 12 months

Galliard is also proposing the addition of a new book value wrap contract issuer (most likely Transamerica Life). The new wrap contract would have an approximate 15% allocation and would be funded through the following reallocations:

<u>Manager</u>	<u>Wrap Issuer</u>	<u>Reallocation</u>
Prudential	Prudential	-10%
Great West Life	Great West Life	- 3%
PIMCO	MetLife	- 2%

Impact on Fees: Galliard's estimate on the impact to the overall level of fees charged to the Stable Value Funds is a net increase of 0.00013 (or 1.3 basis points).

Benefits: The benefit to the participants in the Stable Value Funds are summarized below:

- a) Improved book value wrap issuer diversification (4 to 5 issuers). Maximum per wrap issuer exposure reduced from 40% to 30% of portfolio assets.
- b) Improved manager style diversification (5 to 6 managers). Maximum manager exposure reduced from 24% to 20%.
- c) Average annual returns expected to improve by 0.20% to 0.30% (based on historical analysis)