

JANET COWELL
STATE TREASURER



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Dear Plan Member:

By now you should have received your 4th quarter statement and Signature newsletter reminding you of the changes coming to the investment lineups of the NC Deferred Compensation Plan and the NC 401(k) Plan.

The new lineup of investment options will provide significantly lower investment management fees as well as access to investment managers with proven track records of quality performance. All of the new investment managers were recommended by the Investment Team in the State Treasurer's Office. They are the same investment professionals that already manage the funds in your state and local government retirement plan. We recognize that these changes come with a great deal of detailed information to digest. To help you evaluate your options more thoroughly, and in response to the feedback we received from some members regarding the timeline for these changes to be made, we have postponed the date for the transfer of plan assets, called fund mapping, to March 6, 2009. **Additionally, we have extended the deadline for you to opt out of the fund mapping to 4 p.m. on Friday, February 27, 2009.**

We hope this will give you more time to evaluate your options. Remember, if you do choose to opt out of the fund mapping, you must call 1-866-NCPlans (1-866-627-5267) to do so. You do not have to do anything if you want your current investments to move to the new investments, or if you've already elected to opt out of the fund mapping. If you choose to opt out of the fund mapping, your current balances will stay in the same investments they are in today, until you make the choice to move them. However, beginning March 9, all new contributions to both plans will be invested in the new funds.

If you wish to reverse your previous opt out selection, or have questions regarding the transition, please call the NC Supplemental Retirement Plans at 1-866-NCPlans (1-866-627-5267) by February 27.

You can now visit one website to access all of the information about the transition by going to: www.nctreasurer.com/supplementalretirementplans. There you will find information including:

- 1) Key transition dates
- 2) Information on the new investments
- 3) General plan information, and much more

For your convenience, we've included some of the most frequently asked transition questions on the reverse side of this letter. We hope this additional information and the extended deadlines assist you with your decision-making.

Sincerely,



Michael Williamson

Why and how did the Board of Trustees make the decision to use these new investment options?

The Board began by evaluating third party record keeping services because the plan's contract for these services was ending. At the same time that changes in record keepers were being considered, the Board also evaluated options for making changes to the investment lineup for both plans. The Board's decision to make the investment changes was based on a number of factors including potential cost savings for members in the form of reduced investment management fees and the benefits of having access to institutional asset management. Through institutional asset management, the Board has greater insight to the underlying investments and greater access to the portfolio management team. The Board made the decision to use this new investment structure and managers with the assistance of an independent investment consultant and the investment team of the Department of State Treasurer.

Why can't we see historical performance or a prospectus for these new funds?

A prospectus is an informational document that is available for mutual funds, but not for these types of separate accounts. The new funds use fund fact sheets to convey much of the same information to members about the makeup, investment strategy and fees associated with each fund.

Although the new North Carolina funds will be managed by well established investment managers with proven track records, the funds themselves will not be initiated until March. Therefore actual historical investment performance for these new funds will not be available until they are established. To assist you in evaluating these new options, we have provided a document detailing the historical performance of the new fund managers when managing with the same strategy for the Dept. of State Treasurer and other investors. This performance document can be found on the Department's website, www.nctreasurer.com/supplementalretirementplans. Once the funds have been established in March, they will begin to establish performance history and that information, along with benchmark performance, will be reported on the fund fact sheets available on the plan's website.

These new funds seem less transparent than the mutual funds I'm used to. How will I be able to track the fund's performance if I can't look it up online using a ticker symbol?

The new funds are institutional separate accounts set up just for members of the NC 401(k) and NC Deferred Compensation Plans to invest in. Having a relationship directly with fund managers instead of working through a mutual fund company provides the Board and the Department with greater insight to the investments. Whereas mutual funds provide a listing of top holdings once a quarter, an institutional management structure allows the Board to monitor investments more frequently and upon request.

Members will still be able to track the new investments on a daily basis by visiting the plan's website, www.NCPlans.prudential.com. If you use a tracking software program [Microsoft Money or Quicken], downloads to assist with the monitoring are available.

If these new funds cannot be evaluated by an independent service like Morningstar, how will their ongoing performance be evaluated?

The new investment options will have multiple levels of evaluation. The Investment Management Division of the Department of State Treasurer is constantly monitoring the performance of each of the fund managers. Additionally, investment professionals at Prudential Retirement will provide the Board of Trustees with quarterly reports on the investment performance. Finally, the Board will work with an independent investment consultant to conduct a thorough annual review of the investments.

This doesn't seem like a good time to be mapping plan assets, when the markets are so volatile. Why make the change now?

The funds being mapped will be invested into "like" funds. This significantly reduces the exposure to the market since they will be moved to investments with similar investment strategies and objectives. The actual activity of mapping from "like" funds to "like" funds does not have a negative impact on a member. The number of shares and the price per share for each fund will be different, but the actual results, or balances, will be identical

And, because the investment objective and strategies of each of the existing funds are similar to the new funds, and because many of the underlying investments will be identical, the future investment results of the fund should be similar. However, because the actual cost of investing in these new funds will be lower, the individual results for the members will be greater.