



Questions and Answers for Upcoming Plan Changes

1. 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.

2. 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.

3. 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.

4. I cannot find information on the investment management firms that have been selected as the investment advisors for the new funds. How do I know that these are legitimate asset managers?

These investment management firms serve large institutional investors, for example pension funds (including the funds managed by the Department of State Treasurer), university endowments, foundations, governments, and wealthy individuals. They advertise their services through investment consultants, at investment industry gatherings, and directly to these institutions. Because their direct customers are not individual investors, they do not offer extensive websites, do not advertise on TV or radio, and are not rated by services like Morningstar. However, this does not mean they are small operations or that they do not face scrutiny from investors. In fact, some of them manage hundreds of billions of dollars and face constant scrutiny from investment professionals with years of training and experience, whose full time job is to evaluate investment managers.

All of the managers that we have selected are listed in the annual Money Manager report published by Pensions & Investments, a leading publication for institutional investors. In that directory

(http://www.pionline.com/apps/pbcs.dll/section?djoPage=advanced_search&category=dataioe&djoPid=850&djoYear=2008&djoPY=%40pqhgMil9%2FI8k), you can view their profiles with the total assets they manage as well the size of their staffs.

Please also see the related question below.

5. How were the new managers and separate accounts selected?

The investment staff of the Department of State Treasurer regularly monitors and evaluates a pool of managers for use with the retirement funds*. In fact, the Department staff includes 6 positions responsible for review and diligence of equity managers. From that pool, the Department staff selected managers for the supplemental plans based on a variety of qualitative and quantitative criteria. These criteria included, but were not limited to, long-term performance relative to benchmarks and other managers, experience of the investment professionals, investment process, fees, how well the strategy fit the asset classes used in the plans, ability to outperform under certain types of market conditions, risk and diversification, and proven ability to identify fundamentally undervalued securities. The recommended managers were then reviewed by outside investment consultants hired by the Board of Trustees. Finally, the Board of Trustees reviewed the recommendations and voted to approve the selection.

Because the Department manages the retirement funds' fixed income investments internally, rather than hiring external managers, the investment staff did not recommend managers for the NC Fixed Income Fund. For this fund, an investment consultant was hired to develop a list of potential managers, from which the Board selected and approved the two finalists. The criteria used for this selection were similar to those used for the equity managers.

These managers will continue to be monitored by multiple layers of investment professionals. For more information, please see question #6.

* For example, the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.

6. 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.

7. 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 maintains similar 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 account values, or balances, will be identical on the date of the transfer.

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, the actual cost of investing in these new funds will generally be lower.

8. Some of the existing mutual fund fact sheets say that the risks are relatively low. For example, Growth Fund of America is "Below Average" and all of the others are either "Below Average" or "Average". However, the new North Carolina funds are all rated "High Risk", except for Fixed Income. Why does the plan appear to be increasing investment risk for participants?

If you read the description of "Investor Risk Profile" on the Fund Fact Sheet User's Guide, the current mutual fund fact sheets show risk relative to the Morningstar Category, while the new North Carolina fund risk profiles are based on volatility. Thus, the current mutual fund fact sheets compare a stock fund to similar stock funds, in which case the risk is usually Average or Below Average. The new North Carolina fund fact sheets compare a stock fund to all investments and stock funds tend to be High Risk relative to fixed income or stable value funds.

9. Is there any assistance available for members to determine the right mix of investments?

GoalMaker is an asset allocation tool that combines both a target retirement date and investment style preferences into an asset allocation model developed in consultation with Morningstar. It is a no cost service that will be offered in both the NC Deferred Compensation Plan and the NC 401(k) Plan.

10. When will the plan assets move to the new funds?

With the exception of the Stable Value Fund, the plan assets will move to the new investment options on Friday, March 6, 2009 and transactions with the new options will process beginning on March 9, 2009. The North Carolina Stable Value Fund will be available later in 2009 and the new fund fact sheet will be posted online in advance of the new fund becoming available.

11. What if we don't want to move our money to the new funds? What are our options?

Should you choose to remain invested in your current fund lineup, you will need to opt out of the automatic fund mapping scheduled to take place on March 6, 2009. If you do not make your election to opt out of the fund mapping prior to February 27, 2009, your existing investment balances will automatically map to the Plan's new investment options. You can opt out of the automatic fund mapping beginning December 22, 2008, by contacting the Plan directly at 1-866-NCPlans and speak to a Participant Service representative. This is the one and only way to opt

out of the fund mapping. If you choose to opt out of the automatic mapping and remain in the current funds, you will incur an annual 10.5 basis point fee in addition to any other investment, administrative and recordkeeping fees associated with plan membership and 1/4th of this additional annual fee will be collected on a quarterly basis.

After March 6th, you may remain in the old funds or you may choose to transfer your existing assets into the new funds. But, once the money is moved out of the old funds, you will not be able to move money back into the old funds. All new contributions after March 6, 2009, will go into the new fund lineup.

12. What is a basis point?

A basis point (bps) is a unit that is equal to 1/100th of 1% or 0.01%. For example, 1 basis point equates to \$0.10 for every \$1,000. 10.5 basis points is equal to \$10.50 on a \$10,000 balance.

13. Where can we find the data on these new funds to assist us with our decision?

You can now visit one website to access information about the upcoming investment changes, www.nctreasurer.com/supplementalretirementplans. There you will find key dates, fund fact sheets for both the existing investment options for both plans and the new investment options, historical performance information on the new investment managers and much more.

14. How will information about the new investments and mapping be available?

The mapping information will be available in the member newsletters, online, and will be discussed in the transition meetings.

15. When will the mapping of the current funds take place?

After hours on March 6, 2009 – your current investment balances in all options except Stable Value Fund will automatically map to the new investment options offered for both supplemental retirement savings plans. No action is required by members to be included in the mapping.

16. If I have both the NC Deferred Compensation Plan and the NC 401(k) Plan, will there be overlapping funds in both accounts?

The same investment options will be offered in both the NC Deferred Compensation Plan and the NC 401(k) Plan.

17. Why did the State decide to use only one provider for both plans? Wouldn't more competitive plans make better business sense?

Periodically, the State, through the Department of State Treasurer and the Supplemental Retirement Board of Trustees, goes out to the marketplace to make sure that the benefits provided to educators and public employees are among the best that are available and are being provided at the lowest cost possible. In this case, the consolidation to a single third-party administrator offered significant cost savings in the form of fee reductions, simplification of Plan(s) administration and communications.

18. What factors were used to make the decision to switch the NC Deferred Compensation Plan to Prudential?

In making this decision, the Board of Trustees considered several factors including: cost to the members, customer service, experience and available technology and plan services.

19. Is the State combining the NC 401(k) Plan and the NC Deferred Compensation Plan?

The NC 401(k) Plan and the NC Deferred Compensation Plan will remain as two separate plans. Despite having the same investment lineup and recordkeeper, under no circumstances will the Plans merge into one Plan.

20. How will this decision impact the fee structure of the NC Deferred Compensation Plan (457 Plan)? How will the decision effect my investments selections in the NC Deferred Compensation Plan?

You will notice a marked decrease in the overall fees you are currently paying for fund expenses and administrative costs. This reduction in fees means that more of your money will stay in your account for your future retirement.

In March, a new lineup of investment options will be available to Plan members. When the new funds are introduced, there will be a mapping strategy implemented in order to move your existing investments to funds in the same asset class and with similar investment objectives.

21. Were employers or participants consulted on this decision?

Decisions related to administration of the Plans are placed on the Supplemental Retirement Board of Trustees by State law and this decision was made with the best interests of Plan members in mind.

22. Will the State have access to member's money in these plans to help balance the budget?

No, the State cannot access money in the NC 401(k) Plan or the NC Deferred Compensation Plan for any reason. Members' supplemental retirement savings are held in trust in these two plans for the benefit of each member exclusively.