

OPTIONAL RETIREMENT PROGRAM

- a. Materials on Minority Owned Businesses Subcontracting with Vendors (for discussion)
- b. Materials Concerning Proposed Trustees/Custodians
- c. Motion to Approve Trustees/Custodians
- d. Materials Concerning Annuity Company
- e. Group Annuity Contracts summaries (*complete copies sent electronically*)
- f. Trust/Custodian Agreements with banks summaries (*complete copies sent electronically*)
- g. Motion to Approve Trust/Custodian Agreements and Annuity Contracts
- h. Motion to Delegate Authority to the President

ITEM A

The University of North Carolina Optional Retirement Program Carrier Subcontracts with Minority Owned Businesses

AIG VALIC

It is AIG VALIC's practice to encourage the development of mutually beneficial business relationships with qualified vendors. AIG VALIC uses business practices that are non-discriminatory and we strive to include any qualified vendors for services needed. We have in the past, and will continue to do so in the future, engaged minority or women-owned business for services related to our contracts.

AIG VALIC's home office is located in Houston, Texas where the centralized purchasing function occurs. Regional offices provide marketing services, with all processing and account management services administered in the Houston area. AIG VALIC works with the National Minority Supplier Development Council (NMSDC), the Houston Minority Business Council (HMBC) and the Houston Women's Business Council (HWBC) in its efforts to identify potential MBEs, SBEs and WBEs. The NMSDC, HMBC and HWBC are there to assist in the development of purchasing relationships with eligible businesses.

Listed below is a sampling of our small business and minority and women business relationships.

CRW Graphics
M & G Graphics
Immodicus
Paragon Printing and Mailing
Castle Mailing Center
The Premier Company
Image Printing
Grover Printing
Lane Morrison Marketing
Nicholas Earth Printing
Bayside Printing Co Inc
Trademarks Promotional Products LP
Advanced Promotional Marketing
Barbara Lagatta Promotional Products Inc

FIDELITY INVESTMENTS

Fidelity does not subcontract any of our core recordkeeping and administration services. I would highlight that our company FITSCO has recently increased its focus on issues of Diversity. I will be sending you a link to a new Plan Sponsor newsletter where we have highlighted a Diversity Forum we recently held in Boston. Sylvester Hackney from Duke was among the participants. We will be following up this event with on-going activities aimed at improving inclusivity within Fidelity. Please let me know if there are any related issues that I can bring to Senior Management. I will communicate this question from your committee to senior management.

LINCOLN FINANCIAL GROUP

Lincoln Financial Group does subcontract with a number of minority business owners. Some that we have used include:

Softwarehouse International, Inc. located in Somerset NJ. They are a corporate reseller of computer related products.

ITEM A

MarkMaster, Inc., located in Hillsborough, FL. They provide marking, stamping and identification products/services.

Communication Products, Inc., located in Indianapolis, IN. They provide telephone systems, call center tools, structured cabling systems, fiber optic and laser optic communications and Help Desk Staffing.

TIAA-CREF

In 2005, TIAA-CREF contracted with a total of 96 minority-owned firms, of which 36 were minority only with \$5 million in expenditures, and 61 were women-owned businesses with \$21 million in expenditures. (See attached list.) In the Charlotte-market, two minority-owned companies they recently worked with are Belk Printing Company and 3D Consulting.

Attachments

April 2006

ITEM A

The University of North Carolina Optional Retirement Program Carrier Subcontracts with Minority Owned Businesses

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Attachments

April 2006

ITEM A

TIAA-CREF Minority Businesses

Vndr Statu	Vend Name	Address
MINORITY	The Fisher Group	158 W. Clinton Street, Suite EEE, Dover, NJ 07801
MINORITY	Symphoni Interactive	P.O. Box 642923, Pittsburgh, PA 15264-2923
MINORITY	Aquent LLC	71 West 23rd Street, NY 10010
MINORITY	DRG Construction Corporation	755 Parfet Street, Suite 138, Lakewood, CO 80215
MINORITY	Synergistic Systems, Inc	38 Long Hill Lane, Suite B4, Chatham, NJ 070928-1159
MINORITY	NIIT USA, INC.	1050 Crown Pointe Parkway, Suite 500, Atlanta, GA 30338-7703
MINORITY	Jennifer Temps Inc.	45 John Street, New York, NY 10038
MINORITY	Hayward Simone Assoc. Inc.	119 West 23rd Street, New York, NY 10011
MINORITY	AllTech Systems, Inc.	103 West Franklin Street, Suite 216, Monroe, NC 28110
MINORITY	Direct Mail Depot, Inc.	200 Circle Drive, Piscataway, NY 08854
MINORITY	Adroit Software Inc.	23 Faulkner Road, Shrewsbury, MA 01545
MINORITY	TSC Design Associates, Inc.	281 Fifth Avenue - 3rd Floor, New York, NY 10016
MINORITY	Golden State Advocacy	629 J Street, Suite 500, Sacramento, CA 95814
MINORITY	MITCHELL & TITUS, LLP	One Battery Park Plaza, NY 10004
MINORITY	Kasina, LLC	180 Boradway, 9th Floor, New York, NY 10038
MINORITY	Printing Methods, Inc,	1525 Emerson Street, Rochester, NY 14606
MINORITY	Kohnke Associates, Inc.	72 Spring Street, New York, NY 10012
MINORITY	Vintage Legal, LLC	175 East 96th Street, Suite 28-E, New York, NY 10128
MINORITY	Credit Dimensions, Inc.	80 Wall Street, Suite 215, New York, NY 10005
MINORITY	Corporate Subscription Mgmt Srvs	70 Hilltop Road, Suite 10003, Ramsey, NJ 07443
MINORITY	NM Inc	1127 11th Street Suite 350, Sacramento, CA 95814
MINORITY	Quantitative Research Group	520 White Plains Road, Suite 500, Tarrytown, NY 10591
MINORITY	Saturn Business Systems Inc.	228 East 45th Street, New York, NY 10017
MINORITY	Executive Solutions International	2 Cambridge Road, Highland Mills, NY 10930
MINORITY	Rexach & Pico	Avenida Fernandez Juncos #802, Esquina La Paz, Miramar, San Juan PR 00907
MINORITY	Harmon, Wilmot and Brown	1010 Vermont Ave N.W., Suite 810, Washington, DC 20005
MINORITY	ARC CONSULTANTS, INC.	264 West 40th Street, New York, NY 10018
MINORITY	SGNET Solutions, LLC	355 Seventh Avenue, Suite 300, New York, NY 10001
MINORITY	Wesley K. Low & Associates	1812 Nephi Drive, Fairfield, CA 94534-2933
MINORITY	INROADS	Greater Washington, Inc. 1010 Wayne Avenue, Suite 555, Silver Spring, MD 20910
MINORITY	MCCONNELL VALDES	270 Munoz Rivera Avenue, 9th Floor, San Juan, PR 00918
MINORITY	Inroads/Oklahoma Inc.	P.O. Box 764, Oklahoma City, OK 73101-0764
MINORITY	Kimak Design Group	12 East 32nd Street - 2nd Floor, New York, NY 10015
MINORITY	Saludos Hispanos, Inc.	73-121 Fred Waring Drive, Suite 100, Palm Desert, CA 92260
MINORITY	Guevara, Phippard & James	1420 Kettner Blvd., Suite 600, San Diego, Ca 92101-2433

ITEM A

TIAA-CREF Female Businesses

Vendor Name

Meadows Office Furniture Co.

Key Systems

Lancaster Systems Inc.

ICP

Digitask Consultants, Inc

Software House Int'l. Inc.

Phillips Temps

Viatec,LLC

Sweeney and Associates

Atrium Staffing

Lexair Electronics

Call One Inc.

Creative Source Inc

Complete Casting

Suzanne Reisel

Belea Group International

Simple Logic

Branwen MacDonald

Marion, Montgomery, Inc.

Belk Printing Technologies

Laura M. DeStefano, LLC

Kuhlmann Leavitt, Inc.

HANK-KROSS LTD

The Sotland Group

Colad Group, LLC.

Booker/Hancock & Associates LLC

W2 Financial Staffing

Webber Associates

The Robert Paul Jones Co., Ltd.

Industrial Contacts, Inc

Butler Burgher, LLC

Broadway Moving & Storage

Burgiss Group LLC

Touchstone Search, Inc.

Info-Search Associates, Inc.

Joan Tupper Flowering Inc.

Traub Eglin Lieberman Straus

Michele Neelakantappa

Address

71 West 23rd Street, New York 10010

936 Broadway New York , NY 10010

411 Theodore Fremb Ave, Rye, NY 10580

20 Clifton Ave, Staten Island, NY 10305

320 East 42nd Street New York, NY 10017

2 Riverview Drive, Weston Canal Plaza, Suite

2B, Somerset, NJ 08873

World Trade Center 1675 Broadway Suite 2410

Denver, CO. 80202

130 Road Shore Port Washington, NY 11050

41 Square West, Suite 1104, New York, NY

10003

420 Lexington Avenue, Suite 1410, New York,

NY 10170

5710-K High Point Road, Suite 121, Greensboro,

NC 27407

8810 Astranaut Blvd., Cape Canaveral, FL 32920

27 West 24th Street,Suite 602, New York, NY

10010

350 West 50th Street New York, NY 10019

202 West 98th Street #3D, New York , NY

10025

6 East 39th Street, New York, NY 10016

354 Davenport Road Suite 3A Toronto, M5R

1K6, Ontario, Canada

144 Hudson Avenue, Peekskill, NY 10566

2412 South Blvd Houston, TX 77098

11240 Rivers Edge Road, Pineville, NY 28134

4851 Paul Oak Court, Doylestown, PA 18901

7810 Forsyth Blvd, 2 West, St Louis, MO 63105

500 Fifth Ave Suite 1130, New York, NY 10110-1096

10 Steele Road, New Windsor, NY 12553

801 Exchange Street, Buffalo, NY14210

5757 Woodway Drive, Suite 175, Houston, TX

77057

5600 77th Center Drive, Suite 330, Charlotte,

NC 28217

One Westwind Drive Leymone, PA 17043-1234

11240 Waples Mill Road, Suite 203, Fairfax, VA

22030-6078

127 East 31 Street, New York, NY 10016

8350 North Central Expressway, Suite 801,

Dallas, TX 75206

11090 East 51 Street Denver, CO 80239-2512

1 Newark Street, Suite 5B, Hoboken, NJ 07030

1809 Mar Street, Tiburon, CA 94920

369 East Main Street, Suite 14, East Islip Long

Island, NY 11730

97 ST Marks Ave, Brooklyn, NY 11217

Mid-Westchester Exec. Park, Three Skyline

Drive, Hawthorne, NY 10532

40 Valencia Ave Staten Island, NY 10301

ITEM A

TIAA-CREF Female Businesses

Vendor Name

BENTWOOD RESOURCES
Torrence
Emergency Skills, Inc.
Facilitations, Inc.
Juliana Thomas
Townside Furn & Decorators of NY
Change Sciences Group Inc
Jeanne M. Floerke, PSY.D.
Altura Environmental, Inc.
Doris J. Day, MD
Eileen Moss
PAMELA DOLE
Jennifer Pinkowski
Dr. K. Patricia Cross

Dr. Margaret A. Miller
Kathleen P.Wade
Gallery of Flowers

Dr.Mary Deane Sorcinelli
Nancy Perry, R.N.
Lilla Rogers
Cheryl J Goodman

Address

29 Highland Avenue, Montclair, NY 07042
227 West Fourth Street, Charlotte, NC 28202
350 Fifth Avenue, St. 505, New York, NY 10118
3 Post Office Square, Acton, MA 01720
200 E. 30 St., Apt. 7G New York, NY 10016
43-42 162 St. Flushing, New York 11358-3131
505 Buckhout St., Irvington, New York 10533
671 Grant Street, Denver, CO 80203
600 S. College St. 1000, Charlotte, NC 28202
135 E. 71st. St. 1A, New York, NY 10021
333 E. 49 Street, New York, NY 10017
108 W. 87 Street, St. 2B, New York, NY 10024
284 Clinton Street, #4, Brooklyn, NY 11201
904 Oxford Street Berkeley, CA 94707
University of Virginia, 405 Emmet St. South,
Charlottesville, VA 22904-4265
239 East 18th Street, #B, New York, NY 10003
9009-5 J.M. Keynes Drive, Charlotte, NC 28262
Univ. of Massachusetts - Amherst, 301 Goodell,
Center for Teaching, Amherst, MA 01003
226-A Marina Drive, Montgomery, TX 77356
6 Parker Road, Arlington, MA 02474
4009 Warbler Hill Circle, Lexington KY 40514

ITEM B

University of North Carolina System Optional Retirement Plan Trust & Custody Service Provider Due Diligence May, 2006

The following table includes the responses from each of the four vendors serving the University of North Carolina System Optional Retirement Plan concerning their relationship with the organization that is, or would be, providing trust and custody services.

	AIG Valic	Fidelity	Lincoln	TIAA-Cref
Who is the current trustee for the UNC Optional Retirement Plan?	AIG Federal Savings Bank (AIG FSB)	Fidelity is the Trustee for the Fidelity portion of the ORP Plan. A separate Fidelity company, Fidelity Management Trust Company (FMTC), acts as custodian.	The <i>Lincoln Alliance® Program</i> partners with Wilmington Trust Company (WTC) for expert trust and custodial account services. WTC is a century-strong client service company. They currently provide trust service for over 1,500 retirement plans. They serve as trustee and custodian for a variety of employee benefit plans, defined contribution plans and defined benefit plans. WTC provides directed trustee services.	JPMorgan Chase Bank, N.A. (JP Morgan Chase) is the custodian for the plan.
What criteria and process were used in selecting the trustee?	AIG FSB was selected because it is an affiliate company	FMTC will serve as the trustee because it is an affiliated company.	When the <i>Lincoln Alliance® Program</i> was developed in 1998, LFG went through an RFP process for the selection of the trustee. Wilmington Trust Company met all of the selection criteria and they had already established an electronic link with our recordkeeping operation.	TIAA-CREF engaged in a thorough limited RFP process in selecting JPMorgan Chase as the custodian for our <i>Open Plan Solutions</i> record-keeping platform. JP Morgan Chase was chosen by TIAA-CREF because it is a commercially respected leader in the field that is already set up to handle the volume of business under the <i>Open Plan Solutions</i> program.

ITEM B

	AIG Valic	Fidelity	Lincoln	TIAA-CREF
<p>Describe the frequency and ongoing procedures and metrics used to monitor the trustee's performance.</p>	<p>Every October, AIG VALIC develops a schedule of internal audits to be performed in the following year. The schedule is based upon a methodical risk analysis of all areas within AIG VALIC. Each plan's records and transactions are subject to these scheduled audits.</p> <p>Therefore, AIG FSB's records and transactions are examined as a part of any number of operational and financial audits. In addition, AIG FSB is regulated by the federal Office of Thrift Supervision (OTS) and submits quarterly reports to the OTS regarding its fiduciary activities. Annually, the OTS examines AIG FSB's operations, including its accounting for fiduciary assets.</p>	<p>Fidelity maintains an ongoing program of internal audit to assure the accuracy of the work being performed by FMTC.</p>	<p>Performance is monitored on a daily basis by verifying that electronic trade and position files are received on time and are accurate. These transmissions are necessary to initiate the posting of contributions, transfers, distributions and loans and to reconcile plan assets and participant balances. If files are not received on time or in good order, we resolve the issue immediately so we can continue with the trading cycle.</p>	<p>TIAA-CREF monitors all banking relationships on a quarterly basis. JP Morgan Chase relies on our record keeping for the accuracy of data. TIAA-CREF employs a series of internal controls to ensure data and processing accuracy. TIAA-CREF relies on the various operational areas (in particular—Financial Operations Management) for metrics-based feedback regarding our banking partners.</p>

ITEM B

	AIG Valic	Fidelity	Lincoln	TIAA-Cref
What procedures do you follow to address any performance issues?	Any performance issues identified are documented in our internal and external audit reports. These reports are reviewed and necessary actions are taken based upon findings.	If there are any identified deficiencies that are material to the performance of FMTC, these issues are escalated to the Risk Management department for appropriate action. Additionally, clients would be notified to the extent any issue had a material impact on their plan.	Wilmington Trust has a dedicated Lincoln Alliance support team and we resolve any issues directly with that team. In addition, respective Lincoln and Wilmington Trust teams meet in-person or via phone at least quarterly to review the relationship, any issues, new product offerings, etc. If any issues exist, they are documented, a resolution plan is agreed to and implemented.	Performance issues are monitored and addressed internally. Any errors are corrected as quickly as possible and clients that are negatively affected are made whole.
Do you maintain a fidelity bond for the UNC ORP plan assets?	Yes, AIG VALIC maintains a fidelity bond that will protect UNC ORP plan assets.	Yes.	<p>Wilmington Trust Company's Errors & Omissions Insurance</p> <p>WTC is insured against employee dishonesty, theft and other fraudulent acts by a Bankers Blanket Bond, Policy No. 484-83-76, with National Union Fire Insurance Company of Pittsburgh, P.A.</p> <ul style="list-style-type: none"> The blanket bond program has a \$1 million-dollar deductible per event and \$50 million in the aggregate per year. <p>Fiduciary Insurance Coverage:</p> <p><u>Financial Institution Bond-Premises</u> Wilmington Trust maintains an F.I.B. in the amount of \$50 Million, underwritten by St. Paul Fire & Marine. Insuring Agreement B, "premises", covers property including custodial securities on all of our premises.</p> <p><u>Financial Institution Bond-Central Handling of Securities Endorsement</u> St. Paul, by endorsement to our F.I.B., extends coverage to depository</p>	We maintain a universal fidelity bond for all plan assets including the UNC ORP.

ITEM B

			<p>systems that conduct book entry on valuations of large securities positions maintained by us. The central handling of securities endorsement obligates St. Paul to make us whole for our proportionate share of loss of the security. Such coverage is in excess of the insurance carried by the depository (e.g. DTC).</p> <p><u>Blanket Lost Instrument Bond</u> Seaboard Surety, as surety, has made itself available to issue lost instrument bonds on our behalf. There is no stated limit to the size of such surety bonds issued. The premium cost of individual lost instrument bond is typically 2 percent of face value.</p> <p><u>In Transit /Mail Protections</u> "In transit" losses are covered under our \$50 million F.I.B., covering messengers and armored cars, as well as other transportation conveyances. Registered mail shipments of securities are covered up to \$10 million per shipping package for non-negotiable securities, and \$1 million per shipping package for negotiable securities. These provisions are part of our comprehensive Transfer Agent Mail Policy provided by Seaboard Surety.</p> <p><u>Errors & Omissions</u> Wilmington Trust carries a \$25 million Bankers Professional Liability Insurance policy with Chubb and AIG.</p>
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ITEM B

	AIG Valic	Fidelity	Lincoln	TIAA-Cref
If so, was this fidelity bond obtained specifically for the UNC plan, or does it provide blanket coverage for a grouping of clients?	No, AIG VALIC did not obtain the fidelity bond specifically for the UNC plan. The bond provides blanket coverage for a grouping of clients.	We maintain a blanket bond within Fidelity Tax-Exempt Services Company.	It provides blanket coverage for a grouping of clients.	The fidelity bond provides blanket coverage for all clients.
If the UNC ORP is covered by a fidelity bond, what is the level of coverage and how was this amount determined?	<p>AIG VALIC is insured under insurance programs in force for all American International Group, Inc. (AIG) subsidiaries and affiliates. AIG and its subsidiaries have fidelity bond coverage for \$25 million per occurrence and \$50 million in aggregate above a \$5 million retention.</p> <p>The fidelity bond applies to loss of money, securities, etc. (1) owned by the Insured (AIG, Inc. including AIG VALIC), (2) held by the Insured in any capacity, or (3) for which the Insured is legally liable. The fidelity bond covers as Insured any person authorized to act on behalf of the Insured including Servicing Agents or Providers. The amount of coverage was determined by AIG Corporate Risk and Insurance Department</p>	Fidelity would be happy to provide UNC with a certificate of insurance.	Please refer to the answer for #5 for the level of coverage. This coverage amount is reviewed annually and determined after carefully reviewing the dynamics of our responsibilities, infrastructure and the assets which we are responsible for in our various capacities.	N/A

Each vendor has a process in place to monitor and address performance issues with their trust and custody business partner. Each vendor also asserts that they have a fidelity bond in place. Further evidence of such may provide additional assurance to the UNC Retirement Committee.

ITEM C

MOTION TO APPROVE TRUSTEES/CUSTODIANS FOR OPTIONAL RETIREMENT PROGRAM

WHEREAS, the University of North Carolina has authority from the General Assembly to operate an Optional Retirement Program (hereafter "ORP," which is understood to include its UNC Qualified Governmental Excess Benefit Arrangement") for statutorily designated employees, and has been operating that Program since 1972; and

WHEREAS, N.C.G.S. 135-5.1(d) states that the Board of Governors "shall designate the company or companies from which contracts are to be purchased or the trustee responsible for the investment of contributions under the Optional Retirement Program;" and

WHEREAS, N.C.G.S. 135-5.1(d) further states that "In making this designation and giving such approval, the Board shall give due consideration to the following:

- (1) The nature and extent of the rights and benefits to be provided by these contracts or trust agreement for participants and their beneficiaries;
- (2) The relation of these rights and benefits to the amount of contributions to be made;
- (3) The suitability of these rights and benefits to the needs of the participants and the interest of the institutions of The University of North Carolina in recruiting and retaining faculty in a national market; and
- (4) The ability of the designated company or companies underwriting the annuity contracts or trust agreement to provide these suitable rights and benefits under such contracts or trust agreement for these purposes;" and

WHEREAS, at different times in the past, the Board of Governors designated the four current companies to sell annuity contracts, or to sell mutual funds and use a trustee to handle and hold those assets, which companies are Teachers Insurance and Annuity Association of America and College Retirement Equities Fund (hereafter "TIAA-CREF"), The Variable Annuity Life Insurance Company, a member company of American International Group, Inc. (hereafter "AIG VALIC"); Lincoln National Life Insurance Company (of Lincoln Financial Group) (hereafter "Lincoln"); and Fidelity Investments Institutional Services Company, Inc. (hereafter "Fidelity"); and

WHEREAS, changes in investment fund options to be offered beginning on or about July 1, 2006 will include mutual funds for the first time for three of the companies, requiring the appointment of a custodian or trustee for purchasing, selling, and holding those mutual funds, and for other functions; and

WHEREAS, the above four named companies have selected the banks with which to offer such services to the ORP; and

WHEREAS, TIAA-CREF has selected JPMorgan Chase Bank, N.A. as custodian; AIG VALIC has selected AIG Federal Savings Bank as trustee and custodian; and Lincoln has selected Wilmington Trust Company as trustee; and

ITEM C

WHEREAS, in 1999 Fidelity selected Fidelity Management Trust Company as trustee and custodian, and it is desirable at this time to ratify that selection; and

WHEREAS, upon inquiry it appears that these named trustees and custodians are able, reputable companies which are well capitalized and financially sound, and are federally regulated. They meet the above listed statutory criteria.

NOW THEREFORE, I move that the Board of Governors approve the selection as trustee and/or custodian for the ORP of: JPMorgan Chase Bank, N.A.; AIG Federal Savings Bank; and Wilmington Trust Company; and

FURTHERMORE, I move that the Board of Governors ratify the past selection of Fidelity Management Trust Company as trustee and custodian.

Charles H. Mercer, Jr., Chair
Committee on Personnel and Tenure
Approved by the Committee on May 11, 2006

Received and Approved by the Board of Governors
May 12, 2006

Secretary of the University
Date Signed: _____, 2006

ITEM D

----- Original Message -----

Subject: Trust & Custody Information

Date: Mon, 1 May 2006 22:58:49 -0500

From: Langsett, Melanie (US - Atlanta) <mlangsett@deloitte.com>

To: Charles Waldrup <cwaldrup@northcarolina.edu>, <kmm@northcarolina.edu>

CC: Tucker, James W (US - Atlanta) <jwtucker@deloitte.com>

Charles & Kitty,

Attached please find the information provided by each of the four ORP vendors regarding the organization that is providing custody services for each of their retirement plan clients.

<<Trustee Diligence Questions.doc>>

As you'll see, each of the vendors has a process for monitoring the performance of their business partner.

You had also asked for our perspective on The Principal, as it relates to the availability of their annuity product through Fidelity. The attached notes The Principal's credit rating with rating agency A.M. Best of A+ (Superior). The relative competitiveness of any particular annuity, whether from The Principal or any of the other annuity products available through the ORP could vary on a daily basis and is sensitive to a number of variables including interest rates, the amount of the annuity, the age of the participant, and whether the annuity is a single life or joint & survivor. Participants are free to "shop" across the choices within the ORP for the most advantageous annuity at the time of retirement.

<<AM Best rating for Principal.pdf>> <<AM Best rating guide.pdf>>

Please let us know if you have any questions.

Melanie

***Melanie Langsett*

Principal

Total Rewards MASE RSL

Deloitte Consulting LLP

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1 404 631-8722 fax

1 404 229-4511 mobile

mlangsett@deloitte.com

www.deloitte.com <<http://www.deloitte.com>>

285 Peachtree Center Avenue

Suite 2000

Atlanta, Georgia 30303-1234

United States of America

Press Release - OCTOBER 31, 2005

A.M. Best Affirms Ratings of Principal Financial Group, Inc.

 [Print this article](#)

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rachelle.striegel@ambest.com andrew.edelsberg@ambest.com

FOR IMMEDIATE RELEASE

OLDWICK, N.J., OCTOBER 31, 2005

A.M. Best Co. has affirmed the financial strength rating of A+ (Superior) of **Principal Life Insurance Company** and the existing debt ratings of **Principal Financial Group, Inc. (PFG)** [NYSE: PFG] (both of Des Moines, IA) and its subsidiaries. The outlook for all ratings is stable. (See link below for a detailed list of ratings.)

The ratings reflect PFG's dominant position serving small and medium-sized businesses in the U.S. defined contribution plan market, its diverse and sustainable earnings, prudent financial management and solid liquidity. The ratings also reflect PFG's well-established product lines and broad distribution, cost-efficient operations and potential for global growth.

Offsetting considerations include a reduction in operating company risk-adjusted capitalization resulting from significant share repurchases; potential geopolitical risks from emerging international markets; limited potential for sales growth of life and health products; and the competitive pressures in maintaining a leading market share within its defined contribution target market.

Financial leverage and interest coverage at PFG remains conservative following its June 2005 issuances of non-cumulative, perpetual preferred stock totaling \$550 million. Although these offerings are projected to decrease PFG's interest coverage from the mid-double-digit range to about 10 times, it remains quite strong. In addition, A.M. Best anticipates that the group's financial leverage (excluding non-recourse debt) will remain below 15%, incorporating considerable equity credit for the perpetual preferreds per A.M. Best's hybrid methodology.

For a complete listing of Principal Financial Group, Inc.'s financial strength, issuer credit and debt ratings, please visit [Principal](#).

For Best's Debt Ratings, all other Best's Ratings, an overview of the rating process and rating methodologies, please visit [Best's Rating Center](#).

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source.

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GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS

A Best's Rating is an independent opinion, based on a comprehensive quantitative and qualitative evaluation, of a company's balance sheet strength, operating performance and business profile. Best's Financial Strength Ratings are not a warranty of a company's financial strength and ability to meet its ongoing obligations to policyholders.

Financial Strength Ratings

A **Best's Financial Strength Rating (FSR)** is an opinion as to an insurer's financial strength and ability to meet its ongoing obligations to policyholders.

	Rating	Descriptor	Definition
Secure	A++, A+	Superior	Assigned to companies that have, in our opinion, a superior ability to meet their ongoing obligations to policyholders.
	A, A-	Excellent	Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing obligations to policyholders.
	B++, B+	Very Good	Assigned to companies that have, in our opinion, a good ability to meet their ongoing obligations to policyholders.
Vulnerable	B, B-	Fair	Assigned to companies that have, in our opinion, a fair ability to meet their ongoing obligations to policyholders, but are financially vulnerable to adverse changes in underwriting and economic conditions.
	C++, C+	Marginal	Assigned to companies that have, in our opinion, a marginal ability to meet their ongoing obligations to policyholders and are financially vulnerable to adverse changes in underwriting and economic conditions.
	C, C-	Weak	Assigned to companies that have, in our opinion, a weak ability to meet their ongoing obligations to policyholders and are financially very vulnerable to adverse changes in underwriting and economic conditions.
	D	Poor	Assigned to companies that have, in our opinion, a poor ability to meet their ongoing obligations to policyholders and are financially extremely vulnerable to adverse changes in underwriting and economic conditions.
	E	Under Regulatory Supervision	Assigned to companies (and possibly their subsidiaries/affiliates) that have been placed by an insurance regulatory authority under a significant form of supervision, control or restraint whereby they are no longer allowed to conduct normal ongoing insurance operations. This would include conservatorship or rehabilitation, but does not include liquidation. It may also be assigned to companies issued cease and desist orders by regulators outside their home state or country.
	F	In Liquidation	Assigned to companies that have been placed under an order of liquidation by a court of law or whose owners have voluntarily agreed to liquidate the company. Note: Companies that voluntarily liquidate or dissolve their charters are generally not insolvent.
	S	Suspended	Assigned to companies that have experienced sudden and significant events affecting their balance sheet strength or operating performance whereby the rating implications cannot be evaluated due to a lack of timely or adequate information.

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A rating modifier can be assigned to indicate that a Best's Rating may be subject to near-term change (under review), that a company did not subscribe to Best's interactive rating process (public data) or that the rating is assigned to a syndicate operating at Lloyd's. Affiliation codes (g, p, and r) are added to Best's Ratings to identify companies whose assigned ratings are based on group, pooling or reinsurance affiliation with other insurers.

Continuation with Other Modifiers								
Rating Modifiers	Modifier	Descriptor	Definition					
	u	Under Review	A modifier that generally is event-driven (positive, negative or developing) and is assigned to a company whose Best's Rating opinion is under review and may be subject to change in the near-term, generally defined as six months.					
	pd	Public Data	Assigned to insurers that do not subscribe to Best's interactive rating process. Best's "pd" Ratings reflect qualitative and quantitative analyses using public data and information.					
	s	Syndicate	Assigned to syndicates operating at Lloyd's.					
Affiliation Codes			g	Group	p	Pooled	r	Reinsured

Not Rated Categories (NR)

Assigned to companies reported on by A.M. Best, but not assigned a Best's Rating. The five categories are:

NR-1: Insufficient Data.	NR-2: Insufficient Size and/or Operating Experience.	NR-3: Rating Procedure Inapplicable.
NR-4: Company Request.	NR-5: Not Formally Followed.	

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Positive	Indicates a company's financial/market trends are favorable, relative to its current rating level and, if continued, the company has a good possibility of having its rating upgraded.
Negative	Indicates a company is experiencing unfavorable financial/market trends, relative to its current rating level and, if continued, the company has a good possibility of having its rating downgraded.
Stable	Indicates a company is experiencing stable financial/market trends and there is a low likelihood that its rating will change in the near term.

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Version 031606

ITEM E
SUMMARY

SUMMARY OF GROUP ANNUITY CONTRACT

(This does not include legally required provisions, such as minimum age for payouts and minimum distribution requirements at age 70 ½.)

AIG VALIC

This is a group fixed annuity contract—individual allocations—non-participating (does not share in the profits or surplus of VALIC).

Incontestability: The contract is incontestable.

Minimum Participant Account Value: During the accumulation period, VALIC can distribute the accumulation and close a participant's account that falls below \$2500 when VALIC has not received contributions for two calendar years.

Interest: It will be credited not less frequently than annually. The interest rate will be at least an effective annual rate of 2% per year.

Withdrawal Restrictions: Withdrawals are limited to 20% of the accumulated value each year, with full withdrawal permitted when the balance after a withdrawal is less than \$500.

Transfer to Another Provider: The limits for transfers of the balance are: year 1, 1/5 of the balance; year 2, 1/4 of the remaining balance; year 3, 1/3; year 4, 1/2; and year 5, the remaining balance.

These withdrawal and transfer restrictions do not apply when the participant purchases an annuity, dies, becomes totally and permanently disabled (which means, unable to perform the material and substantial duties of any occupation), and separates or retires from employment with the plan sponsor.

Annuity Period: Annuity payment options cannot begin prior to age 50.

Partial Annuitization: The participant may chose to use less than the full accumulation to purchase an annuity, or use the accumulated money to purchase multiple annuity contracts.

Annuity Income Payment Options:

- life annuity with no guarantee period
- life annuity with guaranteed period of 5, 10, 15, or 20 years
- life annuity, with cash or unit refund option (The annuity pays during participant's life only, but beneficiary will receive a payment of the difference between the accumulation value less the total amount paid under the annuity.)
- joint and survivor life annuity
- payments for a designated period

ITEM E SUMMARY

Betterment of Rates: VALIC will use the current rates if they produce a higher fixed annuity payment than the contract rates.

Annuity Rate Tables: These are set out on pages 7-8 of the contract.

Beneficiary Payment Provisions: The contract provides that in a common disaster, where it cannot be determined whether the participant or beneficiary died first, the company will assume the beneficiary died first.

Participant Certificates: A certificate will be issued to each participant.

Change of Contract: The contract may be changed, upon at least 30 days notice, for changes that will apply to individuals who become participants after the change becomes effective.

PRINCIPAL

This is a group immediate annuity, with fixed dollar benefits (guaranteed amounts).

Annuity Purchase Rates: These are set out on pages 4-5 of the contract.

Certificate: The company will issue an individual certificate for participants.

Amendment: The company may amend the contract in no less than five (5) year intervals as to the annuity purchase rates and the basis for the rates. Other amendments to the contract can affect current participants and beneficiaries, but will not apply to annuities purchased prior to the effective date.

LINCOLN

This is an unallocated group fixed annuity contract, nonparticipating.

Interest Rate and Funding: This contract has a fixed account guaranteed interest rate of an effective annual yield of not less 3.00% during all years. Interest is credited daily on all contributions. All contributions are guaranteed against loss of principal.

Funding: "Contributions in any one Contract Year which exceed twice the amount of Contributions made in the first Contract Year may be made only with our permission."

Periodic Elective Withdrawals: These may not exceed 20% in a one year period.

ITEM E
SUMMARY

Systematic Withdrawals: These may occur: initially, 20% of the balance; then the next year, 20% of the remaining balance; then the following year, 25%; then, 33%, then 50%, then 100% of the balance.

The above limits do not apply when a withdrawal payment is made due to the: participant's death, disability (not defined), retirement or termination of employment, or purchase an annuity option.

Annuity Payout Options:

- life annuity (or with a fixed period of 10 or 20 years)
- cash refund life annuity (The annuity pays during participant's life only, but the beneficiary receives a payment equal to the accumulation value less the total of the annuity payments.)
- joint life annuity (or with a fixed period of 10 or 20 years)

Incontestability: It is subject to the laws of North Carolina.

Rate Table: See pages 9 and 14.

N.B. The entire annuity contracts are/will be posted on the BOG website for this meeting, for your review.

ITEM F
(contracts available on
BOG website –
summary to follow)

ITEM G

MOTION TO APPROVE TRUST/CUSTODIAN AGREEMENTS AND ANNUITY CONTRACTS, AND ANNUITY COMPANY FOR OPTIONAL RETIREMENT PROGRAM

WHEREAS, the University of North Carolina has authority from the General Assembly to operate an Optional Retirement Program (hereafter "ORP", which is understood to include its UNC Qualified Governmental Excess Benefit Arrangement) for statutorily designated employees, and has been operating that Program since 1972; and

WHEREAS, N.C.G.S. 135-5.1(d) states that the Board of Governors "shall approve the form and contents of such [annuity] contracts or trust agreement;" and

WHEREAS, N.C.G.S. 135-5.1(d) further states that "In making this designation and giving such approval, the Board shall give due consideration to the following:

- (1) The nature and extent of the rights and benefits to be provided by these contracts or trust agreement for participants and their beneficiaries;
- (2) The relation of these rights and benefits to the amount of contributions to be made;
- (3) The suitability of these rights and benefits to the needs of the participants and the interest of the institutions of The University of North Carolina in recruiting and retaining faculty in a national market; and
- (4) The ability of the designated company or companies underwriting the annuity contracts or trust agreement to provide these suitable rights and benefits under such contracts or trust agreement for these purposes;" and

WHEREAS, Group Annuity Contracts have been presented for review from The Variable Annuity Life Insurance Company, a member company of American International Group, Inc. (hereafter "AIG VALIC"); Lincoln National Life Insurance Company (of Lincoln Financial Group) (hereafter "Lincoln"); and Principal Life Insurance Company (selected by ORP company Fidelity Investments Institutional Services Company, Inc.) (hereafter "Principal"); and

WHEREAS, this is the first time that Principal has provided services under the ORP; and

WHEREAS, upon inquiry, it appears that Principal is an able, reputable company which is financially sound and well-capitalized; is a public corporation regulated by the federal Securities and Exchange Commission and the North Carolina Commissioner of Insurance; and meets the above listed statutory criteria; and

WHEREAS, the North Carolina Commissioner of Insurance, pursuant to N.C.G.S. 58-3-150, has the legal authority and legal obligation to review and approve the form of annuity contracts offered for sale in North Carolina; and

WHEREAS, AIG VALIC, Lincoln, and Principal have each stated that their Group Annuity Contract has been approved by the North Carolina Commissioner of Insurance as follows: AIG VALIC on December 29, 2005, Lincoln on August 31, 2004; and Principal on October 28, 2002; and

ITEM G

WHEREAS, the review of the form and contents of the annuity contracts by the Board of Governors duplicates the work of the Commissioner of Insurance, and, as a result (i) UNC has limited ability to negotiate changes, and (ii) any such changes would require subsequent approval by the Commissioner of Insurance, this Board concludes its review of the form and contents of the annuity contracts is more limited than its ability to review the form and contents of other contracts related to the ORP; and

WHEREAS, this Board has approved JPMorgan Chase Bank, N.A., AIG Federal Savings Bank, and Wilmington Trust Company as trustees and/or custodians for the ORP; and

WHEREAS, Trust Agreements and/or Custodial Agreements have been presented for review between UNC and: JPMorgan Chase Bank, N.A. and TIAA-CREF; AIG Federal Savings Bank; and Wilmington Trust Company; and

WHEREAS, the form and contents of the Trust Agreements and Custodial Agreements have been negotiated between the said banks and UNC; and

WHEREAS, it appears that the form and contents of the Trust Agreements and Custodial Agreements meet the above listed statutory criteria.

NOW THEREFORE, I move that the Board of Governors approve the use of Principal to provide annuities in conjunction with an approved ORP company, Fidelity; and

FURTHERMORE, I move that the Board of Governors approve the Group Annuity Contracts presented for AIG VALIC, Lincoln, and Principal; and

FURTHERMORE, I move that the Board of Governors approve the Trust Agreements and Custodial Agreements that have been presented for review between UNC and: JPMorgan Chase Bank, N.A. and TIAA-CREF; AIG Federal Savings Bank; and Wilmington Trust Company; and

FURTHERMORE, I move that the Vice President for Finance be authorized to sign the said Trust Agreements and Custodial Agreements on behalf of UNC.

Charles H. Mercer, Jr., Chair
Committee on Personnel and Tenure
Approved by the Committee on May 11, 2006

Received and Approved by the Board of Governors
May 12, 2006

Secretary of the University
Date Signed: _____, 2006

ITEM H

MOTION TO DELEGATE AUTHORITY TO THE PRESIDENT

WHEREAS, the University of North Carolina has authority from the General Assembly to operate an Optional Retirement Program (hereafter "ORP", which is understood to include its UNC Qualified Governmental Excess Benefit Arrangement) for statutorily designated employees, and has been operating that Program since 1972; and

WHEREAS, N.C.G.S. 135-5.1(e) states that "The Board of Governors of The University of North Carolina may provide for the administration of the Optional Retirement Program and may perform or authorize the performance of all functions necessary for its administration;" and

WHEREAS, the Board of Governors delegated certain administrative authority to the President on March 17, 1995 and May 11, 2001; and

WHEREAS, the Board of Governors is about to enter into numerous contracts for the ORP with insurance companies, banks, and mutual fund companies; and

WHEREAS, it is desirable to reaffirm this Board's prior delegation to the President, assisted by staff, of administrative functions and to clarify that delegation of authority; and

WHEREAS, it is the intent of the Board of Governors to delegate the full administrative responsibilities that it may lawfully delegate to the President, including the authority to function as the Plan Administrator of the ORP, subject to 1) the limitations set out herein, 2) the UNC ORP Investment Policy Statement, and 3) policies of this Board; and

WHEREAS, G.S. 135-5.1 does not currently allow delegation of authority to designate companies to provide annuity contracts and to serve as trustees for mutual funds, and does not allow delegation of authority to approve the form and contents of annuity contracts and trust agreements, but does allow delegation of the remainder of the administrative functions; and

WHEREAS, by way of illustration and not as limitation, such delegation would include selection and removal of investment funds, approval of service contracts with designated companies and other contracts that do not require this Board's approval, hiring consultants, evaluation of designated company and fund performances, review of Qualified Domestic Relations Orders (QDROs), and determination of vesting; and

WHEREAS, the Board of Governors is willing for the President, in the President's discretion, to delegate functions of the ORP administration to members of his staff; and

WHEREAS, this Motion should not be read or understood to affect any prior ORP functions or administrative actions conducted by the President or his staff.

ITEM H

NOW THEREFORE, I move that the Board of Governors delegate the full administrative responsibilities that it may lawfully delegate to the President, including the authority to function as the Plan Administrator of the ORP, subject to 1) the limitations set out herein, 2) the UNC ORP Investment Policy Statement, and 3) policies of this Board ; and

FURTHERMORE, I move that the President, in the President's discretion, may delegate to the President's staff any of the functions of administration of the ORP; and

FURTHERMORE, I move that the Board of Governors indicate this Motion should not be read or understood to affect any prior ORP functions or acts of administration conducted by the President or his staff, and hereby ratify the administrative actions previously taken.

Charles H. Mercer, Jr., Chair
Committee on Personnel and Tenure
Approved by the Committee on May 11, 2006

Received and Approved by the Board of Governors
May 12, 2006

Secretary of the University
Date Signed: _____, 2006

[Mar 17, 1995]

SECTION I
APPENDIX I.B.

POLICY CONCERNING AUTHORIZATION OF INVESTMENT VEHICLES FOR
PARTICIPANT ACCOUNTS IN THE OPTIONAL RETIREMENT PROGRAM
OF THE UNIVERSITY OF NORTH CAROLINA

1. It is the intention of the Board of Governors of The University of North Carolina, in fulfilling its duties under G.S. 135-5.1, to promote the security of individual account assets funding retirement accounts under the Optional Retirement Program of The University of North Carolina (ORP).
2. It is the Board's determination that this intention shall be advanced through external diversification by permitting each company authorized to offer retirement accounts under the ORP to offer investment funds with differing investment objectives.
3. It is the Board's determination that this intention shall further be advanced by fostering internal investment diversity through the requirement that any fund used to underwrite an employee's ORP account be:
 - a. A fund of sufficient size to accomodate investment in securities of multiple companies within one or more industries; and
 - b. A fund whose organizational life is of sufficient duration to demonstrate stable performance in the marketplace.
4. The Board acknowledges the suitability under this policy of those funds currently offered through the ORP to fund retirement accounts and confirms their availability to fund individual ORP retirement accounts.
5. The Board establishes that investment funds which may subsequently be approved pursuant to this policy shall be only those that qualify for inclusion in one or more of the following fund categories:
 - fixed account (guaranteed)
 - aggressive growth fund
 - growth fund
 - growth and income fund
 - balanced account
 - bond fund
 - money market fund
 - social criteria fund
 - international or global fund
6. The Board authorizes the President, assisted by his staff and in consultation with such professional advisors as he may choose, to establish more detailed standards, consistent with the foregoing, and in addition to, but consistent with, those standards set forth in G.S. 135-5.1(d), for approval of other investment vehicles that may be offered through the ORP by companies approved by the Board.
7. The Board authorizes the President to approve such other mutual funds of companies authorized by the Board to fund individual retirement accounts

under the ORP as he may from time to time find appropriate with reference to the intent and standards set forth in this policy or established pursuant to this policy.

8. The President shall report to the Board each year those investment vehicles he has approved as of the preceding July 1 for use under the ORP to fund retirement accounts.

RESOLUTION

WHEREAS the Board of Governors of The University of North Carolina is charged under G.S. 135-5.1(a) to implement the Optional Retirement Program of The University of North Carolina as established pursuant to G.S. 135-5.1; and

WHEREAS the Board, pursuant to G.S. 135-5.1(e), "may provide for the administration of the Optional Retirement Program and may perform or authorize the performance of all functions necessary for its administration"; and

WHEREAS the Board has promulgated, consistent with applicable federal law, a Plan Document for the Optional Retirement Program, has filed the Plan Document with the Internal Revenue Service, and in that Plan Document has named "The University of North Carolina" as the Plan Administrator of the Optional Retirement Program; and

WHEREAS, pursuant to G.S. 116-3, the "Board of Governors of The University of North Carolina" is to be "known and distinguished by the name of 'the University of North Carolina' "; and

WHEREAS the Board, in executing its duties under G.S. 135-5.1(d), of selecting investment vehicles to be offered by companies approved by the Board to participants under the Optional Retirement Program, has restrictively delegated certain functions to the president, namely, the establishment of selection criteria supplemental to those established by the Board and has delegated to the president the evaluation and selection under those criteria of investment vehicles to be made available under the Optional Retirement Program by companies approved by the Board; and

WHEREAS the Board, in establishing a Qualified Governmental Excess Benefit Arrangement ("the Arrangement"), pursuant to IRC Section 415(m), as part of the Optional Retirement Program, has expressly delegated to the president the authority to function as the Arrangement's Plan Administrator and, further, has authorized the president to delegate such function to a person or a committee qualifying under the Board's authorization guidelines; and

WHEREAS there are functions appropriate to execution by the Plan Administrator of the Optional Retirement Program that the Board of Governors has not heretofore delegated to the president,

NOW, THEREFORE, the Board of Governors hereby delegates to the president those functions of the Plan Administrator of the Optional Retirement Program, including its Qualified Governmental Excess Benefit Arrangement, not required by law or other action of the Board to be executed by the Board, nor heretofore restrictively delegated to the president, and authorizes the president, in turn, to delegate such functions in a manner not contrary to applicable law nor inconsistent with other actions by the Board, to such officer or officers, or committee, of the University as the president may deem appropriate.

IN WITNESS WHEREOF, the Board has caused this Resolution to be executed by its Chairman and its corporate seal to be affixed by the Secretary, both duly authorized and effective this 1st day of May, 2001.

THE BOARD OF GOVERNORS OF
THE UNIVERSITY OF NORTH CAROLINA

By: _____

Chairman

Attest: (SEAL)

Secretary