

**The University of North Carolina
Optional Retirement Program
Investment Policy Statement**

**April 11, 2006
Amended April 27, 2009**

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INVESTMENT POLICY STATEMENT

The University of North Carolina Optional Retirement Program

I. THE PLAN AND ITS GOALS

The North Carolina General Assembly established the Optional Retirement Program (“Plan”) in 1971 as provided under N.C.G.S. 135-5.1. The Plan is a defined contribution plan and is qualified under Section 401(a) and 403(a) of the Internal Revenue Code. General oversight of the Plan is the responsibility of The University of North Carolina Board of Governors (“Board”). Pursuant to N.C.G.S. 116-11(13), the Board has delegated to the President of The University of North Carolina, in Policy 200.6, Sec. A.1.d., the “[a]uthority to approve all actions relating to the administration of the Optional Retirement Program.” This authority includes approving amendments to this Investment Policy Statement. The purpose of the Plan is to:

- Provide faculty and other eligible EPA employees an alternative choice to the North Carolina Teachers’ and State Employees’ Retirement System
- Provide portability of accumulated contribution balances
- Provide flexibility by offering participants a choice of investment and distribution options
- Provide retirement income along with Social Security benefits

The Plan’s goals are to:

- Provide an attractive benefit that will help the University recruit, retain and develop the best intellectual capital in a competitive national market
- Provide access to diversified and distinct investment alternatives that are sufficient in number in order to foster investment diversity
- Provide flexibility for participants to direct their employer and employee contributions
- Provide flexibility for participants to change their investment elections on a regular basis
- Provide adequate income at retirement

Definition of Key Terms

- (a) “Board” means the Board of Governors of The University of North Carolina.

- (b) "Employer" means The University of North Carolina or any of its constituent institutions.
- (c) "Funding Vehicles" means the annuity contracts or custodial accounts that satisfy the requirements of Sections 404(a)(2) and 401(f)(2), respectively, of the Internal Revenue Code issued for funding accrued benefits under this Plan.
- (d) "Investment Advisory Committee" serves as advisers to the Staff.
- (e) "Investment Options" means mutual funds, fixed accounts, or other Funding Vehicles.
- (f) "Plan" means the University of North Carolina Optional Retirement Program. The Plan maintains account balances of participants in which contributions are accumulated, investment earnings and losses are credited and debited, and from which certain operating expenses of the Plan may be paid.
- (g) "President" means the President of The University of North Carolina.
- (h) "Staff" means those persons employed by UNC General Administration who serve as advisers to the Board and the President with respect to the Plan.
- (i) "Trustee" means the person(s) or entity named in any separate trust agreement forming a part of this Plan, and any successors.

Responsibility and Authority

The Board has retained oversight responsibility for the Plan as follows:

- (a) The Board shall review and approve any subsequent revisions to the Plan's Plan Document.

The Board has delegated responsibilities for the Plan to the President as follows:

- (a) The President shall review and approve any subsequent revisions to the Plan's Investment Policy Statement ("Policy");
- (b) The President shall designate the mutual fund companies, insurance companies, or other financial organizations from which Investment Options are to be selected;
- (c) The President shall designate the Trustee, if applicable, for any separate trust agreement to hold in trust any of the assets of the Plan;
- (d) The President shall designate the Investment Options for use under the Plan;

- (e) The President or his/her designee shall approve the form and contents of any annuity contracts, custodial account contracts, mutual fund contracts, or separate trust agreements;
- (f) The President shall review, at least annually, the performance and investment management expenses of the Investment Options in the Plan; and
- (g) The President or his/her designee shall ensure participants have access to a description of the Investment Options available under the plan including investment objectives, expenses, risk and return characteristics.

The Staff is responsible for day-to-day operations of the Plan in accordance with Plan documents, the policies and decisions of the Board and the President, and applicable law. The Staff will provide input to the Board and the President to facilitate their decision making responsibilities.

Purpose of This Investment Policy Statement

The purpose of this Policy is to provide guidance concerning selecting and monitoring the Investment Options offered to participants in the Plan.

The Plan's investment program is defined in the various sections of this Policy by:

- Stating in a written document the President's expectations, objectives, and guidelines for the investment of the Plan's assets.
- Setting investment guidelines for the President to utilize in the selection of Investment Options that will provide participants with adequate investment choices to meet their objectives and manage the level of overall risk for their accounts.
- Establishing formalized criteria to monitor, evaluate, and compare the performance results achieved by the individual funds on a regular basis, and their adherence to the guidelines set forth by the President in this Policy.
- Developing guidelines to ensure compliance with any applicable fiduciary requirements. The President also intends the program to comply with all applicable laws and regulations.

In addition, this Policy is intended:

(a) *To Address Fiduciary Obligations*

It is important to act with skill, care, prudence, and diligence in all matters relating to the Plan and to perform duties with respect to the Plan in the interests of the participants and their beneficiaries and in accordance with the governing Plan document.

(b) *To Record Policy*

The President will review on an annual basis investment performance and investment management expenses. The formation of judgments and the actions to be taken on those judgments will be aimed at matching the needs of the participants with Investment Options available to the participants. The President views this program as an ongoing, long-term activity that should not be influenced by cyclical fluctuations in the investment market.

(c) *To Promote Understanding Among Various Functional Roles*

This policy is also intended to serve as a reference tool, and a communications link between the President and

- new members of the Board, when Board membership changes;
- employer management;
- its other professional advisors and service providers;
- its investment managers.

Legal and Regulatory Environment

The Plan is subject to federal and state tax law and supporting regulations. The assets of the Plan shall be invested and managed in accordance with the following legal principles.

1. All transactions undertaken on behalf of the Plan shall be solely in the interest of participants and their designated beneficiaries; and
2. Investments shall be managed with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

Investment Options, collectively, shall be diversified so as to allow the participant(s) to minimize the risk of large losses, unless under some unforeseen extraordinary circumstances it would clearly not be prudent for the President to do so.

II. CONTEXT OF INVESTMENT POLICY STATEMENT

Investment Objective

The investment objective of the Plan is to provide participants with an opportunity to create portfolios with varied aggregate risk and return characteristics. This is best accomplished by offering participants a broad range of investment alternatives.

Each Investment Option will have sufficiently different risk and return characteristics so that, taken together, they enable a participant to arrange a portfolio with aggregate risk and return characteristics according to his/her desires.

In addition, the Plan may offer a series of life cycle funds for those participants who desire for an investment professional to make their asset allocation decision. The life cycle series should offer participants a choice of target asset allocations.

Risk Tolerances

This Policy recognizes the difficulty of each participant achieving his/her investment objectives in light of the uncertainties and complexities of contemporary investment markets. This Policy also recognizes that participants should and will seek to assume different individual levels of risk exposure in order to achieve their various investment objectives and risk tolerance.

Plan participants may wish to tolerate some interim fluctuations in market value and rates of return in order to achieve their investment objectives. However, it is the President's goal to offer investment vehicles whose performance patterns adhere to their stated investment objectives and style. Therefore, when evaluating investment funds, the President or his/her designee will separately consider each investment's risk and return characteristics compared to the relevant benchmark in order to effectively discharge his/her responsibilities under the Plan in the best overall interests of Plan participants and their beneficiaries.

III. INVESTMENT ALTERNATIVES

Investment Options

Based on participants' varying risk tolerances, the following types of Investment Options should be made available for Plan participants. Participants may individually diversify among these funds in order to achieve their own optimum level of risk and return.

Fixed Accounts may be subject to the terms and conditions of an annuity contract issued by an insurance company. Investment in such annuities is secured by the general assets of the issuing insurance company and the participant investing in these accounts assumes the associated credit risk.

The issuers of fixed annuities to be offered as Fixed Account investment options must maintain the following minimum financial strength ratings from at least two rating agencies:

- A from A.M. Best;
- A from Standard & Poor's;
- A2 from Moody's;
- A from Fitch.

The financial stability and financial strength ratings of the issuer are among a number of factors to be considered; some other factors are the terms and expenses related to the annuity contract, crediting rate history, rate reset method.

See Appendix A for a summary of benchmarks and peer groups for each asset class. Refer to the individual fund Prospectuses for detailed descriptions of the options. A description of the asset classes represented in the plan follows:

General Asset Class Category Descriptions	
Principal Protection (Money market, Fixed Accounts or Stable Value)	<ul style="list-style-type: none"> ■ Seek the highest level of stable income consistent with the safety of principal afforded by the portfolio's investments. ■ The portfolio may hold U.S. Government and Agency securities and other money market securities issued by corporations. ■ The portfolio may hold book value investments, including traditional account Guaranteed Investment Contracts (GICs) and synthetic GICs.
Bond	<ul style="list-style-type: none"> ■ Provide current income with the ability for security price appreciation. ■ The portfolio will be limited primarily to fixed income securities rated either BBB or better by S&P or Baa or better by Moody's. The average quality rating will be A or better by Standard and Poor's or Moody's.

Asset Class Category Descriptions Continued on the Next Page

Asset Class Alternatives (continued...)

General Asset Class Category Descriptions	
Core Equity	<ul style="list-style-type: none"> ■ Provide broad equity market exposure with the opportunity of capital appreciation and income through dividends. ■ This option may be actively or passively managed to a particular broad market index such as the Standard & Poor's 500 Index. ■ This fund will invest primarily in large cap stocks.
Style Based Equity	<ul style="list-style-type: none"> ■ Primary focus is to provide capital appreciation. ■ Managers are seeking advantages in the market place through their particular strategy. Funds offered in this category will have a style specific orientation such as value or growth. ■ This type of fund will invest primarily in mid to large capitalization stocks of U.S. domiciled corporations.
International/Global Equity	<ul style="list-style-type: none"> ■ This option will provide investors with exposure to a broad range of stocks largely based outside of the U.S. ■ Currency hedging may also be employed by the manager with the primary objective to protect currency translation exposure or create an initial position in a country. ■ International funds will invest primarily in non-U.S. markets. Global funds will invest in foreign and domestic markets.
Aggressive Equity	<ul style="list-style-type: none"> ■ Broad category that encompasses funds with investments specifically in small or mid capitalization stocks. ■ Managers seek to outperform the appropriate benchmark during a market cycle and are willing to take risks to achieve this objective. ■ Managers may seek advantages in the market place through their particular strategy. Funds offered in this category may have a style specific orientation such as value or growth. ■ This option has the opportunity to dramatically under perform or out perform the broad market during different market periods.

Life Cycle Investment Options

The Plan's investment choices also include a series of "life cycle" Investment Options. These funds provide pre-set asset allocations based upon individual risk tolerance or anticipated retirement date, for those participants who do not feel comfortable making their own allocation decisions. These life cycle funds offered by each carrier shall be designated as the default fund in a situation where a participant does not make a fund selection.

Summary of Investment Options

The Plan's investment choices are designed to:

- Provide an opportunity for a participant to exercise control over assets in his/her individual account.
- Provide a participant or beneficiary an opportunity to choose, from a broad range of investment alternatives, the manner in which the assets in his/her account are invested.

Performance Objectives and Selection Criteria

It is in the best interest of the Plan's participants and beneficiaries that performance objectives be established for each Investment Option.

The performance objectives and criteria items will include but are not limited to the following:

- Manager's adherence to his/her stated investment objectives and style
- Performance Numbers
 - Long-term focus
 - Above median results relative to peer group and above market benchmark over cumulative (3 and 5 year periods) and rolling 3-year periods
 - Net of fees basis
- Value Added and Risk Statistics, including:
 - Sharpe Ratio
 - Alpha
 - Beta
 - Standard Deviation
 - Downside Risk
- Qualitative Factors such as:
 - Assets under management
 - Manager tenure
 - Organizational structure and stability
- Expenses of funding vehicles relative to comparable portfolio

IV. OPERATIONAL

Frequency of Measurement

The President or his/her designee shall measure and review compliance with this policy at least annually.

Investment Performance

The President or his/her designee will review investment performance to determine if the Investment Options offered under the Plan continue to provide the participants with a broad range of choices with competitive returns relative to appropriate benchmarks and peer groups as defined in Appendix A.

It is not expected that this Policy will change frequently, although the President will review this Policy periodically. In particular, short-term changes as defined by industry standards in the financial markets should not require adjustments to this Policy.

Review of Investment Options

The President or his/her designee will:

- Review each Investment Option's adherence to this Policy for that offering.
- Compare each Investment Option's return with appropriate indices or benchmarks and peer groups as defined in Appendix A.
- Identify any material changes in the Investment Option's organization, investment philosophy, and/or personnel.

Review of Plan Fees and Participant Activity

The President or his/her designee will:

- Review total Plan fees, including those of any third party administrator, the directed Trustee and Investment Option fees.
- Review aggregate participant balances and elections.

Fund Termination

Investment Options will be reviewed for possible replacement at least annually. The President should have little or no tolerance for an inconsistent investment approach. Therefore, the President or his/her designee will monitor Investment Options offered under the Plan on several key indicators for possible inconsistency, as set out below.

Fixed annuities may be immediately closed to new contributions if the financial strength ratings of the issuer fall below the minimum ratings or there are reasons to believe that the issuer will be unable to maintain the minimum ratings. Contributions will be redirected for investment in the money market investment option. Fixed annuities may also be replaced due to reasons that are applicable to all other investment options.

Reasons for replacement may include, but are not limited to the following:

- Significant under performance relative to the fund's benchmark and peer group.
- Acceptance of significantly more risk than the fund's benchmark index.
- Change or loss of key personnel, such as a fund manager and those servicing the account.
- Significant change, increase, or loss of assets under management.
- Evidence that actual portfolio characteristics do not follow published investing style.
- Performance patterns not logically explainable in terms of the published style, or performance out-of-step with a manager's style peer group, particularly (but not exclusively) if resulting in under performance or excessive volatility.
- The identification by the President or his/her designee of more suitable funds.

None of these indicators shall be taken to be conclusive evidence of inconsistency. Such a finding will be based upon the facts and circumstances of each situation.

Investment Options

The President or his/her designee may use whatever resources are deemed appropriate to secure and evaluate qualified Investment Options during the selection process, including but not limited to search firms, consultants and the Investment Advisory Committee. The President may expand or contract the number of investment fund choices in the asset categories as deemed appropriate to meet the objective of providing a broad array of investment choices, which offer competitive returns at competitive and reasonable expense levels. The number of investment funds selected will be considered in the context of selecting a manageable number of Investment Options that provide comprehensive coverage along the risk/return spectrum. Manager skill and cost to the Plan (and participants) will be considered in establishing an efficient roster of core options to implement the Policy.

V. POLICY MODIFICATION AND REVISION

The President or his/her designee will consider at least annually whether any elements of this Policy need revision and make recommendations to the President. Key occurrences, which could result in a Policy modification, include, but are not limited to:

- (a) impractical time horizons;
- (b) changes in the operating environment or objectives and priorities;
- (c) issues found to be important, but not covered by the Policy; and
- (d) long-term changes in market trends, economic conditions, or investment opportunities that are materially different from those used to set the Policy.

The President views this Policy, on the one hand, as the basic tool for the execution of the investing program, and on the other hand as a dynamic document which is responsive to any needs for fundamental or minor change. The President does not believe it is desirable or productive to react to short-term situations but rather takes a long-term view of offering this Plan and the Investment Options to participants.

VI. POLICY ADOPTION

The President of The University of North Carolina hereby adopts this Amended Investment Policy Statement effective on the 27th day of April, 2009.



President, The University of North Carolina

April 27, 2009
Date Signed

APPENDIX A

BENCHMARKS AND PEER GROUPS FOR INVESTMENT OPTIONS

<u>Asset Class</u>	<u>Investment Benchmark</u>	<u>Peer Group</u>
<u>Principal Protection</u>		
Money Market	90-Day U.S. T-Bills	Money Market
Stable Value/Fixed Account	Ryan Labs GIC Master 3 Year Index	Stable Value
<u>U.S. Fixed Income</u>		
Core Fixed Income	Lehman Bros. Aggregate Index	Core Bond
Inflation Indexed Bonds	Lehman Bros. Inflation Notes Index	Intermediate Government
<u>Lifestyle Funds</u>	Custom Benchmarks	
<u>U.S. Large Cap Equity</u>		
Blend	S&P 500 Index	Large Cap Blend
Value	Russell 1000 Value Index	Large Cap Value
Growth	Russell 1000 Growth Index	Large Cap Growth
Broad Market	Russell 3000, Wilshire 5000	Broad Market
<u>U.S. Mid Cap Equity</u>		
Blend	Russell Mid Cap Index	Mid Cap Blend
Value	Russell Mid Cap Value Index	Mid Cap Value
Growth	Russell Mid Cap Growth Index	Mid Cap Growth
<u>Small Cap Equity</u>		
Blend	Russell 2000 Index	Small Cap Blend
Value	Russell 2000 Value Index	Small Cap Value
Growth	Russell 2000 Growth Index	Small Cap Growth
<u>International Equity</u>		
International	MSCI EAFE Index	Non U.S. Core
Global	MSCI World Index	Global Equity
<u>Specialty Funds</u>	TBD	

NOTES:

- All actively managed funds are expected to out perform the market benchmark and provide above median results relative to its peer group over the majority of observable cumulative and rolling three-year periods.
- For indexed/passively managed options, performance should be within a reasonable tolerance of the index it is replicating after taking into consideration the fund's expense ratio and above median relative to its peer group over the majority of observable cumulative and rolling three-year periods.