

Overview



NORTH CAROLINA RETIREMENT SYSTEMS



Key Themes

- As of 3/1/07 NCRS has \$74 b in assets.
- NCRS is one of the strongest public pension funds in the country.
- NCRS has a conservative asset allocation targeted to its 7.25% actuarial assumption.
- NCRS has historically outperformed that actuarial assumption.

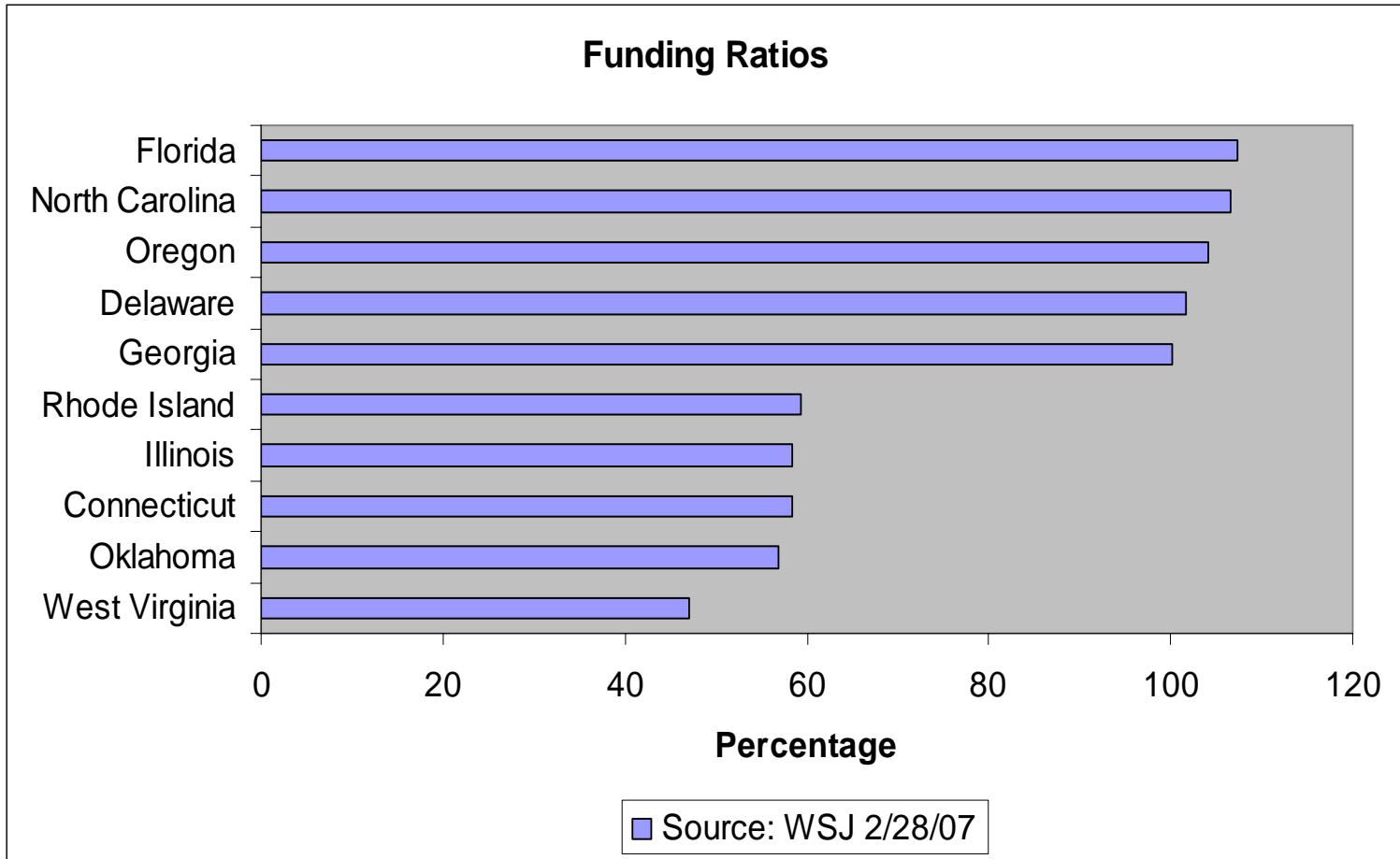


Wall Street Journal, 2/28/07

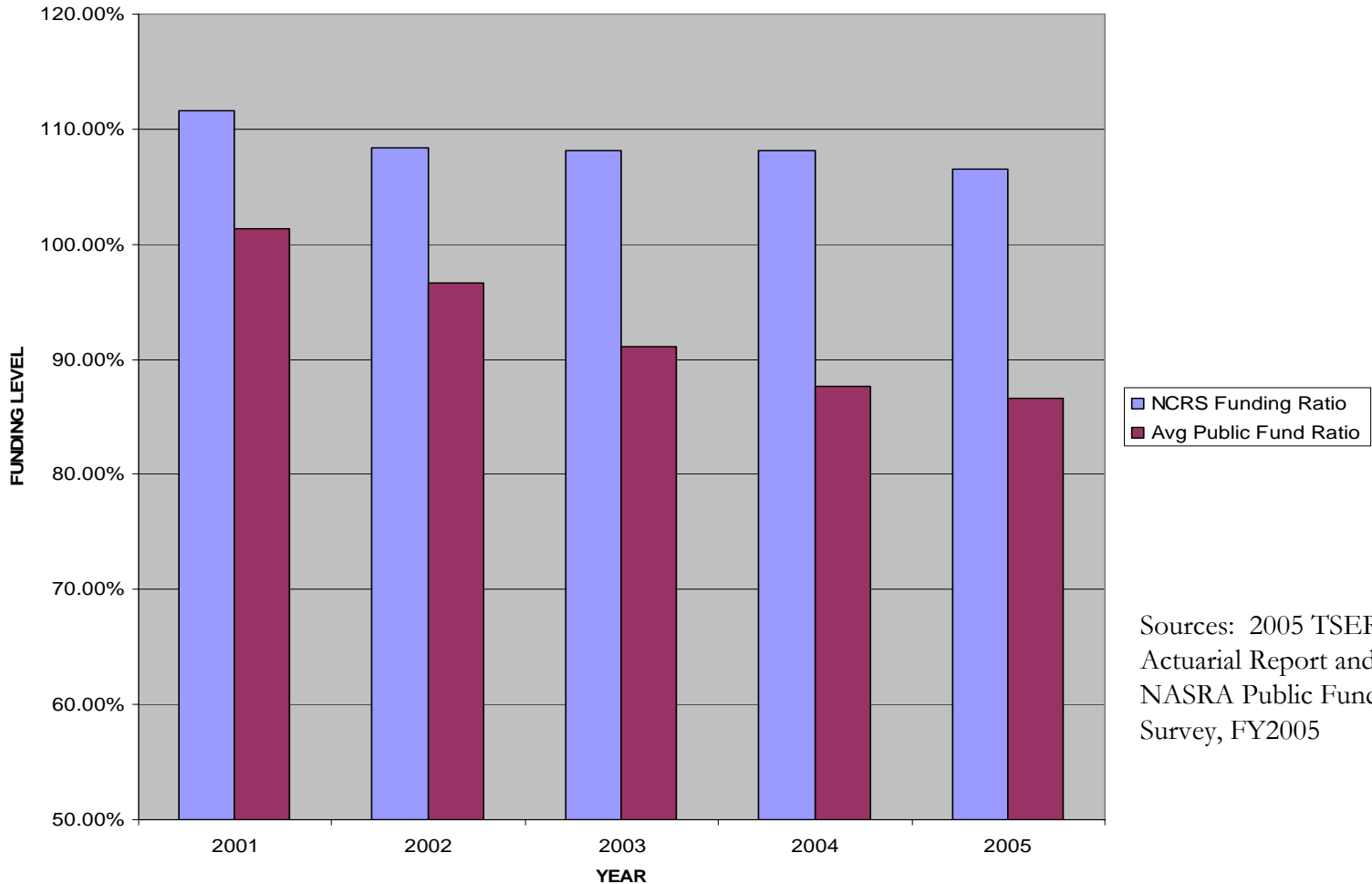
States' Pension Shortfalls Widen Amid an Increase in Tax Receipts

- Ranked as #2 pension fund in nation by the Wall Street Journal for second year in a row (2/28/07, 2/23/06)
- Ranked as #1 pension fund in nation by Governing magazine (10/06)

S&P Rankings



NCRS FUNDING RATIO VS. AVERAGE PUBLIC FUND



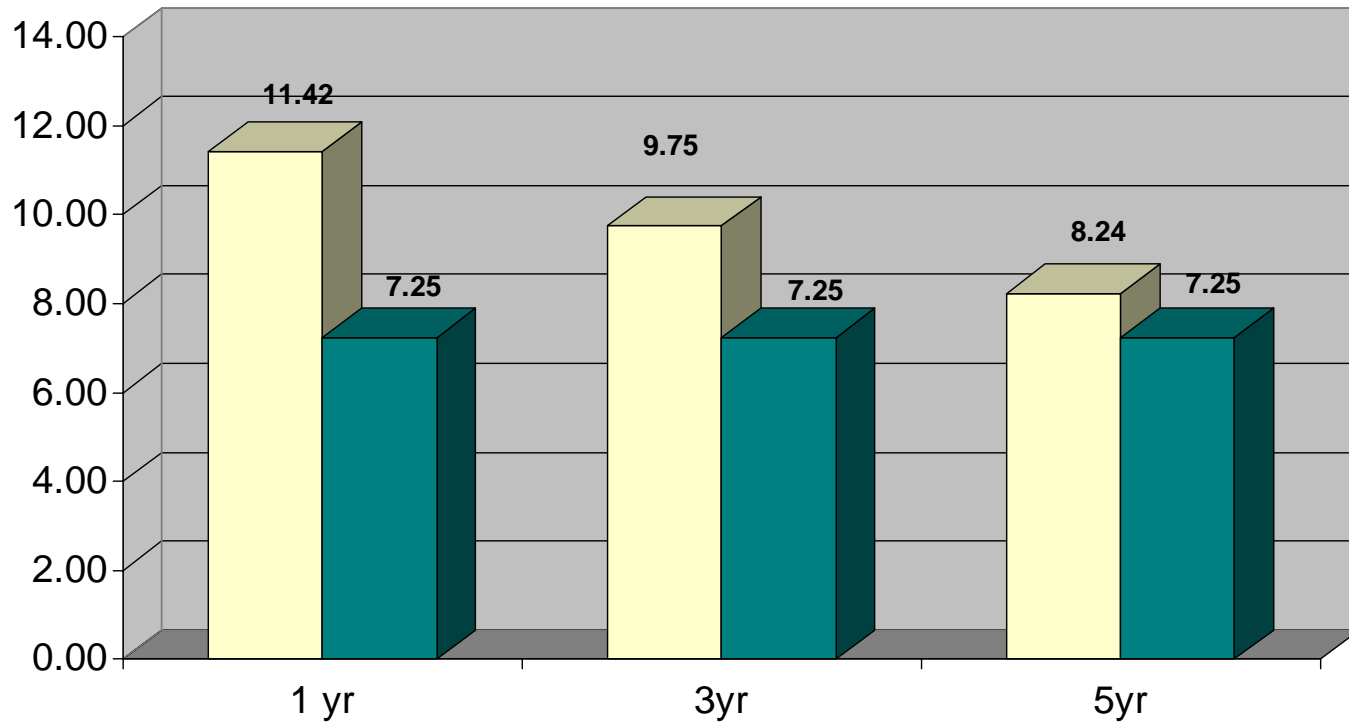


Actuarial Assumption

- The actuarial assumption, 7.25%, is the rate of return expected to be earned by the NCRS Pension Fund.
- The NCRS asset allocation is designed to achieve that 7.25% return over the long term.

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Investment Returns



Periods as of 12/31/06



Asset Allocation

- NCRS has a conservative asset allocation designed to be in the middle of the pack in a bull market and be at the front of the pack in a bear.
- “The North Carolina pension fund's investment income accounted for about 78 percent of the fund for the year that ended Dec. 31, 2005.”
(News and Observer, 2/28/07)
- A portfolio's asset allocation is the primary determinant of portfolio return variability, with security selection and market-timing playing minor roles. (Brinson, Hood and Beebower. “Determinants of Portfolio Performance” 1986.)

The Power of Diversification

Asset Class Performance by Year

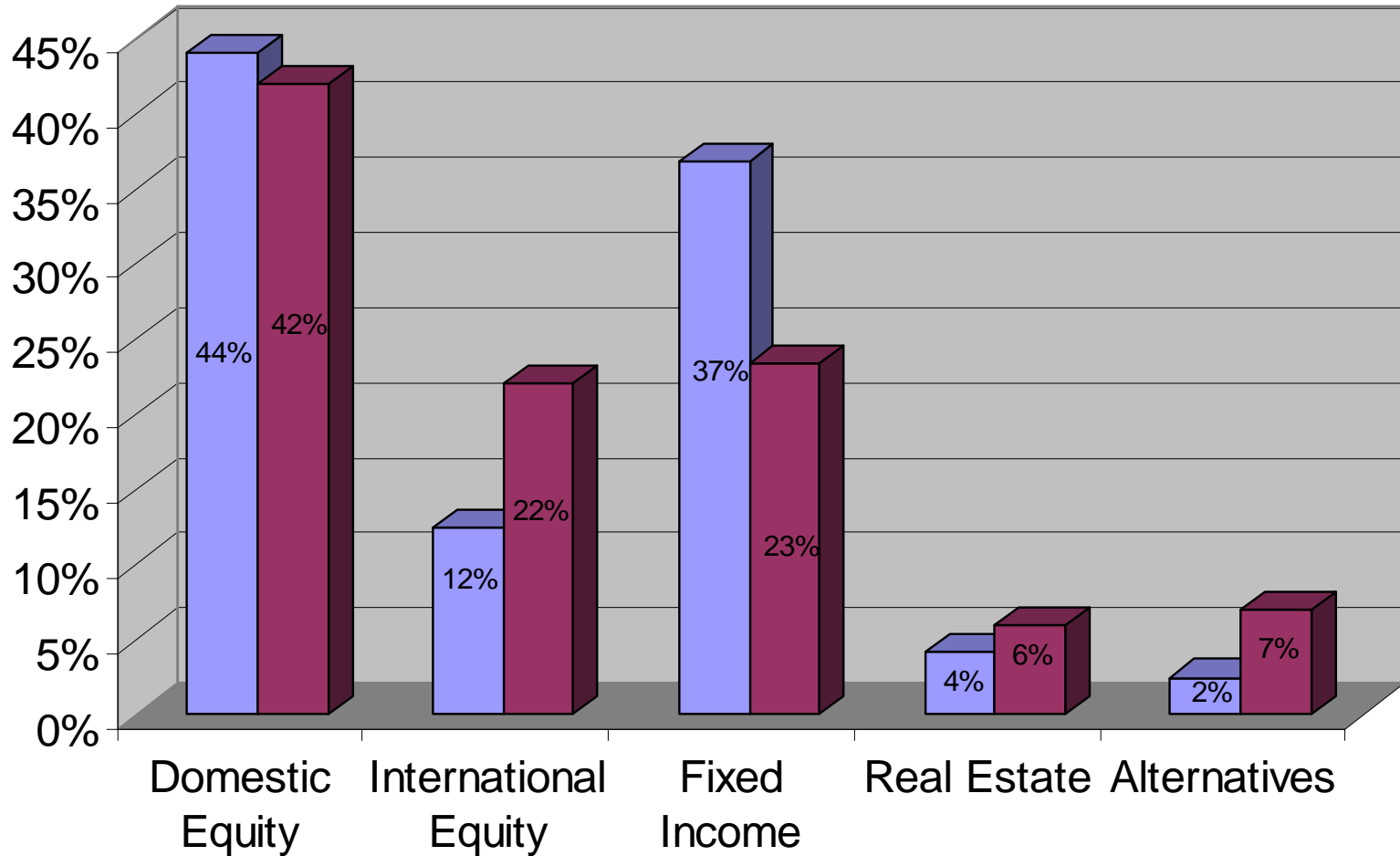
RETURNS ↑ High ↓ Low	Large-Cap 24.01%	Large-Cap 34.53%	Large-Cap 33.98%	International 26.96%	Fixed-Income 11.63%	Fixed-Income 8.44%	Fixed-Income 10.25%	Small-Cap 47.25%	International 20.25%	International 13.54%
	Mid-Cap 19.00%	Mid-Cap 29.01%	International 20.00%	Large-Cap 21.79%	Mid-Cap 8.25%	Stable Value 4.51%	Stable Value 3.79%	Mid-Cap 40.06%	Mid-Cap 20.22%	Mid-Cap 12.65%
	Small-Cap 16.49%	Small-Cap 22.36%	Mid-Cap 10.09%	Small-Cap 21.26%	Stable Value 6.09%	Small-Cap 2.48%	International -15.94%	International 38.59%	Small-Cap 18.33%	Small-Cap 4.55%
	Stable Value 6.21%	Fixed-Income 9.65%	Fixed-Income 8.69%	Mid-Cap 18.23%	Small-Cap -3.02%	Mid-Cap -5.62%	Mid-Cap -16.18%	Large-Cap 26.68%	Large-Cap 8.31%	Stable Value 4.35%
	International 6.05%	Stable Value 6.19%	Stable Value 5.10%	Stable Value 5.60%	Large-Cap -12.14%	Large-Cap -14.57%	Small-Cap -20.48%	Fixed-Income 4.10%	Fixed-Income 4.34%	Large-Cap 3.77%
	Fixed-Income 3.63%	International 1.78%	Small-Cap -2.55%	Fixed-Income -0.82%	International -14.17%	International -21.44%	Large-Cap -23.36%	Stable Value 3.00%	Stable Value 3.37%	Fixed-Income 2.43%
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005

Stable Value 5 Yr Treasury Note Yld Index
Fixed-Income Lehman Aggregate Bond Index
Small-Cap Russell 2000 Index

Mid-Cap Russell MidCap Index
Large-Cap Russell Top 200 Index
International Morgan Stanley Capital Int'l EAFE Index

ASSET ALLOCATION

NCRS VS. PUBLIC FUNDS > \$40 Bil

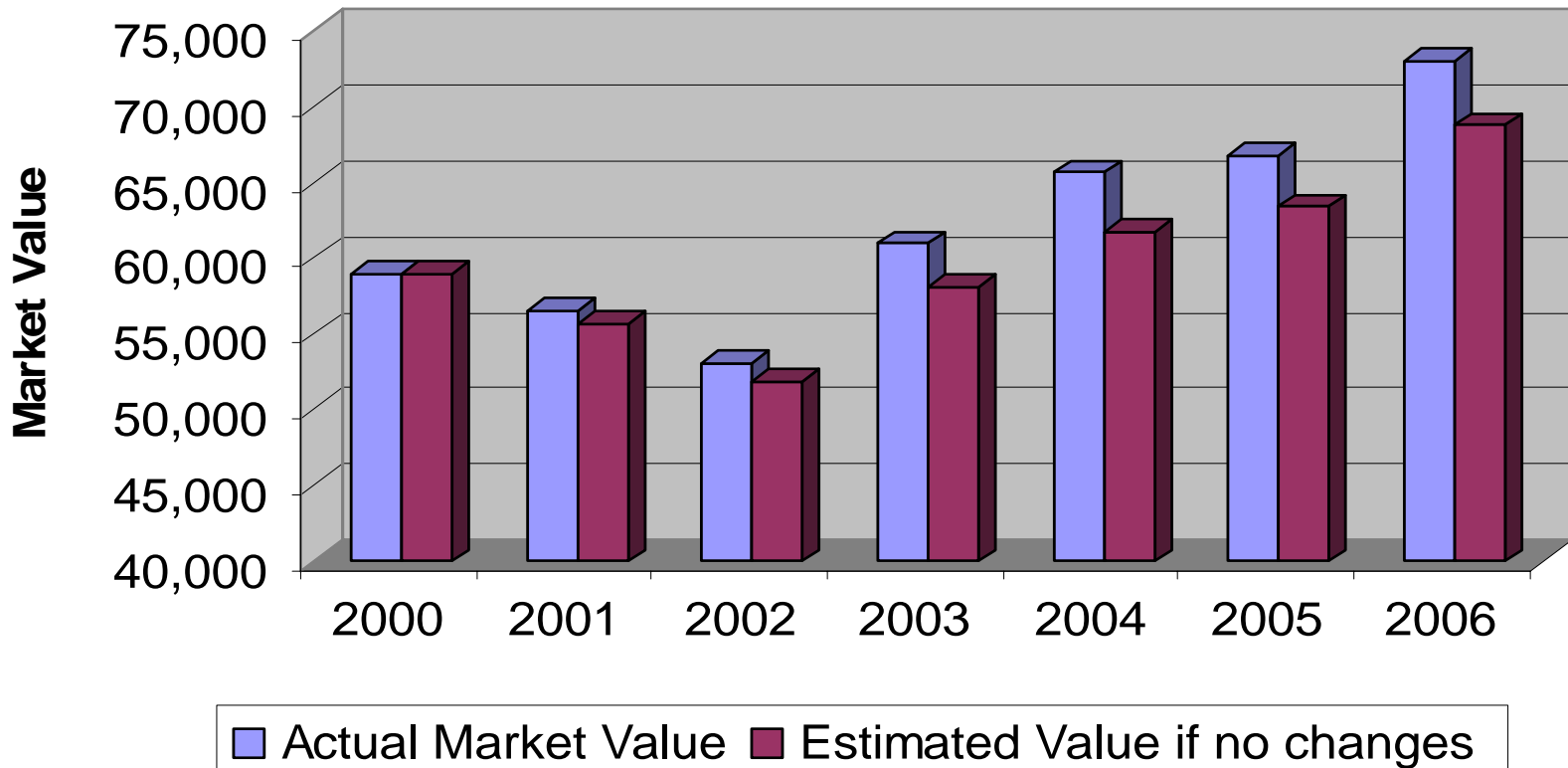


■ NCRS ■ Public > \$40 bil

Data collected from 17 other public pension fund websites 2/2007

Asset Allocation Changes Generated \$4.2B

Estimated vs Actual Valuation at Year End (\$Mil)



Asset Allocation and Return Projections were based on the following assumptions for each asset class: Fixed Income: Merrill Lynch custom benchmark from Dec 2000 (prior to legislative change), Domestic Equity: S&P 500 Index, International Equity: MSCI EAFE Index, Real Estate: NCREIF Index, Alternatives: Venture Economic All Private Equity Index. Note: \$1.5 bil decrease per year for benefits was assumed: 2001 - 2004 from LT, 2005 \$1 bil from LT \$500 mil from Equity, 2006 from Equity



New Investment Authority

- 147-69.2 modified in 2001
- Allows up to 5% investment in alternatives
- Current asset allocation for alternatives is at 2%



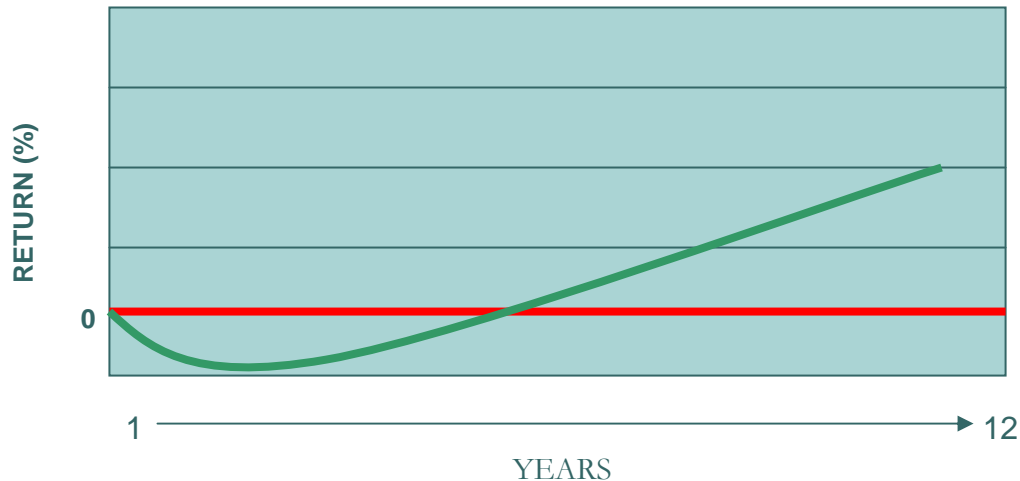
Returns by Asset Class

- Public Equity – 15.6 percent
- Real Estate – 19.7 percent
- Alternatives – 12.8 percent
- Fixed Income – 4.03 percent

One-year returns for year ending 12/31/2006.

J Curve Returns on Alternatives

In general, alternative investment returns are negative in their early years due to management fees and start up costs. Investments are valued at initial cost until the General Partner's efforts to increase value justifies an increased valuation. It can take several years for portfolio valuations to reflect these efforts. The effect of this timing is known as the "J-Curve" Effect.





NCRS Income History: The Three Legged Stool

Year	2001	2002	2003	2004	2005
NC General Fund Contributions (Employer contribution to TSERS)	\$196 m	\$0	\$22 m	\$237 m	\$270 m
Employee Contribution (TSERS 6% of employee paycheck)	\$607 m	\$667 m	\$663 m	\$672 m	\$705 m
Investment Earnings	(\$1.1 Bil)	(\$2.8 Bil)	\$9.6 Bil	\$6.5 Bil	\$4.5 Bil
Fund Size	\$57.3 Bil	\$54.3 Bil	\$56.9 Bil	\$61.8 Bil	\$65.8 Bil

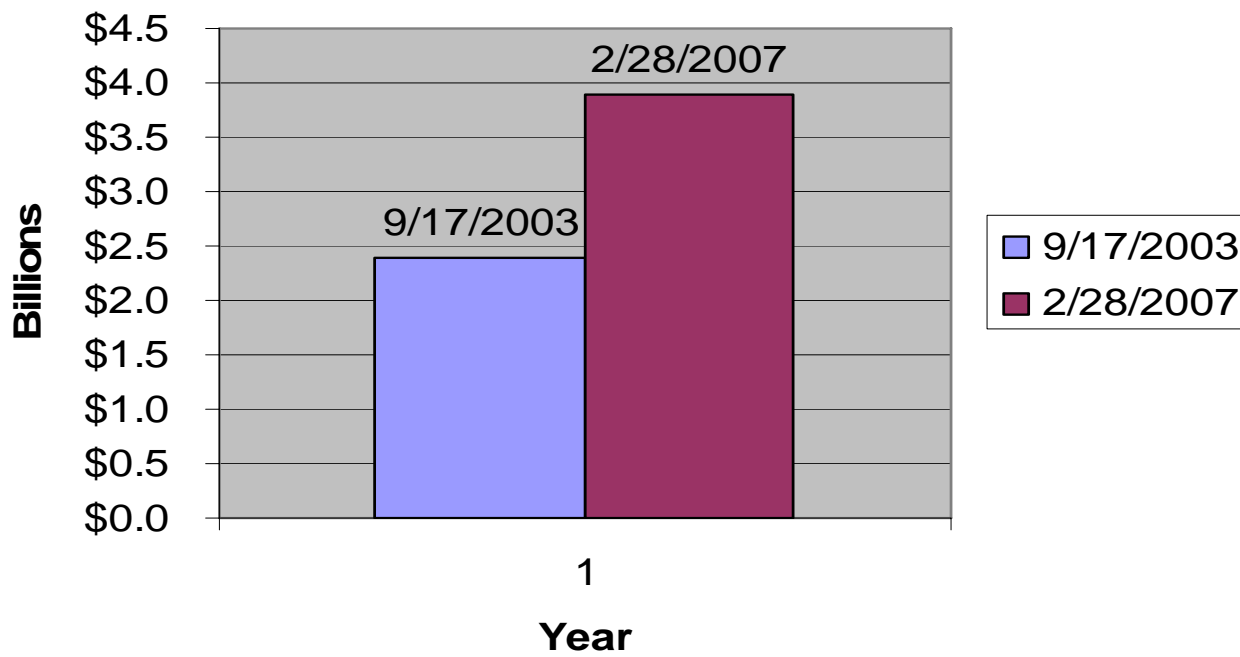


NCRS Fees

- North Carolina pays its outside managers, on average, 0.257% of assets under external management in fees. Those fees are:
 - **29% lower** than the average fees paid to outside managers hired by public retirement funds;
 - **42% lower** than fees paid to outside managers hired by corporate pension funds (excluding unions).
- The fees North Carolina pays to its outside managers also compare favorably to other large state pension funds. For example:
 - Pennsylvania paid 0.79% of assets under external management.
 - Ohio paid 0.43% of assets under external management.
 - Virginia paid 0.35% of assets under external management.



NC 401k Assets Under Management





Moore's Actions

Actions Treasurer Moore has taken to strengthen investment management:

- Established asset allocation
- Created in-depth due diligence process
- Gained legislative authority to modernize investments and asset allocation
- Established annual liability study