CALL TO ORDER
Tom Cabaniss, Chair of Committee

ROLL CALL
Tom Cabaniss, Chair of Committee

READING OF STATE GOVERNMENT ETHICS ACT CONFLICT OF INTEREST STATEMENT
Tom Cabaniss, Chair of Committee

1. APPROVAL OF MINUTES
   Approval of April 20, 2017 Minutes

2. ACTION ITEMS
   No Action Items

3. INFORMATIONAL REPORTS
   A. Internal Audit Update
      (NC State Pol 01.05.1, Appendix 1, I.a.i-viii)
      Office of Internal Audit
      Cecile Hinson, Director, Internal Audit

   B. Finance/Budget and Legislative Update
      (UNC Pol, Ch. 100.1, Appendix 1 (V); NC State Pol 01.05.1, Appendix 1, I.b)
      Office of Finance and Administration
      Scott Douglass, Vice Chancellor, Finance and Administration
      Barbara Moses, Associate Vice Chancellor, Budget and Resource Management
      Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer
      Chancellor’s Office
      Sarah Stone, Assistant to the Chancellor, External Affairs

   C. Update to NCSU Institutional Trust Fund Policy Statement
      (NC State Pol 01.05.1, Appendix 1, I.d.i)
      Office of Finance and Administration
      Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer
D. Compliance and Integrity Program Update 4.3D
(NC State Pol 01.05.1, Appendix 1, l.c.i, ii)
Cyber-Security Overview; Structure and Objectives
Summary Incident Response Process
Office of Information Technology
Marc Hoit, Vice Chancellor, Information Technology and CIO
Office of General Counsel
Eileen Goldgeier, Vice Chancellor and General Counsel

4. COMMITTEE DISCUSSION 4.4

5. ADDITIONAL INFORMATIONAL MATERIALS 4.5

A. NC State Investment Fund Performance Review 4.5A
(NC State Pol 01.05.1, Appendix 1, l.b, d.i)

B. NC State Intermediate Term Fund Performance Review 4.5B
(NC State Pol 01.05.1, Appendix 1, lb, d.i)

ADJOURN
Meeting of Audit, Risk Management and Finance Committee  
North Carolina State University  
Board of Trustees  
September 21, 2017

Chair Cabaniss opened the meeting at 1:03 p.m. in the Chancellor’s Conference Room. Roll was taken and with BOT Chair Jimmy Clark present, there was a quorum. Committee members present for the meeting were:

Mr. Tom Cabaniss, Chair  
Mr. Robert (Chip) Andrews  
Mr. Ron Prestage  
Mr. Jimmy Clark, to present a quorum

All members of the Committee were reminded of their duty to avoid conflicts of interest and appearances of conflicts of interest under the State Government Ethics Act. It was inquired as to whether there were any known conflicts of interest or appearances of conflict with respect to any matters coming before the Committee at this meeting. There being none, the meeting continued.

The committee reviewed and discussed its responsibilities as per the bylaws, this year’s agenda, and the draft plan of work for the year. The four key areas of committee authority are audit, finance, risk management, and policy development for institutional trust funds, campus security and information technology and cybersecurity. Information technology and cybersecurity were added this year with the Bylaw changes.

The minutes from the April 20, 2017 meeting were presented for approval, and with no changes, Mr. Prestage made a motion to accept the minutes and Mr. Andrews seconded. The minutes were approved.

The Committee was presented with the Internal Audit Charter for review and approval, as required by state law, BOG policy, and the Institute of Internal Auditors’ International Professional Practices Framework. The Charter is a formal document that defines the Internal Audit Division (IAD) mission, scope of work, accountability, authority, and responsibility. The Charter must be reviewed and approved annually by the Board of Trustees. The one major change to the Charter included the statement that internal audit activity is governed by adherence to The Institute of Internal Auditors’ Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Mr. Andrews made a motion to accept the Charter as presented, Mr. Prestage seconded, the Charter was approved.

The Committee also heard an Internal Audit report on the materials provided: the Fiscal Year 2017 NCSU IAD Annual Report and Fiscal Year 2017 Year End Summary. Topics discussed included: IAD performance metrics, status of engagements against the Audit Plan, the increase in risk assessment interviews conducted, and the increase in hotline allegations received and investigated. A quarterly update on Internal Audit activity since the last meeting was also discussed. This update included five audits that closed since April after having successfully passed follow-up testing of the required corrective action implementation.
One of those audits was the Division of Academic and Student Affairs Student Health Services Investigation related to issues experienced after the implementation of the new electronic medical records system. All functionality and regulatory concerns were addressed and corrected as necessary. Testing and communication with the NC Department of Health and Human Services validated that there were no regulatory compliance violations as alleged.

A report on legislative activities included a discussion related to redistricting and the possible impact on the House and Senate. A special session, to discuss redistricting and other matters, will convene on October 4, 2017. Other items that may be considered include constitutional amendments and a measure that would lower the maximum allowable state income tax in NC.

There was a brief overview of the Budget, by source, expenditure by program and account. The estimated budget is $1.57 billion.

The Committee also reviewed highlights from the University’s unaudited financial statements for FY2017. The net position of the University increased to $2.05 billion, up $58.93 million from FY2016. Small increases in major revenues were offset by increases in liabilities and operating expenses. A change in reporting now requires including expenses in “other postemployment benefits”, referred to as OPEB’s, and increases the amount of liabilities. The University will continue to watch the impact of accounting changes and slow top level revenue growth.

The Committee reviewed the annual Intercollegiate Athletics Financial Report that is required by UNC Board of Governors. The Committee was reminded that the report is always given in arrears, so the information is based on FY16 data. The report also included information on the FY17 budget. NC State Athletics self-generated 92% of all athletic revenue for FY16, and is in the 75% quartile of athletics generated revenue compared to other schools in the conference. The revenue sources include media rights, apparel sales, conference distributions and scholarship funding provided by the Wolfpack Club. The other 8% of revenue is funded from student fees in exchange for student tickets to athletic events. NC State’s Student Fee for Operations continues to be the lowest in the UNC System. The $232 student fee represents 10% of all undergraduate student fees and has not increased since FY13.

NC State’s athletic expenses for FY16 were $79.9 million and are in the bottom quartile of the ACC. Expenses increased by about $7 million due to increase in NCAA reporting changes, which now include bowl expenses, salaries and benefits, scholarship costs, travel costs and facility debt payments to campus. The Committee was reminded that expenditures per student athlete uses an unduplicated student athlete count. Meaning, that if a student participates in multiple sports, they are only counted once, although expenses are incurred for each sport. NC State sponsors 23 sports and averages 550 student athletes.

The Committee heard additional financial information including the annual budget for fiscal 2017-2018. Operating revenues are projected to be $82.2 million, with no changes in sources. The operating expenditures are projected to be $81.9 million. Major expenses categories include salaries and benefits, scholarships, debt payments, team travel and facilities. Other expenses are related to student athlete welfare.
An informational report on Compliance and Integrity, reminded the Committee of their role in regards to compliance and fiduciary duty of care, including the duty to be reasonably informed and to exercise appropriate attention. The Audit, Risk Management and Finance Committee ensures policies and procedures to meet obligations. The report focused on two areas of the Compliance and Integrity Program, training and response and prevention. A university collaboration has resulted in training modules that are being rolled out. Also reviewed were the different reporting methods available to campus including the Ethics Point Hotline, which is run by a third party company and callers can remain anonymous.

The Committee also heard information on the 2018 initiatives of compliance program evaluations, training and education and creating a culture of compliance and culture code.

Chair Cabaniss referenced informational materials provided to the Committee.

With no further business, the Committee adjourned at 2:30 p.m.

Submitted by ________________________________

Secretary to the Committee

Approved _________________________________

Chair of the Committee

Attachment
North Carolina State University
Investment Policy Statement for
Institutional Trust and Special Funds
Effective November 2 December 1,
2017, 2013

Purpose
N.C. General Statute 116-36.1 authorizes the Board of Governors of the University of North Carolina ("UNC") to adopt uniform policies and procedures applicable to the deposit, investment, and administration of institutional trust funds and to delegate such authority through the President to the constituent institutions. Through UNC policy "600.2.4.1: Delegated Authority for Managing Institutional Trust Funds", upon request by the Chancellor, the President may delegate authority to the Chancellor of a constituent institution to deposit, invest, and administer institutional trust funds consistent with N.C. General Statute 116-36.1.

The purpose of this policy is to provide guidelines for the investment of the University's Institutional Trust (excluding "Contracts and Grants" receipts) and Special Funds. This policy will delegate management responsibility for the execution of this investment policy; establish overall portfolio goals and objectives; and will identify permitted investment securities/funds and provide associated investment guidelines.

Philosophy
The university and its associated entities rely on operating cash to fund operations, pay debt service, and build rainy day funds. Therefore, an investment program for operating funds must rely on prudent, conservative methods of preserving cash while generating supplemental return. In this investment policy we seek to maintain the highest credit quality instruments, while limiting duration, sector, and counterparty risk. Limiting duration helps to reduce interest rate risk—the likelihood that movements in interest rates will affect the net asset value of investments in the program. It is likely that a substantial portion of NC State’s and its associated entities operating cash will remain invested with the State of NC Treasurer’s Short Term Investment Fund (STIF). However, there may be opportunities to generate additional income with limited additional risk, particularly if duration increases slightly.

Delegation
Authority to manage the investment program in accordance with this investment policy is granted to the University's Vice Chancellor for Finance and Business Administration, who shall act and may further delegate the authority to execute and manage investments in accordance with any procedures and internal controls for the operation of the investment program consistent with this investment policy.

Goals/Objectives
• To preserve principal.
• To optimize the use and investment of University cash and short-term investments.
• To earn rates of return that consistently exceed money market rates of return over time to generate incremental resources for the central administration of the University.
• To provide liquidity for University operating and capital needs.
• To provide contingent liquidity for any potential failed remarketings of variable rate demand bonds and the potential inability to rollover outstanding commercial paper.

Benchmarks
• Rate of return on the State of North Carolina Treasurer's Short-Term Investment Fund ("STIF").
• Appropriate market-based indexes that represent the asset classes and duration of the underlying investments in a constructed portfolio.

Investment Guidelines
Permitted investments include direct investments in the following publicly traded securities, in University-related funds, or in the holdings of external managers hired to invest on behalf of the NC State University.

<table>
<thead>
<tr>
<th>Asset Sector</th>
<th>Sector Limit*</th>
<th>Issuer/Fund Limit*</th>
<th>Minimum Rating **</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. GOVERNMENT &amp; AGENCIES BILLS, NOTES, &amp; BONDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury bills, notes, and bonds</td>
<td>100%</td>
<td>100%</td>
<td>AA/AA/AA</td>
</tr>
<tr>
<td>U.S. Agency notes, bonds, MBS, CMOs, and other obligations</td>
<td>50%</td>
<td>25%</td>
<td>AA/AA/AA</td>
</tr>
<tr>
<td>Obligations guaranteed by the U.S. Government, excluding asset- backed securities</td>
<td>20%</td>
<td>5%</td>
<td>AA/AA/AA</td>
</tr>
<tr>
<td><strong>MUNICIPAL BONDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable general obligations of U.S. state governments</td>
<td>20%</td>
<td>5%</td>
<td>AA2/AA/AA</td>
</tr>
<tr>
<td>Taxable general obligations of N.C. cities and counties, UNC System campuses, and nonprofit organizations</td>
<td>20%</td>
<td>5%</td>
<td>A1/A+/A+</td>
</tr>
<tr>
<td><strong>CORPORATE NOTES &amp; BONDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate notes and bonds</td>
<td>25%</td>
<td>5%</td>
<td>AA3/AA-/-AA-</td>
</tr>
<tr>
<td><strong>MONEY MARKET INSTRUMENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High quality Commercial Paper</td>
<td>25%</td>
<td>10%</td>
<td>P-1/A-1/A-1/Aa3/AA-/AA-</td>
</tr>
<tr>
<td>Negotiable and non-negotiable certificates</td>
<td>10%</td>
<td>5%</td>
<td>P-1/A-1/A-1</td>
</tr>
</tbody>
</table>
of deposit or other time deposits, fully collateralized for amounts in excess of FDIC insurance coverage.  

<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector/Issuer Fund Limit</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds, subject to Rule 2a-7 of the Investment Company Act of 1940, that only invest in US Government obligations and/or repurchase agreements collateralized by US Government obligations</td>
<td>50%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**UNIVERSITY RELATED**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector/Issuer Fund Limit</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>State (of N.C.) Treasurer's Short-Term Investment Fund (&quot;STIF&quot;)</td>
<td>100%</td>
<td>N/A</td>
</tr>
<tr>
<td>NC State Intermediate Pool (&quot;NC State ITF&quot;)</td>
<td>50%</td>
<td>N/A</td>
</tr>
<tr>
<td>UNCMC Intermediate Pool, LLC (&quot;Intermediate Pool&quot;) if open to other participants</td>
<td>50%</td>
<td>N/A</td>
</tr>
<tr>
<td>Bonds, notes, or other obligations issued by North Carolina State University</td>
<td>10%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Student Managed Investment Funds (including the Suntrust MBA account) Classroom Student-run Investments</strong></td>
<td>$400,000</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**EXTERNAL ACTIVE LIQUIDITY MANAGEMENT**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector/Issuer Fund Limit</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolios of actively managed investments, the components of which include the above permitted investments. The portfolios should be constructed with instruments that meet the above characteristics, should have daily liquidity, and should include highly rated instruments with a limited duration to maturity of 1-5 years.</td>
<td>25%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*As a percentage of total balance of all "Institutional Trust and Special Funds", less "Contracts and Grants" funds and "proceeds of bond issues".  

**Ratings are listed from left to right for Moody's, S&P, and Fitch Ratings, respectively.

- The above Sector and Issuer/Fund limits will apply at the time a security is purchased and will be based on then-current book values.
- Sector and Issuer/Fund limits will be reviewed on a quarterly basis based upon market values on the date of valuation. In the event that a limit is exceeded, the Treasurer or his/her delegate will determine an appropriate course of action and
will report the occurrence and recommended course of action to the Vice Chancellor for Finance and Business.

- In any case in which funds are invested in both any intermediate term pool of UNCMC and the NC State ITF, the combined market value of both holdings cannot exceed 50% of the total market value of "Institutional Trust and Special Funds", less "Contracts and Grants" funds and "proceeds of bond issues".
- Money market and fixed-income investment securities must be rated by at least two of the three Nationally Recognized Statistical Rating Organizations (Moody's, Standard and Poor, and Fitch Ratings).
- For US Government Agency MBS and CMOs, the maturity limit is thirty years; however, the weighted average life of the portfolio holdings of this sector allocation should not exceed ten years.
- All investments should be denominated in US dollars.
- The weighted-average (by market value) maturity of the entire portfolio (less investments in the Intermediate Term Pools, and University-related obligations) should, in general, not exceed three years. Other investments may, under limited circumstances have a generation duration of less than five (5) years.
- Investments in bonds, notes, or other obligations issued by North Carolina State University should only occur in the event of an ability to remarket University-issued debt. The University will provide prompt notification of such need upon notification by the University's remarketing agent or bond trustee.
- In the event that the total market value of investments in the above asset sectors exceeds the sector limits, the total market value of investments issued by a single issuer exceeds the issuer limit, and/or a rated investment security is downgraded by at least one of the three nationally recognized statistical rating organizations to a rating that is below the above minimum ratings, the portfolio should be rebalanced within thirty days of quarterly valuation to be in compliance with the above limits.

**Custody**

All investment securities and funds managed by external parties will be held in the name of the University by an independent third-party custodian selected by the University. The University may elect to use the same custodian as for long-term investments.

**Reports and Updates**

This policy will be reviewed on an annual basis and a report will be prepared that provides investment results and recommends any potential updates to this policy.
Adopted and approved this _____ day of ____________, 2017.

By: __________________________
    W. Randolph Woodson
    Chancellor

Copy: Charles D. Leffler, Scott R. Douglass, Vice Chancellor for Finance and Administration
      Eileen Goldgeier, Vice Chancellor and General Counsel
      Mary Peloquin-Dodd, Associate Vice Chancellor for Finance and Business and University Treasurer
      Stephen K. Barbara Moseseto, Associate Vice Chancellor for Budget, Finance and Resource Management
      Jill Tasaico, Senior Director, Foundations Accounting and Investments
      Lori Johnson, Senior Director, Strategic Debt and Financial Management
      Libby George, Director of Investments
In the final quarter of fiscal 2017, equities and high-yield credit assets benefitted from a strong corporate earnings season and a reduction in global geopolitical risk. In June, the Federal Reserve increased its target Federal Funds rate by 0.25% to 1%-1.25% and reiterated its confidence in the state of the domestic economy. The United States added 581,000 jobs during the last quarter of the fiscal year, bringing the unemployment rate to 4.37% -- its lowest level since 2001. In France, centrist Emmanuel Macron won the presidential election over far-right candidate Marine Le Pen with a wide margin. The election was viewed by many as a sign of France’s continued support of the European Union, and a rebuke of the United Kingdom’s vote to exit in 2016. While US equities markets were bolstered by the prospect of major fiscal and tax reform in Washington, these changes failed to materialize. Opponents of the Trump administration’s proposed policy changes continued to hinder significant changes to healthcare, tax reform and other prominent items that could materially impact capital markets.

US equities moved higher in the quarter ended June 30, 2017, a response to strong corporate earnings data and job gains, even though the Federal Reserve continued tightening monetary policy. During the quarter, large cap stocks, as measured by the S&P 500 Index, gained 3.1% and was the the best performing equity class. Mid cap stocks, as measured by the Russell Mid Cap Index, and small cap stocks, as measured by the Russell 2000 Index, returned a more modest 2.7% and 2.5% for the quarter. Over the 12 month period ended June 30, 2017, small cap stocks returned more than 24.6%.

International equity markets, as measured by the MSCI EAFE Index, produced strong returns of 6.4% in the quarter, pushing the one-year performance for that asset class to more than 20.8%. A reduction in geopolitical risk and strong corporate earnings in the Eurozone, UK, and Japan provided a tailwind for international equity markets. Late in the quarter, the European Central Bank (ECB) considered tightening monetary policy and that boosted equity markets and the performance of riskier assets in recent periods. Emerging markets (EM), in general, continued to benefit from positive economic data with the MSCI EM index gaining 6.4% for the quarter. For the fiscal year ended June 30, 2017, the EM asset class, has been one of the strongest investments, returning 24.2%. China continued to show strong economic data and for the first time, MSCI announced its plans to add mainland China A-share stocks to its EM index.

Even with continued Fed tightening, Fixed Income investments, in general, produced positive gains for the quarter. The Bloomberg Barclays US Agg Bond Index gained 1.5% during the quarter, although the index was down -0.3% over the last year. High Yield Credit produced strong returns for the quarter, with the Bloomberg Barclays High Yield Corporate Index returning 4.9%. The Treasury yield curve flattened significantly during the quarter with the one-year yield increasing 21 basis points, while the 5-year, 10-year, and 30-year fell by four, nine, and 18 basis points, respectively. While a flattening yield curve creates concern that an inverted yield curve is possible, and an inverted yield curve can precede a recession, a flat yield curve can also last for years without any inversion. We believe that we are in somewhat untested times as well, when it comes to interest rates since rarely has there been a period of global accommodative monetary policy as we have seen in the wake of the Great Recession. Looking ahead, we see these concerns: equity valuations are still high and global credit spreads, particularly in developed markets, are tight. Both measures continue to be a concern and could dampen future returns. Finally, the Fed recently announced a plan to normalize its balance sheet by allowing $6 billion of Treasuries and $4 billion in mortgage-backed securities (MBS) to roll off each month. The Fed did not provide a specific start date for the normalization of its balance sheet or divulge specific end goals for the process, but it appears intent on maintaining its hawkish posture even with disappointing GDP figures (Q1 reading of 1.4% annualized) and inflation remaining below its 2% target.
INVESTMENT STRATEGY

The Fund is managed as a broadly diversified portfolio with exposure to seven primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. The purpose of diversification is to provide reasonable assurance that no single security, class of securities, or investment manager has a disproportionate impact on the Fund’s aggregate results. At times, the Fund invests in passive strategies. In working toward the Fund’s investment strategy, through UNCMC, the Fund invests in a number of niche managers that can employ different types of hedging strategies such as short-selling and derivative investing to help reduce the volatility of the Fund. The focus on controlling volatility preserves capital and benefits Fund participants through the power of compounding.

UNC MANAGEMENT CO.

The UNCMC was established on January 1, 2003 as an exempt 501 (c)(3) organization. It is a professionally-staffed asset management company created to provide investment services to the University of North Carolina at Chapel Hill and its affiliated entities, to the constituent institutions of the UNC system and system affiliated foundations, associations, trusts, and endowments. With nearly 40 employees, UNCMC has two teams, Investment Management and Operations. The Investment Management team manages all public and private investments of the UNCIF. Their responsibilities include evaluating and monitoring investment managers, recommending changes to investment objectives and asset allocation, monitoring risk, and implementing investment decisions approved by Chapel Hill Investment Fund’s (CHIF) Executive Committee. The Operations Team performs all administrative, legal, compliance, accounting, and performance reporting duties.

HISTORY OF THE FUND

The NC State Investment Fund, Inc., (Fund) was established in April 1999 to combine NC State University’s and its affiliated entities’ endowments in an external pooled investment vehicle. The goal of the investment program for the Fund is to provide a real total return from assets invested that will preserve the purchasing power of Fund capital, while generating an income stream to support the spending needs of the University. Effective July 2008, the Fund partnered with UNC Management Company (UNCMC) to invest in the UNC Investment Fund (UNCIF), with the remaining investments committed to a Liquid Policy Portfolio (LPP) of Exchange Traded Funds (ETF’s), and to 3 private equity managers which includes an allocation for cash to fund capital calls. The transition of assets to UNCMC was completed December 2009.
FUND HISTORY AND PHILOSOPHY

As a pooled fund for the collective investment of operating funds, the NC State Intermediate Term Fund (ITF) consists of Participants’ excess cash balances, which are defined as funds not needed for normal operating purposes. Generally, the ITF will not include operating funds needed within the next year, endowed funds or those funds that are specifically excluded by law or contractual agreement.

The decision to invest funds takes into account various factors including duration, credit, concentration, and manager risk, along with total return, suitability, and the experiences, quality and capability of external managers.

The primary investment objectives of the ITF are: 1) Preservation and safety of principal; 2) Liquidity; and 3) Maximization of returns within acceptable levels of risk. Because of current concerns about potential changes in monetary policy and rising interest rates, duration is limited. The investment policy calls for an average weighted maturity between one and five years, with an overall credit rating in general of A+/A as rated by a nationally-recognized rating agency. However, for any mutual funds selected by the ITF, their respective approved investment policy guidelines supersede those of the ITF.

The ITF was established on July 3, 2014 with an initial investment of $122 million. Additional investments were made during FY 2015 & FY 2017, bringing the total invested to $193.83 million. The ITF can be compared with the State Treasurer’s Short-Term Investment Fund (STIF) on both a total return and on an SEC yield basis. The cash return on the ITF is higher than other operating cash for the University and other participants.

In order to provide a buffer for changes in the NAV of the different investments, some of the excess earnings are being used to create a loss reserve. FMV fluctuates on a day-to-day basis.

BlackRock’s SIO was liquidated from the fund on June 30, 2016. Proceeds were invested in Vanguard's Short Term Fund and DoubleLine's Total Return Fund on July 1, 2016. Additionally, a small position with PIMCO Income was initiated on November 2, 2016 bringing the total cost basis to $192 million on December 31, 2016.

MANAGERS

JP Morgan’s Short Term Fund is based on bottom-up fundamental analysis, while retaining a high quality bias.

Vanguard’s Short Term Fund has a low tracking error and is a low cost portfolio option consisting primarily of investment grade corporates.

PIMCO’s Low Duration Fund seeks maximum total return based on a combination of top-down secular views and bottom-up fundamental analysis.

PIMCO’s Income Fund is a portfolio of a broad range of intermediate-duration bonds that is actively managed to maximize current income while maintaining a relatively low risk profile.

DoubleLine’s Total Return Fund seeks to maximize total return by exploiting inefficiencies within the subsectors of the mortgage market while maintaining active risk management constraints.

SECTOR ALLOCATION

MANAGER ALLOCATION

This report is based on information available at the time of distribution. The information comprising this report has not been audited and is subject to change.

Fourth Quarter Fiscal Year 2017