

**North Carolina Department of State Treasurer
Ancillary Governmental Participant Investment Program ("AGPIP")**

**Enrollment Form
and
Terms of Participation**

North Carolina Ancillary Governmental Participant Investment Program Enrollment Form

Terms of Participation

Administration: North Carolina Department of State Treasurer (“NCDST”).

For AGPIP participants that exercise investment discretion over the allocation of their monies, NCDST will not advise participants on whether their monies are best invested in the AGPIP Funds relative to other investment opportunities, nor will NCDST offer advice as to allocations between the various AGPIP Funds.

Statutory Authority: N.C.G.S. § 147-69.3 (a), (b), (e); for STIF, N.C.G.S. § 147-69.1 (c); for BIF, N.C.G.S. § 147-69.2 (b) (1) to (b) (6); for EIF, N.C.G.S. § 147-69.2 (b) (8).

Fund Names: Bond Index Fund (BIF), Equity Index Fund (EIF) and Short-Term Investment Fund (STIF)

External Manager: BlackRock Institutional Trust Company, N.A. and BlackRock Financial Management, Inc. (together “BlackRock”)

NCDST has retained BlackRock as the external manager for the BIF and the EIF. BlackRock is one of the world’s largest investment managers, with assets under management of \$4.64 trillion stated as of December 31, 2015. A significant portion of BlackRock’s business is focused on passive index strategies.

The STIF is internally managed by NCDST, Investment Management Division.

Custodian: Bank of New York Mellon (“BNYM”) for BIF and STIF assets. JP Morgan is custodian for BlackRock for the EIF assets. Account statements for all Funds will be provided by BNYM.

Fund Description: **Bond Index Fund (BIF):** The BIF invests in high quality debt securities eligible under N.C.G.S. § 147-69.2 (b)(1)-(6). The BIF maintains a low-cost approach to investment grade fixed income assets through a passive strategy. The BIF is designed to produce a return consistent with the Barclay’s U.S. Aggregate Bond Index benchmark.

Equity Index Fund (EIF): The EIF invests primarily in US and non-US equity securities eligible under N.C.G.S. § 147-69.2 (b)(8) with the objective of closely approximating the capitalization weighted total return of the markets for global publicly traded equity securities while maintaining a low-cost approach. The EIF is designed to produce a return consistent with the Morgan Stanley Capital International All Country World Index benchmark.

Short Term Investment Fund (STIF): The STIF invests in highly liquid money market instruments and short to intermediate Treasuries, Agencies, and AAA-rated corporate obligations pursuant to N.C.G.S. § 147-69.1(c)(1)-(7). The STIF is designed to preserve capital, provide liquidity, and produce a return consistent with the iMoneyNet First Tier Institutional Money Market Fund Net Index benchmark.

Information on all the Funds and “*Information About BlackRock Institutional Trust Company "BTC", 16 Things You Should Know*” can be requested via email at AGPIP@nctreasurer.com and “cc” OPSTEAM@nctreasurer.com.

Principal Risks:

While BIF and EIF may potentially offer a higher rate of return than traditional short-term investment portfolios such as STIF, participants should be aware of important risks involved in investing in the BIF and EIF. First, BIF and EIF could lose money over short or long periods of time as the Funds are not bank deposits, are not guaranteed by the State of North Carolina, NCDST, or BlackRock, Inc. and may lag the rate of inflation. Second, neither BIF nor EIF is necessarily a complete investment program and returns may lag the returns of a balanced portfolio with comparable risk. Third, BIF and EIF provide only limited liquidity and monies invested in the BIF and EIF should not be needed for immediate disbursement. *See Liquidity section below.*

The BIF is designed for longer-term investing in fixed income assets and investment in the BIF carries inherent risk (including loss of principal) due to the BIF's exposure to market volatility along with increased interest rate risk due to the longer duration of the BIF portfolio than the STIF. Other risks include:

- Market risks. The price and/or liquidity of a bond fluctuates based on political, regulatory, market and economic developments both domestically and internationally.
- Interest Rate Risk. The price of a bond declines when interest rates rise. The prices of bonds held are also affected by their respective maturities or due dates. Longer maturity bonds generally have a greater sensitivity to changes in interest rates.
- Liquidity Risks: Market and trading conditions can make it more difficult to sell or buy securities at a favorable price or time. Consequently, BIF may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on BIF's performance.
- Credit Risk. BIF is subject to the risk that the issuer of a bond will fail to make timely payments of interest and principal which could cause the price of the bond to decline or become illiquid.
- Pre-payment Risk. BIF's investments in asset-backed and mortgage-backed securities may experience an increase in prepayments of underlying collateral creating a risk of having to reinvest payments at lower interest rates. However, if the collateral backing these types of securities defaults or slows down the anticipated level of prepayments, the bond could suffer from a decline in value.

The EIF may experience periods of declines in market value due to any or all of the following risks:

- Equity Investment Risk. The price of an equity security fluctuates based on changes in the issuer's financial condition and overall market and economic conditions. Equity securities are subject to changes in value that may be more volatile than other asset classes.
- Foreign Investment Risk. EIF may suffer losses due to political, legal, economic and geographic events affecting a non-U.S. issuer or market. The prices of non-U.S. securities may be more volatile than those of securities issued by U.S. corporations or other U.S. entities. Securities of non-U.S. issuers denominated in non-U.S. currencies will expose the Fund to fluctuations in foreign currency exchange prices.
- Mid-Capitalization Companies Risk. Compared to large-capitalization companies, mid-capitalization companies may be less stable and more susceptible to adverse developments, and their securities may be more volatile and less liquid.
- Small-Capitalization Companies Risk. Compared to mid- and large-capitalization companies, small-capitalization companies may be less stable and more susceptible to adverse developments, and their securities may be more volatile and less liquid.
- Emerging Markets Risk. Investments in emerging markets are subject to a greater risk of loss than investments in developed markets due to the potential for greater market volatility, lower trading volume, inflation, currency devaluations, limitations

on foreign investment, and political and/or economic instability. In addition, settlement, registration and custody may be less reliable as compared to developed markets. Risks traditionally associated with investments in emerging markets, including economic, political, liquidity and currency risks.

- Derivatives Risk. Investments in derivatives (such as futures contracts, forward contracts, swaps and options) may reduce the EIF's returns and/or increase volatility. Fluctuations in the values of derivatives may not correlate perfectly with the overall securities markets. The other party in the transaction may not fulfill its contractual obligation. The possible lack of a liquid secondary market for derivatives could expose the EIF to losses.

Like BIF and EIF, there is no secondary source of payment for the STIF, such as insurance or guarantees by NCDST, the State of North Carolina or any other private or governmental entity. STIF is subject to certain risks including:

- Stable Net Asset Value Risk: Although NCDST attempts to manage STIF such that it maintains a stable NAV of \$1.00 per share, there is no guarantee that it will be able to do so. STIF is not registered under the Investment Company Act of 1940 or regulated by the Securities and Exchange Commission.
- Interest Rate Risks: The prices of the fixed income securities in which STIF will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities. NCDST will seek to manage this risk by purchasing short-term securities.
- Credit Risks: Credit risk is the possibility that an issuer of a fixed income security held by STIF will default on the security by failing to pay interest or principal when due. If an issuer defaults, STIF will lose money. NCDST will seek to manage this risk by purchasing high quality securities.
- Liquidity Risks: Market and trading conditions can make it more difficult to sell or buy securities at a favorable price or time. Consequently, STIF may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on STIF's performance.
- Special transactions: Special transactions are transactions into which STIF may enter, including, but not limited to, repurchase agreements and delayed delivery transactions. Special transactions are exposed to credit and market risk in the event of a counterparty default.
- Other risks: STIF may be exposed to other risks depending on the actual securities purchased and held, including, but not limited to prepayment risks, call risks, sector concentration, and variable yields over time.

Eligibility:

The following funds or entities are among those eligible to invest in the AGPIP Funds:

- The specific funds listed in N.C.G.S. § 147-69.2(a), and
- Unless a specific statute indicates otherwise:
 - Any official, board or commission of the State of North Carolina
 - Any local government of the State of North Carolina
 - Any other public authority of the State of North Carolina
 - Any school administrative unit, local ABC board, or community college of the State of North Carolina

Minimum Balance: The minimum balance to open a new account in either EIF or BIF will generally be \$100,000 in each account. NCDST reserves the right to establish a *de minimis* account value, close participant accounts in BIF and EIF falling below such *de minimis* value and transfer the proceeds of applicable participant accounts to their STIF account. There is no *de minimis* for a STIF account.

Restrictions: In order to participate in the AGPIP, the participant entering into a Deposit Agreement with the Treasurer agrees to the Terms of Participation contained herein as well as all the representations and warranties contained in the Deposit Agreement between the participant and NCDST. NCDST has the discretion, without prior notice, to make changes to the AGPIP Funds, including but not limited to external manager, fees, investment guidelines, or strategy. When practicable, NCDST will seek to provide at least one month's prior notice before changing a fundamental policy and/or an AGPIP Fund. NCDST may restrict a participant's activity or participation in any one of the AGPIP Funds in their sole discretion.

Liquidity: It is acknowledged that the BIF and the EIF are less liquid than the short-term investments in STIF. Liquidity constraints, including contributions or withdrawals, must be taken into consideration when making allocations into the BIF or EIF. Withdrawals from the BIF and EIF are only processed on the first day of the month and notice of withdrawal or transfer must be made at least five (5) business days before the end of the month.

Upon the occurrence or reasonable anticipation of an event that has a material impact on liquidity or operations of the AGPIP Funds, NCDST may in their discretion limit contributions to or withdrawals from any one of the AGPIP Funds based on what it deems to be in the best interest of the Fund. These limitations shall be reasonably tailored to the time period over which the event will have a material impact.

Deposits & Withdrawals: In order for entities to participate in the AGPIP Program they must open a STIF Account (if they do not already have one) and fund the account. The STIF account is used to move monies into and out of the investments in BIF and/or EIF (if eligible). Deposits into STIF can be made on any day during the month. STIF deposits must be made by 10 a.m. to receive same day credit, otherwise, credit will be made the following business day. A notice (deposit and withdrawal form) of transactions into and out of BIF/EIF accounts must be received no later than the 5th business day prior to the end of the month. If notice is received 5 business days prior to month end, EIF and/or BIF transactions will be processed on the last business day of the calendar month and will be available on the second business day of the following month. Should the BIF/EIF deposit/withdrawal form be received in less than 5 business days prior to the month end, the participant must submit a new deposit/withdrawal form for the next month before the cut-off date. In extraordinary circumstances, intra-month withdrawals may be permitted on a case-by-case basis at the sole discretion of NCDST. **A deposit and withdrawal form is not effective until it is confirmed in an email from the Treasurer to the Participant. The Participant is responsible for contacting the Treasurer if it does not receive a confirmation email.**

Fees & Expenses: **BIF:** Investment management fees are 0.025% (2.5 basis points (bps)) annualized up to \$750 million total fund assets and 2 bps once total fund assets are above \$750 million. Industry standard administrative, custody, performance measurement, reporting and other charges will be applied to BIF and will not be itemized at the participant level.

EIF: Investment management fees are 0.020% (2.0 bps) annualized. Industry standard administrative, custody, performance measurement, reporting and other charges will be applied to EIF and will not be itemized at the participant level.

STIF: Fund fees and charges have historically been approximately 0.03% (3 bps) annualized. Administrative, custody, performance measurement, and reporting charges will be applied to STIF and will not be itemized at the participant level.

NCDST: NCDST has the authority to assess a fee to cover the reasonable costs of administering, managing, and operating AGPIP, including legal, accounting, auditing, and other administrative costs. This fee is currently waived; however, NCDST has the discretion to impose this fee in the future.

Reporting:

The BIF/EIF are managed and reported on a cumulative total return basis, which includes realized income and the appreciation or depreciation of fair market value. A monthly account statement reflecting account activity will be generated and made available to each participant via email.

The STIF is currently maintained and reported on an amortized cost basis.

Performance information at the Fund level will be made available on at least a quarterly basis.

Monitoring/Evaluation: NCDST staff will oversee the Funds through periodic assessments and performance monitoring. NCDST and BlackRock will meet at least annually. NCDST recognizes that all investments go through cycles and therefore there will be periods of time in which the investment objectives are not met or when the external managers fail to meet their performance expectations. NCDST accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

Enrollment:

Enrollment requires execution of the Enrollment Authorization and Deposit Agreement by the authorized representative and establishing a STIF account with NCDST if the participant does not have an existing account. All transactions into/from the BIF and EIF will be processed through the participant's STIF account. **All deposits and withdrawals must include allocation instructions on the Deposit/Withdrawal Form found at www.nctreasurer.com/slg/lfm/forms-instructions/Pages/AGPIP.aspx.** Participants who fail to make allocation instructions on the Deposit Form will remain in the STIF.

NCDST Contact:

AGPIP@nctreasurer.com and "cc" OPSTEAM@nctreasurer.com

Disclosures:

The furnishing of these terms is not intended to constitute investment advice or the offering an investment product. NCDST is undertaking its statutory responsibility pursuant to applicable law, including N.C.G.S. §§147.69.2 and 147-69.3.

For participants that are Local Government Other Post-Employment Benefits Trust ("OPEB Trust") established pursuant to N.C.G.S. § 150-30.1 or Local Government Law Enforcement Officer Special Separation Allowance Trust ("LEOSSA Trust") established pursuant to N.C.G.S. §§ 147-69.5 and 159-30.2, the participant has established an irrevocable trust by resolution or ordinance of the entity's governing board. The resolution or ordinance states the purpose for which the OPEB Trust or LEOSSA Trust is created and the method for determining and selection the Trust's trustees.

By signing and acknowledging this Enrollment Form, the participant acknowledges that: (1) the AGPIP Funds have liquidity limitations, volatility of returns, and risk of loss, including the potential for loss of the principal invested; (2) NCDST is not providing investment advice to the participant; (3) that investing in the AGPIP Funds is only suitable for participants who are willing to bear the economic risks of the investment; and (4) that the participant will carefully review and consider all potential risks and costs before enrolling and investing.

Enrollment Authorization

Note: Information provided in these documents may contain Sensitive Financial and Personal Information that should not be emailed without being encrypted. If your system does not support email encryption, it is advisable that you contact AGPIP@nctreasurer.com and "cc" OPSTEAM@nctreasurer.com for potential options to deliver the information in a secure format.

The undersigned acknowledges that he or she is a duly Authorized Representative of the Participant and has caused this Enrollment Form Packet to be executed by its Authorized Representative as of the date below:

Participating Entity: _____

| | |
|----------------------|-----------|
| By: _____ | _____ |
| Name (Type or Print) | Signature |
| _____ | _____ |
| Title | Date |

Authorized Representative of Participant
Name: _____
Title: _____
Address: _____

Telephone: _____
Fax: _____
Email: _____

Primary Contact
Name: _____
Title: _____
Address: _____

Telephone: _____
Fax: _____
Email: _____