



Vanguard®



THE UNIVERSITY OF  
NORTH CAROLINA SYSTEM

# Lower-cost investing coming soon



# A valuable benefit keeps getting better

The University of North Carolina (UNC) System retirement programs are one of the great benefits you have as an employee, giving you a convenient, flexible way to save for your future retirement needs. As with all benefit programs, the UNC System regularly reviews the program's provisions and administration to make sure the program provides you with an effective pathway for reaching your retirement goals while keeping your costs low.

On Monday, May 7, 2018, the UNC System will make the following change to the investment lineups of both the UNC Optional Retirement Plan (ORP) and the UNC System 457(b) Plan:

The suite of 12 Vanguard Target Retirement Funds offered in the ORP and the UNC System 457(b) Plan will be replaced by similar investments that will cost less to own.

No action is required on your part. However, we encourage you to familiarize yourself with the changes.



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# Lower-cost Vanguard Target Retirement Trust Plus suite

The Vanguard Target Retirement Trust Plus suite will replace the 12 Vanguard Target Retirement Funds in the ORP and UNC System 457(b) Plan’s investment lineup. While the trusts have the same objectives and strategies as the funds, the trusts offer lower expense ratios, which reduces your overall cost to invest in them. To learn more about the differences between funds and trusts, please see the next page.

All investing is subject to risk, including the possible loss of the money you invest. Investments in Target Retirement Trusts are subject to the risks of their underlying funds. The year in the trust name refers to the approximate year (the target date) when an investor in the trust would retire and leave the workforce. The trust will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a Target Retirement Trust is not guaranteed at any time, including on or after the target date.

## Expense ratio comparison

The following table compares the expense ratios of the current and new investment options.

Investment name	Expense ratio*
Current: Vanguard Institutional Target Retirement 2015 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2015 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2020 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2020 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2025 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2025 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2030 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2030 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2035 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2035 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2040 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2040 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2045 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2045 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2050 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2050 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2055 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2055 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement 2060 Fund	0.09%
<b>New:</b> Vanguard Target Retirement 2060 Trust Plus	0.06%
Current: Vanguard Institutional Target Retirement Income Fund	0.09%
<b>New:</b> Vanguard Target Retirement Income Fund	0.06%

\*The expense ratios shown are as of March 31, 2018. Source: Vanguard.

# Fund or trust—What's the difference?

The Target Retirement Funds currently offered in the ORP and UNC System 457(b) Plan are mutual funds. A mutual fund is made up of pooled (“mutual”) money from many different investors. This pooled money is invested in a combination of investments, depending on the mutual fund’s investing objective. Each investor owns a number of shares of the fund proportionate to his or her investment, and can buy or sell those shares at any time. The fund is professionally managed by an investment company.

The new Target Retirement Trusts are commingled trusts. They operate like mutual funds but are available only to institutional investors, including you as a participant in the ORP and/or UNC System 457(b) Plan.

So what’s the advantage of a trust? Cost. Funds and trusts often invest in the same underlying securities and have the same investment objectives. But because trusts are offered only to institutions that typically have more money to invest, they can achieve greater efficiency and charge lower expense ratios than mutual funds.

It’s similar to buying in bulk: The more you purchase, the less you pay per unit of product. The size of the ORP and UNC System 457(b) Plan qualifies both plans for the less-expensive trusts, giving you the opportunity to invest as an institution would and benefit from lower costs.



# The ORP and UNC System 457(b) Plan investment lineup

Under the ORP and the UNC System 457(b) Plan, the investment lineup is divided among four tiers:

- Tier 1: Target-date trusts
- Tier 2: UNC System risk-based models
- Tier 3: Core lineup
- Tier 4: Self-directed brokerage services

Whether you're an experienced or novice investor, you can create a portfolio that fits your investment objective, time horizon, and comfort with risk.

## **Tier 1: Target-date trusts**

How to invest your money among stocks, bonds, and short-term reserves—now and as you grow older—is one of your most important financial decisions.

Vanguard Target Retirement Trusts provide a professionally maintained, diversified mix of investments that shifts its emphasis to more conservative investments as the year of retirement nears.

If you choose this tier, consider making a single Target Retirement Trust your only plan investment. Why? Because a Target Retirement Trust is a broadly diversified investment mix on its own. Even though Target Retirement Trusts simplify the investment process, they still require some monitoring to ensure that the portfolio is in line with your current situation.

Consider choosing the trust with the date that's closest to the year you expect to retire. If you are already retired, consider choosing Vanguard Target Retirement Income Trust Plus. This investment seeks to provide current income and some capital appreciation to retirees.

## **Tier 2: UNC System risk-based models**

These risk-based Asset Allocated Models depict ways to actively control an investment mix by diversifying across very distinct asset classes. Models serve only as a guide and should be selected based on each participant's risk tolerance. Each investor has the ability to customize his/her portfolio to his/her own particular objectives.

For more information about UNC System risk-based models, go [here](#).

### **Tier 3: Core lineup**

Core investments can offer the basic ingredients for a well-balanced portfolio. You can combine several to create a portfolio that suits you.

If you wish to create your own diversified investment mix, you may want to start with the investments in this tier. Some core investments are index investments, which can provide low-cost access to broad segments of the stock and bond markets.

For more information about your core lineup, go [here](#).

### **Tier 4: Self-directed brokerage services**

For a listing of the mutual funds available under this tier, visit TIAA at [tiaa.org/unc](http://tiaa.org/unc) or Fidelity at [www.netbenefits.com/unc](http://www.netbenefits.com/unc).

#### **A note about risk**

All investing is subject to risk, including the possible loss of the money you invest. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. Although the market values of government securities are not guaranteed and may fluctuate, these securities are guaranteed as to the timely payment of principal and interest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Diversification does not ensure a profit or protect against a loss.

# What's next?

Money invested in Vanguard Target Retirement Funds will be automatically moved to Vanguard Target Retirement Trusts on May 7, 2018, at 4 p.m., Eastern time.

In addition, any future contributions will be invested in the new Vanguard Target Retirement Trusts, unless you contact TIAA or Fidelity to change how your contributions are invested.

You will receive a confirmation statement from your retirement carrier. Changes to your account will also be noted online and on your next statement.

Please note these changes will not apply to the UNC System 403(b) Plan due to current federal regulations; however, the UNC System Office is contacting the IRS to determine if the new investment funds can be made available in the UNC System 403(b) Plan at a later date.



# Questions?

If you would like more information about the new investment options, or to review the other investment options in your plan, please contact your carrier directly.

Don't forget, you can change your current contribution allocation and current balance asset allocation at any time by contacting TIAA or Fidelity directly.

- **TIAA**

- **By phone.** Call **800-842-2252**. Associates are available Monday through Friday from 8 a.m. to 10 p.m., and Saturday from 9 a.m. to 6 p.m., Eastern time.
- **Online.** Log on to your account at [www.tiaa.org/unc](http://www.tiaa.org/unc).

- **Fidelity**

- **By phone.** Call **800-343-0860**. Associates are available Monday through Friday from 8:30 a.m. to 8 p.m., Eastern time.
- **Online.** Log on to your account at [www.netbenefits.com/unc](http://www.netbenefits.com/unc).

## Connect with Vanguard®

[vanguard.com/retirementplans](http://vanguard.com/retirementplans)

*For more information about any Vanguard fund, including investment objectives, risks, charges, and expenses, call Vanguard at 855-402-2646 or visit [vanguard.com](http://vanguard.com) to obtain a prospectus or, if available, a summary prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. For information on all other funds, contact the investment providers directly.*

Vanguard Federal Money Market Fund:

*You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

Vanguard Target Retirement Trusts are not mutual funds. They are collective trusts available only to tax-qualified plans and their eligible participants. Investment objectives, risks, charges, expenses, and other important information should be considered carefully before investing. The collective trust mandates are managed by Vanguard Fiduciary Trust Company, a wholly owned subsidiary of The Vanguard Group, Inc.



### Participant Education

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BBBMSLR 052018