

# NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS ANNUAL REVIEW 2014

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# Annual Review 2014

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# Retirement Readiness Check



## Plan Benchmarking

### Total Plan Benchmarking Considerations

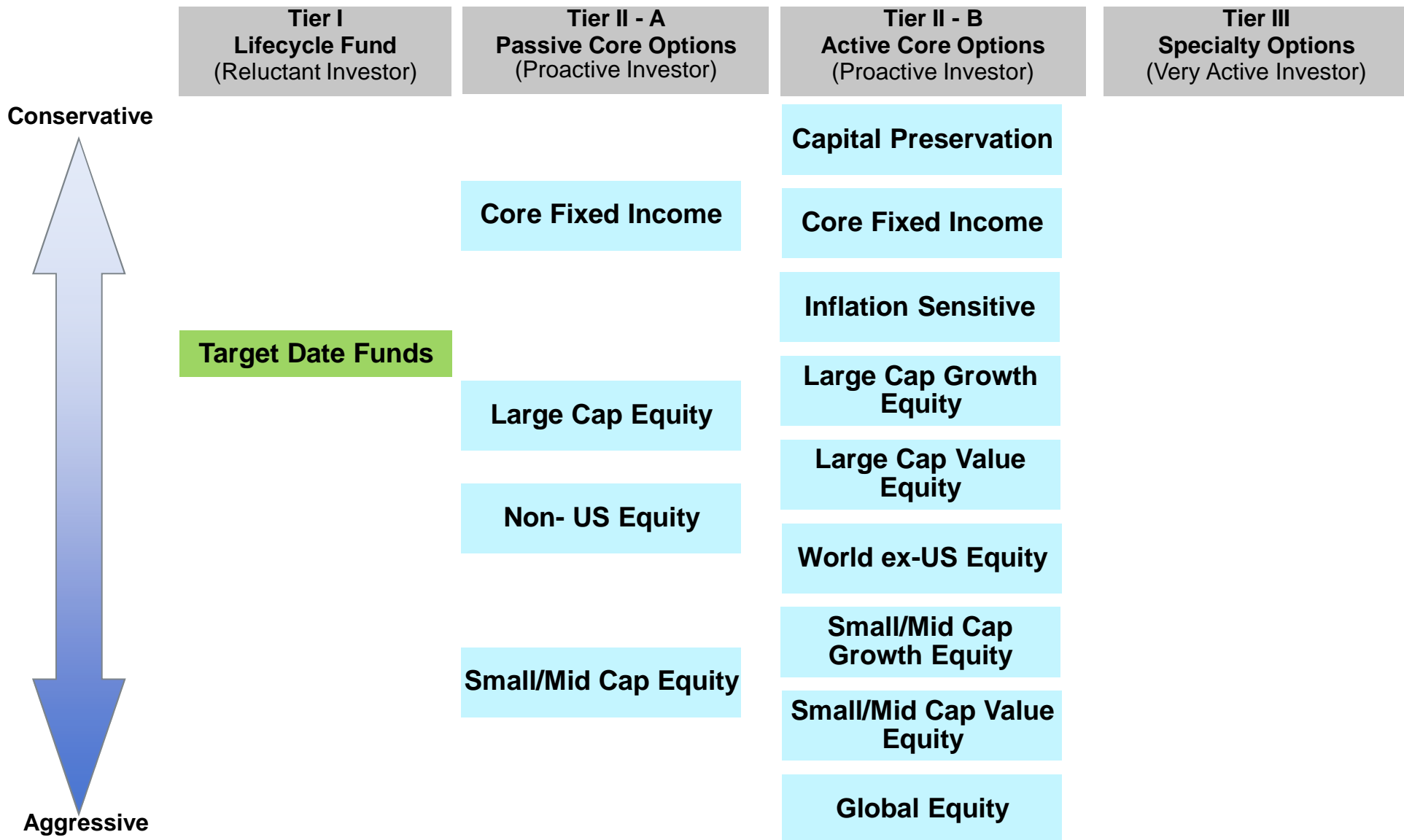
- Currently NCSRP looks at the number of participants who are positioned to be able to replace 80% of their income in retirement
  - This benchmark is industry standard and commonly used by plan sponsors and the investment community
- NCSRP may want to consider additional benchmarks for your Plan to form a more comprehensive view of retirement readiness for your participants
- Additional benchmark considerations
  - Average participant performance versus the cost to purchase the DB annuity
  - Percentage of participants that are positioned to be able to live above the poverty line until the age of 85 or older
  - Projected outcomes of an average NCSRP participant relative to actual participant results over time

# Plan Line-up Review



# Plan Line-up Review

## Current Structure



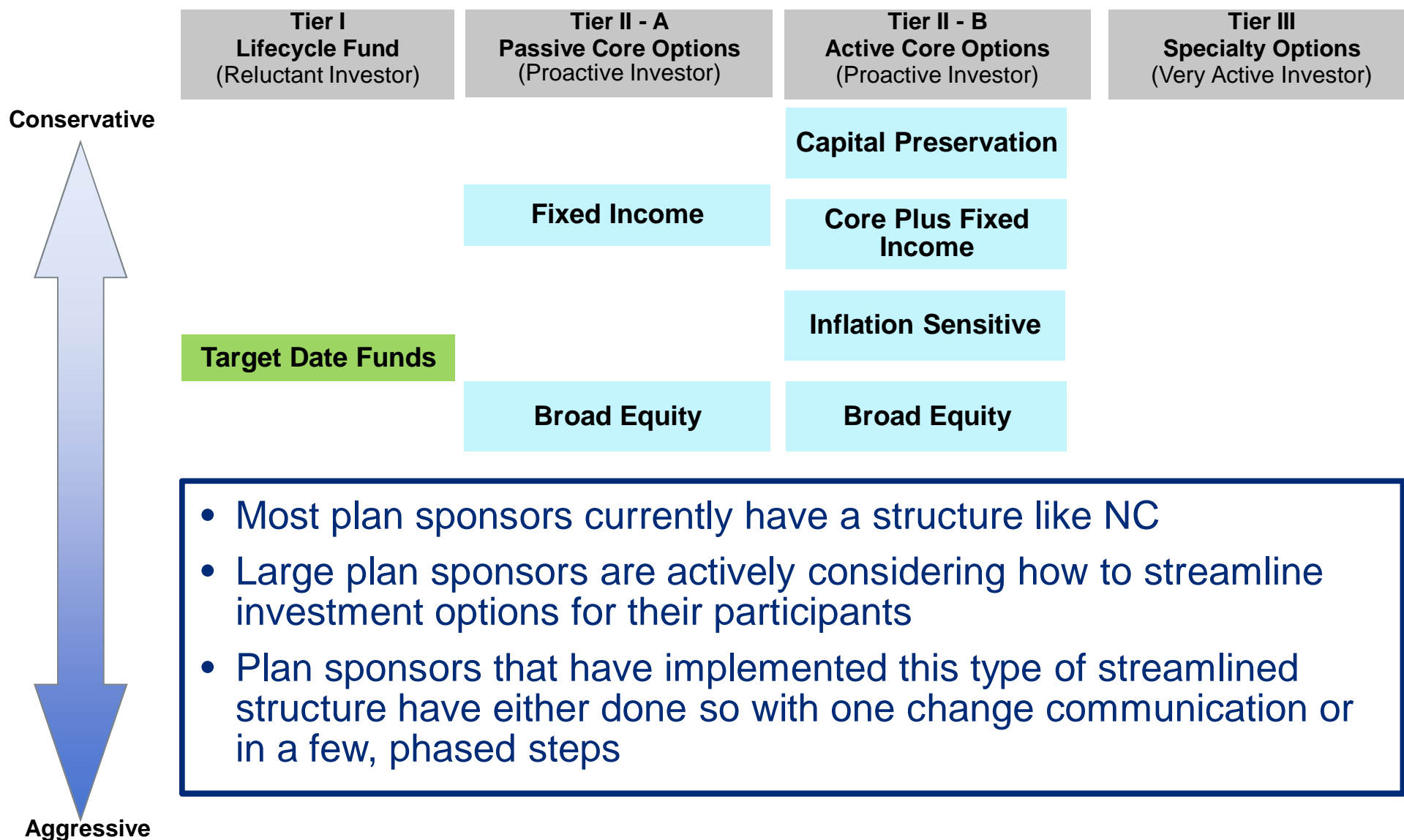
## Plan Line-up Review

### Consolidate and Streamline

- Having too many investment choices has been shown to create participant confusion and lead to ineffective investment results
- The optimal plan lineup reduces the investment options to only those needed to create an appropriate risk/return or growth/income profile
- Each plan option should be designed to provide the optimal long term exposure for a broad investment goal
  - Eliminate all portfolio construction decisions below the asset allocation level
- The required investment types may be:
  - High Growth (Global Equity)
  - Low Growth (Diversified Bonds)
  - Capital Preservation (Stable Value)
  - Inflation Protection (Diversified Inflation Fund)

# Plan Line-up Review

## Streamlined Structure



- Most plan sponsors currently have a structure like NC
- Large plan sponsors are actively considering how to streamline investment options for their participants
- Plan sponsors that have implemented this type of streamlined structure have either done so with one change communication or in a few, phased steps



# Plan Line-up Review

## Streamlined Structure - Equity Consolidation Menu



# Goal Maker Review



# Goal Maker Review

## Observations and Recommendations

- **Participant objectives are the key consideration**
  - Target a reasonable and sustainable real income in retirement
  - Running out of funds during retirement is a significant concern
- **Develop a custom Glidepath based on participants and other benefits**
  - The glidepath should be customized to provide the best expected replacement ratio for the typical North Carolina employee
  - Scenario and simulation modelling provides insight into the most effective glidepath
- **Through Retirement**
  - Our preference is for solutions through a participant's life not just to retirement
  - At least a low risk stable income fund for the post retirement period should be added
  - 71% of TDF programs offer through retirement programs (not to retirement)\*
- **Event-risk reduction**
  - Protect participants from losing significant portions of their savings near or during retirement
  - Protect savings and income against the loss of purchasing power due to inflation
- **Explicitly Incorporate North Carolina's DB annuity purchase option into the design**
  - The inclusion of the DB option in the analysis will have a significant impact on the optimal design

\*Statistic pulled from Mercer's quarterly target date survey

# Goal Maker Review

## Observations and Recommendations

- **Fund Spacing: 5 Years**
  - The spacing between funds should be 5 years but no more than 10 years
  - This will require at least five new funds, seven if post-retirement funds are added
- **Include Investments that are not in the Core Lineup**
  - There are investments that would be beneficial to the target date funds that are not appropriate as standalone funds, such as emerging market debt, bank loans or emerging markets equity
  - A mechanism to include such assets would improve fund effectiveness
- **Offer one fund per age cohort**
  - Offering multiple funds for each age group introduces additional complexity to the participants decision process
  - With multi-year time horizons, there is no benefit to offering various risk levels, there is an optimal allocation for a given time horizon
  - A customized glidepath for the North Carolina participant base also helps reduce the need for various risk levels
- **Default to auto-rolldown**
  - The GoalMaker program historically defaulted to a static allocation without age adjustment
  - Currently it is an “opt out” procedure for the age adjustment




# Performance and Fee Review

The background of the slide is composed of three distinct horizontal bands of color. The top band is a dark navy blue. The middle band is a medium teal color, which is slightly lighter than the top band. The bottom band is a light sky blue, which is the lightest of the three colors. The bands are separated by thin, slightly irregular white lines, giving the background a layered, abstract appearance.


# Performance Review

## Evaluation Criteria

### Overall Assessment

-  If the fund/manager is failing 2 of the three criteria or is currently on the watch list
-  If the fund/manager is failing one of the three criteria or has personnel or business concern
-  If the fund/manager is achieving all objectives



### Vs. Benchmark

-  If the fund/manager's three year return is outperforming two or more of the trailing four quarters
-  If the fund/manager's three year return is trailing three or more of the trailing four quarters



### Vs. Peer Group

-  If the fund/manager's three year return is outperforming two or more of the trailing four quarters
-  If the fund/manager's three year return is trailing three or more of the trailing four quarters






















































































### Standard Deviation

-  If the fund/manager's 5 year standard deviation is either less than 150% of the benchmark or greater with additional return
-  If the fund/manager's 5 year standard deviation is either greater than 150% of the benchmark or greater with less return































### Firm, Team, Strategy

-  If there have been no changes of concern at the firm, team and strategy
-  If there have been any changes at the firm, team or strategy that cause concern

# Manager Performance Review

2013 Year End Review	Overall Assessment	Vs Benchmark	Vs Peer Group	Standard Deviation	Firm, Team, Process
Sands Capital					
Wellington					
Neuberger Berman					
Hotchkis & Wiley					
Wellington					
Robeco					
Timesquare					
Brown					
Hotchkis & Wiley					
Wedge Capital					
Earnest Partners					
Bailie Gifford					
Mondrian					
Wellington					
Arrowstreet					
JP Morgan					
PIMCO					

# Fund Performance Review

2013 Year End Review	Overall Assessment	vs Benchmark	Vs Peer Group	Standard Deviation
Large Cap Growth Fund				N/A
Large Cap Value Fund				N/A
Large Cap Passive			N/A	N/A
SMID Growth Fund				N/A
SMID Value Fund				N/A
SMID Passive Fund			N/A	N/A
International Equity Fund				N/A
International Passive Fund			N/A	N/A
Global Equity Fund				N/A
Inflation Sensitive Fund	N/A	N/A	N/A	N/A
Fixed Income Fund				N/A
Fixed Income Passive Fund	N/A	N/A	N/A	N/A
Stable Value Fund				N/A



# Manager Fee Review

2013 Year End Review	Fee Rank	Performance Rank
Sands Capital	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile
Wellington	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Neuberger Berman	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Hotchkis & Wiley	3 <sup>rd</sup> Quartile	2 <sup>nd</sup> Quartile
Wellington	1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile
Robeco	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Timesquare	4 <sup>th</sup> Quartile	1 <sup>st</sup> Quartile
Brown	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Hotchkis & Wiley	2 <sup>nd</sup> Quartile	1 <sup>st</sup> Quartile
Wedge Capital	3 <sup>rd</sup> Quartile	2 <sup>nd</sup> Quartile
Earnest Partners	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Bailie Gifford	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Mondrian	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Wellington	2 <sup>nd</sup> Quartile	1 <sup>st</sup> Quartile
Arrowstreet	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile
JP Morgan	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
PIMCO	2 <sup>nd</sup> Quartile	1 <sup>st</sup> Quartile

1<sup>st</sup> quartile is the best and 4<sup>th</sup> quartile is the worst

# Fund Fee Review

2013 Year End Review	Fee Rank	Performance Rank
Large Cap Growth Fund	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
Large Cap Value Fund	1 <sup>st</sup> Quartile	3 <sup>rd</sup> Quartile
SMID Growth Fund	2 <sup>nd</sup> Quartile	2 <sup>nd</sup> Quartile
SMID Value Fund	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile
International Equity Fund	1 <sup>st</sup> Quartile	Median
Global Equity Fund	1 <sup>st</sup> Quartile	Median
Fixed Income Fund	1 <sup>st</sup> Quartile	Median

1<sup>st</sup> quartile is the best and 4<sup>th</sup> quartile is the worst

# Stable Value Review

## Fees

- The North Carolina Stable Value Fund's weighted average wrap fee is currently 0.16%; according to providers surveyed by Mercer, fees for new wrap contracts typically range from 0.20% to 0.25%, with the median averaging 0.21%.

Plan	Stable Value Assets	Stable Value Manager	Total Expense Ratio
North Carolina	\$2.0 billion	Galliard	0.34%
Maryland	\$0.8 billion	Deutsche Asset & Wealth Management	0.50%
MTA	\$1.7 billion	Galliard	0.31%
New York City	\$4.8 billion	7 managers	0.30%
City of Los Angeles	\$0.9 billion <sup>1</sup>	Galliard	0.28% <sup>2</sup>
LA County	\$3.8 billion	Invesco	0.32%
State of Kentucky	\$0.7 billion	Invesco	0.36%

Data was primarily gathered from websites for each Plan. Asset amounts cited are approximations as of 9/30/2013 unless otherwise noted.

<sup>1</sup> As of 6/30/2013.

<sup>2</sup> 0.28% expense ratio reflects investment management fees only and does not include wrap fees.

# Underlying Investment Management Fees

## Intermediate and Short Duration Universe Comparison

Prudential*	
Account Size (\$MM)	\$557
Fee (bps)	6.0
Percent Rank	1st Quartile
Upper Quartile:	25.5
Median:	20.9
Lower Quartile:	16.8
Number of Vehicles:	113

PIMCO	
Account Size (\$MM)	\$327
Fee (bps)	23.0
Percent Rank	3rd Quartile
Upper Quartile:	26.0
Median:	22.3
Lower Quartile:	18.2
Number of Vehicles:	115

Great West Life*	
Account Size (\$MM)	\$526
Fee (bps)	5.0
Percent Rank	1st Quartile
Upper Quartile:	25.6
Median:	21.0
Lower Quartile:	16.9
Number of Vehicles:	113

Payden & Rygel	
Account Size (\$MM)	\$334
Fee (bps)	14.0
Percent Rank	2nd Quartile
Upper Quartile:	20.7
Median:	16.3
Lower Quartile:	12.8
Number of Vehicles:	136

Galliard	
Account Size (\$MM)	\$270
Fee (bps)	7.3
Percent Rank	1st Quartile
Upper Quartile:	20.9
Median:	17.0
Lower Quartile:	13.6
Number of Vehicles:	135

- All underlying investment management fees are significantly below or in-line with the peer group median.
- \* These managers offer provide wrap coverage for the portfolio. Prudential wraps 39.2% at 17bps and Great West wraps 22.9% at 15bps.

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