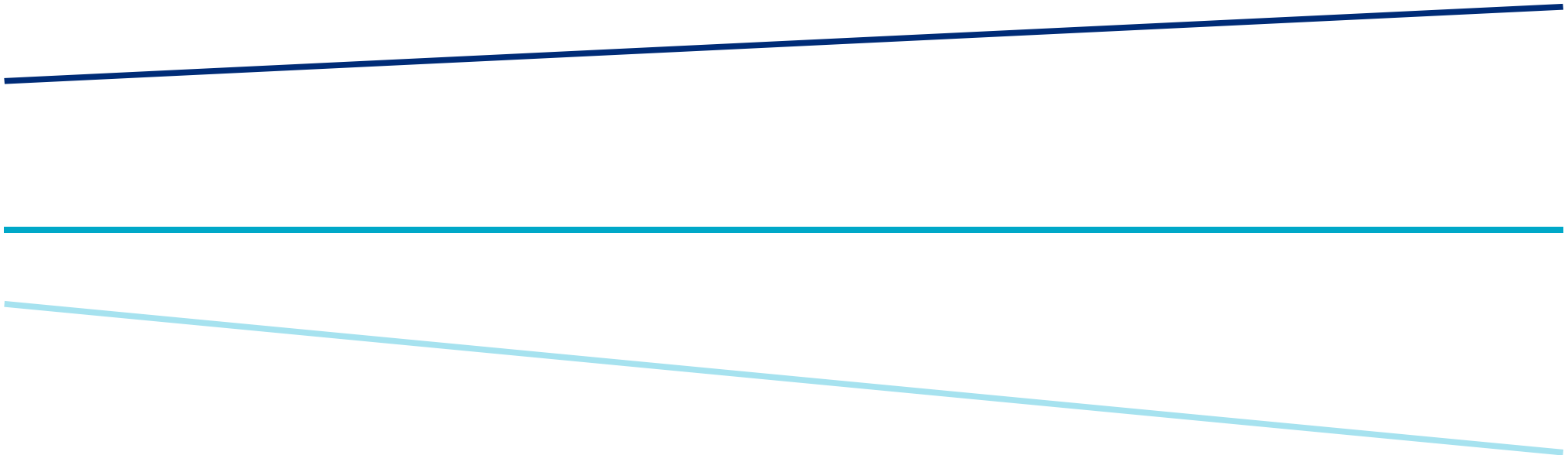


# NC Supplemental Retirement Plans Detailed Investment Manager Fee Analysis

December 2013



# Investment Management Fees

## Summary

- Mercer reviewed each investment manager strategy fee versus managers of similar strategy and similar size mandate in Mercer's database of managers
- Mercer reviewed the alpha, or outperformance, of these strategies versus the same universe of managers. Mercer would expect excess performance from all managers including managers with higher fees. This analysis was reviewed for either a 15 year time period or the longest available to capture multiple market cycles.

Sample Managers	Above Peer Group Median	
	Excess Fee	Excess Return
Sands Large Growth	5 bps	270 bps
Hotchkis & Wiley Large Value	6.2 bps	20 bps
TimesSquare Smid Growth	8.6 bps	150 bps
Brown Smid Growth	-20.4 bps	140 bps
EARNEST Smid Value	-24.2 bps	150 bps
Wedge Smid Value	0.8 bps	0 bps
Arrowstreet Global	5.9 bps	220 bps

- Mercer conducted the same analysis for each actively managed fund in the plan. The funds only have a 4 and half year time period.
  - The fee for every fund placed well below the median of its peer group
  - Over the shorter time period, all of the funds' performance placed above or near the median of their respective peer groups. It is important to note that several funds have had manager changes and enhancements that have improved the structure and performance of the funds over this time period.
- In Mercer's opinion, all of the fees being paid are appropriate given the past and expected performance
  - Where fees are above average, performance results are also above average

# Investment Management Fees

## Large Cap Growth Universe Comparison

Sands Capital Management		
<b>Account Size:</b>	\$269 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.510%	4.7%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	3 <sup>rd</sup> Quartile	7 <sup>th</sup> Percentile
Upper Quartile:	52.5bp	3.3%
Median:	46.0bp	2.0%
Lower Quartile:	41.4bp	1.2%
Number of Vehicles:	240	102

Wellington Opportunistic Growth		
<b>Account Size:</b>	\$252 million	Annualized 10 Year Alpha
<b>Fee:</b>	0.350%	1.3%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	24 <sup>th</sup> Percentile
Upper Quartile:	53.0bp	1.3%
Median:	46.5bp	0.5%
Lower Quartile:	41.6bp	-0.1%
Number of Vehicles:	240	157

Neuberger Berman		
<b>Account Size:</b>	\$251 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.275%	4.5%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	8 <sup>th</sup> Percentile
Upper Quartile:	53.0bp	3.3%
Median:	46.5bp	2.0%
Lower Quartile:	41.6bp	1.2%
Number of Vehicles:	240	102

Large Cap Growth Fund		
<b>Fund Size:</b>	\$771 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.571%	3.8%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	3 <sup>rd</sup> Percentile
Upper Quartile:	98.0bp	-0.6%
Median:	86.0bp	-1.9%
Lower Quartile:	71.0bp	-3.5%
Number of Vehicles:	93	156

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.

# Investment Management Fees

## Large Cap Value Universe Comparison

Hotchkis & Wiley		
<b>Account Size:</b>	\$266 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.500%	1.2%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	3 <sup>rd</sup> Quartile	47 <sup>th</sup> Percentile
Upper Quartile:	51.4bp	2.0%
Median:	43.8bp	1.0%
Lower Quartile:	36.9bp	0.4%
Number of Vehicles:	266	119

Wellington Quality Value		
<b>Account Size:</b>	\$261 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.290%	1.7%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	32 <sup>nd</sup> Percentile
Upper Quartile:	51.4bp	2.0%
Median:	43.8bp	1.0%
Lower Quartile:	37.1bp	0.4%
Number of Vehicles:	266	119

Robeco BP		
<b>Account Size:</b>	\$262	Annualized 15 Year Alpha
<b>Fee:</b>	0.348%	2.1%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	22 <sup>nd</sup> Percentile
Upper Quartile:	51.4bp	2.0%
Median:	43.8bp	1.0%
Lower Quartile:	37.1bp	0.4%
Number of Vehicles:	266	119

Large Cap Value Fund		
<b>Fund Size:</b>	\$790 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.572%	-1.7%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	51 <sup>st</sup> Percentile
Upper Quartile:	95.0bp	-0.3%
Median:	78.5bp	-1.6%
Lower Quartile:	65.0bp	-3.1%
Number of Vehicles:	67	100

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.

# Investment Management Fees

## SMID Cap Growth Universe Comparison

TimesSquare		
<b>Account Size:</b>	\$138 million	Annualized 10 Year Alpha
<b>Fee:</b>	0.858%	2.7%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	4 <sup>th</sup> Quartile	15 <sup>th</sup> Percentile
Upper Quartile:	82.2bp	2.3%
Median:	77.2bp	1.2%
Lower Quartile:	72.4bp	0.3%
Number of Vehicles:	75	35

Brown Advisory		
<b>Account Size:</b>	\$140 million	Annualized 7 Year Alpha
<b>Fee:</b>	0.567%	2.2%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	26 <sup>th</sup> Percentile
Upper Quartile:	82.1bp	2.4%
Median:	77.1bp	0.8%
Lower Quartile:	72.3bp	-0.7%
Number of Vehicles:	75	54

SMID Cap Growth Fund		
<b>Fund Size:</b>	\$278 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.905%	-1.6%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	2 <sup>nd</sup> Quartile	38 <sup>th</sup> Percentile
Upper Quartile:	113.0bp	-0.4%
Median:	101.0bp	-2.2%
Lower Quartile:	87.8bp	-4.3%
Number of Vehicles:	114	241

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.

# Investment Management Fees

## SMID Cap Value Universe Comparison

Hotchkis & Wiley		
<b>Account Size:</b>	\$130 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.593%	5.1%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	2 <sup>nd</sup> Quartile	0 Percentile
Upper Quartile:	68.8bp	2.5%
Median:	62.7bp	1.9%
Lower Quartile:	55.8bp	0.7%
Number of Vehicles:	81	17

EARNEST Partners		
<b>Account Size:</b>	\$128 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.526%	3.4%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	9 <sup>th</sup> Percentile
Upper Quartile:	82.8bp	2.5%
Median:	76.8bp	1.9%
Lower Quartile:	67.0bp	0.7%
Number of Vehicles:	61	17

Wedge Capital		
<b>Account Size:</b>	\$128 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.776%	1.9%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	3 <sup>rd</sup> Quartile	50 <sup>th</sup> Percentile
Upper Quartile:	82.8bp	2.5%
Median:	76.8bp	1.9%
Lower Quartile:	67.0bp	0.7%
Number of Vehicles:	61	17

SMID Cap Value Fund		
<b>Fund Size:</b>	\$385 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.824%	4.3%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	11 <sup>th</sup> Percentile
Upper Quartile:	114.5bp	2.1%
Median:	100.0bp	-0.2%
Lower Quartile:	85.5bp	-2.2%
Number of Vehicles:	67	114

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.

# Investment Management Fees

## International Equity Universe Comparison

Baillie Gifford		
<b>Account Size:</b>	\$242 million	Annualized 10 Year Alpha
<b>Fee:</b>	0.452%	3.0%

	Fee	Alpha
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	7 <sup>th</sup> Percentile
Upper Quartile:	63.2bp	1.3%
Median:	56.2bp	0.1%
Lower Quartile:	48.3bp	-0.8%
Number of Vehicles:	350	219

Mondrian		
<b>Account Size:</b>	\$243 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.462%	2.2%

	Fee	Alpha
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	23 <sup>rd</sup> Percentile
Upper Quartile:	63.2bp	2.2%
Median:	56.2bp	1.0%
Lower Quartile:	48.2bp	-0.2%
Number of Vehicles:	350	130

International Equity Fund		
<b>Fund Size:</b>	\$485 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.700%	-0.3%

	Fee	Alpha
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	55 <sup>th</sup> Percentile
Upper Quartile:	117.5bp	2.2%
Median:	101.0bp	-0.1%
Lower Quartile:	85.0bp	-1.5%
Number of Vehicles:	670	334

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.

# Investment Management Fees

## Global Equity Universe Comparison

Arrowstreet		
<b>Account Size:</b>	\$303 million	Annualized 7 Year Alpha
<b>Fee:</b>	0.608%	3.2%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	3 <sup>rd</sup> Quartile	14 <sup>th</sup> Percentile
Upper Quartile:	64.9bp	2.3%
Median:	54.9bp	1.0%
Lower Quartile:	45.8bp	-0.1%
Number of Vehicles:	385	263

Wellington		
<b>Account Size:</b>	\$303 million	Annualized 7 Year Alpha
<b>Fee:</b>	0.500%	3.8%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	2 <sup>nd</sup> Quartile	11 <sup>th</sup> Percentile
Upper Quartile:	64.9bp	2.3%
Median:	54.9bp	1.0%
Lower Quartile:	45.8bp	-0.1%
Number of Vehicles:	385	263

Global Equity Fund		
<b>Fund Size:</b>	\$606 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.763%	-0.1%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	53 <sup>rd</sup> Percentile
Upper Quartile:	126.0bp	1.9%
Median:	108.0bp	0.0%
Lower Quartile:	86.0bp	-2.0%
Number of Vehicles:	146	157

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.



# Investment Management Fees

## Fixed Income Universe Comparison

JP Morgan		
<b>Account Size:</b>	\$264 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.188%	0.9%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	17 <sup>th</sup> Percentile
Upper Quartile:	28.6bp	0.8%
Median:	25.7bp	0.4%
Lower Quartile:	22.8bp	0.3%
Number of Vehicles:	96	162

PIMCO		
<b>Account Size:</b>	\$266 million	Annualized 15 Year Alpha
<b>Fee:</b>	0.250%	1.5%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	2 <sup>nd</sup> Quartile	4 <sup>th</sup> Percentile
Upper Quartile:	28.6bp	0.8%
Median:	25.6bp	0.4%
Lower Quartile:	22.8bp	0.3%
Number of Vehicles:	96	162

Fixed Income Fund		
<b>Fund Size:</b>	\$530 million	Annualized 4.5 Year Alpha
<b>Fee:</b>	0.416%	1.2%
	<b>Fee</b>	<b>Alpha</b>
<b>Percent Rank:</b>	1 <sup>st</sup> Quartile	53 <sup>rd</sup> Percentile
Upper Quartile:	65.0bp	3.3%
Median:	53.0bp	1.4%
Lower Quartile:	43.0bp	-0.2%
Number of Vehicles:	222	329

Percentile Rank: a lower number percentile rank is better than a higher percentile rank.



Services provided by Mercer Investment Consulting, Inc.