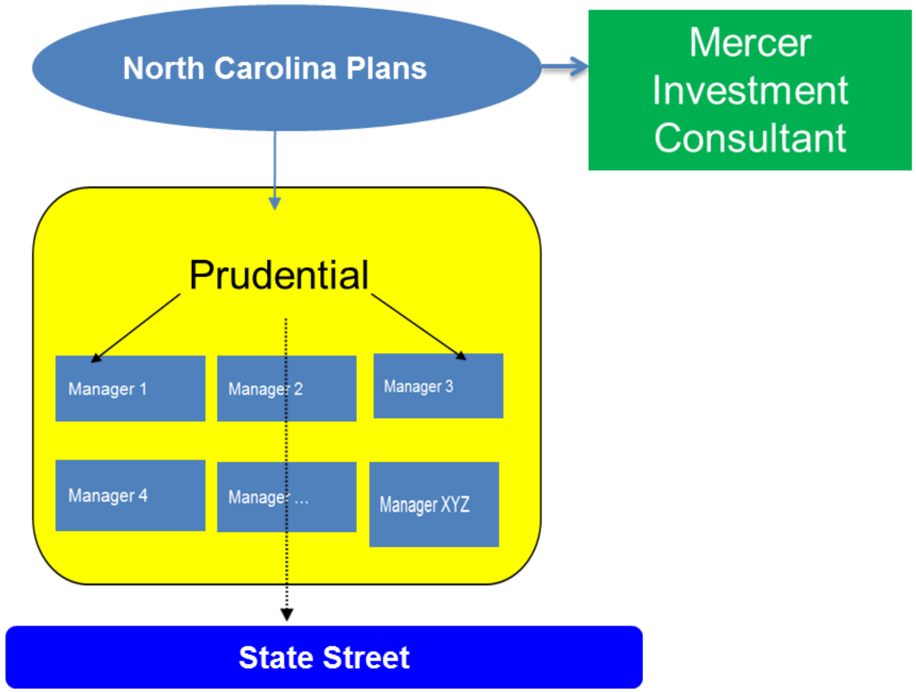
Plan Structure and Investment Consultant Relationship

North Carolina
Total Retirement Plans

Record Keeping RFP and Plan Design
Current Plan Structure



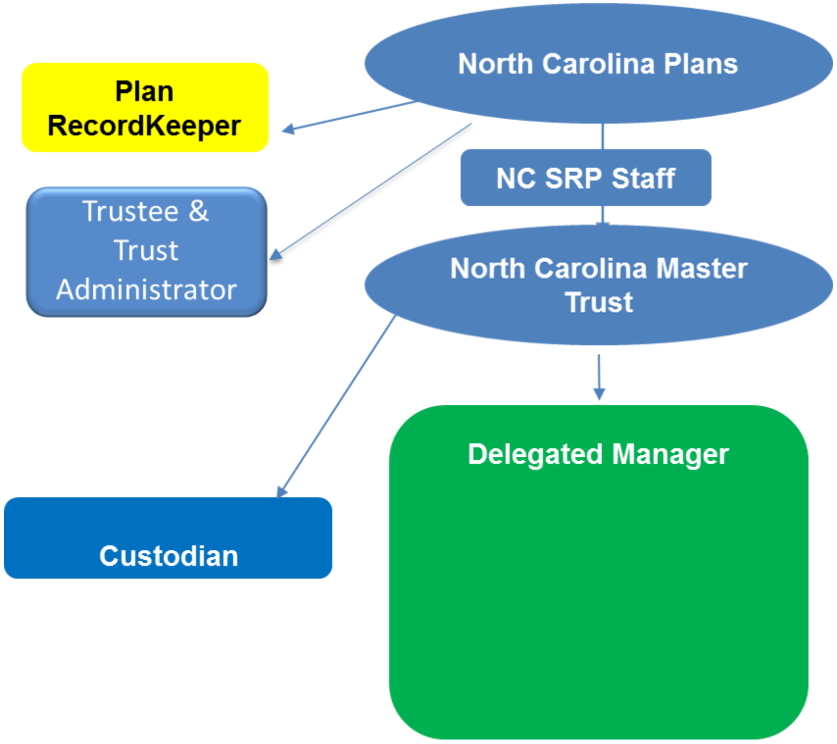
OVERVIEW

- NC, via a variable annuity structure, employs Prudential as Plan record keeper, administrator and informally delegated investment manager
- Prudential, in turn, employs all investment managers and also the custodian of underlying securities, State Street
- NC employs Mercer as investment consultant

CONSIDERATIONS

- Variable annuity structure is restrictive and opaque.
- NC assets are held on Prudential balance sheet within an insurance separate account. Potential issues include counterparty risk and/or access to assets.
- Bundled structure lacks transparency on fees and also legal liability
- Very difficult to change any single service provider as the offering/structure would need to be unbundled

Record Keeping RFP and Plan Design
Future State Plan Structure



OVERVIEW

- NC establishes a Master Trust to hold all assets
- NC directly employs Plan Recordkeeper
- Master Trust directly employs a Delegated Manager who, in turn, employs underlying investment managers on NC's behalf
- Master Trust also employs Plan custodian to hold assets. Custodian continuously transmits investment data to Recordkeeper to facilitate participant transactions

BENEFITS

- To Board:
  - Clear contractual links and legal liability for services employed
  - Delegated manager can effect investment manager changes and act on compliance breaches
- To Participants:
  - No balance sheet risk to external party
  - Absolute clarity on fees for services provided at each level
- To Staff:
  - Unbundled structure much more flexible

Future Business Model

In-house versus Delegated

Sec. 3(21) Fiduciary Consulting Relationship vs. Sec 3(38) Consulting

ERISA Section 3(21) Fiduciary

ERISA section 3(21) provides the standards by which any individual performing services for the plan might become a fiduciary due to the functions they actually (or have ability to) perform. Any individual can be a fiduciary under section 3(21) if he or she exercises any authority or control over the management of the plan or the management or disposition of its assets; if he or she renders investment advice for a fee (or has any authority or responsibility to do so); or if he or she has any discretionary responsibility in the administration of the plan.

ERISA Section 3(38) Fiduciary

Section 3(38) is an "investment manager" and by definition is a fiduciary because of their ability to manage the plan's assets. ERISA provides that a plan sponsor can delegate the significant responsibility (and significant liability) of selecting, monitoring and replacing of investments to the 3(38) investment manager/fiduciary. A 3(38) fiduciary can only be (a) a bank, (b) an insurance company, or (c) a registered investment adviser (RIA) subject to the Investment Advisers Act of 1940.

Next Steps

- Finalize Contract for 3(21) – Style Investment Consultant
  - 457, 401(k) and 403(b) ongoing investment consulting services
  - 457 and 401(k) Plan Design and Service Provider Search and Selection
  - December 17, 2015 or later…
- Benefits and Cost Comparison – In-house versus Delegated Model
  - Future Decision
  - Prior to December 17, 2015 (including required implementation time, if applicable)
- Ongoing Quarterly Progress Reports to Board
  - Recognition of milestone dates and key decision points

Thank you