

NC Supplemental Retirement Plans JP Morgan Business Review

February 2015



**Liana Magner
Kelly Henson**

NC Supplemental Retirement Plans

JP Morgan Business Review

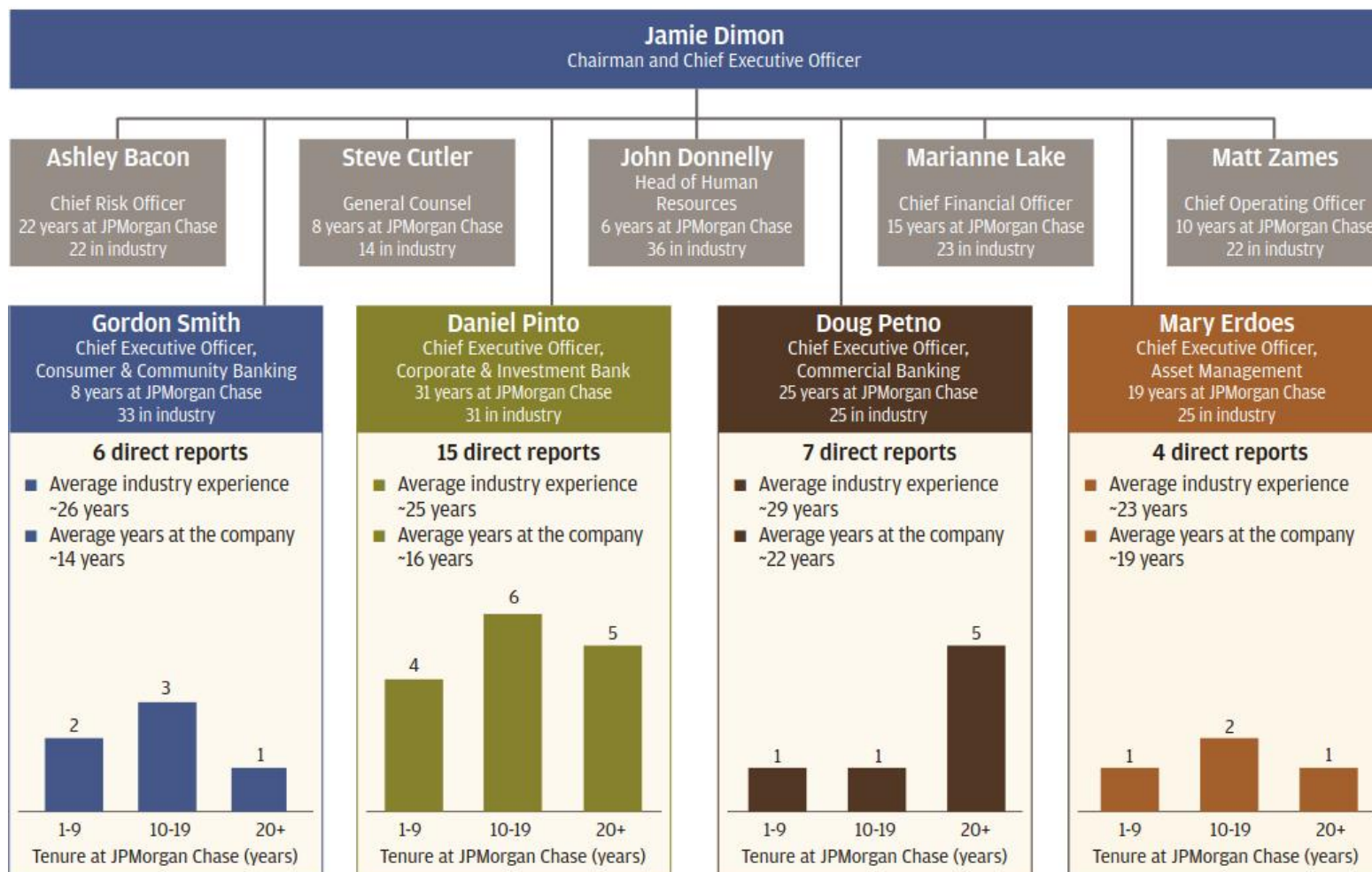
Headlines from Yahoo Finance over the last month:

- JPMorgan to pay \$99.5 million to resolve currency rigging lawsuit
- JPMorgan to pay \$500 million in mortgage settlement
- CME Group Inc on Friday fined a unit owned by JPMorgan Chase & Co \$210,000 for various trading violations.
- Wells Fargo & Co. and JPMorgan Chase & Co. will pay a combined \$35.7 million to settle a U.S. regulator's allegations that their loan officers took illegal kickbacks for steering customers to a now-defunct title company.
- JPMorgan Chase & Co. lost a court fight with creditors of General Motors Co.'s bankrupt predecessor over a \$1.5 billion loan by accidentally giving up its rights as a bank lender.
- J.P. Morgan Reports Nearly \$1 Billion in Quarterly Legal Expenses

While these headlines are negative, Mercer believes that the Asset Management unit of the larger JPMorgan business is sufficiently insulated from these issues and is not concerned with any impact on the team managing the NC assets.

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Operating Committee structure



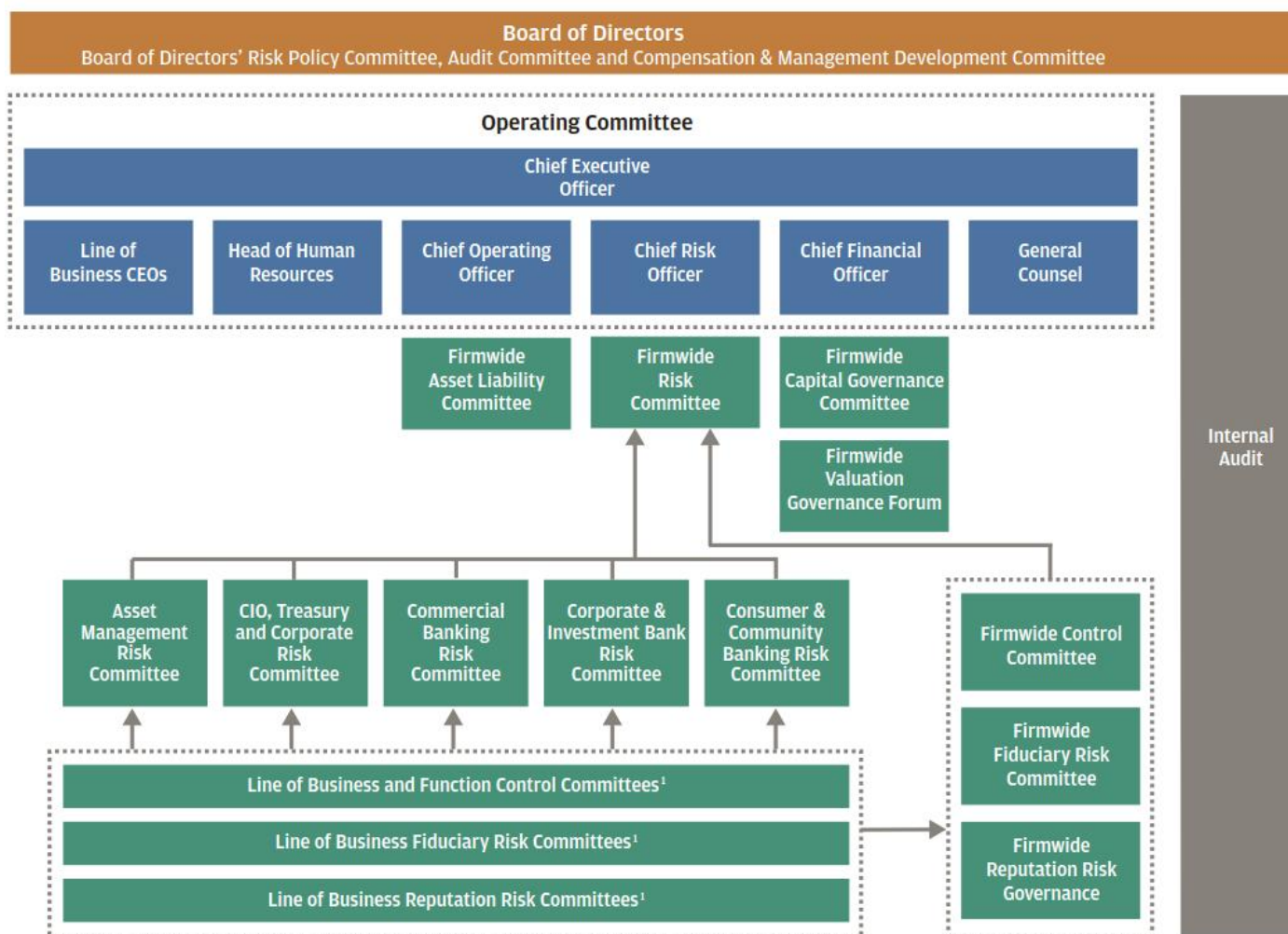
Note: Not all direct reports to Jamie Dimon are shown; direct reports to line of business CEOs include business and regional heads only

Source: How We Do Business from JP Morgan

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Governance structure



¹ As applicable CEO = Chief Executive Officer CIO = Chief Investment Office

Source: How We Do Business from JP Morgan

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JP Morgan Business Review – JPM Core Bond Plans Exposure

- 401(k) & 457 Plans
 - Fixed Income Fund – JPM Core Bond
 - \$285,835,459 across both plans
 - 3.2% of combined Plan assets
 - This fund is used in the Goal Maker allocation
- 403(b) Plan
 - JP Morgan Core Bond Fund R6
 - \$67,184
 - 7.3% of Plan assets

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JP Morgan Business Review – Mercer Evaluation Summary JPM Core Bond

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	JPMAM's key strength is Doug Swanson's experience in the mortgage sector and the depth of his support staff. The strategy relies heavily on Swanson's ability to find superior carry in the CMO market, which provides positive convexity with minimal credit risk. As a result, the team has generated consistent alpha with minimal return volatility. Quantitative analysis of structured products is adequate, but unlike most managers with a mortgage slant, proprietary quantitative tools do not play a significant role in the decision-making process.
Portfolio Construction	+	The fixed income investment process includes ongoing review, monitoring, and control of key portfolio characteristics. The consistent overweight to CMO tranches is reflective of Swanson's mortgage background and investment philosophy. Risk management tools are robust with user-friendly data displays at the sector and portfolio levels.
Implementation	+	To respond effectively to market opportunities and inefficiencies, trading authority lies with the portfolio managers. At this time, capacity is not a concern.
Business Management	+	The Columbus-based fixed income team has been able to keep its investment management team and management style separate and intact from its New York team. Also, despite recent changes to the reporting hierarchy within JPMAM, the firm has retained key personnel affiliated with the Multi-Sector and Mortgage strategies. That said, the integration with the New York platform is still evolving, and therefore, remains an issue of concern.
Overall Rating (A, B+, B or C) A		JPMAM's value-oriented approach to investing is ideal for risk-averse core fixed income clients. The investment process, led by Swanson, thrives on identifying relative value in the CMO market with minimal option or event risk. In addition, the risk management function is well integrated with the investment process at all levels. However, clients should be comfortable with the strategy's significant overweight to the mortgage sector, and understand that the team favors CMOs over MBS pass-throughs and corporates.
Additional Observations		Our rating pertains solely to the Columbus fixed income team, rather than JPMAM's New York team. It is also dependent on Douglas Swanson remaining head of the Columbus team. Swanson is the seminal figure in the taxable fixed income strategies, having guided the investment philosophy in Columbus for over a decade. We are not confident that the firm has sufficient leadership and technical expertise to thrive in his absence.

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