

Transition Management

Analytics Focused. Performance Driven.

A post-transition analysis from BlackRock for

Mercer Atlanta (NCRS DC Savings Plan / Prudential)

US Equity Large Cap Growth Transition

Date Updated: August 15, 2014

For more information please visit www.blackrock.com/tm

BLACKROCK

Executive Summary

BlackRock was hired by the Prudential Retirement Insurance and Annuity Company to restructure a US equity portfolio on behalf of the North Carolina Deferred Compensation Plan. The legacy portfolio was a Large Cap Disciplined Growth strategy managed by Neuberger Berman. The target for this transition was a Large Cap Growth strategy for Loomis Sayles & Company.

On July 31, 2014, BlackRock took over portfolio management responsibilities of the legacy account held at State Street. The target portfolio list was received from Loomis on the same day. BlackRock set aside approximately 11%, or \$28.7 million securities from the legacy portfolio that overlapped with the target portfolio. These securities were not traded.

BlackRock was able to quickly complete the required reconciliation and compliance checks the morning of August 1 and began the portfolio rebalance about mid-day (one day ahead of schedule). The required trading continued until August 5. BlackRock rebalanced the portfolio via open market agency trades and cross trades. In total, BlackRock was successful in crossing approximately \$87.4 million of the required trades or 19%.

The highlights of the transition are as follows:

Transition Highlights		
	Estimated	Actual
<i>Transaction Costs</i>	-15 bps	-15 bps
<i>Implementation Shortfall</i>	-39 bps to +9 bps	-2 bps
<i>Amount of Overlap</i>		\$28.7 million
<i>Amount Traded (Equities)</i>		\$459.9 million
<i>Number of Trading Days</i>		3
<i>Brokers Used</i>		4

Summary Timeline of Main Events

<u>Date</u>	<u>Event</u>
25-Jul-14	Contracts completed between NCRS, Loomis, Prudential and BlackRock. Neuberger notified to cease trading.
29-Jul-14	Neuberger and State Street Bank reconcile portfolio
31-Jul-14	State Street Bank sends certified asset list to BlackRock. BlackRock takes over management of the account. Loomis sends final buy list to BlackRock.
1-Aug-14	Blackrock creates the trade solution and begins trading in the market
4-Aug-14	Market trading continues
5-Aug-14	Market trading is complete
11-Aug-14	After trade settlement, State Street Bank sends the certified asset list to Loomis

BlackRock managed the four dimensions of risk throughout the transition as follows:

Exposure Risk

What is it: Also known as investment risk, this is risk associated with undesirable market exposure, including factors that can have a negative effect on the value of the portfolio

How BlackRock addressed it

- Traded in a dollar neutral manner to ensure market exposure throughout the transition period
- Coordinated receipt of certified list from State Street Bank and buy list from Loomis in order to move quickly to the market. BlackRock was able to get trades to market one day earlier than planned.
- Performed earnings screens to take unknown new risk off at or as near to benchmark point as possible

Execution Risk

What is it: Risk of using inadequate trading venues, especially for illiquid asset classes

How BlackRock addressed it:

- Utilized various underlying brokers and liquidity sources
- All transactions executed as agent and as fiduciary
- Crossed a portion of the trades via external crossing venues

Process Risk

What is it: Risk that costs are incurred due to communication gaps and unchecked assumptions

How BlackRock addressed it:

- Held conference calls with Prudential, NCRS, State Street Bank, and Loomis Sayles & Co. to discuss timeline and other transition expectations
- Coordinated with Loomis to ensure that the wish list was properly received and filled

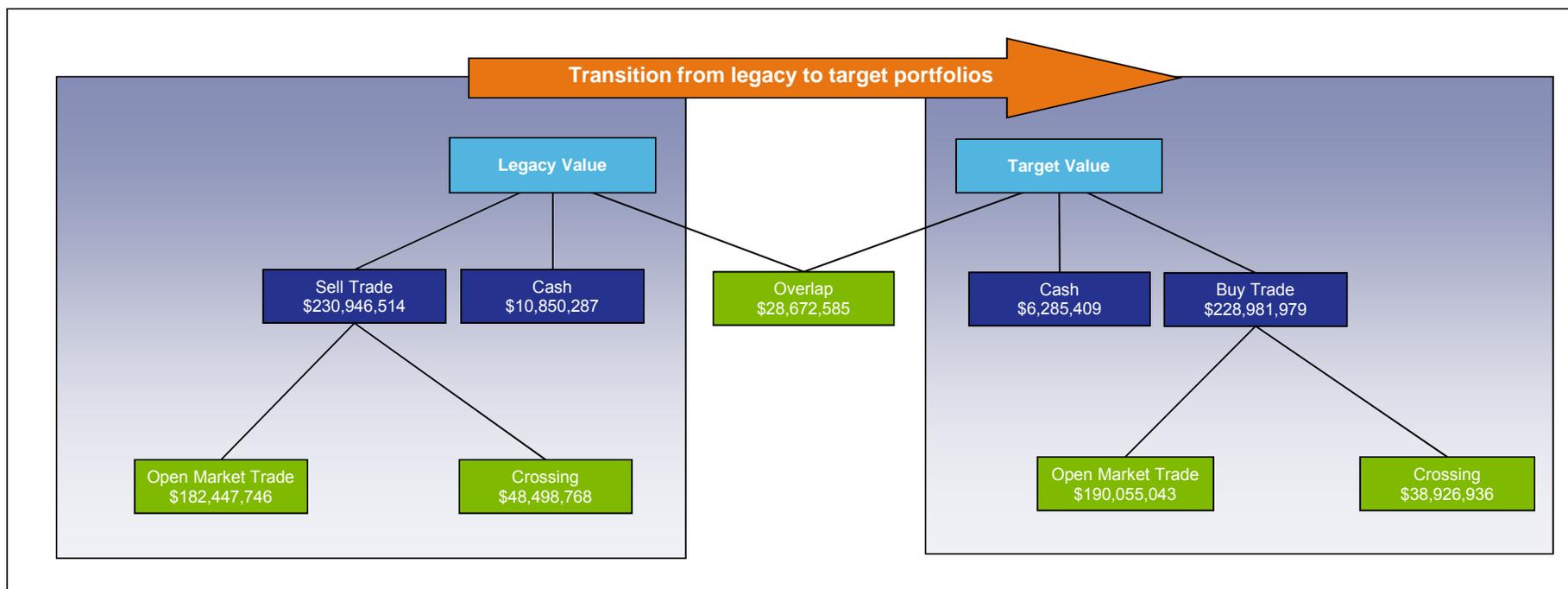
Operational Risk

What is it: Risk that operational details-such as account set up and reconciliation are over looked or delayed

How BlackRock addressed it:

- Monitored account to ensure all market trades settled
- Ensured the timely completion of asset transfers
- Met, discussed, reviewed and consulted with NCRS and Prudential to ensure contracting was in place with all organizations that met each organizations needs and covered various legal scenarios

The following schematic details the activity breakdown that took place when moving from the legacy to target portfolios.



The above results are aggregated in a table below and showed versus the projected activity breakdown on pre-transition analysis.

Pre-Transition Estimate			Actual Results			Difference
	Trade Value	Total (%)		Trade Value	Total (%)	Total (%)
Overlap	70,146,228	13%	Overlap	57,345,170	11%	-2%
Crossing	82,344,021	16%	Crossing	87,425,704	17%	1%
Open Market Trade	374,333,388	71%	Open Market Trade	372,502,789	72%	1%
	526,823,637	100%		517,273,663	100%	0%

Implementation shortfall, as measured by the return of the transition account versus the return of the target portfolio from July 31, 2014 through August 5, was -0.02%.

Start Date	7/31/2014
End Date	8/5/2014
	Return (%)
Transition Account	-0.41%
Target Portfolio	-0.39%
Total Implementation Shortfall	-0.02%

Market Commentary

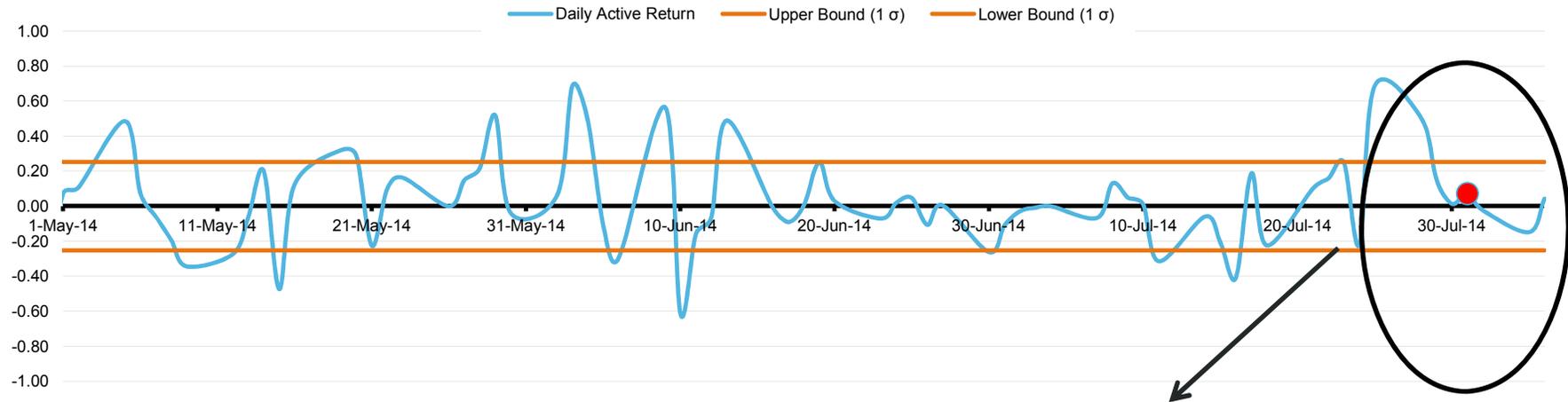
August 1, 2014 - 75% complete

The Standard & Poor's 500 Index fell for a second day as concerns over Argentina and Portugal overshadowed data that signaled the Federal Reserve may have leeway to keep rates low. The S&P 500 fell 0.3 percent to 1,925.20 at 4 p.m. in New York. The index plunged 2 percent on July 31, 2014, and finished the week with a loss of 2.7 percent. U.S. stocks joined a global sell off on July 31, sending the S&P 500 to its first monthly decline since January. Companies from Exxon Mobil Corp. to Samsung Electronics Co. reported results that disappointed investors. Argentina defaulted and Banco Espirito Santo SA was ordered to raise capital. Banco Espirito Santo shares were suspended by Portugal's securities regulator after they dropped as much as 50 percent in Lisbon. Global financial markets were roiled last month after another holding company in the group missed payments on commercial paper. Argentina's failure to pay interest on its bonds is a credit event that will trigger settlement of \$1 billion of default insurance, according to the International Swaps & Derivatives Association. Argentina is the first nation to trigger default swaps since Greece restructured its debt in 2012.

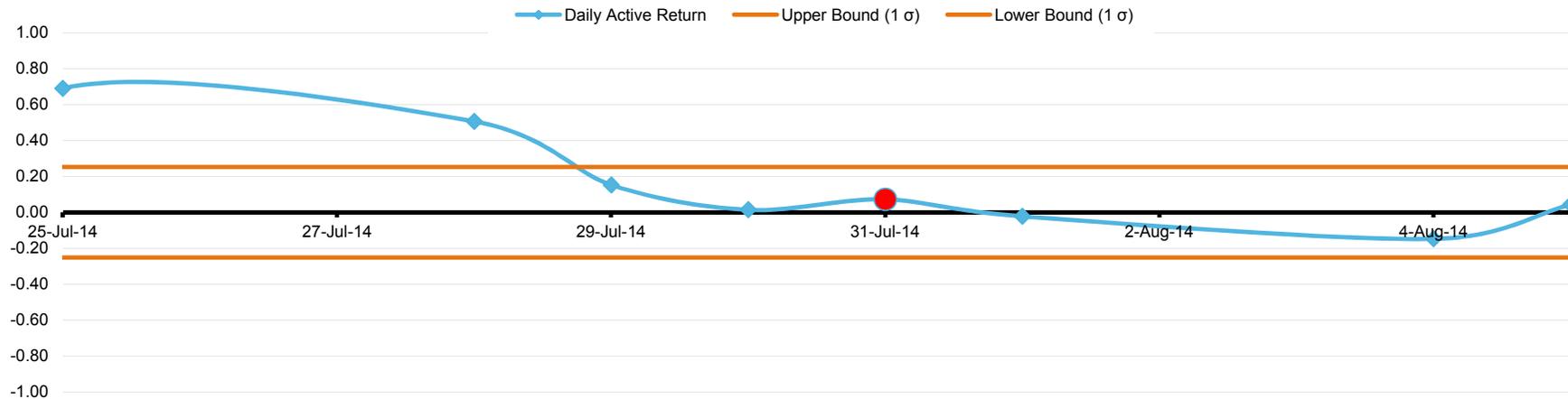
August 4, 2014 - 98% complete

U.S. stocks rose, after the biggest weekly loss in two years for the Standard & Poor's 500 Index. Portugal announced a bailout for Banco Espirito Santo SA and Berkshire Hathaway Inc. beat earnings estimates. Warren Buffett's Berkshire Hathaway rose 3.1 percent as results improved at operating businesses including auto insurer Geico, railroad BNSF and the energy unit. The S&P 500 rose 0.7 percent to 1,939.16 at 4 p.m. in New York. The S&P 500 tumbled 2.7 percent last week, the most since June 2012. Companies around the globe including Exxon Mobil Corp. posted disappointing results, Argentina defaulted and Banco Espirito Santo was ordered to raise capital.

Daily Active Performance of Legacy vs Target Since May 2014



Daily Active Performance of Legacy vs Target During Transition Period



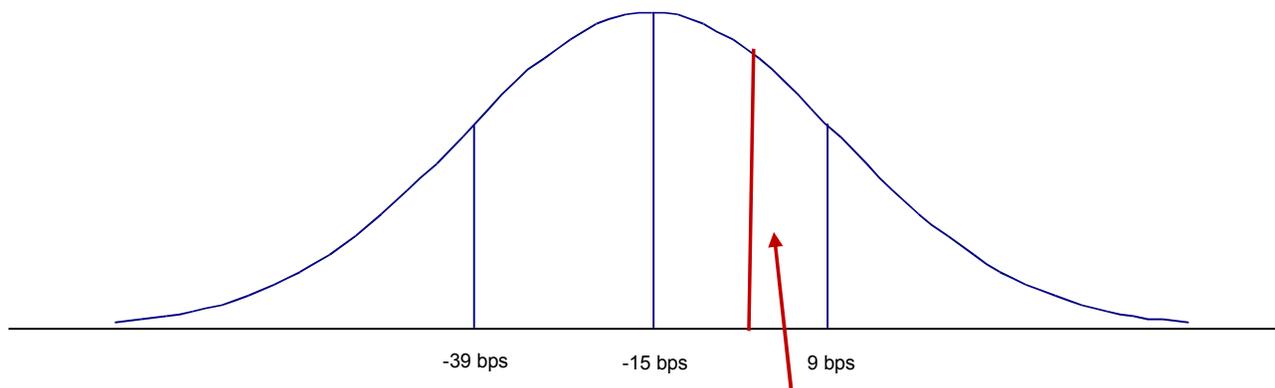
Transition Costs

Costs are broken down into their component parts in the tables and graphs below. Commissions and taxes are a known cost, whereas spread and market impact are estimates and opportunity cost acts as the balancing item. Opportunity cost is broken down further into (as relevant) gain or loss on security trades caused by market movements between the closing prices on the benchmark date and the time of execution.

	Pre-Transition Estimate		Actual Results				Difference	
	USD	BPS	Sales	Buys	Total	Total (bps)	USD	BPS
Commission*	(72,075)	(3)	(33,207)	(43,650)	(76,857)	(3)	(4,782)	(0)
Tax	(4,952)	(0)	(5,104)	(21,004)	(26,109)	(1)	(21,157)	(1)
Spread	(62,717)	(2)	(29,465)	(29,791)	(59,256)	(2)	3,460	0
Market Impact	(269,520)	(10)	(75,645)	(174,600)	(250,245)	(9)	19,275	1
	(409,264)	(15)	(143,422)	(269,045)	(412,467)	(15)	(3,203)	(0)
Opportunity Costs	638,965	24	(79,353)	433,170	353,817	13		
Total Implementation Shortfall	From 229,702 To (1,048,229)	From 9 To (39)	(222,775)	164,125	(58,650)	(2)		

* Refer to the Broker Trading Report and Revenue Transparency sections for more details.

Implementation Shortfall (IS) Distribution



Implementation Shortfall: -2 bps

Top Positive Contributors to Shortfall

Names	Securities Variance (USD)
AMAZON.COM INC.	246,141
QUALCOMM INC.	173,824
APPLE INC	154,420
CISCO SYSTEMS INC.	133,843
AMERICAN EXPRESS	109,057
NOVO-NORDISK ADR REPSG 1 B ORD	100,020
STARWOOD HOTELS & RESORTS WORLDWID	98,896
AMGEN INC.	88,937
BIOMARIN PHARMACEUTICAL INC.	77,432
ORACLE CORP	63,403
Total	1,245,973

Top Negative Contributors to Shortfall

Names	Securities Variance (USD)
PROCTER & GAMBLE	(182,990)
MONSTER BEVERAGE CORP.	(168,799)
COMERICA INC.	(143,899)
VISA INC.	(85,258)
YUM! BRANDS INC.	(84,243)
APACHE CORP.	(80,416)
BRISTOL-MYERS SQUIBB CO.	(76,471)
YELP INC CLASS A	(75,600)
EXPEDITORS INTERNATIONAL OF WASHIN	(75,338)
FACTSET RESEARCH SYSTEMS INC.	(70,151)
Total	(1,043,164)

Shortfall by Sector *

Sectors	Net Transaction (USD)	Securities Variance (USD)
Consumer Discretionary	(7,299,117)	194,489
Consumer Staples	20,272,199	(317,637)
Energy	(5,989,208)	(27,202)
Financials	(37,044,366)	(16,146)
Health Care	40,095,508	176,334
Industrials	(12,029,938)	(17,884)
Info Tech	37,421,484	35,598
Materials	(23,209,003)	101,770
Telecom	(4,748,600)	(30,006)
Utilities	(9,433,494)	(55,000)
Total	(1,964,535)	44,315

* The sector classifications used are sourced from Bloomberg.

Equity Broker Trading Report

Equity Broker	Notional Amount	# of Shares	CPS	Commissions
BES - CREDIT SUISSE	28,071,503	1,047,811	1.0	10,478
BES - GOLDMAN SACHS	371,543,549	5,513,207	1.0	55,132
BES - MERRILL LYNCH	6,365,216	126,096	1.0	1,261
BLAYLOCK BEAL VAN, LLC	60,398,983	998,559	1.0	9,986

Total Commissions Paid
76,857

Transition Transparency Tool

	BLK U.S. Transitions
Do you earn revenue by trading foreign exchange?	0
Do you earn revenue from internal crossing?	0
Do you earn revenue by acting in a principal capacity?	0
Do you receive revenue from an affiliate who acts in a principal capacity?	0
Do you earn revenue from order-flow payment, or participate in soft-dollar arrangements?	0
TOTAL HIDDEN REVENUE:	0
BLACKROCK AGENCY COMMISSIONS	66,871

Additionally, BlackRock-managed pooled fund products may be used during the restructuring with prior client consent. Such pooled fund products may also be inherited from a legacy portfolio or be purchased for a target strategy. In such instances, BlackRock will earn an investment management fee on any such product (which is not included above).

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