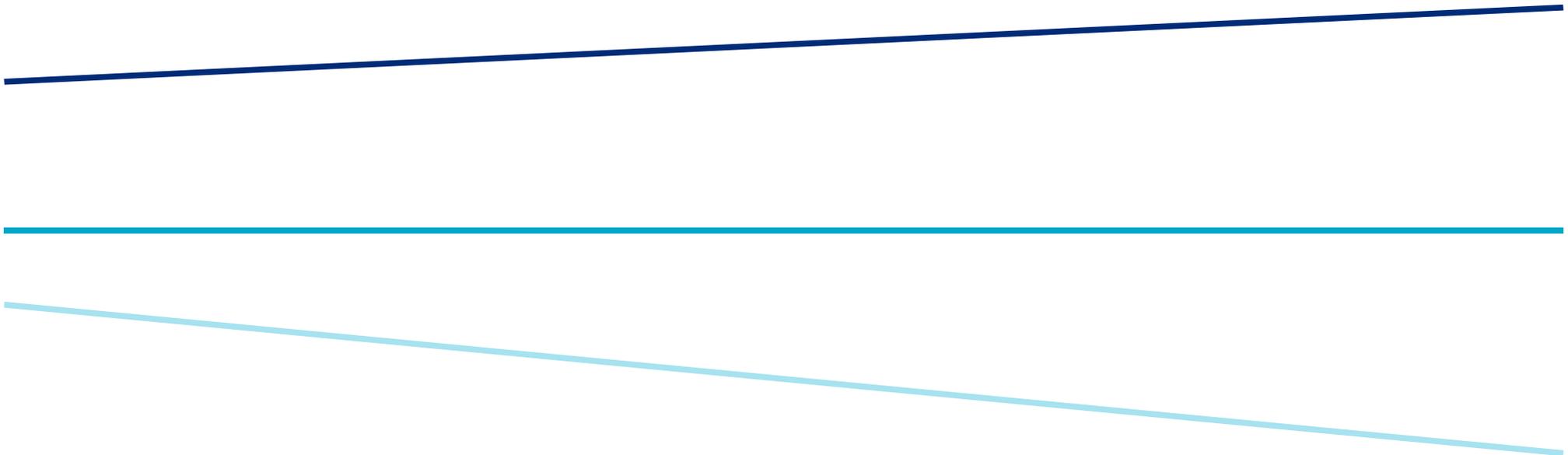


# NC Supplemental Retirement Plans Detailed Investment Manager Fee Analysis

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%                       |
|                      | <b>Fee</b>               | <b>Alpha</b>               |
| <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%                        |
|                      | <b>Fee</b>               | <b>Alpha</b>                |
| <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%                       |
|                           | <b>Fee</b>               | <b>Alpha</b>                |
| <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%                        |
|                      | Fee                      | Alpha                       |
| <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%                        |
|                      | Fee                      | Alpha                       |
| <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%                       |
|                      | Fee                      | Alpha                       |
| <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%                        |
|                      | Fee                      | Alpha                       |
| <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%                       |
|                      | Fee                      | Alpha                      |
| <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%                        |
|                      | Fee                      | Alpha                       |
| <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.



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