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INVESTMENT MANAGEMENT

To: North Carolina Supplemental Retirement Board of Trustees

From: Loren de Mey, Assistant Investment Director

Date: November 27, 2017

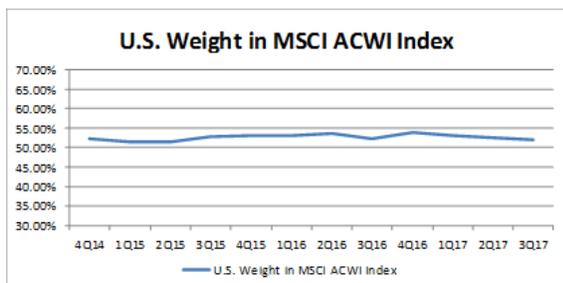
Subject: Discussion/Action: Mapping Recommendation for the NC Global Equity Fund

Background

At its September 17, 2017, meeting, the North Carolina Supplemental Retirement Board of Trustees (the “Board”) approved removal of the NC Global Equity allocation from GoalMaker and replacing it with two funds: a passive U.S. Large Cap and an active International Equity. After this change, approximately \$60 million would have remained in the NC Global Equity Fund (outside of Goalmaker), and fees would have increased by 10 basis points to 0.675% for those remaining assets, due to the break points in the current fee schedule. Therefore, the Board also approved removing the NC Global Equity Fund as an investment option in the core line up. The participants in the NC Global Equity Fund not in GoalMaker must, therefore, be mapped into a new fund, or funds, once the NC Global Equity Fund is removed from the core fund line-up. The expected timing is June 2018.

Recommendation

The current benchmark for the NC Global Equity Fund is the MSCI ACWI. As of September 30, 2017, the MSCI ACWI had a 52% allocation to the United States and a 48% allocation to international. This allocation has been relatively stable over the past three years with the U.S. allocation ranging from about 51.5% to 54%. Investment Management Division (IMD) staff and Mercer recommend using the current allocation to the U.S. and international within the benchmark for the recommended geographic allocation for the mapping. Additionally, given the NC Global Equity Fund is an active fund, we recommend mapping participants to two active equity options within the Plans: the NC Large Cap Core Fund (which now has a 25% allocation to the Russell 1000 Index Fund) for the U.S. allocation and the NC International Equity Fund for the International allocation.



Recommended Mapping

52% allocation to the NC Large Cap Core Fund / 48% allocation to the NC International Equity Fund



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Fees

The current investment management fee for the NC Global Equity Fund is 0.54%. The blended fees after the mapping, assuming a 52% allocation to the NC Large Cap Core Fund and a 48% allocation to the NC International Equity Fund, will be 0.31%, resulting in fee savings of 0.23 percentage points for participants. This results in fee savings of \$230 per year for an account size of \$100,000.