North Carolina GoalMaker
Equity Transition
Russell Transition Management

Post-Transition Executive Summary

OCTOBER, 2013
Executive Summary

- On September 30th, Russell completed a $600mm global markets transition on behalf of the North Carolina GoalMaker plan. The overall transition involved three of the plan’s funds (Smid Value, Smid Growth, and Global) and was essentially managed as three separate transitions within each of those funds. This analysis presents the performance for each transition within each of the 3 funds separately.

- Transition Highlights:
  - As transition manager, Russell designed and implemented a successful transition strategy to efficiently move assets from the legacy to the target allocations, minimize total transition costs and maintain appropriate market exposures. At the same time, Russell’s project management and tight coordination with all stakeholders throughout the transition ensured a smooth transition in executed in the best interests of the plan participants.

- Performance by fund:
  - Smid Value: The implementation shortfall during the implementation period was -5.1 bps compared to a pre transition expectation of -22.4 bps ± 15.2 bps. Controllable costs accounted for -20.0 bps of the shortfall reflecting an opportunity gain of 15.1 bps.
  - Smid Growth: The implementation shortfall during the implementation period was -2.0 bps compared to a pre transition expectation of -28.0 bps ± 27.1 bps. Controllable costs accounted for -25.0 bps of the shortfall reflecting an opportunity gain of 23.0 bps.
  - Global: The implementation shortfall during the implementation period was -31.9 bps compared to a pre transition expectation of -23.9 bps ± 21.7 bps. Controllable costs accounted for -25.0 bps of the shortfall reflecting an opportunity loss of -6.9 bps.

- Other key factors:
  - Russell’s strategy to invest the cash portion of the Global transition directly into target assets based on estimated values not only provided equity exposure for the cash, but also moved the transition portfolio directly into target physical assets. Given the 2.22% increase in US market from 9/13 through 9/18 (when Russell was able to confirm and begin trading the rest of the assets), the strategy proved critical and provided an approximate $3.6mm benefit to the fund. This strategy also helped efficiently mitigate the exposure shift into the Americas.
  - Russell’s efforts to maximize in-kinds, both by coordinating in-kind redemptions for all funds and transfers between the Smid Value and Growth funds provided estimated cost savings of about $209K based on a total in-kind value of about $67mm and the average cost per value traded for each of the funds.
Transition Matrix

Legacy Accounts
- BlackRock R2500
- BlackRock SP500
- BlackRock IE
- Baillie Gifford IE
- Mondrian IE

Transition Accounts
- SMID Value Transition Account
- SMID Growth Transition Account
- Global Equity Transition Account

Target Accounts
- Hotchkis & Wiley
- EARNEST Partners
- WEDGE
- Times Square
- Brown
- Wellington
- Arrowstreet
The charts on this page illustrate the expected performance impact to transition the portfolio, a distribution around that expectation, and the actual realized implementation shortfall.

The distributions are based on the tracking error between the legacy and target portfolios, the liquidity of the securities, the implementation method employed.

### Performance Summary

- **Smid Value**
  - Implementation shortfall: -2.0 bps
  - Mean Expected Cost: -22.4 bps +/- 15.2 bps (@68% confidence)

- **Smid Growth**
  - Implementation shortfall: -2.0 bps
  - Mean Expected Cost: -28.0 bps +/- 27.1 bps (@68% confidence)

- **Global**
  - Implementation shortfall: -31.9 bps
  - Mean Expected Cost: -22.0 bps +/- 21.7 bps (@68% confidence)
An effective and efficient transition requires the transition manager to coordinate multiple parties across multiple complex operational platforms. Below are the various parties involved with this particular transition which played critical roles in orchestrating this successful event.

<table>
<thead>
<tr>
<th>External parties involved</th>
<th>Russell parties involved</th>
<th>Communications</th>
<th>Trade settlements and operational items</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Carolina</td>
<td>Transition Team (lead and support)</td>
<td>Over 1,100 emails exchanged with various parties during the transition</td>
<td>11,993 equity trades (~57.2 million shares) executed, processed and settled (approximating $903mm in value)</td>
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<tr>
<td>Prudential</td>
<td>Quantitative research analysts</td>
<td>Provided regular and frequent transition updates via emails and phone</td>
<td>Coordinated in-kind transfer of assets into three transition accounts, between 2 funds, and out to 7 manager accounts.</td>
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<td>State Street</td>
<td>Client service</td>
<td>Hosted weekly planning and coordination meetings leading up to, and throughout, the transition</td>
<td>Accounted for unsettled transfers of legacy assets so that exposures could be maintained and trading could be carried out as expeditiously as possible.</td>
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<tr>
<td>Mercer</td>
<td>Trade implementation</td>
<td></td>
<td>The setup and management of both spot and forward currency trading within the Global transition account.</td>
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<tr>
<td>BlackRock</td>
<td>Trade operations (settlement, pricing and corporate actions)</td>
<td></td>
<td>Sourcing local liquidity for illiquid ADR’s</td>
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