Current SMID Cap Fund

- Currently the SMID Cap Fund totals $1.038B and has an investment expense ratio of 0.524%
- TimesSquare manages roughly $250M and has an IM fee of 0.65%
- TimesSquare plays the role of the downside protector within the SMID Fund, focusing on higher quality companies with strong management and typically have biases towards companies with lower debt and higher return on equity
- The NC SMID Fund benefits from the differentiation in the investment processes of TimesSquare and Brown (-0.47 excess return correlation over the last 10 years)

INVESTMENT MANAGERS

**EARNEST (Relative Value)**
- Believe stock prices follow identifiable patterns
- Value bias as a by-product of return pattern recognition and fundamental analysis
- Seeks companies with relatively strong profitability measures and higher quality characteristics

**Hotchkis (Deep Value, High Beta, Momentum)**
- Identify attractively valued companies with short term mispricing’s
- Long-term, low turnover approach leads to deeper value bias
- More concentrated 50-100 holdings; higher volatility and tracking error

**WEDGE (Higher Quality Value)**
- Combination of quantitative and fundamental research
- 50/50 blend of mid and small cap strategies
- Both small and mid cap teams adhere to consistent approach to identify stocks that meet their fundamental and quality parameters

**Brown (Growth at a Reasonable Price)**
- Seek companies that can compound earnings for an extended period of time
- Growth engine of the SMID Cap Growth Portfolio
- Typically will hold 75 securities with modest turnover

**TimesSquare (Traditional Growth, Profitability)**
- Diversified portfolio of high quality growth companies
- Higher quality approach has protected well in down markets
- Will typically hold 90-120 securities
NC Moved to SMID Cap mandate with TimesSquare

Lead Health care analyst left firm to start biotechnology and life sciences Hedge Fund. TimesSquare did not have a dedicated services analyst at the time.

Hired two senior analysts, one to cover biotech, pharma, and life sciences tools and another to cover health care services. Mercer visits the team on-site and is constructive on splitting coverage into biotech/pharma and services, given historical underperformance in sector.

TimesSquare flags NC’s Watch List, as the strategy failed to meet performance criteria set.

Mercer meets with new health care team and makes note that the strategy remains largely underweight the sector relative to index. Still confident in other areas of portfolio along with lead PM’s.

TimesSquare announced it parted ways with the health care analyst focused on service related names.

Associate working under lead health care analyst leaves to pursue opportunity at another investment management firm.

Mercer has an on-site visit with TimesSquare and once again reviews health care coverage. Sector continued to be the largest portfolio detractor and the firm had significant sector turnover since the new hires. Mercer added the (P) designation on the “A” rating as a result of the meeting.
TIMESQUARE EVALUATION

- The historical rolling excess returns (below) of Brown and TimesSquare show the benefit of process diversification and how it can reduce portfolio volatility for participants.
N E X T  S T E P S

1) Review the structure of the SMID Cap Fund

2) Provide recommendation to the Investment Sub-Committee and Board