



NORTH CAROLINA DEPARTMENT OF STATE TREASURER

COMPLIANCE AND FEE REVIEW

February 7, 2017

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.

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Introduction

The North Carolina Department of State Treasurer (NCDST) retained Aon Hewitt Investment Consulting (AHIC) to conduct (1), a compliance review of the investment decision-making process for the North Carolina Retirement System (NCRS), and (2) a review of NCRS investment manager fees versus industry medians. The scope of the project covered 142 investments entered into during the period July 1, 2012 to October 20, 2016 across public equity, hedged equity, real estate, private equity, inflation sensitive, opportunistic fixed income and multi-strategy.

Our findings and recommendations are based upon documentation and information we received from the NCDST's Investment Management Division (IMD) Staff at the time we performed our work. We worked directly with the Chief Investment Officer and the Director of Risk Management & Asset Allocation to review our approach in completing this assignment and to seek clarification regarding a number of issues. The opinions and recommendations expressed in this Report reflect the independent judgment of AHIC.

Executive Summary

The key findings generated by AHIC's decision-making compliance and fee review are summarized below.

Compliance Review

In order to be in compliance with the External Investment Manager and Vehicle Selection Policy and Procedures (EIM Policy) statement, there are seven documents the IMD must produce and complete. Prior to the adoption of the EIM Policy in 2013, two documents were required, the Placement Agent Disclosure Form and Investment Recommendation Memo. AHIC assessed compliance with the NCDST decision-making process and policies by verifying the required documents were provided and completed for each fund which closed during the review period.

Overall, the IMD has been very diligent in producing the required documents during the review period and has been in compliance with the decision-making process and policy. After reviewing documentation for the 142 funds, we identified only a few instances of missing or incomplete documentation. We summarize our key findings below.

Key Findings

- Overall, the IMD has been in compliance with the EIM Policy in preparation and completeness of the required documents as set forth in the EIM Policy and in compliance with the investment decision-making process prior to the adoption of the EIM Policy, as understood from discussions with NCDST.
- One out of 142 funds is missing documentation.
- Nine documents provided are incomplete. It is possible final documentation is complete and may have been misplaced or saved incorrectly, and therefore difficult to locate.
 - Three incomplete documents were identified in the private equity and in the long only public equity asset classes, two were identified within real estate, and one within inflation sensitive.
- AHIC suggests the following minor enhancements to the record-keeping process:

- Utilize a consistent fund name across documents
- List all fund names on documents that cover more than one fund – typically seen when funds are recommended together
- Include a note or 'N/A' when a signature is not needed
- Apply consistent nomenclature when saving documents electronically

Fee Review

AHIC reviewed the fees of each of the investment managers in the Review Universe against industry averages/standards. We used a holistic approach in making our assessments regarding fees. We relied on our empirical experience supported by third party industry data.

We received the fees and terms from the IMD for all funds in the Review Universe, but also completed a spot check of approximately 15% of the number of funds in the Review Universe to verify the fees and terms provided by the IMD were accurate and consistent with the legal documents. We did not find any material discrepancies. This process is described in more detail in the Fee Review section of this report.

Key Findings

The IMD Staff has done an excellent job of negotiating fees. Fees for many managers are below the industry average and overall, no fee was unreasonable in the aggregate.

As with most projects of this nature, this review process highlighted areas of improvement, which mostly surround the logistics. We note that NCDST Staff has already taken steps to enhance the process for ensuring manager selection and fee documentation follows policy, for filing and locating documents consistently and easily, and to improve the overall level of organization across multiple databases and systems.

COMPLIANCE REVIEW

I. COMPLIANCE REVIEW

Introduction

The Investment Management Division (IMD) serves as the investment arm of the North Carolina Department of State Treasurer (NCDST) and manages the investments of the North Carolina Retirement System (NCRS). The IMD's decision-making process for recommending and hiring external investment managers is governed by the External Investment Manager and Vehicle Selection Policy and Procedures (EIM Policy) statement.

The NCDST retained Aon Hewitt Investment Consulting (AHIC) to assess compliance with the decision-making process and policies of the IMD for investments entered into during the period July 1, 2012 to October 20, 2016 (review period) across long only public equity, hedged equity, real estate, private equity, inflation sensitive, opportunistic fixed income and multi-strategy asset classes. The scope of the project covered 142 investments.

Compliance Review Methodology

The IMD identified seven documents as required to be in compliance with the EIM Policy. NCDST collected and delivered to AHIC the documents for the 142 investments made during the review period. Importantly, the EIM Policy went into effect in 2013, and therefore, four of the seven documents were not required for investments made prior to July 1, 2013, and one document was not required for investments made prior to October 1, 2013.

Table 1 summarizes the seven required documents and the date in which they went into effect.

Table 1

Document Name	Effective Date
1. Conflict of Interest Policy	7/1/2013
2. Placement Agent Disclosure Form	Always
3. Investment Recommendation Memo (IRM)	Always
4. Compliance Checklist	7/1/2013
5. Compliance Review Form	7/1/2013
6. Summary Legal Memorandum	7/1/2013
7. House Bill 56 Form	7/1/2013

To assess the IMD's compliance with the NCDST investment decision-making process and policies, AHIC a) confirmed the appropriate documents were provided for each fund based on the fund's closing date and the document's effective date and b) reviewed each document's completeness by verifying each document had the appropriate fund name, signature(s) and date. The fourth required document noted above, the Compliance Checklist, is a form IMD utilizes internally to ensure compliance with the EIM Policy. The form requests verification that required documents have been provided and that they are completed with the appropriate information. Where item(s) are omitted, the document requires rationale for the missing information. During the review, AHIC also examined the Compliance Checklist for any 'no' designations, and when identified, ensured an appropriate rationale was provided.

Below we provide additional detail on the methodology used to verify the IMD's compliance with the decision-making process and policies.

- Investments that were recommended together (i.e. main fund along with co-investment or side car) were typically covered by a single set of documents. Where this was the case, we marked documents for both funds as provided and complete.

- For investments which closed during Q3 and Q4 2013, which was after the EIM Policy went into effect but prior to external legal counsel being hired, the Compliance Review Form and Compliance Checklist were completed together in a single document. The single document, which includes sign-offs from both the Director of Risk Management & Asset Allocation and NCDST's internal General Counsel, satisfy the Compliance Form requirement and is considered in compliance with the EIM Policy. In other instances during this timeframe, the Compliance Checklist signed by the Director of Risk and the House Bill 56 completed by legal satisfy the Compliance Form requirement and are considered in compliance with Policy. Where these instances occurred, we marked both the Compliance Checklist and Compliance Form as provided and complete.
- Prior to the adoption of the EIM Policy, the format of the Investment Recommendation Memo (IRM) for add-ons and co-investments was an abbreviated one to two page document. Although abbreviated, these documents contained the pertinent information needed to understand the review and merits of the investment and the IMD's recommendation. Where this was the case, we marked as complete.
- When an outside consultant provided an Investment Recommendation Memo, the internal portfolio team is only required to provide a supplemental recommendation memo that covers anything missing and required per the EIM Policy. Where this is the case we marked as complete.
- Documents other than the Placement Agent Disclosure Form and Investment Recommendation Memo were marked as Not Applicable for funds that closed prior to the adoption of the EIM Policy.
- In certain circumstances, alternative means were used to satisfy the summary legal memorandum. Where this was the case, we marked the document as Not Applicable with the associated exception listed below:
 1. Exception: In certain instances, the Investment Manager Agreement was completed internally and therefore the House Bill 56 Form completed internally satisfies the external legal summary memo requirement.
 2. Exception: Previous legal review was considered grandfathered in and therefore the summary legal memorandum was not required due to either a) a legal review being completed just prior to the adoption of the EIM Policy (when the summary legal memo became required), or b) the commitment is an add-on to an existing fund and where a legal review was previously completed.
- Where AHIC could not find a document or a document was found but incomplete, NCDST was provided the opportunity to find the missing or final document.

Tables 2 - 8 reflect our findings by asset class.

Key	Explanation
✓	Document provided and complete
✓	Document provided but incomplete (i.e. missing signature)
N/A	Not Applicable due to effective date (N/A) or to exception referenced above [N/A(#)]
X	Document missing

Table 2: Long Only Public Equity Results

Long Only Public Equity Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
Piedmont R200 Passive	✓	✓	✓	✓	✓	N/A(1)	✓
BlackRock R1000 Passive	X	✓	✓	X	✓	N/A(1)	✓
Leading Edge	N/A	✓	✓	N/A	N/A	N/A	N/A
BlackRock Mid Cap Passive	✓	✓	✓	✓	✓	N/A(1)	✓
BlackRock EAFE LCG	✓	✓	✓	✓	✓	N/A(1)	✓
FIS	N/A	✓	✓	N/A	N/A	N/A	✓
Wasatch EM Small Cap ¹	✓	✓	✓	N/A	✓	N/A(2)	✓
ValueAct Capital Partners (Long Only for NCRS)	✓	✓	✓	✓	✓	✓	✓

¹ Funded in 1Q 2015; however, approved in 2013 before the EIM Policy went into effect and therefore consider the unsigned IRM satisfactory and the compliance checklist not required.

Table 3: Hedged Equity Results

Hedged Equity Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
Old North State Hedged Equity Fund 1 (Blackrock)	✓	✓	✓	✓	✓	✓	✓
Old North State Hedged Equity MEN (Menta)	✓	✓	✓	✓	✓	✓	✓
Old North State Hedged Equity MWT (Marshall Wace)	✓	✓	✓	✓	✓	✓	✓
Effissimo ECM Master Fund Unit	✓	✓	✓	✓	✓	✓	✓
Effissimo ECM Bespoke (Series F)	✓	✓	✓	✓	✓	✓	✓

Table 4: Real Estate Results

Real Estate Results							
Fund Name	Numbers Refer to Documents in Table 1						
	1	2	3	4	5	6	7
Crow CHRP VI	N/A	✓	✓	N/A	N/A	N/A	N/A
Meadow RE II	N/A	✓	✓	N/A	N/A	✓	N/A
Blackstone – Edens	✓	✓	✓	✓	✓	✓	✓
M&G RE Debt III	✓	✓	✓	✓	✓	✓	✓
KTR III	N/A	✓	✓	N/A	N/A	✓	N/A
DRA GIF VIII	✓	✓	✓	✓	✓	✓	✓
Blackstone Europe IV	✓	✓	✓	✓	✓	✓	✓
Harrison HSREP IV	NA	✓	✓	NA	NA	✓	NA
AG Net Lease III	✓	✓	✓	✓	✓	✓	✓
Rockpoint NYC CIP	NA	✓	✓	NA	NA	✓	NA
Rockpoint Core Plus I	✓	✓	✓	✓	✓	✓	✓
Rockpoint Core Plus I-A	✓	✓	✓	✓	✓	✓	✓
Meadow Core Plus	✓	✓	✓	✓	✓	✓	✓
Blackstone Property Partners	✓	✓	✓	✓	✓	✓	✓
Blackstone NC Property Partners	✓	✓	✓	✓	✓	✓	✓
Lasalle RE Debt II	✓	✓	✓	✓	✓	✓	✓
Frogmore FREP III	✓	✓	✓	✓	✓	✓	✓
Meadow RE III	✓	✓	✓	✓	✓	✓	✓
Harrison St. V	✓	✓	✓	✓	✓	✓	✓
Harrison St. V Co-Invest	✓	✓	✓	✓	✓	✓	✓
Rockpoint V	✓	✓	✓	✓	✓	✓	✓
Rockpoint V Co-Invest	✓	✓	✓	✓	✓	✓	✓
NorthRock III (Core)	✓	✓	✓	✓	✓	✓	✓
Meadow Core Plus II	✓	✓	✓	✓	✓	✓	✓
NorthRock Core IV	✓	✓	✓	✓	✓	✓	✓
LBA Industrial Core	✓	✓	✓	✓	✓	✓	✓

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Real Estate Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
Mesa West Core Debt	✓	✓	✓	✓	✓	✓	✓
BlackRock REIT Index	✓	✓	✓	✓	✓	N/A(1)	✓
Rockpoint G&I II	✓	✓	✓	✓	✓	✓	✓
Rockpoint G&I II Sidecar	✓	✓	✓	✓	✓	✓	✓
NorthRock III	✓	✓	✓	✓	✓	✓	✓
Blackstone VIII	✓	✓	✓	✓	✓	✓	✓
Rockwood X	✓	✓	✓	✓	✓	✓	✓
Rockwood X Co-Invest	✓	✓	✓	✓	✓	✓	✓
Rockwood IX Co-Invest	✓	✓	✓	✓	✓	✓	✓
Rockpoint V Co-Invest Add-on	✓	✓	✓	✓	✓	N/A(2)	✓
Crow VII	✓	✓	✓	✓	✓	✓	✓
Rockwood Development Partners	✓	✓	✓	✓	✓	✓	✓
Meadow IV	✓	✓	✓	✓	✓	✓	✓
Blackstone Europe V	✓	✓	✓	✓	✓	✓	✓
Harrison Street VI	✓	✓	✓	✓	✓	✓	✓
Harrison Street VI Co-invest	✓	✓	✓	✓	✓	✓	✓
Crow Retail II	✓	✓	✓	✓	✓	✓	✓
Mesa West Real Estate Income Fund III LP	N/A	✓	✓	N/A	N/A	✓	N/A

Table 5: Private Equity Results

Private Equity Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
Catterton Partners VII, L.P.	N/A	✓	✓	N/A	N/A	✓	N/A
Milestone Partners IV, L.P.	N/A	✓	✓	N/A	N/A	N/A	N/A
Hg Capital 7	N/A	✓	✓	N/A	N/A	✓	N/A
Marlin Equity IV	N/A	✓	✓	N/A	N/A	✓	N/A
Levine Leichtman Capital Partners V	N/A	✓	✓	N/A	N/A	N/A	N/A
Warburg Pincus Private Equity XI, L.P.	✓	✓	✓	✓	✓	✓	N/A
CVC Capital Partners VI, L.P.	✓	✓	✓ ²	✓	✓	N/A(2)	N/A
Avista Capital Partners III, L.P.	✓	✓	✓ ²	✓	✓	✓	N/A
Catterton Growth Partners II, L.P.	N/A	✓	✓	✓	N/A	✓	N/A
GCM Grosvenor - NC Innovation Fund 2013-1	N/A	✓	N/A	N/A	N/A	N/A(2)	N/A
Apollo Investment Fund VIII, L.P.	✓	✓	✓	✓	✓	✓	✓
TCV VIII, L.P.	✓	✓	✓	✓	✓	✓	✓
Crestview Capital Partners III, L.P.	✓	✓	✓	✓	✓	✓	✓
Lexington Middle Market Investors III, L.P.	✓	✓	✓	✓	✓	✓	✓
ARCH Venture Fund VIII, L.P.	✓	✓	✓	✓	✓	✓	✓
Tenaya Capital Fund VII, L.P.	✓	✓	✓	✓	✓	✓	✓
Francisco Partners IV, L.P.	✓	✓	✓	✓	✓	✓	✓
Landmark Equity Partners XV, L.P.	✓	✓	✓	✓	✓	✓	✓
NEA 15, L.P.	✓	✓	✓	✓	✓	✓	✓
NEA 15 Opportunity Fund, L.P.	✓	✓	✓	✓	✓	✓	✓
GCM Grosvenor - NC Innovation Fund II	✓	✓	✓	✓	✓	✓	✓
Northbound NCRS Fund, L.P.	✓	✓	✓	✓	✓	✓	✓
MHR Institutional Partners IV, L.P.	✓	✓	✓	✓	✓	✓	✓
Charterhouse Capital Partners X, L.P.	✓	✓	✓	✓	✓	✓	✓
Warburg Pincus Private Equity XII, L.P.	✓	✓	✓	✓	✓	✓	✓

² Missing signatures - funded just after Policy went into effect requiring signatures (July 2013). IRMs are complete with required detail and support for investments.

Private Equity Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
L Catterton Growth Partners III, L.P.	✓	✓	✓	✓	✓	✓	✓
Harvest Partners VII, L.P.	✓	✓	✓	✓	✓	✓	✓
ARCH Venture Fund IX	✓	✓	✓	✓	✓	✓	✓
Thoma Bravo XII	✓	✓	✓	✓	✓	✓	✓
TCV IX, L.P.	✓	✓	✓	✓	✓	✓	✓
Blackstone Core Equity Partners	✓	✓	✓	✓	✓	✓	✓
Carousel Capital Partners IV LP	N/A	✓	✓	N/A	N/A	✓	N/A
Francisco Partners Agility	✓	✓	✓	✓	✓	✓	✓
Trident Capital VII	✓	✓	✓	✓	✓	✓	✓

Table 6: Inflation Sensitive Results

Inflation Sensitive							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
ArcLight Shore Co-Investments Holdings II, LLC	✓	✓	✓	✓	✓	✓	✓
Blackstone Energy Partners, LP	N/A	✓	✓	N/A	N/A	✓	N/A
Blackstone Energy Partners II, L.P.	✓	✓	✓	✓	✓	✓	✓
DCPF VI Oil and Gas Co-Inv Fund	✓	✓	✓	✓	✓	N/A(2)	N/A
EnCap Energy Capital Fund X, L.P.	✓	✓	✓	✓	✓	✓	✓
Energy Capital Partners III, LP	✓	✓	✓	✓	✓	✓	✓
Intervale Capital II, LP	✓	✓	✓	N/A	✓	✓	✓
Intervale Capital III, LP	✓	✓	✓	✓	✓	✓	✓
Lindsay Goldberg III - Formation Energy L.P.	N/A	✓	✓	N/A	N/A	N/A	N/A
Brookfield Infrastructure Fund II-B, L.P.	✓	✓	✓	✓	✓	✓	✓
IFM Global Infrastructure Fund, L.P.	✓	✓	✓	✓	✓	✓	✓
Blackstone Granite Fund - Class D - Bayview	✓	✓	✓	✓	✓	✓	✓
Blackstone SP NCRASMA (Overage)	✓	✓	✓	✓	✓	✓	✓
Blackstone SP NCRASMA	✓	✓	✓	✓	✓	✓	✓
Landmark Real Estate Partners VII, L.P.	✓	✓	✓	✓	✓	✓	✓
Landmark Real Asset SMA, L.P.	✓	✓	✓	✓	✓	✓	✓
North Star Investment Holdings LLC ³	N/A	✓	✓	N/A	✓	✓	N/A
North Star Investment Co-Invest ⁴	✓	✓	✓	N/A	✓	✓	N/A
Varde Fund XI, L.P.	✓	✓	✓	✓	✓	✓	✓
EIG Energy Fund XVI, L.P.	✓	✓	✓	✓	✓	N/A(2)	N/A
GSO Bakken Holdings I LP	N/A	✓	✓	N/A	N/A	N/A	N/A
GSO Energy Partners - B LP	✓	✓	✓	✓	✓	N/A(2)	✓
GSO Foreland Resources Co-Invest LP	N/A	✓	✓	N/A	N/A	N/A	N/A
Jade Real Assets Fund, L.P.	✓	✓	✓	✓	✓	✓	✓

³ Closed in 4Q 2012 prior to adoption of EIM Policy; however, compliance form and summary legal memo completed in 2014 during a reallocation of assets.

⁴ Closed in 1Q 2013 prior to adoption of EIM Policy; however, conflict of interest, compliance form and summary legal memo completed in 2014 during a reallocation of assets.

Inflation Sensitive							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
MTP Energy Opportunities Fund LP	N/A	✓	✓	N/A	N/A	N/A	N/A
MTP Energy Opportunities Fund II LLC	✓	✓	✓	✓	✓	✓	✓
Orion Mine Finance Fund I-A	✓	✓	✓	✓	✓	✓	✓
MTP Energy Fund LP	✓	✓	✓	N/A	N/A	N/A	X
BlackRock TIPS Index	✓	✓	✓	✓	✓	N/A(1)	✓
DL Blue Diamond Fund	✓	✓	✓	✓	✓	✓	✓
Blackstone Granite Fund - Class B - Commodity Pod	✓	✓	✓	✓	✓	✓	✓
Blackstone Granite Fund - Class C - Opportunistic Commodity	✓	✓	✓	✓	✓	✓	✓
Blackrock Garnet	✓	✓	✓	✓	✓	✓	✓
Blackstone Strategic Partners VII	✓	✓	✓	✓	✓	✓	✓

Table 7: Opportunistic Fixed Income Results

Opportunistic Fixed Income Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
Centerbridge Specialty Credit III - Main Fund	✓	✓	✓	✓	✓	✓	✓
Centerbridge Specialty Credit III - Flex Fund	✓	✓	✓	✓	✓	✓	✓
CVI Credit Value Fund II	N/A	✓	✓	N/A	N/A	N/A	N/A
CVI Credit Value Fund III	✓	✓	✓	✓	✓	✓	✓
AG Pisgah, L.P.	✓	✓	✓	✓	✓	✓	✓
Benefit Street Partners Capital Opportunity Fund, L.P.	✓	✓	✓	✓	✓	✓	✓
Brightwood Capital Fund III, L.P.	✓	✓	✓	✓	✓	✓	✓
GSO Capital Solutions Fund II, L.P.	✓	✓	✓	✓	✓	✓	N/A
Highbridge Irish Specialty Loan Fund III plc	N/A	✓	✓	N/A	N/A	N/A	N/A
Magnetar Constellation Fund IV LLC	N/A	✓	✓	N/A	N/A	N/A	N/A
MCP Private Capital Fund II	✓	✓	✓	✓	✓	✓	✓
Providence Debt Fund III, L.P.	✓	✓	✓	✓	✓	✓	✓
Claren Road Credit Opportunities Partners, L.P.	✓	✓	✓	✓	✓	✓	✓
Marathon Currituck Fund, LP - Series A	✓	✓	✓	✓	✓	✓	✓
Marathon Currituck Fund, LP - Series C	✓	✓	✓	✓	✓	✓	✓
Marathon Currituck Fund, LP - Series D	✓	✓	✓	N/A ⁵	✓	✓	✓

Table 8: Multi-Strategy Results

Multi-Strategy Results							
	Numbers Refer to Documents in Table 1						
Fund Name	1	2	3	4	5	6	7
AG Cataloochee	✓	✓	✓	✓	✓	✓	✓

⁵ Add-on to existing LLC with same master agreement and vehicle structure applied, and where the entire compliance process was completed multiple times previously.

Conclusion

The IMD has been diligent in preparation of the required documents during the decision-making process as set forth by the NCDST. Given consideration to the number of investment recommendations and manager contracts in which the IMD engaged in during the review period, we commend the level of organization and completeness surrounding the documentation of the decision-making process and compliance with the EIM Policy. Below we provide a summary of our key findings and suggestions.

Summary of Key Findings:

- Overall, the IMD has been in compliance with the EIM Policy in preparation and completeness of the required documents as set forth in the EIM Policy and in compliance with the investment decision-making process prior to the adoption of the EIM Policy, as understood from discussions with NCDST.
- One out of 142 funds is missing documentation.
- Nine documents provided are incomplete. It is possible final documentation is complete and may have been misplaced or saved incorrectly, and therefore difficult to locate.
 - Three incomplete documents were identified in the private equity and in the long only public equity asset classes, two were identified within real estate, and one within inflation sensitive.
- AHIC suggests the following minor enhancements to the record-keeping process:
 - Utilize a consistent fund name across documents
 - List all fund names on documents that cover more than one fund – typically seen when funds are recommended together
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FEE REVIEW

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North Carolina Department and State Treasurer / Decision-Making Compliance and Fee Review

II. FEE REVIEW

AHIC reviewed the fees of each of the investment managers in the Review Universe against industry averages/standards. We used a holistic approach in making our assessments regarding fees. We relied on our empirical experience supported by third party industry data.

Similarly to the Compliance Review, we received all of the fee and term information from the IMD. In addition, AHIC selected 23 investment funds at random across the 7 strategies, which represents approximately 15% of the funds in the Review Universe. For these 23 funds, AHIC obtained the limited partnership agreements and other relevant legal documents and verified the accuracy of the fees and terms provided by the IMD. We did not find any significant discrepancies through this verification process. We identified for NCDST the source documents utilized for the 23 spot check funds that were selected.

Our assessment included identifying the terms that are below market, at market, and above market for each investment. We found significantly more terms that are below market than there are above market.

FINDINGS

1. Long Only Public Equity

There were 7 long only public equity investments in the Review Universe. When compared to the median universe fees, we found that the fees for all but two of the global equity investments were lower than the median. The two exceptions were the two emerging manager portfolios managed by Leading Edge and FIS. These two strategies are “manager-of-manager” programs that given the double layer of fees, tend to have higher than market average fees.

2. Hedged Equity

There were 6 hedged equity investments in the Review Universe. We found that all manager fees for the hedged equity managers to be reasonable and notably we found that four funds had better than market terms.

3. Real Estate

There were 50 real estate investments in the Review Universe. Overall, the fees for all of the real estate investments made during the Review Period were either better than or at market terms. A significant number of the funds in the real estate asset class were found to have all or some elements of their fees and terms at below market levels for a particular strategy and fund type indicating strong negotiating ability of the IMD staff. We found that out of the 50 funds we reviewed, 37 of them had below market terms for either all or some of the fee components. We found elements of the fees for 15 investments to be slightly higher than market (typically only one component that is offset by other terms that are lower than market).

4. Private Equity

There were 34 private equity investments in the Review Universe. A significant number of funds in the private equity asset class were found to have all or some elements of their fees and terms at below market levels for a particular strategy and fund type indicating strong negotiating ability of the IMD staff. We found that out of the 34 funds we reviewed, 24 of them had below market terms for either all or some of the fee components. We found elements of the fees for 7 investments to be slightly higher than market (typically only one component that is offset by other terms that are lower than market).

5. Inflation Sensitive

There were 36 inflation sensitive investments in the Review Universe. A significant number of funds in the inflation sensitive asset class were found to have all or some elements of their fees and terms at below market levels for a particular strategy and fund type indicating strong negotiating ability of the IMD staff. We found that out of the 36 funds we reviewed, 25 of them had below market terms for either all or some of the fee components. We found elements of the fees for 10 investments to be slightly higher than market (typically only one component that is offset by other terms that are lower than market).

6. Opportunistic Fixed Income

There were 16 opportunistic fixed income investments in the Review Universe. Overall, we found the fees for the opportunistic fixed income investments to be reasonable. Notably, 11 of the 16 investments in opportunistic fixed income had all or some elements of the fees and terms at below market levels. We found elements of the fees for 4 investments to be slightly higher than market (typically only one component that is offset by other terms that are lower than market).

7. Multi-Strategy

There was one multi-strategy fund in the Review Universe. The hurdle rate and management fees for the multi-strategy fund investment were found to be below market.

CONCLUSIONS

The IMD staff has done an excellent job of negotiating fees. Fees for many managers are below the industry average and overall no fee was unreasonable in the aggregate.

RECOMMENDATIONS

None

APPENDIX

III. APPENDIX: Review Universe

The review universe consists of 142 investments made between July 1, 2012 and October 20, 2016

The table below is a reproduction of the document provided by the IMD.

Long Only Public Equity	
1	Piedmont R200 Passive
2	BlackRock R1000 Passive
3	Leading Edge
4	BlackRock Mid Cap Passive
5	BlackRock EAFE LCG
6	FIS
7	Wasatch EM Small Cap
8	ValueAct Capital Partners (Long Only for NCRS)
Hedged Equity	
1	Old North State Hedged Equity Fund 1 (Blackrock)
2	Old North State Hedged Equity MEN (Menta)
3	Old North State Hedged Equity MWT (Marshall Wace)
4	Effissimo ECM Master Fund Unit
5	Effissimo ECM Bespoke (Series F)
Real Estate	
1	Crow CHRP VI
2	Meadow RE II
3	Blackstone - Edens

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4	M&G RE Debt III
5	KTR III
6	DRA GIF VIII
7	Blackstone Europe IV
8	Harrison HSREP IV
9	AG Net Lease III
10	Rockpoint NYC CIP
11	Rockpoint Core Plus I
12	Rockpoint Core Plus I-A
13	Meadow Core Plus
14	Blackstone Property Partners
15	Blackstone NC Property Partners
16	Lasalle RE Debt II
17	Frogmore FREP III
18	Meadow RE III
19	Harrison St. V
20	Harrison St. V Co-Invest
21	Rockpoint V
22	Rockpoint V Co-Invest
23	NorthRock III (Core)
24	Meadow Core Plus II
25	NorthRock Core IV
26	LBA Industrial Core
27	Mesa West Core Debt
28	BlackRock REIT Index
29	Rockpoint G&I II
30	Rockpoint G&I II Sidecar

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31	NorthRock III
32	Blackstone VIII
33	Rockwood X
34	Rockwood X Co-Invest
35	Rockwood IX Co-Invest
36	Rockpoint V Co-Invest Add-on
37	Crow VII
38	Rockwood Development Partners
39	Meadow IV
40	Blackstone Europe V
41	Harrison Street VI
42	Harrison Street VI Co-invest
43	Crow Retail II
44	Mesa West Income III
	Private Equity
1	Catterton Partners VII, L.P.
2	Milestone Partners IV, L.P.
3	Hg Capital 7
4	Marlin Equity IV
5	Levine Leichtman Capital Partners V
6	Warburg Pincus Private Equity XI, L.P.
7	CVC Capital Partners VI, L.P.
8	Avista Capital Partners III, L.P.
9	Catterton Growth Partners II, L.P.
10	GCM Grosvenor - NC Innovation Fund 2013-1
11	Apollo Investment Fund VIII, L.P.
12	TCV VIII, L.P.

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13	Crestview Capital Partners III, L.P.
14	Lexington Middle Market Investors III, L.P.
15	ARCH Venture Fund VIII, L.P.
16	Tenaya Capital Fund VII, L.P.
17	Francisco Partners IV, L.P.
18	Landmark Equity Partners XV, L.P.
19	NEA 15, L.P.
20	NEA 15 Opportunity Fund, L.P.
21	GCM Grosvenor - NC Innovation Fund II
22	Northbound NCRS Fund, L.P.
23	MHR Institutional Partners IV, L.P.
24	Charterhouse Capital Partners X, L.P.
25	Warburg Pincus Private Equity XII, L.P.
26	L Catterton Growth Partners III, L.P.
27	Harvest Partners VII, L.P.
28	ARCH Venture Fund IX
29	Thoma Bravo XII
30	TCV IX, L.P.
31	Blackstone Core Equity Partners
32	Carousel Capital Partners IV LP
33	Francisco Partners Agility
34	Trident Capital VII
	Inflation Sensitive
1	ArcLight Shore Co-Investments Holdings II, LLC
2	Blackstone Energy Partners, LP
3	Blackstone Energy Partners II, L.P.
4	DCPF VI Oil and Gas Co-Inv Fund

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5	EnCap Energy Capital Fund X, L.P.
6	Energy Capital Partners III, LP
7	Intervale Capital II, LP
8	Intervale Capital III, LP
9	Lindsay Goldberg III - Formation Energy L.P.
10	Brookfield Infrastructure Fund II-B, L.P.
11	IFM Global Infrastructure Fund, L.P.
12	Blackstone Granite Fund - Class D - Bayview
13	Blackstone SP NCRASMA (Overage)
14	Blackstone SP NCRASMA
15	Landmark Real Estate Partners VII, L.P.
16	Landmark Real Asset SMA, L.P.
17	North Star Investment Holdings LLC
18	North Star Investment Co-Invest
19	Varde Fund XI, L.P.
20	EIG Energy Fund XVI, L.P.
21	GSO Bakken Holdings I LP
22	GSO Energy Partners - B LP
23	GSO Foreland Resources Co-Invest LP
24	Jade Real Assets Fund, L.P.
25	MTP Energy Opportunities Fund LP
26	MTP Energy Opportunities Fund II LLC
27	Orion Mine Finance Fund I-A
28	MTP Energy Fund LP
29	BlackRock TIPS Index
30	DL Blue Diamond Fund
31	Blackstone Granite Fund - Class B - Commodity Pod

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32	Blackstone Granite Fund - Class C - Opportunistic Commodity
33	BlackRock Garnet
34	Blackstone Strategic Partners VII
	Opportunistic Fixed Income
1	Centerbridge Specialty Credit III - Main Fund
2	Centerbridge Specialty Credit III - Flex Fund
3	CVI Credit Value Fund II
4	CVI Credit Value Fund III
5	AG Pisgah, L.P.
6	Benefit Street Partners Capital Opportunity Fund, L.P.
7	Brightwood Capital Fund III, L.P.
8	GSO Capital Solutions Fund II, L.P.
9	Highbridge Irish Specialty Loan Fund III plc
10	Magnetar Constellation Fund IV LLC
11	MCP Private Capital Fund II
12	Providence Debt Fund III, L.P.
13	Claren Road Credit Opportunities Partners, L.P.
14	Marathon Currituck Fund, LP - Series A
15	Marathon Currituck Fund, LP - Series C
16	Marathon Currituck Fund, LP - Series D
	Multi-Strategy
1	AG Cataloochee

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