

## NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS FEE STATEMENT

### Purpose

This plan fee statement is intended to assist participants and potential participants in the North Carolina Supplemental Retirement Plans (“Plans”) – the NC 401(k) Plan, the NC 457 Plan, and the NC 403(b) Program – in understanding the costs of participating in the Plans and comparing these costs with the fees charged by other providers, including providers that use different fee structures.

### Summary

#### NC 401(k) and NC 457 Plans

| Fee Type                             | Annual Amount        | How is the Fee Charged?                                  | What Expenses Are Covered by the Fee?  |
|--------------------------------------|----------------------|--|--|
| Administrative Fee                   | 0.025% (2.5 bps)     | Included in fund’s Expense Ratio                         | Operating expenses of the Department and the Board (e.g., staff salaries, vendors) |
| Investment Management Fee            | Varies by investment | Included in fund’s Expense Ratio                         | Management of assets in a fund   |
| Trading Costs                        | Varies by investment | Reflected in fund’s net return                           | Investment manager’s costs of buying and selling investments                       |
| Custodial Fee                        | Varies by investment | Included in fund’s Expense Ratio                         | Custodial and related services   |
| Trust Expenses                       | Varies by investment | Included in fund’s Expense Ratio                         | Operational expenses of collective investment trusts                               |
| Recordkeeping and Communications Fee | \$31 per account     | Quarterly deduction. Listed on participants’ statements. | Recordkeeping and communications services of Prudential                            |

#### NC 403(b) Program

| Fee Type                             | Annual Amount          | How is the Fee Charged?                                  | What Expenses Are Covered by the Fee?   |
|--------------------------------------|------------------------|--|---|
| Administrative Fee                   | 0.05% (5 bps)          | Quarterly deduction. Listed on participants’ statements. | Operating expenses of the Department and the Board (e.g., staff salaries, vendors)  |
| Investment Management Fee            | Varies by investment   | Included in fund’s Expense Ratio                         | Management of assets in a fund  |
| Mutual Fund Expenses                 | Varies by investment   | Included in fund’s Expense Ratio                         | Operational expenses of mutual fund   |
| Recordkeeping and Communications Fee | \$31 per account       | Quarterly deduction. Listed on participants’ statements. | Recordkeeping and communications services of Prudential   |
| Third-party Administrative Fee       | Varies by plan sponsor | Quarterly deduction. Listed on participants’ statements. | Services provided by a third-party administrator retained by the school district or community college that sponsors your 403(b) plan. |

### Where Can I Get Additional Information?

- Fee Statement (below)
- [Fund fact sheets](http://www.ncplans.prudential.com) for the various funds (available on [www.ncplans.prudential.com](http://www.ncplans.prudential.com))
- [North Carolina Administrative Code](#) (20 NCAC 11 .0101 and .0102; administrative fees only)
- Participants’ quarterly statements (log in at [www.ncplans.prudential.com](http://www.ncplans.prudential.com))
- Prospectus for mutual funds in the NC 403(b) Program (available from Prudential at 877-778-2100)

## **Definitions**

**Asset-based fee.** An asset-based fee is charged as a percentage of a participant's account balance.

**Basis points (bps).** A basis point is one hundredth of a percent (0.01%).

**Collective investment trust.** A collective investment is a trust held by a bank or a trust company for the purpose of pooling and investing the assets of a qualified retirement plan (e.g., 401(k) plan) or a governmental retirement plan, not including a 403(b) plan.

**Custodian.** The custodian is the bank retained by the Board and the Department to provide custody (i.e., safekeeping) of the assets of the NC 401(k) and NC 457 Plans. The custodian also provides other services, such as fund valuation and performance reporting.

**Expense Ratio.** The Expense Ratio for a fund includes the investment management fee and, if applicable, the trust/mutual fund expenses, the custodial fee, and the administrative fee. The Expense Ratio may be approximate due to rounding.

**Flat fee.** A flat fee is a fixed fee that is charged to a participant's account regardless of the account balance.

**Fund.** An investment option in one of the Plans is referred to as a fund.

**Investment manager.** An investment manager is a firm that (1) is retained by the Board and the Department to manage all of part of the assets in a fund; or (2) manages the assets in a mutual fund selected by the Board and the Department.

**Recordkeeper.** The vendor retained by the Board and the Department to provide recordkeeping and communications services for the Plans, including maintaining participants' accounts and providing account statements to participants.

## **Fee Administration**

The Plans are jointly administered by the North Carolina Supplemental Retirement Board of Trustees (the "Board") and the North Carolina Department of State Treasurer (the "Department"). All expenses are borne by participants in the Plans. The Plans do not receive funding from the state or from participating state and local governmental employers.

The custodian, recordkeeper, auditor, and investment consultant are selected pursuant to a periodic formal process for soliciting bids or proposals (known as a request for proposals (RFP) or an invitation to bid (ITB)). Investment managers are selected pursuant to the [Policy and Procedures for Investment Transactions and Investment Manager Selection](#) and with the assistance of the investment consultant. Whenever possible, staff seeks "relationship pricing" from vendors who provide services for the Retirement Systems (the defined benefit plans administered by the Department) in addition to the Supplemental Retirement Plans.

A study is conducted biannually to review the fees in the NC 401(k) and NC 457 Plans, including benchmarking against a peer universe. The most recent report is available in the "Governing Documents" section of [www.myncretirement.com/supplemental-retirement-board-trustees-meeting](http://www.myncretirement.com/supplemental-retirement-board-trustees-meeting).

In addition, investment management fees are reviewed quarterly by Departmental staff and the Board.

The Plans do not utilize revenue-sharing arrangements, which involve using payments from investment options to offset a plan's administrative fees.

### **Types of Fees and Other Expenses**

**Administrative fee.** The administrative fees are asset-based fees that serve as the sole source of funding for the expenses of the Board and the Department in administering the Plans. For the NC 401(k) and NC 457 Plans, the annual fee is 0.025% (or 2.5 bps) of the total assets in each account. The annual fee for the NC 403(b) Program is 0.05% (or 5.0 bps). The fee is accrued daily and transferred quarterly from participants' accounts. In the NC 401(k) and NC 457 Plans, the administrative fee is included in a fund's Expense Ratio. In the NC 403(b) Program, the fee is listed as third-party expenses on a participant's quarterly statement. The administrative rules for each fee can be found in the NC Administrative Code, Title 20, Chapter [11.0101](#) and [11.0102](#)

**Trust/Mutual fund expenses.** Administrative and other expenses are asset-based fees charged by collective funds – such as the mutual funds in the NC 403(b) Program and the collective investment trusts in some of the funds in the NC 401(k) and NC 457 Plans. These expenses, which vary by fund, are included in a fund's Expense Ratio, which is available in the [fund fact sheets](#) on [www.ncplans.prudential.com](http://www.ncplans.prudential.com). A fund's Expense Ratio is accrued daily and transferred quarterly from participants' accounts.

**Custodial fee.** The custodial fee covers the costs charged by the custodial bank to hold (or provide custody of) the NC 401(k) and NC 457 Plans' assets and to provide related services, such as fund valuation and performance reporting. The fee, which varies by fund, is reported as an asset-based fee for each fund and is included in a fund's Expense Ratio, which is available in the [fund fact sheets](#) on [www.ncplans.prudential.com](http://www.ncplans.prudential.com). A fund's Expense Ratio is accrued daily and transferred quarterly from participants' accounts.

**Investment management fee.** The investment management fee, which varies by fund, is an asset-based fee that covers the management of the assets in each of the Plans' investment funds. The investment management fee is included in a fund's Expense Ratio, which is available in the [fund fact sheets](#) on [www.ncplans.prudential.com](http://www.ncplans.prudential.com). A fund's Expense Ratio is accrued daily and transferred quarterly from participants' accounts. There is no additional fee associated with the Plans' optional asset allocation service, GoalMaker.

**Recordkeeping and communications fee.** Each account in the Plans is charged a flat fee of \$31 per year to cover recordkeeping and communications services provided by the recordkeeper. This fee is deducted in quarterly installments directly from the participant's account balance and is reported in a participant's quarterly account statement.

**Third-party administrative fee.** A participant in the NC 403(b) Program may be charged an administrative fee if the school district or community college that sponsors the 403(b) plan uses a third-party administrator to provide certain services. This fee is not charged by the Board or the Department; instead, it is the responsibility of the school district or community college that sponsors the 403(b) plan. This fee is listed as third-party expenses on a participant's quarterly statement. This fee does not apply to the NC 401(k) and NC 457 Plans.

Trading costs. Trading costs are incurred by an investment manager as part of buying and selling investments. These costs are subtracted from (and therefore reflected in) an investment's return, instead of being reported separately (e.g., in a fund's Expense Ratio).

Processing fees. Processing fees are flat fees that are charged to participants for certain optional transactions, such as loan origination, transfer benefit, and express mail, that are requested by participants. Fees for the most popular transactions are listed in Appendix 1.

## **Appendix 1 – Processing Fees for Certain Optional Participant Transactions**

Express mail: \$25

Loan origination: \$60

Loan conversion fee: \$100 (To establish loan repayments other than by payroll deduction)

Transfer benefit. \$100

## Appendix 2 – Cost Calculation Example

The example assumes that the participant invests equal amounts in two funds in the NC 401(k) or NC 457 Plan and that the amounts invested do not change during the year. Specifically, in the example, \$10,000, \$40,000 and \$100,000 are divided equally between the NC Large Cap Core Fund and the NC Inflation Responsive Fund. The example does not include any processing fees for optional transactions, such as loans and express mail. The fees are on an annual basis as of March 31, 2019 and are subject to change.

| <u>Fee Type</u>  |  | <u>Fee Amount</u> | <u>Fee for Investment Amount</u> |                 |                  |
|--|--|-------------------|----------------------------------|-----------------|------------------|
|  |  |                   | <u>\$10,000</u>                  | <u>\$40,000</u> | <u>\$100,000</u> |
| Investment management fee (a)                            |  | 0.28%             | \$14.00                          | \$56.00         | \$140.00         |
| + Custodial fee and trust expenses (if appl.) (b)        |  | 0.015%            | \$0.75                           | \$3.00          | \$7.50           |
| + Administrative fee (c)*                                |  | 0.025%            | \$1.25                           | \$5.00          | \$12.50          |
| (1) Expense Ratio: NC Large Cap Core Fund (=a+b+c)       |  | 0.32%             | \$16.00                          | \$64.00         | \$160.00         |
| <b>NC Inflation Responsive Fund</b>                      |  |                   |                                  |                 |                  |
| Investment management fee (a)                            |  | 0.090%            | \$4.50                           | \$18.00         | \$45.00          |
| + Custodial fee and trust expenses (if appl.) (b)        |  | 0.015%            | \$0.75                           | \$3.00          | \$7.50           |
| + Administrative fee (c)*                                |  | 0.025%            | \$1.25                           | \$5.00          | \$12.50          |
| (2) Expense Ratio: NC Inflation Responsive Fund (=a+b+c) |  | 0.13%             | \$6.50                           | \$26.00         | \$65.00          |
| (3) Recordkeeping and communications fee                 |  | \$31.00           | \$31.00                          | \$31.00         | \$31.00          |
| <b>TOTAL</b>   |  |                   |                                  |                 |                  |
| Annual fee in dollars (=1+2+3)                           |  |                   | \$53.50                          | \$121.00        | \$256.00         |
| Annual fee as a percentage of assets                     |  |                   | 0.54%                            | 0.30%           | 0.26%            |

| <u>*Administrative Fee Waived for 2019</u> |  | <u>Fee Amount</u> | <u>Fee for Investment Amount</u> |                 |                  |
|--|--|-------------------|----------------------------------|-----------------|------------------|
|  |  |                   | <u>\$10,000</u>                  | <u>\$40,000</u> | <u>\$100,000</u> |
| Administrative fee                         |  | 0.025%            | \$2.50                           | \$10.00         | \$25.00          |

| <u>Total Fee without Administrative Fee</u> |                                      | <u>Fee for Investment Amount</u> |                 |                  |
|---|--------------------------------------|----------------------------------|-----------------|------------------|
|   |                                      | <u>\$10,000</u>                  | <u>\$40,000</u> | <u>\$100,000</u> |
| <b>TOTAL</b>                                | Annual fee in dollars                | \$51.00                          | \$111.00        | \$231.00         |
|   | Annual fee as a percentage of assets | 0.51%                            | 0.28%           | 0.23%            |