

**APPENDIX B: SIMILARITIES IN REPORTS PREPARED BY BENCHMARK FINANCIAL SERVICES
ON NC PENSION FUND AND RI PENSION FUND**

Below are several instances of similarities between the Benchmark Financial Services reports of the pension funds in North Carolina and Rhode Island.

Corresponding text

Similarity #	NC report pages	RI report pages
1)	16	13-14
2)	33-34	28-29
3)	68-69	52-53
4)	76-79	57-61
5)	79-80	61-62
6)	81	56
7)	82	56
8)	87-89	36-39
9)	114-115	87-88
10)	117-118	89-90

Examples

NC page 16 vs. RI pages 13-14

North Carolina	Rhode Island
<p>“The identity of any mystery investors that may be permitted by managers to profit at TSERS’ expense, as well as any relationships between these investors, the Treasurer or other public officials, should be investigated fully by law enforcement and the SEC.” (NC p. 16)</p>	<p>“Finally, the identity of any mystery investors that may be permitted by managers to profit at ERSRI’s expense, as well as any relationships between these investors, the Treasurer or other public officials, should be investigated fully by law enforcement and securities regulators....” (RI p. 14)</p>
<p>“...investors must agree to permit the investment managers to retain absolute discretion to provide certain mystery investors, i.e., industry insiders, with greater information and the managers are not required to disclose such arrangements to TSERS.” (NC p. 16)</p>	<p>“...ERSRI agrees to permit the hedge fund managers to retain absolute discretion to provide certain mystery investors with greater information about investment strategies and portfolio holdings and the managers are not required to disclose such arrangements to ERSRI. ” (RI p. 13)</p>

North Carolina	Rhode Island
<p>“... Viewed from a regulatory and public policy perspective, the Treasurer’s practice of withholding relevant information and intentionally providing incomplete or inaccurate disclosures regarding TSERS investments results in: (1) concealing potential violations of state and federal laws, such as those detailed throughout this report; (2) misleading the public as to fundamental investment matters, such as the true costs, risks, practices and investment performance related to hedge, private equity, venture and real estate alternative investment funds; (3) understating the costs and risks related to TSERS investments specifically; (4) misrepresenting the investment performance and financial condition of the state pension to investors in state obligations.</p>	<p>“Most disturbing, from a regulatory and public policy perspective, is that the General Treasurer’s practice of withholding relevant information and intentionally providing incomplete disclosures regarding ERSRI’s investments results in: (1) misleading the public as to fundamental investment matters, such as the true costs and risks related to investing in hedge, private equity, and venture capital funds; (2) understating the investment expenses and risks related to ERSRI, even as she and her office publicize data to support her contention that ERSRI cannot afford to pay certain benefits to participants; and (3) misrepresenting the financial condition of the state of Rhode Island to investors in state obligations.</p>
<p>“As stated on the website of the United States Securities and Exchange Commission (‘SEC’):</p>	<p>“As stated on the website of the United States Securities and Exchange Commission (‘SEC’):</p>
<p>“The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it. To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions.’</p>	<p>“The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it. To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions.’</p>
<p>“On the other hand, when state officials and pension funds, such as the Treasurer and TSERS, intentionally withhold or misrepresent basic facts regarding investments material to evaluating investments, the pool of knowledge all investors can rely upon becomes contaminated.</p>	<p>“On the other hand, when state officials and pension funds, such as the Treasurer and ERSRI, intentionally withhold or misrepresent basic facts regarding investments material to investment decision-making, the pool of knowledge all investors can rely upon becomes contaminated.</p>
<p>“In our opinion, there is simply no reason participants in TSERS, who rely upon the investment decisions made by the Treasurer for their retirement security, and other stakeholders, should be provided with unreliable investment</p>	<p>“In our opinion, there is simply no reason participants in the ERSRI, who rely upon the investment decisions made by the Fund for their retirement security, should be provided with less information, afforded less protection under the</p>

<p>information—afforded less protection under the state and federal securities laws—than investors in shares of public companies and mutual funds.” (NC pp. 33-34)</p>	<p>federal securities laws, than investors who are members of the general public.” (RI pp. 28-29)</p>
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NC pages 68-69 vs. RI pages 52-53

North Carolina	Rhode Island
<p>“...Indeed, possibly the world’s greatest investor, the Oracle of Omaha, Warren Buffet, six years ago wagered \$1 million that hedge funds would not beat the S&P 500 over the next ten years. At this point Buffet is still handily winning.</p>	<p>“...Indeed, possibly the world’s greatest investor, the Oracle of Omaha, Warren Buffet, five years ago wagered \$1 million that hedge funds would not beat the S&P 500 over the next ten years. At this point Buffet is still handily winning, as hedge funds returned an average of 5.5 percent in 2012 versus the almost 16 percent S&P gain.</p>
<p>“The North Carolina state pension is not.</p>	
<p>“Bloomberg Businessweek’s provocative cover story “Hedge Funds Are for Suckers,” on July 11, 2013, discussed reversals of fortunes involving many leading hedge fund managers. Further, the magazine noted that eight of the last 10 years simple, low-cost index funds have outperformed hedge funds.</p>	<p>“Bloomberg Businessweek’s provocative cover story ‘Hedge Funds Are for Suckers,’ on July 11, 2013 discussed reversals of fortunes involving many leading hedge fund managers. Further, the magazine noted that 8 of the last 10 years simple, low-cost index funds have outperformed hedge funds.</p>
<p>“According to the authors of a recent Maryland and 49 Other States study of state pensions:</p>	<p>“According to the authors of the Maryland Study cited earlier regarding state pensions:</p>
<p>“To try and compensate for the fact that ‘beating the market’ is difficult with publicly-traded securities, many public pension funds have increased their exposure to alternative investment managers, who claim a ‘secret sauce’ that allows them to beat the public markets consistently. However, there is no scientific evidence to support such a notion. Many alternative managers buy and sell publicly traded securities (i.e., ‘hedge funds’), so this idea is simply ‘old wine in a new bottle.’</p>	<p>‘To try and compensate for the fact that ‘beating the market’ is difficult with publicly-traded securities, many public pension funds have increased their exposure to alternative investment managers, who claim a ‘secret sauce’ that allows them to beat the public markets consistently. However, there is no scientific evidence to support such a notion. Many alternative managers buy and sell publicly traded securities (i.e., ‘hedge funds’), so this idea is simply ‘old wine in a new bottle.’</p>
<p>“Furthermore, the private equity industry has yet to offer proof that private equity consistently beats the relevant public equity market index, after fees...</p>	<p>“Furthermore, the private equity industry has yet to offer proof that private equity consistently beats the relevant public equity market index, after fees...</p>
<p>“Complicating Private Equity performance measures is the fact that many leveraged buyouts from the pre-crash period have yet to sell, and the state pension systems rely on the buyout funds’ in-house valuation of such investments to determine</p>	<p>“Complicating Private Equity performance measures is the fact that many leveraged buyouts from the pre-crash period have yet to sell, and the state pension systems rely on the buyout funds’ in-house valuation of such investments to determine</p>

the systems' own investment returns. The states exercise limited supervision over the buyout funds, and examination of buyout fund portfolio values by buyout fund independent certified public accountants is less than rigorous.” (NC pp. 68-69)

the systems' own investment returns. The states exercise limited supervision over the buyout funds, and examination of buyout fund portfolio values by buyout fund independent certified public accountants is less than rigorous.” (RI pp. 52-53)

NC pages 76-79 vs. RI pages 57-61

North Carolina

“Hedge fund offering documents often include the following language: ‘In an effort to protect the confidentiality of its positions, the Fund generally will not disclose its positions to shareholders.’

“The offering document disclosure may further warn: ‘As the investment advisor’s investment system is proprietary, the shareholders will not have the objective means by which to evaluate its operation or to determine whether it is being followed. Further, the shareholders may not have the ability to review the investment positions of the Fund.’

“In summary, as a condition to investing in alternative funds, the Treasurer, as the sole fiduciary to TSERS may be required to consent to being kept in the dark, abrogating her duty to monitor and safeguard pension assets.

“Of even greater concern, the hedge fund managers routinely matter-of factly state that they are not required to provide the same type or level of disclosure regarding investments and strategies to all investors. Certain mystery investors may invest on terms that provide access to information that is not generally available to other investors and, as a result, may be able to act on such additional information (e.g., request withdrawal of their monies) that other investors do not receive.

“According to one manager we reviewed elsewhere, ‘The General Partner may in its absolute discretion agree to provide certain strategic investors in the Partnership with information about the Partnership and its investments which is not available to investors generally.’

Rhode Island

“The Indus Asia Pacific Fund offering documents include the following disclosure: ‘In an effort to protect the confidentiality of its positions, the Fund generally will not disclose its positions to shareholders.’

“The Winton Futures Fund alarmingly states, ‘As the Investment Advisor’s investment system is proprietary, the Shareholders will not have the objective means by which to evaluate its operation or to determine whether it is being followed. Further, the Shareholders may not have the ability to review the investment positions of the Fund.’

“In summary, the ERSRI fiduciaries have unconscionably consented to being kept in the dark, abrogating their duty to monitor and safeguard pension assets.

“Even more deplorable, the hedge fund managers blandly state that they are not required to provide the same type or level of disclosure regarding investments and strategies to all investors. Certain mystery investors may invest on terms that provide access to information that is not generally available to other investors and, as a result, may be able to act on such additional information (e.g., request withdrawal of their monies) that other investors do not receive.

“According to Brevan Howard, ‘The General Partner may in its absolute discretion agree to provide certain strategic investors in the Partnership with information about the Partnership and its investments which is not available to investors generally.’ ...

“Another manager says, ‘The Fund has entered and may enter into side letters and other agreements and arrangements with certain investors pursuant to which, among other things, an investor may receive reports and have access to information regarding the Fund’s portfolio that might not be generally available to other shareholders. Such investors may be able to base their investment decisions, including, without limitation, redeeming their Shares from the Fund, on information that is not generally available to other shareholders.’

“Yet another manager elaborates, ‘The Partnership and the General Partner may from time to time enter into agreements with one or more Limited Partners whereby in consideration for agreeing to invest certain amounts in the Partnership and other consideration deemed material by the General Partner, such Limited Partners may be granted favorable rights not afforded to other Limited Partners or investors, generally. Such rights may include one or more of the following: special rights to make future investments in the Partnership and/or the Other Accounts, as appropriate; special withdrawal rights, relating to frequency, notice and/or other terms; rights to receive reports from the Partnership on a more frequent basis or that include information not provided to other Limited Partners (including, without limitation, more detailed information regarding positions); rights to receive reduced rates of the Incentive Allocation and/or Management Fee; rights to receive a share of the Incentive Allocation, Management Fee or other amounts earned by the General Partner or its affiliates; and such other rights as may be negotiated between the Partnership and such Limited Partners. The Partnership and the General Partner may enter into such agreements without the consent of or notice to the other Limited Partners.’

“In other words, TSERS may have directly or indirectly through funds of funds consented, for unimaginable reasons, to managers permitting other mystery investors in the alternative funds to profit at its expense — effectively granting a license to steal from the state pension to these unknown investors. The identity of the privileged ‘strategic’ investors profiting from

“Davidson Kempner states, ‘The Fund has entered and may enter into side letters and other agreements and arrangements with certain investors pursuant to which, among other things, an investor may receive reports and have access to information regarding the Fund’s portfolio that might not be generally available to other shareholders. Such investors may be able to base their investment decisions, including, without limitation, redeeming their Shares from the Fund, on information that is not generally available to other shareholders.’

“The Ascend Partners Fund II elaborates, ‘The Partnership and the General Partner may from time to time enter into agreements with one or more Limited Partners whereby in consideration for agreeing to invest certain amounts in the Partnership and other consideration deemed material by the General Partner, such Limited Partners may be granted favorable rights not afforded to other Limited Partners or investors, generally. Such rights may include one or more of the following: special rights to make future investments in the Partnership and/or the Other Accounts, as appropriate; special withdrawal rights, relating to frequency, notice and/or other terms; rights to receive reports from the Partnership on a more frequent basis or that include information not provided to other Limited Partners (including, without limitation, more detailed information regarding positions); rights to receive reduced rates of the Incentive Allocation and/or Management Fee; rights to receive a share of the Incentive Allocation, Management Fee or other amounts earned by the General Partner or its affiliates; and such other rights as may be negotiated between the Partnership and such Limited Partners. The Partnership and the General Partner may enter into such agreements without the consent of or notice to the other Limited Partners.’

“In other words, ERSRI has grotesquely consented, for unimaginable reasons, to the managers permitting other mystery investors in the hedge funds to profit at its expense—effectively granting a license to steal from the state pension to these unknown investors. The identity of the privileged ‘strategic’ investors profiting from public pensions is not disclosed. The managers are not

<p>public pensions is not disclosed. The managers are not even required to notify TSERS that other investors receiving greater Information exist.</p> <p>“In summary, the hedge and other alternative fund offering documents often reveal that investors, such as TSERS, agree to permit the managers to withhold complete and timely disclosure of material information regarding pension assets in their funds. Further, TSERS agrees to permit the investment managers to retain absolute discretion to provide certain mystery investors with greater information and the managers are not required to disclose such arrangements to TSERS.</p> <p>“As a result, TSERS is at risk that other unknown investors are profiting at its expense — stealing from the pension.</p> <p>“The above outrageous nondisclosure policies alone, as detailed in the alternative fund offering documents, render these investments inherently impermissible for a public pension, such as TSERS.</p> <p>“Worse still, the Treasurer refuses to provide to stakeholders offering documents that reveal that such outrageous, unfair and potentially illegal disclosure schemes are common with respect to TSERS alternative investments.</p> <p>“The identity of any mystery investors that may be permitted by managers to profit at TSERS’ expense, as well as any relationships between these investors, the Treasurer or other public officials, should be investigated fully by law enforcement and securities regulators. “Again, the absolute discretion TSERS may have granted to certain managers amounts to a license to steal from the state pension.” (NC pp. 76-79)</p>	<p>even required to notify ERSRI that other investors receiving greater information exist. ...</p> <p>“In summary, the hedge fund offering documents appallingly reveal that investors, such as ERSRI, agree to permit hedge fund managers to withhold complete and timely disclosure of material information regarding ERSRI’s assets in their funds. Further, ERSRI agrees to permit the investment managers to retain absolute discretion to provide certain mystery investors with greater information and the managers are not required to disclose such arrangements to ERSRI.</p> <p>As a result, ERSRI is at risk that other unknown investors are profiting at its expense—stealing from the pension. ...</p> <p>“The above outrageous nondisclosure policies alone, as detailed in the hedge fund offering documents, render these investments inherently impermissible for a public pension, such as ERSRI.</p> <p>“Further, the Treasurer has not disclosed to the State Investment Commission and ERSRI has not, in turn, disclosed to participants in the Fund and taxpayers that such outrageous, unfair and potentially illegal disclosure schemes are common with respect to its alternative investments.</p> <p>“The identity of any mystery investors that may be permitted by managers to profit at ERSRI’s expense, as well as any relationships between these investors, the Treasurer or other public officials, should immediately be investigated fully by law enforcement and securities regulators. Again, the absolute discretion ERSRI has granted to certain managers amounts to a license to steal from the state pension.” (RI pp. 57-61)</p>
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NC pages 79-80 vs. RI pages 61-62

<p>North Carolina</p> <p>“Alternative investment funds that are incorporated and regulated under the laws of foreign countries present additional, unique risks which pension fiduciaries must consider.</p>	<p>Rhode Island</p> <p>“Hedge funds which are incorporated and regulated under the laws of foreign countries present additional, unique risks which pension fiduciaries must consider.</p>
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<p>“For example, recently three Louisiana public pensions which invested \$100 million in a troubled fund managed by Fletcher Asset Management, have struggled in Cayman Islands courts to have the fund liquidated and recoup their investment. A Louisiana state legislative auditor criticized the investment practices of the three funds. The report found, among other issues, that the funds didn’t adequately document whether they would be able to liquidate each investment in their portfolio at a fair market price and within a reasonable time frame....</p> <p>“There is no evidence the Treasurer, or the State Auditor, is aware of, or has ever considered, the unique risks related to foreign regulation and custody of alternative funds.” (NC pp. 79-80)</p>	<p>“For example, recently three Louisiana public pensions which invested \$100 million in a troubled fund managed by Fletcher Asset Management, have struggled in Cayman Islands courts to have the fund liquidated and recoup their investment. A Louisiana state legislative auditor criticized the investment practices of the three funds. The report found, among other issues, that the funds didn’t adequately document whether they would be able to liquidate each investment in their portfolio at a fair market price and within a reasonable time frame. ...</p> <p>“There is no evidence the State Investment Commission was aware of, or ever considered, the unique risks related to foreign regulation of hedge funds.” (RI pp. 61-62)</p>
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NC page 81 vs. RI page 56

<p>North Carolina</p> <p>“Generally there is no specific limit on the types of positions the hedge fund may take, the concentration of its investments (by country, sector, industry, capitalization, company, or asset class), or the amount of leverage it may employ, or the number or extent of its short positions. The hedge funds may, from time to time, hold all or a portion of its assets in cash or cash equivalents when opportunities are limited or in other circumstances deemed appropriate by the manager.” (NC p. 81)</p>	<p>Rhode Island</p> <p>“Generally there is no specific limit on the types of positions the hedge fund may take, the concentration of its investments (by country, sector, industry, capitalization, company, or asset class), or the amount of leverage it may employ, or the number or extent of its short positions. The hedge funds may, from time to time, hold all or a portion of its assets in cash or cash equivalents when opportunities are limited or in other circumstances deemed appropriate by the manager.” (RI p. 56)</p>
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NC page 82 vs. RI page 56

<p>North Carolina</p> <p>“Thus, representations by the Treasurer that the decision to invest a significant portion of TSERS’ portfolio in alternative funds can be justified from a diversification perspective is, at best, based upon a lack of knowledge about alternative fund operations.” (NC p. 82)</p>	<p>Rhode Island</p> <p>“Thus, representations by the Treasurer that the decision to invest a significant portion of ERSRI’s portfolio in hedge funds can be justified by the diversification they provide is, at best, based upon a lack of knowledge about hedge fund operations.” (RI p. 56)</p>
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North Carolina	Rhode Island
<p>“Unlike most other industries, the fees money managers charge institutional and retail investors for comparable investment services vary astronomically.</p>	<p>“Unlike most other industries, the fees money managers charge institutional and retail investors for comparable investment services vary astronomically.</p>
<p>“Passive, or index investment management services, can be purchased by institutional investors for 1 basis point (one one-hundredth of a percent) or even ‘for free.’ Active managers, who attempt to beat the market by stock-picking, may charge pensions fees that are 120 times greater (1.2 percent). Alternative investment managers, including hedge, venture and private equity, may charge asset-based, performance and other multiple layers of fees amounting to approximately 8 percent—800 times greater fees than indexing.</p>	<p>“Passive, or index investment management services, can be purchased by institutional investors for 1 basis point (one one-hundredth of a percent) or even “for free.” Active managers, who attempt to beat the market by stock-picking, may charge pensions fees that are 100 times greater (1 percent). Alternative investment managers, including hedge, venture and private equity, may charge asset-based, performance and other fees amounting to approximately 8 percent-- 800 times greater fees than indexing.</p>
<p>“Paying higher fees for active traditional or alternative asset management does not guarantee and, in fact, negatively correlates to superior investment performance. Indeed, the overwhelming majority of active managers fail to outperform market indexes over time net of fees; the higher the fees, the greater the drag on investment returns.</p>	<p>“Paying higher fees for active traditional or alternative asset management does not guarantee and, in fact, negatively correlates to superior investment performance. Indeed, the overwhelming majority of active managers fail to outperformance market indexes over time net of fees; the higher the fees, the greater the drag on investment returns.</p>
<p>“A recent report by the Maryland Public Policy Institute and the Maryland Tax Education Foundation which examined the investment fees and investment performance of state pension funds concluded:</p>	<p>“A recent report by the Maryland Public Policy Institute and the Maryland Tax Education Foundation which examined the investment fees and investment performance of state pension funds concluded:</p>
<p>“State pension funds, including Maryland, have succumbed for years to a popular Wall Street sales pitch: ‘active money management beats the market.’ As a result, almost all state pension funds use outside managers to select, buy and sell investments for the pension funds for a fee. The actual result — a typical Wall Street manager underperforms relative to passive indexing — is costly to both taxpayers and public sector employees.</p>	<p>“State pension funds, including Maryland, have succumbed for years to a popular Wall Street sales pitch: ‘active money management beats the market.’ As a result, almost all state pension funds use outside managers to select, buy and sell investments for the pension funds for a fee. The actual result — a typical Wall Street manager underperforms relative to passive indexing — is costly to both taxpayers and public sector employees.</p>
<p>“For example, the top ten states — in terms of Wall Street fees — had a lower pension fund investment performance — over the last five fiscal years — than the bottom ten states (emphasis</p>	<p>“For example, the top ten states — in terms of Wall Street fees — had a lower pension fund investment performance — over the last five fiscal years — than the bottom ten states (emphasis</p>

added)... State pension funds should consider indexing. Indexing fees cost a state pension fund about 3 basis points yearly on invested capital vs. 39 basis points for active management fees (or 92% less)... By indexing most of their portfolios, we conclude the 46 state funds surveyed could save \$6 billion in fees annually, while obtaining similar (or better) returns to those of active managers.'

"It is well established that sponsors of public and private retirement plans have a fiduciary duty to ensure that the fees their plans pay money managers for investment advisory services are reasonable. Fees paid for such retirement plan investment services have always been an important consideration for ERISA retirement plan fiduciaries. Further, in recent years such fees have come under increased scrutiny because of class action litigation, Department of Labor regulations, and congressional hearings.'

"According to the Department of Labor:

"Plan fees and expenses are important considerations for all types of retirement plans. As a plan fiduciary, you have an obligation under ERISA to prudently select and monitor plan investments, investment options made available to the plan's participants and beneficiaries, and the persons providing services to your plan. Understanding and evaluating plan fees and expenses associated with plan investments, investment options, and services are an important part of a fiduciary's responsibility. This responsibility is ongoing. After careful evaluation during the initial selection, you will want to monitor plan fees and expenses to determine whether they continue to be reasonable in light of the services provided.'

"State and local government pensions are exempt from ERISA and are governed by state law. However, because ERISA and state law protections both stem from common law fiduciary and trust principles, best practices for public pensions are frequently similar to those found in ERISA.

"At the outset, sponsors of public, as well as private retirement plans must take steps to

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"State and local government pensions are exempt from ERISA and are governed by state law. However, because ERISA and state law protections both stem from common law fiduciary and trust principles, best practices for public pensions are frequently similar to those found in ERISA.

"At the outset, sponsors of public, as well as private retirement plans must take steps to

understand the sources, amounts, and nature of the fees paid by the plan, as well as the related services performed for such fees. After all, a plan sponsor cannot determine the reasonableness of fees paid without a comprehensive understanding of the plan's services and fees.

“Whether a plan's fees are reasonable depends upon the facts and circumstances relevant to that plan. The plan sponsor must obtain and consider the relevant information and then make a determination supported by that information.” (NC pp. 87-89)

understand the sources, amounts, and nature of the fees paid by the plan, as well as the related services performed for such fees. After all, a plan sponsor cannot determine the reasonableness of fees paid without a comprehensive understanding of the plan's services and fees.

“Whether a plan's fees are reasonable depends upon the facts and circumstances relevant to that plan. The plan sponsor must obtain and consider the relevant information and then make a determination supported by that information.” (RI pp. 36-39)

NC pages 114-115 vs. RI pages 87-88

North Carolina

“Under the economic theory of disintermediation, removal of the intermediary from the process, i.e., ‘cutting out the middleman,’ reduces the cost of the service to the customer. Disintermediation initiated by customers is often the result of high market transparency. Markets lacking transparency often are plagued by undisclosed, dispensable intermediaries.

“The federal securities laws generally require that registered investment advisers, when employing the services of third-party marketers, provide the client with a written disclosure document, commonly referred to as a ‘solicitation agreement,’ describing the terms of any compensation arrangement between the solicitor (or marketer) and the investment adviser, as well as ‘the amount, if any, for the cost of obtaining his account the client will be charged in addition to the advisory fee, and the differential, if any, among clients with respect to the amount or level of advisory fees charged by the investment adviser if such differential is attributable to the existence of any arrangement pursuant to which the investment adviser has agreed to compensate the solicitor for soliciting clients for, or referring clients to, the investment adviser.’

“In summary, the disclosure requirements related to SEC-registered investment advisor third-party solicitation arrangements reflect the belief that the

Rhode Island

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“In summary, the disclosure requirements related to investment advisor third party solicitation arrangements reflect the belief that the investment

<p>investment advisory client should be advised of the existence of the intermediary, the fees paid to the intermediary and whether he is paying a higher fee as a result of the intermediary.</p> <p>“In our experience, the SEC has required registered investment managers utilizing undisclosed solicitors to offer public pension investors rescission of the investment (including reimbursement of any investment losses) and return of all fees paid. Thus, failure to disclose marketing intermediaries can have severe consequences for investment managers. ...</p> <p>“Alternative assets, such as hedge, venture, private equity and real estate investments, by definition lack the transparency and liquidity of traditional, publicly-traded assets. The fees charged by investment advisers for managing alternative assets are exponentially higher than traditional asset classes. ...” (NC pp. 114-115)</p>	<p>advisory client should be advised of the existence of the intermediary, the fees paid to the intermediary and whether he is paying a higher fee as a result of the intermediary.</p> <p>“In our experience, the SEC has required registered investment managers utilizing undisclosed solicitors to offer the public pension investors rescission of the investment and return of all fees paid. Thus, failure to disclose marketing intermediaries can have severe consequences for investment managers.</p> <p>“Alternative assets, such as private equity, hedge fund and real estate investments, by definition lack the transparency and liquidity of traditional, publicly-traded assets. The fees related to managing alternative assets are exponentially higher than traditional asset classes” (RI pp. 87-88)</p>
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NC pages 117-118 vs. RI pages 89-90 (similar text also present on pages 14-15 of Kentucky report)

<p>North Carolina</p> <p>“Placement agents and the investment managers that retain them maintain that agents provide services of value to institutional investors, such as access to high- demand investment funds, or to minority and women-owned firms; however, the value of such services is, at best, clearly minimal — particularly with respect to larger institutional investors.</p> <p>“Virtually all large public pensions employ one or more investment consultants to recommend managers to be hired and monitor the performance of incumbent investment managers. ...</p> <p>“Further, with respect to public pensions in particular, ‘politicization’ of the investment decision-making process whereby hiring decisions are made based upon factors other than the merits of the investments offered, such as the political connections of placement agents that managers have hired to represent them, is yet another reason to forego or prohibit placement agent involvement.” (NC pp. 117-18)</p>	<p>Rhode Island</p> <p>“While placement agents and investment managers that retain them may claim that placement agents provide services of value to institutional investors, such as access to investment funds, the value of such services, if any, is clearly diminished with respect to larger institutional investors.</p> <p>“Virtually all large public pensions employ one or more investment consultants to recommend managers to be hired and monitor the performance of incumbent investment managers. ...</p> <p>“Further, with respect to public pensions, there is the very real danger of ‘politicization’ of the investment decision-making process whereby hiring decisions are made based upon factors other than the merits of the investments offered, such as the political connections of placement agents that managers have hired to represent them.” (RI pp. 89-90)</p>
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