STATE EMPLOYEES ASSOCIATION OF NORTH CAROLINA, INC.

February 10, 2014

SENT VIA E-MAIL AND HAND DELIVERED
Janet Cowell, State Treasurer
Department of State Treasurer
325 N. Salisbury Street
Raleigh, NC 27603

Dear State Treasurer Cowell:

I have received your initial response to my January 10, 2014, public records request. Despite assurances that your office would cooperate with our forensic investigation of the Teachers' and State Employees' Retirement System (TSERS), to date your office has failed to provide the overwhelming majority of the most critical investment information we have requested.

Specifically, you have yet to send even a single prospectus, offering memorandum, subscription agreement or investment advisory contract related to any TSERS investment. As these disclosure documents we have requested are essential to an analysis any potential violations of law, as well as of the costs, risks, portfolio holdings, valuation uncertainties and related conflicts of interest—issues which are central to our forensic investigation—I request that you start sending those records immediately and provide SEANC a expeditious timetable for the production of all of them.

At this point, neither SEANC, nor the public, has any idea of even the locations around the world where significant TSERS assets are being held, much less how the money is actually being invested.

In response to our request for information regarding, by our estimate, over $100 million in controversial placement agent fees, virtually all the external manager disclosure statements that you have produced do not state the amount of compensation paid to placement agents for securing investments from TSERS. The amount of placement agent fees actually paid is essential to determining the financial impact to TSERS for use of these costly, dispensable intermediaries.

Moreover, you have indicated that with respect to thirteen alternative investments made by TSERS, the external managers involved have been permitted to designate the compensation arrangements they have entered into with named placement agents as "trade secrets" under North Carolina law. Even more disconcerting, you have allowed three external

investment managers to designate their entire disclosure letters as "trade secrets," resulting in both "mystery" placement agents and unknown compensation.

You have refused to disclose to SEANC and the rest of the public any information regarding these select managers' arrangements with unknown placement agents contrary to advice you have received from the two firms that you engaged at great public expense to advise you in regard to placement agents.

In 2009, in your first year in office, you approved the first Placement Agent Policy which called for disclosure and documentation to you as State Treasurer of the fees paid to placement agents related to TSERS investments. Notably, the Policy did not mandate disclosure to the public.

Thereafter, in its April 2010 report, EnnisKnupp recommended that details regarding the placement agent compensation, as well as other important information, including the Disclosure Letter template or specific responses provided to the State Treasurer's Office by fund managers and placement agents, be posted on the State Treasurer's website for disclosure to the public to promote transparency and accountability.

While you have implemented many of EnnisKnupp's recommendations, you have not implemented this key recommendation called for by best practices.

In its recent report, the law firm of Kellogg Huber again called upon you to disclose both placement agent compensation amounts, as well as post the disclosure letter template and specific responses provided to the Treasurer's Office by fund managers and placement agents on the website—both of which were originally recommended in the April 2010 EnnisKnupp report.

To date, the placement agent fee amounts paid by each TSERS manager and the total amount of placement agent compensation paid have not been totally disclosed to the public on the Treasurer's website, or anywhere else, and now it is also being withheld in response my public records request.

Assuming that your office has enforced compliance with the placement agent policy (which requires disclosure of the fees paid), this information is readily-available and already known to the Treasurer.

Thus, for the past five years it appears you have intentionally withheld from public scrutiny arguably the most significant information regarding, by our estimate, placement agent fees amounting to in excess of $100 million.

Absent disclosure of the total dollar amounts of placement agent fees paid, stakeholders cannot possibly make their own determination of whether such fees are necessary and reasonably related to any financial services provided.

As noted in the Independent Review and Evaluation of the North Carolina Retirement Systems by EnnisKnupp, since placement agents are generally compensated based on a percentage of the amount of committed capital (typically between one and two percent, paid over an agreed upon period of time), this compensation structure causes the placement agent's services to be subject to regulation by the United States Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA").

By permitting certain investment managers to conceal from the public the compensation arrangements they have with mystery agents related to TSERS investments, you have made it impossible for us to determine, in connection with our forensic review, that these arrangements comply with applicable state and federal law. Indeed, the fact that these managers have been granted preferential treatment, i.e., permitted to circumvent the disclosure scheme at TSERS while the majority of TSERS managers have not, gives rise to heightened concerns that these secret arrangements may involve abuses.

In closing, the time has come for you to disclose the placement agent fee amounts paid by each TSERS manager and the total amount of placement agent compensation paid. Further, I renew my request for the placement agent information that has been redacted and strongly encourage you to produce it.

Moreover, I request that you audit the responses in the all the disclosure letters you have received, follow up as appropriate to require outside managers to provide the full information called for in the disclosure letters, and to provide SEANC with copies of those further responses in addition to posting them all on your department's website.

Thank you.

Sincerely,

Dana S. Cope
Executive Director