

NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

March 5, 2014

Dana Cope
Executive Director
State Employees Association of North Carolina, Inc.
1621 Midtown Place
Raleigh, NC 27609

Re: Second Production of Documents in Response to the January 10, 2014 Public Records Request

Dear Mr. Cope:

In response to your January 10, 2014 records request, please find enclosed the Department of State Treasurer's second production of documents. As mentioned in our previous letter, tens of thousands of pages of documents must be reviewed to respond to your request. Rather than holding the entire production until all documents are gathered, we expect to produce documents on a rolling basis until complete.

The Department's second production consists of 1,831 pages. All documents are in Adobe Acrobat (PDF) format on the enclosed CD-ROM. For ease of reference, each document is labeled with an individual page number ranging from SSR-002043 to SSR-003873.

In this production, the following pages are responsive to the following requests:

SSR-2043 to SSR-3770	First request
SSR-3771 to SSR-3873	Third request

We continue to review our records for documents responsive to any of your four requests.

The Department reserves all rights and objections to your records request, including but not limited to attorney-client privilege, attorney work product / trial preparation material privilege, confidentiality pursuant to the North Carolina Trade Secrets Protection Act and N.C.G.S. § 132-1.2(1), and confidentiality of account numbers for electronic payment pursuant to N.C.G.S. § 132-1.2(2). Any documents produced which were redacted to comply with North Carolina law have been marked on the enclosed confidentiality log.

Concerning each of your requests, please see below.

Request 1. Please provide copies of the offering memorandum, prospectus, subscription agreement and/or investment advisory contract related to each investment (including real estate, hedge, private equity and venture capital funds) in which TSERS has invests since January 1, 2003, including any investment advisory fee waivers, “side-pockets” or other documents amending or altering the applicable fees and terms.

Response and Status: Please find enclosed pages SSR-2043 to SSR-3770. Further documents responsive to this request will follow in the coming days. Documents will be produced on a rolling basis.

As your consultant Edward Siedle has noted, it is common in the investment industry for contracts to contain confidentiality clauses that protect external investment managers’ proprietary strategies. The North Carolina General Assembly has provided that state agencies may not disclose a private company’s information if it qualifies under the Trade Secrets Protection Act, is “furnished to the public agency in connection with the owner’s performance of a public contract or in connection with a bid ... or in compliance with laws,” and is designated confidential when initially disclosed to the public agency. N.C.G.S. § 132-1.2(1).

The Department recently asked each external investment manager that initially designated documents as confidential to confirm that it continues to view the information as confidential under the Trade Secrets Protection Act. Some managers chose to waive their initial trade secret designation; others reduced the scope of the designation to only certain portions of the documents. All redactions are noted on the enclosed redaction log. The Department continues to process responses from the external investment managers, and additional documents subject to Request 1 will be provided in the next production.

Request 2. Please provide disclosure of the total annual fees applicable to each of TSERS’s investments since January 1, 2003, including any fund-of-fund and manager-of-manager multiple layers of fees; asset-based fees; operating fees and expenses; and performance fees by manager or fund, and disclosing each of the components of the applicable fees and expenses separately.

Response and Status: In response to this request, we have previously produced pages SSR-1974 to SSR-2042, which provide disclosure of fees (including performance fees) for the time period 2005 to 2013. Your request also sought information concerning operating fees and expenses and concerning any fund-of-fund fees. We continue to gather information in order to respond to that portion of the request.

Request 3. Please provide copies of any documents related to the payment of any compensation paid to intermediaries, including but not limited to placement agents by TSERS or any of its investment managers for the period from January 1, 2003 through January 2014 and disclose with respect to each payment and arrangement, the party making the payment; the services provided in exchange for the payment; the party receiving the payment and the amount of the payment.

Response and Status: In response to this request, we have previously produced pages SSR-0001 to SSR-1643. Please find enclosed additional pages SSR-3771 to SSR-3873. The Department continues to gather documents in response to this request. Documents will be produced on a rolling basis.

Request 4. Please provide copies of any documents related to any correspondence since January 1, 2008, between the Treasurer's office and/or TSERS and the United States Securities and Exchange Commission; the Federal Bureau of Investigation; or any other securities regulator or law enforcement agency related to TSERS or its investments.

Response and Status: In response to this request, we have previously produced pages SSR-1644 to SSR-1973. The Department continues to gather documents in response to this request. Documents will be produced on a rolling basis.

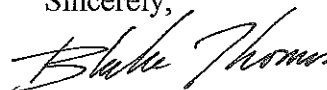
The Department of State Treasurer, in accordance with its public records policy, charges \$15 per CD-ROM produced to the requesting party. Please provide payment for that amount in the form of a check made out to the "Department of State Treasurer."

With respect to your February 10, 2014 letter:

- Contrary to your representation that you do not know "where significant TSERS assets are being held," the Department has produced information detailing all its investment managers. See pages SSR-1974 to SSR-2042. In addition, an online supplement to the Department's 2013 Annual Report will detail, for each investment, the performance and the fees paid.
- In six percent of the Placement Agent Policy disclosure letters submitted by the Department's external investment managers, the managers designated as confidential the compensation those private companies paid to placement agents or marketing personnel. Your letter criticized the Department for not providing this confidential information, but here, the Department has simply followed state law. The Treasurer cannot override the Trade Secrets Protection Act by publicizing information, designated confidential, about the contractual relationship between two private companies.
- With this said, the Department agrees that placement agents should be intensely scrutinized. This is why the Department publicly discloses more information about the use of placement agents than any other public pension fund in the nation.

We look forward to contacting you in the future with additional documents.

Sincerely,



Blake Thomas
Assistant General Counsel
N.C. Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

cc: Melissa Waller, Chief of Staff
Jay J. Chaudhuri, General Counsel
Schorr Johnson, Communications Manager

Redaction Log - 2nd
Production

Bates Numbers for Redacted Pages	Document	Description of Withheld Material	Reason for Withholding
2047-2048	Aurora IV - AV Management IV - admission agreement and letter	Tax identification number	Prohibited from disclosure under N.C.G.S. 132-1.10(b)(5)
2297	Aurora IV - Sub Docs (April 2003 Subscription) Executed	Tax identification number	Prohibited from disclosure under N.C.G.S. 132-1.10(b)(5)
2315	Aurora IV - Sub Docs (March 2002 Subscription) Executed	Tax identification number	Prohibited from disclosure under N.C.G.S. 132-1.10(b)(5)
2344, 2346, 2348	Aurora V - Aurora Venture V Subscription Documents[1]	Tax identification number; account number for electronic payment	Prohibited from disclosure under N.C.G.S. 132-1.2(2), 132-1.10(b)(5)
2672-2674, 2683	Chapter IV - Final Subscription Documents Retirement System[1]	Tax identification number; account number for electronic payment	Prohibited from disclosure under N.C.G.S. 132-1.2(2), 132-1.10(b)(5)
2830	Certain supplements to the Fortress Credit Opportunities Fund III (A) LP private placement memorandum	As described in letter on this page	External investment manager has designated this information as trade secret under North Carolina law.
2856	Fortress Credit Opportunitis II - FCO III (A) LPA _ Redacted	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
2952	Fortress Credit Opportunitis II - FCO III (A) LPA _ Redacted	Account number for electronic payment	Prohibited from disclosure under N.C.G.S. 132-1.2(2)
2966	Fortress Credit Opportunitis II - FCO III PPM Supplement No. 1 Redacted	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
2973-2974	Fortress Credit Opportunitis II - FCO III PPM Supplement No. 4 Redacted	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
2978-2979	Fortress Credit Opportunitis II - FCO III PPM Supplement No. 9 Redacted	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
3102	Fortress Credit Opportunitis II - North Carolina Sub Doc Redacted	Account number for electronic payment	Prohibited from disclosure under N.C.G.S. 132-1.2(2)
3119	Fortress Credit Opportunitis II - North Carolina Sub Doc Redacted	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
3120, 3154, 3160	Fortress Credit Opportunitis II - North Carolina Sub Doc _ Redacted	Tax identification number; account number for electronic payment	Prohibited from disclosure under N.C.G.S. 132-1.2(2), 132-1.10(b)(5)
3231-3310 (particular sentences or phrases as marked)	Hatteras Venture Partners III - Limited Partnership Agreement (REDACTED)...	Certain text on listed page(s) of document	External investment manager has designated this information as trade secret under North Carolina law.
3384	Hatteras Venture Partners III - TSERS Subscription Agreement	Tax identification number	Prohibited from disclosure under N.C.G.S. 132-1.10(b)(5)