August 2010

State of Nevada
Deferred Compensation Plan

Manager Due Diligence
Education Session
Fiduciary Responsibility

- Investment prudence relies on process, not investment results
- Three investment principles for trustees:
  - Hire investment managers with the intention of maintaining long-standing relationships.
  - Select the right managers for the defined roles - managers must have strengths in their designated areas.
  - Remember that you are charged with making decisions that are for the benefit of the participants or beneficiaries, even at the risk of making an unpopular decision.
Global Manager Research Network
80+ Full-Time Research Professionals

40 American Research Staff

23 European Research Staff

18 Asia Pacific Research Staff

- Mercer offices with investment consultants
- Mercer offices with full time manager research staff
Manager Search

PRIMARY RESEARCH
As of December 31, 2009

GATHER DATA
3,300+ Managers
20,000+ Products
200+ Country/Regional Manager Universes
(Global Investment Manager Database™)

PRIORITIZE CANDIDATES
Review of GIMD™ Entry
Active Research
Market Intelligence
(Scoring – Qualitative & Quantitative Factors)

WORLDWIDE DUE DILIGENCE
Idea Generation
Portfolio Construction
Implementation
Business Management
(Seek to Identify Sustainable Advantage)

CANDIDATE RATINGS
Ratings Review Committee
(Ongoing Monitoring)

CANDIDATES HIGHLY RATED
BY MERCER

Dedicated Resources
80+ Research Professionals, Globally

Proven Track Record
Measured Quarterly

Robust Research Platform
Four Factor Framework
Structured Rating Process

Global Consistency
GIMD™ Database

Analytical Rigor
Manager Performance Analytics
Style Research
Portfolio Structure Toolkit
Global Investment Manager Database (GIMD™)

- 4,000+ managers/20,000+ products
- Coverage of all vehicle types (mutual, commingled & SMA)
- 200+ country/regional universes
- Nearly 70,000 research documents
- Electronic RFP Responses
- Detailed screening capabilities
- Over 3,200 formal manager research meetings held in 2009
- In 2009, over 1,700 Research Notes were produced globally, most of which covered multiple strategies
Screening the research universe
Which candidates appear to have the strongest credentials?

Review of GIMD Entry
- Firmwide demographics
- Investment process description
- Staffing information
- Track record
- Manager responses to consideration of environmental, social and corporate governance (ESG) factors

Previous Mercer Research & Analytics
- On this strategy
- On this firm
- On the key people at their previous firm
- Performance Analysis
- Holdings based style analysis

Market Intelligence
- From Mercer consultants
- From Mercer clients
- From other managers
- From industry and academic publications

Determine Research Priorities
## Quantitative and Qualitative Analysis

<table>
<thead>
<tr>
<th>Qualitative Analysis</th>
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| **Process/Philosophy**  
  Has the manager's investment process/role stayed consistent?                      | **Historical Performance**  
  Relative to customized peer groups and indices                                      |
| **Performance**  
  Not only how the investment performed, but why.                                     | **Risk Adjusted Performance**  
  Is the volatility of each manager/total fund in line with expectations?             |
| **Portfolio Characteristics**  
  Are all investment options complying with the investment policy?                     | **Style Analysis**  
  Has each manager's style been consistent over time?                                 |
| **Organization**  
  Have any managers experienced significant changes in structure, personnel or assets under management? | **Performance Attribution**  
  Can the sources of performance be identified?                                        |
Typical due diligence process

- Pre-meeting review to identify key issues
- On-site due diligence meeting with key decision-makers and selected team members:
  - Focus on clarifying any issues that were unclear from pre-meeting review and talking through worked examples of recent investment decisions
- Follow-up with further meetings or telephone calls as required to clarify any outstanding issues
- Researcher prepares Research Note to report on findings.
- Over 3,200 formal manager research meetings held in the last year.¹
- In the last year, over 1,700 Research Notes were produced globally, most of which covered multiple strategies.¹

¹ One year ending 31 December 2009.
In-depth research: four specific factors we seek to evaluate

1. Idea generation
   We appraise the manager’s ability to generate or source value-adding investment ideas

2. Portfolio construction
   The quality of a manager’s portfolio construction process will determine how effectively its value-adding investment ideas are converted into consistent outperformance

3. Implementation
   Value added at the idea generation and portfolio construction stages must outweigh the drag on performance due to transaction costs and overcome limitations relating to capacity constraints

4. Business management
   Well-managed investment firms are more likely to maintain and enhance the competitiveness of their investment strategies over time than poorly managed firms
## Sample Manager Evaluation
### Cramer Rosenthal McGlynn Mid Cap Value

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Idea Generation</td>
<td>++</td>
<td>The depth and breadth of the team's fundamental research are key strengths of the strategy. Research is insightful and forward-looking and serves as the basis from which stocks characterized by change, neglect, and valuation are identified. The large number of experienced analysts working collaboratively within and amongst sector teams allows for comprehensive coverage of industries and leads to strong communication flow, which contributes to a thorough vetting of each idea. Furthermore, the strategy benefits under the strong leadership and investment acumen of co-portfolio managers Jay Abramson and Chip Rewey.</td>
</tr>
<tr>
<td>Portfolio Construction</td>
<td>+</td>
<td>The portfolio's relative concentration and loose sector guidelines enables the team to express its conviction in names. Though the co-portfolio managers are primarily in charge of risk oversight, the team also contributes to the determination of portfolio weights. We believe the team's incorporation of risk buckets and keen awareness of risk/reward results in an extensive risk management process.</td>
</tr>
<tr>
<td>Implementation</td>
<td>+</td>
<td>The Mid Cap Value strategy is closed. At current asset levels, we believe the team is capable of implementing its best ideas.</td>
</tr>
<tr>
<td>Business Management</td>
<td>+</td>
<td>CRM continues to be majority-owned by Wilmington Trust Investments (WTI), though we expect the firm to buy back additional equity for the benefit of key employees. Aside from receiving distribution benefits from WTI, CRM retains complete autonomy in managing its business and investment process. Additionally, despite its minority ownership structure, the firm's profit sharing plan augments its ability to retain the majority of the economics. The firm remains operationally healthy and remains committed to ensuring sufficient resources are in place.</td>
</tr>
</tbody>
</table>

### Overall Rating
CRM employs an experienced investment team that serves as the backbone to deep, insightful fundamental research. We view the team's forward-looking research as a key strength and believe the analysts' collaboration within and amongst sector teams allows for comprehensive coverage of industries, which leads to a forum where ideas and assumptions are thoroughly vetted. In addition, the team continues to benefit from the investment caliber and leadership of co-portfolio managers Abramson and Rewey. The team's incorporation of risk buckets, in an effort to actively monitor the portfolio's risk exposures from multiple perspectives, delivers another element to the robustness of the research process.

### Additional Observations
We expect the strategies to hold up well in down markets given the team's emphasis on downside risk and valuation but struggle in market environments driven by lower-quality and momentum-led rallies. Given the team's relative value approach, portfolio exposures and characteristics will typically fall between value and core. The firm is benchmark aware but does not let benchmark properties dictate portfolio construction. We believe this, coupled with the portfolio’s relative concentration and the potential for notable sector deviations, warrants a tracking error designation.
Example

PM Leaves

Set up on own?

Structure of new firm - alignments

Sufficient resources

Meet early in their life

Joins someone else?

How do they fit style wise

What are the new team dynamics

Useful to get their perspective on new firm

What do they bring to the existing strategy
Using Mercer Manager Research

When would we use our research for you?

- Replacement of an incumbent manager
- Addition of a manager for diversification benefits
- Addition of a new asset class to the structure
- Ongoing due diligence for existing managers

Considerations:

- Mercer rating
- Style fit
- Tracking error
- Available investment vehicles
- Fees
- Any client-specific preferences or aversions
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