



**North Carolina**  
Total Retirement Plans  
401k | 457 | 403b



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

**DRAFT**  
**MINUTES**

**SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

The regular quarterly meeting of the Supplemental Retirement Board of Trustees was called to order at 9:03 a.m., September 20, 2018, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

**Members Present**

The board members present were: Treasurer Dale R. Folwell, Chair, Melinda Baran, Steve Beam, Lorraine Johnson, Michael Lewis, Nigel Long, Jim Lumsden, and Kelly Russell.

**Members Absent**

The board member absent was: Hal McKinney.

**Guests Present**

The guests attending were: T.J. Russell from Frontline. Will Dillard and Kelly Henson from Mercer. Ann Cashman, Mary Conti, Kelly Keen (via phone), Aaron Koval, Michael McCann, Kathleen Neville, Jessica Quimby (via phone) from Prudential. Amanda Wise from SEANC.

**Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio, Reid Chisholm, Chris Farr, Patti Hall, Cathy Jarboe, Rekha Krishnan, Karah Manning, Loren de Mey, April Morris, Maja Moseley, Laura Rowe, and Steve Toole.

**Swearing-in of members**

The Chair welcomed two new members of the Supplemental Retirement Board of Trustees: Kelly Russell and Jim Lumsden. The members took the oath of office. The Chair expressed gratitude to the members for their willingness to serve.

**Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest**

The Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. No conflicts of interest were identified by the board members.

The Chair noted that a copy of each Board member's most recent Statement of Economic Interest (SEI) evaluation issued by the State Board of Elections and Ethics Enforcement can be found in the meeting materials appendix. He stated that the evaluations are provided for board members' review and for recording in the meeting minutes pursuant to the requirements of the State Government Ethics Act. The Chair encouraged all members to review the evaluations to inform and remind them of the identified actual or potential conflicts of interest.

**Resolutions**

The Chair and the board members recognized the outstanding service of Ms. Karen Cochran and Dr. Ron Copley as members of the Supplemental Retirement Board of Trustees. Mr. Beam made a motion to approve their resolutions and the motion was seconded by Ms. Baran. The motion passed unanimously.

### **Ratification of Appointment**

The Chair recognized Mr. Chisholm who explained the section of the Board Charter as it relates to the Audit Subcommittee membership and noted that the Treasurer elected to serve on and as the Chair of the Subcommittee, and that this nomination requires the Board's ratification.

The Chair entertained a motion to ratify his appointment to serve as Chair and member of the Audit Subcommittee. Ms. Baran so moved and Mr. Long seconded. The motion passed unanimously.

### **Approval of Minutes**

The Chair entertained a motion to approve the minutes of June 21, 2018, board meeting. Mr. Beam so moved and Ms. Baran seconded. The motion passed unanimously.

### **Legal Updates**

Mr. Chisholm presented staff's proposal to codify the Plans' administrative fee of 2.5 basis points and the NC 403(b) Program's administrative fee of 5 basis points. He summarized the Administrative Procedures Act (APA) process and timeline, and noted the Board's fee setting authority per N.C.G.S. § 135-91(c), clarified during the most recent legislative session. He added that the project is expected to conclude in August of 2019. In response to Mr. Long's inquiry regarding the timing of the project, Mr. Chisholm noted that administrative fees have been charged for some time and the adoption of the administrative rule demonstrates a prudent fiduciary process.

Next, Mr. Chisholm provided an update regarding an Invitation to Bid (ITB) for the Plans' investment consultant. The Plans' current investment consultant contract expires on March 31, 2019, and the ITB is being run concurrently with the Investment Management Division to take advantage of relationship pricing. Mr. Chisholm noted that six bids were received by the response deadline of September 7, and that semi-finalists will be selected in the first week of October. The recommendation regarding the finalist will be presented to the Board in December. The Chair encouraged the members to volunteer for the ITB Selection Committee, adding that all information will be fully available to those members who choose to serve.

### **Proposal for Administrative Fee Reduction in the NC 401(k) and the NC 457(b) Plans**

The Chair recognized Ms. Buonfiglio who directed the members' attention to the memorandum included in the meeting materials noting that, per earlier direction from the Board, the staff has reviewed the balance held in the administrative reserve account, which at present amounts to approximately seven million dollars. She noted the average annual Plans' expenses of approximately 2.7 million dollars and the preference to hold a one-year expense buffer in the reserve account. Ms. Buonfiglio added that after in-depth consultations with the staff, legal advisor and vendors, the staff recommends an administrative fee holiday for the 2019 calendar year, which will translate to annual savings of approximately ten dollars in the NC 401(k) and six dollars in the NC 457(b) for each participant.

Following the presentation, the members and staff discussed the merits of a fee holiday, as well as operational details, associated with its implementation. The Chair applauded the staff for not "grossing up" expenses in the course of the Plans' expansion.

The Chair entertained a motion to approve the fee holiday recommendation and Mr. Lewis so moved. Mr. Beam seconded and the motion passed unanimously.

### **Approval of Minutes**

The Chair entertained a motion to approve the minutes of July 27, 2018, Audit Subcommittee meeting. Mr. Beam so moved and Mr. Lewis seconded. The motion passed unanimously.

### **Approval of Minutes**

The Chair entertained a motion to approve the minutes of August 23, 2018, Investment Subcommittee meeting. Ms. Baran so moved and Ms. Johnson seconded. The motion passed unanimously.

### **GoalMaker Enhancements Transition Update**

The Chair recognized Ms. de Mey who provided a summary of the GoalMaker transition background and benefits provided to the participants in both Plans and in the 403b Program. Ms. de Mey highlighted the smoothing of the glidepath, the addition of age-related cohorts, the introduction of the NC TIPS Fund, the extension of the glidepath “through retirement”, as well as the fee reduction. Ms. de Mey reviewed the post-transition state of GoalMaker 2.0 product and the changes in investment balances associated with the new models.

Following the presentation, the members discussed the asset balances in index funds, as well as their flat-fee relationship pricing. Ms. de Mey noted that actively managed funds within International and SMID Cap are used in the GoalMaker portfolios and that index funds provide additional investment options to the participants.

### **Replacement Recommendation**

Ms. de Mey directed the members’ attention to the memorandum included in the meeting materials which summarizes the Investment Subcommittee’s recommendation to terminate the PIMCO Inflation Response Multi-Asset Fund within the NC 401(k)/NC 457(b) Plans and the NC 403(b) Program, as well as the investment manager replacement for the Plans and the Program. Ms. de Mey noted the reasons for the recommendation, including PIMCO’s mutual fund structure complexity and the lack of transparency regarding the interest expense component. Ms. de Mey added that while PIMCO has recently agreed to remove the interest expense, the decision does not change the staff’s recommendation.

Staff and Mercer recommend hiring the BlackRock Strategic Completion Fund (SCF) to replace PIMCO in the Plans.

A robust discussion regarding the recommendation followed Ms. de Mey’s presentation. She provided the background of the fund, as well as its investment objective, risk profile and expense overview, noting approximate savings to participants of \$4.2 million annually (based on current asset balance of \$374.2million). Ms. Johnson noted a lesser number of sectors in BlackRock’s fund (three), compared to PIMCO’s five and inquired about sufficient diversification; Ms. de Mey confirmed that the fund is sufficiently diversified but in the event that BlackRock were to add another sector to the fund, the staff would complete a re-assessment. The members further discussed and compared the net performance and risk of each fund, and the liquidity of the PIMCO Fund.

The Chair noted that the increase in the interest expense of the PIMCO’s Fund was not disclosed during the most recent meeting and that the Plans operate on the principal of “disclosure rather than discovery.” Mr. Toole added that due to PIMCO’s mutual fund structure,

there is no control around expenses as investors have with an investment management agreement.

Ms. Baran made a motion to terminate PIMCO Inflation Response Multi-Asset Fund in the NC 401(k)/NC 457(b) Plans and Mr. Lumsden seconded. The motion passed unanimously.

Ms. Johnson moved to replace PIMCO Inflation Response Multi-Asset Fund in the NC 401(k)/NC 457(b) with the BlackRock Strategic Completion Fund and Ms. Russell seconded. The motion passed unanimously.

Ms. Baran made a motion to terminate PIMCO Inflation Response Multi-Asset Fund in the NC 403(b) Program and Mr. Beam seconded. The motion passed unanimously.

The members further discussed the structure of the Program and how it differs from the Plans' structure in terms of permissible investment vehicles, as well as the amount and collection method of the administrative fee for the Program. Ms. de Mey noted that the staff selected the Principal Diversified Real Asset Fund to replace PIMCO in the Program.

Ms. Russell made a motion to replace PIMCO Inflation Response Multi-Asset Fund with Principal Diversified Real Asset Fund in the NC 403(b) Program and Mr. Beam seconded. The motion passed unanimously.

A recess took place from 10:40 a.m. until 10:45 a.m.

#### **NC 401(k)/457(b) Plans 2<sup>nd</sup> Quarter Investment Performance Report**

The Chair recognized Ms. Henson and Mr. Dillard. Ms. Henson noted that Mercer completed the annual review of the NC Stable Value Fund and its manager, Galliard Capital Management. Mercer rates Galliard's Stable Value strategy "A" and recommends no changes at this time. Ms. Henson further reviewed the executive summary included in the meeting materials. Mr. Dillard provided a detailed overview of all funds' performances and updates regarding market sector changes, as well as fees.

Mercer also noted that it was comfortable with the recommendation to replace PIMCO.

#### **NC 403(b) Program 2<sup>nd</sup> Quarter Investment Performance Report**

Ms. de Mey discussed the total asset balances in the Program and strong performance of the funds, positively impacted by strong consumption and low unemployment. She discussed the performance of the funds against their respective benchmarks in detail.

#### **NC 401(k)/457(b) Plans and NC 403(b) Program 2<sup>nd</sup> Quarter Administrative Report**

The Chair recognized Mr. McCann who provided the overview of contractual recordkeeping goals, noting that Prudential exceeded all requirements. He summarized the Plans' and the Program's new adoptions, GoalMaker asset balances, contributions level, field appointments, as well as year-to-date enrollments. At Mr. Long's request, Mr. McCann detailed the GoalMaker participation by age group and the drivers impacting the participation. The members discussed the GoalMaker product as the default investment for the Plans' and the Program, and the importance of following a due course fiduciary process in selecting such investment with the participant's best interest in mind.

#### **Board of Trustees Comments**

The Chair asked the Board if there were any comments prior to adjournment of the meeting. Members expressed their appreciation of the staff's guidance and support. The Chair mentioned

the upcoming NAGDCA conference and encouraged the attending members to consider their roles in the conference's breakout sessions. The Chair also spoke briefly regarding the felony forfeiture law and its application to the Supplemental Retirement Plans.

**Public Comments**

No comments were offered.

**Adjournment**

There being no further business before the Board, Ms. Russell moved to adjourn, which was seconded by Mr. Long, and the meeting was unanimously adjourned at 11:40 a.m.

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Chair

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Secretary