



RETIREMENT SYSTEMS DIVISION

STEVEN C. TOOLE
EXECUTIVE DIRECTOR

MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: June 18, 2018

SUBJECT: Revised Board charter

At its June 21, 2018 meeting, the Board will consider a revised Charter that is recommended by staff. A copy of the revised Charter, with redlines showing the main changes from the current Charter, is included in your materials, and the most significant changes are discussed below.

Delegation by the Chair

The Chair may designate an employee of the Department to act in his place at a meeting. Currently, such designation must be in writing. The revised Charter requires only that an ongoing designation – versus a designation for a single meeting – by the Chair must be in writing. In addition, the Chair may delegate his or her duties to another member during the Chair's absence.

Responsibilities and Delegation

The revised Charter provides more details on the Board's responsibilities (Sections IV.C-E) and its ability to delegate its responsibilities (Sections IV.F and VII).

Subcommittees

The Chair appoints members and chairs of the subcommittees, subject to the ratification of Board. Currently, members and members and chairs of the subcommittees are nominated by the Chair and ratified by the Board. The change will allow the Chair to make appointments between scheduled Board meetings without the need for a special meeting, while still allowing the full Board the opportunity to approve or disapprove of the appointments at the next Board meeting.

The revised Charter focuses the role of the Audit Subcommittee on the annual audit of the NC 401(k) and NC 457 Plans and the related review of internal controls.

The revised Charter explicitly permits the Board to appoint *ad hoc* subcommittees as needed to address specific issues of limited scope.

The chair of a subcommittee may delegate his or her duties to another member of the subcommittee during the chair's absence.

Attendance

Attendance by telephone or videoconference no longer requires the prior approval of the Chair.

Proxy

A Board member's proxy must provide direction to the designee on how to vote on specific issues that will be before the Board.

Voting

The revised Charter clarifies that all members of the Board or a subcommittee are permitted to vote and make motions.

CHARTER

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

I. Purpose and Authority

The North Carolina Supplemental Retirement Board of Trustees (the “Board”), in conjunction with the North Carolina Department of State Treasurer (the “Department”), administers the Supplemental Retirement Income Plan of North Carolina (the “NC 401(k) Plan”), the North Carolina Public Employee Deferred Compensation Plan (the “NC 457 Plan”), and the North Carolina Public School Teachers’ and Professional Educators’ Investment Plan (the “NC 403(b) Program” and with the NC 401(k) and NC 457 Plans, the “Plans”). The Board has a fiduciary duty to establish, manage, and oversee all aspects of the Plans for the exclusive benefit of participants and their beneficiaries. This Charter establishes the general structure of the Board in discharging these duties and is subject at all times to the North Carolina General Statutes. N.C.G.S. §§ 135-91(a), 135-91(c), 135-91(d), 135-96, 115C-341.2, and 143B-426.24.

~~The Board shares fiduciary responsibility for the Plans' administration, investment, and disposition with the North Carolina Department of State Treasurer pursuant to N.C.G.S. § 135-91(d). The Board and the Department of State Treasurer shall act for the exclusive purpose of serving the Plans' participants and their beneficiaries. In fulfilling this responsibility, the Board and the Department of the State Treasurer have full power and authority to adopt rules and regulations of the administration of the Plans, including the appointment and dismissal of agents, contractors, employees and committees deemed advisable to carry out the terms and conditions of the Plan. N.C.G.S. § 135-91(e).~~

II. Composition

The composition of the Board and the terms of its members are established by N.C.G.S. § 135-96. The Board consists of nine members, who serve staggered terms.

A. Membership

The Treasurer of the State of North Carolina serves *ex officio*. N.C.G.S. § 135-96(b)(4). The Treasurer may designate a member of the Department to act at any meeting of the Board from which the Treasurer is absent. The Treasurer’s designee may act to the same extent that the Treasurer could act if present in person at such meeting. An ongoing designation – versus a designation for a single meeting – by the Treasurer for must be in writing and filed with the Board. N.C.G.S. § 135-96(d).

Six members serve by appointment of the Governor. These members serve at will and can be removed at any time and for any reason, upon written notice from the Governor. N.C.G.S. § 135-96(b)(1).

One member serves by appointment of the General Assembly, upon the recommendation of the Speaker of the House of Representatives. N.C.G.S. § 135-96(b)(2).

One member serves by appointment of the General Assembly, upon the recommendation of the President Pro Tempore of the Senate. N.C.G.S. § 135-96(b)(3).

B. Terms

The Treasurer, as an *ex officio* member, serves for as long as he or she holds office. N.C.G.S. § 135-96(b)(4).

The two members appointed by the General Assembly shall serve initial terms of three years, from July 1, 2016 to June 30, 2019. Thereafter, such members shall serve three-year terms.

Three of the members appointed by the Governor shall serve initial terms of one year, from July 1, 2016 to June 30, 2017. Thereafter, such members shall serve three-year terms.

Three of the members appointed by the Governor shall serve initial terms of two years, from July 1, 2016 to June 30, 2018. Thereafter, such members shall serve three-year terms.

An appointed member shall continue to serve on the Board until the member's successor is appointed, but such holdover does not affect the expiration date of the successor's term. N.C.G.S. § 135-96(c1).

No appointed member of the Board may serve longer than any of the following: (1) two consecutive three-year terms; (2) three consecutive terms of any length; or (3) eight consecutive years. N.C.G.S. § 135-96(c1).

III. Officers

A. Chair

The Treasurer serves as Chair of the Board *ex officio*. N.C.G.S. § 135-96(b)(4). The Chair's duties and authority include, without limitation, the following: (1) conducting meetings of the Board; (2) calling special and emergency meetings of the Board; (3) appointing members and chairs of the Board's subcommittees (subject to the Board's ratification); (4) enforcing the policies of the Board; and (5) recommending the

appointment or removal of members; ~~(4) recommending the appointment or removal of Department staff; (5) recommending the appointment of all subcommittee members and chair leadership.~~ The Chair may delegate his or her duties to another member during the Chair's absence.

B. Secretary

The Department's Deputy Director of the Supplemental Retirement Plans serves as Secretary of the Board, unless the Treasurer appoints a member of the Board or another member of the Department's staff. The Secretary is responsible for the following: (1) assisting the Chair in conducting meetings in an efficient and effective manner and in compliance with applicable laws and policies; (2) maintaining a current list of Board members, with their contact information and Board terms; (3) providing a meeting agenda and materials to Board members in advance of each meeting; (4) assisting the Board in scheduling meetings; (5) notifying members of the public of meetings in compliance with North Carolina's open meetings law (N.C.G.S. Chap. 143, Art. 33C, the "Open Meetings Law"); (6) accepting service of process on behalf of the Board; and (7) other duties as assigned by the Chair or the Board. ~~(5) responding to requests under North Carolina public records laws; (7) Ensuring compliance with the Code of Ethics and Conduct;~~

IV. Meetings

A. Schedule

The Board shall establish an annual schedule of at least quarterly meetings of the Board. Special or emergency meetings of the Board may be called by the Chair or a majority of the current members of the Board.

B. Notices and materials

The annual meeting schedule and notices of all meetings of the Board and its subcommittees shall be posted on the Department's website and as otherwise required by the Open Meetings Law. The agenda and meeting materials for each meeting of the Board or a subcommittee shall be posted on the Department's website.

C. Open meetings

All meetings shall be conducted in compliance with the Open Meetings Law, which applies to meetings of the Board or a subcommittee at which a quorum is present. All meetings shall be open to the public, unless closed by vote of the Board or subcommittee in compliance with the Open Meetings Law. The Board may meet in executive session to discuss, with preservation of attorney-client privilege, any complaints from members which could result in potential lawsuits. Members of the

public shall be permitted to speak at all meetings. The Board Chair or subcommittee chair may reasonably limit the time for public comment.

D. Minutes

Departmental staff shall take the official minutes of all meetings. The minutes are subject to approval by the Board.

E. Quorum and voting

Any action by the Board or a subcommittee requires a majority vote of the members in attendance, provided that a quorum exists at the time the vote is taken. A quorum of the Board or a subcommittee requires a majority of the members currently serving on the Board or the subcommittee. All members of the Board or a subcommittee are voting members and are permitted to make motions.

F. Attendance

Each member of the Board is expected to attend all meetings of the Board and any subcommittee on which the member serves. Members may attend meetings in person or (if available) by phone or videoconference.~~Board members are to attend meetings in person. Where a member is unable to attend in person, a member may attend by teleconference or by videoconference upon the prior approval of the Board Chair.~~

G. Proxy

A Board or subcommittee member may delegate his or her vote during a meeting in which such member is absent. The proxy shall be in writing and shall direct the member's proxy how to vote on specific issues that are scheduled to be before the Board or the subcommittee for a vote.~~A Board member may delegate his authority to another Board member to vote in deliberations before the Board in his absence. Such a delegation of authority must be in writing or electronic writing and announced at the opening of each meeting.~~

V. Duties

~~The Department of the State Treasurer and the Board of Trustees shall serve as fiduciaries to the Plans and its Participants and their beneficiaries and are responsible for the receipt, maintenance, investment, and disposition of all Plan assets. N.C. Gen. Stat. §§ 135-91(d); 143B-426.24(g),(h),(m); 115C-341.2 (b)(2),(3).~~

~~The Board and its individual members shall exercise a duty of care and prudence in the Plans administration, discharging its duties with care, skill, prudence, and due diligence.~~

A. Standard of care

Members of the Board shall act at all times:

1. Solely in the best interests of participants and beneficiaries and for the exclusive purpose of providing their benefits; and
2. With the care, skill, and prudence exercised by reasonable people in similar situations.

B. Responsibility

The Board is responsible at all times for the administration of the Plans, including plan design, investment managers and vendors, plan documents, fees, and policies. The Board may delegate primary administrative responsibilities to Departmental staff, Board subcommittees, and vendors but shall remain responsible at all times for the Plans and for the oversight of such delegees.

C. Plan design

The Board is responsible for selecting, monitoring, and (as necessary) replacing the investment options and features of the Plans, including any asset allocation model or target-date fund.

D. Investment managers and vendors

The Board shall select, monitor, and (as necessary) replace investment managers and funds and the recordkeeper, custodian, auditor, and any other key vendor, as determined by the Board.

E. Plan documents, fees, and policies

The Board is responsible for establishing, monitoring, and (as necessary) revising the plan documents, administrative fees, policies, and (as warranted) rules for the administration of the Plans.

F. Delegation

The Board may delegate primary responsibility for the following matters to Departmental staff, a subcommittee of the Board, an investment consultant, and/or another entity or person retained by the Board: (1) selection of non-key vendors; (2) contracting with investment managers and funds and other vendors; (3) day-to-day compliance, monitoring, operations, management, and legal affairs; (4) performance and cost monitoring and reporting; (5) plan design monitoring and reporting; (6) recommendations regarding investment options, managers, and funds and plan features; (7) preparation of financial statements and auditing; and (8) communications

and marketing. As noted above, the Board remains ultimately responsible at all times for the Plans and for the oversight of any delegees.

B-G. Ethics and training

Board members shall file all disclosures and complete all ethics training that are required by the North Carolina State Ethics Commission or state law. Board members shall complete orientation training within 90 days of joining the Board and shall complete fiduciary training on an annual basis. The orientation and fiduciary training shall be provided by Departmental staff. ~~Upon acceptance of his or her appointment, each Board member shall be required to sign an affirmation pledging to uphold both the letter and spirit of the Code of Ethics.~~

VI. Subcommittees

The Board has two standing subcommittees – the Investment Subcommittee and the Audit Subcommittee. In addition, the Board may appoint *ad hoc* subcommittees as needed to address specific issues of limited scope. Subcommittees consist of at least three but not more than four Board members. Members and chairs of subcommittees are appointed by the Board Chair and ratified by Board Members. The chair of a subcommittee may delegate his or her duties to another member of the subcommittee during the chair's absence.

A. Investment Subcommittee:

The Investment Subcommittee is primarily responsible for monitoring the performance, cost, and management of – and (as warranted) recommending changes to – the Plans' investment options, managers, and funds. The subcommittee is also primarily responsible for establishing, monitoring, and (as warranted) recommending changes to the Plans' investment policy statements and other investment-related policies. In discharging its duties, the subcommittee shall obtain the assistance of an investment consultant and/or Departmental staff and any other parties as determined by the subcommittee. The Investment Subcommittee shall meet at least two weeks prior to each scheduled meeting of the Board.

~~The subcommittee shall be composed of at least three but no more than four Board members and shall meet at least quarterly to review the performance of the Plans' investment options.~~

~~The subcommittee shall, in consultation with an independent investment consultant and Department staff, make regular reports to the Board on those investment options, tendering recommendations for Board action on any and all investments.~~

~~The Board Chair shall nominate a member or members to Chair the Investment Subcommittee.~~

~~The subcommittee will meet at least two weeks prior to any full Board meeting, allowing adequate time to submit its report and recommendations to all Board members for action at the next regularly constituted meeting.~~

~~The subcommittee shall have all authority to examine Plan documents, investment options and any materials necessary to the performance of their advisory responsibilities.~~

~~In the performance of these duties, the subcommittee shall have access to and work in coordination with an independent investment consultant and Department staff.~~

~~The subcommittee may also review any background data, historical information, staff reports, consultants' reports, and any other documents it deems reasonably necessary to form an opinion of the capabilities of the staff, investment managers, custodian banks, investment consultant and other service providers. The subcommittee is authorized to ask any questions of such individuals and entities that are relevant to the services they perform on behalf of the Plans.~~

B. Audit Subcommittee:

The Audit Subcommittee oversees the audit process for the NC 401(k) and NC 457 Plans, discusses audit-related issues with the external auditor, accepts the financial statements of the NC 401(k) and NC 457 Plans, and reports to the Board following the subcommittee's meetings. The subcommittee also ensures Departmental and vendor accountability on internal controls, including following up on any management letter comments from the previous year. The subcommittee has two regularly-scheduled meetings – an initial meeting with the external auditor in February and a meeting in July to hear the auditor's report and accept the financial statements.

~~The subcommittee shall be composed of at least three and no more than four members who are empowered to accept the Plans financial statements and is charged with oversight of all financial reports and other financial information provided as well as compliance with state and federal regulations and all internal controls regarding finance, accounting, legal compliance, and other operating procedures.~~

~~The subcommittee shall meet at least twice a year and shall make reports to the Board after such meetings on the Plans' oversight mechanisms and compliance.~~

~~—The subcommittee shall be responsible for overseeing an annual audit of the Plans' records and performance. The subcommittee may review any background data, historical information, staff reports, consultants' reports, and any other documents it deems reasonably necessary to form an opinion of the capabilities~~

~~of the staff, investment managers, custodian banks, investment consultant, and other service providers. The subcommittee is authorized to ask any questions of such individuals and entities that are relevant to the services they perform on behalf of the Plans.~~

VII. Staff

The Treasurer may appoint members of the Department to serve as staff to the Board and its subcommittees, subject to removal or replacement by the Board. The Board and its subcommittees may request legal, compliance, operational, communications, and/or other assistance from staff.

Adopted by the Board, this 21st day of June, 2018.

North Carolina State Treasurer, Dale R. Folwell, CPA, Chair
North Carolina Supplemental Retirement Board of Trustees