

DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF SPECIAL MEETING

August 11, 2015

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 2:30 p.m. on Tuesday, August 11, 2015, in the Dogwood Conference Room of the Longleaf Building, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Janet Cowell, Melinda Baran, Karin Cochran, Walter Gray, Michael Lewis, Gene Hamilton, Keith Burns and Robert Orr attended via telephone.

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Steve Toole, Mary Buonfiglio, Blake Thomas, Rekha Krishnan, Lisa Page, Mary Laurie Cece, Maja Moseley. Kevin SigRist attended via telephone. Members of the public: Flint Benson from SEANC.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order at 2:30 p.m. Treasurer Janet Cowell, Chair of the Board, welcomed Board members and guests. The Treasurer also asked that the public comments be held until the end of the meeting.

AGENDA ITEM – ETHICS AWARENESS AND IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST

The Treasurer asked Board members to review the agenda for the meeting and identify any actual, implied or potential conflicts of interest. There were no conflicts identified.

AGENDA ITEM – RESOLUTION TO CREATE A COMMINGLED GROUP TRUST FOR THE NC 401(k) AND THE NC 457(b) PLANS

The Chair recognized Mr. Toole and Ms. Cece to discuss the creation of the group trust. Mr. Toole directed the attendees' attention to the schematic of the current plan bundled model, which is very common for smaller plans, with up to one billion dollars in assets under management. The bundled model offers a turnkey approach to plan management but it does not, however, deliver the desired transparency and clarity of roles. This translates to a higher fiduciary risk and an issue that one provider within a bundled model may impact the entire plan. The model

appropriate for a plan of our size is an unbundled structure, which is also an industry best practice. This model would become effective on January 4, 2016. The unbundled structure would allow for clear definitions of roles and responsibilities, full transparency, and ease of vendor management. Mr. Toole explained that legal documentation has been created to establish a group trust to facilitate this unbundling and that Board members' approval is needed to make the trust effective.

Mr. Burns wanted to confirm the benefits of the group trust structure and listed them as: increased transparency, increased flexibility, improvement of member services and risk-level reduction. Mr. Toole agreed that those are the main benefits and also added that all-in fees will be reduced.

Ms. Cece referenced the Declaration of Trust document, which stated that currently, the Board members are the trustees for the NC 401(k) and the NC 457(b), respectively. The intent now is to establish one trust which would allow the investment managers to manage one strategy in one account. The NC 401(k) is exempt from registration under the Investment Company Act of 1940, granted by the 401(a) Internal Revenue Code and the NC 457(b) has a governmental exemption. However, there are no exemptions for both plans combined, which could pose a commingling problem. Ms. Cece noted that despite this fact, there are other governmental entities which have such master trusts in operation. The registration under the 1940 Act falls under the Securities Exchange Commission authority, and the SEC has previously given several "no action" letters regarding the commingling of multiple 401(a) plans, but none of those letters address a scenario exactly like ours. The Plans have received assistance from outside legal counsel and they were supportive of the action, as this group trust is in fact a governmental entity and all trustees are appointed by the governor or the General Assembly. One risk involved in commingling is that the SEC may require that the trust be divided back into two plans; there would not be any monetary penalty, only a structural change. Ms. Cece reiterated that although the Declaration of Trust appoints the Board as custodian, the Board delegates that function to Bank of New York Mellon. The bank would not serve as trustee for the trust.

Mr. Orr asked if there were any known events where the SEC actually reviewed other, similar plan structures, and Ms. Cece replied that such issue has not come up before; there is no precedence. Currently, governmental entities are no longer permitted to establish a 401(k) plan – the NC 401(k) has been grandfathered. Most governmental entities only have multiple 457(b) plans, which may be commingled easily.

Mr. Orr asked how the issue was identified, and Ms. Cece replied that an outside counsel for BNY Mellon has previously written a "no action" letter on behalf of the American Bar Association, and noted our group trust structure in this context. Mr. Toole also added that one definite action **not** to take would be the commingling of ERISA and non-ERISA dollars.

However, both plans are non-ERISA. Mr. Hamilton asked whether administrative savings could be realized in the commingling process, and Mr. Toole replied that the savings would come from the management of the investment account. Specifically, there would not be a need to open separate managed accounts. Mr. Toole also confirmed that the NC 403(b) Program will continue to be a separate entity. Ms. Cece also stressed that the trust will receive an IRS letter of direction stating that the group trust retains its qualified status. The issue was also discussed with the newly appointed custodian, BNY Mellon, and they are comfortable with the approach. Mr. Toole added that even if there was any corrective action mandated by the SEC in the future, there would be time to make necessary corrections. Mr. Burns stated that the SEC exists to provide market integrity and member protection, and wanted to confirm that nothing against the rules is being proposed. Ms. Cece confirmed that the proposal is not contrary to an SEC mandate.

Ms. Cece reminded the members that by adopting the resolution, they are also adopting the Declaration of Trust, and its roles and responsibilities. Mr. Burns wanted to ensure that his role is clearly defined as a “board member” and not “legal counsel to the board.” Ms. Cece added that indeed, the specific language was added to the Declaration in paragraph 6.1, “Standard of Care,” and it lists the exact same statutory limitation of liability as was listed under the two separate plans.

Ms. Baran made the motion to approve the resolution to create the commingled trust and was seconded by Mr. Hamilton. The motion passed unanimously.

AGENDA ITEM – RESOLUTION FOR THE NC 401(k) AND THE NC 457(b) PLAN TO JOIN THE NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS GROUP TRUST

Ms. Cece asked the Board members for a decision regarding the two trusts joining the group trust. Mr. Hamilton made the motion to approve the resolution, and was seconded by Mr. Gray. The motion passed unanimously.

AGENDA ITEM – RESOLUTION TO AUTHORIZE CERTAIN SIGNATORIES FOR THE NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS GROUP TRUST

Ms. Cece explained that this resolution authorizes the Treasurer, the General Counsel, and the Retirement System Division Director to sign for the group trust. This is especially important in many of the foreign jurisdictions in which the plans hold assets, as a local subcustodian is required to hold the assets. Ms. Cece confirmed for Mr. Orr that this is not a change in signatory authority, as previously, Jay Chaudhuri held the authority as the General Counsel and it is now with Andrew Holton.

Mr. Burns made the motion to approve the resolution, and was seconded by Ms. Cochran. The motion passed unanimously.

AGENDA ITEM – RESOLUTION TO AUTHORIZE CERTAIN SIGNATORIES FOR THE NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

Ms. Cece explained that this resolution authorizes the Treasurer, the General Counsel, and the Retirement System Division Director to sign documents on behalf of the Board.

Ms. Baran made the motion to approve the resolution, and was seconded by Mr. Orr. The motion passed unanimously.

The Chair informed everyone that the next item required a closed session discussion. The Chair advised that in the closed session, the Board would take up an issue involving matters that are not yet the subject of any existing lawsuit.

The Chair then asked the members of the Board to make a motion to enter closed session pursuant to G.S. 143-318.11(a)(3). Mr. Burns made the motion to enter closed session, and the motion was seconded by Ms. Baran.

The Chair asked for a motion to re-open the meeting. Ms. Baran made a motion to reopen the meeting. Mr. Burns made a second and the motion passed.

AGENDA ITEM – BUDGET UPDATE

The Chair recognized Mr. Toole to present the budget update. Mr. Toole stated that current expense cap is 2.5 basis points (bps). It is called a “cap;” however, the plan is currently collecting it, but not spending all of it. In response to a question from Mr. Burns, regarding the plans’ overall competitiveness, Mr. Toole stated that based on the 2013 CEM benchmarking report, the plans are 1.5 bps higher than peer median. However, excess dollars had accumulated in the administrative reimbursement account and was redistributed to the plan participants in Spring 2013. Five basis points is being collected in the NC 403(b) Program. As of June 30, 2015, 5.4 million dollars have accumulated in the administrative reimbursement account and the standing goal is to have one year’s budget in reserve. Mr. Toole noted that adjusting the cap at this point is not advisable, as the plans’ are still working on restructuring their relationship with Mercer.

Mr. Tool then requested a budget increase of \$50,000.00, plus applicable benefits for the new position of Director, Investments, plus additional \$15,000.00 for applicable benefits. Mr. Toole

stated that the request was motivated by Mercer's review, which yielded comparable market compensation within the range of \$165,000.00 and \$245,000.00; median is \$200,000.00.

Mr. Toole added that the Stable Value Fund reimbursement of approximately \$250,000.00 will be discussed at a later date and, once the contract with Mercer is finalized, a new budget forecast will be made.

Mr. Burns asked whether Mercer's findings were tested out in the market, and Mr. SigRist confirmed that the amount of \$200,000.00 was adequate based on the recent hirings of investment positions on the pension side of the business. Mr. Burns also asked if this hiring was consistent with state personnel rules, and Mr. Toole replied that the governor has recently signed the Administrative Act, which becomes effective on October 1, 2015, and the plans were granted approval to pay for those positions relief was sought for.

Mr. Burns made the motion to approve the updated budget, and was seconded by Mr. Orr. The motion passed unanimously.

AGENDA ITEM - SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS

No additional comments were offered.

AGENDA ITEM – PUBLIC COMMENT

No public comments were offered.

Motion to adjourn was made by acclamation. The board adjourned at 3:27 p.m.

Secretary