

Memorandum to: Supplemental Retirement Board of Trustees

From: Mary Laurie Cece, Assistant General Counsel, North Carolina Department of State Treasurer

Re: Effect of New Board Terms

Date: November 30, 2015

As you are aware, this summer Governor Pat McCrory signed into law a bill that both expanded the length and staggered the terms for board members of the Supplemental Retirement Board of Trustees. Below is information on how this bill could affect each board member's particular term.

Under the legislation all of the current terms will end effective June 30, 2016. Unless a board member requests otherwise, DST staff will seek the re-appointment of all current board members.

The new terms of Melinda Baran and Michael Lewis, the two board members appointed by the General Assembly, will begin on July 1, 2016, and shall be effective for three years ending on June 30, 2019, with the possibility of one additional three year term. Either Ms. Baran or Mr. Lewis may be reappointed for the second three-year term if, upon conclusion of the second three year term, they will not have served more than a total of eight consecutive years.

Of the six members appointed by the Governor (currently, Ms. Cochran, Mr. Gray, Mr. Hamilton, Mr. Orr, and Mr. Burns) three will have a one year term that ends on June 30, 2017, and three will have a two year term that ends on June 30, 2018. The Governor will decide the individuals to serve for a one-year term and those to serve for a two-year term. At the end of the terms, each board member may be reappointed for an additional three year term if, with that three year term, they will have served no more than a total of eight consecutive years.

Finally, the State Treasurer serves on the board by virtue of the office and shall serve as long as he or she holds office.

North Carolina Supplemental Retirement Board of Trustees Charter

I. Purpose and Authority

Pursuant to N.C.G.S. §135-96(a) the General Assembly established the Supplemental Retirement Board of Trustees (the "Board") to administer (1) the Supplemental Retirement Income Plan of North Carolina (the "NC 401(k) plan") established under N.C.G.S. § 135-91, (2) the North Carolina Public Employee Deferred Compensation Plan (the "NC 457 plan") established under N.C.G.S. § 143B-426.24(a), and (3) the North Carolina Public School Teachers' and Professional Educators' Investment Plan (the "NC 403(b) program") established under N.C.G.S. 115C-341.2 (hereinafter referred to collectively as "the Plans").

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(c).

II. Composition and Duties

The Board is composed of nine members, including the State Treasurer who serves *ex officio* and as the Board Chair. The appointment of the eight appointed members is divided between the Governor and the General Assembly.

A. Appointments

1. Six members shall be appointed by the Governor. These members serve at will and their membership can end at any time upon written notice of removal, with or without cause, at the discretion of the Governor. N.C.G.S. § 135-96(d).
2. One member shall be appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives.
3. One member shall be appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

B. Staggered Terms

Effective July 1, 2016:

1. The two appointments made by the General Assembly shall be for initial terms of three years to expire June 30, 2019.
2. Three appointments made by the Governor shall be for initial terms of one year to expire June 30, 2017.
3. Three appointments made by the Governor shall be for initial terms of two years to expire June 30, 2018.

Upon the expiration of these initial staggered terms, appointment for all members shall be for terms of three years. The appointment shall be for a period of three years, beginning on the day following the expiration date of the previous member's term. A member shall continue to serve until the member's successor is duly appointed, but a holdover term does not affect the expiration date of the succeeding term. N.C.G.S. § 135-96(c).

No appointed member shall serve longer than any of the following:

1. Two consecutive three year terms;
2. Three consecutive terms of any length in the event that one or more of the terms is for fewer than three years in duration, or the member serves a partial term as the result of filling a vacancy;
3. Eight consecutive years, regardless of term length. N.C. Gen. Stat. § 135-96(c1) (1), (2) and (3).

The State Treasurer serves by virtue of his or her office and, as such, shall serve for so long as he or she holds that office. In accordance with N.C. Gen. Stat. §135-96(d), the State Treasurer may designate, in writing and filed with the Board, any employee of his or her office to act on his or her behalf before the Board.

C. Standard of Care

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.

To that end, Board members shall be responsible for the following:

1. Orientation -- All Board members shall complete an orientation program within 90 days of the date of their appointment. Department of State Treasurer staff shall be responsible for conducting the orientation program.
2. Ethics -- 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. All Board members shall also complete the Statement of Economic Interest and the training sessions required by the North Carolina Ethics Commission.
3. Annual Fiduciary Training -- Board members shall participate in the annual fiduciary training provided by the North Carolina Department of State Treasurer.

D. Board Officers

1. Chair

Pursuant to N.C. Gen. Stat. § 135-96, the State Treasurer shall be the chairman *ex officio*. These duties include, but are not limited to: (1) calling special or emergency meetings; (2) enforcing the governing policies of the Board; (3) 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; and (6) conducting all meetings in an efficient and effective manner.

2. Secretary

The State Treasurer shall appoint a Secretary to the Board who need not be a member of the Board. The Secretary shall be the Deputy Director for the Supplemental Retirement Plan unless otherwise appointed by the State Treasurer. The Secretary's duties include, but are not limited to:

- a) Maintaining a current list of Board members;
- b) Notifying all members and the public of meetings;
- c) Coordinating and disseminating information to the Board;
- d) Maintaining official minutes and records of all proceedings from Board meetings;
- e) Responding to requests under North Carolina public records laws;
- f) Accepting service of process on behalf of the Board;
- g) Ensuring compliance with the Code of Ethics and Conduct;
- h) Preparing, as directed, by the Chair an order of business ("agenda") prior to each Board meeting, for use by the Chair, showing the exact order of all matters known in advance; and
- i) Otherwise facilitating the scheduling of each meeting and notifying members thereof.

E. Standing Subcommittees

The Board shall have two standing subcommittees: the Investment Advisory Subcommittee and the Audit Subcommittee. Membership and leadership of these subcommittees is restricted to Board members who serve at the nomination of the Board Chair and ratification of the Board.

Members shall conduct themselves in accordance with their fiduciary duty of loyalty and care owed the Plans and participants when serving on any subcommittee.

1. Investment Subcommittee:

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.

2. Audit Subcommittee:

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.

IV. Meetings

- A. Open Meeting Laws: The Board shall comply with all requirements of the North Carolina Open Meetings Laws.
- B. Schedule of Meetings: Each year, the Board shall set, publish and post on the State Treasurer's website an annual schedule showing the time and location of regular meetings. The Board shall meet at least quarterly and may convene more often if called by the State Treasurer or a majority of Board members.
- C. Attendance Policy: 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.
- D. Quorum: Quorum is satisfied where a majority of currently serving members are in attendance.
- E. Proxy Voting: 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.

- F. Public Comment: At the end of each meeting, time will be reserved for public comment. Time for public comment may be reasonably limited by the Chair.
- G. 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.

Adopted by motion on December 10, 2015 by the Supplemental Retirement Board of Trustees, and effective on that date.

Board Chair _____

Name: _____

Title: _____