



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



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

## **MINUTES SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

The regular quarterly meeting of the Supplemental Retirement Board of Trustees (Board) was called to order at approximately 9:00 a.m. on December 2, 2021, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in a hybrid format, with people attending virtually or in person, 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**

Board members attending in person: Treasurer Dale Folwell, Melinda Baran and Nels Roseland.

Board members attending virtually: Steve Beam, Wyndon Hibler, Michael Lewis, James Lumsden and Chevella Thomas.

### **Members Absent**

Lorraine Johnson

### **Guests Present**

Guests attending in person: Matt Herrmann and Michael McCann from Prudential.

Guests attending virtually: Elizabeth Hood and Weston Lewis from Callan; Paul Langanki from Galliard; Mary Conti, Aaron Koval, and Jessica Quimby from Prudential; and other members of the public.

### **Department of State Treasurer Staff Present**

Staff members attending in person: Victoria Bledsoe, Ted Brinn, Thomas Causey, Reid Chisholm, Zora Falkowski, Patti Hall, Jeff Hancock, Alan Jaquith, Kristin Merrick, Christopher Morris, and Sam Watts.

Staff members attending virtually: Christy Farrelly, Joan Fontes, Derek Gee, Bill Golden, Rekha Krishnan, Fran Lawrence, Paul Palermo, and Laura Rowe.

The Chair called the meeting to order and reminded members that, since this meeting is being held in a hybrid format, members must announce their names when they arrive, when they depart, and when speaking. He explained that making a motion will be assumed to be a vote for the proposal and that all votes will be taken by roll call. He stated that today's meeting is being recorded under the Department of State Treasurer's policy to record official public meetings as part of an initiative to increase government transparency.

The Chair introduced Mr. Ted Brinn, Jr., the new Chief of Staff replacing Ms. Chris Farr, who retired. The Chair also shared that Ms. Loren de Mey, the Assistant Director of Investments for SRP, left the Department for an investment position with the State of Florida and introduced Mr. Chris Morris, the Co-Chief Investment Officer, who will be filling in for Ms. de Mey until her former position is filled.

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

The Chair asked, pursuant to the ethics rules, about Board member conflicts of interest. No conflicts of interest were identified.

The Chair informed the members that the Evaluation of Statement of Economic Interest (SEI) for Ted Brinn, Jr. was available in the appendix. He said that SEI evaluations are a part of the meeting minutes.

#### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the August 26, 2021 quarterly Board meeting. Ms. Melinda Baran so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **NC Supplemental Retirement Plans Annual Strategic Communication Plan**

The Chair recognized Ms. Zora Falkowski to provide the annual communication strategy for the Supplemental Retirement Plans. Ms. Falkowski shared highlights of the communication efforts in 2021 and a roadmap for 2022. She explained how we used a participant-first mentality and real members for marketing content in 2021, increasing engagement across the board. She also shared that we improved the online enrollment process and saw a 65% increase in year over year traffic to the Plan Information & Enrollment webpage. Ms. Falkowski stated our celebration of National Retirement Security Month in October was a success and the number of virtual counseling sessions and educational webinars skyrocketed. In addition, we created two evergreen videos featuring the Treasurer, where he discussed the importance of being retirement ready. We will continue the positive momentum of our communications efforts into 2022 and keep engaging, educating, and empowering participants and employers with a participant-first mentality.

#### **Legislative Agenda Update**

The Chair recognized Mr. Sam Watts, the Department's legislative liaison. Mr. Watts shared the Department's activity at the General Assembly in 2021 and the appropriations made to the Department.

Mr. Watts explained that the General Assembly listened to the Board and gave weight to the Board's resolution regarding the proposed state budget provisions that would have harmed the Board's oversight and operation of the Supplemental Retirement Plans. He said the proposal was defeated. He also shared that the bill regarding fee flexibility for the NC 401(k) and NC 457 Plans was approved.

#### **Administrative Matters: NC 401(k) & NC 457 Plans Administrative Fee Recommendation**

The Chair recognized Mr. Jeff Hancock to present a recommendation for the NC 401(k) and NC 457 Plans administrative fee for 2022 (included in the Board's materials). Mr. Hancock began by introducing and welcoming Kristin Merrick, the new SRP Operations Analyst, who replaced Rekha Krishnan. He said that the recently-enacted fee flexibility law gives the Board and the Department flexibility to set the administrative fee between 0 and 2.5 basis points. Mr. Hancock also explained that there is no formal target for the amount of SRP's expense reserves. He stated that staff recommends cutting the administrative fee in half to 1.25 basis

points and evaluating the fee on an annual basis. This approach will enable the current expense reserves to be slowly spent down, while allowing flexibility to adjust the fee as needed to manage reserves. Mr. Hancock commented that proposed fee was stress tested using both flat market conditions and a 20% market downturn. In response to a question from the Board, Mr. Hancock explained that the fee is accrued daily and moved monthly into the expense accounts for the NC 401(k) and NC 457 Plans, which are held in the NC Stable Value Fund. As needed, the Department moves funds from the expense account to SRP's accounts at the Department. Pursuant to the recently-enacted fee flexibility law, the proposed new administrative fee of 1.25 basis points must be posted on the Department's website for at least 30 days, during which time comments may be sent to the Department. The proposed fee and any comments received by the Department will then be presented for a vote at the SRP Board meeting in February.

#### **Administrative Matters: NC 403(b) Program Evaluation**

The Chair recognized Mr. Hancock to present an evaluation of the NC 403(b) Program (included in the Board's materials). Mr. Hancock commented that during the August meeting, the Board directed staff to evaluate the NC 403(b) Program and to provide options. He reviewed the Program's background and history and stated that the NC 403(b) Program was launched in 2014, but has only grown to 1,410 participants with \$30.5 million in assets (as of June 30, 2021). He also shared that only 16 states sponsor 403(b) programs. Mr. Hancock explained the Program faces significant challenges, with internal competition from the NC 401(k) and NC 457 Plans, and external competition from many other 403(b) program providers. In addition, only 54% of eligible employers (i.e., school districts and community colleges) participate in the NC 403(b) Program. He explained that all of the Program's participating employers offer the NC 401(k) Plan and most also offer the NC 457 Plan.

Mr. Hancock shared two options with the Board for moving forward. The first option is to keep the NC 403(b) Program in its current state. The NC 403(b) Program is a high-quality, low-cost option for 403(b) plan sponsors and participants. The second option is to discontinue the NC 403(b) Program and focus on the NC 401(k) and NC 457 Plans.

The Board then discussed several issues regarding the NC 403(b) Program and its discontinuation, including the Program's slow growth, the impact of discontinuation on participants, options for participants to move their account balances from the Program's investments (including to the NC 401(k) or NC 457 Plan), and potentially higher fees and lockups in alternative 403(b) investments.

Mr. Beam spoke in support of discontinuing the Program. Mr. Hibler commented that if we know the Program does not work for our participants, we should exit. The Chair made a motion to discontinue the NC 403(b) Program. Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Legal Matters**

The Chair recognized Mr. Reid Chisholm to present revisions to the NC 401(k) Plan Document. Mr. Chisholm presented an amendment to the NC 401(k) Plan document (included in the Board's materials) to provide a minor correction to the contribution accelerator provision. Prudential erroneously permitted a step increase of less than one percentage point (rather than the required one-percentage-point increments) for one participant, for part of 2020. This retroactive amendment would permit that adjustment for that one situation only. This is part of the IRS approved correction process.

The Chair entertained a motion to approve the amendment. Ms. Baran so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **North Carolina Total Retirement Plans 3rd Quarter 2021 Administrative Report**

The Chair recognized Mr. Michael McCann and Mr. Matt Herrmann from Prudential to provide the North Carolina Total Retirement Plans 3rd Quarter 2021 Administrative Report (included in the Board's materials).

Mr. McCann, Prudential Client Relations & Business Development Vice President, stated that the North Carolina SRP contract extension had been executed and Prudential has already lowered the quarterly, per-participant fee. He said the transaction for Empower to purchase Prudential's full-service retirement business is on track to close in the first quarter of 2022 and Prudential's service team for SRP will remain intact.

Mr. McCann then discussed plan statistics, including distributions, contributions, active participation rates, average employee deferrals, and GoalMaker usage. He said that the number of unique participants increased, and enrollments are up.

Mr. Herrmann, Prudential Retirement Education Team Director, spoke about outreach meetings with participants, employees, and employers. He commented that Prudential had 456 group meetings in the third quarter, which was 50% higher than a year earlier, and 6,137 individual meetings. He also mentioned that there were over 15,000 enrollments and 24 plan adoptions year-to-date. Prudential is still calling all recent retirees and these calls continue to be well received. Mr. Herrmann said Prudential started offering quarterly employer education webinars and that the ongoing webinars for retirees continue to be popular.

In response to a question from the Board, Mr. Herrmann commented that the employer webinars are primarily focused on administrative roles and that occasionally decisionmakers attend.

Mr. Herrmann said that October was the highest month year-to-date for enrollments.

#### **Investment Update**

##### **NC 401(k) and NC 457 Plans 3rd Quarter 2021 Stable Value Portfolio Review**

The Chair recognized Mr. Paul Langanki of Galliard to present the NC 401(k) and NC 457 Plans 3rd Quarter 2021 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki shared progress on the sale of Wells Fargo Asset Management (WFAM). He also commented that Galliard's branding will remain the same.

Mr. Langanki reviewed the performance of the NC Stable Value Fund, noting the quality of the assets, the strong market / book value ratio, and the financial strength of the wrap providers (insurance companies). He said the crediting rate dipped slightly with the decline in prevailing interest rates, and mentioned the portfolio has outperformed the 3-Month Treasury Bill Index and the 3-Year Constant Maturity Treasury Yield. Mr. Langanki stated that all underlying strategies outperformed over the trailing 3- and 5-year periods.

##### **NC 401(k) and NC 457 Plans 3rd Quarter 2021 Investment Performance Report**

The Chair recognized Mr. Weston Lewis of Callan to present the NC 401(k) and NC 457 Plans 3rd Quarter 2021 Investment Performance Report (included in the Board's materials).

Mr. Lewis reviewed the equity markets, commenting that returns were compressed in the quarter due to inflation pressure and supply chain concerns. He reviewed Callan's "Active Management Scorecard", noting that Callan is comfortable keeping both Wedge and Mondrian on the watch list. Performance has improved for both Wedge and Mondrian with the improved relative performance of value investing. Galliard also is comfortable keeping Galliard on watch pending the sale of WFAM.

#### **NC 401(k) and NC 457 Plans Investment Updates: Investment Compliance Summary**

The Chair recognized Mr. Chris Morris to present the NC 401(k) and NC 457 Plans Investment Updates (included in the Board's materials). Mr. Morris began with the Investment Compliance Summary Report, stating that staff continues to monitor investment managers daily for compliance with their respective investment guidelines and state and federal divestment laws. No managers held prohibited holdings during the quarter.

#### **Investment Update: NC International Fund Transition Update**

Mr. Morris shared that the NC International Fund transition was completed by October 1 and all steps were completed on time and within cost expectations. The transition implemented the Board's addition of two small-cap equity managers. Acadian Asset Management and WCM Investment Management each received allocations of 7.5% of the NC International Fund. In addition, the NC International Index Fund transitioned to a new BlackRock collective investment trust (CIT) to add small-cap equity exposure. Both international funds transitioned to a new benchmark, the MSCI All Country World Ex-US Index IMI, to reflect the addition of small-cap equity exposure.

#### **NC 403(b) Program 3rd Quarter 2021 Investment Performance Report**

Mr. Morris presented the NC 403(b) Program 3rd Quarter Investment Performance Report (included in the Board's materials). Mr. Morris discussed the performance, asset balances, and managers in the Program. He mentioned that overall assets declined slightly during the quarter to \$30.4 million. He commented that DFA is the only manager on the watch list; DFA significantly outperformed its benchmark over the past year but is still trailing for the past 3- and 5-year periods.

#### **NC 403(b) Program Investment Policy Statement Review**

Mr. Morris reviewed the Investment Policy Statement (IPS) for the NC 403(b) Program (included the Board's materials). He stated there were no major changes and that a minor update was needed to reflect a change in the name of the fixed income benchmark.

The Chair entertained a motion to approve the staff recommendation to update the NC 403(b) Program IPS. Mr. Roseland so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Public Comments**

No comments were offered.

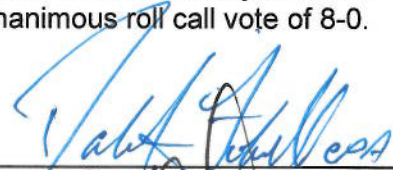
#### **Board of Trustees Comments**


The Board wished everyone Happy Holidays.

The Chair thanked everyone for participating and announced that the next Board meeting will be Thursday, February 24, 2022, at 9:00 a.m.

**Adjournment**

There being no further business before the board, Ms. Baran made a motion to adjourn, and Mr. Roseland seconded the motion. The motion passed by a unanimous roll call vote of 8-0. The meeting was adjourned at approximately 11:39 a.m.

  
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Chair

  
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Secretary

## **Supplemental Retirement Plans Board of Trustees**

December 2, 2021

### **3. Reading of SEI Statements into Minutes pursuant to the State Government Ethics Act § 138A-15(c)**

The following packet contains a new and updated Statement of Economic Interest (SEI) evaluation letter issued by the State Ethics Commission. This is being provided for Board members' review and for recording in the meeting minutes pursuant to the requirements of the Ethics Act. Members are encouraged to review the evaluation to inform and remind them of the identified actual or potential conflicts of interest.

The SEI Evaluations for the following are being provided for review:

- Wilbur T. "Ted" Brinn (Designee of State Treasurer Dale Folwell)



## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

October 1, 2021

The Honorable Dale R. Folwell  
North Carolina Department of State Treasurer  
3200 Atlantic Avenue  
Raleigh, North Carolina 27604

**Re: Evaluation of Statement of Economic Interest Filed by Mr. Wilbur T. Brinn Jr.  
Appointee to the Supplemental Retirement Board of Trustees**

Dear Treasurer Folwell:

Our office has received **Mr. Wilbur T. Brinn Jr.'s** 2021 Statement of Economic Interest as an appointee to the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed them for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 138A-28(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 138A-13.

**We did not find an actual conflict of interest or the likelihood for a conflict of interest.**

The Supplemental Retirement Board of Trustees was established through the Department of State Treasurer to coordinate and administer various supplemental retirement programs, including 457 plans, 401(k) plans and other similar investment vehicles. The Board has the authority to review contracts, agreements or arrangements pertaining to the administrative services and investment of deferred funds under the plans with service providers. Further, the Board may recommend continuation of or changes to such contracts.

The Act establishes ethical standards for certain public servants and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).



Mr. Brinn will serve as your designee on the Board.

In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

When this letter cites an actual or potential conflict of interest under N.C.G.S. § 138A-24(e), the conflict must be recorded in the minutes of the applicable board and brought to the membership's attention by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act. N.C.G.S. § 138A-15(c).

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,

A handwritten signature in cursive script that reads "Mary Roerden".

Mary Roerden, SEI Unit  
State Ethics Commission

cc: Wilbur T. Brinn Jr.  
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide