



DRAFT 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 1, 2022, 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 R. Folwell, James Lumsden, Nels Roseland, and Chevella Thomas.

Board members attending virtually: Melinda Baran, Steven Beam, Wyndon Hibler, and Lorraine Johnson.

Members Absent

Robert Shea.

Guests Present

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; Matt Herrmann from Empower; and Paul Langanki from Galliard.

Guests attending virtually: Michael McCann from Empower.

Department of State Treasurer Staff Present

Staff members attending in person: Thomas Causey, Reid Chisholm, Zora Falkowski, Christy Farrelly, Patti Hall, Jeff Hancock, Alan Jaquith, Kristin Merrick, and Christopher Morris.

Staff members attending virtually: Kristin Billimoria, Joan Fontes, Derek Gee, 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. In addition, he explained that making a motion will be assumed to be a vote for the proposal and all votes will be taken by roll call. He stated that today's meeting is being recorded as part of the Department of State Treasurer's (DST) initiative to increase government transparency.

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 updated Evaluations of Statement of Economic Interest (SEI) were available in the appendix for Treasurer Dale R. Folwell, Melinda Baran, Steve Beam, Wyndon Hibler, Lorraine Johnson, Nels Roseland, and Thomas Causey. 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 25, 2022, quarterly Board meeting. Ms. Chevella Thomas so moved and Mr. James Lumsden seconded. The motion passed by a unanimous roll call vote of 8-0.

Administrative Matters: NC 403(b) Program Discontinuance

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present an administrative update on the NC 403(b) Program discontinuance. Mr. Hancock summarized the project and said all assets have been removed from the Program, except for those of one deceased individual who did not designate a beneficiary. All assets should be out by January 25, 2023.

Mr. Hancock noted that 96 employers were active in the NC 403(b) Program; 72 employers chose to continue offering a 403(b) plan and 24 employers chose to terminate their 403(b) programs entirely. With those 72 employers, about 55 percent of the NC 403(b) Program participants were required to transfer their assets to another institution, comprising about \$21.5 million. About \$6.5 million rolled out to other investment providers or to the default IRA option. About 146 participants had small balances and either took a cash withdrawal or were cashed out by default (about \$18,000). Of the participants eligible to transfer their assets to the NC 401(k) Plan or the NC 457 Plan, 229 participants, approximately 90 percent chose to do so, with approximately \$4.1 million in assets.

Due to the NC 403(b) Program's discontinuance, two employers adopted the NC 457 Plan during 2022 and 100 participants enrolled and began investing in the NC 457 Plan.

Mr. Hancock thanked SRP staff and the Empower team involved in the discontinuance project for all their efforts. He noted about \$5,000 remains in the NC 403(b) Program expense account, which will be transferred to the expense accounts for the NC 401(k) and NC 457 Plans.

The Chair commented that the participation rate in the Plans is 50 percent higher for employees in the Local Governmental Employees' Retirement System (LGERS) than for employees in the Teachers' and State Employees' Retirement System (TSERS). He believes this is due to the lack of employer matches for TSERS's employees and intends to work with the General Assembly to propose a match for TSERS employees. The Chair said his focus will be on requesting a dollar match, rather than a percentage match, to focus on increasing retirement readiness for state workers earning less than \$40,000.

Legal Matters: Revisions to Plan Documents

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present two legal matters. Mr. Chisholm presented revisions to the plan documents for the NC 401(k) and NC 457 Plans (included in the Board's materials). The only substantive change to the Plans' operations was allowing plan beneficiaries to name beneficiaries.

The Chair entertained a motion to revise the plan documents as recommended. Mr. Nels Roseland so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.



Legal Matters: Revisions to the Policies for Participants and Employers

Mr. Chisholm reminded the Board that in August 2021, the Board adopted a set of policies that impact participants and participating employers, as well as potential participants and employers. Staff reviews these policies annually, and Mr. Chisholm presented minor revisions (included in the Board's materials), including deleting references to the NC 403(b) Program and replacing references to Prudential Retirement with Empower.

The Chair entertained a motion to revise the Policies as recommended. Ms. Thomas so moved, and Ms. Lorraine Johnson seconded. The motion passed by a unanimous roll call vote of 8-0.

NC Supplemental Retirement Plans Annual Strategic Communications Plan

The Chair recognized Ms. Zora Falkowski, Communications Officer, to present the Supplemental Retirement Plans Annual Strategic Communications Plan (included in the Board's materials). Ms. Falkowski discussed how staff continued to engage, educate, and empower employers as well as current and future participants with expanded webinar topics, timely subjects in quarterly newsletters, and the strong use of social media. Staff raised awareness of tools and resources available online and used real people discussing saving for retirement and their experiences with the Plans. The targeted content seemed to resonate with people and social media saw visits increase by 119 percent in October.

Ms. Falkowski explained how targeted webinars for employers led to increased employer participation and to a record high 543 employers contributing to the Plans. This year, there was a continued 98 percent open rate of the Nearing Retirement email campaign, as verified by Google Analytics. She shared that as of September 30, we saw a 26 percent year-over-year increase in enrollment. Ms. Falkowski also touched on the success of the detailed, targeted, and nuanced communications for the NC 403(b) Program discontinuation project.

Ms. Falkowski said for 2023, staff will maximize the use of the communications methods that have been working successfully, like focusing on hybrid consultations, expanded webinar topics, and targeted campaigns. There will also be a focus on alerting employers and participants to the upcoming 2024 platform migration with Empower.

North Carolina Supplemental Retirement Plans 3rd Quarter 2022 Administrative Report

The Chair recognized Mr. Michael McCann, Empower Client Relations and Business Development Vice President, and Mr. Matt Herrmann, Empower Retirement Education Team Director, to provide the North Carolina Total Retirement Plans 3rd Quarter 2022 Administrative Report (included in the Board's materials).

Mr. Herrmann discussed the discontinuation of the NC 403(b) Program. He thanked the Board and staff for their leadership and partnership throughout the project. He said that Empower had over 600 conversations with the 96 employers offering the NC 403(b) Program and was pleased to share that the employers were very engaged. Mr. Herrmann explained that Empower had a project plan and a project team for each of the 72 employers who maintained their 403(b) plans and transferred assets to their default provider.

Mr. Herrmann commented on the tremendous volume of communication needed to accomplish the project, including phone calls, emails, webinars, and educational sessions that were required. He shared that of those participants who were eligible to move their NC 403(b) Program assets to the NC 401(k) Plan or to the NC 457 Plan, 90 percent chose to do so.



He revealed that two employers adopted the NC 457 Plan because of the NC 403(b) Program's termination and that several other employers who kept their 403(b) programs expressed interest in terminating their 403(b) plans in the future.

Mr. Hermann noted that October was a huge month for outreach. Empower was also promoting National Retirement Security Month and had over 6,800 participants in educational sessions and approximately 9,500 education interactions during the month. He discussed the success of their Spring Into Action campaign during May and a targeted campaign in August for first responders. He said that year-over-year, the group meetings were 12 percent higher, group meeting attendees were 28 percent higher, individual one-on-one meetings were 10 percent higher, and employer meetings increased by 17 percent. Empower reinstated face-to-face meetings, with about 20 percent of interactions in person. He expects to continue with a hybrid model, meeting virtually or in-person as needed. He said that enrollments are currently on pace to exceed 2021, which was the previous record year for enrollments, and 20 employers added either the NC 401(k) Plan or the NC 457 Plan (year to date). He said courtesy outcalls to recent retirees continue, a program Empower initiated during 2020. Empower has done 7,900 calls to date, with 2,800 in 2022 alone, and have observed that a greater percentage of retirees are remaining invested in the Plans.

Mr. McCann shared key metrics for the Plans, noting that active participation rate remains strong, and the average employee deferral rate is reaching new highs. He noted that 32 employers have added, changed, or enhanced their employer contribution programs this year. During the third quarter, 95 percent of the assets that could have rolled out remained in the Plans.

Mr. McCann gave an update on the migration of the Plans from the heritage Prudential recordkeeping platform to the Empower recordkeeping platform. He said the migration is scheduled for the first quarter of 2024 and preparations are already underway. He shared that Empower recently successfully completed the migration of MassMutual's book of business to the Empower platform and commented that many of the lessons learned during the NC 403(b) Program termination project will be useful for the migration project, including how to build an engagement strategy for the sub-plan employers.

Investment Update

NC 401(k) and NC 457 Plans 3rd Quarter 2022 Stable Value Portfolio Review

The Chair recognized Mr. Paul Langanki, Senior Director, Institutional Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 3rd Quarter 2022 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki began with a Galliard company update.

Mr. Langanki reviewed the metrics and performance of the NC Stable Value Fund, highlighting the quality of the assets, the market/book value ratio, and the financial strength of the wrap providers (insurance companies). He reviewed manager allocations and underlying fixed income sector allocations. He commented that the NC Stable Value Fund assets remained at \$2.46 billion during the third quarter and the blended yield rose to 1.94 percent as the Fed Funds rate increased.



He noted that the market/book value ratio declined to 92 percent. He said this is due to the Federal Reserve raising rates and not an issue of any credit deterioration within the portfolio. Galliard has seen declining market/book value ratios across their entire book of business. He explained that stable value wrap contracts are designed to amortize the market declines and protect investors from volatility due to changes in interest rates. Mr. Langanki reiterated that a market/book value ratio below 100 percent is to be expected in a rising interest rate environment.

Mr. Langanki stated that all underlying strategies outperformed over all trailing periods of three years and longer and reiterated that short-term performance typically lags when short-term interest rates rise quickly, as they have this year. In response to a question, Mr. Langanki said that as interest rates stabilize, the fund's yield will rise to be more in line with the benchmark, basically over the duration of the fund, assuming that cash flows remain consistent.

He said that Galliard is in the process of changing the Metropolitan Life separate account contract to a synthetic GIC, which is in line with the contract types of the other wrap accounts. This separate account will remain under the Met Life umbrella and will bring the Met Life wrap fee in line with the other contract issuers. Galliard believes this is a more efficient approach and is making this change across their entire book of business.

Mr. Langanki shared that in September, Jennison announced the departure of their Co-Chief Investment Officer of Fixed Income, effective immediately, so Galliard placed Jennison on their watch list. Galliard will continue to monitor Jennison's organizational stability and investment strategy. Jennison has not lost any clients nor experienced any staff losses. Jennison remains on Galliard's list of recommended managers.

NC 401(k) and NC 457 Plans 3rd Quarter 2022 Investment Performance Report

The Chair recognized Ms. Elizabeth Hood, CFA, Senior Vice President and Manager, and Mr. Weston Lewis, CFA, CAIA, Senior Vice President, of Callan to present the NC 401(k) and NC 457 Plans 3rd Quarter 2022 Investment Performance Report (included in the Board's materials) and to present an annual review of the Investment Policy Statement (included in the Board's materials).

Ms. Hood gave a high-level view of the capital markets environment, noting that the third quarter was the third in a row of negative returns, both for equity and fixed income. She commented that we are still dealing with uncertainty from inflation, interest rates, and geopolitical events. The equity rally in the third quarter was led by stocks that had no earnings, with the less-profitable, low-quality companies experiencing the greatest price gains. This was a headwind for the active equity managers, who typically are taking a long-term approach with higher-quality companies that tend to outperform over time. She said that with rising short-term interest rates, the yield curve has inverted, with short-term rates higher than long-term rates.

Ms. Hood noted that participants have a high-quality plan with a choice of active and passive investments. She said that performance for all options was negative for the past quarter and year, except for the Stable Value Fund.

Mr. Lewis discussed how the US equity market is currently heavily concentrated in a very few large companies. He reviewed Callan's "Active Management Scorecard" (stoplight report and watch list), which reflects Callan's overall opinion of these managers. Reviewing relative



performance and absolute results, Callan believes patience is key. He noted that Macquarie is in-line with expectations for a large value manager but has experienced some staff changes. Because of the personnel changes, Callan lists Macquarie as “Cautionary.”

Sands Capital’s overall status is “Cautionary”. Mr. Lewis said Sands Capital performed exceptionally well up until the fourth quarter of 2021 and was a top-decile manager across almost all time periods. Their more-aggressive growth style has underperformed since then, but their style and investment approach have remained consistent. Callan still believes that Sands Capital is a best-in-class manager.

Mr. Lewis said Wedge Capital’s mandate has experienced significant underperformance since 2019. Wedge Capital has made some changes to their portfolio construction, has emphasized their risk management, and has upgraded the quality of their portfolio. Mr. Beam expressed concern about Wedge and wants closer monitoring of the manager. Callan will continue to monitor Wedge closely and will recommend a change if needed.

Mr. Lewis also shared that Acadian recently had two portfolio managers leave. Callan does not see this as problematic due to Acadian’s quantitative team approach to portfolio construction and their strong management team.

In response to a question regarding Sands Capital, Mr. Lewis commented that Callan wants to see Sands maintain their conviction regarding their investment philosophy. Sands is a very aggressive, concentrated manager. Callan does not want to see Sands suddenly become conservative and become something that they are not. He shared that at some point, Callan may review the percentage of the NC Large Cap Core Fund allocated to Sands.

Investment Policy Statement (IPS) Review

Mr. Lewis began Callan’s annual review of the Investment Policy Statement (included in the Board’s materials) by pointing out that the record of changes listed at the end of the IPS is a beneficial feature, though not widely used. He reviewed the minor recommended revisions, including defining the role of income for fixed income funds, capturing in writing some of the tasks of the investment consultant, and explicitly requiring a Board vote to remove an investment manager from the watch list. Ms. Hood clarified that the changes document what Callan is already doing pursuant to its contract; this does not require Callan to perform any additional functions.

The Chair entertained a motion to revise the Investment Policy Statement as recommended. Mr. Beam so moved, and Mr. Lumsden seconded. The motion passed by a unanimous roll call vote of 8-0.

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

The Chair recognized Mr. Chris Morris, DST’s Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans 3rd Quarter 2022 Investment Compliance Summary Report (included in the Board’s materials). Mr. Morris noted there is nothing material to report. Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and adherence to state and federal divestment laws.



Stable Value Watch List Recommendation

Mr. Morris reminded the Board that they voted in June 2019 to place Galliard on the watch list due to the turnover of senior personnel, including two of the firm's founding partners. This was followed by Galliard being acquired by two private equity firms in 2021.

Since that time, the firm has maintained very low staff turnover, stabilized succession plans, continued to have a deep bench of seasoned investment professionals, and has a solid, repeatable investment process. Galliard's performance remains strong and in line with peers. Staff and Callan recommend removing Galliard from the watch list.

The Chair entertained a motion to remove Galliard from the watch list as recommended. Ms. Thomas so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

Public Comments

No comments were offered.

Board of Trustees Comments

The Chair thanked the Board and staff for their tremendous efforts on the NC 403(b) Program discontinuation project.

The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, February 23, 2023, at 9:00 a.m.

The Chair requested we close the meeting in honor of the "missing place setting"; the place at the table in this holiday season for someone who is no longer with us.

Adjournment

There being no further business before the Board, Mr. Roseland made a motion to adjourn the meeting and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

The meeting was adjourned at approximately 10:58 a.m.

Chair

Secretary