



MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: February 23, 2023

SUBJECT: Proposed revisions to Governance Policies

The Board has adopted a charter and five policies that govern various procedures of the Board and the North Carolina Department of State Treasurer (Department) for fulfilling their duties in administering the NC 401(k) and NC 457 Plans. These six documents are referred to as the “Governance Policies” and are posted under “[Governance Policies](#)” on the Board’s web page on www.myNCRetirement.com.

Staff has reviewed the Governance Policies and proposes revisions to the [Board Charter](#), the [Vendor Selection Policy](#), and the [Policy and Procedures for Investment Transactions and Investment Manager Selection](#) (“Manager Selection Policy”). Changes to the Board Charter (Attachment 1) include several clarifications to reflect current practice and the removal of outdated statutory text regarding Board members’ terms. Changes to the Vendor Selection Policy (Attachment 2) include clarifications of the Department’s role in contract negotiations and the Board’s role in contract renewals and extensions. Changes to the Manager Selection Policy (Attachment 3) include updates to the “Contracting” section as well as several clarifications and minor edits. In addition, references to the NC 403(b) Program were removed from all three documents.

One of the other three Governance Policies – the [Statement of Investment Policy for the NC 401\(k\) and NC 457 Plans](#) – was reviewed and revised at the Board’s meeting in December.

At this time, staff is not proposing changes to the other two Governance Policies – the [Proxy Voting Guidelines](#) and the [Placement Agent, Political Contribution, and Connection Disclosure Policy](#).

Recommendation

Staff recommends the Board adopt the revised Governance Policies in the attachments to this memo.

Attachment 1 – Board Charter (with revisions)

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”), and 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 T the NC 401(k) and NC 457 Plans,~~ are referred to as 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.

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 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 eight appointed members of the Board serve three-year terms. 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. The Chair may delegate his or her duties to another member of the Board or the Department 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.

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. 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.

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.

V. **Duties**

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 trusteespeople 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, investment consultant, 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.

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.

VI. Subcommittees

The Board has one standing subcommittee – 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.

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 primary responsibility for monitoring investment options, managers, and policies rests with the full Board, instead of a separate investment subcommittee. The duties of the investment subcommittee, as described in the Plans' investment policy statements, are consolidated with the functions of the full Board. However, the Board may create an investment subcommittee on a temporary or ad hoc basis as necessary to address specific investment-related issues. In discharging its duties, the Board or an investment subcommittee shall obtain the assistance of an investment consultant and/or Departmental staff and any other parties as determined by the Board or the subcommittee.

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 ~~23rd~~^{20th} day of ~~February~~^{June}, 20~~23~~¹⁹.

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

Attachment 2 – Vendor Selection Policy (with revisions)

NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS

Vendor Selection Policy

I. Background and Application

The North Carolina Supplemental Retirement Board of Trustees (the “Board”) and the North Carolina Department of State Treasurer (the “Department”) administer, and are charged with a fiduciary responsibility to manage all aspects of, the Supplemental Retirement Income Plan of North Carolina (the “NC 401(k) Plan”), and the North Carolina Public Employee Deferred Compensation Plan (the “NC 457 Plan”), ~~and the North Carolina Public School Teachers’ and Professional Educators’ Plan (the “NC 403(b) Program,” and collectively with the~~ NC 401(k) and NC 457 Plans, are referred to as the “Plans” or “SRP”). The Board has the responsibility and authority to hire, or cause to be hired, vendors to provide services for the Plans, including recordkeeping, communications, custodial, investment consulting, and auditing services.

This Policy describes how the Board selects vendors other than investment managers. A separate policy, *Policy and Procedures for Investment Transactions and Investment Manager Selection*, applies to the selection of Investment Managers for Investment Transactions.

II. Major Vendors

This section applies to vendors of the following services: recordkeeping and communications, investment consulting, auditing, and custodial services.

The initiation of the procurement process shall be approved by the Board. Services shall be procured using a request for proposals, invitation to bid, or similar process (the “Vendor Solicitation Document”). SRP staff, working alone or with a consultant, shall draft the Vendor Solicitation Document and manage the evaluation and recommendation process, including the timeline. The Vendor Solicitation Document shall include technical requirements, cost solicitation, and standard contractual provisions.

Responses from vendors shall be evaluated by a committee consisting of the following people (the “Evaluation Committee”):

1. Executive Director, Retirement Systems Division;
2. Director, Supplemental Savings Programs;
3. 1-2 Board members;
4. 1-2 members of the Financial Operations Division, as appointed by the Chief Financial Officer (auditor and custodian contracts only);
5. Chief Investment Officer (investment consultant and custodian contracts only);
6. Assistant Director, SRP Investments (investment consultant and custodian contracts only); and
7. One additional member of the Department’s staff, as appointed by the Executive Director, Retirement Systems Division, if the Executive Director deems such appointment in the best interests of the Plans.

Other SRP or DST staff members may be utilized to assist with the administrative duties associated with the procurement.

The Evaluation Committee's duties include the following:

1. Evaluate each vendor's technical and cost proposals, including the response to any best and final offer issued by the Evaluation Committee;
2. Select vendors for finalist presentations if such presentations are necessary for effectively evaluating the vendors;
3. Select a vendor to recommend to the Board for contracting; and
4. Provide a written recommendation to the Board that documents the Evaluation Committee's evaluation process and the support for its recommendation.

Each member of the Evaluation Committee shall sign a copy of the Vendor Selection Conflict of Interest and Confidentiality Certification in Attachment 1 and submit the signed form to the Assistant General Counsel for SRP.

After a vendor has been approved by the Board, the Department shall attempt to negotiate and execute a contract with the approved vendor on terms that are consistent with the Vendor Solicitation Document and the vendor's response.

During the evaluation and contracting process, SRP staff shall provide updates to the Board at its regularly scheduled meetings.

The Board shall approve any renewal option or term extension for a contract.

III. Other Vendors

This section applies to contracts that are not covered by Section II.

Contracts up to \$25,000 per year

Contracts with an expected annual cost of up to \$25,000 do not require the Board's approval, provided that the Plans' budget includes sufficient funds to cover the cost of the contract. The Board delegates to the Department the right to act on the Board's behalf in selecting and contracting with vendors. However, the Department shall notify the Board, including at its regularly scheduled meetings, of the Department's intention to enter into a contract and the status of the contracting process.

Contracts over \$25,000 per year

Contracts with an expected annual cost of more than \$25,000 per year require the Board's approval. ~~With the Board's approval, t~~The Department may act on the Board's behalf in evaluating potential vendors and recommending a vendor to the Board. ~~Alternatively, unless~~ the Board ~~may require elects to use~~ the contracting process described in Section II. The Department or the Evaluation Committee shall provide a written recommendation to the Board that documents the evaluation process and the support for the recommendation.

After a vendor has been approved by the Board, the Department shall attempt to negotiate and execute a contract with the approved vendor on terms that are consistent with the terms

in the written recommendation to the Board and, if applicable, the Vendor Solicitation Document and the vendor's response.

The Department may exercise a renewal right for a contract and shall notify the Board of such renewal. The Board shall approve any term extension for a contract.

IV. Oversight and Monitoring

The Department shall be primarily responsible for monitoring the performance of vendors and shall notify the Board of any material contractual breaches or other concerns identified by the Department. At each regularly scheduled meeting of the Board, the Department shall provide contractual compliance updates on the recordkeeper, custodian, and investment consultant and any other vendor requested by the Board.

V. Revision History and Effective Dates

Version	Effective Date	Description of Changes
1.0	February 27, 2020	Original version
<u>2.0</u>	<u>February 23, 2023</u>	<u>Clarify Department's role in contract negotiations. Clarify Board's role in contract renewals and extensions. Remove reference to NC 403(b) Program.</u>

Approved by the North Carolina Supplemental Retirement Board of Trustees:

Secretary of the Board

Attachment 1 to the Vendor Selection Policy for the North Carolina Supplemental Retirement Plans

The Conflict of Interest and Confidentiality Certification is on the following page.

**North Carolina Supplemental Retirement Plans
Vendor Selection Conflict of Interest and Confidentiality Certification**

Application

This form applies to the Vendor Selection Policy for the North Carolina Supplemental Retirement Plans (the “Policy”). Each member of the Evaluation Committee shall read and complete following the selection of a Recommended Vendor.

Definitions

Terms in this form have the same meaning as in the Policy unless otherwise defined in this form. In addition, the following definitions apply to this form:

1. “Conflict of Interest” shall mean circumstances that create a material risk that professional judgment or actions regarding the Recommended Vendor's evaluation or recommendation have been or will be unduly influenced by a direct or indirect personal interest.
2. “Family” shall mean immediate family (*i.e.*, mother, father, brother, sister, wife, husband, or child), either by birth, by marriage, by engagement to be married, or through a live-in domestic partnership that is similar to marriage; lineal ascendants (*e.g.*, grandparents); and lineal descendants (*e.g.*, grandchildren).
3. “Recommended Vendor” shall mean the vendor recommended to the Board pursuant to the Policy.

Transaction

Name of Recommended Vendor: _____

Type of Services: _____

Certification

In regards to my work on the evaluation and recommendation of the Recommended Vendor, I understand and have adhered to the following: (A) Department of State Treasurer’s *Code of Ethics and Conduct* (Investment Management Division staff only); (B) *Ethics and Conduct Policy* (Departmental staff only); (C) *Supplemental Ethics Policy* (Departmental staff only); (C) vendor gift ban in N.C.G.S. § 133-32; (D) State Government Ethics Act, N.C.G.S. § 138A; and (E) any other applicable laws and policies.

Furthermore, I certify the following to the best of my knowledge:

1. I have not disclosed any information regarding the vendors’ responses to the Vendor Solicitation Document and shall not disclose any such information that is not subject to release pursuant to N.C.G.S. § 132 (Public Records Act) or for which disclosure is prohibited pursuant to applicable law;
2. I have not discussed any vendor’s proposal to the Vendor Solicitation Document, except with other members of the Evaluation Committee and Departmental staff who have supported the Evaluation Committee;
3. My Family and I have NO material financial interest in the Recommended Vendor and will not receive a financial benefit derived from the compensation provided to the Recommended Vendor;
4. My Family and I are NOT employees or directors of the Recommended Vendor;
5. I have NOT been employed with the Recommended Vendor within the past five years;
6. I have NOT sought employment NOR discussed potential employment with the Recommended Vendor;
7. I have NO Conflicts of Interest in the evaluation or recommendation of the Recommended Vendor;
8. I voluntarily choose to disclose the following facts, which I believe do not constitute a Conflict of Interest and do not preclude my unbiased participation in the evaluation and/or recommendation of the Recommended Vendor. If so, initial in the left margin and make any disclosure on attached sheets; and
9. I understand that I have an ongoing obligation to update any changes to this form prior to the execution of a contract with the Recommended Vendor.

Signature: _____ Title: _____

Name: _____ Date: _____

The completed form must be sent to the Assistant General Counsel for SRP.

Attachment 3 – Policy and Procedures for Investment Transactions and Investment Manager Selection (with revisions)

NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS

Policy and Procedures for Investment Transactions and Investment Manager Selection

I. Purpose

The North Carolina Supplemental Retirement Board of Trustees (the “Board”) and the North Carolina Department of State Treasurer (the “Department”) administer, and are charged with a fiduciary responsibility to manage all aspects of, the Supplemental Retirement Income Plan of North Carolina (the “NC 401(k) Plan”), ~~and the North Carolina Public Employee Deferred Compensation Plan (the “NC 457 Plan”), and the North Carolina Public School Teachers’ and Professional Educators’ Plan (the “NC 403(b) Program,” and collectively with t~~ The NC 401(k) and NC 457 Plans, ~~are referred to as~~ the “Plans” or “SRP”). The Board has the responsibility and authority to hire, or cause to be hired, individual Investment Managers (including sub-advisors) to execute the various investment mandates described in the Plans’ Investment Policy Statements.

II. Application

A. Generally. This Policy applies primarily to the selection of Investment Managers for Investment Transactions. The Board retains an Investment Manager (i) for a new Investment Option; (ii) as an additional Investment Manager for an existing Investment Option; or (iii) to replace an existing Investment Manager. Included are the following:

1. An Investment Manager for a separate account maintained at the master global custodian or a bank collective trust vehicle;
2. A mutual fund or exchange-traded fund, regardless of whether the Board or the Department has any direct contractual with the fund or the investment advisor for the fund;
3. An Investment Manager of investment managers (*e.g.*, a stable value fund-of-funds structure with a single Investment Manager that is under contract with the Department); and
4. An Investment Manager that is retained by the Board to develop or manage a custom glidepath for ~~a~~ model asset allocations or other target-date fund.

This Policy also applies to Substantive Amendments to existing investment management agreements (“IMAs”) or other contracts with Investment Managers.

This Policy applies to all Investment Transactions entered into by the Board directly or indirectly on or after March 23, 2017, and revised versions of this Policy apply to Investment Transactions entered into on or after the effective date of the revision.

B. Exemptions. This Policy does not apply to the following:

1. A company that provides, or selects companies that provide, a guaranteed investment contract (GIC), Security-Backed Investment Contract (SBIC), or other benefit responsive contractual arrangement for a stable value fund because such contracts are considered bilateral financial guarantee products and not investment management services under this Policy; and
2. An underlying investment manager for assets held pursuant to a contract between itself and an Investment Manager of investment managers (*e.g.*, a stable value fund-of-funds structure). The selection of underlying investment managers would typically be delegated to the Investment Manager under contract with the Department.

III. Statement of Policy

The goal of the Board and the Department is to conduct the process for an Investment Transaction, including the evaluation and recommendation to approve the appointment of an Investment Manager, according to the following principles:

1. In accordance with applicable Federal and state statutes and regulations, the investment objectives and restrictions in the Investment Policy Statements, the fiduciary standards applicable to the Board and the Department, the Placement Agent Policy, and all other policies and procedures applicable to the Plans;
2. With a predominant reliance on the comparative evaluation of opportunities by ~~IMD Staff~~the Assistant Director for SRP Investments and third-party experts (*e.g.*, a Consultant) within a defined due diligence process; and
3. In a fair and consistent manner and with a structured external communications protocol designed to facilitate transparency and efficiency.

IV. Process

- A. General.** The process of selecting an Investment Manager is initiated by the Board or the Investment Subcommittee. The Board may delegate certain responsibilities to the Investment Subcommittee, including approval of search criteria and making recommendations regarding the selection of Investment Managers. IMD, in collaboration with the Consultant, is responsible for conducting any searches initiated by the Board or the Investment Subcommittee and recommending an Investment Manager. On a case-by-case basis, the Department's Chief Investment Officer may authorize procedures that deviate from this Policy, including for mutual funds, exchange-traded funds, and sweep vehicles, ~~and the NC 403(b) Program~~; however, IMD shall note any material deviation from this Policy in any recommendations to appoint Investment Managers reviewed with the Investment Subcommittee and Board. The Board retains the ultimate responsibility and sole authority to approve the appointment of an Investment Manager.

For a Substantive Amendment, the following parts of the process described in this Policy apply:

1. Completion of an Investment Manager Disclosure Letter and, if applicable, a Placement Agent Disclosure Letter by the Investment Manager;
2. Completion of a Conflict of Interest Certification;
3. Approval by the Compliance Counsel through the Compliance Review Form;
4. Submission of a recommendation memorandum from the ~~Assistant Director for SRP Investments~~ IMD Staff to the Chief Investment Officer; and
5. Any other parts of the process described in this Policy deemed appropriate by the Chief Investment Officer, after consideration of input from the Assistant General Counsel for SRP, ~~IMD Staff~~ Assistant Director for SRP Investments, and SRP Director.

B. Search Criteria. The search criteria provide the broad parameters that ultimately determine the universe of eligible Investment Managers. The criteria are based on the Investment Option and the Investment Manager's expected role within such Investment Option. IMD and the Consultant collaborate on preparing draft search criteria (e.g., asset class, style, organizational qualities, minimum assets under management, minimum track-record, investment process, fees, target risk level, vehicle).

C. Search and Evaluation. Utilizing the approved search criteria, IMD uses the following process:

1. First-level Screen. IMD and the Consultant screen third-party investment manager databases, peer information, and internal files to identify a universe of candidate Investment Managers that meet the specific search criteria. The purpose of this step is to eliminate managers early in the process that would not be seriously considered due to size, experience, or focus and then prioritize four-to-eight relatively attractive candidates.
 - a. The Consultant prepares a list of candidate Investment Managers and applicable screens.
 - b. IMD and the Consultant develop a final consensus list of candidates, which may result in removals and/or additions to the Consultant's draft list.
2. Consultant Review and Requests for Information. The candidate Investment Managers are requested to provide comprehensive updated information regarding performance, portfolio composition, personnel, organizational history and structure, proposed fees, and any other information deemed necessary to make an informed decision.
 - a. The Consultant prepares a search book for the Investment Managers.
 - b. IMD reserves the right to provide the Investment Managers with

supplemental requests for proposals/information.

3. Second-level Screen. After receipt of the Consultant's search book and any requested supplemental information, the Consultant and IMD evaluate risk-adjusted investment performance, fees, investment processes, strategy fit, and administrative, operational, risk, and compliance and other organizational issues to identify the firms that will be interviewed (the "Interviewees"). The number of Interviewees is typically two-to-four.
 - a. The Consultant provides a tentative list of recommended Interviewees to IMD.
 - b. IMD and the Consultant develop a final consensus list of Interviewees, which may result in removals and/or additions to the Consultant's draft list.
4. Preliminary Conference Calls. The Consultant and IMD coordinate with the Interviewees and SRP staff to discuss preliminary investment, administrative, operational, risk, compliance, conflicts of interest, and contractual and other legal issues.
 - a. IMD prepares a package of information to be provided to the Interviewees (*e.g.*, search criteria, form IMA, policies, and required disclosures) and coordinates conference calls with the Interviewees, IMD, and the Consultant.
 - b. After completion of the conference calls, the Consultant and IMD discuss the calls and, if applicable, how to address any Interviewees that withdraw from the process.
5. Investment Manager Interviews.
 - a. IMD and the Consultant develop and distribute interview materials to the Interviewees and schedules interviews.
 - b. The Consultant has the option to participate in the interviews in person or by phone. Upon IMD's request, the Consultant's Investment Manager research staff participates in the interviews, as well.
 - c. The following Departmental staff may participate in the interview: SRP Director, ~~IMD Staff Assistant Director for SRP Investments~~, Chief Investment Officer, and legal counsel, ~~IMD's asset class staff and compliance staff~~.
 - d. The Board or the Investment Subcommittee members will participate in interviews only to the extent they have formally adopted a motion to that effect for a specific search.
6. Final Due Diligence.
 - a. After finalist interviews, the Consultant and IMD determine any final due diligence and negotiation points for each remaining candidate, including the following:
 - i. On-site visits;
 - ii. Reference checks;
 - iii. Feedback from the Investment Managers on the proposed IMA;

- iv. Administrative, operational, risk, compliance, and/or conflicts of interest issues; and
 - v. Analysis of fees and performance.
- b. IMD has the option to conduct on-site visits and negotiate terms and fees prior to requesting the Consultant's recommended finalist(s). The Consultant has the option to participate in the on-site visits in person or by phone. Upon IMD's request, the Consultant's Investment Manager research staff participates in the on-site visits.

D. Investment Recommendation Memorandum and Required Documents. Following the completion of final due diligence, IMD and the Consultant discuss the strengths and weaknesses of the Interviewees, with the goal of developing a consensus recommendation to the Investment Subcommittee and the Board. The Consultant and IMD collaborate on draft recommendation memoranda and written materials for the Investment Subcommittee and the Board. If no consensus is reached, the opinions of both IMD and the Consultant will be provided to the Investment Subcommittee or the Board.

~~IMD Staff~~~~The Assistant Director for SRP Investments~~ is responsible for collecting the following documents from an Investment Manager and reviewing them prior to preparing an investment recommendation memorandum for the Chief Investment Officer:

1. Investment Manager Disclosure Letter
2. Placement Agent Disclosure Letter (if applicable)
3. Conflict of Interest Certification (Attachment 1)
4. Code of Ethics
5. Compliance Manual Table of Contents
6. Organizational Chart
7. Valuation Policy
8. SSAE 186 Certification
9. Insurance Certificates
10. ADV Parts I and II
11. IRS Form W-8 (Foreign firm) or Form W-9 (U.S. firm)
12. Audited Financial Statements

The investment recommendation memorandum includes a "SWOT" analysis (*i.e.*, Strengths, Weaknesses, Opportunities, Threats) considering fit within portfolio construction and statutory qualifications (if any), background on the investment firm, historical returns, investment merits and risks, competitive analysis versus comparable or competing alternative offerings, operational assessment, liquidity considerations, expected contract terms, and other relevant information.

~~The Assistant Director for SRP Investments~~IMD Staff provides the investment recommendation memorandum, ~~the~~ Investment Manager Disclosure Letter, Placement Agent Disclosure Letter (if applicable), and Conflict of Interest Certification to the Compliance Counsel and the Assistant General Counsel for SRP.

~~IMD Staff~~~~The Assistant Director for SRP Investments~~ provides the investment recommendation memorandum and the documents in Numbers 3-12 above to the SRP Compliance Officer. Upon review of these documents, the SRP Compliance Officer completes and signs SRP's compliance checklist and sends it to the Chief Investment Officer and the Assistant General Counsel for SRP.

V. Independent Review by Compliance Counsel

The Compliance Counsel conducts an independent review of the Investment Manager Disclosure Letter, the Placement Agent Disclosure Letter (if applicable), IMD's investment recommendation memorandum (including any supporting documentation), the Conflict of Interest Certification, and the proposed IMA or other contract for compliance with the Placement Agent Policy and any other applicable ethics policies (including policies related to gifts and charitable donations). ~~IMD Staff~~~~The Assistant Director for SRP Investments~~ and the Assistant General Counsel for SRP provide these documents to the Compliance Counsel. After reviewing these documents, the Compliance Counsel completes and signs a compliance review form that includes the following (the "Compliance Review Form"):

1. The Compliance Counsel's approval of the disclosure letters under the Placement Agent Policy (*i.e.*, the Investment Manager Disclosure Letter and, if applicable, the Placement Agent Disclosure Letter) with respect to responsiveness and completeness;
2. The Compliance Counsel's report concerning any aspect of the Investment Transaction's recommendation, negotiation, or approval that in the view of the Compliance Counsel may reasonably violate any law, regulation, or Departmental or Board policy; and
3. The Compliance Counsel's report concerning any aspect of the Investment Transaction's recommendation, negotiation, or approval that in the view of the Compliance Counsel raises significant concerns regarding Conflicts of Interest.

If the Compliance Counsel determines that the test stated by item (1) above is not met, the Compliance Counsel contacts the Investment Manager or Departmental staff to seek correction of the disclosure letter(s). If the Compliance Counsel determines that the test stated by item (2) or (3) may not be met, the Compliance Counsel notifies the Chief Investment Officer, Executive Director of the Retirement Systems Division, and General Counsel. The Chief Investment Officer has the authority to reject the Investment Transaction ~~and or to refer it to the Department's Investment Committee to consider input from~~ the Compliance Counsel, General Counsel (or designee), SRP Director, and Executive Director of the Retirement Systems Division may provide input on the materiality of the risk and recommended approaches to remediate the risk, including recusal and third-party due diligence.

~~IMD Staff's~~~~The Assistant Director for SRP Investments'~~ investment recommendation memorandum must include a statement, as required by the Placement Agent Policy, listing

(1) the person(s), if any, who initially suggested the investment opportunity to IMD or the Consultant; and (2) any person(s) who appeared before IMD or the Consultant in the marketing or due diligence process on behalf of the proposed Investment Manager and who were not employees of the proposed Investment Manager or one of its affiliates.

The Compliance Counsel sends the completed Compliance Review Form to the Chief Investment Officer and the Assistant General Counsel for SRP.

The Board shall not enter into an Investment Transaction without a signed Compliance Review Form. The Chief Investment Officer and Compliance Counsel are responsible for disclosing to the Investment Subcommittee and the Board if the Compliance Counsel determines that the test stated by item (2) or (3) may not be met for a recommended Investment Manager and substantive actions taken thereon to address the attendant risks.

VI. Conditional Approval

The Chief Investment Officer is responsible for evaluating IMD Staff's~~the Assistant Director for SRP Investments'~~ investment recommendation memorandum and the Consultant's analysis and opinions developed through the search. The Chief Investment Officer may reject the investment recommendation memorandum, request changes or provide other feedback to IMD Staff~~the Assistant Director for SRP Investments~~ and the Consultant, or approve the recommendation(s) for presentation to the Investment Subcommittee and the Board.

VII. Approval by the Board

The Board has the sole authority to approve an appointment of an Investment Manager and enter, or cause the Plans to enter, into an Investment Transaction. If the Consultant and IMD agree on the recommended finalist(s), then they will provide a joint recommendation to the Investment Subcommittee and, if approved by the Investment Subcommittee, to the Board. In the event that the Consultant and IMD do not agree on the recommended finalist(s), the perspectives of both IMD and the Consultant will be provided to the Investment Subcommittee or the Board to inform the Investment Subcommittee's recommendation to the Board. Any recommendations from IMD and the Consultant to appoint an Investment Manager are contingent upon successful contract negotiations. If the Board does not have an Investment Subcommittee, then the items to be presented to and approved by the Investment Subcommittee will be presented to the Board for approval.

VIII. Contracting

Upon approval of the recommendation by the Board, the Assistant General Counsel for SRP and ~~the Assistant Director for SRP Investments~~IMD Staff negotiate an IMA, amendment to the IMA, or other appropriate contract with the Investment Manager. Such negotiation is based upon the Board's standard IMA or other standard terms and conditions developed by the Department. Upon completion of negotiations, the Assistant General Counsel for SRP requests approval from~~submits to~~ the Chief Investment Officer to execute

~~the IMA or other final contractual documents, a memorandum addressing key legal terms and (noting any material deviations from the form IMA or other standard terms and conditions or any concerns about the, the final Compliance Review Form signed by Compliance Counsel and other executed compliance documents forms, including the eConflict of Interest Certification and the Compliance Review Form. After the Chief Investment Officer's final review and approval, the Assistant General Counsel for SRP completes an HB 56 Form and a Contract Summary and submits the IMA (or other contractual document), an HB 56 Form, and Contract Summary to the General Counsel for review and approval. Upon approval by the General Counsel, the Assistant General Counsel for SRP compiles all final legal and compliance documents and obtains signatures on behalf of the Board and the Department as well as countersignature from the Investment Manager.~~

IX. External Communication Protocol

- ~~1. IMD Staff~~~~The Assistant Director for SRP Investments (or other IMD staff as determined by the Chief Investment Officer)~~ is the point of contact for all communications with representatives of Investment Managers (including placement agents). Departmental staff and Board members are required to refer representatives of Investment Managers accordingly.
2. Participation by various IMD and SRP staff in Investment Managers' presentations may occur in the normal course of the diligence activities described in this policy.
3. No representative of an Investment Manager (including its placement agent) is permitted to contact Departmental staff (other than ~~IMD Staff~~~~the Assistant Director for SRP Investments~~) or members of the Board regarding (a) the merits of the Investment Manager; (b) whether the Board should retain the Investment Manager; or (c) whether the Board should enter into an Investment Transaction. Any such contact may be cause for rejection of the Investment Manager.
4. An Investment Manager is permitted to continue communicating as normal with the Department concerning investments and day-to-day business interactions that are not part of the proposed Investment Transaction to which this Policy applies. Interactions at social events also are not prohibited. In either case, discussion of the potential new Investment Transaction is not permitted.
5. An Investment Manager or other external party may escalate concerns about the adequacy of the evaluation process by contacting the Chief Investment Officer or the SRP Director.

Except as noted in the following sentence, Departmental staff shall not use personal e-mail addresses to communicate with Investment Manager candidates or placement agents regarding state business related to potential Investment Transactions. Personal e-mail addresses may be used only if the Department's e-mail system is not functioning or is not available to the staff member and it is necessary for the efficient evaluation or negotiation of the Investment Transaction to send such e-mail prior to the time the staff member regains

access to the system. Any Department documents sent using a personal e-mail account must be promptly copied by staff onto the Department's shared drive.

X. Definitions

“Board”: The North Carolina Supplemental Retirement Board of Trustees.

“Compliance Counsel”: Legal counsel utilized by the Department to review ethics and placement agent compliance matters for Investment Transactions.

“Conflict of Interest”: Circumstances that create a material risk that professional judgment or actions regarding the Investment Transaction's recommendation, negotiation, or approval have been or will be unduly influenced by a direct or indirect personal interest.

“Consultant”: An investment adviser(s) retained by the Board.

“Contract Summary”: The summary of the Investment Management Agreement (IMA) or other contractual document(s) drafted and signed by the Assistant General Counsel for SRP based on the Departmental template. The Contract Summary is provided to the General Counsel for review and signature.

“Department”: The North Carolina Department of State Treasurer.

“HB 56 Form”: The review form required by [N.C. Gen. Stat. § 114-8.3(b1) (House Bill 56), as approved by the General Counsel in consultation with the North Carolina Department of Justice.

“IMA”: An investment management agreement.

“IMD”: The Investment Management Division of the North Carolina Department of State Treasurer.

“IMD Staff”: One or more members of IMD appointed by the Chief Investment Officer to perform the investment functions for SRP described in this Policy.

“Investment Manager”: A person or entity, other than Departmental employees, given authority or discretion by the Board through contract to make decisions concerning the investment of Plan funds. The term also includes a person or entity that seeks to become, or is evaluated by the Consultant or IMD for the purpose of being selected as, an Investment Manager. The term also includes mutual funds and exchange-traded funds.

“Investment Option”: An investment fund or other vehicle in which participants in the Plans can invest, including model asset allocations and other target-date funds.

“Investment Manager Disclosure Letter”: The disclosure letter provided by an Investment Manager pursuant the Placement Agent Policy.

“Investment Policy Statements”: The ~~(i) Statement of Investment Policy for the NC 401(k) and NC 457 Plans(b); or (ii) North Carolina Public School Teachers’ and Professional Educators’ Plan Statement of Investment Policy, as applicable.~~

“Investment Subcommittee”: The Investment Subcommittee of the North Carolina Supplemental Retirement Board of Trustees.

“Investment Transaction”: (i) A business undertaking agreed upon between the Board and an Investment Manager to invest the assets of one or more of the Plans; or (ii) a Substantive Amendment.

“Placement Agent Disclosure Letter” The disclosure letter provided by the placement agent for an Investment Manager pursuant the Placement Agent Policy.

“Placement Agent Policy”: The *Placement Agent, Political Contribution, and Connection Disclosure Policy* adopted by the Board for the North Carolina Supplemental Retirement Plans.

“Plans”: The Supplemental Retirement Income Plan of North Carolina, and the North Carolina Public Employees Deferred Compensation Plan, ~~and the North Carolina Public School Teachers’ and Professional Educators’ Plan.~~

“SRP”: The Supplemental Retirement Plans, *i.e.*, the Supplemental Retirement Income Plan of North Carolina, and the North Carolina Public Employees Deferred Compensation Plan, ~~and the North Carolina Public School Teachers’ and Professional Educators’ Plan.~~

“Substantive Amendment”: An amendment to an IMA or other contract with an Investment Manager that increases the fee, expenses, or other compensation paid to an Investment Manager or other party or otherwise substantively and negatively changes the Board’s rights or obligations.

XI. Revision History and Effective Dates

Version	Effective Date	Description of Changes
1	June 22, 2017	Original version
2	December 12, 2019	Revised for elimination of Investment Subcommittee. Minor revisions to procedures and participants.
<u>2.1</u>	<u>February 23, 2023</u>	<u>Remove references to NC 403(b) Program. Update the Contracting section. Make clarifications and other minor changes.</u>

Attachment 1 to the Investment Manager Selection Policy and Procedures for the North Carolina Supplemental Retirement Plans

The Conflict of Interest Certification is on the following page.

**North Carolina Supplemental Retirement Plans
Investment Transaction Conflict of Interest Certification**

Application and Definitions

The Department of State Treasurer personnel listed below shall read and complete this form for each Investment Transaction, as such term is defined in the Policy and Procedures for Investment Transactions and Investment Manager Selection for the North Carolina Supplemental Retirement Plans (the “Policy”). Please note that the definition of Investment Transaction includes a Substantive Amendment. Terms in this form have the same meaning as in the Policy unless otherwise defined in this form.

1. “Conflict of Interest” shall mean circumstances that create a material risk that professional judgment or actions regarding the Transaction's recommendation, negotiation, or approval have been or will be unduly influenced by a direct or indirect personal interest.
2. “Family” shall mean immediate family (*i.e.*, mother, father, brother, sister, wife, husband, or child), either by birth, by marriage, by engagement to be married, or through a live-in domestic partnership that is similar to marriage; lineal ascendants (*e.g.*, grandparents); and lineal descendants (*e.g.*, grandchildren).
3. “Transaction” shall mean the Investment Transaction described below.

Transaction

Name of Investment Manager: _____

Name of **Investment Option Fund** and Strategy: _____

Type of Contract: IMA Amendment to IMA Other: _____

Certification

In regards to my work on the recommendation, negotiation, and approval process for the Transaction, I understand and have adhered to the following: (A) Department of State Treasurer’s *Code of Ethics and Conduct* (Investment Management Division); (B) *Supplemental Ethics Policy for State Treasurer, Senior Executive Staff and Investment Division*; (C) *Placement Agent, Political Contribution, and Connection Disclosure Policy* for the North Carolina Supplemental Retirement Plans; and (D) any other applicable policies. Furthermore, I certify the following to the best of my knowledge:

1. My Family and I have NO material financial interest in the Investment Manager and will not receive a financial benefit derived from the compensation provided to the Investment Manager;
2. My Family and I are NOT employees or directors of the Investment Manager;
3. I have NOT been employed with the Investment Manager within the past five (5) years;
4. I have NOT sought employment NOR discussed potential employment with the Investment Manager;
5. I have NO Conflicts of Interest in the recommendation, negotiation, and/or approval of the Investment Manager or the Transaction;
6. I voluntarily choose to disclose the following facts, which I believe do not constitute a Conflict of Interest and do not preclude my unbiased participation in the recommendation, negotiation, and/or approval of the Transaction. (If so, initial in the left margin and make any disclosure on attached sheets.)
7. I understand that I have an ongoing obligation to update any changes to this form prior to closing.

The completed form must be sent to the Compliance Counsel.

Assistant Director, SRP Investments: _____ Date: _____

Chief Investment Officer: _____ Date: _____

Assistant General Counsel, SRP: _____ Date: _____