



## 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 August 24, 2023, 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, Capt. Bob Shea, Greg Patterson, and Nels Roseland.

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

### Members Absent

Lorraine Johnson

### Guests Present

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

Guests attending virtually: Christopher Doll from CEM Benchmarking; Mary Conti, Brigitte Duffy, and Jessica Quimby from Empower.

### Department of State Treasurer Staff Present

Staff members attending in person: Ted Brinn, Kris Byrd, Thomas Causey, Patti Hall, Jeff Hancock, Alan Jaquith, Kristin Merrick, and Chris Morris.

Staff members attending virtually: Reid Chisholm, Zora Falkowski, Christy Farrelly, Paige Larson, 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 unless there is an objection, 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.

The Chair offered condolences to Ms. Lorraine Johnson on behalf of the Supplemental Retirement Plans (SRP) Staff and the Board on the passing of her mother, Ms. Emily Johnson.

### 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 announced the reappointment of Board members Steve Beam and Lorraine Johnson and noted their reappointment letters are included in the Appendix. He extended his congratulations to them and thanked Ms. Laura Rowe for keeping up with all the appointments, reappointments, and Statements of Economic Interest (SEIs) for the members of all the boards staffed by DST. The Chair said Ms. Rowe is taking a new position as Director of Contracting for the State Health Plan and congratulated her on the new role.

The Chair announced this would be the last Board meeting for Mr. Wyndon Hibler. He explained that Mr. Hibler accepted a new role within his firm and will be unable to continue serving on the Board. The Chair thanked Mr. Hibler for his years of service and for the contribution he has made.

The Chair welcomed Mr. Kris Byrd, the newest member of the Investment Management Division, who will be working with Mr. Chris Morris as the Portfolio Manager for the Supplemental Retirement Plans.

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

The Chair entertained a motion to approve the minutes of the May 25, 2023, quarterly Board meeting. Capt. Bob Shea so moved, and Mr. Nels Roseland seconded. The motion passed by a unanimous roll call vote of 7-0. (Mr. James Lumsden had not yet joined the meeting.)

Board member Mr. James Lumsden joined at approximately 9:11 a.m.

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

The Chair entertained a motion to approve the minutes of the July 13, 2023, Audit Subcommittee Board meeting. Capt. Shea so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **NAGDCA Award Announcement**

The Chair announced that the National Association of Government Defined Contribution Administrators (NAGDCA) selected DST as a recipient of a 2023 Leadership Recognition Award for its outstanding National Retirement Security Month campaign. The Chair thanked the Staff and Empower for developing this campaign, which was designed to encourage greater participation in the NC 401(k) and NC 457 Plans (the Plans). He noted that a copy of the entry is included in the appendix.

#### **Administrative Matters: Audit Annual Update**

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present several administrative matters. Mr. Hancock reported that in July, DST received the independent auditors report, resulting in an unmodified, or "clean" opinion. He thanked DST's Financial Operations Division for their work with the financial statements audit. Regarding the employer testing part of the audit, Mr. Hancock shared we had six employers with very minor findings, mainly dealing with employee and employer contribution calculations. Our NC Plans team at Empower is working with the employers to resolve any outstanding issues. He added that during the SRP Audit Subcommittee meeting, Mr. Thomas Rey from UHY made it a point to extend kudos to the SRP Board of Trustees for commissioning the employer testing. Many plans do not take the extra step of conducting these tests.





#### **Administrative Matters: Administrative Fee Reduction**

Mr. Hancock noted the Board proposed reducing the administrative fee paid by participants in the Plans during the May meeting. Following required procedure, the fee reduction proposal was posted on DST's website, and no comments were received. A Board vote is required to finalize the administrative fee reduction from 1.25 basis points (0.0125%) to 1.00 basis point (0.01%). Following a positive vote, the fee reduction will become effective September 1, 2023.

The Chair entertained a motion to approve the reduction of the administrative fee to 1.00 basis point (0.01%). Mr. Greg Patterson so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

To follow up on a discussion item from the previous Board meeting, Mr. Hancock said that the SRP expense reserves are invested in the NC Stable Value Fund, which restricts transfers by participants to competing funds, such as a money market fund, through a 90-day "equity wash." Staff believes that this restriction should be applied to SRP's expense reserves as well. Staff recommends the SRP expense reserves remain invested in the NC Stable Value Fund instead of a money market fund because it would not be prudent to take the expense reserves through an "equity wash."

The Chair requested that a money market investment option for participants be reviewed. Mr. Michael McCann from Empower noted that Empower can administer an equity wash provision, but it is very rare for a plan to offer both a stable value fund and a competing option. Having competing options can pose a challenge when negotiating a favorable crediting rate from a stable value fund provider. Mr. Roseland requested an analysis for the Board reviewing the pros and cons of offering both options. Mr. Chris Morris said that Staff can provide this analysis.

#### **Legal Matters: Investment Transaction Disclosure Policy**

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present three legal matters (included in the Board's materials). Mr. Chisholm said one of the Board's governance policies, the Placement Agent, Political Contribution, and Connection Disclosure Policy, has undergone a major revision within DST, including being renamed the Investment Transaction Disclosure Policy. Staff has adapted the DST policy for SRP. These revisions are intended to improve the clarity, efficiency, and effectiveness of the policy and ensure the integrity of the investment transaction process.

The Chair entertained a motion to approve the Investment Transaction Disclosure Policy. Capt. Shea so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Legal Matters: Amendments to the NC 457 Plan**

Mr. Chisholm presented an amendment to the NC 457 Plan to remove the "first-day-of-the-month rule" (included in the Board's materials). This rule required changes to a participant's contribution to a 457(b) plan to go into effect no sooner than the first day of the month following the participant's initial election or changes in deferral amount. The SECURE 2.0 Act removed this rule for governmental 457(b) plans.





The Chair entertained a motion to approve the amendment to the NC 457 Plan to remove this rule. Mr. Beam so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Legal Matters: Investment Consultant Contract**

Mr. Chisholm said the current five-year investment consultant contract with Callan expires next March. The contract initially began in March 2019 after a Request For Proposal (RFP) process conducted jointly with the Retirement Systems. The Board has the option of issuing another RFP or extending Callan's current contract. Staff has had initial discussions with Callan regarding the possibility of a contract extension. Staff requests authority to negotiate a contract extension with Callan with similar contract terms.

The Chair entertained a motion to authorize Staff to negotiate with Callan for a contract extension and if necessary to prepare an RFP for investment consultant services. Ms. Thomas so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **NC Supplemental Retirement Plans Benchmarking Report**

The Chair recognized Mr. Christopher Doll, CEM Benchmarking U.S. Client Coverage Representative, to present a benchmarking report on the Plans' costs and performance (included in the Board's materials). CEM Benchmarking compared the Plans against a database of 121 U.S. large corporate and governmental defined contribution plans.

The weighted average costs for the Plans' participants decreased significantly over the past five years due primarily to a reduction in administration and recordkeeping fees. Costs across the peer group decreased as well, primarily due to an increase in indexed assets. The Plans' weighted average cost per participant at 26.4 basis points is just slightly above the peer group median of 26.2 basis points. The weighted average costs for the Plans' participants are higher than the median weighted average costs for the peer group, mainly because of the Plans' higher concentration on active investments within GoalMaker. Overall, the Plans' fund offerings are very competitive, demonstrating solid value added for participants.

#### **North Carolina Supplemental Retirement Plans 2nd Quarter 2023 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 2nd Quarter 2023 Administrative Report (included in the Board's materials).

Mr. McCann began by reminding the Board that the Plans will be migrating from the legacy Prudential recordkeeping platform to the Empower recordkeeping platform during the first weekend of February 2024. In an initial kickoff webinar describing the migration project, more than 60% of the 1,000 plus attendees work for employers that participate in the Plans. Preparation for the Plans' employers will include loading payroll data into the Empower platform as well as training and security verification for the employers' representatives.

Mr. McCann shared key metrics for the Plans, noting the average participant balance has recovered from the market decline and is now at a 13-month high. The average employee deferral rate continues to set new record highs and the active participation rate remains strong, though down slightly from recent quarters. Total enrollments also remain strong, and the number of total unique participants continues to grow. More than 308,000 participants are





currently active in the Plans. Six employers adopted the NC 457 Plan during the first six months of this year and 17 employers added, changed, or enhanced their employer contribution programs.

Mr. McCann said that of the participants that separated from service and were eligible to roll their assets out of the Plans, 96% remained in the Plans during the past quarter and 83% remained during the past 12 months. In response to a question, Mr. McCann said that brokerage firms have active marketing campaigns to go after participants as they retire or leave employment.

Mr. Herrmann discussed engagements for the year-to-date, noting that Empower's Spring campaign was successful. Empower had over 10,500 live engagements in May and are actively planning for the National Save for Retirement month campaign in October, which is Retirement Security month. Empower is currently conducting a first responders' campaign and is gearing up for a back-to-school campaign for teachers, with a special focus on school principals. For Q2, Empower had over 24,940 engagements, a 25% increase over the same quarter last year. Year-to-date, Empower has conducted 1,188 group meetings with over 29,000 attendees. Empower made over 500 onsite visits during the first half of 2023 and Mr. Herrmann commented that face-to-face meetings are currently about 30% of their meetings. He said employers appreciate the flexibility and efficiency of this hybrid model.

Empower continues their courtesy calls to retirees and has made over 2,000 calls so far this year, reminding retirees they can stay invested in the Plans. Mr. Herrmann noted Empower has conducted over 1,800 employer meetings year-to-date and many employers are taking action. In response to a question regarding the sustainability of employer contributions, Mr. Herrmann said that Empower has not seen employers reducing or eliminating their contributions, but rather seem to be focusing on acquiring and retaining talent.

### **Investment Update**

#### **NC 401(k) and NC 457 Plans 2nd Quarter 2023 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 2nd Quarter 2023 Stable Value Portfolio Review (included in the Board's materials).

Mr. Langanki began by sharing that Kate Burke will be joining Allspring as its president, a newly created role. Formerly the CFO at AllianceBernstein, she will be focusing on the transformation of Allspring into an independent company. She will have direct responsibility for investments in the firm, particularly for Galliard.

Mr. Langanki reviewed the historical performance of the Federal Funds Effective Rate compared to the blended yield (or crediting rate) through June 30, 2023. He commented that the Federal Reserve raised its policy rate by 500 basis points with 11 increases since March 2022. The blended yield has remained relatively stable over time. Mr. Langanki said the blended yield of the NC Stable Value Fund will continue to rise over time, with a lag, even if interest rates decline.

He explained that money is being reinvested at the higher interest rates. He noted the interest rate yield curve remains inverted and stressed this is not typical.





Mr. Langanki reiterated that money market funds can only invest in ultra-short securities and cash while stable value funds can invest in a diversified way across all investment grade sectors of the fixed income market. Stable value funds can invest in longer-duration securities than money market funds, which can provide an enhanced yield. Due to the book value accounting, stable value returns have less volatility and greater long-term returns than money market funds. Participants were spared the negative returns experienced by bonds last year because of the smoothing aspect of the stable value funds.

He 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). Mr. Langanki commented that the NC Stable Value Fund assets dropped slightly to \$2.45 billion during the second quarter and the blended yield rose to 2.70% as the Fed Funds rate increased. The NC Stable Value Fund is doing exactly as intended in the current market environment. The blended yield will continue following the path of interest rates upward.

With the Fitch downgrade of U.S. Government debt from AAA to AA+, Galliard does not anticipate any change in how they run the portfolio. Galliard obtained waivers from each of their stable value contract issuers to permit Galliard to continue treating U.S. securities as AAA in the event of a downgrade. Galliard believes the downgrade will not impact the securities within their stable value portfolio. Galliard has not seen any big impact in the market from the Fitch downgrade.

The market/book value ratio dropped slightly to 93.06% as interest rates rose. Galliard does not have any concern with the market/book value ratio below 100%. Galliard is remaining fully invested and is not changing their investment philosophy.

The NC Stable Value Fund has performed in-line with expectations in the current interest rate environment. It continues to show outperformance over all trailing periods of three years and longer. All underlying managers have provided meaningful outperformance versus their benchmarks. The NC Stable Value Fund outperformed the average money market fund return over the trailing three, five, and 10-year periods. Mr. Langanki does not anticipate interest rates remaining at current levels.

The Chair, Treasurer Folwell, left the meeting at 10:00 a.m. and Mr. Thomas Causey took over as Acting Chair.

Mr. Langanki reviewed performance of the blended yield (crediting rate), duration, market-to-book value ratio, and underlying yield to maturity over the trailing nine quarters, noting the rise in the blended yield and the stability of the duration.

The transition of the Metropolitan Life separate account contract to a synthetic guaranteed investment contract was completed successfully during the second quarter. There was no impact to daily trading by Plan participants during the transition. This will lead to a slight fee reduction.

#### **NC 401(k) and NC 457 Plans 2nd Quarter 2023 Investment Performance Report**

The Acting 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 2nd Quarter 2023 Investment Performance Report (included in the Board's materials) and the Small/Mid Cap Equity Structure Comparison (included in the Board's materials).

Ms. Hood gave a high-level overview of the capital markets.

The passive options are doing what they are designed to do; they are tracking the index with low fees and low tracking error. The active options are all ahead of their benchmarks over the 10-year period, and all but one are ahead over the past five-year period ending June 30. The Stable Value Fund has consistently ranked in the top quartile among its peers.

Mr. Lewis reviewed Callan's manager assessment, or "Active Management Scorecard" (stoplight report and watch list), which reflects Callan's overall opinion of the managers. Callan believes that people, process, and philosophy are what drive performance for the managers and their strategies. He said that performance for all managers is within the range of Callan's expectations.

He noted that Macquarie remains "yellow" this quarter as their performance fell behind the benchmark. He commented that the former portfolio manager, who was a founder and a developer of this investment strategy, retired in July 2019, so the current investments have mainly all been selected by the newer team. Callan wants to see better execution and consistency. Macquarie is fulfilling their role of core value within the overall portfolio. Also, the senior portfolio manager is retiring soon, so Callan will continue watching Macquarie closely.

Sands Capital remains "yellow" this quarter. Callan continues to monitor Sands Capital's asset base, which has remained stable.

TCW Asset Management announced the retirements of two portfolio managers, too late for Callan to update the scorecard ahead of this meeting. Callan met with TCW management this past week. Callan has some generally minor concerns and will continue watching TCW going forward.

Mr. Lewis said that Galliard has performed in the top third of peers over the past three-year and five-year periods and has provided a sound and stable capital preservation option.

#### **NC 401(k) and NC 457 Plans Stable Value Fund Review**

Mr. Lewis presented Callan's review of the Plans' Stable Value Fund (included in the Board's materials). Callan maintains a positive opinion of Galliard's approach. The investment team has remained relatively unchanged, and Callan appreciates the experience and quality of the people. The investment process and performance has remained consistent throughout the organizational changes that have occurred since 2019.

Galliard maintains an effective duration that is slightly longer than the median of its peers. Galliard has consistently offered a high-quality portfolio. The crediting rate has consistently been above or in line with the median of stable value funds and the market-to-book value ratio is also in line with the median peer. Mr. Lewis said Galliard has been an industry leader in negotiating contracts for wrap fees with insurers and in keeping fees low. He noted the wrap fees are in a very tight range across the industry. He said that some stable value funds are managed internally, and some are outsourced almost entirely to external advisors. Galliard





has blended this, managing approximately 50% internally, and hiring external advisors to manage the remaining 50%.

Mr. Lewis said that the NC Stable Value Fund has outperformed money market fund returns over the trailing one-, three-, five-, and 10-year periods over the past 20 years. Callan agrees with Galliard that this period of quickly rising short-term interest rates is a temporary phenomenon. Callan does not recommend redesigning the investment offerings to account for a short-term event. Callan does not often see defined contribution plans offering both a money market fund option and a stable value fund option.

In response to a question, Mr. Lewis shared that for a new search today, Galliard is considered one of the "Tier One" stable value providers, has been one of the leading firms in the industry for a long time, and would be included as a candidate for consideration.

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

The Acting Chair recognized Mr. Morris, DST's Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans 2nd Quarter 2023 Investment Compliance Summary Report (included in the Board's materials). Mr. Morris said that Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and adherence to state and federal divestment laws. He noted there is nothing material to report for the second quarter.

#### **NC 401(k) and NC 457 Plans Investment Updates: Small/Mid Cap Core Fund Manager Transition**

Mr. Chris Morris reminded the Board that at the May meeting, the Board voted to terminate WEDGE Capital Management's Small/Mid Cap Value investment mandate and transition those assets to a Russell 2500 Value Index fund until a search for a replacement for WEDGE could be completed. DST chose BlackRock to temporarily manage these assets in a Russell 2500 Value Index fund in a separately managed account.

WEDGE has been terminated and the assets have been transitioned. BlackRock also acted as the transition manager. Transition costs were in line with expectations and there were no issues with the transition. Staff intends to bring a recommendation for a new active manager for the Small/Mid Cap Value mandate at the next Board meeting.

#### **NC 401(k) and NC 457 Plans Investment Updates: Recommendation to Remove Mondrian from Watch List**

Mr. Morris presented a recommendation from Staff to remove Mondrian, a manager in the NC International Fund, from the watch list (included in the Board's materials). Mondrian was added to the watch list in 2018 due to ongoing performance below the broad non-U.S. index. Staff has closely monitored Mondrian and continues to have strong conviction in Mondrian's value-driven investment philosophy. Their investment process, personnel, and assets under management have remained stable throughout this period. Mondrian's performance with this strategy has rebounded significantly and is outperforming the benchmark for the trailing one-, three-, and five-year periods ending June 30. Given the rebound in performance, their consistency with their investment process, and Staff's continued conviction, Staff recommends removing Mondrian from the watch list.





North Carolina  
Total Retirement Plans



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

The Acting Chair entertained a motion to remove Mondrian from the watch list. Capt. Shea 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**

No comments were offered.

The Acting Chair thanked everyone for participating and announced the next Board meeting will be Thursday, November 30, 2023, at 9:00 a.m.

**Adjournment**

The Acting Chair commented that with no further business before the Board, he would entertain a motion to adjourn in honor of Lorraine Johnson's mother, Emily Johnson. Capt. Shea so moved, and Mr. Patterson seconded. The motion passed by a unanimous roll call vote of 8-0.

The meeting was adjourned at approximately 11:36 a.m.

*Dale R. Folwell, CPA*  
\_\_\_\_\_  
Chair  
*[Signature]*  
\_\_\_\_\_  
Secretary





**STATE OF NORTH CAROLINA  
OFFICE OF THE GOVERNOR**

**ROY COOPER  
GOVERNOR**

**July 1, 2023**

**Mr. D. Steven Beam  
4125 Morrowick Drive  
Charlotte, North Carolina 28226**

**Dear Steve:**

I am pleased to reappoint you to serve as a member of the Supplemental Retirement Board of Trustees. Pursuant to N.C. Gen. Stat. § 135-96, your reappointment is effective immediately. Your term will expire on June 30, 2026.

Your board or commission is covered by the State Ethics Act. As a result, please remember that you must participate in ethics training every two years, and you are required to file a Statement of Economic Interest by April 15 of each year.

Thank you for continuing to serve the people of North Carolina. I am grateful that you are willing to give your time and talents to move North Carolina forward.

Please read the enclosed instructions carefully so that we may complete the reappointment process. If you have any questions, contact the Office of Boards and Commissions at (919) 814-2077.

With kind regards, I am

Very truly yours,

A handwritten signature in black ink that reads "Roy Cooper".

**Roy Cooper**

**cc: The Honorable Dale R. Folwell**





**STATE OF NORTH CAROLINA  
OFFICE OF THE GOVERNOR**

**ROY COOPER  
GOVERNOR**

**July 1, 2023**

**Ms. Lorraine Johnson  
201 West Green Forest Drive  
Cary, North Carolina 27518**

**Dear Lorraine:**

I am pleased to reappoint you to serve as a member of the Supplemental Retirement Board of Trustees. Pursuant to N.C. Gen. Stat. § 135-96, your reappointment is effective immediately. Your term will expire on June 30, 2026.

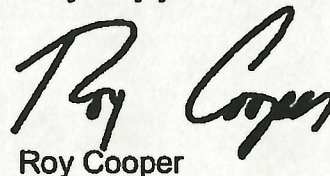
Your board or commission is covered by the State Ethics Act. As a result, please remember that you must participate in ethics training every two years, and you are required to file a Statement of Economic Interest by April 15 of each year.

Thank you for continuing to serve the people of North Carolina. I am grateful that you are willing to give your time and talents to move North Carolina forward.

Please read the enclosed instructions carefully so that we may complete the reappointment process. If you have any questions, contact the Office of Boards and Commissions at (919) 814-2077.

With kind regards, I am

Very truly yours,

  
Roy Cooper

cc: The Honorable Dale R. Folwell