



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



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

The regular quarterly meeting of the Supplemental Retirement Board of Trustees was called to order at approximately 9:00 a.m. on August 26, 2021, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in a hybrid format, with people attending virtually or in person in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

### **Members Present**

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

Board members attending virtually: Steve Beam, Lorraine Johnson, Michael Lewis and Chevella Thomas.

### **Members Absent**

James Lumsden

### **Guests Present**

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; Tom Rey from CliftonLarsonAllen (CLA); and Matt Herrmann, Michael McCann, and Michael Knowling from Prudential.

Guests attending virtually included: Kyle Fekete and Jana Steele from Callan; Mike Reid from CEM Benchmarking; Tonia Shultz from CliftonLarsonAllen (CLA); Paul Langanki from Galliard; Cary Scaglione from Mission Square; Aaron Koval, Jason Larioni, and Todd Monahan from Prudential; and other members of the public.

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

Staff members attending in person: Thomas Causey, Reid Chisholm, Loren de Mey, Zora Falkowski, Patti Hall, Jeff Hancock, Alan Jaquith, Rekha Krishnan, and Sam Watts.

Staff members attending virtually: Christy Farrelly, Joan Fontes, Bill Golden, Fran Lawrence, Christopher Morris, and Laura Rowe.

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

The Chair congratulated the Department, staff, and the Board, whose work has been recognized with two leadership awards from the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA), in the categories of "Technology and Interactive Multimedia" and "National Retirement Security Month." The NC Plans are also one of four finalists for NAGDCA's President's Award, which will be announced on September 16.

#### **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.

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

The Chair entertained a motion to approve the minutes of the May 27, 2021 quarterly Board meeting. Ms. Melinda Baran so moved and Ms. Chevelle Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

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

The Chair entertained a motion to approve the minutes of the July 14, 2021 Audit Subcommittee meeting. Ms. Baran so moved, and Mr. Nels Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Adoption of Resolution of the Supplemental Retirement Board of Trustees**

The Chair recognized Mr. Sam Watts, the Department's legislative liaison. Mr. Watts presented a Board resolution (included the Board's materials) regarding provisions in the proposed state budget that would harm the oversight and operation of the Supplemental Retirement Plans and the Board. He stated that these provisions are inconsistent with the Board's fiduciary responsibility and are an attempt to insert a non-fiduciary between the Board, as fiduciary, and the plans' participants, to whom the Board owes its fiduciary duty. The resolution states that the Board strongly opposes any efforts to include provisions in the state budget to limit the Board or the Department from establishing a budget or paying expenses to administer the Plans. Mr. Watts recommended the Board pass the resolution.

Mr. Reid Chisholm added this specifically relates to the part of the state statute dealing with the administrative costs of operating the Supplemental Retirement Plans. The change would require the annual administrative fees paid by participants (0.025% of account balances in the NC 401(k) and NC 457 Plans and 0.05% of account balances in the NC 403(b) Program) to be deposited in the State's General Fund. Mr. Watts clarified that neither the House nor the Senate has approved this proposal. Ms. Baran asked if this challenges the essence of the Board's fiduciary duty. Mr. Chisholm stated that it does, and that the fees are the sole source of revenue for operating the Supplemental Retirement Plans.

Mr. Roseland and Mr. Lewis spoke in support of the resolution.

The Chair commented that this topic has risen a few times in the past and reiterated his opposition. He entertained a motion to adopt the resolution. Mr. Roseland so moved, and Mr. Lewis seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Legal Matters**

The Chair recognized Mr. Chisholm, who presented the plan policies (included the Board's materials), which the Board previously directed staff to prepare, as well as a revised loan policy.

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

Mr. Chisholm then presented an amendment to the NC 401(k) Plan document (included the Board's materials) to permit money that has been rolled in from other retirement plans to be withdrawn without the in-service distribution restrictions that apply to withdrawing employees' compensation deferrals. This provision could promote rollovers into the plan and is already included in the NC 457 Plan.

Mr. Chisholm also presented CARES Act amendments for the NC 401(k) Plan and NC 457 Plan (included the Board's materials), which would conform the plan documents to the CARES Act relief approved by the Board last year.

The Chair stepped out of the meeting at 9:35 a.m.

The Acting Chair, Mr. Tom Causey, entertained a motion to approve these plan amendments. Ms. Thomas so moved, and Mr. Lewis seconded. The motion passed by a unanimous roll call vote of 8-0 (with the Acting Chair voting on behalf of the Chair).

The Chair returned to the meeting at 9:43 a.m.

#### **Additional Legal Updates**

Mr. Chisholm notified the Board that the contract with Ernst & Young for foreign tax services was renewed through March 31, 2022. Staff will conduct a bid process for foreign tax services and will present a recommendation to the Board in December.

Mr. Chisholm said that state legislation to provide more flexibility for the Board to adjust administrative fees for the Supplemental Retirement Plans passed and was signed into law July 2, 2021.

Mr. Jeff Hancock responded to the question Mr. Steve Beam raised during the May Board meeting asking if there is a way to provide an economic incentive to encourage retired participants to remain invested in the Supplemental Retirement Plans. Providing a lower fee to terminated participants could be viewed as shifting the economic burden unfairly to active participants, and we should encourage participants to remain in the plans based on their value.

#### **Service Provider Contract Renewals**

The Chair recognized Mr. Jeff Hancock to discuss service provider contract renewals. Staff recommended that the Board exercise the final one-year contract renewal with BNY Mellon for custodial services, extending the end of the contract to December 31, 2023. For the extension, BNY Mellon has offered an additional expense reduction and to provide their Smart Allocator without additional charge. These provide about an additional \$60,000 in value.

The Chair entertained a motion to approve the BNY Mellon contract renewal on the terms presented. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

Staff recommended that the Board exercise the final one-year contract renewal with Prudential for recordkeeping services, extending the end of the contract to December 31, 2023. For the extension, Prudential has agreed to an additional expense reduction, providing approximately \$700,000 in savings. This will come mostly from reducing the per participant fees from \$28 to \$26 yearly. In response, Prudential has requested permission to outsource some back-office processing functions.

The Chair entertained a motion to approve the Prudential contract renewal on the terms presented. Mr. Beam so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 8-0.

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

The Chair recognized Mr. Michael Reid from CEM Benchmarking to provide a benchmarking defined contribution plan report (included in the Board's materials). In the analysis, the NC 401(k) and NC 457 Plans were benchmarked to a peer group of 13 governmental defined contribution plans, ranging in size from \$3.8 billion to \$18.2 billion for the five-year period ending December 31, 2020. The average percentage of assets invested in index options is much lower for the NC plans. The NC plans' weighted average cost per participant is lower than their peers and the weighted average costs for NC participants decreased significantly over the past five years. The weighted average costs for NC participants are lower than the median weighted average costs for the peer group because the NC fees are lower for both administrative services and fund fees for similar fund options.

#### **NC Stable Value Fund's Custodian Transition**

The Chair recognized Mr. Thomas Rey from CLA to present a reconciliation (included in the Board's materials) of the transfer of assets in the NC Stable Value Fund from Wells Fargo (the fund's previous custodian) to BNY Mellon (the fund's new custodian). The project had two objectives: to provide an independent and unbiased third-party reconciliation and validation of the asset transfer and to reconcile any differences or errors that occurred during the transfer process. The reconciliation included the initial wire transfers on April 1, 2021 and all trailing payments. Mr. Rey verified that no errors occurred during the transition.

The Chair stepped out of the meeting at 10:28 a.m. He returned to the meeting at 10:32 a.m.

#### **North Carolina Total Retirement Plans 2<sup>nd</sup> Quarter 2021 Administrative Report**

The Chair recognized Mr. Michael McCann and Mr. Matt Herrmann from Prudential to provide the North Carolina Total Retirement Plans 2nd Quarter 2021 Administrative Report (included in the Board's materials).

Mr. McCann began by stating that Empower will purchase Prudential's full-service retirement business, which includes all of Prudential's defined contribution retirement business, including the North Carolina Supplemental Retirement Plans. Empower has stated their intention to retain selected full-service solutions, such as GoalMaker, and to retain all key personnel. The transaction is expected to close in the first quarter of 2022, subject to regulatory approval.

Mr. McCann then discussed plan statistics, including distributions, contributions, active participation rates, average employee deferrals, and GoalMaker usage. Eleven employers have either started or enhanced their contributions during 2021 year-to-date. Approximately 33% of contributions going into participant accounts each month is from employer contributions.

Mr. Herrmann, Prudential Retirement Education Team Director, spoke about outreach meetings with participants, employees, and employers. Over the past 15 months, the Prudential Retirement Education Team has completed 25,775 virtual one-on-one meetings, 1,625 virtual group meetings, 90 virtual retirement planning conferences with 7,000 attendees, and engaged 65,000 employees. Prudential has been able to focus on the needs of different participant groups, such as teachers and law enforcement officers.

The Chair noted that the North Carolina pension plan might possibly be invested in Great West Life Company, the parent company of Empower, which is acquiring Prudential.

## **Investment Update**

### **NC 401(k) and NC 457 Plans 2<sup>nd</sup> Quarter 2021 Stable Value Portfolio Review**

The Chair recognized Mr. Langanki of Galliard to present the NC 401(k) and NC 457 Plans 2<sup>nd</sup> Quarter 2021 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki shared progress on the sale of Wells Fargo Asset Management (WFAM), Galliard's parent, to two private equity firms. The sale is scheduled to be completed in the second half of 2021. Management changes are expected, but Galliard's structure is expected to remain the same.

Melinda Baran stepped out of the meeting at 10:55 a.m. She returned to the meeting at 11:00 a.m.

Prudential is the recordkeeper, wrap provider, and underlying fixed income manager within the NC Stable Value Fund. Galliard was notified that Prudential's wrap contract for the NC Stable Value Fund is part of the sale of Prudential's full-service recordkeeping business to Empower and would be transferred to Empower's affiliate, Great West. However, Galliard is working with Prudential to retain the wrap contract.

Mr. Langanki reviewed the performance of the NC Stable Value Fund, noting the quality of the assets, the strong market / book value ratio, the financial strength of the wrap providers (insurance companies), and the strong performance of the investment managers.

The Chair encouraged Galliard to keep the Department apprised of progress in negotiations with Prudential.

### **NC 401(k) and NC 457 Plans 2<sup>nd</sup> Quarter 2021 Investment Performance Report**

The Chair recognized Ms. Elizabeth Hood and Mr. Weston Lewis of Callan to present the NC 401(k) and NC 457 Plans 2<sup>nd</sup> Quarter 2021 Investment Performance Report (included in the Board's materials).

Ms. Hood reviewed the equity markets and Callan's "Active Management Scorecard," noting that the plans' investment managers are performing as anticipated, given their investment styles. Wedge remains on the watch list, but its performance has improved with the improved relative performance of value investing. Mondrian, another value manager, also remains on the watch list, but its performance has been roughly in-line with its value benchmark. Callan believes Mondrian is a good complement to Baillie Gifford's investment approach. Callan is reviewing TCW due to an upcoming change in management, but does not recommend adding TCW to the watch list.

### **NC Stable Value Fund Review**

Mr. Lewis provided Callan's annual review of the NC Stable Value Fund (included in the Board's materials). Stable Value is the largest active option in the plan, and it is among the investments used in GoalMaker. Callan maintains a positive opinion of Galliard: it has shown stability with its ownership transition and Galliard's succession planning appears to have been successful.

Interest rates have continued to decline, and the low interest rate environment is less favorable for stable value investors. Galliard is in-line with its peers relative to corporate credit risk and has a slightly longer duration than the median. Galliard has generally generated a crediting rate above the median and held management and wrap fees solidly below the median. Callan recommends keeping Wells Fargo/Galliard on the watch list due to their organizational changes with the upcoming sale.

**NC 401(k) and NC 457 Plans Investment Updates**

The Chair recognized Ms. Loren de Mey to present the NC 401(k) and NC 457 Plans Investment Updates (included in the Board's materials). Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and no managers held prohibited holdings during the quarter. BNY Mellon has begun daily compliance testing to check for investments in companies identified as Communist Chinese Military-Industrial Companies (CCMCs) that are prohibited investments under a new Presidential Executive Order.

**Investment Policy Statement Revisions**

Ms. de Mey presented the revised Investment Policy Statement (IPS) for the NC 401(k) and NC 457 Plans (included the Board's materials). The IPS has been updated to reflect all the changes the Board previously approved for the NC International Index Fund and for the NC International Fund.

The Chair entertained a motion to approve the staff recommendation to update the IPS. Mr. Beam so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

**NC International Fund Transition Update**

The Chair recognized Ms. de Mey to present an update on the transition for the NC International and NC International Index Funds. Participants investing in the international funds were notified last week of the plan to add small/midcap stocks in the international fund options. The transition is on track to occur during the week of September 20, with the fund changes to be in place by October 1, 2021.

**NC 403(b) Program 2nd Quarter Investment Performance Report**

The Chair recognized Ms. de Mey to present the NC 403(b) Program 2<sup>nd</sup> Quarter Investment Performance Report (included in the Board's materials). Ms. de Mey discussed the performance, asset balances, and managers in the program; overall assets are now above \$30.5 million.

**NC 403(b) Program Discussion**

The Chair expressed concern regarding the ongoing competitiveness of the NC 403(b) Program, given pressures faced by the program, including multiple 403(b) offerings by employers and the lack of scale, preventing the program from having the buying power of the NC 401(k) and NC 457 Plans. Given the concern, staff will provide options and a recommendation for the NC 403(b) Program at the December Board meeting. Every participant in the NC 403(b) Program currently has the option of enrolling in the NC 401(k) Plan or the NC 457 Plan, or both.

Mr. Roseland commented that the Chair raised some great points and asked staff to include the enabling statute, background, history, and expected growth in their evaluation. In response to a question from Mr. Beam, the Chair confirmed that the intent is to report back with recommendations at the next meeting. Ms. Baran said she was on the Board when the NC 403(b) Program was created, and the program was started to provide a higher-value alternative to existing 403(b) offerings. Ms. Baran believes teachers should be encouraged to invest in the NC 401(k) Plan or the NC 457 Plan.

**Public Comments**

Mr. Hancock recognized Ms. Rekha Krishnan for her service to the Supplemental Retirement Plans (SRP). She has been part of SRP since 2013 and has been a huge help to him as he



onboarded. Ms. Krishnan will be greatly missed as she advances in her career, moving to the Department of State Treasurer's Investment Management Department. He appreciates everything she has done for the Board and for the Department.


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


Ms. Baran complemented Prudential and Empower for the excellent transition meetings they have provided via Zoom.

The Chair thanked the staff for preparing the reports. The next Board meeting will be Thursday, December 2, 2021 at 9:00 a.m.

#### **Adjournment**

There being no further business before the board, Ms. Baran made a motion to adjourn, and Mr. Hibler seconded the motion. The motion passed by a unanimous roll call vote of 8-0. The meeting was adjourned at approximately 12:08 p.m.

  
Chair

  
Secretary

