



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



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STATE TREASURER OF NORTH CAROLINA  
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**DRAFT MINUTES**  
**SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

The regular quarterly meeting of the Supplemental Retirement Board of Trustees was called to order at 9:00 a.m., June 20, 2019, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held 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**

The board members present were: Treasurer Dale R. Folwell, Chair; Melinda Baran; Steve Beam (via phone); Lorraine Johnson; Michael Lewis (via phone); Nigel Long (via phone); Jim Lumsden; Nels Roseland (via phone); Chevella Thomas.

**Members Absent**

None.

**Guests Present**

The guests attending were: Elizabeth Hood and Weston Lewis from Callan; Mike Norman and Billy Weber from Galliard; Ann Cashman, Mary Conti, Aaron Koval, Michael McCann and Kelly Keen (via phone) from Prudential; Denise Fortune and Hali Ganbold from Voya. Andrew Owen (via phone) from Wells Fargo.

**Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio, Leighann Carroll, Tom Causey, Reid Chisholm, Joan Fontes, Patti Hall, Rekha Krishnan, Loren de Mey, April Morris, Chris Morris, Maja Moseley.

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

The Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. No conflicts of interest were identified by the board members.

**Approval of Minutes**

The Chair entertained a motion to approve the minutes of March 21, 2019, Board meeting. Ms. Thomas so moved, and Ms. Baran seconded. The motion passed unanimously.

**Approval of Minutes**

The Chair entertained a motion to approve the minutes of the February 22, 2019, special Board meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously.

**Legislative and Regulatory Update**

The Chair recognized Mr. Chisholm who provided a brief update regarding the federal Setting Every Community Up For Retirement Enhancement Act ("SECURE Act"). He highlighted the main provisions of the Act, including: change to the age of required minimum distributions,

extension of maximum distribution period, distributions for births and adoptions, as well as lifetime income options.

The Chair added that a number of pieces of legislation impacting the Department are currently being considered by the state's General Assembly.

### **2019-20 Budget Proposal**

The Chair recognized Ms. Buonfiglio who presented the budget proposal for the upcoming fiscal year. She noted that the projected expenses are lower than in the prior year, primarily due to savings associated with the new investment consultant contract; the projected expenses amount to 2.4 million dollars. Ms. Buonfiglio also provided an update regarding the status of the administrative fee holiday and its impact to the administrative account reserve balance. She noted that due to a recent personnel change, the staffing expenditure shown in the proposal serves as a placeholder and the figure will be adjusted as needed.

Following the presentation, the trustees discussed the possibility of fee holiday extension, as well as a potential change to the fee amount.

The Chair entertained a motion to approve the budget proposal and Ms. Thomas so moved, and Mr. Lumsden seconded. The motion passed unanimously.

### **Legal Matters**

Mr. Chisholm noted that a previously scheduled agenda item on proposed changes to the employer contributions section of the NC 401(k) plan document will be deferred until the September Board meeting. The Chair added that a more in-depth discussion regarding the matter is needed between the Department and the local government leaders, in order to address any concerns.

Mr. Chisholm noted that the previously approved consolidation of the Investment Subcommittee with the duties of the Board requires revisions to the Board Charter, the Investment Policy Statement (IPS) for the NC 401(k) and NC 457 Plans, as well as the IPS for the NC 403(b) Program.

Mr. Chisholm summarized the changes and the Chair entertained a motion to approve the revised Board Charter. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously. Next, Ms. Baran moved to approve the revised IPS for the NC 401(k) and NC 457 Plans. Mr. Lumsden seconded. The motion passed unanimously.

Ms. Baran also made a motion to approve the revisions to the NC 403(b) Program's IPS. Ms. Johnson seconded. The motion passed unanimously.

Next, Mr. Chisholm discussed the proposed revisions to the Placement Agent, Political Contribution, and Connection Disclosure Policy. He noted the need for additional disclosure for investment managers hired by a "manager-of-managers" in order to improve transparency, as well as a clarification of the guaranteed investment contract (GIC) definition to ensure that the policy applies to both traditional investment managers and wrap providers. The trustees noted that the decision to add the disclosure is a prudent one and further discussed the relationship with the investment managers. Mr. Lumsden moved to approve the policy revisions, and Ms. Thomas seconded. The motion passed unanimously.

**NC 401(k) and NC 457 Plans 1<sup>st</sup> Quarter 2019 Stable Value Portfolio Review**

The Chair recognized Mr. Weber, who introduced Mr. Norman and Mr. Owen. Mr. Norman began his presentation by addressing the changes in the firm's leadership and providing details regarding the firm's founders and the four pending retirements of founding and managing partners. He provided details of the firm's transition plans and emphasized that the company is committed to staff retention.

A robust discussion followed, and board members inquired about the firm's level of independence, appropriate policy changes, pricing model and compensation model. Mr. Norman added that the organization is efficient and possesses pricing autonomy, and this status is expected to continue.

Next, Mr. Weber provided a portfolio update, noting that there have been no material changes to its key characteristics; the portfolio also remains high quality. He focused on asset changes, fees and return. Mr. Norman added that Galliard manages the portfolio for consistency and sees very small duration movements in the portfolio.

**NC 401(k) and NC457 Plans 4<sup>th</sup> Quarter Investment Performance Report and Annual Stable Value Fund Portfolio Review**

The Chair recognized Ms. Hood and Mr. Lewis. Ms. Hood summarized the structure of Callan's first board report, highlighting the format and content of relevant sections. Ms. Hood provided an overview of domestic and international markets, details on sectors and benchmarks trends, and continued market volatility.

Next, she offered a detailed review of the section titled "Investment Manager Performance Monitoring Summary Report." Ms. Hood noted that Callan recommends placing two managers on the watchlist: Wedge, due to underperformance, and Galliard, due to organizational changes. Ms. de Mey added that staff's recommendations match the consultant's recommendations and directed the board members' attention to her memorandum regarding Galliard included in the board materials. Both Ms. Hood and Ms. de Mey provided additional detail regarding the recommendation and emphasized that in Galliard's case, the staff is very happy with the fund performance but wants to make sure that there is heightened alertness regarding the organizational changes occurring at the firm.

The trustees discussed the recommendation, and Ms. Johnson made a motion to place Wedge on the watchlist. Ms. Thomas seconded. The motion passed unanimously.

The Chair entertained a motion to add Galliard to the watchlist due to organizational changes, and Ms. Baran so moved, and The Chair seconded. The motion passed unanimously.

Mr. Lewis took the floor to discuss the Stable Value Fund annual review, noting that Callan maintains a positive view of the strategy and the people who manage it. He provided the overview of the strategy and the performance, and defined the peer universe, composed of twelve institutional peers. He also noted that the current fees are very competitive, the fund has produced a crediting rate above the peer median and remains a superior option for capital preservation.

**Investment Compliance Summary Report**

The Chair recognized Ms. de Mey who noted that all investment managers were in compliance with their respective guidelines and no prohibited holdings were present in the portfolio during the quarter, in accordance with the applicable divestment policies.

**NC 403(b) Program 4<sup>th</sup> Quarter Investment Performance Report**

Ms. de Mey offered details regarding the Program's total asset balances and their breakdown between passive and active assets. She discussed the performance of each fund and added information regarding the underlying holdings. She noted that the index funds saw strong performance during the quarter.

**NC 401(k) and NC 457 Plans and NC 403(b) Program 4<sup>th</sup> Quarter Administrative Report**

The Chair recognized Mr. McCann who focused on the key performance standards, GoalMaker and plan adoption statistics, contribution amounts, and loan activity. He discussed GoalMaker's continued growth, in both assets and participant numbers. He added that the service center experienced a 33 percent increase in calls during the fourth quarter.

The trustees asked for additional data regarding age groups of service center callers and for a total number of participants who contributed the maximum allowable amounts into their accounts, as well as long-term trends of contribution changes. Mr. McCann and staff committed to providing the data after the meeting.

**Board of Trustees Comments**

Mr. Causey, the Interim Executive Director for Retirement Systems Division, was welcomed by the board members. The trustees also expressed their appreciation of the staff and investment consultant performance.

The Chair encouraged all attendees to participate in the upcoming Blood Drive.

**Public Comments**

No comments were offered.

**Adjournment**

There being no further business before the Board, Ms. Baran made a motion to adjourn and Ms. Thomas seconded. The meeting adjourned at 11:41 a.m.

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Chair

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Secretary