



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 9:01 a.m., December 13, 2018, 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; Jim Lumsden and Chevella Thomas.

Members Absent

The board member absent was: Kelly Russell.

Guests Present

The guests attending were: Will Dillard from Mercer; Ann Cashman (via phone); Mary Conti; Aaron Koval; Michael McCann; Kathleen Neville; Jessica Quimby (via phone) from Prudential; Karen Eisenbach; Denise Fortune and Scott Hudson from Voya.

Department of State Treasurer Staff Present

The staff members present were: Mary Buonfiglio, Reid Chisholm, Patti Hall, Karah Manning, Loren de Mey, April Morris, Maja Moseley, Laura Rowe and Steve Toole.

Swearing-in

The Chair welcomed the new member of the Supplemental Retirement Board of Trustees, Ms. Chevella Thomas. Ms. Thomas took the oath of office. The Chair expressed gratitude to the new trustee for her willingness to serve.

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.

Resolution

The Chair and the board members recognized the exemplary service of Mr. Hal McKinney as a member of the Supplemental Retirement Board of Trustees. Ms. Baran made a motion to approve Mr. McKinney's resolution and the motion was seconded by Mr. Lumsden. The motion passed unanimously.

Legal Updates

The Chair recognized Mr. Chisholm who presented the changes to federal hardship regulations, enacted by the Bipartisan Budget Act of 2018. Mr. Chisholm noted that the regulations ease the

hardship application process, and the recordkeeper is prepared to implement the changes on January 1, 2019. Mr. Chisholm and the staff recommended adopting and incorporating the changes into the plan documents for the NC 401(k) Plan and the NC 403(b) Program. The changes were included in a memorandum to the Board in the meeting materials. Ms. Johnson made a motion to approve the recommendations, and Mr. Long seconded. The motions passed unanimously.

Next, Mr. Chisholm described the Internal Revenue Service relief for the victims of hurricanes Florence and Michael. The temporary relief remains in place until March 15, 2019, and, if approved by the Board, will assist plan participants in obtaining a hurricane-related hardship distribution more easily. Mr. Chisholm and the staff recommended that the relief be granted. The changes were included in a memorandum to the Board in the meeting materials. Ms. Baran made a motion to approve the recommendation, and Mr. Beam seconded. The motion passed unanimously.

Mr. Chisholm presented a proposed update to the plans' loan policy, noting that the loan service is not offered at an employer's discretion and must be available to all participants. The amendments were included in the meeting materials. Mr. Long made a motion to approve the policy as amended, and Mr. Lumsden so moved. The motion passed unanimously.

Lastly, Mr. Chisholm offered an update regarding the proposed rules for administrative fees. He directed the attendees' attention to the memorandum included in the meeting materials, which included the draft rules, the fiscal analysis for the rules and a timeline for the rulemaking process. Mr. Chisholm and the staff recommended that the draft rules and the fiscal analysis be published in the North Carolina Register. The Chair noted that the administrative fee holiday will be in place for all participants during the entire year 2019. Mr. Lumsden made a motion to accept the recommendation and the timeline, and Mr. Long seconded. The motion passed unanimously.

Approval of Minutes

The Chair entertained a motion to approve the minutes of September 20, 2018, board meeting. Ms. Baran so moved, and Ms. Johnson seconded. The motion passed unanimously.

The Chair entertained a motion to approve the minutes of November 29, 2018, special board meeting. Mr. Lumsden so moved, and Mr. Beam seconded. The motion passed unanimously.

Legislative Update

The Chair recognized Mr. Toole, who provided the federal and state legislative updates. He highlighted several provisions of the recently introduced Portman-Cardin Bill, such as the proposal to allow Commingled (or Collective) Investment Trusts (CITs) to be offered as funding vehicles in 403(b) plans; the potential elimination of Required Minimum Distributions (RMDs) for Roth contributions and the feature of qualified charitable distributions. He added that the staff is also monitoring the potential developments in the Multiple-Employer Plans (MEPs) area, originating in the Tax Reform Act 2.0. Mr. Toole also described the efforts of the defined benefit division, as well as the defined contribution division, regarding felony forfeiture. The Chair briefly discussed the Board's and the plans' fiduciary duty.

Annual Strategic Marketing Plan

The Chair recognized Ms. Manning, who introduced Ms. Quimby, the Communications Consultant with Prudential. Ms. Manning directed the attendees' attention to the communications strategy presentation included in the meeting materials and being proposed for 2019. Ms. Manning detailed the events of 2018, including the "Nearing Retirement" initiative and

direct marketing campaign and best practices learned from these engagements. Next, she described the areas of focus for the upcoming year, which will center on increased enrollment, asset retention and employer relationship building, among others.

A robust discussion followed the presentation in which board members shared ideas and best practices regarding the plans' online presence, target messaging, real-time chat feature to connect with a guidance counselor more conveniently and more. Mr. Toole mentioned the work in progress to provide the "Easy Enrollment" kit which has been quite successful within the plans' peer group in increasing the participation rate.

2018-2019 Budget Proposal

The Chair recognized Ms. Buonfiglio, who presented the update to the budget adopted in June of 2018, noting that while there was no need to adjust the bottom line, the staff is asking for an amendment due to the updated expenditure forecast; the projected expenses for intergovernmental transfer were lower than estimated. Ms. Buonfiglio and staff proposed that the difference be applied to the plans' auditor reconciliation of the GoalMaker 2.0 transition, as well as the database monitoring tools, Evestment and Morningstar.

Mr. Long applauded the fee holiday initiative and inquired about the projected administrative account balance at the end of 2019. Ms. Buonfiglio confirmed that the staff's approach continues to be conservative and the ending balance is being estimated at approximately \$4 million.

Ms. Johnson moved to approve the budget as amended, and Mr. Lumsden seconded. The motion passed unanimously.

GoalMaker 2.0 Transition Reconciliation Review

Ms. Buonfiglio summarized the complexity and the advantages of the transition, as well as the reconciliation process conducted by the plans' auditor, CliftonLarsonAllen. The objectives of the process were to provide an independent and unbiased review of the asset transfer and to report any errors in the rebalancing process and their monetary impact. The auditor's report was included in the meeting materials. The objectives of the audit were met and no errors in the process were identified. The correction of the one error that occurred during the process was included in the audit; the error, owing to a late trade, was corrected and resulted in an overall gain.

Approval of Minutes

The Chair entertained a motion to approve the minutes of November 14, 2018, Investment Subcommittee meeting. Ms. Thomas so moved, and Mr. Long seconded. The motion passed unanimously.

NC 401(k)/457(b) Plans 3rd Quarter Investment Performance Report

The Chair recognized Mr. Dillard, who provided the summary of third quarter market conditions, as well as specific updates regarding the plans' investment managers. He discussed strategies placed on watchlist in detail, as well as the change of leadership in Macquarie's large cap value team. Both Mercer and Ms. de Mey have conviction in the strategy and are comfortable that the change does not impact the overall stability of the team. In response to Mr. Long's inquiry, Mr. Toole added that the Board's fiduciary process regarding the disclosure to the participants begins with the public board meeting; the relevant discussion is documented in the meeting minutes and, if appropriate, certain changes may be noted in publicly available fund fact sheets. Mr. Dillard added that Mercer would make a recommendation to begin a manager search if the

situation called for it, but, in this instance, they advise to remain in the strategy after the change of leadership.

NC 403(b) Program 3rd Quarter Investment Performance Report

The Chair recognized Ms. de Mey who offered details regarding the program's active and passive asset balances; discussed the performance of the funds, particularly the strong gains in domestic equities; and noted that the November 30, 2018, transition from PIMCO Inflation Responsive Multi Asset Fund to Principal Diversified Real Asset Fund was completed with no issues.

NC 401(k)/457(b) Plans and NC 403(b) Program 3rd Quarter Administrative Report

The Chair recognized Mr. McCann who summarized the recent recordkeeping system updates, including: the introduction of financial wellness features on the participant website, the budgeting tool and the two-factor authentication. He highlighted several sections of the administrative report included in the meeting materials and discussed the performance guarantees and goal summary; asset allocation in each plan and the program; enrollment and contribution percentages and educational meetings conducted by the field representatives. Ms. Neville added that the participants' concerns regarding volatility can be alleviated by focusing on proper asset allocation guidance. Counselors are addressing these types of concerns first as the number of them has increased due to the recent market conditions.

At the Chair's request, Mr. McCann noted the recent data breach which impacted both the employer and the participant web portals. Mr. McCann emphasized that Prudential takes security and privacy very seriously, and the company's actions are fully transparent in these types of situations. The plan's staff has been involved in the process, and Prudential informed the board members and issued letters to impacted participants. The messaging was also posted to the website. The Chair added that the staff worked together with the Department of State Treasurer attorneys to resolve the issue.

Board of Trustees Comments

Board members welcomed the new trustee, Ms. Chevella Thomas, and Mr. Toole thanked the board members and the plans' business partners for their leadership and oversight.

Public Comments

No comments were offered.

Adjournment

There being no further business before the Board, the meeting was adjourned by acclamation at 11:07 a.m.

Chair

Secretary