



DRAFT 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 November 30, 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, Robert Hillman, James Lumsden and Greg Patterson.

Board members attending virtually: Steve Beam, Lorraine Johnson, Capt. Bob Shea, and Chevella Thomas.

Members Absent

Nels Roseland

Guests Present

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; Matt Herrmann and Michael McCann from Empower; Paul Langanki from Galliard; and Sam King from Invesco US.

Guests attending virtually: Matt Coburn from BNY Mellon; 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, Reid Chisholm, Robin Deaver, Christy Farrelly, Patti Hall, Jeff Hancock, Alan Jaquith, and Chris Morris.

Staff members attending virtually: Derek Gee, Kristin Merrick, Lisa Norris, Paul Palermo, Laura Rowe, and Dara Shoffner.

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 extended a warm welcome to Mr. Robert Hillman, who was appointed to the Board to replace Wyndon Hibler. He said Mr. Hillman brings extensive experience in finance and wealth management. The Chair then administered the oath, swearing Mr. Hillman in as a member of the Board.



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 informed the members that the Evaluation of Statement of Economic Interest (SEI) for Robert Hillman was available in the appendix. He said SEI evaluations are a part of the meeting minutes.

Adoption of Resolution of Appreciation for the Service of Mr. Wyndon Hibler

The Chair presented a Resolution of Appreciation for Mr. Wyndon Hibler's service as a member of the Supplemental Retirement Board of Trustees and entertained a motion to adopt the Resolution. Mr. Jim Lumsden so moved, and Mr. Hillman 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 August 24, 2023, quarterly Board meeting. Mr. Greg Patterson so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 7-0. (Mr. Hillman abstained.)

Legal Matters: Plan Document Amendments

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present legal matters.

Mr. Chisholm began with an update on the North Carolina Supplemental Retirement Plans' (SRP) implementation of SECURE 2.0 Act changes, including the plan document amendments regarding required minimum distributions (RMDs) in the Board's materials. With the approval of the amendments, SRP will have accomplished the required SECURE 2.0 changes for this year. Two other RMD changes did not require plan document amendments or Board approval and were implemented operationally earlier this year. The other required change was the elimination of the "first day of the month" rule for 457 plans, which the Board approved in the August meeting. Two items for SECURE 2.0 will be addressed next year: (1) eligibility of long-term part-time employees to contribute to the NC 401(k) Plan and (2) an increase in catchup contribution limits for those aged 60-63, which goes into effect beginning in 2025. He also noted that the IRS delayed for two years the SECURE 2.0 provision regarding Roth catchup contributions for employees who earned over \$145,000 during the previous calendar year and proposed guidance that will simplify implementation.

Mr. Chisholm said in addition to the two RMD amendments before the Board, there is also a retroactive amendment for the NC 401(k) Plan to address a compliance error by a participating employer (included in the Board's materials). For over 20 years, the employer permitted employee deferrals in a manner that was not consistent with the provisions of the NC 401(k) Plan.

Staff submitted a proposed correction through the IRS's Voluntary Correction Program, which the IRS approved. The employer corrected its matching contributions program in 2022, and no corrective payments were required. The only remaining compliance matter is the adoption of the plan amendment in the Board's materials, which retroactively incorporates the employer's deferral method into the NC 401(k) Plan.



Staff recommended adoption of the amendments before the Board.

The Chair entertained a motion to accept staff's recommendation to approve the amendments to the plan documents for the NC 401(k) and NC 457 Plans (Plans). Mr. Hillman so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

Legal Matters: Review of the Policies for Participants and Employers

Mr. Chisholm said staff annually reviews the Policies for Participants and Employers and the accompanying Policy Statement and recommends revisions as needed. Staff recommended changes to two of the policies, the Policy on Loans and the Policy on Participants and Beneficiaries. The changes were included in the Board's materials. The Chair entertained a motion to approve the recommended changes to the Policy on Loans and the Policy on Participants and Beneficiaries. Mr. Patterson so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

NC Supplemental Retirement Plans: Annual Strategic Communications Plan

The Chair recognized Ms. Christy Farrelly, Communications Manager, to present the SRP Annual Strategic Communications Plan (included in the Board's materials). Ms. Farrelly shared some highlights of the communication efforts in 2023, as staff aimed to engage, educate, and empower employers as well as current and future participants. Staff executed campaigns for employers and participants to broaden their knowledge about the Plans. The employer contribution campaign resulted in 552 employers enhancing their offered contributions. In addition, the Nearing Retirement communication has been an ongoing effort and continues to see positive results. Staff saw 89 beneficiaries take action after the "Beneficiaries Can Elect Beneficiaries" campaign.

The Plans' Retirement Education Counselors increased virtual and in-person meetings by 50% year-to-date. Participant engagement in October was the highest in four years. The new friendly, easy-to-remember website domain, myNCPlans.com, has been in use for a year. Year-to-date through September, there have been over 280,000 unique visitors to the site.

In 2024, communications will focus on increasing plan adoption, employee participation, contributions, and asset retention.

Ms. Farrelly shared that SRP recently received a NAGDCA Leadership Award for the National Retirement Security month campaign.

North Carolina Supplemental Retirement Plans: 3rd 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 3rd Quarter 2023 Administrative Report (included in the Board's materials).

Mr. McCann introduced Matt Herrmann and himself to Mr. Hillman.

Mr. McCann said everything remains on schedule for migrating from the legacy Prudential recordkeeping platform to the Empower recordkeeping platform during the first weekend of



February 2024. Empower has successfully transitioned more than 50% of Prudential's retirement business to the Empower platform. The North Carolina transition will be part of the final wave of transitions to the Empower platform.

Empower will reach out to all of the Plans' approximately 1,100 employers to prepare them for the migration, including sharing information about access to the employer website and loading payroll. Empower will also provide training opportunities pre- and post-migration for employers regarding employer website functionality and submitting payroll.

Plan participants will start receiving notifications a few weeks before migration. This will include flagging the migration date, information around how to reregister accounts on Empower's platform post-migration, GoalMaker enhancements, and upcoming training opportunities.

Mr. McCann shared key metrics for the Plans, discussing contributions vs. distributions, average participant balance, average participation rate, and active average employee deferrals. He noted the decline in active participation rate and commented it is likely from retirees and from participants who stopped contributing due to economic headwinds. Total unique participants with a balance continues to increase, total enrollments are strong, and the GoalMaker participation rate is steady.

Mr. McCann said that of the participants that separated from service and were eligible to roll their assets out of the Plans, 96% of the assets remained in the Plans during the past quarter and 82% remained during the past 12 months.

Mr. Herrmann said Empower continues to make courtesy calls to participants who are near retirement and has made over 3,000 calls so far this year, reminding retirees they can stay invested in the Plans. He noted Empower has seen about a 15% increase in asset retention from these calls.

In response to a question, Mr. McCann explained that Empower's platform will give participants the ability to see all their assets on the platform, if they wish. He added the Board will have the option to offer an advisory service to participants through Empower. He confirmed this service is one of the additional, optional services that Empower will offer for an additional fee for the Board's consideration.

In October, Empower had 12,200 live education engagements, a 30% increase over October 2022, and there were almost 3,900 plan enrollments, the highest monthly enrollment ever in the Plans.

Mr. Herrmann discussed retirement education activity for the third quarter and year-to-date, noting in the third quarter Empower had 25,200 total meeting attendees, a 70% increase over last year. He said Empower had a large increase in meetings across the board, with more group meetings, more one-on-ones, more on-site visits, and more employer meetings.

Empower is conducting campaigns for key employee populations, including third quarter campaigns focused on K-12 teachers and first responders. He noted Empower seems to be seeing more engagement in the K-12 arena, perhaps due to the unwinding of the NC 403(b) Program last year. There were 900 K-12 enrollments in October, double the K-12



enrollments last October, compared to about 3,000 total enrollees in the NC 403(b) Program when it was closed.

Mr. Jeff Hancock commented on the effectiveness of the tools and education that Empower offers, noting that participants who use the Retirement Income Calculator on average have significantly larger contribution rates and larger account balances. He stated that the tools increase engagement in the Plans.

Mr. Herrmann said there have been over 20,000 enrollments in the Plans this year through September and 2023 is on pace to exceed 2022, which had the most enrollments for any year of the contract. He said 42 employers have either added, increased, or enhanced their employer contribution programs so far this year.

NC 401(k) and NC 457 Plans: 3rd 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 3rd Quarter 2023 Stable Value Portfolio Review (included in the Board's materials).

Mr. Langanki said short-term interest rates remain elevated, and the interest rate yield curve remains inverted. Galliard's stable value assets under management declined this quarter to \$68.5 Billion, and he noted that SRP's stable value assets declined less than the assets of their average client.

Mr. Langanki reviewed the historical performance of the Federal Funds Effective Rate compared to the blended yield (or crediting rate) through September 30, 2023. The blended yield has remained relatively stable over time. Mr. Langanki said the blended yield of the NC Stable Value Fund (Fund) will continue to rise over time, with a lag, even if interest rates decline. He explained that interest income is being reinvested at the current higher interest rates.

He reviewed the metrics and performance of the Fund, reiterating that the Fund is performing as expected, given the current interest rate environment, with elevated interest rates and the inverted yield curve. He highlighted 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 Fund's assets dropped very slightly to \$2.43 billion during the second quarter and the blended yield rose to 2.89% as the Fed Funds rate increased. The blended yield will continue following the path of interest rates upward. The blended yield is higher than the 90-day T-Bill rate, which approximates money market rates.

The market/book value ratio dropped slightly to 91.64%, due solely to interest rates being elevated and rising during the quarter. Assets declined marginally during the third quarter because of a GoalMaker rebalancing, not due to participants transferring assets.

The NC Stable Value Fund has performed in-line with expectations in the current interest rate environment. Performance compared to the 3-Year Constant Maturity Treasury (CMT) Yield could be perceived as underperformance, however there is no perfect benchmark for stable value due to the amortization feature of the market-to-book value into the crediting rate, which smooths the yield. Galliard uses the 3-Year CMT because it is readily available, it



is based on safe Treasury assets, and has a 3-year duration, which is in line with the duration of the Stable Value fund.

Money market and 3-year CMT yields are volatile as they react immediately to changes in interest rates while stable value blended yields lag, remaining more stable over time. The Fund continues to show outperformance over all trailing periods of five years and longer. The compounded returns of stable value show outperformance over longer time frames, particularly in a normal interest rate environment.

Mr. Langanki said the benefits of stable value over money markets with a long-term time frame and a normal yield curve environment are (1) stable value can invest in a multitude of high-quality fixed-income sectors whereas money market funds can only invest in CDs, commercial paper, repurchase agreements, and high-quality short-term US government securities; (2) money market funds can only invest in assets with up to one year until maturity, while stable value has a weighted average time to maturity of three years; and (3) due to book value smoothing of the yield, the stable value blended yields have much lower volatility than money market yields. Lower volatility and higher long-term returns have enabled stable value funds to outperform long-term.

All underlying Fund managers have provided meaningful outperformance versus their benchmarks over longer time frames. The Fund outperformed the average money market fund return over the trailing three, five, and 10-year periods.

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 continued 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 May 31st. There have been no changes in the financial strength of any of the wrap providers. He noted the expense ratio declined in the third quarter from a drop in the administrative fee offset.

NC 401(k) and NC 457 Plans: 3rd Quarter 2023 Investment Performance Report

The 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 3rd Quarter 2023 Investment Performance Report (included in the Board's materials) and the Annual Review of the Investment Policy Statement (included in the Board's materials).

Ms. Hood said Callan is the investment consultant to the Board, advising the Board as fiduciaries on strategic planning, investment structure, glidepath, participant demographics, investment managers, and fee reviews. She reminded the Board that the Plans' participants can choose between active and passive investment options for most asset classes. Also, the Plans offer GoalMaker for participants who want assistance with investment allocations.

Ms. Hood gave a high-level overview of the capital markets, noting that the US equity markets posted negative returns for the third quarter. She noted that the Plans' assets decreased in the third quarter, primarily due to investment losses.



The Plans' passive investments are tracking their indexes with low fees and low tracking error, as they are designed to do. She said the active managers underperformed but are ahead of their benchmarks over the trailing seven-year period.

The NC Stable Value Fund has consistently ranked in the top quartile among its peers. Mr. Lewis commented that market-to-book value and crediting rate are the key drivers for stable value returns. He said the Fund is performing above the median for both metrics among stable value separate account peers; these are predictive of future returns remaining above average. The Fund is a sound and stable capital preservation option.

The Chair, Treasurer Folwell, stepped away at 10:46 a.m. and Mr. Thomas Causey took over as Acting Chair.

Mr. Lewis discussed the subaccount managers; he commented that Prudential Core Plus has rebounded significantly over the past several quarters and is doing well relative to peers and the index. Hotchkis & Wiley Large Cap Core was not doing well prior to 2022; but it has done very well over the last 18 months. Loomis Sayles Large Cap Growth has performed very strongly year-to-date. He said Callan is watching TCW Core Plus and is discussing it with staff. Macquarie Large Cap Value has struggled, primarily during 2023. The creator of this strategy at Macquarie retired several years ago, and the new team is operating differently. Callan will continue to monitor Macquarie closely. Callan is watching Sands Capital Large Cap Growth, primarily due to the magnitude of their underperformance. He commented Mondrian came off the watch list last quarter and Mondrian is solidly outperforming the benchmark.

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 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 and due to recent retirements. Callan will continue watching Macquarie closely.

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

TCW Asset Management announced the retirements of two portfolio managers. Mr. Lewis explained the key architects of the investment strategy the Board chose initially are no longer with TCW. Callan is discussing with staff whether to recommend adding TCW to the watch list.

NC 401(k) and NC 457 Plans: Annual Review of Investment Policy Statement

Mr. Lewis commented that Callan reviews the Investment Policy Statement each year. The proposed changes this year are in the Board's materials. The Acting Chair entertained a motion to approve the recommended changes to the Investment Policy Statement. Mr. Beam so moved, and Mr. Lumsden seconded. The motion passed by a unanimous roll call vote of 8-0.



The Chair, Treasurer Folwell, returned to the meeting at 11:00 a.m.

NC 401(k) and NC 457 Plans: Small / Mid Cap Manager Recommendation

The Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer, to present the recommendation of a new manager for the value mandate in the NC Small / Mid Cap Fund (included in the Board's materials). Mr. Morris said he and Kristopher Byrd, SRP Portfolio Manager, would present a high-level overview of the search process for a potential replacement for WEDGE Capital and would then have Callan review the structure of the white-label funds and the various options available to the Board. Mr. Morris said in May, the Board approved the termination of WEDGE Capital. As directed by the Board, staff transitioned WEDGE's assets to the BlackRock Russell 2500 Value Index Fund while staff continued the search for an active investment manager to replace WEDGE Capital.

Mr. Morris said the DST's Investment Management Division (IMD) oversees approximately \$175 Billion in assets, with about \$15 Billion in SRP. IMD has processes in place for hiring an external manager and a specific policy outlining the process to ensure consistency and due diligence.

IMD staff worked closely with Callan on the investment manager search, defining the search criteria, and screening the universe of potential managers. IMD and Callan narrowed the candidates to five and had virtual interviews with those five. IMD invited three managers to Raleigh and then conducted on-site visits with two of these managers. Mr. Morris said IMD focuses on the people, processes, and performance and chooses a manager for a long-term relationship.

Mr. Kris Byrd reviewed the key reasons staff is recommending AllianceBernstein (AB). AB has a disciplined investment process, combining quantitative screens with fundamental analysis. AB also has an experienced investment team with a strong long-term track record, strong risk management throughout the investment process, deep company resources, and very competitive fees versus peers.

In response to questions from the Board, Ms. Hood explained that AB is offering its lowest pricing for this investment mandate and that Callan does not believe the AB CIO is near retirement. In response to another question, Mr. Morris confirmed this recommendation would move the small/mid cap value funds back to active investing. Ms. Hood reminded the Board that participants have a choice between passive and active in the Plans; this recommendation keeps an active option (the NC Small / Mid Cap Fund) primarily active, which was the initial design for this option.

The Chair entertained a motion to approve Alliance Bernstein as the value manager for the NC Small/Mid Cap Fund. Mr. Beam so moved, and Mr. Patterson seconded. The motion passed by a unanimous roll call vote of 8-0.

Mr. Morris noted that staff will finalize contract negotiations with AB and transition the assets to AB. He anticipated the transition would be completed before the next board meeting.

NC 401(k) and NC 457 Plans Money Market Investment Option Discussion

Mr. Morris said staff asked Callan to review stable value investments versus money market and provide some education to the Board (included in the Board's materials).



Mr. Lewis noted that the objectives of stable value within the Plans are to preserve capital, provide liquidity, and preserve purchasing power, with preserving capital the key objective. He said money market funds have historically been very poor at preserving purchasing power and are generally a poor choice for participants with a long-term investment horizon looking to grow their assets. He shared that stable value has some additional complexity, and insurers typically require an “equity wash provision”, where participants cannot move directly to a competing option (e.g., money market fund) for a period of up to 90 days. Often participants will make the first move to an equity investment option and then forget to complete the move into a money market fund. Stable value options have provided significantly higher long-term performance as compared to money market funds. Callan believes offering a single capital preservation option is most appropriate and when offering one option, stable value is the best and most predictable option with greater return consistency and higher long-term returns.

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

The Chair recognized Mr. Byrd to present the NC 401(k) and NC 457 Plans 3rd Quarter 2023 Investment Compliance Summary Report (included in the Board’s materials). Mr. Byrd said 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 third quarter.

NC 401(k) and NC 457 Plans Investment Updates: Investment Consultant Contract

Mr. Chris Morris reminded the Board that the investment consultant contract with Callan expires March 31, 2024. Staff has discussed a contract extension with Callan and recommends the Board approve a two-year contract extension with a ten percent price increase. The price has been flat over the five-year term of the contract and would still be less expensive than alternatives even with the price increase. Mr. Morris commented that Callan has been a good partner and has met staff’s expectations.

The Chair entertained a motion to recommend a two-year contract extension with Callan. Mr. Patterson so moved, and Mr. Hillman seconded. The motion passed by a unanimous roll call vote of 8-0.

Public Comments

No comments were offered.

Board of Trustees Comments

Mr. Hillman thanked the Board for the warm reception and said he looks forward to working with the Board.

Board member Capt. Bob Shea left the meeting at approximately 11:59 a.m.

The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, February 22, 2024, at 9:00 a.m.

Adjournment

The Chair commented that with no further business before the Board, he would entertain a motion to adjourn in honor of Charlie Munger, who had been a mentor to him years ago.



North Carolina
Total Retirement Plans



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

Mr. Patterson so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 7-0.

The meeting was adjourned at approximately 12:06 p.m.

Chair

Secretary