



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



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

MINUTES SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

The regular quarterly meeting of the Supplemental Retirement Board of Trustees was called to order at 8:30 a.m., March 21, 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; Steve Beam (via phone); Lorraine Johnson; Michael Lewis; Nigel Long; Nels Roseland; Chevella Thomas (via phone).

Members Absent

Melinda Baran and Jim Lumsden were absent.

Guests Present

The guests attending were: Will Dillard and Kelly Henson from Mercer. Ann Cashman; Mary Conti; Aaron Koval; Michael McCann; Stephanie Smith; Jessica Quimby (via phone) from Prudential. Pete Schmit and Billy Weber from Galliard.

Department of State Treasurer Staff Present

The staff members present were: Mary Buonfiglio, Leighann Carroll, Reid Chisholm, Chris Farr, Patti Hall, Rekha Krishnan, Frank Lester, Loren de Mey, April Morris, Maja Moseley, Malinda Peters, Laura Rowe and Steve Toole.

Swearing-in

The Chair welcomed the new member of the Supplemental Retirement Board of Trustees, Mr. Nels Roseland. Mr. Roseland took the oath of office. The Chair expressed gratitude to the new trustee for his 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.

The Chair noted that a SEI evaluation for Mr. Roseland, as well as updated SEI evaluations for Ms. Baran and himself can be found in the meeting material appendix. The Chair reminded the Board members that the Ethics Act requires that any conflicts of interest identified in the evaluations be recorded in the meeting minutes and that the evaluation letter will be made part of the meeting minutes to serve as periodic reminder of those conflicts that were identified by the Ethics Board.

Investment Consultant Contract Update

The Chair recognized Mr. Toole to present the update. Mr. Toole thanked Mr. Chisholm and Callan's team for their efforts regarding the agreement. Mr. Toole noted that Callan was asked to disclose their relationships and types of clients in the Request For Proposal; some of their

clients are also investment managers and it is important to obtain client and revenue disclosures. Staff raised this issue with Callan's compliance team and obtained assurance that the firm maintains a rigid separation between Callan's staff serving North Carolina and the revenue associated with investment manager clients. Callan also performs annual correlation testing between recommendations of and revenue from investment manager clients. The staff is comfortable with the issue and it is a common business practice. The Chair emphasized the additional contract savings associated with Callan's service being provided to the Investment Management Division, as well as the Supplemental Retirement Plans.

The Chair entertained a motion to approve the Investment Consultant contract. Mr. Lewis so moved, and Mr. Long seconded. The motion passed unanimously.

Mr. Toole extended his thanks to Ms. Henson and Mr. Dillard for their efforts and dedication, noting that the North Carolina public servants are better prepared for retirement thanks to Mercer's service over the years.

Investment Subcommittee

The Chair discussed eliminating the Investment Subcommittee and consolidating its duties with the work of the full Board. He noted that the change would provide an opportunity to increase the efficiency of the Board, given (1) the increase in passive investment options in the plans, which reduces the need for investment manager searches; (2) the duplicative nature of certain Investment Subcommittee agenda items; and (3) the logistics of Investment Subcommittee members rotation. The Chair also stated that consolidation would increase the transparency and involvement of the Board. Mr. Chisholm added that the Board Charter would need to be amended to show the change. Mr. Chisholm also stated that the Investment Subcommittee can be re-established as necessary. Mr. Roseland inquired whether there was a statutory requirement to have a separate Subcommittee and Mr. Chisholm confirmed there was not. Ms. de Mey added that any future investment manager searches will be presented to the full Board. The Chair entertained a motion to consolidate the Investment Subcommittee and the Supplemental Retirement Board, and Mr. Lewis so moved. Ms. Johnson seconded, and the motion passed unanimously.

Approval of Minutes

The Chair entertained a motion to approve the minutes of December 13, 2018, Board meeting. Ms. Thomas so moved, and Mr. Beam seconded. The motion passed unanimously.

Approval of Minutes

The Chair entertained a motion to approve the minutes of the February 22, 2019, Audit Subcommittee meeting. Mr. Roseland so moved, and Mr. Long seconded. The motion passed unanimously.

Legal Updates

The Chair recognized Mr. Chisholm, who provided an update regarding the Administrative Code rulemaking process and codification of the administrative fee. He stated that the fee consultation request was sent to the Joint Legislative Commission on Governmental Operations, and if no response is received by April 15, 2019, a special Board meeting will be held on April 16, 2019 to vote on the rules adoption. He added that the Board has statutory rulemaking authority and additional rules will be proposed later this year, incorporating aspects of the plans such as contributions, loans and broad plan administration.

Next, Mr. Chisholm highlighted the amendments to the NC 401(k) plan document regarding hardship withdrawal relief for hurricanes Florence and Michael.

The Chair entertained a motion to approve the amendments as presented. Mr. Long so moved, and Mr. Lewis seconded. The motion passed unanimously.

Mr. Chisholm also summarized similar amendment to the NC 457(b) plan document regarding the unforeseeable emergency relief for hurricanes Florence and Michael. Mr. Lewis made a motion to approve the amendments, and Ms. Johnson seconded. The motion passed unanimously.

Lastly, Mr. Chisholm summarized the updates to the Investment Policy Statements for the NC 401(k) and NC 457 plans and the NC 403(b) Program. The main changes were associated with the replacement of the PIMCO Inflation Response Multi-Asset Institutional Fund in late 2018. Mr. Lewis made a motion to approve the amendments to the Investment Policy Statement for the NC 401(k) and NC 457 plans as presented, and Ms. Johnson seconded. The motion passed unanimously.

Ms. Johnson made a motion to approve the amendments to the NC 403(b) Program's Investment Policy Statement as presented, and Mr. Long seconded. The motion passed unanimously.

NC 401(k) and NC 457 Plans 4th Quarter 2018 Stable Value Portfolio Review

The Chair recognized Mr. Weber, who introduced Mr. Schmit. Mr. Weber provided the firm summary, the portfolio review and the key characteristics of the fund, including the all-in fee of 33.2 basis points, of which the contract fees are the largest expense. He emphasized that there were no negative returns for fund investors.

Mr. Schmit focused on the market value section of the presentation, investment managers in underlying portfolios and performance.

A discussion regarding fees, cost reduction efforts and relationship consolidation benefit followed the presentation; at Mr. Toole's request, Mr. Weber explained the process of fee collection on managed portfolios.

NC 401(k)/457(b) Plans 4th Quarter Investment Performance Report

The Chair recognized Ms. Henson and Mr. Dillard. Ms. Henson thanked the Board and staff for their words of appreciation. Mr. Dillard provided an overview of the plans' investment structure and Ms. Henson offered a detailed overview of the GoalMaker portfolios. Mr. Dillard continued on to the summary of investment manager meetings conducted by Mercer: there were no material updates and the managers maintained their high ratings. He also provided a performance update, noting a difficult market environment in the 4th quarter. Ms. Henson added that Mercer performed the quarterly fee check for the plans' to ensure they are still below median.

Ms. de Mey took the floor to discuss the underperformance of Hotchkis and Wiley in detail. She noted that the small/mid cap strategy has been on watch since the 1st quarter of 2017. She further noted that while underperforming the benchmark in 2018, Hotchkis has outperformed the benchmark by about 7 percent so far this year. Ms. de Mey offered the details of the manager strategy and stock-picking approach, adding that underperformance, albeit disappointing, is not entirely unexpected, given their style.

Following the presentation, Board members, staff and the investment consultant discussed the manager's performance, benchmark, assets under management and style in detail.

The Chair recommended that the Board vote to keep the manager on the watchlist even though their current duration on watchlist exceeds four quarters. He entertained a motion on the recommendation and Mr. Lewis so moved. Ms. Johnson seconded, and the motion passed unanimously.

Investment Compliance Summary Report

Ms. de Mey provided an update regarding the staff effort to research China A Shares given they are now included in the MSCI indices. Both international managers (Baillie Gifford and Mondrian) expressed their desire to introduce class A shares in their respective portfolios in

order to be able to invest directly in mainland China. Ms. de Mey added that the staff is currently conducting the due diligence process with respect to investment guidelines and trading models. Next, Ms. de Mey summarized the upcoming transition of Russell Global Sectors (RGS) to Industry Classification Benchmark (ICB) and noted that staff will receive an advance transition notice from the FTSE Russell team. The tentative implementation date is scheduled to take place in July 2019.

NC 403(b) Program 4th Quarter Investment Performance Report

Ms. de Mey offered details regarding the Program's total asset balances and discussed the negative returns prevalent in the 4th quarter due to challenging market conditions. She also summarized the performance of individual funds.

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

The Chair recognized Mr. McCann, who provided the administrative update. He discussed the website upgrade which took place in December 2018 and as of March 14, approximately eight thousand participants had migrated to the new version. Mr. McCann confirmed Prudential's compliance with applicable laws and the terms of the contract. Next, he focused on the administrative matters, such as: overall assets, new plan adoptions, enrollments, contributions and the participant service center statistics. He also discussed the employer contributions and the adoptions of contribution accelerator. Mr. Roseland requested to be provided a list of all employers who currently offer a matching contribution, and Mr. McCann confirmed it will be provided. The Chair added that, in his opinion, a state match is not a feasible option based on the current and projected expenses. Additionally, he described the Department's efforts in pursuit of felony forfeiture to reduce pension service credit and noted that the NC 401(k) matching contributions should also be recaptured on behalf of state agencies.

Board of Trustees Comments

The Chair called on Mr. McCann to address the data security breach which occurred at Prudential in the prior quarter, and impacted the employer web portal, as well as the participant website. Mr. McCann confirmed that the issue has been resolved and no personally identifiable information (PII) was breached. Mr. McCann described the steps taken to resolve the issue, including third party forensics. The Chair emphasized the Department's culture of disclosure and transparency; Mr. Toole added that a contract amendment regarding data security is being drafted.


The Chair confirmed the dates of upcoming Board meetings at the request of Mr. Beam. Mr. Roseland expressed his enthusiasm regarding his Board service, and thanked the trustees.

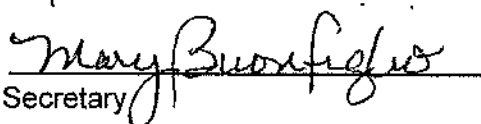
Public Comments

No comments were offered.

Adjournment

There being no further business before the Board, the meeting was adjourned by acclamation at 10:28 a.m.


Chair


Secretary



NORTH CAROLINA

State Board of Elections & Ethics Enforcement

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P.O. Box 27255
Raleigh, NC 27611-7255

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Fax: (919) 715-0135

November 27, 2018

The Honorable Dale R. Folwell
North Carolina Department of State Treasurer
3200 Atlantic Avenue
Raleigh, NC 27604

Via Email

**Re: Evaluation of Statement of Economic Interest
Supplemental Retirement Board**

Dear Mr. Folwell:

Our office has received your 2017 and 2018 Statement of Economic Interest as a member of the Supplemental Retirement Board (**the “Board”**). We have reviewed them for actual and potential conflicts of interest pursuant to Chapter 163A of the North Carolina General Statutes (“N.C.G.S.”), also known as the Elections and Ethics Enforcement Act (the “Act”).

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter’s contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 163A-193(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 163A-157.

We did not find an actual conflict of interest or the likelihood of a conflict of interest.

The Supplemental Retirement Board of Trustees was established through the Department of State Treasurer to coordinate and administer various supplemental retirement programs, including 457 plans, 401(k) plans and other similar investment vehicles. The Board has the authority to review contracts, agreements or arrangements pertaining to the administrative services and investment of deferred funds under the plans with service providers. Further, the Board may recommend continuation of or changes to such contracts.

The Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. § 163A-211 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. § 163A-216 prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant’s extended family, or a business or non-profit with which the public servant or a member of the public servant’s immediate family is associated may receive a reasonably foreseeable financial benefit.

As the Treasurer for the State of North Carolina, you hold an ex-officio role on the Board.

In addition to the conflicts standards noted above, N.C.G.S. § 163A-212 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant's agency, is regulated or controlled by the public servant's agency, or has particular financial interests that may be affected by the public servant's official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. § 163A-212(e).

Pursuant to N.C.G.S. § 163A-159(c), when an actual or potential conflict of interest is cited by the Board under N.C.G.S. § 163A-189(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act.

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 163A-158. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,

A handwritten signature in blue ink, appearing to read "Annette B. Barefoot".

Annette B. Barefoot, Compliance Analyst
NC Board of Elections & Ethics Enforcement

cc: Ms. Laura Rowe, Ethics Liaison

Attachment: Ethics Education Flyer



NORTH CAROLINA

State Board of Elections & Ethics Enforcement

Mailing Address:
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Raleigh, NC 27611-7255

Phone: (919) 814-0700
Fax: (919) 715-0135

November 27, 2018

The Honorable Phil Berger
President Pro Tempore of the Senate
16 W. Jones Street, Room 2008
Raleigh, NC 27601

Via Email

**Re: Evaluation of Statement of Economic Interest Filed by Melinda Lewis Baran
Public Member – Supplemental Retirement Board**

Dear Senator Berger:

Our office has received Melinda Lewis Baran's 2017 Statement of Economic Interest and 2018 Statement of Economic Interest as a member of the Supplemental Retirement Board (**the "Board"**). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 163A of the North Carolina General Statutes ("N.C.G.S."), also known as the Elections and Ethics Enforcement Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 163A-193(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 163A-157.

We did not find an actual conflict of interest, but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

The Supplemental Retirement Board of Trustees was established through the Department of State Treasurer to coordinate and administer various supplemental retirement programs, including 457 plans, 401(k) plans and other similar investment vehicles. The Board has the authority to review contracts, agreements or arrangements pertaining to the administrative services and investment of deferred funds under the plans with service providers. Further, the Board may recommend continuation of or changes to such contracts.

The Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. § 163A-211 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. § 163A-216 prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant's extended family, or a business or non-profit with which the public servant or a member of the public servant's immediate family is associated may receive a reasonably foreseeable financial benefit.

Ms. Baran fills the role of a public member on the Board. She is retired from her employment with Wells Fargo. She has disclosed that she holds a threshold level of interest in several financial institutions, including, but not limited to Bank of the Ozarks, Inc. and Wells Fargo, either of which could seek a professional relationship with the Board. As such, Ms. Baran has the potential for a conflict of interest and should exercise appropriate caution in the performance of her public duties should issues regarding any entity in which she has a financial interest comes before the Board for official action or otherwise seek to conduct business with the Board.

In addition to the conflicts standards noted above, N.C.G.S. § 163A-212 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant's agency, is regulated or controlled by the public servant's agency, or has particular financial interests that may be affected by the public servant's official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. § 163A-212(e).

Pursuant to N.C.G.S. § 163A-159(c), when an actual or potential conflict of interest is cited by the Board under N.C.G.S. § 163A-189(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act.

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 163A-158. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

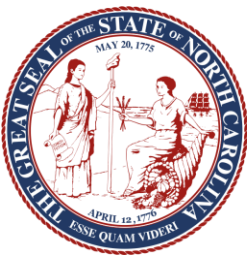
Sincerely,

A handwritten signature in blue ink that reads "Annette B. Barefoot". The signature is fluid and cursive, with the first name being the most prominent.

Annette B. Barefoot, Compliance Analyst
NC Board of Elections & Ethics Enforcement

cc: Melinda Lewis Baran
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Flyer



NORTH CAROLINA

State Board of Elections & Ethics Enforcement

Mailing Address:
P.O. Box 27255
Raleigh, NC 27611-7255

Phone: (919) 814-0700
Fax: (919) 715-0135

Via Email

January 2, 2019

The Honorable Roy A. Cooper III
Governor of North Carolina
20301 Mail Service Center
Raleigh, North Carolina 27699-0301

**Re: Evaluation of Statement of Economic Interest Filed by Mr. Nels C. Roseland
Prospective Appointee – Supplemental Retirement Board of Trustees**

Dear Governor Cooper:

Our office has received by **Mr. Nels C. Roseland's** 2018 Statement of Economic Interest as a prospective appointee to the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 163A of the North Carolina General Statutes ("N.C.G.S."), also known as the Elections and Ethics Enforcement Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 163A-193(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 163A-157.

We did not find an actual conflict of interest or the likelihood for a conflict of interest.

The Supplemental Retirement Board of Trustees was established through the Department of State Treasurer to coordinate and administer various supplemental retirement programs, including 457 plans, 401(k) plans and other similar investment vehicles. The Board has the authority to review contracts, agreements or arrangements pertaining to the administrative services and investment of deferred funds under the plans with service providers. Further, the Board may recommend continuation of or changes to such contracts.

The Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. § 163A-211 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. § 163A-216 prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant's extended family, or a business or non-profit with which the public servant or a member of the public servant's immediate family is associated may receive a reasonably foreseeable financial benefit.

Mr. Roseland would fill the role of a state employee who has experience in finance and investments.

The Honorable Roy A. Cooper III

January 2, 2019

Page 2 of 2

In addition to the conflicts standards noted above, N.C.G.S. § 163A-212 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant's agency, is regulated or controlled by the public servant's agency, or has particular financial interests that may be affected by the public servant's official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. § 163A-212(e).

Pursuant to N.C.G.S. § 163A-159(c), when an actual or potential conflict of interest is cited by the Board under N.C.G.S. § 163A-189(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act.

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 163A-158. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,

A handwritten signature in cursive script that reads "Mary Roerden".

Mary Roerden, SEI Unit
NC Board of Elections & Ethics Enforcement

cc: Nels C. Roseland

Attachments: Ethics Education Flyer and Guide