

**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 approximately 9:00 a.m. on August 27, 2020, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held with some attendees in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604 and with most attending via teleconference. 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 following board members were present: Treasurer Dale Folwell, Melinda Baran, Lorraine Johnson (by phone), Michael Lewis (by phone), Nigel Long (by phone), Jim Lumsden (by phone), Nels Roseland (by phone), Steve Beam (by phone), and Chevella Thomas (by phone).

**Members Absent**

No members were absent.

**Guests Present**

The guests attending were: Phaedra Garibaldi and Greg Wilcox from BNY Mellon; Elizabeth Hood and Weston Lewis from Callan; Paul Langanki from Galliard; Ann Cashman, Matt Herrmann, Aaron Koval, Michael Mccann, and Jessica Quimby from Prudential.

**Department of State Treasurer Staff Present**

The following staff members were present: Mary Buonfiglio, Tom Causey, Reid Chisholm, Loren de Mey, Chris Farr, Christy Farrelly, Joan Fontes, Ben Garner, Patti Hall, Alan Jaquith, Rekha Krishnan, Fran Lawrence, April 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 in person and by teleconference, members must announce their names when they arrive, when they depart, and when speaking.

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

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

**Approval of Board Minutes**

The chair entertained a motion to approve the minutes of the May 28, 2020, board meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously by roll call vote.

Nels Roseland announced that he was on the phone.

The Chair entertained a motion to approve the minutes of the July 15, 2020 Audit Subcommittee meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously by roll call vote.

### **NC 401{k} / NC 457 Plan Design - Small / Mid Cap Fund Recommendations**

The Chair reminded the board that the topic of recommended changes to the NC Small/Mid Cap Fund had been deferred from the previous board meeting and is currently up for consideration. A robust discussion of performance, tracking error, excess returns, fees, and market volatility ensued. Ms. de Mey explained that the original recommendation from SRP staff and the consultant, Callan, was to add an active manager to replace the previously-terminated manager. She explained that since the manager was terminated, the NC Small/Mid Cap Fund has had a tilt toward value and toward passive investments. Discussion continued regarding growth vs. value investing, active vs. passive investing, timing on transitioning the fund, fees and excess returns, and recent market volatility due to the current world situation.

Mr. Chisholm asked that a member of the board make a motion to enter a closed session so that he might advise the board in his legal capacity. Mr. Chisholm explained that if the board wants to maintain the current investment structure of the fund, it must be explicit regarding the decision and the rationale. He said that he would provide more details in a closed session. Ms. Johnson so moved, and Mr. Roseland seconded. The motion passed unanimously. The board entered a closed session at 10:14 a.m.

Ms. Johnson made a motion to reopen the meeting at 10:32 a.m. and Ms. Baran seconded. The motion passed unanimously.

Upon the return to open session, Ms. Baran made a motion to retain the current structure of the NC Small/ Mid Cap Fund and defer further discussion of this topic until the December 3, 2020 quarterly board meeting to get updated performance information as of September 30, 2020 and to get updated recommendations from SRP staff and from Callan. Mr. Beam seconded, and the motion passed by roll call following some additional discussion.

### **Amendments to NC 401{k} and NC 457 Plan Documents**

The Chair recognized Mr. Chisholm to discuss amendments to the plan documents for the NC 401(k) and NC 457 Plans based on provisions of the SECURE (Setting Every Community Up for Retirement Enhancement Act of 2019) Act. These amendments cover changes to required minimum distribution (RMD) age, normal retirement age, and in-service distribution age. A memo and change pages for the amendments were included in the board's meeting materials.

The Chair asked that the record reflect his departure and recognized Executive Director Tom Causey to serve as Acting Chair.

The Acting Chair entertained a motion to approve the amendments to the plan documents. Mr. Beam so moved, and Mr. Roseland seconded. The motion passed unanimously by roll call.

### **Revisions to Placement Agent, Political Contribution, and Connection Disclosure Policy**

The Acting Chair recognized Mr. Chisholm to discuss revisions to the Placement Agent, Political Contribution, and Connection Disclosure Policy. Mr. Chisholm explained that the policy recommended revisions are based on staffs annual review. A memo and revised policy were included in the board's meeting materials. The Acting Chair entertained a motion to approve the revised policy. Mr. Long so moved, and Ms. Thomas seconded. The motion passed unanimously by roll call.

The Chair returned to the meeting.

### **Loan Policy Revision**

The Chair recognized Mr. Chisholm to discuss revisions to the Loan Policy. Mr. Chisholm explained reasons for the revision, some of which were based on provisions within the CARES (Coronavirus Aid, Relief, and Economic Security) Act that were previously approved by the board. A memo and revised policy were included in the board's meeting materials. The Chair entertained a motion to approve the revised policy. Ms. Baran so moved, and Mr. Beam seconded. The motion passed unanimously by roll call.

Mr. Roseland made a request that, if feasible, an autopayment / EFT loan payment option be made available for participants who leave employment with a loan balance. SRP staff will investigate.

### **NC 401(k) and NC 457 Plans' Custodian Contract**

The Chair recognized Mr. Chisholm to discuss renewal options for the BNY Mellon Custodial Contract for the NC 401(k) Plan and NC 457 Plan. BNY Mellon has been a custodian of the NC 401(k) and 457 Plans since January 1, 2016. Mr. Chisholm shared that the current contract ends December 31, 2020. He stated that SRP staff recommends renewing the contract for 2021 and 2022 now, and then deciding in mid-2021 whether to renew the contract for 2023 or to begin the procurement process for a custodian. A memo was included in the board's meeting materials.

The Chair entertained a motion to approve the SRP staff recommendation. Mr. Beam so moved, and Ms. Baran seconded. The motion passed unanimously by roll call.

### **NC 401(k) and NC 457 Plans' Stable Value Fund's Custodian**

Mr. Chisholm reminded the board that Wells Fargo, currently the custodian for the separate account assets in the Stable Value Fund, sold its custodial business to Principal in 2019. The Stable Value Fund's assets will need to be transitioned to a new custodian by the second half of next year. SRP staff has met with the Principal and with BNY Mellon regarding serving as custodian of the Stable Value Fund. SRP staff will continue its evaluation and will bring a recommendation to the board at the December meeting.

### **NC 401(k) and NC 457 Plans' Proxy Voting Service Provider Contract**

Mr. Chisholm gave the board an update on the Proxy Voting Advisory Service contract with Glass Lewis. He explained that SRP's proxy voting policy includes the Glass Lewis house policy. He said that the current three-year contract ends on September 14, 2020 and that the department exercised the option to renew the contract for another one-year term while the department reviews its approach to proxy voting. He said that if SRP staff has any recommendations for a change to SRP's proxy voting policy, SRP staff will bring the recommendations to the board.

### **NC 401(k) and NC 457 Plans 2nd Quarter Investment Performance Report**

The Chair recognized Ms. Hood of Callan. Ms. Hood started by sharing that July was a strong month, with a new peak in the S&P 500 Index and that plan balances were over \$13 Billion as of July 31, 2020. She commented that the passive funds are tracking their respective indices, and that for July, four of the five active funds outperformed their respective indices. She explained that the second quarter of 2020 was also strong. She shared that growth has continued to outperform value and large-cap stocks have continued to outperform the mid-cap and small-cap stocks. She shared that the fixed income funds are performing well also.

Ms. Hood commented that they are comfortable with each of the existing fund managers. She stated that the NC Small/Mid Cap Fund currently has an overweight to value.

#### **NC 401(k) and NC 457 Plans 2nd Quarter 2020 Stable Value Portfolio Review**

The Chair recognized Mr. Langanki of Galliard, who stated that Galliard just celebrated 25 years in the business. Galliard has a total of \$80.9 billion of stable value assets under management and is the largest stable value separate account manager. He highlighted the state of the portfolio for the past quarter, including the continued asset growth. He said the portfolio continued to experience strong and absolute results, performing solidly ahead of the 90-day Treasury Bill yield. He noted that the stable value wrap companies remain financially stable and that Galliard is looking to reduce wrap fees whenever possible. Galliard is focusing on the quality and financial stability of the stable value wrap providers. With the decline in interest rates, he anticipates a continuing reduction in the crediting rate in the coming months. However, he reminded the board that stable value funds are intended to preserve principal regardless of the crediting rate.

#### **Investment Compliance Summary Report**

The Chair recognized Ms. de Mey, who said that staff continues to monitor investment managers daily for compliance with their respective investment guidelines. She commented that the managers held no prohibited holdings during the quarter. She said that staff has been using Russell Global Sectors (RGS) to check compliance with investment guidelines. She explained that RGS is being replaced by the Industry Classification Benchmark (ICB) system. The more widely used industry standard is the Global Industry Classification Standard (GICS) structure. Ms. de Mey discussed the change with the various fund managers, and SRP will move to the GICS structure for monitoring investment guidelines. This does not impact benchmarks; it is only used for monitoring adherence to investment guidelines.

Ms. de Mey also noted that the annual proxy voting report is in the appendix to the board's meeting materials.

#### **NC 401(k) and NC 457 Plans 2nd Quarter Stable Value Fund Review**

The Chair recognized Mr. Lewis of Callan to present an independent review of the NC Stable Value Fund manager. Mr. Lewis commented that Galliard has exhibited stability in senior leadership despite several retirements among their senior staff. Galliard has a deep investment team and is using quality wrap managers. Galliard has displayed consistency in their investment process and in their performance.

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

The Chair recognized Ms. de Mey to review the NC 403(b) Program. Ms. de Mey shared that the NC 403(b) Program is now eligible to move from the Vanguard 500 Index Fund Admiral Share class to the Institutional Share class, which will reduce the expense ratio from 4 basis points to 3.5 basis points. She said that all active funds, except for DFA, outperformed their benchmarks for the second quarter and for year-to-date 2020. She explained that DFA's quantitative process excludes stocks with low profitability and high relative prices. This hurt relative performance given those stocks have continued to outperform. She commented that DFA is currently on our watch list and shared that Baillie Gifford is performing quite well.

#### **NC Supplemental Retirement Plans 2nd Quarter 2020 Administrative Report**

The Chair recognized Mr. Mccann from Prudential to provide the NC Supplemental Retirement Plans 2nd Quarter 2020 Administrative Report. Mr. Mccann reported that there have been 9,900 distributions as allowed by the CARES Act changes implemented earlier this year. He

commented that they have added 15 new employers / subplans during 2020 and that assets have recovered from the decline during the first quarter. He shared that the percentage of participants with outstanding loan balances is slightly lower as compared to a year ago.

**Public Comments**

No comments were offered .

**Board of Trustees Comments**


Ms. Thomas stated that she hoped everyone is doing well during this pandemic.


The Chair commented that there is a lot of turmoil in the government defined contribution arena now relating to ethics. He said there are many conflicts of interest in the industry and that a high-profile manager of a state pension plan resigned recently. He shared that the State is potentially facing a \$3 billion shortfall in revenue due to the pandemic. On a brighter note, he shared that last night a law enforcement officer came up to him and made some very positive comments regarding the NC 401(k) Plan.

The Chair thanked everyone for participating and announced the next board meeting will be Thursday, December 3, 2020 at 9:00 a.m.

**Adjournment**

There being no further business before the board, Ms. Baran made a motion to adjourn, and Mr. Beam seconded the motion. The motion was approved unanimously via roll call, and the meeting adjourned at approximately 12:10 p.m.

  
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Chair  
Mary Buonfiglio  
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Secretary

Signature:   
Email: mary.buonfiglio@nctreasurer.com