



**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 9:00 a.m., September 19, 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; Lorraine Johnson; Jim Lumsden; Nels Roseland (via phone); Chevella Thomas.

### **Members Absent**

Michael Lewis and Nigel Long.

### **Guests Present**

The guests attending were: Elizabeth Hood and Weston Lewis from Callan; Allan Torrance from CEM Benchmarking; Mike Norman from Galliard; Ann Cashman (via phone), Mary Conti (via phone), Aaron Koval, Michael McCann, Matt Herrmann and Kelly Keen (via phone) from Prudential; Denise Fortune and Ned Freer from Voya.

### **Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio; Tom Causey; Reid Chisholm; Christy Farrelly; Joan Fontes; Patti Hall; Rekha Krishnan; Frank Lester; Loren de Mey; April Morris; Maja Moseley; Dan Way; Sam Watts.

### **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 the Statements of Economic Interest evaluations for Ms. Farr and Mr. Causey as his standby designees can be found in the meeting material appendix. The Chair reminded the Board members that the State 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 State Ethics Commission.

### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of June 20, 2019, Board meeting.

Mr. Lumsden so moved, and Mr. Beam seconded. The motion passed unanimously.

\*The meeting was chaired by Ms. Farr from 11:30 a.m. until adjournment at 12:09 p.m.

### **Approval of Audit Subcommittee Minutes**

The Chair entertained a motion to approve the minutes of the July 26, 2019, Audit Subcommittee meeting.

Ms. Baran so moved, and Mr. Beam seconded. The motion passed unanimously.

### **NC Supplemental Retirement Plans Fees Statement**

The Chair recognized Ms. Buonfiglio, who presented a new fee disclosure statement for the plans. The statement was drafted as a best practice to maximize fee transparency and cost understanding by the plans' participants, and fee calculation examples are included in the statement's appendix. She noted, the statement's goal was to highlight all fees, the apparent ones and the ones typically less visible. Ms. Buonfiglio added that the presentation from CEM Benchmarking will provide a comparison of the plans' fees to those of other plans. Ms. Buonfiglio thanked Mr. Chisholm for preparing the statement.

### **NC Supplemental Retirement Plans' Benchmarking Report**

The Chair recognized Mr. Torrance, who provided a brief overview of the company's background, as well as the report's methodology. He focused on the key sections of the report, including: the outline of the investment lineup, total plan cost and its reasonableness, cost risk, and net return correlation. Mr. Torrance emphasized that among the peer group of thirteen large, public defined contribution plans, the NC 401(k) and NC 457 Plans have a narrower selection of passive investment options. The cost is 0.33 percent of total assets, which translates to a total average cost of \$118 per participant.

Following the presentation, the trustees and the staff discussed the details of the risk metrics and model used by CEM Benchmarking, as well as the efficacy of the plans' economy-of-scale utilization. At the Chair's request, Ms. de Mey confirmed that the plans are taking full advantage of the defined benefit relationship in order to reduce cost.

### **Legal Matters**

The Chair recognized Mr. Chisholm, who presented summary of proposed changes to the loan policy for the NC 401(k) and NC 457 Plans. The changes included the reduction in the loan waiting period from fifteen to seven days between submitting a final payment for a loan and initiating a subsequent loan. This reduced period provides sufficient time to confirm the receipt of funds to pay off the original loan. The revised policy also added the availability of loans to participants who are retired or otherwise separated from service, which may encourage general asset retention. The trustees discussed various administrative tasks essential to accurate loan processing, and the merits of borrowing versus taxable withdrawals.

Ms. Baran made a motion to approve the recommendation to extend loan availability to all plan participants, and Mr. Beam seconded. The motion passed unanimously.

Mr. Chisholm added that if the recommendation to shorten the loan waiting period is approved, the staff and the recordkeeper will no longer consider granting waivers to plan participants due to financial circumstances. Lastly, he also noted, other changes to the loan policy: a deletion of the recordkeeper's loan procedure resolution.

Mr. Beam made a motion to approve the recommendation to shorten the loan waiting period to seven days, and Ms. Johnson seconded. The motion passed unanimously.

Following the presentation, Mr. Chisholm provided a summary of the newly executed cybersecurity amendment to Prudential's recordkeeping and communications contract. The amendment was effective September 3, 2019.

#### **NC 401(k) and NC 457 Plans 2<sup>nd</sup> Quarter 2019 Stable Value Portfolio Review**

The Chair recognized Mr. Norman, who noted the recent departure of Mr. Weber from the firm. Mr. Norman provided an update of company changes, noting that the succession planning continues and that retention bonuses are in effect. He also provided an updated organizational chart to the trustees.

Mr. Norman highlighted the state of the portfolio in the past quarter, emphasizing the consistency of assets, solidity of the cash flows and consistency of credit ratings, as well as overall portfolio performance. He noted that there have been no changes in contract issues, and mentioned the fee reductions, to become effective October 1, for Metropolitan Life Insurance Company and American General Life Insurance Company. Mr. Norman added that all managers added value for the quarter.

#### **NC 401(k) and NC 457 Plans and NC 403(b) Program 2<sup>nd</sup> Quarter Administrative Report**

At the Chair's request, this agenda item was moved up. The Chair recognized Mr. McCann, who introduced Mr. Hermann and Mr. Koval. Mr. McCann presented a summary of an error experienced by Prudential in March 2019. The error occurred during the scheduled transition from a mainframe to a Unix environment and caused certain electronic and paper employer reports to not be generated. The lack of proper reporting and notification to employers impacted approximately 1,300 participants' loans and approximately 3,100 participant's deferrals. Mr. McCann apologized for the error on Prudential's behalf and emphasized that Prudential will make participants whole and will apply all applicable Internal Revenue Service error correction guidelines. Additionally, Prudential will conduct an in-depth review of security controls with the Department's senior leadership.

A robust discussion followed the presentation: the trustees debated the merits of various correction methods and the best ways to conduct the necessary participant outreach. Mr. Chisholm confirmed that the trust monies located in the administrative expense account cannot be used to fund the correction as they are permitted for the use of general expenses only. Ms. Buonfiglio added that loans erroneously defaulting must be addressed as a priority, and the missed deferral changes will be researched and corrected next.

The trustees agreed that the changes to the loan policy approved earlier in the meeting should be postponed until further review during the upcoming Board meeting in December, and the earlier vote should be rescinded.

Mr. Beam so moved, and Mr. Lumsden seconded. The motion passed unanimously.

Lastly, Mr. McCann provided brief notes to the administrative report, including: the summarized combined goals, plan adoptions by new employers, changes to enrollment and contribution levels, as well as data around the Retirement Income Calculator usage among the plans' membership.

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

The Acting Chair recognized Ms. Hood and Mr. Lewis. Ms. Hood noted that market performance saw positive returns from all major asset classes during the quarter, and offered a detailed explanation of the Watch List score card and each investment manager's rating. Callan recommends keeping Mondrian, Hotchkis SMID, Wedge and Galliard on the list. Ms. de Mey

noted that she will be conducting a due diligence visit with Hotchkis in October. Ms. Hood added that in December, Callan will look at all the options as to how the managers are working together and provide the findings to the Board.

**NC 401(k) and NC 457 Plans Investment Compliance Summary Report**

The Acting 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.

Ms. de Mey offered a detailed description and research regarding the credit risk and custodial credit risk as a follow up to the financial statements' footnotes discussion during the most recent Audit Subcommittee meeting. She stated that while the plans do not have a formal credit risk policy, this type of risk is mitigated by the contractual investment guidelines for the managers. She also stated that custodial credit risk is low due to the fact that the trust owns the securities held in the plans.

**NC 403(b) Program 2<sup>nd</sup> Quarter Investment Performance Report and Watch List Recommendation**

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 in detail and added information regarding the underlying holdings. She noted that the index funds saw strong performance during the quarter.

Next, Ms. de Mey presented the recommendation to place the domestic Small Cap mandate on the Watch List. The DFA US Small Cap Fund I is managed by Dimensional Fund Advisors (DFA) and the manager's relative performance has struggled since 2017. Ms. de Mey summarized the manager's investment philosophy and detailed certain aspects of their underperformance.

Ms. Johnson made a motion to approve the Watch List recommendation, and Ms. Thomas seconded. The motion passed unanimously.

**Board of Trustees Comments**

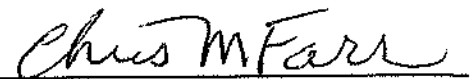
The Acting Chair introduced Ms. Farrelly, the Department's new Communications Manager, and Mr. Causey, who recently accepted the position of the Executive Director of the Retirement Systems Division. Ms. Thomas noted that she attended the NAGDCA conference and found the presentations helpful.

**Public Comments**

No comments were offered.

**Adjournment**

There being no further business before the Board, Ms. Baran made a motion to adjourn and Mr. Beam seconded. The meeting adjourned at 12:09 p.m.



Chair



Secretary



## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

June 19, 2019

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

**Re: Evaluation of Statement of Economic Interest by Ms. Chris Marie Farr, Chief of Staff and Chief Deputy Treasurer to Serve on the Supplemental Retirement Board of Trustees**

Dear Treasurer Folwell:

Our office has received **Ms. Chris Marie Farr's** 2018 Statement of Economic Interest and 2019 No-Change Form to serve as your designee on the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed them for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics 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. § 138A-28(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. § 138A-13.

**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, and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also

requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).

Ms. Farr will serve as your designee on the Board.

In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

When this letter cites an actual or potential conflict of interest under N.C.G.S. § 138A-24(e), the conflict must be recorded in the minutes of the applicable board and brought to the membership's attention by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act. N.C.G.S. § 138A-15(c).

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. 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,



Mary Roerden, SEI Unit  
State Ethics Commission

cc: Chris Marie Farr  
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide



## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

July 11, 2019

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

**Re: Evaluation of Statement of Economic Interest by Mr. Thomas Causey,  
Interim Director of the Retirement Systems Division to Serve on  
the Supplemental Retirement Board of Trustees**

Dear Treasurer Folwell:

Our office has received **Mr. Thomas Causey's** 2019 Statement of Economic Interest to serve as your secondary designee on the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed them for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics 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. § 138A-28(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. § 138A-13.

**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, and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated

persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).

Mr. Causey will serve as your secondary designee on the Board.

In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

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Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. 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,



Mary Roerden, SEI Unit  
State Ethics Commission

cc: Thomas Causey  
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide