



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



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STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

DRAFT 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., February 27, 2020, 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; Jim Lumsden; Nels Roseland; and Chevella Thomas.

Members Absent

Nigel Long

Guests Present

The guests attending were Elizabeth Hood and Weston Lewis from Callan; Paul Langanki and Mike Norman from Galliard; Ann Cashman, Mary Conti (via phone), Aaron Koval, Michael Knowling, Michael McCann, Matt Herman, and Todd Monahan from Prudential.

Department of State Treasurer Staff Present

The staff members present were Mary Buonfiglio; Tom Causey; Reid Chisholm; Christy Farrelly; Chris Farr; Alexandria Ferguson; Elizabeth Hawley; Rekha Krishnan; Sharon Leach; Frank Lester; Loren de Mey; April Morris; Debra Thomas; Sam Watts; and Dan Way.

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.

Approval of Board Minutes

The Chair entertained a motion to approve the minutes of December 12, 2019 board meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously.

The Chair entertained a motion to approve the minutes of the January 15, 2020 Special Board meeting. Mr. Lewis so moved, and Ms. Johnson seconded. The motion passed unanimously.

SECURE (Setting Every Community Up for Retirement) Act 2020 Update

The Chair recognized Mary Buonfiglio to present an update on the SECURE Act, which was signed into law on December 20, 2019 by President Trump. Ms. Buonfiglio noted that this legislation had been pending for a while and the staff is happy to see it pass. Ms. Buonfiglio noted that not all originally proposed provisions passed and of those that passed, not all apply to the Supplemental Retirement Plans or are mandatory. Ms. Buonfiglio stated that the provisions are

either effective immediately or near term, noting that the plan has time to update plan documents and make changes.

Ms. Buonfiglio discussed the three mandatory provisions that apply to the Supplemental Retirement Plans. The first increases the age for required minimum distributions (RMDs) from 70½ to 72. Ms. Buonfiglio noted that those who turned 70½ in 2019 will remain on the old schedule and those who turn 70½ in 2020 will be able to postpone their first distribution until they turn 72. The second provision concerns “stretch” RMDs applying to deaths after December 31, 2021. Ms. Buonfiglio noted under this provision designated beneficiaries outside of specific exceptions must draw down balances within ten years of the death of the account holder. The third provision requires coverage for long-term, part-time employees. Ms. Buonfiglio noted that this provision only applies to the NC 401(k) Plan and requires coverage of employees who complete at least five hundred hours of service for two consecutive twelve-month periods following December 31, 2020.

Additionally, Ms. Buonfiglio discussed an optional provision the board could adopt. This provision would allow participants to withdraw up to \$5,000 penalty free up to one year following the birth or adoption of a child. Ms. Buonfiglio noted that staff wants to do additional research before bringing a recommendation to the board.

To close, Ms. Buonfiglio discussed other noteworthy features of the Act, including tax relief for distributions taken as a result of disasters occurring between January 1, 2018 and February 18, 2020.

Vendor Selection Policy for the Supplemental Retirement Plans

The Chair recognized Reid Chisholm to present the Vendor Selection Policy. Mr. Chisholm noted that the proposed policy compliments a policy that is already in place and that it focuses on the selection of four key vendors: the recordkeeper, investment manager, custodian, and auditor. Mr. Chisholm highlighted two changes from the current approach: the first would require the evaluation committee to include one or two board members at the outset of the process, and the second would require members of the evaluation committee to sign conflict of interest certifications.

Mr. Chisholm further noted that staff could act on behalf of the board in selecting vendors for contracts up to \$25,000 per year so long as the board-approved budget included funding for the contract. Contracts in excess of \$25,000 per year would need approval from the board. Contract renewals would be treated the same as the initial contract in terms of whether board approval was required.

The Chair entertained a motion to approve the policy. Ms. Thomas so moved, and Mr. Lumsden seconded. The motion passed unanimously.

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

The Chair recognized Mike Norman and Paul Langanki from Galliard to present the 4th Quarter 2019 review of the Stable Value Portfolio. Mr. Norman thanked the Board for its nine-year anniversary with Galliard. Mr. Norman then discussed that Galliard finished 2019 with \$91 billion in total assets under management and that a healthy market helped with fee reductions.

Mr. Langanki stated that the message of the fourth quarter was consistency and stability. Mr. Langanki discussed the NC Stable Value Fund’s portfolio characteristics and distributions, noting there have been no significant changes. Mr. Langanki commented on the fund’s long-term returns and stated that cash flows in the fourth quarter were in line with previous quarters. Mr. Langanki gave an overview of portfolio performance since 2017, noting that performance has

been as expected. Mr. Langanki mentioned the reduction in expenses in the first quarter, including lower wrap fees. He also reviewed the managers' styles and noted the underlying investments in the portfolio have seen consistent results.

NC 401(k) and NC 457 Plans – 4th Quarter 2019 Investment Performance Report

The Chair recognized Elizabeth Hood and Weston Lewis from Callan to present the 4th Quarter 2019 Investment Performance Report and the plan design recommendations for the NC 401(k) and NC 457 Plans.

Mr. Lewis presented a brief overview of performance of the NC 401(k) and NC 457 Plans, noting that 2019 was a great year for equity markets. Mr. Lewis stated that WEDGE and Mondrian are on watch. He also stated that Callan continues to support Galliard even though it is on watch. Mr. Lewis then discussed GoalMaker allocations, noting that less than half of the plans' assets are in GoalMaker.

Mr. Lewis further discussed funds and their performance, noting that most funds are in line with expectations. In regard to the performance of the NC Small/Mid Cap Fund, he stated that the fund's value bias presented a headwind and that low interest rates may have affected performance as well.

NC 401(k) and NC 457 Plans – Plan Design Recommendations

The Chair recognized Loren de Mey, who introduced the plan design recommendations from Callan regarding the NC Small/Mid Cap Fund, the NC International Index Fund, and the NC International Fund. Ms. de Mey's memorandum and Callan's presentation were included in the board's meeting materials.

Ms. Hood reviewed the evolution and current structure of the NC Small/Mid Cap Fund. She discussed the value bias and misfit risk in the fund and the high allocation to passive management for a fund that serves as an actively managed investment option in the plan. Ms. Hood recommended eliminating the value bias and misfit risk by equalizing the value and growth allocations in the fund and reducing the fund's allocation to passive management.

Ms. Hood presented three options to the board for the NC Small/Mid Cap Fund. Option 1 adds an active small/mid cap growth strategy to the existing strategies, re-weights the value and growth strategies to be style-neutral and reduces the passive allocation from 28.75% to 10%. Option 2 retains the existing managers but changes Earnest Partners' Small/Mid Cap Value strategy to a Small/Mid Cap Core strategy, thereby making the fund more style neutral. Option 2 also reduces the passive allocation from 28.75% to 10%. Option 3 retains the existing active managers and passive allocation but eliminates the style bias by reallocating 23.75% of the fund from the current passive allocation (in a Russell 2500 Index fund) to a Russell 2500 Value Index fund.

The board, staff, and Callan discussed the options and their opinions at length, including value versus growth strategies, expenses, GoalMaker allocations, the role of active versus passive funds, and participant choice.

Ms. Baran made a motion to table the topic to observe upcoming market changes and revisit the issue at the next scheduled board meeting in May. Ms. Johnson seconded the motion. The Chair, Ms. Baran, Mr. Beam, Mr. Lewis, Ms. Johnson, Mr. Lumsden, and Ms. Thomas voted for the motion. Mr. Roseland voted against the motion.

Ms. Hood then presented Callan's recommendations for the NC International Fund and the NC International Index Fund.

Ms. Hood recommended changing the funds' benchmark from the MSCI ACWI ex-US Index to MSCI ACWE ex-US IMI Index. Ms. Hood also recommended adding one or two international small cap managers to the NC International Fund to increase manager diversification and maximize the potential for excess returns. The board discussed the recommendations. Ms. Johnson made a motion to accept Callan's recommendation, Mr. Lewis seconded, and the motion passed unanimously.

NC 401(k) and NC 457 Plans – Additional Items

The Chair recognized Loren de Mey to present an update on the NC Small/Mid Cap Fund manager transition, revisions to the Investment Policy Statement for the NC 401(k) and NC 457 Plans, and the Investment Compliance Summary Report for the NC 401(k) and NC 457 Plans.

Ms. de Mey provided a quick compliance update, noting that all managers were in compliance and no material issues occurred in the 4th quarter.

Ms. de Mey provided a transition update regarding the termination of Hotchkis & Wiley as manager in the NC Small/Mid Cap Fund. BlackRock was hired as the transition manager, and the transition was completed as of December 19, 2019. Ms. de Mey noted that commissions and taxes were in line with expectations but that implicit transition costs were higher than the pre-trade estimate.

Ms. de Mey presented revisions to the Investment Policy Statement to reflect the removal of Hotchkis & Wiley from the NC Small/Mid Cap Fund and corresponding reallocation of assets to WEDGE and Earnest Partners.

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

The Chair recognized Loren de Mey to present the NC 403(b) Program 4th Quarter 2019 Investment Performance Report. Ms. de Mey noted that the total market value of the plan is over \$20.6 million, with over \$10.7 million assets in passive options and over \$9.9 million assets in active core options. Ms. de Mey discussed the performance of managers, noting that most outperformed for the quarter and that underperformance was due to stock selection.

NC Supplemental Retirement Plans 4th Quarter 2019 Administrative Report

The Chair recognized Michael McCann from Prudential to present the Supplemental Retirement Plans 4th Quarter 2019 Administrative Report. Mr. McCann provided an overview of the fourth quarter, noting that 37 new subplans were added in 2019 and total assets were just under \$13 billion on December 31, 2019. Mr. McCann stated that since 2016 the average monthly deferral rate was up 15.1% and the active participation rate was up 4.5%. Mr. McCann discussed GoalMaker utilization among new and all members, as well as average account balances, enrollments, and plan assets. Mr. McCann briefly discussed call center statistics noting that the call center has received 56,000 more calls this year than last.

Mr. McCann recognized his colleague Matt Herman to present an update on Prudential's retirement education counselors for North Carolina. Mr. Herman stated that his team consists of 18 salary-based educators across North Carolina, who collectively have over 200 years of experience in the field. Mr. Herman noted that in 2019 the team collectively held approximately 32,000 individual meetings and 3,000 employer meetings and had over 130,000 meeting attendees. Mr. Herman then discussed the implementation of technology, noting that in August 2019 they began holding virtual consultations which currently make up 5-10% of all consultations.

Public Comments

No comments were offered.

Board of Trustees Comments

The Board thanked staff and managers for the work they do. The Chair requested to close the meeting in honor of the life of Katherine Johnson, who passed at the age of 101.

Adjournment

There being no further business before the Board, the Chair made a motion to adjourn and Ms. Baran seconded. The meeting adjourned at 12:01 p.m.

Chair

Secretary