



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



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STATE TREASURER OF NORTH CAROLINA  
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**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., December 12, 2019, by the acting chair, Chris Farr, Chief of Staff. The meeting was held in the Dogwood Conference Room of the Longleaf Building located at 3200 Atlantic Avenue, Raleigh, NC 27604. The acting 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 (joined via phone at 10:58 AM); Melinda Baran; Steve Beam; Michael Lewis; Nigel Long; Jim Lumsden (via phone); Nels Roseland; Chevella Thomas (via phone).

**Members Absent**

Lorraine Johnson was absent.

**Guests Present**

The guests attending were: Patrick Vatel and Josh Solomowitz from BNY Mellon; Elizabeth Hood and Weston Lewis from Callan; Denise Fortune from Voya; Paul Langanke and Mike Norman from Galliard; Ann Cashman (via phone), Mary Conti (via phone), Aaron Koval, Michael McCann, Matt Herman, Jessica Quimby, and Kelly Keen (via phone) from Prudential.

**Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio; Tom Causey; Reid Chisholm; Christy Farrelly; Alexandria Ferguson; Elizabeth Hawley; Rekha Krishnan; Fran Lawrence; Loren de Mey; Chris Morris; and April Morris.

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

The acting 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 acting chair entertained a motion to approve the minutes of the September 19, 2019, Board meeting. Mr. Long so moved, and Mr. Beam seconded. The motion passed unanimously.

**Evaluation Committee's Recommendation for NC 401(k) and NC 457 Plans' Auditor**

The acting chair recognized Mary Buonfiglio. In response to feedback from Mr. Beam prior to the meeting, Ms. Buonfiglio reviewed the current RFP process for the auditor. The current process allows staff to skip phase two of the process, which is the phase for finalist presentations. During phase two, a board member meets and reviews the evaluation committee's recommendation prior to presenting the recommendation to the board. The evaluation committee did not deem finalists' presentations necessary in the current RFP; therefore, no board member participated in the process prior to the presentation of the recommendation to the board. Ms. Buonfiglio proposed to remove the auditor recommendation from the agenda and instead present the recommendation at the next scheduled

board meeting or a special board meeting. She stated that staff wanted to ensure that a board member participates in the evaluation process prior to the recommendation coming before the full board.

Ms. Buonfigilo indicated the Treasurer had appointed Steve Beam to serve on the Audit Subcommittee and that the full board would be asked to ratify the appointment.

Mr. Long asked Mr. Beam about his concerns. Mr. Beam responded that his concerns regarded the process and not the evaluation committee's recommendation. He also stated that he wanted to enhance governance by the board.

Staff also will propose a formal, written procurement policy for the board's consideration at the February 2020 board meeting.

The acting chair asked for a motion to approve the ratification of Steve Beam to the Audit Subcommittee. Ms. Baran made a motion to approve the appointment of Mr. Beam and Mr. Lewis seconded. The motion passed unanimously.

#### **Update on Information Technology Contract Amendment with Prudential**

The acting chair recognized Reid Chisholm. Mr. Chisholm stated that a contractual amendment has been executed with Prudential related to Prudential's ongoing IT upgrades and the recent errors that occurred. The amendment requires notice from Prudential for errors related to Prudential's recordkeeping system. The amendment also includes fee reimbursements from Prudential for errors related to the IT upgrades.

#### **Employer Reporting Error Update on Loans and Deferral Changes**

The acting chair recognized Michael McCann and Aaron Koval from Prudential. Mr. McCann provided an update on Prudential's employer reporting error, which caused paper reports on deferral changes and loan starts and stops not to be sent to employers earlier in the year.

Mr. McCann discussed the root cause of the error, which was an upgrade to Prudential's recordkeeping system. He also discussed the steps made to address the impacts of the error. He noted that Prudential's senior IT staff met with departmental staff and that Prudential made loan repayments to the accounts of 103 participants in order to bring the loans current and prevent defaults.

Mr. Koval discussed the areas of focus for the remediation process. These areas of focus included identifying the initial scope, working to reduce the scope of error, and discussing where the process is now. He also told the board about what is left to complete. He also mentioned that there is a continued outreach to employers and employees. Mr. Koval noted that they continue to communicate with employers and encourage them to move away from paper reports.

Further, Mr. Koval noted that February 20, 2020 will be the shut-off date for paper reports.

Mr. Koval and Mr. McCann thanked staff for the extra time put forth to work together on this issue as well as the Treasurer and the board for helping to prioritize the issue.

#### **NC 401(k) and NC 457 Plans Employer Education Project Update**

The acting chair recognized Mary Buonfigilo, who presented the Employer Education Project Update which was included in the board's materials. She stated that while Prudential works with employers, more could be done to educate employers on the Supplemental Retirement Plans. Ms. Buonfigilo reviewed the outlined project goals and stated that a pilot survey had gone out to 100 employers. The pilot survey showed that opportunities exist to improve employers' knowledge of the plans and their role regarding the plans. Ms. Buonfigilo further stated that the survey will be sent to all employers in January

of 2020 and a focus group will be held on December 13, 2019 with 15 employers from around the region. Ms. Buonfigilo reviewed the status of the project. She discussed the work towards making tools more user- friendly by working on an employer tool kit as well as redesigning forms and posting them in easier to find locations on the website. Ms. Buonfigilo stated that materials will continue to be developed and there is a target completion date of September 2020. Ms. Buonfigilo further noted that one of the most important objectives of the project is to promote employer proficiency in completing tasks online.

In response to a question from Mr. Long, Ms. Buonfiglio stated that compliance problems did not seem to be widespread.

Mr. Beam recommended focusing on smaller employers.

### **NC Supplemental Retirement Plans Annual Strategic Communications Plan**

The acting chair recognized Christy Farrelly, who presented the communications plan in the board's materials. Ms. Farrelly reviewed the achievements of 2019, including increased enrollment, strong GoalMaker participation, increased reliance on digital platforms, and the success of the "nearing retirement engagement."

Ms. Farrelly discussed goals for 2020, including increasing employer and employee participation, leveraging technology, increasing employer compliance, and making employers and employees aware that employees can stay in the plans after they leave employment. She mentioned virtual meetings between participants and Prudential's retirement education counselors. She also mentioned targeted messaging for those who are in the early, middle, and late stages of their career and not for just those who are six months from retirement.

### **NC 401(k) and NC 457 Plans Administrative Fee Holiday Update**

The acting chair recognized Mary Buonfigilo. Ms. Buonfigilo stated that the 2019 administrative fee holiday had reduced the operating budget reserves, but the 2019 end-of-year reserve balance was still projected to be in excess of what needs to be kept on hand. She stated that staff recommended the 2019 Fee Holiday be extended for 2020.

The acting chair asked for a motion to approve staff's recommendation. Ms. Baran made a motion to approve the recommendation, and Mr. Lewis seconded. The motion passed unanimously.

### **Revisions to Policy and Procedures for Investment Transactions and Investment Manager Selection**

The acting chair recognized Reid Chisholm to discuss recommended revisions to the Policy and Procedures for Investment Transactions and Investment Manager Selection. Mr. Chisholm noted, the role of the policy in selecting investments and summarized the main revisions, which incorporate the board's elimination of the Investment Subcommittee and bring Section IV.C.5, regarding investment manager interviews, into line with current practice. He stated that the remaining changes were administrative or clarifying.

The acting chair asked for a motion to approve staff's recommendation. Mr. Beam made a motion to approve the recommendation, and Ms. Baran seconded. The motion passed unanimously.

### **Revisions to Loan Policy for NC 401(k) and NC 457 Plans: Waiting Period**

The acting chair recognized Reid Chisholm to discuss revisions to the waiting period for the loan policy. Mr. Chisholm stated that in September staff proposed a revised policy, which expanded loan access to all participants rather than only active employees and reduced the waiting period for paying off a loan and taking a new loan from fifteen days to seven days. The board initially approved the revisions in the

September meeting but then rescinded its approval later in the meeting. He stated that staff currently proposes only the reduction of the waiting period between loans from fifteen days to seven days, as well as making administrative and clarifying changes. Mr. Chisholm noted that reducing the waiting period will allow enough time for payment processing and is consistent with Prudential's standard approach.

The acting chair asked for a motion to approve staff's recommendation. Mr. Beam made a motion to approve the recommendation, and Mr. Long seconded. The motion passed unanimously.

#### **NC 401(k) and NC 457 Plans 3<sup>rd</sup> Quarter 2019 Stable Value Portfolio Review**

The acting chair recognized Mike Norman and Paul Langanki from Galliard. Mr. Langanki discussed the state of the portfolio, including the blended yield and the increase in assets. He also noted that there have been no major allocation changes since June 30<sup>th</sup>. Mr. Langanki further discussed the strong performance of the portfolio. Mr. Norman stated that Galliard's fee would decrease effective January 2, 2020.

Mr. Beam asked about the effects of negative interest rates and problems in the market for repurchase agreements (repos). Mr. Norman stated that repos are not a significant part of the fund. He also stated that while the possibility of negative rates has to be considered, they are unlikely to occur in the U.S.

Ms. Baran asked about investments in foreign fixed income securities. Mr. Norman responded that the fund invests only in U.S. securities, an approach that Galliard recommends maintaining.

#### **NC 401(k) and NC 457 Plans**

The acting chair recognized Elizabeth Hood and Weston Lewis from Callan. Mr. Lewis discussed the third quarter investment performance report for the NC 401(k) and NC 457 Plans. He provided a summary of market activity, including equity returns. He noted that GoalMaker usage is high, the passive funds track their indices with low fees, and the NC Stable Value Fund ranks in the top 25 percent of stable value funds in terms of crediting rate and book-to-market value. Mr. Lewis further discussed the performance of specific funds, noting that four managers are on watch, three of them for performance reasons. Mr. Lewis stated that the NC Small/Mid Cap Fund will be discussed during the investment design review. However, he noted that the fund should be an all-weather fund, as the plans' other investment options are, and that the fund's underperformance is due to its value bias and the underperformance of Hotchkis & Wiley.

Mr. Long asked whether Sands' volatility was within an acceptable range. Mr. Lewis replied that Sands is a concentrated, high growth manager and is a manager that Callan supports.

Ms. Hood presented Callan's annual investment design review, which was included in the board's materials. She said the review included the plan's asset classes, number of investment options, and cost. The review also covered the underlying managers in multi-manager funds, including the diversification provided by managers. Ms. Hood discussed the importance of avoiding the negative influences of behavioral biases. Callan had no recommendations at the white label fund-level or for GoalMaker.

However, Ms. Hood discussed recommendations regarding the underlying managers for two of the funds. First, she recommended evaluating the value bias and the high allocation to passive management in the NC Small/Mid Cap Fund. Ms. Baran asked about the definition of growth applicable to the plans. Ms. Hood discussed the role of balanced exposure and noted that the NC Small/Mid Cap Fund has only one growth manager.

The Treasurer joined the meeting by telephone at this point.

Second, she recommended evaluating a change to the benchmark for the two managers in the NC International Fund from the MSCI ACWI ex U.S. index to the MSCI ACWI ex U.S. IMI index. The index change would increase the diversification of the benchmark by including smaller cap equities.

At the board's request, the following agenda item was moved and heard after the annual review of investment design: NC 401(k) and NC 457 Plans Small/Mid Cap Value Manager. The acting chair recognized Loren de Mey. Ms. de Mey stated that the Hotchkis mid cap value strategy in the NC Small/Mid Cap Fund continues to underperform. Ms. de Mey also stated that she recently conducted an onsite visit with Hotchkis & Wiley. Ms. de Mey recommended terminating the Hotchkis & Wiley strategy and allocating the assets equally to the existing value managers in the fund, Earnest Partners and WEDGE Capital Management, L.L.P.. Ms. de Mey noted that Blackrock would be hired as the transition manager and pending board approval the action would be completed in December with trading to begin the week following the December board meeting.

Mr. Beam stated that the termination of Hotchkis & Wiley does not address the value bias in the NC Small/Mid Cap Fund. Ms. de Mey stated that the recommendation is to terminate Hotchkis & Wiley now and then address any plan design changes at the next board meeting. She also mentioned that Hotchkis & Wiley is a deep value manager, so the termination will slightly reduce the fund's value bias.

Mr. Beam asked if the end of the year was a bad time to sell value stocks. Ms. de Mey noted that additional liquidity would be in the market due to index rebalancing.

The acting chair asked for a motion to approve staff's recommendation. Mr. Long made a motion to approve the recommendation, and Ms. Baran seconded. The motion passed unanimously.

The acting chair recognized Loren de Mey for the annual review of the Statement of Investment Policy for the NC 401(k) and NC 457 Plans. Ms. de Mey discussed the recommended changes to the policy, which were included in the board's materials. The acting chair asked for a motion to approve staff's recommendation. Mr. Beam made a motion to approve the recommendation, and Mr. Long seconded. The motion passed unanimously.

#### **NC 403(b) Program**

The acting chair recognized Loren de Mey. Ms. de Mey reviewed and discussed the program's assets and investment performance, which were included in her presentation in the board's materials.

Ms. de Mey also discussed the recommended revisions to the Statement of Investment Policy that were included in the board's materials.

The acting chair asked for a motion to approve staff's recommendation. Mr. Beam made a motion to approve the recommended revisions to the Statement of Investment Policy, and Mr. Lewis seconded. The motion passed unanimously.

#### **NC Supplemental Retirement Plans Third Quarter 2019 Administrative Report**

The acting chair recognized Michael McCann from Prudential. Mr. McCann discussed the key points in his board material, noting the strong performance in the participation rate, GoalMaker utilization, and average monthly contributions.

Mr. McCann discussed upgrades to the mobile application, noting the addition of new features, including GoalMaker. Mr. McCann noted that further upgrades to the application, including enrollment, will be coming in 2020.

Mr. McCann noted the increase in contributions this year over last. He discussed the importance of the retirement income calculator on the website, noting that the average contribution rate of individuals who use the calculator significantly differs from those who do not. Mr. McCann and Ms. Baran discussed how to improve the usage of the calculator.

Mr. McCann touched on the successful activity of the field education team.

He also mentioned the small dip in Prudential's average speed to answer phone calls for the third quarter.

**NC 401(k) and NC 457 Plans Third Quarter 2019 Custody Report**

The acting chair recognized Patrick Vatel and Josh Solomowitz of BNY Mellon. Mr. Vatel introduced and reviewed background information on BNY Mellon, its business, and its financials. He shifted to discussing BNY Mellon's relationship with the Department of State Treasurer, including the services BNY Mellon provides and the service requests they have received, worked on, and completed for the department. Mr. Vatel noted that while the relationship is strong, he believes there is more BNY Mellon can do to improve the relationship. Mr. Vatel reviewed the accomplishments of 2019 and the priorities for 2020. Moving forward in 2020, Mr. Vatel wants to make improvements to enhance the relationship, continue communication and transparency, and look into adding onsite support.

**Board of Trustees Comments**

The acting chair thanked the board and staff for their work. The chair, Treasurer Folwell, thanked Ms. Farr for stepping in as acting chair for this meeting. The board expressed holiday wishes to everyone.

**Public Comments**

No comments were offered.

**Adjournment**

There being no further business before the board, the acting chair asked for a motion to adjourn. Ms. Baran made a motion to adjourn and Mr. Beam seconded. The meeting adjourned at 12:05 p.m.

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Chair

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Secretary