



**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 (Board) was called to order at approximately 9:00 a.m. on August 25, 2022, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in a hybrid format, with people attending virtually or in person, 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**

Board members attending in person: Treasurer Dale R. Folwell, Melinda Baran, Wyndon Hibler, Lorraine Johnson, Robert Shea, and Chevella Thomas.

Board members attending virtually: Steven Beam and James Lumsden.

### **Members Absent**

Nels Roseland.

### **Guests Present**

Guests attending in person: Brian Shea from BNY Mellon; Elizabeth Hood and Weston Lewis from Callan; Matt Herrmann, Michael McCann, and Rob Luciani from Empower; and Paul Langanki from Galliard.

Guests attending virtually: Mary Conti, Aaron Koval, and Todd Monahan from Empower; Virginia Sisson from the NC Office of State Controller; and other members of the public.

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

Staff members attending in person: Thomas Causey, Reid Chisholm, Christy Farrelly, Jeff Hancock, Zora Falkowski, Kristin Merrick, Fran Lawrence, Christopher Morris, and Lisa Norris.

Staff members attending virtually: Derek Gee, Alan Jaquith, Paul Palermo, and Laura Rowe.

The Chair called the meeting to order and reminded members that, since this meeting is being held in a hybrid format, members must announce their names when they arrive, when they depart, and when speaking. In addition, he explained that making a motion will be assumed to be a vote for the proposal and all votes will be taken by roll call. He stated that today's meeting is being recorded as part of the Department of State Treasurer's (DST) initiative to increase government transparency.

The Chair reminded the Board that Mr. Nels Roseland is now the State Controller. He said we would keep Mr. Roseland on the Board as long as possible and that he has been a valuable member.

The Chair extended a warm welcome to Captain Robert (Bob) Shea, Jr., USN (ret.), who was appointed to the Board to replace Michael Lewis. He said Mr. Shea brings extensive experience in finance and wealth management. The Chair then administered the oath, swearing Mr. Shea in as a member of the Board.

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

The Chair asked, pursuant to the ethics rules, about Board member conflicts of interest. No conflicts of interest were identified.

The Chair informed the members that the Evaluation of Statement of Economic Interest (SEI) for Capt. Bob Shea was available in the appendix. He said that SEI evaluations are a part of the meeting minutes.

#### **Adoption of Resolution of Appreciation for the Service of Mr. Michael Lewis**

The Chair presented a Resolution of Appreciation for Mr. Michael Lewis' service as a member of the Supplemental Retirement Board of Trustees and entertained a motion to adopt the Resolution. Ms. Melinda Baran so moved, and Ms. Lorraine Johnson seconded. The motion passed by a unanimous roll call vote of 6-0. (Mr. Steven Beam and Mr. James Lumsden did not vote due to technical difficulties.)

#### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the May 26, 2022, quarterly Board meeting. Ms. Chevella Thomas so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 6-0. (Mr. Beam and Mr. Lumsden did not vote due to technical difficulties.)

The Chair entertained a motion to approve the minutes of the July 19, 2022, Audit Subcommittee Board meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 6-0. (Mr. Beam and Mr. Lumsden did not vote due to technical difficulties.)

#### **Administrative Matters: NC SRP Audit Update**

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present several administrative matters. Mr. Hancock shared that the NC 401(k) and NC 457 Plans (Plans) received a "clean opinion" from CliftonLarsonAllen (CLA) on the annual audit. He said there were no issues and there were no findings.

#### **Administrative Matters: BNY Mellon Custodial Contract Extension**

Mr. Hancock stated staff recommends the Board approve an 18-month extension of the Supplemental Retirement Plans' (SRP) custodial contract with BNY Mellon, which will align the end date of SRP's contract with the end date of the Investment Management Division's (IMD) custodial contract. This will allow SRP and IMD to either renegotiate custodial contracts or to request custodial contract proposals together and enable SRP to benefit from IMD's larger size.

The Chair entertained a motion to approve the proposal for an 18-month extension of the current contract with BNY Mellon. Ms. Baran so moved, and Mr. Wyndon Hibler seconded.

The motion passed by a unanimous roll call vote of 6-0. (Mr. Beam and Mr. Lumsden did not vote due to technical difficulties.)

**Legal Matters: Audit Request for Proposal (RFP)**

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present two legal matters. Mr. Chisholm said he is preparing an RFP for auditing services because 2022 is the final contract year of the current auditing contract with CliftonLarsonAllen (CLA). The Board's Vendor Selection Policy requires an RFP to select an auditor, an evaluation committee to make a recommendation to the Board, and final approval by the Board.

At approximately 9:25 a.m., technical difficulties were resolved, enabling Mr. Beam and Mr. Lumsden to join the meeting.

The policy also requires one or two Board members to serve on the evaluation committee, and Ms. Thomas and Mr. Hibler volunteered. Mr. Chisholm added that the policy also requires the Board to approve the initiation of the RFP process. He mentioned that since Mr. Michael Lewis is no longer serving on the Board, the Audit Subcommittee also has an opening.

The Chair entertained a motion to initiate an RFP to begin the auditor procurement process. Ms. Baran so moved, and Capt. Shea seconded. The motion passed by a unanimous roll call vote of 8-0.

**Legal Matters: Contract for Proxy Voting Service**

Mr. Chisholm said staff is working on a new contract with Glass Lewis, the current proxy voting vendor for SRP and for IMD. He said proxy volumes may increase because DST may begin voting the proxies for SRP's and IMD's holdings in BlackRock's collective investment trusts (CIT). This should not increase the cost of the proxy voting contract. Mr. Chisholm shared that the DST Corporate Governance Committee is evaluating the DST proxy voting policy and any changes the Committee recommends will be brought before the Board for discussion and approval.

The Chair noted the Board's responsibility to vote proxies in best interests of the participants of the Plans. He expects DST will decide to vote the proxies on assets held in BlackRock's CITs.

**North Carolina Supplemental Retirement Plans 2nd Quarter 2022 Administrative Report**

The Chair recognized Mr. Michael McCann, Empower Client Relations and Business Development Vice President, and Mr. Matt Herrmann, Empower Retirement Education Team Director, to provide the North Carolina Total Retirement Plans 2nd Quarter 2022 Administrative Report (included in the Board's materials).

In response to a question from the Chair, Mr. McCann stated that Empower is proactively informing everyone during Empower's outreach in group meetings and one-on-ones that nothing has changed with the investments from the sale of Prudential Retirement to Empower. He shared that no one on the Empower team has had participants comment that they thought they lost money in their retirement accounts because of the sale.

Mr. McCann said that on April 1, 2022, Empower completed the purchase of Prudential Retirement and is planning to migrate SRP to the Empower record keeping platform during the first quarter of 2024.

Mr. McCann shared key metrics for SRP, noting that the active average employee deferral rate and the total unique participants are at all-time highs. He said nine employers adopted the NC 457 Plan during the first six months of 2022 and six employers adopted the contribution accelerator provision.

Mr. McCann commented that average account balances have declined this year due to the decline in the stock and bond markets. He added that participants have avoided "panic selling" and have increased their deferral rates. Mr. McCann said during the second quarter, 96 percent of the assets that could have rolled out of the Plans remained in the Plans. Over the past 12 months, 84 percent of the assets that could have rolled out remained in the Plans.

The Chair noted that contributions by local government participants are significantly greater than the contributions by state government participants. He attributes this to the fact that many local government agencies offer a match for contributions to the NC 401(k) Plan. The Chair said he will continue to advocate for a match for state government participants. Mr. McCann shared that across all Empower clients, when the employer offers a match, a much higher percentage of employees contribute to the retirement plans.

Mr. Herrmann provided an update on the discontinuation of the NC 403(b) Program, including efforts to educate employers and participants about their options. As of August 19, 2022, only 765 participants and \$11 million in assets remain in the NC 403(b) Program.

He commented that 86 percent of those eligible to move their NC 403(b) Program assets to either the NC 401(k) Plan or the NC 457 Plan have done so. He reported that because of the discontinuation, some employers have chosen to add the NC 457 Plan. In response to a question, Mr. Herrmann confirmed that all 96 employers offering the NC 403(b) Program were also offering either the NC 401(k) Plan or NC 457 Plan (or both). The NC 403(b) Program discontinuation effort has opened the door to Empower for more educational opportunities with schools.

Mr. Herrmann said Empower is still conducting group meetings and individual meetings and saw a tremendous increase in consultations and in attendees during the second quarter. They are offering meetings specific to various groups, including law enforcement officers, firefighters, first responders, and others, and have also given Spanish language presentations. He shared that the enrollments for Q1 and Q2 were the highest ever.

In response to a question from the Chair, Mr. McCann confirmed that Empower could administer a match or an additional contribution that only applies to lower-income employees, or a tiered program where lower-income employees receive a larger percentage match than higher-income employees.

## **Investment Update**

### **NC 401(k) and NC 457 Plans 2nd Quarter 2022 Stable Value Portfolio Review**

The Chair recognized Mr. Paul Langanki, Senior Director, Institutional Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 2nd Quarter 2022 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki began with a Galliard company update, sharing that SEI Trust Company became the successor trustee for the Wells Fargo collective investment trust (CIT) on April 1, 2022, which is the cash liquidity buffer. Galliard is the trustee for all remaining Stable Value assets. He said Mike Norman will become the sole president of Galliard Capital Management as of October 1, 2022.

Mr. Langanki reviewed the metrics and performance of the NC Stable Value Fund, highlighting the quality of the assets, the market / book value ratio, and the financial strength of the wrap providers (insurance companies). He commented that the NC Stable Value Fund assets increased to \$2.46 billion during the second quarter. He said in a rising rate environment, stable value investors gain the benefit of reinvesting at higher interest rates while being protected from market losses.

He noted that the market/book value ratio has dropped below 100 percent, which is expected during a rising rate environment. He commented that the stable value asset class has a 30-year track record of protecting investors. Galliard's Stable Value Fund has performed as designed in a variety of interest rate environments. In response to a question, Mr. Langanki said Galliard manages the portfolio to be duration neutral and interest rate neutral and does not make bets on the direction of future interest rates.

Mr. Langanki stated that all underlying strategies outperformed over all trailing periods longer than one quarter and year-to-date and that performance typically lags when interest rates rise quickly, as they have this year.

Mr. Langanki said the total annual fund operating expenses dropped approximately two basis points year-to-date, primarily due to Galliard reducing their investment management fee as of January 1, 2022.

#### **NC 401(k) and NC 457 Plans 2nd Quarter 2022 Investment Performance Report**

The Chair recognized Ms. Elizabeth Hood, CFA, Senior Vice President and Manager, and Mr. Weston Lewis, CFA, CAIA, Senior Vice President, of Callan to present the NC 401(k) and NC 457 Plans 2nd Quarter 2022 Investment Performance Report (included in the Board's materials) and to present an independent review of the Stable Value Fund (included in the Board's materials).

Ms. Hood said inflation and world events (including in Ukraine) continued to weigh heavily on the equity and fixed income markets, including unprecedented underperformance for fixed income.

The Chair, Treasurer Folwell, stepped away at 10:13 a.m. and Mr. Thomas Causey took over as Acting Chair.

Ms. Hood said total plan assets were down due to negative returns and not asset outflows.

Mr. Lewis reviewed Callan's "Active Management Scorecard" (stoplight report and watch list), including Sands Capital and WEDGE Capital. He noted Sands Capital's recent underperformance, but said they have shown resilience in the past. Board members asked questions about Sands Capital's organization and performance. Mr. Lewis responded that Sands Capital's management style and investment approach have remained consistent. He explained their underperformance is attributable to performance since November 2021 and Callan will consider a watch list recommendation if Sands Capital continues to underperform over the next six to nine months. Mr. Lewis mentioned Wedge Capital's recent performance improvement and recommended retaining them as a manager but keeping them on the watch list.

### **Stable Value Portfolio Review**

Mr. Lewis provided Callan's annual review of the NC Stable Value Fund (included in the Board's materials). Mr. Lewis shared that Galliard is the only manager in the portfolio that has triggered Callan's red light, primarily from organizational changes and staff turnover that occurred in 2019. However, Callan recommends removing Galliard from the watch list. Performance has remained solid throughout Galliard's organizational changes. Galliard has a strong bench and a team-oriented process. Galliard has been relatively consistent with its exposure to corporate credit risk while peers have increased their exposure to lower quality credit. Galliard is well within an acceptable range for portfolio duration. The crediting rate is in line with peers and has been consistently above the median. Galliard is on the higher side of the market/book value ratio relative to peers, which underscores the quality of the portfolio. Galliard's management fee is very competitive among its peers.

In response to a question regarding liquidity in the event of massive withdrawals, Mr. Langanki commented that if participants pulled out assets, the market/book value ratio would decline, however this is very unlikely in a market environment where equities and fixed income are both declining. Even during the market's positive years, there has been a consistent, steady allocation to Stable Value. Mr. Lewis added that since the NC Stable Value Fund is part of GoalMaker, any outflows are likely to be muted.

Ms. Baran stated that with all the uncertainty in external factors, including the Ukrainian war and mid-term elections, she would prefer to place the vote on removing Galliard from the watch list on the agenda for the fourth quarter meeting.

### **NC 401(k) and NC 457 Plans Investment Updates: Investment Compliance Summary**

The Acting Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans 2nd Quarter 2022 Investment Compliance Summary Report (included in the Board's materials). Mr. Morris noted there is nothing material to report. Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and adherence to state and federal divestment laws.

### **NC 403(b) Program 2nd Quarter 2022 Investment Performance Report**

Mr. Morris presented the NC 403(b) Program 2nd Quarter Investment Performance Report (included in the Board's materials). Mr. Morris discussed the difficult period for the markets this year and commented that none of the investment managers were immune. Most underperformed their benchmarks, especially T. Rowe Price Blue Chip Growth. He stated that T. Rowe Price Blue Chip Growth's ongoing underperformance would likely require some action if we were not dissolving the Program. He said it was a difficult quarter for the managers, with five of the six underperforming their benchmarks.

### **Public Comments**

No comments were offered.

### **Board of Trustees Comments**

Mr. Lumsden said a State contribution to employees investing in the Supplemental Retirement Plans would be the single most beneficial thing that could happen for the population we are targeting. It would be one of the strongest moves the State could make that would have an impact. He said he hoped the Treasurer would be successful in that regard. The Acting Chair promised to relay his comment to the Treasurer.

The Acting Chair thanked everyone for participating and announced the next Board meeting will be Thursday, December 1, 2022, at 9:00 a.m.



The Acting Chair said the Treasurer requested we close the meeting today in memory of Deputy Sheriffs Ned Byrd of Wake County and Matthew Fishman of Wayne County, both of whom were killed recently in the line of duty.

**Adjournment**

There being no further business before the Board, Mr. Lumsden made a motion to adjourn the meeting today in memory of Deputy Sheriffs Ned Byrd of Wake County and Matthew Fishman of Wayne County. Mr. Beam seconded the motion. The motion passed by a unanimous roll call vote of 8-0.

The meeting was adjourned at approximately 11:33 a.m.

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Chair

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Secretary

## **Supplemental Retirement Plans Board of Trustees**

August 25, 2022

### **3. Reading of SEI Evaluation Letters into minutes pursuant to the State Government Ethics Act § 138A-15(c)**

The following packet contains a Statement of Economic Interest (SEI) evaluation letter issued by the State Ethics Commission. This is being provided for Board members' review and for recording in the meeting minutes pursuant to the requirements of the Ethics Act. Members are encouraged to review the evaluation to inform and remind them of the identified actual or potential conflicts of interest.

The SEI Evaluations for the following are being provided for review:

- Captain Robert Shea, Jr.





## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

July 14, 2022

The Honorable Tim Moore  
Speaker of the House of Representatives  
16 West Jones Street, Room 2304  
Raleigh, North Carolina 27601-1096

**Re: Evaluation of Statement of Economic Interest by Mr. Robert J. Shea Jr.  
Appointee to the Supplemental Retirement Board of Trustees**

Dear Speaker Moore:

Our office has received **Mr. Robert J. Shea Jr.**'s 2022 Statement of Economic Interest as an appointee to 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. Shea will fill the role of a public member on the Board.

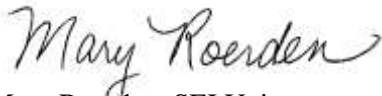
In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests 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,

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

Mary Roerden, SEI Unit  
State Ethics Commission

cc: Robert J. Shea Jr.  
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide