



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 8:30 a.m. on May 28, 2020, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held with everyone attending via teleconference.

Members Present

The following board members were present: Treasurer Dale R. Folwell, Melinda Baran, Lorraine Johnson, Michael Lewis, Nigel Long, Jim Lumsden, Nels Roseland, Steve Beam, and Chevella Thomas.

Members Absent

No members were absent.

Guests Present

The guests attending were: Bill Claxton, Phaedra Garibaldi, and Greg Wilcox from BNY Mellon; Elizabeth Hood, Weston Lewis, Jana Steele, and Jimmy Veneruso from Callan; Brian Kahley from Franklin Templeton; Paul Langanki and Mike Norman from Galliard; Ann Cashman, Mary Conti, 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, Christy Farrelly, Joan Fontes, Ben Garner, Patti Hall, Alan Jaquith, Rekha Krishnan, Fran Lawrence, Loren de Mey, April Morris, and Paul Palermo.

The Chair called the meeting to order and reminded members that, since this meeting is being held 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.

Holdover Business

The Chair reminded the board that during the February 27 quarterly board meeting, Callan and staff recommended changes to the NC Small/Mid Cap Fund that would return the fund to a balance between growth and value strategies and reduce the fund's allocation to the passive (index) sleeve. The Chair also stated that Callan's recommended option and two additional options were presented in February; however, the board moved to table this topic to observe market changes and revisit the issue at today's meeting. Considering recent market volatility resulting from the Covid-19 pandemic, the Chair stated he would be willing to entertain a motion the table this topic. Mr. Beam so moved, Ms. Baran seconded the motion, and the motion passed unanimously by roll call.

2020-21 Budget Proposal

The Chair recognized Ms. Buonfiglio who presented the budget proposal for the upcoming fiscal year. She noted that the projected expenses are the same as current year expenses; the projected expenses are just over 2.4 million dollars. She noted that the funding source for SRP is the 2.5 basis point charge on participants' asset balances. Ms. Buonfiglio also stated that the current administrative fee holiday could continue for a portion of the upcoming calendar year, based on the administrative account reserve balance. The Treasurer commented that it could be confusing to participants if the board decided to turn the administrative fee back on in the middle of a calendar year. He stated that staff will investigate to see if the Plans can afford to continue the fee holiday throughout calendar year 2021 and report back to the Board.

The Chair entertained a motion to approve the budget proposal and Ms. Thomas so moved, and Mr. Lewis seconded. The motion passed unanimously by roll call.

Legal Matters

The Chair recognized Mr. Chisholm to discuss a change in the custodian for the Stable Value Fund. Mr. Chisholm noted that Wells Fargo is currently the custodian for the Stable Value Fund. Wells Fargo recently sold its custodial business to Principal and will transition the Stable Value Fund business to Principal. SRP staff met with Principal and with BNY Mellon individually regarding serving as custodian of the Stable Value Fund. SRP staff plans to bring a recommendation to the Board at the August meeting.

Mr. Chisholm also discussed the BNY Mellon custodial contract for the NC 401(k) Plan and NC 457 Plan. BNY Mellon has been custodian of the NC 401(k) and 457 Plans since January 1, 2016. They have not been custodian for the Stable Value Fund. The initial contract term of five years expires December 31, 2020 with options to renew. Mr. Chisholm shared that SRP is pursuing an amendment to the custodial contract regarding enhanced performance guarantees. Mr. Beam asked if an RFP is required; Mr. Chisholm explained that it is not required since the initial contract includes renewal options. Mr. Beam asked if BNY Mellon might be able to make a better offer for the Stable Value Separate Account Custodial Contract since they already have business with SRP. Ms. Buonfiglio commented that we are investigating that possibility.

NC 401(k) and NC 457 Plans 1st Quarter 2020 Stable Value Portfolio Review

The Chair recognized Mr. Norman of Galliard, who stated that Galliard ended the first quarter with \$96.1 billion of assets under management (AUM), which is an all-time high for the firm. Galliard has a total of \$81.4 billion of stable value assets under management. He shared that Galliard's parent company, Wells Fargo Asset Management Holdings, LLC, had a civil lawsuit filed against them for using proprietary funds in their 401(k) plan. He noted that Galliard was also named in that lawsuit.

Mr. Norman's colleague, Mr. Paul Langanki, highlighted the state of the portfolio for the past quarter, including the continued asset growth. He commented that Galliard increased the cash buffer to 4.9% to allow for participant cash flows and the possibility of withdrawals. He stated they saw a spike in positive cash flow during March and had no problems investing the additional cash. He noted that management fees to Galliard have declined. Mr. Norman added that the high-quality portfolio bias aided returns during March due to a flight to quality in the fixed income market.

NC 401(k) and NC 457 Plans 1st Quarter Investment Performance Report

The Chair recognized Ms. Hood and Mr. Lewis of Callan. Mr. Lewis reviewed the allocations and performance of the Plans' investment options. In addition, he commented that broader economic activity continues to be weak and that the stock market experienced the fastest peak-

to-bear market decline in history during the first quarter of 2020. He added that cheap stocks got a whole lot cheaper and that expensive stocks got more expensive.

Mr. Roseland stated during Mr. Hood's presentation that he was leaving the call.

The Chair stated that he was leaving the call.

Ms. Hood then presented Callan's review of GoalMaker's glidepath, which was included in the board's meeting materials. She clarified that this project consisted of reviewing GoalMaker's suitability for members, not reviewing optimality. Callan used guidance from the Department of Labor on target date funds as a starting point.

Ms. Hood introduced her colleague, Jimmy Veneruso. He shared that GoalMaker is distinct from a typical target date series of funds, as it is not a separate group of funds. GoalMaker uses the underlying funds within the NC 401(k) and 457 Plans, allocates investments to those funds and rebalances quarterly. GoalMaker's glidepath includes fewer allocation changes than the typical target date fund, which has a more gradual glidepath. While GoalMaker is a proprietary Prudential product the board has discretion for the construction of the model portfolios and the associated glidepath. Movement across age cohorts occurs as the participant approaches retirement.

Callan reviewed its analysis and mentioned certain strengths of GoalMaker regarding suitability. However, Callan mentioned three items for the Board to consider, including the glidepath's abrupt rebalancing methodology.

Ms. Hood introduced her colleague, Ms. Jana Steele, to discuss Callan's review of the plans' recordkeeping fees, which was included in the board's meeting materials. She discussed how the plans are offered by many different employers each of which sends payroll and contribution information to Prudential on a routine basis. Callan described its analysis methodology, including its use of blind bids. The plans' total recordkeeping fees were lower than the three blind bids received by Callan and were in the lowest 10% of plans in Callan's database.

The Chair returned to the call.

Investment Compliance Summary Report

The Chair recognized Ms. de Mey, who said that we continue to monitor investment managers daily for compliance with their respective investment guidelines. She commented that there were some temporary exceptions to the investment guidelines during the quarter, but no ongoing material issues.

NC 403(b) Program 1st Quarter Investment Performance Report

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.

Approval of Minutes

The Chair entertained a motion to together approve the minutes of the February 27, 2020 Board meeting, the minutes of the March 23, 2020 Audit Subcommittee Meeting, and the minutes of the April 20, 2020 special Board meeting. Ms. Baran so moved, and Ms. Thomas seconded. The motion passed unanimously by roll call.

NC 403(b) Program Plan Document Amendment Default Beneficiary

The Chair recognized Mr. Chisholm to present an amendment to the NC 403(b) Program plan document modifying the disposition of assets at the death of a participant. Mr. Chisholm presented an amendment which states should the primary beneficiary survive the participant but die before an account can be opened for the primary beneficiary, the primary beneficiary's estate would receive the proceeds from the original participant's account. This change makes the NC 403(b) Program consistent with existing provisions for the NC 401(k) and 457 Plans, and with TSERS and LGERS. The Chair entertained a motion to approve the proposed amendment. Ms. Johnson so moved, and Ms. Baran seconded. The motion passed unanimously by roll call.

NC 457 Plan Document Amendment Distribution Option

The Chair recognized Mr. Chisholm to present an amendment to the NC 457 Plan Document. Mr. Chisholm explained that the plan document currently contains wording for a distribution option providing for "payments equal to payments made by the issuer of a retirement annuity policy". An annuity payment option is not offered within the plan and the amendment will remove this wording. The Chair entertained a motion to approve the proposed amendment. Ms. Thomas so moved, and Ms. Baran seconded. The motion passed unanimously by roll call.

The Chair stated that he was leaving the meeting to testify before the North Carolina Senate. He stated that he would delegate his voting authority on the Board for the remaining duration of the meeting to Chief of Staff, Chris Farr, and that Executive Director Tom Causey would serve as Acting Chair.

NC Supplemental Retirement Plans 1st Quarter 2020 Administrative Report

The Acting Chair recognized Mr. McCann from Prudential to provide the NC Supplemental Retirement Plans 1st Quarter 2020 Administrative Report. Mr. McCann reported activity on coronavirus-related distributions (CRD) and loan activity since the special Board meeting on April 20th at which the board approved plan changes as allowed by the CARES Act. He shared that in one month there had been 960 CRDs, 60 loans, and over 100 loan suspensions in the NC 401(k) and NC 457 Plans. He noted that as of the date of this meeting, there had not been any CRDs or loans yet in the NC 403(b) Program. He commented that Prudential is now offering the ability for participants to complete their requests for a CRD or loan online.

Mr. McCann shared retirement readiness statistics, GoalMaker and plan adoption statistics, participant contribution amounts, and loan activity. He discussed GoalMaker's continued growth, in both assets and participant numbers. He shared asset allocation for GoalMaker participants compared to nonparticipants. He pointed out that participation rate and average monthly deferrals continued to increase during the first quarter despite market volatility.

Mr. McCann's colleague, Matt Herrmann, shared that Prudential staff is working from home during the pandemic and that they have continued to reach out through innovative technology. Prudential has experienced a large increase in virtual meetings, has recorded webinars, and is proactively making outreach calls to plan retirees.

Public Comments

No comments were offered.

Board of Trustees Comments

Ms. Baran stated that she wanted to compliment the SRP staff and the vendors for putting together a really good virtual meeting. She was very pleased with the presentation. Mr. Long stated that he wished to second her comments and that he was very pleased as well.

The Acting Chair thanked everyone for participating and announced the next Board meeting will be Thursday, August 27, 2020 at 9:00 a.m.

The Chair returned prior to the adjournment vote.

Adjournment

There being no further business before the board, Ms. Baran made a motion to adjourn, and Mr. Lewis seconded the motion. The motion was approved unanimously via roll call, and the meeting adjourned at approximately 10:50 a.m.



Chair



[Mary Buonfiglio \(Sep 2, 2020 12:35 EDT\)](#)

Secretary






III. BOT Qtrly Mtg Minutes 5-28-2020 approved

Final Audit Report

2020-09-02

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