



**DRAFT MINUTES**  
**SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

The regular quarterly meeting of the Supplemental Retirement Board of Trustees (Board) was called to order at approximately 9:16 a.m. on February 22, 2024, 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: James Lumsden.

Board members attending virtually: Treasurer Dale R. Folwell, Steve Beam, Robert Hillman, Lorraine Johnson, Greg Patterson, Nels Roseland and Chevella Thomas.

**Members Absent** Capt. Bob Shea.

**Guests Present**

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; Matt Herrmann and Michael McCann from Empower; Paul Langanki from Galliard; Anders Reinertsen, Will Harbaugh and Matt Coburn from BNY Mellon.

**Department of State Treasurer Staff Present**

Staff members attending in person: Shanta Bowley, Ted Brinn, Kris Byrd, Thomas Causey, Reid Chisholm, Patti Hall, Jeff Hancock, Kristin Merrick, Chris Morris, and Anne Roof.

Staff members attending virtually: Robin Deaver, Zora Falkowski, Christy Farrelly, Derek Gee, Elizabeth Hawley, Lisa Norris, Paul Palermo, Laura Rowe, Jason Sass, Dara Shoffner, and Michael Wagner.

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, unless there is an objection, 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.

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

The Chair asked, pursuant to the ethics rules, about Subcommittee members' potential, or actual or the appearance of a conflict of interest. No conflicts of interest were identified by the Subcommittee members.

The Chair extended a warm welcome to Shanta Bowley, who joined the SRP Team in January as its Compliance Officer, replacing Alan Jaquith who recently retired. He said Ms. Bowley's experience includes a background in education, finance and banking.



### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the November 30, 2023, quarterly Board meeting. Mr. Steve Beam so moved, and Mr. Robert Hillman seconded. The motion passed by a unanimous roll call vote of 8-0.

### **Administration: Review of Administrative Fee**

The Chair recognized Mr. Jeff Hancock, SRP Director, to present a recommendation for a fee holiday for the NC 401(k) and NC 457 Plans' (the Plans) administrative fee (included in the Board's materials). The annual fee, which is 0.01% (one basis point) of participants' account balances, funds the Plans' operational expenses. Mr. Hancock recommended a fee holiday given the amount of reserves in the Plans' expense account, which is attributable in part to the rise in interest rates. Fee holidays in 2019 and 2020, saved participants over \$4 million. Staff recommends a fee holiday for the remainder of 2024 and a review of the fee reserves again during the 1<sup>st</sup> quarter 2025 Board meeting.

Total savings for participants are expected to be over \$1.6 million in the next 12 months. Reserves are approximately \$9 million and the annual cost to run the plan is \$1.8 million.

The Chair entertained a motion to approve the 2024 fee holiday. Mr. Steve Beam so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

### **Legal Matters**

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present legal matters.

Mr. Chisholm followed up on an item from the last meeting. Callan's contract was extended for two years and runs through March 31, 2026.

### **Legal Matters: Amendment to the NC 401(k) Plan hardship distribution provision**

Mr. Chisholm requested a minor amendment to the hardship distribution provision in the NC 401(k) Plan, which was inadvertently omitted from a prior set of amendments. The amendment brings the hardship provision in line with the plan's operation (included in the Board's materials).

The Chair entertained a motion to accept staff's recommendation to approve the plan document amendment. Mr. Nels Roseland so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

### **Legal Matters: Review of Governance Policies**

Staff proposes revisions to the "Vendor Selection Policy" and the "Policy and Procedures for Investment Transactions, and Investment Manager Selection" (included in the Board's materials). Mr. Chisholm said the changes to the Vendor Selection Policy are clarifications with the wording of the policy to align it with current practice. One of the changes is a provision that permits staff to amend the contract, provided the amendment does not increase the cost of the contract, or otherwise, substantively and negatively change SRP's rights or obligations.



Mr. Chisholm then discussed the revisions to the Investment Manager Selection Policy, including clarifying when staff can amend investment guidelines, and aligning the due diligence checklist process with the Investment Management Division's (IMD). In addition, the investment memorandum is no longer required to list the person(s) who initially suggested the investment opportunity to IMD or the investment consultant; this requirement is unnecessary because a manager search is initiated by the Board and the search criteria determine the managers that are considered.

Staff recommends approving the policies for the revised "Vendor Selection Policy", and the revised "Policy and Procedure for Investment Transactions, and the Investment Manager Selection."

The Chair entertained a motion to accept staff's recommendation to approve the revised policies. Mr. Nels Roseland so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **North Carolina Supplemental Retirement Plans: 4<sup>th</sup> Quarter 2023 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 4<sup>th</sup> Quarter 2023 Administrative Report (included in the Board's materials).

Mr. McCann gave an update on the migration of the NC 401(k) and the NC 457 Plans from the Prudential platform to the Empower platform. Both the NC 401(k) and the NC 457 Plans successfully migrated during the first weekend of February, including all the data, the funds, and the mapping of investments to the GoalMaker allocations. Mr. McCann said the quiet period is over and the daily files with BNY Mellon were submitted successfully. More than 903 subplans have logged in to the Plan Service Center and 55% of all the subplans have successfully loaded their payroll. Fifteen percent of the participants have registered their accounts on the new website.

Mr. McCann stated the main concerns were increased call volume to the customer care center, the increased wait time, and the issues with the subplans who load payroll via email. However, the customer care call metrics have improved. Mr. McCann added there is continuous coaching and training of staff to better serve the participants.

Mr. Herrmann shared pre- and post-migration data. Pre-migration, there were 18 staff doing educational seminars for employers and participants with over 1,600 registrants, the field team made over 1,000 calls to employers in the 4<sup>th</sup> quarter and held several 1:1 employer meetings. Post-migration, there were 650 interactions with employers and customer care center representatives called employers to work through navigation issues.

Mr. Herrmann said participants like the new Empower app, the ability to link outside accounts, and the new online dashboard. He added that the end of year data shows there were improvements in each of the key engagement metrics compared to the 4<sup>th</sup> quarter in 2022. The focus going forward is to continue to support the employers and participants by making education and resources available.



Mr. Hermann added that there were almost 28,000 enrollments in 2023 and Empower will continue to focus on the hybrid model to communicate with employers and participants.

Treasurer Folwell said it is important to communicate with the North Carolina League of Municipalities and the North Carolina Association of County Commissioners regarding the increase in employer contributions to the NC 401(k) and NC 457 Plans.

**NC 401(k) and NC 457 Plans: Custodian Update BNY Mellon**

The Chair recognized Anders Reinertsen, Will Harbaugh and Matt Coburn from BNY Mellon to present the Plans' custodian update (included in the Board's materials).

Mr. Coburn said that BNY Mellon remains the number one custodian worldwide, with \$45.7 trillion assets under custody and/or administration.

Mr. Harbaugh discussed BNY Mellon's strategic areas of focus, as well as their plan to achieve investment operations excellence.

Mr. Coburn presented the five efforts BNY Mellon uses to enhance the client experience. These are: 1) Leveraging new technology to re-imagine and re-engineer their work, with Xceptor being used for digital global tax processing and it will be rolled out in three phases. 2) BNY Mellon has partnered with Financial Recovery Technologies (FRT) for their class action eligibility analysis and claims filing process. 3) BNY Mellon has partnered with Azure/GRX to automate the collection and consumption of external inputs, such as managing broker statements and reconciliation, and creating a standard, uniform reconciliation process for Investment Managers. 4) Utilize PControl, a technology that automates the manual process to increase straight-through processing metrics, standardizes common components and focuses attention on exceptions, requiring resolution and value-added tasks, allowing for the timeliness of reporting and data accuracy. 5) The usage of ECRM, an inquiry management tool used to capture and track client inquiries, ensures timely responses, and allow for continuous process improvement.

**NC 401(k) and NC 457 Plans: 4<sup>th</sup> Quarter 2023 Stable Value Portfolio Review**

The Chair recognized Paul Langanki, Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 4<sup>th</sup> quarter 2023 Stable Value Portfolio Review (included in the Board's materials).

Mr. Langanki stated that the total annual fund operating expenses is 27.1 basis points, and the fees remained the same for 3<sup>rd</sup> quarter 2023 and 4<sup>th</sup> quarter 2023. The "Other Expenses" category includes administrative offset fees and a custody service fee of about 2/10 of a basis point.

Mr. Langanki commented on market performance and conditions, including interest rates, and Galliard's views on investment grade fixed-income, asset-backed securities, and mortgage-backed securities.



**NC 401(k) and NC 457 Plans: 4<sup>th</sup> Quarter 2023 Investment Performance Report, Glidepath Suitability and Design Review**

The Chair recognized Ms. Elizabeth Hood, CFA, Senior Vice President and Manager, and Mr. Weston Lewis, CFA, CAIA, Senior Vice President, at Callan, to present the NC 401(k) and NC 457 Plans 4<sup>th</sup> Quarter 2023 Investment Performance Report (included in the Board's materials) and the Glidepath Suitability and Design Review (included in the Board's materials).

Mr. Lewis reviewed market performance in 2023, noting all asset classes did well in 2023 and for domestic equities, the Russell 1000, large cap growth stocks dominated in value. Mr. Lewis added the magnificent seven (Amazon, Apple, Google, Meta, Microsoft, Nvidia Corp, and Tesla) were the key stocks primarily responsible for this performance. Mr. Lewis said this was a narrow market, which signals a market that is not as healthy. When the Russell 2000, small cap is compared to the Russell 1000, large cap companies, the Russell 1000 outperformed the Russell 2000. Mr. Lewis stated that most of the returns from the Russell 2000 small cap stocks for 2023 came in the last quarter.

Mr. Lewis stated that in the non-US markets, small cap outperformed large cap stocks and emerging markets underperformed developed markets in the 4<sup>th</sup> quarter 2023, primarily because of China. In addition, the returns for fixed income were higher than usual for the 4<sup>th</sup> quarter.

Mr. Lewis said total Plan assets under management is approximately \$16 billion, with about half of the assets invested through GoalMaker. Mr. Lewis added that passive performance (net-of-fees) of both passively and actively managed investment options is in line with expectations.

Mr. Lewis discussed the performance of the Plans' investment managers, including strong returns by the managers in the NC Large Cap Core Fund (especially Sands) and the NC International Fund and underperformance by Earnest Partners and Brown Advisory.

Ms. Hood then presented Callan's GoalMaker Suitability Review, which found GoalMaker suitable for SRP's participants. Ms. Hood recommended a suitability review of GoalMaker every three – five years.

Ms. Hood added that the participant's experience, and behavior are two areas that need further consideration. Ms. Hood looked at the average, median and mode in the data, and said that the average balance for both Plans is about four – five times higher than the median. The mode occurs in two different groups of balances since participants' balances were primarily grouped in two areas. Ms. Hood state most participants are using the Plans as a savings vehicle, not as monthly income. Empower added that they will not market GoalMaker to new clients in about 20 years, so this is something the Board should be aware of and consider for the future because about half of the Plans' assets are currently managed by the tool. Participants who do not make a GoalMaker selection are defaulted in the moderate path and about half of the Plans' assets are in the moderate category.

Ms. Hood discussed the enhancements to GoalMaker on the Empower platform which include participants are mapped to a single North Carolina GoalMaker model that will gradually become more conservative over time, quarterly rebalancing will occur based on the





participant's date of birth, and the number of model portfolios will increase to a maximum of 14 per risk path.

Ms. Hood added that Callan's model evaluated four risks to measure success over a participant's lifetime: shortfall risk (not enough asset accumulation), downside risk (withdrawing funds before retirement), inflation risk (protecting against inflation), and longevity risk (outliving our savings). The data shows that 70% of NC 401(k) participants are at least 40 years old and the assumption for the model is that participants start working at age 25 and retire at age 65. The ratio of men to women in the NC 401(k) and NC 457 Plans is three to seven.

Ms. Hood elaborated on the results of the replacement ratio (for shortfall risk) outcome. This is the participant's projected annual post-retirement income divided by projected inflation-adjusted salary in the year before retirement. The results show teachers' post-retirement income will be around 82% and they will need 3% of the income from the Plans to make up the difference, while the general employees post-retirement income will be around 92%, without income from the Plans. Empower's data shows the average tenure for participants is twenty-two – twenty-seven years of service, meaning retirees will need more income from the NC 401(k) and NC 457 Plans. Ms. Hood recommends considering this data for future modelling of GoalMaker.

Mr. Greg Patterson asked about the risk of running out of money in retirement and inquired if the Plans could offer an annuity option, thereby transferring the risk on the insurance company. Mr. Patterson also asked if SRP has the ability to offer income annuity. Mr. McCann from Empower said the company is rolling out an in-plan lifetime income option product where the funds stay and are not rolled over to another institution. Chris Morris asked if other peers do this, and Ms. Hood said other plans are doing income annuities and the adoption rates are low. Mr. Jeff Hancock added that SRP's participants currently have access to the transfer benefit option, which allows participants to transfer funds to the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System in order to receive a lifetime benefit.

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

The Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer and Chief Risk and Operations Officer, and Kristopher Byrd, SRP Portfolio Manager, to present the Manager Watch List recommendations, the Investment Compliance Summary Report, (included in the Board's materials) and the SMID Cap Value transition update.

Mr. Byrd said there are two investment managers recommended for the watchlist, TCW and Macquarie. Staff and Callan recommended adding TCW Core Plus Fixed Income strategy to the watchlist based on the changes in the overall leadership of the firm and in the management of the Core Plus Fixed Income strategy. The Chief Investment Officer retired at the end of 2021 and there was a new President and CEO appointed at the end of 2022.

Staff and Callan also recommended adding Macquarie Large Cap Value Focus strategy to the watchlist, since its five-year underperformance correlates with the departure of key personnel. Callan and staff will continue to monitor assets and net outflows since the continued decline in assets could negatively affect the firm's capacity to maintain its full team.



The Chair entertained a motion to accept staff's recommendation to approve the addition of TCW and Macquarie to the investment manager watchlist. Steve Beam so moved, and Greg Patterson seconded. The motion passed by a unanimous roll call vote of 8-0.

**SMID Cap Value Transition Update:**

Mr. Morris reminded the Board that they approved Alliance Bernstein replacing Wedge in the NC Small/Mid Cap Core Fund. Mr. Morris said the contract was successfully negotiated, and the assets are being transferred. BlackRock is the transitioning manager for the funds and the transition started this week and will be finished by end of next week. He stated the cost is approximately \$150,000.00 or 4.5 basis point of the market value of the portfolio.

**4<sup>th</sup> Quarter 2023 Investment Compliance Summary Report:**

Mr. Byrd said staff identified two prohibited holdings which are subject to the divestment guidelines, Chennai Petroleum Corp. Ltd. and Unilever PLC, which are on the Iran and Companies Boycotting Israel prohibited investments lists, respectively. He added that the investment managers were notified on December 22, 2023, and instructed to divest from these prohibited holdings within a 180-day period starting on December 21, 2023. SRP's Staff is overseeing the Investment Manager's portfolios to ensure the timely divestment from these prohibited holdings.

**Public Comments**

No public comments were offered.

**Board of Trustees Comments**

The Chair said he wanted to adjourn the meeting in honor of Black History Month and he recognized the contributions of African Americans to our society. The Chair thanked everyone for participating and state the next Board meeting will be May 23 at 9:00 a.m.

**Adjournment**

The Chair commented that with no further business before the Board, he would entertain a motion to adjourn, Chevella Thomas so moved, and James Lumsden seconded. The motion passed by roll call vote of 8-0.

The meeting was adjourned at approximately 11:27a.m.

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Chair

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Secretary