



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 9:00 a.m. on May 23, 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: Treasurer Dale R. Folwell, Steve Beam, Greg Patterson, and Bob Shea.

Board members attending virtually: Lorraine Johnson, James Lumsden, Nels Roseland, and Chevella Thomas.

Members Absent Robert Hillman.

Guests Present

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan, Matt Herrmann, Robert Luciani and Michael McCann from Empower, and Paul Langanki from Galliard.

Department of State Treasurer Staff Present

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

Staff members attending virtually: Robin Deaver, Derek Gee, Paul Palermo, Laura Rowe, and Jason Sass.

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 Board members' potential, or actual or the appearance of a conflict of interest. No conflicts of interest were identified by the Board members.

Approval of Board Minutes

The Chair entertained a motion to approve the minutes of the February 22, 2024, Supplemental Retirement Board quarterly meeting and the February 22, 2024, Audit Subcommittee Board meeting. Mr. Beam so moved, and Mr. Patterson seconded. The motion passed by a unanimous roll call vote of 8-0.



Administration: Supplemental Retirement Plan's (SRP's) 2024-2025 Budget Proposal

The Chair recognized Mr. Jeff Hancock, SRP Director, to present SRP's 2024-2025 Budget Proposal (included in the Board's materials) and give an update on Empower's recordkeeping transition.

Mr. Hancock reminded the Board that due to the fee holiday there is no asset-based administrative fees that will be assessed on balances for the remainder of 2024. He said the current assets as of March in the NC 401(k) Plan were \$14.8 billion and \$1.9 billion in the NC 457 Plan. Asset growth in the NC 401(k) and the NC 457 Plans (Plans) is assumed to be zero for the 2024-2025 year. The forecasted administrative fund balance (reserves) as of July 1, 2024, is \$9.3 million for both Plans.

Mr. Hancock added the SRP staff performs work for the NC ABLE Program and will be reimbursed \$110,000 from the NC ABLE budget. The SRP budget accounts for 24.04% allocation to NC Retirement, 7.65% to Social Security/Medicare and \$8,095 towards the State Health Plan, per employee. Other expenses include overhead expenditure to the financial operations division, information technology department and for financial operations support.

Mr. Hancock said estimated interest to be earned on the administrative fund balance between July 1, 2024, and June 30, 2025, in the NC 401(k) Plan is \$220,473 and \$32,088 in the NC 457 Plan. This is based on a rate of 3.02% which is the Stable Value crediting rate. The estimated float earnings are \$1.2 million for the 2024-2025 fiscal year and based on projected expenses of \$2.4 million, there is projected to be a total administrative fund balance of \$8.4 million as of June 30, 2025.

Mr. Hancock added there is a decrease in staffing salaries and related benefits due to split-funded positions in SRP and there are increases in the audit fees and the proxy voting fees. The budget also considered a proposal by Callan to further evaluate the differences between Goalmaker and Target Date Funds, and the optimality of the current glidepath at a cost of \$45,000 (phase 1). There could be an additional cost of \$130,000 for further work with glidepath (phase 2).

Mr. Beam asked whether the 24% contribution rate for NC Retirement is high or is that the standard. Mr. Hancock responded that the 24% is based on the legislative budget. Mr. Causey added the cost of health coverage for retirees, the disability income plan, and death benefits are also included in the 24% expenditure. Treasurer Folwell added that employer contributions to the pension plan are 16.8%.

Treasurer Folwell added that more consideration is needed for the project by Callan and the vote to approve the budget assumes a separate vote to approve spending budgeted funds on the Callan project.

The Chair entertained a motion to approve the 2024-2025 Budget Proposal. Mr. Beam so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

Update on Empower's Transition

Mr. Hancock provided an update on Empower's transition from the legacy Prudential recordkeeping platform to the Empower platform. He said one of the concerns of the transition is the delay in payroll processing for employers who have multiple payroll frequencies. There



are approximately 40 employers with multiple payroll frequencies. The payroll frequency wasn't needed on the Prudential system, but it is needed on the Empower system to credit participants' contributions in an effective and timely manner. As a result, there were instances where payroll was not posted in a timely manner for some of these 40 employers. Mr. Hancock said Empower reached out to the employers who were affected and most of the payroll issues have been resolved and missed earnings have been calculated and posted to participants' accounts. If the error was caused by Empower, they reimbursed the missed earnings, and if the error was caused by the employer, the employer reimbursed the missed earnings.

Calls to the call center increased, resulting in longer hold times. Empower added staff to the call center and wait times have been reduced.

Another issue with the transition, was the quick enrollment process on the website or the app. This process allows a participant to click on a link to enroll. The default contribution was 6% on the enrollment site. This caused confusion around whether the 6% was going to the Pension Plan or SRP. This was changed to 4% to avoid any confusion.

Mr. Hancock said participants are experiencing delays in using the mobile app and the website and Empower is working to fix the issues associated with the delays.

Ms. Farrelly said prior to migration, employers and participants were notified to re-register their online accounts following migration. Communication was provided via newsletters and webinars; however, not all employers and participants re-registered their accounts. To emphasize the importance of re-registering, banners were added to the website to alert participants to re-register when they visit the website.

Treasurer Folwell mentioned the efforts of the SRP staff and the communication team to assist with some of the issues with migration. Treasurer Folwell said since migration many participants don't have online access to their accounts and asked what percentage of participants had online access prior to migration. Mr. Hancock responded that approximately 60% of the participants had registered their accounts prior to migration and now 27% have registered their accounts on the Empower system.

Ms. Farrelly said due to new protocols with the Empower system, participants who used a device other than a desktop to access their accounts were required to download an app. The Plan's participant website is now hosted by DST on myNCRetirement.com to allow for faster and easier updates. As a result of the additional work undertaken by DST, the SRP staff is working with Empower to adjust the communications budget Empower provides for SRP.

Mr. Luciani acknowledged the work done by the SRP staff and RSD communications team to assist with migration. He stated that the Plans were Empower's largest migration so far and some of the issues stem from the size of the Plans. He added that Empower ran two call centers, one on the old Prudential system and one on the new Empower system to accommodate the migration and all the representatives are now assisting participants on the new system. He added that 110 new call center representatives will be added to the government group which handles NC Plans calls, as well as 100 representatives to assist with technical calls regarding navigation and registration issues on the new site and the app.

Mr. Luciani said that Empower is spending \$65 million on Secure 2.0 Act enhancements.



Mr. Luciani added there is a negative cash flow in all Government plans and Empower plans to provide managed accounts and investment advice in the future to prevent cash from leaving the plans. Mr. Hancock confirmed that the Plans also have a negative cashflow.

Mr. Shea asked if Empower uses technology to route calls to the appropriate areas. Mr. Luciani said Empower does use technology to route calls and participants are offered the opportunity to provide feedback on a survey after each call. Mr. McCann added the data from the calls are not broken down by active or terminated participants.

Ms. Farrelly asked if Empower has a group dedicated to NC Plans. Mr. Luciani said NC Plans is part of the government group that is in the United States.

Legal Matters: Custodian Agreement

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present legal matters (included in the Board's materials).

Mr. Chisholm said BNY Mellon's contract will expire June 30, 2025. He reminded the Board that last year the contract was renewed for two years from June 30, 2023. The Board has two options, to initiate a request for proposals or to extend BNY Mellon's contract. If the Board chooses to initiate a request for proposals, the process should start now to allow enough time to select a new custodian, or the Board can vote to extend the contract.

Mr. Patterson asked about BNY Mellon's service and fees.

Mr. Morris said the Investment Management Division (IMD) has used BNY Mellon as its custodian since 2007, and BNY Mellon's service has been good for IMD and SRP. Few banks can provide custodial services for clients as large as IMD and SRP. In addition, there have been enhancements to SRP's contract during the term.

Mr. Beam entertained a motion to accept staff's recommendation to extend BNY Mellon's contract for two years, from July 1, 2025, through June 30, 2027, subject to successful negotiations with BNY Mellon. Mr. Shea seconded. The motion passed by a unanimous roll call vote of 8-0.

Legal Matters: Legislative Proposals

Mr. Chisholm presented three legislative items affecting SRP that are before the North Carolina General Assembly's 2024 short session (included in the Board's materials).

Mr. Chisholm said Senate Bill 508, which includes a provision that makes employees of University of North Carolina Health Care System eligible for the NC 401(k) Plan, is pending the Governor's signature.

Mr. Chisholm added that DST proposed legislation to expand eligibility for the NC 401(k) Plan to include all employees, whether full-time or part-time. The affected employers are those who currently have some employees who are eligible for the NC 401(k) Plan and employers who elect to participate in the NC 401(k) Plan, even though none of their employees is currently eligible. The proposal was introduced in the North Carolina General Assembly on May 6, 2024, as part of House Bill 1020 and is pending in the House Committee on Pensions and Retirement.



DST also proposed an employer match of \$25.00 per month for state employees in the NC 401(k) Plan.

Administrative Update: First Quarter 2024 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 First Quarter 2024 Administrative Report (included in the Board's materials).

Mr. McCann reviewed the key metrics over the last 13 months. He said distributions were higher than contributions and average participants' balances, and active participation rates, total unique participants with a balance, and active average employee deferrals increased. Goalmaker participation rates, total enrollments, and number of new loans decreased.

Mr. McCann added the average monthly contribution per plan is \$271.00 and the active employee participation rate is less than 35%. There was a hold on new employers' adoptions due to migration and there are approximately 17 employers that are in the process of being added. The Plans rollovers for the first quarter were \$176.4 million and 49% of all calls to the call center were answered in less than 20 seconds for first quarter 2024. Call quality for April was 4.67 on a scale of 1-5, 5 being the highest score.

Mr. Hancock added 30% of the Plans' assets are held by participants who are 65 or older. Mr. McCann added that Empower receives data when a member from the pension plan applies for their retirement and Empower proactively contact retirees about keeping their assets in the Plans.

Treasurer Folwell asked if a beneficiary can rollover the balance from a deceased participant's account into their account, if both are participants. Ms. Johnson and Mr. McCann confirmed that a beneficiary can rollover the balance into their account under that circumstance.

Mr. Hermann said there were 529 group meetings with approximately 13,212 attendees, 6,548 individual meetings, 1,627 employer meetings and 183 on-site visits for the first quarter 2024. The total number of attendees was 19,760, which was an increase of 8% year-over-year. He added that Empower sends out a survey for each 1:1 meeting and received a total of 110 responses in April with 93% being positive.

Mr. Shea asked about the total distributions for the Plans and how it compares nationwide to other government plans. Mr. Hermann said the trend is the same for both the Plans and other government plans. Mr. Luciani added that Empower is considering adding managed accounts and advisors with a series 65 or 66 license. Mr. Hancock added that participants prefer to speak with advisors and having advisors will help to prevent some rollovers.

Mr. Hermann said there were 4,811 new participant enrollments in the first quarter 2024, and setting up employers will resume in the second quarter, so new participant enrollment should increase.



Investment Update

First Quarter 2024 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 First Quarter 2024 Stable Value Portfolio Review (included in the Board's materials).

Mr. Langanki said total assets under management decreased by approximately \$2.2 billion and total stable value assets under management also decreased due to participants reallocating their assets.

Mr. Langanki added the North Carolina Stable Value Fund decreased by \$98.5 million, the blended yield (after fees) increased 13 basis points, yield to maturity increased 27 basis points, net cash flow decreased by 4.78%, and the market value to book value ratio decreased 81 basis points for the first quarter. The total annual fund operating expenses for first quarter 2024 was reduced by 0.009% from 2023, partly due to the administrative fee holiday implemented by SRP.

Mr. Langanki said equities performed well in the first quarter, and several equity benchmarks reached record highs, inflation remained higher than expected and the Fed Funds rate remained unchanged. In the fixed income market, short term securities outperformed intermediate and long-term securities. All investment managers, except for TCW, outperformed the benchmark for the quarter. TCW's performance decreased approximately 14 basis points for the quarter.

Investment Performance Report, Investment Management Fee Review, Glidepath Project Proposal

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 First Quarter Investment Performance Report (included in the Board's materials), Investment Management Fee Review (included in the Board's materials), and the Glidepath Project Proposal (included in the Board's materials).

Investment Performance Report

Mr. Lewis recapped the performance of the equity and fixed income markets during the first quarter.

Mr. Lewis said the total assets in the Plans increased 4.77% from the fourth quarter in 2023 to a total of \$16.8 billion, primarily due to the return on investments.

Mr. Lewis added TCW and Macquarie were added to the manager watchlist during the first quarter 2024 partly due to personnel changes. Macquarie underperformed in the short-term and long-term funds. Sands Capital underperformed in the long-term funds.

Investment Management Fees

Ms. Hood presented Callan's evaluation of SRP's investment management fees, which reviews the fees for SRP's white label funds, as well as fees on the underlying managers in the funds. Callan's evaluation concluded that SRP's fees are competitive at both the white label fund level and the underlying manager level.



Mr. Hancock asked if there are most-favored nation (MFN) clause fee agreements with all the investment managers. Mr. Morris said that not all investment managers will agree to an MFN clause in their fee agreement.

Glidepath Project Proposal

Ms. Hood reminded the Board of the Goalmaker suitability study that Callan presented last quarter. Goalmaker is the program used by participants to allocate their account balances and the glidepath is the allocations across investment funds within the program. There are three glidepaths, conservative, moderate, and aggressive. The moderate path is the default for any participant who does not select their investments.

Ms. Hood added that savings, tenure, and retirement benefits are three areas that affect participant outcomes and therefore further evaluation of glidepath is recommended. A description of the first phase of Callan's recommended analysis was included in the Board's materials. The cost is \$45,000.

Since participants are retiring earlier, their benefits from the defined benefit plan are less and the current glidepath doesn't account for shorter tenures. In addition, Goalmaker's conservative glidepath requires evaluation to determine if participants who retire earlier than expected are maximizing their benefits and if the optimal investments are included in the conservative glidepath.

Treasurer Folwell asked how much of the work was already done from the \$45,000 estimate. Mr. Weston said the suitability study wasn't part of the first phase. Instead, the proposed evaluation will review the optimality of the glidepath. There are nine allocations (age groups) in the current glidepath, but Empower's program has fourteen.

Mr. Patterson said the Board has a fiduciary responsibility to monitor fees and investment performance, but the Board can't control how much participants contribute and the timeline to retirement.

Mr. Hancock said 70% of current participants are using Goalmaker and 95% of new participants are using it so it makes sense to review Goalmaker, not only for suitability but for optimality as well.

Treasurer Folwell asked if it's possible that the recommendation from Phase 1 could be not to make any changes.

Mr. Weston responded that it's possible that no changes could be recommended; however, more allocations should be offered in earlier and later years in a participant's account to optimize allocations.

Mr. Luciani said that Goalmaker was proprietary to Prudential. Empower has a different version of Goalmaker with more options. He added that Goalmaker was upgraded to add more options and is not being offered to Empower's new customers.

Mr. Beam entertained a motion to accept the first phase of Callan's Proposal and Mr. Shea seconded. The motion passed by a roll call vote of 6-2.



Ms. Johnson left the meeting at 11:43.

Investment Compliance Report

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 First Quarter 2024 Investment Compliance Summary Report (included in the Board's materials).

Mr. Byrd said the SRP staff continue to monitor daily for prohibited holdings and identified one holding, that is subject to divestment. Mondrian owns Unilever, which is on the prohibited investment list of companies boycotting Israel. Mr. Morris added that Mondrian is within the 6-month window to divest.

Public Comments

No public comments were offered.

Board of Trustees Comments

The Chair thanked everyone for participating and state the next Board meeting will be August 22 at 9:00 a.m.

Adjournment

The Chair commented that with no further business before the Board, he moves to adjourn the meeting in honor of the law enforcement officers who were recently killed in the line of duty in Charlotte NC. Mr. Patterson seconded, and the motion passed by a unanimous roll call vote of 7-0.

The meeting adjourned at approximately 11:54 a.m.

Chair

Secretary