



**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 February 23, 2023, 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, Steve Beam, Wyndon Hibler, Lorraine Johnson, Capt. Bob Shea, and Chevella Thomas.

Board members attending virtually: James Lumsden and Nels Roseland.

**Members Absent**

No board members were absent.

**Guests Present**

Guests attending in person: Matt Coburn from BNY Mellon; Elizabeth Hood and Weston Lewis from Callan; and Matt Herrmann and Michael McCann from Empower.

Guests attending virtually: Mary Conti, Brigitte Duffy, and Jessica Quimby from Empower; and Paul Langanki from Galliard.

**Department of State Treasurer Staff Present**

Staff members attending in person: Anna Blount, Ted Brinn, Thomas Causey, Reid Chisholm, Zora Falkowski, Patti Hall, Jeff Hancock, Alan Jaquith, Kristin Merrick, and Chris Morris.

Staff members attending virtually: Christy Farrelly, Joan Fontes, Derek Gee, and Paul Palermo.

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 congratulated Mr. Nels Roseland for being appointed as the State Controller of North Carolina.

**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.



### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the December 1, 2022, quarterly Board meeting. Mr. Steve Beam so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the January 11, 2023, Special Board meeting. Mr. Beam so moved and Ms. Melinda Baran seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Ratification of Chevella Thomas' Appointment to the Audit Subcommittee**

The Chair entertained a motion to ratify Ms. Thomas' appointment to the Audit Subcommittee. Mr. Beam so moved, and Capt. Bob Shea seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Administrative Matters**

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present an administrative update on the North Carolina Supplemental Retirement Plans' (SRP) annual audit and a summary of SECURE Act 2.0 changes. Mr. Hancock reminded the Board that a new auditor, UHY, had been chosen and said the 2022 audit is now underway. The kickoff meeting was held February 15. He shared that one account remains in the NC 403(b) Program and Staff is working with the Unclaimed Property Division (UPD) to determine how those assets should be transferred to UPD. This one account belonged to a deceased individual who did not designate a beneficiary.

Mr. Hancock noted that SECURE 2.0 was signed into law late in 2022 and commented on a chart regarding provisions that might impact SRP (included in the Board's materials). Several provisions will require action during 2023 and other provisions will possibly require action in future years. He highlighted those provisions that will require Board action, including enrollment eligibility for long-term part-time employees, required Roth catchup contributions for those who earn more than \$145,000 annually, an increase in the involuntary distribution cap to \$7,000, an increase in the starting age for required minimum distributions (RMD), the elimination of the "first day of the month rule" for 457(b) plan deferral elections, and a new distribution process related to disaster relief.

In response to a question regarding which provision might prove to be the most challenging to implement, Mr. Hancock commented that the provision for long-term part-time employees to enroll will require all employers to track hours for their part-time employees. In response to a question regarding employer matching contributions, Mr. Reid Chisholm explained that an employer match would not be required for part-time employees and would not be considered discriminatory. In response to a question regarding employees working for Temporary Solutions, the Chair asked Staff to verify whether these employees would be included under these new provisions. In response to a question regarding 403(b) plan changes, Mr. Hancock noted that several provisions that could have made 403(b) plans more attractive, including the option to invest in collective investment trusts (CIT), were not included in SECURE 2.0.



### **Legal Matters: Contract with CEM Benchmarking**

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present three legal matters. Mr. Chisholm presented a proposal to contract for benchmarking services (included in the Board's materials). He explained that the North Carolina Retirement Systems (NCRS) contracts for benchmarking services every year and SRP has contracted for benchmarking services every other year dating back to 2013. The last contract in 2021 analyzed data for the period 2016-2020. The vendor drafts the report and then presents the findings to the Board during the third or fourth quarter board meeting. Staff also uses the report in educational materials. CEM Benchmarking has conducted similar investment benchmarking studies and pension administration analyses for the Retirement Systems Division since at least 2014, completing the investment study for NCRS every year and the pension administration study every other year.

Staff recommends the Board again retain CEM Benchmarking for benchmarking services under a joint contract with NCRS, covering the period 2018-2022 for essentially the same services as in previous years. CEM Benchmarking would provide a benchmarking report for SRP, covering same performance, cost, and other benchmarking analyses as provided in earlier reports. The analysis would include a customized peer group. The proposed cost is comparable to previous years and was included in the Board-approved budget for fiscal year 2022-23. Policy requires Board approval since the proposed cost exceeds \$25,000 for the one-year contract term. Staff recommends the Board approve a contract with CEM Benchmarking with the terms described in Mr. Chisholm's memo.

The Chair entertained a motion to approve the CEM benchmarking contract. Ms. Thomas so moved, and Ms. Lorraine Johnson seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Legal Matters: Revisions to Governance Policies**

Mr. Chisholm reminded the Board that Staff regularly reviews the policies that govern various procedures related to administering the NC 401(k) and NC 457 Plans (the Plans). Based on the recent review, he presented proposed revisions to three of the Governance Policies; the Board Charter, the Vendor Selection Policy, and the Policy and Procedures for Investment Transactions and Investment Manager Selection (included in the Board's materials).

The proposed revisions include several clarifications to reflect current practices, the removal of outdated statutory text, clarifications of the Department's role in contract negotiations and contract renewals, some minor edits, and removal of references to the NC 403(b) Program. Staff recommends the Board approve the adoption of the revised Governance Policies.

The Chair entertained a motion to approve the revisions to the Governance Policies as recommended. Capt. Shea so moved, and Ms. Baran seconded.

Mr. Beam noted the Board Charter states Board members shall not serve more than eight consecutive years, but Ms. Baran is now serving in her 11<sup>th</sup> year. He asked if the Board should acknowledge that conflict or change the Charter. He added that he and the Board enjoy having Ms. Baran serving on the Board. Ms. Baran said the Treasurer has asked her to continue until the Senate Pro Tem appoints a replacement. The Chair commented that the Board does not control the Senate's actions. Mr. Chisholm said the term limits in the Charter are taken from the state statute governing Board members' terms. In addition, while the statute includes term



limits, it also permits a member to continue serving until a replacement is appointed. Mr. Chisholm said that the minutes can reflect the Board is aware of term limits, the need for continuity and experience among members, and that the Board is not the entity that can rectify the situation. Mr. Beam commented that he believes a term limit is applicable. The Board requested Staff contact the Senate Pro Tem to ask that a replacement be appointed. Mr. Chisholm said he would present revisions to the Board Charter at the next meeting to address this topic.

Capt. Shea withdrew his motion to approve the revisions to the three governance policies as presented. The Chair entertained a motion to approve the revisions to the Vendor Selection Policy and the Policy and Procedures for Investment Transactions and Investment Manager Selection as recommended. Capt. Shea so moved, and Ms. Johnson seconded. The motion passed by a unanimous roll call vote of 9-0.

#### **Legal Matters: Amendment to the Plan Document for the NC 401(k) Plan**

Mr. Chisholm reminded the Board that at the last meeting, the Board adopted an amendment to enable plan beneficiaries who then become account owners to name beneficiaries. He noted that one part of the amendment for the NC 401(k) Plan (included in the Board's materials) was inadvertently omitted.

The Chair entertained a motion to approve the amendment to the plan document as recommended. Mr. Beam so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 9-0.

#### **North Carolina Supplemental Retirement Plans 4th 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 4th Quarter 2022 Administrative Report (included in the Board's materials).

Mr. McCann shared key metrics for the Plans, noting that the active participation rate remains strong, and the average employee deferral rate continues to set all-time record highs. Enrollment is also setting record highs and the Plans now have more participants than ever before. He noted that 27 employers adopted either the NC 401(k) Plan or the NC 457 Plan during 2022 and 49 employers added, changed, or enhanced their employer contribution programs during 2022. He commented that no employers reduced or eliminated their contributions despite the recent economic headwinds.

Mr. McCann gave an update on the migration of the Plans from the legacy Prudential recordkeeping platform to the Empower recordkeeping platform. He said the migration is scheduled for the first quarter of 2024 and while the exact date has not yet been set, it will likely be the first week of February or the first week of March. He discussed the rollout of the project and commented that the Plans' participating employers submit over 30,000 payrolls yearly. Empower will continue to offer flexibility for payroll submissions. As part of the migration, employers will be required to review and update their authorized users for the Empower Plan Sponsor website. He explained all contract terms remain in place; however, Empower will prepare a contract amendment to document the operational and procedural changes that will occur with the migration.



Mr. McCann shared that some new features would become available with GoalMaker, and he will provide more details as the migration gets closer. Possible enhancements will allow participants to remain within their assigned portfolio throughout their career and retirement, similar to a target date fund approach. The current version of GoalMaker is rebalanced entirely one day each quarter; after migration the rebalancing will be tied to each individual and to each participant's birthday, reducing the workload on Staff, the custodian, and the investment managers.

In response to a question regarding current rebalancing, Mr. Hancock explained that Staff provides forecasts of anticipated cashflows to the investment managers several days in advance. Volatile markets can make the actual cashflows significantly different than forecasted and has, on occasion, been completely opposite of what was forecasted. He said Staff expects this upcoming change to smooth out the cashflows. Mr. Chris Morris added that the volatility is occasionally an issue and rebalancing will still be required at the "White Label" level for the portfolios, but that this upcoming change will dramatically reduce rebalancing at the GoalMaker level.

Mr. McCann said all participants will receive access to an enhanced digital platform. The Empower app includes every function now available to participants on the website, an improvement over what is available today. He shared that Empower has greatly enhanced the Spanish capabilities, enabling participants to shift either the app or website from English to Spanish with one click. Participants can then also indicate their language preference for statements and confirmations. The digital platform will have Realtime updates with no need to wait for an overnight cycle to see requested changes. Empower will also add Saturday call center hours after the migration as an additional service.

Mr. Herrmann said 2022 was a very strong year for communication initiatives, with over 17,000 engagements in the fourth quarter alone. Empower had almost 69,000 engagements for the year, including individual meetings, group meetings, and employer meetings. All categories of engagements were significantly higher than previous years. These engagements led to action with over 26,000 people enrolling in the Plans during 2022, which was a record year for enrollments. Employers took action as well, as 27 employers began offering either the NC 401(k) or NC 457 Plans and 39 employers either enhanced their existing employer match or added an employer contribution and/or matching program.

Mr. Herrmann said that after wrapping up the NC 403(b) Program discontinuation project, Empower is now reaching out to every K-12 school director to support and educate them regarding their retirement plan options and to learn their future plans. Mr. Herrmann noted that Empower is continuing to offer courtesy outcalls to recent retirees, training videos for employers, quarterly employer webinars, educational webinars for participants, and monthly Roadmap to Retirement webinars. In response to a question, Mr. Herrmann shared that after attending a Roadmap to Retirement group meeting, many attendees will then sign up for an individual consultation with an Empower Retirement Education Counselor.

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

The Chair recognized Mr. Matt Coburn, Vice President, Director, Relationship Manager at BNY Mellon, and Mr. Brian Shea, Vice President, Service Director at BNY Mellon, to provide the NC 401(k) and NC 457 Plans Custodian Update (included in the Board's materials).



Mr. Coburn introduced himself to the Board and provided a brief corporate update with a relationship overview and review of BNY Mellon's cybersecurity program and policies.

Mr. Coburn noted that BNY Mellon's assets under custody and assets under management both decreased during 2022. He explained that the decline in custodied assets was quite small and the decline in assets under management was similar to the decline in equity and fixed income markets. In his view, this means that BNY Mellon remains strong and continues to win business. He said that BNY Mellon is the custodian with the highest credit ratings in the industry. He attributes BNY Mellon's success to their focus on technology in their core custody operations.

Mr. Coburn reviewed BNY Mellon's role as the custodian, including settling transactions, offering settlements in 100 different markets around the world, monitoring the markets for corporate actions and events, insuring that income due from those events comes in appropriately, providing unitized portfolio accounting, coordinating with Empower to receive daily recordkeeper files, rebalancing portfolios as scheduled, providing performance reporting, providing foreign exchange, and handling cash management. He noted that in 2022, BNY Mellon amended the custody agreement with SRP to align the contract dates with NCRS, to establish the Hong Kong connect model (China A shares) for another investment manager, to enhance information security procedures, and to initiate SRP's use of BNY Mellon's Smart Allocator tool.

Mr. Coburn noted that BNY Mellon is considered a global systematically-important bank, an organization deemed too big to fail according to regulators. This requires BNY Mellon to have stringent cybersecurity procedures and policies in place. Mr. Coburn invited the Board to visit the BNY Mellon Cyber, Technology, and Operations Center (CTOC) in New York City. He commented that BNY Mellon has five trillion cash and security transactions flowing annually through the CTOC and over 100 million emails. He said that BNY Mellon had zero priority one cyber events in 2022. In response to a question regarding the digitation of assets, Mr. Coburn commented that in October 2022, BNY Mellon became the first custodian bank to support digital assets. BNY Mellon can now custody Bitcoin and Ethereum.

## Investment Update

### NC 401(k) and NC 457 Plans 4th Quarter 2022 Stable Value Portfolio Review

The Chair recognized Mr. Paul Langanke, Senior Director, Institutional Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 4th Quarter 2022 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanke began with a Galliard company update, noting that total assets under management ended the year at \$92 Billion, essentially flat for the year. He commented that 72 of their roughly 200 institutional clients have worked with Galliard for over 15 years and the State of North Carolina has been a Galliard client for more than 12 years.

Mr. Langanke shared the historical performance of the Federal Funds Effective Rate compared to the Stable Value Blended Yield (Crediting Rate), showing the stability of the Crediting Rate. He 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 reviewed manager allocations and underlying fixed income sector allocations. Mr. Langanke commented that the NC Stable Value Fund assets



remained at \$2.46 billion during the fourth quarter and the blended yield rose to 2.20 percent as the Fed Funds rate increased. The blended yield will keep following the path of interest rates upward.

He noted that the market/book value ratio increased slightly to 92.87 percent as interest rates declined marginally late in the quarter. Galliard does not have any concern with the market/book value ratio at this level since it is due solely to the Federal Reserve raising short term interest rates and not a credit deterioration event as seen in 2008. Mr. Langanki reiterated that a market/book value ratio below 100 percent is to be expected in a rising interest rate environment. He explained that stable value wrap contracts are designed to amortize the market declines and protect investors from volatility due to changes in interest rates. Stable value funds are reinvesting at the current higher rates and the crediting rate will continue to rise with a lag.

Mr. Langanki stated that all underlying strategies outperformed over all trailing periods of three years and longer. He reiterated that short-term performance typically lags when short-term interest rates rise quickly, as they have this year. The NC Stable Value Fund has provided principal preservation in a volatile market. Mr. Langanki commented that if the Federal Reserve continues to raise interest rates, the fund's yield will continue to rise, but with a lag. In response to a question, he said that investors cannot exchange directly to higher-yielding bond funds. NC Stable Value Fund withdrawals must be exchanged into an equity fund for a minimum of 90 days before exchanges can be made into a bond fund. Galliard has not seen a large number of participants trying to move out of the NC Stable Value Fund.

He said that Galliard is changing the Metropolitan Life separate account contract to a synthetic guaranteed investment contract (GIC), which is the same as the contract types of the other wrap accounts. This account will remain under the Met Life umbrella and will bring the Met Life wrap fee in line with the other contract issuers. Galliard believes this is a more efficient approach and is making this change across their entire book of business. The changeover will have no impact on daily trading by Plan participants.

Mr. Langanki noted that fees dropped during 2022 by roughly half a basis point, mainly because of the Galliard management fee reduction. Fees have dropped approximately 50 percent since 2015. He commented that Galliard successfully negotiated a fee reduction with Prudential beginning in January 2023, so the reduction will show in the next quarterly report. He also mentioned that a further reduction in fees could result by reducing the percentage of the portfolio managed by external managers and that he would discuss this option with Staff.

Mr. Langanki reminded the Board of the departure of Jennison's Co-Chief Investment Officer of Fixed Income. He shared that Galliard visited Jennison's home office and noted that Jennison has not lost any clients nor experienced any staff turnover. Jennison has an experienced investment team and remains on Galliard's list of recommended managers. Galliard will continue to monitor Jennison closely.

### **NC 401(k) and NC 457 Plans 4th 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 4th Quarter 2022 Investment Performance Report (included in the Board's materials) and the Investment Design Review (included in the Board's materials).



Mr. Lewis gave a high-level overview of the capital markets environment and commented that 2022 was the worst calendar year for fixed income in the history of the Bloomberg U.S. Aggregate Bond Index (formerly known as Lehman Aggregate Bond Index). He highlighted the performance gap between large-cap growth and large-cap value, noting that value outperformed growth by 22 percent for the year. A strong dollar hurt international market performance in 2022 as well. Mr. Lewis reviewed overall portfolio and investment manager performance for the year. He noted that all funds and investments managers had positive performances in January 2023.

Mr. Lewis reviewed Callan's "Active Management Scorecard" (stoplight report and watch list), which reflects Callan's overall opinion of these managers. Reviewing relative performance and absolute results, Callan believes patience is key. He noted that Loomis Sayles announced a "voluntary separation program" and a few analysts departed. No action is needed.

Mr. Lewis shared that Callan has provided regular updates to Staff on Sands Capital; its overall status is "Cautionary." Mr. Lewis said Sands Capital's performance has begun to improve and needs to continue improving. He commented that a portfolio manager has decided to leave Sands Capital and Callan will watch developments closely. He noted that Sands Capital gained assets during 2022.

Mr. Lewis stated that Sands Capital and Loomis Sayles have concentrated portfolios, which are more subject to volatility.

Mr. Lewis said there are no changes with Wedge Capital; however, Callan will continue to monitor it closely. He mentioned that Wedge Capital has lost assets, though not in the small/mid-cap investment mandate that it manages for SRP.

### **NC 401(k) and NC 457 Plans Investment Design Review**

Ms. Hood presented an Investment Design Review (included in the Board's materials), which is a review of the Plans' investment options. Callan recommends reviewing the investment structure proactively every three years as part of the fiduciary process. Ms. Hood commented that the Plans' investments are well structured, and Callan does not recommend any changes.

Ms. Hood shared that as part of the review, Callan reviewed Plans' participants, compared the Plans' investment options with those offered by peer plans, and looked for opportunities to improve the Plans' investment lineup. The Plans' current investment structure is serving participants well. Participants have sufficient choices, but not too many, which enables participants to diversify without becoming overwhelmed by a multitude of choices.

Ms. Hood noted that approximately 50 percent of assets and 70 percent of participants are in GoalMaker, the Plans' default investment option. The majority of the assets, particularly assets outside of GoalMaker, are with participants over the age of 50. Younger employees are much more likely to invest in GoalMaker.

Ms. Hood shared that as part of good plan design recommendations, Callan considers participant behavior, including inertia and tendency to remain in default investment options, tendency to chase hot-performing funds, and preference for a variety of investment choices. The goal is to enable participants to make good decisions.





She reviewed the Plans' model portfolios with GoalMaker, passive / index options, and actively-managed fund options, stating that all the major asset classes are represented appropriately. In benchmarking the Plans against the Callan DC Index of approximately 100 large defined contribution plans and the Callan DC Trends Survey covering responses from 101 large DC plan sponsors, Callan found that about 90 percent of peers offer both active and passive investment options. Peers offer 14 investment options on average.

Ms. Hood remarked that the Plans offer a streamlined, diversified menu of 11 investment options that allows participants to invest across asset classes and active and passive management styles. Participants are effectively using all the options offered. Callan sees no changes required today to provide a better outcome for participants. The Board may wish to consider further streamlining the investment options in the future by combining the NC Large Cap Core Fund and the NC Small/Mid Cap Core Fund into a single fund.

In response to a question regarding any fee savings from combining U.S. large-cap and small-cap into one option, Ms. Hood noted that fees would effectively be the same. She commented that it would be more of a menu design decision than a cost decision. Mr. Morris noted that it could mean retaining all of the current managers or perhaps considering an all-cap manager, so there could be some slight potential for fee savings, depending on direction. In response to a question, Ms. Hood said that too many investment choices can prevent participants from making any choices.

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

The Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans 4th Quarter 2022 Investment Compliance Summary Report (included in the Board's materials). Mr. Morris said that Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and adherence to state and federal divestment laws. He noted there is nothing material to report for the fourth quarter.

#### **Public Comments**

The Chair shared that he spoke with Ms. Susan Montagne this morning, whose husband Mr. Edmundo Montagne passed away one week ago. He retired after working for the State for many years. Ms. Montagne was grateful for the way she has been treated by State employees as she adjusts to being a widow, and her husband was thankful for his state pension and benefits.

#### **Board of Trustees Comments**

Ms. Baran commented that the SRP Board is the most important Board because they must take care of all of us. She said there is no other board with members acting as fiduciaries within North Carolina government and it takes a special type of person to sit on this Board effectively. She believes the Board should recommend a change to the state statute to remove term limits for Board members and to emphasize long-term service rather than turnover. Mr. Roseland said he appreciated all Ms. Baran does and thanked her for her thoughtful comments. Capt. Shea thanked Staff for their hard work with all preparations for the meeting. Ms. Thomas thanked Ms. Baran for her comments.



**North Carolina**  
Total Retirement Plans



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, May 25, 2023, at 9:00 a.m.

**Adjournment**

The Chair commented that with no further business before the Board, he would entertain a motion to adjourn in honor of Mr. Edmundo Montagne. Mr. Beam so moved, and Ms. Johnson seconded. The motion passed by a unanimous roll call vote of 9-0.

The meeting was adjourned at approximately 11:55 a.m.

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Chair

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Secretary