

DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF SPECIAL MEETING

November 12, 2014

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the “Board”) met at 12 p.m. on Wednesday, November 12, 2014, in the Dawson Conference Room of the Albemarle Building, 325 North Salisbury Street, Raleigh, North Carolina.

Members Present: The following members were present: Treasurer Janet Cowell, Melinda Baran, Karin Cochran, Walter Gray, Michael Lewis, and Ron Stell. Gene Hamilton and Robert Orr attended via telephone.

Staff and Guests present: The following staff and guests attended the meeting. From the Department of State Treasurer: Steve Toole, Mary Buonfiglio, Blake Thomas, Rekha Krishnan, Lisa Page, Mary Laurie Cece, and Maja Moseley. From Mercer: Liana Wagner. From Prudential: Michael McCann, Jessica Quimby, Thomas Conlon, and Kathleen Neville. From TIAA-CREF: Bruce Corcoran attended via telephone.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order at approximately 12:14 p.m. Treasurer Janet Cowell, Chair of the Board, welcomed Board members and guests.

AGENDA ITEM – ETHICS AWARENESS AND IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST

Treasurer Cowell asked Board members to review the agenda for the meeting and identify any actual, implied, or potential conflicts of interest. There were no conflicts identified.

AGENDA ITEM – APPROVAL OF MINUTES

Ms. Baran asked if there were any changes to the minutes of the October 3, 2014 Investment Subcommittee special meeting. There were no changes, and Ms. Baran made a motion to approve the minutes. Mr. Hamilton seconded the motion, and the minutes were unanimously approved.

AGENDA ITEM – APPROVAL OF MINUTES

Ms. Baran asked if there were any changes to the minutes of the October 30, 2014 Investment Subcommittee special meeting. There were no changes, and Ms. Baran made a motion that the minutes be approved. Ms. Cochran seconded the motion, and the minutes were unanimously approved.

AGENDA ITEM – INVESTMENT SUBCOMMITTEE RECOMMENDATION NORTH CAROLINA FIXED-INCOME FUND MANAGER

Ms. Baran stated that the recommendation of the Investment Subcommittee is to replace PIMCO with Prudential as the core opportunistic manager for the NC Fixed-Income Fund. The primary reason for the replacement is the departure of Bill Gross from PIMCO, and subsequent loss of his expertise in managing the Fund. There is also a concern about the future viability of the PIMCO Total Return Fund. Ms. Baran also reminded everyone that since the last Investment Subcommittee meeting, PIMCO experienced a \$78 billion asset outflow.

Ms. Baran made a motion to recommend to the Board that PIMCO be replaced with Prudential as the core opportunistic manager for the North Carolina Fixed-Income Fund. The motion was seconded by Mr. Orr.

Ms. Baran then made an additional motion to adopt the 17bps fee structure offered by Prudential.

Mr. Hamilton requested further clarification regarding the two motions. Ms. Buonfiglio responded that PIMCO is one of two managers in the NC Fixed-Income Fund. The motion aims to replace PIMCO's portion of the fund with Prudential. The Prudential portfolio is a commingled product, and the pricing of 17 bps is a discount compared to the PIMCO price level. In addition, there would be no other investment manager fees.

Mr. Gray asked if any consideration was given to the idea of following Bill Gross to Janus. Ms. Baran explained that Mr. Gross's area of focus at Janus is not the fixed-income sector, and that he is pursuing more aggressive investment opportunities there.

Ms. Magner summarized the search request process at the request of Ms. Buonfiglio. She noted that Mercer conducted a quantitative and qualitative research analysis to determine which of the highly-rated managers would be a good complement to J. P. Morgan, the other manager currently in the NC Fixed-Income Fund. Prudential rose to the top of the candidate list.

Ms. Baran noted that, based on the recent information from Morningstar, reported as of 11/10/2014, Allianz SE retirement series sold all of its PIMCO Total Return fund holdings of approximately \$400 million.

The Treasurer asked if all were in favor of motion one and two. Ms. Baran made the motion to approve both motions, and Mr. Orr seconded. Both motions passed unanimously.

The Treasurer asked about the timing of the transition. Ms. Magner stated that the transition will take place on December 15, 2014.

Ms. Magner added that this is a very good timing for transition, as much of the PIMCO Total Return exposure resides stand-alone mutual fund offerings that do not have the benefit of our custom plan structure. Those plans

have to go through a 30-day fund change notification, and Mercer anticipates further outflows from PIMCO shortly after the first of the year.

AGENDA ITEM - SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS

No additional comments were offered.

AGENDA ITEM – PUBLIC COMMENT

No public comments were offered.

Ms. Baran made a motion to adjourn and Mr. Stell seconded. The motion passed unanimously, and the meeting adjourned at 12: 26 p.m.

Secretary