

MINUTES
BOARD OF TRUSTEES
OF THE
NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS
December 7, 2011, 9:00 am
Dawson Conference Room
Albemarle Building, 325 N. Salisbury Street
Raleigh, NC

The meeting of the Board of Trustees for the Supplemental Retirement Plans was called to order at 9:01 am by the Chair, State Treasurer Janet Cowell.

Members Present

Members present were: Chuck Leedy, Robert Powell, Kathy Crooke, Dexter Perry, Mona Keech, Libby George, Janet Pittard, and Kel Landis.

Members Absent

There were no members absent.

DST Staff Present

Staff members present were: Steve Toole, Greg Beuris, Joan Fontes, Angela Bondar, Jaclyn Goldsmith, Jay Chaudhuri, Sam Watts, Timothy Dale, Julia Vail, and Chris Frazier.

Guests Present

Prudential representatives attending were: Bill Walsh, Travis Swartwood, and Tim Bryan. Mercer representative Jay Love was in attendance.

Conflicts

The Chair asked if there were any actual, potential or appearances of a conflict of interest with any item on the meeting agenda. Steve Toole noted that he had a potential conflict of interest with one of consultants being presented to the Board regarding the 403(b) implementation. At his previous employer, Mr. Toole directly reported to one of the proposed consultants. Due to the prior relationship, he had abstained from participating in the selection process and would not provide input during any discussion regarding the selection of the 403(b) hiring consultant.

Approval of Minutes

Timothy Dale pointed out one modification to the minutes as presented to the Board. In the "Members Present" section, the name of Melinda Baran would be replaced by Kathy Crooke. It was moved by Dexter Perry and seconded by Mona Keech to approve the minutes of the NC Supplemental Retirement Board of Trustees meeting held on September 7, 2011. The motion passed unanimously.

Report from Investment Subcommittee

The Chair recognized Dexter Perry to report on the November 17, 2011 Investment Subcommittee meeting. Mr. Perry stated that the Subcommittee received reports regarding the performance of the investment options sponsored by the Plans. Mr. Perry noted that no major issues were identified with the investment options. Mr. Perry also stated that at the time of the Investment Subcommittee meeting on November 17, 2011, two of the four investment manager additions were completed.

Mr. Perry then stated that the Subcommittee received a recommendation to approve a recent custodial sweep account change from Mercer, and had asked to have Mercer present the topic to the full Board for consideration.

Report from the Legal Subcommittee

The Chair recognized Robert Powell to report on the recommendation to select outside legal counsel for the Plans. Mr. Powell noted that the Subcommittee met twice prior to conducting interviews. The first meeting was held to determine a list of qualifications the Board would need in a legal firm prior to soliciting bids. The second meeting was held to review the semi-finalist responses selected by staff and to select finalist firms for interviews. During the second meeting, the Subcommittee selected Groom Law Group ("Groom") and Womble Carlyle Sandridge & Rice ("Womble Carlyle") as finalists and asked to have the two firms appear for interviews.

At this time Robert Powell motioned and Janet Pittard seconded, to retain Groom Law Group as primary counsel for the Plans focusing on fiduciary and tax issues. The motion also included maintaining the current relationship the Plans had with Womble Carlyle Sandridge & Rice for investment counsel. Womble Carlyle would also be used in the event that negotiations must occur between the Plans and any third party service providers also represented by Groom. Therefore, the Plans would use the specialized expertise areas of both firms to service the Plans. Mr. Powell also noted that the Subcommittee had asked staff to explore alternative fee arrangements to drive costs down.

Mona Keech asked regarding the cost differential between the two firms. Janet Pittard responded that the difference was noticeable but not significantly different. Ms. Pittard also noted that Groom was a very niche firm and better understood issues surrounding public

employee benefit plans. Therefore they would be able to accomplish more per hour than a firm that would have to do a substantial amount of research to understand issues facing the Plans.

Dexter Perry asked if having a dual-firm approach was common and if both firms would be willing to agree to the approach. Jay Chaudhuri stated that for the defined benefit plans, the Department of State Treasurer uses a multi-firm approach for different specialization areas and both Groom and Womble provide counsel to the Department. Chuck Leedy also noted that in his experiences, an employee benefit plan receiving counsel from multiple firms is common.

Mr. Perry also inquired if Groom would be able to assist the Board in the selection process for fiduciary liability insurance. Mr. Chaudhuri responded that Groom is experienced in the field, and would be able to assist the Board in the liability insurance search and review process.

There being no further discussion, the Board voted unanimously to approve the recommendation of the Legal Subcommittee. The Board's selection will remain subject to the approval of the Attorney General's Office and the Department of Administration.

Report from the 403(b) Subcommittee

The Chair recognized Kathy Crooke to report on the recommendation to select the 403(b) hiring consultant that will assist with the solicitation of the 403(b) administrator. Ms. Crooke noted that the Subcommittee met twice prior to conducting interviews. The first meeting was held to determine a list of qualifications the Board would need in a legal firm prior to soliciting bids. The second meeting was held to review the semi-finalist responses selected by staff and to select finalist firms for interviews. During the second meeting, the Subcommittee selected Segal Advisors ("Segal") and SST Benefits Consulting ("SST") as finalists and asked to have the two firms appear for interviews.

At this time it was motioned by Kathy Crooke and seconded by Robert Powell to select SST Benefits Consulting to serve as the hiring consultant for the 403(b) administrator.

The Subcommittee noted that Segal appeared stronger on investment research and analysis, but SST appeared much stronger in regards to plan design due to their previous experience with CalSTRS and LA Unified School District.

Chuck Leedy asked about the difference in fee proposals. Mr. Dale responded that Segal had proposed a fee of \$75,000 and SST proposed a fee of \$45,500. Mr. Perry reminded the Board that the selection of the consultant was for a one-time project only, and would not replace any existing consultant relationship nor be a continuing agreement past the completion of the project.

There being no further discussion, the Board voted unanimously to approve the recommendation of the 403(b) Subcommittee. The Board's selection will remain subject to the approval of the Department of Administration and the Governor's Office.

Investment Performance Report

The Chair recognized Jay Love from Mercer Investment Consulting to report on the economic overview and investment activity from the 3rd Quarter of 2011.

Mr. Love noted the following from the 3rd Quarter:

- Inflation is trending upwards;
- Unemployment is decreasing, but is not helping economy since decrease is mainly attributable to discouraged unemployed;
- The Eurozone debt issues continue to be worrisome;
- Treasury yields dropped due to the flattening of the yield curve; and,
- Equities across the market spectrum all suffered major losses during the 3rd Quarter.

Mr. Love also stated that three of the four investment managers had been added to the investment lineup. Robeco, Neuberger Berman, and WEDGE Capital were added to the Large Cap Value, Large Cap Growth, and SMid Cap Value funds; respectively. He stated that contract negotiations between staff and Arrowstreet Capital were ongoing but the last manager should be added to the Global equity fund soon.

Mr. Love pointed out the significant underperformance of the Wellington Opportunistic strategy in the Large Cap Growth fund during the quarter, bringing down the overall performance of the strategy over longer time periods. Mr. Love noted that the strategy has started rebounding following the close of the 3rd Quarter, and the addition of Neuberger Berman should help limit future downside risk of the investment option.

Kel Landis asked if Mercer could build a custom benchmark for the GoalMaker portfolios sponsored by the Plans so the Board could more easily track the performance of the asset allocation tool. Mr. Love stated that a custom benchmark could be built, and that they would try to develop an appropriate custom benchmark for the tool.

It was moved by Chuck Leedy and seconded by Kel Landis to accept the report from Mercer. The motion passed unanimously.

Custodial Cash and Sweep Account Change

Mr. Love continued his presentation by reporting on the custodial sweep account change. He stated that due to the ongoing uncertainty regarding the Eurozone debt issues, Mercer had recommended that the Plans change the sweep account used by the custodian, State Street, to a sweep account backed solely by U.S. government debt. Previously, the sweep account was invested in a short term investment fund backed by various debt, including some Eurozone exposure. Due to the increased risk of a Eurozone default that would disrupt

participant cash flows, Mercer recommended, and staff acted, to change the sweep account to the U.S. government backed sweep account.

It was moved by Libby George and seconded by Chuck Leedy to approve the sweep account transfer. The motion passed unanimously.

Investment Policy Statement Update

Mr. Love presented a modified portion of the Investment Policy Statement that replaced vendor specific name "Galliard" with "Stable Value Fund manager." The change was made to make the Investment Policy Statement applicable if Galliard were replaced in the future.

It was moved by Mona Keech and seconded by Robert Powell to approve the Investment Policy Statement Update. The motion passed unanimously.

Corporate Governance and Proxy Voting Guidelines

The Chair recognized Bob McCormick from Glass Lewis to present an informative report on corporate governance and proxy voting issues facing trustees in 2012. Mr. McCormick noted the following in his presentation:

- Since voting proxies can effect shareholder compensation, it is viewed as a fiduciary activity;
- Currently, the Department and the Plans adopt Glass Lewis' stance on corporate governance issues, and allow Glass Lewis to vote proxies on their behalf;
- Shareholder say-on-pay for corporate executives will continue to be a top issue;
- Glass Lewis prefers having a governing Board that is at least 2/3 independent and pay unrelated to position at company;
- Glass Lewis prefers that the governing Board Chair and the CEO of the company be separated; and,
- Due to the recent Citizens United v. Federal Election Commission case, there is an increased need of political contribution disclosure.

Staff noted that the Board did not have the proposed proxy voting guidelines in their possession at the meeting, therefore the guidelines could be voted on in a future meeting.

The Chair thanked Mr. McCormick for his presentation.

Administrative Updates

The Chair recognized Tim Bryan from Prudential to provide a 3rd Quarter administrative report. Mr. Bryan noted the following:

- Employers continued to reinstate suspended matches and some employers increased contributions;
- Disbursements were trending upwards due to poor economic conditions and an aging workforce;
- Membership continues to grow in both plans;
- Substantial growth continued in the 457 plan, and soon the 457 enrollments will surpass 401(k) enrollments; and,
- The number of participants using GoalMaker continue to grow, with over \$2 Billion invested using the asset allocation tool.

At this time, Mona Keech left the meeting.

Dexter Perry asked if any members had started taking advantage of the grace period recently granted to allow members to continue paying off outstanding loans post-termination. Mr. Bryan stated that they have had a few participants use the repayment option and the number of participants using the option was increasing.

It was moved by Kel Landis and seconded by Chuck Leedy to accept the report. The motion passed unanimously.

The Chair thanked Mr. Bryan for his report. At this time, Kel Landis left the meeting.

Budget Update

The Chair recognized Timothy Dale to provide an update on the administrative budget approved by the Board for Fiscal Year 2012. Mr. Dale noted that yearly expenditures were on track to be at, or below budget for the 2012 fiscal year. Maintenance, supplies, and miscellaneous contractual services were slightly over budget. The increase was due to building improvement costs spread to every division in the building, increased supply costs for meeting binders, and an invoice from Segal Advisors for fiduciary liability insurance report performed in Fiscal Year 2011 that was not invoiced until the 2012 Fiscal Year.

Mr. Leedy asked why the audit expenses were so much lower than projected. Mr. Dale replied that typically, the audit invoices are paid in three invoices. The first invoice is typically the largest, and it was paid in the 2011 Fiscal Year.

NC 403(b) Update

Mr. Toole was then recognized to provide an update on the implementation progress of the NC 403(b) Plan. Mr. Toole stated that staff had been engaging with legislators and industry representatives to relieve concerns about externalities upon implementation of the new 403(b) plan. He noted that the Department released a one-page fact sheet with a commonly asked question and answer section and a section displaying the effect of fees on

retirement savings. The one-page document was sent to all legislators, related association groups, school finance officers, and school superintendents.

Mr. Toole stated that once the consultant is hired, the Department will move forward with the solicitation process for the 403(b) administrator.

Planning for 401(k)/457 Third Party Administrator Search

Mr. Toole continued his presentation by laying out steps and a rough timeline necessary to conduct the Request for Proposal ("RFP") process for the 401(k) and 457 Third Party Administrator. The contract with Prudential expires on December 17, 2013; and in order to solicit a consultant and obtain necessary approvals, the Board and staff will have to begin work in mid-late 2012.

Mr. Toole also expressed a desire to conduct a survey of participants and employers to see what types of services they want to include in the RFP. The Board agreed that a survey would be beneficial in determining what services members and employers would like to have available. Mr. Toole stated that to do a thorough, comprehensive survey, staff may need some appropriated funds to acquire assistance. The Board inquired regarding how much these types of surveys typically cost. Bill Walsh stated that when the Plans conducted their last survey, it cost less than \$40,000 and prices have continued to fall since the last survey. Mr. Perry stated that having the survey results in prior to the June 2012 meeting of the Board would be beneficial so experienced Board members who have terms expiring can provide input into the RFP process.

It was moved by Robert Powell and seconded by Janet Pittard to approve the survey and to appropriate up to \$25,000 to cover any expenses. The motion passed unanimously.

Deputy Director Position Update

Mr. Toole informed the Board that the new position had obtained all necessary approvals and could now be posted. Mr. Toole stated that the position would be advertised in all major related publications and a large search would be held to try to find the ideal candidate.

NAGDCA Conference Report-Out

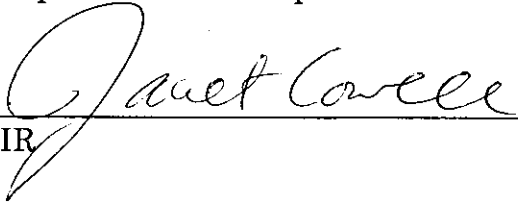
Mr. Toole stated that the 2011 NAGDCA Conference was a beneficial experience where he, Dexter Perry, and Timothy Dale were able to listen to presentations from renowned industry experts on issues facing public defined contribution plans. He noted that speakers presented on recent and upcoming changes to legislation, fee disclosure guidelines, fiduciary responsibilities, and the internal revenue code. He noted that compared to peers, the NC Supplemental Retirement Plans remain ahead of the industry in terms of size and plan design.

2012 Meeting Dates

Mr. Toole pointed the Board members to the meeting dates set for 2012. No Board members expressed any issues with any of the dates.

Adjournment

There being no further business, it was moved by Dexter Perry and seconded by Janet Pittard to adjourn the meeting at 12:19 p.m. The motion passed unanimously.


CHAIR