

MINUTES
BOARD OF TRUSTEES
OF THE
NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS
June 6, 2012, 9:00 a.m.
Dawson Conference Room
Albemarle Building, 325 N. Salisbury Street
Raleigh, NC

The meeting of the Board of Trustees for the Supplemental Retirement Plans Board of Trustees was called to order at 9:07 a.m. by the Acting Chair, Melissa Waller, Chief of Staff for the North Carolina Department of State Treasurer.

Members Present

Members present were: Chuck Leedy, Robert Powell, Kathy Crooke, Dexter Perry, Libby George, and Mona Keech. Janet Pittard joined by phone. Ms. Pittard indicated that upon the event of her separation from the meeting, Dexter Perry would be delegated her proxy vote.

Members Absent

There were no members absent.

DST Staff Present

Staff members present were: Steve Toole, Arlene Jones-McCalla, Joan Fontes, Antwan Thornton, Hunter Newton, Jaclyn Goldsmith, Blake Thomas, Jay Chaudhuri, Timothy Dale, Mary Buonfiglio, and Julia Vail.

Guests Present

Prudential representatives attending were: Bill Walsh, Travis Swartwood, Tammy Lewert, Tim Bryan, and Jodie Musselwhite. Mercer representatives Jay Love and Kelly Henson, Plan member Robert Slade, and Nationwide representative Carlos Greene were also in attendance. Ian Lanoff from Groom Law Group joined via phone.

Introduction of Deputy Director

The Chair began by introducing the Department's new Deputy Director of Supplemental Retirement Plans, Mary Buonfiglio, who will be the lead

administrator for all issues relating to the Plans. The Chair also introduced Antwan Thornton, who was completing a summer internship with the Supplemental Retirement Plans' staff.

Conflicts

Blake Thomas, Assistant General Counsel, reviewed the purpose of the declaration of conflicts and indicated that he would highlight this issue from time to time over the course of the meeting. The Chair asked if there were any actual, potential or apparent conflicts of interest concerning any item on the meeting agenda. No conflicts were reported.

Approval of Minutes

It was moved by Robert Powell and seconded by Kathy Crooke to approve the minutes of the Supplemental Retirement Board of Trustees meeting held on March 7, 2012. The motion passed unanimously.

Approval of Investment Subcommittee Minutes

The Chair recognized that the previous Investment Subcommittee meeting did not have enough Subcommittee members present to establish a clear quorum. Therefore, the Investment Subcommittee Chair, Dexter Perry, wished to have the minutes approved during the full Board meeting. Mr. Perry thanked the Chair and asked the Investment Subcommittee members to review the draft minutes presented at the May 16, 2012 Investment Subcommittee meeting.

It was moved by Libby George and seconded by Chuck Leedy to approve the draft Investment Subcommittee minutes. The motion passed unanimously.

Report from Investment Subcommittee

The Chair recognized Dexter Perry to report on the May 16, 2012 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 discussed additional information provided by Galliard regarding their proposed changes to the managers and wrap providers in the Stable Value Fund. However, the Subcommittee remained concerned that the proposed new managers and wrap providers would result in higher fees paid by Stable Value Fund participants. The Subcommittee asked for further analysis of the proposed changes' effect on the fund's overall risk and performance projections.

Ms. Keech asked what impact the proposed changes would have to the Great West portion of the Stable Value Fund. Mr. Perry responded that the changes would reduce their allocation from 23 percent to around 15 percent. He noted that the change was proposed by Galliard not as a result of poor performance, but instead as a means to add diversification among wrap providers.

He also noted that the Subcommittee directed Galliard to change the Short Term Investment Fund at Wells Fargo to a government-only fund, as recommended by the Board in a previous meeting. This change was made to help insulate any transaction disruptions as a result of the volatility in the European economic region.

Mr. Perry then summarized the Subcommittee's discussion of the continued growth of Apple Inc. as a percentage of plan holdings and its concentration in the Plans' Large Cap Growth portfolios. The Subcommittee recommended that the Investment Policy Statement be modified to better manage growth in Apple Inc. holdings. The Subcommittee's proposed Investment Policy Statement modifications would be discussed later in the full Board of Trustees' meeting.

Mr. Perry asked that the full Board of Trustees also take up later in the meeting another issue discussed at the previous Investment Subcommittee meeting, the topic of active management versus passive management of GoalMaker allocations. Mr. Perry discussed that an analysis received by the Subcommittee from Mercer regarding the question of active management versus passive management in the GoalMaker allocations. Mr. Perry stated that the Subcommittee recommends that the Board approve the allocation changes, but delay implementation until all debated GoalMaker changes can be implemented simultaneously. This discussion topic was added to the day's agenda for the Board of Trustees, placed before the ninth item.

He noted that the Subcommittee received additional information from Mercer regarding potential inflation-sensitive investment options. The Subcommittee delayed making a recommendation to the Board until further review is completed on the option.

Mr. Perry also noted that the Morningstar analysis of GoalMaker allocations would not be completed until 2013; therefore, the Subcommittee asked Mercer to proceed with the planned glide path review of the GoalMaker allocations. Mr. Perry reiterated that recommended changes would be delayed until later in the year so all GoalMaker changes can be implemented simultaneously.

403(b) Subcommittee Report

The Chair recognized Libby George to provide an update to the Board on the NC 403(b) program's progress.

Ms. George noted the following:

- The Subcommittee participated in a conference call on April 25, 2012 to discuss the draft 403(b) Invitation to Bid (“ITB”);
- The Subcommittee provided guidance to staff and the consultants on ITB language, scoring process, and performance standards; and,
- The ITB was released on May 25, 2012, with responses due July 11, 2012.

Supplemental Cost Allocation Plan Report

The Chair recognized Robert Powell to provide a recommendation from the Cost Allocation Plan Subcommittee formed at the March 7, 2012 meeting of the Board.

Mr. Powell stated that the Subcommittee held a conference call on April 25, 2012 to discuss the allocations detailed in the Cost Allocation Plan presented at the previous Board meeting. Following this meeting, the Subcommittee and staff agreed to the following allocations:

- Retirement Systems Director - 20 percent
- Chief Investment Officer - 0 percent*
- Global Equity Director - 5 percent
- Portfolio Manager - 5 percent
- Deputy Director of Communications - 10 percent
- Assistant General Counsel - 10 percent
- Chief Financial Officer - 5 percent
- Deputy Director, Accounting - 10 percent
- Accounting Supervisor - 15 percent

**Note: In the meeting materials the Chief Investment Officer was mistakenly listed as receiving a 5 percent allocation. Clarification of the allocation of 0 percent was communicated to the Board following the meeting.*

Mr. Powell reiterated that the allocations would more accurately reflect the services provided by Departmental staff and would not constitute any salary increases. The funds appropriated from the Plans would offset administrative expense receipts collected from the defined benefit pension plans.

If approved by the Board, the plan would go into effect on July 1, 2012. It was moved by Robert Powell and seconded by Chuck Leedy to approve the revised Cost Allocation Plan. The motion passed unanimously.

1st Quarter 2012 Investment Performance Review

The Chair then recognized Jay Love to provide a performance review of the Plans' investment options from the first quarter of 2012. Blake Thomas reminded the Board that anyone with an actual or potential conflict of interest should indicate the conflict to the Board. No conflicts were reported.

Mr. Love noted the following:

- GDP continued to grow at a modest 2.2 percent annualized rate;
- Equities provided strong returns for the quarter;
- Fixed income performance was less favorable as investors rushed to equities;
- Investment management fees remain low when compared to competitors;
- Rabobank was looking to sell Robeco Investment Management to secure capital needs of the bank;
- Arrowstreet was added as the second manager in the Global Equity fund; and
- There are no concerns or performance issues identified with any of the options or fund managers.

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

Investment Policy Statement Update

The Chair then recognized Mr. Love to discuss proposed Investment Policy Statement amendments provided by Mercer.

Mr. Love noted that in response to the Investment Subcommittee's concern surrounding the continued growth of Apple Inc. holdings in the Large Cap Growth fund, the Subcommittee had agreed to implement a new investment guideline for equity managers. Because of Apple's outstanding stock appreciation, Apple now makes up an unusually large percentage of many benchmarks; it was as high as 9% of the relevant benchmark at the end of the first quarter of 2012. Mr. Perry stated that the Investment Subcommittee agreed with the recommended changes to the Investment Policy Statement, but indicated concern that violations of the previous guidelines were not identified. Mr. Love stated that no managers were in violation of the current Large Cap Growth Fund guidelines.

Mr. Perry then questioned whether or not there were any reporting mechanisms currently in place at the investment manager level that would trigger an alert to the custodian or to the Board of Trustees when there was a violation of guidelines.

Mr. Love described the new proposed Investment Policy Statement guidelines. The new guideline would limit individual company holdings in each

investment manager's portfolio to the greater of 5.0% percent of the total account or the weight of the security in the stated benchmark plus 2.5%, up to an absolute limit of 10.0% at market value.

Mr. Perry noted his concerns about the proposed 2.5% margin above or below the benchmark. Ms. Buonfiglio asked for specificity concerning whether that 2.5% margin was an absolute measure. Mr. Leedy noted that the 2.5% would have to be absolute. Mr. Perry noted that he had looked into the Large Cap Growth and Large Cap Value Equity Fund guidelines contained within the current Investment Policy Statement, and had found that the term allowing a 2.5% excess was not present. Ms. George confirmed this to be the case. The then-current Investment Policy Statement for the Large Cap funds stated, "No more than 5% of the portfolio should be invested in any one company (valued at market)."

Ms. Jones-McCalla noted that the investment managers manage their portfolios based upon their respective investment management agreements and not the Investment Policy Statement. Mr. Love said that since the Investment Policy Statement was created after the execution of the Plans' investment management agreements, the guidelines detailed in the Investment Policy Statement had not been incorporated into the existing investment management agreements. Mr. Love stated that he had talked with Prudential to make sure that, going forward, guidelines for all investment management agreements would be updated and would be made consistent.

Mr. Leedy questioned why investment management agreements would not be identical to the Board of Trustees' Investment Policy Statement. Ms. George agreed.

At this point in the discussion, Ms. Pittard's phone lost signal, and she was unable to participate in the remaining portion of the meeting.

Mr. Love discussed the events that would occur were a stock to appreciate and, as a result, exceed the limit in the guidelines. Mr. Love noted that Mercer did not provide exceptions to the Investment Policy Statement.

It was moved by Robert Powell and seconded by Chuck Leedy to approve the revised Investment Policy Statement. The motion passed unanimously.

The Board of Trustees directed that the Plans' investment management agreements be reviewed for compliance with the Investment Policy Statement and updated in accordance with the newly adopted revised Investment Policy Statement language.

Active versus Passive Management of GoalMaker Allocations

At this time the Chair again recognized Mr. Love to discuss active versus passively managed GoalMaker portfolios.

Mr. Love noted that in the previous Investment Subcommittee meeting, Mercer presented an analysis of expected additional yield from active management compared to the additional fee incurred by active management. Mr. Love noted that the cost-benefit analysis showed that active management benefitted all portfolios, especially the SMid Cap, International, and Global Equity portfolios. Therefore, Mercer recommends that the Board maintain the current balance between passive and active management in the Fixed Income and Large Cap Equity portfolios. However, the Plans should benefit by changing the GoalMaker allocations to only active management in the SMid Cap, International, and Global Equity portfolios.

Mr. Perry noted that he was comfortable moving forward with the recommended transition to active management. However, Mr. Perry reiterated that implementation should be delayed until later in the year so that all contemplated GoalMaker changes can be implemented at the same time to avoid participant confusion.

It was moved by Robert Powell and seconded by Dexter Perry to approve the revisions to the active versus passive management allocations in the GoalMaker portfolios with a delayed implementation date. The motion passed unanimously.

Administrative Updates

The Chair recognized Tim Bryan from Prudential to provide a 1st Quarter administrative report. Mr. Bryan noted the following:

- Limited hiring in state and local governments is making new enrollments difficult;
- Employer contributions are up compared to the previous year;
- The number of new loans initiated is decreasing;
- The number of participants using GoalMaker continues to grow; and,
- Contributions and distributions have increased compared to the previous year.

It was moved to accept the report. The motion passed unanimously.

Third Party Administrator Marketing Plan

The Chair again recognized Tim Bryan from Prudential to present Prudential's annual marketing plan. Mr. Bryan noted the following:

- There has been strong growth in both Plans since Prudential was awarded the contract;
- Annual contributions in 2003 were \$200 million, while current annual contributions were around \$430 million; and,
- Prudential continues to develop and improve the Annual Benefits Statement.

Mr. Bryan also presented numerous communication and educational brochures that are currently available for local employers across the state.

2013 Fiscal Year Administrative Budgets

The Chair then recognized Mary Buonfiglio to present the Administrative Budgets for the Plans' upcoming fiscal year.

Ms. Buonfiglio noted the following regarding the administrative budgets:

- Salaries and benefits were allocated 80 percent to the 401(k) and 20 percent to the 457 to more closely match the ratio of total plan assets;
- The budgets incorporated the changes presented in the Cost Allocation Plan;
- The administrative fee remains at 2.5 basis points; and,
- Projected revenues remain relatively flat from 2012, but still exceed expenditures.

Ms. Crooke asked how much longer staff anticipated the administrative fund balance to grow as a surplus was projected to increase the already substantial fund balance. Ms. Buonfiglio stated that staff had not proposed changes at this point because the Board had previously expressed interest in securing a fiduciary liability insurance program. That insurance program, which was on track to be presented in an upcoming Board meeting, could require use of a portion of the outstanding administrative fund balance. Ms. Buonfiglio staff would also propose other solutions to reduce the level of the administrative fund's balance.

It was moved by Robert Powell and seconded by Dexter Perry to approve the 2013 administrative budgets. The motion passed unanimously.

2013 Subcommittee Appointments

Ms. Buonfiglio then identified the two Subcommittees of the Board that meet on a regular basis and the existing vacancies resulting from Board member

turnover. She thanked the Board members for their continued service on these Subcommittees and recognized the time and effort dedicated to the Plans.

Kathy Crooke and Libby George volunteered to serve on the Audit Subcommittee and Mona Keech volunteered to serve on the Investment Subcommittee.

It was moved by Robert Powell and seconded by Chuck Leedy to approve the Subcommittee appointments. The motion passed unanimously.

2012 Employer Survey

At this point Ms. Buonfiglio presented the findings from the employer survey conducted by staff. The survey results highlighted the following:

- Employers are generally satisfied with investment options, communication, and plan design;
- Employers are pleased with Prudential's services;
- Opportunities may exist to better utilize new communication methods; and,
- Employers are skeptical regarding fee-supported investment advice and auto-enrollment.

Legal Counsel Discussion

Blake Thomas noted that the Board had asked for a flat-rate fee for a fiduciary training exercise for Board members and related staff. Mr. Thomas noted that Groom Law Group had submitted a \$9,250 fee proposal for a one-day fiduciary training program, and this price was competitive compared to other options.

Blake Thomas stated that at a previous meeting the Board had approved retaining Groom Law Group to provide counsel on fiduciary, regulatory, and tax issues. He noted that the Board's intent was to have the firm present during all Board and Subcommittee meetings. However, the fee proposals from the firm were higher than anticipated. He advised the Board to participate in the fiduciary training program before determining how often to have Groom attorneys present at meetings.

It was moved by Libby George and seconded by Chuck Leedy to approve the fiduciary training session to be scheduled at a later date. The motion passed unanimously.

Third Party Administrator Contract Extension

The Chair then recognized Steve Toole to discuss the two one-year contract extensions available to the Board for the existing third party administrator. At this time, Mr. Thomas reminded the Board to identify any actual or potential conflicts of interest.

Mr. Toole reminded the Board of the timeline necessary to successfully transition the Plans' third party administrator. With the existing contract scheduled to expire in December 2013, the Board needed to make a decision regarding whether or not to award the contract extensions to Prudential.

Mr. Toole stated that generally, staff were pleased with the support and progress made under the administration of Prudential. He also noted that Prudential had offered fee reductions from the existing 10.5 basis points to 9.6 basis points from October 1, 2012. Further fee reduction to 7.9 basis points would be implemented in the contract extension years beginning January 1, 2014.

The Board expressed its appreciation for the services provided by Prudential and their willingness to lower their fees to continue the relationship.

It was moved by Robert Powell and seconded by Kathy Crooke to begin the contract renewal process to award both one-year contract extensions to Prudential Retirement.

Ms. Crooke's schedule required her to leave the meeting after this vote, and she was unable to participate in the remaining portion of the meeting.

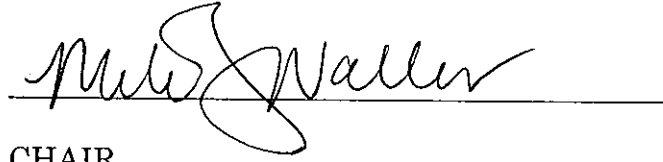
Director's Report

Mr. Toole provided updates to the Board regarding general administrative updates pertaining to the Plans. He noted the following:

- The Supplemental Retirement Plans' organizational chart has been updated to include new employees and contact information;
- Statistics on the number of members electing the Transfer Benefit;
- Progress continues to be made pursuing fiduciary liability insurance; and,
- The Annual Benefits Statement was released in late May.

Adjournment

There being no further business, it was moved by Dexter Perry and seconded by Robert Powell to adjourn the meeting at 12:17 p.m. The motion passed unanimously.

A handwritten signature in black ink, appearing to read "Mike S. Waller", is written over a horizontal line.

CHAIR