

MINUTES
BOARD OF TRUSTEES
OF THE
NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS
March 7, 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 was called to order at 9:01 a.m. by the Acting Chair, Melissa Waller.

Members Present

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

Members Absent

Mona Keech was not in attendance.

DST Staff Present

Staff members present were: Steve Toole, Greg Beuris, Joan Fontes, Fran Lawrence, Jaclyn Goldsmith, Blake Thomas, Jay Chaudhuri, Timothy Dale, Julia Vail, and Anthony Solari.

Guests Present

Prudential representatives attending were: Bill Walsh, Travis Swartwood, Tammy Lewert, and Tim Bryan. Mercer representative Jay Love, Plan member Robert Slade, and General Assembly representatives Anthony Greco and Andrew Henson were in attendance. SST Benefits Consulting representatives Bill Tugaw, Scott Dauenhauer, and Barbara Healy were also in attendance.

Introduction of Assistant General Counsel

The Chair began by introducing the Department's new Assistant General Counsel, Blake Thomas, who will be providing day-to-day guidance on legal issues pertaining to the Supplemental Retirement Plans.

Conflicts

The Chair asked if there were any actual, potential or appearances of a conflict of interest with any item on the meeting agenda. No conflicts were reported.

Approval of Minutes

Kathy Crooke 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 Janet Pittard and seconded by Robert Powell to approve the minutes of the NC Supplemental Retirement Board of Trustees meeting held on December 7, 2011 with this change. The motion passed unanimously.

Resolution of Recognition

The Board moved on a resolution to express deep appreciation and gratitude for the service of Kel Landis on the Supplemental Retirement Board of Trustees. Mr. Landis's dedication to promoting the maximum benefit for plan members, and his service on the Investment Subcommittee, were recognized by the Board as being instrumental to the Supplemental Plans' success. It was moved by Robert Powell and seconded by Dexter Perry to pass the resolution acknowledging the Board's appreciation for Mr. Landis' service. The motion passed unanimously.

Report from Investment Subcommittee

The Chair recognized Dexter Perry to report on the February 15, 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 stated that Mercer's Annual Review provided recommendations and accompanying reports regarding:

- Active v. Passive GoalMaker asset allocations;
- New inflation sensitive investment option;
- SMid Growth manager diversification; and,
- A review of the investment operations and foreign exchange transactions from the custodian.

He stated that the Subcommittee was comfortable proceeding with the recommendations made by Mercer, with the exception of the custodial and transaction costs review. Mr. Perry noted that staff and the Subcommittee determined that the review would be more effective if postponed until a later date.

Mr. Perry then noted that Galliard recommended changes to the Stable Value Fund. Mr. Perry stated that the Subcommittee asked for more information regarding the investment manager changes contained in Galliard's recommendation.

Investment Performance Report

The Chair recognized Jay Love from Mercer Investment Consulting to report on the economic overview and investment activity from the 4th Quarter of 2011.

Mr. Love noted the following from the 4th Quarter:

- U.S. GDP is approximately 2.8%;
- Year-over-year inflation is around 3%;
- Federal Reserve rate remains unchanged in the 0-0.25% range;
- Unemployment is currently at 8.5%; and,
- Equities performed better over the quarter, but small cap and international equities were still negative for the year.

Mr. Love noted that there were no issues with the investment options or the underlying managers.

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

2012 Annual Plan Review Summary

Mr. Love then presented highlights from the 2012 Plan Review.

Custodial/Transaction Costs and Foreign Exchange Review

Mr. Love presented another recommendation originating from the annual review. From time to time, Plans can benefit from reviewing the costs that are not explicitly seen by participants. Expenses like custodian fees and investment transaction costs can be lowered by comparing to other options available in the marketplace. He also recommended a review of foreign exchange transactions in light of recent press findings that custodian banks may not seek out the best interest of their clients in the execution of foreign exchange trades.

Inflation Sensitive Investment Option

The last recommendation presented by Mercer was the pursuit of a new inflation hedging investment option. Mr. Love noted that interest rates were projected to rise into the foreseeable future, and no one asset class provides perfect inflation hedging capabilities. Therefore, a portfolio of investment classes that typically serve as a good hedge against inflation would provide a best-in-class approach to protecting participants against inflation.

GoalMaker Asset Allocations

Mr. Love stated that when the GoalMaker allocations were being designed, the allocations were set up so that each investment option would be roughly one-half active and one-half passive management. He stated that this was a rather simplistic way to split the management for each investment option, and further analysis could be performed to determine the ideal split. Mr. Love stated that typically, passive management is preferred in fixed income and large cap equities, while active management should outperform in small cap and international equities.

Mr. Love also noted that the GoalMaker glide paths are somewhat different when compared to the target-date fund universe and may also benefit from some modifications.

SMid Cap Growth

Mr. Love stated that the Board had previously reviewed the SMid Cap Growth investment to determine if the option would benefit from the addition of a new manager. He then noted that after further analysis and review, Mercer recommends that no action be taken to add or remove any manager to or from the SMid Cap Growth Option.

Corporate Governance and Proxy Voting Guidelines

The Chair recognized Jay Chaudhuri to present the draft proxy voting policy for the Board's review. Mr. Chaudhuri reminded the Board of the corporate governance discussion heard at the previous meeting and noted that the policy incorporates recommendations presented by Glass Lewis at that meeting. Mr. Chaudhuri noted the following regarding proxy voting and the draft policy presented to the Board:

- The Department of Labor considers proxy voting a fiduciary activity and has declared that proxy votes have value;
- The Department and the Plans adopt Glass Lewis' stance on corporate governance issues, and allow Glass Lewis to vote proxies on their behalf; and,
- On page 2 of the draft the word "will" in the first paragraph should be changed to "may".

Mr. Perry asked if the Plans were large enough to hold the number of shares necessary to influence corporate policy. Mr. Chaudhuri stated that alone the Plans would not likely have significant influence. However, if the Plans partner with the pension plans in North Carolina and other statewide retirement plans across the country, they are able to exert some force.

It was moved by Robert Powell and seconded by Janet Pittard to adopt the proxy voting policy. The motion passed unanimously.

Administrative Updates

The Chair recognized Tim Bryan from Prudential to provide a 4th Quarter administrative report. Mr. Bryan noted the following:

- 401(k) contribution levels are below 2010 levels;
- Membership continues to grow in both plans;
- The number of participants using GoalMaker continues to grow; and,
- The number of loans are decreasing.

It was moved by Dexter Perry and seconded by Janet Pittard to accept the report. The motion passed unanimously.

Cost Allocation Plan

Steve Toole was then recognized to discuss the proposed cost allocation plan for the Plans. Mr. Toole noted that there are a number of people working in the Department of State Treasurer who contribute a significant portion of their time working on the Plans. However, most of these people are not financially supported by the Plans. Mr. Toole noted that currently, the defined benefit plans are in effect subsidizing the work needed to fulfill the administrative necessities of the Plans. Mr. Toole noted the report containing a list of all staff currently supporting the Plans. In the report, an estimate of the time dedicated to the Plans and the associated costs were provided to the Board.

Mr. Toole clarified that the individuals listed in the report would not be receiving any additional compensation. The administrative expense charged to the pension plans would be reduced as a result.

Mr. Powell noted that he needed additional time to review the allocations contained in the document and asked that a Subcommittee be formed to further study the recommendations. The Board was agreeable to this approach.

It was moved by Robert Powell and seconded by Dexter Perry to form a Subcommittee to further examine the Cost Allocation Plan. Kathy Crooke, Janet Pittard, and Robert Powell volunteered to serve on the Subcommittee. The motion passed unanimously.

NC 403(b) Update

SST Benefits Consulting was then recognized to provide an update on the 403(b) vendor solicitation process. SST representatives noted the following:

- A new investment lineup would need to be created since 403(b)s require mutual funds and annuities;
- A town hall would be held for vendors on March 9, 2012 where vendors could voice concerns regarding the Plan; and,
- A tele-town hall would be held for educators later in March where teachers could learn more about the Plan.

Mr. Toole asked that a 403(b) Subcommittee be formed that would review and provide input on the solicitation document before it was released.

It was moved by Janet Pittard and seconded by Kathy Crooke to create a 403(b) Subcommittee that would assist with the evaluation process to select the 403(b) vendor. Libby George, Chuck Leedy, and Robert Powell volunteered to serve on the Subcommittee. The motion passed unanimously.

SST Benefits then gave the Board a target timeline for vendor response review, selection, and implementation.

Adjournment

There being no further business, it was moved by Dexter Perry and seconded by Janet Pittard to adjourn the meeting at 12:02 p.m. The motion passed unanimously.


CHAIR