



**North Carolina**  
Total Retirement Plans  
**401k | 457 | 403b**



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

**DRAFT**

**MINUTES**

**INVESTMENT SUBCOMMITTEE OF THE SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

The regular quarterly meeting of the Supplemental Retirement Investment Subcommittee was called to order at 9:00 a.m., November 14, 2018, by the Acting Chair, Melinda Baran. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Acting Chair indicated there would be a public comment period for organizations and individuals to address the subcommittee later in the agenda.

**Members Present**

The subcommittee members present were: Melinda Baran and Heyward McKinney.

**Members Absent**

Treasurer Dale R. Folwell, CPA. Chris Farr, Treasurer's delegate, was in attendance.

**Guests Present**

The guests attending were: Carrie Callahan and Billy Weber from Galliard; Will Dillard and Kelly Henson from Mercer; Michael McCann from Prudential; Ann Cashman, Mary Conti and Jessica Quimby from Prudential (by telephone).

**Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio, Reid Chisholm, Patti Hali, Rekha Krishnan, Loren de Mey, April Morris, Maja Moseley and Steve Toole.

**Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest**

The Acting Chair asked, pursuant to the ethics rules, about conflicts of interest of subcommittee members. No conflicts of interest were identified by the subcommittee members.

**Minutes from August 23, 2018, Supplemental Investment Subcommittee Meeting**

The minutes were approved during the Supplemental Retirement Board meeting on September 20, 2018, and were attached for reference.

**NC Stable Value Portfolio Review**

The Acting Chair recognized Ms. Callahan and Mr. Weber from Galliard. Mr. Weber presented the company update and detailed information regarding the NC Stable Value Fund's performance, quality and cash flow for the third quarter. He emphasized the asset-based fee annual savings after the completion of GoalMaker transition and the fund structure simplification. He also presented Galliard's forward-looking, 12-month analysis of the potential impact of rising interest rates on the fund's crediting rate and market-to-book ratio. Subcommittee members and staff discussed the fund's market-to-book ratio performance under the assumptions of significant asset outflows and rapidly rising rates. Ms. Callahan noted the importance of insurance providers' commitment to the industry and Galliard's commitment to the fund in a volatile market environment.

## **Investment Updates**

The Acting Chair recognized Ms. de Mey who confirmed that all managers in the NC 401(k) and NC 457 Plans were adhering to their respective guidelines and none of the restricted holdings listed in applicable divestment policies were held in the plans' portfolio. She also noted that following the NC Small/Mid Cap Fund manager transition, the portfolio guidelines for TimesSquare have been removed from the monitoring system. Ms. de Mey provided a detailed update of the transition from TimesSquare to the BlackRock Russell 2500 Index Fund with respect to overall transition costs.

Ms. de Mey also summarized a manager transition from PIMCO Inflation Sensitive Fund to BlackRock Strategic Completion Non-Lendable Fund, which was completed on November 1, 2018, without the need for a transition manager, in the NC 401(k) and 457 Plans. She added that the NC 403(b) Program will also complete the transition on November 30, 2018, from PIMCO to Principal Diversified Real-Asset Fund. The program participants have already been notified of the change via communication mailed in October.

## **2<sup>nd</sup> Quarter 2018 Investment Performance Report/NC 401(k) and NC 457 Plans**

The Acting Chair recognized Ms. Henson and Mr. Dillard. Ms. Henson directed the attendees' attention to the current investment line-up and investment manager on-site visits, conducted by Mercer's staff. She noted the addition of "provisional" designation for Mondrian, as well as for Macquarie due to a pending retirement of the Large Cap Value team leader and portfolio manager, Ty Nutt. Mercer will monitor both designations, perform additional research and provide more information to the subcommittee at a later date.

Mr. Dillard summarized the market and performance data for the quarter, offering a detailed overview of the economic environment, investment manager and fund performances and market sector changes. He emphasized the positive performance results of the overall portfolio and in response to Ms. Buonfiglio's question regarding growth versus value investing trend reversal, he noted that Mercer has observed the trend already in the area of technology stocks but the Mercer staff believes that there is still merit in value-based investing.

## **2<sup>nd</sup> Quarter 2018 Investment Performance Review/NC 403(b) Program**

Ms. de Mey reviewed the program's investment performance, asset balances and allocation of the mutual funds within the program for the quarter. She noted strong domestic gains driven by corporate profits and difficulty for international equities due to the trade dispute with China. Ms. de Mey further offered individual, detailed updates regarding the performance of several of the program's funds. Ms. Baran inquired whether any managers were being recommended for the Watch List, and Ms. de Mey stated that there were no recommendations.

## **Subcommittee Comments**

No comments were offered.

## **Public Comments**

No comments were offered.

## **Adjournment**

There being no further business before the Board, the Chair entertained a motion to adjourn. Mr. McKinney so moved, and Ms. Baran seconded. The meeting was unanimously adjourned at 9:46 a.m.

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Chair

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Secretary