

Memorandum

To: The North Carolina Supplemental Retirement Board of Trustees
From: Loren de Mey, Assistant Director of Investments
Date: October 21, 2016
Subject: Investment Guideline Compliance Reporting

SRP staff continues to work directly with the custodian (BNY Mellon), leveraging an automated system that provides daily, real-time insight into the SRP portfolios at the issuer, industry, sector, and country level. Internally, the SRP Compliance Officer coordinates with the SRP Assistant Director of Investments and IMD Senior Analyst in order to (1) identify new exceptions; (2) contact the managers who may be in breach of guidelines; and (3) define, implement and monitor resolutions. Addressing and fine-tuning the differences in coding found between the custodian's compliance system and the investment managers' systems was the primary focus of the third quarter of this year.

The daily report from the custodian's Global Risk Solutions team identified 14 exceptions in July as well as 11 and 17 in August and September, respectively. Some examples of the trends identified were purchases of unlisted securities and excessive cash in managers' portfolios. Many of these breaches were resolved by the managers' compliance teams within a 24-48 hour period. Those remaining in the report indicate that a corporate event, such as a merger or acquisition, is still in place. Once it expires, the exception will self-resolve in the custodial compliance monitoring system. In every case, the SRP team obtained a satisfactory clarification from either the manager or the custodian.

In addition, a careful review of several investment management agreements identified discrepancies between the guidelines recorded in the agreements and the language coded in the custodial system (not all of the language had been captured accurately). Two managers were impacted by these discrepancies. As of October, these guidelines have been updated by the custodian to correctly reflect their nature, and the exceptions have been resolved.

On September 30, 2016, pursuant to the Iran Divestment Act of 2015, the Office of the State Treasurer provided a report to the Joint Legislative Commission of the North Carolina General Assembly and the Governor detailing the Department's efforts to remain compliant with the Act. The report is a collaboration among the OST, IMD and SRP staff, and it outlines, among other data, the divestment of the only prohibited security within SRP's holdings. The report can be found at the following address: https://www.nctreasurer.com/inside-the-department/OpenGovernment/Iran%20Divestment%20Act%20Resources/2016_Iran_Divestment_Act_Report.pdf