



Dale R. Folwell, CPA

INVESTMENT MANAGEMENT

To: The North Carolina Supplemental Retirement Board of Trustees

From: Loren de Mey, Assistant Investment Director

Date: July 24, 2017

Subject: Investment Guideline Compliance Reporting – 2nd Quarter of 2017

All existing investment manager guidelines have been appropriately coded in the custodial system and all are operational. Staff continues to monitor the reporting on a daily basis. No material issues occurred during the second quarter and all managers are in compliance with their guidelines.

On March 20, 2017, House Bill 161 was introduced in the NC General Assembly, and was signed into law on July 27, 2017. This bill requires state divestment from companies that boycott Israel. In addition, the bill prohibits the state, as well as local governments and other political subdivisions of the state, from contracting with companies that boycott Israel. Under the law, the Department is required to create a list of companies that do so, similar to the list currently in place as a result of the Iran Divestment Act, and to adopt a policy to implement the law. The policy must be adopted by October 31, 2017. The initial list of companies must be created by November 30, 2017, and the final list must be published 90 days thereafter. Supplemental Retirement Plans staff, together with Investment Management Division staff and the Office of the State Treasurer, will develop a project plan to address and implement the act's legal requirements.



Dale R. Folwell, CPA

INVESTMENT MANAGEMENT

To: NC Supplemental Retirement Board of Trustees

From: Loren de Mey, Assistant Investment Director

Date: August 4, 2017

Subject: NC 401(k) and 457(b) Plans: Fee Negotiations Update

Department Investment Management Division (IMD) staff reached out to fourteen investment managers within the NC 401k and NC 457b Plans to negotiate lower investment management fees. To date, the negotiations have resulted in lowering fees with ten investment managers across twelve strategies.

Seven contractual amendments incorporating these lower fees have been executed; three additional amendments are expected to be executed the week of August 7th. Seven of the amendments became effective June 1, 2017, and one became effective April 1, 2017. A more recent amendment with BlackRock is currently under review and will be effective retroactively as of July 1, 2017. The BlackRock fees have been lowered, from 0.68 basis points to 0.5 basis points, on both the NC Large and S/MID Cap Index Funds. This lower fee also will apply to the two new accounts being opened: the BlackRock Russell 1000 Index Fund (25% allocation within the new NC Large Cap Core Fund) and the BlackRock Russell 2500 Index Fund (5% allocation within the new NC Small Mid Cap Core Fund).

The total estimated annual fee savings for NC 401(k) and NC 457 Plans from these fee negotiations are approximately \$2.1 million.

Next Steps:

IMD staff is conducting a structural review of the NC Stable Value Fund with the goal of reducing investment management fees while maintaining the existing investment objective within a diversified portfolio. In addition, the objective of the Glidepath project is to offer a lineup of model portfolios suitable for Plan participants across the risk/return spectrum. Staff seeks to maximize cost efficiencies throughout this process.