



## RETIREMENT SYSTEMS DIVISION

STEVEN C. TOOLE  
EXECUTIVE DIRECTOR

### MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Evaluation Committee, Invitation to Bid for Investment Consulting Services

DATE: November 29, 2018

SUBJECT: Recommendation for investment consulting services

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The Department of State Treasurer (Department) issued an Invitation to Bid (ITB) for Investment Consulting Services on August 9, 2018. The ITB included separate bid requests for the NC 401(k) and NC 457 Plans (Plans) and the public equity portfolio of the North Carolina Retirement Systems (Retirement Systems), the defined benefit plans managed by the Department's Investment Management Division. The current investment consulting contracts for the Plans and the Retirement Systems expire on March 31, 2019. The current investment consulting contract for the Plans was awarded in 2014 pursuant to a competitive bidding process and was amended and restated in 2017.

The ITB was issued jointly for the Plans and the Retirement Systems in order to evaluate possible synergies with having a single consultant for both assignments. Separate committees for the Plans and the Retirement Systems reviewed and evaluated the responses to the ITB.

The Department received responses from six consultants to provide investment consulting services for the Plans. The responses were evaluated by a committee consisting of Steve Toole (Executive Director, Retirement Systems Division), Mary Buonfiglio (Deputy Director, Supplemental Retirement Plans), and Loren de Mey (Assistant Director, Investments).

The firms were evaluated based on their technical and cost proposals. The technical components consisted of background and experience, reporting and analytical capabilities, operations and management, personnel, and educational resources. Callan's technical proposal was ranked first by the evaluation committee for the Plans, and Callan offered the lowest cost. Callan was also ranked first by the evaluation committee for the Retirement Systems.

Three firms were selected for in-person presentations. Board members Melinda Baran and Steve Beam joined the evaluation committee for the presentations and the selection of the firm to recommend to the Board.

Based on the presentations, the ranking of technical proposals, and the cost proposals, the committee selected Callan as the recommended firm to provide investment consulting services

for the Plans. While all of the bidders demonstrated strong investment consulting capabilities, Callan distinguished itself due to deep investment expertise, industry knowledge and personnel.

Subject to approval by the Board and the negotiation of a contract, Callan will provide the investment consulting services for the Plans described in the attachment for an annual fee of \$150,000. The services described in the attachment are from the ITB. The annual fee reflects relationship pricing based on the selection of Callan as the investment consultant for the Retirement Systems' public equity portfolio. The term of the contract will be five years, subject to the termination provisions in the contract.

**Recommendation to the Board**

The evaluation committee recommends that the Board and the Department select Callan LLC as the investment consultant for the Plans, beginning April 1, 2019, subject to the negotiation of a contract with Callan that is substantially similar to the contract included in the ITB.

The evaluation committee wishes to thank all of the bidders for their interest and support of the North Carolina Supplemental Retirement Plans.



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



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

## **Attachment: Scope of Work for the Supplemental Retirement Plans**

### **Defined Terms**

Client: The Board and the Department

Consultant: Callan LLC

Plans: The NC 401(k) and NC 457 Plans

### **I. Investment Policy Statement (IPS) Development and Monitoring**

- A. Review the IPS at least annually and recommend modifications to the Client as appropriate based on current investment management industry best practices.
- B. Recommend and assist with establishing and revising rebalancing policies for separately managed investment options and white label funds.
- C. Assist in establishing and revising investment manager guidelines and restrictions.
- D. Provide recommendations on establishing, and as warranted changing, appropriate benchmarks and peer universes.

### **II. Investment Design**

- A. Conduct an annual review of the Plans and advise the Client whether the structure, investment offerings, performance and management best meet the needs of the Plan participants.
- B. Provide recommendations on investment design, including the number and types of strategies, the active/passive mix, core/non-core mix, retirement income options, liquidity sleeves, and rebalancing strategies.
- C. Provide best practices research and advice in the area of investment design.

### **III. Investment Manager Searches and Ongoing Monitoring**

- A. As requested by the Client, work with Departmental staff in searches for replacement and new investment managers and transition managers. Such searches shall be consistent with the Board's manager selection policy.
- B. Conduct ongoing quantitative and qualitative monitoring of the (1) current investment managers and funds in the Plans; and (2) transition managers used by the Client.
- C. Provide a review of investment management fees at least annually, and proactively work with the Client on an ongoing basis to identify and implement opportunities to lower the fees paid by the Plans, including without limitation informing the Client of lower fees offered by investment managers and funds of which the Consultant is aware.
- D. Notify Departmental staff and the Board of any organizational, personnel or strategy changes to the (1) investment managers and funds in the Plans; and (2)

transition managers used by the Client. Thereafter, continue to monitor and provide updates to Departmental staff and the Board.

- E. Provide recommendations to Departmental staff and the Board regarding placing managers on the watch list, and provide recommendations regarding terminating managers, including transition managers.
- F. Provide recommendations to Departmental staff and the Board regarding removing investment managers from the watch list.
- G. Conduct on-site due diligence reviews at the offices of the Plans' investment managers and all public equity (long-only), fixed income, and real asset investment managers' offices no less frequently than biennially. Provide the Client with a written summary and analysis of each review.
- H. Provide proactive idea generation in all areas of the investment lineup and transition management.
- I. Upon request, provide input regarding investment manager guideline exceptions.

**IV. Performance and Risk Reporting.** The Consultant shall provide a quarterly report to the Department and at meetings of the Board and the Investment Subcommittee regarding the Plans' investment performance and costs (Investment Consultant Quarterly Performance Report), which shall include without limitation:

- A. Plan-level information, including (1) investment returns, fee structure competitiveness, investment returns and risk analysis versus peers and benchmarks; and (2) style research, factor analysis, and other material items as deemed appropriate upon request;
- B. The information in Sections I.D, III.C, III.D, III.E of this Exhibit;
- C. Working with the Plans' custodian, report the market value of the Plans' assets as of the last business day of the most recent quarter/calendar year. Report the portion of NC 401(k) Plan and NC 457 Plan assets allocated to each investment option as of the last business day of the most recent calendar quarter/year;
- D. Time-weighted rates of return and risk for all options measured (a) net of all fees and all expenses; and (b) gross (as appropriate), relative to a peer group universe and a market benchmark for the most recent calendar quarter, year-to-date, and historical time periods since inception returns;
- E. Time-weighted rates of return and risk for all investment managers in pooled investment options measured (a) net of all fees and expenses; and (b) gross of investment management fees, relative to a peer group universe and a market benchmark for the most recent calendar quarter, year-to-date, and historical time periods since inception returns;
- F. Simulated performance and qualitative review of the GoalMaker portfolios relative to appropriate target date benchmarks;
- G. Portfolio characteristics (such as sector allocation, market capitalization, valuation ratios, credit quality) as appropriate for each investment option and underlying investment manager relative to the appropriate benchmark as of the last business day of the most recent calendar quarter; and

H. A summary of the economic and market environment.

**V. Data and Research**

- A. The Consultant shall provide the Client with research and advice on best practices and trends for defined contribution plans, including plan design, commission recapture program, trade cost analysis, and monitoring investment managers' soft dollars.
- B. The Consultant shall provide the Client with the Consultant's database of performance, analysis, and other information on investment managers and funds.

**VI. Glidepath Review**

- A. The Consultant shall work with the Department to perform an annual review of the glidepath utilized within the GoalMaker Program, with the goal of leveraging industry best practices to recommend changes to create the most appropriate portfolio construction within the underlying growth-income allocations provided by the Department or a third party. It is not expected that the Consultant will develop a customized glidepath utilizing underlying demographic participant data, but will use general knowledge, such as through Prudential's quarterly reports and the Consultant's own knowledge of the Plans, to qualitatively assess the appropriateness of the glidepath provided by the Department or a third party. The Consultant shall compile performance attribution, risk and return analysis, and comparisons to common industry allocations and practices.
- B. The Consultant shall make recommendations to the Department and the Board on new asset classes or strategies if the Consultant believes the recommendations could materially enhance outcomes for the glidepath.
- C. The Consultant shall present any recommended changes to the glidepath to the Department in writing and upon the request of the Department, shall present such recommendations to the Board for approval.

**VII. Stable Value Fund Review**

- A. The Consultant shall perform an annual review of the Stable Value Fund.
- B. Such review shall include a detailed review of the structure, underlying sub-components (e.g., investment managers, separate accounts, commingled funds, wrap providers), due diligence reports on underlying managers (when available), appropriate benchmarking, monitoring process of the Stable Value Fund manager, fees, performance, and overall management of the Stable Value Fund, including a review of other alternatives and structures and the competitiveness of fees.
- C. This review shall be presented in written form to the Department annually and may be presented to the Board, upon request of the Department.
- D. The Consultant shall conduct ongoing quantitative and qualitative monitoring of the Stable Value Fund, including notifying Departmental staff and the Board of any organizational, personnel or strategy changes to the manager.
- E. The Consultant shall provide recommendations for potential alternatives, if warranted, including potential replacement Stable Value Fund

managers/vehicles, alternative structures or alternative investment options, considering the fees, competitiveness, and overall risks of the current Stable Value Fund and alternative options.

**VIII. Board Meetings**

- A. The Consultant shall attend and present performance reports, research, benchmarking reports, and other deliverables at the quarterly meetings of the Board and the Investment Subcommittee.
- B. The Consultant shall attend other meetings or teleconferences as needed.
- C. The Consultant shall provide materials for meetings of the Board and Investment Subcommittee by the deadline reasonably established by the Department in order for the Department to provide meeting materials to members two weeks prior to such meetings.

**IX. Recordkeeper Benchmarking**

The Consultant shall conduct an annual benchmarking of service levels and fees for the Plans' provider of recordkeeping and communications services. Fees shall be compared to plans of similar size. The review of service levels shall include the level of on-site education provided, processing speeds for administrative processes such as the mailing of statements and the payment of distributions, as well as call center statistics. The Consultant shall assist in the development of an annual employer and participant service survey and report the results as compared to industry standards.

**X. Procurement**

If requested by the Client, the Consultant shall provide advice on the procurement process for a recordkeeper and/or custodian for the Plans.

**XI. Education**

The consultant shall offer the same educational opportunities for the department's staff that the consultant offers to other clients, including, including access to research papers and periodicals and attendance at conferences and workshops.

**XII. Additional Services**

The following services are not included in the scope of services to which the Consulting Fee applies ("Additional Services"). The Consultant shall propose prices for the Additional Services and shall provide an Additional Service upon written request from the Client. The Client is not required to request any Additional Services. For clarity, the Additional Services are not included in the services provided by the Consultant pursuant to this Scope of Work.

- A. Fund fact sheets.
- B. Equity trade cost analysis.
- C. Foreign exchange trade cost analysis.
- D. Benchmarking of service levels and fees for the Plans' custodian.
- E. NC 403(b) Program performance reporting and fund searches.