

DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING

December 15, 2016

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 9:00 a.m. on Thursday, December 15, 2016, in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Janet Cowell (Chair), Melinda Baran, Karin Cochran, Gene Hamilton, Michael Lewis, Heyward McKinney, Walter Gray, and Ronald Copley. Robert Orr attended via telephone.

Staff Present: The following Department of State Treasurer (DST) staff were present: Steve Toole, Mary Buonfiglio, Reid Chisholm, Maja Moseley, Catherine Jarboe, Loren de Mey, Rekha Krishnan, Kevin SigRist, Kristen Bierline, Blake Thomas, Bill Golden, Fran Lawrence, Patti Hall, Sherry McLamb, Charles Branch.

Guests Present: The following guests attended the meeting: Treasurer-elect Dale Folwell was present via telephone; Michael McCann, Kathleen Neville, Ann Cashman, Aaron Koval, Jessica Quimby, Kelly Keen and Kellie Lanko from Prudential Retirement; Jim Simone from TIAA-CREF; Liana Magner and Will Dillard from Mercer Investment Consulting. Susan Rosenbleeth, Linda Vandeventer and Jim Sillery (via telephone) from Buck Consultants.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order at approximately 9:05 a.m.

Janet Cowell, Chair, welcomed Board members, staff and guests. The Chair asked to hold the public comments until the end of the session.

AGENDA ITEM – ETHICS AWARENESS AND IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST

The Chair asked Board members to review the agenda for the meeting and identify any actual, implied or potential conflicts of interest. There were no conflicts identified.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there were any comments or changes to the minutes of the September 15, 2016, Board meeting. Ms. Baran made a motion to approve the minutes, and Mr. Gray seconded. The motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there any comments or changes to the minutes of the November 29, 2016, special Board meeting. Mr. Gray made a motion to approve the minutes, and Mr. McKinney seconded. The motion passed unanimously.

AGENDA ITEM – BOARD MEMBER RESOLUTION

The Chair asked for a motion to approve the resolution thanking Keith Burns for his service to North Carolina. Mr. Lewis so moved and Mr. Gray seconded. The motion passed unanimously.

AGENDA ITEM – NC 401(K) PLAN AMENDMENT

The Chair recognized Mr. Chisholm. Mr. Chisholm presented an amendment to NC 401(k) Plan document, which is necessary to allow for hardship withdrawals related to Hurricane Matthew, and noted that the Plan must be amended according to the Internal Revenue Service directive.

Ms. Baran made a motion to approve the amendment, and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM – IRS VCP FILING

Mr. Chisholm provided the members with details of an issue requiring correction: Erroneously, nine spousal beneficiaries were permitted to roll funds into either the NC 401(k) or NC 457 Plan. A voluntary correction (VCP) will be filed with the Internal Revenue Service in order to remedy the issue and the assets will not be removed from the plans. The staff does not anticipate any difficulty in filing the VCP, and no action is needed from the Board.

AGENDA ITEM – AUDITOR RECOMMENDATION

The Chair recognized Mr. Toole, who asked for approval of the new audit service engagement for the NC 401(k) and NC 457 Plans for the next three years. Mr. Toole provided the details of the Request-for-Proposal process, as well as the Evaluation Committee's selection procedure. The committee found that CliftonLarsonAllen's (CLA) proposal to be the most cost-effective and the best fit for the Plans, given that CLA scored highest on the cost proposal (submitting the lowest cost proposal) and the technical proposal. Audit Subcommittee Chair Walter Gray was notified of the committee's recommendation prior to the final presentation and has approved it.

The Chair asked for a motion to accept the recommendation and enter into contract negotiations to hire CLA as the Plans' auditor. Mr. Hamilton so moved and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – MARKETING AND COMMUNICATION PLAN HIGHLIGHTS

The Chair recognized Ms. Jarboe and Ms. Quimby. Ms. Jarboe reported on the 2016 communications plan overview, providing examples and analysis of special projects accomplished thorough the year. She also emphasized that Retirement Readiness is the main driver behind all communications and education projects. Finally, Ms. Jarboe outlined the planned communications strategy surrounding transition of the NC 403(b) Program from TIAA to Prudential.

Ms. Quimby provided the summary of 2017 strategic communications plan and highlighted the results of the August 2016 retiree survey.

Board members discussed whether marketing can assist in reducing the percentage of Plan assets that are allocated to the Stable Value Fund, particularly among the Plans' young population. Ms. Quimby shared the asset allocation messaging strategy in place, and Mr. McCann added that, while industry average is 35-45% of assets in stable value products, the NC 401(k) and NC 457 Plans are at 21%.

AGENDA ITEM – PRUDENTIAL INFORMATION TECHNOLOGY SECURITY REVIEW

The Chair recognized Ms. Lanko, Business Information Security Officer with Prudential, who presented the report regarding Prudential's approach to security, its framework and the privacy program. Ms. Lanko emphasized the dynamic nature of the information technology security environment and the need for continuous risk assessments, internal audits and cyber security exams. In addition, Prudential adapts to the ever changing environment by collaboration with other vendors and auditors in the financial industry. Ms. Lanko noted that employees tend to be the weakest link in the security chain and thus, internal phishing emails are sent weekly to test employees and the firewall is monitored continuously.

A break took place from 10:10 a.m.-10:20 a.m.

AGENDA ITEM – BOARD ASSESSMENT REPORT

The Chair recognized Linda Vandeventer, talent management team member at Buck Consultants/Xerox. Ms. Vandeventer noted that the goal of the assessment was to determine the efficacy of the Board working as a group and the study found that the group works very well together and all members participated in the assessment. Ms. Vandeventer outlined the highlights of the report and suggested that the Board consider moving away from printed meeting materials in favor of digital records. She also noted that the Board self-assessment can be used as a starting point in developing a board governance agenda and Ms. Bierline added that this was a desire of the Chair and the Chief of Staff to develop such agenda in order to have more objective standards.

AGENDA ITEM – EXECUTIVE DIRECTOR ASSESSMENT REPORT; CLOSED SESSION

Next, the Chair asked for a motion to enter closed session pursuant to G.S. 143-318.11(a)(6) & (c), which allows a closed session for the Board to consider the job performance of a public employee. Mr. Hamilton so moved and Mr. Copley seconded. The meeting moved into closed session.

At 10:59 a.m. a motion to reopen the meeting was made and the meeting returned to open session.

AGENDA ITEM – NC 401(k)/457(b) PLANS 3rd QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. Magner, who introduced Mr. Dillard. Ms. Magner presented the capital markets commentary while Mr. Dillard discussed the investment performance in detail. Ms. Magner also noted that investment management fees continue to be competitive compared to institutional median fees and that the Stable Value Fund's market-to-book ratio remains at over 100%.

Mr. Copley asked whether there was a more appropriate benchmark for Stable Value than Treasury bills plus one percent. A discussion followed regarding the appropriateness of the Stable Value Fund's benchmark and its duration. Ms. Magner stated that T-bills+1% is generally used for stable value funds and that, there is no standard benchmark for stable value funds. Mr. Toole asked whether staff could review the issue. Ms. de Mey responded that staff would research other potential benchmarks for the Stable Value Fund.

A discussion followed regarding fees. Mr. Copley asked whether it was time to renegotiate fees. Mr. SigRist commented that fees are monitored by staff on an ongoing basis. However, renegotiation of fees takes place at regular intervals and the state uses its size and market power in negotiating fees. Mr. Toole asked staff to update the Board periodically on fee negotiations.

Ms. Magner described the current glidepath and noted that it will be a topic of detailed discussion in the June Board meeting. Ms. de Mey noted ongoing discussions with potential glidepath managers regarding its structure and that there are three finalists. The attendees also discussed investment fees negotiations and Mr. SigRist confirmed that performance is routinely used as a negotiation point to renew fees.

AGENDA ITEM – NC 401(k)/457(b) PLANS 3rd QUARTER ADMINISTRATIVE REPORT AND FIELD REPORT

The Chair recognized Mr. McCann, who noted Prudential's compliance with state laws and contractual performance standards; he then highlighted several accomplishments of the third quarter, including the addition of new plans, the number of retirement security education groups

and individual meetings, the addition of or increase in the employer match in several subplans, and the communication strategy.

AGENDA ITEM – NC 403(b) PROGRAM 3rd QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. de Mey, who noted that there was little change in asset allocation during the quarter and highlighted several parts of the report, including individual fund asset levels and performance, as well as fees.

A discussion regarding investment fees and the merits of actively managed funds versus index funds followed. Mr. SigRist noted that such discussion lends itself well to overall Investment Policy Statement review.

Mr. Lewis asked whether tools will be available in the NC 403(b) Program for participants to construct portfolios. Mr. Toole noted that GoalMaker will be available in the NC 403(b) Program. Ms. Buonfiglio and Mr. SigRist noted that all classes/styles, except inflation-sensitive, have an index option.

AGENDA ITEM – NC 403(b) PROGRAM 3rd QUARTER ADMINISTRATIVE REPORT

The Chair recognized Mr. Simone, who focused on the number of schools districts currently participating in the Program, noting that while community colleges are now included none are participating yet. He highlighted the main data of the quarter: assets under management, contribution levels, and member participation as well as asset allocation utilization.

He also noted the upcoming transition of the Program to the new recordkeeper, Prudential, is scheduled to be completed on February 22, 2017, and service blackout will begin on February 13.

AGENDA ITEM – BOARD QUESTIONS/COMMENTS

Mr. McKinney made a motion to recognize Janet Cowell's service to North Carolina and Mr. Gray seconded. The motion passed unanimously and Board members presented Ms. Cowell with a commemorative plaque.

AGENDA ITEM – PUBLIC COMMENTS

No public comments were offered.

The meeting adjourned by acclamation at 12:35 p.m.

Secretary