

DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING

September 15, 2016

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 9:00 a.m. on Thursday, September 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, and Heyward McKinney. Robert Orr, Walter Gray, and Ronald Copley attended via telephone.

Staff Present: The following Department of State Treasurer (DST) staff were present: Steve Toole, Mary Buonfiglio, Mary Laurie Cece, Loren de Mey, Kevin SigRist, Reid Chisholm, Rhonda Smith, Maja Moseley, Catherine Jarboe, Blake Thomas, Fran Lawrence, Lisa Allnutt, Laura Rowe, Sherry McLamb.

Guests Present: The following guests attended the meeting: Michael McCann, Kathleen Neville, Ann Cashman, Aaron Koval, Jessica Quimby from Prudential Retirement; Jim Simone from TIAA; Kelly Henson, Liana Magner, Andrew Ness from Mercer Investment Consulting. Tom Rey and Jim Kreiser from CliftonLarsonAllen.

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. She also welcomed the new SRP Board Member Ronald Copley, and new Assistant Investment Director Loren de Mey.

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 changes to the minutes of the June 23, 2016, Board meeting. Mr. Chisholm directed the members' attention to the additional footnote of page seven of the

draft minutes, clarifying the statements made by Ms. Magner of Mercer regarding J.P. Morgan, and noting that those statements did not affect the Board's decision to search for alternative manager.

Ms. Magner added that her statements were based on the investment team research notes regarding J.P. Morgan core fixed income strategy. She apologized to the Board, noting that J.P. Morgan does not intend to close their Columbus, Ohio office.

Ms. Baran made a motion to approve the minutes. Mr. Hamilton seconded and the motion passed unanimously.

AGENDA ITEM – MEMBER APPOINTMENT TO INVESTMENT SUBCOMMITTEE

The Chair entertained a motion to recommend Mr. McKinney to the Supplemental Investment Subcommittee. Ms. Cochran made the motion, and Ms. Baran seconded. The motion passed unanimously.

AGENDA ITEM – INFORMATION TECHNOLOGY SECURITY REVIEW

The Chair recognized Mr. Rey who introduced Mr. Kreiser, the business risk and IT services principal from CliftonLarsonAllen (CLA). Mr. Kreiser summarized the trends, risks and practices in cybersecurity, as included in the presentation slides provided in the Board materials. He noted that the vast majority of hacking attacks share a common origin in social engineering, which is an organizational issue and should be addressed by training all personnel appropriately.

Ms. Allnutt said that the State and Department take cyber security seriously and that testing and assessment programs are in place. DST's Compliance Risk and Ethics Committee will address IT risks and education.

Board members discussed the necessity of effective training, as well as risk reporting. Ms. Baran stated that she would like to see IT security needs included in the budget. It was agreed that at the next meeting, a high-level cybersecurity preparedness report will be presented by the Department's own IT division, and vendors will describe their own programs.

AGENDA ITEM – CUSTODIAL BANK TRANSFER REVIEW

Mr. Rey emphasized that the report presented is not a certified financial statement but rather a consulting report and that the request was for CLA to report any errors in the transition. Mr. Rey stated that CLA made sure that all assets have settled and are accounted for; there were no errors identified in the reconciliation process.

Mr. Hamilton moved to approve the custodial bank transfer review, and Mr. Lewis seconded. The motion passed unanimously.

AGENDA ITEM – AMENDMENT OF AUTHORIZED SIGNATORIES OF THE NC SRP GROUP TRUST, BOARD AND THE DEPARTMENT OF STATE TREASURER

The updated North Carolina Supplemental Retirement Plans Group Trust Delegation of Authority, as well as the updated North Carolina Department of State Treasurer and Supplemental Retirement Board of Trustees Delegation of Authority, were presented to the Board.

Mr. McKinney made a motion to approve both updated documents, and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – AMENDMENT OF NC 403(b) PLAN DOCUMENT

Mr. Chisholm summarized the amendments to the plan document and adoption agreement: Community colleges were added as eligible employers (as reflected in a statutory change last year); the term “funding agent” was made more flexible; the contact information for the Program Administrator was changed from TIAA to the Department; a funding vehicle was updated; and various references were added or revised.

Ms. Baran made a motion to approve the amended NC 403(b) plan document, and Mr. Lewis seconded. The motion passed unanimously.

AGENDA ITEM – SERVICE PROVIDER PERFORMANCE GUARANTEES

The Chair recognized Ms. Buonfiglio who briefly discussed the definition of fees at risk and emphasized that fact that performance guarantees are being monitored by the staff and that overall, the plan services are in good shape.

AGENDA ITEM – NC 403(B) RECORDKEEPING RELATIONSHIP

Mr. Toole directed the Board members’ attention to the memorandum regarding the recordkeeping relationship, which describes the staff’s recommendation to change the Program’s recordkeeper from TIAA to Prudential. Mr. Toole emphasized that the staff has taken great care in making this recommendation and was appreciative of the challenges the Program faced in the implementation phase. The staff believes that the change will simplify the Program administration and improve the participant experience. Mr. Toole summarized two options outlined in the memorandum and noted that option one is recommended by the staff. He also thanked TIAA and Prudential for their efforts.

Following a discussion among the Board members and staff, Ms. Cochran made a motion to approve the NC 403(b) Program recordkeeper change as recommended by the staff. Mr. Lewis seconded, and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF 2016-2017 UPDATED SRP BUDGET

Ms. Buonfiglio presented the budget summary in the Board materials, noting that both the legislative salary increase of 1.5% and the bonus of 0.5% are accounted for in the “summary” and that overhead was allocated in the “services” category. In addition, a “salary reserve” category was established, which increases transparency and is consistent with the approach of other agencies. The reserve comes from hiring an employee at less than maximum salary but not from an unfilled position. The revised budget also includes two changes in support of two changes to SRP’s administrative position. The position will be fully-funded by SRP, instead of 75% by SRP and 25% by the Retirement Services Division. Second, the position will be enhanced to an executive administrative position.

Mr. Lewis made a motion to approve the budget, and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

Audit Subcommittee Member Mr. Gray, provided a brief update of the July 26, 2016, Audit Subcommittee meeting, noting that a clean, unmodified opinion was issued and financial statements were approved by the Subcommittee. There were no changes to the minutes and Ms. Baran made a motion to approve them. Mr. Hamilton seconded and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

Supplemental Investment Subcommittee Chair Ms. Baran gave a brief overview of the highlights of the Supplemental Investment Subcommittee meeting held on August 18, 2016. She informed the members that the staff’s recommendation for the Glidepath provider will be presented during that group’s upcoming November meeting. The Chair moved to approve the Minutes and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – NC 403(b) PROGRAM 2nd QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. Smith. Ms. Smith noted that the plans within the Program have grown and responsibilities have increased, which resulted in the need for a dedicated position. Ms. Smith welcomed Ms. de Mey, and Mr. Toole and Ms. Buonfiglio thanked Ms. Smith.

Ms. Smith noted no material changes in the asset allocation and a modest increase across tiers compared to prior quarter. She also briefly mentioned the funds to be removed during the upcoming fund mapping.

Ms. Smith commented that the Vanguard Windsor fund, which is on the Watch List, had underperformed for a year but was near the median. The Board can extend the fund on the Watch List or eliminate the fund per the Investment Policy Statement. IMD will have a recommendation at the November Investment Subcommittee meeting.

Ms. Smith also noted that the Allianz fund had been on the Watch List for one year; however, the fund is being replaced in the upcoming mapping.

AGENDA ITEM – NC 403(b) PROGRAM 2nd QUARTER ADMINISTRATIVE REPORT

The Chair recognized Mr. Simone. Mr. Simone noted a decrease in Program activity due to school year-end: there were no new school districts added in the 2016 Q2. However, three school districts have been added so far in 2016 Q3.

Mr. Simone emphasized TIAA's readiness to work very closely with the staff and Prudential to achieve a smooth transition of recordkeeping services. He also confirmed that the planned fund mapping is scheduled to take place on October 4th.

AGENDA ITEM – NC 401(k)/457(b) PLANS 2ND QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. Henson and Ms. Magner. Ms. Henson provided a capital markets overview and highlighted the market trends during the quarter. She also summarized the funds' performance and provided the fee review information, emphasizing the fact that both plans offer lower cost investment vehicles to the members, as compared to other options available in the market.

Mr. Copley asked if Galliard's and Mercer's benchmarks for the Stable Value Fund should be the same. Ms. Henson responded that the benchmarks would not necessarily be the same because Galliard looks at the components of the Stable Value Fund. Mr. Toole said that DST staff would review the issue

AGENDA ITEM – NC 401(k)/457(b) PLANS 2nd QUARTER ADMINISTRATIVE REPORT AND FIELD REPORT

The Chair recognized Mr. McCann. Mr. McCann thanked Mr. Simone and TIAA staff. He summarized the administrative goals of the plans, emphasizing Prudential's compliance with laws and contractual terms, plans' asset allocations, contributions, and rollovers. He also emphasized the difference in contribution percentages between members who have used the Retirement Income Calculator and those who have not.

AGENDA ITEM – NEW DEPARTMENT OF LABOR FIDUCIARY RULE'S IMPACT ON PLAN SPONSORS

McCann introduced Mr. Kalamarides, senior vice president and CEO of Prudential Bank and Trust. Mr. Kalamarides provided an overview of the rule, noting that it will become effective in April of 2017. He emphasized two specific aspects of the rule the Board may want to consider: (1) the GoalMaker service in the context of the new rule; and (2) IRA rollovers. Prudential will modify some GoalMaker disclosures to better comply with the spirit and letter of the rule, and

will continue to educate participants fully on the rollover options available to them, such as remaining in the plan. Mr. Toole asked what the Board and DST should think about issues regarding participants' rolling out funds. Mr. Kalamarides responded that the primary goal is to avoid rollovers to higher-cost IRAs and other vehicles and that Prudential will partner with North Carolina to promote retention in the plans. Mr. Toole noted that the Board and DST have an opportunity to help participants make better decisions.

AGENDA ITEM – BOARD QUESTIONS/COMMENTS

Ms. Baran congratulated Ms. Buonfiglio on the Department's recognition by NAGDCA, as recipients of two 2016 Leadership Awards, in the categories of "Participation Education/Effective Communications" and "Plan Design and Administration." Mr. Hamilton congratulated Mr. Toole on his appointment to NAGDCA's Executive Board.

AGENDA ITEM – PUBLIC COMMENTS

No public comments were offered.

The motion to adjourn was made by Ms. Baran and seconded by Ms. Cochran. The motion passed unanimously, and the meeting adjourned at 11:56 a.m.

Secretary