

**SUPPLEMENTAL RETIREMENT INCOME PLAN OF  
NORTH CAROLINA AND**

**NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED  
COMPENSATION PLAN**

**GOALMAKER 2.0 RECONCILIATION**

**SUPPLEMENTAL RETIREMENT INCOME PLAN OF NORTH CAROLINA AND  
NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN**

**TABLE OF CONTENTS**

<b>INDEPENDENT ACCOUNTANTS' REPORT</b>	<b>1</b>
<b>INTRODUCTION</b>	<b>2</b>
<b>SUMMARY OF OBJECTIVES, PROCEDURES, AND RESULTS:</b>	
<b>OBJECTIVE 1</b>	<b>3</b>
<b>OBJECTIVE 2</b>	<b>6</b>

## INDEPENDENT ACCOUNTANTS' REPORT

Mr. Dale R. Folwell  
State Treasurer  
Chair of the Supplemental Retirement Board of Trustees  
Supplemental Retirement Income Plan of North Carolina and  
North Carolina Public Employee Deferred Compensation Plan  
Raleigh, North Carolina

Dear Mr. Folwell:

At your request and direction, we performed certain steps to review the reconciliation of assets related to the glidepath transition and related new fund mapping for the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan (the "Plans"). The procedures performed by us are discussed in the report. Any differences between the procedures set forth in this report and those set forth in the engagement letter reflect modifications that were made at your request or discussed during the course of the engagement. The sufficiency of the procedures is solely your responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

Our services consisted of consulting services, and do not constitute an audit, examination, review or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with the other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information.

Our assistance was directed to those activities, operations areas and financial information that you identified as being of concern to you. In performing our services, we conducted inquiries and analysis based on the information made available to us, and we relied on the sufficiency, accuracy, and reliability of information provided by the Bank of New York Mellon (BNY Mellon), BlackRock, and Prudential Retirement.

Accordingly, we do not express an opinion or any other form of assurance on the Plans' financial statements, any other financial or non-financial information, management representations, operating controls and internal controls of the Plans.

Our report is intended solely for the information and use of the Plans' management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen, LLP**

Baltimore, Maryland  
December 4, 2018

## **INTRODUCTION**

The purpose of this report is to provide our results regarding the objectives identified in the engagement letter between CliftonLarsonAllen and the Plans dated November 6, 2018. Those objectives, as summarized below and described in detail in the remainder of the report included an independent and unbiased reconciliation of the transfer of the Plans' assets among investment managers pursuant to the GoalMaker 2.0 Transition and a report of any errors and monetary impact associated with said transfer.

The Plans are governed by the Supplemental Retirement Board of Trustees (the "Board") and consist of the two deferred compensation plans provided to public employees of the State of North Carolina including the Supplemental Retirement Income Plan of North Carolina (401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (457(b) Plan).

The plan documents designate that the general administration and responsibility for carrying out the provisions of the Plan shall, as directed by the Board, be placed with the Retirement Systems Division of the Department of the State Treasurer as Primary Administrator.

The Board, in its role as a fiduciary, has important responsibilities and is subject to standards of conduct because they act on behalf of participants in the Plan. Primary fiduciary responsibilities include acting solely in the interest of plan participants and their beneficiaries with the exclusive purpose of providing benefits to them and carrying out their duties prudently. This report considers the importance of these responsibilities in meeting the objectives described herein.

The Plans' Board made GoalMaker available as an optional asset allocation program to participants in the Plans. GoalMaker is an easy-to-use asset allocation program that automatically offers the participant an age-appropriate investment mix based on his or her investor style. The Board expressed a desire to smooth the Plans' glidepath leading to retirement and add a "through retirement" component to the glidepath. At the direction of the Board, Prudential Retirement has developed an enhanced version of GoalMaker, referred to as GoalMaker 2.0. GoalMaker 2.0 is an asset allocation program that helps participants choose an appropriate investment mix by establishing a personal asset allocation strategy. GoalMaker 2.0 provides more model portfolio options, quarterly auto-rebalancing, and an age adjustment glidepath leading through retirement. GoalMaker 2.0 has estimated fee savings of approximately 0.007 to 0.015 percentage points per year for each participant due to its enhanced portfolios.

Implementation of the GoalMaker 2.0 product for the NC 401(k) and 457(b) Plans was completed by Prudential Retirement, BlackRock, and BNY Mellon. Prudential Retirement, as the plan administrator and recordkeeper, was responsible for implementing the custom GoalMaker 2.0, communicating the change to Plan participants, and performing the necessary participant account fund mapping with the new allocation. BlackRock served as the transition manager, directing and effectuating the rebalance. Lastly, BNY Mellon, as custodian, was responsible for the movement and reconciliation of the Plans' assets.

GoalMaker 2.0 was implemented on June 2, 2018 and payroll contribution activity from participants began in respective GoalMaker 2.0 portfolio models. On June 8, 2018, all of the existing model portfolios and participant account balances experienced an asset allocation rebalance to the new GoalMaker 2.0 model. Coinciding with the rebalance, the Board approved the Department of State Treasurer Staff and the Plans' investment consultant recommendations to eliminate the NC Global Equity Fund from GoalMaker by transferring the assets 52% to the NC Large Cap Core Fund and 48% to the NC International Equity Fund and add the new NC TIPS Index fund to the investment core lineup. Due to the above, this quarterly rebalance resulted in one of the largest movements of assets in the Plans' history.

The white label investment lineup for GoalMaker includes the NC Large Cap Index, NC Large Cap Core, NC Fixed Income, NC International, NC Small MID Cap Core, NC Global Equity (to be closed), NC U.S. Debt Index, NC Inflation Responsive, NC TIPS (to be added) funds and a Stable Value Fund. These white label core investments feature multi-manager options and single-manager options. The Plans' investment core lineup also includes the NC Small MID Cap Index and the NC International Index funds which are not included as an investment option in GoalMaker, however these funds also experienced a rebalance on June 8, 2018 and were included in our procedures below to meet the objectives of this report.

For trade date June 8, 2018, assets, including the transfer of assets out of the NC Global Equity Fund, were moved to BlackRock transition accounts via a transfer of securities and/or cash, and settled June 11, 2018. Legacy securities from the NC Small MID Cap Core and NC Large Cap Core funds' managers that needed rebalancing were transferred to the BlackRock transition account for the NC Large Cap Index fund. Redeemed legacy securities from the NC Global Equity Fund managers were transferred to the BlackRock transition account for the NC International fund. Cash orders for trade date June 8, 2018 were also wired out of the Galliard Stable Value, NC U.S. Debt Index, NC Inflation Responsive, BlackRock Russell 1000 Index Non-Lending Fund F in the NC Large Cap Core, and the BlackRock Russell 2500 Index Non-Lending Fund F in the NC Small Mid Cap Core funds to BlackRock transition accounts. On the same trade date of June 8, 2018, cash was also wired from two BlackRock transition accounts to the Prudential Core Plus Bond Fund in NC Fixed Income Fund and the BlackRock Equity Index Non-Lending Fund F in the NC Large Cap Index Fund.

BlackRock performed the necessary buying and selling of securities in the transition accounts to achieve the new allocations approved by the Board. Beginning on June 18, the BlackRock transition accounts were closed and the securities were traded and settled with the corresponding target investment managers in the funds.

The following section describes our procedures to develop an understanding of the timeline for the North Carolina GoalMaker 2.0 rebalance and obtain supporting documentation to re-perform the transition of the Plans' assets.

## **SUMMARY OF OBJECTIVES, PROCEDURES, AND RESULTS**

The scope of the GoalMaker 2.0 transition review for which we were contracted included two objectives; an independent and unbiased reconciliation of the transfer of the Plans' assets among investment managers pursuant to the GoalMaker 2.0 transition and a report of errors, if any, and the monetary impact. The procedures designed to achieve those objectives and the results of those procedures are detailed below.

### **OBJECTIVE 1: Independent and unbiased reconciliation of the transfer of the Plans' assets**

To achieve Objective 1 we:

- a. Developed an understanding of the timeline and transition procedures with each party involved,
- b. Obtained supporting documentation and walked through conversion reconciliations and transition analyses prepared during the GoalMaker 2.0 rebalance, including the removal of the North Carolina Global Equity Fund and addition of the North Carolina TIPS Index Fund and,
- c. Perform an independent reconciliation of all of the Plans' managed funds

**1a. Developed an understanding of the timeline and transition procedures with each party involved**

Through inquiries with Prudential Retirement, BlackRock, and BNY Mellon we obtained the following summary of the transition process.

- BlackRock, acting as transition manager, utilized the information provided by Prudential Retirement, BNY Mellon, Legacy Managers, and Target Managers to come up with a transition plan and execute on the transition plan.
- BlackRock and BNY Mellon performed necessary operational setup by exchanging account and trading information prior to the quarterly rebalance and implementation of the custom GoalMaker 2.0. BlackRock also opened internal trading accounts and corresponding futures accounts which were reflected in the NC Total Pool Composite schematic provided by BNY Mellon.
- As previously mentioned, the Board approved the removal of the NC Global Equity Fund from GoalMaker. These redeemed Global Equity legacy managers, Wellington and Arrowstreet, provided BNY Mellon and BlackRock with a final asset list for the transfer.
- The quarterly rebalance for GoalMaker 2.0 mapping date was June 8, 2018. Prudential provided the final asset allocation to BlackRock and BNY Mellon on June 8<sup>th</sup>.
- Using June 8<sup>th</sup> market values provided by BNY Mellon, BlackRock created a final transition schematic with current and desired weights for each manager in the fund. BlackRock directed BNY Mellon on what securities to move and where to move them by creating trade tickets and also provided BNY Mellon with final cash flow trades (either cash wires out or in).
- BlackRock received certifications from BNY Mellon on June 11, 2018 that the legacy managers' securities transferred to the BlackRock transition accounts had settled.
- BlackRock reconciled their trade directions to what BNY Mellon transacted. BNY Mellon also reconciled the list of securities that were moved.

During the market trading period of June 12, 2018 through June 18, 2018, BlackRock traded on the portfolios for each target strategy provided by Prudential Retirement. BlackRock kept the securities needed, sold the securities not needed and bought securities to meet the target. The TCW manager in the NC Fixed Income Fund and the NC TIPS Fund were also equitized during this trading period as their corresponding transition accounts were funded with cash.

On June 18, 2018, June 20, 2018 and June 27, 2018, BNY Mellon transferred assets from the transition accounts to target accounts and provided portfolio certifications.

**1b. Obtained supporting documentation and walked through conversion reconciliations and transition analyses prepared during the GoalMaker 2.0 rebalance, including the removal of the North Carolina Global Equity Fund and addition of the North Carolina TIPS Index Fund**

We obtained from BNY Mellon the asset and accrual detail by individual security as of June 8, 2018 for all securities held in custody of the Plans' custodial bank. We reviewed and reconciled the June 8, 2018 base market values to the BlackRock transition schematic and noted no differences.

We also obtained the asset reallocation partial transfer spreadsheets detailing the securities to be transferred to the BlackRock transition accounts at the direction of BlackRock for the following legacy managers: (1) Wedge Capital, TimeSquare, Hotchkis Wiley, Earnest, and Brown Advisory from the NC Small MID Cap Core, (2) Sand Capital, Macquarie, Loomis, Hotchkis Wiley from the NC Large Cap Core Fund, and (3) Arrowstreet and Wellington from the NC Global Equity Fund. We noted that total market values of the securities for each manager per BNY Mellon reconciled to BlackRock's direction per the schematic. We obtained the conversion reconciliation from BNY Mellon noting the trades settled on June 11, 2018. No errors were noted.

We also obtained the correspondence and trade tickets from BlackRock for final direction of the fund cash orders for trade date June 8, 2018 and the trade tickets for the cash true-up for the separately managed legacy accounts (wires in and out). We reviewed the confirmation that the cash trades (purchases and redemptions) were processed and settled on June 11, 2018 in the BlackRock transition accounts as directed.

We obtained the approved documentation for the trade payable and receivable directed by BlackRock between the transition accounts to complete the rebalance. We noted this resulted in a variance of outflows versus inflows of \$8,761.98 for the NC Small MID Cap Index Fund and the NC International Index Fund which were not a part of the GoalMaker 2.0 rebalance. The rebalance for the NC Small MID Cap Index and International Index Funds were strictly between Prudential Retirement and BNY Mellon. A true-up manual trade was processed on June 11, 2018. BNY Mellon wired Prudential Retirement \$82,687.72 and Prudential Retirement wired BNY Mellon \$91,449.70 (\$8,761.98). This manual trade settled June 12, 2018. Because the trade should have occurred on June 8, 2018, a slippage gain of \$84.83 was adjusted to the Plans. We reviewed supporting documentation for the transaction. Participant accounts were verified as being whole by Prudential Retirement.

We obtained the BNY Mellon June 14, 2018 trade conversion reconciliation for the securities transferred from the BlackRock transition account to the BlackRock TIPS Fund separate account.

We obtained the BNY Mellon June 18, 2018 match trade conversion reconciliation for the securities transferred from the BlackRock transition non-GoalMaker account for the redeemed legacy managers settled on June 18, 2018.

We obtained the BNY Mellon June 18, 2018 in-kind buy conversion reconciliation for the Large Cap Index Fund BlackRock transition account to the BlackRock Equity Index Non-Lending Fund F settled on June 20, 2018.

We obtained the BNY Mellon June 20, 2018 trade conversion reconciliation for the securities transferred from the BlackRock transition account to the NC Fixed Income Fund.

We obtained the BNY Mellon June 20, 2018 trade conversion reconciliation for the securities transferred from the BlackRock Transition GoalMaker 2.0 account to Baillie Gifford in the NC International Equity Fund settled on June 20, 2018.

We obtained the BNY Mellon June 27, 2018 trade conversion reconciliation for the securities transferred from the BlackRock Transition GoalMaker 2.0 account to Baillie Gifford and Mondrian in the NC International Equity Fund settled on June 27, 2018.

### ***1c. Performed an independent reconciliation of all of the Plans' managed funds***

In addition to obtaining conversion reconciliations performed by BNY Mellon as part of the GoalMaker 2.0 transition described in the section above, we also utilized several reports that were provided by BNY Mellon on the white label funds at the various key settlement dates during the transition.

First, we reconciled the fund participation unit market values from the asset and accrual detail as of June 8, 2018 to those reported in the BNY Mellon holdings detail obtained directly from BNY Mellon for that same date and noted no differences.

Second, we reconciled the units traded to units settled for each conversion event during the transition of assets and reperformed the fund mappings.

Finally, we reviewed the asset and accrual details from BNY Mellon for June 14, 2018, June 18, 2018, June 20, 2018 and June 27, 2018 to verify the securities BNY Mellon detailed as settled in their conversion events during the transfer from the transition accounts posted.

**OBJECTIVE 2: Report errors, if any, and their monetary impact**

We identified no errors during our procedures described in Objective 1, including our review and re-performance of various BNY Mellon conversion reconciliations, account analyses and our independent reconciliations of all Plans' managed funds.