

# Compliance activities "At-a-glance"

April-June, 2017



North Carolina  
Total Retirement Plans

## Vendor contract management and performance standards monitoring



- Recordkeeper met all performance standards
- Recordkeeper experienced fraudulent activity in 21 member accounts; Accounts have been made whole and improved security controls have been enabled. System is being monitored daily by the recordkeeper
- Custodian met all performance standards
- Investment consultant met all performance standards; SRP staff and the consultant continue contract revision and negotiations

## Investment guidelines daily monitoring



- All investment managers are compliant with their respective guidelines
- N.C. House Bill 161 was signed into law on July 27, 2017. The Act requires state divestment from companies that boycott Israel. SRP, IMD and OST staff are in process of developing a project plan to address and implement the Act's legal requirements.

## Corporate governance update



- The Department issued an Invitation to Bid (ITB) for a proxy advisor. Current vendor, Glass Lewis, will continue to provide these services.
- SRP Compliance Officer will be responsible for reviewing and submitting all SRP and all IMD proxy votes during 2018 proxy season and thereafter.

## Investment manager trading error



- Macquarie Investment Management experienced a trading error on June 8 due to a misinterpretation of the quarterly rebalancing forecasting note. The financial impact to the Plans was \$69,787.86. SRP team met with the manager to discuss the error details and to ensure that additional controls were implemented to prevent such occurrence. The manager made the Plans whole.

## Member complaints report



- The Plans' recordkeeper received a total of eight complaints. All were associated with the NC 401(k) Plan.
- All valid complaints were resolved by the recordkeeper and did not require escalation to SRP staff.

## New policies and desktop guidelines project management



- Eight additional desktop guides and one new policy were identified and added to the project plan.
- SRP staff expects to provide a full report and a completed SRP Policy and Procedure Manual during the December Board meeting.



## Vendor Performance Guarantees Report

| Vendor                                    | Monitoring frequency | Fees at Risk (\$) | Q4 2016  | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Comments                                      |
|---|----------------------|-------------------|--|---------|---------|---------|---------|---|
| <b>BNY Mellon</b>                         |                      |                   |  |         |         |         |         |   |
| Unit Value Timeliness                     | Daily                | 1033/mo           | ✓  | ✓       | ✓       |         |         |   |
| Unit Value Accuracy                       | Daily                | 1,033/mo          | ✓  | ✓       | ✓       |         |         |   |
| NAV Report Timeliness                     | Monthly              | 525/mo            | ✓  | ✓       | ✓       |         |         |   |
| NAV Report Accuracy                       | Monthly              | 525/mo            | ✓  | ✓       | ✓       |         |         |   |
| Performance Measurement Report Timeliness | Monthly              | 525/mo            | ✓  | ✓       | ✓       |         |         |   |
| Performance Measurement Report Accuracy   | Monthly              | 525/mo            | ✓  | ✓       | ✓       |         |         |   |
| <b>Prudential NC 401(k)/457(b)/403(b)</b> |                      |                   |  |         |         |         |         |   |
| Call Speed Center to Answer               | Quarterly            | 20,000/yr         | ✓  | X       | ✓       |         |         | Q1 Goal: 20 secs; actual speed: 39 secs       |
| Call Abandonment                          | Quarterly            | 10,000/yr         | ✓  | ✓       | ✓       |         |         |   |
| Statement Mailing Timeliness              | Quarterly            | 10,000/qr         | ✓  | ✓       | ✓       |         |         |   |
| Website Availability                      | Annually             | 10,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Participant Satisfaction Survey           | Annually             | 10,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Contribution Processing Timeliness        | Annually             | 10,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Distribution Processing Timeliness        | Annually             | 20,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Asset Allocation Usage                    | Monthly              | 10,000/yr         | ✓  | ✓       | ✓       |         |         |   |
| Contribution Level                        | Annually             | 10,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Participation Level                       | Annually             | 10,000/yr         | ✓  | N/A     | N/A     |         |         |   |
| Communications Strategy                   | Quarterly            | 10,000/qr         | ✓  | ✓       | ✓       |         |         |   |
| Retirement Readiness                      | Annually             | 25,000/yr         | 2012 Goal 58%; Actual 59.92%<br>2013 Goal 60%; Actual 67.56%<br>2014 Goal 70%; Actual 64.01%<br>2015 Goal 65%; Actual 60.48%<br>2016 Goal 66%; Actual 58.04% |         |         |         |         | Score reported annually at June Board meeting |



| Monitoring frequency | Fees at Risk (\$) | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Comments |
|----------------------|-------------------|---------|---------|---------|---------|---------|----------|
|----------------------|-------------------|---------|---------|---------|---------|---------|----------|

|  |           |  |   |   |   |  |  |
|--|-----------|--|---|---|---|--|--|
| <b>Mercer</b>  |           |  |   |   |   |  |  |
| Investment Policy Statement Development and Monitoring | Annually  | Any material deficiencies will reduce the fee by \$5,000.00 for the next calendar quarter, up to the maximum reduction of \$20,000.00 in any rolling 12-month period | √ | √ | √ |  |  |
| Plan Design Review and Recommendations                 | Annually  |  | √ | √ | √ |  |  |
| Investment Manager Searches and Ongoing Monitoring     | Quarterly |  | √ | √ | √ |  |  |
| Performance and Risk Reporting                         | Quarterly |  | √ | √ | √ |  |  |
| Industry Research                                      | Quarterly |  | √ | √ | √ |  |  |
| Glidepath Review                                       | Annually  |  | √ | √ | √ |  |  |
| Stable Value Fund Review                               | Annually  |  | √ | √ | √ |  |  |
| Board Meeting Presentations                            | Quarterly |  | √ | √ | √ |  |  |



Retirement Systems Division - Supplemental Retirement Plans At a Glance  
June 2017

COUNTS Q2 2017

|        | Assets   | Participants | Employers |
|--------|----------|--------------|-----------|
| 401(k) | \$9.1 B  | 247,114      | 1038      |
| 457(b) | \$1.3 B  | 53,080       | 458       |
| 403(b) | \$11.2 M | 1,186        | 50*       |

STRATEGIC GOALS

- Secure the retirement of North Carolina public servants
- Deliver comprehensive personalized solutions and services
- Provide exceptional customer experience
- Protect the integrity of the North Carolina Retirement Systems

HIGHLIGHTS Q2 2017

- > Reduced Investment Mgr Fees by over \$2M
- > Completed 2016 Financials and Compliance Testing
- > Produced and Issued 2016 Annual Benefit Statement

Current and Upcoming Initiatives

Implementation of Plan Design Project

Planning Implementation of Glidepath Project

Electronic Delivery of Board Materials

COMMUNICATION / EDUCATION OUTREACH Q3 2017

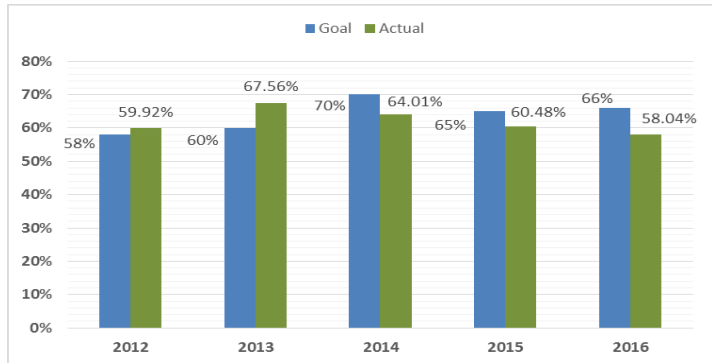
- > Plan Design Change - multiple communications to employer and employees
- > Enrollment Campaign - targeted outreach to 60k begins
- > National Retirement Security Week 2017

INVESTMENTS - 401(k) & 457(b) Plans - Q2 2017

| Fund / Benchmark                 | Qtr         | 1 YR         | 3 YR         | 5 YR         | Incpt.       |
|----------------------------------|-------------|--------------|--------------|--------------|--------------|
| <b>Large Cap Passive</b>         | <b>3.1%</b> | <b>17.9%</b> | <b>9.5%</b>  | <b>14.5%</b> | <b>16.7%</b> |
| S&P 500                          | 3.1%        | 17.9%        | 9.6%         | 14.6%        | 16.9%        |
| <b>Large Cap Value</b>           | <b>2.0%</b> | <b>18.0%</b> | <b>7.5%</b>  | <b>14.3%</b> | <b>15.4%</b> |
| Russell 1000 Value               | 1.3%        | 15.5%        | 7.4%         | 13.9%        | 16.3%        |
| <b>Large Cap Growth</b>          | <b>7.4%</b> | <b>23.2%</b> | <b>10.6%</b> | <b>15.2%</b> | <b>19.0%</b> |
| Russell 1000 Growth              | 4.7%        | 20.4%        | 11.1%        | 15.3%        | 17.7%        |
| <b>SMID Cap Passive</b>          | <b>2.1%</b> | <b>19.7%</b> | <b>7.0%</b>  | <b>14.0%</b> | <b>17.9%</b> |
| Russell 2500                     | 2.1%        | 19.8%        | 6.9%         | 14.0%        | 18.0%        |
| <b>SMID Cap Value</b>            | <b>0.8%</b> | <b>22.1%</b> | <b>6.2%</b>  | <b>14.7%</b> | <b>19.8%</b> |
| Russell 2500 Value               | 0.3%        | 18.4%        | 6.2%         | 13.7%        | 17.5%        |
| <b>SMID Cap Growth</b>           | <b>4.8%</b> | <b>17.5%</b> | <b>7.8%</b>  | <b>13.6%</b> | <b>17.1%</b> |
| Russell 2500 Growth              | 4.1%        | 21.4%        | 7.7%         | 14.3%        | 18.5%        |
| <b>International Passive</b>     | <b>5.9%</b> | <b>20.7%</b> | <b>0.9%</b>  | <b>7.2%</b>  | <b>10.1%</b> |
| MSCI ACWI ex USA Gross           | 6.0%        | 21.0%        | 1.3%         | 7.7%         | 10.6%        |
| <b>International Equity</b>      | <b>6.4%</b> | <b>20.4%</b> | <b>2.7%</b>  | <b>8.3%</b>  | <b>11.1%</b> |
| ACWI ex USA Gross                | 6.0%        | 21.0%        | 1.3%         | 7.7%         | 10.6%        |
| <b>Global Equity</b>             | <b>5.3%</b> | <b>20.3%</b> | <b>6.4%</b>  | <b>13.1%</b> | <b>14.0%</b> |
| MSCI ACWI Gross                  | 4.5%        | 19.4%        | 5.4%         | 11.1%        | 13.6%        |
| <b>Inflation Responsive Fund</b> | <b>0.1%</b> | <b>2.6%</b>  | <b>-0.5%</b> | <b>-</b>     | <b>1.1%</b>  |
| PIMCO Inflation Response Index   | -0.4%       | -1.7%        | -2.4%        | -1.3%        | -0.7%        |
| <b>Fixed Income Passive</b>      | <b>1.5%</b> | <b>-0.3%</b> | <b>2.4%</b>  | <b>2.1%</b>  | <b>2.8%</b>  |
| Barclays Aggregate               | 1.4%        | -0.3%        | 2.5%         | 2.2%         | 2.9%         |
| <b>Fixed Income Fund</b>         | <b>1.8%</b> | <b>1.1%</b>  | <b>3.2%</b>  | <b>3.0%</b>  | <b>4.9%</b>  |
| Barclays Aggregate               | 1.4%        | -0.3%        | 2.5%         | 2.2%         | 4.1%         |
| <b>Stable Value Fund</b>         | <b>0.5%</b> | <b>2.0%</b>  | <b>1.9%</b>  | <b>2.0%</b>  | <b>2.6%</b>  |
| T-Bills + 1%                     | 0.6%        | 2.0%         | 1.7%         | 1.7%         | 1.6%         |

\* School Districts

RETIREMENT READINESS - Annual Score



TACTICAL GOALS - Q2 2017

401(k), 457(b) & 403(b) Combined Summary Goals

| Sub Goal                  | Goal   | Jun-17 | % to Goal |
|---------------------------|--------|--------|-----------|
| Avg. Monthly Contribution | \$ 163 | \$ 184 | 113%      |
| Active Participation Rate | 28%    | 33%    | 117%      |
| GoalMaker - New Member    | 80%    | 93%    | 117%      |
| GoalMaker - All Members   | NA     | 61%    | NA        |

RECORDKEEPER SERVICE LEVEL AGREEMENT'S - Q2 2017

|                              | 401(k)/457(b)<br>Plans | 403(b)<br>Program |
|------------------------------|------------------------|-------------------|
| Statements                   | yes                    |                   |
| Call Center Speed            | 16 Seconds             |                   |
| Education Meeting/Individual | 11,216                 |                   |

401k & 457b CUSTODIAN SERVICE LEVEL AGREEMENT

Standard Key Performance Indicators (KPIs) for June 2017

|                            | KPIs      | Met       | Not Met  |
|----------------------------|-----------|-----------|----------|
| BNYM Accounting team       | 4         | 4         | 0        |
| Client Service             | 4         | 4         | 0        |
| Global Risk Solutions Team | 3         | 3         | 0        |
| Workbench                  | 1         | 1         |          |
| <b>KPI TOTALS</b>          | <b>12</b> | <b>12</b> | <b>0</b> |

UPCOMING 2017 MEETINGS

**Investment Subcommittee Meeting:**  
November 15, 2017

**Board of Trustees Meeting:**  
December 14, 2017

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RETIREMENT SYSTEMS DIVISIONSTEVEN C. TOOLE  
EXECUTIVE DIRECTOR

To: The North Carolina Supplemental Retirement Board of Trustees

From: Mary Buonfiglio, Deputy Director, Supplemental Retirement Plans

Date: August 31, 2017

Subject: Proxy vendor services update

The North Carolina Department of State Treasurer is in the process of contracting with Glass Lewis as a proxy voting advisory service provider, selected in an Invitation-to-Bid (ITB) process.

Glass Lewis has been providing these services to the Department since 2006, and historically, the ballots of the Investment Management Division (IMD) and the Supplemental Retirement Plans (SRP) have been cast separately. The vendor also maintained two separate custom policies — one for SRP and another for IMD.

The Treasurer and the Department's Corporate Governance Committee determined that in order to streamline and simplify the process of departmental proxy voting, a thorough review of current policies and processes was needed. As a result of this review, the Department issued an ITB in March 2017, and received responses from four vendors: Glass Lewis, Institutional Shareholder Services (ISS), Broadridge, and Egan Jones. To assess the best fit for Department needs, the Selection Committee reviewed the scope of services, fees and the quality of research reports for each vendor. Due diligence visits were also conducted. The Treasurer approved the Committee's recommendation that the Department proceed to contract with Glass Lewis.

The Department anticipates a significant fee reduction. SRP staff will present a revised Proxy Voting Policy to the Board of Trustees for review during the December, 2017 quarterly meeting.