



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



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

MINUTES

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

The regular quarterly meeting of the North Carolina Supplemental Retirement Board of Trustees was called to order at 9:00 a.m., June 21, 2018, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair indicated there would be a public comment period for organizations and individuals to address the Board of Trustees later in the agenda.

Members Present

The members present were: Treasurer Dale R. Folwell, CPA, Chair, Melinda Baran, Steve Beam, Karin Cochran (by telephone), Lorraine Johnson, Heyward McKinney (by telephone), Michael Lewis, and Nigel Long.

Members Absent

Ron Copley.

Guests Present

The following guests attended the meeting: Member of the public: Christy Long. Will Dillard, Kelly Henson and Andrew Ness from Mercer Investment Consulting. Ann Cashman, Kelly Keen (by telephone), Aaron Koval, Michael McCann, Kathleen Neville, and Jessica Quimby (by telephone) from Prudential Retirement. Mikaylee O'Connor from RVK, Inc. (by telephone), and Denise Fortune from Voya.

Department of State Treasurer Staff Present

The staff members present were: Mary Buonfiglio, Reid Chisholm, Chris Farr, Joan Fontes, Timeka Holden, Catherine Jarboe, Rekha Krishnan, Frank Lester, Karah Manning, Loren de Mey, Maja Moseley, and Steve Toole.

Swearing-in of Members

The Chair welcomed the three new members of the Supplemental Retirement Board of Trustees: Steve Beam, Lorraine Johnson and Nigel Long. The members took the oath of office. The Chair expressed gratitude to the members for their willingness to serve.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. No conflicts of interest were identified by the members.

Resolutions of Appreciation

Board members recognized the outstanding service of Mr. Gene Hamilton and Mr. Rob Orr as members of the Supplemental Retirement Board of Trustees. Mr. Lewis made a motion to approve the resolution for Mr. Hamilton and the motion was seconded by Mr. Beam. Ms. Baran made a motion to approve the resolution for Mr. Orr and the motion was seconded by Mr. Lewis.

Both motions passed unanimously.

Approval of Minutes

The Chair entertained a motion to approve the minutes of the March 21, 2018, board meeting. Ms. Baran so moved and Ms. Johnson seconded; the motion passed unanimously.

Legal Updates

The Chair recognized Mr. Chisholm who detailed each of the three motions presented to board members for consideration and approval:

- An amendment to the NC 457(b) Plan Document regarding internal rollovers from the NC 401 (k) Plan;
- An amendment to the NC 401(k)/NC 457(b) Plans and the NC 403(b) Placement Agent Policy, clarifying application of the policy to transition management and items on the Form Disclosure Letters; and
- Revised Board Charter, including delegation by the Chair and amended roles and responsibilities.

Mr. McKinney made a motion to approve the NC 457(b) Plan Document as amended and Mr. Beam seconded the motion. The motion passed unanimously.

Mr. Long made a motion to approve the NC 401(k)/NC 457(b) Plans and the NC 403(b) Placement Agent Policy as amended and Ms. Johnson seconded the motion. The motion passed unanimously.

Ms. Baran made a motion to approve the revised Board Charter and the Chair seconded. The motion passed unanimously.

Legislative and Regulatory Update

The Chair recognized Mr. Toole who summarized the legislative priorities at the federal level, including: preservation of pre-tax contributions to plans instead of "Rothification" (or elimination of pre-tax contributions); retention of special catch-up and qualified charitable contributions; and, an ability to roll over Roth IRA assets, to purchase service credits with Roth contributions, and to enable non-spousal rollovers. Mr. Toole added that the NC pension system is also monitoring discussion about potential updates to the definition of "employer" as changes to this definition may significantly impact charter schools in the system.

NC 401(k) and NC 457(b) Plans NC Small/Mid Cap Core Fund Recommendation

At the Chair's request, this agenda item recommendation was moved up in the agenda to be addressed next. Mr. Toole offered opening remarks, providing the review of the events leading to today's discussion. He provided a brief overview of the decision made by Investment Subcommittee members in February, which included the recommended termination of TimesSquare as manager in the NC Small/Mid Cap Core Fund and a request to evaluate three potential replacement options. Subsequently, staff and the investment consultant provided a report and evaluation during the May Supplemental Investment Subcommittee meeting. At its May meeting, the Subcommittee voted to recommend to the Board that it replace the TimesSquare Small/Mid Cap Growth strategy in the NC Small/Mid Cap Core Fund, with the Russell 2500 Index Fund.

Mr. Toole turned the floor over to Ms. Henson who provided a detailed overview of the NC Small/Mid Cap Core fund's background, fund strategy, performance, and recent manager changes completed in September 2017. She summarized the three replacement options that

were considered by the Supplemental Investment Subcommittee at its May meeting, and described Mercer's analysis and detailed its comparison process. She stated that Mercer recommends that the Board replace the TimesSquare Small/Mid Cap Growth Strategy with another active manager: Loomis Sayles.

Following Ms. Henson's presentation, board members discussed each scenario, including fees, potential value bias and active share score. Ms. Henson stated that any one of the factors considered was not weighted over another. At Mr. Long's request, Ms. Henson detailed the current investment manager replacement process. Mr. Long also noted that a lower investment management fee, associated with the first scenario was a positive characteristic, and inquired whether this was a primary driver behind the option. The Chair emphasized the fact that during the review process all scenarios were taken into account.

Mr. Chisholm emphasized that changes to the Plan design and fund changes are the most significant fiduciary decisions made by the Board of Trustees, and he requested that Ms. Henson share Mercer's decision-making rationale supporting its recommendation to replace TimesSquare with Loomis Sayles. Ms. Henson summarized the rationale. Mr. Chisholm emphasized the importance of documenting the rationale for the Board's actions as part of the Board's fiduciary duty. Mr. Chisholm also summarized the proposed edits to the Investment Policy Statement, which would be required as a result of either of the recommended options under consideration.

The Chair entertained a motion to terminate TimesSquare Capital Management. Ms. Baran so moved and Mr. Long seconded. The motion passed unanimously.

The Chair entertained a motion to replace TimesSquare Small/Mid Cap Growth Strategy with Russell 2500 Index Fund. Mr. Beam so moved and Mr. Lewis seconded. The motion passed unanimously.

The Chair entertained a motion to revise the Investment Policy Statement with respect to the NC Small/Mid Cap Core Fund changes. Mr. Beam so moved and Mr. Lewis seconded. The motion passed unanimously.

2017 Retirement Readiness Results

Mr. Toole provided a summary of the Retirement Readiness results for active members' replacement of income in retirement and a detailed overview of 2017 *myNC* Retirement Statements. He noted that with respect to the Retirement Readiness score three areas are monitored: contribution (deferral) levels, asset allocations and participation levels. Mr. Toole also reviewed the gap and surplus analysis of the statements. The Chair offered background regarding another employee resource, the Total Benefits Statements, and emphasized the need to make the members fully aware of the true value of benefits they receive while working for the state.

The members discussed the lower result of Retirement Readiness of 57.56% due to salary increases. They also discussed the rate of loans taken from each plan and their overall financial impact to asset balances.

NC Supplemental Retirement Plans' Benchmarking

The Chair recognized Mr. Ness from Mercer and Ms. O'Connor from RVK. Mr. Ness noted that Mercer's report was designed to check the fees and the services of the recordkeeper, and how

they compare to a peer group of six large retirement plans. He presented the report's executive summary and highlighted noteworthy parts of the report: service level review, retirement readiness, and innovations observed at each of the comparison plans, such as use of mobile device applications. With respect to the recordkeeping cost, Mr. Ness mentioned the competitiveness of the Plans' annual \$31.00 account fee.

Ms. O'Connor provided the results of RVK's cost benchmarking analysis, conducted among twenty-one comparable plans. She directed the members' attention to plan specific results portion of the report, noting that the Plans have the lowest cost in almost every category.

The members discussed the call center performance standards, as well as the recordkeeping fee and the administrative fee, which is an asset-based fee of 2.5 basis points charged by the Plans. Mr. Ness recommended considering a fee policy statement.

Budget Proposal

The Chair recognized Ms. Buonfiglio who presented the budget for the new 2018-2019 fiscal year. She noted that while the prior year assumptions were utilized in the budgeting process, the staff are forecasting a reduction in expenses. Ms. Buonfiglio added that the budget contains a seven percent estimate for unforeseen expenses and intergovernmental transfer projection. The members discussed the fund balance currently in the administrative reimbursement account and Ms. Buonfiglio focused on the amounts in reserve and the opportunity of either fee reduction or fee holiday upon further research and market analysis. The Chair entertained a motion to approve the 2018-2019 budget and Mr. Beam so moved. Mr. Lewis seconded and the motion passed unanimously.

Approval of Minutes

The Chair entertained a motion to approve the minutes of the May 23, 2018, Supplemental Investment Subcommittee meeting. Ms. Baran so moved and Ms. Johnson seconded; the motion passed unanimously.

NC 401(k) and NC 457(b) Plans Annual Review

The Chair recognized Ms. Henson and Mr. Dillard. Ms. Henson stated that Mercer does not recommend any changes to the Plans' investments at this time. She also discussed the top priorities for defined contributions plan sponsors across the industry, several of which have already been implemented by the NC 401(k) and NC 457 Plans, including creation of success measures, endorsement of overall financial wellness and diversification through white label funds. No changes are recommended to the Investment Policy Statement and Mercer will continue to review the document annually.

NC 401(K)/457(B) Plans 1st Quarter Investment Performance Report

Mr. Dillard provided the investment managers' update, discussed the market conditions and funds' performance, and offered a recommendation regarding the investment manager Watch List: to remove Sands Large Cap Core strategy and to add Mondrian International Equity strategy. He noted that Sands has been the best absolute and relative performer of all the Plans' investment managers and that Mercer continues to be confident in Mondrian's team long-term.

The members discussed the percentage of members invested in the NC Stable Value Fund and factors impacting this percentage.

NC 403(B) Program 1st Quarter Investment Performance Report

The Chair recognized Ms. de Mey who summarized the Program's asset allocation during the quarter and provided detailed performance overview of the funds, noting the factors which have impacted the overall performance.

NC 401(k)/457(b) Plans and NC 403(b) Program 1st Quarter Administrative Report

The Chair recognized Mr. McCann who offered a background of the services Prudential provides for the Plans and a summary of the changes implemented due to the transition to the enhanced GoalMaker portfolios, including the closure of the Plans' NC Global Equity Fund and the Program's MFS Institutional International Equity Fund. He noted the value of efficient transition communication and added that neither the service center nor the counselors have reported a spike in calls or advice inquiries linked directly to the event.

Mr. McCann also highlighted several sections of the report, including the goal summary, contribution amounts and plan adoptions tracking, as well as field team activity.

Board of Trustees Comments

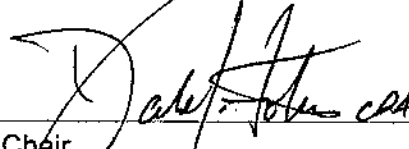
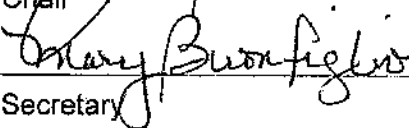
No additional comments were offered.

Public Comments

No public comments were offered.

Adjournment

Mr. Beam made a motion to adjourn the meeting and Mr. Lewis seconded. The meeting adjourned at 11:43 a.m.


Chair

Secretary