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**INVESTMENT SUBCOMMITTEE OF THE NORTH CAROLINA
SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

MINUTES OF SPECIAL MEETING - SEPTEMBER 3, 2015

Time and Location: Investment Subcommittee (the “Subcommittee”) of the NC Supplemental Retirement Board of Trustees (the “Board”) met at 3:30 p.m., on Thursday, September 3, 2015, in the Cape Hatteras Conference Room of the Longleaf Building, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: Melinda Baran, Chair, and Karin Cochran attended via telephone.

Staff and Guests present: The following staff and guests attended the meeting. From the Department of State Treasurer: Steve Toole (via telephone), Mary Buonfiglio, Mary Laurie Cece, Rekha Krishnan and Maja Moseley. From Mercer (via telephone): Liana Magner, Kelly Henson and William Dillard. From TIAA-CREF (via telephone): Jim Simone.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

Ms. Buonfiglio called the meeting to order at 3:05 p.m., and welcomed the attendees.

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

Ms. Buonfiglio asked Subcommittee members to review the agenda for the meeting and identify any actual, implied or potential conflicts of interest. Ms. Baran stated that she is a Vanguard investor and Ms. Cochran stated that she used to work for BlackRock. Ms. Cece stated that both statements were duly noted, but did not pose a conflict.

AGENDA ITEM –RECOMMENDATION ON CUSTOM PORTFOLIO

Ms. Buonfiglio stated that the purpose of the special meeting was to address the outstanding candidate research and recommendation for the Passive Core Fixed Income strategy in the North Carolina 403(b) Program. The two candidates selected and discussed by the Subcommittee members during the meeting on August 27, 2015, are Vanguard Total Bond Market Index Fund, Admiral share class (fee of 7 basis points with securities lending), and BlackRock US Total Bond Index Fund, K class share (fee of 6 basis points, no securities lending). Ms. Buonfiglio

then recognized Mr. Simone to update the Subcommittee on the fee reduction negotiation with Vanguard. Mr. Simone stated that Vanguard's representative met in-house with Kevin Orr and himself, and the representative was presented with the expense ratio difference between the two funds. He stated that 7 basis points is the best price Vanguard can offer for the Admiral share class for a plan of this size and no further fee reduction could be given.

Ms. Buonfiglio asked the Mercer team to discuss the two index funds' respective performance and track records. Ms. Magner stated that both funds are very strong and consistent performers. They have tracked their respective indices closely, with Vanguard slightly out-performing BlackRock. The selection of Vanguard would mean all index products in the 403(b) Program would come from that same fund family. The plans already have a significant relationship with Blackrock, but those members who participate in the NC 403(b) only may not be aware of this relationship. Ms. Magner reiterated that this is the Subcommittee's decision whether the lowest fee should be the determinative selection criterion.

Ms. Buonfiglio stated that the Vanguard fund index allows for greater corporate bond exposure and this may explain why the fund has delivered better performance than the BlackRock fund. Ms. Baran agreed, noting the same performance characteristics and adding that the Vanguard brand is highly recognizable and respected among the public educator population. Mr. Toole inquired about the impact of securities lending in the Vanguard fund.. Ms. Magner (or was it Kelly?)stated, that their lending process is very conservative and the revenue is returned in its entirety to fund investors. Mr. Toole pointed out that it may take several years before the assets in the strategy reach \$5 million and qualify for the lower fee share class. Mr. Toole believes that a one basis point difference is meaningful and therefore, BlackRock would be his preference; however, from a fiduciary perspective, each fund is a strong candidate. Ms. Baran asked about the possible time frame for community colleges to join the program and Ms. Buonfiglio replied that a fact-finding meeting with key decision-makers is scheduled to take place. Mr. Simone added that program adoption by community colleges would increase the assets in the program and positive feedback regarding adoptions has been received from retirement planning consultants who collaborate with college committees. He also noted that 70% of the program's participants take advantage of the target-date funds and in Mr. Simone's tentative estimate, it might be possible to reach the needed, larger level of assets in the Vanguard passive index fund in 3-5 years. Ms. Cochran noted that fulfilling the Subcommittee's fiduciary duty meant selecting the most reasonable option for the program participants, and Vanguard's brand recognition among the teacher population should not be the deciding factor. Ms. Buonfiglio also added that within a three-year period, Vanguard out-performed BlackRock by 9 basis points and by another 7 basis points in a five-year period: this difference in performance is driven by a slightly different makeup of Vanguard's index. Ms. Buonfiglio's choice would be Vanguard. Ms. Cochran added that she was comfortable with Mercer's recommendation and agreed with the argument Ms. Buonfiglio made regarding better performance from Vanguard. Ms. Cochran also

inquired whether Mercer was aware of any growth momentum in Vanguard versus BlackRock, and Ms. Magner replied that BlackRock is the largest investment manager in the index fund space in the U.S. But, Vanguard also has aggressively maintained their existing share of the market, while being a leader in fee reduction.

Ms. Baran made a motion to approve Vanguard Total Bond Market Index Fund, Admiral share class, to use in the NC 403(b) Program. Ms. Cochran seconded, and the motion passed unanimously.

AGENDA ITEM - SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS

No further comments were offered.

AGENDA ITEM – PUBLIC COMMENT

No public comments were offered.

Ms. Cochran made a motion to adjourn and Ms. Baran seconded. The motion passed unanimously and the meeting adjourned at 4:05 p.m.

Secretary