

DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING

June 18, 2015

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 9:00 a.m. on Thursday, June 18, 2015 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, Keith Burns, Ron Stell, and Michael Lewis.

Staff Present: The following Department of State Treasurer (DST) staff were present: Steve Toole, Mary Buonfiglio, Mary Laurie Cece, Rekha Krishnan, Lisa Page, Rosita Sabrosso-Rennick, Rhonda Smith, Blake Thomas, Marni Schribman, Kevin SigRist, and Maja Moseley.

Guests Present: The following guests attended the meeting: Michael McCann, Tom Conlon, Kathleen Neville, and Jessica Quimby (via telephone) from Prudential Retirement; Jim Simone from TIAA-CREF; Kelly Henson and Liana Magner from Mercer Investment Consulting; and Melinda Morrill from the North Carolina State University.

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 noted that appointments for the following four members — Karin Cochran, Walter Gray, Robert Orr and Ronald Stell — are expiring on June 30, 2015, and that re-appointment letters have not yet been received. Mr. Stell informed the Board that he has been appointed to the North Carolina Board of Agriculture and will be resigning from the Supplemental Retirement Board. The Chair congratulated Mr. Stell and thanked him for his contributions to the board.

The Chair asked to hold the public comments until the end of the session and noted that Melinda Morrill, Assistant Professor with the North Carolina State University, will be joining the session later to present the NC 403(b) research report.

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. Mr. Toole stated that while technically there is not a conflict, he would still recuse himself from deliberations in closed session.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there were any comments or changes to the minutes of the March 19, 2015, Board meeting. There were no comments and Ms. Baran made a motion that the minutes be approved. Ms. Cochran seconded, and the motion passed unanimously.

AGENDA ITEM – LEGISLATIVE UPDATE

The Chair recognized Mr. Toole, who noted three main topics for the legislative update: the DST administrative changes bill, the 403(b) bill and the ABLE Act. Section one of the administrative bill (HB 277) would change the SRP Board term from two to three years, which is good from the member onboarding perspective, as well as for maintaining Board continuity. Mr. Thomas added that the bill authorizes market-based compensation for SRP personnel. HB 264 proposes to add community colleges to the NC 403(b) Program and this bill has crossed over to the senate without opposition. Lastly, Mr. Toole noted that Senator Richard Burr is one of the sponsors of the federal ABLE Act, which passed in 2014; the act aims to encourage and assist individuals and families in saving private funds for the purpose of supporting individuals with disabilities to maintain their health, independence, and quality of life. The account can be used for funding disability-related expenses of beneficiaries that will supplement, but not supplant, benefits provided through private insurance, title XVI (Supplemental Security Income) and title XIX (Medicaid). Mr. Toole added that the state ABLE bill requires the establishment of a separate Board, consisting of five members and chaired by the Treasurer, to govern the state plan. The HB 556 requests four additional personnel positions and start-up funding for the state ABLE plan. Mr. Toole noted that the department is partnering with the National Association of State Treasurers for further cooperation and to find economy of scale in operating the program. Mr. Hamilton asked if the program was tax-exempt, and Mr. Toole replied that the earnings on the funds can be withdrawn tax-free; however, there is no tax credit on contributions at the state level. Eligible individuals will be encouraged to participate in order to increase the scale of the program.

AGENDA ITEM – PLAN TRANSITION UPDATE

Mr. Toole described the unbundling process for the plans. He stated that the plans' transition is progressing well and ongoing discussions are being held with the recordkeeper and the new custodian, BNY Mellon, in order to provide additional plan enhancements to participants. Roles and responsibilities during the transition are being clarified among the SRP staff, custodian and recordkeeper teams; Andrew Ness of Mercer Investment Consulting is overseeing the transition project management. Mr. Toole noted that while the current recordkeeping contract with Prudential expires on December 17, 2015, there will be a bridge agreement from December 18,

2015, until January 4, 2016. Transitioning on January 4th helps from an audit perspective and reduces risk. The major task at hand is contract management and defining a new trust structure for the plans. Based on the advice of outside legal counsel, it is contemplated that the NC 401(k) and the NC 457(b) will join a group master trust.

Mr. Toole said that SRP staff is still working to define investment consultant roles and responsibilities. He reminded the Board that Mercer had been selected as the investment consultant, and Slocum had been engaged to give advice as to what the investment consultant structure should look like. He noted that the SRP staff had been working on defining roles and responsibilities and on a job description for the new SRP investment staff resource. He also stated that there is an upcoming meeting with Mercer to get their feedback on roles and responsibilities. Ms. Cochran asked for clarification as to whose task is it to complete the job description, and Mr. Toole replied that Mr. Kevin SigRist and his team are working on the details with SRP staff giving feedback. Mr. Hamilton asked whether Mercer retains oversight in the new structure, and Mr. Toole stated that this is yet to be determined and ultimately, this decision belongs to the Board. He explained that they are evaluating an outsourced CIO model (which about 40% of plans have), and a completely in-house model (which would have IMD manage the investments). He stated that about 15% of plans are completely in-house. The third approach is a hybrid model. Ms. Cochran stated that she thought the Board had said a hybrid approach was best. Mr. Lewis agreed that he thought that Board had decided on a hybrid approach. Mr. Burns stated that he recalled a table that showed who had responsibility for various functions and asked whether it was possible to look at that again. The Chair directed staff to obtain copies of the table, and asked the Board to return to this particular discussion later in the meeting.

AGENDA ITEM – CLOSED SESSION

Next, the Chair asked for a motion to enter closed session pursuant to G.S. 143-318.11(a)(1) and (a)(3). For purposes of subdivision (a)(1), the session involves matters that the state's procurement laws and regulations make confidential. This includes confidential information covered in N.C.G.S. § 132-1.2(1). For purposes of subdivision (a)(3), the session involves matters that are not yet the subject of any existing lawsuit.

Mr. Burns made the motion to enter closed session; the motion was seconded by Mr. Hamilton and it passed unanimously.

At 10:10 a.m., the Chair asked for a motion to reopen the meeting. Mr. Burns made a motion to reopen the meeting. Mr. Hamilton seconded and the motion passed unanimously.

AGENDA ITEM – BUDGET PROPOSAL 2015-16

Mr. Toole continued on to the budget proposal and reminded everyone of the exclusive benefit rule which requires that fees taken from the plans must be used for the sole benefit of the

members. Mr. Toole stated that for the purpose of budgeting, no asset growth is assumed for the plans and the assumptions include full employment through 2015 fiscal year and full benefits rates. Mr. Toole highlighted the budget increase of \$459,472, due to the addition of a new position, the cost associated with the unbundling project, and the adoption of the DST overhead cost allocation methodology. Mr. Burns inquired how the total expenditures as a percentage of the plan assets compare to peers in the industry. Mr. Toole replied that the expenses have increased, compared to a period of 5-6 years ago; however, the plan is managing the expenses efficiently and some fees have been reduced. The Chair recommended that the total administrative cost be included as the plans basic metrics and presented during the next meeting.

Mr. Toole noted that the combined revenue in the NC 401(k) and NC 457(b) was \$2 million plus interest, based on conservative assumptions. Revenue covered the expenses and the balance in the administrative account is being monitored. Mr. Toole stated that for the NC 403(b) Program expenses, no start-up funding had been provided for the Program. Certain start-up expenses had been paid out of the QEBA loan of \$150,000. It was recognized that more revenue was going to be needed to pay the expenses of this new program, so the annual administrative fee was established at 5 basis points. A per capita fee of \$10-15 is also being considered, but will not be implemented at this time. Mr. Toole noted that the program is also facing an expense of \$15,000 for the IRS volume submitter plan document. Overall, he stated that it is necessary for the program to find a way to lower expenses, since the projection for the next year is for the program to grow to \$7 million in assets. Mr. Lewis asked how much in assets was needed for the program to break even. Ms. Krishnan replied that annual expenses are approximately \$100,000, so the total assets would need to be about \$200 million. Mr. Hamilton asked why the interest rate on the QEBA loan (7.25%) is being charged. Ms. Buonfiglio noted that the loan is unsecured. Mr. Toole stated that is the rate the funds were predicted to return if they stayed in the QEBA account. Ms. Baran and Ms. Cochran recommended that projections be made with regards to the addition of community colleges and the break-even point. Mr. Toole replied that 1-, 3- and 5-year projections will be available for next Board meeting. Mr. Simone also remarked that adding community colleges to the program carries the potential for higher contribution rates and, therefore, higher revenue overall.

AGEND ITEM-BOARD RESOLUTION GRANTING DIRECTOR, RSD AUTHORITY TO ACT IN EXCEPTIONAL CIRCUMSTANCES

The Chair recognized Ms. Cece who stated that the proposed resolution is viewed as best practice in other jurisdictions. This resolution would enable the Director to act on behalf of the Board in an emergency when Board members cannot be contacted. Ms. Buonfiglio added that such an emergency occurred in September 2013, during one of the fund transitions. Mr. Toole also noted that the emergency issue would be first fully vetted with the Treasurer and the SRP staff. The Chair remarked on a possibility of a loophole, and Ms. Cece replied that the resolution was drafted in a very specific manner, with Mr. Thomas adding that a financial loss and/or

terrorist attack would constitute an emergency. Both attorneys confirmed that any loopholes would be closed and that the Director must be able to respond in a case of emergency.

Ms. Baran made a motion to approve the resolution, and Mr. Burns seconded. The motion passed unanimously.

The Chair directed the Board's attention back to the plan transition update. Mr. Toole stated that ultimately, what we are seeking is clarification with regards to the following: role and responsibility of Mercer Investment Consulting, role and responsibility of the new SRP position, and the role of the Board. At Mr. Burns' request, the Slocum report's Governance/Key Responsibilities page was provided to the Board members as a reference. Mr. Toole asked Mr. SigRist to share his thoughts on the models.

Mr. SigRist provided examples to highlight the two possible options:

1. In regards to a manager search, the process would be as follows begin manager search by seeking approval from the Board on the desired type of manager. Mercer, in cooperation with IMD and the new SRP position, would develop a list of firms, based on criteria approved by the Board. Both Mercer and IMD have their respective manager databases and could collaborate to narrow down the number of potential candidates, as well as develop manager questionnaires and compile an interview list. Post-interview recommendations would be presented to the Board for approval.
2. In the second scenario the investment consultant would work for the Board directly, and the Board would actively participate in the selection and interview process.

Mr. Burns recalled from the prior, high-level discussion that the Board would remain engaged in the selection process, but wanted the staff to provide high-level, high-quality information on manager selection.

Ms. Baran noted that she went back to the March Board minutes and they state that the Board asked staff to look into a hybrid investment consultant model and to hire additional staff. She asked when this model issue would be resolved. Mr. Toole said within the next 30 days. Ms. Cochran stated that she thought Mercer's role would not change, but rather the staff member would be added to enhance oversight of Mercer. Mr. SigRist said that his concern is around who would be accountable if things go sideways. He said it needs to be clear who is responsible for bad performance. Mr. Toole added that full understanding of added liability should come before assuming the responsibility. He noted that risk, associated with moving the responsibility directly to the staff, must be clear.

Ms. Cochran added that the Board wants Mercer to be involved to the best of their ability and their voice not to be impacted by the new SRP position dynamics. Mr. SigRist agreed that consultants must have an independent voice and be able to freely express their concerns to the Treasurer and the staff; consultants are expected to show initiative and provide annual

improvement suggestions. He also added that consensus on one piece of advice is desirable – if there is a lack of consensus, the matter must be brought to the Board. The Chair remarked that she did not recall an instance of lack of consensus on the pension side, and requested that a solution to the issue of the investment consultant responsibilities should be presented at the next Board meeting.

AGENDA ITEM – 2014 RETIREMENT READINESS

The Chair recognized Ms. Buonfiglio who discussed the latest Annual Benefit Statement issued in May. Ms. Buonfiglio noted the department’s mission statement is to secure the retirement of North Carolina public servants, deliver comprehensive solutions, and protect the integrity of the retirement system. She reiterated that the definition of retirement readiness is for an individual to be able to replace 80 percent of pre-retirement income in retirement. In trying to meet the department’s goals, Ms. Buonfiglio explained the top-level metrics looked at are plan participation, contribution level, and asset allocation. With regard to asset allocation, she pointed out that custom portfolios are being considered for the NC 403(b) Program. Ms. Buonfiglio went on to say that the Annual Benefit Statement is a very important tool for the members as it brings all of their income sources together which gives them a look at their retirement readiness: pension, supplemental retirement savings, estimated Social Security benefit and any outside assets they report. The NC 403(b) Program data was newly included in the ABS, as well. Ms. Buonfiglio noted that data received from the ABS is used in multiple ways, for example, employer-level data is reviewed in order for the employers to gain greater understanding of their employees’ actions.

She said that overall retirement readiness, as of December 31, 2014, for the plans is down slightly, at 64.01%. There are two main reasons for this: the “baby boomer” generation is retiring and there is a high number of members in the process of leaving the plans for retirement. In addition, the recent salary increases hurt the retirement readiness numbers, as each increase sets the bar higher for income replacement in retirement. Ms. Buonfiglio stressed the importance of supplemental retirement plan participation, which increases the retirement readiness score. Mr. Hamilton asked about how the goals for retirement readiness were set. Ms. Buonfiglio replied that the plan collaborated with Prudential and TIAA, as well as looking at other factors.

Ms. Buonfiglio also described the next steps for the department to increase retirement readiness. These include an increasing contribution campaign, a “Nearing Retirement” campaign, an enrollment campaign, and a data sharing agreement to leverage pension data for the purpose of targeted marketing. She thanked Ms. Schribman for her involvement in the campaigns. She advised the Board that the upcoming year’s goals have not been set, as lessons are being learned from last year’s data. The staff will provide an update at a later date.

AGENDA ITEM – RESEARCH REPORT FINDINGS: NC 403(b)

The Chair recognized Ms. Morrill, a researcher at NC State University to give a report about research she has been conducting on the NC 403(b) Program. She noted that this research is ongoing and she is presenting some preliminary findings on the first phase of the research. She thanked Mr. Toole, Ms. Buonfiglio, and TIAA-CREF for their help with the research.

Ms. Morrill stated that the academic community does not have a good understanding of the 403(b) market place. Much more is known about pensions. First, their research looked at the different types of plans being offered by employers. She noted that the 403(b) market has been known as the “Wild West” of retirement plans, with few IRS tax law restrictions. The research was motivated by such questions as, “why do schools offer multiple plans?” and “does having more choices encourage or discourage participation?” The question is whether having too many investment choices might cause the members to be overwhelmed and result in bad decisions.

Ms. Morrill stated that in 2013, before the NC 403(b) Program was implemented, the university surveyed all 100 school districts in the state and heard back from 90; payroll data was also collected from approximately 50 school districts to see what kind of plans employees were participating in. There was a great deal of variation, but participation levels reveal much lower rates in 457(b). The researchers noted that this variation across districts can be explained by peer or leadership effects, district management, and/or unobserved differences in population characteristics. Ms. Morrill noted that with regards to district oversight, only 18 districts have criterion for vendor choices, and very few evaluate their plans or look at fee information. Districts are also providing little information to the employees on-site. In summary, the findings of phase one raised more questions than answers. Ms. Morrill confirmed that the university will also look at changes the NC 403(b) program brings to participants. They are going to look at what districts are participating and why. The goal of the study is to design plans that are most attractive to participants and encourage them to save. Ms. Baran wondered if there were any thoughts on whether Congress might get rid of the 403(b). Ms. Morrill stated that we should follow this.

Ms. Buonfiglio asked whether any influence factors for decision makers have been observed during the research, and Ms. Morrill replied that in general, districts do not want to be actively involved in the cost or quality of investment selection. Ms. Morrill then concluded her remarks.

AGENDA ITEM – APPROVAL OF MINUTES

The Investment Subcommittee Chair, Ms. Baran, gave a summary of the March 18, 2015, Investment Subcommittee special meeting. She stated that the meeting was called to discuss the manager presentations that had been heard at an earlier meeting. She then made a motion to approve the minutes from the March 18, 2015, meeting. Mr. Hamilton seconded and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

The Investment Subcommittee Chair, Ms. Baran, gave a brief overview of the Investment Subcommittee meeting on May 21, 2015. She noted that there was a review of the Stable Value Fund and that the replacement of PIMCO with Dodge & Cox helped reduce the management fee. She then made a motion to approve the minutes. Mr. Lewis seconded and the motion passed unanimously. Ms. Baran added that some changes in the structure will make the work of Investment Subcommittee more efficient.

AGENDA ITEM – NC 401(k)/457(b) PLANS 1ST QUARTER ADMINISTRATIVE REPORT AND FIELD REPORT

The Chair recognized Mr. McCann to report on the 1st quarter administrative results for the NC 401(k) and NC 457 Plans. Mr. McCann stated that there are a couple of changes in the report. First, there is a new addition to the report; an attestation of contractual compliance and second, the retirement readiness goals are being reported on a combined level. He stated that 13 new employers joined the plan in the 1st quarter. Assets are up in both the NC 401(k) and 457(b). The NC 457(b) in particular enjoyed more growth and it just crossed the \$1 billion threshold. In addition, active participation in the NC 401(k) was ahead of schedule and the plan also experienced a 17% deferral increase, compared to last year. The NC 457(b) has shown a similar trend. Mr. McCann pointed out, however, that there is a trend of increased disbursements from the plans, up 16% in the NC 401(k), and 27% in the NC 457(b): members were terminating employment and requesting lump sum distributions. He noted that there are plenty of options to reduce these types of distributions and Prudential, along with the ERG, is trying to educate members that they do not need to withdraw the retirement funds immediately upon termination of employment. He also stated that under the terms of the new recordkeeping contract, a retirement advocate will be hired by Prudential to ensure that the members are making informed decisions. The walk-in space in DST's newly acquired office building will be utilized for in-person meetings.

Mr. McCann also noted that Prudential has recently been trying to direct participants to utilize the retirement income calculator to gauge their retirement readiness score. Usage of this tool is up by 22%, compared to last year. Members who used the calculator averaged a deferral rate of 6.9 %, while those who did not had a much lower rate of 4.6 %.

Mr. McCann followed up with the new field activity report, which summarizes plan adoption, enrollments, participation, and contribution rates by state agency. The report also displays retirement readiness score by agency. DST was discussed as an example, with an average retirement readiness score of 62.37 %. The Chair inquired about the Department of Cultural Resources, noting lower salary levels, but higher retirement readiness scores. Ms. Buonfiglio clarified that lower salary levels have a greater replacement rate from Social Security income; as the salary increases, replacement income is harder to obtain. Mr. Toole noted that the field report allows the Board and staff to focus on the right actions to take with each individual plan. Mr. McCann added that Prudential also created a data snapshot for a particular employer or group of

employers and, under the new contract terms, a data analytics coordinator will assist the marketing and the field teams in strategic planning. The territories for field representatives have been adjusted slightly and tailored to the biggest opportunities, which should help with limited resources and provide a more efficient approach. Ms. Cochran noted that there is an opportunity to target some of the agencies with on-site visits.

A lunch break was taken at 12:22 p.m.

The meeting re-convened at 1:02 p.m. Ms. Baran noted that the quorum was lost as the Chair, Mr. Burns, Mr. Lewis and Mr. Stell had left, but added that no action items remain on the agenda for the rest of the session.

AGENDA ITEM – NC 403(b) PROGRAM 1ST QUARTER ADMINISTRATIVE REPORT

Ms. Baran, acting Chair, recognized Mr. Simone to give a report on the NC 403(b) Program. Mr. Simone first reviewed the new organizational chart for TIAA-CREF, noting that he assumed the role of relationship manager and reports directly to Kevin Orr. He then proceeded with a metrics overview: 39 schools districts are enrolled in the program, three of the districts have chosen the sole recordkeeper option, while 13 districts opted for a soft sole recordkeeper scenario – in the future, these districts will become sole recordkeeping districts. As of Monday, June 15, 2015, Durham County school district has adopted the soft sole recordkeeper option. The 39 enrolled districts account for 81,993 eligible employees. The program is in its infancy stage, but is making good progress with regards to asset accumulation: \$2,807,754 assets under management as of March 31, 2015. The program has delivered 545 counselling sessions across the state. A certain slowdown has been observed in the second quarter as the schools are wrapping up the year before the summer break.

Mr. Simone noted that with respect to asset allocation, TIAA-CREF is working on a custom portfolio model, similar to GoalMaker in the NC 401(k)/457(b) Plans. Program demographics show that just under 80% of the member population are women, and significant attendance has been observed during 124 group seminars with more than 4,800 employees attending. Mr. Simone presented a map of North Carolina counties, noting that 15 counties are currently unable to adopt the program, mainly due to existing, exclusive contracts with other vendors. As these contracts expire, some of the counties may be able to be added to the program. In addition, TIAA-CREF is focusing on 26 districts where multiple adoption discussions have been held, but have not yet been conclusive (Brunswick County is an example of such negotiations). Four Registered Investment Advisory firms have been approved and added to the advisor network: Verity Asset Management, Arky & Miller, Robinson and Associates, Vanderbilt Financial, which is good coverage within the state. These advisors are fee-based and cap their fees at 1%.

Mr. Simone stated that with regards to program fees, the weighted average expense ratio as of March 31, 2015, was 36 bps, which is very competitive. Marketing and communications teams have joined efforts to bring in more participants.

Mr. Simone summarized the program future action plan points: to implement the custom portfolio model as soon as possible; continued inclusion of the program in the Annual Benefit Statement; to target 25 additional districts for 2015 enrollment; and to embark on a targeted mail campaign when the data sharing agreement is finalized with the department.

Lastly, Mr. Simone issued an open invitation to the SRP staff to visit the TIAA-CREF Charlotte, NC campus.

AGENDA ITEM – PROXY VOTING UPDATE

Ms. Baran recognized Ms. Krishnan to present the proxy voting summary for the period of May 28, 2014, until May 28, 2015. Ms. Krishnan noted that the vendor charged with ballot research is Glass Lewis. A majority of the ballots have been cast in Canada and the United States, and a significant percentage in Europe. Management proposals have outnumbered shareholder proposals in the period reviewed, and the total number of proposals was 14,561. 108 ballots were cast manually. Mr. Toole asked about the definition of the “mixed” ballot category and Ms. Krishnan replied that she would provide a specific definition shortly after the session.

AGENDA ITEM – NC 401(k)/457(b) PLANS 1ST QUARTER INVESTMENT PERFORMANCE REPORT

Ms. Baran recognized Ms. Magner and Ms. Henson. Ms. Magner began with the market environment overview. The markets were up, generally, with non-U.S. markets outperforming the U.S. market as the growth in United States was slower than anticipated, while Eurozone and Japan data was better than the forecast. The U.S. dollar continues to be strong, small cap stocks were the best performers; mid-cap stocks did better than large-cap. Growth equities outperformed value equities; health, consumer discretionary, and telecomm sectors were the stand out performers. In the fixed-income environment, the yield curve flattened and long-term bonds outperformed short-term. Barclays Aggregate index was up 1.6 % for the quarter, as well as Barclays High Yield up 2.5 %, which bodes well for the Prudential Investment Management “core plus” strategy. With regards to alternatives, REITs were strong and losses were noted in commodities, and in oil in particular; this may have some impact on PIMCO’s diversified inflation strategy with its high allocation to commodities.

With respect to the plans’ investment structure, there were no changes to the options available. In the Stable Value Fund, a manager change took place; Galliard replaced PIMCO with Dodge&Cox. Ms. Henson summarized the fund performance for the past quarter, noting that in this environment, it is typical to see some difficulty for active managers in both the large- and SMID-cap space. However, in the three-year period, they have still outperformed 68 % of other active managers. She also highlighted some of the individual investment managers, noting that Brown Advisory is a bit of a volatile manager and has been avoiding the healthcare sector, but overall, has a strong stock selection. Sands Capital is a volatile, concentrated manager with an energy focus, so the past two quarters have been difficult for them. Both managers in the

international strategy complement each other well and the fund performance has been good. The Inflation Responsive Fund has exposure to REITs and commodities and has been underperforming, but also added value recently. Ms. Henson continued on to the performance scorecard, highlighting the red flag for Brown Advisory, which is due to their personnel changes and underperformance. PIMCO Inflation- Responsive Multi Asset has been on the watch list due to the turmoil within the company; Mercer is monitoring the status and has not seen changes in the portfolio strategy.

Mercer is also monitoring the fees in all aspects of the plan; fees have been reduced for the index funds, as well as the PIMCO Inflation-Responsive Multi Asset. Ms. Magner added that it is important to focus on the fees, but not all of the managers are at the lowest fees available. Recent retirement plan lawsuits have been focusing on higher-fee investment managers. However, in some instances, a higher-fee is justified. For example, Sands Capital is not the lowest fee manager in the strategy. However, their continuous outperformance justifies the fees. She added that Mercer also looks at the most sensible investment vehicle — separate or commingled account — to control cost.

Ms. Henson noted that, per the Board's suggestion, the budget column on the fee review page will be moved to the far right and taken out of comparison. Following Ms. Buonfiglio's inquiry, she also confirmed that total fund median expenses are compared against their respective Mercer Mutual Fund Institutional Universe, while the individual managers are compared to peers with the same strategy and assets. Ms. Buonfiglio also asked about any other fees in the institutional universe. Ms. Magner replied that there can be revenue sharing of 0-15 bps in the institutional universe, or around 29 bps in retail environment, but that the marketplace is moving toward no revenue sharing in the institutional space. Mr. Toole inquired as to how the median is achieved and Ms. Magner used the Large Cap Value Fund as an example; the investment management fee, other investment expenses, recordkeeping fee and administrative fee are added together to show the total expense ratio, which is then compared to the median. This particular fund consists of three investment managers. Their respective investment management fees and operational expenses are compared to the median, based on the Mercer database where the system calculates the median fee for a manager in the same vehicle and same strategy. Mr. Toole asked that the 2.5 bps fee column not be removed.

Lastly, Ms. Henson pointed out that custom GoalMaker portfolios have shown competitive performance versus their benchmark.

AGENDA ITEM – NC 403(b) PROGRAM 1ST QUARTER INVESTMENT PERFORMANCE REPORT

Ms. Magner noted that the investment structure of the program is different than the investment structure of the other plans, and that Mercer will cooperate with TIAA-CREF to better align the three. She noted that there seems to be a philosophical difference among the options provided,

and Mercer believes in maintaining a similar philosophy in all of the state supplemental plans. In addition, there is another difference in allowable investment options: 403(b) plans must use mutual funds as mandated by the Internal Revenue Code.

Ms. Henson presented the fund performance scorecard. She noted that in the active core options environment, the performance of Vanguard Windsor Fund stands out, and this fund will be evaluated as a part of the transition. PIMCO funds are also being watched due to recent events within the company. Ms. Henson noted that PIMCO All-Asset Fund Institutional is managed by a third-party manager, but all investments are PIMCO investments. Mr. Simone added that Morningstar fund fact sheets are used to describe the funds.

Mr. Hamilton asked about the absence of rating for the T Rowe Price Growth & Income Fund and Ms. Magner confirmed that Mercer possesses no formal research coverage for this fund.

In closing, Ms. Henson summarized the expense analysis: the mutual funds all-in expenses compare favorably to median expenses. She noted that Wells Fargo Target Date funds use some of the more expensive vehicles and Mercer is reviewing that. Ms. Henson also stated that 5 bps administrative fee was not included in the comparison, as the program is in the start-up phase.

AGENDA ITEM – BOARD QUESTIONS/COMMENTS

There were no questions or comments.

AGENDA ITEM – PUBLIC COMMENTS

No public comments were offered.

The motion to adjourn was made by Mr. Hamilton and seconded by Ms. Baran. The motion passed unanimously, and the meeting adjourned at 2:09 p.m.

Secretary