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NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING
September 17, 2015

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 9:00 a.m. on Thursday, September 17, 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, and Michael Lewis. Walter Gray attended via telephone.

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, Andrew Holton, Marni Schribman, Kevin SigRist, Fran Lawrence, Joan Fontes, Tony Solari, Sam Watts, Kristen Bierline, Thomas Wright, Maja Moseley and Melissa Waller.

Guests Present: The following guests attended the meeting: Michael McCann, Tom Conlon, Kathleen Neville, and Jessica Quimby from Prudential Retirement. Jim Simone and Brian Senatore from TIAA-CREF. Liana Magner and Josh Wilson (via telephone) from Mercer Investment Consulting. William Weber from Galliard attended via telephone. Sam Scher from Lord Abbett. Tonya Horton from Troutman Sanders. Member of the public: Bob Slade.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order at approximately 9:00 a.m.

Janet Cowell, Chair, welcomed Board members, staff and guests.

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

The Chair asked Board members to review the agenda for the meeting and identify any actual, implied or potential conflicts of interest. No conflicts were identified.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there were any comments or changes to the minutes of the June 18, 2015, Board meeting. There were no comments and Ms. Baran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there were any comments or changes to the minutes of the August 11, 2015, Board special meeting. There were no comments and Ms. Baran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – LEGISLATIVE UPDATE

The Chair recognized Mr. Solari to give an update on legislation in the General Assembly. Mr. Solari stated that the General Assembly passed a law changing the term length for Board of Trustees from two to three years and limits the service to two consecutive terms. He also noted that expanded flexibility in Retirement Systems Division Human Resources was passed that will allow for performance-based management and market-oriented compensation for Supplemental Retirement Plans personnel, similar to that previously passed for the Investment Management Division. There was also a change in legislation which impacted the NC 403(b) Program: community colleges are now able to participate in the program. Mr. Solari also noted the passage of the ABLE Act, a savings and investment plan designed specifically for people with disabilities to assist with their disability-related expenses. In addition, Mr. Solari noted a legislative item which has not been passed and is being monitored closely by the Department's legislative team which would impact Bailey-vested rollovers. A proposal to limit the rolling over of outside retirement savings into the state retirement system has been debated, but no final decisions have been made.

Mr. Gray asked whether there was anything of concern in the state budget, and Mr. Solari replied that aside from the Bailey issue (which was not included in the budget), no budget items concern the Supplemental Retirement Plans directly. Both the Chair and Mr. Solari thanked the legislative team for their persistence and passion in carrying out their duties. The Chair noted that she recently participated in a telephone town hall answering questions about the state health plan with approximately 9,000 participants. She noted that this is a very powerful tool for member outreach.

AGENDA ITEM – PLAN TRANSITION UPDATE

The Chair recognized Ms. Buonfiglio to discuss the current unbundling of the plans. Ms. Buonfiglio focused on the transition underway with the plans' recordkeeper and custodian, both of which are pending based on successful contract negotiations. She noted that some of the expected unbundling enhancements, such as an improved GoalMaker tool, reduced participant fees and improved investment compliance and reporting capabilities, as well as an overall increase in transparency to participants. Ms. Buonfiglio thanked the SRP, Legal, Financial Operations and Investment Management Division staff for their dedication and cooperation in the transition.

Next, Ms. Buonfiglio presented proposed changes in the way recordkeeping fees are structured. Ms. Buonfiglio pointed out that this is a very important dialogue for the Board members to have and the fee structure can be a powerful tool to achieve retirement objectives for the plan participants. Ms. Buonfiglio noted that the recordkeeping RFP requested cost proposals on different types of fee structures. She stated that the current Prudential fee is 7.9 basis points on all assets and an additional 5.5 basis points on non-stable value fund assets (weighted average is 12.3 basis points). Participants new to the plans pay very low fees on an absolute dollar basis; many participants pay less than $10 in the course of the year, with some paying as little as one cent; however, participants with high balances may incur fees as high as $4,000. Ms. Buonfiglio pointed out that the supplemental plans are among one of the largest governmental defined contribution plan in terms of number of participants and assets. She stated that in discussing the fee structure, issues to be cognizant of are the amount of change imposed upon participants, simplicity in fee structure, fee transparency and fees reflective of services received. She noted that basically all members have access to the same online services, retirement guidance team of 19 counselors and call service center. She stated that with retirement readiness being a primary objective for the Board and staff, the ease of joining the plan, as well as keeping the plans priced competitively for retirees and near-retirees, are important goals to keep in mind. Ms. Buonfiglio presented the following five fee-structure alternatives:

1. Asset-based fee: A fixed percentage is charged to all accounts (this is the current structure). Because this is an asset-based fee, those with lower account balances pay fewer dollars while those with higher balances pay more dollars. While fully disclosed to participants, this type of fee is more difficult to understand than other structures. .
2. Flat fee: A fixed amount is charged to all account holders regardless of account size. This type of fee is easy to understand and more closely reflects the cost of recordkeeping. Accountholders with smaller balances would incur higher fees than they are paying currently.
3. Capped fee: This is an asset-based fee of 0.128% on the first $100,000 in the account. Amounts above $100,000 would not incur additional fees.
4. Hybrid flat fee: This fee structure provides for a flat fee of $31 per participant account and waives the fee for participants newly enrolled in the plan for the first year. For either flat fee structure, the board would want to consider the impact on small accounts. A "cash-out" plan may be considered to return funds to participants that have closed their account rather than have them incur fees.
5. Combination fee: This fee structure blends the approach of a flat fee with an asset-based fee. The options provided include $12, $16 or $20 per year flat fee, plus an asset-based fee of 0.059%, 0.045% or 0.032%, respectively. This option seeks to balance the benefits of asset fees for small accounts and flat fees for large accounts. However, this structure is more complicated.

Ms. Cochran asked for a confirmation that the options presented discuss only the recordkeeping fee and whether there is an additional fee for investment performance. Ms. Buonfiglio said yes. Ms. Buonfiglio pointed out a graph that depicted the alternative fee structures proposed. She stated that due to the large size of the plans, and the significant number of participants in various life stages, it is difficult to choose the best option for everyone, but the need for balance and reason should guide the choice. Ms. Cochran inquired whether the recordkeeping fee is a complete pass-through or whether some of that expense must be covered by the plans. Mr. Toole replied that recordkeeping fee is set and that the remaining risk is with the recordkeeper to cover their expenses. The plans' 2.5 basis point fee covers internal administrative expenses.

Ms. Buonfiglio briefly described the fee structures for other large governmental plans. She stated that the data from the peer group sample was quite varied. Other plans charge flat fees, combination fees and asset-based fees. For example, Ohio is moving to a 14 basis points fee next year, which will be waived for accounts below $5,000.00 and capped at $200,000.00 per year. Mr. Toole added that while this structure may seem on the high end of fees, this state does not have a third-party administrator and all functions are performed in-house. Ms. Buonfiglio noted that the overall industry trend is to move away from purely asset-based fees to flat or hybrid fee in order to make fees more transparent and easier to understand.

Next, Ms. Buonfiglio highlighted a stoplight chart evaluating the different fee structures against the guiding objectives, stating that all factors were weighted equally, but the Board may want to consider the relative importance of some factors, such as fee-for-service, transparency and ease of communication. There was not a clear winner among the five options, but she stated that since the plans' history is to lean toward the concept of incremental change and a balanced approach, the staff is therefore supportive of the combination fee option of $16 flat fee and 4.5 basis point asset-based fee. Small account balances could be cashed out of the plan or rolled over into an IRA account. She noted that if this fee change was agreed upon by the Board, a communication would be sent to notify participants of the upcoming change in the fee structure. She also noted that the combination fee of $16 and 4.5 basis points would be reflected on the participant statement in both dollars and basis points. Ms. Baran stated that she felt all plan participants must accept the responsibility of paying the fee and she was inclined to recommend the flat fee structure, which could encourage investors to save more. The Chair noted that one of the objectives was to also mitigate change and meet in the middle, minimizing the potential for a disruptive change to participants. Mr. Hamilton suggested that the plans may consider lowering the asset-based fee portion and utilize a flat fee to cover basic expenses. In response to Ms. Cochran's question, Ms. Buonfiglio confirmed that the recordkeeper is not benefitting financially from the change in the structure. The Chair noted that the Board should also be mindful of the fact that many state employees' salaries are in the range of $20,000 to $30,000 per year and there are limitations to how much they can save. In Mr. Lewis's opinion, a flat fee would be a better option for the participants and he inquired whether the plans' mission was to keep the fees at their lowest. Ms. Buonfiglio responded, noting that the plans follow the ERISA standard, where fees charged do not have to be the lowest available, but must be reasonable. Additionally, the plans' objective is retirement readiness and making it easy for participants to enroll.

Mr. Thomas asked whether the fees being proposed were part of the RFP process ,and asked for the source of additional numbers presented in the summary. Ms. Buonfiglio responded that the bidders presented a flat fee and an asset-based fee, and the additional figures were requested during the analysis, noting that the recordkeeping fee has not changed, but the structure implemented for plan participants is being considered.

Ms. Baran made a motion to implement a hybrid fee structure of a $31 flat fee with a first-year waiver. Mr. Hamilton seconded.

Mr. McCann stated that Prudential would perhaps need to utilize a manual process in the administration of a hybrid fee option, as the exact date of enrollment must be established in the scenario, which can pose some risk. This option, if chosen, would need to be approved by Prudential's leadership.

Ms. Cochran stated that she felt that this was a great deal of information and noted the fact that trustees Orr and Burns were not present to participate in the discussion. She then recommended that all Board members weigh in before a final decision is made.

The motion was withdrawn and it was agreed that a special meeting will be held in the next 30 days to finalize the recommendation.

The Chair recognized Mr. Toole to present an update on the investment consultant role and responsibilities. Mr. Toole thanked the Board for approving the budget for the new position and noted that the plans have partnered with the Investment Management Division to define the roles for both staff and the consultant. With respect to the NC 403(b) budget, Mr. Toole noted that assets in the 403(b) are not growing as fast as we would like and it is difficult to pay for the consultant's services and pay off the loan. He stated that, for now, the consultant will assist in revamping the program's investment options and the dedicated IMD/SRP staff role will be responsible for the fund structure going forward until we have the funds to pay Mercer. Mr. Toole noted that the current relationship with Mercer as the pilot and IMD as co-pilot is working well. In response to Ms. Cochran's question, Mr. Toole stated that the new IMD/SRP staff member would meet with investment managers and be present during the Investment Subcommittee meetings.

Next, the Chair recognized Ms. Cece to present the unbundling legal documentation update and the proposal to combine the Stable Value Funds. Ms. Cece highlighted the work completed thus far with regards to the investment manager agreements: 13 draft agreements have been completed, comments have been received from five managers and the managers have all been supportive of the process. In addition, BNY Mellon will be submitting their comments on the custodian contract within a week and multiple subcustodian accounts are being opened globally.

The recordkeeping agreement is being reviewed internally and the amendment to the investment consultant contract is underway.

Ms. Cece noted that during the transition work with BNY Mellon, it was discovered that Stable Value Funds were not included in the commingled fund structure. The staff discussed the exception with the recordkeeper and the custodian, as well as Galliard, and it was proposed to combine both in one account, under the new trust. Prudential's staff recommended that the NC 457(b) SVF be merged into the NC 401(k) and then renamed the North Carolina Stable Value Fund ; this change would be communicated to participants and would also require amending the manager and wrap contracts, as well as a simple amendment to the Galliard contract. Galliard has agreed to take the lead regarding this contract work with final approval provided by staff. Ms. Cece stated that this transition has also been discussed with the Financial Operations Division and the desired transition date is November 30-December 1 of this year.

Ms. Cochran asked whether any additional cost was associated with the consolidation and Ms. Cece replied in the negative, also noting that this event may actually bring forth some cost savings.

Ms. Cochran made a motion to approve the consolidation of the Stable Value Funds. Ms. Baran seconded and the motion passed unanimously.

AGENDA ITEM – CEM FEE BENCHMARKING REPORT

The Chair recognized Alan Torrance to present the CEM Fee Benchmarking Report. Mr. Torrance stated that CEM is based out of Canada, but works with defined contribution plans all over the world. The goal of the presentation is to help the Board better understand the cost associated with the plans' administration. Mr. Torrance highlighted the report's key findings:

- The plans' 5-year net total return of plan participants was 9.5%, which was equal to the U.S. average of 9.5% and above the peer average of 8.8%.
- The 5-year total plan net value added was 0.7%, which was above both the U.S. and peer average of 0.1%.
- The total plan cost was 0.50%, above the benchmark of 0.41%. Added costs from active investment options and higher administrative expenses accounted for the higher total cost.

CEM compared the plans against a peer group of 16 defined contribution plans and a 134 U.S. fund universe, which resulted in quality, clean data and "apples to apples" comparison. The plans' asset balance of $9 billion is larger than the peer group average of $6.9 billion, and the average account balance is $32,000, compared to universe median of $64,000; this difference in account balance size influences cost. Mr. Toole emphasized the important role the account balance has in the median value comparison and how a recordkeeper prices its services.

Mr. Torrance highlighted the reasons why the plans' 5-year total net return was equal to the universe average, noting the -0.5% decrease in asset mix was offset by positive 0.5% better asset category returns. The Chair asked whether the universe group was comprised of supplemental retirement plans specifically, and Mr. Torrance replied that only ten were supplemental plans. The plans' total net value added from all investment options was -0.2% in 2014 and 0.7% for the 5-year period ending in 2014. With respect to total plan cost, CEM calculates the benchmark cost based on the median peer cost paid for a comparable investment option mix; the total plan cost was 0.50% which was 0.09% above peer-based benchmark of 0.41%. Mr. Torrance reiterated that the plans have more actively managed investment options compared to peer group and administrative cost as percentage of plan assets was 0.15% versus 0.09% of peer group. Mr. Torrance also noted a change in CEM reporting and data collection with regard to the fee allocation. Ms. Cochran inquired about the fee structure trend for the past three years, and Mr. Torrance replied that it has been rather flat, with slight bias toward an asset-based fee. Mr. Toole added that very large plans tend to move toward "per capita" fee and that, in the case of auto-enrollment, a flat fee is almost required.

AGENDA ITEM – BUDGET UPDATE

The Chair recognized Mr. Toole to give an update on the budget. He noted the previously discussed budget increase of $181,000, which was a result of the plans now participating in the maintenance cost of the new office complex (i.e., utilities and support services). The compensation market study also resulted in a salary increase for IMD staff that supports SRP and a similar study will be conducted for the SRP staff. Mr. Toole added that the plans are still working through Mercer's fee and the Board should be aware of possible future changes. Ms. Lawrence added that the $750 state employee bonus would also cause a budget increase, but its impact would be minimal. Mr. Hamilton moved to approve the budget as proposed and Mr. Lewis seconded. The motion passed unanimously.

AGENDA ITEM – COMPENSATION STUDY UPDATE

The Chair recognized Ms. Bierline who introduced Mr. Bright and Mr. Wilson of Mercer. Mr. Wilson stated that a comprehensive compensation report was produced by Mercer for the Investment Management Division, and that there is interest in expanding this study to the Supplemental Retirement Plans. Mercer has also completed a similar project for similar organizations, such as the Ohio Public Employees Retirement System and the State of Wyoming Pension Plan, and they are able to transfer this expertise from the defined benefit to defined contribution environment. Mr. Wilson highlighted the proposed team members, noting their applicable background and expertise and continued on to the scope of services, which is comprised of four phases:

1. Planning, executive interviews and statement of compensation program objectives development

2. Competitive pay levels analysis
3. Revised compensation structure development: one was created for the Investment Management Division and can be used again or restructured
4. Participation in the communication of results: Mercer will participate in both the creation and presentation

Mr. Wilson stated that Mercer values true collaboration with the client and the end result reflects a joint effort. Heavier involvement on Mercer's part would mean more time and higher fees, but the decision rests with the client and the level of fees the Board would like to incur. Mercer can add most value into allocating the primary and shared duties in the four phases already described. Mr. Wilson added that the outcome of the first study was positive and Mercer wants to continue this relationship with the Department. In response to Ms. Baran's question, Ms. Bierline added that the Board members would also be interviewed by Mercer in person or via phone, depending on members' preference and there would be two follow up check-ins with the Board. Ms. Cochran inquired about the absence of the fees in the presentation and Ms. Bierline responded that this was due to the fact that the materials would be posted on the public website. Mr. Thomas notes that these fees were designated by Mercer as trade secret and encouraged Mercer to waive this status as the fees would in fact become public knowledge should Mercer win the contract. Mr. Wilson noted that fees were broken down by phase, in a total range of $48,000 to $65,000, plus the cost of travel and lodging. Ms. Bierline noted that a statement of work needs to be signed before December, and Board members agreed that the project plan and cost seem reasonable and within the budget. They agreed to proceed with the plan.

A break took place between 11:08 a.m. and 11:23 a.m.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair recognized Ms. Baran, who stated that a special meeting of the Investment Subcommittee occurred on August 27, 2015, to review the suggested modifications to the NC 403(b) Program fund line-up. The Subcommittee heard a presentation from Mercer recommending new managers for the following strategies: International Equity, U.S. Equity Large Cap Growth, U.S. Equity SMID Core, Passive SMID and Passive Core Bond and the following funds were recommended for the respective strategies: MFS International Equity, T. Rowe Price Blue Chip Growth Fund, Dimensional Fund Advisors (DFA), Vanguard Extended Market Index. The Subcommittee weighted factors such as investment management process, historical performance, and fees to determine the most appropriate selections for the program. Within the 401(k)/457(b) space, a recommendation was made for a new cash sweep vehicle and alternate sweep vehicle.

Ms. Baran asked for a motion to approve the minutes of the August 27, 2015, Investment Subcommittee special meeting. Ms. Cochran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

Ms. Baran stated that a follow-up meeting of the Investment Subcommittee was held on September 3, 2015, to complete the review of the Passive Core Bond recommendations. The Subcommittee selected the Vanguard Total Bond Market Index Fund.

Ms. Baran asked for a motion to approve the minutes of the September 3, 2015, Investment Subcommittee special meeting. Ms. Baran and Ms. Cochran noted that clarification was needed regarding the presenter's name in paragraph three of the agenda, "Recommendation on Custom Portfolio." The correction was duly noted and Ms. Cochran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – CUSTOM PORTFOLIO IMPLEMENTATION UPDATE

The Chair recognized Ms. Magner and Mr. Simone to discuss the custom portfolios for the NC 403(b) Program. Mr. Simone stated that custom portfolios allow for convenient asset allocation and allow the opportunity to create custom glide path models as the recordkeeper has open architecture. At this time, lifetime income has not been added, but this enhancement may be considered in the next 18-24 months. Mr. Simone added that the program options can be aligned with the plans' options if the Board chooses to do so, since the portfolios allow for customization. Mr. Simone stressed that the goal is to drive participant outcomes for better retirement readiness. TIAA-CREF would need 90-100 days to build and implement the custom portfolios, and communication would need to be sent out to the participants during this timeframe.

Ms. Magner reiterated that currently, there are quite a few differences in investment options between the plans' and the program, and the presentation aims to clarify the existing structure, as well as the rationale for the recommendations made on the fund replacements, noting that mutual funds are the required investment vehicles for 403(b) plans. She stated that the current Wells Fargo target date funds would be mapped to TIAA-CREFF's Custom Portfolios and the passive tier two investment offerings would be rounded out by adding a SMID cap option and moving away from the short duration bond fund in favor of an intermediate duration bond fund. Ms. Magner noted that Vanguard was the only SMID option available and the firm is well known for their indexing capability. During the course of the search, Mercer also considered providing index options in the same family of funds in order to bring consistency. T. Rowe Price Blue Chip Growth Fund was selected due to a strong management team and reasonable fee. In the SMID cap equity environment, Dimensional Fund Advisors (DFA) was selected due to low cost and consistent performance. There was also a need to streamline the existing three international options into one, and MFS International Equity Fund was recommended. Lastly, Ms. Magner noted that all specialty options would be discontinued and the implementation timeline for these changes is planned for February 2016 or, alternatively, April 2016.

Ms. Baran made a motion to accept the custom portfolio recommendations and Mr. Gray seconded. The motion passed unanimously.

AGENDA ITEM – 2ND QUARTER INVESTMENT PERFORMANCE REPORT

Ms. Magner continued onto the 403(b) Program performance report for the second quarter and noted that assets in the program have increased to $4.2 million and are mainly allocated to target date funds at 38.6 percent, followed by 30.6 percent allocation to passive core options, 23.6 percent allocation to active investment options and 7 percent allocation to specialty options. With regard to the fund performance scorecard, Wells Fargo target date funds are matching their benchmark, but fell behind their peer group due to being very conservative. The Vanguard index fund is also meeting its objective. She noted that the Vanguard Windsor Fund is on watch, but will be replaced in the new investment structure. Strong performance was seen from two out of three international funds, and in the specialty fund space, PIMCO All Asset Fund struggled due to exposure to commodities. Due to organizational instability and portfolio outflows, PIMCO Inflation Response and Multi-Asset were placed on the watch list. However, since then, stability within the firm was observed and the outflows have declined. Ms. Magner added that for the most part, program fund fees are favorable, with the exception of Wells Fargo funds, which overall tend to charge higher fees. Ms. Magner stressed that this situation will change with the custom portfolio implementation.

AGENDA ITEM - 2ND QUARTER ADMINISTRATIVE REPORT

The Chair recognized Mr. Simone to give the administrative report for the 403(b) Program. Mr. Simone noted that 41 school districts have enrolled in the program, and they represent a population of over 84,000 eligible employees. $4.2 million in assets under management representing a 51 percent increase from the first quarter and 910 participants have enrolled. 70 group meetings have been conducted with plan sponsors, and 645 counselling sessions were delivered across the state. Mr. Simone also pointed out that not many contributions are received in the summer due to the K-12 school payroll cycle. The current contribution rate has exceeded goal, while participation rate has fallen behind, which may change with the start of the new school year. Use of target date funds is now at 73 percent, but the desired range of utilization is 90 percent for the target date funds. Another goal is to have 65 school districts enrolled by the end of the year. Mr. Simone recognized Mr. Senatore who has been instrumental in assisting western school districts by participating in benefits fairs. Program fees have not changed, the average annual expense ratio remains at 43.8 basis points. Mr. Simone noted that in addition to the custom portfolios implementation, community colleges are now eligible to offer the NC 403(b) Program in the fourth quarter of this year. TIAA-CREF representatives and community college systems representatives are meeting on October 6th to discuss the logistics of the program rollout. Mr. Simone also presented a conservative asset projection over time. Ms. Baran inquired as to what is involved in the colleges' onboarding, and Mr. Simone replied that this topic will be the focus of the October meeting. Mr. Hamilton asked whether assets could potentially increase

40 percent from rollovers, and Mr. Simone stated that they could, noting that the projection also includes a larger number of school districts enrolling, targeting $7.3 million by year-end.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair recognized Mr. Gray to give the report on the Audit Subcommittee. Mr. Gray stated that the Audit Subcommittee met on July 30, 2015, and the purpose of the meeting was to hear the audit findings from the external auditor and to accept the December 31, 2014, financial statements. There were no areas of concern reported by the auditor and the audit opinion is a clean one. The Audit Subcommittee accepted the Auditor's report.

The Chair asked for a motion to approve the minutes of the July 30, 2015, Audit Subcommittee meeting. There were no comments and Ms. Baran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

Ms. Baran asked if there any comments or changes to the minutes of the August 13, 2015, Investment Subcommittee meeting. Ms. Cochran noted a typographical error on page six, which was duly noted, and Mr. Hamilton made a motion that the minutes be approved. Ms. Cochran seconded, and the motion passed unanimously.

AGENDA ITEM – RECOMMENDATION FOR PRUDENTIAL INVESTMENT MANAGEMENT PORTFOLO STRUCTURE IN UNBUNDLED ENVIRONMENT

Ms. Baran stated that a recommendation of Prudential Investment Management's commingled fund offered to Mercer clients was made during the August 13, 2015, Investment Subcommittee meeting. This option offers a favorable fee schedule on a sliding scale; fees are recalculated, reconfirmed, and reset every quarter.

Ms. Baran asked for a motion to approve the Subcommittee recommendation and Ms. Cochran so moved; Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – RECOMMENDATION FOR SWEEP OPTIONS

Ms. Baran stated that the recommendations for sweep options were reviewed at the August 27, 2015, Special Investment Subcommittee meeting. A sweep vehicle needs to be identified and communicated to the custodian during the process of plans' unbundling. The Subcommittee recommends the approval of the EB Temporary Investment Fund and the Government Short Term Investment Fund as cash sweep vehicles.

Ms. Baran asked for a motion to approve the Subcommittee recommendation and Ms. Cochran so moved; Mr. Hamilton seconded, and the motion passed unanimously.

The Treasurer left the meeting at 11:40 a.m. Melissa Waller chaired the remainder of the meeting.

Ms. Cochran left the meeting at 11:42 a.m. and the quorum was lost.

AGENDA ITEM – 2ND QUARTER INVESTMENT PERFORMANCE REPORT

Ms. Magner briefly revisited the recommendation for Prudential Investment Management commingle vehicle, Mercer share class, and reiterated that Mercer does not benefit and derives no revenue from this choice; she also noted that rationale for choosing the EB Temporary Investment Fund as the primary cash sweep vehicle was its low cost, no fee waivers and no securities lending. This fund is also used by the Investment Management Division, so this presents a consistent approach across the department. In the event of severe market decline, the Government Short Term Investment Fund was approved as the second choice.

Ms. Magner then highlighted the 2nd quarter market environment, noting the volatility persistent since June, but the global outlook was relatively upbeat and the U.S. market started to recover. The healthcare sector was the best performer, while utilities and energy struggled. SMID cap securities performed best for the quarter, corporate bonds underperformed Treasuries, which was beneficial to the J.P. Morgan portfolio in the NC Fixed Income Fund as they have higher allocation to mortgage-backed securities. Interest rates rose, REITs and commodities performed well which was beneficial to PIMCO Inflation Responsive Fund. Broad market losses occurred in August, the S&P 500 index was down 3 percent and developed non-U.S. markets were flat. The emerging markets have taken on the brunt of volatility, losing 13 percent. Ms. Magner noted that the Federal Reserve is expected to announce whether it will raise rates today and all thing point to growth in U.S. economy. There were no changes in investment options available to the plans' participants; two changes occurred previously, where Stable Value Fund replaced PIMCO with Dodge&Cox and in the NC Large Cap Value Fund, Delaware replaced Wellington.

Mr. Magner highlighted some notable news items, among them: due to a guilty plea, J.P. Morgan is required to receive a Department of Labor exemption to continue to operate and manage retirement assets. There will also be an organizational change at J.P. Morgan, where fixed income strategy leader, Doug Swanson, will be taking a personal leave of absence in October and returning to his post mid-2016. The strategy remains the same for the duration of Mr. Swanson's absence and is closely monitored by Mercer.

Ms. Magner noted that of the two funds on the watchlist — namely PIMCO Inflation Responsive Fund and Brown Small Cap Growth— Mercer expects to give their recommendation regarding PIMCO and expects no changes as the situation has stabilized. Brown is on watch due to performance, caused mainly by being underweight on healthcare and biotech.

Ms. Magner stated that Stable Value Fund continues to deliver strong results versus its peer group book value ratio and crediting rate. The GoalMaker portfolios are also outperforming their peers.

With regard to fees, many of the investment options offered are priced lower than median, but some managers are more expensive. Ms. Magner reiterated the importance of paying reasonable fees for the services received; while some managers charge more, the fee must still remain reasonable and value delivered must justify the higher rate. None of the managers' fees are significantly above median.

Lastly, Ms. Manger confirmed that there are no outstanding issues in the plans.

AGENDA ITEM – 2ND QUARTER ADMINISTRATIVE REPORT

Ms. Waller recognized Mr. McCann to give the administrative report on the plans. Mr. McCann directed the attendees' attention to the summary goal page of the presentation, noting that the results of first two quarters of the year were good: average monthly contributions were in line with the goal of $180 and active participation rate was just short of the 30.50% goal, at 27.69%. Numbers declined slightly in the second quarter due to payroll schedule and substantial number of employees in the separation from employment stage. Prudential has the greatest control over enrollments: year to date, the NC 401(k) Plan experienced a 21% increase and the NC 457(b) Plan an 11% increase. Four new employers were added to the NC 401(k) Plan and nineteen adopted the NC 457(b) which exceeded last year's goals. Mr. McCann also noted good results regarding employee contributions and rollovers in both plans, which have increased: almost 10% for the NC 401(k) and 87% for rollovers in the NC 457(b). Mr. McCann highlighted the use of the Annual Benefits Statement (ABS) as a driver behind the use of Retirement Income Calculator (RIC) and subsequent contribution rate increase, as well as group meetings and one-on-one counseling participation. Those members who used the RIC contribute 6.14%, and those who do not contribute 4.63%, on average. Lastly, Mr. McCann noted that the latest Signature newsletter includes an article which ties the importance of the ABS and RIC.

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 12:39 p.m.