



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



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

DRAFT MINUTES
SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

The regular quarterly meeting of the Supplemental Retirement Board of Trustees (Board) was called to order at approximately 9:00 a.m. on February 24, 2022, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in a hybrid format, with people attending virtually or in person, 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 later in the agenda.

Members Present

Board members attending in person: Treasurer Dale R. Folwell, Melinda Baran, and Nels Roseland.

Board members attending virtually: Steven Beam, Wyndon Hibler, Lorraine Johnson, James Lumsden, and Chevella Thomas.

Members Absent

Michael Lewis

Guests Present

Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; and Matt Herrmann and Michael McCann from Prudential.

Guests attending virtually: Declan Denehan, Phaedra Garibaldi, and Brian Shea from BNY Mellon; Paul Langanki from Galliard; Mary Conti, Aaron Koval, Todd Monahan, and Jessica Quimby from Prudential; Ben Agsten from the NC Office of State Budget and Management (OSBM); Elizabeth Colcord and Virginia Sisson from the NC Office of State Controller (OSC); and other members of the public.

Department of State Treasurer Staff Present

Staff members attending in person: Ted Brinn, Thomas Causey, Reid Chisholm, Zora Falkowski, Patti Hall, Jeff Hancock, Alan Jaquith, and Christopher Morris.

Staff members attending virtually: Christy Farrelly, Joan Fontes, Derek Gee, Bill Golden, Rekha Krishnan, Fran Lawrence, Kristin Merrick, Paul Palermo, and Laura Rowe.

The Chair called the meeting to order and reminded members that, since this meeting is being held in a hybrid format, members must announce their names when they arrive, when they depart, and when speaking. In addition, he explained that making a motion will be assumed to be a vote for the proposal and that all votes will be taken by roll call. He stated that today's meeting is being recorded as part of the Department of State Treasurer's initiative to increase government transparency.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about Board member conflicts of interest. No conflicts of interest were identified.

Approval of Board Minutes

The Chair entertained a motion to approve the minutes of the December 2, 2021, quarterly Board meeting. Ms. Melinda Baran so moved, and Mr. Nels Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

Administrative Matters: Adoption of NC 401(k) & NC 457 Plans Administrative Fee Rule

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present a recommendation for the NC 401(k) and NC 457 Plans administrative fee (included in the Board's materials). The proposed new rule would cut the administrative fee to 1.25 basis points from the current fee of 2.50 basis points. Mr. Hancock said that the new fee rule had been posted on the Department's website for 30 days and no comments were received. He stated that once adopted, the new fee will be effective on March 1, 2022.

The Chair entertained a motion to adopt the Administrative Fee Rule, setting the 2022 administrative fee at 1.25 basis points for the NC 401(k) and NC 457 Plans. Ms. Chevelle Thomas so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

The Chair, Treasurer Folwell, stepped away at 9:07 a.m. and Mr. Thomas Causey took over as Acting Chair.

Administrative Matters: NC SRP Audit Update

Mr. Hancock provided an update on the 2021 Supplemental Retirement Plans Audit. The Department and the auditor, CliftonLarsonAllen (CLA), held the kickoff meeting on February 14. CLA's new audit partner for the Plans will be Mr. Jason Ostroski. Mr. Ostroski has extensive experience auditing government plans and previously served as the audit partner for SRP. The areas of focus are likely to be the new Government Accounting Standards Board (GASB) rules and distributions under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Administrative Matters: NC 403(b) Program Discontinuation

The Acting Chair recognized Mr. Hancock to present an update on the NC 403(b) Program discontinuation. Mr. Hancock said he had been emailing periodic updates to the Board. The first round of communications to employers and participants is complete. Staff created a set of FAQs and posted them to the Department's website, created the employer election form, developed website messaging, and started a second round of letters to employers and participants. Mr. Hancock commented that Mr. Matt Hermann and his Prudential team of Retirement Education Counselors have made great efforts to reach out to all the employers.

Ms. Baran commented on all the national publicity from the announcement and asked if staff received any negative feedback. Mr. Hancock said that the feedback has been positive overall.

North Carolina Supplemental Retirement Plans 4th Quarter 2021 Administrative Report

The Acting Chair recognized Mr. Michael McCann, Prudential Client Relations & Business Development Vice President, and Mr. Matt Herrmann, Prudential Retirement Education Team Director, to provide the North Carolina Total Retirement Plans 4th Quarter 2021 Administrative Report (included in the Board's materials).

The Chair returned to the meeting at 9:12 a.m.

Mr. Hermann provided an update on the discontinuation of the NC 403(b) Program. His team of Retirement Education Counselors has reached out, via phone calls and emails, to all 75 employers that currently offer the NC 403(b) Program. Mr. Hermann said that Prudential conducted the first employer webinar earlier this week with 36 attendees representing 27 employers. In response to a question, he commented that it is too early to tell if participants are transferring their contributions to the NC 401(k) or NC 457 Plans. As the process moves forward, the Chair wants to know that every employer and participant have been contacted. The Chair commented that Pensions and Investments (P&I) recently published an article highlighting the challenges facing 403(b) programs today.

Mr. Hermann said that during 2021, for all the North Carolina retirement plans (SRP and pensions), Prudential had 58,440 total attendees for their group education events, employer meetings, and individual one-on-one meetings. Attendance was significantly higher than the previous year in all meeting categories. Prudential began offering state-wide virtual events in 2021. These 25 state-wide virtual events had 7,178 attendees. He shared that 2021 had a record number of enrollments, with 23,201 enrollments across all three plans. Last year, 36,923 participants increased their plan contributions. He said that 37 employers adopted one of the plans during 2021. Mr. Hermann noted that Prudential began offering quarterly employer webinars. Interest has been strong with 900 attendees, and many continue attending each quarter. They have also added a monthly session for employer contacts that covers roles and responsibilities.

Mr. Hermann said that Prudential started offering Saturday webinars for teachers and they have had a very strong response. Prudential continues to make courtesy calls to recent retirees and contacted 3,150 retirees during 2021. The response has been very positive, and some participants are surprised to learn they can keep their assets in the plans after they retire. He shared how this information is particularly important to those participants whose accounts are Bailey vested.

Mr. McCann then shared that the transaction with Empower purchasing Prudential is expected to close early in the second quarter. He said that Prudential and Empower are holding webinars to inform employers of the transaction. He pointed out that the only initial change will be the appearance of the Empower logo. All client service teams will remain the same. He discussed Prudential's strong performance related to the contractual performance goals for contributions, active participation rates, average employee deferrals, and GoalMaker usage. Mr. McCann shared the positive trend in the percentage of distribution-eligible assets that remained invested in the Plans.

NC 401(k) and NC 457 Plans Custodian Update

The Chair recognized Mr. Declan Denehan, Managing Director, Global Client Management, and Ms. Phaedra Garibaldi, Vice President, Relationship Manager, from The Bank of New York Mellon (BNY Mellon), the custodian for the NC 401(k) and NC 457 Plans. Mr. Denehan provided an update on BNY Mellon (included in the Board's materials), noting the company's growth in business, financial strength, and investments in technology.

Ms. Garibaldi then reviewed BNY Mellon's work with the Plans and the Department, including a new, lower fee schedule implemented at the beginning of 2021. She said BNY Mellon has added a Service Director, Mr. Brian Shea, to the Department's service team, and he will be working onsite in North Carolina.

In response to a question regarding potential sanctions related to the Russia invasion of the Ukraine, Mr. Denehan said BNY Mellon will follow their formalized process to implement and to notify all clients.

Board members, staff, and BNY Mellon then discussed the Plans' policy and process for proxy voting. The Plans and the North Carolina Retirement Systems use Glass Lewis as their proxy voting vendor and staff reviews the proxy voting policy annually.

Investment Update

NC 401(k) and NC 457 Plans 4th Quarter 2021 Stable Value Portfolio Review

The Chair recognized Mr. Paul Langanke, Senior Director, Institutional Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 4th Quarter 2021 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanke shared that the sale of Wells Fargo Asset Management (WFAM) was finalized in the fourth quarter. He also commented on the continued strength of Galliard's business. Mr. Langanke reviewed the metrics and performance of the NC Stable Value Fund, noting the quality of the assets, the strong market / book value ratio, and the financial strength of the wrap providers (insurance companies). He said the crediting rate remained flat during the fourth quarter. He commented that the net blended yield will rise as interest rates rise, but with a slight lag. The portfolio has outperformed the 3-Month Treasury Bill Index and the 3-Year Constant Maturity Treasury Yield. Mr. Langanke stated that all underlying strategies outperformed over the trailing 5- and 10-year periods.

In response to a comment about fees, Mr. Langanke said Galliard lowered their investment management fees as of January 1, 2022.

In response to a question about rising interest rates, Mr. Langanke said that Galliard is prepared for any Federal Reserve rate increase and has the portfolio well positioned.

NC 401(k) and NC 457 Plans 4th Quarter 2021 Investment Performance Report

The Chair recognized Ms. Elizabeth Hood, CFA, Senior Vice President and Manager, and Mr. Weston Lewis, CFA, CAIA, Senior Vice President, of Callan to present the NC 401(k) and NC 457 Plans 4th Quarter 2021 Investment Performance Report (included in the Board's materials). Ms. Hood provided a high-level overview of the capital markets, noting the strong 2021 returns for US equity and the concentration of these returns in a few large companies.

In response to a question about upside / downside capture, Mr. Lewis said Callan does not provide that metric in this summary report, but Callan does provide that information to staff each quarter and could include it in the summary report next quarter.

Mr. Lewis reviewed the performance of the individual investment managers and gave some thoughts around what drove their performance, including the managers' investment philosophies. He noted that the Russell 1000 Growth Index outperformed 91 percent of the large growth investment managers over the trailing three-year period. He explained that a few top companies are really driving the performance of the index. Mr. Lewis reviewed Callan's "Active Management Scorecard" (watch list), noting that Callan prefers to be holistic and focus on people, process, and performance for each investment manager. In response to a general question about lagging performance and when the Supplemental Plans should take action, Mr. Lewis explained that Callan looks at the manager's approach to investing, the market sector, and what specifically caused any lag in performance. Callan also watches to see if other clients are losing confidence in the manager and withdrawing assets. He said one manager's (WEDGE Capital Management) underperformance came primarily from a difficult

2020 and part of 2021; not from general long-term underperformance. Callan is continuing to watch the manager closely. Mr. Beam commented on the size of the Plans' investment in WEDGE Capital Management relative to the manager's total assets under management and asked Callan to take a closer look to see if Callan believes that the size of our investment is prudent. Mr. Morris commented that the Plans do not have a policy restricting investments to a specific maximum percentage of an investment manager's assets under management.

NC 401(k) and NC 457 Plans Investment Updates: Investment Compliance Summary

The Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans Investment Compliance Summary Report (included in the Board's materials). Mr. Morris noted that there is nothing material to report. He stated that staff continues to monitor investment managers daily for compliance with their respective investment guidelines and state and federal divestment laws. No managers held prohibited holdings during the quarter.

NC 403(b) Program 4th Quarter 2021 Investment Performance Report

Mr. Morris presented the NC 403(b) Program 4th Quarter Investment Performance Report (included in the Board's materials). Mr. Morris discussed the performance, asset balances, and investment managers in the Program. He mentioned that overall assets grew during the quarter to \$32.8 million.

Contract for Foreign Tax Services

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present a contract recommendation for foreign tax services (included in the Board's materials). Mr. Chisholm explained that the Plans require two types of foreign tax services: tax compliance and tax reclaims. He said tax compliance in India and Taiwan, as well as ad hoc advice or work for other countries, is currently provided by Ernst & Young (EY) under a contract that expires on March 31, 2022. Tax reclaim services are currently provided by the Plans' custodian, BNY Mellon, as part of its custodial fees; however, BNY Mellon does not offer all of the tax reclaim services that potentially may benefit the Plans. Mr. Chisholm said the evaluation committee recommends selecting Globe Tax to provide tax reclaim services that are not provided by BNY Mellon and to continue using EY for tax compliance services. There were no non-cost related questions.

The Chair entertained a motion to enter a closed session per G.S. § 143-318.11(a)(1) to discuss the cost proposals from Globe Tax and EY. Mr. Roseland so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 8-0. The Board of Trustees entered a closed session at approximately 11:33 a.m.

Mr. Roseland made a motion to reopen the meeting at approximately 11:44 a.m. and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 7-0 (Mr. Hibler did not return from the closed session).

Upon the return to open session, the Chair entertained a motion to approve staff's recommendation to pursue contract negotiations to obtain foreign tax services with Globe Tax and EY. Mr. Roseland so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 7-0.

Public Comments

No comments were offered.

Board of Trustees Comments

Ms. Baran spoke regarding the Russian invasion of Ukraine. She wanted to publicly condemn this unprovoked invasion, state that we stand with the Ukraine, and that we are against global aggression.

The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, May 26, 2022, at 9:00 a.m.

Adjournment

There being no further business before the Board, the Chair entertained a motion to adjourn the meeting in the spirit of standing against global aggression. Ms. Baran so moved, and Mr. Roseland seconded the motion. The motion passed by a unanimous roll call vote of 7-0. The meeting was adjourned at approximately 11:55 a.m.

Chair

Secretary