



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



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

## MINUTES SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

The regular quarterly meeting of the Supplemental Retirement Board of Trustees was called to order at approximately 9:00 a.m. on May 27, 2021, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in a hybrid format, with most people attending via teleconference and some attending 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 present in person: Treasurer Dale Folwell, Melinda Baran, and Nels Roseland.

Board members present virtually: Steve Beam, Wyndon Hibler, Lorraine Johnson, Michael Lewis, James Lumsden, and Chevella Thomas.

### **Members Absent**

None

### **Guests Present**

The guests attending (all virtually/by phone) were: Phaedra Garibaldi, William Claxton, and Greg Wilcox from BNY Mellon; Elizabeth Hood, Weston Lewis, and James Veneruso from Callan; Paul Langanki from Galliard; Mary Conti, Matt Herrmann, Aaron Koval, Michael McCann, Jessica Quimby, and Todd Monahan from Prudential. Lindsay Saienni from FIN News and Cyril Espanol, Journalist.

### **Department of State Treasurer Staff Present**

Staff members present in person: Tom Causey, Reid Chisholm, Loren de Mey, Christy Farrelly, Patti Hall, and Jeff Hancock.

Staff members present virtually: Joan Fontes, Bill Golden, Alan Jaquith, Rekha Krishnan, Kenn Kubacki, Fran Lawrence, April Morris, Christopher Morris, Paul Palermo, Laura Rowe, and Sam Watts.

The Chair called the meeting to order and reminded members that, since this meeting is being held in a hybrid format in person and virtually, members must announce their names when they arrive, when they depart, and when speaking. 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 also shared that today's meeting is being recorded under the Department of State Treasurer's policy to record official public meetings as part of an initiative to increase government transparency.

The Chair extended a warm welcome to the newest Board member, Wyndon Hibler, and commented that Mr. Hibler brings experience in finance and wealth management across public

and private sectors. He said that Mr. Hibler is replacing Nigel Long, who departed to serve on the North Carolina Education Lottery Commission Board.

The Chair also reminded the Board that Ms. Buonfiglio is retiring soon, and he was pleased to announce that Mr. Jeff Hancock has joined the Department of State Treasurer to replace her as the Director, Supplemental Retirement Plans.

#### **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 by the Board members.

The Chair informed the members that the Evaluation of Statement of Economic Interest (SEI) for Wyndon Hibler was available in the appendix. He commented that SEI evaluations are a part of the meeting minutes.

#### **Adoption of Resolution of Appreciation for the Service of Mr. Nigel Long**

The Chair presented a Resolution of Appreciation for Mr. Nigel Long's service as a member of the Supplemental Retirement Board of Trustees and entertained a motion to adopt the Resolution. Ms. Melinda Baran so moved and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 9-0.

#### **Approval of Board Minutes**

The Chair entertained a motion to approve the minutes of the March 11 Board meeting. Mr. Nels Roseland so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 9-0.

#### **Legal Updates**

The Chair recognized Mr. Reid Chisholm to present several legal updates.

#### **Administrative Fee Flexibility**

Mr. Chisholm gave an update on proposed state legislation to provide more flexibility for the Board to change administrative fees for the Supplemental Retirement Plans. The House of Representatives passed the bill, and it is now in the Senate for review.

#### **Contract Updates**

Mr. Chisholm gave updates on three vendor contracts. The contract with Ernst & Young for foreign tax services was renewed through March 31, 2022, pending a planned invitation to bid process. The Department plans one-year contract renewals with Financial Recoveries Technologies (litigation support services) and with Glass Lewis (proxy voting services). In addition, the Department is reviewing the proxy voting policy requirements.

#### **Closed Session**

The Chair entertained a motion to enter a closed session per G.S. § 143-318.11(a)(3). Mr. Roseland so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 9-0. The Board of Trustees entered a closed session at approximately 9:16 a.m.

The Board of Trustees returned to the open session at approximately 10:14 a.m.

#### **2021-22 Budget Proposal**

The Chair recognized Mr. Tom Causey to present the proposed 2021-2022 budget for the Supplemental Retirement Plans (included in the Board's materials), which maintains total expenditures at the same dollar amount as the budget for 2020-2021. He reminded the Board

that the funding source for the Supplemental Retirement Plans is the administrative fee charged to account balances in the NC 401(k) Plan (2.5 basis points), the NC 457 Plan (2.5 basis points), and the NC 403(b) Program (5.0 basis points). Mr. Causey pointed out that the projected fund balances reflect that there is no fee holiday this year (as there was in 2019 and 2020) and that the Board will have more flexibility regarding the administrative fee if the administrative fee flexibility bill passes.

Mr. Beam asked about the interest rate on the loan taken in 2014 for the NC 403(b) Program. Mr. Causey explained that the loan provided for upfront costs that were required to start the NC 403(b) Program. Mr. Causey also stated that the 7.25 percent rate was established by the TSERS Board of Trustees because the loan came from the TSERS Qualified Excess Benefit Arrangement (QEBA) Account. The Chair commented that the NC 403(b) Program is struggling to gain assets since there are so many competing 403(b) plans available to participants. The Chair stated that the Board will have a more robust discussion on the NC 403(b) Program at a later meeting.

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The Chair entertained a motion to approve the budget proposal. Mr. Beam so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Administration of NC Supplemental Retirement Plans**

Mr. Roseland made a motion that, consistent with the Board's long-standing approach to discharging its fiduciary duty to the plan participants, the Board directs SRP staff to draft additional policies regarding the administration of the plans and present the policies to the Board for its consideration. Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 9-0.

### **Administrative Update**

The Chair recognized Mr. Michael McCann and Mr. Matt Hermann from Prudential to provide the 1st Quarter 2021 Administrative Report on the NC Supplemental Retirement Plans (included in the Board's materials).

Mr. McCann began by welcoming Mr. Wyndon Hibler and Mr. Jeff Hancock. He expressed his congratulations and gratitude to Ms. Mary Buonfiglio, commenting that he appreciated her leadership and candor, and wishing her happiness in her upcoming retirement.

He said that Prudential complies with the cybersecurity standards and guidelines recently issued by the U.S. Department of Labor.

Mr. McCann shared rolling 13-month trends of contributions versus distributions, active participation rates, average participant balances, and active participant average deferrals.

As a follow-up from a discussion at the previous meeting, Mr. McCann also shared new information covering total assets saved. During the past five years, approximately 80 percent of assets eligible to be rolled out remained in the plans. He then showed the top ten investment firms receiving rollover assets from the plans over the past four calendar years, which remained consistent, and the number of participants transferring assets to each firm.

The Chair thanked him for sharing this new data and commented on the high quality of the plans and the ability of participants to keep their assets in the plans during retirement.

Mr. Lumsden commented that the NC Plans are also the best managed plans available.

Next, Mr. Herrmann spoke regarding the Prudential Retirement Education Team and outreach meetings with participants, employees, and employers.

### **Investment Update**

#### **NC 401(k) and NC 457 Plans 1st Quarter 2021 Stable Value Portfolio Review**

The Chair recognized Mr. Langanki of Galliard to present the NC 401(k) and NC 457 Plans 1st Quarter 2021 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki shared news announced February 23, 2021 that Wells Fargo entered into an agreement to sell Wells Fargo Asset Management (WFAM), Galliard's parent, to two private equity firms. The sale is scheduled to be completed in the second half of 2021. He does not anticipate any changes to Galliard's structure.

Mr. Langanki reviewed the Stable Value Fund portfolio, commenting that the quality of the Stable Value Fund assets remained strong while interest rates rose slightly during the first quarter. He said that the fund has continued to outperform the 3-year constant maturity Treasury bond. He explained that they want to be prepared with cash in case inflation increases. He said that all the underlying insurance companies remain financially strong. The overall fees for the fund dropped recently due to the tiered fee schedule and the lower wrap fees agreed to by three insurance companies. He said that all underlying strategies have outperformed the benchmarks for the quarter and for the past year. He shared that Jennison came off Galliard's watch list due to a rebound in Jennison's long-term performance.

#### **NC 401(k) and NC 457 Plans 1st Quarter 2021 Investment Performance Report**

The Chair recognized Mr. Weston Lewis of Callan to present the NC 401(k) and NC 457 Plans 1st Quarter 2021 Investment Performance Report (included in the Board's materials).

Mr. Lewis reviewed the performance of the financial markets and SRP investment funds, noting that returns were positive across all equity categories in April and that the NC Small/Mid Cap Fund was ahead of its index over the trailing three months, trending in the right direction.

He then shared Callan's "stoplight report" pages and noted that nothing has changed during the quarter to alter Callan's opinion regarding the fund managers. He mentioned that Galliard was on the watch list due to the departure of an employee and undergoing a change in ownership. He recommended keeping Galliard on the watch list for this reason.

#### **NC 401(k) and NC 457 Plans Recordkeeper Administrative Fee Review**

Mr. Lewis introduced Ms. Jana Steele from Callan's Defined Contribution Group to discuss the annual Recordkeeper Administrative Fee Review (included in the Board's materials). Ms. Steele showed how the administrative fee and plan demographics have changed over the last year. She explained that Callan compared the NC administrative fees against ten other defined contribution plans that have a similar structure and shared that the NC SRP administrative fees are currently significantly lower than the median comparable fees for other large defined contribution plans.

Mr. Beam asked if there is an incentive that the plans can offer to participants to motivate them to remain with the plans after retiring. The Chair said that staff would review this potential opportunity.

#### **NC 401(k) and NC 457 Plans GoalMaker Suitability Review**

The Chair recognized Mr. James Veneruso of Callan to present a GoalMaker suitability review (included in the Board's materials). Mr. Veneruso said that Callan used the DOL "Target-Date

Fund Tips for Plan Fiduciaries” as a framework for their evaluation, which was designed to evaluate suitability and not optimality and that no solution can simultaneously address all risks for every participant in an optimal fashion.

Mr. Veneruso said GoalMaker meets the suitability standard for the plans, with well below average fees and professional asset allocation. He cautioned that GoalMaker is proprietary to Prudential, which would be a consideration if the plans’ recordkeeper were changed.

### **Investment Manager Recommendations for NC International and International Index Funds**

The Chair recognized Ms. Loren de Mey to provide staff’s investment manager recommendations for the NC International Fund and the NC International Index Fund (included in the Board’s materials). Ms. de Mey reminded the Board that at a prior meeting they voted to change the benchmark for both funds and include one or more international small-cap investment managers in the NC International Fund. Ms. de Mey reviewed details of the search process, the manager selection criteria, and the rationale for staff’s recommendations. She stated that staff recommends retaining BlackRock as the manager for the NC International Index Fund, adding Acadian and WCM as small-cap managers in NC International Fund, and allocating 14% to small-cap equity in the NC International Fund, split evenly between Acadian and WCM.

Ms. de Mey introduced Ms. Elizabeth Hood of Callan to discuss Callan’s review and recommendations to the Board. She stated that BlackRock agreed to manage the NC International Equity Index Fund with the new broader benchmark for the same management fee.

Ms. Hood supported adding Acadian and WCM to the NC International Fund, which would add a small-cap component to the fund, while maintaining a neutral exposure to growth and value. The fee for the fund would be well below the median, even with the additional cost of Acadian and WCM, and the potential improved performance for the Fund could more than offset the increased fees. She noted that if a participant wishes to avoid the higher fees, they have the option of investing in the passive NC International Equity Index Fund. She shared blended projections for the NC International Equity Fund, including potential standard deviation, up-market and down-market capture, and estimated management fees.

Mr. Beam made a motion to approve the three-part recommendation presented by Ms. de Mey. Ms. Baran seconded the motion. The Chair asked if there was any further discussion.

The Chair asked whether Callan receives any compensation from investment managers, including Baillie Gifford, Mondrian, WCM, or Acadian. Ms. Hood replied that Callan receives compensation, but noted that the compensation does not affect Callan’s recommendations or advice. She added that investment managers pay Callan for consulting, research, and advice, which is fully disclosed in all of Callan’s reports to SRP every quarter.

The Chair questioned Ms. Hood about compensation received by Callan from investment managers, including BlackRock, Acadian, and WCM, and stated that Callan recommends managers from which it receives compensation, including in the current situation before the Board. Ms. Hood acknowledged these points, and stated that Callan’s recommendations are not affected by the compensation and that Callan also recommends managers from which it does not receive compensation. Callan has a separate division that provides services to investment managers and has processes in place to ensure that conflicts do not materialize. Ms. Hood stated that she does not know the amount investment managers pay to Callan and the

aggregate revenue received from investment managers is less than ten percent of Callan's total revenue.

The Chair asked a follow up question in the spirit of transparency regarding the size of the outside compensation that Callan receives. Ms. Hood stated that consulting revenue from clients like North Carolina definitely dwarfs any revenue from consulting services to investment managers. The Chair stated that while we hire Callan to be an objective third-party source, Callan is receiving compensation from the people that you are recommending. The Chair commented that for this search, Callan has not recommended anyone to the Board that Callan is not receiving compensation from. Ms. Hood replied that for this particular search, that is correct.

The Chair stated his preference for obtaining small cap equity exposure for the NC International Fund through an index fund.

The motion passed by a vote of 7-1: Yes: 7, No: 1 (Chair Folwell), Abstain: 1 (Ms. Thomas).

#### **NC 401(k) and NC 457 Plans Investment Compliance Summary Report**

The Chair recognized Ms. de Mey to present the Investment Compliance Summary Report (included in the Board's materials). Ms. de Mey said that staff continues to monitor investment managers daily for compliance with their respective investment guidelines and that no managers held prohibited holdings during the quarter.

#### **NC 401(k) and NC 457 Plans Stable Value Fund's Custodian Transition**

The Chair recognized Ms. de Mey to present an update on the NC Stable Value Fund Custodian Transition Update (included in the Board's materials). Ms. de Mey said that the fund's assets were transitioned successfully from Wells Fargo to BNY Mellon on April 1, 2021. Wells Fargo and BNY Mellon worked together to reconcile all positions, and any residual cash will continue to be transferred as appropriate. She said that Galliard continues to provide the book value valuation for the entire Stable Value Fund.

#### **NC 403(b) Program 1st Quarter Investment Performance Report**

The Chair recognized Ms. de Mey to present the NC 403(b) Program Investment Performance Report (included in the Board's materials). Ms. de Mey discussed the performance, asset balances, and managers in the program.

#### **Public Comments**

No comments were offered.

#### **Board of Trustees Comments**

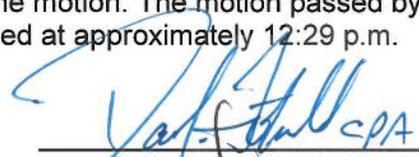
Mr. Hancock said that he is looking forward to his new role within SRP. Ms. Baran commented that it was a great meeting. Mr. Beam offered his congratulations to Ms. Buonfiglio on her pending retirement. Mr. Hibler expressed his gratitude for being invited to serve on the Board, and stated that he hopes to create value for the Board and State employees.

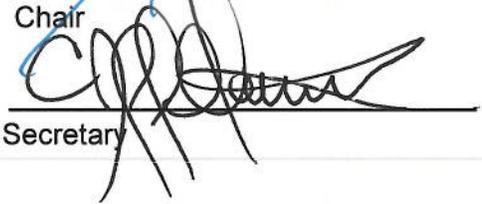
The Chair told the Board that the Board meeting books include information and outreach materials that Ms. Christy Farrelly created and asked the Board to take an opportunity to review those materials. He commented on the importance of raising awareness about the Supplemental Retirement Plans. He thanked everyone for participating and announced the next Board meeting will be Thursday, August 26 at 9:00 a.m.

The Chair said that we would close the meeting today in honor of the two Watauga County sheriff deputies, Chris Ward and Logan Fox, who were killed in the line of duty while conducting a welfare check on April 28, 2021.

**Adjournment**

There being no further business before the board, Mr. Hibler made a motion to adjourn in honor of Deputies Ward and Fox, and Ms. Thomas seconded the motion. The motion passed by a unanimous roll call vote of 9-0. The meeting was adjourned at approximately 12:29 p.m.

  
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Chair

  
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Secretary



## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

March 29, 2021

The Honorable Roy A. Cooper III  
Governor of North Carolina  
20301 Mail Service Center  
Raleigh, North Carolina 27699-0301

**Re: Evaluation of Statement of Economic Interest by Mr. Wyndon A. Hibler  
Prospective Appointee to the Supplemental Retirement Board of Trustees**

Dear Governor Cooper:

Our office has received **Mr. Wyndon A. Hibler's** 2021 Statement of Economic Interest as a prospective appointee to the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed them for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 138A-28(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 138A-13.

**We did not find an actual conflict of interest, but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.**

The Supplemental Retirement Board of Trustees was established through the Department of State Treasurer to coordinate and administer various supplemental retirement programs, including 457 plans, 401(k) plans and other similar investment vehicles. The Board has the authority to review contracts, agreements or arrangements pertaining to the administrative services and investment of deferred funds under the plans with service providers. Further, the Board may recommend continuation of or changes to such contracts.

The Act establishes ethical standards for certain public servants, and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).

Mr. Hibler would fill the role of a member with experience in finance and investments. Because he is employed by Wells Fargo, he has the potential for a conflict of interest. Therefore, Mr. Hibler should exercise appropriate caution in the performance of his public duties should issues involving Wells Fargo come before the Board for official action.

In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

When this letter cites an actual or potential conflict of interest under N.C.G.S. § 138A-24(e), the conflict must be recorded in the minutes of the applicable board and brought to the membership's attention by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act. N.C.G.S. § 138A-15(c).

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,



Mary Roerden, SEI Unit  
State Ethics Commission

cc: Wyndon A. Hibler  
Attachment: Ethics Education Guide