North Carolina
Total Retirement Plans

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 (Board) was called to order at approximately 9:00 a.m. on May 25, 2023, 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, James Lumsden, Greg Patterson, and Nels Roseland.

Board members attending virtually: Steve Beam, Wyndon Hibler, Lorraine Johnson, Capt. Bob Shea, and Chevella Thomas.

Members Absent
No board members were absent.

Guests Present
Guests attending in person: Elizabeth Hood and Weston Lewis from Callan; Mary Conti, Matt Herrmann, and Michael McCann from Empower, and Paul Langanki from Galliard.

Guests attending virtually: Patrick Wisdom from Callan; Brigitte Duffy, Andrea Guzman Leos, and Jessica Quimby from Empower.

Department of State Treasurer Staff Present
Staff members attending in person: Thomas Causey, Reid Chisholm, Patti Hall, Jeff Hancock, Alan Jaquith, Kristin Merrick, and Chris Morris.

Staff members attending virtually: Zora Falkowski, Christy Farrelly, Joan Fontes, Derek Gee, Frank Lester, Paul Palermo, and Dan Way.

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 unless there is an objection, and 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 (DST) initiative to increase government transparency.

Introduction and Swearing-In of Member Mr. Gregory Patterson to the Supplemental Retirement Board of Trustees

The Chair extended a warm welcome to Mr. Greg Patterson, who was appointed to the Board to replace Melinda Baran. He said Mr. Patterson previously served on the Teachers' and State Employees' Retirement System (TSERS) Board of Trustees and brings extensive experience

in finance and wealth management. The Chair then administered the oath, swearing Mr. Patterson in as a member of the Board.

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.

The Chair informed the members that the evaluation of Statement of Economic Interest (SEI) for Mr. Greg Patterson was available in the appendix and SEI evaluations are a part of the meeting minutes.

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

Ratification of Capt. Bob Shea's Appointment to the Audit Subcommittee
The Board Charter requires the Chair to appoint subcommittee members, subject to ratification by the full Board. The Chair entertained a motion to ratify Capt. Bob Shea's appointment to the Audit Subcommittee. Mr. Steve Beam so moved, and Ms. Thomas seconded. The motion passed by a roll call vote of 8-0. (Capt. Bob Shea abstained).

Approval of Board Minutes
The Chair entertained a motion to approve the minutes of the February 23, 2023, quarterly Board meeting and of the February 15, 2023, Audit Subcommittee meeting. Mr. Patterson so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 9-0.

Administrative Matters: Administrative Fee
The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present several administrative matters. Mr. Hancock stated that every year Staff reviews the administrative fee paid by participants in the NC 401(k) and NC 457 Plans (the Plans) and the Plans' expense reserve account. Last year, the Board voted to reduce the Plans' administrative fee in half from 2.50 basis points (0.0250%) to 1.25 basis points (0.0125%), with the goal of reducing the balance of the reserve account to a level closer to the Board's target. However, the reserve account remains above the Board's target. In addition, the amount of interest earned on outstanding checks paid to participants and on money pending investment, which is remitted to the Plans, has increased with rising interest rates. Staff recommended reducing the administrative fee from 1.25 basis points (0.0125%) to 1.00 basis point (0.0100%).

In response to a question regarding the reserve balance, Mr. Hancock stated that the Board can adjust the administrative fee at a future Board meeting, if necessary. Mr. Reid Chisholm clarified that the process is to vote to revise the fee during a quarterly meeting, open a public comment period, and then reduce the fee at the following Board meeting.

In response to questions, Mr. Hancock explained that a 0.25 basis point reduction would reduce fees by approximately $370,000 yearly. SRP targets a reserve balance equal to 18

months of expenses and the balance is currently much larger than that. Mr. Hancock showed a conservative five-year run rate to move toward the desired target amount.

The Chair commented that SRP does not want a lot of volatility in the administrative fee charged to participants and the Board has flexibility to adjust the administrative fee prudently. He added that if the General Assembly approves employer matching contributions for state employees, participation and assets in the Plans would likely increase significantly.

The Chair entertained a motion to approve the reduction of the administrative fee to 1.00 basis point (0.0100%). Mr. Beam so moved, and Capt. Shea seconded. The motion passed by a unanimous roll call vote of 9-0.

Administrative Matters: NC SRP Budget Proposal 2023-2024
Mr. Hancock presented the proposed 2023-2024 budget for the Supplemental Retirement Plans (included in the Board's materials). Two budget options were included in the Board's materials; however Mr. Hancock discussed the proposed budget which reflects the 1.00 basis point administrative fee. The revenue assumptions included no growth in assets and the new administrative fee of 1.00 basis point. The SRP assistant general counsel is being shared with the Investment Management Division (IMD), with 75 percent of his time allocated to SRP and the remainder of his time allocated to IMD. The NC ABLE program reimburses SRP for time SRP Staff devotes to it. The proposed salary increase by the North Carolina General Assembly is included in the proposed expenses, and the budget will be adjusted as necessary to reflect the General Assembly's final decision. Changes from last year include an increase in the cost of proxy voting services, a decrease in the cost of the annual audit, and the elimination of a software license. A buffer is built into the budget. SRP has approximately $8 million in reserves.

In response to a question regarding whether SRP could invest the cash reserves in an institutional money market fund rather than the Stable Value Fund, Mr. Hancock said that Staff would research that to see if it would be an option.

The Chair entertained a motion to approve the SRP budget proposal for the 2023-2024 fiscal year. Mr. Beam so moved, and Ms. Thomas seconded. The motion passed by a unanimous roll call vote of 9-0.

Administrative Matters: BNY Mellon Contract Renewal
Mr. Hancock presented a recommendation from Staff to exercise a two-year contract renewal with BNY Mellon (included in the Board's materials). SRP's custodian contract with BNY Mellon had an initial five-year term with three one-year renewal options, which extended the term through December 31, 2023. Last August, the Board approved Staff's recommendation to align SRP's contract term with IMD's contract term with BNY Mellon. This revised the SRP contract term ending date to June 30, 2023 and gave SRP the option to renew the contract for an additional two years. IMD is planning to renew its BNY Mellon contract for another two years, through June 30, 2025. Staff recommended the Board approve the two-year SRP custodian contract renewal with BNY Mellon.

The Chair entertained a motion to renew the SRP contract with BNY Mellon for two years. Ms. Thomas so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 9-0.

Mr. Reid Chisholm shared that there is a proposal before the General Assembly to amend the North Carolina Open Meetings law to require a quorum of board members to attend in person, except when a state of emergency has been declared. He noted that if this proposal becomes law, then at least five SRP board members will need to attend each meeting in person. The proposal (as written) allows board members to attend remotely only due to health conditions or generally unexpected circumstances. Mr. Chisholm will keep the Board informed of any developments with this proposal.

Legal Matters: Amended Board Charter
The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present three legal matters (included in the Board's materials). Mr. Chisholm reminded the Board that in the previous meeting, the Board discussed members' term limits and the service of a member beyond the term limits pending the appointment of a replacement. The Board also asked Staff to revise the charter further to address these issues and present the proposed new charter at the next meeting. Staff's recommended revisions, included in the Board's materials, balance the tension between the need for Board members and term limits holdovers, as well as making several clarifications to reflect current practice and remove outdated statutory references. Staff recommended approval of the proposed revisions.

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

Legal Matters: Amendment to the NC 401(k) Plan - Compliance
Mr. Chisholm presented a retroactive Plan amendment to address a compliance error by a participating employer (included in the Board's materials). From 2003 to 2020, the employer provided matching contributions in a manner inconsistent with provisions of the plan document for the NC 401(k) Plan.

Staff submitted a proposed correction through the IRS's Voluntary Correction Program, which the IRS approved. The employer corrected their matching contributions program in 2020, and no corrective payments were required. The only remaining compliance matter is the adoption of the Plan amendment in the Board's materials, which retroactively incorporates the employer's matching contributions program into the Plan. Staff recommended adoption of the amendment.

The Chair entertained a motion to approve the amendment to the NC 401(k) Plan.
Mr. Jim Lumsden so moved, and Mr. Patterson seconded. The motion passed by a unanimous roll call vote of 9-0.

Legal Matters: Amendments to the NC 401(k) and NC 457 Plans - Beneficiaries
Mr. Chisholm said that Staff proposes another expansion of the opportunity for beneficiaries to keep their money in the Plans (included in the Board's materials). In December, the Board voted to allow beneficiaries to name their own beneficiaries. The new proposal would permit beneficiaries to keep their money in the Plans, regardless of how many beneficiaries have been named by the participant. Currently only a sole beneficiary may maintain an account in the Plans. When multiple beneficiaries are named, they cannot maintain accounts in the Plans.

The Chair entertained a motion to approve the amendment to the NC 401(k) and NC 457 Plans. Ms. Thomas so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 9-0.

Legal Matters: Proxy Voting Contract
Mr. Chisholm shared that IMD and SRP signed a five-year contract in September to continue the relationship with Glass Lewis for proxy voting services.

Historically the fee has been prorated between IMD and SRP, based on actual voting. The contract did not require Board approval under the Vendor Selection Policy at the September meeting because the annual cost was not expected to exceed the $25,000 threshold. Staff has modified the proxy voting contract to include voting the shares held in BlackRock's collective investment trusts (CIT). BlackRock now permits shareholders to vote their CIT shares. Staff anticipates the expected increase in proxy voting will take the fee above the $25,000 threshold. Staff has decided to keep all proxy voting with Glass Lewis, even though BlackRock built the capability to vote Glass Lewis's policies into their system. Staff recommended approval of the contract with Glass Lewis.

The Chair entertained a motion to approve the Proxy Voting Contract. Mr. Patterson so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 9-0.

North Carolina Supplemental Retirement Plans 1st Quarter 2023 Administrative Report
The Chair recognized Mr. Michael McCann, Empower Client Relations and Business Development Vice President, and Mr. Matt Herrmann, Empower Retirement Education Team Director, to provide the North Carolina Total Retirement Plans 1st Quarter 2023 Administrative Report (included in the Board's materials).

Mr. McCann began with an update on the migration of the Plans from the legacy Prudential recordkeeping platform to the Empower recordkeeping platform. He said the migration is scheduled for the first quarter of 2024, and while the exact date has not yet been set, it will likely be the first week of February or the first week of March. Migration will include program and platform enhancements, changes to the experiences of participating employers, compliance upgrades, and a contract amendment.

Mr. McCann shared key metrics for the Plans, noting that the average employee deferral rate continues to set all-time record highs and the active participation rate remains very strong, though slightly below the all-time high. He postulated that the decline could be caused by participants making tough decisions as they deal with the high inflation and high interest rates. The monthly contribution rate continues to edge higher.

Mr. Herrmann discussed engagements for the year to date, noting that Empower is wrapping up their Spring campaign, with 20 state-wide events and a lot of local activities. He shared that the response was extremely positive. Empower continues to see a steady increase in participant engagement, with group and individual meetings, attendees, and on-site visits all significantly higher than in 2022. He said Empower is meeting people where they are, using online, telephone, and in-person contact. Empower also held 946 employer meetings and called over 1,400 recent retirees in the first quarter.

Mr. Herrmann noted there were 6,323 enrollments in the first quarter, the second-highest first-quarter enrollment during the life of the contract. Some employers added or increased employer contributions, and three employers added the NC 457 Plan so far this year.

Investment Update

NC 401(k) and NC 457 Plans 1st Quarter 2023 Stable Value Portfolio Review
The Chair recognized Mr. Paul Langanki, Senior Director, Institutional Client Relationship Manager at Galliard Capital Management, to present the NC 401(k) and NC 457 Plans 1st Quarter 2023 Stable Value Portfolio Review (included in the Board's materials).

Mr. Langanki reviewed the historical performance of the Federal Funds Effective Rate compared to the blended yield (or crediting rate). The blended yield has remained stable over time and was roughly triple the rate of the money market fund average yield a year ago. He noted the inverted interest rate yield curve and commented that if the market expected rates to stay at the current levels, yields across the entire yield curve, not just short-term rates, would have most likely risen.

Mr. Langanki reminded the Board of three benefits of stable value funds over money market funds. Stable value funds can invest in longer-duration securities and can invest and diversify in a broader universe of securities. In addition, a stable value fund's book value accounting insulates investors from return volatility. Stable value funds have historically delivered higher long-term returns with less return volatility than money market funds, while providing similar or slightly-less risk. Stable value funds have provided at least 100 basis points of excess return over money market funds over the longer time periods of three, five, and 10-year returns.

In response to a question regarding the inverted yield curve, Mr. Langanki said the blended yield of the NC Stable Value Fund will continue to rise over time even if rates decline. Managers have a mandate to maintain an intermediate-term duration and the NC Stable Value Fund is doing exactly as intended in the current market environment.

He reviewed the metrics and performance of the NC Stable Value Fund, highlighting the quality of the assets, the market/book value ratio, and the financial strength of the wrap providers (insurance companies). Mr. Langanki commented that the NC Stable Value Fund assets remained at $2.46 billion during the fourth quarter and the blended yield rose to 2.53 percent as the Fed Funds rate increased. The blended yield will continue following the path of interest rates upward.

The market/book value ratio increased slightly to 94.14 percent as interest rates declined marginally late in the quarter. Galliard did not have any concern with the market/book value ratio below 100 percent since it was due solely to the Federal Reserve raising short-term interest rates and not a credit deterioration event as in 2008. A market/book value ratio below 100 percent is to be expected in a rising interest rate environment. By their structure, stable value funds provide positive returns even in a rising interest rate environment when fixed income returns are negative. He explained that stable value wrap contracts are designed to amortize the market declines and protect investors from price volatility due to changes in interest rates. Stable value funds are reinvesting at the current higher rates and the crediting rate will continue to rise with a lag.

The NC Stable Value Fund and all underlying strategies outperformed over all trailing periods of three years and longer. All underlying managers have provided meaningful outperformance over their benchmarks. The NC Stable Value Fund outperformed the average money market fund yield over the trailing three, five, and 10-year periods. Mr. Langanki does not anticipate interest rates remaining at current levels.

Galliard does not believe that any of the contract issuers will be impacted by the recent regional banking troubles. It could have a small impact on the earnings of the contract issuers but should not impact their financial strength ratings. The contract issuers had no exposure to Silicon Valley Bank (SVB), Signature Bank (SB), First Republic Bank, or Western Alliance Bancorp. Since they only invest in high-quality companies, these regional banks fell outside their universe of potential investments. The contract issuers had no exposure to the Credit Suisse bonds that were wiped out but did have a very small exposure (19 basis points) to Credit Suisse senior debt.

Galliard is changing the Metropolitan Life separate account contract to a synthetic guaranteed investment contract (GIC), which is the same contract type as all the other wrap accounts. This is proceeding smoothly and should be completed by the end of May. This will reduce fees for this contract provider and will have no impact on daily trading by Plan participants.

In response to a question, Mr. Langanki reiterated that stable value funds are designed to be long-term investments and money market fund returns have been low for many years. No Galliard clients have moved from stable value assets to money market funds.

NC 401(k) and NC 457 Plans 1st Quarter 2023 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 1st Quarter 2023 Investment Performance Report (included in the Board's materials) and the Small/Mid Cap Equity Structure Comparison (included in the Board's materials).

Mr. Lewis gave a high-level overview of the capital markets.

The overall portfolio had sizeable investment returns in the first quarter from investment returns alone. About half of the Plans' assets are in GoalMaker, and Callan believes having 50 percent of the assets in the "Do It For Me" solution is a good thing, since it typically comes with more professional management. All funds and investment managers, both passive and active options, had positive performance in the first quarter.

Mr. Lewis reviewed Callan's "Active Management Scorecard" (stoplight report and watch list), which reflects Callan's overall opinion of the managers. Callan believes that people, process, and philosophy are what drives performance for the managers and their strategies.

He noted that Macquarie moved to "yellow" this quarter as their performance fell behind the benchmark. Macquarie typically tracks their benchmark rather closely and underperformed substantially, primarily due to stock selection, mainly in the financials sector. Macquarie has had some staff turnover. Macquarie, which has managed the Plans' assets since 2015, has a quality focused investment style and remains on Callan's recommended list.

Sands Capital was "yellow" this quarter. Callan continued to monitor Sands Capital's asset base, which remained stable.

NC 401(k) and NC 457 Plans Small/Mid Cap Equity Structure Comparison
Mr. Lewis reviewed the performance of the NC Small/Mid Cap Core Fund since changes were implemented in 2020, including the improvement in return and risk-adjusted return.

NC 401(k) and NC 457 Plans Fee Benchmark Review
Ms. Hood presented Callan's review of the Plans' recordkeeping fee charged by Empower (included in the Board's materials). Ms. Hood explained the review is complex and is based on the size of the plan, number of participants, number of payrolls, and other factors.

Callan performs a recordkeeping fee review on a three-year cycle. In the first year, Callan conducts a comprehensive review using a blind bid process, which includes obtaining bids in the marketplace. In the second and third years, Callan performs a higher-level review, comparing the Plans with other plans in Callan's database. The last comprehensive review was in 2020. However, the Plans are scheduled to migrate to Empower's system in early 2024, so after conferring with Staff, Callan completed a higher-level fee review this year and will conduct a review with blind bids in 2024. Callan also noted that recordkeeping costs do not change dramatically from year to year.

Callan's review found that the Plans' fees are still reasonable and competitive.

Ms. Hood reviewed the administrative fees, loan origination fees, overall participant fees, and how they have declined. Callan reviewed plans of a similar size and complexity in their database of corporate 401(k) plans and of governmental plans. She noted that having large number of employers in the Plans increased their complexity. The most appropriate governmental plans for comparison are smaller and less complex than the Plans. The NC administrative service fee is lower than the median administrative fee of this peer group of state deferred compensation plans.

NC 401(k) and NC 457 Plans Investment Updates: WEDGE Capital Recommendation
The Chair recognized Mr. Chris Morris, DST's Co-Chief Investment Officer to present a recommendation from Staff and Callan to perform a search to replace WEDGE Capital Management in the NC Small/Mid Cap Core Fund (included in the Board's materials). WEDGE Capital was placed on the watch list in Q4 of 2018.

Mr. Morris said the three main considerations are the decline in assets under management, changes within the organization, and continued underperformance of the strategy. WEDGE Capital has experienced a substantial decrease in assets under management in comparable investment strategies and firmwide. Members of the firm's investment team departed in recent years and two more are leaving this year; none of whom have been, or will be, replaced. WEDGE Capital was initially added to the watch list for its trailing three-year performance. Short-term and long-term performance has continued to underperform peers and the benchmark. Mr. Morris recommended the Board approve a formal search for a suitable replacement. Once the search is completed, Staff will bring a recommendation for a replacement manager to the Board.

The Chair commented that he is fearful of waiting until Staff finds a suitable replacement and asked about terminating this relationship more quickly. Mr. Morris said if the Board wishes to terminate WEDGE Capital prior to selecting a replacement, he recommended investing these funds temporarily into a Russell 2500 Value Index mandate to keep the overall core structure and remain balanced with growth and value. He noted this could lead to additional transition costs. Callan did not see an urgent need to replace WEDGE Capital pending the selection of a replacement. Mr. Morris explained that a passively managed small/mid cap investment option exists in the lineup, and the NC Small/Mid Cap Core Fund is designed to offer an actively managed small/mid cap fund for those who this option.

Board members discussed the urgency in terminating WEDGE Capital, the possibility of accelerating the search for a replacement manager, the potential costs of two transitions, and the process of terminating and replacing WEDGE Capital. In response to a question regarding the speed of recommending a replacement, Mr. Morris said that Staff has begun the search process and believes Staff could bring a recommendation to the Q4 board meeting. Ms. Hood added that Callan does not expect significant changes within six months.

The Chair commented that the Board has been very patient with WEDGE Capital.

The Chair entertained a motion to terminate WEDGE Capital as an investment manager, move the assets currently with WEDGE Capital into a Russell 2500 Value Index investment vehicle temporarily, and approve Staff's search for a replacement manager for the small/mid cap value investment mandate. The motion also delegated to Staff the discretion to select the method, timing, and location of the transition to a Russell 2500 Value Index vehicle. Mr. Patterson so moved, and Mr. Lumsden seconded. The motion passed by a unanimous roll call vote of 9-0.

NC 401(k) and NC 457 Plans Investment Updates: Investment Compliance Summary
The Chair recognized Mr. Morris, DST's Co-Chief Investment Officer, to present the NC 401(k) and NC 457 Plans 1st Quarter 2023 Investment Compliance Summary Report (included in the Board's materials). Mr. Morris said that Staff continues to monitor investment managers daily for compliance with their respective investment guidelines and adherence to state and federal divestment laws. He noted there is nothing material to report for the first quarter.

Public Comments
No comments were offered.

Board of Trustees Comments
No comments were offered.

The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, August 24, 2023, at 9:00 a.m.

Adjournment
The Chair wished everyone a happy Memorial Day and commented that with no further business before the Board, he would entertain a motion to adjourn in honor of the veterans

who have protected this country. Mr. Roseland so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 9-0.

The meeting was adjourned at approximately 12:07 p.m.

Dale Folwell CPA
Chair

Secretary

STATE ETHICS COMMISSION

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Via Email

March 31, 2023

The Honorable Phil Berger
President Pro Tempore of the Senate
16 West Jones Street, Room 2008
Raleigh, North Carolina 27601

Re: Evaluation of Statement of Economic Interest by Mr. Michael Gregory Patterson
Appointee to the Supplemental Retirement Board of Trustees

Dear Senator Berger:

Our office has received **Mr. Michael Gregory Patterson's** 2023 Statement of Economic Interest as an appointee to the **Supplemental Retirement Board of Trustees (the "Board")**. We have reviewed it 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. Patterson is a partner of Simplicity Group, a company that provides financial, insurance and investment services. In addition, he owns financial interests in various companies including U.S. Annuity Partners, LLC, Comerica, Bank of America, FMI Investment Partners, and Goldman Sachs Group. Therefore, Mr. Patterson has the potential for a conflict of interest and should exercise appropriate caution in the performance of his public duties should issues involving any entity in which he owns a financial interest come before the Board for official action.

In addition to the conflict 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

Mary Roerden, SEI Unit
State Ethics Commission

cc: Michael Gregory Patterson
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide