



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



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## **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 26, 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 Empower.

Guests attending virtually: Jana Steele from Callan; Paul Langanki from Galliard; Mary Conti and Aaron Koval from Empower; 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, Jeff Hancock, Reid Chisholm, Zora Falkowski, Patti Hall, Alan Jaquith, Fran Lawrence, and Christopher Morris.

Staff members attending virtually: Christy Farrelly, Joan Fontes, Derek Gee, Bill Golden, 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.

The Chair called upon Board member, Mr. Neils Roseland, to share the announcement that Governor Roy Cooper has nominated Mr. Roseland to be the next State Controller, effective July 1, 2022. Mr. Roseland said that he is excited at the opportunity, humbled to be chosen, and is looking forward to his new role. The Chair congratulated him and commented that Mr. Roseland will be leaving the Board and that we will miss his hard work, his wisdom, and his integrity.

#### **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 February 14, 2022, Audit Subcommittee Board meeting and the minutes of February 24, 2022, quarterly Board meeting. Ms. Melinda Baran so moved, and Ms. Chevella Thomas seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Administrative Matters: NC SRP Audit Update**

The Chair recognized Mr. Jeff Hancock, Director, Supplemental Savings Programs, to present several administrative matters. Mr. Hancock began by sharing progress on the annual audit of the NC 401(k) and NC 457 Plans. He said that employer testing has concluded with seven low-risk findings, as compared to 11 findings from last year's audit, and staff will work with the employers to remediate the errors. CLA will present the complete audit results at the next Audit Subcommittee meeting on July 19.

The Chair noted that the Department and the Board had no control over the findings from CLA's employer testing and Mr. Hancock added that these findings were based on actions by some of the 1,100 participating employers in the NC 401(k) and NC 457 Plans.

Ms. Fran Lawrence pointed out that employer audit is separate from the financial statement audit.

#### **Administrative Matters: NC SRP Budget Proposal 2022-2023**

Mr. Hancock presented the proposed 2022-2023 budget for the Supplemental Retirement Plans (included in the Board's materials). He discussed revenue assumptions, which included no growth in assets, a continued administrative fee of 1.25 basis points for the NC 401(k) and NC 457 Plans, and projected expenditures. He explained that a salary increase approved by the NC General Assembly is included and that a slight decrease in the overall budget is due to a reduction in staff allocated to supporting SRP in the coming fiscal year.

The Chair entertained a motion to approve the SRP budget proposal for the 2022-2023 fiscal year, Mr. Roseland so moved, and Mr. Steve Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Administrative Matters: Discontinuation of NC 403(b) Program Administrative Fee**

The Chair recognized Mr. Hancock to present an update on the NC 403(b) Program discontinuation. Mr. Hancock said that the first major milestone is the employer election form submittal deadline of May 31 and that about 92% of employers have already submitted the form. He shared that many employers initially intended to terminate their 403(b) programs and then discovered that they had multiple active 403(b) providers of which they were unaware. To date, 24 employers have decided to terminate their 403(b) programs and 64 employers have decided to "de-convert", which means they will continue their active 403(b) program without the NC 403(b) Program as a provider. The Department is working with terminating employers

to raise awareness with their participants so that their participants can easily transfer from the NC 403(b) Program to the NC 401(k) Plan or the NC 457 Plan.

Mr. Hancock said that staff has reviewed the administrative fee account for the NC 403(b) Program and reviewed the anticipated remaining expenses. He explained that any funds remaining would be transferred to the NC 401(k) and NC 457 Plans' administrative accounts to compensate those plans for the additional time staff has spent on the NC 403(b) Program during the discontinuation project. Staff recommends that the 5-basis point NC 403(b) Program Administrative Fee be suspended to avoid generating any additional excess funds.

The Chair entertained a motion to approve the staff recommendation to discontinue the NC 403(b) Program Administration Fee as of June 30th. Mr. James Lumsden so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

### **Legal Matters**

The Chair recognized Mr. Reid Chisholm, Assistant General Counsel, to present a recommendation regarding final amendments to the NC 403(b) Program Base Plan Document and Adoption Agreement (included in the Board's materials). Mr. Chisholm said that as part of closing the NC 403(b) Program, the Board and Department need to make some final revisions to the plan document and then supply it to the employers using the Program-provided plan document. These employers are responsible for adopting the amendment and managing the document going forward. The amendments include the option to terminate the plan effective July 1, 2022, a default distribution option for non-responsive participants, and the removal of references to Prudential (now Empower) as the investment provider. In response to a question, Mr. Chisholm explained that the \$1,000 threshold for default cash distributions comes from the IRS.

The Chair entertained a motion to approve the revisions to the NC 403(b) Program plan documents. Ms. Thomas so moved, and Ms. Baran seconded. The motion passed by a unanimous roll call vote of 8-0.

The Chair recognized Mr. Reid Chisholm to present revisions to the loan policy for the Supplemental Retirement Plans (included in the Board's materials). The amendments would explicitly permit loans to be rolled over from one Supplemental Retirement Plan to another and would permit the rollover of all loans from one employer, if that employer transfers all of its participants' accounts into the Supplemental Retirement Plans from another retirement plan.

The Chair entertained a motion to approve the amendments to the SRP loan policy. Ms. Baran so moved, and Mr. Beam seconded. The motion passed by a unanimous roll call vote of 8-0.

### **North Carolina Supplemental Retirement Plans 1st Quarter 2022 Administrative Report**

The Chair recognized Mr. Michael McCann, Empower Client Relations & Business Development Vice President, and Mr. Matt Herrmann, Empower Retirement Education Team Director, to provide the North Carolina Total Retirement Plans 1st Quarter 2022 Administrative Report (included in the Board's materials).

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The Chair encouraged them to emphasize that the sale of Prudential Retirement to Empower and the stock market decline are separate, unrelated events, and that the sale has not caused participants to lose money in their retirement accounts. Mr. McCann stated that he wished to confirm and reinforce this point and that nothing has changed with the investments because of the transition from Prudential Retirement to Empower.

Mr. Herrmann provided an update on the discontinuation of the NC 403(b) Program. He said that a total of 96 employers are currently offering the NC 403(b) Program, with 1,500 participants. Of those participants, 85% are employed with just 15 employers. Another 20 employers have zero participants. He mentioned that the employers must decide whether to keep their 403(b) plans or terminate them. Mr. Herrmann said that his team of Retirement Education Counselors has reached out to every one of the 96 employers that currently offer the NC 403(b) Program and has had over 300 conversations with them. Some employers have accumulated multiple 403(b) providers over time, and some only realized that during their discussions with Empower. Employers are spending time learning what providers they are currently offering and choosing their default provider.

He mentioned that one of the largest employers requested Empower's help in educating their participants, which led to 12 webinars and 100 one-on-ones with those impacted participants. Employers have expressed a great deal of trust in SRP and the Department. This process has opened opportunities for Empower to discuss and enroll employers in the NC 457 Plan.

Empower will be hosting educational webinars for all NC 403(b) Program participants. Mr. Herrmann explained that it is too early to have any indication as to how many participants will transfer their accounts to either the NC 401(k) Plan or the NC 457 Plan. He also shared that Empower saw a tremendous increase in group and individual meetings during the first quarter. Empower had a large increase in employer discussions, not just about the NC 403(b) Program's discontinuance, but also about adding the NC 457 Plan, adding an employer match, additional education for participants, and more. Empower has slowly begun making on-site visits with employers again. Empower will continue with a hybrid mix of virtual and on-site meetings.

Mr. Herrmann said that Empower expects to have their on-site representative back with the Department soon. He said that their new quarterly employer education webinars have been very successful, with much greater attendance than initially anticipated. He shared that Empower continues their outreach calls to new retirees. They made almost 1,000 retiree calls in the first quarter and have made over 6,000 of these calls since starting this initiative. Retirees have been very appreciative of the calls and their assistance.

In response to a question, Mr. Herrmann confirmed that Empower is fielding many calls about the increased market volatility. At this point, participants are remaining invested, especially those using GoalMaker. He shared that despite the market volatility, people are still enrolling and there were more enrollments in the NC 401(k) and NC 457 Plans during the first quarter than during any previous quarter in their (Prudential / Empower) contract term. Responding to a question, Mr. McCann said that adding an employer match to the NC 401(k) and NC 457 Plans is easy to do.

Mr. McCann then shared that the sale of Prudential Retirement to Empower was completed on April 1 and the entire client service team for the Supplemental Retirement Plans remains intact. He confirmed that Great West Lifeco owns Empower. He said that the average participant balance fell over the past few months while the active participation rate continued to climb. The Plans are now at an all-time high in terms of total unique participants with a balance. Mr. McCann noted that since the end of 2015, average monthly contributions are up 35%, the active participation rate is up 23%, GoalMaker usage among all members is up 22%, and 263 new employers have begun offering at least one of the Supplemental Retirement Plans. He shared that over the past 12 months, 83% of assets eligible to be rolled out remained within the Plans.

In response to a question, the Chair commented that local government employers have a much higher participation rate than the state employers, and he said this is very likely due to the matching programs that many local government employers offer. To improve retirement readiness of government employees, he would like to encourage a higher participation rate among state workers.

#### **Administrative Update: Recordkeeping Fee Review**

The Chair recognized Ms. Jana Steele, Senior Vice President and Defined Contribution Consultant with Callan, to present the annual review of the SRP Administrative Fee (included in the Board's materials).

Ms. Steele said that Callan does annual fee reviews on a three-year cycle. Callan conducts a comprehensive review in year one, which includes obtaining bids in the marketplace for a fee comparison. Callan completes a higher-level review in years two and three (with this being year three), comparing SRP with other plans in Callan's database, including other similar government plans. She mentioned that governmental plans have some unique characteristics that make them different to administer. She noted that the NC SRP administration service fees are currently lower than the median comparable fee in their database of corporate 401(k) plans and of governmental plans.

She shared that the per-participant fee and the overall total administrative fees have declined quite substantially over the past few years. Ms. Steele noted that North Carolina has many more participating employers than other plans and stated that, particularly in light of the governmental data set, the current NC administrative fee is extremely competitive.

Ms. Elizabeth Hood added that Callan included corporate 401(k) plans in their analysis as well as governmental plans, noting that people might see data on 401(k) plan fees from a variety of sources, such as the Wall Street Journal, and wanted the Board to have an appropriate data comparison.

#### **Administrative Update: Empower Contract Proposal**

The Chair recognized Mr. Hancock to present a contract extension proposal from Empower. Mr. Hancock explained that Empower is offering a per-account fee reduction from the current \$26 per account annually to \$25 per account, beginning January 1, 2024, in return for a five-year contract extension with three additional one-year extension options. He stated that staff recommends moving forward with this proposal, noting that the Department and the Board have been proactive in reviewing fees and the Supplemental Retirement Plans are low-priced.

In response to a question about the procurement process, Mr. Hancock explained that if the Board wants to issue an RFP and look for a new recordkeeper during the current contract term, that decision must be made now. He said that current contract enables the Board and the Department to terminate the contract at any time with a 90-day notice to Empower and this termination option would continue during the extended term. The Board and the Department also would retain the freedom to issue an RFP for a new recordkeeper.

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The Chair entertained a motion to approve the staff recommendation to accept the Empower contract proposal. Mr. Lumsden so moved, and Mr. Roseland seconded. The motion passed by a unanimous roll call vote of 8-0.

#### **Investment Update**

### **NC 401(k) and NC 457 Plans 1st Quarter 2022 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 2022 Investment Performance Report (included in the Board's materials).

Ms. Hood commented that the capital markets were not good during the first quarter, with global equities and the fixed income markets down roughly the same amount, and noted that this is very unusual. This has been a challenging environment, due to high inflation and world events. She noted that the first quarter was the single worst quarter for the Barclays US Aggregate Bond Index since 1980. Ms. Hood stated that the positive return for the Stable Value fund was the highlight of the first quarter. She shared that most markets were positive over the trailing 12-month period and reminded the Board that participants do not see the volatility of the underlying managers, just the performance of the funds.

Mr. Lewis reviewed the performance of the individual investment managers and gave some thoughts around what drove their performance, including the managers' investment philosophies. In response to a question about Sands Capital's current underperformance, he discussed Sands Capital's investment philosophy and historic performance.

Mr. Lewis reviewed Callan's "Active Management Scorecard" (stoplight report and watch list), noting that Callan prefers to be holistic and focus on people, process, and performance for each investment manager. He commented that the current market highlights the advantage of the funds' multi-manager approach with their different philosophies and differences in performance. He commented that the changes the Board made in the SMID Cap fund have worked well. Mr. Lewis said that Callan is watching WEDGE Capital Management closely and recommends that the Board give WEDGE Capital more time to improve performance; however, the Board may need to act if WEDGE Capital's performance does not improve. He explained that most WEDGE Capital clients are choosing to remain with them. Mr. Lewis said that Callan has upgraded Galliard from Under Review to Cautionary, commenting that Galliard's performance has been steady and Galliard managed very well through multiple staff changes.

### **NC 401(k) and NC 457 Plans 1st Quarter 2022 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 1<sup>st</sup> Quarter 2022 Stable Value Portfolio Review (included in the Board's materials). Mr. Langanki shared that the sale of Wells Fargo Asset Management (WFAM) and all related legal entities was finalized in the fourth quarter and the new name of Galliard's parent company is Allspring Global Investments. As part of the transition from Wells Fargo, the cash liquidity buffer (Wells Fargo Collective Investment Trust), which accounts for less than 2% of the Stable Value Fund, now has a trustee fee. However, the new trustee fee of 0.2 basis points is more than offset by Galliard's reduction of its management fee. He reminded the Board that Galliard has worked diligently to reduce the overall fund fees and will continue to do so.

Mr. Langanki 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 commented that the Stable Value Fund did not experience a large influx of investments from participants during the first quarter and they appear to be staying the course despite the volatile markets. Mr. Langanki said the crediting rate remained flat over the past two quarters. Duration increased slightly, mainly due to



mortgage extension due to a decline in mortgage refinancing. He stated that Galliard does not make duration bets.

He noted that the market/book ratio has dropped below 100% and that it should not be a cause for alarm. Rising interest rates cause the value of bonds in the portfolio to decline. The bonds are held to maturity and will be liquidated at full value. The fund will benefit from higher rates over time as new investments are used to purchase bonds at higher yields, which will cause the blended yield / crediting rate to rise. Mr. Langanki said that the stable value fund is a high-quality fixed-income investment and offers the additional protection of investment contracts designed to protect fixed-income investors from losses resulting from rising interest rates. He commented that the stable value asset class has a 30-year track record of protecting investors and Galliard's Stable Value Fund has performed as designed in a variety of interest rate environments. He said that Galliard continues to find good investment opportunities and the fund remains fully invested.

Mr. Langanki stated that all underlying strategies outperformed over all trailing periods longer than one quarter. Mr. Langanki reminded the Board that Galliard lowered their investment management fees as of January 1, 2022. In response to a question, he said in the future he could start showing performance net of fees.

#### **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 1<sup>st</sup> Quarter 2022 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.

Mr. Morris provided an update on the exposure to Russia. SRP has minimal Russian holdings, and SRP's managers are trying to balance liquidation versus their fiduciary obligation of getting the best value for investors. In response to a question, Mr. Morris said that staff has not specifically directed the managers to liquidate their Russian holdings if the market reopens; however, it is very likely that they would liquidate.

#### **NC 403(b) Program 1<sup>st</sup> Quarter 2022 Investment Performance Report**

Mr. Morris presented the NC 403(b) Program 1<sup>st</sup> 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 declined during the quarter to \$31 million due to the decline in the equity markets. He said it was a difficult quarter for the managers, with five of the six underperforming their benchmarks.

#### **Public Comments**

No comments were offered.

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

No comments were offered.

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The Chair thanked everyone for participating and announced the next Board meeting will be Thursday, August 25, 2022, at 9:00 a.m.

The Chair said that we would close the meeting today in memory and in honor of the nineteen children and 2 teachers who were killed in the shooting at Robb Elementary School, Uvalde, Texas, on May 24, 2022.

**Adjournment**

There being no further business before the Board, the Chair entertained a motion to adjourn the meeting in honor of those killed in the Uvalde shooting. Ms. Baran so moved, and Mr. Roseland seconded the motion. The motion passed by a unanimous roll call vote of 7-0. (Ms. Johnson did not vote.)

The meeting was adjourned at approximately 11:50 a.m.

  
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Chair

  
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Secretary