North Carolina Retirement Systems
NC 401(k) & NC 457 Plans

MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: August 21, 2025

RE: Revised Governance Policies

The Supplemental Retirement Board of Trustees (Board) adopted a charter and five policies that govern various procedures of the Board and the North Carolina Department of State Treasurer (Department) for fulfilling their duties in administering the NC 401(k) and NC 457 Plans (Plans). These six documents are referred to as the "Governance Policies" and are posted under "Governance Policies" on the Board's web page on www.myNCRetirement.com.

The Department recently revised the *Proxy Voting Policy* and the *Investment Transaction Disclosure Policy* for the North Carolina Retirement Systems (NCRS). The Plans' versions of these policies are based on NCRS's versions, so staff has updated the policies accordingly.

Proxy Voting Policy

The fiduciary duties of the Board and the Department apply to proxy voting decisions regarding the shares of publicly-traded companies held by the Plans. Likewise, the Treasurer of the State of North Carolina (Treasurer), who serves as the investment fiduciary for NCRS, is responsible for NCRS's proxy voting decisions. In December 2017, the Board adopted the Treasurer's proxy voting policy for NCRS (NCRS Policy) as the proxy voting policy for the Plans; this approach led to operational efficiencies for the Plans in policy development and maintenance as well as in the voting process. Under the NCRS Policy, the proxies for NCRS and the Plans have been voted by Glass Lewis according to Glass Lewis's standard guidelines.

Recently, the Treasurer adopted the first significant revision of the NCRS Policy since 2017. The revised NCRS Policy includes the following: (1) the legal considerations and investment principles that inform the policy have been updated; (2) certain proposals have been designated as material proposals; (3) material proposals will continue to be voted by Glass Lewis using its standard guidelines; and (4) the Treasurer will abstain from voting on non-material proposals. The revised NCRS Policy incorporates amendments to North Carolina General Statute 147-69.7 that limit certain investment-related considerations by the Treasurer to "pecuniary factors," which are defined as factors that have "a material effect on the financial risk or financial return of an investment." The revised NCRS Policy also refers to ERISA's proxy voting regulation; NCRS and the Plans often refer to ERISA as a best practice.

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Staff recommends the Board continue to utilize the NCRS Policy, which focuses proxy voting efforts on certain categories of proposals that are especially important to good corporate governance while recognizing that NCRS's vote is unlikely in many situations to affect the outcome of a proposal or the value of NCRS's portfolio. However, the policy continues to benefit from the operational efficiencies from relying on a proxy voting vendor for voting guidelines and administration.

The *Proxy Voting Policy* for the Plans in Attachment 1 incorporates the revised NCRS Policy.

Investment Transaction Disclosure Policy

The *Investment Transaction Disclosure Policy* for the Plans requires extensive disclosures by investment managers and, if applicable, placement agents before the Board and the Department enter into an investment management agreement with the manager. The policy and the disclosures promote transparency and identify potential conflicts of interest in the investment manager selection process and help to ensure that managers are selected in the best interests of the Plans' participants.

The revised *Investment Transaction Disclosure Policy* for the Plans in Attachment 2 incorporates the recent changes to NCRS's *Investment Transaction Disclosure Policy*. The main changes to the policy, which are tracked in Attachment 2, include the following:

- Only the investment manager is required to complete a disclosure form. However, the disclosure form includes disclosures regarding placement agents and the manager's employees who market the manager to the Department. In addition, the Department's compliance counsel can request additional information from the investment manager and/or any placement agent as necessary.
- The policy no longer applies to the investment managers or wrap providers hired by Galliard for the NC Stable Value Fund; however, the policy continues to apply to Galliard.
- The term "placement agent" no longer includes employees of the investment manager or its affiliates; however, the disclosure form for the investment manager still covers employees of the investment manager and its affiliates.

Recommendation

Staff recommends the Board adopt the revised *Proxy Voting Policy* and *Investment Transaction Disclosure Policy* in Attachments 1 and 2, respectively.

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ATTACHMENT 1

RESOLUTION OF THE SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

WHEREAS, the North Carolina Department of State Treasurer (the "Department") and the North Carolina Supplemental Retirement Board of Trustees (the "Board") administer the Supplemental Retirement Income Plan of North Carolina (the "NC 401(k) Plan") and the North Carolina Public Employee Deferred Compensation Plan (the "NC 457 Plan);

WHEREAS, the Internal Revenue Code permits 401(k) and 457(b) retirement plans to offer "In-Plan Roth Conversions," in which a participant elects to convert funds from a pre-tax to a Roth account without requiring the participant to transfer or rollover the funds to another plan;

WHEREAS, In-Plan Roth Conversions are permitted for all non-Roth funds, regardless of whether the funds are eligible for distribution;

WHEREAS, the NC 401(k) and NC 457 Plans offer In-Plan Roth Conversions but limit conversions to funds that are eligible for distribution under the plans;

WHEREAS, the Board wishes to expand the availability of Roth accounts within the NC 401(k) and NC 457 Plans by extending In-Plan Roth Conversions to a participant's entire pre-tax account, regardless of whether the participant is allowed to withdraw such funds;

FURTHERMORE,

WHEREAS, the SECURE 2.0 Act amended Section 401(a)(9) of the Internal Revenue Code to permit spousal beneficiaries to elect to have their required minimum distributions calculated as if the spousal beneficiary were the participant ("Spousal RMD Elections");

WHEREAS, Empower, in its role as the recordkeeper for the NC 401(k) and NC 457 Plans, has implemented Spousal RMD Elections for the plans; and

WHEREAS, the Board wishes to amend the plan documents for the NC 401(k) and NC 457 Plans to incorporate Spousal RMD Elections;

NOW, THEREFORE, be it

RESOLVED, that:

1. The Board hereby adopts In-Plan Roth Conversions for all pre-tax account balances in the NC 401(k) and NC 457 Plans and directs the Department to amend the plan documents for the NC 401(k) and NC 457 Plans as necessary to extend In-Plan Roth Conversions to all pre-tax account balances.

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2. The Board hereby directs the Department to amend the plan documents for the NC 401(k) and NC 457 Plans as necessary to incorporate Spousal RMD Elections.

Approved by the Board on August 21, 2025.

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Jeff Hancock, Secretary
North Carolina Supplemental Retirement Board of Trustees