

MINUTES  
BOARD OF TRUSTEES  
OF THE  
NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS

June 8, 2011, 9:00 am  
Dawson Conference Room  
Albemarle Building, 325 N. Salisbury Street  
Raleigh, NC

The meeting of the Board of Trustees for the Supplemental Retirement Plans was called to order at 9:00 am by the Chair, State Treasurer Janet Cowell.

Members Present

Members present were: Chuck Leedy, Robert Powell, Melinda Baran, Dexter Perry, Mona Keech, Kel Landis, Libby George, and Janet Pittard.

Members Absent

There were no members absent.

DST Staff Present

Staff members present were: Kara Petteway, Steve Toole, Jay Chaudhuri, Greg Beuris, Fran Lawrence, Ron Ottavio, Jaclyn Goldsmith, Timothy Dale, Julia Vail, and Chris Frazier.

Guests Present

Prudential representatives attending were: Bill Walsh, Travis Swartwood, and Tim Bryan. Mercer representative Jay Love and Plan member Bob Slade were in attendance. Attending via phone was Prudential representative Robb Craddock.

Reappointments

The Chair recognized the reappointments of Board members who had terms expiring at the end of the year. Members Chuck Leedy, Robert Powell, and Libby George had received reappointment notifications from the Governor's Office prior to the meeting.

Conflicts

The Chair asked the Board members if there were any actual, potential or appearances of a conflict with any item on the meeting agenda. No conflicts were reported. Board member Melinda Baran cited a potential conflict of interest with her employer Wells Fargo Advisors being affiliated with Wells Fargo & Company. Galliard Capital Management, the Stable

Value Fund investment manager, is an independently owned subsidiary of Wells Fargo & Company. She asked to recuse herself from any votes affecting the Stable Value Fund.

### Approval of Minutes

It was moved by Janet Pittard and seconded by Dexter Perry to approve the minutes of the NC Supplemental Retirement Board meeting held on March 9, 2011. The motion passed unanimously.

### Legislative Update

Presenters Tony Solari and David Starling were not available at this point to provide a legislative update to the Board. The Chair briefed the Board on legislation that appeared in the current legislative session that directly impacted the Supplemental Retirement Board of Trustees. The first two bills mentioned by the Chair arose from the Future of Retirement Study Commission recommendations made earlier in the year. The Commission was formed by the Board of Trustees serving the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.

The first bill was legislation that would have automatically enrolled any new state or local employee into a state-sponsored retirement plan chosen by their employer. The member would have the opportunity to opt-out of the plan within 90 days of being enrolled. The Chair informed the Board that this bill had met firm opposition and would not pass this legislative session.

The second bill proposed created a state-sponsored 403(b) retirement plan for employees of local school boards and other educational institutions. The Chair informed the Board that this bill was proposed to bring the numerous 403(b) providers across the state into compliance with regulations governing 403(b), and to lower the fees charged to educators for participation in a 403(b) plan. This state-sponsored 403(b) plan would be governed by the Supplemental Board of Trustees. The Chair noted that the bill was not facing much opposition and seemed likely to pass this legislative session.

The last bill discussed was the legislation permitting the Department of State Treasurer to purchase fiduciary liability insurance for Board members and staff serving the Department. The Chair noted that there has not been any opposition to the bill, and it would likely pass this session.

### 1st Quarter Administrative Report

The Chair recognized Tim Bryan with Prudential to present the 1st Quarter administrative report. Mr. Bryan briefed the Board on the quarterly and annual performance of the Plans. Mr. Bryan noted growth in assets within both plans. However, the rate at which assets were growing slowed from the previous quarter due to stagnant performance from the stock market. He also noted that new enrollments in the 401(k) plan are up 11% over the total from the first quarter in 2010. The number of new enrollments in the 457 plan continued its rapid growth in 2011 with over 100% growth over the previous year's total in the first quarter. Dexter Perry asked how successful the Plans have been in enrolling members of the General

Assembly. Mr. Bryan replied that while a few legislators have enrolled in one of the Plans, they have not seen large participation from the General Assembly.

Mr. Bryan went on to mention that total contributions for 2011 were down slightly over 2010. This reduction was due to some employers reducing or suspending their contributions to alleviate budget pressures paired with relatively unchanged employee contributions. Chuck Leedy noted that there was a large difference between the Plans when comparing the active populations between contributing and not-contributing. Mr. Bryan noted that some members in the 401(k) receive employer contributions and do not contribute any themselves, making them appear as contributing. He noted that no employer currently makes a contribution to the 457 plan. Mr. Bryan also noted that some payroll systems do not inform Prudential when a member has retired. If the member retires and Prudential is not notified, it will appear that the member is active and no longer contributing.

Mr. Bryan noted that the number of loans in both the 401(k) and 457 were below the national average and deserved recognition due to the rising number of reported loans taken from other retirement plans. Melinda Baran asked if there had been any type of plan developed to help those with outstanding loans who may lose their jobs as a result of budget cuts. Ms. Baran stated that she was concerned that those with outstanding loans would not be able to pay back the loan before it defaults. Mr. Perry asked if it would be possible to extend to the loan payback provision and whether the limit was a Plan Document or IRS limitation. Ms. Baran asked if staff could look into partnering with financial institutions to offer members a low-interest loan to pay off existing 401(k)/457 loans upon termination. Staff agreed to follow up on these requests.

### Legislative Update Continued

Anthony Solari was present in the room to provide additional detail regarding the proposed legislation directly affecting the Plans. Mr. Solari informed the Board that defined contribution retirement plans were more popular this year in the General Assembly due to the more conservative legislature. He also informed the Board that a legislative commission would likely be tasked in the next session to evaluate retirement options available for public employees.

Mr. Solari then individually provided background on each bill.

- The auto-enrollment bill had stalled due to Representative McGee's desire to delay the discussion until the legislative study commission convenes the following session.
- Representative Fisher sponsored the legislation creating a state-sponsored 403(b) bill to be governed by the Supplemental Retirement Board of Trustees. Mr. Solari stated that opposition to this bill was minimal and it seemed likely to pass.
- Senator Meredith sponsored the fiduciary liability insurance bill that would cover Boards housed within the Department of State Treasurer and related staff. Mr. Solari noted that this bill was not opposed and seemed likely to pass.

There being no further discussion regarding pending legislation, the Chair thanked Mr. Solari for his presentation.

## Organization Charts

The Chair brought to the Board's attention a series of organizational charts that list roles and responsibilities for those administering the Supplemental Retirement Plans. She noted that each individual listed had contact information provided on the reverse side of the chart. The Board thanked the Chair for making the charts available.

## 1<sup>st</sup> Quarter Investment Performance Report

The Chair recognized Jay Love from Mercer to present a report on the investment performance for the 1<sup>st</sup> Quarter. Mr. Love spoke briefly on the economic environment for the 1<sup>st</sup> Quarter and the outlook for the upcoming year. He then went on to analyze the performance of each fund currently offered by the Plans. He noted that fixed income continued to struggle, but equities were up in the 1<sup>st</sup> Quarter. Mr. Love stated that the funds as a whole were doing well, but the SMid Cap Growth fund was struggling compared to its peers. He noted that strategy changes would soon be made to the SMid Cap Growth fund to address its underperformance. Mr. Love noted the unsettled nature of the markets and that the quarterly performance of the funds should not be representative of future performance of the funds. Chuck Leedy seconded Mr. Love's comments by stating that historically, funds that perform well when the markets are rapidly fluctuating typically underperform in stable markets. Mr. Love commented that the Stable Value fund continued to perform as expected and they had no issues with the fund. Steve Toole asked if there was a way to compare the Stable Value fund to other similar Stable Value funds. Mr. Toole stated that he was concerned that using a 91-day Treasury bill plus 1 percent was not an appropriate benchmark for the fund. Mr. Love stated that each individual manager within the Stable Value fund has its own benchmark, but due to the overall short duration of the Stable Value fund, he believes the benchmark is appropriate for the level of risk associated with the investment option.

Mr. Love then yielded to Robb Craddock from Prudential to give a report on the frozen funds performance from the 1<sup>st</sup> Quarter. Mr. Craddock stated that most of the funds performed well in the 1<sup>st</sup> Quarter compared to their benchmarks. He stated his concern regarding the American Funds Growth Fund of America. The fund underperformed in the quarter, due to larger than normal holdings of cash and significant international exposure. However, Mr. Craddock stated that since the assets within the fund would be mapped to the new separate accounts within the year, he did not think action would be necessary. Mr. Craddock also noted that the number of members within the frozen funds was steadily decreasing and assets remaining in the frozen funds were less than the year before. With no further action required the Chair thanked both Mr. Love and Mr. Craddock for their presentations.

## Report from Investment Subcommittee

The Chair recognized Dexter Perry to report on the recommendations resulting from the May 16, 2011 Investment Subcommittee meeting. Mr. Perry began by giving the Board a

summary of reports heard by the Investment Subcommittee and general information relating to the Board.

### Investment Manager Searches

Mr. Perry described Mercer's manager selection process and named the two recommended investment managers for discussion. He noted that the changes were not major changes, but rather fine-tuning investment options. As a result of Mercer's analysis and recommendation, the Investment Subcommittee recommended to the full Board that Robeco Investment Management be added to the NC Large Cap Value investment option and Neuberger Berman be added to the NC Large Cap Growth investment option. The addition of these managers should reduce the risk associated with each investment option while allowing each respective fund to capture the majority of market growth.

Janet Pittard asked whether or not Mercer had considered any women-minority owned businesses for the role, especially since the Plans have the ability to give under-utilized businesses market exposure. Mr. Perry responded that Mercer thoroughly evaluated some women-minority owned firms that would have fit within the investment option; however, they were not the best fit when compared to the other managers already in the investment option.

It was moved by Kel Landis and seconded by Robert Powell to approve the addition of the managers to the investment options. The motion passed unanimously.

### Proxy Voting Guidelines

Mr. Perry informed the Board that currently, the Board does not have a lot of experience when it comes to proxy voting and establishing a framework for votes to be cast on behalf of the Plans. Mr. Perry stated that staff recommended bringing in an outside expert in the area for an educational session regarding corporate governance and establishing proxy guidelines for the Plans. The Board agreed that a future educational session should be held to inform the Board of the extent of proxy votes cast and establish proxy voting guidelines for the Plans.

### Retaining Outside Legal Counsel

The Chair recognized Jay Chaudhuri from the Office of State Treasurer to speak regarding the retention of external legal counsel for the Supplemental Retirement Plans. Mr. Chaudhuri stated that currently staff does not have the resources necessary to thoroughly evaluate the number of contracts and investment management agreements executed on behalf of the Plans. Instead, staff relies on external legal counsel that has specialized expertise in the area. Any contracts or agreements that have to be reviewed by the external counsel are billed on an hourly rate. Mr. Chaudhuri stated that it is the desire of the staff to contract an external legal counsel on retainer to assist with legal review on behalf of the Plans. Kara Petteway stated that in fiscal years 2010 and 2011, the cost for external legal services per year were approximately \$60,000. Ms. Petteway stated that currently, the administrative budget allocates just over \$70,000 for legal expenses, and retaining external counsel would probably produce an annual fee close to \$70,000. Robert Powell asked if we could possibly use the Attorney General's office in lieu of external counsel. Ms. Petteway stated that staff have

inquired with the Attorney General's office and they have stated that they do not have the level of expertise needed.

At this point, Treasurer Cowell exited the meeting.

Jay Chaudhuri asked if the Board desired to form an ad-hoc Legal Subcommittee to review their proposal for soliciting bids for external counsel services. Janet Pittard, Melinda Baran, and Robert Powell volunteered to participate on the Legal Subcommittee. It was moved by Chuck Leedy and seconded by Robert Powell to create an ad-hoc Legal Subcommittee and to appoint Janet Pittard, Melinda Baran, and Robert Powell to serve on the Subcommittee. The motion passed unanimously.

### Administrative Updates

Retirement Systems Director Steve Toole recognized Timothy Dale to provide a list of administrative updates. Mr. Dale informed the Board that a Departmental objective was to create an email address for every Board of Trustees housed in the Department of State Treasurer to allow constituents to voice their ideas or complaints. Julia Vail added that the email address would be supplementalboard@nctreasurer.com if the Board approved. Chuck Leedy motioned and Mona Keech seconded to approve the Board email address. The motion passed unanimously.

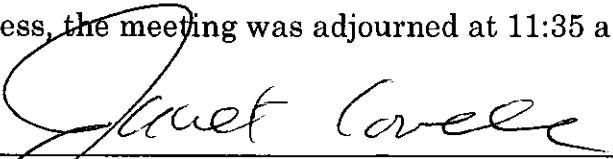
Mr. Dale then informed the Board that to date, 17 members have submitted a complaint regarding the closing of the frozen mutual funds. Mr. Dale added that there are approximately 2,300 members remaining in the frozen mutual funds. He also informed the Board that the Annual Benefit Statements were made available on May 17<sup>th</sup> for members. He noted that high demand for the statements stressed the in-house server and slowed access the day following the release.

Mr. Dale then presented the fiscal year 2012 administrative budgets for the Plans. He explained that most of the expenses remained unchanged from what the Board approved for fiscal year 2011, but most of the contractual expenses increased as a result of new contracts or an increasing payment schedule. At the meeting, Mr. Dale recommended a total 401(k) budget of \$746,274 and a total 457 budget of \$135,674. He also added that future expenses may come up during the fiscal year, including proxy voting expenses and fiduciary liability insurance for the Board, but the budget could be expanded as needed when the time arises. It was moved by Robert Powell and seconded by Dexter Perry to approve the fiscal year 2012 administrative budgets. The motion passed unanimously.

Mr. Dale then mentioned the administrative excess that builds in the expense accounts has grown much larger than necessary to administer the Plans. He acknowledged the fact that these funds have to be used for the sole benefit of Plan members, limiting the number of options available for shrinking the accounts. Steve Toole stated that staffing for the Supplemental Plans is considerably less than staffing for similar sized retirement plans in the United States. Mr. Toole also thought it would be a good idea to provide fiduciary education training for the Board and staff. This education would clarify roles and responsibilities of all parties administering the Plans, and would also identify areas for improvement to limit fiduciary risk. Mr. Toole stated that staff planned to develop a comprehensive list of recommendations on how to deal with the excess and present to the Board at a future meeting. The Board expressed their support for the plan.

Adjournment

There being no further business, the meeting was adjourned at 11:35 a.m.

  
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CHAIR