DRAFT

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING
March 19, 2015

<u>Time and Location:</u> The North Carolina Supplemental Retirement Board of Trustees (the "Board") met at 9:00 a.m. on Thursday, March 19, 2015, in the Banking Commission Board Room, 316 W. Edenton Street, Raleigh, North Carolina.

<u>Members Present:</u> The following members were present: Janet Cowell, Chair, Melinda Baran, Karin Cochran, Walter Gray, Gene Hamilton, Keith Burns, Ron Stell, and Robert Orr. Michael Lewis attended via telephone.

<u>Staff Present:</u> The following Department of State Treasurer (DST) staff were present: Steve Toole, Mary Buonfiglio, Mary Laurie Cece, Rekha Krishnan, Lisa Page, Jaclyn Goldsmith, Rosita Sabrosso-Rennick, Rhonda Smith, Fran Lawrence, Blake Thomas, Marni Schribman, Kevin SigRist, Tim Viezer, Debra Clark, and Maja Moseley. Judith Estevez from the NC Department of Justice was also in attendance.

<u>Guests Present:</u> The following guests attended the meeting: Michael McCann, Tom Conlon, Kathleen Neville, Jessica Quimby, Ann Cashman, Michael Knowling and Aaron Koval (via telephone) from Prudential Retirement; James Summerlin, Jim Simone, Kevin Orr, Debbie Bell, and Derek Tyson from TIAA-CREF; Kelly Henson, Liana Magner, Andrew Ness and Greg Korte from Mercer Investment Consulting. Jason Ostroski from CliftonLarsonAllen. Mary Ann Parfitt, Clint Sass, Greg Hack, and Jason DeLong (via telephone) from AON Hewitt. Bob Dollard from BNY Mellon. Philip Becker from Slocum.

<u>AGENDA ITEM – WELCOME AND INTRODUCTIONS</u>

The meeting was called to order at approximately 9:00 a.m. Janet Cowell, the Chair, welcomed board members, staff and guests. She introduced Marni Schribman, the new Retirement Communications and Content Manager for the Department of State Treasurer; Kevin Orr, the Senior Director for K-12 market with TIAA-CREF; and Derek Tyson, Senior Manager Communications Consultant with TIAA-CREF. The Treasurer stated that she is expected at another engagement and would leave the meeting for approximately 30 minutes at noon; Ms. Melinda Baran would chair the meeting until the Treasurer's return.

The Chair also noted that Ms. Cochran had a previous engagement at the General Assembly and would be joining the meeting shortly.

The Chair gave a brief update regarding Project Granite and stated that the department's move to a new office building is progressing according to plan. The first group of employees will be moving to the new location in June, 2015.

The Chair asked that any public comments be postponed until the end of the meeting.

AGENDA ITEM – ETHICS AWARENESS AND IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST

The Chair asked Board members to review the agenda for the meeting and identify any actual, implied or potential conflicts of interest. Mr. Orr noted that his company has a business relationship with one of the Plan's investment managers, Brown Advisory, and he would be recusing himself from the relevant discussion.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there are any comments about the minutes of the December 11, 2014, board meeting. There were no comments and Mr. Burns made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there are any comments about the minutes of the January 23, 2015, special board meeting. There were no comments and Mr. Burns made a motion that the minutes be approved. Mr. Orr seconded, and the motion passed unanimously.

AGENDA ITEM – AUDIT SUBCOMMITTEE NEW MEMBER – MICHAEL LEWIS RATIFICATION

Mr. Burns made a motion to ratify Michael Lewis as a new member of the Audit Subcommittee. Mr. Gray seconded, and the motion passed unanimously.

AGENDA ITEM – 2015 LEGISLATIVE UPDATES

The Chair recognized Steve Toole and asked him to give an update regarding the legislative objectives for the current year. Mr. Toole discussed four major initiatives:

1. The change in the board terms to two consecutive three-year terms, with staggered appointments. The current term of two years causes excessive turnover in the board membership and it takes approximately 12-18 months for a new member to feel proficient in their new role. The Administrative bill containing the board term change has been submitted to the legislature and the staggered appointments will help with the transition.
2. Community colleges are interested in participating in the NC 403(b) Program. The legislation language will be drafted by the community colleges' association.

3. Auto-enrollment and auto-escalation will not be proposed at this time; DST is ready to assist if any other entity wants to construct the proposal, but it will not be taking the lead.

Mr. Burns asked if the decision not to pursue the auto-escalation and auto-enrollment was a political assessment and Mr. Toole said yes, adding that DST also has more demanding priorities at this time.

4. Mr. Toole noted that DST is watching legislation that might impact Bailey class rollovers. The plan has been encouraging the members via annual letters to roll funds into the plan to take advantage of the tax advantaged status of their Bailey vested accounts. The legislature was considering ending Bailey treatment to rollovers. This would cause a difficulty for the plans, as well as for the pension; it was estimated that this change could cost between $4 to $5 million in technology upgrades. The supplemental plans do not have quite the same financial hardship, as current recordkeepers have the technical means to perform the necessary adjustments.

Mr. Hamilton inquired whether the beneficiaries of the Bailey class members are also exempt from paying the state taxes and Ms. Cece stated they are in fact exempt.

Mr. Toole also noted legislation regarding a defined contribution hybrid choice plan is also being monitored.

The Treasurer added that there may be a bill filed with regards to a hybrid plan and that the board will receive an update as soon as one is available.

AGENDA ITEM – INVESTMENT CONSULTANT STRUCTURE RECOMMENDATION

The Chair introduced Philip Becker from Slocum to discuss the report on the plans' investment consultant structure. Mr. Toole stated that the research performed by Slocum focused on making the investment consultant role for the plans more effective and more clearly defined. Mr. Burns asked what the report is trying to solve. Mr. Toole stated that an understanding and agreement of roles and responsibilities of the investment consultant, the staff, the recordkeeper and all the other parties is of utmost importance. He stated that the board members need assurance of having the right people in the right place in order to fulfill their fiduciary duties. Mr. Toole reiterated that the role of a board member is to manage the plans strategically and not assume the roles of staff or vendors. Mr. Toole also highlighted the Slocum questions around compliance monitoring for compliance with the Investment Policy Statement. The current model only allows for compliance reporting once in a calendar quarter. The goal is to have daily compliance monitoring.

Mr. Toole turned over the discussion to Mr. Becker who thanked the board members and staff for their cooperation during the project duration.

Mr. Becker began with an overview of the main purpose of the study, which is to create a well-defined structure for the plans that provides accountability. He stated that the Slocum team held interviews with the Investment Management Division, the Treasurer and the Chief of Staff, as well as the recordkeeper – Prudential – to understand how the various duties for administering the plans will transition during the unbundling process. Plan staff will need to take on more duties due to the unbundling. He noted that achieving a sustainable structure is necessary as staff turnover has been an issue in the past. Slocum recommends adding a new resource to the plan staff. This new position could work closely with IMD staff and this could limit the plan's reliance on outside parties.

The Slocum team's goal is to identify a structure for the plans that minimizes risk. Currently, the plans only get a report on compliance four times a year. Due to the unbundling and a new custodial relationship, the plans will have compliance monitoring on a daily basis. Mr. Becker noted the two other main components of the board's responsibility: hiring and firing managers, and investment allocation. Currently, these decisions fall to the board. The report addressed outsourcing the asset allocations decisions to a third party with the board retaining the oversight.

Mr. Becker stated that due to the unbundling, the plan will be realizing some cost savings. The report addressed the cost involved in overall maintenance of the plans, such as staff compensation and service providers' fees. He also stressed the importance of the proposed structure's flexibility, which should be responsive to future changes and enable adding or subtracting services from the investment consultant service list.

Mr. Becker highlighted the plans' current challenges identified in the course of staff interviews. Five main challenges are:

1. Investment Manager Compliance Monitoring
2. Investment Manager Guidelines
3. Fee Negotiation
4. Transition Management for unbundling project
5. Legal resources for transition

Mr. Becker stated that Slocum's recommended governance model focuses on the challenges listed above and determined whether the specific task should be owned by the SRP staff, the board, or outsourced. Slocum believes that that the ownership of Investment Policy Statement is a fundamental fiduciary task and that the board should retain decision-making authority regarding investment structure and investment classes. He stated, however, that the manager selection process could be outsourced. Both IMD and Mercer resources and knowledge pool should be utilized for the manager selection.

With regards to the custom fund construction and compliance, a decision is needed whether to make asset management decisions in-house or engage a specialized resource to make these decisions on behalf of the plans. Outsourcing this duty does not relieve the board completely of their fiduciary responsibility and the board must retain the oversight.

Slocum recommends moving away from once per quarter investment manager compliance reporting, in favor of daily reporting. The proposed structure would rely on Mercer and SRP staff to monitor managers daily.

With respect to the upcoming re-contracting with all investment managers in the next six to twelve months, Slocum believes it is prudent to continue utilizing the plans' dedicated legal resource and utilizing Mercer for additional assistance.

Slocum recommended that Mercer continue to generate reports on investment managers' compliance, according to IPS guidelines. This duty may eventually be split with a new SRP resource.

Slocum proposed the new organizational chart for the Supplemental Plans, which would include a new position, dedicated to investment monitoring and compliance duties. The position could be located within the existing IMD structure and have a dotted line to the plan.

Mr. Toole asked for a more detailed explanation of "dynamic asset allocation" that is on page 14 of the Slocum report. Mr. Becker explained that the board is responsible for allocation decisions regarding the white label funds and for GoalMaker. The board has determined the weight of each underlying manager is static in the white label funds. For example, if there are three underlying managers, they each have a one-third allocation of the fund assets. Slocum is recommending a more active approach regarding manager weighting decisions. Each manager could be reviewed individually to determine whether equal weight is the most efficient approach and or whether another weighting could add value opportunistically. Slocum also is recommending the possibility of future outsourcing of the GoalMaker product due to the complexity of the decision-making process.

Mr. Becker outlined what Mercer investment consultant responsibilities would look like as a hybrid consultant. He noted that the proposed fee schedule for Mercer is based on the fully delegated model and a discussion regarding a hybrid approach and fee adjustment is recommended by Slocum. Under the new unbundled structure, the plan is expected to benefit from cost savings of approximately $1.7 million. The projected cost decrease is due to the shifting responsibilities, but he noted that it is difficult to quantify the work internal staff will be performing in the future.

Mr. Becker also directed the board's attention to the appendix of the Slocum presentation, which depicts the current versus future structure comparison chart. The chart highlights the goal of creating transparency, minimizing risk and maximizing cost savings. Slocum believes that the future recommended model addresses the need for more resources and more accountability. In addition, the plan will benefit from a more defined structure and specifically, from the improved decision-making process.

Mr. Orr asked about the responsibilities of the proposed additional resource to the internal staff. Mr. Becker stated that currently three IMD staff members, Kevin SigRist, Tim Viezer and Rhonda Smith, are advising the SRP staff and their responsibilities ebb and flow. The future goal is to have one investment professional fully dedicated to the plans and for Mr. SigRist to have the oversight of this individual along with the SRP staff.

At 10:00 a.m., the Chair informed everyone that next items on the agenda were grouped together, as they require a closed session discussion. The Chair advised that in the closed session, the board will take up an issue involving personnel matters and a potential litigation matter. In addition, several procurement issues will be discussed. The Supplemental Retirement Plans have initiated an unbundling project as the current record-keeper contract will expire at the end of this year. To have more clarity around vendor and staff roles and responsibilities, and more transparency in fees, the plans will enter into a separate record-keeper and custodial contracts.

The Chair then asked the members of the board to make a motion to enter closed session pursuant to G.S. 143-318.11(a)(1), (a)(3), and (a)(5). For purposes of subdivision (a)(1), the session involves matters that the state's procurement laws and regulations make confidential. This includes confidential information covered in N.C.G.S. § 132-1.2(1). For purposes of subdivision (a)(3), the session involves matters that are not yet the subject of any existing lawsuit. For purposes of subdivision (a)(5), the session involves matters regarding personnel and compensation.

Mr. Hamilton made the motion to enter closed session, and the motion was seconded by Mr. Orr.

At 12:15 p.m., the Chair asked for a motion to re-open the meeting. Mr. Burns made a motion to re-open the meeting. Mr. Hamilton made a second and the motion passed.

AGENDA ITEM – RECOMMENDATION DERIVED FROM INVESTMENT CONSULTANT REPORT

Mr. Burns made a motion to request that the Supplemental Plans staff act upon three recommendations in the Slocum Report. First, to review Mercer's role of investment consultant in a hybrid model and the potential fee. Second, to add a new position to the Supplemental Retirement Plans staff. Third, to conduct a compensation study for current personnel. The motion was seconded by Mr. Gray and passed unanimously.

AGENDA ITEM – APPROVAL OF 2014-2015 UPDATED BUDGET

Mr. Burns made a motion to approve the budget. The motion was seconded by Mr. Hamilton and passed unanimously.

AGENDA ITEM – REPORT ON OPEN ACCOUNTS RECEIVABLE IN STABLE VALUE PORTFOLIO

Mr. Burns made a motion to enter the report made by CliftonLarsonAllen on the Great West Open Accounts Receivable into record. The motion was seconded by Ms. Baran and passed unanimously. The report is attached hereto.

AGENDA ITEM – RECOMMENDATION OF RECORD-KEEPER AND COMMUNICATIONS RFP

Mr. Burns made a motion to enter into a contract among the Supplemental Retirement Plans, the board and Prudential for the record-keeping and communications services. The motion was seconded by Mr. Gray and passed unanimously.

AGENDA ITEM – RECOMMENDATION OF CUDTODIAN AND TRUSTEE RFP

Mr. Burns made a motion to enter into contract among the Supplemental Retirement Plans, the board and BNY Mellon for custodial services. The motion was seconded by Mr. Gray and passed unanimously.

The Chair reiterated that with regard to the motions, the board deliberated for two hours to arrive to at the decisions they made.

A scheduled lunch break took place between 12:25 p.m. and 1:15 p.m.

AGENDA ITEM – APPROVAL OF INVESTMENT SUBCOMMITTE MEETING MINUTES FROM FEBRUARY 19, 2015

Ms. Baran, the acting Chair, made a motion to approve the minutes of the February 19, 2015, Investment Subcommittee meeting. Mr. Orr seconded and the motion passed unanimously.

AGENDA ITEM – APPROVAL OF AUDIT SUBCOMMITTE MEETING MINUTES FROM FEBRUARY 25, 2015

Mr. Gray gave a brief overview of the meeting and advised the board that CliftonLarsonAllen partner, Thomas Rey, plans to conduct two separate meetings with the Audit Subcommittee members. At the first meeting, he requested that the members express any concerns about the plans. He noted that the purpose of the second meeting with CLA will focus on CLA's sharing of findings and results of its audit of the plans. The audit will also be comprised of two phases. Firstly, the auditor will focus on contribution and withdrawal processes, as well as participant level controls. Secondly, Financial Operations Division reporting will be reviewed in depth – this part is critical to the plan. He noted that the final audit report draft is expected by the end of June 2015.

Mr. Gray made a motion to approve the minutes. Mr. Hamilton seconded and the motion passed unanimously.

AGENDA ITEM – 401(k)/457(b) PLANS 4TH QUARTER INVESTMENT PERFORMNCE REPORT

Ms. Baran, the acting Chair, recognized Liana Magner and Kelly Henson from Mercer.

Ms. Magner began by summarizing the key themes of the market for the last quarter of 2014. Small cap stocks experienced a surge and were the strongest performers for the quarter. There was a significant divergence among sectors: energy sector was down by 12%, while the best sector, utilities, was up by 12%; consumer staples also fared well. The US dollar has appreciated and consequently, US stocks outperformed the non-US stocks. Fixed income remained flat, experiencing only marginally positive gains, and yield curve flattened while the spreads widened. Credits and Treasuries were up, as well as REITs, positively influenced by improving real estate prices. Overall, the markets saw two digit gains at year-end. In the most recent quarter, we saw that the non-US equities outperformed the US equities, but recently the global markets declined; the US dollar continued to appreciate and overall, the markets experienced modest gains.

Ms. Magner pointed out the graph, representing the tiered investment structure for the plans, and noted that the more active investors have a good selection of funds to choose from; in addition, participants can choose GoalMaker for pre-mixed portfolios or they can choose from well-priced index funds.

Ms. Magner then discussed some high-level manager events. There was a transition from PIMCO during the quarter. There was an overall smooth transition from PIMCO to Prudential as the new manager for the NC Fixed Income Fund. Ms. Magner noted that Mercer continues to meet with managers and Mercer can also make full research notes regarding manager's updates, available upon request.

On the performance scorecard, Ms. Magner highlighted the NC Large Cap Value Fund and the NC Large Cap Growth Fund, noting their respective performance in the rolling three-year period. One of the managers that stands out is Wellington Quality Value. It was placed on the watch list due to consistent and significant underperformance. At this time, Mercer is recommending that this manager be replaced with Delaware. Both managers serve as quality defensive managers and Delaware offers good diversification. Regarding the NC Smid Cap Value and the NC Smid Cap Growth Funds, Ms. Magner noted that the current economic environment is challenging for active managers and while the funds' performance did not meet the benchmark, they did outperform their peer group. Mercer has met with one of the underlying managers, Brown Advisory, and Mercer continues to monitor them closely. The NC International Fund has a good bit of exposure to emerging markets that their peer group does not, which is the driver by its current underperformance. Mercer believes that over time, the fund will benefit from its exposure to emerging markets. The Global Equity remains strong. Ms. Magner noted that the NC Inflation Responsive Fund is new and therefore lacks performance history. The NC Fixed Income Fund experienced strong performance, driven by a high-quality oriented manager, JP Morgan Asset Management. This fund has consistently outperformed its benchmark. Stable Value Fund was also a strong performer under Galliard's management.

Ms. Cochran inquired whether Brown Advisory should be placed on formal watch due to performance concerns. Ms. Henson stated that Brown has been placed on the watch list, which will be reflected in the report for the 1st quarter of 2015. Ms. Magner added that some volatility among underlying managers is to be expected, even when the funds are performing really well, and the placement of a particular manager on a watch list does not necessarily mean they would or should be replaced.

Ms. Magner noted that there are two managers on the formal watch list. First, Mercer's recommendation is to replace Wellington Quality Value with Delaware, as this manager's score was the highest among the five replacement candidates reviewed. Second, PIMCO Inflation Responsive Multi-Asset is being closely watched by Mercer due to many concerns regarding the state of the firm and the headline risk, not the state of the fund performance. This manager could possibly be removed from watch, if stability within the firm is observed in the future.

Ms. Magner continued on to the fee overview, reiterating that Mercer watches the fees closely. Mr. Toole asked about the possible PIMCO fee reduction. Ms. Henson stated that PIMCO has agreed to reduce the fee for the NC Inflation Responsive Fund: current management fee of 80 bps will become a tiered structure of 65 bps for assets up to $600 million, and 55 bps above the $600 million threshold. She noted that the contract reflecting these fees is being drafted. Ms. Henson also noted that while fees for few managers are higher than the benchmark, the plan is actually benefiting because of an overall better performance in these funds. Galliard, as the Stable Value Fund manager, does not charge additional basis points for their custody of the assets custodied at Wells Fargo and this translates to plan savings.

Ms. Baran asked Ms. Henson whether Mercer had any concerns with regards to the Delaware's being a wholly owned subsidiary of Australia's Macquarie Group. Ms. Henson stated that Mercer has a large presence in Australia and noted no concerns with either company. A memorandum regarding Delaware's ownership will be provided to the board by Mercer at a later date.

AGENDA ITEM – MOTION TO REPLACE NC LARGE CAP VALUE FUND MANAGER

Ms. Baran made a motion to replace Wellington Quality Value with Delaware. Mr. Hamilton seconded the motion and it passed unanimously.

Mr. Hamilton asked whether the plan members are being educated about the implication of allocating assets into the Stable Value Fund. Ms. Baran added that the plan must focus on preserving members' purchasing power and, in her opinion, Stable Value Fund cannot accomplish that alone. Mr. Toole responded that 9 out of 10 participants choose GoalMaker for their asset allocation, which helps participants make an appropriate allocation to the Stable Value Fund. He added that the age of plans' population must be also considered. Many participants are part of the "Baby Boomer" generation and appropriately have their funds in the Stable Value Fund. Mr. Hamilton was concerned with the number of young members, keeping their contributions in the Stable Value Fund and proposed more education regarding this issue. Mr. Toole stated that this issue will be considered during the upcoming glidepath review and that this issue is even more concerning in the 403(b) marketplace. Ms. Baran noted that during her tenure on the board, the percentage of funds allocated to the Stable Value Fund has declined so, in her opinion, the message is getting through. Ms. Buonfiglio added that Prudential will be reporting on the Funds' percentage in this specific holding and that overall, our plans compare favorably to their governmental peer group.

AGENDA ITEM – 403(b) PROGRAM 4TH QUARTER INVESTMENT PERFORMANCE REPORT

Mr. Henson noted that this is the first full review by Mercer of the NC 403(b) Program and the goal was to have the same reporting structure to the board as the two other plans. Ms. Henson presented the overview of the tiered investment structure for the program: tier one is comprised of target-date funds which is a product similar to GoalMaker; tiers two and three include passive and active investment options, respectively; while tier four includes specialty options. She noted that the two PIMCO funds are on the watch list at Mercer because of the same headline risk as discussed previously. She also noted that the Inflation Responsive fee reduction does not apply to the 403(b) program, as this is not a separate account, but a mutual fund.

Ms. Henson noted that the performances of program funds are all tracking to their benchmark. Ms. Henson noted that the three- to 12-month period has been challenging for the active managers, who typically do not invest heavily in REITs and utilities hence, the underperformance of some funds. Ms. Cochran asked about the program marketing materials and whether they provide the appropriate risk comparison and specialty funds' performance summary. Ms. Buonfiglio confirmed that with cooperation from TIAA-CREF, core information is provided via the marketing materials and the website. She noted that for a better understanding of fund objectives, participants can utilize in-person advice sessions, as well as receive guidance over the phone and online.

Ms. Henson continued with the investment expense analysis, noting that in the future, this particular presentation page will be changed to reflect the fee review presented similar to the two other plans. Participants are in fact paying less in fees than other options and this helps with the asset growth.

Mr. Burns noted that the target-date fund expenses are above the median and Ms. Magner replied that Mercer would not recommend these particular funds as they are an expensive option in the realm of passive funds; Vanguard, State Street or BlackRock funds are cheaper with approximate expense ratio of 19 bps and could be considered for further program enhancement. Mr. Toole confirmed that the Wells Fargo funds were always regarded as an interim solution and only chosen initially to best mimic the glidepath of the GoalMaker product. Ms. Magner added that fees have been consistently coming down for passively implemented funds and the choice of correct glidepath was very important from the fiduciary duty perspective. Ms. Cochran asked if our fees could still be more competitive and Ms. Magner replied that Wells Fargo has reduced the fees collective trusts, but this is a mutual fund and thus has a fixed fee which makes it impossible to change the fees just for the program.

At 1:50 p.m., the Treasurer returned to the meeting and resumed chairing the meeting.

AGENDA ITEM – 403(b) PROGRAM 4TH QUARTER ADMINISTRATIVE REPORT

The Chair recognized James Summerlin from TIAA-CREF to give the administrative report for the NC 403(b) Program. As of December 31, 2014, 38 school districts were enrolled in the program: three districts have chosen TIAA-CREF as the sole record-keeper, 13 limited the new contributions to the program only, retaining their legacy vendors, and 22 districts are the true multi-vendor structure. Approximately 80,000 public educators are now eligible to participate in the program and TIAA-CREF is working on increasing the number of enrollees. The program has just under one million dollars in assets as of December 31, 2014; and as of March 18, 2015, there were 774 enrolled participants and 2.1 million dollars in assets. With respect to employee engagement, 35 group seminars and 338 counselling sessions have been conducted. TIAA-CREF believes that these sessions assist the employees with proper asset allocation.

Mr. Summerlin remarked that 6 out of top 10 school districts have signed up for the program. The Chair inquired about the eligibility pool across the state and Mr. Summerlin confirmed it is 80,276.

Mr. Summerlin pointed out that the current contribution level of $167 per month exceeds the goal of $140 and is predicted to remain at this level across the member population. The enrollment goal is 2500 members by the end of 2015. The goal of target-date funds utilization is 90 percent and the current rate is 84 percent.

Mr. Summerlin stated that 1500 counselling sessions are planned to be conducted by the end of year. Mr. Orr asked if the number should be adjusted based on the number of employees in the program. Mr. Summerlin clarified that the 1500 was set as a good enrollment target, based on 65 districts joining the program by the end of 2015; TIAA-CREF now has two financial consultants for the entire state, so it is important not to over-extend the resources and monitor the program growth accordingly. Ultimately, the goal is to have all 115 districts join the program. However, 15 districts have existing contracts with other vendors or a third-party administrator, which prevents them from adding the NC program. The 38 districts currently participating represent 42 percent of the eligible population.

Next, Mr. Summerlin presented the compliance report. One of the main program benefits is to build and educate the participating districts with regards to 403(b) compliance and regulatory requirements. TIAA-CREF offers guidance to plan sponsors with regards to third-party administrator duties. 22 school districts now have a relationship with a compliance TPA, while 10 others chose to utilize the TIAA-CREF Compliance Coordinator tool, which assists in loan and withdrawal coordination. In addition, 11 districts are utilizing the NC plan documents, as well.

Mr. Summerlin stated that the compliance report was delivered to the program staff on February 23, 2015, and that all service-level guarantees have been met. All contractual obligations, with one exception of custodian transition, have also been met. Mr. Summerlin noted that JP Morgan notified TIAA-CREF of their resignation as custodian. Request for Proposal for custodial services was issued by TIAA-CREF, and TIAA-CREF Trust won the bid. The communication regarding the change was sent to plan sponsors and should have been sent to the board and the program staff. The communication issues will be corrected going forward.

AGENDA ITEM – JP MORGAN CUSTODY CHANGE TO TIAA-CREF

Mr. Summerlin turned the discussion over to Ms. Cece. Ms. Cece noted that the record-keeping service contract with TIAA-CREF includes a provision that TIAA-CREF may choose the custodian after obtaining the consent from the program staff in advance. The clause in the JP Morgan contract also makes it clear that the program staff must be notified if a change is considered. If there is no response to the notification, JP Morgan may proceed with the change. The program staff had some knowledge of the potential change, but an official notification was not received. At this time, the program staff is waiving the consent requirement to make the change official.

In his closing remarks, Mr. Summerlin informed the board that annual member satisfaction survey results will be available at the end of March 2015. Mr. Summerlin thanked the board and staff, informing them of changing positions within the company and leaving the account.

AGENDA ITEM – 401(k)/457(b) PLANS 4TH QUARTER ADMINISTRATIVE REPORT

The Chair recognized Michael McCann from Prudential. Mr. McCann thanked the board for awarding the new record-keeping business to Prudential and stated that the company was honored to continue the relationship with the North Carolina plans.

Mr. McCann began by describing the plans' 2014 goals. He noted that six out of eight goals were either met or exceeded. All the NC 401(k) Plan goals were met, while two out of four goals were met in the NC 457(b). Active participation in the NC 457(b) was at 11.57 percent, just shy of its overall goal of 12.25 percent. 30 new plans were added to the 457(b), and some of those plans were smaller than previously projected. In addition, some enrollments projected for the 457(b) actually materialized in the 401(k) instead. In 2014, a total of 21,216 participants were enrolled in both plans.

Mr. McCann noted that with regards to asset allocation, 25 percent of assets are in the Stable Value Fund and this percentage has decreased over the years. More than 55 percent of the assets have been allocated to the GoalMaker and this is a very good result for a governmental plan. The total number of members has increased in each plan, 5.8 percent in the 401(k), and 5.4 percent in the 457(b). The overall 2014 enrollment was 15,103 for the 401(k) which is in-line with the prior year. Contribution levels were consistent for both plans, with more members selecting Roth contributions and the number of rollovers was consistent with years 2011-2012. The plan demographics show an aging population, as evidenced by a 22 percent increase in withdrawals, specifically lump sum distributions upon termination; however, for the year, the lump sum withdrawals decreased by 3.7 percent. Prudential is guiding those members considering lump sum withdrawals to ensure that they are educated about all options and able to make good decisions.

Mr. Toole remarked on the proposed Department of Labor rule, which will require investment professionals to adhere to a fiduciary standard when advising retirement plan participants. Ms. Baran asked whether the participating employers could notify the plan of pending retirement dates and Mr. Toole stating that most do send a two- to three- month advance notice.

Mr. McCann continued on to the Retirement Income Calculator (RIC) overview. The average contribution rate for a participant's utilizing the RIC in the 401(k) was 6.32 percent, and for a non-RIC participant: 4.3 percent. An Annual Benefits Statement enhancement is allowing members to enter their outside assets into the RIC and have their financial picture captured in one place. The 403(b) Program was also included in the calculation, which made the report meaningful. In response to Mr. Toole's question, Mr. McCann confirmed that the new RIC tool was not marketed aggressively; approximately 2500 members have taken advantage of the tool.

Mr. McCann also presented a list of 38 new localities that have adopted the 457(b) in 2014 and discussed changes in employer contribution levels within 22 subplans.

In conclusion, Mr. McCann thanked Mr. Michael Lewis, whose profile was presented in the current "Member Spotlight" section of Prudential's Signature newsletter.

AGENDA ITEM – BOARD QUESTIONS/COMMENTS

The Chair contributed a retirement success story, noting her conversation with one of the members of the state legislative body who enrolled in the NC 401(k) plan in 1983 and is retiring this month with an approximate balance of $500,000 in his account. This member is a big proponent of the North Carolina Retirement Plans.

There were no additional questions or comments.

AGENDA ITEM – PUBLIC COMMENTS

No public comments were offered.

The motion to adjourn was made by Mr. Burns and seconded by Mr. Gray. The motion passed unanimously and the meeting adjourned at 2:35 p.m.

Secretary