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**INVESTMENT SUBCOMMITTEE OF THE  
NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

**MINUTES OF SPECIAL MEETING**

**February 20, 2014**

**Time and Location:** The Investment Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 3:30 p.m. on Thursday, February 20, 2014 in the Human Resources Conference Room of the Albemarle Building, 325 North Salisbury Street, Raleigh, North Carolina.

**Members Present:** The following members were present: Melinda Baran (Chair), Mona Keech, and Karin Cochran.

**Staff and Guests Present:** The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Steve Toole, Lisa Page, Rekha Krishnan, Jacquelyn Goldsmith, Tim Viezer, Rhonda Smith and Mary Laurie Cece. From Mercer: Jay Love and Kelly Henson.

**AGENDA ITEM – WELCOME AND INTRODUCTIONS**

The meeting was called to order at approximately 3:35 p.m. The Chair welcomed everyone.

**AGENDA ITEM – ETHICS AWARENESS & IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST**

The Chair asked Subcommittee members to review the agenda for the meeting and identify any actual, implied, or potential conflicts of interest. There were no conflicts identified.

**AGENDA ITEM – NEUBERGER BERMAN: MANAGER REVIEW**

The Chair recognized Jay Love for further presentation concerning Neuberger Berman, following up on the discussion at the February 13 Subcommittee meeting. Mr. Love stated he was going to provide the committee today with information on alternative managers who have a strategy similar to Neuberger as well as the potential costs to changing managers.

Mr. Love began his presentation with Mercer’s overall assessment of Neuberger. Mercer believes that Neuberger should be retained a little bit longer because they seem to be getting better. However, he believes Neuberger should continue to be closely watched for a few more quarters in a normal business cycle. There was discussion around what is a normal business cycle. Ms. Cochran asked Mr. Love to explain again the apparent causes of Neuberger’s underperformance. Mr. Love noted that in 2011, Neuberger’s portfolio managers made some mistakes, but the underperformance in 2012 and 2013 is what you would expect to see. Mr.

Viezer pointed out that it is often a mistake for institutional investors to fire underperforming managers, particularly those managers who are following their strategy and their own process. There was additional discussion about Neuberger's strategy and how it is a complement to Sands, another investment manager in the Plans that has performed very well against the benchmark. Ms. Henson pointed out that because of these two complementary strategies, participants receive lower volatility.

Mr. Love described to the Subcommittee several alternative managers that Mercer has identified that have the same profile as Neuberger. However, he pointed out that Mercer had no certainty that any one of these would perform better than Neuberger. Ms. Cochran asked of the managers presented, which one Mercer would recommend as an alternative. Mr. Love said Polan, Stralem or HS would be his suggestion. There was additional discussion about the efficacy of holding onto Neuberger for a little while longer to see if their performance turns around.

Ms. Henson provided information on the cost of changing managers. She stated that it would be about 12 basis points of all funds allocated in the Plans to the Neuberger strategy.

Mr. Toole stated that he is not simply concerned about Neuberger's performance but about the changes Neuberger made in its portfolio management structure. After discussion among the committee on next steps, Ms. Cochran made a motion to direct Mercer to search for a specific alternative investment manager to Neuberger. Ms. Baran seconded and the motion passed.

#### **AGENDA ITEM – WELLINGTON MANAGEMENT: MANAGER REVIEW**

Mr. Love asked the Subcommittee about its impression of the presentation made by Wellington Management at the February 13, 2014, Subcommittee meeting. He asked whether they should be removed from the watch list. The consensus of the Subcommittee was that Wellington had a good presentation but should remain on the watch list. Ms. Baran made a motion to keep the Wellington strategy on the watch list. Ms. Cochran seconded and the motion was approved.

#### **AGENDA ITEM – SUBCOMMITTEE MEMBERS QUESTIONS / COMMENTS**

There were no additional questions or comments from members of the Subcommittee.

#### **AGENDA ITEM – PUBLIC COMMENT**

No public comments were offered.

A motion to adjourn was made by Ms. Baran, seconded by Ms. Keech, and unanimously passed. The Subcommittee adjourned at 4:50 p.m.

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