

DRAFT

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

MINUTES OF MEETING

FEBRUARY 15, 2017

Time and Location: Investment Subcommittee (the “Subcommittee”) of the North Carolina Supplemental Retirement Board of Trustees (the “Board”) met at 9:00 a.m. on Wednesday, February 15, 2017, in the Dogwood Conference Room of the Longleaf Building, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Melinda Baran (Chair), Karin Cochran. Rob Orr and Hal McKinney attended via phone.

Dale R. Folwell, CPA, Chair of the Supplemental Retirement Board of Trustees, was present. Ron Copley, Supplemental Retirement Board of Trustees member, attended over the phone.

Staff and Guests present: The following staff and guests attended the meeting. From the Department of State Treasurer: Steve Toole, Reid Chisholm, Mary Buonfiglio, Kevin SigRist, Mary Laurie Cece, Casey High, Loren de Mey, Rekha Krishnan, Catherine Jarboe, Maja Moseley, Patti Hall, Paula Woodhouse, Sam Hayes, Joan Fontes, Frank Lester, Chris Farr, Brad Young. From Mercer: Kelly Henson, Liana Magner, and William Dillard. From Prudential: Michael McCann. From Galliard: William Weber. Member of the public: Mike Latta.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

Meeting convened at 9:00 a.m.

Ms. Baran, the Chair, welcomed the Treasurer, staff and guests.

**AGENDA ITEM – ETHICS AWARENESS AND 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 – MINUTES FROM NOVEMBER 10, 2016 INVESTMENT
SUBCOMMITTEE MEETING**

The Chair stated that the minutes have already been approved and are included for reference only; no action is needed.

AGENDA ITEM – INVESTMENT STRATEGY DISCUSSION

The Chair recognized Mr. SigRist, Ms. Magner and Ms. Henson. Mr. SigRist noted the cooperation between Department staff and Mercer in identification of issues related to plan design and that the presentation is intended as an open discussion between Subcommittee members, the staff and the investment consultant. Mr. SigRist also stated that the discussion will continue at the March Board meeting and that the Subcommittee and the Board will receive recommendations at the May and June meetings, respectively. Ms. Magner encouraged the Subcommittee members to ask questions during the course of the presentation. She then directed the members' attention to the report and highlighted its main points: litigation trends in defined contribution plans, best practices for defined contribution plans and investment structure philosophy, including the review of active and passive options. Lastly, she described Mercer's view regarding the consolidation of the Large Cap Equity Fund and separately the Small/Mid Cap Equity Fund in the Plans.

Members discussed the pros and cons of Mercer's recommendation, as well as the potential need for a liquidity sleeve in the Plans, the value of passive versus active funds, benchmark review, and the possibility of adding a brokerage window. The presentation and discussion lasted for approximately one hour.

The discussion will continue at the March Board meeting the Subcommittee and the Board will receive plan design recommendations at the May and June meetings, respectively.

AGENDA ITEM – GLIDEPATH PROJECT UPDATE

The Chair recognized Ms. de Mey and Mr. SigRist to present the glidepath evaluation and recommendation. Mr. SigRist described the manager search and analysis process, further detailed in the memorandum to Subcommittee members. After thorough review, the Department's Investment Management Division (IMD) staff recommended against engaging any of the three finalists to provide glidepath services and also recommended one of two additional actions: (1) to instruct IMD staff to develop a plan, in collaboration with Prudential, to finalize the material changes to the glidepath of the GoalMaker Funds based on Mercer's 2013 recommendation with no incremental fees; or (2) if the SRP Board believes that a customized glidepath should be pursued, to authorize IMD staff to negotiate with the finalists for one-time advisory project.

The Chair entertained a motion as per these recommendations. Ms. Cochran moved not to proceed to contract execution for a delegated glidepath manager and to instruct IMD staff to develop a plan with Prudential based on Mercer's recommendation of 2013. Mr. Orr seconded the motion, and it passed unanimously.

A break took place from 10:20 a.m. until 10:30 a.m.

AGENDA – STABLE VALUE PORTFOLIO REVIEW

The Chair recognized Mr. Weber. Mr. Weber provided an update regarding a lawsuit against Galliard, which alleged that Galliard managed the Stable Value Fund too conservatively. He noted that the magistrate recommended a motion to dismiss in June 2016. The plaintiffs filed a new class action in August 2016. However, in January 2017, the magistrate again recommended dismissal.

Next, Mr. Weber presented the Fourth Quarter 2016 report for the Stable Value Fund, focusing on performance, duration and fees. A discussion followed regarding Galliard's fee, including breakpoints and most-favored nation pricing, and the possibility of a customized benchmark for the fund. Mr. SigRist added that an update regarding the benchmark will be provided at the next meeting.

AGENDA ITEM – ECONOMIC OVERVIEW AND 4TH QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Mr. Dillard and Ms. Henson, who presented the highlights of capital markets commentary and performance summary. Mr. Dillard reviewed the fund universe comparison and a brief discussion regarding plan fees followed. Lastly, Mr. Dillard recommended adding two managers to the watch list, Sands Large Cap Growth and Wellington Opportunistic Growth, due to their respective performance.

The Chair made a motion to add both investment managers to the watch list, and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – INVESTMENT UPDATE

Ms. de Mey provided a summary of investment compliance monitoring for the quarter, as well as a summary of the fixed income manager transition, which occurred on January 3, 2017, from J.P. Morgan to TCW. A brief discussion regarding cash investment guidelines and details of the transition followed.

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

Ms. de Mey continued on to provide a summary of the Program's Fourth Quarter 2016 performance. She noted this report is the first one to feature the new fund line up and mapping completed in October of last year. She reviewed performance details, as well as the watch list, and added that the T. Rowe Price Blue Chip Growth Fund will be changed to the institutional share class from its current retail class. She also reported that all of the other funds are in

institutional share classes. Members and staff briefly discussed the Investment Policy Statement for the Program.

AGENDA ITEM – NC 403(b) PROGRAM RECORDKEEPER TRANSITION UPDATE

The Chair recognized Ms. Buonfiglio. Ms. Buonfiglio noted that the transition will bring more resources to the Program members and simplify the fee structure, which will change to a flat, annual fee. She also described the communications plan, as well as operational requirements for the new recordkeeping environment.

AGENDA ITEM - SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS

Ms. Baran noted that she will not be present during the March Board meeting and that she has asked Ms. Cochran to represent her by proxy.

Mr. Copley asked whether investments should be brought in-house, and Mr. SigRist responded that the possibility could be explored. Mr. Toole provided another option to leverage in-house investment staff. He noted that some plans offer a unitized defined benefit plan as an investment option.

AGENDA ITEM – PUBLIC COMMENT

No public comments were offered.

Ms. Cochran moved to adjourn the meeting and Mr. Orr seconded. The meeting adjourned at 11:43 a.m.

Secretary