

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

**MINUTES OF MEETING**

**November 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, November 15, 2017, in the Dogwood Conference Room of Longleaf Building, 3200 Atlantic Avenue, Raleigh, North Carolina.

**Members Present:** The following members were present: Dale R. Folwell, CPA (Chair) and Melinda Baran. Karin Cochran and Hal McKinney attended via phone. Ron Copley, Board member, was also in attendance via 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, Loren de Mey Rekha Krishnan, Catherine Jarboe, Maja Moseley, Patti Hall, Frank Lester, and Joan Fontes. From Mercer: Liana Magner and Kelly Henson. From Prudential: Michael McCann. Ann Cashman and Kelly Keen attended via phone. From Galliard: William Weber and Carrie Callahan. From Wall Street Journal: Dana Lin.

**AGENDA ITEM – WELCOME AND INTRODUCTIONS**

Meeting convened at 9:00 a.m. The Chair welcomed the 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 AUGUST 16, 2017 INVESTMENT  
SUBCOMMITTEE MEETING**

The meeting minutes had already been approved at the September 21<sup>st</sup> Board meeting and were included for reference only; no action was needed.

## **AGENDA ITEM – MAPPING RECOMMENDATION FOR NEW GOALMAKER PORTFOLIO**

The Chair recognized Ms. Buonfiglio, who directed the attendees' attention to the GoalMaker 2.0 implementation presentation. She noted that the main focus of the presentation is a group of GoalMaker participants in the NC 401(k)/457 Plans and NC 403(b) Program, approximately 38,000 members, who do not utilize the optional age adjustment feature of GoalMaker. Ms. Buonfiglio presented the Subcommittee members with three portfolio mapping options for this group. In particular, the staff recommends the option to move the members to GoalMaker 2.0 Portfolio that is age-appropriate and to turn "on" the age adjustment feature. The change will be preceded by a robust communication to members, and they will be able to choose to keep "age adjustment feature turned "off." The recommendation has received support from the investment consultant, as well as outside counsel.

Ms. Buonfiglio added that the issue is being brought to the Subcommittee members for discussion and awareness, and voting will take place during the Board meeting in December.

Following the presentation, Subcommittee members discussed the options and the technical aspects of transition in detail. The Chair emphasized the need for the member communication to be clear. Ms. Buonfiglio added that the communications plan may include separate letters for each group of members.

## **AGENDA ITEM – MAPPING RECOMMENDATION FOR NC GLOBAL EQUITY FUND FOR THE NC 401(K)/457 PLANS**

The Chair recognized Ms. de Mey, who presented the mapping recommendation for the NC Global Equity Fund, based on the Board's decision at its September 21 meeting to eliminate the fund from the NC 401(k)/457 Plans' investment lineup. The staff and investment consultant recommend a 52% allocation to NC Large Cap Core Fund and 48% allocation to NC International Equity Fund. The blended fee of 0.31% for the allocations to the NC Large Cap Core and NC International Equity Funds will result in a fee savings of 0.23 percentage points to participants who are currently invested in the NC Global Equity Fund.

The Chair entertained a motion to approve the mapping recommendation and Ms. Baran so moved. Mr. McKinney seconded and the motion passed unanimously.

## **AGENDA ITEM – RECOMMENDATION FOR PASSIVE TIPS FUND MANAGER**

Next, Ms. de Mey presented an investment management recommendation for the addition of passive Treasury Inflation Protected Securities (TIPS). At its September 21 meeting, the Board approved the addition of a passive TIPS fund to the NC 401(k)/457 Plans – as a component of the GoalMaker 2.0 portfolios and as a core investment option in the plans. The staff and investment consultant recommended hiring BlackRock Investment Advisors to manage a

separate account tracking the Bloomberg Barclays 1-10 Year TIPS Index. Ms. de Mey reviewed the rationale leading to the recommendation and noted that while BlackRock does not possess a track record of managing to the Bloomberg Barclays 1-10 Year TIPS Index, they do have experience in managing the full TIPS index. Ms. Henson noted the favorable fee of 2.5 basis points.

Following a brief discussion regarding the duration and performance profiles of the various TIPS indices, the Chair entertained a motion to approve the recommendation. Ms. Baran so moved and Ms. Cochran seconded. The motion passed unanimously.

#### **AGENDA ITEM – INVESTMENT UPDATE FOR THE NC 401(K)/457 PLANS**

Ms. de Mey provided an update regarding the recent investment lineup change which included the (1) creation of the NC Large Cap Core Fund and NC Small/Mid Cap Core Fund, (2) addition of two index funds, and (3) termination of two legacy managers. She also provided a breakdown of transition costs and noted that the Plan Design changes represent an approximate \$3.4 million in annual savings to members. Ms. de Mey and the Chair thanked all business partners for making the transition successful.

Next, Ms. de Mey provided an update regarding investment compliance monitoring, noting that all investment managers are compliant with their respective guidelines and that the Department delivered the Annual Divestment Reports to the General Assembly. She also apprised the Subcommittee members of the Department's progress in implementing House Bill 161, which requires state divestment from, and prohibits state and local governments from contracting with, companies that boycott Israel.

#### **AGENDA ITEM – STABLE VALUE PORTFOLIO REVIEW**

The Chair recognized Mr. Weber, who introduced Galliard's Managing Partner, Ms. Callahan. Ms. Callahan provided the portfolio update and noted that it remains almost unchanged from the prior quarter. In response to the Chair's inquiry, Mr. Weber replied that fee negotiations are ongoing and the firm is making progress. Galliard continues to work with the Plans' legal staff and, subject to contracting, the project completion should take place in the first quarter of 2018.

Ms. Baran inquired about the federal tax reform impact on the Plans' portfolio and Ms. Callahan replied that proposed contributions reduction could impact the savings rate.

#### **AGENDA ITEM – ECONOMIC OVERVIEW AND 3<sup>RD</sup> QUARTER INVESTMENT PERFORMANCE REPORT FOR THE NC 401(K)/457 PLANS**

The Chair recognized Ms. Magner and Ms. Henson. Ms. Magner provided an overview of capital markets, noting strong returns across the board for equity markets and more muted returns in the fixed income sector. Ms. Magner summarized the current investment structure and the changes to be featured in the next report due to investment lineup changes completed on September 29.

She continued the fees review and the investment manager scorecard, providing details regarding managers on Watch List. Ms. Henson added that onsite visits will be conducted with the underperforming managers and the visit outcomes and recommendations will be provided to the Board.

**AGENDA ITEM – REVIEW OF GLIDEPATH FOR NC 403(b) PROGRAM RECOMMENDATION**

Ms. de Mey stated that the goal of the recommendation is to make the GoalMaker enhancements for the Program consistent with those approved recently for the NC 401(k)/457 Plans, including the new GoalMaker 3x9 model, which offers options through retirement. The recommendation includes transition to a fully passive U.S. Large Cap Equity allocation and to fully active Fixed Income, International Equity and Small/Mid U.S. Equity allocations. The recommendation also includes the addition of passive TIPS Fund to the glidepath.

The Chair entertained a motion to approve the recommendation and Ms. Baran so moved. Ms. Cochran seconded and the motion passed unanimously.

**AGENDA ITEM – RECOMMENDATION TO CHANGE INTERNATIONAL EQUITY FUND MANAGER**

Ms. de Mey summarized the recommendation to replace the MFS International Equity Fund in the NC 403(b) Program with the Baillie Gifford International Equity Fund, which recently reopened to U.S. investors. While she noted no concerns regarding the performance of MFS Fund, she remarked that the change would lower the net expense ratio by 10 basis points and would offer a greater opportunity for alpha generation. Ms. de Mey also explained that the Baillie Gifford International Fund is not currently present on Prudential's 403(b) platform but the investment manager and the recordkeeper are discussing its addition.

The Chair entertained a motion to approve the recommendation contingent upon the fund being added to Prudential's platform and Ms. Baran so moved. Ms. Cochran seconded and the motion passed unanimously.

**AGENDA ITEM – RECOMMENDATION FOR PASSIVE TIPS FUND**

Ms. de Mey stated that the staff recommends adding the Vanguard Short-Term Inflation Protected Securities Index Fund Admiral Shares to the NC 403(b) Program. The fund tracks the Bloomberg Barclays 0-5 Year TIPS Index. She added that the staff tries to manage the NC 401(k)/457 Plans and the Program consistently, however a mutual fund that tracks the Bloomberg Barclays 1-10 Year TIPS Index was not available. Therefore, the Bloomberg Barclays 0-5 Year TIPS Index is the best option available. Mr. Toole inquired whether Vanguard was a common index fund provider in the 403(b) space and Ms. de Mey confirmed.

Ms. Baran made a motion to approve the recommendation and the Chair seconded. The motion passed unanimously.

**AGENDA ITEM – NC 403(b) PROGRAM 3<sup>rd</sup> QUARTER INVESTMENT PERFORMANCE REVIEW**

Ms. de Mey summarized the Program funds' performance over the quarter and year to date, noting that all, except one, are in line with their respective benchmarks or outperforming the benchmarks for the year to date period; Dimensional Fund Advisors (DFA) U.S. Small Cap Institutional underperformed. She noted that the departure of DFA co-CEO, Eduardo Repetto, at the end of September is not expected to impact the portfolio, as confirmed via phone conference with the investment manager. Ms. de Mey added that DFA has opened an office in Charlotte, NC, and continues to expand portfolio management capabilities in that location.

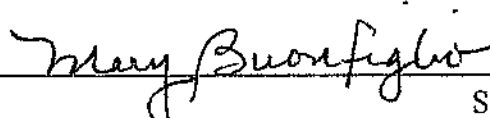
**AGENDA ITEM - SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS**

Mr. Toole noted that the December Board meeting materials will be delivered electronically via Directorpoint software. Support and training will be provided to Board members in advance of the meeting to ensure preparedness. Mr. Toole also noted that a report issued by S&P Global rates the North Carolina State Pension Plan among the top five in the country. The National Association of State Retirement Administrators (NASRA) also recognized the administration of the state retirement plans.

**AGENDA ITEM – PUBLIC COMMENT**

No public comments were offered.

Ms. Baran moved to adjourn the meeting and Ms. Cochran seconded. The meeting adjourned at 10:37 a.m.

  
Secretary