

# **NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

## **MINUTES OF MEETING**

**December 14, 2017**

**Time and Location:** The North Carolina Supplemental Retirement Board of Trustees (the Board) met at 9:00 a.m. on Thursday, December 14, 2017 in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

**Members Present:** The following members were present: Treasurer Dale R. Folwell, CPA (Chair), Melinda Baran, Karin Cochran, Hal McKinney, Ron Copley and Gene Hamilton. Michael Lewis attended via telephone.

**Staff Present:** The following Department of State Treasurer (DST) staff were present: Mary Buonfiglio, Loren de Mey, Reid Chisholm, Maja Moseley, Cathy Jarboe, Rekha Krishnan, Patti Hall, Malinda Peters, Karah Manning, Timeka Holden, Rick Lopez, Renee Bourget, Frank Lester.

**Guests Present:** The following guests attended the meeting: Michael McCann, Rob Luciani, Ann Cashman, Aaron Koval and Kathleen Neville from Prudential Retirement. Kelly Keen and Jessica Quimby, from Prudential Retirement, attended via phone. Liana Magnier and Will Dillard from Mercer Investment Consulting. Member of the public: John Wilkerson.

### **AGENDA ITEM – WELCOME AND INTRODUCTIONS**

The Chair called the meeting to order at 9 a.m. He noted that due to the prior engagement he would need to leave the meeting at 10 a.m. and that Ms. Baran would chair the remainder of the meeting. The Chair also called on Ms. Buonfiglio to provide the relevant updates in Mr. Toole's absence and asked for the public comment to be moved to the start of the meeting agenda.

### **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. No conflicts have been identified.

### **AGENDA ITEM – APPROVAL OF MINUTES**

The Chair entertained a motion to approve the minutes of the September 21, 2017 Board meeting. Ms. Baran so moved and Mr. McKinney seconded. The motion passed unanimously.

### **AGENDA ITEM – PUBLIC COMMENTS**

Mr. Wilkerson commended the Board for providing North Carolina's teachers with an option to enroll into the Supplemental Retirement Plans (SRP) and the NC 403(b) Program. He noted that while in-person educational sessions with Prudential's staff are helpful, it might be best if potential new members were introduced to the Plans or the Program by the staff from the Department of State Treasurer or the Department of Public Instruction. He also requested that passively-managed target date funds or a passively-managed GoalMaker option be added to the overall investment lineup.

Board members thanked Mr. Wilkerson for joining the meeting and sharing his comments.

#### **AGENDA ITEM – LEGISLATIVE UPDATE**

Ms. Baran, the acting Chair, recognized Ms. Buonfiglio who provided a brief update regarding the federal tax reform and its impact on retirement plans, noting that none of the adverse proposals have passed. She also noted that the staff continues to monitor the developments regarding the Department of Labor Fiduciary Rule, as well as potential changes to the definition of employer. Mr. Chisholm clarified that if the term "employer" were to be redefined by the Internal Revenue Service, it may impact the eligibility of charter schools to participate in the pension system.

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#### **AGENDA ITEM – 2018 COMMUNICATION PLAN**

Ms. Baran recognized Ms. Jarboe. Ms. Jarboe introduced Ms. Quimby from Prudential who joined the meeting via phone. Ms. Jarboe provided a "bird's eye" view of the Plans and explained the areas of staff's main focus, including: Retirement Readiness, contribution increase and proper asset allocation. Ms. Jarboe emphasized that the staff will also pay particular attention to in-person interactions and cooperation with the recordkeeper's field team.

The Board members discussed the members' reasons for leaving the Plans at retirement and opportunities for providing appropriate guidance to these members.

#### **AGENDA ITEM – LEGAL UPDATES**

Ms. Baran recognized Mr. Chisholm who noted the earlier adoption of Hurricanes Harvey and Irma hardship relief, and the need for a subsequent NC 401(k) Plan amendment.

Ms. Baran entertained the motion to amend the Plan and Mr. McKinney so moved. Mr. Hamilton seconded and the motion passed unanimously.

Next, Mr. Chisholm presented a recommendation regarding the replacement of the current proxy policies with the voting guidelines of the Department's third-party proxy vendor, Glass Lewis. Mr. Hamilton made a motion to adopt the vendor's guidelines and Mr. McKinney seconded. The motion passed unanimously.

Mr. Chisholm then presented the revised plan document and adoption agreement for the NC 403(b) Program and asked for approval of those amendments. Mr. Copley so moved and Mr. Hamilton seconded. The motion passed unanimously.

Mr. Chisholm also presented the new NC 457(b) Plan document which replaces the Prudential specimen document currently used by the Plan. The customized plan document would allow the Board the same level of control and flexibility as with the NC 401(k) Plan. Ms. Baran entertained a motion to adopt the document and Ms. Cochran so moved. Mr. Hamilton seconded and the motion passed unanimously.

#### **AGENDA ITEM – 2017-2018 BUDGET UPDATE**

Ms. Buonfiglio asked for approval of the trued-up overhead cost in the amount of \$18,069. She explained that the amount represents the Supplemental Plans share of Information Technology, agency administrative services and Financial Operations services.

Ms. Cochran moved to approve the revised budget and Mr. McKinney seconded. The motion passed unanimously.

#### **AGENDA ITEM – APPROVAL OF MINUTES**

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Ms. Buonfiglio provided a brief summary of the November 15, 2017 Investment Subcommittee meeting. She asked whether there were any updates to the meeting minutes. Ms. Baran entertained a motion to approve the minutes and Mr. McKinney so moved. Mr. Hamilton seconded and the motion passed unanimously.

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#### **AGENDA ITEM – NC 401(k)/NC 457(b) PLANS AND NC 403(b) PROGRAM 3<sup>rd</sup> QUARTER ADMINISTRATIVE REPORT**

Ms. Baran recognized Mr. McCann who highlighted several sections of the administrative report, including: the Plans' healthy participation rate, an increase in GoalMaker utilization and a higher enrollment rate in the NC 457(b) Plan. Mr. McCann also provided an overview of the calls into the service center and group meetings with employers and employees.

Board members discussed the importance of being the advocates for the members, promoting the Plans and the importance of Retirement Readiness via the Plans' communications.

A break took place from 10:30 a.m. until 10:40 a.m.

#### **AGENDA ITEM – NC 401(k)/NC 457(b) PLANS INVESTMENTS UPDATE: GOALMAKER**

Ms. Buonfiglio directed the attendees' attention to the GoalMaker implementation presentation included in the meeting materials. She described the mapping options and their impact to the members' accounts. She also described the specific recommendations in the presentation.

Board members discussed the recommendations and the GoalMaker's "Age Adjustment" feature, and their fiduciary duty to define a qualified investment alternative. Ms. Buonfiglio emphasized the fact that no investment advice is being provided to the members before or during the mapping process and members will be appropriately informed of the transition in advance.

Ms. Baran entertained a motion to map all GoalMaker participants into the portfolio that corresponds to their years in retirement and turn "on" GoalMaker's Age Adjustment feature for all GoalMaker participants. Mr. Copley made the motion and Mr. Hamilton seconded. The motion passed unanimously.

Ms. Baran entertained a separate motion to affirm the GoalMaker as default investment option for the three Plans. Mr. Copley so moved and Ms. Cochran seconded. The motion passed unanimously.

**AGENDA ITEM – NC 401(k)/NC 457(b) PLANS INVESTMENTS UPDATE: NC GLOBAL EQUITY FUND AND PASSIVE TIPS FUND**

Ms. Baran recognized Ms. de Mey who revisited the removal and replacement of the NC Global Equity Fund, previously approved by the Board during the September, 2017 meeting. She described the current allocation and presented the recommendation to map the Fund as follows: 52% to the NC Large Cap Core Fund and 48% to the NC International Equity Fund, noting that the mapping represents a savings of 23 basis points to the participants.

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Ms. Baran entertained a motion to accept the recommendation as presented and Mr. Hamilton so moved. Mr. McKinney seconded and the motion passed unanimously.

Ms. de Mey continued on to the recommendation for the Passive TIPS Fund manager as the allocation to the Fund was previously approved by the Board in September, 2017 meeting. The staff and the investment consultant recommended hiring BlackRock to manage this separate account which will track the Bloomberg Barclays 1-10 year TIPS index.

Board members discussed the index duration and bond yields in detail. Mr. Copley noted that a lower duration index, such as a 0-5 year, would be his preference given its stronger historical correlation with the Consumer Price Index and potential for less sensitivity to the current rising rates. Ms. de Mey replied that the recommendation is meant as a long-term holding. Ms. Magner added that the Fund is intended to be used for participants nearing retirement and in retirement, and to hedge inflation and reduce risk. Mr. Dillard noted Mercer's high rating of BlackRock.

Ms. Baran entertained a motion to hire BlackRock to manage the Passive TIPS Fund tracking the Bloomberg Barclays 1-10 year TIPS index. Mr. McKinney so moved and Mr. Hamilton seconded. Mr. Copley opposed the recommendation. The motion passed by majority vote.

**AGENDA ITEM – NC 401(k)/NC 457(b) PLANS 3<sup>rd</sup> QUARTER INVESTMENT PERFORMANCE REVIEW**

Ms. Baran recognized Ms. Magner and Mr. Dillard. Ms. Magner noted that based on the feedback received from the Treasurer, improvements were made to the quarterly presentation. She provided a hardcopy of an additional report which focuses on three key areas: relevant manager news, the watchlist, and plan updates. Ms. Magner also offered an update regarding a recent lawsuit filed against Macquarie by one of the manager's former employees; Mercer had several calls with the manager, analyzed their buy and sell process, and will be conducting an on-site visit; Mercer continues to monitor the development. Ms. de Mey added that the manager cannot disclose much given this is a Human Resources issue, but more detail will be provided to the Board once the details of the lawsuit are made public. The Treasurer (who rejoined the meeting at approximately 11:30 a.m.) requested that Mercer further probe the core of the issue.

#### **AGENDA ITEM – NC 403(b) PROGRAM INVESTMENTS UPDATE**

Ms. de Mey presented the recommendation for the replacement of the MFS International Equity Fund with the Baillie Gifford International Equity Fund which recently re-opened to new investors. The staff has high conviction in the manager and the net expense ratio for the new fund is 0.61 percent which is 0.10 percentage points lower than current fund. If approved, the Baillie Gifford International Equity Fund will need to be added to Prudential's platform.

Mr. McKinney moved to approve the recommendation and Mr. Hamilton seconded. The motion passed unanimously.

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Next, Ms. de Mey summarized the new GoalMaker models recommendations, approved for the NC 401(k) and the NC 457(b) by the Board during the September, 2017 meeting and presented a recommendation to apply those changes to the NC 403(b) Program's GoalMaker models. Mr. Copley noted that he would like the Investment Subcommittee members to consider a fully indexed Glidepath.

Ms. Baran entertained a motion to approve the Program's GoalMaker model enhancements and Mr. Hamilton so moved. Mr. McKinney seconded and the motion passed unanimously.

Lastly, Ms. de Mey described the TIPS Fund recommendation for the Program and noted the regulatory requirement of mutual funds as investment vehicles for 403(b) plans. Therefore, the recommendation cannot be completely consistent with the one made for the NC 401(k)/457(b) Plans because there is no TIPS mutual fund that tracks the Bloomberg Barclays 1-10 year TIPS index. The staff recommends adding the Vanguard Short-Term Inflation Protected Securities Index Fund Admiral Shares to the Program's investment line-up.

Mr. Hamilton made a motion to approve the recommendation and Mr. Copley seconded. The motion passed unanimously.

#### **AGENDA ITEM - NC 403(b) PROGRAM 3<sup>rd</sup> QUARTER INVESTMENT PERFORMANCE REPORT**

Ms. de Mey summarized the asset balances and the performance for the quarter. Investment manager performance was strong on an absolute basis but the relative performance delivered mixed results. She also noted that a recently announced departure of DFA's co-CEO Eduardo Repetto is not expected to impact the small cap portfolio given his limited involvement with the portfolio.

**AGENDA ITEM – ANNUAL FIDUCIARY TRAINING FOR THE BOARD OF TRUSTEES**

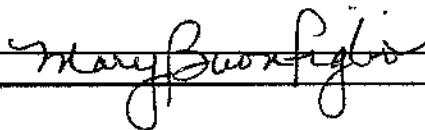
Due to scheduling constraints, the training was not presented at the meeting. The Board members were provided a copy of the training materials and a webinar will be made available to them in February of 2018.

**AGENDA ITEM – BOARD QUESTIONS/COMMENTS**

There were no comments from the Board members.

The motion to adjourn was made by Mr. McKinney and seconded by Mr. Hamilton. The motion passed unanimously, and the meeting adjourned at 12:10 p.m.

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Secretary