

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

MINUTES OF MEETING

November 10, 2016

Time and Location: Investment Subcommittee (the "Subcommittee") of the North Carolina Supplemental Retirement Board of Trustees (the "Board") met at 8:30 a.m. on Thursday, November 10, 2016, in the Dogwood Conference Room of Longleaf Building, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Melinda Baran, Chair, Karin Cochran, and Hal McKinney. Robert Orr attended via telephone.

Staff and Guests present: The following staff and guests attended the meeting. From the Department of State Treasurer: Steve Toole, Mary Buonfiglio, Patti Hall, Loren de Mey, Kevin Sigrist, Rhonda Smith, Casey High, Joan Fontes, Reid Chisholm, Rekha Krishnan, Catherine Jarboe, and Maja Moseley. From Mercer: Kelly Henson and Will Dillard. From Prudential: Michael McCann, Ann Cashman, Aaron Koval, and Kathleen Neville. Jessica Quimby attended via telephone. From Galliard: William Weber and Carrie Callahan.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting convened at 8:31 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 18, 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 – STABLE VALUE PORTFOLIO REVIEW

The Chair recognized Mr. Weber who introduced Ms. Callahan, a managing partner at Galliard. Ms. Callahan presented Galliard's commentary regarding recent headline-making events at Wells Fargo and the market perspective regarding the election results. She focused on Galliard's and Wells Fargo's relationship, noting that while Galliard is a wholly owned subsidiary of Wells Fargo, Galliard is not affiliated with Wells Fargo. Galliard's staff is hired under Galliard's umbrella. She stressed that there had been no impact to Galliard's business due to activity at Wells Fargo.

With respect to the election results, Ms. Callahan noted that Galliard is a risk-controlled fixed income manager, broadly diversified in the portfolio. Galliard focuses on getting the principal back with good interest and on not taking on significant credit risk. She emphasized that Galliard will continue to be positioned in this way and added that potential interest rate increases may provide an opportune time from the stable value perspective as there may be an opportunity for Galliard to get a bit more yield in the portfolio. Galliard also plans to launch a new website for Plan Sponsor's that will include the position summary as well as market commentary. The link to this website will be shared with Board members in the future.

Mr. Weber directed the attendees' attention to fund and market update materials, noting no material changes in the portfolio, solid performance across all benchmarks, and no concerns with contract quality. Mr. Weber also thanked Mr. Clisholm for his assistance with the wrap contracts execution.

AGENDA ITEM – ECONOMIC OVERVIEW AND 3rd QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. Henson and Mr. Dillard from Mercer. Ms. Henson provided the Summary of Performance Evaluation Report, focusing on markets commentary, manager updates, performance overview, and the watchlist. She noted that Mercer met with several managers and reaffirmed its ratings and that the closing of the large cap growth strategy to new clients by Loomis Sayles will have no impact on the Plans. There were also no concerns regarding fees; the plans are getting a good value.

Ms. de Mey added that an onsite meeting with TimesSquare, a manager currently on the watchlist, is planned for next week. Ms. de Mey attributed TimesSquare's poor performance to its style and poor stock selection, and Ms. Smith added that the performance was driven largely by one healthcare stock.

Next, Mr. Dillard provided detailed performance data for each of the managers and a discussion regarding the performance tracking of active versus passive management followed. Mr. SigRist suggested a review of both the active as well as the passive product structure, and to look at it periodically from the Investment Policy Statement point of view with Mercer's assistance, to

achieve the best mix of both. Ms. Buonfiglio noted that the benchmarking analysis that CEM performs for the plans includes the value added by active management.

AGENDA ITEM - GLIDEPATH PROJECT UPDATE

The Chair recognized Mr. SigRist and Ms. de Mey who outlined for the Subcommittee members the proposed Glidepath and plan design timeline. Ms. De Mey noted that the staff will be ready to make a recommendation during February and March 2017 Subcommittee and Board meetings. She emphasized that the performance of the Glidepath manager will be monitored in the same way the other investment managers are being monitored and will be reported out to the Investment Subcommittee. Mr. SigRist added that plan design will also be discussed, with a formal recommendation planned for June 2017.

A discussion regarding delegation of authority for the Glidepath manager followed.

A break took place from 10:07 a.m. until 10:15 a.m.

AGENDA ITEM - FIXED INCOME SEARCH

Ms. de Mey directed the attendees' attention to the memorandum and action recommended for replacing the JP Morgan Core Bond strategy. She provided the highlights of the due diligence search process, which involved three finalists and provided a description of the candidate ultimately selected: Trust Company of the West (TCW). Ms. de Mey thanked Ms. Smith, Mr. SigRist and Mr. High for their assistance during the search.

Mr. Toole noted the investment management fee difference between J.P. Morgan and TCW. Ms. de Mey emphasized that TCW agreed to a three-month fee holiday for the first year and that TCW offers a large account fee schedule which declines as assets under management increases. Mr. SigRist added that, because this manager's strategy is core plus, there is a potentially higher value-added contribution, and this strategy typically has higher fees compared to core. Ms. Henson confirmed that Mercer continues to support the initial recommendation to replace the manager and also supports the final selection.

The Chair entertained a motion to replace the J.P. Morgan Core Bond strategy with the TCW Core Plus Bond strategy within the NC Fixed Income Fund. Ms. Cochran so moved and Mr. McKinney seconded. The motion passed unanimously.

AGENDA ITEM – INVESTMENT COMPLIANCE REPORT REVIEW

Ms. de Mey presented the summary of the compliance reporting for the 3rd quarter, noting two guideline updates. There were no other material changes. The SRP compliance officer continues the daily monitoring.

AGENDA ITEM– NC 403(b) PROGRAM 3rd QUARTER INVESTMENT PERFORMANCE REVIEW

Ms. de Mey summarized the highlights of the performance evaluation report and discussed the managers on the watch list. She confirmed that the fund mapping has been completed as of October 1, 2016.

AGENDA ITEM – NC 403(b) PROGRAM FUND LINEUP CHANGE

Ms. de Mey directed the attendees' attention to the post-mapping fund lineup table and presented additional mapping recommendations: terminate the Wells Fargo Target Date Funds and map them to corresponding GoalMaker portfolios; FLAA Stable Value to be mapped to Vanguard Short Term Bond Index Fund Admiral Shares; and J.P. Morgan Core Bond Fund to Metropolitan West Total Return Bond Fund. She also noted that there was not a comparable Stable Value Fund available to offer within the Program and Ms. Henson added that this is a challenge consistent with investment vehicle limitations in the 403(b) space.

The Chair entertained a motion to replace the FLAA Stable Value Fund with the Vanguard Short Term Bond Index Fund Admiral Shares. Mr. McKinney so moved and Ms. Cochran seconded. The motion passed unanimously.

Next, the Chair asked for a motion to replace J.P. Morgan Core Bond Fund with the Metropolitan West Total Return Bond Fund, managed by TCW. Mr. McKinney made the motion and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – NC 403(b) PROGRAM RECORDKEEPER TRANSITION AND REVIEW OF GOALMAKER GLIDEPATH

Mr. SigRist recapped the initial model allocations recommendation approved in December 2015. He indicated that the implementation of Custom Portfolios was cancelled once it was recognized that FLAA would no longer serve as the recordkeeper for the NC 403(b) Program. He emphasized that products are being replaced (as detailed in the prior agenda item), however no changes are recommended to the model allocations. He then directed the attendees' attention to the transition analysis and recommendations in the memorandum.

The Chair entertained a motion to replace Wells Fargo Target Date Funds with Prudential's GoalMaker. Mr. McKinney so moved and Ms. Cochran seconded. The motion passed unanimously.

Next, the Chair asked for a motion to use Model Allocations for GoalMaker, as presented in Appendix 3 of the October 26, 2016, memorandum to the Board from Kevin SigRist and Loren de Mey. Mr. McKinney made the motion and Ms. Cochran seconded. The motion passed unanimously.

AGENDA ITEM – SUBCOMMITTEE MEMBERS QUESTIONS/COMMENTS

Ms. Buonfiglio reminded the attendees' that a special Board meeting is scheduled for November 29, 2016, which will enable the staff to proceed with the mid-February NC 403(b) Program transition. She thanked Board members for their extra effort and time commitment.

AGENDA ITEM – PUBLIC COMMENT

There were no public comments.

The Chair entertained a motion to adjourn. Ms. Cochran so moved and Mr. McKinney seconded. The motion passed unanimously and the meeting adjourned at 10:49 a.m.

A handwritten signature in blue ink that reads "Mary Buonfiglio". The signature is written in a cursive style and is positioned above a horizontal line.

Secretary