

NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

MINUTES OF MEETING

March 23, 2017

Time and Location: The North Carolina Supplemental Retirement Board of Trustees (the “Board”) met at 9:00 a.m. on Thursday, March 23, 2017, in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Dale Folwell, CPA, Chair, Karin Cochran, Heyward McKinney, Ron Copley, Michael Lewis, and Gene Hamilton. Robert Orr joined via phone.

Staff Present: The following Department of State Treasurer (DST) staff were present: Steve Toole, Mary Buonfiglio, Reid Chisholm, Loren de Mey, Mary Laurie Cece, Maja Moseley, Rekha Krishnan, Catherine Jarboe, Patti Hall, Casey High, Fran Lawrence, Kevin SigRist, Sam Hayes, Chris Farr, Frank Lester, Laura Rowe.

Guests Present: The following guests attended the meeting: Michael McCann; Kathleen Neville and Ann Cashman (attended via phone) from Prudential Retirement. Kelly Henson, Will Dillard, and Andrew Ness from Mercer Investment Consulting.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order at approximately 9:00 a.m.

Dale Folwell, CPA, the Chair, welcomed Board members, staff and guests.

AGENDA ITEM – ETHIC AWARENESS AND IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICT S 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 were identified.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair asked if there were any comments or changes to the minutes of the December 15, 2016, Board meeting. There were no comments and Ms. Cochran made a motion that the minutes be approved. Mr. Hamilton seconded, and the motion passed unanimously.

AGENDA ITEM – DELEGATION OF AUTHORITY FOR NC 401(k) PLAN, NC 457(b) PLAN AND NC 403(b) PROGRAM

The Chair recognized Mr. Chisholm who explained that delegation of authority will no longer reference specific employee names and is retroactive to January 1, 2017, to cover documents already signed. The delegations of authority will remain in place until revoked.

Mr. Hamilton moved to approve the delegation of authority and Mr. McKinney seconded. The motion passed unanimously.

AGENDA ITEM – DELEGATION OF AUTHORITY FOR NC 401(k) AND NC 457(b) PLANS' GROUP TRUST

As with the delegation for the Plans, the delegation of authority for the Group Trust will no longer reference specific employee names and is retroactive to January 1, 2017. Mr. Hamilton moved to approve the delegation of authority and Mr. McKinney seconded. The motion passed unanimously.

AGENDA ITEM – NC 401(k) AND NC 457(b) PLANS BENEFICIARY ROLL-IN UPDATE

Mr. Chisholm highlighted the main points of the memorandum included in the meeting materials and noted that the Plans will use a self-correction method to remedy the issue. All beneficiaries will be contacted and will have 180 days to remove the impacted funds from the Plans. In the event of no action by a beneficiary, the funds will be rolled over to a Prudential IRA.

AGENDA ITEM – SUPPLEMENTAL RETIREMENT PLANS' PLACEMENT AGENT, POLITICAL CONTRIBUTION AND CONNECTION DISCLOSURE POLICY AMENDMENT

Mr. Chisholm summarized the policy revisions, noting that the policy is substantially similar to the Department of State Treasurer Investment Management Division (IMD) version. He explained the definition of a "placement agent" and clarified the "prohibitions" section of the policy. He requested corrections to the section references in the final paragraphs of the disclosure forms, based on the numbering conventions in the forms.

Mr. SigRist offered additional details regarding the policy background and the need for consistency between the IMD and SRP versions.

The Chair emphasized the importance of transparency in vendor relations.

Ms. Cochran made a motion to approve the policy as amended and Mr. Lewis seconded. The motion passed unanimously.

AGENDA ITEM – NC 401(k) AND NC 457(b) PLANS LOAN POLICY AMENDMENT

Mr. Chisholm described the loan policy revisions and noted that staff worked with Prudential to consolidate the Plans' separate loan policies. He also clarified the terms and conditions for participants requesting residential loans through the Plans.

Mr. Copley made a motion to approve the loan policy as amended and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM – NC 457(b) PLAN DOCUMENT AND ADOPTION AGREEMENT AMENDMENT

Mr. Chisholm described the NC 457(b) plan document and adoption agreement amendment to allow for hardship withdrawals due to Hurricane Matthew.

The motion to adopt the amendment made by Ms. Cochran and seconded by Mr. Lewis passed unanimously.

AGENDA ITEM – NC 403(b) PROGRAM PLAN DOCUMENT

Mr. Chisholm provided an update regarding the beneficiary hierarchy in the governing documents, as well as an update to the adoption agreement to accurately reflect the contribution accelerator program. These updates will only affect the seven school districts that have adopted the volume submitter plan document. He noted that unlike the NC 401(k) and NC 457 Plans, the state is the "Program" and not the "Plan" sponsor for the NC 403(b). He also confirmed that the Program does not have a mandatory opt-in provision regarding automatic enrollment. Mr. Chisholm stated that if the Board approves the amendments, then staff will contact the IRS regarding the amendments. Therefore, staff recommends that a motion to adopt the amendments be conditional on receiving a response from IRS that expresses no concerns.

Mr. Hamilton made a motion to approve the governing documents as amended and Mr. Lewis seconded. The motion passed unanimously.

AGENDA ITEM – APPROVAL OF 2016-2017 UPDATED BUDGET

The Chair recognized Ms. Buonfiglio who directed the attendees' attention to the budget summary included in the meeting materials. Ms. Buonfiglio described the projections and breakdown of expenses for each plan, and emphasized the need to adhere to the exclusive benefit rule. She noted that the overall increase in budget expenditures equals \$108,335.

A discussion regarding several budget expenditures and assumptions followed. Ms. Buonfiglio provided additional information regarding fund balances in reserve and investment subscription services.

Ms. Cochran moved to approve the updated budget and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM –SUPPLEMENTAL RETIREMENT PLANS’ RECORDKEEPER FEES AND SERVICES BENCHMARKING REPORT

The Chair recognized Mr. Ness. Mr. Ness noted that it is prudent for Plan Sponsors to review services provider fees from time to time. He noted the board reviewed fees during the procurement process for recordkeeping services. He began his presentation by describing the fee comparison methodology used in the report, as well as the peer selection process. He also provided the details of the report, including service levels, call center statistics and website trends.

Mercer’s review included comparing the services and fees with other large defined contribution plans via a survey sent to the comparison plans. The comparison plans included several of the largest public sector DC programs in the Country. North Carolina’s recordkeeping fees were in-line with or lower than all of the comparison plans (including consideration of loan fees).

AGENDA ITEM – APPROVAL OF MINUTES

The Chair recognized Mr. Lewis who presented the highlights of the Audit Subcommittee meeting of February 17, 2017. The meeting was an opportunity for the Subcommittee members to ask questions of the auditor, CliftonLarsonAllen, and the auditor to provide the results of the post-unbundling assets reconciliation. There were no issues discovered in the audit of the Plans “unbundling” which occurred December 31, 2015.

As a 2016 audit requirement the Subcommittee members confirmed they were not aware of any instances of fraud.

Mr. Lewis moved to approve the minutes of the Audit Subcommittee and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM – APPROVAL OF MINUTES

The Chair recognized Ms. Cochran who presented the highlights of the Supplemental Investment Subcommittee meeting of February 15, 2017. She mentioned that the meeting included the investment strategy discussion and glidepath project update, both of which are to be addressed next in further detail by IMD staff.

Ms. Cochran made a motion to approve the minutes of the Investment Subcommittee and Mr. McKinney seconded. The motion passed unanimously.

AGENDA ITEM – GLIDEPATH PROJECT RECOMMENDATION

The Chair recognized Mr. SigRist who presented the background of the glidepath project and described the recommendation of IMD and the Supplemental Investment Subcommittee regarding the next steps. He noted that while three strong glidepath manager finalists were identified, the services were not compelling from the cost perspective. Additionally, only 10

percent of plans have outsourced the glidepath management, a narrow group within the peer group. IMD staff recommends against engaging a dedicated glidepath manager at this time. IMD staff, under direction from the Board, will develop and finalize changes to the glidepath.

The Chair thanked Mr. SigRist and the Supplemental Investment Subcommittee members, and entertained a motion as per the Subcommittee's recommendations; Ms. Cochran so moved and Mr. Hamilton seconded. The motion passed unanimously.

AGENDA ITEM – INVESTMENT STRATEGY DISCUSSION

Mr. SigRist was joined by Ms. Henson and Mr. Dillard. Ms. Henson provided a summary of the investment strategy discussion, which has already taken place during the Investment Subcommittee meeting. Some of the key points that were highlighted included overall plan structure and a liquidity sleeve, as well as the potential use of brokerage window and exchange-traded funds (ETFs). A detailed discussion followed and Ms. Henson provided clarification regarding the role of a liquidity sleeve in a daily trading environment.

AGENDA ITEM – NC 401(k)/457(b) PLANS 4th QUARTER INVESTMENT PERFORMANCE REPORT

Mr. Dillard presented the capital markets overview, noting a strong market rally after the election. He also described the current plan structure and reviewed the fund performance scorecard.

AGENDA ITEM – NC 403(b) PROGRAM 4th QUARTER INVESTMENT PERFORMANCE REPORT

The Chair recognized Ms. de Mey who reminded the attendees about the recent fund lineup change within the Program. She then detailed a performance review for each of the funds and highlighted the upcoming transition of T. Rowe Price Blue Chip Growth to institutional share class, which is a lower cost share class. The transition is expected to be completed by March 31.

AGENDA ITEM – NC 401(k)/457(b) PLANS 4th QUARTER ADMINISTRATIVE REPORT

The Chair recognized Mr. McCann who directed the attendees' attention to the quarterly report. He reviewed the combined plan goal summary and increases in account balances for the quarter and summarized the NC 401(k) distributions for the year.

The Board expressed concern regarding the number of members who leave the plan at retirement. Mr. McCann noted that all members who rolled assets out last year were surveyed and the survey yielded interesting information. For example, some members reported that they needed the assets at retirement and while others reported receiving advice from a financial advisor to move assets from the funds. . The survey also provided an opportunity to revisit the

possibility that an additional level of service is needed for those ready to retire. In response to Mr. Copley's question, Mr. McCann confirmed that membership retention is an educational, as well as a product, issue; Prudential's Concierge service enables Prudential staff to make proactive outbound calls to the near-retirement member group. The field education counselors provide additional support in the field. In addition, in 2017, a special, data-driven educational initiative for those nearing retirement, has begun, using information received in the 2016 survey. The plans may want to consider adding a lifetime income product as well.

AGENDA ITEM – NC 403(b) PROGRAM 4th QUARTER ADMINISTRATIVE REPORT

Ms. Buonfiglio discussed the Program's transition from TIAA to Prudential, which occurred on February 22. The transition was nearly seamless from participant perspective and assets moved over as planned. She noted the one remaining item to be resolved by March 31, which is the transition of T. Rowe Price Blue Chip Growth to the institutional share class. Ms. Buonfiglio added that appropriate communication has been mailed to Program members and that there was neither a blackout period nor market exposure during the transition.

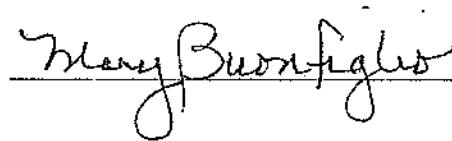
AGENDA ITEM – BOARD QUESTIONS/COMMENTS

There were no additional comments or questions.

AGENDA ITEM – PUBLIC COMMENTS

No public comments were offered.

The meeting adjourned by acclamation at 11:12 a.m.

A handwritten signature in cursive script, reading "Mary Buonfiglio", is written over a horizontal line.

Secretary