

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE TREASURER OF NORTH CAROLINA
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INVESTMENT MANAGEMENT DIVISION

Public Equity – IAC Presentation

Presented by:

Rhonda Smith, Director

Casey High, Portfolio Manager

Greg Taylor, Portfolio Manager

August 19, 2020



Public Equity Team

Rhonda M Smith

Director

19 years with IMD

27 Years Industry Experience

Casey High

Portfolio Manager

Trader

7.5 years with IMD

9.5 Years Industry Experience

Greg Taylor

Portfolio Manager

Trader

4.5 years with IMD

8+ Years Industry Experience



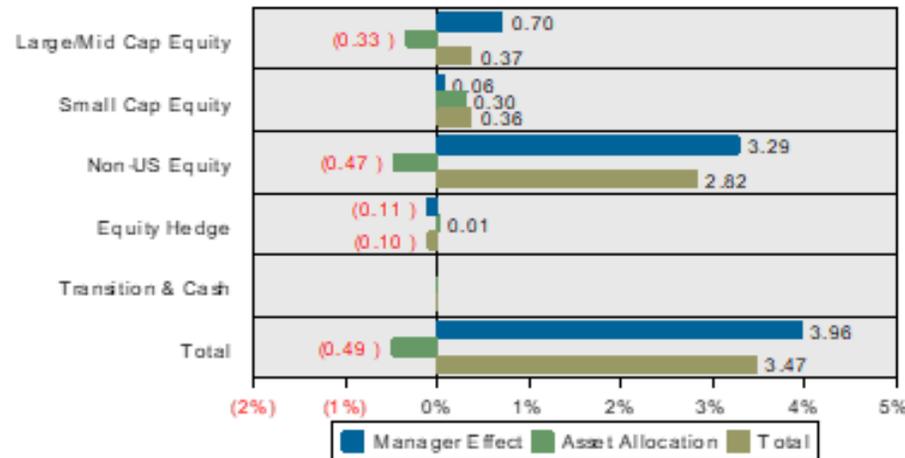
NCRS Public Equity Net Performance – June 30, 2020

	Market Value (\$MM)	3 Month	1 Year	3 Years	5 Years	10 Years	15 Years
Public Equity	\$33,418	21.22	4.94	7.47	7.26	10.07	6.59
Benchmark		19.68	1.18	5.32	5.81	8.97	5.74
Domestic Portfolio	\$15,240	22.48	8.44	11.26	10.47	14.00	8.96
Russell 3000		22.03	6.53	10.04	10.03	13.72	8.78
Non-US Portfolio	\$17,780	20.18	1.21	4.15	4.69	6.43	5.33
Custom Benchmark		16.96	-4.74	0.96	2.30	5.09	3.82
Equity Hedge	\$396	10.35	-5.60	-0.25	1.15		
MSCI ACWI (beta adjusted)		7.69	1.06	2.53	2.68		



Total Public Equity Relative Attribution

One Year Relative Attribution Effects



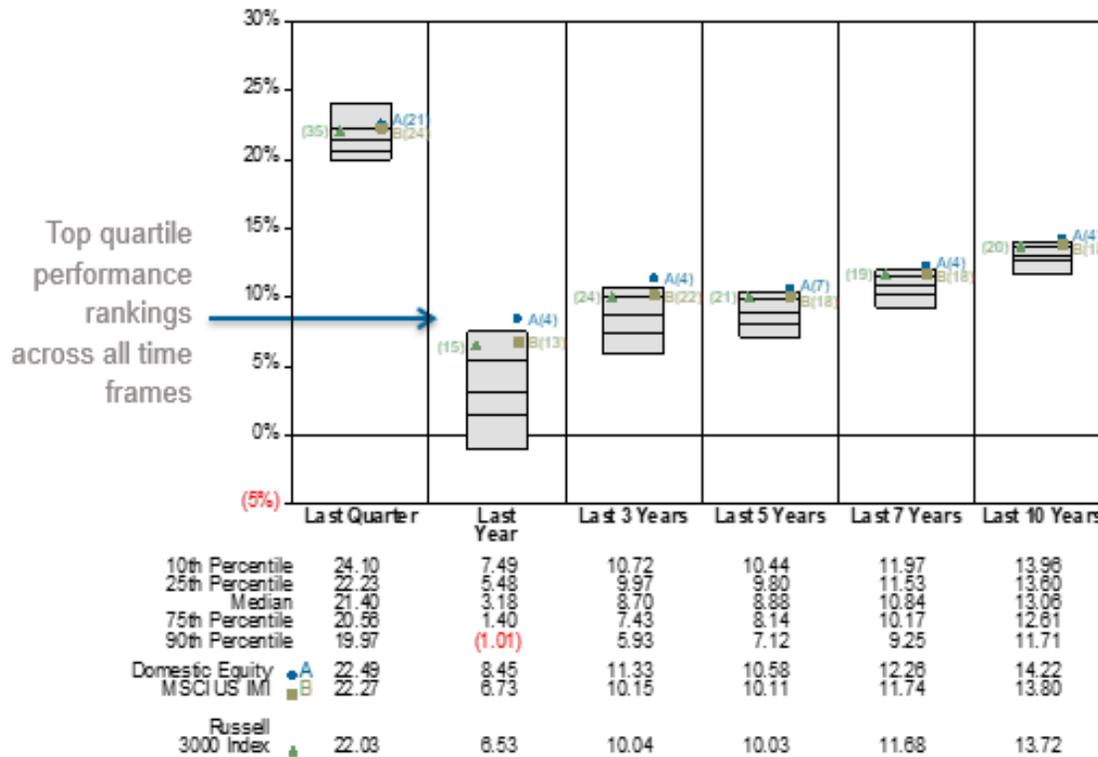
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large/Mid Cap Equity	43%	51%	9.25%	7.48%	0.70%	(0.33%)	0.37%
Small Cap Equity	3%	5%	(4.32%)	(6.63%)	0.06%	0.30%	0.36%
Non-US Equity	53%	43%	1.22%	(4.74%)	3.29%	(0.47%)	2.82%
Equity Hedge	1%	1%	(5.94%)	1.06%	(0.11%)	0.01%	(0.10%)
Transition & Cash	0%	0%	24.74%	24.74%	0.00%	0.00%	0.00%
Total			4.84%	1.37%	+ 3.96%	+ (0.49%)	3.47%

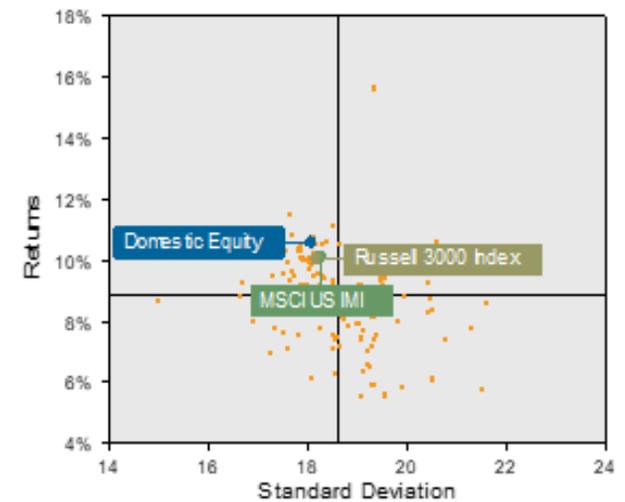


Domestic Equity Performance vs. Public Fund Universe

Performance vs Public Fund - Domestic Equity (Gross)



Public Fund - Domestic Equity (Gross)
Annualized Five Year Risk vs Return

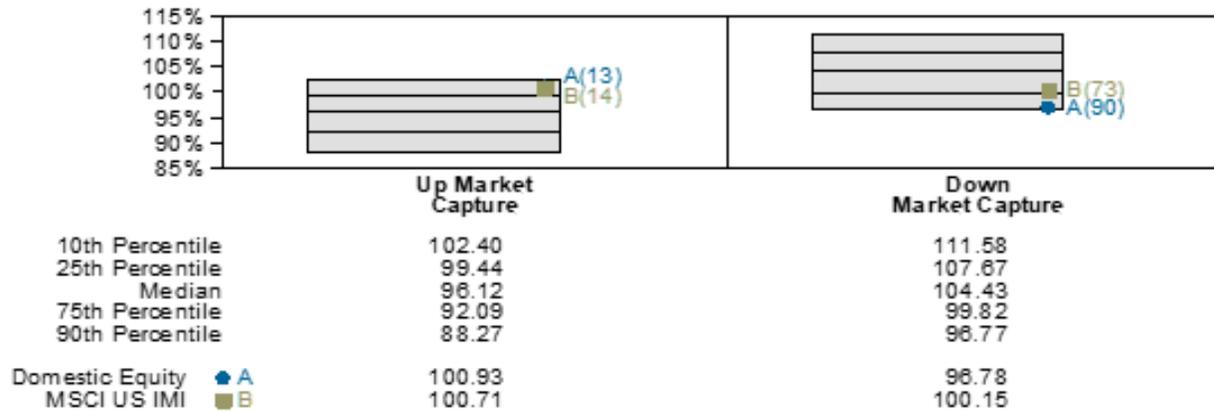




Domestic Equity Up Market Capture vs. Down Market Capture

Domestic Equity

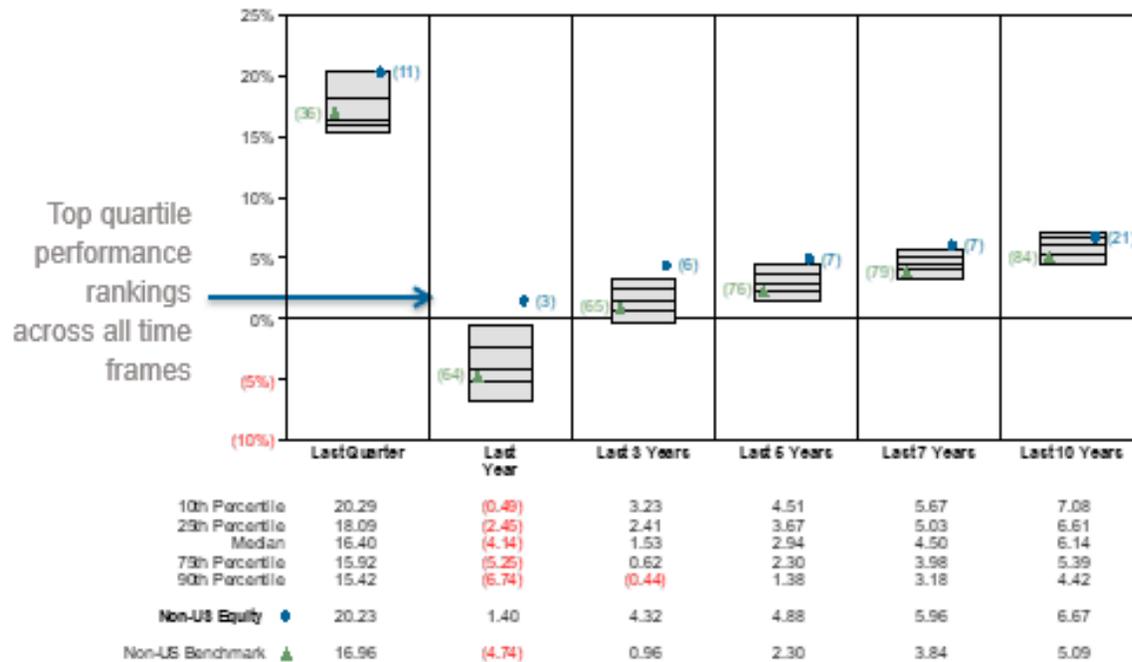
Market Capture vs Russell 3000 Index
Rankings Against Public Fund - Domestic Equity (Gross)
Five Years Ended June 30, 2020



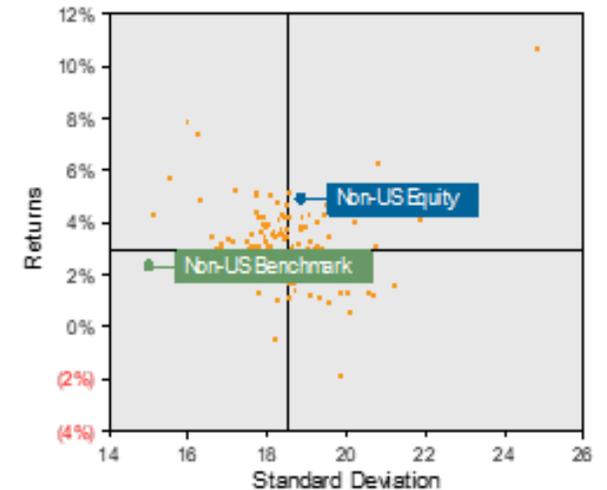


International Equity Performance vs. Public Fund Universe

Performance vs Public Fund - International Equity (Gross)



Public Fund - International Equity (Gross)
Annualized Five Year Risk vs Return

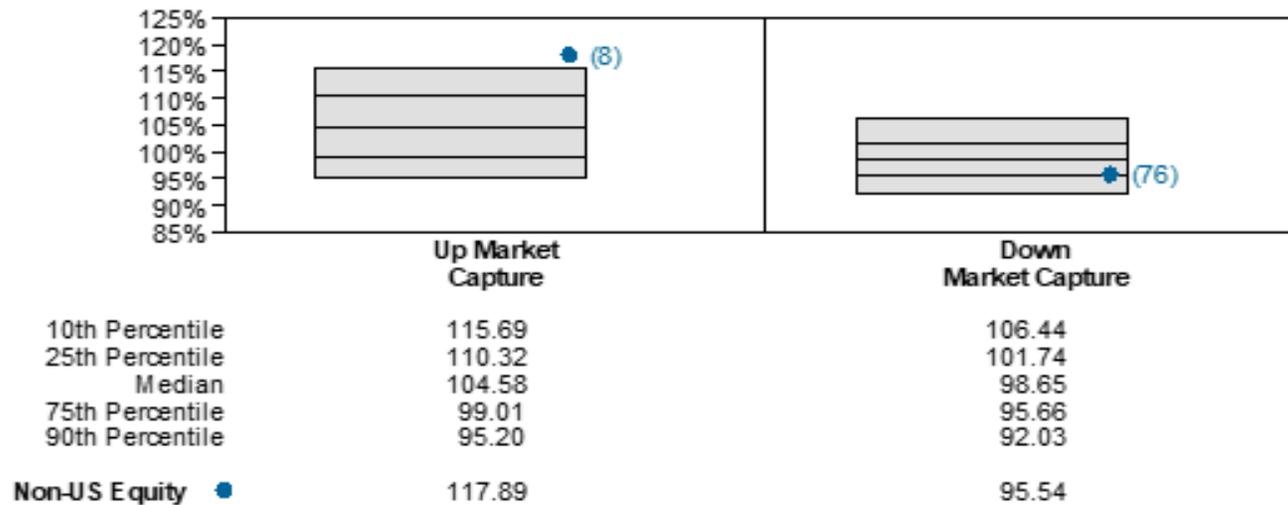




International Equity Up Market Capture vs. Down Market Capture

International Equity

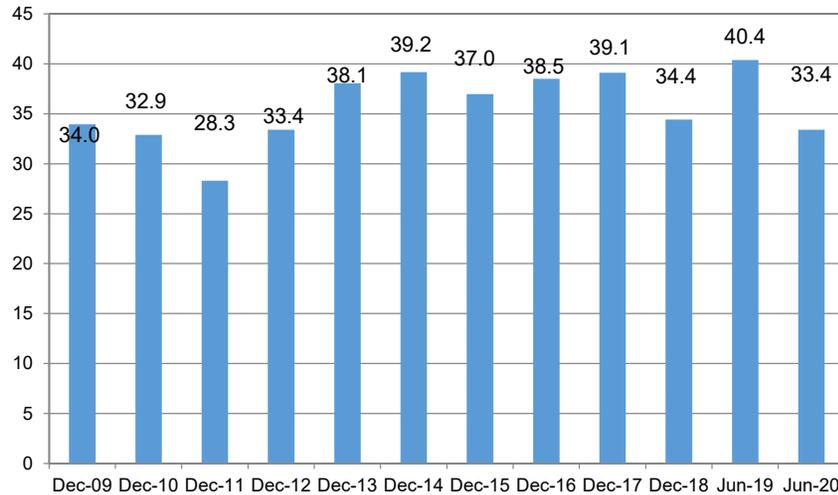
Market Capture vs Non-US Benchmark
Rankings Against Public Fund - International Equity (Gross)
Five Years Ended June 30, 2020



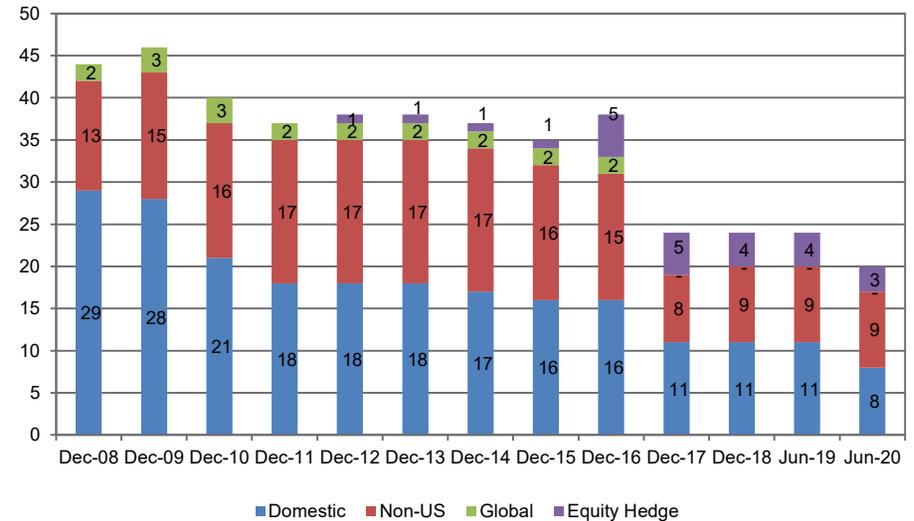


Snapshot of Total Public Equity

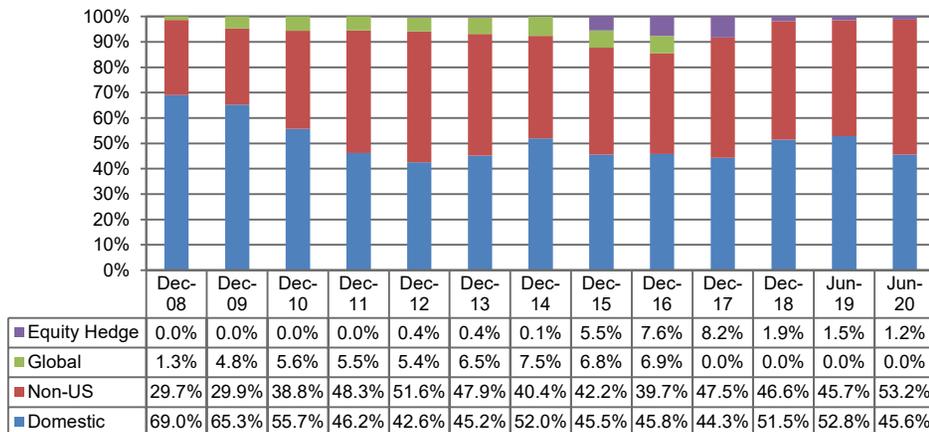
Equity Assets (\$B)



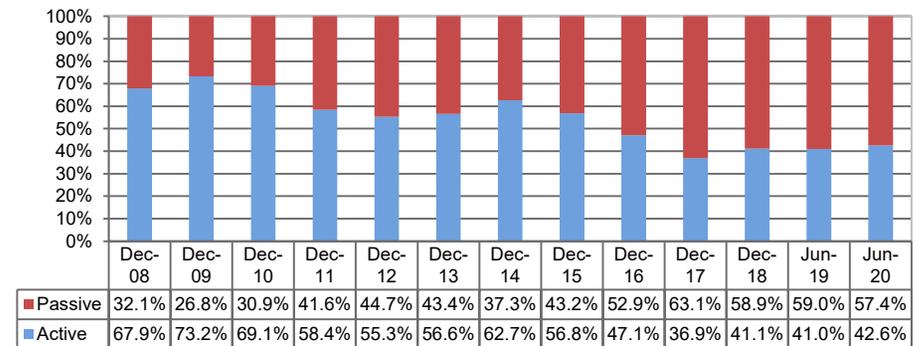
Number of Mandates



Asset Allocation



Active vs Passive



Excludes cash and transition
Excluded Hedged Equity until 2016



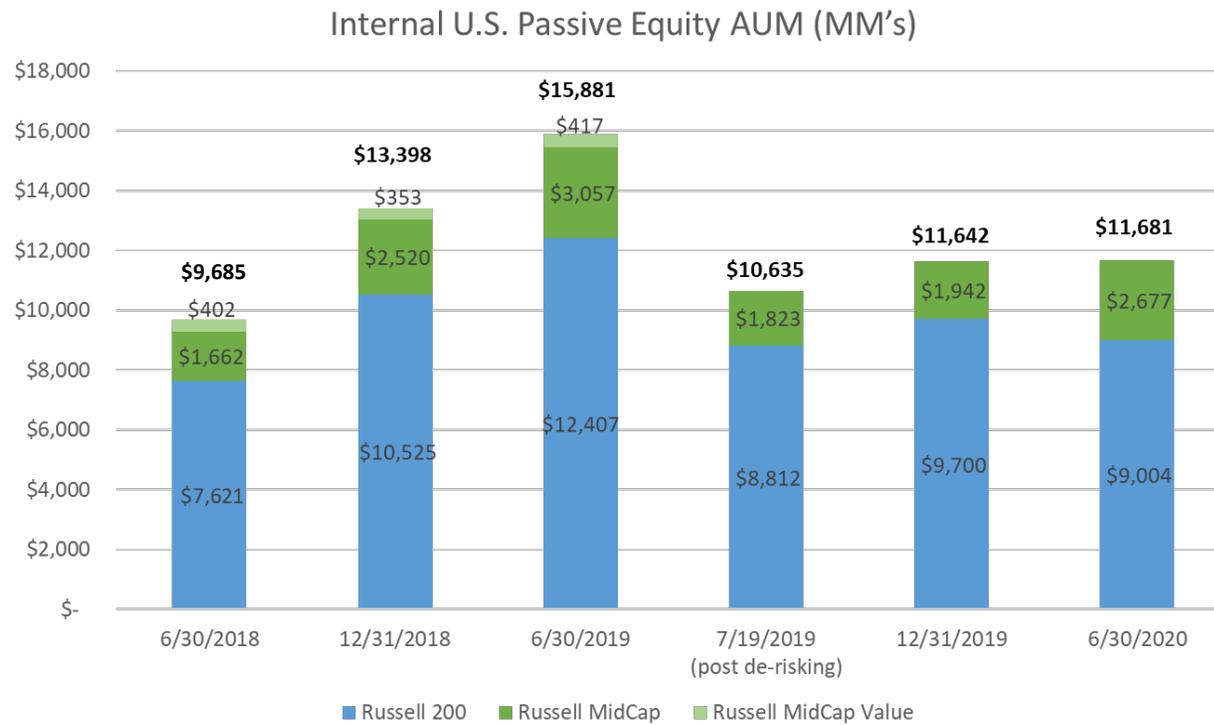
Russell Indices Annual Reconstitution (June 2020)

NCRS Account	No of shares Held	No of shares Traded	No of shares Transferred	Turnover (%)
Russell 200	86,131,961	2,858,122	6,490,543	3.13%
Russell Mid Cap	53,271,433	6,511,812	6,490,543	9.92%
Total	139,403,394	9,369,934	12,981,086	4.67%

- **1,049** names and **9.4MM** shares traded; gross market value of **\$423MM**.
- Negotiated very competitive broker commission rates < **0.25c** per share; **\$23,458** total explicit cost.
- Transferred **13.0MM** shares (market value of **\$659MM**) between custodial accounts for securities migrating between indices; avoided trade-related costs for transferred shares.

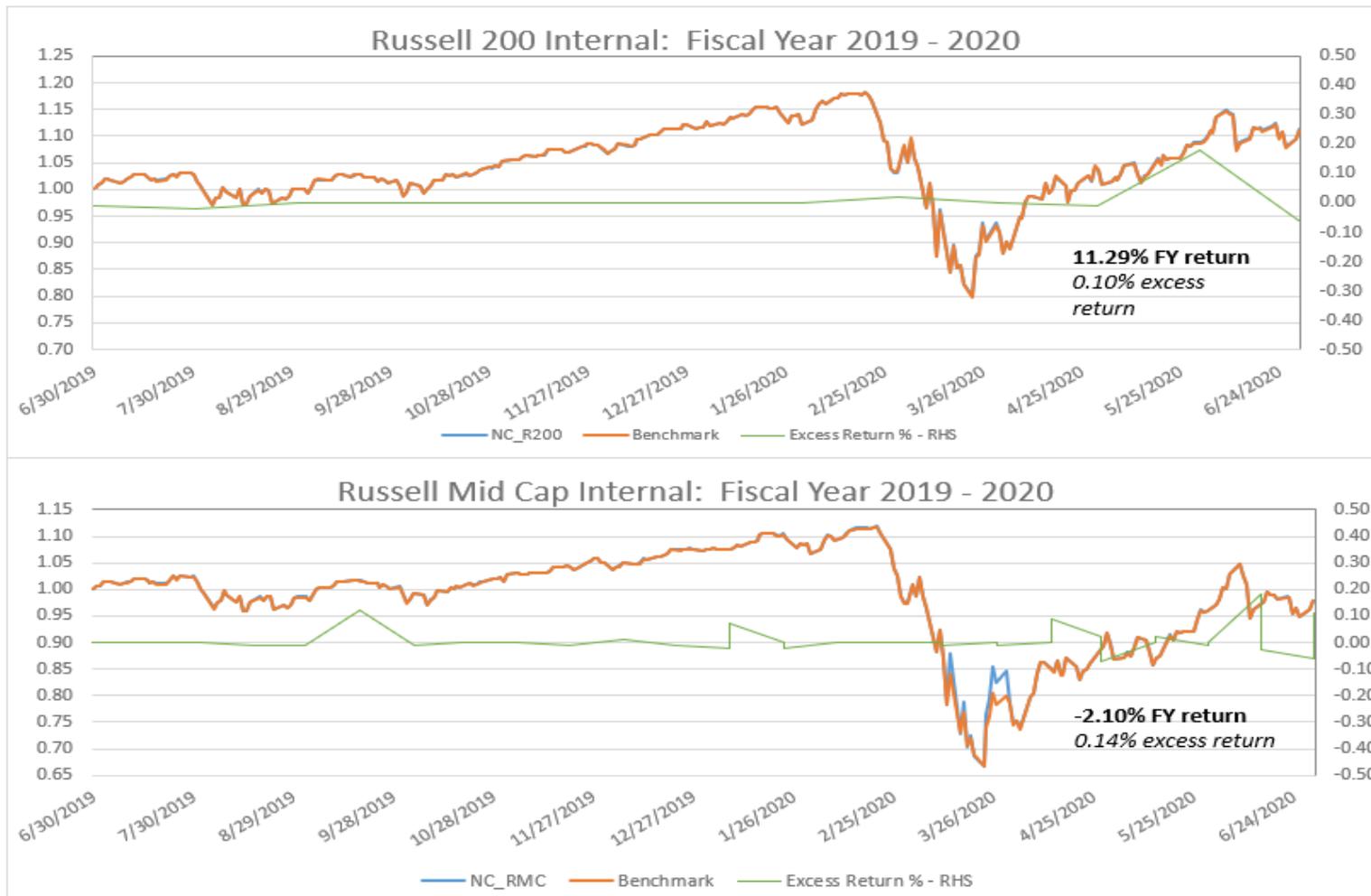


Internal Passive Equity (as of June 30, 2020)





Internal Public Equity Performance – (FY 2019 – 2020)



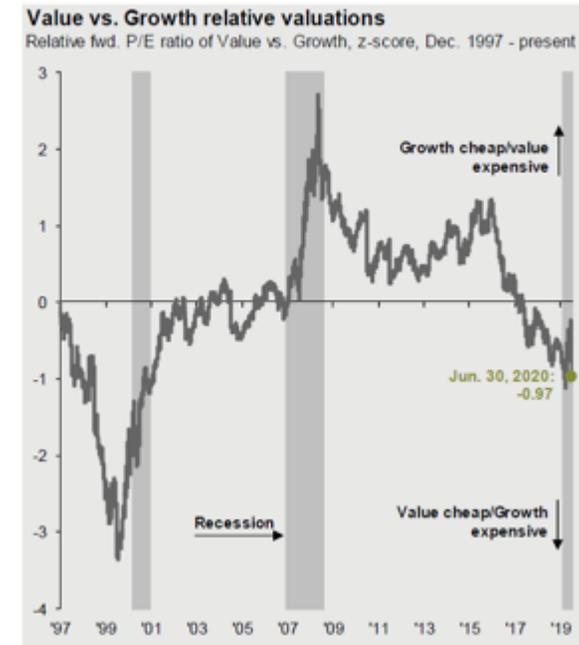


Market Observations

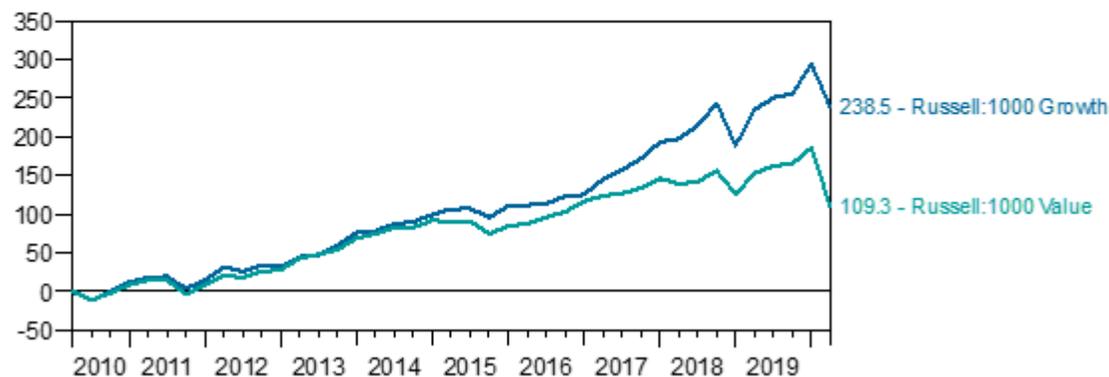


Value v. Growth

- Value indices continue to trade at a discount relative to growth on a current P/E vs 20-year average basis.
- Negative GDP environments historically favor value beta and cyclical companies.
- In periods of high unemployment and low GDP growth, small cap value has produced excess forward returns relative to the S&P 500.
- Higher interest rates, a steeper yield curve, economic growth, and improving consumer confidence are among the catalysts that could result in the value style outperforming.
- Universe of active deep value managers is narrow, and high expected volatility is a key consideration.



Cumulative Returns for 10 Years ended March 31, 2020



Sources: Callan, FTSE Russell, JP Morgan

Current P/E as % of 20-year average P/E

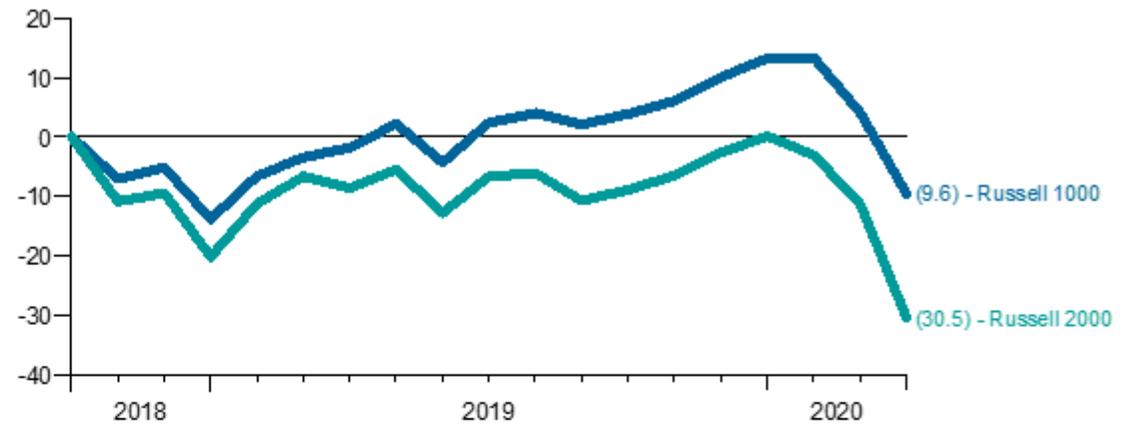
	Value	Blend	Growth
Large	132.9%	140.9%	158.5%
Mid	139.3%	148.5%	192.2%
Small	168.1%	265.3%	—



Small Cap Trailed Large Cap YTD

- Large caps outpaced small caps in 2020 due to safe-haven sentiment spurred by COVID-19.
- Small cap tends to outperform large cap following dislocations such as the one in 1Q20.
- Better economic data (e.g., lower unemployment, tighter high yield spreads) could provide a tailwind to small caps.
- Smaller cap stocks present an opportunity as the economy recovers and broadens out from large cap.

Monthly Cumulative Returns Since 2019



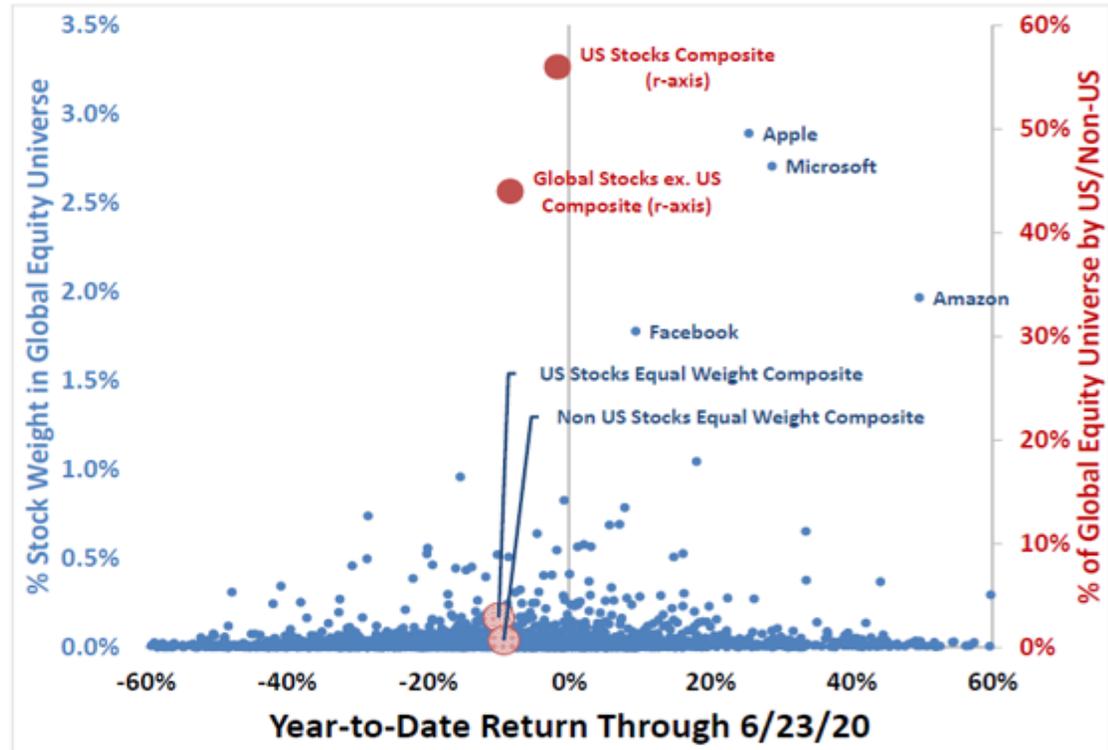
YTD Performance Across Market Cap and Style

	Value	Broad	Growth
Large	-17.3%	-4.3%	7.7%
Mid	-19.1%	-10.4%	2.3%
Small	-24.4%	-14.2%	-4.6%



Narrow Leadership in the Market

- Top five S&P 500 stocks, or FAAMG stocks (Facebook, Amazon, Apple, Microsoft, and Google), represent 20%+ of index's market cap; FAAMG has led market since March lows.
- FAAMG stocks accounted for nearly 30% of the return for the S&P 500 in the quarter.
- Turnover at the top of the market cap spectrum is common.
- It is important to understand the concentration of these benchmark indices. Investing in a passive strategy may not necessarily mean diversification with a handful of companies having an increasing impact on returns.





S&P 500 Valuation and Performance Dispersion

- The top 10 largest companies by market cap are the best-performing stocks in the S&P 500 YTD.
- Smaller cap companies have lagged the rest of the index YTD.
- There is a large dispersion in regards to valuation within the S&P 500. Larger companies are more expensive relative to smaller companies based on metrics such as P/E and P/B.

S&P 500 Median Results through July 3, 2020

Company Size	Market Cap \$ billions	P/E	P/S	P/FCF	P/B	YTD Returns
Top 10	\$848.5	31.4	6.3	33.2	6.3	9.6%
Top 50	\$198.7	28.7	4.6	23.3	5.5	2.4%
51-100	\$77.6	26.0	3.8	25.0	5.3	-5.7%
101-150	\$49.5	22.9	3.9	23.6	4.1	-1.9%
151-200	\$30.5	26.4	3.0	23.5	4.1	-6.7%
201-250	\$24.6	24.4	2.6	20.0	3.2	-9.3%
251-300	\$20.2	23.2	2.6	21.8	3.3	-5.5%
301-350	\$14.9	23.9	2.8	22.8	2.5	-8.5%
351-400	\$11.8	22.1	1.8	18.4	3.0	-17.6%
401-450	\$8.9	13.3	1.4	12.8	1.9	-22.6%
451-505	\$5.1	13.9	0.8	10.0	1.2	-38.5%
S&P 500	\$21.8	22.8	2.4	20.4	3.0	-11.0%

Source: Ycharts

*Provided by Callan

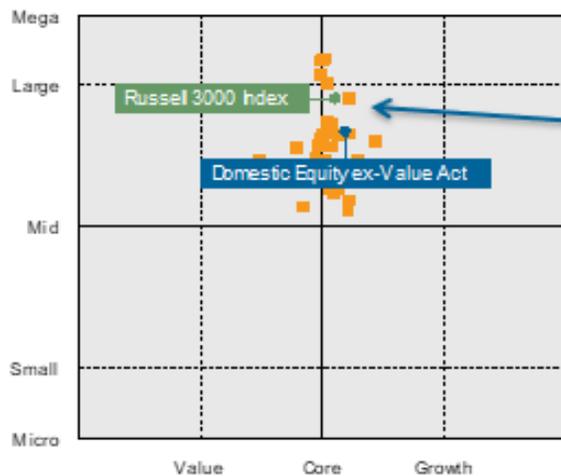


Appendix



Domestic Equity Capitalization and Style Profile

Style Map vs Pub Pln- Dom Equity Holdings as of June 30, 2020



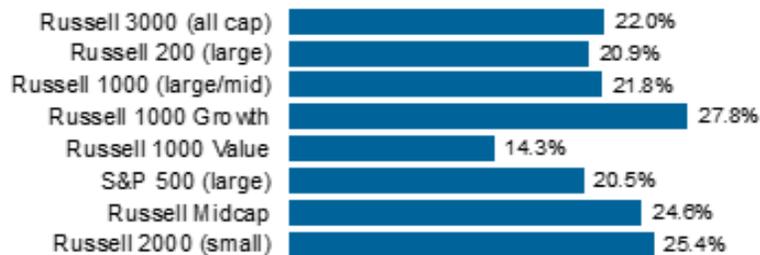
Domestic equity is similar to index capitalization, but larger cap relative to peers.

Style Exposure Matrix Holdings as of June 30, 2020

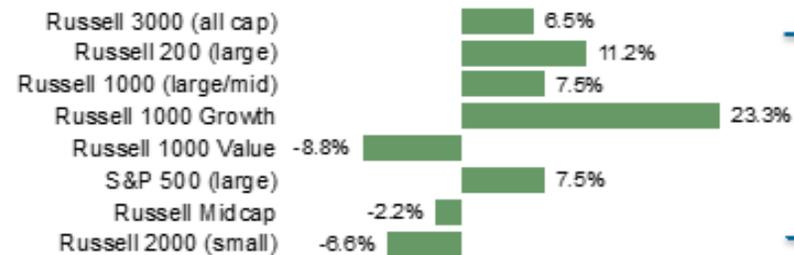
	Value	Core	Growth	Total
Large	18.4% (99)	18.4% (91)	39.8% (115)	76.5% (305)
	20.0% (99)	20.2% (89)	38.5% (109)	78.6% (297)
Mid	4.3% (162)	5.6% (171)	8.8% (237)	18.7% (670)
	4.3% (162)	4.2% (178)	6.6% (256)	15.1% (696)
Small	1.2% (69)	1.9% (104)	1.7% (68)	4.7% (241)
	1.4% (299)	2.3% (505)	1.9% (386)	5.6% (1190)
Micro	0.0% (1)	0.0% (3)	0.0% (1)	0.1% (5)
	0.2% (345)	0.3% (396)	0.1% (152)	0.6% (894)
Total	23.8% (331)	25.9% (388)	50.2% (421)	100.0% (1121)
	26.0% (808)	27.0% (1188)	47.1% (803)	100.0% (2877)

Large cap stocks outperformed small cap stocks by historic margin

U.S. Equity: Quarterly Returns



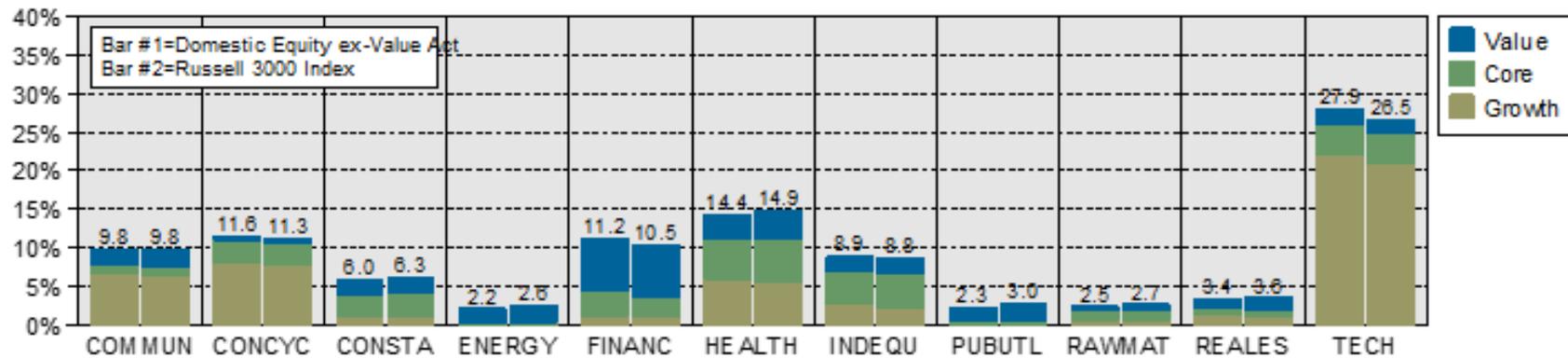
U.S. Equity: One-Year Returns



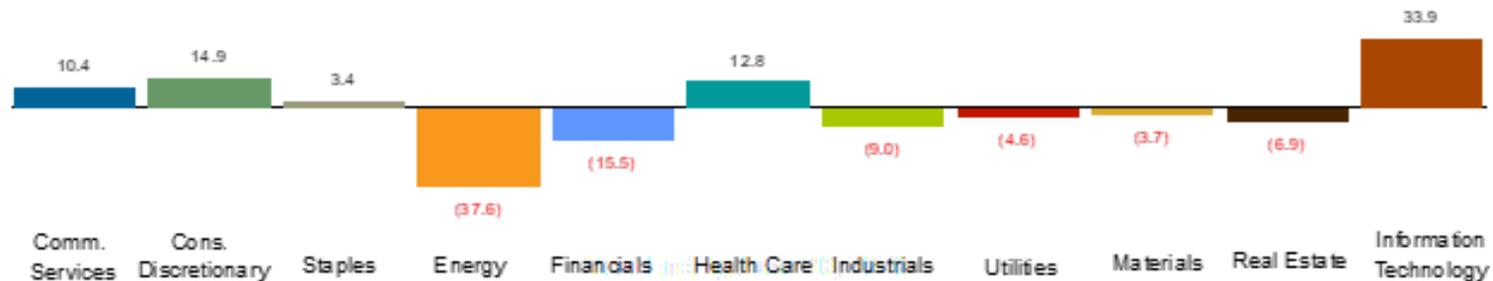


Domestic Equity Sector Weightings

Sector Weights Distribution
Holdings as of June 30, 2020



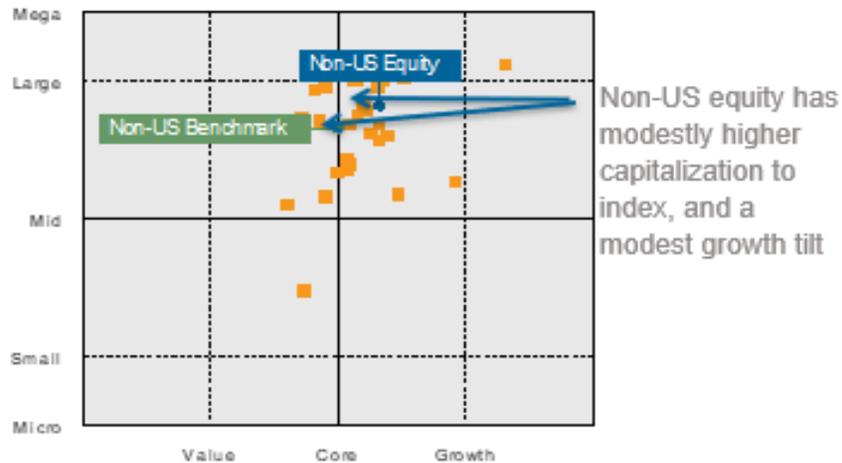
Economic Sector Performance for 12 Months ended 6/30/2020 (Russell 3000)





International Equity Capitalization and Style Profile

Style Map vs Pub Pln- Intl Equity Holdings as of June 30, 2020



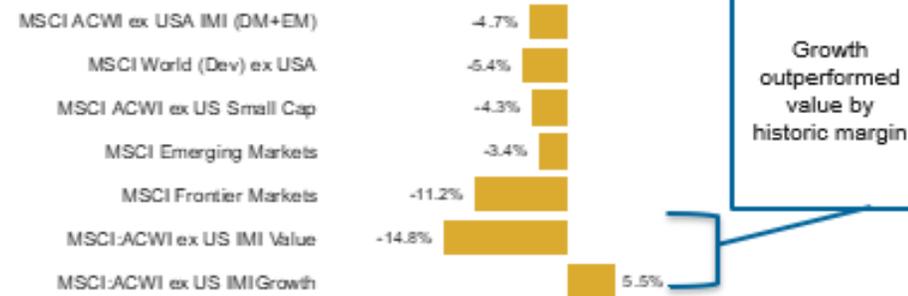
Style Exposure Matrix Holdings as of June 30, 2020

	Value	Core	Growth	Total
Europe/ Mid East	9.2% (423)	11.1% (522)	21.3% (505)	41.7% (1450)
	10.6% (419)	11.6% (519)	17.6% (500)	38.8% (1438)
N. America	0.8% (79)	1.4% (118)	4.7% (92)	7.0% (289)
	1.5% (77)	2.5% (116)	2.5% (86)	6.8% (279)
Pacific	5.4% (588)	7.3% (804)	12.1% (572)	24.8% (1962)
	7.2% (584)	8.1% (803)	10.5% (572)	25.7% (1759)
Emerging/ FM	6.4% (1018)	6.3% (961)	13.9% (935)	26.8% (2912)
	7.5% (1013)	7.4% (958)	12.8% (932)	27.8% (2901)
Total	21.8% (2104)	28.1% (2205)	52.1% (2104)	100.0% (8413)
	28.8% (2093)	28.8% (2194)	43.5% (2090)	100.0% (8377)

Global Equity: Quarterly Returns



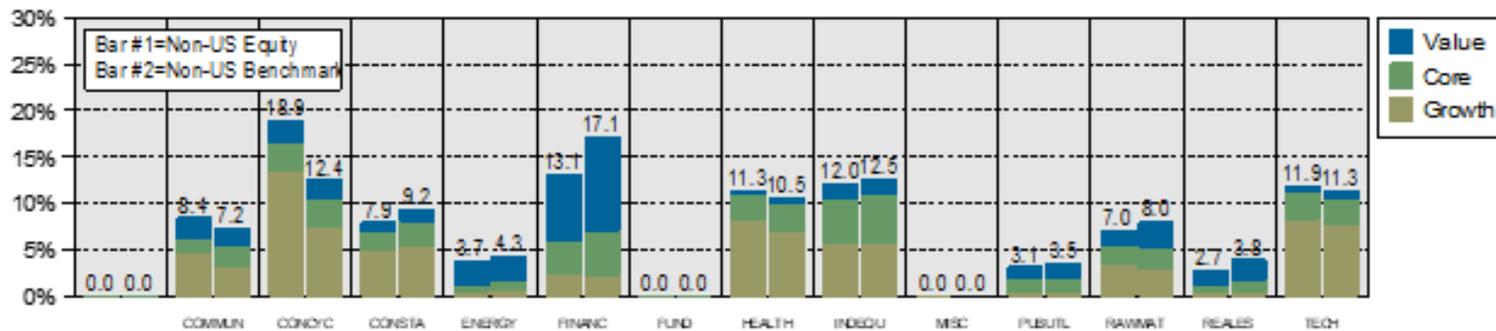
Non-US Equity: Annual Returns



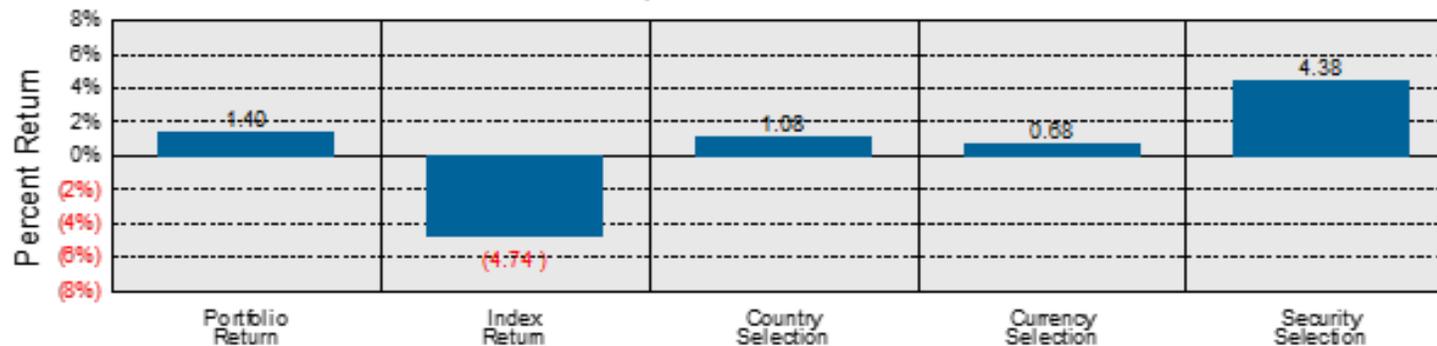


International Equity Sector Weightings

Sector Weights Distribution
Holdings as of June 30, 2020



Attribution Factors for One Year Ended June 30, 2020





Dividend and Buyback Activity Post COVID-19

- Still too early to judge impact on S&P 500 yields
- Net issuance has yet to respond to the pandemic
 - Buybacks and dividends have proceeded at their pre-pandemic paces
- Net issuance has been declining over the past decade
 - Negative net issuance reduces the number of shares outstanding increasing earnings per share (EPS)
 - Higher EPS supports higher stock prices
- Dividends are expected to fall as a result of the pandemic
 - Corporations are expected to conserve cash
- Buybacks will depend on management priorities
 - Cash conservation vs. opportunity to repurchase shares at low prices

