



# 2015-16 Investment Management Division Initiatives

November 18, 2015



North Carolina Department of State Treasurer  
*Investment Management*

*Learn. Invest. Grow. Prosper.*

# “Taken Off the List”

1. Implement transition/capital allocation plan (result of Asset Liability Study)
2. Support General Counsel’s corporate governance initiatives related to evaluating and implementing diversity engagements and divestment policies
3. Procure Public Equity consultant
4. Evaluate liquid “Staging Portfolios” for Core Real Estate and Inflation Sensitive
5. Implement operating/resource improvements resulting from Investment Fiduciary Governance Commission, short session legislation, and reorganization
  - Effect new “Assistant Director” roles and fill Director of Multi-Strategy position
  - Fill position vacancies and utilize targeted contractual resources
  - Conduct market-oriented compensation study
  - Support audit readiness preparation with State Auditor and FOD
6. Restructure BNY Mellon contract, including new business requirements
7. Institute structured third-party review of fees and incentive payments
8. Effect relocation
9. Independent consultant benchmark evaluation
10. Best practices reviews with the Investment Advisory Committee



# Investment Projects/Priorities

1. Finalize Annual Work Plans for each asset class
2. Research and develop ESG policies and strategies
3. Transition oversight of Ancillary Funds, including establish a new long-term fixed income product for certain clients and facilitate movement of assets
4. Evaluate restructuring/exiting Fund of Funds and legacy low-conviction funds/managers
5. Implement Managed Accounts Program and initial components of direct Hedged Equity program
6. Research and implement strategic co-investments program(s) and/or secondary program(s)
7. Strategic review of Core Real Estate asset class
8. Review Small and Emerging Manager programs across NCRS
9. Effect Public Equity investment management agreement restatements
10. Develop internal equity index fund implementation plan
11. Update asset-liability study and support review of the NCRS discount rate/investment return assumption



# Operations & Risk Management Projects/Priorities

1. Formalize Operating Committee charter and develop an IMD strategic plan
2. Fill position vacancies and utilize targeted contractual resources
3. Support FY 2014-2015 audit with State Auditor and FOD
4. Finalize streamlining and developing new IMD policies/procedures
5. Implement total fund risk systems and processes
6. Review pool of external legal counsel and support search for new firms, as necessary
7. Review pool of transition/stock distribution managers and search for new firms, as necessary
8. Institute 360 degree feedback for senior management and career development program for team leaders, portfolio managers, and analysts
9. Institute structured third-party review of fees and incentive payments
10. Drive adoption of CRM/Backstop
11. Implement Records Center
12. Implement BNY Mellon Private Investment Asset Service processes



# Other DST Initiatives to Support

---

1. Support unbundling of Supplemental Retirement Plan and new IMD role
2. GASB Working Group
3. Standardizing DST Board practices
4. Implement Venture Capital Multiplier Fund



# Research and develop ESG policies and strategies

Project Statement: Long-term investors should educate themselves on the fundamental arguments for and against ESG factors, and think critically about how to best implement ESG-related investment beliefs through corporate governance, risk management, and/or asset deployment.

## 1. Activities to Date

- “Long-termism” discussions with peers, investment managers, and consultants
- Drafting IMD values, mission statement, team aspirations, and investment beliefs
- Compiling background research on long-termism, peer beliefs, ESG factors, etc.
- Reviewed specialized consultant universe
- Interviewed 20 endowments and foundations regarding their policies and investment approach towards ESG factors

## 2. 2016-2017 Activities

- Gather input from the IAC on investment beliefs and how consideration of ESG factors should be reflected in the investment program
- Benchmark best practices with experts, third party research, and global peers
- Present draft ESG Policy to the IAC addressing corporate governance, risk management, and/or asset deployment
- Develop tactical plan to close any gaps to ESG Policy



# Review of the NCRS Investment Return Assumption

## 1. Background

- The Retirement Boards are scheduled to approve the North Carolina Retirement Systems' discount rate/investment return assumption in January 2016
- Mike Mebane and John Aneralla are members of a Board working group reviewing the current 7.25% assumption
- There is interest in having the full IAC discuss what returns the NCRS can be expected to earn over the intermediate and long-term
- The last asset liability study was completed 2 years ago and a refresh is reasonable

## 2. Proposal

- Staff has been gathering information to support updating the asset class return/risk assumptions
- Staff can work with Buck to update the return projections for a December or January special meeting
- The purpose of the special IAC meeting would be to develop a consensus on what returns the NCRS can be expected to earn over the intermediate and long-term
- Staff would present the IAC consensus and key discussion points to the Retirement Board for their discussion with the Plan actuary



# 2014 Asset Allocation Study: Projected Returns

## Projected Ranges of Annualized Compound Passive Investment Returns

Horizon	5 <sup>th</sup> Percentile	25 <sup>th</sup> Percentile	Expected (Average)	75 <sup>th</sup> Percentile	95 <sup>th</sup> Percentile
10 Years	0.0%	3.6%	6.1%	8.3%	11.9%
20 Years	2.6%	5.4%	7.3%	9.1%	11.7%
30 Years	3.8%	6.2%	7.8%	9.3%	11.8%

Source: North Carolina Department of State Treasurer and Buck Consulting

