



2014-15 Investment Management Division Initiatives

May 20, 2015



North Carolina Department of State Treasurer
Investment Management

Learn. Invest. Grow. Prosper.

Investment Projects and Priorities

- Implement transition/capital allocation plan (result of Asset Liability Study), including using the internal Investment Committee in a structured cross-asset class allocation process
- Finalize Annual Work Plans for each asset class



May 2014 Asset Allocation Transition Plan

Over-Weights/Sources (\$MM)	May '14 Gap to Policy	Annualized Commitments	Projected ~2016 Gap
<i>Public Equity</i>	\$2,400	\$0	\$500 - \$1,300
<i>Investment Grade Fixed Income</i>	\$3,000	\$0	(\$1,400) - \$0
<i>Non-Core Real Estate</i>	\$1,500	\$300 - \$750	\$1,500 - \$1,700
Subtotal	\$6,900	\$300 - \$750	\$600 - \$2,600
Under-Weights/Uses (\$MM)	May '14 Gap to Policy	Annualized Commitments	Projected ~2016 Gap
<i>Private Equity</i>	(\$1,500)	\$1,200 - \$1,600	(\$1,500) - (\$1,000)
<i>Opportunistic Fixed Income</i>	(\$1,500)	\$500 - \$1,400	(\$200) - \$200
<i>Core Real Estate</i>	(\$1,750)	\$700 - \$1,000	(\$1,000) - (\$600)
<i>Inflation Sensitive</i>	(\$1,750)	\$1,000 - \$2,500	(\$400) - \$800
<i>Cash + Multi-Strategy</i>	(\$400) + \$0	\$0 - \$400	\$0
Subtotal	(\$6,900)	\$3,400 - \$7,000	(\$2,600) - (\$600)
Memo Items: Internal Rebalances	May '14 Gap to Policy	Annualized Commitments	Projected ~2016 Gap
<i>Public Equity: Long to Long/Short</i>	(\$2,700)	\$500 - \$1,500	(\$800) - \$0
<i>Multi-Strategy Rebalance</i>	(\$1,000)	\$500 - \$1,000	\$0 - \$500



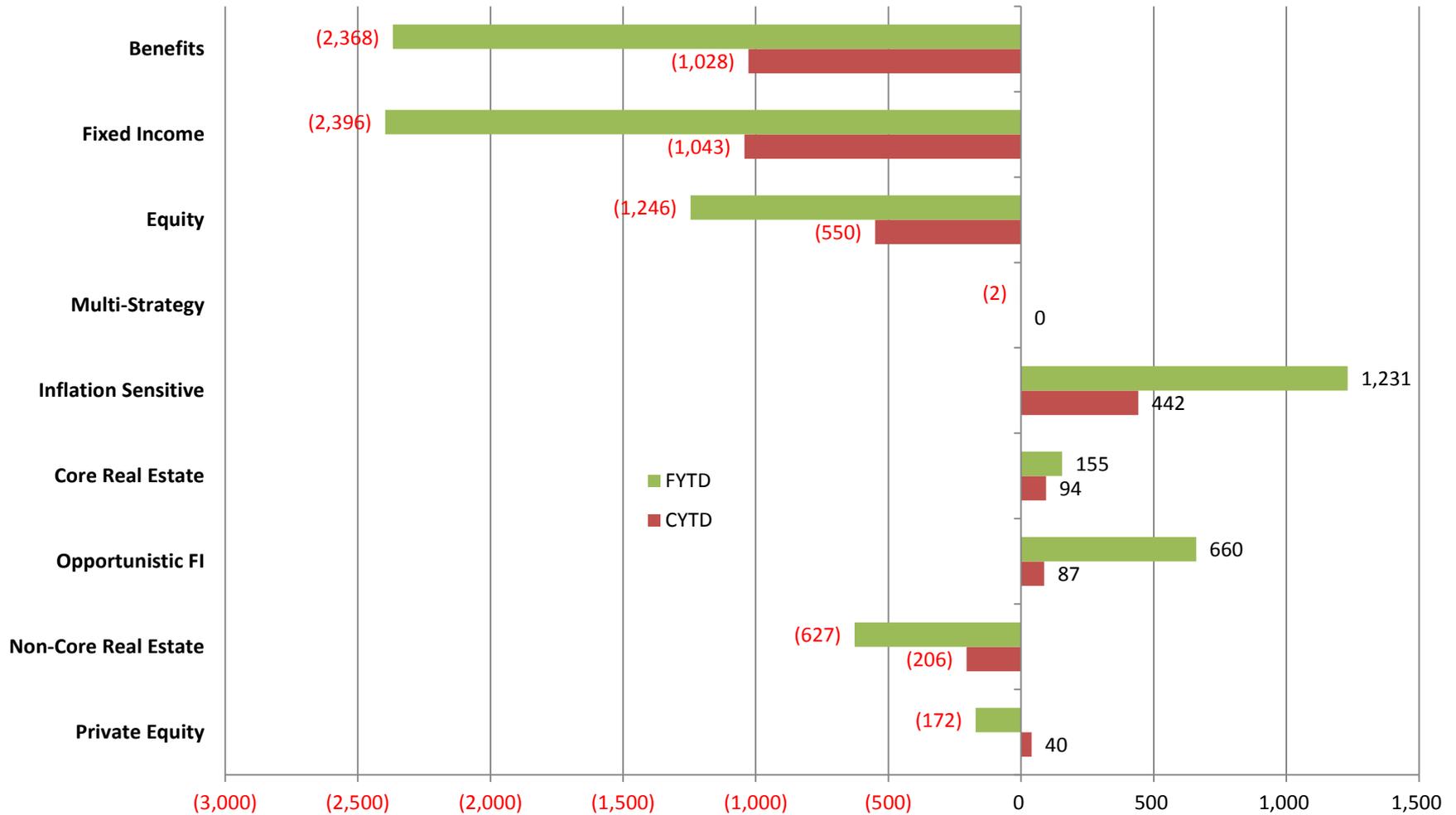
Progress on May 2014 Transition Plan

Over-Weights/Sources (\$MM)	May '14 Gap to Policy	5/13/15 Gap
<i>Public Equity</i>	\$2,400	\$2,856
<i>Investment Grade Fixed Income</i>	\$3,000	\$420
<i>Non-Core Real Estate</i>	\$1,500	\$1,062
Subtotal	\$6,900	\$4,338
Under-Weights/Uses (\$MM)	May '14 Gap to Policy	5/13/15 Gap
<i>Private Equity</i>	(\$1,500)	(\$1,395)
<i>Opportunistic Fixed Income</i>	(\$1,500)	(\$979)
<i>Core Real Estate</i>	(\$1,750)	(\$1,247)
<i>Inflation Sensitive</i>	(\$1,750)	(\$771)
<i>Cash + Multi-Strategy</i>	(\$400) + \$0	\$175 + (\$121)
Subtotal	(\$6,900)	(\$4,338)
Memo Items	May '14 Gap to Policy	5/13/15 Gap
<i>Public Equity Rebalance: Long to Long/Short</i>	(\$2,700)	(\$1,200)*
<i>Multi-Strategy Rebalance</i>	(\$1,000)	(\$1,000)

* Net of a pending \$1.5 billion rebalancing to a 0.4 Beta Staging Portfolio in process



NCRS Net Cash Flows (\$ Millions) through 5/13/15



Asset Allocation Transition Considerations

Over-Weights/Sources (\$MM)	5/13/15 Gap	Projected ~2016 Gap	Comments
<i>Public Equity</i>	\$2,856	\$500 - \$1,300	
<i>Investment Grade Fixed Income</i>	\$420	(\$1,400) - \$0	
<i>Non-Core Real Estate</i>	\$1,062	\$1,500 - \$1,700	Risk of undershooting
Subtotal	\$4,338	\$600 - \$2,600	
Under-Weights/Uses (\$MM)	5/13/15 Gap	Projected ~2016 Gap	
<i>Private Equity</i>	(\$1,395)	(\$1,500) - (\$1,000)	Risk of undershooting
<i>Opportunistic Fixed Income</i>	(\$979)	(\$200) - \$200	
<i>Core Real Estate</i>	(\$1,247)	(\$1,000) - (\$600)	
<i>Inflation Sensitive</i>	(\$771)	(\$400) - \$800	
<i>Cash + Multi-Strategy</i>	\$175 + (\$121)	\$0	
Subtotal	(\$4,338)	(\$2,600) - (\$600)	
Memo Items: Internal Rebalances	5/13/15 Gap	Projected ~2016 Gap	
<i>Public Equity: Long to Long/Short</i>	(\$1,200)*	(\$800) - \$0	
<i>Multi-Strategy Rebalance</i>	(\$1,000)	\$0 - \$500	



NCRS Asset Allocation as of 5/13/15

	Market Value (\$MM)	Actual	Target	Range		Relative %	Relative \$ (MM)
				Minimum	Maximum		
Growth	\$54,356	59.70%	58.0%	37.0%	71.0%	1.70%	\$1,544
Public Equity	41,099	45.14%	42.0%	37.0%	47.0%	3.14%	2,856
Non Core Real Estate	3,794	4.17%	3.0%	0.0%	8.0%	1.17%	1,062
Opportunistic Fixed Income	5,395	5.92%	7.0%	0.0%	7.5%	-1.08%	(\$979)
Private Equity	4,068	4.47%	6.0%	0.0%	8.75%	-1.53%	(\$1,395)
Inflation Sensitive & Diversifiers	7,997	8.78%	11.0%	4.0%	16.0%	-2.22%	(\$2,019)
Core Real Estate	3,305	3.63%	5.0%	2.0%	10.0%	-1.37%	(\$1,247)
Inflation Sensitive	4,692	5.15%	6.0%	2.0%	7.5%	-0.85%	(\$771)
Multi-Strategy	1,700	1.87%	2.0%	0.0%	4.0%	-0.13%	(\$121)
Rates & Liquidity	27,001	29.65%	29.0%	24.0%	42.0%	0.65%	596
Cash	1,086	1.19%	1.0%	0.0%	10.0%	0.19%	175
Investment Grade Fixed Income	25,915	28.46%	28.0%	24.0%	32.0%	0.46%	420
Grand Total	\$91,054	100.00%					

	Relative %						
	Mar '14	Jun '14	Sep '14	Dec '14	Mar '15	Apr '15	Current
Growth	1.44%	1.74%	0.89%	0.74%	0.56%	1.11%	1.70%
Public Equity	3.54%	3.30%	2.03%	2.13%	2.41%	2.96%	3.14%
Non Core Real Estate	1.73%	1.71%	1.87%	1.37%	1.12%	1.10%	1.17%
Opportunistic Fixed Income	-2.06%	-1.71%	-1.49%	-1.13%	-1.35%	-1.36%	-1.08%
Private Equity	-1.77%	-1.56%	-1.53%	-1.63%	-1.62%	-1.58%	-1.53%
Inflation Sensitive & Diversifiers	-4.11%	-3.94%	-3.48%	-2.70%	-2.54%	-2.63%	-2.22%
Core Real Estate	-2.03%	-2.05%	-1.97%	-1.51%	-1.40%	-1.40%	-1.37%
Inflation Sensitive	-2.07%	-1.90%	-1.51%	-1.19%	-1.14%	-1.23%	-0.85%
Multi-Strategy	0.03%	-0.15%	-0.15%	-0.15%	-0.13%	-0.16%	-0.13%
Rates & Liquidity	2.64%	2.34%	2.74%	2.11%	2.11%	1.67%	0.65%
Cash	-0.45%	-0.07%	0.14%	0.18%	0.79%	0.84%	0.19%
Investment Grade Fixed Income	3.08%	2.41%	2.59%	1.93%	1.32%	0.83%	0.46%



Investment Projects and Priorities (cont.)

- Support General Counsel's corporate governance initiatives related to evaluating ESG strategies and implementing diversity engagements and divestment policies
- Transition oversight of Ancillary Funds to Chief Operating Officer, including establish a new long-term fixed income product for certain clients and facilitate movement of assets
- Other Investment Initiatives:
 - Evaluate restructuring/exiting Fund of Funds and legacy low-conviction funds/managers
 - Research design and recommendations on Managed Accounts Program
 - Implement initial components of direct Hedged Equity program
 - Research and implement strategic co-investments program(s) and/or secondary program(s)
 - Research and implement Real Estate separate accounts
 - Review Small and Emerging Manager programs across NCRS
 - Procure Public Equity consultant
 - Effect Public Equity investment management agreement restatements
 - Evaluate liquid "Staging Portfolios" for Core Real Estate and Inflation Sensitive



Operations and Risk Management Priorities

- Formalize Operating Committee charter and use the Operating Committee to procure a strategic planning/organizational culture consultant
- 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
- Restructure BNY Mellon contract, including new business requirements
- Finalize streamlining and developing new IMD policies/procedures
- Implement total fund risk systems and processes
 - Keep SAS project on timeline with high quality deliverables
 - Revise and enhance performance reporting
 - Build-out detailed risk budget monitoring thresholds and risk standards



Operations and Risk Management Priorities (cont.)

- Review pool of external legal counsel and support search for new firms, as necessary
- Review pool of transition/stock distribution managers and search for new firms, as necessary
- Institute manager training and career development program for Portfolio Managers and Analysts
- Institute structured third-party review of fees and incentive payments
- Finalize implementation of CRM/Backstop
- Effect relocation



Other DST Initiatives to Support

- General Assembly long-session deliberations
- Reevaluation of Consultant/IMD roles for Supplemental Retirement Plan
- GASB Working Group
- Standardizing DST Board practices

