

RVK

# Governance, Operations, and Investment Program Review

North Carolina Department of State Treasurer

August 27, 2025

*Presented by: RVK Investment Program Review Team*

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# **Special Foreword from the RVK Team**

## Special Foreword from the RVK Team

We would like to thank everyone involved for their participation and openness. Overall, RVK was impressed with the Investment Management Division professionals in their diligence and service to the Plan's participants.

This review comes at a pivotal point for the North Carolina Department of the Treasurer Investment Management Division. While the mission of the Division and the assets it is responsible for managing are not changing, the governance structure for the investment program and key aspects of its implementing authority, delegation, and resources are undergoing significant change which should be for the benefit of the long-term success. This represented a challenge for our project team, and we chose to focus our research, analysis, and observations over the study period.

We did this for several reasons:

1. This approach adhered to the required scope of work assigned to us.
2. It focused our effort on examining the actual investment program operations and the rules/practices/protocols that guide them, the bulk of which will likely remain in place under the new governance and program structure
3. We took care in formulating our observations and recommendations for consideration to keep the new governance regime in mind.

# **Introduction & Background Information**

# Introduction & Background Information

- RVK was engaged to conduct an independent and unbiased review and evaluation of the governance, operations, and investment practices of the State Treasurer and their Investment Management Division and provide our professional opinion regarding areas for improvement. North Carolina G.S. § 147-69.3(g) requires the Department of State Treasurer (NCDST) to engage an independent expert at least every four years to conduct a statutory review.
- Per the Scope of Work reviewed with the Investment Advisory Committee (IAC) on February 26, 2025, this report will include:
  - 1. Current Authority, Duties, and Laws**
  - 2. Policy and Process Review**
  - 3. Compliance Process Review**
  - 4. Transparency, Accountability, and Ethics**

# **Section 1: Current Authority, Duties, Laws**

# Section 1: Current Authority, Duties, and Laws

## Review the sufficiency of current State authority and duties NCRS assets

RVK found the statutes governing the NCRS investment program to be well founded, reasonable, and similar to public pension laws in other states regarding accountability, conduct and ethics, transparency, reporting, and independence in personnel, budgetary, and procurement matters.

- Statutes pertaining to governance and authority do not reflect common practice, and in our view, are not best practice. We will address governance concerns below under “Authority.”

### Authority

RVK believes the following are obstacles that may impede the ability of the IMD to carry out their functions:

#### **1. *Sole Fiduciary***

As pension funds have evolved and include alternative investments, the sole fiduciary model is no longer a common practice. Only two other state retirement funds in the US currently employ the sole fiduciary form of governance—Connecticut and New York.



# Section 1: Current Authority, Duties, and Laws

## Review the sufficiency of current State authority and duties NCRS assets

### Authority (continued)

#### **2. Investment Advisory Committee**

The statutory creation of the IAC is in line with best practices. That the IAC Charter provides for mandated periodic review and a separate Code of Ethics should also be noted as good practice.

RVK agrees that the State Treasurer should be the Chair of the IAC, but we believe the membership should not be fully appointed by the State Treasurer. Best practice for an effective committee is to ensure diverse perspectives, expertise, and backgrounds.

✓ **Recommendation:** RVK recommends a statutory change to the process by which IAC members are appointed.

#### **3. Ability for the State Treasurer to Override the Strategic Asset Allocation Target Ranges by Suspending Rebalancing**

RVK recommends removal or at least clarification of IPS Section V.B.3. Suspension of Rebalancing from the IPS (addressed in Section 2). The Strategic Asset Allocation (SAA) is reviewed annually, but it is based on long-term assumptions. Keeping the SAA targets within the stated IPS ranges is crucial to meeting the desired level of risk and return to meet long-term objectives.

# Section 1: Current Authority, Duties, and Laws

## Review the sufficiency of current State authority and duties NCRS assets

### Duties

The statutes governing the NCRS investment program are similar to other state pension laws following common trust laws, fiduciary principles, and the Uniform Prudent Investment Act.

- Under well-established law, public pension fiduciaries are charged with the highest legal duties of loyalty and prudence.
- The Uniform Prudent Investor Act was adopted by North Carolina under North Carolina G.S. § 36C-9, and the concepts are specifically addressed for the State Treasurer in North Carolina G. S. § 147-69.7.
- The Employee Retirement Income Security Act (ERISA) is a federal law that establishes minimum standards for most retirement funds in the private sector. While state pension funds are exempt from ERISA, the State Treasurer and NCRS operate under similar protections.

# Section 1: Current Authority, Duties, and Laws

## Review the sufficiency of current State authority and duties NCRS assets

### Laws

- The State Treasurer is subject to detailed and thorough reporting requirements set forth in statutes North Carolina G.S. § 147-69.8, 9, 10(a) and (b), and 12. Oversight is important and necessary, especially in a sole fiduciary model. Based on RVK's review, we were able to confirm the State Treasurer's compliance with the mandated reporting, but we were unable to verify what occurs after submission.
- North Carolina is unique in having statutes mandating what or how much they are able to own of certain investments. The legal list stipulated in North Carolina G.S. § 147.69.2 limits the plan's ability to invest in certain securities or asset class segments.
  - ✓ **Recommendation:** RVK recommends removing the restrictions, as it conflicts with the Uniform Prudent Investor Act standard of care in statute G.S. § 147.69.7(a) and in 147.69.7(b) (1)(c), and it is contrary to diversification requirements that are mentioned in 147.69.7(b)(2).

## **Section 2: Policy and Process Review**

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

North Carolina G.S. § 147.69.10(a) requires an investment policy statement to be presented by the State Treasurer to the IAC at least biennially.

#### Investment Policy Statement

- The IPS serves as a comprehensive “road map” for the investment program, detailing items that, in our judgement, are common industry best practices to include in an IPS and allow for fiduciary oversight of the investment program.
- The IPS is organized into nine sections (two appendices), each detailing a set of oversight components approved by and applicable to the State Treasurer, as the sole statutory fiduciary, and to the IMD for certain activities assigned by the State Treasurer.
- The following are our recommendations listed by IPS Section:

#### **Roles and Responsibilities**

- ✓ **Recommendation:** The power to designate the institutions and individuals who hold these roles is a critical aspect of clarifying the ownership of duties and evidence of the fulfillment of fiduciary responsibility. Consider expanding Section II to include a general counsel, a custodial bank, investment managers, investment consultant(s), security lenders, and a proxy advisory service provider, noting how, by whom, and by what process these responsibilities are assigned.

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### Roles and Responsibilities

- ✓ **Recommendation:** Our review of documents indicated an IMD Investment Committee has been in place since 2014. Based on the scope of oversight and responsibilities, RVK believes the IMD Investment Committee should be acknowledged in Section II.

#### Asset Allocation

- ✓ **Recommendation:** Asset/liability studies are the only standard analysis that fully link all three aspects of NCRS' investment policy, contribution policy, and benefit policy, providing a means to examine how well different investment strategies (asset allocations) address the objectives served by the Fund. We believe asset/liability merits its own Section in the IPS or to be added to Section V proceeding any discussion of SAA.
- ✓ **Recommendation:** An ever-evolving best practice for investment policy statements is to focus on clarity, making the IPS transparent and easy to understand for the membership, the public, as well as the fiduciaries. With that goal in mind, we suggest moving Table 2 to Appendix I where the “role-in-the-portfolio” for each category is described.

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### Risk Management and Controls

- ✓ **Recommendation:** Remove or at least add clarification to Suspension of Rebalancing (Section V.B.3.) from the IPS. Per Section IV of the IPS, the Strategic Asset Allocation *is established through consideration of the Fund's projected liabilities, liquidity needs, risk tolerance, and the role that different asset categories and strategies are expected to play in the overall portfolio construction.* The SAA is reviewed annually but it is based on long-term assumptions. Keeping the SAA targets within the stated IPS ranges is crucial to meeting the desired level of risk and return to meet long-term objectives.
  - Whether before or after the 2025 State Modernization Act, going outside of Strategic Asset Allocation policy ranges is a governance issue and should be escalated to the investment authority which going forward will be the Board of Directors of the North Carolina Investment Authority. One of the Board's many duties is to approve risk limits and monitor performance for NCRS.
- ✓ **Recommendation:** Require a written response from the State Treasurer confirming the decision on Interim and Outside of Policy Range rebalancing (Section V.B.1. and 2., respectively).

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### Benchmarking and Reporting Requirements

- ✓ **Recommendation:** Add a statement regarding performance reporting frequency to Section VII for transparency and consistency.
- ✓ **Recommendation:** Consider adding a “Role-in-the-Portfolio” benchmark using a broad benchmark for each category representing its role in the portfolio weighted by its SAA Target. The IPS states that the “Role-in-the-Portfolio” categories are the foundation of the SAA.



## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### Appendix II – Portfolio Investment Strategy and Guidelines

- ✓ **Recommendation:** RVK encourages routine asset class structure studies to be completed every three (to five) years, which would be stated in each asset class portfolio appendix.

#### Additional Recommendations:

1. Consider adding a section on Fiduciary Conduct – This addition would add clarity to who is considered a fiduciary. This Section could also add language that defines proper conduct for all parties considered to be fiduciaries, referencing the separate Code of Conduct policies.
2. Consider adding a summary review schedule – Throughout the IPS there are specific requirements on conducting analysis (e.g., asset/liability study shall be conducted every 3-5 years); consider adding a summary table including all deliverables.

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### IMD Investment Committee Charter

The IMD Investment Committee (the “Committee”) is created by the Treasurer to provide oversight and policy guidance related to the Plans’ investments.

The Policy is reviewed periodically and has undergone significant change since its initial creation. The Policy is clear in its direction, assignment of responsibilities

- ✓ **Recommendation:** Standardization of policies. There are inconsistencies between the Investment Management Division (IMD) Charter and other policies as noted in the report.
- ✓ **Recommendation:** An ever-evolving policy is key and the IMD with its new authority and addition of key members should formalize the self-review policy to include a scorecard for total fund, asset class, internal portfolios, and external portfolios.

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### IMD Investment Manager and Vehicle Monitoring Policy

The Policy in its current form clearly defines the rules and responsibilities and is comprehensive in its breadth and depth of responsibilities and coverage of managers.

It compares favorably to other public pension funds' selection and monitoring processes. There were no noticeable gaps in the steps or areas of improvement that RVK saw or were mentioned by the current staff.

- ✓ **Recommendation:** As noted in the report, potential changes in oversight will need to be added once the Modernization Act is fully implemented.

## Section 2: Policy and Process Review

### Compare key policies to industry common and best practices

#### IMD External Investment Manager and Vehicle Selection Policy and Procedure

The IMD External Investment Manager and Vehicle Selection Policy governs the oversight of asset managers.

The current version clearly defines the rules and responsibilities and is comprehensive in its breadth and depth of responsibilities and coverage of managers. The Policy compares favorably to other public pension funds' selection and monitoring processes. There were no noticeable gaps in the steps or areas of improvement.

- **Consideration:** Potential changes in oversight will need to be added once the Modernization Act is fully implemented. These include changes to the reporting of activities, responsibilities of investment staff and the Board, and public reporting.

## **Section 3: Compliance Process Review**

## Section 3: Compliance Process Review

### “Gap analysis” of internal trading & private market policies and procedures

RVK conducted a gap analysis of the current policies and procedures related to internal trading and private market investment activity. We reviewed the following:

- Information barriers
- Pre-trade clearance process
- Trading blackout period
- Other trade controls

The Plans’ Policies and Procedures align with your peers in your Policies and Procedures. However, there are opportunities to strengthen the mechanics of trading.

- ✓ **Recommendation:** The portfolio traders should not be involved in trade settlement activities after placing the trade. This will allow for stricter controls over any trade failures and potential trade input errors.
- ✓ **Recommendation:** At present, only a few members of IMD Staff have the knowledge and experience to trade. The Plan should start planning for the future state and outsource or train additional staff in 2025/2026 to ensure there are ample resources.

## Section 3: Compliance Process Review

### Trading process related to the internal portfolios

In our review of the internal trading process, policies, and resources, along with our discussions with IMD Staff, it is apparent that resources and segmentation of duties could be strengthened and should be an area of focus.

- ✓ **Recommendation:** Implementing robust data governance programs (defining standards for accuracy, completeness, timeliness, etc.).
- ✓ **Recommendation:** Systemize the Excel spreadsheets mentioned in the Internal Equity Operational Process and Control Guide. Either Bloomberg or SS&C should have the capabilities to perform these functions.

## **Section 4: Transparency, Accountability, and Ethics**



## Section 4: Transparency, Accountability, and Ethics

### Compare to other public funds information provided to stakeholders

Clearly transparency, accountability, and ethics is paramount to the Staff and Treasurer's Office. The view of acting in the best interests of their participants and is consistent with managing a large and sophisticated pension fund.

RVK viewed that depth and breadth of available information is impressive and allows for transparency on the strategic and daily initiatives of the Plan. RVK would recommend additional transparency as a greater number of public plans are posting investment transactions.

✓ **Recommendation:** Include additional reports such as investment transactions.

RVK reviewed the relevant ethics policies and personal ethics policy and found them to be comprehensive and clear. The State Treasurer is required to ensure the investment program operates under a strong compliance program to ensure internal controls and transparency. Under the current statute, the State Treasurer is required to maintain the following:

- IMD Code of Ethics
- Training for all investment professionals
- Gift Policy
- Placement agents
- Connection Disclosure Policies

## Section 4: Transparency, Accountability, and Ethics

### Compare to other public funds information provided to stakeholders

All of the previously mentioned policies are in line with peers and provide guidance to ensure a duty of loyalty to participants and beneficiaries. These policies create a strong governance framework with rigorous controls. We do not have any further suggestions or changes to the policies.

# Methodology for Review and Evaluation

# Methodology for Review and Evaluation

- In addition to drawing upon RVK's institutional knowledge of investment programs, the RVK team used several methods to conduct research and gain insight into the NCDST, its decision-making process, and overall efficacy.
- The first method employed was a detailed review of numerous documents provided by NCDST or available on its website.
  - Relevant statutes
  - Investment policy statements
  - Investment implementation policies
  - Code of ethics policies and their reviews
  - Insider and personal trading policy
  - Investment transaction disclosure policy
  - Proxy voting guidelines
  - Divestment and contract prohibition policy
  - Performance reviews
  - Statutorily required reports
  - Investment Advisory Committee Charter
  - IMD Investment Committee Charter
  - Investment staff presentations to the Investment Advisory Committee
  - Sampling of IMD memos to State Treasurer
  - IAC agendas, meeting materials, minutes, and recordings
  - Investment Management Division Investment Committee Charter
  - Annual comprehensive financial reports
  - 2014 Investment Fiduciary Governance Commission Report
  - Asset allocation studies
  - Asset class reviews
  - Actuarial valuation reports
  - CEM investment benchmarking
  - 2025 State Investment Modernization Act presentation and overview
  - 2025 North Carolina House Bill 506

# Methodology for Review and Evaluation

- Following document review and additional research, we conducted interviews and discussions with the individuals listed below.
  - Brad Briner (State Treasurer)
  - Kevin SigRist (Chief Investment Officer)
  - Chris Morris (Chief Risk and Operating Officer)
  - Matt Krimm (Director of Investment Operations and Risk)
  - Rhonda Smith (Director of Public Equity)
  - Jeff Smith (Director of Investment Grade Fixed Income)
  - Craig Demko (Director of Private Equity)
  - Jason Sass (Deputy General Counsel)
  - Deana Moore-Solomon (Investment Analyst – Risk and Compliance)
  - Greg Taylor (Portfolio Manager – Public Equity)

A note of appreciation to all the interviewees whose cooperation with our requests for time, data, and organizational information was critical in the execution of this project.

# **RVK Team Bios**

# RVK Team Bios



**Jim Voytko, MPA, MPP**  
Sr. Consultant,  
President Emeritus, Principal

- Joined RVK in 2004 and based in our Portland Headquarters
- 45 years' industry experience
- In addition to his general consulting responsibilities, Jim is involved with multiple aspects of RVK's specialty consulting practices, including our Asset/Liability Team, Investment Program Review Team, and Investment Perspectives Committee.
- BA from Carnegie Mellon University, MPA from the University of Washington, and MPP from Harvard University. Shareholder of the firm.



**Marcia Beard**  
Senior Consultant, Principal

- Joined RVK in 1996 and based in our Portland Headquarters
- Over 40 years of industry experience.
- Extensive experience serving governmental entities, corporations, and endowments & foundations. Develops investment policy statements, strategic asset allocation, and asset class manager structure.
- BS in Agricultural Economics *cum laude* from the University of Illinois
- Shareholder of the firm



**Jason Samansky, CFA**  
Consultant

- Joined RVK in 2021 and based in our New York office
- 24 years of industry experience
- Responsibilities include asset allocation, investment policy statement, investment manager research, asset class portfolio structuring, risk analyses, and client education presentations.
- BS in Finance with concentrations in Economics and Mathematics from Ithaca College
- Holds the Chartered Financial Analyst designation and is a member of the CFA Society of New York. Level II CAIA Candidate.



**Jessica Goodall**  
Senior Executive Assistant

- Joined RVK in 2018.
- Serves as Chief of Staff for RVK Academy, a program that utilizes our firm's collective body of knowledge to assist in staff growth and development
- 20+ years of industry experience.
- MA in Professional Writing from New England College; BA in English from Central Washington University



# RVK

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