

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Investment Management Division Major Initiatives

Investment Advisory Committee

May 28, 2025

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Rebalancing



Overview of Rebalance Process

Phase I: January - March

- **Prioritize** deploying portion of excess cash to liquid strategies
- **Mitigate** structural misfit
- **Recommend** reset to pre-2022 SAA (last agenda item)

Phase II: May IAC consultation and after

- **Review** private market pacing plans, including areas of tactical emphasis
- **Deploy** based on IAC feedback and market opportunities

Phase III: 2025 ALM Study

- **Recommend** new SAA in November
- **Implement** transition plan to new SAA in 2026



Phase 1 Rebalance: Redeploy about 40% of Excess Cash

Growth

- 350bps underweight is questionable given our investment horizon, despite Mag7 valuations
- Public Equity has a 4% underweight to the US and overweight to non-US growth

Investment Grade Fixed Income

- Cash has an implied yield of 4% over the next 12 months
- Longer duration IG is exposed to several key risks, but at current yields risk-adjusted returns are attractive over next 12 months

Opportunistic Fixed Income and Inflation Sensitive

- Focus on low duration ABS with material yield pick up and limited downside risk
- Calibrated credit risk according to asset class
- Deploy capital in 1 to 6 months and have option to harvest within 18-36 months



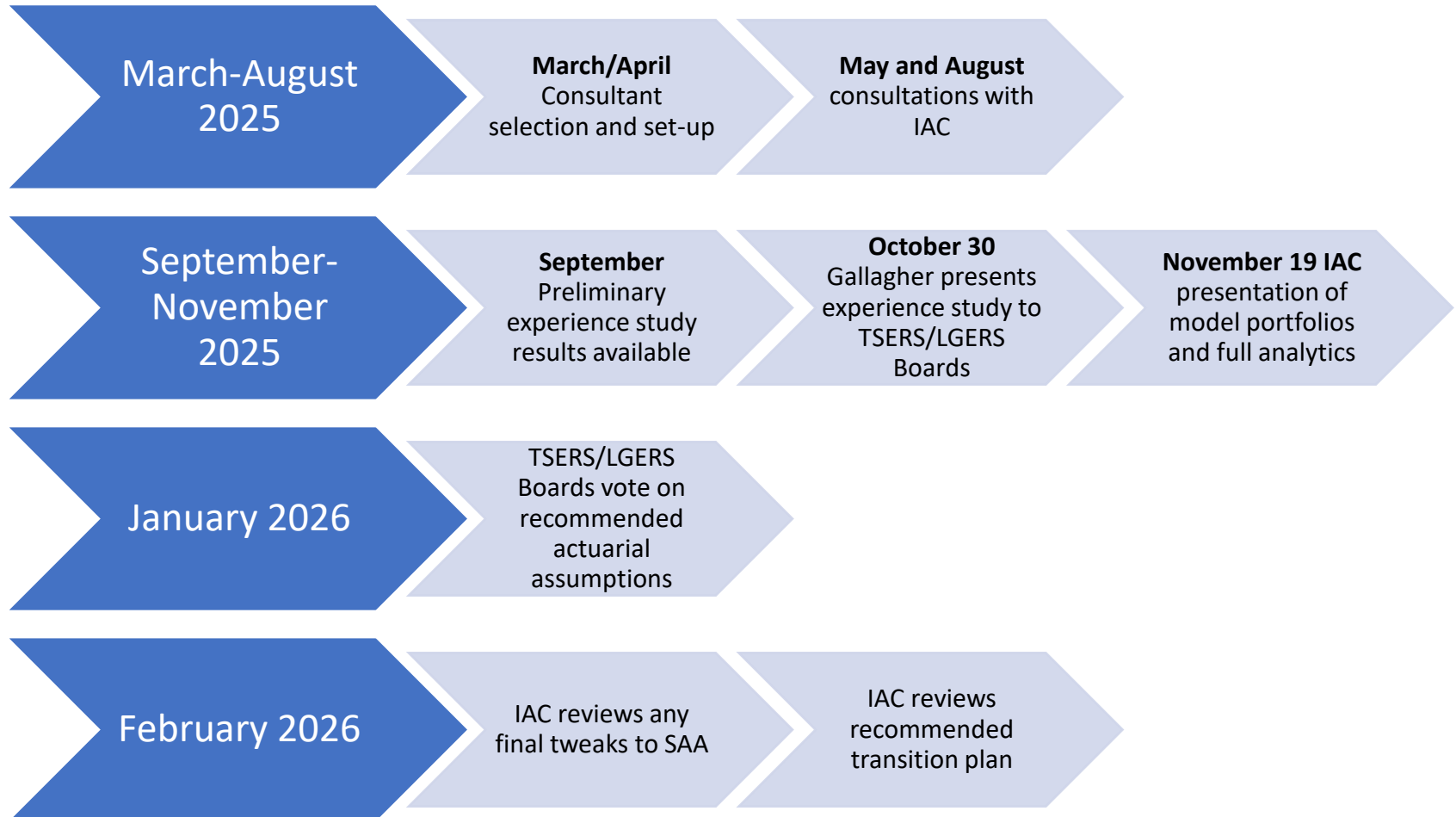
2025 Rebalancing Activity

Asset Class	Phase 1 - Approved 2/5			Interim Rebalance - 4/11			Total Completed
	Approval	Completed	Remaining	Approval	Completed	Remaining	
Pension Cash	(3,305)	(2,830)	(475)	(1,300)	(1,300)	0	(4,130)
IG Fixed Income	1,000	1,000	0				1,000
Public Equity	1,000	1,000	0	1,300	1,300	0	2,300
Domestic Equity	2,941	2,941	0	1,300	1,300	0	4,241
International Equity	(1,941)	(1,941)	0				(1,941)
Opportunistic Fixed Income	555	130	425				130
Inflation Sensitive	750	700	50				700

	Policy Weight	1/31 Weight	5/20 Weight	Change from 1/31
Growth	58.0%	54.51%	56.49%	1.98%
Public Equity	42.0%	42.01%	44.07%	2.06%
Private Equity	6.0%	4.72%	4.61%	-0.11%
Non-Core Real Estate	3.0%	1.61%	1.64%	0.03%
Opportunistic Fixed Income	7.0%	6.17%	6.18%	0.00%
Rates & Liquidity	29.0%	33.87%	31.43%	-2.44%
IG Fixed Income & Cash	28.0%	26.64%	27.33%	0.69%
Pension Cash	1.0%	7.23%	4.10%	-3.13%
Inflation Sensitive & Diversifiers	11.0%	9.53%	9.99%	0.46%
Inflation Sensitive	6.0%	4.66%	5.20%	0.55%
Core Real Estate	5.0%	4.87%	4.79%	-0.09%
Multi-Strategy	2.0%	2.09%	2.09%	0.00%
Grand Total	100.00%	100.00%	100.00%	0.00%



2025-26 NCRS ALM Study: Key Dates/Activities



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Governance



RVK is Progressing 2025 Governance Study

- Every four years, a consultant evaluates the governance, operations, and investment practices of the State Treasurer.
- The State Treasurer must consult with the Investment Advisory Committee to develop the scope of the evaluation.

Principal Components of Working Scope			
Current Authority, Duties, and Laws	Policy and Process	Compliance Process	Transparency, Accountability, and Ethics
General research and consulting on governance			

- The consultant report shall be provided to the General Assembly within 30 days of receipt. § 147-69.10.(b) NCGS



2025 State Investment Modernization Act

Objective: Improve NCRS investment performance with public and private sector best practices

Creates Investment Authority and Board

- 5-member Board with Treasurer as Chair and members appointed by Senate, House, Governor, and Treasurer
- High minimum professional qualifications
- Staggered 6-year terms with maximum of 2 consecutive terms

Assigns Board Duties and Powers

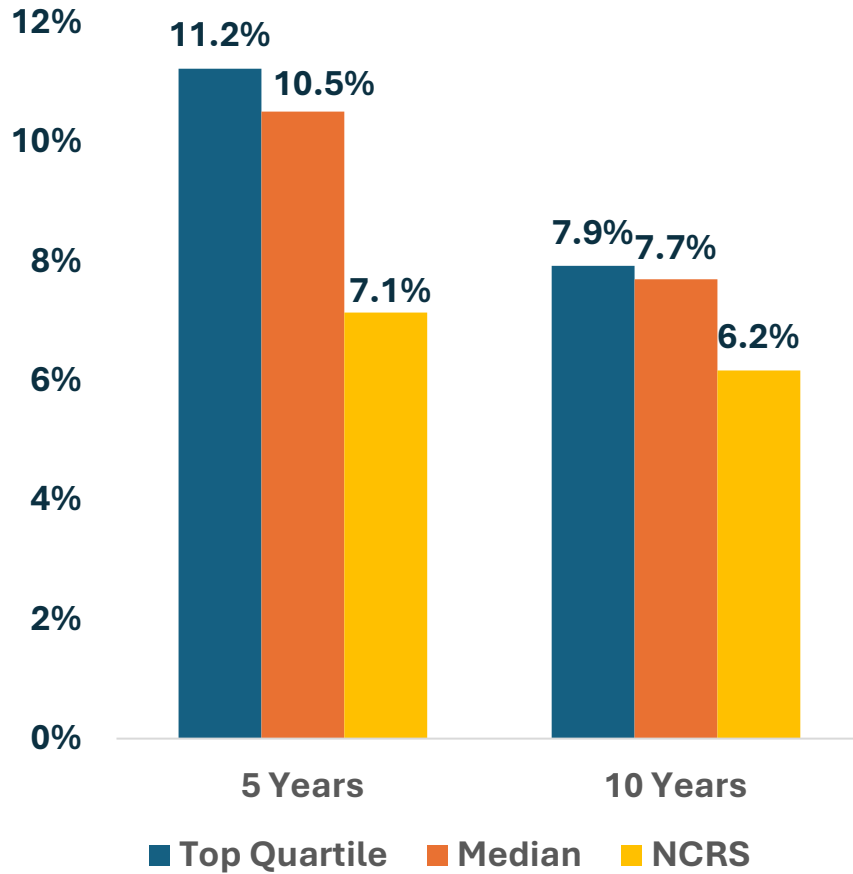
- Approve risk limits and monitor performance for the Retirement Systems
- Approves policies, key contracts and large investment transactions
- Approves budget and staff positions
- Hires/Fires the Chief Investment Officer (CIO)
- Recommends actuarial assumed investment return to TSERS/LGERS Boards

Updates Statutory Legal Limits on Investments

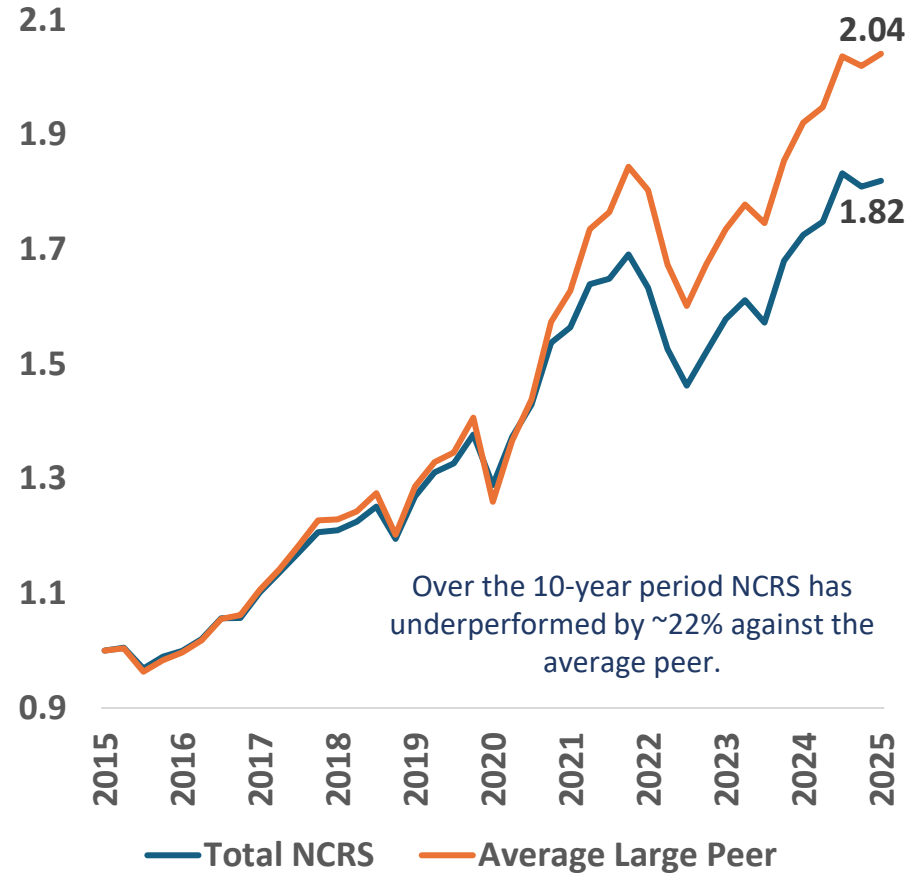
- Minimum of 20% in high quality bonds
- Maximum of 40% in illiquid investments with annual Board compliance certification
- Board to set limits on other investment categories to provide needed flexibility
- Board is required to avoid undue risk relative to U.S. public pensions



NCRS Performance has Lagged Peers



10 Year Growth of a Dollar





Updated Investment Policies and Guidelines

Investment Policies

- Approved Updates
 - NCRS Investment Policy Statement
 - Investment Manager Selection Policy
 - Investment Manager Monitoring Policy
 - Investment Committee Charter
 - Signatory Authority Policy
- Pending
 - Investment Transaction Disclosure Policy
 - Proxy Voting Policy

Asset Class	China/HK Exposure (\$MM)
Public Equity	\$2,001
Private Equity	\$213
Real Estate	\$80
Opportunistic Fixed Income	\$17
Rates & Liquidity	\$96
Total	\$2,408

NCRS Chinese/HK Risk Management Update

- China and Hong Kong face secular economic headwinds and unprecedented levels of geopolitical risk that support a top-down allocation decision
- Primary concern is passive country risk exposure through index funds. Active manager exposures largely reflect stock and bond issuer specific risks that can be managed in real time
 - Adopt equity manager/product level performance benchmarks that would eliminate China and Hong Kong
 - Active equity and fixed income managers will have the flexibility to exercise judgment on any security buy/hold/sell decisions
 - Commingled private fund exposure will remain due to steep secondary market discounts
- The top down decision will be reviewed periodically based on the economic and geopolitical outlook



Human Capital

Team	Staff Count YE24	Vacancies YE24	Positions Accepted	Vacancies 5/20	Staff + Accepted
CIO	0	1	1	0	1
Internal Fixed Income	5	1	1	1	5
Private Equity	3	1	2	0	5
Opp. FI/Infl. Sens.	2	2	0	2	2
Real Estate	3	1	1	0	4
Public Equities	2	2	1	1	3
Multi-Strat	0	1	1	0	1
Real Assets	0	0	1	0	1
SRP	1	0	0	0	1
Operations & Risk	7	0	0	1	6
Admin	1	0	0	2	1
Total	24	9	8	7	30*
Interns	0	0	4	0	4

*Reflects 1 internal transfer and 1 retirement

- Extensive experience added through 2025 hires in Real Assets, Real Estate, Private Equity, Public Equities, and Multi-Strat (i.e., 11-35 years of experience for each)
- Recruitment emphasis over 2025-26 will be Directs, Operations and NCIA-related organizational
- Market-Oriented Compensation study

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