

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES – November 15, 2023**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, November 15, 2023, at 9:00 a.m. via conference call and GoTo Webinar in the Dogwood Conference Room at the Department of State Treasurer’s offices, located at 3200 Atlantic Avenue in Raleigh, North Carolina. The Committee met pursuant to its regular meeting schedule, as posted on its website at <https://www.nctreasurer.com/divisions/investment-management/investment-advisory-committee>.

Members Present: State Treasurer Dale R. Folwell (Chair), Loris Colclough, Greg Patterson, Michael Mebane, and John Aneralla. There is one vacancy on the Committee.

Members Attending via Webinar: Lentz Brewer

Staff Present (in person and virtual): Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Kathy O’Neill, Gail Kadash, Deana Solomon, Brett Hall, Kristopher Byrd, Rekha Krishnan, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Troy March, Shaun Braswell, Anne Roof, Trevor Parrish, Laura Rowe, Frank Lester, Joah Bickley, Paul Palermo, Michael Wagner, Thomas Blackwell, Benjamin Garner.

Others in Attendance: Charles Ashmun (Blackrock), Mitchell King (Blackrock), Leon Chin (Blackstone), Brian Kahley (Franklin Templeton), Mc Cyril Espanol (pageanmedia.com), Pat Hurley, Alec Ostrowidzki, Jeff Winstead, Christopher Doll (CEM).

AGENDA ITEM – OPENING REMARKS

The meeting was called to order at approximately 9:00 a.m. by Treasurer Folwell. Meeting etiquette information, and Webinar/Conference line use was shared by Benjamin Garner. Mr. Garner confirmed there was a quorum and provided procedures for virtual guidelines.

The Chair then commenced the meeting.

AGENDA ITEM – APPROVAL OF MINUTES

Mr. Colclough moved, Mr. Patterson seconded, and there was a member roll call to approve the previous meeting’s minutes. Mr. Garner confirmed the motion and conducted a roll call to approve the minutes. The minutes were approved unanimously.

AGENDA ITEM – PERFORMANCE UPDATE

The Chair recognized Jeff Smith, Co-CIO and Director of Fixed Income, and Christopher Morris, Co-CIO and Chief Risk and Operating Officer, to present the performance update.

Mr. Smith provided an update on the United States economic environment for the third quarter of 2023, and further discussed the current quarter changes.

Mr. Morris presented an update on Assets Under Management (AUM), as of September 30, 2023. He stated the total AUM was \$173.2 billion for the third quarter, which was down \$2.4 billion since the prior

quarter but up about \$8 billion for the calendar year. The decrease was due to NCRS portfolio Public Equity and Fixed Income asset class being down due to market conditions.

Mr. Morris next reported on the asset allocation as of September 30, 2023, discussing the over and under allocations in the portfolio.

Mr. Morris continued to the Total Net Portfolio Returns vs. Benchmarks slide, discussing the periodic performance from both an absolute and relative perspective across multiple time horizons. Mr. Morris also reported that the portfolio was down 2.4% in third quarter with all markets being challenged, and the one-year total portfolio returns was at 7.21% with 3 years and 5 years at 3% and 4% respectively.

Mr. Morris discussed the Growth of a Dollar charts, which illustrate how the total pension and alternatives sleeve have performed relative to the long-term policy benchmark over the five- and ten-year periods and since 1998, which is the beginning of the pensions' performance record.

Mr. Morris moved on to the Contribution to Total Plan Return. He discussed the dollar amount each asset class contributed to the earnings of the plan for the prior one-year period.

Mr. Morris next walked the committee through the Net of Fees Return Attribution charts, discussing how the portfolio either added or detracted value relative to the benchmark over various horizons.

Mr. Morris also reported the Net of Fees Risk Metrics slide, the up and down capture, and drawdown graphs.

Mr. Morris discussed the peer universe comparison slides, which show our percentile rank relative to peer pension plans on a return and risk basis.

Mr. Morris introduced a new slide (Slide 21) showing the funded status of US Public Funds by state. There was a discussion among Mr. Morris, Mr. Smith, the Treasurer, and the Committee on the relatively high funded status of NCRS, and as a result the portfolio's ability to take on less risk.

Mr. Morris moved on to the liquidity slides, hitting on the structural liquidity, benefit payments, and cash flows within the alternatives sleeve. The Treasurer commented on the financial effects of recent actions by some entities to leave the pension plan and state health plan.

Mr. Morris next reported on the Valuation Lag Profile slide, discussing the frequency and lag of valuations for investments in the portfolio.

Mr. Smith reported on Asset Class Performance and discussed the Calendar Year Asset Class Return chart, highlighting 1 year return of Growth at 14.37% with Public Equity at 20.72% and Private Equity 0.48%, Non-Core Real Estate was down 12.40% and Opportunistic Fixed Income was up 6.47%, Inflation Sensitive and Diversifiers up 9.26%, Rates and liquidity was at 1.11% and Multi Strategy was at 9.71%.

Mr. Smith discussed the new and incremental investments, reporting one new incremental Core Real Estate commitment, with the Treasurer and Troy March, Investment Director of Real Estate, also commenting relating to interest rates in a discussion with the Committee. Mr. Smith also discussed the unfunded commitments, and the Top 20 Investment Managers slide. The Treasurer commented on and discussed with Craig Demko, Investment Director of Private Equity, strategic timing considerations regarding exiting long-held investments.

AGENDA ITEM – INVESTMENT COST-EFFECTIVENESS REVIEW

The Treasurer introduced Christopher Doll, CEM Benchmarking, Inc. to review a summary of results for the 5-year period that ended December 31, 2022. Mr. Doll reported that this review looks at costs and efficiency related to cost effectiveness compared to peers (United States Public Funds).

NCRS total investment cost for 2022 was 26.4 bps, compared to a peer median cost of 54.8 bps. This ranks NCRS as the lowest cost plan in the peer universe, as measured by CEM.

AGENDA ITEM – I.G. FIXED INCOME ASSET CLASS REVIEW

The Treasurer introduced Jeff Smith, Investment Director of I.G. Fixed Income, and his team. Brett Hall, the Assistant Director I.G. Fixed Income, reviewed the Short-Term Portfolio, discussing historical rates, current allocations and characteristics. The Treasurer discussed the STIF program with Mr. Smith and Mr. Hall.

Mr. Smith presented the Investment Grade Fixed Income Profile. He reported the allocation of 90/10 core/non-core (cash/STIF). Returns have been flat for the last year with income offsetting negative price returns on higher rates. Mr. Smith also reported that investment grade fixed income continues to outperform on all measured time periods. The portfolio's outperformance over the last year was driven by shorter relative duration.

Mr. Hall next discussed on slide 9 chart on spread history credit markets and presented corporate relative value and LTIP allocation by sector. Mr. Smith presented FOMC Projections for September 2023 and the Fed Dot Plot chart. The TIPS market shows little concern over inflation surging to recent high levels. Additionally, return expectations over the next five years have increased to 5-7% due to yields rising yet again in 2023, which Mr. Smith discussed with Committee members.

AGENDA ITEM – OPPORTUNISTIC F.I. ASSET CLASS REVIEW

The Treasurer introduced Ronald Funderburk, Investment Director of Opportunistic FI, and Ming Xu, our newest portfolio manager.

Mr. Funderburk discussed the portfolio's history, structure, and performance. He discussed capital preservation and making attractive absolute returns and achieving these goals over a long period of time. Our portfolio components are Traditional Corporate Credit, Distressed Credit, Hedge Funds and Special Situations.

Mr. Funderburk stated that we are working with high conviction managers, and this has helped achieve our goals while maintaining diversification. A dislocation mandate has been providing returns, and we want to continue to be proactive with this mandate. Mr. Funderburk reported that special situations and distressed debt have performed well over a long period and the team has done well identifying good managers. These sub-components have done well for the portfolio. The appendix graphs show these sub-components in better detail.

Mr. Xu stated that the Opportunistic Fixed Income is at 6.5% against 7% target allocation. As of September 30, 2023, Opportunistic Fixed Income is underweighted by 0.53% to a target of 7%.

Mr. Funderburk stated that our portfolio priorities are to take advantage of elevated spread and yield environment and with best-in-class managers that can pivot as conditions change. We will maintain meaningful exposure to senior, secured direct loans. Mr. Funderburk also discussed with Committee members our aim to opportunistically add differentiated private credit exposure. The team will continue to focus on SMA's and custom opportunities with co-investments. Mr. Funderburk, the Treasurer, and Committee members discussed opportunities related to banks with high exposure to real estate, like Silicon Valley Bank. Mr. Funderburk, Mr. Xu, and Mr. Smith later discussed managing risk exposure. Mr. Smith, Mr. Funderburk, and the Committee then discussed potential mortgage rate trends and regulatory trends relating to risk. The Treasurer closed this section by discussing the implementation of the General Assembly's 4% supplement to retirees.

AGENDA ITEM – PUBLIC COMMENT

There was no one signed up for public comment. The Treasurer closed out the public comments and moved to IAC member questions.

AGENDA ITEMS – IAC MEMBER Q&A

IAC members were provided with the opportunity to pose questions to the Treasurer and Investment staff. Members expressed their gratitude to the IMD team and welcomed Mr. Xu.

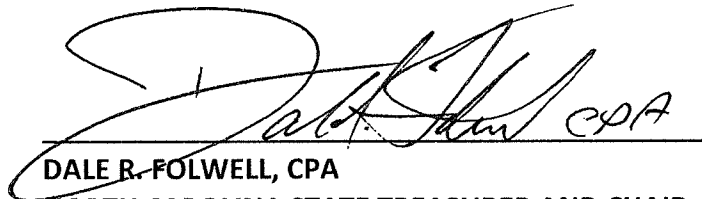
The IAC member Q&A portion closed.

ADJOURNMENT

The Treasurer next thanked Jeff Smith, Christopher Morris, and the Investment Management team and requested that there be a motion to adjourn the meeting. The Treasurer stated that we will be closing this meeting in honor of Linda Combs, the former Controller for the State of North Carolina.

Mr. Mebane motioned to adjourn. Mr. Colclough seconded the motion. The motion to adjourn passed unanimously.

The Treasurer officially adjourned the meeting at approximately 11:40 am.



DALE R. FOLWELL, CPA
NORTH CAROLINA STATE TREASURER AND CHAIR