

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES FOR NOVEMBER 20, 2024**

Time and Location: The Investment Advisory Committee ("IAC" or the "Committee") met on Wednesday, November 20, 2024, 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), Greg Patterson, Loris Colclough, John Aneralla.

Members Attending via Webinar: Lentz Brewer, Michael Mebane. There is one vacancy on the Committee.

Staff Present (in person and virtual): Brad Briner (Treasurer-Elect), Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Kathy O'Neill, Gail Kadash, Deana Solomon, Greg Taylor, Brett Hall, Brad Bullock, Brian Bolcar, Kristopher Byrd, Rekha Krishnan, Jeff Smith, Chris Morris, Ronald Funderburk, Ming Xu, Craig Demko, Troy March, Chris Ward, Evan Prochaska, Shaun Braswell, Ben Garner, Anne Roof, Jason Sass, Reid Chisholm, Trevor Parrish, Laura Rowe, Frank Lester, Elizabeth Hawley, Paul Palermo, Michael Wagner, Linda Teal, Marc Brunner.

Others in Attendance: Palwasha Saa'im (CEM Benchmarking), Cyril Espanol (pagentmedia), Spencer Witherspoon (Shenkman Capital), Hannah Menachem, Paul Haddock, Charlie Ashmun (Blackrock), Lindsay Saienni (fin-news.com), Alfie Crooks (pei.group), Jennifer Yeung (albourne.com), Andrew Hoffmann (rockislandllc.com).

AGENDA ITEM – OPENING REMARKS

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

The Treasurer 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 minutes. The Treasurer confirmed the motion and conducted a roll call to approve the minutes. The minutes were approved.

AGENDA ITEM – PERFORMANCE UPDATE

The Chair recognized Chris Morris and Jeff Smith, Co-CIOs, to present the performance update.

Mr. Smith provided an update regarding the United States economic environment for the third quarter of 2024 and further discussed the current quarter changes.

Mr. Morris began his presentation with an update on Assets Under Management (AUM), as of September 30, 2024.

Mr. Morris next moved on to the Total Asset Allocation as of September 30, 2024, discussing over and under allocations.

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 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 return and subsequent earnings of the plan for the prior one-year period.

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

Mr. Morris presented the Net of Fees Risk Metrics slide.

Mr. Morris discussed the peer universe comparison slides, which depicts our percentile rank. In strong markets we are expected to lag our peers, due to less equity exposure as compared to our peers and more fixed income assets. However, in falling markets, we outperform significantly.

Mr. Morris moved on to the liquidity profile slides, covering the structural liquidity, benefit payments, and cash flows within the alternatives sleeve.

Mr. Morris also covered the valuation lag slide.

Mr. Smith reported on Asset Class Net of Fees Performance and spoke about the Calendar Year Asset Class Return Diversification chart.

Mr. Smith moved on to the new and incremental investments and reported on unfunded investment commitments. Mr. Smith also discussed new commitments in private equity and inflation sensitive.

Mr. Smith moved along to Asset Allocation History with no material changes from last quarter reported.

AGENDA ITEM – INVESTMENT COST-EFFECTIVENESS REVIEW

The Treasurer introduced Palwasha Saa'im, CEM Benchmarking, Inc. to review a summary of results for the 5-year period that ended December 31, 2023. This review evaluated our cost effectiveness compared to peers (U.S. Public Funds).

NCRS total investment cost for 2023 was 25.3 basis points, compared to a peer median cost of 57.4 basis points. 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 (STIF) discussing the portfolio characteristics and rate history.

Mr. Smith discussed the Investment Grade Fixed Income portfolio. Mr. Smith discussed the portfolio allocations, performance, yields, and other characteristics

Mr. Hall next discussed the historical credit spreads and current corporate relative value and LTIP allocation by sector with no notable changes from prior quarter.

Mr. Smith presented FOMC Projections, the Fed Dot Plot chart, and market rate change expectations, and forward return expectations.

AGENDA ITEM – OPPORTUNISTIC F.I. ASSET CLASS REVIEW

The Treasurer introduced Ronald Funderburk, Investment Director of Opportunistic Fixed Income, and Ming Xu, portfolio manager.

Mr. Funderburk and Mr. Ming discussed the asset class's role in the overall portfolio, history, structure, and performance.

Mr. Funderburk next discussed that the team has been working with high conviction managers, which have helped achieve our goals while maintaining diversification. A dislocation mandate has been successful in providing returns, and we will continue to be proactive with this mandate. Mr. Funderburk also commented that special situations and distressed debt have performed well over a long period and the team has done well identifying good managers.

Mr. Funderburk next presented the credit market updates. Credit markets are functioning reasonably well, and he provided updates on private credit and structured credit. Current conditions of deteriorating economic environment creates volatility, which raises interest rate Inflation environment and has a continued impact of supply chain disruptions provide ability to originate loans with higher interest rates.

Mr. Funderburk presented that our portfolio priorities are outlined to take advantage of elevated spread and yield environment and with best-in-class managers that can pivot as conditions change. Mr. Funderburk stated that we will cautiously take advantage of elevated yield environment with best-in class managers. We also aim to opportunistically add differentiated private credit exposure, and the team will continue to focus on SMA's and Special Situations with co-investments.

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 IMD staff. They each expressed their gratitude to the IMD team.

The IAC member Q&A portion closed.

AGENDA ITEMS – RESOLUTIONS FOR RETIRING MEMBERS

The Treasurer stated that he is distributing resolutions and appreciation of service for the retiring board members, John Aneralla, Loris Colclough, and Greg Patterson.

EXPRESSION OF APPRECIATION – ADJOURNMENT

The Treasurer thanked Jeff Smith, Christopher Morris, and the Investment Management team and requested that there be a motion to express appreciation and gratitude to the retiring board members and to adjourn the meeting.

The Chair motioned to so express appreciation and to adjourn. The Committee as a group seconded the motion. The motion passed unanimously.

The Treasurer officially adjourned the meeting at approximately 11:46 a.m.

A handwritten signature in black ink, appearing to read 'Bradford B. Briner', is written over a horizontal line.

BRADFORD B. BRINER

NORTH CAROLINA STATE TREASURER AND CHAIR