

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA

# Public Equity Review

August 27, 2025



## Public Equity Team

Rhonda M Smith

Director

23+ years with IMD

29+ Years Industry Experience

Greg Taylor

Portfolio Manager

Trader

9+ years with IMD

12+ Years Industry Experience

Hunter Brackett

Portfolio Manager

Trader

< 1 year with IMD

20+ Years Industry Experience

VACANT

Investment Analyst

0-2 Years Industry Experience



## Role of Public Equity Portfolio

### Long-term Capital Growth

- Participate in global economic growth, including emerging markets via low cost, liquid public equity exposures.

### Incremental Returns

- Access security selection, trading and hedging skill.

### Opportunistic Allocations

- Utilize concentrated activist and pre-IPO strategies with a goal of material incremental returns.

### Diversification

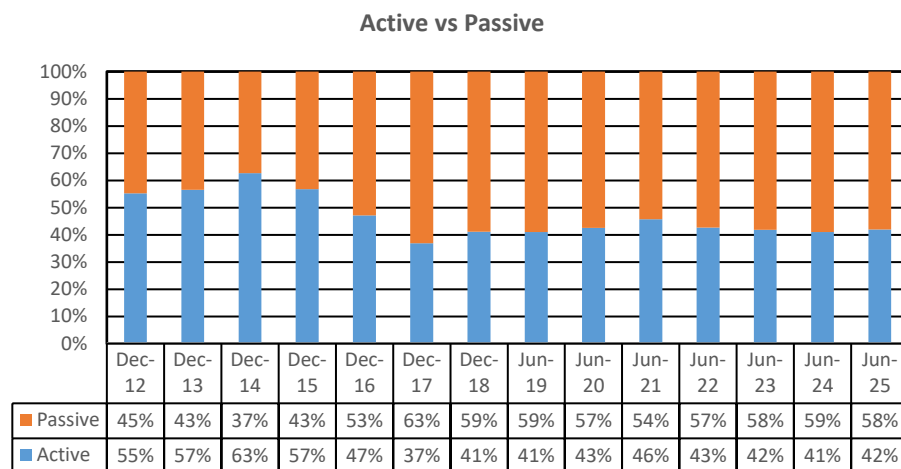
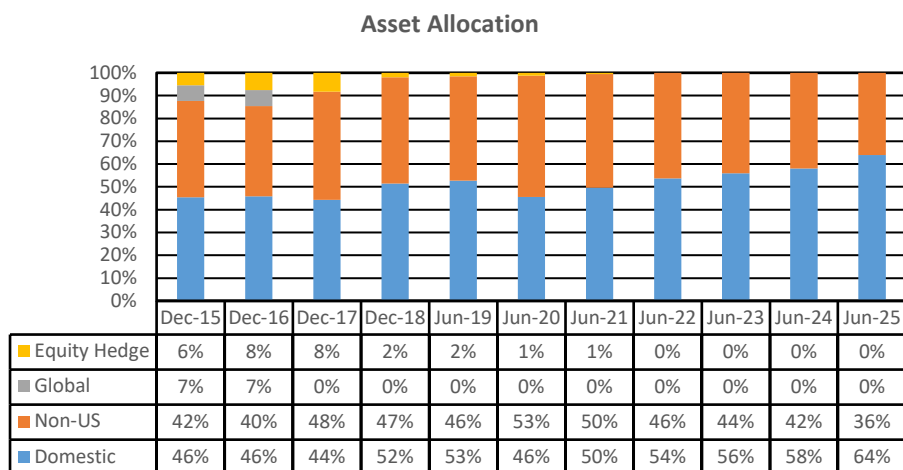
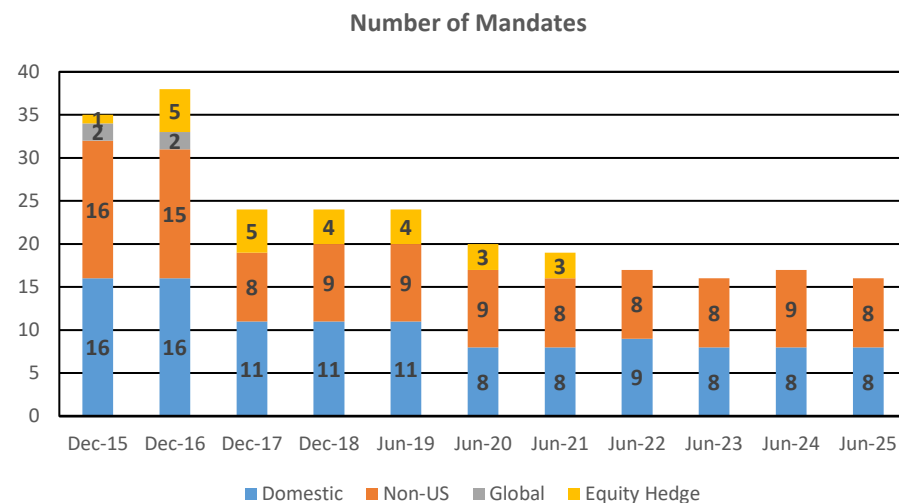
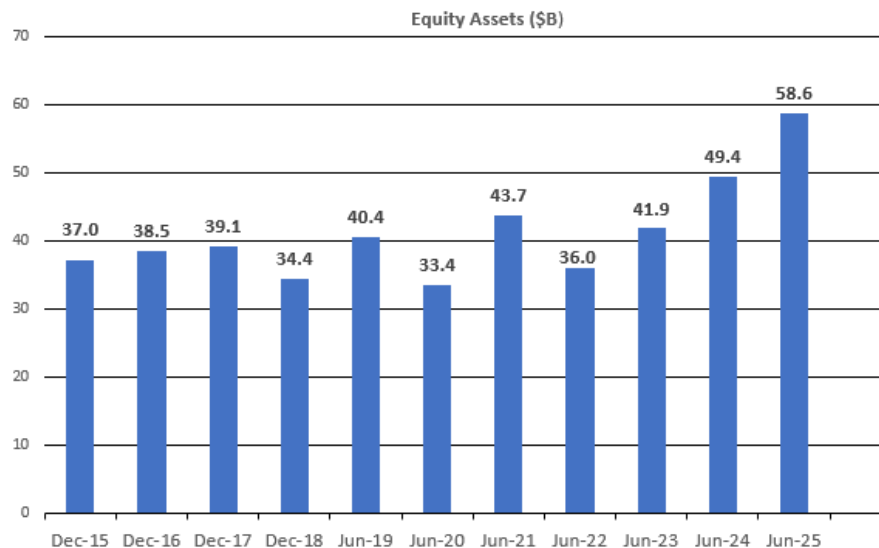
- Utilize long-biased and hedge funds as a means of providing partial mitigation of downside equity risk.

### Liquidity at a Low Cost

- Provide liquidity to the Fund.

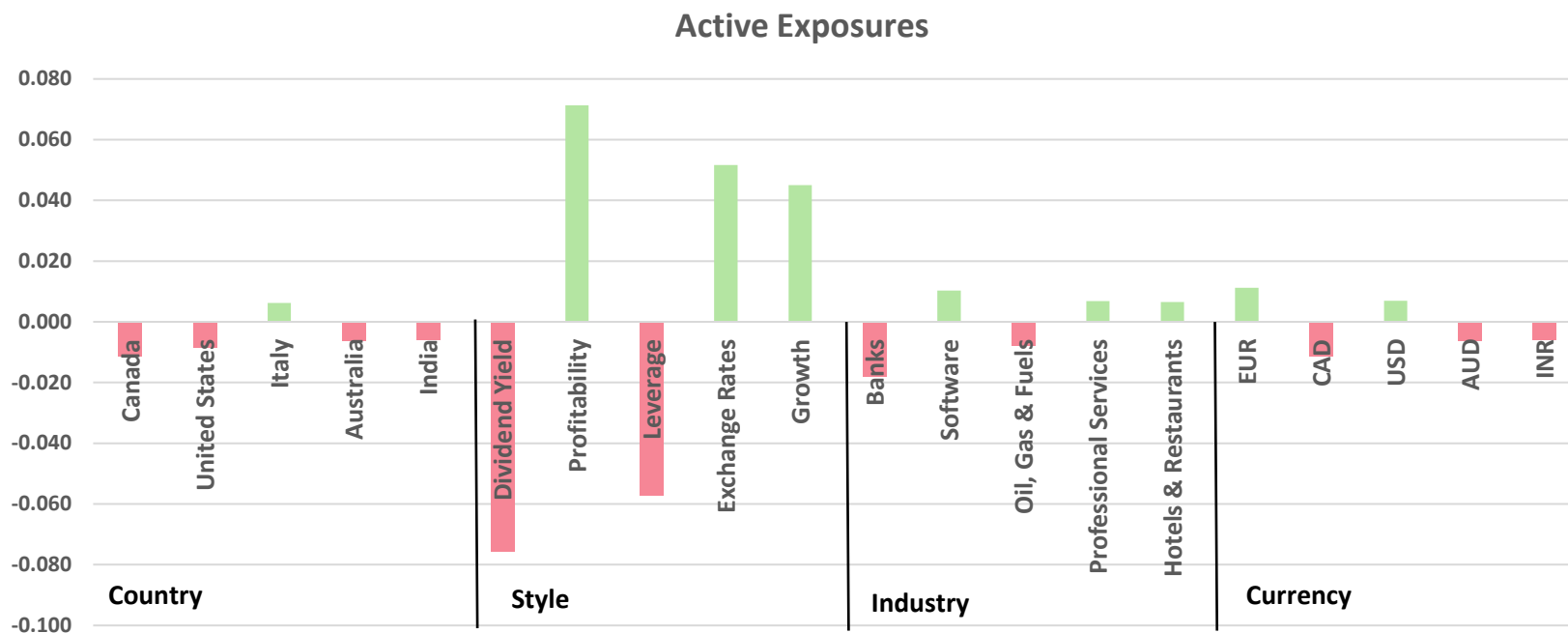
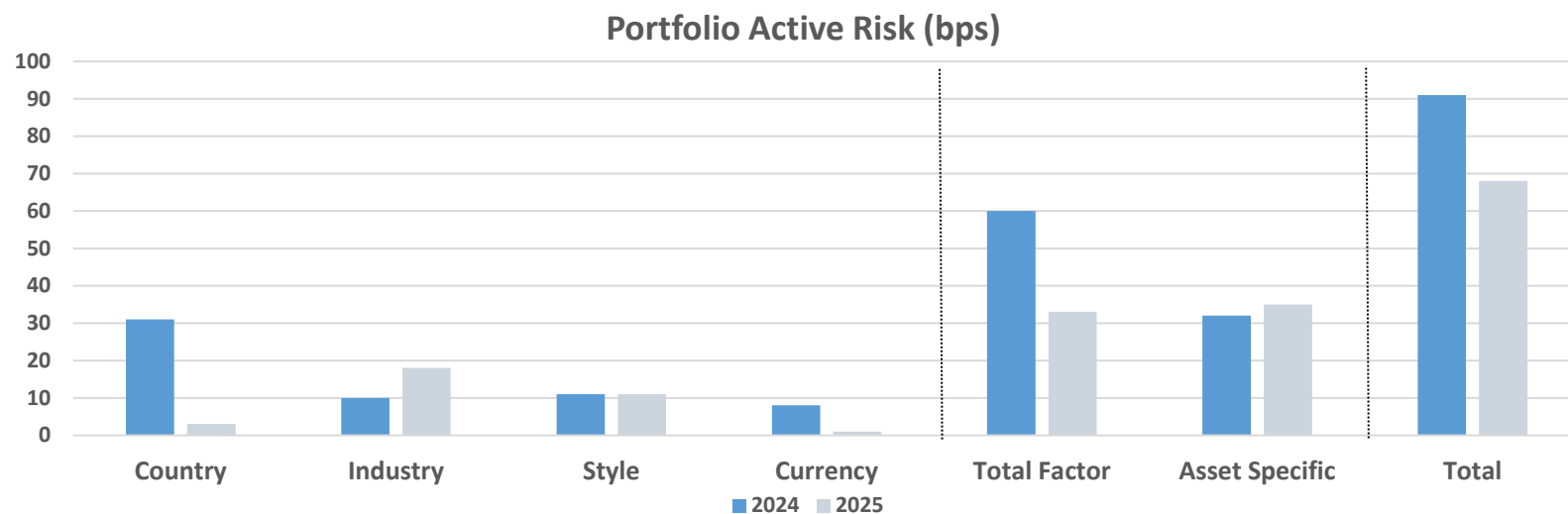


## Portfolio Allocations





## Portfolio Structure



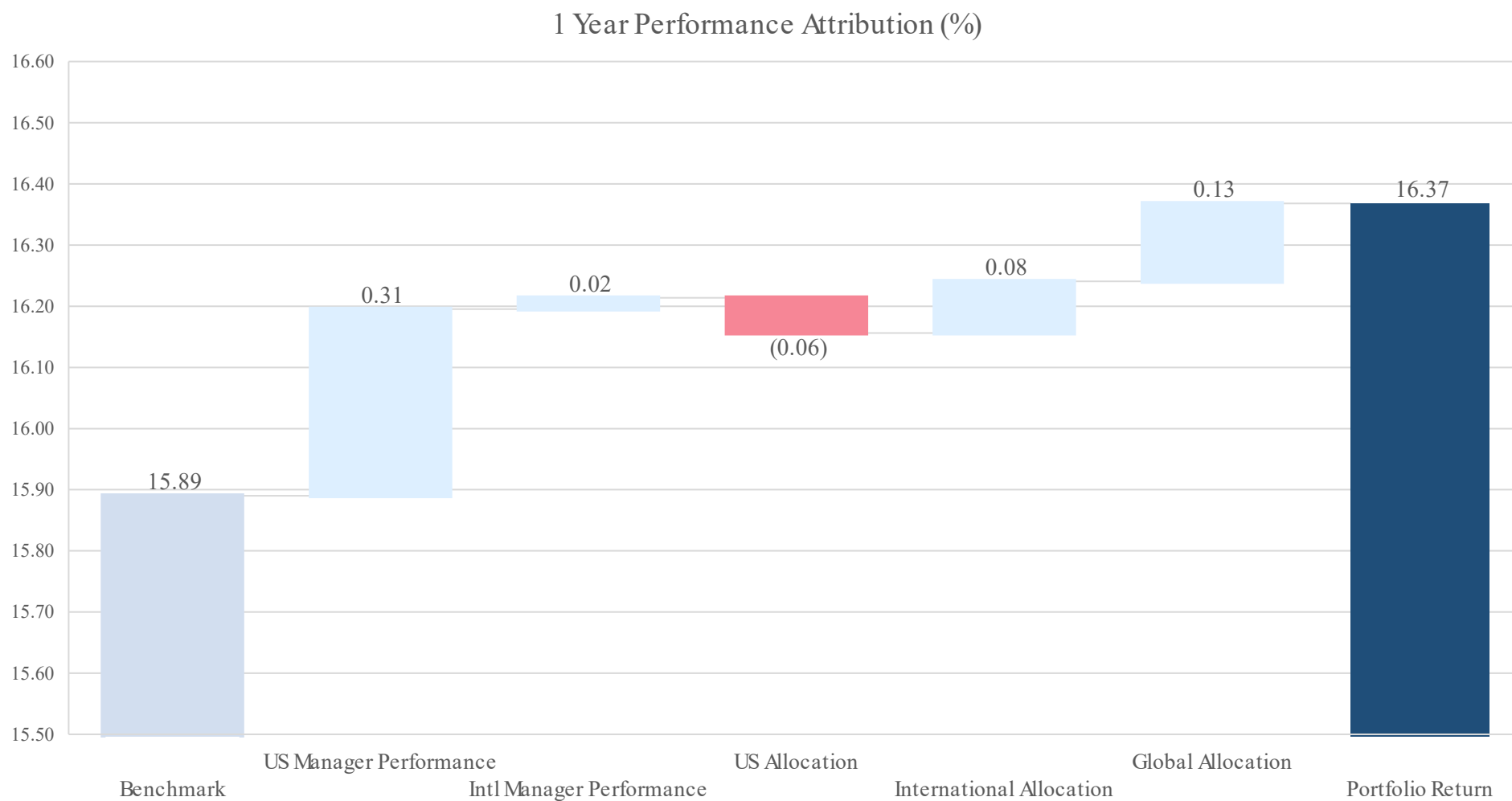


## Public Equity Net Performance – June 30, 2025

As of June 30, 2025	Market Value (M)	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	15 Yr.	20 Yr.
Public Equity	58,646.54	10.23	16.37	16.93	12.60	9.90	10.92	8.07
Benchmark		9.82	15.89	16.80	13.35	9.51	10.41	7.59
<b>Excess Return</b>		<b>0.41</b>	<b>0.48</b>	<b>0.13</b>	<b>-0.75</b>	<b>0.38</b>	<b>0.51</b>	<b>0.47</b>
US Portfolio	37,259.30	5.80	15.58	19.36	15.63	13.02	14.54	10.59
Russell 3000		5.75	15.30	19.08	15.96	12.96	14.46	10.53
<b>Excess Return</b>		<b>0.05</b>	<b>0.29</b>	<b>0.27</b>	<b>-0.34</b>	<b>0.06</b>	<b>0.07</b>	<b>0.06</b>
Non-US Portfolio	21,382.69	17.57	18.04	14.05	9.22	6.93	7.35	6.29
Benchmark		17.88	17.83	13.92	10.20	6.18	6.77	5.38
<b>Excess Return</b>		<b>-0.32</b>	<b>0.21</b>	<b>0.12</b>	<b>-0.98</b>	<b>0.75</b>	<b>0.58</b>	<b>0.91</b>



## Performance Attribution – 1 year





## Strategies Utilized within Public Equity to Achieve Outperformance

### Internal Management

- Low-cost index exposure in efficient market spaces
- Ease of rebalancing to policy targets
- Quantitative active tilt strategies

### Customization & Strategic Partnerships

- Bespoke and flexible investment arrangements
- Co-investments (activist and pre-IPO)

### Risk Mitigation

- Reduce and/or eliminate unintended portfolio misfit risk
- Strategically incorporate value-add risk approaches

### Scale

- Leverage Plan size to drive fee alignment and favorable contractual terms
- Meaningful allocation sizes

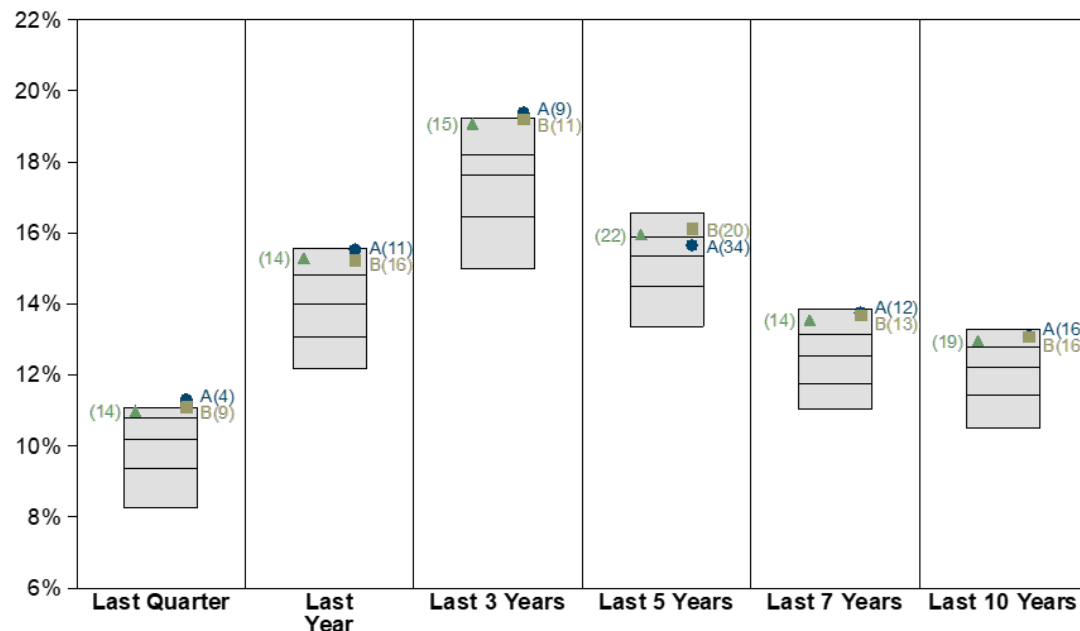




## NCRS Domestic Equity Portfolio – Public Fund Peer Comparison

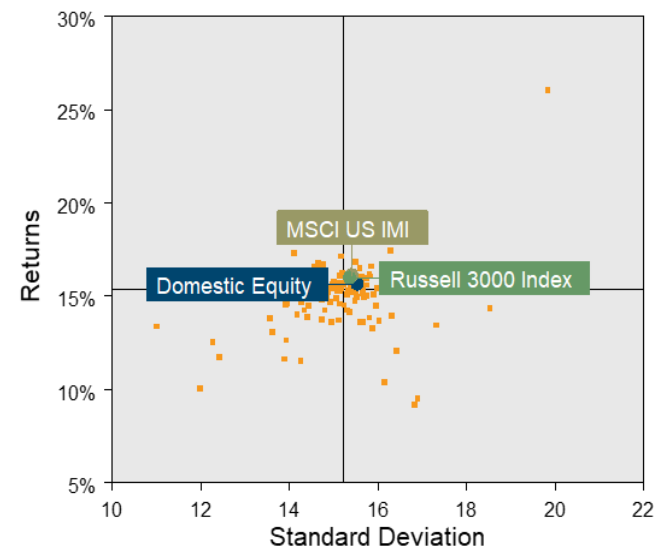
Performance vs Public Fund - Domestic Equity (Gross)

Performance of domestic equity composite ranks in the top quartile for 1-, 3-, 7-, and 10-year time frames.



10th Percentile	11.08	15.57	19.23	16.58	13.86	13.29
25th Percentile	10.78	14.81	18.19	15.87	13.14	12.78
Median	10.18	13.98	17.61	15.34	12.52	12.22
75th Percentile	9.35	13.07	16.46	14.49	11.76	11.44
90th Percentile	8.25	12.18	15.00	13.37	11.03	10.49
Domestic Equity	11.30	15.52	19.37	15.64	13.74	13.08
MSCI US IMI	11.09	15.23	19.20	16.11	13.68	13.07
Russell 3000 Index	10.99	15.30	19.08	15.96	13.55	12.96

Public Fund - Domestic Equity (Gross)  
Annualized Five Year Risk vs Return



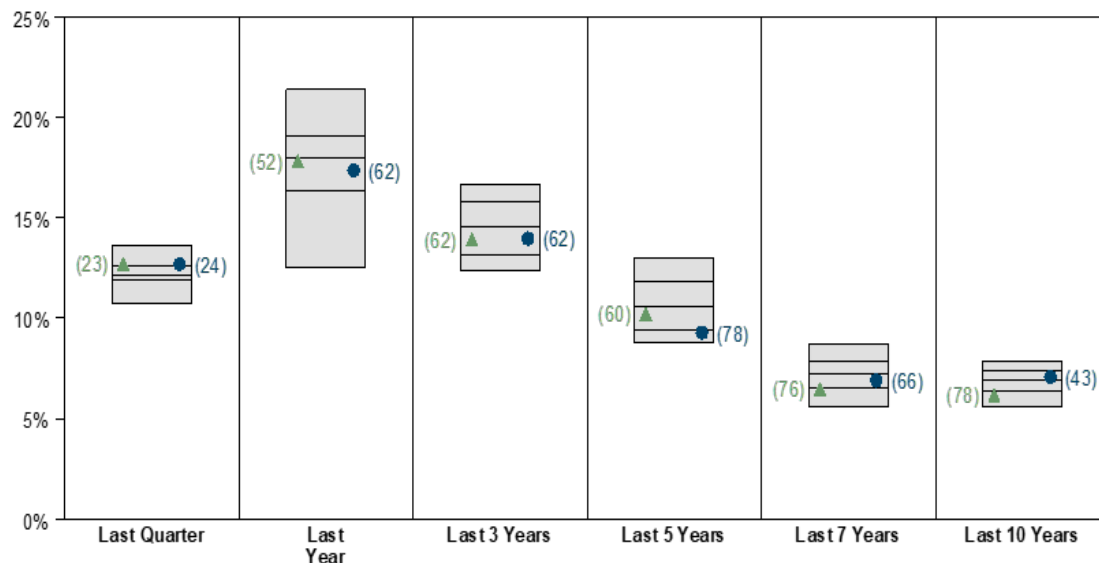
- The domestic equity composite is ahead of the Russell 3000 broad market index across most time frames
- Over 75% of the domestic equity portfolio is passively implemented to replicate the large/mid cap components of the benchmark

Peers are represented by the domestic equity composites of approximately 160 public funds ranging from approximately \$10 million to \$32 billion



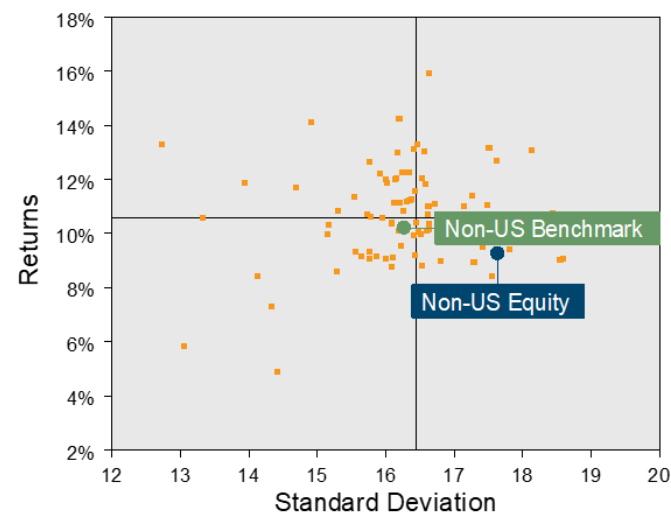
## NCRS International Equity Portfolio – Public Fund Peer Comparison

### Performance vs Public Fund - International Equity (Gross)



10th Percentile	13.66	21.39	16.66	13.02	8.69	7.85
25th Percentile	12.61	19.11	15.77	11.83	7.82	7.39
Median	12.12	17.98	14.54	10.59	7.26	6.92
75th Percentile	11.90	16.38	13.19	9.40	6.51	6.35
90th Percentile	10.72	12.52	12.39	8.77	5.59	5.60
<b>Non-US Equity</b> ●	12.67	17.33	13.94	9.25	6.86	7.04
<b>Non-US Benchmark</b> ▲	12.71	17.83	13.92	10.20	6.49	6.18

### Public Fund - International Equity (Gross) Annualized Five Year Risk vs Return



- Performance challenges over 5-year period largely driven by exposures to growth style managers (e.g., Baillie Gifford) as growth underperformed value in 2H2021 and 2022 (note that Baillie Gifford was ahead of benchmark/peers by over 60% in CY2020)
- Higher risk profile over five-year time frame has, on the margin, been rewarded with higher relative return

Peers are represented by the international equity composites of approximately 160 public funds ranging from approximately \$10 million to \$32 billion



## 2025 Internally Managed Portfolios Activity

Account	Flow	Month	Rationale
Russell 1000	975,115,689	February	Reweight between US & Non-US Equity allocations; Plan Rebalance into Public Equities
US Small Cap	300,000,000	March	
TOBAM Max Div US	(603,080,570)	March	
US Core Factor	2,138,953,020	April	
Russell 1000	1,053,354,969	April	
US Small Cap	102,146,908	April	Plan Rebalance out of Equities
Russell 1000	(718,000,258)	June	



## Internally Managed Portfolios Performance

As of June 30, 2025	Market Value (M)	YTD	1 Yr.	3 Yr.	Since Inception	Inception Date
Russell 1000 Internal	26,779	6.12	15.66	19.60	19.60	June 2022
Russell 1000		6.12	15.66	19.59	19.59	
<b>Excess Return</b>		0.00	0.00	0.01	0.01	
Internal US Core Factor	3,988	6.57	15.46	18.37	11.72	Feb 2022
Russell 1000		6.12	15.66	19.59	11.10	
<b>Excess Return</b>		0.45	-0.20	-1.22	0.62	



## Areas of Strategic Focus



Staffing, tools and resources



Additional internal quantitative and thematic investment strategies



Dedicated global equity strategies



Private to public co-investment considerations



Hedge funds and long-biased strategies



Activist strategies



---

## APPENDIX

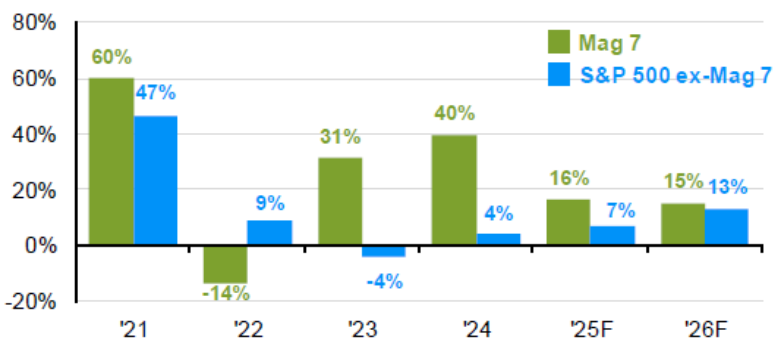


## Magnificent 7 Performance Is Less Dominant This Year

- The Magnificent Seven stocks dominated U.S. large cap index returns in 2023-24 as the AI theme became prevalent
- This was partly driven by the disparity in earnings growth between the Magnificent Seven and the rest of the S&P 500
- In the first half of 2025, the Magnificent Seven drove a smaller portion of the S&P 500's return as market performance broadened to include other growth stocks
- While the earnings outlook for the Magnificent Seven remains positive, the disparity with the rest of the S&P 500 has narrowed considerably

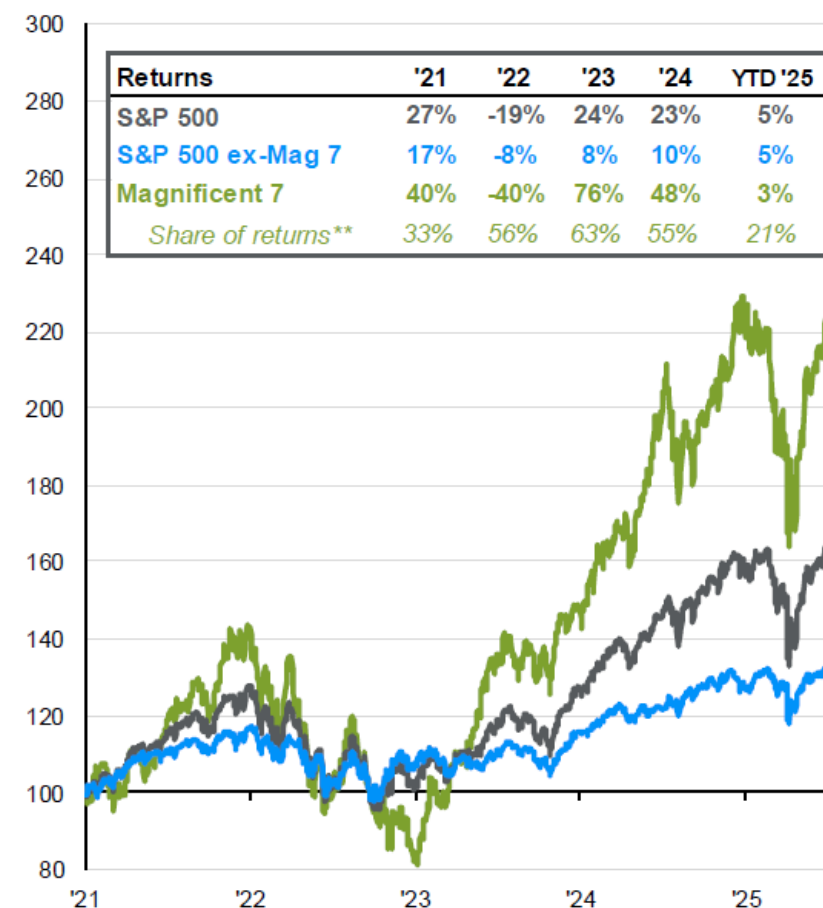
### Earnings growth

Year-over-year



### Performance of "Magnificent 7" stocks in S&P 500\*

Indexed to 100 on 1/1/2021, price return



\*\* Share of returns represent how much each group contributed to the overall return.



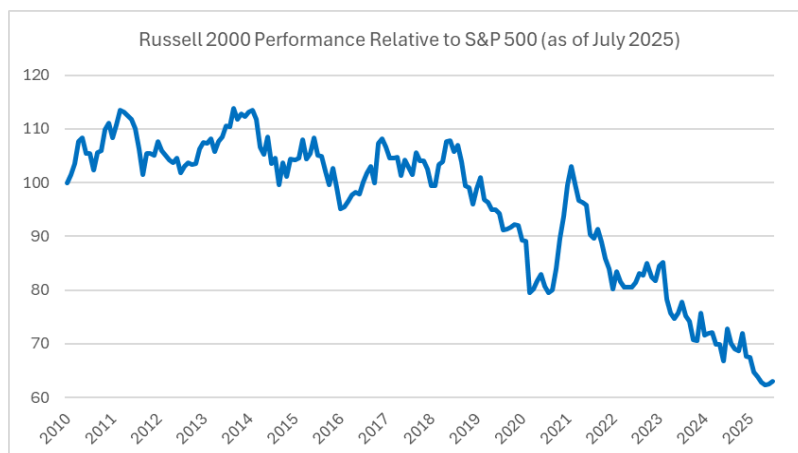
# Performance Disparity Between U.S. Large and Small Cap

## U.S. small cap continues to underperform large cap

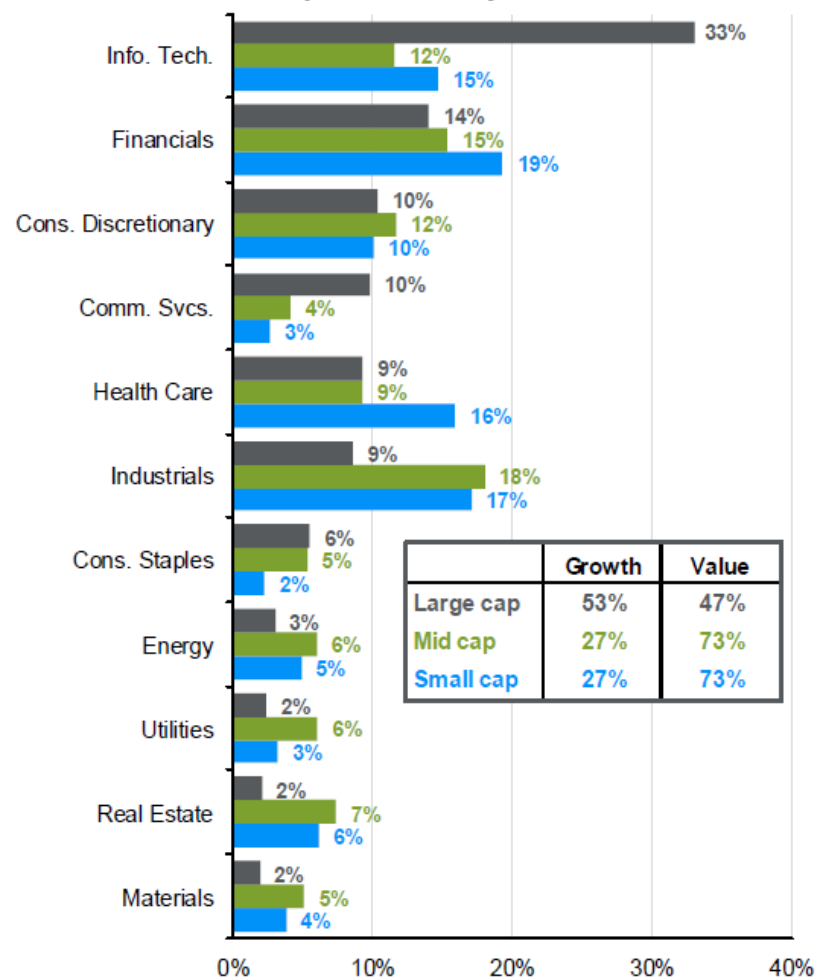
- Since 2010, small cap has been one of the big three underperforming portfolio strategies alongside value vs. growth and non-U.S. stocks vs. U.S.

## Why has small cap underperformed broadly?

- Lower quality:** Small cap (Russell 2000) continues to have a higher proportion of unprofitable companies and lower earnings growth
- Sector composition:** The small cap index has a much lower weight to the tech sector and growth stocks overall
- Tech underperformance:** Large cap tech stocks have significantly outperformed small cap tech since 2010, with most of that excess performance occurring post-2019



## Percent of market capitalization by sector







## International Stocks Outperforming U.S. This Year

- Following significant underperformance in 2024, international stocks outperformed the U.S. in the first half of 2025 aided by a weaker U.S. dollar
- Even in local currency terms, international stocks have performed well vs. the U.S. this year despite the tariff headlines
- Low valuations and improving earnings growth expectations have been tailwinds, along with catalysts such as increased European defense spending

### Cycles of international outperformance and the U.S. dollar

International out/underperformance versus U.S., MSCI AC World ex-U.S., S&P 500, total return, USD, rolling 3-yrs. ann.

