

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES — February 22, 2023**

Time and Location: The Investment Advisory Committee ("IAC" or the "Committee") met on Wednesday, February 22, 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), Greg Patterson, Michael Mebane, Loris Colclough 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, Joan Fontes, Kathy O'Neill, Gail Kadash, Fran Lawrence, Casey High, Greg Taylor, Brad Bullock, Tina Kapoor, Deana Solomon, Troy March, Brett Hall, John Krudewig, Michael Nichols, Rekha Krishnan, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Thomas Causey, Anne Roof, Ben Garner, Jason Sass, Trevor Parrish, Paul Palermo, Marc Brunner, Kristin Billimoria, Frank Lester.

Others in Attendance: Charles Ashmun (Blackrock), Mitchell King (Blackrock), Ben Beaulieu (Blackrock), Julia Dunton (Blackrock), Tyler Dukes (newsobserver.com), Virginia Rodino (pestakeholder.org), Greg Balewicz (lordabbett.com), Courtney Crowder, Sofia Sim (gs.com), Kaleb Pittman (apcoworldwide.com), Justin Flores (pestakeholder.org), Madeline Bankson (pestakeholder.org), Jessica Moreno (actionnc.org).

AGENDA ITEM – OPENING REMARKS

The meeting was called to order at approximately 9:00 a.m. by Benjamin Garner. 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. Patterson moved, Mr. Colclough 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 Chris 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 fourth quarter of 2022 and further discussed the current quarter changes.

Mr. Morris began his presentation on slide 7 with an update on Capital Market Expectations for NCRS and each underlying asset class, given the material changes in interest rates since the completion of the ALM study in 2022. Mr. Morris next presented with slide 8, the total assets under management were \$164.9 billion as of December 31, 2022, which is up \$3.3 billion for the quarter but down over \$11 billion for the calendar year.

Mr. Morris next reported on the asset allocation as of December 31, 2022, 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. The portfolio returned 3.9% for the fourth quarter of 2022 and returned -10.4% for the calendar year.

Mr. Morris discussed the Growth of a Dollar charts on slides 12 and 13, 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 1997, which is the beginning of the pensions' performance record.

Mr. Morris moved on to the Contribution to Total Plan Return on slide 14. 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 on slide 15, discussing 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 show our percentile rank relative to pension peer plans on a return and risk basis.

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

Mr. Smith next presented that the net benefits payment by calendar year on slide 23.

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

Mr. Smith next discussed new and incremental investments, including some new commitments in Non-Core Real Estate and Opportunistic Fixed Income.

Mr. Smith moved along to Asset Allocation History on slide 30, and the Top 20 Investment Managers presentation on slide 32. Committee members asked a series of questions about slide 32, including questions on current and future opportunities relating to uncalled capital and the secondary market, that were answered by Mr. Smith and the directors of each asset class: Craig Demko (Investment Director of Private Equity), Troy March (Investment Director of Real Estate), and Ronald Funderburk (Investment Director of Opportunistic Fixed Income, Inflation Sensitive, and the Multi-Strategy portfolios).

AGENDA ITEM – INFLATION SENSITIVE ASSET CLASS REVIEW

The Treasurer introduced Ronald Funderburk, Investment Director of Opportunistic Fixed Income, Inflation Sensitive, and the Multi-Strategy portfolios.

Mr. Funderburk discussed the Inflation Sensitive asset class's role in the portfolio, diversification, historical allocations by sub-strategy, historical commitments and unfunded, current strategy allocation,

and performance on an absolute and benchmark relative basis. Overall, the portfolio is performing in a manner consistent with its mandate.

Mr. Funderburk introduced John Krudewig, an analyst on the team to provide an update on the current inflationary environment.

Mr. Funderburk discussed strategic considerations for 2023 along with investment strategies of interest.

AGENDA ITEM – PUBLIC COMMENT

The Treasurer first reviewed the public comment guidelines, with Mr. Garner providing additional explanation, before introducing the commenters.

Mr. Justin Flores was introduced for public comment.

Ms. Madeline Bankson was introduced for public comment.

The Treasurer closed out the public comments.

AGENDA ITEMS – IAC MEMBER Q&A

IAC members were provided with the opportunity to pose questions to the Treasurer and Investment staff. The Treasurer referenced there were no changes to the board. IAC members thanked the staff for their work and presentations.

After these comments, the IAC member comment portion closed.

ADJOURNMENT

The Treasurer noted adjourning the meeting in honor of Senator Jim Broyhill. The Treasurer next thanked Jeff Smith, Christopher Morris and the Investment Management team and requested that there be a motion to adjourn the meeting.

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

The Treasurer officially adjourned the meeting at approximately 10:50 am.



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