

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES — May 31, 2023**

Time and Location: The Investment Advisory Committee ("IAC" or the "Committee") met on Wednesday, May 31, 2023, at 11:00 a.m. via conference call and GoTo Webinar.

Members Present: State Treasurer Dale R. Folwell (Chair).

Members Attending via Webinar: John Aneralla, Lentz Brewer, Loris Colclough, Greg Patterson.

Staff Present (in person and virtual): Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Kathy O'Neill, Gail Kadash, Fran Lawrence, Casey High, Greg Taylor, Brad Bullock, Tina Kapoor, Deana Solomon, Troy March, Brett Hall, John Krudewig, Rekha Krishnan, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Shaun Braswell, Anne Roof, Jason Sass, Trevor Parrish, Daniel Baker, Laura Rowe, Frank Lester.

Others in Attendance: Charles Ashmun (Blackrock), Mitchell King (Blackrock), Sean Robertson (Blackrock), Julia Denton (Blackrock), Brian Bode, Scott Kreft, Ben Agsten (OSBM), Jonathan Brooks, John Kevin Balaod, Brian Kahley (Franklin Templeton), Courtney Degen (pionline.com), Gregg Gethard (peimedia.com), Kaleb Pittman, Justin Flores (pestakeholder.org),

AGENDA ITEM – OPENING REMARKS

The meeting was called to order at approximately 11:05 a.m. by Ted Brinn. Meeting etiquette information and Webinar/Conference line use was shared by Jason Sass. Mr. Sass confirmed there was a quorum and provided procedures for virtual guidelines.

The Chair then commenced the meeting.

AGENDA ITEM – APPROVAL OF MINUTES

Mr. Aneralla moved, Mr. Patterson seconded, and there was a member roll call to approve the minutes. Mr. Sass 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 first quarter of 2023, touching on interest rates and inflation, equity markets, and broad economic indicators. Mr. Smith also provided updates on the banking sector and upcoming interest rate increases.

The Treasurer joined the meeting and Mr. Morris next presented an update on Assets Under Management (AUM), as of March 31, 2023, showing total AUM at \$170.5 billion, which is up \$5.6 billion for the quarter and up \$3.5 billion since the prior fiscal year.

Mr. Morris next reported on the asset allocation as of March 31, 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. The portfolio returned 3.8% for the first quarter of 2023.

Mr. Morris discussed the Growth of a Dollar charts, which illustrates 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. 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 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 slide.

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. Mr. Smith reported that the unfunded Investment commitments came in at a little over 6% of total pension plan market value. Mr. Smith also discussed the Top 20 Investment Managers, noting the internally managed portfolios make up more than 50% of the assets.

AGENDA ITEM – REAL ESTATE ASSET CLASS REVIEW

The Treasurer introduced Troy March, Investment Director of Real Estate portfolio.

Mr. March discussed the portfolio's history, its role in the portfolio, and how it is structured. Real Estate Sector Analysis with higher risk in the Hotel and Office Real Estate. Mr. March reported that the Real Estate Investment Allocation in Non-Core Portfolio and Global Diversified, Total Real Estate Portfolio is 5.8% Core, and 2% Non-Core was presented with total allocation to Real Estate at 7.9% with a legislative cap of 10% and Policy Target at 8%.

Casey High moved on to a review of the Real Estate Cash Flow and reported there has been on an average of \$651 million net distributions in the prior year and year to date net contributions were \$225 million. Fees remain low as we continue to leverage relationships and scale to minimize costs and enhance alignment.

Mr. March next gave a review of property type diversification and geographic diversification. Our portfolio has shown a strong performance from Industrial, Multifamily, and Retail in the 1-year period which helped to offset poor performance of Office and Global REITs. Mr. March next discussed the performance of non-

core Real Estate where our underweight to Industrial and legacy vintage year exposure contributed to near term underperformance.

Mr. March then reviewed the current environment and concluded by discussing the strategic considerations for the Real Estate Portfolio in the current year.

AGENDA ITEM – IAC CODE OF ETHICS

The Treasurer introduced Jason Sass, Assistant General Counsel, to discuss the IAC Code of Ethics. Mr. Sass provided three main highlights of the IAC Code of Ethics – restricting transactions, recusal from voting or evaluating investment matters, and establishing a duty. Mr. Sass also mentioned that an electronic copy of the Code of Ethics was sent to the board members and staff will follow up for an acknowledgement from each member.

Mr. Sass next presented the important policies: Investment Policy Statement, Investment Manager and Vehicle Selection policy, and the Divestment and Contract Prohibition policy. There have been no updates to these policies since the last time they were discussed.

AGENDA ITEM – PUBLIC COMMENT

The Treasurer opened for public comment. There were no public comments.

The Treasurer closed the public comment period.

AGENDA ITEMS – IAC MEMBER Q&A

IAC members were provided with the opportunity to pose questions to the Treasurer and Investment staff. They each expressed their gratitude to the IMD team.

The IAC member Q&A portion closed.

ADJOURNMENT

The Treasurer noted that he was adjourning the meeting in honor of Memorial Day and those missing in action. The Treasurer next thanked Jeff Smith, Christopher Morris, and the Investment Management team and requested a motion to adjourn the meeting.

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

The Treasurer officially adjourned the meeting at approximately 12:15 p.m.



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