

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

**INVESTMENT POLICY STATEMENT
FOR NORTH CAROLINA RETIREMENT SYSTEMS**

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TABLE OF CONTENTS

PROVISIONS FOR THE OVERALL PENSION FUND INVESTMENT PROGRAM.....	2
I. INTRODUCTION AND PURPOSE.....	2
II. ROLES AND RESPONSIBILITIES	3
III. INVESTMENT OBJECTIVES	4
IV. STRATEGIC ASSET ALLOCATION AND PORTFOLIO CONSTRUCTION.....	4
V. RISK MANAGEMENT AND CONTROLS	6
VI. ASSET VALUATION.....	7
VII. BENCHMARKING AND REPORTING REQUIREMENTS	7
VIII. OTHER PROGRAMMATIC INITIATIVES	9
IX. IMPLEMENTATION GUIDELINES	9
APPENDIX 1: STRATEGIC ASSET ALLOCATION AND “ROLE-IN-PORTFOLIO” APPROACH.....	12
APPENDIX 2: PORTFOLIO INVESTMENT STRATEGY AND GUIDELINES	14
CASH PORTFOLIO	14
INVESTMENT GRADE FIXED INCOME PORTFOLIO	16
PUBLIC EQUITY PORTFOLIO.....	18
PRIVATE EQUITY PORTFOLIO	20
NON-CORE REAL ESTATE PORTFOLIO.....	22
OPPORTUNISTIC FIXED INCOME PORTFOLIO	24
INFLATION SENSITIVE PORTFOLIO.....	26
CORE REAL ESTATE PORTFOLIO.....	28
MULTI-STRATEGY PORTFOLIO	31
APPENDIX 3: STATUTORY COMPLIANCE PROCEDURES	32
GLOSSARY	34
REVISION/REVIEW HISTORY	34

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

PROVISIONS FOR THE OVERALL PENSION FUND INVESTMENT PROGRAM

I. INTRODUCTION AND PURPOSE

A. Program Overview

Pursuant to North Carolina General Statute § 147-69.2(b)(8), the North Carolina Retirement Systems include the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firemen's and Rescue Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund and the Retiree Health Benefit Fund (collectively, "NCRS"). The Treasurer of the State of North Carolina (the "Treasurer") maintains the investment program for NCRS assets (the "Fund"). The Investment Management Division ("IMD") of the North Carolina Department of State Treasurer (the "DST") serves as the investment arm of the Treasurer. Under the direction of the Treasurer, IMD manages the NCRS, Short-Term Investment Fund, Escheat Fund, and Other Ancillary Programs.

B. Purpose of This Policy

The Treasurer sets forth this Statement of Investment Policy (this "Policy"), which states the long-term objectives and guidelines for IMD with respect to investing the Fund. This Policy's purpose is to capture strategic considerations for the Fund and individual asset classes. IMD staff shall recommend revisions to this Policy to the Treasurer on an as-needed basis and shall review this Policy no less frequently than annually, and shall present this Policy to the Investment Advisory Committee no less frequently than biennially.

C. Related Laws and Policies

The North Carolina Constitution provides that the Fund shall be used solely for the provision of benefits to State retirees and the payment of expenses related thereto. Article 5, § 6.(2). State statutes list eligible investments for the Fund, set maximum percentages certain types of investments can comprise of total invested assets of the Fund, (NCGS §147-69.2), and contain provisions regarding administration of the investment programs of the Treasurer, including the Fund. (NCGS § 147-69.3.)

The Treasurer is the sole statutory fiduciary of the Fund, and the Treasurer is obligated to discharge his duties solely in the interest of the participants and beneficiaries of NCRS and in accordance with NCGS §147-69.7. The Treasurer has adopted the Signatory Authority Policy (as amended from time to time, the "Signatory Authority Policy") that sets forth the authorizations for IMD staff to act on behalf of the State Treasurer with regard to investment-related matters. The Signatory Authority Policy defines what authority the Treasurer has delegated and what authority the Treasurer has retained. Notwithstanding anything in this Policy to the contrary, any action by IMD staff under this Policy shall be subject to compliance with the Signatory Authority Policy, including execution of documents by the Treasurer and/or such person designated under the Signatory Authority Policy.

This Policy and the Signatory Authority Policy, taken together, are intended to cover all general matters concerning investment of the Fund and replace all prior general investment policy statements for the Fund. Additional policies, procedures, or desktop guides document certain matters that are highly specialized or routine in nature. If a conflict appears to exist between this Policy and any other policy, rule, procedure, or desktop guide, staff must contact the Chief Investment Officer and the DST's in-house legal counsel for resolution of the conflict.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

II. ROLES AND RESPONSIBILITIES

The statutory fiduciary responsibility to manage the Fund in a prudent manner rests with the Treasurer. The Treasurer may authorize IMD to perform certain activities with respect to the administration, management, and operation of the Fund as outlined in the roles and responsibilities below.

A. State Treasurer

1. Act as a fiduciary of the Fund pursuant to NCGS § 147-69.3(e)
2. Select, monitor, evaluate, and terminate the Chief Investment Officer
3. Appoint an Investment Advisory Committee (“IAC”), establish its written charter, and chair the IAC
4. Recommend statutory revisions to the General Assembly
5. Approve all investment policies and any revisions thereto
6. Monitor compliance with all policies
7. Approve asset allocation targets and benchmarks as recommended by IMD or the IAC
8. Approve and terminate investment managers as recommended by IMD
9. Approve recommendations that improve the cost-effectiveness of the Fund
10. Review the risk analytics of the Fund over various time periods
11. Approve selection and retention of a custodial bank
12. Approve selection and retention of consultants and third-party service providers as recommended by IMD
13. Review performance, portfolio positioning, and risk reports
14. Consult with legal counsel regarding documents, securities litigation, and other legal matters

B. Investment Advisory Committee

1. Act as an advisory body to the Treasurer in accordance with NCGS §147-69.2(bl)
2. Assist in selection and evaluation of the Chief Investment Officer
3. Review and recommend investment policies
4. Review asset allocations
5. Review and comment on investment management structure
6. Review and evaluate the selection and monitoring of investment managers
7. Review performance and cost reports
8. Review and evaluate the custodian arrangement
9. Evaluate the selection of consultants
10. Evaluate governance, operations, and investment practices
11. Evaluate ethics policies
12. Provide advice on other investment matters as requested by the Treasurer

C. Investment Management Division

1. Act as a fiduciary with respect to the responsibilities assigned to it by the Treasurer
2. Develop clearly defined responsibilities for the roles of the Chief Investment Officer and other team members
3. Recommend statutory revisions to the Treasurer
4. Draft and make Investment Policy recommendations
5. Monitor compliance with policies and guidelines for all internal and external investment-related activities
6. Research and recommend asset allocation targets and benchmarks

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

7. Source and conduct due diligence on attractive investment opportunities; Make investment manager hire and termination recommendations to the Treasurer
8. Develop recommendations to improve the cost-effectiveness of the Fund
9. Generate and review the risk analytics of the Fund at various time periods
10. Manage and monitor the custodial bank relationship
11. Review resources and make recommendations for the retention of investment consultants and third-party service providers
12. Prepare performance, portfolio positioning summary, and risk reports for the Treasurer and the IAC
13. Consult with legal counsel regarding documents, policy, securities litigation, and other legal matters
14. Prepare data and presentations for the IAC
15. Assist the Treasurer with respect to all matters related to the Fund, including: requests from the Retirement Board of Trustees and considerations of the Financial Operations Division (“FOD”)
16. Provide advice on other investment matters as requested by the Treasurer

III. INVESTMENT OBJECTIVES

The Treasurer promotes the following objectives:

- A. Providing investment returns sufficient for the Fund to make timely payment of statutory benefits to current and future members and keep contribution rates at a reasonable level over the long term. To achieve this, long-term projected investment returns shall be generally consistent with the actuarial assumed rate of return, unless otherwise determined by the Treasurer¹
- B. Avoiding excessive volatility in contribution rates over the intermediate term by maintaining a moderate risk profile and diversifying with respect to economic and financial risk factors. It is acceptable to limit the use of return-seeking strategies in order to avoid excessive volatility
- C. Achieving cost-efficiency in the overall investment program
- D. Exceeding composite benchmark returns for the Fund and broad categories of investments within reasonable risk limits and over market cycles
- E. Ensuring sufficient liquidity to meet the Fund’s obligations over all time periods
- F. Complying with all governing statutes and fiduciary obligations.

IV. STRATEGIC ASSET ALLOCATION AND PORTFOLIO CONSTRUCTION

A “Strategic Asset Allocation” shall be established through consideration of the Fund’s projected actuarial liabilities, liquidity needs, risk tolerance, and the role that different asset categories and strategies are expected to play in the overall portfolio construction. The Strategic Asset Allocation shall be reviewed no less than annually and a detailed asset-liability study shall be conducted every 3 – 5 years, assuming that benefit design and funding policy is unchanged. The current Strategic Asset Allocation, consisting of targets and authorized ranges, is detailed in Table 1.

¹ The NCRS’ actuary advises the applicable Retirement Boards of Trustees with respect to setting the actuarial assumed rate of return and annual required contributions. The Retirement Boards of Trustees have been granted the authority by the legislature to set the actuarial assumed rate of return for the Fund, which is currently 6.5%.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

Table 1: Strategic Asset Allocation Targets and Policy Ranges

	Minimum	Target	Maximum
Rates and Liquidity	24%	29%	42%
<i>Investment Grade Fixed Income</i>	24%	28%	32%
<i>Cash</i>	0%	1%	10%
Growth	37%	58%	71%
<i>Public Equity</i>	37%	42%	47%
<i>Private Equity</i>	0%	6%	8.75%
<i>Non-Core Real Estate</i>	0%	3%	8%
<i>Opportunistic Fixed Income</i>	0%	7%	7.5%
Inflation Sensitive and Diversifiers	4%	11%	16%
<i>Inflation Sensitive</i>	2%	6%	7.5%
<i>Core Real Estate</i>	2%	5%	10%
Multi-Strategy	0%	2%	4%

Note: Statutory compliance limitations and considerations are described below in Section V, Paragraph E and Appendix 3.

The foundations of the Strategic Asset Allocation are the broad categories labeled Rates and Liquidity, Growth, Inflation Sensitive and Diversifiers, and Multi-Strategy. Appendix 1 describes the “Role-in-the- Portfolio” each category is expected to play given the intermediate- and long-term economic and financial market outlook. The “Portfolios” are key groupings one level lower comprised of distinct assets and strategies with specific risk characteristics. Table 2 contains qualitative expectations of the Portfolios’ risk characteristics.

Table 2: Long-Term Qualitative Portfolio Risk Expectations

Portfolios	Volatility	Equity Beta	Inflation Beta	Bond Beta	Liquidity	Active Risk
Rates and Liquidity						
Cash	Low	Low	Moderate	High	High	Low
Investment Grade Fixed Income	Low	Low	Negative	High	High	Low
Growth						
Public Equity	High	High	Low	Low	High	Low
Private Equity	High	High	Low	Low	Low	High
Non-Core Real Estate	High	Moderate	Moderate	Low	Low	High
Opportunistic Fixed Income	Moderate	Moderate	Low	Moderate	Moderate	High
Inflation Sensitive and Diversifiers						
Inflation Sensitive	Moderate	Low	High	Moderate	Moderate	High
Core Real Estate	Moderate	Low	Moderate	Low	Moderate	Low
Multi-Strategy	Moderate	Moderate	Low	Low	Moderate	High

Note: Volatility, the annualized standard deviation of returns, is a basic summary measure of investment risk. Beta measures systematic risk relative to a market or risk factor. Active Risk or Tracking Error is the volatility of the difference between managed and benchmark returns and reflects the potential for market beating or lagging returns.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

V. RISK MANAGEMENT AND CONTROLS

The objective of Fund risk management shall be to promote the likelihood that the Fund's investment objectives will be achieved over the long term. To achieve this objective, IMD shall identify, monitor, and control/mitigate key investment and operational risks through regular compliance activities. The following describes primary aspects of the investment risk-management program:

- A. Risk Standards and Metrics. IMD shall monitor risk measurements against certain standards over various time horizons. Monitoring shall occur with ex post and ex ante measurements utilizing various risk systems and vendors. It is understood that there will be periods during which the Fund's risk profile will deviate from the standards due to market events and/or active positioning. An IMD Risk Budget Policy may be adopted by the Treasurer to further define monitoring standards, escalation standards, and escalation processes including, but not limited to, the following:
1. Annual volatility of Fund returns of 10%
 2. Sensitivity of annual Fund returns to global stock market returns; i.e., equity beta of 0.60
 3. Sensitivity of annual Fund returns to intermediate-term bond returns; i.e., intermediate U.S. Treasury bond return beta of 0.30
 4. Net of fees risk-adjusted returns; i.e., Sharpe ratio of 0.40 and information ratio of 0.30
 5. Net employer and employee contributions as a ratio of Fund assets of -3%
 6. Level 1 liquidity; i.e., investments that take three (3) days or less to exit have value greater than 70% of Fund
 7. Fund tracking error or active risk between 0.50 and 1.50.
- B. Fund Rebalancing. A disciplined rebalancing policy is an important investment risk-management tool that can occur through the ongoing natural cash flows of the Fund, relative valuation changes, and asset liquidations and transfers.
1. Interim Rebalancing. Should the Portfolio allocation for either Investment Grade Fixed Income or Public Equity fall below or exceed a boundary of +/- 2% relative to its Target Allocation in Table 1 for a period exceeding five (5) business days, IMD shall report the deviation to the Treasurer, including any recommendation for subsequent investment action.
 2. Outside Policy Range. Investment strategies or market conditions that result in a Portfolio allocation beneath the minimum or above the maximum listed in Table 1 for a period exceeding five (5) consecutive business days shall be reported to the Treasurer, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.
 3. Suspensions of Rebalancing. On occasion, it may not be prudent to immediately initiate rebalancing; for example, due to concerns about losses resulting from liquidation of investments or concerns that exceptional market volatility might require reversal of the action. Therefore, notwithstanding any other provision of this Policy, the Treasurer may authorize in writing a suspension of rebalancing. Any such written authorization shall cover a time period no more than six (6) months long. At the end of that period, and after subsequent periods, the Treasurer may authorize another six-month suspension period if circumstances warrant.
 4. IMD may utilize physical securities and derivatives, including options, to accomplish rebalancing to the extent otherwise consistent with applicable statutes and this Policy.
- C. Cost-effectiveness. IMD shall actively pursue cost-effectiveness by monitoring the Fund's internal and external costs and expenses. Cost-effectiveness shall be assessed relative to investment objectives, peers, industry benchmarks, and realized investment performance.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

- D. **Liquidity.** The liquidity of the Fund, including, but not limited to, marketability of investments, cash flow from investments, net employer and employee contributions, capital commitments, and potential commitments shall be regularly monitored. The holding periods and cash flows for the various investment vehicles may range widely. Since non-public market strategies are typically highly illiquid, in general only offering liquidity upon the realization or partial realization of an investment, the Fund will be diversified among investments with different degrees of liquidity.
- E. **Portfolio Allocations and Guidelines.** Each Portfolio comprising the Fund has authorized allocations and guidelines to govern its operation and help manage risk. These are set out in Appendix 2.
1. IMD shall periodically review each Portfolio's allocations and guidelines. Adjustments can be based on various factors including changing investment objectives, peer practice, market conditions, policy benchmarks, statutory revisions, expected returns/risks, and liquidity.
 2. Due to market movements, active positioning, or exogenous factors, a Portfolio may deviate from authorized allocation ranges and shall be rebalanced to the extent practicable and warranted by market conditions and/or active positioning. Compliance with ranges shall be monitored by IMD.
- F. **Compliance.** IMD shall implement regular and independent compliance procedures to ensure ongoing adherence with the requirements of NCGS §147-69.2, this Policy, other IMD policies, procedures, rules, guidelines and contractual guidelines. Statutory compliance requirements are detailed in Appendix 3.

VI. ASSET VALUATION

The Fund's custodian shall value securities held in accounts subject to investment management agreements each trading day using market prices from nationally recognized third-party vendors. Short-term cash investments shall be carried at amortized cost as established by the custodian, but differences from market value shall be periodically reviewed. Generally, IMD shall rely on the valuation of investments as reported by the investment managers for commingled and non-public market vehicles. IMD shall seek to comply with industry best practices with respect to monitoring the asset valuation policy and practices used by investment managers. Investment managers shall be contractually obligated to provide annual financial statements audited to be compliant with United States generally accepted accounting principles ("GAAP"), or similar principles if there are vehicles with significant foreign assets, preferably by a nationally recognized audit firm. Investment managers shall also be obligated to provide unaudited quarterly financial statements. If the investment manager is not fulfilling its obligation to provide compliant statements in a timely manner, IMD staff may engage special service providers to assess current fair market value.

VII. BENCHMARKING AND REPORTING REQUIREMENTS

IMD's custodian shall independently calculate rates of return, in compliance with industry standards, and maintain various performance benchmarks and historical data to reasonably assess Fund performance. Custodian, staff, and consultant reports shall regularly compare net of fees managed rates of return to performance benchmarks and returns of peers, as applicable. Such reports shall be designed to facilitate monitoring risk factors and to evaluate compliance with asset allocation targets, asset valuation, portfolio guidelines, statutory requirements, and performance for the Fund and subcomponents.

Two total plan performance benchmarks shall be used to measure the relative performance of the Fund and its risk-adjusted returns. These benchmarks shall be reviewed no less than triennially. They are as follows:

- A. **The Long-Term Policy Benchmark.** This benchmark shall be used to compare the performance of the Fund to a low cost, passive, publicly traded portfolio that represents the Fund's broad allocations to the core drivers of risk and return. It shall be comprised of the following:

DST Reference:	IMD-POL-1000-ALL	Page 7 of 34
Title:	Investment Policy Statement for North Carolina Retirement Systems	
Current Effective Date:	March 1, 2025	

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

1. 57% MSCI All Country World Investable Market Index, in dollar terms, net of withholding taxes on non-resident institutional investors,
2. 33% ICE BofA 5+ Years U.S. Treasury Index,
3. 6% Bloomberg Commodities Index, and
4. 4% ICE BofA 1-3 Years U.S. Inflation-Linked Treasury Index.

B. ~~The Implementation Benchmark.~~ This benchmark, which shall measure how well the Portfolios are being invested in aggregate relative to their structure and guidelines, shall be a weighted performance of the Portfolios' individual benchmarks, as described below, using the Target Allocations from Table 1.

1. Cash. iMoneyNet First Tier Institutional Money Market Funds Net Index.
2. Investment Grade Fixed Income. A custom index comprised of 10% iMoneyNet First Tier Institutional Money Market Funds Net Index and 90% custom ICE BofA Core Investment Grade Index. The custom ICE BofA core index comprised of the following weightings: 30% ICE BofA 5+ Years Governments, 35% ICE BofA 5+ Years Investment Grade Corporates, and 35% ICE BofA Mortgage Master. ICE BofA signifies: Intercontinental Exchange Bank of America indices.
3. Public Equity. A custom index comprised of a dynamically weighted combination of two components including MSCI All Country World Investable Market Index (MSCI ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors and a beta adjusted MSCI ACWI IMI Index. MSCI signifies: Morgan Stanley Capital International
4. Private Equity. A custom index, net of all fees and expenses, comprised of the following MSCI Private Capital indices: 45% Buyout, 25% Venture Capital, and 30% Special Situations and Distressed Securities.
5. Non-Core Real Estate. A custom index, net of all fees and expenses, comprised of the following MSCI Private Capital indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).
6. Opportunistic Fixed Income. A custom index, net of all fees and expenses, comprised of 50% HFRX Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% ICE BofA High Yield Index.
7. Inflation Sensitive. A custom index, net of all fees and expenses, comprised of the dynamically weighted combination of the ICE BofA 1-3 Years U.S. Inflation-Linked Treasury Index (TIPS), the Bloomberg Commodities Index (Commodities), and the combination of the benchmarks of investments classified within Private Natural Resources or Other Real Assets and Diversifiers. For that latter portion of the Portfolio's benchmark, industry standard benchmarks shall be utilized for each specific strategy (e.g., MSCI Private Energy Index, NCREIF Timberland Index, etc.), but if such benchmarks do not exist for a specific strategy the benchmark shall be the ICE BofA 5-10 Year US Inflation Linked Treasury Index.
8. Core Real Estate. A custom index comprised of 80% weighting of the National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity Fund Index ("NCREIF ODCE Index"), net of all fees and expenses, and 20% weighting of the Financial Times and London Stock Exchange ("FTSE") European Public Real Estate Association ("EPRA") and the National Association of Real Estate Investment Trusts ("NAREIT") Global Index ("FTSA/EPRA/NAREIT Global Index").
9. Multi-Strategy. A custom index comprised of a dynamically weighted combination of benchmarks for each strategy within the Portfolio.

During the transition of assets to the new Strategic Asset Allocation Target Weights authorized in this Policy, the benchmark weights for accounts, Portfolios, and the total plan may reflect actual transitory exposures. The Chief Risk and Operating Officer shall recommend for the Investment Committee's review and the Chief Investment Officer's approval any such interim benchmarks and related methodologies. The Chief Risk and Operating Officer is responsible for creating and maintaining

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

documentation sufficient to provide transparency for third-party reviews.

VIII. OTHER PROGRAMMATIC INITIATIVES

- A. Corporate Governance. The Treasurer shall approve a separate policy addressing proxy voting, shareholders' resolutions, engagement with corporate leaders and regulatory agencies, and collaboration with other institutional investors to create long-term value for portfolio companies. IMD shall annually review such policy.
- B. Innovation Fund. The Treasurer shall adopt a separate policy to guide the implementation of an Economically Targeted Investment fund that is authorized to commit from time to time up to \$250 million in investment opportunities with significant operations in, or significant connections with North Carolina ("Innovation Fund"). The primary objective of the Innovation Fund is to achieve a competitive, risk-adjusted rate of return for the Private Equity Portfolio. The collateral objective of the Innovation Fund is to support the economic well-being of the state of North Carolina.

IX. IMPLEMENTATION GUIDELINES

- A. Interim Capital Allocation. Over time, IMD shall allocate Fund assets within and between Rates and Liquidity, Growth, Inflation Sensitive and Diversifiers, and Multi-Strategy to reflect the prevailing and intermediate term expected market and economic environments, relative valuations, available vehicles and capacity, cost, and resourcing considerations. Through an internal Investment Committee, IMD shall utilize a team-oriented approach for capital allocation to improve collaboration, portfolio construction, and resourcing.
- B. Active Management. All Portfolios shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time, but, in recognition that investment skill is rare
 - 1. Public market Portfolios shall be well diversified with respect to their benchmarks and shall be scaled to rely on active strategies according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
 - 2. Non-public market Portfolios shall utilize a prudent process to maximize long-term access to cost-effective and attractive risk-adjusted investment opportunities through use of business partners with appropriate
 - a. Financial, operational, and investment expertise and resources
 - b. Alignment of interests
 - c. Transparency and repeatability of investment process
 - d. Controls on leverage
- C. Internal and External Management. IMD shall manage certain portions of the Fund internally and the remainder through external investment managers. IMD's reliance on internal versus external management shall change over time depending on the investment environment, resources, economies of scale, and other factors.
 - 1. Internal Management. The benefits of internal investment management include lower investment costs, liquidity, control, and transparency. However, given limited resources relative to external managers, the Fund's primary internal investment management shall be in passive and low active-risk public market securities portfolios. Consistent with the Signatory Authority Policy, Investment Directors responsible for internally managed portfolios shall operate within an established set of guidelines with the objective of achieving or exceeding their specific benchmark, net of fees and expenses, within reasonable risk parameters, over a full market cycle. Directors retain general discretion to pursue their investment strategy within each internal portfolio's stated guidelines.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

2. External Management. All external managers will have a fiduciary responsibility with respect to the Fund assets under their management. The terms and conditions of the investment relationship shall be governed by the set of investment documents specific to the investment. The external managers shall operate within an established set of guidelines with the objective of achieving or exceeding their specific benchmark, net of fees and expenses, within reasonable risk parameters.
- D. Selection and Monitoring of Investment Managers. Selection, monitoring, and termination of investment managers shall occur according to a diligent and methodical process defined in the External Investment Manager and Vehicle Selection Policy.
1. This IMD policy governs the sourcing and selection of all external investment managers, and documents the basis for each external investment manager selection or funding.
 2. This policy is applicable to both external investment managers and internal portfolios.
- E. Other Third-Party Providers. IMD may utilize third-party service providers in the administration of the investment program. These may include investment consultants, auditors, actuaries, tax agents, data providers, etc.
- F. General Guidelines for Portfolios. The following are general guidelines that apply to each Portfolio for risk-management purposes and to implement certain core beliefs. Specific guidelines are in Exhibit 2.
1. Investment Vehicles. Fund investments may be made through any structure permitted by statute, including investment management agreements, separately managed limited partnerships, commingled limited partnerships, limited liability companies or other limited liability investment vehicles, or open and closed-end commingled investment vehicles. Fund-of-fund vehicles may be utilized, but typically only due to limited resources, access constraints, or specialized mandates.
 2. Contracts. Each investment shall be governed by a set of legal agreements that are specific to the vehicle. For each external investment manager, permissible investments, and objectives shall be clearly defined through legal agreements. IMD shall endeavor to obtain the best fees and terms available and shall monitor the investment manager's performance to ensure the manager is adhering to the guidelines set out in the legal agreement. IMD may restrict any investment manager from making certain investments based on state or federal law, state policy, or IMD directives. For internally managed investments, clearly defined investment objectives and guidelines shall be formally documented.
 3. Investor Protections, Transparency, and Alignment. IMD shall seek protections, transparency, and alignment by negotiating preferred terms with investment managers and using customized vehicles wherever prudent. Vehicle structures shall be chosen to maximize cost-effectiveness, mitigate risk of misalignment, ensure the safekeeping of assets, and provide accurate, timely, and transparent valuation and monitoring of assets and performance. IMD acknowledges that the nature of most non-public market investments severely limits discretionary control over such investments. In exceptional circumstances, IMD may seek to gain liquidity through the sale of interests in the secondary market or may act to dissolve a partnership or other investment vehicle in the event agreements are violated.
 4. Diversification. Diversification is important in managing portfolio risk and achieving superior risk-adjusted returns across financial market environments. However, given the size of the Fund it is possible to over-diversify and incur substandard performance. IMD shall therefore endeavor to thoughtfully diversify across asset categories, strategies, systematic risk exposures, and investment managers, unless otherwise prudent, by considering the marginal impact of new investment allocations on cost, risk, and risk-adjusted returns. IMD shall regularly source and evaluate new investments which may offer diversification benefits.
 5. Geography. Unless otherwise prohibited, the Fund may invest in issuers, vehicles, or strategies domiciled within and/or outside the U.S.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

6. Leverage. Leverage is an important risk factor at the portfolio company level and at the vehicle level. IMD shall review and monitor the use of leverage to determine reasonableness in the context of investment strategy and contribution to risk.
7. Investment Firm Concentration. No external firm shall actively manage more than 25% of a Portfolio on an allocation basis at the time of initial investment, unless specifically approved by the Treasurer.
8. Investment Strategy Concentration. No individual external active investment strategy shall exceed 10% of a Portfolio on an allocation basis at the time of initial investment, unless specifically approved by the Treasurer.
9. Fund Concentration. IMD shall consider external firm level risk in sizing an investment/commitment to invest for a given opportunity. Ordinarily, a Portfolio's assets shall constitute less than 25% by economic interest in a given investment vehicle at the time of making the investment/commitment. This limitation does not apply to customized investment programs where the Fund is the sole or principal investor other than the investment manager or its affiliate.
10. Vintage Year. IMD shall endeavor to diversify capital commitments across vintage years and, correspondingly, economic, and financial market cycles, to help protect the Portfolio from concentration risk in any one year unless it finds compelling reasons to not diversify. Annual investment work plans shall be used to develop a multi-year forward calendar and indicative commitment pacing for Portfolios.
11. Securities Lending. The Cash Portfolio, Investment Grade Fixed Income Portfolio, Inflation Sensitive Portfolio, Core Real Estate Portfolio, and Public Equity Portfolio may maintain a securities lending program(s) designed to earn incremental income by taking advantage of the market demand for securities held in each of these Portfolios. The incremental income can help offset custodial costs and improve the overall return on Fund assets. Securities Lending shall be governed by investment guidelines to be developed by IMD and approved by the Treasurer. When implemented, IMD shall review such guidelines no less frequently than triennially.
12. Transition Management. IMD shall maintain and periodically update a pool of firms that are able to evaluate and conduct asset transitions. IMD also may utilize such firms or specialists to manage and dispose of in-kind distributions.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

APPENDICES

APPENDIX 1: STRATEGIC ASSET ALLOCATION AND “ROLE-IN-PORTFOLIO” APPROACH

The Strategic Asset Allocation is developed in the context of an intermediate- and long-term economic and financial market outlook and certain core investment beliefs. An expression of the latter is a view as to the role that various risk-reducing assets, return-seeking assets, and skill-based strategies serve in the Portfolio to help mitigate the likelihood and severity of not achieving the investment objectives.

The foundations of the Strategic Asset Allocation are the categories labeled: Rates and Liquidity, Growth, Inflation Sensitive and Diversifiers, and Multi-Strategy. The following describe their expected roles-in-the-Portfolio and principal risks.

A. Rates and Liquidity

1. **Role in Portfolio.** Provide capital preservation, low year-to-year volatility of returns, liquidity, and modest incremental returns above normal return premiums through security selection, interest rate anticipation, yield curve positioning, and sector allocations. With inflation and interest rates expected to rise gradually over the 10- to 15-year period, long-duration fixed income is projected to provide low but acceptable returns, particularly on a risk-adjusted basis relative to other investments. Cash returns are expected to increase over time in line with changes in U.S. monetary policy. Long-duration fixed income should continue to function as a natural hedge to liabilities. Finally, provide protection in certain risk scenarios involving deflation, systemic risk, and socio-political risk episodes, and facilitate opportunistic investments during market dislocations.
2. **Principal Risks.** Nominal investment returns are not sufficient at current yields to achieve Fund investment objectives. High and unanticipated inflation would depress real returns on the longer-duration investments. A severe recession could cause corporate bond defaults and capital losses. Liquidity of corporate and asset-backed bonds may suffer with systemic stress.

B. Growth

1. **Role in Portfolio.** Provide long-term capital growth, with secondary consideration of current income, principally through equity-like investments that are a claim on real income streams. Participation in global economic growth, including emerging markets, through low-cost and liquid public equity exposure. Material incremental returns, in excess of long-term risk premiums, due to providing longer-duration capital commitments, making operationally intensive non-public investments involving control, restructuring, or day-to-day management, and exploiting market dislocations through opportunistic allocations. To a lesser extent, earning modest incremental returns by accessing security selection, trading, and hedging skill. Partial diversification of equity risk through use of opportunistic fixed income strategies, non-core real estate, and hedged equity strategies.
2. **Principal Risks.** The realized equity risk premium is volatile over relatively long periods of time (e.g., 15 years). High and unanticipated inflation could depress real returns on the longer-duration opportunistic fixed income investments and non-public market investments utilizing leverage. A recession would cause corporate defaults, equity market underperformance, and capital losses in opportunistic fixed income and non-core real estate. Active investment managers may underperform broad market indices for extended periods of time due to concentrated portfolios, elevated idiosyncratic risk, or poor execution. Publicly traded equity markets are highly efficient. Certain non-public market investment managers may utilize leverage and illiquid structures, which can increase the risk and size of investment loss. There is a high dispersion of active investment manager returns.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

C. Inflation Sensitive and Diversifiers

1. **Role in Portfolio.** Provide a balance of capital appreciation and current income with a positive relationship to inflation through explicit indexing, contracted escalators, and participation in economic sectors that benefit from periodic supply constraints, cost-push, or monetary policy- induced inflationary pressures. Provide inflation-adjusted capital preservation through real asset- based lending and equity investments. Modest incremental returns due to providing longer- duration capital commitments, making operationally intensive non-public investments involving control or day-to-day management, accessing trading and market-timing skill, including hedging individual securities and commodities and exploiting market dislocations through opportunistic allocations. Partial diversification of equity risk and protection in certain risk scenarios involving heightened systemic risk and socio-political risk.
2. **Principal Risks.** Nominal investment returns are expected to be lower than growth-oriented investments due to inflation hedging aspects. Investments will have exposure to other systematic risk factors that could negate or mitigate their inflation sensitive qualities over various horizons. Inflation may increase materially in the short run, with limited or delayed repricing of investments because of underlying operating contracts. A severe recession could cause loan defaults and capital losses. Active investment managers may underperform markets and peers for extended periods of time due to concentrated portfolios, elevated idiosyncratic risk, or poor execution. Certain investment managers may utilize leverage and illiquid structures, which can increase the risk and size of investment loss. There is a high dispersion of active investment manager returns.

D. Multi-Strategy

1. **Role in Portfolio.** To increase investment flexibility across different asset categories and strategies, including during episodes of heightened macroeconomic risk and systemic risk. Provide efficient compounding of capital through trading and market-timing skill, including hedging individual securities and commodities and exploiting market dislocations through opportunistic allocations. To facilitate hedging of Fund-level risks, as might be prudent, from time to time.
2. **Principal Risks.** The underlying strategies will have exposure to systematic risk factors found elsewhere in the Fund. Flexible strategies have an implicit market-timing component. Certain investment managers may utilize leverage and illiquid structures, which can increase the risk and size of investment loss. There is a high dispersion of active investment manager returns.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

APPENDIX 2: PORTFOLIO INVESTMENT STRATEGY AND GUIDELINES

CASH PORTFOLIO

I. INTRODUCTION

The Cash Portfolio is managed through the Short-Term Investment Fund (“STIF” and other cash equivalent investment vehicles (such as the Master Custodian’s money market’ fund). STIF is internally managed and consists of highly diversified liquid money market instruments and short to intermediate Treasuries, Agencies, and AAA-rated corporate obligations.

II. INVESTMENT OBJECTIVES

The Fund is investing in cash to accomplish the following objectives:

- A. Preservation of capital. The selection of security types should maintain a focus on the safeguarding of assets.
- B. Liquidity. Make investments in securities that maintain a strong liquidity profile.
- C. Competitive relative returns. Invest to achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.

III. INVESTMENT STRUCTURE

The Cash Portfolio shall invest in STIF or other cash equivalent investment vehicles.

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the STIF Portfolio.

- A. Types of Fixed Income Investments
 - 1. General Statute §147-69.1 governs the security types that are eligible for purchase in STIF.
 - 2. The STIF Portfolio can invest in maturities ranging from overnight to five years.
- B. Liquidity. The portfolio shall be managed with a laddering strategy out to one year that is designed to provide consistent liquidity for short-term cash needs but allows the portfolio manager to take advantage of investing out the yield curve with a portion of the assets.
- C. Leverage. No leverage is allowed
- D. Diversification. The table below outlines the diversification guidelines by maturity and asset type.

Maturity Guidelines

	Minimum	Maximum
0 - 1 Year	40%	100%
1 – 3 Years	0%	40%
3 – 5 Years	0%	40%

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

Security Type Guidelines

	Minimum	Maximum
Repurchase Agreements	0%	40%
US Treasury	25%	100%
US Agencies	0%	75%
Corporate Notes	0%	15%
Other Eligible Securities	0%	10%

If unanticipated and abnormal flows leave the STIF Portfolio outside the guidelines, IMD shall initiate a rebalancing plan to achieve compliance.

V. PERFORMANCE AND REPORTING GUIDELINES

The benchmark for the Cash Portfolio is the iMoneyNet First Tier Institutional Money Market Funds Net Index. STIF and the benchmark are measured on a cash rate of return or current yield following money market conventions.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

INVESTMENT GRADE FIXED INCOME PORTFOLIO

I. INTRODUCTION

The Investment Grade Fixed Income Portfolio (“IGFI Portfolio”) invests in a highly diversified mix of publicly traded investment grade fixed income securities. The majority of the exposure shall be through an internally managed long-duration core fixed income account that has exposure across multiple fixed income asset types, including Treasury, agency, corporate and mortgage securities. The IGFI Portfolio shall have a policy allocation to STIF to create a quasi-barbell structure. STIF is also internally managed and consists of high-quality, short-term Treasury, Agency and AAA-rated corporate obligations. The IGFI Portfolio may include investment grade non-core exposure depending on liquidity needs and/or market environment. The non-core allocation may include more concentrated strategies than core.

II. INVESTMENT OBJECTIVES

The Fund is investing in public high-quality fixed income to accomplish the following objectives:

- A. Diversification. Exposure to fixed income provides significant diversification to the total Fund due to differences in correlation with other asset types. Fixed Income assets historically have the lowest volatility among statutory eligible asset types. As such, the exposure to the asset class will lower total pension risk over the long term.
- B. Capital preservation. Exposure to Treasuries and other very high-quality investment grade fixed income assets have historically provided limited risk of principal loss.
- C. Liquidity. Provide a source of liquidity to the Fund and other asset classes through the high-quality and publicly traded asset types.
- D. Competitive relative returns. Invest to achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- E. Deflation protection. The structure of fixed income assets should provide a direct hedge against deflation.

III. INVESTMENT STRUCTURE

The IGFI Portfolio shall have three major subcomponents.

- A. Core Fixed Income. The primary means for fixed income exposure shall be an internally managed core fixed income portfolio that strives to provide superior returns at much lower costs than an external account. The expected total costs for managing core fixed income assets are 1-3 basis points. The internally managed STIF Fund shall be the cash vehicle for the core portfolio.
- B. Non-Core Fixed Income. Any non-core exposures are expected to be through external investment managers utilizing separate accounts.
- C. Non-Core Cash held in the form of STIF.

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the IGFI Portfolio:

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

A. Types of Fixed Income Investments

1. U.S. Treasuries
2. U.S. Agencies (FNMA, FHLMC, FHLB, FFCB, GNMA, etc.)
3. Corporate securities
4. Asset-backed securities, including mortgage pass-through securities
5. Other securities as defined by NCGS § 147-69.2(b)(1) through (b)(6b)

B. Quality. Securities shall bear an investment grade rating at the time of purchase by at least one nationally recognized rating agency as outlined in the statutes.

C. Leverage. No leverage is allowed in the IGFI Portfolio

D. Allocation. Authorized ranges and targets by asset type

Total Investment Grade Fixed Income

	Minimum	Target	Maximum
Core Fixed Income	85%	90%	95%
Non-Core Fixed Income	0%	0%	15%
Non-Core Cash (STIF)	5%	10%	15%

Core Fixed Income

	Minimum	Target	Maximum
Government (U.S. Treasury & Agency)	25%	30%	35%
Corporate	30%	35%	40%
Mortgage	30%	35%	40%
Cash	0%	0%	5%

E. Duration. The duration of the IGFI Portfolio is expected to be approximately five to 10 years as reflected by the structure of the performance benchmark. The Core Fixed Income subcomponent should be within two years(+/-) of the performance benchmark duration, excluding cash.

F. Currency. While geographic exposures may be global, all the securities shall be U.S. dollar denominated.

V. PERFORMANCE AND REPORTING GUIDELINES

The IGFI Portfolio's benchmark is a custom index comprised of longer-duration investment grade government, corporate, and mortgage securities and a cash allocation. The benchmark is a custom index comprised of 10% iMoneyNet First Tier Institutional Money Market Funds Net Index and 90% custom ICE BofA Core Investment Grade Index. The custom ICE BofA core index is comprised of the following weightings: 30% ICE BofA 5+ years Governments, 35% ICE BofA 5+ years Investment Grade Corporates, and 35% ICE BofA Mortgage Master. ICE BofA signifies: Intercontinental Exchange Bank of America indices.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

PUBLIC EQUITY PORTFOLIO

I. INTRODUCTION

The Public Equity Portfolio invests in a highly diversified mix of publicly traded global equities. Any common stock, preferred stock, or other equity-related securities may be utilized (*i.e.*, regardless of market capitalization, style categories, currency denomination, and domicile of issuer), with the exception that a manager may be restricted from purchasing certain securities based on state or federal law, state policy, or Treasurer directives. The Public Equity Portfolio may include internally and externally managed portfolios of publicly traded equity securities. The portfolio may include both active and passive equity managers, and hedge funds that invest primarily in publicly traded equity securities but may be authorized to utilize other instruments through contract.

II. INVESTMENT OBJECTIVES

The Fund is investing in public equities to accomplish the following objectives:

- A. Attractive absolute returns. Achieve long-term equity market returns in a low-cost manner with downside risk mitigation. Hedged equity strategies are expected to reduce downside risk of the Public Equity Portfolio.
- B. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- C. Diversification. Use publicly traded equity to access a wide range of investible global markets and enhance the diversification of the Fund.
- D. Liquidity. Provide a source of liquidity to the Fund through the publicly traded asset types in the Public Equity Portfolio held in the long-only vehicles.

III. INVESTMENT STRUCTURE

The Public Equity Portfolio shall have two major subcomponents:

- A. Long-Only Public Equity. This subcategory may include internally and externally managed portfolios of publicly traded U.S. equity, non-U.S. Equity, and global equity securities held in long-only vehicles. Investment managers may have mandates that cover one or more categories consisting of market capitalization: large-cap, mid-cap, and small cap; style: growth and value; and regions to include but not limited to: U.S., Developed Non-U.S., Emerging Market, etc.
- B. Hedged Equity. This subcomponent is limited to various equity-based hedge fund strategies implemented through externally managed investment vehicles.

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the Public Equity Portfolio.

- A. Allocation. Authorized ranges and targets for the subcomponents of the Public Equity Portfolio.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

Subcomponent	Minimum	Target	Maximum
Long-Only	88%	100%	100%
Hedged Equity	0%	0%	12%

- B. Leverage. Leverage is only allowed within the Hedged Equity subcomponent of the Public Equity Portfolio. IMD shall review the use of leverage to determine the reasonableness in the context of investment strategy.
- C. Dedicated short-only strategies are not authorized, although transitory aggregate net short exposures at the individual fund level will occur from time to time due to managers tactically positioning for extraordinary market environments or other situations that may be fund specific (e.g., wind-down).
- D. Acknowledgment of Market Efficiency. The Public Equity Portfolio shall have a reliance on low-cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing Fund liquidity requirements.

V. PERFORMANCE AND REPORTING GUIDELINES

The Long-Only Public Equity subcomponent of the Public Equity Portfolio shall be benchmarked to the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors. Notwithstanding the foregoing, within such subcomponent, the U.S. Equity portion is to be designed to achieve a rate of return in excess of the Russell 3000 Index; the Non-U.S. Equity portion is to be designed to achieve a rate of return in excess of the Morgan Stanley Capital International All Country Investable Market Index ex-U.S. ("MSCI ACWI Ex-U.S. IMI"); and the Global Equity portion is to be designed to achieve a rate of return in excess of the MSCI ACWI World Index. The Hedged Equity subcomponent of the Public Equity Portfolio shall be benchmarked to a beta-adjusted MSCI ACWI IMI Index.

The Custom Public Equity Benchmark shall consist of a dynamically weighted combination of two components including the MSCI ACWI IMI Index and the custom hedged equity benchmark.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

PRIVATE EQUITY PORTFOLIO

I. INTRODUCTION

The Private Equity Portfolio (“PE Portfolio”) invests in a reasonably diversified mix of buyout, venture capital, growth equity, and private special situations vehicles through external managers. The PE Portfolio shall consist of vehicles that primarily invest in corporate buyout transactions or other private equity transactions, including securities that are not publicly traded, such as preferred stock or common stock. Investments by such vehicles may also be made into public companies, where a private investment allows an investment manager to implement their investment strategies.

II. INVESTMENT OBJECTIVES

The Fund is investing in private equity to accomplish the following objectives:

- A. Attractive absolute returns. Long-term returns in excess of public market equity returns, sufficient to compensate the Fund for the higher degree of idiosyncratic risk, smaller company equity exposure, and higher portfolio company leverage.
- B. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- C. Diversification. Utilize certain components of private equity to enhance the diversification of the Fund (e.g., special situations).

III. INVESTMENT STRUCTURE

The PE Portfolio shall have three major subcomponents:

- A. Growth. Inclusive of venture capital and growth equity strategies. Growth equity investments, most often minority investments, are in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business. Venture capital refers to equity investments made, typically in less mature companies, for the launch of a seed or start-up company, early-stage development, or expansion of a less-mature business. Venture capital may target the application of new technology, new marketing concepts, and new products that have no or limited track record or stable revenue streams.
- B. Buyout. Buyout refers to a strategy of making control investments as part of a transaction in which a company, business unit, or business assets are acquired from the current owners typically with the use of financial leverage. Buyout strategies attempt to create value by using their ownership position to improve the operations, governance, capital structure, and/or strategic position of the companies in which they invest. The companies involved in these transactions are more often mature and generate operating cash flows, but some strategies acquire several similar businesses to create economies of scale and pricing power.
- C. Special Situations. A broad set of strategies inclusive of distressed for control, secondary strategies, co- investment, and other strategies not classified into buyout or growth. Secondaries are typically purchased to provide the PE Portfolio with additional diversification, provide access to certain investment managers, and improve the risk-adjusted returns of the PE Portfolio; other benefits include blind pool risk mitigation, J-Curve mitigation, immediate exposure, and accelerated distributions.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the PE Portfolio.

- A. Allocation. Authorized ranges and targets for the subcomponents of the PE Portfolio are in the following table.

Subcomponents	Minimum	Target	Maximum
Growth	15.0%	25.0%	35.0%
Buyout	30.0%	45.0%	60.0%
Special Situations	15.0%	30.0%	45.0%

- B. Leverage. Leverage is authorized within debt-oriented funds but must be regularly monitored to determine the reasonableness in the context of investment strategy. IMD acknowledges that vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels.

V. PERFORMANCE & REPORTING GUIDELINES

The PE Portfolio's custom benchmark shall be derived from the MSCI Private Capital indices, net of all fees and expenses (the "Custom Private Equity Benchmark"), comprised of the following: 45% Buyout, 25% Venture Capital, and 30% Special Situations and Distressed Securities. In addition, the performance of investments may be measured relative to the performance of investment managers employing similar investment strategies, using data provided by reputable sources. On 10-year and longer-term basis, the PE Portfolio's performance shall be compared to a risk- and domicile-adjusted public market equivalent benchmark to assess the opportunity cost of the PE Portfolio versus the public equity markets.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

NON-CORE REAL ESTATE PORTFOLIO

I. INTRODUCTION

The Non-Core Real Estate Portfolio invests in a reasonably diversified mix of global equity and debt investments in commercial or residential real estate through external investment managers and vehicles. The Non-Core Real Estate Portfolio equity interests may be direct undivided, or financed, ownership in real estate assets, joint ventures, operating companies, publicly traded entities and other private entities. Debt interests may be related to mortgages, participating debt, or mezzanine loans, and would not typically be related to securities. The primary purpose of the investments should be to own real estate or related debt financing.

II. INVESTMENT OBJECTIVES

The fund is investing in the Non-Core Real Estate Portfolio to accomplish the following objectives:

- A. Attractive absolute returns. Long-term returns (including appreciation and income returns) that are competitive with long-term public market equity returns and sufficient to compensate the Fund for the higher degree of idiosyncratic real estate risks, leverage, and illiquidity. This objective includes investing opportunistically and with market cycle sensitivity over the long term.
- B. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- C. Diversification. Use the investments to enhance the diversification of the Fund given historically low correlations with fixed income and as a result of accessing international real estate markets.

III. INVESTMENT STRUCTURE

The Non-Core Real Estate Portfolio shall have two major subcomponents:

- A. Value. Primarily equity strategies related to properties that are functional, high-quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below-market rents. Value properties tend to be under-managed and/or underperforming and have some current income from existing leases. Through management and repositioning, there is significant appreciation potential. Value investments have varying degrees of leverage typically ranging from 40% to 65%.
- B. Opportunistic. Primarily equity strategies that seek to exploit inefficiencies in the capital and real estate markets and can involve financing, acquisition, restructuring, or development/formation of real estate assets, real estate operating companies (REOC), portfolios of real estate assets, public and private Real Estate Investment Trusts (REIT), and non-traditional property types. Most of the return is expected to be generated from capital appreciation as investments may be originated with minimal income in place. Some opportunistic investments may have a higher level of leverage than value investments, but others may have a low reliance on leverage.
- C. Special Situations. Strategies that do not fit either of the other subcomponents, but have non-core-like risk, including those that are primarily public or private commercial real estate debt, preferred, or hybrid strategies related to non-core real estate property or risk exposures. May also include combinations of the above subcomponents and strategies.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the Non-Core Real Estate Portfolio:

- A. Allocation. Authorized ranges and targets for the subcomponents of the Non-Core Real Estate Portfolio are in the following table.

Subcomponent	Minimum	Target	Maximum
Value	10.0%	35.0%	60.0%
Opportunistic	40.0%	65.0%	90.0%
Special Situations	0.0%	0.0%	30.0%

- B. Leverage. Leverage is authorized within the Non-Core Real Estate Portfolio. Leverage shall be monitored against the following standards, recognizing that the standards are assessed against the composite of all members of the subcomponent and commingled vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels.

Subcomponent	Leverage Monitoring Standard
Value	60.0%
Opportunistic	75.0%
Special Situations	50.0%

- C. Diversification. The Non-Core Real Estate Portfolio is not expected to be highly diversified, but certain exposures shall be monitored to ensure reasonable diversification: property sectors, geographic allocations (i.e., U.S. regions, and non-U.S.), and stages of the land, development, operating/stabilized, restructure/rehabilitate, and redevelopment life cycle. Each of the foregoing has materially different risks and returns over the market and economic cycle.

V. PERFORMANCE & REPORTING GUIDELINES

The Non-Core Real Estate Portfolio's benchmark is a custom index, net of all fees and expenses, comprised of the following MSCI Private Capital indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value- Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added). In addition, the performance of investments may be measured relative to the performance of investment managers employing similar investment strategies, using data provided by reputable sources. On 10-year and longer-term basis, the Non-Core Real Estate Portfolio's performance shall be compared to a risk- and domicile-adjusted private equity core real estate equivalent benchmark to assess the opportunity cost of the Non-Core Real Estate Portfolio versus core real estate investments.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

OPPORTUNISTIC FIXED INCOME PORTFOLIO

I. INTRODUCTION

The Opportunistic Fixed Income Portfolio (“OFI Portfolio”) invests through external investment managers in a broadly diversified mix of non-investment grade or unrated obligations, debt securities and asset-backed securities including, but not limited to, bank loans, high-yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations, and sovereign debt. Investment managers shall primarily invest in assets that are not authorized for the IGFI Portfolio and not for the purpose of investing in or owning real estate or related debt financing, excluding asset-backed financing.

II. INVESTMENT OBJECTIVES

The Fund is investing in opportunistic fixed income to accomplish the following objectives:

- A. Attractive absolute returns. Long-term returns that are competitive with long-term public equities, after consideration of lower downside risk, due to opportunistic investments, longer-duration private investments, restructurings, leverage, hedging, and trading skill.
- B. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- C. Diversification. Enhance the diversification of the Fund relative to public equity and investment grade fixed income.
- D. Capital Preservation. Protect capital through credit-oriented investments and trading strategies that are designed to minimize downside risk.
- E. Deflation Protection. The structure of certain fixed-income assets may provide protection against the detrimental effects of deflation.

III. INVESTMENT STRUCTURE

The OFI Portfolio shall have four major subcomponents:

- A. Traditional Corporate Credit. Strategies that invest in high-yield bonds and bank loans.
- B. Distressed Debt. Predominantly strategies that trade distressed debt, but occasionally actively participate in restructurings and seek control post-reorganization of target issuers. These strategies may have equity exposure.
- C. Hedged Fixed Income. Includes hedged implementations of market neutral strategies, relative value strategies, and multi-strategy (i.e., predominantly fixed income) utilizing non-investment grade instruments.
- D. Special Situations. Includes mezzanine, direct lending, and structured credit. The latter can include mortgage- and other asset-backed securities and financings.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the OFI.

A. Allocation. Authorized ranges and targets for the subcomponents of the OPFI Portfolio are in the following table.

Subcomponents	Minimum	Target	Maximum
Traditional Corporate Credit	0.0%	15.0%	50.0%
Distressed Credit	0.0%	25.0%	50.0%
Hedged Fixed Income	0.0%	45.0%	75.0%
Special Situations	0.0%	15.0%	75.0%

B. Duration. Longer-duration, fixed-rate investments may be affected by interest rate movements. The OFI Portfolio shall diversify among various types of investments to reduce duration risk.

C. Diversification. The opportunistic nature of the OFI Portfolio may lead to concentrated and illiquid risk exposures from time to time. To mitigate this potential concentration, IMD shall attempt to diversify the OFI Portfolio among various vehicles based on their liquidity structures and between income- and appreciation-based investments and strategies.

D. Leverage. Leverage is authorized within the OFI Portfolio but must be regularly monitored to determine the reasonableness in the context of investment strategy. IMD acknowledges that vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels.

V. PERFORMANCE & REPORTING GUIDELINES

The OFI Portfolio's custom benchmark is comprised of 50% HFRX Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% ICE BofA High Yield Index. In addition, the performance of investments may be measured relative to the performance of investment managers employing similar investment strategies, using data provided by relevant, reputable sources. On 10-year and longer-term basis, the OFI Portfolio's performance shall be compared to a risk- and domicile- adjusted public market equivalent benchmark to assess the opportunity cost of the OFI Portfolio versus the public high-yield markets.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

INFLATION SENSITIVE PORTFOLIO

I. INTRODUCTION

The Inflation Sensitive Portfolio (“IS Portfolio”) invests primarily in a highly diversified mix of assets including commodities-related instruments, Treasury Inflation Protected Securities (“TIPS”), non-U.S. inflation-linked bonds, real assets, natural resources equity and debt, infrastructure, floating-rate debt securities, and other investments whose primary purpose is providing protection against risks associated with inflation. Internally- and externally managed portfolios of investments may be utilized with externally managed portfolios including active long-only managers, hedged strategies, and closed-end funds.

II. INVESTMENT OBJECTIVES

The Fund is investing in inflation-sensitive assets to accomplish the following objectives:

- A. Inflation protection. Provide some degree of protection against the risks associated with inflation.
- B. Attractive absolute returns. Provide an attractive return over the long term by making investments that provide a nominal total return that rises with inflation.
- C. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- D. Diversification. Enhance the diversification of the Fund’s total investment portfolio relative to public equity and nominal fixed income.
- E. Liquidity. Provide a source of liquidity to the Fund when other Portfolios are experiencing lower returns due to unanticipated inflation.

III. INVESTMENT STRUCTURE

The IS Portfolio shall have four major subcomponents:

- A. Inflation Linked Bonds. Strategies that invest in Treasury Inflation Protected Securities, non U.S. inflation linked bonds, or floating rate debt.
- B. Publicly Traded Natural Resources. Strategies that invest in commodity and natural resource public equity and public debt using long-only or hedged implementations.
- C. Private Natural Resources. Strategies making non-public market equity or debt investments in timberland, energy, agriculture, and other natural resources implementations.
- D. Other Real Assets and Diversifiers. Strategies including infrastructure, real assets (e.g., ships, airplanes, rail cars, mines, real estate, etc.), royalties, and combinations of any of this and the other subcomponents whose primary purpose is providing protection against risks associated with inflation.

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the IS Portfolio.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

- A. Allocation. Authorized ranges and targets for the subcomponents of the IS Portfolio are in the following table.

Subcomponents	Minimum	Target	Maximum
Inflation Linked Bonds	0.0%	25.0%	75.0%
Publicly Traded Natural Resources	0.0%	0.0%	50.0%
Private Natural Resources	0.0%	50.0%	75.0%
Other Real Assets and Diversifiers	0.0%	25.0%	75.0%

- B. Duration. Longer-duration fixed rate investments may be affected by interest rate movements. The IS Portfolio will diversify among various types of investments to reduce duration risk.
- C. Diversification. To allow the Fund to raise liquidity from the IS Portfolio when inflation negatively impacts other Portfolios, IMD shall attempt to diversify the IS Portfolio among various vehicles based on their liquidity structures and between income- and appreciation-based investments and strategies.
- D. Leverage is authorized within the IS Portfolio but must be regularly monitored to determine the reasonableness in the context of investment strategy. IMD acknowledges that certain vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels.

V. PERFORMANCE & REPORTING GUIDELINES

The IS Portfolio's custom benchmark is the dynamically weighted combination of the ICE BofA 1-3 Years U.S. Inflation-Linked Treasury Index, the Bloomberg Commodities Index, and a combination of the benchmarks of investments classified within Private Natural Resources or Other Real Assets and Diversifiers. Industry standard benchmarks shall be utilized for each specific strategy (e.g., MSCI Private Energy Index, NCREIF Timberland Index, etc.), but if such benchmarks do not exist for a specific strategy the benchmark shall be the ICE BofA 5-10 Year US Inflation-Linked Treasury Index. In addition, the performance of investments may be measured relative to the performance of investment managers employing similar investment strategies and using data provided by relevant, reputable sources. On 10-year and longer-term basis, the IS Portfolio's performance shall be compared to a blend of 60% Bloomberg Commodities Index and 40% ICE BofA 1-3 Years U.S. Inflation-Linked Treasury Index.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

CORE REAL ESTATE PORTFOLIO

I. INTRODUCTION

The Core Real Estate Portfolio ("Core RE Portfolio") invests in a diversified mix of predominantly U.S. domiciled equity and debt investments in core commercial real estate through external investment managers and vehicles. Equity interests may be direct undivided (i.e., wholly owned), or financed, ownership in real estate assets, joint ventures, operating companies, publicly traded entities and other private entities, including in pooled vehicles. Debt interests may be secured by first liens (i.e., mortgages or deeds of trust) on real property and other senior debt financing related to real estate, although not typically securities.

II. INVESTMENT OBJECTIVES

The fund is investing in core real estate to accomplish the following objectives:

- A. Attractive absolute returns. Provide an attractive total return over the long term through a high cash yield relative to fixed income securities and the potential for returns from active asset management.
- B. Inflation Protection. Make real estate investments that are likely to provide a reasonable hedge against price inflation.
- C. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- D. Capital Preservation. Make real estate investments that are designed to preserve investment capital through structures that minimize downside risk and provide an acceptable level of current cash flows.
- E. Diversification. Use real estate to enhance the diversification of the Funds given the low return correlations historically of real estate with other asset classes (e.g., fixed income).

III. INVESTMENT STRUCTURE

The Core RE Portfolio shall have three major subcomponents:

- A. Private Equity Core Real Estate. Equity strategies that primarily invest in stabilized, institutional quality Class A or B commercial real estate properties in good to excellent condition, well located within their local and regional markets, and of high-quality design and construction. Occupancy in core properties is at market level, there is little upcoming tenant rollover, and the properties have a strong current income that constitute the majority of the expected total return. Leverage is generally 50% or below.
- B. Public Equity Real Estate Securities. Strategies that primarily make core-oriented investments in publicly traded equity securities such as real estate investment trusts (REITs) and real estate operating companies (REOCs) using a long-only or hedged implementation.
- C. Special Situations. Strategies that do not fit either of the other subcomponents, but have core-like risk, including those that are primarily public or private commercial senior real estate debt, preferred, or hybrid strategies related to core real estate property or risk exposures. May also include combinations of the above subcomponents and strategies.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

IV. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the Core RE Portfolio.

- A. Allocation. Authorized ranges and targets for the subcomponents of the RE Portfolio are in the following table.

Subcomponents	Minimum	Target	Maximum
Private Equity Core Real Estate	50.0%	80.0%	90.0%
Public Equity Real Estate Securities	10.0%	20.0%	40.0%
Special Situations	0.0%	0.0%	30.0%

- A. Income and Appreciation Return Mix. The Core RE Portfolio will not be dependent on appreciation within the Private Equity Core subcomponent for total returns over the market cycle. Real Estate investment risk is categorized by the balance between income and appreciation expectations of each investment. The higher the income projected, the lower the risk.
- B. Geography. The Core RE Portfolio may invest in opportunities wherein the vehicle or strategy is domiciled in the U.S. and/or outside the U.S.; provided the management team has demonstrated ability to be successful in meeting the intended investment strategy objectives. The Private Equity Core subcomponent of the Core RE Portfolio shall invest in various geographies to take advantage of relative value opportunities and diversify the Core RE Portfolio. Diversification of that subcomponent shall be monitored relative to the ODCE NCREIF Regional allocations+/- 15%.
- C. Sector. Property type diversification is one of the most important diversification features in terms of impact on returns. The property sectors historically have performed differently over the market and economic cycles and the Private Equity Core subcomponent of the Core RE Portfolio should be diversified by property sector. Diversification of that subcomponent shall be monitored relative to the ODCE NCREIF property type allocations +/- 15%.
- D. Other diversification. The Public Equity subcomponent shall be well diversified versus its public equity benchmark evidenced by moderate active risk over the market cycle.
- E. Liquidity. Traditionally real estate is an illiquid asset class with the exception of investment structures such as public real estate securities and open-end fund vehicles that provide liquidity subject to queues. The Core RE Portfolio shall diversify among the various liquidity vehicles but seeks to have at least 20% of the Core RE Portfolio in Level 1 liquid structures and 20% in Level 2 liquid structures.
- F. Leverage. Leverage is authorized for the Core RE Portfolio. Leverage shall be monitored against standards in the following table, recognizing that the standards are assessed against the composite of all members of the subcomponent and that commingled vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

Subcomponent and Vehicle Type	Leverage Monitoring Standard
Private Equity Core, Pooled Vehicles	40.0%
Private Equity Core, Separate Accounts	40.0%
Public Equity Real Estate (i.e., underlying REITS)	50.0%

G. Separate Account Investments. Over time, the Core RE Portfolio shall endeavor to systematically increase the share of the Private Equity Core subcomponent invested through separate accounts to improve investor control and cost-effectiveness, although not to the exclusion of compelling “club deals” and co-investments that arise from time to time. The allocation to Separate Accounts shall be at least annually compared against a 60% monitoring standard.

Investment Vehicle	Investor Control
Commingled Funds	Passive
Separate Accounts	Investor Control

V. PERFORMANCE & REPORTING GUIDELINES

The Core RE Portfolio’s custom benchmark is static-weighted. It is comprised of 80% weighting of the National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity Fund Index (“NCREIF ODCE Index”), net of all fees and expenses, and 20% weighting of the Financial Times and London Stock Exchange (“FTSE”) European Public Real Estate Association (“EPRA”) and the National Association of Real Estate Investment Trusts (“NAREIT”) Global Index (“FTSA/EPRA/NAREIT Global Index”). In addition, the performance of each investment may be measured relative to the performance of investment managers employing similar investment strategies and using data provided by relevant and reputable sources. On 10-year and longer-term basis, the Core RE Portfolio’s performance shall be compared to a risk- and domicile-adjusted public market equivalent benchmark to assess the opportunity cost of the Core RE Portfolio versus the public REIT markets.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

MULTI-STRATEGY PORTFOLIO

VI. INTRODUCTION

The Multi-Strategy Portfolio (“Multi-Strat Portfolio”) invests in externally managed vehicles that have the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, and relative value multi-strategy, global macro, rebalancing, tail hedging and overlays.

VII. INVESTMENT OBJECTIVES

The Fund is investing in multi-strategy vehicles to accomplish the following objectives:

- A. Attractive absolute returns. Provide efficient compounding of capital through trading and market-timing skill, including hedging individual securities and commodities and exploiting market dislocations through opportunistic allocations.
- B. Competitive relative returns. Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters.
- C. Diversification. To increase investment flexibility across different asset categories and strategies, including during episodes of heightened macroeconomic risk and systemic risk, and to facilitate hedging of Fund-level risks, as might be prudent, from time to time.

VIII. INVESTMENT STRUCTURE

The Multi-Strategy Portfolio shall have no subcomponents.

IX. SPECIFIC INVESTMENT GUIDELINES

In addition to the general guidelines and other requirements of this Policy, the following specific guidelines apply to the Multi-Strat Portfolio.

- A. Diversification. To allow the Fund to raise liquidity from the Multi-Strat Portfolio when other markets are volatile, IMD shall attempt to diversify the portfolio among various vehicles based on their liquidity structures and between income- and appreciation-based investments and strategies.
- B. Leverage is authorized within the Multi-Strat Portfolio, but must be regularly monitored to determine the reasonableness in the context of investment strategy. IMD acknowledges that certain vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles’ leverage levels.

X. PERFORMANCE & REPORTING GUIDELINES

A custom index comprised of a dynamically weighted combination of the benchmarks for each strategy within the Multi-Strat Portfolio. In addition, the performance of investments may be measured relative to the performance of investment managers employing similar investment strategies, using data provided by relevant and reputable sources.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

APPENDIX 3: STATUTORY COMPLIANCE PROCEDURES

I. STATUTORY MINIMUM AND MAXIMUM ALLOCATIONS.

Section 147-69.2(b) of the North Carolina General Statutes requires that the Fund be managed consistent with minimum and maximum percentages for certain classifications of investments. Table A3-1 summarizes these statutory requirements.

Table A3-1: Statutory Minimum and Maximum Allocations

	Statutory Citation	Minimum or Maximum Percentage of Fund
1	NCGS §§ 147-69.1(c) and 147-69.2(b)(1)-(6b)	At least 20%
2	NCGS § 147-69.2(b)(8)	No more than 65%
3	NCGS § 147-69.2(b)(8)(b.)	No more than 8.5%
4	NCGS § 147-69.2(b)(6c)	No more than 7.5%
5	NCGS § 147-69.2(b)(7)	No more than 10%
6	NCGS § 147-69.2(b)(9)	No more than 8.75%
7	NCGS § 147-69.2(b)(9a)	No more than 7.5%
8	NCGS § 147-69.2(b)(10a) for the 35% aggregate portfolio limit	The sum of rows 3 to 7; No more than 35%

Effective August 23, 2013, as amended by N.C. Session Law 2013-398.

Pursuant to the Chief Investment Officer's August 13, 2013 letter to the General Assembly, in the event of any perceived ambiguity in the statute, the lowest and most restrictive limits specified in the statute shall apply. These limits are set out above in Table A3-1.

II. STATUTORY INVESTMENT CLASSIFICATIONS AND INVESTMENT POLICY STATEMENT PORTFOLIO DEFINITIONS

The General Statutes' limits, summarized in Table A3-1, utilize a series of broad classifications. The Portfolios described in this Policy will in most cases be sub-divisions of the broad investment classifications described in the General Statutes but may contain investments from multiple General Statute classifications. Table A3- 2, below, compares the General Statutes classifications to the Portfolio definitions found in the Investment Policy Statement.

Table A3-2: Comparison between Statutory Classifications and Investment Policy Statement Portfolios

Investment Policy Statement Portfolios	Relevant Subsection of General Statutes
Investment Grade Fixed Income	NCGS §§ 147-69.1(c), 147-69.2(b)(1)-(6b)
Cash	NCGS § 147-69.1(c)
Public Equity (Long-Only Subcomponent)	NCGS § 147-69.2(b)(8)(a.), (c.)
Public Equity (Hedged Equity Subcomponent)	NCGS § 147-69.2(b)(8)(b.)
Private Equity	NCGS § 147-69.2(b)(9)
Non-Core Real Estate	NCGS § 147-69.2(b)(7) OR NCGS § 147-69.2(b)(8)(a.), (c.)
Opportunistic Fixed Income	NCGS § 147-69.2(b)(6c)
Inflation Sensitive	NCGS § 147-69.2(b)(9a)
Core Real Estate	NCGS § 147-69.2(b)(7) OR NCGS § 147-69.2(b)(8)(a.), (c.)
Multi-Strategy	NCGS § 147-69.2(b)(9) OR NCGS § 147-69.2(b)(8)(b.)

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

III. STATUTORY COMPLIANCE MONITORING

A. Investments' Statutory Classification. To ensure ongoing compliance, classification of new investments for these purposes shall be determined through investment and legal analysis prior to executing any related contract. In the investment recommendation memorandum, statutory compliance shall be addressed, including a pro forma analysis of projected cash flows for the recommended investment and existing Portfolios' investments. Statutory classifications shall be included in the supplementary information in the annual standalone financial audit.

B. Ongoing Monitoring. Compliance with the requirements and limitations of NCGS § 147-69.2, including maximum and minimum allocations to certain statutory classifications of investments, shall be monitored by IMD on an ongoing basis. As required by NCGS § 147-69.2(b), for purposes of computing market values for the statutory percentage limitations, all investments shall be valued as of the last date of the most recent fiscal quarter.

C. Prohibition on New Investments If Outside Statutory Limits. IMD may not recommend to the Treasurer any investment or commitment to an investment vehicle if such investment or commitment would reasonably cause the Fund to violate any statutory classification limit or other statutory requirement as summarized in Table A3- 1.

D. Managing Existing Investments If Investments Fall Outside Statutory Authorizations and Limits. As provided by NCGS § 147-69.2(b), the Treasurer has discretion to manage existing investments should events occur that create non-compliance with statutory requirements after an authorized investment has been made.² On a monthly basis, all such instances of non-compliance shall be reported to the Treasurer and, at least annually, IMD shall recommend an action plan to the Treasurer to address the non-compliance.

² NCGS § 147-69.2(b) states, in part: "If an investment was authorized by this subsection at the time the investment was made or contractually committed to be made, then that investment shall continue to be authorized by this subsection, and none of the percentage or other limitation on investments set forth in this subsection shall be construed to require the State Treasurer to subsequently dispose of the investment or fail to honor any contractual commitments as a result of changes in market values, ratings, or other investment qualifications."

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION**

GLOSSARY

Absolute: can refer to the performance or volatility of an investment and is measured on a standalone basis

Beta: systematic risk of a security, portfolio, or Fund measured relative to a market or risk factors

Ex Ante: expected returns or expected volatility

Ex Post: realized returns or realized volatility

Information Ratio: a risk-adjusted return that is measured by dividing active return (i.e., portfolio return - benchmark return) by the tracking error

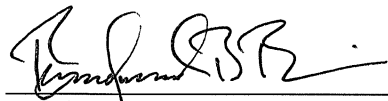
Relative: the performance or volatility of an investment measured versus a stated benchmark or reference portfolio

Sharpe Ratio: a risk-adjusted return that is measured by dividing investment return less the risk-free rate by the

Tracking Error or Active Risk: the standard deviation of relative returns (portfolio returns - benchmark returns)

APPROVAL

Approved by:



Bradford B. Briner
North Carolina State Treasurer

Date: 2/28/2025

REVISION/REVIEW HISTORY

Version	Date Approved	Description of Changes
1.0	11/26/2012	Initial version
2.0	7/1/2014	Revision and Restatement
2.0	11/8/2016	Reviewed-no changes
2.0	6/12/2018	Reviewed-no changes
3.0	11/1/2020	Updates and revisions made
4.0	7/1/2022	Updates to Strategic Asset Allocation, other revisions made
5.0	2/28/2025	Updates to Strategic Asset Allocation, other minor revisions