

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT ADVISORY COMMITTEE  
MEETING MINUTES FOR May 26, 2021**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, May 26, 2021, at 9:00 a.m. via conference call and GoTo Webinar.

Members Present: State Treasurer Dale R. Folwell (Chair), John Aneralla and Greg Patterson.

Members Attending via Webinar: Lentz Brewer and Michael Mebane.

Not in attendance: Loris Colclough

Staff Present (in person and virtual): Matt Krimm, Rhonda Smith, Brian Jackson, Nick Langley, Gail Kadash, Kathy O’Neill, Fran Lawrence, Bill Golden, Loren de Mey, Laura Rowe, Kenn Kubacki, Joe Farley, Joan Fontes, Greg Taylor, Dan Way, Deana Solomon, Troy March, Linzy Kosterman, Ty Powers, Brett Hall, Sam Watts, Frank Lester, Debbie Thomas, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Anne Roof, Ben Garner, Julie Havlak.

Others in Attendance (in-person and virtual): Jon Gray (Blackstone), Phaedra Garibalid (BNY Mellon), Lindsay Saienni (fin-news), Lauren Ohnesorge (bizjournals.com), Ben Beaulieu (BlackRock), Parker McVey (Blackstone), Mary Lynne Eubanks (Blackstone), Katherine Bermingham (Blackstone), David Hammond, William Claxton, Rachel Furash, Kim Mackey.

**AGENDA ITEM – OPENING REMARKS**

The meeting was called to order at approximately 9:00 a.m. by Treasurer Folwell. Meeting etiquette information, and Webinar/Conference line use was shared by Ben Garner. Mr. Garner confirmed there was a quorum and provided procedures for IAC members’ virtual participation.

The Treasurer then commenced the meeting.

**AGENDA ITEM – APPROVAL OF MINUTES**

Mr. Aneralla moved, Mr. Lentz seconded, and there was a member roll call to approve the minutes. The minutes were approved.

**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 2021 and further discussed the current quarter changes. Some highlights included that the small cap outperformed large cap, and the fixed Income markets had their worst quarter since the 1980s, with the high-yield markets actually producing positive returns.

Mr. Morris presented an update on Assets Under Management (AUM), as of March 31, 2021. He stated the total AUM was \$159 billion, which is up \$2.6 billion since the prior quarter. The majority of increase is due to the N.C. Retirement System’s market value increase by \$1.5 billion appreciation.

Mr. Morris reviewed the asset allocation as of March 31, 2021. In this quarter, there were no major changes to over- and underweights. The portfolio is currently 8.4% underweight to growth, largely driven

by the underweight in public equity. This underweight is offset entirely by the overweight to cash within the rates & liquidity sleeve of 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. Overall, the portfolio is up 1.7% for the quarter. He noted how the portfolio return has exceeded the new actuarial rate of return in nearly all time periods shown. The Treasurer commented on the recent reduction on the actuarial rate of return.

Mr. Morris discussed the Growth of a Dollar charts, which illustrate how the total pension and alternatives sleeve have performed relative to the long-term policy benchmark over the five- and ten-year periods and since 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. He discussed how the selection effect added value, while the allocation effect detracted value over all three time horizons.

Mr. Morris presented the Net of Fees Risk Metrics slide. Rolling volatility decreased from all-time highs, now below three-year and closer to long-term averages. Like volatility, the tracking error also decreased.

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

Mr. Morris moved on to the liquidity slides, hitting on the structural liquidity, benefit payments, and cash flows within the alternatives sleeve. The portfolio is currently at 75% Level 1 Liquidity, which is well within minimums for policy guidelines, and we remain cash flow positive.

There was a discussion on the expectation of higher benefit payments in the future as retirements increase within the next year.

Mr. Smith reported on Asset Class Performance and spoke to the Calendar Year Asset Class Return chart, highlighting the strong performance in public equity (which was 60%), private equity (up 30%), and opportunistic fixed income (which did well at 17%) for 2020.

Mr. Smith reported that non-core real estate was slightly negative, while investment grade fixed income returned 1% while the benchmark was negative, largely driven by positioning and duration effects, for the 1-year period.

He pointed out that for this calendar year the growth assets stand out on top as expected.

Mr. Smith next discussed some new and incremental investments, particularly one new fund in February, with no material changes in unfunded with a continued down trend of unfunded commitments.

Mr. Smith moved along to Asset Allocation History and the Top 20 Investment Managers presentation, noting that there have been no material changes in this area. Mr. Smith also discussed that internally managed assets account for 52.5% of total assets managed, largely due to growth in the equity markets.

The Treasurer commended the Fixed Income staff for taking advantage of the market dislocation and the team's ability to put money to work during the COVID pandemic and working seamlessly off-site.

#### **AGENDA ITEM – GLOBAL MACRO ECONOMIC REVIEW**

The Treasurer referred to the CEM presentation, commending the Investment Management Division on how efficiently they have run the plan and all that the employees contribute, which determines that the plan makes money net of expenses. It was mentioned that the November 2020 IAC meeting covered the CEM study. The Treasurer also briefly mentioned the asset class overview from the November 2020 meeting before introducing Blackstone and Jon Gray.

Mr. Gray gave an overview of Blackstone as a company and their current asset base. He further discussed the company's culture, views, charitable ventures, and investment discipline. He went on to provide an overview of trends and how the world is changing. He discussed how to capture those changes as they shift. He discussed the shifts to greener energy, including how energy credit and equities are expressed. Mr. Gray also discussed MRNA technology coming out of the pandemic which will allow your own body to fight diseases. He continued to expand on the explosion in opportunity in life sciences.

Mr. Gray continued that not all opportunities are from big trends as some stem from demographics, primarily aging populations both physical and online. Global travel grew 5% annually and that will not be coming to an end anytime soon. Mr. Gray also discussed that rising middle class China and India will start to spend more.

Mr. Gray expects growth in alternatives, mentioning that due to COVID more consumers increased their savings and are ready to spend. Highlighting some risks, he noted that the risk of inflation is up, which has had its fastest growth since 2008. The economy is running hot. He anticipates higher inflation and higher rates. With rates high, there's a concern for long duration fixed assets. He gave a review on real estate sectors.

Mr. Gray concluded his presentation to state that, overall, this has not been an easy environment to invest in and that there is a need to protect against higher inflation.

The floor was opened for questions. The Committee thanked Mr. Gray for his in-depth presentation.

Mr. Gray was questioned on anticipated rates, but Mr. Gray stated that he does not specialize in rates and gave a fair expectation of his opinion. He then answered additional questions, primarily from staff, related to various markets.

#### **AGENDA ITEM – REAL ESTATE ASSET CLASS REVIEW**

The Treasurer thanked the Mr. Gray for his report and introduced Troy March and Chris Ward, the Real Estate team.

Mr. March mentioned that it was an honor to hear Mr. Gray present today; He then introduced new team member Chris Ward.

Mr. March reviewed the portfolio's sectors and targets. He next went on to discuss distributions received to date. There was further discussion on the breakdown of managers and high conviction managers as a strategic choice for investments. Mr. March also mentioned that cost efficiencies continue to trend in the right direction.

Mr. March followed with a performance overview for Core and Non-Core investments. He reported that REITs continue to outperform over this past year and that trend is expected to continue.

Mr. March proposed continuing the building to core, adding separate accounts and growing high conviction managers. He also stated that many non-core investments are at end-of-life from the original commitment. Mr. March also discussed other investment objectives to be considered and their limitations and further discussed the challenges to diversification in specific sectors.

#### **AGENDA ITEM – IAC CODE OF ETHICS**

Ben Garner presented the annual review and reminder about the code of ethics for IAC members. This policy is meant to capture ground rules about conflicts of interest.

Mr. Garner discussed prevention and evaluation of conflicts of interest. He further stated that the IAC members are prohibited from taking fees, consideration, and gifts.

Mr. Garner also reported that the annual certification affirms awareness of the policy and adherence to it.

#### **AGENDA ITEMS – IAC MEMBER Q&A**

IAC members were provided with the opportunity to pose questions to the Treasurer and IMD staff. There were no additional comments.

#### **AGENDA ITEM – PUBLIC COMMENT**

Kim Mackey was introduced for public comment. Ms. Mackey is a public-school teacher who teaches civics and economics. Ms. Mackey posed a 3-part question related to selection and allocation effects over the prior 4-year time period and their impacts to the pension plan.

#### **ADJOURNMENT**

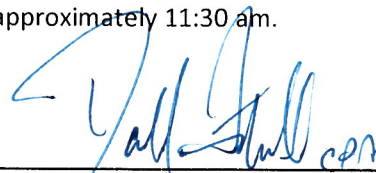
The IAC members all thanked the Treasurer and his staff.

The Treasurer next thanked Jeff Smith, Christopher Morris, and the Investment Management team and then requested that there be a motion to adjourn the meeting.

Mr. Patterson motioned to adjourn. Mr. Aneralla seconded the motion.

Mr. Lentz, Mr. Brewer, and Mr. Mebane all agreed to adjourn.

The Treasurer officially adjourned the meeting at approximately 11:30 am.



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

*NOTE: THESE MINUTES HAVE BEEN UPDATED TO CORRECT A TYPOGRAPHICAL ERROR. THE INITIAL APPROVED VERSION DID NOT CONTAIN THE SECOND AGENDA ITEM ("APPROVAL OF MINUTES").*