



# Opportunistic Fixed Income Overview

5/20/2015



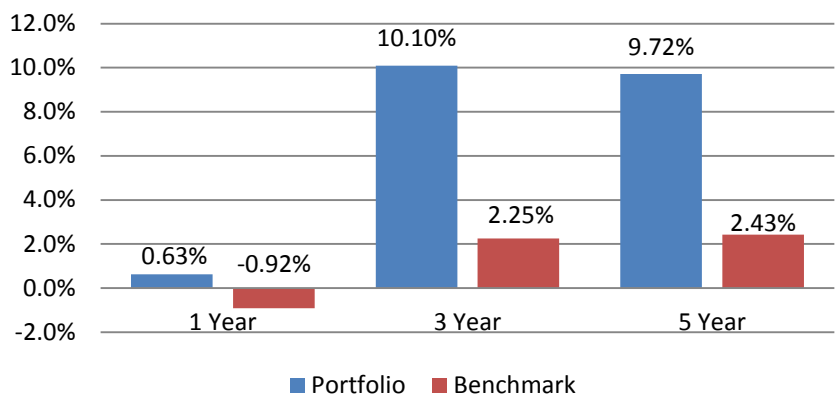
North Carolina Department of State Treasurer  
*Investment Management*

*Learn. Invest. Grow. Prosper.*

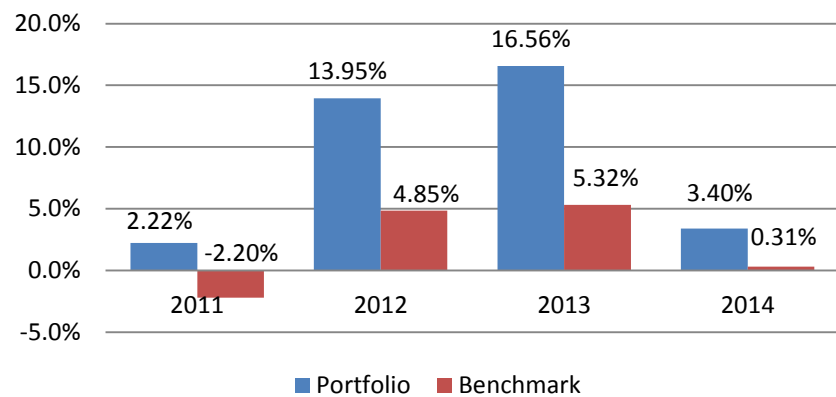
# Portfolio Performance

\* Data as of 3/31/2015 (quarterly)

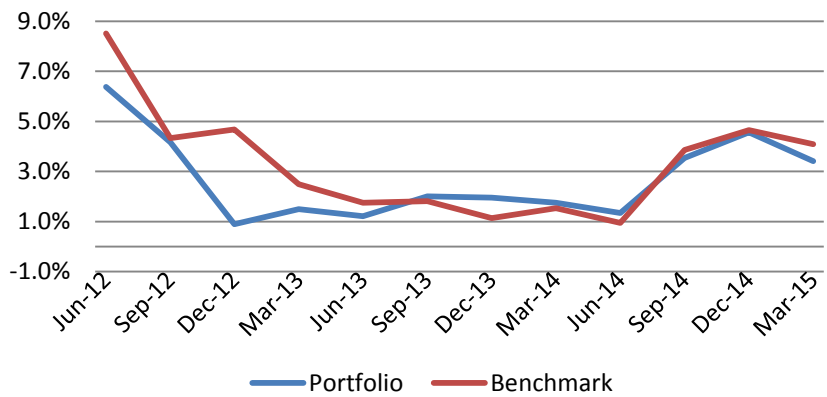
## Annualized Performance



## Calendar Year Performance



## Rolling 1-Year Volatility



## Historical 5-Year Correlation

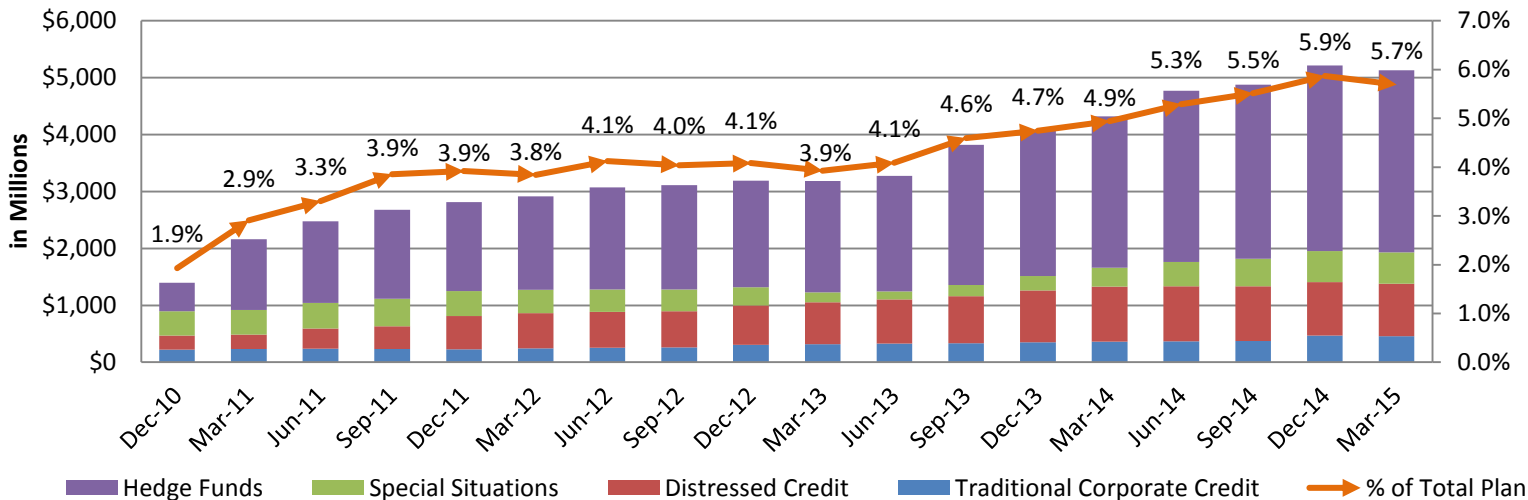
	OFI	Total Fund	Global Equity	Fixed Income	Real Estate	Private Equity	Inflation
OFI	1.00						
Total Fund	0.36	1.00					
Global Equity	0.40	0.98	1.00				
Fixed Income	-0.42	-0.32	-0.49	1.00			
Real Estate	0.04	0.38	0.38	-0.44	1.00		
Private Equity	0.28	0.12	0.05	-0.04	0.52	1.00	
Inflation	0.45	0.16	0.21	-0.32	-0.04	0.21	1.00



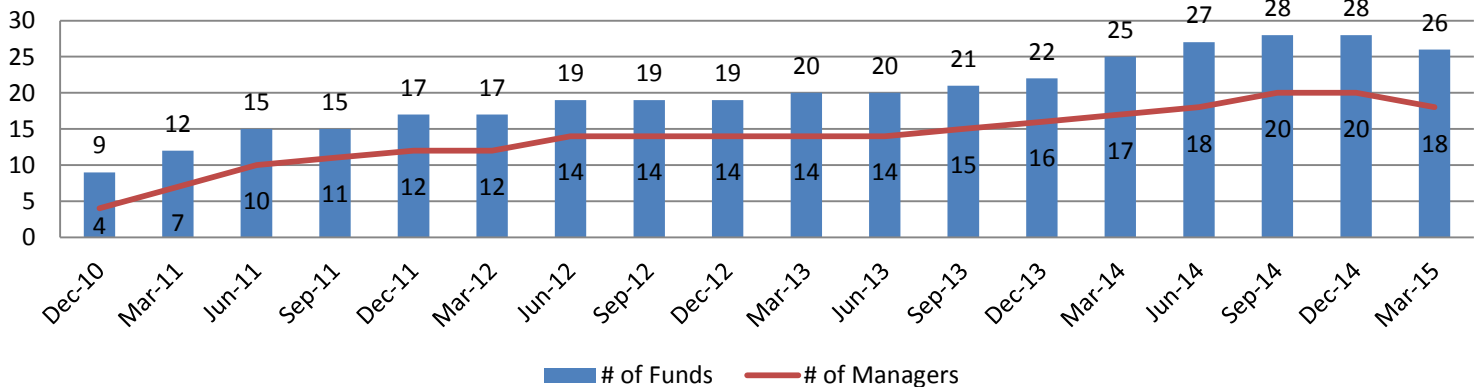
# Portfolio History

\* Data as of 3/31/2015 (quarterly)

## Portfolio Market Value Timeline by Strategy



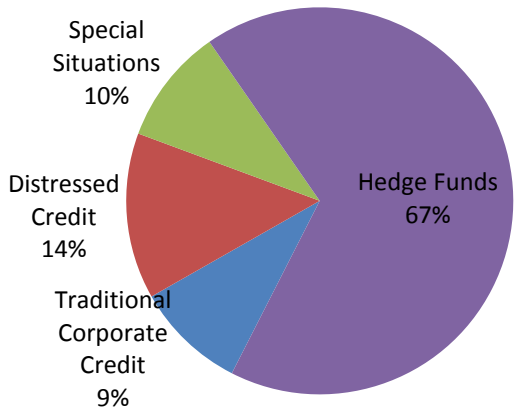
## Growth of Managers and Funds Capacity



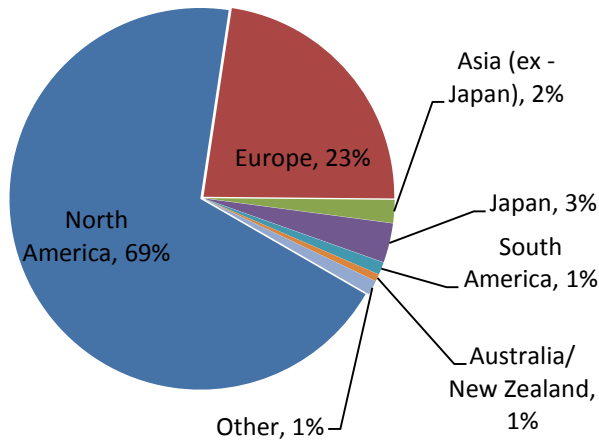
# Portfolio Characteristics

\* Data as of 12/31/2014

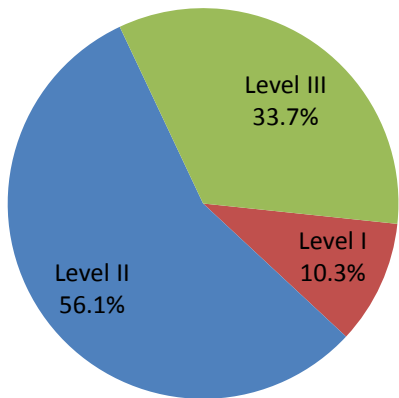
## Strategy Allocation



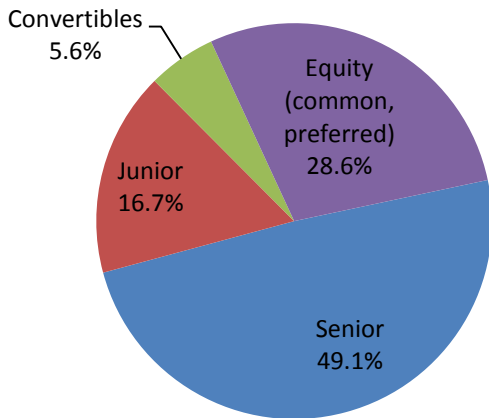
## Geographic Allocation



## Liquidity of Underlying Assets



## Capital Structure Allocation



# Annual Portfolio Review

- Performed annual portfolio review with specialist consultant

## Findings

- The portfolio is comprised of institutional caliber funds and highly diversified across credit market segments and strategies
- The portfolio could benefit from additional diversification and increased exposure to the following:
  - Credit Multi-Strategy & Global Distressed
  - European Distressed
  - Relative Value Structured Credit
  - Emerging Market Debt



# Forward Looking Opportunity Set

## More Attractive

- US Direct Lending
- Whole loans
  - Residential
  - Commercial
- Stressed / Distressed
  - European NPLs
- Energy Dislocation

## Less Attractive

- European Direct Lending
- Long only high yield
- Long-only Structured Credit (CLOs, RMBS, CMBS)



# Strategic Considerations for Discussion

## 1. Manager Profile

- Large diversified platforms or smaller specialists?
- How to maximize the benefits of our scale?

## 2. Long Term Mandate

- Balance between “Opportunistic” and “All-weather” strategies
- Risk tolerance (volatility, drawdown, long/short vs. long only)
- Fully invested vs. under-allocated relative to target

## 3. Where are we in the credit / business cycle (domestic, global)?

- Contraction or expansion?
- Reduce or increase credit risk?



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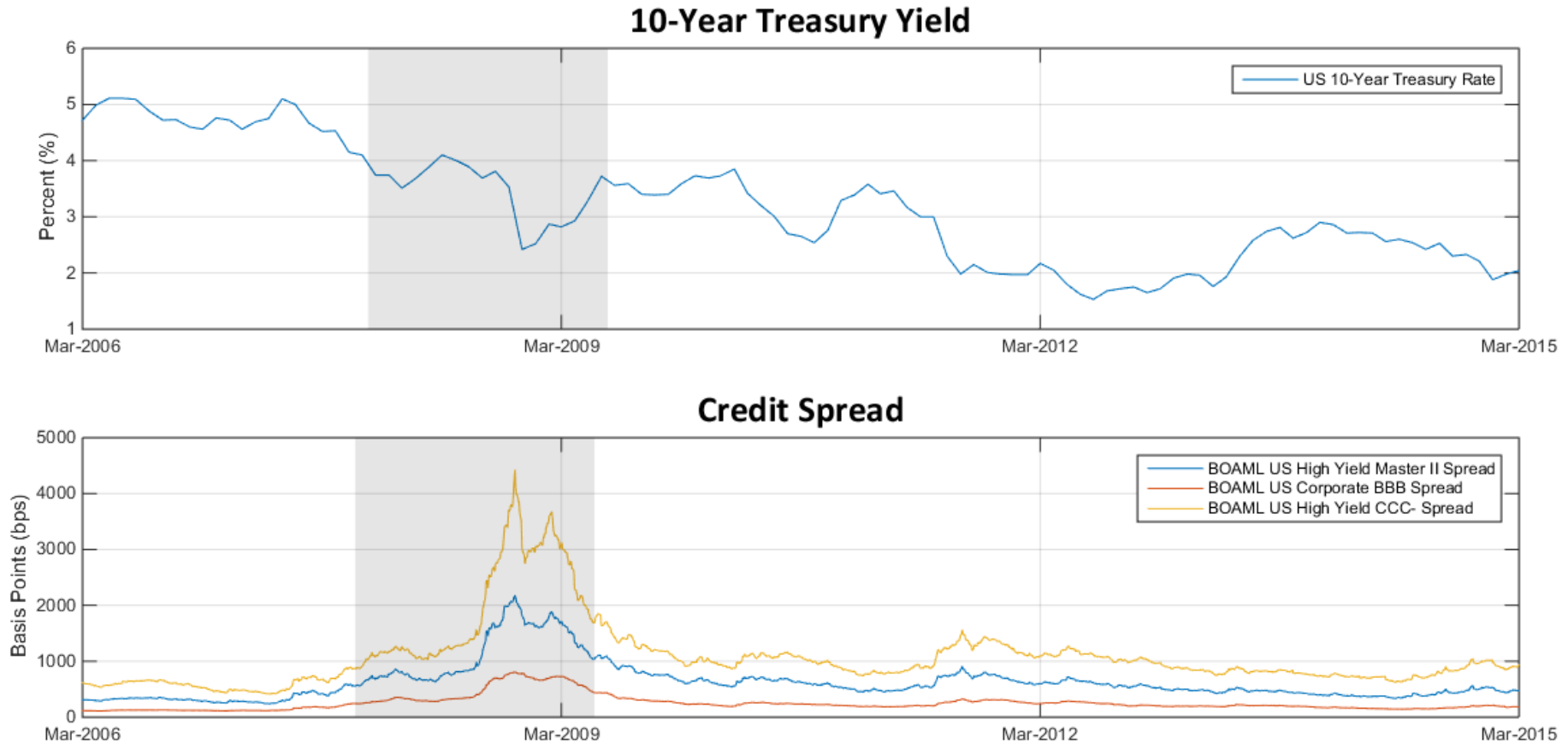
# Supplemental Information for Discussion





# 10-Year Treasury Yield & Credit Spreads

Source: Federal Reserve Bank of St. Louis

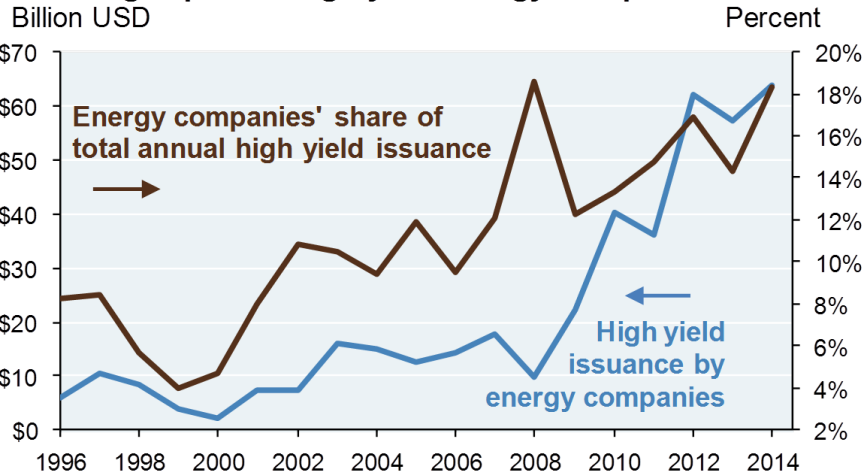


Source: BofA Merrill Lynch, used with permission. See disclaimer on page 15.  
Federal Reserve Bank of St. Louis.



# Energy High Yield Environment

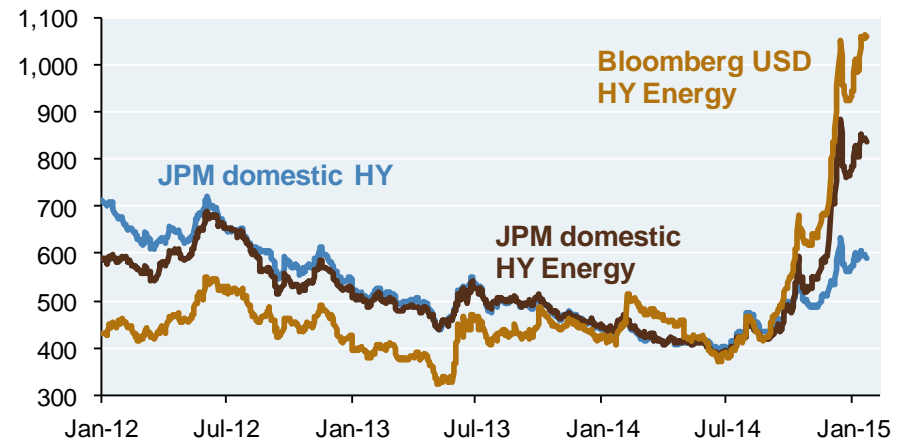
## Growing impact of high yield energy companies



Source: J.P. Morgan Securities LLC. 2014 data through November.

## High Yield under pressure

Spread to worst, basis points

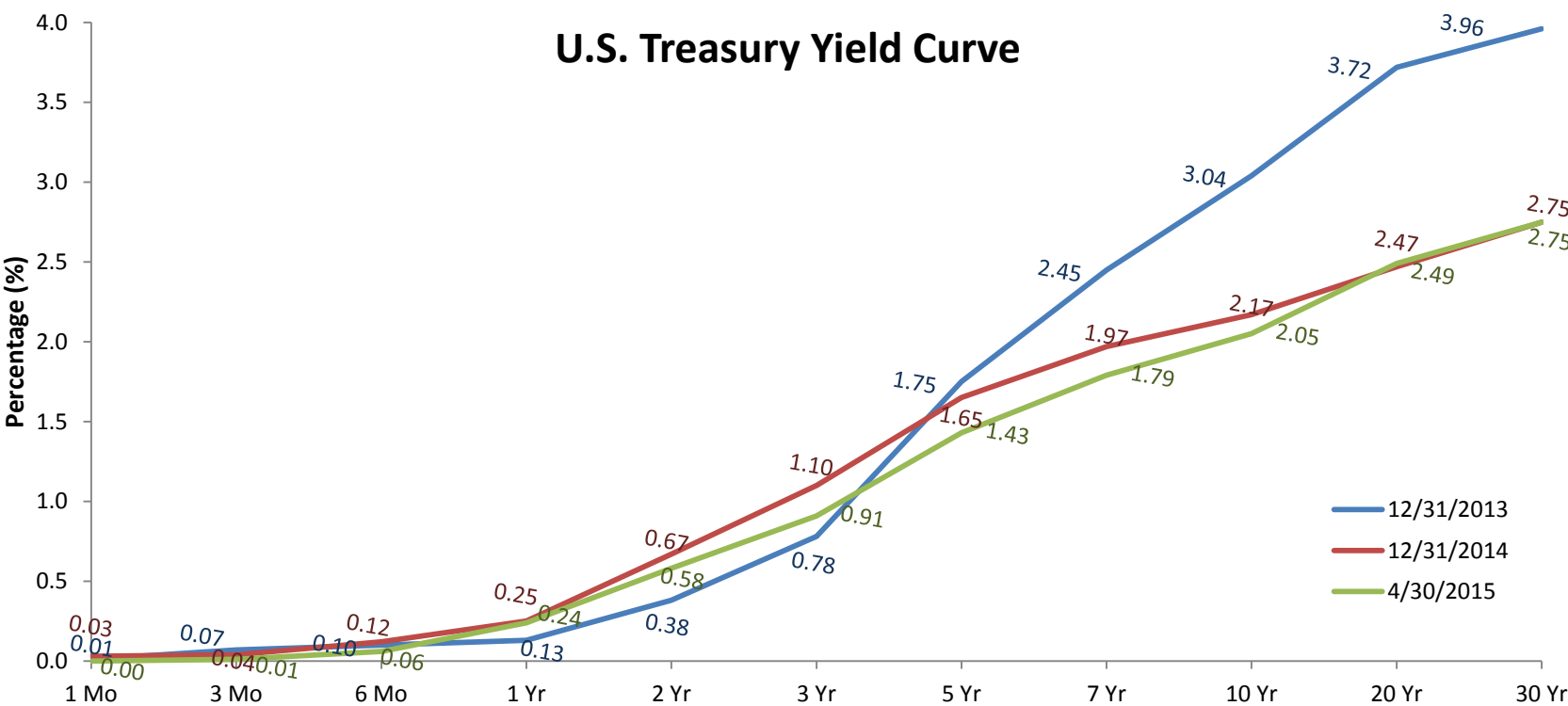


Source: J.P. Morgan Securities LLC, Bloomberg. January 22, 2015.



# Interest Rate Environment

Source: U.S. Department of the Treasury , Federal Reserve Bank of St. Louis

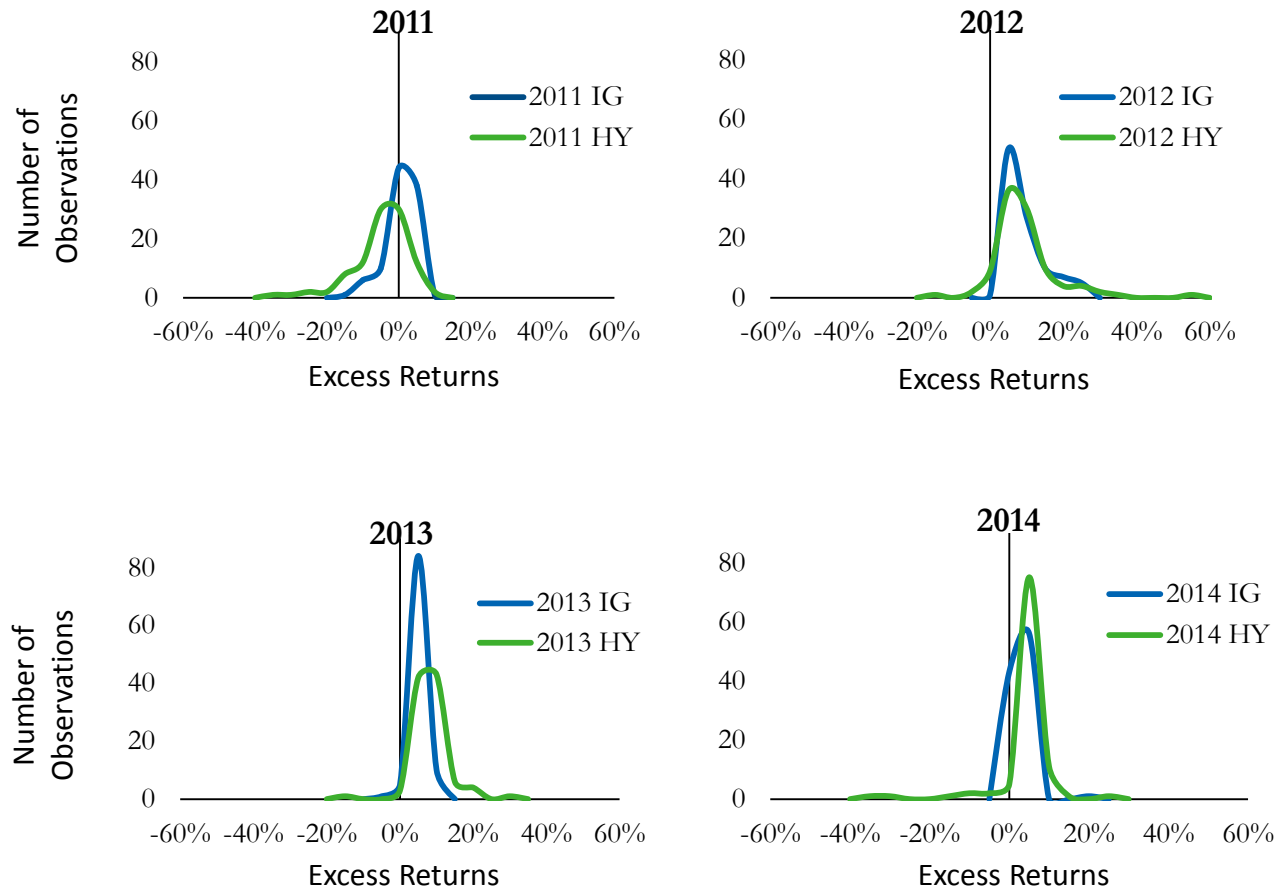


12-months Ending	Change in US 10-year Treasury Yield	US Treasuries	Investment Grade	High Yield	Bank Loans	Distressed Securities	Relative Value	S&P 500
Oct-94	+ 241 bps	-4.67%	-4.77%	0.82%	N/A	8.62%	7.44%	3.72%
Jan-00	+ 194 bps	-2.95%	-3.20%	1.34%	N/A	13.89%	12.17%	9.38%
May-04	+ 115 bps	-2.71%	-0.16%	11.53%	7.65%	17.98%	5.66%	15.49%
Jun-06	+ 111 bps	-1.71%	-2.00%	5.36%	6.26%	12.46%	10.51%	7.94%



# Return Distribution IG & HY 2011- 2014

## Excess Returns of 100 Benchmark Issuers



**Significant tightening in both IG and HY credit spreads from 2011 to 2014 has created challenging market for capturing returns, particularly in L/S credit.**

Source: Citi Research, Date Ranges: 1/31/2011 - 12/31/2013, 1/31/2014 - 10/31/2014  
Data reflected is current as of all information available at the time period in this presentation.

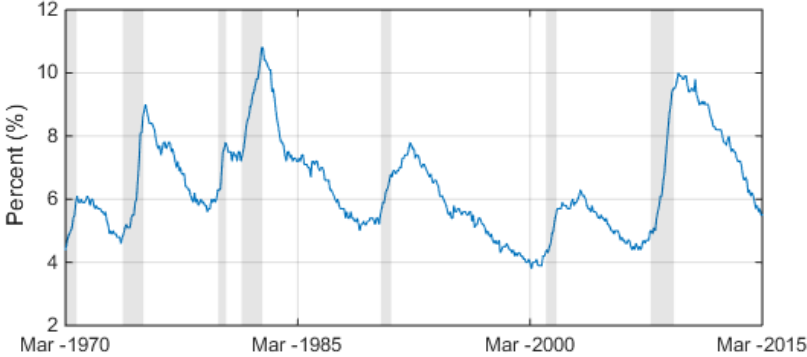
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# Economic Environment

Source: Federal Reserve Bank of St. Louis

**Unemployment Rate**



**Civilian Labor Force Participation Rate**



**New Privately Owned Housing Units Started**



**Housing Inventory Estimate: U.S. Vacant Housing Units**



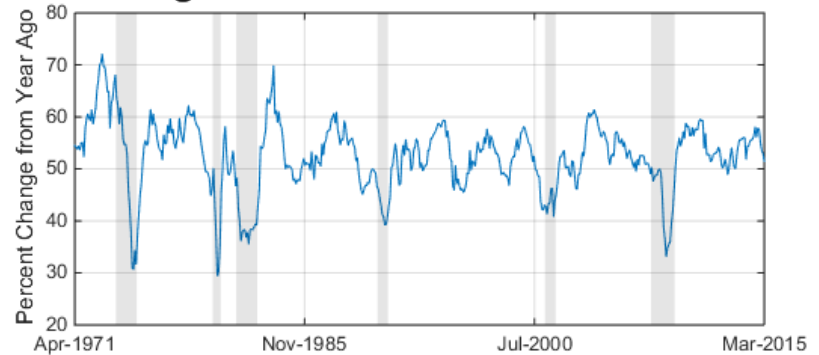
# Economic Environment (continued)

Source: Federal Reserve Bank of St. Louis

## ISM Manufacturing: PMI Composite Index



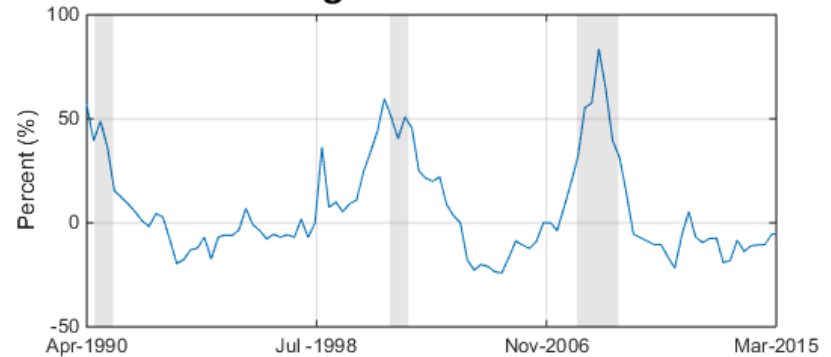
## Change in Real Gross Domestic Product



## Net Percentage of Domestic Banks Tightening Standards for Prime Mortgage Loans



## Net Percentage of Domestic Banks Tightening Standards for Loans to Large and Middle-Market Firms



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