

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE TREASURER OF NORTH CAROLINA

Inflation Portfolio Review

May 2025

All data as of March 31, 2025 Unless Otherwise Stated



Role in the Portfolio

Inflation Protection

- Provide some degree of protection against the risks associated with inflation

Attractive Absolute Returns

- Provide an attractive return over the long-term by making investments that provide a nominal total return that rises with inflation

Competitive Relative Returns “Alpha”

- Achieve or exceed the return on the performance benchmark over a long period of time, within reasonable risk parameters

Diversification

- Enhance the diversification of the Fund’s total investment portfolio relative to public equity and nominal fixed income

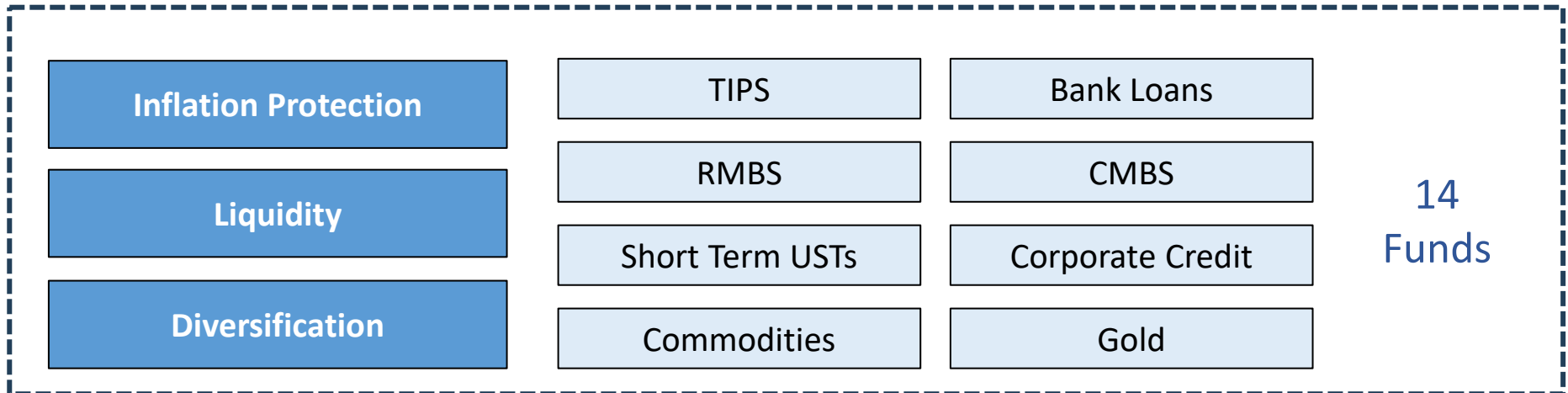
Liquidity

- Provide a source of liquidity to the Fund when other Portfolios are experiencing lower returns due to unanticipated inflation

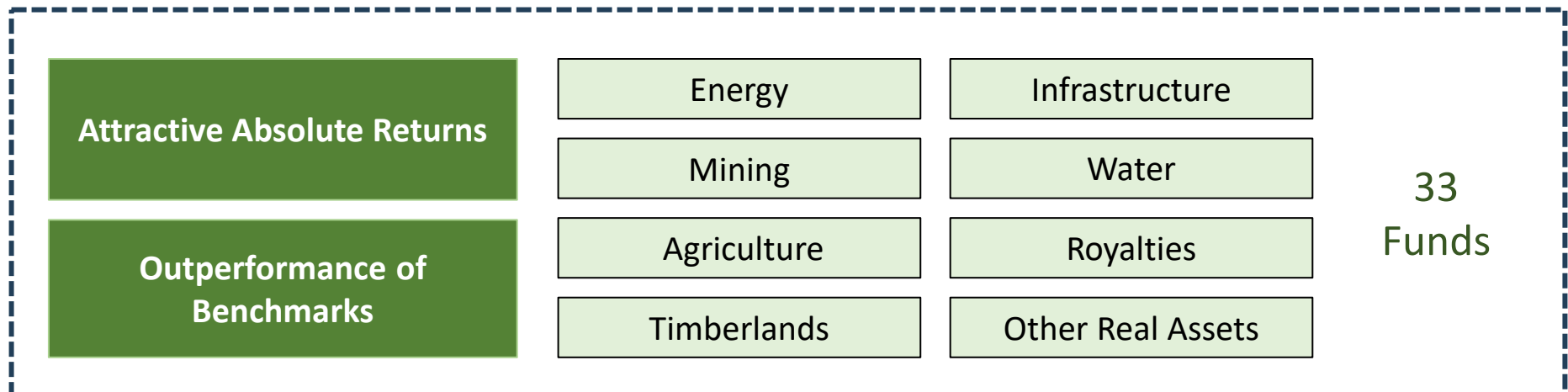


Inflation Sensitive Building Blocks

Financial Assets – Publicly Traded



Real Assets – Illiquid Long Dated Assets





Current Portfolio Composition vs SAA and IPS

IS Portfolio Composition - Actual vs SAA (a/o 3/31/25)							
Market Value (\$MM)	Allocation	Target Allocation	Min	Max	Differential		No. Funds
6,090	4.71%	6.00%	2.0%	7.5%	-1.29%	(1,664)	47

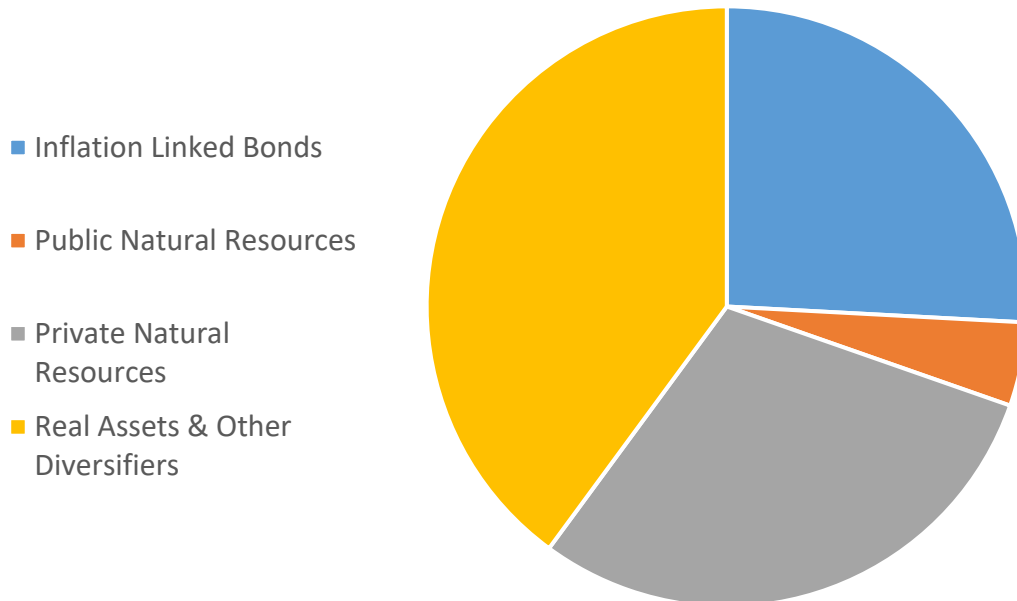
Inflation Sensitive Portfolio Composition - Actual vs IPS						
Strategy	Policy Range			Actual 3/31/25	vs Target	No. Funds
	Min	Target	Max			
Inflation-Linked Bonds	0%	25%	75%	25.9%	0.9%	3
Public Traded Natural Resources	0%	0%	50%	3.7%	3.7%	1
Private Natural Resources	0%	30%	75%	30.2%	0.2%	19
Other Real Assets & Diversifiers	0%	45%	75%	40.1%	-4.9%	24



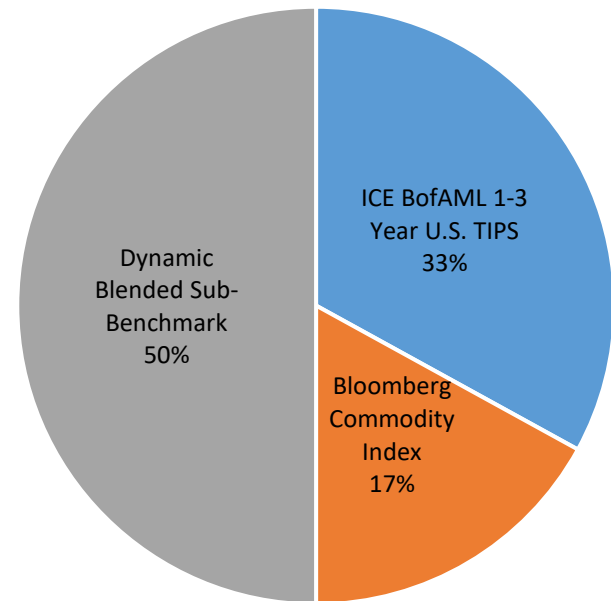
Portfolio Performance

Asset Class	All Vintages - as of 3/31/2025 Cash Flow Adj Valuations					2010 + Vintages - as of 12/31/24 Reported Valuations						
	Time Weighted Returns					Internal Rate of Return			PME (40/60 Cmdty/TIPS)		Multiples	
	Market Value	1 Year	3 Years	5 Years	10 Years	5 Year	10 Year	ITD	Alpha	K&S	DPI	TVPI
Inflation Sensitive	\$6,095	8.14	7.34	7.62	5.23	6.30%	5.24%	3.19%	2.54%	1.13	0.74	1.18
Benchmark ¹⁰		6.96	4.40	5.59	3.42				PME (CPI)			
									Alpha	K&S		
									0.66%	1.04		
Inflation Linked Bonds	\$1,588	7.94	5.14	6.72	-							
Public Natural Resources	\$227	10.97	(0.62)	15.19	2.24							
Private Natural Resources	\$1,827	7.31	10.36	8.36	4.89							
Real Assets & Other Diversifiers	\$2,452	8.65	6.64	7.09	7.94							

Current IS Component Allocation



Long-Term IS Benchmark





Strategies of Interest

- Relative valuations and risk across sectors (e.g. development vs. core) influence decisions
- Avoiding crowded trades and investments without clear paths to liquidity will be key

Structures / Vehicles

- Secondaries
- SMAs
- Directs
- Co-investments
- Real Asset and Infrastructure LPs
- Mezz and Structured Securities
- Continuation vehicles
- Public market proxies
- Derivative overlays

Technology & Data

- Energy efficiency
- Automation
- Sensor systems
- Cell Towers
- Data Centers
- Fiber
- IP royalties
- AI
- Ag Tech

Essential Infrastructure

- Transportation
- Storage
- Utilities
- Power Generation
- Renewables
- Ports and terminals
- Processing and conversion infra

Natural Resources

- Agriculture development and HBU
- Water rights
- Water infrastructure
- Carbon credits

Energy & Minerals

- Midstream
- Energy storage
- Upstream E&P
- Working interest
- Royalties
- Essential minerals related to electrification
- Mine finance



Indicative Relative Valuation Metrics by Sector

Sector	Relative Value
Energy E&P	Green
Energy Midstream	Green
LNG	Yellow
Power Generation	Green
Renewables (wind/solar/RNG)	Red
Energy Storage	Yellow
Digital Infra	Red
Transport & Logistics	Green
Mining (development)	Red
Mining (royalties)	Yellow
Ports and Terminals	Yellow
Airports	Yellow
Water rights	Green
Agriculture	Yellow
Timberlands	Red



Tactics Used to Generate Outperformance in the Asset Class

Scale	<ul style="list-style-type: none">• Negotiate better fees and terms• Reach co-investment eligible threshold
Sector Expertise	<ul style="list-style-type: none">• Improved manager selection• Develop investment themes internally
Tactical Allocation	<ul style="list-style-type: none">• Shorter term investments aligned to investment themes
Diversification	<ul style="list-style-type: none">• Multi-sector allocations• Multiple managers per sector• Maximize Co-investment deal flow
Investment Concentration	<ul style="list-style-type: none">• Co-investments and directs sized to highest conviction themes and opportunities• Counter-balance to manager diversification
Investment Horizon	<ul style="list-style-type: none">• Align investment structure with long duration assets, buy and hold, cash flow and ROI driven• Shorter term trading mentality for valuation arbitrage, development, repositioning opportunities, IRR driven



Expected Outcomes

- Enhanced balance between return and risk exposures
- Increased allocation to illiquid sectors
 - Harvest premiums related to illiquidity, development, and complexity
 - Capture long term inflation factors but less exposure to short term spikes
- Greater control over entry valuations and exit timing
 - Directs and Co-investments are highly valuation dependent
- Diversification benefits maintained
 - Higher investment concentration balanced by increased idiosyncratic risk of co-investments and directs
- Expectation of a higher staffing and resource requirement



Accessing The Opportunity

- How we access investments in the future may deviate meaningfully from the past
- SMAs, Co-investments, and Direct Investments provide investment flexibility while reducing fees

