

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA

# Investment Management Division Major Initiatives

Investment Advisory Committee

February 26, 2025



## 2025 Major Initiatives



### Rebalancing

Three (3) phased approach



### Investment governance

Consultant review (Statutory)

Legislative agenda

Staffing



### Asset Liability Study

Reflect 5-year experience study

November 2025 presentation to  
Investment Advisory Committee

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# Rebalancing



## Overview of Rebalance Process

### Phase I: January - March

- **Prioritize** deploying portion of excess cash to liquid strategies
- **Mitigate** structural misfit
- **Recommend** reset to pre-2022 SAA (last agenda item)

### Phase II: May IAC consultation and after

- **Review** private market pacing plans, including areas of tactical emphasis
- **Deploy** based on IAC feedback and market opportunities

### Phase III: 2025 ALM Study

- **Recommend** new SAA in November
- **Implement** transition plan to new SAA in 2026



## NCRS January 31 Asset Allocation Stance

	Actual (1/31/25)*	Current SAA	+/-	SAA Prior to 2022
<b>Growth</b>	<b>54.5%</b>	<b>55.0%</b>	<b>-0.5%</b>	<b>58.0%</b>
Public Equity	42.0%	38.0%	+4.0%	42.0%
Private Equity	4.7%	7.0%	-2.3%	6.0%
Non-Core Real Estate	1.6%	3.0%	-1.4%	3.0%
Opportunistic Fixed Income	6.2%	7.0%	-0.8%	7.0%
<b>Rates &amp; Liquidity</b>	<b>33.9%</b>	<b>33.0%</b>	<b>+0.9%</b>	<b>29.0%</b>
IG Fixed Income & Cash	26.7%	28.0%	-1.3%	28.0%
Pension Cash	7.2%	5.0%	+2.2%	1.0%
<b>Inflation Sensitive &amp; Diversifiers</b>	<b>9.5%</b>	<b>11.0%</b>	<b>-1.5%</b>	<b>11.0%</b>
Inflation Sensitive	4.7%	6.0%	-1.3%	6.0%
Core Real Estate	4.9%	5.0%	-0.1%	5.0%
<b>Multi-Strategy</b>	<b>2.1%</b>	<b>1.0%</b>	<b>+1.1%</b>	<b>2.0%</b>

- 2022 ALM lowered Public Equity Target by 4% and increased cash Target by 4%
- Average public pension has 47% in Public Equity and 24% in Fixed Income and Cash

\*January 31, 2025 weights are preliminary



## Phase 1 Rebalance: Redeploy about 40% of Excess Cash

### Growth

- 350bps underweight is questionable given our investment horizon, despite Mag7 valuations
- Public Equity has a 4% underweight to the US and overweight to non-US growth

### Investment Grade Fixed Income

- Cash has an implied yield of 4% over the next 12 months
- Longer duration IG is exposed to several key risks, but at current yields risk-adjusted returns are attractive over next 12 months

### Opportunistic Fixed Income and Inflation Sensitive

- Focus on low duration ABS with material yield pick up and limited downside risk
- Calibrated credit risk according to asset class
- Deploy capital in 1 to 6 months and have option to harvest within 18-36 months



## Phase 1 Rebalance: Sources and Uses

1/31/2025\*

	Current			Market Value (\$MM)	Sources/Uses (\$MM)
	Port. Weight	Policy Weight	Relative Weight		
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>128,505</b>	<b>0</b>
<b>Growth</b>	<b>54.50%</b>	<b>58.0%</b>	<b>-3.50%</b>	<b>70,031</b>	<b>1,555</b>
Public Equity	41.99%	42.0%	-0.01%	53,958	1,000
Opportunistic Fixed Income	6.17%	7.0%	-0.83%	7,925	555
Private Equity	4.73%	6.0%	-1.27%	6,074	0
Non-Core Real Estate	1.61%	3.0%	-1.39%	2,073	0
<b>Rates &amp; Liquidity</b>	<b>33.91%</b>	<b>29.0%</b>	<b>4.91%</b>	<b>43,574</b>	<b>(2,305)</b>
IG Fixed Income	26.69%	28.0%	-1.31%	34,293	1,000
Pension Cash	7.22%	1.0%	6.22%	9,281	(3,305)
<b>Inflation Sensitive &amp; Diversifiers</b>	<b>9.53%</b>	<b>11.0%</b>	<b>-1.47%</b>	<b>12,247</b>	<b>750</b>
Core Real Estate	4.87%	5.0%	-0.13%	6,257	0
Inflation Sensitive	4.66%	6.0%	-1.34%	5,990	750
<b>Multi-Strategy</b>	<b>2.06%</b>	<b>2.0%</b>	<b>0.06%</b>	<b>2,653</b>	<b>0</b>

*Note: SAA has been adjusted to reflect pre 2022 status*

- Amounts and timing for outflows to Opportunistic Fixed Income and Inflation Sensitive are based on tentative discussions with partners.
- No outflows are assumed for new CRE mortgage platforms that could be housed in Real Estate.



## Phase 1 Rebalance: New Pro Forma Positions

1/31/2025\*

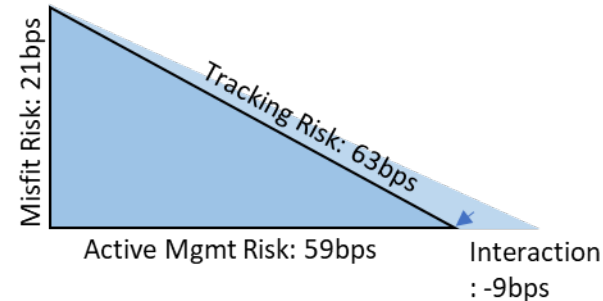
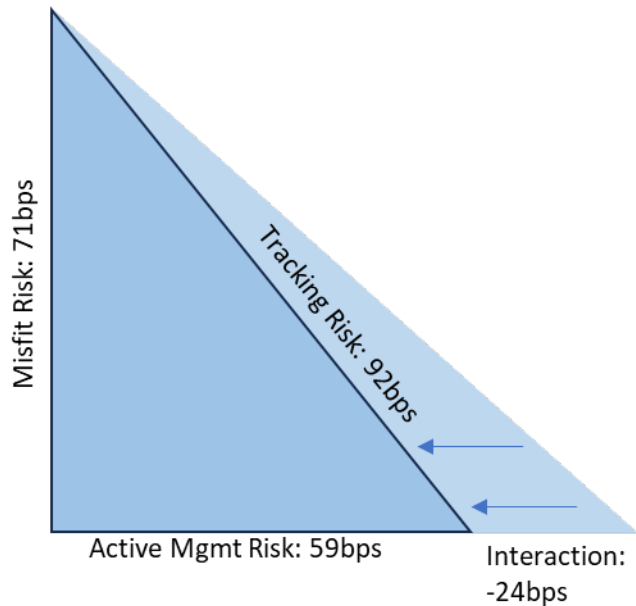
	Pro-Forma				
	Sources/Uses (\$MM)	Market Value (\$MM)	Port. Weight	Relative %	Relative \$ (\$MM)
<b>Total</b>	<b>0</b>	<b>128,505</b>	<b>100.00%</b>	<b>0.0%</b>	<b>0</b>
<b>Growth</b>	<b>1,555</b>	<b>71,586</b>	<b>55.71%</b>	<b>-2.29%</b>	<b>(2,947)</b>
Public Equity	1,000	54,958	42.77%	0.77%	986
Opportunistic Fixed Income	555	8,480	6.60%	-0.40%	(515)
Private Equity	0	6,074	4.73%	-1.27%	(1,636)
Non-Core Real Estate	0	2,073	1.61%	-1.39%	(1,782)
<b>Rates &amp; Liquidity</b>	<b>(2,305)</b>	<b>41,269</b>	<b>32.11%</b>	<b>3.11%</b>	<b>4,003</b>
IG Fixed Income	1,000	35,293	27.46%	-0.54%	(688)
Pension Cash	(3,305)	5,976	4.65%	3.65%	4,691
<b>Inflation Sensitive &amp; Diversifiers</b>	<b>750</b>	<b>12,997</b>	<b>10.11%</b>	<b>-0.89%</b>	<b>(1,139)</b>
Core Real Estate	0	6,257	4.87%	-0.13%	(168)
Inflation Sensitive	750	6,740	5.24%	-0.76%	(970)
<b>Multi-Strategy</b>	<b>0</b>	<b>2,653</b>	<b>2.06%</b>	<b>0.06%</b>	<b>83</b>

*Note: SAA has been adjusted to reflect pre 2022 status*





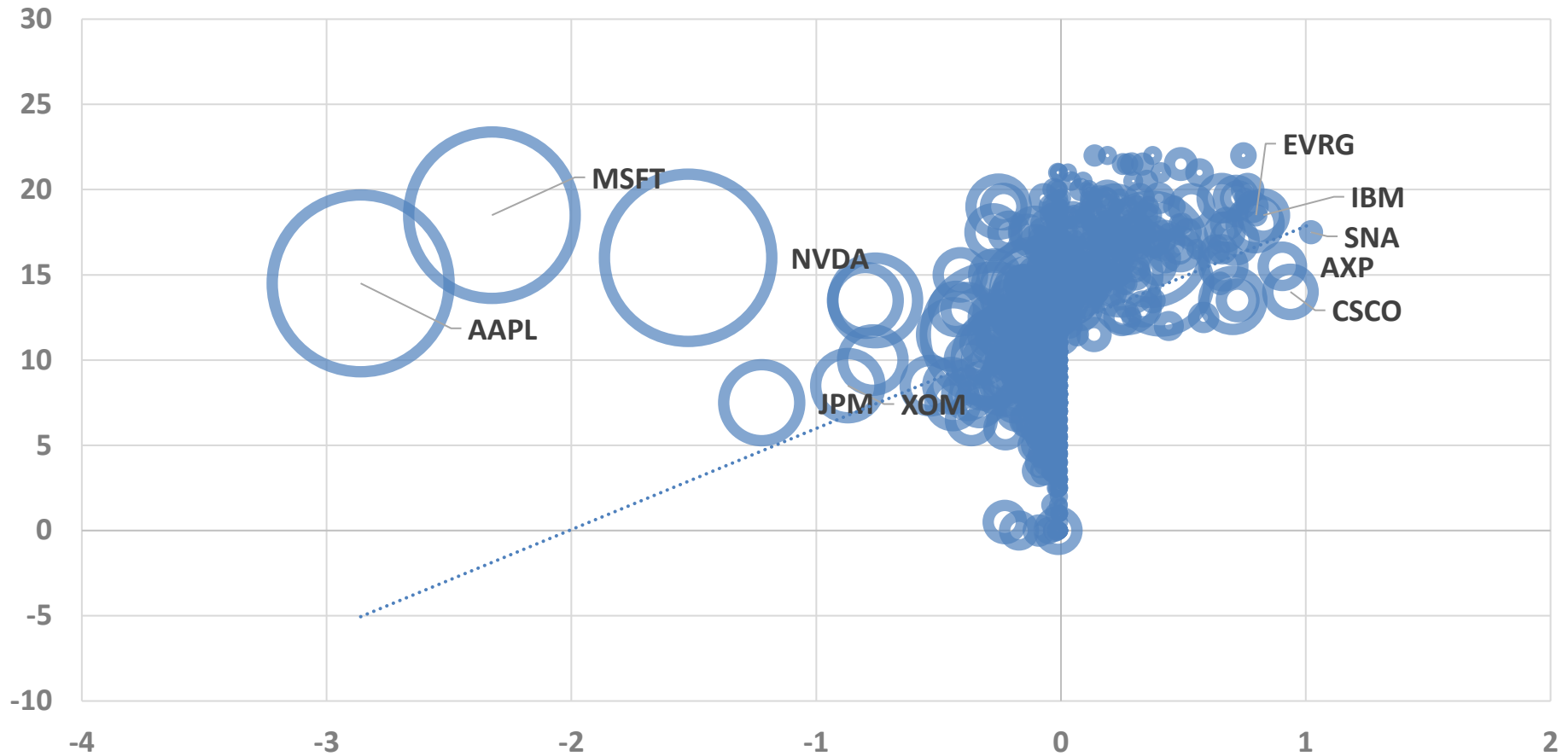
## Rebalance Lowers Public Equity's Tracking Error



- Portfolio ex-ante tracking error decreases from 92bps to 63bps; largely due to US underweight changing from -4% to -1%
- Due to Mag7 valuation and concentration concerns, allocating to an internal Core Factor Tilt and small cap exposures
- A partial defunding of a large foreign growth manager also helps balance factor exposure



## Core Factor Tilt: Raw Factor Score vs Active Weight



**Core Factor Portfolio is structurally under-weight the largest stocks in the index.**



## Investment Grade Bonds: Historically Attractive Yields



Source: Bloomberg

- Absolute yields for core IG market at the upper range of the last 20 years (core index 5.4%)
- Almost 100bp higher since mid September due to term premium repricing



## LTIP Bonds have an Asymmetric Payoff over 12 Months

Yield Chg (bps)	Total Return	Income Return	Price Return	Ending YTW	Ending Avg Life	Ending Eff Dur	Ending Conv	Mkt Val (USD 000)
-150	17.134	5.221	11.913	3.627	10.695	7.606	0.399	35,541,639
-125	15.069	5.223	9.846	3.883	10.693	7.543	0.376	34,913,365
-100	13.046	5.227	7.819	4.141	10.711	7.512	0.361	34,301,276
-75	11.065	5.232	5.832	4.398	10.753	7.474	0.353	33,700,307
-50	9.122	5.237	3.885	4.652	10.809	7.431	0.344	33,110,511
-25	7.218	5.241	1.976	4.905	10.869	7.392	0.337	32,532,792
0	5.354	5.246	0.108	5.156	10.918	7.355	0.333	31,967,312
25	3.531	5.250	-1.719	5.403	10.965	7.315	0.337	31,414,238
50	1.752	5.254	-3.502	5.650	10.995	7.272	0.346	30,874,487
75	0.019	5.258	-5.239	5.897	10.989	7.228	0.354	30,348,736
100	-1.670	5.260	-6.930	6.138	10.976	7.174	0.358	29,835,957
125	-3.312	5.263	-8.575	6.373	10.957	7.108	0.354	29,336,044
150	-4.906	5.266	-10.172	6.627	10.942	7.055	0.350	28,854,307

Source: ICE BondEdge

- On 12 Month horizon, income returns significantly dampen interest rate increase
- While IG credit spreads remain historically tight, credit fundamentals are good and demand for credit remains strong
- 100bps parallel KRD shift + 100 credit spread increase ➔ -4.1% return on LTIP over 12 months



## 2 Year Breakeven Rate has Risen since Election

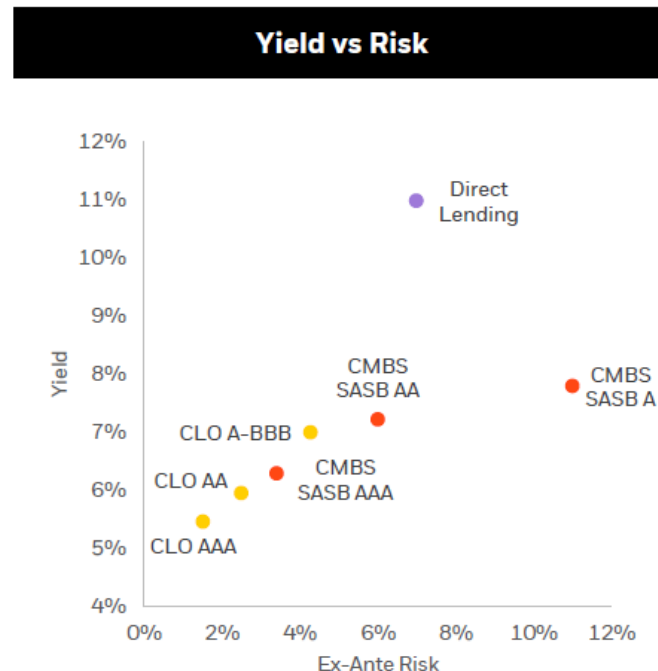


- Inflation rebounding is a concern, with uncertainty around US economic policies
- The 2 Year TIPS breakeven rate is now over 3%, although 5 Year breakeven remains lower and more stable



## Inflation Sensitive Sample Strategy

Asset Class	Spread (bps)	Spread Percentile %	Yield %	Ex-Ante Risk (bps)	Downside Return %
<b>CMBS Floating SASB</b>					
AAA	180	14%	6.28	340	-4.09
AA	267	16%	7.21	600	-5.31
A	322	16%	7.78	1099	-6.06
<b>CLO</b>					
AAA	113	11%	5.45	152	-3.48
AA	151	1%	5.94	250	-6.22
A-BBB	248	1%	6.98	428	-10.18
<b>Private Credit</b>					
Direct Lending BDC	560		10.97	700	-6.04



**Note: January 2025 indicative data**

Source: Blackrock

- Attractive yields in asset backed securities with low duration and high credit quality
- Select CLO tranches offer high quality floating rate securities



## Inflation Sensitive Sample Strategy

	Current Portfolio	Additional Allocation	Total Portfolio <sup>1</sup>		Current Portfolio	Additional Allocation	Total Portfolio <sup>1</sup>
Yield-to-Maturity	5.72%	6.12%	5.85%	Bank Loans	30.8%	0.0%	21.0%
Duration	0.11	0.42	0.21	CMBS <sup>3</sup>	17.4%	58.0%	30.3%
Weighted Average Life	2.74	2.89	2.78	AAA CMBS	14.2%	44.8%	23.9%
Coupon	6.16%	6.30%	6.20%	Below-AAA CMBS	3.2%	13.2%	6.4%
Average Rating	A-	AA	A	CLO	25.3%	37.0%	29.0%
Average SEC Liquidity Score	Moderately Liquid	Moderately Liquid	Moderately Liquid	AAA CLO	11.3%	16.0%	12.8%
% Govt Guaranteed	0.0%	0.0%	0.0%	Below-AAA CLO	14.0%	21.0%	16.2%
% Securitized Credit	42.9%	95.0%	59.5%	Electric Utilities	10.5%	5.0%	8.8%
% Corporate Credit	30.8%	0.0%	21.0%	Other Private Markets	8.1%	0.0%	5.5%
% Other <sup>2</sup>	18.4%	5.0%	14.1%	Equitization	7.9%	0.0%	5.4%
% Cash	7.9%	0.0%	5.4%	<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
% Investment Grade	51.6%	95.0%	65.4%				
% Below Investment Grade	48.4%	5.0%	34.6%				

**Note: January 2025 indicative data**



# Opportunistic Fixed Income: Public and Private Strategies

## New Long Only Public Long/Short Portfolio

Characteristics	Exposure	Sector	Exposure
Yield-to-Maturity	9.35%	Communication Services	30%
Duration	1.00	Health Care	18%
Weighted Average Life	3.08	Consumer Discretionary	15%
Coupon	9.16%	Industrials	12%
Average Rating	B-/CCC	Information Technology	12%
Average SEC Liquidity Score	Moderately Liquid	Financials	6%
% Corporate Credit	100.0%	Real Estate	6%
% Investment Grade	0.0%	<b>Total</b>	<b>100.0%</b>
% Below Investment Grade	84.8%		
% Not Rated	15.2%		
# of Issuers	32		
# of Securities	32		

**Note: January 2025 indicative data**

## Private

- CMBS SASB (down to current BB) and Conduit Parameters (IG only)
- Home Equity (CES/HELOCs), Student Loan ABS, and Prime Jumbo Securitization



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# Governance



## 2025 Governance Study to be conducted by RVK

- Every four years, a consultant evaluates the governance, operations, and investment practices of the State Treasurer.
- The State Treasurer must consult with the Investment Advisory Committee to develop the scope of the evaluation.

Principal Components of Working Scope			
Current Authority, Duties, and Laws	Policy and Process	Compliance Process	Transparency, Accountability, and Ethics
General research and consulting on governance			

- The consultant report shall be provided to the General Assembly within 30 days of receipt. § 147-69.10.(b) NCGS



## Summary of Study's Working Scope (1 of 2)

- 1. Current Authority, Duties, and Laws.** Review the sufficiency of current State authority and duties related to investing NCRS assets.
  - a. Compare applicable authority, duties and laws to common and best practices, including advising whether any provisions impede the ability of the IMD to carry out its functions
  - b. Review any changes to the general legal authority governing NCRS/DST since the 2021 study
- 2. Policy and Process Review.** Compare key policies to industry common and best practices:

○ NCRS Investment Policy Statement	○ Investment Manager Monitoring Policy
○ Investment Manager Selection Policy	

- 3. Compliance Process Review.** Conduct a “gap analysis” of internal trading and private market investment policies and procedures:

○ Information barriers	○ Pre-trade clearance process
○ Trading blackout period	○ Other trade controls



## Summary of Study's Working Scope (2 of 2)

- b. Review and compare to best practices the trading process related to the internal portfolios including a review of middle/back office and valuation processes.
- c. For private market investment activity, review the practices for handling "material non-public information" and the process used to monitor insider trading.

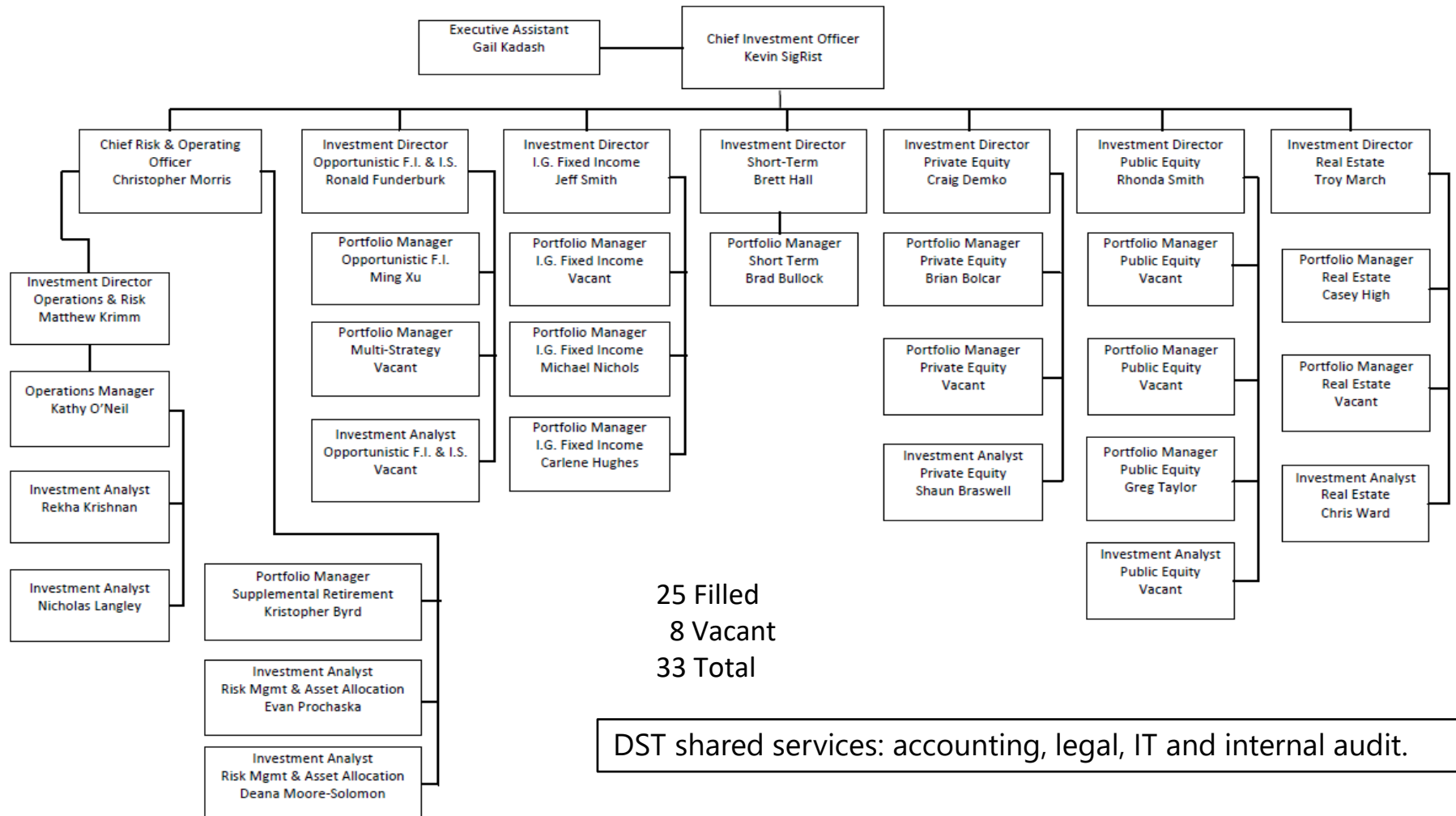
### 4. Transparency, Accountability, and Ethics.

- a. Compare to other public funds, information provided to stakeholders and advise whether it is adequate to foster transparency and accountability and ethics.
- b. Review the current level of delegation, including an evaluation of what authority is delegated and to whom at what level versus what is retained.
- c. Review and opine on the adequacy of the following policies :

○ Investment Transaction Disclosure Policy	○ IMD Code of Ethics and Conduct
○ Ethics and Conduct Policy (Tier 1)	○ IAC Code of Ethics
○ Supplemental Ethics Policy (Tier 2)	○ Insider and Personal Trader Policy



# Current Organization Chart



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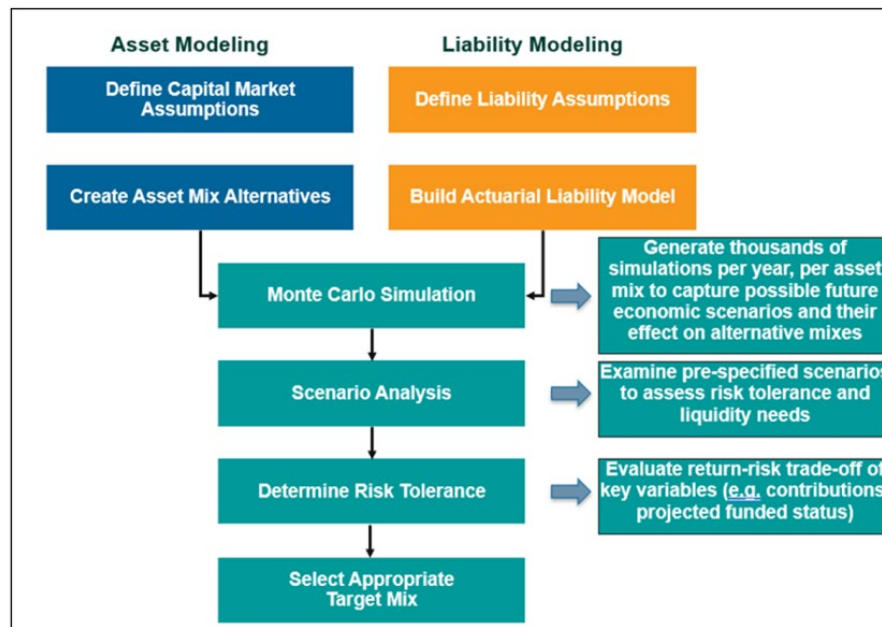
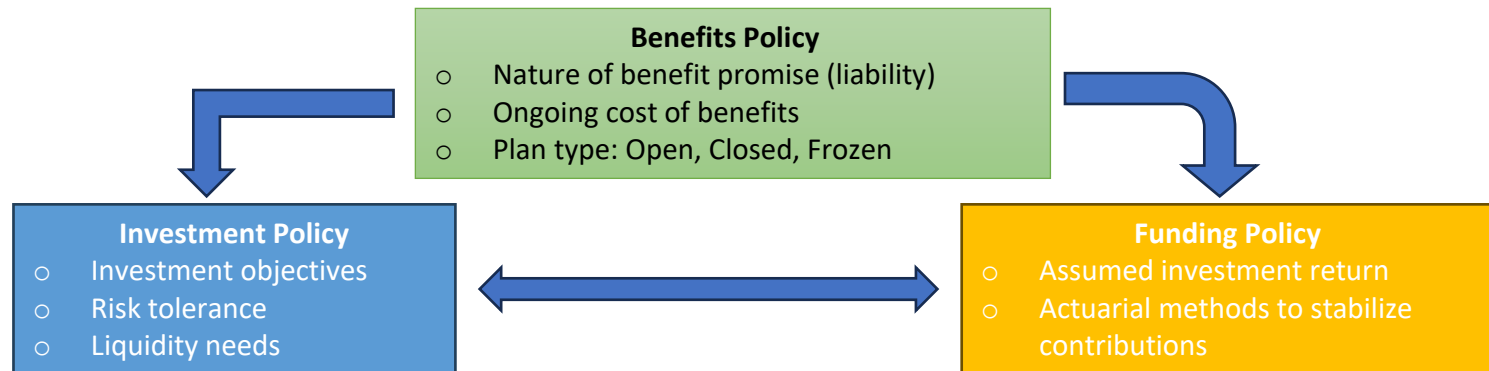
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# NCRS Asset Liability Study

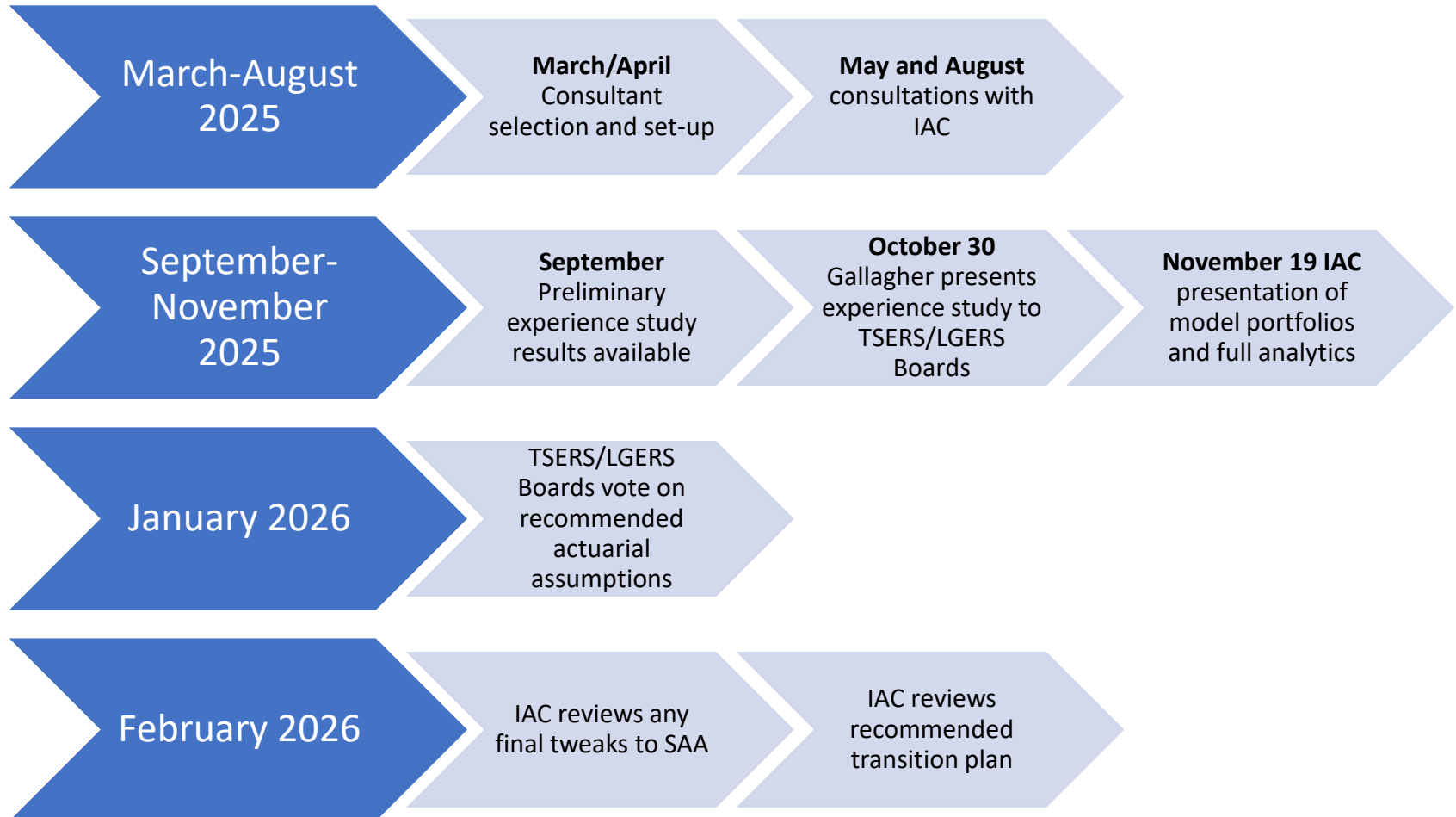


# Asset Liability Study Connects Asset Allocation to Funding





## 2025-26 NCRS ALM Study: Key Dates/Activities







# Strategic Asset Allocation – Asset Categories

## ➤ Growth

- Global public equity (long-only and hedged equity)
- Private equity
- Non-core real estate
- Non-investment grade credit (direct lending, high yield, stressed/distressed, mezzanine, and long/short)

## ➤ Rates and Liquidity

- Treasury, agency, corporate, and mortgage investment grade securities
- Cash/short duration

## ➤ Inflation Sensitive and Diversifiers

- Short duration TIPS and/or global inflation linked bonds
- Public/Private natural resources (commodities, energy, timberland, agriculture, etc.)
- Other real assets and diversifiers
- Core real estate (public and private)

## ➤ Multi-Strategy

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