

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT ADVISORY COMMITTEE  
MEETING MINUTES — August 23, 2023**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, August 23, 2023, at 9:00 a.m. via conference call and GoTo Webinar.

Members Present: State Treasurer Dale R. Folwell (Chair), Loris Colclough, Greg Patterson.

Members Attending via Webinar: Lentz Brewer, Michael Mebane.

Staff Present (in person and virtual): Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Kathy O’Neill, Gail Kadash, Joan Fontes, Casey High, Greg Taylor, Brad Bullock, Deana Solomon, Brett Hall, Kristopher Byrd, Rekha Krishnan, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Shaun Braswell, Anne Roof, Jason Sass, Trevor Parrish, Laura Rowe, Frank Lester, Paul Palermo, Shannon Boatwright.

Others in Attendance: Aidan Bolton ([columviathreadneedle.com](http://columviathreadneedle.com)), John K. Balaod ([withintelligence.com](http://withintelligence.com)), (peimedia.com), Lindsay Saienni ([fin-news.com](http://fin-news.com)), Miles Lackey ([uncw.edu](http://uncw.edu)), Nancy Vaughan ([greensboro-nc.gov](http://greensboro-nc.gov)), Ray Gronberg ([businessnc.com](http://businessnc.com)), Kaleb Pittman, Justin Flores ([pestakeholder.org](http://pestakeholder.org)), Jordan Ash ([pestakeholder.org](http://pestakeholder.org)), Jessica Moreno, Selena Moreno, Madeline Bankson, Dolores Gomez, Serita Russell, Elizabeth Palmer, Tori Patterson, Brian Kahley.

#### **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 Jason Sass. Mr. Sass confirmed there was a quorum and provided procedures for virtual guidelines.

The Chair then commenced the meeting.

#### **AGENDA ITEM – APPROVAL OF MINUTES**

Mr. Colclough moved, Mr. Patterson seconded, and there was a member roll call to approve the minutes. Mr. Sass confirmed the motion and conducted a roll call to approve the minutes. The minutes were approved unanimously.

#### **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 second quarter of 2023, touching on interest rates and inflation, equity markets, and broad economic indicators. Mr. Smith also provided updates on the banking sector and upcoming interest rate increases.

Mr. Morris next presented an update on Assets Under Management (AUM), as of June 30, 2023, showing total AUM at \$175.6 billion, which is up \$5.1 billion for the quarter and up \$8.6 billion since the prior fiscal year end.

Mr. Morris next reported on the asset allocation as of June 30, 2023, discussing the over and under allocations in 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. The portfolio returned 1.96% for the second quarter of 2023.

Mr. Morris discussed the Growth of a Dollar charts, which illustrates 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.

Mr. Morris presented the Net of Fees Risk Metrics, the up and down capture, and drawdown graphs.

Mr. Morris discussed the peer universe comparison slides, which show our percentile rank relative to pension peer plans on a return and risk basis.

Mr. Morris moved on to the liquidity slides, hitting on the structural liquidity, benefit payments, and cash flows within the alternatives sleeve.

Mr. Smith reported on Asset Class Net of Fees Performance and discussed the Calendar Year Asset Class Return chart pointing out the strongest performer Public Equity returned 16.7% for the prior year, followed by Inflation Sensitive and Multi-Strategy performing well. Mr. Smith also reported a weaker performance by Non-Core Real Estate, IG Fixed Income, Core Real Estate and Private Equity.

Mr. Smith next discussed new and incremental investments. Mr. Smith reported that the unfunded Investment commitments came in a little, ending at 5.98% of total pension plan market value. Mr. Smith also discussed the Top 20 Investment Managers, noting the internally managed portfolios make up more than 50% of the assets with no material changes.

## **AGENDA ITEM – PRIVATE EQUITY ASSET CLASS REVIEW**

Mr. Craig Demko, Investment Director of Private Equity, introduced the newest team member Shaun Braswell. Mr. Demko began the presentation with statutory allocation, briefly stating they are making new commitments.

Mr. Demko discussed the portfolio's composition, and that the data lagged and based on March 31<sup>st</sup> returns and performance. Since inception there were 155 funds with capital called of \$11.7 billion and distributions of \$13.2 billion with a DPI of 1.13X and a residual value of \$6.1 billion, with a total value of \$19.4 billion, a gain of \$7.6 billion and an IRR of 10.2%. Mr. Demko also mentioned the time weighted performance thru June 2023 was reported at 1.82% for the 3-month period, but down (6.72%) for the fiscal year with the benchmark down (2.57%).

Mr. Braswell continued with discussing the GICS Industry Allocation. While IT is largest allocation it is still below the S&P 500 allocation to this industry. He then continued with geographic allocation which has remained fairly consistent over the past few years.

Mr. Mebane joined the call via Webinar.

Next, Mr. Brian Bolcar, Portfolio Manager, reported on the co-investment program and subsequent track record. He also discussed composition by vintage year, and the GICS industry allocation. He also reported on geographic allocation and general partner allocation.

Mr. Demko reported on the Cash Flow Detail which is cash flow positive. Next, the discussion moved to a market overview of the asset class for both the buy and sell side activity. Mr. Demko also reviewed the US leveraged loan maturity wall breakdown which is the maturity breakdown of performing loans. The Private Equity presentation concluded with Mr. Bolcar discussing upcoming opportunities.

The Treasurer welcomed Mr. Braswell to the team and thanked the group for their presentation.

### **AGENDA ITEM – PUBLIC EQUITY ASSET CLASS REVIEW**

The Treasurer introduced Rhonda Smith, Investment Director of Public Equity, and acknowledged how well this portfolio has performed despite the current vacancies on the team which we are striving to fill. Ms. Smith discussed some of the attributes they are focusing on for these positions.

Ms. Smith began with a snapshot of the Total Public Equity portfolio as of June 30, 2023, with assets under management at \$41.9 billion up from \$36 billion from last year, and the number of current mandates at 16 which is down 1 from same time period last year. Ms. Smith also reported that asset allocation is relatively the same from last year, with no material changes to the active versus passive management of assets.

Ms. Smith next discussed the Net Performance as of June 30, 2023. She also reviewed the portfolio structure and relative risk exposure.

Mr. Greg Taylor, Portfolio Manager, next discussed the overall performance of the internal portfolio. He also reviewed the Trading and portfolio activity including the annual reconstitution in June.

Mr. Taylor also reported on the Internal Passive Equity AUM. Over the past year, across internal portfolios over 38 million shares were traded and \$2.9 billion dollars, which was lower than in previous years given the lower turnover of managing the Russell 1000 versus the 200 and Midcap separately. Additionally, this year's Russell reconstitution trade was lower turnover than previous years, trading around \$9 million shares with very competitive commission rates. Internal passive AUM reached record level \$18 billion following strong return last year.

The Board was in awe over the number of trades required for the annual reconstitution. Ms. Smith finished by discussing the 2023-2024 Strategic Goals.

### **AGENDA ITEM – PUBLIC COMMENT**

The Treasurer opened for public comment.

Mr. Justin Flores was introduced for public comment.

Ms. Madeline Bankson was introduced for public comment.

Ms. Jessica Moreno was introduced for public comment.

The Treasurer closed out the public comments.



## **AGENDA ITEMS – IAC MEMBER Q&A**

IAC members were provided with the opportunity to pose questions to the Treasurer and Investment staff. They each expressed their gratitude to the IMD team.


The IAC member Q&A portion closed.

## **ADJOURNMENT**

In response to matters raised by public commenters, the Treasurer noted the departments' hospitality to the public and that we listen with understanding not to just respond. The Treasurer next thanked all staff that work on the IAC and the Investment Management team and requested a motion to adjourn the meeting. The Treasurer stated that we will be closing this meeting in honor of the one-year anniversary of burial of Deputy Ned Byrd.

Mr. Patterson motioned to adjourn. Mr. Colclough seconded the motion. The motion to adjourn passed unanimously.

The Treasurer officially adjourned the meeting at approximately 10:52 a.m.



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