

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES FOR AUGUST 28, 2024**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, August 28, 2024, at 9:00 a.m. via conference call and GoTo Webinar in the Dogwood Conference Room at the Department of State Treasurer’s offices, located at 3200 Atlantic Avenue in Raleigh, North Carolina. The Committee met pursuant to its regular meeting schedule, as posted on its website at <https://www.nctreasurer.com/divisions/investment-management/investment-advisory-committee>.

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

Members Attending via Webinar: Lentz Brewer, Michael Mebane, John Aneralla. There is one vacancy on the Committee.

Staff Present (in person and virtual): Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Kathy O’Neill, Gail Kadash, Deana Solomon, Greg Taylor, Brett Hall, Brad Bullock, Brian Bolcar, Kristopher Byrd, Rekha Krishnan, Jeff Smith, Chris Morris, Ronald Funderburk, Ming Xu, Craig Demko, Troy March, Casey High, Chris Ward, Evan Prochaska, Shaun Braswell, Ben Garner, Anne Roof, Trevor Parrish, Laura Rowe, Dan Way, Elizabeth Hawley, Paul Palermo, Nolan McKeon, Michael Wagner.

Others in Attendance: Brad Briner, Wilbert Lewis, Cyril Espanol, Halley Zhang (mideastcom.org), Mitchell King (Blackrock), Muskan Arora (marketsgroup.org), Charlie Ashmun (Blackrock), Tessa Toomey (compass.com), Brian Kahley (franklintempleton.com), Alfie Crooks (pei.group).

AGENDA ITEM – OPENING REMARKS

The meeting was called to order at approximately 9:00 a.m. by the Treasurer. Meeting etiquette information, and Webinar/Conference line use was shared by Trevor Parrish, Assistant General Counsel. Mr. Parrish confirmed there was a quorum and provided procedures for virtual guidelines.

The Treasurer then commenced the meeting.

AGENDA ITEM – APPROVAL OF MINUTES

Mr. Patterson moved, Mr. Colclough seconded, and there was a member roll call to approve the minutes. The Treasurer confirmed the motion and conducted a 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 second quarter of 2024, 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 decrease.

Mr. Morris next presented an update on Assets Under Management (AUM), as of June 30, 2024, showing total AUM at \$186.3 billion, which is up \$2.7 billion for the quarter and up \$10.7 billion since the prior fiscal year.

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.

Mr. Morris next reported on the asset allocation as of June 30, 2024, discussing the over and under allocations in the portfolio. When covering the preliminary asset allocation as of August 16, 2024, Mr. Morris also discussed returns on cash holdings with the Committee.

Mr. Morris next discussed two new slides, NCRS Strategy Breakout and the NCRS Portfolio Geographical and Sector Exposures.

Mr. Morris discussed the Growth of a Dollar charts, which illustrate how: the total pension has performed relative to the long-term policy and implementation benchmarks since 1997, which is the beginning of the pensions' performance record; and the total pension and alternatives sleeve have performed relative to the long-term policy benchmark over the most recent five- and ten-year periods.

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, as well as the respective percentage returns for each asset class, 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 time horizons. He discussed the attribution, average active weight, allocation effect, and selection effect over different time horizons. Mr. Morris further discussed benchmarks (and whether their provided numbers for comparison were also net of fees) with the Committee and the Treasurer.

Mr. Morris presented the Net of Fees Risk Metrics slides, showing various metrics that included the up and down capture to draw downs and portfolio positionings.

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 further discussed the dollar amount of annual benefits paid out in recent years with the Treasurer. Mr. Smith, Mr. Morris, and the Treasurer discussed the relationship between funded status and actuarial assumed rate of return on slide 22.

Mr. Morris moved on to the liquidity slides, covering overall structural liquidity, annual net benefit payments (actual and projected), and cash flows within the alternatives sleeve. Mr. Morris and the Treasurer further discussed the prior 12-months cash flows within the alternatives sleeve and how such cash flows interact with overall liquidity.

Mr. Morris also covered the valuation lag slide.

Mr. Smith reported on Asset Class Net of Fees Performance and spoke about the Calendar Year Asset Class Return Diversification chart.

Mr. Smith next discussed new and incremental investments and reported on unfunded investment commitments. On Slide 30, Mr. Smith discussed New and Total Unfunded Private Asset Class Commitments, with the Treasurer offering additional commentary.

Mr. Smith also discussed the Top 20 Investment Managers, noting that the internally managed portfolios make up more than 50% of the total assets. The Treasurer offered additional commentary, identifying the plan's largest timber portfolio manager. The Committee and Rhonda Smith, Investment Director of Public Equity, briefly discussed a particular manager's investment style.

AGENDA ITEM – INVESTMENT POLICY STATEMENT REVIEW

Mr. Morris and Mr. Smith presented the Investment Policy Statement (IPS) review. The IPS states the investment objectives, governing statutes, and fiduciary obligations for the North Carolina Retirement Systems' investment portfolio. Mr. Morris also reviewed other components of the IPS, which included the strategic asset allocation targets and ranges, risk management and controls, fund benchmarks, and implementation and general portfolio guidelines. Mr. Morris noted that the IPS is compliant with statutory requirements. The Treasurer offered additional commentary regarding a recent statutorily required stress test, as well as a look back at 2015 study's projections.

AGENDA ITEM – PRIVATE EQUITY ASSET CLASS REVIEW

The Treasurer introduced Craig Demko, Investment Director of Private Equity. Also presenting were Brian Bolcar, Portfolio Manager for Private Equity, and Shaun Braswell, Investment Analyst for Private Equity.

Mr. Demko discussed that Private Equity combined with Multi-strategy had an allocation of approximately 7% as of June 30, 2024, which is below the legislative cap of 8.75%. Private Equity on its own had an allocation of 4.96% at \$6.10 billion, below the policy target of 7%. Mr. Demko and Mr. Braswell presented the underlying strategy composition based on valuation: buyout at 37.6%, special situations at 39.2%, and growth/venture at 23.2%, which were within the policy targets as of March 31, 2024 (the latest available data.)

Mr. Demko and Mr. Braswell moved on to a review of the private equity composition by both industry and geographic allocations.

Mr. Demko presented the performance of the Private Equity asset class as of March 31, 2024 valuation. He discussed the cash flow metrics, multiples, gains, and IRRs on the portfolio. Since inception there were 157 funds that in aggregate had capital called in the amount of \$12.2689 billion, and distributions of \$14.0134 billion, with a DPI of 1.14x and a residual value of \$6.1903 billion. This resulted in a total value of \$20.2 billion, equating to a gain of \$7.9 billion and an IRR of 9.97%. The Treasurer, Mr. Demko, and Mr. Smith provided additional commentary relating to investment decisions made during the Great Financial Crisis. Mr. Demko then discussed the metrics of more recent vintages of private equity investments. Mr. Demko, Mr. Bolcar, and the Committee further discussed public market benchmark comparisons.

Mr. Demko moved on to discuss the private equity portfolio's performance metrics against the benchmark on slide 7, and the Treasurer provided further commentary.

Mr. Bolcar and Mr. Demko presented the co-investment program track record as of March 31, 2024, with additional data on the underlying composition as of June 30, 2024, the most recently reported information. Mr. Bolcar and Mr. Demko also discussed the characteristics and composition of the co-investment program's investments. The Treasurer offered additional commentary on the sole fiduciary model and the strength of our decision-making process, and he further praised the investment and legal staff involved.

Mr. Demko and Mr. Braswell presented the private equity asset class cash flow details, and specifically noted that our private equity cash flows should be positive this year. Mr. Demko then provided an overview of the market, including slides on buy-side activity, sell-side activity, a US leveraged loan maturity wall breakdown, and secondary market activity, with Mr. Bolcar also providing commentary on the secondary market.

Mr. Bolcar and Mr. Demko answered a Committee member's question about private equity general partners purchasing positions in professional sports franchises.

AGENDA ITEM – PUBLIC EQUITY ASSET CLASS REVIEW

The Treasurer introduced Rhonda Smith, Investment Director of Public Equity. Also presenting were Greg Taylor, Portfolio Manager for Public Equity, and Nolan McKeown, Investment Analyst for Public Equity.

Mr. McKeown presented a snapshot of Public Equity portfolio as of June 30, 2024, discussing the AUM, number of mandates, asset allocation, and active vs passive split. Ms. Smith revisited a Committee member's earlier question regarding a particular manager's investment style. Mr. McKeown then discussed NCRS Public Equities Net Performance, as of June 30, 2024, against various benchmarks across a series of time frames.

Ms. Smith next discussed the performance of our domestic equity portfolio against benchmarks and our public fund peers, ranking in the top quartile over the last year and 5-, 7- and 10-year time frames.

Ms. Smith reported that performance of our international equity portfolio is above the benchmark over the last quarter and across 5-, 7- and 10-year time frames, but it has been below peer median. The Treasurer discussed with Ms. Smith systemic risks and geopolitical concerns in international investing.

Mr. Taylor then discussed portfolio risk exposures, including tracking error and active exposure across country, style, industry, and currency. It was also noted that the portfolio structure is underweight in the United States and overweight developed internationally and in China.

Ms. Smith then presented data relating to equity risk premiums, active management, concentration and valuation, and the year-to-date U.S. market performance that was driven by the Magnificent Seven stocks. Ms. Smith and Mr. McKeown presented broad Small Cap versus Large Cap historical performance evaluations, as well as emerging market highlights. The Treasurer discussed with Ms. Smith and Mr. McKeown systemic risk concerns relating to China, especially regarding currency and bond markets.

Mr. Taylor and Ms. Smith presented that the internal equity portfolio performance remains strong since inception. The Treasurer and Mr. Smith praised the team's efforts.

Mr. Taylor and Ms. Smith reported that over the past year, across internal portfolios, over 32 million shares were traded and \$3.1 billion dollars across 3 accounts. This year's Russell indices annual reconstitution trade involved trading \$533 million with very competitive commission rates. Mr. Taylor then discussed a fiscal year trade cost analysis, highlighting the savings and efficiency of our trade operations, and he then covered the internal passive equity AUM.

Ms. Smith concluded her team's presentation with a discussion of 2024-2025 strategic objectives.

AGENDA ITEM – PUBLIC COMMENT

There was no one signed up for public comment. The Treasurer closed out the public comments and moved to IAC member questions.

AGENDA ITEMS – IAC MEMBER Q&A

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

The IAC member Q&A portion closed.

ADJOURNMENT

The Treasurer invited the winning candidate in the upcoming election to join the next IAC meeting in November after the election and requested that there be a motion to adjourn the meeting.

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

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



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