

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Multi-Strategy Investments

May 28, 2025

All data as of March 31, 2025



Multi-Strategy Investments

Investment Objectives

Attractive Absolute Returns

- Provide efficient compounding of capital through trading and market timing skill, including hedging individual securities and commodities and exploiting market dislocations through opportunistic allocations.

Competitive Relative Returns

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

Diversification

- Provide diversification to increase flexibility across different asset categories and strategies, including during episodes of heightened macroeconomic risk and systemic risk, and to facilitate hedging of Fund-level risks, as might be prudent, from time to time.



Multi-Strategy Investments

Sub-Strategies

Multi-Strategy: Diversified and flexible across asset classes and strategies. Combine diversified streams of orthogonal returns managed to a level of volatility and low correlation to equity and credit markets

Relative Value: Strategies that exploit mispricings across differed classes of assets or within capital structures

Event-Driven: Hard catalyst, stressed, and distressed opportunities across credit and equity

Tactical Trading: Reflects manager skill in trading across markets using discretionary or systematic strategies. Can include global macro and futures trading strategies

Opportunistic: Co-investment vehicles, funds of one, or SMAs that can increase exposure to dislocated asset classes or specific macro trades sourced by managers



Current Portfolio

Multi-Strategy Allocation vs. SAA

	Market Value (\$MM)	%	Target	Range		Relative %	Relative \$ (MM)
				Minimum	Maximum		
Multi-Strategy	2,688	2.10%	2.0%	0.0%	4.0%	0.10%	125

Intra-Asset Class Allocation

Current Multi-Strategy Investments as
of May 2025

	Current	Correl (NC Equity)	Beta (NC Equity)	Vol
Options Overlay	79%	92%	0.60	10%
Event Driven	15%	49%	0.25	8%
Tactical/Relative Value/Hedge	5%	-61%	-0.44	11%
Opportunistic	0%	-	-	-
<i>Multi-Strategy</i>	<i>100%</i>	<i>86%</i>	<i>0.44</i>	<i>7%</i>

- There have been no new commitments or funds added since 2016 (one small co-investment through Event Driven in 2019)
- Portfolio has been primarily allocated to options-based rebalancing program



Performance

Multi-Strategy Performance Vs. Benchmark

	(\$MM)	Net of Fees Performance (%)				
		3 Month	1 Year	3 Years	5 Years	10 Years
Multi-Strategy	\$2,683	1.11	5.21	5.46	6.40	4.47
Benchmark ¹²		0.66	3.02	2.50	4.94	3.14
Rebalance Strategy	\$2,131	1.08	4.33	5.36	8.22	5.38
Event Driven	\$411	1.37	11.70	7.17	8.73	-
Risk Mitigation	\$140	0.87	0.92	2.34	(2.35)	-

- Out-performance has been driven primarily from our event-driven, multi-strategy credit fund
- Options overlay has added some beta through equity and treasury futures while harvesting volatility premium
- Multi-Strategy has beaten its benchmark over the past 1-, 3-, 5-, 10-, and 15-year time periods

12. The Multi-Strategy Benchmark is comprised of a dynamically weighted combination of the HFRX ED: Multi-Strategy Index, net of fees, and the market value weighted benchmarks for any other total fund strategies within the Portfolio.



Execution

Strategy Focus:

- Utilize the broad mandate with wide flexibility
- Maintain ample liquidity to re-allocate capital during market drawdowns, asset dislocations, or attractive co-investment opportunities
- Identify unique strategies or investment mandates to provide attractive absolute returns

Proposed Build/Target Fund Profiles – Flexible Mandate

Proposed Multi-Strategy Investment Sub-Strategy Sleeves	Target	Range		Target Correl	Target Beta	Target Vol	Target Return
Multi-Strategy Diversified multi strat RV	25%	20%	50%	10%	0 - 0.25	6 - 8%	8 - 12%
Event Driven Catalyst driven, event focus	25%	20%	50%	30%	0.1 - 0.5	8 - 10%	8 - 10%
Relative Value RV credit, equity or vol, convert arb	20%	0%	25%	10%	0 - 0.25	4 - 6%	6 - 8%
Tactical Trading Global Macro, Trend, other CTAs	15%	0%	30%	0%	0 - 0.5	10 - 16%	6 - 8%
Opportunistic	15%	0%	50%	40%	0.2 - 0.7	8 - 10%	8 - 12%
Multi-Strategy	100%			20%	0.25 - 0.50	7 - 9%	8 - 10%



Differentiating Multi-Strategy Investments

Short-Term build out over the next year:

- Concentrated manager relationships with access to multiple strategies or those with flexibility to invest dynamically across asset classes or strategies
- Establish core position in fund strategies and co-investments exhibiting attractive absolute return prospects
- Leverage capabilities of manager teams for macro-economic research, outlook, and compelling macro positioning/co-investments

Near-Term Multi-Strategy Portfolio Initial Build-Out		Initial Target	Correl (NC Equity)	Beta (NC Equity)	Vol
Multi-Strategy		20%	+/-30%	-0.10 - 0.30	8.0%
Event Driven		20%	+/-75%	0.20 - 0.50	8.0%
Relative Value		15%	+/-25%	-0.10 - 0.30	6.0%
Tactical Trading		10%	+/-25%	-0.10 - 0.30	15.0%
Opportunistic*		35%	+/-60%	0.20 - 0.80	10.0%
Multi-Strategy		100%	50% - 75%	0.25 - 0.50	9.0%

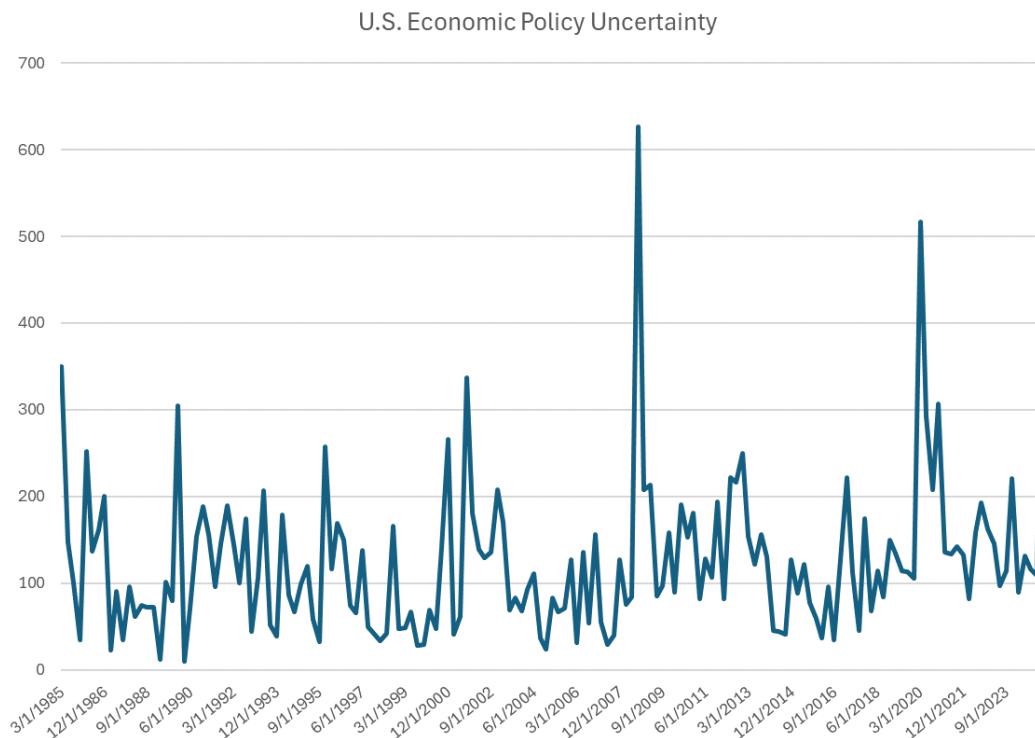
**Includes existing option rebalancing program*



Macro Uncertainty Brings Opportunity

Macro-uncertainty is elevated providing an opportunity for greater dispersion across asset classes

- Driven by uncertain U.S. economic policy
- Provides opportunities for dislocated asset classes and idiosyncratic investment returns



Source: Bloomberg

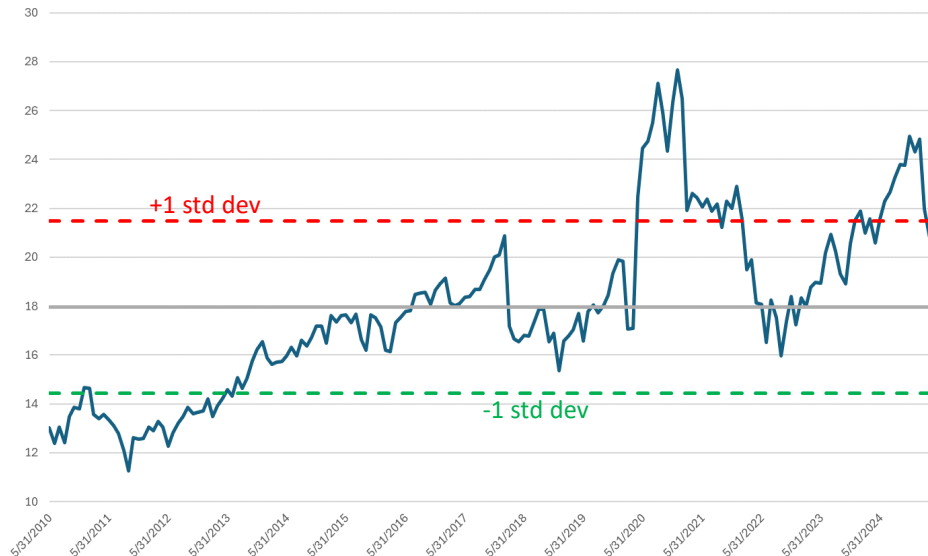


Macro Uncertainty Brings Opportunity (cont.)

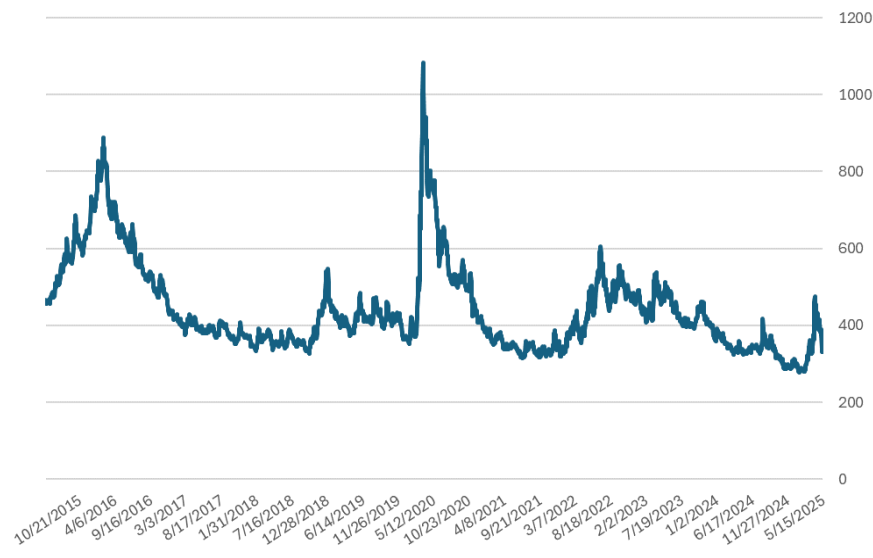
Equity and Credit Markets are fully valued

- Multi-Strategy investments will be focused on differentiated strategies not as dependent on equity and credit market beta
- Idiosyncratic return generation across asset classes and strategies that are not effectuated in other plan asset class sleeves
- We may need more than beta to achieve our long-term goals

Current S&P 500 P/E Ratio



High Yield Spread to Worst





Leveraging Partnerships

Use our scale to build beneficial relationships with managers

- Broad macroeconomic thought leadership
- Instruct our top down, cross asset class views

Macro Thinking

As leaders in macro thinking across both traditional and digital assets, we are committed to educating our investors, sharing our latest thoughts on the macro landscape and, ultimately, helping to benefit our investor portfolios beyond what they have invested with us.

The calendar is packed with events, webinars and content, including:

- Economist & Strategist webinars and in-person events on the macro landscape and current trends
- Teach-ins on topical affairs, such as Web3
- Podcasts with economists and portfolio managers
- In-depth research papers on specific geographies or macro trends (Macro Focus notes)

Macro Focus Notes

April 2025 REPORT

Market Commentary

When DM becomes EM

Severe equity sell-offs in emerging markets (EM) are usually accompanied by falling local currencies and bonds, as foreign capital pulls out. In developed markets (DM), specifically the US which has the reserve currency, the opposite has generally been true during severe equity sell-offs: both the dollar and bonds tend to rise.

The sell-off in the S&P500 during early April was atypical in this regard, with falling equities (blue) amidst high volatility accompanied by a falling dollar (orange) and falling long bonds (green), historically the safe, long duration asset. Some possible reasons for this unusual behavior and the implications are examined below.

Source: Bloomberg

The imposition of tariffs by the Trump administration resulted in a rapid sell-off in equity markets coupled with volatility – both VIX (black) and short-term fixed-strike volatility – rising sharply. But the two assets that would normally have been expected to perform positively in this risk-off scenario moved oppositely. The US dollar – represented by the DXY dollar index (orange) – went lower, stemming from the prioritization of the reduction in trade deficits. And remarkably, the long bond (represented by TLT in green), which might have been expected to go higher during the risk-off moves amidst fears of a possible recession, went lower. That move was also accompanied by a rise in bond volatility, represented by the TLT volatility (VXTLT, red).

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New Political Regime Signals Higher Inflation

U.S. Core CPI and 10-Year Treasury Yield

Trump

Trump to Reshape US Economy With Tariffs, Crackdown on Migrants

- Trump has promised more drastic moves than in his first term
- His proposed tax cuts may hinge on outcome of House race

Shoppers Will Bear the Brunt of Trump's Tariffs

Under his plan, everything from the sweater you buy at Walmart to the winter produce at your local grocer would likely cost more.

Stocks had their best week in 2024, driven by bets on President Trump's pro-growth agenda.

Source: Bloomberg

Report Emboldens Trump's Tax Cut Dreams

- Tax cuts costing \$4.6 trillion expire at the end of next year
- First intra-party negotiation will be on size of the tax bill

In Trump Markets, Big Question Is How Much 'MAGA' 2.0 Will Cost

- Wall Street games out fiscal and monetary impact of a new era
- Stocks, bonds in different regimes versus Trump's first term

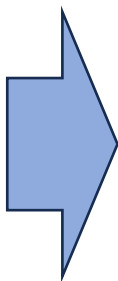


Pro-Forma Portfolio Impact

Short-Term build-out portfolio delivers attractive returns and increases the risk adjusted return profile of the broader plan

- Initial build out to create attractive return profile
- Sharpe improves
- Lower beta and correlation to equity markets

Current Multi Strat Since Jan 2016	
Ann Return	5.11%
Vol	6.46%
Sharpe	0.48
Correl (SPX)	0.85
Beta (SPX)	0.36



Pro-Forma MS	Targets
Ann Return	8 -10%
Vol	8 -10%
Sharpe	1.00
Correl (SPX)	20 - 40%
Beta (SPX)	0.1 - 0.3

Impact of a 2% (current weight) and 10% allocation to plan returns (using historical live data of manager candidates)

2%

- **Ann Returns +0.10 – 0.25%**
- **Sharpe: +0.05 – 0.15**
- **Similar correlation/beta to equities**

10%

- **Ann Returns +0.50 – 0.75%**
- **Sharpe: +0.20 - .30**
- **Reduced correlation/beta to equities**



Benefits/Considerations

Benefits	Considerations
<p>Potential for Attractive Return Profile</p> <ul style="list-style-type: none"> Funds are designed to produce positive returns irrespective of market direction over a full market cycle <p>Dynamic Risk Allocation and Flexibility</p> <ul style="list-style-type: none"> Funds can adapt to real-time opportunities and risks <p>Enhanced Diversification</p> <ul style="list-style-type: none"> Invest across different markets, assets, and geographies across strategies <p>Efficient Use Of Capital</p> <ul style="list-style-type: none"> Managers can reallocate capital across strategies internally 	<p>Low Volatility may limit return potential</p> <ul style="list-style-type: none"> Netting out positive alpha strategies <p>High Fees</p> <p>Transparency</p> <ul style="list-style-type: none"> Multi-strategy and tactical trading strategies can often be protective of their IP <p>Liquidity</p> <ul style="list-style-type: none"> Some funds may have lock-up periods, delayed redemptions (quarterly or longer), or gates <p>Complexity & Benchmarking</p> <ul style="list-style-type: none"> Strategy complexity and numerous sources of performance can make it harder to assess accountability if performance lags.