

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Opportunistic Fixed Income Review

May 2025

All data as of March 31, 2025 Unless Otherwise Stated



Role in the Portfolio

Attractive Absolute Returns

- Long-term returns that are competitive with long-term public equities, after consideration of lower downside risk

Competitive Relative Returns

- 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 total fund relative to public equity and investment grade fixed income

Capital Preservation

- Protect capital through credit-oriented investments designed to minimize downside risk

Deflation Protection

- The collateral, structure, and rights of certain fixed income assets may provide protection against deflation



Building Blocks

Components

Traditional Corporate Credit

Distressed Credit

Hedged Fixed Income

Special Situations

Strategies / Types of Investments

High Yield Bonds

Bank Loans

Bonds / Loans

Post-Reorg Equity

Structured Credit

Capital Solutions

Long / Short Credit

Relative Value

Convertible Arbitrage

Distressed Credit

Asset Backed Debt

Event-Driven

Structured Credit

Direct Lending

Secondary Trading

Capital Solutions

CRE Debt

Dislocation



Current Portfolio Composition vs SAA and IPS

OFI Portfolio Composition - Actual vs SAA (a/o 3/31/25)							
Market Value (\$MM)	Allocation	Target Allocation	Min	Max	Differential		No. Funds
8,012	6.31%	7.00%	0%	7.5%	-0.69%	(882)	38

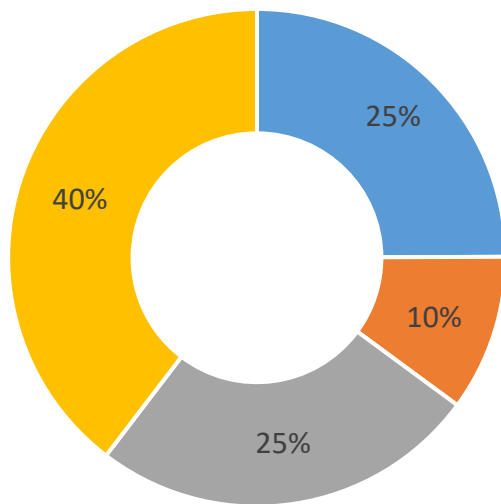
OFI Portfolio Composition - Actual vs IPS						
Strategy	Policy Range			Actual 3/31/25	vs Target	No. Funds
	Min	Target	Max			
Traditional Corporate Credit	0%	15%	50%	24.9%	9.9%	4
Distressed Credit	0%	20%	50%	10.2%	-9.8%	9
Special Situations	0%	25%	75%	25.3%	0.3%	18
Hedged Fixed Income	0%	40%	75%	39.6%	-0.4%	7



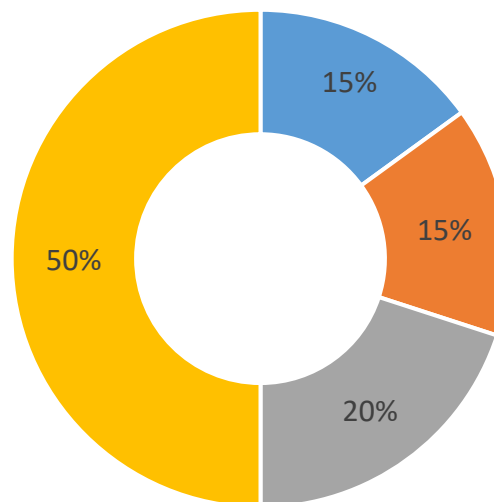
Portfolio Performance

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			PMEs (50/50 HY / LL)		Multiples	
	Market Value	1 Year	3 Years	5 Years	10 Years	5 Year	10 Year	ITD	Alpha	K&S	DPI	TVPI
Opportunistic Fixed Income	\$8,012	8.06	5.79	9.01	5.78	7.49%	5.69%	6.32%	0.70%	1.04	0.69	1.43
Benchmark ⁵		5.82	5.98	9.22	4.42							
Traditional Corporate Credit	\$1,998	9.06	5.78	7.21	6.08							
Distressed Credit	\$814	10.75	6.29	12.87	8.69							
Special Situations	\$2,025	8.14	7.10	10.17	7.95							
Hedged Fixed Income	\$3,175	6.77	4.70	8.57	4.52							

Current Strategy Component Allocation



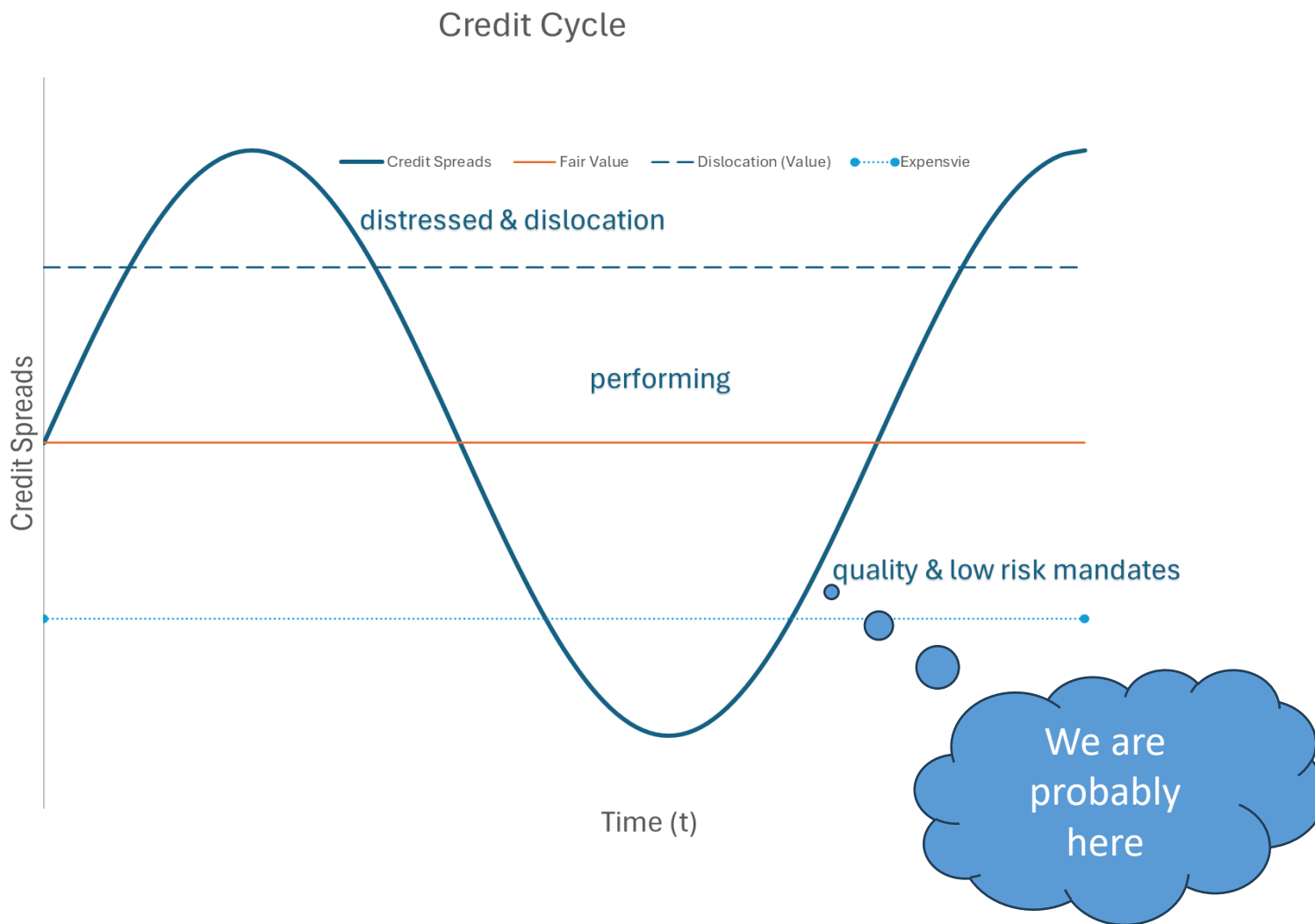
OFI Benchmark



- Credit Suisse Leveraged Loan Index
- ICE BofA US High Yield Index
- HFRX Relative Value Arbitrage
- HFRX Distressed



Allocating through a Credit Cycle





How we add value relative to Peers & Benchmarks

Scale, Structure, & Time Horizon

- Negotiate enhanced economic terms
- Allocate to high conviction opportunities through SMAs and Co-Investment Vehicles
- Remove artificial boundaries

Credit Cycle Positioning

- Position overall level of risk, based on macro inputs, quantitative cycle indicators, and historical valuations
- Conservatively positioned throughout the credit cycle

Beta & Security Selection

- Position around market dislocations as they arise
- Gain increased exposure to opportunities with attractive risk adjusted characteristics

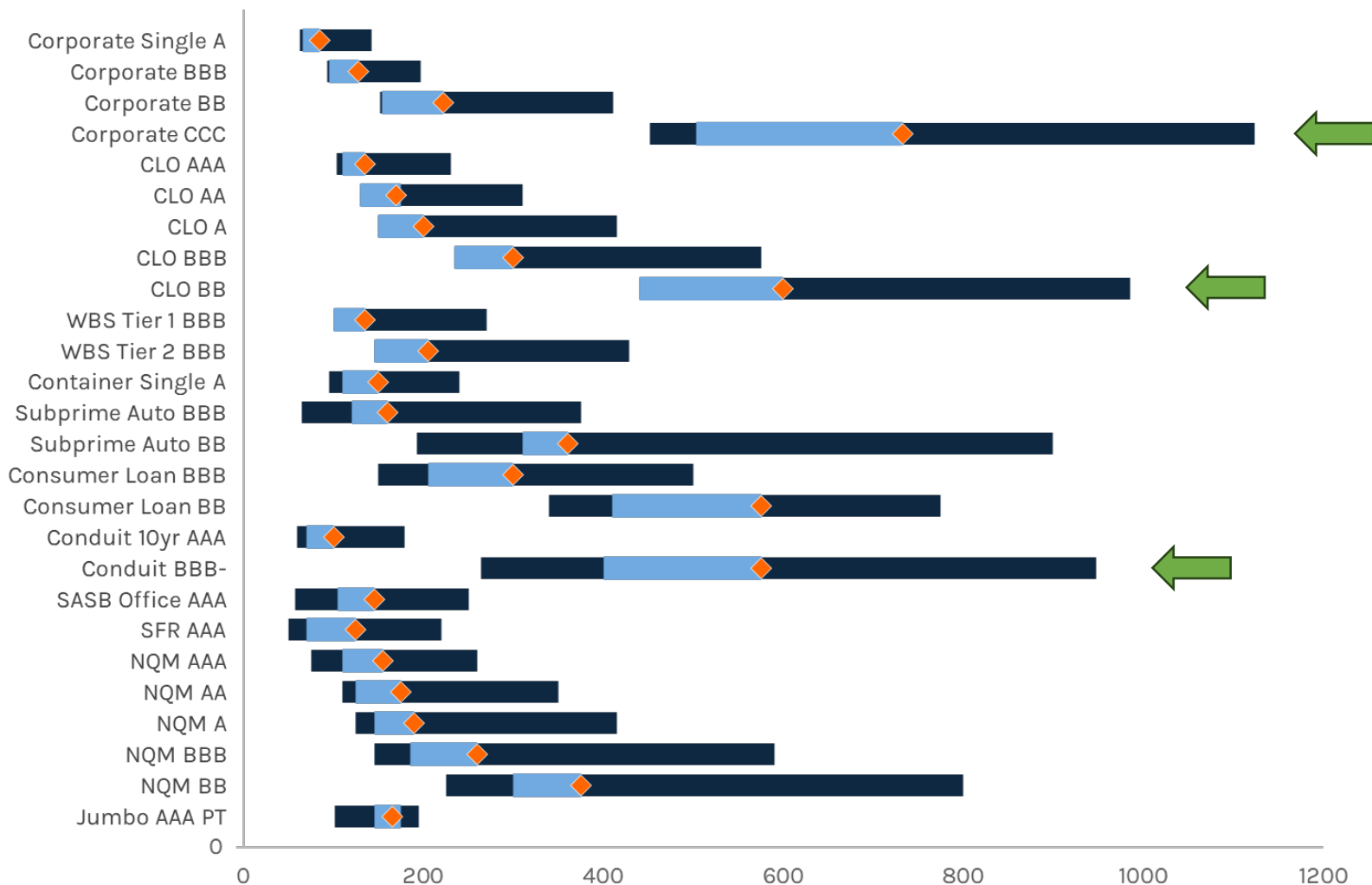
Manager & Strategy Selection

- Drive best ideas from internal research, external sector specialists, and GPs
- Create alignment with GPs that have flexible mandates and the expertise to exploit evolving and niche opportunities



Credit Spreads have compressed, but recently widened

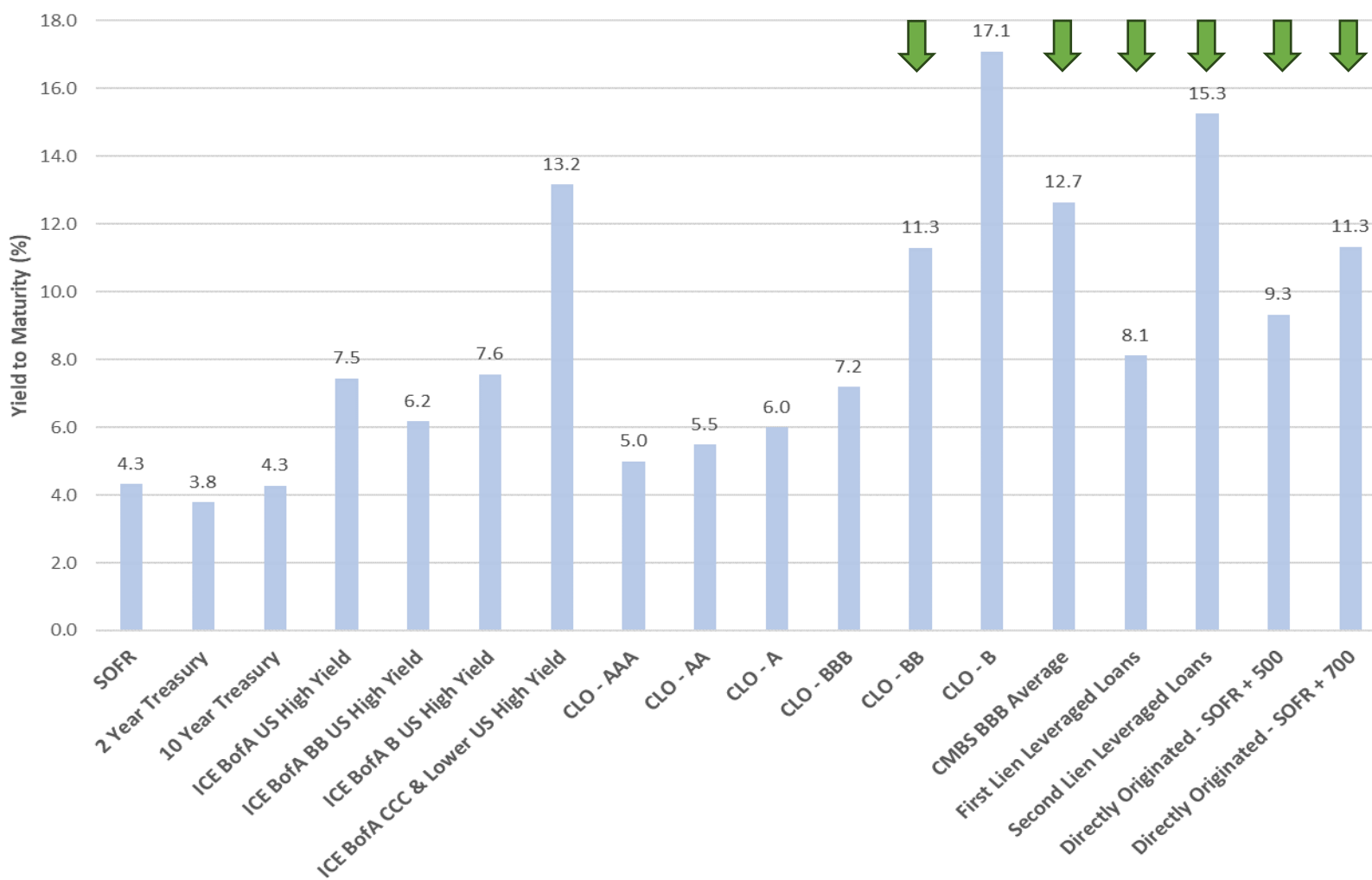
Credit Spreads Across Markets Spread Range: 2021 to 2025 Spread Range: Jan-2025 to Mar-2025 ♦ Current





Absolute Yields are Attractive

Yield to Maturity across the Credit Risk Spectrum as of 3/31/25





Relative Attractiveness



Structured Credit – CMBS, ABS, CLOs
Commercial Real Estate Debt
High Yield – Short Duration, Catalyst Driven Opportunities
Private Credit – Capital Solutions, Sector Specialists



High Yield / Broad Market
Broadly Syndicated Leveraged Loans
Distressed Debt
Private Credit – Generalists



Covenant Lite Corporate Debt



Accessing The Opportunity

