NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Real Estate Update

Role and Objectives

Core Thesis

"To generate durable income and stable returns through strategic investments, with prudent use of leverage, in assets with long-term fundamental drivers that will endure for generations"

Investment Strategy

High Quality
Well-Located
Strong Risk-Adjusted Returns

Non-Core Thesis

"To achieve attractive risk-adjusted, net returns competitive with public equities through appreciation and income from a diversified portfolio, planning for strategic exit optionality"

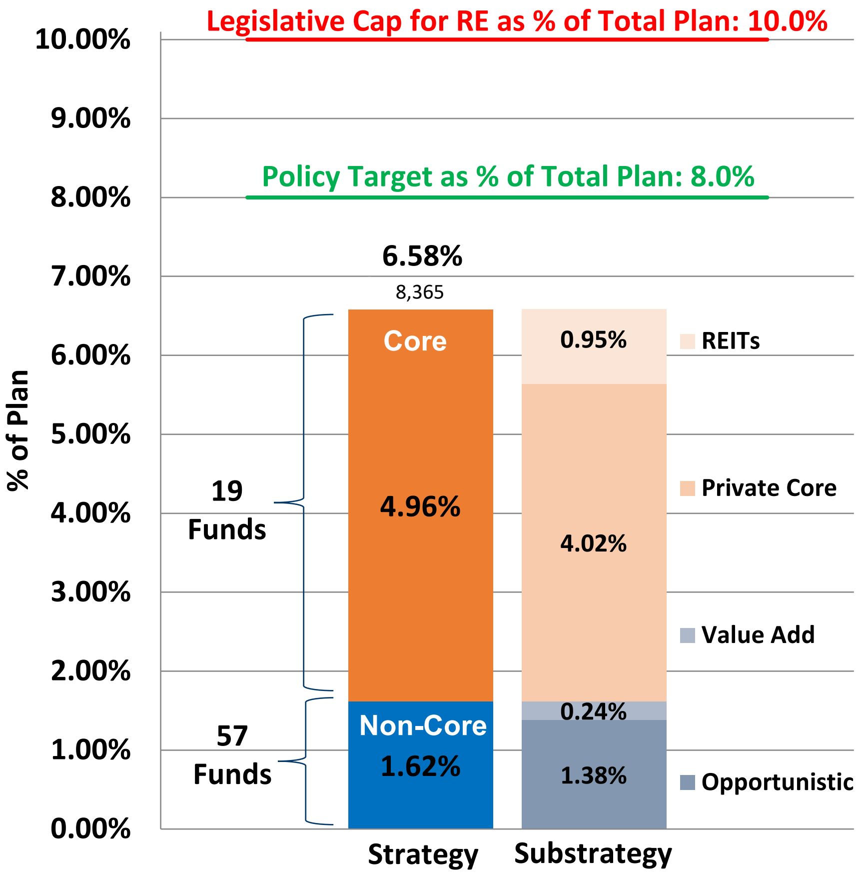
Core

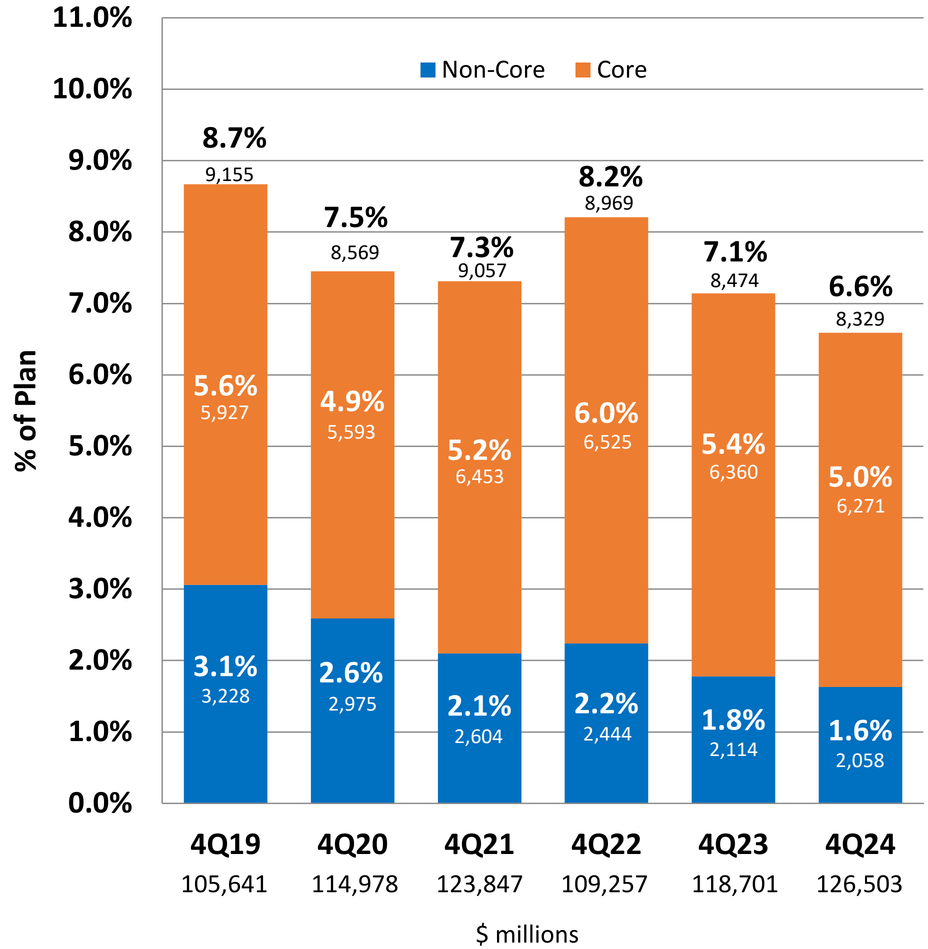
- Inflation hedge
- High current income
- Stabilized occupancy
- Credit tenancy
- Long-term return > fixed income
- Minimal risk/downside protection

Non-Core

- Growth diversifier
- Opportunity to add value
- Renovation, development, leasing
- Stabilized upon completion
- Long-term appreciation and returns
- Low correlation to fixed income

Real Estate Allocation

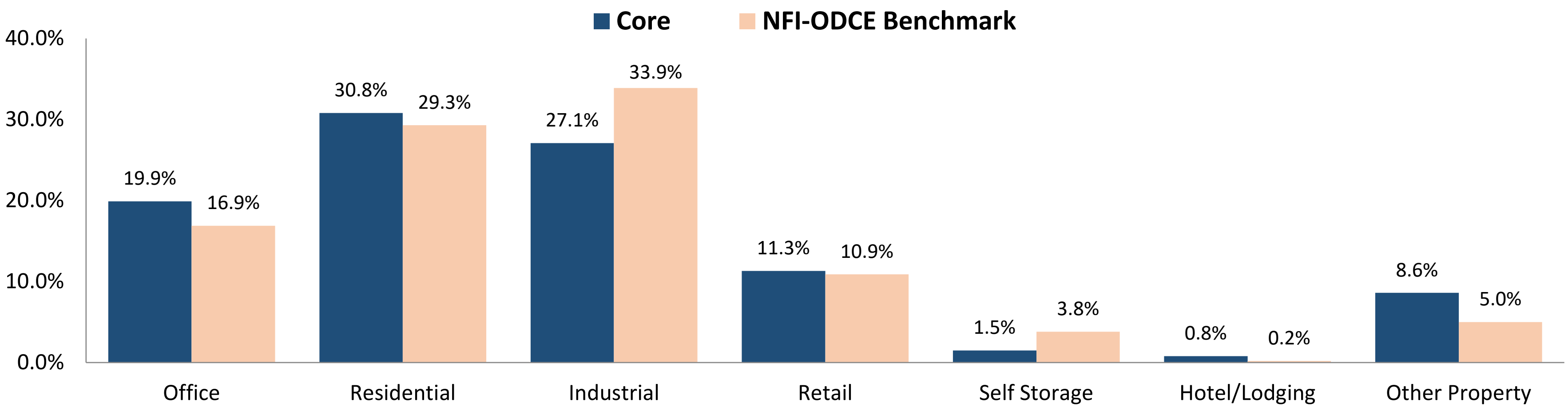


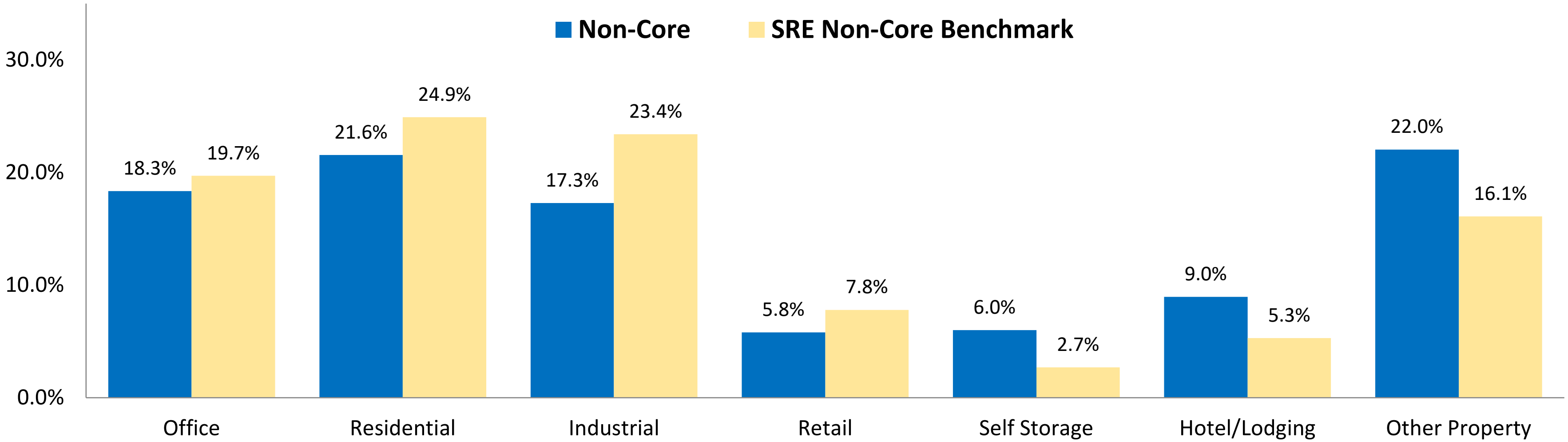


NCRS data as of 3/31/2025

As of 5/12/2025, Real Estate was 6.56% of the Total Plan

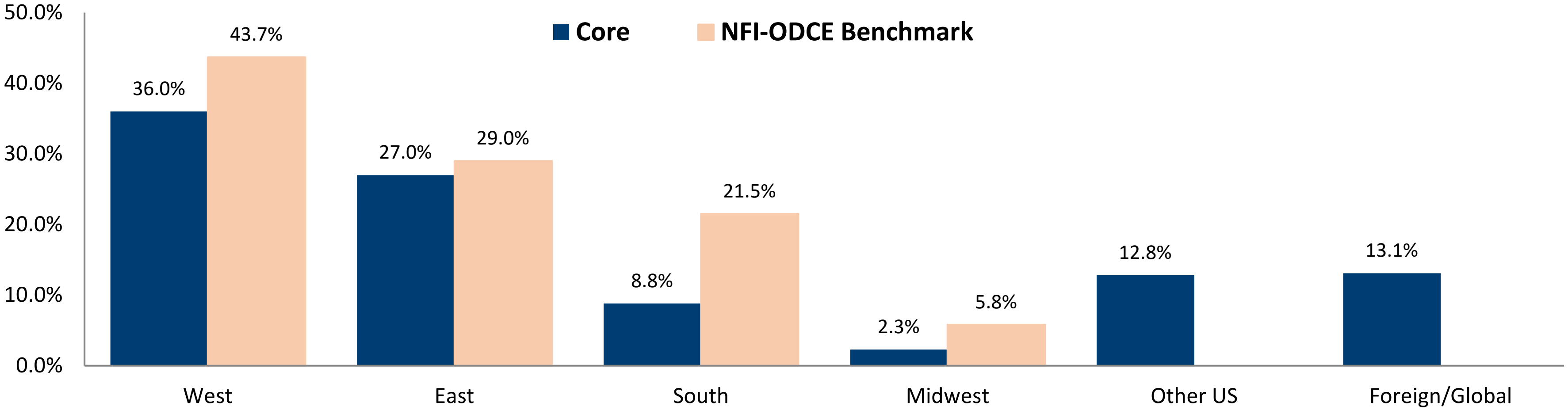
Property Type Diversification

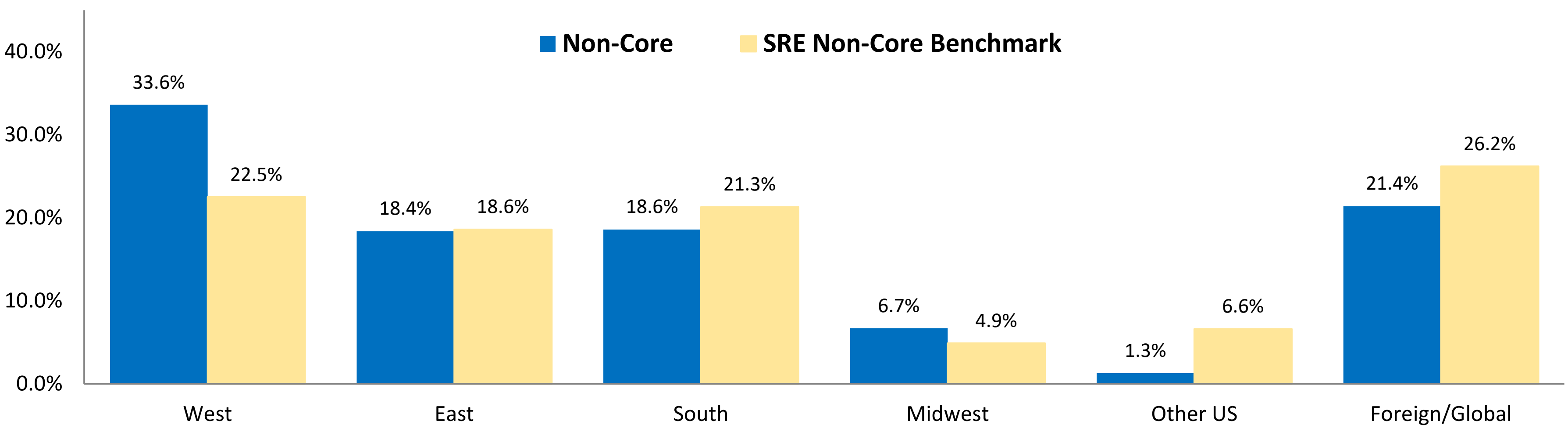




Source: StepStone NCRS 3Q24 Portfolio Monitoring Report

Geographic Diversification





Source: StepStone NCRS 3Q24 Portfolio Monitoring Report

Performance: Core Real Estate

Net of Fees Performance (%) – as of 3/31/25						
	Market Value ($MM)	3 Month	1 Year	3 Years	5 Years	10 Years
Core Real Estate	**$6,307**	**1.25**	**0.84**	**(4.07)**	**1.68**	**4.39**
Benchmark*		1.11	(0.75)	(4.68)	2.97	4.51
Public Equity Real Estate	**$1,205**	**1.24**	**4.79**	**(4.11)**	**6.41**	**3.36**
Private Equity Core Real Estate	**$5,102**	**1.25**	**0.00**	**(4.50)**	**0.73**	**4.47**

Core Real Estate: 2010+ Vintages - as of 12/31/24 Reported Valuations						
Internal Rate of Return			PMEs (US REIT)		Multiples	
5 Yr	10 Yr	ITD	Alpha	K&S	DPI	TVPI
1.65%	4.60%	4.61%	0.42%	1.02	0.50	1.21

**The Core Real Estate Benchmark is comprised of 80% Custom NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index.*

Core RE valuations are finding a bottom. Focus continues to be on durability of cash flows and income generation.

Performance: Non-Core Real Estate

Net of Fees Performance (%) – as of 3/31/25						
	Market Value ($MM)	3 Month	1 Year	3 Years	5 Years	10 Years
Non-Core Real Estate	**$2,058**	**(2.23)**	**(6.48)**	**(8.75)**	**(1.86)**	**5.10**
Benchmark*		(2.76)	(4.20)	(2.97)	1.88	4.43
Opportunistic	**$1,757**	**(2.56)**	**(5.22)**	**(7.60)**	**(0.91)**	**5.58**
Value Add	**$301**	**(0.29)**	**(14.74)**	**(16.30)**	**(7.59)**	**1.90**

Non-Core Real Estate: 2010+ Vintages - as of 12/31/24 Reported Valuations						
Internal Rate of Return			PMEs (Global REIT)		Multiples	
5 Yr	10 Yr	ITD	Alpha	K&S	DPI	TVPI
0.29%	8.92%	11.49%	5.22%	1.19	1.10	1.41

**The Non-Core Real Estate Benchmark is comprised of the following MSCI Private Capital indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).*

Industrial underweight and legacy vintage year exposure contributed to near term underperformance

Real Estate Strategic and Tactical Focus

Concentrated Diversification: Take advantage of our scale to improve returns

- Focus primarily on large, sector-specific separate accounts, direct investments or Platforms
- Reduce commingled fund commitments to select group of managers
- Leverage size of GP relationships to pursue creative structuring/exits

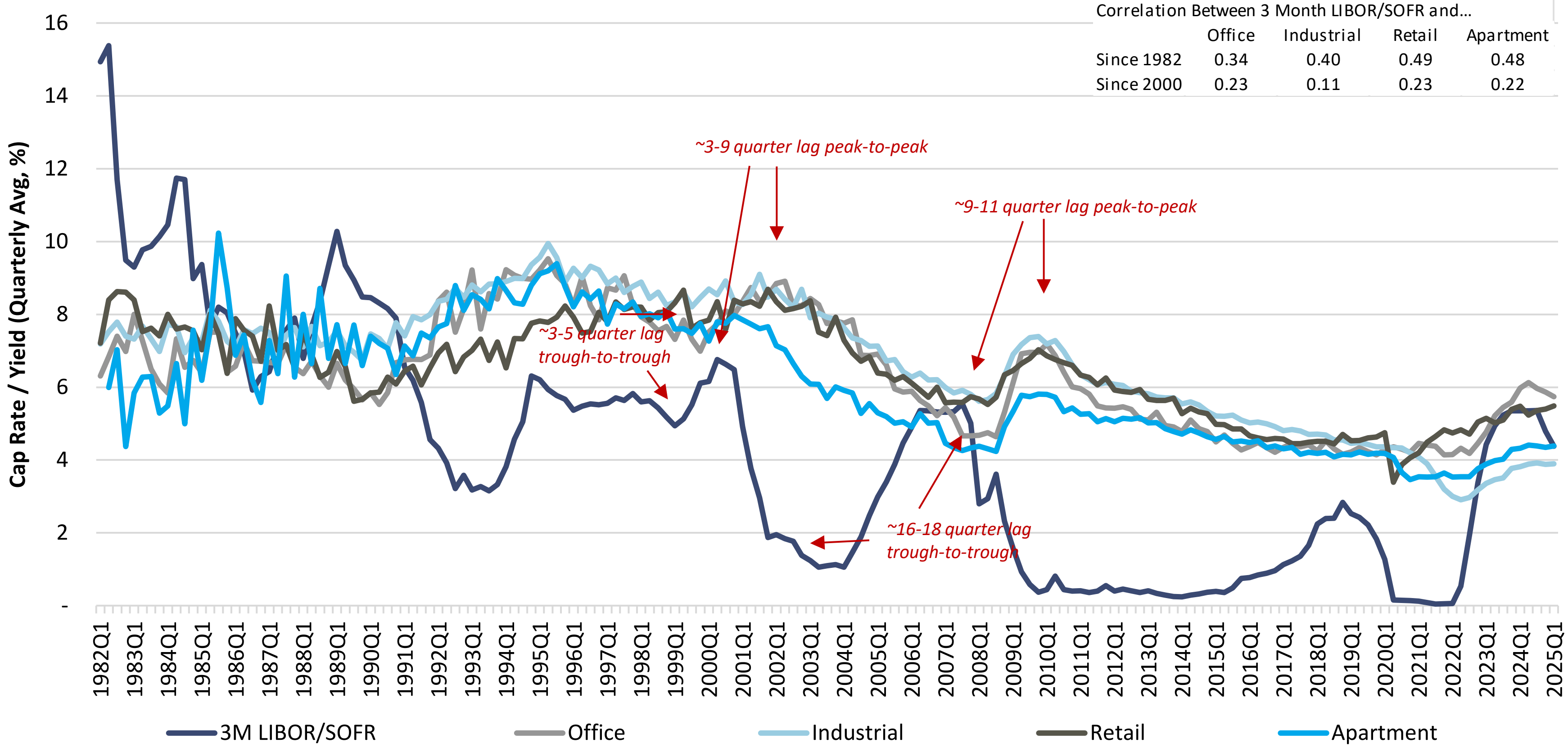
Sector Selection and Allocation decisions

- Overweight low CapEx sectors; underweight high CapEx sectors
- Reduce/increase asset churn when hurtful/helpful
- Small check size sectors create opportunity for portfolio premium

Focus on Niche Sectors

- Self-storage, manufactured housing, single family rental, student housing, senior housing, land development, small retail, data centers, marinas, cell towers, etc.
- Niche sectors have outperformed traditional sectors over the past 10-15 years
- Tend to be cycle-resilient, low capex, characterized by fragmented ownership
- Portfolio premium creates significant upside that turns Core risk into Opportunistic returns
- Small check sizes improves portfolio diversification
- Niche RE sectors make up >50% of publicly traded universe

NCREIF Cap Rates vs. LIBOR/SOFR



Correlation Between 3 Month LIBOR/SOFR and...

	Office	Industrial	Retail	Apartment
Since 1982	0.34	0.40	0.49	0.48
Since 2000	0.23	0.11	0.23	0.22

Sources: Hawkeye Partners, St Louis Fed, Federal Reserve, NCREIF. 3-month Eurodollar is used until March 2019, blend of 3-month Eurodollar and 90-day SOFR through June of 2021, and 90-day SOFR thereafter.

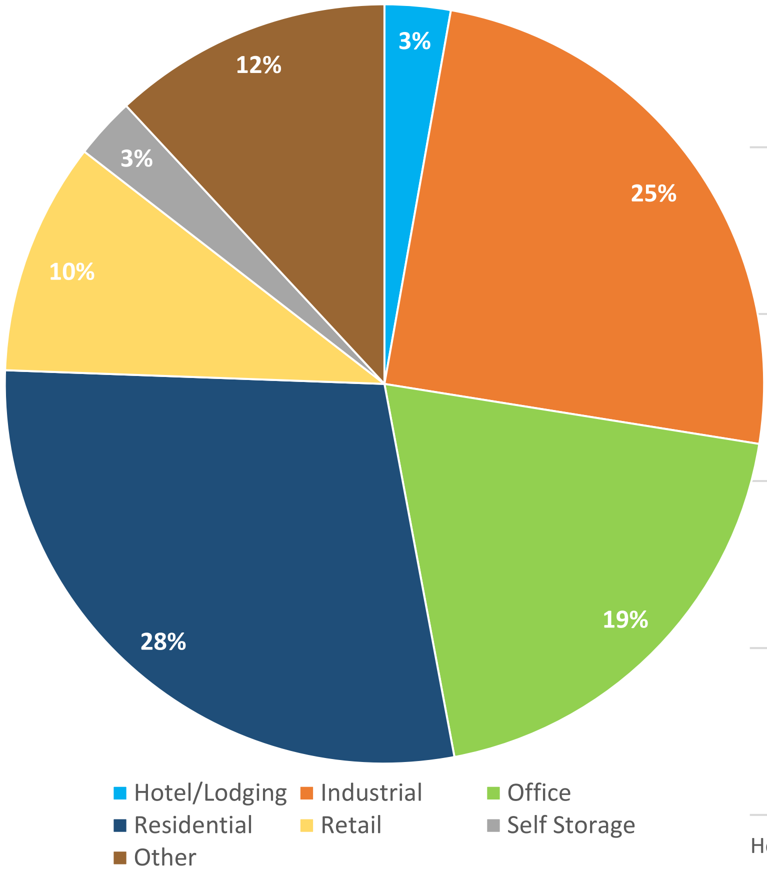
Cap rate spreads have narrowed considerably following 2022-2023 interest rate hikes

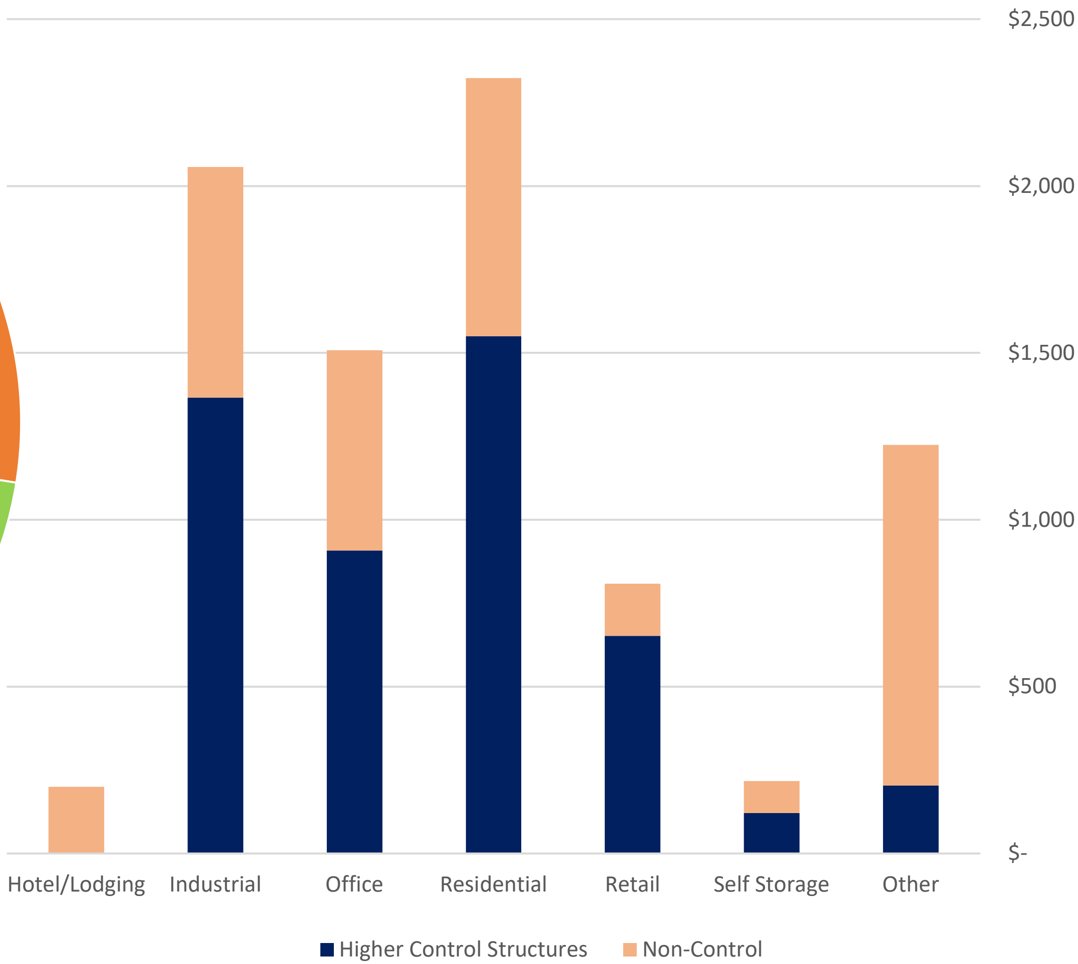
Real Estate Sector Analysis

Outlook: Positive Neutral Negative

Sector	Outlook	Commentary
Data Center	Positive	• Single and multi-tenant space remains in high demand fueled by advancement of AI technology • Occupancy sits at record high levels across the globe, fueling the need for new construction
Student Housing	Positive	• Enrollment growth outpacing new supply has helped sustain elevated rent growth (3.0%–5.0%) • "Power 4" universities with favorable supply/demand dynamics attracting institutional investors
Senior Housing	Positive	• Accelerated population growth of 80+ demo, double-digit NOI growth est. through '27 • Muted supply is leading to outsized rent growth and historically high occupancy
Industrial	Positive / Neutral	• Incremental supply and demand projected to roughly align in '25; demand to exceed supply in '26 • A rising tide lifted all boats in the industrial sector for the last 7-10 years. Greater selectivity is now required to drive compelling returns
Retail	Positive / Neutral	• Necessity-based retail attracting more institutional capital; 'A' malls foot traffic rose in 4Q24 • Macroeconomic uncertainty and high inflation remain the largest threat to retailers, but non-grocery anchored necessity-based retail is poised to weather a potential slowdown
Multifamily	Positive / Neutral	• Near-term oversupply in growth markets pressuring rents, but new starts have slowed considerably • Long-term fundamentals still positive due to undersupply of housing across the U.S and growing unaffordability of single-family homes
Self-Storage	Positive / Neutral	• Tepid home sales in a higher mortgage rate environment resulting in slower leasing activity • Until home sale activity picks back up, forecasts will reflect lower than average YoY rent growth, but that trend is not expected to persist long term
Office	Neutral / Negative	• Certain key markets beginning to see workers returning to the office (i.e. NYC) • Concern is turning to curiosity; Medical office a more resilient alternative to traditional Office
Hotel	Negative	• Healthy group and recovering business transient travel act as a relative ballast in major urban cities • Leisure-oriented markets remain resilient, but higher cost of living may impact near-term demand

Property Type Allocation





Source: StepStone NCRS 3Q24 Portfolio Monitoring Report

Meaningful exposure to sector specific Higher Control Structures