

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES — August 24, 2022**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, August 24, 2022, at 9:00 a.m. via conference call and GoTo Webinar.

Members Present: State Treasurer Dale R. Folwell (Chair), Greg Patterson, Michael Mebane.

Members Attending via Webinar: Lentz Brewer, Loris Colclough.

Staff Present (in person and virtual): Ted Brinn, Matt Krimm, Rhonda Smith, Nick Langley, Joan Fontes, Kathy O’Neill, Gail Kadash, Fran Lawrence, Bill Golden, Laura Rowe, Joe Farley, Casey High, Greg Taylor, Bill Golden, Brad Bullock, Tina Kapoor, Deana Solomon, Troy March, Brian Bolcar, Brett Hall, John Krudewig, Patrick Kinlaw, Sam Watts, Victoria Bledsoe, Kristin Billimoria, Michael Nichols, Rekha Krishnan, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Anne Roof, Ben Garner, Jason Sass, Paul Palermo, Dan Way, Frank Lester.

Others in Attendance: Flint Benson (SEANC), Charles Ashmun (Blackrock), Brian Kahley (Franklin Templeton), Justin Flores (pestakeholder.org), Madeline Bankson (pestakeholder.org), Jim Baker (pestakeholder.org), Adam Rees (withintelligence.com), David Hammond, Judy Coggins (retiree), Jessica Moreno (actionnc.org), David Vanderweide (N.C. Legislature), Hazel Bradford (pionline), Sam King (Invesco), Scott Kreft.

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 Ben Garner. Mr. Garner 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. Mebane seconded, and there was a member roll call to approve the minutes. Mr. Garner 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 economic environment and broad capital markets for the 2nd quarter of 2022, touching on interest rates, equity markets, and broad economic indicators. He made mention of high inflation, large rate increases, spread movement, poor equity and bond market performance.

Mr. Morris next presented an update on the Assets Under Management (AUM), as of 6/30/2022, showing total AUM at \$167 billion as of June 30, which is down \$3.8 billion since the prior quarter.

Mr. Morris reviewed the asset allocation as of 6/30/2022, discussing the over- and underweights in the portfolio.

Mr. Morris next moved on to the total net portfolio returns vs. benchmarks, discussing the periodic performance from both an absolute and benchmark relative perspective across multiple time horizons.

Mr. Morris discussed the "growth of a dollar" charts, which illustrate how the total pension and alternatives sleeves have performed relative to the long-term policy benchmark over five- and ten-year periods and since 1997, which is the beginning of the pension's 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 allocation and selection effects drove the benchmark relative performance over various time horizons.

Mr. Morris next presented the net-of-fees risk slide, detailing how the metrics have trended over time.

Mr. Morris discussed the peer universe comparison slide, which shows NCRS percentile rank relative to peer pension plans across return and risk metrics.

Mr. Morris next walked the committee through the liquidity slides, hitting on the structural liquidity, benefit payments, and cash flows within the alternative sleeve.

Mr. Smith discussed the periodic performance for individual asset classes, new and or incremental investments made over the period, the trends in asset allocation over time, and unfunded commitments.

Mr. Smith concluded the performance updates with the slide of the Top 20 Investment Managers.

AGENDA ITEM – PRIVATE EQUITY ASSET CLASS REVIEW

The Treasurer next introduced Craig Demko, Investment Director of Private Equity, and Brian Bolcar, Portfolio Manager, for the Private Equity presentation.

Mr. Demko and Mr. Bolcar provided an update on the Private Equity portfolio, walking the committee through the composition of the private equity book, over- and underweights relative to target ranges, and allocation by industry and geography.

They discussed the performance of the portfolio across multiple horizons and classifications and hit on the performance of recent co-investments.

They discussed the historical cash flows of the Private Equity portfolio, noting that distributions have exceeded contributions in 10 out of the last 11 years.

Mr. Demko also commented on market activity and trends.

Mr. Demko closed the presentation by stating that we will continue to evaluate co-investments and that we have identified some high conviction general partners that would have good returns and show co-investments.

AGENDA ITEM –PUBLIC EQUITY ASSET CLASS REVIEW

The Treasurer introduced Rhonda Smith, Investment Director of Public Equity. Ms. Smith also introduced Greg Taylor and Tina Kapoor as part of the Public Equity team.

Ms. Smith and the team provided an update on the portfolio, discussing the AUM, asset allocation, number of mandates, active vs passive split of assets. They also discussed the portfolio's performance on an active, benchmark relative, and peer relative basis. The team also discussed the risk to return characteristics of the portfolio on absolute and peer relative basis, by hitting on up and down capture metrics.

The team also presented on the portfolio and benchmark's exposure to standard equity style and country factors. The team discussed the dispersion of growth and value factors, stock market concentration, and global markets factor performance.

The team provided an update on the internally managed portion of the portfolio, touching on AUM, performance, implementation of a new Core Factor strategy, and the consolidation of the Russell Midcap and Russell 200 strategy into a Russell 1000 strategy. They also discussed the trading and activity across the internal accounts over the past fiscal year and for the annual Russell index reconstitution.

Ms. Smith concluded the presentation by stating that some goals for the upcoming 2022-2023 year would be to rebalance the portfolio and to grow our internal management capabilities.

Ms. Smith also recognized that Casey High, as a former member of the Public Equity team, was an integral part of helping to initially start the internal equity trading platform before accepting a new opportunity within the Plan to join the Real Estate team. Ms. Smith further pointed out that Mr. High's former position as Public Equity Portfolio Manager/Trader is currently vacant, and she intends to fill it.

AGENDA ITEM – PUBLIC COMMENT

The Treasurer first reviewed the public comment guidelines before introducing the commentators.

Madeline Bankson, Private Equity Stakeholder Project, was introduced for public comment.

Judy Coggins, a retiree of Forsyth County-Winston Salem public school system, was introduced for public comment.

Flint Benson, a lobbyist with the SEANC, was introduced for public comment.

The Treasurer closed out the public comments.

AGENDA ITEMS – IAC MEMBER COMMENTS

Next, IAC members were provided an opportunity for closing comments.

Mr. Brewer thanked the staff for their work and presentations.

Mr. Patterson echoed these thanks.

Finally, the Treasurer closed by commenting that (1) every dollar at the Treasurer's office is invested, (2) we have never increased the employee contribution to the pension plan, and (3) every penny to which state retirees are entitled is being paid to them every month.

After these comments, the IAC member comment portion closed.

ADJOURNMENT

The Treasurer noted that we will adjourn today's meeting in honor of Deputy Ned Byrd, Wake County Sheriff's Office, and Sgt. Matthew Fishman of the Wayne County Sheriff's Office, both of whom were killed in the line of duty.

Before adjourning, the Treasurer (1) noted that the pension plan members are participating in one of the strongest pension plans in the world and (2) encouraged participants in both the pension plans and the 401(k) plan to regularly check their beneficiaries (participants will soon be able to do this on-line).

Finally, the Treasurer requested that there be a motion to adjourn the meeting. Mr. Patterson moved to adjourn. Mr. Mebane seconded. The Treasurer checked with the final public commenter who was able to join the call. The motion to adjourn passed unanimously.

The Treasurer officially adjourned the meeting at approximately 11:24 a.m.



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