

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT ADVISORY COMMITTEE  
MEETING MINUTES FOR February 23, 2022**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, February 23, 2022, at 9:00 a.m. via conference call and GoTo Webinar.

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

Members Attending via Webinar: John Aneralla, Michael Mebane, Lentz Brewer

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

Others in Attendance: Brian Kahley (Franklin Templeton), Charles Ashmun (Blackrock), Julia Dunton, (Blackrock), Mellissa Chang (pestakeholder.org), Lynn Bonner (ncpolicywatch.com), Elizabeth Hood (Callan), Weston Lewis (Callan), Jason Ellement (Callan), John Pirone (Callan), David Hammond, Tiffany Scott, G.S. Kreft, Helen Clement (Wellington), Isaac Heggins, John deVille.

**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. Colclough moved, Mr. Patterson 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 fourth quarter of 2021, touching on interest rates, equity markets, and broad economic indicators. Some highlights included that the equity markets stayed positive despite challenges due to the supply chain, included COVID-19 surge of the new variant “Omicron”, inflationary pressure, and supply chain issues.

Mr. Morris next presented an update on Assets Under Management (AUM), as of December 31, 2021, showing total AUM at \$176.38 billion, which is up \$3.5 billion since the prior quarter.

Mr. Morris reviewed the asset allocation as of December 31, 2021, noting that equity remains underweight while cash overweight.

Mr. Morris continued to the Total Net Portfolio Returns versus Benchmarks slide, discussing the periodic performance from both an absolute and benchmark relative perspective across multiple time horizons. The portfolio was up roughly two and a half a percent for the fourth quarter with strong returns from the equity markets as well as the alternative asset classes, and with fixed income was largely flat for the quarter. One-year returns for the total plan were at 9.7 percent, which exceeded the actuarial rate of return by over three percent, the longer-term performance has exceeded the actuary rate in all timeframes presented except for the 15 years which was slightly below the 6.5% actuarial rate of return.

Mr. Morris discussed the Growth of a Dollar charts, which illustrate how the total pension and alternatives sleeve have performed relative to the long-term policy benchmark over the five- and ten-year periods and since 1997, which is the beginning of the pensions' 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 effect drove benchmark relative performance over various time horizons.

Mr. Morris presented the Net of Fees Risk Metrics slide, detailing how the metrics have trended over time.

Mr. Morris next discussed the peer universe comparison slides, which shows our percentile rank relative to our peer pension plans. He mentioned that in strong markets we are expected to lag to our peers, due to our plan having less equity exposure and more fixed income assets. However, in falling markets, we generally outperform.

Mr. Morris moved on to the liquidity slides, hitting on the structural liquidity, benefit payments, and cash flows within the alternatives sleeve. The portfolio is currently at 76% Level 1 Liquidity, which is well within minimums for policy guidelines of 70%, and we remain cash flow positive.

Mr. Smith discussed the periodic performance for the individual asset classes, new and or incremental investments made over the period, and the trends in asset allocation over time. He highlighted the strong 1 year returns for both Public Equity, at 27.8%, as well as Private Equity, at 57.3%.

Mr. Smith next discussed new and incremental investments, and there have been many new commitments in private equity and inflation sensitive. Mr. Smith reported that there have been new incremental and unfunded Investment commitments for the quarter with LBA Reality in the Core Real Estate. Mr. Smith also discussed the Top 20 Investment Managers, noting the internally managed portfolios make up more than 50% of the assets.

## **AGENDA ITEM – ASSET LIABILITY STUDY, Part 2**

The Treasurer thanked the CIOs for their reports and introduced the Callan Group to present the findings from the ALM modeling that was done. The presenters for Callan were John Pirone and Jason Ellement.

Callan discussed the overall purpose for conducting an asset liability study, and then built on their prior presentation at the last IAC meeting, starting at the point of discussing the various asset allocation mixes that were chosen for modeling. They then discussed how those allocation mixes performed across a number of metrics, over the simulation horizons. They discussed the trade-offs of how the various asset allocations would increase expected returns while increasing the probability of losses and or spikes in contributions rates that may follow losses. Callan answered various questions from the IAC members throughout the presentation.

Mr. Morris stated appreciation to the Callan team for this study that would be valuable for future review of the policy statement.

### **AGENDA ITEM – INFLATION SENSITIVE ASSET CLASS REVIEW**

The Treasurer introduced Ronald Funderburk, Investment Director of Inflation Sensitive.

Mr. Funderburk discussed the portfolio's history, its role in the portfolio, and how it's structured.

Mr. Funderburk reviewed the portfolio performance, noting the strong return of 12% for 1 year, outperforming the benchmark by 1.4%. Mr. Funderburk also noted that longer term relative performance has been strong.

Mr. Funderburk then reviewed the current inflationary environment and concluded by discussing the strategic considerations for the Inflation Sensitive Portfolio in the current year.

### **AGENDA ITEM – PUBLIC COMMENT**

John DeVille was introduced for public comment.

Mellissa Chang was introduced for public comment.

Isaac Heggins, a retired educator, was introduced 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. They each expressed their gratitude to the IMD team.

Mr. Aneralla stated he was part of ECRSP which was created to ensure the financial stability of the Retirement Systems, and that he was proud to vote for it. Mr. Aneralla also noted credit to the staff for their forward thinking and planning. Lastly, he noted the need to continue to articulate changes to the community as we go forward.

It was stated that increasing risk was not a good way to prepare for the future.

The IAC member Q&A portion closed with applause for all NCDST for being available thru the pandemic.

## **ADJOURNMENT**

The Treasurer next thanked Jeff Smith, Christopher Morris, and the Investment Management team and requested that there be a motion to adjourn the meeting.

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

The Treasurer officially adjourned the meeting at approximately 11:20 am.

A handwritten signature in blue ink, appearing to read "Dale R. Folwell, CPA", written over a horizontal line.

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