

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT ADVISORY COMMITTEE  
MEETING MINUTES FOR May 25, 2022**

Time and Location: The Investment Advisory Committee (“IAC” or the “Committee”) met on Wednesday, May 25, 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, Gail Kadash, Fran Lawrence, Bill Golden, Laura Rowe, Joe Farley, Casey High, Greg Taylor, Brad Bullock, Tina Kapoor, Deana Solomon, Troy March, Brian Bolcar, Brett Hall, John Krudewig, Alexis Berg, 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, Elizabeth Hawley, Powell Baggett, Paul Palermo.

Others in Attendance: Dan Clifton from Strategas, Suzanne Beasley (SEANC), Charles Ashmun (Blackrock), Mitchell King (Blackrock), Jordan Ash (pestakeholder.org), Adam Rees (withintelligence.com), David Hammond, Jessica Proctor, Jessica Moreno (actionnc.org) William Achurch (actionnc.org), Andrea Kurtz (actionnc.org), Angela Bonfiglio (Renters United for Justice), Katie Goldstein (populardemocracy.org), Tyler Dukes (newobserver.com), Jack Cozort, David Green.

**AGENDA ITEM – OPENING REMARKS**

The meeting was called to order at approximately 9:00 a.m. by the Chief of Staff. 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 Chief of Staff then commenced the meeting.

**AGENDA ITEM – APPROVAL OF MINUTES**

Mr. Patterson moved, Mr. Colclough 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 first quarter of 2022, presenting information on interest rates, equity markets, and broad economic indicators. Some of the highlights included global uncertainty and inflationary pressures. Mr. Smith reported that

the equity front was negative, and that the fixed income rising rates crushed the bond markets. He noted that it is not common for both equities and bonds to decline in the same time period. There were more dramatic moves in April after quarter end.

Mr. Morris next presented an update on Assets Under Management (AUM), as of March 31, 2022, showing total AUM at \$170.8B, which is down \$5.5B since the prior quarter.

Mr. Morris reviewed the asset allocation as of March 31, 2022, discussing the over- and underweights in the portfolio.

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.

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 75% 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.

Mr. Smith next discussed the new, incremental, & unfunded investments slide, with new activity presenting across different asset classes. Mr. Smith also discussed the Top 20 Investment Managers, noting the internally managed portfolios make up more than 50% of the assets. There was a discussion on bond rate increases and yield maturity alongside economic conditions.

## **AGENDA ITEM – INVESTMENT POLICY STATEMENT REVIEW**

The Treasurer thanked the CIOs for their reports and introduced Mr. Morris. Mr. Morris discussed the Investment Policy Statement review, which was a culmination of the Asset Liability study and a review of the policy. He discussed the changes from the previous policy, investment objectives, strategic asset allocation asset categories with their target allocation changes, projected returns, risk management and controls, benchmarks, guidelines, and statutory compliance.

There were questions and discussion over recession. It was stated that economy and markets are two separate things we try to maintain our investment process and philosophy for the long term. Our policy should incorporate and model in these types of scenarios and variables. Additionally, our target should reflect long term goals and a plan with flexibility to take advantage when able.

Mr. Morris mentioned that the expected average return over ten years is 5.7% and 6.3% over thirty years. He touched base on the remaining structure of the policy, including risk management, fund benchmarks, implementation and portfolio guidelines, and statutory compliance.

#### **AGENDA ITEM – PUBLIC POLICY OUTLOOK**

The Treasurer introduced Dan Clifton, of Strategas. Mr. Clifton began his presentation with a congratulations to North Carolina for placing fourth for income migration: net \$4B for 2020. Mr. Clifton stated that we are starting to see these migration trends accelerate, and they are expecting more population gains for North Carolina. Mr. Clifton reported that structural changes in multiple parts of the policy spectrum led him to be cautious. Trying to get inflation out of the system, Russia, and mid-term elections are all impactful and reminiscent of 1982. Also, there's a comparison to the 1970 election with the occurrence of four major events, including the pandemic, a presidential election, a recession, and mass protests (1968 compared to 2020). Mr. Clifton's emphasis was more structural and less cyclical than prior discussions.

Mr. Clifton next led a discussion on how economic volatility is creating political volatility since the financial crisis. Political volatility increases policy uncertainty. He mentioned that mid-term election years have more volatility but also opportunity.

Mr. Clifton also reported that investment implications leads to energy security and governance. He concluded his presentation with a question-and-answer session.

#### **AGENDA ITEM – REAL ESTATE ASSET CLASS REVIEW**

The Treasurer introduced Troy March, Investment Director of Real Estate.

Mr. March introduced the team members, and discussed the portfolio's sector analysis, its allocation and role in the portfolio, cash flow, and how it is structured.

Mr. March reviewed the portfolio performance. Mr. March also commented that the portfolio is well-diversified, resilient, and producing excellent cash flows. He expressed confidence in next ten years and working with high conviction managers.

Mr. March next reviewed the unfunded commitments and fees, outlined the build-to-core strategy, and concluded by discussing the strategic considerations for the real estate portfolio in the current year.

#### **AGENDA ITEM – IAC CODE OF ETHICS**

The Treasurer introduced Ben Garner, Department General Counsel, to discuss IAC Code of Ethics. Mr. Garner stated that this document is reviewed annually, and he presented some key components of the Code of Ethics. Mr. Garner stated that Section 3 restricts transactions; Section 4 presents recusal requirements; and Section 6 discusses the confidentiality requirement. Mr. Garner also reported that Section 8 discusses potential conflicts of interests and disclosure requirements. He also commented that

they removed voting verbiage and replaced it with advising. Mr. Garner concluded with an overview of the key IMD policies.

### **AGENDA ITEMS – IAC MEMBER Q&A**

IAC members were provided with the opportunity to pose questions to the Treasurer and IMD staff. They had no comments.

The IAC member Q&A portion closed.

### **AGENDA ITEM – PUBLIC COMMENT**

Mr. Garner reviewed commentary rules.

Angela Bonfiglio, an organizer with Renters United for Justice, was introduced for public comment.

David Green, a recently retired teacher and coach in North Carolina, was introduced for public comment.

Jessica Moreno, an organizer from Action N.C., was introduced for public comment.

Artis Watkins, Executive Director of SEANC, was introduced for public comment.

Suzanne Beasley, Director of Government Relations for SEANC, was introduced for public comment.

Jack Cozort, Retired Government Employees Association, was introduced for public comment.

The Treasurer closed out the public comments and moved to adjournment.

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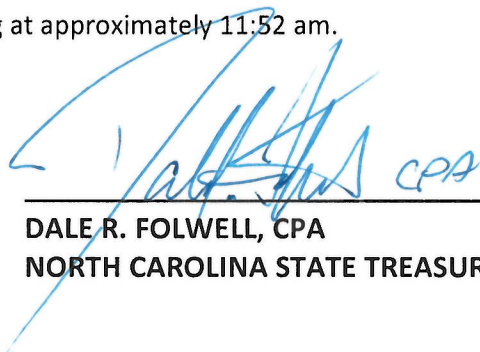
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### **ADJOURNMENT**

The Treasurer next thanked Chief of Staff Ted Brinn for beginning the meeting and expressed grief and condolences over what happened in Uvalde, Texas on May 24. The Treasurer requested that there be a motion to adjourn the meeting.

Mr. Patterson moved to adjourn; Mr. Aneralla 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 11:52 am.



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