

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
INVESTMENT ADVISORY COMMITTEE
MEETING MINUTES — November 9, 2022**

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

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

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

Not in attendance: 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, Casey High, Greg Taylor, Bill Golden, Brad Bullock, Tina Kapoor, Deana Solomon, Troy March, Brett Hall, John Krudewig, Michael Nichols, Rekha Krishnan, Chris Ward, Jeff Smith, Chris Morris, Ronald Funderburk, Craig Demko, Anne Roof, Ben Garner, Jason Sass, Paul Palermo, Frank Lester.

Others in Attendance: Charles Ashmun (Blackrock), Mitchell King (Blackrock), Brian Kahley (Franklin Templeton), Justin Flores (pestakeholder.org), Madeline Bankson (pestakeholder.org), Jessica Moreno (actionnc.org), David Barry (marketgroup.org), Gregg Gethard (peimedia.com), John Kevin Balaod, Kristi Agbebiyi.

AGENDA ITEM – OPENING REMARKS

The meeting was called to order at approximately 9:00 a.m. by the Treasurer. The Treasurer stated that today’s meeting will be honoring Veterans in regards of Veteran’s Day. Meeting etiquette information and Webinar/Conference line use was shared by Benjamin 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. Aneralla 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 third quarter of 2022 and further discussed the current quarter changes.

Mr. Morris next presented an update on the Assets Under Management (AUM), as of September 30, showing total AUM at \$161.6 billion as of the end of September, which was down \$5.4 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 continued to the Total Net Portfolio Returns vs. Benchmarks slide, discussing the periodic performance from both an absolute and relative perspective across multiple time horizons. The portfolio was down 4.2% in third quarter as most markets were challenged. .

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 1998, 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 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. Morris discussed the Valuation Lag Profile slide.

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 moved along to Asset Allocation History with no material changes from last quarter, and the Top 20 Investment Managers presentation.

AGENDA ITEM – INVESTMENT COST-EFFECTIVENESS REVIEW

The Treasurer introduced Tom Scheibelhut, CEM Benchmarking, Inc. to review a summary of results for the 5-year period that ended December 31, 2021. This review evaluated our cost effectiveness compared to peers (U.S. Public Funds).

Total investment cost of NCRS for 2021 was 28.3 bps, compared to a peer median cost of 53.0 bps. This ranks NCRS as the lowest cost plan in the peer universe, as measured by CEM.

AGENDA ITEM – IAC CHARTER UPDATE

The Treasurer next introduced Benjamin Garner for updates on the IAC Charter, which includes mostly minor changes. The charter was last reviewed in 2017, and prior to this meeting an updated redline was sent to IAC members for review. The changes included adding statutory references, updating the attendance rules, and discussing voting and compensation. Mr. Garner recognized several staff members who provided significant assistance on this project, including Laura Rowe, Jason Sass, and Reid Chisholm.

AGENDA ITEM – I.G. FIXED ASSET CLASS REVIEW

The Treasurer next introduced Jeff Smith, Investment Director of Investment Grade Fixed Income, and Brett Hall, Portfolio Manager, for the Investment Grade Fixed Income presentation.

Mr. Hall provided an update on the Short-Term portfolio, walking the committee through the composition of the Short-Term portfolio, Historical Annualized Cash Return, Portfolio Characteristics, and STIF Rate History.

Mr. Smith discussed the Investment Grade Fixed Income portfolio and underlying Core Fixed Income subcomponent, hitting on allocations and performance.

Mr. Smith continued to discuss Core Income Long Term Portfolio Allocation and the 10-year and 30-year US Treasury Yield History. Mr. Hall next continued to review the spread history credit markets and corporate relative value and LTIP Allocation by sector.

Mr. Smith next presented a slide that shows the relationship between historical yield to maturity and the future realized return on bonds, FOMC projections, and performance expectations under various rate shock environments.

Mr. Smith closed the presentation discussing how they have been able to find opportunities within the short investment grade credit space and are reallocating some of the non-core allocation to this.

AGENDA ITEM – OPPORTUNISTIC F.I. ASSET CLASS REVIEW

The Treasurer introduced Ronald Funderburk, Investment Director of Opportunistic Fixed Income. Mr. Funderburk also introduced John Krudewig as part of the Opportunistic Fixed Income team.

Mr. Funderburk discussed the role the asset class plays in the overall portfolio, outlining the asset class history, structure, performance, and characteristics.

Mr. Funderburk presented a credit market update, touching on strategies within the space, spread and yield to maturity historical levels, and the significant change in yields over the last year. Mr. Funderburk stated the portfolio's main priorities include taking advantage of elevated spread and yield environment with best-in-class managers that can pivot as conditions change.

Mr. Funderburk then discussed the portfolio's headwinds and tailwind, as well as additional priorities going forward.

AGENDA ITEM – PUBLIC COMMENT

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

Mr. Justin Flores was introduced for public comment.

Ms. Jessica Moreno was introduced for public comment.

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

AGENDA ITEMS – IAC MEMBER Q&A

IAC members were provided with the opportunity to pose questions to the Treasurer and IMD staff.

Mr. Aneralla commented on recent issues with asset management firms and how they are voting and whether their voting is line with wishes of their clients'. Mr. Aneralla asked about our position regarding this. The Treasurer responded with a short discussion of the effort to vote NCRS shares formerly voted by Blackrock to better fulfill our fiduciary responsibilities.

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

Mr. Patterson echoed these thanks.


After these comments, the IAC member comment portion closed.

ADJOURNMENT

The Treasurer noted that the future of the pension plan will be based on how all Treasurers now and in the future and how they manage the plan.

Finally, the Treasurer requested that there be a motion to adjourn the meeting. Mr. Patterson motioned to adjourn. Mr. Aneralla seconded the motion. The motion to adjourn passed unanimously.

The Treasurer officially adjourned the meeting at approximately 11:30 am.



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