



NC ABL
National ABL Alliance Member



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MEMORANDUM

TO: NC ABL Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: May 10, 2023

SUBJECT: Revised Investment Policy Statement

There is a single Investment Policy Statement (IPS) for the entire National ABL Alliance (Alliance) because the investments are the same across the Alliance. A revised IPS, which is included in the Board's meeting materials, will go into effect on May 12, 2023. The substantive changes are summarized below and in Attachments 1 and 2 to this memo.

Oversight of the Alliance's investments is provided by (1) the Alliance's Investment Policy Subcommittee, which consists of representatives from Illinois (the lead state in the Alliance) and four other states; (2) Marquette Associates, Illinois' investment consultant; and (3) Ascensus Investment Advisors.

Investment changes are made by majority vote of the Alliance's members. The North Carolina Department of State Treasurer voted in favor of the IPS revisions as part of its operational responsibilities for the NC ABL Program.

Substantive revisions to the IPS

- American Fund High Income Trust, a high-yield fixed income fund, is added to the lineup of underlying domestic fixed income funds, and allocations are made to the Aggressive and Moderately Aggressive Target Risk Options.
 - *Rationale:* A high-yield fixed income fund adds diversification to the current fixed income portfolio by offering a higher yield than core fixed income securities while providing less duration risk, thereby reducing the fixed income portfolio's sensitivity to changes in interest rates.
 - With the addition of high-yield fixed income to the Aggressive and Moderately Aggressive Target Risk Options, the allocations to the other three domestic fixed income funds are reduced.
 - The Bloomberg US HY 2% Issuer Cap TR USD Index is the index for the new high-yield fixed income fund.

- Both benchmarks for the international equity funds are replaced. For non-U.S. developed markets, the MSCI EAFE IMI Index is replaced with the FTSE Developed All Cap ex US USD Index. For emerging markets, the FTSE Emerging Index (Net) is replaced with the FTSE Emerging Markets All Cap China A Inclusion USD Index.
 - Rationale: The new benchmarks better replicate current market capitalizations, provide more balanced global market exposure, and provide exposure to the Canadian market.

- Both international equity funds are replaced.
 - The Vanguard Developed Markets Index Fund replaces the iShares Core MSCI EAFE ETF (Exhibit A) as the non-U.S. developed markets fund.
 - The Vanguard Emerging Markets Stock Index Fund replaces the Schwab Emerging Markets Equity ETF as the emerging markets fund.
 - Rationale: The new funds utilize the new benchmarks for international equity (above) and do not require the same cash reserves as the exchange-traded funds that are being replaced.

- The allocation to international equity is increased and the allocations to US large cap, US SMID cap, and real estate are reduced.
 - Rationale: The allocation changes are based on updated capital market assumptions.

Attachment 1

Exhibit A of the IPS: Underlying Investment Products and Benchmarks of the Target Risk Options

Underlying Investment Product	Asset Class	Benchmark
Vanguard Institutional Index Fund	U.S. Large Cap	S & P 500 Index
Vanguard Extended Market Index Fund	U.S. Small & Mid Cap	S & P Completion Index
Vanguard Developed Markets Index iShares Core MSCI EAFE ETF	Non-U.S. Multi Cap	<u>FTSE Developed All Cap ex US USD Index MSCI EAFE IMI Index</u>
Vanguard Emerging Markets Stock Index Schwab Emerging Markets Equity ETF	Emerging Markets	<u>FTSE Emerging Markets All Cap China A Inclusion USD Index FTSE Emerging Index (Net)</u>
Schwab U.S. REIT ETF	Real Estate	Dow Jones Equity All REIT Capped Index
American Funds High Income Trust	<u>U.S. High Yield Bond</u>	<u>Bloomberg US HY 2% Issuer Cap TR USD</u>
Vanguard Total Bond Market Index Fund	U.S. Core Bond	Bloomberg U.S. Aggregate Float Adjusted Bond Index
Vanguard Short-Term Bond Index Fund	Short-Term Investment Grade	Bloomberg U.S. 1-5yr Gov't/Credit
Vanguard Short-Term Inflation Protected Securities Index	Short-Term Inflation Protected Bond	Bloomberg US TIPS 0-5 Yrs.
iShares Core International Aggregate Bond ETF	International Bond	Bloomberg Global Aggregate ex USD 10% IC Hedged Index
Sallie Mae High-Yield FDIC	Cash & Cash Equivalent	3-month T-Bills

Attachment 2

Exhibit C of the IPS: Investment Parameters of the Target Risk Options

Target <u>Risk Options Portfolios</u>							
Asset Class	Benchmark	Aggressive	Moderately Aggressive	Growth	Moderate	Moderately Conservative	Conservative
Domestic Equity	S & P 500 Index	<u>28.00</u> <u>31.50</u> %	<u>22.00</u> <u>26.25</u> %	<u>18</u> <u>21.00</u> %	<u>13.00</u> <u>15.75</u> %	<u>9.00</u> <u>10.50</u> %	<u>3.05</u> %
	S & P Completion Index	<u>23</u> <u>27.00</u> %	<u>20.05</u> %	<u>16</u> <u>18.00</u> %	<u>12.00</u> <u>13.50</u> %	<u>89.00</u> %	<u>3.00</u> %
Real Estate	Dow Jones Equity U.S. All REIT Index	<u>89.00</u> %	<u>7.05</u> %	<u>56.00</u> %	<u>4.05</u> %	<u>3.00</u> %	<u>1.00</u> %
International Equity	<u>FTSE Developed All Cap ex US USD Index MSCI EAFE IMI Index</u>	<u>22.00</u> <u>16.20</u> %	<u>18.00</u> <u>13.50</u> %	<u>15.00</u> <u>10.80</u> %	<u>11.00</u> <u>8.10</u> %	<u>7.00</u> <u>5.40</u> %	<u>2.00</u> <u>1.80</u> %
	<u>FTSE Emerging Markets All Cap China A Inclusion USD Index FTSE Emerging Index (Net)</u>	<u>9.00</u> <u>6.30</u> %	<u>8.00</u> <u>5.25</u> %	<u>6.00</u> <u>4.20</u> %	<u>5.00</u> <u>3.15</u> %	<u>3.00</u> <u>2.10</u> %	<u>1.00</u> <u>0.70</u> %
Domestic Fixed Income	Bloomberg US TIPS 0-5 Years Index	<u>2.00</u> <u>3.50</u> %	<u>58.75</u> %	<u>14.00</u> %	<u>19.25</u> %	<u>15.75</u> %	<u>10.50</u> %
	Bloomberg U.S. Aggregate Bond Float Adjusted Index	<u>43.00</u> %	<u>107.50</u> %	<u>12.00</u> %	<u>16.50</u> %	<u>13.50</u> %	<u>9.00</u> %
	Bloomberg Barclays U.S. 1-5yr Gov't/Credit	<u>0.00</u> <u>2.50</u> %	<u>36.25</u> %	<u>10.00</u> %	<u>13.75</u> %	<u>11.25</u> %	<u>7.50</u> %
	<u>Bloomberg US HY 2% Issuer Cap TR USD</u>	<u>3.00</u> %	<u>3.00</u> %	<u>0.00</u> %	<u>0.00</u> %	<u>0.00</u> %	<u>0.00</u> %
International Fixed Income	Bloomberg Global Aggregate ex USD 10% IC Index	<u>1.00</u> %	<u>2.50</u> %	<u>4.00</u> %	<u>5.50</u> %	<u>4.50</u> %	<u>3.00</u> %
Short Term Investments	3-month T-Bills	<u>0.00</u> %	<u>0.00</u> %	<u>0.0</u> %	<u>0.00</u> %	<u>25.00</u> %	<u>60.00</u> %