

INVESTMENT ADVISORY COMMITTEE CHARTER

I. Purpose

The General Assembly has established the Investment Advisory Committee (“IAC”) to advise the State Treasurer with respect to investments.¹ The organizing statute states, “The committee shall have advisory powers only and membership shall not be deemed a public office within the meaning of Article VI, Section 9 of the Constitution of the North Carolina or G.S. 128-1.1.” To help the IAC fulfill its advisory duties, the State Treasurer has adopted this Investment Advisory Committee Charter (“Charter”). The IAC shall periodically review and evaluate this Charter and make recommendations to the State Treasurer for changes it deems are appropriate.

II. Composition

The Treasurer’s Governance and Transparency Act of 2009 amended N.C. Gen. Stat. § 147-69.2(b1) to authorize the State Treasurer to serve as chairman ex officio and to appoint six IAC members. Two members shall be selected among the members of the boards of trustees of the Teachers’ and State Employees’ Retirement System, the Local Governmental Employees’ Retirement System, the Legislative Retirement System, the Firefighters’ and Rescue Squad Workers’ Pension Fund, the Consolidated Judicial Retirement System, and the North Carolina National Guard Pension Fund (collectively referred to as the “Retirement Systems”); and four members selected from the general public. All six appointed members must have experience in areas relevant to the administration of a large, diversified investment program, including but not limited to, investment management, securities law, real estate development, or absolute return strategies.

- A. **Terms.** IAC members serve at will and their membership can end at any time upon written notice of removal with or without cause as determined by the State Treasurer. Each IAC member shall serve as long as the State Treasurer who appointed them remains in office, unless such member is removed earlier or resigns.
- B. **Standard of Care.** No IAC member shall owe any fiduciary, trust, or similar obligations in connection with his or her membership on the IAC other than the duty to act in good faith and as expressly set forth in this Charter and applicable law and policies.
- C. **Orientation.** All IAC members must complete an orientation program within sixty days of the date of their appointment. The General Counsel and Investment Management Division (“IMD”) shall be responsible for conducting the orientation program.
- D. **Ethics.** Upon accepting his or her appointment and annually thereafter, each IAC member shall be required to sign and submit to the General Counsel, or his or her designee, an affirmation pledging to uphold both the letter and the spirit of a Code of Ethics.
- E. **Chair.** Pursuant to the statute, the State Treasurer shall be the chairman ex officio. These duties include but are not limited to: (1) calling special or emergency meetings, when necessary; (2) enforcing the governing charter and policies of the IAC; (3) appointing or removing IAC members and providing staff to serve the IAC; (4) naming a Vice-Chair to assume the Chair’s responsibilities for the IAC, when necessary; and (5) conducting the

¹ N.C. Gen. Stat. §§ 147-69.2(b1), (e); 147-69.10; 147-69.11.

IAC meetings in an efficient and effective manner.

- F. **Vice-Chair.** The Vice-Chair's duties include but are not limited to: (1) working constructively with all IAC members and staff; and (2) assuming the Chair's responsibilities for the IAC if specifically requested to do so by the Chair.
- G. **Secretary.** The Secretary shall be the Director of Investment Operations of the IMD unless otherwise appointed by the State Treasurer. The Secretary's duties include but are not limited to: (1) maintaining a current list of IAC members; (2) notifying the IAC and the public of meetings; (3) coordinating and disseminating information to the IAC; (4) maintaining official minutes and records of all proceedings from IAC meetings; (5) preparing, as directed by the State Treasurer prior to each meeting, an agenda for the meeting; and (6) facilitating the scheduling of each meeting and notifying the IAC members thereof
- H. **Legal Counsel.** The General Counsel to the State Treasurer shall serve as Legal Counsel to the IAC. Legal Counsel's duties include but are not limited to: (1) responding to requests under North Carolina public records laws; (2) ensuring compliance with open meetings laws; and (3) monitoring IAC members' compliance with a Code of Ethics.

III. Meetings

- A. **Open Meeting Laws.** All meetings will be held in compliance with North Carolina open meetings law, where applicable.
- B. **Schedule of Meetings.** Each year, the IAC will set, publish, and post on the State Treasurer's website an annual schedule showing the time and location of its regular meetings. The IAC will typically meet quarterly but may convene more often if called by the State Treasurer.
- C. **Attendance Policy.** Upon approval by the Chair, the IAC may hold meetings by means of telephone or video conference, and members of the IAC may participate in meetings by means of telephone or video conference. The State Treasurer may require that staff, consultants, or other individuals attend the meetings to provide information as necessary.
- D. **Voting.** Votes by the IAC shall be made by a majority voice vote of the IAC members. A roll call vote shall be taken for any decision made during a meeting occurring via telephone or other electronic means of simultaneous communication.
- E. **Public Comment.** At each meeting, time will be reserved for public comment. Time for public comment may be limited by the Chair.

IV. Responsibilities

The IAC shall be responsible for advising and assisting the State Treasurer in the areas set forth below. In addition, the IAC will perform any activities related to this Charter as directed by the State Treasurer.

- A. **Assist in Selection and Evaluation of the Chief Investment Officer.** If requested by the State Treasurer, when the Chief Investment Officer ("CIO") position is vacant or is scheduled to become vacant, the IAC will assist in the recruiting process, interview

candidates, and/or provide input on the candidates. The IAC may also be asked to provide input to the State Treasurer during the annual evaluation of the CIO.

- B. Self-Assessment of the IAC.** To ensure the IAC is functioning as effectively and efficiently as possible, the IAC will periodically assess its own performance and make appropriate changes with the intent that the assessment will occur at least biennially. During such assessment, it will also determine if the responsibilities in this Charter have been carried out.
- C. Review and Recommend Investment Policies.** The IAC will assist and advise the State Treasurer on the establishment of investment policies and any relevant investment guidelines. The IAC may periodically review the existing policies and guidelines and make recommendations as necessary regarding modifications and enhancements on at least a biennial basis. The State Treasurer shall present, on at least a biennial basis, an investment policy statement for the Retirement Systems investment program to the IAC for the IAC's consultation as required by N.C. Gen. Stat. § 147-69.10(a). The investment policy statement must include descriptions of investment objectives and strategy, roles and responsibilities, permissible asset classes, asset allocation targets and ranges, risk management and compliance guidelines, and evaluation criteria necessary to measure investment performance. Investment guidelines for internally managed portfolios will be periodically presented to the IAC for review and input.
- D. Review Asset Allocations.** The IAC will review information presented to it and advise the State Treasurer about the suitability and proper use of the current and any proposed asset classes. The IAC will review asset/liability studies and asset allocation studies for the Retirement Systems. The IAC will analyze and comment on diversification, risk control, asset class targets and ranges, and liquidity within of the stated investment objectives.
- E. Review and Comment on Investment Management Structure.** The IAC will review and comment on the investment management structure of the Retirement Systems at least biennially. The review will include the use of internal and external management, the number and types of managers in each class, the use of active and passive strategies, and diversification among and between portfolios.
- F. Review and Evaluate the Selection and Monitoring of Investment Managers.** The IAC will review the process used by staff and consultants in the selection and monitoring of investment managers and compliance with such process. The IAC has no independent responsibility for the selection or monitoring of specific managers.
- G. Review Performance and Cost Reports.** The IAC will review the performance of the total investment portfolio of the Retirement Systems, each asset class, external investment managers, and internal managers at least annually along with the cost- effectiveness of the investment program. Performance and costs will be compared to established benchmarks and universes. The IAC will advise the State Treasurer on the reasonableness of the benchmarks and universes.
- H. Review and Evaluate the Custodian Arrangement.** The IAC will periodically review information prepared by the staff and consultants about the quality of the services and the reasonableness of the fees for the custodian. If requested by the State Treasurer, the IAC

will evaluate and discuss fees and services proposals and offer observations about the strengths and weaknesses of candidates for custodial and related services.

- I. **Evaluate the Selection of Consultants.** If requested by the State Treasurer, the IAC will evaluate proposals and offer observations about the strengths and weaknesses of any candidates considered for general or specialized consulting services for the Retirement Systems.
- J. **Evaluate Governance, Operations, and Investment Practices.** At least once every four years, the State Treasurer shall engage a commercial independent expert firm, pursuant to N.C. Gen. Stat. § 147-69.3(g), to evaluate the governance, operations, and investment practices of the State Treasurer to develop recommendations for improvement. The State Treasurer must consult with the IAC to develop the scope of the evaluation. N.C. Gen. Stat. § 147-69.10(b).
- K. **Evaluate Ethics Policies.** The State Treasurer is authorized and required to adopt certain ethics policies and procedures. N.C. Gen. Stat. § 147-69.11 requires the State Treasurer to consult with the IAC when adopting such policies and procedures on the following topics:
 - 1) Requiring that IMD adopt a Code of Ethics;
 - 2) Requiring all employees of the Department of State Treasurer who have responsibility for matters related to investments to be provided with training with respect to the discharge of their duties and responsibilities to the Retirement Systems and other ancillary funds or investment programs enumerated in N.C. Gen. Stat. § 147-69.2, "Ancillary Funds;"
 - 3) Governing gifts to employees of the Department of State Treasurer who have responsibility for matters related to investments;
 - 4) Imposing limitations on external investment managers' use of placement agents and other persons that appear before the Department of State Treasurer to ensure that these persons play only a proper role in investment opportunities; and,
 - 5) As a component of the investment due diligence, negotiations, and contracting process, requiring an independent assessment of whether circumstances exist that create a material risk that professional judgment or actions regarding a potential investment arrangement's recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest.

V. Authority

Under N.C. Gen. Stat. § 147-69.2(b1), the IAC "shall have advisory powers only." The IAC has the authority to review background data, historical information, staff reports, consultants' reports, and any other documents it deems reasonably necessary to form an opinion on the capabilities of the staff, investment managers, custodian banks, investment consultants, and other service providers to the State Treasurer's investment programs. Furthermore, the IAC is authorized to ask any questions of individuals that are relevant to the services they perform on behalf of the State Treasurer's investment programs. The IAC shall conduct all such reviews and inquiries in such a way as to maintain, where applicable, the confidentiality and trade secret nature of such information.

The IAC also has the authority to call upon the Department of State Treasurer's Chief of Staff, CIO, General Counsel, investment consultant(s), actuary, or auditor to assist it in carrying out its responsibilities;

however, any request for assistance from outside service providers that might result in additional fees must have the prior approval of the State Treasurer.

The IAC does not have the authority to convene meetings to discuss items of business outside of those agreed to by the State Treasurer.

The IAC does not have the authority to sign contracts, obligate the State Treasurer, or authorize the expenditure of any portion of plan assets that has not been designated or authorized for IAC purposes.

VI. Expectations

IAC members are not expected to find investment opportunities, analyze individual investments or investment managers, or engage in the types of day-to-day investment activities performed in the Investment Management Division.

Individual IAC members are expected to: (1) be informed about the Retirement Systems' and other Ancillary Programs' investment policies and practices; (2) work constructively with other IAC members to review investment activities; (3) interact appropriately with the State Treasurer, the staff, and outside service providers; (4) be prepared for all IAC meetings by reviewing agendas and supporting materials prior to the meetings; (5) attend IAC meetings, share expertise, and actively participate in the discussions; (6) respect open meetings laws by not convening meetings with fellow IAC members to discuss business of the Retirement Systems outside the properly noticed meetings; (7) follow conflict of interest, disclosure, and confidentiality rules and policies; (8) discharge duties solely in the interest of the members and beneficiaries of the Retirement Systems and for their exclusive benefit; (9) incur only reasonable expenses in carrying out duties as an IAC member, consistent with the operating budget of the IAC; (10) live up to high ethical standards and avoid the appearance of impropriety; (11) attend an orientation session and on-going education opportunities, as appropriate; and (12) refrain from making individual time-consuming requests to staff without a directive of the full IAC.

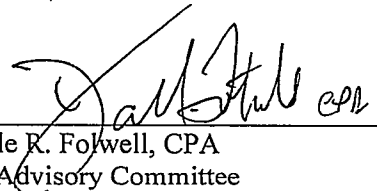
VII. Compensation

IAC members are entitled to receive per diem and allowances for expenses consistent with those granted to members of other State boards, pursuant to N.C. Gen. Stat. § 147-69.2(b1). (See also N.C. Gen. Stat. § 138-5). IAC members will be reimbursed for expenses incurred in the performance of their duties as long as they are reasonable, documented, and in compliance with the parameters set by the State Treasurer. IAC members may choose to waive receipt of per diem and other expenses allowances.

VIII. Staffing

The CIO of the Department of State Treasurer's IMD will attend and staff all IAC meetings. The CIO shall ensure appropriate internal staff members are assigned to assist the IAC and support the IAC's activities by preparing meeting materials, performing research, and rendering other types of assistance as reasonably requested by the IAC.

Adopted on 11/10/2022.



State Treasurer Dale R. Folwell, CPA
Chair, Investment Advisory Committee