



NORTH CAROLINA INVESTMENT AUTHORITY

Credit Portfolio Review

August 28, 2026



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA



NCIA Credit Portfolio Team

Name	Area of Focus	NCIA Tenure (Years)	Industry Experience (Years)
Robert Orr	Special Projects	1	20
Joseph Monaldo	Real Asset Credit	1	11
Sean Incremona	Corporate Credit	3	14
Ming Xu	Broad Based	3	28
Ronald Funderburk	Broad Based	17	19



Conversation on Credit

- Role in the NCIA Portfolio
- Current Portfolio Composition
- Capital Deployment Since 2020
- Performance
- Approach to Generating Outperformance
- Market Environment & Observations
- Areas of Emphasis & Deemphasis
- Appendix



Investment Policy

	Credit NCIA IPS ¹
Portfolio Objectives	<u>Generate long-term returns</u> materially above IG fixed income <u>Enhance diversification</u> relative to public equity and IG fixed income <u>Preserve capital</u> through asset-backed investments and downside-oriented trading strategies
Sub - Components	Corporate Asset Backed Other
Allocation Guidelines	Min: 3% Target: 9% Max: 14%

Impact on Strategy

- Emphasis on generating higher returns
- Adopted a total portfolio approach to manage risk and source competitive investments
- Changed benchmark to MSCI Global Private Credit
- Increased flexibility by eliminating artificial constraints
- Consolidated oversight of legacy credit and increased target allocation from 7.5% to 9%

1. NCIA Investment Policy Statement (“IPS”) was adopted on February 25, 2026



Current Portfolio Composition

Credit Portfolio – As of 6/30/26						
Market Value (\$M)	Allocation	Target Allocation	Min	Max	Differential vs Target	
12,636	8.47%	9%	3%	14%	-0.53%	-\$784M

Credit Portfolio Composition					
Strategy	Market Value (\$M)	Number of Funds	Actual (6/30/26)	Policy Guidelines	
				Min	Max
Asset Backed	5,750	20	45.5%	15%	70%
Corporate	6,573	34	52.0%	15%	70%
Other	313	1	2.5%	0%	30%

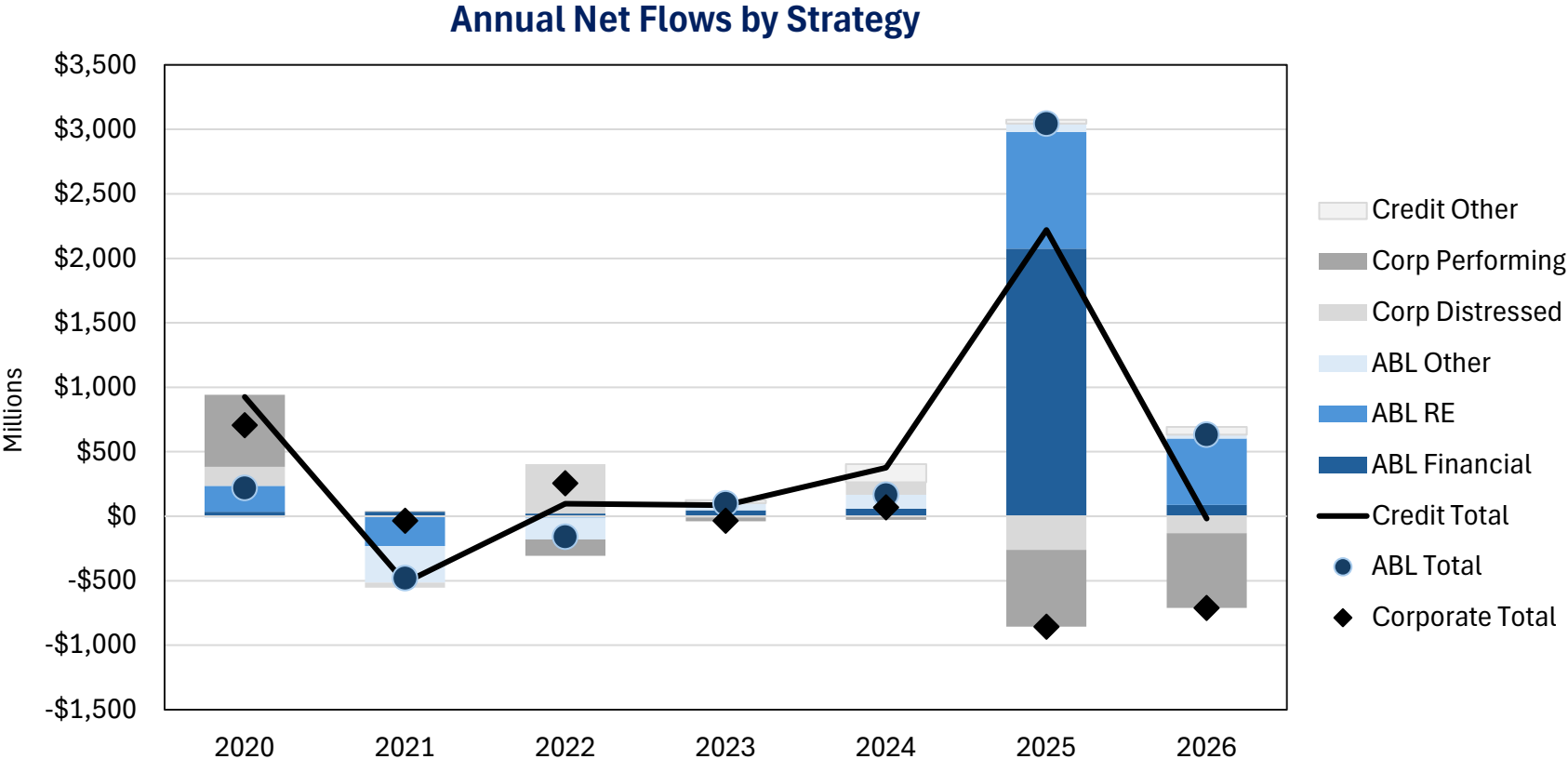


Capital Deployment Since 2020

Illustrates the ability to pivot based on the evolving market opportunity.

Meaningful capital deployed in 2020 and 2022 to take advantage of market dislocations.

Added Commercial Real Estate and Asset Backed Debt in 2025 and 2026 while reducing corporate credit exposure.





Performance Summary

	All Vintages - as of 06/30/2026 Cash Flow Adj. Valuations						2010 + Vintages - as of 6/30/2026 Valuations						
	Time Weighted Returns						Internal Rate of Return			PMEs (50/50 HY / LL)		Multiples	
Asset Class	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	5 Year	10 Year	ITD	Direct Alpha	K&S	DPI	TVPI
Credit	7.61%	8.23%	6.13%	6.73%	6.21%	7.24%	5.86%	6.70%	6.12%	0.61%	1.03	0.70	1.34
Benchmark ¹	7.64%	6.97%	5.70%	5.60%	3.86%	2.86%							

1. Credit benchmark is a linked times series of the Legacy Opportunistic Fixed Income benchmark through 2/28/2026 and the MSCI Private Credit benchmark thereafter. The structure of this benchmark has changed over time as the investment policy has changed, and the returns reflect the historical structure that was in place at the time.



Co-Investment Performance

NCIA Credit Co-Investment Account Summary – as of 3/31/26									
# of Funds	Commitment	Valuation	Paid In	Distributions	IRR	DPI	TVPI	Percentile	Quartile
13	\$3,820M	\$2,160M	\$3,289M	\$1,962M	10.30%	0.60x	1.25x	25th-50th	2nd

Universe Metrics ¹ – as of 3/31/26					
Quartile Mapping Percentile	1st (Best) 5th	2nd 25th	Median 50th	3rd 75th	4th (Worst) 95th
IRR	21.49%	12.23%	8.83%	5.80%	-3.74%

1. Percentiles are based on the MSCI Peer Universe for Private Credit.



Approach to Generating Outperformance

Alignment & Scale

- Negotiate enhanced economic terms to drive outcomes
- Allocate to high conviction opportunities through SMAs and Co-Investment Vehicles

Credit Cycle Positioning

- Position overall risk based on macro inputs, quantitative cycle indicators, and historical valuations
- Position around market dislocations as they arise
- Reallocate according to the credit cycle

Mandate Flexibility

- Flexibility to lean into unique opportunities independent of core mandate
- Approach situations as a **“Solutions Provider”**



Highlights Supporting our Value Add

1

Flexibility & Solutions Provider

Acquired a large
portfolio of seasoned
CRE mortgages

2

Credit Cycle

Reduced exposure to
Corporate Credit by
\$1.9BN

3

Credit Cycle

Increased exposure to
Asset Backed Credit
by ~\$5BN

4

Alignment & Scale

Strong performance
and utilization of
SMAs & Co-
Investment Vehicles

5

Mandate Flexibility

Seeding new products
and strategies

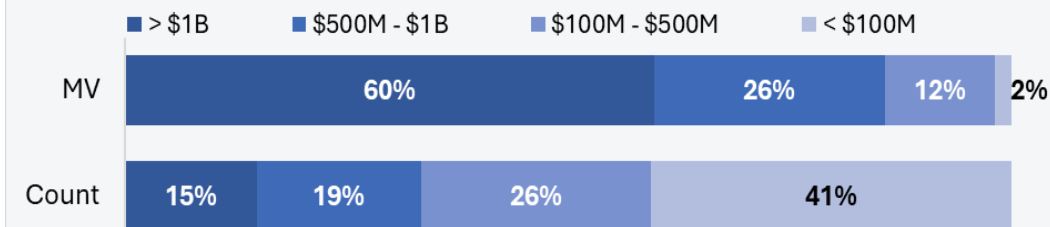


Implementation by Concentration & Structure

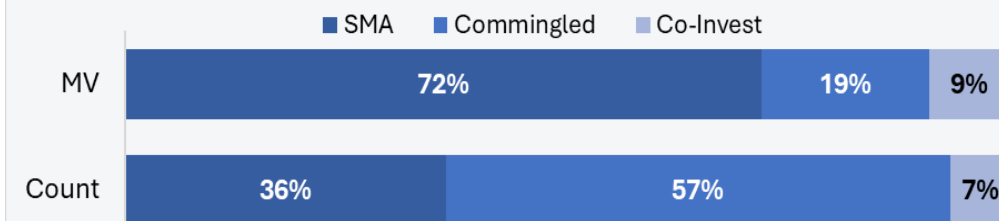
Emphasize flexible via Separately Managed Accounts (SMAs) targeting attractive risk/reward investments at scale.

- History of long-standing SMA relationships with high-conviction managers.
- Negotiate attractive customized mandates that enable the ability to lean into attractive opportunities.
- Emphasize scale with best-in-class partners.

Manager Concentration - by Market Value and Number of Managers



Structure - by Market Value and Number of Accounts





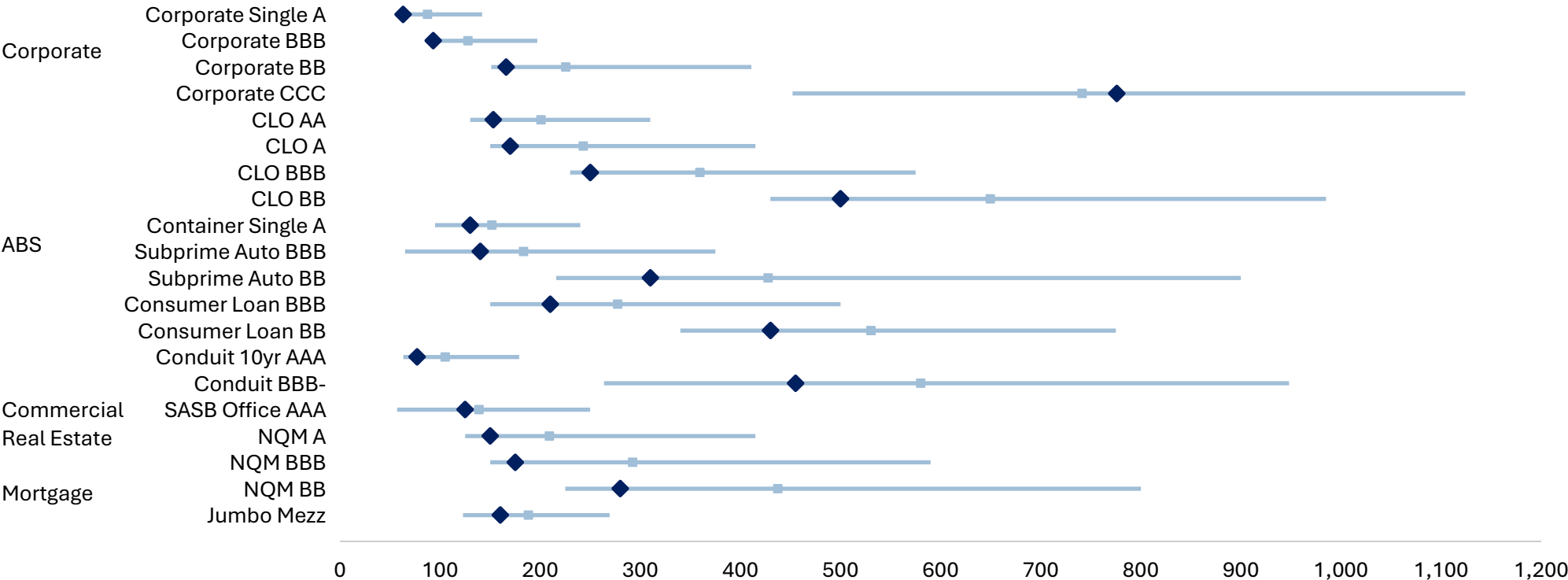
Market Environment – Current Spreads

Spreads are generally near historical tights.

Credit Spreads Across Markets

■ Spreads Range From: 07-2021 to 06-2026 ◆ Current Spread

Type



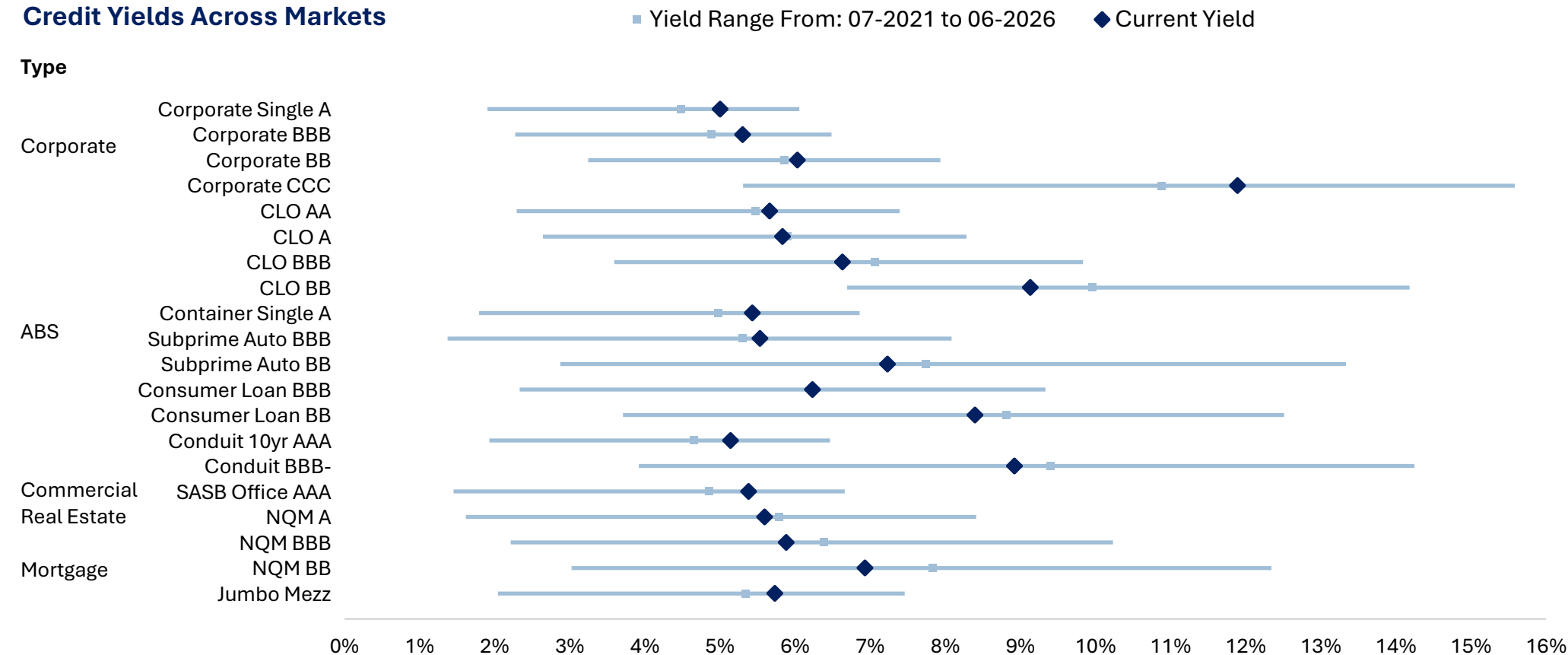
Source: Ares



Market Environment – Current Yields

Elevated yields supported by higher base rates despite tightness in spreads.

Credit Yields Across Markets



Source: Ares

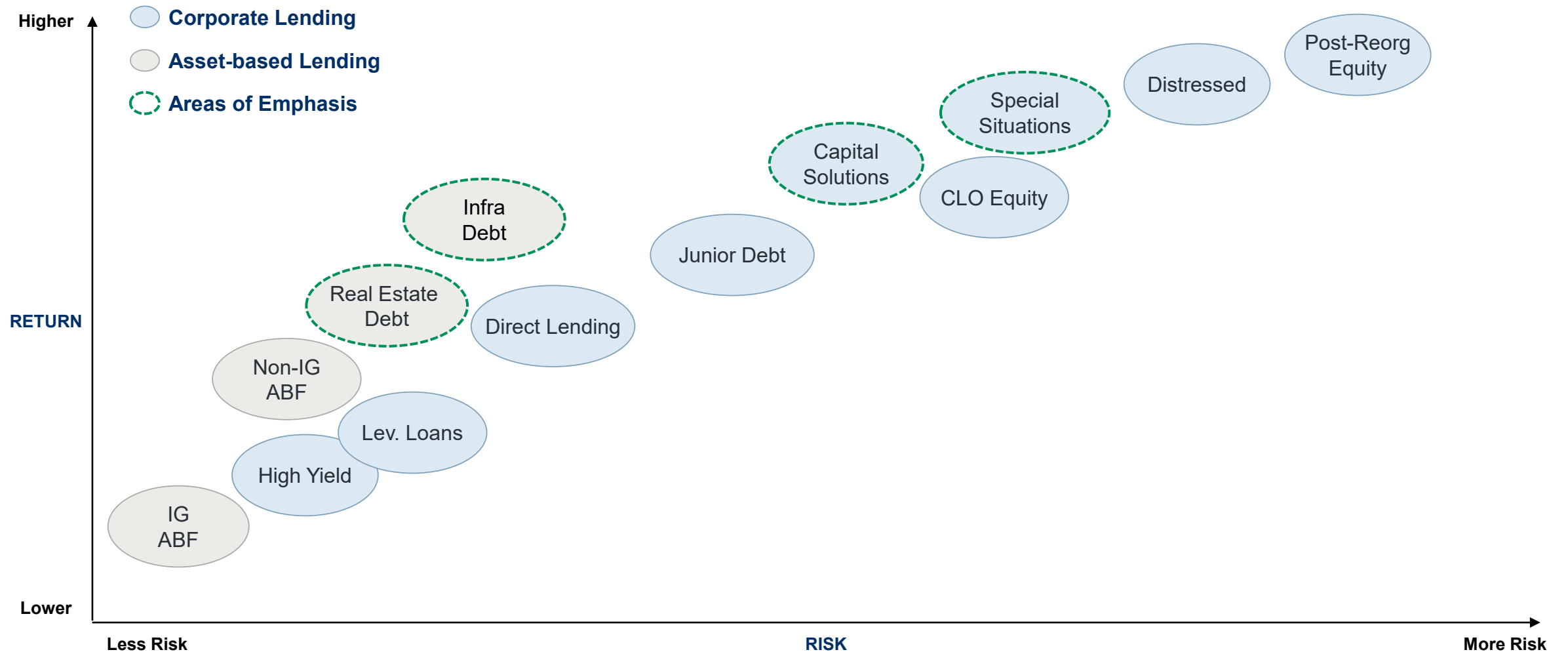


Market Observations

1. Credit spreads have tightened while absolute yields remain reasonable due to higher rates
2. Investor demand for Investment Grade rated commercial mortgage-backed securities (CMBS) has been strong
3. Expected higher volatility and new opportunities to emerge from the headlines in Private Credit (BDCs), Software, and the Middle East
4. Insurance related capital is creating market distortions and compressing spreads



Mapping of Select Corporate & Asset Based Opportunities





Areas of Emphasis

1. Infrastructure Debt
2. Commercial Real Estate Debt
3. Other Asset Backed Debt
4. Capital Solutions & Special Situations
5. Optimizing the portfolio for higher return targets
6. Leveraging our SMAs & Co-Investment Relationships
 - Accessing opportunistic investments
 - Building capacity for market dislocations
 - Seeding investment strategies



Areas of Deemphasis

1. Long / Short Credit Strategies
2. Select Segments of Corporate Credit
3. Commingled Vehicles
4. Generalists

Appendix



NORTH CAROLINA

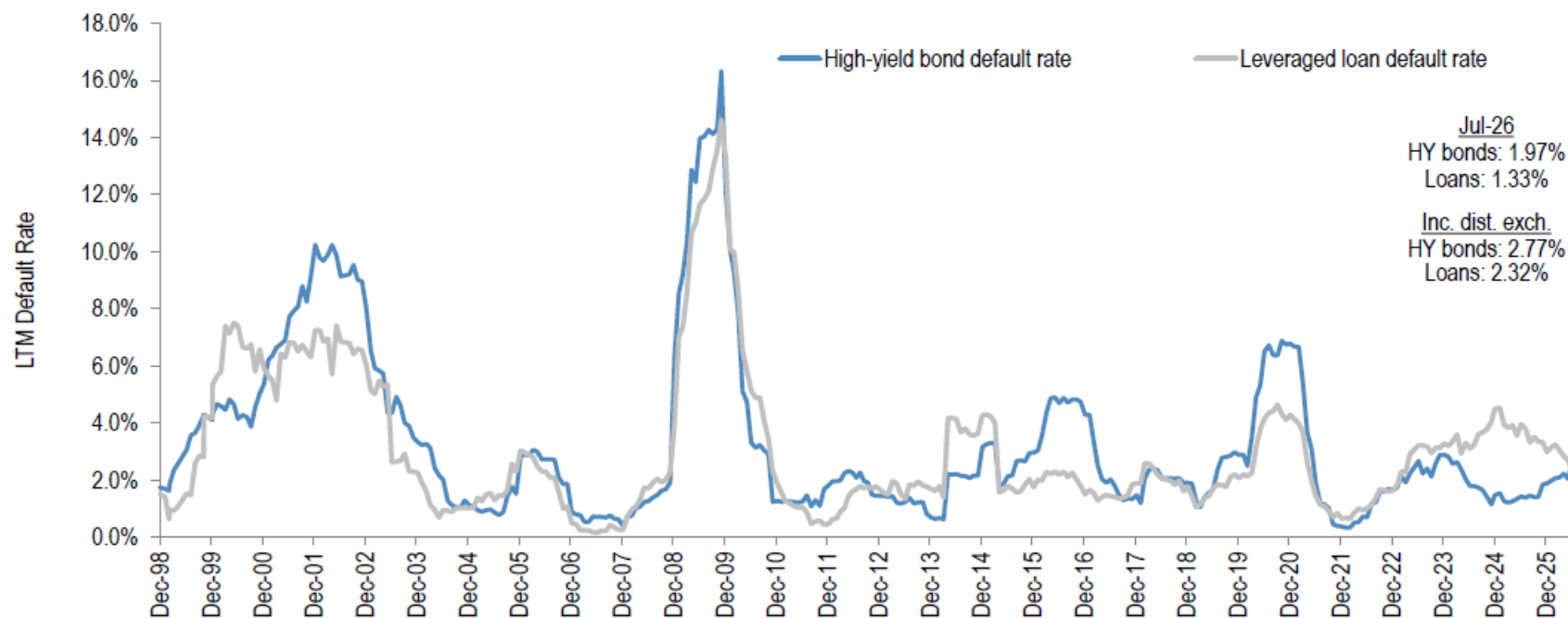
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Bradford B. Briner, State Treasurer and Chairman of the Board



High Yield Bonds and Leveraged Loans Default Rate

Defaults while grabbing many headlines are generally well-behaved within historical context.



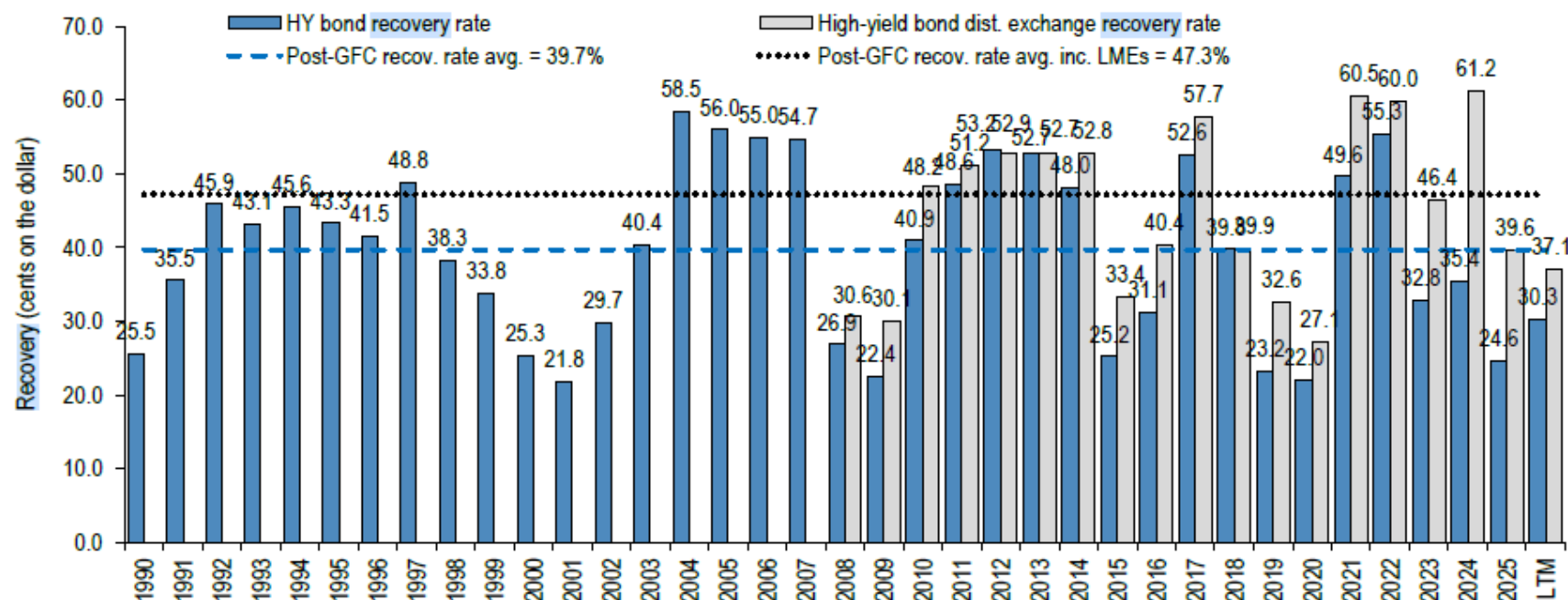
Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHS Markit

Note: Data as of 7/31/2026.



High Yield Bonds Recovery Rates

Recovery rates have trended downward in recently years, which is a concern.



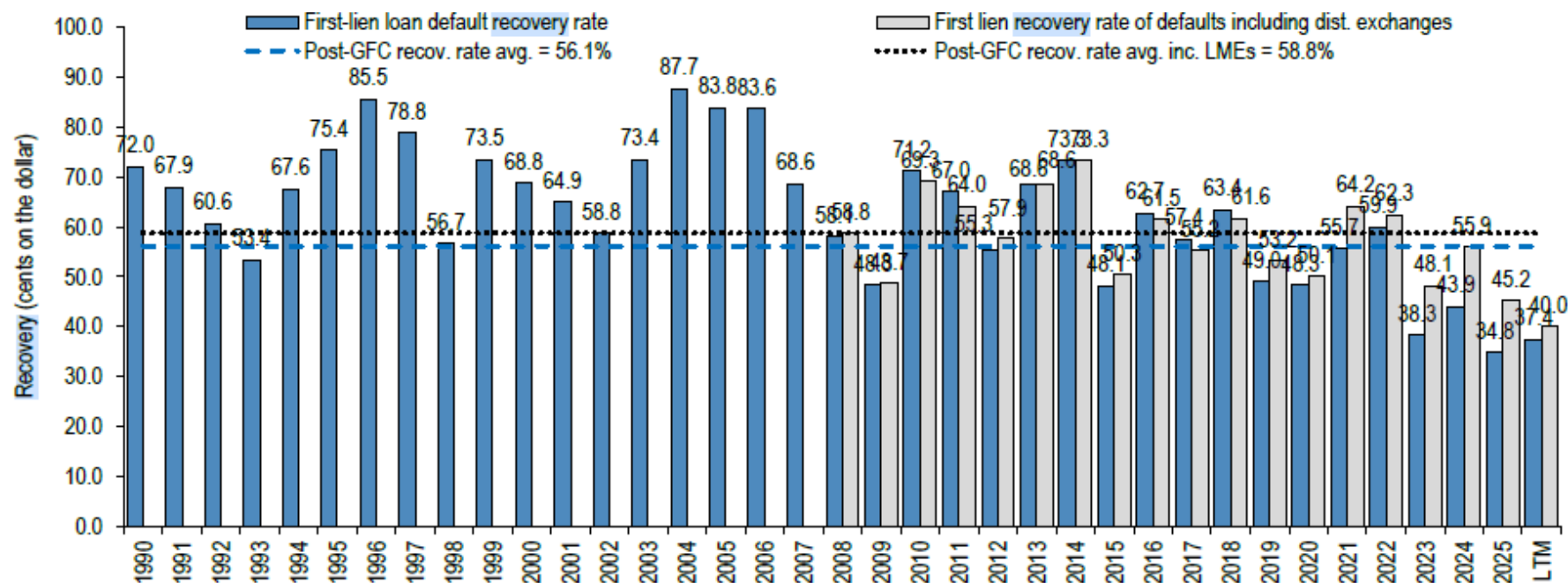
Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; Moody's Investors Service

Note: Data as of 7/31/2026.



Leveraged Loans Recovery Rates

Similar trends in leverage loans as high yield.



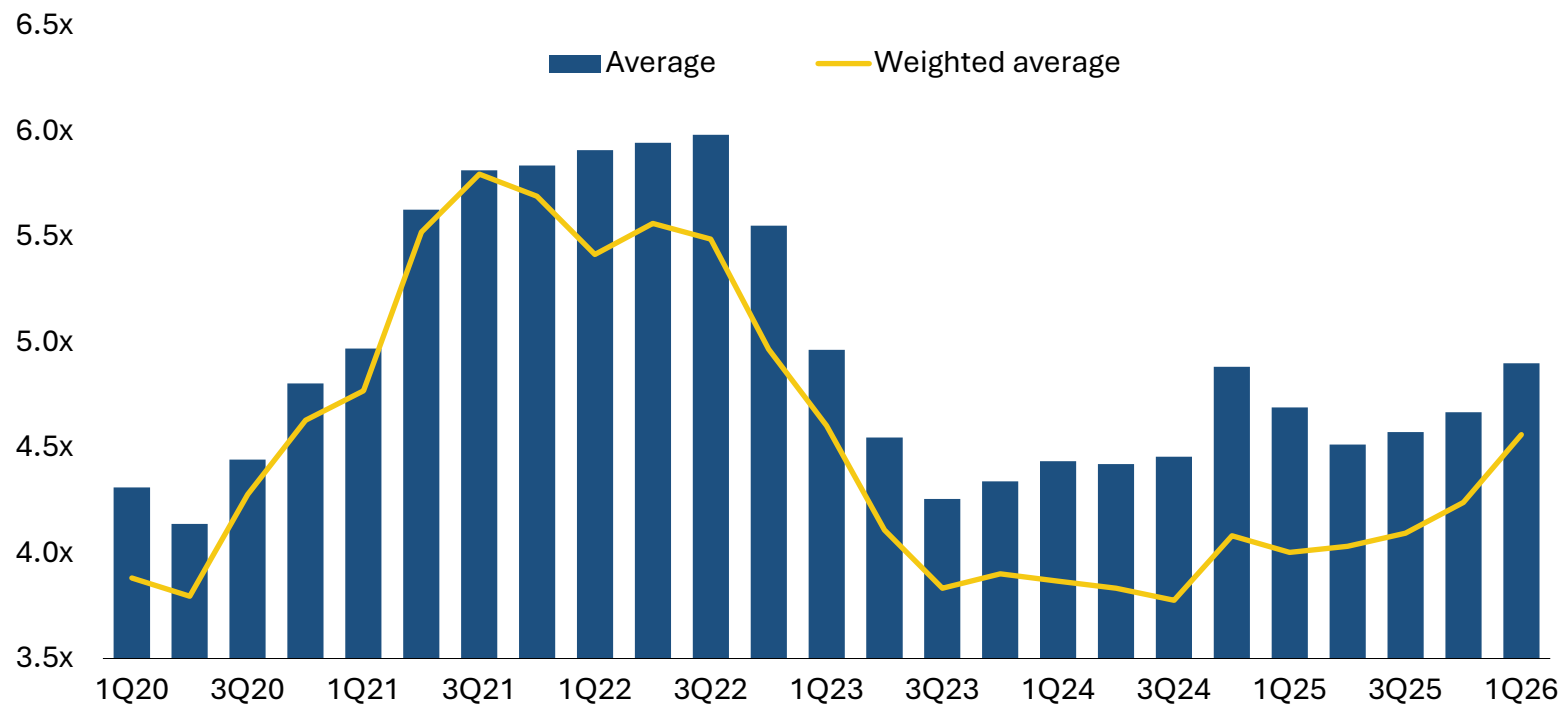
Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHS Markit Data, Inc; Moody's Investors Service

Note: Data as of 7/31/2026.



Leveraged Loan Interest Coverage Ratios

Interest coverage ratios are improving, a reflection of the resilient economy and generally healthy state of the corporate sector.

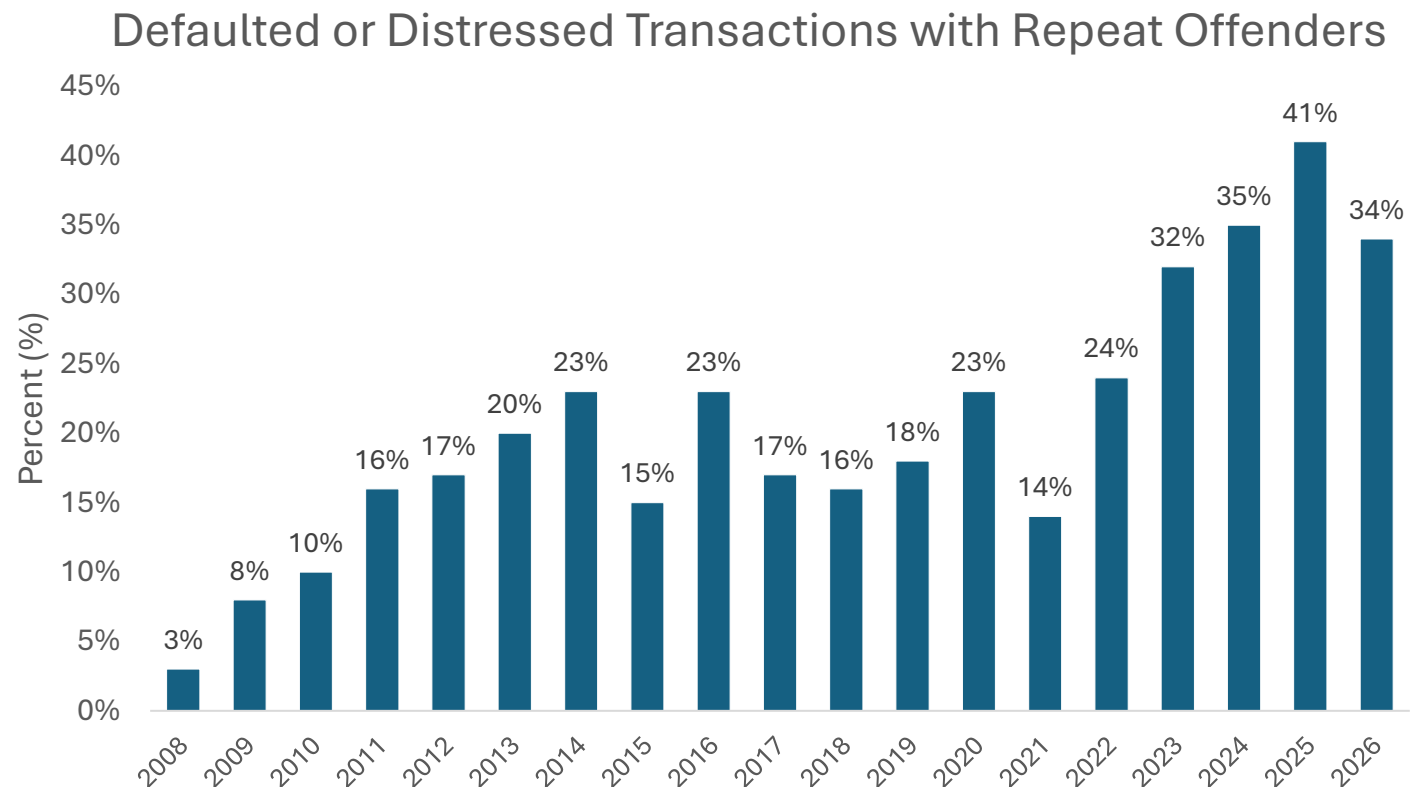


Source: PitchBook Data, Inc

Note: Data as of 3/31/2026. Interest coverage = LTM EBITDA / LTM Interest Expense.



Restructuring May Not Fix The Problem

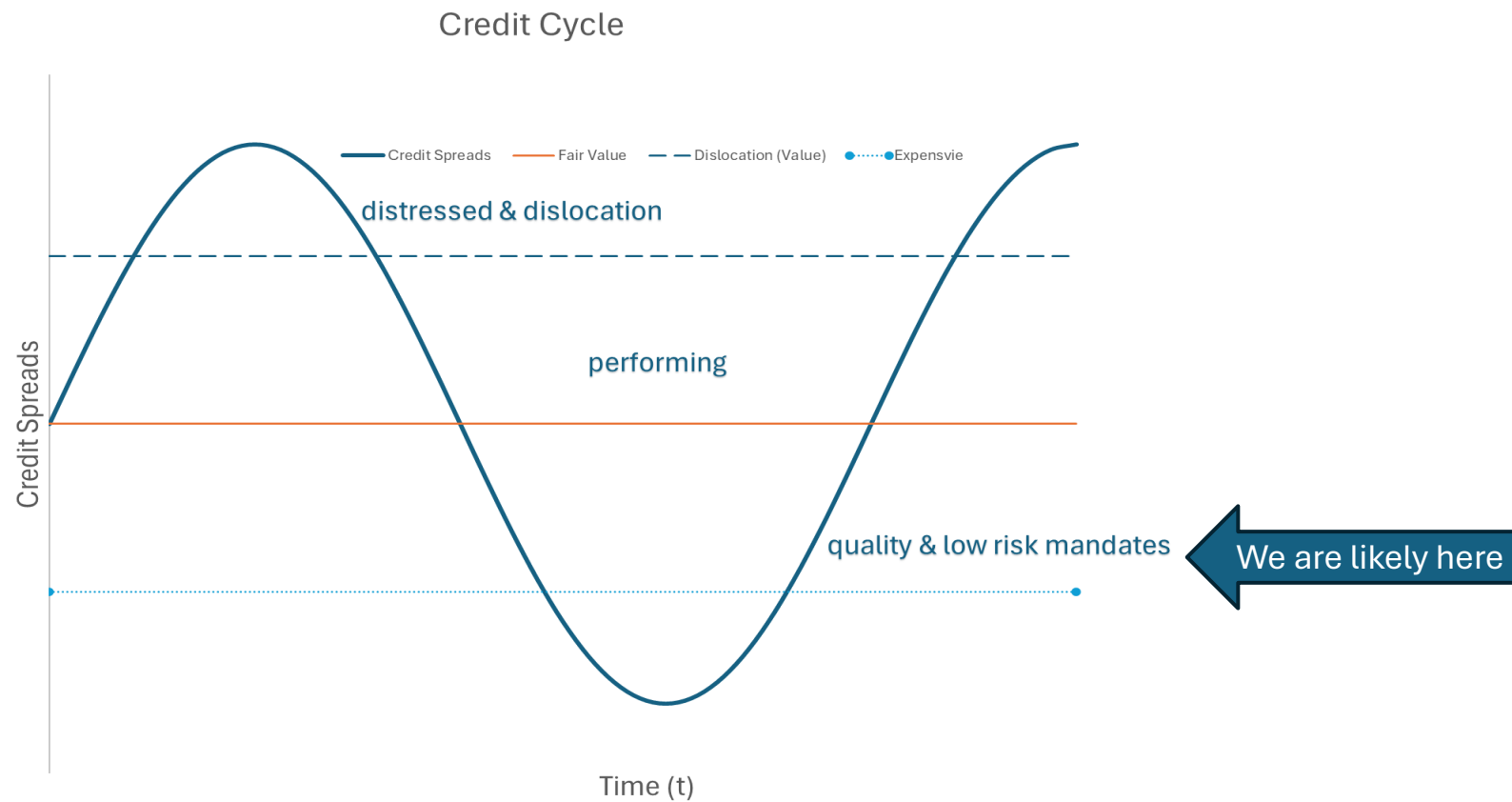


Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/HIS Markit Data, Inc

Note: Data as of 7/31/2026.



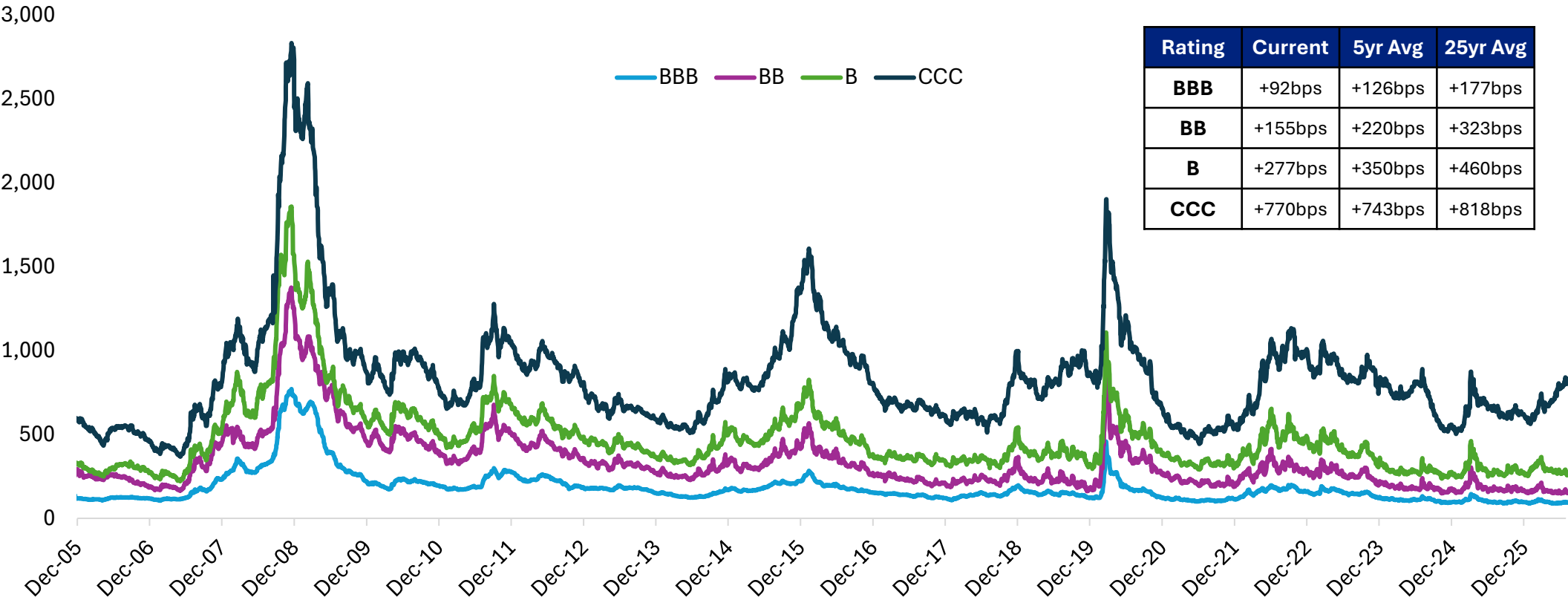
Allocating through a Credit Cycle





Market Environment - Credit Spread History for High Yield Bonds

BB / B HY spreads are at historical tight while CCC HY spreads closer to long-term averages.

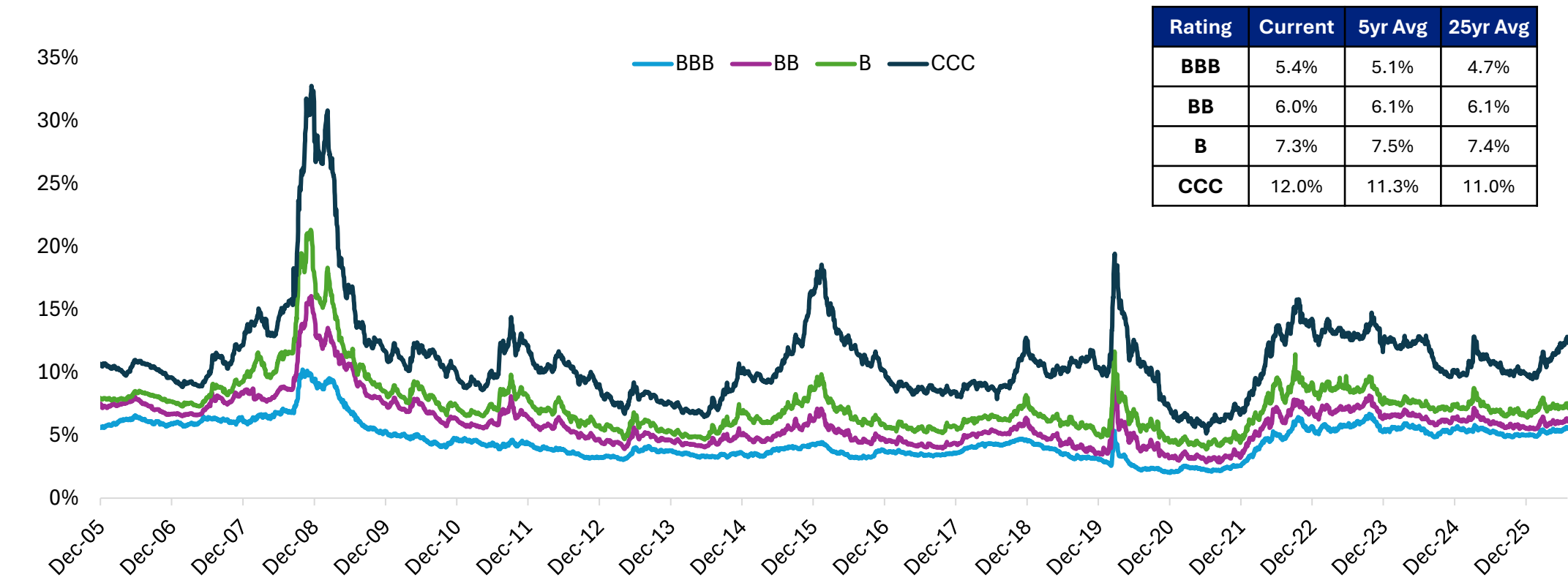


Source: Bloomberg (as of 6/30/2026)



Market Environment - Yield to Maturity History for High Yield Bonds

Yields are in-line with long-term averages.

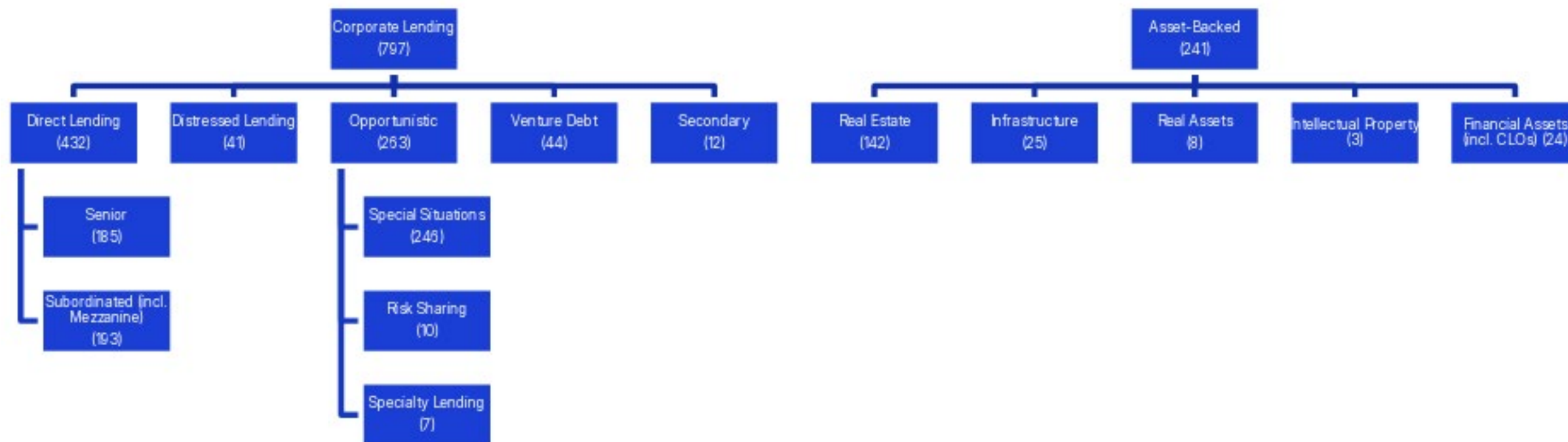


Source: Bloomberg (as of 6/30/2026)



Benchmark: MSCI Global Private Credit Index

NCIA Credit benchmark is mostly illiquid and has substantial exposure to higher risk credit strategies.



Source: MSCI Research Insight, titled "The MSCI Private Credit Factor Model", page 8, September 2025



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