

# NCIA POLICIES AND PROCEDURES

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<b>Chapter:</b>	<b>Board-Approved</b>
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## TABLE OF CONTENTS

I.	INTRODUCTION AND PURPOSE.....	2
II.	ROLES AND RESPONSIBILITIES.....	3
III.	INVESTMENT OBJECTIVES .....	4
IV.	STRATEGIC ASSET ALLOCATION AND PORTFOLIO CONSTRUCTION.....	5
V.	RISK MANAGEMENT AND CONTROLS.....	5
VI.	ASSET VALUATION.....	7
VII.	BENCHMARKING AND REPORTING REQUIREMENTS .....	8
VIII.	IMPLEMENTATION GUIDELINES.....	9
	APPENDIX 1: ASSET CLASS INVESTMENT STRATEGY AND GUIDELINES .....	11
	EQUITY .....	11
	CORPORATE EQUITY GUIDELINES .....	11
	REAL ASSET EQUITY GUIDELINES .....	12
	DEBT .....	14
	INVESTMENT GRADE GUIDELINES .....	14
	CREDIT GUIDELINES .....	15
	CASH GUIDELINES.....	16
	MULTI-STRATEGY .....	18
	APPENDIX 2: LIQUIDITY METHODOLOGY .....	19

# NCIA POLICIES AND PROCEDURES

## I. INTRODUCTION AND PURPOSE

### A. Program Overview

Pursuant to N.C.G.S. § 147-65.1.(7), the North Carolina Retirement Systems include the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, the Registers of Deeds' Supplemental Pension Fund, the Retiree Health Benefit Fund, and the North Carolina Teachers' and State Employees' Benefit Trust (collectively, "NCRS").

The North Carolina Investment Authority ("NCIA"), created under N.C.G.S. § 147-71.1, is responsible for establishing, maintaining, administering, managing, and operating investment programs for the NCRS assets and certain other funds (collectively, "NC Funds"). The Board of Directors ("Board") of the NCIA, consisting of five members, governs the NCIA and appoints the Chief Investment Officer ("CIO"). The CIO is responsible for managing and directing the NCIA's investment functions under the oversight of the Board.

All of the assets of the NCRS are invested in a single pool ("Pension Fund"), with the exception of the following:

1. **Registers of Deeds' Supplemental Pension Fund.** This fund is substantially overfunded (i.e., about 137% in the most recent actuarial valuation) and has only about 200 covered members. Thus, the fund is invested entirely in the AGPIP Bond Investment Fund which follows a passive index strategy that tracks the Bloomberg Barclays U.S. Aggregate Bond Index.
2. **Retiree Health Benefit Fund.** This fund is substantially underfunded (i.e., about 17% in the most recent actuarial valuation) and the General Assembly has not adopted a funding policy. Typically 70%-90% of this fund would be invested in the Pension Fund and the remaining portion would be invested in a Cash asset class vehicle meeting the guidelines described in Appendix 1 with the actual allocations (including other investments) determined from time to time by the CIO in consultation with the State Treasurer and Executive Administrator of the State Health Plan.

### B. Purpose of This Policy

The Board sets forth this Investment Policy Statement (this "Policy"). The CIO shall recommend revisions to this Policy to the Board on an as-needed basis. Pursuant to N.C.G.S. § 147-69.10(a), the Board shall review and approve this Policy no less frequently than biennially.

### C. Related Laws and Policies

The North Carolina Constitution provides that the Pension Fund shall be used solely for the provision of benefits to retirees and the payment of expenses related thereto (Article 5, § 6.(2)). State statutes list eligible investments for the Pension Fund, set maximum or minimum percentages of certain types of investments, (N.C.G.S. §147-69.2), and contain provisions regarding administration of the investment programs of the NCIA, including the Pension Fund. (N.C.G.S. § 147-69.3.)

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<b>NCIA Reference:</b>	<b>NCIA-POL-1000</b>	<b>Page 2 of 22</b>
<b>Title:</b>	<b>Investment Policy Statement for North Carolina Retirement Systems</b>	
<b>Chapter:</b>	<b>Board-Approved</b>	
<b>Current Effective Date:</b>	<b>February 25, 2026</b>	

---

# NCIA POLICIES AND PROCEDURES

The Board and NCIA staff are fiduciaries and are obligated to discharge their duties with respect to the Pension Fund in accordance with N.C.G.S. § 147-70.6, solely in the interest of the participants and beneficiaries of NCRS.

This Policy, other Board-Approved charters and policies, and CIO-Approved policies, taken together, are intended to cover all general matters concerning investment of the Pension Fund and replace all prior general investment policy statements for the Pension Fund. Additional policies, procedures, or desktop guides document certain matters that are highly specialized or routine in nature. If a conflict appears to exist between this Policy and any other policy, rule, procedure, or desktop guide, NCIA staff must contact the CIO and the General Counsel for resolution of the conflict.

## II. ROLES AND RESPONSIBILITIES

The statutory fiduciary responsibility to manage the Pension Fund in a prudent manner rests with the NCIA. The following is a summary of the allocation of the NCIA's core investment roles and responsibilities:

### A. NCIA Board of Directors ("Board")

1. Review and approve this Policy no less frequently than biennially (N.C.G.S. § 147-69.10(a))
2. Approve the Board Charter and the Charters and ethics policies listed in Board Charter Appendix 1, Table 1 (the "Board Policy Manual")
3. Approve the master global custodian bank appointment
4. Approve the annual certification of illiquid investments allocation (N.C.G.S. § 147-71.2(a)(6))
5. Approve the absolute risk operating range at least biennially (N.C.G.S. § 147-71.2(a)(4))
6. Approve investment actions exceeding Investment Committee delegation limits
7. Review investment performance and manager appointment/termination activities
8. Review investment strategies, policies, and tactical considerations
9. Review Asset liability studies
10. Review performance benchmarks and key risk indicators
11. Review audited investment financial statements and audit reports (N.C.G.S. § 147-69.9)
12. Review independent evaluations of governance, operations, and investment practices (N.C.G.S. § 147-69.10(b))
13. Review cost-effectiveness studies

### B. Chief Investment Officer ("CIO")

1. Recommend revisions to this Policy
2. Develop portfolio objectives, asset allocation targets, performance benchmarks (including the Implementation Benchmark, components, and methodology described in Section VII.C), and necessary investment policies
3. Tactical allocation of investment assets within Board-approved absolute risk operating range (N.C.G.S. § 147-71.2(a)(4))

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<b>NCIA Reference:</b>	<b>NCIA-POL-1000</b>	<b>Page 3 of 22</b>
<b>Title:</b>	<b>Investment Policy Statement for North Carolina Retirement Systems</b>	
<b>Chapter:</b>	<b>Board-Approved</b>	
<b>Current Effective Date:</b>	<b>February 25, 2026</b>	

---

# NCIA POLICIES AND PROCEDURES

4. Manage and direct NCIA administrative, personnel, budgeting, legal, operational, risk management, compliance, technology, and investment functions
5. Negotiate, renegotiate, and execute contracts with third parties (exceptions: custodian banks, external auditors require Board approval; legal services for litigation >\$10M require Board approval)
6. Provide Board with monthly and quarterly reports of investment activities, liquidity positioning, and key risk indicators

## C. Investment Committee

1. Approve new investment transactions, defundings, secondary transactions, and terminations of investment managers, funds, and vehicles, subject to limits described the Investment Committee Charter (i.e., any investment actions exceeding the limits require Board approval pursuant to N.C.G.S. § 147-72.1(d))
2. Approve strategic transitions and interim rebalancings up to 4% of NCRS assets

## D. Other Parties

1. Investment fiduciaries are delegated authority by the NCIA to invest portions of the Pension Fund (e.g., external and internal investment managers, general partners, transition managers, securities lending agents, etc.)
2. Trustees and Custodian provide safekeeping of Pension Fund assets and other services (e.g., accounting, settlement, tac reclaims, performance measurement, etc.)
3. Financial advisers and intermediaries provide a broad array of investment-related services (e.g., valuation agents, proxy advisors, attorneys, tax advisors, broker/dealers and other trading counterparties, etc.)
4. Investment consultants are utilized from time-to-time by the NCIA to provide research and advice on governance, investment policies, strategy, investment managers, risk management, operations, etc.

## III. INVESTMENT OBJECTIVES

The Board establishes the following primary investment objectives:

1. **Full Funding.** Provide investment returns sufficient for the Pension Fund to make timely payment of statutory benefits to current and future members and keep contribution rates at a reasonable level over the long term. To achieve this, long-term projected investment returns shall be generally consistent with the actuarial assumed rate of return, unless otherwise determined by the Board<sup>1</sup>
2. **Risk.** Maintain an absolute risk level<sup>2</sup> that is appropriate in seeking to maximize long-term returns; is

<sup>1</sup> The NCRS' actuary advises the applicable Retirement Boards of Trustees with respect to setting the actuarial assumed rate of return. The Retirement Boards of Trustees have been granted the authority by the General Assembly to set the actuarial assumed rate of return for the Fund, which is currently 6.5%.

<sup>2</sup> Pursuant to N.C.G.S. § 147-71.2(a)(4)), the Board approves an absolute risk operating range expressed in equity and debt allocation equivalency terms that meets certain statutory criteria. For the avoidance of doubt, Table 1 contains the Board approved absolute risk operating range.

# NCIA POLICIES AND PROCEDURES

not considered undue relative to other similarly situated U.S. public pension funds; and appropriately considers all of the factors affecting the funding of the NCRS and each of the NCRS component funds’ ability to meet its financial obligations

3. **Value-Add.** Exceed performance benchmarks’ returns for the Pension Fund, net of all fees and expenses, over the long-term within reasonable risk limits and over market cycles
4. **Compliance.** Maintain compliance with all governing statutes, regulations, fiduciary obligations, and policies

## IV. STRATEGIC ASSET ALLOCATION AND PORTFOLIO CONSTRUCTION

A “Strategic Asset Allocation” shall be established through consideration of the Pension Fund’s projected actuarial liabilities, liquidity needs, risk tolerance, and the role that different asset categories and strategies are expected to play in the overall portfolio construction. The Strategic Asset Allocation shall be reviewed no less than annually and a detailed asset-liability study shall be conducted every 1 – 3 years, assuming that benefit design and funding policy is unchanged. The current Strategic Asset Allocation, consisting of targets and authorized ranges, is detailed in Table 1.

**Table 1: Strategic Asset Allocation Targets and Policy Ranges**

Asset Class Categories	Minimum	Targets	Maximum
<b>Equity</b>	<b>55%</b>	<b>62%</b>	<b>75%</b>
<i>Corporate Equity</i>	<i>23%</i>	<i>44%</i>	<i>66%</i>
<i>Real Asset Equity</i>	<i>6%</i>	<i>18%</i>	<i>28%</i>
<b>Debt</b>	<b>25%</b>	<b>35%</b>	<b>45%</b>
<i>Investment Grade</i>	<i>15%</i>	<i>25%</i>	<i>37%</i>
<i>Credit (Non-Investment Grade)</i>	<i>3%</i>	<i>9%</i>	<i>14%</i>
<i>Cash</i>	<i>0%</i>	<i>1%</i>	<i>5%</i>
<b>Multi-Strategy</b>	<b>0%</b>	<b>3%</b>	<b>10%</b>

Note: Statutory compliance illiquidity limitations and considerations are described below in Section V, Paragraph D.

## V. RISK MANAGEMENT AND CONTROLS

A Pension Fund enterprise risk management program, considering both key investment and operational risks, will be executed to promote the likelihood that the Pension Fund’s investment objectives will be achieved over the long term. The following describes primary aspects of the investment risk-management program:

- A. **Risk Budget.** The CIO shall monitor risk metrics against certain standards (i.e., expected ranges) over various time horizons for regular review with the Board. Monitoring shall occur with ex post and ex ante measurements utilizing various risk systems and vendors. It is understood that there will be periods during

## NCIA POLICIES AND PROCEDURES

which the Pension Fund’s risk profile will deviate from the expected ranges in Table 2 due to market events and/or active positioning. To the extent deviations from the expected ranges are persistent and material the CIO will discuss with the Board underlying drivers and any recommended risk management actions. Other policies may be adopted by the CIO to further define monitoring standards and management escalation processes.

**Table 2: Risk Budget Key Risk Indicators and Expected Ranges (for various horizons)**

Key Risk Indicators	3 Years	5 Years	10 Years
Excess Returns vs Actuarial Return	-4.0% to 4.0%	-3.0% to 3.0%	-1.5% to 3.0%
Excess Returns vs Reference Portfolio	-1.0% to 2.0%	-1.0% to 2.0%	-0.5% to 1.0%
Volatility	7.0% to 10.0%	7.0% to 10.0%	8.0% to 10.0%
Tracking Error	3.0% to 4.0%	3.0% to 4.0%	3.0% to 4.0%
Sharpe Ratio	-0.1 to 0.9	0.0 to 0.7	0.1 to 0.6
Information Ratio	-0.3 to 0.5	-0.2 to 0.4	-0.1 to 0.3
Blended Funded Ratio (TSERS/LGERS)	85% to 100%	80% to 105%	80% to 125%
CVAR Blended Funded Ratio (TSERS/LGERS)	65% to 90%	65% to 95%	65% to 95%

\* **Note:** These Expected Ranges were developed from asset liability modeling at a point in time and may have limitations if there are large and persistent economic and geopolitical regime shifts.

**B. Fund Rebalancing.** A disciplined rebalancing policy is an important investment risk-management tool that can occur through the ongoing natural cash flows of the Pension Fund, relative valuation changes, and asset liquidations and transfers.

1. **Interim Rebalancing.** Should the actual asset allocation for any asset class category (e.g., at Corporate Equity level) fall below or exceed a boundary of +/- 3% relative to its Target Allocation in Table 1 for a period exceeding five (5) business days, the Chief Risk & Operating Officer shall report the deviation to the Investment Committee, including any recommendation for subsequent investment action.<sup>3</sup>
2. **Outside Policy Range.** Investment strategies or market conditions that result in an actual asset allocation beneath the minimum or above the maximum listed in Table 1 for a period exceeding five (5) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action. The Board must approve maintaining a position of more than 1% of the Pension Fund outside of an allowable allocation range if it persists for more than 4 weeks
3. **Suspensions of Interim Rebalancing.** On occasion, it may not be prudent to immediately initiate rebalancing; (e.g., during a transition to the Strategic Asset Allocation following an Asset

<sup>3</sup> Note: the Board may approve a transition to a new Strategic Asset Allocation following an Asset Liability Study that suspends the interim rebalancing requirements.

# NCIA POLICIES AND PROCEDURES

Liability Study or due to concerns about unacceptable losses resulting from liquidation of investments or concerns that exceptional market volatility might require reversal of the action). Therefore, notwithstanding any other provision of this Policy, the Investment Committee may authorize a suspension of interim rebalancing, provided that the pacing plan is on track to remedy the deviation from policy. For liquid asset classes, any such authorization shall cover a time period no more than six (6) months long. At the end of that period, and after subsequent periods, the Investment Committee may authorize another six-month suspension period if circumstances warrant. Any suspensions of interim rebalancings, for either liquid or illiquid asset classes, will be reported to the Board at their next quarterly meeting.

4. NCIA may utilize physical securities and derivatives, including options, to accomplish rebalancing to the extent otherwise consistent with applicable statutes and this Policy.
- C. **Cost-effectiveness.** NCIA shall actively pursue cost-effectiveness relative to investment objectives, peers, industry benchmarks, and sources of value-add investment performance.
  - D. **Liquidity.** Pursuant to N.C.G.S. § 147-69.2.(b)(10b), the market value of the Pension Fund's illiquid investments shall not exceed forty percent (40%) of the market value of all invested assets. Appendix 2 describes the methodology for assessing the current liquidity and illiquidity of the Pension Fund investments. The CIO will quarterly provide the Board sufficient reporting for the Board to meet the liquidity monitoring duties set out in N.C.G.S. § 147-71.2(a)(6).
  - E. **Asset Class Guidelines.** Appendix 1 contains high-level asset class guidelines to govern operations and help manage risk. The CIO may establish more detailed policy guidelines and adjust such over time based on various factors including changing investment objectives, peer practice, market conditions, policy benchmarks, statutory revisions, emergence of new investment products or asset classes, expected returns/risks, and liquidity. The Investment Committee is authorized to review and accept waivers to the guidelines in Appendix 1 so long as prudent and not in violation of applicable statutes or regulation.
  - F. **Compliance.** NCIA shall implement regular and independent compliance procedures to ensure ongoing adherence with the requirements of statutes, regulations, policies, procedures, rules, guidelines and contractual agreements.

## VI. ASSET VALUATION

Generally accepted accounting principles require investments to be reported at fair value, which is currently defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Pension Fund's custodian is the primary valuation agent for publicly traded securities directly held in its accounts using market prices from nationally recognized third-party vendors. Short-term cash investments are typically carried at amortized cost as established by the custodian. Generally, NCIA will rely on the valuation of investments as reported by the investment managers for commingled and non-public market vehicles (e.g., in accordance with ASC 820 or IFRS equivalent) and will regularly monitor the asset valuation practices used by investment managers. The NCIA may engage valuation agents and advisors to assess current fair market value of private investments.

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<b>NCIA Reference:</b>	<b>NCIA-POL-1000</b>	<b>Page 7 of 22</b>
<b>Title:</b>	<b>Investment Policy Statement for North Carolina Retirement Systems</b>	
<b>Chapter:</b>	<b>Board-Approved</b>	
<b>Current Effective Date:</b>	<b>February 25, 2026</b>	

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# NCIA POLICIES AND PROCEDURES

## VII. BENCHMARKING AND REPORTING REQUIREMENTS

The NCIA's custodian shall independently calculate rates of return, in compliance with industry standards, and maintain performance benchmarks and historical data to reasonably assess Pension Fund performance. Custodian, staff, and consultant reports shall regularly compare net of fees managed rates of return to performance benchmarks, as applicable. Such reports shall be designed to facilitate monitoring risk factors and to evaluate compliance with asset allocation targets, asset valuation, portfolio guidelines, statutory requirements, and performance for the Pension Fund and subcomponents.

Three total plan performance benchmarks shall be used to measure the relative performance of the Pension Fund and its risk-adjusted returns. These benchmarks shall be reviewed no less than biennially. They are as follows:

- A. **Actuarial Assumed Rate of Return** The Retirement Boards of Trustees have been granted the authority by the General Assembly to set the actuarial assumed rate of return for the Fund, which is currently 6.5%.
  
- B. **Reference Portfolio Benchmark.** This benchmark shall be used to compare the performance of the Fund to a low cost, passive, publicly traded portfolio that represents the Fund's broad allocations to the core drivers of risk and return. It shall be comprised of the following:
  - 1. 65% MSCI All Country World Investable Market Index, in dollar terms, net of withholding taxes on non-resident institutional investors; and
  - 2. 35% ICE BofA 5+ Years U.S. Treasury Index.
  
- C. **Implementation Benchmark.** Design, maintenance and updating of this benchmark and underlying asset class category benchmarks are delegated to the CIO who shall consider the following:
  - 1. The Implementation Benchmark may apply transitory floating asset allocation weights of the Pension Fund during transition to the Strategic Asset Allocation in Table 1. The goal is to adopt fixed weights as such a transition materially finishes.
  - 2. The asset class category benchmarks are to be broadly diversified, approximate the investable universe modeled in the Asset Liability Study and are generally accepted within the institutional investment industry (i.e., will generally avoid customizations
  - 3. For new asset class categories, return histories and applicable benchmarks may be calculated by the Custodian to ensure a comprehensive track record exists.

The Chief Risk and Operating Officer shall recommend for the Investment Committee's review and the CIO's approval the components of the Implementation Benchmarks and related methodology. The CIO is responsible for maintaining documentation to provide sufficient transparency to the Board and for third-party reviews.

# NCIA POLICIES AND PROCEDURES

## VIII. IMPLEMENTATION GUIDELINES

- A. **Competition for Capital.** In pursuit of the Pension Fund investment objectives, the Investment Committee shall prioritize competition for capital across and within asset classes and utilize a team-oriented approach to improve collaboration and portfolio construction. This competition is applicable to existing and new investments and should consider the 12-18 month expected market and economic environments, relative valuations, available vehicles and capacity, cost-effectiveness, illiquidity, and risk dimensions. Performance and liquidity potential of existing investments will be regularly reviewed relative to alternative uses of the capital.
- B. **Active Management.** All asset classes are to be invested to achieve or exceed the return on their respective benchmarks over the long-term with the following considerations:
1. Public market asset classes' reliance on active strategies and degree of deviation from benchmarks should be low to reflect the relatively high efficiency in underlying securities markets and ongoing total fund liquidity requirements.
  2. Private market asset classes may use diversified public market strategies for "staging portfolios," but otherwise the emphasis should be to maximize access to attractive investment opportunities that have sufficient scale to materially impact the Pension Fund's expected risk and return profile. Business partners should have appropriate:
    - a. Financial, operational, and investment expertise and resources
    - b. Alignment of interests and governance
    - c. Transparency and repeatability of investment process
    - d. Controls on leverage
- C. **Internal and External Management.** In assessing whether to invest portions of the Pension Fund internally versus externally, the NCIA will consider material factors it considers relevant to this fiduciary decision, including financial, operational, and investment expertise and resources, alignment of interests and investor protections, risk controls, cost-effectiveness, transparency, strategic rationales and repeatability of investment process.
1. **Internal Management.** The benefits of internal investment management include lower investment costs, liquidity, control, and transparency. The Pension Fund's internal investment management is expected to expand in scope over time from predominantly passive and low active-risk public market securities portfolios to an increasing reliance on higher active risk portfolios and co-investments and direct investments in private markets. Internally managed accounts will be subject to industry standard investment guidelines reviewed with the Investment Committee and approved by the CIO.
  2. **External Management.** All external managers will have a fiduciary responsibility with respect to the Pension Fund assets under their management. The terms and conditions of the investment relationship shall be governed by the set of investment documents specific to the investment. The external managers shall operate within an established set of guidelines with the objective of achieving or exceeding their specific benchmark, net of fees and expenses, within reasonable risk parameters.

## NCIA POLICIES AND PROCEDURES

- D. **General Guidelines for Asset Classes.** The following are general guidelines that apply to each Asset Class for risk-management purposes and to implement certain core beliefs. More specific guidelines are in Appendix 1.
1. **Investment Vehicles.** Fund investments may be made through any structure permitted by N.C.G.S. § 147-69.2, including investment management agreements, separately managed limited partnerships, commingled limited partnerships, limited liability companies or other limited liability investment vehicles, or open and closed-end commingled investment vehicles. Fund-of-fund vehicles may be utilized, but only under exceptional circumstances or highly specialized mandates.
  2. **Investor Protections, Transparency, and Alignment.** NCIA shall seek protections, transparency, and alignment by negotiating preferred terms with investment managers and using customized vehicles wherever prudent (i.e., to enhance cost-effectiveness, mitigate risk of misalignment, ensure the safekeeping of assets, and provide accurate, timely, and transparent valuation and monitoring of assets and performance). NCIA may restrict any investment manager from making certain investments based on state or federal law, state policy, or NCIA directives.
  3. **Diversification.** Diversification is important in managing both portfolio and liability risk and achieving superior risk-adjusted returns across diverse financial market environments. **However, the public market asset classes provide such strong diversification to the Pension Fund that the private market asset classes should focus principally on obtaining attractive performance with more idiosyncratic risk.** The expectation is that the number of private market manager relationships, co-investments, and direct investments will become more concentrated through larger commitments and exiting of legacy relationships that are no longer active.
  4. **Geography.** Unless otherwise prohibited by federal or state law or regulations, the Pension Fund may invest in issuers, vehicles, or strategies domiciled within and/or outside the U.S.
  5. **Leverage.** Leverage is authorized unless prohibited. NCIA shall review and monitor the use of leverage to determine reasonableness in the context of investment strategy and contribution to risk. Dedicated short-only strategies are not authorized, although transitory aggregate net short exposures at an individual fund level will occur from time to time due to managers tactically positioning for extraordinary market environments or other situations that may be fund specific (e.g., wind-down).
  6. **Pacing Plans.** At least every 18 months, a Pacing Plan will be produced for the Pension Fund. Market opportunities and competition for capital across asset classes will play an important role in determining projected allocations to fund commitments, co-investments and direct investments, as well as analyzing which existing relationships and investments should be exited to enhance outcomes through alternative uses of the capital. The Pacing Plan will also consider strategic issues unique to specific asset classes investment programs (e.g., Where will we compete? How will we win? etc.).
  7. **Securities Lending.** A securities lending program(s) designed to earn incremental income by taking advantage of the market demand for held securities may be utilized. The incremental income can help offset custodial costs and improve the overall return on Pension Fund assets.
  8. **Transition Management.** NCIA shall maintain and periodically update a pool of firms that are able to evaluate and conduct asset transitions.
  9. **Corporate Governance.** The CIO shall approve a separate policy addressing proxy voting, shareholders' resolutions, engagement with corporate leaders and regulatory agencies, and collaboration with other institutional investors.

# NCIA POLICIES AND PROCEDURES

## APPENDIX 1: ASSET CLASS INVESTMENT STRATEGY AND GUIDELINES

### EQUITY

The current Strategic Asset Allocation, consisting of targets and authorized ranges for the Equity category and asset class subcomponents, is detailed in Table 3.

**Table 3: Strategic Asset Allocation Targets and Policy Ranges: Equity Categories**

Asset Class Categories	Minimum	Targets	Maximum
<b>Equity</b>	<b>55%</b>	<b>62%</b>	<b>75%</b>
<b>Corporate Equity</b>	23%	44%	66%
<i>Public Equity</i>	20%		48%
<i>Private Equity</i>	3%		18%
<b>Real Asset Equity</b>	6%	18%	28%
<i>Real Estate</i>	3%		10%
<i>Infrastructure and Natural Resources</i>	3%		18%

### CORPORATE EQUITY GUIDELINES

#### I. TYPICAL INVESTMENTS

Examples include common stock, preferred stock, or other equity-related securities. Also, buyout, venture capital, growth equity, private special situations, and hedge fund vehicles through external managers including both pooled vehicles and customized separately managed accounts domiciled in the U.S. or elsewhere. Investments may be made regardless of market capitalization, style categories, currency denomination, and domicile of issuer. Internal management may consist of public markets strategies, private co-investments and direct investments, and hybrids of any of the foregoing.

#### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in corporate equity to accomplish the following objectives:

- A. **Attractive Absolute Returns.** Achieve long-term global equity market risk premiums in a low-cost manner through Public Equity long-only and long-biased mandates with the potential for modest value-add returns. Private Equity Investments are expected to produce long-term returns materially in excess of public market risk premiums, sufficient to compensate the Pension Fund for the higher degree of idiosyncratic risk, smaller company equity exposure, higher portfolio company leverage, and complexity.
- B. **Diversification.** The Public Equity asset class will provide strong global diversification to the Pension Fund, while the Private Equity asset class will seek materially higher idiosyncratic risk with limited

# NCIA POLICIES AND PROCEDURES

emphasis on industry, sector, and geographical diversification.

- C. **Flexible Access to Deal Flow.** Public and private corporate equity investments are increasingly part of a connected ecosystem, so a nimble and coordinated engagement with public equity, private equity, and hedge fund relationships will promote access to the most attractive risk-adjusted corporate equity investments.

## III. SPECIFIC INVESTMENT GUIDELINES

### A. Asset Class Permissible Allocations.

#### Public Equity

Subcomponents	Minimum	Maximum
Long-Only	70%	100%
Other	0%	30%

#### Private Equity

Subcomponents	Minimum	Maximum
Growth and Venture Capital	10%	50%
Buyout	30%	80%
Other	0%	30%

Note that 1) Direct Investments, 2) Co-Investments and 3) Continuation Vehicle investments that are not part of a secondary blind pool will be allocated to Growth and Venture Capital or Buyout strategies based on the targeted company characteristics.

## REAL ASSET EQUITY GUIDELINES

### I. TYPICAL INVESTMENTS

Examples include commodities-related instruments, common stock, preferred stock, or other equity-related securities with direct or indirect exposure to real estate, infrastructure, natural resources or other real assets, along with related services, intellectual property, technology, and other assets with valuations directly linked to real assets. Equity interests may be direct undivided (i.e., wholly owned) or financed, and may include ownership in real assets, joint ventures, operating companies, co-investments, direct investments, publicly traded entities or other private entities, including pooled vehicles and customized separately managed accounts domiciled in the U.S. or elsewhere. Debt investments are discouraged, as they are prioritized for the Credit asset class, unless they are either acquired in distressed assets where debt securities are expected to be equitized through covenant mechanisms or required to prudently support an existing equity investment. Internal management may consist of public markets strategies, private co-investments and direct investments, and hybrids of any of the foregoing.

### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in real assets equity to accomplish the following objectives:

- A. **Attractive Absolute Returns.** Long-term returns (including appreciation and income returns) that are competitive with long-term public market equity returns and sufficient to compensate the

---

NCIA Reference:	NCIA-POL-1000	Page 12 of 22
Title:	Investment Policy Statement for North Carolina Retirement Systems	
Chapter:	Board-Approved	
Current Effective Date:	February 25, 2026	

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# NCIA POLICIES AND PROCEDURES

Pension Fund for the higher degree of idiosyncratic real asset risks, leverage, and illiquidity. This objective includes investing opportunistically and with market cycle sensitivity over the long term.

- B. **Diversification.** Certain real estate, infrastructure, and natural resource investments will generate high cash operating yields that are contractual and will diversify corporate equity exposure with the added potential for returns from active asset management.
- C. **Inflation Protection.** Provide some degree of protection against inflation risk due to contractual or regulatory escalators at the asset or operating company level, as well as exposure to commodity prices (albeit may be partially hedged).

### III. SPECIFIC INVESTMENT GUIDELINES

#### A. Asset Class Permissible Allocations.

##### Real Estate

Subcomponents	Minimum	Maximum
Private Equity Real Estate	20%	90%
Public Equity Real Estate Securities	10%	50%
Other	0%	30%

##### Infrastructure and Natural Resources

Subcomponents	Minimum	Maximum
Private Equity Infrastructure	20%	75%
Public Equity Infrastructure	10%	50%
Public Equity Natural Resources or Commodities	0%	50%
Private Equity Natural Resources	0%	50%
Other	0%	30%

- B. **Leverage.** Leverage shall be monitored against standards in the following table, recognizing that the standards are not limits, are assessed against the composite of all members of the subcomponent and that commingled vehicles utilized will primarily provide discretion to the general partners and managing members for individual vehicles' leverage levels. Leverage will also be monitored to determine reasonableness in the context of investment strategy and contribution to risk by considering tenor, refinancing risk, covenants, collateralization, and alignment.

Subcomponent and Vehicle Type	Leverage Monitoring Standard
Private Equity Core Real Estate, ODCE Funds	20% - 30% GAV
Private Equity Core Real Estate, Pooled Vehicles and Separate Accounts	40% - 55% LTV
Public Equity Real Estate (i.e., underlying REITS)	30% - 40% GAV
Private Equity Core Plus/Value-Add Real Estate	55% - 65% LTV
Private Equity Opportunistic Real Estate	65% - 75% LTC
Private Equity Real Estate, Subscription Facility	20% - 25% of LP capital commitments and max period outstanding per draw of 90-120 days

# NCIA POLICIES AND PROCEDURES

## DEBT

The current Strategic Asset Allocation, consisting of targets and authorized ranges for the Debt category and asset class subcomponents, is detailed in Table 4.

**Table 4: Strategic Asset Allocation Targets and Policy Ranges: Debt Categories**

Asset Class Categories	Minimum	Targets	Maximum
<b>Debt</b>	<b>25%</b>	<b>35%</b>	<b>45%</b>
<i>Investment Grade</i>	<i>15%</i>	<i>25%</i>	<i>37%</i>
<i>Credit (Non-Investment Grade)</i>	<i>3%</i>	<i>9%</i>	<i>14%</i>
<i>Cash</i>	<i>0%</i>	<i>1%</i>	<i>5%</i>

## INVESTMENT GRADE GUIDELINES

### I. TYPICAL INVESTMENTS

Examples include U.S. Treasuries, U.S. Agencies debt (FNMA, FHLMC, FHLB, FFCB, GNMA, etc.), corporate debt, asset-backed securities, including mortgage pass-through securities, and other securities as defined by N.C.G.S. § 147-69.2(b)(l) through (b)(6b) that are denominated in U.S. dollars and bear an investment grade rating at the time of purchase by at least one nationally recognized rating agency. The bulk of the exposure will be internally managed portfolio that is highly diversified across long-duration fixed income securities. The asset class may include investment grade non-core exposure depending on liquidity needs and/or market environment. The non-core allocation may include more concentrated strategies.

### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in investment grade fixed income to accomplish the following objectives:

- A. **Diversification.** Exposure to fixed income provides significant diversification to the total Pension Fund due to differences in correlation with other asset types. Fixed Income assets historically have the lowest volatility among statutory eligible asset types. As such, the exposure to the asset class will lower total Pension Fund risk over the long term.
- B. **Capital Preservation.** Exposure to Treasuries and other very high-quality investment grade fixed income assets have historically provided limited risk of principal loss.
- C. **Liquidity.** Provide a source of liquidity to the Pension Fund and other asset classes through the high-quality and publicly traded asset types.
- D. **Deflation Protection.** The structure of fixed income assets should provide a direct hedge against deflation.

# NCIA POLICIES AND PROCEDURES

## III. SPECIFIC INVESTMENT GUIDELINES

### A. Asset Class Permissible Allocations.

#### Investment Grade Fixed Income

	Minimum	Maximum
Core Fixed Income	85%	100%
Other Fixed Income	0%	15%

#### Core Fixed Income

	Minimum	Maximum
Government (U.S. Treasury & Agency)	20%	40%
Corporate	25%	45%
Mortgage	25%	45%
Cash	0%	5%

B. **Leverage.** No leverage is allowed in the asset class unless approved by the Investment Committee.

C. **Duration.** The duration of the asset class is expected to be approximately five to 10 years as reflected by the structure of the performance benchmark. The Core Fixed Income subcomponent should be within two years(+/-) of the performance benchmark duration, excluding cash.

## CREDIT GUIDELINES

### I. TYPICAL INVESTMENTS

Examples include non-investment grade or unrated obligations, debt securities and asset-backed securities (including, but not limited to, bank loans, high-yield, mortgage-backed securities, convertibles, direct whole loans, mezzanine debt, credit default swaps, collateralized debt obligations, sovereign debt, real estate debt, infrastructure debt, and natural resources debt). Pooled vehicles and customized separately managed accounts domiciled in the U.S. or elsewhere may pursue various strategies, including, but not limited to, distressed debt, hedged strategies, royalties, and debt origination and servicing. Internal management may consist of public markets strategies, private co-investments and direct investments, and hybrids of any of the foregoing.

### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in below investment grade debt to accomplish the following objectives:

A. **Attractive Absolute Returns.** Credit investments are expected to produce long-term returns materially in excess of investment grade returns, sufficient to compensate the Pension Fund for the higher degree of credit risk, leverage, longer-duration private investments, distressed restructurings,

# NCIA POLICIES AND PROCEDURES

and complexity.

- B. **Diversification.** Enhance the diversification of the Pension Fund relative to public equity and investment grade fixed income.
- C. **Capital Preservation.** Protect capital through asset backed investments and trading strategies that are designed to minimize downside risk.

## III. SPECIFIC INVESTMENT GUIDELINES

### A. Asset Class Permissible Allocations.

Subcomponents	Minimum	Maximum
Corporate Lending	15%	70%
Asset-backed Debt	15%	70%
Other	0%	30%

## CASH GUIDELINES

### I. TYPICAL INVESTMENTS

Examples include liquid money market instruments and short to intermediate Treasuries, Agencies, and AAA-rated corporate obligations that meet the quality and other requirements in N.C.G.S. § 147-69.1. The bulk of the assets are internally managed in a highly diversified portfolio, with varying allocations over time to the custodian's and other money market funds.

### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in cash instruments to accomplish the following objectives:

- A. **Preservation of capital.** The selection of security types should maintain a focus on the safeguarding of assets.
- B. **Liquidity.** Make investments in securities that maintain a strong liquidity profile.
- C. **Stable Returns.** Invest to exceed the riskless return over a long period of time, within reasonable risk parameters.

### III. SPECIFIC INVESTMENT GUIDELINES

- A. **Liquidity.** The asset class shall be managed to include a laddering strategy out to one year that is designed to provide consistent liquidity for short-term cash needs but allows the portfolio manager to take advantage of investing out the yield curve with a portion of the assets.

# NCIA POLICIES AND PROCEDURES

- B. **Leverage.** No leverage is allowed unless approved by the Investment Committee.
- C. **Diversification.** The table below outlines the diversification guidelines by maturity and security type.

### Maturity Guidelines

	Minimum	Maximum
0 - 1 Year	40%	100%
1 – 3 Years	0%	40%
3 – 5 Years	0%	40%

### Security Type Guidelines

	Minimum	Maximum
Repurchase Agreements	0%	40%
US Treasury	25%	100%
US Agencies	0%	75%
Corporate Notes	0%	15%
Other Eligible Securities	0%	10%

# NCIA POLICIES AND PROCEDURES

## MULTI-STRATEGY

### I. TYPICAL INVESTMENTS

The Multi-Strategy asset class will invest in any securities, instruments, strategies, and domiciles authorized for other asset classes (i.e., there is likely to be overlapping exposures with other asset classes). Hedge fund strategies may be more commonly utilized than other asset classes, but include opportunistic, event-driven, and relative value multi-strategy, global macro, rebalancing, tail hedging and overlays. Internal management may consist of public markets strategies, private co-investments and direct investments, and hybrids of any of the foregoing.

### II. INVESTMENT OBJECTIVES

The Pension Fund is investing in multi-strategy to accomplish the following objectives:

- A. **Attractive Absolute Returns.** Provide efficient compounding of capital, competitive over the market cycle with the aggregate Pension Fund return, through trading and market-timing skill, including by hedging, and exploiting market dislocations through opportunistic allocations.
- B. **Flexible Capital.** To increase investment flexibility across different asset classes and strategies, including during episodes of heightened macroeconomic risk and systemic risk, and to facilitate hedging of Pension Fund-level risks, as might be prudent, from time to time.

### III. SPECIFIC INVESTMENT GUIDELINES

#### A. Asset Class Permissible Allocations.

Subcomponents	Minimum	Maximum
Multi-Strategy	20%	50%
Tactical/Options	0%	50%
Event-Driven	20%	50%
Relative Value	0%	25%
Global Macro	0%	30%
Opportunistic	0%	50%

# NCIA POLICIES AND PROCEDURES

## APPENDIX 2: LIQUIDITY METHODOLOGY

### I. Overview

Pursuant to N.C.G.S. § 147-69.2.(b)(10b), the market value of the Pension Fund's illiquid investments shall not exceed forty percent (40%) of the market value of all invested assets. The below methodology will be used to quantify investment liquidity across multiple horizons and scenarios. For each scenario, a cumulative value available to be liquidated will be calculated at each horizon. This cumulative value will be divided by the starting value to calculate a liquid and illiquid percentage figure for each horizon. The below methodology may be updated from time to time by the CIO as the Pension Fund investment program evolves and with the Board's consent can be implemented without formally amending this Policy.

### II. Horizon Periods

- Liquidity is assessed over **3 months, 6 months, 1 year, and 2 years**.

### III. Scenarios

#### A. Baseline Scenario

- Assumes 0% return over each horizon period.
- Liquidity percentage calculated against the Time 0 market value.

#### B. Stress Scenario

- Models a repeat of CY 2022 market shock (sharp declines in equities and fixed income).
- Losses occur instantly and valuations remain depressed over each horizon period.
- Incorporates longer liquidation timeframes for open ended vehicles with potential gating and accelerated capital calls for closed-end and comparable vehicles.
- Liquidity percentage calculated against shock-adjusted Time 0 market value.

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### IV. Key Assumptions by Asset Class

- **Public Equity** (Listed REITs, Listed Natural Resources, and Listed Infrastructure included) – Calculate the number of days to liquidate underlying stock holdings, dividing shares held by 10% of the recent average daily volume.
- **Public IG Fixed Income** – Assuming all can be liquidated within 3 months
- **Commodities Futures** – Liquidated within 10 days
- **Open-Ended Vehicles** – Redemption rights determined by legal documents.
- **Closed-Ended Vehicles** – 25% liquid in 9 months and 25% more within 18 months at haircuts determined by current secondary market conditions (applied by strategy), with the remaining 50% not liquid within 2 years.

# NCIA POLICIES AND PROCEDURES

- **High Control Structures (e.g., Real Estate)** – 25% liquid in 6 months with 20% haircut, 60% more within 12 months at 20% discount, 10% more within 24 months at 20% discount with the remaining not liquid within 2 years.

## V. Monitoring Output

<b>Baseline</b>		
<b>Timeframe</b>	<b>% Liquid</b>	<b>% Illiquid</b>
3 months	X%	1-X%
6 months	X%	1-X%
1 year	X%	1-X%
2 years	X%	1-X%

<b>Stress</b>		
<b>Timeframe</b>	<b>% Liquid</b>	<b>% Illiquid</b>
3 months	X%	1-X%
6 months	X%	1-X%
1 year	X%	1-X%
2 years	X%	1-X%

# NCIA POLICIES AND PROCEDURES

## GLOSSARY

**Absolute:** can refer to the performance or volatility of an investment and is measured on a standalone basis

**Ex Ante:** expected returns or expected volatility

**Ex Post:** realized returns or realized volatility

**Information Ratio:** a risk-adjusted return that is measured by dividing active return (i.e., portfolio return - benchmark return) by the tracking error

**Relative:** the performance or volatility of an investment measured versus a stated benchmark or reference portfolio

**Sharpe Ratio:** a risk-adjusted return that is measured by dividing investment return less the risk-free rate by the volatility of investment return

**Tracking Error or Active Risk:** the standard deviation of relative returns (portfolio returns - benchmark returns)

## REVISION/REVIEW HISTORY

Version	Date Approved	Description of Changes
1.0	11/26/2012	Initial version
2.0	7/1/2014	Revision and Restatement
2.0	11/8/2016	Reviewed-no changes
2.0	6/12/2018	Reviewed-no changes
3.0	11/1/2020	Updates and revisions made
4.0	7/1/2022	Updates to Strategic Asset Allocation, other revisions made
5.0	2/28/2025	Updates to Strategic Asset Allocation, other minor revisions
6.0	2/25/2026	NCIA Global Revision and Restatement