NORTH CAROLINA
INVESTMENT AUTHORITY

Cost Allocation Methodology and Administrative Fee

FY26-27 | Board Presentation | May 2026

NORTH CAROLINA DEPARTMENT OF THE TREASURER

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STATE TREASURER OF NORTH CAROLINA

EXECUTIVE SUMMARY

What the Board is being asked to approve

Approve the FY26-27 cost allocation methodology, proposed basis-point administrative fee, and stabilization reserve framework.

- **Recoverable cost base** — $40.4M budgeted internal investment-management costs; external manager fees are excluded.
- **Allocation outcome** — NCRS receives 92.9% of allocated cost, Cash Management 4.5%, SRP 2.2%, and AGPIP 0.4%.
- **Proposed fee rates** — NCRS up to 2.75 bps; Cash Management, SRP, and AGPIP up to 0.50 bps each. “Billing in Advance” methodology.
- **Reserve policy** — Projected fee revenue of $44.3M creates a $3.9M stabilization reserve, approximately 1.2 months of cost. Reserve will be annually confirmed with Board

BOARD LENS

Is it fair?

Cost causation and relative benefit drive the hierarchy.

Is it auditable?

Budget, AUM, vendor, and allocation schedules reconcile to zero variance.

Is it sustainable?

Reserve smooths market and timing volatility without markup.

METHODOLOGY FRAMEWORK

Allocation hierarchy: specificity before simplicity

1. **Direct assignment** — Single-client, asset-class, or mandate costs assigned directly.
2. **Role-level time** — Personnel services allocated across clients based on estimated service effort.
3. **Usage** — Vendor and shared services allocated by contract purpose, invoices, or usage reports.
4. **Aggregate staff time** — Residual shared costs use aggregate role-level time as the proxy driver.

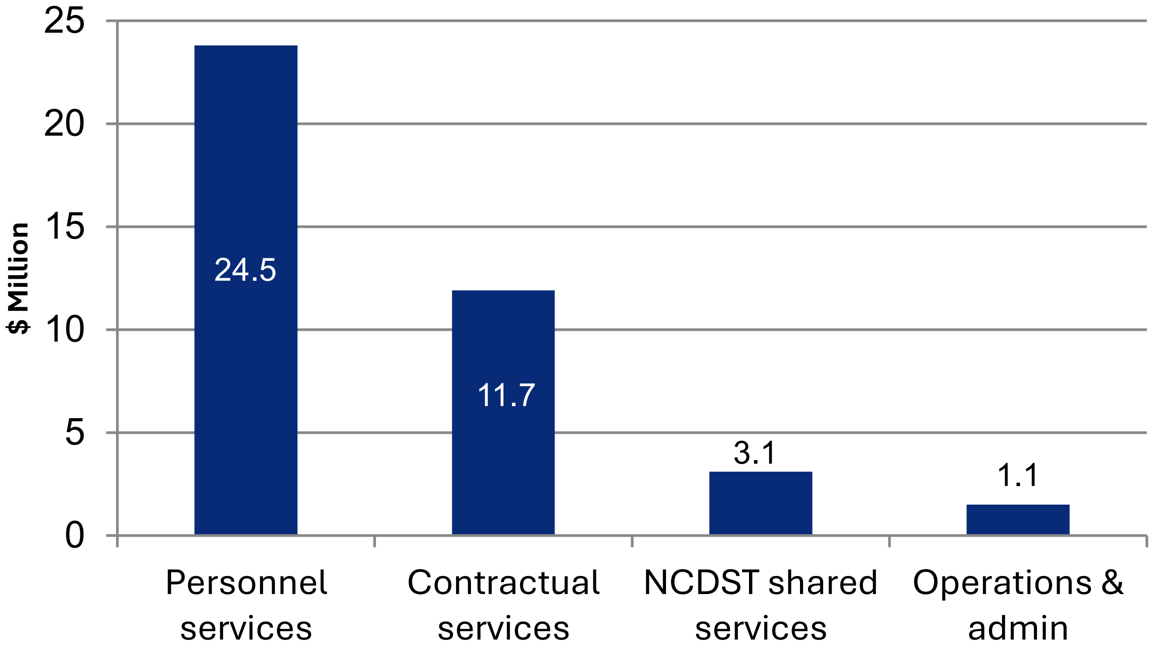
GUIDING PRINCIPLES

- **Relative benefit and cost causation**
- **No markup**
- **Consistency and annual governance**
- **Auditability**
- **Specificity before simplicity**

The hierarchy minimizes cross-subsidy by applying the most specific available evidence before relying on a shared proxy.

COST POOL METHODOLOGY

Recoverable budget is concentrated in personnel and contractual services

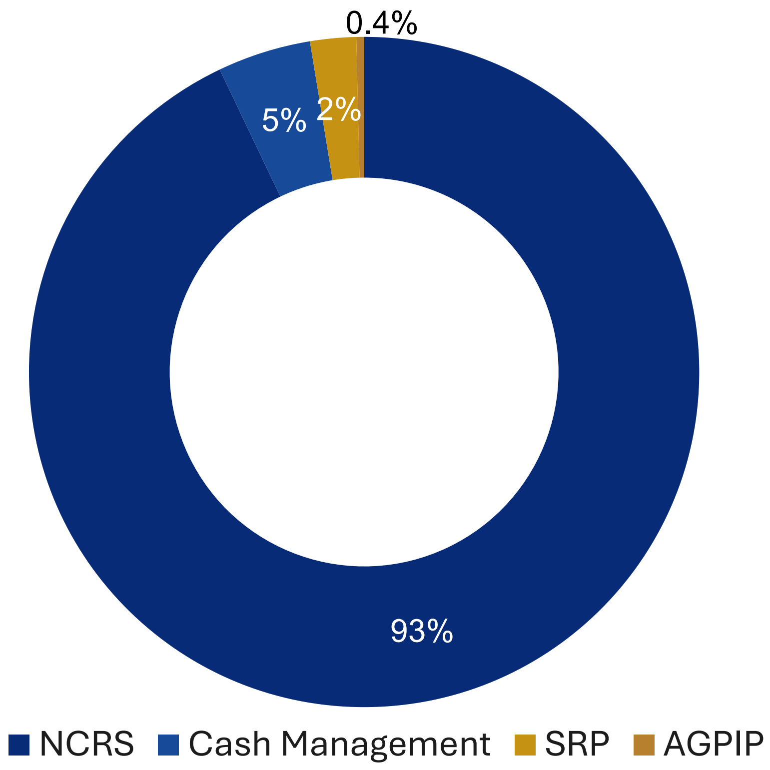


Personnel services	Role-level time / benefit percentages; investment roles 100% NCRS where applicable.
Operations & admin	Direct asset-class costs assigned directly; residual costs use aggregate staff-time percentages.
NCDST shared services	OST and ITD use aggregate staff time; Financial Operations uses role level time.
Contractual services	Vendor-specific usage or beneficiary analysis, with direct assignment for single-client vendors.

Total recoverable budget: $40.4M

FINANCIAL RESULTS

Client allocation results are dominated by NCRS



92.9%
allocated to NCRS

4.5%
Cash Management

2.2%
SRP

0.4%
AGPIP

Interpretation:

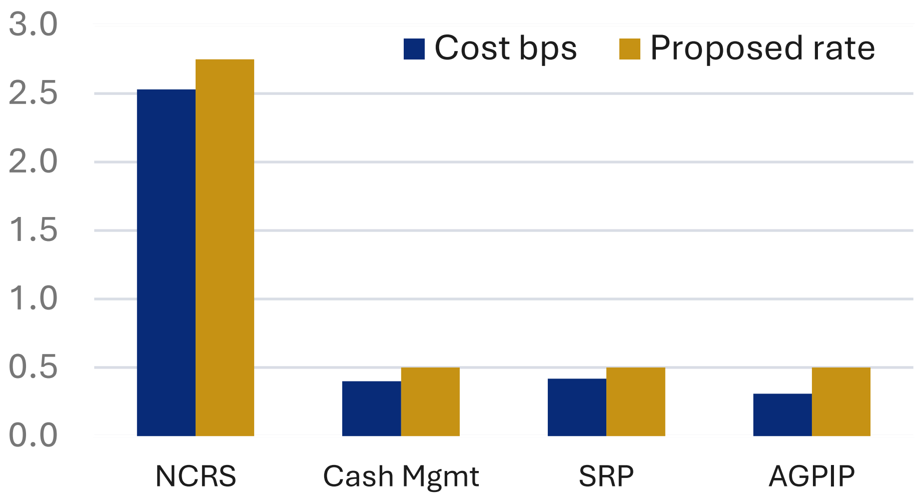
NCRS consumes the majority of investment-management resources, while the other clients use targeted services and shared infrastructure.

Cost objective coverage

NCRS, Cash Management, SRP, and AGPIP. External investment manager fees paid directly by clients are outside this methodology.

FEE CONVERSION

Proposed rates recover cost and establish a stabilization reserve



Client	Cost bps	Proposed
NCRS	2.53	2.75
Cash Mgmt	0.40	0.50
SRP	0.42	0.50
AGPIP	0.44	0.50

RESERVE BRIDGE

Projected fee revenue	**$44.3M**
Recoverable budget	**($40.4M)**
Stabilization reserve	**$3.9M**

Reserve policy

Reserve account is for fee stabilization, timing mismatches, market-driven shortfalls, and allowed budget-to-actual variances. Annually, management will review with the Board to ensure the reserve is responsibly managed. Amounts above necessary reserve shall be used to equitably reduce subsequent fees.

Billing Methodology

"Billing in Advance" will be used, similar to subscriptions, rent, utilities, and retainer agreements, applying the approved fee to the average of prior 3 month-end assets under management. This methodology is also required given the absence of an initial reserve or NCIA-level borrowings.

GOVERNANCE AND CONTROLS

Control design supports annual approval, auditability, and client reporting

1. **Source reconciliation** — Budget, payroll, vendor contracts, shared-service schedules, and AUM statements.
2. **Calculation controls** — Budget roll-up, client cost roll-up, percentage-sum checks, dollar reconciliation, bps, and revenue scenario.
3. **Change control** — Version-controlled log of date, preparer, reviewer, reason for change, impacted areas, and approval.
4. **Annual reporting** — Allocated budget, fee basis, reserve contribution or credit, and actual-to-budget variance.

IMPLEMENTATION

Transition will include multiple steps

Q2 2026
- Create reserve, deposit, and disbursing accounts
- Operationalize fee billing and payment processing for each client

Q3 2026
- Initial client charge (NCRS & Cash Management) to fund reserve account
- Provide notification to external clients of change in process and fee rate (SRP & AGPIP)

Q4 2026
- Move to Normal Operating Procedures for all clients
  - Quarterly billing cycle
  - Reserve tracking and maintenance

Q2 2027
- First annual review of methodology, process, and reserve with Board

BOARD ACTION

Recommended action and implementation guardrails

Recommended motion

Approve the FY26-27 cost allocation methodology, client fees up to proposed rates, and stabilization reserve framework as presented.

Adopt methodology

Apply allocation hierarchy across personnel, operations, shared services, and contractual services.

Quarterly "Billing In Advance"

Basis-point rates applied to defined AUM in advance of each quarter.

Track reserve

Maintain reserve subaccounts by client where practicable; disclose opening balance, contributions, draws, credits, and ending balance annually.

Review annually

Refresh staffing, client mandates, vendors, service levels, AUM, and reserve policy before fee-setting.

NCIA

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