



JANET COWELL
TREASURER

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION

KEVIN SIGRIST
CHIEF INVESTMENT OFFICER

To: NCRS Retirement Boards Members

From: Kevin SigRist

CC: Investment Advisory Committee Members, Steve Toole, Sam Watts, and Blake Thomas

Date: January 20, 2016

Subject: Recap of January 8, 2016 Investment Advisory Committee Meeting

The Investment Advisory Committee ("IAC") met January 8, 2016 to discuss return expectations for the NCRS investment program. The goal of the meeting was to provide information for the Retirement Boards' consideration in their deliberations on the discount rate/investment return assumption. The IAC received a presentation of a meeting memorandum from Kevin SigRist dated January 5, 2016 (provided under separate cover). The following summarizes areas of IAC consensus and major discussion points as they relate to NCRS investment return expectations.

1. There was IAC consensus that achieving the 7.25% return over the next 10 years was unlikely and revising the asset allocation policy in order to raise the expected return materially toward 7.25% over the next ten years would incur more risk than deemed prudent.
2. A majority of the IAC members were comfortable that achieving a 7.25% return over a 30-year period with the existing asset allocation policy was a reasonable expectation, although there was acknowledgement that investment returns would have to be quite strong over the last decade of the 30-year period to meet the 7.25% expectation.
3. Other IAC members did not believe that the 7.25% expectation would be satisfied by likely returns from the investment program, even over a 30-year period. Skepticism was particularly strong about a 7.25% expectation if it was dependent on materially exceeding broad investment market benchmarks through active management.
4. There is a sense from some IAC members that it could be helpful to fund the NCRS in the short- or intermediate-term consistent with a lower rate of return expectation, regardless of the formal discount rate assumption.
5. There was IAC consensus that IMD should initiate an asset liability study that could utilize updated and alternative asset allocation assumptions. IAC members expressed an interest in examining whether policy changes are warranted given the low returns expected over the 10-year period. The project would involve running updated scenarios through actuarial modeling to see impact on funded status, contribution rates, and contribution rate volatility over time.

We look forward to discussing this important topic at the January 21, 2016 NCRS Retirement Boards meeting.