MEMORANDUM

TO: North Carolina Supplemental Retirement Board of Trustees

FROM: Kristopher Byrd, Portfolio Manager

DATE: August 21, 2025

SUBJECT: Discussion / Action: 401k and 457b Plans – Macquarie Large Cap Value Termination Recommendation

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Recommendation
Investment Management Division ("IMD") staff and Callan recommend terminating Macquarie Asset Management as a Large Cap Value manager in the NC Active US Large Cap White Label Fund.

This recommendation follows extensive monitoring and additional review of Macquarie's performance, investment process, and organizational structure since the strategy was added to the watchlist in February 2024.

Background
Macquarie manages 18% of the NC Large Cap White Label Fund. They are one of two active value managers that each manage an equal allocation and offset the two growth managers and passive portfolio. Their style exposure can be thought of as traditional value although portfolio characteristics can shift from deep value to relative value over time. As a result of quality screens, the strategy has been more consistent in offering below average portfolio volatility and more defensive characteristics.

Evaluation Criteria for Watchlist and Replacement
IMD staff and Callan consider three core criteria when evaluating managers for continued inclusion in the investment lineup:

1. Performance: Evaluation across multiple time periods relative to benchmarks and peers.

2. Investment Philosophy and Process: Consistency in approach, portfolio construction discipline, and execution behavior.

3. Team Structure and Strategy-Level Flows: Stability of key personnel, organizational changes, and cash flow trends.

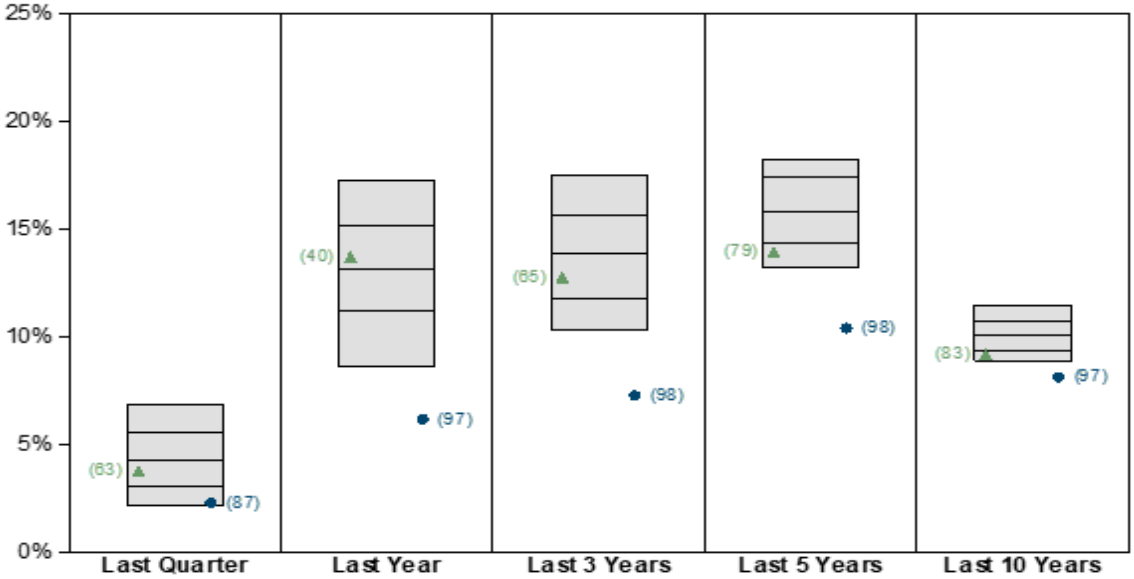
Rationale for Manager Termination
The recommendation to terminate Macquarie Asset Management as a Large Cap Value manager is driven by sustained concerns across all three core evaluation criteria. The following key factors illustrate how these concerns have manifested over time:

Performance:
Macquarie continues to underperform both its benchmark and peers. They have underperformed their benchmark over short- and longer-term time periods, and rank in the bottom quartile versus peers for the 1-,3-,5-, and 10-year time periods. Underperformance can be attributed to the following:

Portfolio Construction Drag:
Macquarie's strict equal-weighting framework has consistently trimmed outperformers and reallocated into underperformers. While designed to promote diversification, this structure has limited upside participation and exacerbated downside exposure, contributing to persistent underperformance relative to benchmarks and peers.

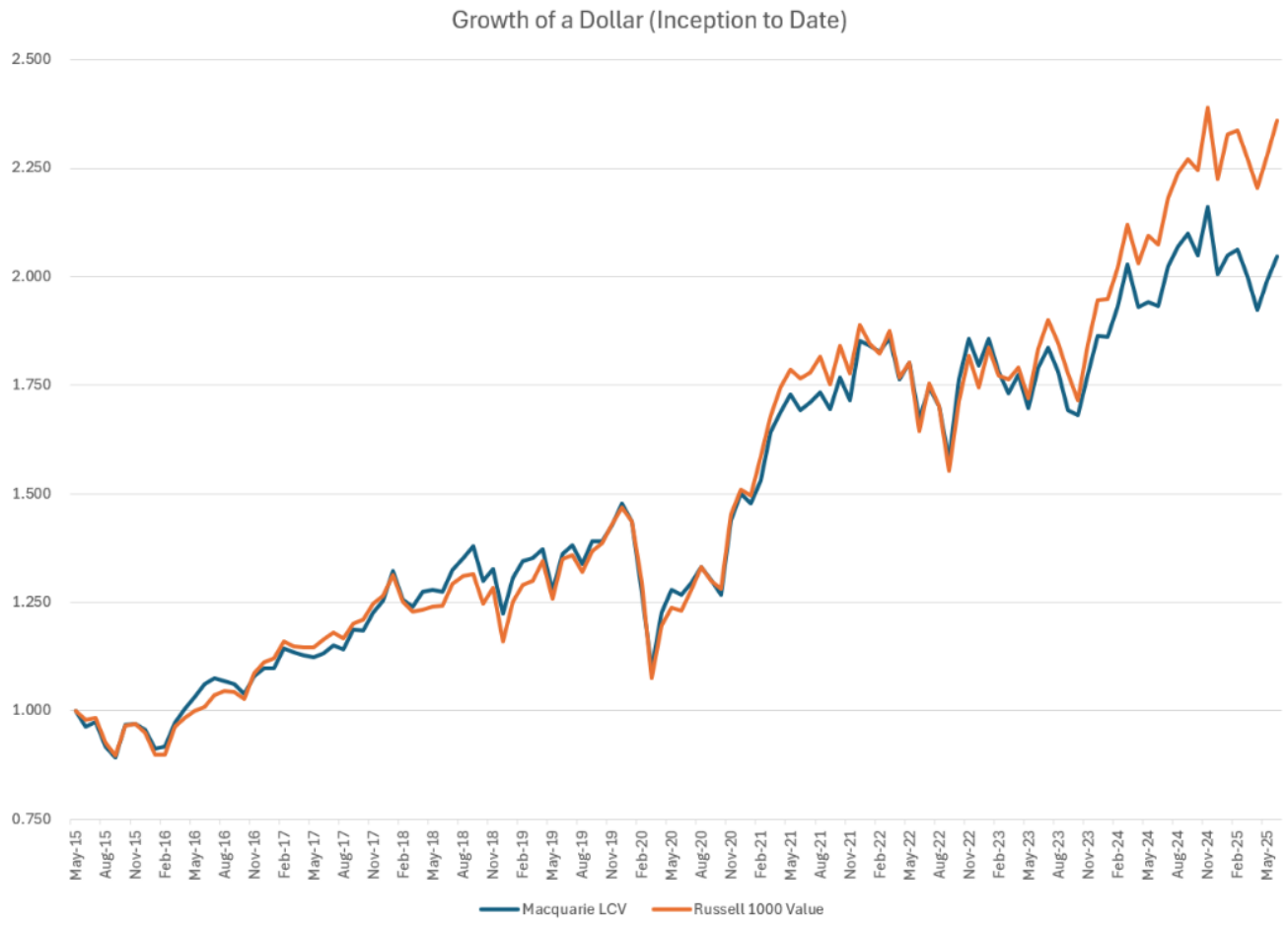
Stock Selection and Exposure Gaps:
Security level attribution highlights recurring selection issues across multiple sectors. Macquarie's emphasis on minimizing volatility has led to structural underexposure to key market drivers, reducing the strategy's ability to capture alpha in rising environments.

Performance vs Callan Large Cap Value (Gross)

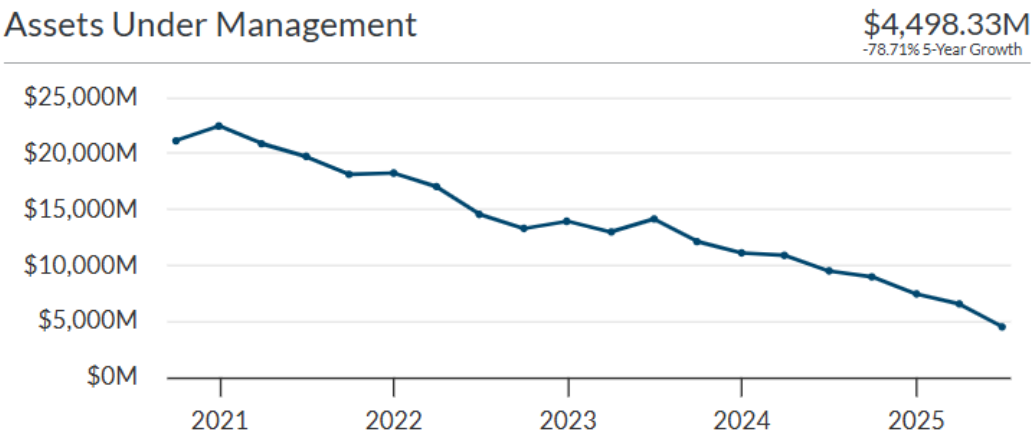


	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	6.84	17.28	17.48	18.24	11.45
25th Percentile	5.61	15.13	15.66	17.38	10.76
Median	4.32	13.15	13.89	15.84	10.08
75th Percentile	3.11	11.20	11.76	14.39	9.37
90th Percentile	2.20	8.63	10.32	13.20	8.90
Macquarie Large Cap Value ●	2.28	6.16	7.25	10.37	8.12
Russell 1000 Value Index ▲	3.79	13.70	12.76	13.93	9.19

As of June 30, 2025



Strategy Outflows:
Outflows continue to be a concern, with strategy AUM decreasing from more than $20 billion in 2021 to $4.5 billion as of June 30, 2025.



Organizational Concerns:
The departure of a senior portfolio manager, an analyst, and a trader over the past year has raised concerns about the strategy's ability to maintain stability and team cohesion.

In Q1 2025, the sale of Macquarie Asset Management's public markets business to Nomura was announced. The transaction involves a full transfer of nearly all personnel to Nomura, with existing investment professionals, senior management, and compensation structures expected to remain intact. While no immediate reductions or reorganizations have been indicated, the change in ownership introduces a new strategic backdrop.

Given the recent turnover and disruption at the strategy level, this added layer of organizational change raises concern about long-term continuity, cultural integration, and the strategy's ability to maintain alignment with its stated philosophy.

Implementation Considerations
In anticipation of this recommendation, IMD Staff and Callan began a search for a potential replacement in February 2025. Details on the search and manager recommendation follows in a separate memo.

Implementation of any changes to the White Label Fund lineup will focus on preserving market exposure, minimizing disruption, and maintaining alignment with policy objectives throughout the transition.