



# NORTH CAROLINA INVESTMENT AUTHORITY

## MEMORANDUM

TO: North Carolina Supplemental Retirement Board of Trustees

FROM: Kris Byrd, Portfolio Manager

DATE: February 26, 2026

RE: Discussion / Action: 401k and 457b Plans: Brown Advisory SMID Cap Growth Watch List Recommendation

### Recommendation

When assessing managers for potential inclusion on the Watchlist, three critical criteria are considered: consistent underperformance relative to benchmarks and peers, substantial shifts in investment philosophy, and significant organizational changes. These elements enable an evaluation of whether an investment strategy necessitates increased scrutiny due to potential risks to its success.

NCIA and Callan recommend adding the Brown Advisory SMID Cap Growth strategy to the Watchlist due to a combination of persistent relative underperformance, sustained asset outflows, and modest but ongoing personnel changes within the broader equity research organization. While NCIA and Callan continue to have confidence in the firm's investment philosophy and research culture, these factors collectively warrant closer monitoring at this time. NCIA will also begin a search to determine if there is a better option within the NC SMID Cap White Label Fund.

### Portfolio Positioning

Brown Advisory manages 30% of the NC SMID Cap Equity option, approximately \$430M as of December 31, 2025, and serves as the option's dedicated SMID Cap Growth manager. The strategy provides growth-oriented exposure intended to complement the SMID Cap Core, SMID Cap Value, and Passive allocations within the option. The portfolio emphasizes companies with durable growth characteristics, scalable business models, and strong management teams, resulting in a differentiated growth profile. As a growth-oriented mandate, the strategy's portfolio characteristics tend to exhibit higher active risk and greater sensitivity to market leadership cycles, making consistent relative performance important to its role within the option.

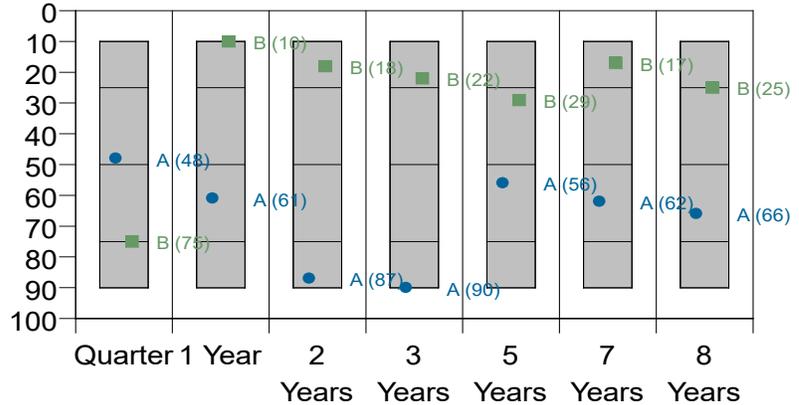
### Underperformance Relative to Benchmark

Recent one-year and three-year results have fallen behind the Russell 2500 Growth Index and peers. This weakness stems from the portfolio's quality bias during a period when markets favored lower-quality, higher-beta small-cap stocks. Over the long term, the strategy has delivered modest outperformance and strong downside protection, but recent struggles have weighed on multi-year rankings. The strategy's preference for higher market capitalization improves liquidity but creates headwinds when smaller companies lead.



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Returns for Periods Ended December 31, 2025  
Group: Callan Small/MidCap Growth Mutual Funds

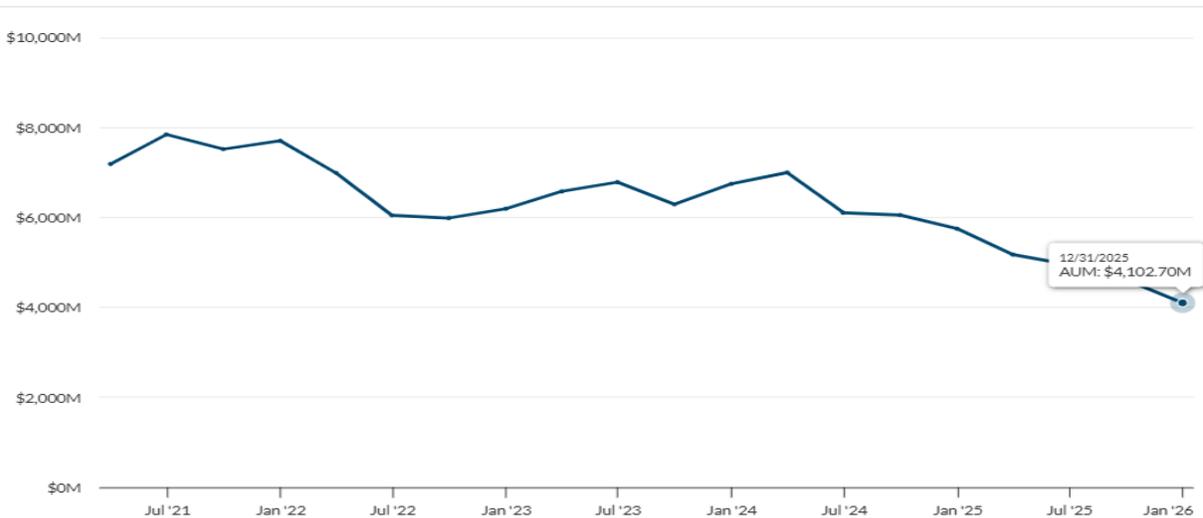


|                                     |     |      |       |       |       |      |       |      |
|-------------------------------------|-----|------|-------|-------|-------|------|-------|------|
| Brown Advisory Small/Mid Cap Growth | ● A | 1.71 | 3.10  | 4.29  | 7.21  | 1.33 | 9.81  | 8.05 |
| Russell:2500 Growth                 | ■ B | 0.33 | 10.31 | 12.09 | 14.32 | 2.98 | 11.62 | 9.03 |

## Declining Assets Under Management (AUM)

The strategy has experienced a sustained decline in assets under management, falling from approximately \$7.8 billion at year-end 2021 to about \$4.1 billion as of December 31, 2025. Quarterly data highlights a consistent downward trend, with notable declines over the past two years (e.g., \$7.0 billion in Q1 2024 versus \$4.1 billion in Q4 2025). While current levels remain operationally sufficient, continued net outflows raise concerns about longer-term resource allocation and platform stability.

Assets Under Management





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## **Personnel Changes**

The Brown Advisory SMID Cap Growth strategy is managed by a dedicated portfolio management team consisting of a lead portfolio manager and one additional portfolio manager who also serves as an associate portfolio manager, supported by a centralized, sector-based equity research platform. The research team includes dedicated sector analysts across technology, health care, industrials, financials, and consumer sectors, as well as an investigative research function that supports fundamental due diligence. All investment decisions are made through a collaborative process that incorporates portfolio management and research input, consistent with the firm's shared-responsibility culture.

At the firm level, Brown Advisory has implemented a planned leadership transition, including internal promotions and the appointment of a Co-Chief Investment Officer structure, as part of its long-term succession planning efforts.

The research team has experienced moderate turnover over the past two years, including departures in specialized roles such as healthcare and investigative research. While these changes were offset by strategic hires, such as the addition of a senior investigative analyst and a healthcare analyst in 2025, the frequency of transitions and the need for active backfilling indicate some disruption risk. Leadership stability and ongoing investment in research infrastructure help mitigate concerns, but continuity within sector coverage requires close monitoring.

While these changes have not resulted in material disruption to the strategy, NCIA and Callan believe continued monitoring of team stability and execution is appropriate given recent performance and asset trends.



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## Appendix

### Philosophy/Process

The core investment philosophy is centered around the following insights:

**Fundamental Quality and Durable Growth:** The strategy is built on the belief that companies with strong governance, attractive economic returns, and scalable growth opportunities can compound value over long periods. This philosophy is reflected in the firm's "3G" investment framework, which emphasizes governance, growth opportunity, and economic profitability as core drivers of long-term value creation.

**Valuation Discipline and Downside Awareness:** While growth is the primary driver of security selection, valuation serves as an important risk control. The team emphasizes purchasing high-quality businesses at reasonable valuations, with a focus on downside protection rather than short-term momentum.

**High-Conviction Portfolio Construction:** The strategy emphasizes a relatively concentrated portfolio with high active share, reflecting strong conviction in selected investments. Position sizes are determined by conviction, liquidity, and risk-reward considerations, rather than benchmark weights.

**Collaborative, Research-Driven Decision Making:** Investment decisions are made through a shared-responsibility culture that integrates portfolio management and sector-based research insights. This collaborative approach is intended to improve analytical depth and consistency across investment decisions.

The investment process for constructing the portfolio follows a structured and comprehensive approach, integrating both qualitative and quantitative analyses:

**Initial Universe Definition:** The process begins with a broad universe of U.S. SMID-cap companies, providing a diverse opportunity set across sectors and industries.

**Fundamental Screening:** The universe is narrowed through proprietary research criteria focused on growth potential, profitability, governance, and business quality. Quantitative metrics and qualitative assessments are used to identify companies that meet the strategy's core investment characteristics.

**In-Depth Company Research:** Bottom-up fundamental analysis includes detailed financial modeling, evaluation of competitive positioning and market opportunity, assessment of management quality and incentives, and direct engagement with company management when appropriate. Research is conducted by dedicated sector analysts supported by centralized research resources.



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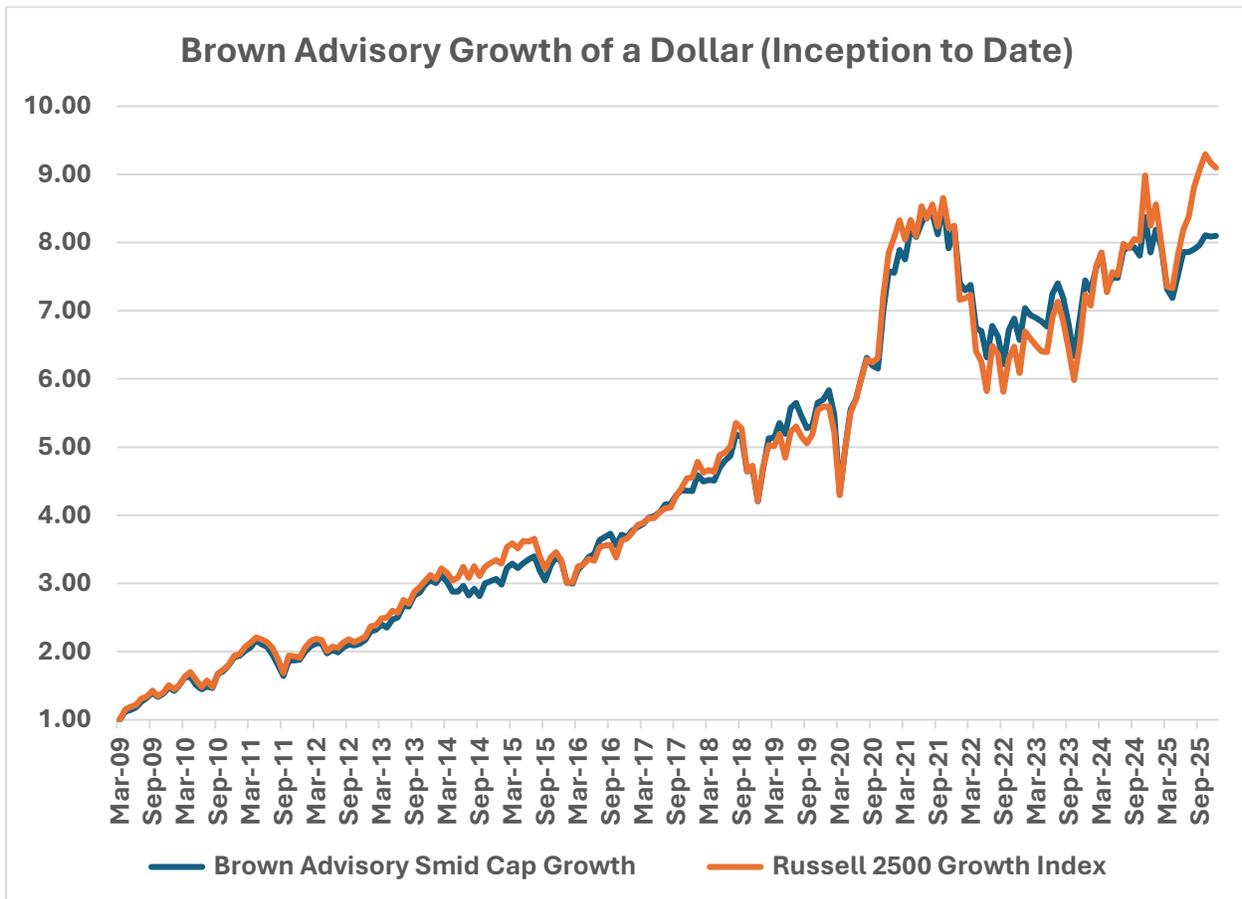
**Idea Review and Price Assessment:** Investment ideas are reviewed collaboratively across portfolio management and research teams. Valuation analysis is used to assess upside potential relative to downside risk and to establish appropriate entry and exit considerations.

**Portfolio Construction:** The portfolio is constructed with high-conviction positions and high active share, resulting in a relatively concentrated portfolio that remains diversified across sectors. Position sizing reflects conviction, liquidity, and risk considerations, rather than benchmark alignment.

**Monitoring and Sell Discipline:** Holdings are monitored continuously for changes in fundamentals, valuation, competitive dynamics, and execution relative to the original investment thesis. Securities may be sold due to valuation realization, deterioration in business quality, changes in growth outlook, or shifts in the risk-reward profile.

The combined investment philosophy and process are designed to generate attractive long-term returns in environments where company fundamentals and business quality are rewarded, and may lag during periods dominated by speculative or momentum-driven market leadership.

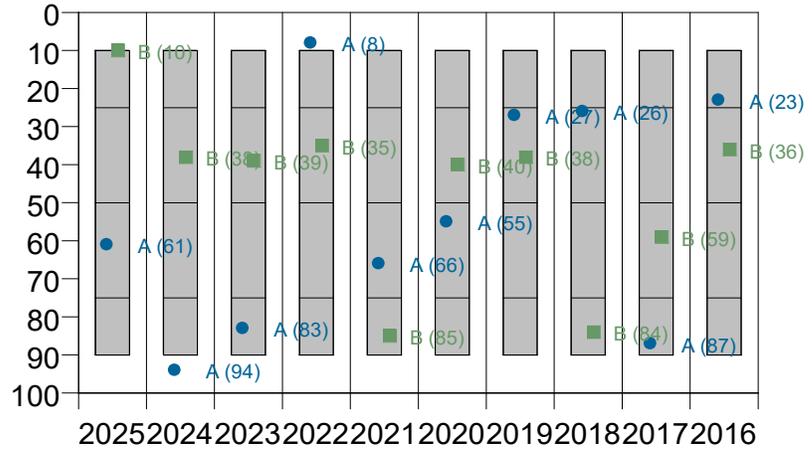
## Additional Performance / Risk Analysis (as of December 31, 2025)





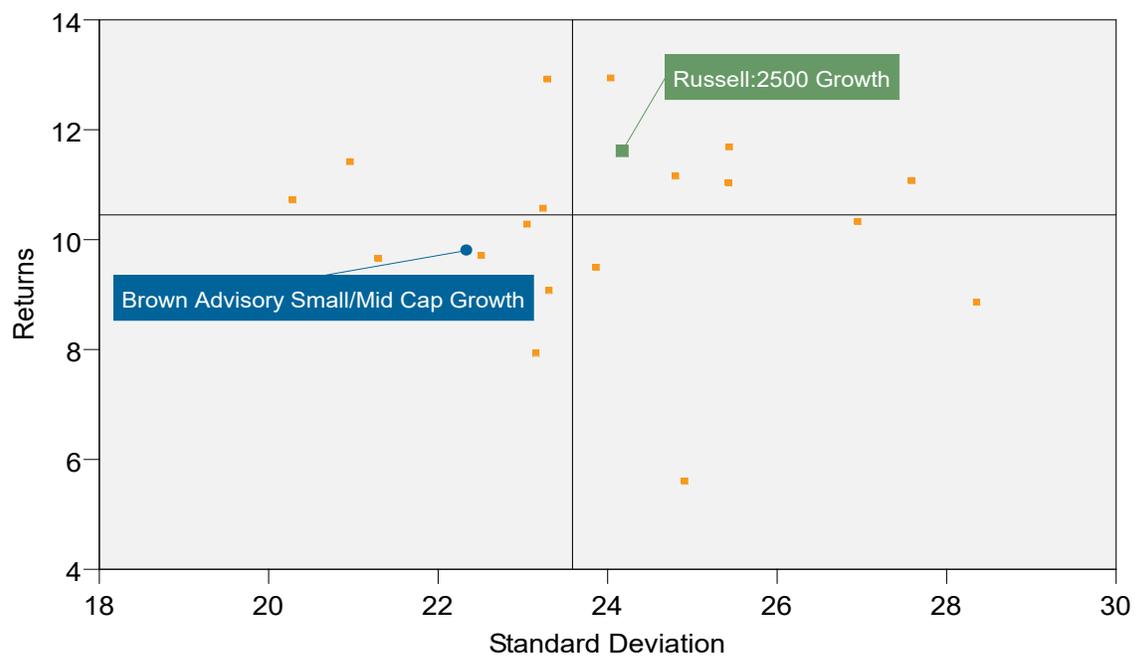
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Returns for Periods Ended December 31, 2025  
Group: Callan Small/MidCap Growth Mutual Funds



|                                     |     |       |       |       |         |      |       |       |        |       |       |
|-------------------------------------|-----|-------|-------|-------|---------|------|-------|-------|--------|-------|-------|
| Brown Advisory Small/Mid Cap Growth | ● A | 3.10  | 5.50  | 13.28 | (19.99) | 8.38 | 33.06 | 35.38 | (3.47) | 18.29 | 10.97 |
| Russell:2500 Growth                 | ■ B | 10.31 | 13.90 | 18.93 | (26.21) | 5.04 | 40.47 | 32.65 | (7.47) | 24.46 | 9.73  |

Callan SMID Growth MFs  
Annualized Risk vs. Return for 7 Years Ended December 31, 2025

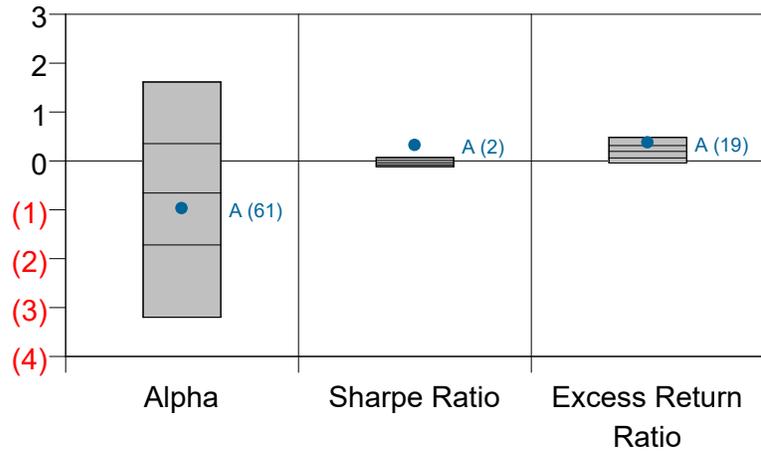




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Risk-Adjusted Return Measures vs. Russell 2500 Growth  
for 7 Years Ended December 31, 2025

Group: Callan Small/MidCap Growth Mutual Funds



|                 | Alpha  | Sharpe Ratio | Excess Return Ratio |
|-----------------|--------|--------------|---------------------|
| 10th Percentile | 1.62   | 0.07         | 0.48                |
| 25th Percentile | 0.36   | 0.01         | 0.32                |
| Median          | (0.65) | (0.04)       | 0.20                |
| 75th Percentile | (1.72) | (0.08)       | 0.06                |
| 90th Percentile | (3.20) | (0.12)       | (0.04)              |

Brown Advisory Small/Mid Cap Growth • A (0.97) 0.32 0.38