



NORTH CAROLINA INVESTMENT AUTHORITY

MEMORANDUM

TO: North Carolina Supplemental Retirement Board of Trustees

FROM: Kris Byrd, Portfolio Manager

DATE: May 21, 2026

RE: Discussion / Action: 401k and 457b Plans: NC Inflation Responsive Fund Removal Recommendation

Recommendation

Staff and Callan recently completed a review of the Supplemental Retirement Plans investment structure to evaluate whether the current lineup remains well-positioned to serve participants over the next five to ten years. The review considered the role of each option in the menu, participant utilization, overlap across options, implementation structure, and whether any material issues or opportunities for improvement should be brought to the Board's attention.

Overall, Staff and Callan concluded that the Plans' investment menu remains sound and continues to provide participants with a broad set of core building blocks. However, the review identified one recommended lineup change: removing the NC Inflation Responsive Fund and mapping existing balances and future contribution elections to the NC TIPS Fund after the GoalMaker glidepath transition is complete. This recommendation is intended to simplify the lineup while preserving access to a dedicated inflation-sensitive option.

Current Role of the NC Inflation Responsive Fund

The NC Inflation Responsive Fund was designed to provide participants with diversified inflation-sensitive exposure. The fund has historically included passive exposure to TIPS, commodities, and REITs, with listed infrastructure expected to be added prospectively. This structure is broader than the NC TIPS Fund, which provides more direct exposure to inflation-linked fixed income.

The current investment menu includes two inflation-sensitive options: the NC TIPS Fund and the NC Inflation Responsive Fund. As of March 31, 2026, the NC Inflation Responsive Fund held approximately \$885 million in combined Plan assets, of which approximately \$788 million, or 89%, was held through GoalMaker allocations. The remaining \$97 million, or approximately 11%, was held outside of GoalMaker.

Following the GoalMaker glidepath transition, and holding participant-directed balances constant, the NC Inflation Responsive Fund's remaining balance is estimated to be approximately \$97 million, representing roughly 0.5% of total Plan assets and approximately 1.1% of non-GoalMaker assets. This expected post-transition allocation supports the recommendation to remove the fund, as its remaining use would be limited primarily to a relatively small participant-directed balance.



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Rationale for Removal

Staff and Callan believe the NC Inflation Responsive Fund no longer has a sufficiently compelling role as a standalone participant-directed option. The fund is being removed from GoalMaker allocations as part of the upcoming glidepath changes, and participant utilization outside of GoalMaker is limited. Once removed from GoalMaker, the remaining case for retaining the fund depends primarily on whether DIY participants are using the option meaningfully and whether the fund continues to justify its complexity within the lineup.

The Plans' investment menu is already structured around core building blocks, including capital preservation, fixed income, U.S. large cap equity, U.S. small/mid cap equity, and non-U.S. equity. Callan's framework generally favors a streamlined participant menu and recommends limiting specialty options unless they have a clear participant need and role. The NC Inflation Responsive Fund is a more complex multi-asset inflation-sensitive option, and its continued presence appears less necessary given the availability of the NC TIPS Fund and the fund's low standalone use.

Callan notes that if the Board wished to maintain a diversified real assets option, a broader active real assets strategy could be considered. However, Staff and Callan are not recommending a replacement strategy at this time because the primary objective is to simplify the lineup while preserving access to inflation-sensitive exposure through the NC TIPS Fund.

Participant Impact and Mapping Rationale

Staff and Callan recommend mapping existing NC Inflation Responsive Fund balances and future contribution elections to the NC TIPS Fund because it is the closest remaining inflation-sensitive option in the lineup. While the NC TIPS Fund is not identical to the NC Inflation Responsive Fund, it preserves the general inflation-sensitive intent of the participant's prior election better than mapping to a broad equity, fixed income, stable value, or default option.

Mapping to the NC TIPS Fund also supports the menu-simplification objective. Adding a new replacement real assets strategy would maintain or increase complexity, while eliminating the NC Inflation Responsive Fund without a similar inflation-sensitive mapping option could create a less intuitive participant outcome.

Participants would receive advance notice of the change and retain the ability to redirect existing balances or future contributions to any other available investment option before the mapping occurs.

Key Considerations

The primary benefit of removal is a simpler lineup with less participant confusion and reduced monitoring complexity. The Plans would continue to offer inflation-sensitive exposure through the NC TIPS Fund.

The primary tradeoff is that participants would no longer have access to a diversified real assets option that includes exposure beyond TIPS, such as commodities, REITs, and listed infrastructure. Staff and Callan believe this tradeoff is acceptable given the NC Inflation Responsive Fund's limited standalone utilization, removal from GoalMaker, and the availability of the NC TIPS Fund as a simpler inflation-sensitive option.



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Implementation Plan and Timing

If approved, Staff recommends implementing the NC Inflation Responsive Fund removal after the GoalMaker glidepath transition is complete, which is expected by September 1, 2026. This sequencing is intended to avoid overlapping participant-level investment changes, reduce operational complexity, and allow Staff, Empower, Callan, and the relevant investment managers to coordinate the mapping and communication process in a controlled manner.

Following Board approval, Staff would coordinate with Empower and Callan to finalize the implementation timeline, participant communications, mapping instructions, and any operational considerations. Affected participants would receive advance notice before the mapping occurs.

Proposed next steps:

1. Complete the GoalMaker glidepath transition, expected by September 1, 2026.
2. Finalize the NC Inflation Responsive Fund removal timeline and mapping mechanics.
3. Provide advance notice to affected participants.
4. Map existing NC Inflation Responsive Fund balances and future contribution elections to the NC TIPS Fund.
5. Remove the NC Inflation Responsive Fund from the lineup and report completion status to the Board.



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Appendix

401k as of 03/31/2026

GoalMaker® asset allocation by fund GoalMaker® vs Non-GoalMaker®

Asset Class	Investment Option	GoalMaker Assets		Non-GoalMaker Assets	
		Total balance	% of Total	Total balance	% of Total
Bond Funds	NC Fixed Income Fund	\$2,031,279,534	84.2%	\$381,637,708	15.8%
	NC Fixed Income Index Fund	\$0	0.0%	\$87,278,161	100.0%
	NC TIPS Fund	\$232,159,914	77.2%	\$68,517,098	22.8%
International Funds	NC International Fund	\$2,683,366,663	86.0%	\$436,450,476	14.0%
	NC International Index Fund	\$0	0.0%	\$152,161,138	100.0%
Large Cap Funds	NC Large Cap Core Fund	\$0	0.0%	\$2,139,690,797	100.0%
	NC Large Cap Index Fund	\$2,404,231,205	50.5%	\$2,352,504,329	49.5%
Other	NC Inflation Responsive Fund	\$717,333,524	89.7%	\$82,625,678	10.3%
Small Cap Funds	NC Small/Mid Cap Core Fund	\$974,704,940	76.3%	\$302,810,027	23.7%
	NC Small/Mid Cap Index Fund	\$0	0.0%	\$420,992,163	100.0%
Stable Value Fund	NC Stable Value Fund	\$411,208,837	22.4%	\$1,426,566,784	77.6%
Total		\$9,454,284,618	54.6%	\$7,851,234,358	45.4%

457b as of 03/31/2026

GoalMaker® asset allocation by fund GoalMaker® vs Non-GoalMaker®

Asset Class	Investment Option	GoalMaker Assets		Non-GoalMaker Assets	
		Total balance	% of Total	Total balance	% of Total
Bond Funds	NC Fixed Income Fund	\$223,306,289	80.2%	\$55,153,712	19.8%
	NC Fixed Income Index Fund	\$0	0.0%	\$21,197,780	100.0%
	NC TIPS Fund	\$30,897,297	70.1%	\$13,157,190	29.9%
International Funds	NC International Fund	\$266,026,830	78.8%	\$71,711,866	21.2%
	NC International Index Fund	\$0	0.0%	\$36,611,635	100.0%
Large Cap Funds	NC Large Cap Core Fund	\$0	0.0%	\$330,062,682	100.0%
	NC Large Cap Index Fund	\$240,720,537	40.0%	\$361,816,023	60.0%
Other	NC Inflation Responsive Fund	\$71,043,306	83.2%	\$14,313,041	16.8%
Small Cap Funds	NC Small/Mid Cap Core Fund	\$96,346,699	46.0%	\$113,268,983	54.0%
	NC Small/Mid Cap Index Fund	\$0	0.0%	\$58,454,188	100.0%
Stable Value Fund	NC Stable Value Fund	\$51,598,049	15.5%	\$280,248,253	84.5%
Total		\$979,939,006	42.0%	\$1,355,995,352	58.0%