

NC State Investment Fund, Inc.

NC State University, Campus Box 7207, Raleigh, NC 27695-7207

Inception Date: April 1, 1999

June 30, 2021

MARKET COMMENTARY

As vaccine distribution rates continued to accelerate during the second quarter of calendar 2021, global economies began to reopen and return to normal states of operation. In the United States, the economic backdrop appears healthy and trending in the right direction with a 6.4% year over year GDP growth in the first quarter and a steadily declining unemployment rate (5.9% as of June 30 vs a COVID peak of 14.8%). However, the velocity of the recovery has led to increased focus on inflation and the potential for an overheating economy. While the year-over-year CPI change of +5.4% in June is significant, the Federal Reserve continued to communicate its belief that recent spikes are transitory in nature and that they do not expect to raise their target rate until full employment is achieved and the economy is on sound footing.

Domestic equities, as measured by the S&P 500 Index, posted another strong return in the second quarter, gaining 8.6% and reaching another all-time high in late June. The index was up 40.8% for the one-year period ending June 30, 2021. In contrast to the first quarter, growth stocks outperformed value-oriented investments during Q2 with the Russell 1000 Growth Index returning 11.9% vs the Russell 1000 Value's gain of 5.2%. Small cap stocks, as measured by the Russell 2000 Index, lagged their larger counterparts in Q2 returning 4.3%, but outperformed for trailing 12 months, gaining 62.0%.

International equities, as measured by the MSCI EAFE Index, underperformed domestic stocks, but were positive in the second quarter as strong corporate earnings and accelerated vaccine roll-outs supported equity markets. The index posted a gain of 5.4% for the three-month period, bringing its one-year return to 32.9%. Emerging markets ended the quarter up 5.1% on the back of rising commodity prices and generally positive sentiment across the EM landscape.

Interest rate movements were uneven across the yield curve during the second quarter, with longer dated maturities experiencing falling yields (rising prices) and short dated instruments experiencing modest yield increases (falling prices). The 10-year Treasury yield began Q2 at 1.74% and steadily declined throughout the period, closing at 1.45%. Long-dated Treasuries, as measured by the Bloomberg Barclays US Treasury 20+ Year Index, were some of the best performers within fixed income during the period, gaining 6.8% while the 1-3 Year Treasury Index was one of the few indices to post a negative quarter, down -0.04%. Even with the strong return in the Q2, the long-dated Treasury index was down -10.7% over the last year. Credit sensitive investments were once again positive, with the Bloomberg Barclays HY Corporate Index returning 2.7% for the quarter and 15.4% for the year.

Looking ahead, leading indicators for the real economy continue to be positive and consumer confidence has nearly returned to pre-COVID levels. Additional metrics including housing starts, industrial production and unemployment point to a rebound in the US economy for the rest of 2021 and into calendar 2022. As new variants of COVID-19 become the norm, localized outbreaks could create speed bumps in the recovery, particularly if vaccine distribution rates begin to decelerate. Additionally, if inflation is sustained, the Federal Reserve may act more quickly than its communicated timeline, potentially stoking repricing within markets. As always, we will continue to maintain our long-term focus while being aware of shorter-term issues, with an eye toward providing strong risk-adjusted returns over an extended investment horizon.

This report is based on information available at the time of distribution. The information comprising this report has not been audited and is subject to change.

Fourth Quarter Fiscal Year 2021

PERFORMANCE

June 30, 2021						
Market Value	\$1,593,877,369			Participants		
Performance	QTD	CYTD	1 Year	3 Year	5 Year	10 Year
NCSIF	9.9%	19.3%	39.3%	15.1%	13.8%	10.5%
Policy Index (1)	5.7%	9.8%	29.2%	12.3%	11.2%	8.8%
Global Index (2)	5.7%	8.0%	26.3%	12.1%	11.3%	8.2%
BNY E&F Univ (3)	6.1%	11.0%	30.2%	11.9%	11.4%	8.8%
UNCIF	10.9%	21.3%	42.3%	16.2%	14.5%	10.8%
NCSIF Private Assets	11.0%	18.8%	34.0%	11.3%	11.6%	12.4%
BlackRock LPP	5.4%	11.3%	31.7%	12.4%	11.7%	

Note 1: Policy Index= NCSIF's Strategic Investment Policy Portfolio Index (SIPP)

Note 2: Global Index= 70% MSCI ACWI; 30% Bloomberg Barclays's Aggregate Bond Index

Note 3: BNY Mellon Endowment & Foundation Universe Median Return—
121 portfolios are represented for the one-year period ended June 30, 2021

FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At June 30, 2021 the Fund had \$1.59 Billion invested with several managers in a wide variety of asset classes and returned 9.9% for the quarter, and 39.3% for the 12 months ended June 30, 2021. The largest manager for the Fund, UNCMC, managed 82.0% of the Fund's assets. The UNC Investment Fund (UNCIF) produced a three-month return of 10.9%, and a 12-month return of 42.3% for the period ended June 30, 2021. The Fund employs additional private asset managers, who oversee 3.0% of the portfolio. This portion of the Fund produced a three-month and 12-month return of 11.0% and 34.0%, respectively, for the period ended June 30, 2021. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 12.0% of the portfolio. This investment returned 5.4% for the three months and 31.7% for the 12 months ended June 30, 2021. The remaining 3.0% of the portfolio is invested in cash with the State Treasurer's Short-Term Investment Fund (STIF). The LPP and cash provide important liquidity for the Fund, especially as the economy remains vulnerable to the Pandemic.

RISK METRICS

3 Year Period	Fund	UNCIF	Policy Index	MSCI ACWI
Annualized Return	15.1%	16.2%	12.3%	14.6%
Annualized Volatility	8.3%	8.2%	12.2%	18.0%
Annual Sharpe Ratio (1)	1.83	1.96	1.01	0.81
Correlation to Global Index	0.86	0.81	1.00	1.00
Max Drawdown	-7.9%	-7.2%	-14.4%	-21.4%

Note 1: Sharpe Ratio: Excess return per unit of risk

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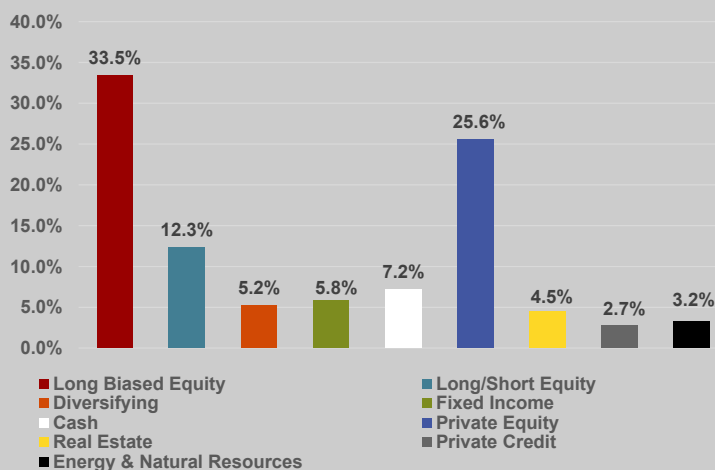
June 30, 2021

INVESTMENT STRATEGY

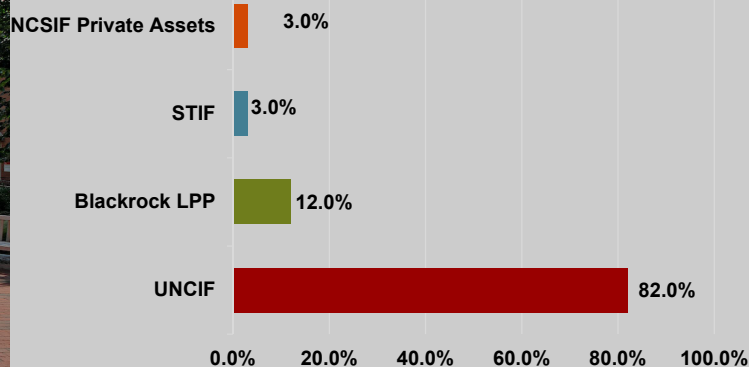
The Fund is managed as a broadly diversified portfolio with exposure to eight primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. The purpose of diversification is to provide reasonable assurance that no single security, class of securities, or investment manager has a disproportionate impact on the Fund's aggregate results. At times, the Fund invests in passive strategies. In working toward the Fund's investment strategy, the Fund invests in a number of niche managers that can employ different types of hedging strategies such as short-selling and derivative investing to help reduce the volatility of the Fund. The focus on controlling volatility preserves capital and benefits Fund participants through the power of compounding.



ASSET ALLOCATION



ALLOCATION BY MANAGER



HISTORY OF THE FUND

The NC State Investment Fund, Inc., (Fund) was established in April 1999 to combine NC State University's and its affiliated entities' endowments in an external pooled investment vehicle. The goal of the investment program for the Fund is to provide a real total return from assets invested that will preserve the purchasing power of Fund capital, while generating an income stream to support the spending needs of the University and its participants. Effective July 2008, the Fund partnered with UNC Management Company (UNCMC) to invest in the UNC Investment Fund (**UNCIF**), a broadly diversified portfolio emphasizing equity-related investments to achieve the fund's long-term return objective. The transition of assets to UNCMC was completed December 2009. In 2012, the Fund invested in a Liquid Policy Portfolio (**Blackrock LPP**) of Exchange Traded Funds (ETF's) providing 70% equity and 30% fixed income passive exposure. In 2017, the Fund partnered with a non-discretionary private asset advisor to continue its legacy private assets program (**NCSIF Private Assets**) investing in a diversified portfolio of direct private assets focusing on buyouts with complementary allocations to private credit and real asset opportunities. The remaining portion of the portfolio is invested in a short term cash vehicle (**STIF**) to fund capital calls and liquidity for operating needs.

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