

NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

December 31, 2021

MARKET COMMENTARY

The fourth quarter of 2021 continued to be positive with a 4.6% portfolio return, but as the quarter progressed, so did volatility. The VIX volatility index reached a one-year peak of 31.12 on December 1, before settling back down to 17.22 by December 31. Investors were concerned about inflation, supply chain disruption, labor market challenges, political stalemate in Washington, and the Federal Reserve Bank's likely actions in 2022 and 2023 to combat inflation. Year over year inflation stood at 7% at December 31, as measured by the US CPI, and the three-month increase was 1.6%. As inflation increased towards the end of calendar year 2021, US growth stocks lost ground.

Within the NC State Investment Fund, the three-month return of 4.6% was consistent with the Policy Benchmark at 4.6% and the Global Index of 4.7%. For the year, the Fund's 28.8% return exceeded both benchmarks at 15% and 12.3%, respectively. While the S&P 500 Index produced a 26.9% for the one-year period ended December 31, 2021, the UNC Investment Fund's return of 31.1% for the 12 months surpassed even the S&P 500. The performance for the Fund as a whole was reflective of the outstanding performance achieved by exceptional performance among alternative and private asset classes. At December 31, 2021, the Fund had a high overall allocation to global equity strategies (45%) and private strategies (38%). While the portfolio included only 11% in fixed income strategies and cash at December 31, both asset classes were well within the Fund's tactical targets.

Looking ahead, we expect to see a normalization of interest rates as the Fed aims for an inflation target of 2-3%. However, a period of continued high inflation and rising interest rates could stress growth equities, fixed income strategies, and debt-dependent corporations that have long benefited from low inflation and low interest rates. Labor market challenges, and the prospect of rapid wage inflation, have already led to rising prices in the US. Other challenges are omnipresent in the form of geopolitical tensions in Eastern Europe, and global trade challenges. Within the context of an always-changing world, we continue to work with exceptional managers, and we monitor near-term term market developments to understand the impact of market conditions on a portfolio designed for long term performance.

PERFORMANCE

| December 31, 2021 | | | | | | |
|----------------------|-----------------|-------|--------|--------------|--------|---------|
| Market Value | \$1,757,235,460 | | | Participants | | 10 |
| Performance | QTD | FYTD | 1 Year | 3 Year | 5 Year | 10 Year |
| NCSIF | 4.6% | 7.9% | 28.8% | 18.7% | 14.3% | 11.7% |
| Policy Index (1) | 4.6% | 4.8% | 15.0% | 16.3% | 11.1% | 9.5% |
| Global Index (2) | 4.7% | 3.9% | 12.3% | 15.8% | 11.3% | 9.3% |
| BNY E&F Univ (3) | 3.7% | 5.3% | 16.5% | 15.7% | 11.4% | 10.1% |
| UNCIF | 4.3% | 8.1% | 31.1% | 19.6% | 15.0% | 12.0% |
| NCSIF Private Assets | 8.8% | 20.3% | 42.9% | 17.6% | 15.5% | 14.0% |
| BlackRock LPP | 5.9% | 5.1% | 17.0% | 17.0% | 11.7% | |

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

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

Note 3: BNY Mellon Endowment & Foundation Universe Median Return—
127 portfolios are represented for the one-year period ended December 31, 2021

FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At December 31, 2021 the Fund ended with \$1.76 Billion invested with several managers in a wide variety of asset classes. The Fund returned 4.6% for the quarter, and 28.8% for the 12 months ended December 31, 2021. The largest manager for the Fund, UNCMC, managed 81% of the Fund's assets at December 31, and produced a three-month return of 4.3% and a 12-month return of 31.1%. The NCSIF employs additional private asset managers, who managed 4% of the portfolio. This portion of the Fund produced a three-month and 12-month return of 8.8% and 42.9%, respectively, for the period ended December 31, 2021. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 13% of the portfolio. This investment returned 5.9% for the three months and 17.0% for the 12 months ended December 31, 2021. This strategy also provides a good source of market liquidity at very low fees, and good overall performance. The remainder of the portfolio is invested in cash with the State Treasurer's Short-Term Investment Fund (STIF). Both the LPP and cash provide important liquidity for the Fund, especially as the economy remains vulnerable to the Pandemic, and particularly as the endowment spending produced by the Fund increases every year.

RISK METRICS

| 3 Year Period | Fund | UNCIF | Policy Index | MSCI ACWI |
|-----------------------------|-------|-------|--------------|-----------|
| Annualized Return | 18.7% | 19.6% | 16.3% | 20.4% |
| Annualized Volatility | 7.9% | 8.0% | 11.6% | 17.1% |
| Annual Sharpe Ratio (1) | 2.36 | 2.46 | 1.41 | 1.19 |
| Correlation to Global Index | 0.82 | 0.76 | 1.00 | 1.00 |
| Max Drawdown | -7.9% | -7.2% | -14.4% | -21.4% |

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

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.

Second Quarter Fiscal Year 2022

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Inception Date: April 1, 1999

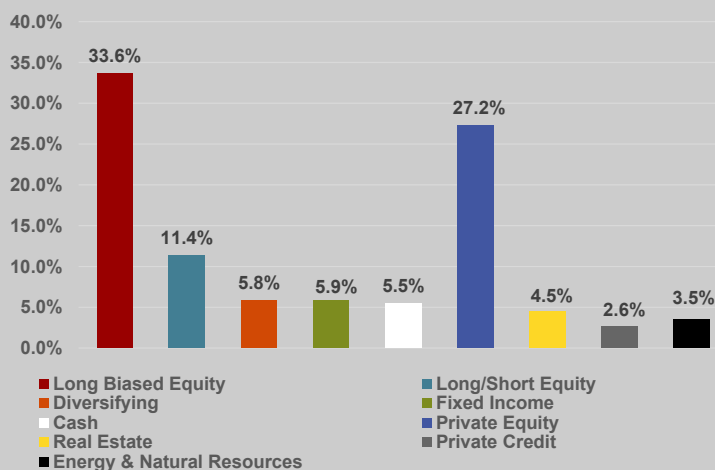
December 31, 2021

INVESTMENT STRATEGY

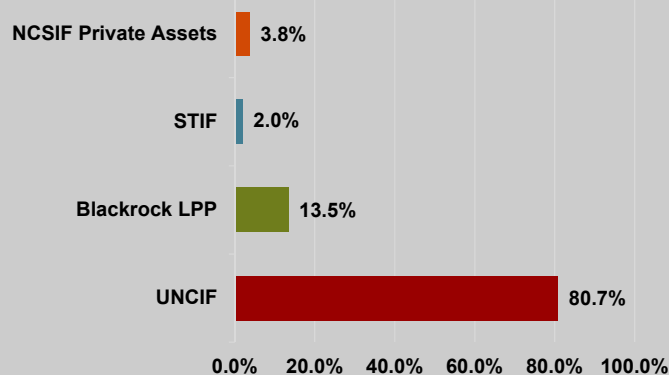
The Fund is managed as a broadly diversified portfolio with exposure to eight primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. 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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