

NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

September 30, 2021

MARKET COMMENTARY

The third quarter of 2021 continued on an upward trajectory, with continued growth in corporate earnings, a supportive Federal Reserve, and accelerating economic activity. However, as the quarter progressed, so did investors' worry about supply chain bottlenecks, inflation, and political strife over the Federal budget, all of which led to a re-emergence of volatility. In the United States, headline economic readings were mixed by the end of the period with the September unemployment percentage falling below 5% for the first time since March 2020, while consumer confidence began to erode. The Federal Reserve communicated its willingness to begin tapering while keeping their target rate at current levels, preferring to wait until the economy is on more stable footing to begin a hiking cycle. Inflation remained a key concern, with year over year CPI increases coming in above 5% for the three most recent months in the United States.

Domestic equities, as measured by the S&P 500 Index, were modestly positive in the third quarter, gaining 0.6% for the period with a -4.7% contraction in September. For the trailing one-year period, the index gained 30.0%. Value stocks, as measured by the Russell 1000 Value index, and small cap stocks, as measured by the Russell 2000 Index, were under pressure during the quarter, losing -0.8% and -4.4%, respectively. Over the longer one-year period, however, these two indices have added significant value relative to the S&P 500, with the Russell 1000 Value gaining 35.0% and the Russell 2000 Index posting a gain of 47.7%.

International equities, as measured by the MSCI EAFE Index, were essentially flat during the third quarter, returning -0.4%. While strict lockdown mandates were not re-instituted broadly, inflation and supply chain concerns led to a selloff later in the quarter, with the MSCI EAFE losing -2.8% in September alone.

Emerging markets were the outliers to the downside during the period, with the MSCI Emerging Markets Index losing -8.0% in Q3. The selloff in EM reflected concerns about China's regulatory crackdown, and risk of contagion effects caused by the potential collapse and bond default of Evergrande, one of China's largest real estate developers. While many stock indices have posted double digits year to date, the MSCI Emerging Markets is down -1.0%.

Interest rate movements were modest during the quarter, with the 10-year Treasury yield beginning the period at 1.45% and closing at 1.52%. Rates across the Treasury curve remained anchored as the market tried to balance a number of issues including inflation and waning economic momentum. Treasury Inflation protected securities (TIPs) were the standout performer within fixed income, generating a return of 1.7%, with most other security types returning close to 0%.

Looking ahead, Fed policy is of great concern, with the potential for a slowdown of asset purchases in the near term and rate increases in the intermediate term. The same threats that dominated the news cycle in recent weeks such as inflation and the supply chain continue to linger, creating continued uncertainty around the extent, duration, and ultimate impact of each. As always, we continue to monitor and remain cognizant of near-term market developments while focusing on building a long-term, structurally diversified portfolio.

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.

First Quarter Fiscal Year 2022

PERFORMANCE

| September 30, 2021 | | | | | | |
|----------------------|-----------------|-------|--------|--------|--------------|---------|
| Market Value | \$1,671,765,337 | | | | Participants | 10 |
| Performance | QTD | CYTD | 1 Year | 3 Year | 5 Year | 10 Year |
| NCSIF | 3.2% | 23.2% | 34.6% | 15.4% | 13.6% | 11.2% |
| Policy Index (1) | 0.1% | 9.9% | 22.0% | 11.3% | 10.4% | 9.3% |
| Global Index (2) | -0.7% | 7.2% | 18.4% | 10.7% | 10.3% | 9.4% |
| BNY E&F Univ (3) | 0.3% | 11.2% | 24.4% | 11.2% | 10.8% | 9.9% |
| UNCIF | 3.7% | 25.7% | 37.4% | 16.6% | 14.4% | 11.7% |
| NCSIF Private Assets | 10.6% | 31.3% | 39.9% | 14.6% | 14.2% | 12.6% |
| BlackRock LPP | -0.8% | 10.5% | 24.0% | 10.9% | 10.8% | |

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—
124 portfolios are represented for the one-year period ended September 30, 2021

FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At September 30, 2021 the Fund had \$1.67 Billion invested with several managers in a wide variety of asset classes and returned 3.2% for the quarter, and 34.6% for the 12 months ended September 30, 2021. The largest manager for the Fund, UNCMC, managed 81.4% of the Fund's assets. The UNC Investment Fund (UNCIF) produced a three-month return of 3.7%, and a 12-month return of 37.4% for the period ended September 30, 2021. The Fund employs additional private asset managers, who oversee 3.5% of the portfolio. This portion of the Fund produced a three-month and 12-month return of 10.6% and 39.9%, respectively, for the period ended September 30, 2021. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 12.8% of the portfolio. This investment returned -0.8% for the three months and 24.0% for the 12 months ended September 30, 2021. The remaining 2.3% 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 | 15.4% | 16.6% | 11.3% | 12.6% |
| Annualized Volatility | 8.5% | 8.5% | 12.3% | 18.2% |
| Annual Sharpe Ratio (1) | 1.80 | 1.94 | 0.91 | 0.69 |
| Correlation to Global Index | 0.85 | 0.80 | 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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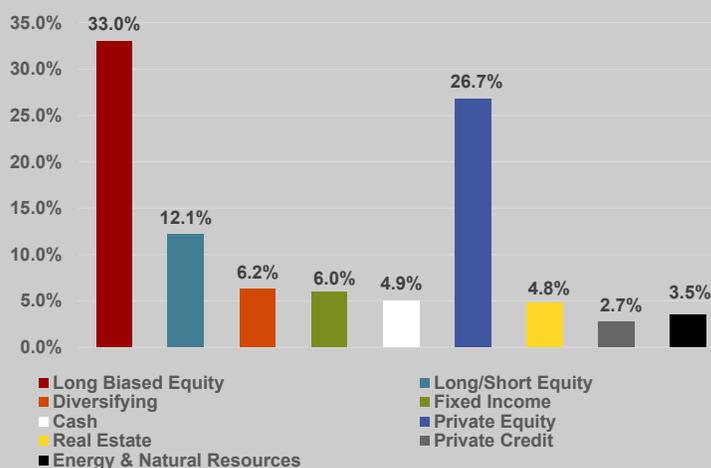
September 30, 2021

INVESTMENT STRATEGY

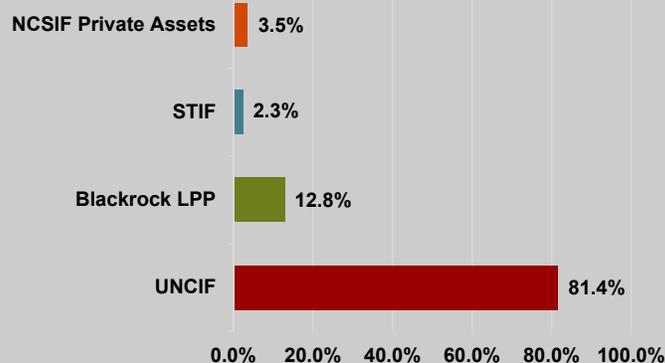
The Fund is managed as a broadly diversified portfolio with exposure to eight primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches.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