

# NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

March 31, 2022

## MARKET COMMENTARY

The first quarter of calendar year 2022 saw increasing volatility and negative returns across multiple asset classes, despite an overall positive return of 0.7% for the Fund. Two major factors were at play for most investors in the first quarter—inflation and geopolitics. The VIX volatility index reached a quarter-peak of 36.45 on March 7, 2022 before settling back down to 20.56 by March 31. Investors were especially concerned about inflation, supply chain disruption, and labor market challenges, with hopes that the Federal Reserve Bank's move to raise its key benchmark rates and to reduce its balance sheet in 2022 is enough to combat inflation. Year-over-year inflation for urban consumers at March 31, 2022 stood at 8.5% at March 31, the highest increase in decades. The second major factor at play was Russia's invasion of Ukraine on February 24, marking a dramatic escalation of regional conflict and stoking fears of widespread war in Europe for the first time since World War II. Reduced oil supply further exacerbated inflation. Growth stocks and tech stocks, after riding a wave of sector optimism and low inflation, were hit the hardest. Private equity, real estate, commodities and energy equities outperformed other asset classes.

Set against the backdrop of rising inflation and escalating geopolitical conflict, the Fund's three-month return of 0.7% significantly outperformed the Policy Benchmark and Global Benchmarks, which saw quarterly returns of -3.3% and -5.5%, respectively. The 12-month performance ended March 31, 2022 was even better measured against the two benchmarks, with the Fund returning 19.5% versus 7.1% for the Policy Index and 3.8% for the Global Index. While the S&P 500 returned -4.6% in Q1, the first quarterly decline since Q1 2020, intra-quarter movements were sharp, both up and down, with a positive 8.7% rally in the last three weeks of Q1. The Bloomberg Barclays US Aggregate Bond index (Agg) dropped by -5.9% in the quarter, its worst quarterly decline since 1980.

The Fund's outperformance was driven by UNC Investment Fund's return of 1.2% for Q1, and 21.4% for the one-year ended March 31. The performance for the Fund, as a whole, was reflective of the outstanding performance achieved through alternative and private asset classes, real estate, and energy and natural resources and the strength of diversification. In addition to UNCIF's strong performance, the NCSIF direct private assets program produced a quarterly return of 9.2% and a one-year return of 45.8%.

Looking ahead, we expect to see continued volatility as interest rate hikes continue and inflation concerns remain. The Federal Reserve Bank will aim to combat inflation through monetary policy without tipping the economy into recession. Even without an economic contraction, high inflation, rising interest rates, continued supply chain disruptions, and continued war in Eastern Europe and Russia could stress equities and fixed income markets. Within the context of a volatile world, we continue to invest 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

March 31, 2022							
Market Value	\$1,795,314,644				Participants		10
Performance	QTD	FYTD	1 Year	3 Year	5 Year	10 Year	
NCSIF	0.7%	8.7%	19.5%	16.9%	13.7%	11.1%	
Policy Index (1)	-3.3%	1.4%	7.1%	11.9%	9.6%	8.5%	
Global Index (2)	-5.5%	-1.8%	3.8%	10.3%	9.0%	7.8%	
UNCIF	1.2%	9.4%	21.4%	18.2%	14.5%	11.5%	
NCSIF Private Assets	9.2%	31.4%	45.8%	20.8%	17.2%	14.8%	
BlackRock LPP	-4.9%	-0.1%	5.4%	11.5%	9.6%		

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

## FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At March 31, 2022 the Fund ended with \$1.8 Billion invested with several managers in a wide variety of asset classes. The Fund returned 0.7% for the quarter and 19.5% for the 12 months ended March 31, 2022. The largest manager for the Fund, UNCMC, managed 82% of the Fund's assets at March 31 and produced a three-month return of 1.2% and a 12-month return of 21.4%. 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 9.2% and 45.8%, respectively, for the period ended March 31, 2022. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 13% of the portfolio. This investment declined for the quarter, with a -4.9% return for the three months and a positive 5.4% for the 12 months ended March 31, 2022. The remainder of the portfolio at March 31, 2022 was cash with the State Treasurer's Short-Term Investment Fund (STIF). Both the LPP and the STIF provide important liquidity for the Fund, especially as the economy remains vulnerable to inflation, global supply chain challenges, and rising interest rates; and NC State's spending distribution continues to grow.

## RISK METRICS

3 Year Period	Fund	UNCIF	Policy Index	MSCI ACWI
Annualized Return	16.9%	18.2%	11.9%	13.8%
Annualized Volatility	8.2%	8.3%	11.7%	17.2%
Annual Sharpe Ratio (1)	2.07	2.20	1.02	0.80
Correlation to Global Index	0.83	0.77	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.

Third Quarter Fiscal Year 2022

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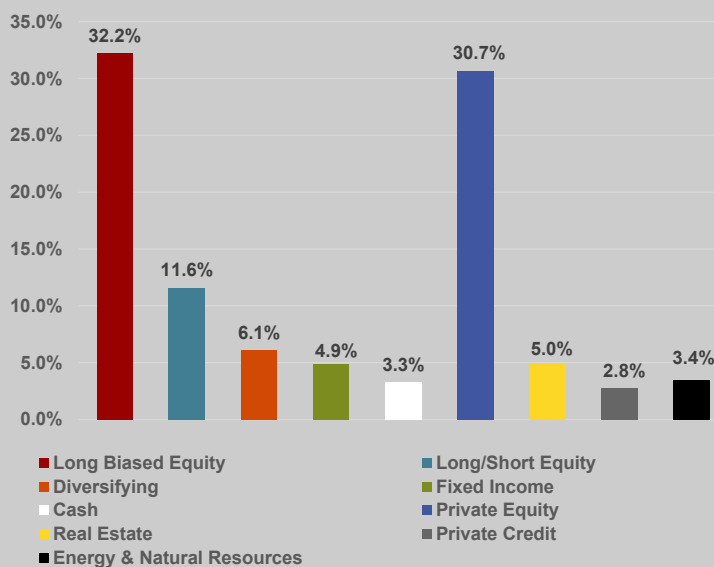
March 31, 2022

## INVESTMENT STRATEGY

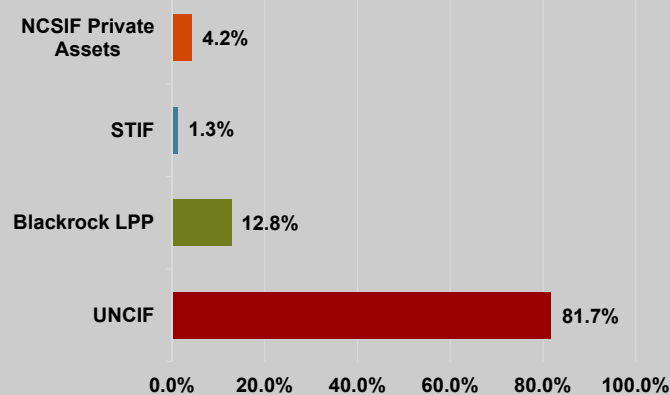
The Fund is managed as a broadly diversified portfolio with exposure to eight primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. 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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Third Quarter Fiscal Year 2022