

# NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

June 30, 2022

## MARKET COMMENTARY

The second quarter of calendar year 2022 saw increasing volatility and negative returns across most asset classes, except for private assets, energy and natural resources, real estate, and defensive strategies. The VIX volatility index reached a quarter-peak of 34.75 on May 9, 2022 before settling slightly back down to 28.71 by June 30, 2022. Investors were especially concerned about inflation with CPI prints rising to 9.1%, year over year, at June 30, 2022, with hopes that the Federal Reserve Bank's aggressive interest rate hikes and reduced balance sheet would be enough to combat inflation. The 9.1% for the 12 months ended June 30, 2022 was the highest 12-month increase since the period ending November 1981. The Fed raised its overnight rate by 75 basis points on June 15, 2022—the biggest hike in the rate since 1994.

Set against the backdrop of rising inflation, rising interest rates, and growing recession fears, the Fund's three-month return of -2.1% significantly outperformed the Policy Benchmark and Global Benchmarks, which saw quarterly losses of -10.2% and -12.4%, respectively. The Fund's 12-month performance ended June 30, 2022 was even better measured against the two benchmarks, with the Fund returning a positive 3.2% for the year, versus a negative -9% for the Policy Index and -14% for the Global Index. While the S&P 500 returned a negative -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 -4.7% in the quarter and lost 10.3% for the 12 months, its worst performance in decades. The MSCI All Country World Index saw a drop of 15.4% for the 12 months.

The Fund's outperformance was driven by UNC Investment Fund's return of -4.6% for the quarter, and 4.4% for the one year ended June 30, 2022. The performance for the Fund, as a whole, was reflective of the outstanding performance achieved through a heavy allocation to 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 3.1% and a one-year return of 35.4%.

Looking ahead, we expect to see continued volatility as long as interest rate hikes continue and inflation concerns remain. Even without an economic contraction—high inflation, rising interest rates, continued supply chain disruptions, labor supply issues, and continued war in Eastern Europe and Russia could continue to 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

June 30, 2022						
Market Value	\$1,658,714,226			Participants		10
Performance	QTD	CYTD	1 Year	3 Year	5 Year	10 Year
NCSIF	-5.1%	-4.4%	3.2%	13.7%	11.9%	10.6%
Policy Index (1)	-10.2%	-13.1%	-9.0%	6.8%	6.7%	7.3%
Global Index (2)	-12.4%	-17.2%	-14.0%	4.3%	5.4%	6.7%
BNY E&F Univ (3)	-7.3%	-9.5%	-5.9%	7.7%	7.5%	8.3%
UNCIF	-4.6%	-3.4%	4.4%	15.0%	12.9%	11.0%
NCSIF Private Assets	3.1%	12.6%	35.4%	20.7%	17.0%	14.6%
BlackRock LPP	-13.1%	-17.4%	-13.2%	5.3%	6.0%	

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

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

Note 3: BNY Mellon Endowment & Foundation Universe Median Return—112 portfolios are represented for the one-year period ended June 30, 2022

## FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At June 30, 2022, the Fund ended with \$1.66 billion invested with several managers in a wide variety of asset classes. After a slightly positive return for the first quarter of calendar 2022, the fund returned a loss of -5.1% for the second quarter, and a positive return of 3.2% for the fiscal year ended June 30, 2022. The largest manager for the Fund, UNCMC, managed 84% of the Fund's assets at June 30 and produced a three-month loss of -4.6% and a 12-month return of 4.4%. The NCSIF employs additional private asset managers, who managed 5% of the portfolio. This portion of the Fund produced a three-month positive return of 3.1% and a fiscal year gain of 35.4%. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was heavily exposed to long equity and long duration fixed income and suffered a loss consistent with market performance of -13.1% for the quarter and -13.2% for the fiscal year. The LPP performed only slightly better than the Global Index for the full fiscal year, and ended the quarter at 8.9% of the Fund. The remainder of the portfolio at June 30, 2022 was cash with the State Treasurer's Short-Term Investment Fund (STIF). Because the LPP has next day liquidity for the Fund, it has played an important role in providing liquidity for endowment spending each year. Liquidity continues to be important since the economy remains vulnerable to near-term volatility, and NC State's spending distribution continues to grow.

## RISK METRICS

3 Year Period	Fund	UNCIF	Policy Index	MSCI ACWI
Annualized Return	13.7%	15.0%	6.8%	6.2%
Annualized Volatility	8.7%	8.7%	12.3%	18.0%
Annual Sharpe Ratio (1)	1.57	1.72	0.55	0.34
Correlation to Global Index	0.85	0.80	0.99	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.

Fourth Quarter Fiscal Year 2022

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Inception Date: April 1, 1999

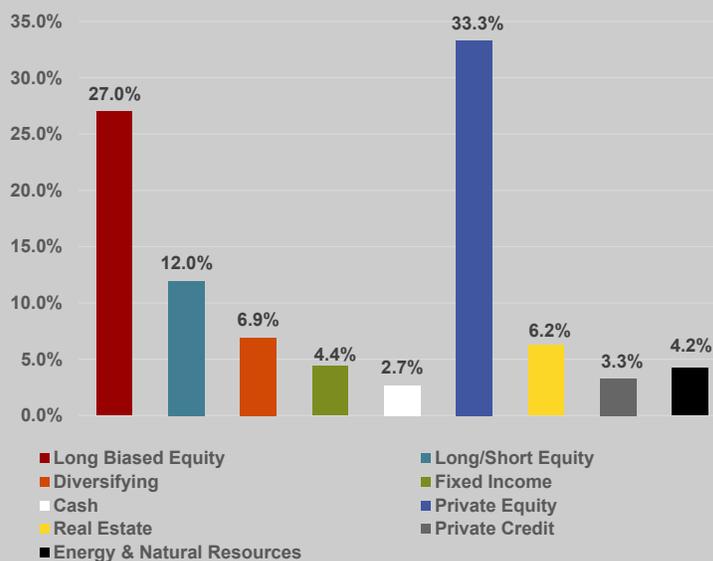
June 30, 2022

## INVESTMENT STRATEGY

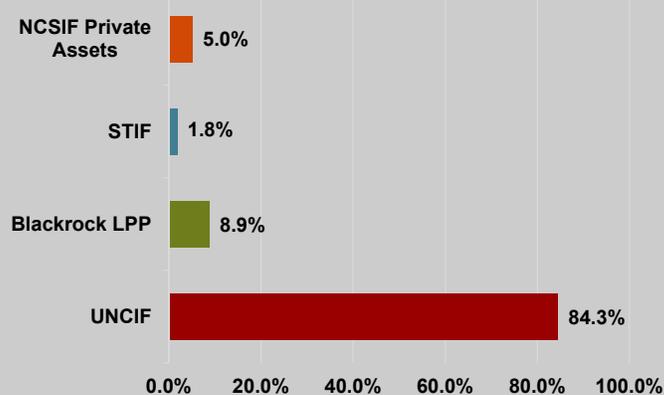
The Fund is managed as a broadly diversified portfolio with exposure to eight primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches.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