

**NC STATE INVESTMENT FUND, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2022 and 2021**

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NC State Investment Fund, Inc.  
Financial Statements  
For the Years Ended June 30, 2022 and 2021

Contents

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<b>Independent Auditors' Report</b>	1 - 3
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<b>Management's Discussion and Analysis (Unaudited)</b>	4 - 10
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<b>Financial Statements</b>	
Statements of Net Position	12
Statements of Changes in Net Position	13
Notes to the Financial Statements	15 - 23

---

<b>Supplementary Information</b>	
Participants' Net Position Graph - Long Term Investment Pool (LTIP)	25 - 26

---

<b>Internal Control and Compliance Matters</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28 - 29

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
NC State Investment Fund, Inc.

### ***Opinion***

We have audited the accompanying financial statements of NC State Investment Fund, Inc. (the "Fund"), a nonprofit organization and a component unit of North Carolina State University, which comprise the statements of net position as of June 30, 2022 and 2021, and the related statements of changes in net position for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Investment Fund, Inc., as of June 30, 2022 and 2021, and the respective changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of NC State Investment Fund, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NC State Investment Fund, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audits of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions.



Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NC State Investment Fund, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the NC State Investment Fund, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.



We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise NC State Investment Fund, Inc.'s basic financial statements. The supplementary information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2022 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Williams Dverman Pierce, LLP*

Greensboro, North Carolina  
August 25, 2022

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### (UNAUDITED)

#### INTRODUCTION

This discussion and analysis provides an introduction and overview of the financial position and activities of the NC State Investment Fund, Inc. (the "Fund") for the fiscal year ended June 30, 2022 with comparative information for the fiscal year ended June 30, 2021. Management has prepared the discussion and analysis, which should be read in conjunction with the financial statements and the note disclosures. The Fund is a North Carolina not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and was established to operate a pooled investment vehicle for North Carolina State University (the "University"), the Endowment Fund of the University (the "Endowment Fund"), and other University-associated entities.

The Fund was established in 1998 and began operations in April 1999. The Fund is classified as a governmental external investment pool that is not registered with the Securities and Exchange Commission (the "SEC") as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The original pool, the long-term investment pool (the "LTIP"), was established as an external pooled investment vehicle for the Endowment Fund and other University-associated entities' endowed funds. In July 2014, the Fund established a second pool, the NC State Intermediate Term Fund (the "ITF"), as a vehicle to invest the excess operating cash of these entities.

Included in this report are the Statements of Net Position, Statements of Changes in Net Position, Notes to the Financial Statements, and Participants' Net Position Graph. These financial statements have been prepared in accordance with the presentation and disclosure requirements of the Governmental Accounting Standards Board ("GASB"). The GASB pronouncements establish financial reporting standards for all state and local governments and related entities.

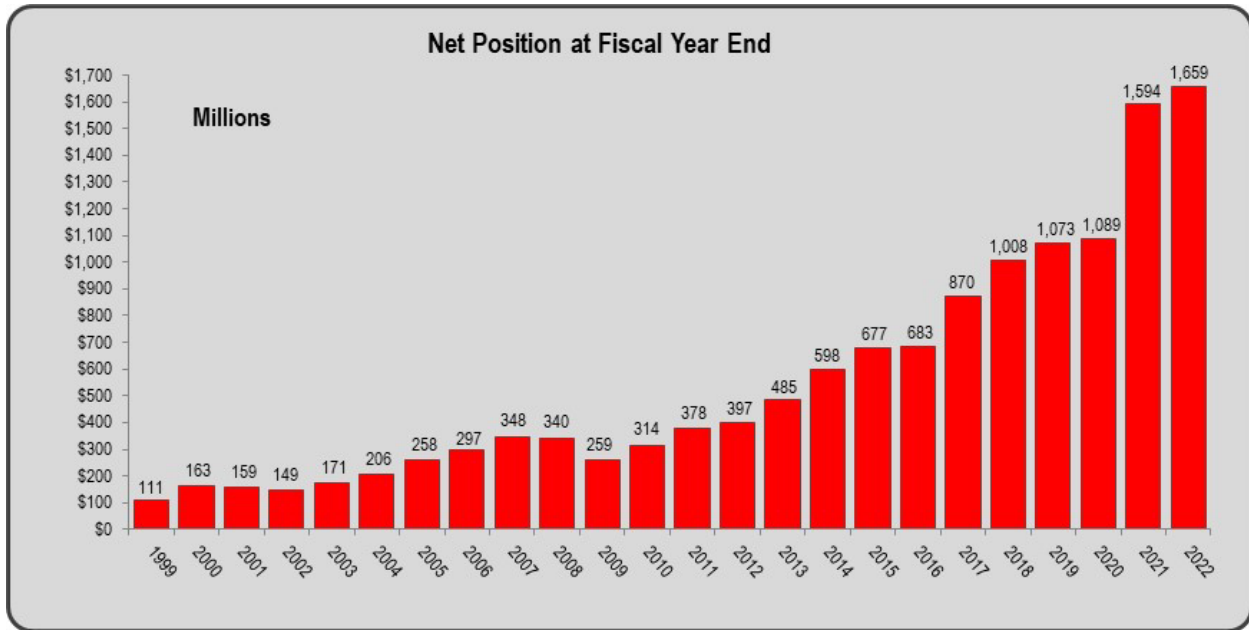
#### FINANCIAL HIGHLIGHTS

##### *Long-Term Investment Pool ("LTIP")*

The primary investment objective for the LTIP is to earn a total return (net of investment and custodial fees) within prudent levels of risk, sufficient to maintain in real terms the purchasing power of the LTIP and to meet the spending needs of the participants. To help meet this investment objective, the LTIP invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund.

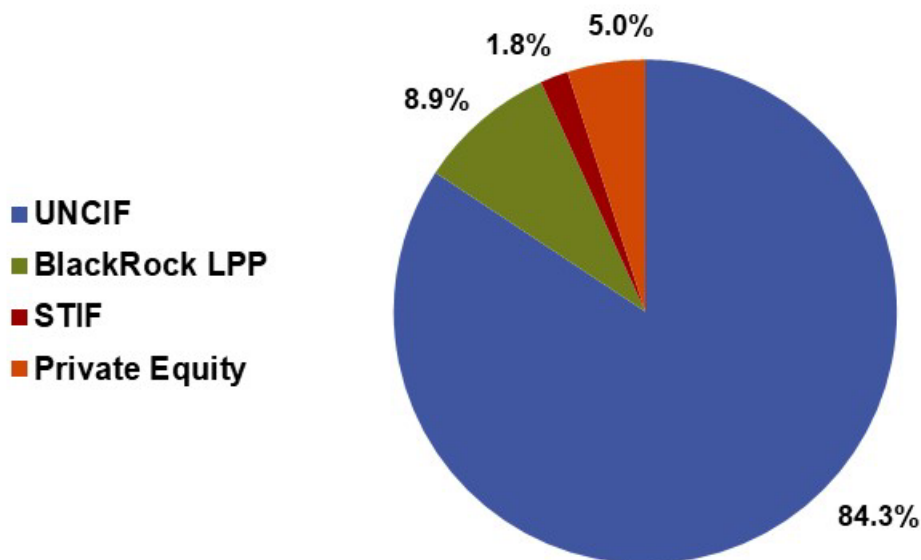
As shown in the chart on the next page, since the LTIP's inception in April 1999, net position has increased to \$1.659 billion, which consists of approximately \$1.086 billion in additions (\$231 million of which is from initial positions added to the Fund), \$1.047 billion in net earnings and appreciation, minus \$474 million in participant spending withdrawals. For fiscal year ended June 30, 2022, change in net position was attributable to approximately \$80 million in additions, \$47 million in net earnings and appreciation, minus \$62 million in participant spending withdrawals.



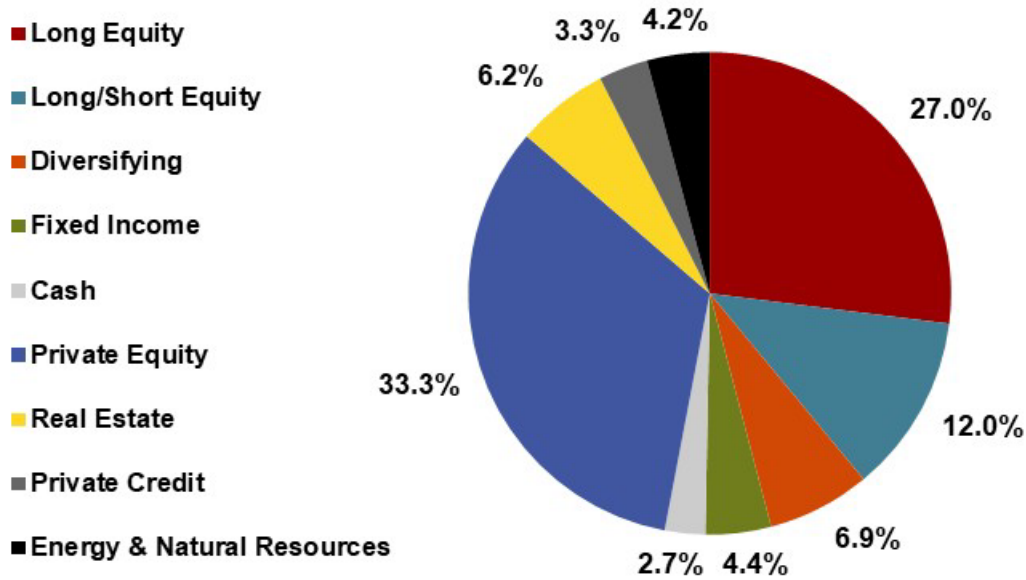


During the fiscal year ended June 30, 2022, the LTIP continued its investment with UNC Management Company (“UNCMC”). UNCMC provides investment management services to the constituent institutions of the UNC System through a pooled investment vehicle called the UNC Investment Fund (the “System Fund”). The LTIP began investing its non-committed assets with the System Fund effective July 2008 with completion of the transition occurring December 2009, and has a 13.4% membership interest in the System Fund as of June 30, 2022.

In addition to the allocation with the System Fund of \$1.4 billion as of June 30, 2022, the LTIP has \$83 million with other managers in private equity funds, \$147 million in a BlackRock Liquid Policy Portfolio (“LPP”), and \$30 million in the State Treasurer’s Short-Term Investment Fund (the “STIF”).



The LTIP asset allocation as of June 30, 2022 is as follows:



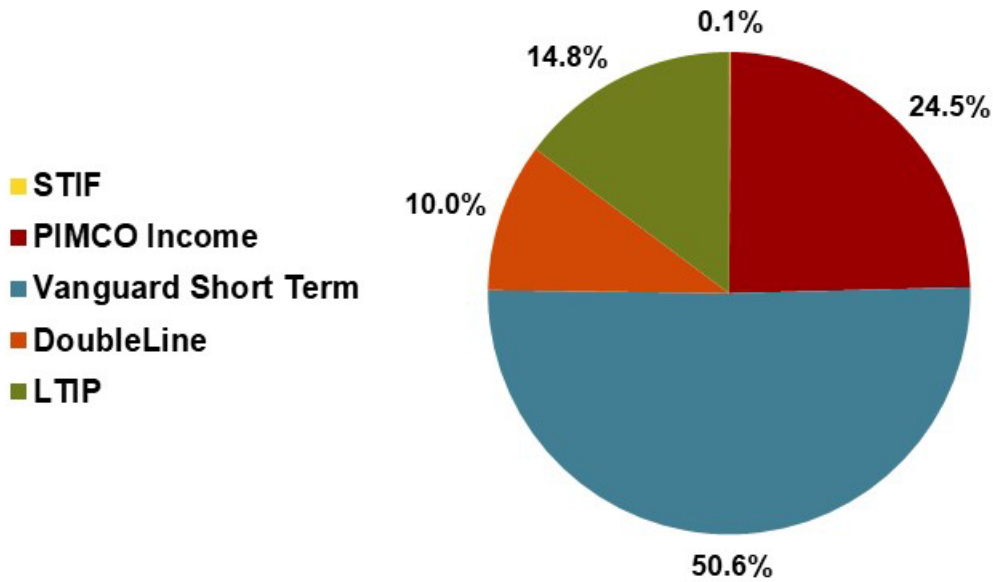
For the fiscal year ended June 30, 2022, the LTIP experienced a net investment return of 3.2% compared to the policy benchmark of -9.0%. For the fiscal year ended June 30, 2021, the LTIP experienced a net return of 39.3% compared to the policy benchmark return of 29.2%. The LTIP’s annualized 5-year return as of June 30, 2022 was 11.9% as compared to the policy benchmark of 6.7% and the System Fund of 12.9%.

*Intermediate Term Fund (“ITF”)*

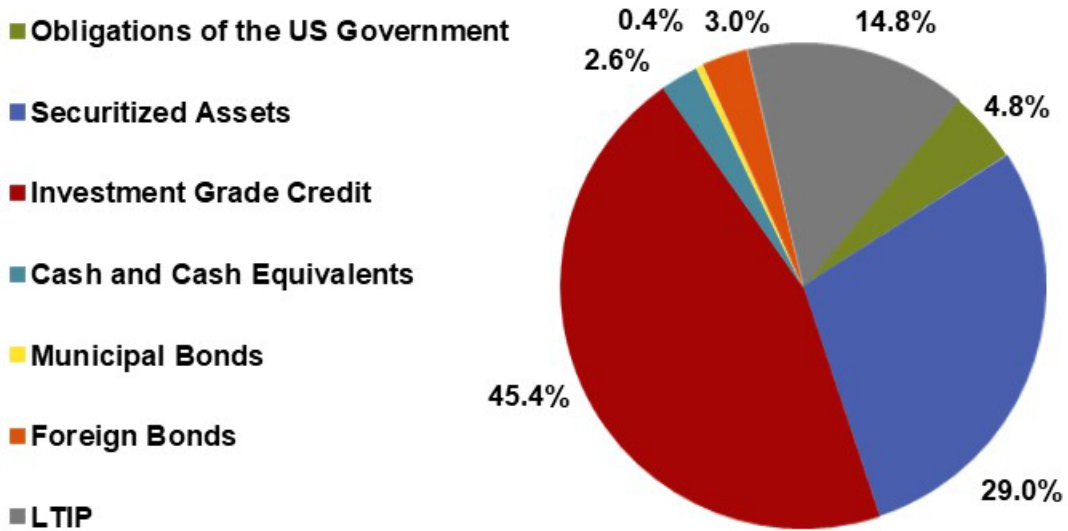
The ITF was established on July 3, 2014 with an initial investment of \$122 million and with additional investments has grown to \$317.5 million as of June 30, 2022. The ITF consists of participants’ excess operating cash balances, which are defined as funds not needed for normal operating purposes. Generally, the ITF will not include funds needed within the next year, endowed funds, or those funds that are specifically excluded by law or contractual agreement. Earnings of the ITF are reinvested until an operation need arises.

The primary investment objectives for the ITF are preservation and safety of principal; liquidity; and maximization of returns within acceptable levels of risk. Because of concerns about potential changes in monetary policy and rising interest rates, duration is limited. The investment policy calls for an average weighted maturity between one and five years, with an overall credit rating in general of A+/A as rated by a nationally-recognized rating agency. For any mutual funds selected by the ITF, their respective approved investment policy guidelines supersede those of the ITF.

ITF contributions are invested in three mutual funds held with DoubleLine, Vanguard, and PIMCO, STIF and the LTIP.



The ITF asset allocation as of June 30, 2022 is as follows:



For the fiscal year ended June 30, 2022, the ITF experienced a net investment return of -5.7% compared to the Barclays 1-3 year US Treasury Index of -3.5%. For the fiscal year ended June 30, 2021, the ITF experienced a net return of 5.6% compared to the Barclays 1-3 year US Treasury Index of 0.0%. The SEC Yield is based on a formula mandated by the SEC that allows fairer comparison of bond mutual funds or exchange-traded funds (“ETFs”). The yield figure approximates the yield an investor would receive in a year by assuming that bonds in the portfolio are held to maturity, all dividends and interest income reinvested, and all fees and expenses deducted. The SEC Yield for the fund was 4.0% and 2.0% for the fiscal years ended June 30, 2022 and 2021, respectively.

**USING THE FINANCIAL STATEMENTS**

The Fund's Annual Financial Report includes the following four components:

- Statements of Net Position
- Statements of Changes in Net Position
- Notes to the Financial Statements
- Supplementary Information:
  - Participants' Net Position Graph (LTIP)

**COMPARATIVE CONDENSED FINANCIAL STATEMENT INFORMATION****Condensed Statements of Net Position**

The Condensed Statements of Net Position present the financial position of the Fund at the end of the fiscal year and include all assets and liabilities of the Fund by pool. Net position represents the difference between total assets and total liabilities, and is one indicator of the financial condition of the Fund.

The following table summarizes and compares the LTIP's assets, liabilities, and net position at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 29,633,897	\$ 47,936,427
Long-term investments, at fair value	<u>1,629,952,957</u>	<u>1,546,768,422</u>
<b>Total Assets</b>	<u>\$ 1,659,586,854</u>	<u>\$ 1,594,704,849</u>
<b>Liabilities</b>		
Payables - current	\$ 872,628	\$ 827,479
<b>Total Liabilities</b>	<u>872,628</u>	<u>827,479</u>
<b>Net Position - Restricted</b>	<u>1,658,714,226</u>	<u>1,593,877,370</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,659,586,854</u>	<u>\$ 1,594,704,849</u>

Cash and cash equivalents include the amount held in the STIF. Payables represent amounts due for investment management fees.

The following table summarizes the ITF's assets, liabilities, and net position at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 184,395	\$ 138,281
Intermediate term investments, at fair value	317,320,257	264,148,973
<b>Total Assets</b>	<u>\$ 317,504,652</u>	<u>\$ 264,287,254</u>
<b>Net Position - Restricted</b>	<u>\$ 317,504,652</u>	<u>\$ 264,287,254</u>
<b>Total Net Position</b>	<u>\$ 317,504,652</u>	<u>\$ 264,287,254</u>

Cash and cash equivalents include the amount held in the STIF.

### Condensed Statements of Changes in Net Position

The Condensed Statements of Changes in Net Position represent the Fund's results of operations.

The following table summarizes and compares the LTIP's changes in net position for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<b>Operating Income</b>		
Investment appreciation, net	\$ 54,449,717	\$ 451,507,968
<b>Total Operating Income</b>	<u>54,449,717</u>	<u>451,507,968</u>
<b>Operating Expenses</b>		
Investment management fees	6,926,770	5,330,795
Investment custodial fees	205,168	94,728
Other expenses	597,405	500,865
<b>Total Operating Expenses</b>	<u>7,729,343</u>	<u>5,926,388</u>
<b>Net Operating Gains</b>	46,720,374	445,581,580
<b>Participant Additions</b>	80,267,652	111,283,730
<b>Participant Withdrawals</b>	<u>(62,151,170)</u>	<u>(51,717,324)</u>
<b>Total Net Additions</b>	<u>18,116,482</u>	<u>59,566,406</u>
<b>Change in Net Position</b>	64,836,856	505,147,986
<b>Net Position</b>		
Beginning of year	1,593,877,370	1,088,729,384
End of year	<u>\$ 1,658,714,226</u>	<u>\$ 1,593,877,370</u>

The following table summarizes the ITF's changes in net position for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<b>Operating Income</b>		
Investment (depreciation) appreciation, net	\$ (20,054,814)	\$ 12,347,909
<b>Total Operating Income</b>	<u>(20,054,814)</u>	<u>12,347,909</u>
<b>Operating Expenses</b>		
Investment management fees	214,011	193,556
Investment custodial fees	38,637	22,277
Other expenses	50,010	36,739
<b>Total Operating Expenses</b>	<u>302,658</u>	<u>252,572</u>
<b>Net Operating (Losses) Gains</b>	(20,357,472)	12,095,337
<b>Participant Additions</b>	78,200,000	68,000,000
<b>Participant Withdrawals</b>	(4,625,130)	(4,475,082)
<b>Total Net Additions</b>	<u>73,574,870</u>	<u>63,524,918</u>
<b>Change in Net Position</b>	53,217,398	75,620,255
<b>Net Position</b>		
Beginning of year	264,287,254	188,666,999
End of year	<u>\$ 317,504,652</u>	<u>\$ 264,287,254</u>

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the financial statements taken as a whole. The notes to the financial statements can be found immediately following the Fund's financial statements.

### Supplementary Information

The supplementary information section on pages 25 through 26 includes the Participants' Net Position Graph for the LTIP at June 30, 2022 and 2021. This information is not mandatory, but is included to provide details for the participants of the Fund.

### Contacting the NC State Investment Fund, Inc.

An electronic version of this report is available by accessing the Foundations Accounting and Investments home page at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund/> or by calling (919) 513-7149.

# **FINANCIAL STATEMENTS**

NC State Investment Fund, Inc.  
 Statements of Net Position  
 June 30, 2022 and 2021

	ASSETS	
	2022	2021
<b>Current Assets</b>		
Cash and cash equivalents (Notes 1 and 2)	\$ 29,818,292	\$ 48,074,708
<b>Total Current Assets</b>	<u>29,818,292</u>	<u>48,074,708</u>
<b>Noncurrent Assets</b>		
Intermediate term investments, at fair value (Notes 1 and 2)	270,292,142	234,462,112
Long-term investments, at fair value (Notes 1 and 2)	1,629,952,957	1,546,768,422
<b>Total Noncurrent Assets</b>	<u>1,900,245,099</u>	<u>1,781,230,534</u>
<b>Total Assets</b>	<u>\$ 1,930,063,391</u>	<u>\$ 1,829,305,242</u>
	<b>LIABILITIES</b>	
<b>Liabilities</b>		
Payables - current (Note 1)	\$ 872,628	\$ 827,479
<b>Total Liabilities</b>	<u>872,628</u>	<u>827,479</u>
	<b>NET POSITION</b>	
<b>Net Position - Restricted</b>	<u>1,929,190,763</u>	<u>1,828,477,763</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,930,063,391</u>	<u>\$ 1,829,305,242</u>

See accompanying notes to the financial statements.



NC State Investment Fund, Inc.  
**Statements of Changes in Net Position**  
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Additions</b>		
Participant additions	\$ 136,905,243	\$ 153,500,330
Investment income	9,280,489	6,368,989
Realized appreciation on investment transactions, net (Note 2)	20,158,765	27,977,460
Unrealized appreciation on investments, net (Note 2)	4,205,963	424,516,783
<b>Total Additions</b>	<u>170,550,460</u>	<u>612,363,562</u>
<b>Deductions</b>		
Participant withdrawals (Note 1)	61,862,170	55,162,446
Investment management fees	7,084,070	5,465,127
Investment custodial fees	243,805	117,005
Other expenses	647,415	537,604
<b>Total Deductions</b>	<u>69,837,460</u>	<u>61,282,182</u>
<b>Change in Net Position</b>	100,713,000	551,081,380
<b>Net Position</b>		
Beginning of year	1,828,477,763	1,277,396,383
End of year	<u>\$ 1,929,190,763</u>	<u>\$ 1,828,477,763</u>

See accompanying notes to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

**Note 1. Nature of Activities and Significant Accounting Policies**

Nature of activities: The NC State Investment Fund, Inc., (the "Fund") is a governmental not-for-profit organization, established in 1998 and began operations in April 1999, as a separately incorporated external investment fund pool, reporting under the guidelines of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement No. 34, *Basic Financial Statement and Management Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. An external pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests in an investment portfolio on the participants' behalf. The Fund is classified as a non-rated "2a-7-like" pool which is an external investment pool that is not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The original pool, the long-term investment pool (the "LTIP"), was established as an external pooled investment vehicle for North Carolina State University, the Endowment Fund of the University and other University-associated entities' endowed funds. In July 2014, the Fund established a second pool, the NC State Intermediate Term Fund (the "ITF"), as a vehicle to invest the excess operating cash of these entities. Detailed information regarding the participants in the Fund is available in the Supplementary Information section of the financial statements.

As of June 30, 2022 and 2021, 84.3% and 82.0%, respectively, of the LTIP was managed by UNC Management Company ("UNCMC") as a member of the System Fund. The System Fund was organized as a North Carolina limited liability company in 2002 and was granted tax-exempt status under Internal Revenue Code Section 501(c)(3) effective July 1, 2008. Effective July 1, 2009, UNCMC adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

A summary of the Fund's significant accounting policies follows:

Basis of accounting/measurement focus: The financial statements of the Fund have been prepared on the accrual basis of accounting and the economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

As permitted under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Fund has elected not to apply Financial Accounting Standards Board Statements of Financial Accounting Standards issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Cash and cash equivalents: This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (the "STIF"). The STIF is not FDIC insured and has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty. Cash and cash equivalents held by the LTIP and the ITF at June 30, 2022 were \$29,633,897 and \$184,395, respectively. Cash and cash equivalents held by the LTIP and the ITF at June 30, 2021 were \$47,936,427 and \$138,281, respectively.

**Note 1. Nature of Activities and Significant Accounting Policies (continued)**

Intermediate term investments: This classification includes investments in three publicly traded mutual funds holding securities with an average duration of less than five years. Each of these funds are traded on a recognized securities exchange and will be valued at that day's last reported trade price or the official closing price on the exchange where the funds are primarily traded.

Long-term investments: This classification includes investments in a 501(c)(3) limited liability company (System Fund), private assets, and the LPP, a bundle of exchange-traded funds. The System Fund's investments are managed by external investment firms and advisors and are diversified both by asset class (e.g., common stocks and fixed income securities) and within asset classes (e.g., by economic sector, geographic area, industry, quality, and size). The fair values of all debt and equity securities with readily determinable fair values are based on quoted market prices for the System Fund. Investments for which a readily determinable fair value does not exist may include investments in venture capital funds, hedge funds, and limited partnerships for which underlying securities may include marketable debt and equity securities. These investments are carried at estimated fair values as provided by the respective fund managers of the investments. UNCMC, the investment manager of the System Fund, reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Private equities include venture capital partnerships, buy-outs, and growth funds invested domestically as well as globally. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, primarily including observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued. Changes in unrealized appreciation on the carrying value of investments are reported in the accompanying Statements of Changes in Net Position.

BlackRock values the LPP's exchange-traded funds (the "ETFs") at fair value each day. The BlackRock Global Valuation Methodologies Committee oversees the valuation of investments for the LPP. ETFs traded on a recognized securities exchange are valued at that day's last reported trade price or the official closing price on the exchange where the ETF is primarily traded. If these methods yield a price for an investment deemed not representative of the fair value of the investment or if a price is not available, the investment will be valued based upon the price that the LPP can reasonably expect to receive from the current sale of that asset in an arm's-length transaction.

Payables: Payables at June 30, 2022 and 2021 consist of LTIP investment management fees due to UNCMC.

Participant withdrawals: Participants withdraw funds from the Fund each fiscal year based on spending needs.

**Note 1. Nature of Activities and Significant Accounting Policies (continued)**

Income taxes: The Fund is exempt from income taxes as a not-for-profit organization under Internal Revenue Code Section 501(c)(3). The Fund is not a private foundation because it is an organization described in Internal Revenue Code Section 509(a)(3).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would be not sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Fund, and has concluded that as of June 30, 2022 and 2021 there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Fund is no longer subject to income tax examinations for tax years prior to 2018.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from these estimates.

**Note 2. Deposits and Investments**

**Deposits** - During the years ended June 30, 2022 and 2021, the Fund invested cash in the STIF pursuant to G.S. 147-69.3 (b) and the North Carolina Administrative Code (20 NCAC 1G. 0207) which allows for certain entities having funds not required to be deposited with the State Treasurer to voluntarily deposit them with the State Treasurer for investment purposes.

The STIF is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating and had a weighted average maturity of .9 and 1.2 years as of June 30, 2022 and 2021, respectively. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool, which includes the STIF, are incorporated in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available on the North Carolina Office of the State Controller's website, <http://www.osc.nc.gov>.

**Investments** - The Fund's oversight is provided by the Fund's Members Board and its Board of Directors. The Members Board is responsible for providing governance and oversight to the Fund. The Board of Directors' primary role is to oversee the investment program, including development of the Investment Policy, in a prudent manner with regard to preserving principal while providing reasonable returns.

**Note 2. Deposits and Investments (continued)**

The Fund's third party service provider compiles fair value information based on published market rates in order to determine the net asset value of the Fund each month. Each participant holds Master Trust Units ("Units") of the Fund. The Unit price fluctuates based on the investment return of the investment pool. The Unit price is determined by dividing the net asset value of the investment pool by the total number of Units held by the participants. There are no involuntary participants in the Fund. The Fund has not provided or obtained any legally binding guarantees to support the value of the pool's investments. In the management of the Fund, the Members Board and Board of Directors are responsible for exercising ordinary business care and prudence under the facts and circumstances prevailing at the time of an action or decision. The Fund believes it is in compliance with all legal, regulatory or contractual provisions including the investment policy of the Fund and the laws and regulations of the State of North Carolina.

The Fund's equity position in the System Fund was \$1,399,031,951 and \$1,306,405,281 at June 30, 2022 and 2021, respectively. The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the System Fund are determined on a monthly market unit valuation basis. The System Fund reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The policies surrounding normal spending distributions (provided the aggregate amount does not exceed 7% of the prior fiscal year end market value) and other routine withdrawals (up to an aggregate amount of \$25 million during any given fiscal quarter) require a thirty day notice period. For withdrawals up to \$75 million (aggregated with routine withdrawals), a ninety day notice is required and funds may be withdrawn on a quarterly basis. If aggregate withdrawal requests from all participants in one quarter exceed more than 1% of the System Fund's net asset value, determined as of the prior fiscal quarter-end, the amount of withdrawals will be prorated by the request amount such that no more than 1% of the System Fund's net assets are paid out in one quarter. Final payment of a complete withdrawal is subject to a 5% holdback pending the completion of the audit for the fiscal year in which the final payment is expected.

Realized and unrealized appreciation: The Fund realized net appreciation of \$20,158,765 and \$27,977,460 from the sale of investments for the years ended June 30, 2022 and 2021, respectively. The calculation of realized appreciation is independent of the calculation of the net increase in the fair value of investments. The change in unrealized appreciation on investments during the years ended June 30, 2022 and 2021 was \$4,205,963 and \$424,516,783, respectively. These amounts take into account all changes in the fair values (including appreciation and depreciation) that occurred during the respective periods. The cumulative net unrealized gains on investments held at June 30, 2022 and 2021 is \$840,954,379 and \$836,748,416 respectively.

**Note 2. Deposits and Investments (continued)**

Investment and deposit risk: Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500. Investment risks associated with the System Fund are included in the audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy that addresses credit risk. The Fund minimizes concentrations of credit risk by undertaking transactions in a large number of asset classes across multiple investment managers. The value of securities indirectly held with the System Fund may decline if the issuer or guarantor of a fixed income security is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

At June 30, 2022 and 2021, the Fund had the following credit quality distribution for securities with credit exposure (based on S&P ratings):

	June 30, 2022	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Collective investment funds	\$ 146,889,489	\$ 5,971,327	\$ 19,355,579	\$ -	\$ -	\$ 744,866	\$ 120,817,717
Debt mutual funds	270,292,142	-	-	160,639,390	77,871,223	-	31,781,529
Totals	<u>\$ 417,181,631</u>	<u>\$ 5,971,327</u>	<u>\$ 19,355,579</u>	<u>\$ 160,639,390</u>	<u>\$ 77,871,223</u>	<u>\$ 744,866</u>	<u>\$ 152,599,246</u>

	June 30, 2021	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Collective investment funds	\$ 191,178,651	\$ -	\$ 15,271,037	\$ 26,770,759	\$ -	\$ 1,915,085	\$ 147,221,770
Debt mutual funds	234,462,112	-	-	-	139,128,898	34,707,802	60,625,412
Totals	<u>\$ 425,640,763</u>	<u>\$ -</u>	<u>\$ 15,271,037</u>	<u>\$ 26,770,759</u>	<u>\$ 139,128,898</u>	<u>\$ 36,622,887</u>	<u>\$ 207,847,182</u>

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund follows the Cash Management Plan approved by the North Carolina Office of the State Controller.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. For the ITF, 80% of the portfolio should be at least Investment Grade or higher as rated by the Nationally Recognized Statistical Rating Organization ("NRSRO"). No single credit/corporate issuer should constitute more than 20% of the portfolio, except for U.S. Treasuries which may constitute up to 100%. For the System Fund, diversification of credit risk is primarily achieved through asset allocation and augmented by investment mandates established with each external manager. There are no formal limits on the amount the System Fund may invest in any one issuer. However, the System Fund's Statement of Investment Objectives and Guidelines limits the amount that can be managed by an external manager to 10% of the System Fund. The Fund's investment in the System Fund represented 84.3% and 82.0% of its total investments at June 30, 2022 and 2021, respectively.

**Note 2. Deposits and Investments (continued)**

*Interest rate risk:* Interest rate risk is the risk the Fund may face should interest rate variances affect the fair value of investments. The Fund does not have a formal policy that addresses interest rate risk. As nominal interest rates rise, certain fixed income securities held directly or indirectly by the Fund may decline in value. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (yield) movements. A wide variety of factors (central bank monetary policies, inflation rates, general economic conditions, etc.) can cause interest rates to rise. All of these factors, collectively or individually, could cause the Fund to decline in value.

The following tables present investments by type and investment subject to interest rate risk at June 30, 2022 and 2021:

	June 30, 2022	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt securities				
Collective investment funds	\$ 146,889,489	\$ 120,817,717	\$ 5,971,327	\$ 20,100,445
Debt mutual funds	270,292,142	-	238,510,612	31,781,530
Total debt securities	417,181,631	\$ 120,817,717	\$ 244,481,939	\$ 51,881,975
Other securities				
UNC Investment Fund	1,399,031,951			
Private assets	83,158,889			
Total other securities	1,482,190,840			
Total investments subject to interest rate risk	<u>\$ 1,899,372,471</u>			

	June 30, 2021	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt securities				
Collective investment funds	\$ 191,178,651	\$ 147,221,769	\$ 17,186,122	\$ 26,770,760
Debt mutual funds	234,462,112	-	199,754,300	34,707,812
Total debt securities	425,640,763	\$ 147,221,769	\$ 216,940,422	\$ 61,478,572
Other securities				
UNC Investment Fund	1,306,405,281			
Private assets	48,357,011			
Total other securities	1,354,762,292			
Total investments subject to interest rate risk	<u>\$ 1,780,403,055</u>			



**Note 2. Deposits and Investments (continued)**

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund does not have a formal policy that addresses foreign currency risk. The Fund invests indirectly in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, and is subject to the risk that those currencies will decline in value relative to the base currency of the Fund. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the U.S. or abroad. As a result, the Fund's investments in foreign currency-denominated securities may reduce the Fund's returns.

Fair value measurements: To the extent available, the Fund's investments are recorded at fair value as of June 30, 2022 and 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
Level 2	Investments with inputs, other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Fair value measurements for which the readily determinable fair market value was not available are reported using net asset value ("NAV").

**Note 2. Deposits and Investments (continued)**

At June 30, 2022, the Fund measured its investments using fair value and net asset values as follows:

	<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
STIF	\$ 29,818,292	\$ -	\$ 29,818,292	\$ -
Collective investment funds	146,889,489	146,889,489	-	-
Debt mutual funds	270,292,142	270,292,142	-	-
Total investments measured at fair value	<u>446,999,923</u>	<u>\$ 417,181,631</u>	<u>\$ 29,818,292</u>	<u>\$ -</u>
Total investments measured at NAV	<u>1,482,190,840</u>			
Total fund	<u>\$ 1,929,190,763</u>			

Investments measured at NAV:

	<u>June 30, 2022</u>	<u>Unfunded commitments</u>	<u>Redemption frequency and redemption notice period</u>
UNC Investment Fund	\$ 1,399,031,951	\$ -	Varies, see page 21 for details
Private assets	83,158,889	40,709,169	Not eligible
Total investments measured at NAV	<u>\$ 1,482,190,840</u>	<u>\$ 40,709,169</u>	

At June 30, 2021, the Fund measured its investments using fair value and net asset values as follows:

	<u>June 30, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
STIF	\$ 48,074,708	\$ -	\$ 48,074,708	\$ -
Collective investment funds	191,178,651	191,178,651	-	-
Debt mutual funds	234,462,112	234,462,112	-	-
Total investments measured at fair value	473,715,471	<u>\$ 425,640,763</u>	<u>\$ 48,074,708</u>	<u>\$ -</u>
Total investments measured at NAV	<u>1,354,762,292</u>			
Total fund	<u>\$ 1,828,477,763</u>			

Investments measured at NAV:

	<u>June 30, 2021</u>	<u>Unfunded commitments</u>	<u>Redemption frequency and redemption notice period</u>
UNC Investment Fund	\$ 1,306,405,281	\$ -	Varies, see page 21 for details
Private assets	48,357,011	52,489,278	Not eligible
Total investments measured at NAV	<u>\$ 1,354,762,292</u>	<u>\$ 52,489,278</u>	

**Note 3. Donated Services**

The University has incurred various expenses on behalf of the Fund for the years ended June 30, 2022 and 2021 of approximately \$0 and \$46,000, respectively. These amounts have not been recorded in the accompanying financial statements.

**Note 4. Risk Management**

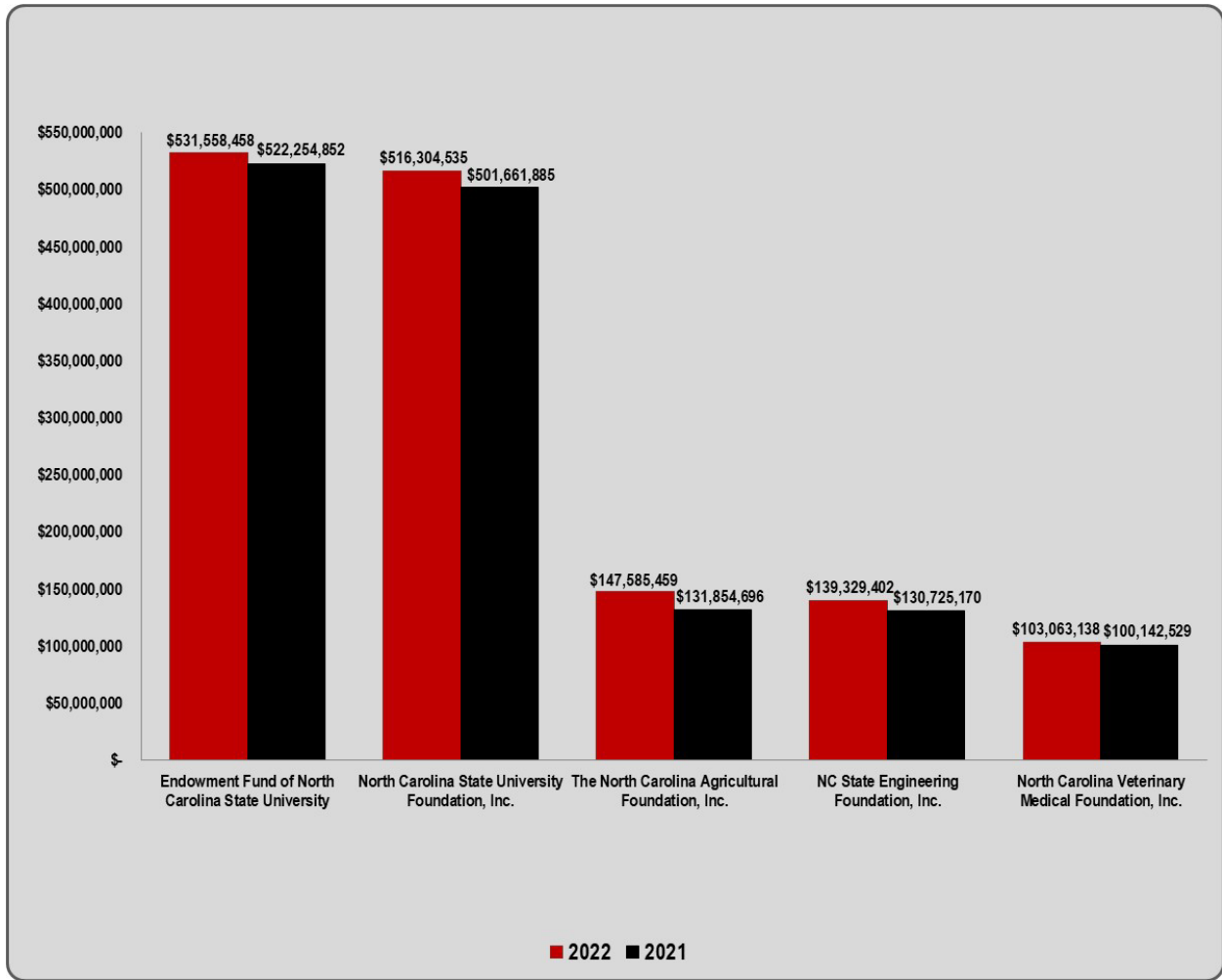
The Fund is exposed to various risks of loss related to torts, theft of assets and errors and omissions. The Fund's affairs are conducted by employees of North Carolina State University and exposures to loss resulting from this arrangement are handled by the University through a combination of methods, including participation in various risk pools administered by the State of North Carolina, purchase of commercial insurance and self-retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University located at [www.fis.ncsu.edu/controller/financial\\_reports](http://www.fis.ncsu.edu/controller/financial_reports). During fiscal years 2022 and 2021, the Fund purchased Directors and Officers Liability Insurance to insure those individuals serving on the Members Board, Board of Directors, and the officers who are employees of North Carolina State University acting on behalf of the Fund.

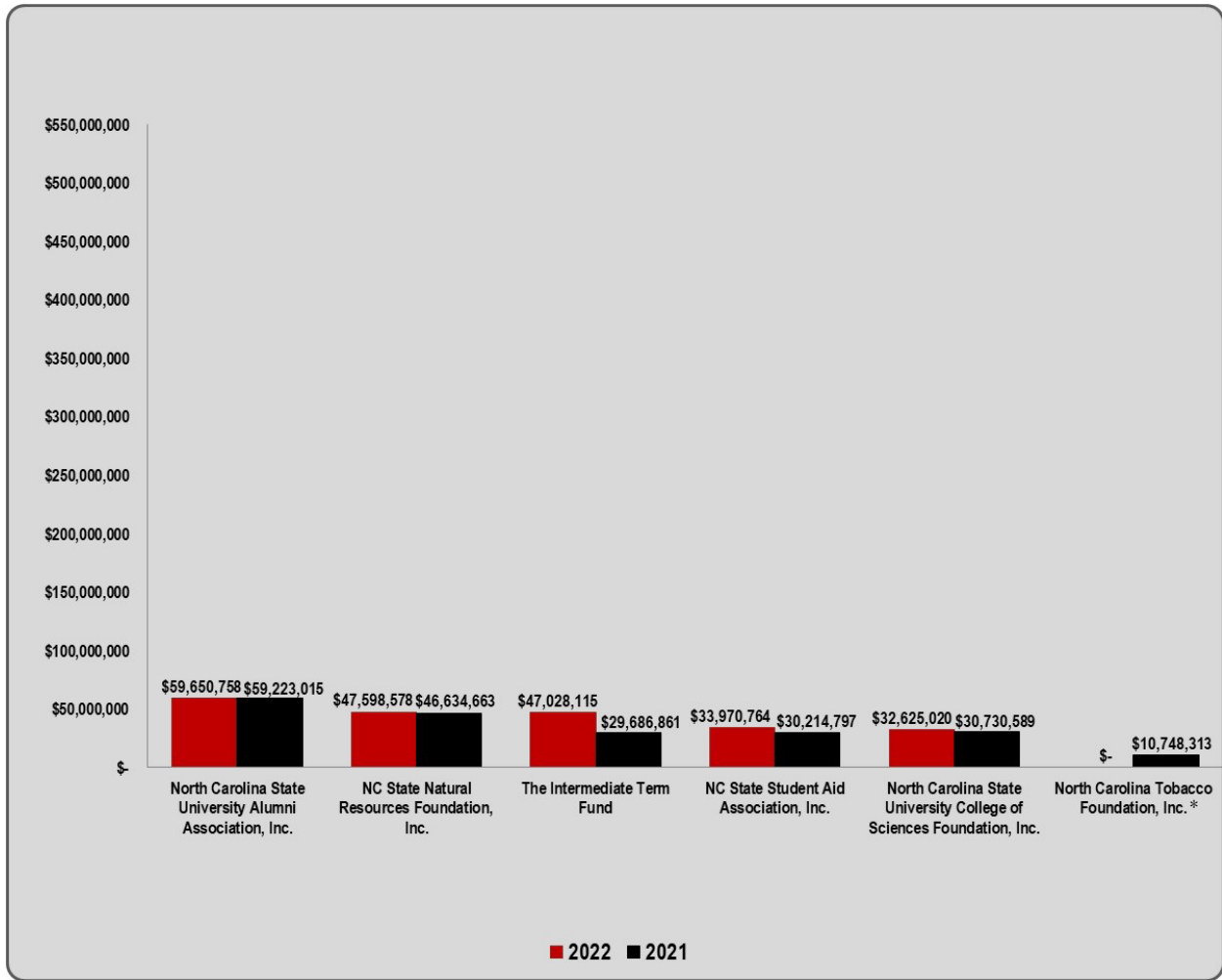
**Note 5. Subsequent Events**

The Fund has evaluated subsequent events through August 25, 2022, the date which the financial statements were available to be issued, and there were no subsequent events to report.

## **SUPPLEMENTARY INFORMATION**

Participants' Net Position Graph - Long-Term Investment Pool (LTIP)





\*Effective July 1, 2021, the North Carolina Tobacco Foundation, Inc. merged with The North Carolina Agricultural Foundation, Inc.

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# **INTERNAL CONTROL AND COMPLIANCE MATTERS**





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
NC State Investment Fund, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of NC State Investment Fund, Inc. (the "Fund") as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, and have issued our report thereon dated August 25, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Williams Dverman Pierce, LLP*

Greensboro, North Carolina  
August 25, 2022