

# NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

September 30, 2020

## MARKET COMMENTARY

Despite a weak September, global investment markets produced a strong third quarter for the calendar year even as the world continues to experience the pandemic. While COVID-19 remains a focal point for investors, accommodative monetary policy and hopes for continued fiscal support continued to drive markets higher. During the quarter, the Federal Reserve announced its policy shift to target average inflation rather than absolute levels, stating their willingness to keep rates low for an extended period of time. Unemployment rates in the United States continued to improve during the period with the headline rate declining to 7.9% in September. Retail sales and industrial production continue to rebound, albeit with less vigor than prior months. The Presidential election and potential changes in the balance of power in Congress add layers of complexity and uncertainty to the markets.

Domestic equities, as measured by the S&P 500 Index, posted some of the strongest returns among global asset classes, gaining 8.9% for the quarter. There continues to be disparity within US investments by market capitalization and style with the Russell 1000 Growth gaining 13.2% for the period and the Russell 1000 Value up just 5.6%. Additionally, small cap stocks, as measured by the Russell 2000 Index, continued to underperform their larger peer set, gaining 4.9% for the third quarter. For the one-year period ending September 30, 2020 large cap stocks returned 15.2%, mid-cap stocks were up 4.6%, and small-caps effectively broke-even at 0.4%.

Outside the US, equity performance varied as some countries (Notably Spain and France) experienced a second wave COVID outbreak. The EU and ECB continue to provide policy support although COVID-induced restrictions weighed on consumption and productivity. Shinzo Abe, Prime Minister of Japan, announced his resignation in September, and was replaced by Yoshihida Suga who, as the Chief Cabinet Secretary under Abe, has indicated he intends to maintain existing Abe-era policies. International stocks broadly, as measured by the MSCI EAFE Index, were positive for the period at 4.9%, bringing their one-year trailing return to 0.9%.

Emerging markets produced significant gains during the period, with the MSCI Emerging Markets Index returning 9.7%. Emerging markets continued to benefit from a modestly weaker US dollar and increased optimism about COVID-19 containment and eventual economic recovery. Emerging markets have significantly outperformed their international developed peers over the last year, gaining 10.9%.

Government yields remained steady during the quarter with the 10-Year Treasury opening and closing at 0.69%. The Bloomberg Barclays US AGG bond index was up modestly, gaining 0.62%, and bringing its one-year gain to 7.0%. While Treasury investments were predominately flat during the quarter, credit-sensitive assets produced strong relative gains with the Bloomberg Barclays US High Yield Credit Index gaining 4.6%. International bonds were also significantly positive, gaining 6% for the quarter.

Looking ahead, significant uncertainty remains due to impending United States' elections, and the continued economic impacts of COVID-19. Vaccine development looks positive, although there is uncertainty about timelines for mass production and distribution of any successful vaccines. Additionally, the United States government has been unable to agree on a continuation of fiscal stimulus, and continued delays could lead to further economic damage, slower economic recovery, and erosion in investors' confidence. We remain generally constructive on recovery prospects but are mindful of downside risks.

## PERFORMANCE

September 30, 2020						
Market Value	\$1,188,759,101					Participants
Performance	QTD	CYTD	1 Year	3 Year	5 Year	10 Year
NCSIF	6.8%	4.2%	7.7%	8.2%	8.0%	8.6%
Policy Index (1)	6.0%	2.8%	9.2%	6.7%	7.3%	7.9%
Global Index (2)	5.9%	3.5%	10.0%	6.9%	8.7%	7.3%
UNCIF	7.3%	5.0%	8.3%	8.7%	8.2%	8.7%
NCSIF Private Assets	5.9%	3.9%	0.7%	6.5%	7.4%	11.3%
BlackRock LPP	5.4%	0.3%	6.6%	5.9%	8.3%	

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

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

## FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At September 30, 2020 the Fund had \$1.19 Billion invested with several managers in a wide variety of asset classes. The largest manager for the Fund, UNCMC, managed 83.2% of the Fund's assets. The UNC Investment Fund (UNCIF) produced a three-month return of 7.3%, and a 12-month return of 8.3% for the period ended September 30, 2020. The NCSIF employs fifteen additional private equity managers, who oversee 2.7% of the portfolio. This portion of the Fund produced a three-month and 12-month return of 5.9% and 0.7%, respectively, for the period ended September 30, 2020. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 10.9% of the portfolio. This investment returned 5.4% for the three months and 6.6% for the 12 months ended September 30, 2020. The remaining 3.2% of the portfolio is invested in cash with the State Treasurer's Short-Term Investment Fund (STIF).

## RISK METRICS

3 Year Period	Fund	UNCIF	Policy Index	MSCI ACWI
Annualized Return	8.2%	8.7%	6.7%	7.1%
Annualized Volatility	6.8%	6.5%	11.4%	16.9%
Annual Sharpe Ratio (1)	1.20	1.34	0.59	0.42
Correlation to Global Index	0.92	0.89	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.

First Quarter Fiscal Year 2021

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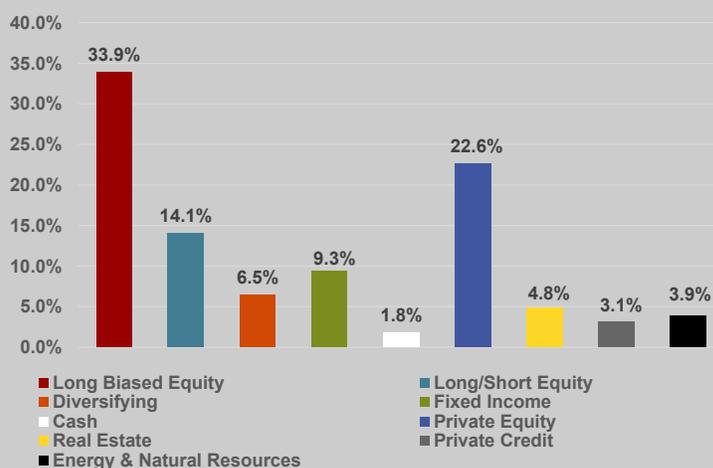
September 30, 2020

## INVESTMENT STRATEGY

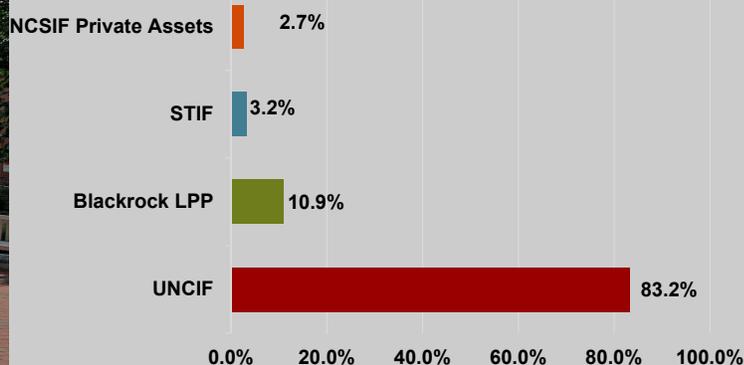
The Fund is managed as a broadly diversified portfolio with exposure to seven primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. 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, through UNCMC, 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. 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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**First Quarter Fiscal Year 2021**