BOARD OF TRUSTEES
NORTH CAROLINA STATE UNIVERSITY
AGENDA

Audit, Risk Management and Finance Committee
3:15 p.m. – 4:45 p.m., November 12, 2020
Via Zoom

Members: Ed Weisiger, Chair, Melanie Flowers, Ann Goodnight, Stan Kelly, Ven Poole, Dewayne Washington

CALL TO ORDER
Chair of Committee

ROLL CALL
Chair of Committee

PUBLIC MEETING REMINDER AND READING OF STATE GOVERNMENT ETHICS ACT
CONFLICT OF INTEREST STATEMENT
Chair of Committee

1. APPROVAL OF MINUTES
TAB 4.1
Approval of September 10, 2020 Meeting Minutes

2. ACTION ITEMS
TAB 4.2
No Action Items

3. INFORMATIONAL REPORTS
TAB 4.3

A. Annual State Auditor Report
   Office of State Auditor
   Beth Wood, State Auditor
   Ray Whitby, Jr., State Audit Manager
   Garrett Davis, State Audit Supervisor
   Office of Finance and Administration
   Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer

B. Internal Audit Update
   Office of Internal Audit
   Cecile Hinson, Chief Audit Officer and Director, Internal Audit

C. Legislative and Budget Update
   Office of External Affairs, Partnerships & Economic Development
   Kevin Howell, Vice Chancellor, External Affairs, Partnerships & Economic Development
   Office of Finance and Administration
   Charles A. Maimone, Vice Chancellor, Finance and Administration

D. Finance Update
   Office of Finance and Administration
   Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer
E. Campus Securities Update 4.3E
Office of General Counsel
Allison Newhart, Vice Chancellor and General Counsel
Office of Finance and Administration
David Rainer, Associate Vice Chancellor, Environmental Health and Public Safety
Daniel L. House Jr., Chief of Police, NC State University Police Department

4. ADDITIONAL INFORMATIONAL MATERIALS  TAB 4.4
A. NC State Investment Fund Performance Review 4.4A
B. NC State Intermediate Term Fund Performance Review 4.4B

ADJOURN
The Audit, Risk Management and Finance Committee of the Board of Trustees of North Carolina State University met September 10, 2020 via a Zoom conference call.

Members Present: Ed Weisiger, Committee Chair
Ann Goodnight
Stan Kelly
Ven Poole
Dewayne Washington
Tom Cabaniss, Board Chair

Chair Weisiger called the meeting to order at 3:15 p.m. The roll was called and a quorum was present.

Chair Weisiger reminded those in attendance that this was a public meeting but was not a meeting for public comment. Only those included on the agenda are invited to speak. He then read the State Government Ethics Act to remind all members of their duty to report conflicts of interest or appearances of conflict.

Chair Weisiger complimented the Chancellor and the University on its response to the COVID-19 pandemic.

Responsibilities of the Committee
The committee reviewed and discussed its responsibilities as per the bylaws, this year’s agenda, and the draft plan of work for the year. The four key areas of committee authority are audit, finance, risk management, and policy development for institutional trust funds, campus security and information technology and cybersecurity.

Approval of Minutes
The minutes from the April 23, 2020 meeting were presented for approval, and with no changes, they were approved.

Action Items
The Committee was presented with the Internal Audit Charter for review and approval, as required by state law, BOG policy, and the Institute of Internal Auditors’ International Professional Practices Framework. The Charter is a formal document that defines the Internal Audit Division (IAD) mission, scope of work, accountability, authority, and responsibility. The Charter must be reviewed and approved annually by the Board of Trustees. There were no changes from last year. Mr. Kelly made a motion to accept the Charter as presented, Mr. Poole seconded, the Charter was approved.

Informational Reports

Internal Audit Update
The process for risk assessment and development of the Annual Internal Audit Plan, the Fiscal Year 2020 NCSU IAD Annual Report, and the Fiscal Year 2020 Year End Summary were reviewed. Topics included: IAD performance metrics and achievements towards the University strategic goals, status of engagements against the Audit Plan, the increase in risk assessment interviews conducted, and the increase in hotline allegations received and investigated. In fiscal 2020, there was more follow-up due to the number of reports issued. There were 45 engagements and 44 corrective actions resulting from reports issued. The quarterly update on
Internal Audit activity since the last meeting was also presented. Current activities include three reports being drafted, two audits, four investigations, eight follow-ups and one special assignment. IAD is also following up on 24 corrective actions resulting from seven audits.

Legislative and Budget Update
The Committee was provided a recap of the 2020 short session. The General Assembly focused on allocation of unappropriated CARES Act funding including UNC System Office requests and the Governor’s proposed budget. Future activities to be watched include the state's fiscal outlook and the results of the November elections.

The Committee also heard about budget conditions, including significant impacts on auxiliary service revenues and plans to address the drop in revenue. Tuition and fees and State appropriations remain stable with enrollment remaining strong, except for a slight drop in graduate students. The financial health of the institute remains strong. The University will be using a prioritized approach to reduction planning, employing budget planning principles.

Finance Update
A report was given on the recent refinancing, which took advantage of low interest rates and created a savings of $26 million. Two major rating agencies affirmed NC State’s high rating and stable outlook. The University is positioned to maintain debt payments, despite short-term fluctuations in the auxiliaries. A comparison of total university revenue and expenses over a 10 year period was given. In addition, the Committee was updated on the fiscal 2020 income statement which showed a reduction in total revenue of 1.6% and an increase in total operating expenses of 2.8%. The University’s liquidity and operating cash and ability to maintain institutional support was also addressed. Chair Weisiger referenced the additional financial reports in the pre-materials under Tab 4.4.

Enterprise Risk Management and Compliance Update
A summary of recent activities on compliance and enterprise risk management included changes to NCAA – post COVID, Title IX, foreign gift and contract expanded reporting, and Department of Education authorizations for distance education. The University is monitoring CARES Act reporting, certification and compliance obligations and other items related to COVID-19.

The Committee was introduced to Kristen Meeks, the recently hired University Compliance, Ethics, and Enterprise Risk Management Officer. Ms. Meeks reviewed activities she has been working on and plans going forward to facilitate and ensure university compliance.

Adjournment
With no further business, Chair Weisiger announced the meeting adjourned at 4:39 p.m.

Submitted by _____________________________________

Secretary to the Committee

Approved by _____________________________________

Chair of the Committee
Financial Position Change Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase in Net Position ($millions)</th>
<th>Net Operating Loss ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>73.4</td>
<td>-565.1</td>
</tr>
<tr>
<td>2017</td>
<td>68.9</td>
<td>-606.3</td>
</tr>
<tr>
<td>2018</td>
<td>95.5</td>
<td>-605.1</td>
</tr>
<tr>
<td>2019</td>
<td>172.9</td>
<td>-581.3</td>
</tr>
<tr>
<td>2020</td>
<td>130.2</td>
<td>-640.9</td>
</tr>
</tbody>
</table>

Increase in Net Position

Net Operating Loss

Mary Peloquin-Dodd
Associate Vice Chancellor, Finance and University Treasurer

FINANCIAL REVIEW
DRAFT FISCAL 2020
(as presented during the September 12, 2020 Audit, Risk Management & Finance Committee Meeting)
Fiscal 2020 Balance Sheet

- Total Current Assets increased by $2.1 million
- Total Non Current Assets increased by $105.6 million
  - Restricted Cash and Cash Equivalents increased by $35.5 million
  - Capital Assets increased by $73.2 million (mainly due to increase in Construction-in-Progress of Fitts-Woolard Hall, Plant Sciences Bldg. and Carmichael Addition)
- Liabilities
  - Commercial Paper increased $24.9 million
  - Long-Term Liabilities increased by $124.5 million
    - Bonds and Notes Payable decreased $24.3 million
    - Net Pension Liability increased $12.7 million
    - Net Other Postemployment Benefit Liability increased $135.5 million

Fiscal 2020 Income Statement

- Operating Revenues decreased by $15.8 million or 1.6%
  - Sales & Services decreased by $20.9 million (due to the decreases in Dining of $8.7 million, Bookstore of $1.9 million, and Housing of $11.9 million as a result of COVID-19)
- Operating Expenses increased by $43.9 million or 2.8%
  - Services & Utilities decreased by $22.8 million (due to the decreases in travel of $12.3 million, food service agreements of $2.2 million, and electricity of $2.6 million as a result of COVID-19)
  - Salaries & Benefits increased by $49.9 million (without the effect of Pension and Post Employment accruals, this line item would have increased by $15 million –mainly EHRA)
- Nonoperating Revenues decreased by $7.3 million or 1.1% (mainly due to a decrease in Investment Income of $21.4 million offset by receipt of CARES Act money of $8.9 million)
- Capital Gifts increased by $28.3 million (due to gifts from Engineering Foundation of $21.9 million and Ag Foundation of $6 million for Fitts-Woolard Hall and Plant Sciences Bldg)
## North Carolina State University at Raleigh—Enterprise And Financial Statistics

<table>
<thead>
<tr>
<th>Enrollment and demand</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>36,379</td>
<td>35,550</td>
<td>34,432</td>
<td>33,755</td>
<td>34,015</td>
<td>MNR</td>
</tr>
<tr>
<td>Full-time equivalent</td>
<td>32,577</td>
<td>31,971</td>
<td>30,954</td>
<td>29,864</td>
<td>29,874</td>
<td>35,846</td>
</tr>
<tr>
<td>Freshman acceptance rate (%)</td>
<td>45.1</td>
<td>46.8</td>
<td>50.8</td>
<td>47.0</td>
<td>49.8</td>
<td>67.8</td>
</tr>
<tr>
<td>Freshman matriculation rate (%)</td>
<td>42.8</td>
<td>42.3</td>
<td>34.8</td>
<td>34.4</td>
<td>40.3</td>
<td>MNR</td>
</tr>
<tr>
<td>Undergraduates as a % of total enrollment (%)</td>
<td>71.4</td>
<td>70.9</td>
<td>70.1</td>
<td>70.6</td>
<td>66.0</td>
<td>78.6</td>
</tr>
<tr>
<td>Freshman retention (%)</td>
<td>94.0</td>
<td>94.0</td>
<td>94.0</td>
<td>93.8</td>
<td>93.7</td>
<td>86.0</td>
</tr>
<tr>
<td>Graduation rates (six years) (%)</td>
<td>83.0</td>
<td>81.0</td>
<td>79.0</td>
<td>76.0</td>
<td>76.0</td>
<td>MNR</td>
</tr>
</tbody>
</table>

## Income statement

| Adjusted operating revenue ($000s) | N.A. | 1,779,088 | 1,711,697 | 1,650,273 | 1,559,235 | MNR  |
| Adjusted operating expense ($000s) | N.A. | 1,691,952 | 1,656,965 | 1,604,049 | 1,530,726 | MNR  |
| Net adjusted operating income ($000s) | N.A. | 87,136 | 54,732 | 46,224 | 28,509 | MNR  |
| Net adjusted operating margin (%) | N.A. | 5.15 | 3.30 | 2.88 | 1.86 | 1.50 |
| Estimated operating gain/loss before depreciation ($000s) | N.A. | 187,419 | 153,653 | 141,867 | 117,230 | MNR  |
| Change in unrestricted net assets (UNA; $000s) | N.A. | 85,868 | (1,702,283) | (3,984) | 23,327 | MNR  |
| State operating appropriations ($000s) | N.A. | 522,482 | 515,353 | 506,419 | 502,534 | MNR  |
| State appropriations to revenue (%) | N.A. | 29.4 | 30.1 | 30.7 | 32.2 | 19.2 |
| Student dependence (%) | N.A. | 40.6 | 40.6 | 39.9 | 24.6 | 39.7 |
| Health care operations dependence (%) | N.A. | N.A. | N.A. | N.A. | N.A. | MNR  |
| Research dependence (%) | N.A. | 17.6 | 17.2 | 17.5 | 17.9 | MNR  |
| Endowment and investment income dependence (%) | N.A. | 2.3 | 2.4 | 2.1 | 0.6 | 1.4 |

## Debt

| Outstanding debt ($000s) | N.A. | 535,821 | 553,988 | 573,203 | 574,549 | 828,692 |
| Proposed debt ($000s) | N.A. | 275,050 | N.A. | N.A. | N.A. | MNR  |
| Total pro forma debt ($000s) | N.A. | 627,821 | N.A. | N.A. | N.A. | MNR  |
| Pro forma MADS | N.A. | 47,001 | N.A. | N.A. | N.A. | MNR  |
| Current debt service burden (%) | N.A. | 2.56 | 2.63 | 2.36 | 1.93 | MNR  |
| Current MADS burden (%) | N.A. | 2.57 | 2.63 | 2.79 | 2.70 | 3.50 |
| Pro forma MADS burden (%) | N.A. | 2.78 | N.A. | N.A. | N.A. | MNR  |

## Financial resource ratios

| Endowment market value ($000s) | N.A. | 1,400,700 | 1,293,700 | 1,122,900 | 998,600 | 990,083 |
### North Carolina State University at Raleigh—Enterprise And Financial Statistics (cont.)

<table>
<thead>
<tr>
<th>Related foundation market value ($000s)</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments ($000s)</td>
<td>N.A.</td>
<td>635,453</td>
<td>688,435</td>
<td>625,523</td>
<td>569,822</td>
<td>688,435</td>
</tr>
<tr>
<td>UNA ($000s)</td>
<td>N.A.</td>
<td>(1,379,966)</td>
<td>(1,465,834)</td>
<td>236,449</td>
<td>240,433</td>
<td>MNR</td>
</tr>
<tr>
<td>Adjusted UNA ($000s)</td>
<td>N.A.</td>
<td>346,741</td>
<td>337,993</td>
<td>351,171</td>
<td>346,854</td>
<td>MNR</td>
</tr>
<tr>
<td>Cash and investments to operations (%)</td>
<td>N.A.</td>
<td>44.8</td>
<td>41.7</td>
<td>38.1</td>
<td>38.9</td>
<td>54.0</td>
</tr>
<tr>
<td>Cash and investments to debt (%)</td>
<td>N.A.</td>
<td>141.5</td>
<td>124.8</td>
<td>106.7</td>
<td>103.5</td>
<td>168.3</td>
</tr>
<tr>
<td>Cash and investments to pro forma debt (%)</td>
<td>N.A.</td>
<td>120.8</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Adjusted UNA to operations (%)</td>
<td>N.A.</td>
<td>20.5</td>
<td>20.4</td>
<td>21.9</td>
<td>22.7</td>
<td>35.3</td>
</tr>
<tr>
<td>Adjusted UNA plus debt service reserve to debt (%)</td>
<td>N.A.</td>
<td>68.6</td>
<td>64.2</td>
<td>64.3</td>
<td>63.0</td>
<td>97.8</td>
</tr>
<tr>
<td>Adjusted UNA plus debt service reserve to pro forma debt (%)</td>
<td>N.A.</td>
<td>58.5</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Average age of plant (years)</td>
<td>N.A.</td>
<td>34.0</td>
<td>37.6</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
</tbody>
</table>

N.A. = Not available. MNR = Median not reported. MADS = Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrecognized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

### Ratings Detail (As Of May 18, 2020)

**The Brd of Governors of the Univ of North Carolina, North Carolina**

North Carolina St Univ at Raleigh, North Carolina

The Brd of Governors of the Univ of North Carolina (North Carolina St Univ at Raleigh) gen rev rfdg bnds

**Long Term Rating**

AA/Stable Affirmed
Email to NC State Community on Tuesday, October 13, 2020

NC State University, Division of Environmental Health and Public Safety, has published the 2020 Annual Security and Fire Safety Report. You may access the report online or directly through this link - https://go.ncsu.edu/2020asr

Hardcopies are available by request to University Police, either in-person or by email.

The report, in compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, or Clery Act, discusses NC State's crime statistics, including reported crimes that occurred on campus, in certain off-campus buildings or properties owned or controlled by NC State, and public property immediately adjacent to and accessible from campus. The report also includes:

- University procedures for reporting suspicious or criminal activity, emergency notifications and response, and campus and building evacuations;
- University policies on substance abuse and interpersonal violence;
- Information on reporting acts of interpersonal violence, available interim protective measures, the university’s complaint process, as well as the rights of, and resources for, survivors; and
- Strategies for crime prevention, workplace violence prevention, and fire safety.

Please visit the University Police website for more information.
Global markets rebounded sharply in Q2 2020 following a steep contraction in Q1 resulting from the spread of COVID-19. Unemployment in the United States spiked to levels not seen since the Great Depression, peaking at 14.7% in April. Real-time indicators such as traffic congestion and restaurant bookings, began to rebound in Q2, but momentum waned in the later weeks of the quarter as cases of COVID-19 and related hospitalizations began to rise across various states. Supportive actions by both central banks and governments were instrumental in bridging the gap to reopening and provided hope for investors, but the recent resurgence in cases increases uncertainty around the duration and ultimate impact of the virus on US, and other global economies.

Domestic equities, as measured by the S&P 500 Index, posted some of the strongest returns globally, gaining 20.5% for the quarter. Even with the significantly negative first quarter, the S&P 500 was able to post a positive return for the one-year period ending June 30, 2020 with a gain of 7.5%. There was dramatic disparity in performance during the year across style and market caps with growth (Russell 1000 Growth +23.3%) significantly outperforming value (Russell 1000 Value -8.8%) and large caps (Russell 1000 +7.5%) materially outperforming small caps (Russell 2000 -6%).

Many of the European countries hardest hit by the pandemic, including Italy and Spain, experienced significant rebounds in Q2, as drastic measures taken to control the spread of the virus appear to have paid off. In general, international equities, performed well during the quarter, with the MSCI EAFE Index gaining 15.1%. The robust return during the quarter wasn’t enough, however, to pull international equities into the positive for the one-year period, with the index losing -4.7% of its value for the twelve months ended June 30, 2020.

Emerging markets, as measured by the MSCI Emerging Markets Index, followed the trend of developed equity markets, gaining significant ground in the second quarter with a return of 18.2%; however, emerging markets remained negative for the one year period, posting a 3% loss as of June 30, 2020. Economic activity for the largest country (China) in the index rapidly recovered following dramatic shutdown measures taken earlier in the year. Broadly, emerging markets benefited from the stabilization of commodity markets and a modestly weaker U.S. dollar.

Government yields were predominantly range bound in the quarter, with the 10-year Treasury opening the quarter at 0.62% and closing at 0.68%. As such, Treasury investment returns were modest during the period, with credit-oriented fixed income providing significant outperformance. The Bloomberg Barclays High Yield Corporate Index posted a gain of 10.2% for the quarter, netting a positive 0.03% one-year return. Long dated investment grade bonds were the best performers, gaining 11.4% for the quarter and 13.8% for the one-year period ended June 30, 2020.

Looking ahead, there is significant uncertainty around the duration and severity of the COVID-19 outbreak, with material left and right tail risks. There are a multitude of factors that will ultimately play into the outcome including renewed restriction measures, vaccine development and the appetite of governments and central banks to continue bolstering fragile and uncertain economies. In addition to the virus, issues of social and racial unrest and an impending US Presidential election in November add layers of complexity to the investment landscape for the remainder of the year. At this juncture, it is more important than ever to maintain a long-term investment focus and not lose sight of the strategic goals of the portfolio.

FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At June 30, 2020 the Fund had $1.09 Billion invested with several managers in a wide variety of asset classes returning 5.8% for the quarter and 2.1% for the year. The largest manager for the Fund, UNCMC, managed 82.5% of the Fund’s assets. The UNC Investment Fund (UNCIF) produced a three-month return of 5.2%, and a 12-month return of 2.3% for the period ended June 30, 2020. The Fund invests with a diversified set of private asset managers, who oversee 2.6% of the portfolio. This portion of the Fund, produced a three-month and 12-month return of -4.7% and -3.1%, respectively, for the period ended June 30, 2020, as many of the valuations reflected 3/31 performance. The Fund’s Liquid Policy Portfolio (LPP), managed by Blackrock, was another 11.2% of the portfolio. This investment returned 15.6% for the three months and 2.2% for the 12 months ended June 30, 2020. The remaining 3.7% of the portfolio is invested in cash with the State Treasurer’s Short-Term Investment Fund (STIF).

RISK METRICS

<table>
<thead>
<tr>
<th>3 Year Period</th>
<th>Fund</th>
<th>UNCIF</th>
<th>Policy Index</th>
<th>MSCI ACWI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized Return</td>
<td>6.9%</td>
<td>7.3%</td>
<td>5.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Annualized Volatility</td>
<td>6.2%</td>
<td>5.9%</td>
<td>10.9%</td>
<td>16.3%</td>
</tr>
<tr>
<td>Annual Sharpe Ratio (1)</td>
<td>1.11</td>
<td>1.23</td>
<td>0.52</td>
<td>0.38</td>
</tr>
<tr>
<td>Correlation to Global Index</td>
<td>0.93</td>
<td>0.89</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Max Drawdown</td>
<td>-7.9%</td>
<td>-7.2%</td>
<td>-14.4%</td>
<td>-21.4%</td>
</tr>
</tbody>
</table>

Note 1: Sharpe Ratio: Excess return per unit of risk
NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

June 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

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.

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.

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 2020
NC State Intermediate Term Fund

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

Inception Date: July 3, 2014

FUND HISTORY AND PHILOSOPHY

As a pooled fund for the collective investment of operating funds, the NC State Intermediate Term Fund (ITF) consists of Participants’ excess cash balances, which are defined as funds not needed for normal operating purposes. Generally, the ITF will not include operating funds needed within the next year, endowed funds or those funds that are specifically excluded by law or contractual agreement.

The decision to invest funds takes into account various factors including duration, credit, concentration, and manager risk, along with total return, suitability, and the experiences, quality and capability of external managers.

The primary investment objectives of the ITF are: 1) Preservation and safety of principal; 2) Liquidity; and 3) Maximization of returns within acceptable levels of risk. Because of current 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. However, for any mutual funds selected by the ITF, their respective approved investment policy guidelines supersede those of the ITF.

The ITF was established on July 3, 2014 with an initial investment of $122 million. Additional investments were made during FY 2015 and FY 2017, bringing the total invested to $193.83 million. The ITF can be compared with the State Treasurer’s Short-Term Investment Fund (STIF) on both a total return and on an SEC yield basis. In order to provide a buffer for changes in the NAV of the different investments, some of the excess earnings are being used to create a loss reserve. FMV fluctuates on a day-to-day basis.

BlackRock’s SIO was liquidated from the fund on June 30, 2016. Proceeds were invested in Vanguard’s Short Term Fund and DoubleLine’s Total Return Fund on July 1, 2016. Additionally, a small position with PIMCO Income was initiated on November 2, 2016. The ITF's position in JP Morgan was liquidated on September 27, 2017 and PIMCO Low Duration was liquidated on October 2, 2017. The proceeds from these liquidations were reinvested into Vanguard's Short Term Fund and PIMCO Income, bringing the total cost basis to $190.4 million.

PERFORMANCE

| Market Value | $188,667,073 |
| Performance | QTD | CYTD | 1 Year | 3 Year |
| ITF Fund | 5.0% | 2.0% | 3.8% | 3.4% |
| Barclays 1-3 yr Treasury | 0.2% | 3.0% | 4.1% | 2.7% |
| Barclays Universal 1-5 yr | 2.6% | 3.2% | 4.8% | 3.5% |
| DoubleLine | 3.4% | 2.6% | 4.0% | 3.8% |
| PIMCO Income | 6.5% | -1.7% | 0.7% | 3.3% |
| Vanguard Short Term | 4.9% | 3.3% | 5.0% | 3.6% |

STATISTICS

| Fund | Index (1) |
| Volatility | 2.5% | 1.5% |
| Sharpe Ratio | 0.9 | 1.6 |
| SEC Yield | 2.1% | 1.2% |
| Effective Duration | 2.5 | 2.6 |
| FYTD Net Interest & Dividends** | $6,577,867 | N/A |
| Net Interest & Dividends Since Inception** | $30,901,457 | N/A |

MANAGERS

Vanguard’s Short Term Fund has a low tracking error and is a low cost portfolio option consisting primarily of investment grade corporates.

PIMCO’s Income Fund is a portfolio of a broad range of intermediate-duration bonds that is actively managed to maximize current income while maintaining a relatively low risk profile.

DoubleLine’s Total Return Fund seeks to maximize total return by exploiting inefficiencies within the subsectors of the mortgage market while maintaining active risk management constraints.

SECTOR ALLOCATION

MANAGER ALLOCATION

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 2020