NC State Investment Fund, Inc.

INVESTMENT POLICY STATEMENT

Approvals/Amendments:
Approved by Members Board, Oct. 15, 2008
Amended for UNCMC updates for asset allocation: 11/30/11
Amended for UNCMC Investment Policy Updates, Risk Policy Update, and NC State ITF: 12/4/2013
Amended for use of consultant and revised strategic and target asset allocation targets: 11/29/2017

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I. INTRODUCTION

This Statement is issued by the Members Board of the NC State Investment Fund, Inc. for use by the Board of Directors of the NC State Investment Fund, Inc. (the “Board”) and for the guidance of its investment manager(s) in the investment of funds from the Endowment Fund of NC State University and affiliated entities of North Carolina State University (the “Participants”).

The NC State Investment Fund, Inc., (“Fund”) is a governmental not-for-profit organization established in April 1999, as a separately incorporated external investment fund pool. 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 “2a7-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 2a7 of the Investment Company Act of 1940.

The Fund is comprised of two separate pools - the Long-Term Pool (LTIP) and the Intermediate-Term Investment Pool (NC State ITF). This document establishes the Investment Policy for the LTIP of the Fund. The NC State ITF operates under a separate investment policy statement. The Board is responsible for managing the investment process of the Fund in a prudent manner with regard to preserving principal while providing reasonable returns.

The goal of the LTIP for the Fund is to provide a real total return from endowed assets invested that will preserve the purchasing power of Fund capital, while generating an income stream to support the spending needs of the University. Achievement of the real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. The Board has adopted a long-term investment horizon such that the risk and duration of investment losses are carefully weighed against the long term potential for appreciation of assets.

II. GOVERNANCE AND OVERSIGHT

GOVERNANCE

A. Role of the Members’ Board

The Members Board will provide governance and oversight to the Fund. The Members’ Board is responsible for adopting investment objectives and policies for the Fund including the approval of the Investment Policy Statement. The Members’ Board’s role includes approving other governance documents including bylaws, operating agreements, participant agreements, asset-based fees, and other policies, as it relates to the Fund. The Board is elected by the Members’ Board.

B. Role of the Board of Directors

The Board is responsible for managing the investment process in a prudent manner with regard to preserving principal while providing reasonable returns. In carrying out these duties, the Board may retain an Investment Manager(s) to assist in managing the assets of the Fund. The Investment Manager(s)’ role is to report to the Board on matters pertaining to the investment of the Fund’s assets, the Fund’s performance and compliance with the Investment Policy. The Board shall implement the investment policy of the Fund as approved by the Members Board. This includes, but is not limited to, monitoring this policy and investment performance expectations.

The Board will regularly review the investment performance of the Fund including the performance of the Investment Manager(s) to assure the investment policy is being followed and progress is being made toward achieving the stated objectives. In addition, The Board will periodically review the services provided to the Fund (e.g., custody, performance evaluation, consulting, etc.)

C. Role of Investment Consultant(s) and External Management Companies

The Board may elect to utilize investment consultants and/or external management companies to provide investment services consistent with the Fund's investment objectives, policies, guidelines, and constraints. Services required for such providers will vary based on the level of engagement chosen by the Board and may include but are not limited to:

1. Identifying and recommending new investment managers and opportunities;
2. Evaluating the performance of the Fund's investment managers, monitoring their portfolios and, from time to time recommending additional allocations to or withdrawals from such managers;
3. Engaging in regular, ongoing communications with the Fund's external investment managers in accordance with due diligence policies and procedures established by the Board;
4. Assisting in the preparation and execution of strategic planning to identify and review short- and long-term objectives of the Fund;
5. Making recommendations with respect to changes in investment objectives and asset allocation guidelines;
6. Conducting legal and operational due diligence reviews on new and existing investment managers;
7. Implementing investment decisions by completing subscription agreements and responding to requests for information from investment managers;
8. Performing other investment management and advisory services as requested;
9. Communicating with the Fund's investment managers to obtain accurate and timely performance information;
10. Providing necessary reports and information as requested by the auditors;
11. Providing all necessary documentation to prepare the Fund's tax returns including reports and other information as may be requested by the tax preparer.

D. Role of the Finance Division

The Finance Division shall provide certain services to the Fund. Such services shall include, without limitation:

1. Investment Services

a. Identifying and recommending to the Board new investment managers and opportunities;
b. Evaluating the performance of the Fund's investment managers, monitoring their portfolios and, from time to time recommending additional allocations to or withdrawals from such managers;
c. Engaging in regular, ongoing communications with the Fund's external investment managers in accordance with due diligence policies and procedures;
d. Making recommendations in regard to changes to investment objects and/or asset allocation guidelines;
e. Conducting operational due diligence on new and existing investment managers;
f. Ensuring legal due diligence is completed for new investment managers;
g. Providing summarized quarterly performance reports from individual managers and providing quarterly investment reports to the Board;
h. Reviewing the monthly report of the Fund's performance and assets;
i. Reporting in a timely manner any substantive developments that may affect the management of the Fund's assets.

2. **Administrative Services**
    a. Acting as liaison between the Fund and its custodian or third party administrator to implement purchases, sales, or exchanges of assets as directed and approved by the Fund's Board;
    b. Monitoring/recording ownership and performance of investments within the Fund and verifying data with independent third parties, such as the Fund's custodian or third party administrator;
    c. Establishing (and periodically reviewing and updating) accounting systems and internal controls for the Fund;
    d. Communicating with the Fund's investment managers, custodian or third party administrator to obtain accurate and timely performance information;
    e. Retaining copies of manager performance reports, board reports, and accounting records in compliance with prudent record retention requirements;
    f. Executing and monitoring contracts for services with consultants, custodians, third party administrators, and investment managers chosen for the Fund;
    g. Managing the annual audit of the Fund's financial statements by providing necessary reports and information as requested by the auditors;
    h. Providing all necessary documentation in order to prepare the Fund's tax returns including reports and other information as may be requested by the auditor;
    i. Arranging regular meetings of the Board and other such meetings as may be requested;
    j. Acting as a liaison between the Fund and its members.

In all investment decisions, including, without limitation, the purchase, sale, exchange or retention of assets, the determination of asset allocations, and the exercise of rights, options, and privileges incident to asset ownership, the Finance Division shall have full authority to act solely upon the direction and approval of the Fund's Board.

OVERSIGHT

A. Manager Selection Criteria

The Board approves the hiring of external investment managers to manage Fund assets based upon the recommendations from the Fund's staff. In addition to evaluating a firm's historical performance, emphasis will also be placed on a firm's professional and ethical values, investment philosophy, financial viability, organizational structure, and experience of key personnel.

B. Performance Evaluation

The Board will hold regular meetings as described in the Fund's bylaws to review the Fund's investment results and adherence to investment objectives and guidelines. The Fund's staff will summarize performance results from individual managers and provide quarterly investment reports for review.

The Fund's staff will be responsible for keeping the Board advised of any material change in its personnel, the investment strategy, or other pertinent information potentially affecting performance of all investment managers.

Performance shall be measured on a total return, time-weighted basis and presented for the most recent quarter, year-to-date, and the trailing one-, three-, five-, and ten year periods in a compound annual return format. In order to facilitate performance comparisons, investment results are shown net of fees. Time-weighted total returns will be compared to the appropriate passive market benchmarks, active manager universes, and policy benchmark for the Fund.

C. Return Benchmarks

Rate of return objectives will be evaluated, both on an absolute basis and relative to appropriate benchmarks, on a cumulative basis over rolling three-, five-, and ten-year time horizons. Individual investment managers will be evaluated relative to their specific benchmarks.

D. Review of Investment Objectives

All Fund objectives and policies remain in effect until modified by the Board. The Board will periodically review the policies in conjunction with the strategy to determine that they are in agreement and remain appropriate. While modifications are not expected to be frequent; changing market conditions, new product developments, and other circumstances, may require policy updates or alterations.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

E. Monitoring Risk

The Fund's objective is to apply the prudent-person rule: Investments are made, as a prudent person would be expected to act, with discretion and intelligence, to seek a total real return while preserving capital, and in general, to avoid speculative investments. The Fund utilizes various methods to monitor risk in the portfolio such as concentration levels, volatility, correlation and other quantitative measures. The Board will tolerate volatility as measured against the risk/return analysis of the appropriate portfolio objective.

F. Guidance for Corrective Action

Corrective action should be taken naturally as a result of the on-going review process of the Investment Manager(s). While there may be unusual occurrences at any time, the following are instances where corrective action or termination may be in order:

1. Major organizational changes in a firm may require a new contract and interview process. Failure on the part of the Investment Manager to notify the Board of such changes is grounds for termination. At all times communication with the manager should be easy and informative.

2. Violation of terms of contract constitutes grounds for termination.

3. Diversification Strategy: It is critical that the investment manager adhere to the original intent of the Board at the time they are engaged. If significant changes in investment approach have occurred; this may be grounds for termination.

4. The Board will not, as a rule, terminate the Investment Manager(s) on the basis of short-term performance. If the organization is sound and the firm is adhering to its style and approach, the Board will allow a sufficient interval of time over which to evaluate performance. The manager's performance will be viewed in light of the firm's particular style and approach, keeping in mind at all times the Fund's diversification strategy as well as the overall quality of the relationship.

5. Investment Manager(s) may be replaced at any time as part of the overall restructuring of the Fund.

III. INVESTMENT, RETURN AND RISK TOLERANCE OBJECTIVES

A. Investment Objectives

The primary investment objective of the Fund is to preserve real purchasing power over the long term of the endowment while providing predictable, stable and constant (in real terms) funding for the participating entities by earning an average annual rate of return, net of all management costs and fees, at least equal to its reasonable spending needs plus inflation.

B. Return Objectives

These investment policies are designed to ensure prudent management of the Fund's assets, and serve the best long-term interests of members, specifically the various programs that rely on the Fund's ongoing distributions for their operational support. These investment policies adhere to accepted investment and management principles. The Fund has elected to adopt the following rate of return objectives:

1. Long-term investment objectives

a) Preserve the real purchasing power of the Fund's assets, while providing a predictable, stable, and constant (in real terms) stream of distributions for operational support.

b) Earn an average annual real total return of at least 5.5% per year, net of all fees, including management advisory fees and custody charges, over rolling five-and ten-year periods.

c) Earn a rate of return, net of all fees, that exceeds the return on a 70/30 stock/bond benchmark index comprised of 70% MSCI All Country World Index (ACWI) and 30% Barclays Aggregate Index, over rolling five- and ten-year periods.

2. Short-term investment objectives

a) Earn a rate of return that exceeds the return on the Fund's Strategic Investment Policy Portfolio ("SIPP") by more than 50 basis points over rolling three-year periods.

b) Earn a rate of return that places the Fund in the top quartile of the Cambridge Associates $1 Billion plus Universe over rolling three-year periods.

c) Earn a rate of return that places the Fund in the top third of the endowment funds surveyed annually by the National Association of College and University Business Officers (NACUBO) over rolling three-year periods.

3. Asset Class objectives

a) The Fund will be broadly diversified with assets allocated in a manner that is intended to achieve the return objective of inflation plus 5.5% (net of fees). Asset allocation guidelines reflect a diversified portfolio and emphasize equity-related investments to achieve the Fund's long-term return objective. In accordance with the current strategic asset allocation, the Fund targets approximately:

- 33% of its capital to public equity oriented strategies
- 36% of its capital to private asset market strategies
- 10% of its capital to fixed income investments
- 21% to other investment strategies designed to have relatively low correlations to equity and fixed income instruments

The Board has adopted an allocation target to Private Markets of 36% of the market value of the Fund's assets. Risk within the Fund's Private Equity allocation is diversified by investing across various fund types, managers, vintage years and strategies. Long-term strategic targets for private assets will be reviewed and set as part of the Private Markets Program's Annual Strategic Plan.

Tactical asset allocation ranges provide flexibility to take advantage of market conditions. The Fund's actual asset allocation may temporarily fall outside of these guidelines. The Board may determine that deviation from the established ranges is appropriate under the circumstances. The Strategic Target Percentages and Tactical Ranges are provided below:

Asset Class	Strategic Target	Tactical Ranges	Policy Benchmarks
PUBLIC ASSETS	**64.0%**	**60-70%**	
Long Biased Equity	**33.0%**	**24-36%**	MSCI All Country World Index (ACWI)
Long/Short Equity	**15.0%**	**10-20%**	Hedge Fund Research Institute (HFRI) Equity Hedge Index
Diversifying Strategies	**6.0%**	**3-14%**	(50% HFRI Conservative Fund of Funds Index + 50% Fund of Funds: Market Defensive Index) + 0.5%
Fixed Income	**8.0%**	**3-14%**	30% BB BC L-T Gov't/Credit, 30% BB BC Aggregate, 20% BB BC HY Corporate, 20% 90-Day T-Bills
Cash	**2.0%**	**0 - 8%**	90-Day Treasury Bills
PRIVATE ASSETS	**36.0%**	**30-40%**	
Private Equity	**22.0%**	**14-26%**	MSCI World Index + 300bp
Private Credit	**3.0%**	**0-7%**	BB Barclays HY Corporate Index
Real Estate	**6.0%**	**3-12%**	90% NCREIF / 10% NAREIT
Energy and Natural Resources	**5.0%**	**3-10%**	Consumer Price Index + 300bp

b) Decisions regarding allocations among investment managers, active or passive, within each asset class, or the addition of new investment managers, will be made when such actions are expected to produce incremental return, reduce risk, or both.

The characteristics of an investment manager including expected return, risk, correlation, and its overall role in the portfolio will be analyzed when making such decisions. It is expected that significant individual positions will be avoided to mitigate the possibility of a significant reduction in value due to adverse market conditions.

c) Each asset class above has a defined role within the overall Fund asset allocation structure. These roles are defined below

Long Biased Equity: Provides long term capital appreciation and protects against the impact of inflation. The Fund invests its Long Biased equity category on a global basis, investing in U.S. Equities as well as non-U.S. equities, in developed and emerging markets, to enhance return and increase diversification as well as passive indices.

Long/Short Equity: Provides uncorrelated returns to the Long Biased equities in the Fund. Additionally, these investments have the ability to add value in flat or down markets through their short exposure.

Diversifying Strategies: Provides uncorrelated returns to traditional equity and fixed income investments. It also provides diversification benefits to the overall portfolio by investing in arbitrage, commodity and other non-directional strategies.

Fixed Income: Provides principal protection during periods of deflation, provides a source of current income, and reduces overall Fund volatility. These portfolios are primarily domestically focused, but may also include exposure to international and emerging markets debt, passive, and credit strategies.

PRIVATE ASSETS

Included in this category are illiquid private partnership, co-investment or secondary interests in venture capital, growth equity, and leveraged buyout, as well as real estate, timberland, and oil and gas producing entities. Publicly traded real estate securities (REITS), and semi-liquid holdings with managers who engage in relative value trading strategies may also be included. These are generally long-term investments with limited liquidity and uncertain valuations until maturity. At the same time, these investments have equity-like returns, with low correlation to equity markets and relatively low return volatility.

Private Equity: Provides high real returns and controls overall Fund volatility. The allocation within private equity could include Growth, Buyout, and Venture Capital.

Private Credit: Provides potential for attractive risk-adjusted returns, yield, and shorter duration relative to private equity. Private credit provides exposure to more senior portions of the capital structure and can serve as a diversification tool within the private assets allocation. Opportunities in the asset class include but are not limited to direct lending, mezzanine financing, distressed debt, and special situations.

Real Estate: Serves as a hedge against general price inflation, and as a source of current income. Investments in this area include private portfolio investments, which typically focus on specific niche markets within the real estate sector and public REIT investments, which provide a more liquid means of gaining exposure to the asset class.

Energy & Natural Resources: Serves as a hedge against inflation while also providing the potential for attractive returns that have relatively low correlations with the remainder of the Fund's portfolio, providing a significant diversification benefit.

d) The Board will review the Strategic Target Percentages and Tactical Ranges on an annual basis.

e) In order to achieve the Strategic Asset Allocation Target percentages over time, particularly in the four private asset classes, it is generally necessary to make commitments (unfunded commitments) that, when added to the Fund's existing exposure to these asset classes, exceed the relevant asset allocation targets. This is necessary because these unfunded commitments are typically drawn down over a period of three to seven years, and distributions from private investment funds often begin before the commitments are fully drawn down.

f) Private equity, Real Estate, and Energy & Natural Resources are typically long-term investments that often produce negative returns and cash flows in their early years because of management fees and write-offs. Therefore, to mitigate this effect and produce smoother returns over time, the Fund will attempt to spread out commitments to achieve time diversification within these asset classes.

g) Investment managers may be permitted to own both long and short positions in the equity and fixed income markets, as outlined in the managers' individual guidelines. Managers may also invest in multiple asset classes (e.g. stocks, bonds, and currencies, both foreign and domestic) and derivative instruments (e.g. futures, options, etc.) to generate competitive returns.

h) In recognition of the globalization of equity and fixed income markets, investment managers may hold foreign as well as domestic securities and derivative instruments in their portfolios, subject to any constraints outlined in the individual manager guidelines.

i) Portfolio management decisions such as individual security selection, position size, quality, number of industries and holdings, yield, turnover, and use of derivative securities, commodities, and currencies are left to manager discretion, subject to specified investment guidelines.

j) Investment firms managing Fund assets are expected to act in an ethical manner and with integrity in all phases of the investment process.

k) Firms that provide separate account management of Fund assets will be provided with a statement of investment objectives and guidelines that will govern the management of those portfolios. These guidelines will address performance benchmarks, risk parameters, industry or single holding limitations and other relevant portfolio management restrictions.

C. Risk Tolerance Objectives

In order to achieve its long-term objectives, as described above, the Fund assumes various investment risks inherent in global financial markets. Given the long-term time horizon, the Fund is able to assume significant short-term risk, as measured by the volatility of annual returns, in order to achieve its investment objectives. The Fund's primary long-term risk is "shortfall risk" – the risk of not maintaining the purchasing power of the Fund's assets by not earning a real total return sufficient to cover spending distributions.

IV. RISK MANAGEMENT

Portfolio level risk is targeted to fall at or below the volatility and draw-down characteristics associated with a global portfolio as measured specifically by the 70% All Country World Index(ACWI)/30% Barclays Aggregate. The primary risk management tools employed by the Fund are:

- An investment decision making and implementation process that relies on:
  - ✓ Board oversight
  - ✓ Extensive due diligence on investment managers prior to their addition to the Fund
  - ✓ A set of disciplined policies and procedures regarding the monitoring and evaluation of the Fund's existing investment managers.
- Extensive use of diversification within the Fund's portfolio, both among and within asset classes.
- Use of independent service providers including the Fund's custodian or third party administrator.

The Fund's investments are diversified in a variety of ways including, but not limited to:

1. Asset Class
2. Sub-asset class
3. Geography
4. Size
5. Industry

The Fund seeks to diversify its exposure to all asset classes by hiring external managers that employ various investment approaches. The purpose of diversification is to manage unsystematic risk and maximize return by providing reasonable assurance that no single security, class of securities, or investment manager has a disproportionate impact on the Fund's aggregate results.

The Fund's assets are managed primarily by external investment managers utilizing commingled vehicles (e.g., mutual funds, limited partnerships, and common trust funds) within the Fund's investment portfolio.

A. Rebalancing Policy

The asset allocation policy reflects targets and ranges for the various asset classes and external managers approved by the Board. The role of these allocation targets and ranges is to allow for short-term fluctuations due to market volatility or near-term cash flows, to recognize the flexibility required in managing private investments, and to provide limits for tactical investing. The Finance Division will generally employ rebalancing efforts to manage asset class allocations and manager allocations to be within the ranges where possible. The Board will review actual asset allocations relative to the asset allocation framework at each quarterly meeting. The Finance Division will allocate additions to principal according to the asset allocation policy.

B. Liquidity

Annual liquidity needs are expected to be moderate. The Fund maintains liquidity both for investment purposes and to meet the withdrawal requirements of its members. Liquidity needs for investment purposes includes the ability to meet capital calls on unfunded commitments and to rebalance the portfolio's asset allocation on a timely basis. Sources of liquidity include member contributions and the sale of existing investments within the Fund.

The Fund is responsible for managing liquidity in a manner that balances the short-term liquidity needs with the Fund's longer-term return objectives. In certain circumstances, it may be prudent to seek external liquidity in order to avoid liquidating investments such that the fund would incur a realized loss. In those cases, the Fund should seek liquidity and encumber only those funds with little or no restrictions.

C. Time Horizon

The Fund has a long-term horizon, which is typical for most endowment funds. The horizon extends well beyond a normal market cycle and, for the purpose of investment strategy, can be considered to be in "perpetuity".

D. Standard of Care and Prudence

The standard of conduct applicable to the investment management of the Fund is one of ordinary business care and prudence under the prevailing facts and circumstances. The Fund considers the long- and short-term needs as well as present and anticipated financial requirements of the Fund, expected total return on investments, price level trends and general economic conditions.

E. Tax Considerations

The Fund is an IRC 501(c) (3) tax exempt organization. Tax considerations are not a meaningful constraint for the Fund. The potential for unrelated business taxable income (UBIT) is considered when making investment decisions.

F. Proxy Voting

In general, external investment managers employed by the Fund are authorized to vote proxies on the Fund's behalf. In cases in which the Fund desires to vote proxies related to specific topics, it will so notify the managers in writing.

V. DISTRIBUTIONS

The Fund shall plan for annual distributions equal to the participants' spending as reflected in the Fund's Spending and Distribution Policy.