

# NC State Investment Fund, Inc.

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

Inception Date: April 1, 1999

June 30, 2019

## MARKET COMMENTARY

Global markets rebounded from a volatile fourth quarter 2018 with an exceptional first quarter 2019, followed by a solid second quarter with strong gains in both equity and bond markets. Despite solid returns in the 2nd quarter, volatility remained, with two positive months sandwiched around a significant drawdown in May. The May performance reflected a breakdown of trade talks between the U.S. and China. Indications of progress on the trade front paired with increasingly accommodative central bank rhetoric in June led to a strong recovery and positive returns for most developed and emerging markets. Domestically, the unemployment rate remains low and inflation is muted. Leading indicators are still positive, while slowing, and barring any exogenous or unexpected shocks, do not point to an imminent recession in the near term. However, markets are pricing in a near certain probability of a rate cut by the Federal Reserve in the month of July.

Domestic equities, as measured by the S&P 500 Index, produced another strong quarter for investors, gaining 4.3%. Mid-cap stocks, as measured by the Russell Mid Cap Index performed in line with their larger counterparts, returning 4.1%, while small-cap stocks (Russell 2000 Index), lagged with a gain of 2.1%. For the one-year period ended June 30, 2019, large- and mid-cap stocks were positive at 10.4% and 7.8%, respectively, while small-caps posted a one-year loss of -3.3%.

International equities, as measured by the MSCI EAFE Index, returned 4.0% for the quarter. Over the last year, the index was modestly positive, with a return of 1.6%. In the Eurozone, GDP and inflation have been low but stable, and current European Central Bank (ECB) President Mario Draghi has communicated his willingness to provide more accommodative policies. Subsequent to quarter end, Christine Lagarde was appointed to succeed Mr. Draghi, with her confirmation set for October. Expectations are that Ms. Lagarde will continue down the accommodative path set by Mr. Draghi.

Emerging markets, as measured by the MSCI Emerging Markets Index, were barely positive, gaining 0.8% for the quarter. Within emerging markets, China was particularly hurt in May by concerns over talks breaking down between the country and the U.S.

The second quarter of 2019 also saw a drop in 10-year Treasury yields following dovish communications by the Fed, with the benchmark rate beginning the quarter at 2.5% and ending at 2.0%. Similar to the first quarter, long-dated corporate debt, as measured by the Bloomberg Barclays US Long Corporate Index, produced some of the strongest returns within fixed income, gaining nearly 7.2% during the period, bringing its one-year total to nearly 15.2%. The more broadly diversified Bloomberg Barclays US Bond Index produced a return of 3.1% during the quarter, bringing its one-year gain to 7.9%.

Looking ahead, key market factors are monetary policy and trade. With central banks reiterating their willingness to be accommodative and to address slowing economic momentum, it appears that the global growth cycle isn't over. On the trade front, we continue to take two steps forward and one (or three) steps back, until a final resolution. The cautiously optimistic view of investors on trade and central bank policy has resulted in bond and equity markets sending conflicting signals on the economy with the yield curve remaining inverted while equities progress toward all-time highs.

*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 2019

## PERFORMANCE

June 30, 2019							
Market Value	\$1,073,436,002					Participants	9
Performance	QTD	CYTD	1 Year	3 Year	5 Year	10 Year	
NCSIF	3.4%	8.8%	7.3%	10.3%	7.6%	9.4%	
Policy Index (1)	3.3%	12.4%	6.0%	8.4%	5.6%	8.9%	
Global Index (2)	3.6%	13.3%	6.7%	8.9%	5.4%	8.5%	
BNY E&F Univ (3)	3.0%	10.1%	5.5%	9.0%	5.7%	8.9%	
UNCIF	3.6%	8.7%	7.7%	10.6%	7.7%	8.9%	
NCSIF Private Assets	3.4%	4.0%	6.1%	10.1%	11.1%	12.3%	
BlackRock LPP	3.1%	13.2%	5.6%	8.9%	6.0%		

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

Note 2: Global Index= 70% ACWI; 30% Barclay's Aggregate

Note 3: BNY Mellon Endowment & Foundation Universe Median Return—  
138 portfolios are represented for the one-year period ended June 30, 2019

## FUND PERFORMANCE

The NCSIF (Fund) is a large, diversified investment pool with a long-term perspective. At June 30, 2019 the Fund had \$1.07 Billion invested with several managers in a wide variety of asset classes. The largest manager for the Fund, UNCMC, managed 85.6% of the Fund's assets. The UNC Investment Fund (UNCIF) produced a three-month return of 3.6%, and a 12-month return of 7.7% for the period ended June 30, 2019. The NCSIF employs nine additional private equity managers, who oversee 2.1% of the portfolio. This portion of the Fund produced a three-month and 12-month return of 3.4% and 6.1%, respectively, for the period ended June 30, 2019. The Fund's Liquid Policy Portfolio (LPP), managed by Blackrock, was another 9.9% of the portfolio. This investment returned 3.1% for the three months and 5.6% for the 12 months ended June 30, 2019. The remaining 2.4% 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	10.3%	10.6%	8.4%	11.6%
Annualized Volatility	4.2%	4.0%	7.2%	11.3%
Annual Sharpe Ratio (1)	2.44	2.65	1.16	1.03
Correlation to Global Index	0.91	0.87	0.98	0.99
Max Drawdown	-4.1%	-3.7%	-8.5%	-14.2%

Note 1: Sharpe Ratio: Excess return per unit of risk

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## INVESTMENT STRATEGY

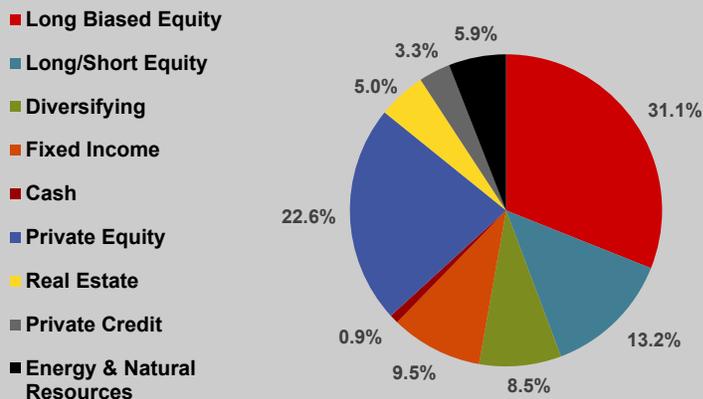
The Fund is managed as a broadly diversified portfolio with exposure to seven primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches.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



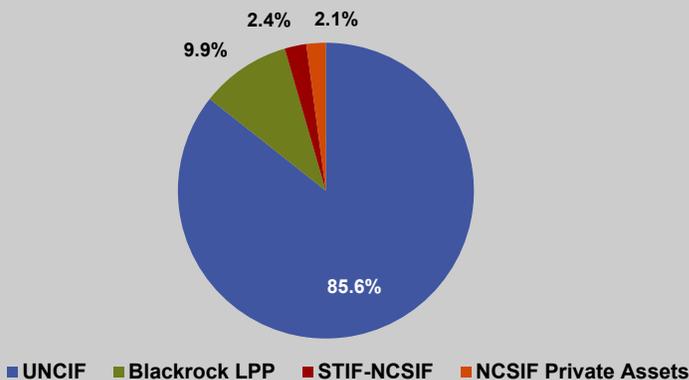
## UNC MANAGEMENT CO.

The UNCMC was established on January 1, 2003 as an exempt 501 (c)(3) organization. It is a professionally-staffed asset management company created to provide investment services to the University of North Carolina at Chapel Hill and its affiliated entities, to the constituent institutions of the UNC system and system affiliated foundations, associations, trusts, and endowments. With over 40 employees, UNCMC has two teams, Investment Management and Operations. The Investment Management team manages all public and private investments of the UNCIF. Their responsibilities include evaluating and monitoring investment managers, recommending changes to investment objectives and asset allocation, monitoring risk, and implementing investment decisions approved by the UNCIF's Executive Committee. The Operations Team performs all administrative, legal, compliance, accounting, and performance reporting duties.

## 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), with the remaining investments committed to a Liquid Policy Portfolio (LPP) of Exchange Traded Funds (ETF's) and to three private equity managers which includes an allocation for cash to fund capital calls. The transition of assets to UNCMC was completed December 2009.

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