NC State Investment Fund, Inc.

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

Inception Date: ***April 1, 1999*** **June 30, 2017**

MARKET COMMENTARY

In the final quarter of fiscal 2017, equities and high-yield credit assets benefitted from a strong corporate earnings season and a reduction in global geopolitical risk. In June, the Federal Reserve increased its target Federal Funds rate by 0.25% to 1%-1.25% and reiterated its confidence in the state of the domestic economy. The United States added 581,000 jobs during the last quarter of the fiscal year, bringing the unemployment rate to 4.37% -- its lowest level since 2001. In France, centrist Emmanuel Macron won the presidential election over far-right candidate Marine Le Pen with a wide margin. The election was viewed by many as a sign of France's continued support of the European Union, and a rebuke of the United Kingdom's vote to exit in 2016. While US equities markets were bolstered by the prospect of major fiscal and tax reform in Washington, these changes failed to materialize. Opponents of the Trump administration's proposed policy changes continued to hinder significant changes to health care, tax reform and other prominent items that could materially impact capital markets.

US equities moved higher in the quarter ended June 30, 2017, a response to strong corporate earnings data and job gains, even though the Federal Reserve continued tightening monetary policy. During the quarter, large cap stocks, as measured by the S&P 500 Index, gained 3.1% and was the the best performing equity class. Mid cap stocks, as measured by the Russell Mid Cap Index, and small cap stocks, as measured by the Russell 2000 Index, returned a more modest 2.7% and 2.5% for the quarter, respectively. Over the 12 month period ended June 30, 2017, small cap stocks returned more than 24.6%.

International equity markets, as measured by the MSCI EAFE Index, produced strong returns of 6.4% in the quarter, pushing the one-year performance for that asset class to more than 20.8%. A reduction in geopolitical risk and strong corporate earnings in the Eurozone, UK, and Japan provided a tailwind for international equity markets. Late in the quarter, the European Central Bank (ECB) considered tightening monetary policy and that boosted equity markets and the performance of riskier assets in recent periods.

Emerging markets (EM), in general, continued to benefit from positive economic data with the MSCI EM index gaining 6.4% for the quarter. For the fiscal year ended June 30, 2017, the EM asset class, has been one of the strongest investments, returning 24.2%. China continued to show strong economic data and for the first time, MSCI announced its plans to add mainland China A-share stocks to its EM index.

Even with continued Fed tightening, Fixed Income investments, in general, produced positive gains for the quarter. The Bloomberg Barclays US Agg Bond Index gained 1.5% during the quarter, although the index was down -0.3% over the last year. High Yield Credit produced strong returns for the quarter, with the Bloomberg Barclays High Yield Corporate Index returning 4.9%. The Treasury yield curve flattened significantly during the quarter with the one-year yield increasing 21 basis points, while the 5-year, 10-year, and 30-year fell by four, nine, and 18 basis points, respectively. While a flattening yield curve creates concern that an inverted yield curve is possible, and an inverted yield curve can precede a recession, a flat yield curve can also last for years without any inversion. We believe that we are in somewhat untested times as well, when it comes to interest rates since rarely has there been a period of global accommodative monetary policy as we have seen in the wake of the Great Recession.

Looking ahead, we see these concerns: equity valuations are still high and global credit spreads, particularly in developed markets, are tight. Both measures continue to be a concern and could dampen future returns. Finally, the Fed recently announced a plan to normalize its balance sheet by allowing $6 billion of Treasuries and $4 billion in mortgage-backed securities (MBS) to roll off each month. The Fed did not provide a specific start date for the normalization of its balance sheet or divulge specific end goals for the process, but it appears intent on maintaining its hawkish posture even with disappointing GDP figures (Q1 reading of 1.4% annualized) and inflation remaining below its 2% target.

PERFORMANCE

June 30, 2017						
Market Value	**$870,454,519**	**Participants**		**9**		
Performance	**QTD**	**CYTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**
NCSIF	2.6%	6.0%	11.9%	6.3%	9.3%	4.1%
Policy Index ***(1)***	2.4%	6.3%	11.8%	4.6%	7.8%	5.2%
Global Index ***(2)***	3.4%	8.7%	12.7%	4.2%	8.1%	4.3%
BNY E&F Univ ***(3)***	2.9%	7.7%	12.9%	4.8%	8.4%	5.0%
UNCIF	2.6%	5.9%	12.1%	6.2%	9.2%	5.4%
NCSIF Private	3.8%	5.4%	7.0%	10.6%	12.2%	7.5%
BlackRock LPP	3.0%	7.3%	13.1%	5.3%		

Note 1: Policy Index= NCSIF's Strategic Investment Policy Portfolio Index (SIPP). For the 10 year period, Policy Index = Blended Historical Benchmark.

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

Note 3: BNY Mellon Endowment & Foundation Universe Median Return—
164 portfolios are represented for the one-year period ended June 30, 2017

FUND PERFORMANCE

The NCSIF (Fund) is invested with several managers in a wide variety of asset classes. The Fund closed the quarter with a market value of $870 million. The largest manager for the Fund, UNCMC, managed 88.9% of the Fund's assets and the UNC Investment Fund (UNCIF) produced a 2.6% three month return and a 12.1% 12 month return for the period ended June 30, 2017. The NCSIF employs additional private equity managers, who oversee 2.2% of the portfolio. This portion of the Fund produced a strong three-month and 12-month return of 3.8% and 7.0%, respectively, for the period ended June 30, 2017. The Fund's Liquid Policy Portfolio (LPP), another 8.3% of the portfolio, is managed by Blackrock. This investment returned 3.0% for the three months and 13.1% for the 12 months ended June 30, 2017. The remaining 0.6% 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	6.3%	6.2%	4.6%	4.8%
Annualized Volatility	4.7%	4.9%	4.1%	10.8%
Annual Sharpe Ratio (1)	1.34	1.29	1.13	0.45
Correlation to Global Index	0.88	0.86	0.94	0.99
Max Drawdown	-6.3%	-6.8%	-5.0%	-13.4%

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.

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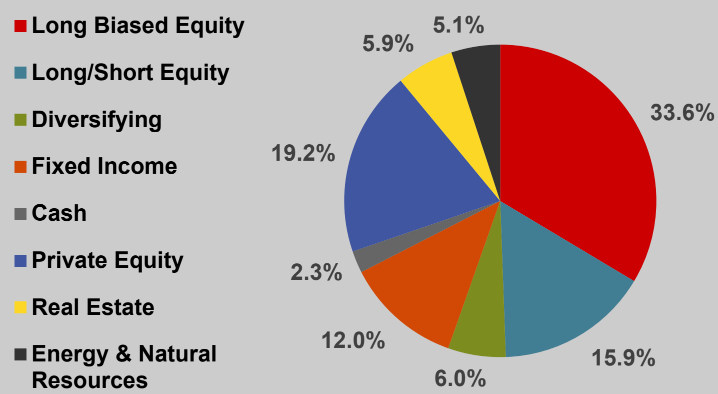
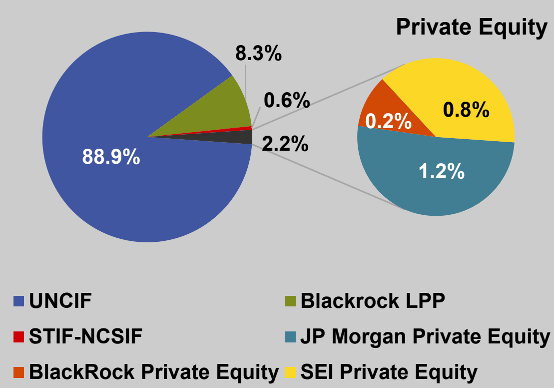
INVESTMENT STRATEGY

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.

ASSET ALLOCATION



ALLOCATION BY MANAGER



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 nearly 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 Chapel Hill Investment Fund's (CHIF) Executive Committee. The Operations Team performs all administrative, legal, compliance, accounting, and performance reporting duties.

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 3 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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