NC State Intermediate Term Fund

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

Inception Date: **July 3, 2014**
June 30, 2017

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.
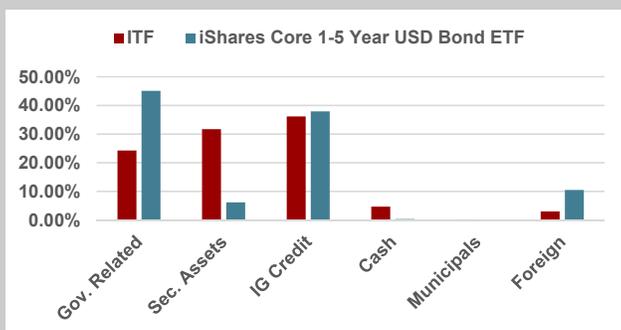
The primary investment objectives of the ITF are: 1) Preservation and safety of principal; 2) Liquidity; and 3) Maximization of returns within acceptable levels of risk. Because of current concerns about potential changes in monetary policy and rising interest rates, duration is limited. The investment 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 & 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. The cash return on the ITF is higher than other operating cash for the University and other participants.

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 bringing the total cost basis to $192 million on December 31, 2016.

PERFORMANCE

Market Value	$188,615,696			
Performance	**QTD**	**CYTD**	**1 Year**	**3 Year**
ITF Fund	0.8%	1.6%	1.4%	1.4%
Barclays 1-3 yr Treasury	0.2%	0.5%	-0.1%	0.7%
Barclays Universal 1-5 yr	0.7%	1.5%	1.1%	1.8%
DoubleLine	1.4%	2.5%	1.2%	1.2%
JP Morgan Short Term	0.4%	0.8%	0.4%	1.0%
PIMCO Low Duration	0.5%	1.0%	1.7%	1.0%
PIMCO Income	2.3%	5.2%		6.4%
Vanguard Short Term	0.7%	1.6%	1.3%	2.0%

STATISTICS	Fund	Index (1)
Volatility	1.1%	1.4%
Sharpe Ratio	1.3	1.3
SEC Yield	2.1%	1.9%
Effective Duration	2.5	2.8
FYTD Net Interest & Dividends**	*$4,001,838*	*n/a*
Net Interest & Dividends Since Inception**	*$12,078,849*	*n/a*

**Net of Fund expenses

Note 1: The iShares Core 1-5 Year Bond ETF is used as a proxy for the benchmark for Statistics information

MANAGERS

JP Morgan's Short Term Fund is based on bottom-up fundamental analysis, while retaining a high quality bias.

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 Low Duration Fund seeks maximum total return based on a combination of top-down secular views and bottom-up fundamental analysis.

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 2017