UNC Chapel Hill Investment Fund
Fiscal Year 2010 Review

Presentation To:
The Board of Trustees of
The University of North Carolina at Chapel Hill
November 18, 2010
Organizational Structure

- **UNC Investment Fund, LLC** (Formed in 2002)
- **UNC Management Company, Inc.** (Formed in 2002)
- **UNC Chapel Hill Foundation Investment Fund, Inc.**
  - Controlling Member
  - Other Members
  - Other UNC Campuses and Affiliates

Manager

Other Members
University of North Carolina at Chapel Hill
Foundation Investment Fund, Inc. – 06/30/10

UNC CH Foundation Investment Fund
$1.94 Billion
Invested in UNC Investment Fund ($2.54 billion)

UNC Chapel Hill
Affiliated Foundations (23)
$863.3 Million
Arts& Sciences  Business
Educational  Law
Public Health  Medical
Others…

Foundation Unitholders
Scholarships, Professorships etc.

UNC Chapel Hill
Statutory Endowment
$891.0 Million

Endowment Unitholders
Scholarships, Professorships etc.

UNC Chapel Hill
Foundation
$185.7 Million

Foundation Unitholders
Scholarships, Professorships etc.
## UNC Chapel Entity Changes in Market Value ($ in millions)

<table>
<thead>
<tr>
<th>Entity</th>
<th>6/30/2009</th>
<th>6/30/2010</th>
<th>1 Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Endowment</td>
<td>$849.1</td>
<td>$891.0</td>
<td>$41.9</td>
</tr>
<tr>
<td>Affiliated Foundations</td>
<td>$767.9</td>
<td>$863.3</td>
<td>$95.4</td>
</tr>
<tr>
<td>UNC Chapel Hill Foundation</td>
<td>$166.7</td>
<td>$185.7</td>
<td>$19.0</td>
</tr>
<tr>
<td>Total Chapel Hill Inv Fund</td>
<td>$1,783.7</td>
<td>$1,940.0</td>
<td>$156.3</td>
</tr>
</tbody>
</table>
Market Value of the Fund at 6/30/2010 – $2.5 Billion

- $1.9 Billion – Chapel Hill Investment Fund (CHIF)
- $595 Million – UNC System Schools and Affiliates
UNC Investment Fund
Investment Objectives

- Preserve the Real (inflation-adjusted) purchasing power of the Fund while providing a predictable and growing stream of spending distributions to Fund participants.

- Earn an annualized “real” total rate of return of at least 5.5% (CPI +5.5%) over 5 – 10 year time horizons.

- Earn an annual rate of return that exceeds the Strategic Investment Policy Portfolio (SIPP) benchmark.

- Perform in the top quartile of University Endowment Funds.
UNC Investment Fund
Investment Implementation

- Asset Allocation:
  - **LONG-TERM** time horizon
  - Focus on assets that provide equity-like returns
  - Mitigate risk through *diversification*
  - Opportunistically over- and under-weight asset classes within the target ranges
  - Add value through manager selection
  - Managing the UNC Investment Fund is *labor intensive*
## UNCIIF Asset Allocation vs. SIPP
### As of June 30, 2010

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>SIPP Target</th>
<th>Actual Weight (1)</th>
<th>Over / Under Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>20%</td>
<td>18.0%</td>
<td>-2.9</td>
</tr>
<tr>
<td>International Equity</td>
<td>15</td>
<td>15.8</td>
<td>+0.8</td>
</tr>
<tr>
<td>Global Equity</td>
<td>10</td>
<td>11.3</td>
<td>+1.3</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>10</td>
<td>8.8</td>
<td>-1.2</td>
</tr>
<tr>
<td>Domestic Fixed Income (high quality)</td>
<td>7.5</td>
<td>4.2</td>
<td>-3.3</td>
</tr>
<tr>
<td>Enhanced Fixed Income</td>
<td>5</td>
<td>9.9</td>
<td>+4.9</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>0.7</td>
<td>+0.7</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15</td>
<td>15.7</td>
<td>+0.7</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10</td>
<td>7.3</td>
<td>-2.7</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>7.5</td>
<td>8.0</td>
<td>+0.5</td>
</tr>
</tbody>
</table>

(1) excludes 0.03% in liquidating managers
FY 2010 Global Equity Market Review

Q1 9/30/2009: S&P 500 15.6%, NASDAQ 15.9%, EAFE 19.5%, Emerging Markets 20.9%
Q2 12/31/2009: S&P 500 6.0%, NASDAQ 7.2%, EAFE 2.2%, Emerging Markets 8.6%
Q3 3/31/2010: S&P 500 5.4%, NASDAQ 5.9%, EAFE 0.9%, Emerging Markets 2.4%
Q4 6/30/2010: S&P 500 -11.4%, NASDAQ -11.8%, EAFE -8.4%, Emerging Markets -14.0%
FY 2010: S&P 500 14.4%, NASDAQ 16.0%, EAFE 5.9%, Emerging Markets 23.2%

Very Strong 1st Qtr
Strong Middle Quarters
Weak Final Quarter
UNC Investment Fund
FY 2010 Performance Review

- For the 12 months ended June 30, 2010 (FY 2010) the UNC Investment Fund produced a +6.8% return

- On the one hand, this positive return represents a step in the right direction after the significant loss recorded in the prior fiscal year

- On the other hand, the Fund’s FY 2010 return was quite disappointing on a relative basis:
  - The Fund’s return lagged the return on the Strategic Investment Policy Portfolio (SIPP) benchmark by a sizable margin for the year
  - The Fund’s return ranked in the bottom quartile of university endowment returns for the year
Both the quarter ended and CYTD through June 30, 2010 saw a pullback from the strong rally earlier in the fiscal year.

The UNC Investment Fund posted a positive return, but lagged SIPP and other more traditional portfolios in FY 2010.
Primary Factors For Relative Underperformance to Strategic Investment Policy Portfolio

- Real Estate writedowns
- Long/Short Equity managers too bearish in strong equity market environment
- Domestic Fixed Income short duration and overweight high quality
UNCIF Long-Term Performance
As of 6/30/2010

UNC Investment Fund
Strategic Investment Policy Portfolio
Cambridge Assoc. Endowment Median
70% S&P 500 / 30% BC Aggregate
Despite lagging in FY2010, UNC Investment Fund’s return ranks 7th over the 3 year period ended June 30, 2010.

SIPP was a tough benchmark as only 3 of 30 schools were able to beat SIPP for the three years ended June 30, 2010.

Source: Cambridge Associates / Press Releases
When compared to the Cambridge Associates Endowment Universe the UNC Investment Fund has the following rankings for time periods ended June 30, 2010:

<table>
<thead>
<tr>
<th>Period</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>Bottom Quartile</td>
</tr>
<tr>
<td>3 Year</td>
<td>Top Quartile</td>
</tr>
<tr>
<td>5 Year</td>
<td>Top Quartile</td>
</tr>
<tr>
<td>10 Year</td>
<td>Top Quartile</td>
</tr>
</tbody>
</table>
UNC Investment Fund Attributes

- The UNC Investment Fund:
  - is extremely diversified among asset classes, investment managers, investment styles, etc.
  - has significant allocations to “alternative investments” — investments that don’t necessarily correlate to traditional equities and bonds
  - has an “overweight” to long/short equity managers — managers that generally do well in falling equity markets, but lag in strong up markets

- As a result, the UNC Investment Fund:
  - has a low correlation to traditional equity and bond indices
  - has very low volatility as measured by its standard deviation of quarterly returns
  - tends to lag in strong up markets and outperform in moderate up markets and down markets
Relative Performance in Up and Down Markets
10 Years (40 Quarters): June 30, 2000 – June 30, 2010

UNCIF Lags in Very Strong Up Markets
UNCIF Outperforms in Moderate Up Markets
UNCIF Protects in Down Markets

UNCIF has produced significant outperformance over the 10 year time period
For the past 10 years, the UNC Investment Fund and SIPP have significantly outperformed more traditional portfolios.
In FY 2010, the University of North Carolina at Chapel Hill Foundation Investment Fund (CHIF) increased in value by $156 million, from $1.78 billion at June 30, 2009 to $1.94 billion at June 30, 2010.

Major components of this increase include net investment gains of $124 million, and participant contributions of $136 million during the year.

The increase in market value in FY 2010 is after the annual CHIF endowment distribution of $106 million.
## UNC Chapel Hill Foundation Investment Fund
### Components of Change in Market Value
#### July 1, 2007 – June 30, 2010

($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>3 Year Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Market Value</strong></td>
<td>$2,024.6</td>
<td>$2,224.4</td>
<td>$1,783.7</td>
<td>$2,024.6</td>
</tr>
<tr>
<td><strong>Net Investment Gains (Losses)</strong></td>
<td>164.9</td>
<td>(462.9)</td>
<td>124.4</td>
<td>(173.6)</td>
</tr>
<tr>
<td><strong>Payout</strong></td>
<td>(91.7)</td>
<td>(108.5)</td>
<td>(106.2)</td>
<td>(306.3)</td>
</tr>
<tr>
<td><strong>Net Gain After Payout</strong></td>
<td>73.2</td>
<td>(571.3)</td>
<td>18.2</td>
<td>(480.0)</td>
</tr>
<tr>
<td><strong>Gifts &amp; Other Additions</strong></td>
<td>158.1</td>
<td>200.7</td>
<td>158.1</td>
<td>516.9</td>
</tr>
<tr>
<td><strong>Admin Fees</strong></td>
<td>(10.2)</td>
<td>(13.2)</td>
<td>(12.5)</td>
<td>(36.0)</td>
</tr>
<tr>
<td><strong>Other Net Withdrawals</strong></td>
<td>(21.2)</td>
<td>(56.8)</td>
<td>(7.6)</td>
<td>(85.6)</td>
</tr>
<tr>
<td><strong>Net Additions</strong></td>
<td>126.7</td>
<td>130.6</td>
<td>137.9</td>
<td>395.2</td>
</tr>
<tr>
<td><strong>Net Increase</strong></td>
<td>199.8</td>
<td>(440.7)</td>
<td>156.1</td>
<td>(84.7)</td>
</tr>
<tr>
<td><strong>Ending Market Value</strong></td>
<td>$2,224.4</td>
<td>$1,783.7</td>
<td>$1,939.9</td>
<td>$1,939.9</td>
</tr>
</tbody>
</table>
UNC Chapel Hill Foundation Investment Fund
FY 2011 Distribution Rate

At its May 2010 meeting, the Investment Fund Board:

- Approved the Fiscal Year 2011 Annual Distribution Rate of $397 per unit for the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., increasing the per unit distribution rate by 2.6% over the FY2010 per unit rate.

- The $397 per unit will be distributed to CHIF Fund participants on June 30, 2011 based on units held in the Fund during the course of FY 2011.
UNC Chapel Hill Investment Fund
Per Share Distribution Rate

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Per Share Distribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2004</td>
<td>$333</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$339</td>
</tr>
<tr>
<td>FY 2006</td>
<td>$350</td>
</tr>
<tr>
<td>FY 2007</td>
<td>$362</td>
</tr>
<tr>
<td>FY 2008</td>
<td>$380</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$418</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$387</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$397</td>
</tr>
</tbody>
</table>
UNC Chapel Hill Investment Fund
Distribution as a % of Beginning Mkt Value

Fiscal Year

FY 2004: 6.10%
FY 2005: 5.70%
FY 2006: 5.40%
FY 2007: 4.90%
FY 2008: 4.40%
FY 2009: 4.60%
FY 2010: 5.70%
FY 2011: 5.60%
UNC Investment Fund
Long-Term Performance
Periods ended June 30, 2010

<table>
<thead>
<tr>
<th>Period</th>
<th>UNCFIF</th>
<th>Inflation + 5.5%</th>
<th>70/30 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Years</td>
<td>-2.5%</td>
<td>7.4%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>5 Years</td>
<td>6.4%</td>
<td>7.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>10 Years</td>
<td>6.2%</td>
<td>7.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>20 Years</td>
<td>10.2%</td>
<td>8.2%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>
Summary

- The UNC Investment Fund’s FY 2010’s results were disappointing as the Fund performed poorly relative to its SIPP benchmark and compared to other institutional funds for the year.

- The UNC Investment Fund’s longer-term record is still attractive relative to benchmarks and peers.

- FY 2010 represented a small step forward in repairing the damage incurred in FY 2009 – recouping the losses incurred in FY 2009 will likely be a multi-year process requiring patience and discipline.

- FY 2011 performance is off to a good start.

- Looking forward, we remain confident that the UNC Investment Fund will continue to produce attractive longer-term returns, particularly on a risk adjusted basis.