Investment Entity Structure

Manager

UNC Management Company, Inc.

Controlling Member

UNC Investment Fund, LLC (UNCIF)

Other Members

Other UNC Campuses and Affiliates

UNC Chapel Hill Foundation Investment Fund, Inc. (CHIF)

Other UNC Chapel Hill Affiliated Funds

Statutory Endowment of UNC Chapel Hill

UNC Chapel Hill Foundation, Inc.
University of North Carolina at Chapel Hill
Foundation Investment Fund, Inc. – 06/30/11

UNC CH Foundation Investment Fund
$2.22 Billion
Invested in UNC Investment Fund ($2.9 billion)

UNC Chapel Hill
Affiliated Foundations (23)
$991.0 Million
Arts & Sciences  Business
Educational  Law
Public Health  Medical
Others…

Foundation Unitholders
Scholarships, Professorships etc.

UNC Chapel Hill
Statutory Endowment
$1.01 Billion

Endowment Unitholders
Scholarships, Professorships etc.

UNC Chapel Hill
Foundation
$219.7 Million

Foundation Unitholders
Scholarships, Professorships etc.

Arts & Sciences  Business
Educational  Law
Public Health  Medical
Others…
UNC Investment Fund Market Value Change (June 2008 – June 2011)

The market value of the Investment Fund has grown to just under $3B
<table>
<thead>
<tr>
<th>Entity</th>
<th>6/30/2010</th>
<th>6/30/2011</th>
<th>1 Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Endowment</td>
<td>$891.0</td>
<td>$1,013.6</td>
<td>$122.6</td>
</tr>
<tr>
<td>Affiliated Foundations</td>
<td>$863.3</td>
<td>$985.4</td>
<td>$122.1</td>
</tr>
<tr>
<td>UNC Chapel Hill Foundation</td>
<td>$185.7</td>
<td>$219.7</td>
<td>$34.0</td>
</tr>
<tr>
<td>Total Chapel Hill Inv Fund</td>
<td>$1,940.0</td>
<td>$2,218.7</td>
<td>$278.7</td>
</tr>
</tbody>
</table>
In FY 2011, the University of North Carolina at Chapel Hill Foundation Investment Fund (CHIF) increased in value by $279 million, from $1.94 billion at June 30, 2010 to $2.22 billion at June 30, 2011.

Major components of this increase include net investment gains of $306 million, and net participant contributions of $87 million during the year.

The increase in market value in FY 2011 is after the annual CHIF endowment distribution of $114 million.
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*
## SIPP Asset Class Current Weightings

(As of June 30, 2011)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>SIPP Target (%)</th>
<th>Current Weight (%)</th>
<th>Over/Under-Weight to B’mark (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>20</td>
<td>18.7</td>
<td>-1.3</td>
</tr>
<tr>
<td>International Equity</td>
<td>15</td>
<td>15.9</td>
<td>+0.9</td>
</tr>
<tr>
<td>Global Equity</td>
<td>10</td>
<td>12.8</td>
<td>+2.8</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>10</td>
<td>8.0</td>
<td>-2.0</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>7.5</td>
<td>2.6</td>
<td>-4.9</td>
</tr>
<tr>
<td>Enhanced Fixed Income</td>
<td>5</td>
<td>7.4</td>
<td>+2.4</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>2.5</td>
<td>+2.5</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15</td>
<td>17.1</td>
<td>+2.1</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10</td>
<td>7.5</td>
<td>-2.5</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>7.5</td>
<td>7.5</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Current Economic Backdrop

- The period since 2007 has clearly not been one of an “ordinary” recession followed by a “normal” recovery.

- An alternate view on the state of the economy which is gaining acceptance:
  
  The “Great Recession” of 2008 was not a normal post WW II cyclical recession but rather marked the beginning of a period of deleveraging and credit contraction (except at the sovereign level) resulting from the previous 25+ years of secular credit expansion in the United States and Europe.

- In contrast to normal cyclical recoveries, which tend to be relatively strong, the recoveries in post credit bubble, deleveraging periods tend to be weaker and more prolonged, with frequent bouts of economic weakness (U.S in the 1930’s, Japan in the 1990’s).
FY 2011 and FY 2012 Q1 Financial Market Environment

• FY 2011 proved to be exceptionally strong for equity markets around the world
  • The S&P 500 and MSCI EAFE were both up more than 30% for the fiscal year ended June 30, 2011
  • Fixed Income generated more modest returns during the year, especially government bonds which produced flat to negative returns for the 12 month period

• In the first quarter of FY 2012 global equity markets weakened considerably as Euro zone debt issues resurfaced as a frontline issue

• In the quarter ended September 30, 2011:
  • Equities around the world suffered double digit losses with the S&P 500 down more than 13% and both developed and emerging markets losing more than 19%
  • Bonds held up well with solid positive returns (particularly long Treasuries)
FY2011 – Quarterly Market Returns

- **Q1 - Very Strong**: 11.3% (S&P 500), 18.0% (EAFE), 2.5% (Emerging Markets), 2.5% (Barclays Aggregate Bond)
- **Q2 - Strong**: 10.8% (S&P 500), 6.6% (EAFE), 7.3% (Emerging Markets), 0.4% (Barclays Aggregate Bond)
- **Q3 - Modest**: 5.9% (S&P 500), 3.4% (EAFE), 2.0% (Emerging Markets), 0.4% (Barclays Aggregate Bond)
- **Q4 - Weak**: 1.6% (S&P 500), 1.6% (EAFE), 2.3% (Emerging Markets), 0.1% (Barclays Aggregate Bond)

**Fed Announces QE2**

**QE2 Expires**
Despite extraordinarily strong returns across global, the 3- and 5-year returns remain dampened.
UNC Investment Fund
FY 2011 Performance

FY 2011 15.3%  Solid FYTD Performance
SIPP  20.2%  Underperformed relative to SIPP

A mid-teen’s return is a welcome result but still lagged the SIPP benchmark and most other endowment funds for the fiscal year period ended June 30, 2011.
### UNC Investment Fund

**Return Summary**

Investment Returns for periods ended June 30, 2011

<table>
<thead>
<tr>
<th>Period</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Months (FY 2011)</td>
<td>15.3%</td>
</tr>
<tr>
<td>3 Years</td>
<td>(0.4)%</td>
</tr>
<tr>
<td>5 Years</td>
<td>5.7%</td>
</tr>
<tr>
<td>10 Years</td>
<td>8.1%</td>
</tr>
</tbody>
</table>
The two primary factors for the fund’s underperformance during the most recent fiscal year were:

- Long/short equity managers
- Real Estate
UNC Investment Fund Has Nearly Made Up the Losses Incurred in FY 2009
Up-Capture / Down-Capture Analysis

S&P 500 Up Quarters >8% (6)
S&P 500 Up Quarters 0-8% (16)
S&P 500 Down Quarters (10)
Total Cumulative Performance
FY 2011 Financial Market Returns + 1st Quarter FY 2012

- FY ’11 Q1 - Very Strong
- FY ’11 Q2 - Strong
- FY ’11 Q3 - Modest
- FY ’11 Q4 - Weak

Fed Announces QE2

QE2 Expires

FY ’12 Q1 - Extreme equity market decline
## FY 2012 YTD Performance Update through 9/30/2011

<table>
<thead>
<tr>
<th></th>
<th>FYTD (3 months)</th>
<th>CYTD (9 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNCIF</td>
<td>-4.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>70/30</td>
<td>-8.8</td>
<td>-4.2</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-13.9</td>
<td>-8.7</td>
</tr>
<tr>
<td>ACWI</td>
<td>-17.3</td>
<td>-13.2</td>
</tr>
</tbody>
</table>
UNC Chapel Hill Foundation Investment Fund FY 2012 Distribution Rate

- At its May 2011 meeting, the Investment Fund Board:
  - Approved the Fiscal Year 2012 Annual Distribution Rate of $409 per unit for the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., increasing the per unit distribution rate by 3.0% over the FY2011 per unit rate.
  - The $409 per unit will be distributed to CHIF Fund participants on June 30, 2012 based on units held in the Fund during the course of FY 2012.
UNC Chapel Hill Investment Fund
Per Share Distribution Rate

Fiscal Year

FY 2004 $333
FY 2005 $339
FY 2006 $350
FY 2007 $362
FY 2008 $380
FY 2009 $418
FY 2010 $387
FY 2011 $397
FY 2012 $409
UNC Chapel Hill Investment Fund
Distribution as a % of Beginning Mkt Value

Fiscal Year


4.00%  4.50%  5.00%  5.50%  6.00%  6.50%
UNC Investment Fund
Long-Term Performance
Periods ended June 30, 2011

-0.4% 5.7%
6.6% 7.6%
10.5% 8.4%
8.4% 8.1%
7.9% 7.6%
4.7% 4.4%
3.9% 8.1%
10.5% 8.4%
2% 3% 6% 9% 12%
0% 2% 4% 6% 8% 10% 12%
-2% -0.4%
3 Years 5 Years 10 Years 20 Years

UNCIF Inflation + 5.5% 70/30 Index
Summary

- The UNC Investment Fund’s 15.3% return in FY 2011 was a major step in recovering the losses incurred two years ago.
- Despite lagging the policy portfolio (SIPP) and other “traditional” portfolio benchmarks in the most recent couple of years, the Fund’s longer-term returns remain attractive, particularly on a risk adjusted basis.
- The Fund’s calendar 2011 Year-To-Date return remains positive despite the significant losses recorded in global equity markets during the period.
- We are confident that the UNC Investment Fund will continue to produce attractive long-term returns with a relatively low level of volatility.