The University of North Carolina at Chapel Hill
Foundation Investment Fund

Presentation To:
Budget, Finance & Audit Committee

The Board of Trustees of
The University of North Carolina at Chapel Hill

March 21, 2012
UNC Investment Fund Update

- FY 2012 year-to-date return update through February
- 1-, 5-, and 10-year returns compared to Cambridge Associates endowment universe (nominal and “real”)
- 1-, 5-, and 10-year returns compared to global financial market indices (nominal and “real”)
- UNC Investment Fund 5- and 10-year returns (nominal, “real” and “real” after spending)
- Comparison of Rolling 5- and 10-Year Returns
- Update on “underwater” funds
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
FY 2012 Year-To-Date Update

UNCIF Return:

FY 2012 First Half (Through 12/31/2011) -3.2%
March 2012 Quarter-to-Date (Jan & Feb ‘12 – Prelim) 4.5% *
Preliminary Fiscal 2012 Year-To-Date Through Feb ’12 1.2% *

* FY 2012 Q3 and FYTD through February 2012 figures are preliminary and subject to change
UNC Investment Fund
Endowment Universe Comparison

University Endowment Returns
Periods Ended December 31, 2011

Source: Cambridge Associates

UNCIF Return

1 Year Ended 12/31/2011
3.0% 7.8%

5 Years Ended 12/31/2011
3.0% 7.0%

10 Years Ended 12/31/2011
7.8% 6.4%

UNC Rank:

> $2 Billion 17 of 22 10 of 22 8 of 22

> $1 Billion 26 of 47 16 of 47 9 of 46

All endowments 39 of 150 25 of 145 9 of 137

Largest 15 Publics 5 of 14 4 of 14 2 of 14

Source: Cambridge Associates
UNC Investment Fund
Endowment Universe Comparison

University Endowment "Real" Returns
Periods Ended December 31, 2011

<table>
<thead>
<tr>
<th>Period</th>
<th>UNCIF Nominal Return</th>
<th>&gt; $2 Billion Median</th>
<th>&gt; $1 Billion Median</th>
<th>All Endowment Median</th>
<th>Largest 15 Publics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>-1.7%</td>
<td>-1.2%</td>
<td>-1.5%</td>
<td>0.7%</td>
<td>0.5%</td>
</tr>
<tr>
<td>5 Years</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>10 Years</td>
<td>5.2%</td>
<td>4.4%</td>
<td>3.4%</td>
<td>3.8%</td>
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</tbody>
</table>

1 Year Ended 12/31/2011  5 Years Ended 12/31/2011  10 Years Ended 12/31/2011

UNCIF Nominal Return  1.2%  3.0%  7.8%
Inflation (CPI)  3.0%  2.3%  2.5%
UNCIF Real Return  -1.7%  0.7%  5.2%

Source: Cambridge Associates
Global equity indices are negative for the five year period ended December 31, 2011

*Diversified Global Index = 65% ACWI Equity Index, 25% JP Morgan Global Bond Index, 5% MSCI Global REITs and 5% GSCI Commodities
<table>
<thead>
<tr>
<th></th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Return</td>
<td>5.7%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>2.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>&quot;Real&quot; Return</td>
<td>3.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Spending Distribution</td>
<td>5.0%</td>
<td>5.4%</td>
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<tr>
<td>Real Return After Spending</td>
<td>-1.5%</td>
<td>0.2%</td>
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</tbody>
</table>
UNC Investment Fund
Rolling 5 Year Returns
Periods Ended December 31
UNC Investment Fund
Rolling 10 Year Returns
Periods Ended December 31
### ANALYSIS OF UNDERWATER ENDOWMENTS

#### THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL STATUTORY ENDOWMENT

<table>
<thead>
<tr>
<th>Funds</th>
<th>Market Value</th>
<th>Distribution</th>
<th>Funds</th>
<th>Market Value</th>
<th>Distribution</th>
<th>Funds</th>
<th>Market Value</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008-09</td>
<td></td>
<td></td>
<td>FY 2009-10</td>
<td></td>
<td></td>
<td>FY 2010-11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Endowments</td>
<td>1,036 $903,755,668</td>
<td>$52,382,478</td>
<td>1,069 $945,639,381</td>
<td>$50,108,184</td>
<td>1,104 $1,065,344,224</td>
<td>$53,052,817</td>
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</tr>
<tr>
<td>Distribution Reduction</td>
<td>194 (5,026,311)</td>
<td>174 (4,261,287)</td>
<td>61 (1,453,203)</td>
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<tr>
<td>Adjusted Distribution</td>
<td>$47,356,167</td>
<td>$45,846,897</td>
<td>$51,599,614</td>
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<tr>
<td>Impact on Distribution</td>
<td>-9.6%</td>
<td>-8.5%</td>
<td>-2.7%</td>
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<tr>
<td>Underwater Endowments Variance [1]</td>
<td>$10,293,792</td>
<td>$5,086,992</td>
<td>$261,604</td>
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</tbody>
</table>

[1] Represents total amount that donor contributions exceed market values for underwater endowments.

#### THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL FOUNDATION, INC.

<table>
<thead>
<tr>
<th>Funds</th>
<th>Market Value</th>
<th>Distribution</th>
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<td></td>
<td></td>
<td>FY 2010-11</td>
<td></td>
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</tr>
<tr>
<td>All Endowments</td>
<td>362 $177,248,438</td>
<td>$9,988,771</td>
<td>377 $197,191,883</td>
<td>$9,923,848</td>
<td>386 $231,416,235</td>
<td>$11,077,036</td>
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<tr>
<td>Distribution Reduction</td>
<td>85 (1,095,233)</td>
<td>83 (1,084,384)</td>
<td>27 (229,979)</td>
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<tr>
<td>Adjusted Distribution</td>
<td>$8,893,538</td>
<td>$8,839,464</td>
<td>$10,847,057</td>
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</tr>
<tr>
<td>Impact on Distribution</td>
<td>-11.0%</td>
<td>-10.9%</td>
<td>-2.1%</td>
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<tr>
<td>Underwater Endowments Variance [1]</td>
<td>$2,315,699</td>
<td>$1,102,200</td>
<td>$80,194</td>
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</tbody>
</table>

[1] Represents total amount that donor contributions exceed market values for underwater endowments.
Appendix
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.
UNC Chapel Hill Investment Fund
Distribution as a % of Beginning Mkt Value

Fiscal Year

FY 2004: 6.1%
FY 2005: 5.7%
FY 2006: 5.4%
FY 2007: 4.9%
FY 2008: 4.4%
FY 2009: 4.6%
FY 2010: 5.7%
FY 2011: 5.6%
FY 2012: 5.4%