

# UNC Chapel Hill Investment Fund Fiscal Year 2010 Review

Presentation To:

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

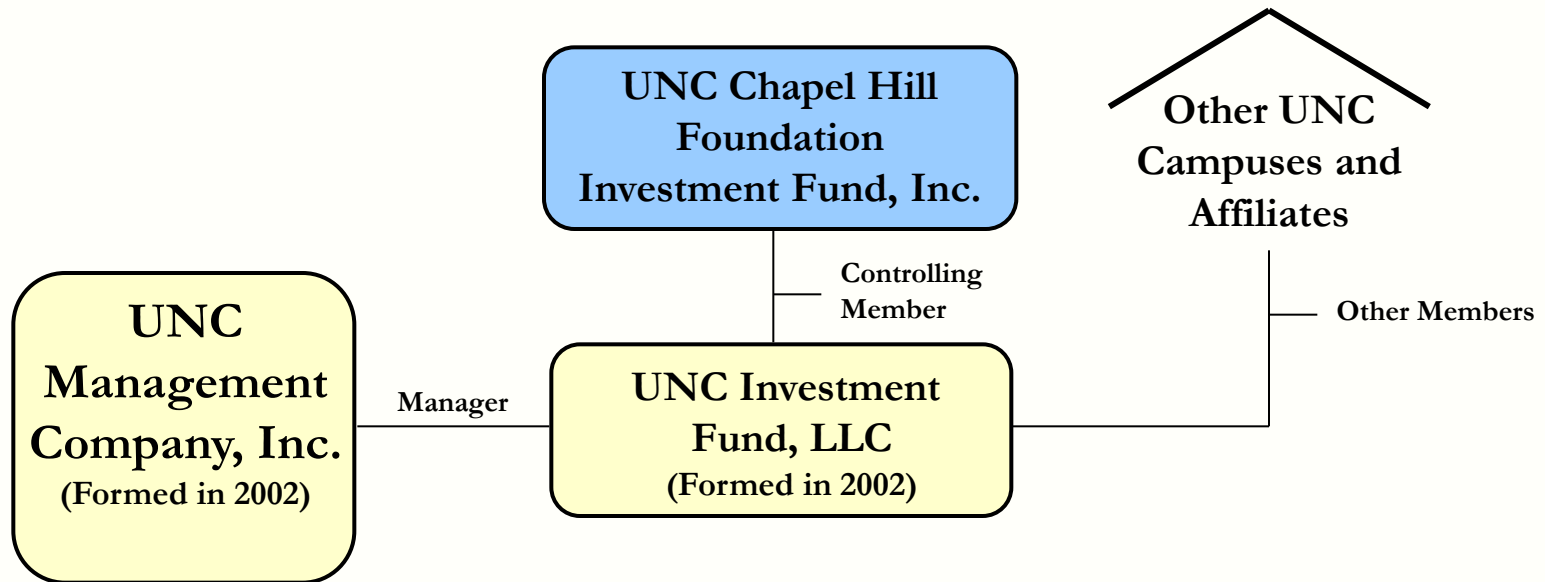
November 18, 2010



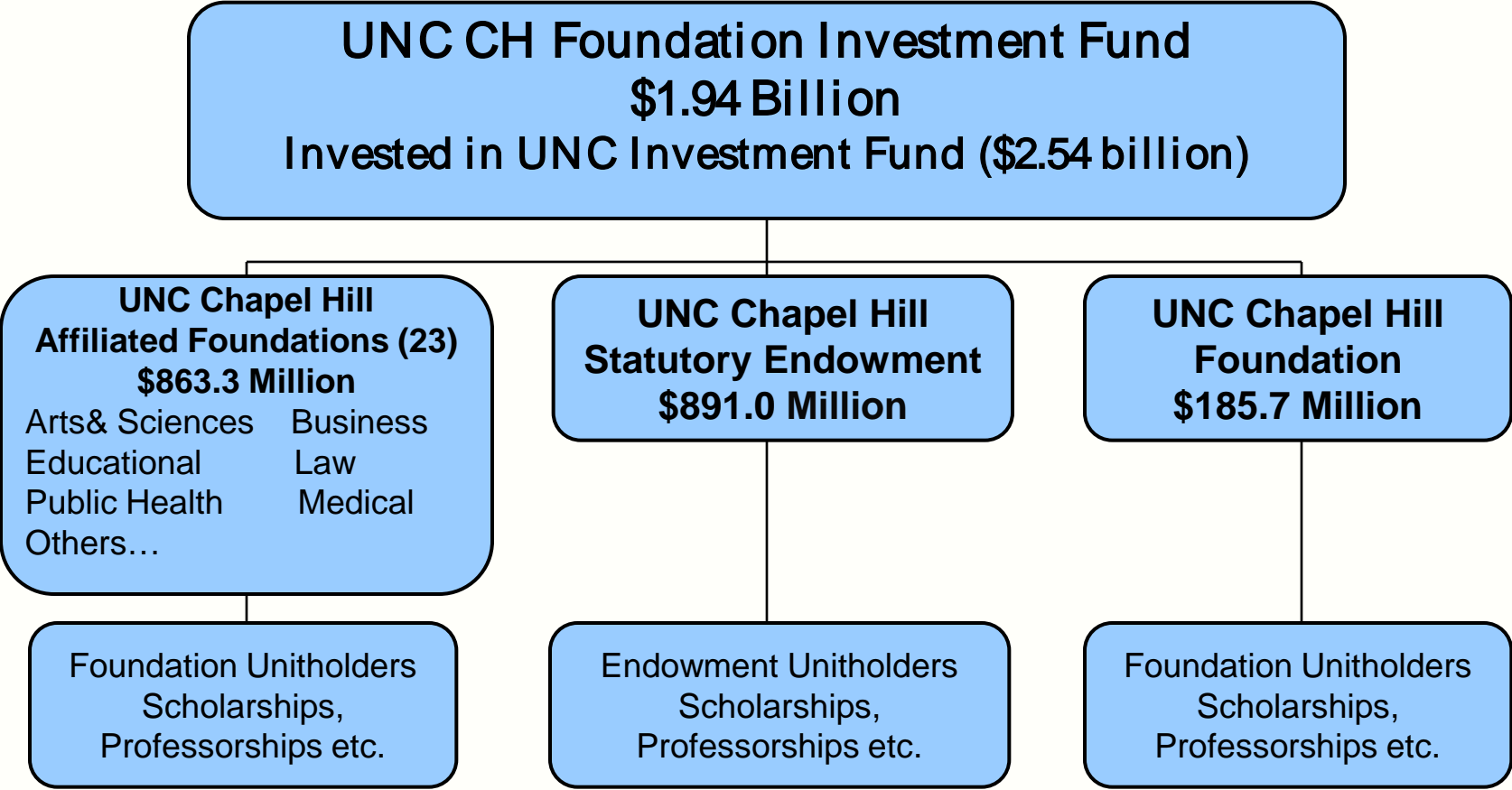
**UNCNCMC**

UNC MANAGEMENT COMPANY, INC

# Organizational Structure



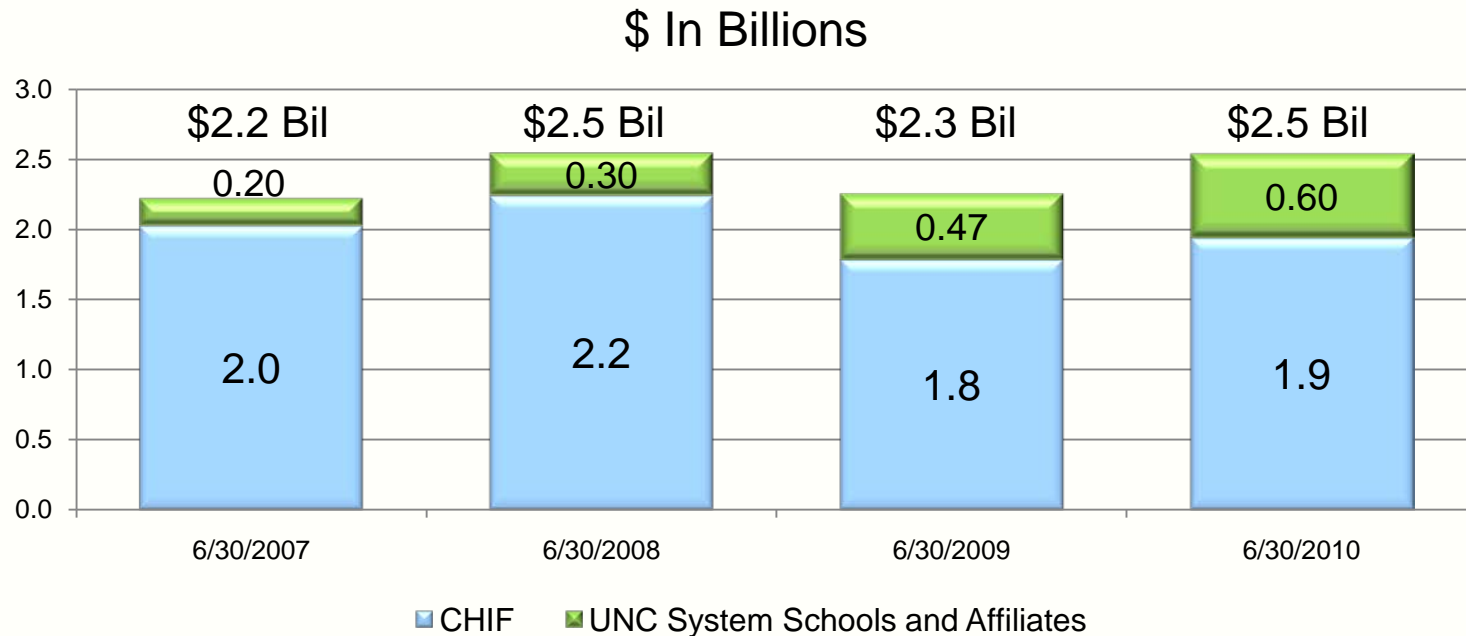
# University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. – 06/30/10



# UNC Chapel Entity Changes in Market Value (\$ in millions)

	6/30/2009	6/30/2010	1 Year Growth
Statutory Endowment	\$849.1	\$891.0	\$41.9
Affiliated Foundations	\$767.9	\$863.3	\$95.4
UNC Chapel Hill Foundation	\$166.7	\$185.7	\$19.0
<b>Total Chapel Hill Inv Fund</b>	<b>\$1,783.7</b>	<b>\$1,940.0</b>	<b>\$156.3</b>

# UNC Investment Fund Market Value



- 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**

# UNCIF Asset Allocation vs. SIPP

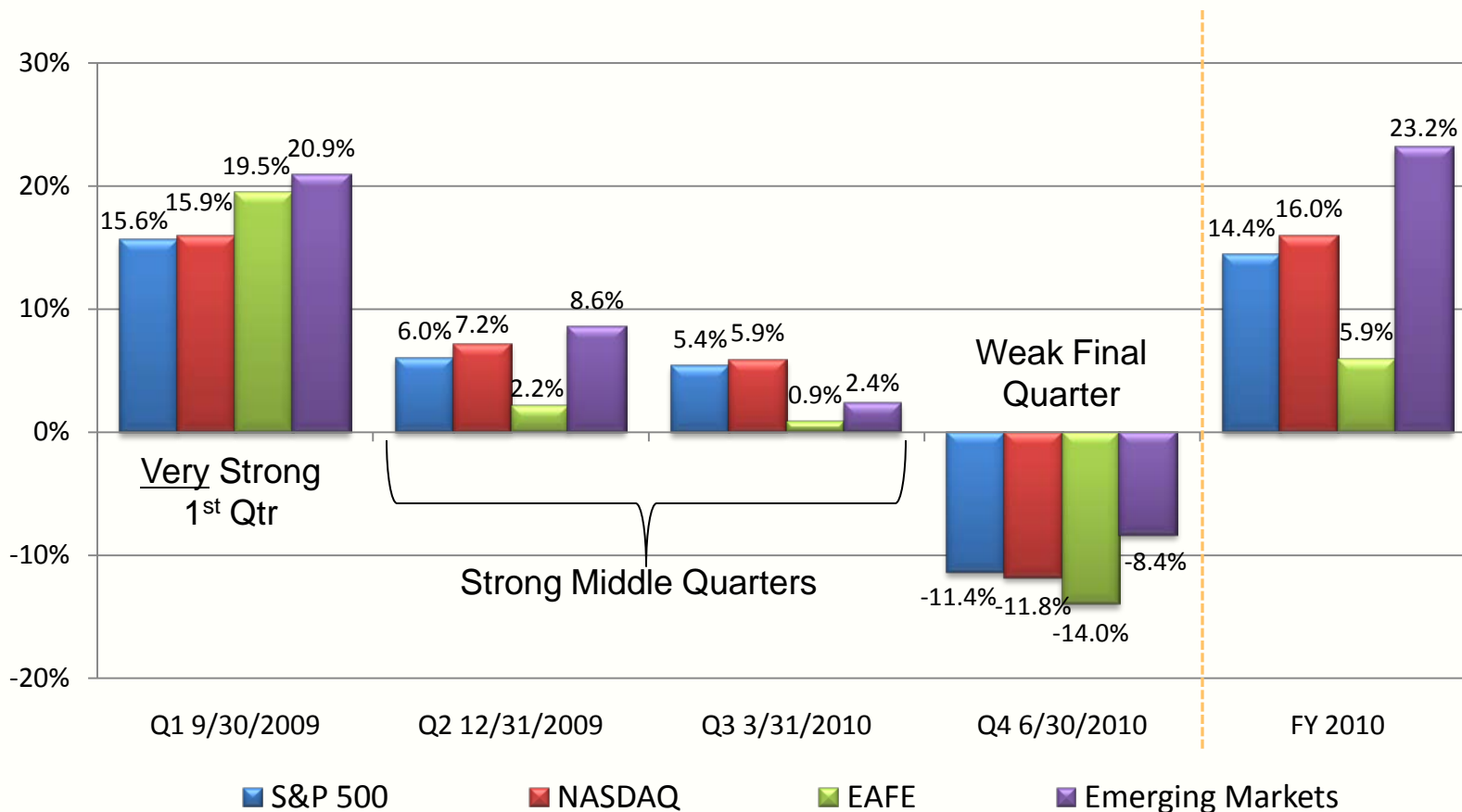
## As of June 30, 2010

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

(1) excludes 0.03% in liquidating managers



# FY 2010 Global Equity Market Review

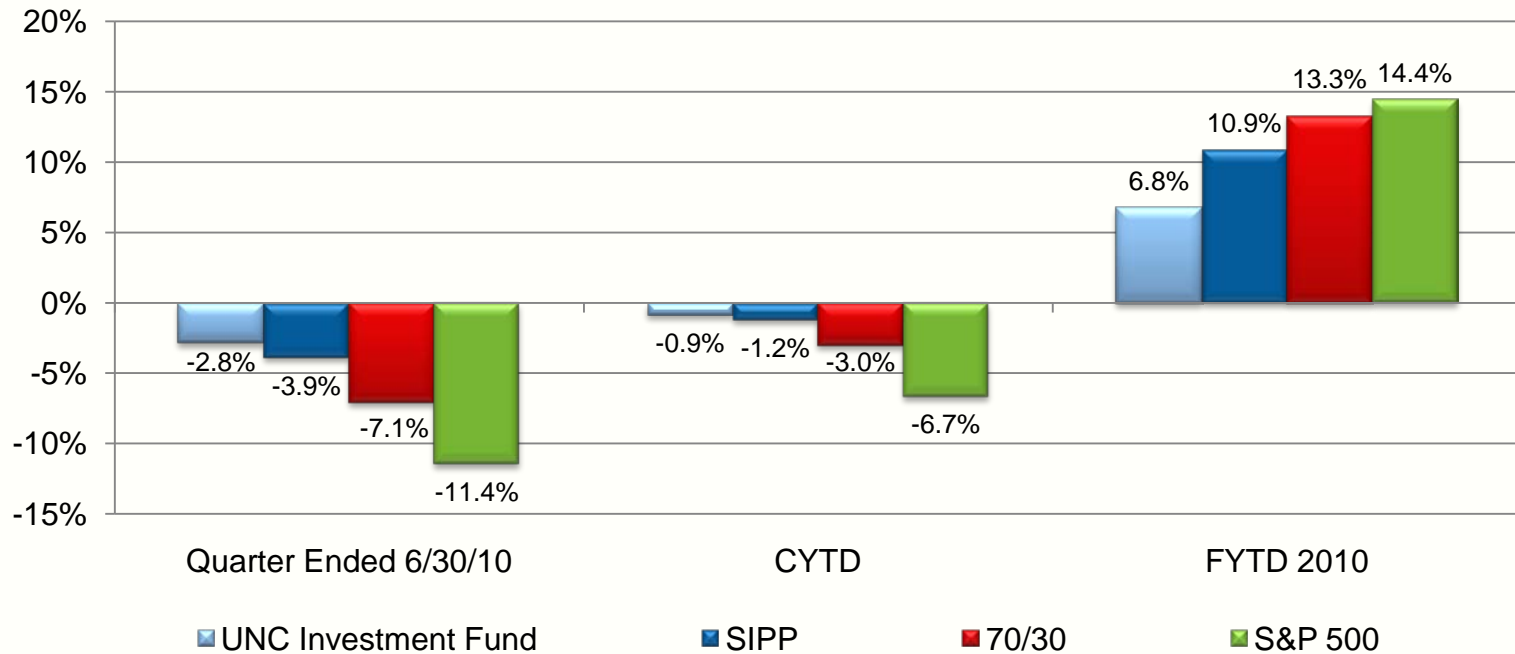


# UNC Investment Fund FY 2010 Performance Review

- 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

# UNC Investment Fund Relative Performance

## As of 6/30/2010



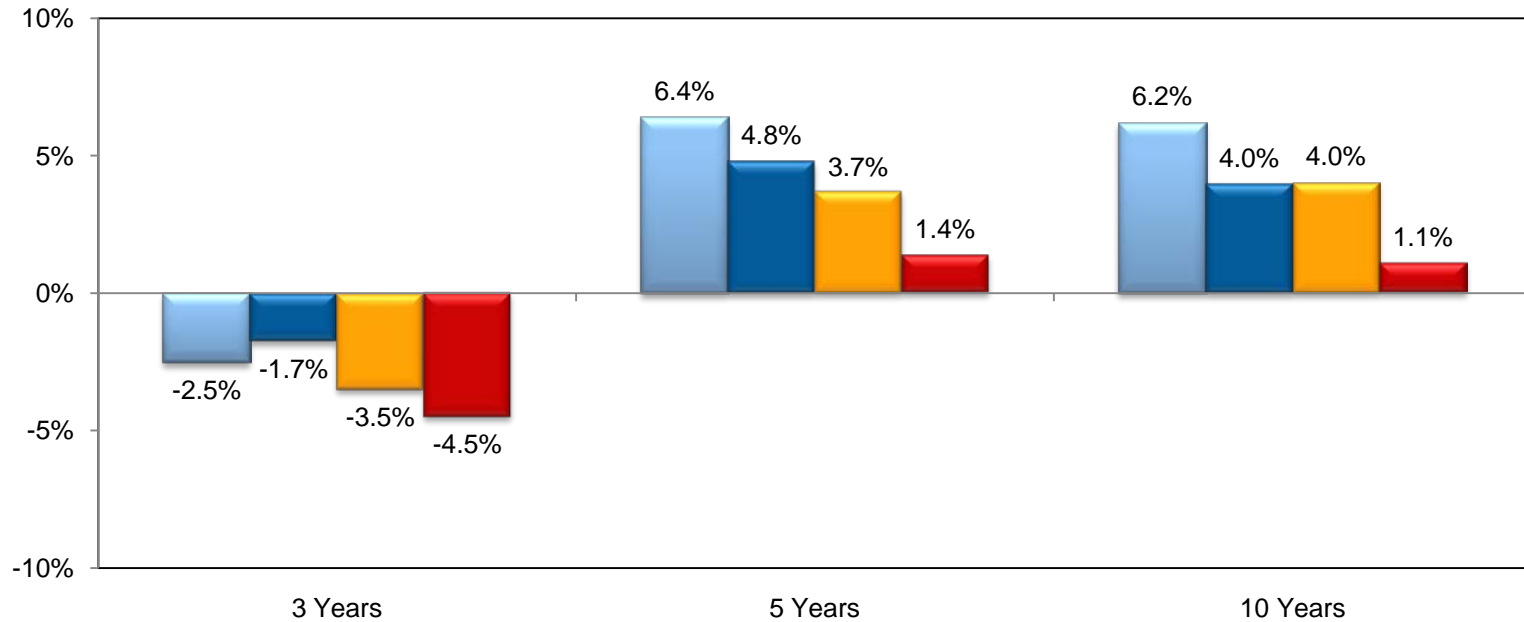
- Both the quarter ended and CYTD through June 30, 2010 saw a pullback from the strong rally earlier in the fiscal year.
- The UNC Investment Fund posted a positive return, but lagged SIPP and other more traditional portfolios in FY 2010.

# 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

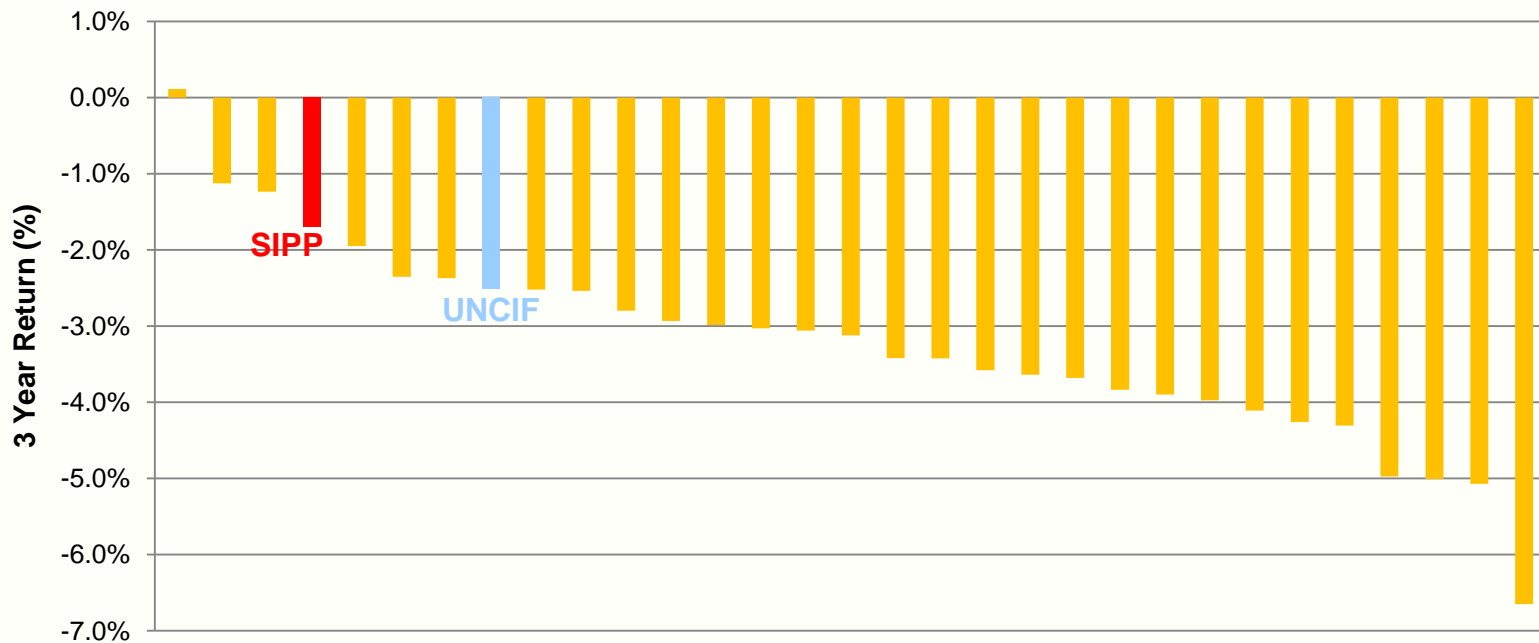


■ UNC Investment Fund  
■ Cambridge Assoc. Endowment Median

■ Strategic Investment Policy Portfolio  
■ 70% S&P 500 / 30% BC Aggregate

# 3 Year Return Data

## 30 Largest University Endowments: >\$2 Billion AUM as of 6/30/2010



- Despite lagging in FY2010, UNC Investment Fund's return **ranks 7<sup>th</sup>** 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

# Cambridge Associates Universe Comparison as of 6/30/2010

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

<b>1 Year</b>	Bottom Quartile
3 Year	Top Quartile
5 Year	Top Quartile
10 Year	Top Quartile

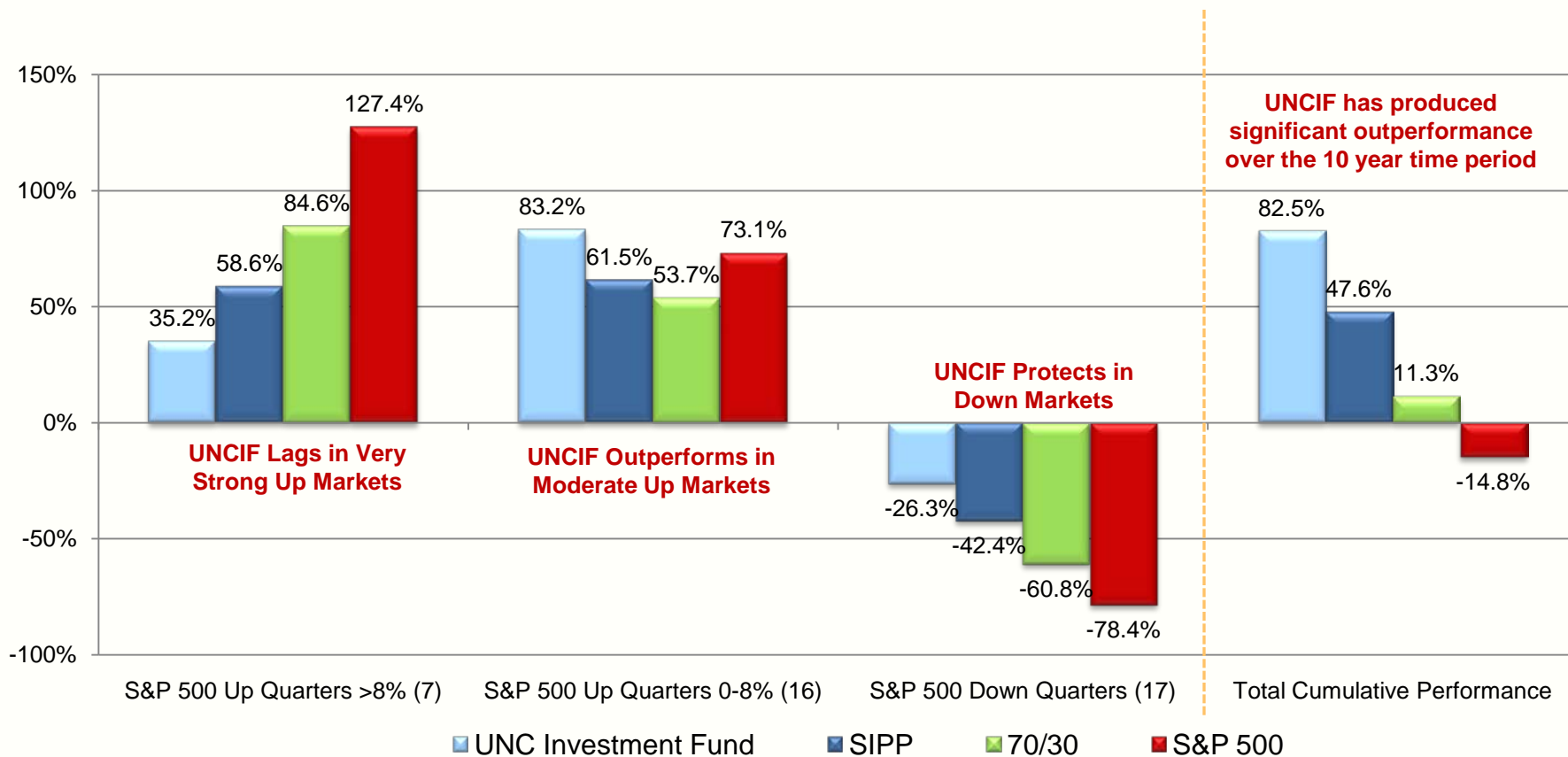
# UNC Investment Fund Attributes

- 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

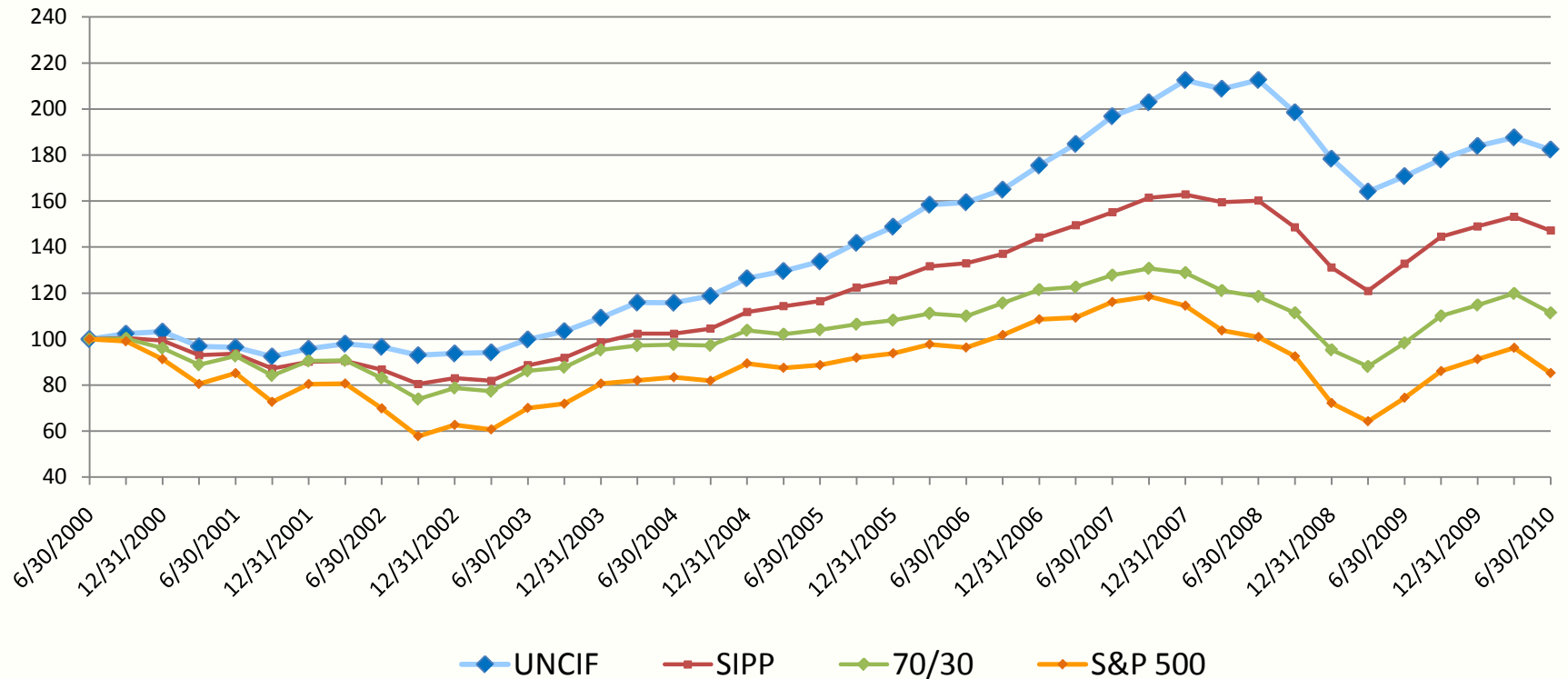


# Relative Performance in Up and Down Markets

10 Years (40 Quarters): June 30, 2000 – June 30, 2010



# 10 Year UNC Investment Fund Cumulative Growth



- For the past 10 years, the UNC Investment Fund and SIPP have significantly outperformed more traditional portfolios.

# UNC Chapel Hill Foundation Investment Fund FY 2010 Change in Market Value

- 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

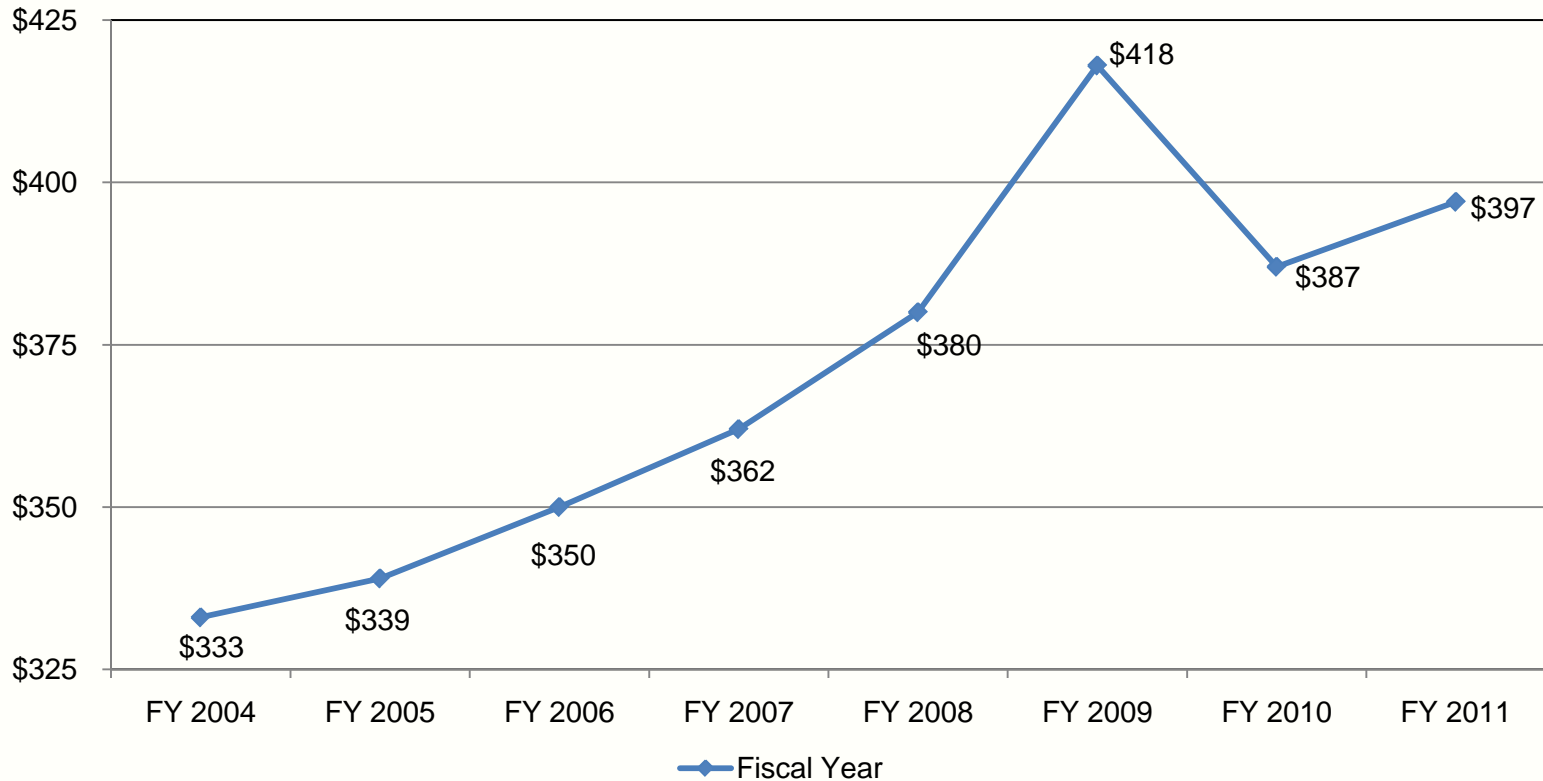
(\$ in millions)

	FY 2008	FY 2009	FY 2010	3 Year Cumulative
Beginning Market Value	\$2,024.6	\$2,224.4	\$1,783.7	\$2,024.6
Net Investment Gains (Losses)	164.9	(462.9)	124.4	(173.6)
Payout	(91.7)	(108.5)	(106.2)	(306.3)
Net Gain After Payout	73.2	(571.3)	18.2	(480.0)
Gifts & Other Additions	158.1	200.7	158.1	516.9
Admin Fees	(10.2)	(13.2)	(12.5)	(36.0)
Other Net Withdrawals	(21.2)	(56.8)	(7.6)	(85.6)
Net Additions	126.7	130.6	137.9	395.2
Net Increase	199.8	(440.7)	156.1	(84.7)
Ending Market Value	<u>\$2,224.4</u>	<u>\$1,783.7</u>	<u>\$1,939.9</u>	<u>\$1,939.9</u>

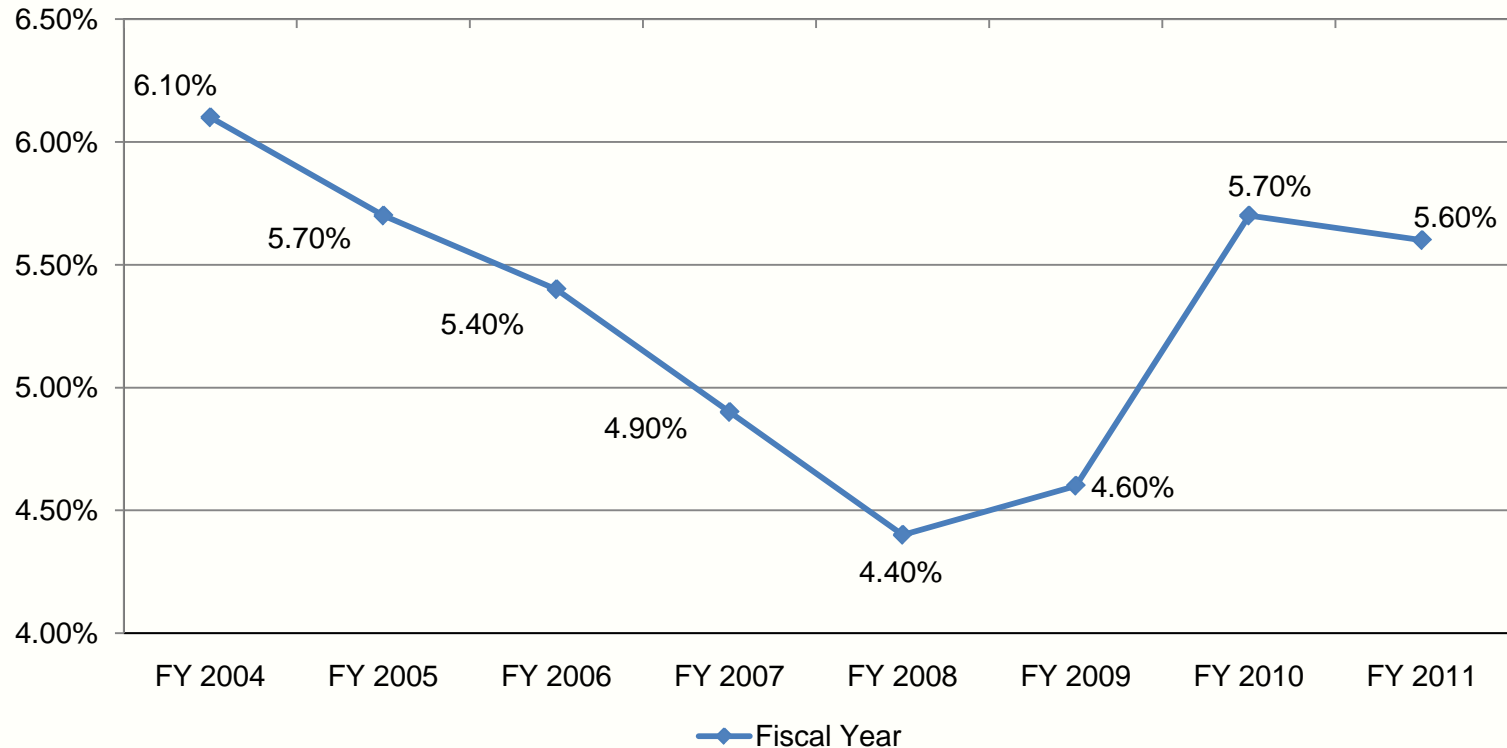
# UNC Chapel Hill Foundation Investment Fund FY 2011 Distribution Rate

- 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

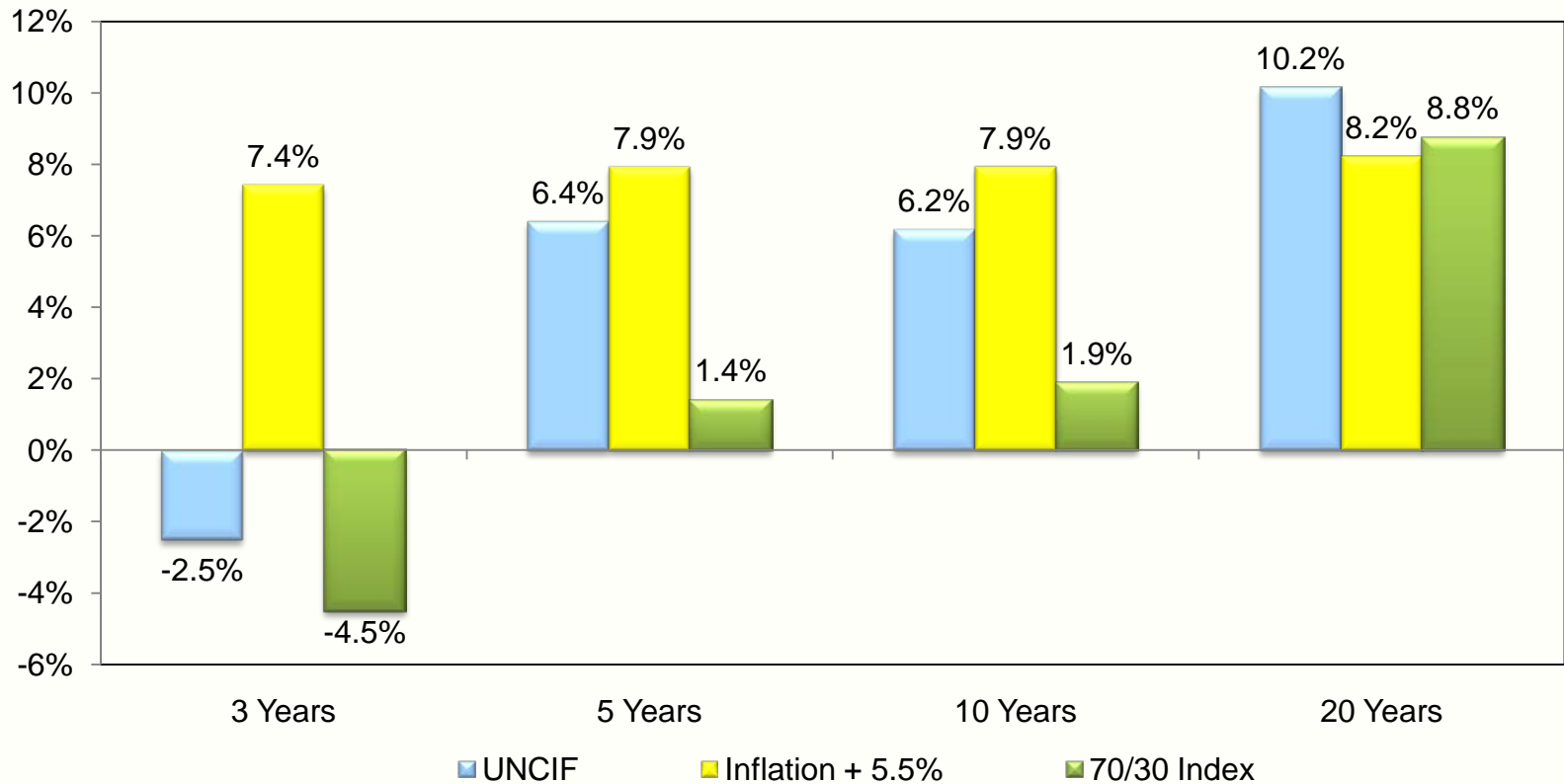


# UNC Chapel Hill Investment Fund Distribution as a % of Beginning Mkt Value



# UNC Investment Fund Long-Term Performance

Periods ended June 30, 2010





# 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