

UNC Chapel Hill Investment Fund Fiscal Year 2011 Review

Presentation To:

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

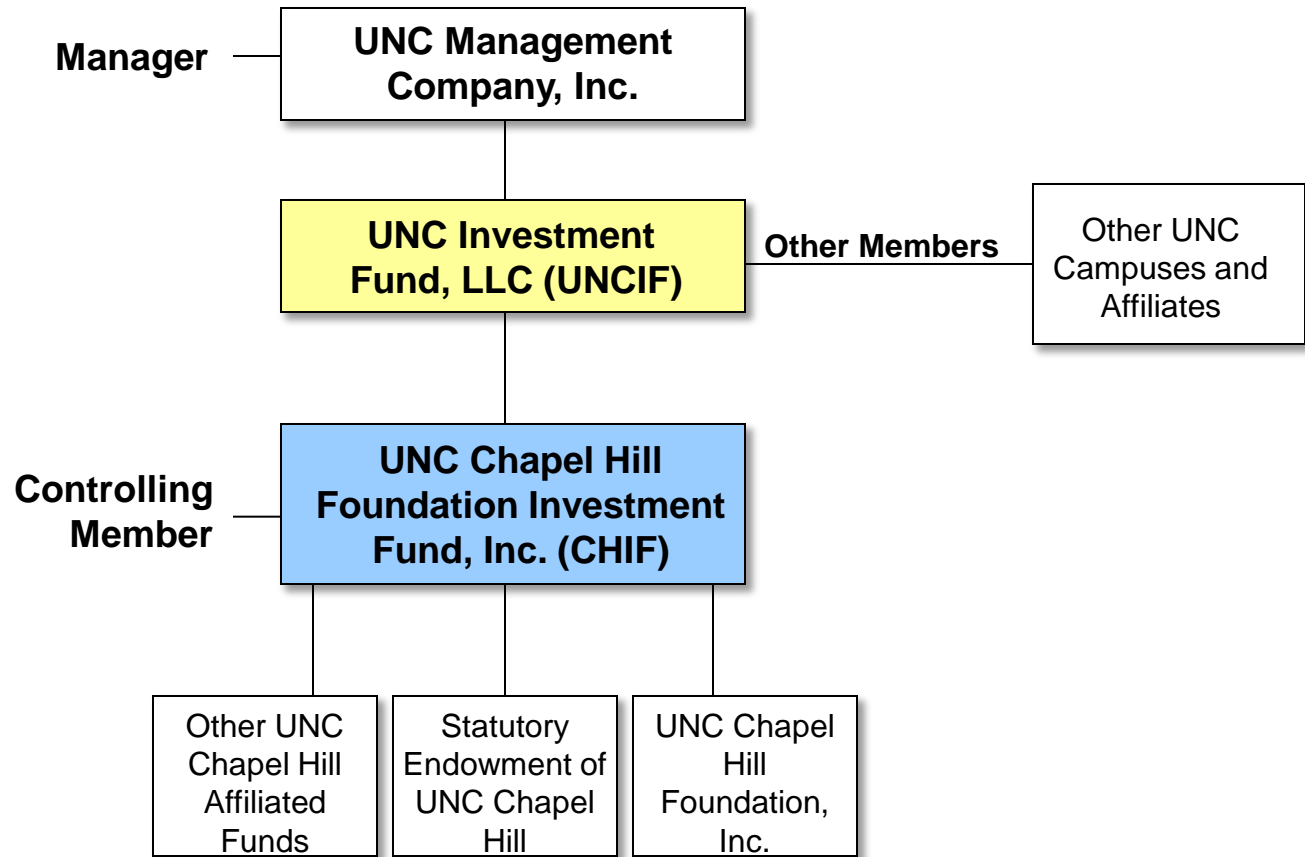
November 17, 2011



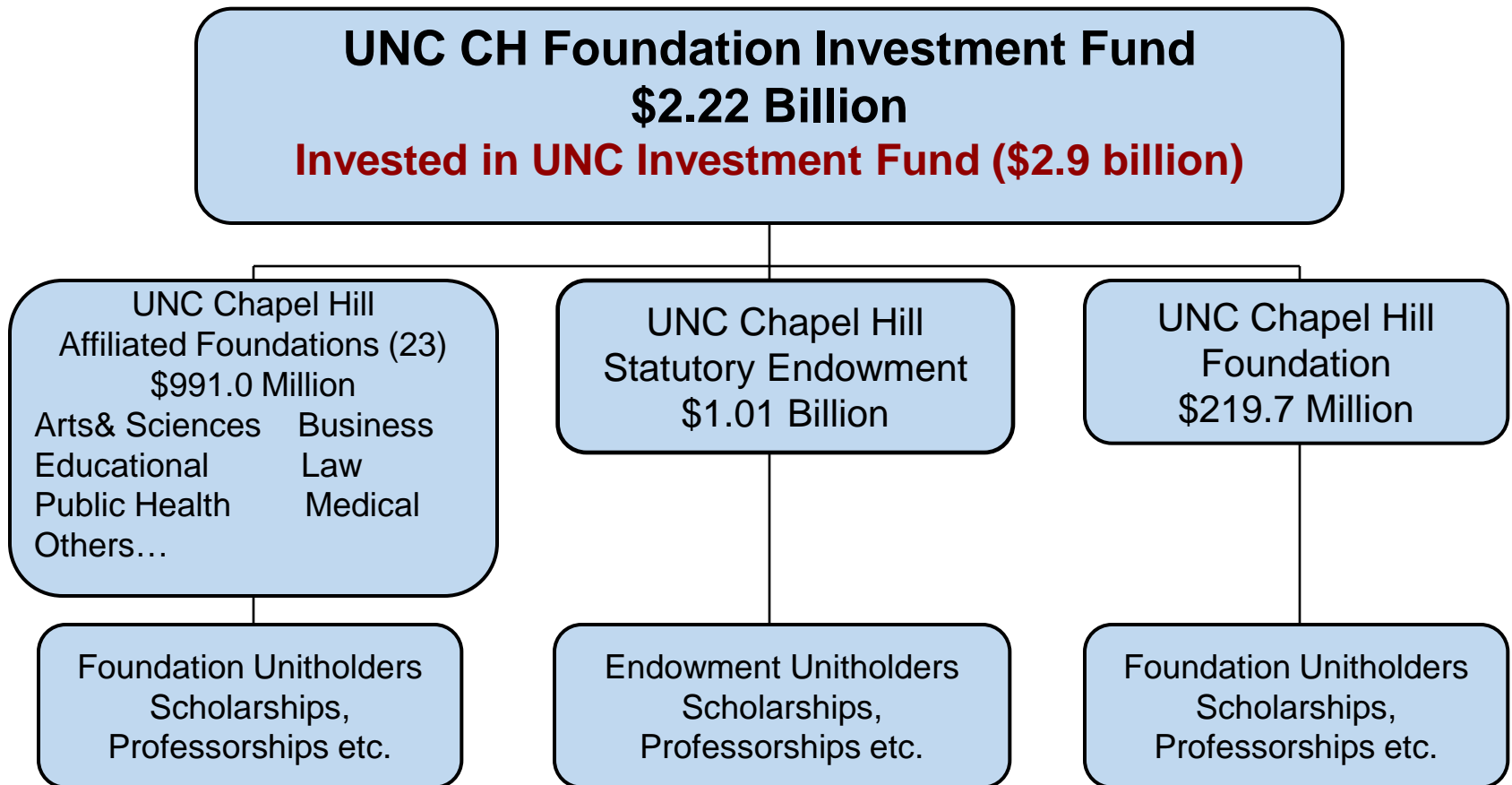
UNCNCMC

UNC MANAGEMENT COMPANY, INC

Investment Entity Structure

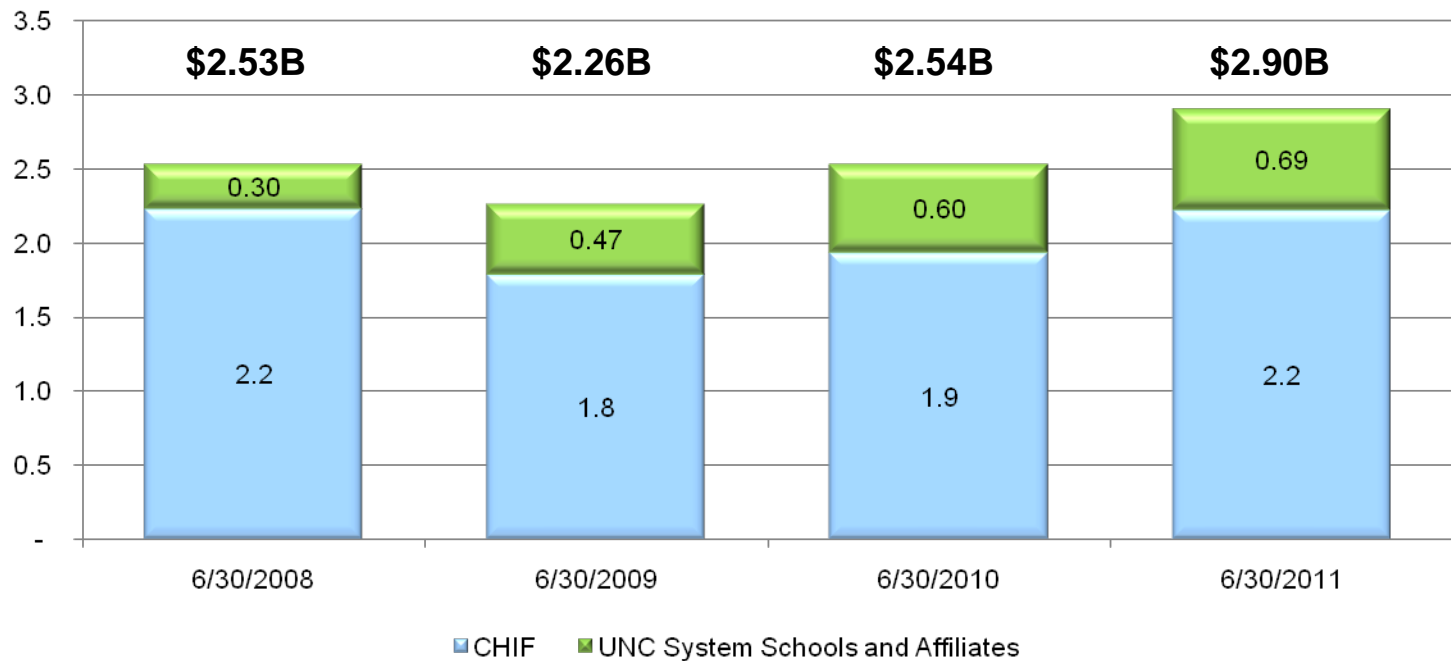


University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. – 06/30/11



UNC Investment Fund Market Value Change (June 2008 – June 2011)

\$ In Billions



The market value of the Investment Fund has grown to just under \$3B

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

	6/30/2010	6/30/2011	1 Year Growth
Statutory Endowment	\$891.0	\$1,013.6	\$122.6
Affiliated Foundations	\$863.3	\$985.4	\$122.1
UNC Chapel Hill Foundation	\$185.7	\$219.7	\$34.0
Total Chapel Hill Inv Fund	\$1,940.0	\$2,218.7	\$278.7

UNC Chapel Hill Foundation Investment Fund FY 2011 Change in Market Value

- 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)

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

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).

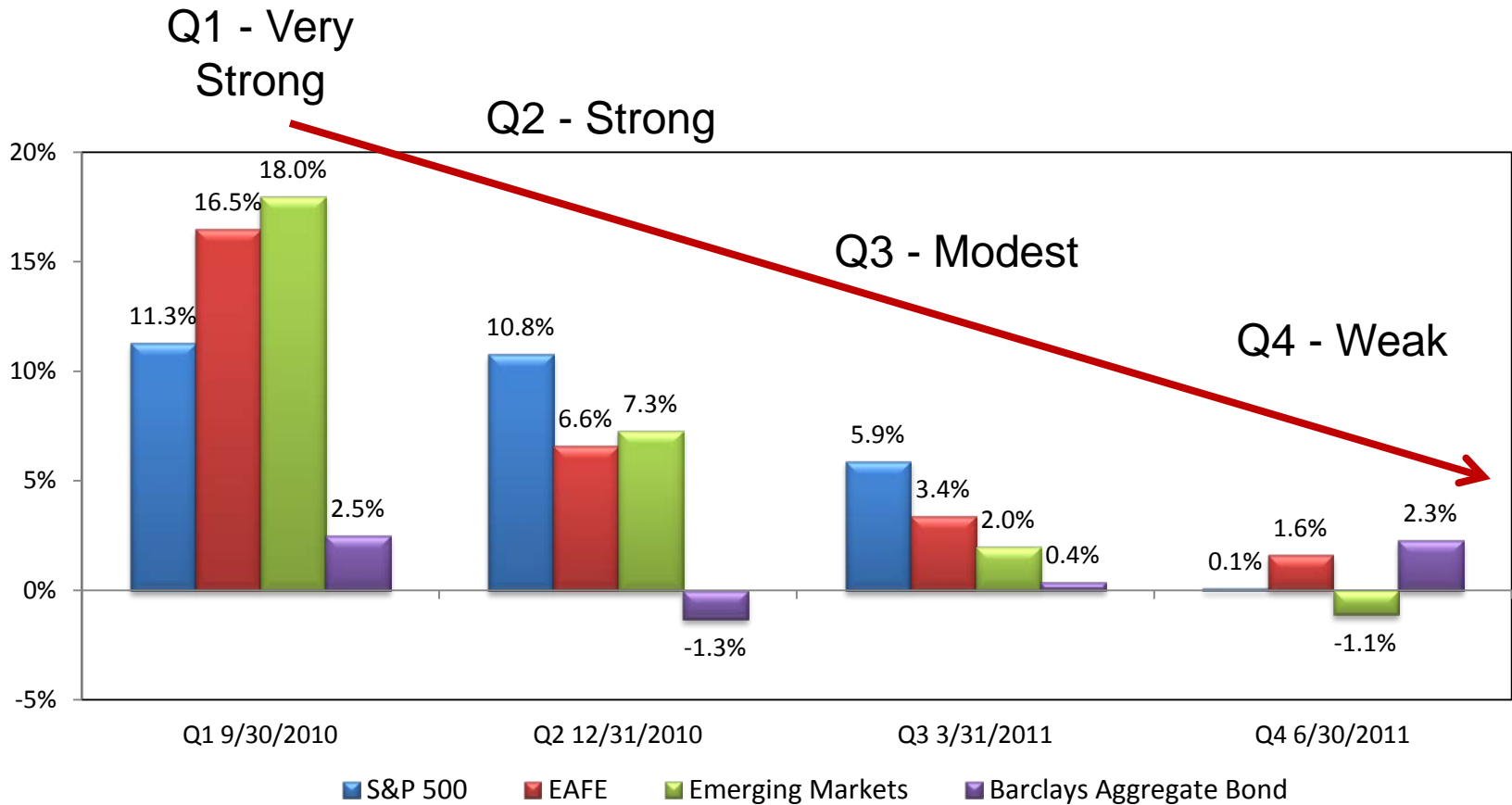
FY 2011 and FY 2012 Q1 Financial Market Environment

- 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

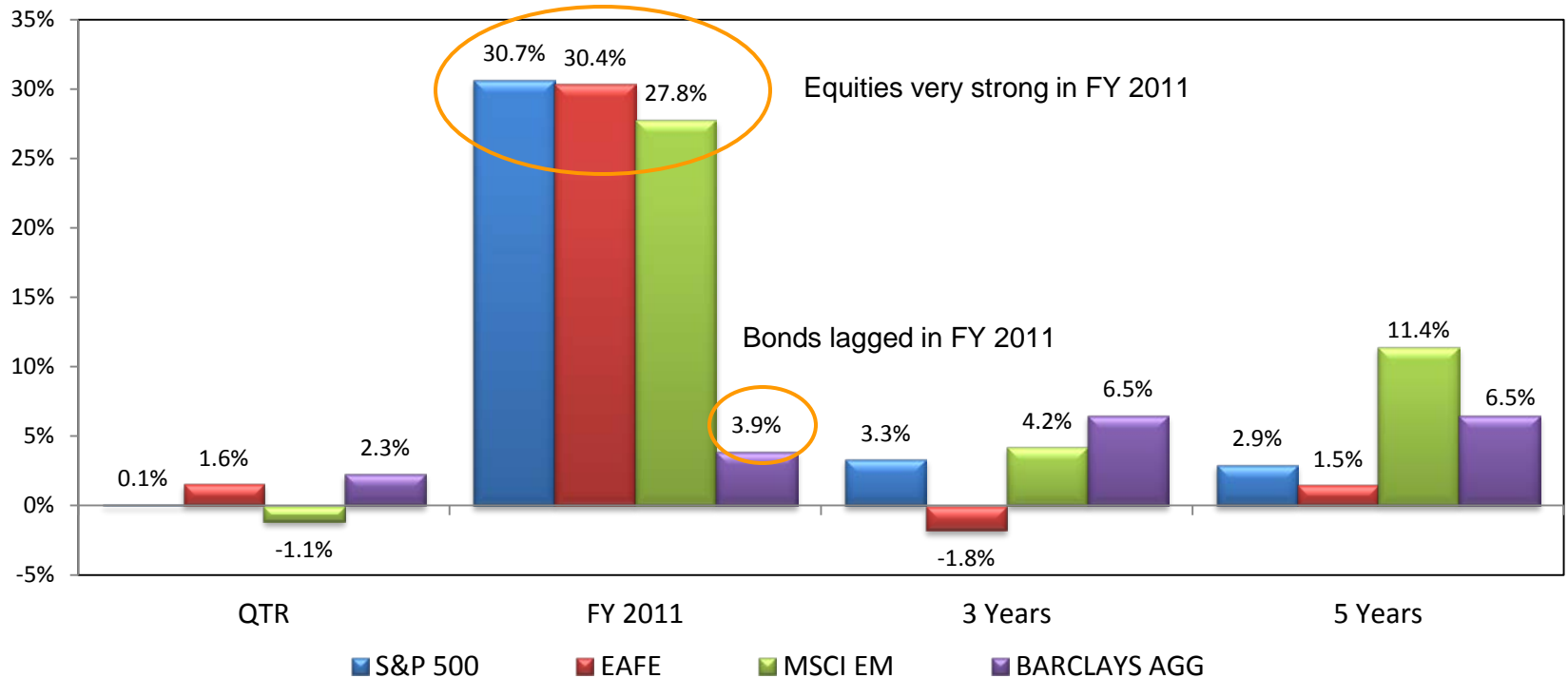
Fed Announces QE2

QE2 Expires



Market Index Performance

Periods Ended June 30, 2011



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

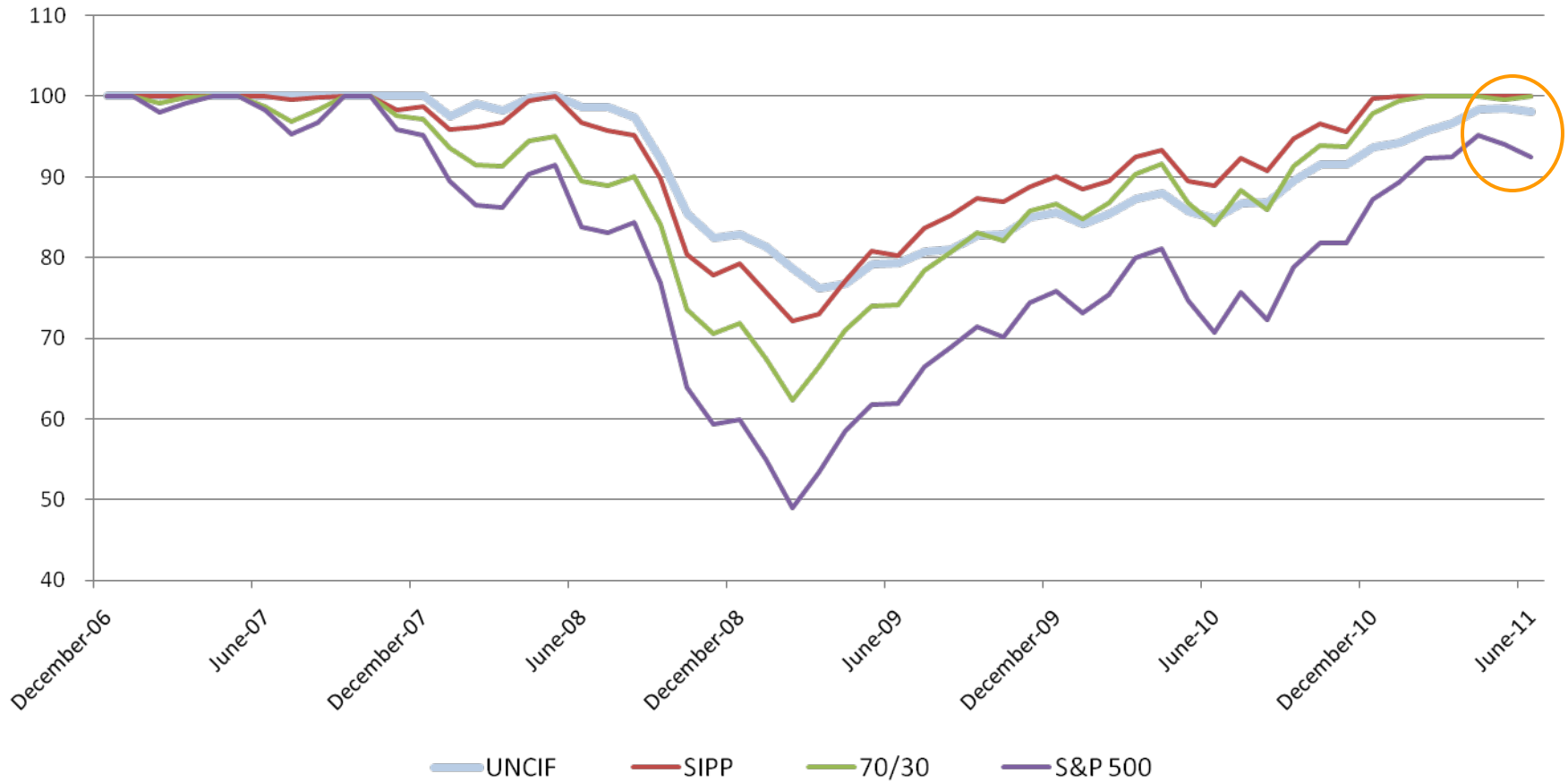
12 Months (FY 2011)	15.3%
3 Years	(0.4)%
5 Years	5.7%
10 Years	8.1%

Attribution of ~500 BPs Under-Performance Relative to SIPP

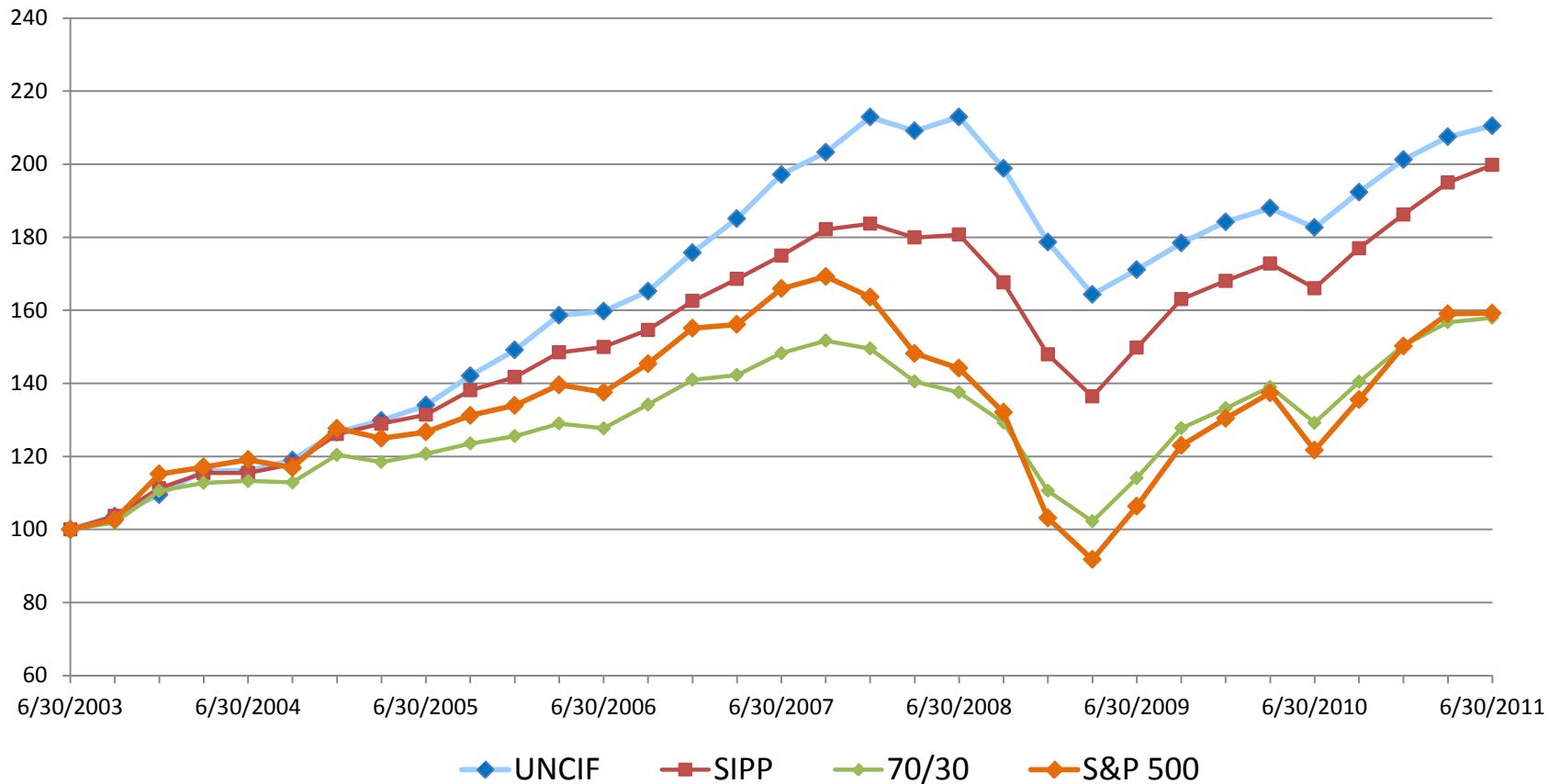
(as of June 30, 2011)

- The two primary factors for the fund's underperformance during the most recent fiscal year were:
 - Long/short equity managers
 - Real Estate

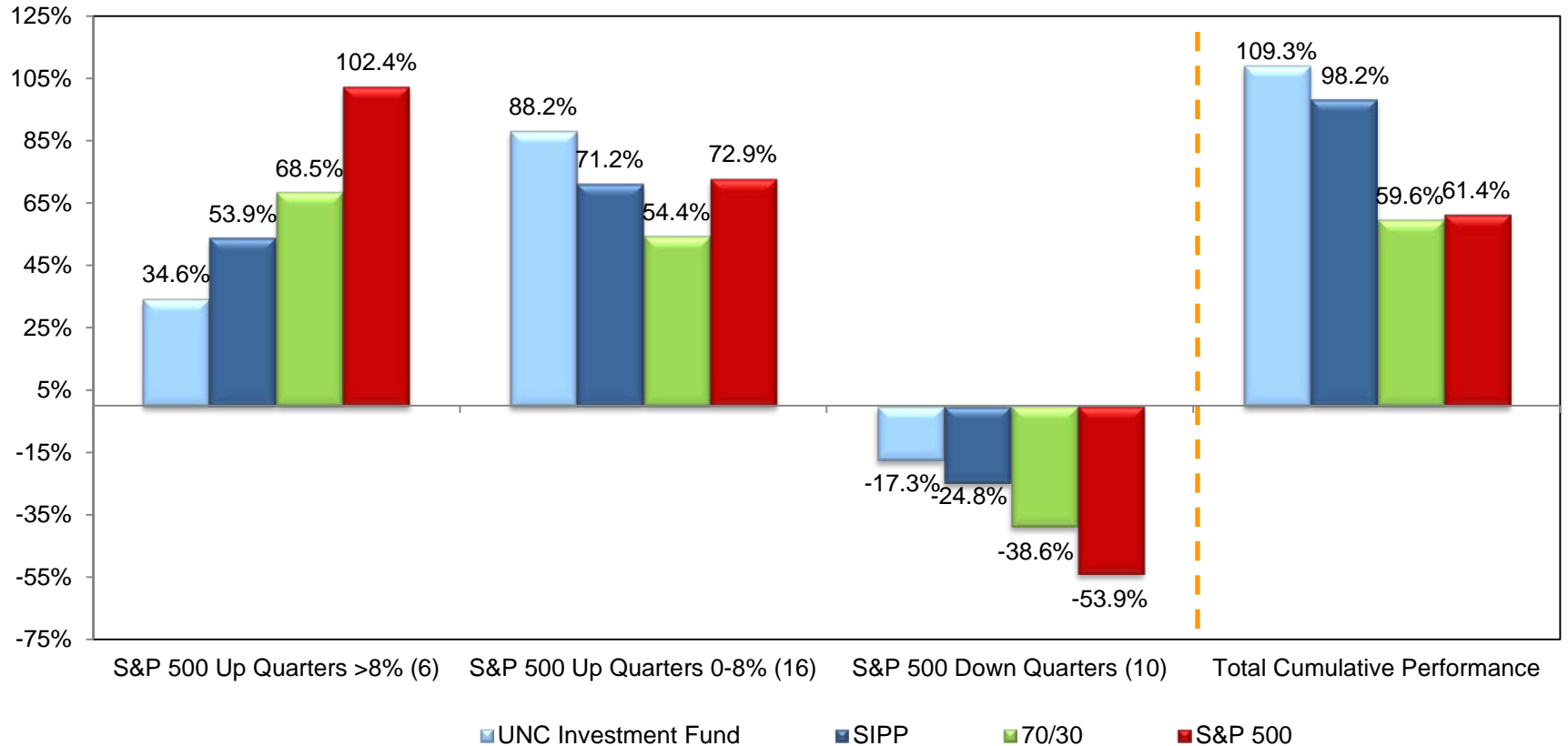
UNC Investment Fund Has Nearly Made Up the Losses Incurred in FY 2009



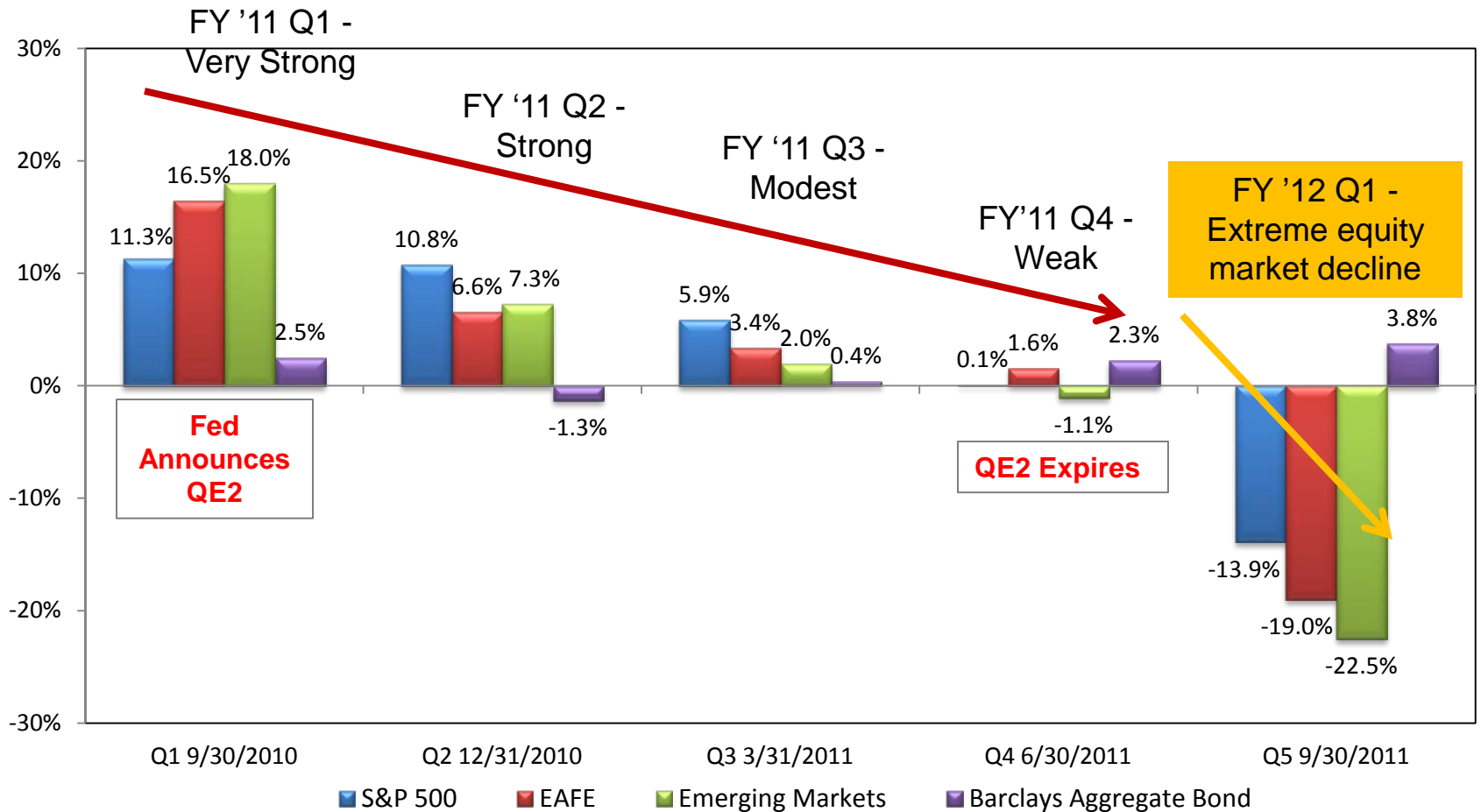
UNC Investment Fund 8 Year Return History



Up-Capture / Down-Capture Analysis June 30, 2003 – June 30, 2011 (32 quarters)



FY 2011 Financial Market Returns + 1st Quarter FY 2012



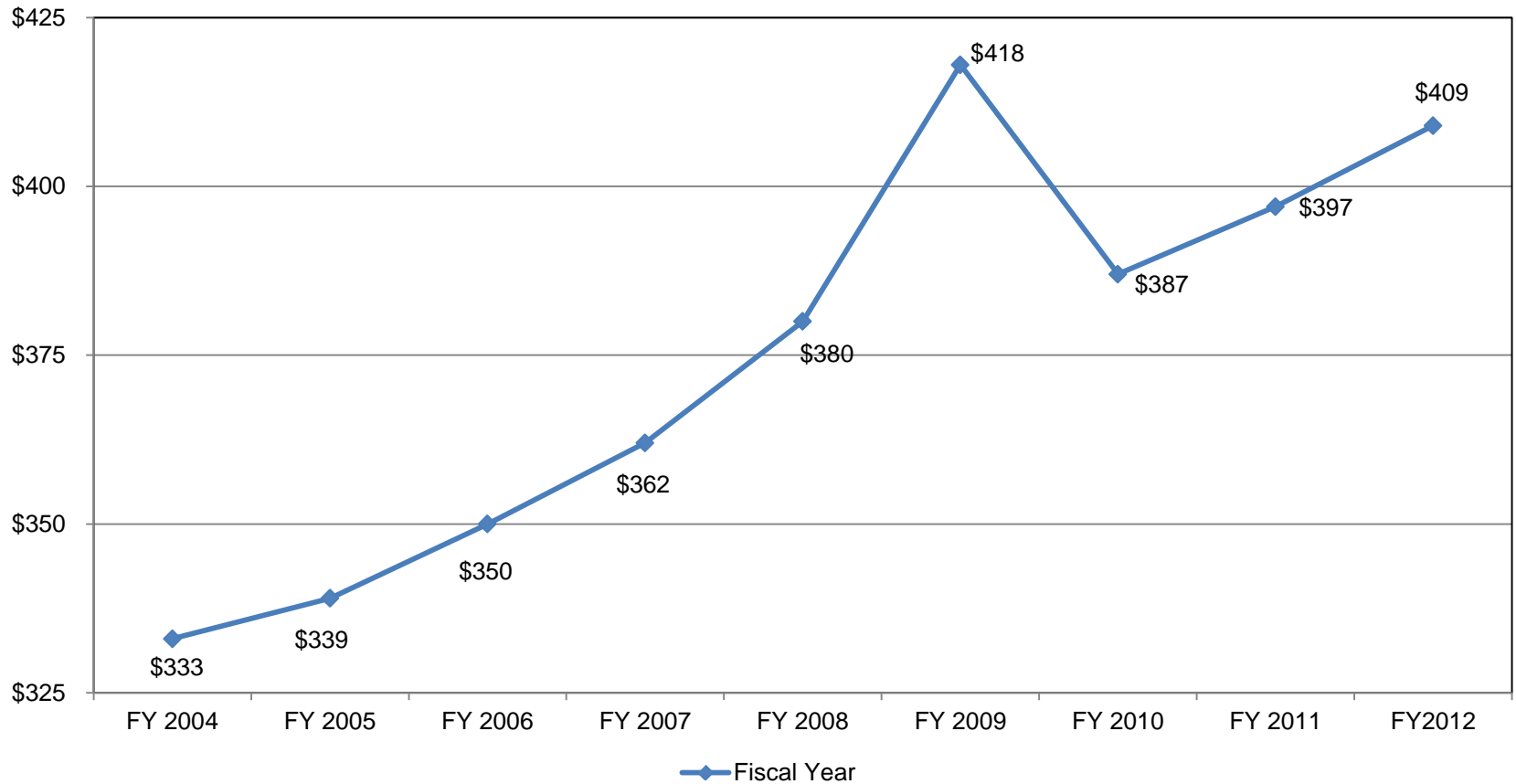
FY 2012 YTD Performance Update through 9/30/2011

	FYTD (3 months)	CYTD (9 months)
UNCIF	-4.0%	0.4%
70/30	-8.8	-4.2
S&P 500	-13.9	-8.7
ACWI	-17.3	-13.2

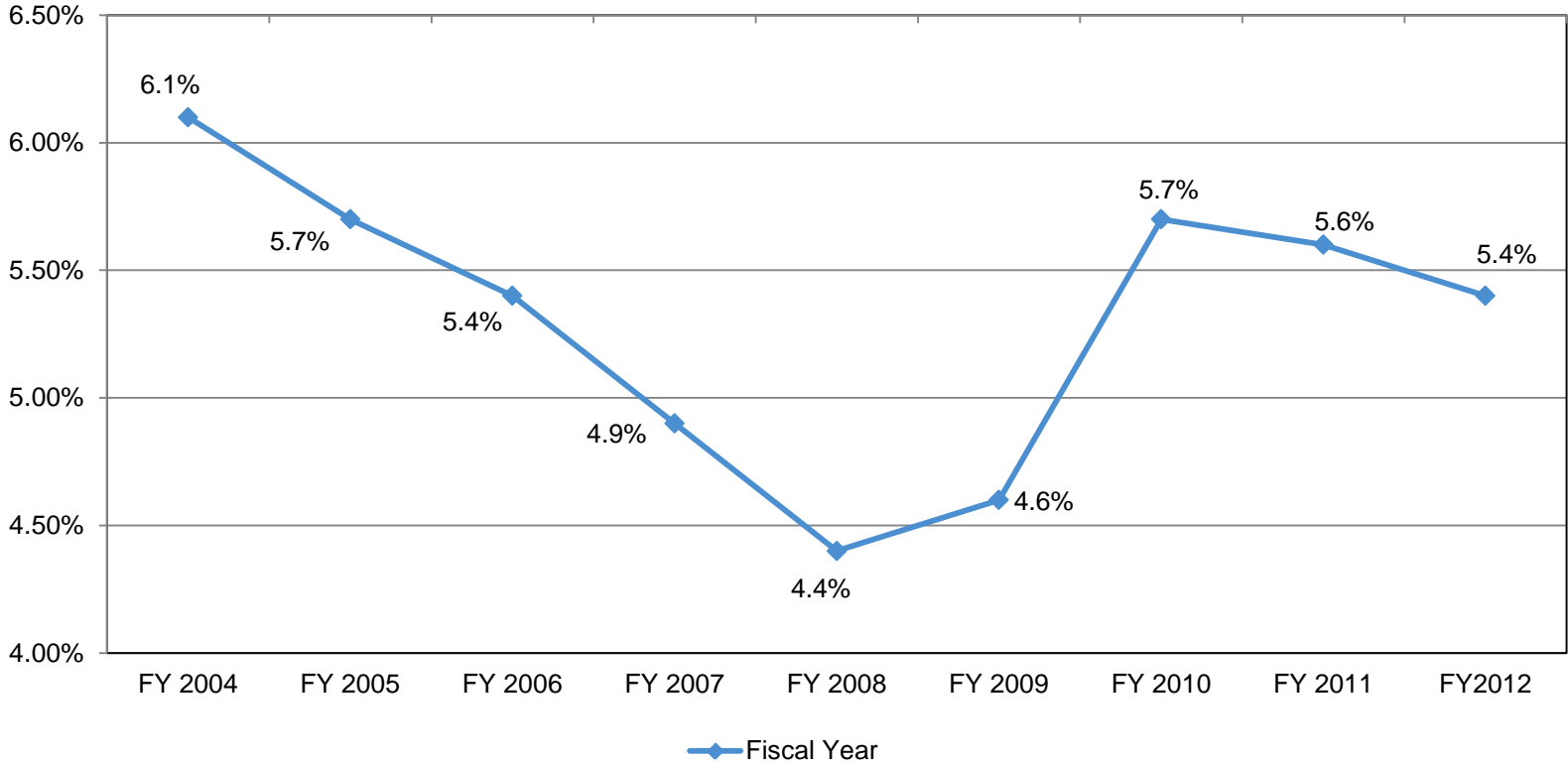
UNC Chapel Hill Foundation Investment Fund FY 2012 Distribution Rate

- 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.

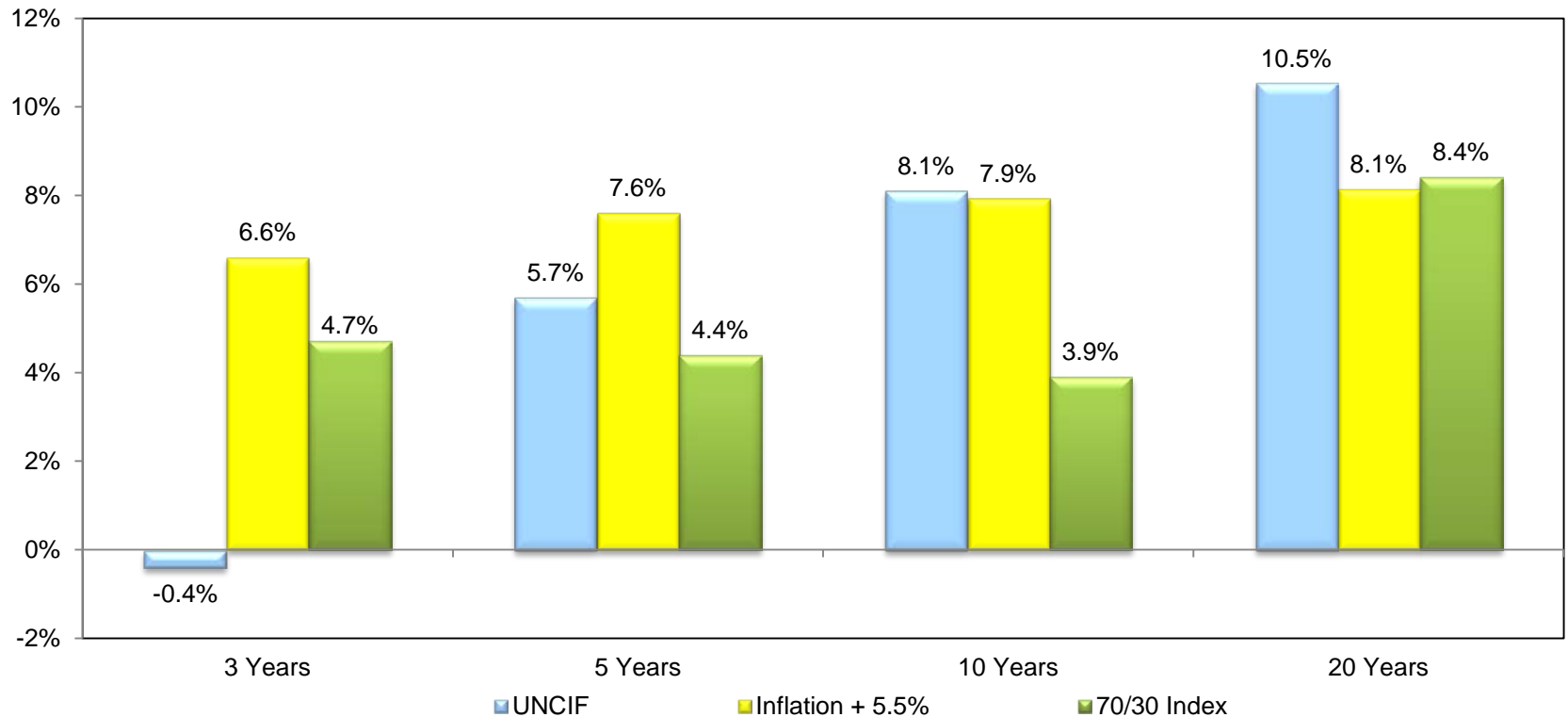
UNC Chapel Hill Investment Fund Per Share Distribution Rate



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



UNC Investment Fund Long-Term Performance Periods ended June 30, 2011



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