

UNC Chapel Hill Investment Fund

Fiscal Year 2013 Review

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

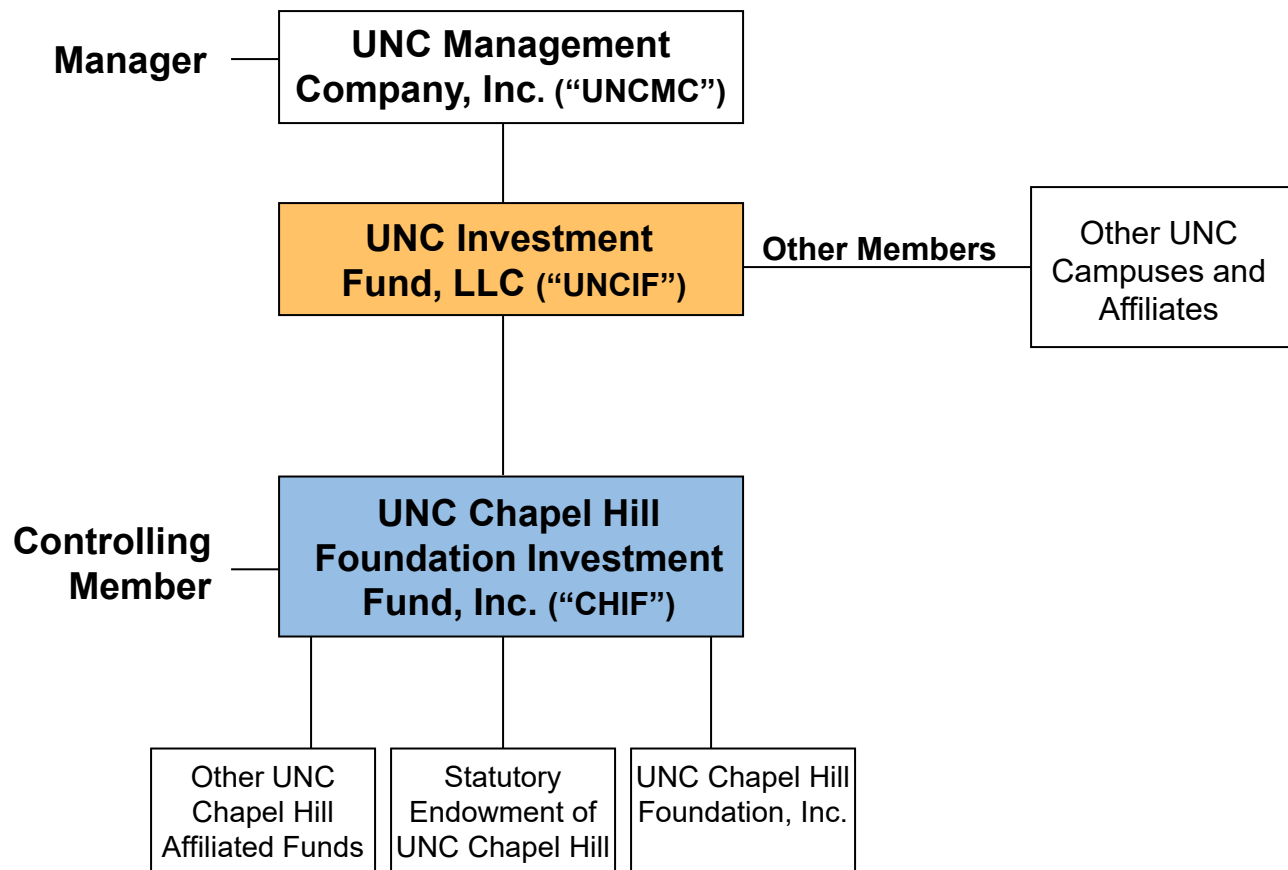
November 20, 2013



UNCNCMC

UNC MANAGEMENT COMPANY, INC

Investment Entity Structure



UNC Chapel Hill Foundation Investment Fund, Inc.

As at June 30, 2013

UNC Chapel Hill Foundation Investment Fund

\$2.3 Billion

Invested in UNC Investment Fund (\$3.5 billion)

UNC Chapel Hill Affiliated Foundations

\$991.2 Million

- Arts & Sciences
- Educational
- Public Health
- Others... (23 Total)
- Business
- Law
- Medical

- Foundation Unitholders
- Scholarships
- Professorships etc.

UNC Chapel Hill Statutory Endowment

\$1.1 Billion

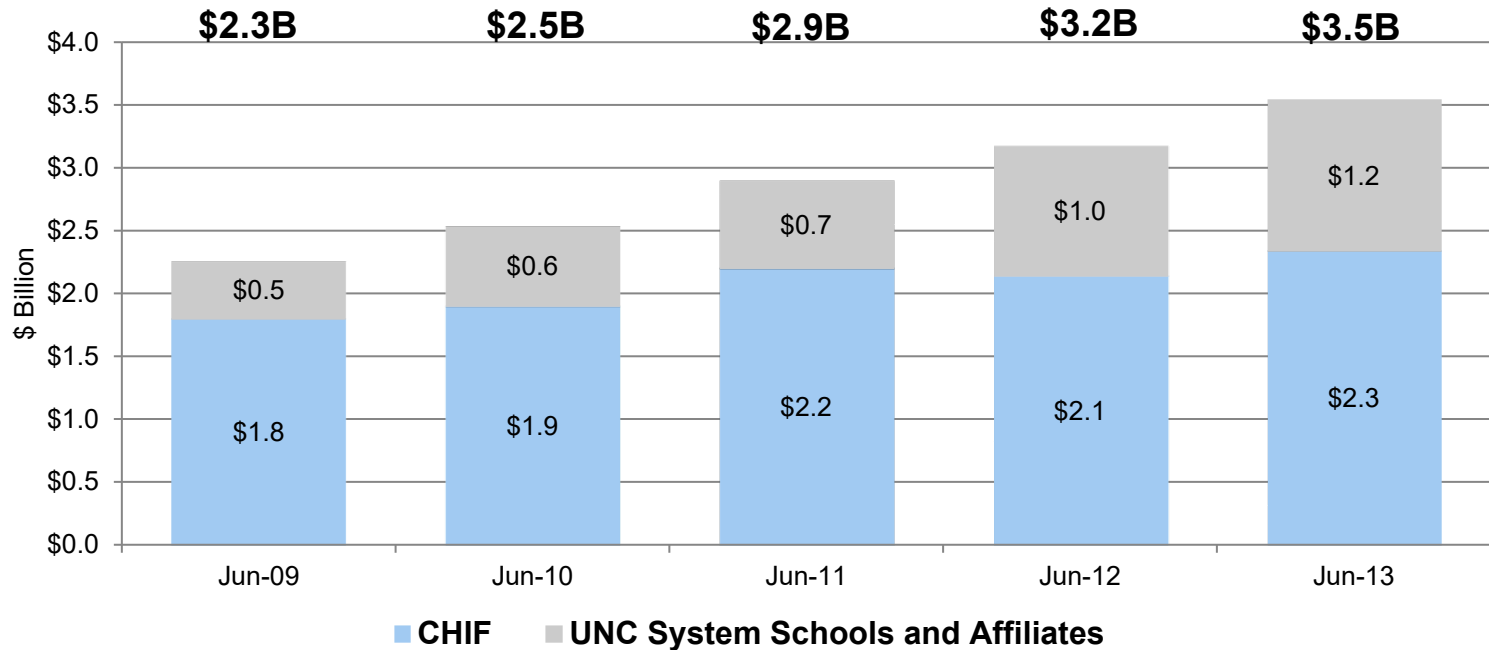
- Endowment Unitholders
- Scholarships
- Professorships etc.

UNC Chapel Hill Foundation

\$237.4 Million

- Foundation Unitholders
- Scholarships
- Professorships etc.

UNC Investment Fund Market Value



- Continued growth in Fund size
- Non-CHIF members now represent more than 1/3 of the Fund

UNCIF Primary Return Objective

- **Primary Objective**

- Preserve the **real** (inflation-adjusted) purchasing power of funds invested in UNCIF while providing a predictable and growing stream of spending distributions to UNCIF participants
 1. To accomplish this objective - - the Fund must earn an annualized “real” total rate of return of at least 5.5% (CPI +5.5%) over rolling 5 – 10 year (and longer) periods
 2. Managing return volatility within the Fund serves to enhance the stability of the annual spending distribution

UNCIF's 9.2% 10-year return exceeds the 7.9% return of CPI + 5.5%

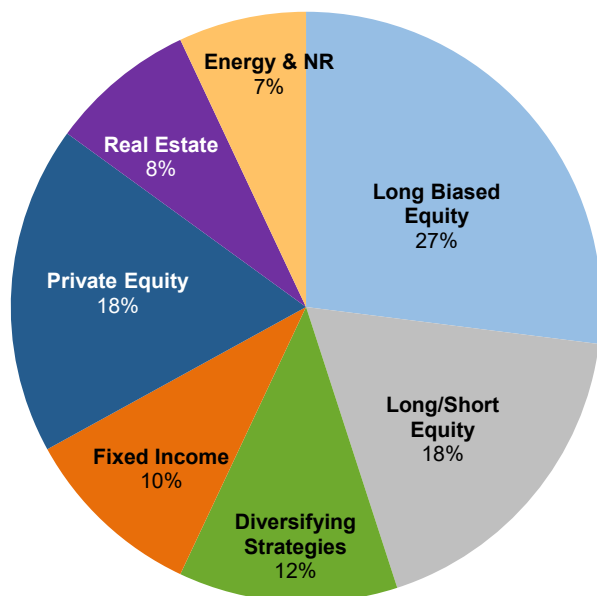
Investment Implementation

- **To achieve the Fund's primary return objective: investment process**
 1. Starts with asset allocation
 - Strategic Investment Policy Portfolio (SIPP) targets established by UNCIF's Board of Directors
 - The Fund's Board approved new SIPP allocation targets at its October 2012 meeting
 2. Manager research and selection
 3. Board of Directors / Executive Committee approval
 4. Ongoing manager review
 5. Risk management is embedded throughout the investment process

Strategic Investment Policy Portfolio (SIPP)

- The Fund's Board approved new Strategic Investment Policy Portfolio (SIPP) allocation targets at its October 2012 meeting

SIPP Target Allocations:



Projected L/T Real Return⁽¹⁾: 6.3%

Asset Class	Target	Range
Long Biased Equity	27%	20 - 35%
Long / Short Equity	18%	12 - 24%
Diversifying Strategies	12%	8 - 16%
Fixed Income	10%	5 - 18%
Private Equity	18%	14 - 22%
Real Estate	8%	5 - 12%
Energy & Natural Resources	7%	5 - 10%

(1) Per Cambridge Associates Asset Allocation Model

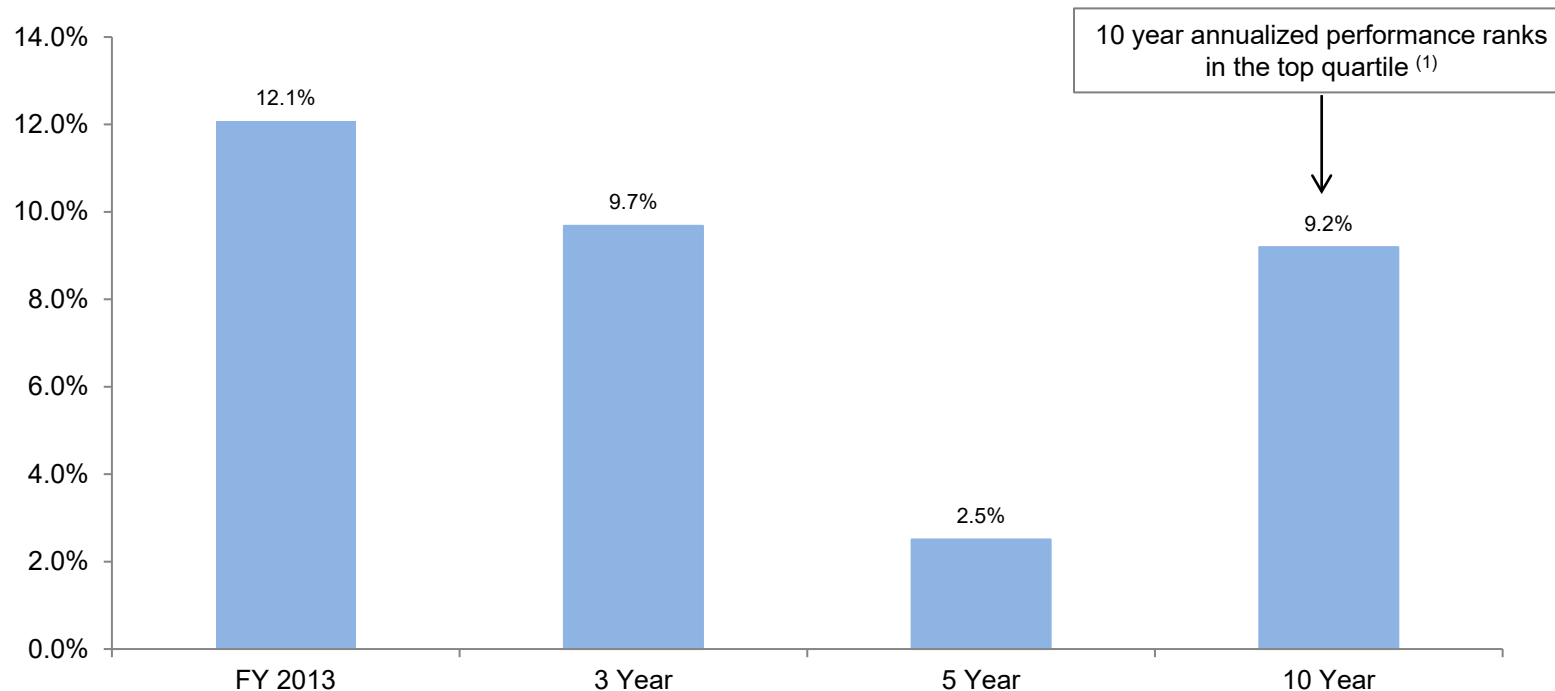
Economic Backdrop

- **Modest growth in the US persists**
 - Employment, housing and auto sales improving at a moderate pace
 - Impact of Gov't shutdown / resolution of debt ceiling impasse is uncertain
- **Europe - - stabilizing**
- **Japan - - benefiting from accommodative fiscal and monetary policies**
- **China - - hard landing scenario avoided (for now), growth resuming**
- **Central banks driving markets**
 - U.S. Federal Reserve
 - European Central Bank
 - Bank of Japan

Global economic environment is stable-to-modestly positive, but not yet back to pre-crisis levels

UNCIF Performance Summary

Performance to June 30, 2013



FY 2013 performance exceeds the return objective

- Return Objective: Net return of CPI + 5.5% per annum
- Annualized returns over 3 and 10 year periods also surpass this objective
- 5-year performance reflects impact of '08/'09 financial crisis

(1) BNY Mellon Endowment and Foundation Funds Universe

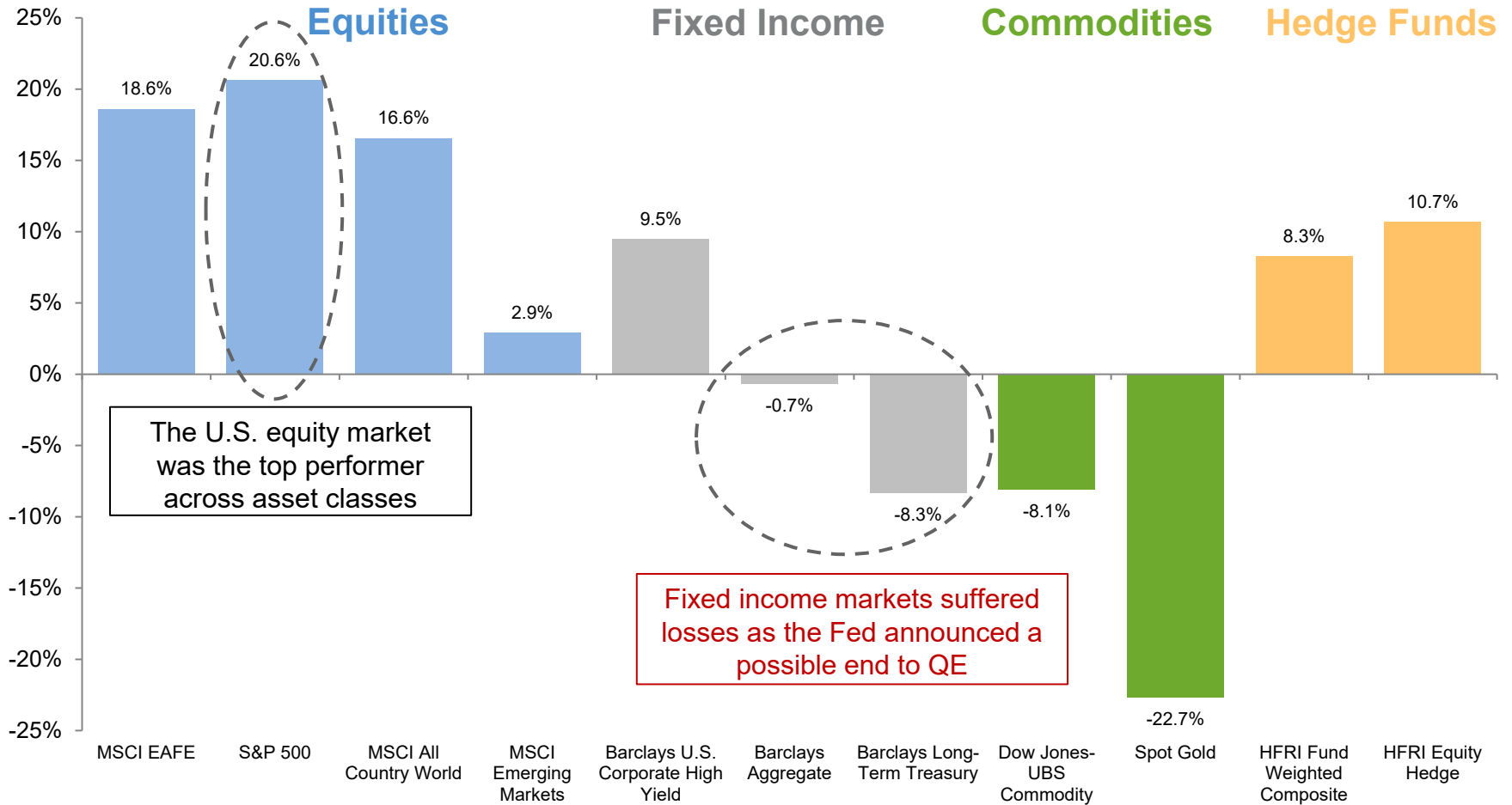
Financial Market Overview

FY 2013: July 1, 2012 to June 30, 2013

- **Investing in risk assets was rewarded: the “Risk On” theme continued**
- **Despite a sell-off in late May, domestic equities had a strong FY 2013 with the S&P500 index returning 20.6%**
- **Developed market equities significantly outpaced emerging markets as growth fears hampered BRIC countries**
 - The MSCI Emerging Markets Index lagged the MSCI All Country World Index by 13.7% returning only 2.9% for FY 2013 vs. 16.6% for the MSCI ACW Index.
 - Concerns of slowing Chinese growth hurt commodity prices and, in turn, the commodity-sensitive markets of Brazil, Russia, and India.
- **Equity long/short managers, particularly those operating with higher net and gross exposures tended to perform well with the HFRI Equity Hedge Index up nearly 11% for FY 2013**
- **While long term US government bonds suffered steep declines in FY 2013, high yield and distressed debt produced attractive returns over the period**

Public Markets Summary

FY 2013: July 1, 2012 to June 30, 2013



Performance Contributors and Detractors

FY 2013: July 1, 2012 to June 30, 2013

Positive

Private Equity (18% of Fund) up 16.5% vs. 9.3% for the Cambridge PE Composite index

Developed International Equities (~9% of Fund) returned 24.4% vs. 18.6% for the MSCI EAFE Index

Domestic Equities (11.4% of Fund) returned 21.9%

Opportunistic Fixed Income & Credit Long/Short up 18.6% and 18.1%, respectively

Negative

Real Estate up 3.8% vs. 11.4% SIPP benchmark

“Low Beta” Long/Short Equity managers (12.3% of the Fund) up 9.1% vs. 10.7% HFRI Equity Hedge index

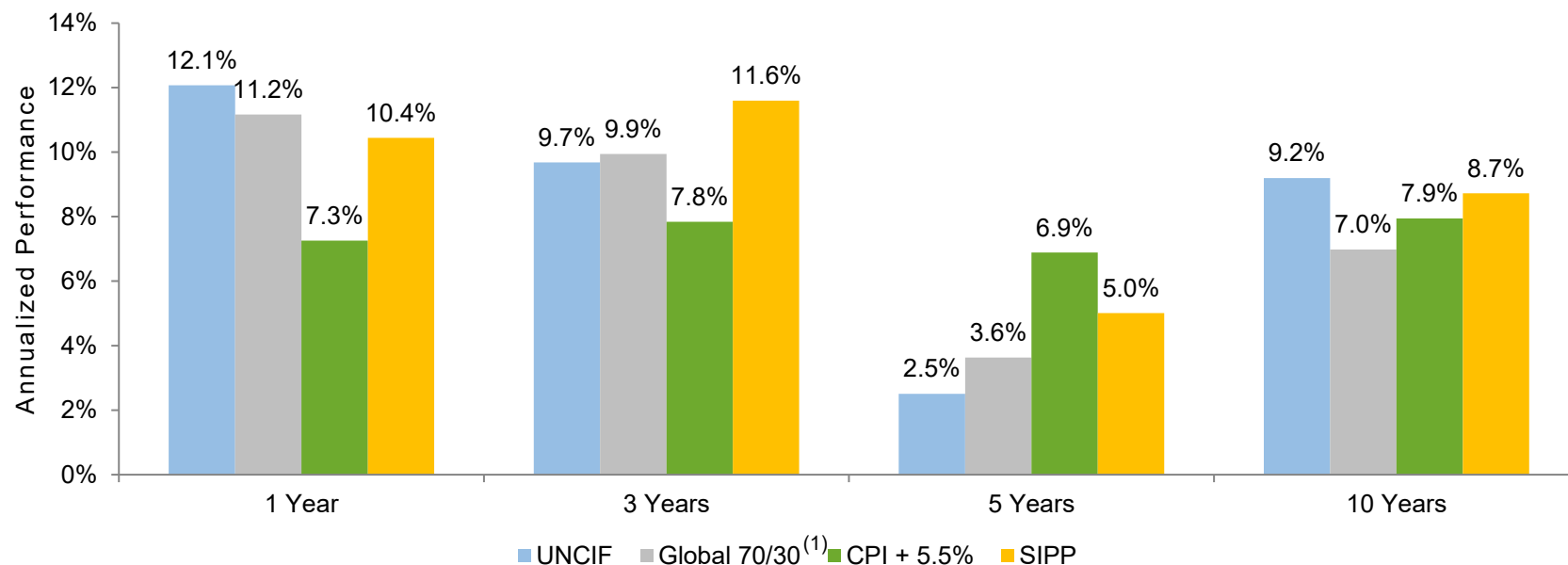
Diversifying strategies portfolio was hurt by commodity exposure and a manager with a significant short bet on European sovereign debt

Overweight position in Emerging Market Equities, though the Fund’s EM equity managers returned 10.3% vs. 2.9% for the MSCI EM Index

- Strong performance from “risk assets”
- Defensive & diversifying strategies lagged

Long Term Performance

Performance to June 30, 2013



- UNCIF has achieved annualized performance in excess of CPI + 5.5% over 1, 3, and 10 years
- 5-year performance reflects impact of '08/'09 financial crisis
- Returns of CPI + 5.5% maintain the purchasing power of the fund in excess of distributions

(1) 70% MSCI ACWI / 30% Barclays Aggregate

UNC Chapel Hill Foundation Investment Fund

FY 2013 Change in Market Value

- **In FY 2013, the University of North Carolina at Chapel Hill Foundation Investment Fund (CHIF) increased in value by \$199 million, from \$2.14 billion at June 30, 2012 to \$2.34 billion at June 30, 2013**
 - The \$199 million increase resulted from a positive net investment return of \$262.9 plus \$59.1 million in net contributions
 - The annual endowment spending distribution of \$123.1 million for fiscal year 2013 occurred in June 2013

UNC Chapel Hill Entity Changes in Market Value

Values in \$ millions

	June 30 2012	June 30 2013
Statutory Endowment	\$1,015.8	\$1,109.3
Affiliated Foundations	\$905.8	\$991.2
UNC Chapel Hill Foundation	\$217.4	\$237.4
Total Chapel Hill Investment Fund	\$2,139.0	\$2,337.9

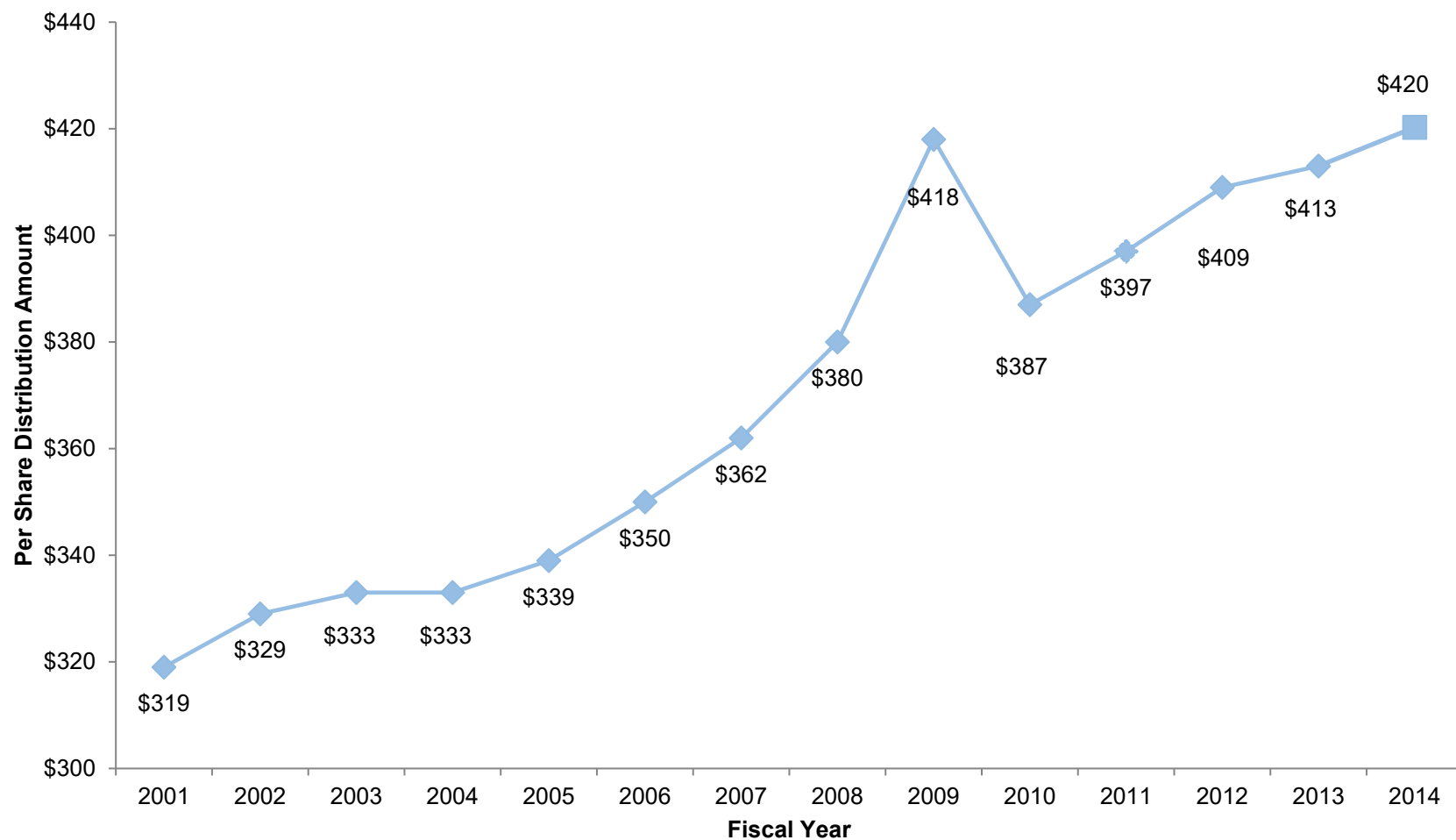
UNC Chapel Hill Foundation Investment Fund

FY 2013 Distribution Rate

- **At its May 2013 meeting, the Investment Fund Board:**
 - Approved the Fiscal Year 2014 Annual Distribution Rate of \$420 per unit for the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., increasing the per unit distribution rate by 1.7% over the FY2013 per unit rate.
 - The \$420 per unit rate will be distributed to CHIF Fund participants on June 30, 2014 based on units held in the Fund during the course of FY 2014.

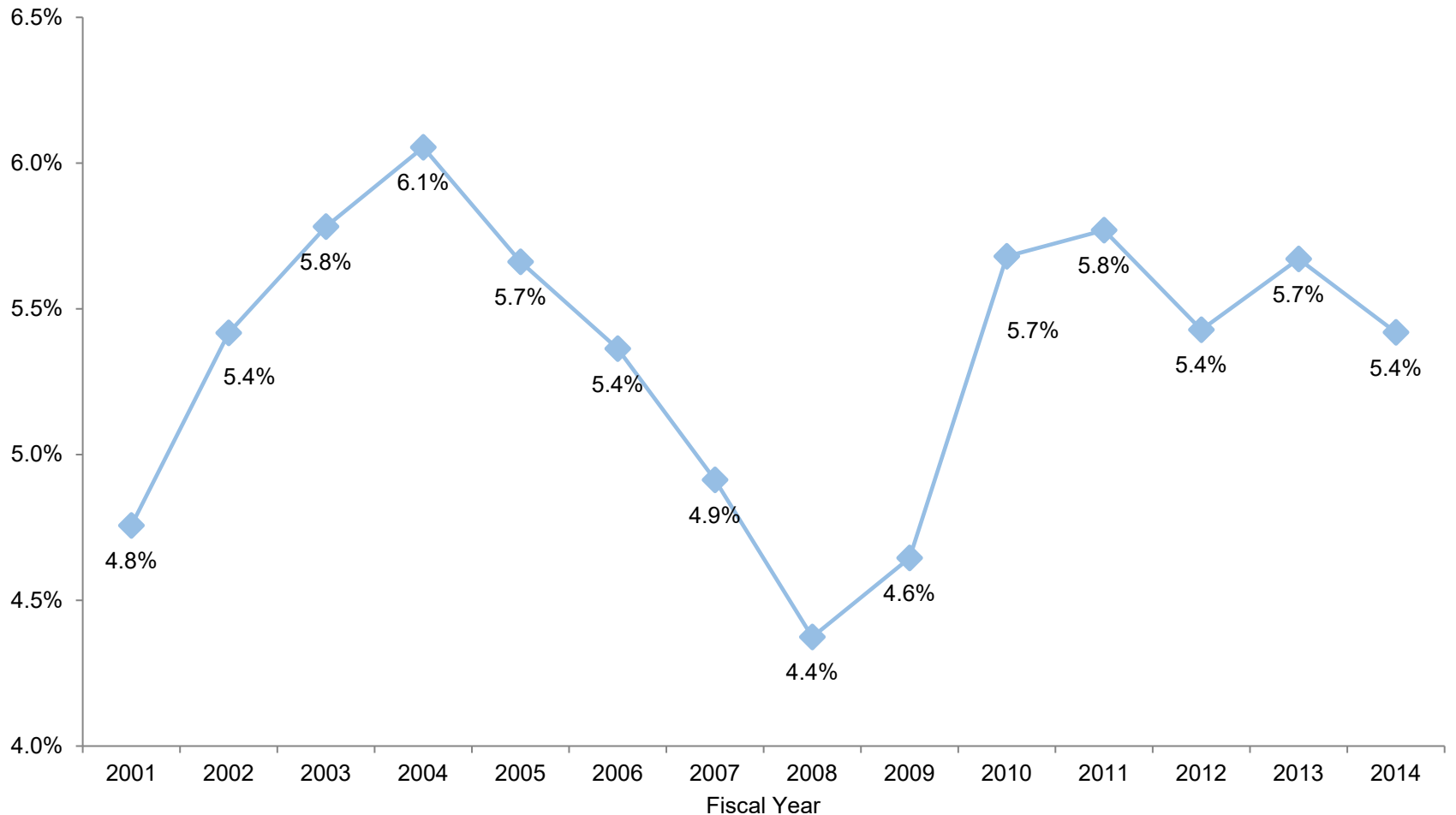
UNC Chapel Hill Investment Fund Distribution Rate

Per Share Distribution Rate



UNC Chapel Hill Investment Fund Distribution Rate

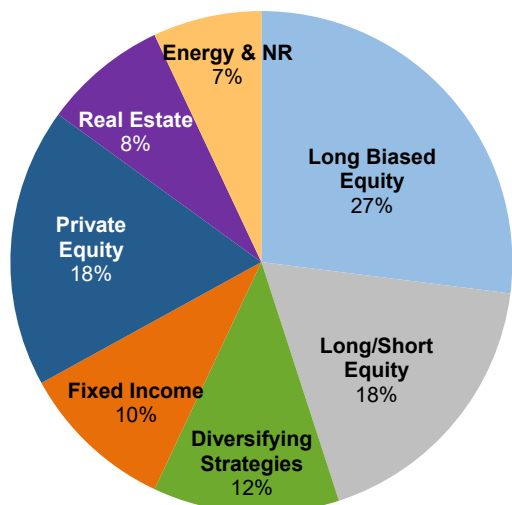
Distribution as a % of Market Value



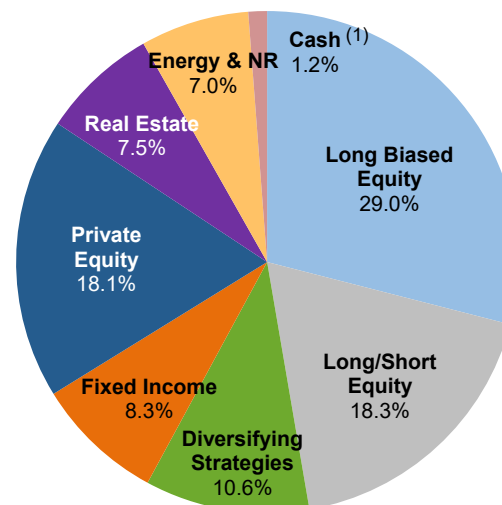
SIPP Target vs. Actual Allocation

As of June 30, 2013

Target Allocation



Actual 6/30/13 Allocation



Difference

Long Biased Equity	2.0%	Real Estate	-0.5%
Long/Short Equity	0.3%	Diversifying Strategies	-1.4%
Private Equity	0.1%	Fixed Income	-1.7%
Energy & Natural Resources	0.0%		

Moderately aggressive tilt:

- overweight equities
- underweight defensives

(1) Includes liquidating managers

UNC Investment Fund

Performance Update

To September 30, 2013	
Simple Return	
Q1 FY 2014 (3 months)	3.6%
CYTD 2013 (9 months)	10.2%
Annualized Return	
1 Year	12.7%
3 Years	9.1%
5 Years	4.7%
10 Years	9.2%

Wrap-up

As of June 30, 2013

- **Strong equity returns led UNCIF to a solid 12.1% return in FY 2013**

- **In aggregate, the Fund's investment managers added significant value in FY 2013**

- **The Fund's returns for the 1-, 3- and 10-year periods ended June 30 exceed the primary return objective, while the 5-year return still lags**

- **Our core belief remains intact:**
 - Investing in a highly diversified portfolio with significant allocations to alternative asset classes best positions the Fund to meet its long-term return objectives