2019–2020

Endowment Report

THE UNIVERSITY *of* NORTH CAROLINA *at* CHAPEL HILL

Fiscal Year 2020 BY THE NUMBERS

5,159 donors

MADE GIFTS TO AN **ENDOWED FUND**

124

NEW ENDOWED FUNDS
were created

Endowed professorships distributed

$43 M

IN SUPPORT FOR FACULTY*

Endowed scholarships and fellowships distributed

$19,692,216

IN FINANCIAL AID* to STUDENTS

*these figures are for endowments held in The Endowment Fund and in The University of North Carolina at Chapel Hill Foundation, Inc.

ENDOWMENT FUNDS are the bulwark for everything Carolina must do: recruit the best students and faculty, generate trailblazing research, and work for a better world.

A permanent fund, invested for growth with the principal untouched, an endowment provides a perpetual source and steady stream of income. This ability is critically important because it relieves the University from having to raise every single dollar it needs every single year. Because we can depend on endowment funds in perpetuity, they enable us to weather the ebb and flow of state funding, tuition revenue and federal grants.

Undergraduate scholarships, graduate fellowships, faculty professorships, research initiatives, arts programming, public service, clinical care and much, much more: All thrive at Carolina and will continue to make a profound impact in the lives of the people we serve for generations to come, thanks to our endowment and the donors who support it.

Candace Epps-Robertson

Jonathan M. Hess Term Professor and Associate Director of the Writing Program, Director of Writing in the Disciplines, College of Arts & Sciences

"The Jonathan M. Hess Professorship will provide me with the time and funding that will support research so that I can make advances towards completing current projects and moving forward with [my] second book. I'm also grateful that I will have an opportunity to host a colloquium and look forward to hosting an event that can help bring together others interested in issues around rhetoric, social justice and fan studies."

Overview

The UNC Investment Fund, LLC ("Fund" or "UNCIF") is the commingled vehicle created to invest the assets of The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. ("Chapel Hill Investment Fund" or "CHIF") along with other eligible entities affiliated with the University of North Carolina system ("Members"). CHIF is the Fund's controlling Member with its Board of Directors ("Board") responsible for the Fund's governance.

In addition to The University of North Carolina at Chapel Hill Endowment, there are currently 23 other participants represented in CHIF. These entities are comprised of more than 2,000 individual underlying funds. The Investment Fund's returns rank in the top quartile relative to peers with the 10-year return ranking in the second quartile.

By investing in the UNC Investment Fund, CHIF receives:

- Investment management and oversight by a team of professionals dedicated to achieving the Fund's objectives and focused on protecting the Fund's assets during periods of market weakness
- Access to superior external investment management firms
- Competitive fees
- Highly diversified portfolio of investments allocated across asset classes, sectors, geographies, and investment managers
- Proven long-term investment track record generated with moderate volatility

THE INVESTMENT OBJECTIVES

The Investment Fund's primary long-term investment goal is to provide an increasing stream of spending support in perpetuity while simultaneously ensuring that the underlying value of invested gifts grows at a rate at least equal to inflation. This rather straightforward goal, however, creates an ongoing conflict between maximizing current spending and protecting the original corpus of gifts from inflation. A dollar spent today cannot be reinvested to generate additional dollars tomorrow and losses impair the Investment Fund's ability to earn returns sufficient enough to meet future spending needs. The Investment Fund's investment strategy must manage the delicate balance between protecting the corpus, which favors a more conservative investment strategy, and growing asset values over time, which favors a more aggressive investment strategy.

To achieve its long-term investment objective the Investment Fund is:

- Diversified across asset classes and investment strategies including a significant allocation to alternative strategies
- Primarily invested via external, third-party investment managers
- Structured to protect capital during periods of declining markets

THE MANAGEMENT COMPANY

The UNC Management Company, Inc. ("Management Company") has been appointed by CHIF's Board to provide investment management services to the Fund as well as Fund administration and performance reporting. The Management Company works closely with the Board and its Executive Committee requiring their direction and approval for:

- Determination of asset allocation
- Hiring and termination of external investment management firms
- Direct purchase or liquidation of assets

Spending Distribution Policy

Endowment funds play a primary role in the funding of higher education and have become a crucial source of support to The University of North Carolina at Chapel Hill. Each year, CHIF participants receive a spending distribution of between 4 and 7 percent of their beginning market value to support various program expenditures. Maintaining a clearly defined spending distribution policy provides these underlying programs with a sustainable and stable source of financial support for ongoing operations and a potential source of capital for future enhancements.

The Chapel Hill Investment Fund's spending distribution policy attempts to accomplish two objectives:

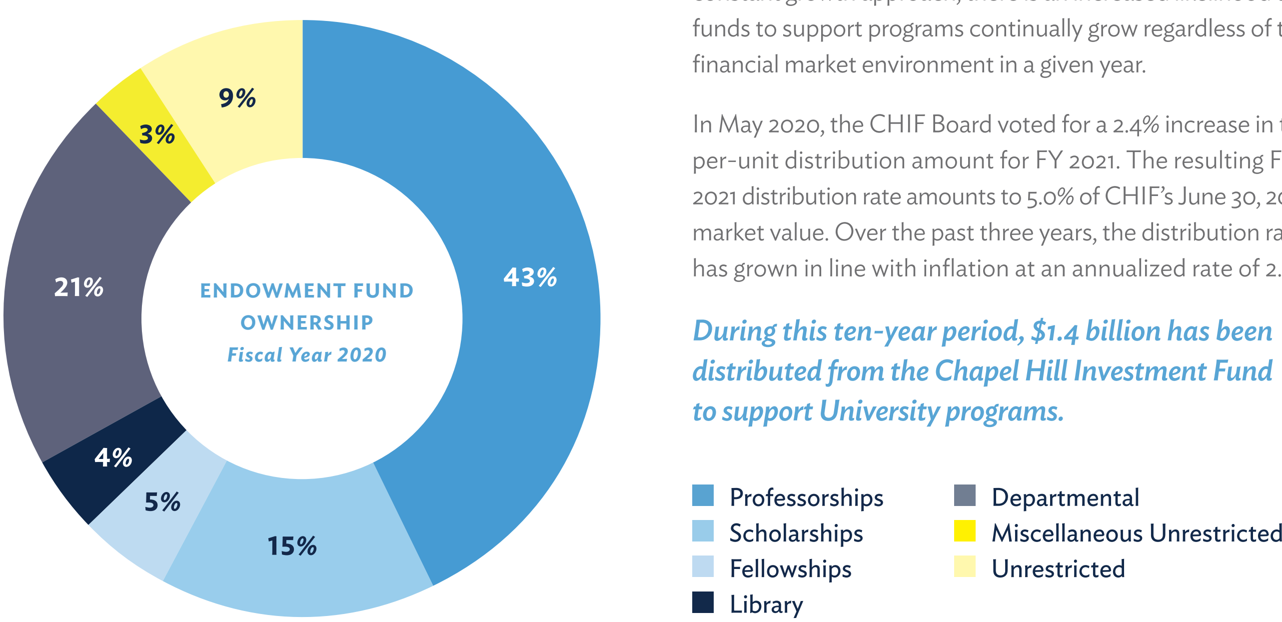
01 First, the policy strives to provide CHIF participants with financial support at a rate that is sustainable over the long term. The Fund's long-term investment objective is to maintain the purchasing power of its underlying assets after accounting for both spending distributions and the effects of inflation. Achieving this objective requires a spending distribution rate that can be funded by the long-term investment returns of the Fund given its risk/reward profile.

02 Second, the policy strives to provide CHIF participants with financial support at a rate that is stable over the long term. Stability is important as large fluctuations in year-to-year spending distribution amounts make budgeting and funding programs and awards difficult.

One of the distinguishing aspects of the Chapel Hill Investment Fund is the use of a "constant growth" spending rule. Under this spending rule, the annual per-unit distribution amount is ordinarily increased by the inflation rate (CPI). This spending approach is designed to meet the stated objective of providing a predictable and growing stream of spending to support underlying endowed programs. Also by utilizing the constant growth approach, there is an increased likelihood that funds to support programs continually grow regardless of the financial market environment in a given year.

In May 2020, the CHIF Board voted for a 2.4% increase in the per-unit distribution amount for FY 2021. The resulting FY 2021 distribution rate amounts to 5.0% of CHIF's June 30, 2020 market value. Over the past three years, the distribution rate has grown in line with inflation at an annualized rate of 2.1%.

During this ten-year period, $1.4 billion has been distributed from the Chapel Hill Investment Fund to support University programs.



Dr. Laura Klinger

Executive Director of the UNC TEACCH Autism Program and Associate Professor, UNC School of Medicine's Dept. of Psychiatry

"Across the country, one in 54 children have a diagnosis of autism. As they grow up, we are committed to creating opportunities for successful adult outcomes. The C. Felix Harvey Award allows us the opportunity to work with local businesses to create a toolkit that can support businesses and employees with autism here in North Carolina and across the world."

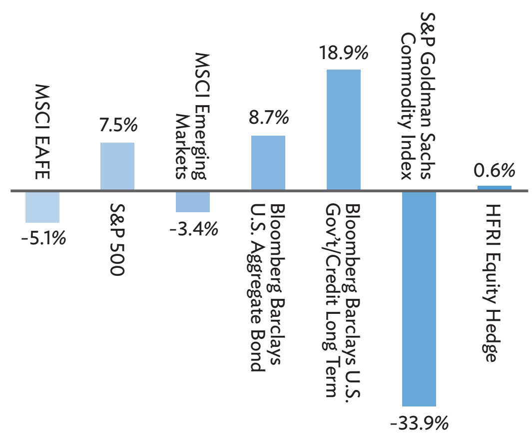
The annual income payout from the Harvey Award funded two projects with $75,000 each. The award recognizes exemplary faculty who reflect the University's commitment to innovative engagement and outreach that addresses real-world challenges.

Fiscal Year 2020 in Review

FINANCIAL MARKET BACKDROP

Fiscal Year ("FY") 2020, the twelve months ended June 30, 2020, was defined by the onset of the global coronavirus pandemic that struck during the third quarter of the fiscal year. Prior to this, domestic equities advanced with lessening U.S.-China trade tensions driving investor sentiment along with fading fears of a recession. Stocks were boosted in Q2 (three months ended December 31, 2019) after the U.S. Labor Department reported that employers had continued to add jobs at a decent pace (136,000) in September while revising previous months' payroll gains higher. Payroll gains reported in November and December also surprised on the upside. Meanwhile, the unemployment rate touched 3.5% in both September and November, the lowest level in five decades. Housing market signals were also generally positive, and the U.S. Commerce Department reported in December that permits for new construction surged to their highest level in more than 12 years.

MARKET INDICES FISCAL YEAR 2020



However, late in Q3 (three months ending March 31, 2020), stocks suffered their worst selloff since the 2007-2008 Global Financial Crisis as the accelerating coronavirus pandemic led to the shutdown of significant portions of the global economy. The large-cap S&P 500 Index declined -19.6% for the quarter with the Nasdaq Composite Index faring slightly better with a -14.0% return. The declines brought a decisive end to the record-long bull market that began in 2009. Extraordinary volatility led to several automatic trading halts late in the quarter and the Cboe Volatility Index (VIX) surpassed its financial crisis peak to hit a record high.

For the final quarter of Fiscal Year 2020 (three months ending June 30, 2020), global equity markets staged a dramatic recovery recording their best gains in decades. Against this backdrop, the S&P 500 Index jumped +20.5%, its best quarterly return since 1998. Progress in the battle against the coronavirus with infection rates, hospitalizations, and deaths beginning to decline in April in hard-hit areas such as New York led to the rapid return of investors' risk appetite early in the quarter. Favorable trends in coronavirus statistics also led to the gradual reopening of businesses and public facilities. Unprecedented and massive monetary accommodation with the U.S. Federal Reserve (the "Fed") pushing its balance sheet above $7 trillion by the end of quarter along with substantial fiscal stimulus also bolstered markets. The overall tone of economic data in the U.S. improved throughout the quarter and may have helped offset coronavirus fears. A bright spot was the jobs report released in early June that showed that employers added back 2.5 million positions in May, defying consensus expectations for a decline of upwards of 8 million jobs. Instead of rising to nearly 20% as forecast, the unemployment rate dropped to 13.3% from 14.7%.

Given the global nature of the pandemic and the resulting shutdown of significant portions of the global economy, international equities also suffered sharp declines during the March quarter. Developed markets equities outside the U.S., as measured by the MSCI EAFE Index (Europe, Australasia, Far East), lost -22.8% led by declines in energy, financials, and real estate. Emerging markets also slumped with the MSCI Emerging Markets Index dropping -23.6% for the quarter. Similar to domestic equities though not as dramatically, international equities also rebounded in the final quarter of the fiscal year. Developed markets equities gained +14.9% bolstered by massive monetary and fiscal stimulus, countries beginning to reopen their economies, and optimism surrounding potential coronavirus vaccines. Despite an acceleration in the number of new daily cases of Covid-19 in some emerging market countries, emerging markets equities also had one of their best quarters in many years with the MSCI Emerging Markets Index gaining +18.1% for the quarter.

Fixed income markets experienced another year of strong performance as the demand for traditionally safer assets such as U.S. government debt increased once the pandemic hit. The broad domestic fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, finished the year up +8.7%. After starting the fiscal year at 2.00%, the 10-year Treasury note slid lower in March, hitting an all-time closing low of 0.54% before finishing the year at 0.65%. The sharp yield drop easily surpassed the previous record low of 1.37% reached in July 2016. As the pandemic's impact on the economy and financial markets continued to evolve, the Fed maintained their commitment to take aggressive actions to support both the economy and financial markets going forward.

FISCAL YEAR 2020 UNC INVESTMENT FUND PERFORMANCE

Fiscal Year 2020 was a challenging year for institutional portfolios amid record setting volatility. The UNC Investment Fund (the "Investment Fund") returned +2.3%, ahead of its primary benchmark, the Strategic Investment Policy Portfolio's ("SIPP") +2.1% return but lagging the +4.6% return on the more "traditional", equity market focused Global 70/30 Portfolio comprised of 70% global equities (MSCI All Country World Index ("ACWI")) and 30% bonds (Bloomberg Barclays U.S. Aggregate Bond Index). Relative to peers, the Investment Fund's FY 2020 return ranks in the second quartile of the Cambridge Associates' College and University universe of endowment funds ("Cambridge Associates' Universe"). Over longer periods, three, five, ten, and twenty-years, the Investment Fund's returns rank in the top quartile relative to this endowment universe.

During this unusual period there was a wide disparity in asset class returns with the Investment Fund's performance driven by its exposure to public equities. On the heels of strong performance from global and emerging markets equity managers, Long Equity, the Investment Fund's largest allocation, returned +5.8% for the period exceeding its

INVESTMENT RETURNS: A COMPARISON	FY 2020	3 YEAR	5 YEAR	10 YEAR	20 YEAR
UNC Investment Fund	**2.3%**	**7.3%**	**6.3%**	**8.5%**	**7.3%**
Primary Benchmark: SIPP	2.1%	5.8%	5.6%	8.0%	—
Long-Term Return Objective[1]	6.2%	7.2%	7.1%	7.2%	7.5%
Traditional Portfolio: Global 70/30[2]	4.6%	6.2%	6.1%	7.8%	6.0%
Peer Universe Quartile Ranking[3]	Second	Top	Top	Top	Top

1 Inflation (as measured by CPI) + 5.5% (spending rate)

2 1, 3, 5, 10 years: Global 70/30 Portfolio - 70% MSCI All Country World Index (ACWI) / 30% Bloomberg Barclays U.S. Aggregate Bond Index
20 years: Domestic 70/30 Portfolio - 70% S&P 500 Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index

3 Cambridge Associates' College and University EndowmentUniverse (Preliminary as of 9/23/20)

MSCI ACWI benchmark by 3.7%. The Investment Fund's hedge funds generated significant relative outperformance particularly Long/Short Equity with its +13.2% return for the year beating its benchmark by 12.6%. While not as strong on an absolute basis, Diversifying Strategies also performed well on a relative basis with its +2.8% return beating its benchmark by 2.8%. Fixed Income's and Energy & Natural Resources' underperformed with both asset classes generating a negative return and trailing their respective benchmarks. Private Equity and Real Estate returned +1.9% and +4.3%, respectively with the recovery in Private Portfolio valuations seen in the final quarter of the fiscal year to be reflected in FY 2021.

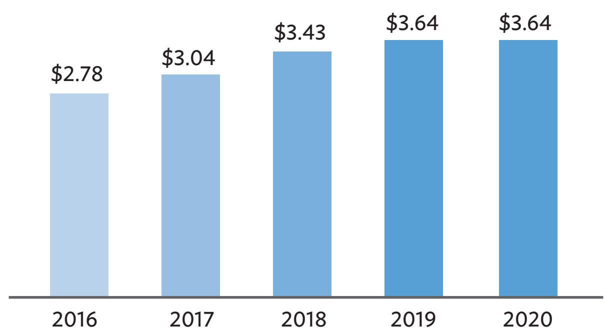
FISCAL YEAR 2020 CHAPEL HILL INVESTMENT FUND MARKET VALUE

The University of North Carolina at Chapel Hill Foundation Investment Fund ("Chapel Hill Investment Fund" or "CHIF") represents the portion of the Investment Fund that is invested on behalf of UNC-Chapel Hill and its affiliated foundations. The Investment Fund, with assets totaling $6.7 billion at June 30, 2020, is managed by the UNC Management Company with oversight by the Chapel Hill Investment Fund's Board of Directors ("CHIF Board").

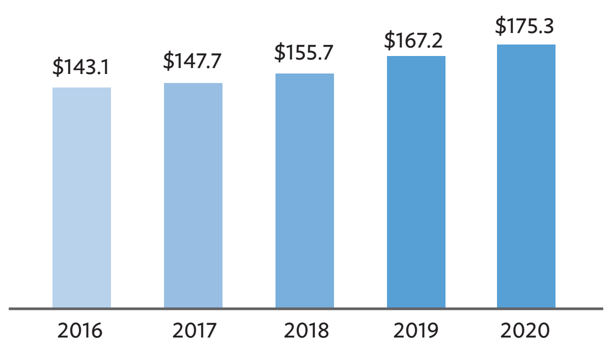
CHAPEL HILL INVESTMENT FUND	$ MILLIONS
Beginning Balance (6.30.2019)	**$3,639.4**
+ Investment Return	*$93.4*
+ Net Contributions	*$82.6*
- Annual Spending Distribution	*($175.3)*
FYE Balance (6.30.2020)	**$3,640.1**
Change	**$0.8**

Over the past ten years, the market value of the Chapel Hill Investment Fund has nearly doubled from $1.94 billion at June 30, 2010, to $3.64 billion at June 30, 2020. During this ten-year period, $1.4 billion has been distributed from the Chapel Hill Investment Fund to support University programs.

CHAPEL HILL INVESTMENT FUND:
MARKET VALUE BY FISCAL YEAR *(in billions)*



CHAPEL HILL INVESTMENT FUND:
DISTRIBUTIONS BY FISCAL YEAR *(in millions)*



Summary

During the final quarter of FY 2020 and in stark contrast to the previous quarter, equity markets rallied sharply to record their best quarterly gains in decades. Against this backdrop, institutional portfolios such as the Investment Fund rebounded, regaining a significant share of the prior quarter's losses. For the 12-month FY 2020 period, the Investment Fund gained +2.3%.

There is no question that the onset of the coronavirus pandemic has dramatically and quickly altered the social fabric and global economy. Currently, there is a seeming disconnect between equity markets' strong performance and the weak state of the economy and its outlook going forward with much of the economy still effectively shuttered. As the coronavirus pandemic unfolds, two key questions remain:

- Can central banks and government programs keep the economy and financial markets afloat amid the steepest economic downturn since the Great Depression?
- Can the economy begin to recover absent a treatment or vaccine?

During this uncertain and uncharted time as the coronavirus pandemic evolves, impacting global health and contributing to market volatility, we at the UNC Management Company rely on and remain committed to our key investment principles to navigate the Investment Fund through this challenging period. In particular:

- Maintaining a long-term time horizon — an important discipline in managing through times of extreme volatility
- Portfolio diversification — a key component in managing risk
- Downside protection — the most important and difficult challenge remains striking the proper balance between upside participation and downside protection

The latest annual report for the Chapel Hill Investment Fund is available for download at ***uncmc.unc.edu/the-fund****.*

GLOSSARY FOR ANNUAL ENDOWMENT INVESTMENT REPORTS

Book Value — Book Value includes all gifts to this fund, transfers from other funds, withdrawals and income distributions that have been reinvested into this fund. Reinvested income is not part of donor principal but is considered part of overall Book Value. Book Value is not directly affected by changes in the market.

Beginning Market Value — Beginning Market Value is the fair market value of your fund at the beginning of the fiscal year. It is based on your fund's share of Carolina's total endowment market value.

Additions to Principal — This includes gifts made to the fund during the fiscal year and any income reinvested into the fund. This amount is included in Book Value.

Investment Return — The value from investment performance over the fiscal year, net of fees.

Income Distribution — The amount distributed in June 2020 for use in FY 2021. This amount is based on the Investment Fund Board's approved payout policy, which is described above.

Net Additions to Endowment — The net amount added to Principal after the Distribution Amount has been subtracted from Additions to Principal and Investment Return.

Ending Market Value — Ending Market Value is the fair market value of your fund at the end of the fiscal year, after crediting investment performance for the year and deducting income distribution and fees.

Raven Smith

UNC School of Nursing Doctorate Degree Candidate and recipient of The Caroline H. and Thomas S. Royster Jr. Graduate Fellowship Endowed Fund

“Returning to school to obtain my PhD in nursing is a pivotal moment for my career because, through research, I have the chance to question, explore and investigate the world around me.”

Copies of the annual report for the UNC Chapel Hill Foundation Investment Fund are available from:

THE UNC MANAGEMENT COMPANY

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Phone: 919.442.1599

FOR ALL KIND

the CAMPAIGN *for* CAROLINA

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