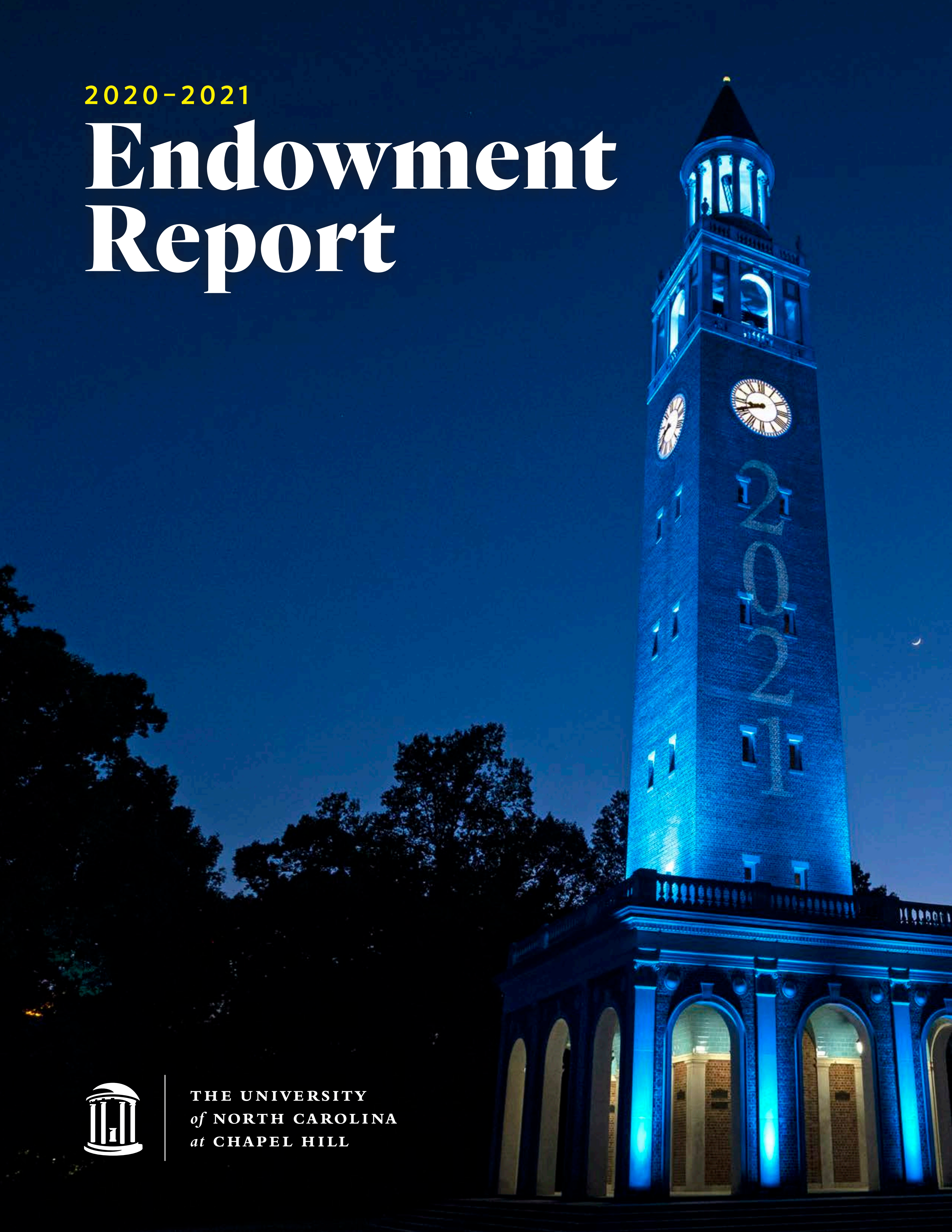
2020–2021

Endowment Report



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

Fiscal Year 2021 BY THE NUMBERS

5,474 donors

MADE GIFTS TO AN **ENDOWED FUND**

146

NEW ENDOWED FUNDS
were created

Endowed professorships distributed

$43.4M

IN SUPPORT FOR FACULTY*

Endowed scholarships and fellowships distributed

$20,671,354

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 revenue. 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.

Realizing a High School Dream

Without funding from the **Pavel Molchanov Scholars Program**, an endowed internship program within the UNC Institute for the Environment, **Cassidy Harding ’22** said she would have likely had to turn down an internship at the Environmental Defense Fund.

“I would not have had these wonderful experiences that I’m having. The scholarship was what made me decide on this position.”

Each year, undergraduate students are matched with an environmental internship where they gain hands-on, professional training, and each scholar receives a $5,000 stipend to support their summer experience.

The experiences Harding had at the Environmental Defense Fund, she said, confirmed her high school ambitions of becoming an environmental scientist — and helped hone the skills and develop the connections needed to realize those ambitions.

“Through the conversations I’ve had with people and seeing what work is being done, it is truly inspirational to see all the changes being made. It definitely solidifies that this is something I want to pursue, and it’s just as meaningful as I thought it would be.”

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

Strengthening Communities

Susan and Carl Baumann '71 have long believed in steering their philanthropic efforts toward people who are working to strengthen communities and advance social justice. The couple committed $1.6 million to create the **Carl A. and Susan H. Baumann Macro Student Opportunity Scholarship Fund** in the UNC School of Social Work.

Once fully endowed, the combination cash and planned gift will provide an estimated $80,000 annually to support social work students pursuing careers in community, management and policy practice. The donation is the couple's way of improving access to higher education, particularly for students who are passionate about changing policies and systems that broadly affect people who are marginalized.

"We both feel so strongly about what these social work students are doing and that they aren't going out into the world to make a lot of money," said Carl Baumann. "They are in it to help people, which is so much more important. By helping the macro students, we're also helping the communities and families they're trying to raise up through policy and organizational change. That's really important to us, and this is our way of giving back and supporting these students."

Spending Distribution Policy

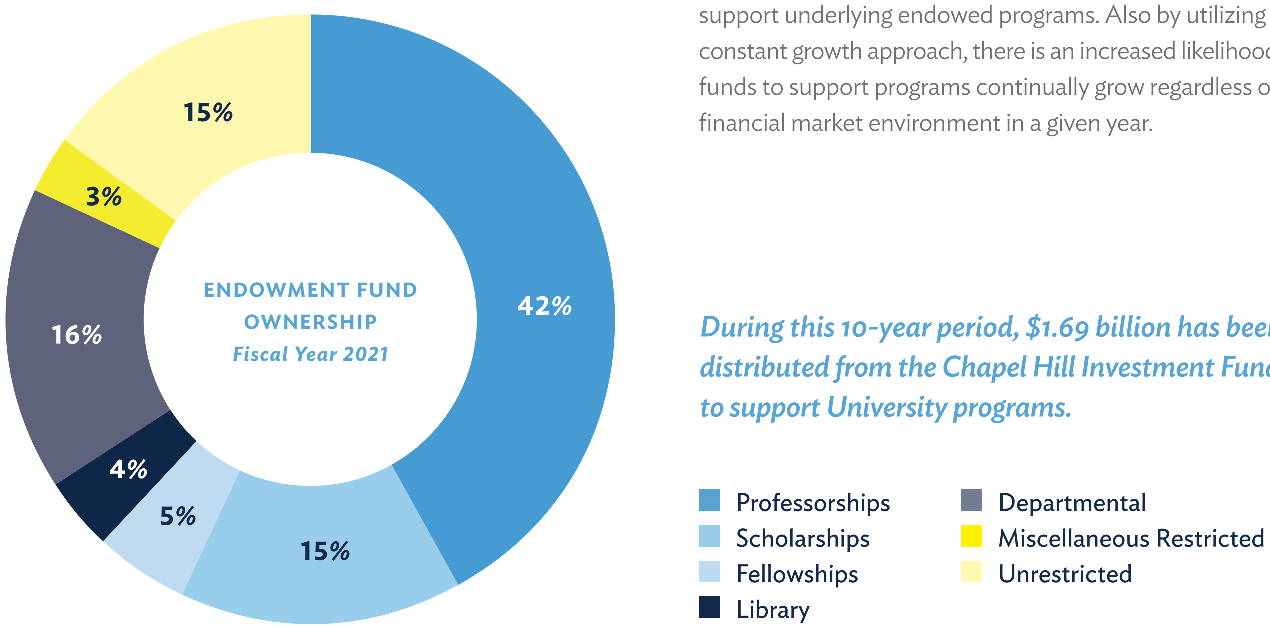
Endowment funds play a primary role in the funding of higher education and have become a crucial source of support to the University of North Carolina at Chapel Hill. Each year, CHIF participants receive a spending distribution of between 4% and 7% of their beginning market value to support various program 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.



During this 10-year period, $1.69 billion has been distributed from the Chapel Hill Investment Fund to support University programs.

In June of each year, participants in CHIF receive a distribution of between 4% and 7% of their market value as of June 30 of the prior year. The distribution is calculated on a per-unit basis, weighted by the length of time each unit is owned during the fiscal year. In May 2020, the CHIF Board voted for an increase in the per-unit distribution amount for FY 2021 which amounted to 5.0% of CHIF's June 30, 2020, market value. For your endowment, this means that the rate was used to calculate the distribution that paid out on June 30, 2021, and was based on your fund's market value at June 30, 2020.

In May 2021, given the Investment Fund's recent strong investment performance and the financial needs of the Chapel Hill Investment Fund's underlying entities, the Board voted for an increase in per-unit value distribution amount for FY 2022 which amounts to 3.9% of CHIF's June 30, 2021, market value and will pay out June 30, 2022.

CHAPEL HILL INVESTMENT FUND: DISTRIBUTION SCHEDULE

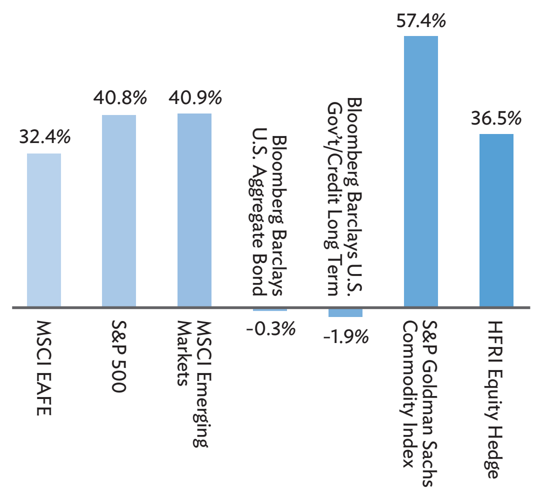
FISCAL YEAR	CHIF DISTRIBUTION RATE	CALCULATED ON FMV AS OF	PAID OUT ON
2019	4.8%	6/30/2019	6/30/2020
2020	5.0%	6/30/2020	6/30/2021
2021	3.9%	6/30/2021	6/30/2022

Fiscal Year 2021 in Review

FISCAL YEAR 2021 UNC INVESTMENT FUND PERFORMANCE

The UNC Investment Fund (the "Investment Fund") returned +42.3% for fiscal year 2021, its best fiscal year return since its inception in 2002. Following this exceptionally strong performance, the Investment Fund finished the fiscal year with a market value of $10.0 billion. The Investment Fund's performance for FY 2021 registers ahead of its primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"), which returned +32.6% and significantly ahead of the +26.3% return of a more "traditional" equity market focused Global 70/30 Portfolio comprised of 70% global equities (MSCI All Country World Index) and 30% bonds (Bloomberg U.S. Aggregate Bond Index). Relative to peers, the Investment Fund's +42.3% FY 2021 return ranks in the top quartile of the Cambridge Associates' College and University universe of endowment funds ("Cambridge Associates' Universe"). Over longer periods of three, five, ten and twenty years, the Investment Fund's returns also rank in the top quartile relative to this endowment universe.

MARKET INDICES FISCAL YEAR 2021



INVESTMENT RETURNS: A COMPARISON	FY 2021	3 YEAR	5 YEAR	10 YEAR	20 YEAR
UNC Investment Fund	**42.3%**	**16.1%**	**14.5%**	**10.8%**	**9.4%**
Primary Benchmark: SIPP	32.6%	13.0%	11.9%	9.1%	—
Long-Term Return Objective[1]	10.8%	8.1%	7.9%	7.4%	7.6%
Traditional Portfolio: Global 70/30[2]	26.3%	12.1%	11.3%	8.1%	7.7%
Peer Universe Quartile Ranking[3]	Top	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 / 30% Bloomberg U.S. Aggregate Bond Index
20 Years: Domestic 70/30 Portfolio - 70% S&P 500 Index / 30% Bloomberg U.S. Aggregate Bond Index

3 Cambridge Associates' College and University Endowment Universe (preliminary as of 9/14/21)

Each of the Investment Fund's seven asset classes generated a positive return for FY 2021. The Investment Fund's allocation to equities, both public and private, was the primary absolute performance driver with Private Equity and Long Equity returning an impressive +90.6% and +40.8%, respectively, for the year. Private Equity was also a significant contributor to the Investment Fund's strong relative performance outpacing its benchmark by +28.4%. Driving this outperformance was Private Equity's portfolio of Venture Capital managers that returned +142% in aggregate for the year amid a strong IPO market. Despite marginally trailing its benchmark, Long/Short Equity also delivered strong absolute performance returning +33.3% for the 12-month period. Fixed Income was a strong absolute and relative performer in FY 2021 with its +23.6% return significantly beating the +2.4% return of its benchmark.

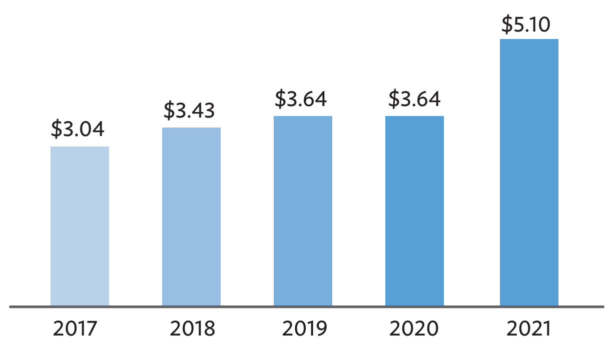
FISCAL YEAR 2021 CHAPEL HILL INVESTMENT FUND MARKET VALUE

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 is managed by the UNC Management Company with oversight by the Chapel Hill Investment Fund's Board of Directors ("CHIF Board"). During FY 2021, CHIF's market value grew from $3.64 billion at the beginning of the fiscal year to $5.10 billion at June 30, 2021.

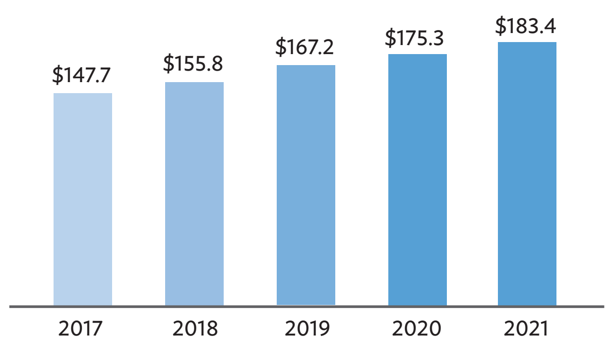
CHAPEL HILL INVESTMENT FUND	$ MILLIONS
Beginning Balance (6.30.2020)	**$3,640.1**
+ Investment Return	*$1,566.6*
+ Net Contributions	*$74.4*
- Annual Spending Distribution	*($183.4)*
FYE Balance (6.30.2021)	**$5,097.6**
Change	**$1,457.5**

Over the past 10 years, the market value of the Chapel Hill Investment Fund has more than doubled from $2.22 billion at June 30, 2011, to $5.10 billion at June 30, 2021. During this 10-year period, $1.69 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

Equity markets provided a significant tailwind to support the Investment Fund during FY 2021. With this boost, the Investment Fund returned +42.3%, its best fiscal year return since inception. The Investment Fund's performance for the year is extremely strong on an absolute and relative basis with the Investment Fund's return significantly exceeding both its primary SIPP benchmark and a more traditional Global 70/30 Portfolio and ranking strongly in the top quartile of its peer universe. The Investment Fund's long-term performance is also strong on both an absolute and relative basis with annualized returns exceeding 10% over the three-, five- and ten-year time periods. Additionally, for each of these periods, the Investment Fund's return ranks solidly in the top quartile of its peer universe.

The continued rollout of vaccines seemed to provide a light at the end of the tunnel for the coronavirus pandemic; however, the emergence of the delta variant has created new uncertainty and reminded us that we are not out of the woods yet. The U.S. economy grew at a +6.5% annualized rate in Q4 FY 2021 (three months ended June 30, 2021) which, despite strong consumer sentiment, was well below expectations of ~8.5%. As autumn proceeds, uncertainty around the economy's future mounts even as domestic equity markets continue to trend upwards. This uncertainty is fueled by the surge in the delta variant (and possibly other variant strains), the expiration of expanded unemployment benefits for millions of Americans, higher (potentially sustained) inflation and ongoing supply chain disruptions. To navigate the Investment Fund through this unprecedented challenge, we maintain our conviction in our investment philosophy and its key tenets of capital preservation and downside protection with investing in private asset classes and portfolio diversification (across both asset classes and investment managers) being fundamental to its execution. We remain cautiously optimistic about the future but are wary of the current environment of low interest rates and high equity valuations and how that may create future financial market headwinds.

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

GLOSSARY FOR ANNUAL ENDOWMENT FINANCIAL 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. *Note: Additions made in the month of June are not reflected in this total because they are not sent to CHIF until July.*

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

Income Distribution — The amount distributed in June 2021 for use in FY 2022. This amount is based on your FY 2021 Beginning Market Value and the Investment Fund Board's approved payout policy, which is described on pages 6–7.

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. *Note: Additions made in the month of June are not reflected in this total because they are not sent to CHIF until July.*

‘Every Chair’s Dream’

While studying for her master’s degree in information science at Carolina, Nicci Gafinowitz ’16 (MSIS) met Associate Professor Eunice Sahle at a conference held at UNC. Like everyone who has come to know, work and study with Sahle, Gafinowitz deeply admires Sahle’s depth of experience, her understanding of African life, and her ability to meaningfully translate that experience and understanding to international audiences.

As Sahle prepared to step down as chair of the Department of African, African American and Diaspora Studies (AAAD), the Gafinowitz family made a lasting pledge to honor her excellence in teaching, research, leadership and mentorship. They created the **Dr. Eunice N. Sahle Excellence Fund in African, African American and Diaspora Studies** in the UNC College of Arts & Sciences, a gift that will last forever and be the first endowment in the department.

The new endowment ensures the department has resources to sustain the creative scholarly opportunities it has created for students and faculty alike. Sahle likened the support to an insurance policy that can always be counted upon.

“This is every chair’s dream,” she said. “It’s really an important gift that will make a difference in very substantive ways to the department. For this to happen in a very difficult moment in the world in terms of fundraising and other challenges that the coronavirus pandemic has generated — I’m really touched by the steadfast generosity of the Gafinowitz family to AAAD.”

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

THE UNC MANAGEMENT COMPANY

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· *the* CAMPAIGN *for* CAROLINA ·

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