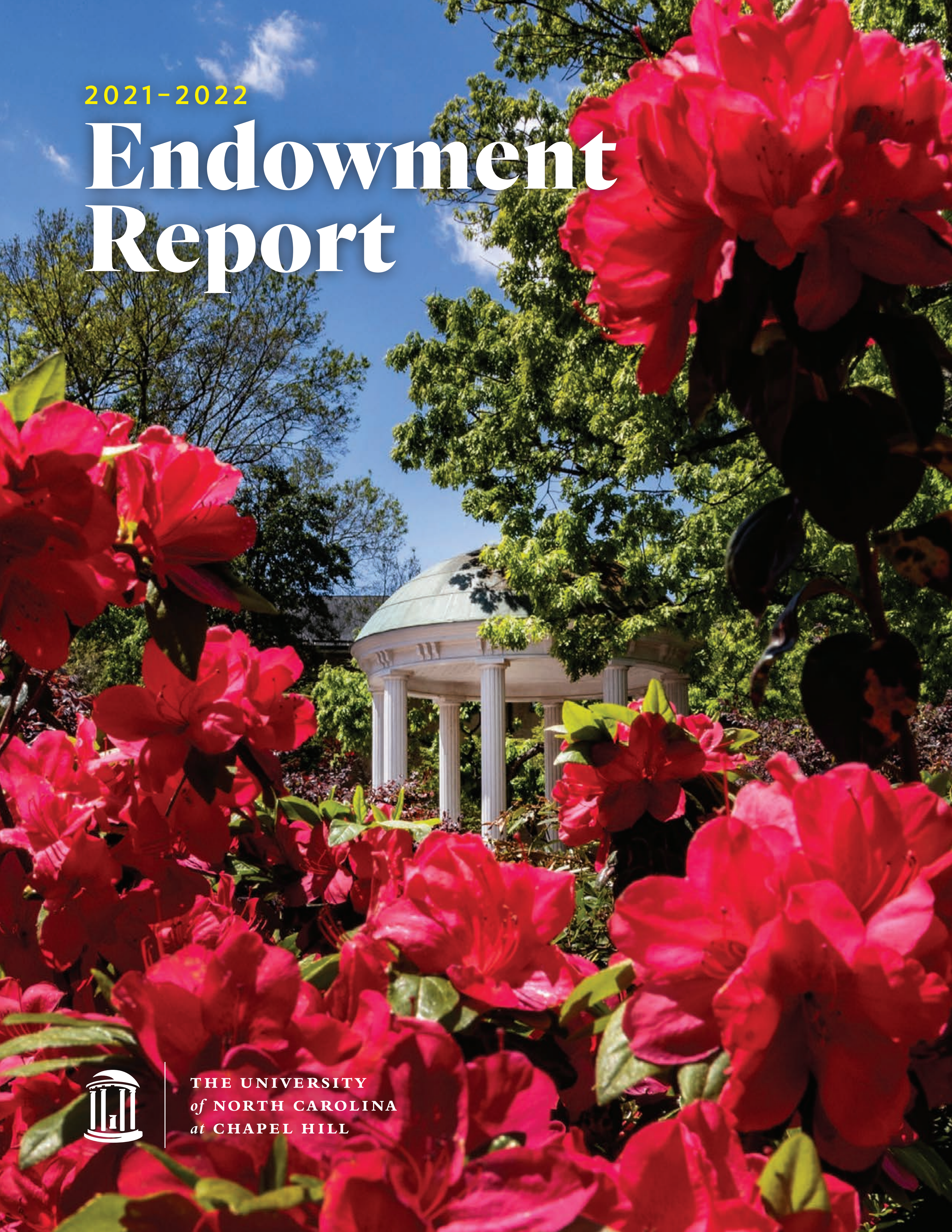
2021–2022

Endowment Report



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

Fiscal Year 2022 BY THE NUMBERS

6,242 donors

MADE GIFTS TO AN **ENDOWED FUND**

211

NEW ENDOWED FUNDS
were created

Endowed professorships distributed

$47.1M

IN SUPPORT FOR FACULTY*

Endowed scholarships and fellowships distributed

$24,387,027

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 foundation 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.

Taking on STEM's Biggest Challenges

Chancellor's Science Scholar Yolanda Simpson '22 flourished as a biochemistry and neuroscience double-major and Phi Beta Kappa inductee at Carolina. She served as a volunteer and teacher at local organizations and schools and was president of the a cappella group UNC Cadence. But as she entered her final year at Carolina, she embraced one more challenge: the lack of minority representation in STEM.

During her senior year at Carolina, she was named the recipient of the prestigious, endowed **Eve Carson Scholarship**, named for the former UNC-Chapel Hill student body president. The award provided Simpson with $15,000 toward her senior year, as well as $5,000 for a summer experience. She allocated a portion of the summer experience award to fund her new "Courage to Succeed" scholarship for first-year students entering college in fall 2022. Up to five students from underrepresented backgrounds who intend to pursue STEM majors received a $300 book scholarship to help defray their college expenses.

"I am committed to making an impact in this community, and every community I'm a part of, because ensuring the success of the next generation of scientists will ultimately help me give back to those who helped me succeed," said Simpson.

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

Positioning Students and Professors for Success

Graeme Robertson, The Graduate School's **Harold J. Glass USAF Faculty Mentor/Graduate Fellow Distinguished Term Professor**, is in his third year of his three-year professorship. Robertson researches dissent and protest within Russia and the Ukraine and is a professor in the Department of Political Science in the College of Arts and Sciences. He is also the director of the Center for Slavic, Eurasian and East European Studies at Carolina.

He said the Glass fellowship is modeled in a way that positions students and professors for success. "This particular fellowship is built on a model that provides critical financial support for mid-career faculty and their students, which allows them to participate in research and mentorship with colleagues at some of the best institutions in the world."

Harold E. and Holly Glass provided a gift to establish the Glass Distinguished Term Professorship and a corresponding fellowship for a graduate student the professor selects to mentor. The faculty member selected for the professorship receives a stipend and research fund for three years. The graduate student selected receives a competitive stipend, full tuition, fees and health insurance during the fellowship.

Spending Distribution Policy

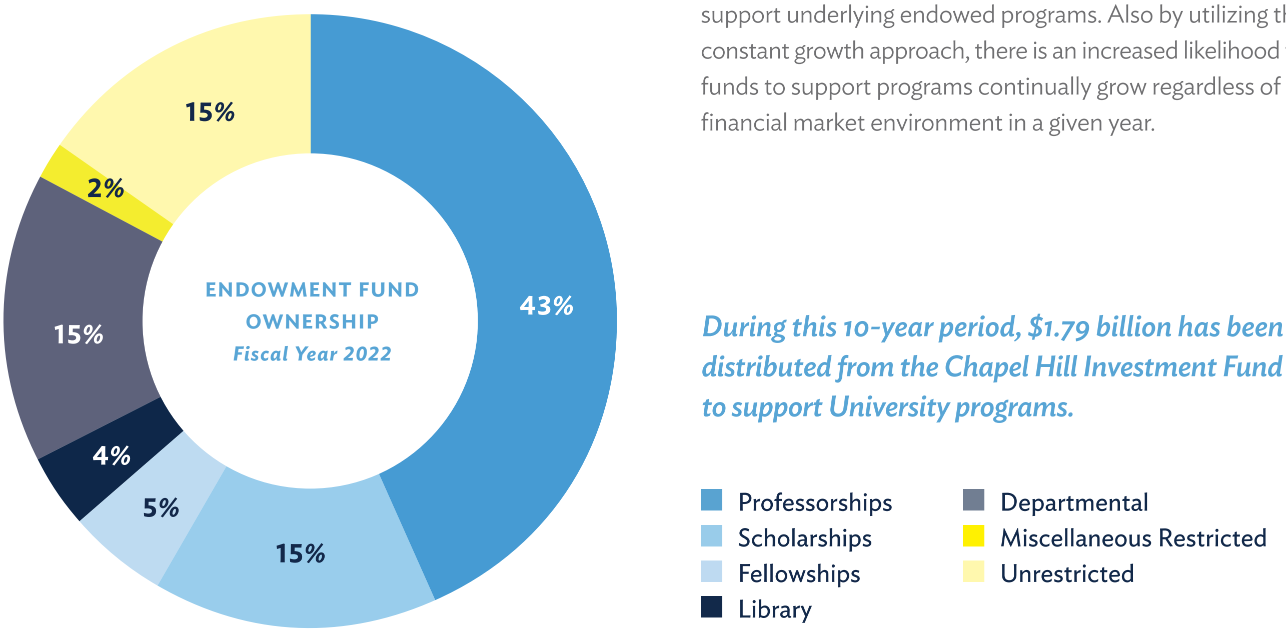
Endowment funds play a primary role in the funding of higher education and have become a crucial source of support to the University of North Carolina at Chapel Hill. Each year, CHIF participants receive a spending distribution of between 4% and 7% of their beginning market value to support various program 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, $1.79 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 percent and 7 percent 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 2021, the CHIF Board voted for a 7.0% increase (5.7% above CPI) in the per-unit distribution amount for FY 2022 given the Investment Fund's recent strong investment performance and the financial needs of the Chapel Hill Investment Fund's underlying entities. The resulting FY 2022 distribution rate amounts to 3.9% of CHIF's June 30, 2021 market value. **For your endowment, this means that the rate was used to calculate the distribution that paid out on June 30, 2022, and was based on your fund's market value at June 30, 2021.**

In May 2022, the CHIF Board voted for an 8.1% increase (1.0% above calendar year 2021 CPI) in the per-unit distribution amount for FY 2023. The resulting FY 2023 distribution rate amounts to 4.0% of CHIF's June 30, 2022, market value and will pay out June 30, 2023. Over the past five years, the distribution rate has grown in excess of the inflation rate at an annualized rate of 4.3%.

CHAPEL HILL INVESTMENT FUND: DISTRIBUTION SCHEDULE

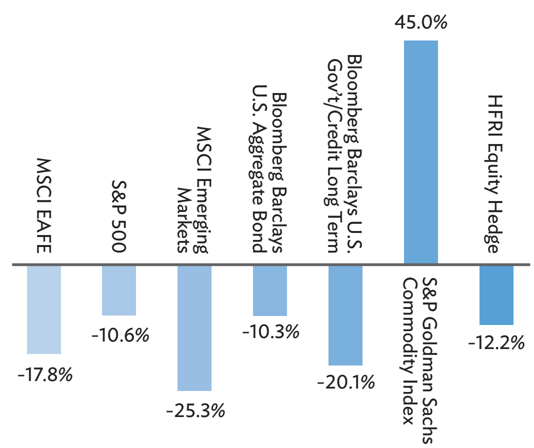
FISCAL YEAR	CHIF DISTRIBUTION RATE	CALCULATED ON FMV AS OF	PAID OUT ON
2019	4.8%	6/30/2019	6/30/2020
2020	5.0%	6/30/2020	6/30/2021
2021	3.9%	6/30/2021	6/30/2022
2022	4.0%	6/30/2022	6/30/2023

Fiscal Year 2022 in Review

FISCAL YEAR 2022 UNC INVESTMENT FUND PERFORMANCE

Despite the sharp pull-back in public equity and fixed income markets over the second half of fiscal year 2022, the UNC Investment Fund (the "Investment Fund") returned +4.4% for the year, outperforming global public equity markets by more than 20%. The Investment Fund's performance for FY 2022 is strong relative to its primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"), which returned +0.1% for the fiscal year and relative to the -14.0% 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). This significant outperformance is a result of the strong returns generated by the Investment Fund's exposure to private investments with its Private Portfolio (Private Equity, Real Estate, Energy & Natural Resources) returning more than +35% in aggregate for the 12-month period. The Investment Fund's portfolio of Diversifying Strategies managers was also a significant contributor, with its +8.2% return providing critical downside protection during a challenging

MARKET INDICES FISCAL YEAR 2022



INVESTMENT RETURNS: A COMPARISON	FY 2022	3 YEAR	5 YEAR	10 YEAR	20 YEAR
UNC Investment Fund	**4.4%**	**14.9%**	**12.9%**	**11.0%**	**9.7%**
Primary Benchmark: SIPP	0.1%	10.7%	9.5%	8.6%	—
Long-Term Return Objective[1]	14.5%	10.5%	9.4%	8.1%	8.0%
Traditional Portfolio: Global 70/30[2]	-14.0%	4.3%	5.4%	6.7%	6.4%
Peer Universe Quartile Ranking[3]	Top	Top	Top	Top	Top

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

2 Global 70/30 Portfolio - 70% MSCI All Country World Index / 30% Bloomberg U.S. Aggregate Bond Index

3 Cambridge Associates' College and University Endowment Universe (preliminary as of 8/30/22) period in global public equity markets. Relative to peers, the Investment Fund's +4.4% FY 2022 return ranks in the high end of the top 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 also rank in the top quartile relative to this endowment universe.

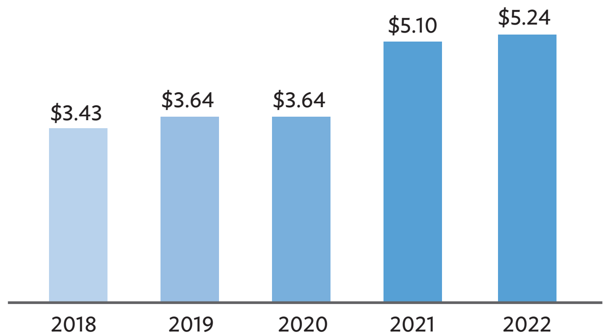
FISCAL YEAR 2022 CHAPEL HILL INVESTMENT FUND MARKET VALUE

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 2022, CHIF's market value grew from \$5.10 billion at the beginning of the fiscal year to \$5.24 billion at June 30, 2022.

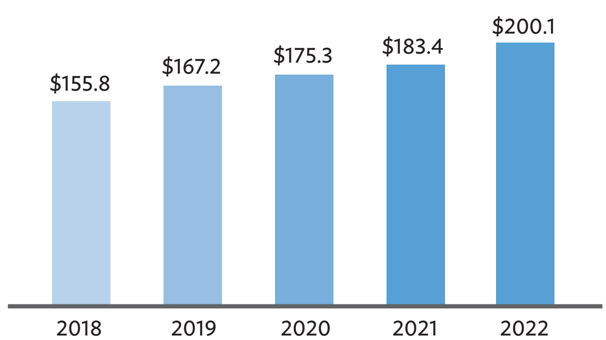
CHAPEL HILL INVESTMENT FUND	$ MILLIONS
Beginning Balance (6.30.2021)	**\$5,097.6**
+ Investment Return	*\$236.2*
+ Net Contributions	*\$108.6*
- Annual Spending Distribution	*(\$200.1)*
FYE Balance (6.30.2022)	**\$5,242.3**
Change	**\$144.6**

Over the past ten years, the market value of the Chapel Hill Investment Fund has more than doubled from \$2.21 billion at June 30, 2012 to \$5.24 billion at June 30, 2022. During this ten-year period, \$1.79 billion has been distributed from the Chapel Hill Investment Fund to support University programs and development.

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



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



Summary

During the second half of FY 2022, global equity and fixed income markets dropped sharply and acted as a significant headwind to the Investment Fund's performance over the period. Amid the challenging market environment, the Investment Fund returned -3.5% for this six-month period boosted by its Private Portfolio and with downside protection provided by its Diversifying Strategies managers. Despite the challenging environment in the second half the of the year, the Investment Fund generated a +4.4% return for the 12-month FY 2022 period. The Investment Fund's performance for the year is extremely strong on a relative basis with its return significantly exceeding both its primary SIPP benchmark and a more traditional Global 70/30 Portfolio and ranking solidly 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 in excess of +11% for the three-, five-, and ten-year time periods ended June 30. Additionally, for each of these periods, the Investment Fund's return ranks solidly in the top quartile of its peer universe.

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 2022 for use in FY 2023. This amount is based on your FY 2022 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.*

Supporting Exceptional Faculty

Susan M. Smith, PhD, is the inaugural holder of **The Dickson Foundation — Harris Teeter Distinguished Professorship in Nutrition**. Smith joined the faculty at the UNC Gillings School of Global Public Health in 2016. She also serves as deputy director for science at the UNC Nutrition Research Institute (NRI), where she researches the molecular mechanisms by which dietary nutrients affect prenatal development.

The newly endowed professorship is named in honor of the Dickson family and their business, Harris Teeter Supermarkets. The late Alan Dickson was a founding member of the NRI's advisory board and made the gift in 2010 to establish an endowment to attract or retain a distinguished teacher and scholar.

"Endowed professorships are critical to the Nutrition Research Institute's future so that we can continue to recruit outstanding new faculty and confer added distinction and support upon exceptional current faculty," said Stephen Hursting, PhD, director of the UNC Nutrition Research Institute. "I am delighted that we are able to recognize Dr. Smith and her contributions to the field of nutrition research through the Dickson Foundation — Harris Teeter Professorship."

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

THE UNC MANAGEMENT COMPANY

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