# Table of Contents

1. Overview

2. A Message from the Chairman of the Board & President of UNC Management Company, Inc.

3. Chapel Hill Investment Fund Board

4. Portfolio at a Glance

5. Fiscal Year 2014 Overview

6. Investment Principles

7. Strategic Investment Policy Portfolio & Asset Allocation

8. Distribution Policy

9. The Fund in Action

10. Investment Performance

11. UNC Management Company, Inc.

12. Chapel Hill Investment Fund Participants
Overview

The Fund

The UNC Investment Fund, LLC (“Fund” or “UNCIF”) is the commingled vehicle created to invest the assets contributed to it by 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 26 other participants represented in CHIF. A complete list of participants can be found on page 24. Underlying these entities are more than 2,000 individual funds.

By investing in the Fund, Members receive the following:

- 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 investment managers, asset classes, and geographies
- Proven long-term investment track record generated with moderate volatility

The Investment Objectives

- **Primary Objective:** Support the current and future needs of the Fund’s Member institutions by generating, each year in perpetuity, a predictable and stable stream of spending distributions while also preserving purchasing power (net of inflation) after accounting for spending distributions.

- **Secondary Objective:** Achieve a rate of return, net of all fees and expenses, that exceeds the Fund’s primary benchmark, the Strategic Investment Policy Portfolio (“SIPP”). More information on SIPP can be found on page 11.

The Fund’s asset allocation framework, as defined by SIPP, is principally implemented through investments in external investment managers.

The Management Company

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

- Determination of asset allocation
- Hiring and termination of external investment management firms
- Purchase or sale of assets
MOREHEAD-PATTERSON MEMORIAL TOWER

To perpetuate the memory of those members of the Morehead and Patterson families from the University of the State of North Carolina by John Morehead, Morehead's grandson, and other students who were killed in service and on campus, donated to the university by John Morehead.
A Message from the Chairman of the Board & President of UNC Management Company

We are pleased to report that for the fiscal year ended June 30, 2014 (FY 2014) the Fund generated a healthy 15.7 percent return. This return exceeds the 15.0 percent return of the Fund’s Strategic Investment Policy Portfolio (“SIPP”) benchmark and, more significantly, contributes to the Fund’s long-term return objective. However, with domestic and global equity market indices returning 24.6 percent and 23.6 percent, respectively, the Fund and its SIPP benchmark lag a more traditional 70 percent stock / 30 percent fixed income portfolio which generated a 17.2 percent return for the year. Despite this, we believe positioning the Fund to participate in equity market rallies, while protecting value in periods of market weakness, to be the best posture for it to meet its return objective of maintaining the purchasing power of its underlying funds after accounting for spending distributions and inflation. The Fund’s long-term results support this, with the Fund generating a 9.2 percent ten-year annualized return versus 7.8 percent for the S&P 500 Index.

During the year, the Chapel Hill Investment Fund’s assets increased by $302.1 million, from $2.34 billion at the beginning of the fiscal year to $2.64 billion on June 30, 2014. The $302.1 million increase resulted from a positive net investment return of $369.7 million plus $60.5 million in net contributions, less the annual endowment spending distribution of $128.1 million. Over the past five years, the market value of the Chapel Hill Investment Fund has increased from $1.78 billion on June 30, 2009, to $2.64 billion on June 30, 2014. During this five-year period, $590.8 million was distributed from the Chapel Hill Investment Fund in support of University programs.

While most asset classes, particularly equities, rallied during fiscal year 2014, we remain acutely aware that financial markets are inherently uncertain and could be subject to steep declines at any point in time. With this in mind, we maintain our commitment to the Fund’s investment philosophy of investing for the long term in a portfolio of exceptional investment managers diversified across asset classes, strategies, and geographies, and with a significant allocation to alternative assets. We have remained consistent with our investment philosophy over time and, as such, this approach has been tested and proven across varying market conditions.

This annual report not only details the Fund’s performance during the past fiscal year, but also provides an overview of the Fund’s investment approach, asset allocation, and historical performance. Speaking for the entire Chapel Hill Investment Fund Board as well as the staff of the UNC Management Company, we are grateful for the continued support from our Member institutions and their donors.

JONATHON C. KING
President & CEO, Chief Investment Officer, UNC Management Company, Inc.

MAX C. CHAPMAN JR.
Chairman, Gardner Capital Management
Chairman, Board of Directors, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.
One of the distinguishing features of the Chapel Hill Investment Fund is the oversight and governance provided by its Board of Directors to the UNC Investment Fund, LLC as its controlling Member. The Board, focused on the long-term strategy of the Fund, convenes three times a year to discuss and debate asset allocation, investment policy, and to monitor performance. The Board’s Executive Committee meets more frequently to review more intermediate-term recommendations of the Management Company. With its collective financial market expertise and extensive degree of experience, the Board serves as an invaluable resource to the Management Company in its mission to deliver exceptional risk-adjusted returns.

Listed above are the Directors as of June 30, 2014. 

*Executive Committee Member
# Portfolio at a Glance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Biased Equity</td>
<td>29.8%</td>
<td>29.0%</td>
<td>24.5%</td>
<td>24.3%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>19.1%</td>
<td>18.3%</td>
<td>17.8%</td>
<td>19.5%</td>
<td>22.2%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>9.6%</td>
<td>10.6%</td>
<td>13.4%</td>
<td>14.2%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8.0%</td>
<td>8.3%</td>
<td>8.8%</td>
<td>7.2%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>17.6%</td>
<td>18.1%</td>
<td>17.8%</td>
<td>17.1%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.8%</td>
<td>7.5%</td>
<td>7.2%</td>
<td>7.4%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>6.5%</td>
<td>7.0%</td>
<td>7.2%</td>
<td>7.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>2.6%</td>
<td>1.2%</td>
<td>3.3%</td>
<td>2.8%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value ($ millions)</td>
<td>$4,137.3</td>
<td>$3,554.0</td>
<td>$3,175.5</td>
<td>$2,903.7</td>
<td>$2,535.4</td>
</tr>
<tr>
<td>Fund Return</td>
<td>15.7%</td>
<td>12.1%</td>
<td>2.1%</td>
<td>15.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>SIPP Benchmark Return</td>
<td>15.0%</td>
<td>10.4%</td>
<td>4.7%</td>
<td>20.2%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>
Against the backdrop of improving economic conditions and continued accommodative monetary policy, most major asset classes experienced gains for the fiscal year ended June 30, 2014. Equities, particularly U.S. equities, were the best performing asset class for the year as the S&P 500 Index returned 24.6 percent continuing the equity bull market first started in March 2009. Developed equities outside the U.S., as measured by the MSCI EAFE Index (Europe, Australia, Far East), also performed well returning 23.6 percent. The MSCI Emerging Markets Index returned 14.3 percent. Within fixed income markets, high yield bonds performed well with the Barclays U.S. Corporate High Yield Index returning 11.7 percent as demand for the asset class remained strong. The broader fixed income market, represented by the Barclays U.S. Aggregate Bond Index, however, returned 4.4 percent for the year. Hedge fund and commodity indices generated positive returns that lagged behind the strong equity market returns for the year, with the HFRI Equity Hedge Index up 12.4 percent and the S&P GSCI Commodity Index up 10.4 percent.

Helped by the strong returns seen across asset classes, the Fund posted a solid 15.7 percent return for the 12-month period ended June 30, 2014. The Fund’s primary objective is to maintain the purchasing power of its underlying funds after accounting for spending distributions and inflation over the long term. Returns in excess of 8.5 percent are deemed to have achieved this target. In addition to contributing to the Fund’s long-term return objective, the fiscal year 2014 return of 15.7 percent exceeded the Fund’s primary benchmark, the Strategic Investment Policy Portfolio Index (“SIPP”) which returned 15.0 percent. The Fund’s performance, however, trailed a more traditional stock/bond portfolio with the Global 70/30 Index (consisting of 70 percent MSCI All Country World Index (“ACWI”) and 30 percent Barclays U.S. Aggregate Bond Index) recording a 17.2 percent return. Relative to other endowments, the Fund’s...
Each of the Fund’s seven primary asset classes produced a positive return for the year with five of seven outperforming their respective benchmarks. Long Biased Equity was the top performer generating a 23.3 percent return for the 12-month period versus 22.9 percent for the MSCI ACWI. Within Long Biased Equity, the Emerging Markets sub-asset class returned 27.1 percent versus 14.3 percent for the MSCI Emerging Markets Index highlighting the importance of manager selection. Energy & Natural Resources was also a solid performer for the year both on a relative and absolute basis, returning 16.9 percent versus 2.9 percent for the benchmark. The Fund’s Fixed Income allocation also generated strong relative performance returning 11.6 percent for the year compared to 6.8 percent for its SIPP benchmark.

During the year, as a result of positive investment performance as well as additional contributions by Members, the Fund’s market value grew by $593.3 million to exceed return narrowly trailed the 16.0 percent median return of the BNY Mellon Endowment & Foundation Universe.

Over the past five years, the Fund’s market value has grown by more than 80% (an increase of more than $1.88 billion) with an annualized investment return of 10.3% over the same period.
$4 billion as of the fiscal year end. Figure 3 on page 8 details the more than $1.88 billion dollar increase in the Fund’s market value over the past five years.

Geopolitical events and uncertainties across the Middle East and Ukraine have dominated news headlines. In the past, significant geopolitical events (such as 9/11) have had a dramatic impact on equity markets, however, the impact has been short-lived. U.S. equity markets, not without uncertainties of their own, have been a source of relative calm globally. The United States economy is poised for continued growth at levels well ahead of most developed global economies. The labor market is showing signs of increased strength (though longer-term unemployment issues remain) and is in far better condition than in Europe where unemployment rates in excess of 10 percent are not uncommon.

While global equity markets have retreated and some of the enthusiasm from earlier in the year has faded, the S&P 500 Index is currently not far off its record high. Valuations are at or above historical median levels, but selective investments in equities remain compelling as interest rates normalize and corporate fundamentals remain solid. It is this sort of environment that tends to favor active management to generate excess returns. Within fixed income markets, interest rates remain low, but the U.S. Federal Reserve is expected to start raising rates in calendar year 2015. The timing and financial market impact of the Fed’s actions remains a significant topic of debate and uncertainty.

Entering fiscal year 2015, we continue to identify and monitor the return drivers and risks of the Fund’s underlying managers and how those components work into the aggregate portfolio. The Fund’s asset allocation targets were set with a long-term time horizon with ranges that give us the flexibility to make tactical allocations when necessary. We also remain focused on sourcing the best underlying managers who have proven track records of generating returns across market environments for the Fund.
The Fund’s primary objective is to support the current and future needs of its Member institutions by generating each year, in perpetuity, a predictable and stable stream of spending distributions while also preserving purchasing power (net of inflation) after accounting for spending distributions. More simply, the Fund, over the long term, has to return approximately 8.5 percent to achieve its primary objective: the spending rate (usually around 5.5 percent) plus inflation (around 3 percent).

While this objective is straightforward in its concept, it is a challenge to achieve. To meet this goal, the Fund’s investment philosophy has been built around three core principles.

1. **MAINTAIN LONG-TERM PERSPECTIVE** – By taking a long-term view, the Fund can benefit from inefficiencies that arise from the short-term focus of many market participants.

2. **PARTNER WITH BEST-IN-CLASS INVESTMENT MANAGERS** – The Fund invests its assets in third-party investment managers. The UNC Management Company is steadfast in its pursuit of exceptional investment managers. Our research process takes us across the globe as we seek to partner with those managers that possess highly specialized skills, an ability to think independently, and who have a demonstrated track record of adding value.

3. **MANAGE RISK THROUGH DIVERSIFICATION** – We strive to make the best investment decisions all of the time but accept that this is not possible given the certain uncertainty of financial markets. Risk management is a core tenet woven throughout our investment process with diversification serving as one of the primary tools to achieve it. We believe investing across asset classes, geographies, and investment managers positions the Fund to achieve long-term success by limiting drawdowns associated with poor market conditions and the occasional inability of some investment managers to meet their targets.
Strategic Investment Policy
Portfolio & Asset Allocation

Fundamental to the Fund’s Investment Objectives is the Strategic Investment Policy Portfolio (”SIPP”) established by the Board. SIPP provides asset allocation guidelines for the management of the Fund in accordance with its long-term return objectives and risk tolerance. SIPP is a broadly diversified portfolio with exposure to seven primary asset classes each of which is further divided into sub-strategies. SIPP establishes strategic asset allocation targets and tactical asset allocation ranges for the Fund’s seven primary asset classes. Each asset class is measured against a benchmark index which, when aggregated, serves as a method of assessing the Fund’s overall performance. SIPP reflects the long-term time horizon of the Fund. As such, modifications tend to be gradual with significant revisions occurring infrequently.

Key characteristics of SIPP include:

- Diversification across asset classes to allow the Fund to achieve its objectives through varying market environments
- A reliance on equity-related investments, both in public and private markets, to achieve long-term return objectives
- A significant allocation to private securities to capture the illiquidity premium associated with them
- Emphasis on equities over fixed income securities to reflect the Fund’s sensitivity to inflation

Each of the seven underlying asset classes within SIPP provides different benefits to the overall portfolio across different market environments. The Fund allocates to the different asset classes through investments with a number of investment managers chosen following a rigorous selection process. A brief description of each of the asset classes, including the investment strategy used and the types of investments typically held, follows.

**LONG BIASED EQUITY**
A traditional asset class characterized by ownership of publicly traded equity securities listed on global equity markets. This asset class is further divided into the following geographic sub-asset classes: domestic equity, developed markets international equity, emerging markets equity, and global equity.

**LONG/SHORT EQUITY**
An asset class characterized by a manager’s ability to buy and/or sell short individual publically listed equity securities that the manager believes the market has mispriced relative to their fundamental intrinsic value. The long and short positions are generally independent of one another and portfolios typically result in an overall net long exposure to equities. This flexibility is intended to add value and/or decrease risk.

**DIVERSIFYING STRATEGIES**
An asset class that includes investment strategies that tend to be uncorrelated with major equity market indices. Diversifying Strategies consist of the following three sub-strategies: multi-strategy, credit long/short, and macro/commodities.

**FIXED INCOME**
A broad and traditional asset class that generally comprises investment strategies (almost always including debt instruments) that are focused on income generation. The Fixed Income asset class tends to provide diversification to the portfolio acting as a complement to the Long Biased Equity asset class.

**PRIVATE EQUITY**
An asset class that includes equity investments and transactions in private companies (i.e. companies that are not publicly listed on any stock exchange). As the investments are illiquid, they are expected to provide higher returns than public equity investments over the long term.
**FIGURE 4**  
**STRATEGIC INVESTMENT POLICY PORTFOLIO**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Allocation (1)</th>
<th>Strategic Target</th>
<th>Tactical Range</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Biased Equity</td>
<td>29.8%</td>
<td>27.0%</td>
<td>20 – 35%</td>
<td>MSCI All Country World Index (&quot;ACWI&quot;)</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>19.1%</td>
<td>18.0%</td>
<td>12 – 24%</td>
<td>Hedge Fund Research Institute (&quot;HFRI&quot;) Equity Hedge Index</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>9.6%</td>
<td>12.0%</td>
<td>8 – 16%</td>
<td>HFRI Conservative Fund of Funds Index + 1%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8.0%</td>
<td>10.0%</td>
<td>5 – 18%</td>
<td>30% BC L-T Gov’t/Credit, 30% BC Aggregate, 20% BC HY Corporate, 20% 90-Day T-Bills (2)</td>
</tr>
<tr>
<td>Private Equity</td>
<td>17.6%</td>
<td>18.0%</td>
<td>14 – 22%</td>
<td>70% CA PE Index / 30% CA Venture Capital Index (3)</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.8%</td>
<td>8.0%</td>
<td>5 – 12%</td>
<td>90% NCREIF / 10% NAREIT</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>6.5%</td>
<td>7.0%</td>
<td>5 – 10%</td>
<td>50% S&amp;P GSCI / 50% Real + 3% (4)</td>
</tr>
<tr>
<td>Cash</td>
<td>2.6%</td>
<td>0.0%</td>
<td>0 – 10%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(1) As of June 30, 2014  
(2) 30% Barclays U.S. Government/Credit Long Term Index, 30% Barclays U.S. Aggregate Bond Index, 20% Barclays Corporate High Yield Index, 20% 90 Day T-Bill  
(3) 70% Cambridge Associates Private Equity Index, 30% Cambridge Associates Venture Capital Index  
(4) 50% S&P Goldman Sachs Commodity Index, 50% Real + 3%
REAL ESTATE
An asset class in which investment managers invest in private real estate opportunities (primarily commercial). Investments in Real Estate tend to provide a hedge against rising inflation, a source of current income, and diversification to the aggregate Fund. Also, Real Estate markets can be markedly inefficient and, as such, provide significant potential for investment gains.

ENERGY & NATURAL RESOURCES
An asset class comprised of investment managers that purchase oil, natural gas, power, and other commodities. Similar to Real Estate, Energy & Natural Resources investments provide a hedge against future inflation and can benefit from an inefficient market for such investments.

Decisions regarding the allocation to each of the primary asset classes can have a significant impact on an investment portfolio’s return and ability to achieve its return objectives within a given level of risk. Asset allocation decisions also influence the Fund’s ability to provide a sufficient level of liquidity to meet the annual payout to Member institutions and other liquidity needs of the Fund. As such, establishing the strategic asset allocation targets of SIPP is the first step of the investment process utilized to construct the Fund. SIPP, including the strategic targets and tactical ranges for each underlying asset class as well as the Fund’s actual allocations as of June 30, 2014, is illustrated on page 12.

While the strategic asset allocation targets provide long-term guidance for the Fund, the tactical asset allocation ranges established by SIPP allow the Fund to react quickly when specific market conditions present themselves, purchase assets when they seem attractively valued, and sell assets deemed overpriced. These decisions may lead to pronounced deviations from the strategic policy and should, over the long term, contribute to the Fund’s return goals.

FIGURE 5
HISTORICAL ASSET ALLOCATION
As of June 30

Over the past ten years, the Fund has maintained its diversification amongst asset classes but reduced its aggregate exposure to Fixed Income and Diversifying Strategies while increasing exposure to public equity markets.
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:

• First, the policy strives to provide Fund 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.

• Second, the policy strives to provide Fund 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.

There is an important tradeoff to consider when selecting an appropriate spending distribution policy. When a participant elects to withdraw a dollar in the current year, it foregoes the opportunity to reinvest that dollar to provide capital for future programs. Conversely, when a participant elects to retain and reinvest a dollar, it is foregoing the opportunity to provide a benefit today in order to provide for future enhancements.
FISCAL YEAR 2014 ANNUAL REPORT

more spending in the future. Thus, any decision regarding present versus future spending involves judgments on the benefits generated from current expenditures versus benefits received from future expenditures.

Capital distributed from the Fund is done on a total return basis, which recognizes that the source of the dollars spent, be it dividends, interest, or realized and unrealized appreciation, is irrelevant. Regardless of its source, a dollar can either be spent today or reinvested for the future.

Considering the Fund’s expected rate of investment return is crucial in determining and setting the spending distribution rate. Predicting the Fund’s expected rate of return is extremely difficult, however, based on the Fund’s asset allocation, its long-term expected real (i.e. inflation adjusted) rate of return is approximately 5.5 percent. If the distribution rate is less than the 5.5 percent rate, the Fund should maintain its real value with new gifts to the Fund representing opportunities for incremental spending rather than serving to replenish the Fund to its initial pre-spending distribution levels.

Utilizing a constant growth rate rule, the initial distribution rate for the Fund was set at 5 percent of its beginning market value in 2000. From year to year, the distribution rate is typically increased at the rate of inflation, as measured by the Consumer Price Index (“CPI”), over the preceding calendar year. The annual distribution rate, however, is subject to a minimum of 4 percent and a maximum of 7 percent.

For fiscal year 2014, the Board elected to increase the spending distribution rate from $413 to $420 per unit. This increase resulted in an annual distribution rate of 5.4 percent of beginning market value, which falls within the policy guidelines. In the prior year, the distribution rate was 5.7 percent. Over the past ten years, the Fund’s distribution rate has grown at an annualized rate of 2.3 percent which is in line with inflation as measured by the CPI.

FIGURE 7
HISTORICAL SPENDING DISTRIBUTION ($ MILLIONS)

While the annual spending distribution rate has fluctuated, the amount distributed from the Chapel Hill Investment Fund has grown sustainably over the past 5 years providing continued support to University programs.

While the annual spending distribution rate has fluctuated, the amount distributed from the Chapel Hill Investment Fund has grown sustainably over the past 5 years providing continued support to University programs.

While the annual spending distribution rate has fluctuated, the amount distributed from the Chapel Hill Investment Fund has grown sustainably over the past 5 years providing continued support to University programs.
The University of North Carolina at Chapel Hill continues to make strides toward establishing a student body as rich and diverse as North Carolina’s population. Diverse perspectives and backgrounds on campus help propel research, engage the community, and enhance the classroom experience. The Carolina Millenial Scholars Program (CMSP) provides incoming multicultural males with academic and social support to aid in their success and empower them to become leaders.

In 2010, the Minority Student Caucus and UNC Student Government organized a campus-wide discussion to open the floor for solutions regarding the recruitment and retention of underrepresented minorities. In 2011, a study by the Office of Undergraduate Retention found that among successful minority, male students, there was a consistent presence of skilled academic self-management, self-awareness of academic strengths, and engagement outside of the classroom. The CMSP program, which welcomed its first class in the fall of 2012, set out to cultivate these traits in incoming minority males who had a demonstrated history of achievement.

To achieve its goals, CMSP’s programming is centralized around four pillars: success, networking, community, and scholarship. In the program’s first year, to assist in the transition to college life, scholars attend seminars that introduce them to staff, campus resources, and support services. Other sessions focus on life skills, including financial literacy, health and wellness, and teambuilding.

During the program’s second year, scholars are matched with a postdoctoral or faculty researcher to engage in a yearlong research project that aligns with their academic interests. In addition to research, CMSP assists students in pursuing high-impact opportunities like internships and on-campus leadership positions. Students also participate in cultural events and perform community service to foster the bonds that serve as the foundation for the program.

CMSP prides itself on its ability to create a community of brotherhood. Members of the program are considered cohorts, literally meaning a group that is banded together. To establish a support network for one another both at home and in the classroom, the scholars go on a retreat, partake in community programming and, starting this year, reside together in Horton Residence Hall.

The CMSP provides support for up to 30 cohorts at any given time. Acceptance rates fluctuate from 20 to 60 percent based on the number of applicants each year. Though CMSP has only been instituted for four full semesters, there is an on-going effort to increase the comprehensiveness and size of the program.

“There is a push to expand beyond here,” said Marco Barker, CMSP’s lead administrator and the senior director for education, operations, and initiatives in the Diversity and Multicultural Affairs unit. “It is our hope to be able to double the program and, ultimately, accept any student that wishes to participate.”

There are also plans to create a living-learning community for scholars to live and attend class amongst one another in an environment of shared academic goals and interests. Additionally, Barker ultimately wants to have a course and financial award tied in to the program.

For both those currently enrolled in CMSP and upperclassmen who have completed the program, becoming a part of the Carolina community as a whole is of the utmost importance. Sophomores Vidal Morales-Santos and Shiva Sethi are this year’s co-chairs for CMSP. Juniors Luis Guerrero and Marty Davidson II, both previous co-chairs, are in
their first year as alumni. Between them, they possess membership, leadership, or employment in more than 20 positions across campus, with most other CMSP scholars being equally engaged in the Carolina community.

“It’s the kind of program that gives us the confidence to seek other opportunities,” said Sethi, a global studies major. “The informal learning is just as important as the formal aspects of the program.”

Though they were welcomed to Carolina just a few years ago by CMSP, Sethi, Davidson, and Guerrero each find themselves introducing first years to Carolina in their own right. All three serve, or served, as orientation leaders, giving incoming students their first real taste of what it means to be a Tar Heel. Sethi and Guerrero work as resident advisors in Granville Towers and Hinton James Residence Hall, respectively, serving as mentors for students as they commence their college careers.

To Morales-Santos, a global studies major, CMSP’s notion of family stands out the most. In an effort to ensure that those that share his background can feel comfortable and welcome at Carolina and in the United States, he serves as a member of Students for Immigration Rights and the Carolina Hispanic Association. He and Sethi also plan activities within CMSP to keep the cohorts engaged with the program and one another.

“You come in as a freshman and don’t really know anyone, but that first day of meeting everyone makes for a great experience,” said Morales-Santos of his introduction to CMSP. “You see people that are similar in their backgrounds and beliefs. It makes you feel like you’re coming to UNC and finding a little family.”

Guerrero, an economics and global studies double major, and Davidson, a political science and public policy double major, point to the networking pillar of CMSP as the most critical. Time spent with one another, as well as opportunities to speak with Vice Chancellor Winston Crisp and other leaders around campus, served as a rewarding experience and opened doors for both of them. As alumni, former CMSP scholars continue to receive communication from the program and are encouraged to continually participate in CMSP activities. Both Guerrero and Davidson remain involved with CMSP, and while they applaud the progress they’ve witnessed, they hope the University will continue working towards a more representative Carolina.

“The idea is to create a means of inspiration for other minority males to increase retention rates and let them see that there are people doing well on this campus,” said Davidson of CMSP. “Our interests are in everyone’s interests and there’s still more to be done.”
The University of North Carolina at Chapel Hill continues to put an increased focus on entrepreneurship and innovation outside of the classroom. In 2010, the University adopted the Innovate@Carolina initiative to enable students, faculty, and researchers to address society’s most pressing issues and develop solutions. The Innovation Scholars Program, founded in fall 2010 as a facet of Innovate@Carolina, provides financial and advisory support to students that take a non-traditional approach to problem solving.

“The idea was that if we have this program as a recruitment tool for the outside-the-box doers, the quirky thinkers, then we have the opportunity to bring them into the growing culture of entrepreneurship at Carolina,” said Lizzy Hazeltine, the former director of the Innovation Scholars Program.

Buck Goldstein, the entrepreneur in residence at Carolina, and his friend Doug Mackenzie were the first to explore the idea of a scholarship program that rewarded students for something other than the conventional criteria such as academic achievement and intellectual curiosity. Qualified candidates have gone above and beyond as young people to pursue innovative solutions through to the actual developmental stage. Additionally, to get to the developmental stage, many of the scholars have faced and overcome adversity throughout the innovation process.

Goldstein took Information America, a database that made public courthouse records accessible to lawyers in their offices via remote terminals, from inception to its initial public offering. He also started his own venture capital firm, NetWorth Partners, and co-authored *Engines of Innovation: The Entrepreneurial University in the Twenty-First Century* alongside former Chancellor Holden Thorp. Mackenzie also started his own venture capital firm, Radar Partners, which focuses on early stage investments in technology companies, having spent a large part of his career with the well-respected venture capital firm Kleiner Perkins Caufield & Byers (KPCB).

Innovation Scholars are guaranteed admission into the Minor in Entrepreneurship at UNC as well as access to Goldstein’s first year seminar, in which groups of students are provided a stipend to launch their own startup. Hazeltine
and Goldstein also serve as a direct line of advice and mentorship for scholars as they embark on new projects. Despite the entwinement of the Minor in Entrepreneurship with the program, the emphasis of the program is less on pushing students to create profitable businesses and more toward enabling students to innovate with an impact.

“Students are not obligated to take us up on the entrepreneurship course offerings,” said Hazeltine. “None of them are cut with the same cookie cutter, and we know the program has to be about providing the support system they need for whatever they may be interested in pursuing.”

The Innovation Scholarships, awarded by the Office of Scholarships and Student Aid, are divided into three categories, each of which provides students with the equivalent of full tuition, fees, and room and board. Each year, the Mackenzie Family Foundation Innovation Scholarship supports three scholars with the Holden H. Thorp Innovation Scholarship. The Frederick J. Houk Jr. Innovation Scholarship provides for one scholar every four years. Houk, who passed away in 2007, was the co-founder of Counter Culture Coffee, one of North Carolina’s leading specialty coffee roasters.

Sarah Browning, a senior global studies major with minors in entrepreneurship and medical anthropology, is a Houk Scholar. As a senior in high school, Browning led North Carolina’s first team to the International Great Moon Buggy Race hosted by NASA. As part of the challenge, students had to design, build, and race a human-powered moon rover across moon-like terrain in Huntsville, Alabama. Browning feels this may have distinguished her as a candidate for the Innovation Scholars Program, particularly in terms of facing adversity.

“We did horribly. We actually won the ‘Crash and Burn’ Award,” said Browning. “But, we definitely put our high school on the map and showed what we can do in our respective fields.”

Browning looks most fondly upon the mentorship facet of the program. Hazeltine helped her find an opportunity to shadow researchers in Professor Joseph DeSimone’s lab, which ultimately led her to transition from biology to global studies, and Goldstein has always been willing to offer his expertise. Browning also does some mentoring of her own as a student intern at CUBE, or Creating University-Born Entrepreneurs. The organization offers workspace, $5,000 in seed money, and pro-bono support and mentorship to up to 10 ventures.

Scholars’ interests vary widely and include biomedical engineering, art, and environmental science. Joining them together, however, is a shared restlessness, said Hazeltine. Ali Hasan, a sophomore and Mackenzie Family Innovation Scholar, certainly displays this restlessness, having already developed and sold software and iPhone apps.

“I never really focused on SATs or anything like that. Schoolwork wasn’t the biggest thing for me,” said Hasan. “I did what I enjoyed, and a lot of that was making my own stuff.”

This past summer through this semester, he has worked with QDuality, a company founded at the Massachusetts Institute of Technology that has discovered a method for producing spectroscopic tools at a fraction of their normal cost. Such devices are used to detect drugs, explosives, chemical weapons, and even cancer. In his free time, Hasan likes to play the bass and drums with friends.

With his future in front of him, Hasan would like to contribute to the development of sustainable transportation technology. For now, he is certain he has the resources to continue to pursue his interests. In addition to providing advice, Mackenzie put Hasan in touch with the experts at KPCB, who know what it takes to make a viable business. Another person fostered the connection between Hasan and the co-founder of QDuality.

“The biggest thing is the network of people I have now,” said Hasan. “I couldn’t have gotten the type of mentorship and advice offered through the program anywhere else.”

Scholarship supporting one scholar. The Frederick J. Houk Jr. Innovation Scholarship provides for one scholar every four years. Houk, who passed away in 2007, was the co-founder of Counter Culture Coffee, one of North Carolina’s leading specialty coffee roasters.

“I couldn’t have gotten the type of mentorship and advice offered through the program anywhere else.”

— ALI HASAN
The Fund is constructed to achieve its primary investment objective over a long-term horizon. By investing for the long term, the Fund can capture extended trends in markets and the illiquidity premiums associated with investments in private securities. Investing for the long term also allows the Fund to maintain focus in the face of short-term market events and disruptions. Measured tactical tilts in asset allocation, however, allow for short-term market dislocations to be opportunistically captured. While short- to medium-term performance is actively monitored, our primary focus remains on our long-term return objective which could result in underperformance from time to time.

The Fund’s long-term return objective is to generate a real (inflation adjusted) return in excess of 5.5 percent, thus maintaining the after-spending purchasing power of the underlying funds. The Fund has met this objective for the ten-year period ending June 30, 2014, as the Fund returned 9.2 percent on an annualized basis, which outpaced SIPP by 0.5 percent, and ranked the Fund in the top quartile of the BNY Mellon Endowment and Foundation Universe. Figure 11 on page 22 illustrates the comparative value created by investing $100 on July 1, 2004 through the end of fiscal year 2014 in each of the Fund, the SIPP benchmark, the Global 70/30 portfolio (consisting of 70 percent invested in the MSCI All Country World Index and 30 percent in the Barclays U.S. Aggregate Bond Index), and the S&P 500 Index. Over this time period, an investment of $100 in the Fund would have produced $241, compared to $230 for the SIPP benchmark, $197 for the Global 70/30 portfolio, and $212 for the S&P 500 Index.

During this ten-year period, each of the Fund’s asset classes generated a positive return and, with the exception of Real Estate, exceeded their benchmark return. Investments
in private securities were the best performers over the period with Energy & Natural Resources and Private Equity returning 17.7 percent and 14.6 percent, respectively. These returns confirm the notion that, over the long term, investors in private securities are rewarded for assuming an illiquidity risk premium. The Fund’s Long/Short Equity allocation also added substantial value returning 9.1 percent versus 5.4 percent for its benchmark. This 9.1 percent return exceeds the 7.5 percent annualized return generated by the broader equity market as measured by the MSCI All Country World Index. Figure 12 shows the ten year returns for each of the seven primary asset classes versus their respective SIPP benchmarks.

For the three-and five-year periods ended June 30, 2014, the Fund generated a 9.8 percent and 10.3 percent annualized return, respectively, achieving the Fund’s primary return objective. These returns compare to the 8.5 percent and 11.7 percent returns earned on the Global 70/30 portfolio over the same periods. Figure 9 above details the Fund’s return for each of the last five fiscal years.

As well as maintaining a long-term investment horizon, the Fund is also constructed to protect capital in down markets while participating in market rallies. This is achieved through the extensive degree of diversification created by investing across SIPP’s seven primary asset classes. Figure 8 on page 20 displays the Fund’s total returns during those periods over the past ten years when the S&P 500 Index dropped more than 10 percent. This figure illustrates that during periods of market stress, the Fund provided downside protection and sustained just a fraction of the market’s losses. By investing for the long term, tactically shifting between asset classes on a short-term basis, and selecting top performing investment managers, the Fund has been successful in achieving its primary return objective with low volatility and embedded downside protection.
FIGURE 11
CUMULATIVE PERFORMANCE
(10 years ended June 30, 2014)

On a cumulative basis the Fund has outperformed its SIPP benchmark, the 70% MSCI ACWI / 30% Barclays U.S. Aggregate Bond Index, and the S&P 500 Index over the past 10 years.

FIGURE 12
ASSET CLASS RETURNS VS. SIPP BENCHMARKS
(10 years ended June 30, 2014)

Over the long term, each of the Fund’s seven major asset classes has produced a positive return with all but one exceeding their benchmark.
The Management Company has been appointed by the Board to provide, under its supervision, investment and administrative services to the Fund. These include identifying, analyzing, and selecting external investment managers and tactical opportunities, monitoring the Fund’s performance, and serving as a liaison between the Fund and its Members through regular communication and performance reporting.

The Management Company was formed under Section 501(c)(3) of the Internal Revenue Code as a nonprofit organization. With 31 employees, the Management Company is divided across three functional areas: Investment Management, Investment Operations & Finance, and Investment Communications.
Fund Members

1 | The Botanical Garden Foundation, Inc.
2 | Carolina for Kibera, Inc.
3 | The Dental Foundation of North Carolina, Inc.
4 | The Educational Foundation, Inc.
5 | The General Alumni Association
6 | The Golden Fleece Foundation
7 | The Kenan-Flagler Business School Foundation, Inc.
8 | The Medical Foundation of North Carolina, Inc.
9 | The Morehead Scholarship Foundation, Inc.
10 | The Morehead-Cain Foundation
11 | The North Caroliniana Society, Inc.
12 | The Order of the Grail/Valkyries Foundation
13 | The School of Government Foundation, Inc.
14 | The School of Journalism and Mass Communication Foundation of North Carolina
15 | The School of Social Work Foundation, Inc.
16 | The UNC Eshelman School of Pharmacy Foundation
17 | The UNC Law Foundation, Inc.
18 | The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc.
19 | The University of North Carolina at Chapel Hill Endowment Fund
20 | The University of North Carolina at Chapel Hill Foundation, Inc.
21 | The University of North Carolina at Chapel Hill Foundation, Inc. Gift Annuity Program
22 | The University of North Carolina at Chapel Hill Intermediate Pool
23 | The University of North Carolina at Chapel Hill School of Education Foundation, Inc.
24 | The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.
25 | The University of North Carolina at Chapel Hill School of Public Health Foundation, Inc.
26 | The University of North Carolina at Chapel Hill Temporary Pool
27 | The University of North Carolina Dental Alumni Association