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Overview

The Fund

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 26 other participants represented in CHIF. A complete list of participants can be found on page 24. These entities are comprised of more than 2,000 individual underlying funds.

By investing in the Fund, Members receive:

- 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

Primary Objective: Support the current and future needs of the Fund’s Member institutions by generating, in perpetuity, a predictable and stable stream of annual 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 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
We are pleased to present the fiscal year 2016 Annual Report for The UNC Investment Fund, LLC (“UNCIF” or “Fund”). It was a difficult year for UNCIF, with the Fund recording a disappointing -2.0 percent net investment return. This is the Fund’s first fiscal year loss since the financial crisis in FY 2009 and only its second down year since it was formed in 2002 with CHIF being its founding member.

Over the past couple of decades, many university endowment funds, including UNCIF, have adopted the “endowment model” approach to portfolio management. Under this approach, the Fund’s assets are invested in a highly diversified, multi-asset class portfolio that includes significant allocations to alternative assets. Over the long term, this approach has served the Fund well. In FY 2016, however, diversification away from U.S. equities and bonds had a negative impact as U.S. equities significantly outperformed international equities and domestic fixed income generated very strong returns, while many alternative assets, including hedge funds and energy-oriented investments, generated weak returns. Illustrating the challenging investment environment for endowments in FY 2016, the median return of the Cambridge Associates universe of 162 university endowment funds was -2.7 percent.

On a brighter note, UNCIF’s disappointing performance in FY 2016 followed a period of relatively strong performance. As a result, the Fund’s three- and five-year returns of +7.4 percent and +7.2 percent, respectively, remain attractive on both an absolute and relative basis ranking in the upper quartile of the Cambridge Associates university endowment universe for both periods.

Reflecting UNCIF’s negative return in FY 2016, the Fund’s assets decreased by $93.6 million to finish the year at $4.5 billion. Over the past five years, however, the Fund has grown, as a result of both investment gains and contributions from Members, by nearly 60 percent, an increase of more than $1.6 billion.

We are currently operating in a low return environment marked by historically low interest rates, high equity valuations, and weak global growth. We believe these conditions will persist going forward, at least for the medium term, which makes seeking pockets of opportunities to enhance the Fund’s return potential imperative. Despite the Fund’s disappointing FY 2016 return, we remain disciplined and committed to our 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.

Speaking for the 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 as we reflect upon FY 2016 and sharpen our pencils for FY 2017.
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 at least 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 intermediate-term recommendations of the Management Company. With its collective financial market expertise and extensive experience, the Board serves as an invaluable resource to the Management Company in its mission to deliver exceptional risk-adjusted returns.

DAVID CARROLL
Senior Executive Vice President, Wells Fargo & Company

MAX CHAPMAN JR.*
CHAIRMAN
Chairman, Gardner Capital Management

HAYWOOD COCHRANE
Chairman, Corium, Inc.

DAVID CRAVER
Managing Director, Lone Pine Capital LLC

JOHN ELLISON JR.*
President & Chief Executive Officer, The Ellison Company, Inc.

MATTHEW FAJACK*
TREASURER
Vice Chancellor for Finance & Administration, The University of North Carolina at Chapel Hill

CAROL FOLT
Chancellor, The University of North Carolina at Chapel Hill

MICHAEL KENNEDY
Senior Client Partner, Korn Ferry

SALLIE KRAWCHECK
CEO & Founder, Ellevest & Chair, The Ellevate Companies

STEVEN LERNER
Founder & Managing Partner, Blue Hill Group

WILLARD OVERLOCK JR.*
Retired Partner, Goldman Sachs Group, Inc.

DAVID ROUTH
SECRETARY
Vice Chancellor for University Development, The University of North Carolina at Chapel Hill

NELSON SCHWAB III
Senior Advisor, Carousel Capital

SALLIE SHUPING-RUSSELL
VICE PRESIDENT
Managing Director, BlackRock

DWIGHT STONE
President & Chairman, D. Stone Builders, Inc.

JOHN TOWNSEND III*

*Executive Committee Member
As of June 30, 2016
### Portfolio at a Glance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value ($ millions)</td>
<td>$4,549.6</td>
<td>$4,643.2</td>
<td>$4,137.3</td>
<td>$3,554.0</td>
<td>$3,175.5</td>
</tr>
<tr>
<td>Fund Return</td>
<td>-2.0%</td>
<td>9.3%</td>
<td>15.7%</td>
<td>12.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>SIPP Benchmark Return</td>
<td>-0.8%</td>
<td>3.2%</td>
<td>15.0%</td>
<td>10.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Fund Asset Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Biased Equity</td>
<td>26.2%</td>
<td>29.1%</td>
<td>29.8%</td>
<td>29.0%</td>
<td>24.5%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>19.3%</td>
<td>20.0%</td>
<td>19.1%</td>
<td>18.3%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>8.0%</td>
<td>7.3%</td>
<td>9.6%</td>
<td>10.6%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8.5%</td>
<td>7.9%</td>
<td>8.0%</td>
<td>8.3%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>20.9%</td>
<td>19.4%</td>
<td>17.6%</td>
<td>18.1%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7.3%</td>
<td>6.7%</td>
<td>6.8%</td>
<td>7.5%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>5.8%</td>
<td>5.1%</td>
<td>6.5%</td>
<td>7.0%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Cash</td>
<td>3.9%</td>
<td>4.5%</td>
<td>2.6%</td>
<td>1.2%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
Fiscal Year 2016 Overview

Fiscal year 2016 (twelve months ended June 30, 2016) presented a challenging financial market environment for university endowments. Most endowments failed to achieve a positive return for the fiscal year as diversification away from traditional U.S. stocks and bonds negatively impacted investment performance. Over the past couple of decades, university endowment funds have significantly reduced their allocation to domestic equities in favor of global equities. This tilt detracted from performance during the year as U.S. equities markedly outperformed international equities in both developed and emerging markets. In FY 2016, the S&P 500 U.S. equity index recorded a +4.0 percent gain while the MSCI EAFE (Europe, Australasia, Far East) index, reflecting developed international equity markets, was down -10.2 percent and the MSCI Emerging Markets equity index lost -12.1 percent. In addition to an increased exposure to global equities, university endowments have also increased their exposure to hedge funds and energy-oriented investments. Both of these asset allocations hurt performance during the fiscal year with the HFRI Equity Hedge Index, a measure of equity-oriented hedge fund performance, returning -5.1 percent (lagging both the S&P 500 Index and the MSCI All Country World Index) and the energy-heavy S&P Goldman Sachs Commodity Index extending its losses from the prior fiscal year, losing a further -26.1 percent. While university endowments have increased their exposure to global equities, hedge funds, and energy-oriented investments, they have cut allocations to traditional fixed income instruments. This allocation underweight detracted from their fiscal year performance as high quality long-term bonds outperformed most major asset classes. The Bloomberg Barclays U.S. Aggregate Bond Index was up +6.0 percent for the year while the Bloomberg Barclays Long-Term Government Credit Index recorded an impressive +15.7 percent return.

Similar to other university endowment portfolios, the UNC Investment Fund struggled in FY 2016, generating a -2.0 percent loss for the year. The Fund’s FY 2016 return is disappointing on an absolute and relative basis with the year’s return trailing both the -0.8 percent return of the Fund’s primary benchmark, the Strategic Investment Policy Portfolio (“SIPP”), and the -0.7 percent return of a more traditional Global 70/30 Portfolio comprised of 70 percent global equities (MSCI All Country World Index) and 30 percent bonds (Bloomberg Barclays U.S. Aggregate Bond Index). However, relative to peers, the Fund’s FY 2016 return ranks solidly in the second quartile of the Cambridge Associates College & University universe of endowment funds (“Cambridge Associates Universe”).

**FIGURE 1**

Asset Class Returns vs. SIPP Benchmarks
Fiscal Year 2016

Strong returns from the Fund’s Private Equity and Real Estate allocations tempered weak performance from exposure to public equity markets during the year.
For the fiscal year, only two of the Fund’s seven primary asset classes generated a positive return. However, four out of seven exceeded their benchmark. Private Equity and Real Estate drove performance returning +8.2 percent and +10.8 percent, respectively. Private Equity was also the Fund’s top relative performer for the year, beating its benchmark by 4.7 percent. Long Biased Equity and Long/Short Equity detracted from performance. With a -8.8 percent return for the year, Long Biased Equity trailed its benchmark by 5.1 percent. This weak relative and absolute performance resulted, in large part, from the significant underperformance of a number of the Fund’s equity managers that had been strong performers over the last two years and essentially gave back a portion of their prior outperformance. Fixed Income was the Fund’s weakest relative performer, trailing its benchmark by 6.8 percent. The Fund’s Fixed Income portfolio is underweight long-term government bonds which was one of the best performing asset classes over the period. Energy & Natural Resources had another negative year returning -10.9 percent amid continued low oil prices.

During the year, despite contributions by Members, the Fund’s market value decreased slightly to finish the fiscal year at $4.5 billion. Notwithstanding the slight dip in market value in FY 2016, figure 3 on page 9 details the more than $1.6 billion dollar increase in the Fund’s market value over the past five years, which includes $1.4 billion in net investment gains.

We are currently operating in a low return environment that, with weak global economic growth, historically low (and in some instances even negative) global interest rates, and high equity valuations, we expect to persist over the medium term. Given the current risks and uncertainties in financial markets, we maintain that focusing on capital preservation and downside protection is the most prudent course of action in the near term. This, coupled with the notion that virtually no major asset class is “cheap” on a historical basis with the forward looking return profile for most asset classes tending to be muted, has led us to favor those investment opportunities that provide modest returns with less volatility rather than more aggressive strategies.

The Fund generated a -2.0 percent investment return for FY 2016 marking its first negative fiscal year return since 2009. While we, at the UNC Management Company, are disappointed with this result, we remain committed to achieving the Fund’s primary long-term objective: supporting the Fund’s Members in perpetuity on an inflation adjusted basis. However, despite the challenges seen during FY 2016, the Fund’s three and five-year annualized returns (+7.4 percent and +7.2 percent, respectively) exceed this objective and rank in the top quartile of the Cambridge Associates Universe.

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Over the past five years, the Fund’s market value has grown by nearly 60% with net investment gains over the period of $1.4 billion.

FIGURE 3
UNC Investment Fund Market Value ($ millions)
As of June 30
The Fund’s primary objective is to support the current and future needs of its Member institutions by generating, in perpetuity, a predictable and stable stream of annual 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 8.0 percent to achieve its primary objective: the spending rate (usually around 5.5 percent) plus inflation (around 2.5 percent).

While this objective is straightforward in concept, it is a challenge to achieve in practice. To achieve 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 with 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 managers that possess highly specialized skills, an ability to think independently, and 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 uncertainty of financial markets. Risk management is a core tenet woven throughout our investment process and diversification serves as one of our primary risk management tools. We believe that 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 risk/return 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
- Reliance on equity-related investments, both in public and private markets, to achieve long-term return objectives
- Significant allocation to private investments to capture the associated illiquidity premium
- Emphasis on equities over fixed income securities to reflect the Fund’s inflation sensitivity

Each of the seven underlying asset classes within SIPP provides different benefits to the overall portfolio across different market conditions.
environments. The Fund is allocated across the different asset classes through investments with a number of investment managers chosen following a rigorous selection process.

**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 publicly 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.

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**FIGURE 4**

**Strategic Investment Policy Portfolio**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Allocation</th>
<th>Strategic Target</th>
<th>Tactical Range</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Biased Equity</td>
<td>26.2%</td>
<td>27.0%</td>
<td>20 – 35%</td>
<td>MSCI All Country World Index (“ACWI”)</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>19.3%</td>
<td>18.0%</td>
<td>12 – 24%</td>
<td>Hedge Fund Research Institute (“HFRI”) Equity Hedge Index</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>8.0%</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>8.5%</td>
<td>10.0%</td>
<td>5 – 18%</td>
<td>30% BB L-T Gov’t/Credit, 30% BB U.S. Aggregate, 20% BB Corporate HY, 20% 90-Day T-Bill(2)</td>
</tr>
<tr>
<td>Private Equity</td>
<td>20.9%</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>7.3%</td>
<td>8.0%</td>
<td>5 – 12%</td>
<td>90% NCREIF / 10% NAREIT</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>5.8%</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>3.9%</td>
<td>0.0%</td>
<td>0 – 10%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(1) As of June 30, 2016
(2) 30% Bloomberg Barclays U.S. Government/Credit Long Term Index, 30% Bloomberg Barclays U.S. Aggregate Bond Index, 20% Bloomberg 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 primarily 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. Real Estate markets can also be markedly inefficient and, as such, provide significant potential for investment gains.

Energy & Natural Resources
Asset class comprised of investment managers that purchase oil, natural gas, power, and other commodity-related investments. 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 allocations to each of the primary asset classes can have a significant impact on an investment portfolio’s absolute 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, 2016, is illustrated in Figure 4 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 over-priced. These decisions may lead to pronounced deviations from the strategic targets 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 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 2016, the Board elected to increase the spending distribution rate from $427 to $432 per CHIF unit. This increase resulted in an annual distribution rate of 5.0 percent of ending market value, which falls within the policy guidelines. In the prior year, the distribution rate was 4.6 percent. Over the past ten years, CHIF’s distribution rate has grown at an annualized rate of 2.1 percent which is in line with inflation as measured by the CPI.
While the annual spending distribution rate has fluctuated, the amount distributed from the Chapel Hill Investment Fund has grown sustainably over the past five years providing continued support to University programs.
Global Gap Year Fellowship

The Global Gap Year Fellowship is the only college-sponsored gap year program that allows students, through a $7,500 award, to design their own gap year experience with a minimum of six months of service abroad required. A gap year is an experiential period typically taken between high school and college that includes international travel, work, study, volunteering, and research used to deepen practical, professional, and personal awareness. Sarah Smith, the full-time staff member supporting the program, says the selection committee seeks out individuals who are both curious and adaptable and who would not have had the ability to travel abroad without the program. Many selected for the fellowship come from underrepresented groups in rural areas of the state, with some recipients not having a passport prior to participating in the program.

At the first meeting for Global Gap Year Fellowship recipients, first year Talpa Everette distinctively remembers a globe put in front of her and her fellow gap year scholars and being told they can go wherever their fingers land on the globe. She said the program really encouraged her to find a place she was not only interested in but that would also challenge her. “We were told there are places that are going to fit and some places that will have little appeal,” Everette said. Originally, she wanted to go to Africa but budget limitations meant that Jamaica became a more feasible option. With existing connections to Jamaica, she also chose to travel to Ecuador to broaden her cultural experience.

During her time in Ecuador, she worked with cocoa farmers pursuing social enterprise and entrepreneurship. Together, they brainstormed uses for cocoa bean shells that were being thrown away and found a use for them by steeping the shells to make cocoa tea. Selling the tea also provided the farmers with additional income. Everette says the experience was a culture shock at first particularly with the language barrier.

After Ecuador, Everette lived in Jamaica, where she felt at home. “The people were so generous even if you were a stranger,” she said. “Even though here (at Carolina) I’m only two hours from home I feel homesick but I did not feel that way in Jamaica.”

In Jamaica, she focused on social entrepreneurship, volunteering at a women’s shelter and helping residents make crafts they could sell to generate income. “Working at the shelter made me appreciate what I have and the resources I have available to me. A lot of women there had experienced relationship abuse and had fallen on hard times,” she said. “Working with them made me very grateful for what I have and to be able to offer my services to those in need. I was also able to witness firsthand the infrastructure required to effectively help these women succeed.”

While in Jamaica, Everette also connected with a leading IT professional in her local community and started a business to increase computer literacy through a web-based application. “He had the expertise pertaining to the technology and I had a grasp on the business aspect which together allowed us to create the business,” she says. With the business now registered in both the United States and Jamaica, she is applying it for the Campus Y Incubator. “The Global Gap Year Fellowship has definitely expanded...
my understanding of certain issues within the United States and I've matured. I can connect to and understand deeper levels of a person’s point of view and perspective based on culture,” she said. “I also found family in a way. Jamaica has become a home for me and my time there was a means of finding myself.”

One of the requirements of the Global Gap Year Fellowship is that recipients must apply early admission to Carolina. Gaby Aleman, a first year who traveled to Sri Lanka and Indonesia, first discovered the fellowship during her senior year of high school and quickly started the application process so she could meet this requirement.

Aleman considered Asia and South America for her gap year experience, ultimately choosing Asia because she had limited exposure to the Asian culture. She also felt there were a lot of countries and cultures in Asia she wanted to gain firsthand knowledge of, particularly Sri Lanka and Indonesia. “I decided that if I was going to have a scholarship that was going to fund me to do this work abroad I would much rather open my world view and go someplace I’d never been before,” she said. During her gap year, Aleman volunteered at an orphanage as well as an after school program teaching English.

Aleman found the fellowship’s flexibility to be one of its best aspects. “They didn’t tell us where we needed to go, they just reminded us that the world is our oyster. That kind of freedom is wonderful because it allows us to do something that we really care about in a place that we also care about,” she said. “The University let us choose where we wanted to go while ensuring that the places we traveled to are safe and that the work we would be doing is ethical. Having such autonomy and the University’s support is incredible - it really makes each individual's experience personal.”

After her time abroad, Aleman realized that while she appreciated being in Asia, she wanted to return to her roots and focus her academic efforts on Latin American studies and public policy. “To me, really getting down into the nitty gritty of existing laws and law making is really interesting.” Aleman also felt the experience motivated her. “It made me more ambitious and ready to come back to college and take advantage of what Carolina has to offer,” she said. “I was more outgoing and focused on what I wanted to do.” To give back to the Campus Y, Aleman serves as the co-chair of the Global Circle, a group that works to help those abroad engage in ethical volunteer work and also serves as a resource for those going abroad.

While most gap year fellows engage with more than one community during their year abroad, Thomas Elliott, a sophomore, spent the entirety of his time in South Africa. Working in the Sociology department at the rural outpost of the University of Johannesburg, Elliott conducted research with a professor of socio-ecology studying the ways human interaction impacts the environment and what it means for climate change.

Although he applied to Carolina with the intention of studying environmental science, Elliott found himself particularly drawn to the people, history, and language of South Africa. Each Friday, the people on the facility would gather for Braai, a South African barbecue, to discuss and share their research. “There is this idea of me, this kid just out of high school, with a team of accomplished academics in South Africa,” he said. “We would have never of socialized outside of this context, which made this global gap year experience truly incredible.”

He also enjoyed the academic environment in the rural setting. “Now that I am back at Carolina, I am able to take all these new interests and make them more of a direct academic focus,” he said. “My time in South Africa led to a total change in what I was initially interested in and has encouraged me to pursue my genuine interests.” Following his gap year, Elliott has shifted his academic studies away from environmental science to political science and history. Originally from the Netherlands and fluent in five languages, he also wants to pursue European studies, focusing on global development.

Outside of developing his academic interests, Elliott said he has gained a newfound confidence and sense of independence from his time abroad. “It’s almost inevitable that you come back from a gap year more independent, cooking and cleaning for yourself and learning how to cope alone in most situations,” he said. Above all, Elliott values the different perspective the gap year has afforded him and how this has allowed him to connect with different communities on campus and beyond. “The gap year has given me a greater appreciation for the value of diversity and it has also allowed me to take a step back from my own culture and be more critical of how I interact with society,” he said.
The idea for the Carolina Innovation Scholarship was born over a decade ago when Buck Goldstein, the University’s Entrepreneur in Residence and professor in the Department of Economics, and Holden Thorp, the University’s tenth Chancellor, were at a nationwide science fair hosted by MIT. “After we got there, Holden remarked that we needed to get some of these kids to study at UNC — and that’s the beginning of the Innovation Scholarship,” Goldstein said. Their idea was to build Carolina’s reputation for fostering and supporting innovative talent to allow it to compete with other schools already established for their innovation programs such as MIT and Stanford.

Once back at Carolina, Goldstein and Thorpe set out to build the program, ensuring it was unique and offered potential scholars something they couldn’t obtain anywhere else. “We found some donors and built a program around it — one that not only provides tuition support, but that also offers mentoring and resources for these students to thrive here,” Goldstein said. “In choosing scholars, we are not looking for someone who has joined every club, we are looking for real innovators — they are a little out of the box.”

Two to six students are selected each year, depending on the level of available funding. “The scholarship is very competitive to earn but we are also competing with other schools. We don’t always know how many students we will take in any given year. If we take less one year, we can take more the next year. Sometimes we have our heart set and we lose someone to MIT or Stanford,” Goldstein said. “But we are in the game and we are able to attract kids to the University we would not even be able to be up to bat for without the Innovation Scholarship.”

Since its inception, the Innovation Scholars program has grown tremendously both in terms of reputation and impact. “The scholars have an impact beyond just themselves,” Goldstein said. “While we do not have any ‘Googles’ or ‘unicorns’ stemming from the program just yet, they are not the only ways to measure the success of the program. Some of the Innovation Scholars have gone on to do research with others focusing on social entrepreneurship. Entrepreneurship is a way of thinking that each of the Innovation Scholars embodies. The program’s ability to cultivate innovative talent and the impact that this talent has had on Carolina has been phenomenal.”

Varun Amesur, a sophomore business administration major, said the scholarship was what ultimately drew him to Carolina. “Everyone on Scholarship Day was so welcoming and inviting which really gave me a sense of excitement to be a part of,” Amesur said. “The program’s structure and goals resonated with me. They aligned with my technology interests and the projects I was working on at the time.” Amesur was also drawn to the program’s flexibility and the freedom it gives innovators to pursue their interests. “The great thing is that you can do whatever you want, there is no required major and you don’t have to pursue the
Entrepreneurship minor,” he said. “It’s very flexible and the University supports you along the way.” He takes classes taught by mentors of the program, such as Charles Merritt and Buck Goldstein. There are also University entrepreneurs in residence who advise the scholars. “We learn and understand from their different perspectives. The entrepreneurs in residence come from a variety of backgrounds like media, advertising, and private equity,” he said. “They are the do-it-yourself kind of people.”

Although not required, most of the Carolina Innovation Scholars pursue Carolina’s Entrepreneurship minor. One of the minor’s required courses is Engines of Innovation. Through this course, Amesur was introduced to the “Silicon Revolution” Maymester. During Maymester, participants tour Silicon Valley and meet executives and alumni in the area. “We got a sense of what the culture is like in Silicon Valley which led me to think differently about potential strategies back at Carolina,” he said. “I’m applying my Maymester experience to my education here at UNC. It is very empowering and I can’t thank the program enough for the opportunity.” Inspired by the Maymester course, the Minor in Entrepreneurship program launched the Entrepreneurship in Silicon Valley research seminar this year. During the seminar, students move to Silicon Valley for a semester and complete a full-time internship along with academic work required for the Entrepreneurship minor.

Holland Blumer, a first year pre-business major, came to Carolina with entrepreneurial ventures under her belt. Following her internship with Melvin Jewelry, she founded Dewey Holland, an active-wear jewelry business. She also co-founded Cleo, an e-commerce business with a plug-in platform thatcompiles online shopping carts from high-end apparel retailers into one universal cart for checkout. Blumer and her co-founder of Cleo are actively working to test the company’s profitability and source partners in Chapel Hill. “I didn’t know Carolina had such a big entrepreneurship community until I heard about this scholarship,” Blumer said. “The program’s mentors have offered me so many resources. If I tell them I am looking for someone in a particular industry or a professor for academic support, they refer someone immediately.”

Besides covering the full cost of both tuition and housing, Innovation Scholars receive supplemental money to fund summer activities and experiences of their choosing. For Ellie Kravets, a senior biology major and marine sciences minor, the scholarship has supported her in pursuing public outreach and environmental education. She has used the supplemental funding to cover tuition costs for field-based course work in Montana’s Glacier National Park. “The enrichment funds remove a lot of the financial pressure and help me figure out what I want to do over the summer and find a way to do it,” she said. In addition to the course work, Kravets has spent time during the summer interning with a Louisiana based nonprofit organization conducting vegetation surveys.

Kravets said what she enjoys most about the program is the ability to tailor it to her interests and long-term goals. “The Innovation Scholarship has really been instrumental to me by providing base-level support as I figure out what I want to do after graduation and what is going to be a meaningful experience in the short term,” she said. “As long as I have a plan and can confidently communicate it, I am given the support I need to follow through with it which has been incredible for me.”

Eliza Filene, a junior, is particularly interested in social entrepreneurship. As a public policy major interested in pursuing a career in medicine, she is on the public health entrepreneurship track. With the scholarship’s support, Filene worked at a healthcare startup in Shanghai, China. “It was an amazing experience for me as I was able to understand how healthcare can really benefit from entrepreneurial thinking and how I, as a doctor, will be able to apply the concepts I have been learning in the classroom to how healthcare is delivered,” she said. “It also led me to think about health disparities across the globe and have a cultural experience that I would not have been able to have without the support of the Innovation Scholarship.”

Filene says the support of the scholarship gave her the necessary freedom to explore beyond traditional course work and take risks. “I think the whole point of the Innovation Scholarship is to broaden what a Carolina experience can look like by giving students more options and with that we are also able to find ways to give back to the community. The scholarship program introduces a new perspective and gives us the tools to have the ground impact whether that is on campus or across the ocean,” she said. “The scholarship doesn’t force us into a mold and each of us are fairly different. There is no single picture of what an Innovation Scholar is supposed to look like. Through the other scholars and with the support of the program, we all can explore the potential impact each of us could have by thinking entrepreneurially.”
The Fund is constructed to achieve its primary investment objective over a long-term time 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. Measured tactical tilts, however, in asset allocation allow for short-term market dislocations to be opportunistically captured. Investing for the long term also allows the Fund to maintain focus in the face of short-term market events and disruptions. While performance is actively monitored, our primary focus remains on our long-term return objective which can result in short- to medium-term underperformance.

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 15- and 20-year periods ending June 30, 2016, with the Fund returning +7.8 and +9.0 percent, respectively. However, despite ranking in the top quartile of the Cambridge Associates Universe and outpacing its primary benchmark, SIPP, the Fund’s +6.5 percent ten-year return falls short of this objective reflecting the negative impact of the 2007-2008 Global Financial Crisis. Figure 8 below illustrates the comparative value created by investing $100 on July 1, 2006 through the end of fiscal year 2016 in each of the Fund, the Fund’s SIPP benchmark, the Global 70/30 Portfolio (consisting of 70 percent invested in the MSCI All Country World Index and 30 percent in the Bloomberg 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 $188, compared to $181 for the SIPP benchmark and $160 for the Global 70/30 Portfolio. While the Fund trailed the $204 produced by an investment in the S&P 500 Index over the same period, the Fund achieved its return with less than half of the degree of risk, as measured by volatility, of 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 Private Equity returning +13.9 percent. This strong performance confirms the notion that, over the long term, investors

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**FIGURE 8**

**Cumulative Performance**

10 years ended June 30, 2016

On a cumulative basis over the last ten years, the Fund has outperformed both its SIPP benchmark and a more traditional Global 70/30 Portfolio with a significantly lower level of return volatility.

(1) 70% MSCI All Country World Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index
in private securities are rewarded for assuming illiquidity risk. The Fund’s Long/Short Equity allocation also added substantial value returning +6.5 percent versus +2.9 percent for its benchmark. More strikingly, this +6.5 percent return exceeds the +4.3 percent annualized return generated by the broader equity market as measured by the MSCI All Country World Index. Figure 12 shows the ten-year annualized returns for each of the seven primary asset classes versus their respective SIPP benchmarks.

For the three- and five-year periods ended June 30, 2016, the Fund generated a +7.4 percent and +7.2 percent annualized
return, respectively, achieving the Fund’s primary return objective of exceeding the sum of the spending rate plus inflation over the period. These returns compare to the +5.6 percent and +5.1 percent returns earned on the Global 70/30 Portfolio over the same periods. Figure 10 on page 21 details the Fund’s return for each of the last five fiscal years.

In addition to 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 11 on page 21 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, sustaining 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 12**
Asset Class Returns vs. SIPP Benchmarks

10 years ended June 30, 2016

Over the long term, each of the Fund’s seven major asset classes has produced a positive return with Private Equity driving performance.

The Fund and Investments in Alternative Energy

In September 2014, the Board of Trustees of the University of North Carolina at Chapel Hill passed a resolution requesting the Management Company research targeted investments for the University’s endowment assets that advance environmentally friendly clean energy strategies consistent with applicable asset allocation and investment objective policies. At the Management Company, we believe that supporting the development of alternative energy sources is the most effective and pragmatic way to assist in the important effort to reduce reliance on coal and other fossil fuel based energy sources.

**Fiscal Year 2016 Update**

- The Fund gained $3.2 million in exposure to new environmentally-minded investments
- At the end of the fiscal year, the Fund had $14.9 million in exposure to sustainable, clean energy focused investments
- The Management Company has highlighted sustainability as a topic of importance in its manager due diligence process adding it as an area of focus during on-site diligence meetings
- An increasing number of the Fund’s managers have identified sustainability as an important factor when evaluating businesses and appreciate its impact on risk and return
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 over 30 employees, the Management Company is divided across four functional areas: Investment Management, Investment Strategy & Risk Management, Operations & Finance, and Investor Relations & Communications.

Front row (left to right): Joshua Shapiro, Kevin Tunick, Bobby Williams, Elaine Brim, Margaret Holder, Ed Hetherington. Middle row (left to right): Shahir Amin, Deana Griffin, Nancy Pierce, Kimberly Woodlief, Angela Elam, Lauren Hong, Gina St. Phillips, Clay Robinson, Janine Vanzetta Burke, Jeffry Liu, Kay Day. Back row (left to right): Brook Scardina, Timothy Burch, Matt Lesesky, Jonathon King, Chris Rudolph, Juddy Mair, Rodgers Harshbarger, Chris Bartholomew, Jonathan Cornish, Anita Barber. Not pictured: Richard Flintzer, Paul Kindem, Angela Moss, Patrick O’Neil, Pam Shirley, Susan Smith, Ben Wendt.
Chapel Hill Investment Fund Participants

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 Media and Journalism 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