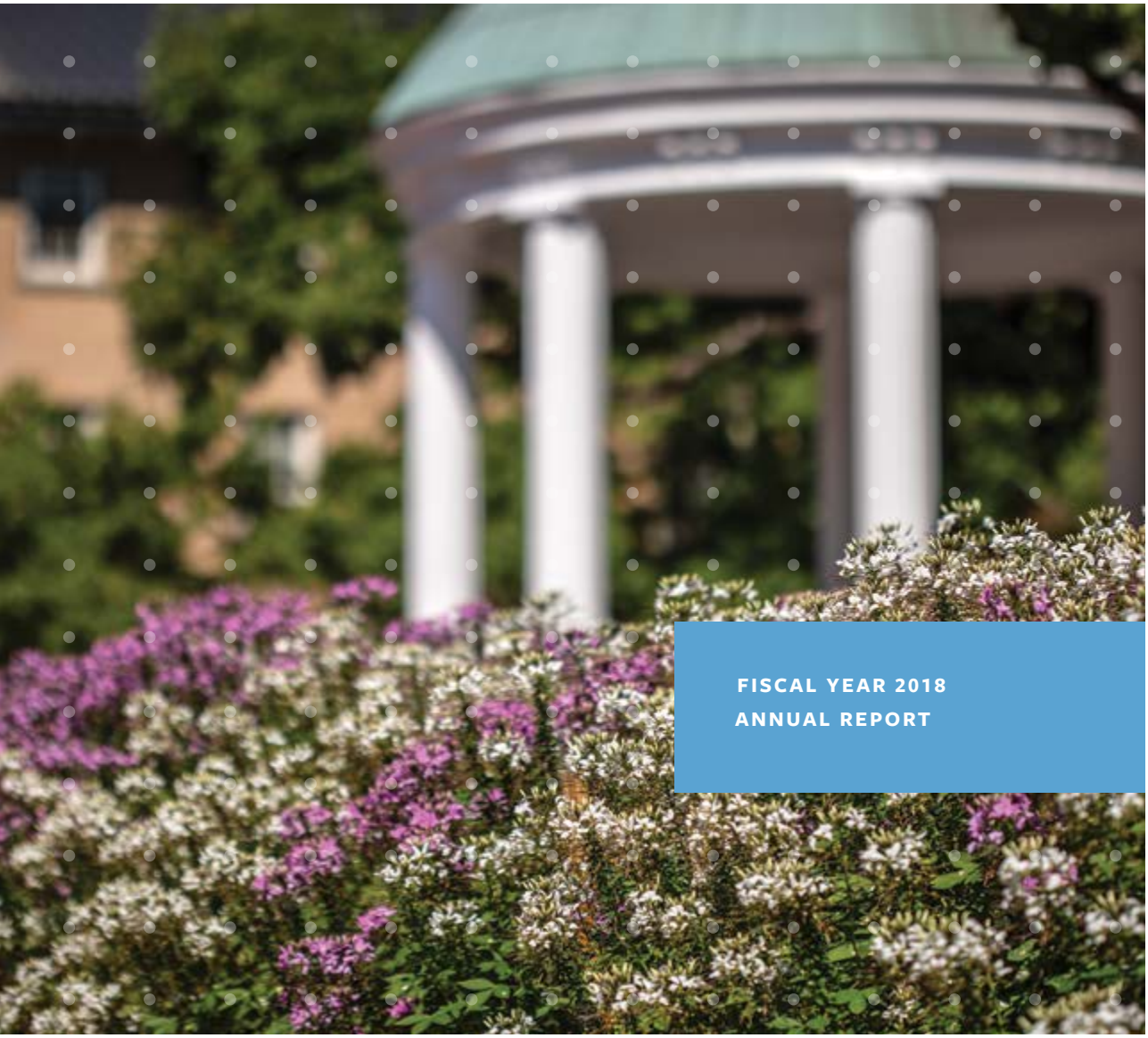
THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

FOUNDATION INVESTMENT FUND, INC.



FISCAL YEAR 2018
ANNUAL REPORT

UNCMC

UNC Management Company, Inc

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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 24 other participants represented in CHIF. A complete list of participants can be found on page 27. These entities are comprised of more than 2,000 individual underlying funds.

By investing in the UNC Investment Fund, CHIF receives:

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

THE INVESTMENT OBJECTIVES

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, which exceeds the Fund's primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"). More information on SIPP can be found on page 13.

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

Max C. Chapman, Jr.

Chairman, Gardner Capital Management
Chairman, Board of Directors, University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.

A MESSAGE FROM THE CHAIRMAN OF THE BOARD

It is my pleasure to present the Fiscal Year 2018 Annual Report for the UNC Investment Fund, LLC ("Fund") which the Chapel Hill Investment Fund ("CHIF") is invested in. In the most recent fiscal year ended June 30, 2018 ("FY 2018"), the Fund posted a solid +12.0 percent net investment return with the strong performance of global equity markets, led by domestic markets, acting as a substantial tailwind. 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 7.5 percent are deemed to have achieved this target. In addition to contributing to the Fund's long-term return objective, the FY 2018 return of +12.0 percent significantly outperformed the Fund's primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"), which recorded a +8.8 percent return for the year. The Fund's FY 2018 return is also strong relative to peers ranking solidly in the top quartile of the Cambridge Associates universe of college and university endowment funds. Over longer periods, three, five, and twenty years, the Fund's returns also rank in the top quartile relative to peers with the ten-year return ranking in the second quartile.

On the heels of strong investment gains across the portfolio, the Fund's net investment gain of $676 million over the year was the largest in its history with total Fund assets growing by $745 million from $5.4 billion at the start of the year to $6.2 billion at June 30, 2018. Over the past five years, the Fund has grown by nearly 75 percent (an increase of more than $2.6 billion) with an annualized investment return of +9.2 percent over the same period. Strong returns from the Private Portfolio's three asset classes (Private Equity, Real Estate, Energy & Natural Resources) drove the Fund's overall performance for the year with the Private Portfolio generating a +17.5 percent return in aggregate. Over longer time horizons, the Fund's Private Equity asset class has consistently generated strong results, illustrating the importance of the asset allocation process, where opportunistic asset classes such as Private Equity can add significant value over public equity markets. Over the past ten years, the Fund's Private Equity portfolio has produced a +12.0 percent net annualized return, more than doubling the +5.8 percent return of the broader global equity market (MSCI ACWI).

While I am pleased with the Fund's +12.0 percent return for FY 2018, both the Chapel Hill Investment Fund Board and UNC Management Company remain focused on and committed to achieving the Fund's primary long-term objective: generating an investment return that supports the University in perpetuity on an inflation adjusted basis. Together we continue to examine the Fund's asset allocation and manager line-up, evaluating managers across the globe to ensure the Fund is positioned to meet its objectives across varying market environments. We also seek out niche investment opportunities that will enhance the Fund's ability to meet its long-term objective and maintain our conviction in our investment philosophy and its key tenets of capital preservation and downside protection. Speaking for the entire Board as well as the staff of the UNC Management Company, we remain grateful for the continued support from the University and its donors.

After more than 25 years, I have decided to step down from the Chapel Hill Investment Fund Board and my role as its chair. It has been a privilege to work alongside my fellow Board members with their dedication, thoughtfulness, and expertise over the years proving invaluable as the Fund navigated various and often difficult market environments. It has also been a privilege to help build and develop the UNC Management Company. I am very proud of what both the Board and the UNC Management Company have accomplished in their pivotal role as stewards of the endowment assets of the UNC System.

CHAPEL HILL INVESTMENT FUND BOARD OF DIRECTORS

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 to discuss and debate asset allocation and investment policy and to monitor performance. The Board's Executive Committee meets more frequently to review intermediate-term recommendations made by 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.

Max Chapman Jr.*
CHAIRMAN
Chairman, Gardner Capital Management

Sallie Shuping-Russell
VICE PRESIDENT
Managing Director, BlackRock

Jonathan Pruitt*
TREASURER
Vice Chancellor for Finance & Operations, The University of North Carolina at Chapel Hill

David Routh
SECRETARY
Vice Chancellor for University Development, The University of North Carolina at Chapel Hill

James Keith Brown
Senior Managing Director-Partner, Coatue Management, LLC

David Carroll
Managing Member, Carroll Family Holdings, LLC

Haywood Cochrane
Chairman, Corium, Inc.

David Craver
Managing Director, Lone Pine Capital LLC

John Ellison Jr.*
President & Chief Executive Officer, The Ellison Company, Inc.

Carol Folt
Chancellor, The University of North Carolina at Chapel Hill

Michael Kennedy
Senior Client Partner, Korn Ferry

Steven Lerner
Founder & Managing Partner, Blue Hill Group

Willard Overlock Jr.*
Retired Partner, Goldman Sachs Group, Inc.

Nelson Schwab III
Senior Advisor, Carousel Capital

Dwight Stone
President & Chairman, D. Stone Builders, Inc.

John Townsend III*

AS OF JUNE 30, 2018
*EXECUTIVE COMMITTEE MEMBER

PORTFOLIO AT A GLANCE

	FISCAL YEAR AS OF JUNE 30				
	2018	2017	2016	2015	2014
CHIF Market Value ($ millions)	$3,427.1	$3,044.2	$2,782.7	$2,883.9	$2,640.0
UNCIF Market Value	$6,155.9	$5,411.2	$4,549.6	$4,643.2	$4,137.3
UNCIF Return	12.0%	12.1%	-2.0%	9.3%	15.7%
SIPP Benchmark Return	*8.8%*	*11.8%*	*-0.8%*	*3.2%*	*15.0%*
UNCIF Fund Asset Allocation					
Long Biased Equity	31.1%	31.0%	26.2%	29.1%	29.8%
Long/Short Equity	15.9%	17.8%	19.3%	20.0%	19.1%
Diversifying Strategies	9.1%	6.7%	8.0%	7.3%	9.6%
Fixed Income	8.9%	10.4%	8.5%	7.9%	8.0%
Private Equity	19.6%	19.2%	20.9%	19.4%	17.6%
Real Estate	6.0%	6.7%	7.3%	6.7%	6.8%
Energy & Natural Resources	7.2%	5.7%	5.8%	5.1%	6.5%
Cash	2.1%	2.5%	3.9%	4.5%	2.6%

FISCAL YEAR 2018 OVERVIEW

During Fiscal Year 2018, the twelve months ended June 30, 2018, positive global economic growth and solid corporate earnings were supportive of rising global equity markets. However, gains were somewhat dampened by geopolitical uncertainty, increased inflation, rising interest rates, and fears of a trade war fueled by President Trump's tariff threats and subsequent vows of reprisals from U.S. trading partners. U.S. equities outperformed international equities both in developed markets and emerging markets with the S&P 500 Index advancing +14.4 percent compared to the +6.8 percent return on the MSCI EAFE Index and the +8.2 percent return on the MSCI Emerging Markets Index. Despite its strong return for the year, the S&P 500 Index recorded its first quarterly loss since 2015 during the third quarter of FY 2018 (three months ending March 31, 2018) amid increased volatility, marking the end to an especially long and steady winning streak for domestic equities. In contrast to the positive returns recorded by equities, fixed income markets were generally weak during FY 2018. The broad domestic fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, finished the year down -0.4 percent. As was widely expected, the U.S. Federal Reserve increased interest rates three times in FY 2018 (December 2017, March 2018, and June 2018), lifting the benchmark federal funds rate to 2.00 percent. Additional rate increases are anticipated in FY 2019 with the U.S. Federal Reserve noting they believe the economy is rising at a "solid rate" and that household spending has picked up. During the year, the Treasury yield curve flattened with yields on short-term Treasury securities increasing more than longer-term yields. At the end of FY 2018, the yield difference between the two- and ten-year notes was at its narrowest level since 2007, just 33 basis points. Despite the fact that the current equity bull market is in its tenth year, we believe that going forward, equity markets can continue to increase in value despite a higher degree of market volatility.

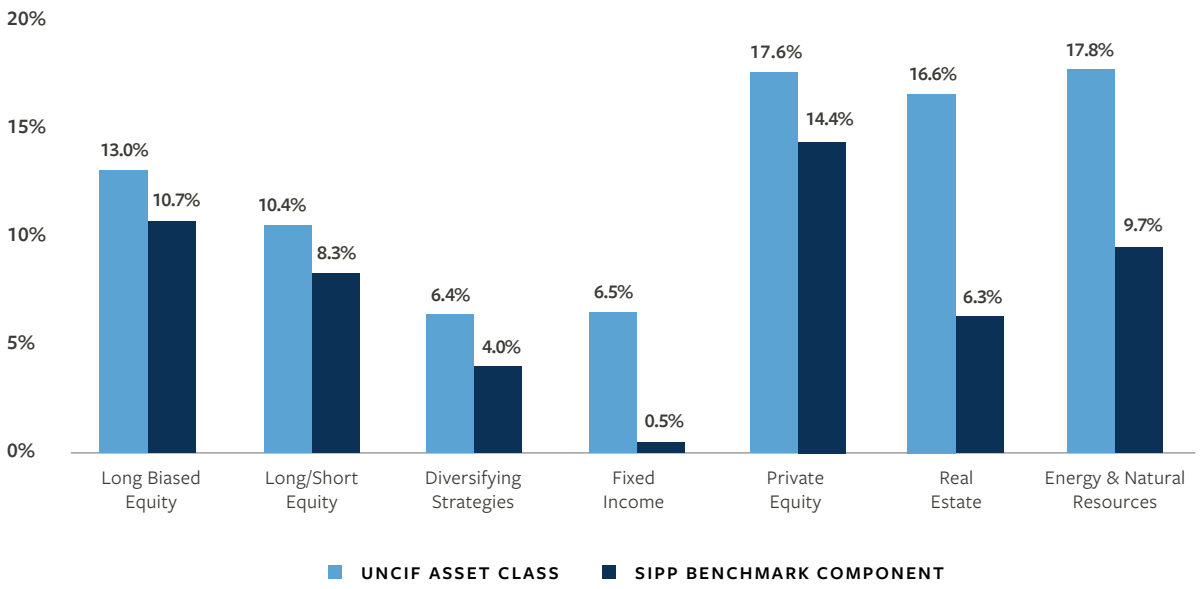
The UNC Investment Fund generated a +12.0 percent net investment return for FY 2018 with each of its primary asset classes delivering solid performance. The Fund's FY 2018 return is strong on both an absolute and relative basis outperforming

FIGURE 1

Asset Class Returns vs. SIPP Benchmarks

Fiscal Year 2018

During the year, each of the Fund's primary asset classes generated positive performance and exceeded their benchmark with performance driven by strong equity markets (both public and private).



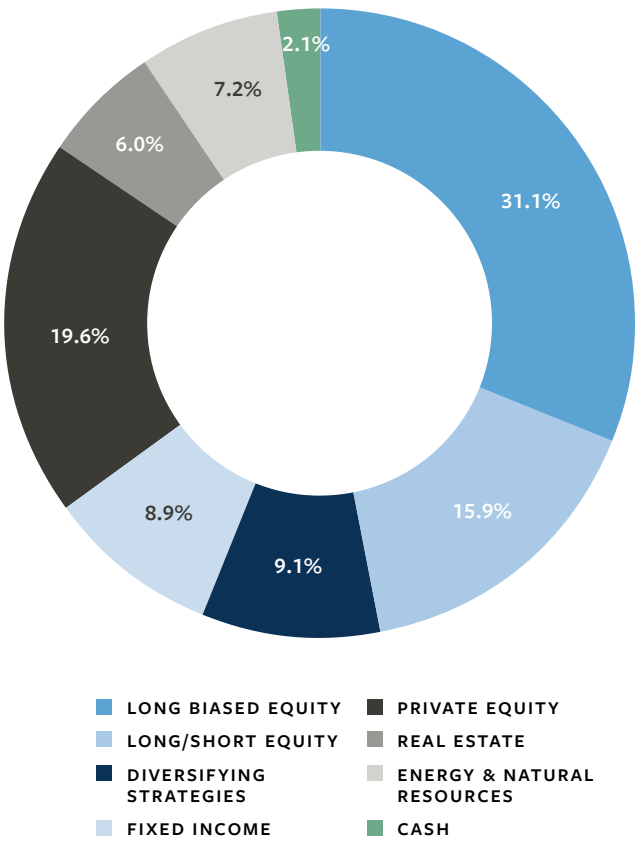
both the +8.8 percent return of its primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"), and the +7.4 percent return of a more "traditional" and equity market focused Global 70/30 Portfolio comprised of 70 percent global equities (MSCI ACWI) and 30 percent bonds (Bloomberg Barclays U.S. Aggregate Bond Index). Relative to peers, the Fund's FY 2018 return ranks in the top quartile of the Cambridge Associates universe of college and university endowments. Over longer periods, three, five, and twenty years, the Fund's returns rank in the top quartile relative to peers with the ten-year return ranking in the second quartile.

For the fiscal year, each of the Fund's seven primary asset classes generated a positive return and outperformed their respective benchmark by at least 2 percent. The Fund's Private Portfolio, comprised of Private Equity, Real Estate, and Energy & Natural Resources, had a very strong year returning +17.5 percent in aggregate with each of its asset classes returning more than +16.5 percent. Real Estate was the Fund's top relative performer with its +16.6 percent return exceeding its benchmark by 10.3 percent driven by strong performance from domestic managers across various property types. Within the public portion of the Fund's portfolio, equity-oriented strategies drove absolute performance with Long Biased Equity and Long/Short Equity returning +13.0 percent and +10.4 percent, respectively. Diversifying Strategies and Fixed Income were also strong relative performers with their +6.4 percent and +6.5 percent returns exceeding their benchmarks by 2.4 percent and 6.0 percent, respectively. Driving Fixed Income's strong relative performance was its overweight position to structured and private credit and relative underweight to investment grade and government securities.

FIGURE 2

Fund Asset Allocation (% of total market value)

As of June 30, 2018



On the heels of strong investment gains across the portfolio, the Fund's net investment gain of $676 million over the year was the largest in its history with total Fund assets growing by $745 million from $5.4 billion at the start of the year to $6.2 billion at June 30, 2018. Figure 3 below details the nearly 75 percent growth in the Fund over the past five years (an increase of more than $2.6 billion) along with the growth in the Chapel Hill Investment Fund.

We maintain our belief that a less predictable environment is the new norm and would regard a market correction in excess of 10 percent as being an attractive buying opportunity in the absence of a significant systemic issue suddenly appearing. Economic fundamentals and corporate earnings are healthy with global growth remaining positive but slowed from the strong pace in calendar year 2017. We are concerned to a degree that this growth could be undermined by trade wars, rising interest rates, and increasing political uncertainty around the world. We continue to examine the Fund's asset allocation and manager line-up, evaluating managers across the globe to ensure the Fund is positioned to meet its objectives across varying market environments. We also seek out niche investment opportunities that will enhance the Fund's ability to meet its long-term objective and maintain our conviction in our investment philosophy and its key tenets of capital preservation and downside protection.

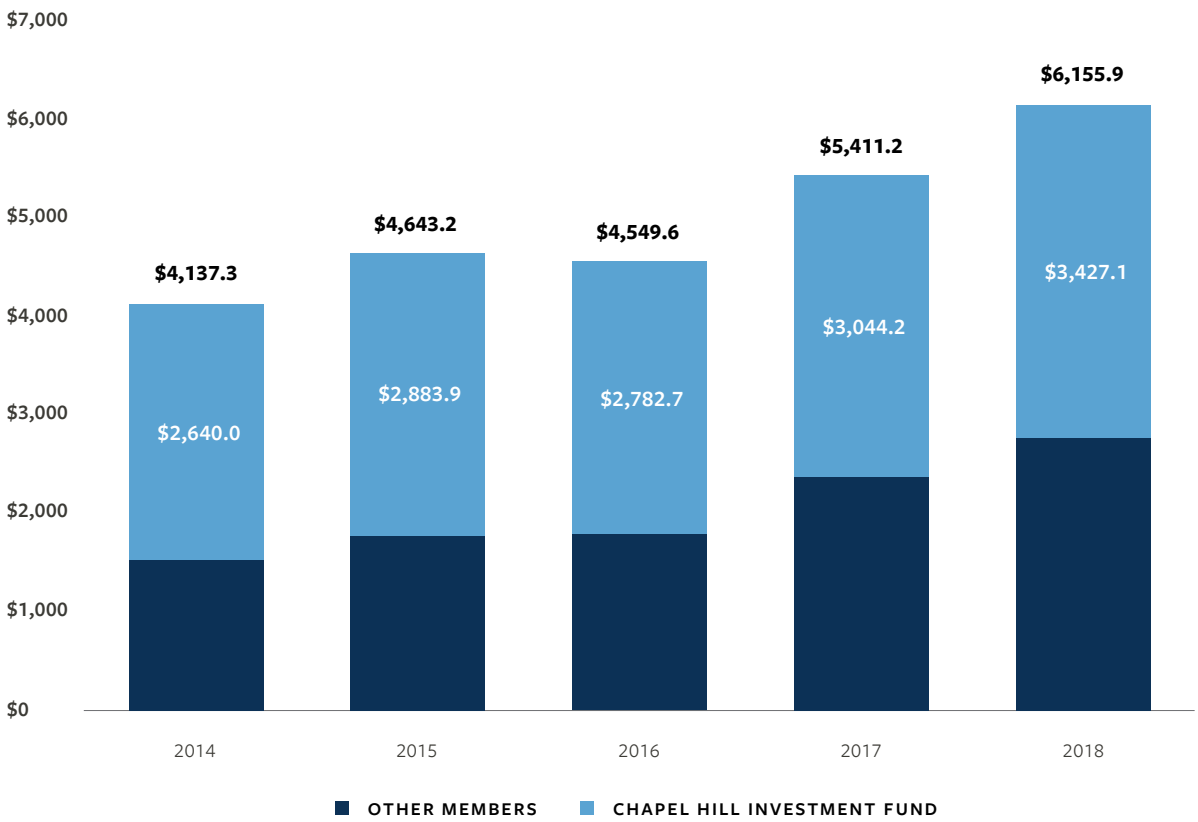
While we at the UNC Management Company are pleased with the +12.0 percent return generated by the Fund in FY 2018, we remain focused and committed to achieving the Fund's primary long-term objective: supporting the University in perpetuity on an inflation adjusted basis.

FIGURE 3

UNC Investment Fund Market Value ($ millions)

As of June 30

Over the past five years, the Fund's market value has grown by nearly 75% with $2.2 billion in net investment gains generated over the period.



INVESTMENT PRINCIPLES

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, needs to return approximately 7.5 percent to achieve its primary objective: the spending rate (usually around 5.5 percent) plus inflation (around 2.0 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:

01
MAINTAIN A 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.

02
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, deep market knowledge, an ability to think independently, and who have a demonstrated track record of investment success and value creation.

03
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 investment horizon of the Fund with its components reviewed periodically. Any modifications tend to be gradual and made to reflect such factors as changes in market conditions, return expectations, and market liquidity.

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 environments. The Fund is allocated across the different asset classes through investments with a number of investment managers chosen following a rigorous selection process.

FIGURE 4

Strategic Investment Policy Portfolio (SIPP)

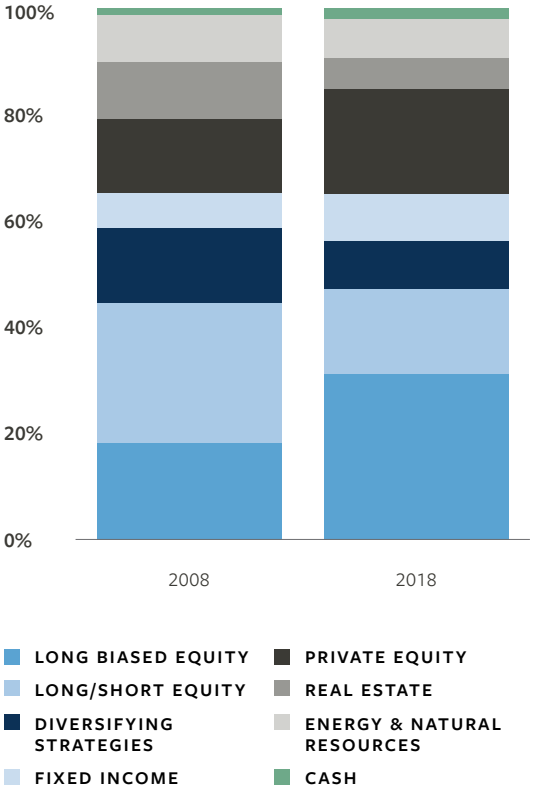
Asset Class	Fund Allocation[1]	Strategic Target	Tactical Range	Benchmark
Long Biased Equity	31.1%	30.0%	24 – 36%	MSCI All Country World Index (ACWI)
Long/Short Equity	15.9%	15.0%	10 – 20%	Hedge Fund Research Institute (HFRI) Equity Hedge Index
Diversifying Strategies	9.1%	10.0%	6 – 14%	(50% HFRI Fund of Fund Conservative Index + 50% HFRI Fund of Fund Defensive Index) + 0.5%
Fixed Income	8.9%	10.0%	6 – 14%	30% BB L-T Gov't/Credit, 30% BB U.S. Aggregate, 20% BB HY Corporate, 20% 90-Day T-Bills[2]
Private Equity	19.6%	18.0%	14 – 22%	60% CA PE Index / 40% CA Venture Capital Index[3]
Real Estate	6.0%	8.0%	5 – 12%	90% NCREIF / 10% NAREIT
Energy & Natural Resources	7.2%	7.0%	5 – 10%	50% S&P GSCI / 50% Real + 3%[4]
Cash	2.1%	2.0%	-2 – 8%	90-Day T-Bills

[1] As of June 30, 2018
[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] 60% Cambridge Associates Private Equity Index, 40% Cambridge Associates Venture Capital Index
[4] 50% S&P Goldman Sachs Commodity Index, 50% Real + 3%

FIGURE 5
Historical Asset Allocation

As of June 30

Over the past ten years, the Fund has maintained its diversification among asset classes. While the Fund's aggregate exposure to public equities has remained consistent, the Long/Short Equity allocation has been reduced. Over the period, the Fund's allocation to Private Equity has increased significantly.



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 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 intended to complement the aggregate portfolio by including investment strategies that tend to be relatively uncorrelated with major equity market indices.

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 generate higher returns than public equity investments over the long term.

Real Estate

An asset class in which investment managers invest in primarily private real estate opportunities (usually 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, present the opportunity for significant investment gains.

Energy & Natural Resources

An 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, 2018, is illustrated in Figure 4 on page 13.

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 targets and should, over the long term, contribute to the Fund's aggregate return.

SPENDING DISTRIBUTION POLICY

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

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

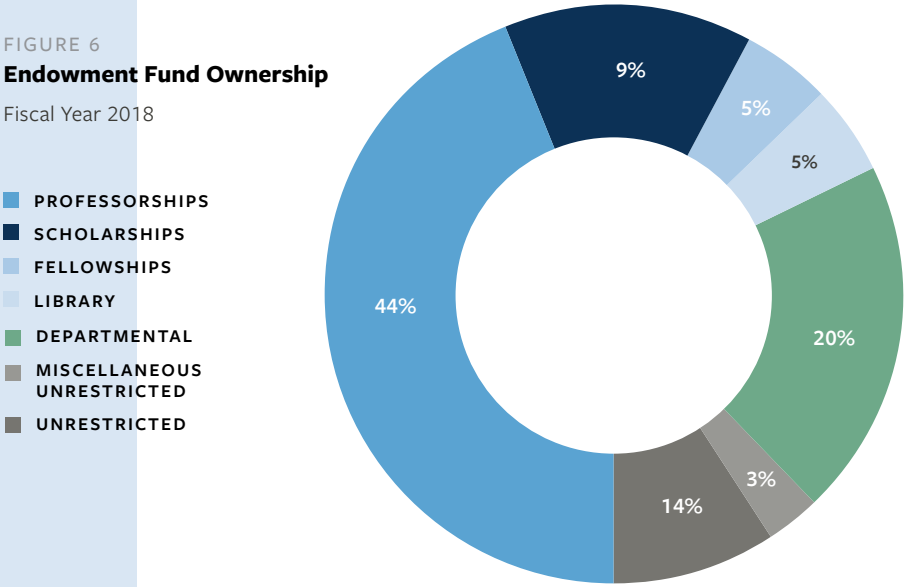
01 First, the policy strives to provide CHIF participants with financial support at a rate that is sustainable over the long term. The Fund's long-term investment objective is to maintain the purchasing power of its underlying assets after accounting for both spending distributions and the effects of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

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

FIGURE 6

Endowment Fund Ownership

Fiscal Year 2018



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.

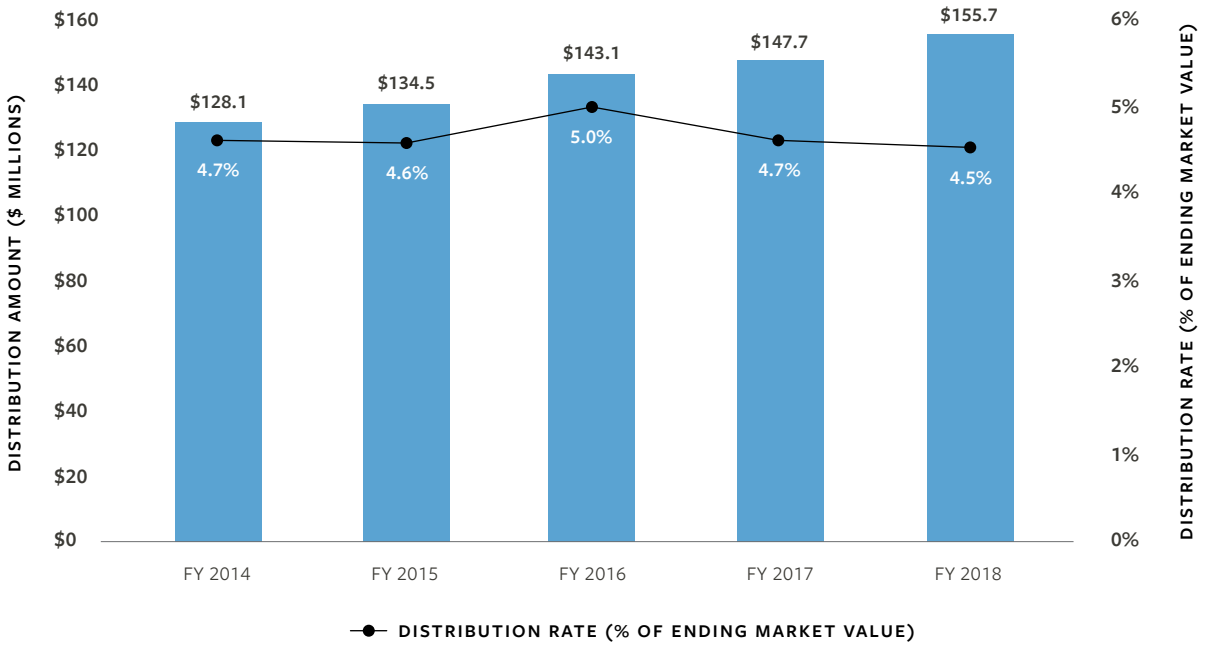
Utilizing a constant growth rate rule, the initial distribution rate for the CHIF was set at 5 percent of its beginning market value in 2000. From year-to-year, the distribution rate is typically increased at the rate of inflation, as measured by the Consumer Price Index ("CPI"), over the preceding calendar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

For fiscal year 2018, the Board elected to increase the spending distribution rate from $435 to $444 per CHIF unit. This increase resulted in an annual distribution rate of 4.5 percent of ending market value, which falls within the policy guidelines. In the prior year, the distribution rate was 4.7 percent. Over the past ten years, CHIF has distributed $1.3 billion to support University programs with its distribution rate growing at an annualized rate of 1.6 percent, in line with inflation as measured by the CPI.

FIGURE 7

CHIF Spending Distributions

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.



THE FUND IN ACTION

THE CAROLINA COVENANT

Gabriella Cila remembers the moment she received her financial aid package from UNC-Chapel Hill. She checked her phone and saw that she was awarded the Carolina Covenant. Cila called her mom immediately and the two of them started to cry.

"Mom," she said. "You don't have to pay anything. I get to go to UNC!"

As Tar Heel born and bred, ever since Cila could remember, Chapel Hill was her dream school. She was admitted weeks prior but doubted she would be able to afford its tuition. Finances were tight in her family.

"My dad doesn't work," Cila explained. "I'm first-generation American on my dad's side and his English isn't perfect — I don't think he even finished middle school, actually. He was a professional soccer player and had a lot of success, but those funds don't last forever. There's a lot of financial burden on my mom."

But, she didn't have to worry anymore — she received the Covenant. There was no doubt in her mind she would be attending UNC.

"If I wasn't Covenant I don't know where I would have ended up for school. It was probably the only way I could have afforded college. This is one thing we don't have to worry about. I am at an amazing university, my dream school, and my parents don't have to think about paying at all. That's pretty insane."

Still, years later Cila, a senior majoring in political science with a minor in social and economic justice, is just as grateful for the financial assistance the Covenant has given her.

"My rent, meals, textbooks, and tuition — it's all covered throughout my time at Carolina. I'm grateful my parents have the peace of mind knowing they don't have to pay a penny. Me and my mom always say that if I am in a position to pay it back, the Covenant is where it's going. Money should never be a barrier. I'm so grateful for Covenant for removing these barriers for me the last four years."

Started in 2004, the Covenant is a no-loans financial aid offer — a series of grants, scholarships, and work-study funding — that gives students a chance to graduate without debt. The program assists with tuition as well other expenses college students incur, such as housing. But, the program is about

more than money. Through academic advisors, along with designated aid counselors, faculty, and staff mentors and a variety of events and workshops, the program creates a very personal web of support for students.

Among many other opportunities, the scholarship boasts a partnership with Carolina Performing Arts which allows Covenant students to attend every event in Memorial Hall for free. In addition, if students want to study abroad, the Covenant travels with them.

With the support of the Covenant, the University strives to encourage youth from low-income families who want to attend Carolina to prepare academically for admission, knowing they can afford to attend.

The is no separate application for the Covenant. Admitted students and continuing Covenant Scholars who complete an application for financial aid, specifically the Free Application for Federal Student Aid and the College Board's PROFILE, are automatically considered for Covenant funding.

To Brian Hogan, PhD, the program's director, his work with the Covenant is somewhat personal.

"Education can be a ticket out of poverty or a physical location," Hogan said. "As a guy who grew up in poverty, not in North Carolina but in New Jersey, if we had that kind of program, I would have been eligible for it. I know that education has given me everything that I could have wished for in life. So, when I see this help my students achieve success, when they are able to think differently about the world and move on to good paying careers because of their education, it's very, very gratifying."

Students who qualify for the Covenant come from households that fall two times, or 200 percent, below the federal poverty line. According to Hogan, this currently equates to earnings of roughly $11,000 per individual in a household.

Hogan says that admitting low-income students is what defines Carolina as a university "Of the people, for the people." With this scholarship, the relationship between students and the school is one of symbiosis. Covenant Scholars benefit from the doors an education from UNC opens and, in turn, the University benefits from the diversity that comes from accepting students from all walks of life and financial backgrounds.

"If higher education is only open to those who can afford to pay the full sticker price then we are not being truly representative of our state and country," he said. "So, we are doing ourselves a big favor by making sure that every bright mind who is eligible to study at the University of North Carolina gets the opportunity to bring their diverse ideas and life experiences to a place like Carolina and to help us move the state, the University, and maybe even the country forward."

In 2004 there were only about 224 Covenant Scholars on campus. Now, the Covenant averages 700 new scholars each year. Currently, 14 percent of undergraduate students at Carolina are Covenant Scholars.

Covenant Scholars are required to maintain a GPA of above 2.0 and complete two-thirds of their attempted credit hours. Success for this program has been measured in terms of graduation and retention rates. When the program first started, the graduation rate was around 53 percent. Now the graduation rate of the class of 2017 is 82.1 percent, a remarkable testament to the effectiveness and success of the program.

While the Covenant has proved to make a large-scale, sweeping impact at Chapel Hill, to Hogan it is the little things that are the best part about working with Covenant Scholars.

"We have these things we call 'say yes moments,' when a student comes in and has some kind of issue and they say 'I have this opportunity and I really want to go, but I can't afford to go," he said. "I love the moments when we are just able to say yes to a student, when we are able to help them do something they didn't think was possible."

"Sometimes at a big institution you hear 'no' a lot, but it's nice to hear 'yeah, we can help you with that.' I have a lot of really great people in my office that are dedicated to saying 'yes' and helping students and that really makes a difference."

MACDONALD COMMUNITY SERVICE SCHOLARSHIP

Scott MacDonald worked in a sweltering factory, assembling insulation for utility poles, in order to put himself through college. When it was time to attend graduate school at UNC-Chapel Hill, he still struggled financially.

He met with a mentor in his department, Jack Parker, and explained to him that he did not know if he had the resources to continue his education. After this meeting, Parker went on to award MacDonald with a scholarship so that he could complete his studies. With this, MacDonald earned his Master's degree in City and Regional Planning from Chapel Hill in 1972.

Following his graduation, MacDonald had a successful career, which spanned more than 40 years, working and managing real estate companies. Despite serving as CEO, president or managing director of five companies, MacDonald never forgot what gave him his start.

"A scholarship made my education possible," MacDonald said "If I didn't get the quality of education I received, I wouldn't have had access to the job opportunities I did. Now I'm giving back to the school that made it possible."

The MacDonald Community Service Scholarships at Carolina gives students tuition assistance in exchange for engaging in deep and immersive community service while working toward their degrees. MacDonald Scholars must complete at least 250 hours of service each year during their time at UNC. The program culminates with a capstone: The MacDonald Community Fellowship. The fellowship, which is also open to other service scholars, provides students funding to create and implement unique service projects. At the center of both the scholarship and fellowship, MacDonald says, is the idea of reciprocity.

"It's about paying it forward when you are in the position to give back. Students don't have the money, so they

are on the receiving end. They pay it back in the form of community service until they are in the position to pay it forward. It becomes a kind of cycle of empowerment."

The project found its home in the Carolina Center for Public Service. With MacDonald's initial gift, the Center established a model for other community service scholarships. The inaugural MacDonald Community Service Scholars entered UNC in August 2015.

Ryan Nilsen, who oversees the community service scholarships at the Carolina Center for Public Service, believes the initiative goes much farther than surface-level community service. The students in MacDonald's programs are not just volunteers, they are partners with the organizations they work with, and have the opportunity to learn through their experiences.

"Community partnerships are about going deeper" he explained. "This is not just something students are doing on their own — it's is an increased expectation of what community service is. We train them to think about how they won't just take, but rather, following the organization's lead, be able to offer something that's practical, that will be around after they leave. Through this, we hope to build relationships with the University community at large."

Finn Loendorf, a physics major and one of the inaugural MacDonald Scholars, understands the importance of a lasting impact. Loendorf worked with Boomerang Youth Inc., an organization that provides tutoring and other services to at-risk youth in and around Chapel Hill. With the MacDonald Fellowship, Loendorf was able to plan and implement a weeklong STEAM summer program for 12 middle school students at Boomerang Youth with the goal of increasing exposure to and enthusiasm for science topics. According to Loendorf, this goal was achieved, but the most satisfying aspect of the experience occurred at the end of the camp, when the students conveyed how much fun they had. The camp, along with the experiences that came from regular service, had an impact on Loendorf as well, echoing MacDonald's vision of reciprocity.

"With or without the scholarship money it was worth it to figure out for myself how to make an impact on the community," Loendorf said. "I didn't realize it would be as impactful as it was for me. I learned my definition of sustainable service. All service makes an impact, but this became a deeper and more lasting impact. The more I put into it, the more I wanted to be a part of it."

UNC was the first large public university to adopt the MacDonald Community Service Scholars program. Working with University faculty and administration, MacDonald was able to create a model appropriate for other large institutions. With this model tested at UNC, MacDonald created similar programs at other schools including Indiana University and the University of Michigan.

MacDonald believes there is a reason why it wasn't too difficult to implement a community service-focused program Chapel Hill. It's the same reason why UNC is a model for future programs — giving back is the "Carolina Way." Even the school's mission statement discusses service as an integral part of its values as it states: "...the University has charted a bold course of leading change to improve society and to help solve the world's greatest problems."

"I think that the scholarship and fellowship programs fit in with the Carolina attitude of giving back and helping others, and there is a lot of precedence in that," MacDonald said. "A lot of students are involved in community service. When that becomes a trait of the community, it is easier to fit in with that. It's in the character and ethos of Carolina. It moved me to establish the program at Carolina and to move into other schools as well."

Perhaps it was the precedence of the "Carolina Way" that moved MacDonald's graduate school mentor Jack Parker to give him the scholarship he needed to finish his education. Still, it is unequivocal that the financial assistance MacDonald received shaped his future. Now, MacDonald hopes to provide others the same opportunity, furthering the culture of giving to others at Carolina, a culture which helped him years ago.

"The scholarship to UNC I received was a life changing event for me," he said "Even following his death, I am still paying back Jack for his generosity and help."

INVESTMENT PERFORMANCE

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. Investing for the long term also allows the Fund to maintain discipline in the face of short-term market disruptions. Measured tactical tilts in asset allocation also allow for short-term market dislocations to be opportunistically captured. While shorter-term performance is actively monitored, our primary focus remains on meeting the Fund's long-term return objective which can result in short- to medium-term underperformance.

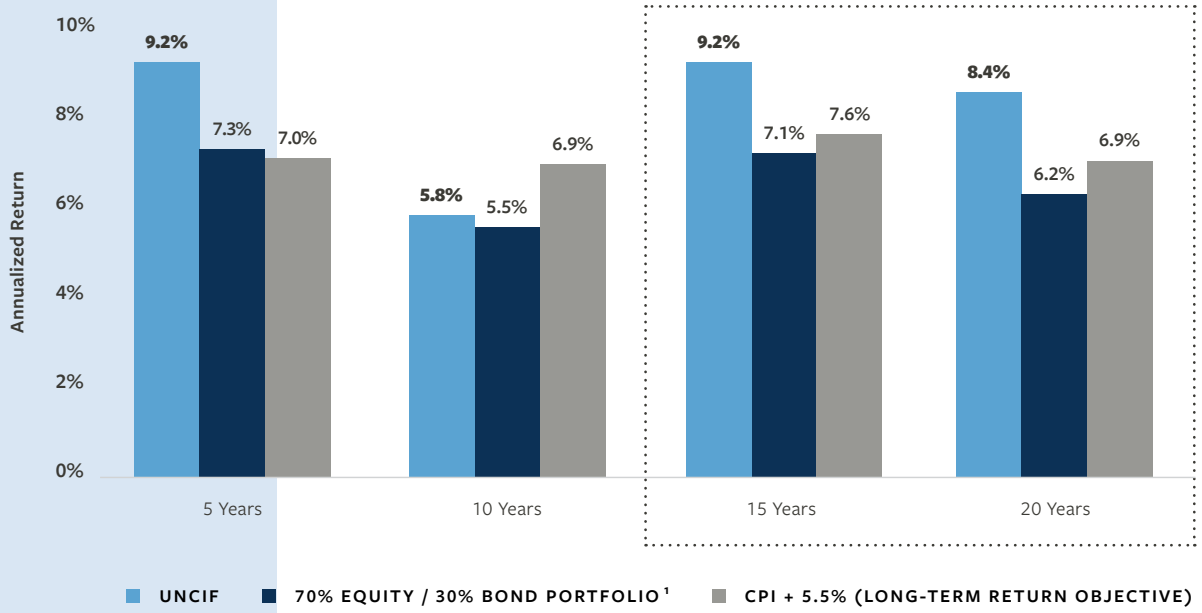
In addition to maintaining a long-term investment horizon, the Fund is constructed to protect capital in down markets while participating in market rallies. This is achieved through the extensive degree of diversification created by investing across SIPP's seven primary asset classes and through diversification among third-party investment managers within each of the asset classes. Figure 10 on page 24 displays the Fund's total returns

FIGURE 8

Relative Long-Term Performance

Performance for periods ending June 30, 2018

A traditional equity/bond portfolio fails to achieve the Fund's primary objective highlighting the need for diversification and exposure to private investments.



[1] 5, 10, 15 Years: Global 70/30 Portfolio - 70% MSCI All Country World Index (ACWI), 30% Bloomberg Barclays U.S. Aggregate Bond Index
20 Years: Domestic 70/30 Portfolio - 70% S&P 500 Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index

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.

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. 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 achieved this objective for the 15- and 20-year periods ending June 30, 2018, with returns of +9.2 percent and +8.4 percent, respectively. Figure 8 on page 22 highlights the long-term benefits of investing in a diversified mix of asset classes, as a more "traditional", equity market focused 70/30 Portfolio comprised of 70 percent equities and 30 percent bonds falls short of meeting the Fund's long-term return target for the 15- and 20-year periods.

In contrast to these longer time periods, the Fund's +5.8 percent ten-year return through June 30, 2018 falls short of achieving the primary return objective, with the Global Financial Crisis of 2007–2008 weighing on the period's return. With the exception of Real Estate which was marginally negative returning -0.4 percent, each of the Fund's asset classes has positively contributed to performance over the last ten years. Real Estate was also the only significant laggard to its benchmark over the period. With a ten-year annualized return of +12.0 percent, the Fund's Private Equity asset class has added significant value over public equity markets, returning more than two times the +5.8 percent return of the broader equity market (MSCI ACWI) and highlighting the integral role private investments play in helping the Fund achieve its investment objectives.

Over the medium term, three- and five-year periods ended June 30, 2018, the Fund's returns exceed SIPP and the Global 70/30 Portfolio and rank in the top quartile of the Cambridge Associates universe of college and university endowments. More importantly, for the five-year period, the Fund's +9.2 percent return significantly outperforms its long-term objective of generating a return in excess of CPI plus 5.5 percent, enhancing the "real" purchasing power of investments in the Fund over this period. For the three-year period, the Fund's +7.1 percent return falls just short of the +7.3 percent return generated by the CPI plus 5.5 percent index.

FIGURE 9

Asset Class Returns vs. SIPP Benchmarks

10 years ended June 30, 2018

Over the long term, six of the Fund's seven primary asset classes have produced a positive return with Private Equity driving performance.

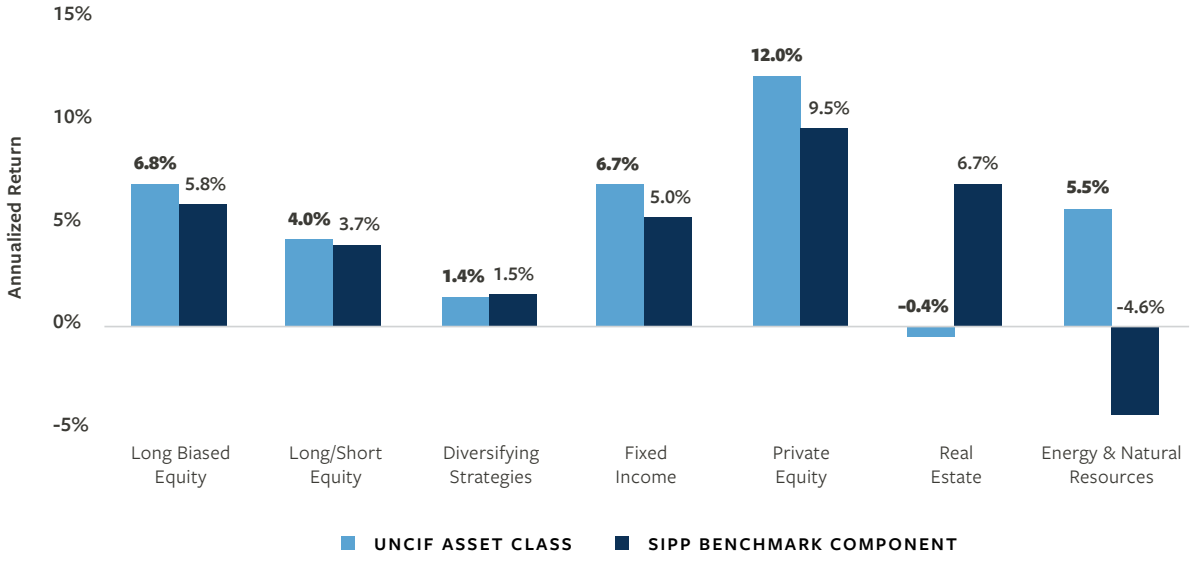


FIGURE 10

UNCIF: Drawdown Protection

S&P 500 Index

The Fund provides significant drawdown protection during periods of market stress. The most important and difficult asset allocation challenge remains striking the proper portfolio balance between upside participation and downside protection.

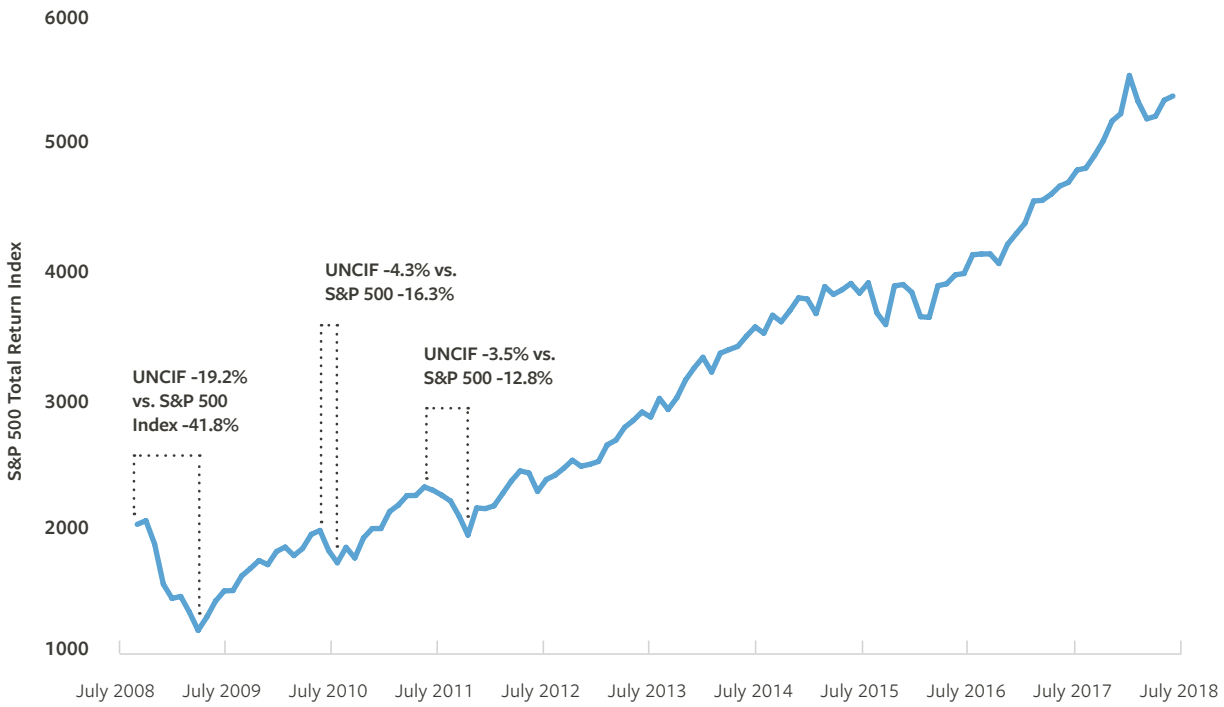


FIGURE 11

Investment Performance

Fiscal Year

	2018	2017	2016	2015	2014
UNCIF Return	12.0%	12.1%	-2.0%	9.3%	15.7%
SIPP Return	*8.8%*	*11.8%*	*-0.8%*	*3.2%*	*15.0%*
Cambridge Associates University Endowment Median	9.0%	13.1%	-2.7%	2.5%	16.9%

FIGURE 12
UNCIF Fee Table

	% of Investment Balance
Investment Management Fee	
First $50 million of investment balance	0.50%
Remainder of investment balance over $50 million	0.24%
Legal & Accounting[1]	0.02%
Other Operating Costs[1]	0.02%

[1] Indicative, subject to variation

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 2018 Update

- The Fund received $3.5 million in realizations from its exposure to environmentally-minded investments
- At the end of the fiscal year, the Fund had $13.2 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

UNC MANAGEMENT COMPANY, INC.

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, Bobby Williams, Elaine Brim, Kevin McGowan, Rodgers Harshbarger, Paul Kindem. Middle row (left to right): Deana Griffin, Celeste Reed, Angela Elam, Kimberly Woodlief, Kay Day, Margaret Holder, Patrick O'Neill, Kevin Tunick, Kimberly Baker, Pam Shirley. Back row (left to right): Matthew Lesesky, Chris Bartholomew, Chris Mattke, Richard Flintzer, Jonathon King, Susan Smith, Juddy Mair, Gina St. Phillips, Chris Rudolph, Jonathan Cornish, Jeffery Liu. Not pictured: Anita Barber, Timothy Burch, Janine Vanzetta Burke, Ed Hetherington, Angela Moss, Clay Robinson, Benjamin Wendt.

CHAPEL HILL INVESTMENT FUND PARTICIPANTS

01 Carolina for Kibera, Inc.

02 Dental Foundation of North Carolina, Inc.

03 The Educational Foundation, Inc.

04 The Kenan-Flagler Business School Foundation

05 Medical Foundation of North Carolina, Inc.

06 The Morehead-Cain Foundation

07 The Morehead-Cain Scholarship Fund

08 North Carolina Botanical Garden Foundation, Inc.

09 The North Caroliniana Society, Inc.

10 Order of the Golden Fleece Foundation

11 The Order of the Grail-Valkyries Foundation, Inc.

12 School of Media and Journalism Foundation of North Carolina, Inc.

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14 UNC General Alumni Association

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22 The University of North Carolina at Chapel Hill Endowment Fund

23 The University of North Carolina at Chapel Hill Foundation, Inc.

24 The University of North Carolina at Chapel Hill Foundation, Inc. Gift Annuity Program

25 The University of North Carolina at Chapel Hill Temporary Pool

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