



Annual Report

FISCAL YEAR
2019

THE UNIVERSITY
OF NORTH CAROLINA
AT CHAPEL HILL

Foundation Investment Fund, Inc.

PREPARED BY
UNC MANAGEMENT COMPANY



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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 23 other participants represented in CHIF. A complete list of participants can be found on page 26. 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 11.

The Fund’s asset allocation framework, as defined by SIPP, is principally implemented through investments with 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 to:

- Determine asset allocation
- Hire and terminate external investment management firms
- Direct purchase or liquidation of assets





A Message from the Chairman of the Board

John L. Townsend III

Chairman, Board of Directors

In January 2019, I was elected by the Chapel Hill Investment Fund Board of Directors to serve as its Chairman following Max Chapman's decision to step down after more than 25 years of service. Max's contributions to the Board have been invaluable. His dedication, insight, and expertise have proven pivotal to the development of the UNC Management Company and the success of the UNC Investment Fund, LLC ("Fund"). In my new role as Chairman, I look forward to continuing to build on the record of success achieved by the Fund and it is with great pleasure that I present the Fiscal Year ("FY") 2019 Annual Report for the Fund, which the Chapel Hill Investment Fund is invested in.

In the most recent fiscal year ended June 30, 2019, global equity markets suffered their sharpest drawdown in years during the first half of the year only to rebound in the second half of the year and finish in positive territory. Against this backdrop of equity market volatility, the Fund posted its third consecutive year of strong absolute returns and second consecutive year of very strong relative performance generating a +7.7 percent net investment return.

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. Annualized returns in excess of +7.5 percent are deemed to have achieved this target. As such, the Fund's +7.7 percent FY 2019 return represents a modest positive contribution to achieving this long-term objective. The Fund's +7.7 percent return also exceeds the +6.7 percent return generated by its primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"). Relative to peers, the Fund's FY 2019 return ranks solidly in the top quartile of the Cambridge Associates universe of college and university endowments for the second year in a row. The Fund's strong performance relative to peers extends to the long term with its 3-, 5-, 15-, and 20-year net returns also ranking solidly in the top quartile.

On the heels of strong investment gains across the portfolio, the Fund generated nearly half a billion dollars in net investment gains with total Fund assets growing from \$6.2 billion at the start of the year to \$6.6 billion at June 30, 2019. Over the past ten years, the Fund has grown by nearly 200 percent (an increase of more than \$4.3 billion) with an annualized investment return of +9.0 percent.

Within the Fund, strong relative performance was generated across the portfolio as five of the Fund's seven asset classes outperformed their benchmark. Private Equity and Real Estate drove the fiscal year's absolute performance returning +23.0 percent and +11.3 percent, respectively. Over longer time horizons, the Fund's Private Equity investments have generated consistently strong results, illustrating the importance of the asset allocation process, where opportunistic asset classes such as Private Equity can add significant value over more traditional investments in public equity markets.

Following the Fund's strong absolute and relative performance over both the short and long term, it is important not to become complacent, but to maintain focus on our role as stewards of the endowment assets of the UNC System. We remain committed to achieving the Fund's primary long-term objective by examining the Fund's asset allocation and manager line-up and constantly evaluating investment opportunities and managers across the globe to ensure the Fund is positioned to meet its objectives. Speaking for the entire Board as well as the staff of the UNC Management Company, we look forward to navigating FY 2020 and working thoughtfully and diligently to make the best investment decisions across varying market environments.

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.



John Townsend III*

CHAIRMAN



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.



Kevin Guskiewicz

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.



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



Nelson Schwab III

Senior Advisor, Carousel Capital



Sallie Shuping-Russell

VICE PRESIDENT
Managing Director, BlackRock



Dwight Stone

President & Chairman,
D. Stone Builders, Inc.

As of June 30, 2019

** Executive Committee Member*

Portfolio at a Glance

	Fiscal Year as of June 30				
	2019	2018	2017	2016	2015
CHIF Market Value (\$ millions)	\$3,641.7	\$3,429.2	\$3,046.1	\$2,784.3	\$2,883.9
UNCIF Market Value	\$6,568.9	\$6,155.9	\$5,411.2	\$4,549.6	\$4,643.2
UNCIF Return	7.7%	12.0%	12.1%	-2.0%	9.3%
<i>SIPP Benchmark Return</i>	6.7%	8.8%	11.8%	-0.8%	3.2%
UNCIF Asset Allocation					
Long Biased Equity	27.5%	31.1%	31.0%	26.2%	29.1%
Long/Short Equity	15.5%	15.9%	17.8%	19.3%	20.0%
Diversifying Strategies	9.9%	9.1%	6.7%	8.0%	7.3%
Fixed Income	9.4%	8.9%	10.4%	8.5%	7.9%
Private Equity	24.1%	19.6%	19.2%	20.9%	19.4%
Real Estate	5.8%	6.0%	6.7%	7.3%	6.7%
Energy & Natural Resources	6.8%	7.2%	5.7%	5.8%	5.1%
Cash	1.1%	2.1%	2.5%	3.9%	4.5%

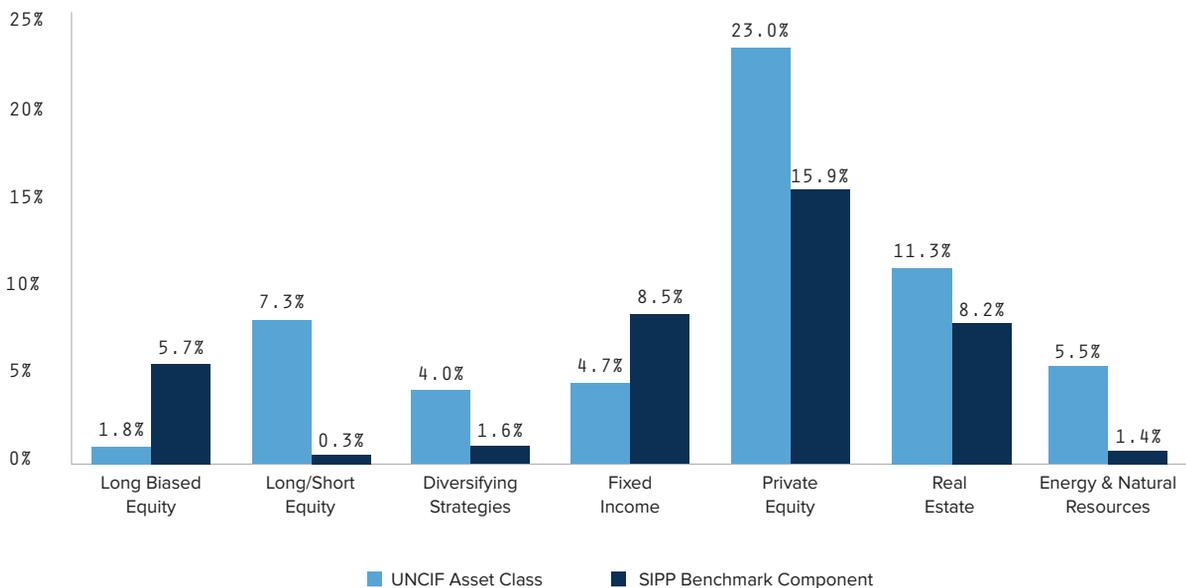


Fiscal Year 2019 Overview

During Fiscal Year 2019, U.S. equities recorded another strong year with the S&P 500 Index advancing +10.4 percent. FY 2019 represents the S&P 500 Index's third consecutive fiscal year period with returns in excess of 10 percent. In addition, U.S. equities once again significantly outperformed international equities both in developed and emerging markets with the MSCI EAFE Index (Europe, Australasia, Far East) generating a +1.1 percent return for the fiscal year period and the MSCI Emerging Markets Index recording a +1.2 percent return. Overall, equities globally were supported by assurances from the U.S. Federal Reserve ("Fed") and other central banks that they would implement and continue with policies to support growth and counteract economic weakness. However, gains were somewhat dampened by geopolitical uncertainty and fears of a trade war fueled by President Trump's tariff threats and subsequent vows of reprisals from U.S. trading partners, particularly China. Despite its solid return for the year, in Q2 FY 2019 (three months ended December 31, 2018) the S&P 500 Index suffered its sharpest decline in roughly a decade losing -13.5 percent and sending the index to a level last seen in the summer of 2017. The steep drop during the quarter was initially driven

Figure 1 Asset Class Returns vs. SIPP Benchmarks • Fiscal Year 2019

During the year, each of the Fund's primary asset classes generated positive performance with Private Equity driving the Fund's return for the year.

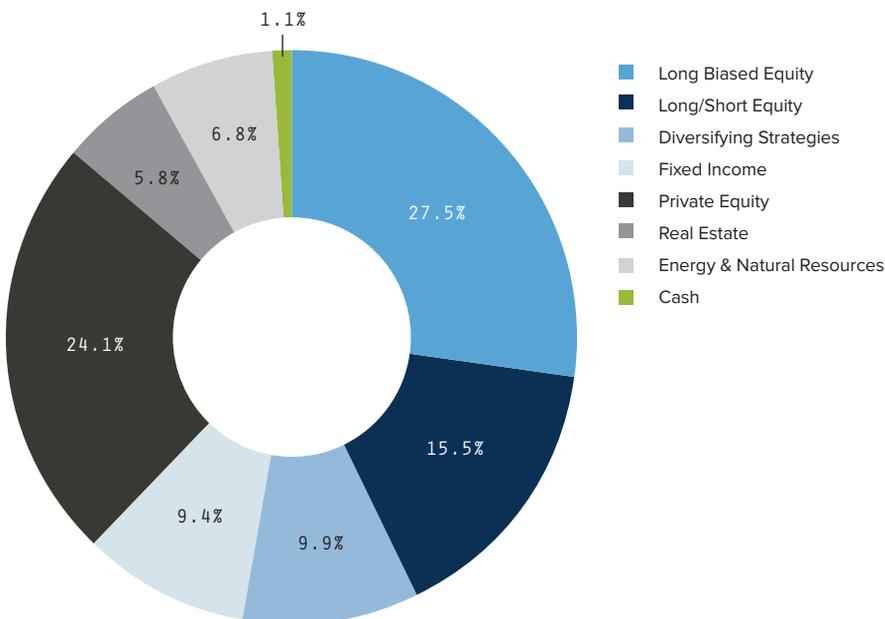


by concerns that the U.S. economy was in danger of overheating, which would lead the Fed to quicken and/or extend its pace of interest rate increases in an effort to curb inflation. Later in the quarter, markets continued their decline as the global economic outlook weakened amid indications of significant slowdowns in China and Europe and a sharp drop in oil prices (more than 35 percent decline for the quarter). However, in Q3 FY 2019 (three months ended March 31, 2019), with Fed Chairman Jerome Powell stressing that the Fed would not hesitate to respond with all the tools at its disposal to counteract an economic downturn or financial turmoil, the monetary policy environment for equities brightened considerably which provided a powerful tailwind to sentiment. During the second half of the fiscal year, equity markets rebounded strongly, recovering the prior quarter's losses and ultimately finishing the fiscal year in positive territory.

Fixed income markets performed unusually well during FY 2019 as investors, unable to stomach the turbulence from the U.S.-China trade dispute and leery of a darkening economic outlook, reallocated from stocks into bonds. The broad domestic fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, finished the year up +7.9 percent. During Q1 FY 2019 (three months ended September 30, 2018), the Fed increased interest rates however later in the year, the Fed completed an about-face in their policy, shifting from increasing short-term interest rates to cutting rates to offset the impact of trade tensions on the economy and to sustain its expansion. Amid these increasingly dovish signals from the Fed and other developed market central banks, the yield on the 10-year Treasury fell significantly during the fiscal year, starting the year at 2.85 percent and sliding lower to close June 2019 at 2.00 percent.

The Fund generated a +7.7 percent net investment return for FY 2019. The Fund's FY 2019 return is strong on both an absolute and relative basis outperforming the +6.7 percent return generated by both its primary SIPP benchmark and 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 2019 return ranks solidly in the top quartile (at the 88th percentile) of the Cambridge Associates universe of college and university endowments.

Figure 2 | **UNCIF Asset Allocation (% of total market value) • As of June 30, 2019**



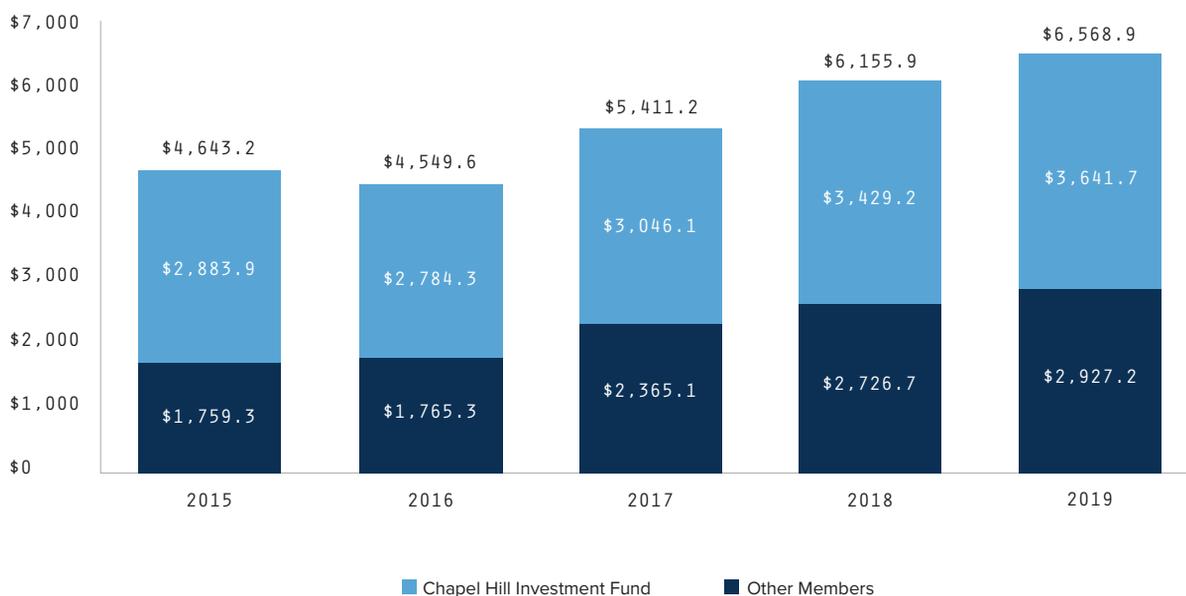
For the fiscal year, each of the Fund's seven primary asset classes generated a positive return. Private Equity and Real Estate drove the fiscal year's absolute performance. Strong relative performance was generated across the portfolio as five of the Fund's seven asset classes outperformed their benchmark. In aggregate, the Private Portfolio returned +17.1 percent for the 12-month period led by Private Equity which returned +23.0 percent, 7.1 percent ahead of its benchmark. Real Estate was also a solid absolute and relative performer with its +11.3 percent return beating its benchmarks by 3.1 percent. The Public Portfolio, in aggregate, returned +3.7 percent for FY 2019. Long/Short Equity generated very strong absolute and relative performance with its +7.3 percent return for the year significantly outdistancing its benchmark by 7.0 percent and outpacing global equities more broadly. On the heels of weak performance from domestic equity managers, Long Biased Equity, the Fund's largest allocation, returned +1.8 percent for the period and trailed its MSCI ACWI benchmark by 3.9 percent. Diversifying Strategies and Fixed Income both generated a positive return for the 12-month period returning +4.0 percent and +4.7 percent, respectively with Diversifying Strategies beating its benchmark by 2.4 percent.

During the year, as a result of positive investment performance as well as additional contributions by Members, the Fund's market value grew by \$413 million to exceed \$6.5 billion as of the fiscal year end. Figure 3 on page 9 details the more than \$2.4 billion dollar increase in the Fund's market value over the past five years along with the growth in the Chapel Hill Investment Fund.

We are pleased with the +7.7 percent return generated by the Fund in FY 2019 and proud of its performance relative to peers. We maintain our belief that market volatility will persist as political and geopolitical tensions around the world and trade escalations between China and the U.S. continue to weigh on investor sentiment. While global economic strength of recent years has lost momentum, central banks appear to be committed to supporting growth and counteracting a potential downturn. As we sharpen our pencils heading into FY 2020 we remain focused and committed to achieving the Fund's primary long-term objective: supporting the institutions of the University of North Carolina system 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 60% with over \$2 billion in net investment gains 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:

1. 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.

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

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 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	27.5%	30%	24 – 36%	MSCI All Country World Index (ACWI)
Long/Short Equity	15.5%	15%	10 – 20%	Hedge Fund Research Institute (HFRI) Equity Hedge Index
Diversifying Strategies	9.9%	10%	6 – 14%	(50% HFRI Fund of Fund Conservative Index + 50% HFRI Fund of Fund Defensive Index) + 0.5%
Fixed Income	9.4%	10%	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	24.1%	18%	14 – 22%	60% CA PE Index / 40% CA Venture Capital Index ³
Real Estate	5.8%	8%	5 – 12%	90% NCREIF / 10% NAREIT
Energy & Natural Resources	6.8%	7%	5 – 10%	50% S&P GSCI / 50% Real + 3% ⁴
Cash	1.1%	2%	-2 – 8%	90-Day T-Bills

1. As of June 30, 2019

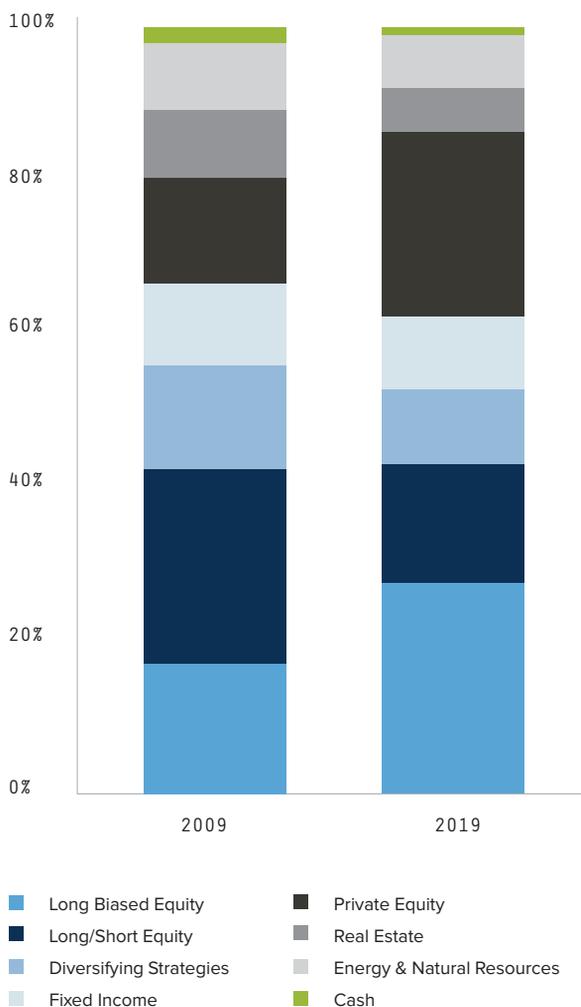
2. 30% Bloomberg Barclays U.S. Government/Credit Long Term Index, 30% Bloomberg Barclays U.S. Aggregate Bond Index, 20% Bloomberg Barclays Corporate High Yield Index, 20% 90 Day T-Bill

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 amongst 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 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 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

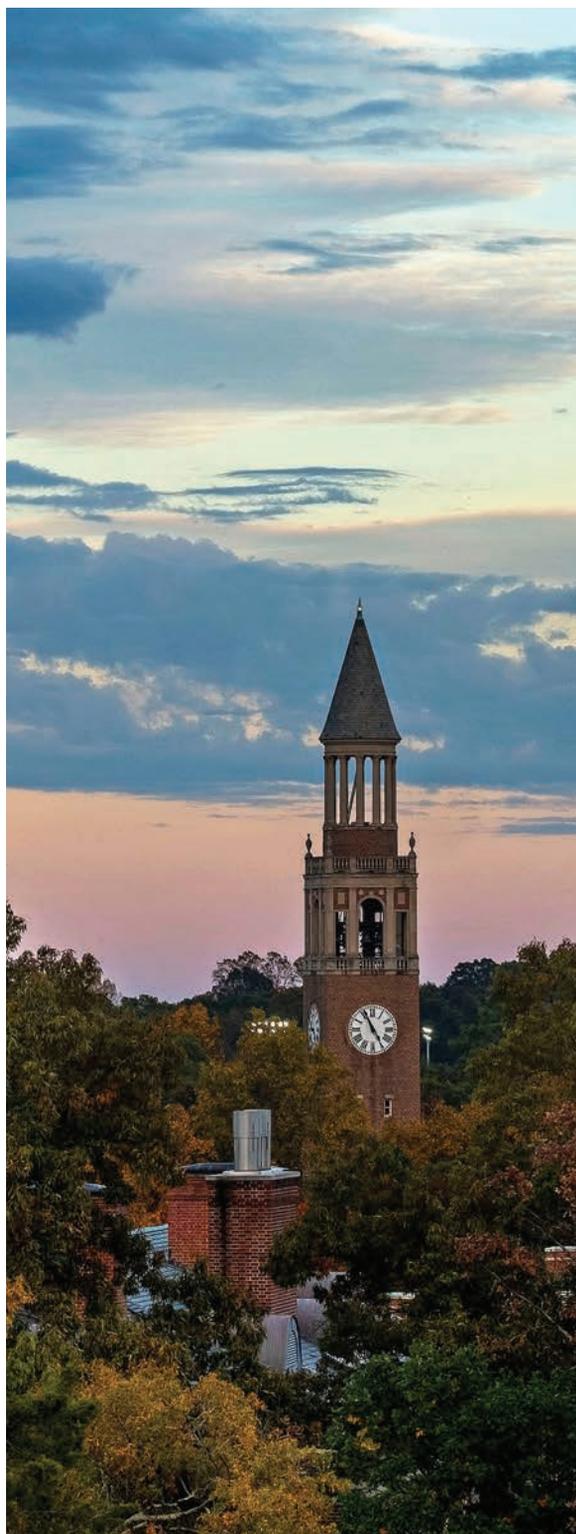
An asset class in which investment managers invest in primarily private real estate opportunities (usually commercial). Investments in Real Estate tend to provide a hedge against rising inflation, a source of current income, and diversification to the aggregate Fund. Real Estate markets can also be markedly 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, 2019, is illustrated in Figure 4 on page 11.

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

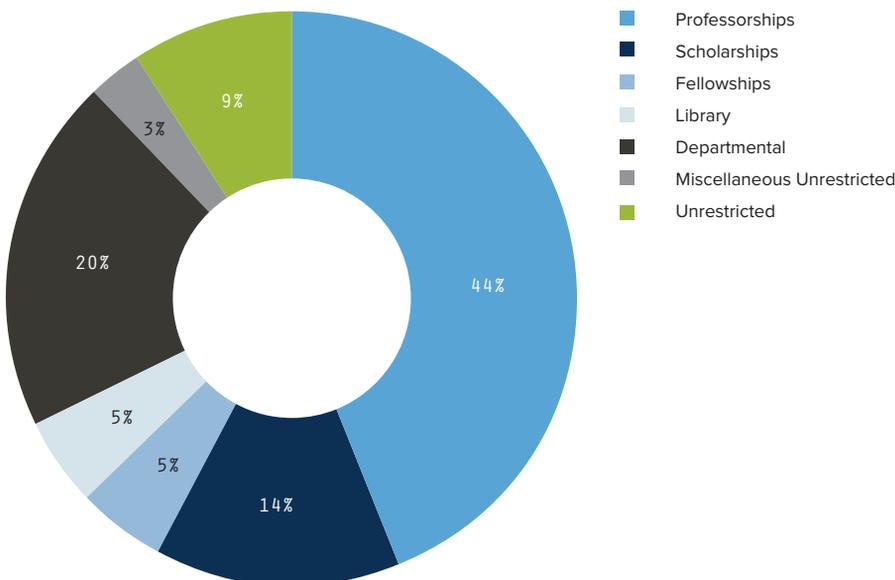
Endowment funds play a primary role in the funding of higher education and have become a crucial source of support to The University of North Carolina at Chapel Hill. Each year, CHIF participants receive a spending distribution of between 4 and 7 percent of their beginning market value to support various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

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.

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 2019



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.

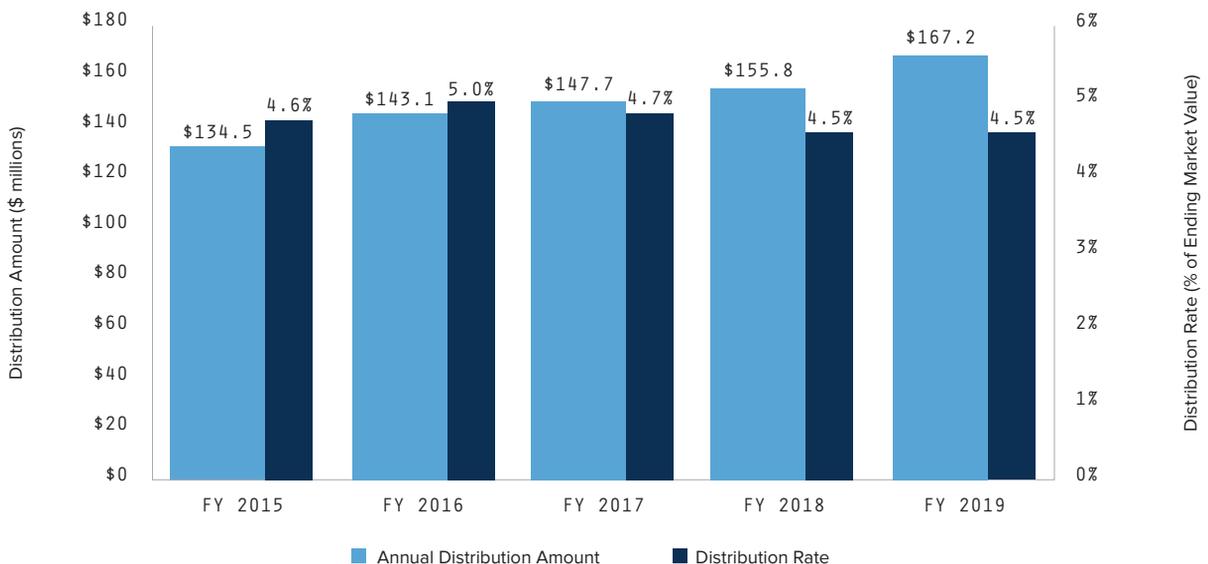
Considering the Fund's expected rate of investment return is crucial in determining and setting the spending distribution rate. Predicting the Fund's expected rate of return is extremely difficult, however, based on the Fund's asset allocation, its long-term expected real (i.e. inflation adjusted) rate 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.

The Board elected to increase the spending distribution rate from \$444 to \$454 per CHIF unit for fiscal year 2019. 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 also 4.5 percent. Over the past ten years, CHIF has distributed \$1.3 billion to support University programs with its distribution rate growing in line with inflation as measured by the CPI.

Figure 7 Historical Spending Distribution (\$ millions)

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



The Fund in Action

Blue Sky Scholars

When UNC senior Delancy Allred got a notification saying her financial aid had been updated, she assumed she owed money.

But when she logged on to her ConnectCarolina account, she saw something else. Allred had been awarded the Blue Sky Scholarship for her senior year at Carolina. She immediately began sending emails to learn more about the program — designed to help middle-income students like her.

Allred was used to getting loans from the University to help with costs, but nothing like this.

This was former UNC System president Erskine Bowles' vision, a scholarship awarded to hardworking middle-income North Carolina students. With his \$5 million gift, Carolina was able to launch the Blue Sky Scholars program. During his time as president, he learned that the student body had a shrinking number of middle-income students. There were opportunities for lower and higher-income students, but middle-income students were being squeezed out, Bowles said.

"I think it's great that it's helping students that are often viewed as having too much income, but really that's not necessarily the case," Allred said. "Really my family could not afford to send me here without any money, so I think it's a great opportunity for students that are kind of in the middle and also have the initiative to work while at school."

Twenty students from across North Carolina were awarded the scholarship this year, and the University aims to raise another \$15–20 million to grow the scholarship.

"Our Blue Sky Scholars currently, and intentionally going forward, are selected from all corners of the state," said Holley Nichols, senior assistant director of scholarships and student aid. "You know, from Raleigh and Cary, all the way to very small communities in Kill Devil Hills and Shelby."



“

I want to give these kids a real shot at the American dream, and you can't have a shot at the American dream today unless you have the knowledge and skills that are necessary to compete in what is truly a knowledge-based global economy now. And that's the whole purpose of this.”

Erskine Bowles, former UNC System president



Bowles said he wants the scholarship to allow students to choose a path they are passionate about, not necessarily the one with the highest-paid job.

Allred is combining her public policy major, with a concentration in education, and her passion for helping individuals with disabilities. She'll be working as a special education teacher for Teach for America in Washington D.C. after graduation.

“I'll basically be debt-free my senior year. So, when I'm going into the classroom next year, I won't have to worry about paying off loans which will be great because my salary is super low as a teacher sadly,” Allred said. “So that'll be nice to not have to worry about any financial constraints during my senior year.”

Outside of the annual \$7,500 award the scholars receive, the students also receive \$2,500 in work-study employment, a one-time award of \$2,500 for internships, study abroad or other opportunities, and access to academic, personal, and career support.



Shuford Program in Entrepreneurship

Bernard Bell, executive director of the Shuford Program of Entrepreneurship, called the names of three students to come to the front of the classroom.

It's the way every class begins for "Econ 393: A Practicum in Entrepreneurship," the final course students need to complete the entrepreneurship minor. The three students lined up, shook his hand one by one and gave their elevator pitch. They maintained strong eye contact and said where they were from. They highlighted their biggest accomplishments and skill sets. The students ended with what they want to do and the impact they want to make in the world. Bell gave them a double high-five once they finished and asked for class feedback.

"Each student has their opportunity to shine by getting up in front of the class and being vulnerable," Bell said. "The pitch is important, but more importantly, is that they are taught to be encouraging and supportive of one another in the spirit of building a team."

This is just a peak into the nationally-ranked Shuford Program of Entrepreneurship, which was launched as the minor in entrepreneurship in 2004 as part of the Carolina Entrepreneurial Initiative. Initially, the program was a \$3.5 million six-year grant program funded by the Ewing Marion Kauffman Foundation.

Then in 2017, the Program got its new name after the Shuford family of Hickory, North Carolina, a fifth-generation Carolina family, made an \$18 million gift to the UNC College of Arts and Sciences, more than doubling the Program's size.

The Shuford Program now has over 700 students from over 30 majors across the University, up from 260 students just 2.5 years ago. Buck Goldstein, the University Entrepreneur-in-Residence and one of its founders, said the goal was to double its size in five years after the 2017 gift. They reached this goal much sooner.

"We believe that if you take an art history major, a philosophy major, a computer science major, and an econ major and pair them together to attack a problem, that the outcome will be more robust and user friendly than if all computer science majors or all art history majors," Bell said. "This interdisciplinary approach is what we believe has helped us grow the Program to over 700 students from 260 2.5 years ago."

The Program is housed in the College of Arts and Sciences, which Goldstein believes makes it unique compared to other entrepreneurship programs across the country. Carolina's program is designed to complement a liberal arts education.

"It, more than almost everything else, is emblematic of our approach to entrepreneurship which isn't based on starting a business, but much more broadly, a way of thinking that can be and will need to be employed by almost any student during their career once they graduate," Goldstein said.

The 2017 gift created an endowment to support three additional entrepreneurs-in-residence, up to four faculty fellows, 70 student internships, and a lecture series on innovation and entrepreneurship. It also endowed the executive director and internship director positions.

"More importantly, it has assured that the program will exist essentially forever because now it's an endowed program," Goldstein said.

The college also supported at least three additional full-time faculty members, an entrepreneur-in-residence, and an administrative staff position.

And now, the program has launched the pilot of its Innovator-in-Residence, a cross-campus collaboration to connect students, alumni, and faculty on timely, relevant, and engaging

topics. UNC alum Mackenzie Thomas served as the first Innovator-in-Residence.

Thomas, who has worked at Google for over 6 years, met with nearly 1,000 students in her first week through classes in the Policy, Entrepreneurship and Media and Journalism Programs to discuss the importance of inclusivity in product development, media, and storytelling. She also met with Terry Rhodes, interim dean of the College of Arts and Sciences, and Chancellor Kevin Guskiewicz to discuss plans for making Carolina's curriculum more forward-thinking to build a diverse future.

Thomas said the program helped her as an undergraduate, encouraging her to take risks and challenge this status quo, what she sees as a rarity from an academic department.

"I'm still thankful for the Entrepreneurship Minor, both because of the students and people I've met but also because of the diversity of perspectives of what entrepreneurship is and can lead to," Thomas said. "Even in a company as vast as Google, I'm continuously motivated to drive sustainable change and impact."

The Program provides a diversity of experiences for students. With students from the Hussman School of Journalism and Media to students in the computer science department, Thomas said students are challenged to look through different lenses.



No matter your major or interest, there are people in this program who will push you to do better and be better. The future depends on an intersectional, diverse group of individuals, and I'm thankful the Shuford Program is increasingly supporting that future."

Mackenzie Thomas, Shuford Program of Entrepreneurship Innovator-in-Residence

Investment Performance

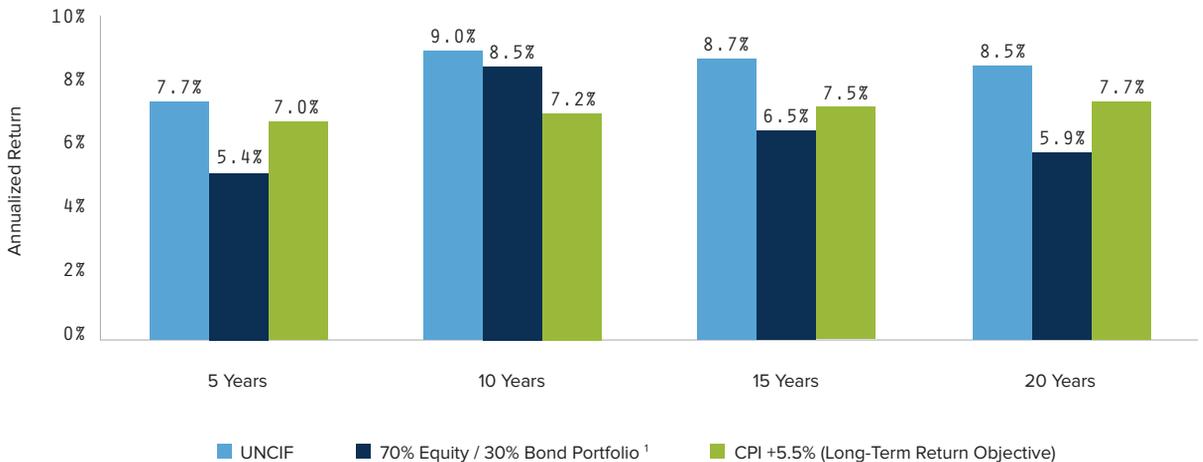
The Fund is constructed to achieve its primary investment objective over a long-term time horizon. By investing for the long term, the Fund can capture extended trends in markets and the illiquidity premiums associated with investments in private securities. Investing for the long term also allows the Fund to maintain discipline in the face of short-term market disruptions. Measured tactical tilts in asset allocation also allow 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 22 displays the Fund's total returns during those periods over the past twelve 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.

Figure 8

Relative Long-Term Performance • Periods ending June 30, 2019

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

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 across the 5-, 10-, 15- and 20-year periods ending June 30, 2019. Figure 8 on page 20 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 5-, 15-, and 20-year periods.

With the negative impact of the Global Financial Crisis of 2007–2008 now excluded from the calculation, the Fund's ten-year annualized return to June 30, 2019 of +9.0 percent easily exceeds the +7.2 percent return of its long-term objective. Additionally, the Fund's return over the ten-year period exceeds both the SIPP benchmark and the Global 70/30 Portfolio which returned +8.9 percent and +8.5 percent, respectively. Over the last ten years, each of the Fund's asset classes has positively contributed to performance. Real Estate is the only laggard to its benchmark over the period, trailing its benchmark by 4.0 percent. With a ten-year annualized return of +17.1 percent, the Fund's Private Equity asset class has added significant value over public equity markets, returning 7.0 percent over the +10.1 percent return of the broader global equity market (MSCI ACWI) and highlighting the integral role private investments play in helping the Fund achieve its long-term investment objectives.

Over the medium term, three- and five-year periods ended June 30, 2019, 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 both periods, the Fund's +10.6 percent and +7.7 percent returns enhance its "real" purchasing power by significantly outperforming its long-term objective of generating a return in excess of CPI (inflation) plus 5.5 percent.

Figure 9 Asset Class Returns vs SIPP Benchmarks • 10 years ended June 30, 2019

Over the long term, each of the Fund's seven major asset classes has produced a positive return with equities (both public and private) driving performance.

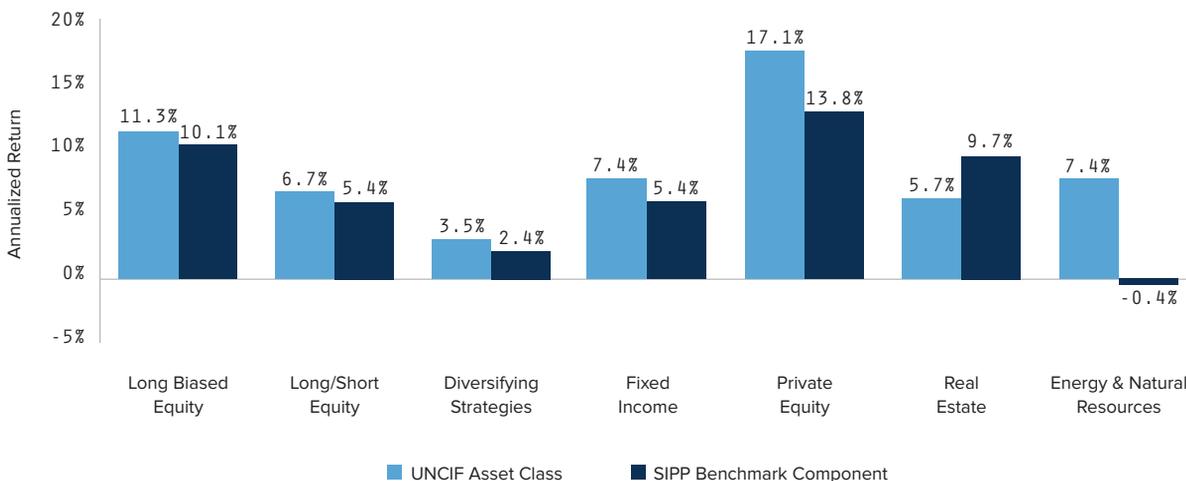


Figure 10

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.

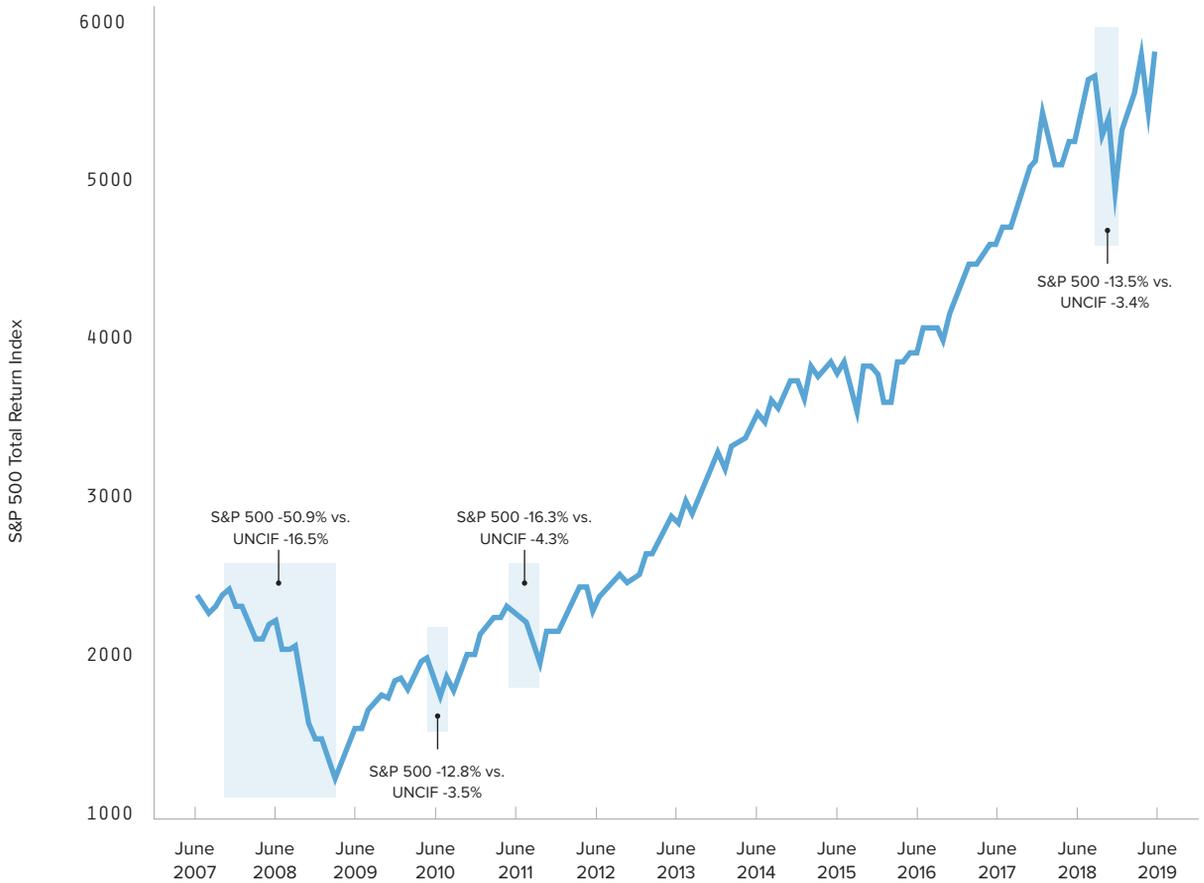


Figure 11

Investment Performance • Fiscal Year

	2019	2018	2017	2016	2015
UNCIF Return (Net)	7.7%	12.0%	12.1%	-2.0%	9.3%
SIPP Benchmark Return	6.7%	8.8%	11.8%	-0.8%	3.2%
Peer Universe Median ¹	5.4%	9.0%	13.1%	-2.7%	2.5%

1. Cambridge Associates universe of college and university endowments

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	0.01%
Other Operating Costs ¹	0.01%

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 2019 Update

- The Fund received \$2.6 million in realizations from its exposure to environmentally-minded investments
- At the end of the fiscal year, the Fund had \$21.5 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): Bobby Williams, Kevin McGowan, Patrick O'Neill, Elaine Brim, Kevin Tunick, Rodgers Harshbarger. **Middle row (left to right):** Kimberly Baker, Margaret Holder, Celeste Reed, Deana Griffin, Rebecca Fry, Angela Elam, Kay Day, Susan Smith, Janine Vanzetta Burke. **Back row (left to right):** Timothy Burch, Matt Lesesky, Joshua Shapiro, Benjamin Wendt, Jonathon King, Jeffrey Liu, Ed Hetherington. **Not pictured:** Anita Barber, Chris Bartholomew, Jonathan Cornish, Richard Flintzer, Elaine Jeffries, Juddy Mair, Chris Mattke, Angela Moss, Sarah Rivera, Clay Robinson, Chris Rudolph, Luke Stone, Gina St.Phillips, Kimberly Woodlief.

Fund Members

1. Carolina for Kibera, Inc.
2. Dental Foundation of North Carolina, Inc.
3. The Educational Foundation, Inc.
4. The Kenan-Flagler Business School Foundation
5. Medical Foundation of North Carolina, Inc.
6. The Morehead-Cain Foundation
7. The Morehead-Cain Scholarship Fund
8. North Carolina Botanical Garden Foundation, Inc.
9. The North Caroliniana Society, Inc.
10. Order of the Golden Fleece Foundation
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12. School of Media and Journalism Foundation of North Carolina, Inc.
13. UNC Eshelman School of Pharmacy Foundation
14. UNC General Alumni Association
15. UNC Gillings School of Global Public Health Foundation, Inc.
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17. UNC School of Dentistry Alumni Association
18. UNC School of Government Foundation, Inc.
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20. The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc.
21. The University of North Carolina at Chapel Hill Endowment Fund
22. The University of North Carolina at Chapel Hill Foundation, Inc.
23. The University of North Carolina at Chapel Hill Foundation, Inc. Gift Annuity Program
24. The University of North Carolina at Chapel Hill Temporary Pool











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