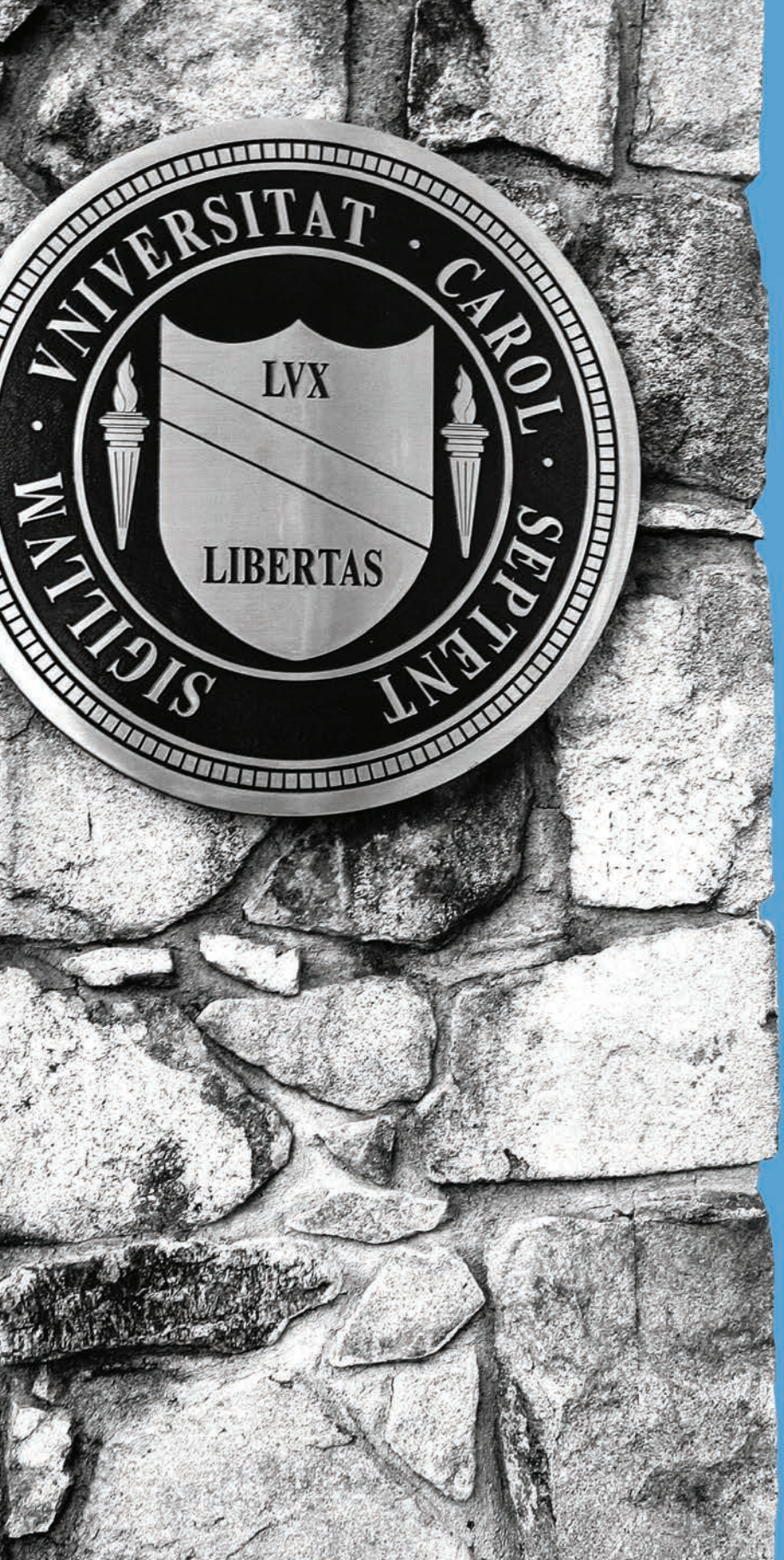

The University
of North Carolina
at Chapel Hill

FOUNDATION INVESTMENT FUND, INC.

2020

Fiscal Year
Annual Report

UNCMC

UNC Management Company, Inc

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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 25 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

Each year, publishing the annual report affords us the opportunity to reflect upon the past fiscal year, to examine what we got right and, most importantly, what we learned and can ultimately improve upon. The annual report also allows us to highlight some of the students, faculty, and organizations supported by the Chapel Hill Investment Fund through its investment in the UNC Investment Fund, LLC ("Fund"). We are acutely aware of the impact our investment efforts have on the Fund's members and are honored to support each of them. Our members are what drive us forward to constantly evaluate investment opportunities and managers across the globe and think strategically about the investment decisions we make.

Fiscal Year ("FY") 2020 was a year like no other dominated by the profound challenges brought about by the COVID-19 pandemic. Against this backdrop and amid another year of record setting volatility, the Fund returned +2.3 percent. Reflecting the Fund's relatively muted investment return for FY 2020, the Fund's assets grew by a modest $110.1 million to finish the year at $6.7 billion. Over the past ten years, however, the Fund has grown by more than 160 percent (an increase of more than $4.1 billion) with an annualized investment return of +8.5 percent.

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. While the Fund's +2.3 percent return for FY 2020 falls short of this goal for the one-year period, over the longer term with 10- and 15-year annualized returns of +8.5 percent and +7.8 percent, respectively, the Fund has been successful in reaching this important objective. Relative to peers, the Fund's FY 2020 return ranks in the second quartile of the Cambridge Associates universe of college and university endowments. Over longer time periods, 3-, 5-, 7-, and 10-years, the Fund's performance ranks in the top quartile relative to peers highlighting its ability to perform despite varying market environments.

There is no doubt that significant uncertainty lies ahead with the impact of the coronavirus pandemic on humankind, the economy, and financial markets continuing to evolve both in terms of its short- and long-term effects. We believe in order to be successful in achieving the Fund's investment objectives during this challenging period we cannot be complacent. We must also rely on and remain committed to our key investment principles (described on page 10).

I would like to express my appreciation for the work and dedication of my fellow Board members and the UNC Management Company team. Together their partnership, collective expertise, thoughtfulness, and diligence has proven to be invaluable. I also wanted to express my sincere gratitude for the continuing support of the Fund's members. We will never lose sight of our role as stewards of the endowment assets of the UNC System as we look forward to FY 2021 and beyond.

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

Anne Brennan

Chief Risk Officer,
Neuberger Berman

James Keith Brown

Senior Managing Director-Partner,
Coatue Management, LLC

David Carroll

Managing Member,
Carroll Family Holdings, LLC

Munroe Cobey

Retired Partner, Tudor
Investment Corporation

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

John Preyer

Co-Founder & President,
Restoration Systems, LLC

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

Richard Stevens

Attorney, Smith Anderson

As of June 30, 2020 | * Executive Committee Member

PORTFOLIO AT A GLANCE

	Fiscal Year as of June 30				
	2020	2019	2018	2017	2016
CHIF Market Value ($ millions)	$3,642.4	$3,641.7	$3,429.2	$3,046.1	$2,784.3
UNCIF Market Value	$6,679.0	$6,568.9	$6,155.9	$5,411.2	$4,549.6
UNCIF Return	2.3%	7.7%	12.0%	12.1%	-2.0%
SIPP Benchmark Return	*2.1%*	*6.7%*	*8.8%*	*11.8%*	*-0.8%*
UNCIF Asset Allocation					
Long Equity	29.5%	27.5%	31.1%	31.0%	26.2%
Long/Short Equity	17.3%	15.5%	15.9%	17.8%	19.3%
Diversifying Strategies	9.2%	9.9%	9.1%	6.7%	8.0%
Fixed Income	8.7%	9.4%	8.9%	10.4%	8.5%
Private Equity	23.6%	24.1%	19.6%	19.2%	20.9%
Real Estate	6.2%	5.8%	6.0%	6.7%	7.3%
Energy & Natural Resources	4.5%	6.8%	7.2%	5.7%	5.8%
Cash	1.1%	1.1%	2.1%	2.5%	3.9%

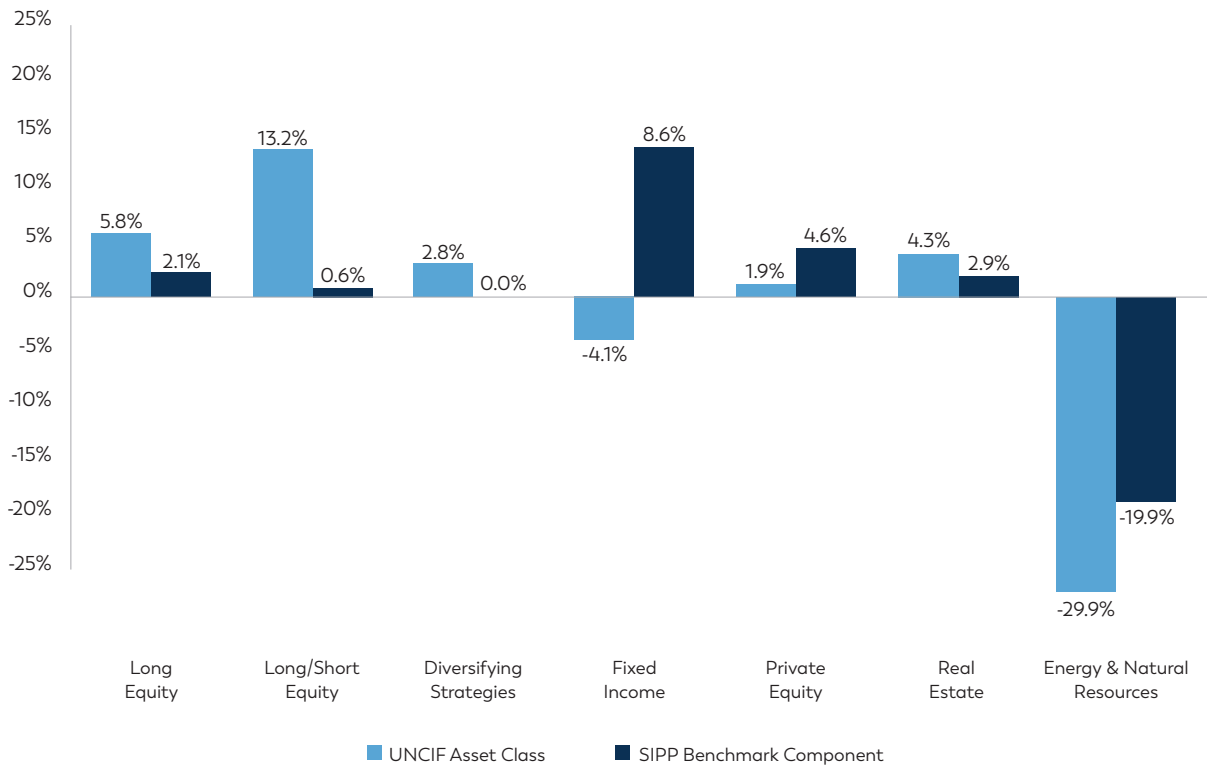
FISCAL YEAR 2020 OVERVIEW

Fiscal Year 2020 was defined by the onset of the global coronavirus pandemic that struck during the third quarter of the fiscal year. Prior to this, domestic equities advanced with lessening U.S.-China trade tensions driving investor sentiment along with fading fears of a recession. Stocks were boosted in Q2 (three months ended December 31, 2019) after the U.S. Labor Department reported that employers had continued to add jobs at a decent pace (136,000) in September while revising previous months' payroll gains higher. Payroll gains reported in November and December also surprised on the upside. Meanwhile, the unemployment rate touched 3.5 percent in both September and November, the lowest level in five decades. Housing market signals were also generally positive, and the U.S. Commerce Department reported in December that permits for new construction surged to their highest level in more than 12 years.

However, late in Q3 (three months ending March 31, 2020), stocks suffered their worst selloff since the 2007–2008 Global Financial Crisis as the accelerating coronavirus pandemic led to the shutdown of significant portions of the global economy. The large-cap S&P 500 Index declined -19.6 percent for the quarter with the Nasdaq Composite Index faring slightly better with

FIGURE 1 **Asset Class Returns vs. SIPP Benchmarks** · Fiscal Year 2020

There was a wide disaprity in asset class performance during a highly unusual year with the Fund's hedge fund managers producing significant outperformance relative to their benchmarks.

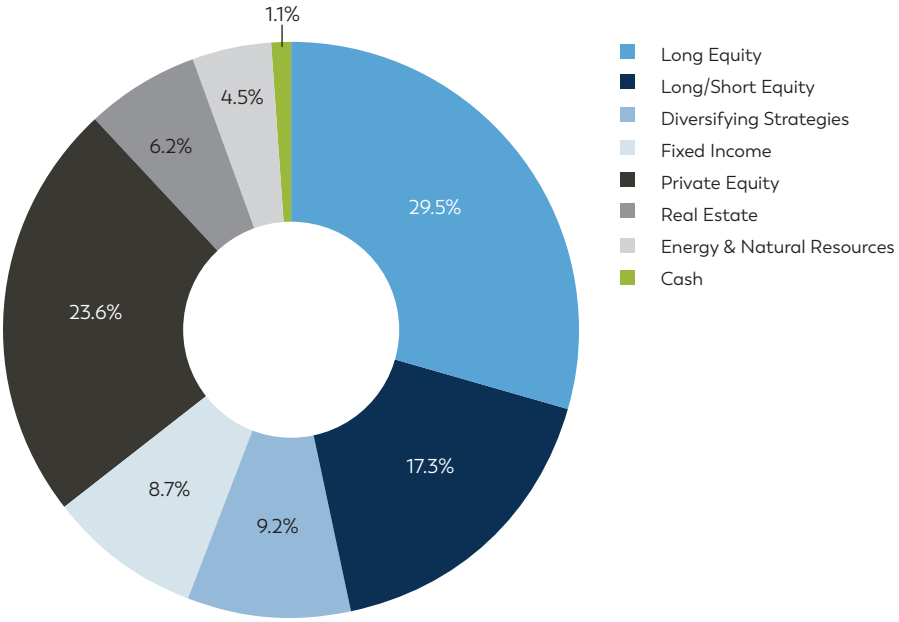


a -14.0 percent return. The declines brought a decisive end to the record-long bull market that began in 2009. Extraordinary volatility led to several automatic trading halts late in the quarter and the Cboe Volatility Index (VIX) surpassed its financial crisis peak to hit a record high.

For the final quarter of Fiscal Year 2020 (three months ending June 30, 2020), global equity markets staged a dramatic recovery recording their best gains in decades. Against this backdrop, the S&P 500 Index jumped +20.5 percent, its best quarterly return since 1998. Progress in the battle against the coronavirus with infection rates, hospitalizations, and deaths beginning to decline in April in hard-hit areas such as New York led to the rapid return of investors' risk appetite early in the quarter. Favorable trends in coronavirus statistics also led to the gradual reopening of businesses and public facilities. Unprecedented and massive monetary accommodation with the U.S. Federal Reserve (the "Fed") pushing its balance sheet above $7 trillion by the end of quarter along with substantial fiscal stimulus also bolstered markets. The overall tone of economic data in the U.S. improved throughout the quarter and may have helped offset coronavirus fears. A bright spot was the jobs report released in early June that showed that employers added back 2.5 million positions in May, defying consensus expectations for a decline of upwards of 8 million jobs. Instead of rising to nearly 20 percent as forecast, the unemployment rate dropped to 13.3 percent from 14.7 percent.

Given the global nature of the pandemic and the resulting shutdown of significant portions of the global economy, international equities also suffered sharp declines during the March quarter. Developed markets equities outside the U.S., as measured by the MSCI EAFE Index (Europe, Australasia, Far East), lost -22.8 percent led by declines in energy, financials, and real estate. Emerging markets also slumped with the MSCI Emerging Markets Index dropping -23.6 percent for the quarter. Similar to domestic equities though not as dramatically, international equities also rebounded in the final quarter of the fiscal year. Developed markets equities gained +14.9 percent bolstered by massive monetary and fiscal stimulus, countries beginning to reopen their economies, and optimism surrounding potential coronavirus vaccines. Despite an acceleration in the number of new daily cases of Covid-19 in some emerging market countries, emerging markets equities also had one of their best quarters in many years with the MSCI Emerging Markets Index gaining +18.1 percent for the quarter.

FIGURE 2 **UNCIF Asset Allocation (% of total market value)** · As of June 30, 2020



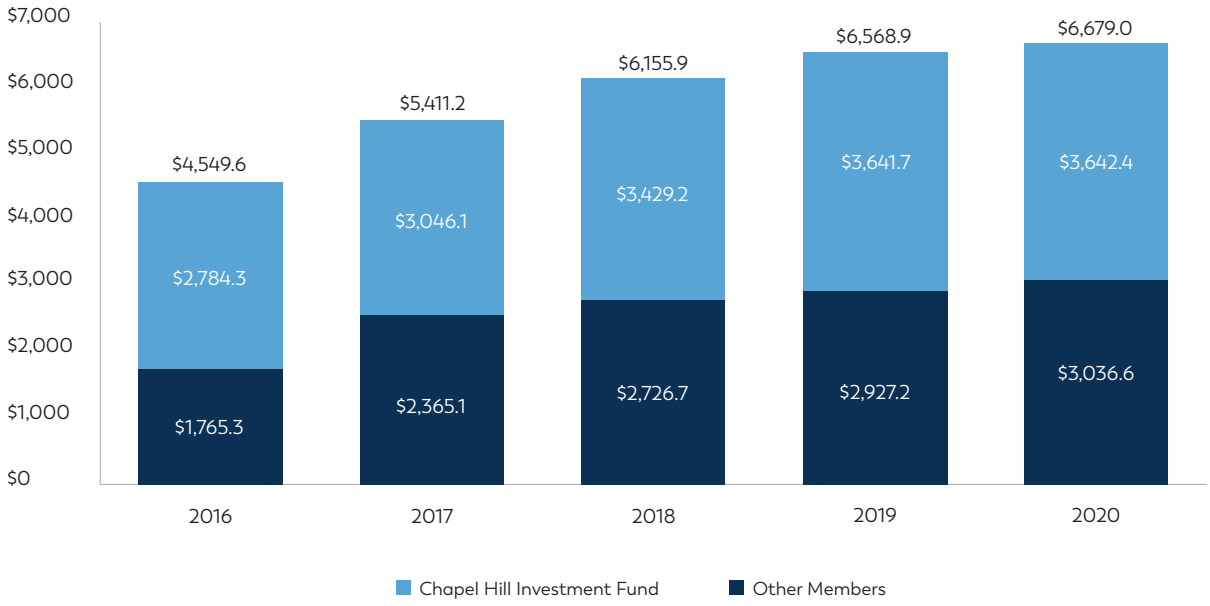
Fixed income markets experienced another year of strong performance as the demand for traditionally safer assets such as U.S. government debt increased once the pandemic hit. The broad domestic fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, finished the year up +8.7 percent. After starting the fiscal year at 2.00 percent, the 10-year Treasury note slid lower in March, hitting an all-time closing low of 0.54 percent before finishing the year at 0.65 percent. The sharp yield drop easily surpassed the previous record low of 1.37 percent reached in July 2016. As the pandemic's impact on the economy and financial markets continued to evolve, the Fed maintained their commitment to take aggressive actions to support both the economy and financial markets going forward.

Fiscal Year 2020 was a challenging year for institutional portfolios amid record setting volatility. The Fund returned +2.3 percent, ahead of its primary SIPP benchmark's +2.1 percent return but lagging the +4.6 percent return on the more "traditional", equity market focused Global 70/30 Portfolio comprised of 70% global equities (MSCI ACWI) and 30% bonds (Bloomberg Barclays U.S. Aggregate Bond Index). Relative to peers, the Fund's FY 2020 return ranks in the second quartile of the Cambridge Associates universe of college and university endowments.

During this unusual period there was a wide disparity in asset class returns with the Fund's performance driven by its exposure to public equities. On the heels of strong performance from global and emerging markets equity managers, Long Equity, the Fund's largest allocation, returned +5.8 percent for the period exceeding its MSCI ACWI benchmark by 3.7 percent. The Fund's hedge funds generated significant relative outperformance particularly Long/Short Equity with its +13.2 percent return for the year beating its benchmark by 12.6 percent. While not as strong on an absolute basis, Diversifying Strategies also performed well on a relative basis with its +2.8 percent return beating its benchmark by 2.8 percent. Fixed Income and Energy & Natural Resources underperformed with both asset classes generating a negative return and trailing their respective benchmarks. Private Equity and Real Estate returned +1.9 percent and +4.3 percent, respectively with the recovery in Private Portfolio valuations seen in the final quarter of the fiscal year to be reflected in FY 2021.

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 over 40% with nearly $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.

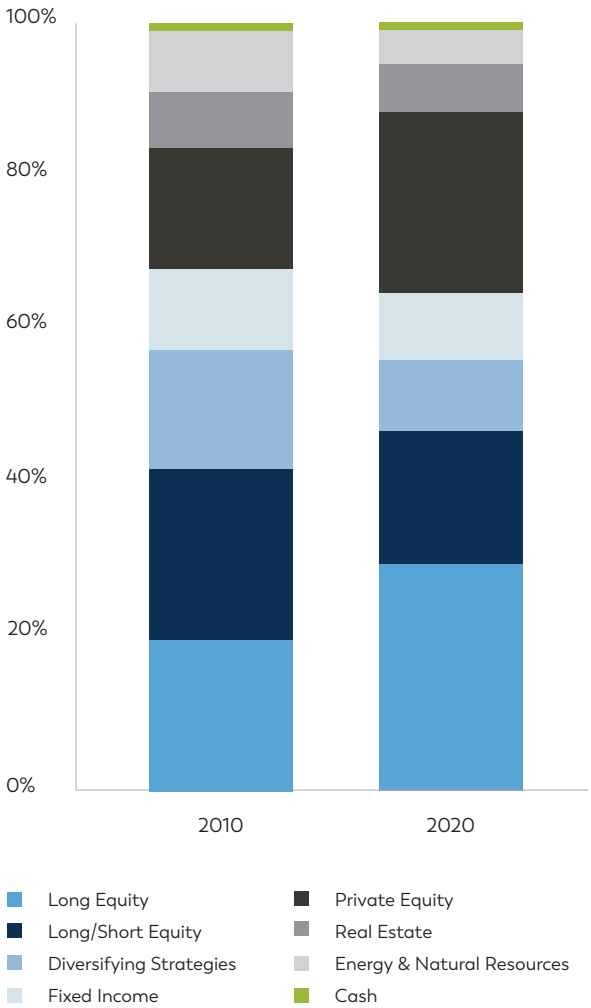
FIGURE 4 Strategic Investment Policy Portfolio (SIPP)

Asset Class	Fund Allocation [1]	Strategic Target	Tactical Range	Benchmark
Long Equity	29.5%	30%	24 – 36%	MSCI All Country World Index (ACWI)
Long/Short Equity	17.3%	15%	10 – 20%	Hedge Fund Research Institute (HFRI) Equity Hedge Index
Diversifying Strategies	9.2%	10%	6 – 14%	(50% HFRI Fund of Fund Conservative Index + 50% HFRI Fund of Fund Defensive Index) + 0.5%
Fixed Income	8.7%	9%	5 – 14%	Fixed Income Custom Index[2]
Private Equity	23.6%	20%	15 – 25%	Cambridge Associates Composite Index[3]
Real Estate	6.2%	8%	5 – 12%	90% NCREIF / 10% NAREIT
Energy & Natural Resources	4.5%	6%	3 – 9%	50% S&P Goldman Sachs Commodity Index / 50% (CPI + 3%)
Cash	1.1%	2%	-2 – 8%	90-Day T-Bills

1. As of June 30, 2020
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 (Global), 40% Cambridge Associates Venture Capital Index (U.S.)

FIGURE 5 **Historical Assett 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 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 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, 2020, 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 over-priced. 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

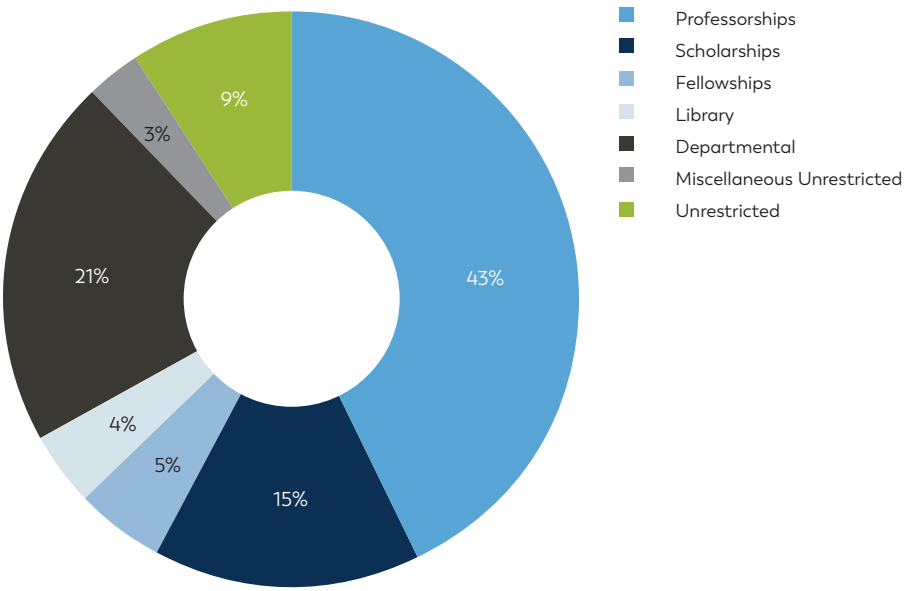
Endowment funds play a primary role in the funding of higher education and have become a crucial source of support to The University of North Carolina at Chapel Hill. Each year, CHIF participants receive a spending distribution of between 4 and 7 percent of their beginning market value to support various 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 2020



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.

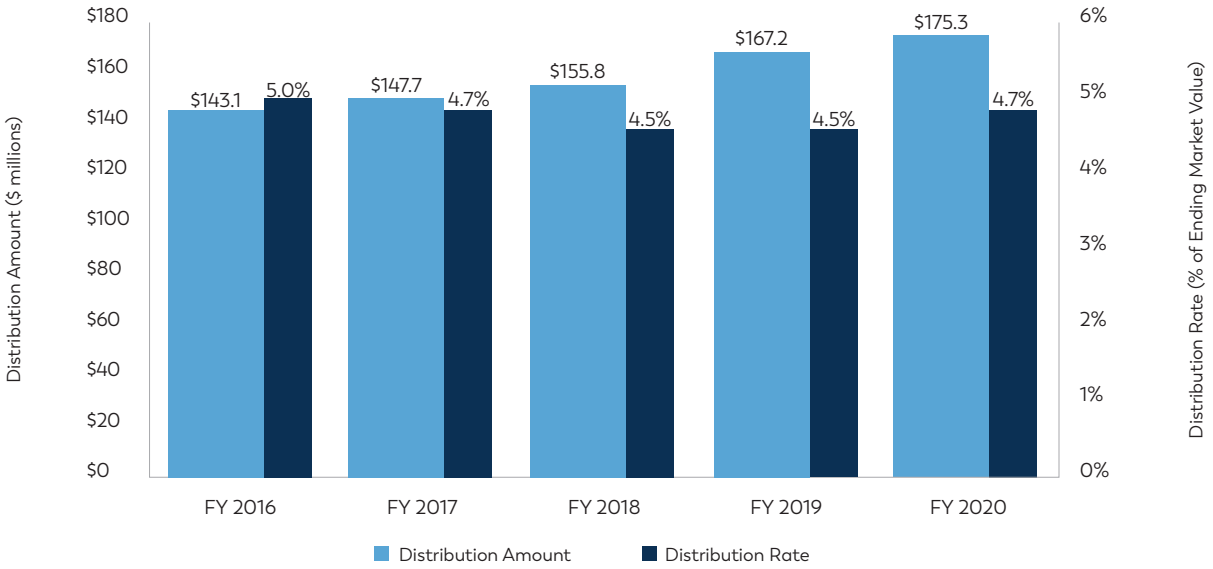
Considering the Fund's expected rate of investment return is crucial in determining and setting the spending distribution rate. Predicting the Fund's expected rate of return is extremely difficult, however, based on the Fund's asset allocation, its long-term expected real (i.e. inflation adjusted) rate 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 $454 to $463 per CHIF unit for fiscal year 2020. This increase resulted in an annual distribution rate of 4.7 percent of ending market value, which falls within the policy guidelines. In the prior year, the distribution rate was 4.5 percent. Over the past ten years, CHIF has distributed $1.4 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

Marleigh Desmond Hicks Study Abroad Scholarship Fund

Michael-Bryant Hicks created a scholarship to support first-generation students of color; it's named for his son, Marleigh.

"I want to take away any number of fears that may prevent a student — who grew up like me — from studying abroad," explained Michael-Bryant Hicks '96.

Hicks is doing just that through the Marleigh Desmond Hicks Study Abroad Scholarship Fund, which has provided stipends for seven undergraduates. The scholarship supports first-generation students of color as they participate in a University study abroad program.

Hicks, a corporate lawyer and former Fulbright Scholar, explained that the most rewarding aspect of establishing the scholarship is spending time with students.

"It's important to be visible to those students like me — especially minority students coming from rural North Carolina who may be thinking that their challenges in accessing a college education are unique," said Hicks, who has been a member since 2007 of the Chancellor's Global Leadership Council, which is charged with expanding and deepening the University's reach to people and institutions around the world. Hicks cherishes the University and continues to challenge Carolina to become an even more inclusive environment for students of color.

During a dinner with his scholarship recipients in fall 2018, he identified with a lot of the sentiments they shared — "no one in my family has ever left the country" and "no one in my family has a passport," he said.

Coming from rural Forsyth County just outside of Winston-Salem, N.C., Hicks was the first in his family to graduate college. While at UNC, he benefited from mentors who encouraged his participation in campus life. He became involved with several student organizations: the NC Fellows Program, the Black Student Movement's Gospel Choir and Phi Beta Sigma Fraternity. A psychology major, he served as a research assistant for Donald H. Baucom, the Richard Lee Simpson Distinguished Professor of Psychology.

While Hicks didn't study abroad until he got to Yale Law School, he does credit his time at Carolina with exposing him to the importance of a global mindset.

"There were always global speakers and lectures on campus," he said. "Carolina is a microcosm of the world, and it is important for students to seek out and access as many different backgrounds and cultures as they can."

Scholarship recipient Savannah Baker '20 of Kenansville, N.C., was motivated to do just that. Baker, who is majoring in political science and philosophy and minoring in social and economic justice, participated in Honors Carolina's semester-long study abroad program in London. It was the first time she had traveled internationally. "I felt like a little fish in a big pond at times," she said. "However, by successfully navigating this experience I was able to learn valuable networking skills and meet a new community of people who still continue to support me."

Baker added that she now feels more confident in stepping outside of her comfort zone.

Scholarship recipient Savannah Baker participated in an Honors Carolina semester in London.

> I felt like a little fish in a big pond at times. However, by successfully navigating this experience I was able to learn valuable networking skills and meet a new community of people who still continue to support me.
>
> – Savannah Baker '20, political science and philosophy major

"At an event last semester, I reached out to a speaker who I was interested in working with over the summer," she said. "That five-minute interaction turned into a three-month fellowship at the Carolina Justice Policy Center. I do not think I would have been confident enough to network in that way without my experience in London."

Besides fostering a global mindset, Hicks hopes that the Marleigh Desmond Hicks Study Abroad Scholarship Fund is "helping to ignite a spark in students — a spark that helps get them on their way to pursuing experiences that may change the course of their lives," he said.

Hicks' passion for international experiences is something that he is now passing on to his son, Marleigh, for whom the scholarship is named. Marleigh is in sixth grade and fluent in Mandarin and Spanish.

"My son is growing up much differently than I did," Hicks said. "He's had summers abroad in China and Ecuador, and I see how valuable it is for him. I want all students who come from backgrounds like mine to have exposure to opportunities like these."

Richard M. Clifford Fund for International Collaboration on Early Learning Environments

A few years after the fall of the Berlin Wall, education researcher Dick Clifford, Ph.D., traveled to a local childcare center in the Hungarian town of Kiskunhalas near the Yugoslav border. Clifford, an investigator from the UNC Frank Porter Graham Child Development Institute ("FPG"), was working with Hungarian early childhood leaders to adapt to a more Western style mix of services — including methods he pioneered on delivering child-centered care.

As Clifford engaged with the children, one young girl studied his every move.

In a photo from this day in 1996, Clifford is looking at the camera, one hand in his pocket and the other resting on the counter behind him. His posture is mirrored by his young follower — one hand in her pocket as she leans onto the hand placed on the table behind her, her legs crossed at the ankles just like his. "Children are watching what we do, all the time," says Clifford.

For four decades, educators, trainees, researchers, and students have been following where Clifford leads. His work on best practices for early learning has transformed pre-kindergarten, helped craft landmark state programs such as Smart Start and More at Four, and crossed continents to inform educators abroad.

Clifford and his wife, Ginger, a speech pathologist, have dedicated their lives to unlocking the potential of young children, and their latest contribution widens their already incredible reach.

By establishing the Richard M. Clifford Fund for International Collaboration on Early Learning Environments, they preserve and expand FPG's efforts to assess learning environments for young children everywhere, focusing on international collaborations among researchers and colleagues, universities, and government and non-government agencies abroad.

"International work takes the impact of the University outside its borders, and that is critical to what we're about here at FPG, which is helping children. This is how we fit that work into the world."

Growing up in the North Carolina town of Lexington, Clifford hadn't traveled the world, but his father was a Baptist minister with an interest in foreign aid, and he passed that interest on to his son. Clifford was ahead of his time, considering the larger world around him when others in his community did not.

He continued to think big, majoring in physics at Wake Forest University. But even pondering the expansive universe felt small from the inside of a lab. He felt called to have a more direct impact on those around him. "One night I was sitting in the lab, and it got very late. I started to think, 'Is this really what I'm going to be doing with my life?'"

Dick and Ginger Clifford became dedicated to public education as young teachers. He taught high-school physics in Wilmington, where the school system was pushing back against court-ordered integration. The Cliffords had a front seat to history, and the advancements of the Civil Rights Movement felt slow to come and difficult to endure.

> "From the start, I liked FPG and its research community, particularly the clear focus on how you can make lives better for kids by focusing on their early settings. There was a lot of support for research targeted toward the things we can change now, such as organizations, climates, teaching practices, and policies that affect children.

– Richard M. Clifford, Ph.D.

"In Wilmington, I worked at the largest high school in North Carolina," says Clifford. "There were 3,500 students, and around 50 of them were Black. And few wanted them there. We began to see what our role could be in the state."

With a move to Burlington, where the district was openly dedicated to achieving equity in the schools, Clifford continued to broaden his experience as an educator, serving in school administration and enrolling in the Ph.D. program in educational leadership at the UNC School of Education. In 1973, he became a graduate research assistant at FPG, and he never left. Even now, on his second retirement from the institute, he keeps an office on site.

"From the start, I liked FPG and its research community, particularly the clear focus on how you can make lives better for kids by focusing on their early settings. There was a lot of support for research targeted toward the things we can change now, such as organizations, climates, teaching practices, and policies that affect children."

Clifford's work has indeed made a difference, setting the standard for early learning environments that bring out the best in children and increase their opportunities for success.

Some of Clifford's best-known work involves the Environment Ratings Scales, a method of assessing quality in early childhood care and education. The Early Childhood Environment Rating Scale, which he published with colleagues Thelma Harms and Debby Cryer, is now in its third edition. The text is celebrating 40 years and is used around the world to set a standard for high-quality care.

Together with FPG colleague Noreen Yazejian, Ph.D., the group has also recently published third editions of the Infant/Toddler Environment Rating Scale and Family Child Care Environmental Rating Scale.

"We look at early learning settings from the point of view of the child," says Clifford. "This was a policy framework that encouraged thinking of the child as a whole and developing relationships. It focuses on making sure children are healthy and safe, that they have positive relationships, and there are opportunities to experience life and learn from it."

For more than 20 years, an international working group has come together each year from countries around the world to discuss applying the ratings scales to their own countries and educational systems, indicative of the impact Clifford's research and implementation have had all over the world.

This policy work led to an increased interest in politics, and North Carolina Governor Jim Hunt tapped him to help design and implement Smart Start, a public/private partnership working in all 100 of the state's counties to advance high-quality, comprehensive care and education for each child beginning with a healthy birth. Later, Governor Mike Easley asked Clifford to help with his own project, the More at Four program, now known as NC Pre-K.

"There's so much more we could be doing," says Clifford, who fully retired from FPG in 2012 but still actively works to ensure that all children have safe, equitable, empowering learning environments where they can learn to think and dream bigger, just as he always has.

"FPG has given me the opportunity to work with and learn from other colleagues here, some of the best the U.S. has to offer, as well as researchers around the world. They are all committed to making our world a better place for young children. Ginger and I wanted to help FPG continue the great work it has been doing since it was established more than 50 years ago."

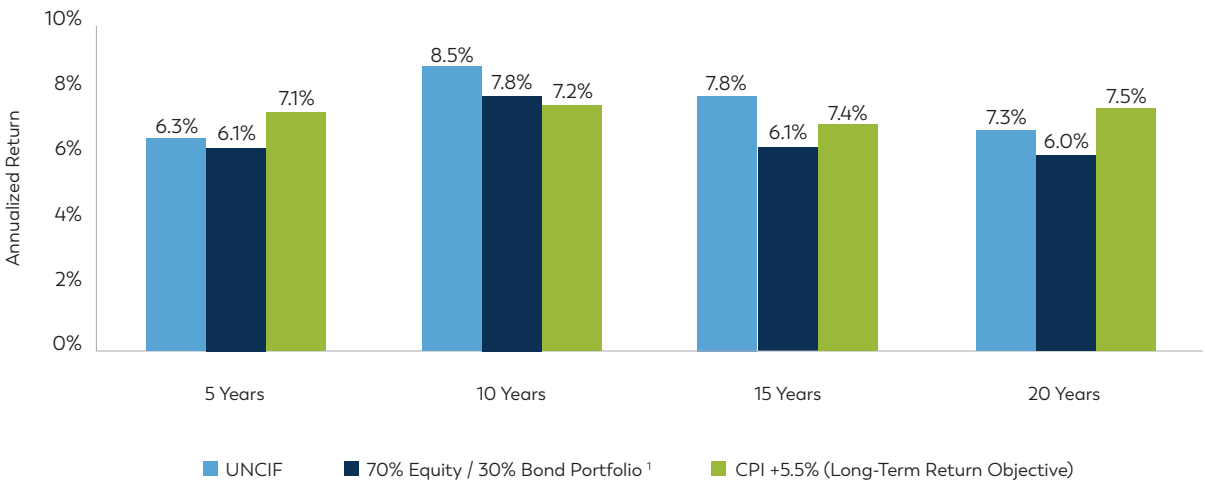
INVESTMENT PERFORMANCE

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.

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 since the beginning of 2007 when the S&P 500 Index dropped more than 10 percent. This figure illustrates that during periods of market stress, like that seen in February and March 2020 during which the S&P 500 Index dropped nearly 20 percent, the Fund provided downside protection, sustaining just a fraction of the market's losses.

FIGURE 8 **Relative Long-Term Performance** • Periods ending June 30, 2020

A traditional equity/bond portfolio fails to achieve the Fund's primary objective highlighting the need for diversification and 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, and selecting top performing investment managers, the Fund has achieved this objective over the long term (10- and 15-year periods ending June 30, 2020). 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 Global 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-year period.

Despite the impact from the coronavirus pandemic seen in Q3 FY 2020, the Fund's ten-year annualized return to June 30, 2020 of +8.5 percent exceeds the +7.2 percent return of this long-term objective. Additionally, the Fund's return over the ten-year period easily exceeds both the SIPP benchmark and the Global 70/30 Portfolio which returned +8.0 percent and +7.8 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 1.9 percent. With a ten-year annualized return of +15.7 percent, the Fund's Private Equity asset class has added significant value over public equity markets, returning over 70 percent more than the +9.2 percent return of the broader equity market (MSCI ACWI) and highlighting the integral role private investments play in helping the Fund achieve its long-term investment objectives.

Over medium-term time horizons (three-, five-, and seven-years), the Fund also easily exceeds its SIPP benchmark and the Global 70/30 Portfolio. Across both the medium- and long- term, the Fund has performed very well compared to its peers with its 3-, 5-, 7-, 10-, 15-, and 20-year returns each ranking in the top quartile of the Cambridge Associates universe of college and university endowments.

FIGURE 9 **Asset Class Returns vs SIPP Benchmarks** · 10 years ended June 30, 2020

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.

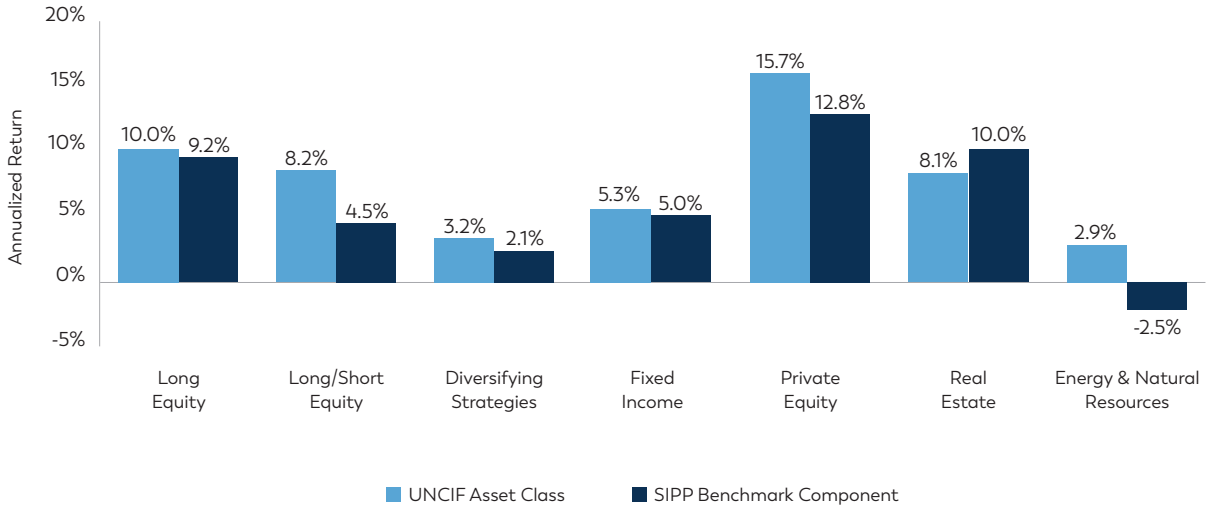


FIGURE 10 **UNCIF: Drawdown Protection** · S&P 500 Index

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

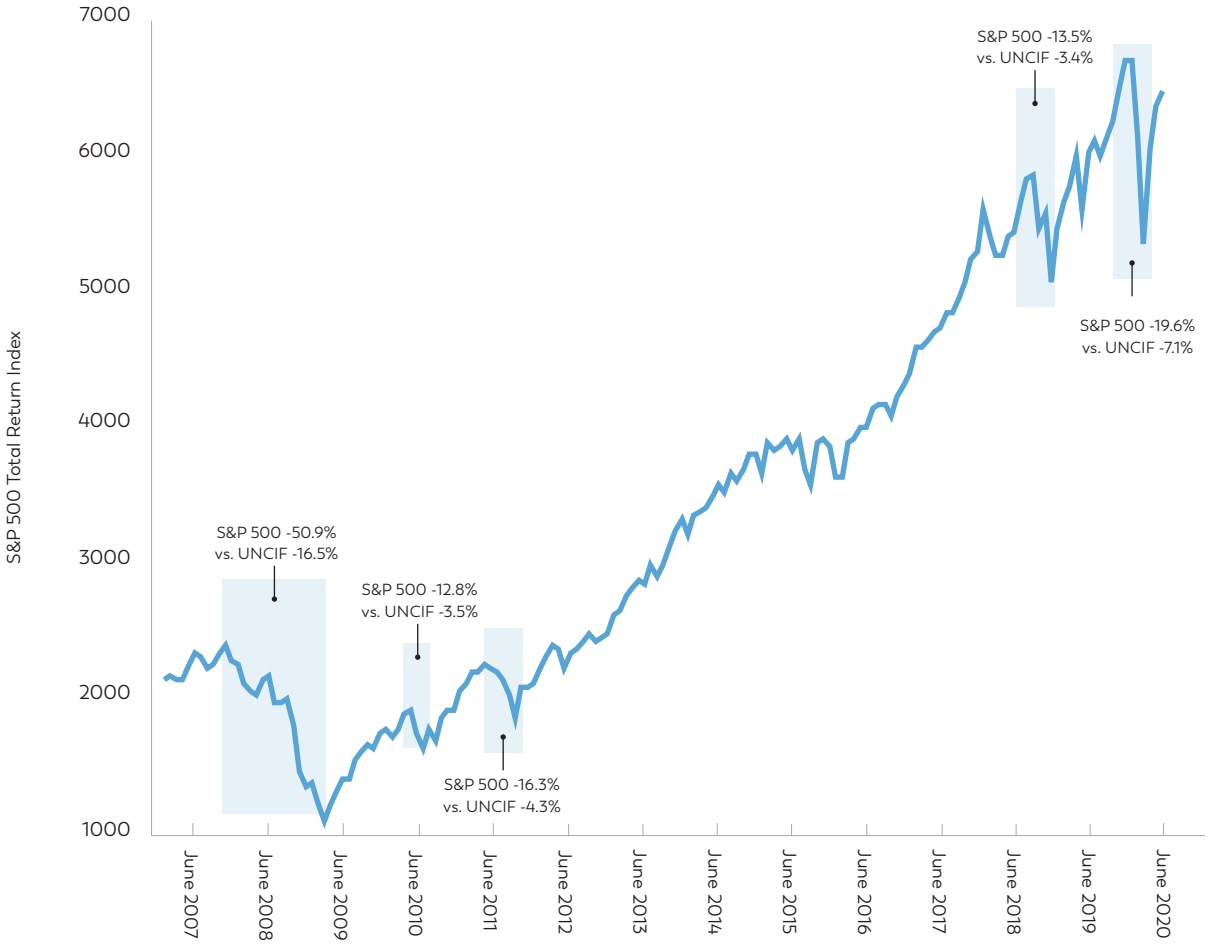


FIGURE 11 **Investment Performance** · Fiscal Year

	2020	2019	2018	2017	2016
UNCIF Return (Net)	2.3%	7.7%	12.0%	12.1%	-2.0%
SIPP Benchmark Return	*2.1%*	*6.7%*	*8.8%*	*11.8%*	*-0.8%*
Peer Universe Median[1]	2.1%	5.4%	8.9%	13.1%	-2.6%

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 2020 Update

- The Fund received $7.9 million in realizations from its exposure to environmentally-minded investments, more than double the previous year
- At the end of the fiscal year, the Fund had $9.8 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 35 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, Kimberly Woodlief Eddins, Richard Flintzer, Elaine Jeffries, Sean Kirkpatrick, Juddy Mair, Chris Mattke, Angela Moss, Sarah Rivera, Clay Robinson, Chris Rudolph, Luke Stone, Ellie Sullivan, Gina St.Phillips.

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UNCMC

UNC Management Company, Inc

1400 Environ Way
Chapel Hill, North Carolina
P: 919-442-1599
F: 919-967-7472

uncmc@uncmc.unc.edu