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... our love for this place is based on the fact that it is, as it was meant to be, the University of the people.

- Charles Kuralt '55
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 27. These entities are comprised of more than 2,000 individual underlying funds.

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

THE INVESTMENT OBJECTIVES

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

Secondary Objective: Achieve a rate of return, net of all fees and expenses, which exceeds the Fund’s primary benchmark, the Strategic Investment Policy Portfolio ("SIPP"). More information on SIPP can be found on page 13.

The Fund’s asset allocation framework, as defined by SIPP, is principally implemented through investments 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
It is with great pleasure that we present the Fiscal Year 2021 Annual Report for the Chapel Hill Investment Fund ("CHIF") which invests in the UNC Investment Fund, LLC ("Fund"). In this report, we not only detail the Fund’s investment performance but also highlight some of the students, faculty, and organizations it supports. We are acutely aware of the impact our investment efforts have on the Fund’s Members and are honored to support each of them.

Following four record-breaking quarters, the Fund returned +42.3 percent, its best fiscal year return since its inception. Over the past couple of decades, many university endowment funds, including the Fund, have adopted the “endowment model” approach to portfolio management. Under this approach, the Fund’s assets are invested in a highly diversified, multi-asset class portfolio that includes a significant allocation to private market investments. Over the long term, this approach has served the Fund well with the Private Equity portfolio producing a +21.3 percent 10-year net annualized return, more than doubling the broader global equity market return. In FY 2021, the Fund’s Private Equity portfolio performance was exceptional returning +90.6 percent. This strong performance was driven by its allocation to Venture Capital managers who returned +142 percent in aggregate for the year amid a strong IPO market. On the heels of strong investment gains and additional contributions from participants, the Chapel Hill Investment Fund’s growth in assets over the year was the largest in its history growing by $1.5 billion from $3.6 billion at the start of the year to $5.1 billion at June 30, 2021. Over the past ten years, CHIF has more than doubled its assets with an annualized investment return of +10.8 percent over the same period.

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 approximately +7.5 percent are deemed to have achieved this target. While the Fund’s +42.3 percent return for FY 2021 easily exceeds this goal in the short term, our primary focus remains on the long term. With 10- and 15-year annualized returns of +10.8 percent and +9.1 percent, respectively, the Fund has been successful in reaching this important objective. The Fund has also performed exceptionally well compared to peers with its FY 2021, 3-, 5-, 10- and 20-year returns each ranking in the top quartile of the Cambridge Associates universe of college and university endowments.

There is no doubt that FY 2021 was a successful year for the Fund. Behind this success has been both my fellow Board members and the UNC Management Company. I am extremely grateful for and proud of their continued partnership, growing expertise, thoughtfulness, and diligence. Equity markets may have provided a significant tailwind in FY 2021, but the Fund’s long-term track record reflects their ability to navigate various market environments successfully. If the last few years have taught us anything its that uncertainty is certain. What is not uncertain is our commitment to our role as stewards of the endowment assets of the University and the UNC System. Thank you for the continued support, open communication, and trust. We all hope that 2022 will be the year in which the world can leave the coronavirus pandemic behind. The past few years have been isolating in many ways, but when it comes to supporting the University, we are all in this together.
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

David Boliek Jr.
Attorney & Partner, Williford, Crenshaw, Boliek and Frangakis, LLP

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

Nathan Knuffman
TREASURER Vice Chancellor for Finance & Operations, The University of North Carolina at Chapel Hill

Steven Lerner
Founder & Managing Partner, Blue Hill Group

John Preyer
Co-Founder & President, Restoration Systems, LLC

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

*Executive Committee Member
# Portfolio at a Glance

<table>
<thead>
<tr>
<th>CHIF Market Value ($ millions)</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>$5,100.8</td>
<td>$3,642.4</td>
<td>$3,641.7</td>
<td>$3,429.2</td>
<td>$3,046.1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,964.3</td>
<td>$6,679.0</td>
<td>$6,568.9</td>
<td>$6,155.9</td>
<td>$5,411.2</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>UNCIF Return</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>42.3%</td>
<td>2.3%</td>
<td>7.7%</td>
<td>12.0%</td>
<td>12.1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SIPP Benchmark Return</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>32.6%</td>
<td>2.1%</td>
<td>6.7%</td>
<td>8.8%</td>
<td>11.8%</td>
<td></td>
</tr>
</tbody>
</table>

## UNCIF Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Equity</td>
<td>29.5%</td>
<td>29.5%</td>
<td>27.5%</td>
<td>31.1%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>15.0%</td>
<td>17.3%</td>
<td>15.5%</td>
<td>15.9%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>6.4%</td>
<td>9.2%</td>
<td>9.9%</td>
<td>9.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.0%</td>
<td>8.7%</td>
<td>9.4%</td>
<td>8.9%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>27.8%</td>
<td>23.6%</td>
<td>24.1%</td>
<td>19.6%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.4%</td>
<td>6.2%</td>
<td>5.8%</td>
<td>6.0%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>3.8%</td>
<td>4.5%</td>
<td>6.8%</td>
<td>7.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Cash</td>
<td>4.9%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>2.1%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
Fiscal Year 2021 Overview

After a difficult and volatile equity market environment in Fiscal Year 2020 due to the onset of the coronavirus pandemic, global equities roared back in Fiscal Year 2021 (12 months ended June 30, 2021) to register four consecutive quarters of strong gains. Major market indexes finished the fiscal year in record territory with the S&P 500 Index and the MSCI All Country World Index (ACWI) generating returns of +40.8 percent and +39.3 percent, respectively, for the 12-month period. During the year, equities were supported by a robust economic recovery driven in large part by fiscal stimulus and significant strides made in the treatment and prevention of the coronavirus. In the first half of the fiscal year, stock futures surged after Pfizer announced that preliminary data showed its vaccine candidate was over 90 percent effective in preventing infections - a level well above expectations. The regulatory approval and distribution of the Pfizer vaccine as well as a similar one from Moderna in December provided a further tailwind to stocks. Despite the positive news around the mitigation of the coronavirus, the ongoing toll of the pandemic worsened as the calendar year drew to a close with a grim set of milestones reached. Fueled by a post-Thanksgiving surge, hospitalization figures reached new highs in early December, while daily U.S. deaths from the virus crossed 3,000 for the first time. Case reports and hospitalizations began to fall sharply in late January as the vaccine rollout accelerated. By the end of the fiscal year, more than half of the U.S. population had received at least one vaccine shot with more

![Asset Class Returns vs. SIPP Benchmarks - Fiscal Year 2021](image-url)
than 46 percent of Americans being fully vaccinated. Case reports and hospitalizations began to fall sharply in late January and by the end of June, the number of new daily coronavirus cases fell to its lowest point since the start of the pandemic with a similar trend in terms of hospitalizations and deaths.

Fiscal stimulus also fueled the economy’s recovery, and, in turn, the equity markets’ climb throughout the year. In January, the Democratic Party gained control of the senate after special elections were held in Georgia. Equities bounced following this as it became clear that President Joe Biden would use his party’s control of both houses of Congress to push through a larger coronavirus relief package than initially anticipated. On March 14, the $1.9 trillion American Rescue Plan Act was signed into law and direct payments of $1,400 were sent to many Americans shortly thereafter. At the end of the fiscal year, the U.S. Labor Department’s tally of job openings reached its highest level in records dating back to 2000. Additionally, weekly jobless claims declined steadily throughout the 12-month period to finish the year at pandemic-era lows. Gauges of both service and manufacturing activity also indicated a healthy expansion in Fiscal Year 2021. The improving labor market was reflected in consumer spending, which also got a boost from the renewed stimulus payments. Retail sales figures were extremely strong and measures of consumer sentiment reached their highest levels since the onset of the pandemic during the final quarter of the year. During the fourth quarter, the U.S. Commerce Department reported that GDP expanded at an annualized rate of +6.4 percent for the first quarter of calendar year 2021 with many economists predicting the fastest full-year growth since 1984.

The year’s stimulus measures fueled not only hope for economic growth but also worries about potential inflation which led to a sharp rise in Treasury yields. The May Consumer Price Index registered above expectations with prices increasing by +5 percent for the year-over-year period – the fastest rate in nearly 13 years. Despite the surprise, some of the underlying details suggested that there were temporary factors at play, such as the rise in used car prices. After starting the fiscal year at 0.65 percent, the 10-year Treasury note yield climbed to finish the year at 1.45 percent. The broad domestic fixed income market, as measured by the Bloomberg U.S. Aggregate Bond Index, finished the year down -0.3 percent. (Bond prices and yields move in opposite directions.)

FIGURE 2

UNC Investment Fund: Asset Allocation - As of June 30, 2021
International equities also advanced during the year. Developed markets equities outside the U.S., as measured by the MSCI EAFE Index (Europe, Australasia, Far East), gained +32.4 percent driven by the deployment of coronavirus vaccines, a UK-European Union trade accord, ultra-loose monetary policy by the European Central Bank, and the U.S. fiscal stimulus package. Emerging markets equities (MSCI Emerging Markets Index) outpaced developed markets to finish the year up +40.9 percent, boosted in part by Chinese equities as economic and social activity there normalized. Towards the end of the year, however, the emergence of the delta variant of the coronavirus negatively impacted international markets given the lower vaccination rates in many parts of the world.

The Fund returned +42.3 percent for Fiscal Year 2021, its best fiscal year return since its inception in 2002. Following this exceptionally strong performance, the Fund finished the fiscal year with a market value of nearly $10.0 billion. The Fund’s performance for Fiscal Year 2021 registers ahead of its primary SIPP benchmark which returned +32.6 percent and significantly ahead of the +26.3 percent return of a more “traditional”, equity market focused Global 70/30 Portfolio comprised of 70 percent global equities (MSCI ACWI) and 30 percent bonds (Bloomberg U.S. Aggregate Bond Index). Relative to peers, the Fund’s +42.3 percent Fiscal Year 2021 return ranks in the top quartile of the Cambridge Associates’ College and University universe of endowment funds (“Cambridge Associates’ Universe”).

Each of the Fund’s seven asset classes generated a positive return for Fiscal Year 2021. The Fund’s allocation to equities, both public and private, was the primary absolute performance driver with Private Equity and Long Equity returning an impressive +90.6 percent and +40.8 percent, respectively, for the year. Private Equity was also a significant contributor to the Fund’s strong relative performance outpacing its benchmark by +28.4 percent. Driving this outperformance was Private Equity’s portfolio of Venture Capital managers that returned +142 percent in aggregate for the year amid a strong IPO market. Despite trailing its benchmark, Long/Short Equity also delivered strong absolute performance returning +33.3 percent for the 12-month period. Fixed Income was a strong absolute and relative performer in Fiscal Year 2021 with its +23.6 percent return significantly beating the +2.4 percent return of its benchmark.

Over the past five years, the Fund’s market value has more than doubled with nearly $5 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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Target</th>
<th>Tactical Range</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Equity</td>
<td>29.5%</td>
<td>30.0%</td>
<td>24 – 36% MSCI All Country World Index (ACWI)</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>15.0%</td>
<td>15.0%</td>
<td>10 – 20% Hedge Fund Research Institute (HFRI) Equity Hedge Index</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>6.4%</td>
<td>10.0%</td>
<td>6 – 14% (50% HFRI Fund of Fund Conservative Index + 50% HFRI Fund of Fund Defensive Index) + 0.5%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.0%</td>
<td>9.0%</td>
<td>5 – 14% Fixed Income Custom Index2</td>
</tr>
<tr>
<td>Private Equity</td>
<td>27.8%</td>
<td>20.0%</td>
<td>15 – 25% Cambridge Associates Composite Index3</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.4%</td>
<td>8.0%</td>
<td>5 – 12% 90% NCREIF / 10% NAREIT</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>3.8%</td>
<td>6.0%</td>
<td>3 – 9% 50% S&amp;P Goldman Sachs Commodity Index / 50% (CPI + 3%)</td>
</tr>
<tr>
<td>Cash</td>
<td>4.9%</td>
<td>2.0%</td>
<td>-2 – 8% 90-Day T-Bills</td>
</tr>
</tbody>
</table>

1. As of June 30, 2021
2. 30% Bloomberg U.S. Government/Credit Long Term Index, 30% Bloomberg U.S. Aggregate Bond Index, 20% Bloomberg 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.)
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.

**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.

**Figure 5**

UNC Investment Fund: Historical Asset Allocation - As of June 30

Over the past ten years, the Fund has maintained its diversification among asset classes. While the Fund’s aggregate exposure to public equities has remained consistent, the Long/Short Equity allocation has been reduced. Over the period, the Fund’s allocation to Private Equity has increased significantly.
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, 2021, is illustrated in Figure 4 on page 13.

While the strategic asset allocation targets provide long-term guidance for the Fund, the tactical asset allocation ranges established by SIPP allow the Fund to react quickly when specific market conditions present themselves, purchase assets when they seem attractively valued, and sell assets deemed 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.

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

**FIGURE 6**

Endowment Fund Ownership • Fiscal Year 2021

- Professorships: 16%
- Scholarships: 15%
- Fellowships: 15%
- Library: 5%
- Departmental: 4%
- Miscellaneous Unrestricted: 3%
- Unrestricted: 42%
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 $463 to $474 per CHIF unit for FY 2021. This increase resulted in an annual distribution rate of 3.5 percent of ending market value, which, as a result of the Fund’s extremely strong return in FY 2021, falls below policy guidelines. In the prior year, the distribution rate was 4.7 percent. Over the past ten years, CHIF has distributed $1.5 billion to support University programs with its distribution rate growing in line with inflation as measured by the CPI.

FIGURE 7
Chapel Hill Investment Fund: Spending Distribution

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.
Cassidy Harding has known she wanted to be an environmental scientist since taking an AP class in high school. “I wanted to do something with my life that made a difference and tackle urgent issues,” she said. “What I learned in that class — and have continued to learn in college — is that this major is applicable to society today. If I can contribute to this career field, I can make an impact no matter how small.”

The summer before her senior year, Harding was a resilient landscapes intern at the Environmental Defense Fund in Raleigh. In her role at the nonprofit, Harding worked on a new initiative that partners with North Carolina farmers to reduce flood risks near wetlands. “I worked on a lot of [geographic information system] mapping work,” said Harding, who is majoring in environmental science and minoring in geography. “I’ve been mapping Eastern North Carolina, locating wetlands and where those wetlands are adjacent to, or intersect with, farmlands. I’ve been loving it.”

Harding has also been finding ways to create a governance structure for collaboration between farmers and stakeholders. “I’m able to provide these tools for people to utilize in the future and really boost the productivity of this project,” she said. “Even though I can’t say I saved a species or saved a wetland on my own, I can say that I helped move the ball forward.”

While the mapping aspect of the internship ties into Harding’s classwork and past internships, the chance to work on policy provided a new opportunity for Harding, who has gained most of her professional experience doing fieldwork. It also provided another — less academic — experience: working in an office. “This position was very different,” she said. “I thought, I might as well do something I haven’t done before instead of doing something fieldwork-heavy like I’ve been doing in the past.”

The internship was funded by the UNC Institute for Environment’s Pavel Molchanov Scholars program. In its inaugural year, the program matches undergraduate students with an environmental internship at partner organizations in North Carolina, South Carolina, or Virginia, where students can supplement their academic work with experiential, professional training. Each Molchanov Scholar receives a $5,000 stipend to support their summer experience. “As a student, I wasn’t directly involved in environmental work, but I remember the importance of internships,” said Molchanov, an expert in energy sector analysis who donated $1 million to the University to launch the program. “Internships were a key element of how my career got started.”

Without the funding, Harding said she would have likely had to turn down the Environmental Defense Fund internship. “I would not have had these wonderful experiences that I’m having,” she said. “The scholarship was what made me decide on this position.”
Carl and Susan Baumann have long believed in steering their philanthropic efforts toward people who are working to strengthen communities and advance social justice. With their latest gift to the UNC School of Social Work, the Baumanns hope to generate more opportunities for social work students eager to pursue the same mission.

The couple has committed $1.6 million to create the Carl A. and Susan H. Baumann Macro Student Opportunity Scholarship Fund — one of the largest scholarship gifts the School has ever received.

Once fully endowed, the combination cash and planned gift will provide an estimated $80,000 annually to support social work students pursuing careers in community, management, and policy practice, a concentration that prepares graduates for practice at community, organizational, and societal levels.

Carl Baumann, who serves on the School of Social Work’s Board of Advisors, said the donation is the couple’s way of improving access to higher education, particular to students who are passionate about changing policies and systems that broadly affect people who are marginalized.

“For several years now, we’ve been working on ways to give back and our focus has been on education because we feel and believe that education is the key to everything, including growth opportunities for people and personal well-being, and raising people out of poverty, all of which leads to a stronger democracy,” Baumann said. “This is just one of the ways we can move social justice forward.”

Over the years, Baumann has assisted numerous UNC undergraduate and social work graduates interested in starting nonprofits and social enterprises through his role as a mentor with SCORE Chapel Hill, which advises small business clients. The new scholarship fund, he said, is the chance to directly contribute to students who want to pursue careers that further social and economic justice but don’t have the financial ability to attend UNC.

“We both feel so strongly about what these social work students are doing and that they aren’t going out into the world to make a lot of money,” he added. “They are in it to help people, which is so much more important. By helping the macro students, we’re also helping the communities and families they’re trying to raise up through policy and organizational change. That’s really important to us, and this is our way of giving back and supporting these students.”

That the School’s students also work to build relationships with donors is also appreciated, added Susan Baumann. “We’ve gotten to meet the students, and that’s been really important to us to have a connection and to be able to keep up with each other — that’s been a real gift to us.”

Generous support from donors, such as the Baumanns, is vital to the School’s mission to educate social workers who are prepared to solve problems that threaten the well-being and livelihoods of individuals, families and communities, said Mary Beth Hernandez, the School’s associate dean for advancement.

“I’m so very grateful to Carl and Susan for their transformative gift,” Hernandez praised. “The impact of this fund will be long-lasting and profound.”
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 at the initial onset of the COVID-19 pandemic 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.

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 over the long term, a traditional equity/bond portfolio struggles to achieve the Fund’s primary objective highlighting the need for diversification and exposure to private market investments.

![Relative Long-Term Performance](image)

Relative Long-Term Performance - Periods ending June 30, 2021

Over the long term, a traditional equity/bond portfolio struggles to achieve the Fund’s primary objective highlighting the need for diversification and exposure to private market investments.

1. 5, 10, 15 Years: Global 70/30 Portfolio - 70% MSCI All Country World Index (ACWI), 30% Bloomberg U.S. Aggregate Bond Index
   20 Years: Domestic 70/30 Portfolio - 70% S&P 500 Index / 30% Bloomberg U.S. Aggregate Bond Index
objective over the long term (10- and 15-year periods ending June 30, 2021). 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 and just meets this target for the 20-year period.

Despite the impact from the coronavirus pandemic seen in the second half of FY 2020, the Fund’s ten-year annualized return to June 30, 2021 of +10.8 percent easily exceeds the +7.4 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 +9.1 percent and +8.1 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, marginally trailing it by 0.3 percent. With consistently strong performance from both the Buyout and Venture Capital portfolios, the Fund’s Private Equity asset class has generated a ten-year annualized return of +21.3 percent, leading the Fund’s strong aggregate performance. Private Equity has also added significant value over public equity markets, more than doubling the +9.9 percent annualized return of the broader global equity market (MSCI ACWI) over the last ten years 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-, 10-, 15-, and 20-year returns each ranking in the top quartile of the Cambridge Associates universe of college and university endowments.
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.

<table>
<thead>
<tr>
<th>Year</th>
<th>UNCIF Return (Net)</th>
<th>SIPP Benchmark Return</th>
<th>Peer Universe Median²</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>42.3%</td>
<td>32.6%</td>
<td>36.6%</td>
</tr>
<tr>
<td>2020</td>
<td>2.3%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2019</td>
<td>7.7%</td>
<td>6.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2018</td>
<td>12.0%</td>
<td>8.8%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2017</td>
<td>12.1%</td>
<td>11.8%</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

¹. Cambridge Associates universe of college and university endowments
### UNC Investment Fund: Fee Table

<table>
<thead>
<tr>
<th></th>
<th>% of Investment Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Management Fee</strong></td>
<td></td>
</tr>
<tr>
<td>First $50 million of investment balance</td>
<td>0.50%</td>
</tr>
<tr>
<td>Remainder of investment balance over $50 million</td>
<td>0.24%</td>
</tr>
<tr>
<td><strong>Legal &amp; Accounting</strong></td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Other Operating Costs</strong></td>
<td>0.02%</td>
</tr>
</tbody>
</table>

1. Indicative, subject to variation
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 more than 35 employees, the Management Company is divided across four functional areas: Investment Management, Investment Strategy & Risk Management, Operations & Finance, and Investor Relations & Communications.

| 1. | Carolina for Kibera, Inc. |
| 2. | Dental Foundation of North Carolina, Inc. |
| 3. | Educational Foundation, Inc. |
| 4. | Kenan-Flagler Business School Foundation |
| 5. | Morehead-Cain Foundation |
| 6. | Morehead-Cain Scholarship Fund |
| 11. | UNC Eshelman School of Pharmacy Foundation |
| 12. | UNC General Alumni Association |
| 13. | UNC Gillings School of Global Public Health Foundation, Inc. |
| 14. | UNC Health Foundation |
| 15. | UNC Hussman School of Journalism and Media Foundation, Inc. |
| 16. | UNC Law Foundation, Inc. |
| 17. | UNC School of Dentistry Alumni Association |
| 18. | UNC School of Education |
| 19. | UNC School of Government Foundation, Inc. |
| 20. | UNC School of Nursing |
| 21. | UNC School of Social Work |
| 22. | University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. |
| 23. | University of North Carolina at Chapel Hill Endowment Fund |
| 24. | University of North Carolina at Chapel Hill Foundation, Inc. |
| 25. | University of North Carolina at Chapel Hill Foundation, Inc. Gift Annuity Program |
| 26. | University of North Carolina at Chapel Hill Temporary Pool |