

# UNC Investment Fund, LLC

Presentation to: North Carolina Agricultural & Technical State University  
Jonathon King: Chief Investment Officer, UNC Management Company

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**UNCMC**

UNC MANAGEMENT COMPANY, INC

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# Agenda

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## ▪ **Headlines & Return Summary**

- Economic & Financial Market Outlook
- Asset Class Performance
- Asset Allocation
- Longer-Term Performance
- Wrap-Up / Questions

## FY 2019 Headlines

UNCIF had another strong year in FY 2019<sup>(1)</sup>

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**The UNC Investment Fund (“UNCIF” or “Fund”) returned +7.7% for FY 2019 (12 months)**

- +10.2% for CYTD 2019<sup>(2)</sup> through September

UNCIF’s full-year FY 2019 return rebounded sharply after recording a loss in the first half of the fiscal year

1) FY 2019: July 1, 2018 to June 30, 2019 (12 months)

2) CYTD 2019: January 1, 2019 to September 30, 2019 (9 months)

# FY 2019 Highlights

UNCIF's FY 2019 return is strong on an absolute and relative basis

## UNCIF beat its benchmarks

- The Fund's +7.7% return beat:
  - Primary SIPP benchmark: +6.7%
  - Global 70/30 Portfolio<sup>(1)</sup>: +6.7%

## UNCIF was a top decile performer

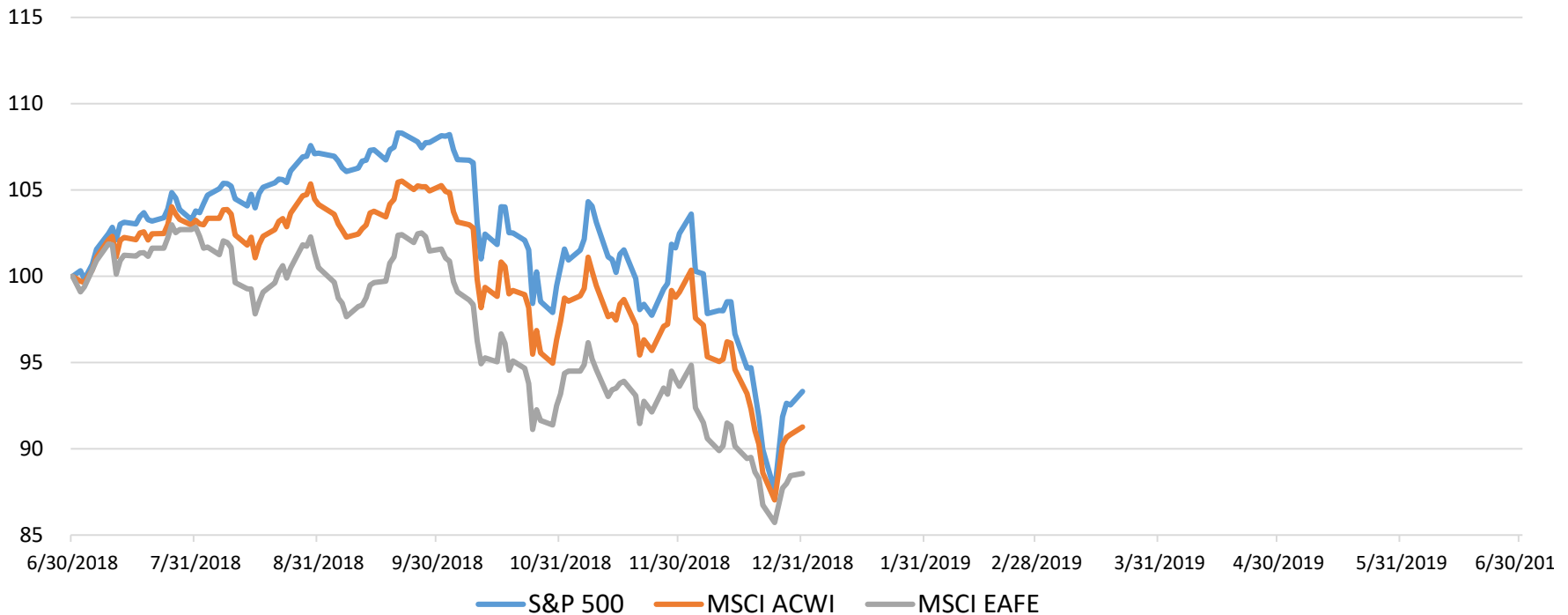
- The Fund's return ranks in the **top decile** of the BNY Mellon Endowment & Foundation universe
- Second consecutive year UNCIF has achieved a top decile ranking
- UNCIF has been a top decile performer three of the past five years

FY 2019 is UNCIF's second consecutive year of strong absolute and very strong relative performance

(1) Global 70/30 Portfolio: 70% MSCI All Country World Index (ACWI), 30% Bloomberg Barclays U.S. Aggregate Bond Index

# FY 2019: A Tale of Two Markets, Part 1

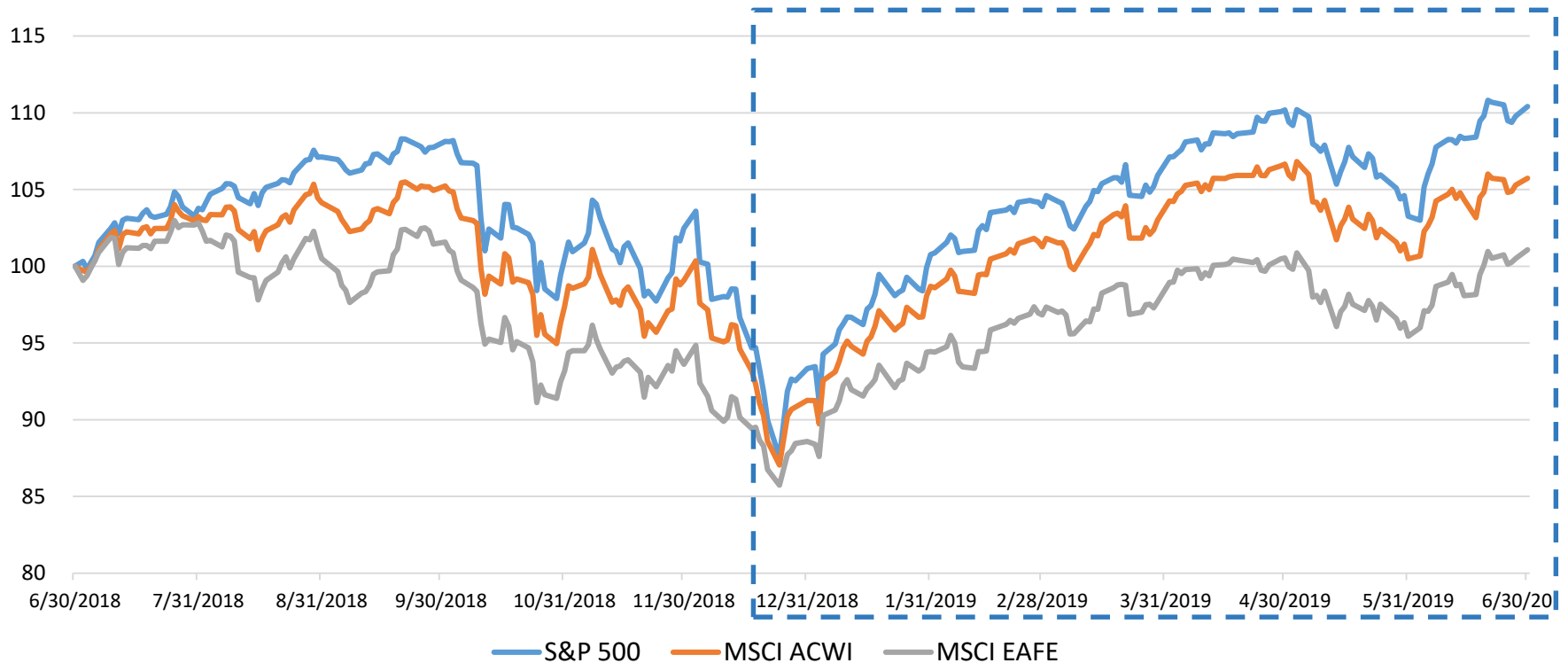
Equity Market Returns: July 1, 2018 – December 31, 2018



First half of FY 2019: Equity markets suffered their sharpest drawdown in years

# FY 2019: A Tale of Two Markets, Part 2

Equity Market Returns: July 1, 2018 – June 30, 2019



Second half of FY 2019: Equity markets rebounded sharply and recorded gains for the year

# UNC Investment Fund: Attributes

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## UNCIF has a significant allocation to alternative strategies

- **25% SIPP Target Allocation to hedge funds and other “uncorrelated” public portfolio strategies**
  - 15% Long/Short Equity
  - 10% Diversifying Strategies
- **34% SIPP Target Allocation to “private” strategies**
  - 20% to Private Equity
  - 8% Real Estate
  - 6% Energy & Natural Resources

~ 60% of the Fund is allocated to “alternative” strategies



## UNC Investment Fund: Attributes (cont'd.)

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**As a result of its allocation to alternatives, UNCIF:**

- **Has a relatively low sensitivity to equity and bond indices (Beta)**
- **Exhibits low volatility of returns** (measured by standard deviation)
- **Performs well in moderate up markets and down markets**
- **Tends to lag in strong up markets**

# UNCIF & SIPP: Significantly less volatile than equities

After a difficult Q2, UNCIF rebounded in Q3 & Q4

	Domestic Equities S&P 500	Global Equities MSCI ACWI	UNCIF	SIPP
Q1	7.7%	4.3%	2.6%	3.1%
Q2	-13.5%	-12.8%	-3.4%	-4.4%
Q3	13.6%	12.2%	4.9%	4.5%
Q4	4.3%	3.6%	3.6%	3.7%
FY 2019	10.4%	5.7%	7.7%	6.7%

- UNCIF protects capital in down markets and lags in strong up markets
- Over full market cycles the Fund's performance remains strong

## **Return Highlights: FY 2019** (12 months)

UNCIF's strong FY 2019 performance was driven by Private Equity

**All seven of the Fund's primary asset classes generated a positive investment return for the year**

### **Top performers for the year:**

- **Private Equity: Drove the Fund's FY 2019 return**
  - Absolute Performance: +23.0%
  - Relative Performance: 7.1% ahead of benchmark
- **Real Estate: Solid absolute and relative performance**
  - Absolute Performance: +11.3%
  - Relative Performance: 3.1% ahead of benchmark
- **Long/Short Equity: Very strong relative performance**
  - Absolute Performance: +7.3%
  - Relative Performance: 7.0% ahead of benchmark, 1.6% ahead of global equities

**Alternative asset classes (privates & hedge funds) drove UNCIF's strong relative performance in FY 2019**

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- Headlines & Return Summary

- **Economic & Financial Market Outlook**

- Asset Class Performance
- Asset Allocation
- Longer-Term Performance
- Wrap-Up / Questions

# U.S. Economic Outlook

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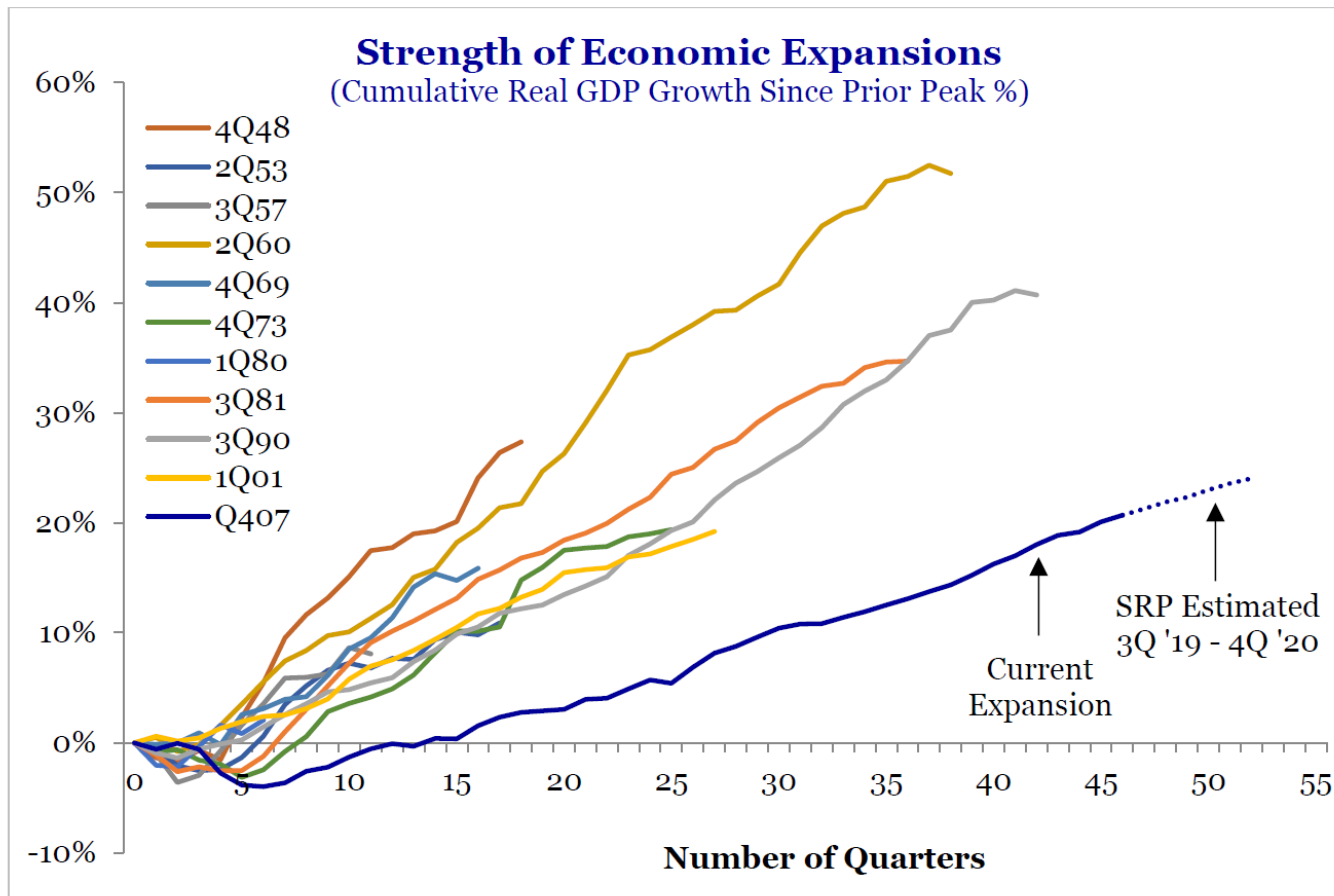
## The U.S. economy continues to grow at a modest pace . .

- **Some signs of weakness have begun to appear**
  - Manufacturing and export data have shown declines in recent months
  - Corporate earnings growth is slowing as the effect of last year's tax cuts fades
- **While other measures show continuing strength**
  - Employment data shows that the labor market remains strong
    - Employment gains continued in September
    - The unemployment rate fell to 3.5%, a multi-decade low
  - Consumer spending continues to be a source of strength in the economy

Will the U.S. economy slip into a recession in 2020?

# U.S. Economic Outlook

## It's Now The Longest & Slowest U.S. Expansion Ever



Source: Strategas Research

# U.S. Economic Outlook

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- **Some economic forecasters are increasing the odds for a possible recession in the next 6 to 12 months...**
- **...however, the consensus is that the U.S. economy will “muddle through” with 1% to 2% growth until the impact of the recent Fed easings rekindles growth in the first half of CY 2020**

**The U.S. economy remains fragile but a recession does not appear to be imminent absent an external shock**

# Global Economic Outlook

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**While the U.S. economy continues to grow at a modest pace the global economy has lost momentum**

- **Risks to the global economic outlook include:**
  - U.S.-China trade war
  - Soft economic data from China
  - Weakening manufacturing data and consumer confidence in Europe
  - Continuing Brexit uncertainty
  - Hong Kong protests growing in intensity
  - Geopolitical crises
- **With risks mounting, central banks have rushed to provide support and pressure has mounted on governments to provide fiscal stimulus**

Can Central Banks (once again) save the day?



# Financial Market Outlook (U.S.): Equity Markets

What now?

- **The S&P 500 rose >17% in the first half of CY 2019 – its best first half since 1997 and is up more than 22% CYTD**
- **Will the rally continue?**
  - **Interest Rates:** After three rate cut so far in 2019, the Federal Reserve has adopted a “wait and see” attitude with the market anticipating further cuts
  - **Trade Frictions:** U.S. – China trade tensions continue though both sides are motivated to strike a deal (even if only a partial one)
  - **Economic Growth:** U.S. economic growth has slowed but is stabilizing in the 2% +/- range supported by strong employment numbers and consumer spending
- **Bond markets have also fared well with extraordinary recent gains – best year since 2002 (by some measures)**

After a very strong start to CY 2019, markets could grind slowly higher in the coming months

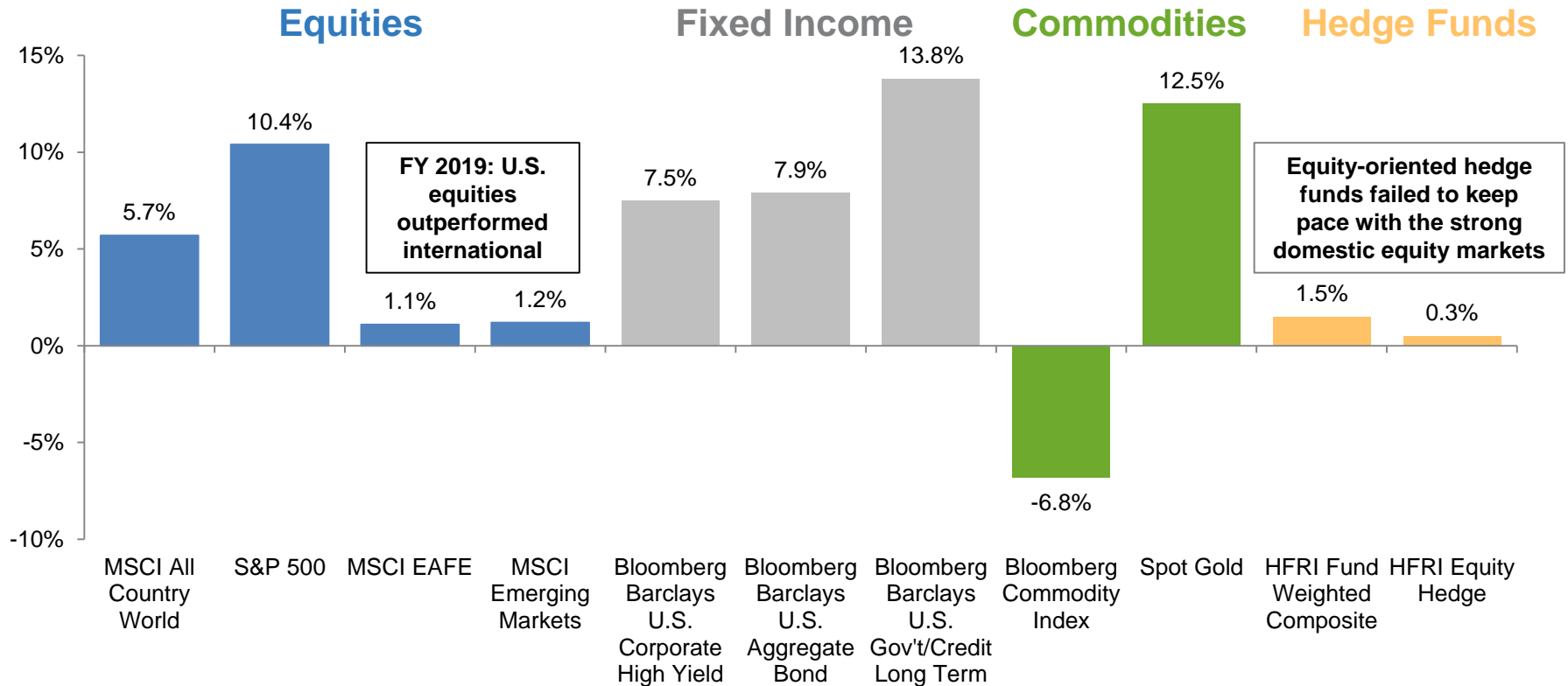
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# Financial Markets Summary: FY 2019 (12 months)

Despite a difficult Q2 FY 2019, equities continued to climb

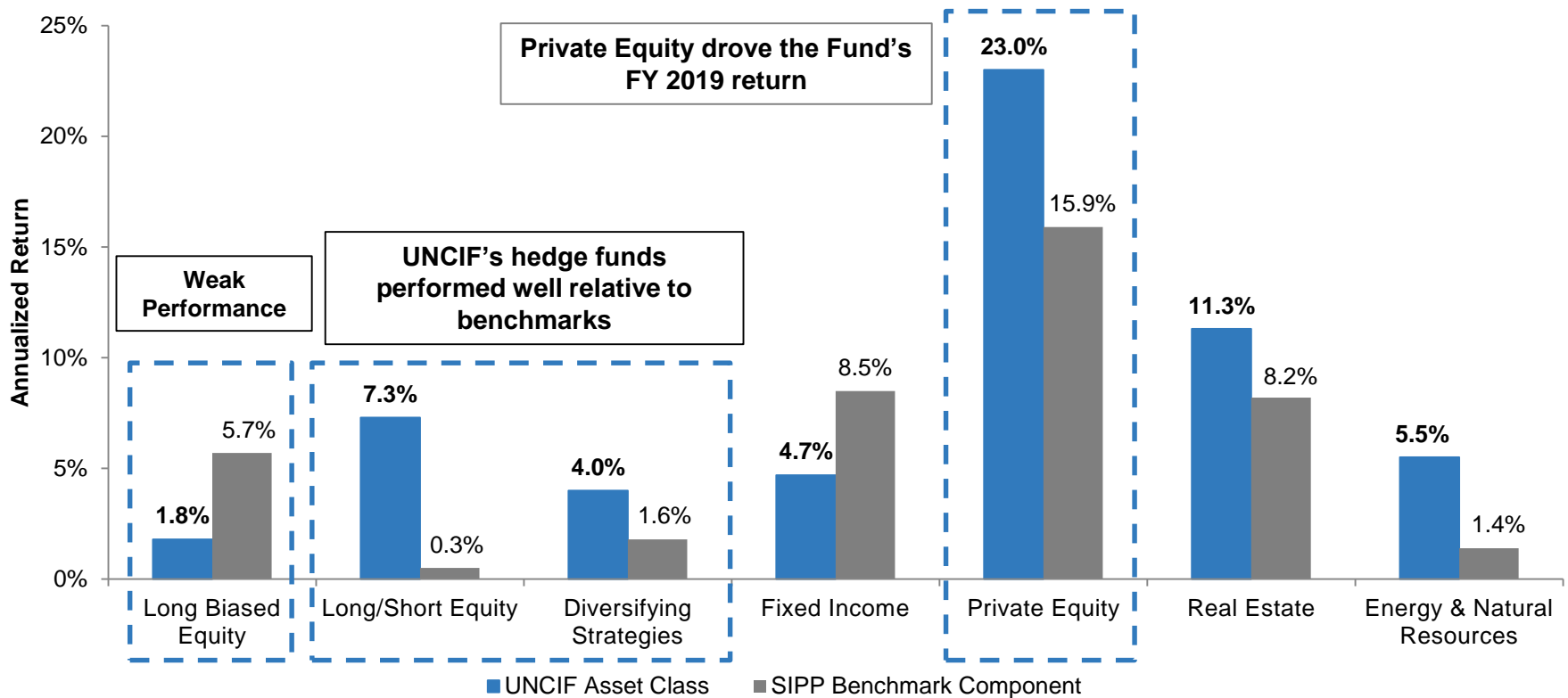


The equity bull market persisted in FY 2019, led by domestic equities

Performance is for FY 2019: July 1, 2018 to June 30, 2019 (12 months)

# UNCIF Asset Class Returns: FY 2019 (12 months)

## Private Equity drove performance



- All primary asset classes positive
- Five of seven beat their benchmarks

Performance is for FY 2019: July 1, 2018 to June 30, 2019 (12 months)

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# SIPP Changes: Summary

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**At its October meeting, the Board approved modest changes to SIPP (retroactive to July 1, 2019)**

- **Increase Private Equity** Allocation Target from 18% to 20%
- **Decrease Fixed Income** Allocation Target from 10% to 9%
- **Decrease Energy & Natural Resources** Allocation Target from 7% to 6%
- **Change the Buyout component of the Private Equity SIPP benchmark:**
  - From the Cambridge Associates Private Equity Index (U.S. only)
  - To the Cambridge Associates Private Equity Index (U.S. & Ex U.S.)
- **Change the name of the Long Biased Equity asset class to Long Equity**

The primary rationale for these changes was to increase Private Equity's Allocation Target

# Positioning Relative to SIPP

As of September 30, 2019

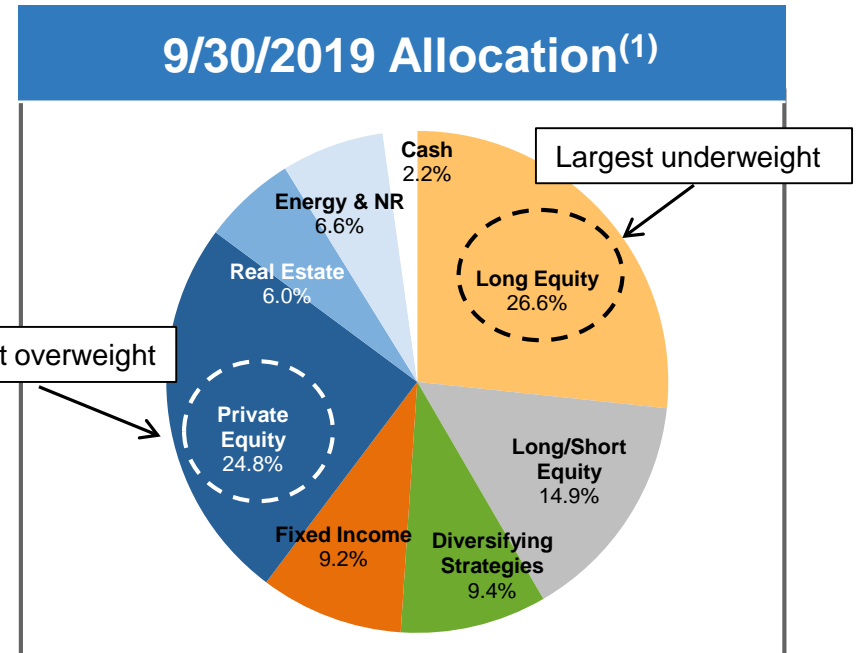
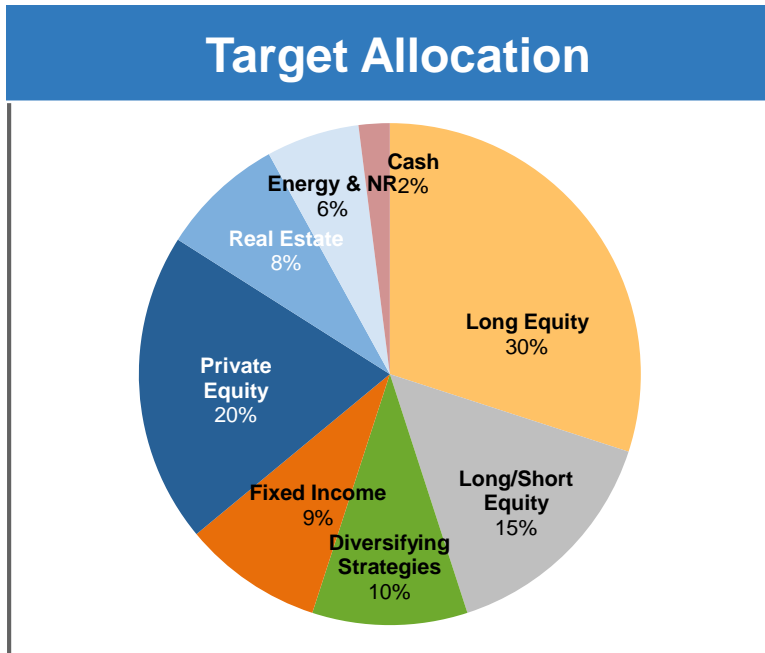
## Most asset classes are close to their SIPP Target Allocations except:

- **Private Equity: +4.8% overweight**
  - Strong relative performance
- **Long Equity: -3.4% underweight**
  - Partial offset to Private Equity to keep equity exposure in balance
- **Real Estate: -2.0% underweight**
  - Significant property sales during the past 18 months

Relative to SIPP, UNCIF has a slight tilt towards equities resulting from the significant overweight to Private Equity

# SIPP Target vs. Actual Allocation

UNCIF is currently overweight “private” strategies



### Over / Under Weight vs SIPP Target

Public Portfolio		Private Portfolio	
Fixed Income	0.2%	Private Equity	4.8%
Long/Short Equity	-0.1%	Energy & Natural Resources	0.6%
Diversifying Strategies	-0.6%	Real Estate	-2.0%
Long Equity	-3.4%	Cash	0.2%

- Overweight “private” strategies**
  - Private Equity: 4.8% overweight (strategic, relative performance)
  - Real Estate: 2.0% underweight (opportunity set)
- Underweight “public” strategies**
  - Weak absolute/relative performance

(1) Excludes 0.2% allocation to Liquidating Managers



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# Relative Return Summary

UNCIF's performance is strong across time horizons

	1 Year	3 Years	5 Years	7 Years	10 Years
<b>UNC Investment Fund</b>	<b>7.7%</b>	<b>10.6%</b>	<b>7.7%</b>	<b>9.4%</b>	<b>9.0%</b>
<i>Primary Benchmark: SIPP</i>	6.7%	9.1%	5.8%	7.8%	8.9%
Traditional Portfolio: Global 70/30 <sup>(1)</sup>	6.7%	8.9%	5.4%	7.8%	8.5%
Peer Universe <sup>(2)</sup>					
Median	5.3%	8.8%	5.5%	7.9%	8.7%
Top 10%	7.3%	10.5%	7.1%	9.3%	10.1%

UNCIF has consistently outperformed its primary SIPP benchmark and a Global 70/30 Portfolio<sup>(1)</sup> and is strong relative to peers

Note: Annualized performance for periods ending June 30, 2019

1) Global 70/30 Portfolio: 70% MSCI All Country World Index (ACWI), 30% Bloomberg Barclays U.S. Aggregate Bond Index

2) BNY Mellon Endowment & Foundation universe adjusted for internal fees

# UNCIF: Top Decile Performer

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**UNCIF: Top decile performer<sup>(1)</sup> last 1, 3, 5, and 7 years**

- **Strong manager selection**
  - 6 of 7 asset classes beat their respective benchmarks for the 3-, 5-, and 7-year periods
- **Value protection in down markets**
- **Exceptionally strong performance from Private Equity Portfolio**
  - Annualized returns exceeding 18% for each of the 1-, 3-, 5-, and 7- year periods

1) BNY Mellon Endowment & Foundation universe adjusted for internal fees to June 30, 2019

# Private Equity: Top Performing Asset Class

**Private Equity is top performing asset class (by a wide margin) across time periods**

	1-Year	3-Year	5-Year	10-Year
<b>UNCIF Private Equity</b>	<b>23.0%</b>	<b>18.5%</b>	<b>18.1%</b>	<b>17.1%</b>
<i>SIPP Private Equity Benchmark<sup>(1)</sup></i>	<i>15.9%</i>	<i>14.8%</i>	<i>12.3%</i>	<i>13.4%</i>
<b>Public Equity Indices:</b>				
S&P 500	10.4%	14.2%	10.7%	14.7%
NASDAQ Composite	6.6%	18.2%	12.7%	15.9%
Russell 2000	-3.3%	12.3%	7.1%	13.4%
MSCI ACWI	5.7%	11.6%	6.2%	10.1%

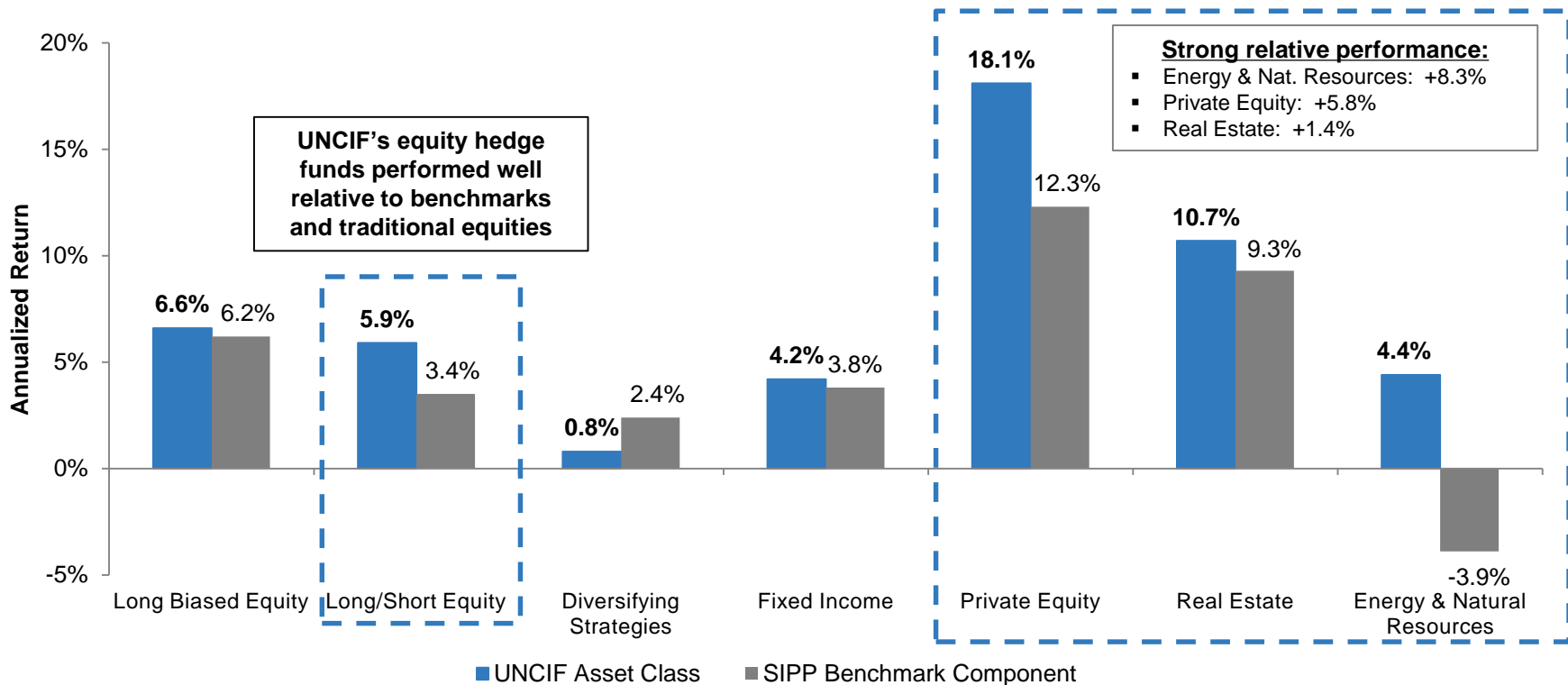
**Private Equity has consistently outperformed public equity markets & SIPP**

Note: Annualized performance for periods ending June 30, 2019

(1) 60% Cambridge Associates Private Equity Index / 40% Cambridge Associates Venture Capital Index

# UNCIF Asset Class Returns: 5 Years

Performance driven by exposure to private investments

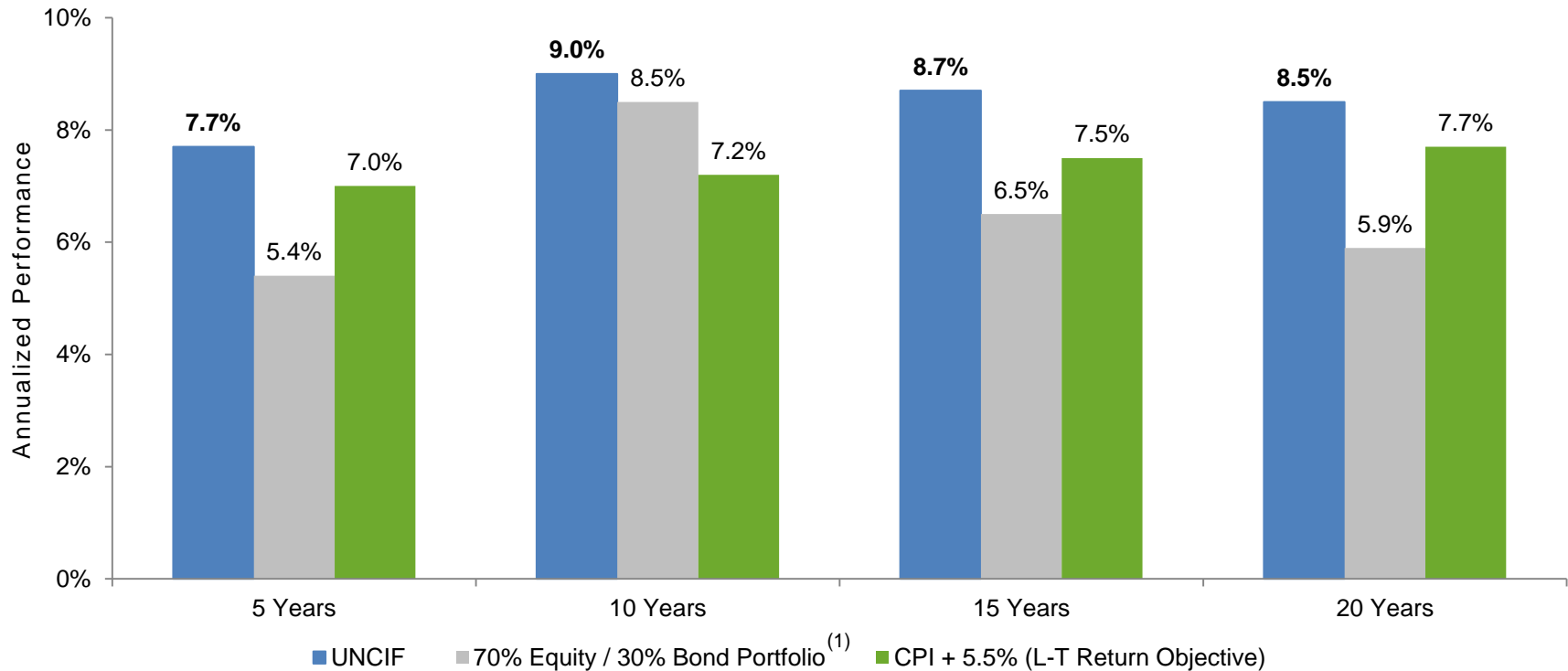


- All asset classes positive; 6 of 7 beat their benchmarks
- The Fund's +7.7% 5-year return significantly beats SIPP's +5.8%

Note: Annualized performance for five-year period ending June 30, 2019

# Relative Long-Term Performance

Over the medium and long term, the Fund has achieved its return objective



Diversification & private investments needed: UNCIF achieves its primary objective when a traditional equity/bond portfolio does not

Note: Annualized performance for periods ending June 30, 2019

(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

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## Return Summary: FYTD 2020 (3 months)

	FYTD 2020 (3 months)	CYTD 2019 (9 months)	1 Year
<b>UNCIF</b>	<b>1.4%</b>	<b>10.2%</b>	<b>6.4%</b>
<i>SIPP</i>	1.3%	9.8%	4.9%
Traditional Portfolio: Global 70/30 <sup>(1)</sup>	0.7%	14.1%	4.3%
Domestic Equities: S&P 500 Index	1.7%	20.6%	4.3%
Global Equities: MSCI ACWI	0.0%	16.2%	1.4%

The Fund is off to a positive start (both absolute and relative) in FY 2020

Note: Data is for periods ending September 30, 2019

(1) Global 70/30 Portfolio: 70% MSCI All Country World Index (ACWI), 30% Bloomberg Barclays U.S. Aggregate Bond Index



# Our Fundamental Beliefs

Over the long term, the Fund has achieved its objectives

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## **Maintaining conviction in our investment approach and philosophy has led to the Fund achieving its long-term objectives**

- Maintain a long-term time horizon
- Portfolio diversification is a key component in managing risk
- Focus assets with our highest conviction investment managers
- Alternative asset classes play a significant role
- Tactical portfolio shifts can be utilized selectively to capture shorter-term opportunities
- Downside protection matters

The most important and difficult challenge remains striking the proper balance between upside participation and downside protection

## Wrap-Up

UNCIF's FY 2019 return is strong on an absolute and relative basis

### The Fund returned **+7.7%** for FY 2019 (12 months)

- All asset classes generated positive performance
- Private Equity and Real Estate drove FY 2019's performance
- For the 1-, 3-, 5- and 7-year periods ended June 30, UNCIF:
  - Beat SIPP and the Global 70/30 Portfolio<sup>(1)</sup> by significant margins
  - Ranks in the **top decile** relative to peers
- Over the long term, the Fund has achieved its primary return objective

UNCIF continues to generate solid returns on both a relative and absolute basis

(1) Global 70/30 Portfolio: 70% MSCI All Country World Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index