

Reported to the Board of Trustees
January 24, 2013



University of Illinois Third Quarter 2012 Investment Update

December 2012

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Market Overview and Total University Assets

Capital Markets Review

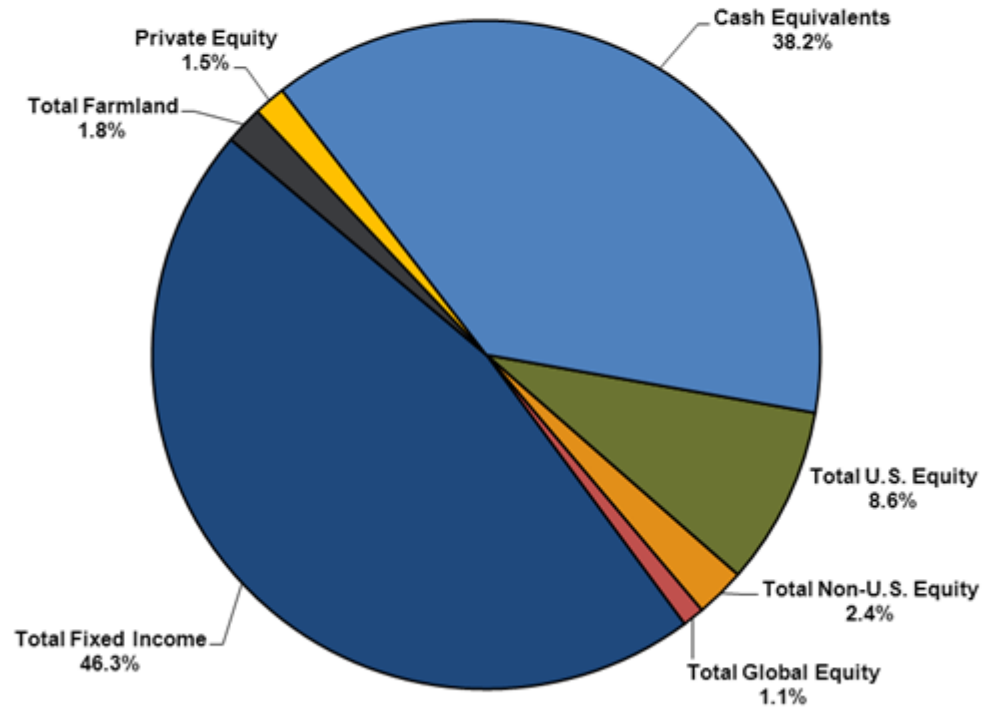
September 30, 2012

	Third Quarter	YTD	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	6.2	16.2	30.2	13.4	1.5	8.7
MSCI All Country World ex-U.S. Index	7.4	10.4	14.5	3.2	-4.1	9.8
MSCI All Country World Index	6.8	12.9	21.0	7.2	-2.1	8.6
Barclays Capital Aggregate Bond Index	1.6	4.0	5.2	6.2	6.5	5.3
HFR Fund of Funds Index	2.3	3.3	2.8	1.5	-1.6	3.6
NCREIF ODCE Index	2.5	7.5	10.4	11.1	-2.0	5.7
NCREIF Cornbelt Index	0.0	24.9	24.9	15.3	14.8	---

- QE3 was announced in mid-September. The U.S. Federal Reserve's plan is to purchase \$40 billion of mortgage backed securities per month on an open-ended basis.
- Generally positive U.S. economic data and the launch of QE3 led to positive momentum in the domestic equity market during the quarter.
- Non-U.S. equities outperformed U.S. equities during the third quarter. The strongest performing segment was the Emerging Markets area.
- Most bonds gained in absolute terms during the quarter, but overall long duration bonds outperformed intermediate and short duration bonds during the third quarter.

Total University Assets: September 30, 2012

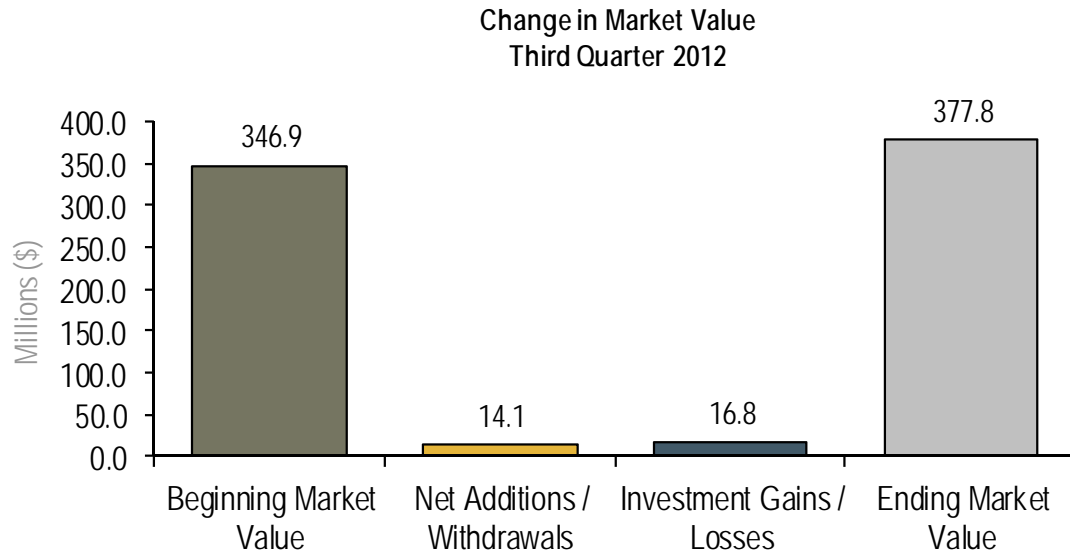
University Of Illinois Endowment & Operating Assets
\$1.98 Billion as of 9/30/2012





Endowment Fund Update: September 30, 2012

Total Fund Asset Growth: Endowment Pool



- During the third quarter, Endowment fund assets increased by approximately \$30.9 million from \$346.9 million to \$377.8 million.
- This increase was the net result of investment gains and positive fund flows. For this period, net inflows were approximately \$14.1 million and the absolute return of 4.7% in Endowment assets resulted in investment gains of \$16.8 million for the quarter.

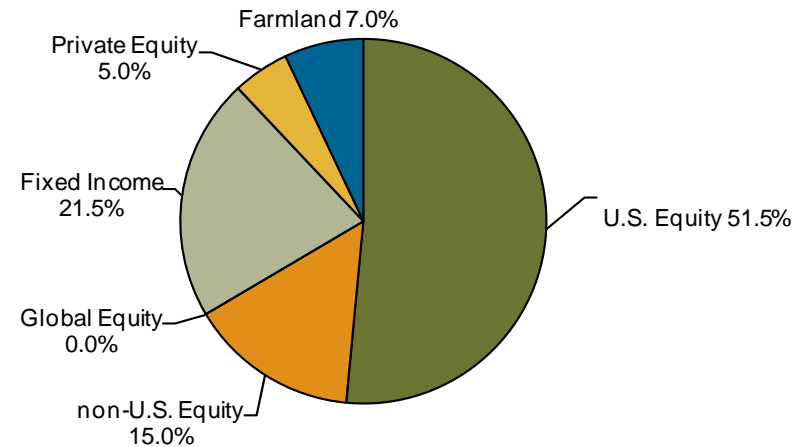
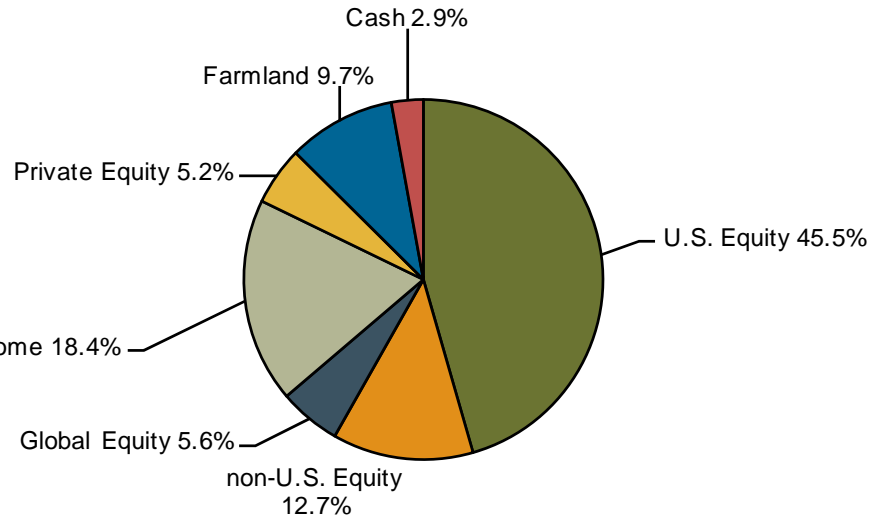
Market Value and Asset Allocation: Endowment Pool

September 30, 2012

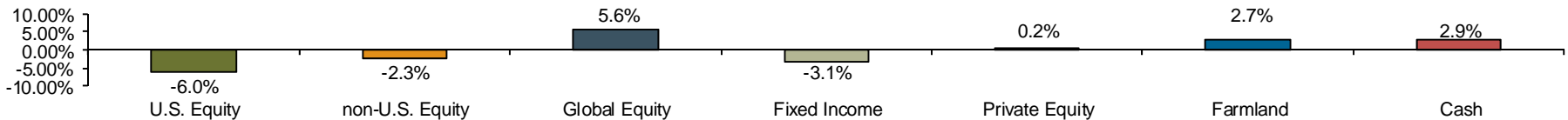
Total Fund
\$377,760,012

Actual Allocation

Interim Policy Allocation*



Actual vs. Policy



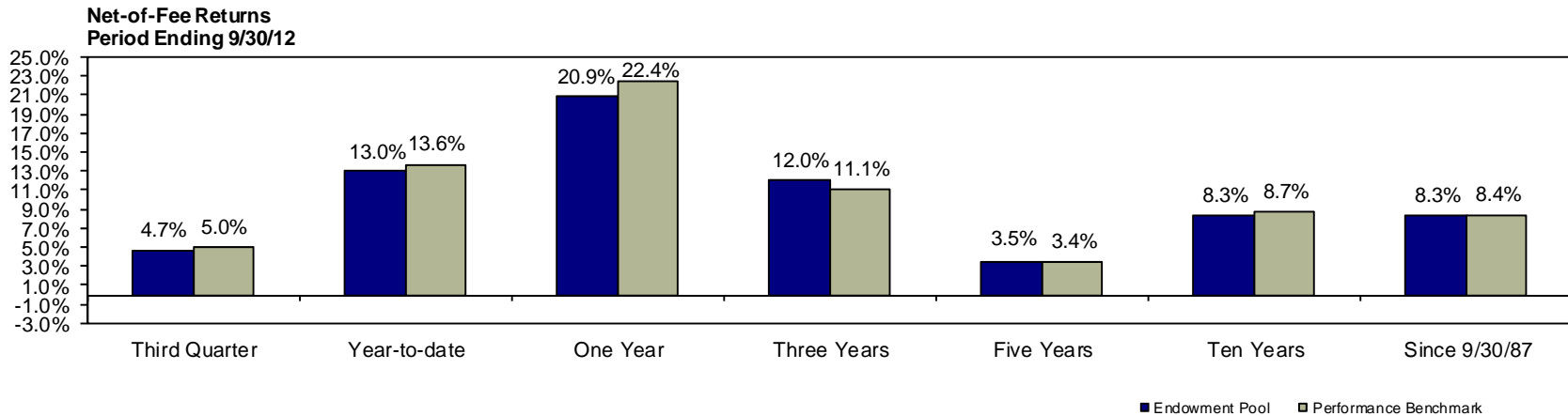
*Long Term Policy Allocations: US Equity 14%, Non-US Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

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Total Fund Performance: Endowment Pool

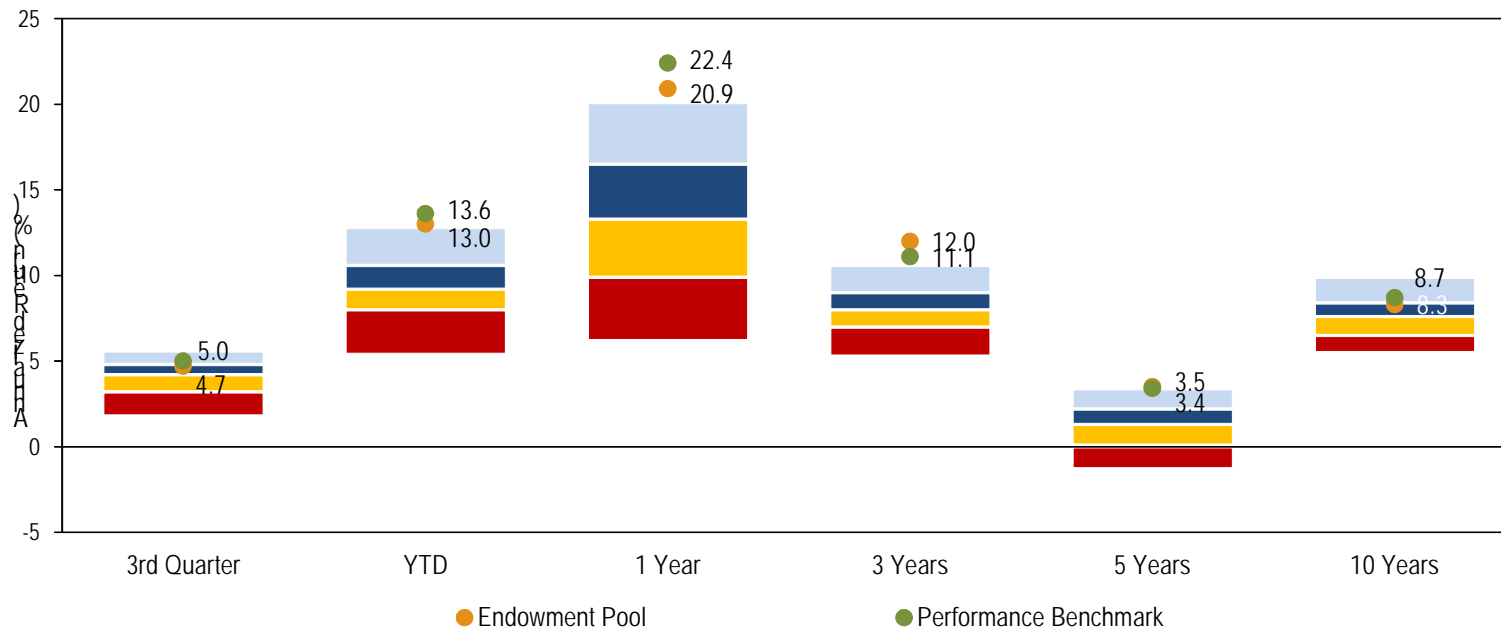
September 30, 2012



- For the third quarter, the Endowment Pool gained 4.7 percentage points, and underperformed the performance benchmark by 30 basis points. The U.S. Equity asset class approximated the Dow Jones U.S. Total Stock Market Index, returning 6.2 percent for the quarter. Relative outperformance by Ariel offset underperformance by GMO. During this same time period Templeton, the Pool's non-US equity manager, outperformed the MSCI All Country World ex-U.S. Index by 1.5 percentage points. In the Endowment's fixed income investments, Western and JP Morgan both outpaced their benchmarks, leading to overall fixed income outperformance of 1.5 percentage points over the asset class benchmark during the third quarter.
- Over the trailing one-year period, the Endowment Pool gained 20.9 percentage points and underperformed its benchmark by 150 basis points. Strong performance from Western, which added 5.6 percentage points of relative value, as well as Ariel's outperformance of 3.0 percentage points, was offset by poor relative performance from GMO and Templeton.

Peer Rankings: Endowment Pool

September 30, 2012



Returns/Ranks	3rd Quarter		YTD		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	4.7	33	13.0	4	20.9	3	12.0	2	3.5	5	8.3	28
Benchmark	5.0	20	13.6	1	22.4	2	11.1	4	3.4	5	8.7	18

- Over the trailing year-to-date, one-, three- and five-year time periods, the returns of the University of Illinois' Endowment Pool have ranked in the top 5% of the BNY Mellon Endowment Fund and Foundation Universe returns.

Asset Class Performance

September 30, 2012

	Third Quarter	YTD	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	4.7	13.0	20.9	12.0	3.5	8.3	8.3
Performance Benchmark	5.0	13.6	22.4	11.1	3.4	8.7	8.4
Total U.S. Equity	6.2	15.8	30.6	13.6	2.1	8.5	8.4
Dow Jones U.S. Total Stock Market Index	6.2	16.2	30.2	13.4	1.5	8.7	8.7
Total Non-U.S. Equity	8.9	8.8	13.9	0.8	-4.9	8.1	5.1
MSCI All Country World ex-U.S. Index	7.4	10.4	14.5	3.2	-4.1	9.8	5.3
Total Global Equity	6.4	--	--	--	--	--	6.4
MSCI All Country World Index	6.8	--	--	--	--	--	6.8
Total Fixed Income	3.1	8.5	10.4	11.6	7.8	6.3	8.0
Barclays Aggregate Bond Index	1.6	4.0	5.2	6.2	6.5	5.3	7.5
Total Private Equity⁽¹⁾	-0.8	5.2	2.6	10.0	3.6	--	-1.4
Private Equity Benchmark	7.0	18.7	34.1	16.8	4.6	--	9.0
Total Farmland⁽²⁾	0.0	21.9	21.9	24.9	18.3	--	17.4
NCREIF Cornbelt Index	0.0	24.9	24.9	15.3	14.8	--	14.1

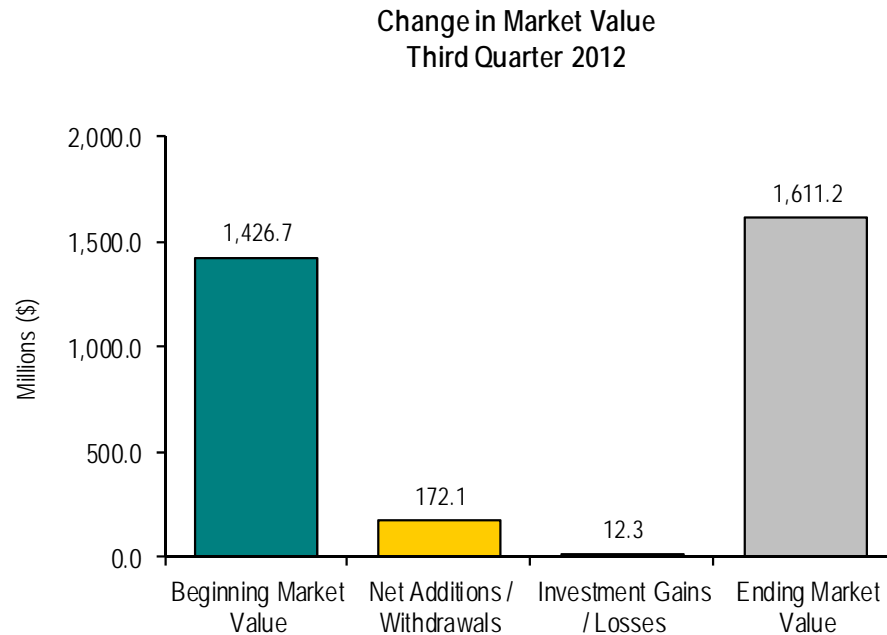
(1) The combined Adams Street Partners IRR at 9/30/2012 was 4.5%.

(2) Farmland is valued annually on December 31st, and is reported on a six month lag. As such, the one year return reflected above is the one-year return for Farmland as of December 31, 2011.



Operating Pool Update: September 30, 2012

Total Fund Asset Growth: Operating Pool

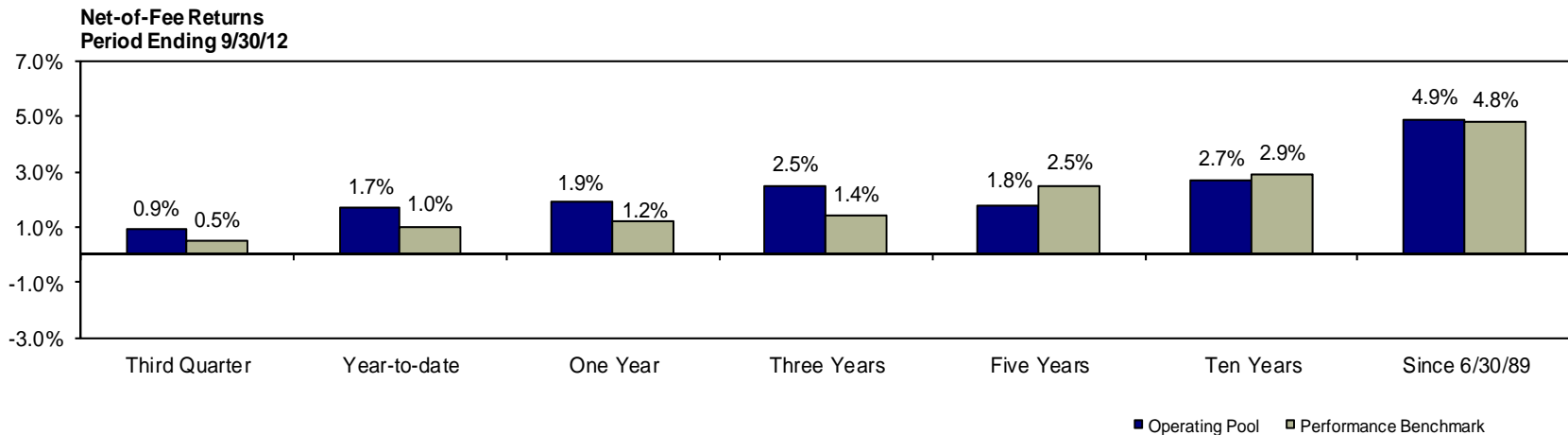


- During the third quarter, the Operating Pool assets increased by approximately \$184.5 million from \$1.43 billion to \$1.61 billion. This increase was the result of approximately \$172.1 million in net inflows and \$12.3 million in investment gains.

Total Fund Performance: Operating Pool

September 30, 2012

Total Fund
\$1,611,160,864



- The Operating Pool returned 90 basis points during the third quarter, beating the benchmark return for this time period by 40 basis points. Active management drove the relative outperformance of the portfolio, with Western Asset Management outpacing its benchmark by 180 basis points with a 2.3 percent return during the quarter. Positive absolute and relative returns from the short duration managers, IR+M, Galliard, and Wells Capital also had a positive effect.
- For the one-year period ending September 30, 2012, the Operating Pool outperformed the Performance Benchmark by 70 basis points, returning 1.9 percentage points.

Appendix

Market Environment

Market Highlights

Returns of the Major Capital Markets

	Third Quarter	Year-to-Date	Periods Ending 09/30/2012			
			1-Year	3-Year ¹	5-Year ¹	10-Year ¹
Equity						
MSCI All Country World IMI	6.8%	13.0%	21.1%	7.6%	-1.7%	9.0%
MSCI All Country World	6.8%	12.9%	21.0%	7.2%	-2.1%	8.6%
Dow Jones U.S. Total Stock Market	6.2%	16.2%	30.2%	13.4%	1.5%	8.7%
Russell 3000	6.2%	16.1%	30.2%	13.3%	1.3%	8.5%
S&P 500	6.4%	16.4%	30.2%	13.2%	1.1%	8.0%
Russell 2000	5.3%	14.2%	31.9%	13.0%	2.2%	10.2%
MSCI All Country World ex-U.S. IMI	7.5%	10.7%	14.4%	3.5%	-3.8%	10.2%
MSCI All Country World ex-U.S.	7.4%	10.4%	14.5%	3.2%	-4.1%	9.8%
MSCI EAFE	6.9%	10.1%	13.8%	2.1%	-5.2%	8.2%
MSCI EAFE (100% Hedged)	3.9%	6.3%	10.4%	-1.5%	-8.5%	2.6%
MSCI EAFE (Local Currency)	4.7%	9.1%	13.5%	1.3%	-6.2%	4.9%
MSCI Emerging Markets	7.7%	12.0%	16.9%	5.6%	-1.3%	17.0%
Fixed Income						
Barclays Global Aggregate	3.3%	3.9%	5.0%	5.0%	6.2%	6.4%
Barclays Aggregate Bond	1.6%	3.7%	5.2%	6.2%	6.5%	5.3%
Barclays Long Gov't	0.3%	4.5%	6.4%	11.9%	10.9%	7.7%
Barclays Long Credit	5.2%	11.3%	14.9%	12.7%	10.6%	8.6%
Barclays Long Gov't/Credit	3.1%	10.6%	11.1%	12.5%	10.9%	8.1%
Barclays High Yield	4.5%	6.4%	19.4%	12.9%	9.3%	11.0%
SSB Non-U.S. WGBI	4.0%	4.0%	3.5%	4.0%	6.6%	7.3%
JP Morgan EMBI Global (Emerging Markets)	6.8%	14.7%	20.6%	12.3%	10.3%	12.5%
Commodities						
Dow Jones-UBS Commodity	9.7%	5.6%	6.0%	5.3%	-3.0%	5.2%
Goldman Sachs Commodity	11.5%	3.5%	12.7%	6.5%	-5.4%	3.4%
Hedge Funds						
HFRF Fund-Weighted Composite ²	2.9%	4.7%	5.5%	3.9%	1.4%	6.8%
HFRF Fund of Funds ²	2.3%	3.3%	2.8%	1.5%	-1.6%	3.6%
Real Estate						
NAREIT U.S. Equity REITS	0.2%	15.1%	32.6%	20.4%	2.1%	11.4%
NCREIF ODCE	2.5%	7.5%	10.4%	11.1%	-2.0%	5.7%
Private Equity						
Thomson Reuters VentureXpert ³	5.1%	5.1%	9.1%	17.4%	6.1%	11.0%
Infrastructure						
Macquarie Global Infrastructure - North America ⁴	2.0%	5.5%	17.2%	15.3%	4.4%	n/a

MSCI Indices and NCREIF ODCE show net returns. MSCI EAFE (100% Hedged) shows price return; all other indices show total returns.

¹ Periods are annualized.

² Latest 5 months of HFR data are estimated by HFR and may change in the future.

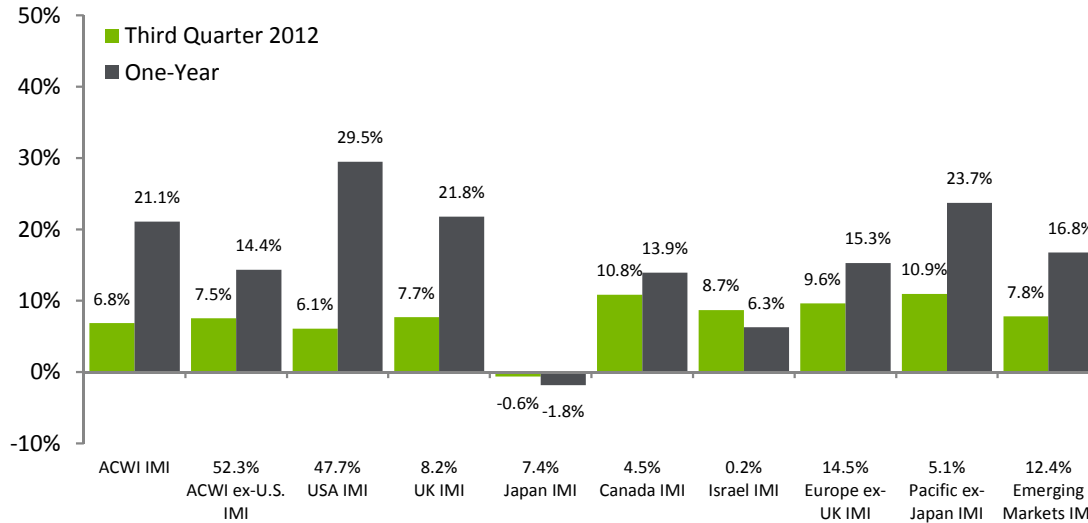
³ Benchmark is as of 03/31/2012.

⁴ Benchmark began in January 2004.

- U.S. economic growth and job growth picked up during the third quarter.
- European economic data improved after a weak second quarter.
- QE3 was announced in mid-September. The U.S. Federal Reserve's plan is to purchase \$40 billion of mortgage backed securities per month on an open-ended basis.
- The European Central Bank (ECB) decided to keep Eurozone interest rates at low levels. In September, ECB president Mario Draghi announced a plan for direct intervention in Eurozone bond markets in an attempt to contain the ongoing debt crisis.
- Non-U.S. equities outperformed U.S. equities during the third quarter. The strongest performing segment was the Emerging Markets area.
- The 10-year U.S. Treasury yield was broadly flat during the third quarter; however, on an intra-quarter basis, the yield was volatile. The yield reached a low of 1.39% and a high of 1.88% during the quarter.
- In aggregate, commodities produced positive returns during the quarter. The main drivers were a resurgence in risk appetite and the ongoing U.S. drought, which elevated grain prices.

Global Equity Markets

**GLOBAL MSCI IMI INDEX RETURNS
AS OF 09/30/2012**

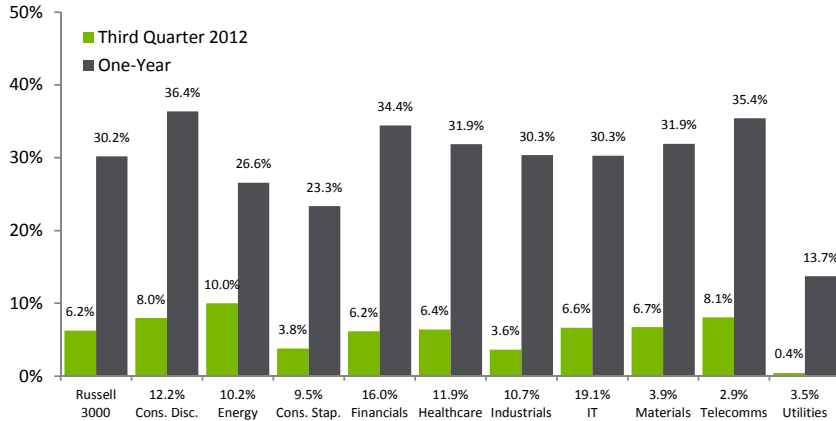


Source: MSCI

- Positive economic data coupled with QE3 and a calming of the Eurozone debt crisis spurred a resurgence in risk appetite during the third quarter.
- Most equity markets around the world posted positive returns during the quarter. The best performing market was Pacific ex-Japan, and the worst performing market was Japan.

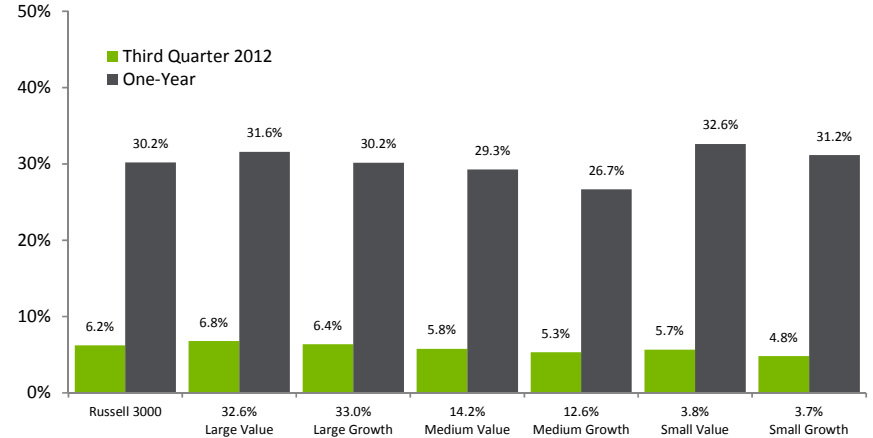
U.S. Equity Markets

**RUSSELL GICS SECTOR RETURNS
AS OF 09/30/2012**



Source: Russell Indexes

**RUSSELL STYLE RETURNS
AS OF 09/30/2012**

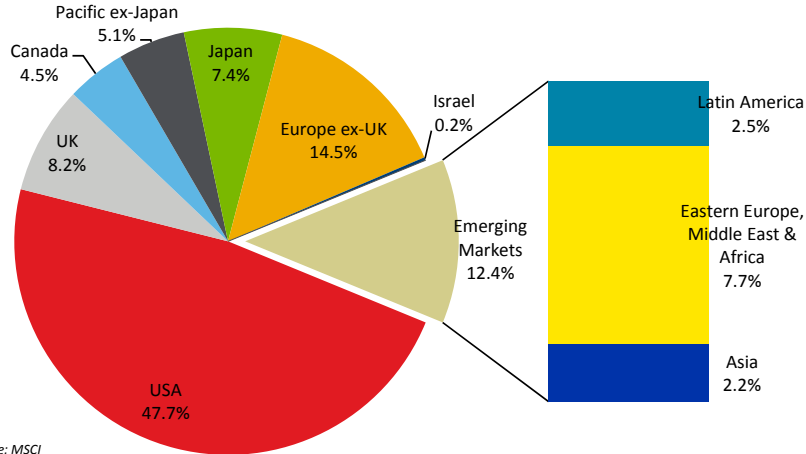


Source: Russell Indexes

- Generally positive U.S. economic data and the launch of QE3 led to positive momentum in the domestic equity market during the quarter.
- The Russell 3000 rose 6.2% during the quarter and returned 30.2% during the one-year period.
- The Consumer Discretionary, Energy, and Telecommunications sectors were the best performing sectors during the third quarter, posting returns of 8.0%, 10.0%, and 8.1%, respectively. The Industrials and Utilities sectors were the worst performing areas, producing returns of 3.6% and 0.4%, respectively, during the third quarter.
- Large cap outperformed small cap and mid cap during the third quarter. Value modestly outperformed growth across all segments of the market during the quarter.

Global Equity Markets

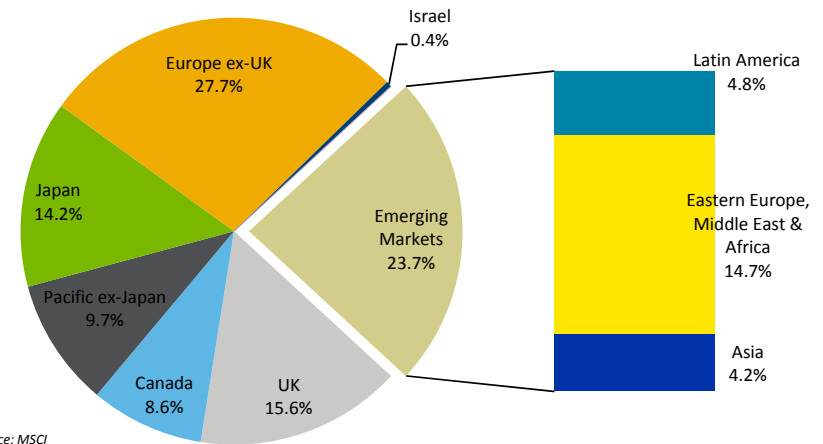
MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2012



Source: MSCI

- The two exhibits on this slide illustrate the percent each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

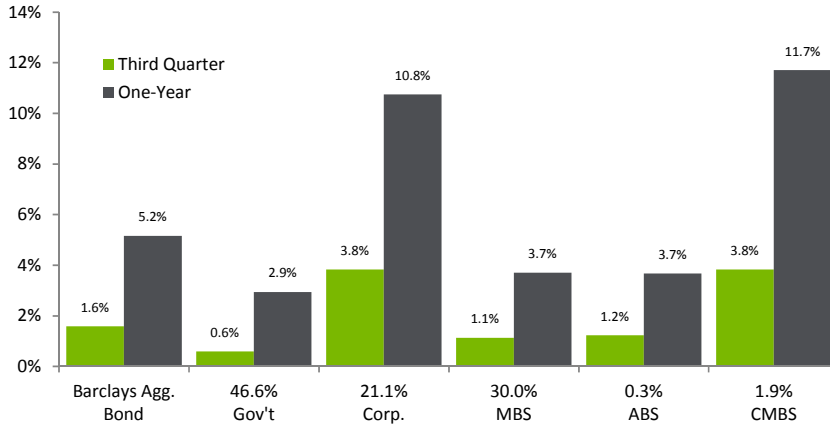
MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2012



Source: MSCI

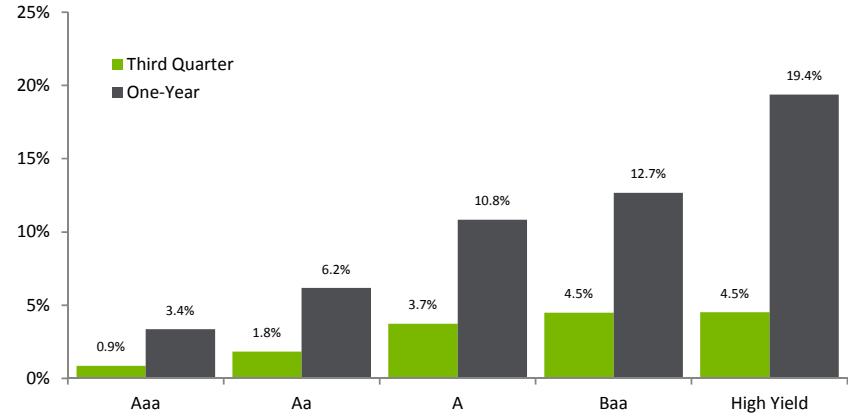
U.S. Fixed Income Markets

**BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 09/30/2012**



Source: Barclays Live

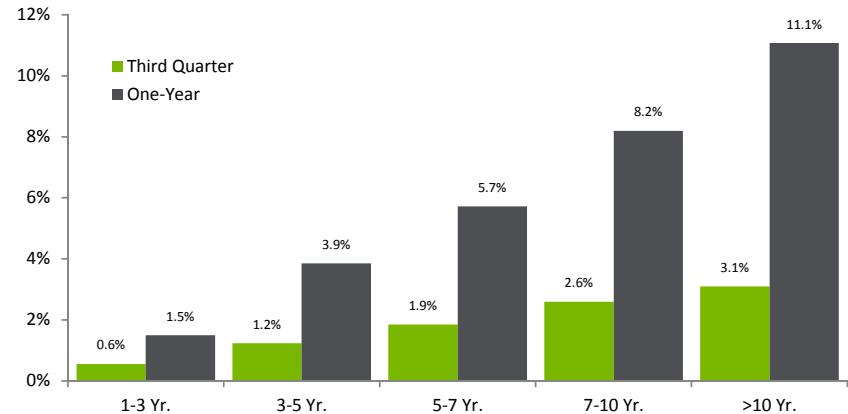
**BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 09/30/2012**



Source: Barclays Live

- The Barclays Aggregate returned 1.6% in the third quarter.
- Corporate bonds and commercial mortgage-backed securities were the strongest performing sectors, each returning 3.8% over the course of the third quarter.
- In the investment grade area, lower quality bonds outperformed higher quality bonds. This held true for the quarter and the preceding one-year period.
- High yield bonds outperformed investment grade bonds. High yield benefited from massive inflows of capital as investors searched for yield.
- Long duration bonds outperformed intermediate and short duration bonds.

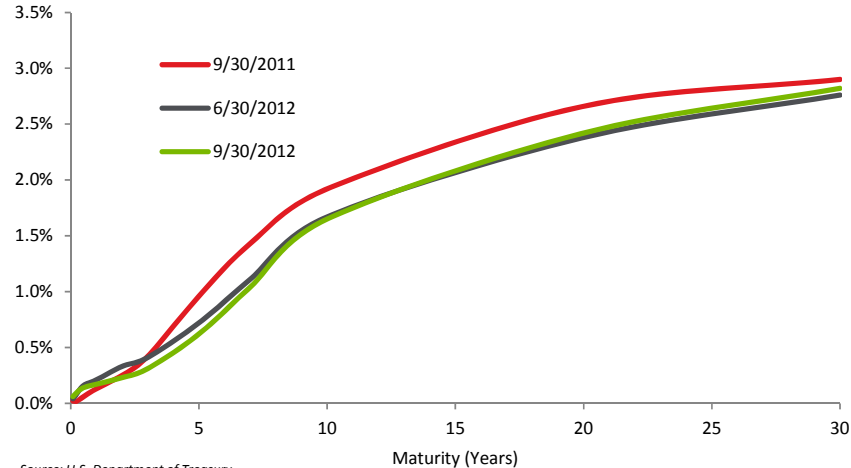
**BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 09/30/2012**



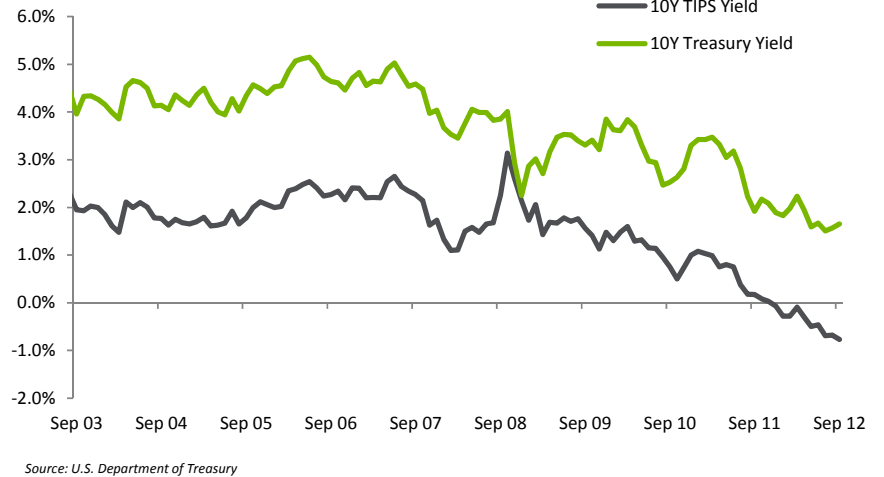
Source: Barclays Live

U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



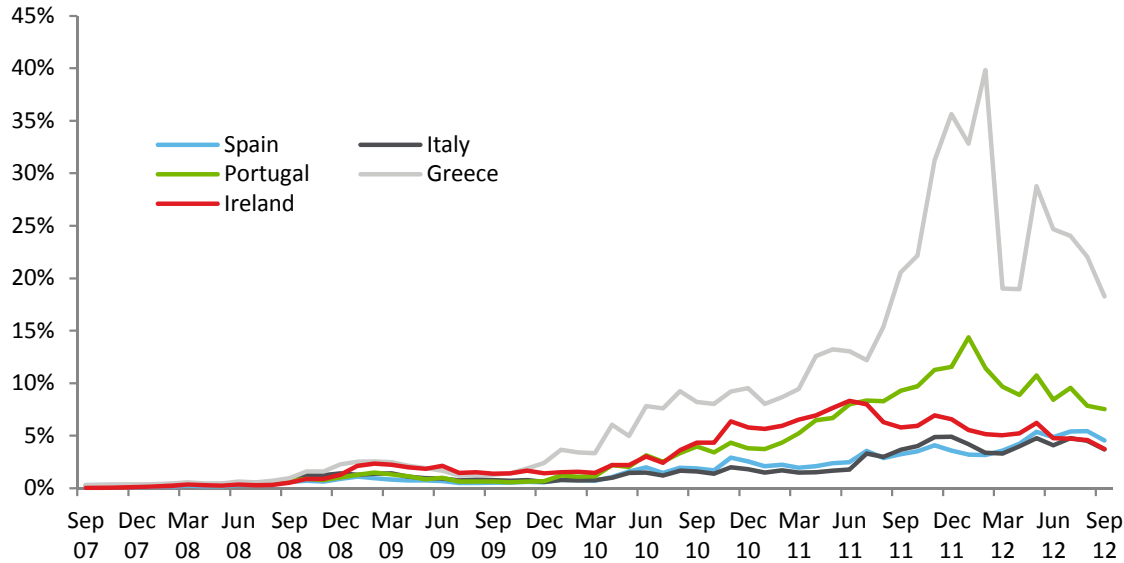
U.S. 10-YEAR TREASURY AND TIPS YIELDS



- The Treasury yield curve steepened slightly during the quarter. The intermediate (1 to 10 years) segment of the yield curve fell, while the long end of the yield curve rose slightly.
- While the 10-year U.S. Treasury yield ended the quarter near its starting point, the yield was volatile on an intra-quarter basis. The yield reached a low of 1.39% and a high of 1.88% during the quarter.
- 10-year TIPS yields continued their push further into negative territory. The 10-year real yield fell to -0.77% as of quarter-end.

European Fixed Income Markets

**EUROZONE PERIPHERAL BOND SPREADS
(10-YEAR SPREADS OVER GERMAN BUNDS)**



Source: DataStream

- Spain was one of the key focal points of the Eurozone debt crisis during the quarter as speculation was rife that it would ask for a European bailout. This led to the spread between 10-year yields on Spanish debt and German Bunds reaching a record high of approximately 640 bps on July 24, 2012. With reassurances from the Spanish government, announcements from the ECB, and the recently announced Draghi Plan, Spanish-German yield spreads have fallen, albeit with significant volatility. The yield spread ended the quarter at 456 bps.
- 10-year yield spreads over German Bunds decreased for the rest of the Eurozone periphery as well.

Credit Spreads

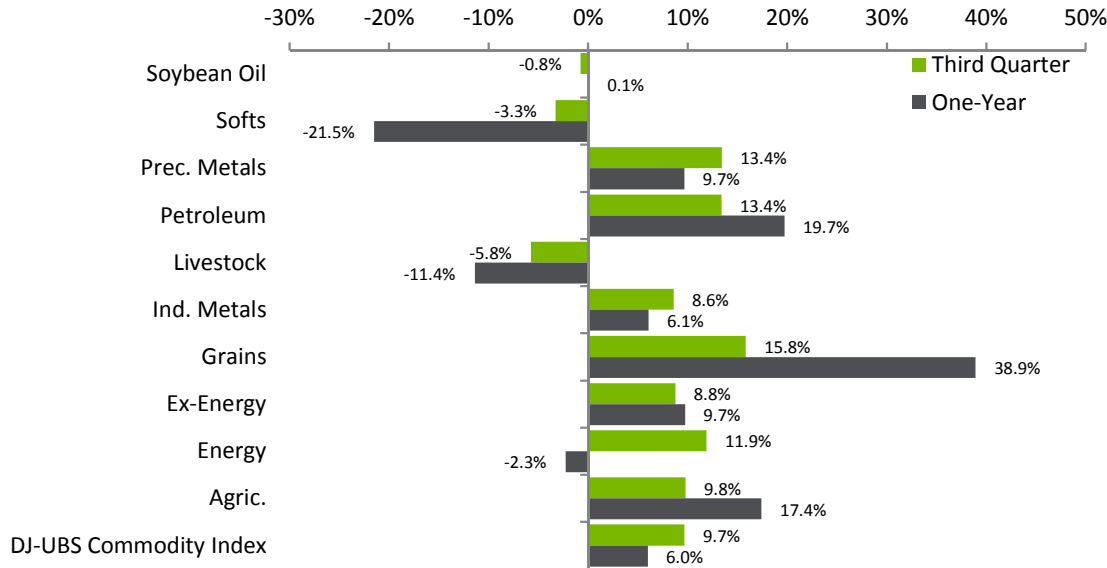
Spread (bps)	9/30/2012	6/30/2012	9/30/2011	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	49	77	90	-28	-41
Long Gov't	4	5	5	-1	-1
Long Credit	191	228	246	-37	-55
Long Gov't/Credit	114	130	132	-16	-18
MBS	24	76	80	-52	-56
CMBS	155	235	351	-80	-196
ABS	44	59	77	-15	-33
Corporate	156	199	238	-43	-82
High Yield	551	615	807	-64	-256
Global Emerging Markets	332	408	495	-76	-163

Source: Barclays Live

- Credit spreads fell during the quarter; this was driven by modest falls in U.S. Treasury yields and more significant reductions in headline credit yields.
- Unsurprisingly, the sectors that saw the largest reductions in spreads were the sectors that are generally favored when risk appetites increase (high yield and emerging market debt) and the sectors most affected by QE3 (Mortgage-backed related).
- Credit spreads across every segment as of September 30, 2012 were lower relative to a year ago.

Commodities

COMMODITY RETURNS AS OF 09/30/2012

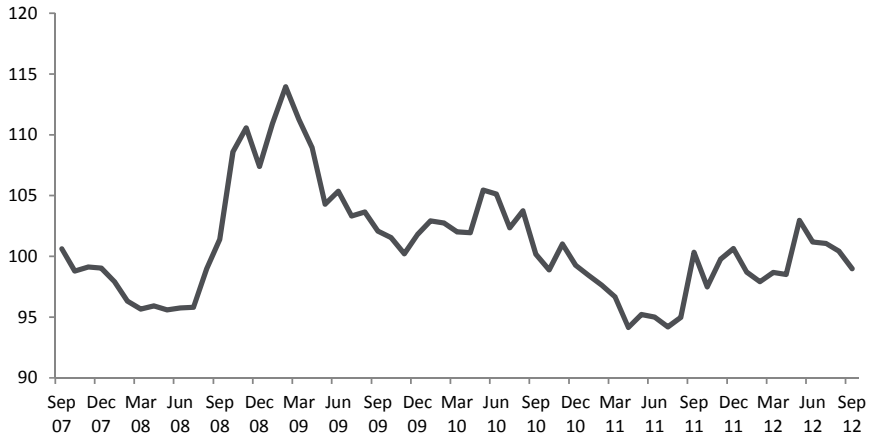


Source: Dow Jones-UBS

- Driven by very strong gains in grains and petroleum, the Dow Jones-UBS Commodity Index increased by 9.7% during the third quarter.
- The strongest performing segment of the market was grains. This was caused by higher than normal temperatures and below average rainfall in the U.S. East and Midwest that boosted grain prices.
- Softs and Livestock were the worst performing sectors of the market during the third quarter.

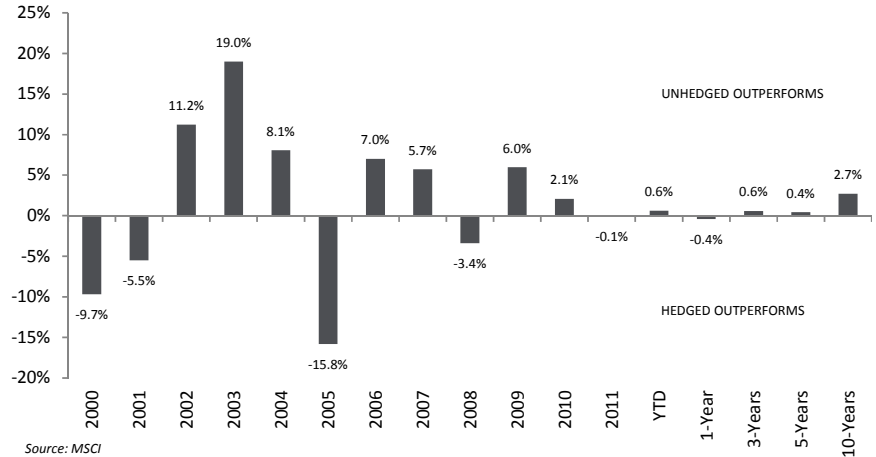
Currency

**TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)**



Source: Federal Reserve

**DIFFERENCE BETWEEN MSCI EAFE UNHEDGED AND HEDGED INDICES
AS OF 09/30/2012**

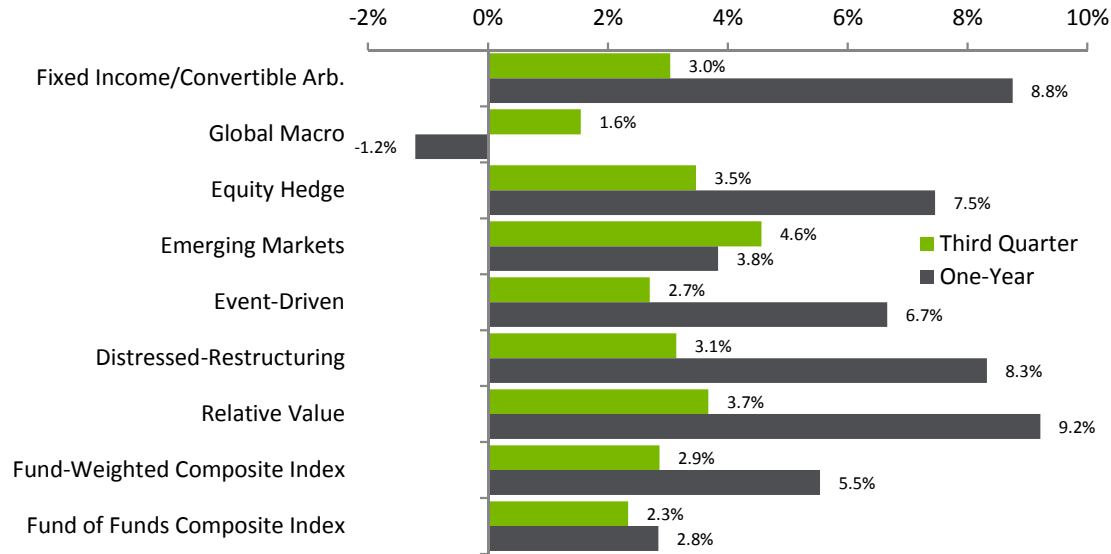


Source: MSCI

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar marginally depreciated during the quarter and the one year period.
- The MSCI EAFE Unhedged Index slightly outperformed the MSCI EAFE 100% Hedged Index during the year-to-date period reflecting the depreciation of the U.S. dollar. The unhedged index outperformed the hedged index during the last 3, 5, and 10 year periods.

Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE AS OF 09/30/2012

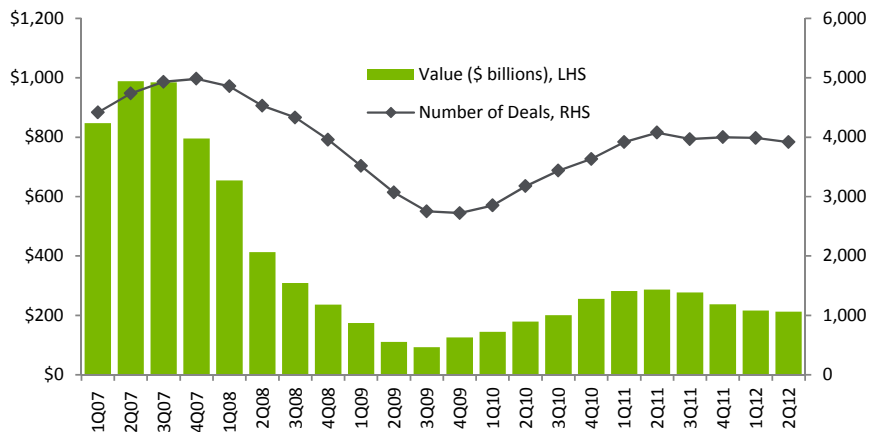


Source: HFR

- All major hedge fund strategy types posted positive returns in the third quarter. The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 2.9% and 2.3%, respectively.
- Relative Value and Emerging Markets strategies were the strongest performers during the quarter.

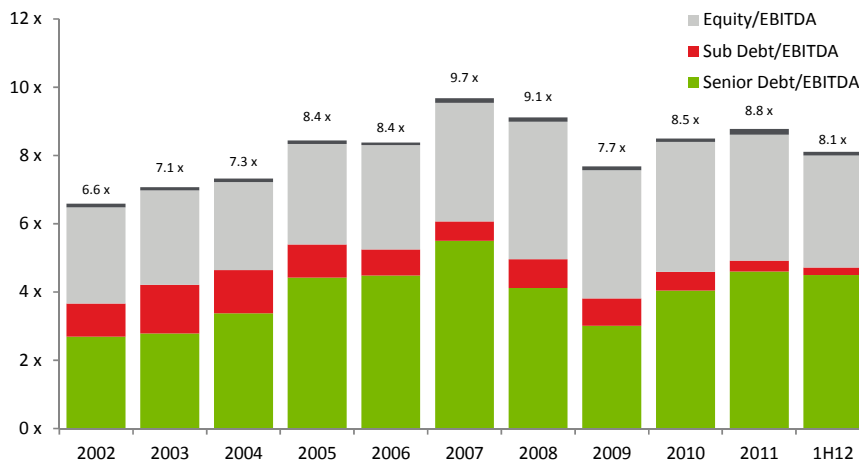
Private Equity Market Overview – Q2 2012

LTM GLOBAL SPONSOR M&A DEAL VOLUME AND VALUE
(TRAILING 12 MONTH DATA)



Source: ThomsonOne

PURCHASE PRICE MULTIPLES

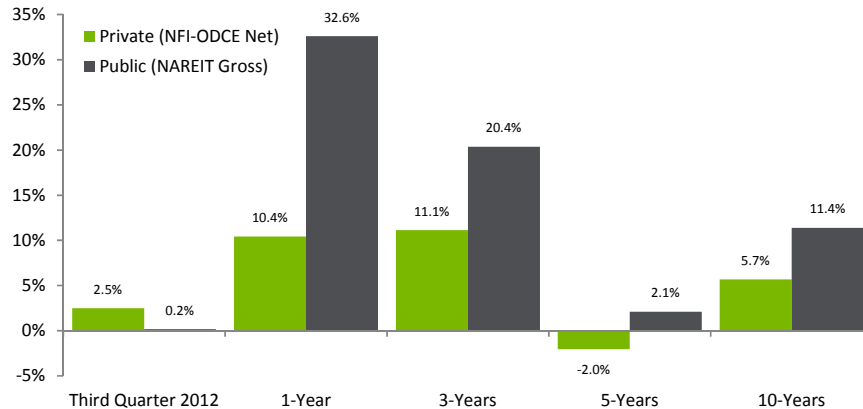


Source: S&P

- **Fundraising:** Continues to improve: LTM levels (\$301B) healthy but not at excessive levels. Remains well below pre-crisis levels (\$591B). Overhang significant (\$750B) but decreasing.
- **Buyout:** Deal volume vacillating quarter to quarter but trending slightly downward. Small and middle market deals comprise bulk of activity although some activity being seen in the large market. Purchase price multiples are decreasing and are just below the 10 year average; European activity remains slow due to economic uncertainty.
- **Venture capital:** LTM investment levels (\$27.9B) declined for 2 consecutive quarters. 2Q activity increased but still below 2011 quarterly average(\$7.3B); median pre-money valuations increased across all deal stages; number of exits down ~16% to 2011 quarterly average, number of IPOs stalled after poor Facebook debut but IPO pipeline building.
- **Mezzanine:** U.S. mezzanine lenders continue to target smaller transactions as they are getting squeezed out of larger transactions in favor of high yield. They are also receiving increased competition from Unitranche structures. Europe continues to favor mezzanine lenders as CLOs have limited cash to re-invest and European banks are dealing with capital constraints.
- **Distressed Debt:** Default rates increased slightly for two consecutive quarters but remain at historically low levels; investment levels remain low due to heavy refinance activity and low default rates; attractive opportunities exist looking forward to 2013-2014 due to fragile economy and reduced leveraged loan capacity.
- **Secondaries:** \$10 billion raised in 1H 2012, expect record-breaking year; 1H 2012 \$12.3 billion in transactions roughly flat with the record 2011 level; pricing discounts decreased to 11% for Buyout and 26% for Venture.
- **Infrastructure:** Fundraising down slightly from 2011; YTD activity lowest level since 2007.

U.S. Commercial Real Estate Markets

**PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 09/30/2012**



Sources: NCREIF, NAREIT

Measured improvements are expected to continue:

- Demand has stabilized and new supply remains low; however, more consistent employment growth is needed to keep positive momentum going.
- Sector fundamentals are expected to continue to more widely firm; helping to support current pricing levels.
- Underwriting to remain favorable (for now), though downward pressure to continue on net operating income as leases expire and re-sign at today's substantially lower rates.
- Apartment sector development is on the horizon; all other property type development to remain minimal near term.
- Liquidity should continue to improve, albeit still segmented and below "normal period" levels.

Performance should remain attractive:

- Core real estate returns are expected to return closer to long run average levels (7-9%).
- Non-Core real estate opportunities remain attractive due to lagged recovery in pricing, improving fundamentals, and lenders' increased willingness to deal with distressed assets.

Bumps in the road likely still exist:

- Economic/political bumps may cause some short-term headwinds along the recovery path as investor confidence remains shaky.
- Refinancing overhang still requires resolutions.
- Silver lining: turmoil and uncertainty are catalysts in private markets for investment opportunities, particularly for investors in the higher risk non-Core space.

CURRENT POSITION IN REAL ESTATE RECOVERY CYCLE

