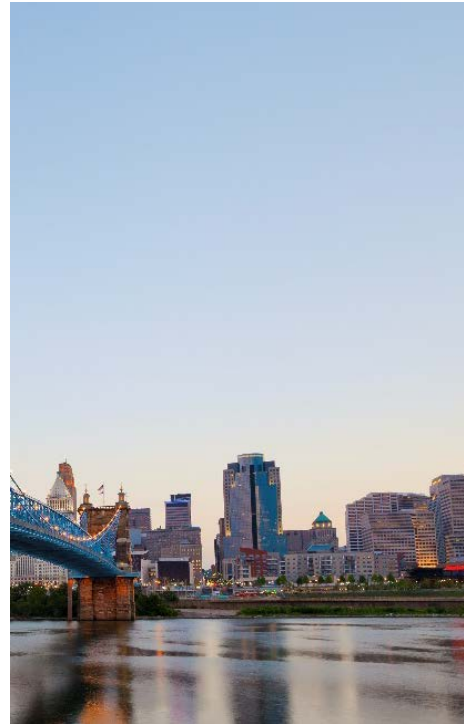
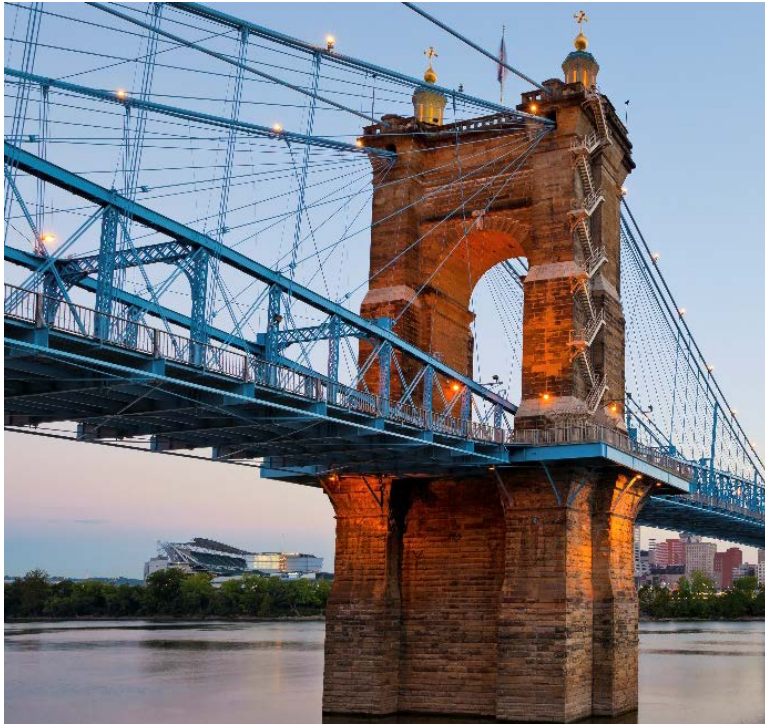


Reported to the Board of Trustees
July 19, 2018



UNIVERSITY OF ILLINOIS SYSTEM

FIRST QUARTER 2018 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

May 2018

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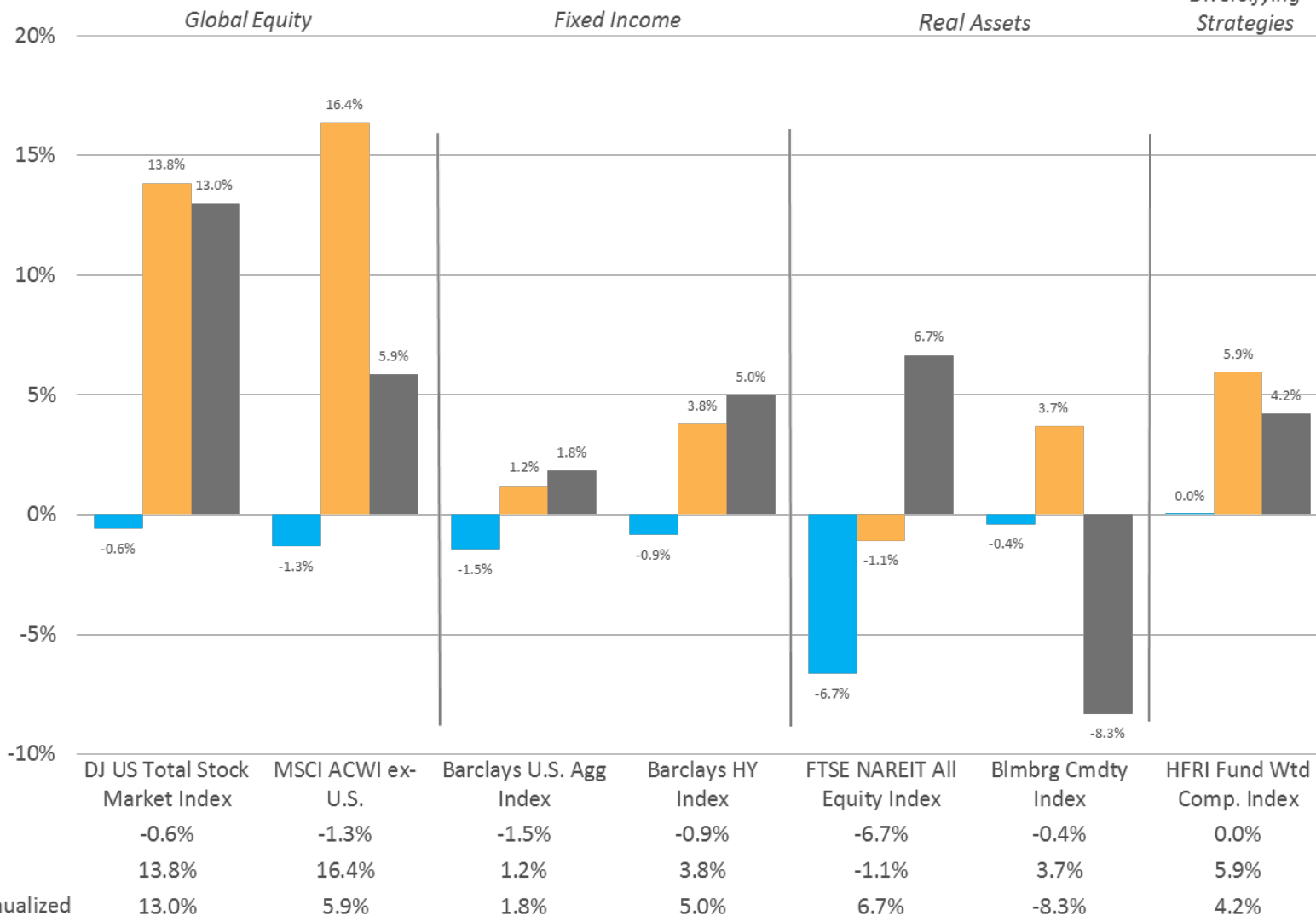
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MARKET OVERVIEW AND SYSTEM ASSETS

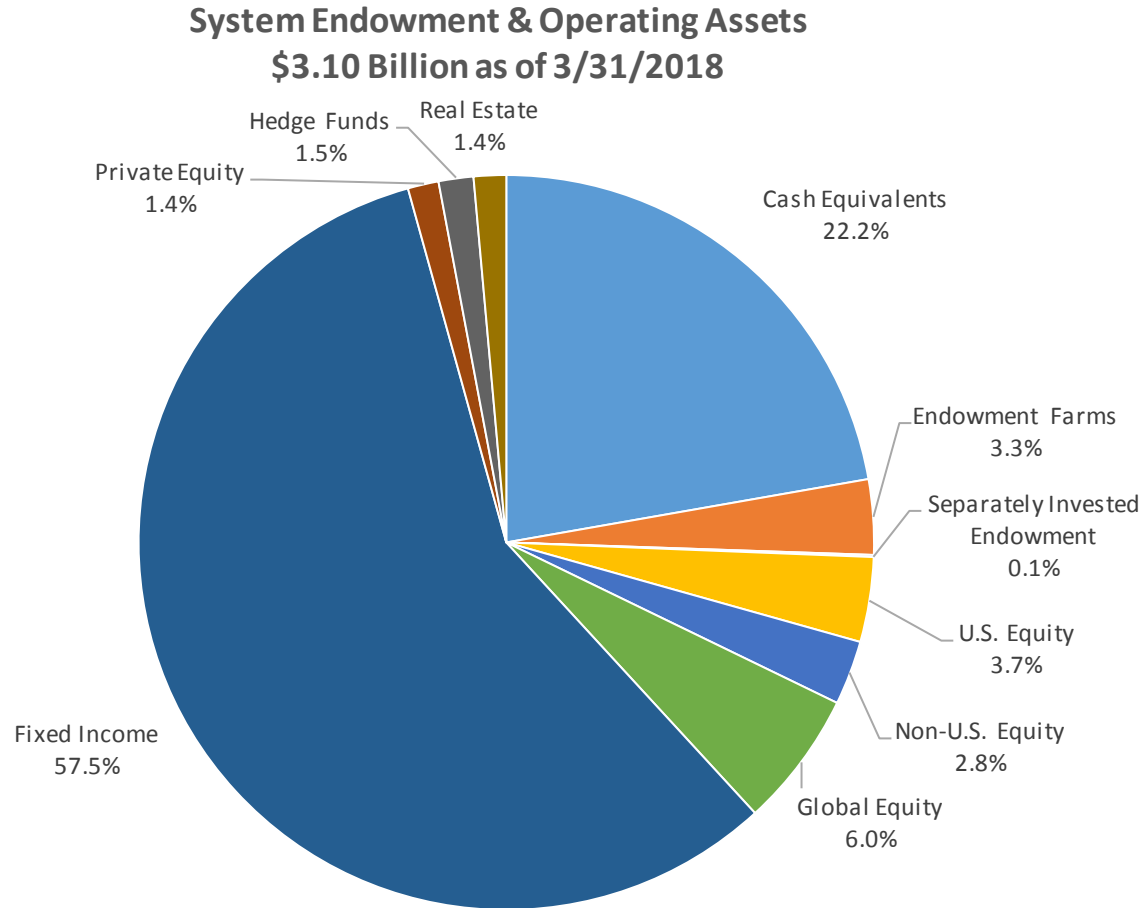
CAPITAL MARKET OVERVIEW

First Quarter 2018 – Market Returns

*Diversifying
Strategies*



Data sources: Lipper and Hedge Fund Research

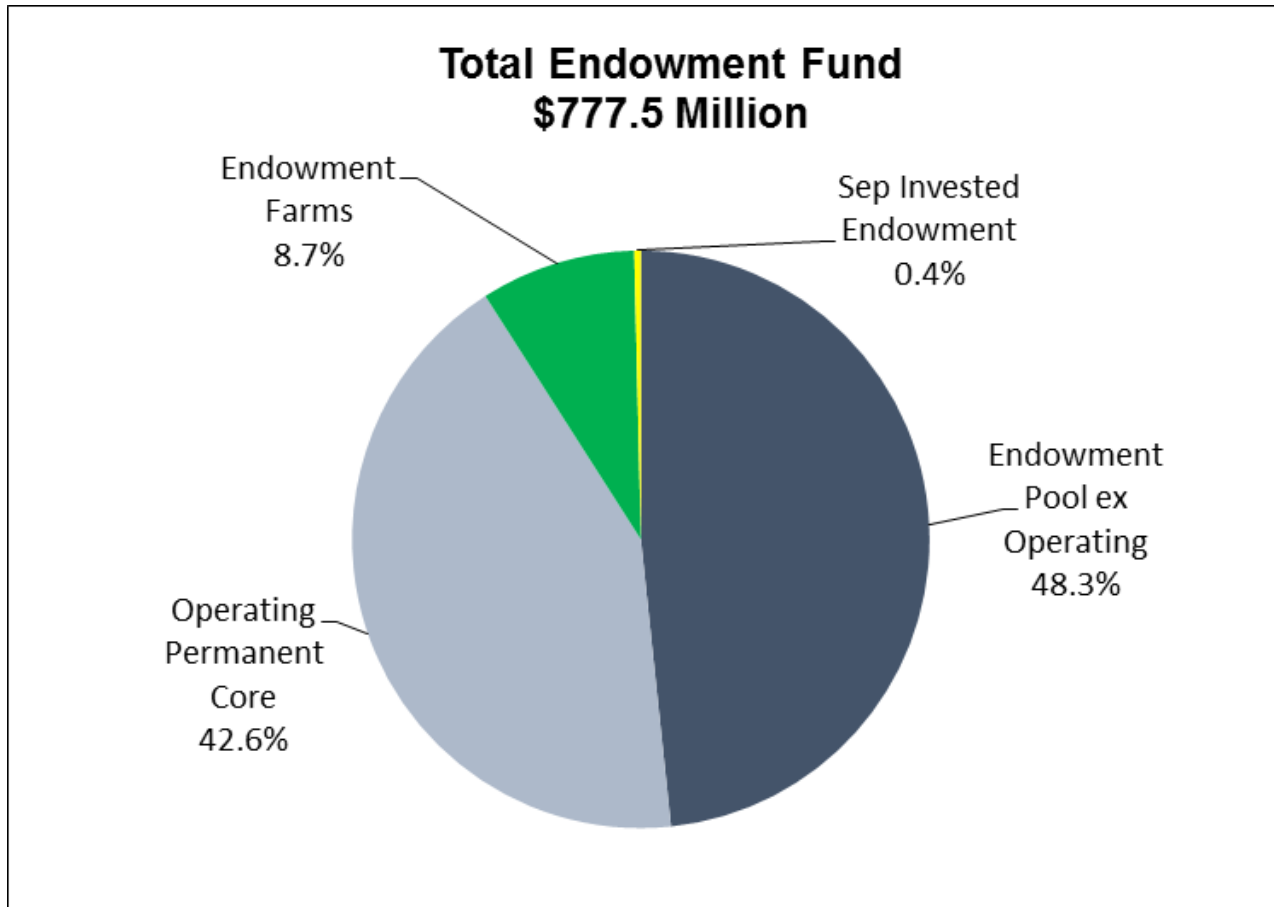


Note: The sum of the allocation may not equal 100% due to rounding.

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ENDOWMENT FUND UPDATE:
MARCH 31, 2018

TOTAL ENDOWMENT ASSETS BY TYPE: MARCH 31, 2018

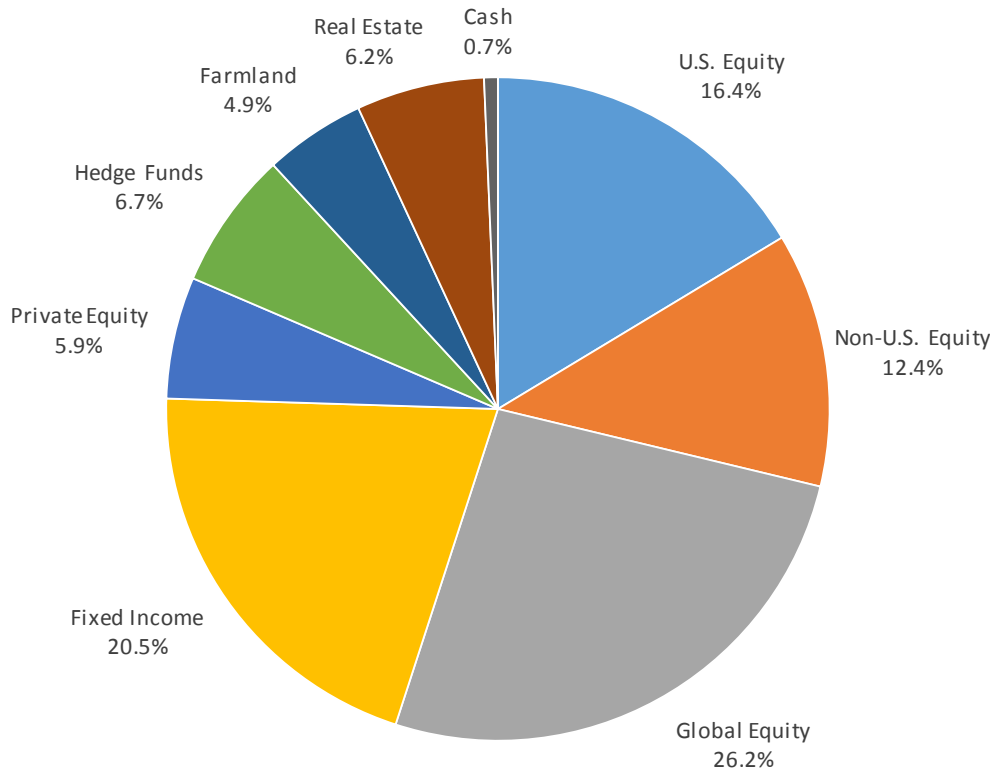


- The Total Endowment Fund was valued at \$777.5 million as of March 31, 2018.
- The Operating Pool maintains a permanent core investment in the Endowment Pool (light-blue pie slice); this is a long-term investment to enhance Operating Pool returns.
- The combined Endowment Pool is valued at \$707.1 million (dark- and light-blue pie slices) and is discussed further on the following slides.

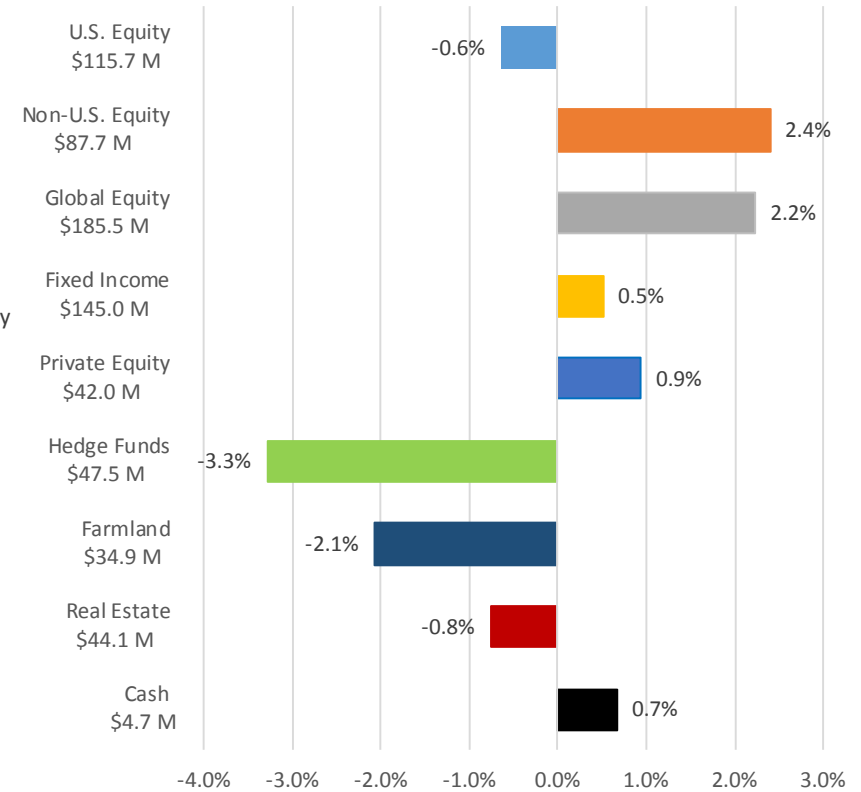
Note: The sum of the allocation may not equal 100% due to rounding.

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$707.1 Million as of 3/31/2018



Over/Under Allocation to Interim Policy Targets

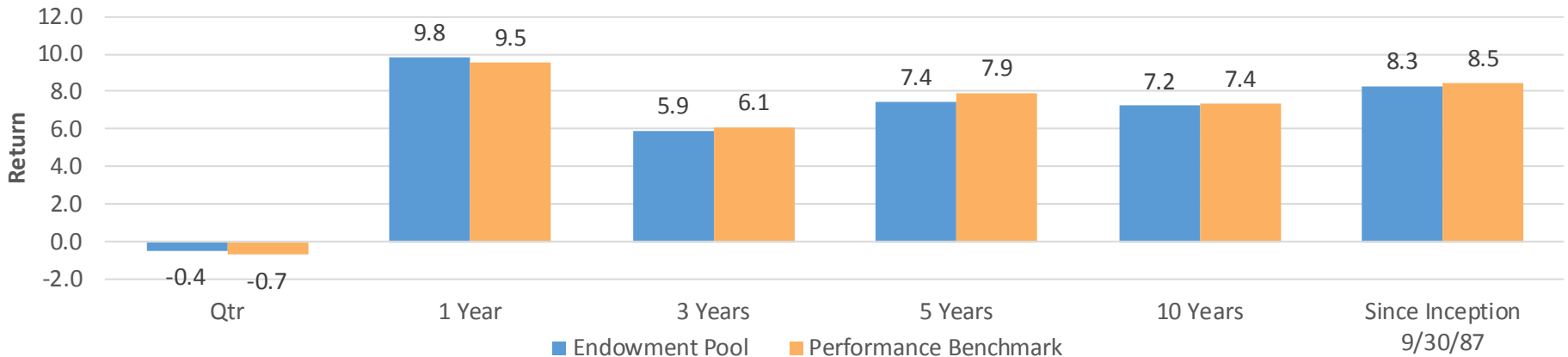


Note: Long-Term Policy Allocations: U.S. Equity 14%, Non-U.S. Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

Note: Total sum of allocation may not equal 100% due to rounding.

TOTAL ENDOWMENT POOL PERFORMANCE (MARCH 31, 2018)

TOTAL POOL: \$707.1 MILLION



- During the quarter ending March 31, 2018, the Endowment Pool lost -0.4%, performing slightly ahead of the benchmark. The main drivers of the Endowment Pool's quarterly return were:
 - Private Equity investment outperformed the DJ US TSM Index + 3% by 3.6% during the quarter, returning 3.8%.
 - Real Estate investments exceeded their respective benchmark by 0.7% during the quarter, returning 0.7%.
- Over the trailing one-year period ending March 31, 2018, the Endowment Pool returned 9.8% slightly ahead of the benchmark. The main drivers of the Endowment Pool's one-year return were:
 - Fixed Income investments exceeded their respective benchmark.
 - The Endowment's overweight to equity markets provided incremental returns as equities were the largest contributor for the year.

Endowment Pool	Quarter Ending
Market Value Change	March-2018
Beginning Market Value	\$713.2 M
Net Contributions	(\$3.0 M)
Gain/Loss	(\$3.1 M)
Ending Market Value	\$707.1 M

Note: The beginning market value + net contributions + net investment gains referenced in the table may not equal the ending market value due to rounding.

ASSET CLASS PERFORMANCE: ENDOWMENT POOL (MAR 31, 2018)

	Quarter ending Mar-2018	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool	-0.4	9.8	5.9	7.4	7.2	8.3	Sep-87
Performance Benchmark	-0.7	9.5	6.1	7.9	7.4	8.5	
Total U.S. Equity	-0.3	12.9	8.8	12.3	9.9	9.3	Sep-87
DJ U.S. Total Stock Market Index	-0.6	13.8	10.2	13.0	9.7	9.6	
Total Non-U.S. Equity	-1.2	17.1	6.7	6.2	2.9	5.7	Sep-93
Non-U.S. Equity Benchmark	-1.2	16.9	6.7	6.2	2.8	5.8	
Total Global Equity	-0.9	15.3	8.0	8.8	-	10.5	Jun-12
Global Equity Benchmark	-1.0	14.9	8.2	9.3	-	11.0	
Total Fixed Income	-1.2	2.0	1.8	2.0	5.3	6.9	Sep-87
Bloomberg Barclays U.S. Aggregate	-1.5	1.2	1.2	1.8	3.6	6.4	
Total Hedge Funds	-1.4	1.7	3.0	-	-	3.7	May-13
HFRI Fund Weighted Composite Index	0.0	5.9	3.4	-	-	4.1	
Total Private Equity¹	3.8	15.7	11.2	11.3	6.5	3.1	Jan-04
Private Equity Benchmark	0.2	16.8	13.2	16.0	12.7	11.7	
Total Real Estate	0.7	5.4	7.3	-	-	11.6	Aug-13
Real Estate Benchmark	0.0	4.9	7.0	-	-	11.6	
Total Farmland²	0.0	-0.4	-2.2	1.7	9.7	8.6	Dec-06
NCREIF Cornbelt Index	0.0	-0.4	-1.3	5.2	11.1	9.8	

¹The combined Adams Street Partners IRR at December 31, 2017 was 9.8% since inception.

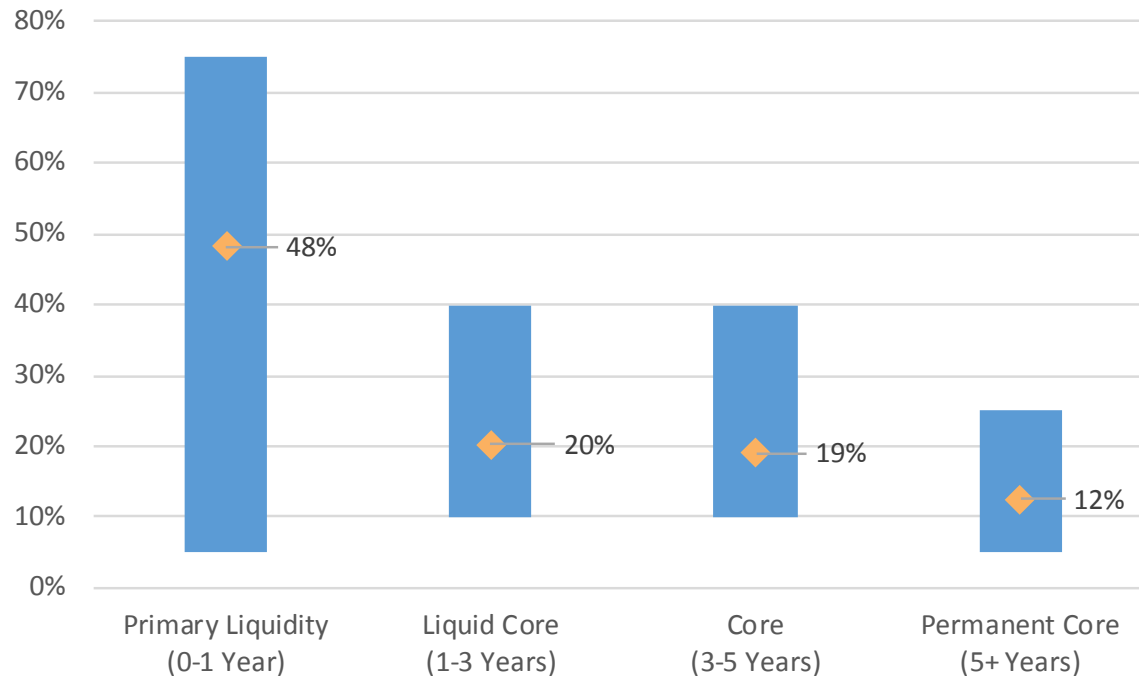
²Farmland is valued annually on June 30. As such, the one-year return reflected above is the one-year return for Farmland as of June 30, 2017.

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OPERATING POOL UPDATE:
MARCH 31, 2018

LIQUIDITY LAYERS: OPERATING POOL (MARCH 31, 2018)

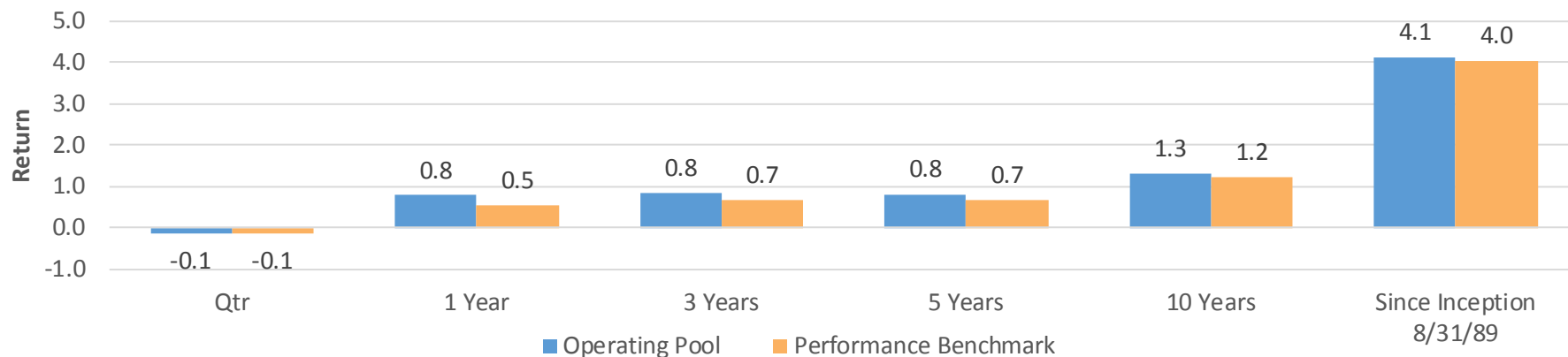
OPERATING POOL LIQUIDITY LAYERS AS OF MARCH 31, 2018



- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- Longer-time horizon investments, including core and permanent core, are expected to provide higher rates of return and will experience some variation in market value as capital market conditions change.
- The System's permanent core operating funds are invested in the System's Endowment Pool investment program.

TOTAL OPERATING POOL PERFORMANCE (MARCH 31, 2018)

TOTAL POOL: \$2.32 BILLION



- The Operating Pool’s return during the first quarter was -0.1%, in-line with its benchmark return for the period.
 - Most of the Operating Pool’s managers slightly underperformed their respective benchmarks during the quarter due to the credit spread widening environment and the portfolio’s overweight to spread sectors.
- Over the trailing one-year period ending March 31, 2018, the Operating Pool returned 0.8% while outperforming the benchmark.
 - Most of the Operating Pool’s managers outperformed their respective benchmarks during the period.

Market Value Change		Quarter Ending March-2018
Beginning Market Value		\$2,033.3 M
Net Contributions		\$292.7 M
Gain/Loss		(\$3.1 M)
Ending Market Value		\$2,322.8 M

Note: The Total Pool’s beginning and ending market values include bank balances in which the System earns credit to offset bank fees. The beginning market value + net contributions + net investment gains referenced in the table may not equal the ending market value due to rounding.

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APPENDIX: MARKET ENVIRONMENT

MARKET ENVIRONMENT

2009-2018 Annual Returns of Key Indices

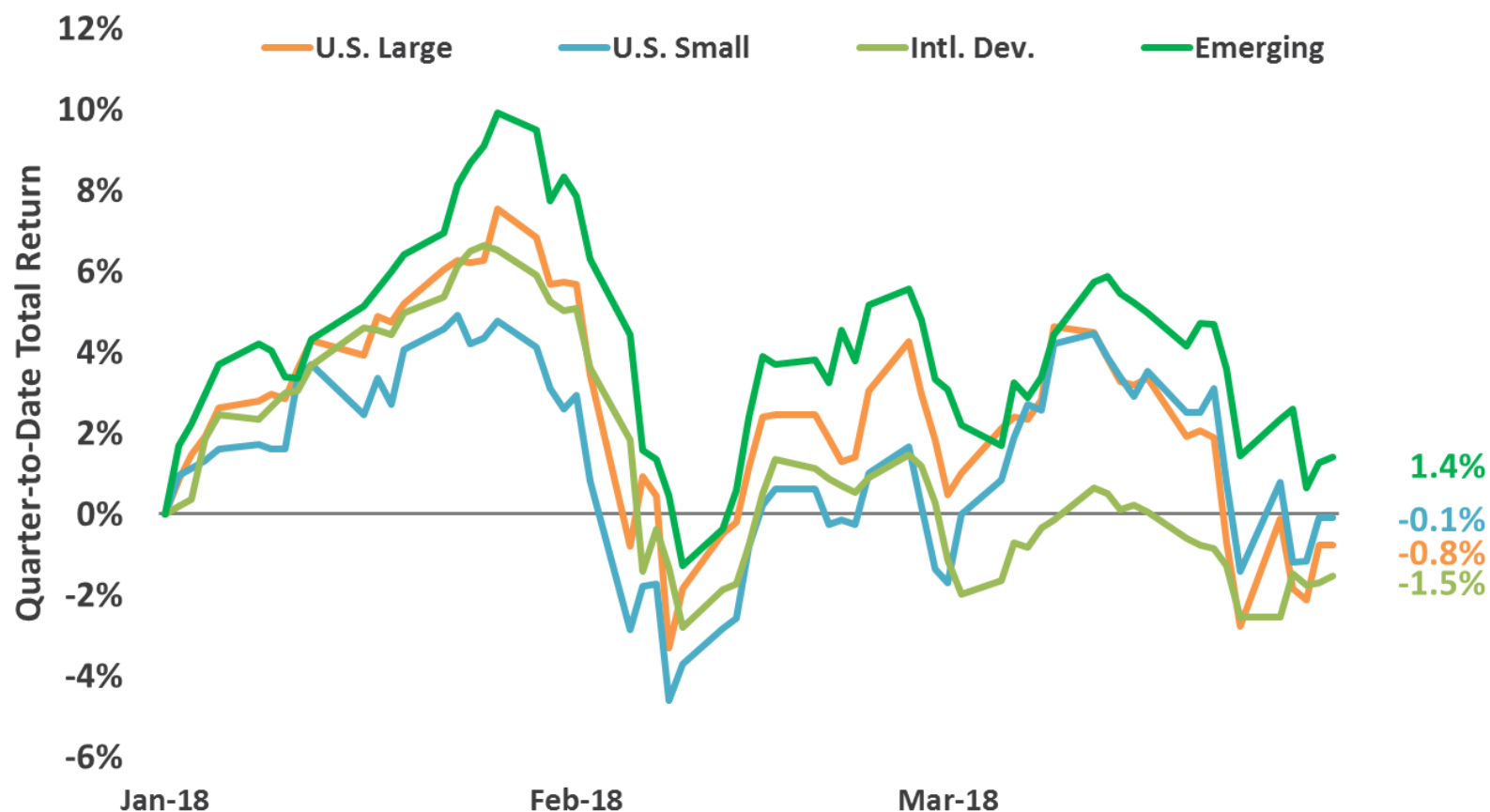
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5-year annual	10-year annual
Emerging Markets 78.5%	MLPs 35.9%	MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Emerging Markets 1.3%	Large Cap 13.3%	Small Cap 9.8%
MLPs 76.4%	Small Cap 26.9%	Bonds 7.8%	Emerging Markets 18.2%	Large Cap 32.4%	Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	Hedge Funds 0.3%	Small Cap 11.5%	Large Cap 9.5%
High Yield 58.2%	Global REIT 19.6%	High Yield 5.0%	Int'l 17.3%	MLPs 27.6%	Bonds 6.0%	Hedge Funds -0.3%	High Yield 17.1%	Large Cap 21.8%	Small Cap -0.1%	Int'l 6.5%	High Yield 8.3%
Global REIT 37.1%	Emerging Markets 18.9%	Large Cap 2.1%	Small Cap 16.3%	Int'l 22.8%	Small Cap 4.9%	Global REIT -0.8%	Large Cap 11.9%	Small Cap 14.6%	Large Cap -0.8%	Emerging Markets 5.0%	MLPs 5.6%
Int'l 31.8%	High Yield 15.1%	Small Cap -4.2%	Large Cap 16.0%	Hedge Funds 9.0%	MLPs 4.8%	Int'l -0.8%	Emerging Markets 11.2%	Global REIT 10.4%	High Yield -0.9%	High Yield 5.0%	Bonds 3.6%
Small Cap 27.2%	Large Cap 15.1%	Hedge Funds -5.7%	High Yield 15.8%	High Yield 7.4%	Hedge Funds 3.4%	Small Cap -4.4%	Global REIT 4.1%	Hedge Funds 7.8%	Bonds -1.5%	Global REIT 4.1%	Global REIT 3.4%
Large Cap 26.5%	Int'l 7.7%	Global REIT -6.5%	MLPs 4.8%	Global REIT 3.7%	High Yield 2.5%	High Yield -4.5%	Bonds 2.6%	High Yield 7.5%	Int'l -1.7%	Hedge Funds 3.4%	Emerging Markets 3.0%
Hedge Funds 11.5%	Bonds 6.5%	Int'l -12.1%	Hedge Funds 4.8%	Bonds -2.0%	Emerging Markets -2.2%	Emerging Markets -14.9%	Int'l 1.0%	Bonds 3.5%	Global REIT -4.6%	Bonds 1.8%	Int'l 2.7%
Bonds 5.9%	Hedge Funds 5.7%	Emerging Markets -18.4%	Bonds 4.2%	Emerging Markets -2.6%	Int'l -4.9%	MLPs -32.6%	Hedge Funds 0.5%	MLPs -6.5%	MLPs -11.1%	MLPs -5.8%	Hedge Funds 1.6%

Note: See disclosure section for a description of key indices.

GLOBAL EQUITIES PERFORMANCE

- Equities weathered a volatile first quarter, punctuated by a nearly 10% market decline in early February.
- Emerging markets outpaced domestic equities.

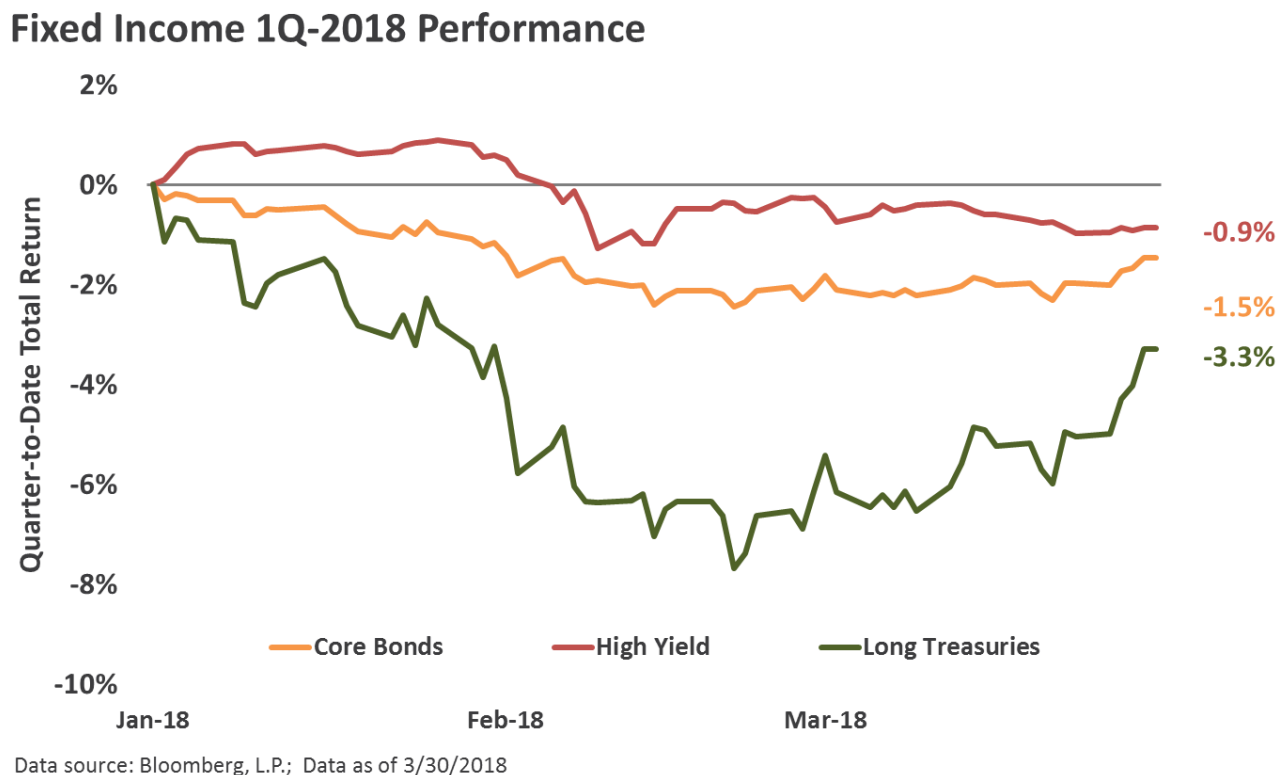
Global Equity 1Q-2018 Performance (in USD)



Data source: Bloomberg, L.P.; Data as of 3/30/2018

FIXED INCOME PERFORMANCE

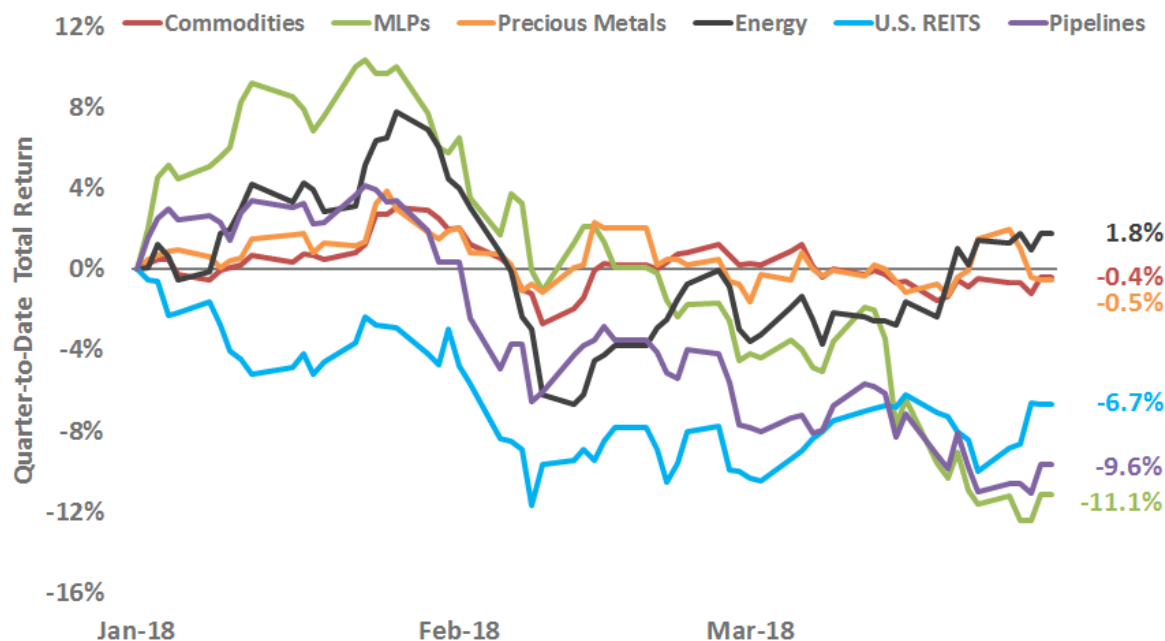
- Treasury rates rose on solid economic data and continued Fed policy tightening, serving as a headwind to rate-sensitive sectors such as core bonds and investment-grade credit.
- TIPS relatively outperformed most fixed income sectors amid a modest increase in inflation expectations.
- Below investment-grade, such as high yield bonds and bank loans, posted relative outperformance with yield spreads generally unchanged for the quarter.



REAL ASSETS PERFORMANCE

- After a strong start to the year, energy infrastructure deteriorated after the Federal Energy Regulatory Commission (FERC) reversed specific tax benefits associated with MLPs.
- With inflation expectations slowly edging higher and positive signs of economic growth flashing for 2018, the opportunity for rates to continue rising put pressure on REITS.
- Commodities and precious metals posted lackluster returns as U.S. Dollar weakness began to moderate.

Real Assets 1Q-18 Performance

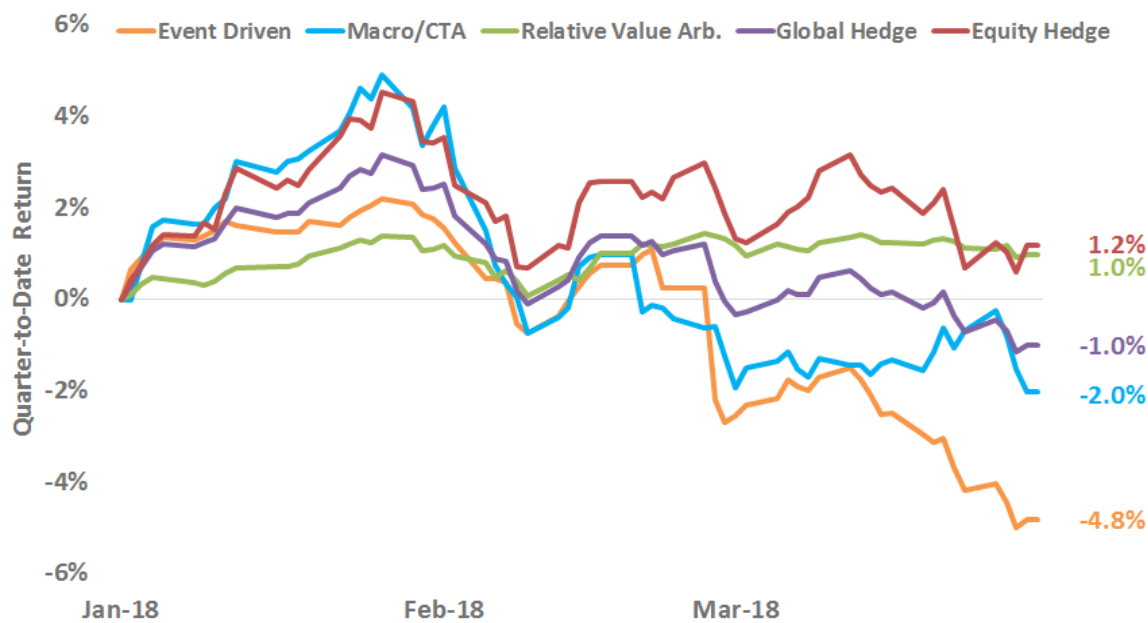


Data source: Bloomberg, L.P.; Data as of 3/30/2018

DIVERSIFYING STRATEGIES PERFORMANCE

- Despite the volatility exhibited in equity markets in the first quarter, macro/CTA managers continued to struggle on sharp trend reversals across equities and commodities.
- Firming merger and acquisition activity may provide more opportunities for event-driven managers.
- Renewed volatility may prove favorable for some strategies that suffered during the low volatility regime.

Liquid Diversifying Strategies 1Q-18 Performance



Data source: HFRI, Bloomberg, L.P.; Data as of 3/30/2018

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DISCLOSURES

DISCLOSURES

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Large Cap is represented by the S&P 500 Index which measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ. www.standardandpoors.com

Mid Cap is represented by the Russell Mid Cap Index which measures performance of U.S. mid capitalization stocks. The Russell Mid Cap Index is a capitalization-weighted index of the 800 smallest companies in the Russell 1000 Index. The stocks are traded on the NYSE, AMEX, and NASDAQ. www.russell.com

Small Cap is represented by the Russell 2000 Index which measures the performance of U.S. small capitalization stocks. The Russell 2000 is a capitalization-weighted index of the 2,000 smallest stocks in the broad U.S. equity market, as defined by the Russell 3000 Index. These stocks are traded on the NYSE, AMEX, and NASDAQ. www.russell.com

International is represented by the MSCI EAFE Index which is a Morgan Stanley Capital International index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East. www.msicbarra.com

Emerging Markets are represented by the MSCI Emerging Markets Index which is a Morgan Stanley Capital International index that is designed to measure the performance of emerging market stock markets. www.msicbarra.com

Hedged Equity is represented by the Hedge Fund Research, Inc. Fund Weighted Composite Index, an equal weighted index that includes over 2,000 constituent funds, both domestic and offshore with no Fund of Funds included in the index. www.hfri.com

Bonds are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. www.barclays.com

High Yield is represented by the Barclays U.S. Corporate High Yield Index. www.barclays.com

Global REIT is represented by the FTSE EPRA/NAREIT Developed Index which is designed to track the performance of listed real estate companies and REITS worldwide. www.ftse.com

MLPs are represented by the Alerian MLP Index. www.alerian.com

Hedge Funds are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. www.hfri.com



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