

# Investment Update

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## Presented to the Board of Trustees



# AGENDA

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- Capital Markets Overview
- UI Investment Program
  - Operating Funds Pool
  - Endowment Pool
- Endowment Pool Asset Allocation Policy Approved
- Timeline Implementation

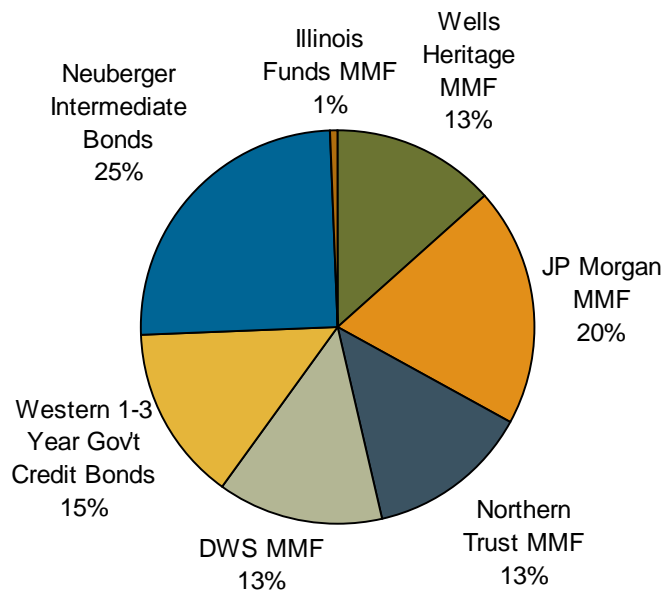
# Capital Markets Review as of May 31, 2011

	<b>Year-to-date 5.31.11</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
DJ U.S. Total Stock Market Index	8.3%	27.4%	1.9%	4.0%	3.8%
MSCI All Country World ex-U.S. Index	5.3%	30.0	-2.7	4.0	7.2
Barclays Aggregate Bond Index	3.0%	5.8	6.5	6.6	5.8

- Despite political unrest in the Middle East and North Africa region, ongoing concerns with Eurozone debt problems and weak global economic data, markets continue to post positive returns through May 31, 2011.
- The U.S. equity market, represented by the Dow Jones U.S. Total Stock Market Index, gained 8.3% on a year-to-date basis. Within the U.S. equity market, small- and mid-cap stocks outperformed their large cap counterparts, while on a style basis, growth equities have outperformed value stocks.
- Non-U.S. equities, as measured by the MSCI All Country World ex-U.S. Index, gained 5.3%, on a year-to-date basis, trailing U.S. stocks. Non-U.S. developed market equities outperformed emerging markets through May 31<sup>st</sup>, gaining 6.3% and 2.5% respectively.
- The fixed income market, as measured by the Barclays Capital Aggregate Bond Index has gained 3.0% year-to-date. Riskier segments of the fixed income market performed particularly well, as refinancing activity pushed down borrowing costs, making corporate and high-yield bonds more attractive.

# Operating Pool Assets: May 31, 2011

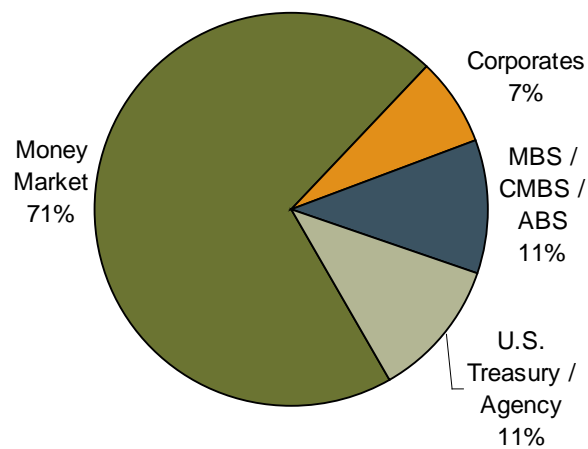
## Actual Allocation



## Total Operating

**\$1,125,393,799**

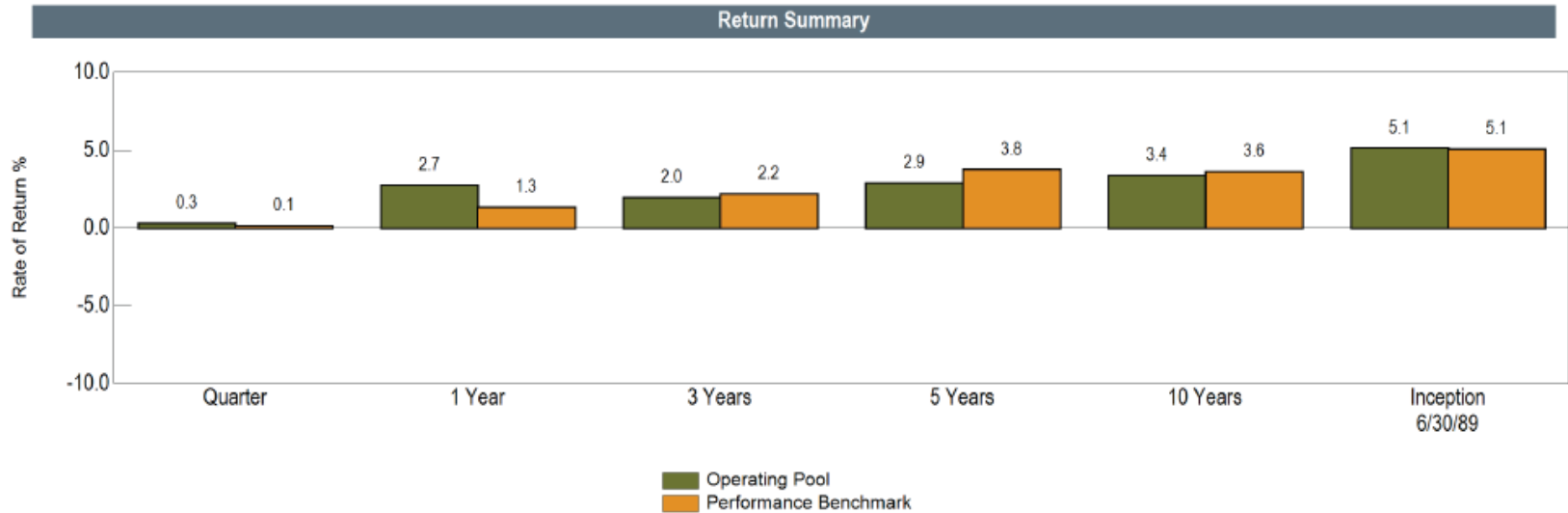
## Sector Allocation



• **Credit Quality: 90.1% AAA; 0.65% AA; 1.3% A; 3.8% -A; 1.6% BBB; 2.5% -BBB; 2.6% Other**

- Note: Credit quality and Sector Allocation data is as of March month end 2011.

# Operating Pool Performance: March 31, 2011

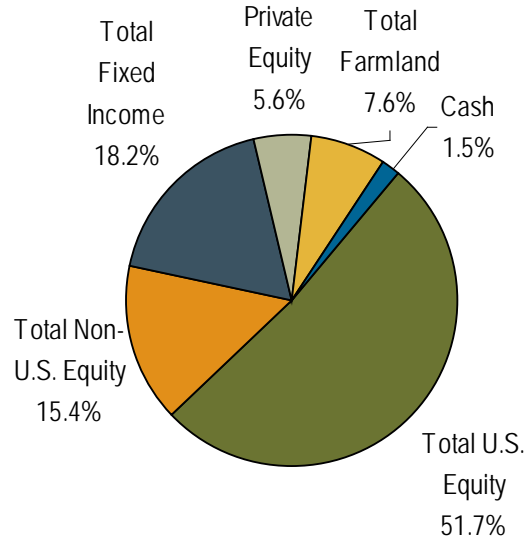


- The Operating Pool portfolio outperformed its policy benchmark during the quarter and trailing one-year periods. The portfolio underperformed over the trailing three-, five-, and ten-year periods.
- Distributed income, another measure of Operating Pool performance, averaged \$23.8 million per year over the last ten-years.
- Over the trailing one-year period, the Operating Pool gained 2.7 percentage points and outperformed its benchmark by 139 basis points. Relative outperformance during the trailing one-year period has mitigated, to a certain extent, the relative underperformance in 2007 and 2008.
- University staff continues to monitor the manager that contributed to the volatility of the investment strategy during this time period.

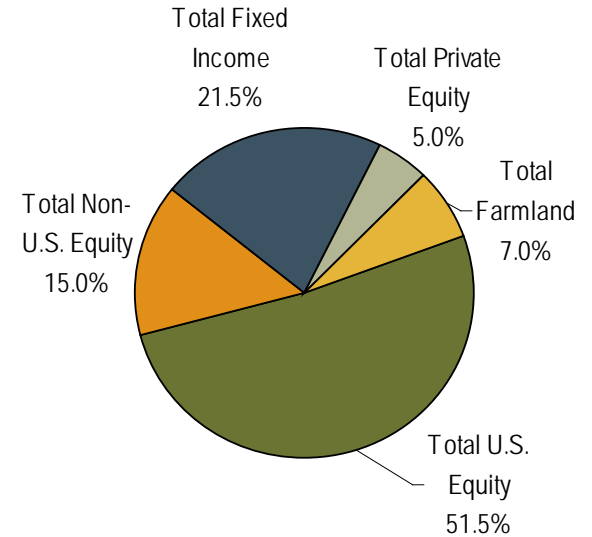
# Endowment Pool Market Value and Asset Allocation: May 31, 2011

**Total Endowment**  
\$290,470,047

## Actual Allocation

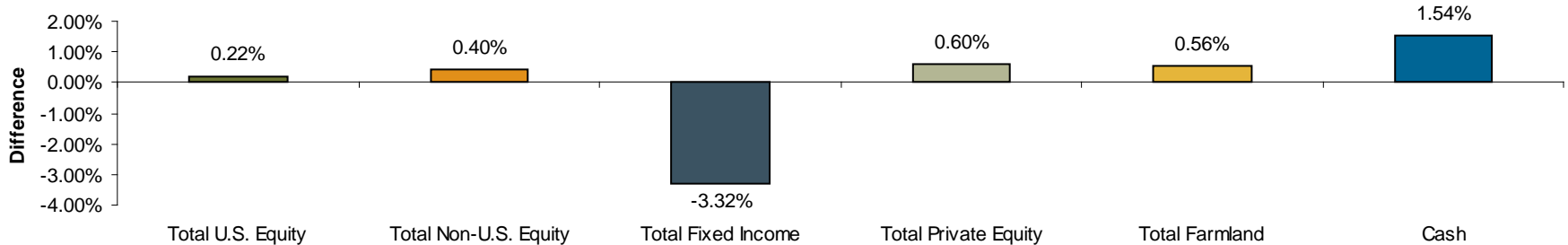


## Interim Policy Allocation

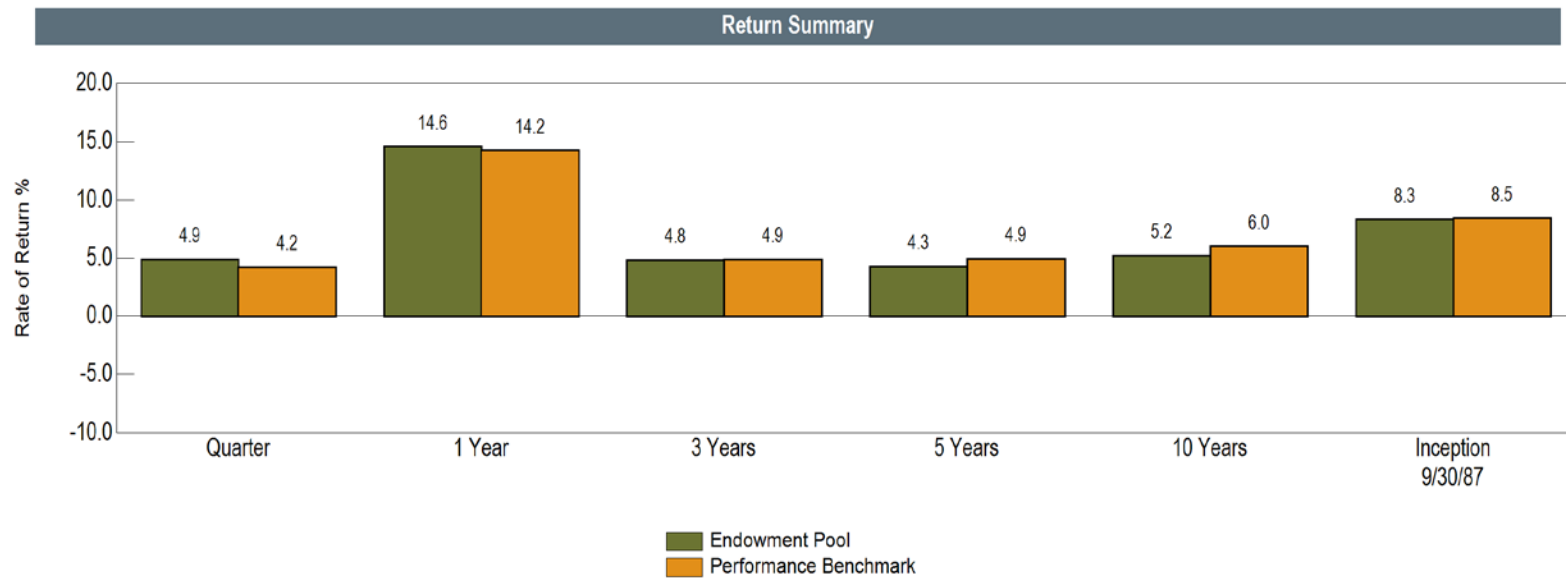


## Actual vs. Interim Policy

*\*Long Term Policy displayed page 8*



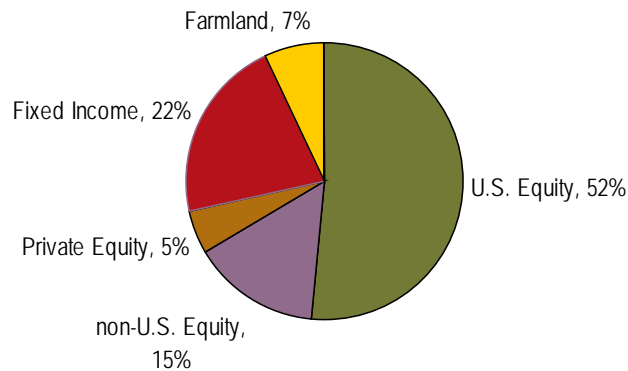
# Endowment Pool Performance: March 31, 2011



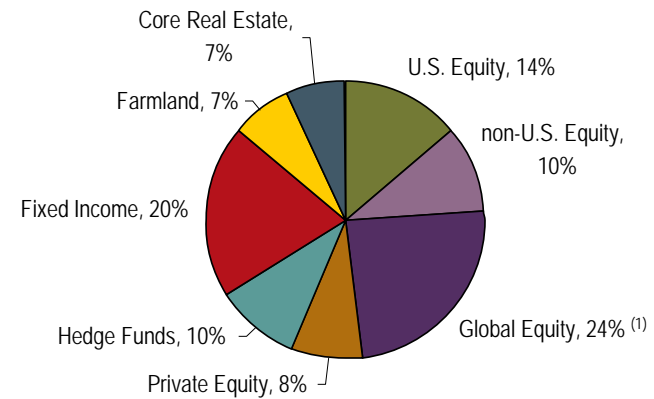
- The Endowment Pool outperformed its policy benchmark during the quarter and trailing one-year periods. The Pool underperformed over the trailing three-, five-, and ten-year periods. Over the trailing one-year period, the Endowment Pool gained 14.6 percentage points and outperformed its benchmark by 43 basis points.

# Approved Endowment Pool Allocation

## Current Asset Allocation Policy



## Approved Asset Allocation Policy



- The Asset Allocation policy approved by the Board in January 2011 will provide the Endowment Pool with increased diversification and lower downside risk exposure.

1. Global equity encompasses U.S., non-U.S. developed market and emerging market-domiciled public companies



# Recommendations Implementation

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- Stage I – Endowment Pool Core Fixed Income and Operating Pool Fixed Income
  - RFP Issued – June 2011
  - Managers Selected – October 2011
  
- Stage II – Hedge Funds, Global Equity and Core Real Estate: Endowment Pool
  - Issue RFPs – Fall 2011
  - Managers Selected – December 2012

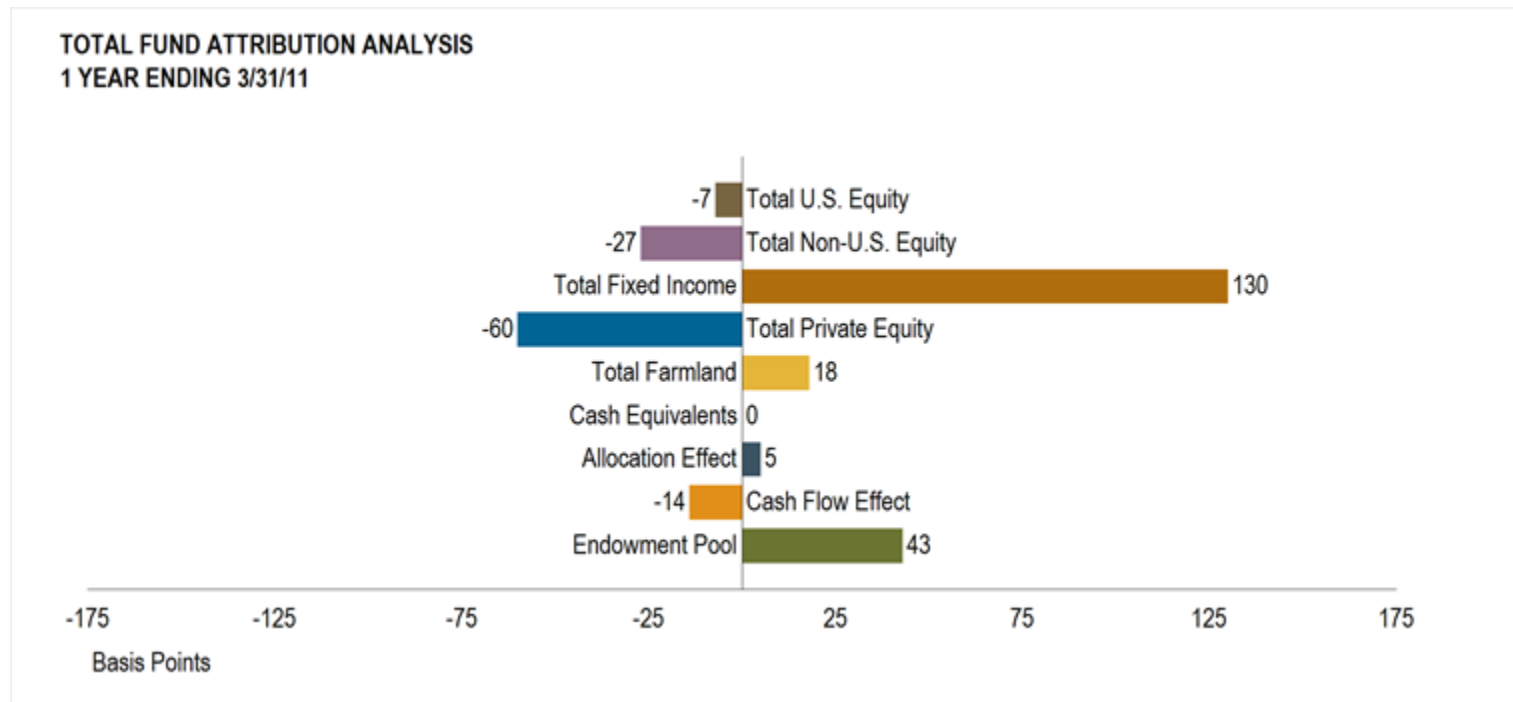
# APPENDIX

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## Endowment Pool Performance: March 31, 2011

	First Quarter	One Year	Three Years	Five Years	Ten Years	Since Inception
<b>Endowment Pool</b>	<b>4.9</b>	<b>14.6</b>	<b>4.8</b>	<b>4.3</b>	<b>5.2</b>	<b>8.3</b>
Performance Benchmark	4.2	14.2	4.9	4.9	6.0	8.5
<b>Total U.S. Equity</b>	<b>6.3</b>	<b>17.4</b>	<b>4.9</b>	<b>3.1</b>	<b>4.3</b>	<b>8.5</b>
Dow Jones U.S. Total Stock Market Index	6.4	17.7	3.7	3.2	4.6	8.8
<b>Total Non-U.S. Equity</b>	<b>5.6</b>	<b>10.8</b>	<b>-1.6</b>	<b>2.8</b>	<b>5.5</b>	<b>6.0</b>
MSCI All Country World ex-U.S. Index	3.4	13.1	-0.8	3.6	7.4	6.3
<b>Total Fixed Income</b>	<b>2.1</b>	<b>11.4</b>	<b>9.7</b>	<b>6.9</b>	<b>6.1</b>	<b>7.9</b>
Barclays Capital Aggregate Bond Index	0.4	5.1	5.3	6.0	5.6	7.5
<b>Total Private Equity</b>	<b>3.7</b>	<b>11.5</b>	<b>2.3</b>	<b>9.0</b>	--	--
Private Equity Benchmark	7.2	21.3	6.9	6.3	--	--
<b>Total Farm Land</b>	<b>0.0</b>	<b>9.2</b>	<b>9.1</b>	--	--	--
East-Central Illinois Farmland Index	0.0	7.3	11.8	--	--	--

# Endowment Pool Performance Attribution: One-Year Ending March 2011



- Over the trailing one-year period, the Endowment Pool gained 14.6 percentage points and outperformed its benchmark by 43 basis points. Strong performance from Ariel and Western, which added 3.0 and 6.3 percentage points of relative value over their benchmarks, respectively, coupled with Farmland's outperformance of 1.9 percentage points versus the East-Central Illinois Farmland index, offset the weak performance of GMO and Templeton for this period.

# Approved Operating Pool Allocation Recommendation

Layer	Benchmark	Current Allocation Range (% of pool)	Proposed Allocation Range (% of pool)
Primary Liquidity	90-Day Treasury Bills	5 – 35%	5 – 75%
Liquid Core	Barclays Capital One to Three Year Government/Credit Index	30 – 40%	10 – 40%
Core	Barclays Capital Intermediate Aggregate Bond Index	20 – 35%	10 -40%
Permanent Core	Blended Endowment Pool Index	15 – 25%	5 – 25%

# Recommendations Implementation

Stage I: Fixed Income mandates for Endowment Pool and Operating Pool. RFP issued June 2011.

Stage I: Fixed Income Mandates for Endowment Pool and Operating Pool										
Steps/ Month	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
RFP responses completed by managers	█	█								
RFP responses received		█	█							
RFP responses reviewed		█	█							
RFP semifinalists determined			█	█						
Semifinalist interviews			█	█						
Semifinalist additional information requested, received, reviewed			█	█						
RFP finalists determined				█						
Finalists presented to Senior Management					█					
Finalist interviews conducted						█	█			
Finalist additional information requested, received, reviewed						█	█			
New managers selected							█	█		
Portfolio reallocation to new asset classes/managers									█	█

## Capital Markets Review as of June 30, 2011

	<b>Year-to-date 6.30.11</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
DJ U.S. Total Stock Market Index	6.4%	32.4%	4.2%	3.6%	3.8%
MSCI All Country World ex-U.S. Index	3.8%	29.7	-0.4	3.7	7.5
Barclays Aggregate Bond Index	2.7%	3.9	6.5	6.5	5.7

- The U.S. equity market, represented by the Dow Jones U.S. Total Stock Market Index, gained 6.4% on a year-to-date basis. Equity markets were volatile during the second quarter on news of another debt crisis in Greece, a significant drop in oil prices, and continued political unrest in the Middle East. However, U.S. markets rebounded and finished the quarter flat.
- Non-U.S. equities, as measured by the MSCI All Country World ex-U.S. Index, gained 3.8%, on a year-to-date basis, trailing U.S. stocks. Non-U.S. developed market equities outperformed emerging markets through June 30<sup>th</sup>, gaining 5.0% and 0.9% respectively.
- The fixed income market, as measured by the Barclays Capital Aggregate Bond Index gained 2.7% year-to-date. During the second quarter, fixed income was the top performing asset class as yields moved lower and investors flocked to safety.

## Preliminary Portfolio Returns as of June 30, 2011

- Based upon **preliminary data**, excluding Farmland investments <sup>(1)</sup>, the Endowment Pool outperformed its policy benchmark during the trailing one- and three-year periods.

<b>Preliminary Returns as of June 30, 2011</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Endowment Pool</b>	<b>23.7%</b>	<b>5.7%</b>	<b>4.8%</b>	<b>4.9%</b>
Performance Benchmark	23.4%	5.3%	5.3%	5.7%

- Based upon **preliminary data**, the Operating Pool outperformed its policy benchmark during the trailing one-year period and underperformed its benchmarks during the trailing three-, five- and ten- year periods.

<b>Preliminary Returns as of June 30, 2011</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Operating Pool</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.8%</b>	<b>3.3%</b>
Performance Benchmark	1.1%	2.4%	3.7%	3.6%

1) June 30, 2011 Farmland performance was not available as of the time of this report.