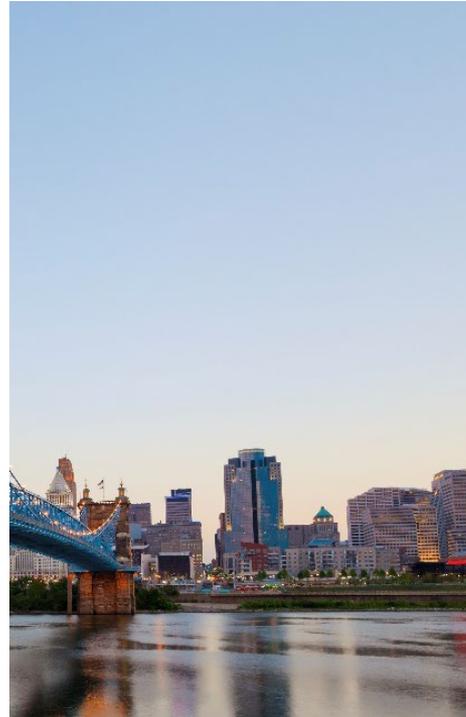
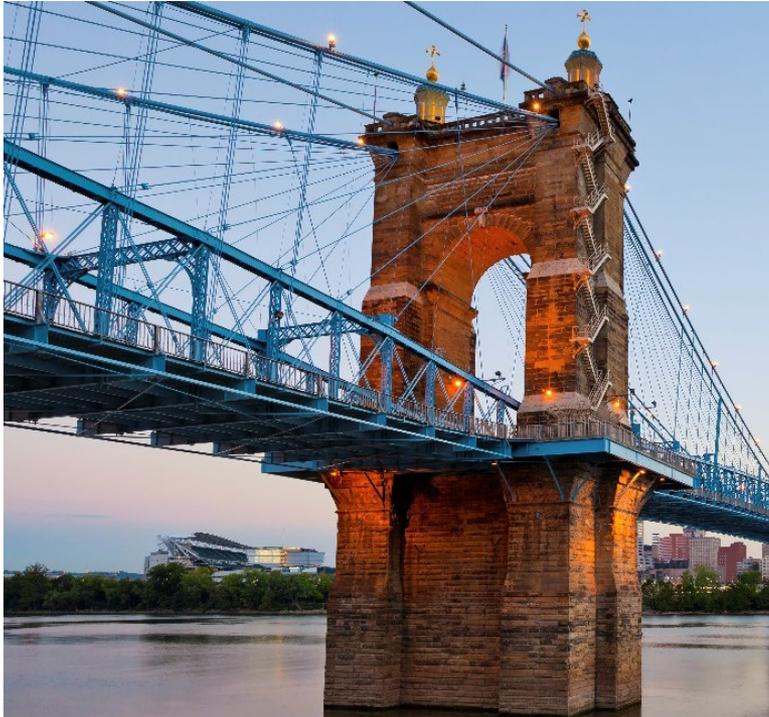


Reported to the Board of Trustees  
July 25, 2019



# UNIVERSITY OF ILLINOIS SYSTEM

FIRST QUARTER 2019 INVESTMENT UPDATE  
PREPARED FOR THE BOARD OF TRUSTEES

May 2019

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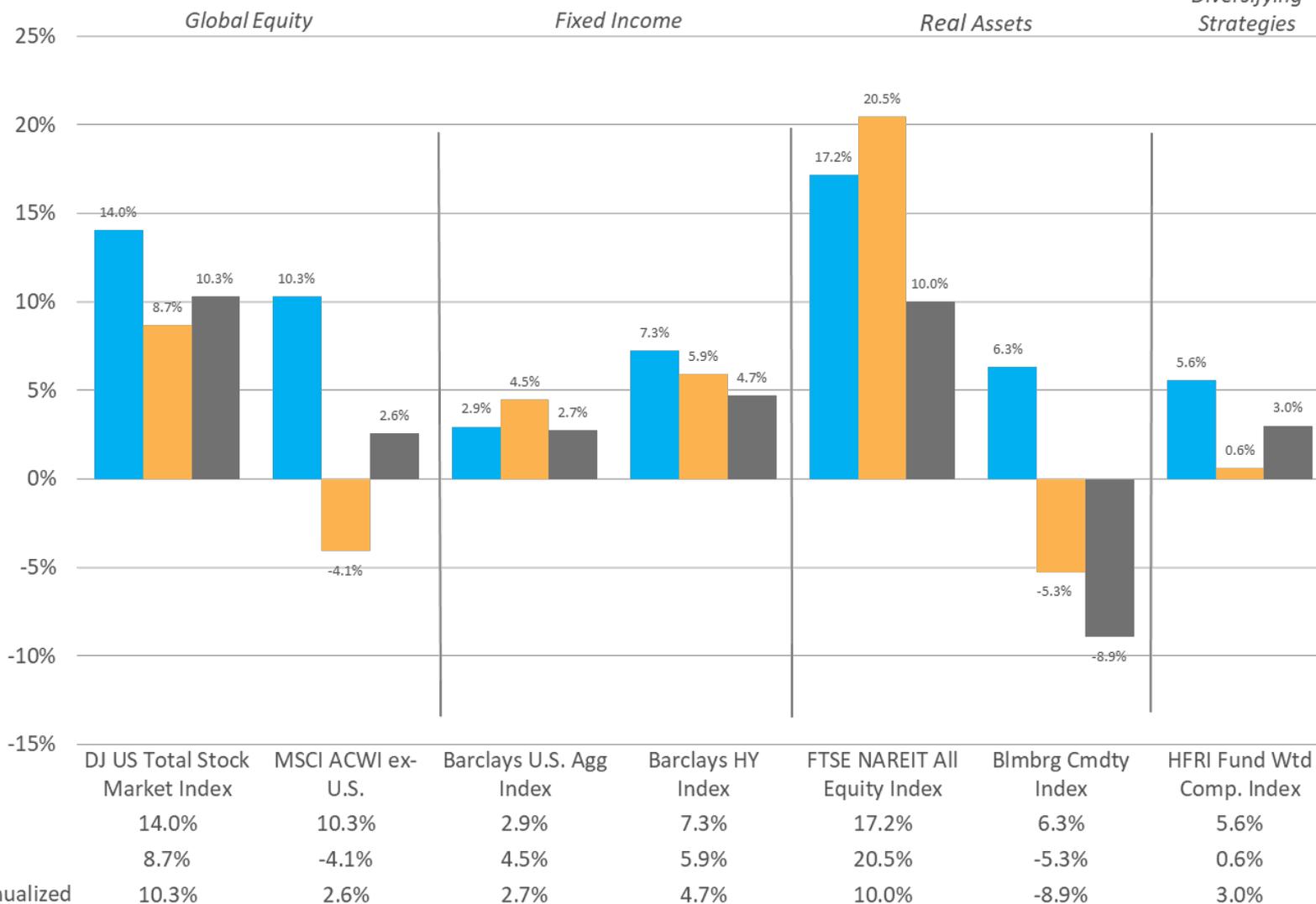
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# MARKET OVERVIEW AND SYSTEM ASSETS

# CAPITAL MARKET OVERVIEW

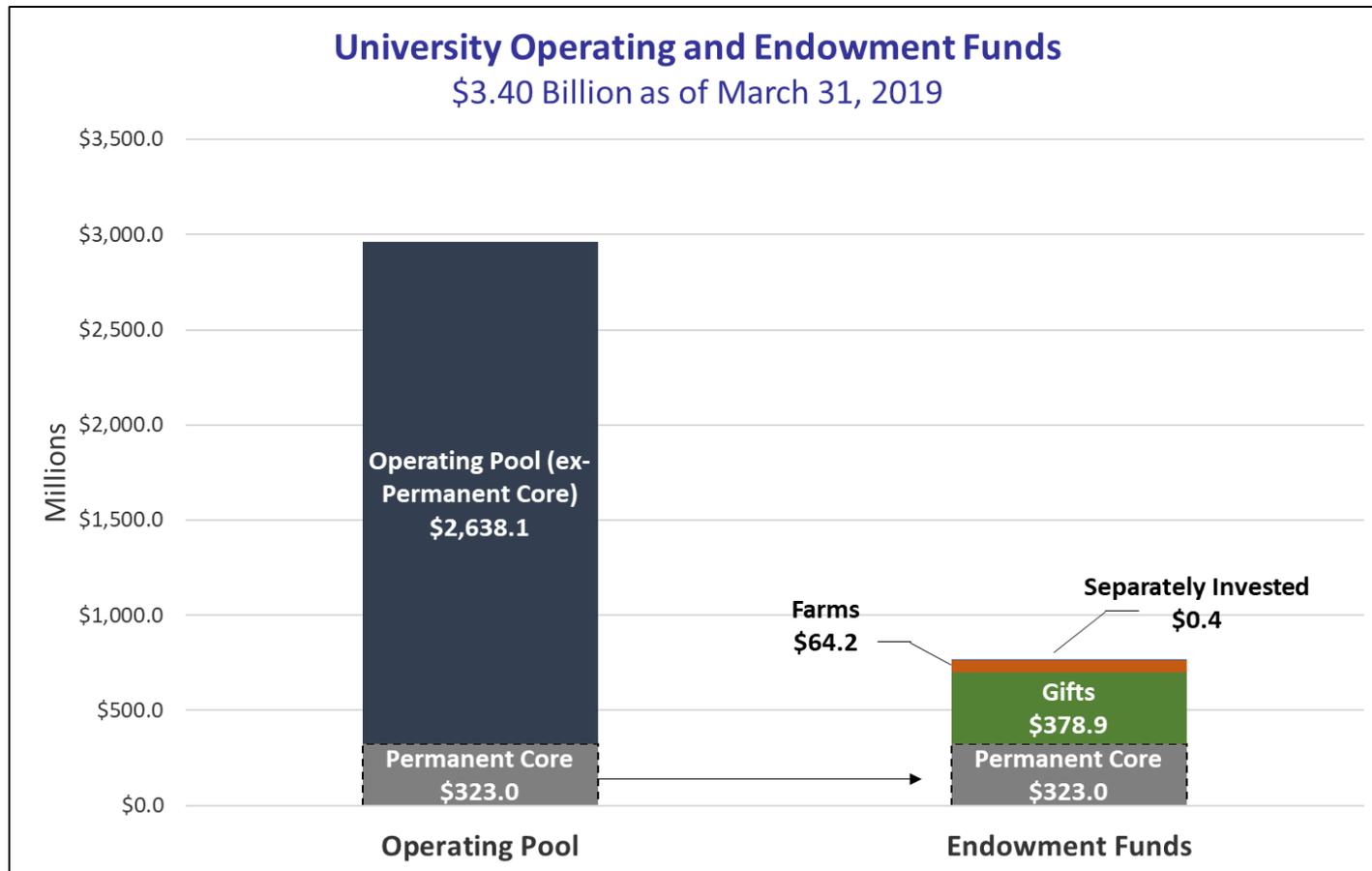
## First Quarter 2019 – Market Returns

*Diversifying Strategies*



Data sources: Lipper and Hedge Fund Research

# UNIVERSITY OPERATING AND ENDOWMENT FUNDS: MAR 31, 2019

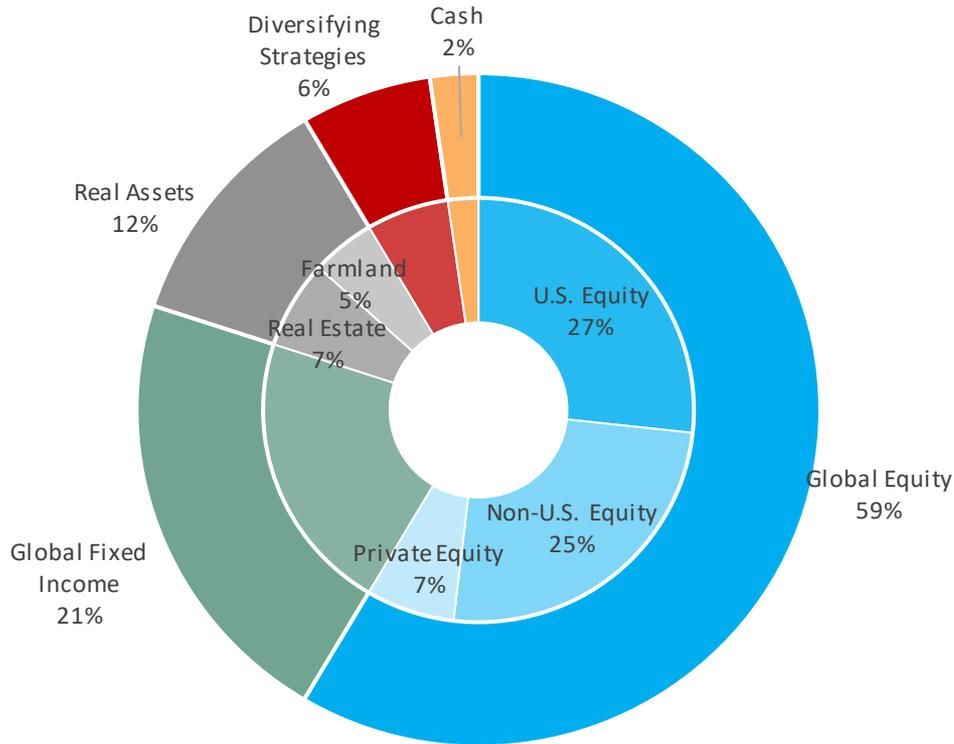


- The University Operating and Endowment Funds were valued at \$3.4 billion as of March 31, 2019.
- The Operating Pool (ex-Permanent Core) was valued at \$2.6 billion and maintains a permanent core investment in the Endowment Pool (grey bar); this is a long-term investment to enhance Operating Pool returns.
- The combined Endowment Funds is valued at \$766.5 million (right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$443.5 million.

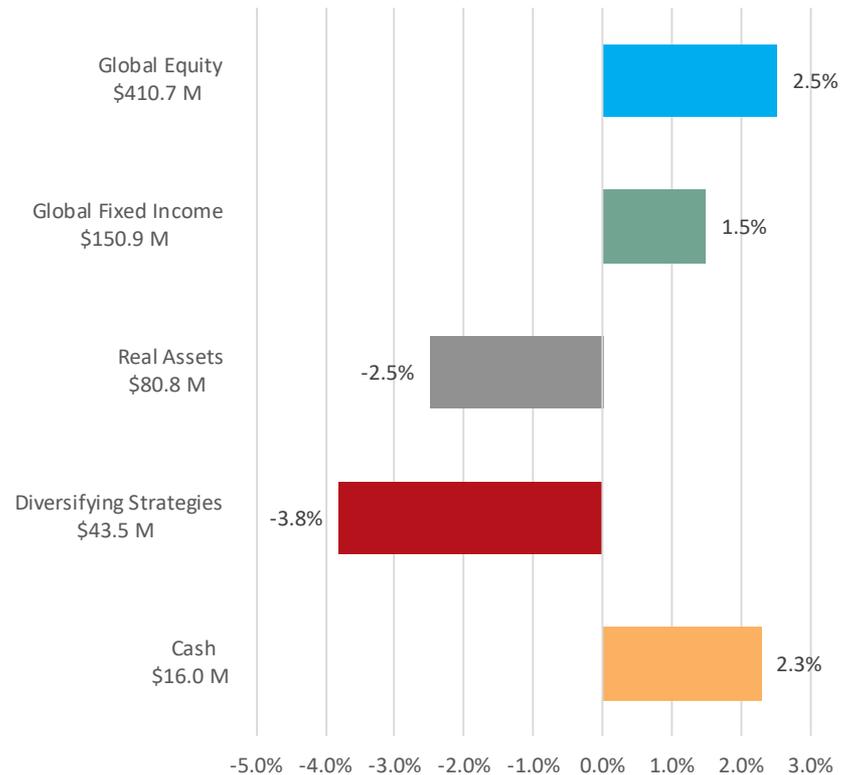
ENDOWMENT FUND UPDATE:  
MARCH 31, 2019

# MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

**Total Pool: \$701.9 Million as of 3/31/2019**



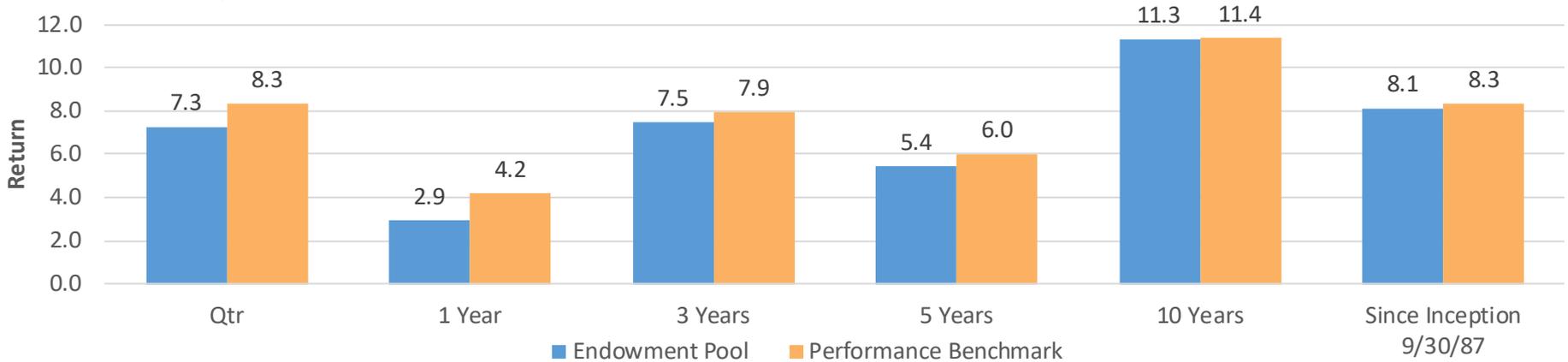
## Over/Under Allocation to Long-Term Policy Targets



Note: Long-Term Policy Allocations: Global Equity 56%, Global Fixed Income 20%, Real Assets 14%, and Diversifying Strategies 10%  
Total sum of allocation may not equal 100% due to rounding.

# TOTAL ENDOWMENT POOL PERFORMANCE (MAR 31, 2019)

## TOTAL POOL: \$701.9 MILLION



- Over the one-year period, the endowment returned 2.9%. Non-U.S. equity (-4.8%) and diversifying strategies (-4.8%) hurt performance, while private equity (+14.2%) did quite well.
- Three- and five-year returns were weighed down by diversifying strategies and farmland exposure.
- On the ten-year period, the endowment posted a strong 11.3% return, supported by solid returns from U.S. equities (+15.9%), real assets (+11.6%), and private equity (+10.3%).

Endowment Pool	Quarter Ending
Market Value Change	March-2019
Beginning Market Value	\$659.9 M
Net Contributions	(\$5.9 M)
Gain/Loss	\$47.9 M
Ending Market Value	\$701.9 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, 2019)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Mar-2019	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Endowment Pool</b>			7.3	2.9	7.5	5.4	11.3	8.1	Sep-87
Performance Benchmark			8.3	4.2	7.9	6.0	11.4	8.3	
<b>GLOBAL EQUITY</b>	<b>58.5</b>	<b>56.0</b>	<b>11.0</b>	<b>3.3</b>	<b>10.9</b>	<b>7.0</b>	<b>13.1</b>	<b>7.9</b>	<b>Sep-87</b>
<b>Total U.S. Equity</b>			<b>14.6</b>	<b>6.9</b>	<b>12.5</b>	<b>9.3</b>	<b>15.9</b>	<b>9.3</b>	<b>Sep-87</b>
DJ U.S. Total Stock Market Index			14.0	8.7	13.5	10.3	16.0	9.6	
<b>Total Non-U.S. Equity</b>			<b>10.3</b>	<b>-4.8</b>	<b>8.0</b>	<b>2.7</b>	<b>8.2</b>	<b>5.3</b>	<b>Sep-93</b>
Non-U.S. Equity Benchmark			10.3	-4.8	7.9	2.7	8.9	5.4	
<b>Total Private Equity</b>			<b>0.6</b>	<b>14.2</b>	<b>13.5</b>	<b>12.0</b>	<b>10.3</b>	<b>3.8</b>	<b>Jan-04</b>
Private Equity Benchmark			14.5	11.7	16.5	13.3	19.0	11.7	
<b>GLOBAL FIXED INCOME<sup>1</sup></b>	<b>21.5</b>	<b>20.0</b>	<b>2.8</b>	<b>4.2</b>	<b>2.4</b>	<b>2.9</b>	<b>7.4</b>	<b>6.8</b>	<b>Sep-87</b>
<b>Total Public Fixed Income</b>			<b>2.9</b>	<b>4.0</b>	<b>2.3</b>	<b>2.9</b>	<b>7.4</b>	<b>6.8</b>	<b>Sep-87</b>
Bloomberg Barclays U.S. Aggregate			2.9	4.5	2.0	2.7	3.8	6.3	
<b>REAL ASSETS</b>	<b>11.5</b>	<b>14.0</b>	<b>1.9</b>	<b>4.4</b>	<b>3.1</b>	<b>3.7</b>	<b>11.6</b>	<b>10.2</b>	<b>Dec-06</b>
<b>Total Real Estate</b>			<b>3.4</b>	<b>8.0</b>	<b>6.7</b>	<b>9.6</b>	<b>-</b>	<b>10.9</b>	<b>Aug-13</b>
Real Estate Benchmark			1.2	7.6	6.4	9.6	-	10.9	
<b>Total Farmland<sup>2</sup></b>			<b>0.0</b>	<b>-0.2</b>	<b>-1.2</b>	<b>-1.3</b>	<b>8.6</b>	<b>7.8</b>	<b>Dec-06</b>
NCREIF Cornbelt Index			0.0	2.6	-0.5	1.9	9.3	9.2	
<b>DIVERSIFYING STRATEGIES<sup>1</sup></b>	<b>6.2</b>	<b>10.0</b>	<b>2.6</b>	<b>-4.8</b>	<b>1.0</b>	<b>2.2</b>	<b>-</b>	<b>2.3</b>	<b>May-13</b>
<b>Total Hedge Funds</b>			<b>2.7</b>	<b>-5.2</b>	<b>0.8</b>	<b>2.1</b>	<b>-</b>	<b>2.2</b>	<b>May-13</b>
HFRI Fund Weighted Composite Index			5.5	0.5	5.0	3.0	-	3.5	
<b>CASH</b>	<b>2.3</b>	<b>0.0</b>	<b>0.5</b>	<b>1.8</b>	<b>1.0</b>	<b>-</b>	<b>-</b>	<b>0.7</b>	

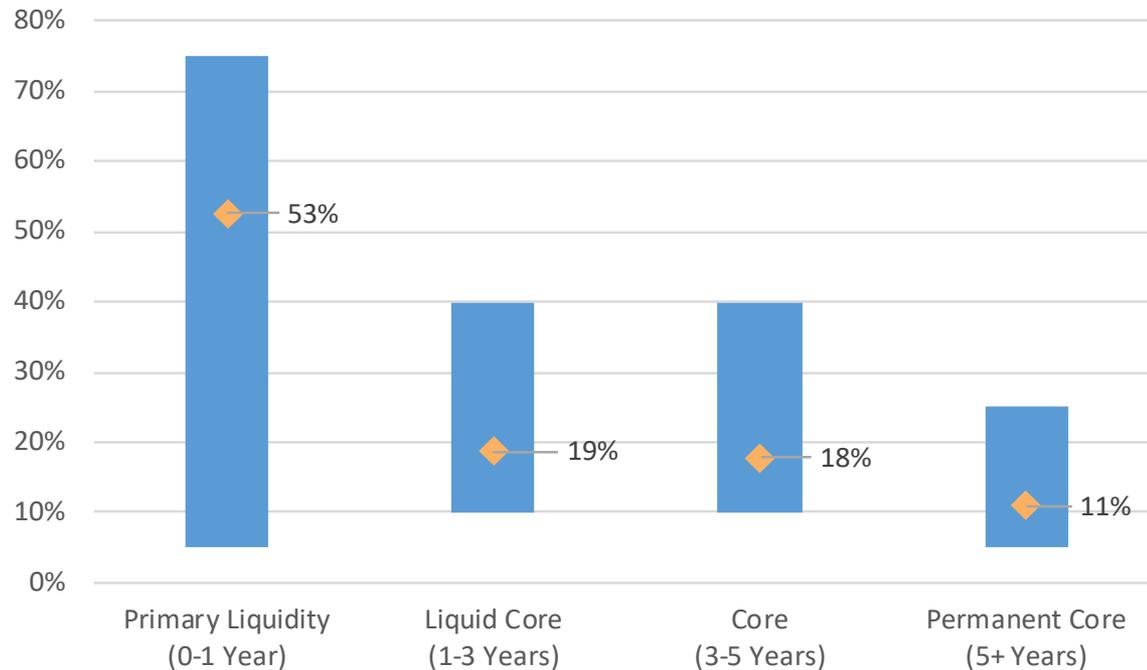
<sup>1</sup>Global Fixed Income and Diversifying Strategies include allocations and performance of private investments.

<sup>2</sup>Farmland 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, 2018.

OPERATING POOL UPDATE:  
MARCH 31, 2019

# LIQUIDITY LAYERS: OPERATING POOL (MAR 31, 2019)

## OPERATING POOL LIQUIDITY LAYERS AS OF MARCH 31, 2019

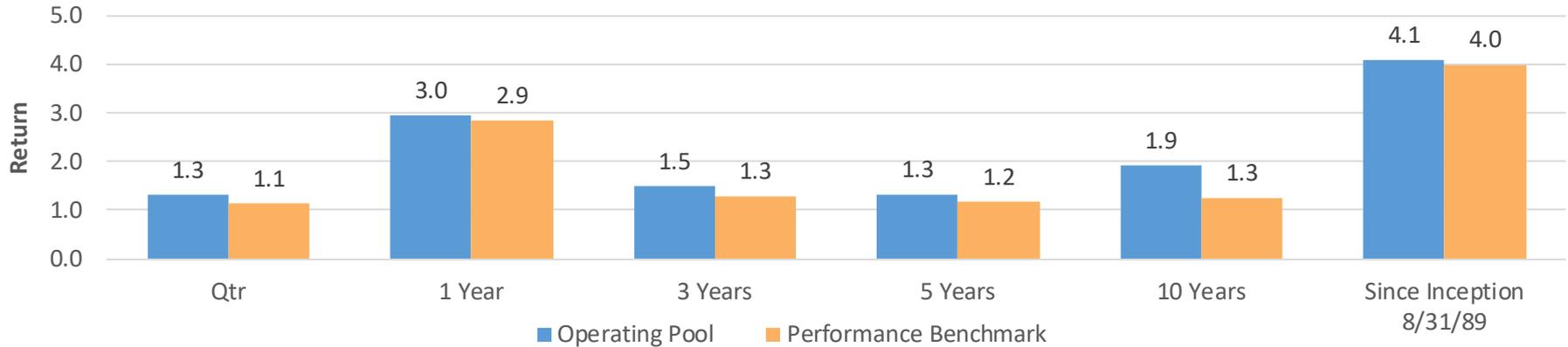


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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 sum of allocation may not equal 100% due to rounding.

# TOTAL OPERATING POOL PERFORMANCE (MAR 31, 2019)

## TOTAL POOL: \$2.64 BILLION



- Over the trailing one-year period ending March 31, 2019, the Operating Pool returned 3.0%, slightly ahead of the benchmark.
  - The majority of the Operating Pool's managers outperformed their respective benchmarks during the period.
- Over longer time periods, the Operating Pool has exceeded the benchmark on a consistent basis.
  - The Operating Pool's managers have each met or outperformed their respective benchmarks since inception.

Market Value Change	Quarter Ending March-2019
Beginning Market Value	\$2,415.8 M
Net Contributions	\$188.1 M
Gain/Loss	\$34.2 M
Ending Market Value	\$2,638.1 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.

# APPENDIX: MARKET ENVIRONMENT

# MARKET ENVIRONMENT

## 2010-2019 Annual Returns of Key Indices

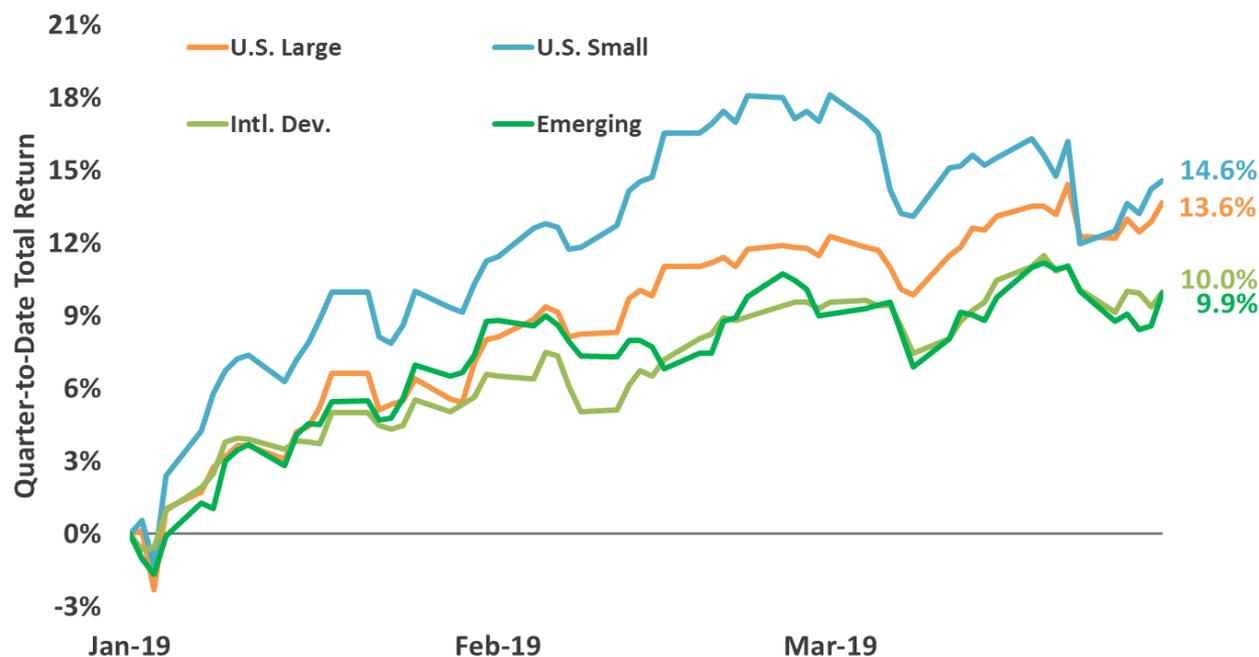
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year annual	10-year annual
MLPs 35.9%	MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Bonds 0.0%	MLPs 16.8%	Large Cap 10.9%	Large Cap 15.9%
Small Cap 26.9%	Bonds 7.8%	Emerging Markets 18.2%	Large Cap 32.4%	Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	High Yield -2.1%	Global REIT 14.6%	Small Cap 7.1%	Small Cap 15.4%
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%	Hedge Funds -4.0%	Small Cap 14.6%	Global REIT 6.4%	Global REIT 14.0%
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 -4.4%	Large Cap 13.6%	High Yield 4.7%	High Yield 11.3%
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%	Global REIT -5.6%	Int'l 10.0%	Emerging Markets 3.7%	MLPs 10.1%
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%	Small Cap -11.0%	Emerging Markets 9.9%	Bonds 2.7%	Int'l 9.0%
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%	MLPs -12.4%	High Yield 7.3%	Int'l 2.3%	Emerging Markets 8.9%
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%	Int'l -13.8%	Hedge Funds 4.6%	Hedge Funds 2.2%	Bonds 3.8%
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%	Emerging Markets -14.6%	Bonds 2.9%	MLPs -4.7%	Hedge Funds 3.5%

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

# GLOBAL EQUITIES PERFORMANCE

- Global equities rebounded strongly in the first quarter after ending 2018 on a low note.
- Domestic equities outperformed international equities, with notably strong returns generated in the small cap space. Supporting the strong quarterly performance included dovish central bank policy actions, particularly out of the European Central Bank (ECB) and the Federal Reserve (Fed).

**Global Equity 1Q-2019 Performance (in USD)**

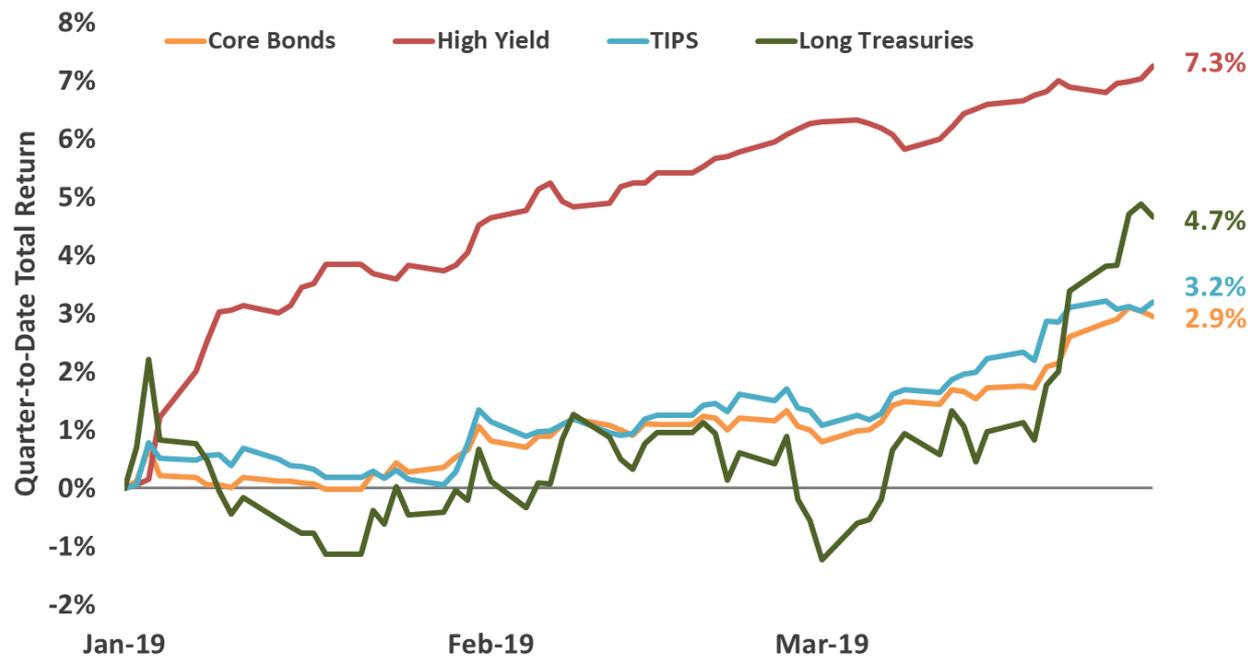


Data source: Bloomberg, L.P.; Data as of 3/29/2019

# FIXED INCOME PERFORMANCE

- U.S. Treasury interest rates continued their move lower following the flight-to-quality environment of late-2018. The decline in rates propelled core bonds to the strongest quarterly return (+2.9%) in three years.
- Despite the Treasury rally, below investment-grade credit witnessed impressive performance, with a greater than 7% return in high yield bonds. Sound economic conditions and dovish monetary policy supported credit risk during the quarter.

## Fixed Income 1Q-2019 Performance

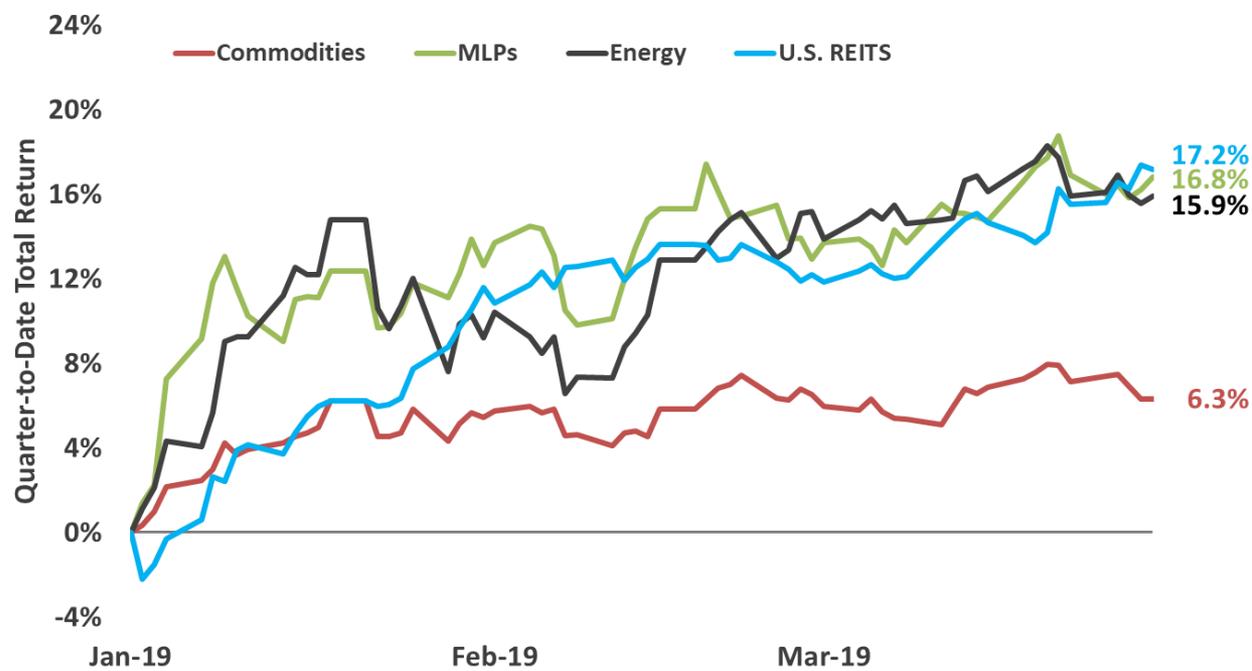


Data source: Bloomberg, L.P.; Data as of 3/29/2019

# REAL ASSETS PERFORMANCE

- Real assets experienced impressive returns across the board, with particularly solid returns among energy-related sectors such as MLPs and Pipelines. Geopolitical tensions in the Middle East and a robust domestic production backdrop helped drive the strong performance.
- U.S. real estate investment trusts (REITs) performance was notably strong, with a 17.2% total return for the FTSE NAREIT All Equity Index. A continued tight labor market and a decline in long-term interest rates were key drivers behind the robust quarterly performance.

## Real Assets 1Q-2019 Performance

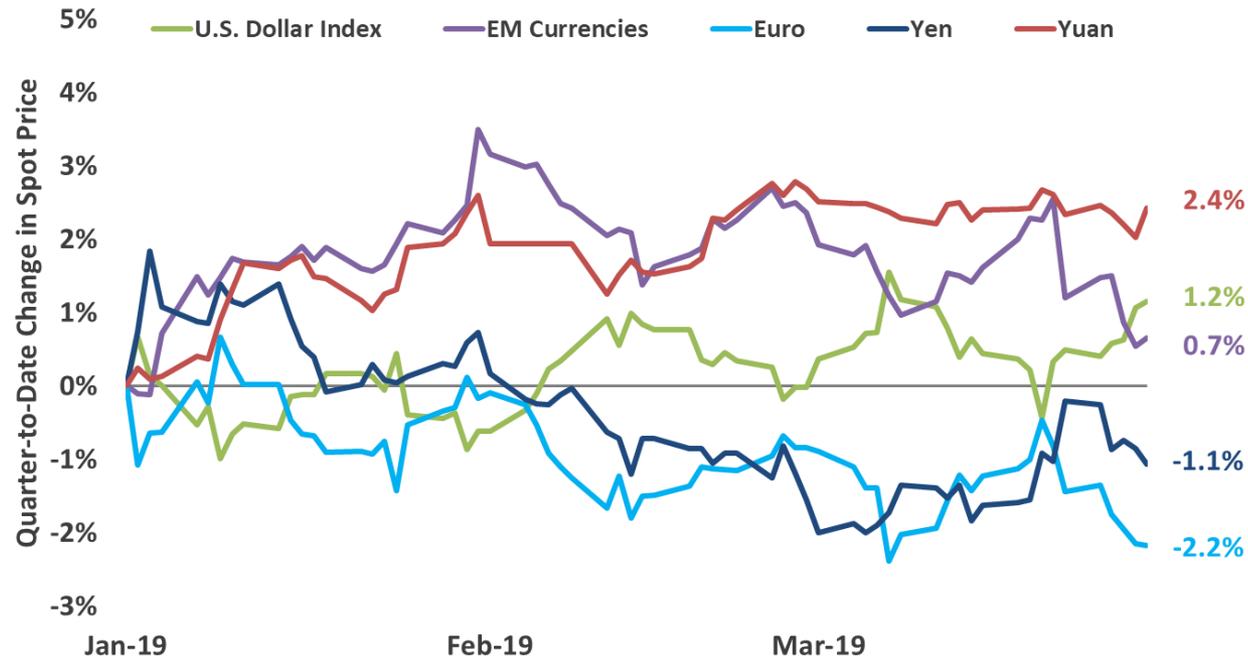


Data source: Bloomberg, L.P.; Data as of 3/29/2019

# CURRENCY PERFORMANCE

- During the first quarter, the U.S. Dollar increased modestly.
- The Yuan was the strongest performer while the Euro and Yen declined.

**Global Currency 1Q-2019 Change in Spot (Base: USD)**



Data source: Bloomberg, L.P.; Data as of 3/29/2019

# DISCLOSURES

# DISCLOSURES

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# 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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.barclays.com)

**High Yield** is represented by the Barclays U.S. Corporate High Yield Index. [www.barclays.com](http://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](http://www.ftse.com)

**MLPs** are represented by the Alerian MLP Index. [www.alerian.com](http://www.alerian.com)

**Hedge Funds** are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. [www.hfri.com](http://www.hfri.com)



Fund Evaluation Group, LLC | 201 East Fifth Street, Suite 1600 Cincinnati, OH 45202 | 513.977.4400 | [information@feg.com](mailto:information@feg.com) | [www.feg.com](http://www.feg.com)  
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