UNIVERSITY OF ILLINOIS SYSTEM
FIRST QUARTER 2019 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES
May 2019
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MARKET OVERVIEW AND SYSTEM ASSETS
First Quarter 2019 – Market Returns

Global Equity
- DJ US Total Stock Market Index: 14.0%
- MSCI ACWI ex-U.S.: 10.3%
- Barclays U.S. Agg Index: 2.9%
- Barclays HY Index: 7.3%
- FTSE NAREIT All Equity Index: 17.2%
- Blmbrg Cmddy Index: 6.3%
- HFRI Fund Wtd Comp. Index: 5.6%

1 Yr
- DJ US Total Stock Market Index: 8.7%
- MSCI ACWI ex-U.S.: -4.1%
- Barclays U.S. Agg Index: 4.5%
- Barclays HY Index: 5.9%
- FTSE NAREIT All Equity Index: 20.5%
- Blmbrg Cmddy Index: -5.3%
- HFRI Fund Wtd Comp. Index: 0.6%

5 Yrs Annualized
- DJ US Total Stock Market Index: 10.3%
- MSCI ACWI ex-U.S.: 2.6%
- Barclays U.S. Agg Index: 2.7%
- Barclays HY Index: 4.7%
- FTSE NAREIT All Equity Index: 10.0%
- Blmbrg Cmddy Index: -8.9%
- HFRI Fund Wtd Comp. Index: 3.0%

Data sources: Lipper and Hedge Fund Research
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.
MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

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

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.
• 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%).

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)

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

<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
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.
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.

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.

<table>
<thead>
<tr>
<th>Market Value Change</th>
<th>Quarter Ending March-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>$2,415.8 M</td>
</tr>
<tr>
<td>Net Contributions</td>
<td>$188.1 M</td>
</tr>
<tr>
<td>Gain/Loss</td>
<td>$34.2 M</td>
</tr>
<tr>
<td>Ending Market Value</td>
<td>$2,638.1 M</td>
</tr>
</tbody>
</table>
APPENDIX: MARKET ENVIRONMENT
### 2010-2019 Annual Returns of Key Indices


Note: See disclosure section for a description of key indices.
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
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.
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](image)

*Data source: Bloomberg, L.P.; Data as of 3/29/2019*
During the first quarter, the U.S. Dollar increased modestly. The Yuan was the strongest performer while the Euro and Yen declined.
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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.mscibarra.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.mscibarra.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