



Reported to the Board of Trustees
March 12, 2015

University of Illinois Fourth Quarter 2014 Investment Update Board Report

February 2015

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Market Overview and University Assets

Capital Markets Review

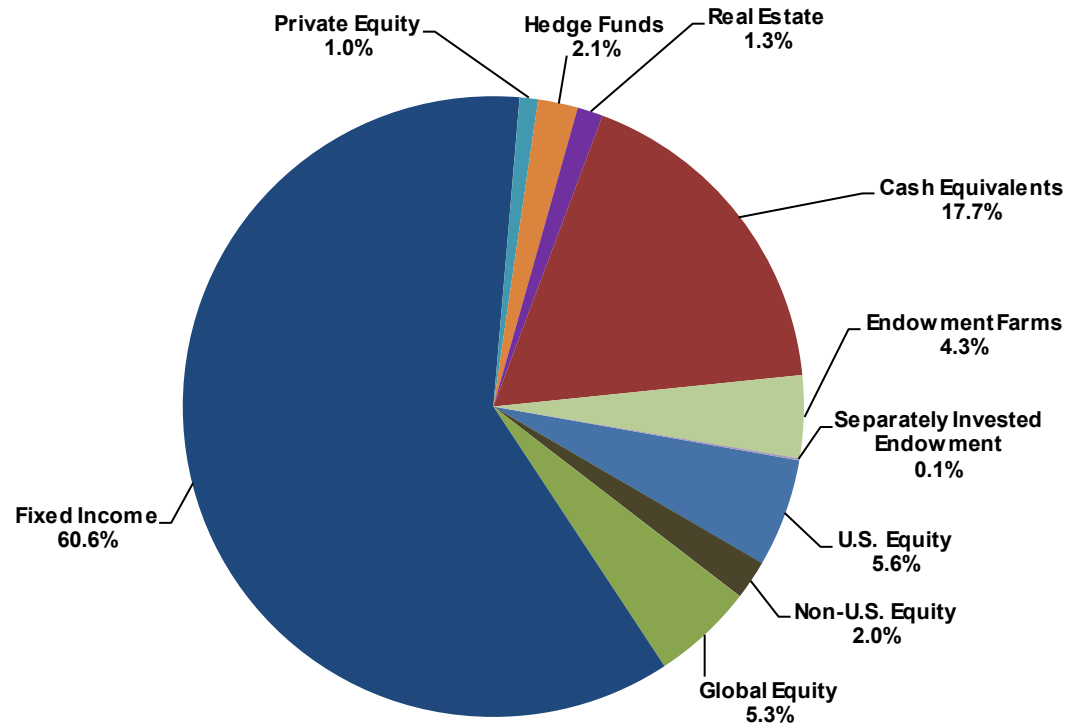
December 31, 2014

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	5.2	12.5	20.4	15.7	8.1
MSCI All Country World ex-U.S. Index	-3.9	-3.9	9.0	4.4	5.1
MSCI All Country World Index	0.4	4.2	14.1	9.2	6.1
Barclays Aggregate Bond Index	1.8	6.0	2.7	4.4	4.7
HFR Fund-Weighted Composite	0.2	3.0	6.1	4.5	5.1
NCREIF ODCE Index	3.0	11.5	11.4	12.9	6.1
NCREIF Cornbelt Index	0.0	11.1	19.5	16.3	--

- While equities struggled in general in the fourth quarter, the U.S. market continued to make good progress, buoyed by evidence that the recovery picked up pace in the closing months of 2014. Elsewhere, the major news was the severe fall in the price of oil, which fell by over 40% in the fourth quarter and more than half since its July peak.
- The UK economy made good progress in the last three months of the year but the same could not be said for the rest of Europe and Japan, where activity stayed weak. In Europe, some of the indicators seemed to stabilize towards the end of the quarter, but at low levels. Nonetheless in the Eurozone, the unemployment rate was stuck at a high 11.5% while CPI inflation was affected by the plunge in the oil price in December and dipped into deflation at -0.2%. In Japan, GDP is reported to have contracted for a second consecutive quarter in the third quarter, meaning that the country is in a technical recession.
- Emerging markets underperformed during the quarter primarily due to the price decline of oil and the rising U.S. dollar. Russian stocks suffered the most, as plummeting prices for the country's major energy exports triggered a 33% fall in the fourth quarter. China on the other hand rebounded during the quarter, this is partially because China is an oil importer and therefore a net beneficiary of recent moves in the price of oil.
- The Treasury yield curve continued to flatten during the fourth quarter, driven by long bond yields falling and short rates moving higher.
- In the investment grade market, higher quality bonds outperformed lower quality bonds. Furthermore, investment grade bonds significantly outperformed high yield bonds during the quarter.

University Assets: December 31, 2014

University Of Illinois Endowment & Operating Assets
\$2.71 Billion as of 12/31/2014

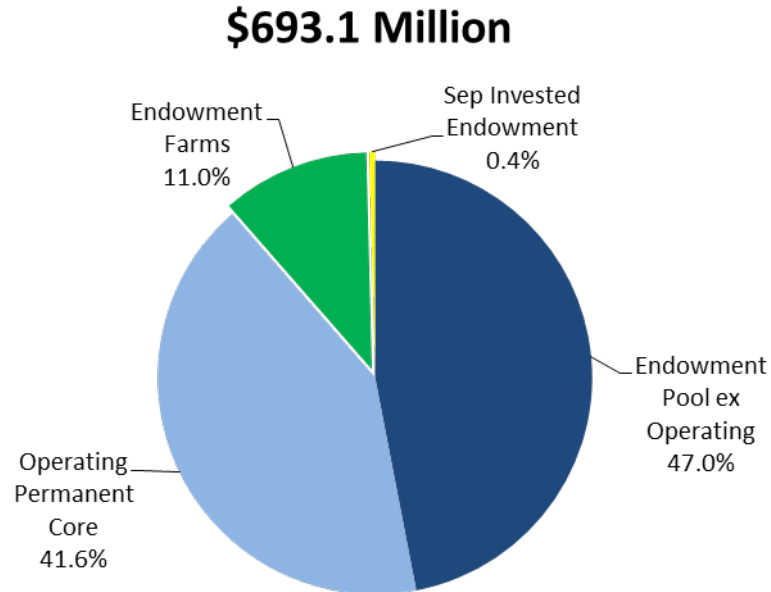


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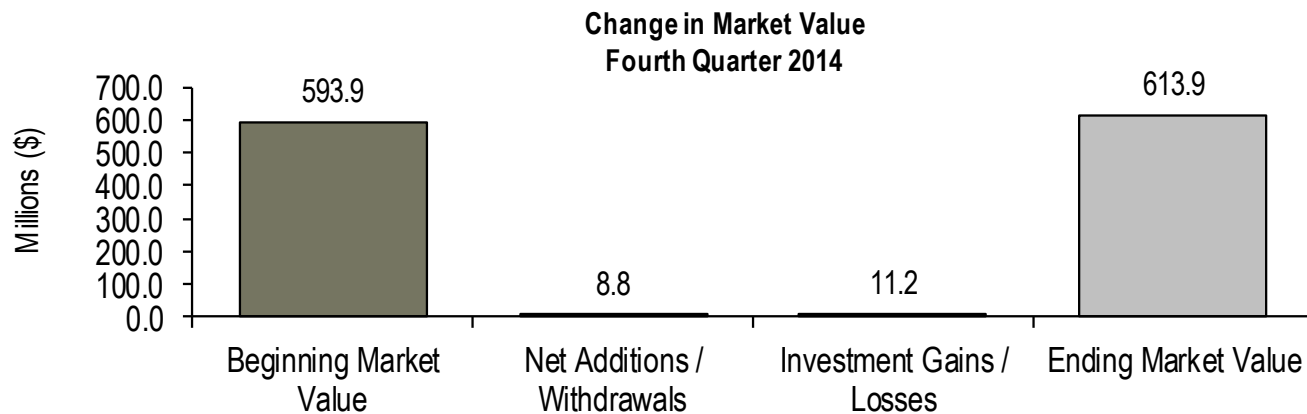
Endowment Fund Update: December 31, 2014

Total Endowment Assets by Type December 31, 2014



Total Endowment Fund is valued at \$693.1 million. The Operating Pool maintains a permanent core investment in the Endowment Pool (light blue slice). This is a long-term investment to enhance Operating Pool returns. The combined Endowment Pool is valued at \$613.9 million (dark and light blue pie slices) and discussed further on the following pages.

Total Fund Asset Growth: Endowment Pool



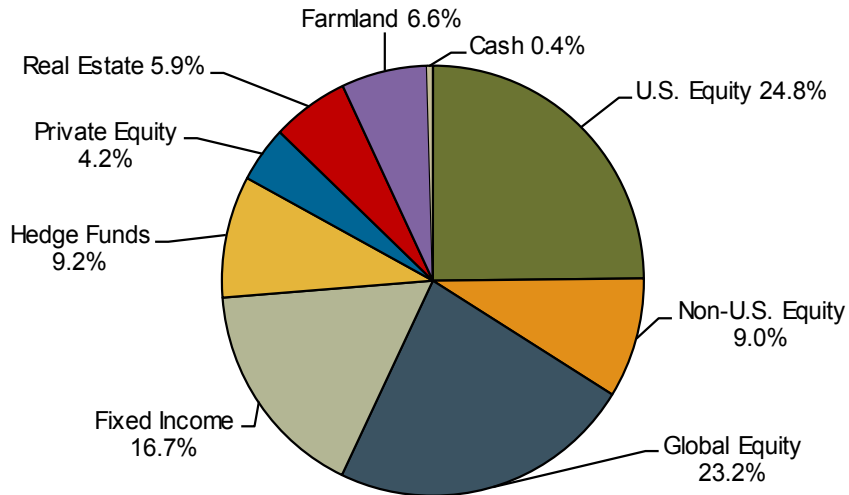
- During the fourth quarter, Endowment fund assets increased by approximately \$20.0 million from \$593.9 million to \$613.9 million.
- This increase was the net result of investment gains and positive fund flows. For this period, net inflows were approximately \$8.8 million and the absolute return of 1.9% in Endowment assets resulted in investment gains of \$11.2 million.

Market Value and Asset Allocation: Endowment Pool

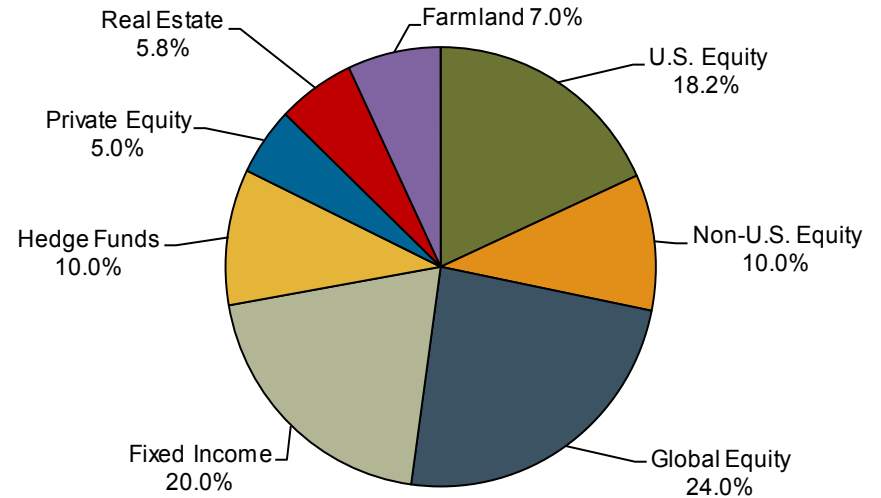
December 31, 2014

Total Fund
\$613,948,350

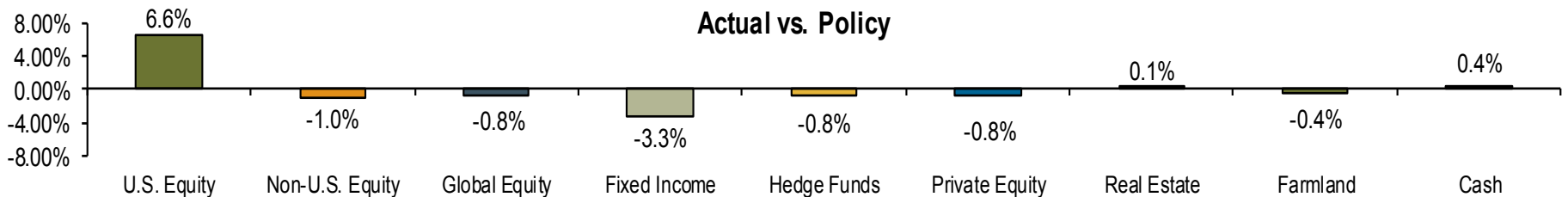
Actual Allocation



Interim Policy Allocation*



Actual vs. Policy

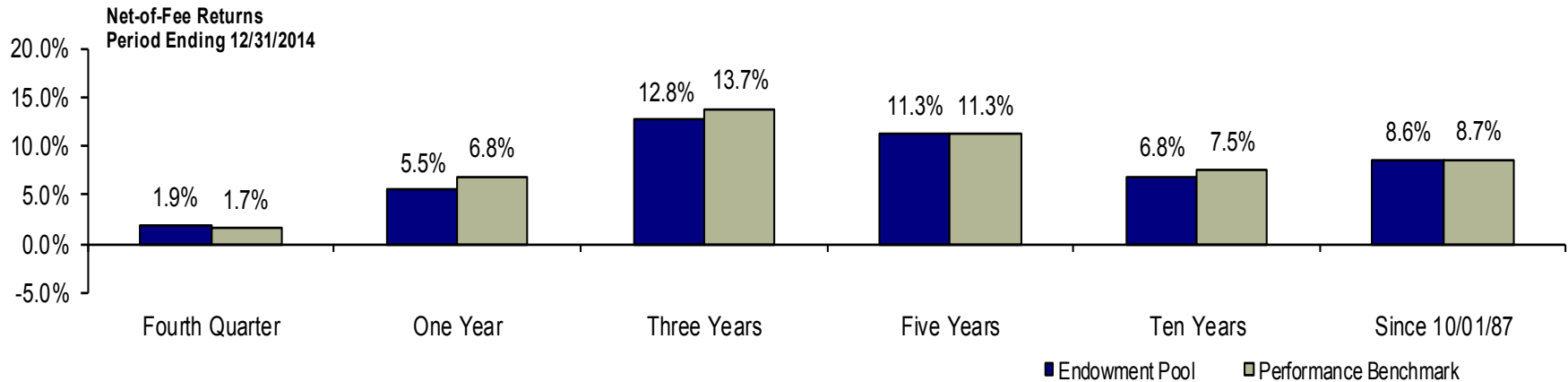


* The Interim Policy Allocation is as of January 1st, 2015.

** 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%

Total Fund Performance: Endowment Pool

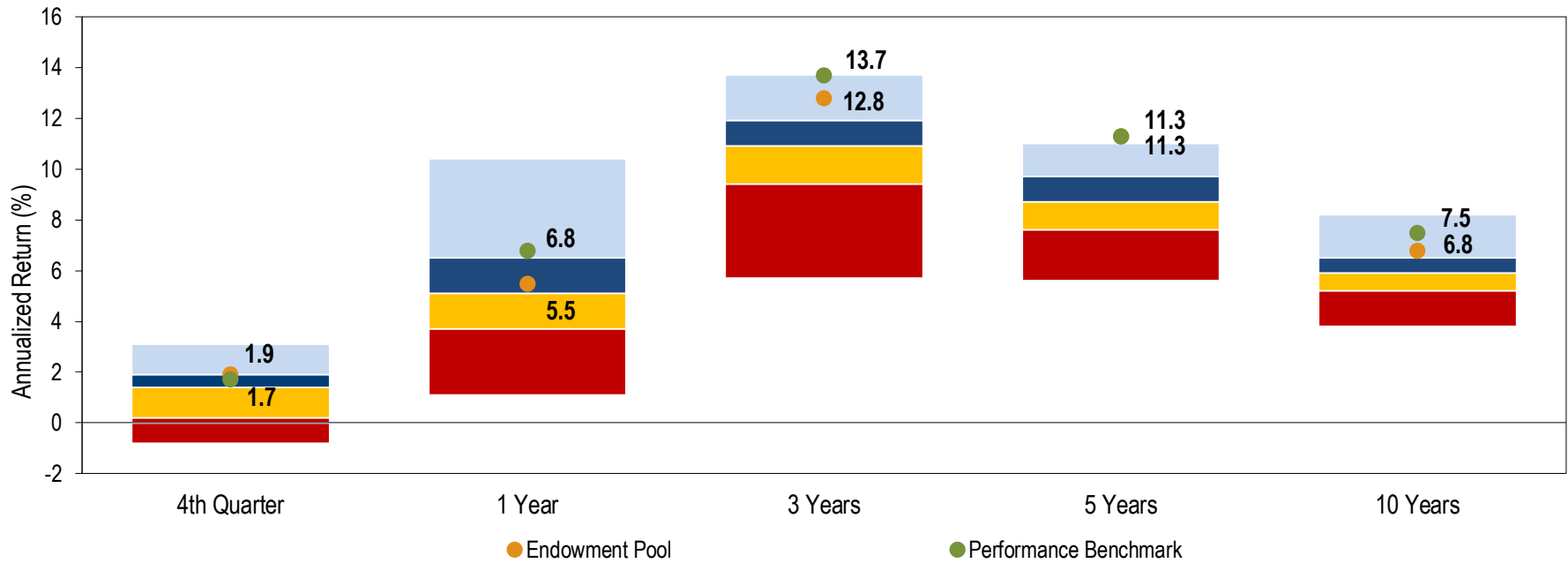
December 31, 2014



- Endowment Pool gained 1.9 percentage points and outperformed the benchmark by approximately 15 basis points.
 - The U.S. Equity investments outperformed the Dow Jones U.S. Total Stock Market Index by 90 basis points during the quarter, returning 6.1%.
 - During this same time period the Non-U.S. Equity investment slightly outperformed its benchmark due to a timely fund purchase, while Global Equity investments underperformed the benchmark by 90 basis points.
 - The Fixed Income portfolio finished the quarter with a below-benchmark return, returning 1.5% against a 1.8% return for the Barclays Aggregate Index.
 - The Endowment’s Hedge Fund component beat the benchmark by 150 basis points, returning 1.7%.
- Over the trailing one-year period, the Endowment Pool gained 5.5% and underperformed its benchmark by 130 basis points. The key detractors of relative performance were global equity and farmland.

Peer Rankings: Endowment Pool

December 31, 2014



Returns/Ranks	4th Quarter		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	1.9	27	5.5	44	12.8	13	11.3	3	6.8	18
Benchmark	1.7	29	6.8	23	13.7	6	11.3	3	7.5	13

- Over the trailing one-year time period, the return of the University of Illinois' Endowment Pool ranked in the top 44% of the Investment Metrics / BNY Mellon Endowment Fund and Foundation Universe returns, and the three- and five-year returns ranked in the top 13% and 3% of the universe, respectively.

Asset Class Performance

December 31, 2014

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	1.9	5.5	12.8	11.3	6.8	8.6
Performance Benchmark	1.7	6.8	13.7	11.3	7.5	8.7
Total U.S. Equity	6.1	11.8	20.7	15.9	8.0	9.4
Dow Jones U.S. Total Stock Market Index	5.2	12.5	20.4	15.7	8.1	9.5
Total Non-U.S. Equity	-3.7	-3.8	9.6	4.1	4.3	5.5
MSCI All Country World ex-U.S. Index	-3.9	-3.9	9.0	4.4	5.1	5.5
Total Global Equity	-0.5	2.0	--	--	--	13.5
MSCI All Country World Index	0.4	4.2	--	--	--	14.6
Total Fixed Income	1.5	5.1	4.3	6.8	5.5	7.5
Barclays Aggregate Bond Index	1.8	6.0	2.7	4.4	4.7	7.0
Total Hedge Funds	1.7	4.8	--	--	--	4.5
HFRI Fund Weighted Composite Index	0.2	3.0	--	--	--	4.6
Total Private Equity⁽¹⁾	0.1	12.6	8.4	9.5	5.4	0.6
Private Equity Benchmark	6.0	15.8	24.0	19.2	11.4	11.7
Total Real Estate	7.8	25.7	--	--	--	21.0
Real Estate Benchmark	8.0	26.3	--	--	--	21.4
Total Farmland⁽²⁾	0.0	0.0	12.3	17.7	--	13.2
NCREIF Cornbelt Index	0.0	11.1	19.5	16.3	--	14.6

(1) The combined Adams Street Partners IRR at 9/30/2014 was 8.7%.

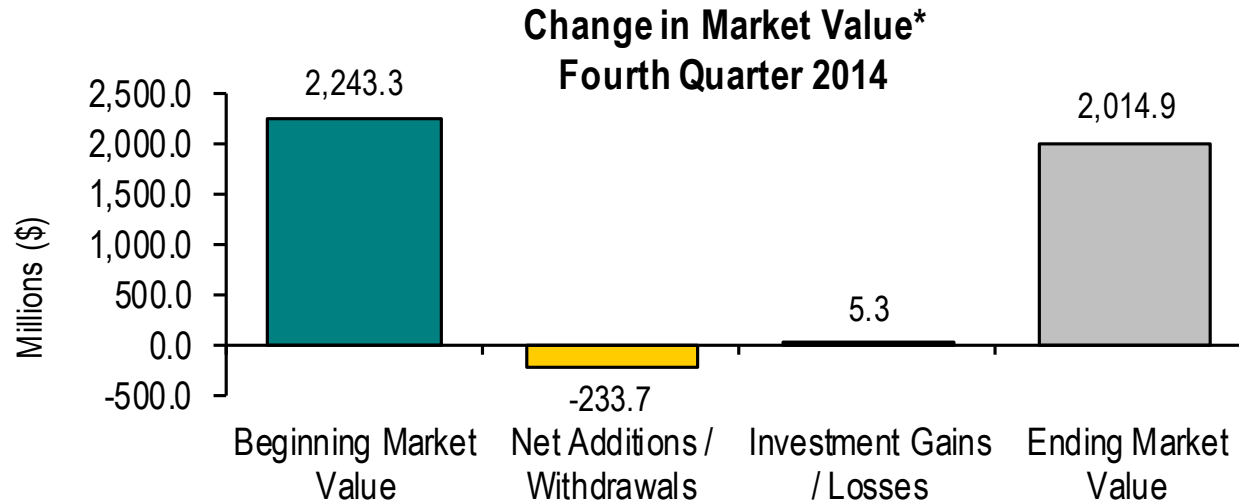
(2) Farmland is valued annually on June 30th. As such, the one year return reflected above is the one-year return for Farmland as of June 30th, 2014.

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Operating Pool Update: December 31, 2014

Total Fund Asset Growth: Operating Pool



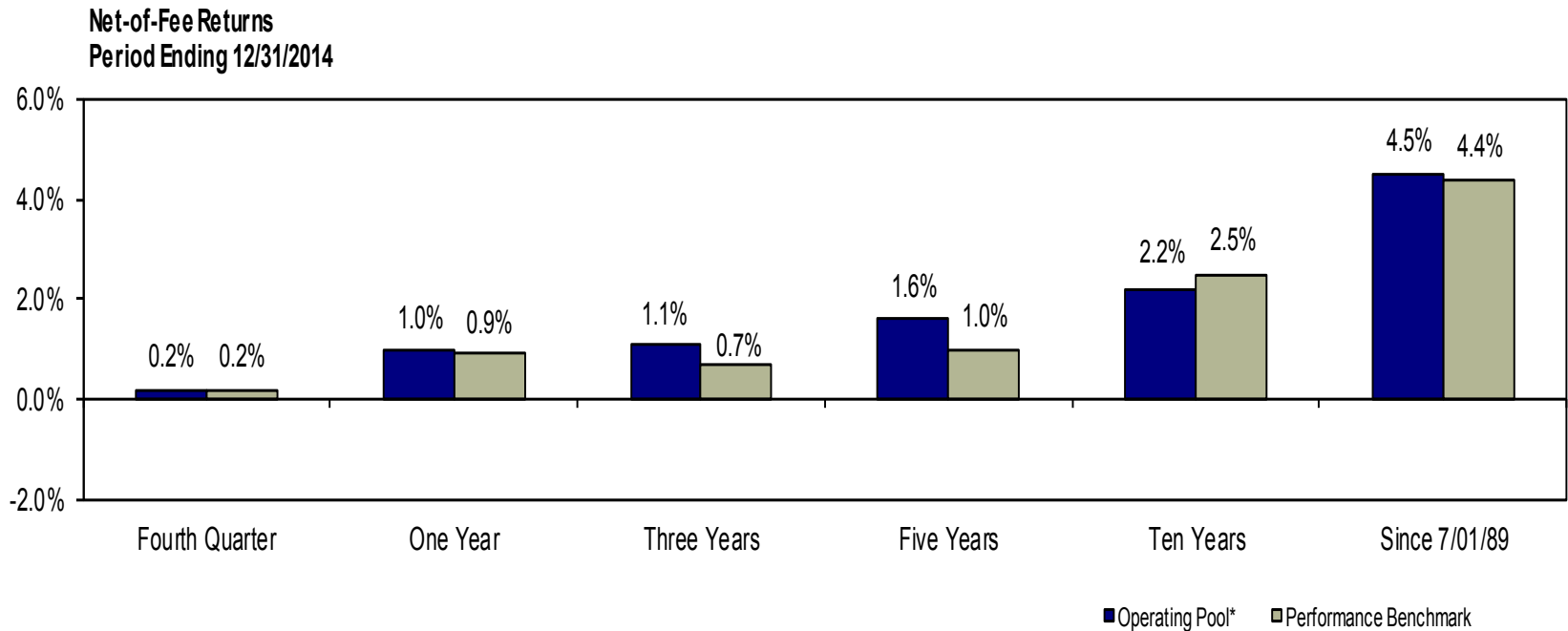
- During the fourth quarter, the Operating Pool assets decreased by approximately \$228.4 million from \$2.243 billion to \$2.015 billion. This decrease was the result of \$233.7 million in net outflows and transfers. Additionally, the Operating Pool had investment gains of \$5.3 million during the period.

* The Total Fund's beginning and ending market values include bank balances in which the University earns credit to offset bank fees.

Total Fund Performance: Operating Pool

December 31, 2014

Total Fund
\$2,014,854,941



- The Operating Pool's performance during the fourth quarter was 0.2%, matching the benchmark return for this time period. The majority of the managers matched their respective benchmarks during the quarter while four managers underperformed.

* Total Fund performance excludes the MAFBE CDs and the Bank of America and JP Morgan bank balances.

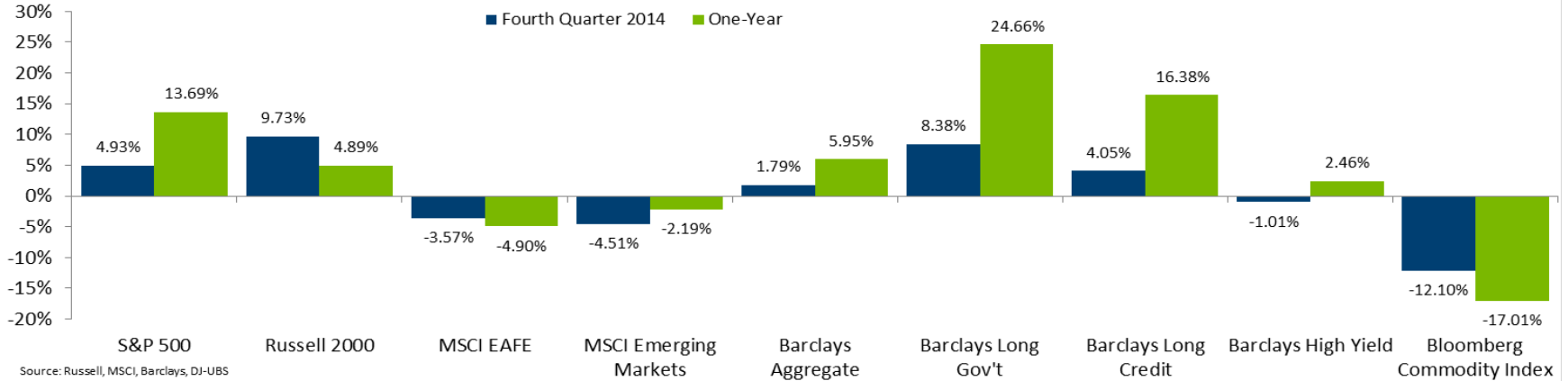
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Appendix:

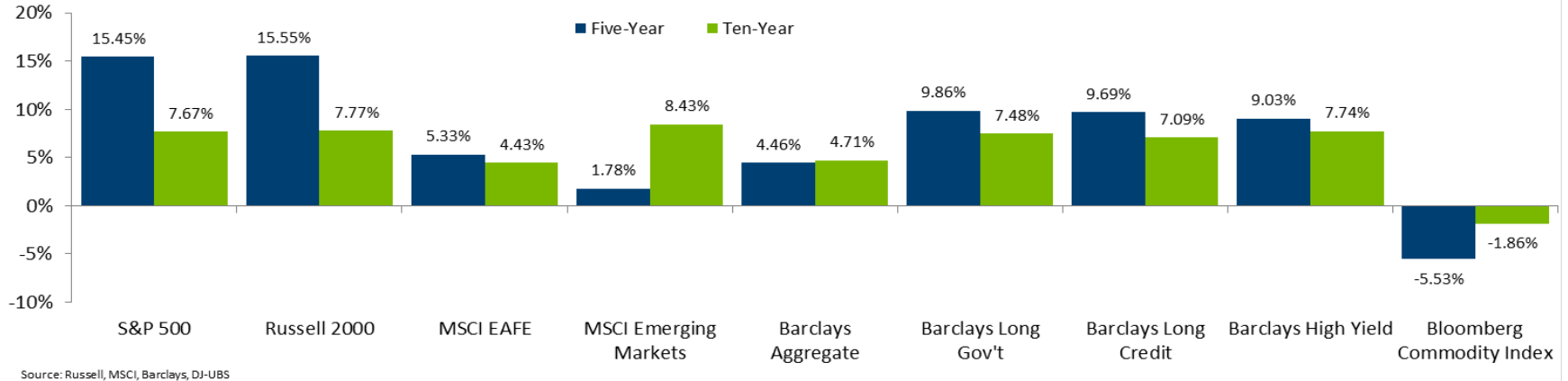
Market Environment

Market Highlights

SHORT TERM RETURNS AS OF 12/31/2014



LONG TERM ANNUALIZED RETURNS AS OF 12/31/2014



Market Highlights

Returns of the Major Capital Markets						
	Periods Ending 12/31/2014					
	Fourth Quarter	1-Year	3-Year ¹	5-Year ¹	10-Year ¹	
Equity						
MSCI All Country World IMI	0.6%	3.8%	14.3%	9.5%	6.4%	
MSCI All Country World	0.4%	4.2%	14.1%	9.2%	6.1%	
Dow Jones U.S. Total Stock Market	5.2%	12.5%	20.4%	15.7%	8.1%	
Russell 3000	5.2%	12.6%	20.5%	15.6%	7.9%	
S&P 500	4.9%	13.7%	20.4%	15.5%	7.7%	
Russell 2000	9.7%	4.9%	19.2%	15.5%	7.8%	
MSCI All Country World ex-U.S. IMI	-3.9%	-3.9%	9.2%	4.7%	5.4%	
MSCI All Country World ex-U.S.	-3.9%	-3.9%	9.0%	4.4%	5.1%	
MSCI EAFE	-3.6%	-4.9%	11.1%	5.3%	4.4%	
MSCI EAFE (Local Currency)	1.8%	5.9%	16.4%	7.7%	5.3%	
MSCI Emerging Markets	-4.5%	-2.2%	4.0%	1.8%	8.4%	
Fixed Income						
Barclays Global Aggregate	-1.0%	0.6%	0.7%	2.6%	3.6%	
Barclays Aggregate	1.8%	6.0%	2.7%	4.5%	4.7%	
Barclays Long Gov't	8.4%	24.7%	4.2%	9.9%	7.5%	
Barclays Long Credit	4.1%	16.4%	7.0%	9.7%	7.1%	
Barclays Long Gov't/Credit	5.6%	19.3%	5.8%	9.8%	7.4%	
Barclays US TIPS	0.0%	3.6%	0.4%	4.1%	4.4%	
Barclays High Yield	-1.0%	2.5%	8.4%	9.0%	7.7%	
Citi Group Non-U.S. WGBI	-2.9%	-2.7%	-1.9%	0.8%	2.6%	
JP Morgan EMBI Global (Emerging Markets)	-1.6%	5.5%	5.3%	7.3%	7.7%	
Commodities						
Bloomberg Commodity Index	-12.1%	-17.0%	-9.4%	-5.5%	-1.9%	
Goldman Sachs Commodity Index	-27.7%	-33.1%	-12.9%	-6.5%	-4.8%	
Hedge Funds						
HFRI Fund-Weighted Composite ²	0.7%	3.6%	6.3%	4.7%	5.2%	
HFRI Fund of Funds ²	0.8%	3.2%	5.6%	3.3%	3.0%	
Real Estate						
NAREIT U.S. Equity REITS	14.2%	30.1%	16.3%	16.9%	8.3%	
NCREIF NFI - ODCE ³	3.3%	12.5%	12.5%	13.9%	7.1%	
Private Equity						
Thomson Reuters Thompson ONE ⁴	4.9%	22.5%	12.9%	16.5%	14.5%	
Infrastructure						
Macquarie Global Infrastructure - North America	8.6%	23.5%	13.4%	14.3%	10.5%	

MSCI Indices show net returns.

All other indices show total returns.

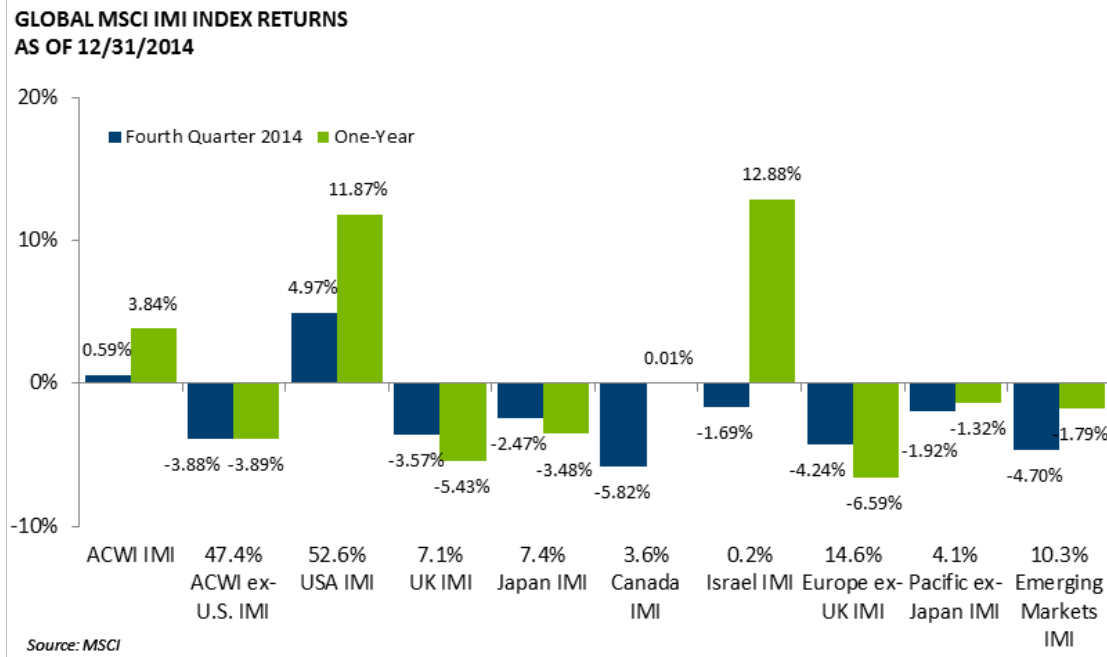
¹ Periods are annualized.

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

³ Fourth quarter results are preliminary.

⁴ Benchmark is as of 06/30/2014.

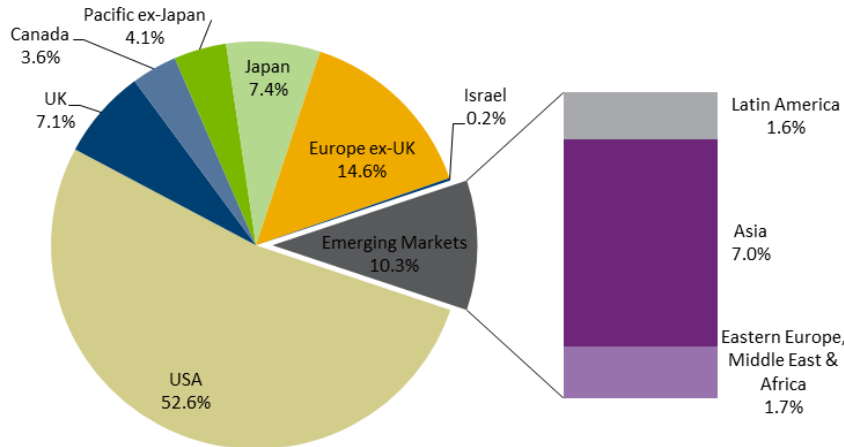
Global Equity Markets



- Global equity markets, driven by positive U.S. equity performance that counteracted struggling markets elsewhere, rose modestly in value during the fourth quarter of 2014.
- Non-U.S. developed equities fell during the fourth quarter. Growth indicators continued to weaken, geopolitical risks remained a factor, and a stronger U.S. dollar held back returns.
- Emerging markets underperformed while they struggled with depreciating currencies and a weaker economic environment.

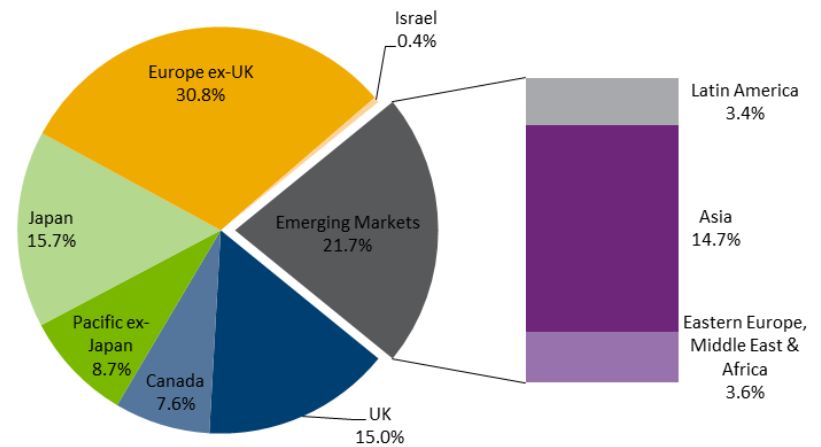
Global Equity Markets

**MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2014**



Source: MSCI

**MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2014**

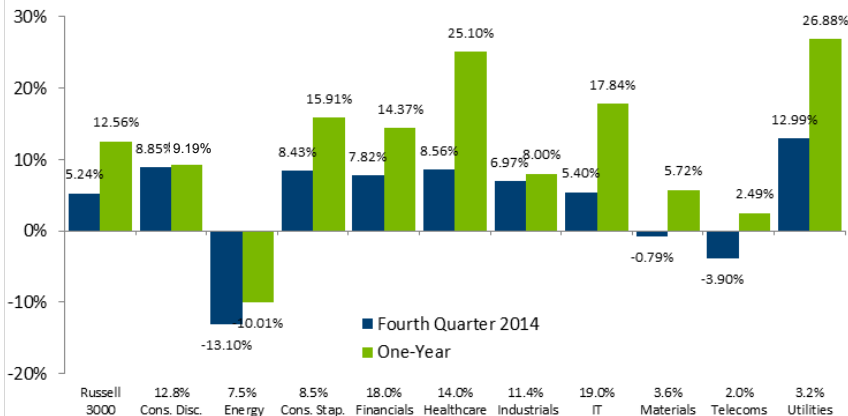


Source: MSCI

- The two exhibits on this slide illustrate the percentage that 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.

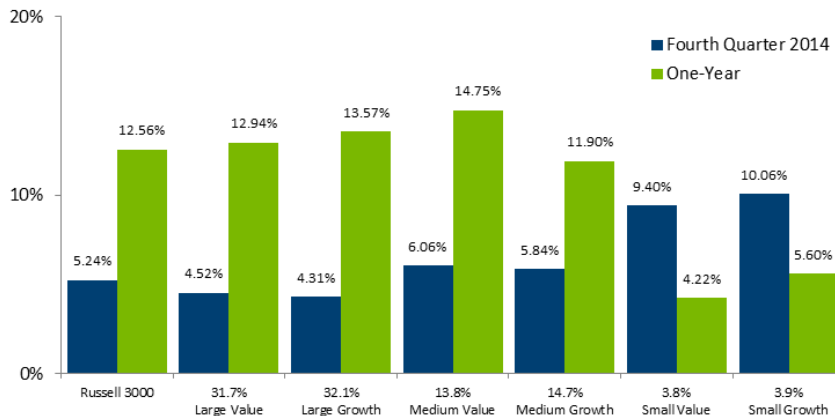
U.S. Equity Markets

**RUSSELL GICS SECTOR RETURNS
AS OF 12/31/2014**



Source: Russell Indexes

**RUSSELL STYLE RETURNS
AS OF 12/31/2014**

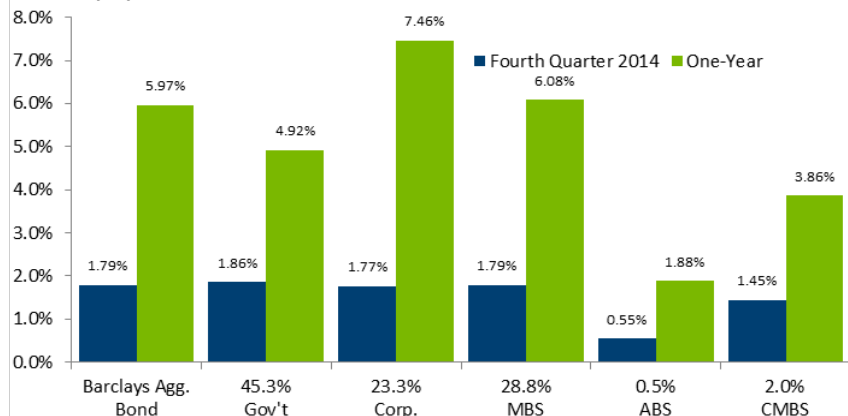


Source: Russell Indexes

- The Russell 3000 Index returned 5.24% during the quarter and returned 12.56% over the one-year period.
- During the fourth quarter, the utilities and consumer discretionary sectors were the strongest performers, posting returns of 12.99% and 8.85%, respectively. The energy and telecommunications sectors were the weakest performers, producing returns of -13.10% and -3.90%, respectively.
- Performance across the market capitalization spectrum was mixed over the quarter. Large cap stocks trailed the smaller segments of the markets, and growth underperformed value across the large and medium capitalizations during the quarter.

U.S. Fixed Income Markets

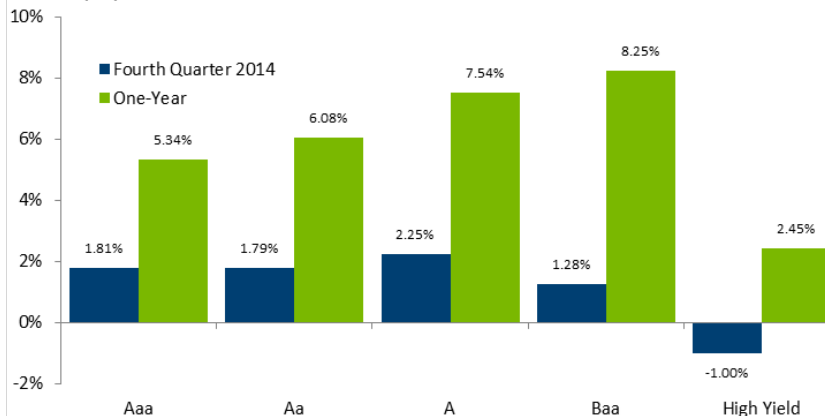
**BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 12/31/2014**



Source: Barclays Live

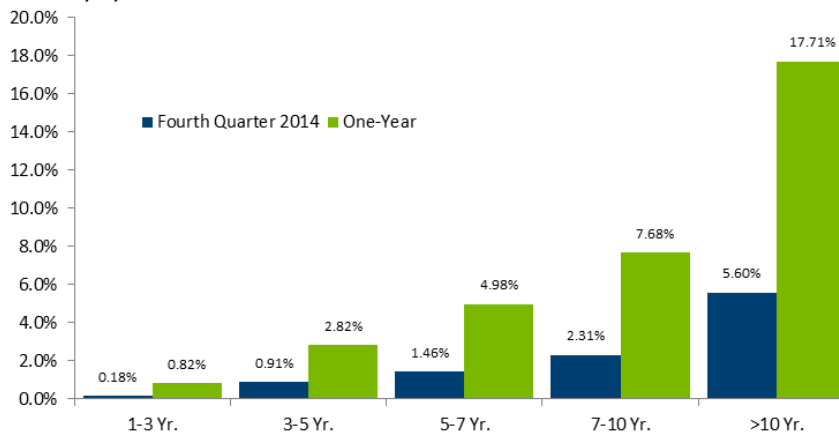
- The Barclays Aggregate Bond Index returned 1.79% in the fourth quarter. Government bonds were the strongest performing index segment, returning 1.86%.
- In the investment grade market, Baa bonds were outperformed by higher quality bonds.
- High yield bonds underperformed investment grade corporate bonds.
- Long duration bonds continued to outperform shorter duration bonds.

**BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 12/31/2014**



Source: Barclays Live

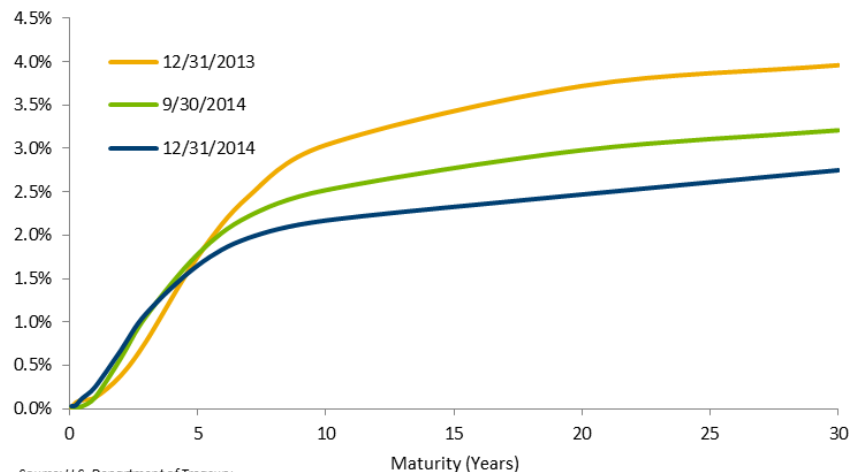
**BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 12/31/2014**



Source: Barclays Live

U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS



Source: U.S. Department of Treasury

- The Treasury yield curve flattened during the fourth quarter, driven by long bond yields falling and short rates moving higher.
- The 10-year U.S. Treasury yield ended the quarter at 2.17%, 35 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield fell by 6 basis points over the quarter and ended the period at 0.49%.

Credit Spreads

Spread (bps)	12/31/2014	9/30/2014	12/31/2013	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	48	43	45	5	3
Long Gov't	4	4	6	0	-2
Long Credit	185	164	158	21	27
Long Gov't/Credit	119	106	105	13	14
MBS	27	30	34	-3	-7
CMBS	98	99	126	-1	-28
ABS	58	56	55	2	3
Corporate	131	112	114	19	17
High Yield	483	424	382	59	101
Global Emerging Markets	365	288	298	77	67

Source: Barclays Live

- During the fourth quarter, credit spreads rose across most areas of the bond market.
- Global emerging markets spreads rose by 77 basis points, the most over the quarter. This was followed by high yield spreads which rose by 59 basis points.

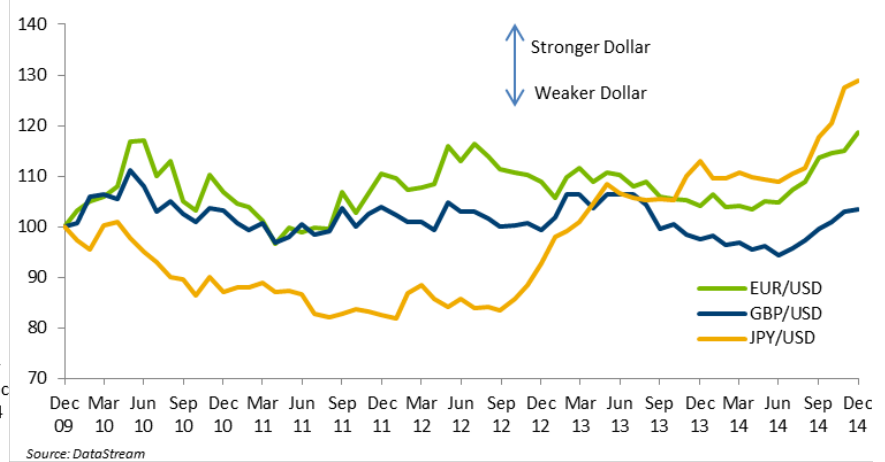
Currency

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



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 12/31/2009

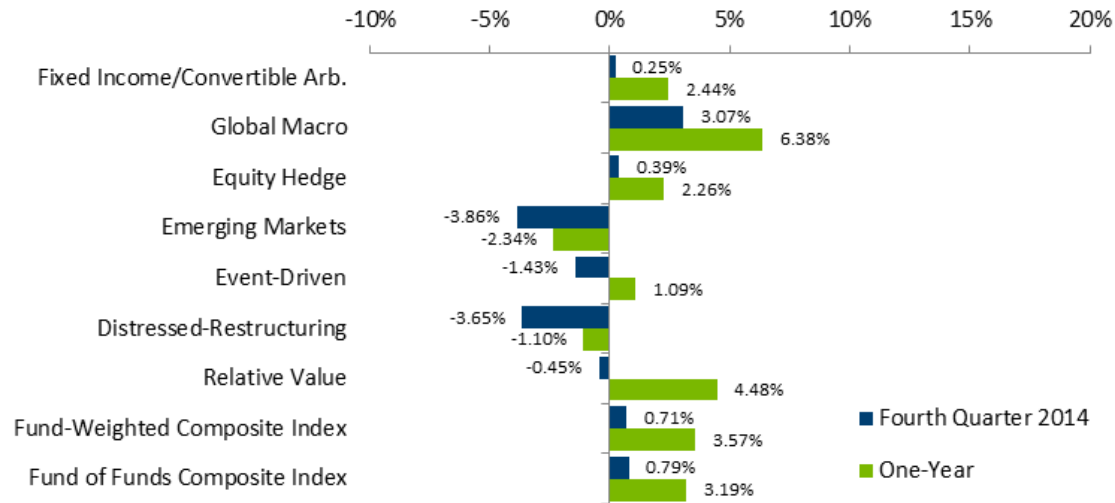


Source: DataStream

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar strengthened during the quarter.
- The dollar appreciated against the Euro, Yen, and British Pound Sterling.

Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE AS OF 12/31/2014



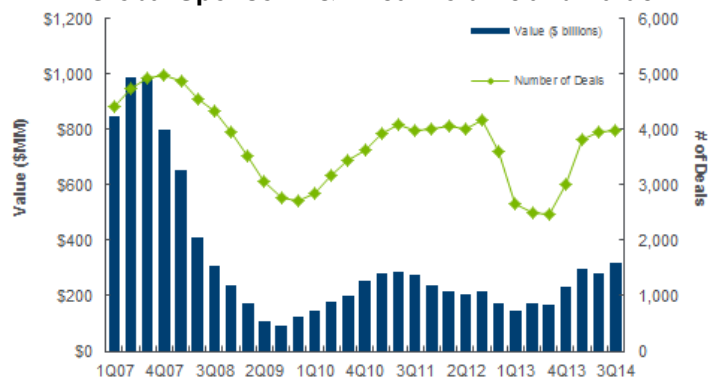
Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.

Source: HFR

- Hedge fund performance was modestly positive over the quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 0.71% and 0.79%, respectively, during the quarter.
- Global Macro strategies were the strongest performers, gaining 3.07% over the course of the quarter.

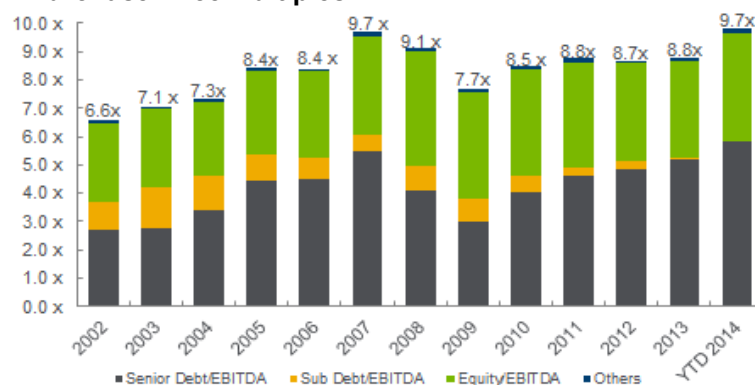
Private Equity Market Overview

LTM Global Sponsor M&A Deal Volume and Value



Source: Thomson Reuters

Purchase Price Multiples



Source: S&P

- Fundraising:** \$87.2 billion of funds were raised in 3Q 2014, bringing the last twelve months (LTM) of capital raised to \$349.3 billion; 14.0% and 44.0% above the same period last year and the ten year average, respectively.⁵ Dry powder stands at \$978.9 billion, representing a 9.9% increase from 2013 and 17.8% increase from the five year average.¹
- Buyout:** In 3Q, 1,023 global sponsor-backed M&A deals closed totaling \$96.1 billion, the highest amount closed on since 4Q 2010.⁵ 3Q YTD purchase price multiples were 9.8x EBITDA for large cap and 9.6x for mid cap, with both setting new peak levels.³ European purchase price multiples increased quarter over quarter for all transaction sizes. Small transaction sizes (€499 million and under) exhibited the largest increase over the ten year average, up 1.2x. On a LTM basis, total exit value and number of exits increased to \$453.0 billion and 1,704 exits, respectively, both representing record levels.¹
- Venture:** Investment activity remained healthy, although fell 26.5% by dollars and 9.4% by deals during the quarter. Total investments made YTD of \$33.2 billion have already exceeded FY 2013 levels of \$29.8 billion.⁷ This was driven by the influx of capital from non-traditional investors (i.e., hedge funds and mutual funds) and the increase in financing rounds exceeding \$100.0 million. The exit environment is solid and continues to strengthen, evidenced by the fact that there have been 88 venture-backed IPOs YTD, topping the FY 2013 mark of 81.⁵
- Mezzanine:** 3Q 2014 mezzanine capital raised increased 170.4% quarter over quarter to \$7.1 billion, the highest amount raised since 3Q 2013 (\$7.5 billion). Dry powder is estimated at \$41.4 billion, roughly equal to the five year average.¹ Capital deployment in 2014 has remained limited due to the continued infiltration of business development companies (BDCs) in the middle market, disintermediating mezzanine funds through the offering of unitranche debt and second lien lending opportunities.
- Distressed Debt:** High yield default rates were 0.3% in the third quarter with a trailing twelve month rate of 2.6%, down from 1.7% and 2.7%, respectively, in 2Q 2014. Excluding the April bankruptcy filing of Energy Future Holdings, the trailing twelve month high yield default rate is 1.3%.⁶ Default rates are expected to rise due to a combination of energy developments and a slow reversion away from current unsustainably low default rates, but are expected to remain below the 4.6% long-term average.⁴
- Secondaries:** Fundraising in 3Q 2014 totaled \$2.3 billion, down considerably from the record high of \$11.5 billion in 2Q 2014.¹ Given that transaction volume is typically the highest in 4Q each year, 2014 transaction volume is likely to exceed the \$26.5 billion completed in 2013. The average discount rate for all private equity sectors worsened slightly quarter over quarter to 8.2%, yet remains very favorable for potential sellers.²
- Infrastructure:** \$8.5 billion closed by fourteen partnerships during 3Q 2014, down from \$9.9 billion that was closed by nine funds in 2Q 2014.¹ Dry powder stands at \$106.8 billion (an all-time high) with 48.4% of that targeted for North America. Infrastructure managers completed 156 deals with an estimated aggregate deal value of \$88.0 billion for an average value of \$564.1 million, up 66.1% from the same period last year.¹
- Natural Resources:** During 3Q 2014, five funds closed on \$4.7 billion, bringing YTD capital raised to \$9.8 billion, down from \$24.8 billion as of 3Q 2013.¹ Energy and utilities industry managers completed 61 deals during the third quarter, bringing 2014 YTD estimated deal quantity and aggregate value to 187 and \$27.3 billion, respectively. This represents 91.1% of 2013's FY deal value.¹

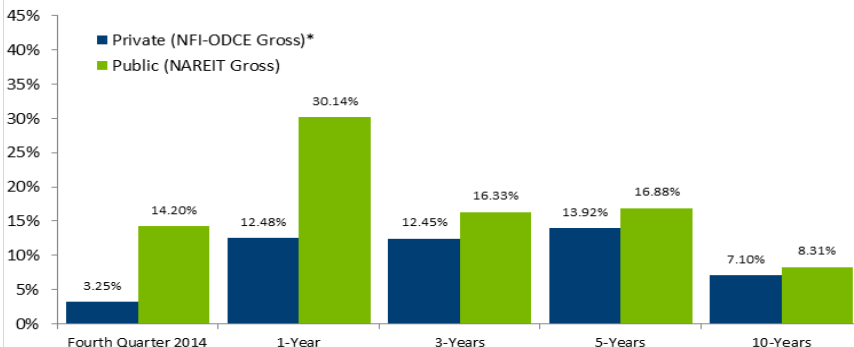
Sources: 1. Preqin 2. UBS 3. Standard & Poors 4. Aon Hewitt 5. Thomson Reuters 6. Fitch Ratings 7. PWC/National Venture Capital Association (NVCA) MoneyTree Report 8. Thomson Reuters and NVCA 9. Cooley Venture Financing Report 10. Federal Reserve 11. U.S. Energy Information Administration 12. Bloomberg

Notes: YTD and LTM is through 09/30/14 unless otherwise noted; FY: Fiscal year ended 12/31; YTD: Year to date; LTM: Last twelve months (aka trailing twelve months); PPM: Purchase Price Multiples: Total Purchase Price / EBITDA



U.S. Commercial Real Estate Market

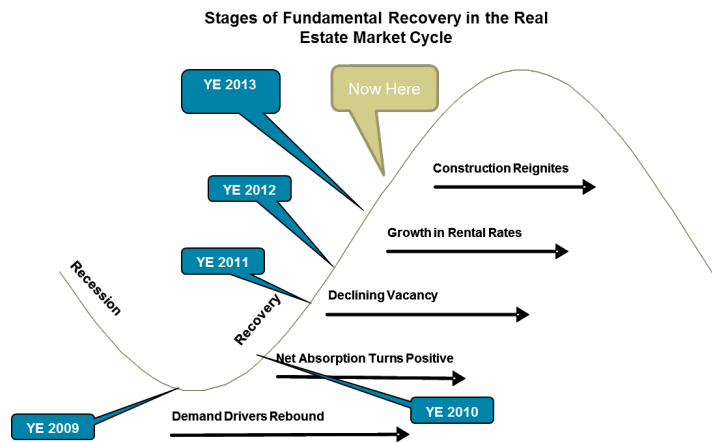
PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 12/31/2014



*Fourth quarter returns are preliminary
Sources: NCREIF, NAREIT

- Private commercial real estate returned 3.3% (NFI-ODCE* gross of fees) over the quarter, continuing to display a well above average pace. Despite this, return momentum in the private market is slowly waning back toward the sector's long run average as the cyclical recovery further matures. The NFI-ODCE Index gained 12.5% for the year, vs 13.9% in 2013.
- Non-Core investments remain attractive relative to the current point of the real estate cycle, though the peak rebound potential is now past; thus manager/strategy selection is paramount. Access to capital continues to deepen and legacy fund returns generally continue to strengthen as strategies become fully executed and sold into the robust Core investment segment.
- U.S. real estate stocks rallied during the fourth quarter, up 14.2% (FTSE NAREIT Equity REIT Index), though volatility in this segment remained high. Most of the quarter's gain came in October (up 9.9%) as concerns regarding higher interest rates reversed from September's swoon (down 6%). REITs gained 30.1% for the year, buoyed by significant transaction activity, strong operating fundamentals, low interest rates, and the strengthening dollar. The REIT market ended the year trading at roughly a 5% premium to underlying private net asset values. Dividend yields for the sector averaged 3.65% at year end.
- Sector fundamentals continue to rebound beyond the primary markets, helping to support and expand current pricing. As new supply remains generally low, growth in rental rates, which has been modest to-date in all property types except apartments, still have plenty of room for improvement. High expectations exist for improving net operating income supporting on-going attractive cash flow yields – even in the Core sector.
- New supply is expected to rise across most property types, albeit quite modestly, with the Office, Retail, and Hotel sectors remaining well behind Apartment and Industrial. While the demand/supply gap remains favorable in all Core property types except Apartments, market selection will become even more important as new supply will ramp up more quickly in select regions.
- Rising interest rates remain on investors' radar, though timing is highly uncertain. Improving fundamentals should help offset rising rates, though not completely. Portfolio structure and other long-term risk mitigation measures are important to managing the maturing cycle, liquidity, and interest rate risks.

Source: Aon Hewitt, NAREIT US Equity REIT Index, NCREIF
*Preliminary



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Explanatory Notes

Explanatory Notes

Note: Market values are used in this report to calculate performance for the Endowment and Operating pools. Market values reflect trade date accounting provided by the custodial bank Northern Trust.

Non-U.S. Equity Benchmark – The non-U.S. Equity asset class benchmark has remained the MSCI ACWI ex-U.S. Index, despite the underlying strategy moving to the MSCI ACWI ex-U.S. IMI Index, because it is the benchmark identified in the Endowment Investment Policy Statement (IPS) for this asset class. These indices are very similar. The MSCI ACWI ex-U.S. IMI Index includes a very small (13.0%) diversifying allocation to small international companies that are not included in the MSCI ACWI ex-U.S. Index.

Peer Universe Comparison Floating Bar Chart – In this chart the universe returns are shown in percentiles, with the lowest percentile/rank representing the best performance in that time period. The shaded blocks shown for each time period represent the range of returns in the peer universe from the 95th percentile to the 5th percentile. Returns below the red boxes fall in the worst 5 percent for that period, and returns above the light blue boxes fall in the top 5 percent. The Investment Metrics / BNY Mellon Universe includes reported performance from 384 Endowment and Foundations. The average market value within the Endowment and Foundations universe was \$1.1 billion as of quarter-end.