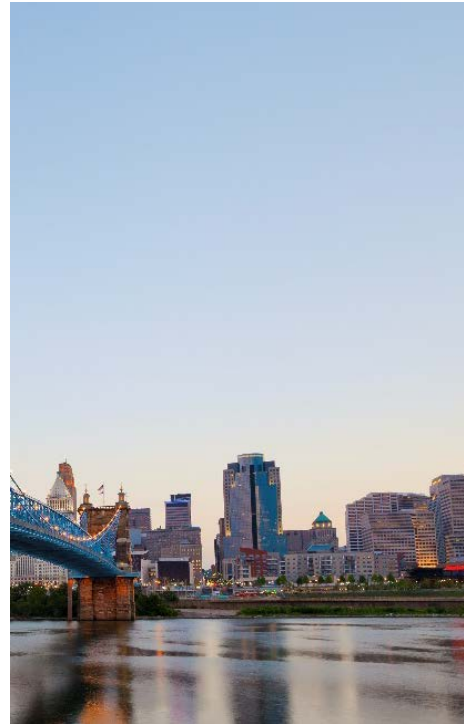
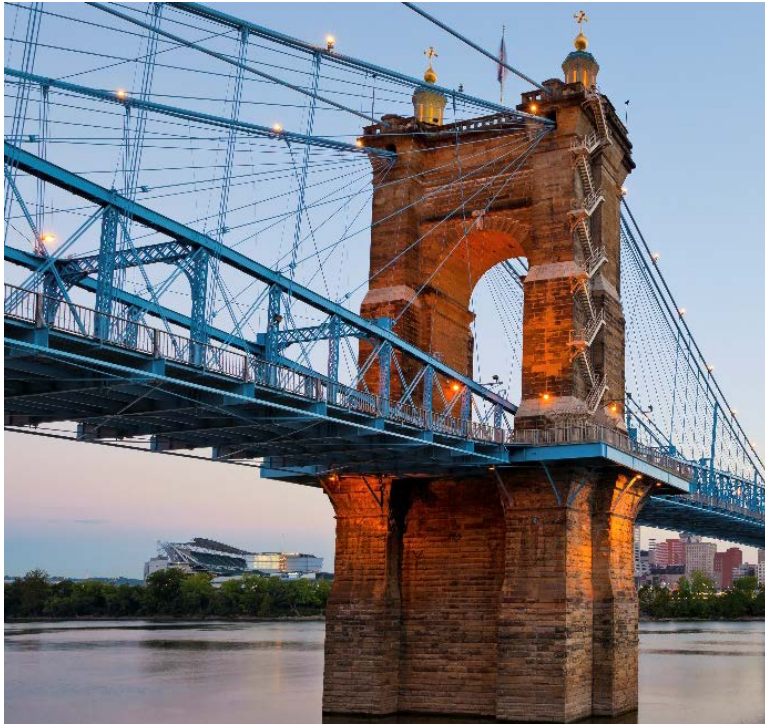


Reported to the Board of Trustees
March 14, 2019



UNIVERSITY OF ILLINOIS SYSTEM

FOURTH QUARTER 2018 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

February 2019

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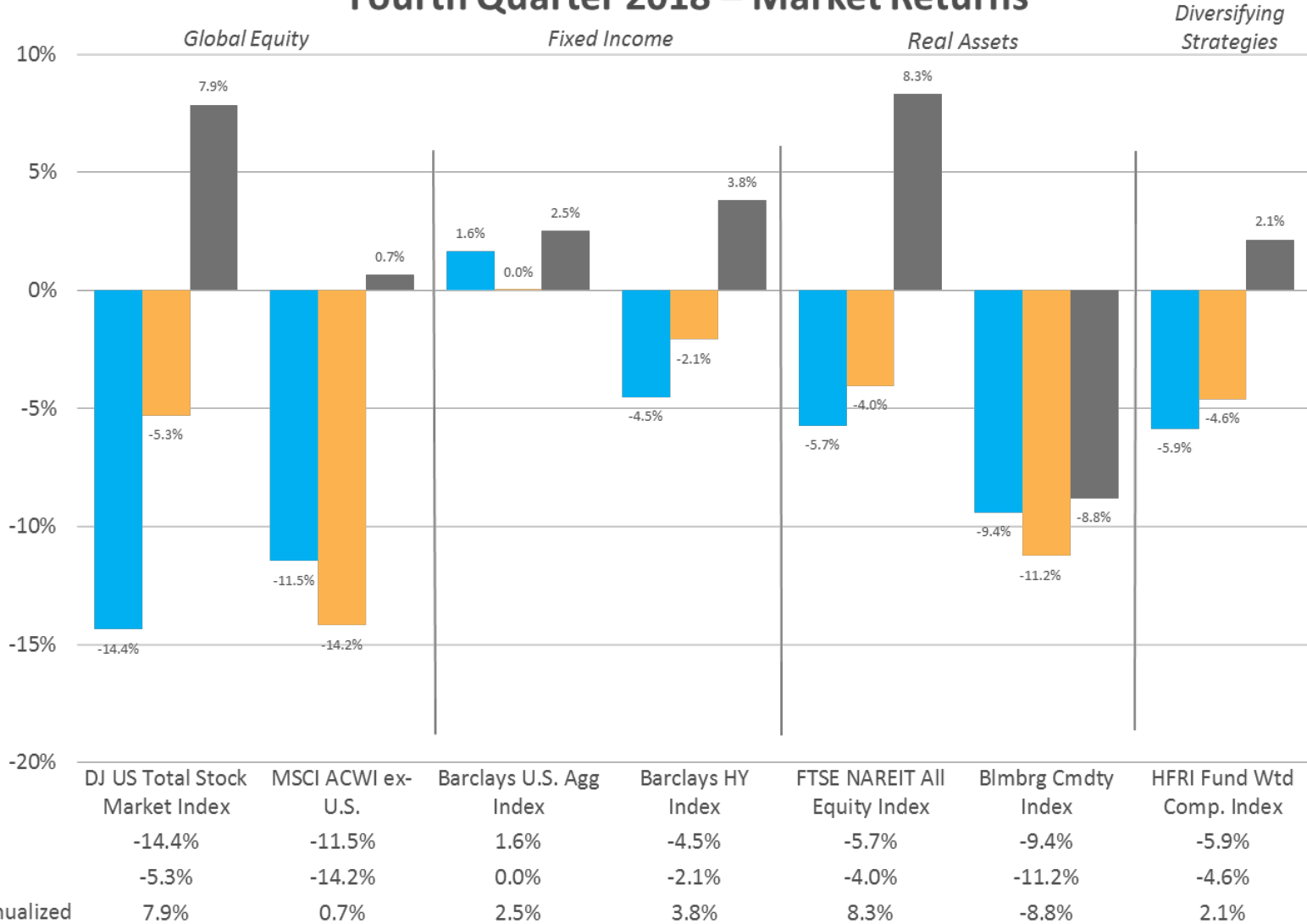
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MARKET OVERVIEW AND SYSTEM ASSETS

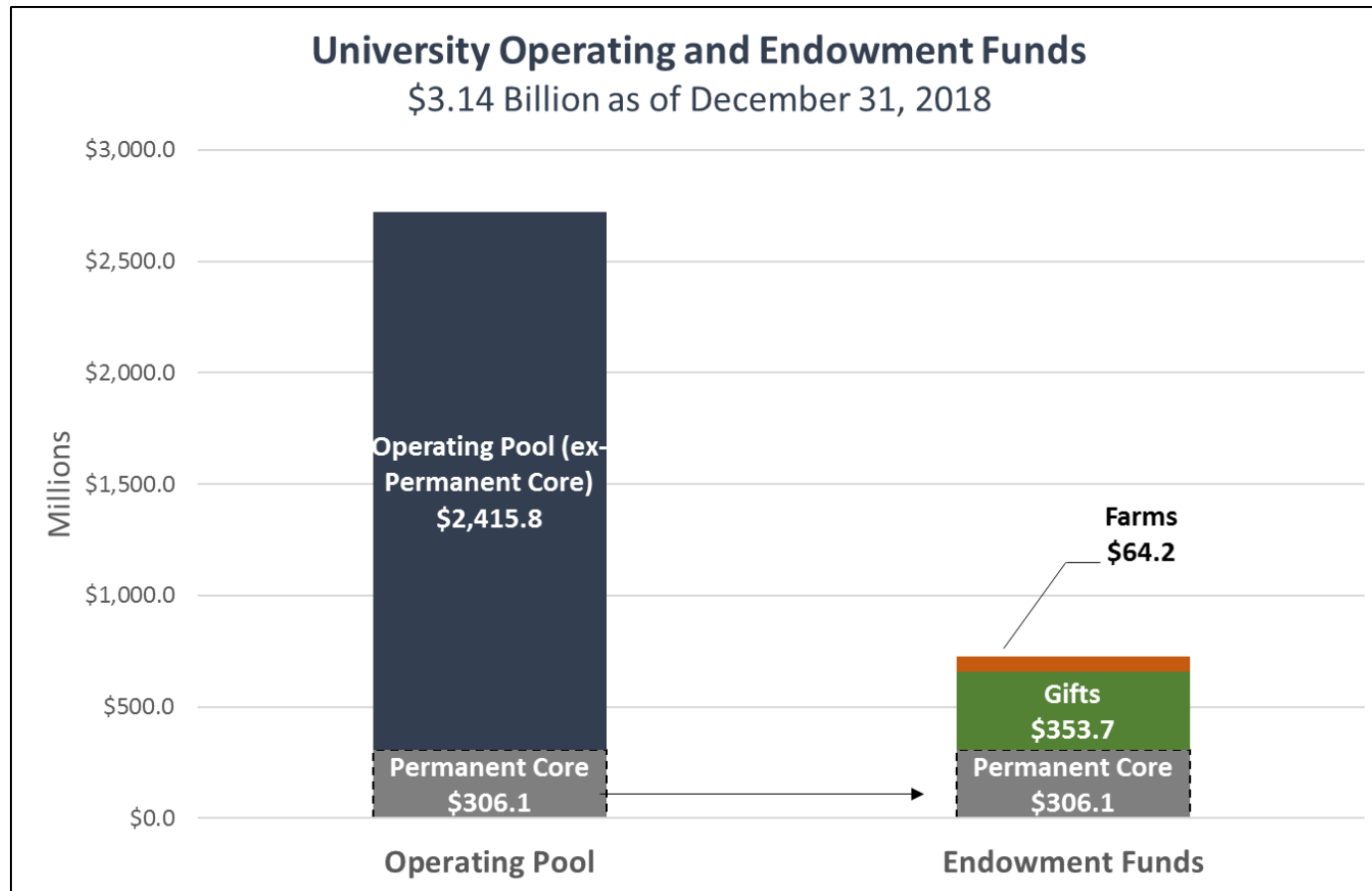
CAPITAL MARKET OVERVIEW

Fourth Quarter 2018 – Market Returns



Data sources: Lipper and Hedge Fund Research

UNIVERSITY OPERATING AND ENDOWMENT FUNDS: DEC 31, 2018



- The University Operating and Endowment Funds were valued at \$3.1 billion as of December 31, 2018.
- The Operating Pool was valued at \$2.7 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 \$724.0 million (right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$417.9 million.

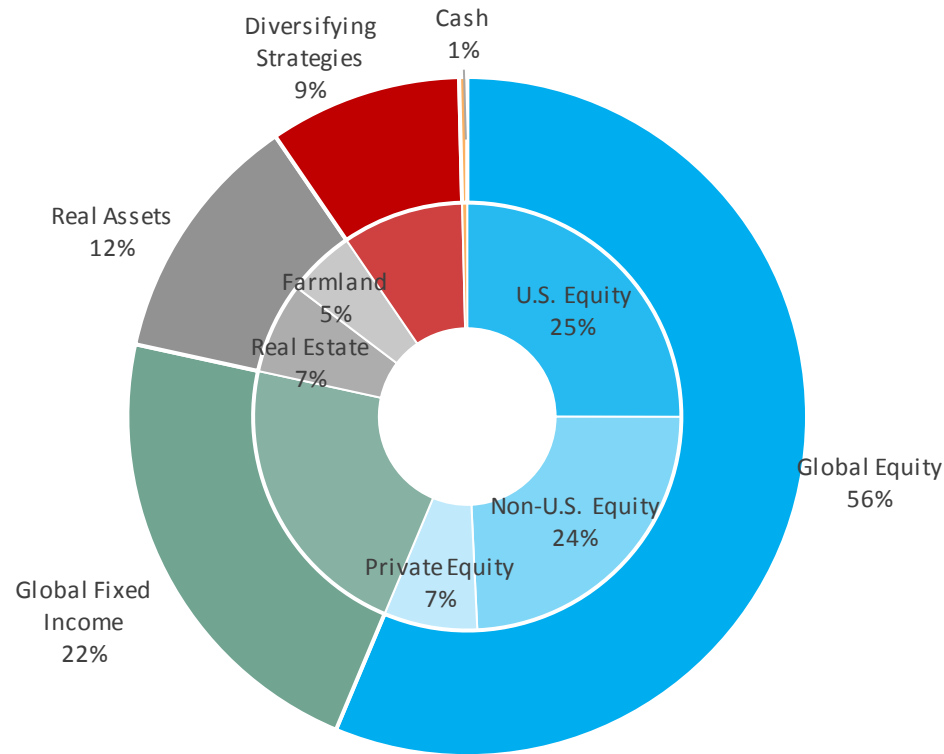
Note: The sum of the allocation may not equal 100% due to rounding.

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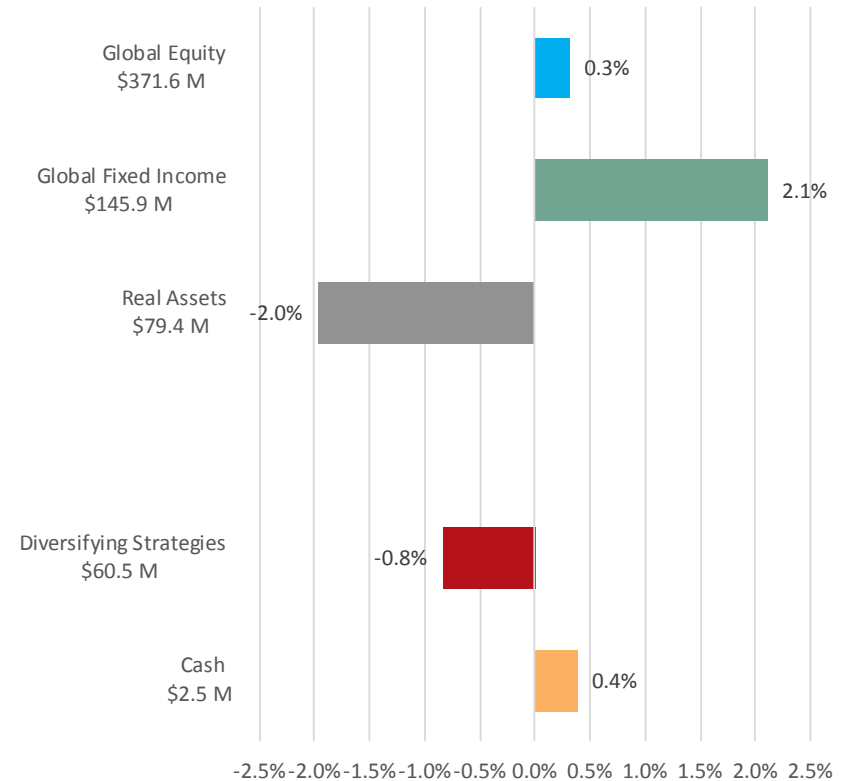
ENDOWMENT FUND UPDATE:
DECEMBER 31, 2018

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$659.9 Million as of 12/31/2018



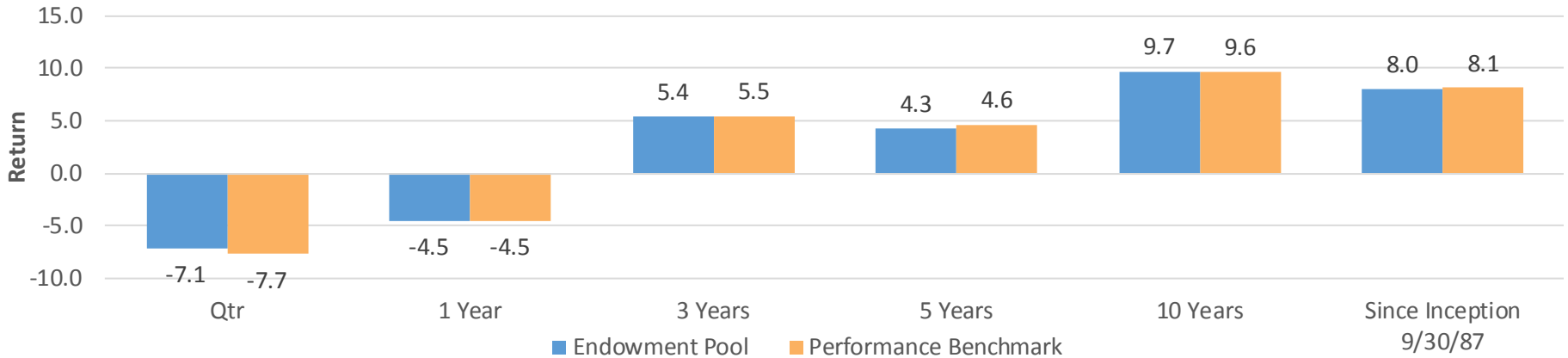
Over/Under Allocation to Long-Term Policy Targets



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 (DEC 31, 2018)

TOTAL POOL: \$659.9 MILLION



- Over the one-year period, the endowment returned -4.5%. U.S. equity (-7.0%), non-U.S. equity (-14.7%), and diversifying strategies (-8.4%), hurt performance, while private equity (+18.7%) did quite well.
- Three- and five-year returns were weighed down by international equity, diversifying strategies, and farmland exposure.
- On the ten-year period, the endowment posted a strong 9.7% return, supported by solid returns from global equities (+10.6%), real assets (+11.3%), and global fixed income (+7.1%).

Endowment Pool Market Value Change	Quarter Ending December-2018
Beginning Market Value	\$717.4 M
Net Contributions	(\$6.3 M)
Gain/Loss	(\$51.3 M)
Ending Market Value	\$659.9 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 (DEC 31, 2018)

	Current Allocation (%) ¹	Policy Allocation (%)	Quarter ending Dec-2018	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool			-7.1	-4.5	5.4	4.3	9.7	8.0	Sep-87
Performance Benchmark			-7.7	-4.5	5.5	4.6	9.6	8.1	
GLOBAL EQUITY	56.3	56.0	-11.5	-7.2	7.3	5.1	10.6	7.6	Sep-87
Total U.S. Equity			-15.3	-7.0	7.5	6.6	13.0	8.9	Sep-87
DJ U.S. Total Stock Market Index			-14.4	-5.3	8.9	7.9	13.2	9.2	
Total Non-U.S. Equity			-11.9	-14.7	4.4	0.8	5.9	4.9	Sep-93
Non-U.S. Equity Benchmark			-11.9	-14.8	4.4	0.8	6.7	5.0	
Total Private Equity			4.3	18.7	13.9	13.2	8.9	3.9	Jan-04
Private Equity Benchmark			-13.2	-2.3	11.9	10.9	16.2	10.9	
GLOBAL FIXED INCOME²	22.1	20.0	1.0	0.0	2.4	2.7	7.1	6.8	Sep-87
Total Public Fixed Income			0.9	-0.1	2.3	2.7	7.1	6.8	Sep-87
Bloomberg Barclays U.S. Aggregate			1.6	0.0	2.1	2.5	3.5	6.3	
REAL ASSETS	12.0	14.0	0.0	2.8	3.0	3.5	11.3	10.2	Dec-06
Total Real Estate			0.0	5.2	6.6	11.0	-	10.8	Aug-13
Real Estate Benchmark			1.5	6.4	7.0	11.4	-	11.2	
Total Farmland³			0.0	-0.2	-1.2	-1.3	8.6	8.0	Dec-06
NCREIF Cornbelt Index			0.0	2.6	-0.5	1.9	9.3	9.4	
DIVERSIFYING STRATEGIES²	9.2	10.0	-4.5	-8.4	0.1	1.7	-	1.9	May-13
Total Hedge Funds			-4.8	-9.0	-0.1	1.5	-	1.8	May-13
HFRI Fund Weighted Composite Index			-5.9	-4.6	3.0	2.1	-	2.7	

¹The current allocation may not add to 100.0% due to cash.

²Global Fixed Income and Diversifying Strategies include allocations and performance of private investments.

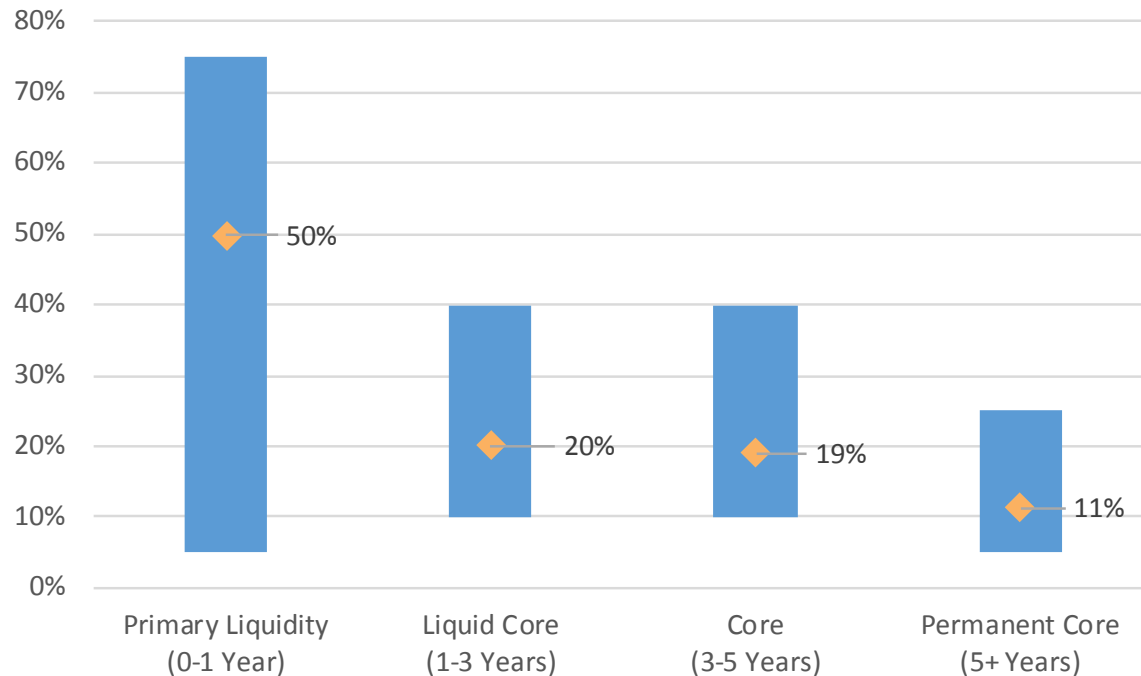
³Farmland is valued annually on June 30. As such, the one-year return reflected above is the one-year return for Farmland as of June 30, 2018.

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OPERATING POOL UPDATE:
DECEMBER 31, 2018

LIQUIDITY LAYERS: OPERATING POOL (DEC 31, 2018)

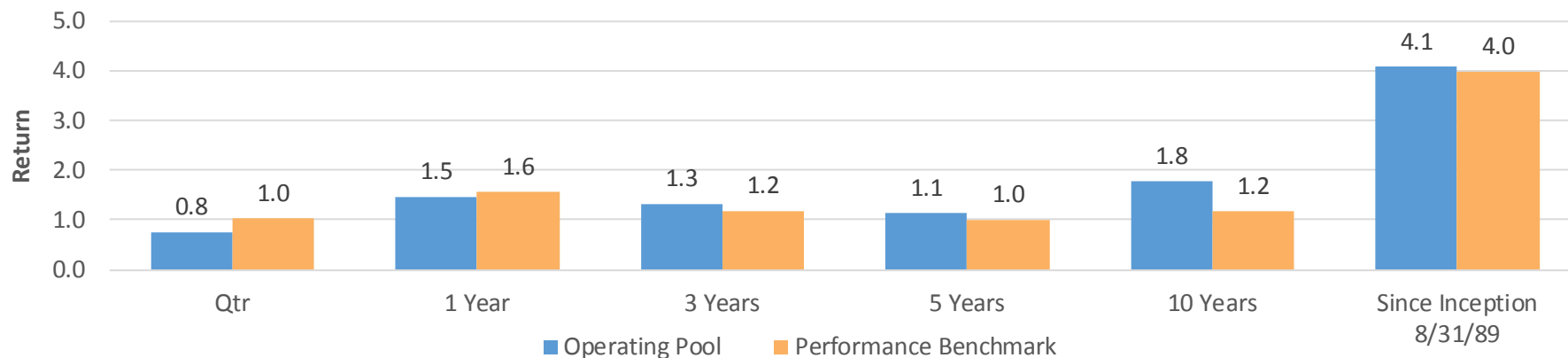
OPERATING POOL LIQUIDITY LAYERS AS OF DECEMBER 31, 2018



- 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 (DEC 31, 2018)

TOTAL POOL: \$2.42 BILLION



- Over the trailing one-year period ending December 31, 2018, the Operating Pool returned 1.5% while slightly trailing the benchmark.
 - The Operating Pool's managers performed either in-line or slightly behind 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 produced competitive results relative to their respective benchmarks.

Market Value Change	Quarter Ending December-2018
Beginning Market Value	\$2,414.6 M
Net Contributions	(\$17.0 M)
Gain/Loss	\$18.2 M
Ending Market Value	\$2,415.8 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

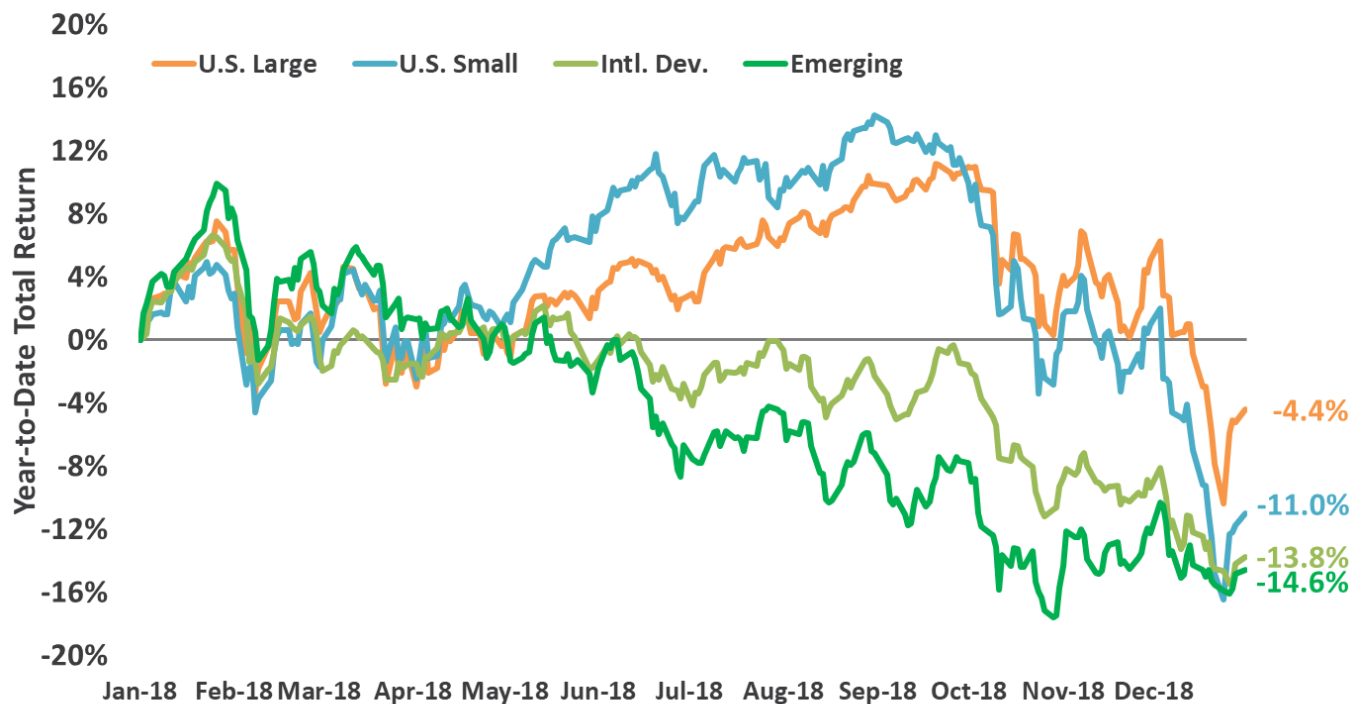
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5-year annual	10-year annual
Emerging Markets 78.5%	MLPs 35.9%	MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Bonds 0.0%	Large Cap 8.5%	Large Cap 13.1%
MLPs 76.4%	Small Cap 26.9%	Bonds 7.8%	Emerging Markets 18.2%	Large Cap 32.4%	Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	High Yield -2.1%	Small Cap 4.4%	Small Cap 12.0%
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%	Hedge Funds -4.1%	Global REIT 4.3%	High Yield 11.1%
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 -4.4%	High Yield 3.8%	Global REIT 9.7%
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%	Global REIT -5.6%	Bonds 2.5%	MLPs 9.6%
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%	Small Cap -11.0%	Emerging Markets 1.6%	Emerging Markets 8.0%
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%	MLPs -12.4%	Hedge Funds 1.4%	Int'l 6.3%
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%	Int'l -13.8%	Int'l 0.5%	Bonds 3.5%
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%	Emerging Markets -14.6%	MLPs -7.3%	Hedge Funds 3.1%

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

GLOBAL EQUITIES PERFORMANCE

- Global equities slumped in the fourth quarter, with notable weakness experienced domestically, reversing the trend that was in place for the majority of 2018. Fears of a Fed “policy error” and business cycle concerns served as headwinds.
- From a capitalization perspective, domestic small cap equity underperformed large cap equity for both the fourth quarter and the year.
- Stylistically, domestic value outperformed growth during the quarter, but relatively underperformed for the year. Abroad, performance across the value style in Emerging Markets exceeded growth for both the fourth quarter and 2018.

Global Equity Year-to-Date Performance (in USD)



Data source: Bloomberg, L.P.; Data as of 12/31/2018

FIXED INCOME PERFORMANCE

- After generally increasing throughout much of 2018, U.S. Treasury interest rates moved sharply lower in the fourth quarter and helped support high quality fixed income returns.
- The late-year risk-off market environment helped drive core bond returns into positive territory for the year, albeit negligibly, after spending nearly the entirety of 2018 in negative performance territory.
- Below investment-grade credit relatively outperformed rate-sensitive sectors for most of 2018, but came under pressure in the fourth quarter amid spread widening and a general flight-to-quality environment.
- TIPS lagged nominal Treasuries as breakeven inflation expectations declined.

Fixed Income Year-to-Date Performance

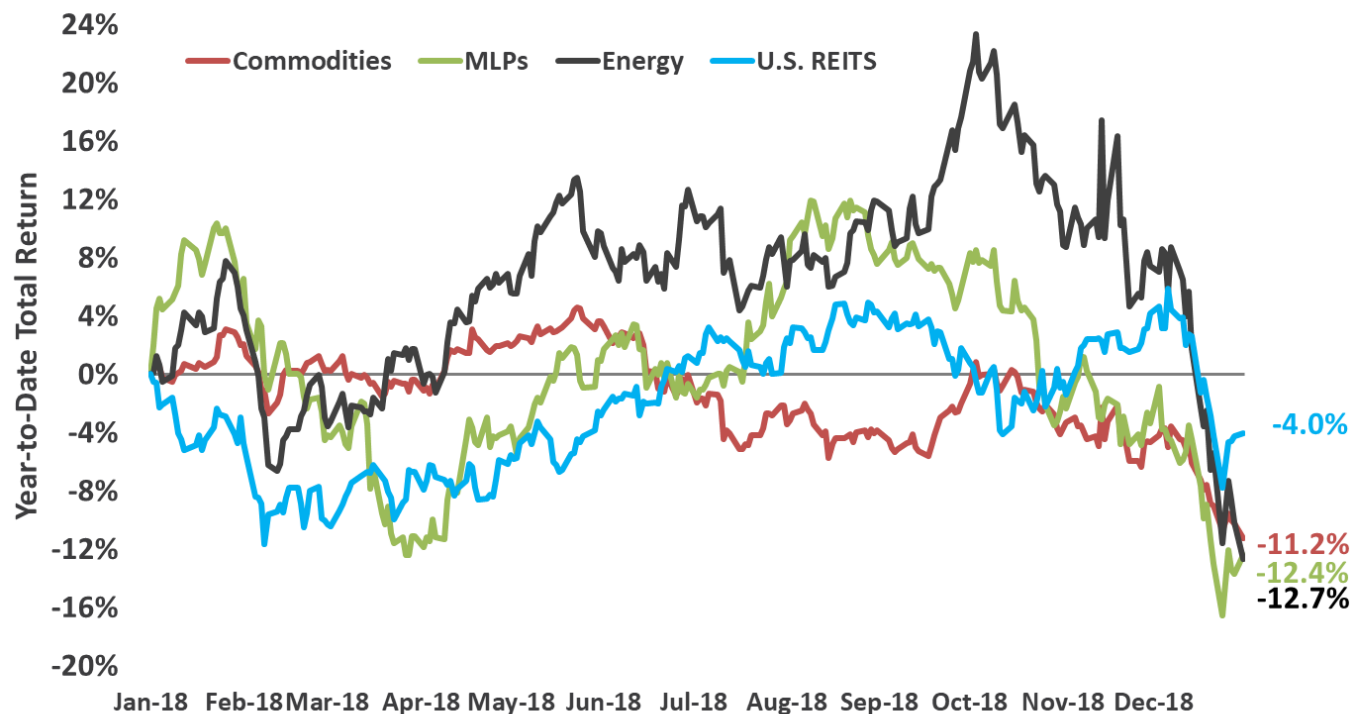


Data source: Bloomberg, L.P.; Data as of 12/31/2018

REAL ASSETS PERFORMANCE

- Real assets experienced volatile performance during the quarter and the year, with particularly elevated volatility witnessed across energy spot prices and energy-related asset categories. An appreciating U.S. dollar, increasing interest rates, and global growth worries constituted performance headwinds.
- U.S. real estate investment trusts (REITs) performance was relatively solid in the fourth quarter and for the year, despite beginning 2018 with elevated downside volatility amid sharply increasing U.S. interest rates.
- Commodities spent the majority of the year in negative territory as performance was challenged by large energy spot price swings, global growth worries, and both an appreciating USD and rising interest rates.

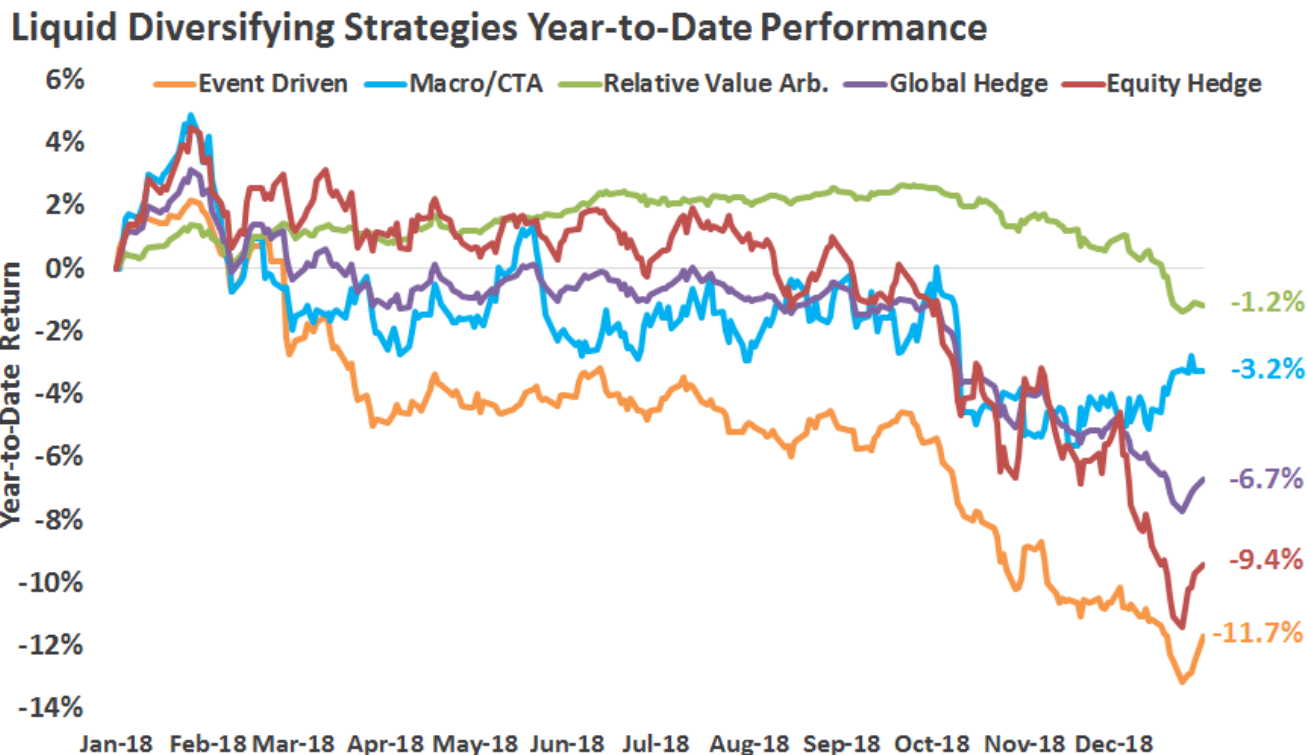
Real Assets Year-to-Date Performance



Data source: Bloomberg, L.P.; Data as of 12/31/2018

DIVERSIFYING STRATEGIES PERFORMANCE

- Liquid diversifying strategies, generally speaking, drifted lower during the quarter and for 2018, despite broad-based increases in realized volatility levels.
- Macro/CTA strategies delivered modestly positive relative performance throughout the quarter and year, but faced headwinds in the way of trend reversals across global equities, interest rates, and energy prices.
- Event-driven managers performed poorly during the quarter and calendar year, despite a robust mergers and acquisitions pipeline and strong deal activity.



Data source: HFRI, Bloomberg, L.P.; Data as of 12/31/2018

MARKET INSIGHTS

- The fourth quarter marked the reversal of optimistic sentiment and positive market returns. The return of volatility and substantial daily market declines brought risk aversion to the forefront of investors' minds and spurred a flight-to-quality.
- In the U.S., only the tech-heavy NASDAQ index hit the -20% bear market level intraday, but the -10% correction threshold was exceeded across markets and produced concerns of another bear market and worries about an eventual recession.

BEAR MARKETS OCCUR WITH AND WITHOUT RECESSIONS

S&P 500 Index Bear Markets Since WWII

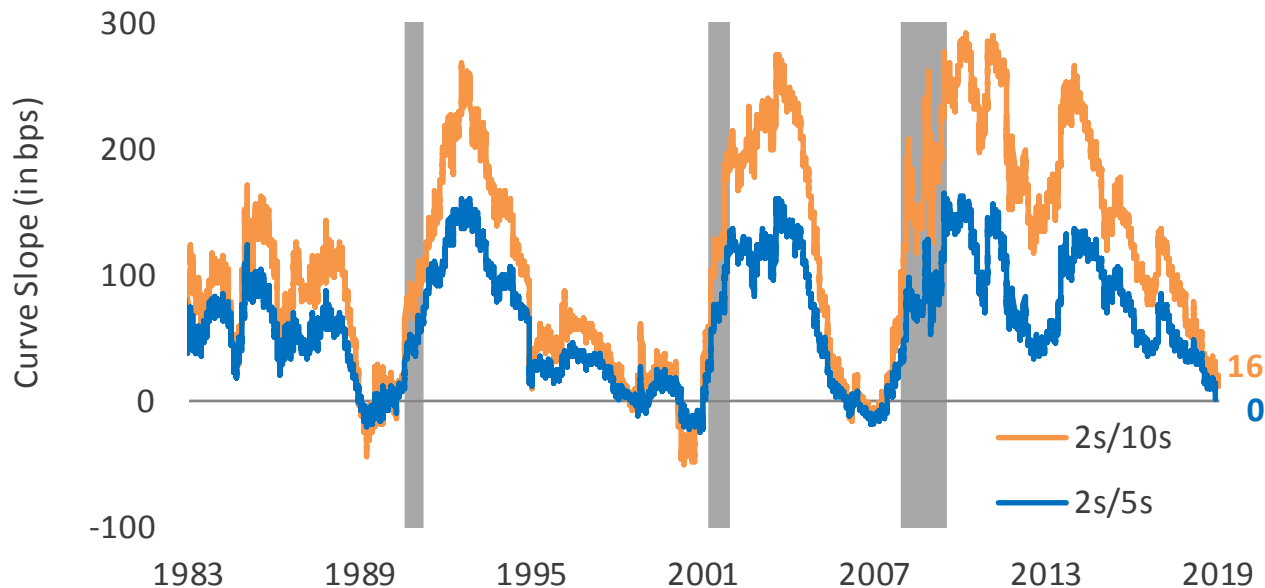
Month of Peak	Month of Trough	Percent Decline	Recession
May 1946	May 1947	-29%	No
August 1956	October 1957	-22%	Yes
December 1961	June 1962	-28%	No
February 1966	October 1966	-22%	No
December 1968	May 1970	-36%	Yes
January 1973	October 1974	-48%	Yes
September 1976	March 1978	-19%	No
November 1980	August 1982	-27%	Yes
August 1987	December 1987	-34%	No
July 1990	October 1990	-20%	Yes
July 1998	August 1998	-19%	No
March 2000	October 2002	-49%	Yes
October 2007	March 2009	-56%	Yes
April 2011	October 2011	-19%	No
	AVG (All)	-31%	
	AVG (Recessions)	-37%	
	AVG (No Recession)	-24%	

Data Sources: LPL Research, FactSet, as of 12/18

ECONOMIC INSIGHTS

- Most key economic data pointed to an expansionary bias throughout the fourth quarter, although pockets of moderation were evident among certain housing-related indicators and the pace of overall economic expansion appeared to have cooled somewhat.
- Market-implied measures, such as the slope of the Treasury yield curve, indicated a potential near-term conclusion to both the ongoing Fed tightening cycle and possibly the current business cycle expansion. The slope of the Treasury yield curve, as proxied by the spread between the 2-Year and 5-Year Note yields (2s/5s), entered negative territory in early-December, and the more commonly-referenced 2-Year, 10-Year spread (2s/10s) was not too far behind.

THE U.S. YIELD CURVE IS ALMOST FLAT FROM 2 TO 10 YEARS



Data sources: Bloomberg, L.P., NBER; Data as of 1/7/2019
Note: Shaded areas represent recessionary periods

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DISCLOSURES

DISCLOSURES

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DISCLOSURES

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

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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

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