University of Illinois System
Second Quarter 2017 Investment Update
Prepared for the Board of Trustees

September 2017
<table>
<thead>
<tr>
<th>Section</th>
<th>Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Overview and System Assets</td>
<td>5</td>
</tr>
<tr>
<td>Endowment Fund Update: June 30, 2017</td>
<td>9</td>
</tr>
<tr>
<td>Operating Pool Update: June 30, 2017</td>
<td>15</td>
</tr>
<tr>
<td>Appendix:</td>
<td></td>
</tr>
<tr>
<td>Market Environment</td>
<td>19</td>
</tr>
<tr>
<td>Disclosures</td>
<td>27</td>
</tr>
</tbody>
</table>
MARKET OVERVIEW AND SYSTEM ASSETS
CAPITAL MARKET OVERVIEW

Second Quarter 2017 – Market Returns

Global Equity
- DJ US Total Stock Market Index: 3.0%
- MSCI ACWI ex-U.S.: 5.8%
- Barclays U.S. Agg Index: 1.4%
- Barclays HY Index: 2.2%
- FTSE NAREIT All Equity Index: 2.3%
- Blmbrg Cmrdty Index: -3.0%
- HFRI Fund Wtd Comp. Index: 1.0%

Fixed Income
- 1 Yr: 2.6%
- 5 Yrs Annualized: 7.2%

Real Assets
- 1 Yr: 2.2%
- 5 Yrs Annualized: 6.9%

Diversifying Strategies
- 1 Yr: 4.5%
- 5 Yrs Annualized: 1.8%

Data sources: Lipper and Hedge Fund Research
System Endowment & Operating Assets
$2.52 Billion as of 6/30/2017

- Fixed Income: 60.4%
- Cash Equivalents: 15.6%
- Global Equity: 7.0%
- U.S. Equity: 4.8%
- Non-U.S. Equity: 3.0%
- Endowment Farms: 4.1%
- Separately Invested Endowment: 0.1%
- Private Equity: 1.5%
- Hedge Funds: 1.9%
- Real Estate: 1.7%

The sum of the allocation may not equal 100% due to rounding.
(This page is left blank intentionally)
ENDOWMENT FUND UPDATE: JUNE 30, 2017
The Total Endowment Fund was valued at $740.9 million as of June 30, 2017.

The Operating Pool maintains a permanent core investment in the Endowment Pool (light-blue pie slice); this is a long-term investment to enhance Operating Pool returns.

The combined Endowment Pool is valued at $670.6 million (dark- and light-blue pie slices) and is discussed further on the following slides.

The sum of the allocation may not equal 100% due to rounding.
MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: $670.6 Million as of 6/30/2017

- U.S. Equity: 17.9%
- Non-U.S. Equity: 11.1%
- Global Equity: 26.4%
- Fixed Income: 19.9%
- Private Equity: 5.8%
- Hedge Funds: 7.0%
- Farmland: 5.2%
- Real Estate: 6.4%
- Cash: 0.3%

Over/Under Allocation to Interim Policy Targets:

- U.S. Equity: $120.3 M, 0.9%
- Non-U.S. Equity: $74.6 M, 1.1%
- Global Equity: $177.0 M, 2.4%
- Fixed Income: $133.2 M, -0.1%
- Private Equity: $38.9 M, 0.8%
- Hedge Funds: $46.7 M, -3.0%
- Farmland: $34.9 M, -1.8%
- Real Estate: $42.8 M, -0.6%
- Cash: $2.1 M, -4.0%

Note: 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%
Note: Total sum of allocation may not equal 100% due to rounding.
TOTAL ENDOWMENT POOL PERFORMANCE (JUNE 30, 2017)

• During the quarter ending June 30, 2017, the Endowment Pool gained 2.9% while outperforming the benchmark. The main drivers of the Endowment Pool’s quarterly return were:
  – Fixed Income investment outperformed the Bloomberg Barclays U.S. Aggregate Index by 0.3% during the quarter, returning 1.7%.
  – The Endowment’s overweight to equity markets provided incremental returns as equities outperformed most other asset classes.

• Over the trailing one-year period ending June 30, 2017, the Endowment Pool returned 12.1% while outperforming the benchmark. The main drivers of the Endowment Pool’s one-year return were:
  – U.S. Equity and Fixed Income investments exceeded their respective benchmarks.
  – Similar to the quarterly commentary, the Endowment’s overweight to equity markets provided incremental returns as equities were the largest contributor for the year.

<table>
<thead>
<tr>
<th>Quarter Ending June-2017</th>
<th>Endowment Pool</th>
<th>Performance Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>$657.4 M</td>
<td></td>
</tr>
<tr>
<td>Net Contributions</td>
<td>($6.0 M)</td>
<td></td>
</tr>
<tr>
<td>Gain/Loss</td>
<td>$19.1 M</td>
<td></td>
</tr>
<tr>
<td>Ending Market Value</td>
<td>$670.6 M</td>
<td></td>
</tr>
</tbody>
</table>

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 (JUNE 30, 2017)

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>Quarter ending Jun-2017</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>2.9</td>
<td>12.1</td>
<td>4.6</td>
<td>8.7</td>
<td>5.6</td>
<td>8.3</td>
<td>Sep-87</td>
</tr>
<tr>
<td>Performance Benchmark</td>
<td>2.8</td>
<td>11.7</td>
<td>4.8</td>
<td>9.2</td>
<td>6.1</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>Total U.S. Equity</td>
<td>2.5</td>
<td>19.5</td>
<td>8.0</td>
<td>14.1</td>
<td>7.3</td>
<td>9.2</td>
<td>Sep-87</td>
</tr>
<tr>
<td>DJ U.S. Total Stock Market Index</td>
<td>3.0</td>
<td>18.5</td>
<td>9.0</td>
<td>14.5</td>
<td>7.3</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Total Non-U.S. Equity</td>
<td>5.9</td>
<td>20.5</td>
<td>1.1</td>
<td>8.4</td>
<td>0.8</td>
<td>5.4</td>
<td>Sep-93</td>
</tr>
<tr>
<td>Non-U.S. Equity Benchmark</td>
<td>5.8</td>
<td>20.4</td>
<td>1.2</td>
<td>7.5</td>
<td>1.2</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>Total Global Equity</td>
<td>4.3</td>
<td>19.0</td>
<td>3.9</td>
<td>9.9</td>
<td>-</td>
<td>9.9</td>
<td>Jun-12</td>
</tr>
<tr>
<td>Global Equity Benchmark</td>
<td>4.2</td>
<td>19.0</td>
<td>4.9</td>
<td>10.6</td>
<td>-</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>Total Fixed Income</td>
<td>1.7</td>
<td>0.4</td>
<td>2.9</td>
<td>2.9</td>
<td>5.2</td>
<td>7.1</td>
<td>Sep-87</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate</td>
<td>1.4</td>
<td>-0.3</td>
<td>2.9</td>
<td>2.9</td>
<td>5.2</td>
<td>6.6</td>
<td></td>
</tr>
<tr>
<td>Total Hedge Funds</td>
<td>0.0</td>
<td>6.1</td>
<td>4.3</td>
<td>-</td>
<td>-</td>
<td>4.0</td>
<td>May-13</td>
</tr>
<tr>
<td>HFRI Fund Weighted Composite Index</td>
<td>1.0</td>
<td>7.9</td>
<td>2.5</td>
<td>-</td>
<td>-</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>Total Private Equity1</td>
<td>4.9</td>
<td>16.0</td>
<td>10.4</td>
<td>9.3</td>
<td>6.9</td>
<td>2.5</td>
<td>Jan-04</td>
</tr>
<tr>
<td>Private Equity Benchmark</td>
<td>3.7</td>
<td>21.5</td>
<td>12.0</td>
<td>17.5</td>
<td>10.3</td>
<td>11.4</td>
<td></td>
</tr>
<tr>
<td>Total Real Estate</td>
<td>1.2</td>
<td>4.9</td>
<td>9.6</td>
<td>-</td>
<td>-</td>
<td>12.8</td>
<td>Aug-13</td>
</tr>
<tr>
<td>Real Estate Benchmark</td>
<td>1.5</td>
<td>5.0</td>
<td>9.9</td>
<td>-</td>
<td>-</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>Total Farmland2</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-2.2</td>
<td>1.7</td>
<td>9.7</td>
<td>9.2</td>
<td>Dec-06</td>
</tr>
<tr>
<td>NCREIF Cornbelt Index</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-1.3</td>
<td>5.2</td>
<td>11.1</td>
<td>10.5</td>
<td></td>
</tr>
</tbody>
</table>

1 The combined Adams Street Partners IRR at March 31, 2017 was 8.9%.
2 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, 2017.
(This page is left blank intentionally)
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.
The Operating Pool’s return during the second quarter was 0.4%, slightly ahead of its benchmark return for this period.

- All of the Operating Pool’s managers, except for one, approximated or outperformed their respective benchmarks during the quarter.

Over the trailing one-year period ending June 30, 2017, the Operating Pool returned 0.6% while outperforming the benchmark.

- All of the Operating Pool’s managers approximated or outperformed their respective benchmarks during the period.

### Market Value Change

<table>
<thead>
<tr>
<th>Quarter Ending June-2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>$2,039.2 M</td>
</tr>
<tr>
<td>Net Contributions</td>
<td>($271.4 M)</td>
</tr>
<tr>
<td>Gain/Loss</td>
<td>$7.6 M</td>
</tr>
<tr>
<td>Ending Market Value</td>
<td>$1,775.4 M</td>
</tr>
</tbody>
</table>

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.
(This page is left blank intentionally)
APPENDIX: MARKET ENVIRONMENT
## MARKET HIGHLIGHTS

### 2008-YTD 2017 Annual Returns of Key Indices

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonds</th>
<th>Emerging Markets</th>
<th>MLPs</th>
<th>Global REIT</th>
<th>Small Cap</th>
<th>Global REIT</th>
<th>Large Cap</th>
<th>Small Cap</th>
<th>Emerging Markets</th>
<th>Large Cap</th>
<th>Int'l</th>
<th>MLPs</th>
<th>Emerging Markets</th>
<th>Large Cap</th>
<th>Int'l</th>
<th>MLPs</th>
<th>Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5.2%</td>
<td>78.5%</td>
<td>35.9%</td>
<td>27.7%</td>
<td>38.8%</td>
<td>15.0%</td>
<td>1.4%</td>
<td>21.3%</td>
<td>18.4%</td>
<td>14.6%</td>
<td>7.7%</td>
<td>13.7%</td>
<td>5.8%</td>
<td>18.4%</td>
<td>13.8%</td>
<td>13.7%</td>
<td>7.2%</td>
</tr>
<tr>
<td>2009</td>
<td>-21.4%</td>
<td>76.4%</td>
<td>26.9%</td>
<td>19.6%</td>
<td>32.6%</td>
<td>13.7%</td>
<td>0.5%</td>
<td>18.3%</td>
<td>13.8%</td>
<td>8.7%</td>
<td>6.9%</td>
<td>18.3%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>9.3%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2010</td>
<td>-26.2%</td>
<td>58.2%</td>
<td>5.0%</td>
<td>21.1%</td>
<td>6.0%</td>
<td>17.1%</td>
<td>-0.3%</td>
<td>11.9%</td>
<td>9.3%</td>
<td>32.4%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>31.8%</td>
<td>13.7%</td>
<td>13.8%</td>
<td>13.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>2011</td>
<td>-33.8%</td>
<td>37.1%</td>
<td>2.1%</td>
<td>18.9%</td>
<td>-4.2%</td>
<td>27.6%</td>
<td>6.0%</td>
<td>-0.8%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>5.0%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2012</td>
<td>-36.9%</td>
<td>31.8%</td>
<td>4.2%</td>
<td>15.1%</td>
<td>9.0%</td>
<td>15.0%</td>
<td>4.8%</td>
<td>-0.8%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2013</td>
<td>-37.0%</td>
<td>27.2%</td>
<td>5.7%</td>
<td>15.1%</td>
<td>9.0%</td>
<td>16.0%</td>
<td>4.8%</td>
<td>-0.8%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2014</td>
<td>-43.4%</td>
<td>26.5%</td>
<td>7.7%</td>
<td>6.5%</td>
<td>9.0%</td>
<td>15.8%</td>
<td>4.8%</td>
<td>-0.8%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2015</td>
<td>-48.2%</td>
<td>11.5%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>9.0%</td>
<td>7.4%</td>
<td>3.4%</td>
<td>-4.4%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2016</td>
<td>-53.3%</td>
<td>5.7%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>9.0%</td>
<td>2.5%</td>
<td>3.4%</td>
<td>-4.4%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2017</td>
<td>-53.3%</td>
<td>5.7%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>9.0%</td>
<td>2.5%</td>
<td>3.4%</td>
<td>-4.4%</td>
<td>11.2%</td>
<td>19.6%</td>
<td>17.2%</td>
<td>13.7%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

**Note:** See disclosure section for a description of key indices.
GLOBAL EQUITIES PERFORMANCE

- Led by emerging markets, many areas of the global equity universe posted strong returns.
- International developed equities advanced on renewed confidence in the European economy.
- The highflying so-called “FAANG” stocks (Facebook, Amazon, Apple, Netflix and Google, now Alphabet) dominated the domestic equity markets representing a large percentage of the S&P 500’s positive returns; in the first half of 2017, the group, which accounts for approximately 13% of the index’s market cap, rocketed up 25% while the S&P 500 advanced just 9%.
- Such narrow leadership (meaning that a relatively small group of stocks accounts for most of the broad market’s gains) may represent a sign of market instability and has preceded previous peaks.

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

- U.S. Large: 18.4%
- U.S. Small: 13.8%
- Intl. Dev.: 9.3%
- Emerging: 5.0%

Data source: Bloomberg, L.P.; Data as of 6/30/2017
Although they dropped back in the final days, Long Treasuries posted a strong second quarter.
The U.S. Federal Reserve increased their fed funds rate by 25 basis points and announced plans to reduce the size of its balance sheet, which resulted in a flatter yield curve boosting the returns of longer duration fixed income securities.

Fixed Income Year-to-Date Performance

Data source: Bloomberg, L.P.; Data as of 6/30/2017
Downward pressure on inflation and a continued glut of supply led to a collapse in energy-related commodities as oil slipped into bear market territory.

After holding up in the first quarter despite falling energy prices, MLPs lost ground in the second quarter, although they ended on a positive note.

Data source: Bloomberg, L.P.; Data as of 6/30/2017
GLOBAL CURRENCY PERFORMANCE

- The U.S. dollar weakened in the second quarter as the euro strengthened on an improved economic outlook.
- A separate explanation of dollar weakness is that expectations for the pace of U.S. rate hikes have now slowed somewhat amid modestly less firmness in the outlook for domestic economic growth.
- Emerging market currencies advanced supporting the performance of U.S. dollar investments held in emerging market equities.
Event-driven strategies that generally perform well in low volatility regimes posted solid returns in the second quarter.

Macro/CTA strategies were among the laggards within diversifying strategies ending the quarter lower due to a sudden reversal in stocks, bonds and the U.S. dollar during the last week of June.

---

Diversifying Strategies Year-to-Date Performance (HFRI Indices)

- Equity Hedge: 6.1%
- Macro Total: 4.1%
- Macro (Systematic): 1.7%
- Macro (Discretionary): 0.8%
- FoF Conservative: -0.7%
- Event Driven: -2.4%

Data sources: HFRI, Bloomberg, L.P.; Date range: 12/31/2016 - 6/30/2017
(This page is left blank intentionally)
DISCLOSURES
• This presentation was prepared by Fund Evaluation Group, LLC (FEG), a federally registered investment adviser under the Investment Advisers Act of 1940, as amended, providing non-discretionary and discretionary investment advice to its clients on an individual basis. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Fund Evaluation Group, LLC, Form ADV Part 2A & 2B can be obtained by written request directed to: Fund Evaluation Group, LLC, 201 East Fifth Street, Suite 1600, Cincinnati, OH 45202 Attention: Compliance Department.

• The information herein was obtained from various sources. FEG does not guarantee the accuracy or completeness of such information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. FEG assumes no obligation to update this information, or to advise on further developments relating to it.

• FEG, its affiliates, directors, officers, employees, employee benefit programs and client accounts may have a long position in any securities of issuers discussed in this report.

• Index performance results do not represent any managed portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

• Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell any securities.

• Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time period or that investors will not incur losses.

• Past performance is not indicative of future results.

• This report is prepared for informational purposes only. It does not address specific investment objectives, or the financial situation and the particular needs of any person who may receive this report.
**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](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.mscibarra.com](http://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](http://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](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)