

Reported to the Board of Trustees
November 16, 2017

University of Illinois System

Second Quarter 2017 Investment Update
Prepared for the Board of Trustees

September 2017



Fund Evaluation Group[®]
investment advisors

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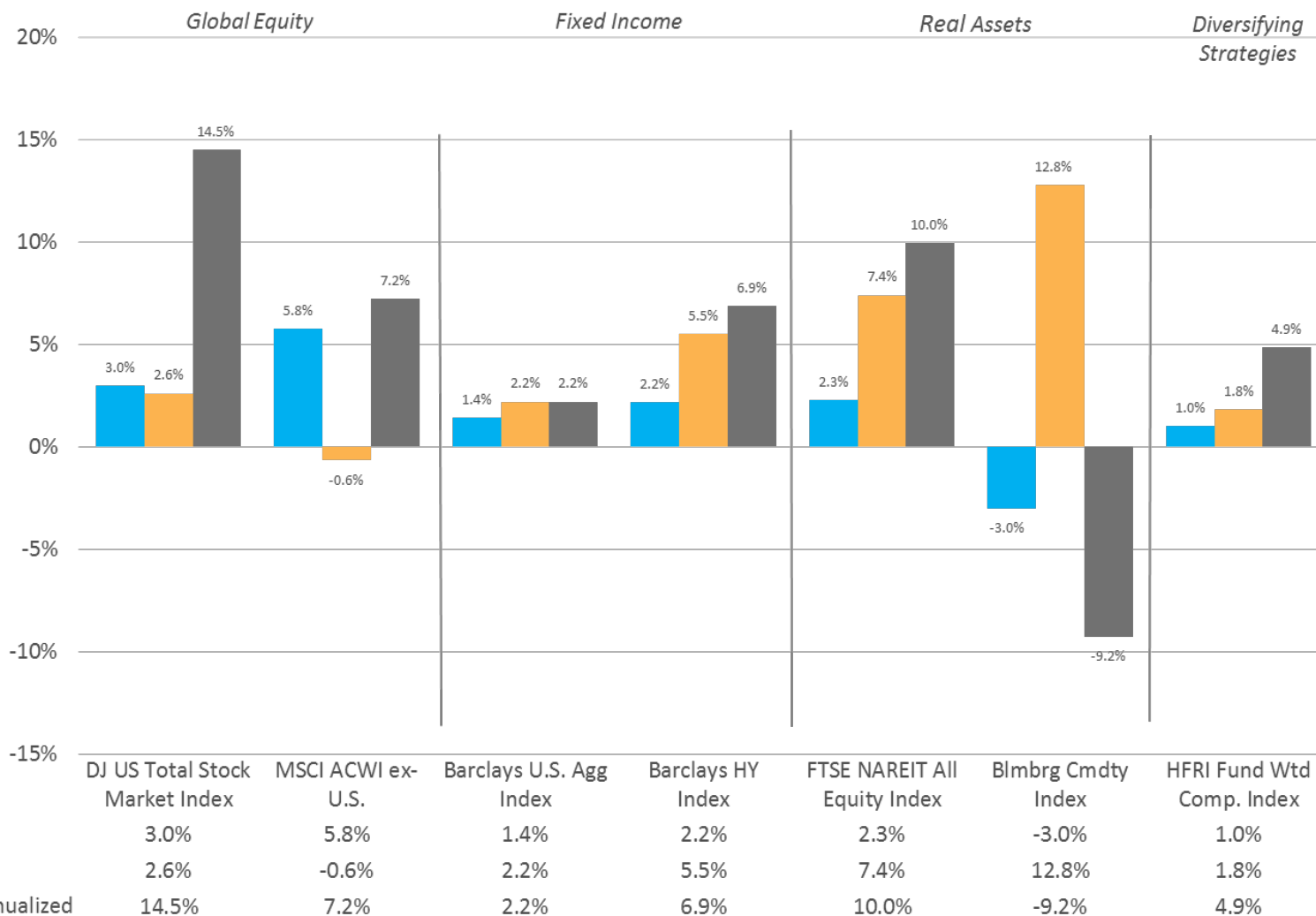
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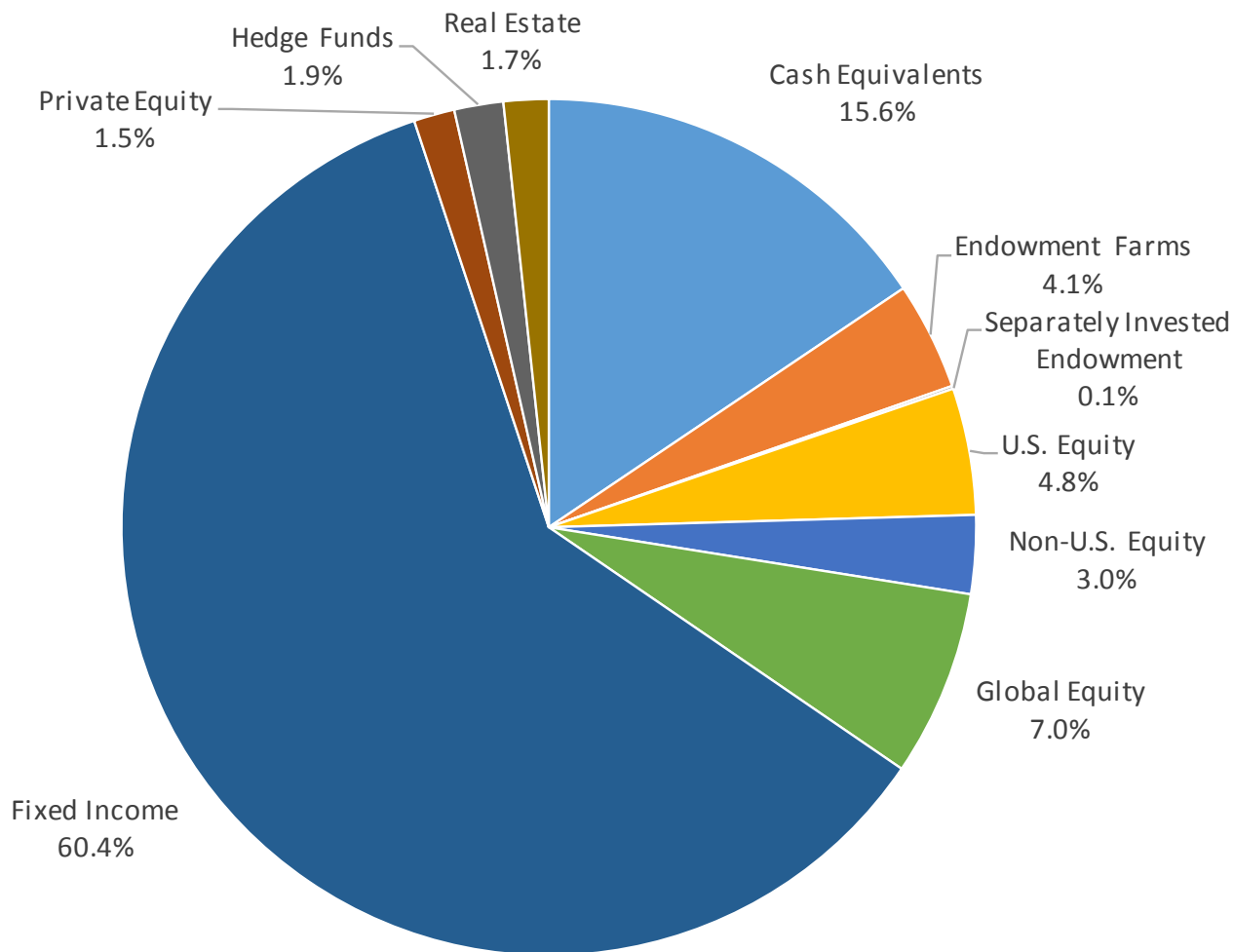
MARKET OVERVIEW AND SYSTEM ASSETS

Second Quarter 2017 – Market Returns



Data sources: Lipper and Hedge Fund Research

System Endowment & Operating Assets \$2.52 Billion as of 6/30/2017



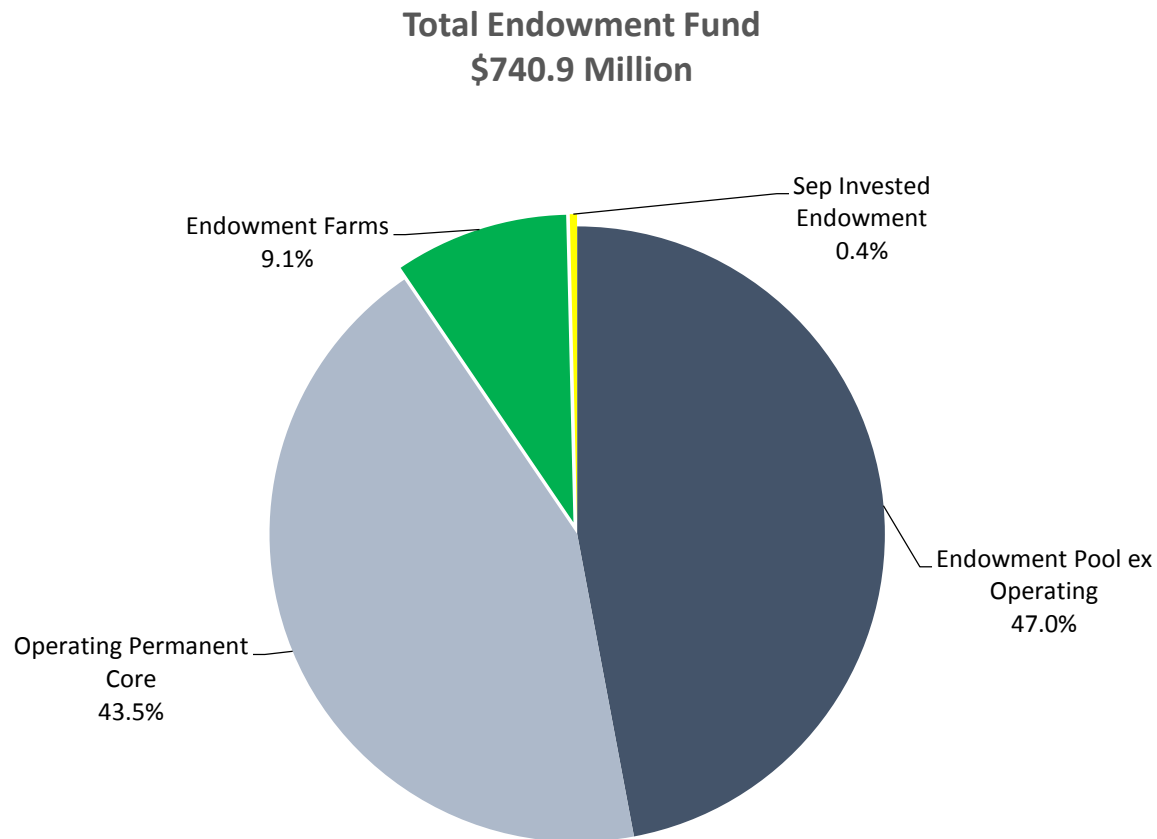
The sum of the allocation may not equal 100% due to rounding.

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ENDOWMENT FUND UPDATE: JUNE 30, 2017

TOTAL ENDOWMENT ASSETS BY TYPE: JUNE 30, 2017

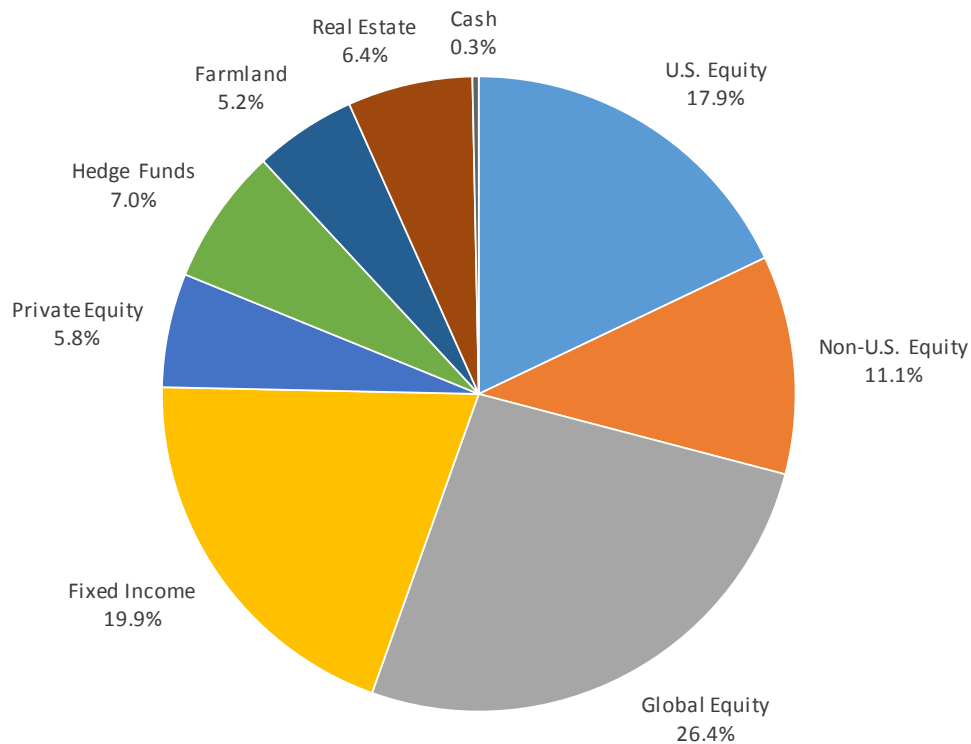


- The Total Endowment Fund was valued at \$740.9 million as of June 30, 2017.
- The Operating Pool maintains a permanent core investment in the Endowment Pool (light-blue pie slice); this is a long-term investment to enhance Operating Pool returns.
- The combined Endowment Pool is valued at \$670.6 million (dark- and light-blue pie slices) and is discussed further on the following slides.

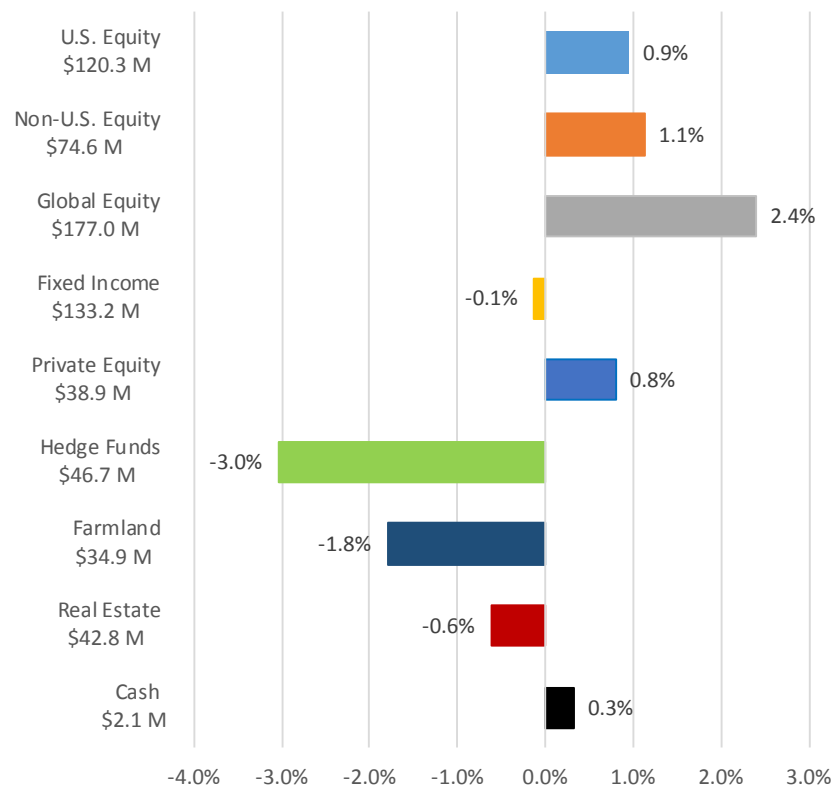
The sum of the allocation may not equal 100% due to rounding.

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

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



Over/Under Allocation to Interim Policy Targets

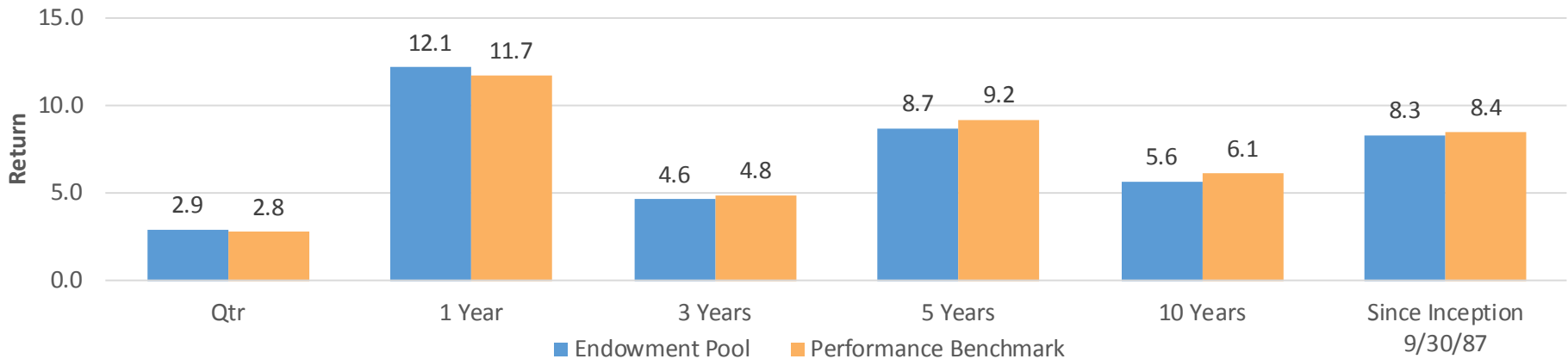


Note: Long-Term Policy Allocations: U.S. Equity 14%, Non-U.S. Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

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

TOTAL ENDOWMENT POOL PERFORMANCE (JUNE 30, 2017)

TOTAL POOL: \$670.6 MILLION



- 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.

Endowment Pool	Quarter Ending
Market Value Change	June-2017
Beginning Market Value	\$657.4 M
Net Contributions	(\$6.0 M)
Gain/Loss	\$19.1 M
Ending Market Value	\$670.6 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 (JUNE 30, 2017)

	Quarter ending Jun-2017	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool	2.9	12.1	4.6	8.7	5.6	8.3	Sep-87
Performance Benchmark	2.8	11.7	4.8	9.2	6.1	8.4	
Total U.S. Equity	2.5	19.5	8.0	14.1	7.3	9.2	Sep-87
DJ U.S. Total Stock Market Index	3.0	18.5	9.0	14.5	7.3	9.5	
Total Non-U.S. Equity	5.9	20.5	1.1	8.4	0.8	5.4	Sep-93
Non-U.S. Equity Benchmark	5.8	20.4	1.2	7.5	1.2	5.6	
Total Global Equity	4.3	19.0	3.9	9.9	-	9.9	Jun-12
Global Equity Benchmark	4.2	19.0	4.9	10.6	-	10.6	
Total Fixed Income	1.7	0.4	2.9	2.9	5.2	7.1	Sep-87
Bloomberg Barclays U.S. Aggregate	1.4	-0.3	2.5	2.2	4.5	6.6	
Total Hedge Funds	0.0	6.1	4.3	-	-	4.0	May-13
HFRI Fund Weighted Composite Index	1.0	7.9	2.5	-	-	3.7	
Total Private Equity¹	4.9	16.0	10.4	9.3	6.9	2.5	Jan-04
Private Equity Benchmark	3.7	21.5	12.0	17.5	10.3	11.4	
Total Real Estate	1.2	4.9	9.6	-	-	12.8	Aug-13
Real Estate Benchmark	1.5	5.0	9.9	-	-	13.1	
Total Farmland²	-0.4	-0.4	-2.2	1.7	9.7	9.2	Dec-06
NCREIF Cornbelt Index	-0.4	-0.4	-1.3	5.2	11.1	10.5	

¹The combined Adams Street Partners IRR at March 31, 2017 was 8.9%.

²Farmland 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.

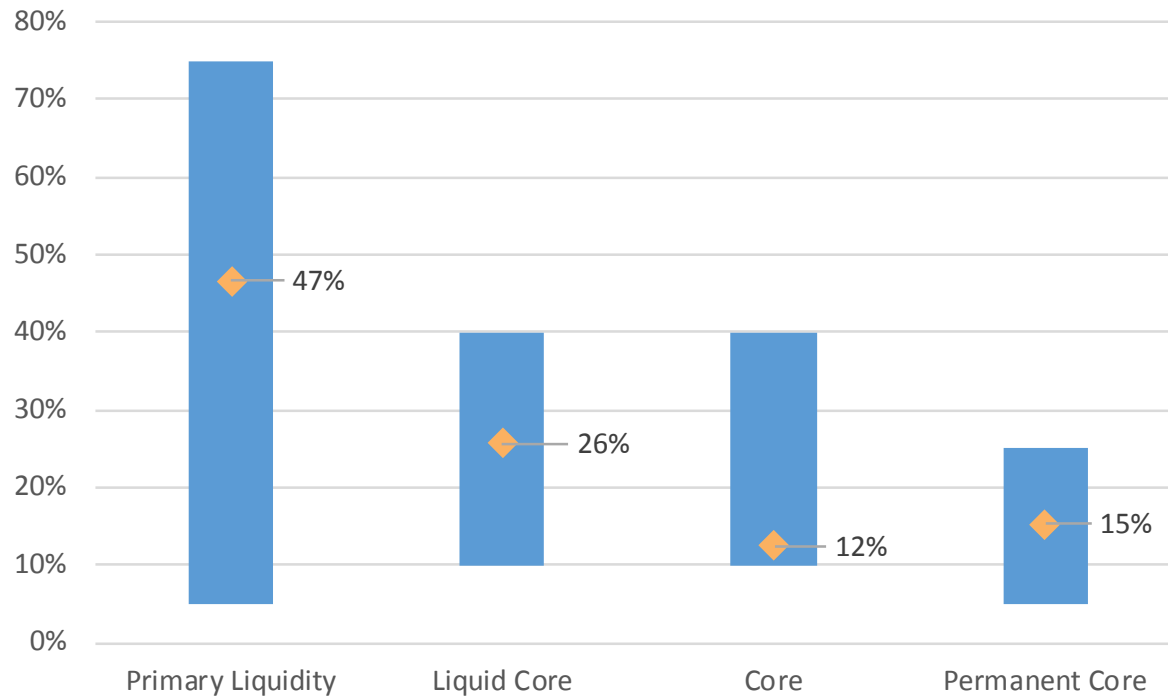
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OPERATING POOL UPDATE: JUNE 30, 2017

LIQUIDITY LAYERS: OPERATING POOL (JUNE 30, 2017)

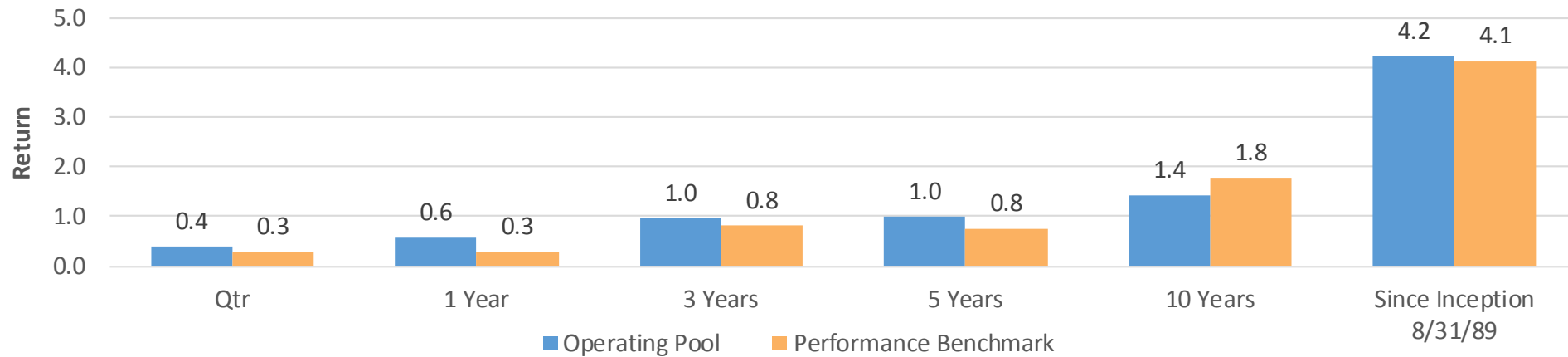
OPERATING POOL LIQUIDITY LAYERS AS OF JUNE 30, 2017



- 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 (JUNE 30, 2017)

TOTAL POOL: \$1.78 BILLION



- 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.

	Quarter Ending June-2017
Market Value Change	
Beginning Market Value	\$2,039.2 M
Net Contributions	(\$271.4 M)
Gain/Loss	\$7.6 M
Ending Market Value	\$1,775.4 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 HIGHLIGHTS

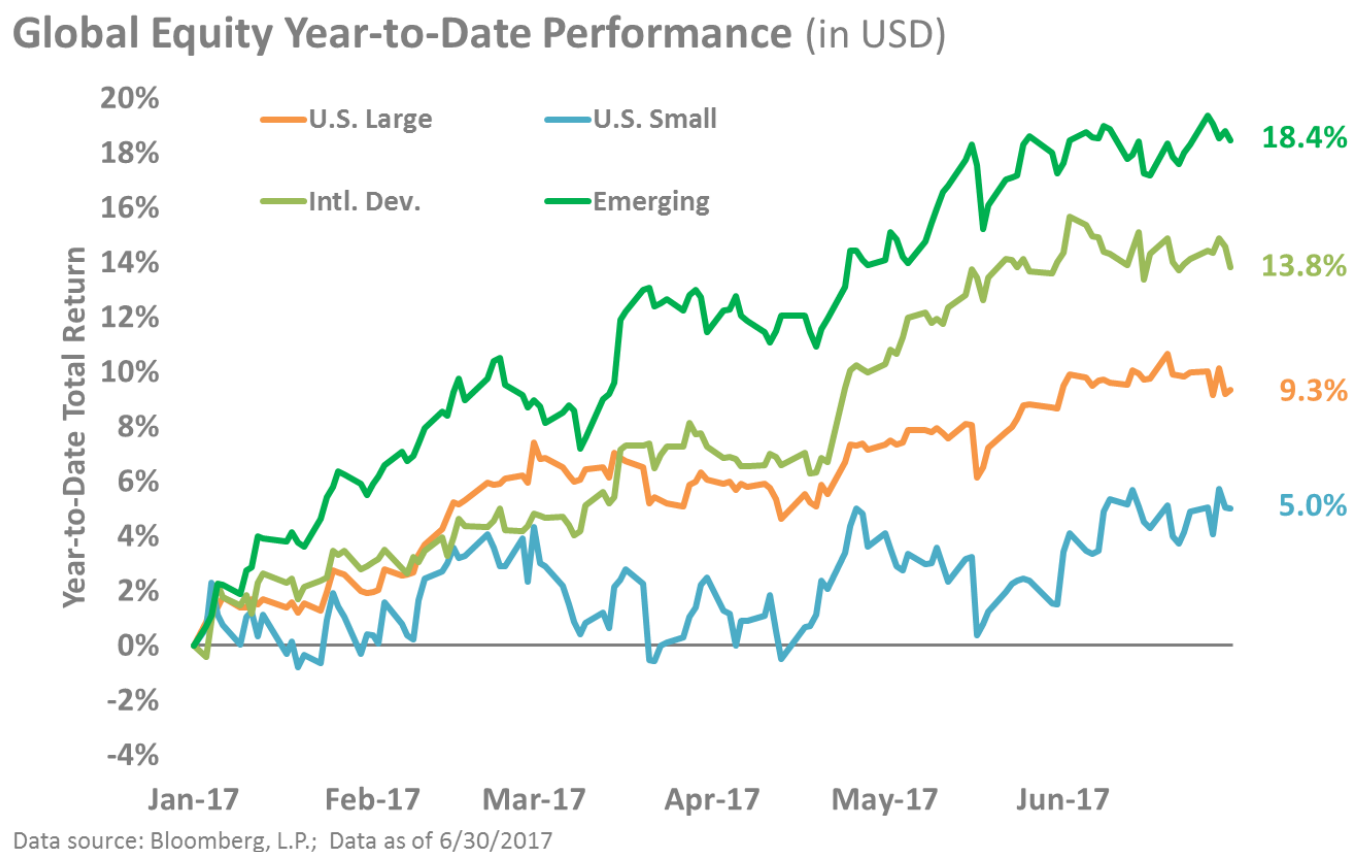
2008-YTD 2017 Annual Returns of Key Indices

2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017	5-year annual	10-year annual
Bonds 5.2%	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 18.4%	Large Cap 14.6%	High Yield 7.7%
Hedge Funds -21.4%	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 13.8%	Small Cap 13.7%	Large Cap 7.2%
High Yield -26.2%	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 9.3%	Int'l 8.7%	Small Cap 6.9%
Small Cap -33.8%	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 5.0%	Global REIT 7.5%	MLPs 5.8%
MLPs -36.9%	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%	High Yield 4.9%	High Yield 6.9%	Bonds 4.5%
Large Cap -37.0%	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%	Global REIT 4.8%	Emerging Markets 4.0%	Global REIT 2.0%
Int'l -43.4%	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%	Hedge Funds 3.1%	Hedge Funds 3.9%	Emerging Markets 1.9%
Global REIT -48.2%	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 2.3%	Bonds 2.2%	Int'l 1.0%
Emerging Markets -53.3%	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 -2.7%	MLPs 1.8%	Hedge Funds 0.9%

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.



FIXED INCOME PERFORMANCE

- 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

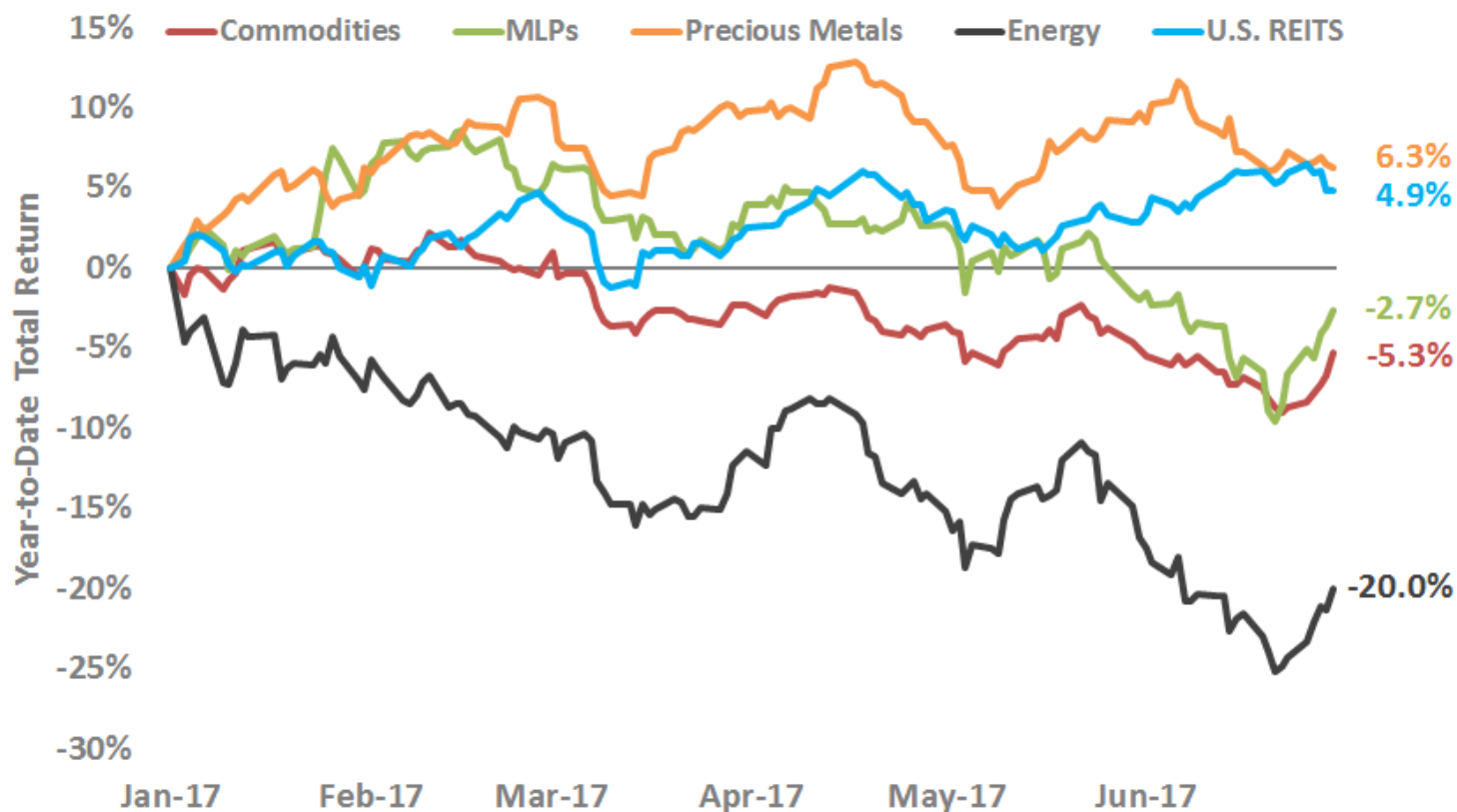


Data source: Bloomberg, L.P.; Data as of 6/30/2017

REAL ASSETS PERFORMANCE

- 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.

Real Assets Year-to-Date Performance

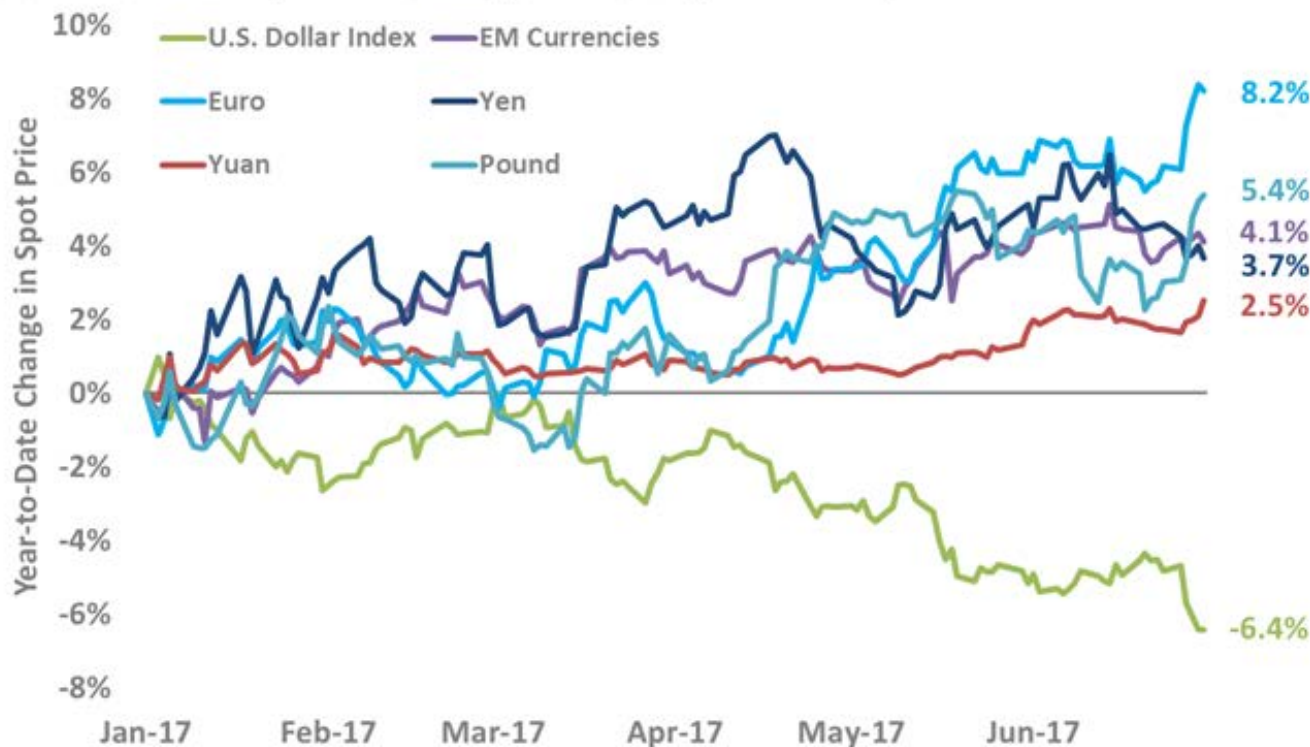


Data source: Bloomberg, L.P.; Data as of 6/30/2017

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.

Global Currency YTD Change in Spot (Base: USD)

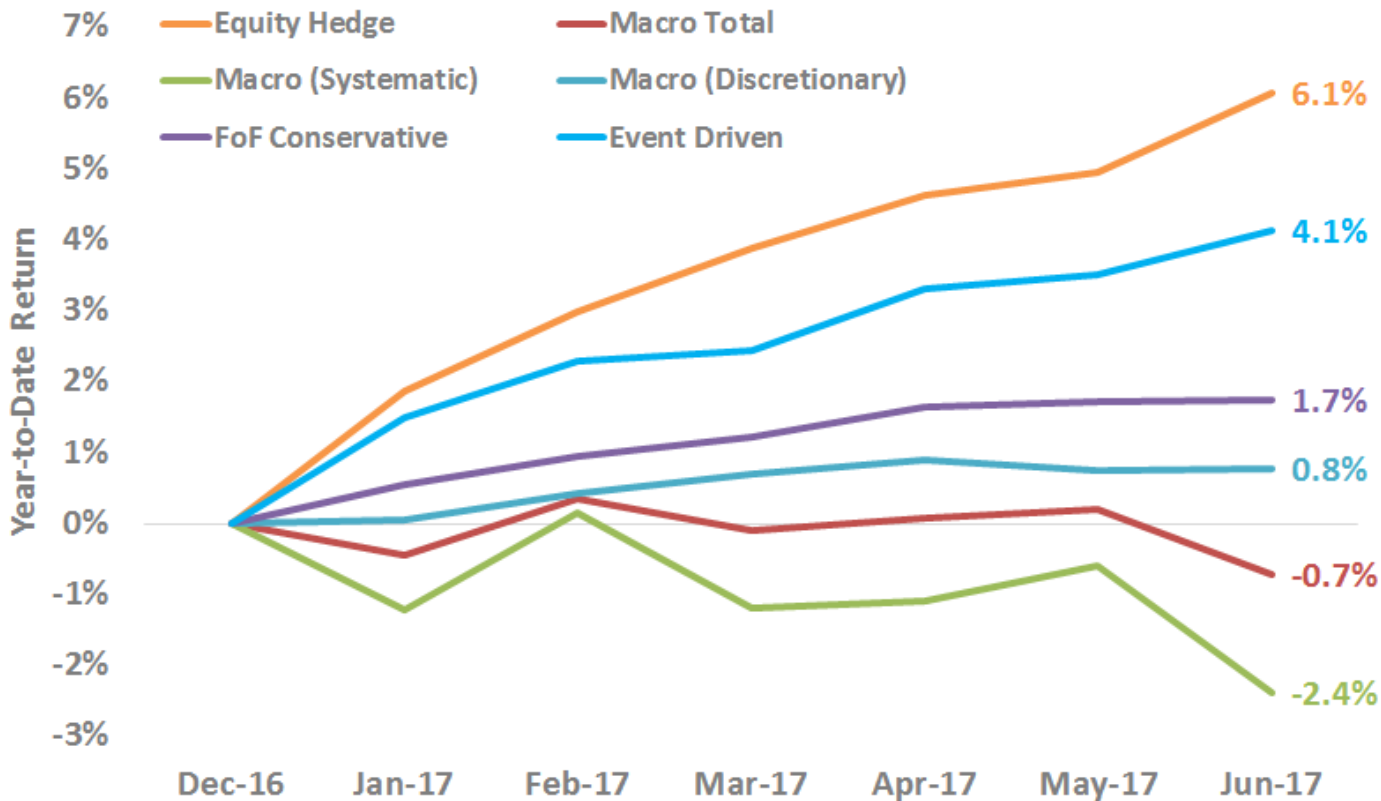


Data source: Bloomberg, L.P.; Data as of 6/30/2017

DIVERSIFYING STRATEGIES (HEDGE FUNDS) PERFORMANCE

- 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)



Data sources: HFRI, Bloomberg, L.P.; Date range: 12/31/2016 - 6/30/2017

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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

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

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

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