Reported to the Board of Trustees
September 14, 2012

University of Illinois
Second Quarter 2012 Investment Update

August 2012

Hewitt ennisknupp
An Aon Company

Table of Contents

Hewitt ennisknupp
An Aon Company

Market Overview and Total University Assets

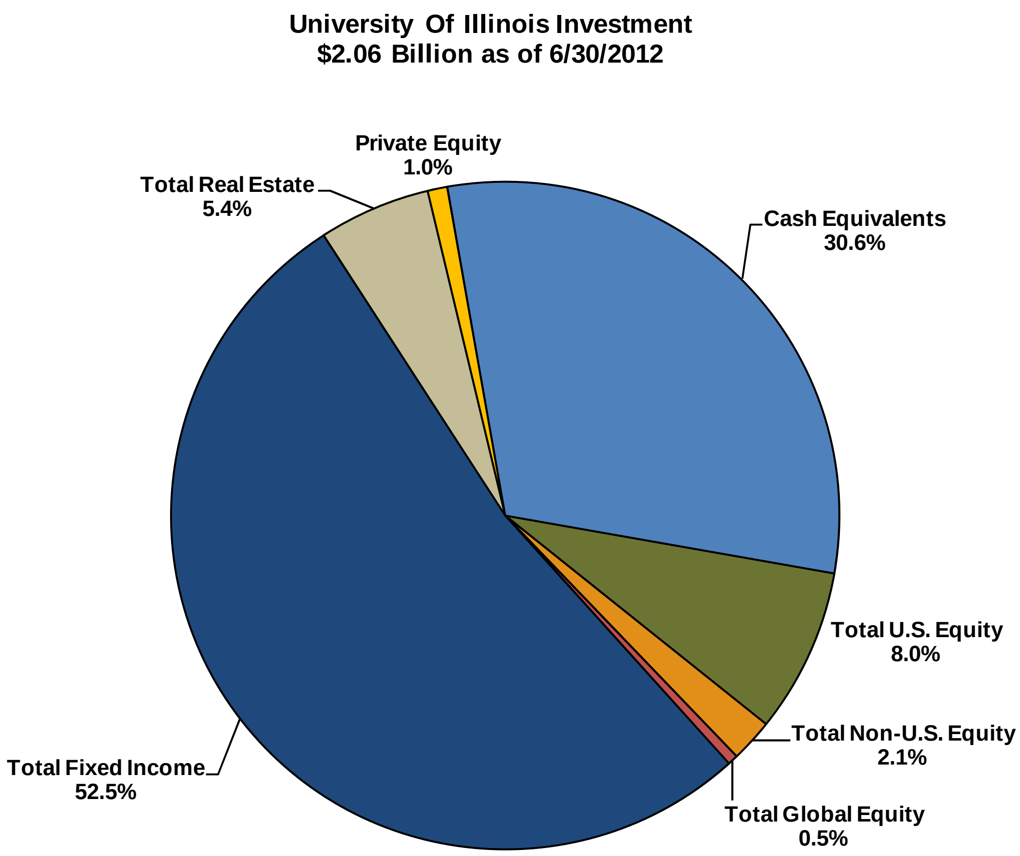
Hewitt ennisknupp
An Aon Company

Capital Markets Review
June 30, 2012

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	-3.1	9.4	4.0	16.9	0.6	6.1
MSCI All Country World ex-U.S. Index	-7.6	2.8	-14.6	7.0	-4.6	6.7
MSCI All Country World Index	-5.6	5.7	-6.5	10.8	-2.7	5.7
Barclays Capital Aggregate Bond Index	2.1	2.4	7.5	6.9	6.8	5.6
HFR Fund of Funds Index	-2.2	1.1	-4.4	2.2	-2.0	3.2
NCREIF ODCE Index	2.5	2.5	13.6	3.2	-1.3	5.4
NCREIF Cornbelt Index	24.9	24.9	24.9	15.3	14.8	---

- Financial markets reflected uncertainty over the outcome of the European debt crisis, as policy measures designed to provide short-term relief proved increasingly ineffective. Consumer spending fell for the third straight month while disappointing data from the U.S. labor market and manufacturing sector reduced investor risk appetite.
- Stocks sold off precipitously for much of the quarter, but rallied during June for a less negative net result. Large cap outperformed both small cap and mid cap equities during the second quarter.
- Non-US equity trailed US Equity over the trailing quarter and year periods.
- Most bonds gained in absolute terms during the quarter, helped by a sharp decline in Treasury yields as investors fled risky assets. An inadequate economic recovery helped fuel a flight to quality favoring Government bonds.

Total University Assets: June 30, 2012



Hewitt ennisknupp
An Aon Company

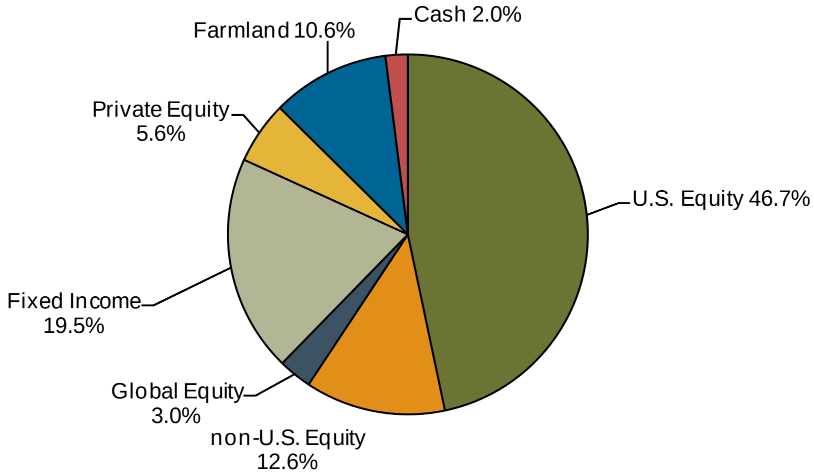
Endowment Fund Update: June 30, 2012

Hewitt ennisknupp
An Aon Company

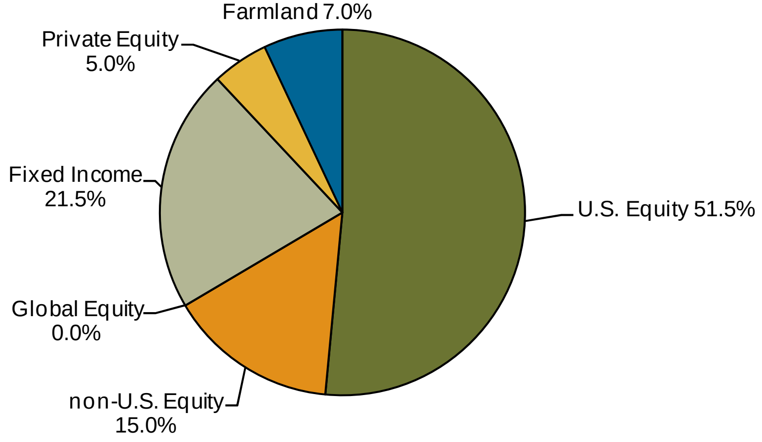
Market Value and Asset Allocation: Endowment Pool
June 30, 2012

Total Fund
$346,769,012

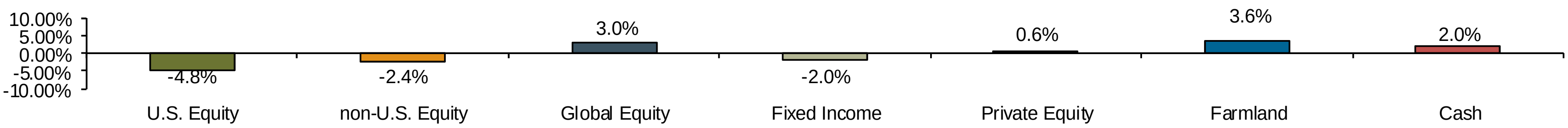
Actual Allocation



Interim Policy Allocation*

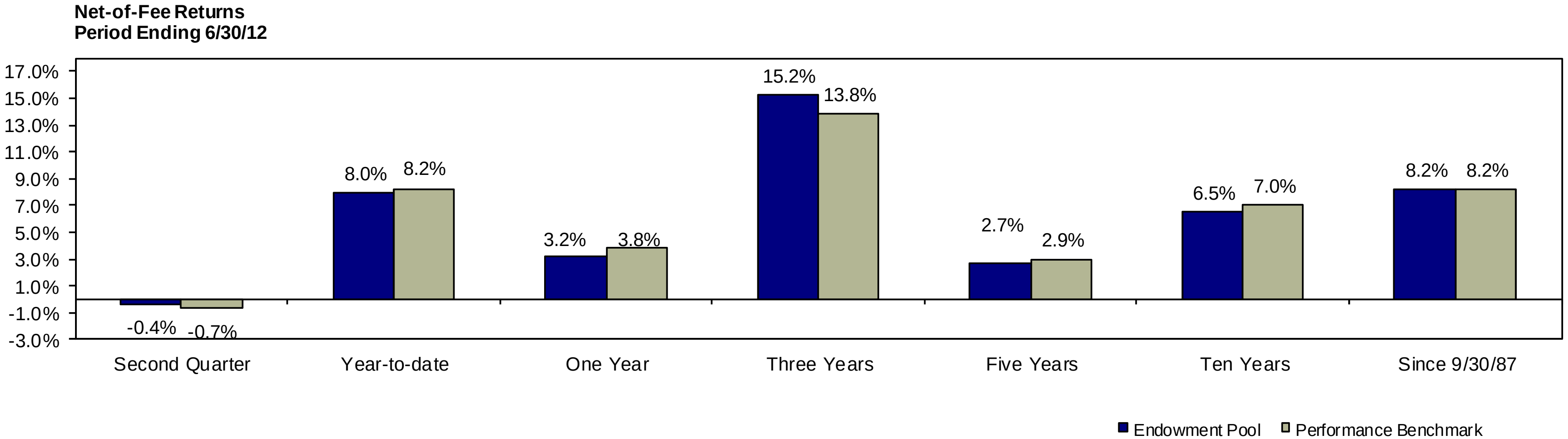


Actual vs. Policy



*Long Term Policy Allocations: US Equity 14%, Non-US 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
June 30, 2012

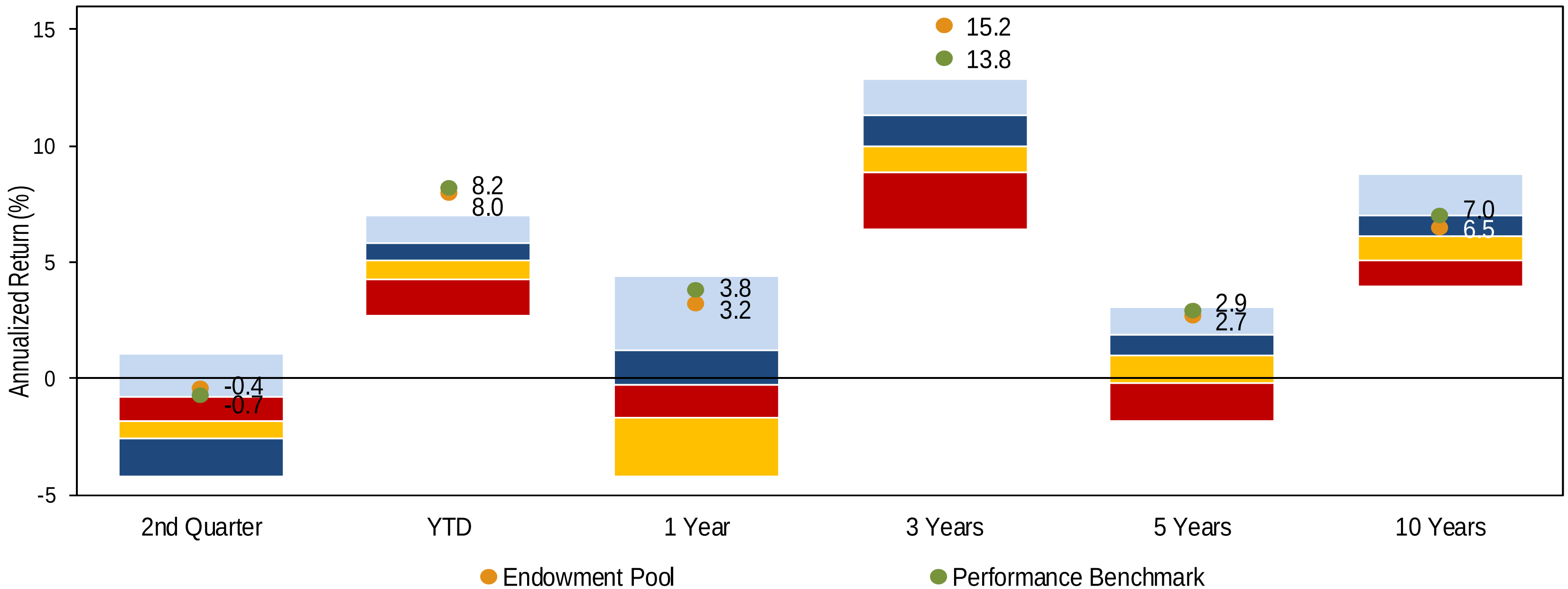


- For the second quarter, the Endowment Pool lost 0.4 percentage points, but outperformed the performance benchmark by 30 basis points. The U.S. Equity asset class outperformed the Dow Jones U.S. Total Stock Market Index by 10 basis points, largely the result of the relative outperformance by GMO and despite the relative underperformance of Ariel. During this same time period Templeton, the Pool's non-US equity manager, underperformed the MSCI All Country World ex-U.S. Index by 1.6 percentage points. In the Endowment's fixed income investments, Western matched its benchmarks in the second quarter. In June 2012, JPMorgan Core Fixed Income strategy was added to the Endowment Pool.

- Over the trailing one-year period, the Endowment Pool gained 3.2 percentage points and underperformed its benchmark by 60 basis points. Strong performance from GMO, which added 7.6 percentage points of relative value, as well as Western's outperformance of 50 basis points, offset the weak performance of Ariel for this period.

Hewitt ennisknupp
An Aon Company

Peer Rankings: Endowment Pool
June 30, 2012



Returns/Ranks	2nd Quarter		YTD		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	-0.4	17	8.0	2	3.2	8	15.2	1	2.7	11	6.5	37
Benchmark	-0.7	22	8.2	2	3.8	6	13.8	2	2.9	9	7.0	27

- Over the trailing one-, three- and five-year time periods, the returns of the University of Illinois' Endowment Pool have ranked in the top quartile of the BNY Mellon Endowment Fund and Foundation Universe returns.
- Over the trailing one- and three- year time periods, the returns of the University's Endowment Pool has ranked in the *top 10%* of this universe.

Asset Class Performance
June 30, 2012

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**-0.4**	**8.0**	**3.2**	**15.2**	**2.7**	**6.5**	**8.2**
Performance Benchmark	-0.7	8.2	3.8	13.8	2.9	7.0	8.2
Total U.S. Equity	**-3.0**	**9.0**	**3.9**	**17.5**	**0.9**	**5.9**	**8.3**
Dow Jones U.S. Total Stock Market Index	-3.1	9.4	4.0	16.9	0.6	6.1	8.5
Total Non-U.S. Equity	**-9.2**	**0.0**	**-17.0**	**4.3**	**-6.3**	**4.8**	**4.7**
MSCI All Country World ex-U.S. Index	-7.6	2.8	-14.6	7.0	-4.6	6.7	5.0
Total Fixed Income	**2.1**	**5.3**	**8.0**	**14.7**	**7.5**	**6.2**	**7.9**
Barclays Aggregate Bond Index	2.1	2.4	7.5	6.9	6.8	5.6	7.5
Total Private Equity(1)	**1.6**	**3.2**	**3.7**	**8.3**	**2.6**	**---**	**-2.5**
Private Equity Benchmark	-2.4	11.0	7.1	20.4	3.7	---	8.4
Total Farmland (2)	**21.9**	**21.9**	**21.9**	**24.9**	**18.3**	**---**	**18.3**
NCREIF Cornbelt Index	24.9	24.9	24.9	15.3	14.8	---	**14.8**

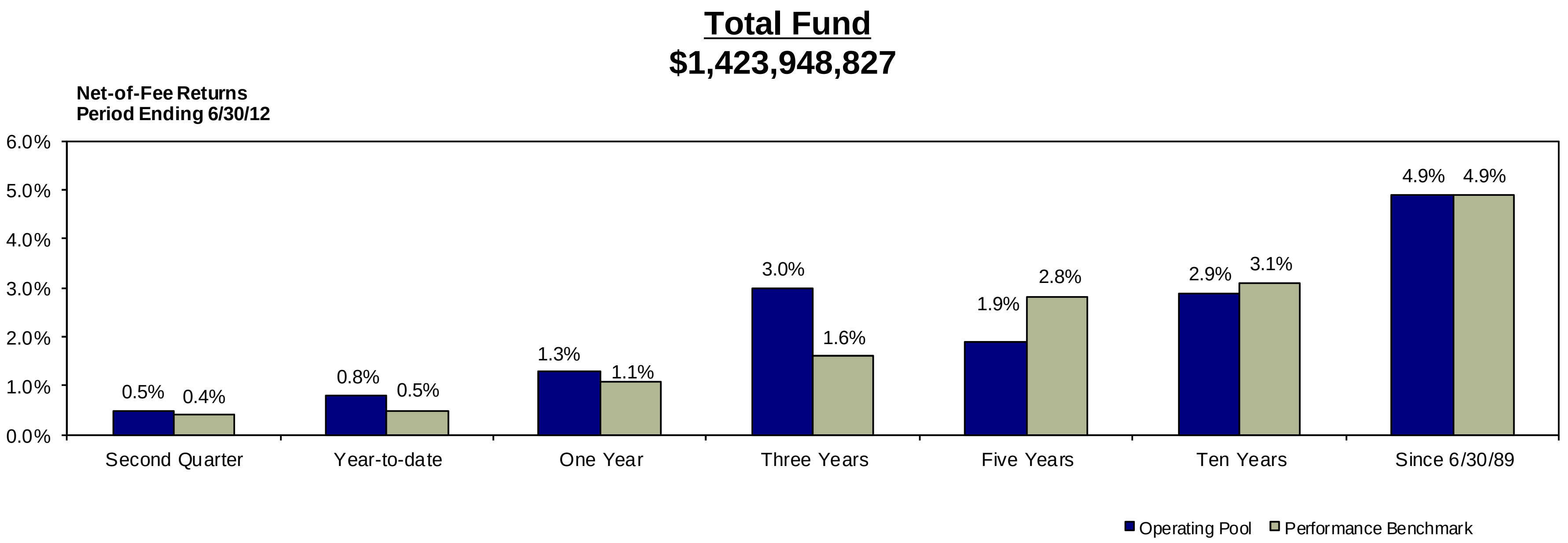
(1) The combined Adams Street Partners IRR at quarter end was 5.0%.
(2) Farmland is valued annually on December 31st, and is reported on a six month lag. As such, the one year return reflected above is the one-year return for Farmland as of December 31, 2011

Hewitt ennisknupp
An Aon Company

Operating Pool Update: June 30, 2012

Hewitt ennisknupp
An Aon Company

Total Fund Performance: Operating Pool
June 30, 2012



- The Operating Pool returned 50 basis points during the second quarter, beating the benchmark return for this time period by 10 basis points. Active management drove the relative outperformance of the portfolio, with Western Asset Management outpacing its benchmark by 40 basis points with a 0.6 percent return during the quarter. Neuberger Berman gained 40 basis points relative to the benchmark for the quarter, due to security selection. Positive absolute and relative returns from the short duration managers, IR+M, Galliard, and Wells Capital also had a positive effect.
- For the one-year period ending June 30, 2012, the Operating Pool outperformed the Performance Benchmark by 18 basis points, returning 1.3 percentage points.

Hewitt ennisknupp
An Aon Company

Appendix:

Market Environment

Market Highlights

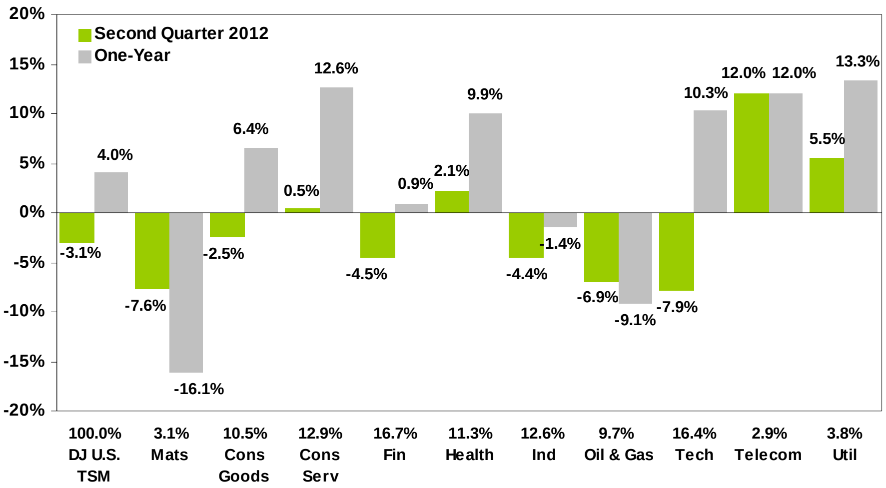
Returns of the Major Capital Markets						
			Annualized Periods Ending 6/30/2012			
	Second Quarter	Year-to-Date	1-Year	3-Year	5-Year	10-Year
Equity						
MSCI All Country World IMI	-5.7%	5.8%	-6.9%	11.3%	-2.4%	6.2%
MSCI All Country World	-5.6%	5.7%	-6.5%	10.8%	-2.7%	5.7%
Dow Jones U.S. Total Stock Market	-3.1%	9.4%	4.0%	16.9%	0.6%	6.1%
Russell 3000	-3.1%	9.3%	3.8%	16.7%	0.4%	5.8%
S&P 500	-2.8%	9.5%	5.4%	16.4%	0.2%	5.3%
Russell 2000	-3.5%	8.5%	-2.1%	17.8%	0.5%	7.0%
MSCI All Country World ex-U.S. IMI	-7.8%	2.9%	-14.8%	7.4%	-4.5%	7.2%
MSCI All Country World ex-U.S.	-7.6%	2.8%	-14.6%	7.0%	-4.6%	6.7%
MSCI EAFE	-7.1%	3.0%	-13.8%	6.0%	-6.1%	5.1%
MSCI EAFE Index (100% Hedged)	-6.4%	2.3%	-11.1%	1.7%	-9.6%	-0.1%
MSCI Emerging Markets	-8.9%	3.9%	-15.9%	9.8%	-0.1%	14.1%
Fixed Income						
Barclays Global Aggregate	0.6%	1.5%	2.7%	6.0%	6.7%	6.5%
Barclays Aggregate Bond	2.1%	2.4%	7.5%	6.9%	6.8%	5.6%
Barclays Long Gov't	10.3%	4.2%	31.4%	13.5%	11.9%	8.9%
Barclays Long Credit	5.0%	5.8%	19.2%	15.1%	10.0%	8.6%
Barclays Long Gov't/Credit	7.3%	5.0%	24.6%	14.4%	11.0%	8.7%
Barclays High Yield	1.8%	7.3%	7.3%	16.3%	8.4%	10.2%
SSB Non-U.S. WGBI	0.2%	0.0%	0.4%	5.1%	7.4%	7.1%
JP Morgan EMBI Global (Emerging Markets)	2.5%	7.4%	10.9%	13.5%	9.4%	11.7%
Commodities						
Dow Jones UBS Commodity	-4.5%	-3.7%	-14.3%	3.5%	-3.7%	5.0%
Goldman Sachs Commodity	-12.4%	-7.2%	-10.7%	2.1%	-5.5%	3.4%
Hedge Funds						
HFR Fund-Weighted Composite Index	-2.7%	1.9%	-4.2%	5.2%	1.1%	6.1%
HFR Fund of Funds Index	-2.2%	1.1%	-4.4%	2.2%	-2.0%	3.2%
Real Estate						
NAREIT U.S. Equity REITS Index	3.7%	14.9%	12.9%	32.4%	2.6%	10.3%
NCREIF ODCE[1]	2.5%	2.5%	13.6%	3.2%	-1.3%	5.4%
Private Equity						
Thomson Reuters VentureXpert[2]	4.6%	9.4%	9.4%	14.2%	6.7%	9.8%
Infrastructure						
Macquarie Global Infrastructure - North America	3.5%	3.5%	13.4%	17.5%	4.5%	10.1%

[1] The benchmark is as of 3/31/2012
[2] The benchmark is as of 12/31/2011

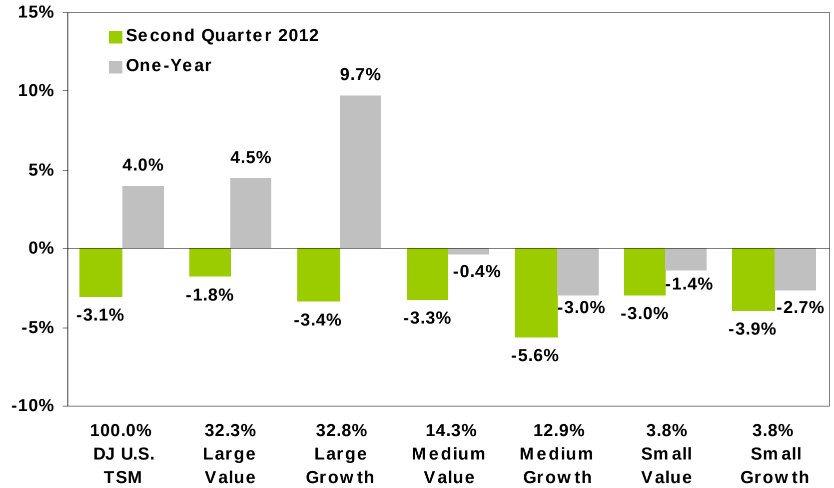
- U.S. economic growth, as well as job growth, slowed during the second quarter.
- European economic data remained weak throughout the second quarter.
- Europe's strongest economy, Germany, fell victim to waning economic conditions while its unemployment rate rose to 6.8%.
- Equity markets rebounded during the last week of June mainly due to the extension of Operation Twist, an expected rate cut by the European Central Bank, and market anticipation of quantitative easing by the Bank of England.
- Non-U.S. equity significantly underperformed U.S. equity.
- The 10-year U.S. Treasury approached a record low yield of 1.44% at the beginning of June.
- The Spanish 10-year yield rose above 7.0% amid concerns over the deepening European debt crisis.
- Long duration bonds outperformed shorter duration bonds.
- Commodity indices experienced negative returns during the quarter, primarily stemming from lower energy prices.

U.S. Equity Markets

SECTOR RETURNS
AS OF 6/30/2012



STYLE RETURNS
AS OF 6/30/2012



- Sluggish growth in the U.S., China, and Germany created downward momentum in equity markets during the second quarter.
- Consumer spending fell for the third straight month while disappointing data from the U.S. labor market and manufacturing sector reduced investor risk appetite.
- The Dow Jones U.S. Total Stock Market fell 3.1% for the quarter, but remained positive over the one-year period.
- Technology, materials, and oil & gas were among the worst performing sectors posting returns of -7.9%, -7.6%, and -6.9%, respectively. Telecommunications and utilities were markets leaders producing returns of 12.0% and 5.5%, respectively, during the second quarter.
- Large cap outperformed both small cap and mid cap helping the Dow Jones U.S. Total Stock Market Index to remain positive over the one-year period.

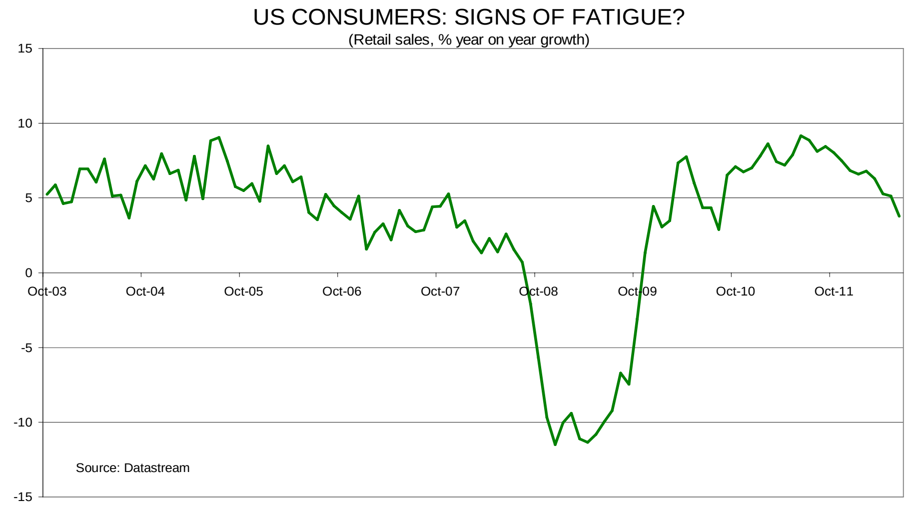
US Economy: A loss of speed

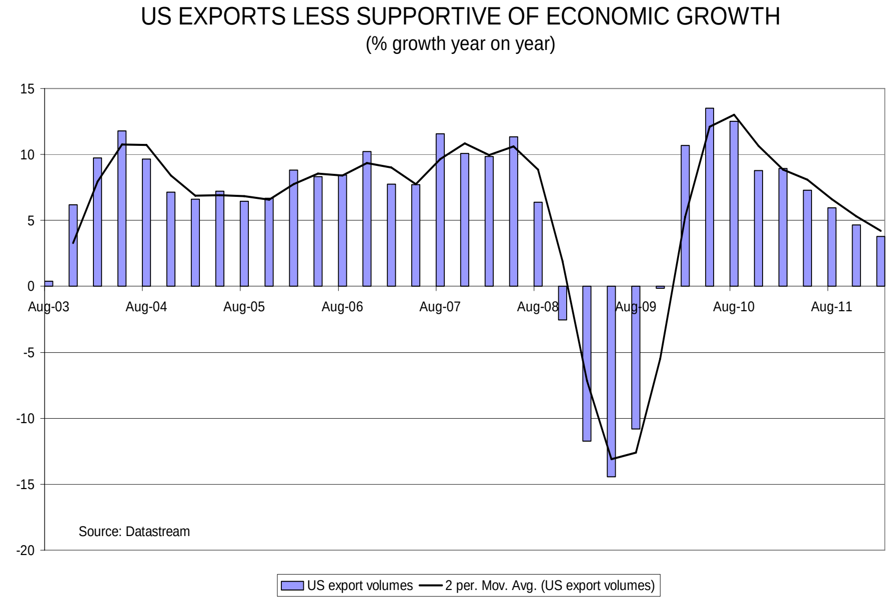
What looked like a minor hiccup a couple of months ago has now turned into a much more concerning loss of speed when it comes to the pace of growth in US economic activity.

Growth rates have slowed from the pace seen at the start of the year. Underlying GDP growth rates appear to be at levels (well under 2%) that will not lead to a further reduction in unemployment rates that still remain above 8%.

Two important areas of spending show this clearly. Retail sales – an indicator of consumer spending - has softened markedly (see first chart), with an outright fall in spending through May and June.

Partly as a result of weakness in the global economy, US export growth has also been struggling, with export volumes having now slowed to year on year growth of under 5%.





Hewitt ennisknupp
An Aon Company

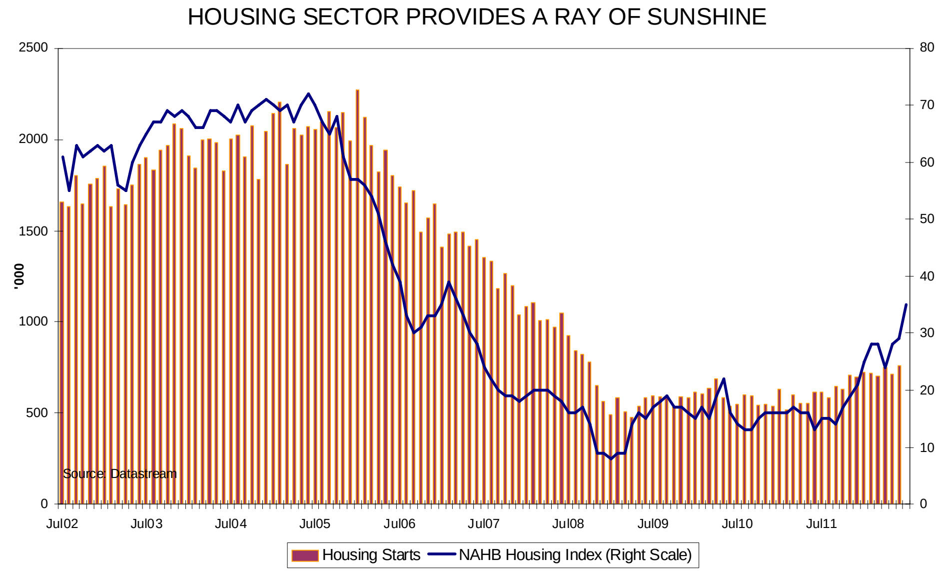
Still limited risk of recession

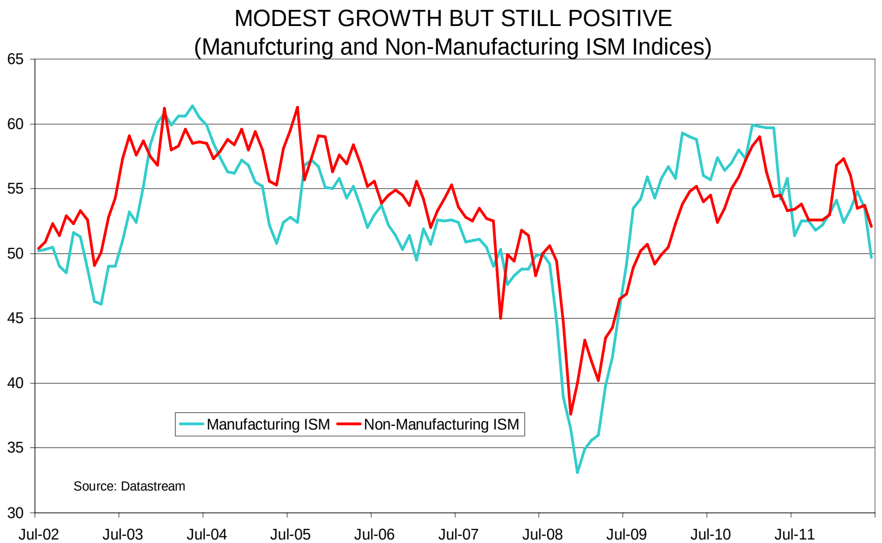
Though growth has weakened, little in the economic data suggests any imminent risk of recession.

One of the supports, albeit modest, is a stabilisation of the housing market. The NAHB index suggests that house builders view the market as having turned clearly for the better. Housing starts have also picked up a little, though both series are still at low levels compared to the pre-credit crisis peaks (see first chart).

The most reliable gauge of economic data that appears on a reasonably timely basis suggests that economic growth is staying positive. Services really drive the US economy and the service sector purchasing managers' ISM index is still well above the 50 level that marks the dividing line between expansion and contraction (second chart).

Risks of a worse economic outcome are not trivial however. The fiscal cliff is the major domestic headwind – a failure to prevent significant fiscal tightening is a major risk to the outlook.

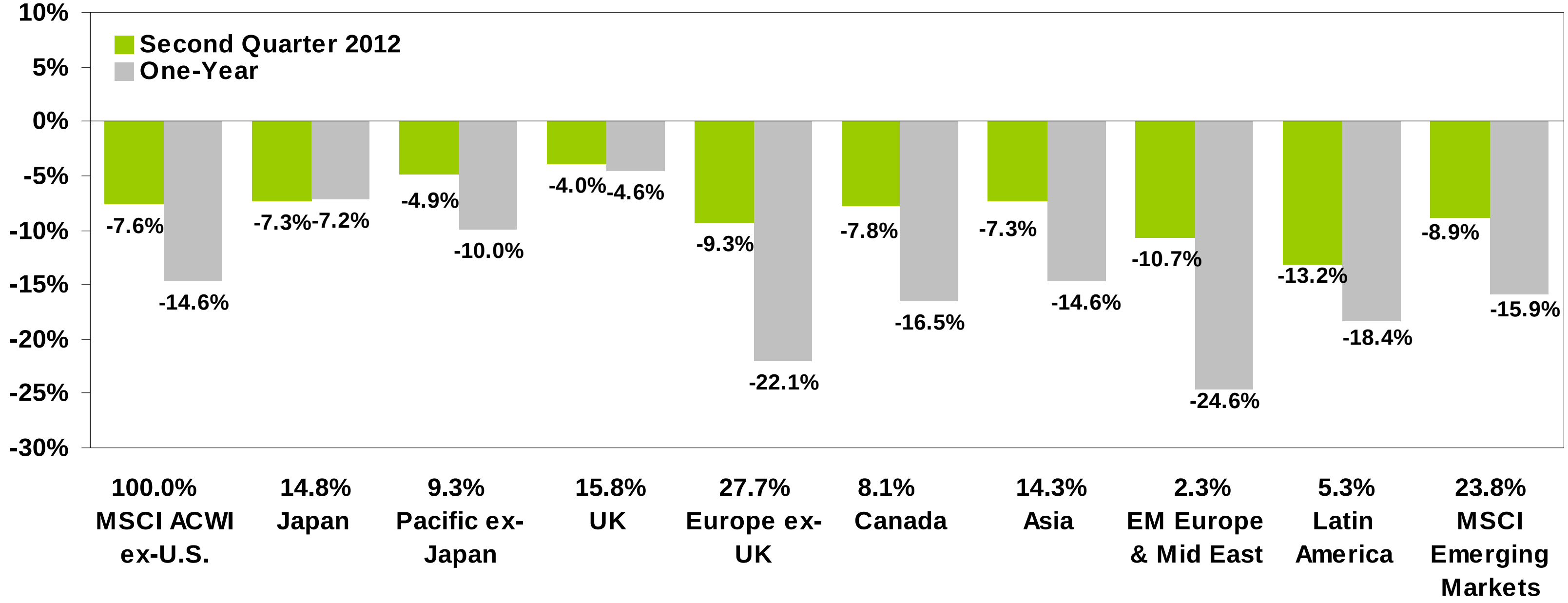




Hewitt ennisknupp
An Aon Company

Non-U.S. Equity Markets

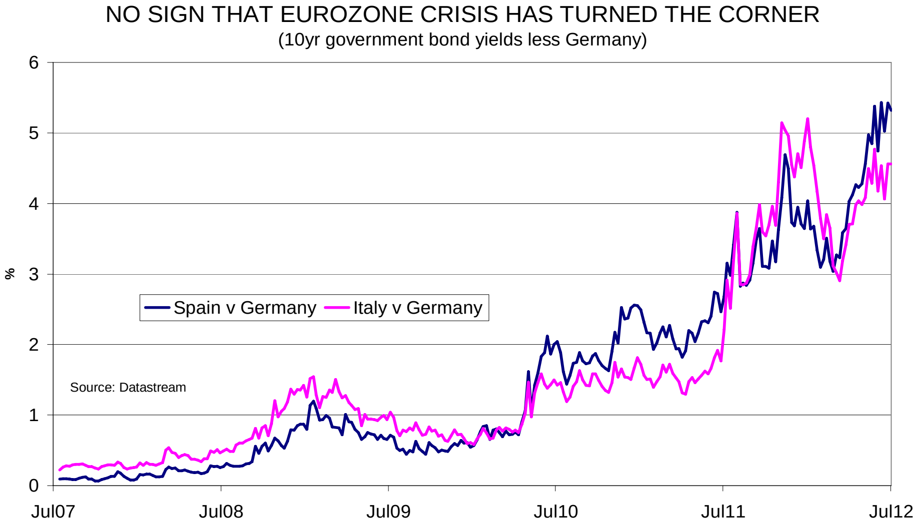
COUNTRY / REGION RETURNS
As of 6/30/2012



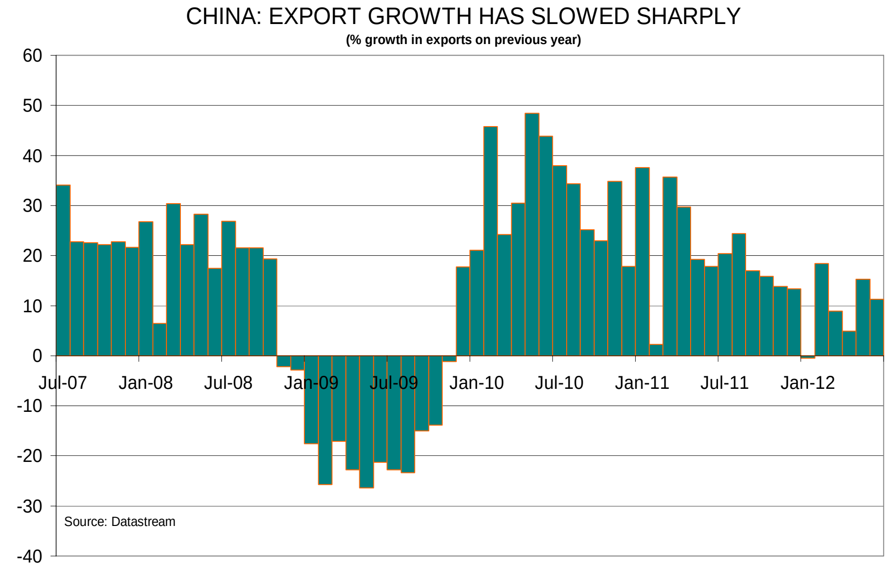
- A slower than expected recovery in Europe, India, and China kept non-U.S. equity markets negative during the second quarter.
- Disappointing economic data out of Germany, France and Spain resulted in lower second quarter returns of -12.4%, -9.0% and -12.5%, respectively.
- Latin America fell sharply over the quarter and the one-year period.
- EM Europe was the worst performing region over the one-year period.

Weak external economic conditions and the Eurozone crisis are headwinds

External economic and financial conditions continue to be very tough. The Eurozone crisis, which has induced a recession in the European economy, is not getting much better. Yields on Spanish and Italian bonds continue to show rises relative to those in safe-haven Germany or the UK (see first chart).



Emerging economies are also not performing as the locomotive to the global economy seen in the 2008-11 period. China's economic growth rates have slipped to under 8% from well into double digit levels. China's export growth has slowed markedly, reflecting weakness in its major markets (see second chart).



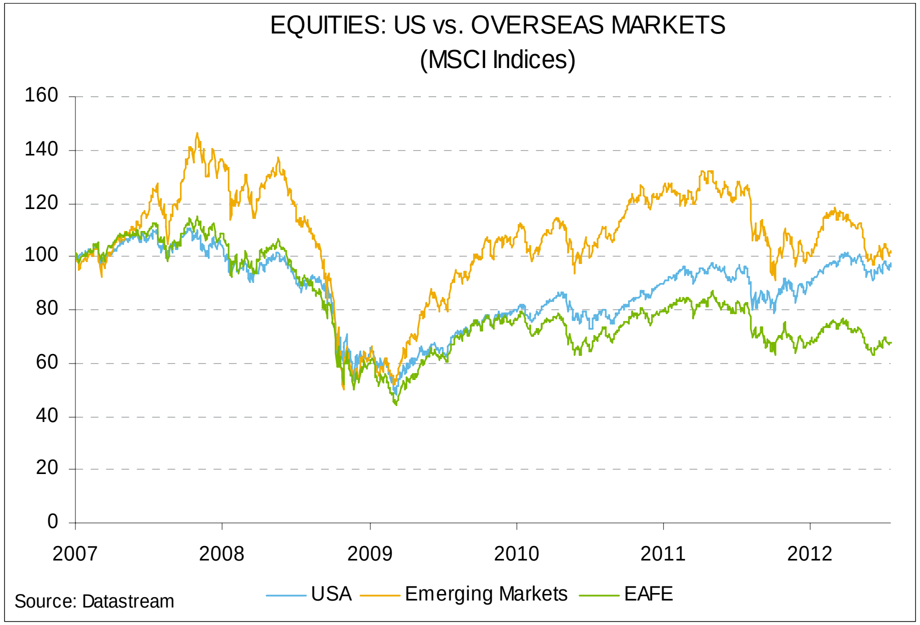
The Eurozone crisis remains the pre-eminent threat to the US and global economy. If left to worsen, a chaotic and highly markets-damaging economic scenario could result.

Equity Markets: US, EAFE and Emerging Markets

The US outperformance lead over other markets was partly masked by the weakness of the US dollar earlier, but as the chart makes clear, its performance against both emerging markets and EAFE has been very strong in relative terms through 2011/12.

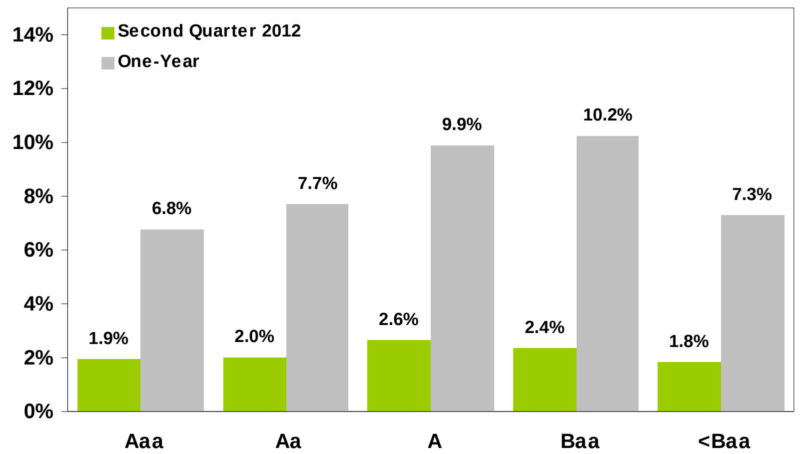
A growing valuation gap has now opened up in favour of EAFE and emerging markets relative to the US. This points to the US performance lead coming under pressure.

However, a catch-up by EAFE or emerging markets are unlikely straight away. The Eurozone crisis and problems in the major emerging economies continue to help the US.



U.S. Fixed Income Markets

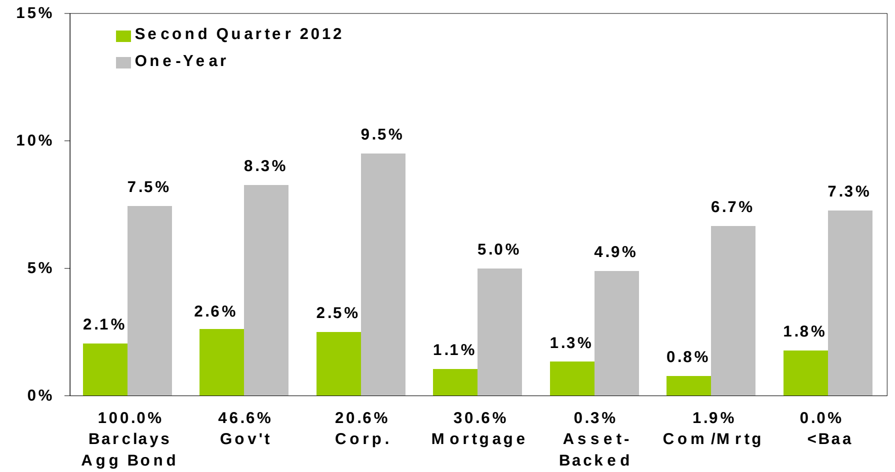
RETURNS BY QUALITY
AS OF 6/30/2012



Source: Barclays Live

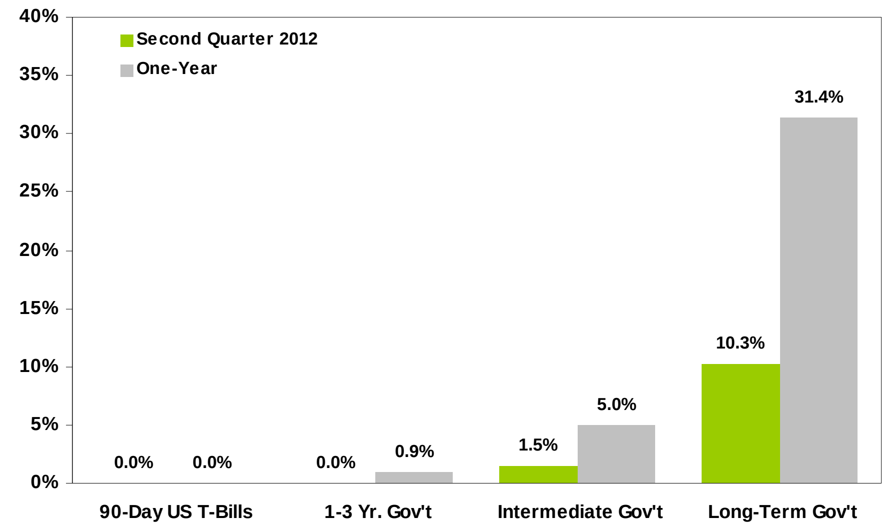
- An inadequate economic recovery helped fuel a flight to quality favoring Government bonds.
- Long duration outperformed intermediate and short-term bonds.
- Long-term government bonds remained the strongest performing sector over the one-year period.
- Government and corporate bonds outperformed their peers during the quarter and the one-year period.
- Investment grade outperformed high-yield during the quarter and one-year period.

SECTOR RETURNS
AS OF 6/30/2012



Source: Barclays Live

RETURNS BY MATURITY
AS OF 6/30/2012



Source: Barclays Live

Treasury yields plunge again, curve flattening

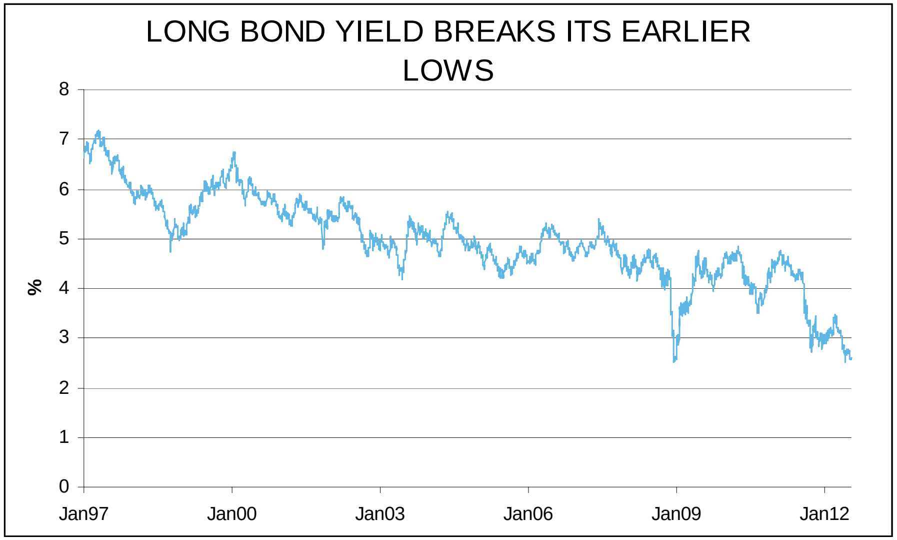
The US long bond yield has now broken its post Lehman lows, marking another wave of significant Treasury bond gains.

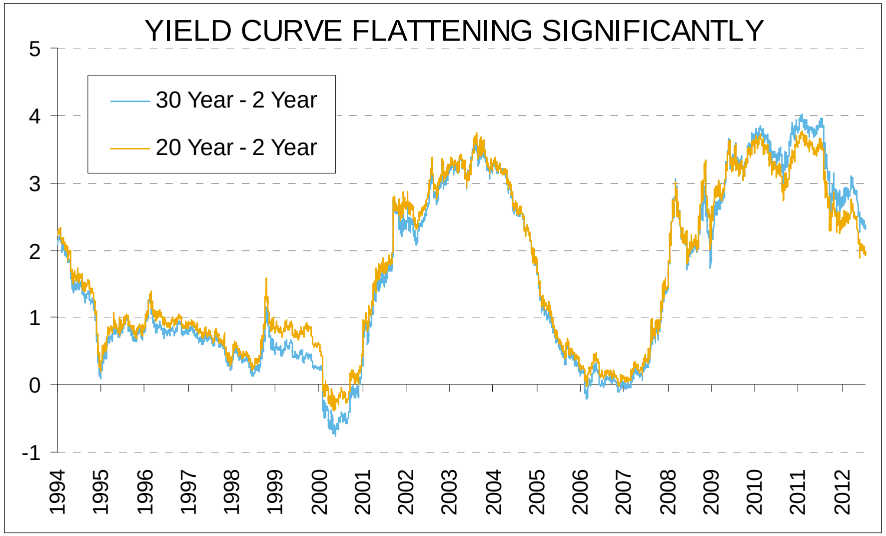
Foreign buying has led the current buying spree, as investors globally have regarded US treasuries as their favoured safe haven.

The renewed loss of momentum in the US economy has further whetted appetites for US treasuries, as expectations of any tightening by the US Federal Reserve have receded completely.

The extension of Operation Twist has been an important factor causing the yield curve to flatten. The 2-20 year Treasury curve slope has narrowed by over 150 bp since the start of 2011.

Even so, the curve slope is still steep by historic norms, mainly reflecting the extremely low levels of the front of the curve, which is anchored by near zero interest rates.





Hewitt ennisknupp
An Aon Company

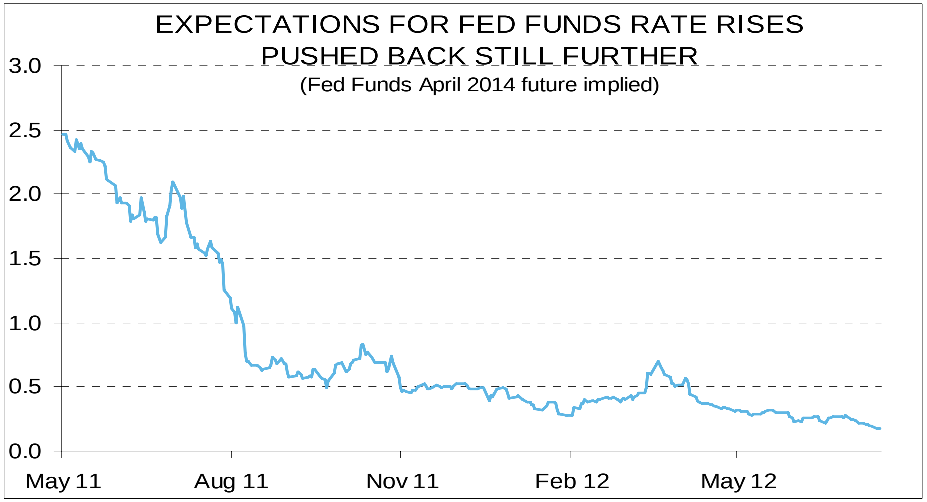
Interest rate expectations have moved down again

Though the markets had already pushed back the timing of interest rate hikes from the Fed very considerably, recent trends show a further push back.

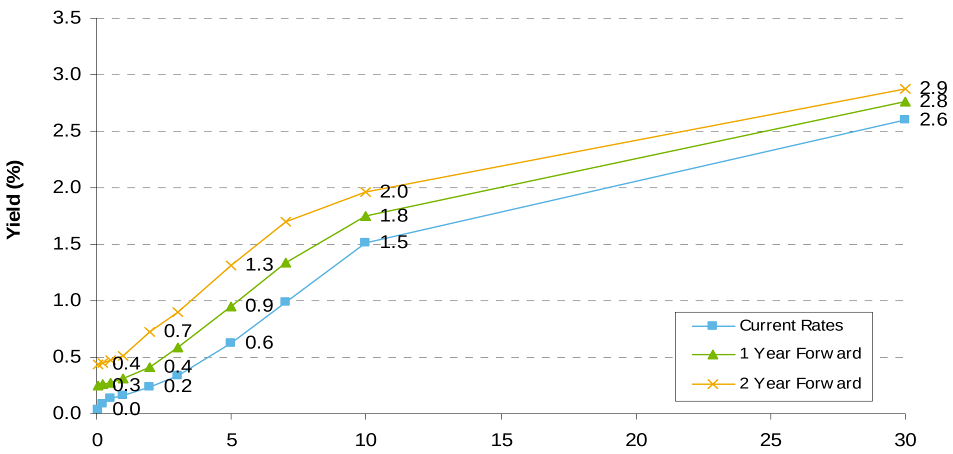
Derivatives on the Fed Funds rate show that even the April 2014 contract has no rise priced into expectations.

The market is still assigning a high probability to further Fed quantitative easing, though it is not saying that this is absolutely certain.

The same downward trends appear in terms of pricing of interest rates in the treasury curve. The recent collapse in treasury yields implies a further substantial downgrade to forward rate expectations. The 2 yr10yr forward rate has moved from 2.5% in April to 2% now.



CURRENT TREASURY CURVE AND FORWARD RATE EXPECTATIONS



Hewitt ennisknupp
An Aon Company

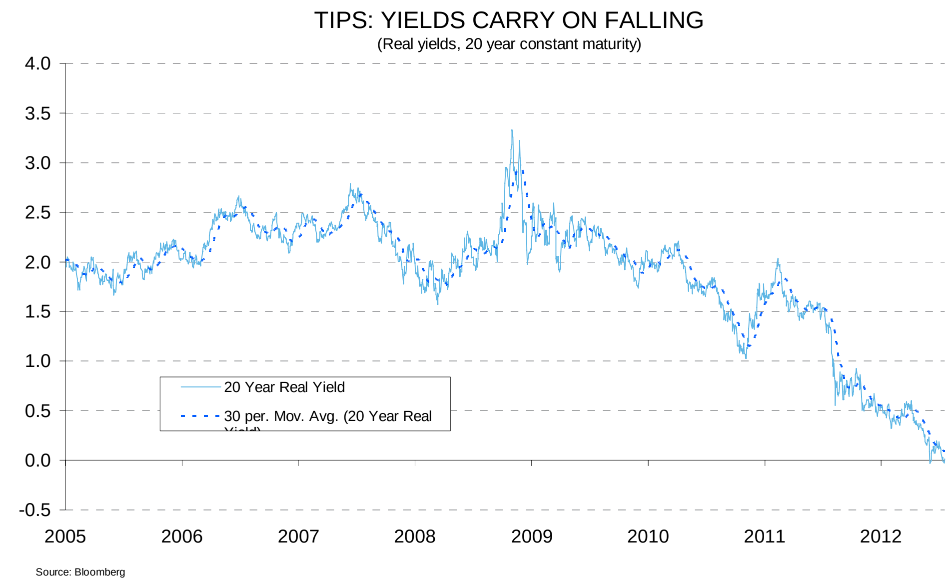
TIPS – Yields carry on falling, break-evens remain range-bound

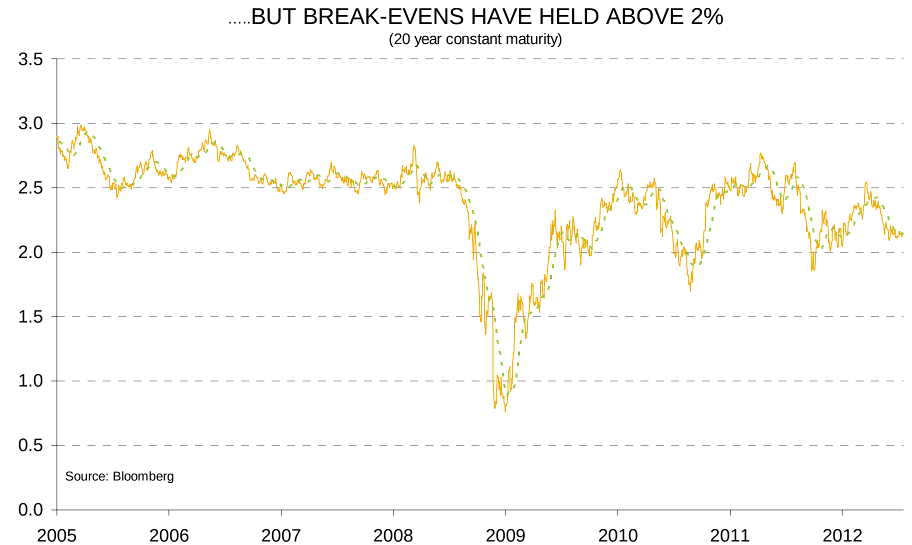
TIPS yields have carried on falling, and even 20 year TIPS yields are now hovering around the zero mark (see first chart). Shorter-term TIPS yields have already been negative for some time.

The main reason for the fall in yields on TIPS is the considerable fall in fixed interest US treasury yields.

Break-even inflation has eased, but is still in the broad 2-2.5% range that it has been since 2010.

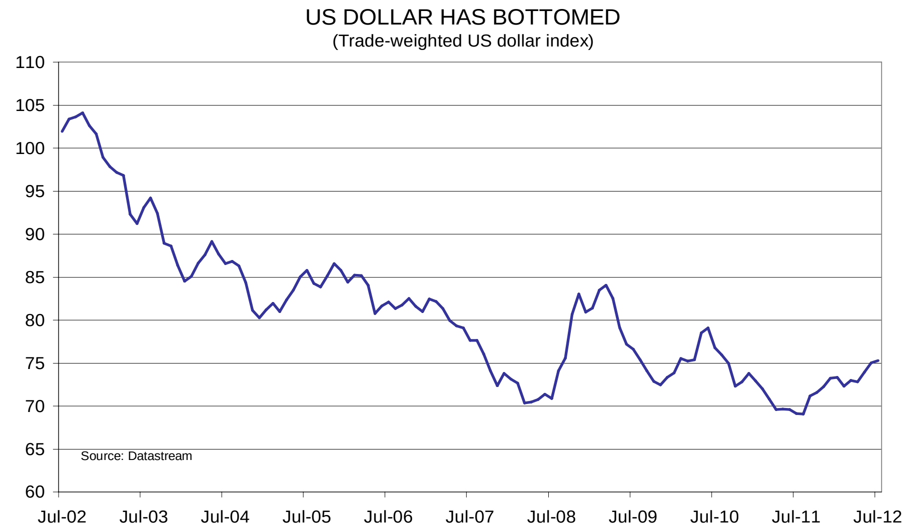
The Fed's preferred measure of bond market inflation pricing – the 5yr5yr forward inflation rate has recently dipped just below 2.5%, but here too, there is no significant change in the bond market's perception of inflation risks.



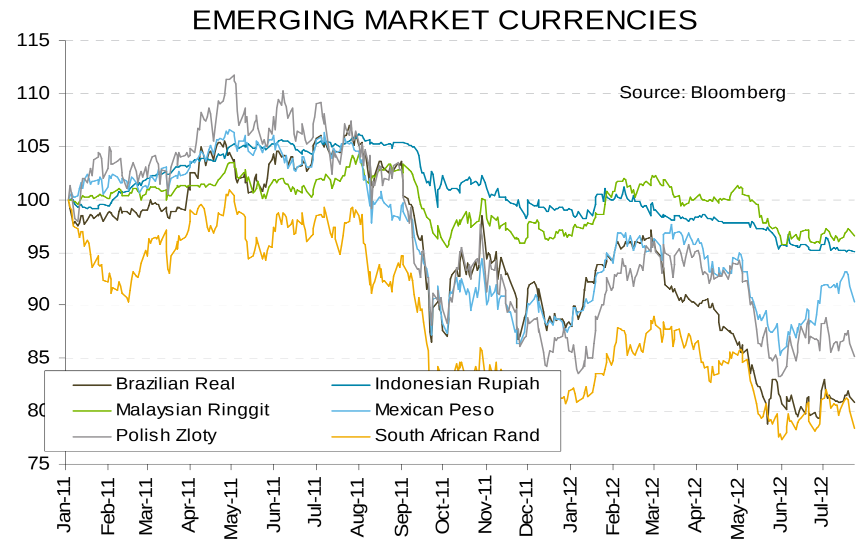


US dollar appreciation mainly against the euro recently

The dollar has gained against the Euro, but not markedly against other developed market currencies in recent weeks. The broad trade weighted index appears to have bottomed, but the dollar still looks weak seen against the prolonged earlier decline (see first chart).



The dollar has made stronger gains against emerging market currencies over the past year (second chart). Even here, however, recent trends have suggested a stabilization rather than further US dollar gains.



Ultra-easy US monetary policy – near zero rates and the expectation of further quantitative easing is a factor keeping enthusiasm over the US dollar on hold.

U.S. Unemployment Rate

Source: Bureau of Labor Statistics

- At the end of the second quarter, the U.S. unemployment rate remained unchanged at 8.2%.
- After adding 677,000 jobs during the first quarter, growth slowed during the second quarter and only 225,000[1] jobs were created.

[1] Preliminary data: The U.S. Bureau of Labor Statistics.

Hewitt ennisknupp
An Aon Company