UNIVERSITY OF ILLINOIS SYSTEM
SECOND QUARTER 2019 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

August 2019
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Second Quarter 2019 – Market Returns

**Global Equity**
- DJ US Total Stock Market Index: 4.1%
- MSCI ACWI ex-U.S.: 3.0%
- Barclays U.S. Agg Index: 3.1%
- Barclays HY Index: 2.5%
- FTSE NAREIT All Equity Index: 1.8%
- Bimbrg Cmnty Index: -1.2%
- HFRI Fund Wtd Comp. Index: 1.7%

**Fixed Income**
- Quarter: 10.1%
- 1 Yr: 8.9%
- 5 Yrs Annualized: 2.2%

**Real Assets**
- Quarter: 8.9%
- 1 Yr: 7.9%
- 5 Yrs Annualized: 4.7%

**Diversifying Strategies**
- Quarter: 13.0%
- 1 Yr: 8.9%
- 5 Yrs Annualized: 9.1%

Data sources: Lipper and Hedge Fund Research
The University Operating and Endowment Funds were valued at $3.4 billion as of June 30, 2019.

The Operating Pool (ex-Permanent Core) was valued at $2.6 billion. The permanent core investment (gray bar) is a long-term investment of the operating cash in the Endowment Pool to enhance distributions to invested units.

The combined Endowment Funds is valued at $795.9 million (right bar) and is discussed further on the following slides.

The Pure Endowment (excluding Operating) is valued at $449.8 million.
ENDOWMENT FUND UPDATE: JUNE 30, 2019
Total Pool: $731.4 Million as of 6/30/2019

Over/Under Allocation to Long-Term Policy Targets

- Global Equity: $428.6 M, Over allocation 2.6%
- Global Fixed Income: $156.0 M, Under allocation 1.3%
- Real Assets: $85.4 M, Over allocation -2.3%
- Diversifying Strategies: $49.6 M, Over allocation -3.2%
- Cash: $11.8 M, Under allocation 1.6%

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 (JUNE 30, 2019)

- Over the one-year period, the endowment returned 5.7%. Non-U.S. equity (+0.3%) and hedge funds (-0.3%) hurt performance, while private equity (+17.9%) did well.
- Three- and five-year returns were weighed down by diversifying strategies and farmland exposure.
- On the ten-year period, the endowment posted a strong 10.2% return, supported by solid returns from U.S. equities (+14.4%), real assets (+11.1%), and private equity (+11.4%).

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 (JUN 30, 2019)

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Policy Allocation</th>
<th>Quarter ending Jun-2019</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>
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<tr>
<td><strong>Endowment Pool</strong></td>
<td></td>
<td>3.5</td>
<td>5.7</td>
<td>8.4</td>
<td>5.4</td>
<td>10.2</td>
<td>8.2</td>
<td>Sep-87</td>
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<td>Performance Benchmark</td>
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<td>6.1</td>
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<td>5.7</td>
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<td><strong>GLOBAL EQUITY</strong></td>
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<td>56.0</td>
<td>3.7</td>
<td>5.9</td>
<td>12.1</td>
<td>6.7</td>
<td>11.7</td>
<td>8.0</td>
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<td>Total U.S. Equity</td>
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<td>13.4</td>
<td>9.0</td>
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<td>9.3</td>
<td>Sep-87</td>
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<td>DJ U.S. Total Stock Market Index</td>
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<td>14.0</td>
<td>10.1</td>
<td>14.7</td>
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<td>Total Non-U.S. Equity</td>
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<td>5.3</td>
<td>Sep-93</td>
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<td>2.3</td>
<td>6.6</td>
<td>5.5</td>
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<td>Total Private Equity</td>
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<td>Private Equity Benchmark</td>
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<td><strong>GLOBAL FIXED INCOME</strong></td>
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<td>6.9</td>
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<td>Sep-87</td>
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<td>Bloomberg Barclays U.S. Aggregate</td>
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<td>7.9</td>
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<td>6.4</td>
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<td><strong>REAL ASSETS</strong></td>
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<td>4.2</td>
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<td>4.3</td>
<td>11.1</td>
<td>10.3</td>
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<td>Total Real Estate</td>
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<td>-</td>
<td>10.6</td>
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<td>Real Estate Benchmark</td>
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<td>Total Farmland</td>
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<td>NCREIF Cornbelt Index</td>
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<td>9.2</td>
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<td><strong>DIVERSIFYING STRATEGIES</strong></td>
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<td>May-13</td>
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<td>Total Hedge Funds</td>
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<td>-</td>
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<td>May-13</td>
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<td>HFRI Fund Weighted Composite Index</td>
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<td>1.7</td>
<td>1.3</td>
<td>4.9</td>
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<td>-</td>
<td>3.6</td>
<td></td>
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<td><strong>CASH</strong></td>
<td>1.6</td>
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<td>0.5</td>
<td>2.0</td>
<td>1.2</td>
<td>-</td>
<td>-</td>
<td>0.8</td>
</tr>
</tbody>
</table>

1Global Fixed Income and Diversifying Strategies include allocations and performance of private investments.

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, 2019.
OPERATING POOL UPDATE:
JUNE 30, 2019
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 sum of allocation may not equal 100% due to rounding.
TOTAL OPERATING POOL PERFORMANCE (JUNE 30, 2019)

TOTAL POOL: $2.63 BILLION

• Over the trailing one-year period ending June 30, 2019, the Operating Pool returned 3.9%, matching the benchmark return.
  – The majority of the Operating Pool’s managers outperformed 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 each met or outperformed their respective benchmarks since inception.

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.
APPENDIX: MARKET ENVIRONMENT
2010-2019 Annual Returns of Key Indices

Note: See disclosure section for a description of key indices.
• Global equities posted positive returns for the second consecutive quarter, but experienced elevated volatility in May on heightened U.S. – China trade tensions. Domestic equity outperformed both International Developed and Emerging Markets, while Frontier Market equities displayed impressive resiliency against a tenuous global growth backdrop.

• Stylistically, domestic value underperformed growth, a theme that has been in place most of the current business cycle, and domestic small cap lagged large cap, driving the relative valuation disparity between small and large cap wider during the quarter.

![Global Equity 2Q-2019 Performance (in USD)](image)

Data source: Bloomberg, L.P.; Data as of 6/28/2019
• U.S. Treasury interest rates declined further, as the 10-Year Treasury Note Yield dipped below 2% for the first time since 2016. As such, rate-sensitive sectors rallied, with Core bonds generating a 3.1% return, outpacing below investment-grade credit.
• The longer-duration profile of investment grade credit aided returns in that sector, with the Barclays Credit Index generating a solid 4.3% quarterly return as credit spreads generally appeared stable, despite growing macro concerns.
• TIPS essentially matched the impressive performance of nominal Treasuries, despite a modest move lower in breakeven inflation expectations and steep declines across oil prices.
Following a notably strong first quarter, most major real assets sectors generated modest performance, with precious metals the standout outperformer amid heightened geopolitical risks and elevated safe haven flows. Energy infrastructure performance moderated during the quarter after posting outsized returns in the first quarter. Trade-related global growth concerns, continued strong U.S. crude oil production, and energy spot price volatility were key headwinds.

U.S. real estate investment trusts (REITs) performance remained positive and through the second quarter remained one of the strongest performing major asset categories on a year-to-date basis.
CURRENCY PERFORMANCE

- During the second quarter, the U.S. Dollar decreased modestly
- The Yen was the strongest performer, followed by the Euro, while the Yuan declined.

Global Currency 2Q-2019 Change in Spot (Base: USD)

Data source: Bloomberg, L.P.; Data as of 6/28/2019
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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.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

**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