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MARKET OVERVIEW AND SYSTEM ASSETS
Second Quarter 2018 – Market Returns

**Global Equity**
- DJ US Total Stock Market Index: 3.9%
- MSCI ACWI ex-U.S.: 14.8%
- Barclays U.S. Agg Index: 6.0%
- Barclays HY Index: 2.3%
- FTSE NAREIT All Equity Index: 8.5%
- Blmbrg Cmdty Index: 0.4%
- HFRI Fund Wtd Comp. Index: 0.8%

**Fixed Income**
- Quarter: 1.0%
- 1 Yr: 2.6%
- 5 Yrs Annualized: 5.5%

**Real Assets**
- Quarter: 8.5%
- 1 Yr: 4.9%
- 5 Yrs Annualized: 8.9%

Data sources: Lipper and Hedge Fund Research
The System Operating and Endowment Funds was valued at $3.16 billion as of June 30, 2018.

The Operating Pool was valued at $2.72 billion and maintains a permanent core investment in the Endowment Pool (orange pie slice); this is a long-term investment to enhance Operating Pool returns.

The combined Endowment Pool is valued at $705.8 million (orange and light-blue pie slices) and is discussed further on the following slides.

The Pure Endowment Pool (excluding Operating) is valued at $376.2 million.

Note: The sum of the allocation may not equal 100% due to rounding.
ENDOWMENT FUND UPDATE:
JUNE 30, 2018
MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

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.
During the quarter ending June 30, 2018, the Endowment Pool gained 0.7%, underperforming the benchmark. The main drivers of the Endowment Pool’s quarterly return were:

- Hedge Fund investments underperformed the HFRI Fund Weighted Composite Index by 3.6% during the quarter, returning -2.8%.
- Real Estate investments also underperformed their respective benchmark by 0.5% during the quarter, returning 2.6%.

Over the trailing one-year period ending June 30, 2018, the Endowment Pool returned 7.5%, slightly trailing the benchmark. The main drivers of the Endowment Pool’s one-year return were:

- Hedge Fund investments trailed their respective benchmark by 6.8%.
- Private Equity investments performed well on an absolute basis with a return of 14.7%.

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, 2018)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Quarter ending</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><strong>Endowment Pool</strong></td>
<td>0.7</td>
<td>7.5</td>
<td>6.3</td>
<td>7.3</td>
<td>7.5</td>
<td>8.3</td>
<td>Sep-87</td>
</tr>
<tr>
<td><strong>Performance Benchmark</strong></td>
<td>1.3</td>
<td>8.0</td>
<td>6.6</td>
<td>7.9</td>
<td>7.5</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total U.S. Equity</strong></td>
<td>3.5</td>
<td>14.0</td>
<td>10.1</td>
<td>12.6</td>
<td>10.6</td>
<td>9.4</td>
<td>Sep-87</td>
</tr>
<tr>
<td>DJ U.S. Total Stock Market Index</td>
<td>3.9</td>
<td>14.8</td>
<td>11.6</td>
<td>13.2</td>
<td>10.3</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-U.S. Equity</strong></td>
<td>-2.4</td>
<td>7.9</td>
<td>5.5</td>
<td>6.4</td>
<td>3.0</td>
<td>5.5</td>
<td>Sep-93</td>
</tr>
<tr>
<td>Non-U.S. Equity Benchmark</td>
<td>-2.5</td>
<td>7.7</td>
<td>5.5</td>
<td>6.3</td>
<td>2.7</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td><strong>Total Global Equity</strong></td>
<td>0.9</td>
<td>11.5</td>
<td>8.2</td>
<td>9.0</td>
<td>-</td>
<td>10.2</td>
<td>Jun-12</td>
</tr>
<tr>
<td>Global Equity Benchmark</td>
<td>0.8</td>
<td>11.1</td>
<td>8.3</td>
<td>9.5</td>
<td>-</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td>-0.1</td>
<td>0.2</td>
<td>2.2</td>
<td>2.5</td>
<td>5.4</td>
<td>6.8</td>
<td>Sep-87</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate</td>
<td>-0.2</td>
<td>-0.4</td>
<td>1.7</td>
<td>2.3</td>
<td>3.7</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total Hedge Funds</strong></td>
<td>-2.8</td>
<td>-1.1</td>
<td>2.5</td>
<td>3.1</td>
<td>-</td>
<td>3.0</td>
<td>May-13</td>
</tr>
<tr>
<td>HFRI Fund Weighted Composite Index</td>
<td>0.9</td>
<td>5.7</td>
<td>3.7</td>
<td>4.4</td>
<td>-</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total Private Equity</strong>¹</td>
<td>3.9</td>
<td>14.7</td>
<td>12.3</td>
<td>11.9</td>
<td>6.9</td>
<td>3.3</td>
<td>Jan-04</td>
</tr>
<tr>
<td>Private Equity Benchmark</td>
<td>4.5</td>
<td>17.8</td>
<td>14.6</td>
<td>16.2</td>
<td>13.3</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total Real Estate</strong></td>
<td>2.6</td>
<td>6.8</td>
<td>8.6</td>
<td>-</td>
<td>-</td>
<td>11.5</td>
<td>Aug-13</td>
</tr>
<tr>
<td>Real Estate Benchmark</td>
<td>3.1</td>
<td>6.5</td>
<td>8.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11.7</td>
</tr>
<tr>
<td><strong>Total Farmland</strong>²</td>
<td>-0.2</td>
<td>-0.2</td>
<td>-1.2</td>
<td>-1.3</td>
<td>8.6</td>
<td>8.4</td>
<td>Dec-06</td>
</tr>
<tr>
<td>NCREIF Cornbelt Index</td>
<td>2.6</td>
<td>2.6</td>
<td>-0.5</td>
<td>1.9</td>
<td>9.3</td>
<td>9.8</td>
<td></td>
</tr>
</tbody>
</table>

¹The combined Adams Street Partners IRR at March 31, 2018 was 9.8% since inception.
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, 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.
The Operating Pool returned 0.4% during the second quarter, slightly outperforming its benchmark. Most of the Operating Pool’s managers performed either in-line or slightly better than their respective benchmarks during the quarter.

Over the trailing one-year period ending June 30, 2018, the Operating Pool returned 0.7% while outperforming the benchmark.

The Operating Pool’s managers performed either in-line or slightly better than their respective benchmarks during the period.

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

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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets</td>
<td>78.5%</td>
<td>MLPs</td>
<td>35.9%</td>
<td>MLPs</td>
<td>13.9%</td>
<td>Global REIT</td>
<td>27.7%</td>
<td>Small Cap</td>
<td>38.8%</td>
<td>Global REIT</td>
<td>15.0%</td>
</tr>
<tr>
<td>MLPs</td>
<td>76.4%</td>
<td>Small Cap</td>
<td>26.9%</td>
<td>Bonds</td>
<td>7.8%</td>
<td>Emerging Markets</td>
<td>18.2%</td>
<td>Large Cap</td>
<td>32.4%</td>
<td>Large Cap</td>
<td>13.7%</td>
</tr>
<tr>
<td>High Yield</td>
<td>58.2%</td>
<td>Global REIT</td>
<td>19.6%</td>
<td>High Yield</td>
<td>5.0%</td>
<td>Int'l</td>
<td>17.3%</td>
<td>MLPs</td>
<td>27.6%</td>
<td>Bonds</td>
<td>6.0%</td>
</tr>
<tr>
<td>Global REIT</td>
<td>37.1%</td>
<td>Emerging Markets</td>
<td>18.9%</td>
<td>Large Cap</td>
<td>2.1%</td>
<td>Small Cap</td>
<td>16.3%</td>
<td>Int'l</td>
<td>22.8%</td>
<td>Small Cap</td>
<td>4.9%</td>
</tr>
<tr>
<td>Int'l</td>
<td>31.8%</td>
<td>High Yield</td>
<td>15.1%</td>
<td>Small Cap</td>
<td>-4.2%</td>
<td>Large Cap</td>
<td>16.0%</td>
<td>Hedge Funds</td>
<td>9.0%</td>
<td>MLPs</td>
<td>4.8%</td>
</tr>
<tr>
<td>Small Cap</td>
<td>27.2%</td>
<td>Large Cap</td>
<td>15.1%</td>
<td>Hedge Funds</td>
<td>-5.7%</td>
<td>High Yield</td>
<td>15.8%</td>
<td>High Yield</td>
<td>7.4%</td>
<td>Hedge Funds</td>
<td>3.4%</td>
</tr>
<tr>
<td>Large Cap</td>
<td>26.5%</td>
<td>Int'l</td>
<td>7.7%</td>
<td>Global REIT</td>
<td>-6.5%</td>
<td>MLPs</td>
<td>4.8%</td>
<td>Global REIT</td>
<td>3.7%</td>
<td>High Yield</td>
<td>2.5%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>11.5%</td>
<td>Bonds</td>
<td>6.5%</td>
<td>Int'l</td>
<td>-12.1%</td>
<td>Hedge Funds</td>
<td>4.8%</td>
<td>Emerging Markets</td>
<td>-2.0%</td>
<td>Emerging Markets</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.9%</td>
<td>Hedge Funds</td>
<td>5.7%</td>
<td>Emerging Markets</td>
<td>-18.4%</td>
<td>Bonds</td>
<td>4.2%</td>
<td>Emerging Markets</td>
<td>-2.6%</td>
<td>Int'l</td>
<td>-4.9%</td>
</tr>
</tbody>
</table>

Note: See disclosure section for a description of key indices.
The discrepancy between large cap and small cap stocks dominated U.S. equity markets, as small caps rallied amidst the positive effects of last winter’s tax reforms.

Domestic equities broadly outpaced international equities, particularly emerging and frontier market equities that suffered from global trade concerns, the appreciation of the U.S. dollar, and country-specific fundamental weakness.

Signs of fundamental weakness, coupled with central banks’ continued tentative efforts to reduce monetary policy support, contributed to a somewhat stagnant quarter for international developed equities.

Global Equity 2Q-2018 Performance (in USD)

- U.S. Large: 7.8%
- U.S. Small: 3.4%
- Intl. Dev.: -1.2%
- Emerging: -8.0%

Data source: Bloomberg, L.P.; Data as of 6/29/2018
Rate-sensitive sectors, such as core bonds and investment-grade credit, continued to struggle as Treasury rates rose during the second quarter.

Long Treasuries spent most of the second quarter in negative territory on expectations that the U.S. Federal Reserve will continue its efforts to tighten monetary policy and wind down its balance sheet.

Below investment-grade, such as high yield bonds and bank loans, posted relative outperformance with yield spreads generally unchanged for the quarter.

Data source: Bloomberg, L.P.; Data as of 6/29/2018
Most real assets categories posted strong returns after a difficult start to the year.

An increase in inflation expectations and robust economic growth, in conjunction with a rebound in energy spot prices and record high U.S. crude oil production, provided a positive fundamental backdrop for the recovery of energy master limited partnerships (MLPs) and pipelines.

U.S. real estate investment trusts (REITs) steadily improved as real estate fundamentals strengthened and interest rate volatility moderated.

As the U.S. Dollar rebounded, commodities and precious metals struggled.
Hedged equity strategies had a lackluster quarter, with most gains derived from managers focused on growth sectors like technology and healthcare.

Macro/CTA strategies delivered mixed performance throughout the quarter, with rising interest rates supporting discretionary macro managers that focus on developed markets.

Trend reversals in currencies versus the U.S. and in equity markets, particularly in Europe and Asia, hurt systematic macro strategies with long positions in those trends.

Vigorous corporate activity proved supportive to merger arbitrage strategies, though opportunities for distressed managers remained somewhat limited.

Liquid Diversifying Strategies 2Q-2018 Performance

Data source: HFRI, Bloomberg, L.P.; Data as of 6/29/2018
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**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