Reported to the Board of Trustees
January 15, 2015

University of Illinois
Third Quarter 2014 Investment Update
Board Report

December 2014

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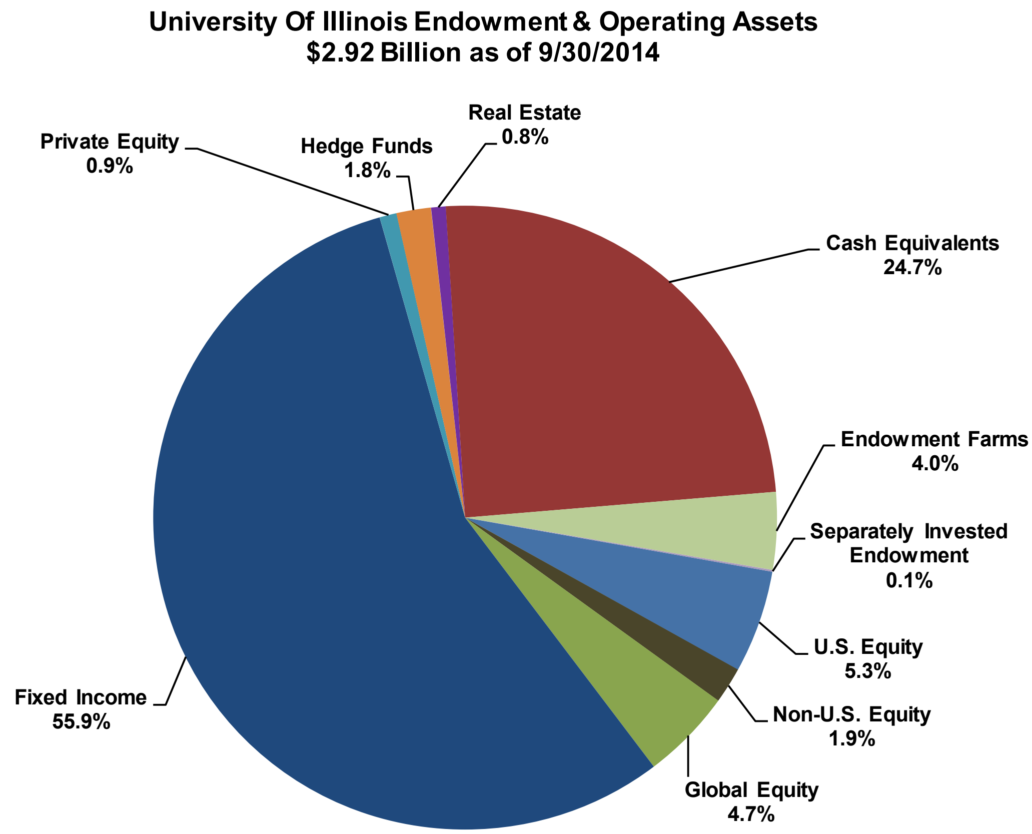
Market Overview and University Assets

Capital Markets Review
September 30, 2014

	Third Quarter	YTD	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	-0.1	6.9	17.7	23.0	15.8	8.6
MSCI All Country World ex-U.S. Index	-5.3	0.0	4.8	11.8	6.0	7.1
MSCI All Country World Index	-2.3	3.7	11.3	16.6	10.1	7.3
Barclays Aggregate Bond Index	0.2	4.1	4.0	2.4	4.1	4.6
HFR Fund-Weighted Composite	-0.3	2.9	6.5	6.4	5.1	5.7
NCREIF ODCE Index	3.0	8.2	11.4	11.3	11.3	6.2
NCREIF Cornbelt Index	0.0	11.1	11.1	19.5	16.3	--

- U.S. equities outperformed EAFE and emerging markets over the quarter but still ended up in negative territory. Although the macro and company environment was positive in the U.S., the marked slowdown in Europe and weakness in emerging markets weighed on sentiment in general.
- Europe’s economy weakened further over the third quarter, with both French and German GDP growth reports indicating a sharp slowdown. The European Central Bank had already cut its benchmark lending rate to 0.15% from 0.25% in June but went further in September and cut it to 0.05%. The central bank will be embarking on an asset purchase program in the coming months with the ultimate aim of easing the pressure on the region’s banking sector and persuading it to start lending to companies and individuals again.
- Emerging markets underperformed during the quarter primarily due to poor economic data and the rising U.S. dollar. The depreciation of emerging market currencies against the U.S. dollar was as much a reaction to disappointing Chinese economic data as it was to the prospect of U.S. interest rate increases.
- The first two quarters of the year saw continued healthy returns in both government and corporate bond markets, but the third quarter was tougher, as more risk averse investor sentiment affected performance.
- Similarly to the second quarter, the Treasury curve flattened as yields below the 5 year horizon rose while yields beyond 10 years inched lower. HEK still believes that U.S. interest rates are likely to rise gradually over the medium term, which in turn is likely to put continued pressure on returns.

University Assets: September 30, 2014



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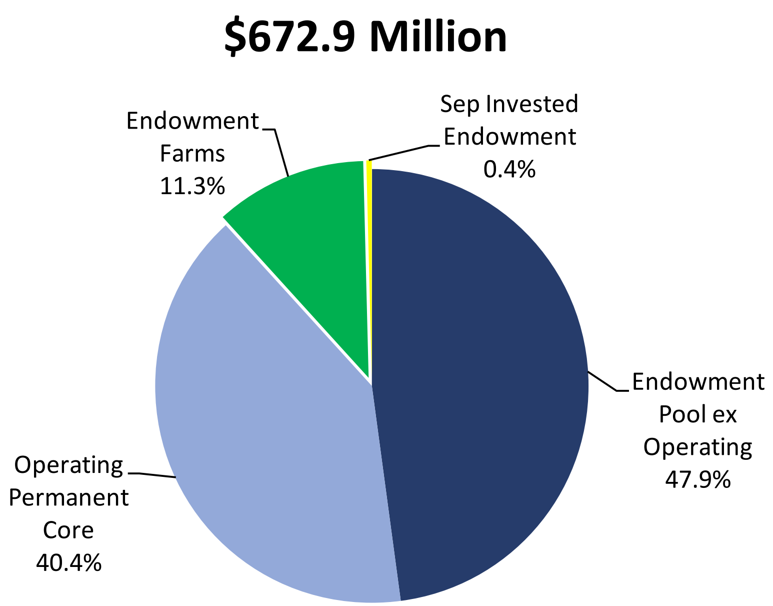
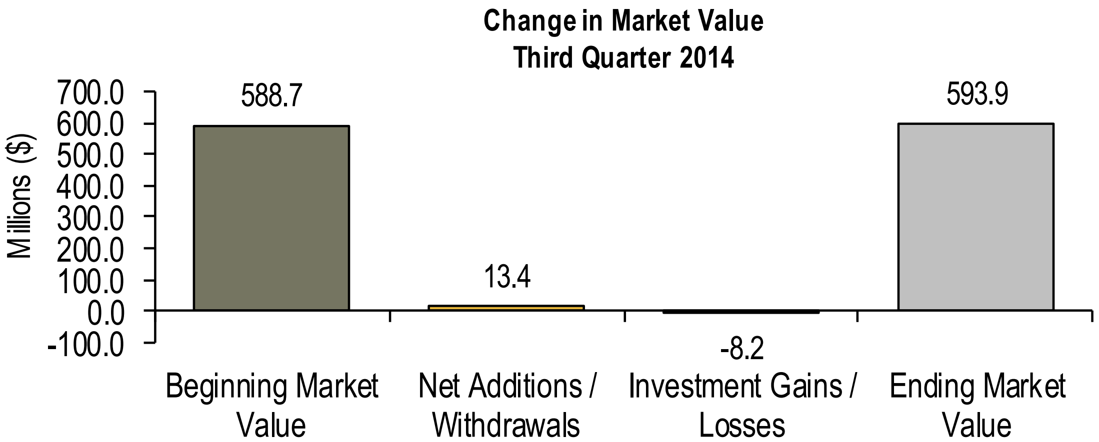
Endowment Fund Update: September 30, 2014

Total Endowment Assets by Type
September 30, 2014



Total Endowment Fund is valued at $672.9 million. The Operating Pool maintains a permanent core investment in the Endowment Pool (light blue slice). This is a long-term investment to enhance Operating Pool returns. The combined Endowment Pool is valued at $593.9 million (dark and light blue pie slices) and discussed further on the following pages.

Total Fund Asset Growth: Endowment Pool



- During the first quarter, Endowment fund assets increased by approximately $5.2 million from $588.7 million to $593.9 million.
- This increase was the net result of investment losses and positive fund flows. For this period, net inflows were approximately $13.4 million and the absolute return of -1.4% in Endowment assets resulted in investment losses of $8.2 million.

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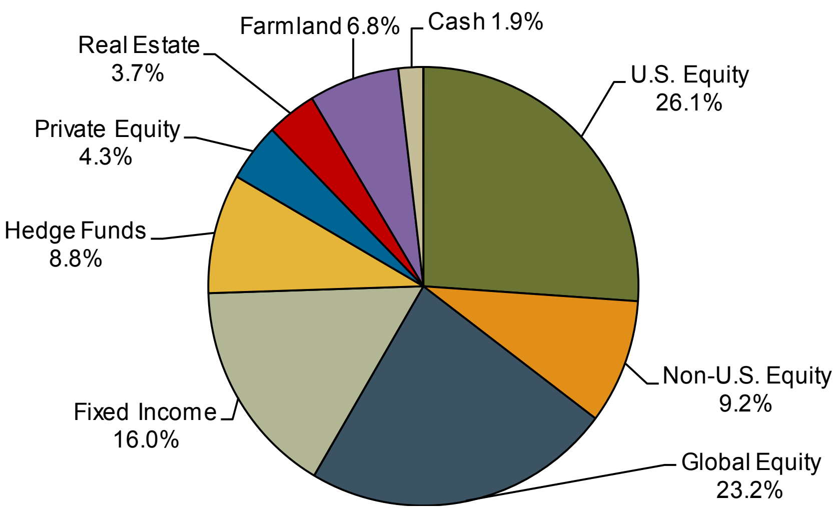
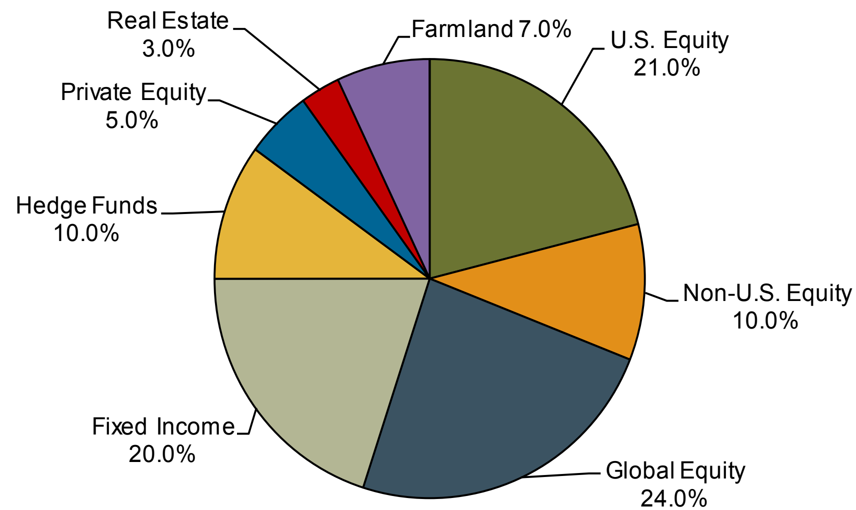
Market Value and Asset Allocation: Endowment Pool
September 30, 2014

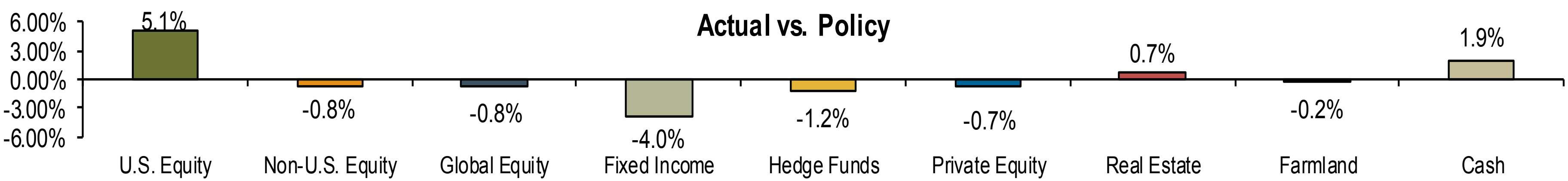
Total Fund
$593,925,145

Actual Allocation



Interim Policy Allocation*





*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%

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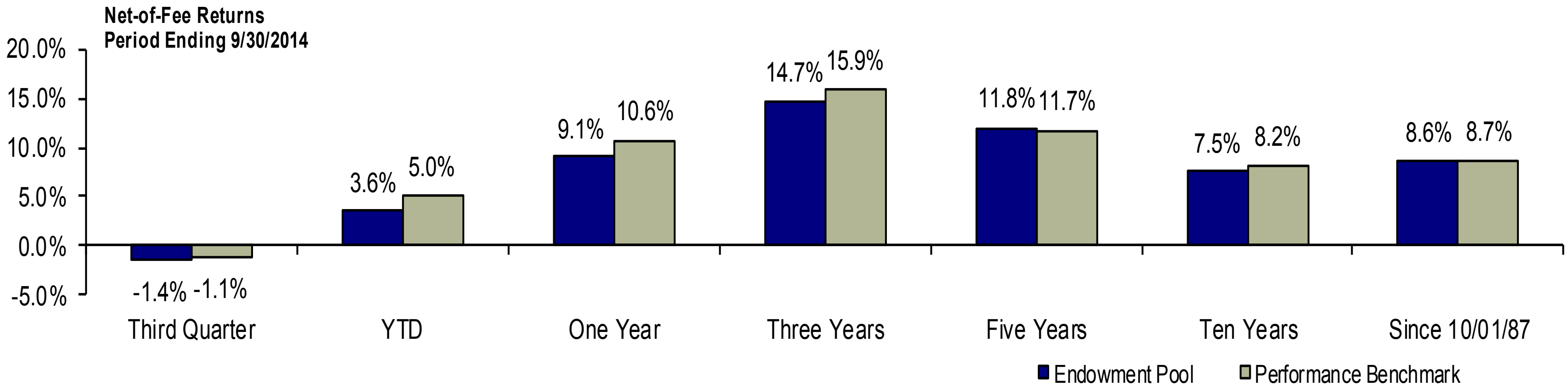
Total Fund Performance: Endowment Pool
September 30, 2014



- Endowment Pool lost 1.4 percentage points and underperformed the benchmark by 30 basis points.
  – The U.S. Equity investments underperformed the Dow Jones U.S. Total Stock Market Index by 80 basis points during the quarter, returning -0.9%.
  – During this same time period the Non-U.S. Equity investment approximated its benchmark, while Global Equity investments underperformed the benchmark by 150 basis points.
  – The Fixed Income portfolio finished the quarter above the benchmark return, returning 0.3% against a 0.2% return for the Barclays Aggregate Index.
  – The Endowment's Hedge Fund component beat the benchmark by 210 basis points, returning 1.8%.
- Over the trailing one-year period, the Endowment Pool gained 9.1% and underperformed its benchmark by 150 basis points. The key detractors of relative performance were equities and farmland.

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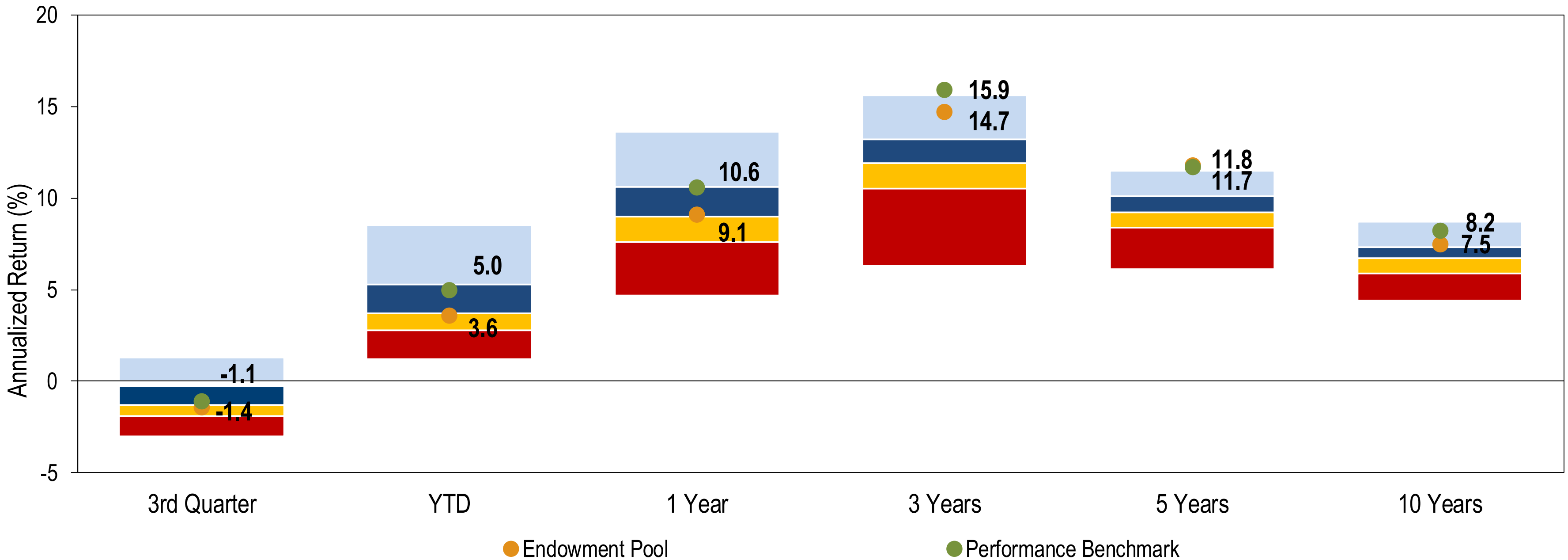
Peer Rankings: Endowment Pool
September 30, 2014



Returns/Ranks	3rd Quarter		YTD		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	-1.4	54	3.6	51	9.1	49	14.7	9	11.8	3	7.5	18
Benchmark	-1.1	45	5.0	27	10.6	25	15.9	4	11.7	4	8.2	11

- Over the trailing one-year time period, the return of the University of Illinois' Endowment Pool ranked in the top 49% of the Investment Metrics / BNY Mellon Endowment Fund and Foundation Universe returns, and the three- and five-year returns ranked in the top 9% and 3% of the universe.

Asset Class Performance
September 30, 2014

	Third Quarter	YTD	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**-1.4**	**3.6**	**9.1**	**14.7**	**11.8**	**7.5**	**8.6**
Performance Benchmark	-1.1	5.0	10.6	15.9	11.7	8.2	8.7
Total U.S. Equity	**-0.9**	**5.4**	**16.8**	**23.2**	**16.0**	**8.4**	**9.2**
Dow Jones U.S. Total Stock Market Index	-0.1	6.9	17.7	23.0	15.8	8.6	9.4
Total Non-U.S. Equity	**-5.5**	**0.0**	**4.8**	**12.7**	**5.2**	**6.3**	**5.7**
MSCI All Country World ex-U.S. Index	-5.3	0.0	4.8	11.8	6.0	7.1	5.8
Total Global Equity	**-3.8**	**2.5**	**10.0**	**--**	**--**	**--**	**15.3**
MSCI All Country World Index	-2.3	3.7	11.3	--	--	--	16.1
Total Fixed Income	**0.3**	**3.5**	**3.5**	**4.4**	**7.4**	**5.5**	**7.5**
Barclays Aggregate Bond Index	0.2	4.1	4.0	2.4	4.1	4.6	7.0
Total Hedge Funds	**1.8**	**3.1**	**5.8**	**--**	**--**	**--**	**4.0**
HFRI Fund Weighted Composite Index	-0.3	2.9	6.5	--	--	--	5.3
Total Private Equity(1)	**3.3**	**12.5**	**16.9**	**7.5**	**10.0**	**6.9**	**0.6**
Private Equity Benchmark	0.7	9.3	21.2	26.7	19.3	11.9	11.4
Total Real Estate	**-0.8**	**16.7**	**15.9**	**--**	**--**	**--**	**18.0**
Real Estate Benchmark	-0.6	17.0	16.2	--	--	--	18.3
Total Farmland (2)	**0.0**	**0.0**	**0.0**	**12.3**	**17.7**	**--**	**13.6**
NCREIF Cornbelt Index	0.0	11.1	11.1	19.5	16.3	--	15.1

(1) The combined Adams Street Partners IRR at 6/30/2014 was 8.9%.
(2) Farmland is valued annually on June 30th. As such, the one year return reflected above is the one-year return for Farmland as of June 30th, 2014.

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Operating Pool Update: September 30, 2014

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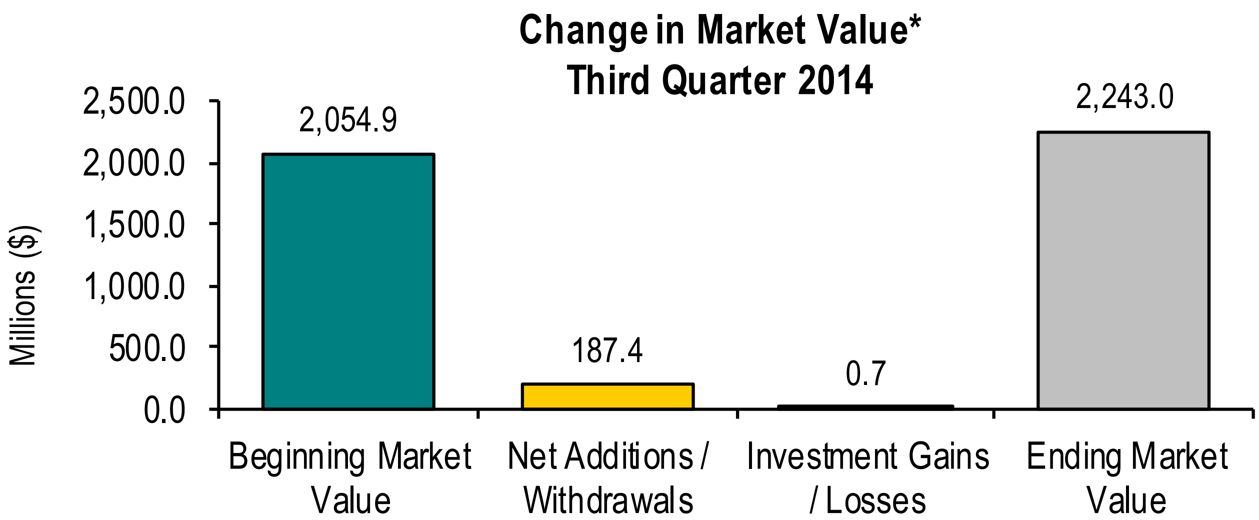
Total Fund Asset Growth: Operating Pool

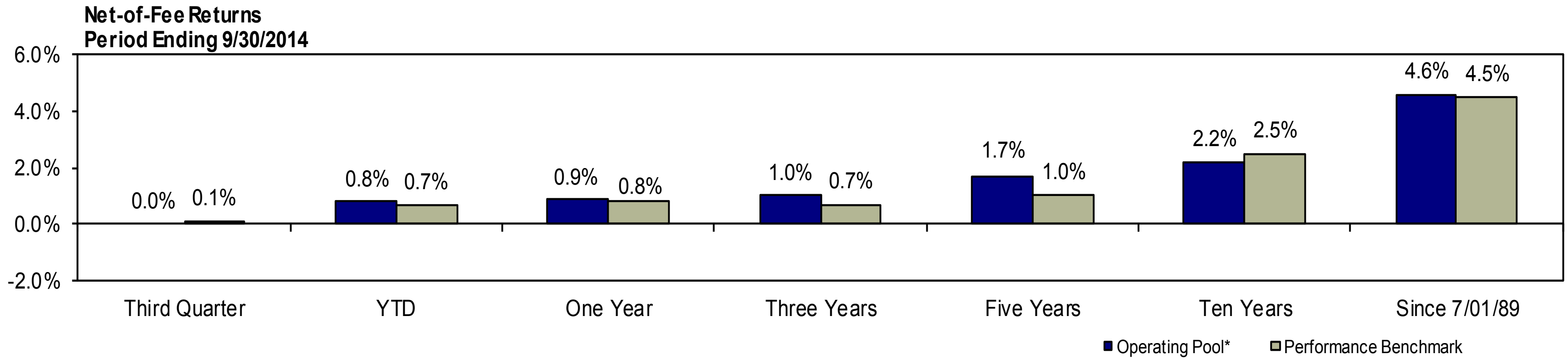


- During the third quarter, the Operating Pool assets increased by approximately $188.1 million from $2.055 billion to $2.243 billion. This increase was the result of $187.4 million in net inflows and transfers. Additionally, the Operating Pool had investment gains of $0.7 million during the period.

* The Total Fund's beginning and ending market values include bank balances in which the University earns credit to offset bank fees.

Total Fund Performance: Operating Pool
September 30, 2014

Total Fund
$2,242,992,553



- The Operating Pool's performance during the third quarter was flat at 0.0%, underperforming the benchmark return for this time period. The majority of the managers matched or outperformed their respective benchmarks during the quarter while three underperformed.

* Total Fund performance excludes the Bank of America and JP Morgan bank balances

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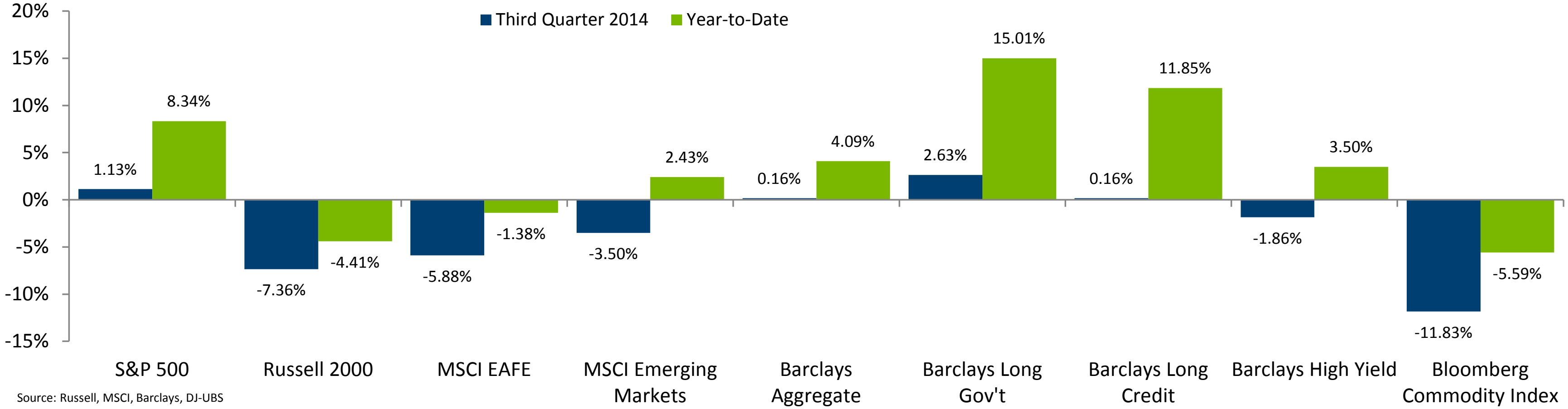
Appendix:

Market Environment

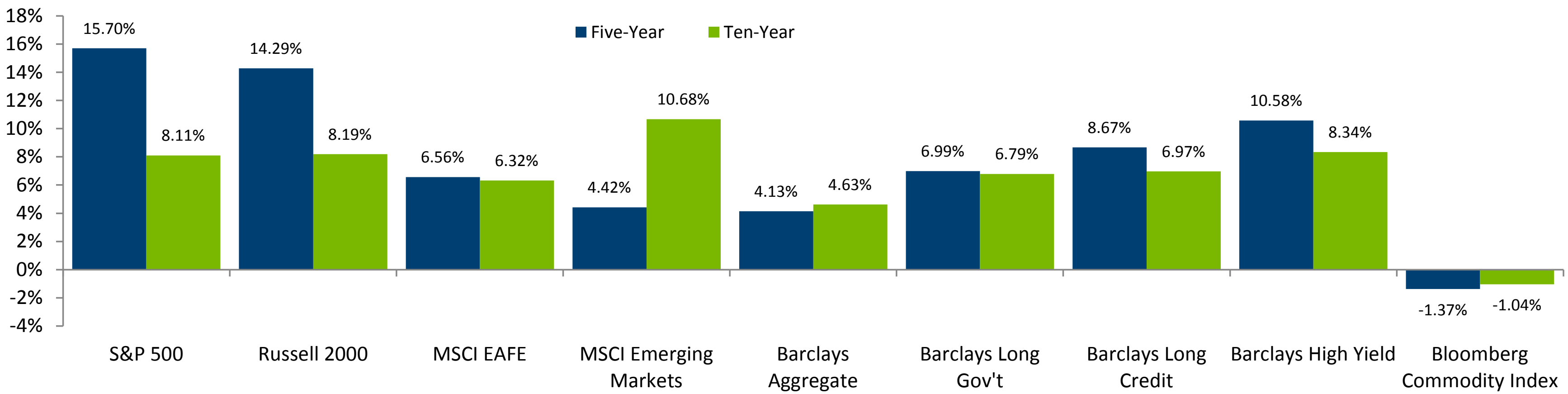
Market Highlights

SHORT TERM RETURNS
AS OF 09/30/2014



Source: Russell, MSCI, Barclays, DJ-UBS

LONG TERM ANNUALIZED RETURNS
AS OF 09/30/2014



Source: Russell, MSCI, Barclays, DJ-UBS

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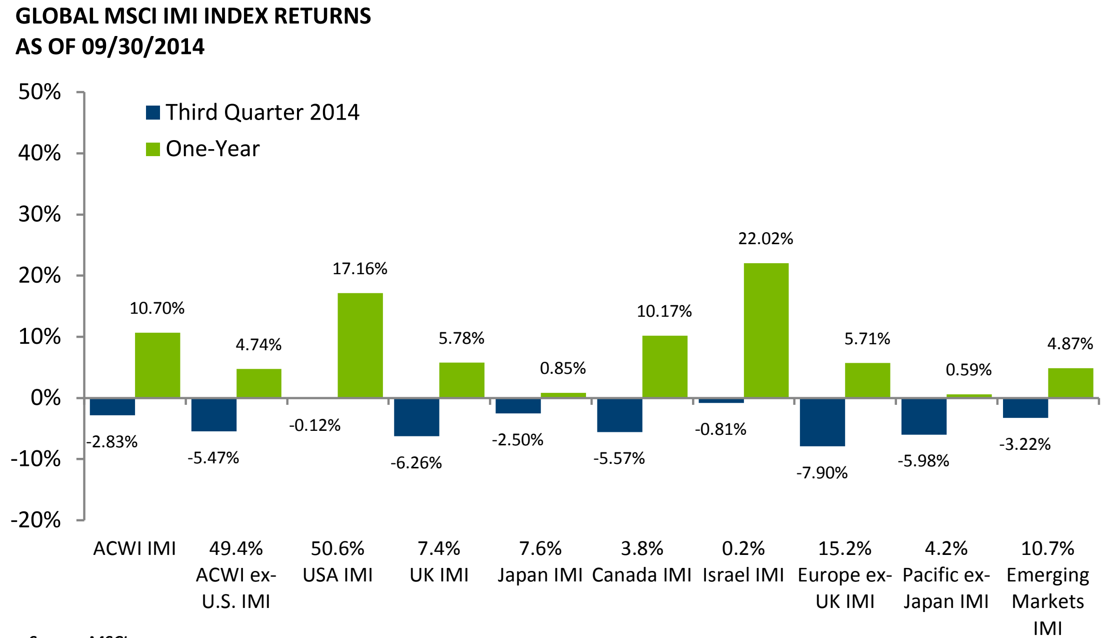
Market Highlights

Returns of the Major Capital Markets						
						Periods Ending 09/30/2014
	Third Quarter	**Year-to-Date**	**1-Year**	**3-Year[1]**	**5-Year[1]**	**10-Year[1]**
Equity						
MSCI All Country World IMI	-2.8%	3.2%	10.7%	16.7%	10.3%	7.6%
MSCI All Country World	-2.3%	3.7%	11.3%	16.6%	10.1%	7.3%
Dow Jones U.S. Total Stock Market	-0.1%	6.9%	17.7%	23.0%	15.8%	8.6%
Russell 3000	0.0%	7.0%	17.8%	23.1%	15.8%	8.4%
S&P 500	1.1%	8.3%	19.7%	23.0%	15.7%	8.1%
Russell 2000	-7.4%	-4.4%	3.9%	21.3%	14.3%	8.2%
MSCI All Country World ex-U.S. IMI	-5.5%	0.0%	4.7%	11.9%	6.3%	7.3%
MSCI All Country World ex-U.S.	-5.3%	0.0%	4.8%	11.8%	6.0%	7.1%
MSCI EAFE	-5.9%	-1.4%	4.3%	13.6%	6.6%	6.3%
MSCI EAFE (Local Currency)	0.9%	4.1%	10.7%	17.3%	8.1%	5.9%
MSCI Emerging Markets	-3.5%	2.4%	4.3%	7.2%	4.4%	10.7%
Fixed Income						
Barclays Global Aggregate	-3.1%	1.6%	1.2%	1.2%	2.7%	4.4%
Barclays Aggregate	0.2%	4.1%	3.9%	2.4%	4.1%	4.6%
Barclays Long Gov't	2.6%	15.0%	11.6%	2.1%	7.0%	6.8%
Barclays Long Credit	0.2%	11.9%	13.6%	6.7%	8.7%	7.0%
Barclays Long Gov't/Credit	1.0%	13.0%	12.9%	4.7%	8.0%	7.0%
Barclays U.S. TIPS	-2.0%	3.7%	1.6%	1.3%	4.5%	4.6%
Barclays High Yield	-1.9%	3.5%	7.2%	11.1%	10.6%	8.3%
Citi Group Non-U.S. WGBI	-5.4%	0.2%	-1.0%	-1.1%	1.0%	4.0%
JP Morgan EMBI Global (Emerging Markets)	-1.6%	7.3%	8.3%	7.7%	7.9%	8.4%
Commodities						
Bloomberg Commodity Index	-11.8%	-5.6%	-6.6%	-5.3%	-1.4%	-1.0%
Goldman Sachs Commodity Index	-12.5%	-7.5%	-7.8%	-0.1%	1.3%	-2.8%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	0.3%	3.4%	7.0%	6.6%	5.2%	5.7%
HFRI Fund of Funds[2]	0.6%	2.7%	6.5%	5.3%	3.5%	3.5%
Real Estate						
NAREIT U.S. Equity REITS	-3.1%	14.0%	13.1%	16.7%	15.9%	8.4%
NCREIF NFI - ODCE[3]	3.2%	8.9%	12.4%	12.3%	12.4%	7.1%
Private Equity						
Thomson Reuters Thompson ONE[4]	3.2%	3.2%	19.7%	12.7%	16.8%	20.7%
Infrastructure						
Macquarie Global Infrastructure - North America	-3.7%	13.8%	17.6%	14.2%	14.3%	10.9%

MSCI Indices show net returns.
All other indices show total returns.
[1] Periods are annualized.
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.
[3] Third quarter results are preliminary.
[4] Benchmark is as of 1/31/2014.

Global Equity Markets

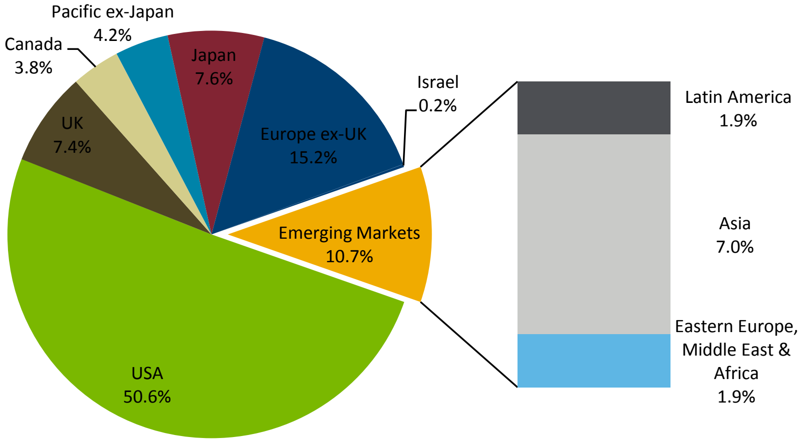


Source: MSCI

- Global equity markets fell in value through the third quarter 2014.
- Equities fell from post crisis highs through the third quarter. Much of the move was driven by the renewed concern in global growth, especially outside of the U.S. and continuing geopolitical risks.
- During the quarter, the U.S. market fell the least out of all equity markets.

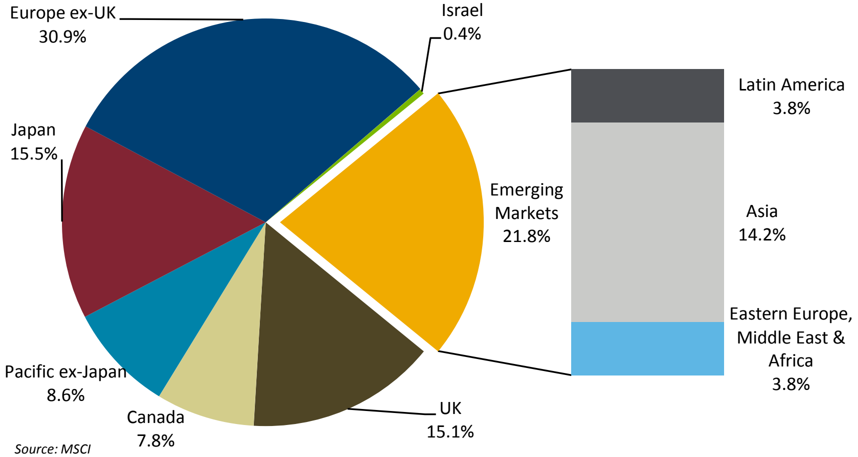
Global Equity Markets

MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2014



Source: MSCI

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2014



Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

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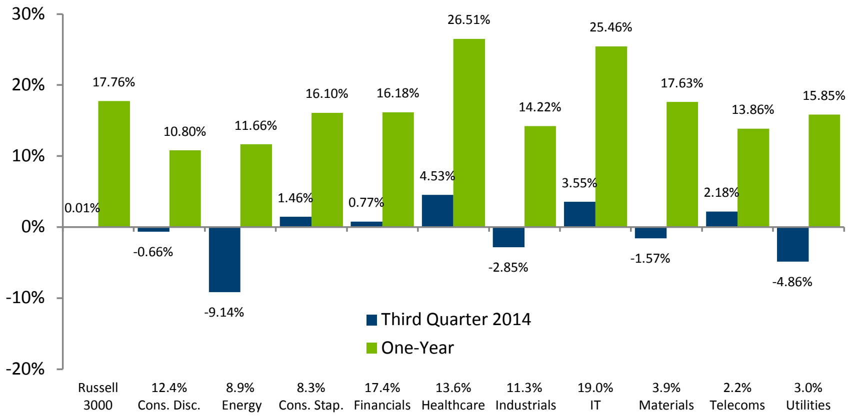
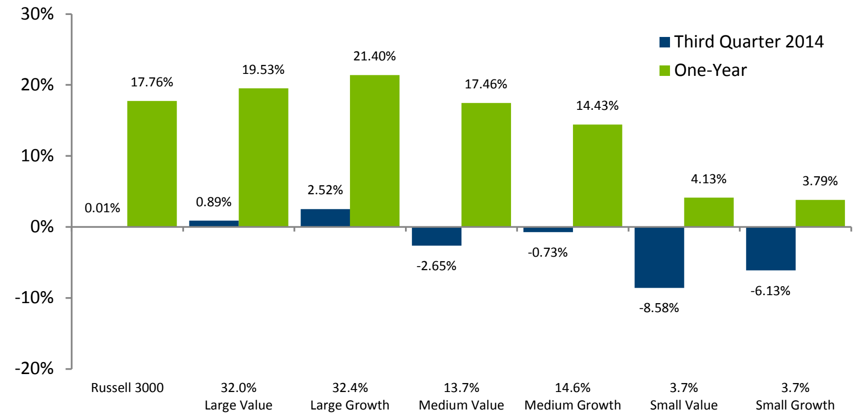
U.S. Equity Markets

RUSSELL GICS SECTOR RETURNS
AS OF 09/30/2014



Source: Russell Indexes

RUSSELL STYLE RETURNS
AS OF 09/30/2014



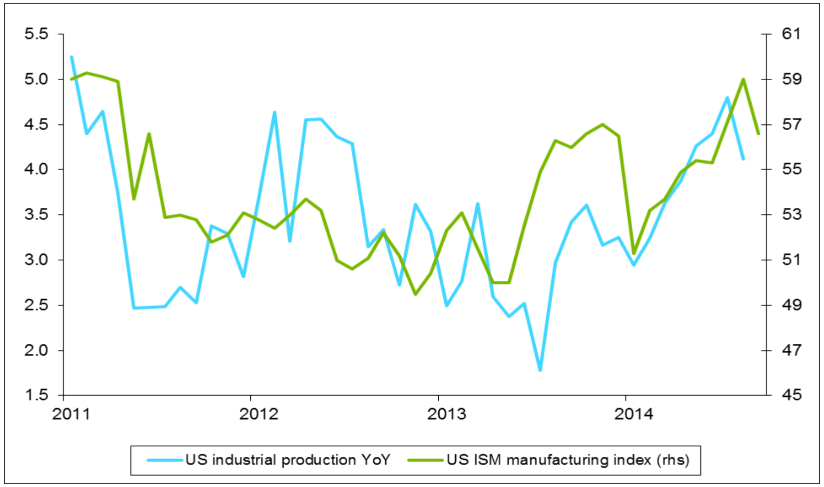
Source: Russell Indexes

- The Russell 3000 Index returned 0.01% during the quarter and returned 17.76% over the one-year period.
- During the third quarter, the healthcare and IT sectors were the strongest performers, posting returns of 4.53% and 3.55%, respectively. The energy and utilities sectors were the weakest performers, producing returns of -9.14% and -4.86%, respectively.
- Performance across the market capitalization spectrum was mixed over the quarter. Small cap stocks trailed the larger segments of the markets and growth outperformed value across the capitalizations.

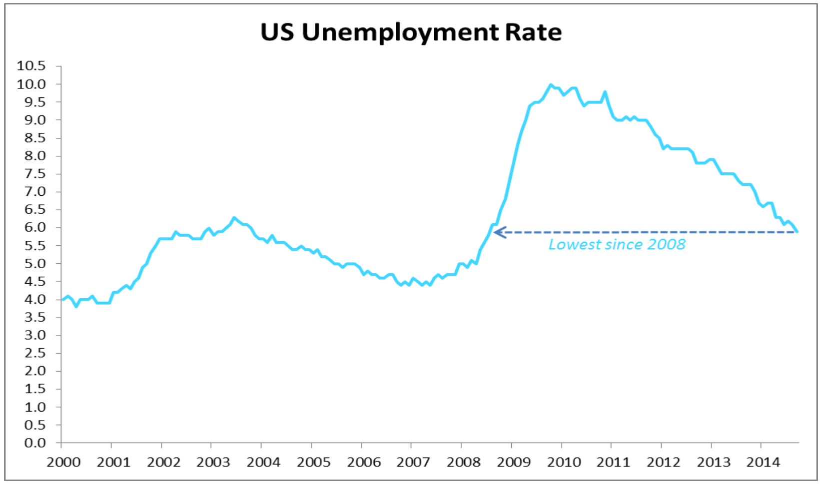
U.S. Economy: Growth is strong but some of the data has peaked

- Second quarter U.S. GDP was reported to have grown an impressive 4.6% and the more timely data for Q3 was equally strong.
- Examples of this strong data included the industrial sector, where indicators reached their highest levels since early 2011 (see top chart). It also included consumer confidence and retail sales data.
- However, the September data was a touch weaker in general, implying that the rapid recovery seen in quarters two and three may have peaked for now.
- One area that continued to improve without much change in its pace was the labor market. Most notably, the unemployment rate fell to a fresh post-crisis low of 5.9% (see bottom chart).
- Nonetheless, it is worth noting that the labor market remains unbalanced with high numbers of long term unemployed and a participation rate that has not been as low since the 1970s.
- We continue to think that the recovery will be gradual but the progress so far is undoubtedly impressive.

U.S. manufacturing activity reached a 3 year high in Q3



The labor market recovery continues to be impressive



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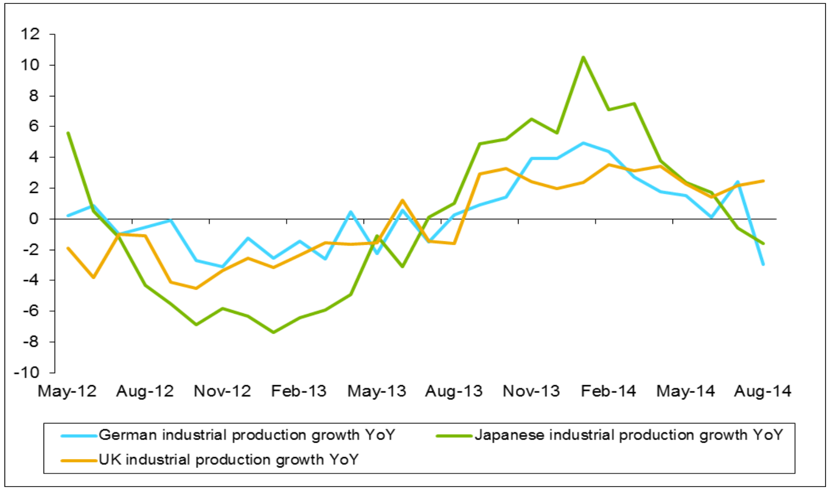
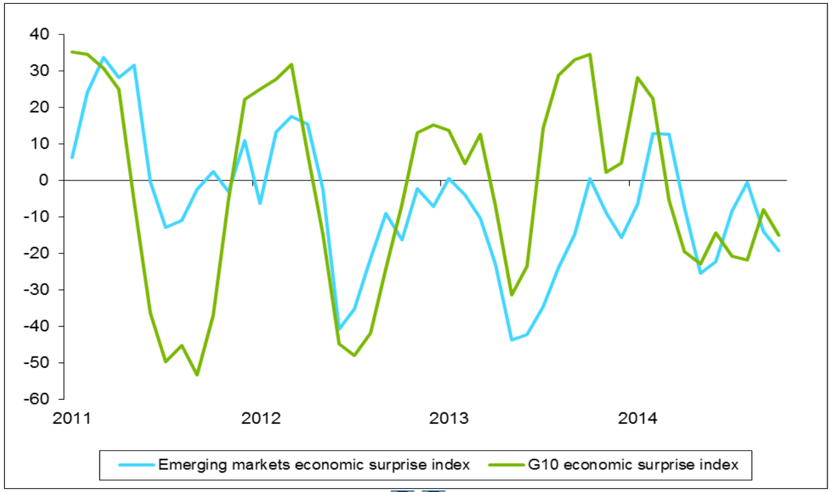
European slowdown prompts European Central Bank response

- While UK economic performance continued to be quite healthy over the summer, the main news was the marked slowdown in Europe. Japanese growth has also seemingly stalled (see top chart).
- In the case of Europe, output growth figures have disappointed since the end of the first quarter but perhaps most concerning has been the fall in the Eurozone inflation rate to 0.3%, which is well below the European Central Bank's (ECB) target of 2% and very close to deflation territory.
- The ECB began loosening monetary policy in June but cut rates further in Q3, giving more details about its asset purchase plan, including buying asset backed securities. The ultimate aim is to get the region's banks lending to the private sector again but the challenge looks significant for the ECB.
- In Japan, the consumption tax hike slowed growth momentum and the reform process has been slow. We still think that further monetary easing is possible soon.
- As for emerging markets, the data has started to disappoint once again, most obviously in China. We think that rising U.S. rates will mean that assets and especially currencies will remain pressured in the near term (see bottom chart).

European and Japanese growth have weakened considerably



Emerging market data has disappointed since August



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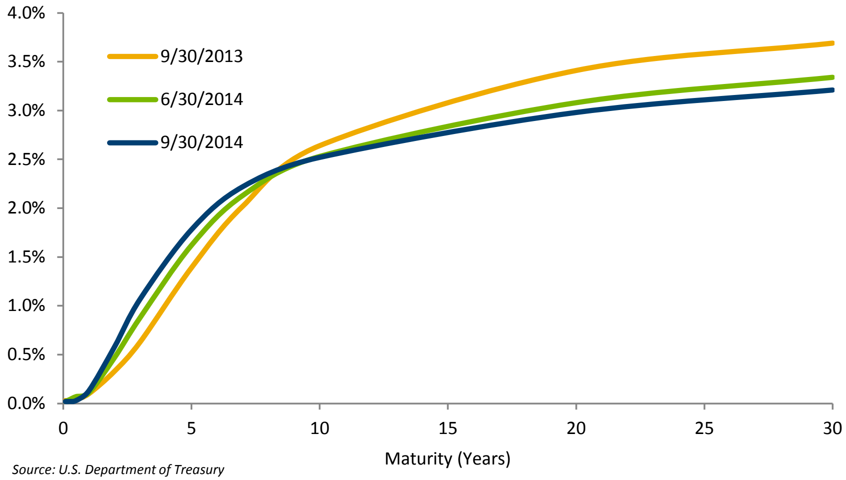
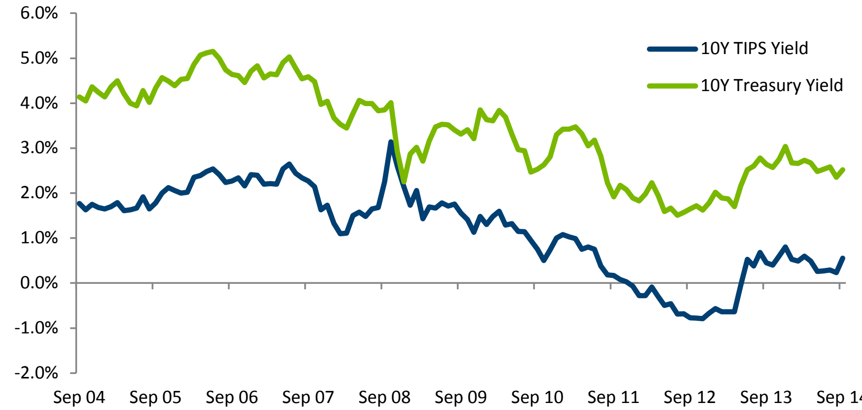
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS

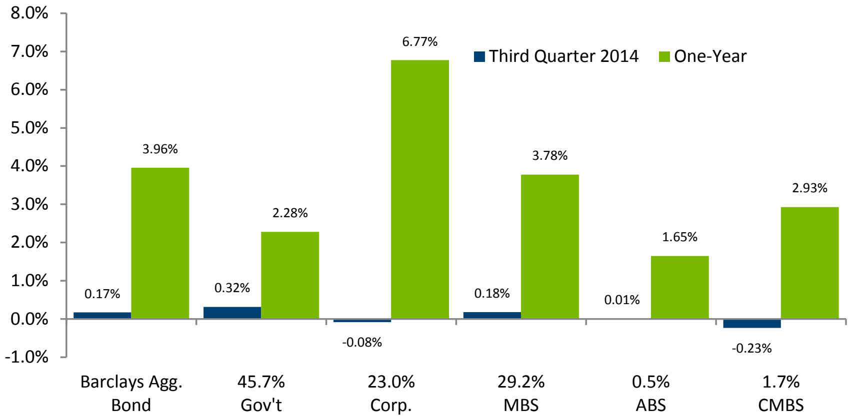


Source: U.S. Department of Treasury

- The Treasury yield curve flattened during the third quarter, driven by long bond yields falling and short rates moving higher.
- The 10-year U.S. Treasury yield ended the quarter at 2.52%, 1 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield rose by 28 basis points over the quarter and ended the period at 0.55%.

U.S. Fixed Income Markets

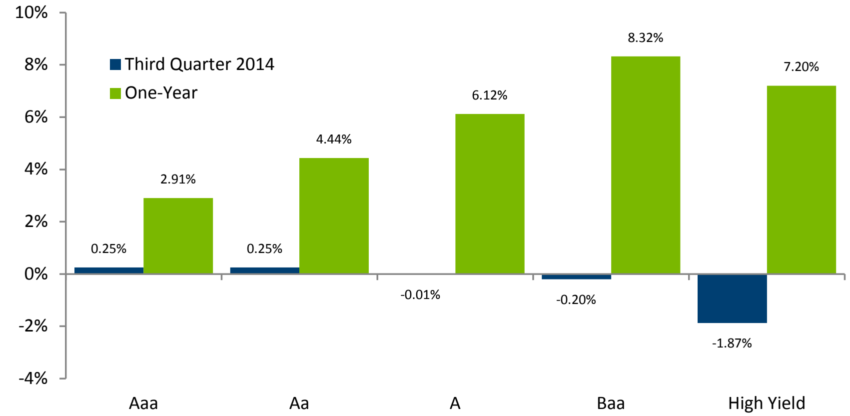
BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 09/30/2014



Source: Barclays Live

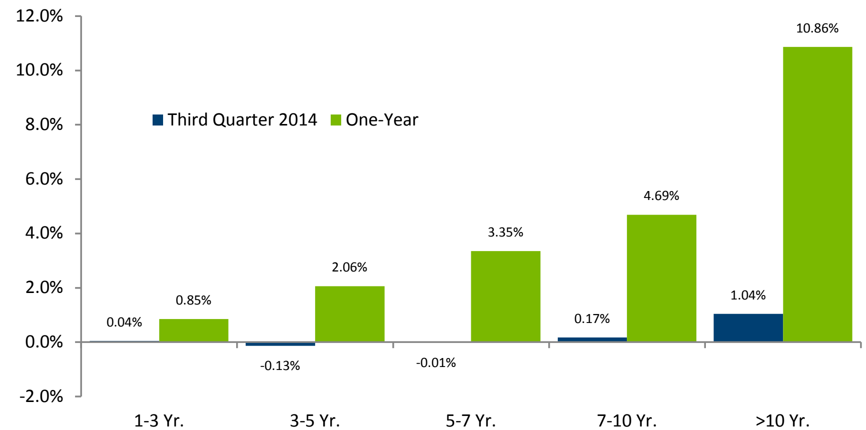
- The Barclays Aggregate Bond Index returned 0.17% in the third quarter. Government bonds were the strongest performing index segment, returning 0.32%.
- In the investment grade market, higher quality bonds outperformed lower quality bonds.
- High yield bonds underperformed aggregate investment grade corporate bonds.
- Long duration bonds continued to outperform shorter duration bonds.

BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 09/30/2014



Source: Barclays Live

BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 09/30/2014



Source: Barclays Live

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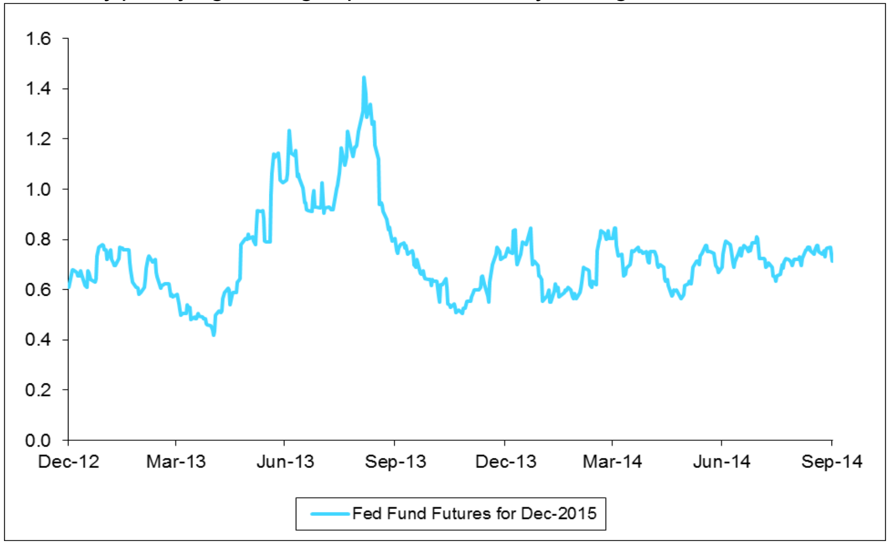
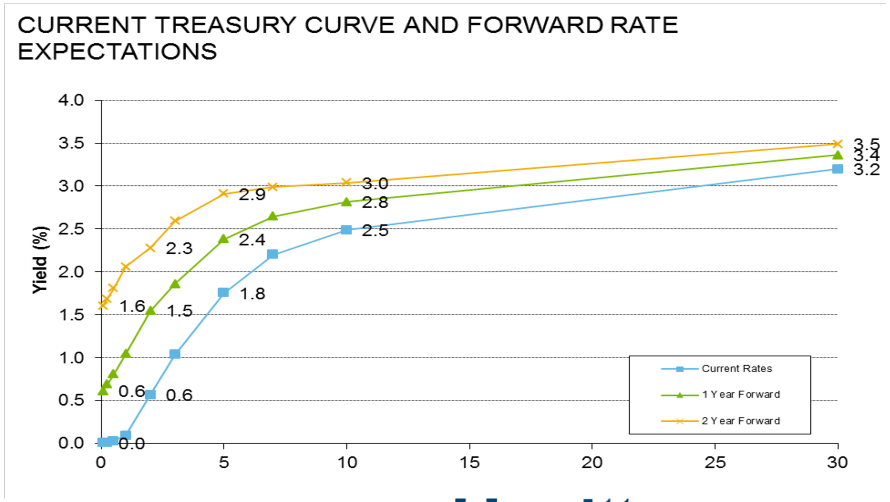
The market still expects only very gradual Fed tightening

- Despite continued good economic data, rising real yields and a strengthening dollar, market expectations for the course of monetary policy over the next year or so held remarkably steady in Q3.
- Fed funds futures remained in a tight range around 0.75%, which implies that only one interest rate increase is priced in by the end of next year (see top chart).
- Investors clearly believe the central bank's promises to keep short term interest rates below average (of around 2%) for a long period of time.
- Meanwhile, just like in Q2, the Treasury curve flattened as yields below the 5 year horizon rose while yields beyond 10 years inched lower (see bottom chart).
- These moves are likely to please Fed members who are at pains to adopt a highly gradualist approach to monetary policy.

Monetary policy tightening expectations hardly change at all in Q3





Credit Spreads

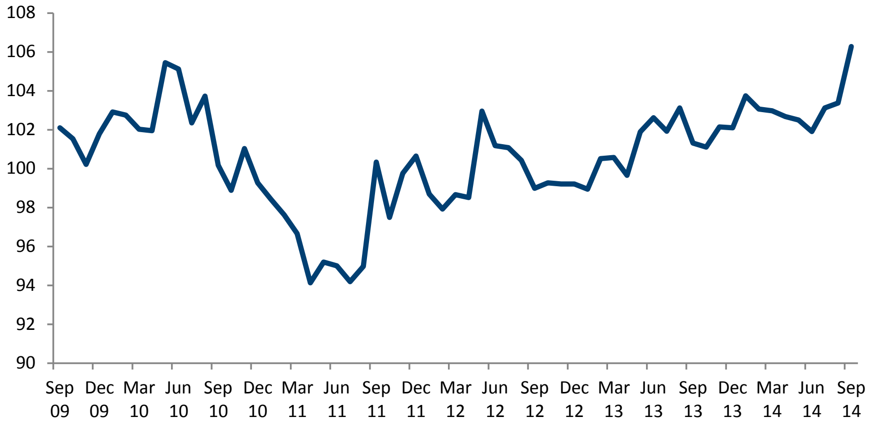
Spread (bps)	9/30/2014	6/30/2014	9/30/2013	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	43	38	54	5	-11
Long Gov't	4	4	6	0	-2
Long Credit	164	148	189	16	-25
Long Gov't/Credit	106	97	123	9	-17
MBS	30	24	43	6	-13
CMBS	99	86	141	13	-42
ABS	56	48	64	8	-8
Corporate	112	99	141	13	-29
High Yield	424	337	461	87	-37
Global Emerging Markets	288	260	330	28	-42

Source: Barclays Live

- During the third quarter, credit spreads rose across most areas of the bond market.
- High yield spreads rose by 87 basis points, the most over the quarter. This was followed by emerging market spreads which rose by 28 basis points.

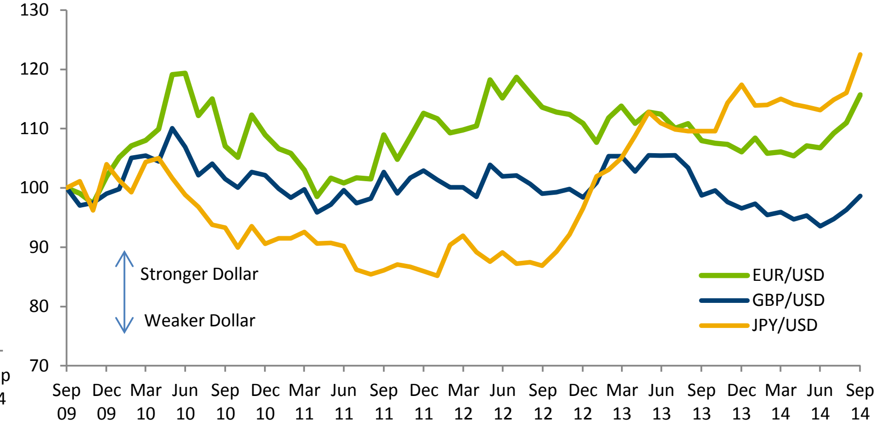
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)



Source: Federal Reserve

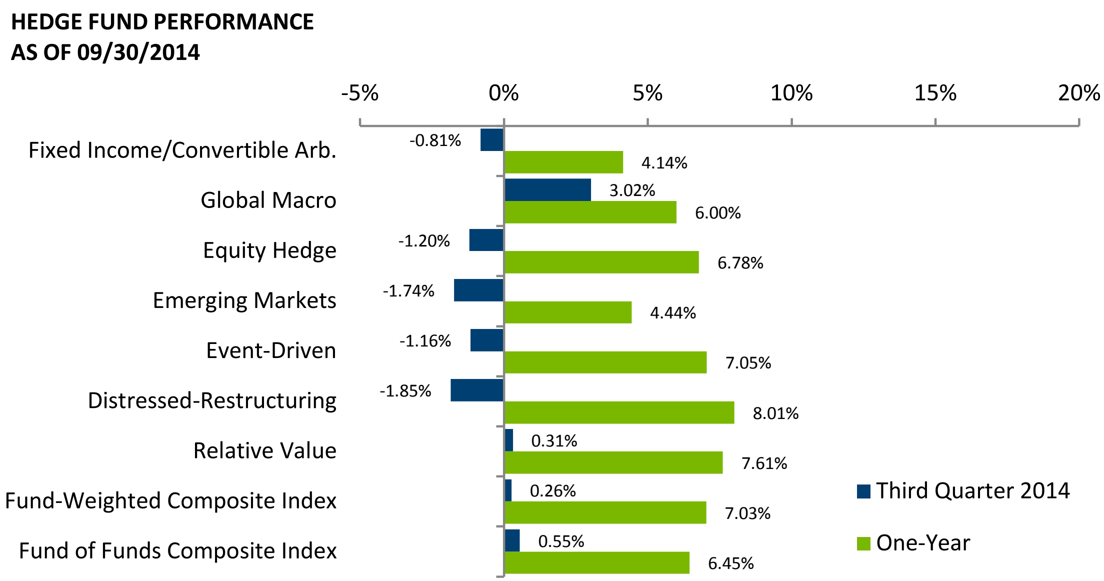
U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 09/30/2009



Source: DataStream

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar strengthened during the quarter.
- The dollar appreciated against the Euro, Yen and British Pound Sterling.

Hedge Fund Markets Overview

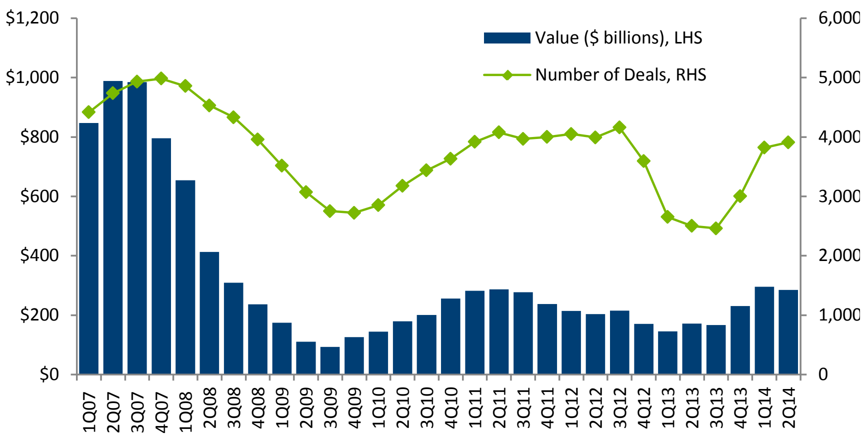


Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was modestly positive over the quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 0.26% and 0.55%, respectively, during the quarter.
- Global Macro strategies were the strongest performers, gaining 3.02% through the quarter.

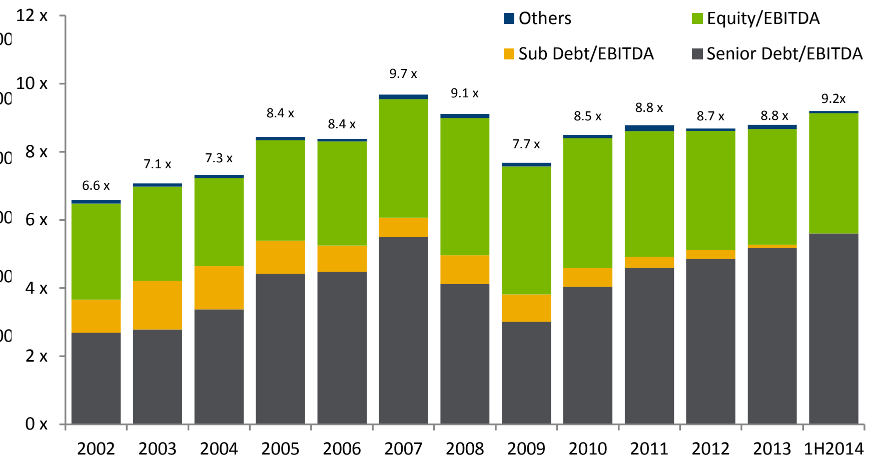
Private Equity Market Overview

LTM GLOBAL SPONSOR M&A DEAL VOLUME AND VALUE (TRAILING 12 MONTH DATA)



Source: ThomsonOne

PURCHASE PRICE MULTIPLES



Source: S&P

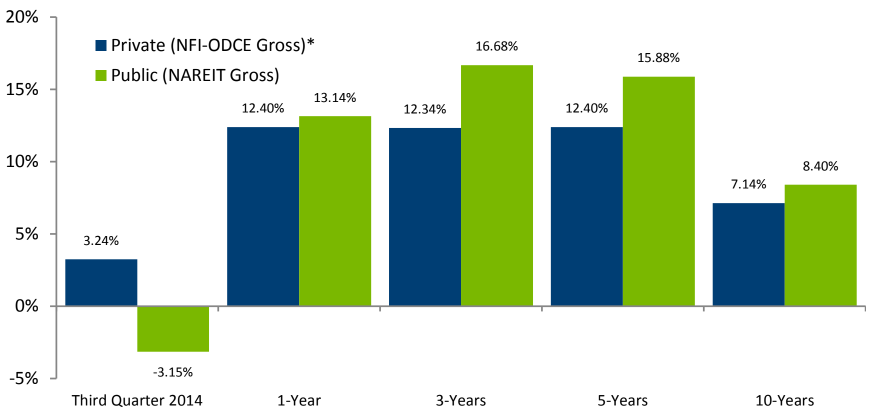
- **Fundraising:** Fundraising continued to rise with LTM capital raised reaching $353.1 billion; 27.6% and 17.0% above the prior year and ten year average levels, respectively [4,5]. Dry powder increased in all segments and now stands at $966.4 billion, representing an 8.6% increase from 2013 and 14.3% increase from the five year average[1,4].
- **Buyout:** Activity decreased since last quarter. $61.9 billion of global sponsor-backed M&A deals closed in 2Q 2014 compared to $76.9 billion in the first quarter[5]. This still represents a 14.6% increase over the five year quarterly average. 2Q purchase price multiples were 9.1x EBITDA for large cap and 9.4x for mid cap[3], with both running above their ten year average. Further, this represents a new peak for mid cap, surpassing the previous mark of 9.3x set in 2007. European PPMs for transactions ranging from €250 - €499 million were 9.8x, up 8.8% over the ten year average. LTM exit value reached a new high of $405.9 billion, exceeding the prior peak of $380.7 billion in 2Q 2011. Additionally, the number of exits reached a new high of 1,625, surpassing last quarter's peak of 1,600[1].
- **Venture:** Healthy investment activity occurred during 2Q 2014, with $13.0 billion invested in 1,114 deals versus $9.7 billion in 985 deals in 1Q 2014. This is the highest dollar amount invested since 2001. Unlike in 2001, when a significant portion was invested in expansion stage deals, 2Q dollars were relatively evenly spread across stages[8]. The exit environment is solid and strengthening [8], supported by the high number of venture-backed IPOs which more than doubled in 1H 2014 from the same period in 2013.
- **Mezzanine:** Declines have persisted in 2014, with volume decreasing 13.8% and median loan size decreasing 21.4%, quarter over quarter. Dry powder is estimated at $43.3 billion, roughly equal to the total raised over the last three years [1,4].
- **Distressed Debt:** High yield default rates were 1.7% in the second quarter, up 1.5% from the first quarter. 2014 YTD high yield defaults total $23.7 billion from twenty issuers compared to just $8.4 billion from nineteen issuers at this time last year. Although, 2Q 2014's trailing twelve month rate of 2.7% remains well below the 4.6% long-term average, the looming bankruptcy filing of Caesar's Entertainment Operating Co. could increase the trailing twelve month default rate to 3.4% [6]. Increasing purchase prices and higher levels of leverage may result in an increase in distressed opportunities in three to four years, or sooner if there is a stall in the economy.
- **Secondaries:** Fundraising increased in 2Q 2014 to $12.0 billion relative to the $2.0 billion raised in 2Q 2013[5] . Dry powder stands at an estimated $45.8 billion, representing a record level and 2.2x the average annual deployment rate over the last two years. 2014 Transaction activity is expected to exceed that of 2013. The average discount on buyout funds continues to decrease despite rising NAVs and is 4.0% as of Q2 2014, the lowest level since 1Q 2011[2].
- **Infrastructure:** $9.0 billion closed by six partnerships during 2Q 2014[3], a 38.5% increase from 2Q 2013. Dry powder of $100.9 billion stands at an all-time high, with 50.5% of that targeted for North America [1]. In Q2 2014, infrastructure managers completed 110 deals with an estimated aggregate deal value of $60.1 billion, equating to an average value of $546.1 million [1]. Deal activity is down in 2014, likely due to increased competition and the broad availability of debt.

[1]Preqin, [2]UBS, [3]Standard & Poors, [4]Hewitt EnnisKnupp, [5]Thomson One, [6]Fitch Ratings, [7]PriceWaterhouseCoopers/National Venture Capital Association MoneyTree Report, [8]Thomson Reuters and National Venture Capital Association, [9]Cooley Venture Financing Report

Notes: YTD and LTM is through 06/30/14 unless otherwise noted; FY: Fiscal year ended 12/31; YTD: Year to date; LTM: Last twelve months; PPM: Purchase Price Multiples: Total Purchase Price / EBITDA

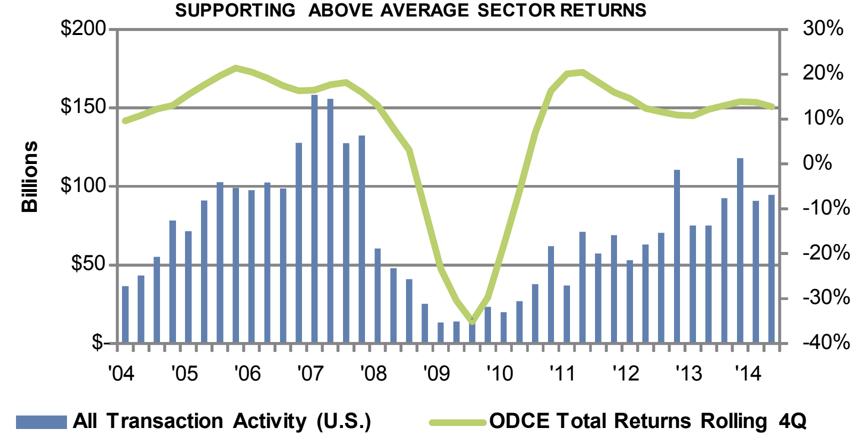
U.S. Commercial Real Estate Market

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 09/30/2014



**Third quarter returns are preliminary*
Sources: NCREIF, NAREIT

TRANSACTION ACTIVITY
SUPPORTING ABOVE AVERAGE SECTOR RETURNS



- Return momentum in the private Core market is slowly waning as the cyclical recovery further matures. That said, the current pace is still well above the sector's long-term average driven by strong investor interest, low interest rates, and still improving market fundamentals.
- For the quarter, the NFI-ODCE* returned 3.2% (gross of fees), down slightly from 3.6% a year ago. For the trailing one year, the index returned 12.4*% (5.1*% income and 7.3*% appreciation), versus 12.8% last quarter. For the trailing 5-year total return, the reverse is occurring as the impact of the global financial crisis rolls over. As of 3Q, the trailing 5-year return was 12.4% (vs 10.0% last quarter and 7.3% in first quarter).
- For non Core investments, access to capital continues to deepen and legacy fund returns generally continue to strengthen as strategies become fully executed and sold into the Core investment segment.
- U.S. REITs had a fairly volatile quarter, declining 3.1%, though still up 14.0% year to date. Concerns around interest rates as well as meaningful equity issuances in the latter part of the quarter placed downward pressure on pricing. Relative to private markets, the REIT market ended the quarter trading at around par based on estimated net asset values.
- Sector fundamentals continue to rebound beyond the primary markets, helping to support and expand current pricing. As new supply remains generally low, growth in rental rates, which has been modest to-date in all property types except apartments, have plenty of room for improvement. High expectations exist for improving net operating income supporting on-going attractive cash flow yields--even in the Core sector.
- Rising interest rates remain on investors' radar, though timing is highly uncertain. Improving fundamentals should help offset rising rates, though not completely. Portfolio structure and other long term risk mitigation measures are important to managing the maturing cycle, liquidity, and interest rate risks.

Source: HEK, NAREIT, NCREIF
*Preliminary

Explanatory Notes

Explanatory Notes

Note: Market values are used in this report to calculate performance for the Endowment and Operating pools. Market values reflect trade date accounting provided by the custodial bank Northern Trust.

Non-U.S. Equity Benchmark – The non-U.S. Equity asset class benchmark has remained the MSCI ACWI ex-U.S. Index, despite the underlying strategy moving to the MSCI ACWI ex-U.S. IMI Index, because it is the benchmark identified in the Endowment Investment Policy Statement (IPS) for this asset class. These indices are very similar. The MSCI ACWI ex-U.S. IMI Index includes a very small (13.0%) diversifying allocation to small international companies that are not included in the MSCI ACWI ex-U.S. Index.

Peer Universe Comparison Floating Bar Chart – In this chart the universe returns are shown in percentiles, with the lowest percentile/rank representing the best performance in that time period. The shaded blocks shown for each time period represent the range of returns in the peer universe from the 95th percentile to the 5th percentile. Returns below the red boxes fall in the worst 5 percent for that period, and returns above the light blue boxes fall in the top 5 percent. The Investment Metrics / BNY Mellon Universe includes reported performance from 421 Endowment and Foundations. The average market value within the Endowment and Foundations universe was $1.1 billion as of quarter-end.