

# UNIVERSITY OF ILLINOIS SYSTEM

THIRD QUARTER 2019 INVESTMENT UPDATE  
PREPARED FOR THE BOARD OF TRUSTEES

November 2019

# TABLE OF CONTENTS

---

<b>Section</b>	<b>Page Number</b>
Market Overview and System Assets	3
Endowment Fund Update: September 30, 2019	6
Operating Pool Update: September 30, 2019	10
Appendix:	
Market Environment	13
Disclosures	19

# MARKET OVERVIEW AND SYSTEM ASSETS

# CAPITAL MARKET OVERVIEW

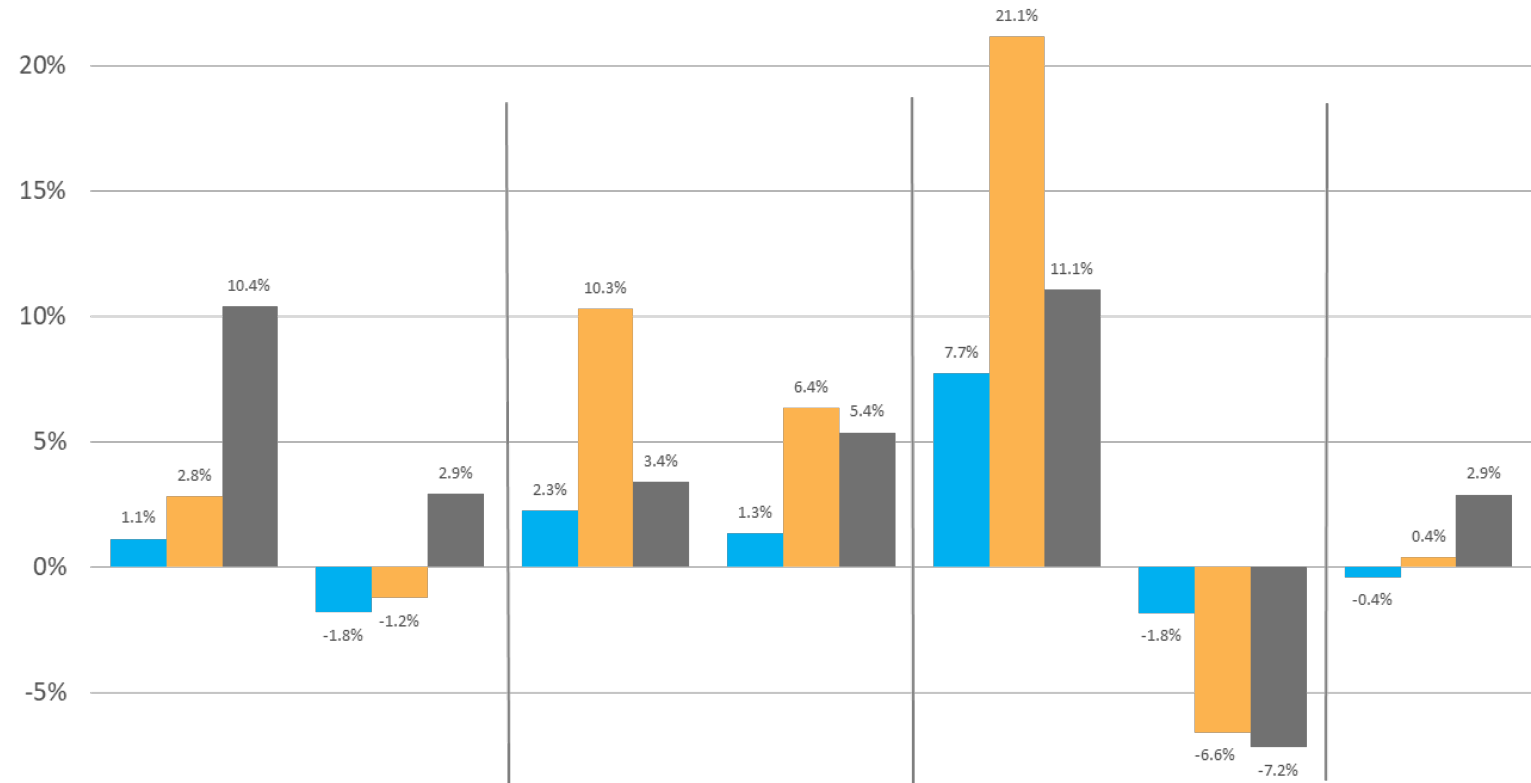
## Third Quarter 2019 – Market Returns

Global Equity

Fixed Income

Real Assets

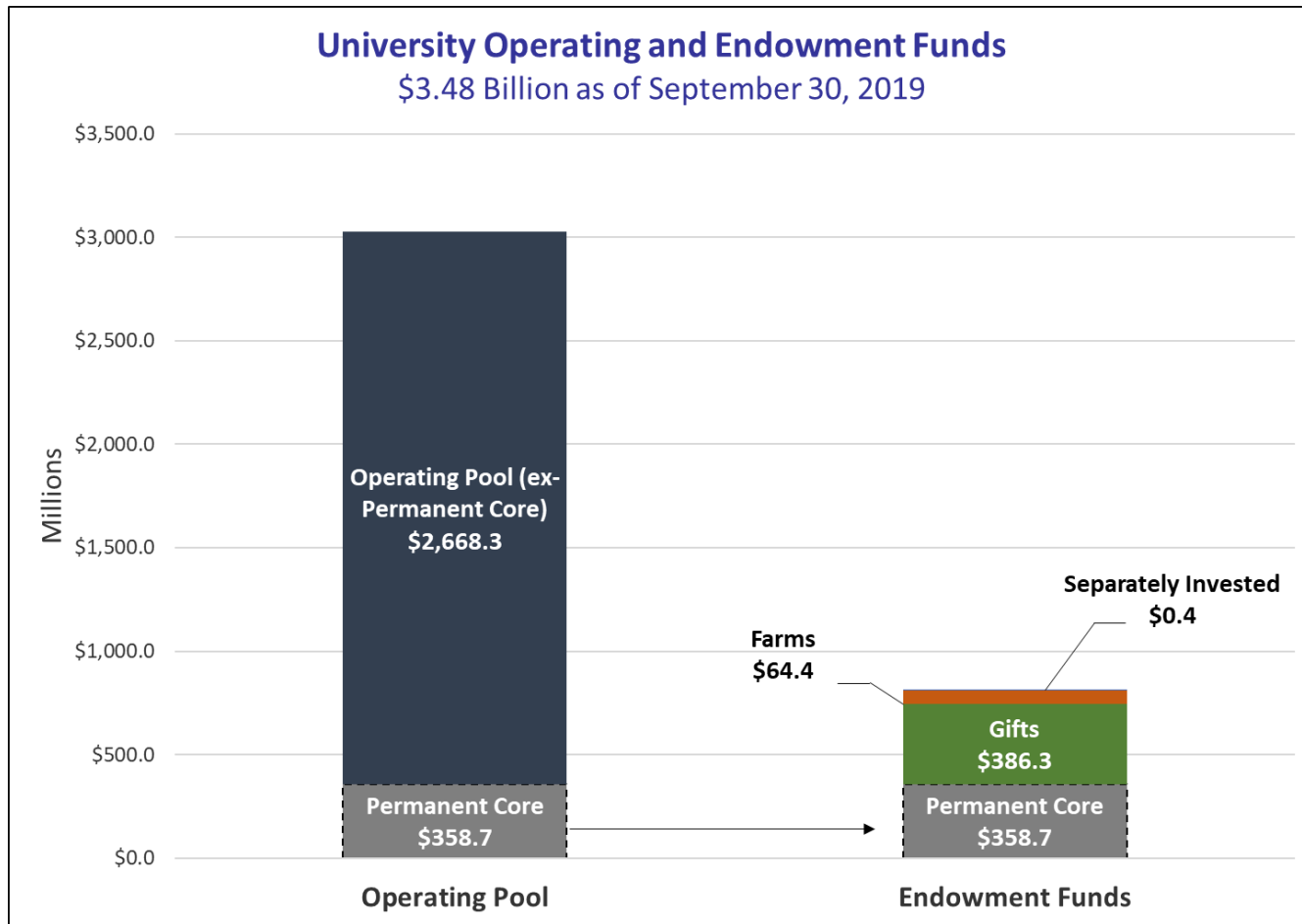
Diversifying Strategies



	DJ US Total Stock Market Index	MSCI ACWI ex-U.S.	Barclays U.S. Agg Index	Barclays HY Index	FTSE NAREIT All Equity Index	Blmbrg Cmndty Index	HFRI Fund Wtd Comp. Index
■ Quarter	1.1%	-1.8%	2.3%	1.3%	7.7%	-1.8%	-0.4%
■ 1 Yr	2.8%	-1.2%	10.3%	6.4%	21.1%	-6.6%	0.4%
■ 5 Yrs Annualized	10.4%	2.9%	3.4%	5.4%	11.1%	-7.2%	2.9%

Data sources: Lipper and Hedge Fund Research

# UNIVERSITY OPERATING AND ENDOWMENT FUNDS: SEP 30, 2019

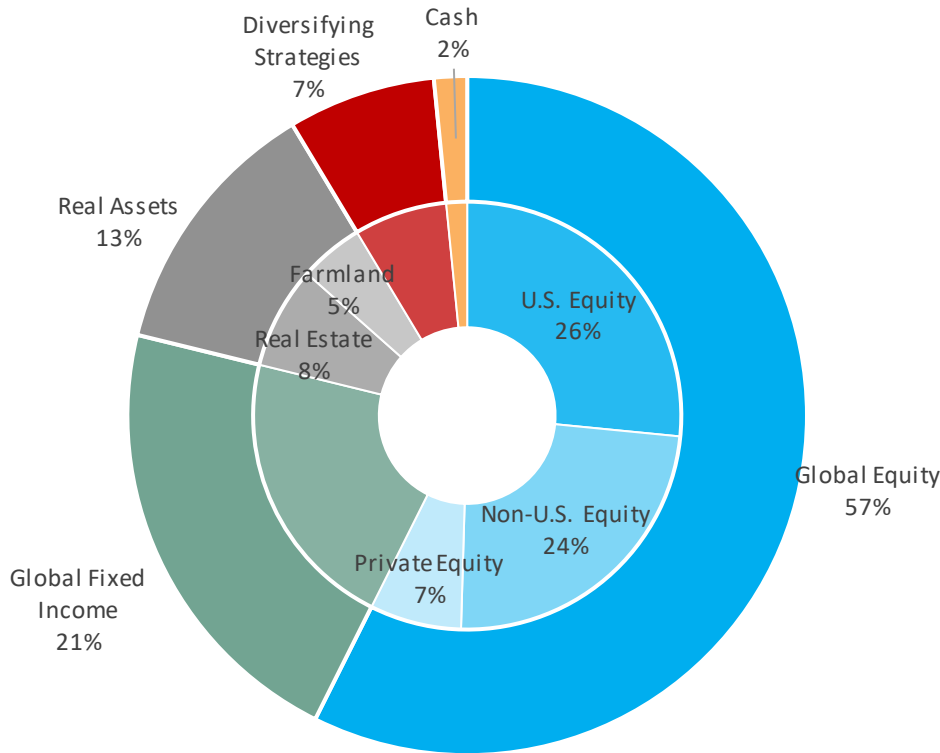


- The University Operating and Endowment Funds were valued at \$3.5 billion as of September 30, 2019.
- The Operating Pool (ex-Permanent Core) was valued at \$2.7 billion. The permanent core investment (gray bar) is a long-term investment of the operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Funds is valued at \$809.8 million (right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$451.1 million.

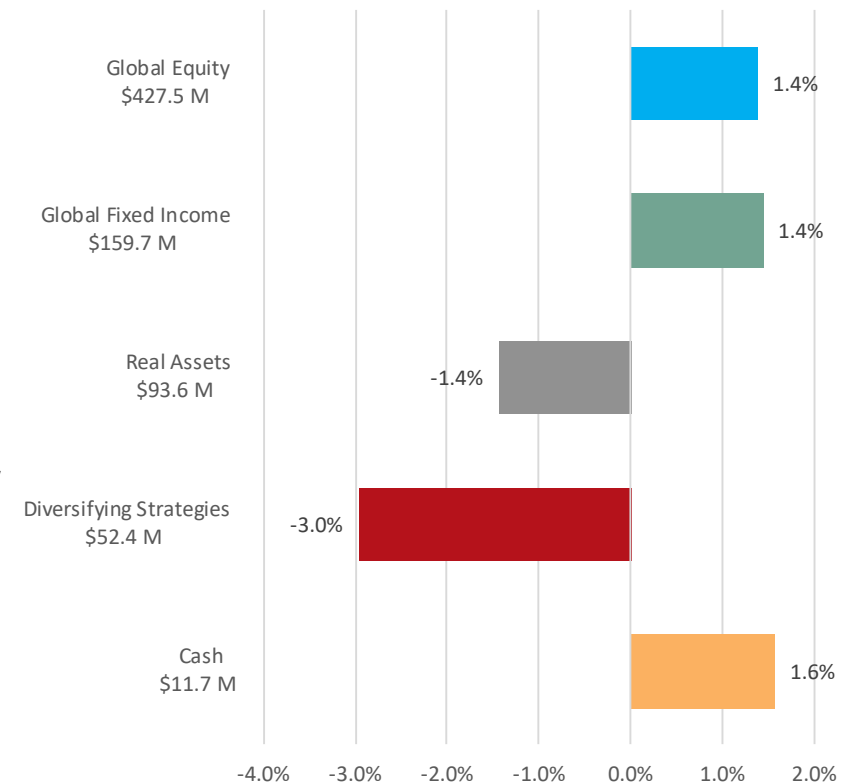
ENDOWMENT FUND UPDATE:  
SEPTEMBER 30, 2019

# MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

**Total Pool: \$745.0 Million as of 9/30/2019**



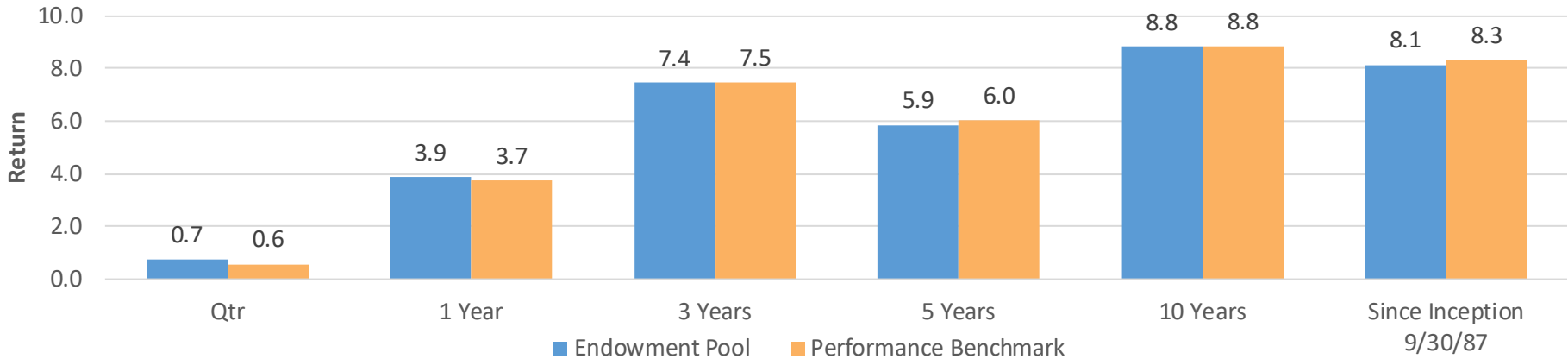
## Over/Under Allocation to Long-Term Policy Targets



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 (SEPTEMBER 30, 2019)

## TOTAL POOL: \$745.0 MILLION



- Over the one-year period, the endowment returned 3.9%. Non-U.S. equity (-1.8%) and hedge funds (+0.9%) hurt performance, while private equity (+16.1%) did well.
- On the ten-year period, the endowment posted a strong 8.8% return, supported by solid returns from U.S. equities (+12.6%), real assets (+11.3%), and private equity (+11.4%).

Endowment Pool	Quarter Ending
Market Value Change	September-2019
Beginning Market Value	\$731.3 M
Net Contributions	\$8.1 M
Gain/Loss	\$5.5 M
Ending Market Value	\$745.0 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 (SEP 30, 2019)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Sep-2019	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Endowment Pool</b>			<b>0.7</b>	<b>3.9</b>	<b>7.4</b>	<b>5.9</b>	<b>8.8</b>	<b>8.1</b>	<b>Sep-87</b>
Performance Benchmark			0.6	3.7	7.5	6.0	8.8	8.3	
<b>GLOBAL EQUITY</b>	<b>57.4</b>	<b>56.0</b>	<b>0.0</b>	<b>1.8</b>	<b>10.1</b>	<b>7.3</b>	<b>9.9</b>	<b>7.9</b>	<b>Sep-87</b>
<b>Total U.S. Equity</b>			<b>0.7</b>	<b>1.3</b>	<b>11.8</b>	<b>9.4</b>	<b>12.6</b>	<b>9.3</b>	<b>Sep-87</b>
DJ U.S. Total Stock Market Index			1.1	2.8	12.8	10.4	13.1	9.6	
<b>Total Non-U.S. Equity</b>			<b>-1.7</b>	<b>-1.8</b>	<b>6.2</b>	<b>3.1</b>	<b>4.1</b>	<b>5.2</b>	<b>Sep-93</b>
Non-U.S. Equity Benchmark			-1.7	-1.8	6.1	3.0	4.5	5.3	
<b>Total Private Equity</b>			<b>3.4</b>	<b>16.1</b>	<b>16.7</b>	<b>12.9</b>	<b>11.4</b>	<b>4.4</b>	<b>Jan-04</b>
Private Equity Benchmark			1.9	5.8	15.8	13.4	16.1	11.8	
<b>GLOBAL FIXED INCOME<sup>1</sup></b>	<b>21.4</b>	<b>20.0</b>	<b>2.3</b>	<b>9.4</b>	<b>3.2</b>	<b>3.6</b>	<b>5.5</b>	<b>6.9</b>	<b>Sep-87</b>
<b>Total Public Fixed Income</b>			<b>2.3</b>	<b>9.2</b>	<b>3.1</b>	<b>3.6</b>	<b>5.5</b>	<b>6.9</b>	<b>Sep-87</b>
Bloomberg Barclays U.S. Aggregate			2.3	10.3	2.9	3.4	3.7	6.4	
<b>REAL ASSETS</b>	<b>12.6</b>	<b>14.0</b>	<b>1.6</b>	<b>7.9</b>	<b>4.8</b>	<b>4.7</b>	<b>11.3</b>	<b>10.2</b>	<b>Dec-06</b>
<b>Total Real Estate</b>			<b>2.8</b>	<b>6.9</b>	<b>6.4</b>	<b>9.1</b>	<b>-</b>	<b>10.6</b>	<b>Aug-13</b>
Real Estate Benchmark			1.1	4.6	5.6	8.6	-	10.3	
<b>Total Farmland<sup>2</sup></b>			<b>0.0</b>	<b>9.6</b>	<b>2.9</b>	<b>0.5</b>	<b>8.8</b>	<b>8.3</b>	<b>Dec-06</b>
NCREIF Cornbelt Index			0.0	2.3	1.5	0.2	8.0	9.0	
<b>DIVERSIFYING STRATEGIES<sup>1</sup></b>	<b>7.0</b>	<b>10.0</b>	<b>0.9</b>	<b>1.4</b>	<b>1.4</b>	<b>2.3</b>	<b>-</b>	<b>2.6</b>	<b>May-13</b>
<b>Total Hedge Funds</b>			<b>0.9</b>	<b>0.9</b>	<b>1.1</b>	<b>2.1</b>	<b>-</b>	<b>2.5</b>	<b>May-13</b>
HFRI Fund Weighted Composite Index			-0.4	0.4	3.8	2.9	-	3.4	
<b>CASH</b>	<b>1.6</b>	<b>0.0</b>	<b>0.5</b>	<b>2.1</b>	<b>1.3</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	

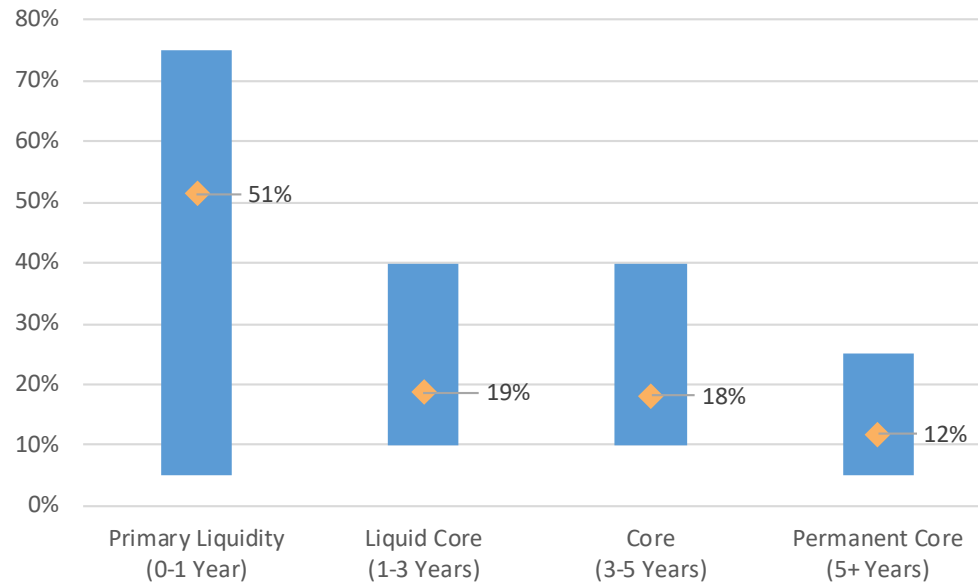
<sup>1</sup>Global Fixed Income and Diversifying Strategies include allocations and performance of private investments.

<sup>2</sup>Farmland 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:  
SEPTEMBER 30, 2019

# LIQUIDITY LAYERS: OPERATING POOL (SEPTEMBER 30, 2019)

## OPERATING POOL LIQUIDITY LAYERS AS OF SEPTEMBER 30, 2019

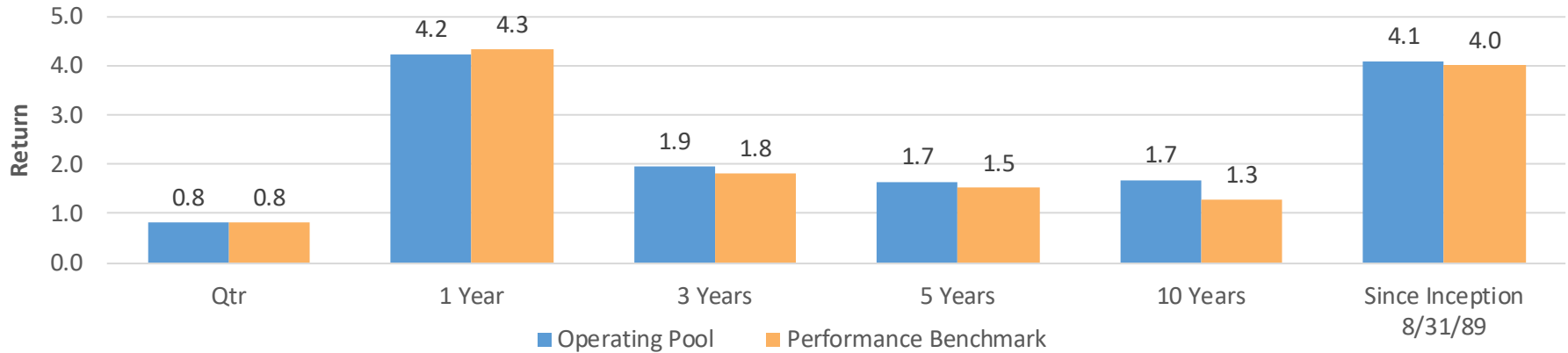


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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 (SEPTEMBER 30, 2019)

## TOTAL POOL: \$2.67 BILLION



- Over the trailing one-year period ending September 30, 2019, the Operating Pool returned 4.2%, slightly behind the benchmark return.
  - Relative performance was mixed for the Operating Pool managers over 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.

Market Value Change	Quarter Ending September-2019
Beginning Market Value	\$2,627.7 M
Net Contributions	\$20.3 M
Gain/Loss	\$20.3 M
Ending Market Value	\$2,668.3 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.

# APPENDIX: MARKET ENVIRONMENT

# MARKET ENVIRONMENT

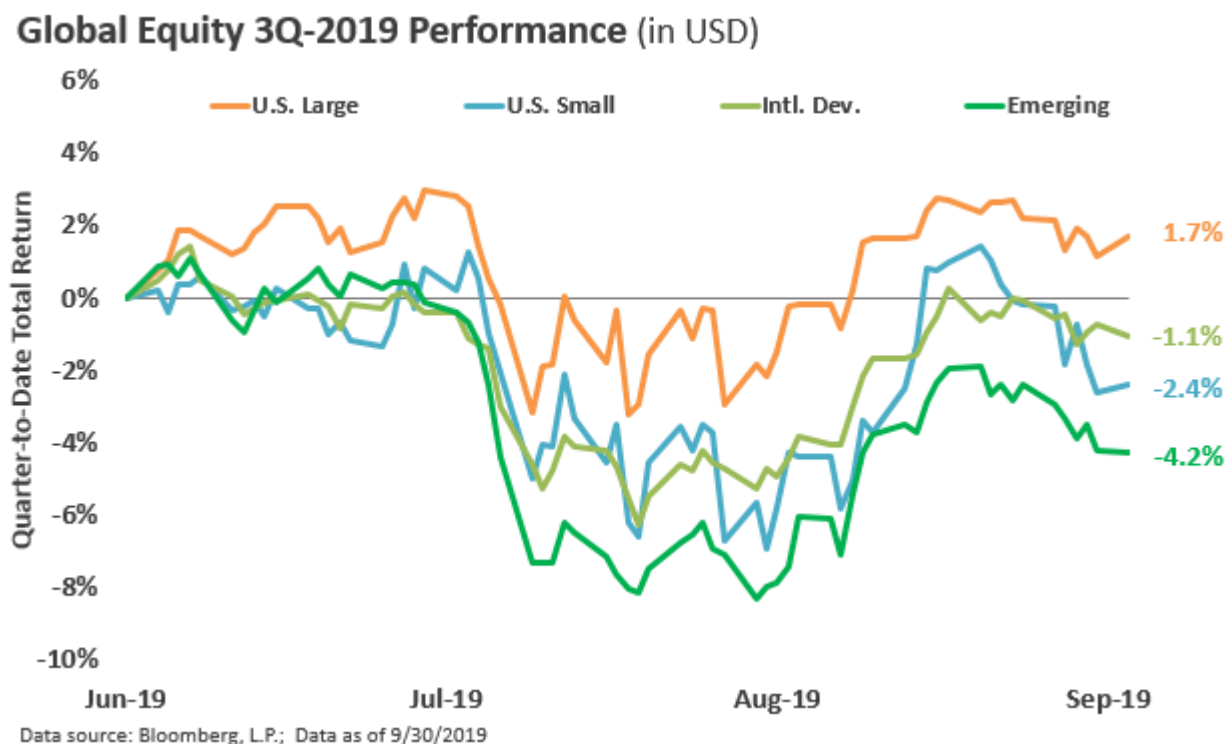
## 2010-2019 Annual Returns of Key Indices

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year annual	10-year annual
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 37.3%	Bonds 0.0%	Large Cap 20.5%	Large Cap 10.8%	Large Cap 13.2%
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 25.0%	High Yield -2.1%	Global REIT 19.8%	Small Cap 8.2%	Small Cap 11.2%
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 21.8%	Hedge Funds -4.0%	Small Cap 14.2%	Global REIT 6.8%	Global REIT 8.6%
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 14.6%	Large Cap -4.4%	Int'l 12.8%	High Yield 5.4%	High Yield 7.9%
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%	Global REIT 10.4%	Global REIT -5.6%	High Yield 11.4%	Bonds 3.4%	MLPs 6.3%
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%	Hedge Funds 7.8%	Small Cap -11.0%	MLPs 11.1%	Int'l 3.3%	Int'l 4.9%
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%	High Yield 7.5%	MLPs -12.4%	Bonds 8.5%	Emerging Markets 2.3%	Bonds 3.7%
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 3.5%	Int'l -13.8%	Emerging Markets 5.9%	Hedge Funds 1.9%	Emerging Markets 3.4%
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 -6.5%	Emerging Markets -14.6%	Hedge Funds 5.2%	MLPs -8.6%	Hedge Funds 2.7%

Note: See disclosure section for a description of key indices.

# GLOBAL EQUITIES PERFORMANCE

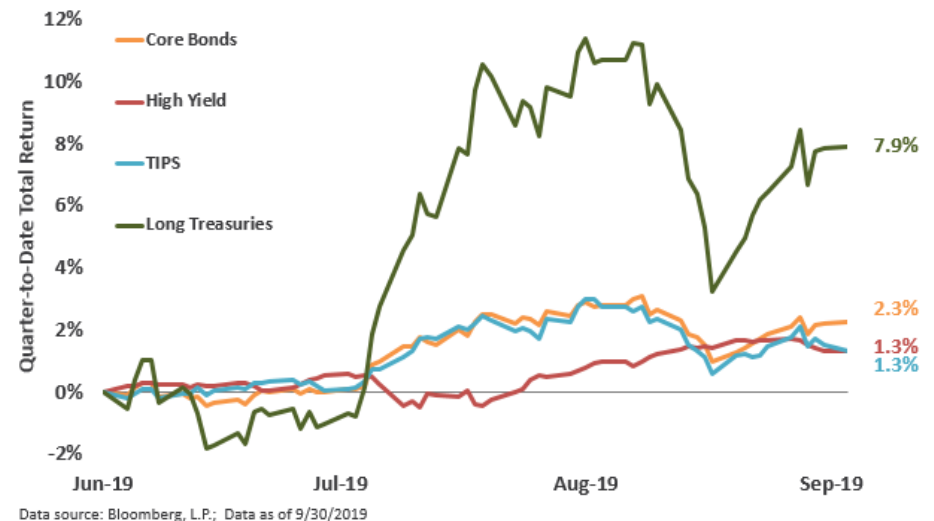
- Following two consecutive quarters of positive returns, global equity performance in the third quarter was broadly negative, outside of a modest gain in domestic large cap. International equities, particularly emerging markets, underperformed domestic, a key theme since early-2018. Continued elevated tensions between the U.S. and China and a lackluster economic backdrop have been primary drivers of the underperformance, although U.S. data has also weakened in recent months.
- Stylistically, domestic value underperformed growth in the large cap space, but outperformed growth in mid and small cap. From a broad capitalization standpoint, domestic small and microcap underperformed large cap, an additional structural theme that failed to reverse during the quarter.



# FIXED INCOME PERFORMANCE

- U.S. Treasuries continued to rally, helping drive the yield on the 30 Year Treasury Bond to a new record low, while 10-Year yields flirted with the July 2016 low and closed the quarter at 1.66%, a YTD decline of more than 100 bps. The 2/10 Treasury yield curve inverted for the first time in the current economic cycle.
- Rate-sensitive sectors such as core bonds and investment grade credit benefitted from the sharp decline in rates, while below investment grade credit lagged.
- High yield credit spreads were essentially unchanged for the quarter, but have tightened approximately 150 bps YTD and remain low versus historical averages.
- TIPS underperformed nominal Treasuries and the broader core market as inflationary expectations slid to the lowest level since 2016.

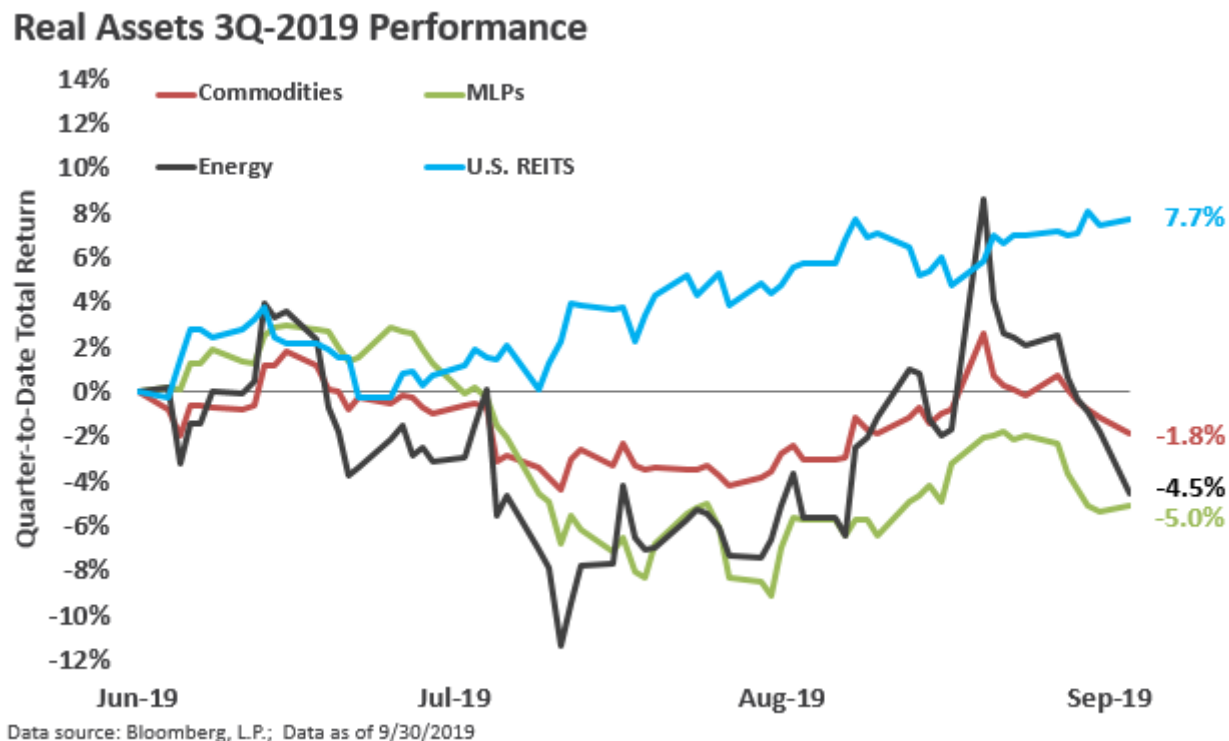
Fixed Income 3Q-2019 Performance





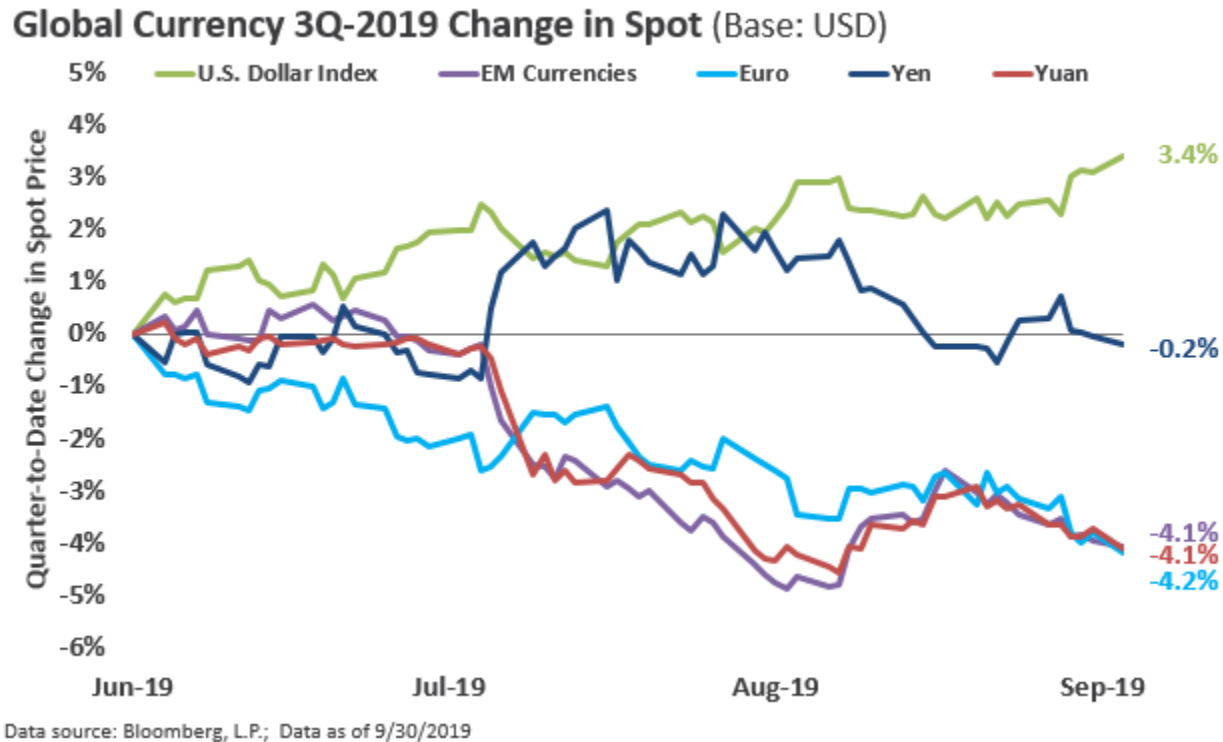
# REAL ASSETS PERFORMANCE

- Energy price volatility was elevated in the third quarter, particularly in mid-September, following an attack on Saudi Aramco's processing facilities. Despite the brief spike, oil spot prices declined quarter-over-quarter, with broader energy market fundamental concerns serving as an additional headwind to performance across the energy infrastructure landscape.
- U.S. real estate investment trusts (REITs) performance remained strong and through the quarter remained one of the best performing major asset categories for the year. Stable real estate fundamentals and an accommodative rate backdrop have supported the elevated performance.



# CURRENCY PERFORMANCE

- During the third quarter, the U.S. Dollar was the strongest performer and only currency with a positive return.
- The Euro was the weakest performer, followed closely by the Yuan and EM currencies.



# DISCLOSURES

# DISCLOSURES

- This presentation was prepared by Fund Evaluation Group, LLC (FEG), a federally registered investment adviser under the Investment Advisers Act of 1940, as amended, providing non-discretionary and discretionary investment advice to its clients on an individual basis. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Fund Evaluation Group, LLC, Form ADV Part 2A & 2B can be obtained by written request directed to: Fund Evaluation Group, LLC, 201 East Fifth Street, Suite 1600, Cincinnati, OH 45202 Attention: Compliance Department.
- The information herein was obtained from various sources. FEG does not guarantee the accuracy or completeness of such information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. FEG assumes no obligation to update this information, or to advise on further developments relating to it.
- FEG, its affiliates, directors, officers, employees, employee benefit programs and client accounts may have a long position in any securities of issuers discussed in this report.
- Index performance results do not represent any managed portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.
- Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell any securities.
- Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time period or that investors will not incur losses.
- Past performance is not indicative of future results.
- This report is prepared for informational purposes only. It does not address specific investment objectives, or the financial situation and the particular needs of any person who may receive this report.

# 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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.barclays.com)

**High Yield** is represented by the Barclays U.S. Corporate High Yield Index. [www.barclays.com](http://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](http://www.ftse.com)

**MLPs** are represented by the Alerian MLP Index. [www.alerian.com](http://www.alerian.com)

**Hedge Funds** are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. [www.hfri.com](http://www.hfri.com)



Fund Evaluation Group, LLC | 201 East Fifth Street, Suite 1600 Cincinnati, OH 45202 | 513.977.4400 | [information@feg.com](mailto:information@feg.com) | [www.feg.com](http://www.feg.com)  
Dallas | Detroit | Indianapolis

