Reported to the Board of Trustees January 21, 2021





# UNIVERSITY OF ILLINOIS SYSTEM

THIRD QUARTER 2020 INVESTMENT UPDATE PREPARED FOR THE BOARD OF TRUSTEES

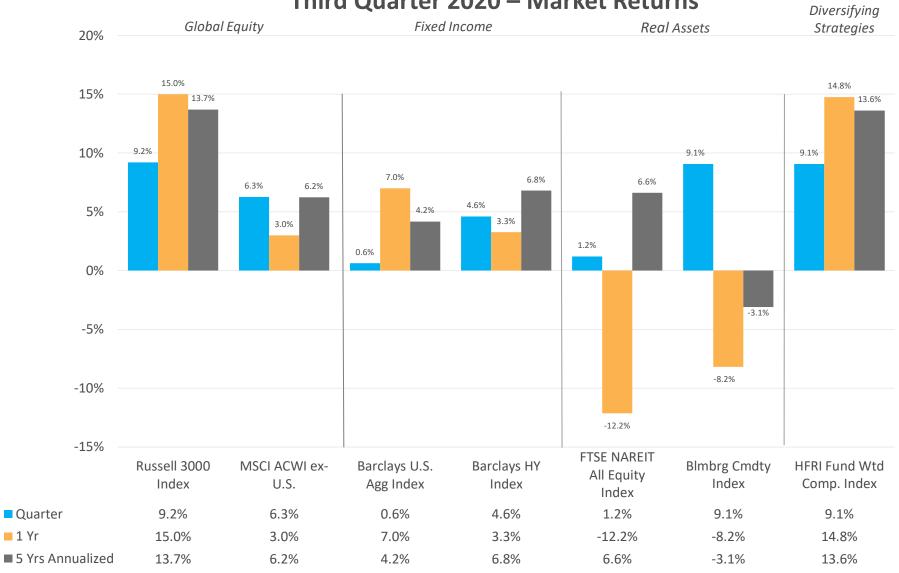
November 2020

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# MARKET OVERVIEW AND SYSTEM ASSETS

### CAPITAL MARKET OVERVIEW

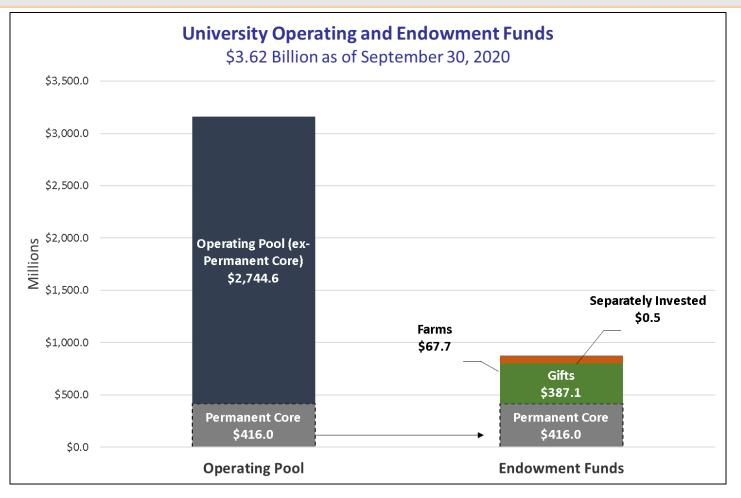


#### Third Quarter 2020 – Market Returns

Data sources: Lipper and Hedge Fund Research

1 Yr

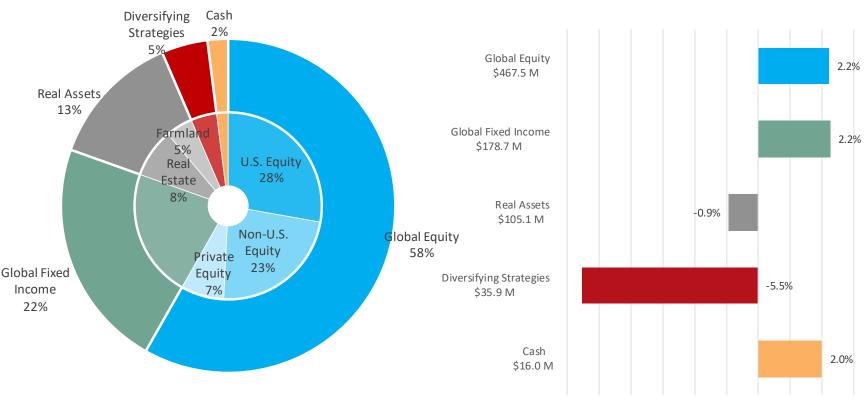
UNIVERSITY OPERATING AND ENDOWMENT FUNDS: SEP 30, 2020



- The University Operating and Endowment Funds were valued at \$3.6 billion as of September 30, 2020.
- The Operating Pool (ex-Permanent Core) was valued at \$2.7 billion. The permanent core investment (gray bar) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Pool is valued at \$803.1 million (green and gray right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$455.3 million.

# ENDOWMENT FUND UPDATE: SEPTEMBER 30, 2020

### MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL



Total Pool: \$803.1 Million as of 9/30/2020

Over/Under Allocation to Long-Term Policy Targets

-6.0% -5.0% -4.0% -3.0% -2.0% -1.0% 0.0% 1.0% 2.0% 3.0%

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 (SEP 30, 2020)



#### TOTAL POOL: \$803.1 MILLION

- Over the one-year period, the endowment returned 3.1%. Hedge funds (-36.8%) and real estate (-5.4%) detracted from performance, while U.S. equity (+11.7%) contributed to performance.
- On the ten-year period, the endowment posted an 8.0% return, supported by solid returns from U.S. equity (+12.6%), private equity (+11.6%), and real assets (+10.1%).

Endowment Pool	Quarter Ending			
Market Value Change	September-2020			
Beginning Market Value	\$768.2 M			
Net Contributions	\$1.1 M			
Gain/Loss	\$33.8 M			
Ending Market Value	\$803.1 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.

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### ASSET CLASS PERFORMANCE: ENDOWMENT POOL (SEP 30, 2020)

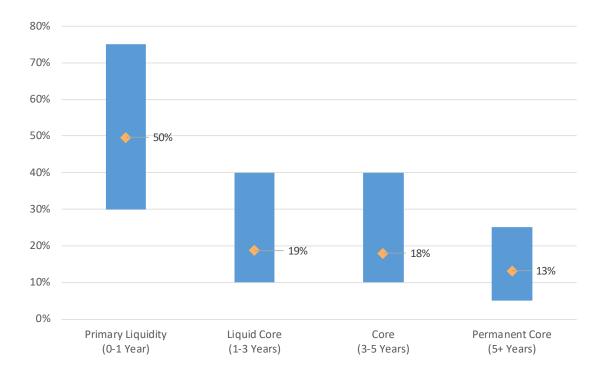
	Current	Policy	Quarter ending					Since	
	Allocation (%)	Allocation (%)	Sep-2020	1 Year	3 Years	5 Years	10 Years	Inception	<b>Inception Date</b>
Endowment Pool			4.4	3.1	4.6	6.8	8.0	8.0	Sep-87
Performance Benchmark			4.5	7.3	6.1	7.8	8.5	8.3	
GLOBAL EQUITY	58.2	56.0	6.8	7.6	6.7	9.9	9.8	7.9	Sep-87
Total U.S. Equity			8.7	11.7	9.8	11.9	12.6	9.3	Sep-87
U.S. Equity Benchmark			9.2	14.8	11.6	13.6	13.4	9.7	
Total Non-U.S. Equity			6.8	3.6	1.2	6.3	4.4	5.1	Sep-93
Non-U.S. Equity Benchmark			6.8	3.5	1.1	6.3	4.1	5.3	
Total Private Equity			0.0	6.0	13.8	12.2	11.6	4.6	Jan-04
Private Equity Benchmark			0.0	-1.3	8.3	12.8	14.6	11.4	
GLOBAL FIXED INCOME <sup>1</sup>	22.2	20.0	1.2	7.4	5.4	4.4	4.4	6.9	Sep-87
Total Public Fixed Income			1.2	7.5	5.3	4.3	4.4	6.9	Sep-87
Bloomberg Barclays U.S. Aggregate			0.6	7.0	5.2	4.2	3.6	6.4	
REAL ASSETS	13.1	14.0	0.5	-1.7	3.3	3.5	10.1	9.3	Dec-06
Total Real Estate			0.8	-5.4	2.6	5.0	-	8.2	Aug-13
Real Estate Benchmark			0.3	0.5	3.9	5.7	-	8.9	
Total Farmland <sup>1,2</sup>			0.0	5.1	4.6	2.0	8.3	8.0	Dec-06
NCREIF Cornbelt Index			0.0	3.9	2.9	0.9	7.6	8.6	
DIVERSIFYING STRATEGIES <sup>1</sup>	4.5	10.0	4.0	-35.2	-14.0	-7.0		-3.6	May-13
Total Hedge Funds			4.4	-36.8	-15.0	-7.7	-	-4.1	May-13
HFRI Fund Weighted Composite Index			4.4	4.4	2.8	4.1	-	3.5	
CASH	2.0	0.0	0.0	0.8	1.4	1.0	-	0.9	

<sup>1</sup>Global Fixed Income, Total Farmland and Diversifying Strategies include allocations and performance of private investments. <sup>2</sup>Farmland directly owned by the Endowment is valued annually on June 30.

# OPERATING POOL UPDATE: SEPTEMBER 30, 2020

#### **OPERATING POOL LIQUIDITY LAYERS**

AS OF SEPTEMBER 30, 2020



- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Boardapproved 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 (SEP 30, 2020)



#### **TOTAL POOL: \$2.74 BILLION**

- Over the trailing one-year period ending September 30, 2020, the Operating Pool returned 3.1%, matching the benchmark return.
  - Performance of the managers in the Operating Pool were mixed respective to their benchmarks over the period.
- Over the three-, five-, ten-year and since inception periods, the Operating Pool has outperformed the benchmark.
  - The majority of the Operating Pool's managers have each met or outperformed their respective benchmarks.

Operating Pool	Quarter Ending			
Market Value Change	September-2020			
Beginning Market Value	\$2,616.9 M			
Net Contributions	\$116.8 M			
Gain/Loss	\$10.8 M			
Ending Market Value	\$2,744.6 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

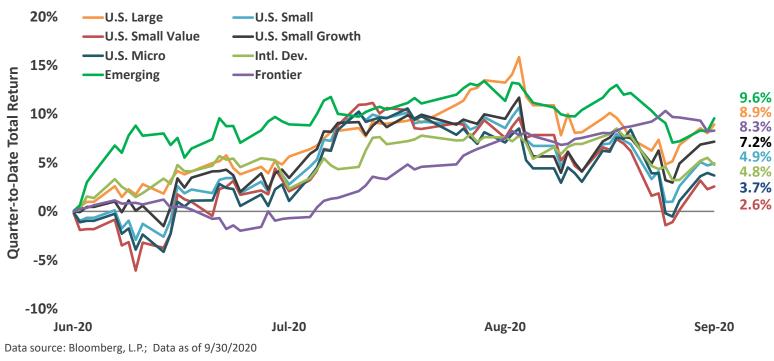
2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5-year annual	10-year annual
MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Bonds 0.0%	Large Cap 31.5%	Bonds 6.8%	Large Cap 14.1%	Large Cap 13.7%
Bonds 7.8%	Emerging Markets 18.2%	Large Cap 32.4%	Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	High Yield -2.1%	Small Cap 25.5%	Large Cap 5.6%	Emerging Markets 9.0%	Small Cap 9.9%
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%	Int'l 22.0%	Hedge Funds 2.4%	Small Cap 8.0%	High Yield 6.5%
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%	Global REIT 21.9%	High Yield 0.6%	High Yield 6.8%	Global REIT 4.7%
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%	Emerging Markets 18.4%	Emerging Markets -1.2%	Int'l 5.3%	Int'l 4.6%
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%	High Yield 14.3%	Int'l -7.1%	Bonds 4.2%	Bonds 3.6%
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 8.7%	Small Cap -8.7%	Hedge Funds 3.1%	Hedge Funds 2.9%
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%	Hedge Funds 8.4%	Global REIT -19.7%	Global REIT 2.0%	Emerging Markets 2.5%
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%	MLPs 6.6%	MLPs -46.2%	MLPs -11.6%	MLPs -4.2%

2011-2020 Annual Returns of Key Indices

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

### **GLOBAL EQUITY**

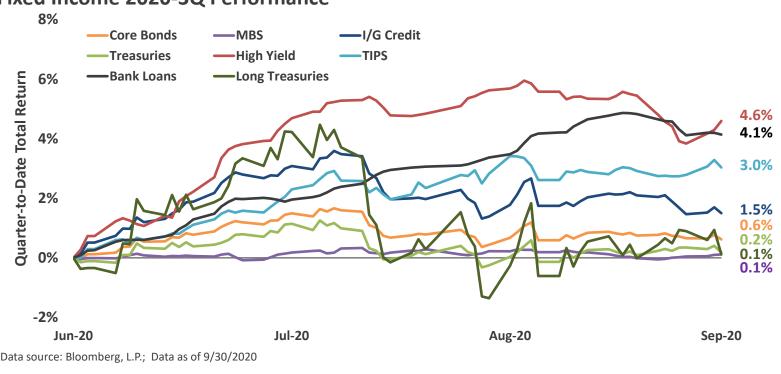
- Global equities posted a second straight quarter of broad-based positive performance, with domestic markets continuing their longer-term trend of outperforming international equities, albeit modestly underperforming Emerging Market equities against the backdrop of a weakening U.S. dollar (USD).
- Domestic large cap (+8.9%) outperformed small cap (+4.9%) by 400 basis points, reversing the second quarter's small cap outperformance and exemplifying domestic large cap growth's ongoing strong positive momentum.
- Growth's secular outperformance versus value persisted in a meaningful fashion during the quarter, as domestic large growth (+13.2%) more than doubled the return of large value (+5.6%).



#### Global Equity 2020-3Q Performance (in USD)

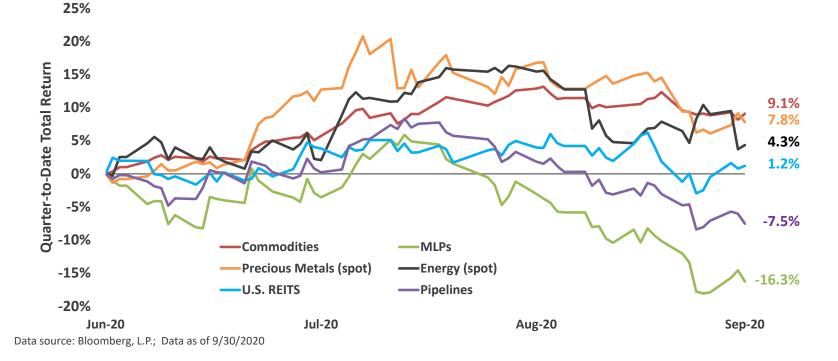
### FIXED INCOME

- The ongoing rally across the majority of fixed income sectors persisted in the third quarter, despite the continued strong performance of most risky asset categories. Credit-sensitive sectors of the market witnessed the strongest relative performance amidst a broader bid for risk assets.
- Ongoing economic weakness though improving in various areas and sizable Federal Reserve asset purchases
  have served as key demand drivers behind the bond market's year-to-date rally, with futures traders pricing in
  near-zero interest rates for at least the next three years, despite some increase in inflationary sentiment.
- Inflationary expectations, as implied by the Treasury market, rose during the quarter, supporting relative outperformance of Treasury Inflation-Protected Securities (TIPS) versus nominal Treasuries.



#### Fixed Income 2020-3Q Performance

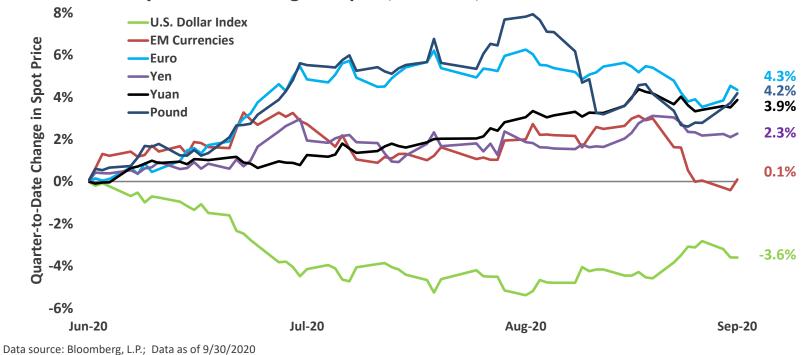
- Real assets performance was mixed, as positive returns were witnessed across commodities and REITs, but energy infrastructure performance reversed course following 2Q's historic rebound off of 1Q lows.
- REIT returns, while slightly positive, lagged those of other asset categories with comparable risk profiles (e.g., domestic stocks, high yield bonds, etc.). REITs continued to face meaningful fundamental headwinds, particularly relating to anticipated commercial real estate demand in a post-COVID-19 world.
- Precious metals advanced further in the third quarter, supported by a general increase in inflationary sentiment, negative real interest rates, and elevated uncertainty surrounding the November U.S. presidential election, along with the associated policies that will accompany the winning candidate.



#### Real Assets 2020-3Q Performance

### CURRENCIES

- The exchange rate value of the USD, as measured by the ICE U.S. Dollar Index (DXY), depreciated nearly 4% amidst unprecedented monetary and fiscal stimulative measures taken by the Federal Reserve and U.S. Congress to counteract the disinflationary pressures presented by COVID-19. A ballooning federal budget deficit and growing debt overhang have likely sparked worries of a meaningful debasement in the USD on the secular horizon.
- Liquid Emerging Market currencies (+0.1%) spent the duration of the quarter appreciating versus the USD, but gave back some gains late in the quarter amidst a modest flight-to-quality rally.



#### Global Currency 2020-3Q Change in Spot (Base: USD)

## DISCLOSURES

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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

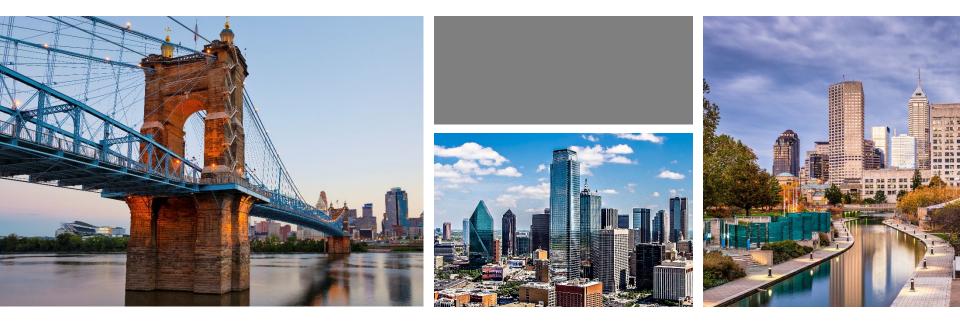
**Bonds** are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. www.barclays.com

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



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