

UNIVERSITY OF ILLINOIS SYSTEM

THIRD QUARTER 2022 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

December 2022

Reported to the Board of Trustees
January 26, 2023

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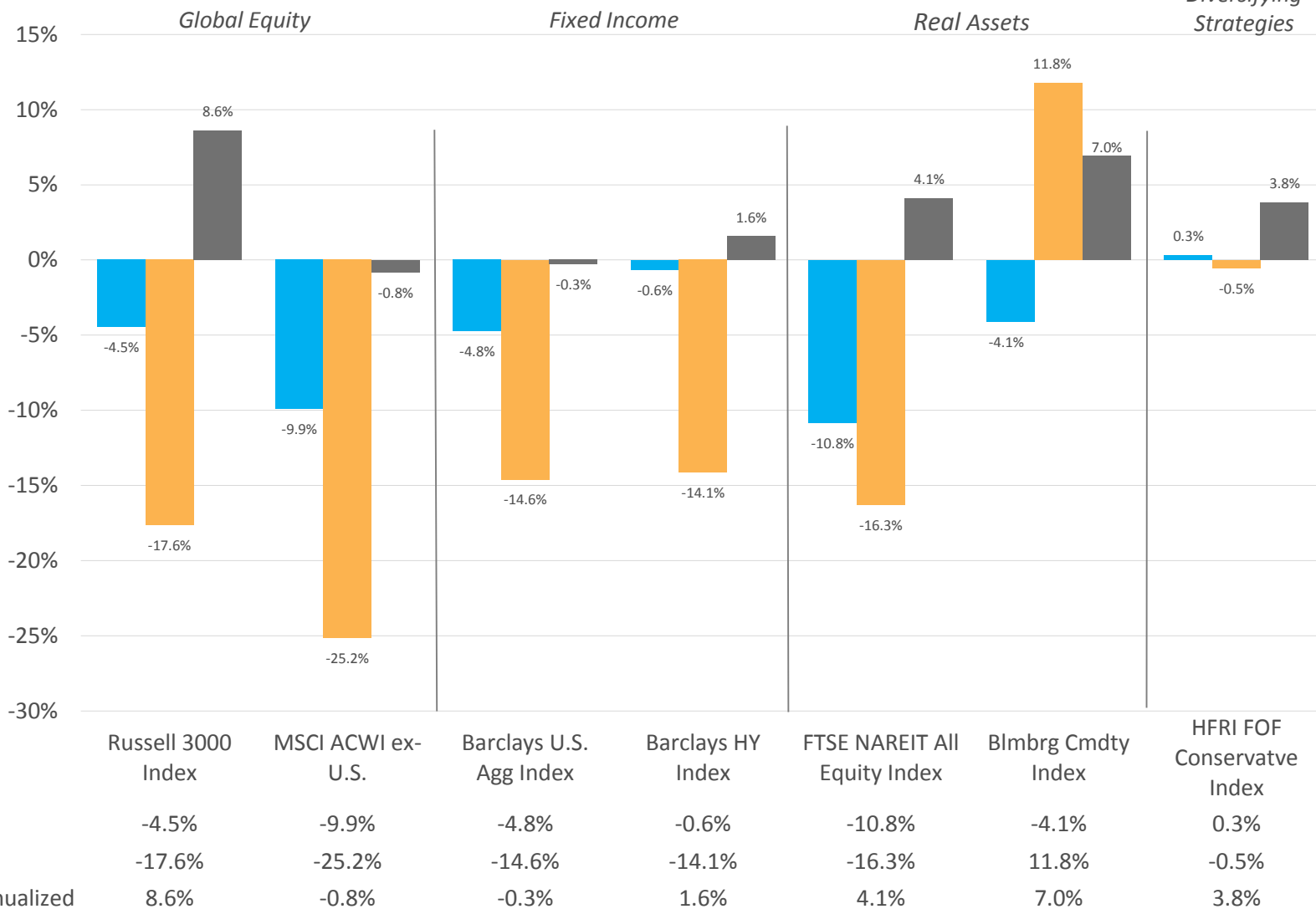


MARKET OVERVIEW AND SYSTEM ASSETS

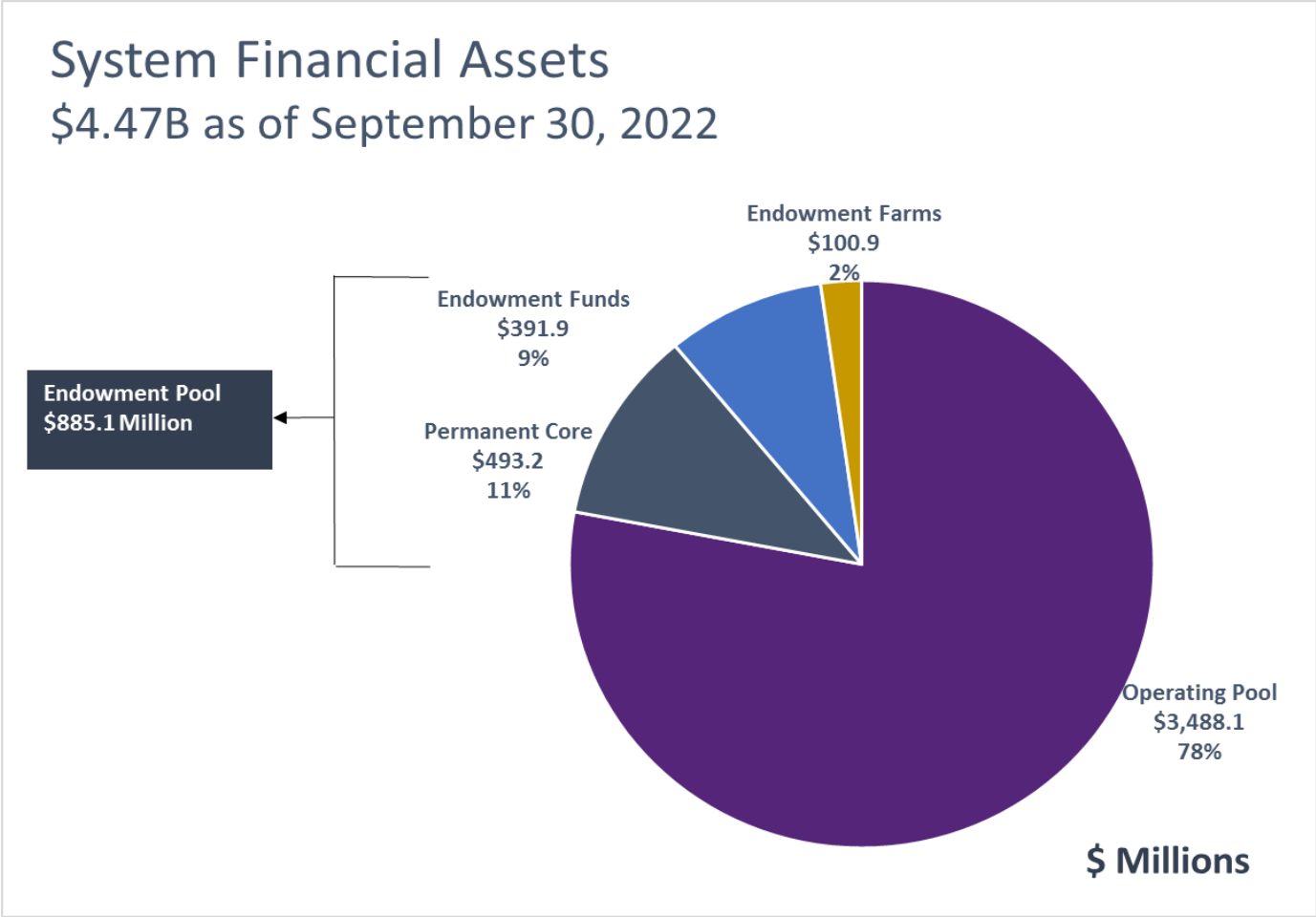
MARKET RETURNS

Third Quarter 2022 – Market Returns

Diversifying Strategies



Data sources: Lipper and Hedge Fund Research

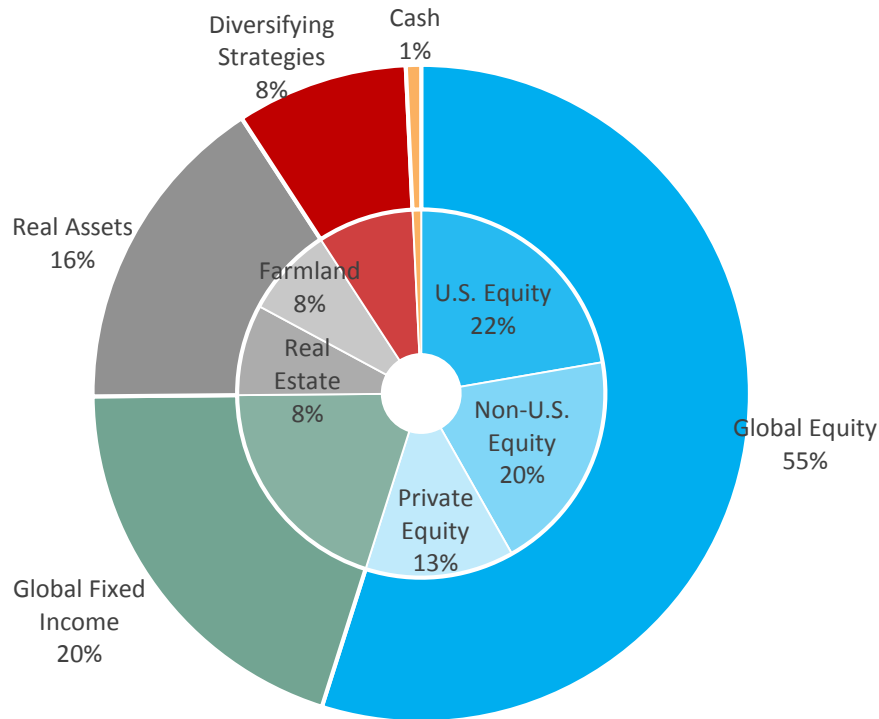


- The System’s financial assets were valued at \$4.47 billion as of September 30, 2022.
- The Operating Pool was valued at \$3.49 billion (ex-Permanent Core) . The permanent core investment (gray slice) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Pool is valued at \$885.10 million (gray and blue slices) and is discussed further on the following slides.

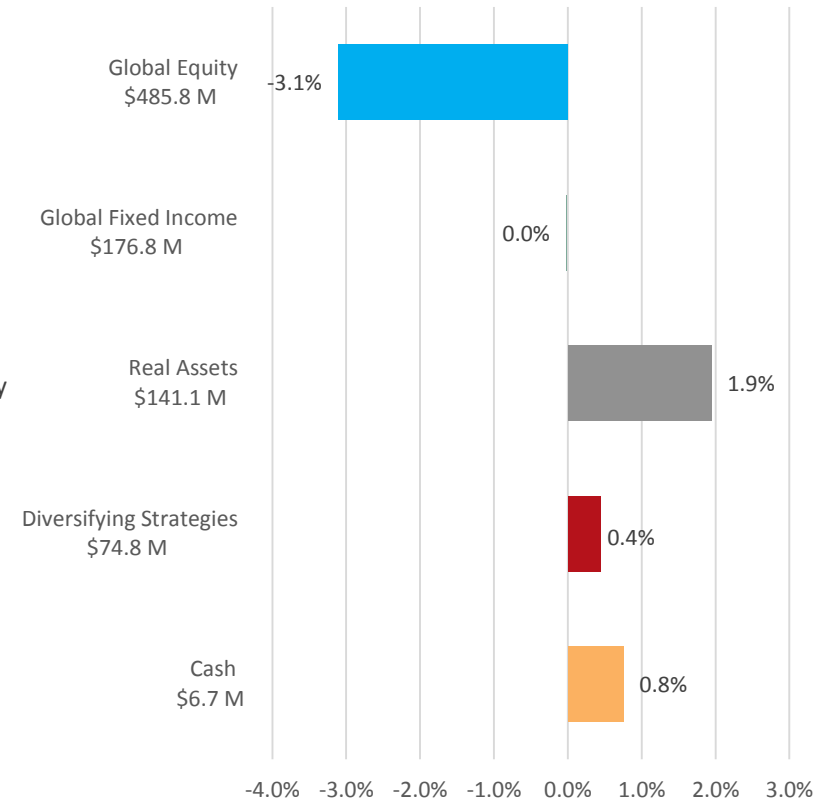
ENDOWMENT POOL UPDATE:
SEPTEMBER 30, 2022

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$885.1 Million as of 9/30/2022

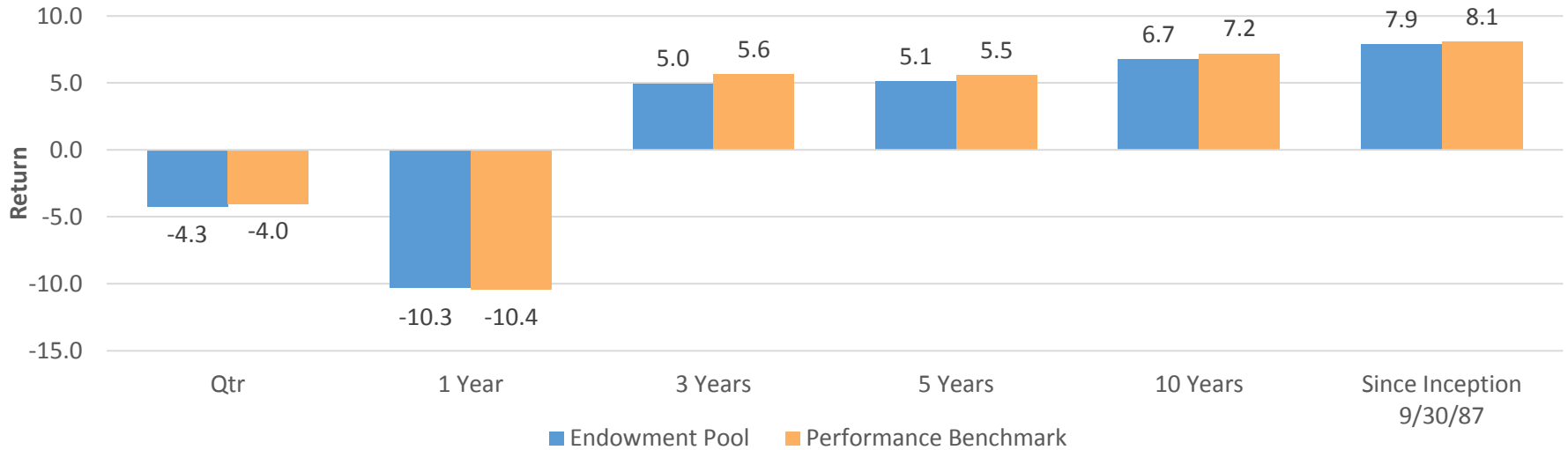


Over/Under Allocation to Long-Term Policy Targets



TOTAL ENDOWMENT POOL PERFORMANCE (SEPTEMBER 30, 2022)

Total Pool: \$885.1 Million



- Over the one-year period, the endowment returned -10.3%, slightly outperforming the benchmark. Real assets (+20.8%), diversifying strategies (+2.2%), and private equity (+0.6%) added to performance.
- Over the ten-year period, the endowment posted a 6.7% return, supported by solid returns from private equity (+15.5%), U.S. equity (+10.8%), and real assets (+7.8%).

| Endowment Pool Market Value Change | Quarter Ending September-2022 |
|---------------------------------------|----------------------------------|
| Beginning Market Value | \$920.8 M |
| Net Contributions | \$3.9 M |
| Gain/Loss | (\$39.6 M) |
| Ending Market Value | \$885.1 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.

ASSET CLASS PERFORMANCE: ENDOWMENT POOL (SEPTEMBER 30, 2022)

| | Current Allocation (%) | Policy Allocation (%) | Quarter ending Sep-2022 | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Inception Date |
|--|---------------------------|--------------------------|-------------------------------|--------------|--------------|-------------|-------------|--------------------|----------------|
| Endowment Pool | | | -4.3 | -10.3 | 5.0 | 5.1 | 6.7 | 7.9 | Sep-87 |
| Performance Benchmark | | | -4.0 | -10.4 | 5.6 | 5.5 | 7.2 | 8.1 | |
| GLOBAL EQUITY | 54.9 | 58.0 | 5.6 | 17.8 | 6.7 | 6.5 | 8.8 | 7.8 | Sep 87 |
| Total U.S. Equity | | | -4.9 | -18.7 | 7.5 | 8.0 | 10.8 | 9.1 | Sep-87 |
| U.S. Equity Benchmark | | | -4.5 | -17.6 | 7.7 | 8.6 | 11.3 | 9.4 | |
| Total Non-U.S. Equity | | | -9.8 | -25.8 | -1.3 | -0.8 | 3.5 | 4.5 | Sep-93 |
| Non-U.S. Equity Benchmark | | | -9.7 | -25.7 | -1.3 | -0.8 | 3.2 | 4.6 | |
| Total Private Equity | | | 0.0 | 0.6 | 23.4 | 21.2 | 15.5 | 7.3 | Jan-04 |
| Private Equity Benchmark | | | 0.0 | -3.1 | 17.7 | 15.9 | 16.6 | 13.1 | |
| GLOBAL FIXED INCOME ¹ | 20.0 | 20.0 | 4.7 | 12.2 | 1.8 | 0.7 | 1.6 | 6.1 | Sep 87 |
| Total Public Fixed Income | | | -5.0 | -13.5 | -2.6 | 0.1 | 1.3 | 6.0 | Sep-87 |
| Bloomberg U.S. Aggregate | | | -4.8 | -14.6 | -3.3 | -0.3 | 0.9 | 5.5 | |
| Total Private Fixed Income | | | 0.0 | 13.3 | 16.0 | - | - | 18.4 | Jan-18 |
| Bloomberg U.S. Corporate HY Index | | | -0.6 | -14.1 | -0.5 | - | - | 1.5 | |
| REAL ASSETS ¹ | 15.9 | 14.0 | 2.1 | 20.8 | 12.2 | 9.6 | 7.8 | 10.6 | Dec 06 |
| Total Real Estate | | | -4.3 | 1.1 | 5.4 | 6.0 | - | 8.8 | Aug-13 |
| Real Estate Benchmark | | | 0.3 | 21.0 | 11.5 | 9.1 | - | 10.6 | |
| Total Farmland² | | | 0.0 | 50.7 | 21.6 | 14.4 | 7.9 | 10.7 | Dec-06 |
| NCREIF Cornbelt Index | | | 0.0 | 26.7 | 12.8 | 8.5 | 6.8 | 9.7 | |
| DIVERSIFYING STRATEGIES¹ | 8.4 | 8.0 | 1.0 | 2.2 | 9.2 | 6.0 | - | 1.3 | May 13 |
| Total Hedge Funds | | | 1.2 | 1.9 | -10.4 | -6.9 | - | -1.8 | May-13 |
| Hedge Fund Index | | | 0.2 | -0.7 | 8.1 | 5.6 | - | 4.9 | |
| CASH | 0.8 | 0.0 | 0.4 | 0.5 | 0.4 | 1.0 | - | 0.7 | |

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

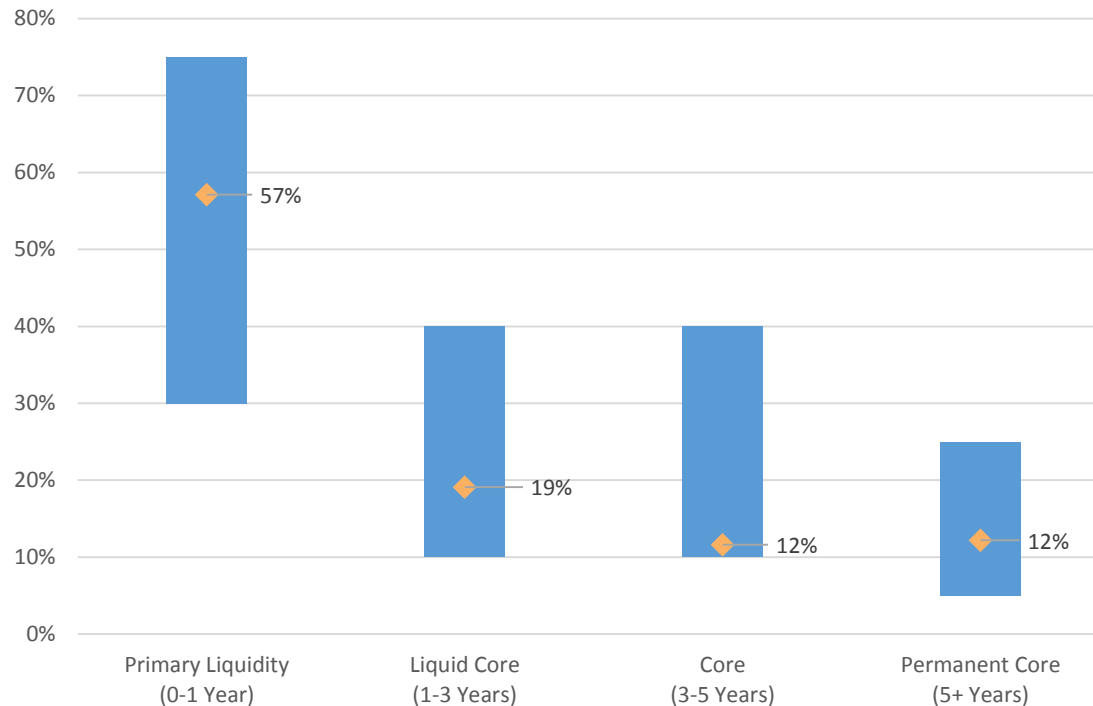
²Farmland directly owned by the Endowment is valued annually on June 30.

OPERATING POOL UPDATE:
SEPTEMBER 30, 2022

LIQUIDITY LAYERS: OPERATING POOL (SEPTEMBER 30, 2022)

OPERATING POOL LIQUIDITY LAYERS

AS OF September 30, 2022

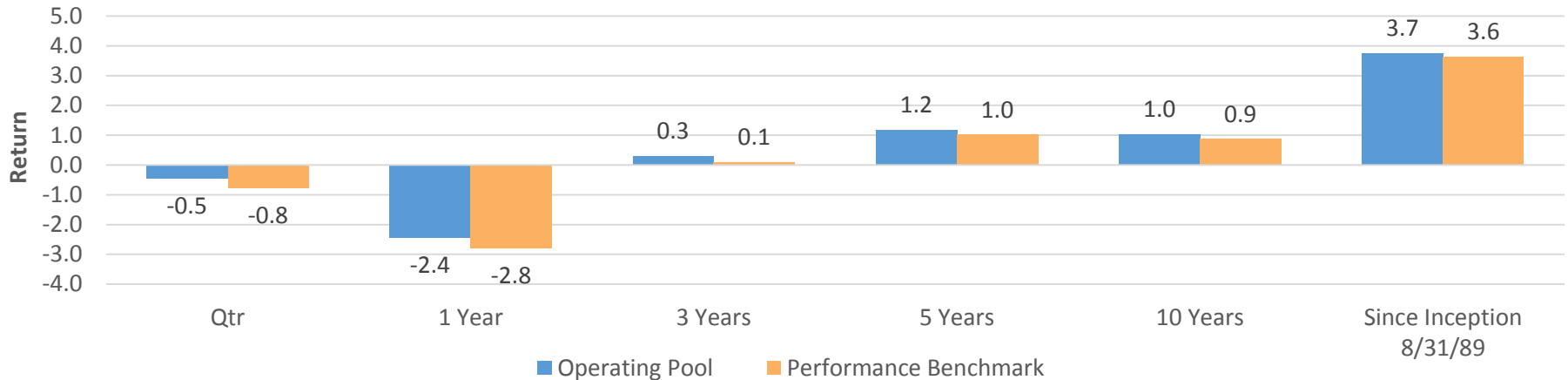


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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, 2022)

TOTAL POOL: \$3.49 BILLION



- Over the trailing one-year period, the Operating Pool returned -2.4%, outperforming the benchmark return.
 - Most managers in the Operating Pool matched or outperformed their respective 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 either met or outperformed their respective benchmarks over these time periods.

| Operating Pool Market Value Change | Quarter Ending September-2022 |
|------------------------------------|-------------------------------|
| Beginning Market Value | \$3,127.1 M |
| Net Contributions | \$377.0 M |
| Gain/Loss | (\$16.0 M) |
| Ending Market Value | \$3,488.1 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

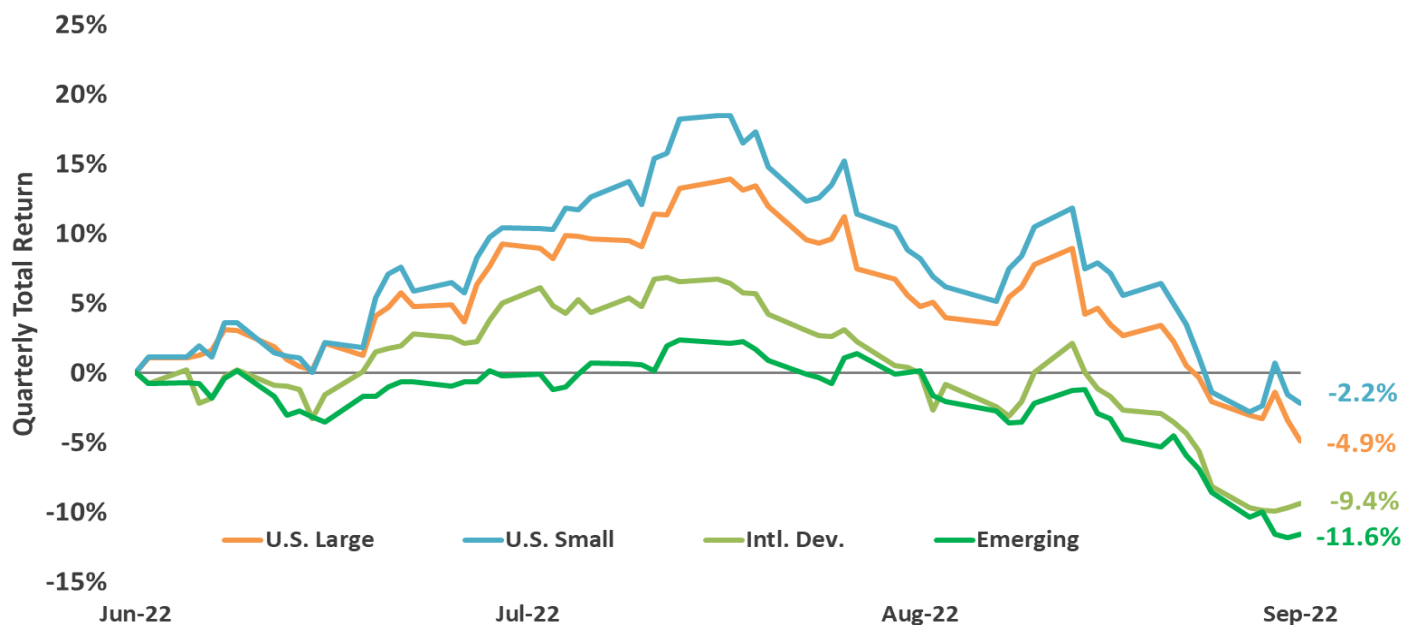
2013-2022 Annual Returns of Key Indices

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 5-year annual | 10-year annual |
|--------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------|---------------------------|--------------------------|--------------------------|
| 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% | Small Cap 20.0% | MLPs 40.2% | MLPs 18.9% | Large Cap 9.2% | Large Cap 11.7% |
| 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 18.4% | Large Cap 28.7% | Hedge Funds 7.2% | Small Cap 3.6% | Small Cap 8.6% |
| 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% | Emerging Markets 18.3% | Global REIT 25.7% | Bonds 14.6% | Hedge Funds 3.0% | High Yield 3.9% |
| 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% | Hedge Funds 10.9% | Small Cap 14.8% | High Yield 14.7% | MLPs 1.9% | Int'l 3.7% |
| 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% | Int'l 7.8% | Int'l 11.3% | Large Cap 23.9% | High Yield 1.6% | Hedge Funds 3.4% |
| 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% | Bonds 7.5% | Hedge Funds 6.0% | Small Cap 25.1% | Bonds 0.3% | Global REIT 3.3% |
| 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% | High Yield 7.1% | High yield 5.3% | Int'l 27.1% | Int'l 0.8% | Emerging Markets 1.0% |
| 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 9.0% | Bonds 1.5% | Emerging Markets 27.2% | Global REIT 0.8% | Bonds 0.9% |
| 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 28.7% | Emerging Markets 2.5% | Global REIT 30.0% | Emerging Markets 1.8% | MLPs 0.7% |

GLOBAL EQUITY

- Despite a strong start, most major global equity sectors concluded the third quarter with negative performance, particularly within the international markets, as further tightening efforts by the Federal Reserve (Fed) helped drive market volatility and the U.S. dollar (USD) meaningfully higher.
- Domestic equities outperformed international by a meaningful margin, as both international developed and emerging markets experienced significant local currency pressures and persistent fundamental weakness, particularly in Europe, which continued to suffer from double-digit inflation and an ongoing energy crisis.
- Both small and microcap outperformed large cap, reversing the trend of large cap outperformance that has been in place in recent quarters, while stylistically, the longer-duration growth sector relatively outperformed value, in spite of a sharp rise in interest rates on the quarter.

Global Equity 3Q-2022 Performance (in USD)

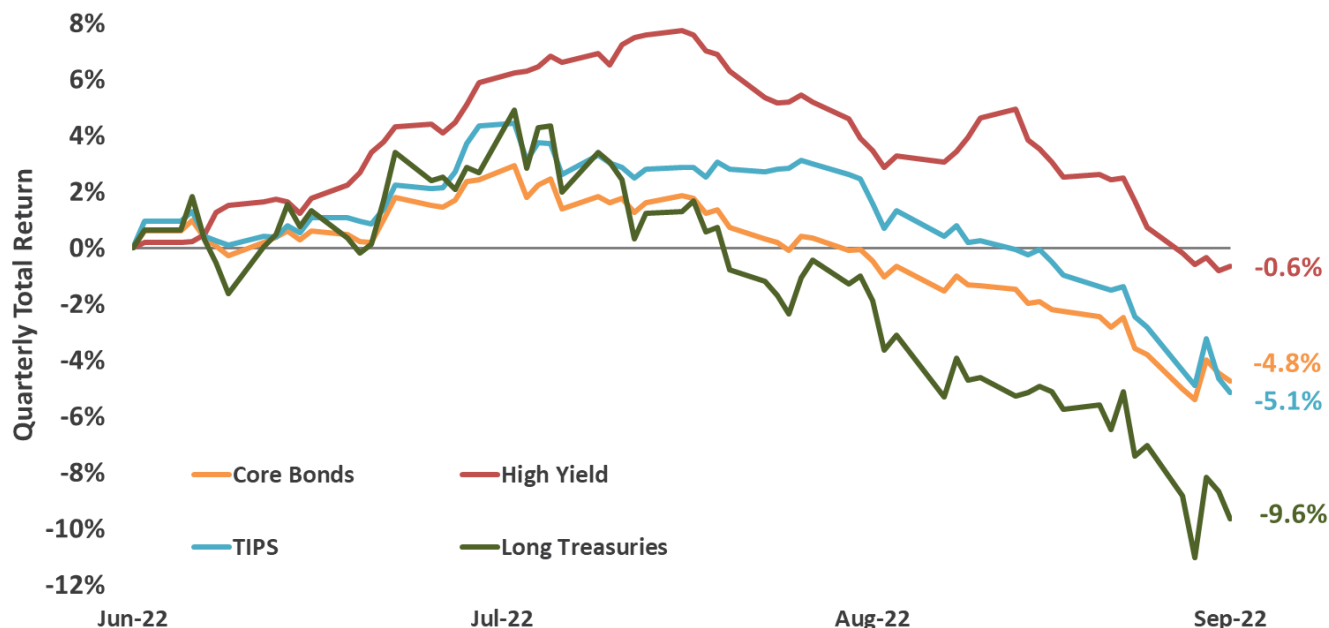


Data source: Bloomberg, L.P.; Data as of 9/30/2022

FIXED INCOME

- Like global equities, most major bond sectors posted negative returns, particularly among the rate-sensitive sectors, as sticky inflationary readings and aggressive Fed tightening actions helped send interest rates higher.
- Amid two 75 basis point hikes to the federal funds rate during the quarter, a doubling of the pace of quantitative tightening through balance sheet runoff, and expectations for further policy tightening in the near-term, the slope of the Treasury yield curve flattened further, reaching the most inverted posture since 2000.
- Despite overwhelming risk-off pressure in the final two months of the quarter, speculative grade credit risk premiums tightened modestly from the second quarter, as the option-adjusted spread on the Bloomberg U.S. Corporate High Yield Index declined by 17 bps to 552 bps, a level modestly above the historical average and inconsistent with meaningful recessionary pressures.

Fixed Income 2022-3Q Performance

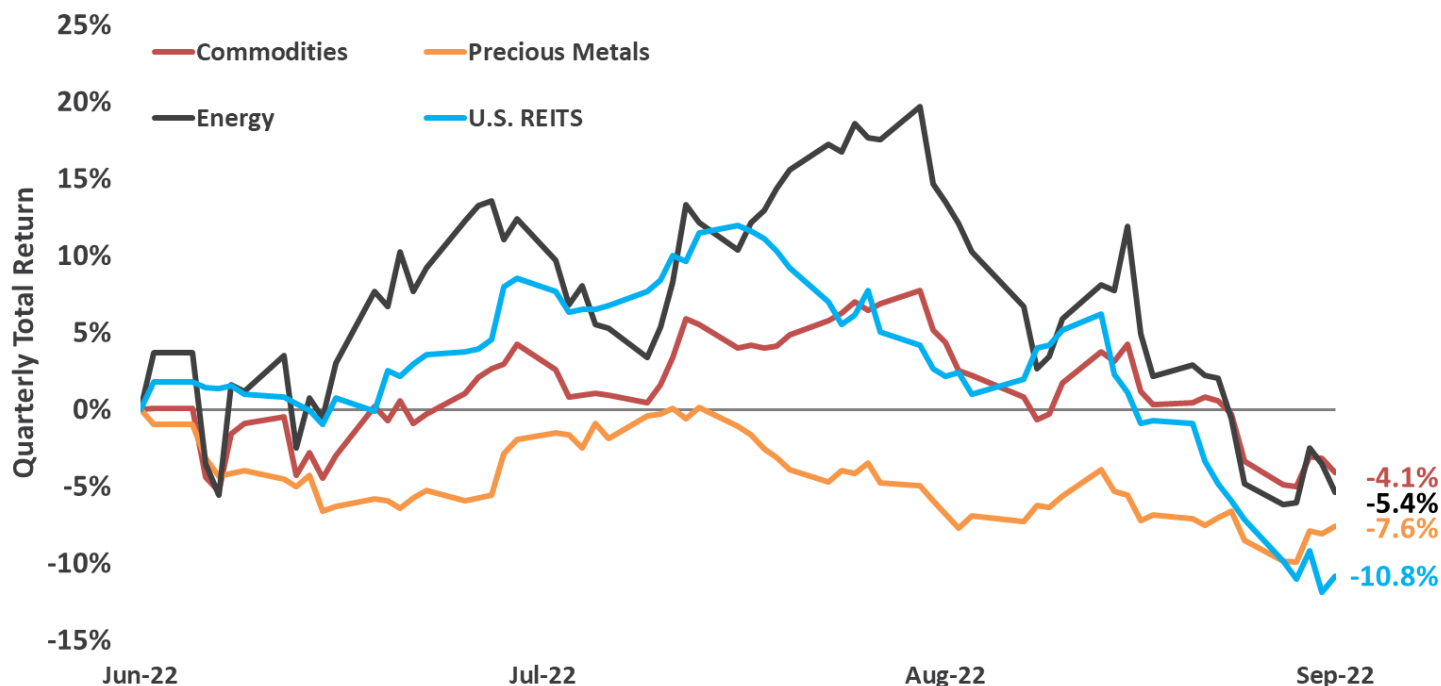


Data source: Bloomberg, L.P.; Data as of 9/30/2022

REAL ASSETS

- Real assets began the quarter with positive momentum, the trend of which began to lose steam in September amid a further slowing of global economic growth and continued tightening efforts by the Fed. Real estate investment trusts (REITs) suffered meaningfully on the quarter, as a significant move higher in Treasury rates and persistent stagflationary forces weighed on the sector.
- A further appreciation of the USD and an associated rise across real interest rates continued to serve as macro headwinds to precious metals prices. Some gauges of the exchange rate value of the USD ascended to multi-decade highs during the quarter, with related weakness across key currencies such as the euro, pound, and yen slumping to secular low levels.

Real Assets 2022-3Q Performance

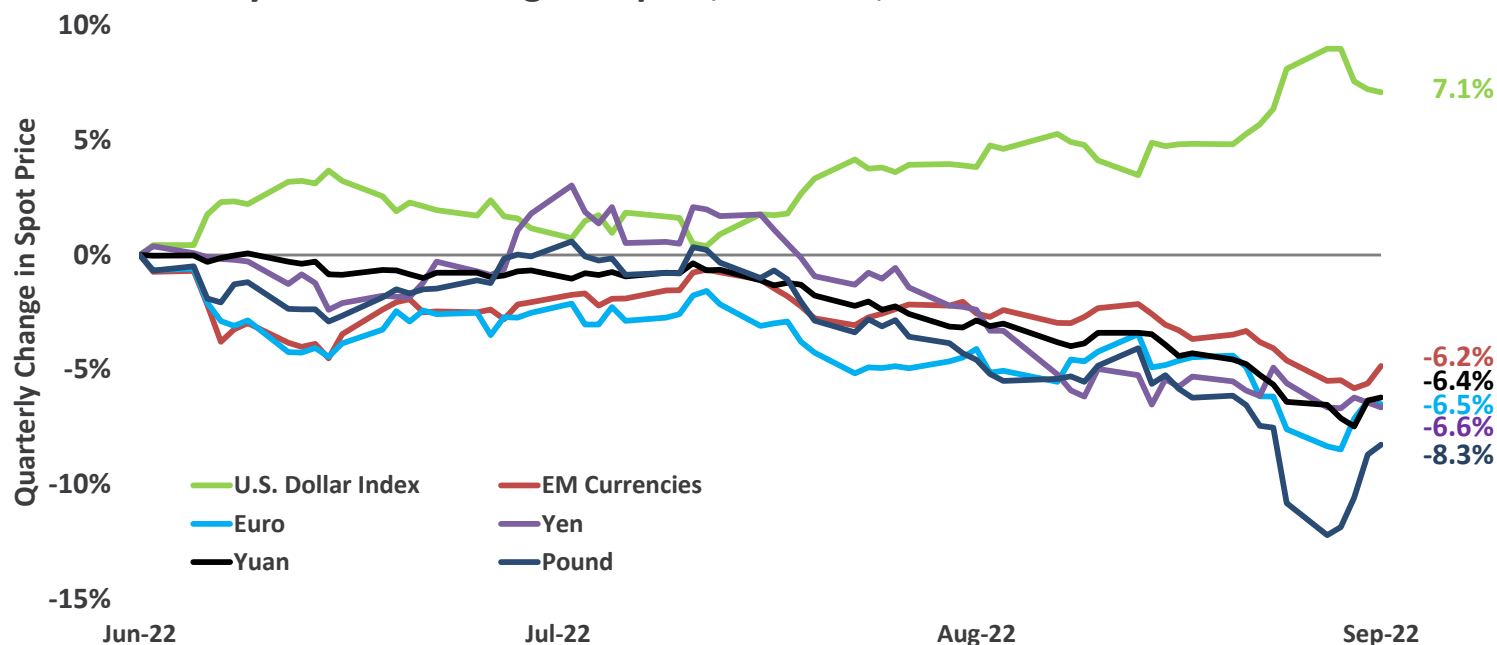


Data source: Bloomberg, L.P.; Data as of 9/30/2022

CURRENCIES

- Growing policy divergences between the Fed and its key monetary policy-setting counterparts helped drive a further strengthening of the USD during the quarter, with the ICE U.S. Dollar Index (DXY) ascending to the highest level since 2002. The euro dipped below parity versus the USD during the quarter, while the Japanese yen slumped to the weakest value versus the USD since the late-1990's, prompting the Bank of Japan (BOJ) to intervene in the currency market to help stem the decline.
- Emerging market currencies also came under pressure versus the USD in the third quarter, with JPMorgan's Emerging Market Currency index declining to a fresh record low, the move of which has helped spur a significant rise in inflation across many emerging market economies.

Global Currency 2022-3Q Change in Spot (Base: USD)



Data source: Bloomberg, L.P.; Data as of 9/30/2022

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.msicibarra.com

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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

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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

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