Reported to the Board of Trustees January 31, 2019







UNIVERSITY OF ILLINOIS SYSTEM

THIRD QUARTER 2018 INVESTMENT UPDATE PREPARED FOR THE BOARD OF TRUSTEES

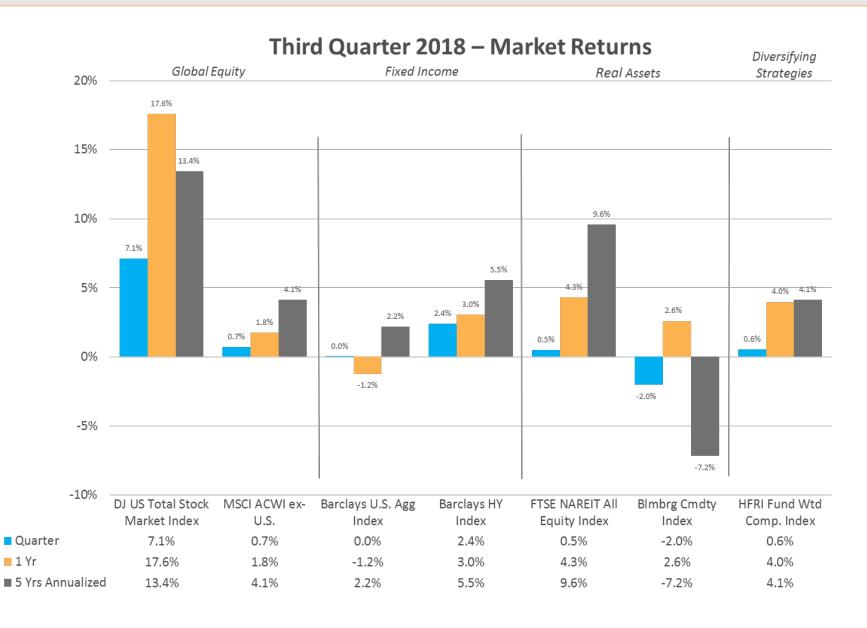
November 2018

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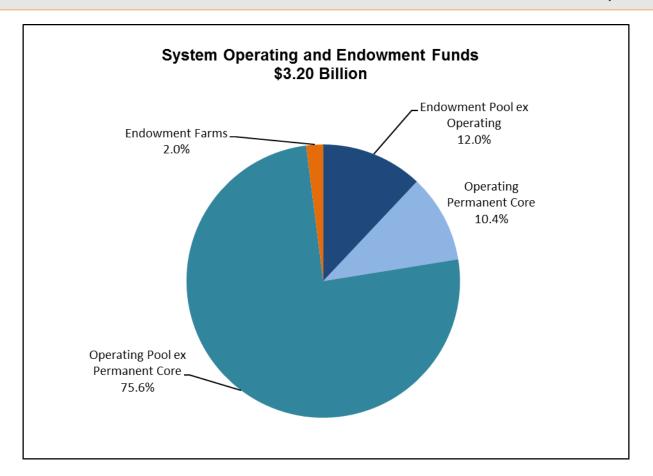
MARKET OVERVIEW AND SYSTEM ASSETS

CAPITAL MARKET OVERVIEW



Data sources: Lipper and Hedge Fund Research

SYSTEM OPERATING AND ENDOWMENT FUNDS: SEP 30, 2018



- The System Operating and Endowment Funds were valued at \$3.2 billion as of September 30, 2018.
- The Operating Pool was valued at \$2.7 billion and maintains a permanent core investment in the Endowment Pool (light-blue pie slice); this is a long-term investment to enhance Operating Pool returns.
- The combined Endowment Pool is valued at \$717.4 million (dark and light-blue pie slices) and is discussed further on the following slides.
- The Pure Endowment Pool (excluding Operating) is valued at \$384.0 million.

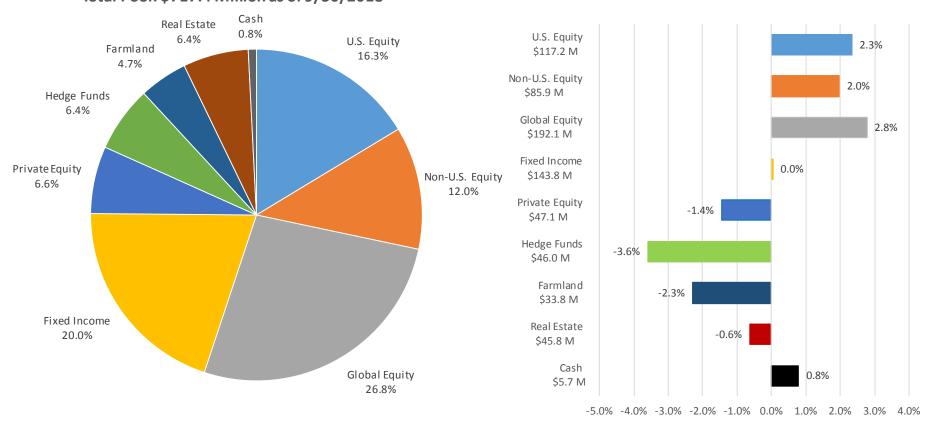
Note: The sum of the allocation may not equal 100% due to rounding.

ENDOWMENT FUND UPDATE: SEPTEMBER 30, 2018

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$717.4 Million as of 9/30/2018

Over/Under Allocation to Long-Term Policy Targets



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.

TOTAL ENDOWMENT POOL PERFORMANCE (SEP 30, 2018)





- Over the trailing one-year period ending September 30, 2018, the Endowment Pool returned 6.7%, trailing the benchmark. The main drivers of the Endowment Pool's one-year return were:
 - Hedge fund investments trailed their respective benchmark by 7.7%.
 - Private equity investments performed well on an absolute basis with a return of 17.4%.
- Over longer time periods, the Endowment Pool has produced solid absolute returns. Relative to the benchmark, the main drivers of the Endowment Pool's returns were:
 - U.S. equity investments underperformed, specifically the active managers that are no longer in the program.
 - Hedge funds underperformed the benchmark.
 - Private equity investments underperformed relative to the benchmark (public markets + 3%), but had attractive absolute returns.

Endowment Pool	Quarter Ending			
Market Value Change	September-2018			
Beginning Market Value	\$705.8 M			
Net Contributions	(\$6.3 M)			
Gain/Loss	\$18.0 M			
Ending Market Value	\$717.4 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, 2018)

	Quarter ending Sep-2018	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool	2.5	6.7	8.9	6.9	8.5	8.3	Sep-87
Performance Benchmark	2.8	7.3	9.5	7.4	8.7	8.5	
Total U.S. Equity	6.4	17.1	15.8	12.5	12.0	9.5	Sep-87
DJ U.S. Total Stock Market Index	7.1	17.6	17.0	13.4	12.0	9.8	
Total Non-U.S. Equity	0.4	1.9	10.2	4.4	4.9	5.5	Sep-93
Non-U.S. Equity Benchmark	0.4	1.8	10.1	4.4	5.3	5.6	
Total Global Equity	4.0	10.0	13.5	8.2	-	10.4	Jun-12
Global Equity Benchmark	3.9	9.6	13.5	8.7	-	10.9	
Total Fixed Income	0.2	-0.5	1.7	2.4	6.1	6.8	Sep-87
Bloomberg Barclays U.S. Aggregate	0.0	-1.2	1.3	2.2	3.8	6.3	
Total Hedge Funds	-0.4	-3.7	1.7	3.1	-	2.8	May-13
HFRI Fund Weighted Composite Index	0.5	3.9	5.3	4.1	-	4.0	
Total Private Equity ¹	4.8	17.4	12.1	12.8	7.5	3.6	Jan-04
Private Equity Benchmark	7.7	20.6	20.0	16.4	15.0	12.2	
Total Real Estate	1.8	6.9	8.1	10.8	-	11.4	Aug-13
Real Estate Benchmark	1.6	6.6	7.9	10.9	-	11.4	
Total Farmland ²	0.0	-0.2	-1.2	-1.3	8.6	8.2	Dec-06
NCREIF Cornbelt Index	0.0	2.6	-0.5	1.9	9.3	9.6	

¹The combined Adams Street Partners IRR at June 30, 2018 was 10.0% since inception.

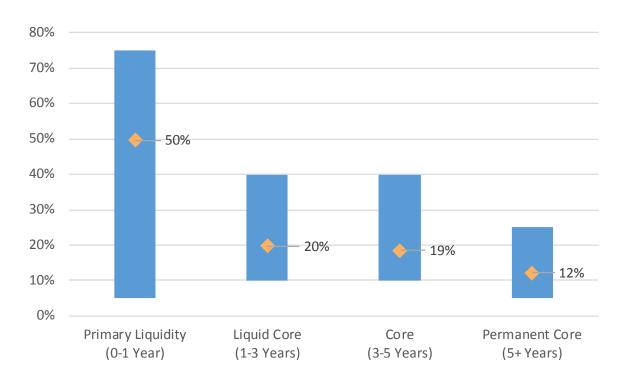
²Farmland is valued annually on June 30. As such, the one-year return reflected above is the one-year return for Farmland as of June 30, 2018.

OPERATING POOL UPDATE: SEPTEMBER 30, 2018

LIQUIDITY LAYERS: OPERATING POOL (SEP 30, 2018)

OPERATING POOL LIQUIDITY LAYERS

AS OF SEPTEMBER 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.

TOTAL OPERATING POOL PERFORMANCE (SEP 30, 2018)

TOTAL POOL: \$2.41 BILLION



- Over the trailing one-year period ending September 30, 2018, the Operating Pool returned 0.8% while outperforming the benchmark.
 - The Operating Pool's managers performed either in-line or slightly better than their respective benchmarks during the period.
- Over longer time periods, the Operating Pool has exceed the benchmark on a consistent basis.
 - The Operating Pool's managers have produced competitive results relative to their respective benchmarks.

	Quarter Ending				
Market Value Change	September-2018				
Beginning Market Value	\$2,393.7 M				
Net Contributions	\$9.7 M				
Gain/Loss	\$11.2 M				
Ending Market Value	\$2,414.6 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.



MARKET ENVIRONMENT

2009-2018 Annual Returns of Key Indices

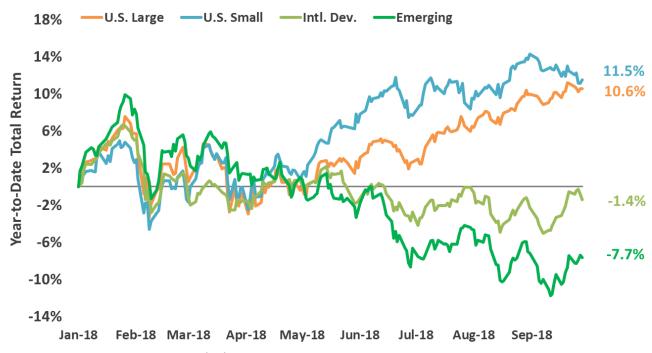
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5-year annual	10-year annual
Emerging Markets 78.5%	MLPs 35.9%	MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Small Cap 11.5%	Large Cap 13.9%	Large Cap 12.0%
MLPs 76.4%	Small Cap 26.9%	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%	Large Cap 10.6%	Small Cap 11.1%	Small Cap 11.1%
High Yield 58.2%	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%	MLPs 5.9%	High Yield 5.5%	High Yield 9.5%
Global REIT 37.1%	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%	High Yield 2.6%	Global REIT 5.4%	MLPs 9.2%
Int'l 31.8%	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%	Hedge Funds 1.0%	Int'l 4.4%	Global REIT 6.0%
Small Cap 27.2%	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%	Global REIT 0.1%	Emerging Markets 3.6%	Emerging Markets 5.4%
Large Cap 26.5%	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%	Int'l -1.4%	Hedge Funds 3.2%	Int'l 5.4%
Hedge Funds 11.5%	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%	Bonds -1.6%	Bonds 2.2%	Bonds 3.8%
Bonds 5.9%	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 -7.7%	MLPs -2.7%	Hedge Funds 2.6%

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

GLOBAL EQUITIES PERFORMANCE

- Domestic equities broadly outpaced international equities, particularly emerging market equities.
- Ongoing trade war-related concerns, rising U.S. interest rates, an appreciating U.S. dollar, and a continued draining of Fed liquidity served as headwinds to international equity performance, particularly for emerging markets.
- Stylistically, value generally underperformed growth within domestic markets, however, value in the emerging markets has experienced solid relative performance versus growth.

Global Equity Year-to-Date Performance (in USD)

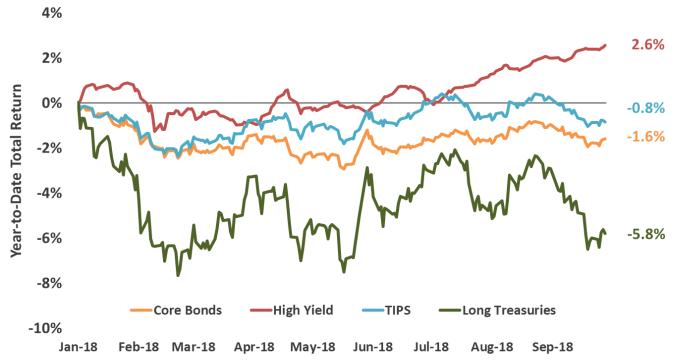


Data source: Bloomberg, L.P.; Data as of 9/28/2018

FIXED INCOME PERFORMANCE

- Rate-sensitive sectors, such as core bonds and investment-grade credit, continued to struggle as
 Treasury rates rose during the quarter.
- Long Treasuries spent most of the third 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, posted relative outperformance.

Fixed Income Year-to-Date Performance

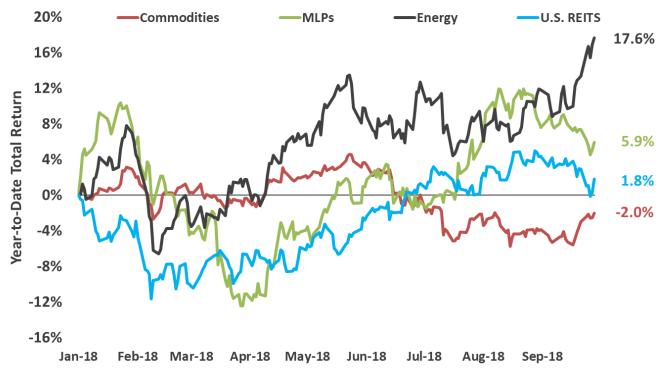


Data source: Bloomberg, L.P.; Data as of 9/28/2018

REAL ASSETS PERFORMANCE

- Energy infrastructure witnessed solid performance throughout the third quarter, following strong second quarter performance. Key drivers included upward pressure on energy prices, firming fundamentals within the energy market, and generally favorable domestic economic conditions.
- U.S. real estate investment trusts (REITs) performance was essentially flat, as solid real estaterelated fundamentals were somewhat counterbalanced by an increase in interest rates.
- Commodities spent the entirety of the third quarter period in negative territory, despite rebounding energy prices and a somewhat supportive inflationary backdrop.



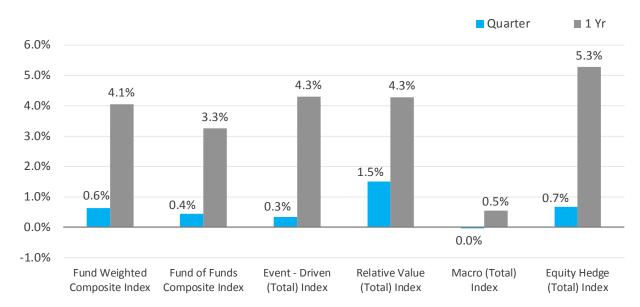


Data source: Bloomberg, L.P.; Data as of 9/28/2018

DIVERSIFYING STRATEGIES PERFORMANCE

- Hedge funds focused on emerging markets (EM) struggled throughout the quarter. A number of
 idiosyncratic events—ranging from tariff negotiations between the U.S. and China to extreme
 measures taken by the Argentinian government to protect its currency—adversely impacted certain
 countries and led to spillover effects more broadly across EM.
- Systematic macro strategies rebounded from a challenging start to the year. Also, persistent trends in the U.S. dollar and certain commodities drove gains for trend followers during the third quarter.
- Event driven strategies performed well, particularly those with large merger and acquisition (M&A) portfolios. The courts overruled the Department of Justice's attempt to block the vertical merger of AT&T and Time Warner earlier in the year, clearing the way for the closure and announcement of similar deals.

HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS

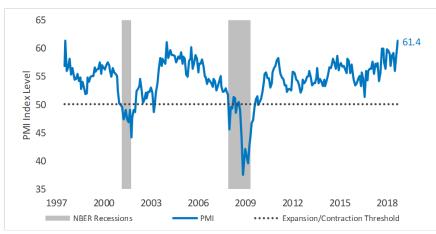


Data source: HedgeFund Research

THE BIG PICTURE

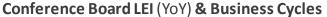
Purchasing Manager Index at highest level on record

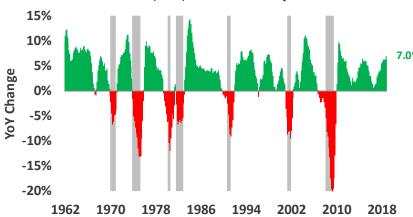
ISM ECONOMY-WEIGHTED PURCHASING MANAGER INDEX



Data sources: ISM, NBER, Bloomberg, L.P.; Data as of September 2018

Leading Economic Indicators set new cycle high



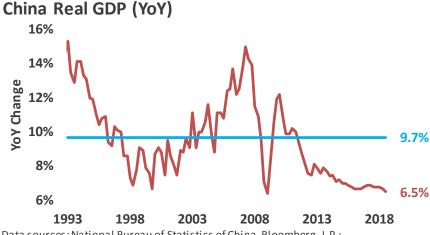


Data sources: Conference Board, NBER, Bloomberg, L.P.; Data as of September 2018 Note: Shaded areas represent recessionary periods

Unemployment rate dropped to lowest level since 1969

Nonfarm Payrolls & Unemployment Rate 600 11% U-3 Unemployment Rate Payrolls (thousands) 300 0 7% 300 5% 600 -900 3% 1968 1978 1988 1998 2008 2018 NBER Recessions NFP U-3 UER (RHS) NFP 6 Mo. Avg. Data sources: BLS, NBER, Bloomberg, L.P.; Data as of September 2018

China GDP growth slowed to a 9-year low



Data sources: National Bureau of Statistics of China, Bloomberg, L.P.; Data as of 3Q 2018

DISCLOSURES

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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

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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

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