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First Quarter 2023 Investment Update Prepared for Board of Trustees

UNIVERSITY OF ILLINOIS SYSTEM

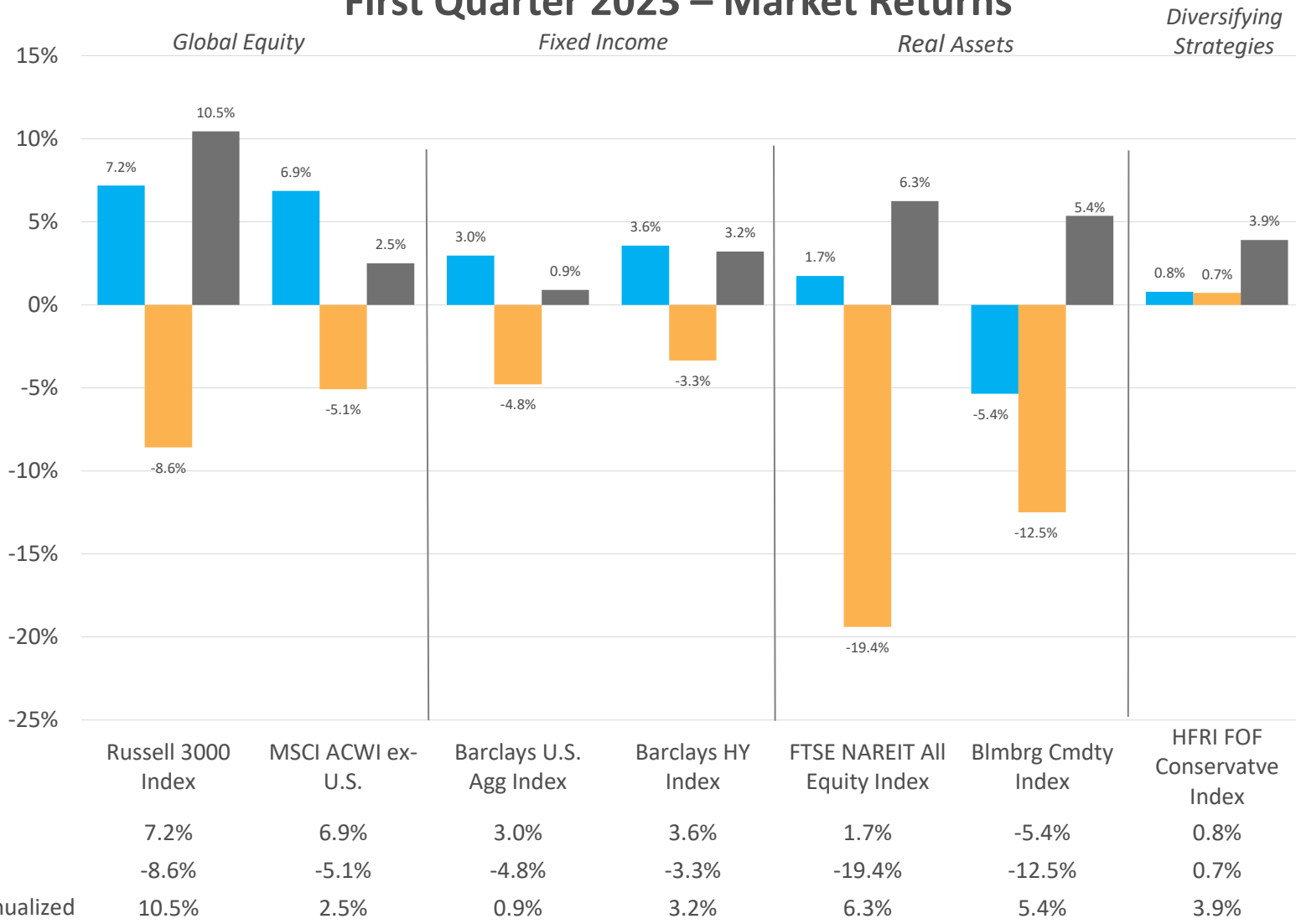
Reported to the Board of Trustees
July 20, 2023

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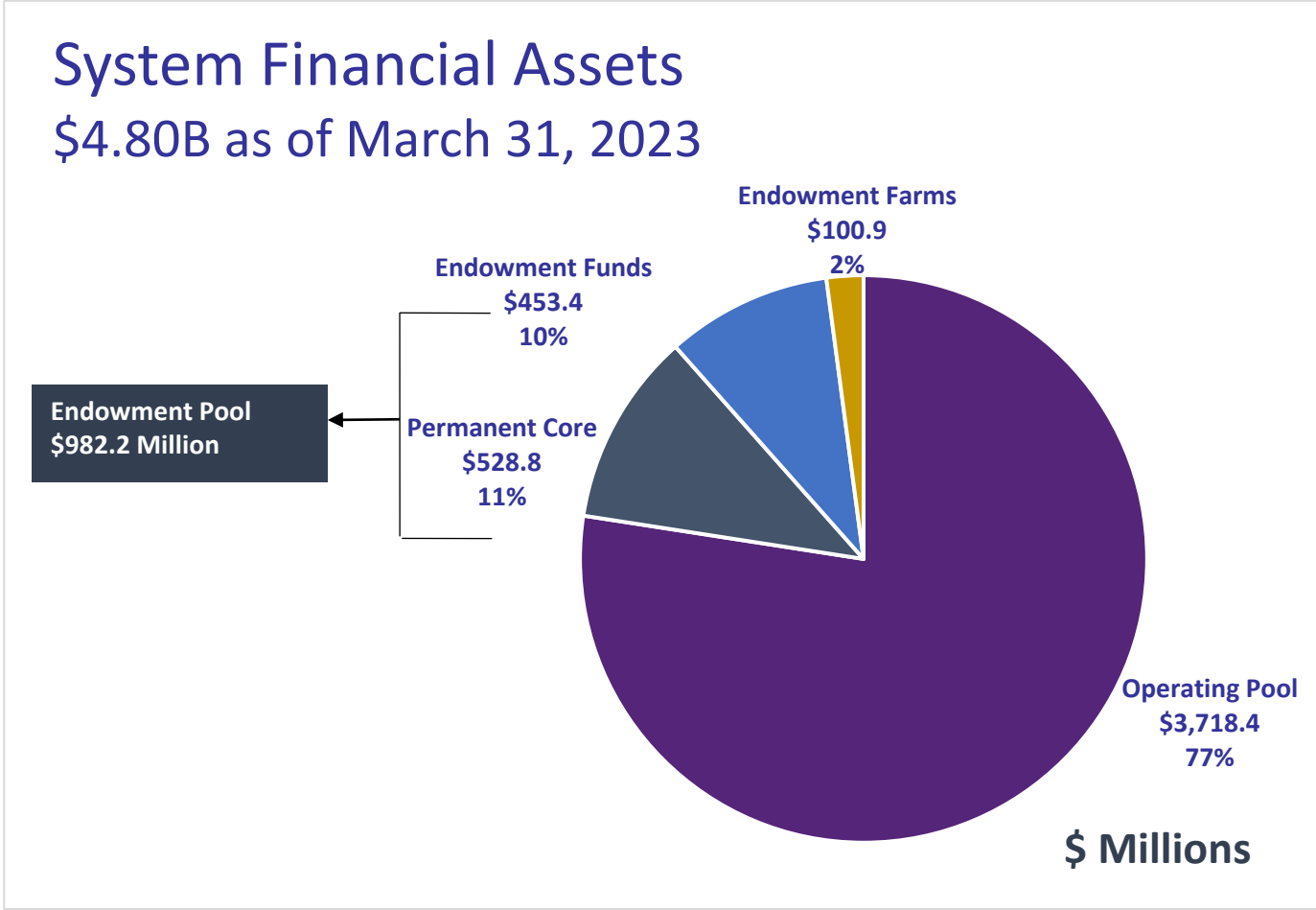
The slide features a dark blue header bar at the top. On the left side, there is a vertical light gray bar. The main content area is white. The text 'MARKET OVERVIEW AND SYSTEM ASSETS' is centered in the white area.

MARKET OVERVIEW AND SYSTEM ASSETS

First Quarter 2023 – Market Returns



Data sources: Lipper and Hedge Fund Research

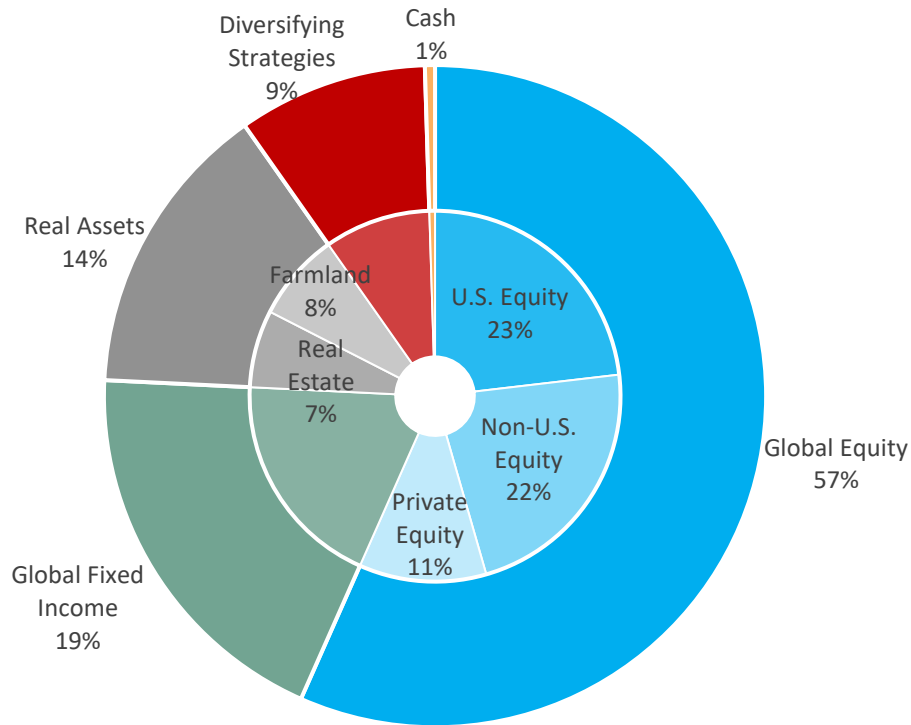


- The System’s financial assets were valued at \$4.80 billion as of March 31, 2023.
- The Operating Pool was valued at \$3.72 billion (ex-Permanent Core) . The permanent core investment (gray slice) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Pool is valued at \$982.23 million (gray and blue slices) and is discussed further on the following slides.

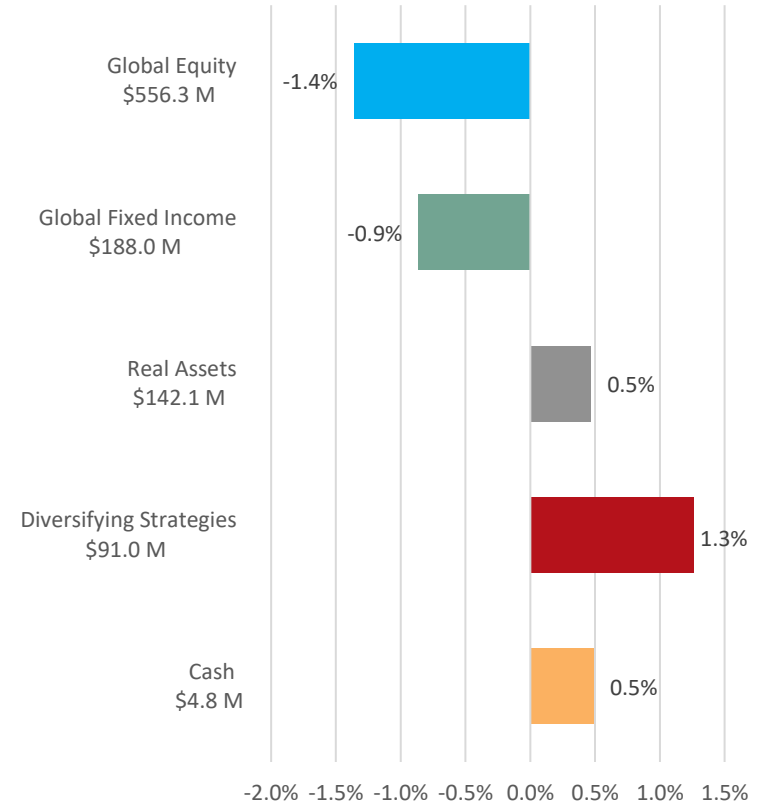


ENDOWMENT POOL UPDATE:
MARCH 31, 2023

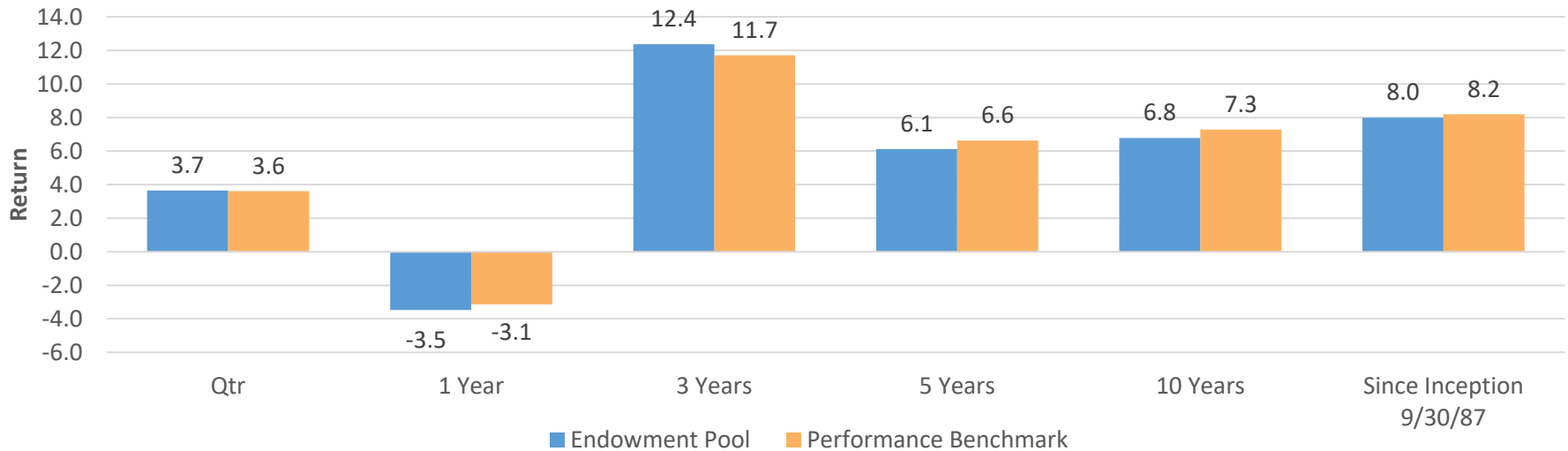
Total Pool: \$982.2 Million as of 3/31/2023



Over/Under Allocation to Long-Term Policy Targets



Total Pool: \$982.2 Million



- Over the one-year period, the endowment returned -3.5%, underperforming the benchmark. Contributing to relative performance was farmland (+49.3%) and diversifying strategies (+2.2%), while real estate (-10.4%) detracted from relative performance.
- Over the ten-year period, the endowment posted a 6.8% return, but trailed the benchmark. Contributing to relative performance was fixed income (+1.9) and farmland (+7.9%), while detracting from relative performance was U.S. equity (+11.1%).

Endowment Pool Market Value Change	Quarter Ending March-2023
Beginning Market Value	\$938.0 M
Net Contributions	\$9.7 M
Gain/Loss	\$34.5 M
Ending Market Value	\$982.2 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 (March 31, 2023)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Mar-2023	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool			3.7	-3.5	12.4	6.1	6.8	8.0	Sep-87
Performance Benchmark			3.6	-3.1	11.7	6.6	7.3	8.2	
GLOBAL EQUITY	56.6	58.0	5.4	-7.5	17.3	8.1	9.0	8.0	Sep-87
Total U.S. Equity			6.9	-8.5	19.4	9.9	11.1	9.4	Sep-87
U.S. Equity Benchmark			7.2	-8.6	18.5	10.4	11.7	9.7	
Total Non-U.S. Equity			6.7	-5.8	12.2	2.4	4.3	5.1	Sep-93
Non-U.S. Equity Benchmark			6.6	-5.8	12.2	2.4	4.3	5.2	
Total Private Equity			0.0	-8.8	23.5	18.1	14.8	6.8	Jan-04
Private Equity Benchmark			0.0	-8.3	22.6	14.4	15.3	12.7	
GLOBAL FIXED INCOME ¹	19.1	20.0	2.6	-4.2	-0.8	1.8	1.9	6.2	Sep-87
Total Public Fixed Income			2.8	-4.7	-1.6	1.1	1.6	6.1	Sep-87
Bloomberg U.S. Aggregate			3.0	-4.8	-2.8	0.9	1.4	5.6	
Total Private Fixed Income			0.0	3.9	17.0	17.5	-	17.2	Jan-18
Bloomberg U.S. Corporate HY Index			3.6	-3.3	5.9	3.2	-	2.8	
REAL ASSETS ¹	14.5	14.0	-0.2	12.0	14.4	9.3	7.8	10.3	Dec-06
Total Real Estate			-0.4	-10.4	8.2	5.2	-	8.2	Aug-13
Real Estate Benchmark			-3.4	-3.9	7.5	6.8	-	9.1	
Total Farmland²			0.0	49.3	21.8	14.5	7.9	10.4	Dec-06
NCREIF Cornbelt Index			0.0	26.7	12.8	8.5	6.8	9.4	
DIVERSIFYING STRATEGIES¹	9.3	8.0	1.4	2.2	9.2	-5.5	-	-1.0	May-13
Total Hedge Funds			1.6	2.1	8.9	-6.4	-	-1.5	May-13
Hedge Fund Index			0.8	0.8	12.1	5.6	-	4.8	
CASH	0.5	0.0	0.9	2.2	0.7	1.2	-	0.9	

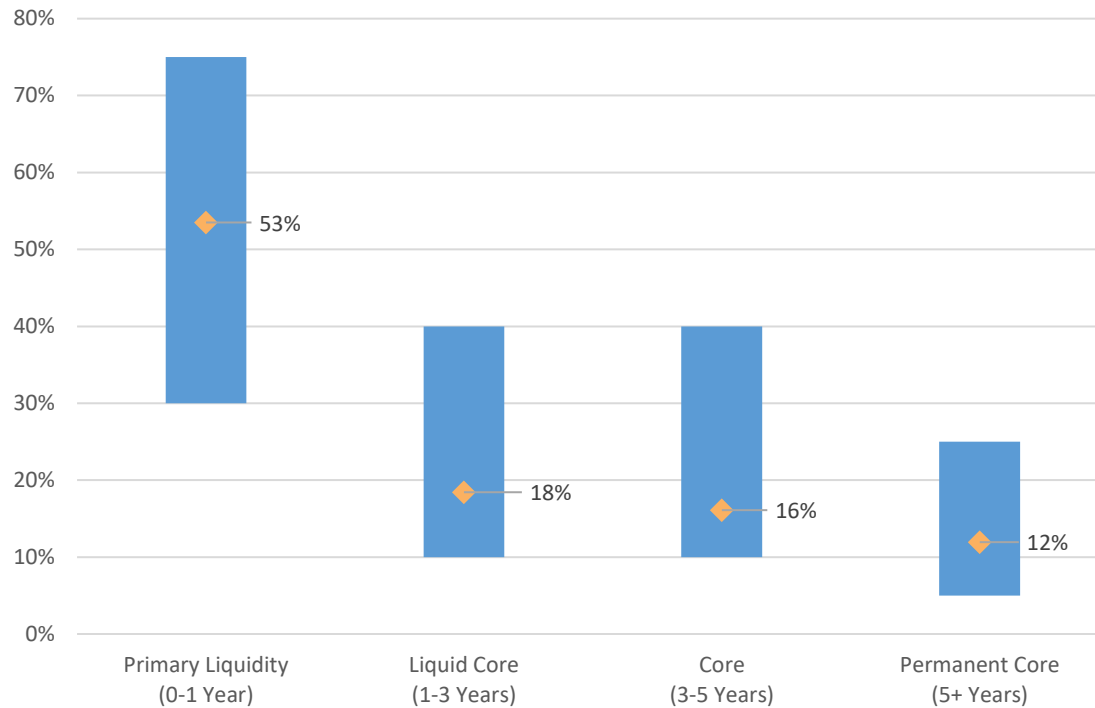
¹Global Fixed Income, Real Assets and Diversifying Strategies include allocations and performance of private investments.

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



OPERATING POOL UPDATE:
MARCH 31, 2023

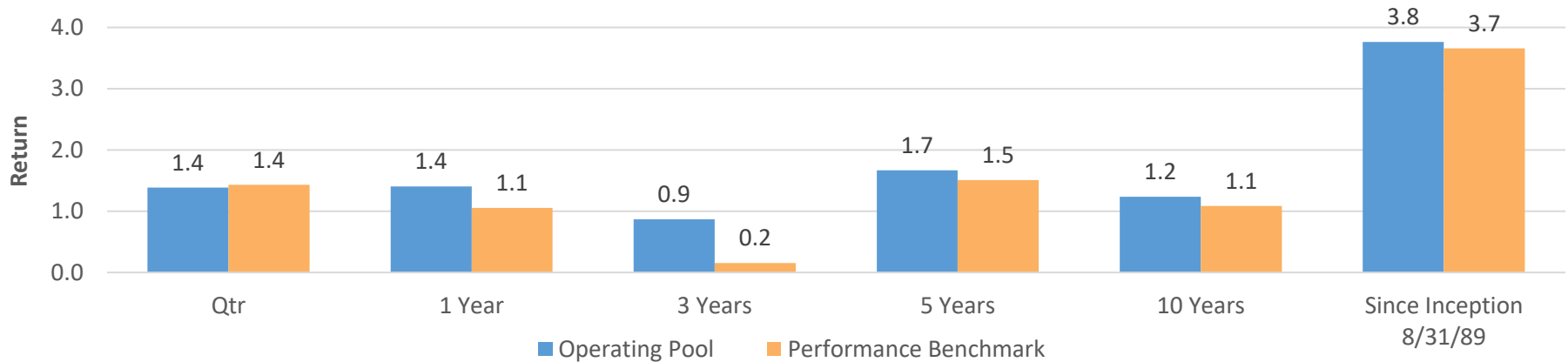
OPERATING POOL LIQUIDITY LAYERS AS OF March 31, 2023



- 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 POOL: \$3.72 BILLION



- Over the trailing one-year period, the Operating Pool returned 1.4%, 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		Quarter Ending
Market Value Change		March-2023
Beginning Market Value		\$3,393.7 M
Net Contributions		\$276.1 M
Gain/Loss		\$48.6 M
Ending Market Value		\$3,718.4 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.



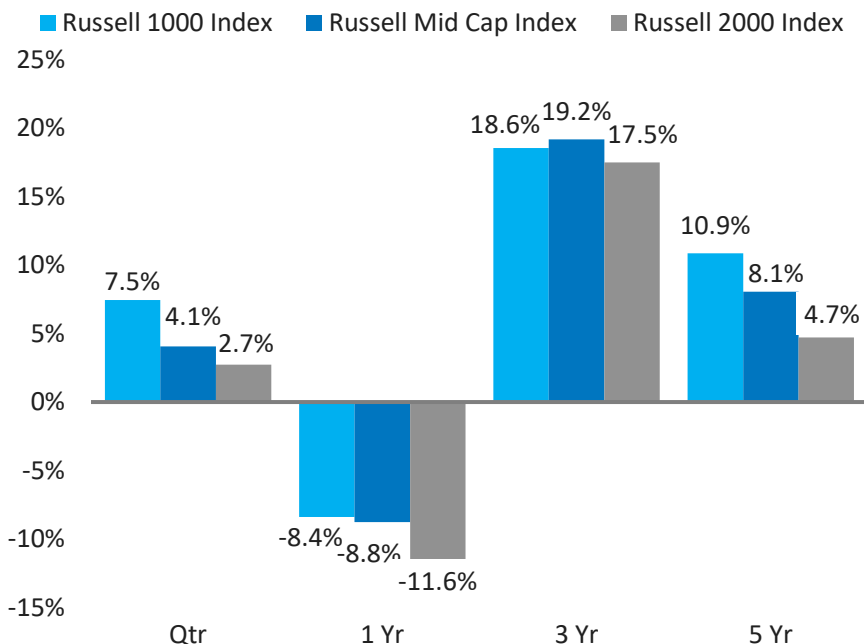
APPENDIX: MARKET ENVIRONMENT

2014-2023 Annual Returns of Key Indices

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	5-year annual	10-year annual
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 30.9%	Int'l 8.5%	Large Cap 11.2%	Large Cap 12.2%
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 -5.2%	Large Cap 7.5%	MLPs 7.4%	Small Cap 8.0%
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%	High Yield -11.2%	MLPs 4.1%	Small Cap 4.7%	Int'l 5.0%
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%	Bonds -13.0%	Emerging Markets 4.0%	Int'l 3.6%	High Yield 4.1%
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%	Int'l -14.5%	Small Cap 2.7%	High Yield 3.2%	Hedge Funds 3.2%
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%	Large Cap -18.1%	High Yield 3.6%	Hedge Funds 3.1%	Global REIT 2.7%
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%	Emerging Markets -20.1%	Bonds 3.0%	Bonds 0.9%	Emerging Markets 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%	Small Cap -20.4%	Hedge Funds 0.7	Global REIT 0.9%	Bonds 1.4%
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 -25.0%	Global REIT 0.5%	Emerging Markets -0.9%	MLPs 0.6%

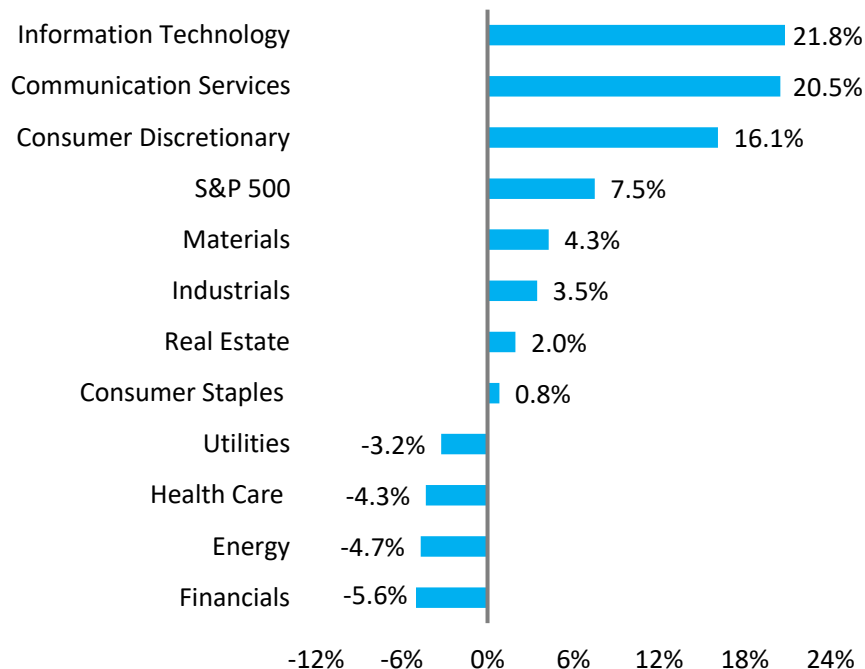
- Global stock markets finished the first quarter with positive returns. Growth equity outperformed value equity, and large cap stocks outperformed small cap stocks.
- S&P 500 earnings-per-share estimates declined at a larger-than-average rate for the first quarter, decreasing by 6.6%. This marked the most significant earnings decline reported since the second quarter of 2020 (-31.8%). Full-year 2023 estimates were also revised lower, decreasing 3.8%.
- The information technology and communication services sectors were the best-performing, as growth companies benefitted from declining interest rates. Financials finished the quarter as the worst-performing sector, down 5.6%, as the collapse of Silicon Valley Bank created concerns about possible systemic risk within the regional banking industry.

LARGE CAP, MID CAP, AND SMALL CAP



Data source: Russell

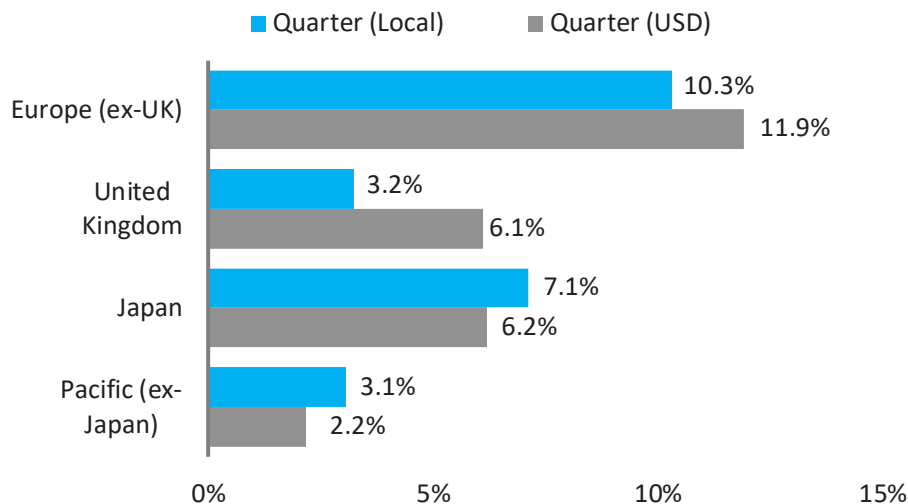
S&P 500 SECTOR PERFORMANCE



Data source: Factset

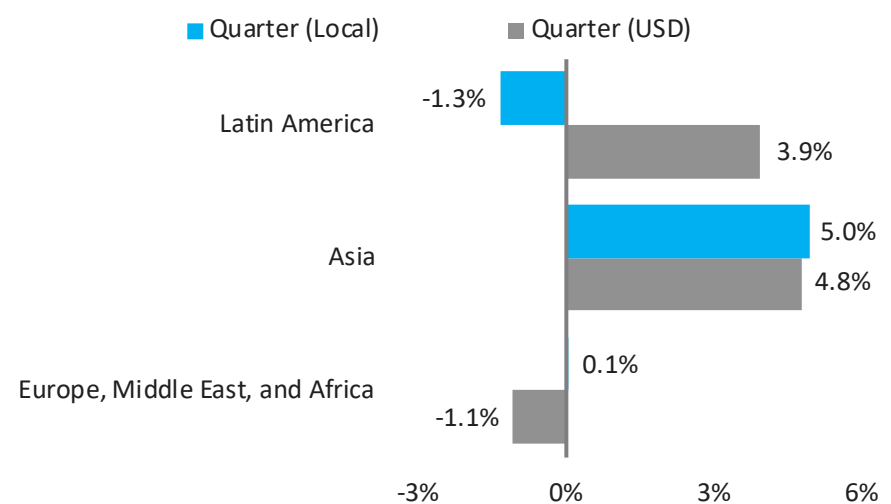
- European equities finished the quarter with solid returns led by the information technology, consumer discretionary, and communication services sectors. Despite a volatile March, financials finished the quarter with positive returns as Credit Suisse’s issues were considered company-specific.
- In the United Kingdom (UK), equity returns were mixed by sector. The most recent quarterly gross domestic product (GDP) data from the Office of National Statistics showed that the UK economy did not contract in the fourth quarter of 2022, beating consensus expectations, which benefitted cyclical sectors.
- Japanese equities produced positive returns. In February, the Tokyo Stock Exchange requested companies trading below book value to develop capital improvement plans. About 33% of Topix 100 members have price-to-book ratios below 1, compared to only 3% of constituents within the S&P 500.
- Emerging markets equities posted positive results despite volatility over the quarter. To start the year, China re-opening provided a positive backdrop for emerging markets which reversed with U.S.-China tensions escalating in February and March. Continued optimism around easing regulatory pressure served as a tailwind for the information technology and communication services sectors, supporting returns in both sectors.

MSCI EAFE REGIONAL QUARTERLY RETURNS



Data source: MSCI Barra

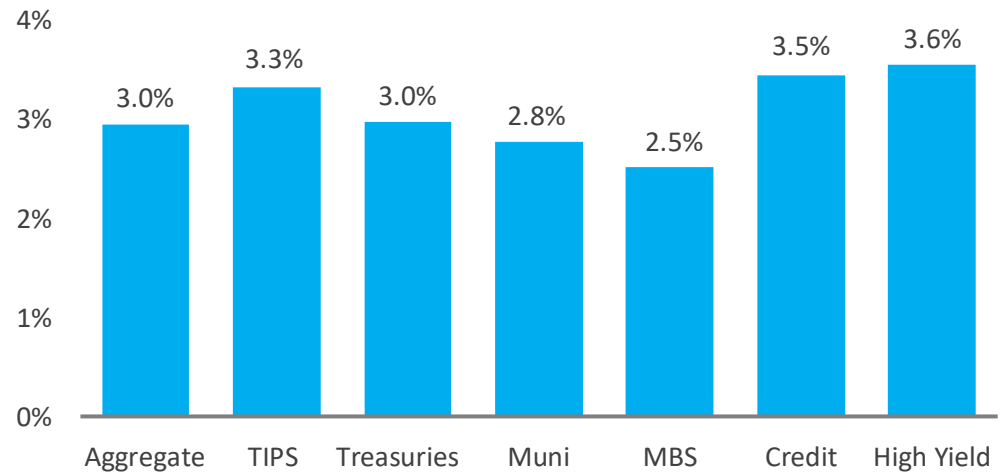
MSCI EM REGIONAL QUARTERLY RETURNS



Data source: MSCI Barra

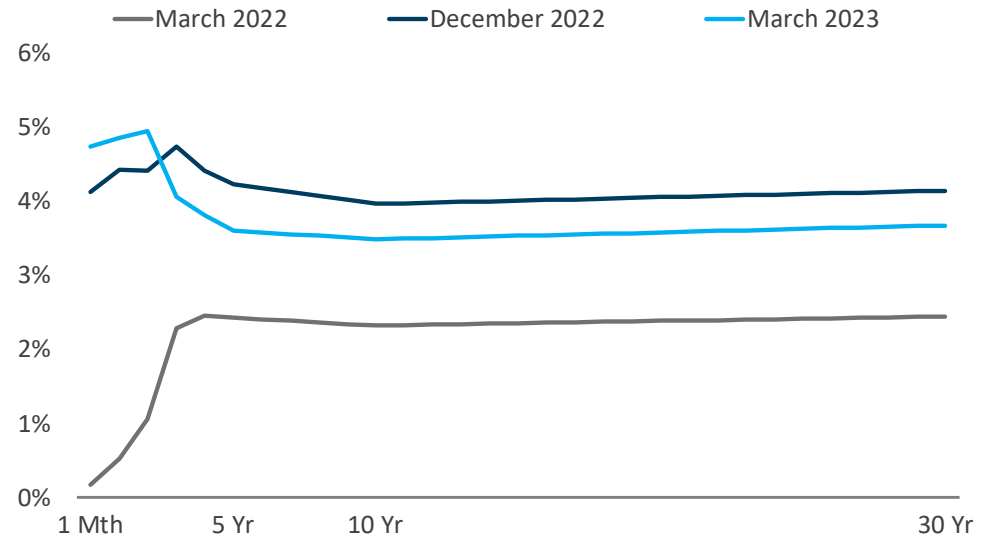
- The year started with a rally in rates amid expectations of more dovish monetary policy. The Fed’s hawkish commentary quickly shattered those expectations. Rates saw another rally in March, with the stress in the banking sector inducing a flight to quality.
- The yield curve remained inverted with expanding gaps between market expectations and the Federal Open Market Committee’s (FOMC) outlook for the Fed Funds target range.
- Corporate spreads remained resilient during the quarter except for the period following the collapse of several large banks when spreads saw significant widening before ending the quarter strong.
- Structured credit markets have witnessed scattered pressures. Residential mortgage-backed securities (RMBS) came under pressure in 2022 as mortgage rates reacted to rapid rate hikes. The pressure has now moved to the commercial mortgage-backed securities (CMBS) sector, with wide spreads and low prices not experienced for quite some time.

BLOOMBERG U.S. FIXED INCOME INDEX RETURNS (1st Qtr 2023)



Data source: FactSet

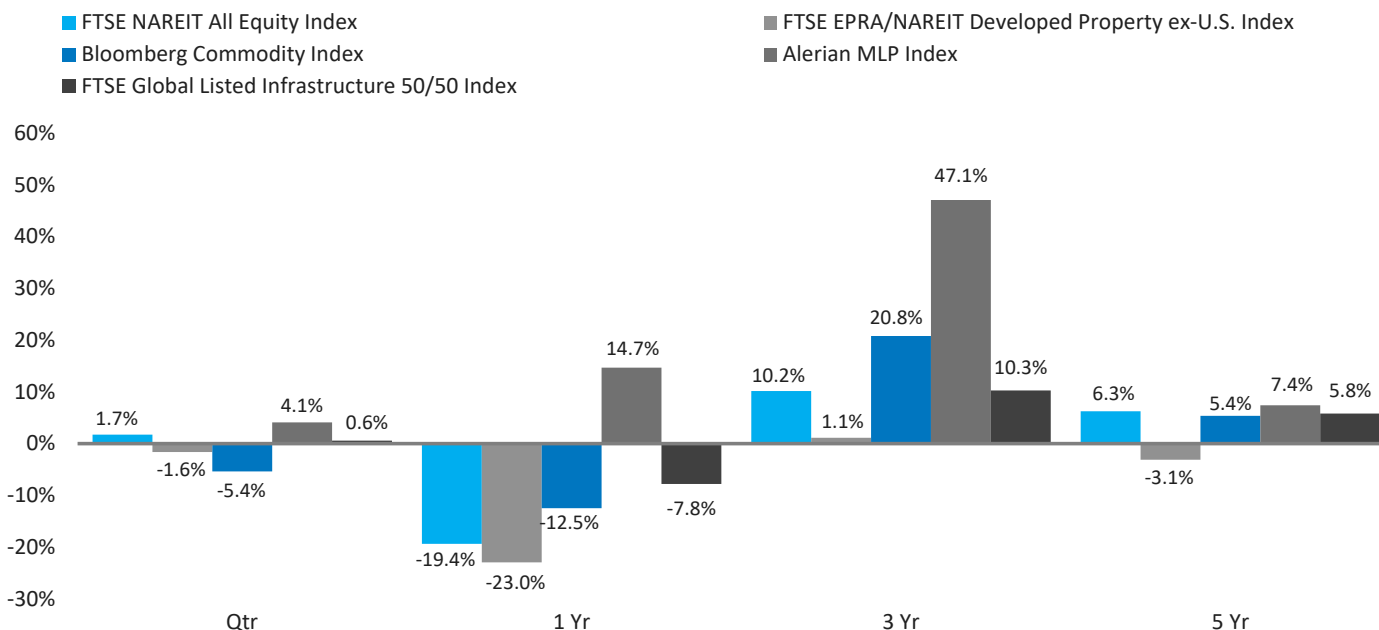
U.S. TREASURY YIELD CURVE



Data source: FactSet

- Global real estate returns were lackluster in the first quarter. In early March, investors grappled with widespread concerns that regional and mid-sized banks would fail in part due to their exposure to commercial real estate. Real estate indices sold off steeply before recovering by the end of the month.
- On Sunday, April 2, OPEC+ unexpectedly announced additional production cuts of more than 1 million barrels per day (MMbpd). West Texas Intermediate oil futures prices jumped the following Monday, pressuring oil above \$80 per barrel. The cut brings the total volume of cuts by OPEC+ to 3.66 MMbpd, or 3.7% of global demand.
- With improved balance sheets, strong free cash flows, and relatively higher energy prices, the midstream energy infrastructure sector has seen a notable uptick in mergers and acquisitions.

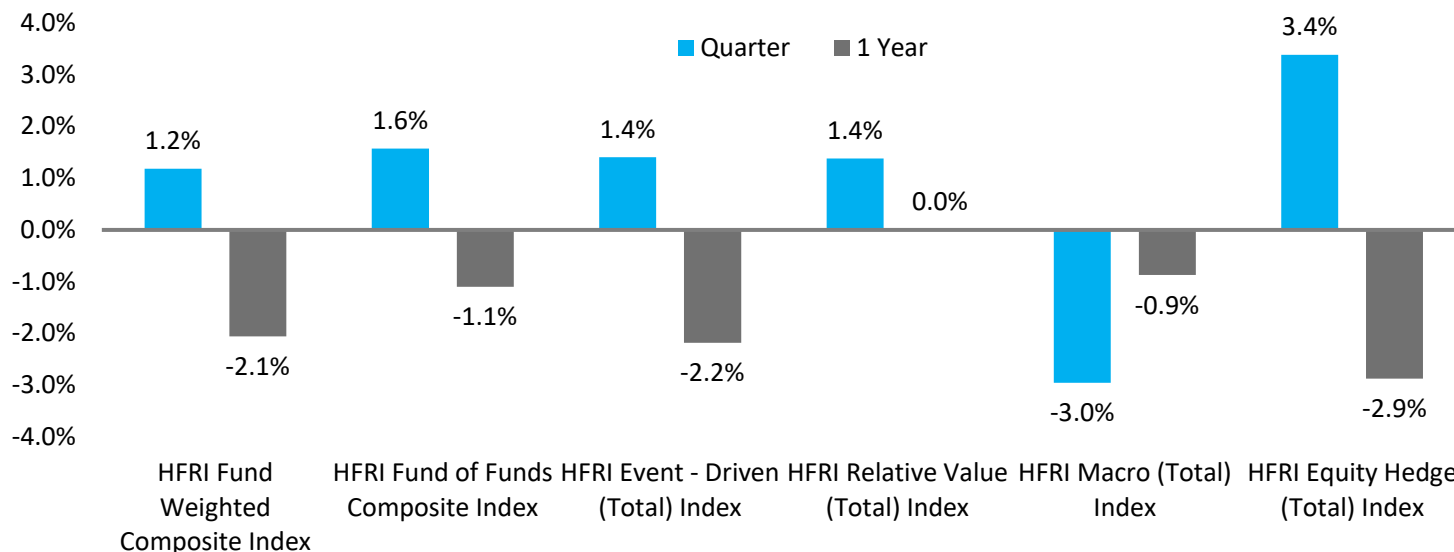
PUBLIC REAL ASSETS – REAL ESTATE, COMMODITIES, MLPs, AND INFRASTRUCTURE



Data sources: NAREIT, FactSet, and Alerian

- Over the quarter, hedge funds provided positive returns, with the HFRI Fund Weighted Composite Index up 1.2%. The only strategy in negative territory was global macro, which continued its string of poor performance.
- Hedged equity was the best-performing strategy, up 3.4% over the quarter. Fundamental value and fundamental growth indices led all other hedged equity strategies. Quantitative directional notably had a positive first quarter, even after a particularly poor performance in February. However, the energy/basic materials index reversed from last quarter's positive performance, down almost 2%.
- Trend-following managers' performance varied throughout the quarter. The divergence in performance was primarily driven by market volatility, specifically in equity markets. The equity exposure of systematic investors last month surpassed discretionary funds for the first time in almost 18 months.
- Due to interest rate uncertainty, multi-strategy funds operated at lower gross leverage multiples. Multi-strategies maintained large cash balances, intending to capitalize on an increase in deal flow or distressed opportunities. Opportunistic strategies shifted allocations towards relative value trades due to reduced merger and acquisition activity, particularly among large cap companies.

HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS



Data source: HFRI



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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

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.msicibarra.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

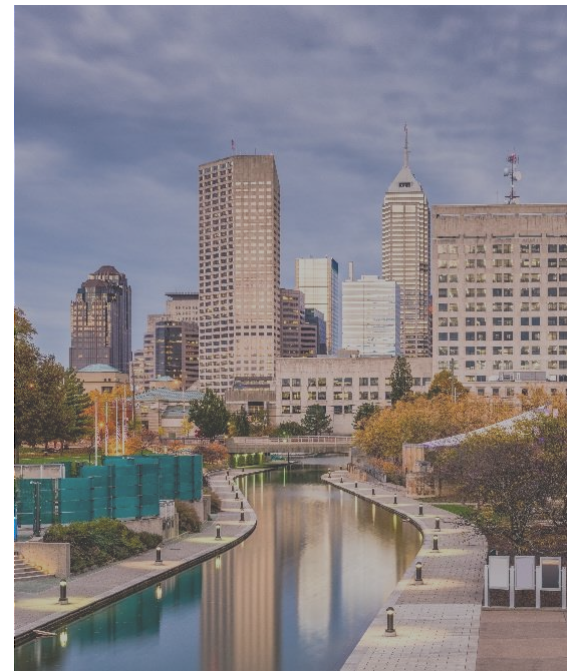
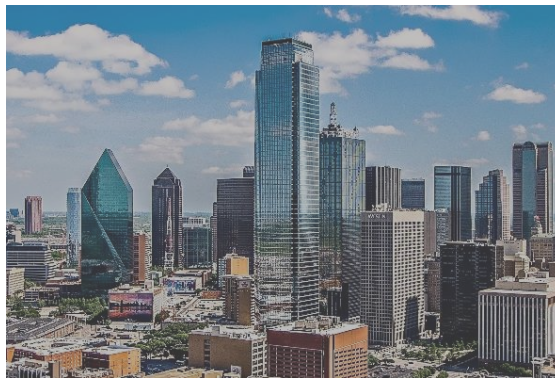
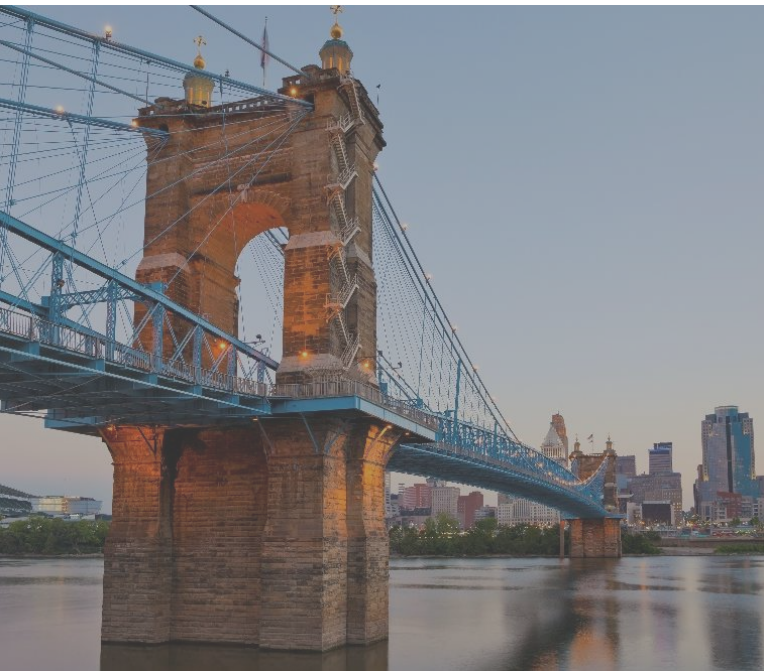
Bonds are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. www.barclays.com

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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