

UNIVERSITY OF ILLINOIS SYSTEM

FIRST QUARTER 2021 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

June 2021

Reported to the Board of Trustees
July 22, 2021

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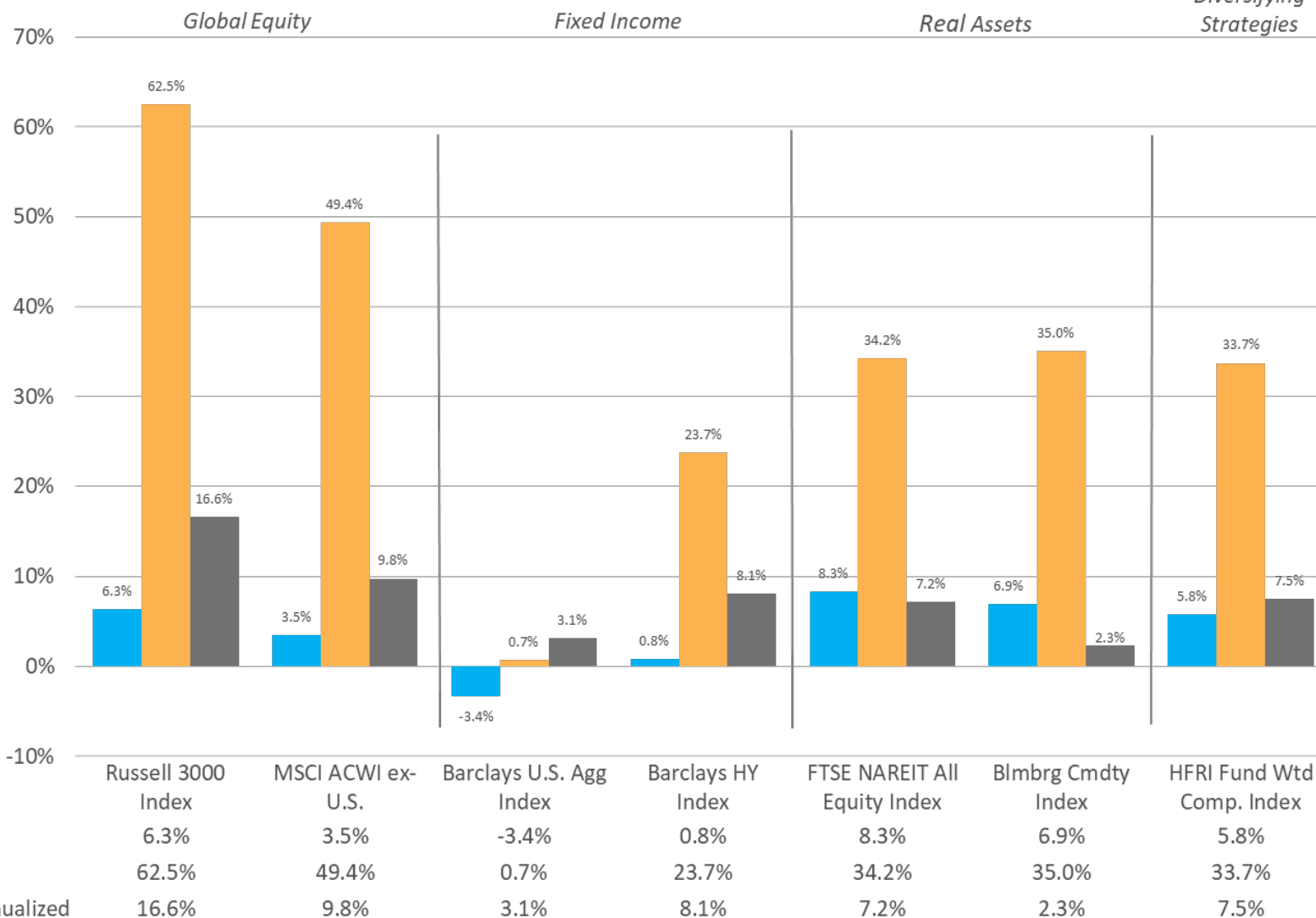
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MARKET OVERVIEW AND SYSTEM ASSETS

CAPITAL MARKET OVERVIEW

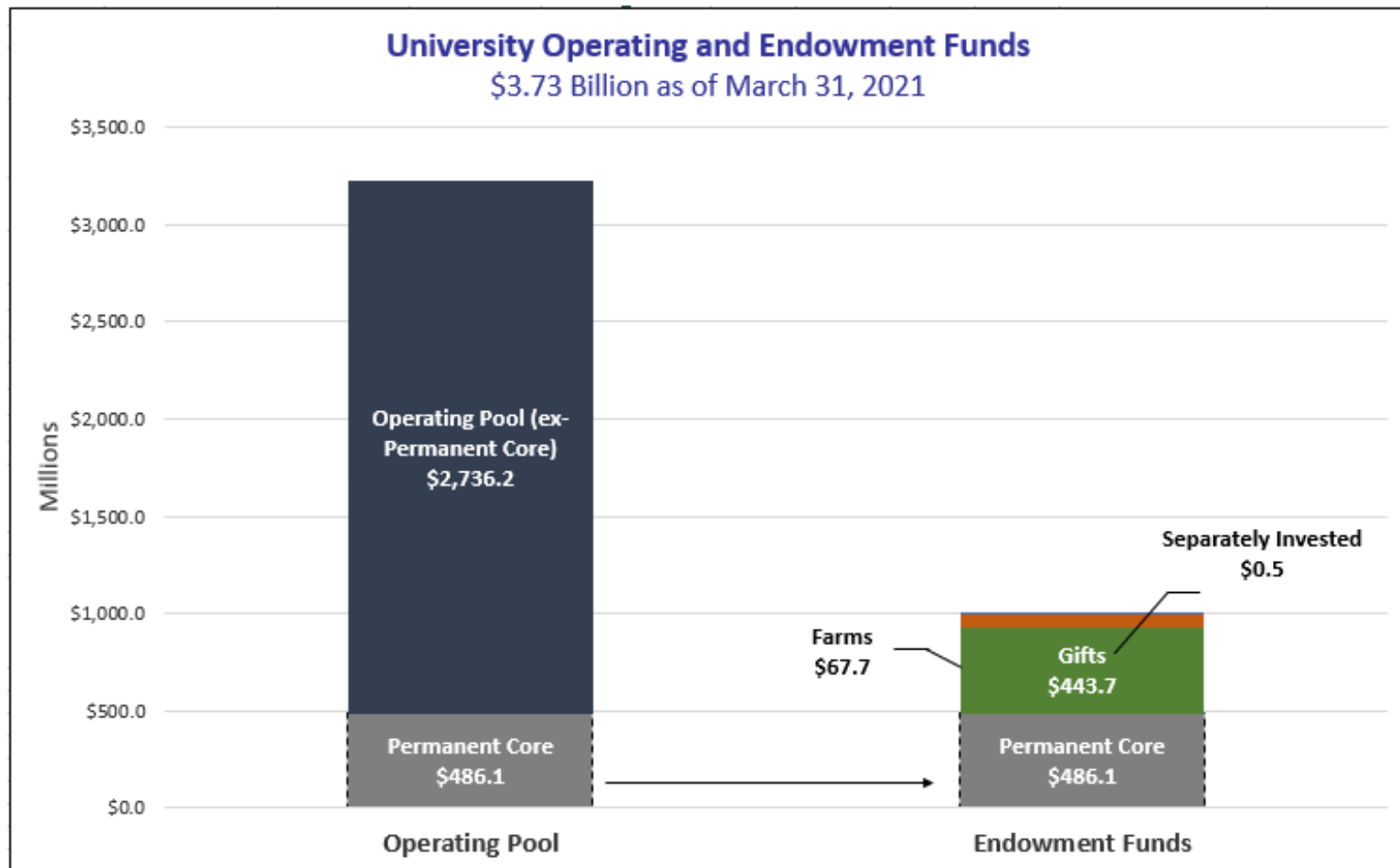
First Quarter 2021 – Market Returns

Diversifying Strategies



Data sources: Lipper and Hedge Fund Research

UNIVERSITY OPERATING AND ENDOWMENT FUNDS: MAR 31, 2021

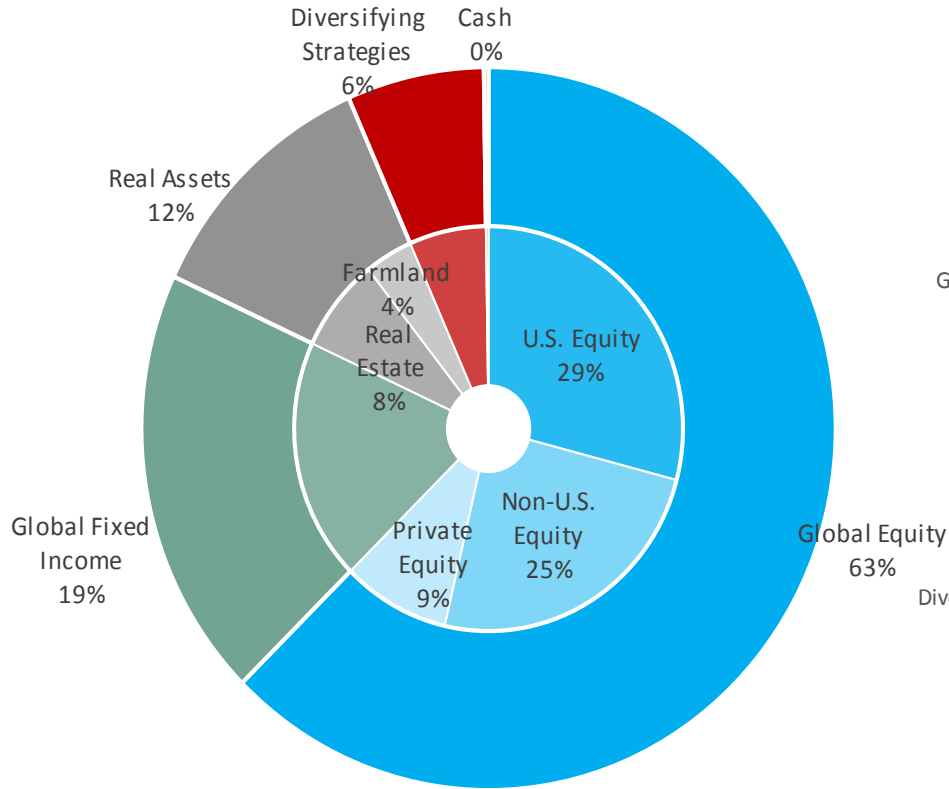


- The University Operating and Endowment Funds were valued at \$3.7 billion as of March 31, 2021.
- The Operating Pool (ex-Permanent Core) was valued at \$2.7 billion. The permanent core investment (gray bar) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Pool is valued at \$929.8 million (green and gray right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$511.9 million.

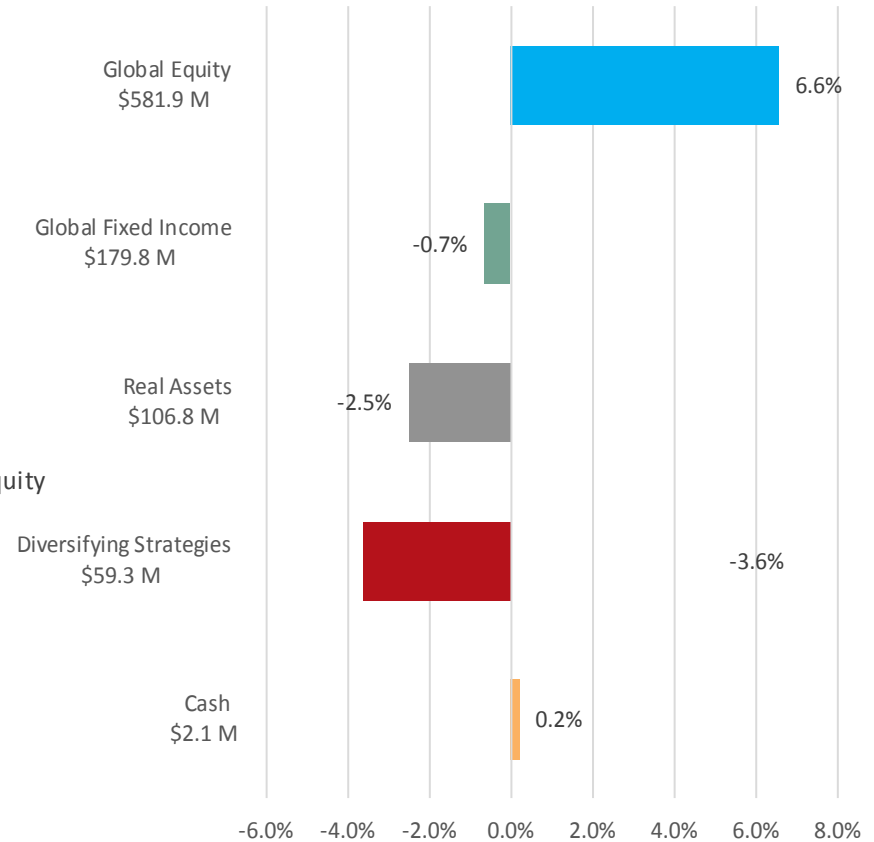
ENDOWMENT FUND UPDATE:
MARCH 31, 2021

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$929.8 Million as of 3/31/2021



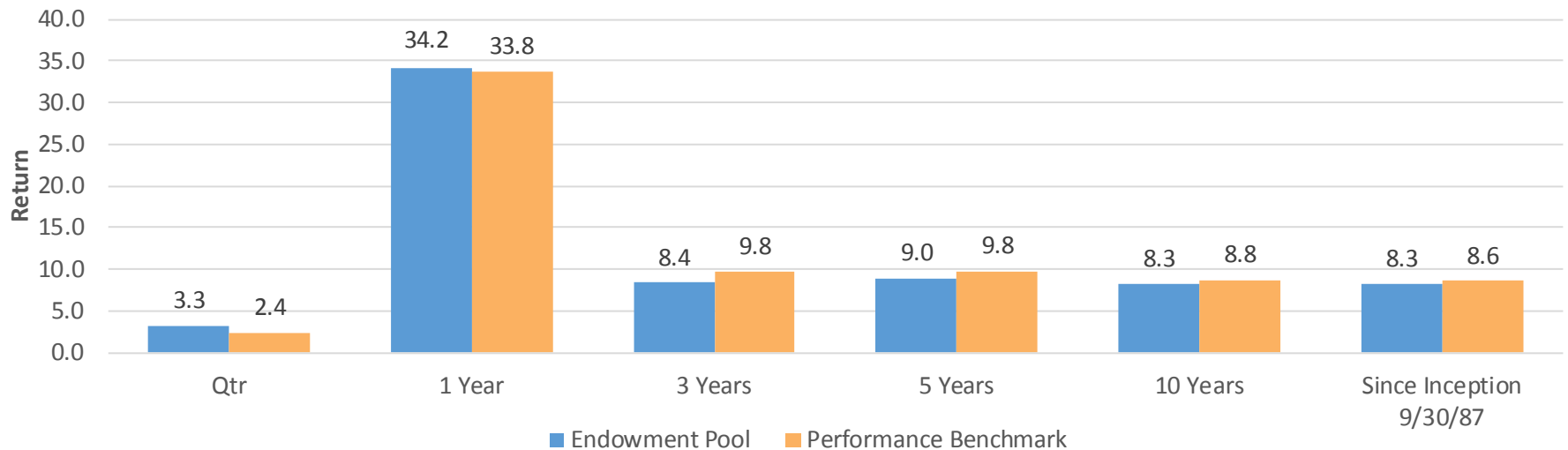
Over/Under Allocation to Long-Term Policy Targets



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 (MAR 31, 2021)

TOTAL POOL: \$929.8 MILLION



- Over the one-year period, the endowment returned 34.2%. All asset classes contributed to performance, most notably U.S. equity (+67.2%) and non-U.S. equity (+51.9%).
- On the ten-year period, the endowment posted an 8.3% return, supported by solid returns from U.S. equity (+13.3%), private equity (+12.8%), and real assets (+10.8%).

Endowment Pool	Quarter Ending
Market Value Change	March-2021
Beginning Market Value	\$892.4 M
Net Contributions	\$7.8 M
Gain/Loss	\$29.6 M
Ending Market Value	\$929.8 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 (MAR 31, 2021)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Mar-2021	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool			3.3	34.2	8.4	9.0	8.3	8.3	Sep-87
Performance Benchmark			2.4	33.8	9.8	9.8	8.8	8.6	
GLOBAL EQUITY	62.6	56.0	5.6	57.5	12.9	13.7	10.5	8.5	Sep-87
Total U.S. Equity			8.9	67.2	16.3	15.9	13.3	9.9	Sep-87
U.S. Equity Benchmark			6.3	62.5	17.0	16.6	13.7	10.2	
Total Non-U.S. Equity			3.8	51.9	6.6	9.9	5.4	5.8	Sep-93
Non-U.S. Equity Benchmark			3.8	51.9	6.6	9.8	5.1	5.9	
Total Private Equity			0.0	42.6	20.2	17.3	12.8	5.9	Jan-04
Private Equity Benchmark			0.0	49.7	16.8	17.7	15.9	12.9	
GLOBAL FIXED INCOME ¹	19.3	20.0	-3.2	3.6	5.0	3.6	4.0	6.7	Sep-87
Total Public Fixed Income			-3.3	3.4	4.7	3.4	3.9	6.7	Sep-87
Bloomberg Barclays U.S. Aggregate			-3.4	0.7	4.7	3.1	3.4	6.2	
REAL ASSETS	11.5	14.0	3.2	10.8	4.9	3.9	10.8	9.5	Dec-06
Total Real Estate			5.1	14.4	5.2	5.5	-	9.0	Aug-13
Real Estate Benchmark			1.9	1.5	4.3	4.9	-	8.7	
Total Farmland^{1,2}			0.0	5.2	4.6	2.0	8.3	7.7	Dec-06
NCREIF Cornbelt Index			0.0	3.9	2.9	0.9	7.6	8.3	
DIVERSIFYING STRATEGIES¹	6.4	10.0	2.8	19.1	-11.6	-5.7	-	-2.4	May-13
Total Hedge Funds			3.1	19.6	-12.7	-6.4	-	-2.9	May-13
HFRI Fund Weighted Composite Index			5.8	33.7	7.6	7.5	-	5.4	
CASH	0.2	0.0	0.0	0.1	1.2	1.0	-	0.8	

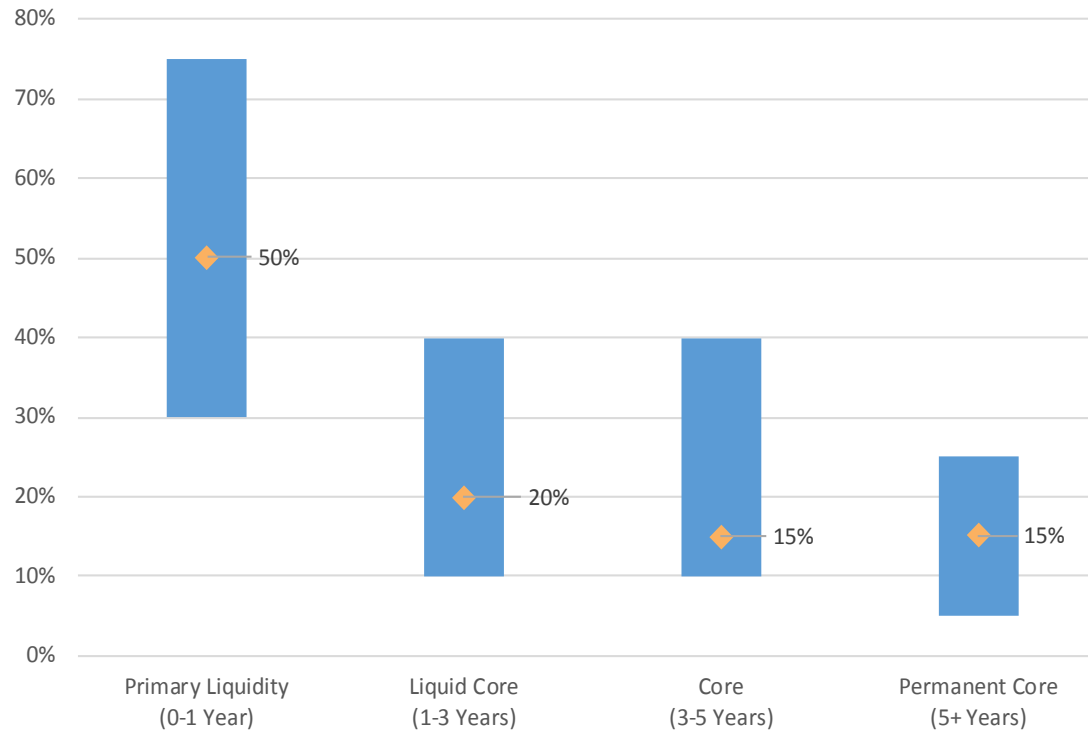
¹Global Fixed Income, Total Farmland and Diversifying Strategies include allocations and performance of private investments.

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

OPERATING POOL UPDATE:
MARCH 31, 2021

LIQUIDITY LAYERS: OPERATING POOL (MAR 31, 2021)

OPERATING POOL LIQUIDITY LAYERS AS OF MARCH 31, 2021

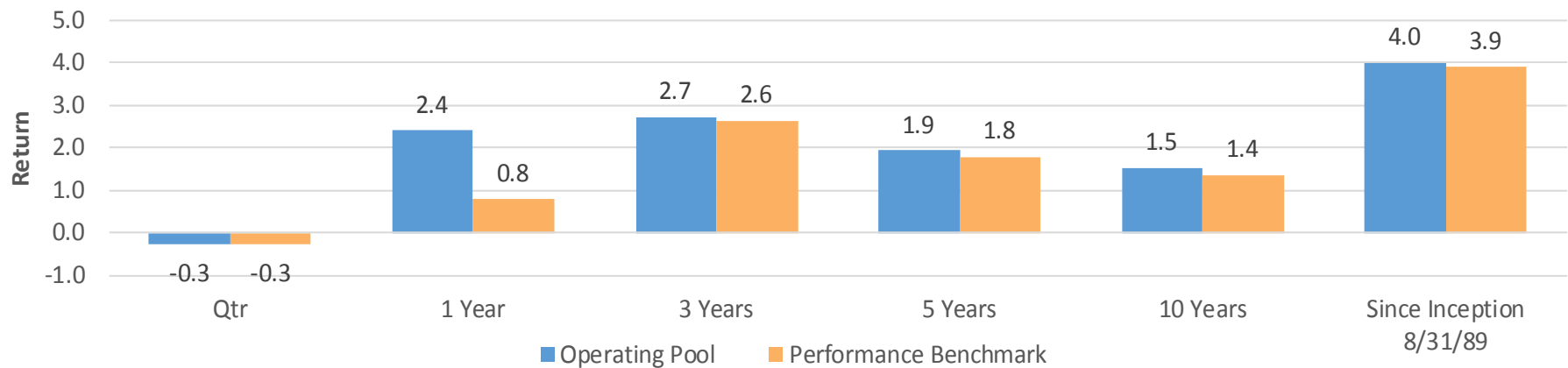


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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 (MAR 31, 2021)

TOTAL POOL: \$2.74 BILLION



- Over the trailing one-year period ending March 31, 2021, the Operating Pool returned 2.4%, outperforming the benchmark return.
 - Managers in the Operating Pool 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 each met or outperformed their respective benchmarks.

Operating Pool	Quarter Ending
Market Value Change	March-2021
Beginning Market Value	\$2,612.5 M
Net Contributions	\$131.6 M
Gain/Loss	(\$7.9 M)
Ending Market Value	\$2,736.2 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

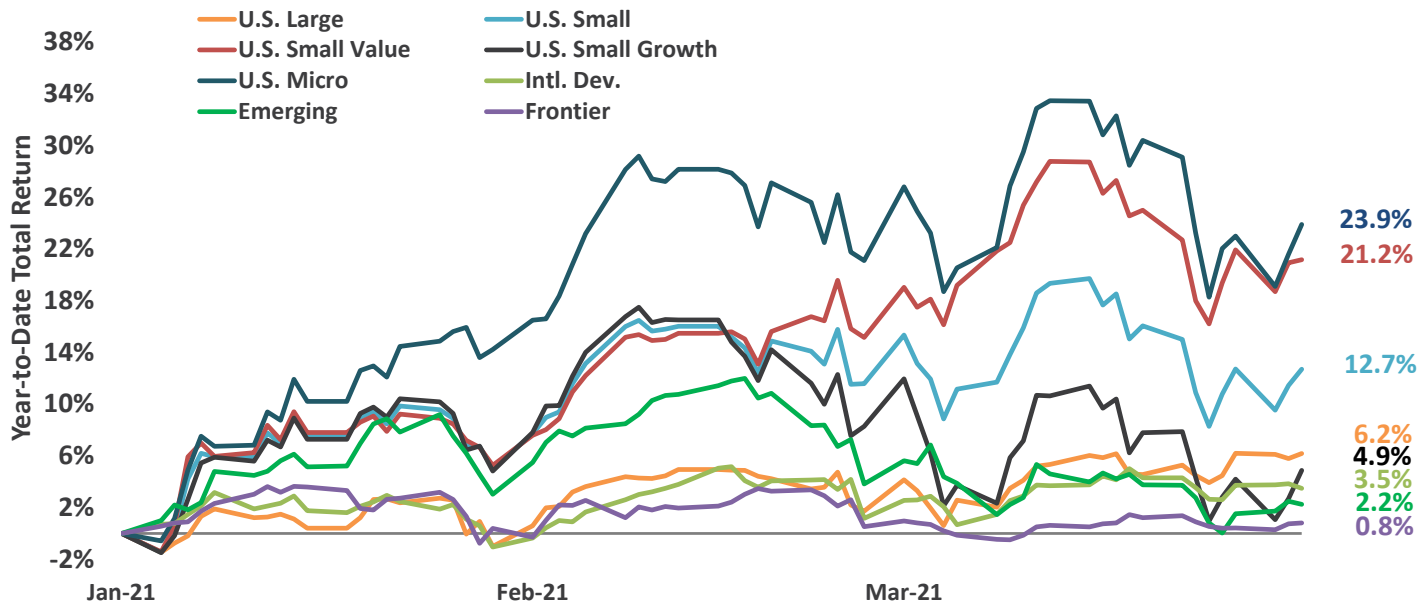
2012-2021 Annual Returns of Key Indices

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	5-year annual	10-year annual
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%	Small Cap 20.0%	MLPs 22.0%	Small Cap 16.4%	Large Cap 13.9%
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 18.4%	Small Cap 12.7%	Large Cap 16.3%	Small Cap 11.7%
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%	Emerging Markets 18.3%	Large Cap 6.2%	Emerging Markets 12.1%	High Yield 6.5%
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%	Hedge Funds 10.9%	Global REIT 5.8%	Int'l 8.8%	Global REIT 5.7%
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%	Int'l 7.8%	Int'l 3.5%	High Yield 8.1%	Int'l 5.5%
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%	Bonds 7.5%	Emerging Markets 2.3%	Hedge Funds 5.6%	Emerging Markets 3.7%
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%	High Yield 7.1%	Hedge Funds 1.9%	Global REIT 3.9%	Bonds 3.4%
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 -9.0%	High Yield 0.8%	Bonds 3.1%	Hedge Funds 3.4%
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 -28.7%	Bonds -3.4%	MLPs -1.3%	MLPs -0.9%

GLOBAL EQUITY

- Major global equity indices established not only record-high prices, but in some sectors, also record-high valuation levels in the first quarter of 2021. Investors displayed significant enthusiasm for exposure to risky assets on the heels of a third fiscal stimulus package in March and an improving macro backdrop amidst continued COVID-19 vaccine availability.
- Thematically, domestic indices generally outpaced those internationally, as U.S. economic data appeared to have improved at a faster pace during the quarter, particularly versus Europe. From a capitalization perspective, Domestic Small Cap (+12.7%) doubled the performance generated by Large Cap (+6.2%), reflective of the risk-on sentiment fueled by the broad-based restart of business activity.
- Stylistically, the cyclically-oriented Value indices outperformed Growth, with tailwinds for Value found in the way of sharply rising oil prices, Treasury interest rates, and sovereign yield curve slopes.

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

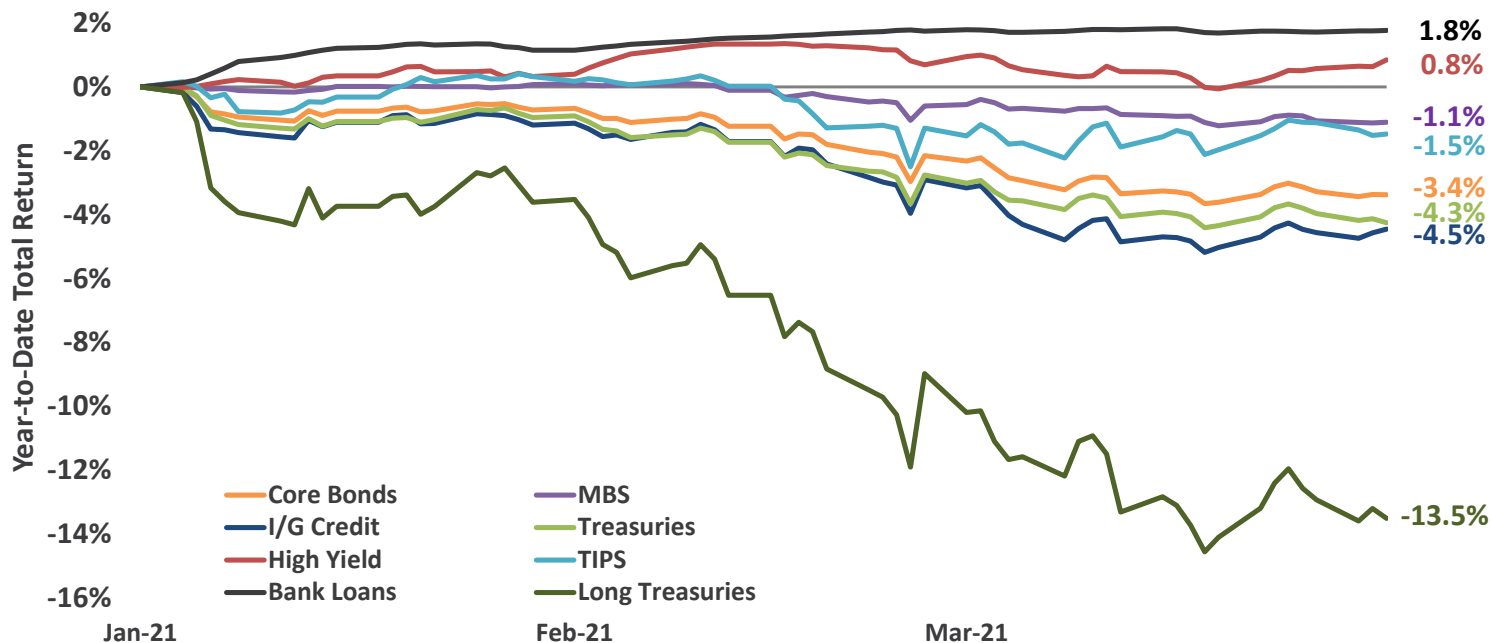


Data source: Bloomberg, L.P.; Data as of 3/31/2021

FIXED INCOME

- Interest rates rose sharply during the quarter, pressuring performance across the higher-quality and longer-duration corners of the bond market such as Core bonds – notably Treasuries (-4.3%) and Investment-Grade Credit (-4.5%) – while lower-rated and shorter-duration sectors delivered solid relative performance.
- High yield credit spreads narrowed meaningfully amid the risk-on market environment, tightening to below pre-pandemic levels and sending the absolute yield-to-worst on the Bloomberg Barclays U.S. High Yield Index to below 4% for the first time on record.
- An ongoing increase in inflationary sentiment dominated bond market headlines, which helped result in the relative outperformance of Treasury Inflation-Protected Securities (TIPS) over nominal Treasuries. 10-year breakeven inflation expectations, for example, rose sharply to conclude the quarter at 2.37%, an 8-year high.

Fixed Income Year-to-Date Performance

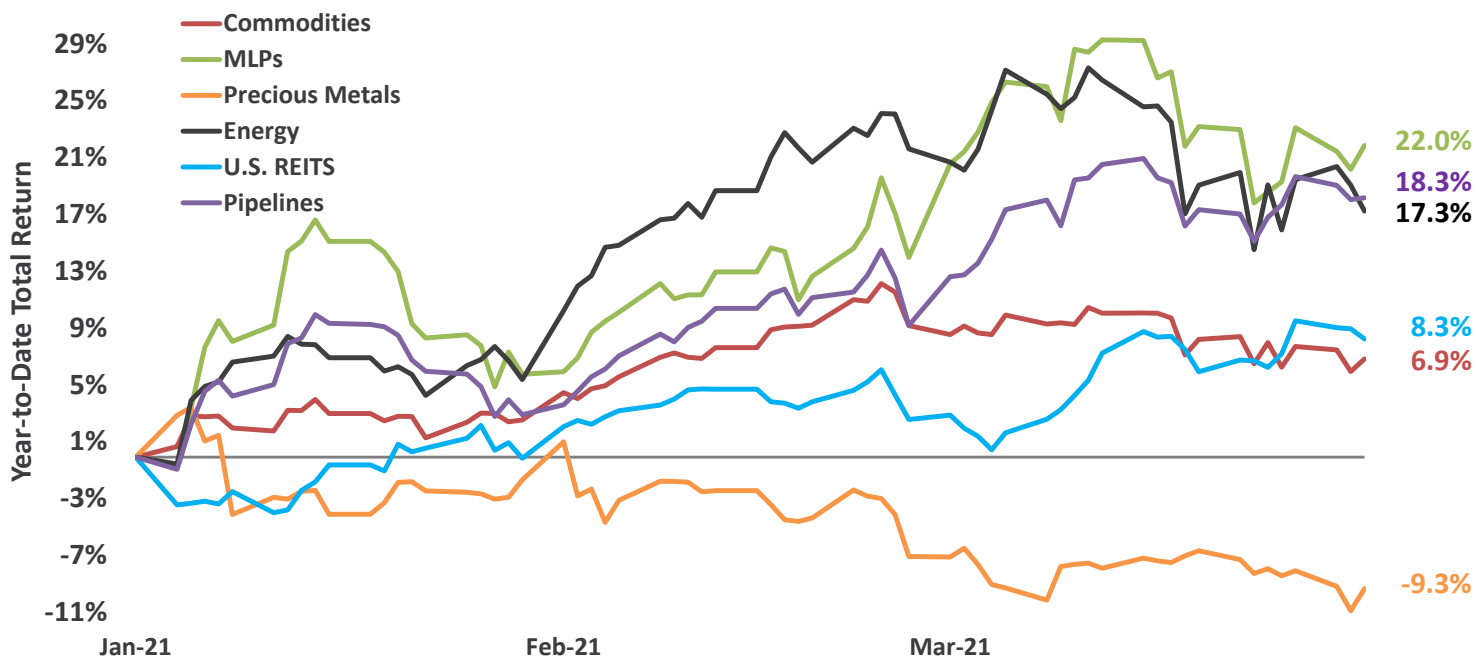


Data source: Bloomberg, L.P.; Data as of 3/31/2021

REAL ASSETS

- In conjunction with the increase in inflationary sentiment, most major real asset sectors generated strong performance during the first quarter, particularly those most sensitive to global economic growth, such as those tied to energy. Crude oil (WTI) ended the quarter by nearly tripling in price on a year-over-year basis, with a quarter-end reading of \$59.16 versus \$20.48 on 3/31/2020.
- REIT performance, which generally lagged competing risky asset categories (including equities) off of spring 2020 market lows, accelerated meaningfully amidst a general increase in economy activity, percolating inflationary pressures, and relatively cheaper valuations versus many equity sectors.
- Precious metals prices suffered meaningfully and faced headwinds from the firming exchange rate value of the U.S. dollar (USD), rising U.S. real interest rates, and robust positive price action among cryptocurrencies.

Real Assets Year-to-Date Performance

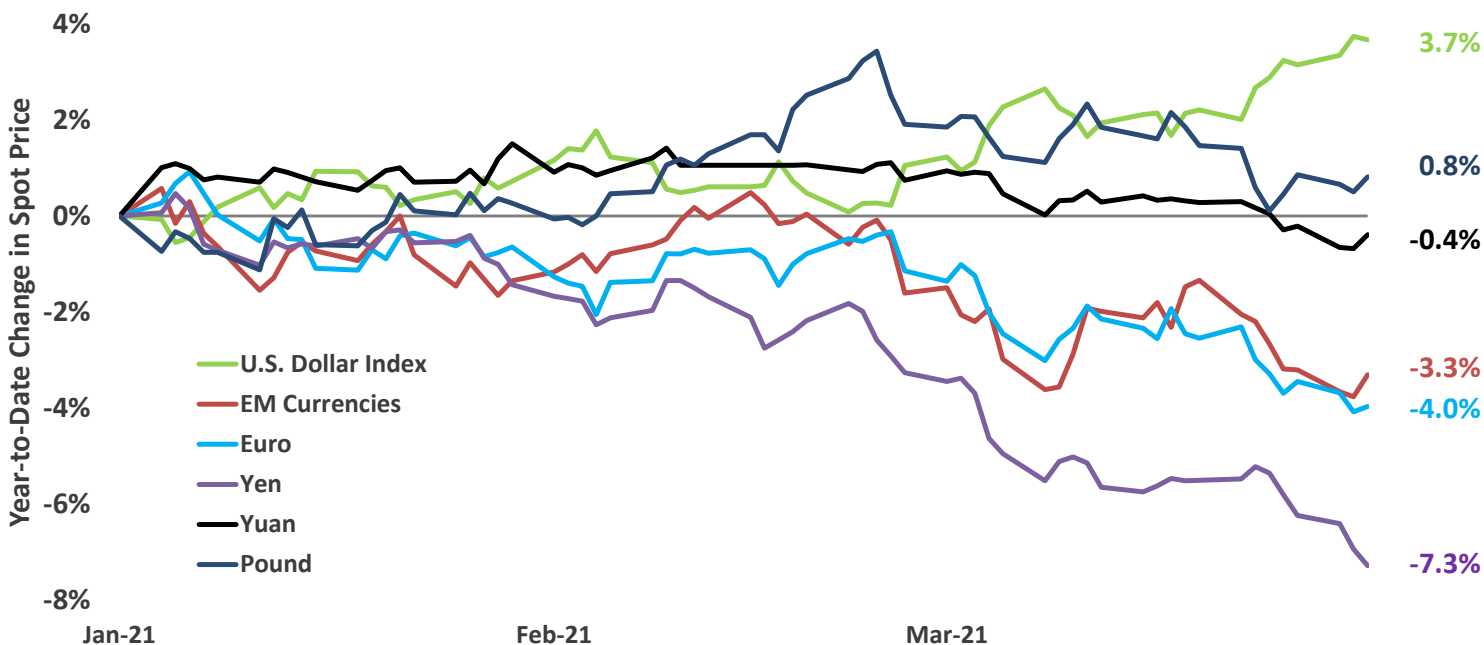


Data source: Bloomberg, L.P.; Data as of 3/31/2021

CURRENCIES

- The USD appreciated strongly in the first quarter, particularly versus the currencies of some of the U.S.'s major developed market trading partners, such as the Japanese yen and the euro. Relative outperformance of the U.S. economy, particularly versus Europe, supported a general increase in real interest rates, in turn supporting the value of the USD.
- Liquid Emerging Market currencies, as proxied by the JPMorgan Emerging Market Currency Index, declined versus the USD, despite strong upward pressure on global commodity prices, a historical tailwind for EM currencies.

Global Currency YTD Change in Spot (Base: USD)



Data source: Bloomberg, L.P.; Data as of 3/31/2021

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

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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

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

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