Reported to the Board of Trustees
July 23, 2015

University of Illinois
First Quarter 2015 Investment Update
Board Report

June 2015

Empower Results®

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Table of Contents

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Market Overview and University Assets

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Capital Markets Review
March 31, 2015

	First Quarter	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	1.8	12.2	16.4	14.7	8.5
MSCI All Country World ex-U.S. Index	3.5	-1.0	6.4	4.8	5.5
MSCI All Country World Index	2.3	5.4	10.7	9.0	6.4
Barclays Aggregate Bond Index	1.6	5.7	3.1	4.4	4.9
HFR Fund-Weighted Composite	2.2	4.1	5.3	4.5	5.3
NCREIF ODCE Index	3.2	12.4	11.6	13.4	6.0

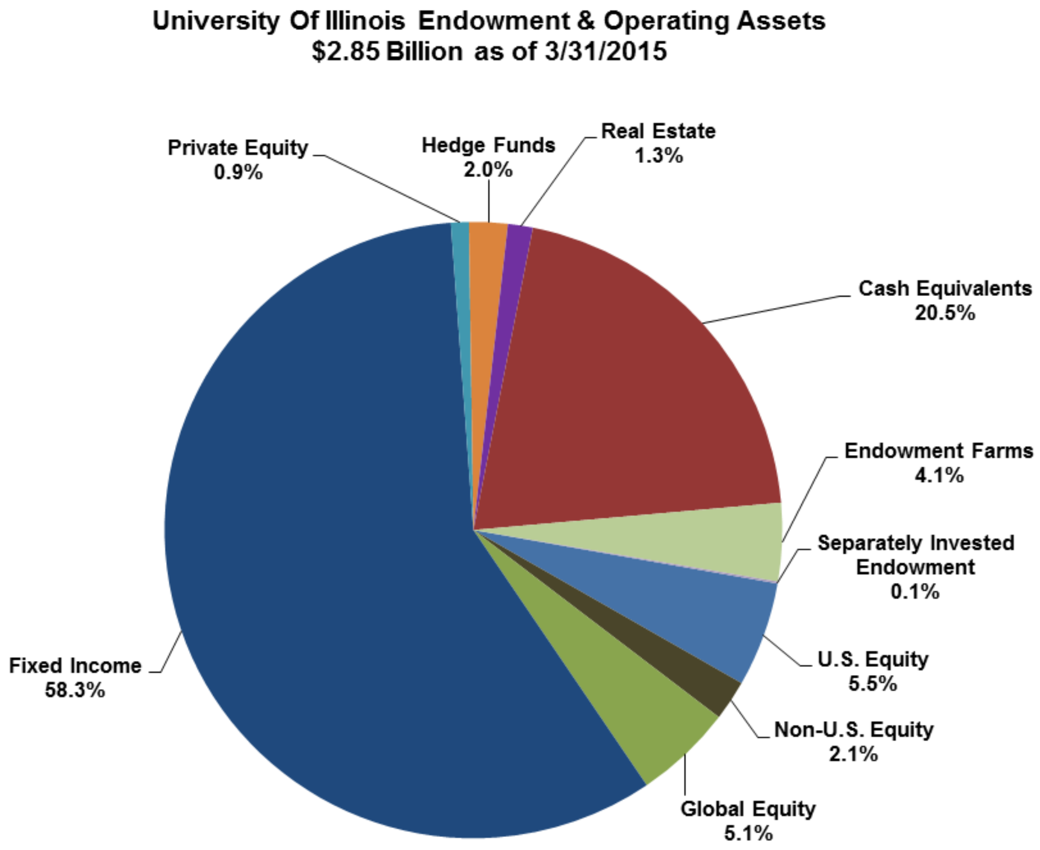
- The U.S. equity market performed much more moderately in the first quarter compared to the previous quarter. The continued dollar strength weighed on the U.S. as investors worried about the impact on corporate earnings. However, improved employment levels and consumer spending helped keep the U.S. stock market in positive territory for the quarter.

- Global equity markets rose in value during the first quarter, driven by economic stimulus programs and signs of a turn in economic fortunes in Europe and Japan. Non-U.S. developed equities, aside from the U.K. and Canada, rose during the first quarter. Quantitative easing programs in Europe and Japan and positive economic data drove the strong performance. Emerging markets rose in value as well, led by China's easing monetary policy, as well as Russia, which was aided by oil price stabilization.

- The Treasury yield curve continued to flatten during the first quarter, driven by long bond yields falling. The end of Quantitative Easing last year made the markets focus even more on the regular statements by members of the Fed's rate setting committee. The sharp drop in the oil price triggered a fall in headline inflation to zero, while the U.S. dollar remained strong against other major currencies. These developments would normally delay monetary policy tightening. The net result of the most recent monetary policy statement was that expectations of the first interest rate hike were pushed back from June this year to September.

- After many months of hints, the European Central Bank announced that it would finally begin to buy sovereign European bonds at a rate of €60 billion per month until September 2016, although the policy could extend beyond this if inflation does not rebound to the target of 2% by then. As a result, the Euro fell to a 12-year low against the U.S. dollar, and bond yields fell across the continent.

University Assets: March 31, 2015



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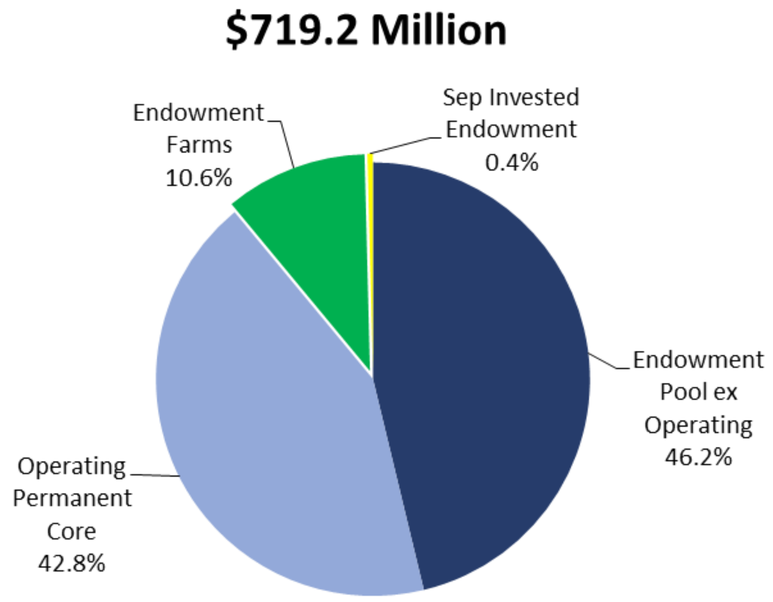
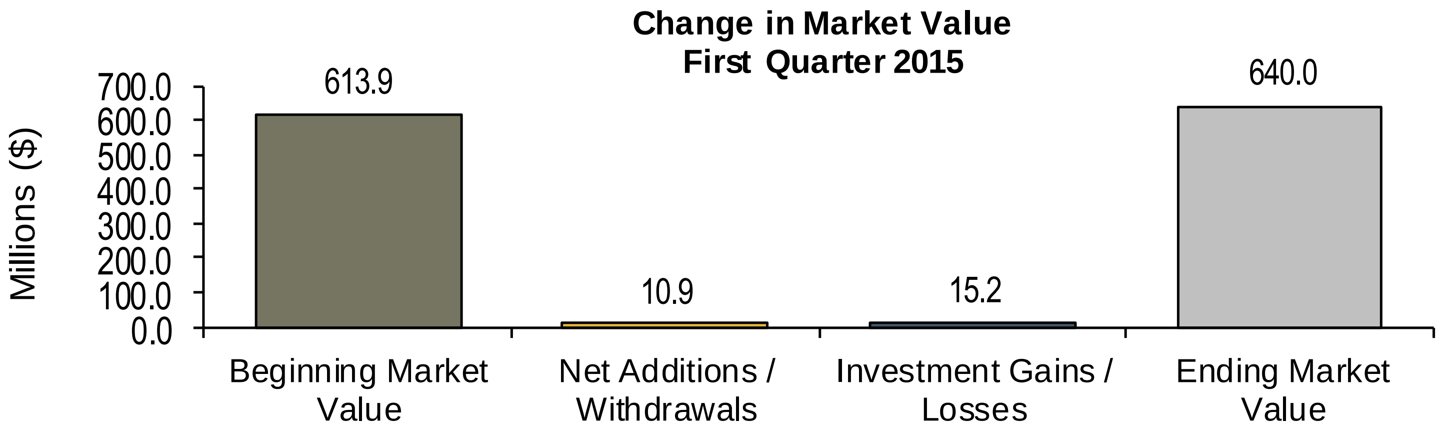
Endowment Fund Update: March 31, 2015

Total Endowment Assets by Type
March 31, 2015



Total Endowment Fund is valued at $719.2 million. The Operating Pool maintains a permanent core investment in the Endowment Pool (light blue slice). This is a long-term investment to enhance Operating Pool returns. The combined Endowment Pool is valued at $640.0 million (dark and light blue pie slices) and discussed further on the following pages.

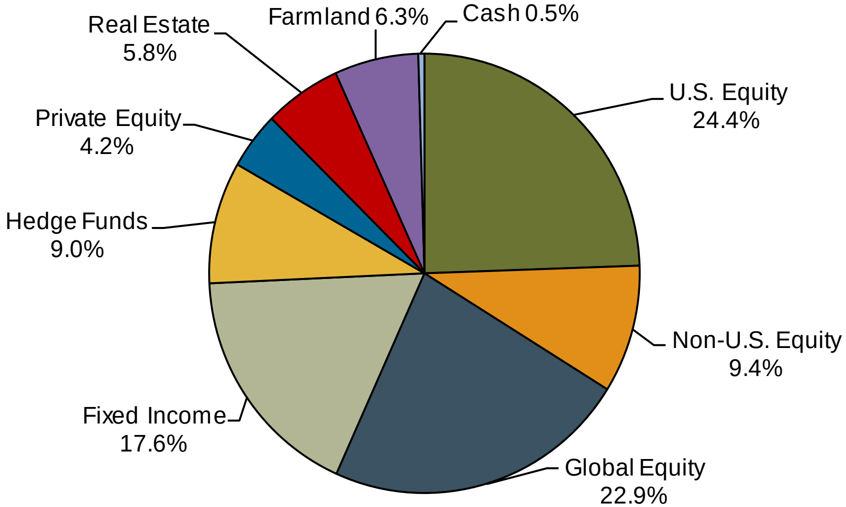
Total Fund Asset Growth: Endowment Pool

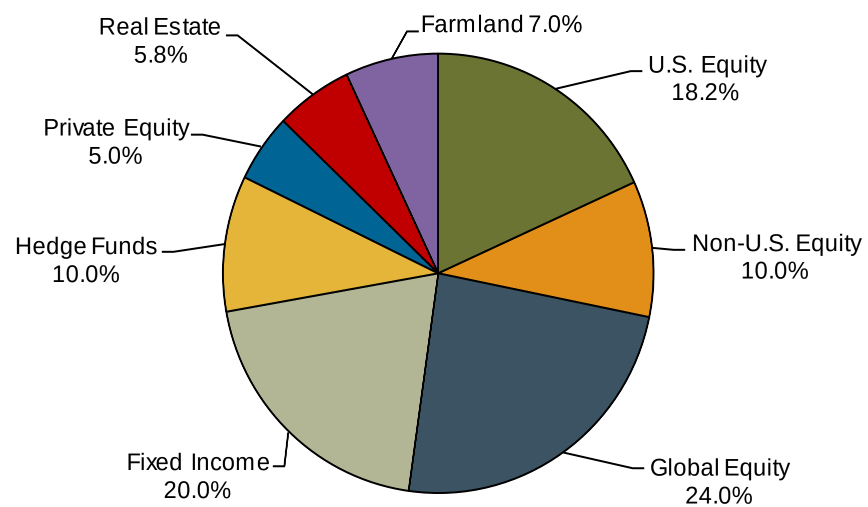


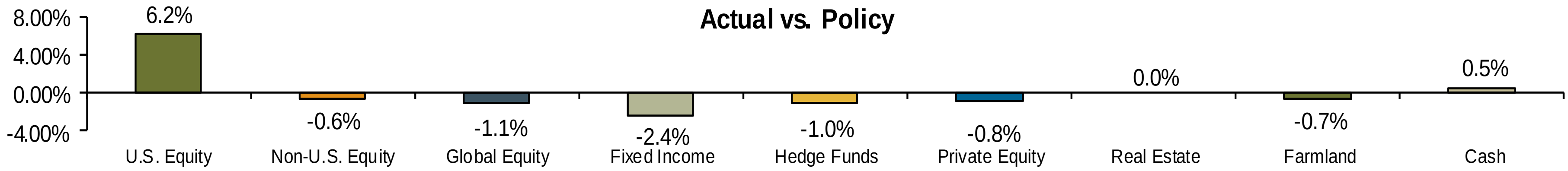
- During the first quarter, Endowment fund assets increased by approximately $26.1 million from $613.9 million to $640.0 million.
- This increase was the net result of investment gains and positive fund flows. For this period, net inflows were approximately $10.9 million and the absolute return of 2.4% in Endowment assets resulted in investment gains of $15.2 million.

Market Value and Asset Allocation: Endowment Pool
March 31, 2015

Total Fund
$640,046,276







* 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%

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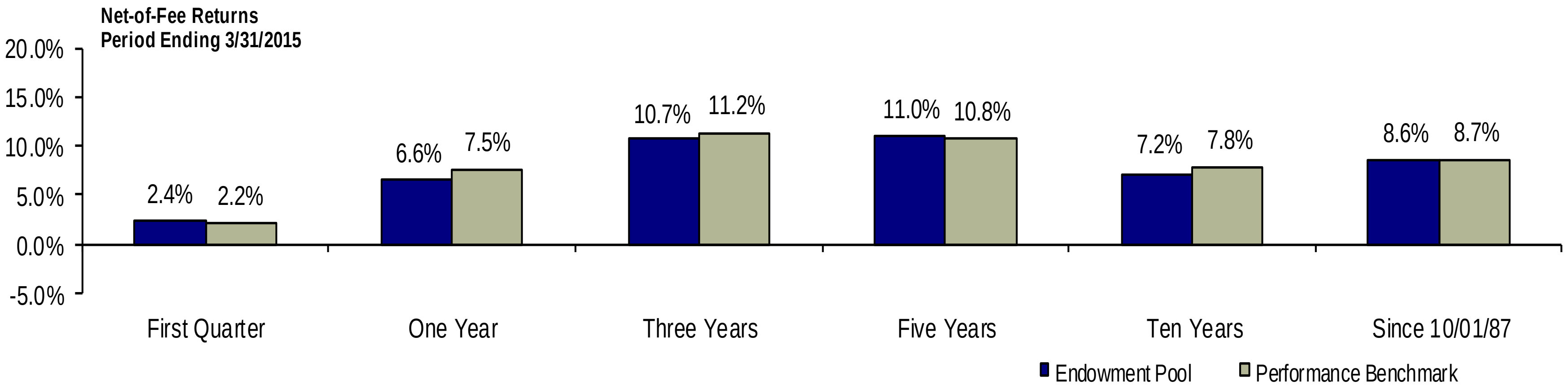
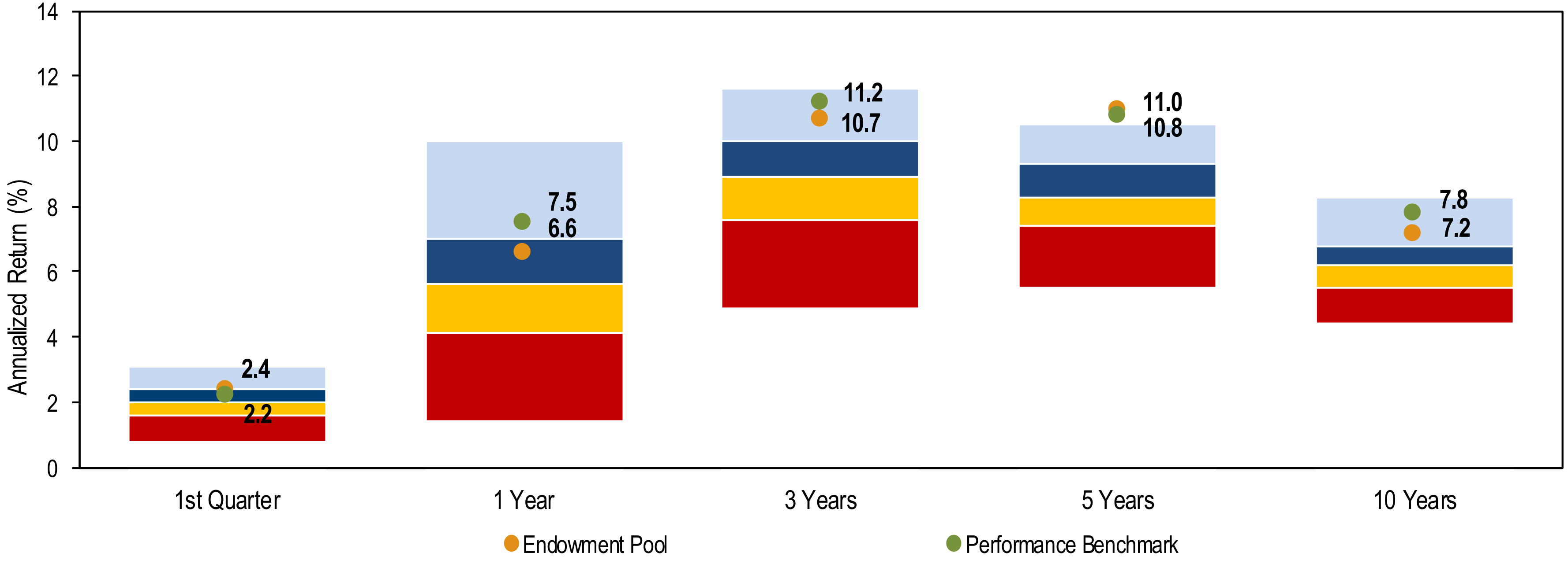
Total Fund Performance: Endowment Pool
March 31, 2015



- Endowment Pool gained 2.4 percentage points and outperformed the benchmark by 25 basis points.
  - The U.S. Equity investments outperformed the Dow Jones U.S. Total Stock Market Index by 90 basis points during the quarter, returning 2.7%.
  - During this same time period the Non-U.S. Equity investment performed inline with its benchmark, while Global Equity investments outperformed the benchmark by 30 basis points.
  - The Fixed Income portfolio finished the quarter with an above-benchmark return, returning 1.7% against a 1.6% return for the Barclays Aggregate Index.
  - The Endowment's Hedge Fund component underperformed the benchmark by 15 basis points, returning 2.1%.
- Over the trailing one-year period, the Endowment Pool gained 6.6% and underperformed its benchmark by 95 basis points. The key detractors of relative performance were Global Equity and Farmland.

Peer Rankings: Endowment Pool
March 31, 2015



Returns/Ranks	1st Quarter		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	2.4	23	6.6	32	10.7	12	11.0	4	7.2	16
Benchmark	2.2	37	7.5	21	11.2	7	10.8	4	7.8	9

- Over the trailing one-year time period, the return of the University of Illinois' Endowment Pool ranked in the top 32% of the Investment Metrics / BNY Mellon Endowment Fund and Foundation Universe returns, and the three- and five-year returns ranked in the top 12% and 4% of the universe, respectively.

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Asset Class Performance
March 31, 2015

	First Quarter	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**2.4**	**6.6**	**10.7**	**11.0**	**7.2**	**8.6**
Performance Benchmark	2.2	7.5	11.2	10.8	7.8	8.7
Total U.S. Equity	**2.7**	**13.4**	**17.1**	**15.2**	**8.5**	**9.4**
Dow Jones U.S. Total Stock Market Index	1.8	12.2	16.4	14.7	8.5	9.5
Total Non-U.S. Equity	**3.5**	**-1.2**	**7.4**	**5.0**	**4.6**	**5.6**
MSCI All Country World ex-U.S. Index	3.5	-1.0	6.4	4.8	5.5	5.6
Total Global Equity	**2.6**	**3.0**	**--**	**--**	**--**	**13.2**
MSCI All Country World Index	2.3	5.4	--	--	--	14.1
Total Fixed Income	**1.7**	**5.1**	**3.8**	**6.1**	**5.7**	**7.5**
Barclays Aggregate Bond Index	1.6	5.7	3.1	4.4	4.9	7.0
Total Hedge Funds	**2.1**	**7.1**	**--**	**--**	**--**	**5.0**
HFRI Fund Weighted Composite Index	2.2	4.1	--	--	--	5.2
Total Private Equity(1)	**4.3**	**11.1**	**9.1**	**9.8**	**5.9**	**1.0**
Private Equity Benchmark	2.6	15.6	19.8	18.2	11.8	11.7
Total Real Estate	**3.6**	**18.5**	**--**	**--**	**--**	**20.1**
Real Estate Benchmark	3.7	19.3	--	--	--	20.7
Total Farmland (2)	**0.0**	**0.0**	**12.3**	**17.7**	**--**	**12.8**
NCREIF Cornbelt Index	0.0	11.1	19.5	16.3	--	14.1

(1) The combined Adams Street Partners IRR at 12/31/2014 was 9.1%.
(2) Farmland is valued annually on June 30th. As such, the one year return reflected above is the one-year return for Farmland as of June 30th, 2014.

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Operating Pool Update: March 31, 2015

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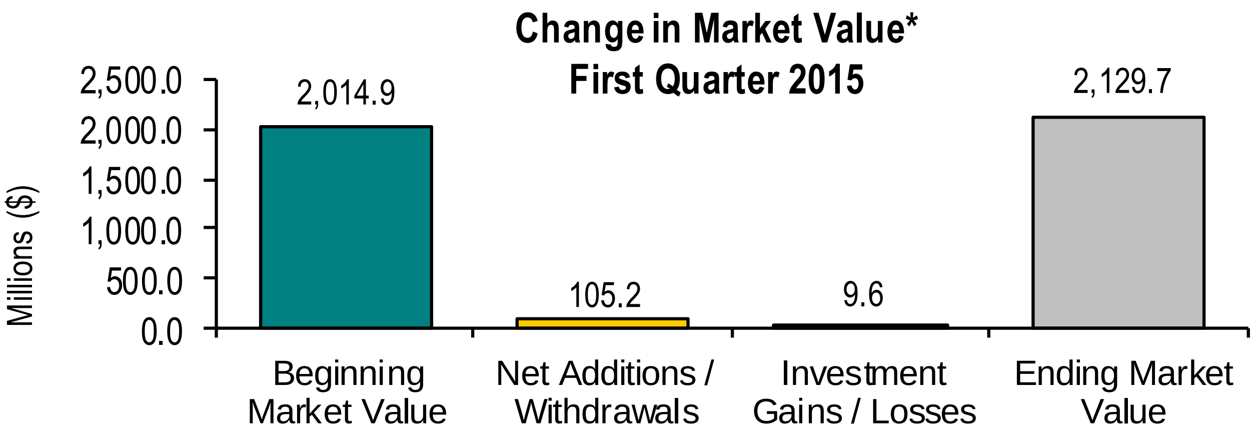
Total Fund Asset Growth: Operating Pool

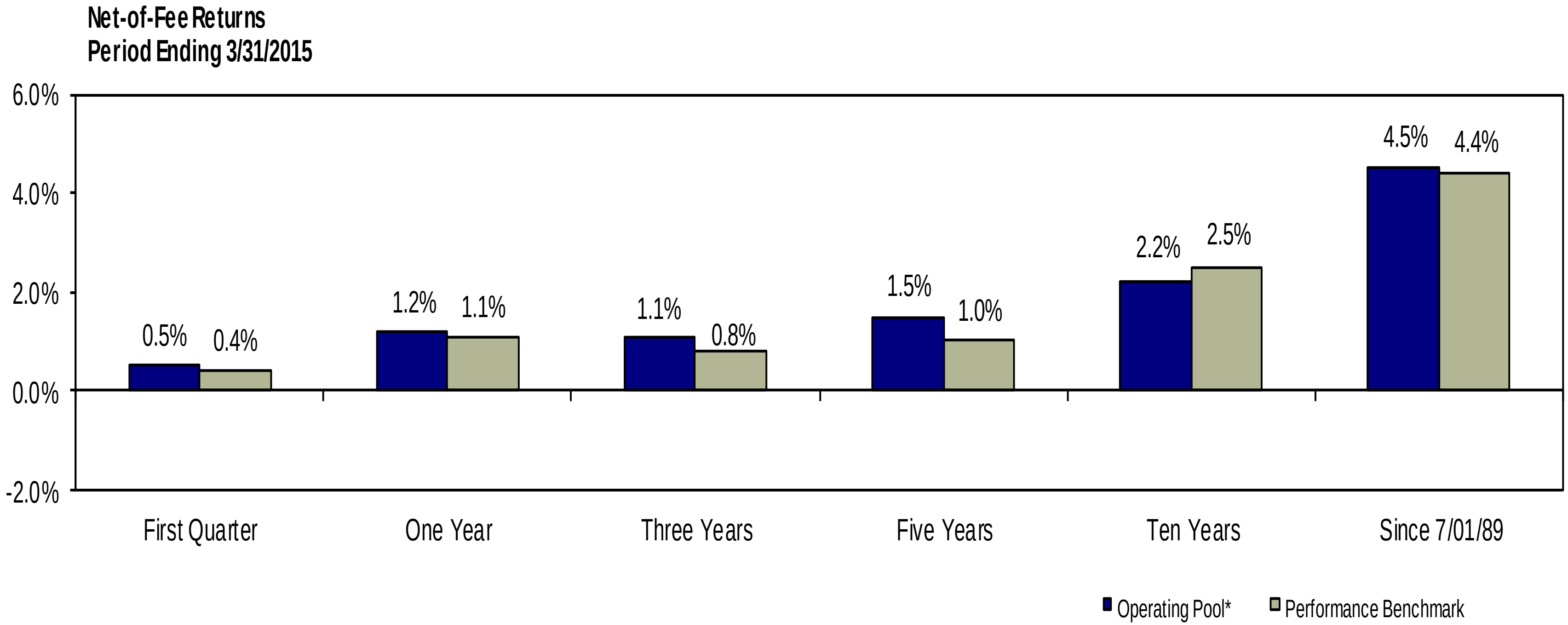


- During the first quarter, the Operating Pool assets increased by approximately $114.8 million from $2.015 billion to $2.130 billion. This increase was the result of $105.2 million in net inflows and transfers. Additionally, the Operating Pool had investment gains of $9.6 million during the period.

* The Total Fund's beginning and ending market values include bank balances in which the University earns credit to offset bank fees.

Total Fund Performance: Operating Pool
March 31, 2015

Total Fund
$2,129,672,906



- The Operating Pool's performance during the first quarter was 0.5%, outperforming the benchmark return by 10 basis points for this time period. There was an even split of managers that matched their respective benchmarks during the quarter and managers that outperformed.

* Total Fund performance excludes the MAFBE CDs and the Bank of America and JP Morgan bank balances.

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Appendix:

Market Environment

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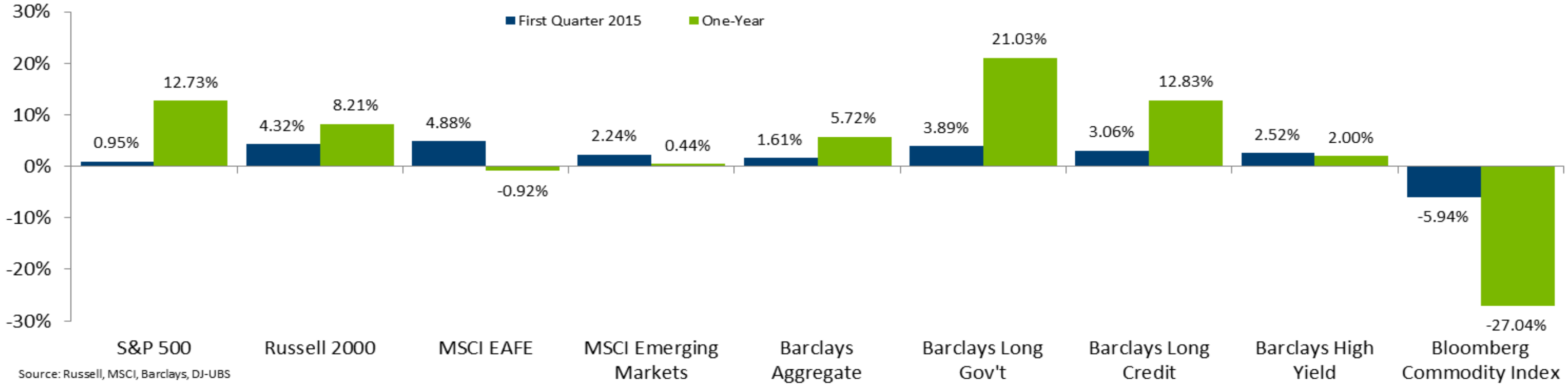
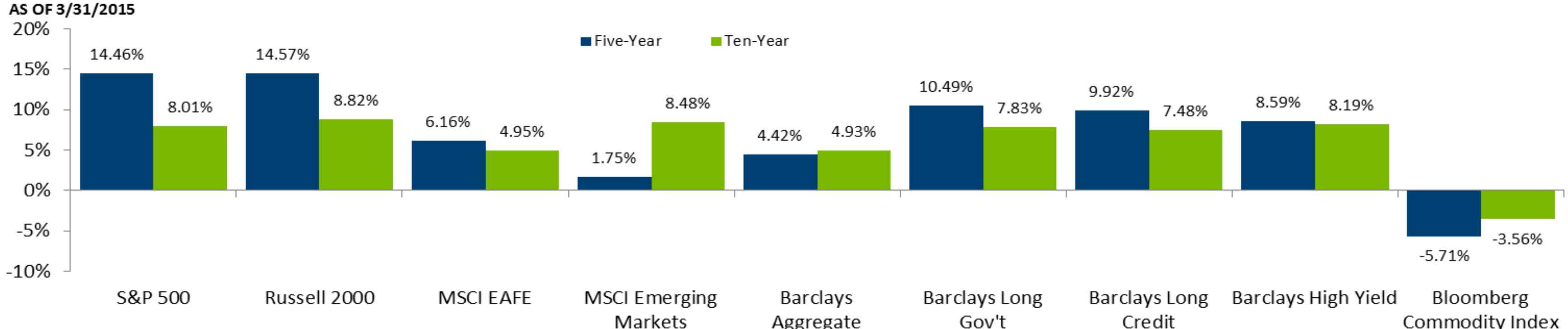
Market Highlights

SHORT TERM RETURNS
AS OF 3/31/2015



Source: Russell, MSCI, Barclays, DJ-UBS

LONG TERM ANNUALIZED RETURNS
AS OF 3/31/2015



Source: Russell, MSCI, Barclays, DJ-UBS

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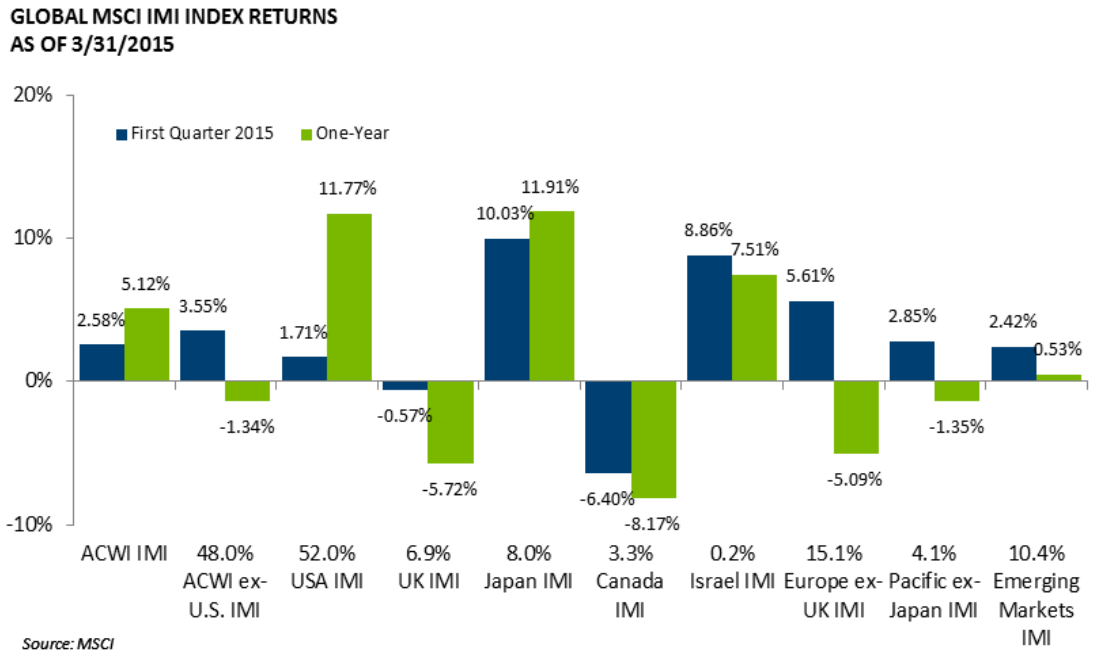
Market Highlights

Returns of the Major Capital Markets					
					Periods Ending 3/31/2015
	First Quarter	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity					
MSCI All Country World IMI	2.6%	5.1%	11.0%	9.3%	6.7%
MSCI All Country World	2.3%	5.4%	10.7%	9.0%	6.4%
Dow Jones U.S. Total Stock Market	1.8%	12.2%	16.4%	14.8%	8.5%
Russell 3000	1.8%	12.4%	16.4%	14.7%	8.4%
S&P 500	1.0%	12.7%	16.1%	14.5%	8.0%
Russell 2000	4.3%	8.2%	16.3%	14.6%	8.8%
MSCI All Country World ex-U.S. IMI	3.5%	-1.3%	6.5%	5.0%	5.7%
MSCI All Country World ex-U.S.	3.5%	-1.0%	6.4%	4.8%	5.5%
MSCI EAFE	4.9%	-0.9%	9.0%	6.2%	4.9%
MSCI EAFE (Local Currency)	10.8%	17.7%	16.6%	9.1%	6.1%
MSCI Emerging Markets	2.2%	0.4%	0.3%	1.7%	8.5%
Fixed Income					
Barclays Global Aggregate	-1.9%	-3.7%	-0.2%	2.3%	3.6%
Barclays Aggregate	1.6%	5.7%	3.1%	4.4%	4.9%
Barclays Long Gov't	3.9%	21.0%	7.6%	10.5%	7.8%
Barclays Long Credit	3.1%	12.8%	7.8%	9.9%	7.5%
Barclays Long Gov't/Credit	3.4%	15.7%	7.7%	10.2%	7.7%
Barclays US TIPS	1.4%	3.1%	0.6%	4.3%	4.6%
Barclays High Yield	2.5%	2.0%	7.5%	8.6%	8.2%
Citi Group Non-U.S. WGBI	-4.4%	-9.8%	-3.3%	0.4%	2.5%
JP Morgan EMBI Global (Emerging Markets)	2.1%	4.1%	4.4%	6.8%	8.0%
Commodities					
Bloomberg Commodity Index	-5.9%	-27.0%	-11.5%	-5.7%	-3.6%
Goldman Sachs Commodity Index	-8.2%	-40.3%	-16.9%	-8.0%	-7.5%
Hedge Funds					
HFRI Fund-Weighted Composite[2]	2.4%	4.3%	5.3%	4.5%	5.3%
HFRI Fund of Funds[2]	2.5%	5.4%	5.4%	3.5%	3.2%
Real Estate					
NAREIT U.S. Equity REITS	4.8%	24.0%	14.2%	15.7%	9.6%
NCREIF NFI - ODCE[3]	3.4%	13.5%	12.7%	14.5%	7.0%
Private Equity					
Thomson Reuters Thomson ONE[4]	0.1%	16.2%	15.0%	14.9%	14.1%
Infrastructure					
Macquarie Global Infrastructure - North America	-4.0%	9.9%	11.9%	13.6%	9.5%

MSCI Indices show net returns.
All other indices show total returns.
1 Periods are annualized.
2 Latest 5 months of HFR data are estimated by HFR and may change in the future.
3 First quarter results are preliminary.
4 Benchmark is as of 09/30/2014.

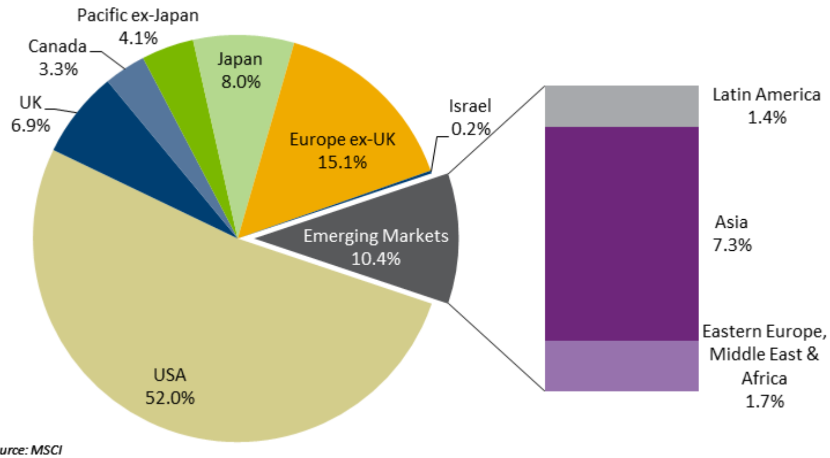
Global Equity Markets



- Global equity markets rose 2.58% in value during the first quarter of 2015, driven by economic stimulus programs and signs of a turn in economic fortunes in Europe and Japan.
- Non-U.S. developed equities, aside from the U.K. and Canada, rose during the first quarter. Quantitative easing programs in Europe and Japan and positive economic data have driven the outperformance.
- Emerging markets rose in value as well, led by China's easing monetary policy, as well as Russia, which was aided by oil price stabilization.

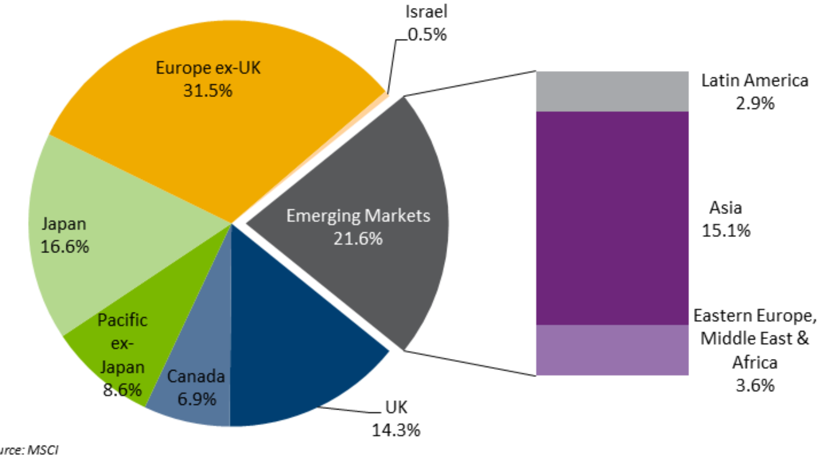
Global Equity Markets

MSCI ALL COUNTRY WORLD IMI INDEX GEOGRAPHIC ALLOCATION AS OF 3/31/2015



Source: MSCI

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX GEOGRAPHIC ALLOCATION AS OF 3/31/2015



Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

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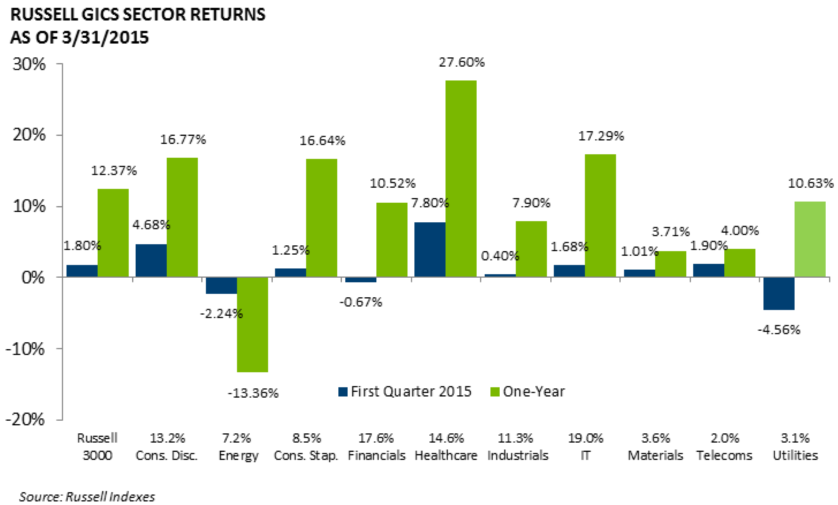
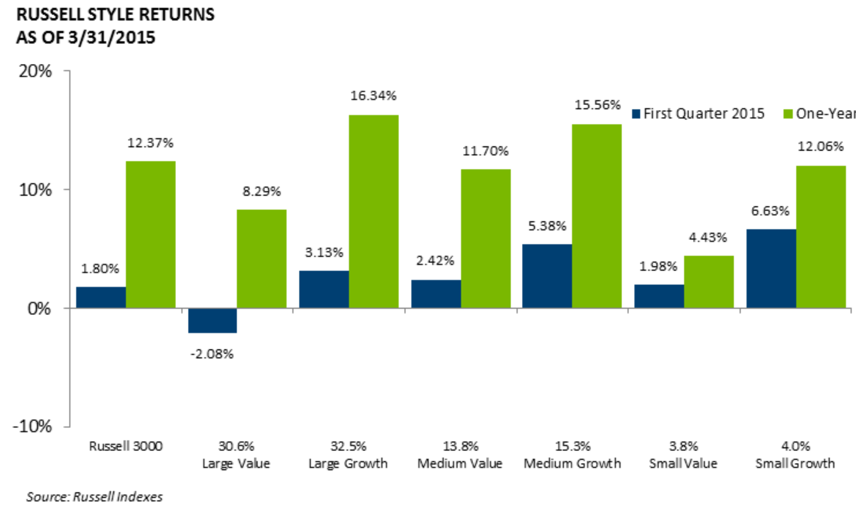
U.S. Equity Markets





- The Russell 3000 Index returned 1.80% during the quarter and returned 12.37% over the one-year period.
- During the first quarter, the health care and consumer discretionary sectors were the strongest performers, posting returns of 7.80% and 4.68%, respectively. The energy and utilities sectors were the weakest performers, producing returns of -2.24% and -4.56%, respectively.
- Performance across the market capitalization spectrum was mixed over the quarter. Large cap stocks trailed the smaller segments of the markets, and value underperformed growth across all market capitalizations.

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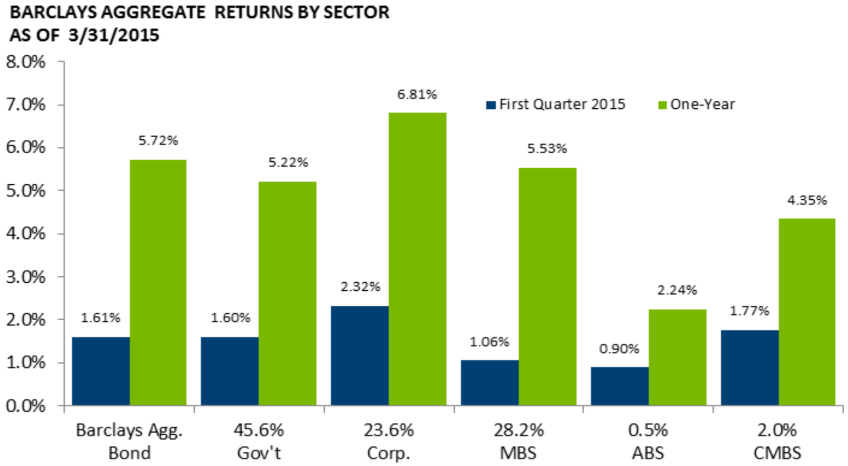
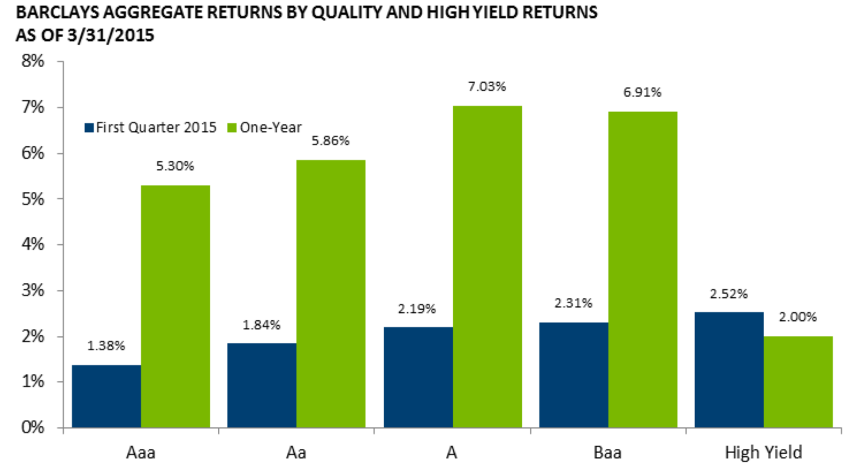
U.S. Fixed Income Markets

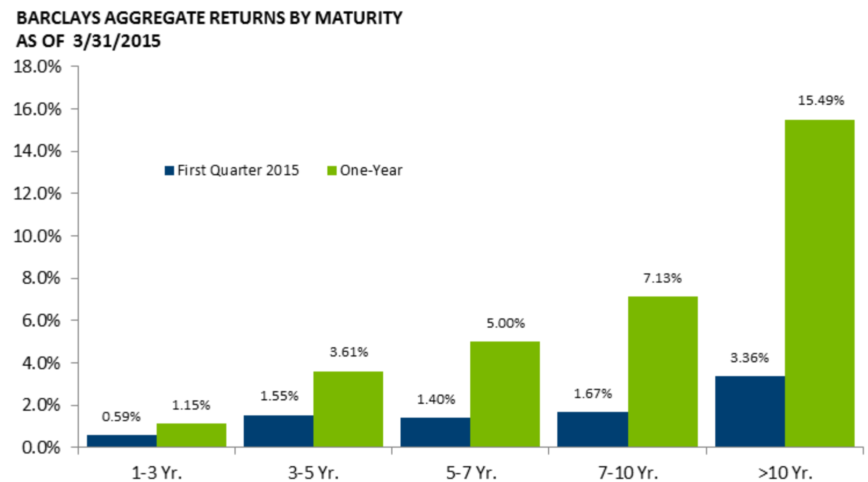


Source: Barclays Live



Source: Barclays Live

- The Barclays Aggregate Bond Index returned 1.61% in the first quarter. Corporate bonds were the strongest performing index segment, returning 2.32%.
- In the investment grade market, Baa bonds outperformed higher quality bonds.
- High yield bonds outperformed investment grade corporate bonds.
- Long duration bonds continued to outperform shorter duration bonds.



Source: Barclays Live

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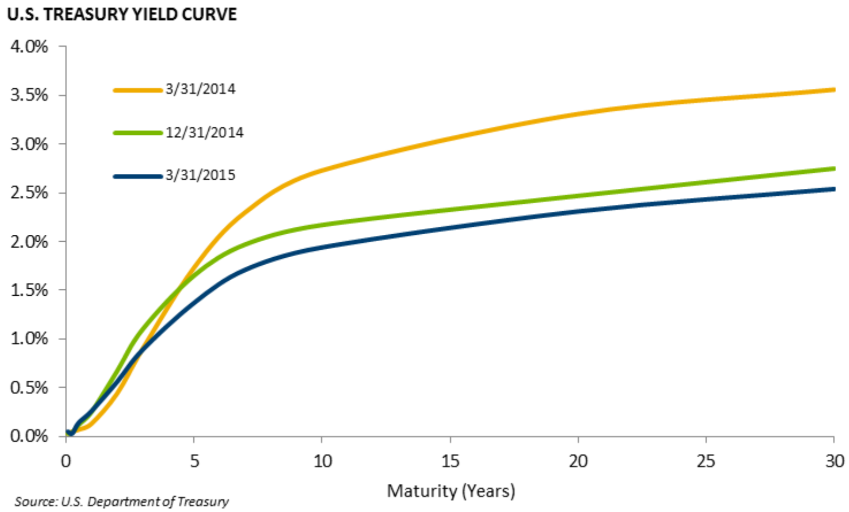
U.S. Fixed Income Markets



Source: U.S. Department of Treasury

Source: U.S. Department of Treasury

- The Treasury yield curve flattened during the first quarter, driven by long bond yields falling.
- The 10-year U.S. Treasury yield ended the quarter at 1.94%, 23 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield fell by 31 basis points over the quarter and ended the period at 0.18%.

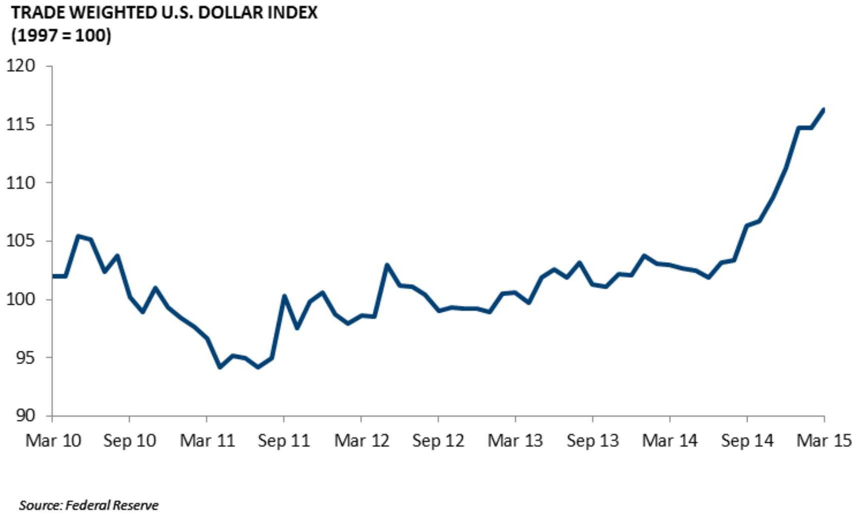
Credit Spreads

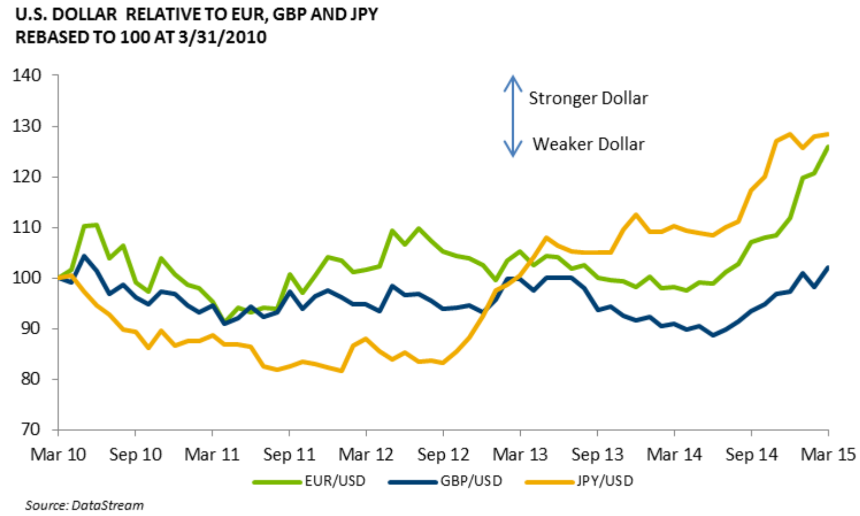
Spread (bps)	3/31/2015	12/31/2014	3/31/2014	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	46	48	44	-2	2
Long Gov't	3	4	5	-1	-2
Long Credit	187	185	155	2	32
Long Gov't/Credit	118	119	102	-1	16
MBS	20	27	38	-7	-18
CMBS	95	98	107	-3	-12
ABS	62	58	50	4	12
Corporate	129	131	106	-2	23
High Yield	466	483	358	-17	108
Global Emerging Markets	354	365	294	-11	60

Source: Barclays Live

- During the first quarter, credit spreads tightened across most areas of the bond market.
- High yield spreads fell by 17 basis points, the most over the quarter. This was followed by Global emerging markets which fell by 11 basis points.

Currency





- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar strengthened during the quarter.
- The dollar appreciated against the Euro, Yen, and British Pound Sterling.

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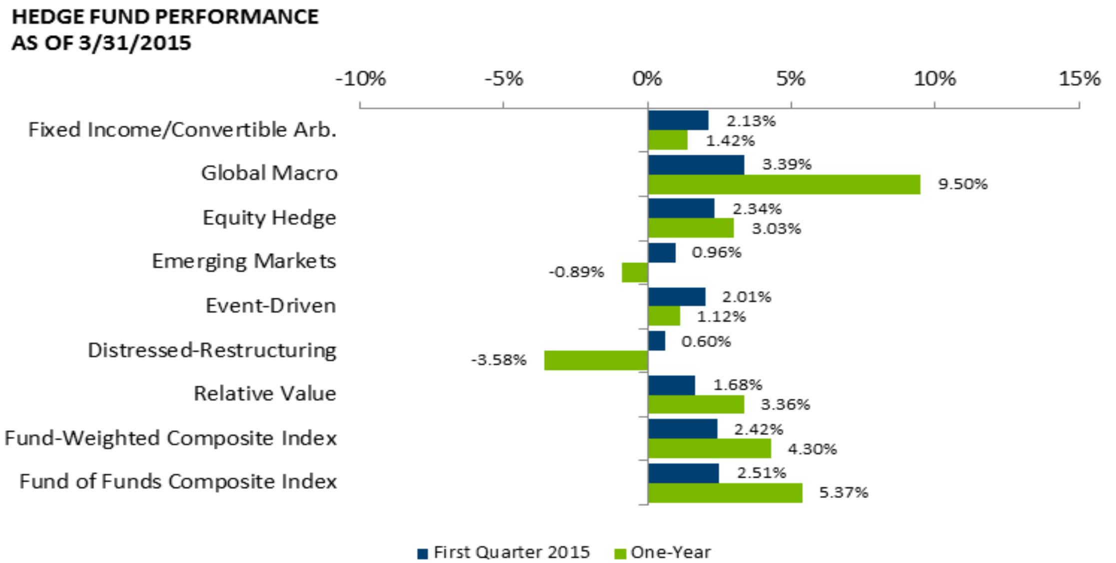
Hedge Fund Markets Overview



Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was positive over the quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 2.42% and 2.51%, respectively, during the quarter.
- Global Macro strategies were the strongest performers, gaining 3.39% over the course of the quarter.

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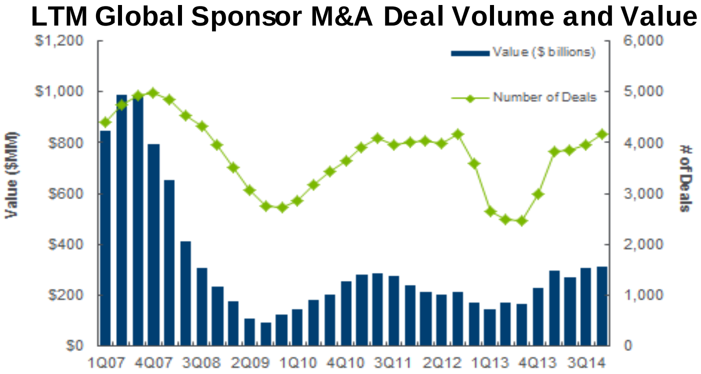
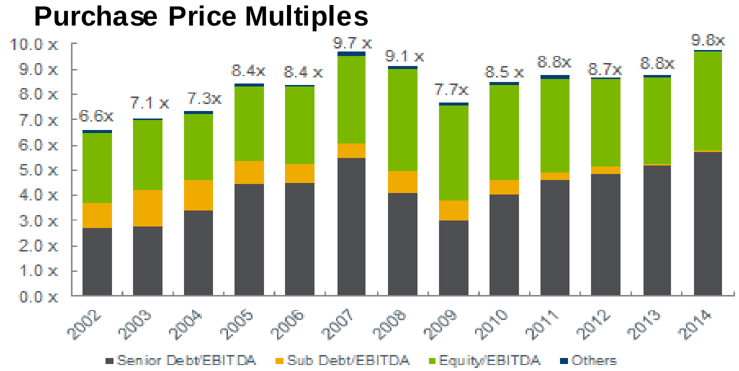
Private Equity Market Overview



Source: Thomson Reuters



Source: S&P

- Fundraising: $88.6 billion was raised in 4Q 2014, bringing fiscal year (FY) capital raised to $360.1 billion; 10.6% and 48.1% above FY 2013 and the five year average, respectively[5]. Dry powder reached a new peak of $1.0 trillion, representing a 13.2% increase from the prior mark set in 2008 and a 20.7% increase from the five year average[1].
- Buyout: In 4Q 2014, 1,168 global sponsor-backed M&A deals closed totaling $90.8 billion. Total 2014 M&A deal volume reached $310.7 billion closed on by 4,156 deals, representing the highest amounts since 2007 on both a deal and value basis[5]. For the first time since 2005, purchase price multiples for middle market transactions (9.8x) exceeded those of large cap transactions (9.7x). Purchase price multiples for middle market and total U.S. Leveraged buyouts reached new record levels as of year end 2014[3]. European purchase price multiples increased year over year for all transaction sizes, increasing at an average of 1.3x. On a FY basis, total exit value and number of exits increased to $443.4 billion and 1,724 exits, respectively, both representing record year end levels[1].
- Venture: Investment activity continues to be healthy, with 2014 deployment exceeding 2013 levels by 61.4% and 3.9% in dollar and deal terms, respectively. Total 2014 investments of $48.3 billion marked the highest total since the year 2000, which saw $105.0 billion in capital invested[7]. This has been driven by the influx of capital from non-traditional investors, particularly in later rounds, (i.e. hedge funds and mutual funds) and the increase in financing rounds exceeding $100.0 million. The exit environment is solid and continues to strengthen, evidenced by the fact that there were115 venture-backed IPOs in 2014, topping the 2013 mark of 81[8].
- Mezzanine: 4Q 2014 mezzanine capital raised decreased 74.2% quarter over quarter to $1.8 billion and represents the lowest quarterly total since 3Q 2012[5]. Estimated dry powder was $37.6 billion at year end, down 8.7% and 5.0% over 2013 and the five year average, respectively[1]. Capital deployment in 2014 was limited due to the continued infiltration of private lending platforms and business development companies (BDCs) in the middle market, disintermediating mezzanine funds through the offering of unitranche debt and second lien lending opportunities.
- Distressed Debt: High yield default rates were 0.2% in 4Q 2014 with a FY rate of 2.4%, compared to 0.3% and 1.5% in 3Q 2014 and 2013, respectively[6]. Default rates are expected to rise due to a combination of energy developments and a slow reversion away from current unsustainably low default rates, but are expected to remain below the 4.6% long-term average[4]. Completed distressed debt and bankruptcy restructuring activity reached $204.4 billion in 2014, roughly a 12.0% increase from the prior year[5].
- Secondaries: 2014's full year fundraising total of $26.7 billion surpassed 2013's total of $21.7 billion, setting a new record[1]. Transaction volume in 2014 reached $37.5 billion, representing a substantial increase over the $26.5 billion completed in 2013. The average discount rate for all private equity sectors improved slightly quarter over quarter to 8.0% and remains very favorable for potential sellers[2].
- Infrastructure: $7.6 billion closed by 13 partnerships during 4Q 2014 bringing FY 2014 fundraising to $40.3 billion; down 22.4% and 8.6% over 3Q 2014 and FY 2013, respectively[1]. As of year end 2014, dry powder stood at $94.0 billion, of which 50.9% was expected to be targeted for North America[1]. In 2014, infrastructure managers completed 844 deals with an estimated aggregate deal value of $427.3 billion for an average deal value of $506.2 million, up 26.4% from the same period last year[1].
- Natural Resources: During 4Q 2014, twelve funds closed on $14.5 billion, bringing FY capital raised to $24.7 billion, down 14.5% year over year[1]. Energy and utilities industry managers completed 42 deals during 4Q 2014, bringing 2014 FY estimated deal quantity and aggregate value to 238 and $34.5 billion, respectively. This represents a 15.2% increase over 2013's FY deal value[1].

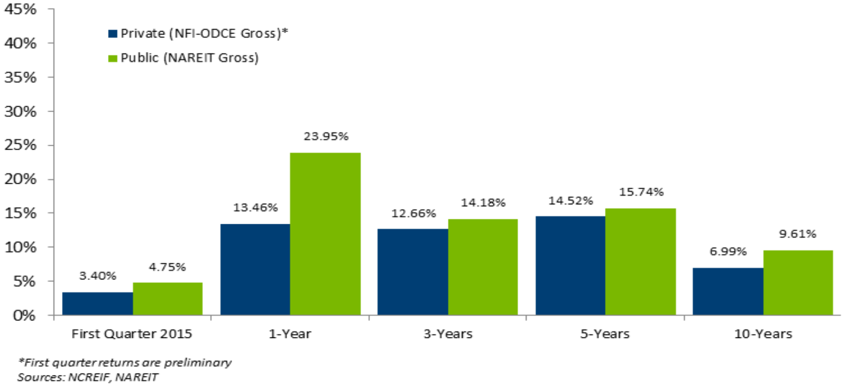
Sources: 1. Preqin 2. UBS 3. Standard & Poors 4. Aon Hewitt Investment Consulting 5. Thomson Reuters 6. Fitch Ratings 7. PWC / National Venture Capital Association (NVCA) MoneyTree Report 8. Thomson Reuters and NVCA 9. Cooley Venture Financing Report 10. Federal Reserve 11. U.S. Energy Information Administration 12. Bloomberg

Notes: FY: Fiscal year ended 12/31; YTD: Year to date; LTM: Last twelve months (aka trailing twelve months); PPM: Purchase Price Multiples: Total Purchase Price / EBITDA

Empower Results®

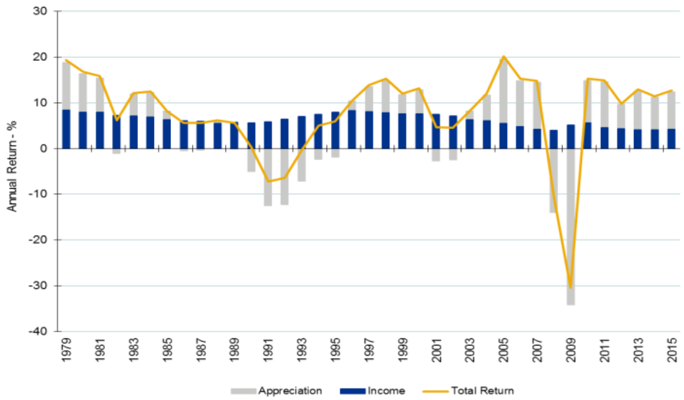
U.S. Commercial Real Estate Market

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 3/31/2015



**First quarter returns are preliminary*
Sources: NCREIF, NAREIT

PRIVATE CORE REAL ESTATE TOTAL RETURNS
SOURCE: NFI-ODCE (PRELIMINARY) AS OF 3/31/2015



- As the real estate recovery continues to mature, private Core real estate returns remain well above the sector's long run average, though off their peak rebound pace. For the quarter, the NFI-ODCE returned 3.4%* (gross of fees), generally in line with the fourth quarter return of 3.3%. The trailing five year total return currently stands at a robust 14.5%*.
- Non-Core investments generally remain attractive at the current point-in-cycle; although manager and strategy selection is crucial given that the peak rebound potential is now past. Access to capital continues to deepen and legacy fund returns generally continue to strengthen as strategies become fully executed and sold into the Core investment segment.
- U.S. real estate stocks started 2015 on solid ground, ending the first quarter with a 4.8% gain (FTSE NAREIT Equity REIT Index), though elevated volatility remains present. Most of the quarter's gain was realized in January, with February giving back a bit, and March fairly flat. While short-term performance in the sector is tied closely to interest rates, still improving fundamentals in the sector position REITs well over the longer time frame.
- Sector fundamentals continue to rebound beyond the primary markets, helping to support and expand current pricing. Investors, however, continue to show preference for high quality assets in primary cities even as the pricing premium for those assets continues to grow.
- New supply remains generally low across all property types except Apartments, though it is anticipated to rise, albeit modestly. Office, Retail, and Hotel construction continues to lag Apartments and Industrial. While the demand/supply gap remains favorable in the Core property types with the exception of Apartments, market selection has become even more important as new supply can ramp up quickly in select regions.
- Rental rate growth continues to expand, offering strong net operating income growth expectations across many property types/markets. Cash flow yields remain attractive, even in the Core segment.
- Rising interest rates remain on investors' radar, though timing is highly uncertain. Improving fundamentals should help offset rising rates, though not completely. Portfolio structure and other long term risk mitigation measures are important to managing the maturing cycle, liquidity, and interest rate risks.

Source: Aon Hewitt, NAREIT US Equity REIT Index, NCREIF
*Preliminary

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Explanatory Notes

Explanatory Notes

Note: Market values are used in this report to calculate performance for the Endowment and Operating pools. Market values reflect trade date accounting provided by the custodial bank Northern Trust.

Non-U.S. Equity Benchmark – The Non-U.S. Equity asset class benchmark has remained the MSCI ACWI ex-U.S. Index, despite the underlying strategy moving to the MSCI ACWI ex-U.S. IMI Index, because it is the benchmark identified in the Endowment Investment Policy Statement (IPS) for this asset class. These indices are very similar. The MSCI ACWI ex-U.S. IMI Index includes a very small (13.0%) diversifying allocation to small international companies that are not included in the MSCI ACWI ex-U.S. Index. Beginning the second quarter of 2015, the policy benchmark for the Non-U.S. Equity asset class has been changed to the MSCI ACWI ex-U.S. IMI Index.

Peer Universe Comparison Floating Bar Chart – In this chart the universe returns are shown in percentiles, with the lowest percentile/rank representing the best performance in that time period. The shaded blocks shown for each time period represent the range of returns in the peer universe from the 95th percentile to the 5th percentile. Returns below the red boxes fall in the worst 5 percent for that period, and returns above the light blue boxes fall in the top 5 percent. The Investment Metrics / BNY Mellon Universe includes reported performance from 394 Endowment and Foundations. The average market value within the Endowment and Foundations universe was $1.0 billion as of quarter-end.

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