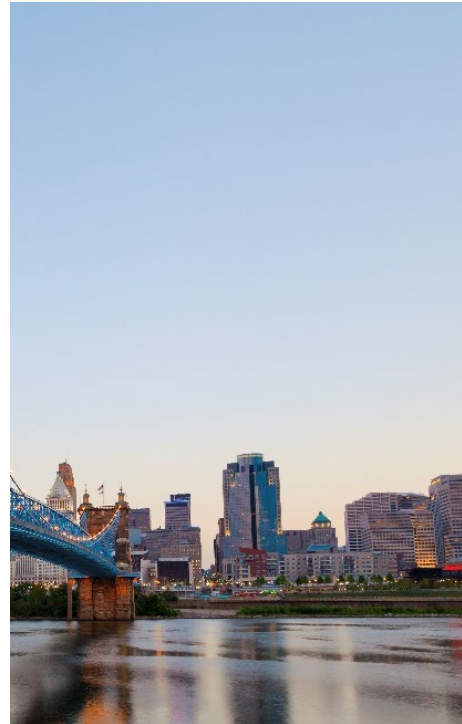


Reported to the Board of Trustees  
July 23, 2020



# UNIVERSITY OF ILLINOIS SYSTEM

FIRST QUARTER 2020 INVESTMENT UPDATE  
PREPARED FOR THE BOARD OF TRUSTEES

June 2020

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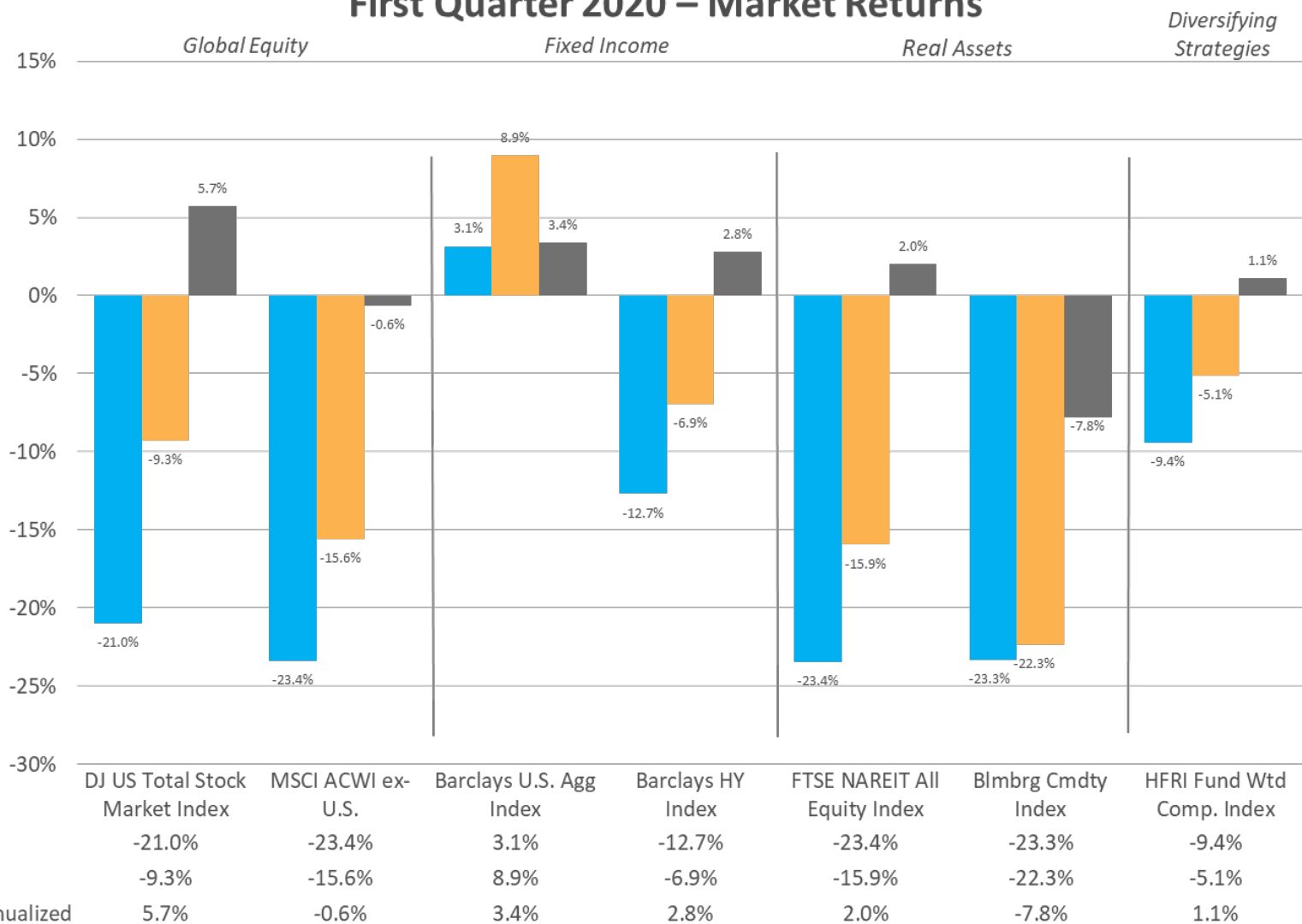
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# MARKET OVERVIEW AND SYSTEM ASSETS

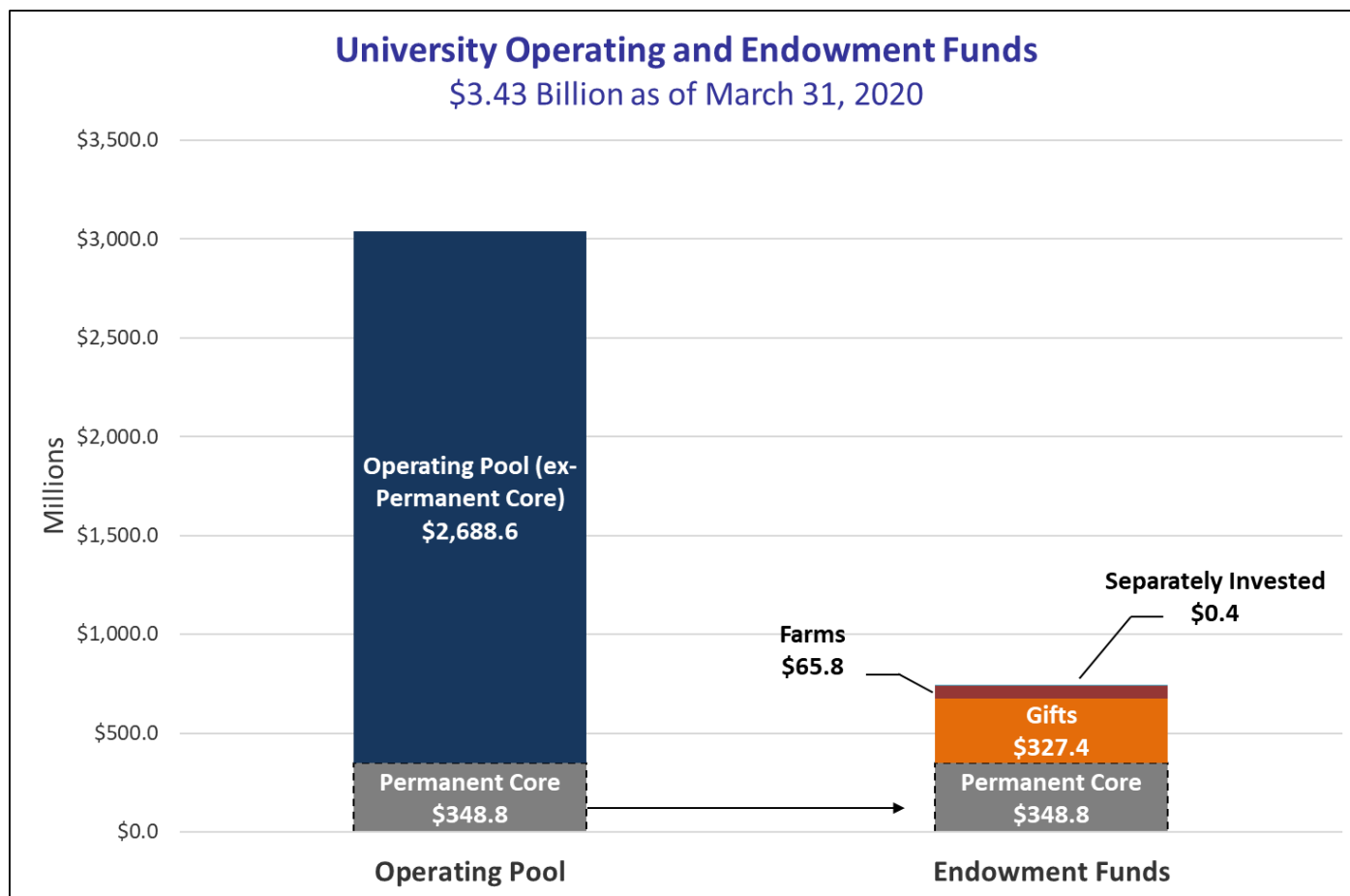
# CAPITAL MARKET OVERVIEW

## First Quarter 2020 – Market Returns



Data sources: Lipper and Hedge Fund Research

# UNIVERSITY OPERATING AND ENDOWMENT FUNDS: MAR 31, 2020

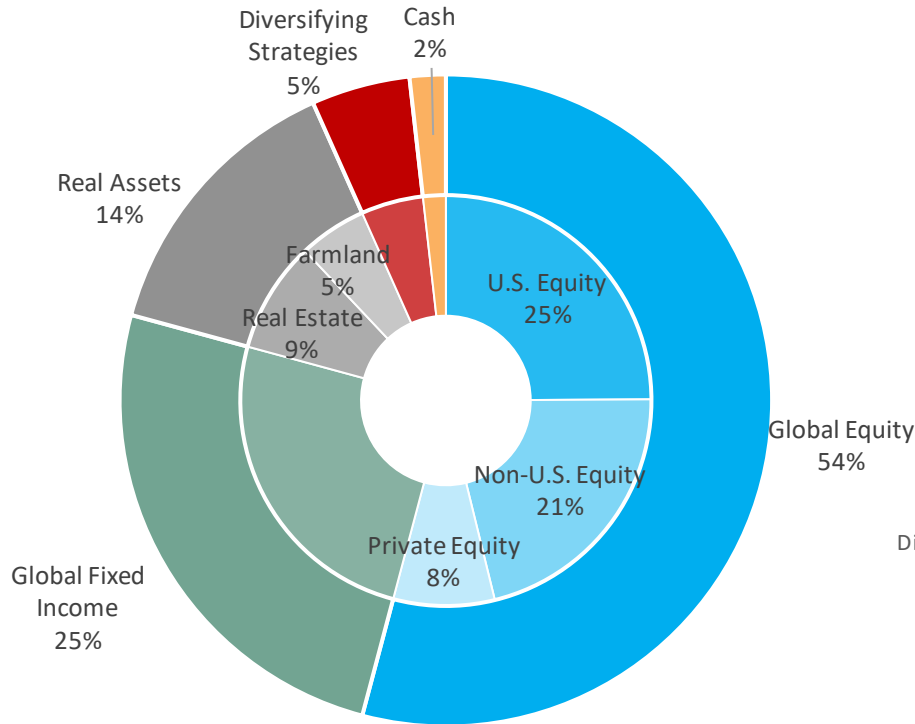


- The University Operating and Endowment Funds were valued at \$3.4 billion as of March 31, 2020.
- The Operating Pool (ex-Permanent Core) was valued at \$2.7 billion. The permanent core investment (gray bar) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Funds is valued at \$742.4 million (right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$393.6 million.

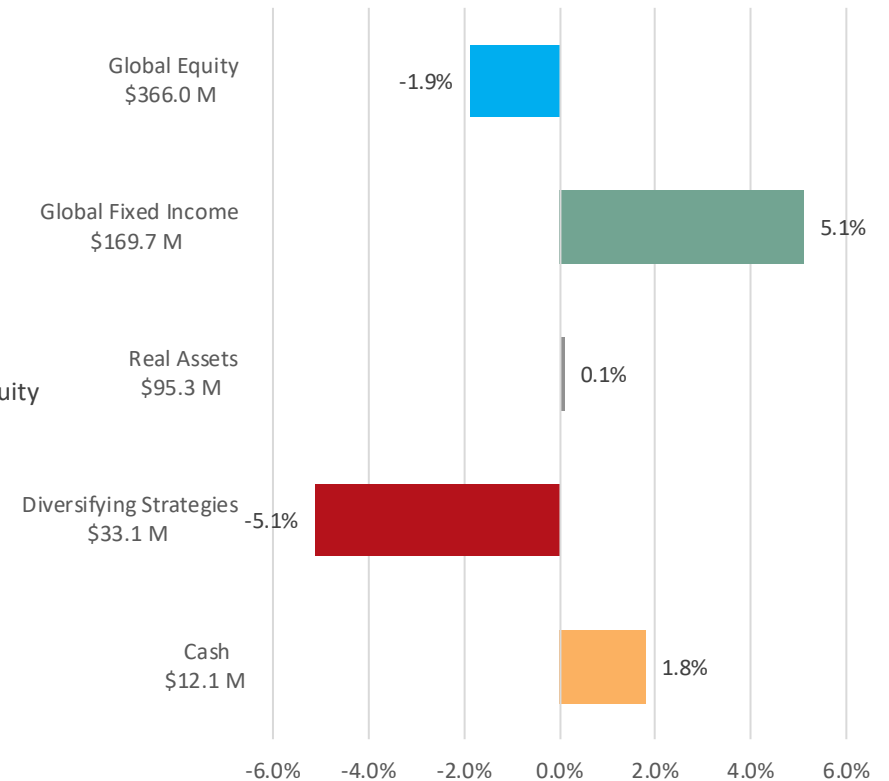
ENDOWMENT FUND UPDATE:  
MARCH 31, 2020

# MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

**Total Pool: \$676.2 Million as of 3/31/2020**



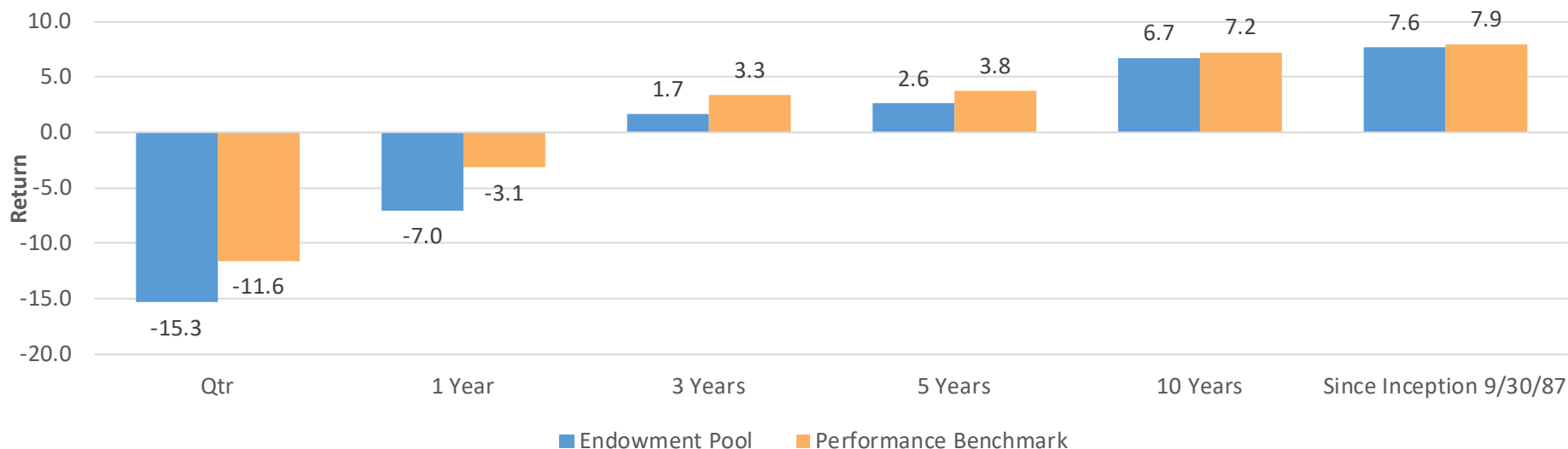
## Over/Under Allocation to Long-Term Policy Targets



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 (MARCH 31, 2020)

## TOTAL POOL: \$676.2 MILLION



- Over the one-year period, the endowment returned -7.0%. Hedge funds (-41.3%) and non-U.S. equity (-16.2%) detracted from performance, while private equity (+18.3%) contributed to performance.
- On the ten-year period, the endowment posted a 6.7% return, supported by solid returns from private equity (+11.6%), real assets (+10.6%), and U.S. equity (+9.4%).

Endowment Pool	Quarter Ending
Market Value Change	March-2020
Beginning Market Value	\$791.5 M
Net Contributions	\$6.3 M
Gain/Loss	(\$121.5 M)
Ending Market Value	\$676.2 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.



# PRELIMINARY PERFORMANCE – ENDOWMENT POOL

**\$717.8 MILLION AS OF APRIL 30, 2020**

Period	Performance
One Year	-3.4%
Three Year	3.3%
Five Year	3.6%
Ten Year	7.2%

Closed end funds and core real estate fund valuations are not available, thus have not been incorporated.

# PRELIMINARY PERFORMANCE – ENDOWMENT POOL

**\$737.7 MILLION AS OF MAY 31, 2020**

Period	Performance
One Year	1.7%
Three Year	3.7%
Five Year	4.0%
Ten Year	8.1%

Closed end funds and core real estate fund valuations are not available, thus have not been incorporated.

# ASSET CLASS PERFORMANCE: ENDOWMENT POOL (MAR 31, 2020)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Mar-2020	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Endowment Pool</b>			-15.3	-7.0	1.7	2.6	6.7	7.6	Sep-87
Performance Benchmark			-11.6	-3.1	3.3	3.8	7.2	7.9	
<b>GLOBAL EQUITY</b>	<b>54.1</b>	<b>56.0</b>	<b>-20.5</b>	<b>-10.3</b>	<b>2.1</b>	<b>3.2</b>	<b>7.3</b>	<b>7.3</b>	<b>Sep-87</b>
<b>Total U.S. Equity</b>			<b>-22.6</b>	<b>-11.9</b>	<b>2.1</b>	<b>3.9</b>	<b>9.4</b>	<b>8.5</b>	<b>Sep-87</b>
DJ U.S. Total Stock Market Index			-21.0	-9.3	3.9	5.7	10.1	8.9	
<b>Total Non-U.S. Equity</b>			<b>-24.1</b>	<b>-16.2</b>	<b>-2.3</b>	<b>-0.7</b>	<b>2.1</b>	<b>4.4</b>	<b>Sep-93</b>
Non-U.S. Equity Benchmark			-24.1	-16.3	-2.3	-0.7	2.0	4.5	
<b>Total Private Equity</b>			<b>0.0</b>	<b>18.3</b>	<b>16.5</b>	<b>13.4</b>	<b>11.6</b>	<b>4.7</b>	<b>Jan-04</b>
Private Equity Benchmark			0.0	17.2	15.4	13.9	16.0	12.5	
<b>GLOBAL FIXED INCOME <sup>1</sup></b>	<b>25.1</b>	<b>20.0</b>	<b>1.5</b>	<b>7.3</b>	<b>4.4</b>	<b>3.3</b>	<b>4.7</b>	<b>6.8</b>	<b>Sep-87</b>
<b>Total Public Fixed Income</b>			<b>1.6</b>	<b>6.9</b>	<b>4.3</b>	<b>3.2</b>	<b>4.7</b>	<b>6.8</b>	<b>Sep-87</b>
Bloomberg Barclays U.S. Aggregate			3.1	8.9	4.8	3.4	3.9	6.4	
<b>REAL ASSETS</b>	<b>14.1</b>	<b>14.0</b>	<b>-5.8</b>	<b>-0.3</b>	<b>2.3</b>	<b>2.5</b>	<b>10.6</b>	<b>9.4</b>	<b>Dec-06</b>
<b>Total Real Estate</b>			<b>-9.1</b>	<b>-5.8</b>	<b>2.4</b>	<b>4.7</b>	<b>-</b>	<b>8.2</b>	<b>Aug-13</b>
Real Estate Benchmark			0.7	3.9	5.5	6.5	-	9.8	
<b>Total Farmland<sup>1,2</sup></b>			<b>0.0</b>	<b>9.2</b>	<b>2.8</b>	<b>0.4</b>	<b>8.7</b>	<b>7.9</b>	<b>Dec-06</b>
NCREIF Cornbelt Index			0.0	2.3	1.5	0.2	8.0	8.6	
<b>DIVERSIFYING STRATEGIES<sup>1</sup></b>	<b>4.9</b>	<b>10.0</b>	<b>-41.6</b>	<b>-38.3</b>	<b>-15.7</b>	<b>-8.5</b>	<b>-</b>	<b>-5.0</b>	<b>May-13</b>
<b>Total Hedge Funds</b>			<b>-44.1</b>	<b>-41.3</b>	<b>-17.3</b>	<b>-9.5</b>	<b>-</b>	<b>-5.8</b>	<b>May-13</b>
HFRI Fund Weighted Composite Index			-11.3	-7.1	-0.4	0.7	-	1.8	
<b>CASH</b>	<b>1.8</b>	<b>0.0</b>	<b>0.3</b>	<b>1.9</b>	<b>1.5</b>	<b>1.0</b>	<b>-</b>	<b>1.0</b>	

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

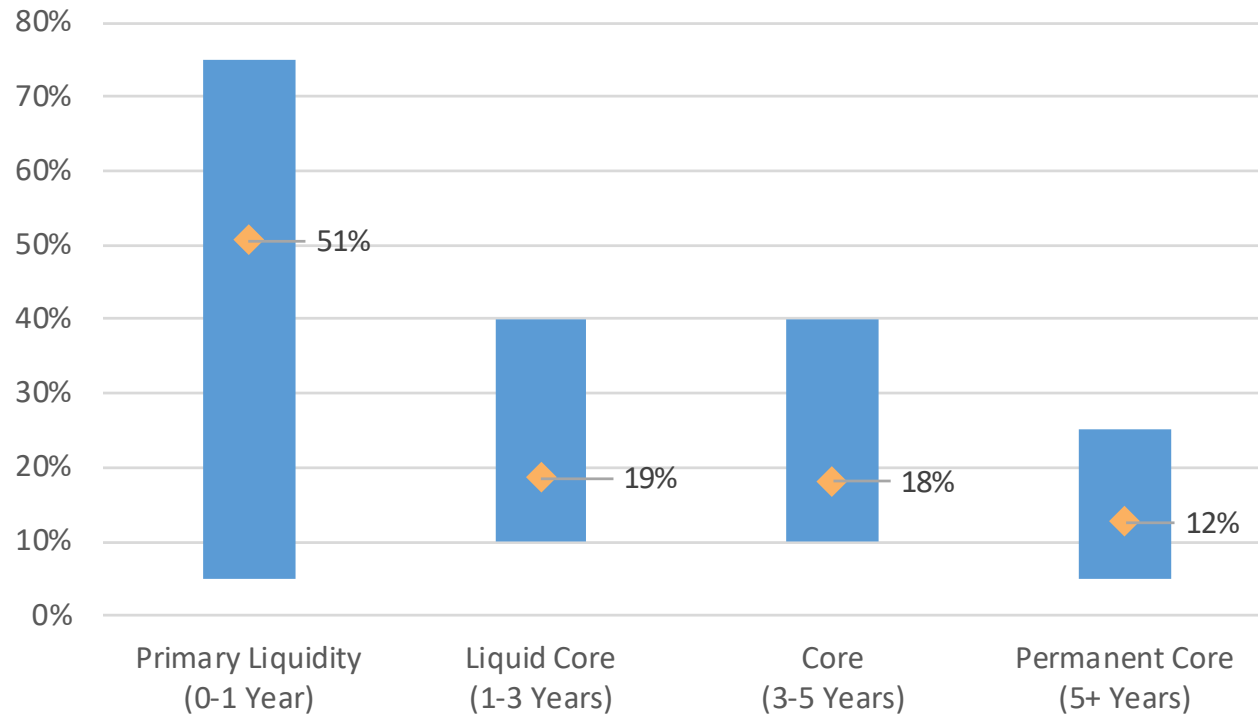
<sup>2</sup>Farmland directly owned by the Endowment is valued annually on June 30.

OPERATING POOL UPDATE:  
MARCH 31, 2020

# LIQUIDITY LAYERS: OPERATING POOL (MARCH 31, 2020)

## OPERATING POOL LIQUIDITY LAYERS

AS OF MARCH 31, 2020

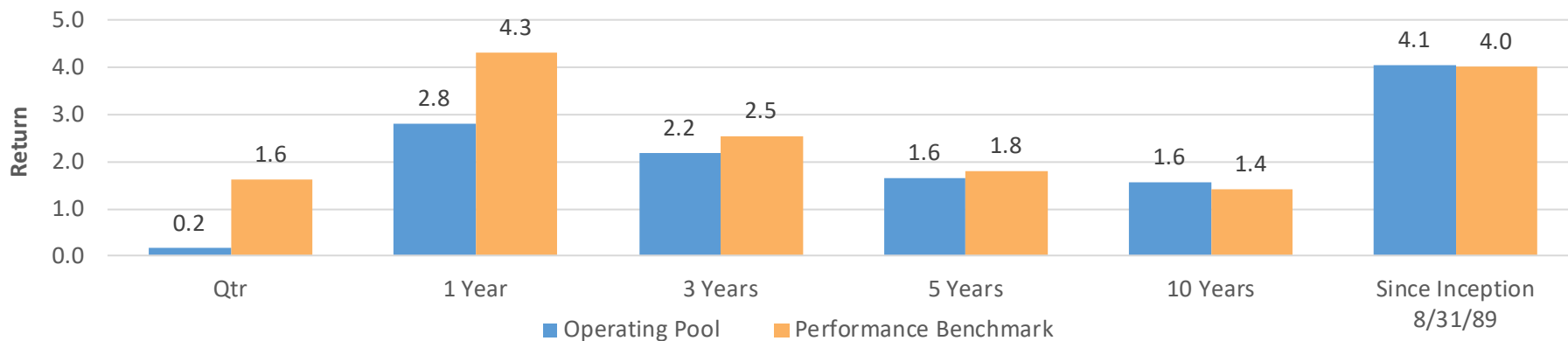


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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 (MARCH 31, 2020)

## TOTAL POOL: \$2.69 BILLION



- Over the trailing one-year period ending March 31, 2020, the Operating Pool returned 2.8%, below that of the benchmark return.
  - All the managers in the Operating Pool underperformed their respective benchmark over the period.
- Over the three- and five-year periods, the Operating Pool has trailed the benchmark but outperformed over the trailing ten-year period and since inception.
  - Half of the Operating Pool's managers have each met or outperformed their respective benchmarks since inception while the other half have trailed.

Operating Pool	Quarter Ending
Market Value Change	March-2020
Beginning Market Value	\$2,525.7 M
Net Contributions	\$159.2 M
Gain/Loss	\$3.7 M
Ending Market Value	\$2,688.6 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.

# APPENDIX: MARKET ENVIRONMENT

# MARKET ENVIRONMENT

## 2011-2020 Annual Returns of Key Indices

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5-year annual	10-year annual
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%	Bonds 0.0%	Large Cap 31.5%	Bonds 3.1%	Large Cap 6.7%	Large Cap 10.5%
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%	High Yield -2.1%	Small Cap 25.5%	Hedge Funds -7.3%	Bonds 3.4%	Small Cap 6.9%
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%	Hedge Funds -4.0%	Int'l 22.0%	High Yield -12.7%	High Yield 2.8%	High Yield 5.6%
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%	Large Cap -4.4%	Global REIT 21.9%	Large Cap -19.6%	Hedge Funds 0.3%	Global REIT 4.4%
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%	Global REIT -5.6%	Emerging Markets 18.4%	Int'l -22.8%	Small Cap -0.2%	Bonds 3.9%
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%	Small Cap -11.0%	High Yield 14.3%	Emerging Markets -23.6%	Emerging Markets -0.4%	Int'l 2.7%
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%	MLPs -12.4%	Bonds 8.7%	Global REIT -28.5%	Int'l -0.6%	Hedge Funds 1.9%
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%	Int'l -13.8%	Hedge Funds 8.4%	Small Cap -30.6%	Global REIT -2.1%	Emerging Markets 0.7%
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 -14.6%	MLPs 6.6%	MLPs -57.2%	MLPs -20.7%	MLPs -5.0%

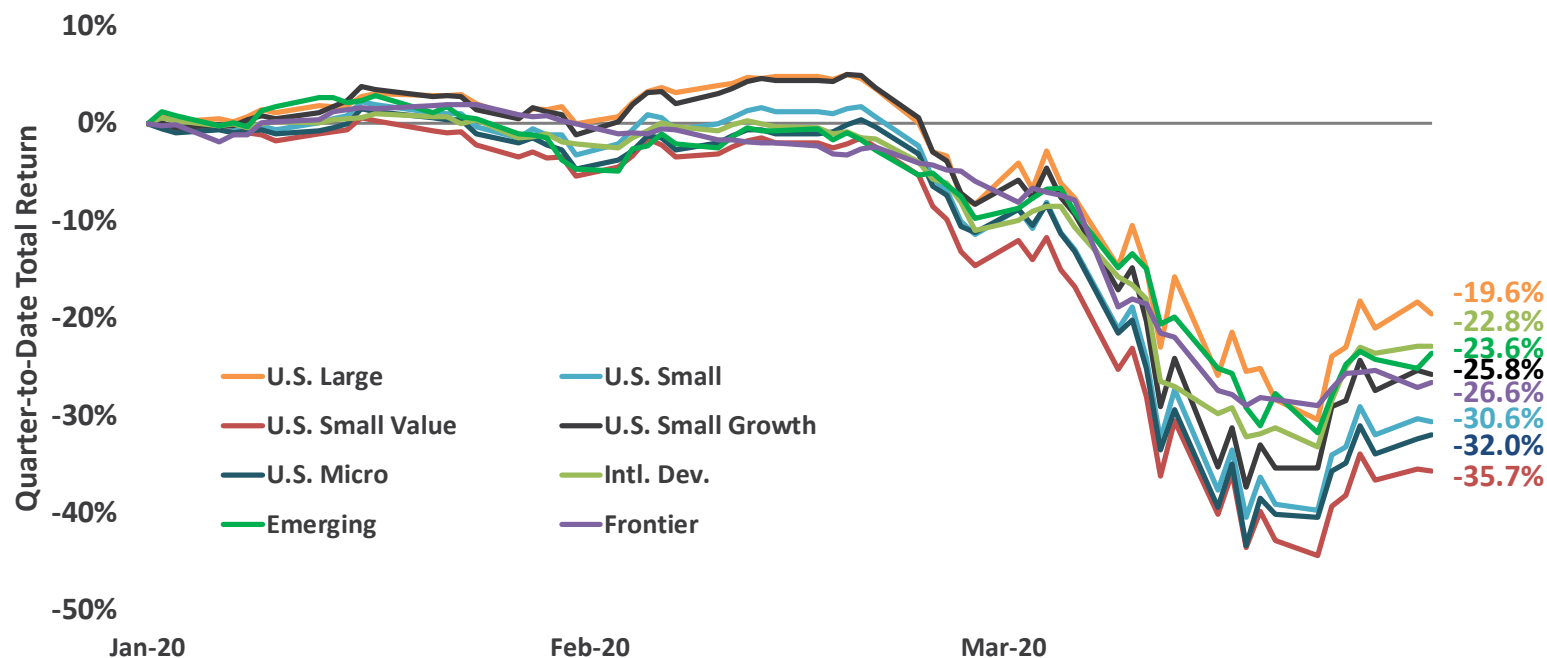
Note: See disclosure section for a description of key indices.



# GLOBAL EQUITY

- Global equities witnessed a broad-based selloff in the first quarter, as investors fled risk assets amid the spread of the COVID-19 global pandemic. Domestic markets (-19.6%) suffered their worst quarterly loss since fourth quarter 2008 (-21.9%), but marginally outperformed International Developed (-22.8%) and Emerging Markets (-23.6%).
- The longer-term trend of Domestic Large Cap outperformance vs. Small Cap (-30.6%) and Micro Cap (-32.0%) persisted, as smaller cap companies are expected to face more meaningful near-term economic challenges.
- Stylistically, Growth outperformed Value, with sharply declining rates, essentially flat global term structures, and significant declines across energy spot prices serving as relative headwinds to Value performance. The S&P 500 Energy Index dropped 50.5% during the quarter, the steepest selloff in at least 30 years.

**Global Equity 2020-1Q Performance (in USD)**

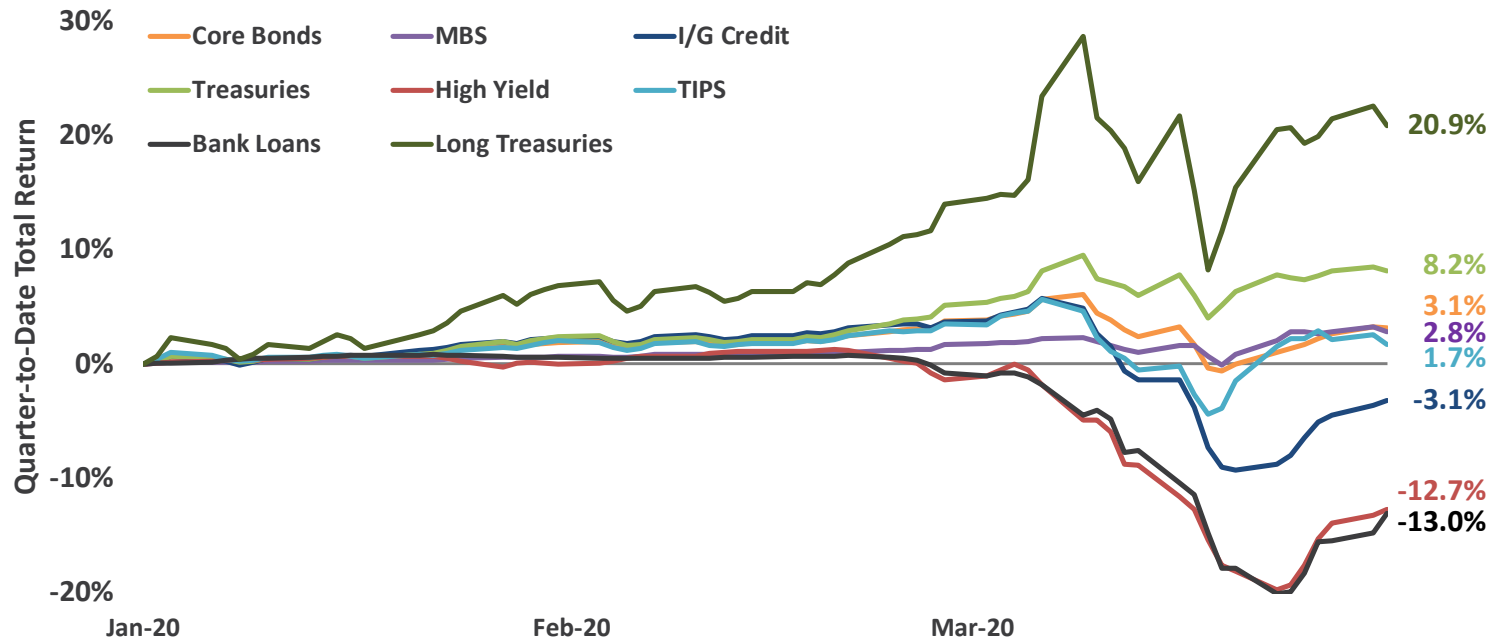


Data source: Bloomberg, L.P. Data as of 3/31/2020.

# FIXED INCOME

- Significant safe-haven demand for U.S. Treasuries drove already-low interest rates even lower, with newly-established record lows across the 5-Year Treasury Note (0.04% on 3/31/2020), the 7-Year Treasury Note (0.05% on 3/31/2020), 10-Year Treasury Note (0.54% on 3/9/2020), and 30-Year Treasury Bond (1.00% on 3/9/2020).
- Rate-sensitive sectors meaningfully outperformed the credit-oriented areas of the market, with Core Bonds (+3.1%) protecting value amid historically-elevated equity volatility. Risk premiums rose sharply across both corporate and structured credit, as high yield credit spreads widened to >1,000 bps for the first time since 2009.
- The introduction of policy support mechanisms by the Federal Reserve (Fed) during the quarter, including a newly-established Special Purpose Vehicle (SPV) that can purchase investment grade corporate bonds with maturities 4 years or less, helped drive a late-quarter rally across credit markets.

## Fixed Income 2020-1Q Performance

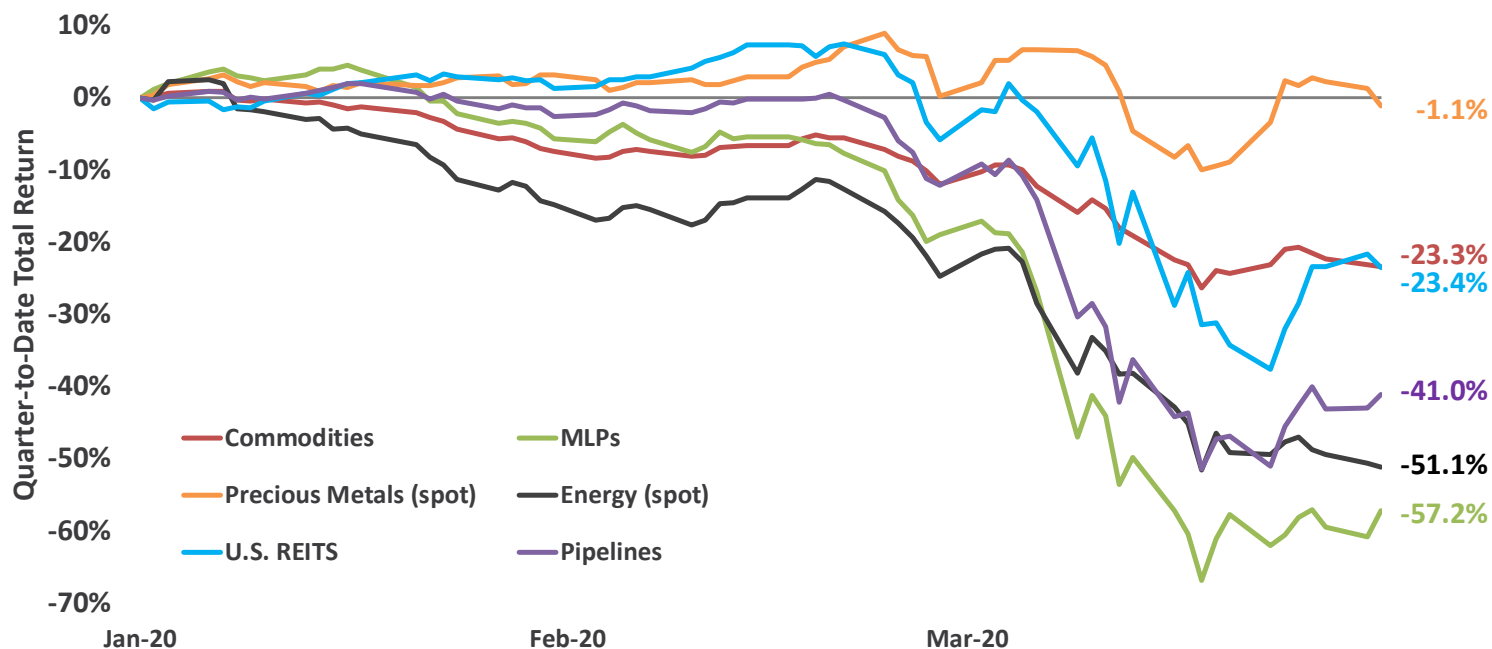


Data source: Bloomberg, L.P. Data as of 3/31/2020.

# REAL ASSETS

- Real Assets experienced the same downside volatility that affected stocks and the credit-oriented sectors of the bond market, posting overwhelmingly negative returns in the first quarter. Energy infrastructure performance across both MLPs (-57.2%) and the broader midstream pipeline universe (-41.0%) witnessed the worst quarterly decline on record, pressured by plummeting energy spot prices and excess global crude oil supply.
- Nationwide store closures and mandated work-from-home orders sparked fears of a looming downturn among real estate-related sectors, driving a selloff across REITs (-23.4%), which essentially matched the performance of a broad basket of commodities (-23.3%).
- Precious metals spot prices were essentially unchanged for the quarter (-1.1%), as gold (+4.0%) benefitted from safe haven demand while silver, with broader industrial applications, dropped 21.7% quarter-over-quarter.

## Real Assets 2020-1Q Performance

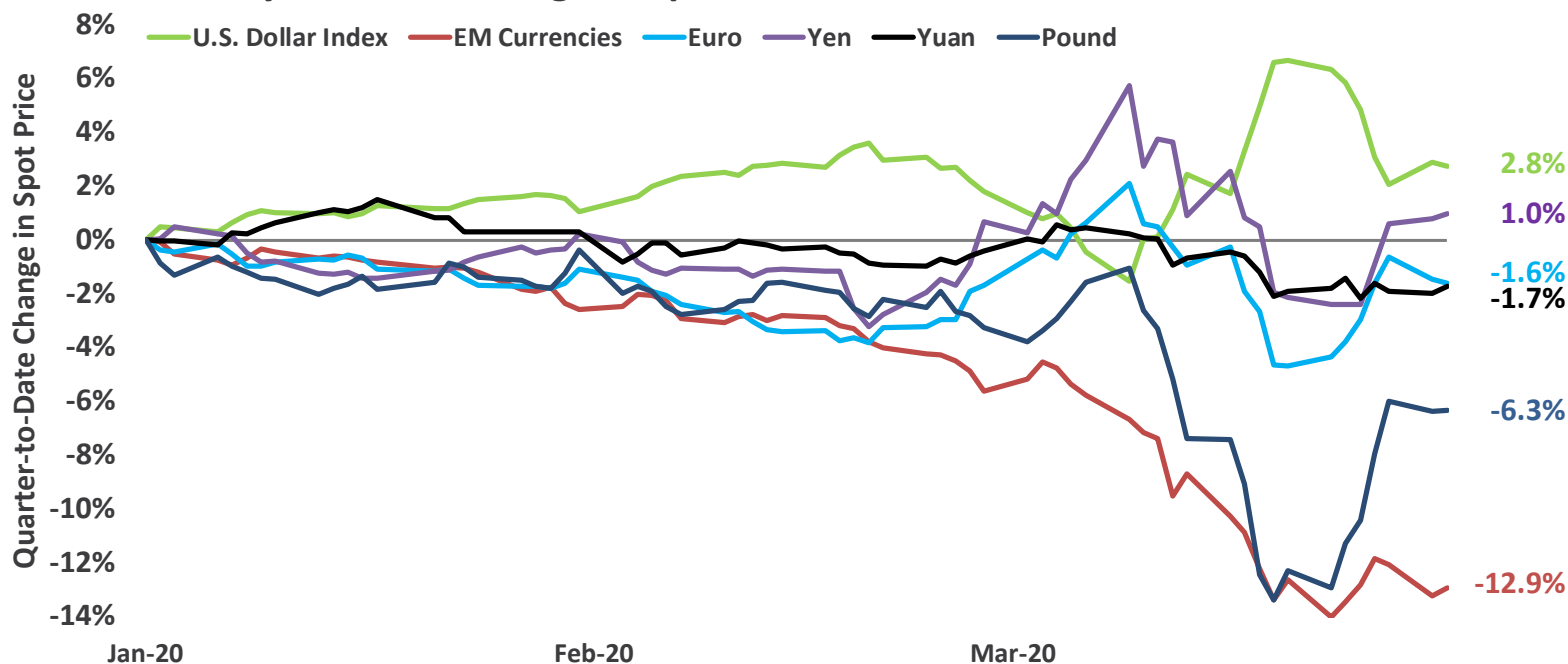


Data source: Bloomberg, L.P. Data as of 3/31/2020.

# CURRENCIES

- The U.S. dollar (USD), as proxied by the ICE U.S. Dollar Index, appreciated nearly 3%, despite announcements of drastic monetary and fiscal policy support measures taken by the Fed and U.S. government, including open-ended Fed asset purchases, interest rates back to the zero bound, and the passage of the \$2 trillion CARES Act.
- Liquid Emerging Market currencies (-12.9%) depreciated to the lowest level versus the USD in the history of the JPMorgan EMCI, pressured lower by plunging commodity prices and meaningful growth headwinds amid the outbreak of COVID-19.

Global Currency 2020-1Q Change in Spot (Base: USD)



Data source: Bloomberg, L.P. Data as of 3/31/2020.

# DISCLOSURES

# DISCLOSURES

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# DISCLOSURES

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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](http://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](http://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](http://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.msibarra.com](http://www.msibarra.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.msibarra.com](http://www.msibarra.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](http://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](http://www.barclays.com)

**High Yield** is represented by the Barclays U.S. Corporate High Yield Index. [www.barclays.com](http://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](http://www.ftse.com)

**MLPs** are represented by the Alerian MLP Index. [www.alerian.com](http://www.alerian.com)

**Hedge Funds** are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. [www.hfri.com](http://www.hfri.com)



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