

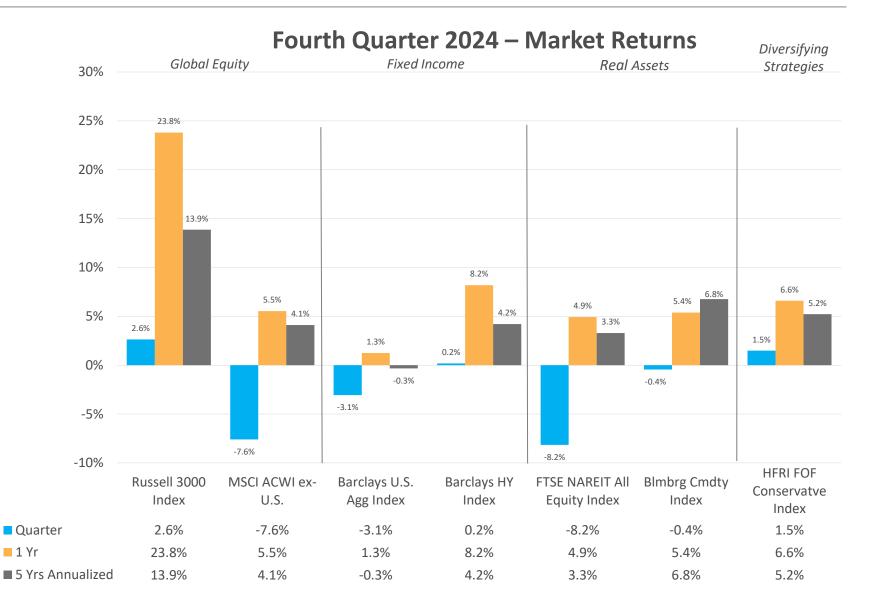
# Fourth Quarter 2024 Investment Update

PREPARED FOR THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS SYSTEM

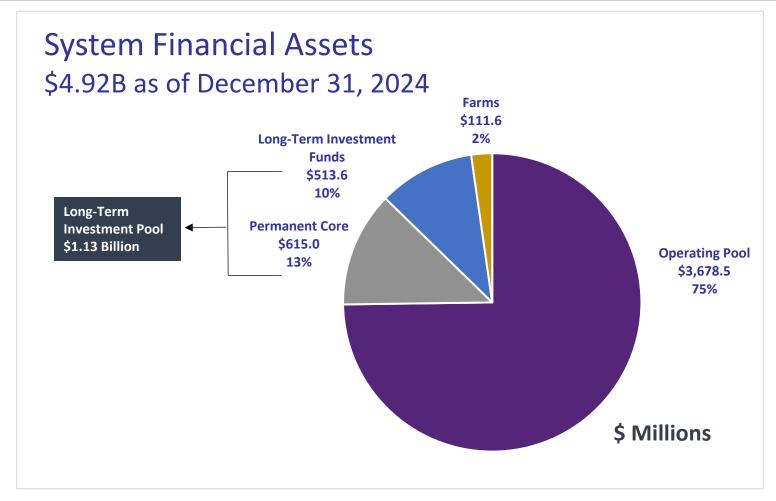


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# MARKET OVERVIEW AND SYSTEM ASSETS



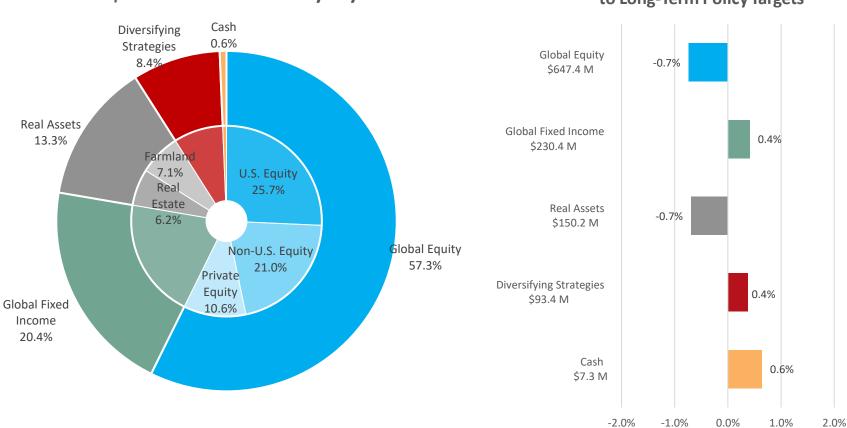
Data sources: Lipper and Hedge Fund Research



- The System's financial assets were valued at \$4.92 billion as of December 31, 2024.
- The Operating Pool was valued at \$3.68 billion (ex-Permanent Core). The permanent core investment (gray slice) represents a strategic allocation of operating cash in the Long-Term Investment Pool, aimed at increasing distributions to participating units.
- The combined Long-Term Investment Pool is valued at \$1.13 billion (gray and blue slices) and is discussed further on the following slides.

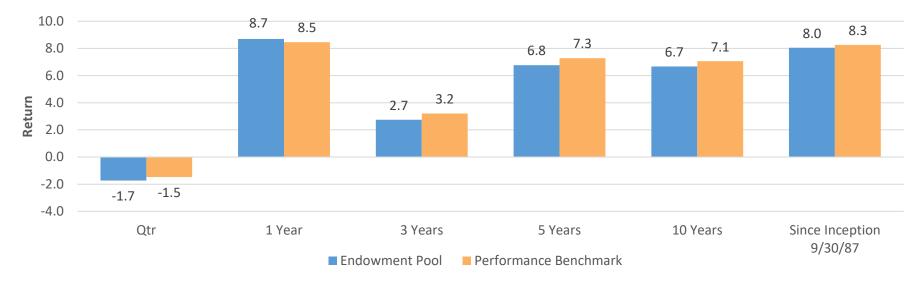
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# LONG-TERM INVESTMENT POOL UPDATE: DECEMBER 31, 2024



Total Pool: \$1.13 Billion as of 12/31/2024

Over/Under Allocation to Long-Term Policy Targets



## Total Pool: \$1.13 BILLION

- Over the one-year period, the long-term investment pool returned 8.7%, exceeding the benchmark. Contributing to relative performance was real estate (+1.7%) and fixed income (+3.0%), while private equity (+0.4%) and farmland (+0.8%) detracted from relative performance.
- Over the ten-year period, the long-term investment pool posted a 6.7% return, trailing the benchmark. Contributing to relative performance was fixed income (+2.4%) and real estate (+5.2%), while detracting from relative performance was U.S. equity (+11.8%) and diversifying strategies (-0.4%).

Long-Term Investment Pool	Quarter Ending				
Market Value Change	December-2024				
Beginning Market Value	\$1,175.6 M				
Net Contributions	(\$26.9 M)				
Gain/Loss	(\$20.1 M)				
Ending Market Value	\$1,128.6 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.
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	Current	Policy	Quarter ending					Since	
		Allocation (%)	Dec-2024	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
Long-Term Investment Pool			-1.7	8.7	2.7	6.8	6.7	8.0	Sep-87
Long-Term Investment Benchmark			-1.5	8.5	3.2	7.3	7.1	8.3	
GLOBAL EQUITY	57.3	58.0	-2.2	12.1	2.8	9.3	9.0	8.3	Sep-87
U.S. Equity			2.3	23.8	7.6	13.6	11.8	10.0	Sep-87
U.S. Equity Benchmark			2.6	23.8	8.0	13.8	12.5	10.3	
Non-U.S. Equity			-8.1	5.4	0.3	4.0	4.8	5.3	Sep-93
Non-U.S. Equity Benchmark			-7.6	5.2	0.5	4.1	4.9	5.4	
Private Equity			0.0	0.4	-2.7	11.6	13.0	6.3	Jan-04
Private Equity Benchmark			0.0	5.2	0.2	10.6	12.5	12.2	
GLOBAL FIXED INCOME <sup>1</sup>	20.4	20.0	-2.5	3.0	-0.2	1.5	2.4	6.1	Sep-87
Public Fixed Income			-2.9	2.5	-0.9	0.8	2.0	6.0	Sep-87
Fixed Income Benchmark			-3.1	1.3	-2.4	-0.3	1.3	5.4	
REAL ASSETS <sup>1</sup>	13.3	14.0	-1.2	2.9	5.0	7.7	5.9	9.4	Dec-06
Real Estate			-2.6	1.7	-3.4	2.9	5.2	6.9	Aug-13
Real Estate Benchmark			1.0	-2.3	-3.1	2.0	4.6	6.4	
Farmland <sup>2</sup>			0.0	0.8	14.7	12.5	6.3	9.3	Dec-06
Farmland Benchmark			0.0	7.2	18.0	13.2	6.5	10.0	
DIVERSIFYING STRATEGIES <sup>1</sup>	8.4	8.0	2.8	9.8	5.9	-3.0	-0.4	0.3	May-13
Hedge Funds			3.0	10.4	5.9	-3.7	-0.8	-0.1	May-13
Hedge Fund Index			1.5	6.6	4.0	6.8	5.2	5.1	
CASH	0.6	0.0	1.1	5.0	3.6	2.3	-	1.6	

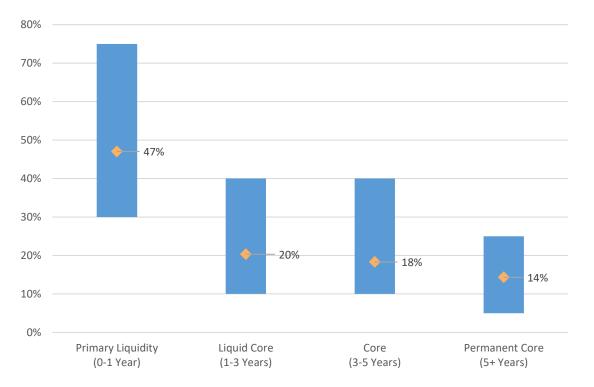
<sup>1</sup>Global Fixed Income, Real Assets and Diversifying Strategies include allocations and performance of private investments.

<sup>2</sup>Farmland directly owned by the Long-Term Investment Pool is valued annually on June 30.

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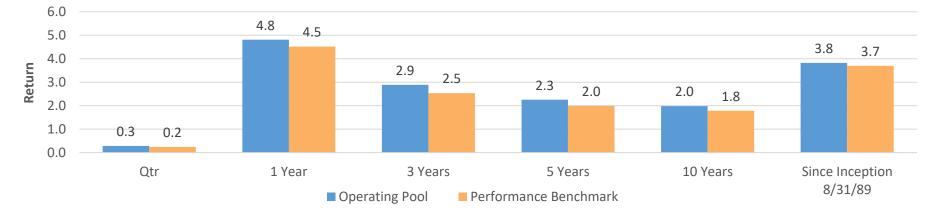
# OPERATING POOL UPDATE: DECEMBER 31, 2024

## OPERATING POOL LIQUIDITY LAYERS



- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Boardapproved 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 Long-Term Investment Pool.

Total sum of allocation may not equal 100% due to rounding.



#### **TOTAL POOL: \$3.68 BILLION**

- Over the trailing one-year period, the Operating Pool returned 4.8%, outperforming the benchmark return.
  - Almost all managers in the pool met or exceeded their respective benchmarks over the period.
- Over the three-, five-, ten-year, and since inception periods, the Operating Pool outperformed the benchmark.
  - All of the pool's managers have either matched or exceeded their respective benchmarks over these time periods.

Operating Pool	Quarter Ending			
Market Value Change	December-2024			
Beginning Market Value	\$4,091.3 M			
Net Contributions	(\$423.4 M)			
Gain/Loss	\$10.6 M			
Ending Market Value	\$3,678.5 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.

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# APPENDIX: MARKET ENVIRONMENT

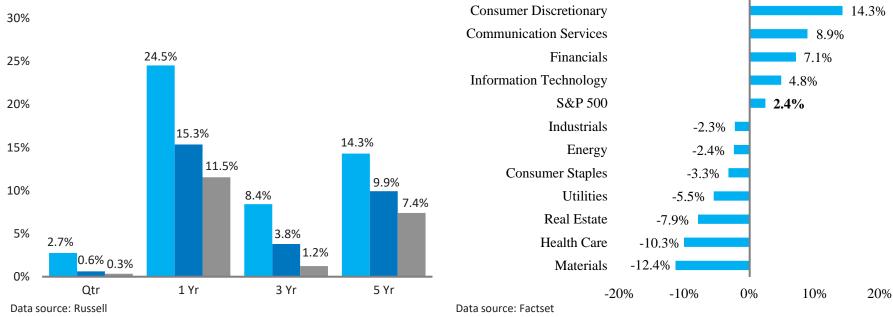
2015-2024 Annual Returns of Key Indices

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		5-year Innual	10-year annual
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%	MLPs 26.6%	Large Cap 25.0%		MLPs 15.6%	Large Cap 13.1%
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 26.3%	MLPs 24.4%		rge Cap 14.5%	Small Cap 7.8%
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%	Int'l 18.2%	Small Cap 11.5%		nall Cap 7.4%	Int'l 5.2%
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%	Small Cap 16.9%	Hedge Funds 9.4%		Hedge Funds 5.3%	High Yield 5.2%
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%	High Yield 13.4%	High Yield 8.2%		Int'l 4.7%	Hedge Funds 3.8%
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%	Global REIT 10.4%	Emerging Markets 7.5%		gh Yield 4.2%	MLPs 3.7%
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%	Emerging Markets 9.8%	Int'l 3.8%	N	nerging 1arkets 1.7%	Emerging Markets 3.6%
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 6.3%	Global REIT 1.7%		bal REIT -0.3%	Global REIT 2.7%
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%	Bonds 5.5%	Bonds 1.3%		Bonds -0.3%	Bonds 1.3%

## Global Equity, U.S.

- U.S. equity markets had a volatile fourth guarter, guided by a presidential election rally in November, but experienced December weakness instead of a highly anticipated "Santa Claus Rally."
- Strong economic data and corporate earnings supported U.S. equity markets, while a strengthening of the U.S. • dollar (USD) weighed on international equity markets.
- The S&P 500 Index reached new highs in early December, driven by gains in the technology and consumer discretionary sectors. However, the Federal Reserve's (Fed's) indication of fewer expected rate cuts in 2025 amid increasing inflationary concerns led to late-guarter volatility, softening the gains witnessed earlier in the quarter.
- Despite concerns about inflation hovering closer to 3% rather than the Fed's 2% target, the U.S. economy's • resilience and strong labor market data helped support investor confidence. Overall, large cap growth stocks outperformed, extending the trend observed throughout the year.

Russell 2000 Index



#### LARGE CAP, MID CAP, AND SMALL CAP

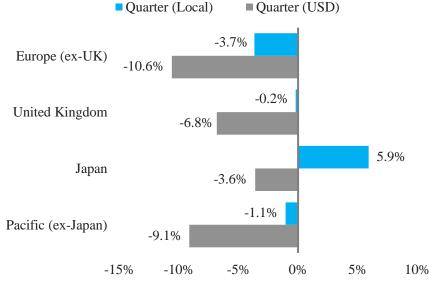
Russell Mid Cap Index

Russell 1000 Index

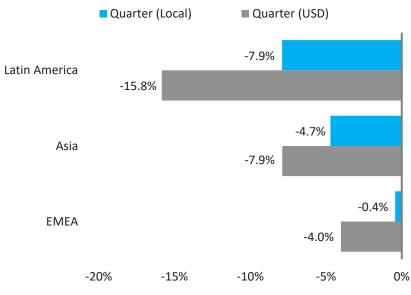
# S&P 500 SECTOR PERFORMANCE

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- For U.S. investors in international markets, the strengthening of the U.S. dollar was a key theme. Economic weakness abroad prompted global central banks to adopt more accommodative monetary policies with lower interest rates relative to the Fed, supporting the dollar's appreciation. Additionally, persistent inflation concerns in the U.S. led the Fed to signal fewer rate cuts than previously expected.
- Japanese equity markets experienced gains in yen terms as investors began to price in an improved earnings • outlook for large cap exporters on the backdrop of a weakening Yen. Despite challenges, share buybacks totaled more than 100 billion USD in 2024, a new Japanese record for the third consecutive year.
- Political instability in Germany and France, triggered by government spending and fiscal budget plan concerns, • weighed on sentiment. Sectors such as materials, real estate, and consumer staples underperformed, while industrials showed some resilience. In local terms, the UK equity markets held steady in the fourth guarter.
- Donald Trump's victory and a GOP sweep in the U.S. election acted as a headwind to emerging markets, ٠ leaving investors uncertain about the impact of proposed tariffs.



#### **MSCI EAFE REGIONAL QUARTERLY RETURNS**



**MSCI EM REGIONAL QUARTERLY RETURNS** 

Data source: MSCI Barra

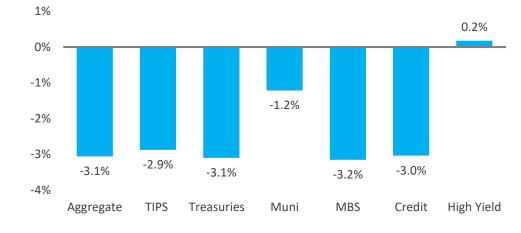
Data source: MSCI Barra Note: EMEA - Europe, Middle East, and Africa

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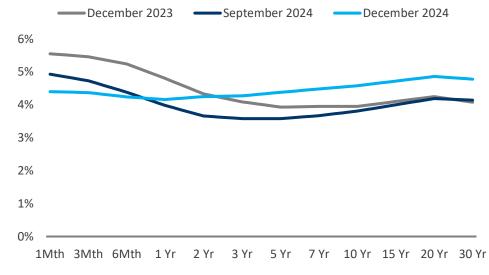
- Interest-rate-sensitive bonds sold off as rising rates reflected inflation concerns. President-elect Trump's proposed policies were seen as progrowth but also carried inflationary risks. Meanwhile, rate cuts by the European Central Bank and the Bank of England exceeded the Federal Reserve's policy adjustments, increasing demand for U.S. dollars.
- The 10-year Treasury yield increased to 4.57%, and the yield curve structure remained ascending with a 33 bp 10-year to 2-year spread. The Fed made two 25 bps cuts, bringing the fed funds rate to 4.25%-4.5%, and markets priced in less than a 10% chance of a January rate reduction.
- Credit spreads tightened, supported by signs of strength and stability in the U.S. economy. High yield (HY) spreads narrowed to below 3% by year-end, the tightest levels since the years before the Great Financial Crisis. Investment grade (IG) spreads also reached multi-decade lows. U.S. institutional loan activity surged as speculative-grade borrowers took advantage of favorable credit conditions.

**BLOOMBERG U.S. FIXED INCOME INDEX RETURNS** 



Data source: FactSet

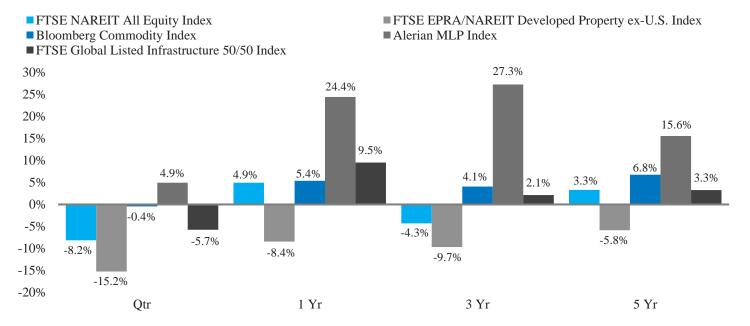
#### **U.S. TREASURY YIELD CURVE**



Data source: FactSet

- U.S. REITs ended 2024 with modest performance, driven by a pullback in December that erased much of the year's earlier gains. The downturn was influenced by hawkish Fed commentary, which signaled fewer-than-expected rate cuts in 2025. Despite the broader challenges, U.S. retail REITs, particularly regional malls, demonstrated strong performance over the past year, supported by limited new construction and increased traffic to neighborhood retail centers. Global REITs fared worse than their U.S. counterparts, with more significant drawdowns in European and Asian markets.
- Crude oil prices rose modestly, supported by cold weather, reduced U.S. stockpiles, and expectations of economic stimulus in China. Although volatile, natural gas prices rose through the quarter, rebounding on anticipated winter heating demand despite abundant U.S. storage levels.
- Global listed infrastructure stocks declined due in part to rising interest rates and hawkish Fed commentary. Midstream energy ended the year strong, as prudent spending supported share buybacks and deleveraging.

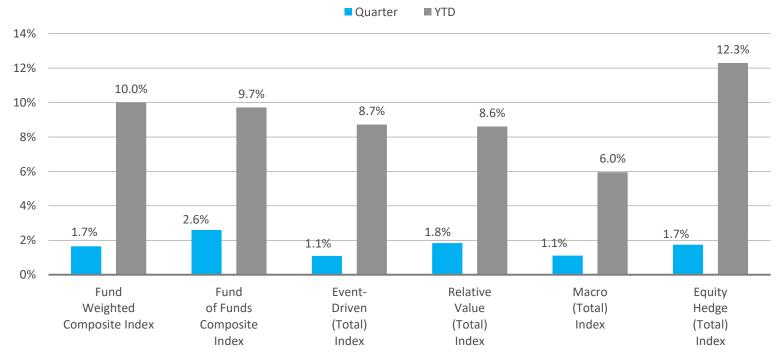
#### PUBLIC REAL ASSETS – REAL ESTATE, COMMODITIES, MLPs, AND INFRASTRUCTURE



Data sources: NAREIT, FactSet, and Alerian

## **Diversifying Strategies**

- Hedge funds finished the year with a strong fourth quarter across all major strategies. The relative value and hedged equity indices led, gaining nearly 2% each. Global macro, the laggard for the year, generated a strong enough gain in the final quarter to surpass a 5% return in 2024.
- Within hedged equity, the technology-focused managers were the leaders for the quarter and the year. The riskon spirit persisted throughout 2024, with the technology sector being the biggest beneficiary.
- Systematic macro managers felt the tailwind of continued uptrends in the U.S. dollar, rallying each month of the quarter. Commodities were another area of strength, led by long positions in cocoa. Prices hit new record highs as West African supply disruptions continued. Short exposures to U.S. Treasuries were also a positive contributor.



#### HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS

Data source: Hedge Fund Research

# 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

**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.mscibarra.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.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

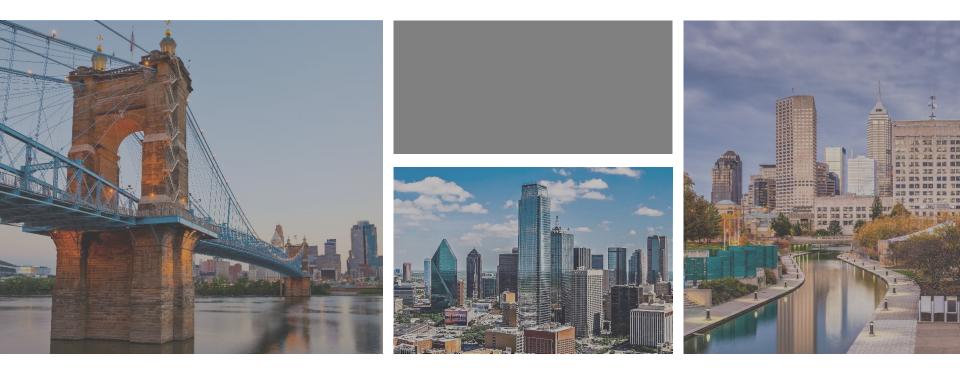
**Bonds** are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. www.barclays.com

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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