



UNIVERSITY OF ILLINOIS SYSTEM

FOURTH QUARTER 2022 INVESTMENT UPDATE PREPARED FOR THE BOARD OF TRUSTEES

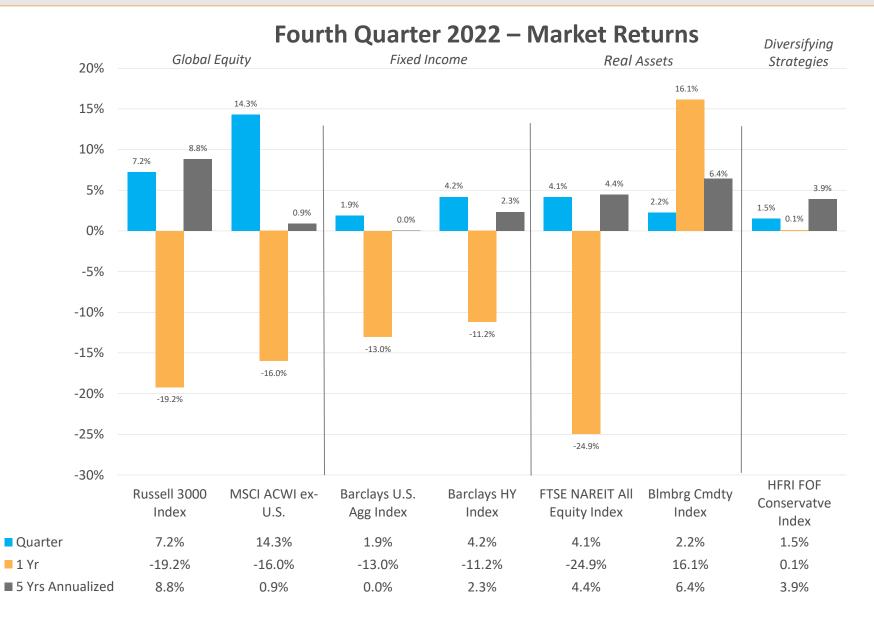
March 2023

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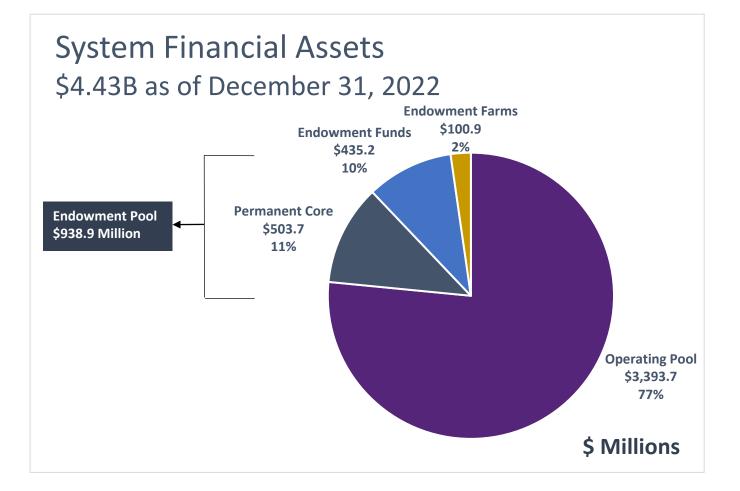
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MARKET OVERVIEW AND SYSTEM ASSETS

MARKET RETURNS



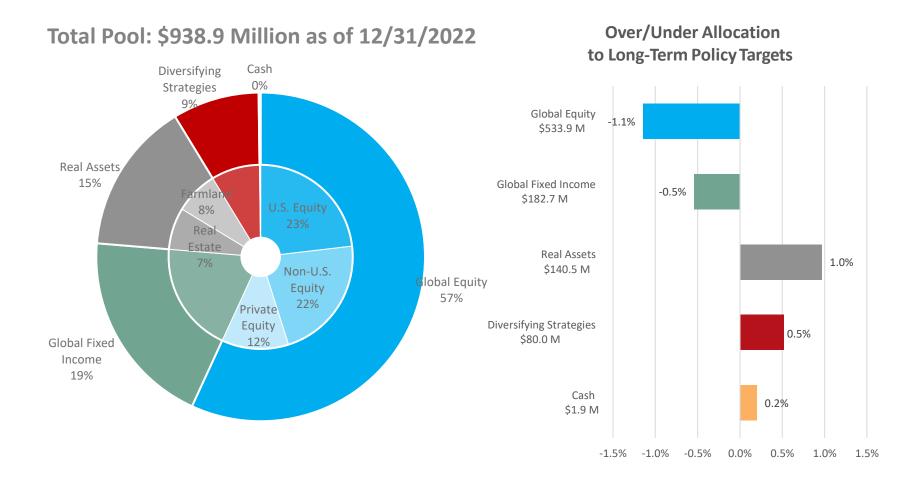
Data sources: Lipper and Hedge Fund Research



- The System's financial assets were valued at \$4.43 billion as of December 31, 2022.
- The Operating Pool was valued at \$3.39 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 \$938.92 million (gray and blue slices) and is discussed further on the following slides.

ENDOWMENT POOL UPDATE: DECEMBER 31, 2022

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL



TOTAL ENDOWMENT POOL PERFORMANCE (DECEMBER 31, 2022)



Total Pool: \$938.9 Million

- Over the one-year period, the endowment returned -10.0%, slightly underperforming the benchmark. Real assets (+12.3%), diversifying strategies (+1.9%), and private equity (-7.4%) contributed to performance.
- Over the ten-year period, the endowment posted a 7.1% return, supported by solid returns from private equity (+15.1%), U.S. equity (+11.6%), and real assets (+7.7%).

Endowment Pool	Quarter Ending			
Market Value Change	December-2022			
Beginning Market Value	\$882.7 M			
Net Contributions	\$12.1 M			
Gain/Loss	\$44.1 M			
Ending Market Value	\$938.9 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 (DECEMBER 31, 2022)

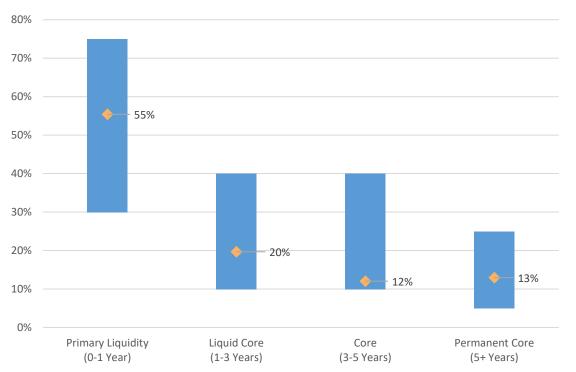
	Current	Policy	Quarter ending					Since	
		Allocation (%)	0	1 Year	3 Years	5 Years	10 Years		Inception Date
Endowment Pool			5.0	-10.0	4.8	5.3	7.1	7.9	Sep-87
Performance Benchmark			5.0	-9.7	5.3	5.7	7.5	8.1	
GLOBAL EQUITY	56.9	58.0	8.5	16.0	6.4	7.0	9.4	8.0	Sep 87
Total U.S. Equity			8.1	-19.2	7.2	8.3	11.6	9.3	Sep-87
U.S. Equity Benchmark			7.2	-19.2	7.0	8.7	12.1	9.6	
Total Non-U.S. Equity			14.2	-16.7	0.1	0.8	4.1	5.0	Sep-93
Non-U.S. Equity Benchmark			14.1	-16.6	0.2	0.8	3.9	5.1	
Total Private Equity			0.0	-7.4	20.2	19.6	15.1	7.1	Jan-04
Private Equity Benchmark			0.0	-10.0	13.4	14.0	16.3	12.8	
GLOBAL FIXED INCOME ¹	19.5	20.0	1.8	11.0	1.3	0.9	1.6	6.1	Sep 87
Total Public Fixed Income			1.9	-11.8	-2.0	0.3	1.4	6.0	Sep-87
Bloomberg U.S. Aggregate			1.9	-13.0	-2.7	0.0	1.1	5.6	
Total Private Fixed Income			0.0	4.7	15.5	-	-	17.6	Jan-18
Bloomberg U.S. Corporate HY Index			4.2	-11.2	0.0	-	-	2.2	
REAL ASSETS ¹	15.0	14.0	0.7	12.3	11.9	9.3	7.7	10.4	Dec 06
Total Real Estate			-1.4	-9.7	4.9	5.4	-	8.5	Aug-13
Real Estate Benchmark			-5.2	6.5	9.1	7.6	-	9.7	
Total Farmland ²			0.0	50.4	21.6	14.4	7.9	10.5	Dec-06
NCREIF Cornbelt Index			0.0	26.7	12.8	8.5	6.8	9.5	
DIVERSIFYING STRATEGIES ¹	8.5	8.0	0.4	1.9	9.6	6.0		1.2	May 13
Total Hedge Funds			0.5	1.8	-10.8	-6.9	-	-1.7	May-13
Hedge Fund Index			1.5	0.1	7.3	5.4	-	4.9	
CASH	0.2	0.0	0.8	1.2	0.5	1.0	-	0.8	

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: DECEMBER 31, 2022

OPERATING POOL LIQUIDITY LAYERS

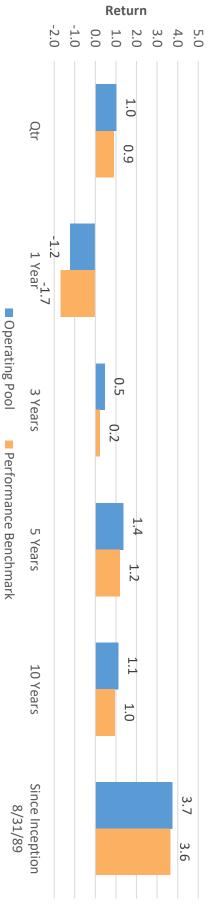
AS OF December 31, 2022



- 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 Endowment Pool investment program.

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





- Over the trailing one-year period, the Operating Pool returned -1.2%, outperforming the benchmark return
- Most managers in the Operating Pool matched or outperformed their respective benchmarks over the period.
- benchmark Over the three-, five-, ten-year, and since inception periods, the Operating Pool has outperformed the
- 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	December-2022
Beginning Market Value	\$3,488.1 M
Net Contributions	(\$129.1 M)
Gain/Loss	\$34.7 M
Ending Market Value	\$3,393.7 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

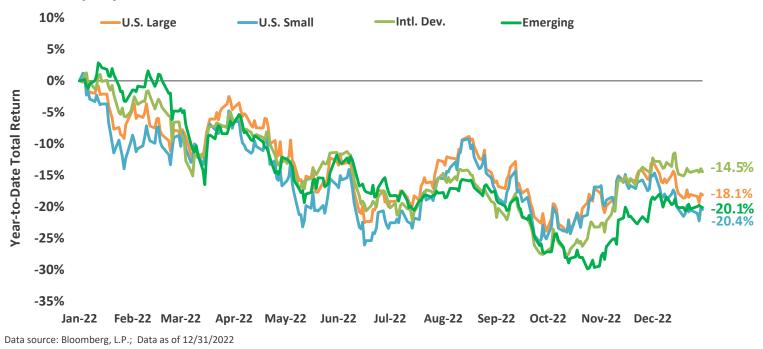
MARKET ENVIRONMENT

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	5-year annual	10-year annual
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 40.2%	MLPs 30.9%	Large Cap 9.4%	Large Cap 12.6%
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%	Large Cap 28.7%	Hedge Funds 5.2%	Small Cap 4.1%	Small Cap 9.0%
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%	Global REIT 25.7%	High Yield 11.2%	MLPs 4.1%	lnt'l 4.7%
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%	Small Cap 14.8%	Bonds 13.0%	Hedge Funds 3.0%	High Yield 4.0%
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 11.3%	Int'l 14.5%	High Yield 2.3%	Hedge Funds 3.5%
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%	Hedge Funds 6.0%	Large Cap 18.1%	Int'l 1.5%	Global REIT 3.4%
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%	High yield 5.3%	Emerging Markets 20.1%	Bonds 0.0%	MLPs 2.0%
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%	Bonds 1.5%	Small Cap 20.4%	Global REIT 0.2%	Emerging Markets 1.4%
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%	Emerging Markets 2.5%	Global REIT 25.0%	Emerging Markets 1.4%	Bonds 1.1%

2013-2022 Annual Returns of Key Indices

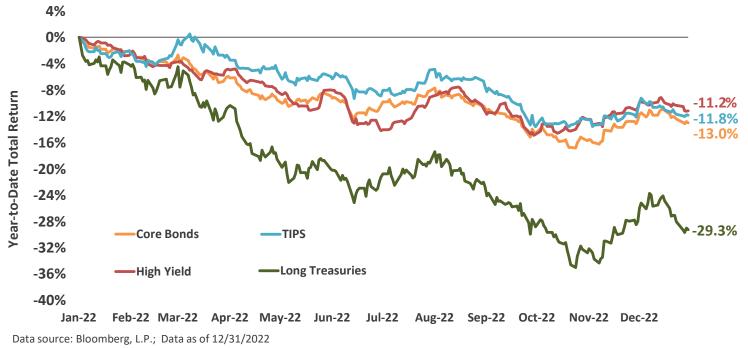
GLOBAL EQUITY

- Global equities faced significant headwinds throughout 2022, driven by multi-decade high inflation, aggressive Federal Reserve (Fed) monetary policy tightening, a surging U.S. dollar (USD), sharply rising real interest rates, and persistent fundamental challenges, the latter of which was exacerbated by the war in Ukraine.
- Domestic equities generally outperformed international throughout most of the year, driven by a relatively more durable economic backdrop in the U.S. versus many key trading partners, as well as the strong USD and its related impact on international returns and regional risk-taking. However, a weakening USD in the fourth quarter boosted international developed markets helping them outperform for the year.
- Both small and microcap underperformed large cap, reflecting the relatively higher beta across smaller capitalization stocks, while stylistically, longer-duration growth sectors faced significant headwinds stemming from the increase in interest rates and the incremental removal of liquidity and monetary support by the Fed.



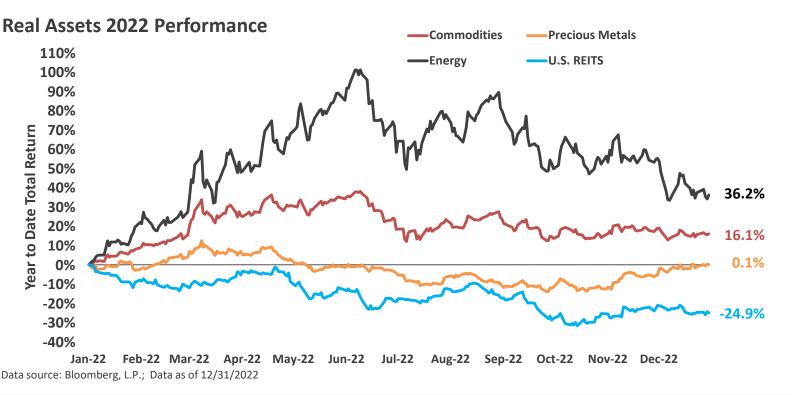
Global Equity 2022 Performance(in USD)

- Similar to global equities, most major bond sectors posted negative returns in 2022, particularly among the ratesensitive sectors, as sticky inflationary readings and aggressive Fed tightening helped send interest rates higher and the yield curve to its most inverted posture since the early 1980's.
- U.S. interest rates broke out of their 40-year "duration tailwind", as the Fed hiked the federal funds rate by 425 basis points in an effort to restore price stability, helping drive a greater than 200 basis point increase in yield on the benchmark 10-Year Treasury Note and placing this key interest rate at its highest level since 2008.
- Despite broad-based risk-off pressures throughout the year, speculative grade credit risk premiums widened by a moderate margin in 2022 and concluded the year below long-run averages. Due to the sector's relatively shorter duration profile versus core bonds, high yield was a relative outperformer during the calendar year.



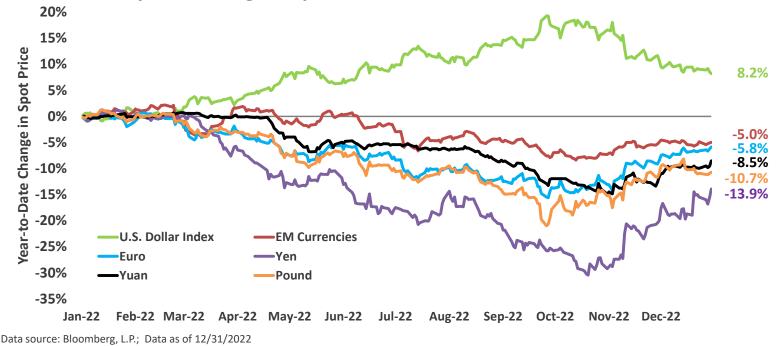
Fixed Income 2022 Performance

- Unlike traditional asset classes such as stocks and bonds, which witnessed overwhelmingly negative performance during the year, most major real assets categories generated positive performance, particularly among commodity-oriented indices, which generally exhibited positive momentum throughout the majority of 2022.
- The longer duration real estate investment trust (REIT) sector was one of the weakest performing major areas across the global investment universe during the year, pressured lower by a gradual weakening of global economic fundamentals and an associated meaningful rise in interest rates.
- The multi-year appreciation of the USD, which helped send many commonly-referenced gauges of the dollar's exchange
 rate value to multi-decade high levels during the year, reversed course meaningfully in the fourth quarter, as the ICE U.S.
 Dollar Index (DXY) declined by 7.7% quarter-over-quarter, the worst quarterly decline since third quarter 2010 (-8.5%).
 Precious metals spot prices and mining companies witnessed significantly positive performance during the quarter and
 relative to many key traditional asset classes and sectors, were a relatively strong performer for the calendar year.



CURRENCIES

- The Fed's aggressive tightening measures set forth throughout 2022 helped underpin a significant rally behind the USD, as well as an associated rise in real interest rates, with these forces serving as a critical headwind to risk assets during the first three quarters of the year.
- Growing sentiment surrounding a potential near-term "pause" in Fed tightening, likely supported by mounting evidence inflation may be in the peaking process, as well as continued near-term economic headwinds, helped drive a selloff in the USD during the fourth quarter, with corresponding strength witnessed across the euro and yen.
- Emerging market currencies also faced pressure versus the USD throughout 2022, albeit to a lesser degree versus many developed market peers.



Global Currency 2022 Change in Spot (Base: USD)

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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

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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