Reported to the Board of Trustees
March 7, 2013

University of Illinois
Fourth Quarter 2012 Investment Update

February 2013

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Market Overview and Total University Assets

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Capital Markets Review
December 31, 2012

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	0.2	16.4	11.4	2.2	7.9
MSCI All Country World ex-U.S. Index	5.8	16.8	3.9	-2.9	9.7
MSCI All Country World Index	2.9	16.1	6.6	-1.2	8.1
Barclays Capital Aggregate Bond Index	0.2	4.2	6.2	5.9	5.2
HFR Fund of Funds Index	1.8	5.3	1.6	-1.7	3.7
NCREIF ODCE Index	2.1	9.8	13.3	-2.0	5.7
NCREIF Cornbelt Index	0.0	24.9	15.3	14.8	--

- The Federal Open Market Committee (FOMC) again decided to keep the target range for the federal funds rate at 0-0.25%. Additionally, the Fed has committed to continue QE3 until economic conditions improve, specifically, keeping rates exceptionally low until unemployment falls below 6.5%, or inflation exceeds 2.5%.
- From a capitalization standpoint, small-cap stocks outperformed large-cap stocks, while from a style perspective, value outperformed growth during the quarter.
- Non-U.S. equities outperformed U.S. equities during the fourth quarter. The strongest performing segment was the Emerging Markets area.
- Long duration bonds underperformed intermediate and short duration bonds as the yield curve rose during the quarter. High yield bonds gained 3.3%, as investors sought yield in a low interest rate environment.

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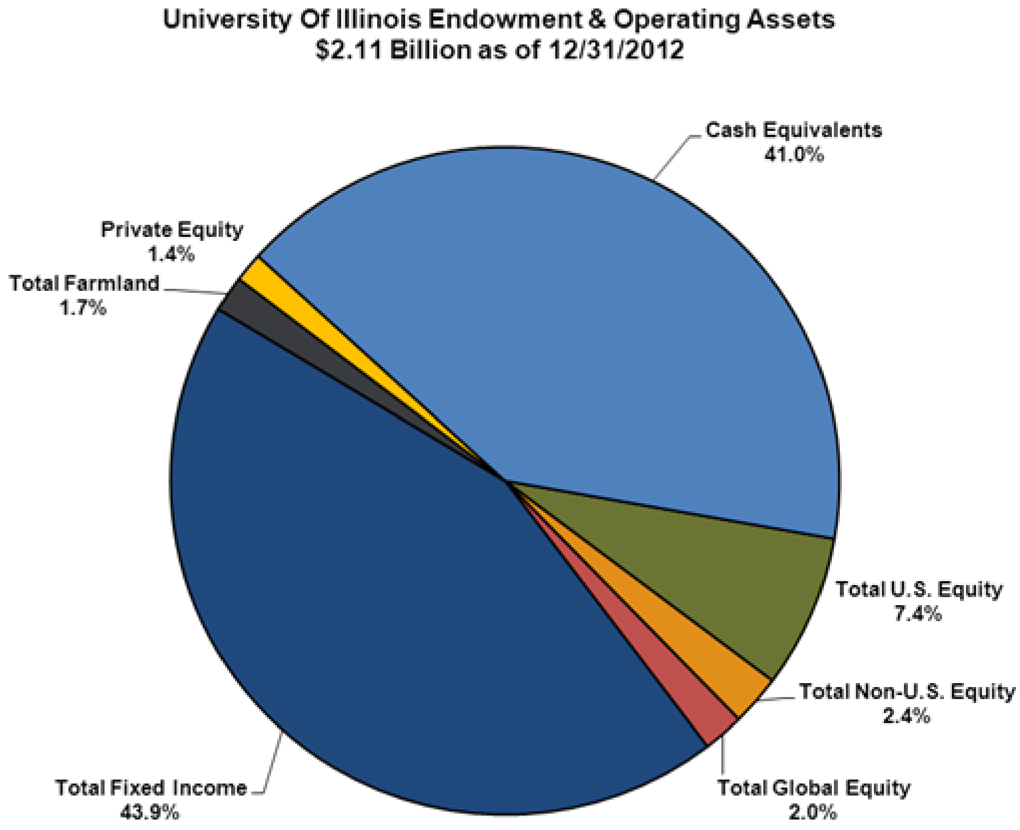
Total University Assets: December 31, 2012



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Endowment Fund Update: December 31, 2012

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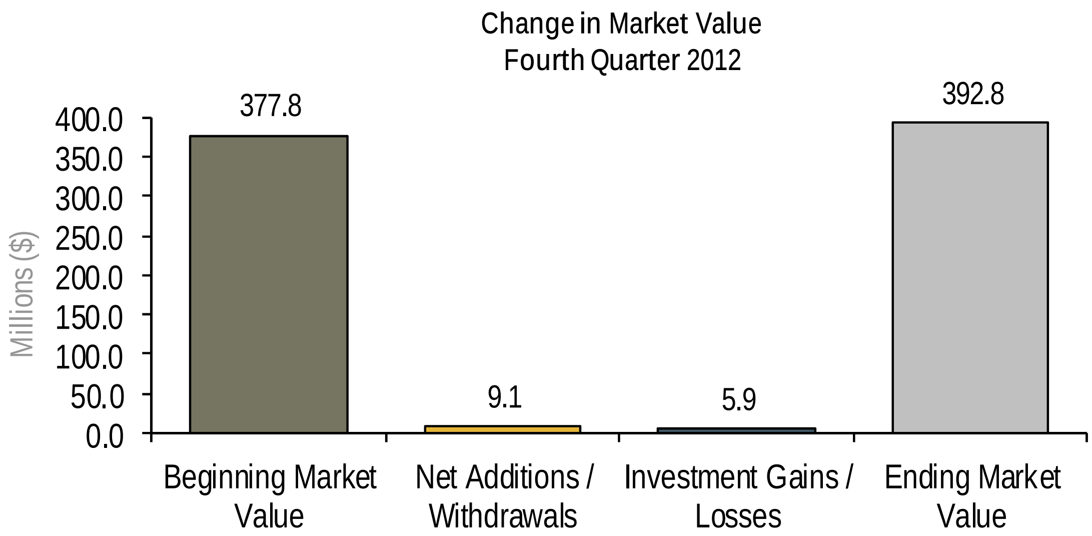
Total Fund Asset Growth: Endowment Pool



- During the fourth quarter, Endowment fund assets increased by approximately $15.0 million from $377.8 million to $392.8 million.
- This increase was the net result of investment gains and positive fund flows. For this period, net inflows were approximately $9.1 million and the absolute return of 1.5% in Endowment assets resulted in investment gains of $5.9 million.

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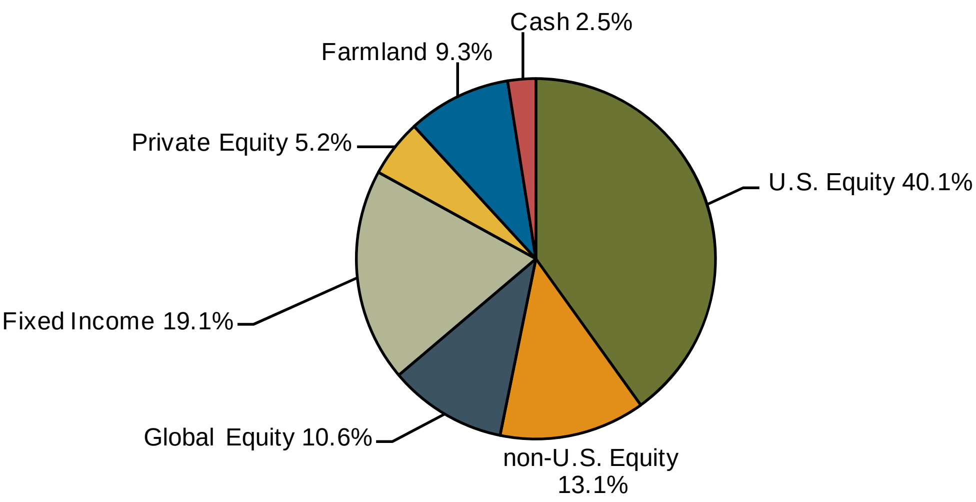
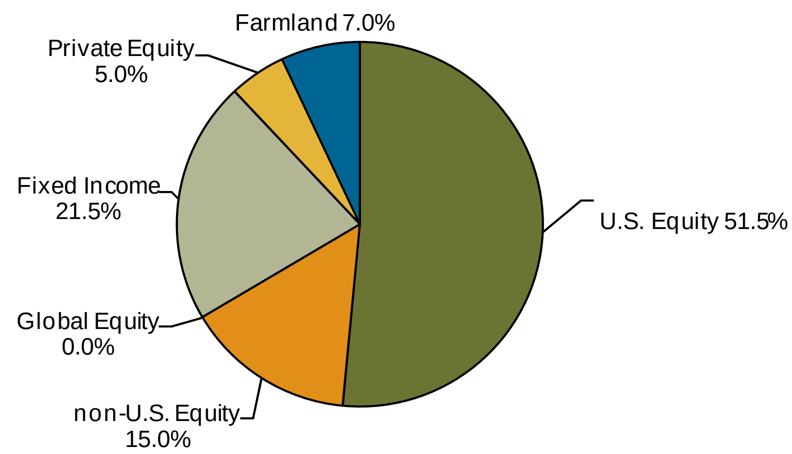
Market Value and Asset Allocation: Endowment Pool
December 31, 2012

Total Fund
$392,784,225

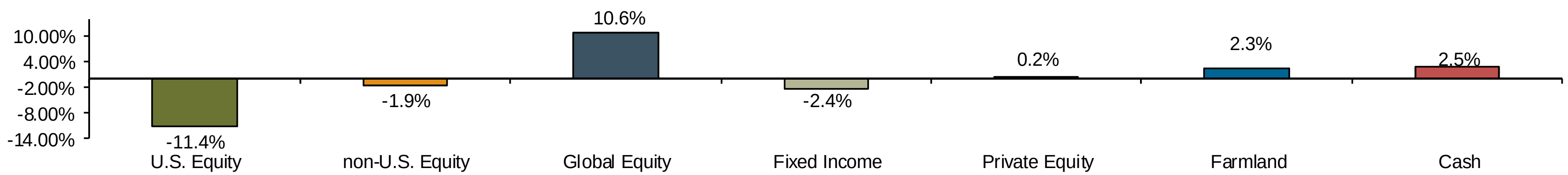
Actual Allocation



Interim Policy Allocation*

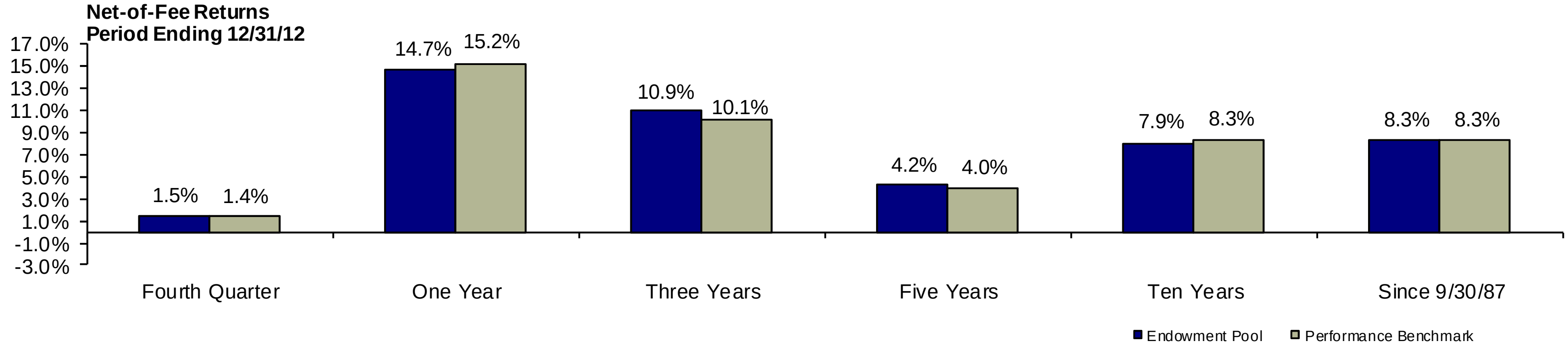


Actual vs. Policy



*Long Term Policy Allocations: US Equity 14%, Non-US Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

Total Fund Performance: Endowment Pool
December 31, 2012



- For the fourth quarter, the Endowment Pool gained 1.5 percentage points and outperformed the performance benchmark by 10 basis points. The U.S. Equity asset class approximated the Dow Jones U.S. Total Stock Market Index, returning 0.2 percent for the quarter. During this same time period Templeton, the Pool's non-U.S. equity manager, outperformed the MSCI All Country World ex-U.S. Index by 1.9 percentage points. In the Endowment's fixed income investments, Western and JP Morgan both outpaced their benchmarks, leading to overall fixed income outperformance of 0.7 percentage points over the asset class benchmark during the fourth quarter.

- Over the trailing one-year period, the Endowment Pool gained 14.7 percentage points and underperformed its benchmark by 50 basis points. Strong performance from Western, which added 6.1 percentage points of relative value was offset by poor relative performance from Private Equity and GMO.

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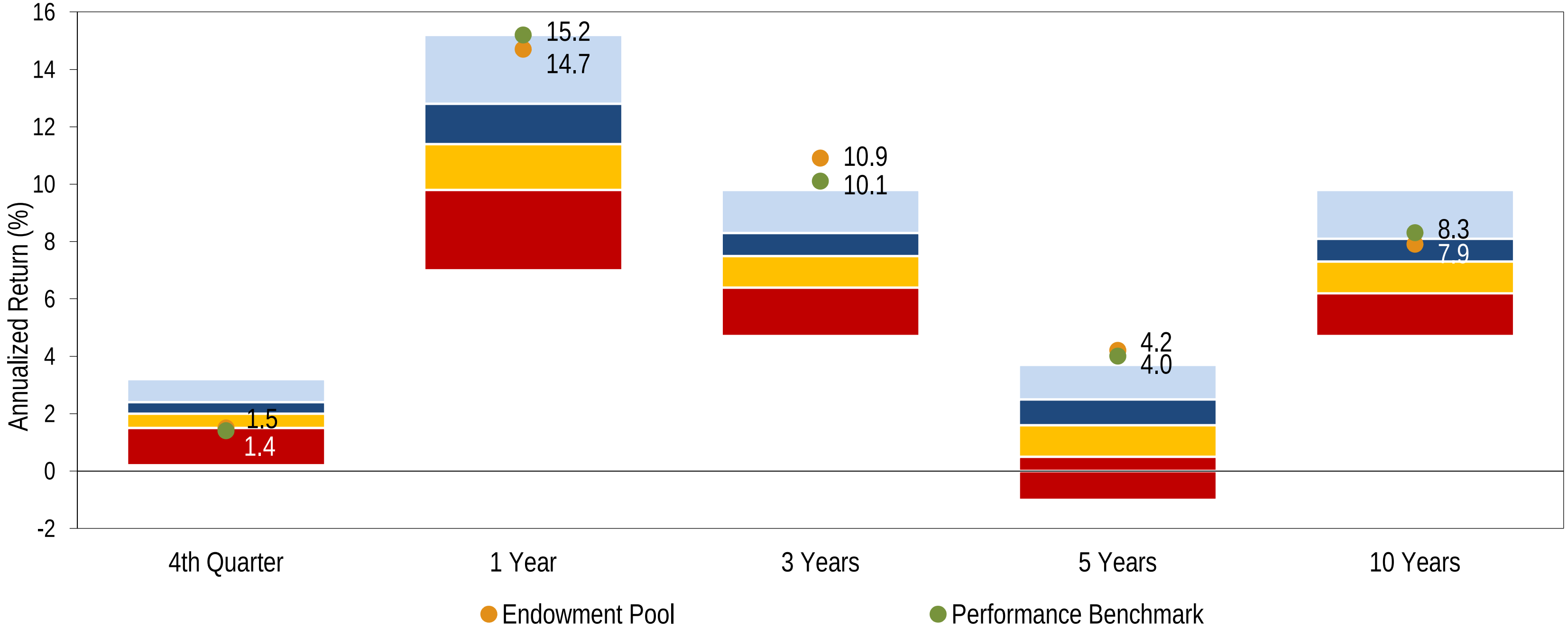
Peer Rankings: Endowment Pool
December 31, 2012



Returns/Ranks	4th Quarter		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	1.5	78	14.7	7	10.9	3	4.2	2	7.9	30
Benchmark	1.4	80	15.2	5	10.1	5	4.0	4	8.3	22

- Over the trailing one-, three- and five-year time periods, the returns of the University of Illinois' Endowment Pool have ranked in the top 10% of the BNY Mellon Endowment Fund and Foundation Universe returns.

Asset Class Performance
December 31, 2012

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**1.5**	**14.7**	**10.9**	**4.2**	**7.9**	**8.3**
Performance Benchmark	1.4	15.2	10.1	4.0	8.3	8.3
Total U.S. Equity	**0.2**	**16.0**	**11.2**	**2.9**	**7.7**	**8.4**
Dow Jones U.S. Total Stock Market Index	0.2	16.4	11.4	2.2	7.9	8.6
Total Non-U.S. Equity	**7.7**	**17.2**	**2.9**	**-3.5**	**8.5**	**5.4**
MSCI All Country World ex-U.S. Index	5.8	16.8	3.9	-2.9	9.7	5.6
Total Global Equity	**2.8**	**--**	**--**	**--**	**--**	**9.4**
MSCI All Country World Index	2.9	--	--	--	--	9.9
Total Fixed Income	**0.9**	**9.5**	**10.3**	**8.0**	**6.2**	**7.9**
Barclays Aggregate Bond Index	0.2	4.2	6.2	5.9	5.2	7.4
Total Private Equity(1)	**0.7**	**6.0**	**9.3**	**3.6**	**--**	**-1.3**
Private Equity Benchmark	0.9	19.9	14.7	5.3	--	8.9
Total Farmland (2)	**0.0**	**21.9**	**24.9**	**18.3**	**--**	**16.5**
NCREIF Cornbelt Index	0.0	24.9	15.3	14.8	--	13.4

(1) The combined Adams Street Partners IRR at 9/30/2012 was 6.1%.
(2) Farmland is valued annually on December 31st, and is reported on a six month lag. As such, the one year return reflected above is the one-year return for Farmland as of December 31, 2011.

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Operating Pool Update: December 31, 2012

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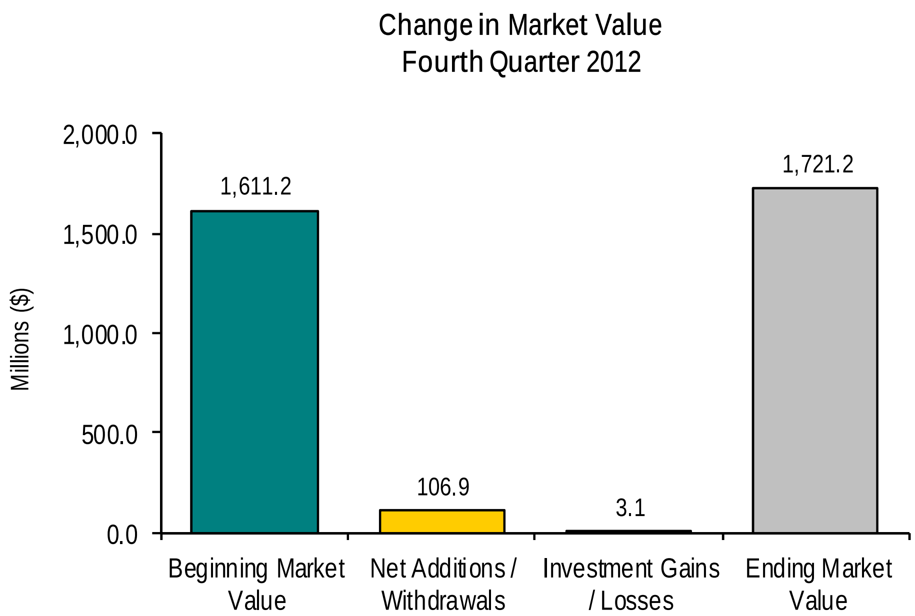
Total Fund Asset Growth: Operating Pool



- During the fourth quarter, the Operating Pool assets increased by approximately $110.0 million from $1.61 billion to $1.72 billion. This increase was the result of approximately $106.9 million in net inflows and $3.1 million in investment gains.

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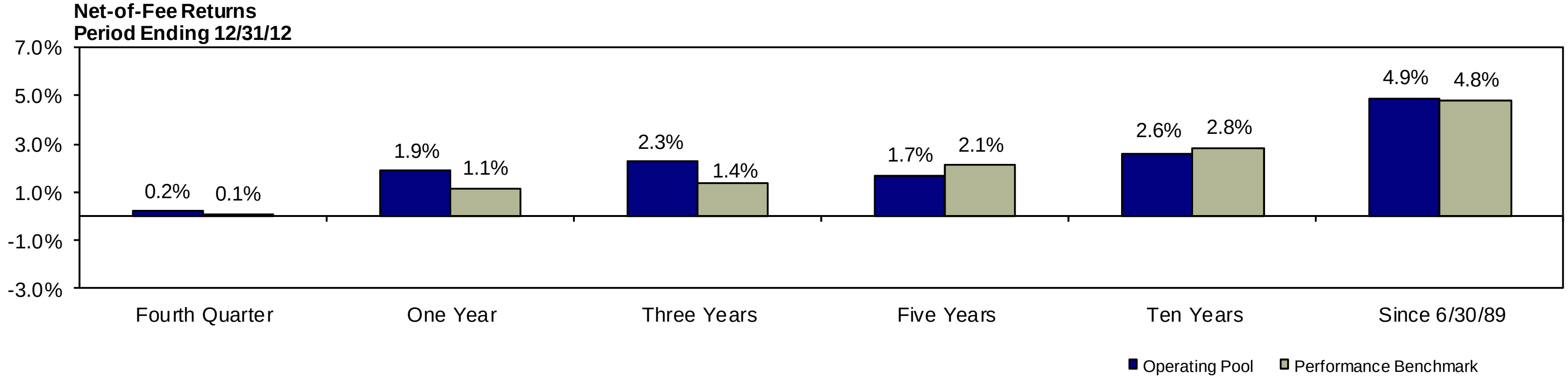
Total Fund Performance: Operating Pool
December 31, 2012

Total Fund
$1,721,156,983



- The Operating Pool returned 20 basis points during the fourth quarter, beating the benchmark return for this time period by 10 basis points. Western Asset Management drove portfolio outperformance, outpacing its benchmark by 100 basis points with a 1.2 percent return during the quarter. Positive absolute and relative returns from Galliard also had a positive effect.

Appendix:

Market Environment

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Market Highlights

Returns of the Major Capital Markets

	Periods Ending 12/31/2012					
	Fourth Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	2.99%	16.38%	16.38%	7.02%	-0.73%	8.60%
MSCI All Country World	2.88%	16.13%	16.13%	6.63%	-1.16%	8.11%
Dow Jones U.S. Total Stock Market	0.18%	16.38%	16.38%	11.40%	2.21%	7.95%
Russell 3000	0.25%	16.42%	16.42%	11.20%	2.04%	7.68%
S&P 500	-0.38%	16.00%	16.00%	10.87%	1.66%	7.10%
Russell 2000	1.85%	16.35%	16.35%	12.25%	3.56%	9.72%
MSCI All Country World ex-U.S. IMI	5.74%	17.04%	17.04%	4.18%	-2.59%	10.16%
MSCI All Country World ex-U.S.	5.85%	16.83%	16.83%	3.87%	-2.89%	9.74%
MSCI EAFE	6.57%	17.32%	17.32%	3.56%	-3.69%	8.21%
MSCI EAFE (100% Hedged)	7.03%	13.79%	13.79%	-0.08%	-6.67%	3.19%
MSCI EAFE (Local Currency)	7.52%	17.31%	17.31%	2.60%	-4.25%	5.43%
MSCI Emerging Markets	5.58%	18.22%	18.22%	4.66%	-0.91%	16.52%
Fixed Income						
Barclays Global Aggregate	-0.48%	4.31%	4.31%	5.16%	5.44%	5.98%
Barclays Aggregate	0.22%	4.23%	4.23%	6.21%	5.96%	5.19%
Barclays Long Gov't	-0.70%	3.78%	3.78%	13.62%	9.58%	7.64%
Barclays Long Credit	1.30%	12.79%	12.79%	13.50%	10.41%	8.23%
Barclays Long Gov't/Credit	0.45%	8.77%	8.77%	13.65%	10.16%	7.96%
Barclays High Yield	3.29%	15.81%	15.81%	11.86%	10.33%	10.62%
SSB Non-U.S. WGBI	-2.36%	1.51%	1.51%	3.95%	5.24%	6.38%
JP Morgan EMBI Global (Emerging Markets)	3.33%	18.54%	18.54%	12.94%	10.47%	11.56%
Commodities						
Dow Jones-UBS Commodity	-6.33%	-1.06%	-1.06%	0.07%	-5.17%	4.09%
Goldman Sachs Commodity	-3.28%	0.08%	0.08%	2.54%	-8.12%	2.75%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	1.27%	6.16%	6.16%	3.50%	1.50%	6.66%
HFRI Fund of Funds[2]	1.77%	5.25%	5.25%	1.60%	-1.67%	3.67%
Real Estate						
NAREIT U.S. Equity REITS	2.58%	18.06%	18.06%	17.83%	5.45%	11.63%
NCREIF ODCE[3]	2.06%	9.77%	9.77%	13.30%	-2.00%	5.72%
Private Equity						
Thomson Reuters VentureXpert[4]	-0.07%	5.28%	4.57%	15.18%	4.46%	11.44%
Infrastructure						
Macquarie Global Infrastructure - North America	-1.33%	4.13%	4.13%	11.72%	2.82%	11.96%

MSCI Indices and NCREIF ODCE show net retuns. MSCI EAFE (100% Hedged) shows price return; all other indices show total returns.

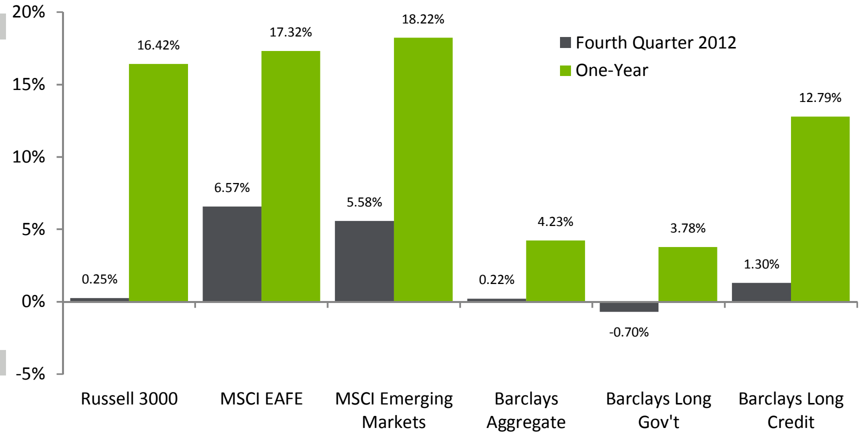
[1] Periods are annualized.

[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Fourth quarter return is preliminary.

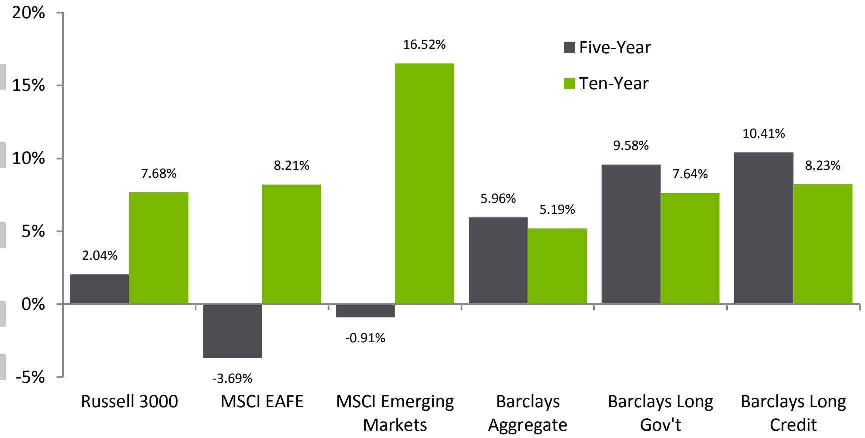
[4] Benchmark is as of 06/30/2012.

SHORT TERM RETURNS AS OF 12/31/2012



Source: Russell, MSCI, Barclays

LONG TERM ANNUALIZED RETURNS AS OF 12/31/2012



Source: Russell, MSCI, Barclays

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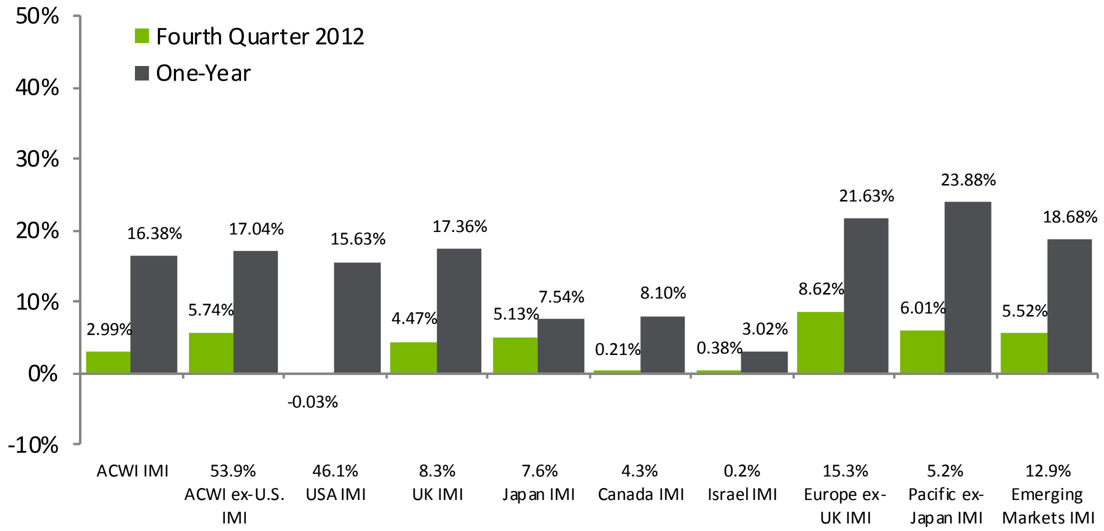
Global Equity Markets

GLOBAL MSCI IMI INDEX RETURNS
AS OF 12/31/2012



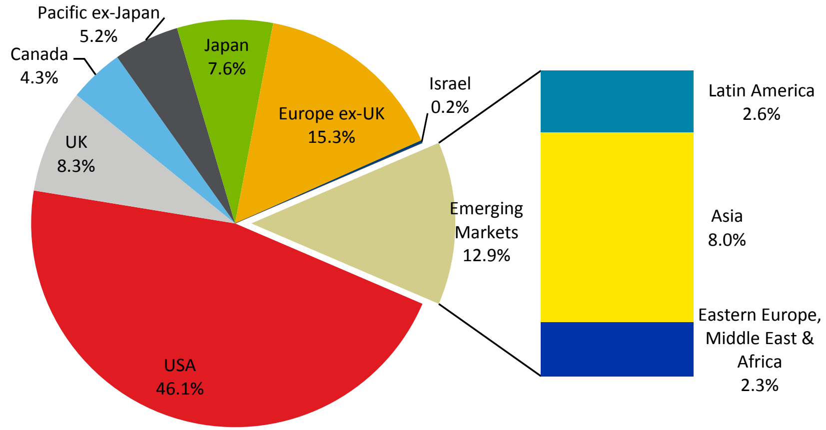
Source: MSCI

- Positive economic data and a lessening of Eurozone debt crisis worries helped during the fourth quarter, but the impending "fiscal cliff" kept risk appetites in check.

- Most equity markets around the world posted positive returns during the quarter. The best performing market was Europe ex-UK, and the worst performing market was the U.S. with "fiscal cliff" concerns impeding equities in the U.S.

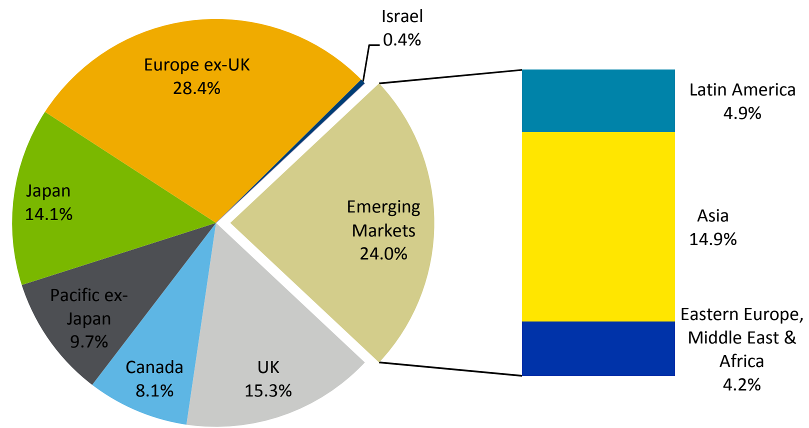
Global Equity Markets

MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2012



Source: MSCI

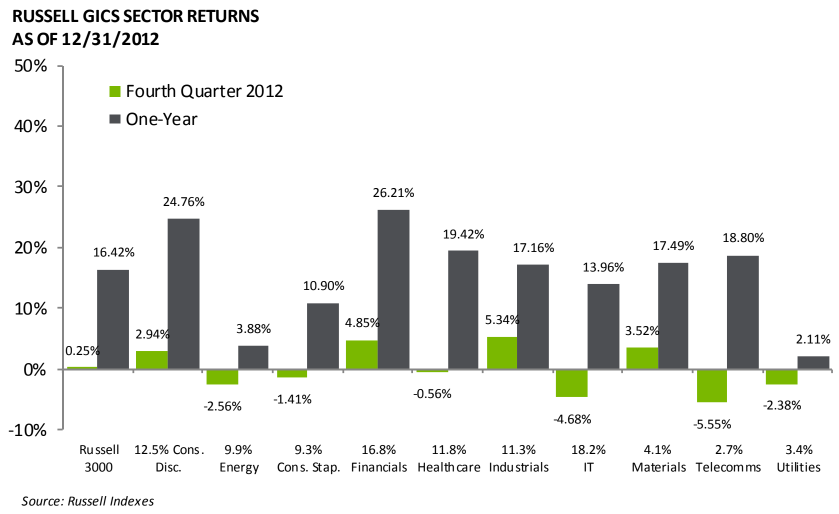
MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2012

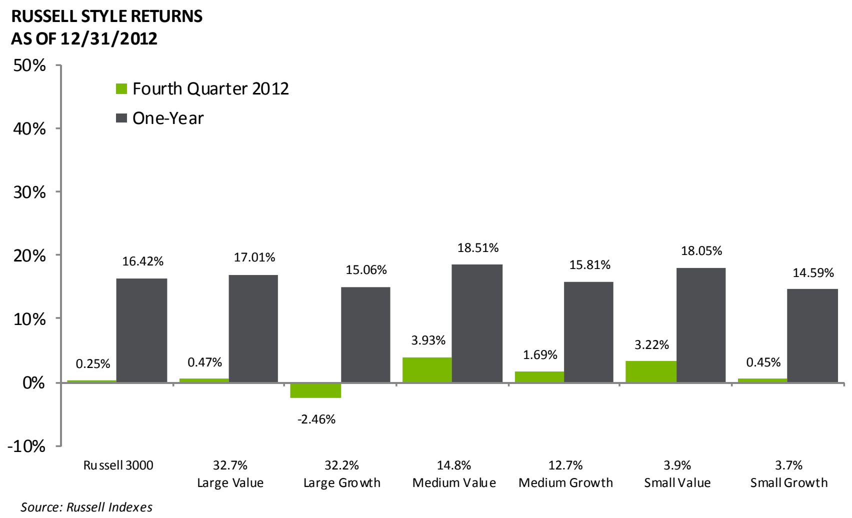


Source: MSCI

- The two exhibits on this slide illustrate the percent 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.

U.S. Equity Markets

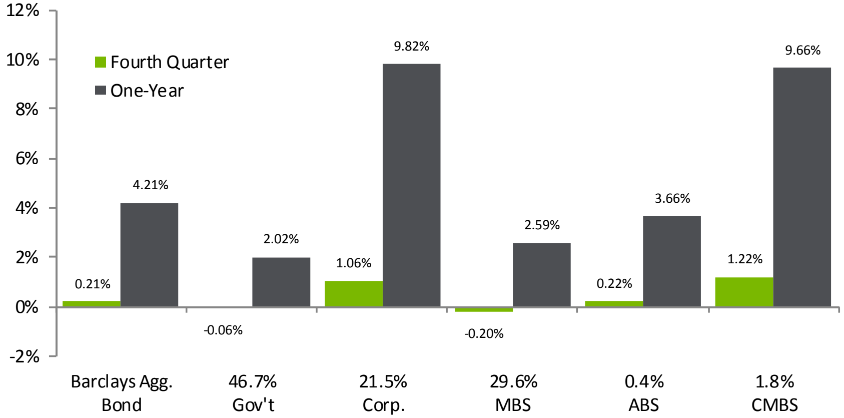




- Generally positive U.S. economic data was overshadowed by the “fiscal cliff”, which led to significant uncertainty during the quarter.
- The Russell 3000 rose 0.25% during the quarter and returned 16.42% during 2012.
- The Industrials, Financials, and Materials sectors were the best performing sectors during the fourth quarter, posting returns of 5.34%, 4.85%, and 3.52%, respectively. The Telecommunications and Information Technology sectors were the worst performing areas, producing returns of -5.55% and -4.68%, respectively, during the fourth quarter.
- Mid cap outperformed both small cap and large cap during the fourth quarter. Value outperformed growth across all capitalization segments of the market during the quarter.

U.S. Fixed Income Markets

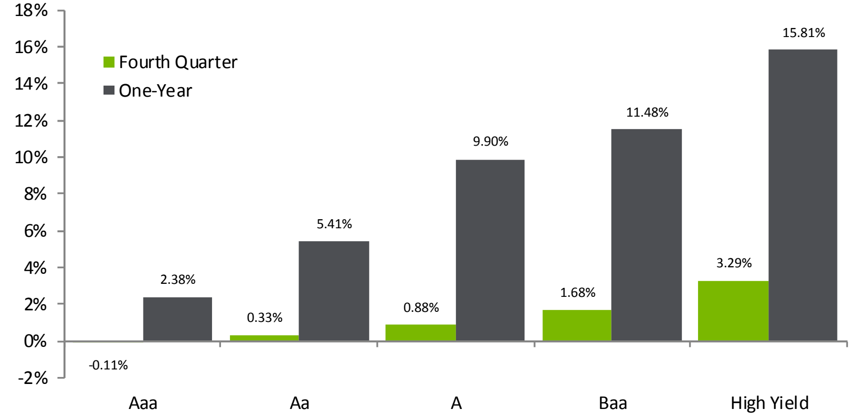
BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 12/31/2012



Source: Barclays Live

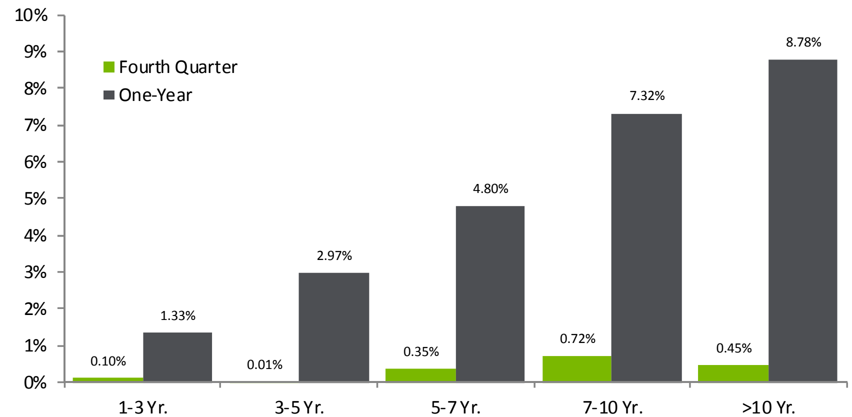
- The Barclays Aggregate Bond Index returned 0.21% in the fourth quarter.
- Corporate bonds and commercial mortgage-backed securities were the strongest performing sectors, returning 1.06% and 1.22%, respectively, over the course of the fourth quarter.
- In the investment grade market, lower quality bonds outperformed higher quality bonds. This held true for the quarter and for the full year 2012.
- High yield bonds outperformed investment grade bonds as investors sought yield in a low interest rate environment.
- From a maturity perspective, the 7-10 year range performed the strongest with a return of 0.72% during the fourth quarter.

BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 12/31/2012



Source: Barclays Live

BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 12/31/2012



Source: Barclays Live

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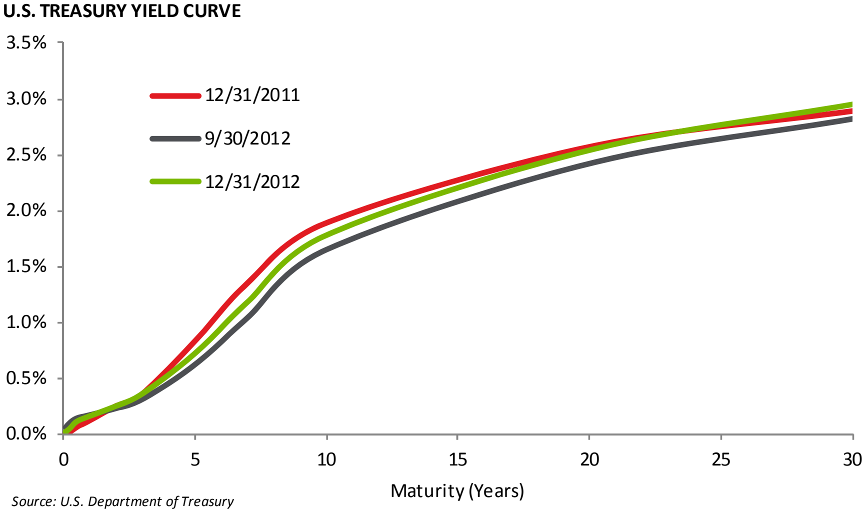
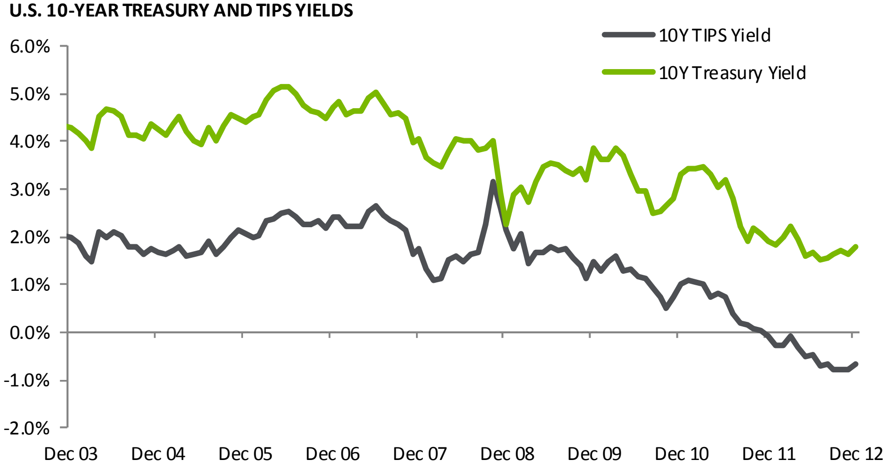
U.S. Fixed Income Markets



Source: U.S. Department of Treasury



Source: U.S. Department of Treasury

- The Treasury yield curve steepened during the quarter; both the intermediate (1 to 10 years) and the long-term segments of the yield curve rose.
- The 10-year U.S. Treasury yield ended the quarter at a yield of 1.78%, roughly 13 basis points higher than its level at the beginning of the quarter.
- 10-year TIPS yields remained in negative territory, but rose by 10 basis points to -0.67% over the quarter.

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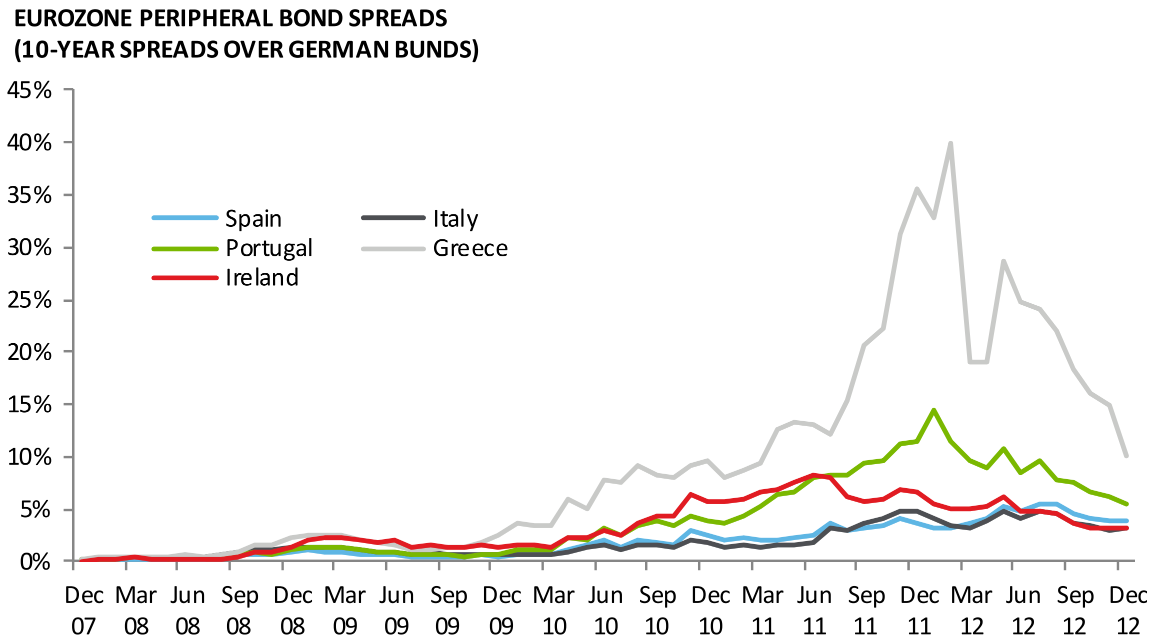
European Fixed Income Markets



Source: DataStream

- Greece was one of the focal points of the Eurozone debt crisis during the quarter as speculation rose on whether it would obtain a second tranche of bailout funds. On November 26, European leaders, the European Central Bank, and the International Monetary Fund reached an agreement to release the next €34 billion tranche of bailout money to Greece. This was generally viewed positively by market participants and led to a reduction in Greek spreads over German Bunds.
- 10-year yield spreads over German Bunds decreased for the rest of the Eurozone periphery as well over the quarter.

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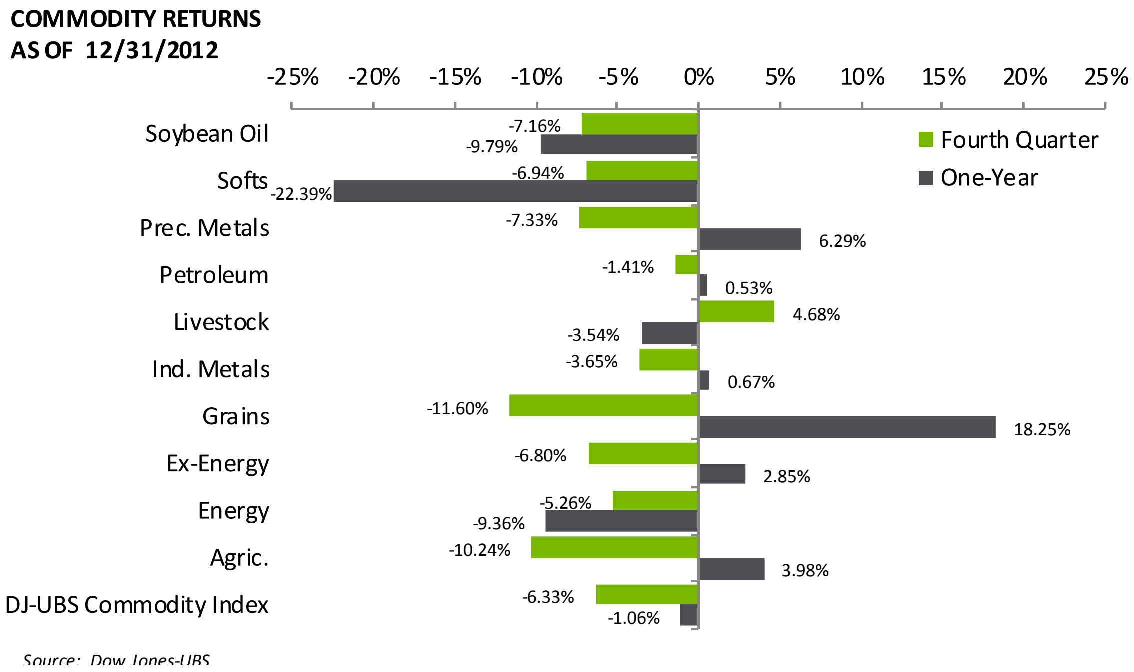
Credit Spreads

Spread (bps)	12/31/2012	9/30/2012	12/31/2011	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	53	49	87	4	-34
Long Gov't	4	4	6	0	-1
Long Credit	180	191	239	-11	-59
Long Gov't/Credit	109	114	131	-5	-22
MBS	50	24	75	26	-26
CMBS	124	155	308	-31	-184
ABS	43	44	99	-1	-56
Corporate	141	156	234	-15	-93
High Yield	511	551	699	-40	-188
Global Emerging Markets	293	332	464	-39	-171

Source: Barclays Live

- Credit spreads fell across most markets during the quarter with the exception of MBS.
- Fixed income markets that saw the largest drops in spreads were High Yield, Global Emerging Markets, and CMBS.
- Credit spreads across every segment as of December 31, 2012 were lower relative to a year prior.

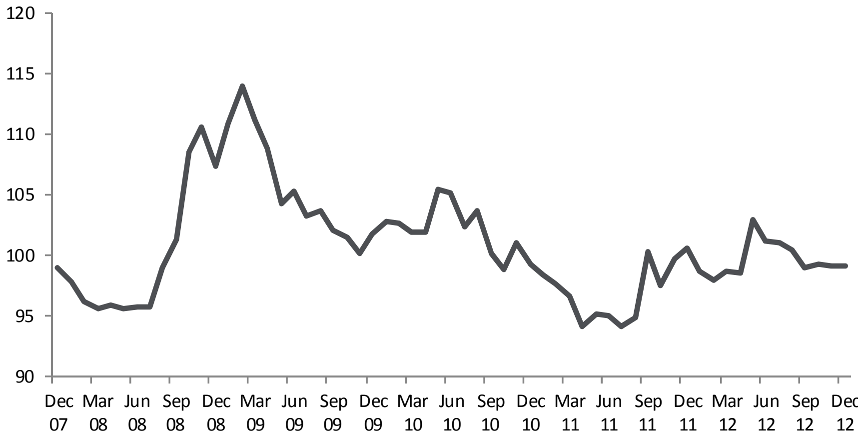
Commodities



- Driven by negative returns across most market sectors, the Dow Jones-UBS Commodity Index decreased by 6.33% during the fourth quarter.
- The strongest and only positive performing segment of the market was livestock with a return of 4.68% during the quarter.
- Grains and Agriculture were the worst performing sectors of the market during the fourth quarter with returns of -11.60% and -10.24%, respectively.

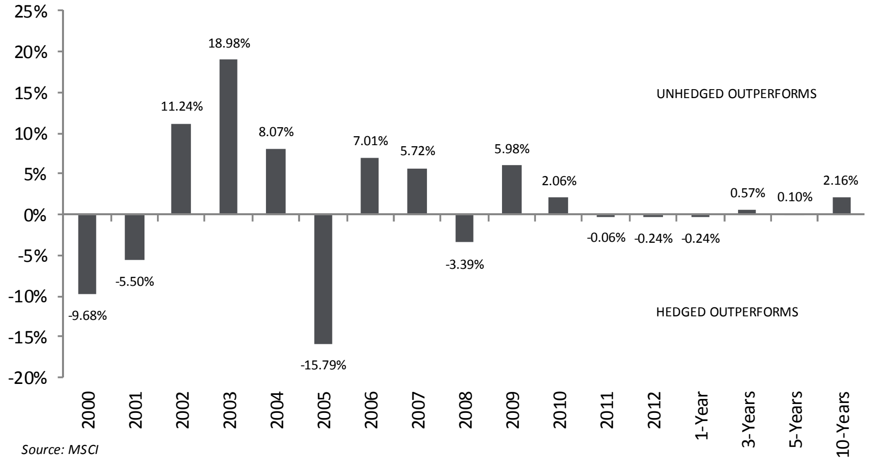
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)



Source: Federal Reserve

DIFFERENCE BETWEEN MSCI EAFE UNHEDGED AND HEDGED INDICES
AS OF 12/31/2012



Source: MSCI

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar marginally appreciated during the quarter and the one year period.

- The MSCI EAFE Unhedged Index slightly underperformed the MSCI EAFE 100% Hedged Index during the year-to-date period reflecting the appreciation of the U.S. dollar. The Unhedged index outperformed the Hedged index during the trailing 3, 5, and 10 year periods.

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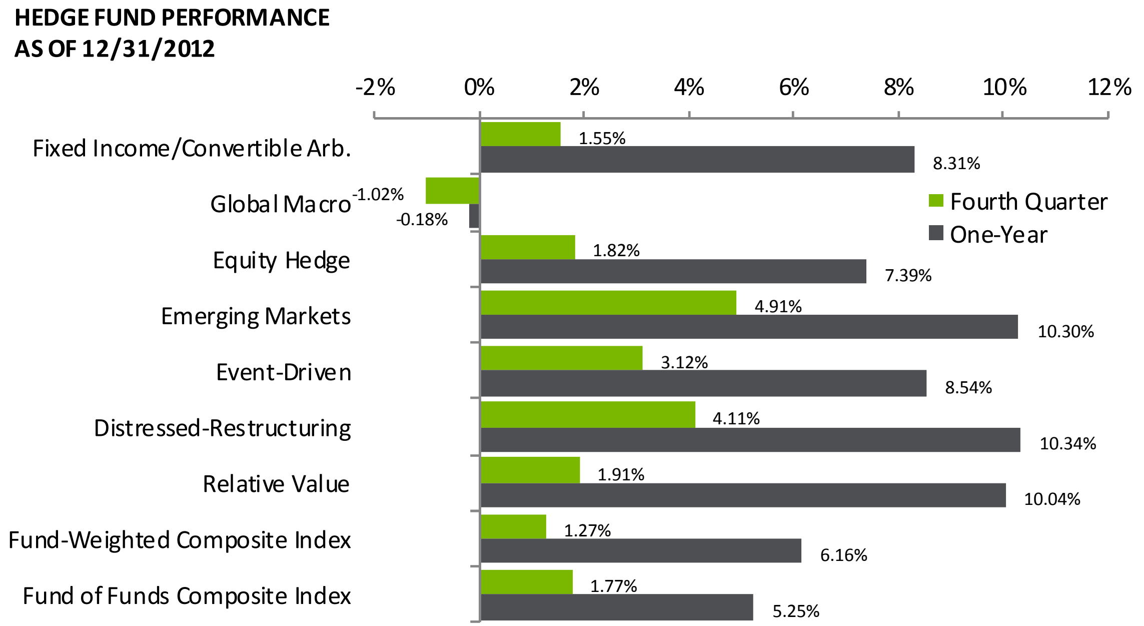
Hedge Fund Markets Overview

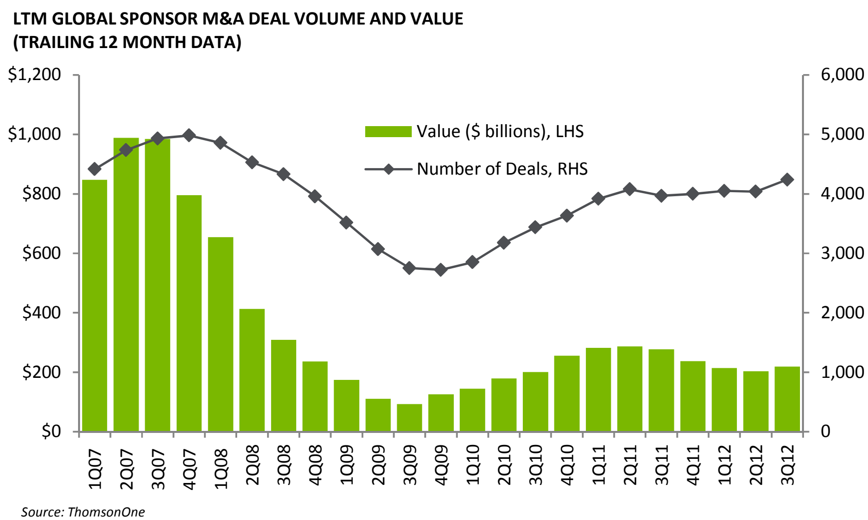


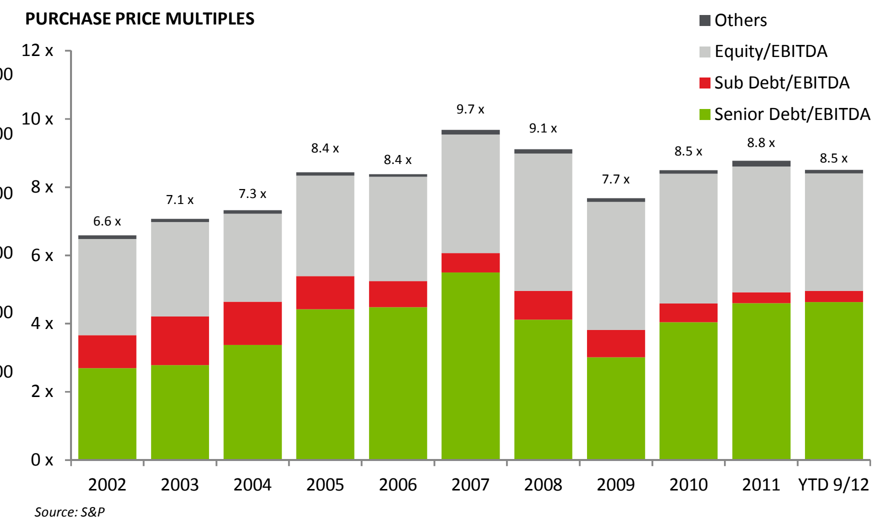
Source: HFR

- Except for Global Macro, all major hedge fund strategies types posted positive returns in the fourth quarter and for the full year 2012. The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 1.27% and 1.77%, respectively, during the fourth quarter.

- Emerging Markets and Distressed-Restructuring strategies were the strongest performers during the quarter gaining 4.91% and 4.11%, respectively.

Private Equity Market Overview – Q3 2012

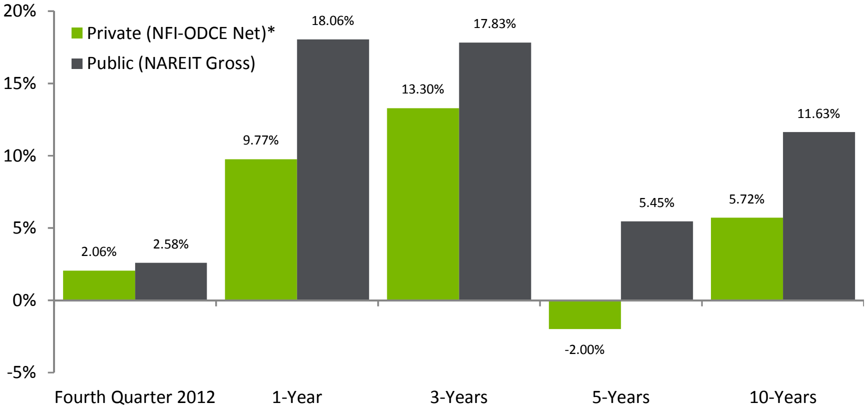




- **Fundraising:** Continues to improve: LTM levels ($263B) healthy but not excessive levels. Remains well below pre-crisis levels ($490B). Overhang significant ($785B) but decreasing.
- **Buyout:** Deal volume vacillating quarter to quarter, but flat to slightly trending up. Small and middle market deals comprise bulk of activity although increasing activity seen in the large market. Purchase price multiples remained relatively steady for last three years; large cap is above its 10 year average while middle market is below its 10 year average. European activity remains slow due to economic uncertainty.
- **Venture capital:** YTD investment levels ($20B) lagging strong levels in 2011. Meaningful shift over last 1.5 years to later stage deals with a commensurate increase in series C in pre-money valuations and a decrease in series A and B pre-money valuations; YTD exit activity down 14% due to reduced M&A activity, number of IPOs flat with 2011.
- **Mezzanine:** U.S. mezzanine lenders continue to target smaller transactions as getting squeezed out of larger transactions in favor of high yield. YTD sub debt usage in large cap deals represented smallest percentage of total purchase price multiple in last 15 years.
- **Distressed Debt:** Investment activity remains low due to high refinance activity and continued low high-yield default rates; looking forward to 2013-2014 attractive opportunities exist primarily in mid to lower cap market due to fragile economy and reduced leveraged loan capacity.
- **Secondaries:** $16 billion raised YTD expect second highest year of fundraising; YTD volume of $18.5 billion lagging 2011 but still robust. Pricing discounts flat at 11% for Buyout and decreasing slightly to 25% for Venture.
- **Infrastructure:** YTD Fundraising down from 2011, new infrastructure debt funds being raised. Activity plateaued at lower levels due to debt availability and increased regulation in Europe.

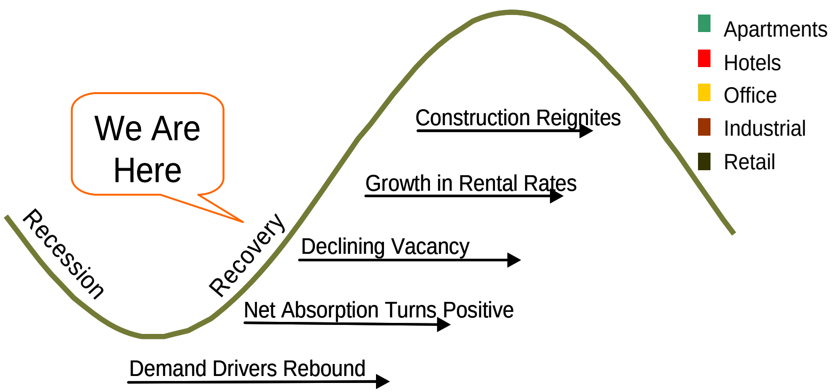
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 12/31/2012



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

CURRENT POSITION IN
REAL ESTATE RECOVERY CYCLE



2013 U.S. Real Estate Outlook:

- The U.S. economy is expected to remain in a slow-growth mode for much of 2013. While still supporting a continuation of measured improvements in real estate fundamentals (e.g. net absorption, occupancies, and now more broadly some rent growth), the pace of improvement is expected to remain modest.
- Real Estate returns are expected to continue their path of moderation given the sector's robust pricing rebound over the past few years. Consensus forecast range for the NPI is 6–9% (Core real estate), which is still generally in line with the sector's long-term average.
  - If Core buyers accept lower yields for real estate absent attractive income alternatives in other asset classes, returns could reach the high end of the range. On the flip side, policies meant to address long term government fiscal issues could deliver a short term economic shock placing returns at the lower end of the range, at best.
- Uncertainty stemming from the negative scenarios that could play out through multiple macro economic/political issues will likely keep investors cautious in early 2013. Thus we expect growth in transaction volumes to remain muted versus typical rebound periods. We anticipate the market will continue to seek the safety of current yield provided by Core, which remains historically attractive relative to other asset classes.
  - The current low interest rate environment continues to support price recovery/growth and this is expected to persist as the U.S. Federal Reserve has indicated it will support a low interest rate environment until sustained economic growth is evident.
- New supply is expected to become more noticeable in 2013, first entering through the apartment sector, though select industrial development has also begun. As an asset class, however, new deliveries are still well restrained.
  - The ramp up in multifamily supply is expected to slow that segment's positive momentum in 2013, though not derail it—selective pruning of apartment holdings in high supply markets should be up for consideration.

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