

Board Meeting
November 15, 2018

REVISE UNIVERSITY OF ILLINOIS SYSTEM INVESTMENT POLICY
STATEMENT AND ENDOWMENT POOL ASSET ALLOCATION

Action: Revise University of Illinois System ('System') Investment Policy Statement and Endowment Pool Asset Allocation

Funding: No New Funding Required

An investment policy statement provides the guiding principles for managing, monitoring, and evaluating the investment of financial assets. An asset allocation is believed to be the key driver of long-term investment return. Thus, periodic review of the "investment policy" and "asset allocation" is essential to the oversight of any endowment. Accordingly, the Comptroller, the system's investment staff and consultant have conducted a comprehensive review of the system's Investment Policy Statement and the asset allocation targets for the endowment. As a result of this review, the Comptroller recommends the adoption of the following amendments to asset allocation targets and the Investment Policy Statement.

Proposed revisions to the current asset allocation, as shown in the table below, include reducing the allocation to the combined public equity asset class (i.e., U.S. equity, non-U.S. equity) target by 2 percent and increasing the private equity target by 2 percent, modifying the width of the allocation ranges by asset categories, and removing global equity as a sub-asset class.

Additional changes include adding guidelines stating that at least two-thirds of the total portfolio market value will be invested in liquid, public markets; up to 10 percent of the total portfolio market value may be invested in private equity; and up to 6 percent of the total portfolio market value may be invested in private credit, high yield, or other non-core fixed income investments.

The current and proposed endowment pool asset allocation targets and ranges are shown below:

Proposed Allocation:

Asset Category	Sub-Asset Class	Target Allocation (%)	Allocation Ranges (%)
Global Equity		56	46 – 66
	U.S. Equity	24	
	Non-U.S. Equity	22	
	Private Equity	10	
Global Fixed Income		20	15 – 25
Real Assets		14	9 – 19
	Real Estate	7	
	Farmland	7	
Diversifying Strategies		10	5 – 15

Current Allocation:

Asset Class	Target Allocation (%)	Allocation Ranges (%)
U.S. Equity	14	11 – 17
Non-U.S. Equity	10	7 – 13
Global Equity	24	21 – 27
Private Equity	8	0 – 12
Hedge Funds	10	6 – 14
Fixed Income	20	17 – 23
Farmland	7	0 – 15
Core Real Estate	7	3 – 11

The revised Investment Policy Statement, dated November 15, 2018, presented in conjunction with this item modifies the endowment pool asset allocation matrix, supplemental target guidelines and performance benchmarks in line with the preceding revisions to the endowment pool asset allocation; revises the process for selecting operators for farm real estate in line with current practices; incorporates language related to aspirational goals for Business Enterprises for Minority, Women and Disabled Persons investment firms and Bank Deposit Collateral Guidelines; and includes minor language changes to more accurately reflect current practices and titles.

Accordingly, the Vice President/Chief Financial Officer and Comptroller recommends adoption of the endowment pool asset allocation and attached Investment Policy Statement.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.