Reported to the Board of Trustees
September 10, 2015

University of Illinois
Second Quarter 2015 Investment Update
Board Report

August 2015

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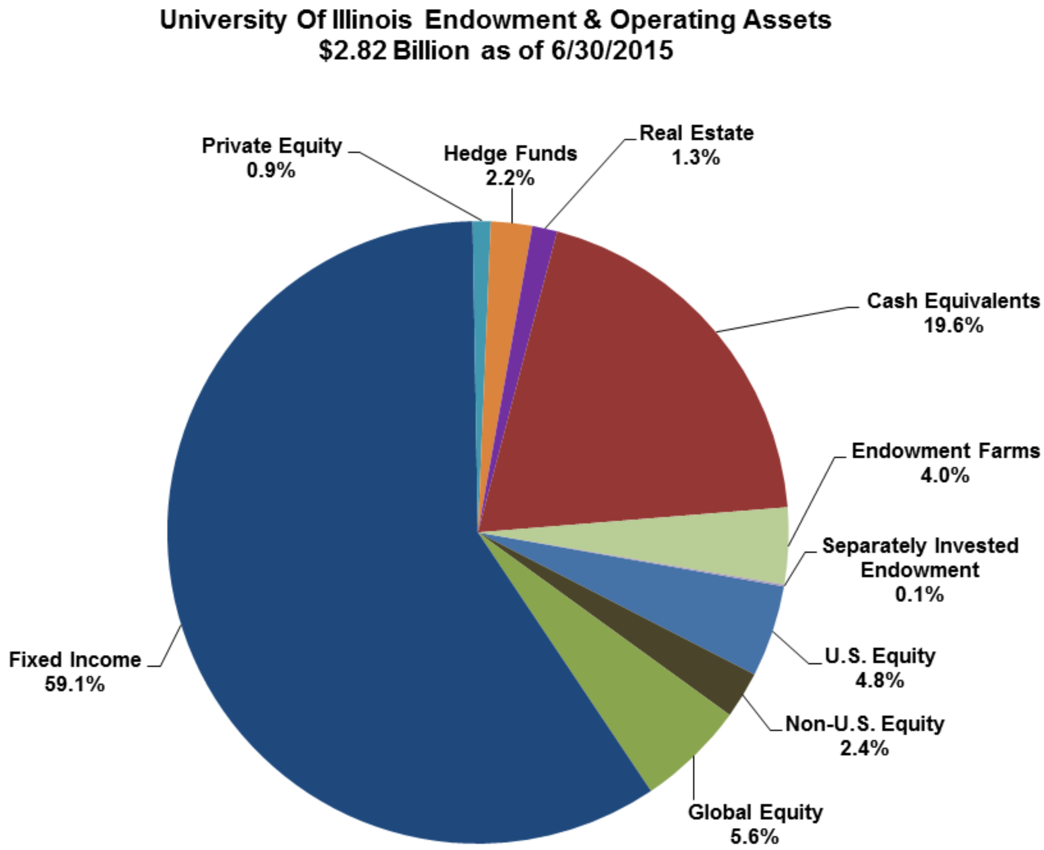
Market Overview and University Assets

Capital Markets Review
June 30, 2015

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	0.1	1.9	7.2	17.6	17.5	8.3
MSCI All Country World ex-U.S. Index	0.5	4.0	-5.3	9.4	7.8	5.5
MSCI All Country World Index	0.3	2.7	0.7	13.0	11.9	6.4
Barclays Aggregate Bond Index	-1.7	-0.1	1.9	1.8	3.3	4.4
HFR Fund-Weighted Composite	0.3	2.5	2.3	6.4	5.1	5.2
NCREIF ODCE Index	3.6	6.9	13.4	12.1	13.3	5.9

- Equities were impacted by two negative developments in June - concerns over a Greek default and falling Chinese equities grew.
- Greece defaulted on its June payment to the IMF, which caused concerns on whether Greece would have to exit the Eurozone. Greece's troubles have highlighted a lack of political and economic cohesion in the entire single currency area since 2010. For now, Greece's slide into financial chaos has been halted by a tentative deal with its European Union partners.
- China’s weak growth and slowing commodity demand has dampened U.S. activity by cutting oil production and cancelling capital spending plans. It has raised credit spreads in the high yield market and cut stock prices in the energy sector.
- While non-U.S. developed equities were weak during the second quarter, Japan fared very well. Renewed yen weakness and positive economic surprises allowed Japanese equities to firmly outperform other regions in local currency terms.
- Although the global financial system experienced instability, the U.S. market did report positive growth signals in June such as an acceleration in hiring, a rise in average hourly earnings, and an increase in retail sales during the month of May.
- Global bond yields rose over the second quarter, bringing 10-year U.S. Treasury yields a full 80 bps up from their 2015 lows and back to mid-2014 levels. The rise in yields were driven by a number of factors such as a pick up in economic activity in the U.S. and Europe, which resulted in a decrease in the demand for bonds. Additionally, market speculation on the Fed raising rates in the second half of the year was another factor impacting the rise in yields.
- The corporate bond sector also suffered during the quarter with spreads widening due to an increase in mergers and acquisitions activity and new supply issuance. Overall supply outpaced demand.

University Assets: June 30, 2015



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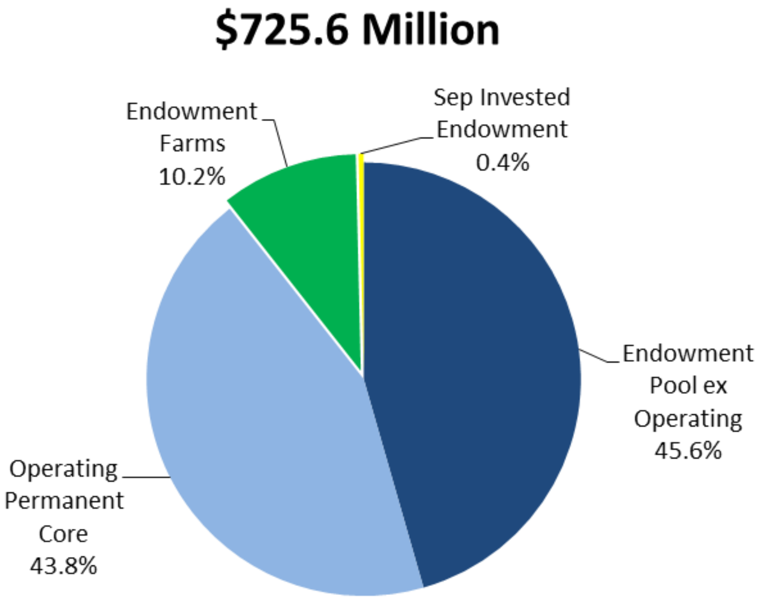
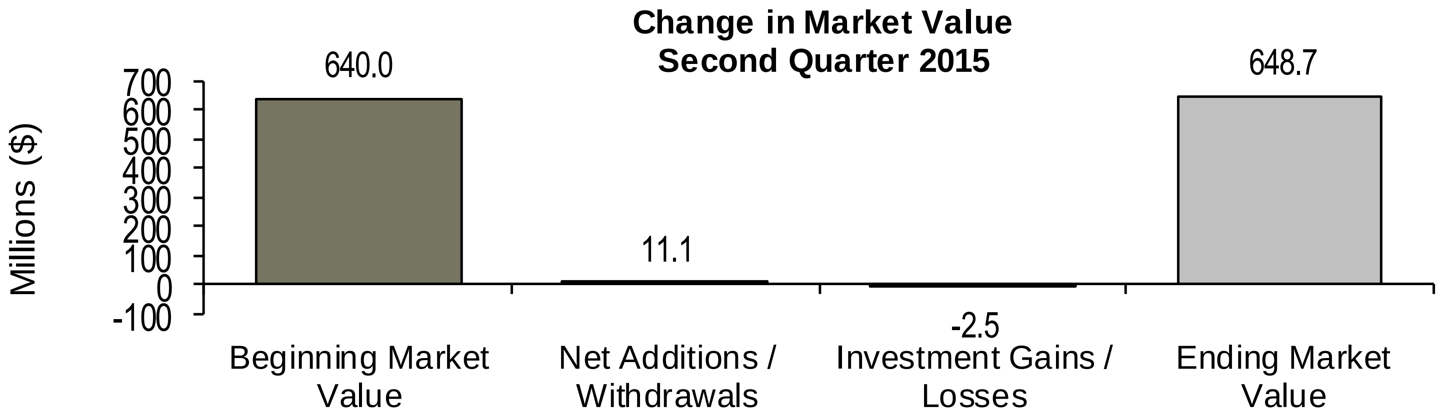
Endowment Fund Update: June 30, 2015

Total Endowment Assets by Type
June 30, 2015



- The Total Endowment Fund is valued at $725.6 million. The Operating Pool maintains a permanent core investment in the Endowment Pool (light blue slice). This is a long-term investment to enhance Operating Pool returns. The combined Endowment Pool is valued at $648.7 million (dark and light blue pie slices) and discussed further on the following pages.

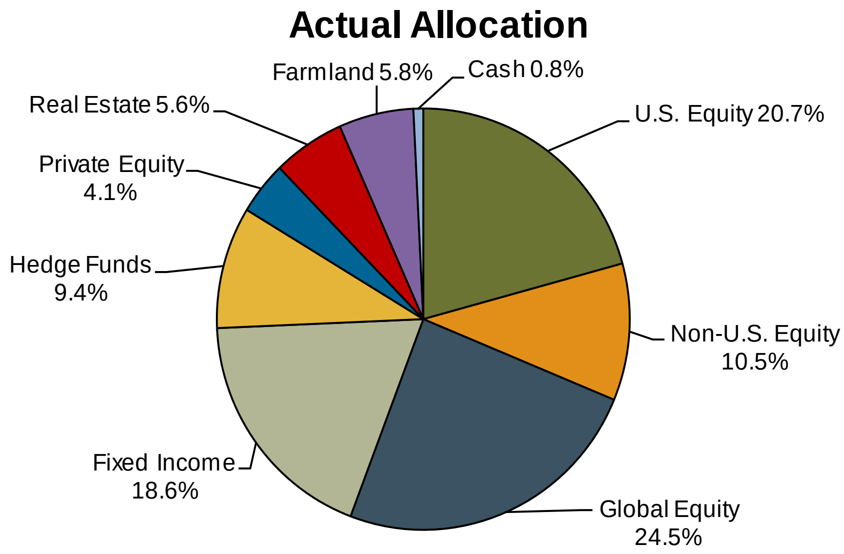
Total Fund Asset Growth: Endowment Pool

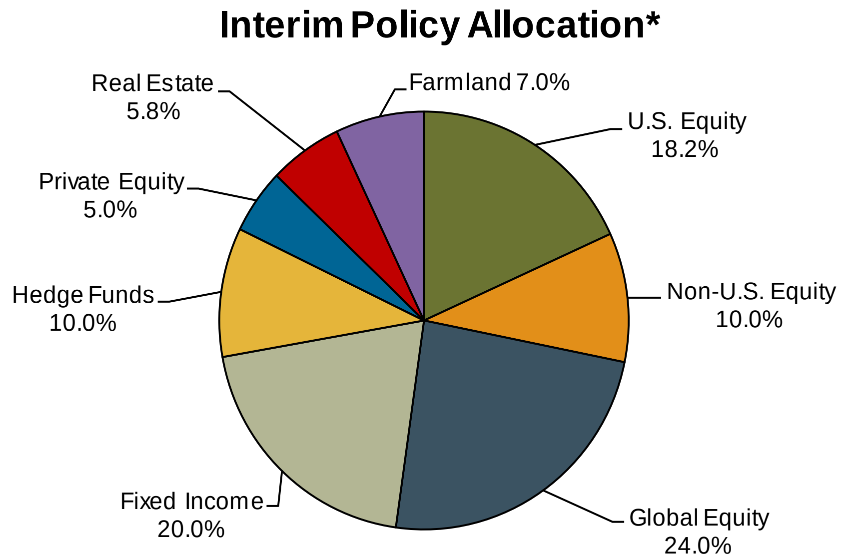


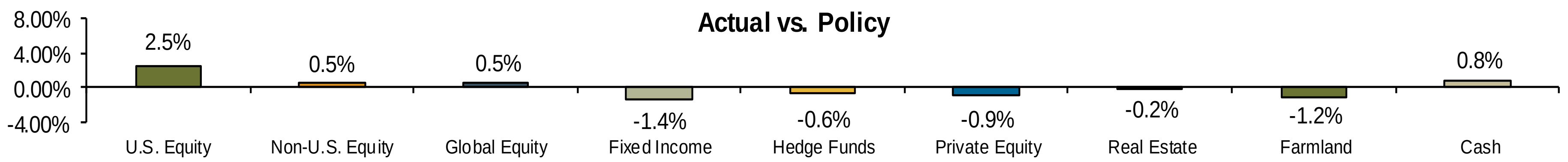
- During the second quarter, Endowment Pool assets increased by approximately $8.7 million from $640.0 million to $648.7 million.
- This increase was the net result of investment losses and positive fund flows. For this period, net inflows were approximately $11.1 million and the absolute return of -0.4% in Endowment assets resulted in investment losses of $2.5 million.

Market Value and Asset Allocation: Endowment Pool
June 30, 2015

Total Fund
$648,715,710

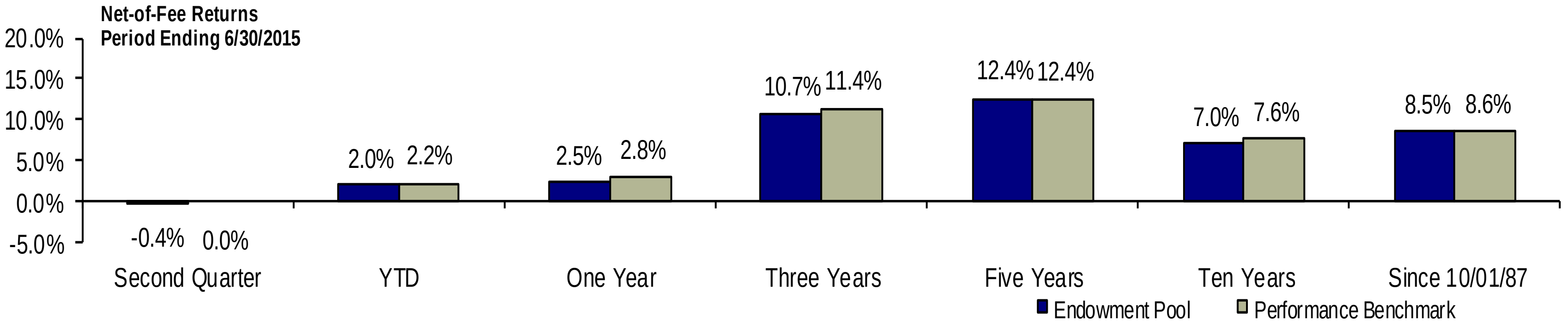






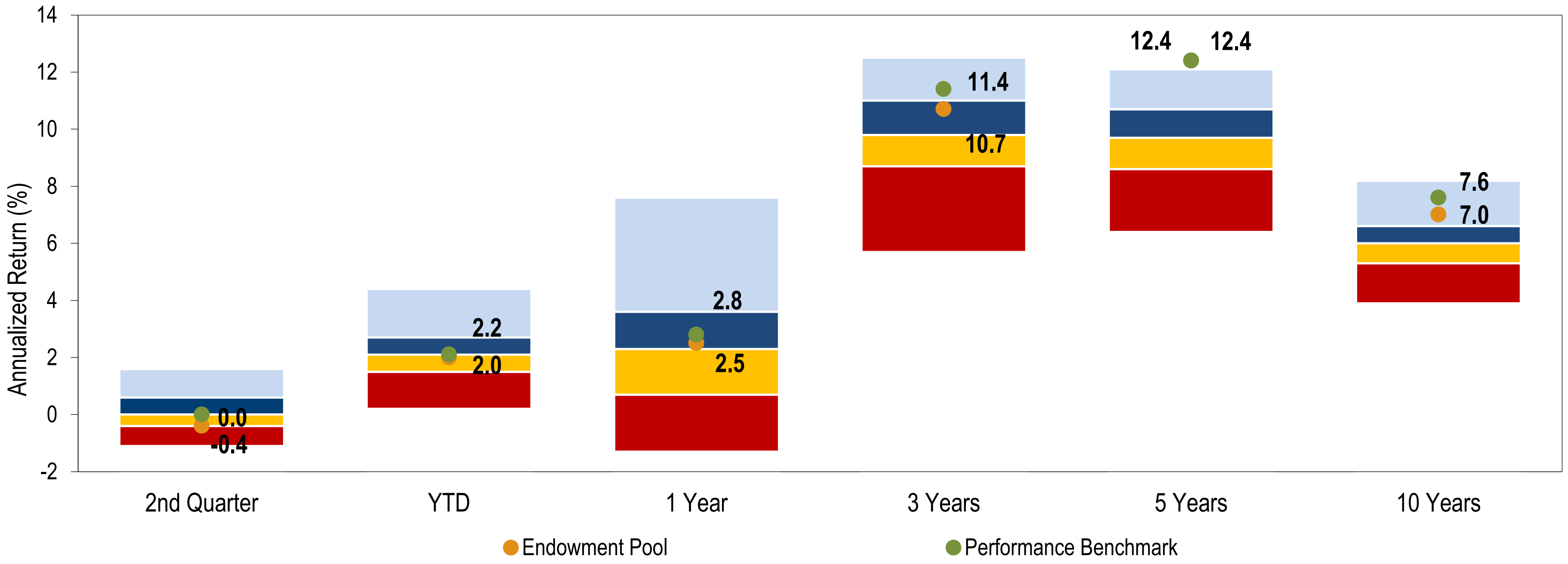
* Long Term Policy Allocations: U.S. Equity 14%, Non-U.S. Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

Total Fund Performance: Endowment Pool
June 30, 2015



- During the quarter, Endowment Pool lost 0.4 percentage points and underperformed the benchmark by 40 basis points.
  - The U.S. Equity investments underperformed the Dow Jones U.S. Total Stock Market Index by 20 basis points during the quarter, returning -0.1%.
  - During this same time period the Non-U.S. Equity and Global Equity investments also underperformed their benchmarks by 15 basis points and 5 basis points, respectively.
  - The Fixed Income portfolio finished the quarter with an above-benchmark return, returning -1.1% against a -1.7% return for the Barclays Aggregate Index.
  - The Endowment's Hedge Fund component underperformed the benchmark by 155 basis points, returning -1.3%.
  - The Endowment's Real Estate portfolio underperformed its benchmark by 10 basis points during the quarter with a return of -1.1%.
- Over the trailing one-year period, the Endowment Pool gained 2.5% and underperformed its benchmark by 35 basis points. The key detractors of relative performance were Global Equity and Farmland.

Peer Rankings: Endowment Pool
June 30, 2015



Returns/Ranks	2nd Quarter		YTD		1 Year		3 Years		5 Years		10 Years	
Endowment Pool	-0.4	77	2.0	54	2.5	46	10.7	28	12.4	5	7.0	18
Benchmark	0.0	51	2.2	45	2.8	42	11.4	17	12.4	4	7.6	10

- Over the trailing one-year time period, the return of the University of Illinois' Endowment Pool ranked in the top 46% of the Investment Metrics / BNY Mellon Endowment Fund and Foundation Universe returns, and the three- and five-year returns ranked in the top 28% and 5% of the universe, respectively.

Asset Class Performance
June 30, 2015

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**-0.4**	**2.0**	**2.5**	**10.7**	**12.4**	**7.0**	**8.5**
Performance Benchmark	0.0	2.2	2.8	11.4	12.4	7.6	8.6
Total U.S. Equity	**-0.1**	**2.6**	**7.8**	**18.3**	**18.1**	**8.3**	**9.3**
Dow Jones U.S. Total Stock Market Index	0.1	1.9	7.2	17.6	17.5	8.3	9.4
Total Non-U.S. Equity	**0.8**	**4.4**	**-5.0**	**11.2**	**8.4**	**4.9**	**5.5**
Non-U.S. Equity Benchmark	1.0	4.5	-4.8	9.6	7.9	5.6	5.6
Total Global Equity	**0.5**	**3.1**	**-1.3**	**12.3**	**--**	**--**	**12.3**
Global Equity Benchmark	0.5	2.9	0.9	13.1	--	--	13.1
Total Fixed Income	**-1.1**	**0.5**	**2.3**	**2.7**	**5.1**	**5.2**	**7.4**
Barclays Aggregate Bond Index	-1.7	-0.1	1.9	1.8	3.3	4.4	6.9
Total Hedge Funds	**-1.3**	**0.8**	**4.3**	**--**	**--**	**--**	**3.8**
HFRI Fund Weighted Composite Index	0.3	2.5	2.3	--	--	--	4.7
Total Private Equity[(1)]	**1.0**	**5.4**	**9.1**	**8.2**	**9.8**	**5.7**	**1.0**
Private Equity Benchmark	0.9	3.4	10.4	21.1	21.0	11.6	11.5
Total Real Estate	**-1.1**	**2.5**	**9.6**	**--**	**--**	**--**	**16.5**
Real Estate Benchmark	-1.0	2.7	10.4	--	--	--	17.0
Total Farmland[(2)]	**-3.1**	**-3.1**	**-3.1**	**4.0**	**15.0**	**--**	**12.0**
NCREIF Cornbelt Index	0.3	0.3	0.3	10.3	14.8	--	13.7

(1) The combined Adams Street Partners IRR at 3/31/2015 was 9.0%.
(2) Farmland is valued annually on June 30th. As such, the one year return reflected above is the one-year return for Farmland as of June 30, 2015.

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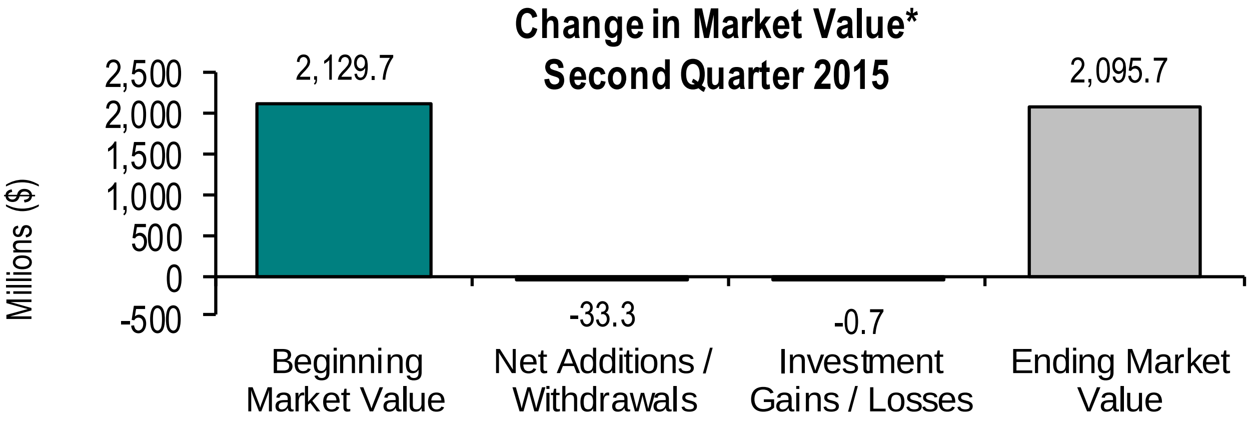
Operating Pool Update: June 30, 2015

Total Fund Asset Growth: Operating Pool



- During the second quarter, the Operating Pool assets decreased by approximately $34.0 million from $2.130 billion to $2.096 billion. This decrease was the result of $33.3 million in net outflows and transfers. Additionally, the Operating Pool had investment losses of $0.7 million during the period.

* The Total Fund's beginning and ending market values include bank balances in which the University earns credit to offset bank fees.

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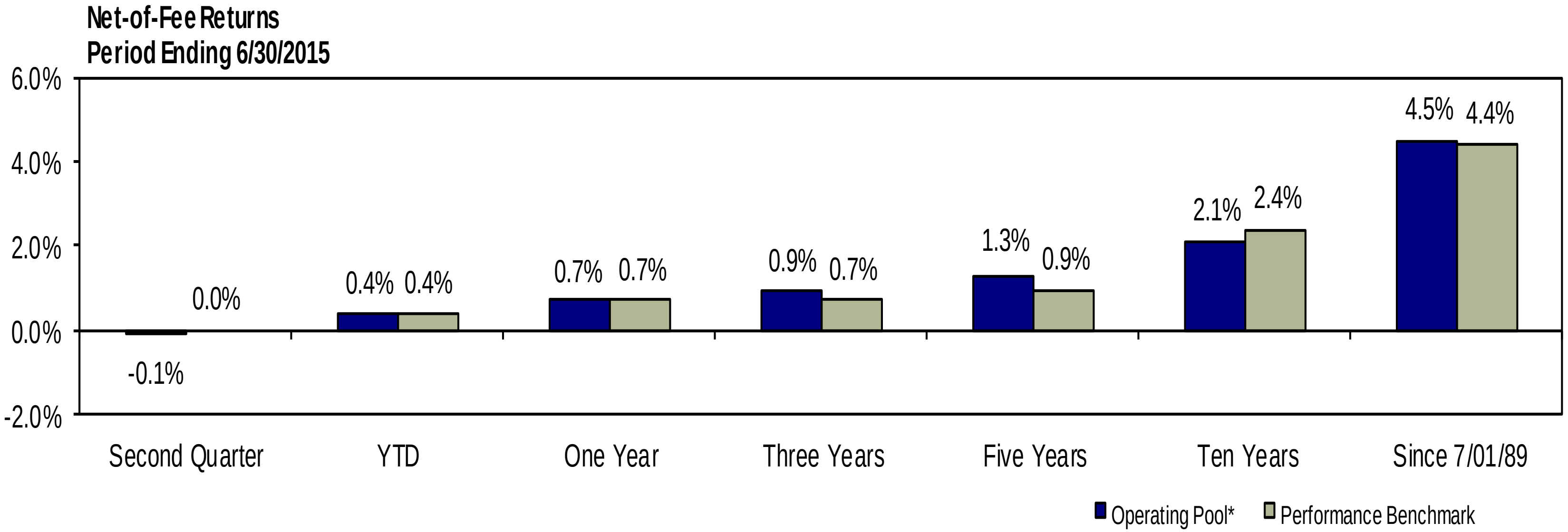
Total Fund Performance: Operating Pool
June 30, 2015

Total Fund
$2,095,703,615



- The Operating Pool's performance during the second quarter was -0.1%, underperforming the benchmark return by 5 basis points for this time period. There were nine managers that matched their respective benchmarks during the quarter and three managers that slightly underperformed.

* Total Fund performance excludes the CDs and the Bank of America and JP Morgan bank balances.

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Appendix:

Market Environment

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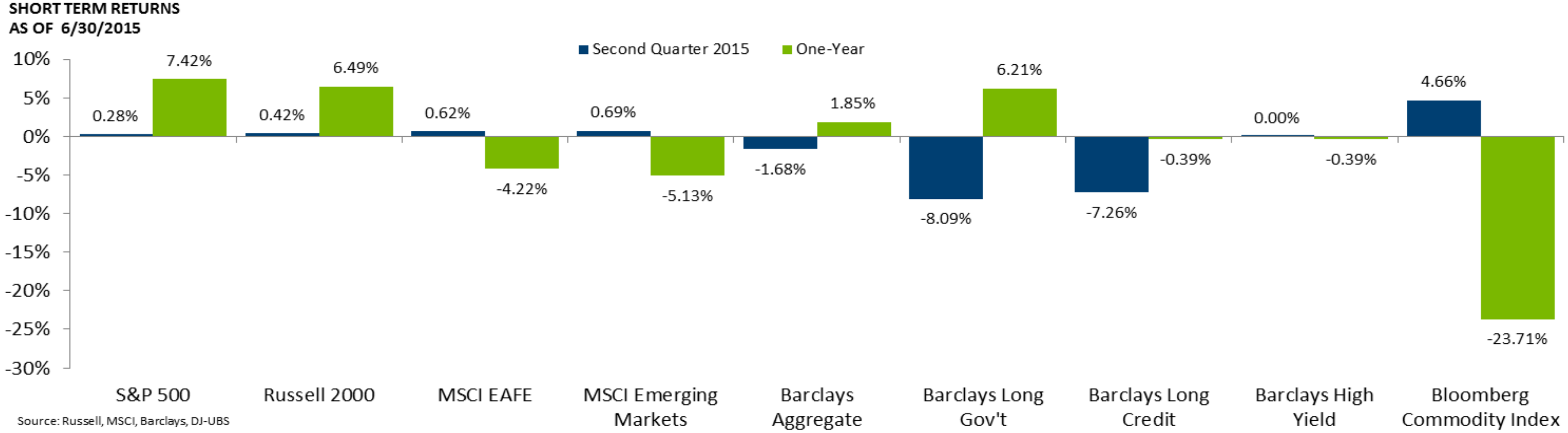
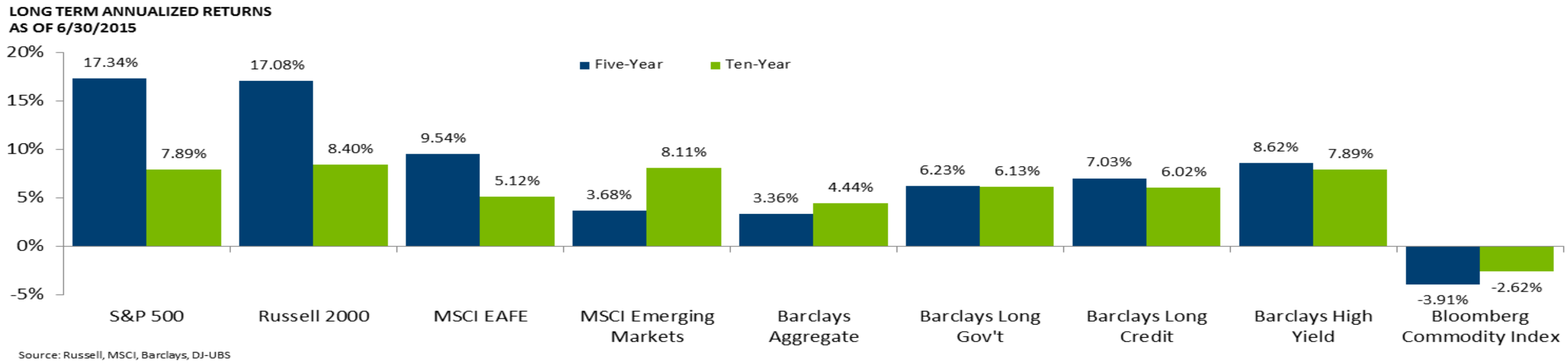
Market Highlights





Market Highlights

Returns of the Major Capital Markets						
						Periods Ending 6/30/2015
	Second Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	0.5%	3.1%	0.8%	13.3%	12.2%	6.7%
MSCI All Country World	0.3%	2.7%	0.7%	13.0%	11.9%	6.4%
Dow Jones U.S. Total Stock Market	0.1%	1.9%	7.2%	17.6%	17.5%	8.3%
Russell 3000	0.1%	1.9%	7.3%	17.7%	17.5%	8.2%
S&P 500	0.3%	1.2%	7.4%	17.3%	17.3%	7.9%
Russell 2000	0.4%	4.8%	6.5%	17.8%	17.1%	8.4%
MSCI All Country World ex-U.S. IMI	1.0%	4.6%	-5.0%	9.8%	8.0%	5.8%
MSCI All Country World ex-U.S.	0.5%	4.0%	-5.3%	9.4%	7.8%	5.5%
MSCI EAFE	0.6%	5.5%	-4.2%	12.0%	9.5%	5.1%
MSCI EAFE (Local Currency)	-1.8%	8.8%	11.8%	18.1%	11.3%	5.4%
MSCI Emerging Markets	0.7%	2.9%	-5.1%	3.7%	3.7%	8.1%
Fixed Income						
Barclays Global Aggregate	-1.2%	-3.1%	-7.1%	-0.8%	2.1%	3.5%
Barclays Aggregate	-1.7%	-0.1%	1.9%	1.8%	3.3%	4.4%
Barclays Long Gov't	-8.1%	-4.5%	6.2%	1.2%	6.2%	6.1%
Barclays Long Credit	-7.3%	-4.4%	-0.4%	3.4%	7.0%	6.0%
Barclays Long Gov't/Credit	-7.6%	-4.5%	1.9%	2.5%	6.7%	6.1%
Barclays US TIPS	-1.1%	0.3%	-1.7%	-0.8%	3.3%	4.1%
Barclays High Yield	0.0%	2.5%	-0.4%	6.8%	8.6%	7.9%
Citi Group Non-U.S. WGBI	-1.5%	-5.8%	-13.5%	-3.9%	0.3%	2.6%
JP Morgan EMBI Global (Emerging Markets)	-0.3%	1.8%	-1.6%	3.4%	6.5%	7.3%
Commodities						
Bloomberg Commodity Index	4.7%	-1.6%	-23.7%	-8.8%	-3.9%	-2.6%
Goldman Sachs Commodity Index	8.7%	-0.2%	-36.8%	-10.7%	-4.3%	-6.3%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	0.3%	2.5%	2.3%	6.4%	5.1%	5.2%
HFRI Fund of Funds[2]	0.2%	2.7%	3.9%	6.3%	4.1%	3.2%
Real Estate						
NAREIT U.S. Equity REITS	-10.0%	-5.7%	4.3%	8.9%	14.3%	7.0%
NCREIF NFI - ODCE[3]	3.8%	7.3%	14.4%	13.1%	14.4%	6.9%
Private Equity						
Burgiss Private iQ Global Private Equity[4]	1.6%	10.3%	10.3%	13.9%	13.4%	12.4%
Infrastructure						
Macquarie Global Infrastructure - North America	-5.4%	-9.2%	5.1%	8.6%	13.4%	7.9%

MSCI Indices show net returns.
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] Second quarter results are preliminary.
[4] Source: Burgiss Private iQ. Benchmark is as of 12/31/2014.

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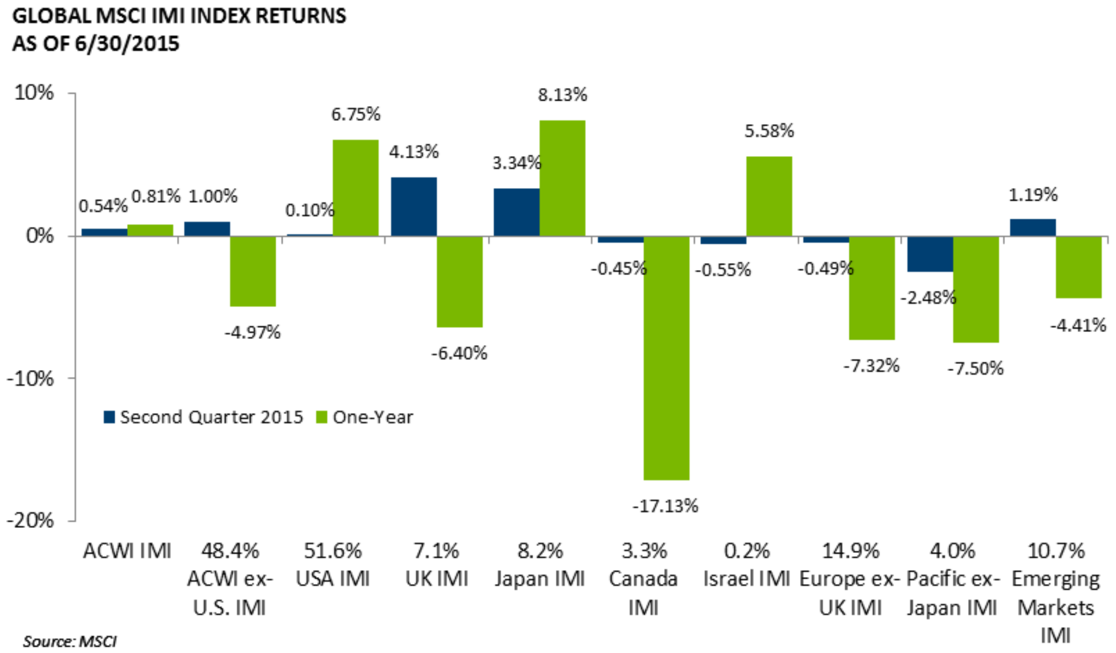
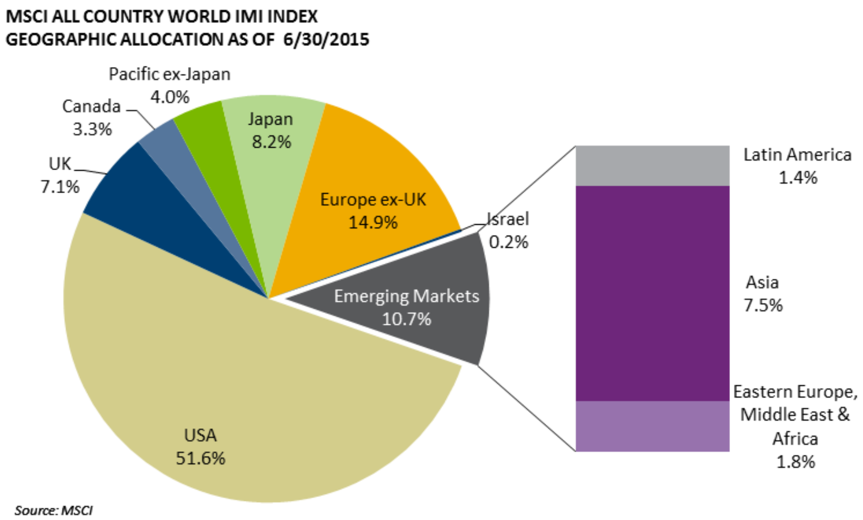
Global Equity Markets

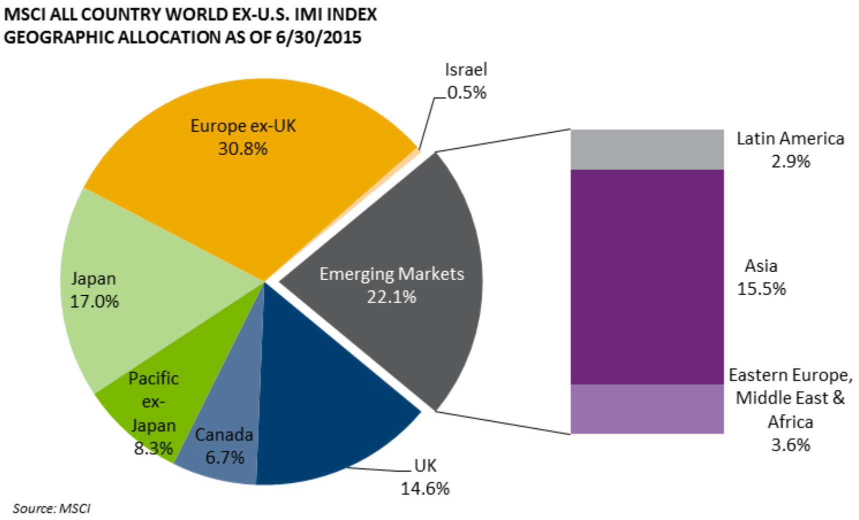


- Global equity markets rose 0.54% in value during the second quarter of 2015, driven by economic stimulus programs and signs of a turn in economic fortunes in Japan.
- Non-U.S. developed equities, aside from the U.K. and Japan, fell during the second quarter.
- Emerging markets rose in value driven by a loose monetary policy stance from the bulk of emerging countries helping to offset the threat of rising interest rates in developed countries.

* Percentages along the bottom of the graph show the proportion of the sub-index within the ACWI IMI Index.

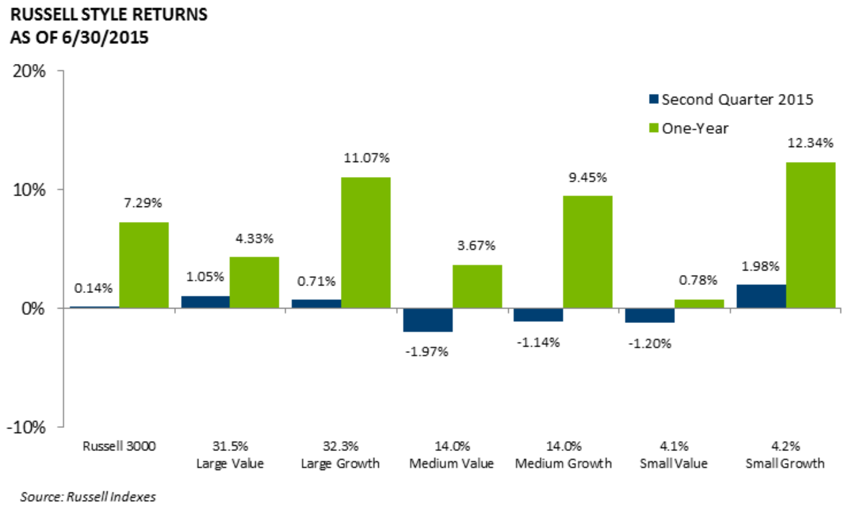
Global Equity Markets

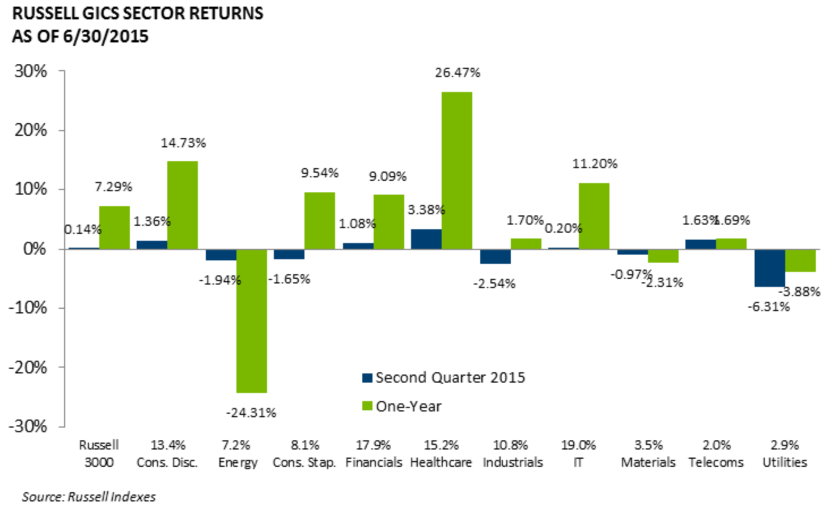




- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

U.S. Equity Markets





- The Russell 3000 Index returned 0.14% during the quarter and returned 7.29% over the one-year period.
- During the second quarter, the health care and telecommunications sectors were the strongest performers, posting returns of 3.38% and 1.63%, respectively. The industrials and utilities sectors were the weakest performers, producing returns of -2.54% and -6.31%, respectively.
- Performance across the market capitalization spectrum was mixed over the quarter. Large cap stocks outperformed the smaller segments of the markets (outside of small growth), and growth outperformed value across the smaller capitalizations.

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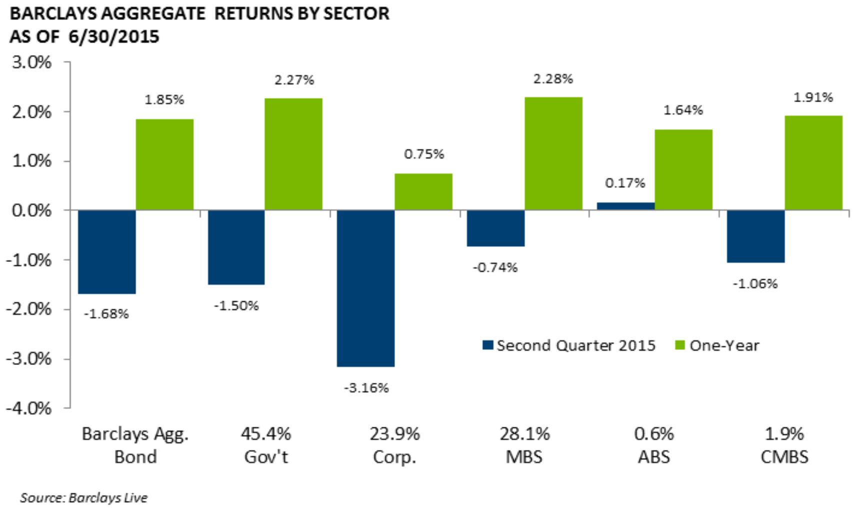
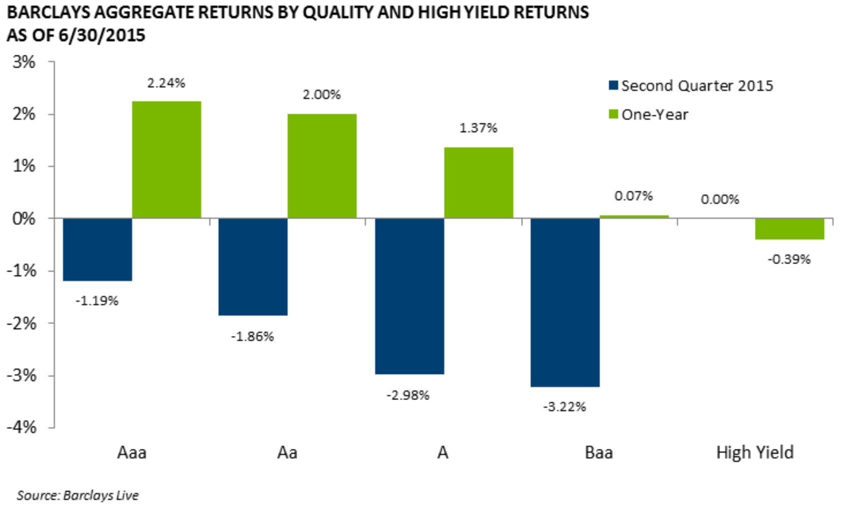
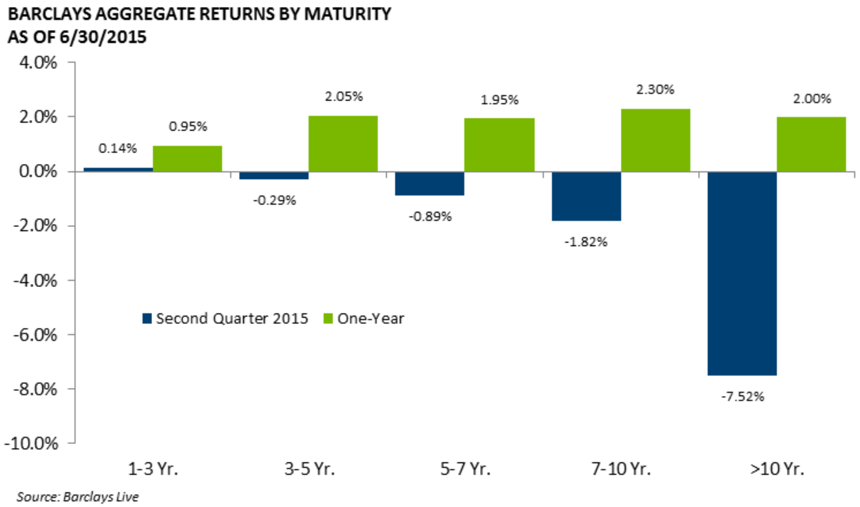
U.S. Fixed Income Markets

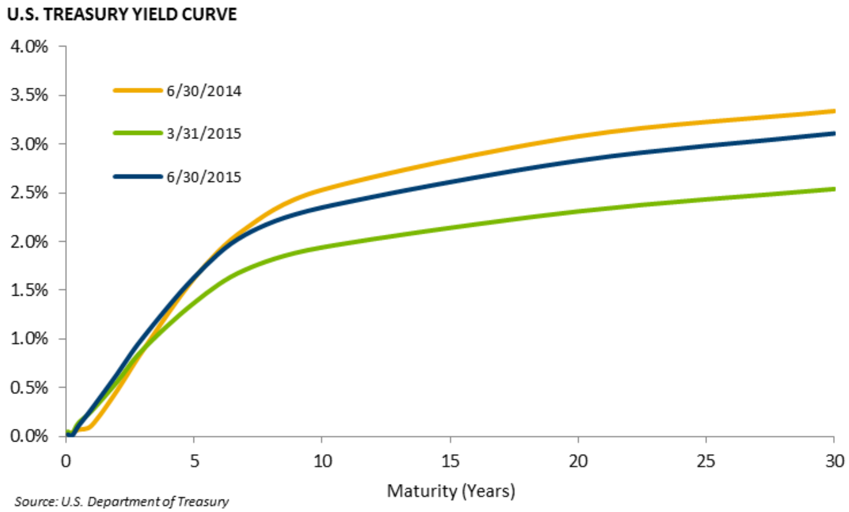


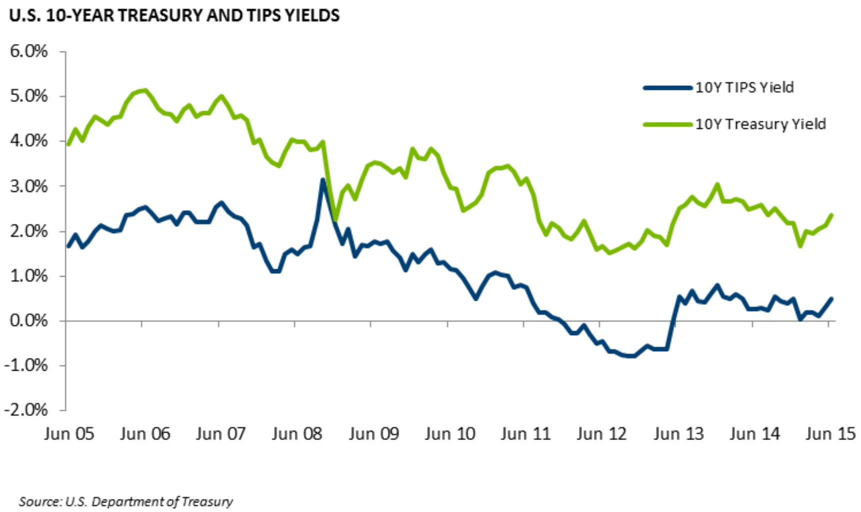


- The Barclays Aggregate Bond Index returned -1.68% in the second quarter. Corporate bonds were the weakest performing index segment, returning -3.16%.
- High yield bonds outperformed investment grade corporate bonds.
- Shorter duration bonds outperformed longer duration bonds.



U.S. Fixed Income Markets





- The Treasury yield curve steepened during the second quarter, driven by long bond yields rising.
- The 10-year U.S. Treasury yield ended the quarter at 2.35%, 41 basis points higher than its level at the beginning of the quarter.
- The 10-year TIPS yield rose by 30 basis points over the quarter and ended the period at 0.48%.

Credit Spreads

Spread (bps)	6/30/2015	3/31/2015	6/30/2014	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	51	46	38	5	13
Long Gov't	4	3	4	1	0
Long Credit	202	187	148	15	54
Long Gov't/Credit	128	118	97	10	31
MBS	26	20	24	6	2
CMBS	101	95	86	6	15
ABS	62	62	48	0	14
Corporate	145	129	99	16	46
High Yield	476	466	337	10	139
Global Emerging Markets	328	354	260	-26	68

Source: Barclays Live

- During the second quarter, credit spreads widened across most areas of the bond market.
- Corporate spreads rose by 16 basis points, the most over the quarter. This was followed by long credit spreads which rose by 15 basis points.

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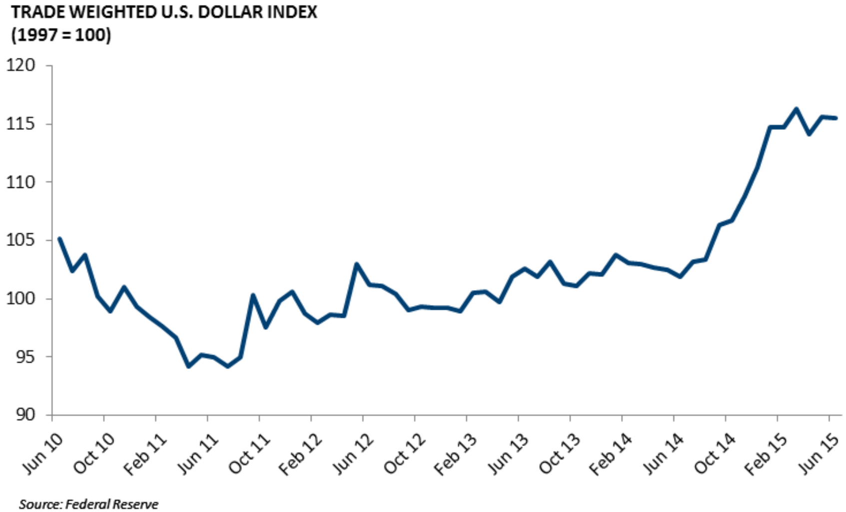
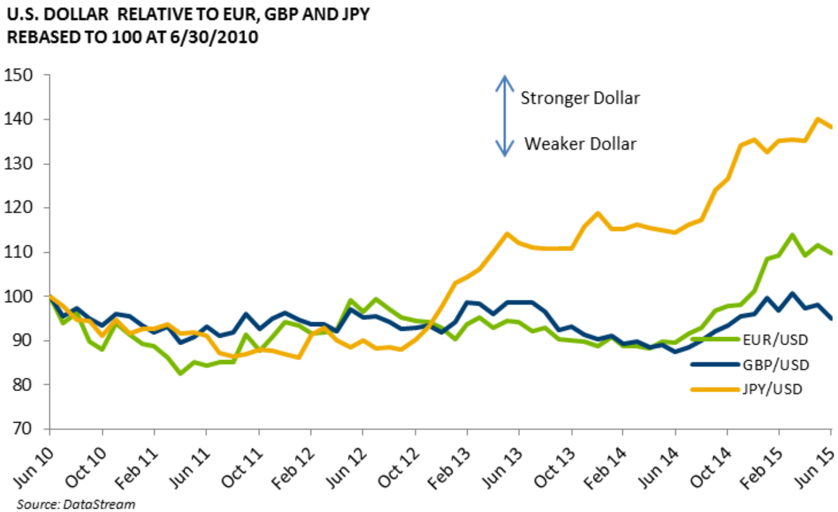
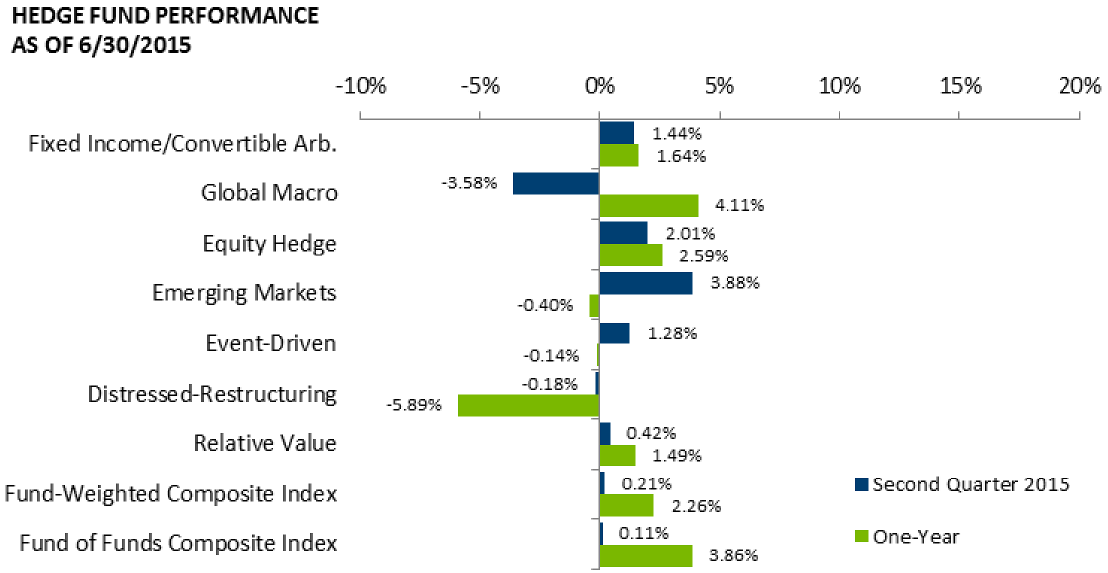
Currency





- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar weakened slightly during the quarter.
- During the second quarter, the dollar depreciated against the Euro and British Pound Sterling, but slightly appreciated against the Yen.

Hedge Fund Markets Overview

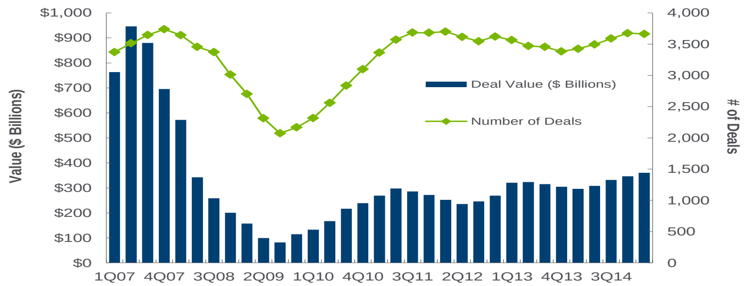


Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Overall hedge fund performance was positive during the quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 0.21% and 0.11%, respectively, during the quarter.
- Emerging Markets strategies were the strongest performers, gaining 3.88% over the course of the quarter.

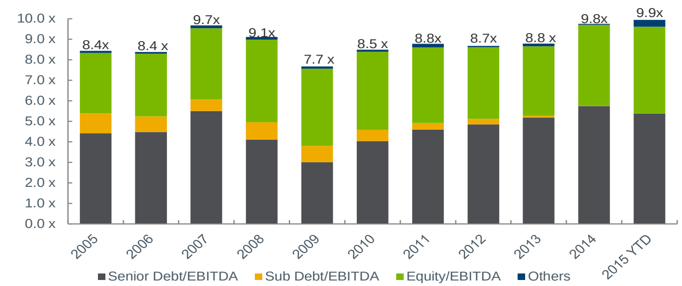
Private Equity Market Overview

LTM Global Sponsor M&A Deal Volume and Value



Source: Preqin

Purchase Price Multiples

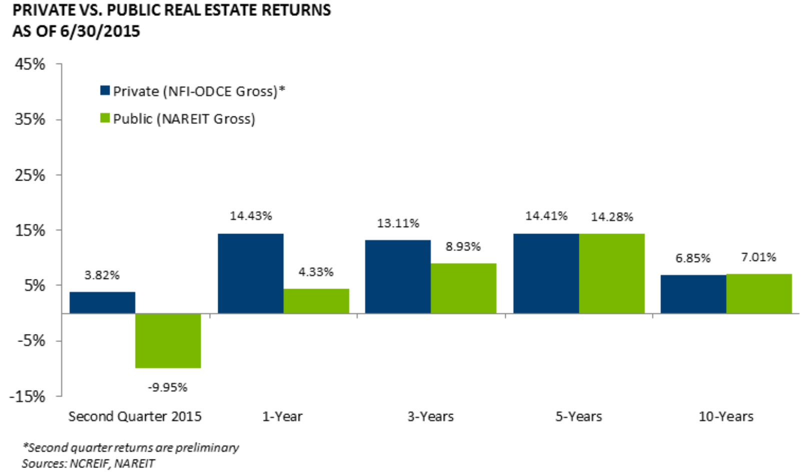


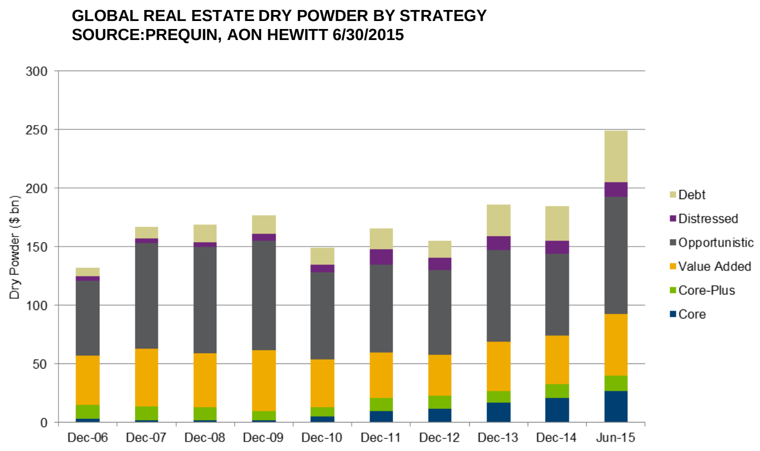
Source: S&P

- **Fundraising:** $81.6 billion was raised in the first quarter by 190 funds, roughly flat with the five year quarterly average. Fundraising was down significantly from the prior quarter, which saw $125.3 billion raised by 273 managers, but was up 3.4% when compared to the same period last year. Dry powder reached a new peak of $1.0 trillion, representing a 9.7% increase from 4Q 2014's revised value and was 18.4% higher than the five year average[1].
- **Buyout:** Global private equity-backed buyout deals totaled $99.7 billion in the first quarter, up 14.3% and 15.6% over the prior quarter and same period last year, respectively. 3,665 deals were completed on a LTM basis as of 1Q 2015, up 6.9% from 1Q 2014. Quarterly purchase price multiples for total, large cap, and middle market transactions stood above record levels when compared to FY marks, but are still substantially below the quarterly high of 11.2x observed in 3Q 2014[1]. European purchase price multiples decreased quarter over quarter for all transaction sizes, decreasing by an average of 0.8x, with small transactions (≤€250.0 million) exhibiting the largest decrease over year end 2014 (1.8x)[3]. LTM total exit value reached a record $460.9 billion in 1Q 2015 on 1,758 deals[1].
- **Venture:** Investment activity remained healthy, with 1Q 2015 deployment reaching the highest first quarter total since 2000. 1Q 2015 investing exceeded the same period last year by 26.2%, but trailed 4Q 2014 by 10.0% and 7.5% by dollars and deals, respectively[7]. Activity continues to be driven by the influx of capital from non-traditional investors, particularly in later rounds, (i.e. hedge funds and mutual funds) and the increase in financing rounds exceeding $100.0 million. The exit environment slowed during the first quarter, with only 17 venture-backed IPOs compared to 37 in 1Q 2014. In addition, the number of M&A deals decreased 25.1% year over year[8].
- **Mezzanine:** During 1Q 2015, 11 funds closed on $11.9 billion in capital, up considerably compared to the prior quarter and five year quarterly average levels of $2.9 billion and $3.0 billion, respectively. Estimated dry powder was $37.1 billion at the end of 1Q, up 5.7% over YE 2014[1]. Capital deployment has remained limited due to the continued infiltration of private lending platforms and business development companies (BDCs) in the middle market, disintermediating mezzanine funds through the offering of unitranche debt and second lien lending opportunities. Further, senior lenders have increased the amount of leverage they are willing to supply on transactions given current market conditions, which has reduced the amount of mezzanine debt required in the capital structure.
- **Distressed Debt:** High-yield default rates were 1.2% in the first quarter with a LTM rate of 3.4%, compared to 0.2% and 2.4% in 4Q 2014 and FY 2014, respectively[6]. Default rates are expected to rise due to a combination of energy developments and a slow reversion away from current unsustainably low default rates, but are expected to remain below the 4.6% long-term average[4]. Completed distressed debt and bankruptcy restructuring activity decreased substantially compared to the same period last year on both a number of deals and deal value basis [5].
- **Secondaries:** Fundraising slowed nearly to a halt in 1Q 2015 ($0.3 billion), after what was an extremely active fourth quarter, which saw $11.1 billion in capital raised. Fundraising is expected to rebound in the second quarter of 2015, given Lexington Partners' record $10.1 billion close in April, which surpassed Ardian's prior record close of $9.0 billion in 2Q 2014[1]. The average discount rate for all private equity sectors improved slightly quarter over quarter from 8.0% to 7.9% and remains very favorable for potential sellers[2].
- **Infrastructure:** $5.3 billion of capital was raised by four funds in 1Q 2015, compared to $7.4 billion of capital closed on by 13 partnerships during 4Q 2014[1]. At the beginning of 1Q 2015, dry powder stood at $94.0 billion, of which 50.9% was expected to be targeted for North America. During 1Q 2015, infrastructure managers completed 125 deals with an estimated aggregate deal value of $105.0 billion, down 33.5% and 21.1% quarter over quarter on a number of deals and deal value basis, respectively[1].
- **Natural Resources:** During 1Q 2015, 6 funds closed on $13.4 billion, compared to 13 funds totaling $9.2 billion in 4Q 2014. Energy and utilities industry managers completed 34 deals totaling an estimated $7.4 billion during the first quarter, compared to 42 deals in 4Q 2014 for a total estimated value of $6.1 billion[1].

Sources: 1. Preqin 2. UBS 3. Standard & Poors 4. Aon Hewitt Investment Consulting 5. Thomson Reuters 6. Fitch Ratings 7. PWC / National Venture Capital Association (NVCA) MoneyTree Report 8. Thomson Reuters and NVCA 9. Cooley Venture Financing Report 10. Federal Reserve 11. U.S. Energy Information Administration 12. Bloomberg
Notes: FY: Fiscal year ended 12/31; YTD: Year to date; LTM: Last twelve months (aka trailing twelve months); PPM: Purchase Price Multiples: Total Purchase Price / EBITDA

U.S. Commercial Real Estate Market





- Favorable demand trends along with lagging new supply continue to drive positive trends in the commercial real estate sector.
- Sector returns remain above average in the private equity segment due to strength in both capital market drivers and property fundamentals:
- Core Investments: The NFI-ODCE returned 3.8%* gross of fees over the second quarter, slightly higher than the first quarter return of 3.4%, and lingering well above average levels still. The 1-year total return stands at 14.4%*.
- Non-Core investments: Legacy fund returns continue to recover from the global financial crisis, while--for new dollars entering--attractive risk/return profiles remain, though expected returns are coming down at this point-in-cycle. Europe, which has been a more recent focus of many opportunity funds, is not expected to be derailed by problems with Greece, though the situation warrants monitoring. Manager and strategy selection is critical at this point in the cycle as the peak rebound potential period, which is a substantial driver of non core returns, is now behind us.
- In the public equity real estate segment, returns continue to display significant volatility. REITs underperformed in the second quarter, with most developed regions of the world registering negative returns. Sentiment was negatively impacted by accelerating U.S. macro data that renewed concerns over the prospect of rising interest rates. The U.S. (- 10%) and Continental Europe (-11%) regions were the hardest hit, while the U.K. was in positive territory (+3.9%). Asia/Pacific, Japan and Australia saw negative returns while Hong Kong was the best performing region in the Index (FTSE/EPRA NAREIT Developed).
- In the U.S., given the continued maturation of the real estate cycle, many primary markets have reestablished new peak pricing. Despite this, investors continue to show preference for well-located, high quality assets driving current pricing trends. Accommodating capital markets and strong rental rate growth help support pricing, while robust new capital flows, as shown above, add heightened pressure to the cycle.
- Portfolio structure and other long term risk mitigation measures are important to managing the maturing cycle, liquidity, and interest rate risk.

*Indicates preliminary NFI-ODCE data

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Explanatory Notes

Explanatory Notes

Note: Market values are used in this report to calculate performance for the Endowment and Operating pools. Market values reflect trade date accounting provided by the custodial bank Northern Trust.

Peer Universe Comparison Floating Bar Chart – In this chart the universe returns are shown in percentiles, with the lowest percentile/rank representing the best performance in that time period. The shaded blocks shown for each time period represent the range of returns in the peer universe from the 95th percentile to the 5th percentile. Returns below the red boxes fall in the worst 5 percent for that period, and returns above the light blue boxes fall in the top 5 percent. The Investment Metrics / BNY Mellon Universe includes reported performance from 354 Endowment and Foundations. The average market value within the Endowment and Foundations universe was $1.1 billion as of quarter-end.