Reported to the Board of Trustees
September 12, 2013

University of Illinois
Second Quarter 2013 Investment Update
Board Report

August 2013

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Market Overview and Total University Assets

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Capital Markets Review
June 30, 2013

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years
DJ U.S. Total Stock Market Index	2.8	14.2	21.5	18.7	7.4	8.1
MSCI All Country World ex-U.S. Index	-3.1	0.0	13.6	8.0	-0.8	8.6
MSCI All Country World Index	-0.4	6.1	16.6	12.4	2.3	7.6
Barclays Aggregate Bond Index	-2.3	-2.4	-0.7	3.5	5.2	4.5
HFR Fund of Funds Index	0.0	3.3	7.2	3.0	-0.6	3.4
NCREIF ODCE Index	3.9	6.7	12.2	15.0	-0.1	7.0
NCREIF Cornbelt Index	20.4	20.4	20.4	19.8	16.7	--

- Global equity markets were volatile over the quarter. Members of the Federal Reserve began to openly discuss tapering QE in the second half of the year, triggering weakness in U.S. equity prices towards the end of the quarter. Continued concerns around the strength of the economic recovery outside of the United Stated negatively impacted international equity markets.
- In the U.S., performance based on capitalization and style was mixed, as small cap outperformed both mid cap and large cap modestly during the second quarter. Value outperformed growth in the large-cap sectors but growth prevailed over value in the small- and mid-cap sectors.
- The Barclays Aggregate Bond Index returned -2.3% in the second quarter as bond yields were pushed higher on the comments made by the Federal Reserve.

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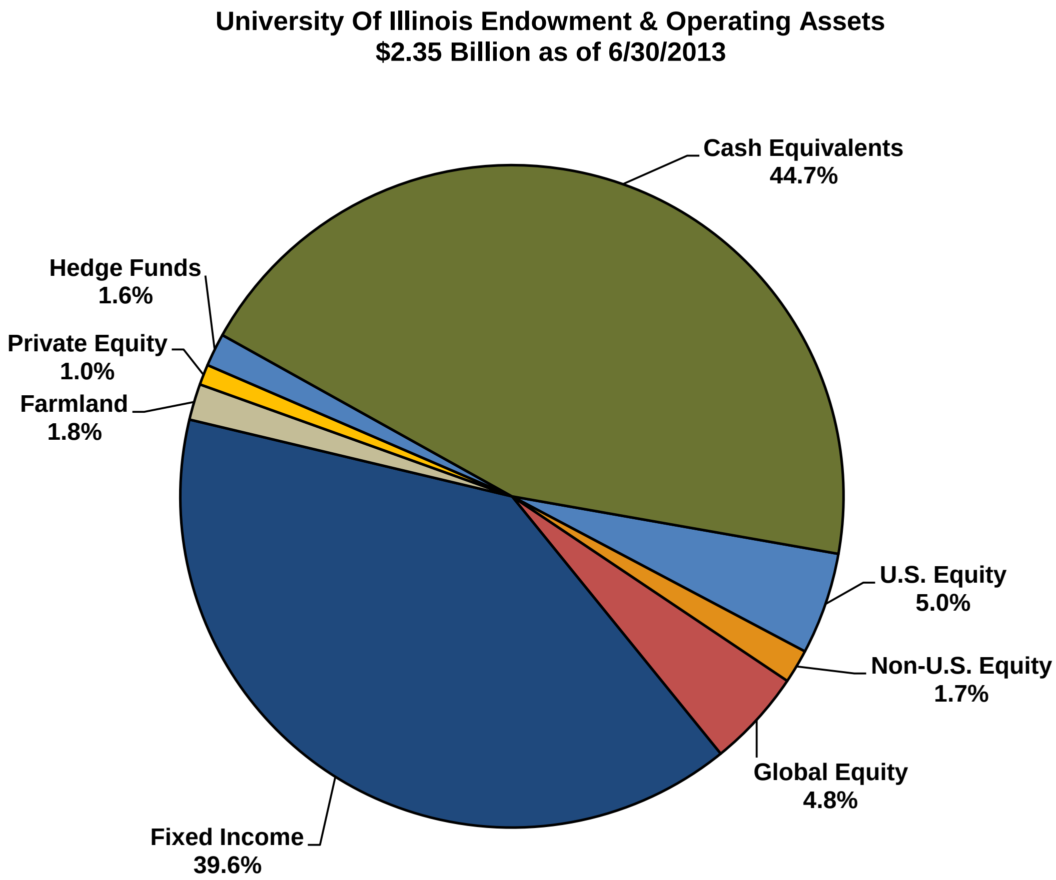
Total University Assets: June 30, 2013



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Endowment Fund Update: June 30, 2013

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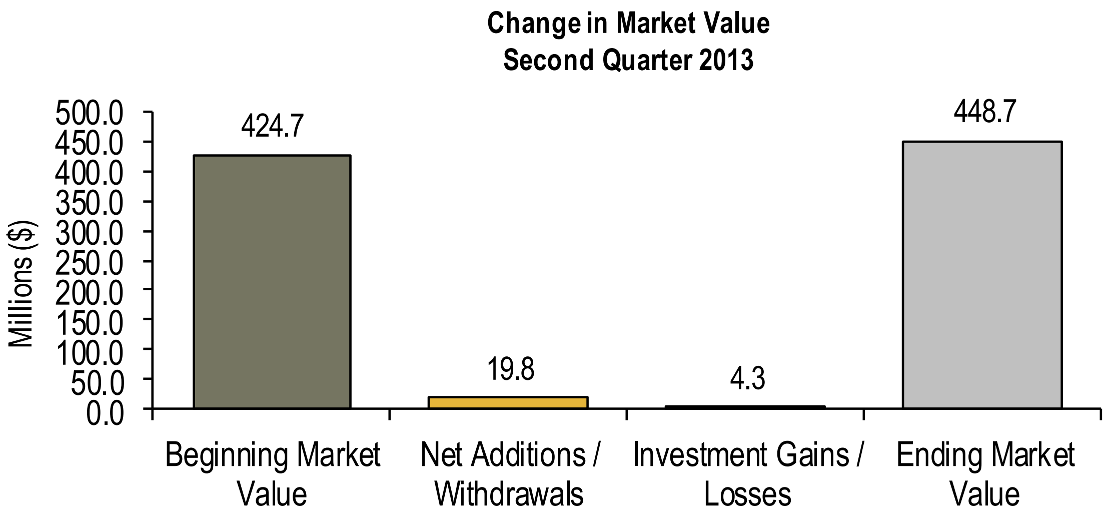
Total Fund Asset Growth: Endowment Pool



- During the second quarter, Endowment fund assets increased by approximately $24.0 million from $424.7 million to $448.7 million.
- This increase was the net result of investment gains and positive fund flows. For this period, net inflows were approximately $19.8 million and the absolute return of 1.2% in Endowment assets resulted in investment gains of $4.3 million.

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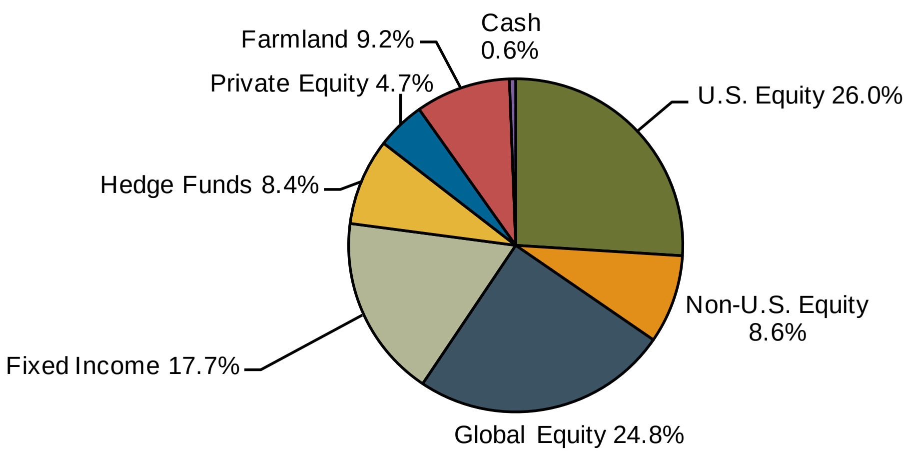
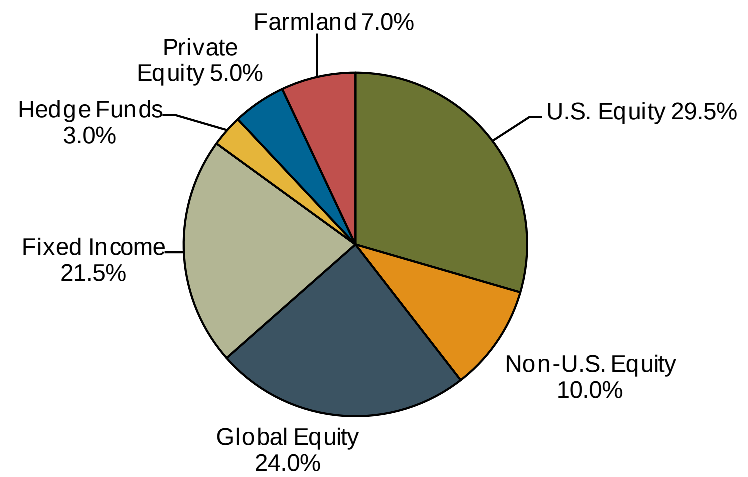
Market Value and Asset Allocation: Endowment Pool
June 30, 2013

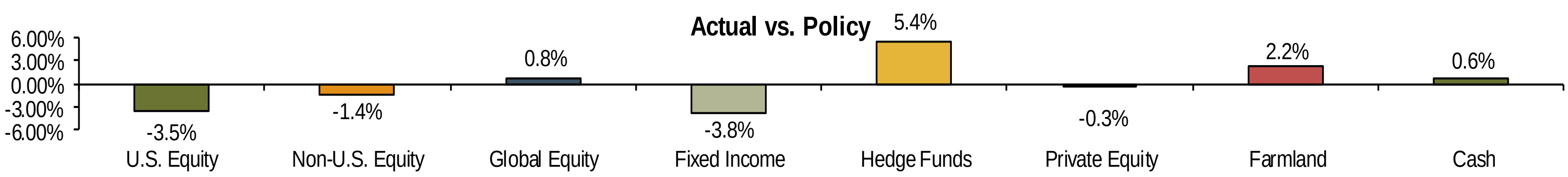
Total Fund
$448,707,242

Actual Allocation



Interim Policy Allocation*





*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%

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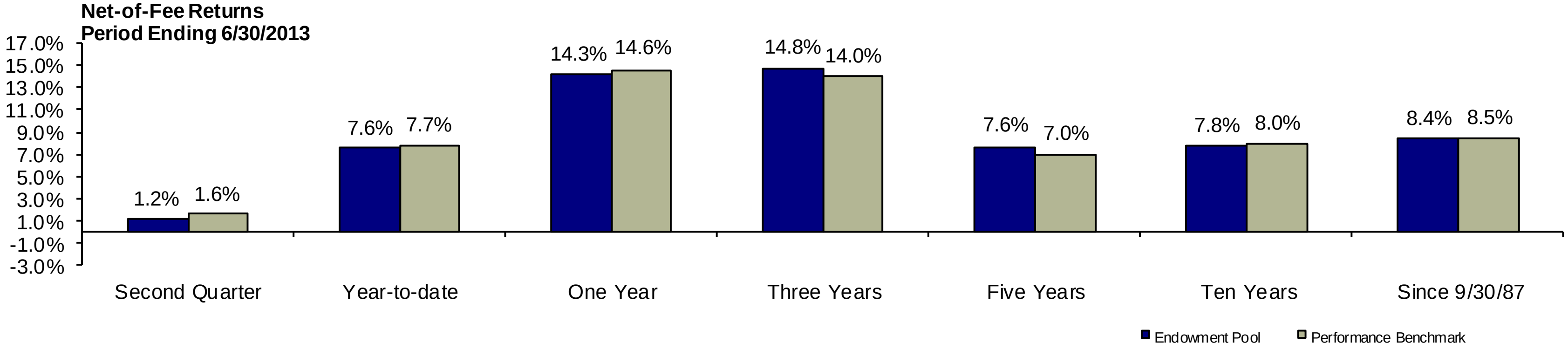
Total Fund Performance: Endowment Pool
June 30, 2013



- For the second quarter, the Endowment Pool gained 1.2 percentage points and underperformed the performance benchmark by 40 basis points(bps). The U.S. Equity asset class lagged the Dow Jones U.S. Total Stock Market Index, returning 2.1 percent for the quarter, and 70 bps behind the benchmark. During this same time period the Pool's Non-U.S. equity component also underperformed marginally, trailing the MSCI All Country World ex-U.S. Index by 20 bps. GMO Global outperformed the benchmark by 30 bps, returning -0.1% during the second quarter. This led to Global Equity marginally outperforming its benchmark for the quarter. In the Endowment's fixed income investments, Western and JP Morgan both finished the quarter with negative absolute returns, but JPMorgan outperformed by 20 bps on a relative basis, with a quarterly return of -2.1%, while Western trailed the benchmark 20 bps, returning -2.5%.
- Over the trailing one-year period, the Endowment Pool gained 14.3 percentage points and underperformed its benchmark by 30 basis points. Strong performance from Western, which added 3.6% of relative value was offset by poor relative performance from Private Equity and GMO US Equity prior to its liquidation.

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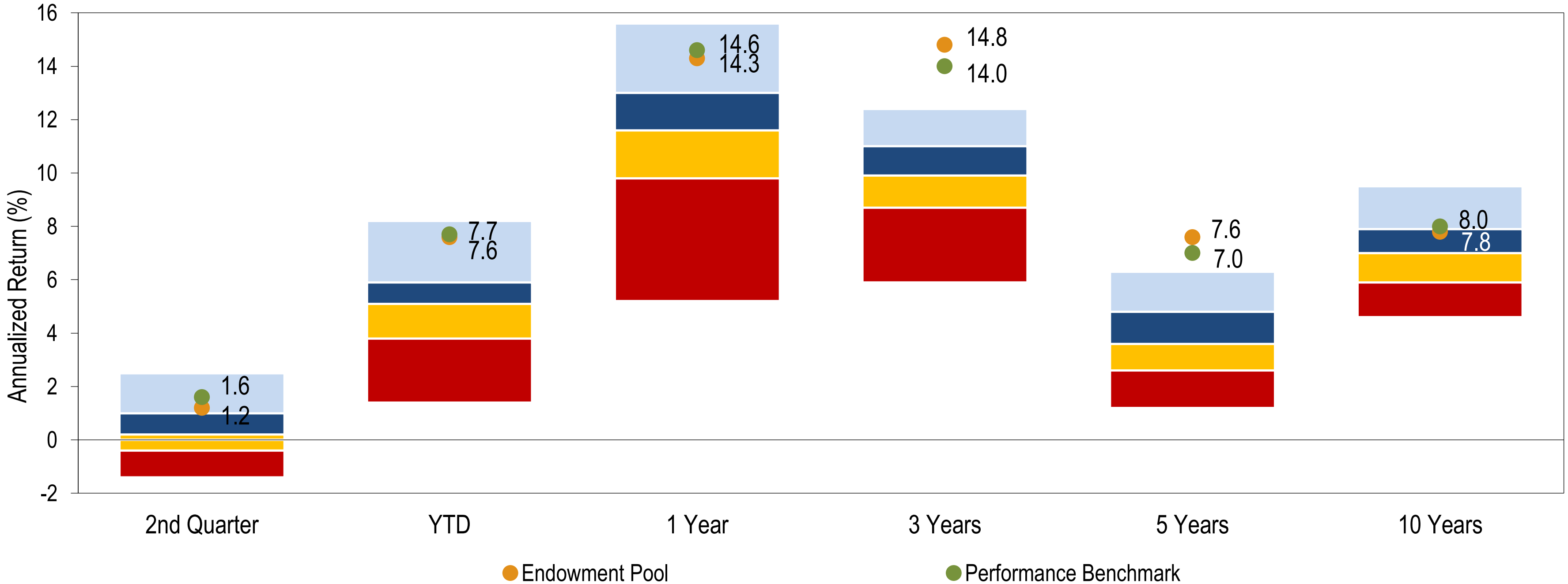
Peer Rankings: Endowment Pool
June 30, 2013



Returns/Ranks	**2nd Quarter**		**YTD**		**1 Year**		**3 Years**		**5 Years**		**10 Years**	
Endowment Pool	1.2	18	7.6	7	14.3	11	14.8	2	7.6	1	7.8	27
Benchmark	1.6	12	7.7	6	14.6	9	14.0	3	7.0	2	8.0	22

- Over the trailing year-to-date, 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.

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Asset Class Performance
June 30, 2013

	Second Quarter	YTD	One Year	Three Years	Five Years	Ten Years	Inception
Endowment Pool	**1.2**	**7.6**	**14.3**	**14.8**	**7.6**	**7.8**	**8.4**
Performance Benchmark	1.6	7.7	14.6	14.0	7.0	8.0	8.5
Total U.S. Equity	**2.1**	**14.4**	**21.8**	**19.0**	**8.6**	**7.9**	**8.8**
Dow Jones U.S. Total Stock Market Index	2.8	14.2	21.5	18.7	7.4	8.1	9.0
Total Non-U.S. Equity	**-3.3**	**1.2**	**18.7**	**8.8**	**-0.3**	**7.8**	**5.3**
MSCI All Country World ex-U.S. Index	-3.1	0.0	13.6	8.0	-0.8	8.6	5.4
Total Global Equity	**-0.3**	**6.2**	**16.3**	**--**	**--**	**--**	**16.3**
MSCI All Country World Index	-0.4	6.1	16.6	--	--	--	16.6
Total Fixed Income	**-2.3**	**-1.9**	**2.1**	**6.5**	**8.4**	**5.7**	**7.7**
Barclays Aggregate Bond Index	-2.3	-2.4	-0.7	3.5	5.2	4.5	7.2
Total Private Equity(1)	**1.3**	**2.2**	**2.0**	**8.8**	**2.2**	**--**	**-1.0**
Private Equity Benchmark	3.6	15.8	25.0	22.2	10.7	--	10.1
Total Farmland (2)	**16.1**	**16.1**	**16.1**	**27.5**	**19.6**	**--**	**17.9**
NCREIF Cornbelt Index	20.4	20.4	20.4	19.8	16.7	--	15.7

(1) The combined Adams Street Partners IRR at 3/31/2013 was 6.4%.
(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 30th, 2013.

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Operating Pool Update: June 30, 2013

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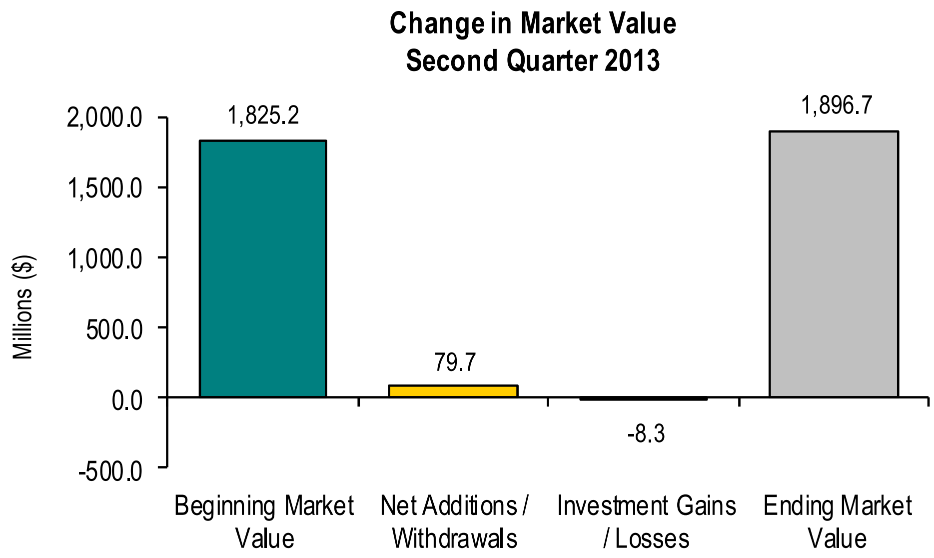
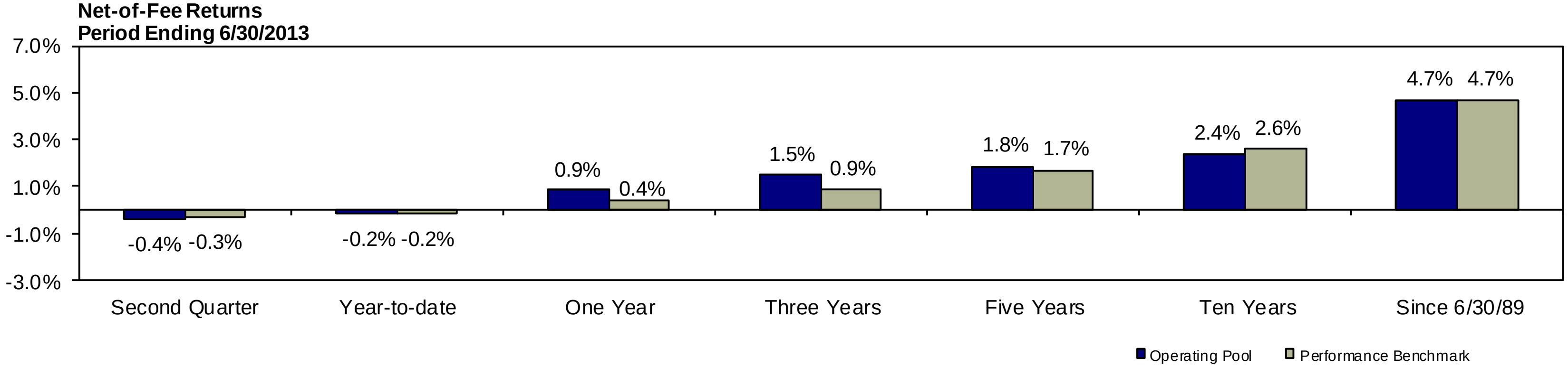
Total Fund Asset Growth: Operating Pool



- During the second quarter, the Operating Pool assets increased by approximately $71.5 million from $1.83 billion to $1.90 billion. This increase was the result of approximately $79.7 million in net inflows coupled with a $8.3 million decrease in market value due to the increase in interest rates during the quarter.

Total Fund Performance: Operating Pool
June 30, 2013

Total Fund
$1,896,675,429



- The Operating Pool returned -0.4% during the second quarter, lagging the benchmark return for this time period by 10 basis points. Relative underperformance from Galliard and Income Research and Management, which lagged the benchmark by 80 bps and 30 bps, respectively, drove overall relative underperformance during the second quarter.

Appendix:

Market Environment

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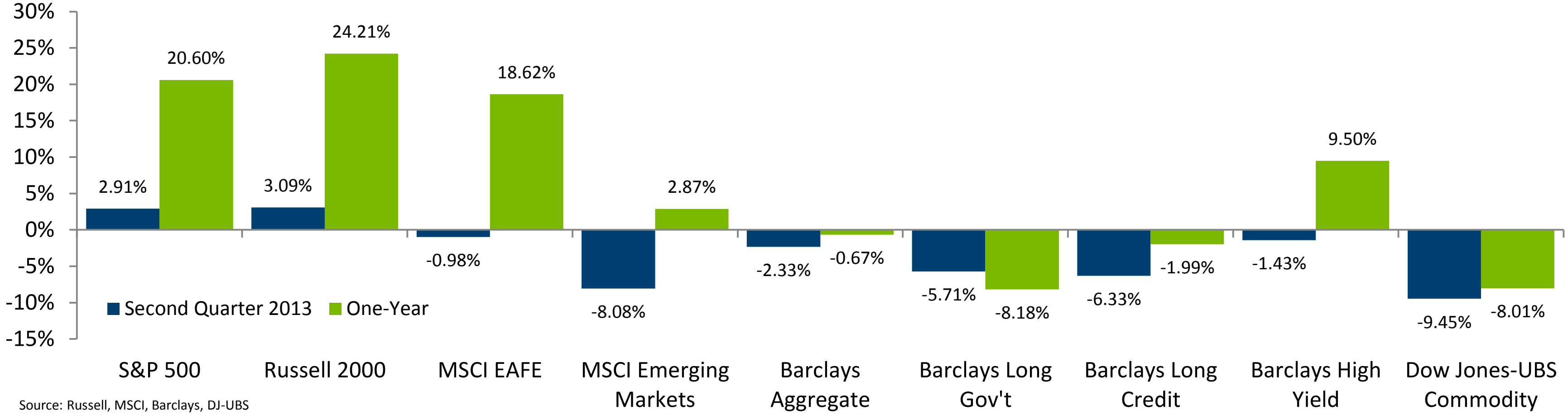
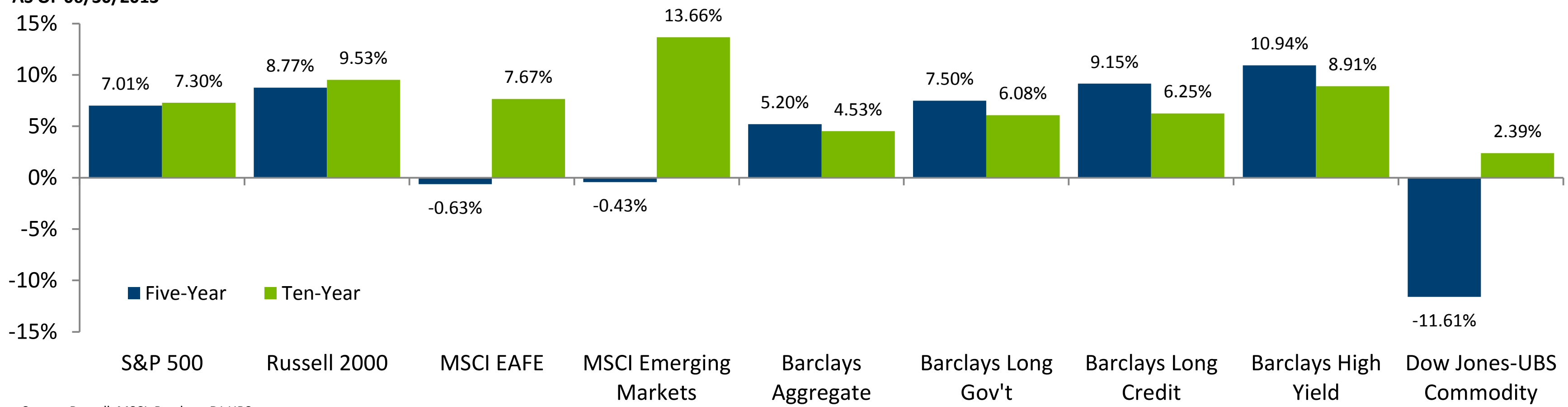
Market Highlights

SHORT TERM RETURNS
AS OF 06/30/2013



Source: Russell, MSCI, Barclays, DJ-UBS

LONG TERM ANNUALIZED RETURNS
AS OF 06/30/2013



Source: Russell, MSCI, Barclays, DJ-UBS

Market Highlights

Returns of the Major Capital Markets						
						Periods Ending 06/30/2013
	Second Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	-0.47%	6.40%	17.08%	12.60%	2.79%	8.02%
MSCI All Country World	-0.42%	6.05%	16.57%	12.36%	2.30%	7.59%
Dow Jones U.S. Total Stock Market	2.79%	14.18%	21.46%	18.70%	7.41%	8.07%
Russell 3000	2.69%	14.06%	21.46%	18.63%	7.25%	7.81%
S&P 500	2.91%	13.82%	20.60%	18.45%	7.01%	7.30%
Russell 2000	3.09%	15.86%	24.21%	18.67%	8.77%	9.53%
MSCI All Country World ex-U.S. IMI	-3.27%	0.18%	13.91%	8.13%	-0.41%	8.93%
MSCI All Country World ex-U.S.	-3.12%	-0.04%	13.63%	7.99%	-0.80%	8.62%
MSCI EAFE	-0.98%	4.11%	18.62%	10.04%	-0.63%	7.67%
MSCI EAFE (100% Hedged)	0.00%	8.79%	20.96%	5.91%	-1.23%	3.84%
MSCI EAFE (Local Currency)	1.21%	11.01%	24.93%	8.97%	1.16%	6.07%
MSCI Emerging Markets	-8.08%	-9.57%	2.87%	3.38%	-0.43%	13.66%
Fixed Income						
Barclays Global Aggregate	-2.78%	-4.82%	-2.17%	3.55%	3.68%	4.79%
Barclays Aggregate	-2.33%	-2.45%	-0.67%	3.53%	5.20%	4.53%
Barclays Long Gov't	-5.71%	-7.84%	-8.18%	6.18%	7.50%	6.08%
Barclays Long Credit	-6.33%	-8.01%	-1.99%	7.55%	9.15%	6.25%
Barclays Long Gov't/Credit	-6.11%	-7.97%	-4.69%	7.01%	8.50%	6.22%
Barclays US TIPS	-7.05%	-7.39%	-4.77%	4.63%	4.40%	5.19%
Barclays High Yield	-1.43%	1.42%	9.50%	10.75%	10.94%	8.91%
SSB Non-U.S. WGBI	-3.44%	-7.14%	-5.72%	2.57%	2.55%	4.78%
JP Morgan EMBI Global (Emerging Markets)	-6.06%	-8.22%	1.25%	7.85%	8.63%	8.85%
Commodities						
Dow Jones-UBS Commodity	-9.45%	-10.47%	-8.01%	-0.26%	-11.61%	2.39%
Goldman Sachs Commodity	-5.93%	-5.41%	2.04%	4.73%	-15.22%	1.41%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	-0.02%	3.59%	8.29%	4.92%	2.54%	6.17%
HFRI Fund of Funds[2]	-0.03%	3.28%	7.18%	2.97%	-0.63%	3.44%
Real Estate						
NAREIT U.S. Equity REITS	-1.57%	6.49%	9.42%	18.18%	7.57%	10.88%
NCREIF ODCE[3]	3.91%	6.71%	12.24%	14.98%	-0.14%	6.95%
Private Equity						
Thomson Reuters VentureXpert[4]	3.33%	13.18%	13.18%	13.25%	4.99%	13.16%
Infrastructure						
Macquarie Global Infrastructure - North America	-2.94%	8.71%	9.42%	17.01%	4.93%	11.08%

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] Second quarter results are preliminary.

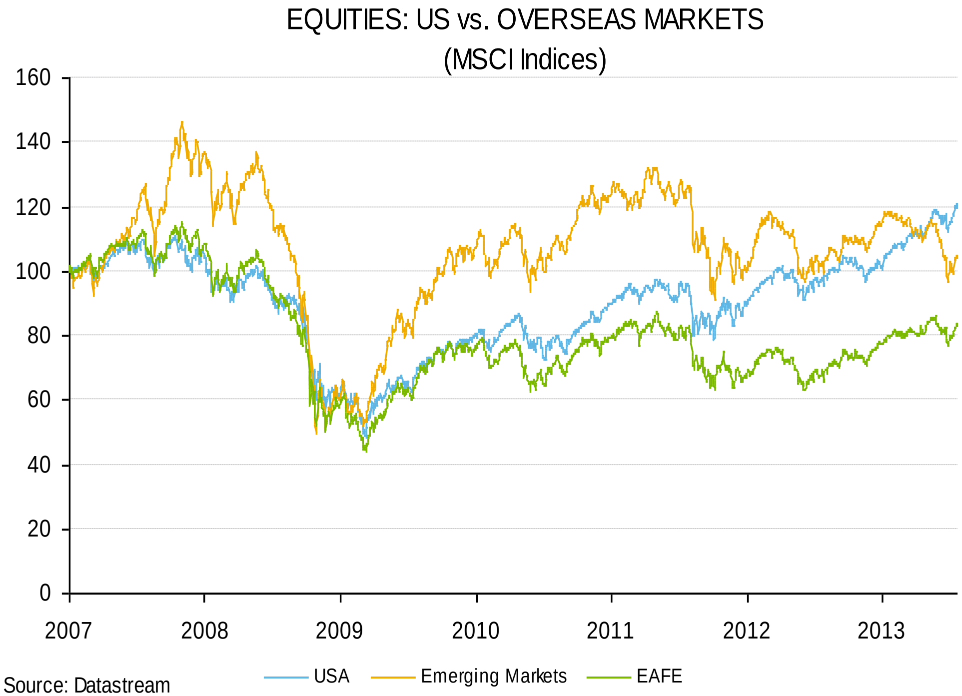
[4] Benchmark is as of 12/31/2012.

Equity Markets: US equities have outperformed EAFE and Emerging Markets

- The US has outperformed other equity market regions so far this year. Currency moves (stronger US dollar) have supported this relative performance.

- The key contrast with other markets has been in emerging markets which have suffered through recent market volatility, and US outperformance looks particularly large against these markets.

- Though the US has had strong macroeconomic performance in relative terms, it can be argued that this is reflected in much higher valuations. The US market has looked relatively expensive against EAFE and emerging markets.



Source: Datastream

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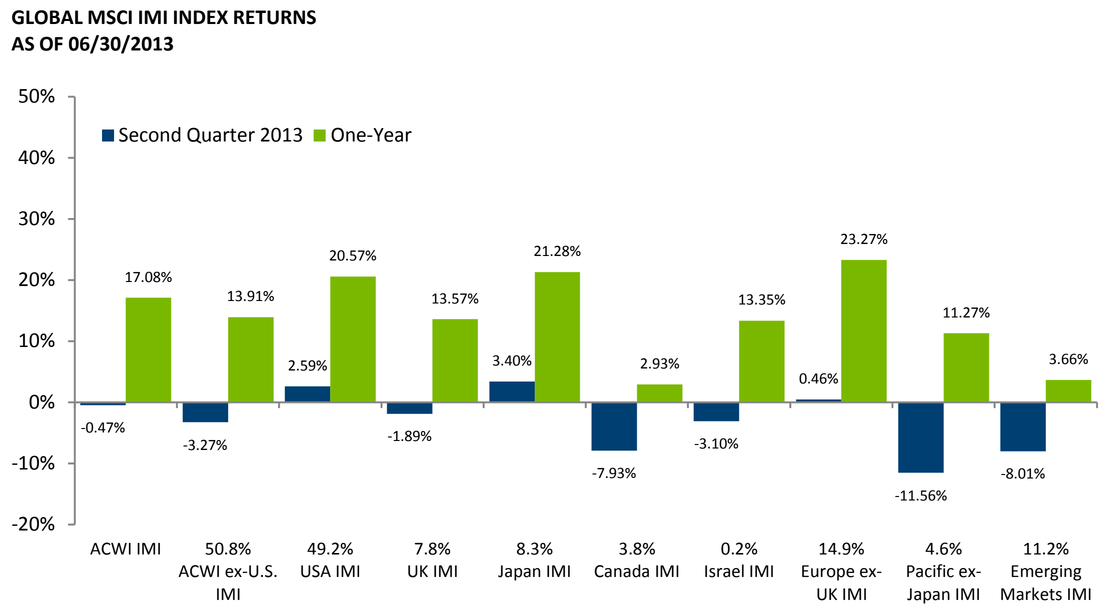
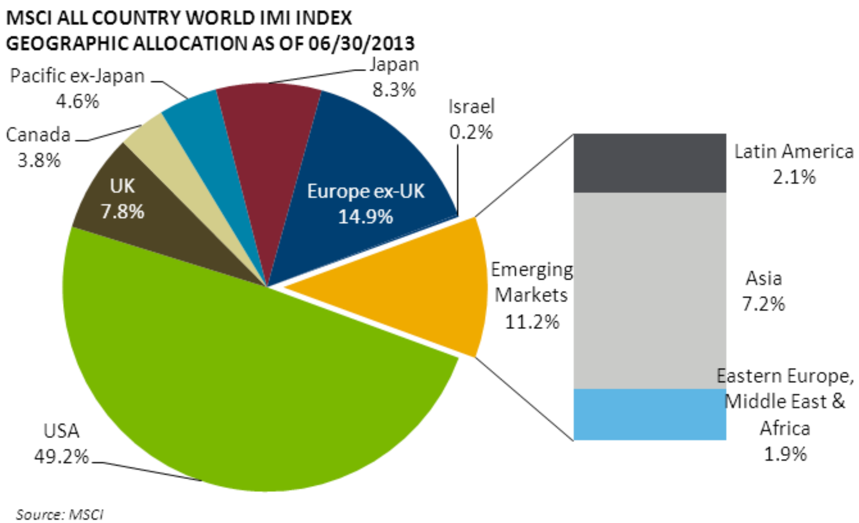
Global Equity Markets



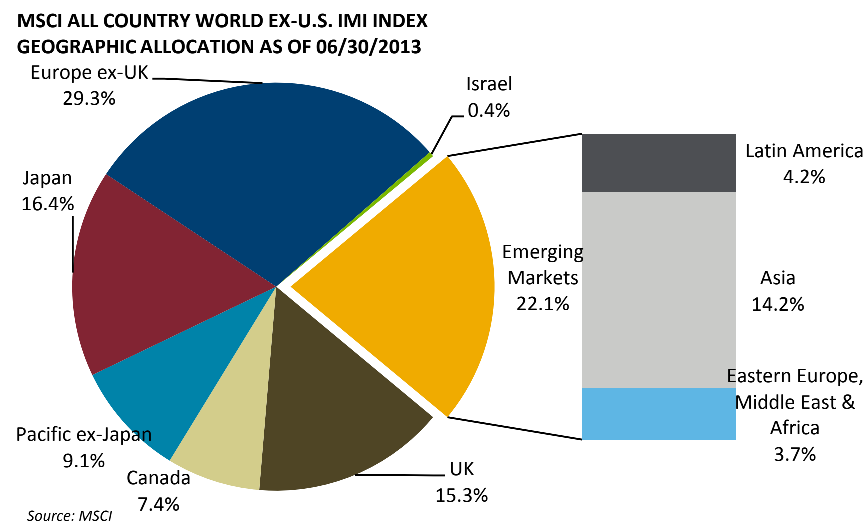
Source: MSCI

- Global equity markets were volatile over the quarter. Members of the Federal Reserve began to openly discuss tapering QE in the second half of the year, triggering weakness in U.S. equity prices towards the end of the quarter. Continued concerns around the strength of the economic recovery outside of the United Stated negatively impacted international equity markets. The USA, Europe ex-UK, and Japan were the only markets to post positive, albeit muted, returns.
- Japan proved to be the best performing region as the improving trend in Japanese economic data continued. The worst performing region was Pacific ex-Japan IMI.

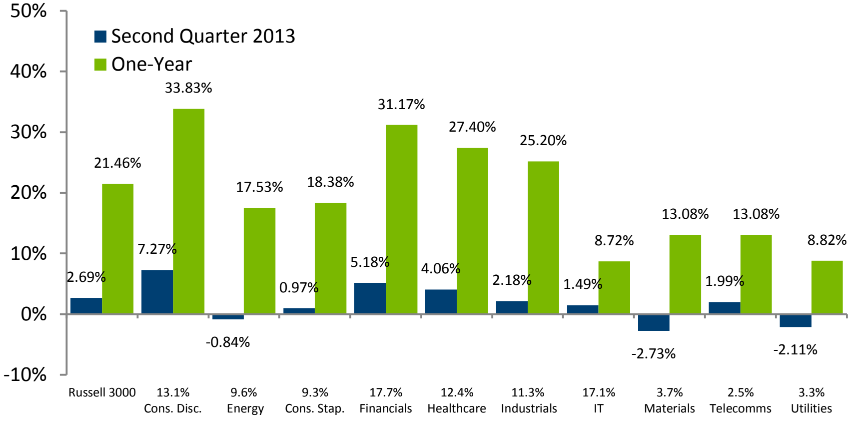
Global Equity Markets



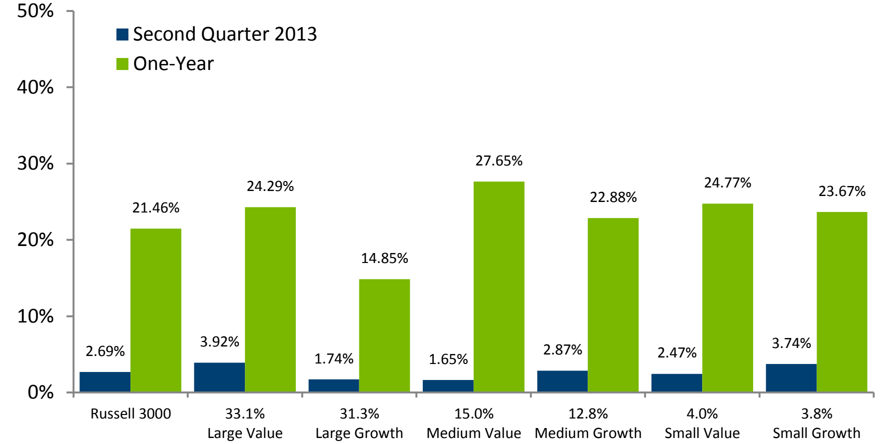
- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.



U.S. Equity Markets



Source: Russell Indexes

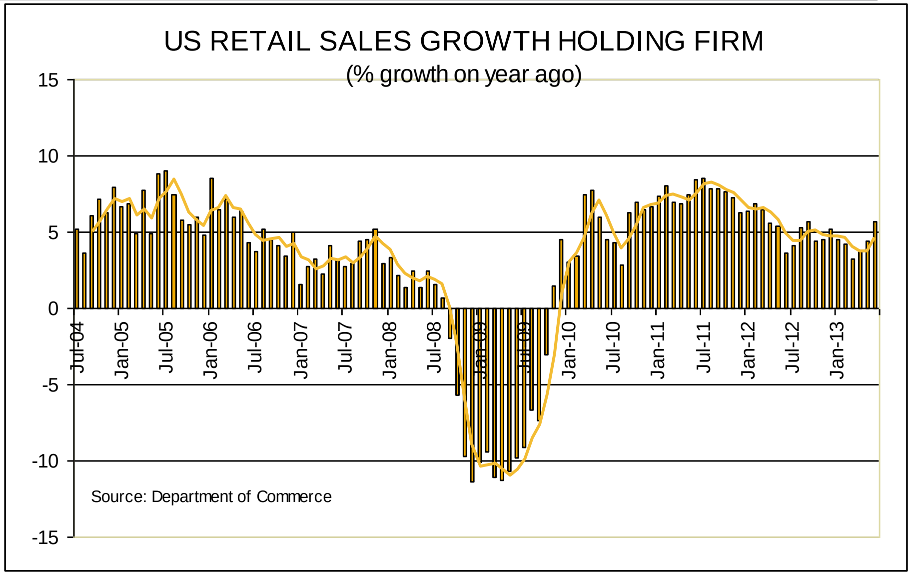


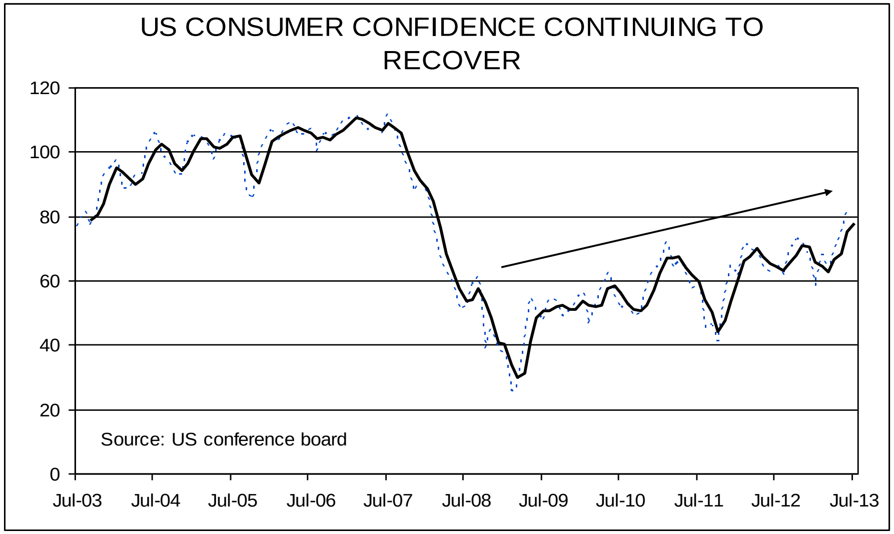
Source: Russell Indexes

- The first quarter rally extended into the first half of Q2. However, mid-May announcements by the Fed on the potential for tapering its QE program caused the markets to give up most of the gains accumulated up to that time in 2013.
- The Russell 3000 rose 2.69% during the quarter and returned 21.46% over the one-year period.
- During the second quarter, the Consumer Discretionary, Financials, Healthcare, and Industrials sectors were the best performing sectors, posting returns of 7.27%, 5.18%, 4.06%, and 2.18%, respectively. The Materials and Utilities sectors were the worst performing sectors, producing returns of -2.73% and -2.11%, respectively.
- Overall, small cap outperformed both mid cap and large cap modestly during the second quarter. Value outperformed growth in the large cap sectors but growth prevailed over value in the small- and mid-cap sectors.

US Economy: Consumers keep their spirits up

- US consumers have generally kept their composure even with a significant hit to incomes from the rise in payroll taxes.
- Retail sales growth appeared to slacken in June, possibly reflecting rising gasoline prices, but the year on year trend is comfortingly stable to slightly stronger (see chart top right).
- Consumer confidence has generally continued to recover (chart, lower right) . The improvement in both housing and labor markets has been key to sustaining confidence.
- The limits to consumer spending growth are set by how rapidly employment and wages are growing. Growth on both fronts is very slow and sets limits to consumer spending, as there is an unwillingness to add markedly to debt. Sequestration cuts to government spending are also holding back employment growth.





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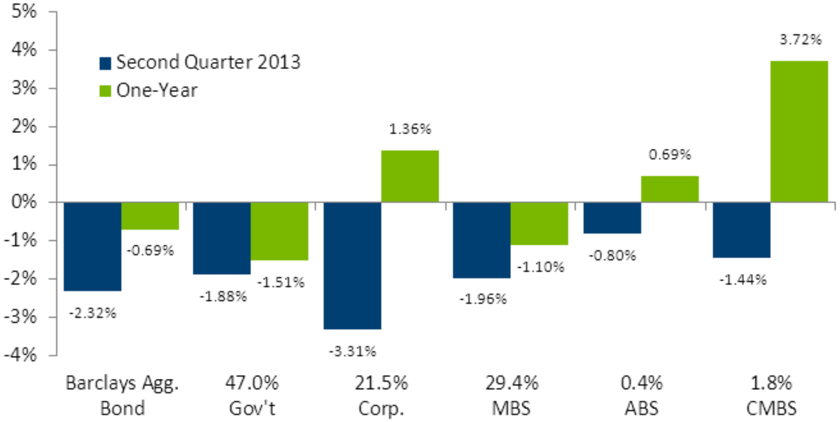
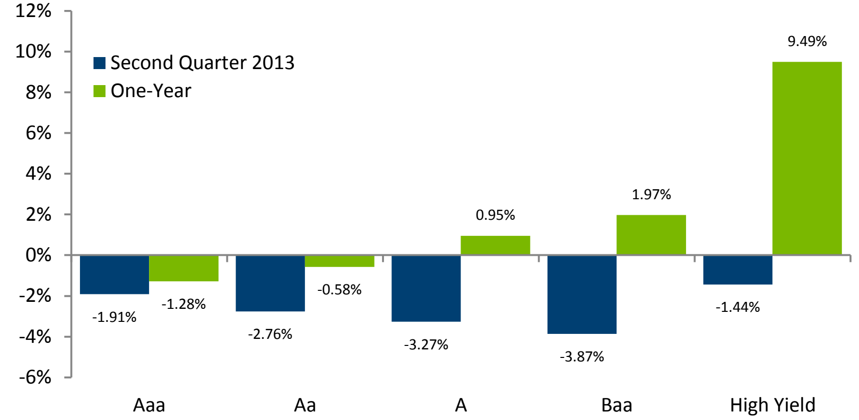
U.S. Fixed Income Markets

BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 06/30/2013



Source: Barclays Live

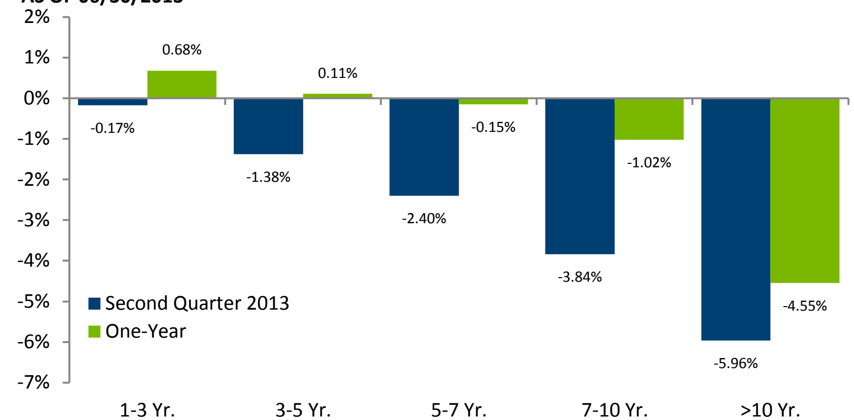
BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 06/30/2013



Source: Barclays Live

- The Barclays Aggregate Bond Index returned -2.32% in the second quarter as bond yields were pushed higher on comments made by the Federal Reserve.
- Asset-backed securities was the strongest performing sector, returning -0.80%.
- In the investment grade market, higher quality bonds outperformed lower quality bonds.
- High yield bonds marginally outperformed investment grade bonds.
- From a maturity perspective, shorter term bonds outperformed, with the 1-3 yr. and 3-5 yr. posting returns of -0.17% and -1.38%, respectively, during the second quarter.

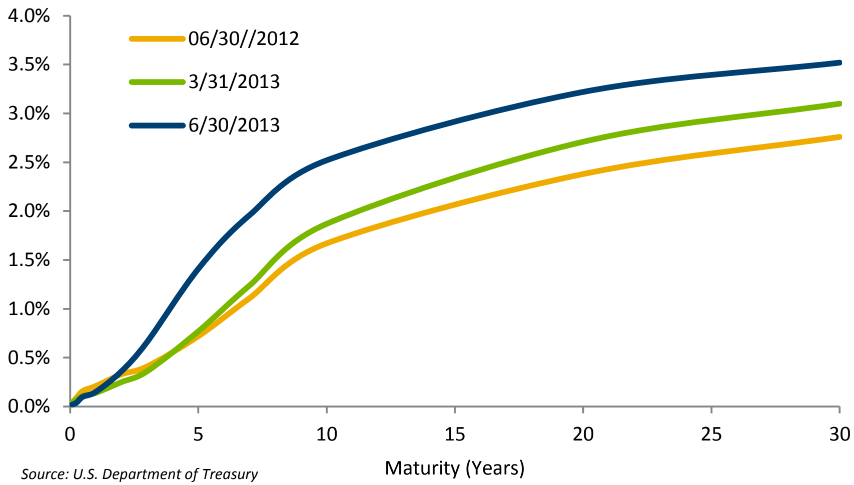
BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 06/30/2013



Source: Barclays Live

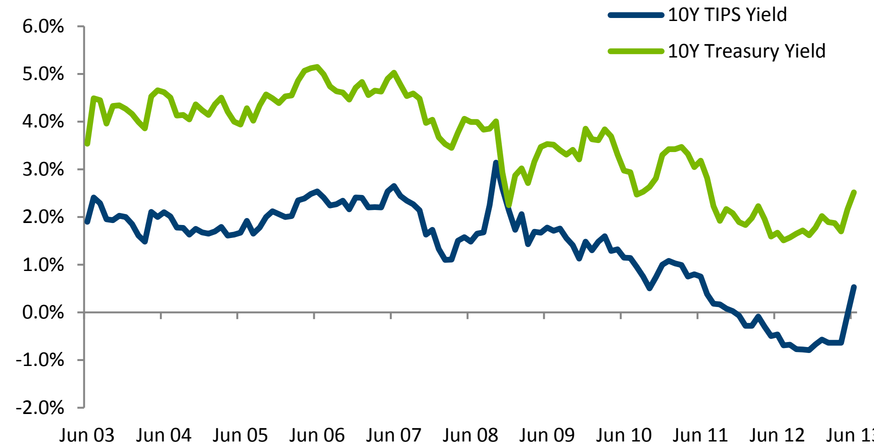
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS



Source: U.S. Department of Treasury

- The Treasury yield curve steepened during the quarter; the intermediate (1 to 10 years) and long-term segments of the yield curve rose.
- The 10-year U.S. Treasury yield ended the quarter at a yield of 2.52%, roughly 65 basis points higher than its level at the beginning of the quarter.
- 10-year TIPS yields broke into positive territory for the first time since the second half of 2011; 10-year TIPS yield rose 117 basis points to 0.53% over the quarter.

Credit Spreads

Spread (bps)	6/30/2013	3/31/2013	6/30/2012	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	61	56	77	5	-16
Long Gov't	6	4	5	2	1
Long Credit	198	183	228	15	-30
Long Gov't/Credit	124	113	130	11	-6
MBS	60	58	76	2	-16
CMBS	150	133	235	17	-85
ABS	58	49	59	9	-1
Corporate	152	139	199	13	-47
High Yield	492	457	615	35	-123
Global Emerging Markets	345	287	408	58	-63

Source: Barclays Live

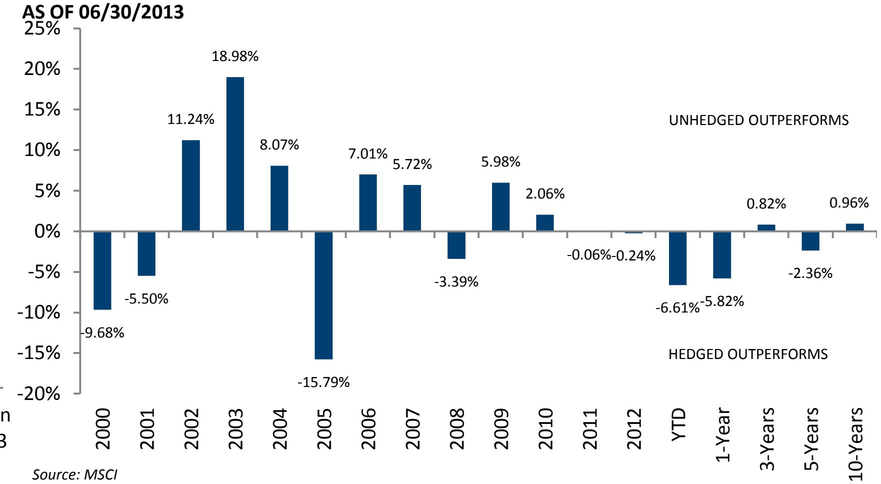
- Credit spreads rose across all markets during the quarter.
- The Global Emerging Markets segment experienced the largest increase in spreads during the quarter.
- As of June 30, 2013, credit spreads across most segments were lower relative to a year ago; the sole exception was Long Gov't, for which the credit spread rose by 1 basis point.

Currency

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

Source: Federal Reserve

DIFFERENCE BETWEEN MSCI EAFE UNHEDGED AND HEDGED INDICES
AS OF 06/30/2013

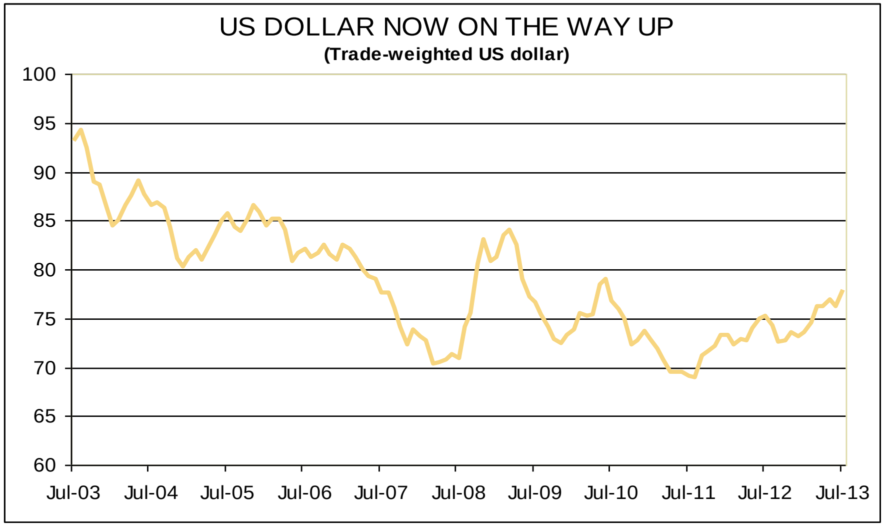


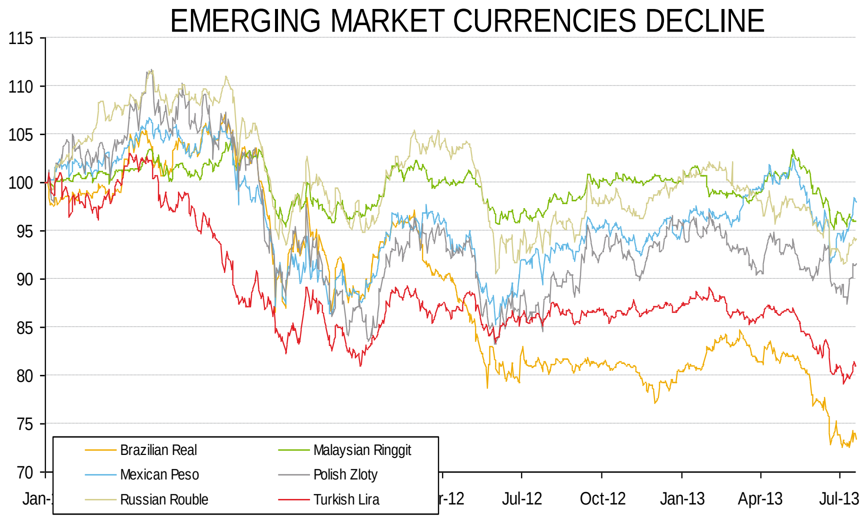
Source: MSCI

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar appreciated during the quarter.
- The MSCI EAFE Unhedged Index significantly underformed the MSCI EAFE 100% Hedged Index during the year-to-date period reflecting the appreciation of the U.S. dollar. The Unhedged index underperformed the Hedged index during the trailing 1 and 5 year periods.

US dollar on an appreciating trend

- The US dollar has benefited from the relative strength of the US economy and the faster adjustment in US bond yields. The trade weighted dollar has been gaining, as the first chart illustrates.
- However, this comes after many years of dollar weakness so that even after recent appreciation, the dollar is still below the average level over the past decade.
- Emerging currencies fell heavily on the back of the uncertainty surrounding the direction of US monetary policy through May/June. The dollar has looked particularly strong against some of these currencies, though there is some reversal being seen currently (chart, lower right).
- Not all of the dollar's fundamentals are strong. The US continues to run a large external deficit. Additionally, the large amount of US monetary stimulus is a drag.





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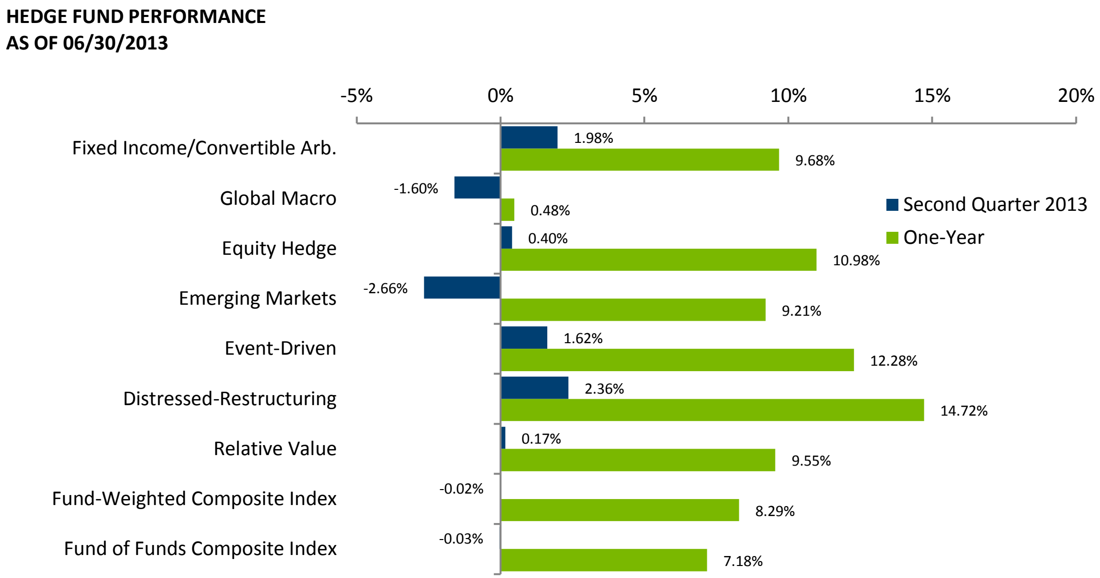
Hedge Fund Markets Overview

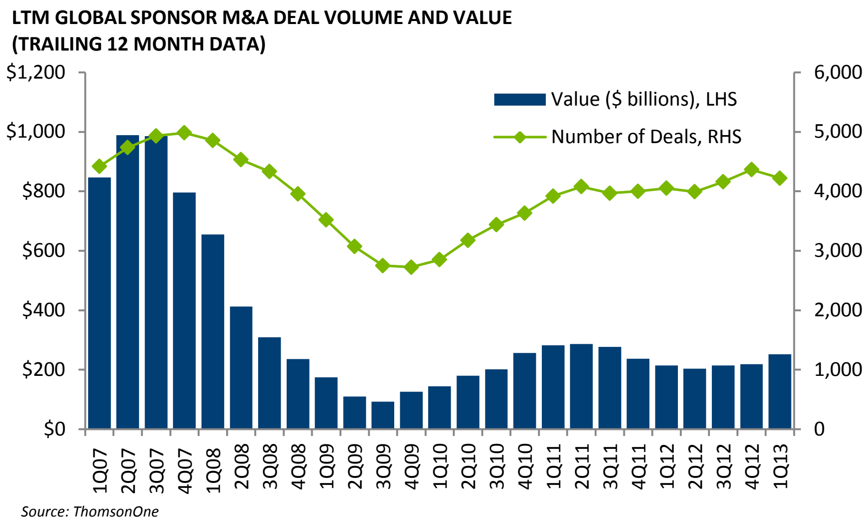


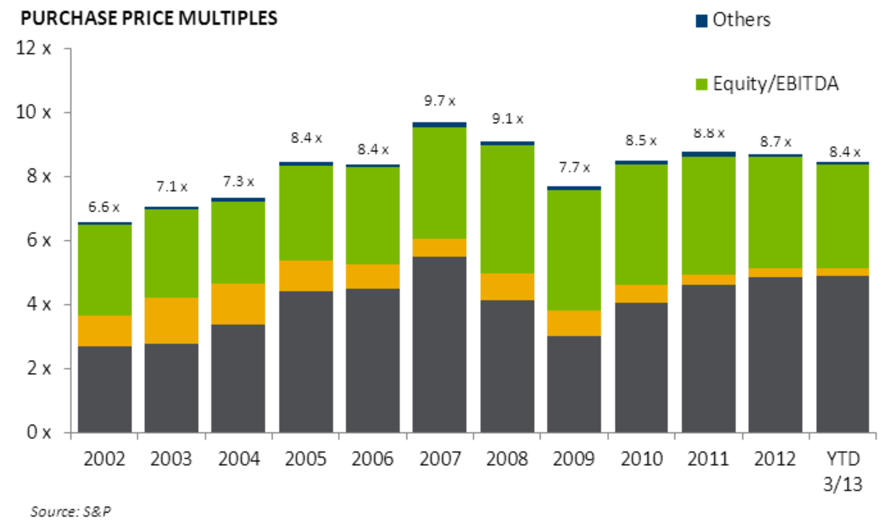
Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Most major hedge fund strategies types posted positive returns in the second quarter and all major hedge fund strategies types posted positive returns for the trailing one-year period. The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of -0.02% and -0.03%, respectively, during the second quarter.

- Fixed Income / Convertible Arb. and Distressed-Restructuring strategies were the strongest performers during the quarter gaining 1.98% and 2.36%, respectively.

Private Equity Market Overview – Q1 2013

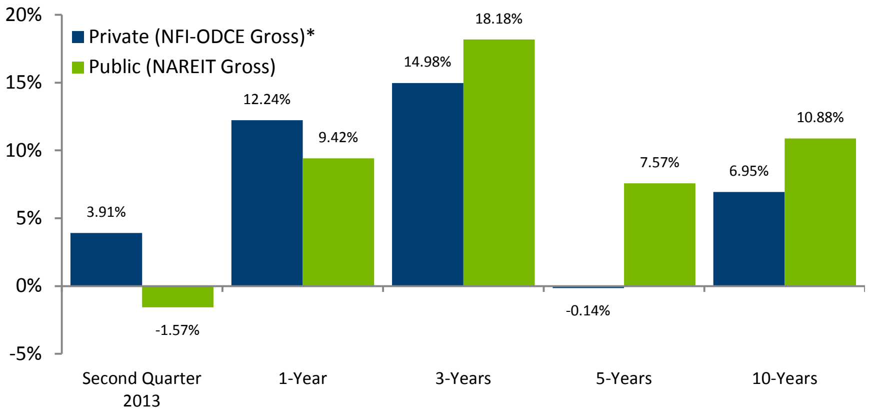




- **Fundraising:** $261 billion was raised in on LTM basis which is flat to slightly down for last 6 quarters. This is a healthy but not an excessive level and it is well below the peak pre-crisis level ($490B). Dry powder available to invest is significant ($814B) and has increased over 4Q 2012 in all areas except buyout.
- **Buyout:** The number and value of deals completed is trending up. While small and middle market deals comprised the bulk of the deals, three mega deals completed in 1Q accounted for 40% of the 1Q value of deals completed. Purchase price multiples fell to a more reasonable 8.4x EBITDA from the 8.7x in 2012. European activity remains slow due to economic uncertainty.
- **Venture capital:** Investment activity slowed in Q1 2013 to $5.9 million, the lowest level since 4Q 2010. Pre-money valuations decreased across all stages with the exception of a 50% increase in Series A valuations (up to $12 million, a level not observed since the mid-2000's). Exit activity continues to languish due to reduced M&A activity and poor performance of consumer technology IPO's.
- **Mezzanine:** Mezzanine lenders are getting squeezed out of larger transactions due to the robust and less expensive high yield market. In smaller deals, mezzanine faces competition from senior lenders who are beginning to provide higher levels of leverage. This may change with the recent pull back in the bond market.
- **Distressed Debt:** Investment activity remains low due to high refinancing activity and continued low high yield default rates. Emerging signs of deteriorating credit quality may bode well for the segment.
- **Secondaries:** Fundraising continues to be strong as is transaction activity. There is more competition from non traditional buyers and pricing is deteriorating (for buyers) with buyout funds trading at 91.5% of value. Venture pricing increased to 73% but is largely contingent on the specific funds that are being priced. Solid activity is expected for the full year but is expected to revolve around smaller transactions and lessor quality assets.
- **Infrastructure:** Fundraising is solid with renewed interest from institutional investors. Activity has reached a plateau and may be trending down due to the continued economic uncertainty, increased regulation in Europe ,and slow acceptance in North America.

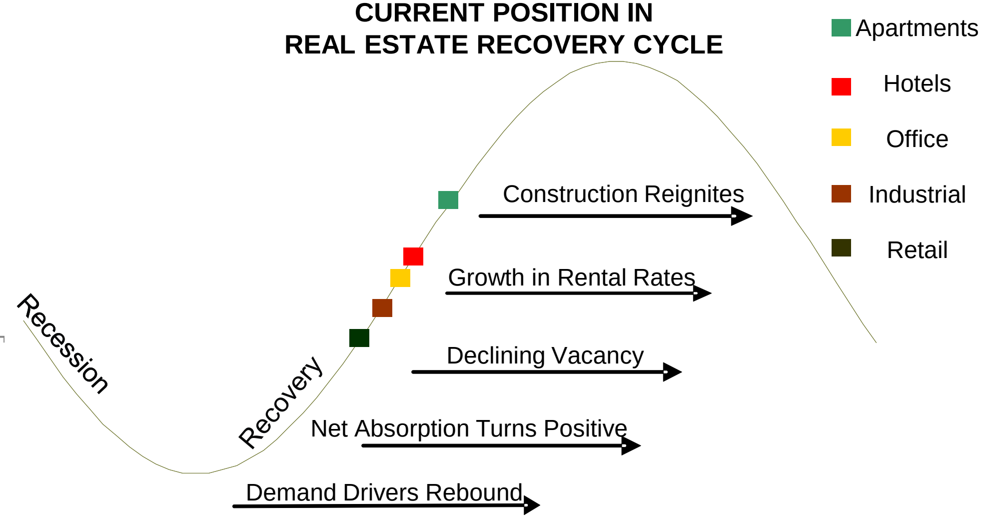
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 06/30/2013



First quarter returns are preliminary
Sources: NCREIF, NAREIT

CURRENT POSITION IN REAL ESTATE RECOVERY CYCLE



2013 U.S. Real Estate Outlook:

- Despite slow economic growth, low new supply and accommodating interest rates continue to provide a positive investment environment for real estate in the U.S.—fundamentals are improving at a modest pace and asset values continue to increase but at a slower pace than in the past two years
- New supply remains at all-time lows although modest upticks are expected in 2013. Apartments and some select industrial projects represent the bulk of new construction so far; new supply in other property types is still largely non-existent
- The current low interest rate environment continues to support price recovery/growth, and the spread between cap rates and risk free rates remains wide
  - Relative value of Real Estate versus other asset classes remains attractive
  - Rising treasury rates during Q2 caused some increased volatility in REITs, and this volatility could spill over into private market transactions during second half of 2013
- Core rebound is mature and returns are expected to continue to moderate (consensus NPI forecast range is 6–9%, which is generally in line with long-term average)
  - Still solid investment option for long term investors seeking diversification and yield
  - Consider debt plays as a substitute for Core returns (also good alternative for fixed income)
- Non Core opportunities remain in the sector's sweet spot, with above average return potential as positive spreads exist between stabilized and non-stabilized assets
  - Distress, recapitalization, lease up, repositioning, and even some development remain attractive