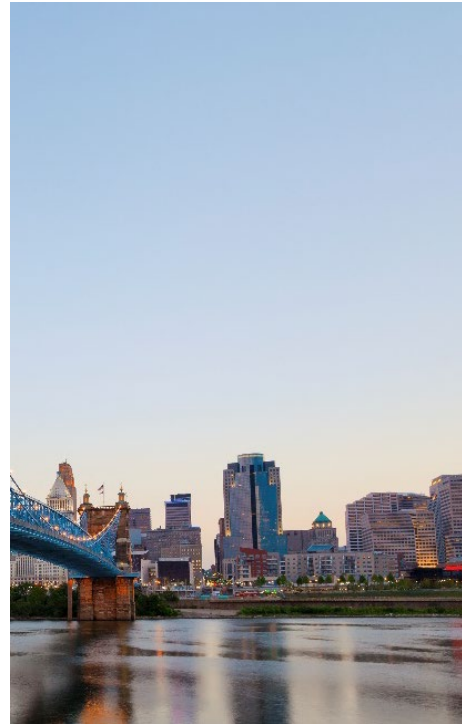


Reported to the Board of Trustees  
September 19, 2019



# UNIVERSITY OF ILLINOIS SYSTEM

SECOND QUARTER 2019 INVESTMENT UPDATE  
PREPARED FOR THE BOARD OF TRUSTEES

August 2019

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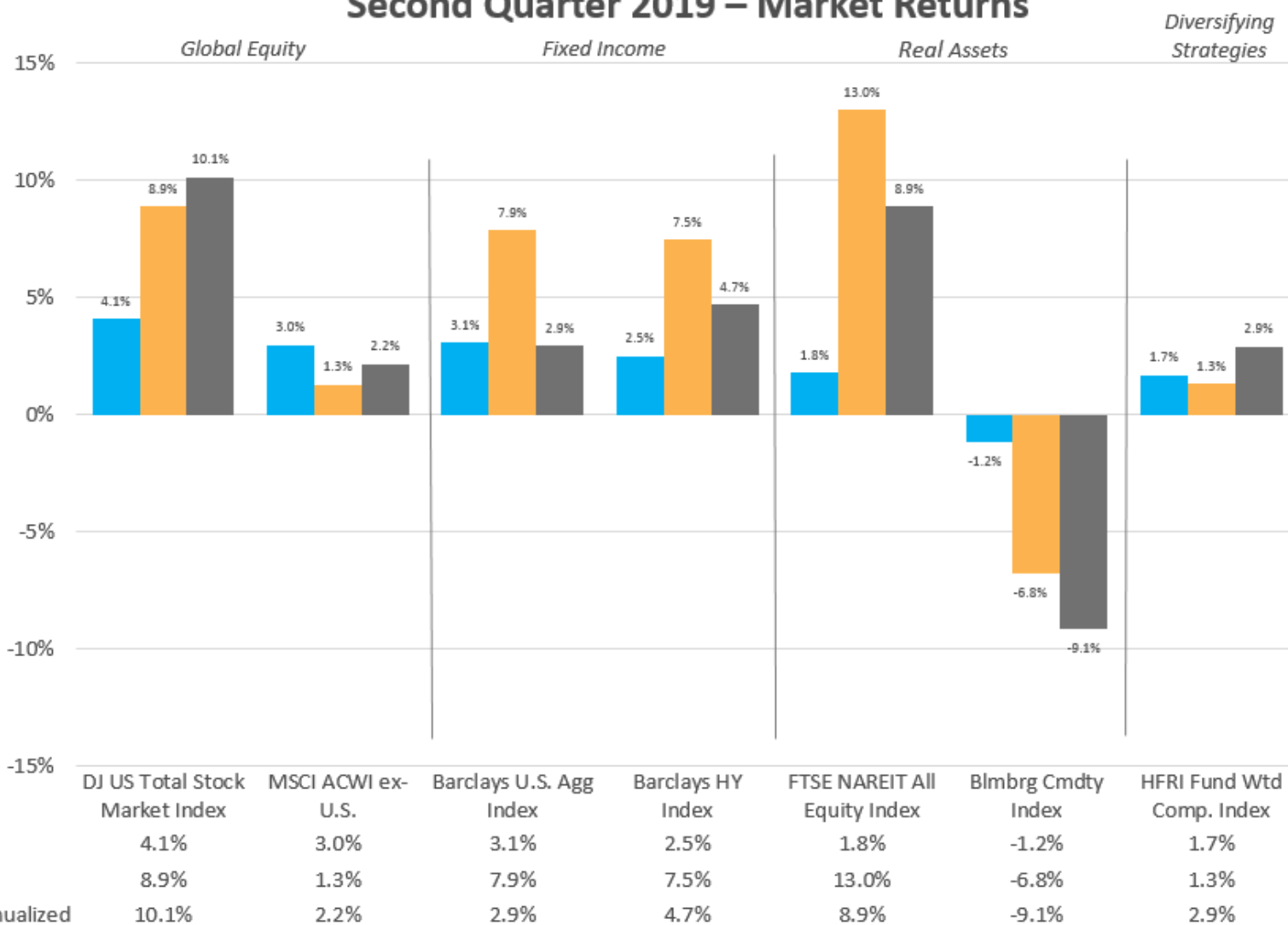
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# MARKET OVERVIEW AND SYSTEM ASSETS

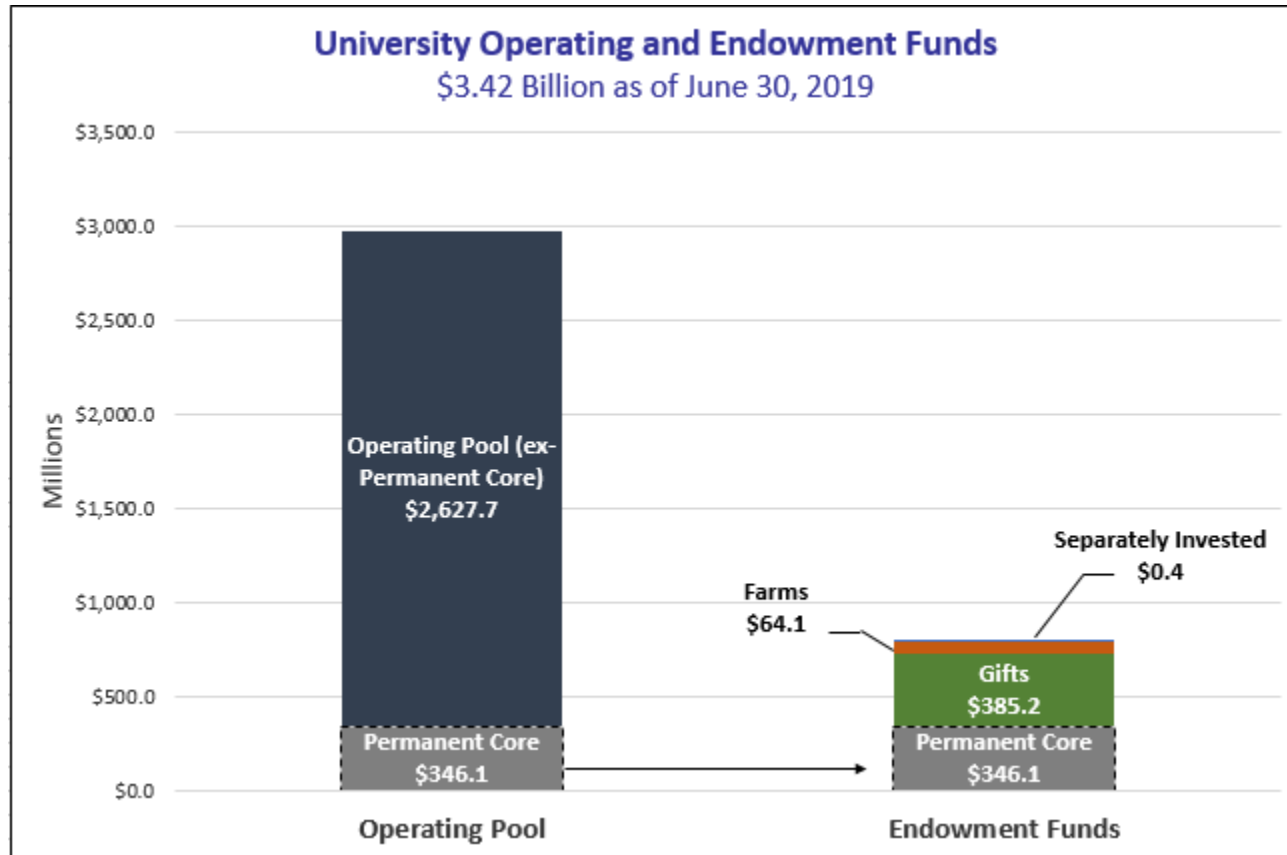
# CAPITAL MARKET OVERVIEW

## Second Quarter 2019 – Market Returns



Data sources: Lipper and Hedge Fund Research

# UNIVERSITY OPERATING AND ENDOWMENT FUNDS: JUNE 30, 2019

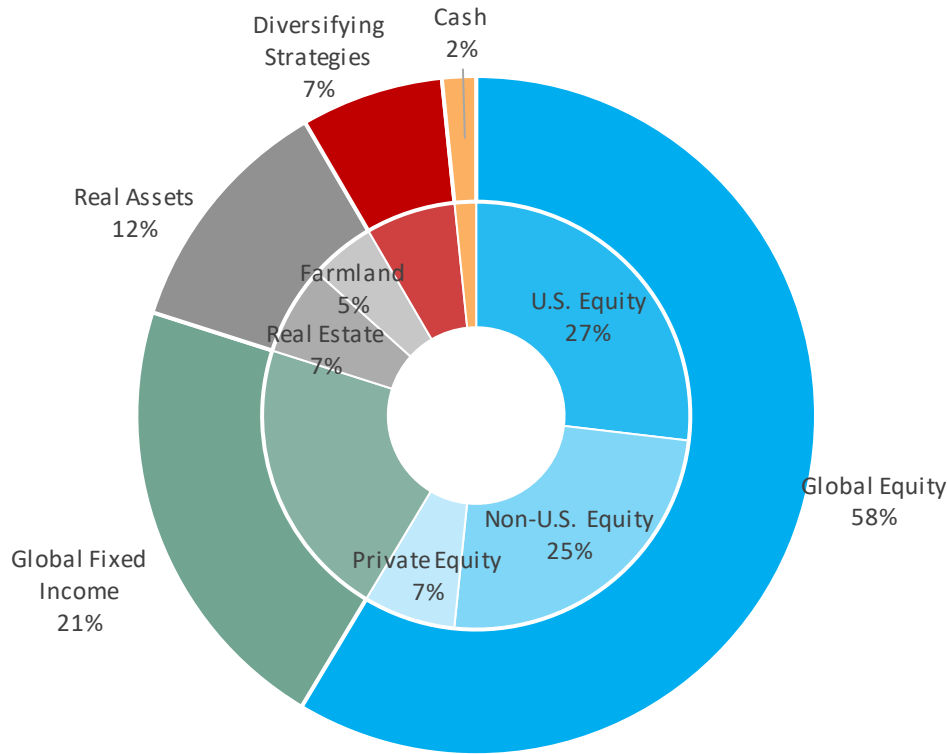


- The University Operating and Endowment Funds were valued at \$3.4 billion as of June 30, 2019.
- The Operating Pool (ex-Permanent Core) was valued at \$2.6 billion. The permanent core investment (gray bar) is a long-term investment of the operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Funds is valued at \$795.9 million (right bar) and is discussed further on the following slides.
- The Pure Endowment (excluding Operating) is valued at \$449.8 million.

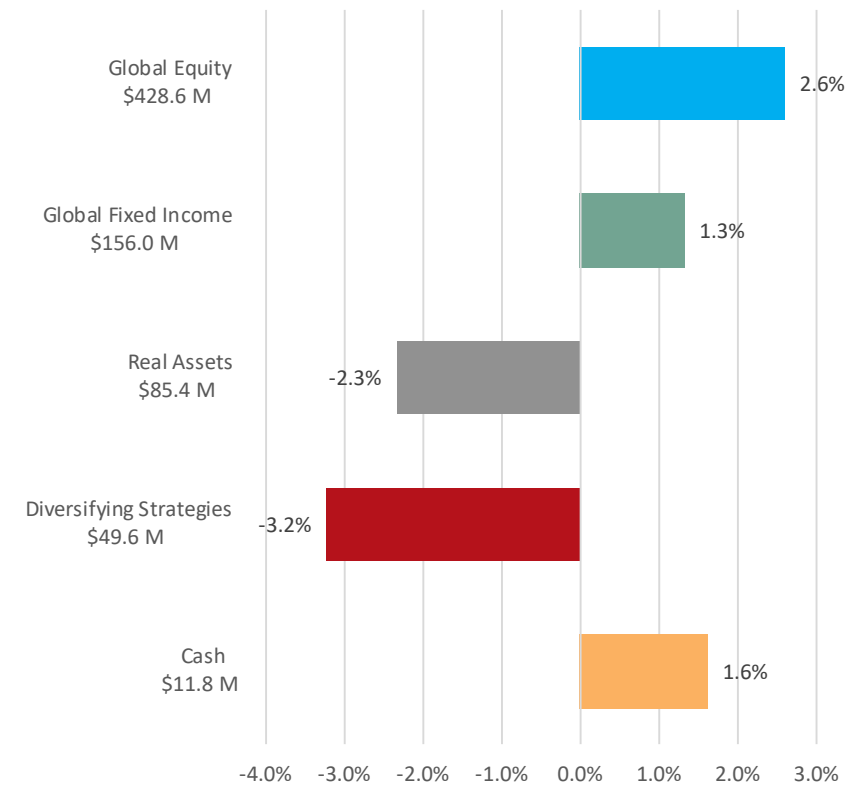
ENDOWMENT FUND UPDATE:  
JUNE 30, 2019

# MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

**Total Pool: \$731.4 Million as of 6/30/2019**



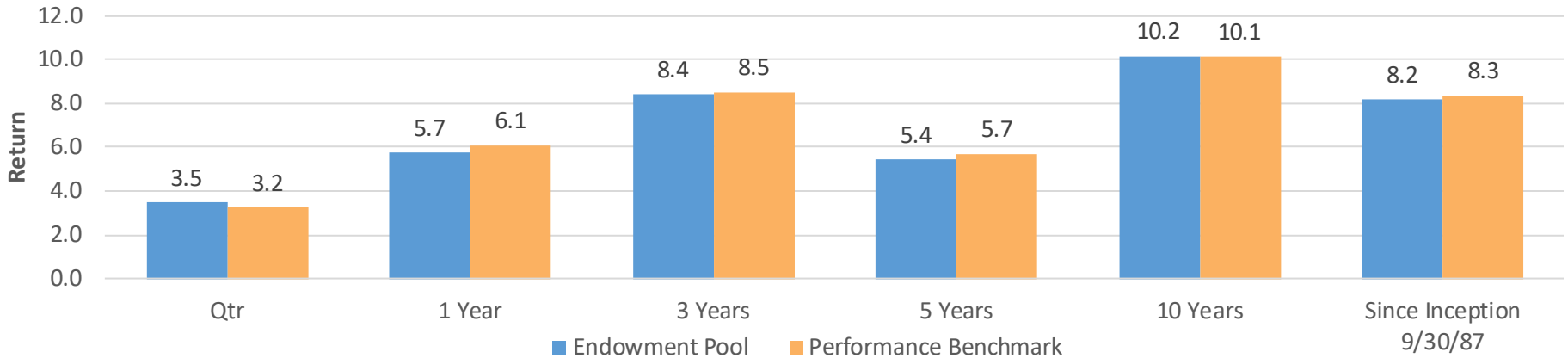
## Over/Under Allocation to Long-Term Policy Targets



Note: Long-Term Policy Allocations: Global Equity 56%, Global Fixed Income 20%, Real Assets 14%, and Diversifying Strategies 10%  
Total sum of allocation may not equal 100% due to rounding.

# TOTAL ENDOWMENT POOL PERFORMANCE (JUNE 30, 2019)

## TOTAL POOL: \$731.4 MILLION



- Over the one-year period, the endowment returned 5.7%. Non-U.S. equity (+0.3%) and hedge funds (-0.3%) hurt performance, while private equity (+17.9%) did well.
- Three- and five-year returns were weighed down by diversifying strategies and farmland exposure.
- On the ten-year period, the endowment posted a strong 10.2% return, supported by solid returns from U.S. equities (+14.4%), real assets (+11.1%), and private equity (+11.4%).

Endowment Pool	Quarter Ending
Market Value Change	June-2019
Beginning Market Value	\$701.9 M
Net Contributions	\$5.2 M
Gain/Loss	\$24.3 M
Ending Market Value	\$731.4 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 (JUN 30, 2019)

	Current Allocation (%)	Policy Allocation (%)	Quarter ending Jun-2019	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Endowment Pool</b>			3.5	5.7	8.4	5.4	10.2	8.2	Sep-87
Performance Benchmark			3.2	6.1	8.5	5.7	10.1	8.3	
<b>GLOBAL EQUITY</b>	<b>58.6</b>	<b>56.0</b>	<b>3.7</b>	<b>5.9</b>	<b>12.1</b>	<b>6.7</b>	<b>11.7</b>	<b>8.0</b>	<b>Sep-87</b>
<b>Total U.S. Equity</b>			<b>3.6</b>	<b>7.0</b>	<b>13.4</b>	<b>9.0</b>	<b>14.4</b>	<b>9.3</b>	<b>Sep-87</b>
DJ U.S. Total Stock Market Index			4.1	8.9	14.0	10.1	14.7	9.6	
<b>Total Non-U.S. Equity</b>			<b>2.8</b>	<b>0.3</b>	<b>9.2</b>	<b>2.3</b>	<b>6.3</b>	<b>5.3</b>	<b>Sep-93</b>
Non-U.S. Equity Benchmark			2.7	0.3	9.2	2.3	6.6	5.5	
<b>Total Private Equity</b>			<b>7.0</b>	<b>17.9</b>	<b>16.5</b>	<b>12.9</b>	<b>11.4</b>	<b>4.2</b>	<b>Jan-04</b>
Private Equity Benchmark			4.7	11.9	17.0	13.1	16.7	11.8	
<b>GLOBAL FIXED INCOME<sup>1</sup></b>	<b>21.3</b>	<b>20.0</b>	<b>2.9</b>	<b>7.2</b>	<b>2.6</b>	<b>3.2</b>	<b>6.5</b>	<b>6.9</b>	<b>Sep-87</b>
<b>Total Public Fixed Income</b>			<b>2.8</b>	<b>7.0</b>	<b>2.5</b>	<b>3.1</b>	<b>6.4</b>	<b>6.9</b>	<b>Sep-87</b>
Bloomberg Barclays U.S. Aggregate			3.1	7.9	2.3	2.9	3.9	6.4	
<b>REAL ASSETS</b>	<b>11.7</b>	<b>14.0</b>	<b>4.2</b>	<b>7.4</b>	<b>4.5</b>	<b>4.3</b>	<b>11.1</b>	<b>10.3</b>	<b>Dec-06</b>
<b>Total Real Estate</b>			<b>0.6</b>	<b>5.9</b>	<b>5.9</b>	<b>8.3</b>	<b>-</b>	<b>10.6</b>	<b>Aug-13</b>
Real Estate Benchmark			1.5	6.6	6.0	8.5	-	10.8	
<b>Total Farmland<sup>2</sup></b>			<b>9.6</b>	<b>9.6</b>	<b>2.9</b>	<b>0.5</b>	<b>8.8</b>	<b>8.5</b>	<b>Dec-06</b>
NCREIF Cornbelt Index			2.3	2.3	1.5	0.2	8.0	9.2	
<b>DIVERSIFYING STRATEGIES<sup>1</sup></b>	<b>6.8</b>	<b>10.0</b>	<b>2.6</b>	<b>0.3</b>	<b>1.8</b>	<b>2.4</b>	<b>-</b>	<b>2.6</b>	<b>May-13</b>
<b>Total Hedge Funds</b>			<b>2.3</b>	<b>-0.3</b>	<b>1.5</b>	<b>2.3</b>	<b>-</b>	<b>2.4</b>	<b>May-13</b>
HFRI Fund Weighted Composite Index			1.7	1.3	4.9	2.9	-	3.6	
<b>CASH</b>	<b>1.6</b>	<b>0.0</b>	<b>0.5</b>	<b>2.0</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>0.8</b>	

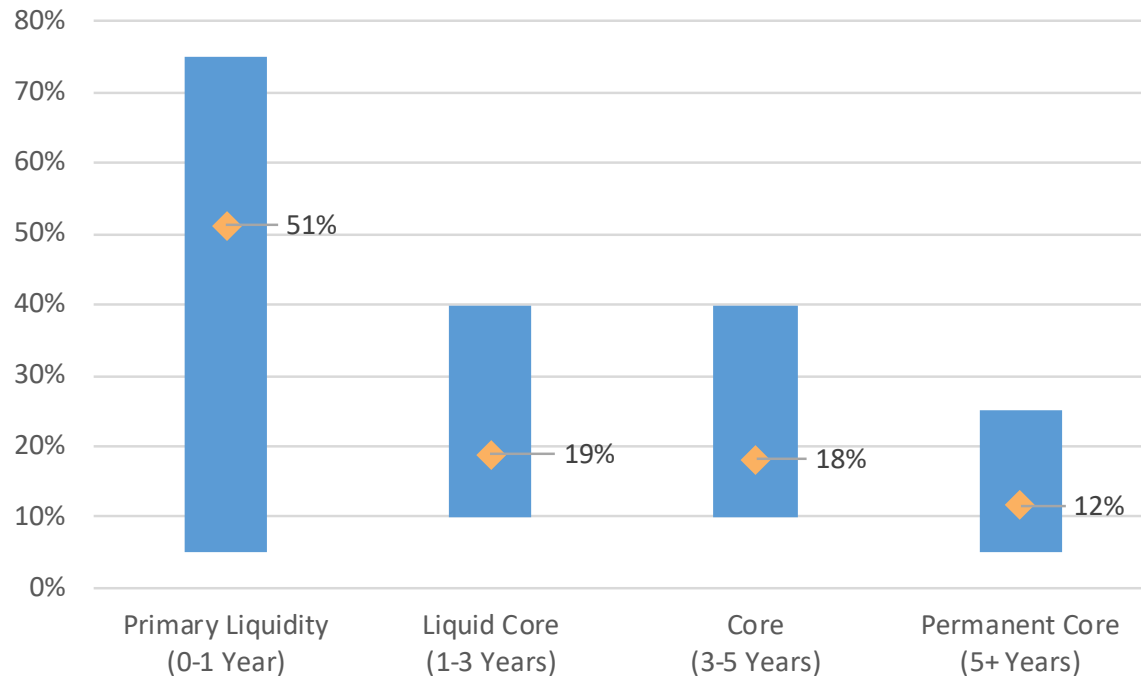
<sup>1</sup>Global Fixed Income and Diversifying Strategies include allocations and performance of private investments.

<sup>2</sup>Farmland is valued annually on June 30. As such, the one-year return reflected above is the one-year return for Farmland as of June 30, 2019.

OPERATING POOL UPDATE:  
JUNE 30, 2019

# LIQUIDITY LAYERS: OPERATING POOL (JUNE 30, 2019)

## OPERATING POOL LIQUIDITY LAYERS AS OF JUNE 30, 2019

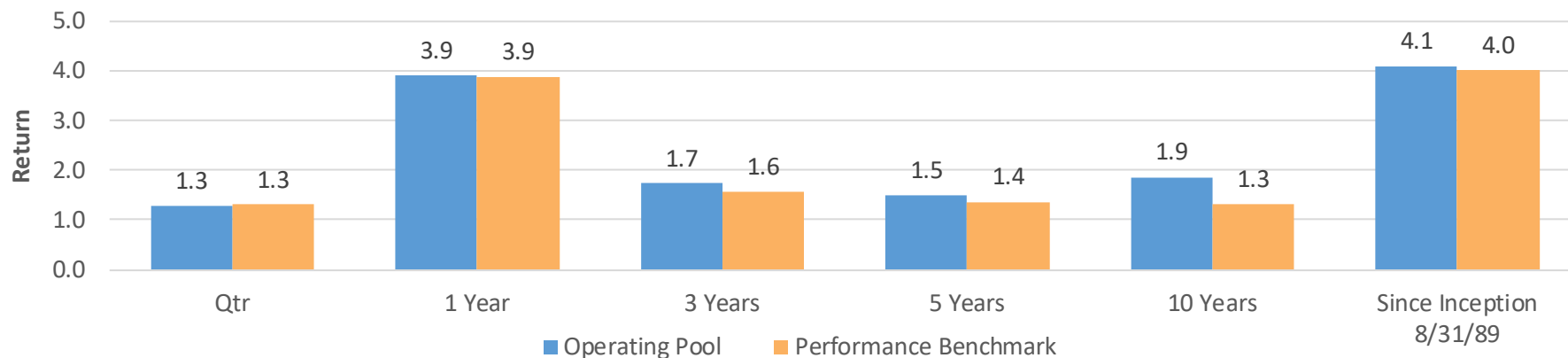


- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Board-approved ranges are depicted by the bars, while the diamonds represent the actual allocation.
- Funds expected to be used within one year are invested in the primary liquidity layer.
- 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.

# TOTAL OPERATING POOL PERFORMANCE (JUNE 30, 2019)

## TOTAL POOL: \$2.63 BILLION



- Over the trailing one-year period ending June 30, 2019, the Operating Pool returned 3.9%, matching the benchmark return.
  - The majority of the Operating Pool's managers outperformed their respective benchmarks during the period.
- Over longer time periods, the Operating Pool has exceeded the benchmark on a consistent basis.
  - The Operating Pool's managers have each met or outperformed their respective benchmarks since inception.

Market Value Change	Quarter Ending June-2019
Beginning Market Value	\$2,638.1 M
Net Contributions	(\$43.5 M)
Gain/Loss	\$33.1 M
Ending Market Value	\$2,627.7 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

## 2010-2019 Annual Returns of Key Indices

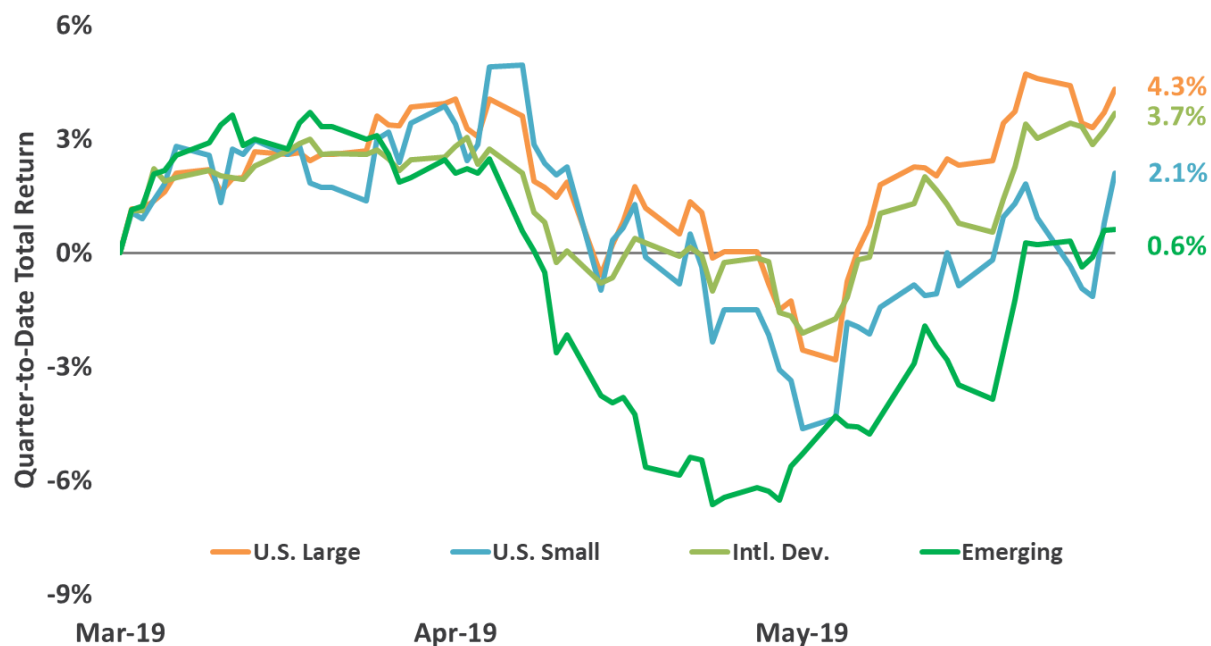
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year annual	10-year annual
MLPs 35.9%	MLPs 13.9%	Global REIT 27.7%	Small Cap 38.8%	Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Bonds 0.0%	Large Cap 18.5%	Large Cap 10.7%	Large Cap 14.7%
Small Cap 26.9%	Bonds 7.8%	Emerging Markets 18.2%	Large Cap 32.4%	Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	High Yield -2.1%	Small Cap 17.0%	Small Cap 7.1%	Small Cap 13.4%
Global REIT 19.6%	High Yield 5.0%	Int'l 17.3%	MLPs 27.6%	Bonds 6.0%	Hedge Funds -0.3%	High Yield 17.1%	Large Cap 21.8%	Hedge Funds -4.0%	MLPs 17.0%	Global REIT 4.9%	Global REIT 10.6%
Emerging Markets 18.9%	Large Cap 2.1%	Small Cap 16.3%	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 14.5%	High Yield 4.7%	High Yield 9.2%
High Yield 15.1%	Small Cap -4.2%	Large Cap 16.0%	Hedge Funds 9.0%	MLPs 4.8%	Int'l -0.8%	Emerging Markets 11.2%	Global REIT 10.4%	Global REIT -5.6%	Int'l 14.0%	Bonds 2.9%	MLPs 8.2%
Large Cap 15.1%	Hedge Funds -5.7%	High Yield 15.8%	High Yield 7.4%	Hedge Funds 3.4%	Small Cap -4.4%	Global REIT 4.1%	Hedge Funds 7.8%	Small Cap -11.0%	Emerging Markets 10.6%	Emerging Markets 2.5%	Int'l 6.9%
Int'l 7.7%	Global REIT -6.5%	MLPs 4.8%	Global REIT 3.7%	High Yield 2.5%	High Yield -4.5%	Bonds 2.6%	High Yield 7.5%	MLPs -12.4%	High Yield 9.9%	Int'l 2.2%	Emerging Markets 5.8%
Bonds 6.5%	Int'l -12.1%	Hedge Funds 4.8%	Bonds -2.0%	Emerging Markets -2.2%	Emerging Markets -14.9%	Int'l 1.0%	Bonds 3.5%	Int'l -13.8%	Hedge Funds 6.1%	Hedge Funds 2.2%	Bonds 3.9%
Hedge Funds 5.7%	Emerging Markets -18.4%	Bonds 4.2%	Emerging Markets -2.6%	Int'l -4.9%	MLPs -32.6%	Hedge Funds 0.5%	MLPs -6.5%	Emerging Markets -14.6%	Bonds 6.1%	MLPs -7.2%	Hedge Funds 3.2%

Note: See disclosure section for a description of key indices.

# GLOBAL EQUITIES PERFORMANCE

- Global equities posted positive returns for the second consecutive quarter, but experienced elevated volatility in May on heightened U.S. – China trade tensions. Domestic equity outperformed both International Developed and Emerging Markets, while Frontier Market equities displayed impressive resiliency against a tenuous global growth backdrop.
- Stylistically, domestic value underperformed growth, a theme that has been in place most of the current business cycle, and domestic small cap lagged large cap, driving the relative valuation disparity between small and large cap wider during the quarter.

**Global Equity 2Q-2019 Performance (in USD)**

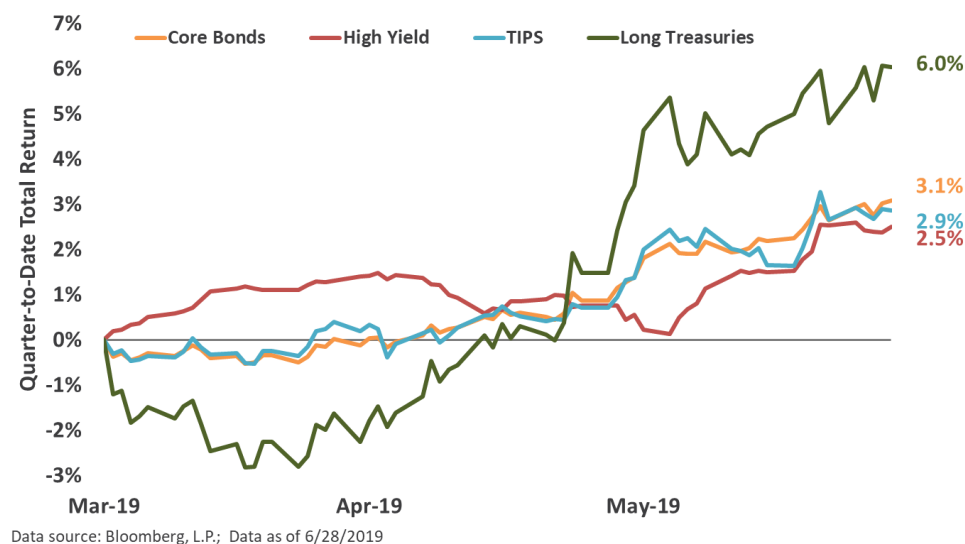


Data source: Bloomberg, L.P.; Data as of 6/28/2019

# FIXED INCOME PERFORMANCE

- U.S. Treasury interest rates declined further, as the 10-Year Treasury Note Yield dipped below 2% for the first time since 2016. As such, rate-sensitive sectors rallied, with Core bonds generating a 3.1% return, outpacing below investment-grade credit.
- The longer-duration profile of investment grade credit aided returns in that sector, with the Barclays Credit Index generating a solid 4.3% quarterly return as credit spreads generally appeared stable, despite growing macro concerns.
- TIPS essentially matched the impressive performance of nominal Treasuries, despite a modest move lower in breakeven inflation expectations and steep declines across oil prices.

Fixed Income 2Q-2019 Performance

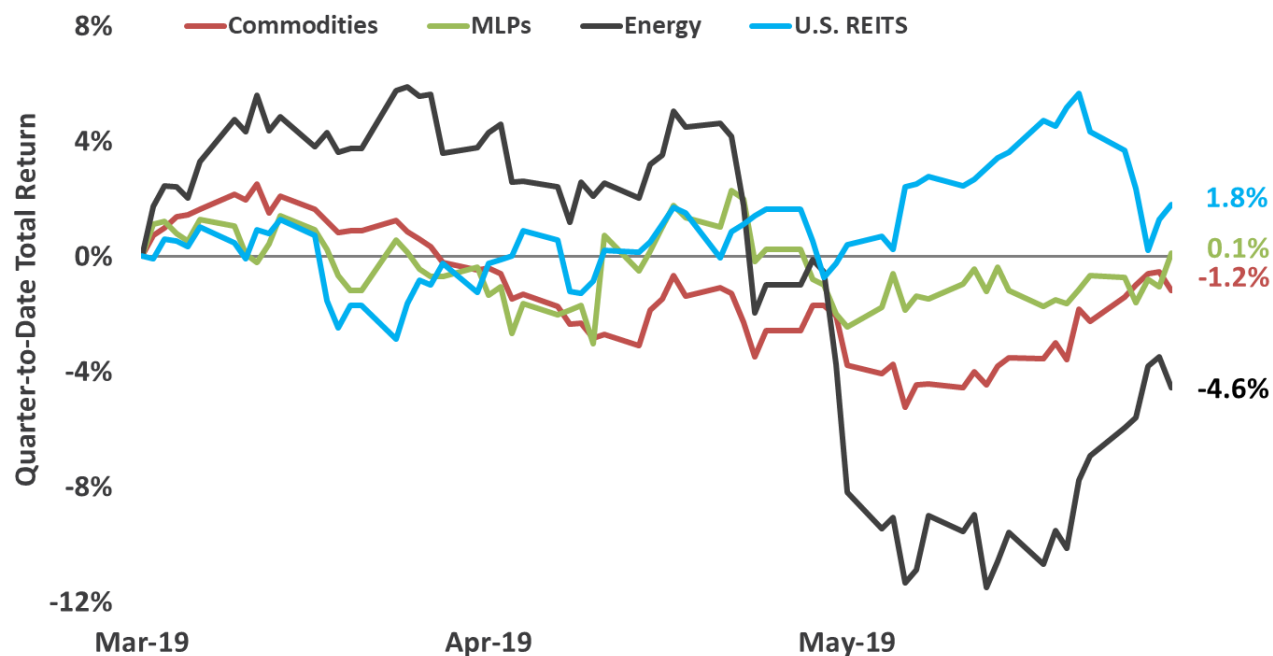




# REAL ASSETS PERFORMANCE

- Following a notably strong first quarter, most major real assets sectors generated modest performance, with precious metals the standout outperformer amid heightened geopolitical risks and elevated safe haven flows. Energy infrastructure performance moderated during the quarter after posting outsized returns in the first quarter. Trade-related global growth concerns, continued strong U.S. crude oil production, and energy spot price volatility were key headwinds.
- U.S. real estate investment trusts (REITs) performance remained positive and through the second quarter remained one of the strongest performing major asset categories on a year-to-date basis.

## Real Assets 2Q-2019 Performance

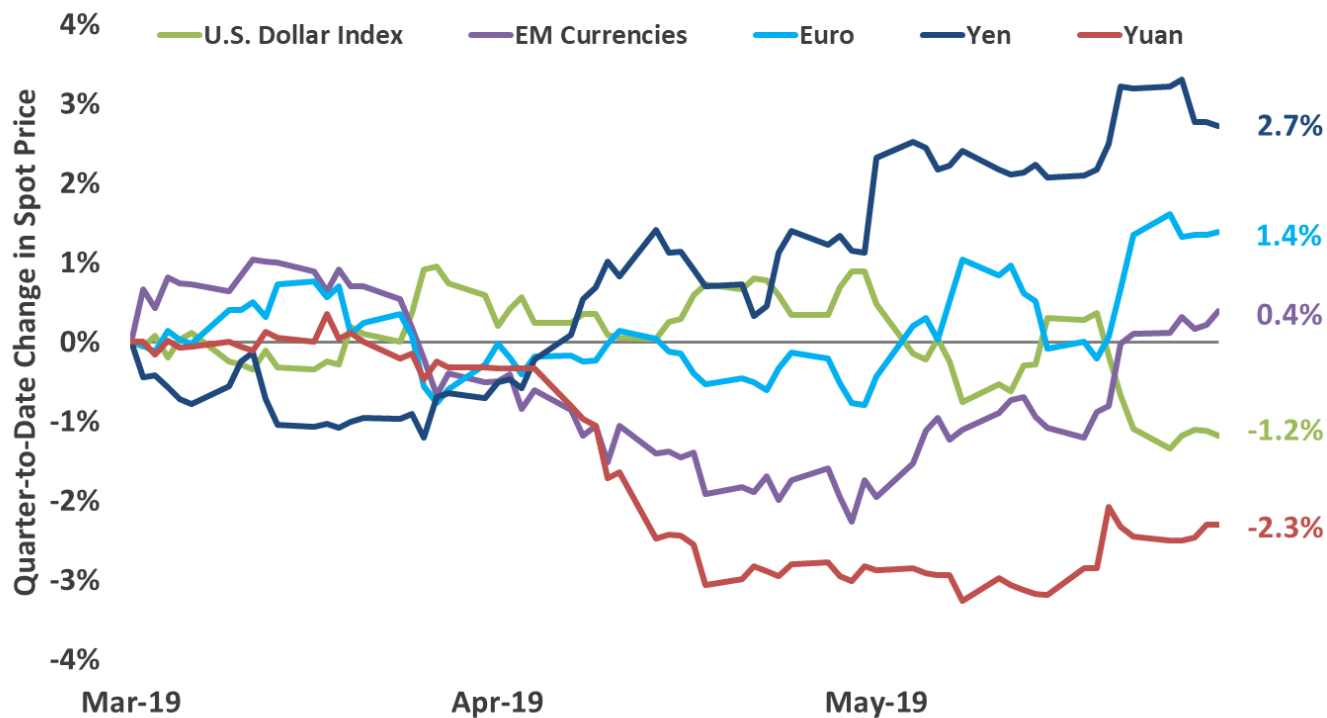


Data source: Bloomberg, L.P.; Data as of 6/28/2019

# CURRENCY PERFORMANCE

- During the second quarter, the U.S. Dollar decreased modestly
- The Yen was the strongest performer, followed by the Euro, while the Yuan declined.

## Global Currency 2Q-2019 Change in Spot (Base: USD)



Data source: Bloomberg, L.P.; Data as of 6/28/2019

# DISCLOSURES

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**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](http://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](http://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](http://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.msicbarra.com](http://www.msicbarra.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.msicbarra.com](http://www.msicbarra.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](http://www.hfri.com)

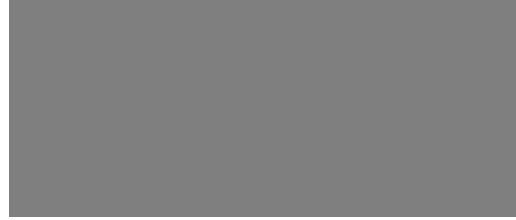
**Bonds** are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. [www.barclays.com](http://www.barclays.com)

**High Yield** is represented by the Barclays U.S. Corporate High Yield Index. [www.barclays.com](http://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](http://www.ftse.com)

**MLPs** are represented by the Alerian MLP Index. [www.alerian.com](http://www.alerian.com)

**Hedge Funds** are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. [www.hfri.com](http://www.hfri.com)



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