



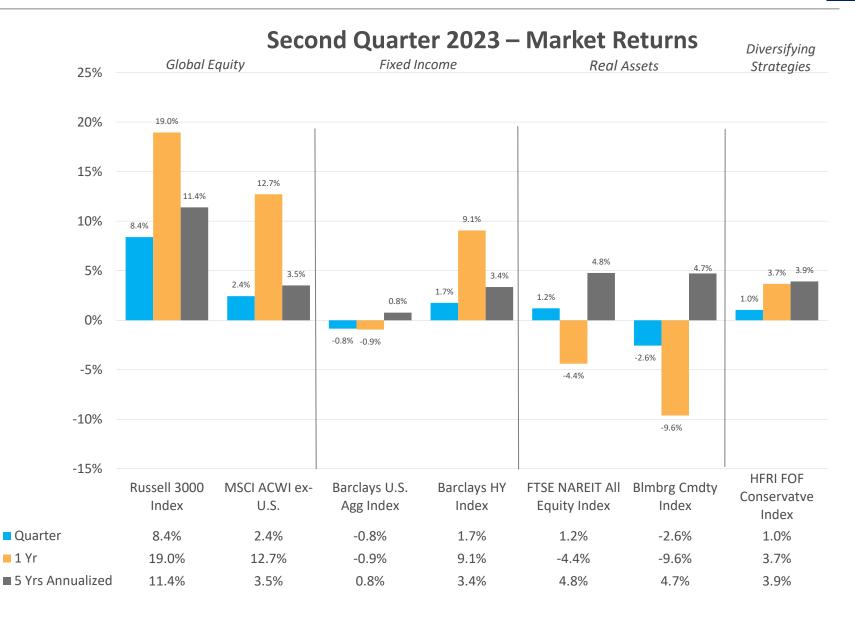
Reported to the Board of Trustees September 21, 2023

# Second Quarter 2023 Investment Update

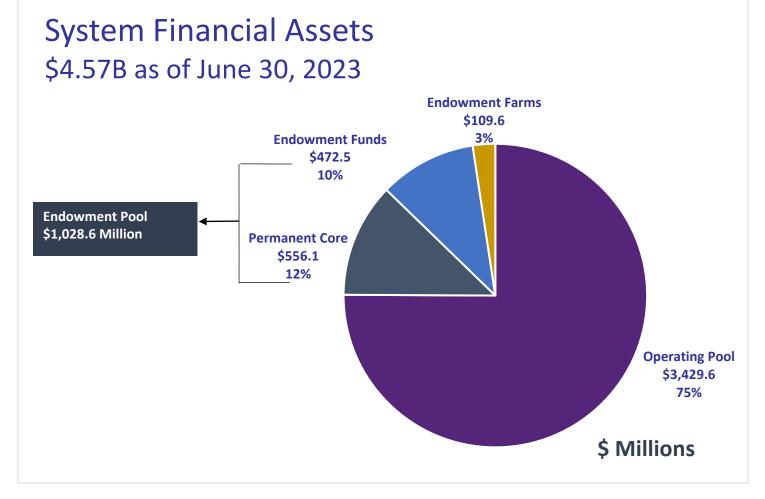
PREPARED FOR THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS SYSTEM

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# MARKET OVERVIEW AND SYSTEM ASSETS

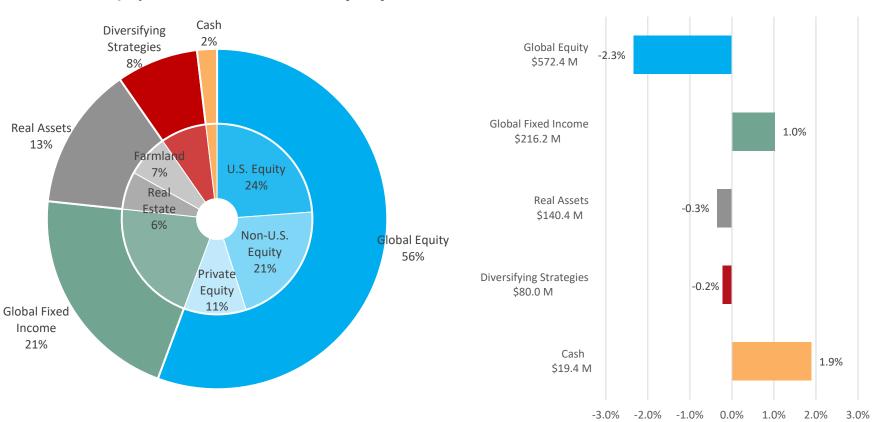


Data sources: Lipper and Hedge Fund Research



- The System's financial assets were valued at \$4.57 billion as of June 30, 2023.
- The Operating Pool was valued at \$3.43 billion (ex-Permanent Core). The permanent core investment (gray slice) is a long-term investment of operating cash in the Endowment Pool to enhance distributions to invested units.
- The combined Endowment Pool is valued at \$1.03 billion (gray and blue slices) and is discussed further on the following slides.

# ENDOWMENT POOL UPDATE: JUNE 30, 2023



## Total Pool: \$1,028.6 Million as of 6/30/2023

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**Over/Under Allocation** 

to Long-Term Policy Targets

### Total Pool: \$1,028.6 Million



- Over the one-year period, the endowment returned 6.4%, underperforming the benchmark. Contributing to relative performance was real estate (-5.8%) and fixed Income (+0.1%), while private equity (-3.5%) and farmland (-1.1%) detracted from relative performance.
- Over the ten-year period, the endowment posted a 6.9% return, trailing the benchmark. Contributing to relative performance was fixed income (+2.1), while detracting from relative performance was U.S. equity (+11.7%) and diversifying strategies (-0.9%).

Endowment Pool	Quarter Ending				
Market Value Change	June-2023				
Beginning Market Value	\$984.5 M				
Net Contributions	\$21.3 M				
Gain/Loss	\$22.8 M				
Ending Market Value	\$1,028.6 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.
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	Current	Policy	Quarter ending					Since	
	Allocation (%)	Allocation (%)	Jun-2023	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
Endowment Pool			2.3	6.4	9.2	6.5	6.9	8.0	Sep-87
Performance Benchmark			3.7	8.4	9.0	7.2	7.5	8.3	
GLOBAL EQUITY	55.7	58.0	4.2	11.6	12.5	8.8	9.4	8.1	Sep-87
Total U.S. Equity			7.8	18.6	14.6	10.8	11.7	9.6	Sep-87
U.S. Equity Benchmark			8.4	19.0	13.9	11.3	12.3	9.9	
Total Non-U.S. Equity			2.6	12.7	7.4	3.4	4.9	5.2	Sep-93
Non-U.S. Equity Benchmark			2.4	12.5	7.3	3.4	4.8	5.3	
Total Private Equity			0.0	-3.5	19.6	17.5	14.8	6.8	Jan-04
Private Equity Benchmark			0.0	0.6	19.0	13.6	15.0	12.6	
GLOBAL FIXED INCOME <sup>1</sup>	21.0	20.0	-0.1	0.1	-2.1	1.8	2.1	6.1	Sep-87
Total Public Fixed Income			-0.1	-0.5	-3.1	1.1	1.8	6.0	Sep-87
Bloomberg U.S. Aggregate			-0.8	-0.9	-4.0	0.8	1.5	5.5	
Total Private Fixed Income			0.0	6.9	16.9	16.0	-	17.1	Jan-18
Bloomberg U.S. Corporate HY Index			1.7	9.1	3.1	3.4	-	3.0	
REAL ASSETS <sup>1</sup>	13.7	14.0	-0.9	-3.0	12.7	8.8	6.1	10.1	Dec-06
Total Real Estate			-0.4	-5.8	7.0	4.6	-	8.0	Aug-13
Real Estate Benchmark			-2.8	-10.7	7.1	5.6	-	8.5	
Total Farmland <sup>2</sup>			-1.5	-1.1	19.2	14.2	6.2	10.1	Dec-06
NCREIF Cornbelt Index			21.0	21.0	18.6	12.1	6.9	10.5	
DIVERSIFYING STRATEGIES <sup>1</sup>	7.8	8.0	0.8	4.2	7.4	-4.8	-0.9	-0.9	May-13
Total Hedge Funds			0.9	4.2	7.0	-5.7	-1.4	-1.4	May-13
Hedge Fund Index			1.0	3.7	9.3	5.6	5.0	4.8	
CASH	1.9	0.0	1.2	3.3	1.1	1.3	-	1.0	

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

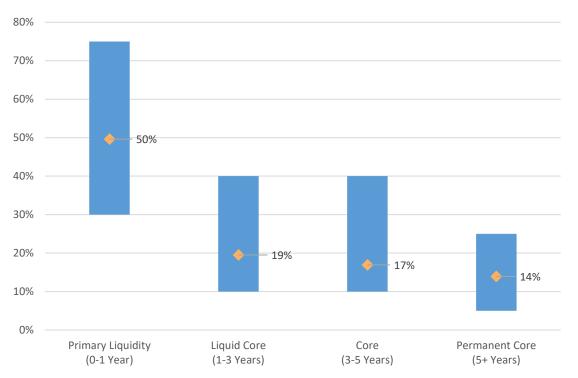
<sup>2</sup>Farmland directly owned by the Endowment is valued annually on June 30.

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# OPERATING POOL UPDATE: JUNE 30, 2023

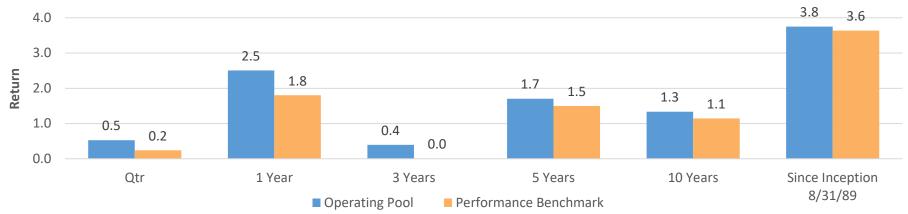
### OPERATING POOL LIQUIDITY LAYERS

AS OF June 30, 2023



- The asset allocation strategy for the Operating Pool consists of investing funds across four liquidity layers. Boardapproved 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 POOL: \$3.43 BILLION

- Over the trailing one-year period, the Operating Pool returned 2.5%, outperforming the benchmark return.
  - Most managers in the Operating Pool matched or outperformed their respective benchmarks over the period.
- Over the three-, five-, ten-year, and since inception periods, the Operating Pool has outperformed the benchmark.
  - The majority of the Operating Pool's managers have either met or outperformed their respective benchmarks over these time periods.

Operating Pool	Quarter Ending				
Market Value Change	June-2023				
Beginning Market Value	\$3,718.4 M				
Net Contributions	(\$308.1 M)				
Gain/Loss	\$19.3 M				
Ending Market Value	\$3,429.6 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.

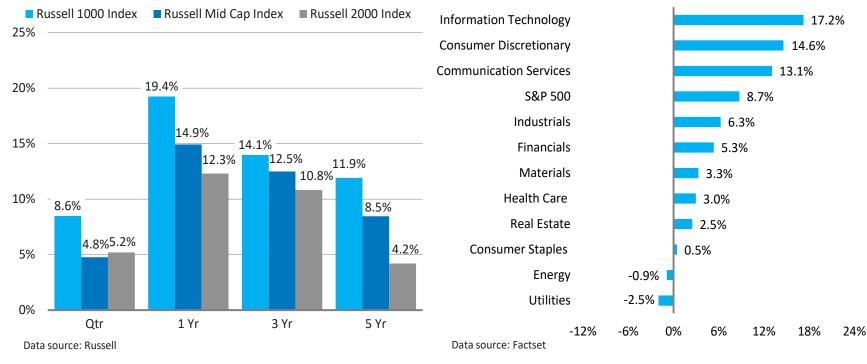
# APPENDIX: MARKET ENVIRONMENT

#### 2014-2023 Annual Returns of Key Indices

										5-year	10-year
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	annual	annual
Global REIT 15.0%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Bonds 0.0%	Large Cap 31.5%	Small Cap 20.0%	MLPs 40.2%	MLPs 30.9%	Large Cap 16.9%	Large Cap 12.3%	Large Cap 12.9%
Large Cap 13.7%	Bonds 0.5%	MLPs 18.3%	Int'l 25.0%	High Yield -2.1%	Small Cap 25.5%	Large Cap 18.4%	Large Cap 28.7%	Hedge Funds -5.2%	Int'l 11.7%	MLPs 6.2%	Small Cap 8.3%
Bonds 6.0%	Hedge Funds -0.3%	High Yield 17.1%	Large Cap 21.8%	Hedge Funds -4.0%	Int'l 22.0%	Emerging Markets 18.3%	Global REIT 25.7%	High Yield -11.2%	MLPs 9.7%	Int'l 4.4%	Int'l 5.4%
Small Cap 4.9%	Global REIT -0.8%	Large Cap 11.9%	Small Cap 14.6%	Large Cap -4.4%	Global REIT 21.9%	Hedge Funds 10.9%	Small Cap 14.8%	Bonds -13.0%	Small Cap 8.1%	Small Cap 4.2%	High Yield 4.4%
MLPs 4.8%	Int'l -0.8%	Emerging Markets 11.2%	Global REIT 10.4%	Global REIT -5.6%	Emerging Markets 18.4%	Int'l 7.8%	Int'l 11.3%	lnt'l -14.5%	High Yield 5.4%	High Yield 3.4%	Hedge Funds 3.4%
Hedge Funds 3.4%	Small Cap -4.4%	Global REIT 4.1%	Hedge Funds 7.8%	Small Cap -11.0%	High Yield 14.3%	Bonds 7.5%	Hedge Funds 6.0%	Large Cap -18.1%	Emerging Markets 4.9%	Hedge Funds 3.3%	Global REIT 3.2%
High Yield 2.5%	High Yield -4.5%	Bonds 2.6%	High Yield 7.5%	MLPs -12.4%	Bonds 8.7%	High Yield 7.1%	High yield 5.3%	Emerging Markets -20.1%	Hedge Funds 2.3%	Emerging Markets 0.9%	Emerging Markets 3.0%
Emerging Markets -2.2%	Emerging Markets -14.9%	Int'l 1.0%	Bonds 3.5%	Int'l -13.8%	Hedge Funds 8.4%	Global REIT -9.0%	Bonds -1.5%	Small Cap -20.4%	Bonds 2.1%	Bonds 0.8%	Bonds 1.5%
Int'l -4.9%	MLPs -32.6%	Hedge Funds 0.5%	MLPs -6.5%	Emerging Markets -14.6%	MLPs 6.6%	MLPs -28.7%	Emerging Markets -2.5%	Global REIT -25.0%	Global REIT 1.0%	Global REIT 0.1%	MLPs 0.9%

- Positive data that demonstrated economic resiliency coupled with favorable market momentum supported a risk-on environment to finish the quarter.
- U.S. equity markets ended the quarter higher, with the month of June driving a majority of performance. Growth outperformed value by approximately 8.5 percentage points over the quarter, led by the information technology, consumer discretionary, and communication services sectors.
- The theme of Artificial Intelligence (AI) was prevalent in the second quarter, benefiting chipmakers, as they are essential to the infrastructure of the AI industry. Energy and utilities were the two worst-performing sectors over the second quarter, as global demand slowed.

S&P 500 SECTOR PERFORMANCE

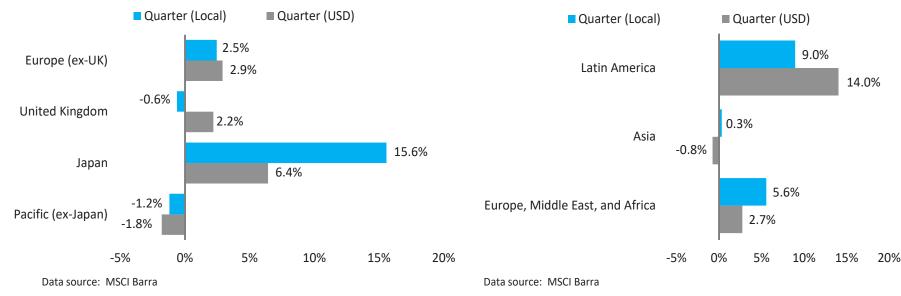


#### LARGE CAP, MID CAP, AND SMALL CAP

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- European equities produced positive returns over the quarter. The financials sector was the top performer, driven by improved expectations of near-term bank earnings. Similar to the U.S., technology, specifically AI themes, benefited semiconductor stocks.
- UK equities were slightly positive over the second quarter in U.S. dollar terms (USD) but down slightly in local currency. The UK market's significant exposure to energy and materials companies weighed on the country's performance due primarily to slowing demand and downward price pressures.
- Japanese equities finished the quarter with a gain of over 15% in local terms but under 7% in U.S. dollar terms due to the yen's weakness. The Bank of Japan's dovish stance has led to increasing divergence in interest rate expectations versus other central banks, driving the yen's continued depreciation relative to the USD.
- Emerging market equities finished the quarter with a slight gain. The AI market theme benefited countries with significant technology presence, like Taiwan and Korea. The Latin American region was a bright spot within emerging markets, as the region was up 14% for the quarter, led by Brazil amid expectations for rate cuts and continued growth. China's slow economic recovery hampered its equity market and offset gains elsewhere.

**MSCI EM REGIONAL QUARTERLY RETURNS** 



#### **MSCI EAFE REGIONAL QUARTERLY RETURNS**

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- Fixed income performance was challenged by a substantial rise in interest rates in June. Economic data prints continued to show a resilient labor market, spurring the Fed to continue its tightening campaign.
- The Federal Open Market Committee (FOMC) left policy rates unchanged during their June meeting but signaled further tightening would likely be necessary to cool sticky core inflation.
- After sharply steepening in March, the yield curve slope moved further into inverted territory. The yield curve has now been inverted for the better part of a year.
- Credit spreads rallied during the quarter with the broader risk rally.
   Higher-yielding segments of the fixed income market, primarily below investment-grade credit, outperformed as falling credit spreads and higher coupons offset the impact of rising interest rates.

# 2% 1% 0% -1% -0.8% -1.4% -1.4% -2%

Muni

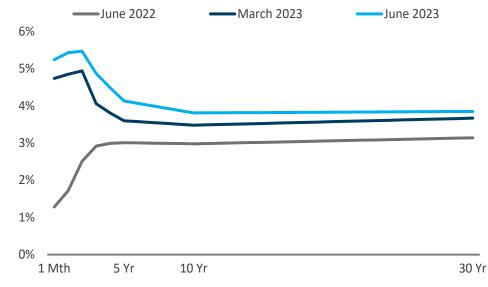
MBS

#### **U.S. TREASURY YIELD CURVE**

TIPS

Treasuries

Aggregate



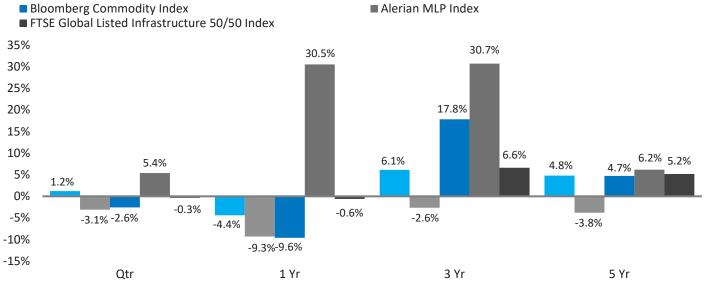
Data source: FactSet

#### BLOOMBERG U.S. FIXED INCOME INDEX RETURNS (2<sup>nd</sup> Quarter)

High Yield

Credit

- Global real estate returns were mixed across geographies in June, with U.S. Real Estate Investment Trusts (REITs) outperforming international REITs. While dispersion among REIT sectors remains, REIT indexes have generally held flat as real estate markets continued to seek guidance on future interest rate paths from central banks.
- Energy prices stabilized through the second quarter of 2023 after dropping sharply from the end of last year and into the first quarter. Oil oscillated around \$70/barrel as the market digested the significant production cuts announced by OPEC+ countries in early June. Natural gas improved significantly in June and finished the second quarter in positive territory with hotter-than-expected summer temperatures across the northern hemisphere.
- Global listed infrastructure sub-sectors posted disparate performance. MLPs were the strongest performer, benefiting from rising natural gas prices. Communication infrastructure rallied in June but remained the worst performer, falling over 6% for the quarter, as investors digested the potentially delayed 5G rollout among carriers.



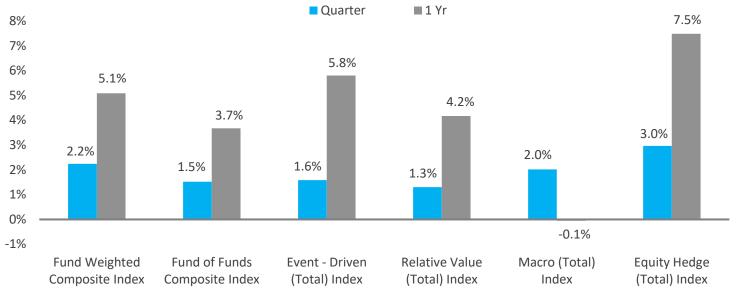
PUBLIC REAL ASSETS - REAL ESTATE, COMMODITIES, MLPs, AND INFRASTRUCTURE

■ FTSE EPRA/NAREIT Developed Property ex-U.S. Index

Data sources: NAREIT, FactSet, and Alerian

FTSE NAREIT All Equity Index

- Hedge fund returns were positive, with the HFRI Fund Weighted Composite Index up 2.2%. Each strategy's returns were positive, with the highest performer being the HFRI Equity Hedge (Total) Index returning 3.0%. The HFRI Event-Driven and HFRI Relative Value Indices returned 1.6% and 1.3%, respectively.
- Macro strategies slightly rebounded in the second quarter of 2023, up 2.0%, following the regional bank-related rates move in March. Discretionary and systematic strategies were challenged in navigating global markets as the directionality of energy prices, metals, and rates seen in 2022 have yet to be replicated in 2023. Macro strategies were prompt to create positions around the outlying sectors that trended either positively or negatively, such as agricultural goods, which have been prone to supply chain disruptions.
- Trend-following strategies broadly reeled in short U.S. rate positions in favor of more neutral holdings as leading
  indicators pointed toward June's rate hike freeze. April consisted of the most significant month of global equities selling
  since March 2022, while May ended as the most significant month of net buying of U.S. equities since 2010.
  Throughout the quarter, trend-followers capitalized on this reversal, adding to equities, as positive earnings data in
  large cap technology-related stocks outweighed continued fears surrounding regional bank liquidity pressure.



#### HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS

Data source: HFRI

# DISCLOSURES

### Disclosures

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### Disclosures

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

**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

**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

**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.mscibarra.com

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**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

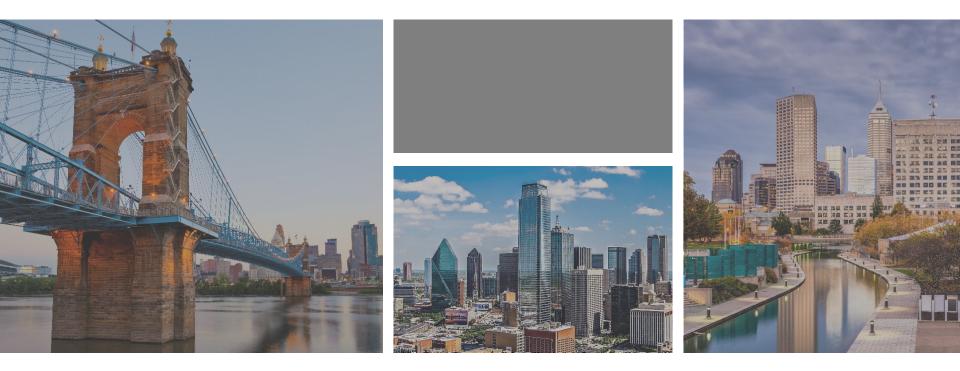
**Bonds** are represented by the Barclays U.S. Aggregate Bond Index which includes U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. www.barclays.com

High Yield is represented by the Barclays U.S. Corporate High Yield Index. 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

MLPs are represented by the Alerian MLP Index. www.alerian.com

Hedge Funds are represented by the Hedge Fund Research, Inc. Fund of Funds Composite Index. www.hfri.com



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