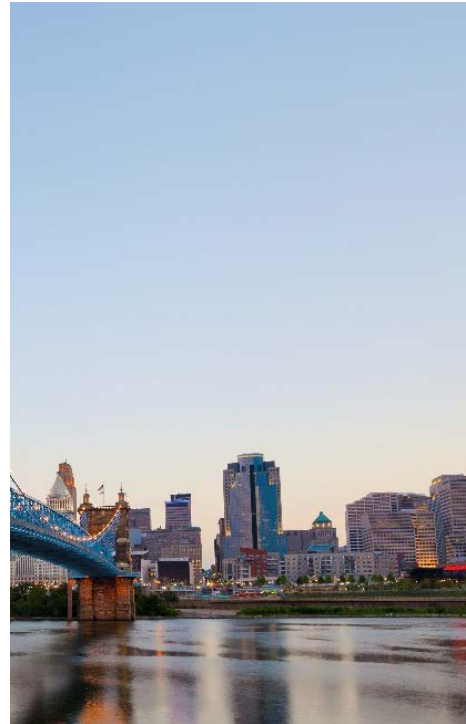
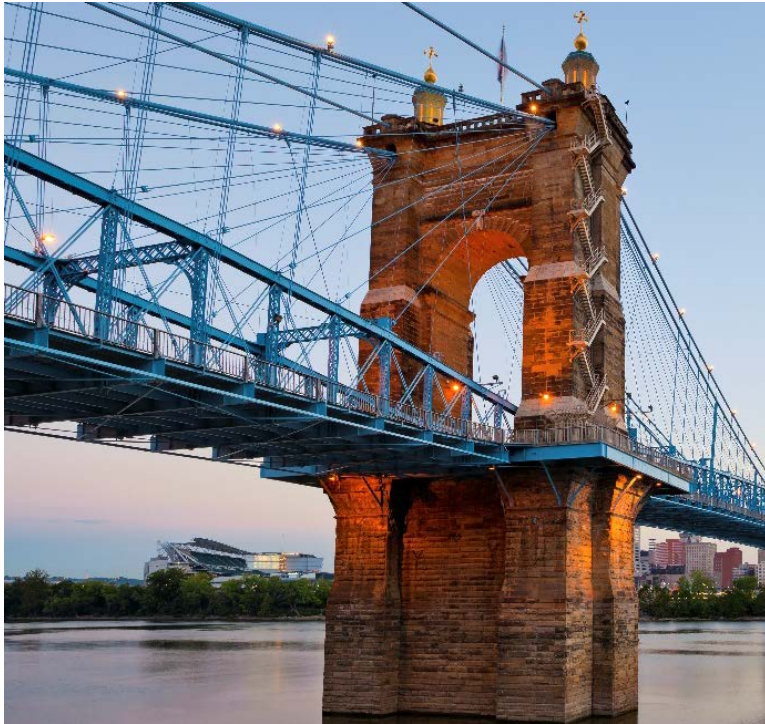


Reported to the Board of Trustees
September 27, 2018



UNIVERSITY OF ILLINOIS SYSTEM

SECOND QUARTER 2018 INVESTMENT UPDATE
PREPARED FOR THE BOARD OF TRUSTEES

August 2018

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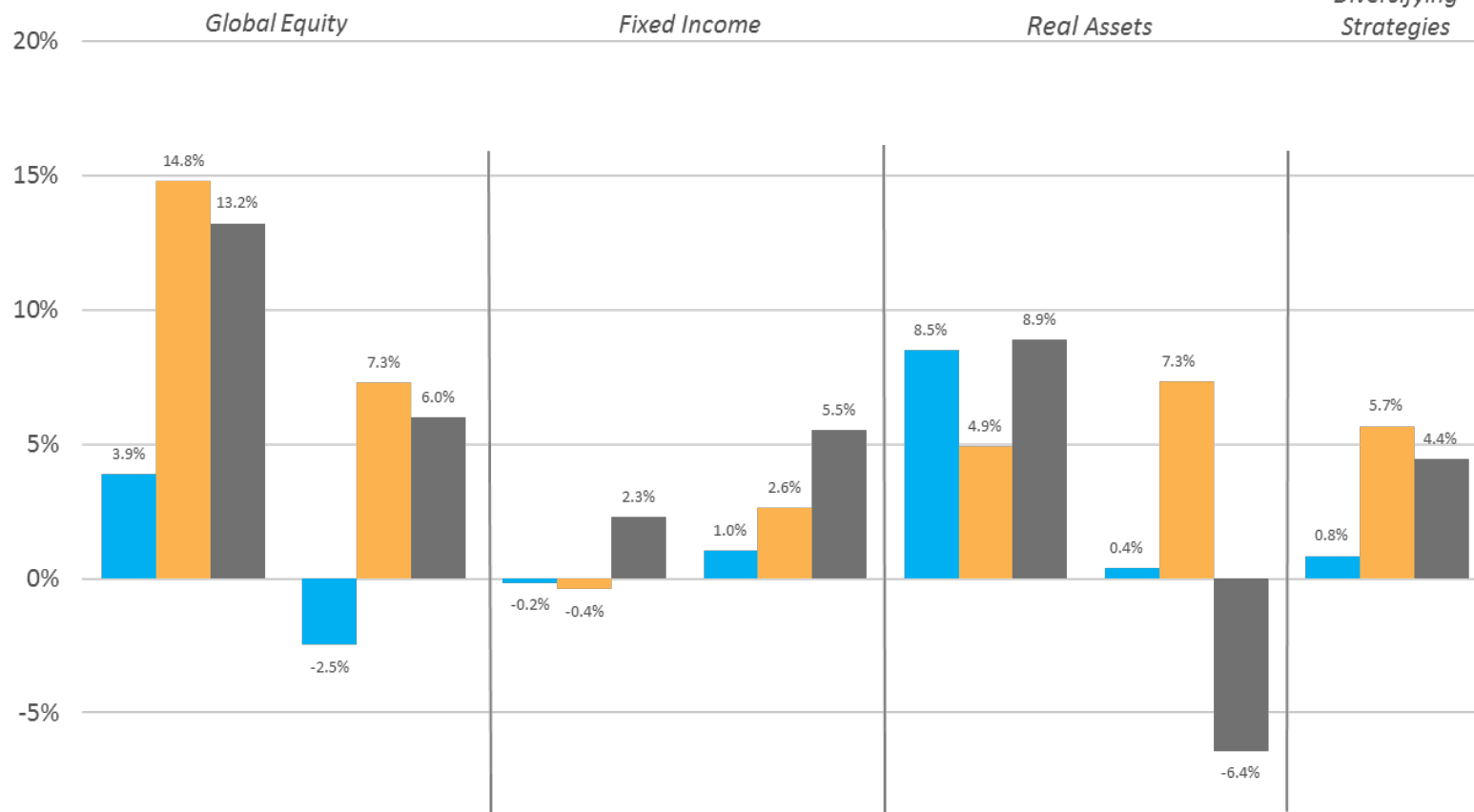
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MARKET OVERVIEW AND SYSTEM ASSETS

CAPITAL MARKET OVERVIEW

Second Quarter 2018 – Market Returns

*Diversifying
Strategies*



■ Quarter

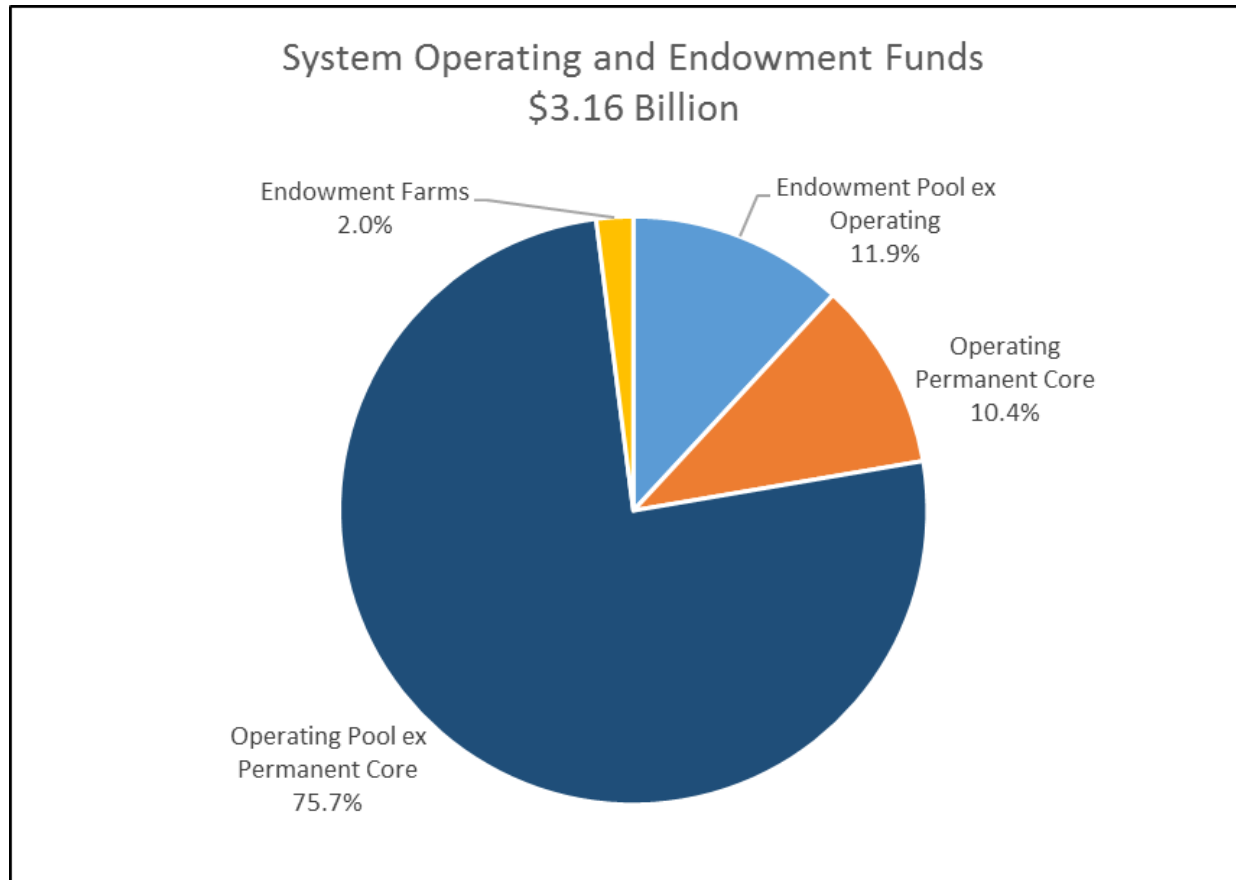
■ 1 Yr

■ 5 Yrs Annualized

Index	Quarter	1 Yr	5 Yrs Annualized
DJ US Total Stock Market Index	3.9%	14.8%	13.2%
MSCI ACWI ex-U.S.	-2.5%	7.3%	6.0%
Barclays U.S. Agg Index	-0.2%	-0.4%	2.3%
Barclays HY Index	1.0%	2.6%	5.5%
FTSE NAREIT All Equity Index	8.5%	4.9%	8.9%
Bimbrg Cmtdy Index	0.4%	7.3%	-6.4%
HFRI Fund Wtd Comp. Index	0.8%	5.7%	4.4%

Data sources: Lipper and Hedge Fund Research

SYSTEM OPERATING AND ENDOWMENT FUNDS: JUNE 30, 2018



- The System Operating and Endowment Funds was valued at \$3.16 billion as of June 30, 2018.
- The Operating Pool was valued at \$2.72 billion and maintains a permanent core investment in the Endowment Pool (orange pie slice); this is a long-term investment to enhance Operating Pool returns.
- The combined Endowment Pool is valued at \$705.8 million (orange and light-blue pie slices) and is discussed further on the following slides.
- The Pure Endowment Pool (excluding Operating) is valued at \$376.2 million.

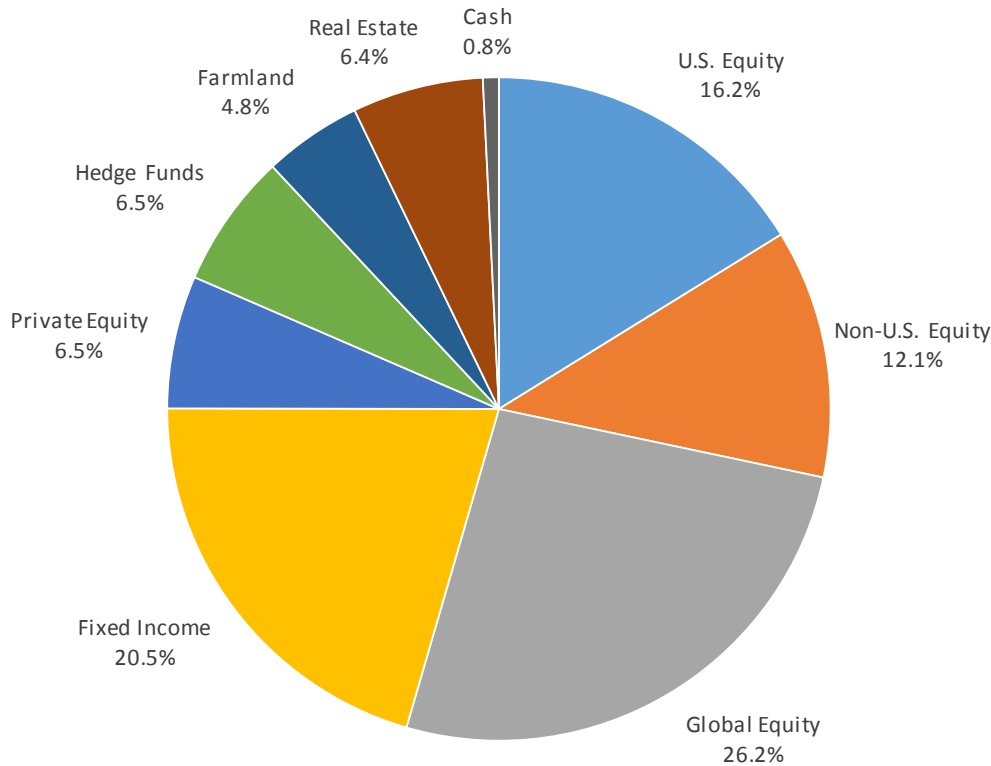
Note: The sum of the allocation may not equal 100% due to rounding.

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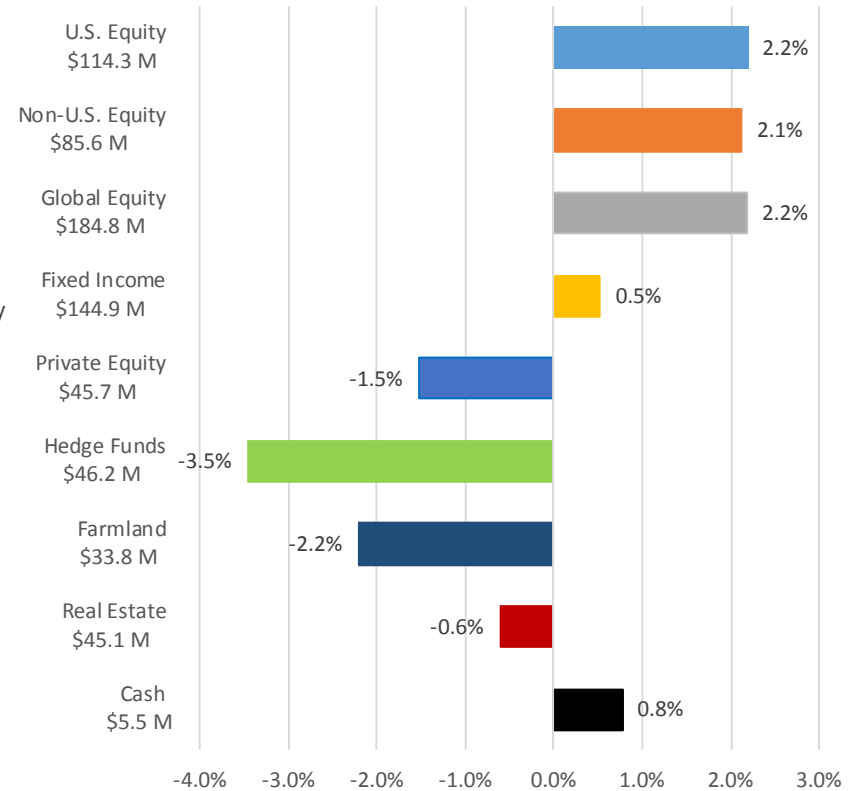
ENDOWMENT FUND UPDATE:
JUNE 30, 2018

MARKET VALUE AND ASSET ALLOCATION: ENDOWMENT POOL

Total Pool: \$705.8 Million as of 6/30/2018



Over/Under Allocation to Long-Term Policy Targets

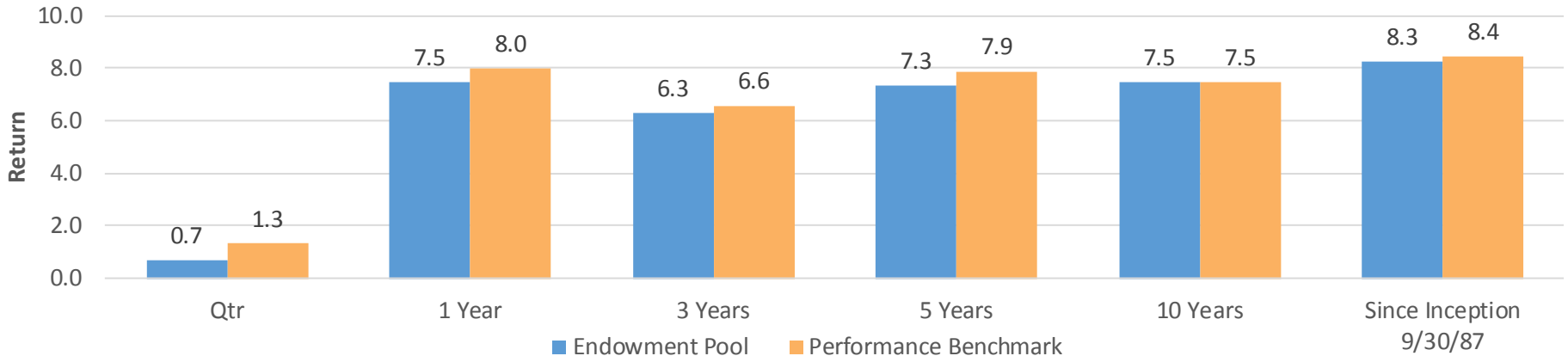


Note: Long-Term Policy Allocations: U.S. Equity 14%, Non-U.S. Equity 10%, Global Equity 24%, Private Equity 8%, Hedge Funds 10%, Fixed Income 20%, Farmland 7%, and Core Real Estate 7%

Note: Total sum of allocation may not equal 100% due to rounding.

TOTAL ENDOWMENT POOL PERFORMANCE (JUNE 30, 2018)

TOTAL POOL: \$705.8 MILLION



- During the quarter ending June 30, 2018, the Endowment Pool gained 0.7%, underperforming the benchmark. The main drivers of the Endowment Pool's quarterly return were:
 - Hedge Fund investments underperformed the HFRI Fund Weighted Composite Index by 3.6% during the quarter, returning -2.8%.
 - Real Estate investments also underperformed their respective benchmark by 0.5% during the quarter, returning 2.6%.
- Over the trailing one-year period ending June 30, 2018, the Endowment Pool returned 7.5%, slightly trailing the benchmark. The main drivers of the Endowment Pool's one-year return were:
 - Hedge Fund investments trailed their respective benchmark by 6.8%.
 - Private Equity investments performed well on an absolute basis with a return of 14.7%.

Endowment Pool Market Value Change	Quarter Ending June-2018
Beginning Market Value	\$707.1 M
Net Contributions	(\$6.2 M)
Gain/Loss	\$4.9 M
Ending Market Value	\$705.8 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, 2018)

	Quarter ending Jun-2018	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Endowment Pool	0.7	7.5	6.3	7.3	7.5	8.3	Sep-87
Performance Benchmark	1.3	8.0	6.6	7.9	7.5	8.4	
Total U.S. Equity	3.5	14.0	10.1	12.6	10.6	9.4	Sep-87
DJ U.S. Total Stock Market Index	3.9	14.8	11.6	13.2	10.3	9.6	
Total Non-U.S. Equity	-2.4	7.9	5.5	6.4	3.0	5.5	Sep-93
Non-U.S. Equity Benchmark	-2.5	7.7	5.5	6.3	2.7	5.7	
Total Global Equity	0.9	11.5	8.2	9.0	-	10.2	Jun-12
Global Equity Benchmark	0.8	11.1	8.3	9.5	-	10.7	
Total Fixed Income	-0.1	0.2	2.2	2.5	5.4	6.8	Sep-87
Bloomberg Barclays U.S. Aggregate	-0.2	-0.4	1.7	2.3	3.7	6.3	
Total Hedge Funds	-2.8	-1.1	2.5	3.1	-	3.0	May-13
HFRI Fund Weighted Composite Index	0.9	5.7	3.7	4.4	-	4.1	
Total Private Equity¹	3.9	14.7	12.3	11.9	6.9	3.3	Jan-04
Private Equity Benchmark	4.5	17.8	14.6	16.2	13.3	11.8	
Total Real Estate	2.6	6.8	8.6	-	-	11.5	Aug-13
Real Estate Benchmark	3.1	6.5	8.4	-	-	11.7	
Total Farmland²	-0.2	-0.2	-1.2	-1.3	8.6	8.4	Dec-06
NCREIF Cornbelt Index	2.6	2.6	-0.5	1.9	9.3	9.8	

¹The combined Adams Street Partners IRR at March 31, 2018 was 9.8% since inception.

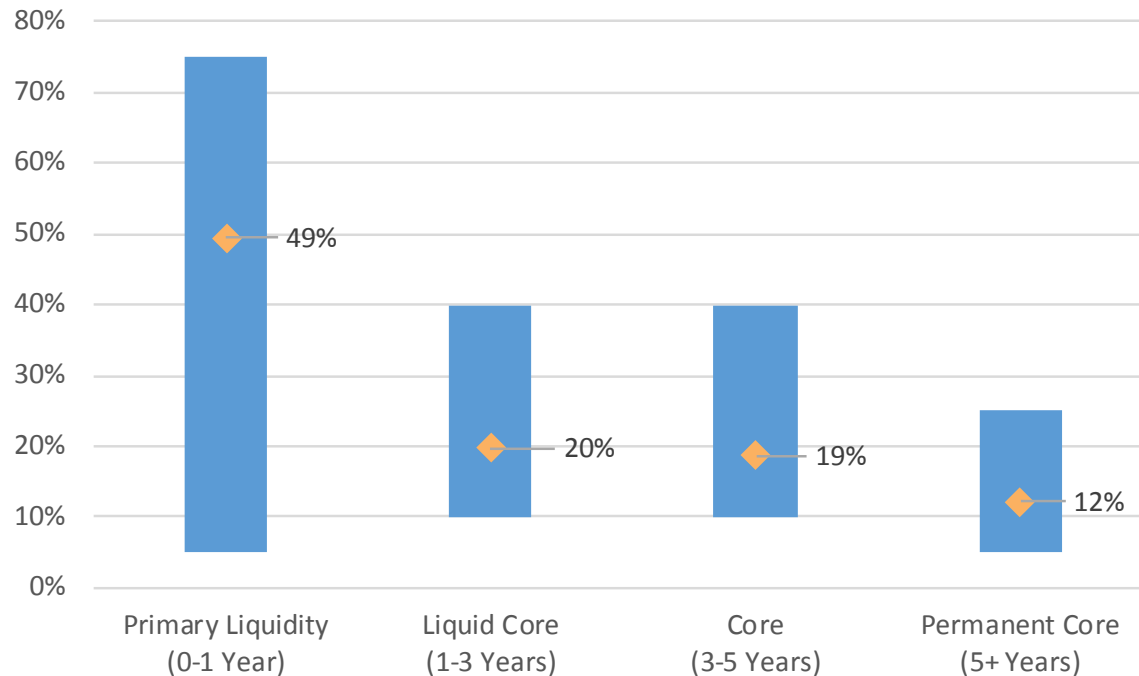
²Farmland is valued annually on June 30. As such, the one-year return reflected above is the one-year return for Farmland as of June 30, 2018.

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OPERATING POOL UPDATE:
JUNE 30, 2018

LIQUIDITY LAYERS: OPERATING POOL (JUNE 30, 2018)

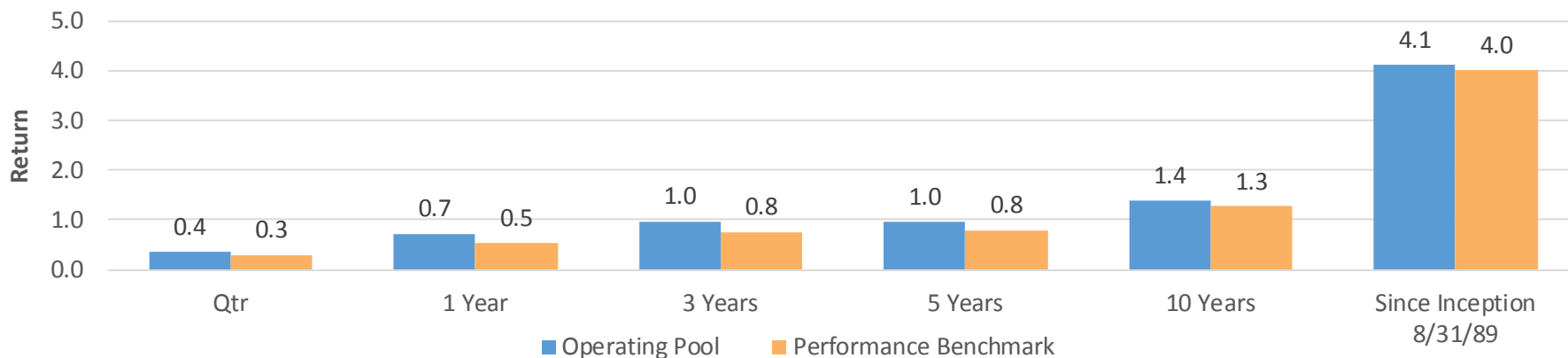
OPERATING POOL LIQUIDITY LAYERS AS OF JUNE 30, 2018



- 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 OPERATING POOL PERFORMANCE (JUNE 30, 2018)

TOTAL POOL: \$2.39 BILLION



- The Operating Pool returned 0.4% during the second quarter, slightly outperforming its benchmark.
 - Most of the Operating Pool’s managers performed either in-line or slightly better than their respective benchmarks during the quarter.
- Over the trailing one-year period ending June 30, 2018, the Operating Pool returned 0.7% while outperforming the benchmark.
 - The Operating Pool’s managers performed either in-line or slightly better than their respective benchmarks during the period.

Market Value Change		Quarter Ending June-2018
Beginning Market Value		\$2,322.8 M
Net Contributions		\$62.6 M
Gain/Loss		\$8.3 M
Ending Market Value		\$2,393.7 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.

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APPENDIX: MARKET ENVIRONMENT

MARKET ENVIRONMENT

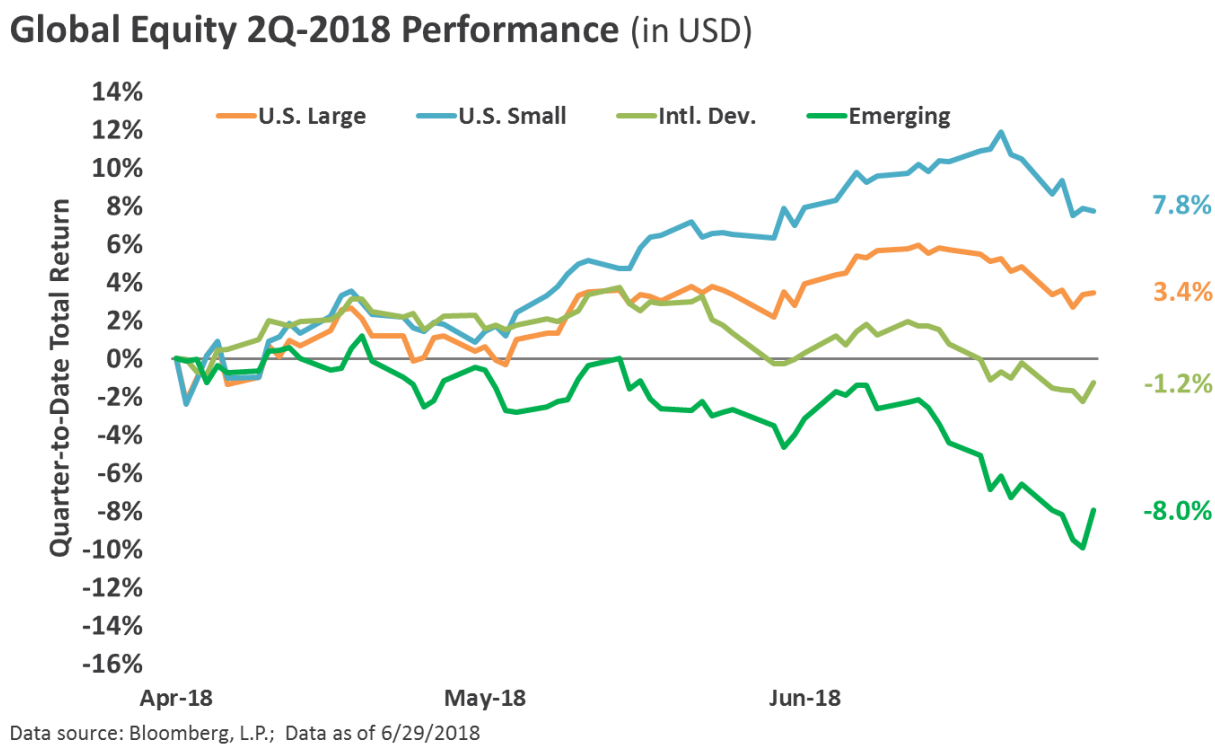
2009-2018 Annual Returns of Key Indices

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5-year annual	10-year annual
Emerging Markets 78.5%	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%	Small Cap 7.7%	Large Cap 13.4%	Small Cap 10.6%
MLPs 76.4%	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%	Large Cap 2.7%	Small Cap 12.5%	Large Cap 10.2%
High Yield 58.2%	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 1.0%	Int'l 6.4%	High Yield 8.2%
Global REIT 37.1%	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%	Global REIT 0.4%	Global REIT 6.0%	MLPs 6.5%
Int'l 31.8%	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%	High Yield 0.2%	High Yield 5.5%	Global REIT 4.9%
Small Cap 27.2%	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%	MLPs -0.6%	Emerging Markets 5.0%	Bonds 3.7%
Large Cap 26.5%	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%	Bonds -1.6%	Hedge Funds 3.5%	Int'l 2.8%
Hedge Funds 11.5%	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 -2.7%	Bonds 2.3%	Emerging Markets 2.3%
Bonds 5.9%	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 -6.7%	MLPs -4.1%	Hedge Funds 1.4%

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

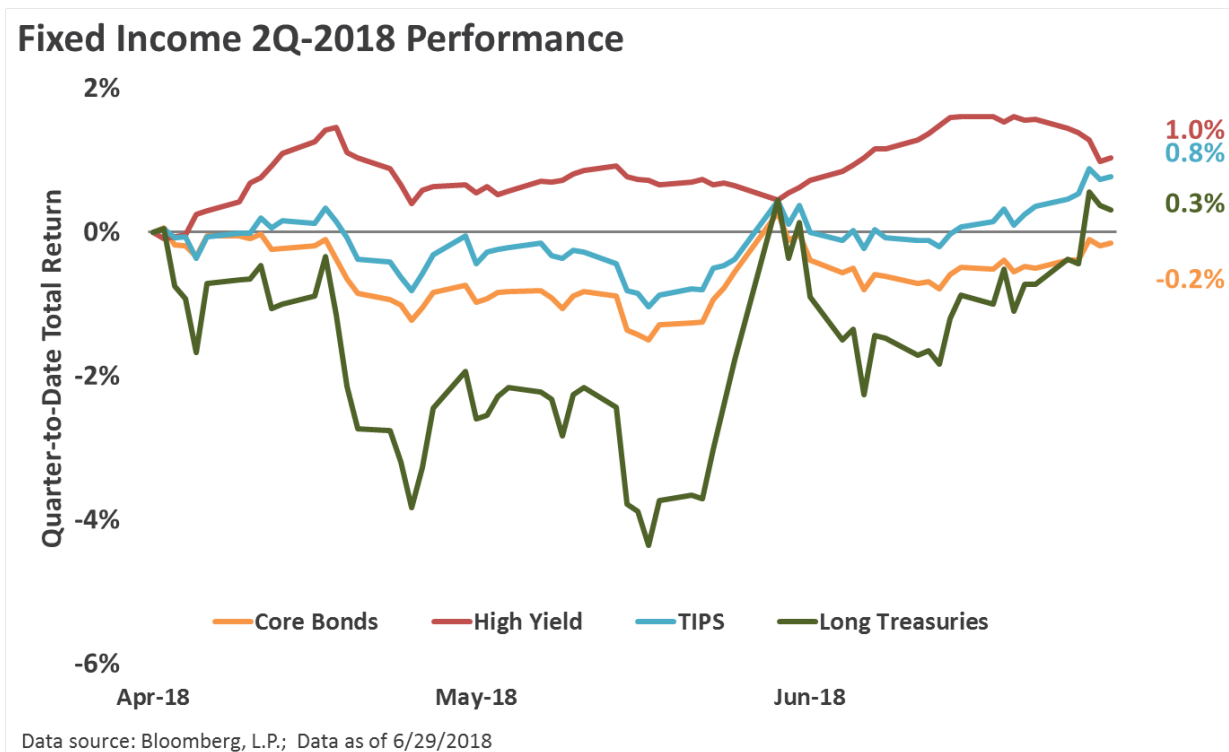
GLOBAL EQUITIES PERFORMANCE

- The discrepancy between large cap and small cap stocks dominated U.S. equity markets, as small caps rallied amidst the positive effects of last winter's tax reforms.
- Domestic equities broadly outpaced international equities, particularly emerging and frontier market equities that suffered from global trade concerns, the appreciation of the U.S. dollar, and country-specific fundamental weakness.
- Signs of fundamental weakness, coupled with central banks' continued tentative efforts to reduce monetary policy support, contributed to a somewhat stagnant quarter for international developed equities.



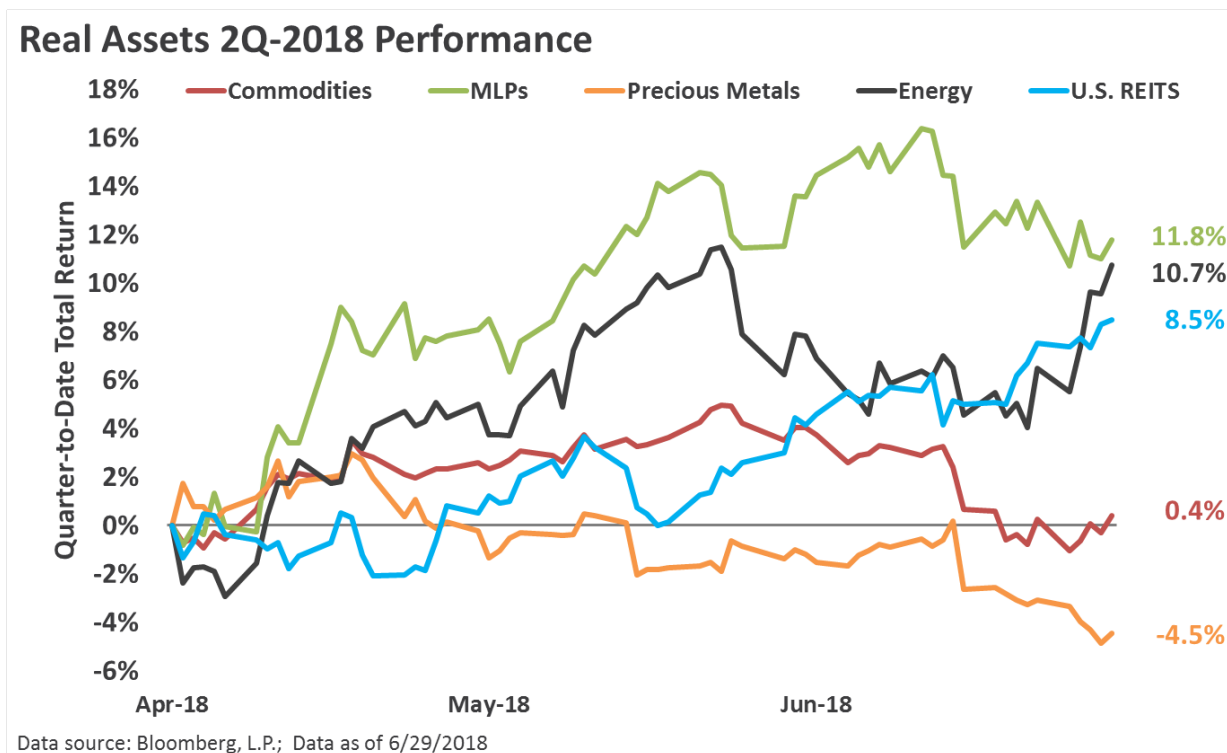
FIXED INCOME PERFORMANCE

- Rate-sensitive sectors, such as core bonds and investment-grade credit, continued to struggle as Treasury rates rose during the second quarter.
- Long Treasuries spent most of the second quarter in negative territory on expectations that the U.S. Federal Reserve will continue its efforts to tighten monetary policy and wind down its balance sheet.
- Below investment-grade, such as high yield bonds and bank loans, posted relative outperformance with yield spreads generally unchanged for the quarter.



REAL ASSETS PERFORMANCE

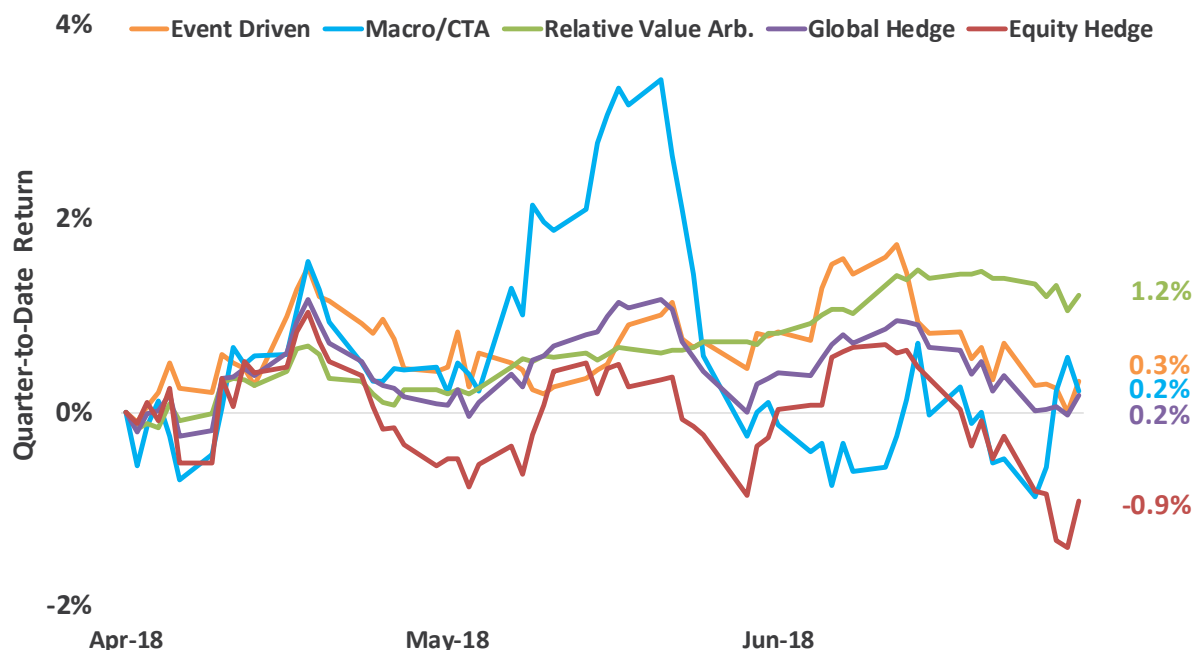
- Most real assets categories posted strong returns after a difficult start to the year.
- An increase in inflation expectations and robust economic growth, in conjunction with a rebound in energy spot prices and record high U.S. crude oil production, provided a positive fundamental backdrop for the recovery of energy master limited partnerships (MLPs) and pipelines.
- U.S. real estate investment trusts (REITs) steadily improved as real estate fundamentals strengthened and interest rate volatility moderated.
- As the U.S. Dollar rebounded, commodities and precious metals struggled.



DIVERSIFYING STRATEGIES PERFORMANCE

- Hedged equity strategies had a lackluster quarter, with most gains derived from managers focused on growth sectors like technology and healthcare.
- Macro/CTA strategies delivered mixed performance throughout the quarter, with rising interest rates supporting discretionary macro managers that focus on developed markets.
- Trend reversals in currencies versus the U.S. and in equity markets, particularly in Europe and Asia, hurt systematic macro strategies with long positions in those trends.
- Vigorous corporate activity proved supportive to merger arbitrage strategies, though opportunities for distressed managers remained somewhat limited.

Liquid Diversifying Strategies 2Q-2018 Performance



Data source: HFRI, Bloomberg, L.P.; Data as of 6/29/2018

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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.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

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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