PERFORMANCE REPORT

Independent
advice for
the institutional
investor

University of Illinois
Endowment and
Operating Pools

Second Quarter 2004

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CONTENTS

All rates of return presented in this report for time periods greater than one year are annualized. Rates of return are provided by the University. All rates of return contained in this report are net of investment management fees. Columns might not add to 100% because of rounding.

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General Market Comments

- The U.S. equity market, as measured by the Wilshire 5000 Index, advanced 1.3% during the second quarter. Large capitalization companies outperformed their smaller cap counterparts for the quarter while growth companies outperformed value companies. Continued strong corporate profit growth and solid GDP growth contributed to the quarter's gains.

- Non-U.S. equity markets returned -0.9% during the quarter, as emerging markets reversed their recent trend and significantly underperformed developed markets. The prospects of rising interest rates, high energy prices and a slowdown in China weighed heavily on international markets.

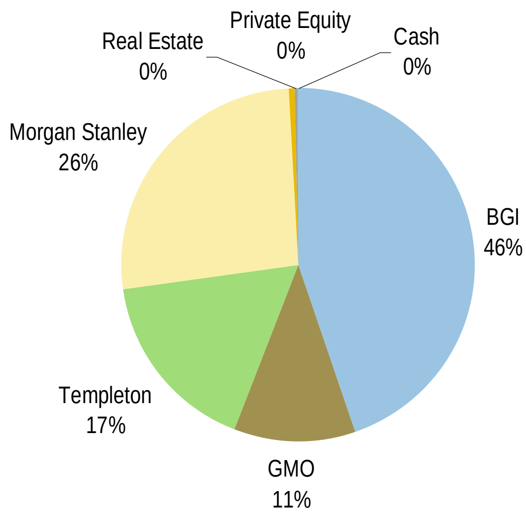
- The bond market returned -2.4% during the quarter. Higher quality securities performed better than lower quality securities and shorter maturities were favored to longer maturities as investors shifted from concerns regarding the sustainability of the economic recovery to inflationary concerns. The Federal Reserve increased its overnight lending rate, for the first time in over four years, from 1.00% to 1.25% on June 30.

University of Illinois
Combined Asset Allocation as of 6/30/2004

	U.S. Equity	Non-U.S. Stock	Bonds	Real Estate	Private Equity	Cash Equivalents	Total	Percent of Total
BGI	$97,423						$97,423	9.1%
GMO	$24,014						$24,014	2.2%
Templeton		$35,130				$1,235	$36,366	3.4%
Morgan Stanley Core Plus			$57,472				$57,472	5.4%
Edgewater					$165		$165	0.0%
Adams Street Partners					$212		$212	0.1%
Commonfund ERI II				$422			$422	0.0%
ARCH Development Fund I					$450		$450	0.0%
NTC Institutional MMF						$112	$112	0.0%
Commonfund MMF						$124	$124	0.0%
Total Endowment Pool	$121,437	$35,130	$57,472	$422	$827	$1,472	$216,760	20.3%
Separately Invested Endowment	$2,114		$846				$2,960	0.3%
Endowment Farms				$37,907		$201	$38,108	3.6%
Total Endowment	$123,551	$35,130	$58,318	$38,329	$827	$1,673	$257,828	24.1%
Commonfund Short Term						$152,827	$152,827	14.3%
Amervest			$48,071			$171	$48,242	4.5%
Western			$215,211			$315	$215,525	20.2%
Lincoln			$124,309			$4,303	$128,613	12.0%
Illinois Funds						$5,507	$5,507	0.5%
Total Operating Funds Pool	$0	$0	$387,591	$0	$0	$163,123	$550,714	51.5%
Operating Funds						$1,516	$1,516	0.1%
Current Funds	$268		$2,941			$10,660	$13,869	1.3%
Agency Funds						$3,403	$3,403	0.3%
Total Operating Funds	$268	$0	$390,532	$0	$0	$178,702	$569,501	53.3%
Construction Funds			$140,744			$43,129	$183,873	17.2%
Debt Service Reserve Funds			$20,675			$1,630	$22,305	2.1%
Bond Interest Sinking Funds						$907	$907	0.1%
Total Plant Funds	$0	$0	$161,418	$0	$0	$45,667	$207,086	19.4%
Other Funds						$0	$0	0.0%
BITs & Organization Funds	$75		$1,469			$33,091	$34,636	3.2%
Total Other Funds	$75	$0	$1,469	$0	$0	$33,091	$34,636	3.2%
Total University Assets	$123,894	$35,130	$611,737	$38,329	$827	$259,133	$1,069,050	100.0%

- The chart above details the combined assets of the University's Total Endowment Funds, Operating Funds, Plant Funds and Other Funds. The Construction Funds are detailed on page 4.11 of this report.

Endowment Pool Manager Allocation



Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Year	5 Year	10 Year
Endowment Pool	0.5%	17.3%	3.1%	2.0%	9.5%
Endowment Pool Ranks [1]	*19*	*36*	*67*	*84*	*69*
Performance Benchmark[2]	-0.1	16.3	3.8	2.3	9.5
Performance Benchmark Ranks	*51*	*47*	*55*	*80*	*69*
Barclays Global Investors	1.3	21.2	0.7	-0.7	11.6
Wilshire 5000	1.3	21.2	0.8	-1.0	11.5
GMO	-0.2	20.5	--	--	--
Russell 3000	1.3	20.5	--	--	--
Templeton	1.6	32.9	--	--	--
MSCI All-Country World ex-U.S. Index	-0.9	32.0	--	--	--
Morgan Stanley Core Plus	-0.8	3.1	6.1	7.0	7.5
Lehman Aggregate Bond Index	-2.4	0.3	6.4	6.9	7.4

Endowment Pool Performance Commentary

- The Endowment's return exceeded that of the performance benchmark during the second quarter and ranked in the top quartile of a universe of endowment funds. Outperformance was due to strong relative performance from the active non-U.S. equity and fixed income managers.

- During the trailing year, the Endowment's return exceeded that of the performance benchmark by 1.0 percentage point. As was the case during the second quarter, outperformance from the non-U.S. equity and fixed income components generated the above-benchmark return.

- Due to the relative youth of the Endowment's private equity investments, returns are not shown. Performance information will be added as more representative history is reached.

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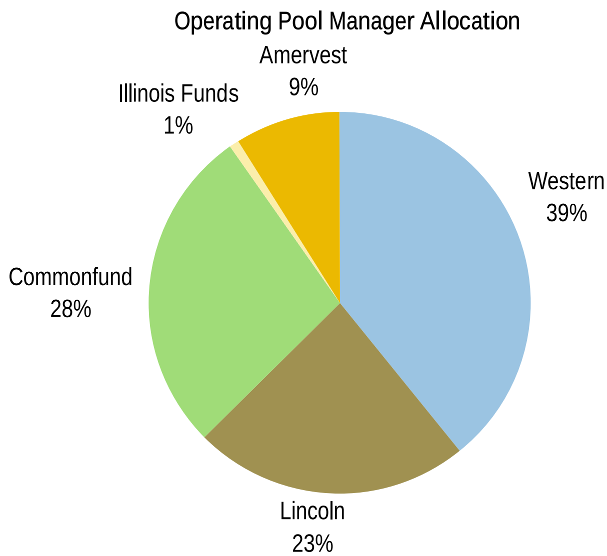
1 The Russell/Mellon Endowment universe represents the average return earned by all monies invested in U.S. endowment funds. The Index is a weighted average return of 143 endowment and foundation portfolios.

2 The appendix to this report contains a description of the performance benchmarks and indices used.



Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Year	5 Year	Since Inception	Inception Date
Operating Pool	-0.8%	1.3%	4.3%	5.3%	6.1%	6/30/1989
Performance Benchmark[1]	-0.8	0.9	4.0	5.1	5.8	
Amervest	-0.9	0.5	3.2	--	3.4	3/31/2001
Lehman 90-Day T-Bill	0.2	1.0	1.7	--	1.9	
Commonfund	0.3	1.1	1.9	3.5	4.4	6/30/1992
Lehman 90-Day T-Bill	0.2	1.0	1.7	3.3	4.1	
Lincoln Capital	-2.0	0.8	6.0	6.7	6.3	12/31/1995
Lehman Intermediate Aggregate Bond Index	-2.0	0.8	6.0	6.7	6.4	
Western	-0.9	2.0	4.9	--	4.9	3/31/2001
Lehman 1-3 Year Government/Credit Index	-1.1	0.8	4.5	--	4.5	

Operating Pool Performance Commentary

- The Operating Pool's return matched that of the performance benchmark during the quarter. Underperformance from the Amervest portfolio offset the positive relative return from Western.

- During the trailing year, the Pool's return was positive on an absolute and relative basis as its 1.3% gain exceeded that of the performance benchmark by 0.4 percentage points. Outperformance from Western generated the majority of the value-added.

[1] The Appendix contains a description of the various performance benchmarks and indices used.

Major Market Returns

	Second Quarter	Year-to-Date	1 Year Ending 6/30/04	3 Years Ending 6/30/04	5 Years Ending 6/30/04	10 Years Ending 6/30/04
Dow Jones Wilshire 5000 Stock Index	1.3%	4.0%	21.2%	0.8%	-1.0%	11.5%
MSCI AC World ex-U.S. Index	-0.9	3.8	32.0	4.9	0.6	4.1
MSCI EAFE Free	0.2	4.6	32.4	3.9	0.1	4.0
MSCI Emerging Markets Free Net	-9.6	-1.0	33.1	12.8	3.0	0.9
MSCI All Country World Index	0.4	3.3	24.4	1.4	-1.5	6.8
Lehman Aggregate Bond Index	-2.4	0.2	0.3	6.4	6.9	7.4

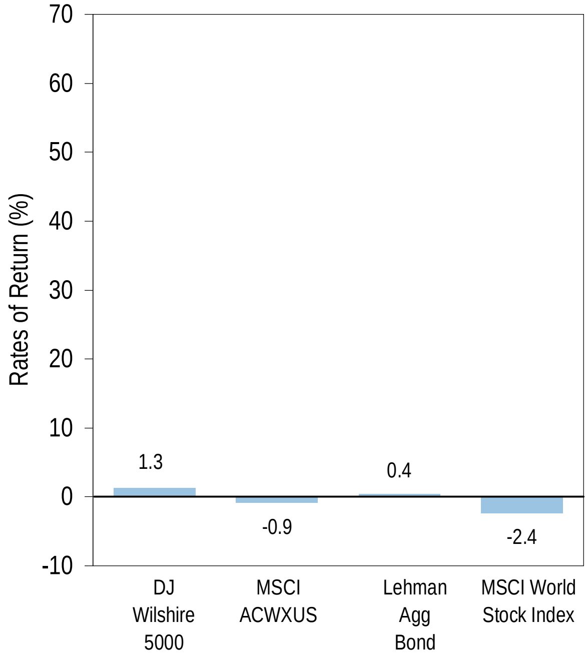
- The U.S. equity market outperformed non-U.S. securities for the first time in five quarters as the continued strength of corporate earnings outweighed fears of inflation and the expectation of future interest rate hikes. In a trend reversal from previous quarters, large cap growth stocks (+2.2%) outperformed small cap growth securities (+0.1%). On a sector basis, transportation (+9.6%) and energy (+7.8%) were the strongest performing sectors during the quarter. Accounting for over 20% of the DJ Wilshire 5000 Index, the interest-rate sensitive financial sector (-2.5%) impeded the overall performance of the U.S. equity market.

- The non-U.S. equity market underwent a volatile second quarter, as mainland Europe (+2.5%) and the United Kingdom (+1.5%) were the only international regions to post a gain during the quarter. Rising interest rates in the United States combined with restrictive monetary policies in China hurt emerging markets stocks, which dropped 9.6% in the second quarter to completely erase the gains of the first quarter. By raising the required reserve ratio for banks, the Chinese government is attempting to slow economic growth. However, these actions negatively impacted most of Asia (-11.6%), which had grown dependent on the burgeoning Chinese economy for growth. Highly-indebted developing regions in Latin America were particularly hit hard by the Federal Reserve rate increase..

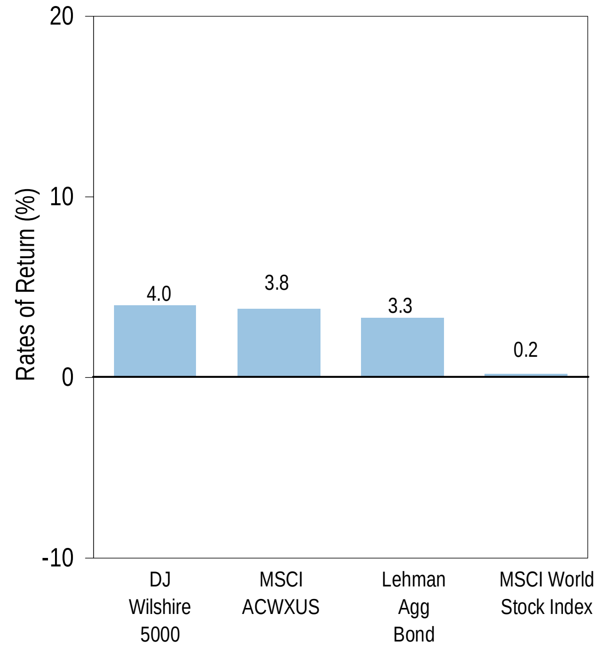
- The fixed income market endured the worst quarterly performance since 1994 with a broad market decline of 2.4%. Rising inflationary pressure and expectations of future interest rate increases in 2004 pushed government bonds lower (-3.0%), particularly long-term Treasuries (-5.2%). Additionally, the expectation of short-term interest rate increases compelled the unwinding of carry trade positions, which hampered the performance of corporate bonds (-3.4%). A carry trade involves borrowing cash at short-term rates and then purchasing longer-term instruments with higher yields. Mortgage securities (-1.1%) generated slightly negative returns, as rising yields curtailed refinancings and loan prepayments. Despite losing ground for the quarter, the return on high-yield bonds (-1.0%) exceeded that of each major Lehman Aggregate Index sector.

- On June 29th, the Federal Reserve initiated the first rate increase since May 2000, raising the Federal funds rate by 25 basis points to 1.25%. GDP growth slowed in the first quarter with an annualized rate of 3.9%. CPI increased by +0.6% in May 2004, although much of that upsurge was due to rising oil costs. Unemployment was 5.6% in June, but worker productivity increased by 3.8% in the first quarter.

Major Market Returns
Second Quarter

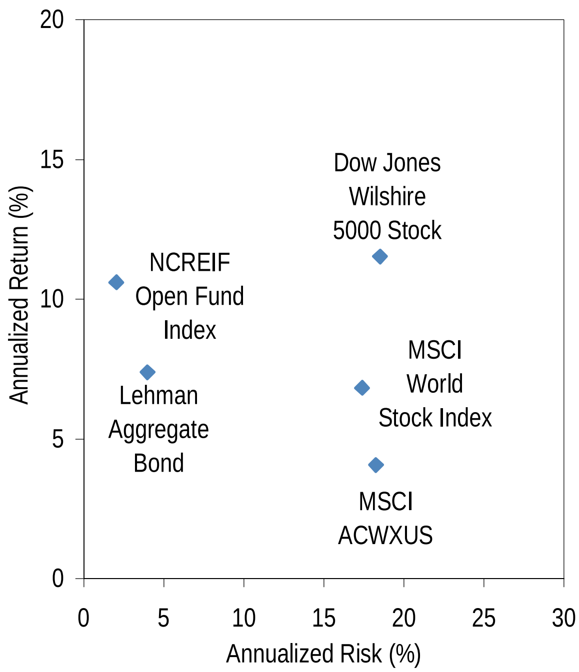


Major Market Returns
Year-to-Date Ending 6/30/04

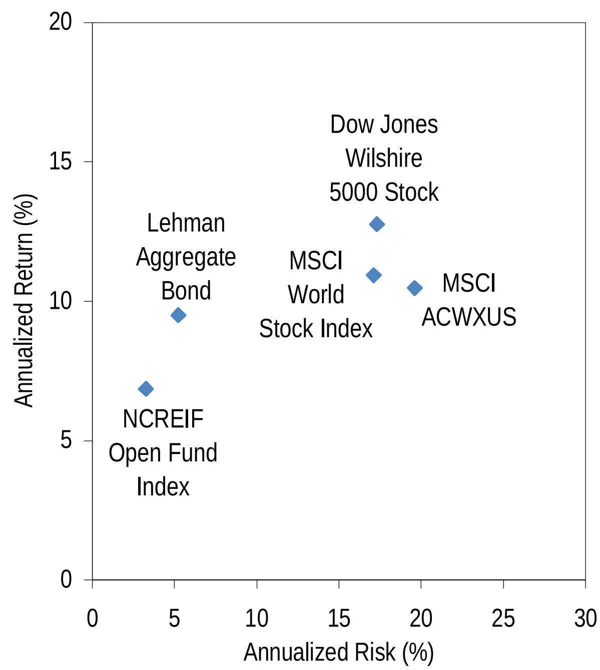


- The exhibits above show the performance of the major capital markets during the second quarter and six month period.

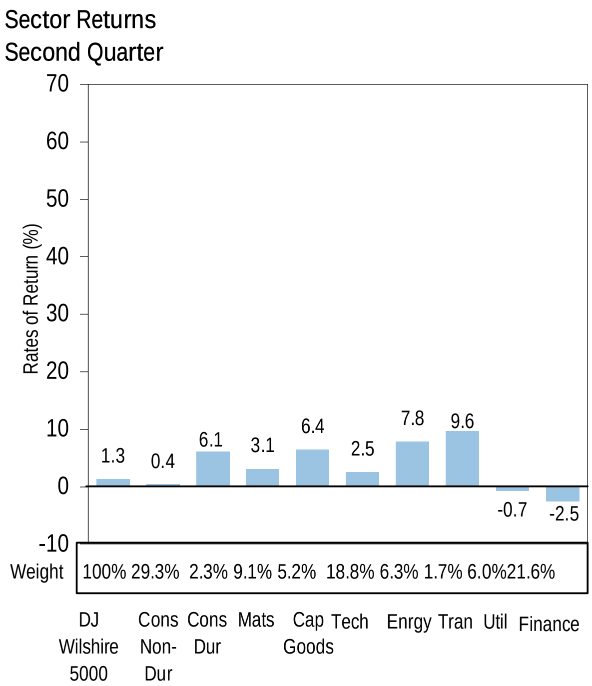
Annualized Risk-Return
10 Years Ending 6/30/04

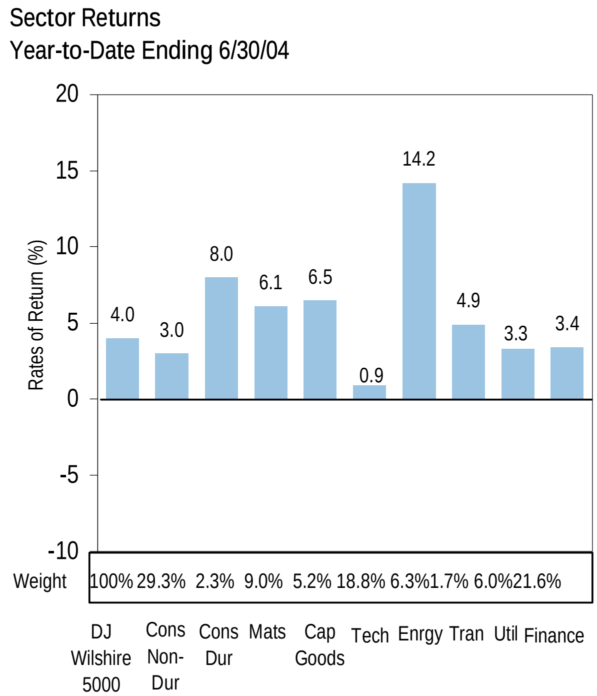


Annualized Risk-Return
20 Years Ending 6/30/04



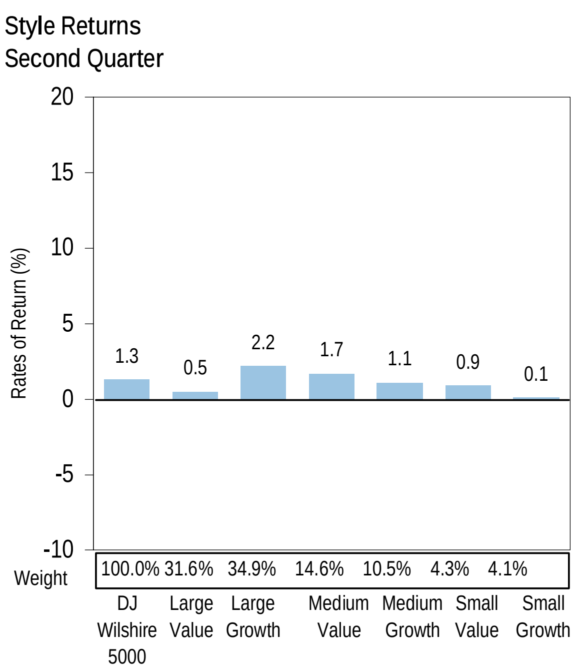
- The exhibits above show the historical performance of the major capital markets adjusted for the amount of risk (volatility of returns) incurred. Points near the top of the chart represent a greater return and points near the right of the chart indicate greater volatility.

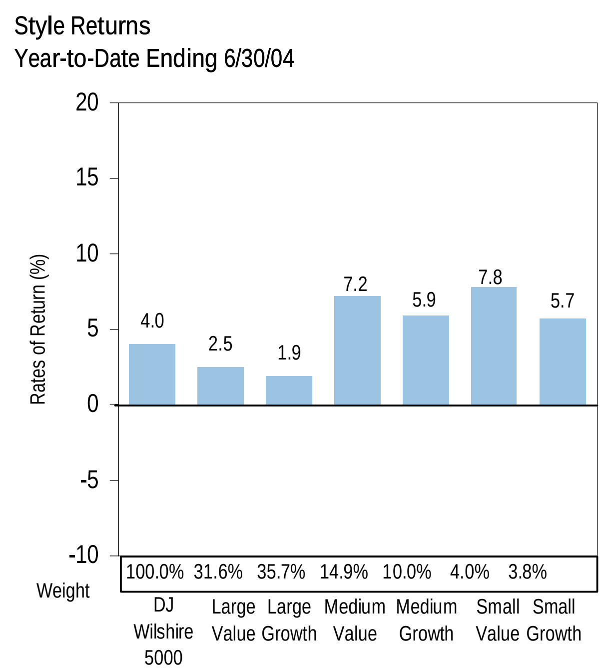




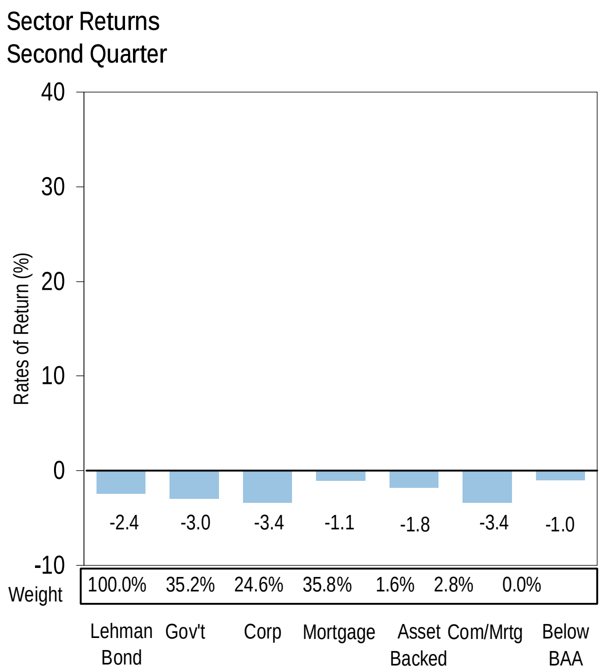
- The Wilshire 5000 Stock Index is the broadest available measure of the aggregate domestic stock market. It includes all domestic common stocks with readily available price data.

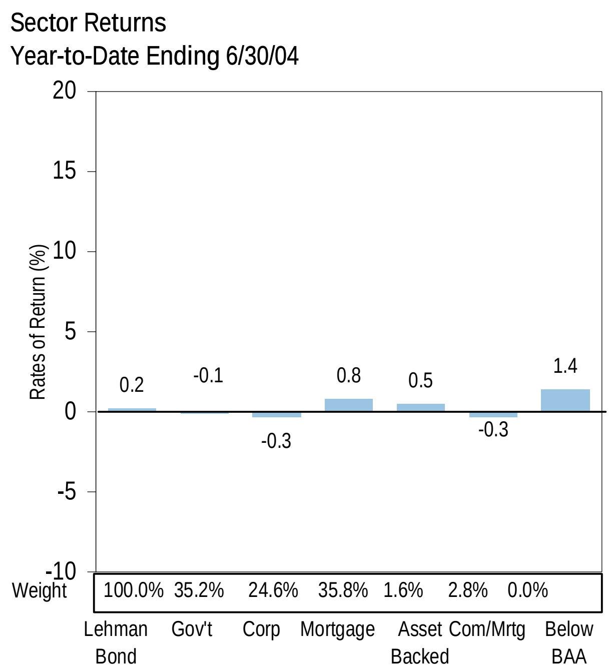
- The exhibits above show the performance of the industrial sectors that comprise the Wilshire 5000. The percentage below each bar indicates the sector's current weight within the Wilshire 5000.





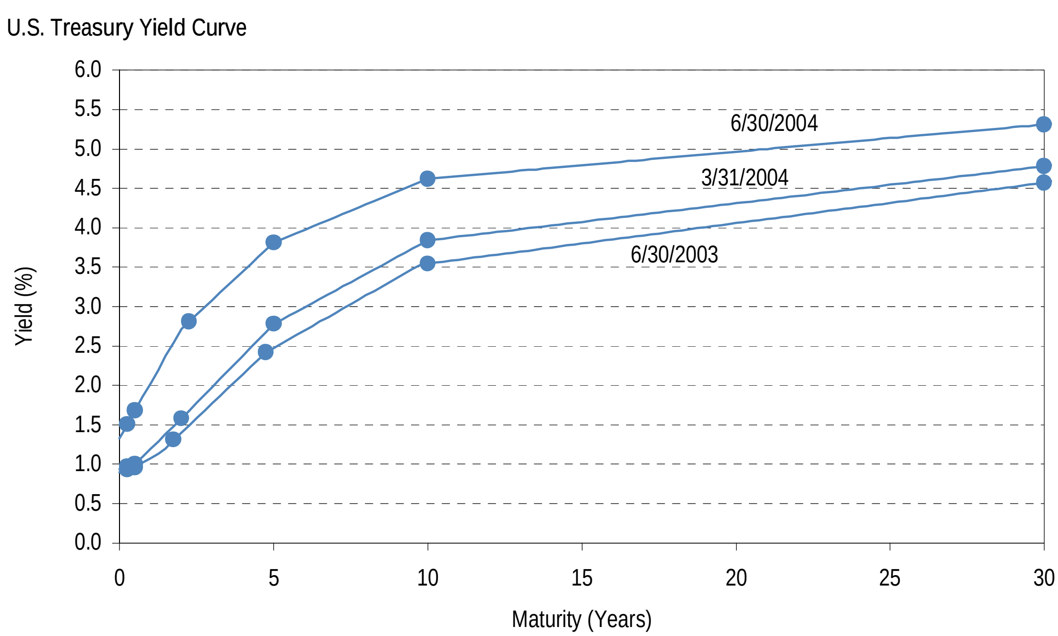
- The exhibits above illustrate the performance of stock investment styles according to capitalization (large and small) and financial characteristics (value and growth). The percentage below each bar indicates the style's current weight within the Wilshire 5000.



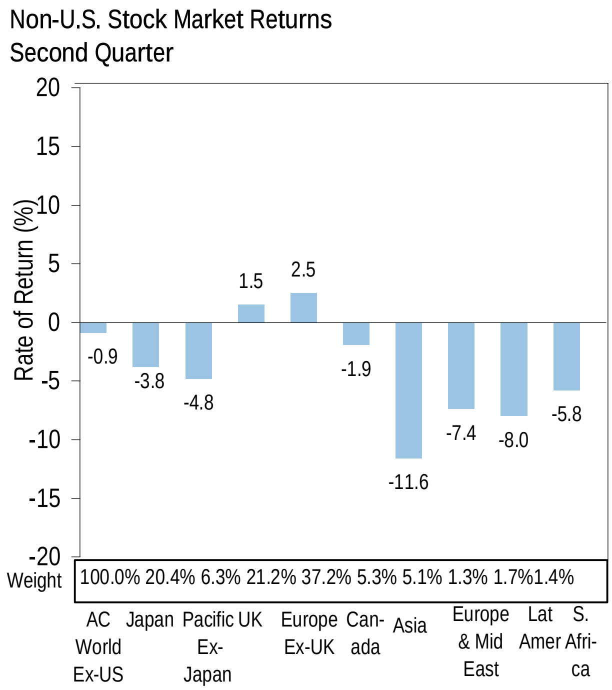


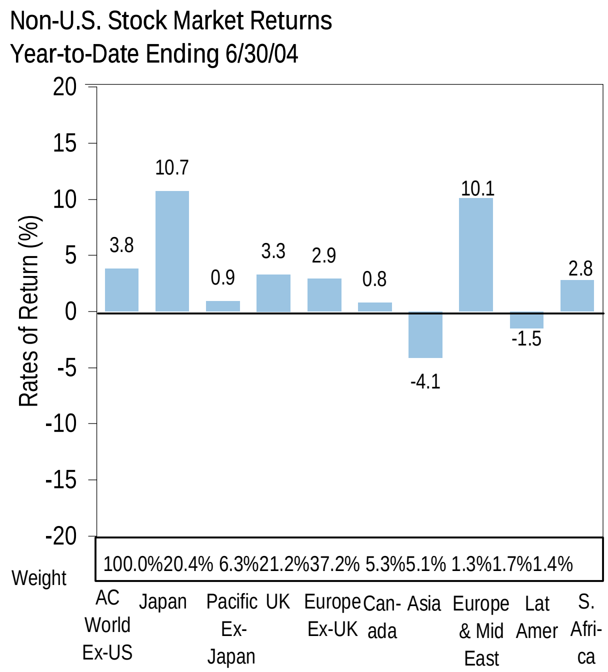
- The Lehman Brothers Aggregate Bond Index is a broad measure of the U.S. fixed income market. It consists of the corporate, government and mortgage-backed indices and includes credit card, auto and home equity loan-backed securities.

- The exhibits above show the performance of the sectors that comprise the broad domestic bond market. The percentage below each bar indicates the sector's current weight within the Aggregate Bond Index.

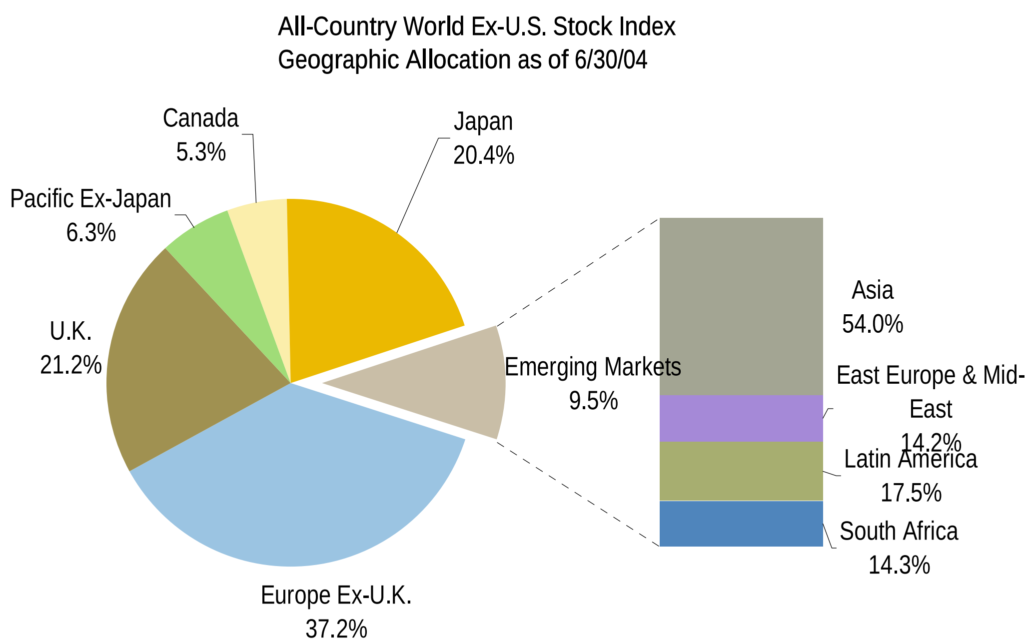


- The above exhibit illustrates yields on Treasury securities of various maturities as of June 30, 2004, March 31, 2004, and June 30, 2003.



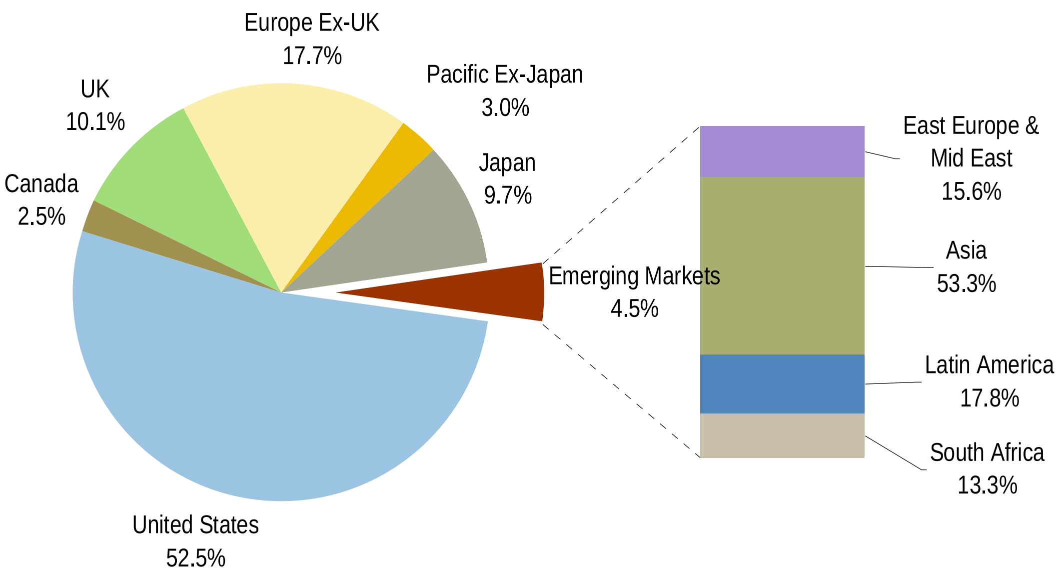


- The MSCI All-Country World Ex-U.S. Free Stock Index is a capitalization-weighted index of stocks representing 22 developed stock markets and 26 emerging stock markets around the world. The exhibits above show the performance of the regions that make up the MSCI All-Country World Ex-U.S. Free Stock Index.



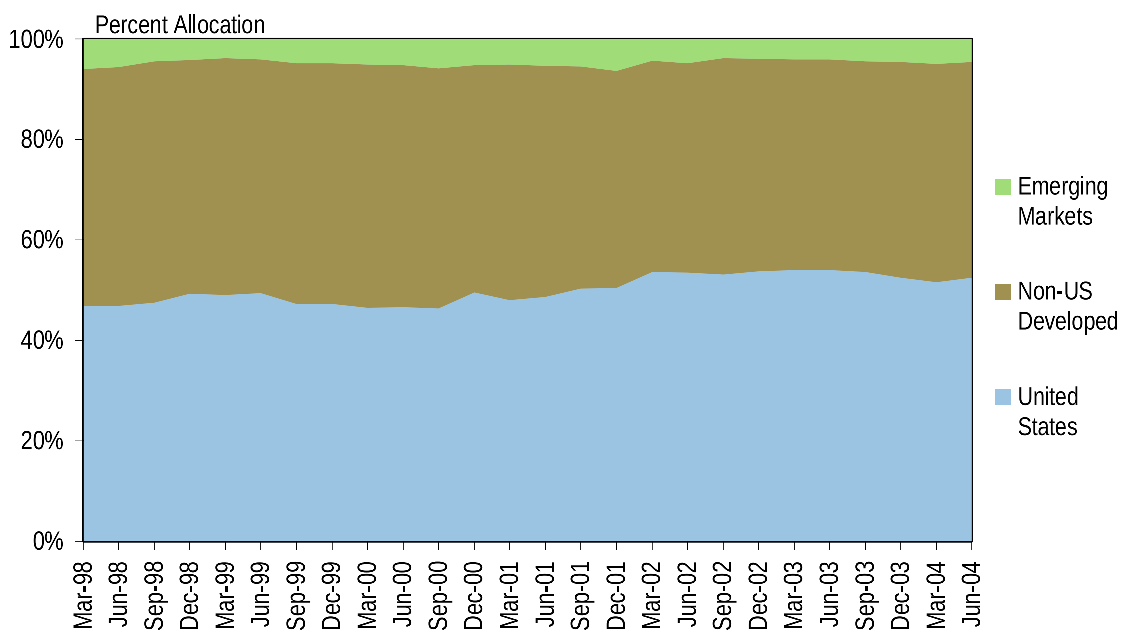
- The exhibit above illustrates the percent each region represents of the non-U.S. stock market as measured by the MSCI All-Country World Ex-U.S. Free Stock Index.

All-Country World Stock Index
Geographic Allocation as of 6/30/04



- The MSCI All-Country World Free Stock Index is a capitalization-weighted of stocks representing 23 developed stock markets and 26 emerging stock markets around the world. The above graph shows the allocation to each region as of the end of the first quarter.

Allocation and Growth



- The above graph shows how the breakdown between the U.S., non-U.S. developed markets and emerging markets in the MSCI All-Country World Free Stock Index has changed over time.

Endowment Pool Asset Allocation as of 6/30/2004
($ in Thousands)

	U.S. Equity	Non-U.S. Stock	Bonds	Real Estate	Private Equity	Cash Equivalents	Total	Percent of Total
BGI	$97,423						$97,423	44.9%
GMO	$24,014						$24,014	11.1%
Templeton		$35,130				$1,235	$36,366	16.8%
Morgan Stanley Core Plus			$57,472				$57,472	26.5%
Edgewater					$165		$165	0.1%
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ARCH Development Fund I					$450		$450	0.2%
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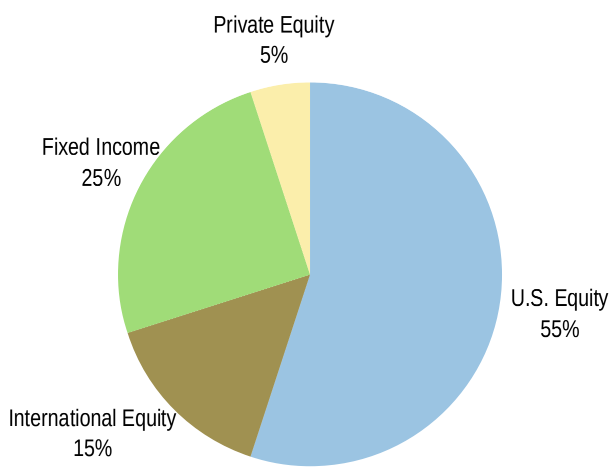
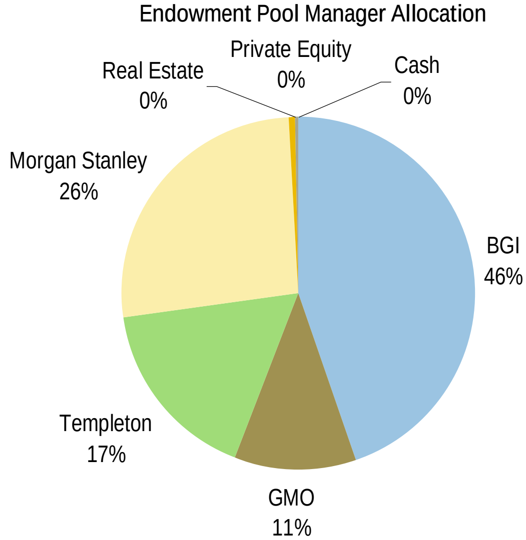
Total Endowment Pool	$121,437	$35,130	$57,472	$422	$827	$1,472	$216,760	100.0%

Endowment Pool Policy



Endowment Pool Manager Allocation



Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Year	5 Year	10 Year
Endowment Pool	0.5%	17.3%	3.1%	2.0%	9.5%
Endowment Pool Ranks [1]	*19*	*36*	*67*	*84*	*69*
Performance Benchmark[2]	-0.1	16.3	3.8	2.3	9.5
Performance Benchmark Ranks	*51*	*47*	*55*	*80*	*69*
Barclays Global Investors	1.3	21.2	0.7	-0.7	11.6
Wilshire 5000	1.3	21.2	0.8	-1.0	11.5
GMO	-0.2	--	--	--	--
Russell 3000	1.3	--	--	--	--
Templeton	1.6	32.9	--	--	--
MSCI All-Country World ex-U.S. Index	-0.9	32.0	--	--	--
Morgan Stanley Core Plus	-0.8	3.1	6.1	7.0	7.5
Lehman Aggregate Bond Index	-2.4	0.3	6.4	6.9	7.4
Edgewater Private Equity Fund IV	0.2	0.8	--	--	--

Endowment Fund Performance Commentary

- The Endowment's return exceeded that of the performance benchmark during the second quarter and ranked in the top quartile of a universe of endowment funds. Outperformance was due to strong relative performance from the active non-U.S. equity and fixed income managers.

- During the trailing year, the Endowment's return exceeded that of the performance benchmark by 1.0 percentage point. As was the case during the second quarter, outperformance from the non-U.S. equity and fixed income components generated the above-benchmark return.

Return History

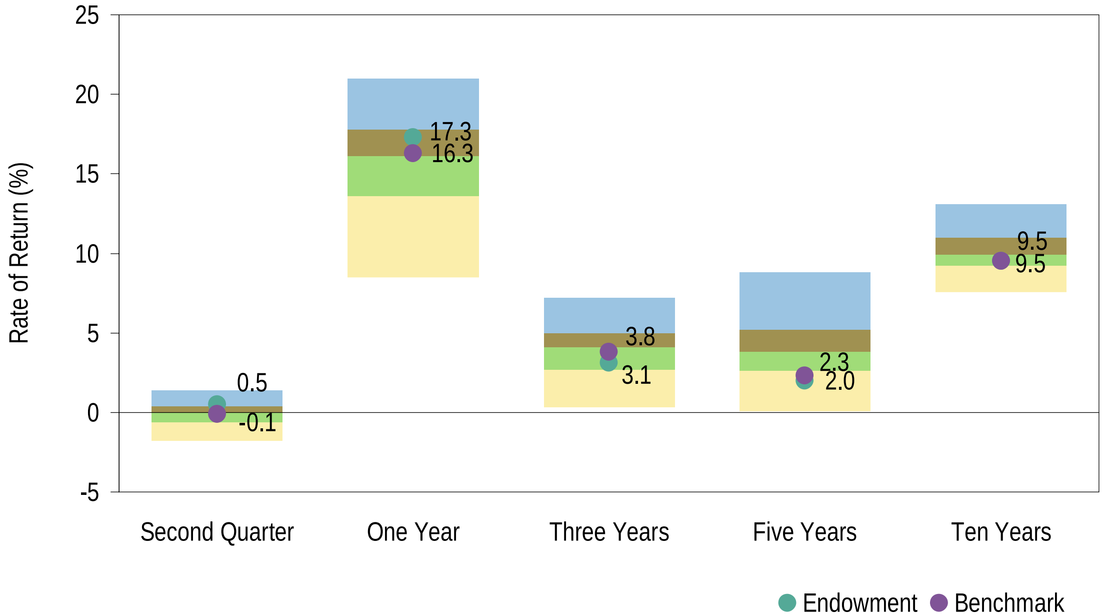
	Endowment Pool	Performance Benchmark	Return Difference
Trailing 3-Year	3.1%	3.8%	-0.7
Trailing 5-Year	2.0	2.3	-0.3
Trailing 10-Year	9.5	9.5	0.0
Since Inception (9/30/1987)	9.4	9.2	0.2

- While recent returns trailed those of the benchmark, since-inception the Endowment Pool's return slightly exceeded that of the benchmark.

[1]The Russell/Mellon Endowment Universe represents the average return earned by all monies invested in U.S. endowment funds. The Index is a weighted average return of 135 endowment and foundation portfolios.

[2]The appendix to this report contains a description of the performance benchmarks and indices used.

Endowment Universe Rank



Endowment Universe Return Distribution

	Second Quarter	One Year	Three Years	Five Years	Ten Years
5th Percentile	1.4	21.0	7.2	8.8	13.1
25th Percentile	0.4	17.8	5.0	5.2	11.0
50th Percentile	0.0	16.1	4.1	3.8	9.9
75th Percentile	-0.6	13.6	2.7	2.6	9.2
95th Percentile	-1.8	8.4	0.3	-0.1	7.5

- The chart above details the Endowment Fund's rank in a universe of 135 Endowment Funds with an aggregate market value of $159 billion.

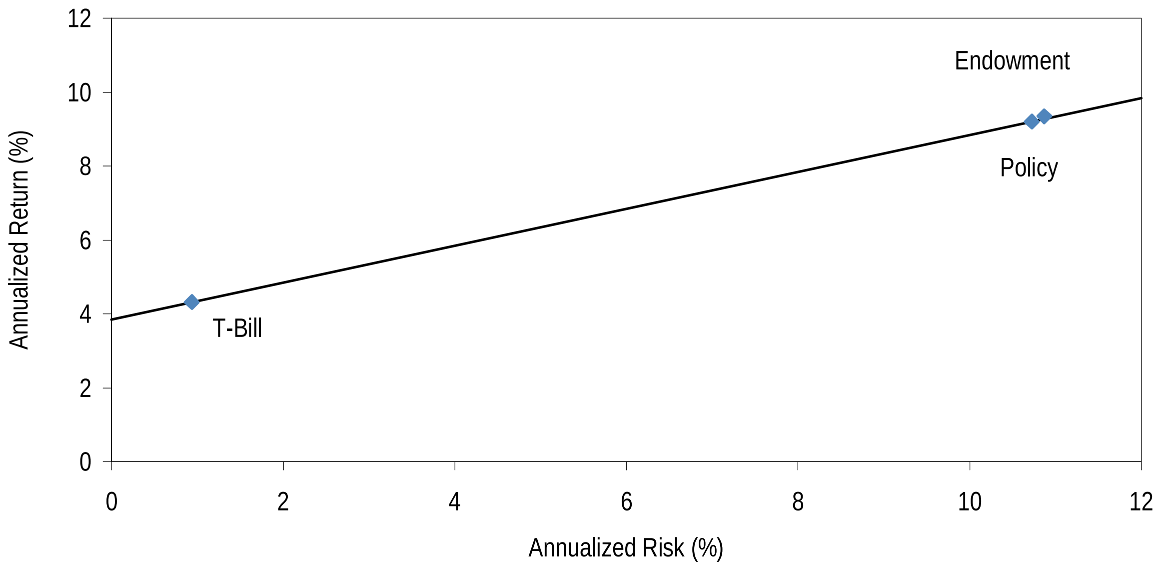
- On the top of the following page we show the Endowment Fund on a risk/return chart. The graph shows that the Endowment posted a greater-than-benchmark return since inception at a slightly greater level of risk.

- On the bottom of the following page, the Endowment's cumulative growth relative to the performance benchmark is shown. A downward sloping line indicates underperformance relative to the benchmark. Likewise, an upward sloping line indicates above-benchmark returns.

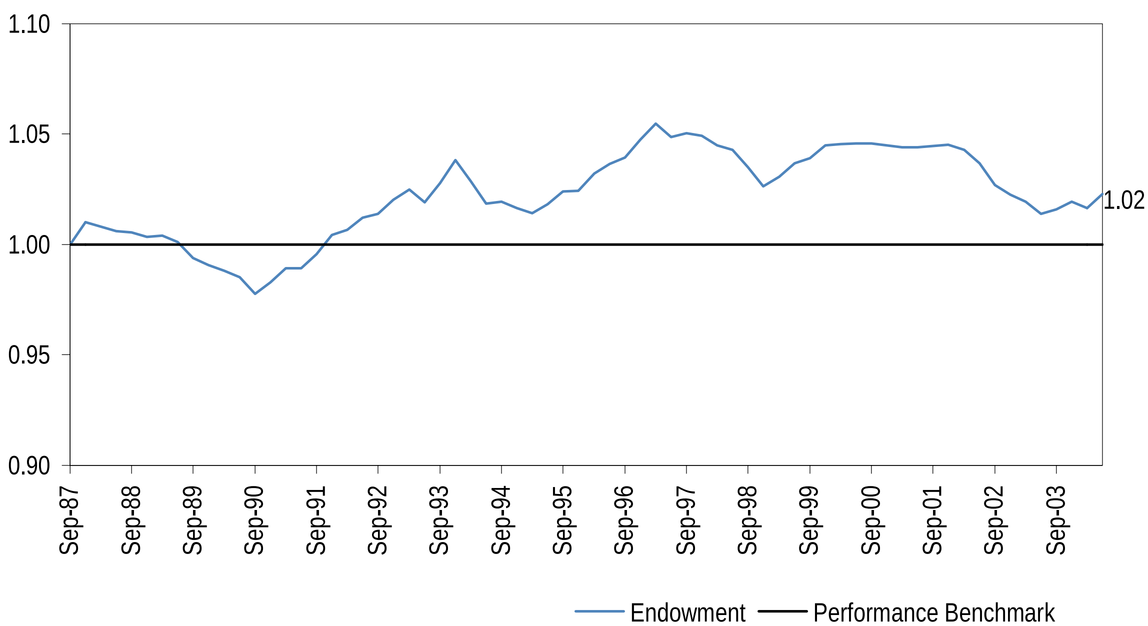
- The graphs on page 3.6 show the Endowment's attribution during the trailing one- and five-year periods. Attribution is a measure of the sources of the deviation of a fund's performance from that of its benchmark. The analysis may be done for a total fund or a separate asset class. Each bar on the graph represents the contribution made by one component of the Fund to the total performance. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact.

- The top five bars indicate the value added or subtracted by each asset class over the specified time period. The bar labeled 'Allocation Effect' details the impact of actual asset allocations differing from policy allocations. The bar labeled 'Cash Flow/Benchmark Effects' is a combination of two factors that affect fund performance. 'Cash Flow Effect' is the result of the impact of inter- and intra-fund transfers. 'Benchmark Effect' is the result of the slowly decreasing allocation to real estate within the equity component of the Fund over time.

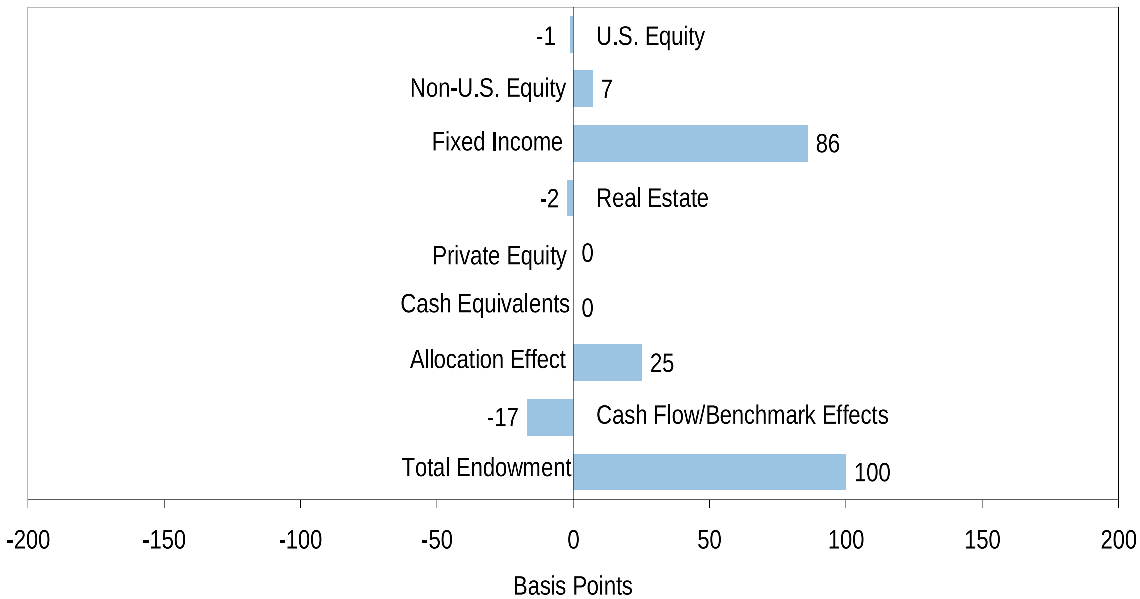
Risk-Return
16 Years 9 Months Ending 6/30/2004



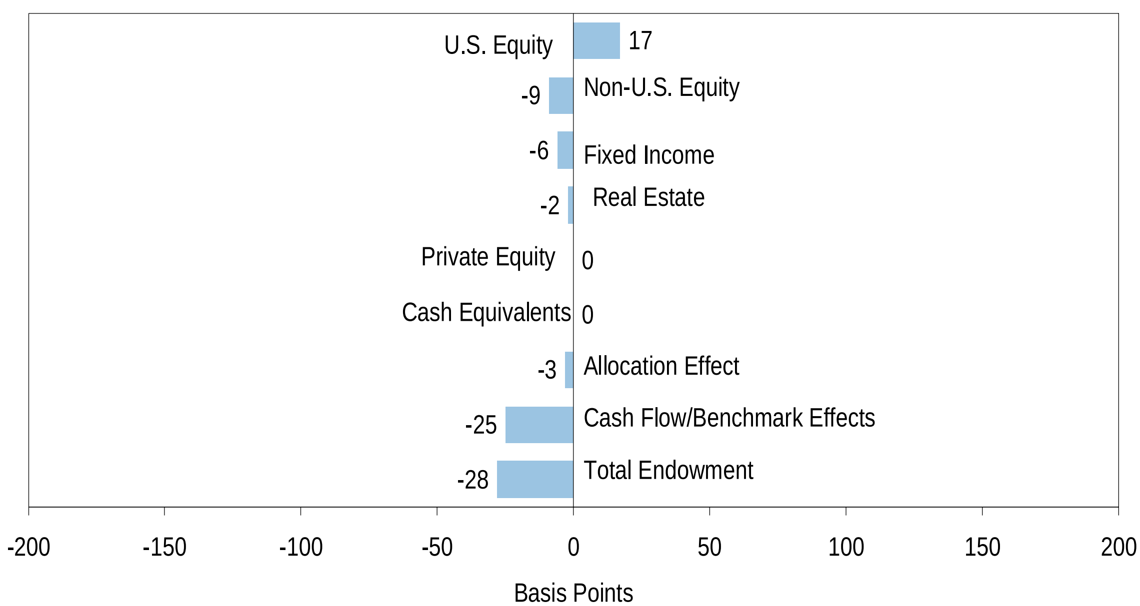
Ratio of Cumulative Wealth
16 Years 9 Months Ending 6/30/2004



Total Endowment Pool Attribution Analysis
One Year Ending 6/30/2004



Total Endowment Pool Attribution Analysis
Five Years Ending 6/30/2004



Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Years	Since Inception	
Barclays Global Investors	1.3%	21.2%	0.7%	10.2%	9/30/1987
BGI Ranks [1]	*49*	*59*	*58*	*84*	
Wilshire 5000	1.3	21.2	0.8	10.3	
Wilshire 5000 Ranks	*49*	*59*	*57*	*82*	

- The BGI U.S. Equity Market Fund is designed to track the performance of all exchange-traded U.S. common stocks as represented by the Wilshire 5000 Index. The Fund fully replicates for the S&P 500 Index portion, and optimizes for the Wilshire 4500 portion. The Wilshire 4500 portion of the Fund is float-adjusted for publicly available shares. The Fund also allows BGI to include IPOs soon after their issuance, whereas the Wilshire 5000 Index includes them at month end.

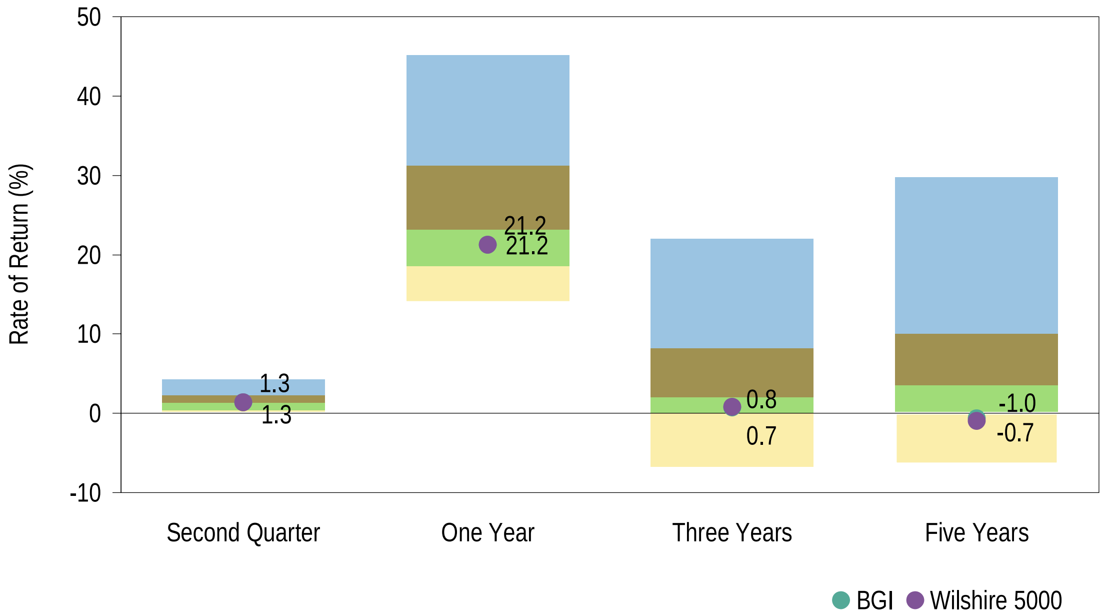
- The returns of the BGI U.S. Equity Market Fund matched the returns of the Wilshire 5000 during the trailing quarter and year.

Return History

	BGI	Wilshire 5000	Return Difference
Trailing 3-Year	0.7%	0.8%	-0.1%
Trailing 5-Year	-0.7	-1.0	0.3
Trailing 10-Year	11.6	11.5	0.1
Since Inception (9/30/1987)	10.2	10.3	-0.1

[1]The U.S. Equity Universe is comprised of 741 actively managed U.S. stock funds as reported by Russell/Mellon.

U.S. Equity Universe Rank



- The graph above details the rank of the BGI U.S. Equity Market Fund in a universe of 741 U.S. stock funds as reported by Russell/Mellon. Over most time periods shown, the Fund has ranked near the median U.S. equity manager.

U.S. Equity Universe Return Distribution

	Second Quarter	One Year	Three Years	Five Years
5th Percentile	4.3	45.2	22.0	29.7
25th Percentile	2.3	31.2	8.2	10.0
50th Percentile	1.3	23.1	2.0	3.5
75th Percentile	0.3	18.5	-1.8	-1.0
95th Percentile	-2.3	14.0	-6.8	-6.4

Return Summary Periods Ending 6/30/2004

	Second Quarter	Since Inception	
GMO	-0.2%	20.5%	6/30/2003
GMO Ranks [1]	*37*	*62*	
Russell 3000	1.3	20.5	
Russell 3000 Ranks	*58*	*62*	

- The GMO portfolio declined modestly in value during the second quarter and trailed the return of the Russell 3000 Index by 1.5 percentage points. Underperformance during the quarter came on two fronts: the tactical allocation to real estate investment trusts (REITs) and performance within the U.S. Core strategy.

- After displaying strong performance during the first quarter of the year, REITs, as measured by the Wilshire Real Estate Securities Index, detracted by 4.6% during the second quarter. The U.S. Sector Fund's 9.4% allocation to this asset class impaired returns, as the GMO Real Estate Strategy underperformed the Index by 2.0 percentage points.

- At the end of the second quarter, 61% of assets were allocated to the U.S. Core Strategy. This underlying fund is benchmarked to the S&P 500, but underperformed that Index by 1.0 percentage point during the quarter. Security selection played a large role in the underperformance, as companies such as Home Depot (-5.6%, 3.8% of the portfolio) and Altria (-6.8%, 1.8% of the portfolio) detracted from returns.

- As of 6/30/2004, the U.S. Sector Fund allocated 61% of assets to the U.S. Core Strategy, 7% of assets to the Small Cap Value Strategy, 7% of assets to the Small Cap Growth Strategy, 9% of assets to the Real Estate Strategy, and 14% to the newly-created U.S. Quality Equity Strategy. In a shift from the end of the second quarter, the manager paired back its allocation to small cap stocks by 7 percentage points, and moved those assets to the U.S. Quality Equity Strategy.

[1]The U.S. Equity Universe is comprised of 741 actively managed U.S. stock funds as reported by Russell/Mellon.

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Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	Since Inception	
Templeton	1.6%	32.9%	25.8%	9/30/2002
Templeton Ranks [1]	*11*	*20*	*49*	
MSCI All-Country World ex-U.S.	-0.9	32.0	29.5	
MSCI ACWXUS Ranks	*53*	*28*	*31*	

- The Templeton portfolio generated a strong absolute return of 1.6% during the second quarter, and exceeded the return of the MSCI All-Country World ex-U.S. Index by 2.5 percentage points.

- The vast majority of the outperformance was due to strong stock selection across sectors in the portfolio. The two main contributors were the industrial and technology sectors. Names such as Volvo (Sweden) from the industrials sector and Nintendo (Japan) from the technology sector added a substantial amount of value.

- Offsetting some of that value-added was the manager's overweight to emerging market stocks, and specifically to Korea. Emerging markets, as a whole, declined in value by 9.6% during the second quarter, and the Korean market was among the hardest-hit.

- The strong second quarter return moved the portfolio's one-year return ahead of the Index and brought the since-inception return closer to that of the Index.

[1] The non-U.S. Equity Universe is comprised of 75 actively managed non U.S. stock funds as reported by Russell/Mellon.

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Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Years	Since Inception[1]	
Morgan Stanley Core Plus	-0.8%	3.1%	6.1%	8.8%	9/30/1987
Morgan Stanley Ranks [2]	*1*	*5*	*59*	*32*	
Lehman Aggregate Bond Index	-2.4	0.3	6.4	8.4	
Lehman Aggregate Ranks	*44*	*63*	*44*	*51*	

- The Morgan Stanley Core Plus portfolio's return was negative on an absolute basis, but exceeded the return of the Lehman Aggregate Bond Index by 1.6 percentage points. The portfolio benefited the most from its below-benchmark interest rate sensitivity as yields rose during the quarter.

- The graph on page 3.15 shows a modest above-benchmark allocation to corporate bonds during the quarter. While this is true, it is slightly misleading. Roughly 5 percentage points of this allocation was dedicated to high yield corporate bonds, which were relatively strong performers during the quarter. The remainder was to investment grade corporate bonds, which performed very poorly. However, in total the portfolio held a below-benchmark allocation to investment grade corporate bonds, and this aided relative performance.

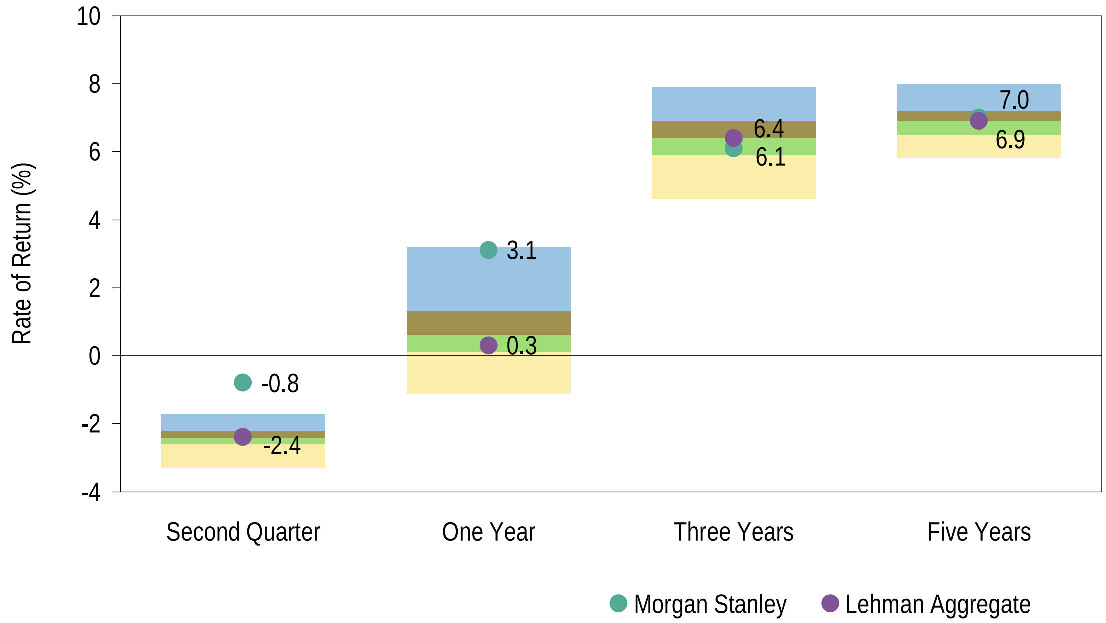
- While performance during the three-year period struggled relative to the benchmark, longer-term results were much more favorable.

Return History

	Morgan Stanley Core Plus	Lehman Aggregate	Return Difference
Trailing 3-Year	6.1%	6.4%	-0.3%
Trailing 5-Year	7.0	6.9	0.1
Trailing 10-Year	7.5	7.4	0.1
Since Inception (9/30/1987)	8.8	8.4	0.4

[1]The fixed income universe is comprised of 159 core plus fixed income funds as reported by Russell/Mellon.

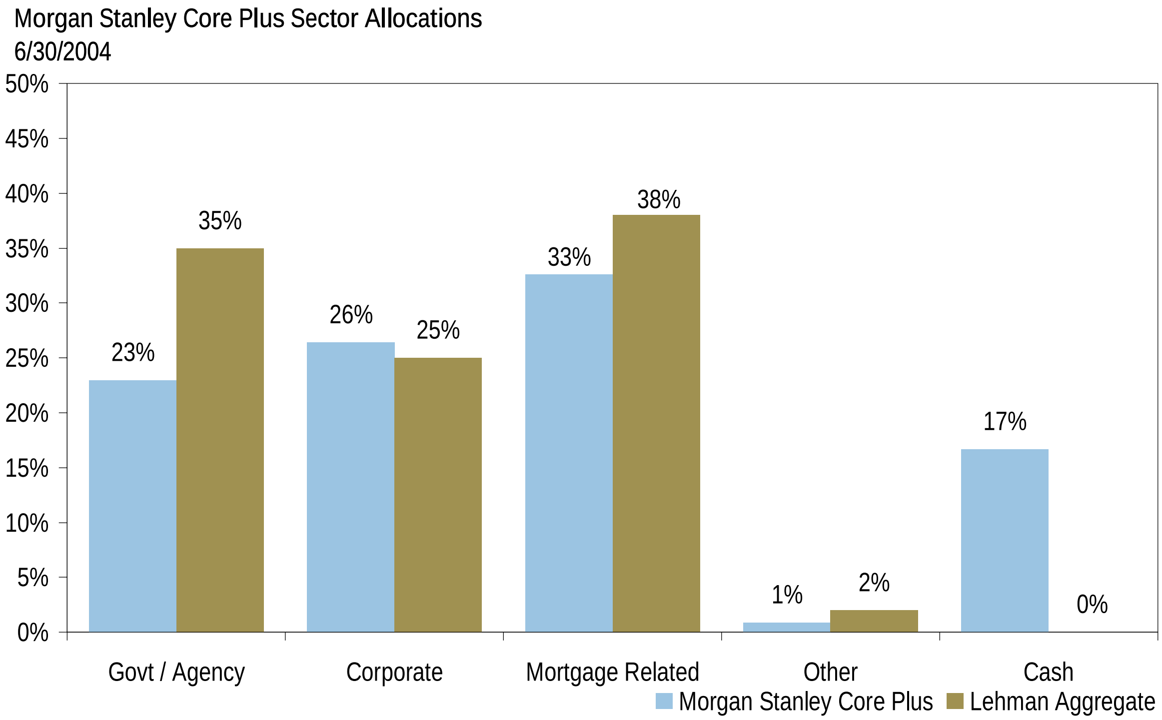
Fixed Income Universe Rank



Fixed Income Universe Return Distribution

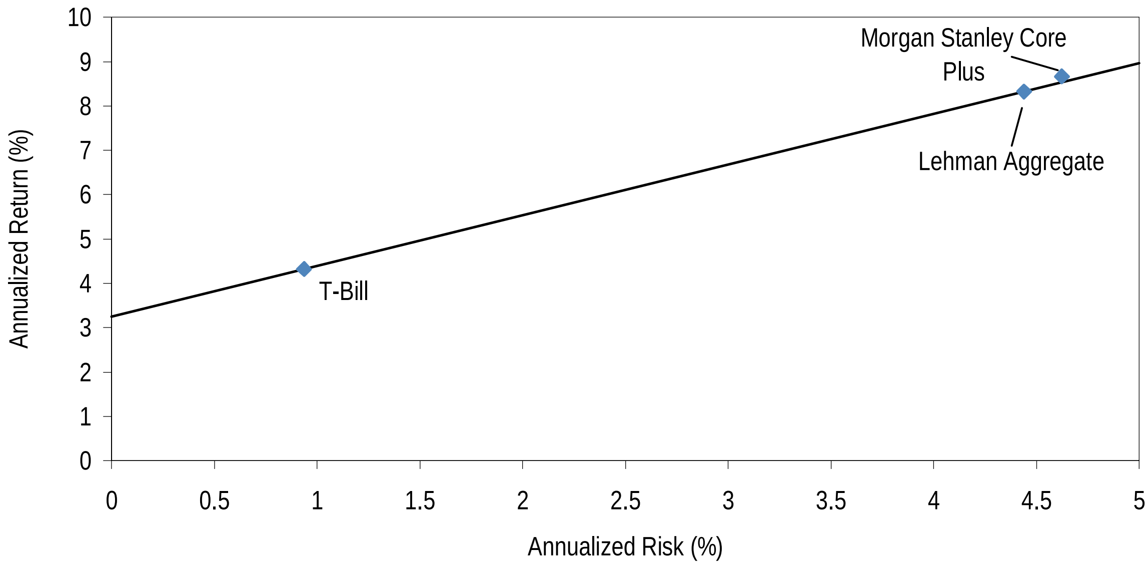
	Second Quarter	One Year	Three Years	Five Years
5th Percentile	-1.7	3.2	7.9	8.0
25th Percentile	-2.2	1.3	6.9	7.2
50th Percentile	-2.4	0.6	6.4	6.9
75th Percentile	-2.6	0.1	5.9	6.5
95th Percentile	-3.3	-1.1	4.6	5.8

- The graph above details the performance of Morgan Stanley against a universe of 159 core plus fixed income funds as reported by Russell Mellon. The manager's returns rank near the median during the longer-term periods shown.

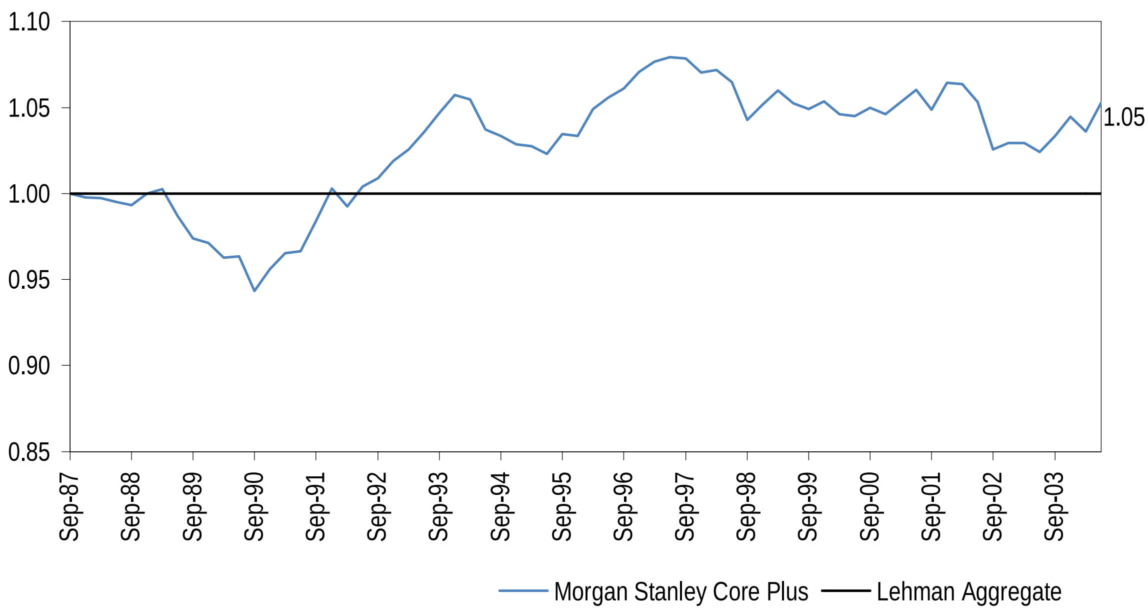


- The graph above details the portfolio's sector allocation relative to the Index. The significant allocation to "cash" represents highly-liquid short-term fixed income instruments.
- The graphs on the following page show the manager's risk-adjusted performance as well as its cumulative performance relative to the benchmark.

Risk-Return
16 Years 9 Months Ending 6/30/2004



Ratio of Cumulative Wealth
16 Years 9 Months Ending 6/30/2004



Return Summary Periods Ending 6/30/2004

	First Quarter	1 Year	3 Year	5 Year
Commonfund ERI	3.6	4.0	3.2	5.5
NCREIF Property Index	2.6	9.7	7.7	9.7

- The historical returns of the Commonfund Real Estate Fund are shown above relative to the NCREIF Property Index.

- The portfolio's returns trailed those of the NCREIF Property Index over the longer term time periods shown above.

[1] Real estate returns are reported on a one quarter lag.

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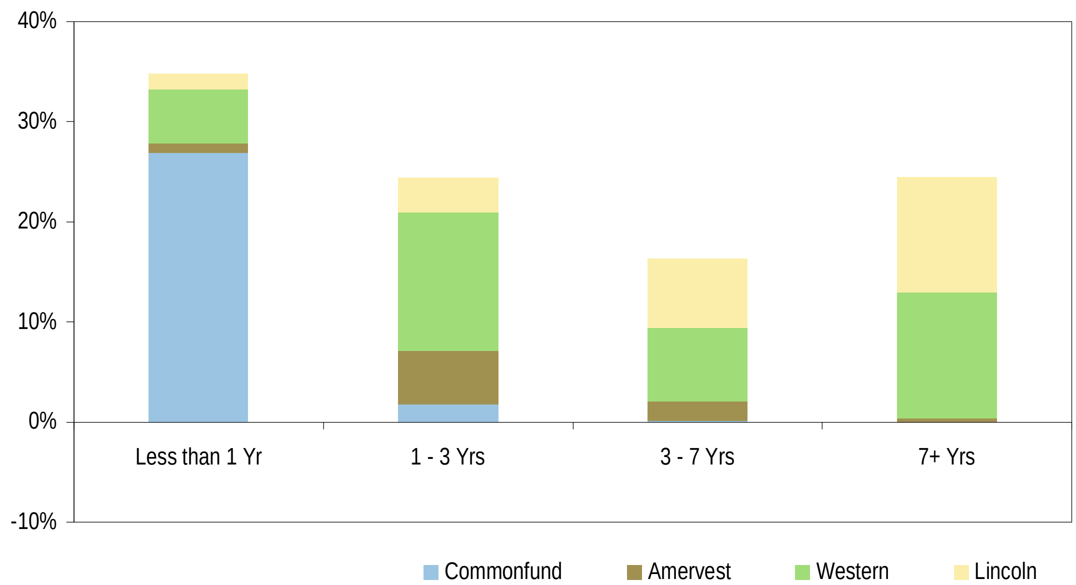
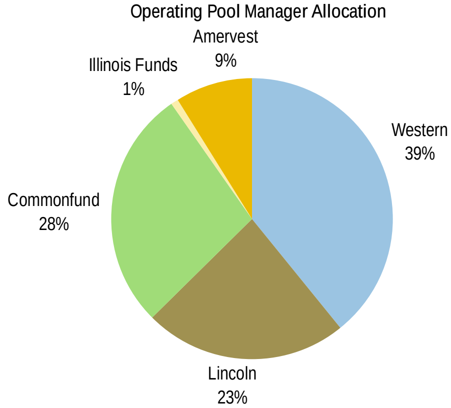
Operating Pool Asset Allocation as of 6/30/2004
($ in Thousands)

	U.S. Equity	Non-U.S. Stock	Bonds	Real Estate	Private Equity	Cash Equivalents	Total	Percent of Total
Commonfund Short Term						$152,827	$152,827	27.8%
Amervest			$48,071			$171	$48,242	8.8%
Western			$215,211			$315	$215,525	39.1%
Lincoln			$124,309			$4,303	$128,613	23.4%
Illinois Funds						$5,507	$5,507	1.0%
Total Operating Pool	$0	$0	$387,591	$0	$0	$163,123	$550,714	100.0%

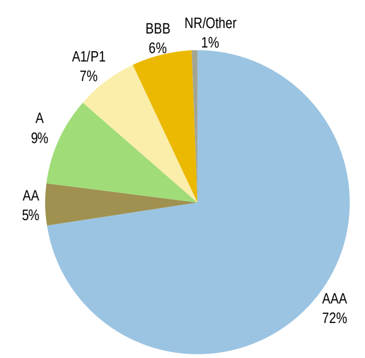
Manager Maturity Distribution



Operating Pool Manager Allocation



Total Operating Pool Quality Distribution



Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	3 Years	Since Inception	
Operating Pool	-0.8%	1.3%	4.3%	6.1%	6/30/1989
Performance Benchmark[1]	-0.8	0.9	4.0	5.8	

- The Operating Pool's return matched that of the performance benchmark during the quarter. Underperformance from the Amervest portfolio offset the positive relative return from Western.

- During the trailing year, the Pool's return was positive on an absolute and relative basis as its 1.3% gain exceeded that of the performance benchmark by 0.4 percentage points. Outperformance from Western generated the majority of the value-added.

Return History

	Operating Pool Pool	Performance Benchmark	Return Difference
Trailing 3-Year	4.3%	4.0%	0.3
Trailing 5-Year	5.3	5.1	0.2
Trailing 10-Year	5.8	5.8	0.0
Since Inception (6/30/1989)	6.1	5.8	0.3

- Historical performance for the Operating Pool was positive relative to the benchmark, as the Pool outperformed by 0.3 percentage points annually since inception.

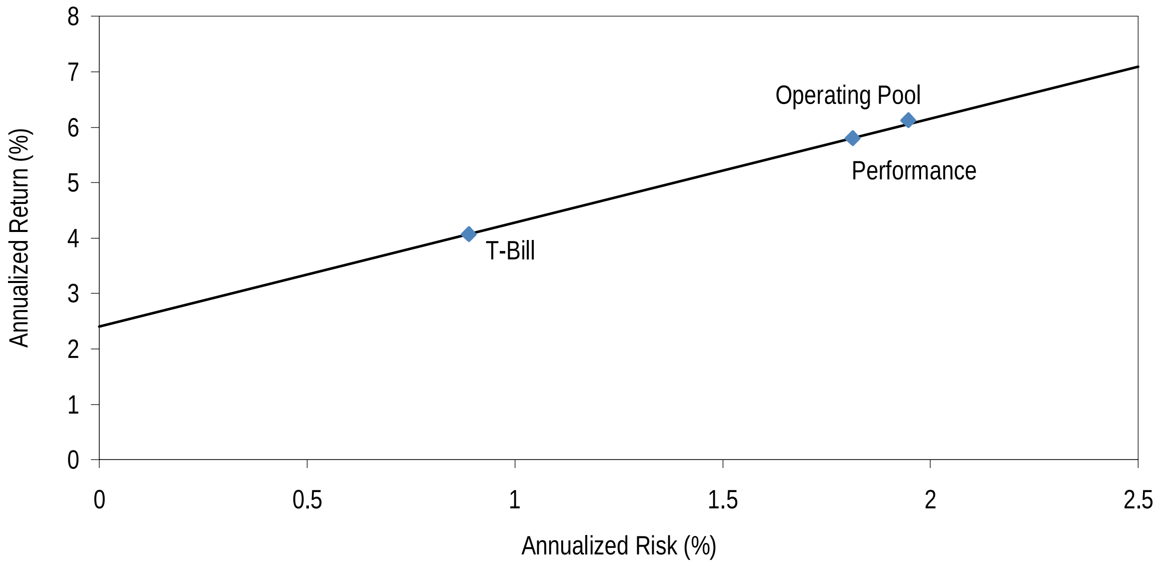
[1]The appendix to this report contains descriptions of the various benchmarks used.

- On the top of the following page we show the Operating Pool on a risk/return chart. The graph shows that the Pool posted a greater-than-benchmark return since inception at a slightly greater level of risk. On the bottom of the following page, the Operating Pool's cumulative growth relative to the performance benchmark is shown. A downward sloping line relative to the benchmark indicates underperformance. Likewise, an upward sloping line indicates above-benchmark returns.

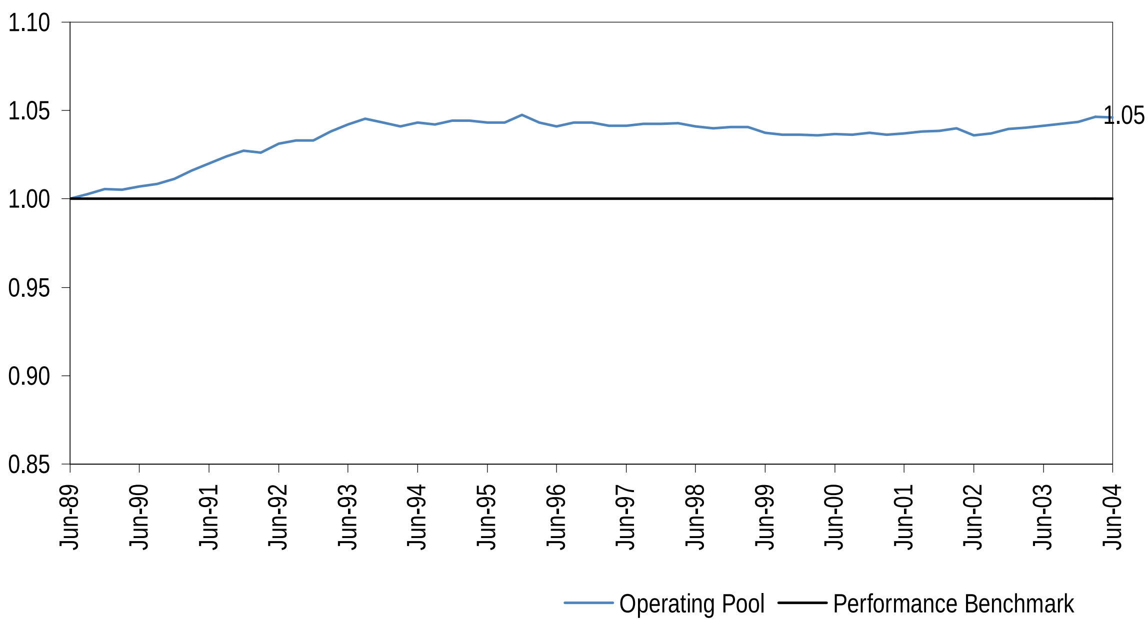
- The graphs on page 4.5 show the Operating Pool's attribution during the trailing one- and five-year periods. Attribution is a measure of the sources of the deviation of a fund's performance from that of its benchmark. The analysis may be done for a total fund or a separate asset class. Each bar on the graph represents the contribution made by one component of the Fund to the total performance relative to the benchmark. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact.

- The top five bars indicate the value added or subtracted by each asset class over the specified time period. The bar labeled 'Allocation Effect' details the impact of actual asset allocations differing from policy allocations. The bar labeled 'Cash Flow/Benchmark Effects' is a combination of two factors that effect fund performance. 'Cash Flow Effect' is the result of the impact of inter- and intra-fund transfers on the Fund. 'Benchmark Effect' results from the individual manager benchmarks differing from that of the Total Fund.

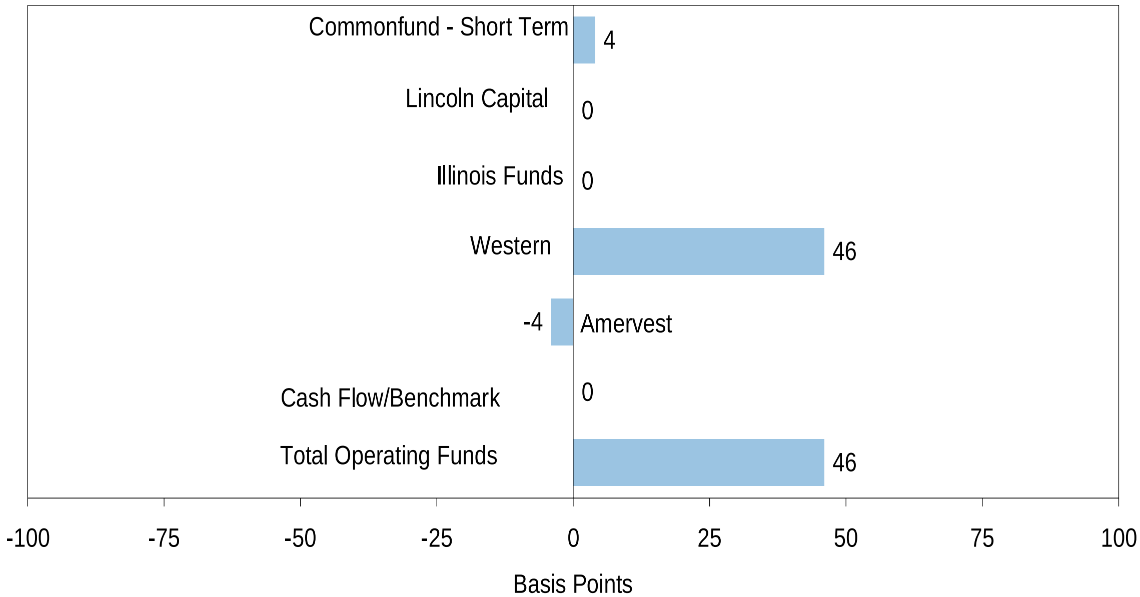
Risk-Return
15 Years Ending 6/30/2004



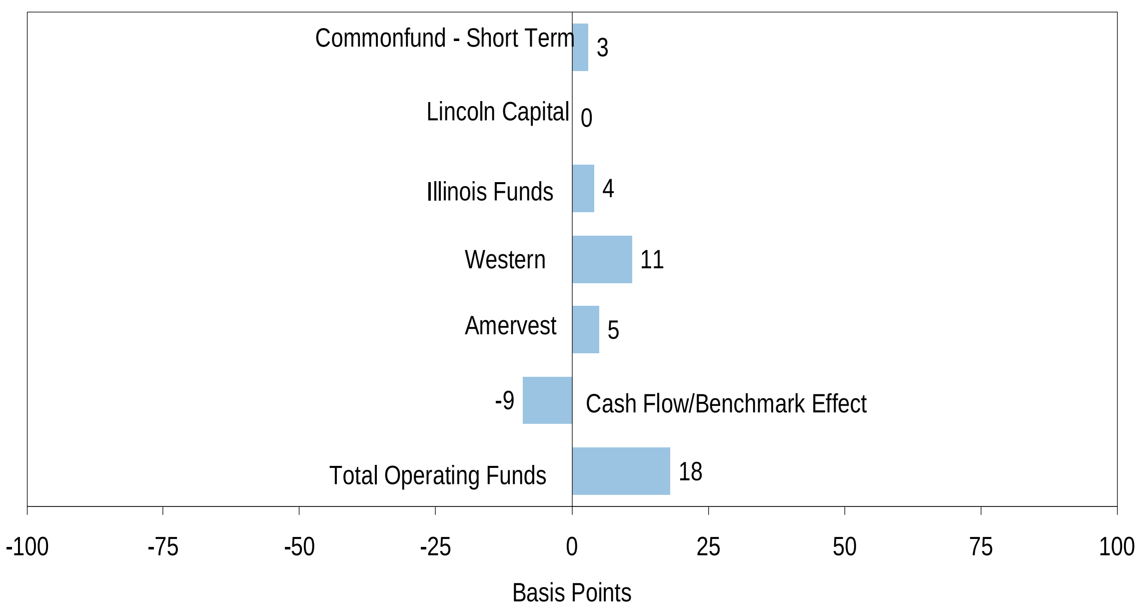
Ratio of Cumulative Wealth
15 Years Ending 6/30/2004



Total Operating Pool Attribution Analysis
One Year Ending 6/30/2004



Total Operating Pool Attribution Analysis
Five Years Ending 6/30/2004



Return Summary Periods Ending 6/30/2004

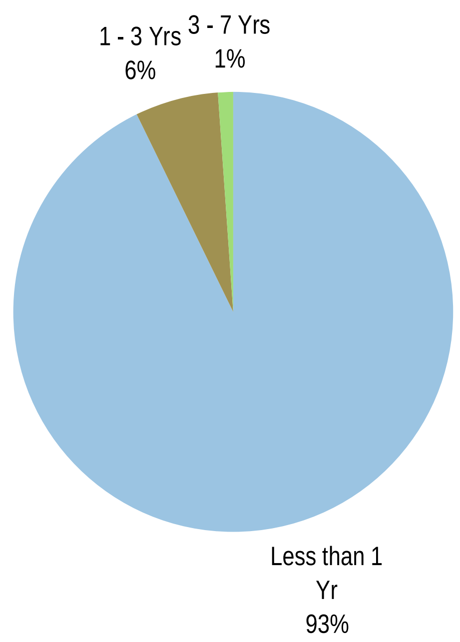
	Second Quarter	1 Year	3 Years	Since Inception	
Commonfund	0.3%	1.1%	1.9%	4.4%	10/31/1986
Lehman 90-Day T-Bill	0.2	1.0	1.7	4.1	

- Returns of the Commonfund Short Term Bond Fund modestly exceeded the return of the Lehman 90-Day T-Bill Index during the second quarter, and exhibited modest positive tracking over the longer periods shown.

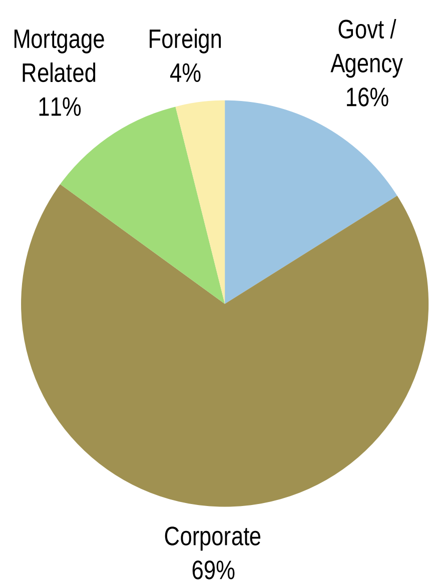
Return History

	Commonfund	90-Day Treasury Bills	Return Difference
Trailing 3-Year	1.9%	1.7%	0.2%
Trailing 5-Year	3.5	3.3	0.2
Trailing 10-Year	4.5	4.4	0.1
Since Inception (6/30/1992)	4.3	4.1	0.2

Commonfund Maturity Distribution
6/30/2004



Commonfund Sector Breakdown
6/30/2004



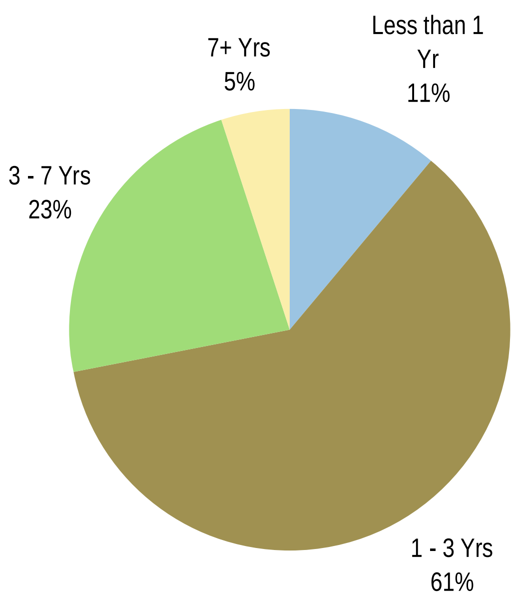
Return Summary Periods Ending 6/30/2004

	Second Quarter	1 Year	Since Inception	
Amervest	-0.9%	0.5%	3.4%	3/31/2001
Lehman 90-Day T-Bill	0.2	1.0	1.9	

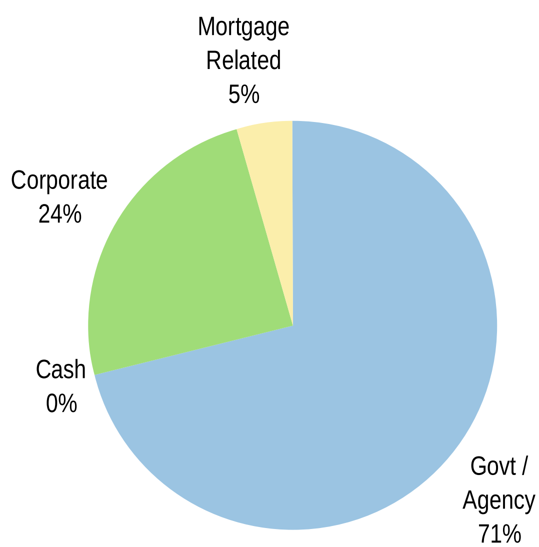
- For the first time since its initial funding, the Operating Pool's investment with Amervest underperformed the return of the 90-Day T-Bill. The below-benchmark result was largely due to the manager's allocation to corporate bonds, as these issues suffered during the quarter.

- Despite poor performance during the quarter, the portfolio's return remained 1.5 percentage points ahead of that of the benchmark since inception.

Amervest Maturity Distribution
6/30/2004



Amervest Sector Breakdown
6/30/2004



Return Summary Periods Ending 6/30/2004

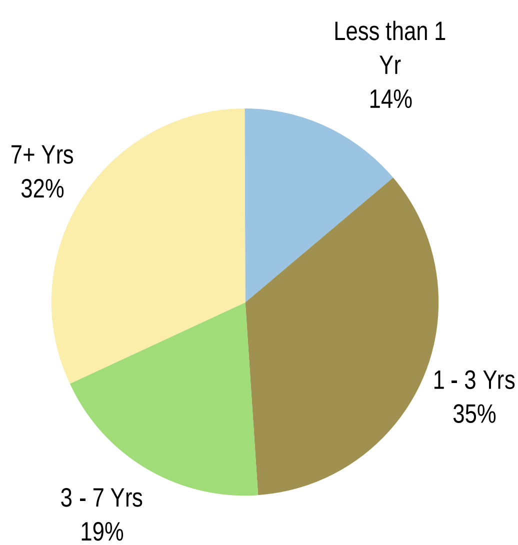
	Second Quarter	1 Year	Since Inception	
Western	-0.9%	2.0%	4.9%	3/31/2001
Lehman 1-3 Year Government/Credit Index	-1.1	0.8	4.5	

- Despite a negative overall return during the second quarter, the Western portfolio's return exceeded that of the Lehman 1-3 year Government/Credit Index by 0.2 percentage points.

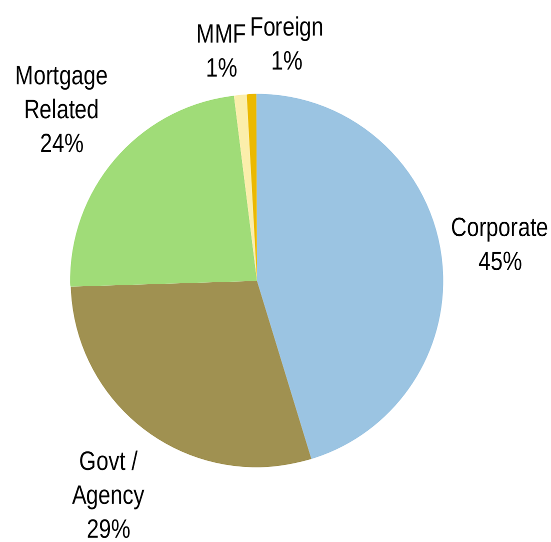
- The portfolio's return was boosted by its below-benchmark allocation to poor-performing corporate bonds, and its corresponding allocation to mortgage-backed securities. The Index does not hold mortgage-backed securities, and these were among the better performers in the fixed income universe during the quarter.

- Since its inception with the Operating Pool, the Western portfolio's return exceeded that of the 1-3 Year Government/Credit Index by 0.4 percentage points annually.

Western Maturity Distribution
6/30/2004



Western Sector Breakdown
6/30/2004



Return Summary Periods Ending 6/30/2004

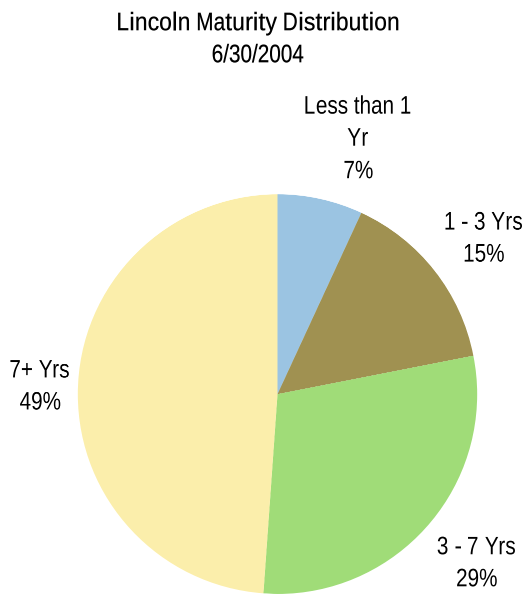
	Second Quarter	1 Year	3 Years	Since Inception	
Lincoln Capital	-2.0%	0.8%	6.0%	6.3%	12/31/1995
Lehman Intermediate Aggregate Bond Index	-2.0	0.8	6.0	6.4	

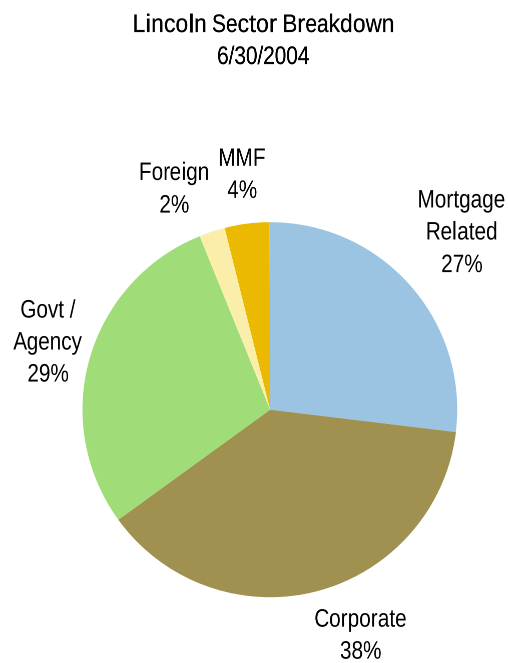
- The return of the Lincoln portfolio matched that of the Lehman Intermediate Aggregate Bond Index during all trailing periods shown above, and exhibited modest negative tracking since inception.

- Any tracking exhibited in the portfolio is a result of issue selection, as this portfolio is neutral to the Index in regards to duration, yield curve exposure and sector weights. The manager samples from the broad range of securities contained in the Index to purchase a small number of securities that will exhibit Index-like performance.

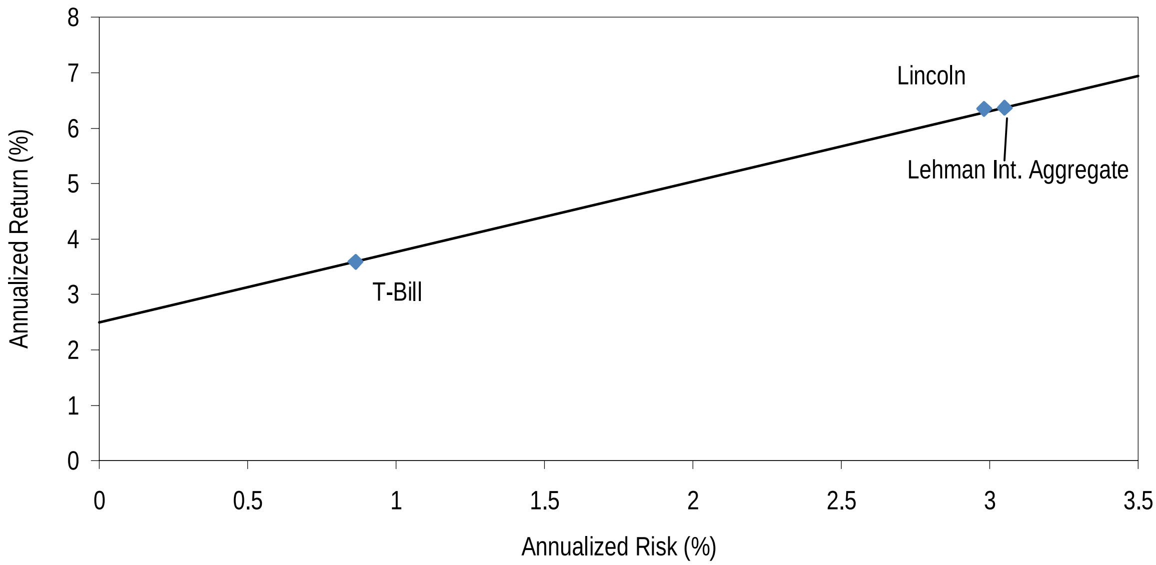
Return History

	Lincoln Capital	Lehman Intermediate Aggregate	Return Difference
Trailing 3-Year	6.0%	6.0%	0.0%
Trailing 5-Year	6.7	6.7	0.0
Since Inception (12/31/1995)	6.3	6.4	-0.1

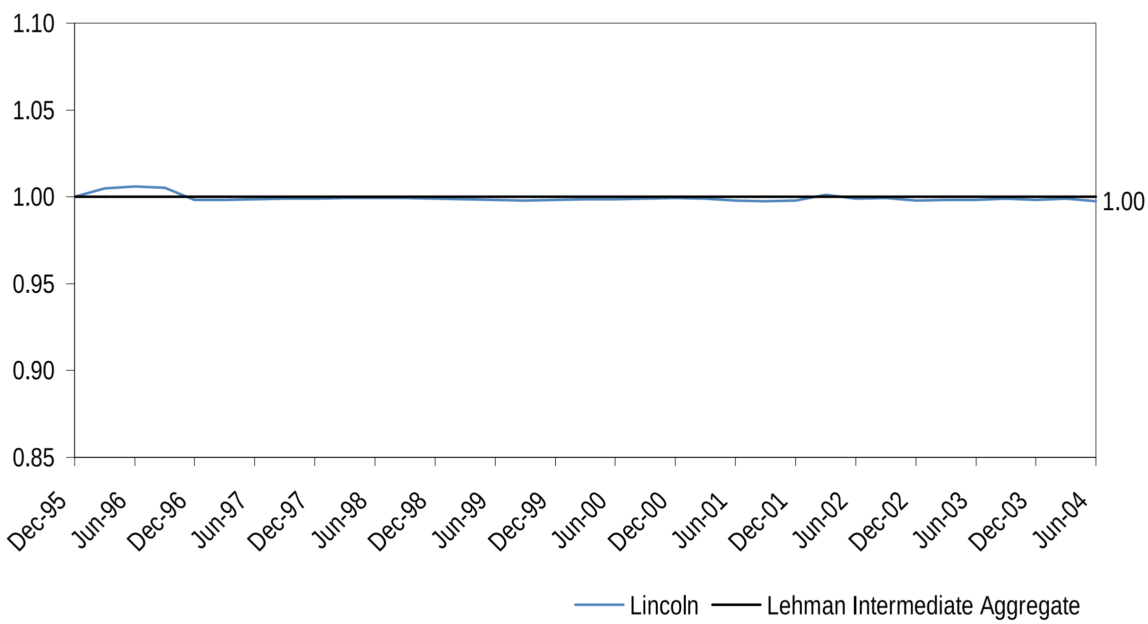




Risk-Return
8 Years and 6 Months Ending 6/30/2004



Ratio of Cumulative Wealth
8 Years 6 Months Ending 6/30/2004

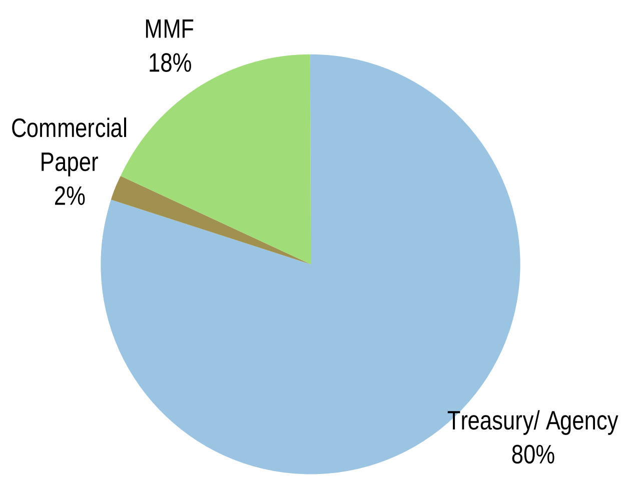


Construction Funds Asset Allocation as of 6/30/2004
($ in Thousands)

	U.S. Treasury/ Agency	MMF	Commercial Paper	Total	Percent of Total
Natural Gas		$1		$1	0.0%
Series 01 Project Fund		$1		$1	0.0%
So Campus 99, 99A, 99B		$6,456		$6,456	3.5%
So Campus 2000	$7,993	$1,434		$9,427	5.1%
Utility 2004 COP Delivery Costs		$381		$381	0.2%
South Campus 00 Land Sale		$2,037	$996	$3,033	1.6%
Series 01B Project Fund	$34,918	$1		$34,919	19.0%
Series 01C Project Fund	$6,592	$332		$6,924	3.8%
Series 2001A COP Project Fund	$2,993	$1,175		$4,168	2.3%
Series 2001B COP Project Fund	$4,988	$2,627		$7,614	4.1%
Series 03 South Farms COP Project Fund	$13,492	$1,064	$996	$15,553	8.5%
Series 2003A AFS	$48,775	$1,156	$996	$50,927	27.7%
UI2 COP Series 2003	$19,221	$1,885	$996	$22,102	12.0%
UIC S.C. Completeion Series 2003 Project Fund	$7,497	$2,471		$9,968	5.4%
Willard Tower		$781		$781	0.4%
Other		$11,618		$11,618	6.3%
Total Construction Funds	$146,469	$33,421	$3,983	$183,873	100.0%

- The table above details the breakdown of the Construction Funds. The Construction Funds are very high quality issues and represent 79% of the total Plant Funds.

Construction Funds



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Returns of the Major Capital Markets

	Second Quarter	1-Year	3-Year	5-Year	10-Year
		Annualized Periods Ending 6/30/04			
Stock Indices:					
Dow Jones Wilshire 5000 Index	1.3%	21.2%	0.8%	-1.0%	11.5%
S&P 500 Index	1.7	19.1	-0.7	-2.2	11.8
Russell 3000 Index	1.3	20.5	0.1	-1.1	11.7
Russell 1000 Value Index	0.9	21.1	3.0	1.9	12.6
Russell 1000 Growth Index	1.9	17.9	-3.7	-6.5	10.1
Russell MidCap Value Index	1.7	30.8	9.8	8.6	14.2
Russell MidCap Growth Index	1.1	27.3	0.2	0.5	10.9
Russell 2000 Value Index	0.9	35.2	12.2	12.8	13.9
Russell 2000 Growth Index	0.1	31.6	-0.2	-0.5	7.2
Bond Indices:					
Lehman Brothers Aggregate	-2.4%	0.3%	6.4%	6.9%	7.4%
Lehman Brothers Gov't/Credit	-3.2	-0.7	6.7	7.1	7.4
Lehman Brothers Long-Term Gov't/Credit	-5.3	-2.7	8.3	8.2	8.9
Lehman Brothers Intermediate Gov't/Credit	-2.5	-0.1	6.2	6.8	6.9
Lehman Brothers Mortgage-Backed	-1.1	2.2	5.6	6.6	7.3
Lehman Brothers 1-3 Yr. Gov't	-1.1	0.5	4.1	5.3	5.8
Lehman Brothers Universal	-2.4	1.0	6.7	7.1	7.5
Real Estate Indices:					
NCREIF Open End Fund Index	--%	--%	--%	--%	--%
Wilshire Real Estate Securities Index	-4.5	29.3	14.9	14.5	12.3
Foreign Indices:					
MSCI AC World Ex-U.S. Free Index	-0.9%	32.0%	4.9%	0.6%	4.1%
MSCI EAFE Free	0.2	32.4	3.9	0.1	4.0
MSCI Emerging Markets	-9.6	33.1	12.8	3.0	0.9
MSCI Hedged EAFE Foreign Stock Index	2.1	21.6	-6.4	-2.5	5.2
SSB Non-U.S. World Gov't Bond	-3.4	7.6	13.7	6.8	6.1
SSB Non-U.S. World Gov't Bond – Hedged	-1.1	-0.2	4.0	5.3	8.1
Cash Equivalents:					
Treasury Bills (30-Day)	0.2%	0.8%	1.4%	2.8%	3.8%
EnnisKnupp STIF Index	0.2	1.1	1.9	3.5	4.5
Inflation Index:					
Consumer Price Index	1.2%	3.3%	2.1%	2.7%	2.5%

Investment operations are those business processes concerned with the commitment of University assets to earn revenue and the control and safeguard of these earning assets. The Board of Trustees and its delegates intend to invest all available University funds in one of the University investment programs. The objective and time horizon of a fund will generally determine the appropriate investment program. The University attempts to pool assets wherever possible in order to generate efficient administration and investment flexibility.

The Trusts and Trustees Act, 760 ILCS 5/5 (1994) describes the judgment and care a prudent person should take in managing funds held in trust. All trustees are required to apply this standard to their investment management practices. (See 760 ILCS 50/1-10, (1994), also known as the Uniform Management of Institutional Funds Act, for the responsibilities of those individuals charged with investing institutional funds; *University of Illinois Statutes,* February 1994, Article 1; and *The General Rules Concerning University Organization and Procedure,* February 1994, Article II, Section 1b.)

Investment Function

The investment function is centralized in the Office of Cash Management and Investments.

Authority

The Board of Trustees develops University policy on investments and delegates the execution of those policies to its administrative agents, who act under the Board's general supervision. The University Comptroller has been delegated transaction authority to assist the Finance and Audit Committee of the Board of Trustees in investments.

Operations

The Finance and Audit Committee meets as required to review the investment policy of the Board of Trustees. The Committee meets regularly to review policy compliance, asset allocation, portfolio and manager performance, and other policy questions.

The University Comptroller has delegated to the Senior Associate Vice President for Business and Finance the authority and responsibility to develop, and, after necessary consultations, disseminate the necessary guidelines and procedures regarding the investment of University funds. The Senior Associate Vice President for Business and Finance is also authorized to develop, install, and oversee the operations of suitable business systems to accomplish this function. Requests for exceptions to approved investment policies should be addressed to the University Comptroller.

The Assistant Vice President for Business and Finance, directed by the Senior Associate Vice President for Business and Finance, is responsible and has authority for day-to-day investment operations. Endowment investment transactions are reported to the Board of Trustees.

Bank Accounts and Investment Managers

The establishment of financial relationships for checking, savings, depository, custody/management of investments or other services for the holding or management of University monies requires the prior approval of the Board of Trustees. The Board of Trustees may delegate this authority to the Comptroller under certain circumstances.

Balances in excess of the Federally insured amount must be collateralized in accordance with State of Illinois law. Collateral must be held in safekeeping with the Federal Reserve or another approved unrelated third party.

Ethics and Conflicts of Interest

The Corrupt Practices Act of the Illinois Compiled Statutes shall apply in the case of this policy. In addition, no person involved in the investment process shall make any investment decision based upon personal or political gain or consequence.

Investment Managers Selection and Retention

Investment Managers will be selected to fill investment needs when identified by the staff, consultant, or Board of Trustees.

Criteria used to evaluate investment managers during the search process:

1. Registration with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940.
2. Experience of the firm in the management of institutional portfolios operated under prudent person standards, as well as related investment management experience.
3. Qualifications and/or depth of the professional staff.
4. Soundness of the firm's investment philosophy and process.
5. The investment record of the firm and/or the firm's principals in former associations where that record is verifiable.
6. The adequacy of the firm's trading, back office, accounting and reporting, and client servicing capabilities.
7. Fees.

Reasons for termination include: Changes in investment style and discipline, changes in the firm (personnel, structure, or organizational form) which may detract from future performance, changes in investment policy which eliminate the need for the manager, loss of confidence that the firm will add value or as evidenced by failure to perform historically above their relative benchmark over a period of 3 to 5 years.

Regarding performance, the primary measurement will be the manager's returns (net of fees) versus the relevant and agreed upon benchmark. Failure of a manager to generate excess returns in a short period of time does not require that the contract with the firm be terminated. However, the firm's returns must be within an acceptable range. A secondary performance measure is the manager's return versus the return of a universe of manager returns whose styles are similar. Again, the manager's returns must be within an acceptable range.

The table below outlines the investment manager search process.

INVESTMENT MANAGER SEARCH PROCEDURES

	Steps in Process	Responsible
1.	Ongoing review of the University of Illinois' investment manager structure.	Trustees, Staff & Consultant
2.	Determination is made that there is a need for a new investment manager. Specific purpose of hiring a new manager is determined and staff/consultant are authorized to begin the search process.	Comptroller or Trustees
3.	Evaluate the most effective and cost efficient way to select the particular manager in light of the circumstances and procurement code. Preparation of: (1) screening criteria or (2) recommended alternative course of action.	Staff & Consultant
4.	Review staff and consultant's suggested screening approach to criteria or suggestion of a specific manager(s).	Comptroller
5.	Screen the universe of investment managers (including those managers previously identified by the trustees) for those who meet the established criteria.	Staff & Consultant
6.	Conduct request for proposal for professional investment services in accordance with Illinois Procurement Code.	Staff & Consultant
7.	Prepare a series of written profiles describing important characteristics of qualified firms identified in Step 6.	Staff & Consultant
8.	Review written profiles and select three to five finalists for interviews.	Staff & Consultant
9.	Interview managers, analyze and make recommendation.	Staff, Consultant & Chair Finance & Audit Comm.
10.	Approve hiring of manager(s).	Trustees
11.	Establish relationship or account and transfer funds.	Staff & Consultant

In general, net investment earnings are credited to the funds source used to generate the revenue. Applicable external investment management, trust, custody, bank, and internal fees reduce the amount of investment income returned to a given fund. Individual University funds which are combined to form an investment pool have income distributed back to the funds source based on each fund's participation in the pool. The Office of Cash Management and Investments ensures the proper recording of all investment income and related expenses and the allocation of net investment income to the appropriate fund groups.

Operating Funds Investment Pool Income Distribution

The Operating funds investment pool is the investment of available University working capital from University operations. In general, University cash receipts and cash disbursements are centralized through University-wide banking arrangements. Sufficient cash balances are maintained in bank accounts to provide for anticipated disbursements. Funds over the amount needed to meet disbursements are invested according to Board of Trustees' policy.

Total accrued investment income earned on operating funds investments is adjusted for the following activities:

- Bank and trust service fees not allocated to a specific fund or campus
- The operating budget of the Office of Cash Management and Investments

Net accrued investment income of the above expenditures is allocated quarterly in the following manner based on average end-of-the-month cash balances:

- Reimburse interest paid State of Illinois tuition deposits
- Campus specific bank service charges
- The following fund groups (and related entities):
  - Auxiliary enterprises under indenture
  - Auxiliary enterprises not under indenture
  - Federal grants
  - Federal loan funds
  - Non-federal loan funds
  - Renewal and replacement
  - Restricted gifts (net of gift management fee)
  - Unit activities
  - Unrestricted gifts (net of gift management fee)

Deficit cash balances reduce the total cash balance for a given campus, fund group, or entity. Any campus, fund group, or entity in a total deficit position will not receive an income distribution, except to the extent required by federal, state, or University regulations or policies.

Debt Service Funds Income Distribution

Debt service funds are normally held by the University as a requirement of bond covenants for outstanding University bond issues. The specific bond covenant determines the type of funds required to be held by the University and any limitations on the income earned on those funds. In general, construction funds represent the deposit and expenditure of bond proceeds and receive interest from the investment of these funds before expenditure. Debt service reserve funds are retained in the event the University defaults on a bond payment. Bond and interest sinking funds accumulate the investment earnings of the debt service reserve and mandatory transfers from operating units for payment of principal and interest on the outstanding bonds. All investment income earned on debt service and bond and interest sinking funds must be used for debt payments.

Endowment Pool Income Distribution

The University endowment pool is invested with an emphasis on long-term growth and return and uses the total return concept for performance evaluation. This means that growth in the endowment pool is evaluated on the total investment return which includes both capital appreciation and income generation. External managers are not required to meet cash flow needs of the University with dividend and interest receipts. Investments may be liquidated to meet such needs.

The University endowment pool spending policy is based on a percentage of the seven-year moving average market value of the endowment pool. The spending rate is reviewed annually by the Vice President for Administration who forward recommendations to the President for approval. The rate is applied to each endowment fund based on the fund’s participation in the pool at June 30 of the previous fiscal year.

Separately Invested Funds Income Distribution

Funds are separately invested by the University either because of specific donor or legal restrictions, or because it is in the best interest of the University not to commingle the funds. Separately invested funds hold investments which are specifically identified to the fund. All revenue earned by these investments is deposited directly into the fund which held the investments.

Endowment funds are received from a donor with the restriction that the principal is not expendable. Quasi-endowment funds are established by the University Comptroller to function like an endowment, but may be totally expended at any time at the discretion of the University Comptroller. All but a few endowment funds are pooled for investment purposes.

There are a few endowment funds that are separately invested because the gift is non-marketable, or the donor has stated that the fund may not be commingled. Endowments that must be separately invested are invested to emulate the endowment pool investment program adopted by the Board of Trustees, while adhering to the special restrictions prohibiting participation in the pooled program. Each separately invested endowment fund is reviewed periodically to determine if it may be included in the endowment pool.

Definition of Responsibilities

The Board of Trustees is responsible for establishing the investment policy (described below) that is to guide the investment of the pooled endowment portfolio. The investment policy recognizes the long term nature of endowment funds and seeks to balance present and future support. The target allocation that the Trustees deem appropriate for the fund is displayed in the table under "Allocation of Assets". The endowment pool investments are distributed to a number of asset classes to minimize investment risk through diversification and simultaneously provide enhanced investment performance.

Investment managers appointed by the Board of Trustees to execute the policy will invest the endowment assets in accordance with established guidelines, but will apply their own judgments concerning relative investment values. In particular, the investment managers are accorded full discretion, within established guidelines and policy limits, to select individual investments and diversify their portfolios.

Investment Objective

The investment objective is to preserve the real value, or purchasing power, of the endowment pool assets and the annual support provided by these assets for an infinite period. The endowment pool investment policy embraces the total return concept. The following formula summarizes the factors involved in the endowment pool investment program:

Real asset Growth rate	=	Total investment return	less	Rate of purchasing power loss	less	Spending rate

The investment program attempts to balance current need and future support so that in the future an endowed University program will receive the same value of annual financial support as is currently provided. The University of Illinois follows the State of Illinois Uniform Management of Institutional Funds Act, 760 ILCS 50/1-10, (1996) when investing its endowment funds.

Spending Policy

The purpose of the spending rate formula is to provide a stable income stream that keeps pace with inflation and does not degrade the real value of the corpus of the endowment over time. The spending formula and spending rate for the endowment will be determined by the President prior to the beginning of each fiscal year. The President will notify the Board of Trustees of the spending rate.

Allocation of Assets

The chart below illustrates the target asset allocation deemed appropriate for the endowment portfolio by the Board of Trustees:

Asset Category	Target Allocation	Allowable Range	Management Mode	
			Active	Passive
Domestic Equity[1]	55%	51-59%	10%	45%
Foreign Equity	15%	13-17%	15%	--
Private Equity	5%	0-7%	5%	--
Real Estate	0%	0-5%	0%	--
Equity Total	75%	71-79%	30%	45%
Fixed Income	25%	21-29%	25%	--
Total	100%		55%	45%

Diversification

The endowment portfolio will be broadly diversified across and within asset classes in order to minimize the impact of losses in individual investments. Multiple investment managers and indexed investments will be used to further this end.

Derivative Securities

For the purposes of this policy, a derivative instrument is defined as any contract or investment instrument whose performance, risk characteristics or value is based on any asset, interest rate or index value.

Derivatives are permitted to be used for the following purposes:

1. To gain broad stock or bond market exposure in a manner that does not create the effect of leverage in the overall portfolio.

2. To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. Dollar).

3. To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the manager and other policies and guidelines provided to the manager.

[1] The policy allocation to real estate will equal the Endowment Pool's actual allocation until the investments in real estate are fully liquidated. This adjustment will be made on a quarterly basis.

4. To make other portfolio adjustments that are consistent with other elements of the University's investment policies and guidelines and that, when viewed from a total portfolio standpoint, do not increase risk or expected volatility of rate-of-return in the portfolio.

All other uses of derivatives are prohibited unless specifically approved by the University's Board of Trustees.

Investment managers are expected to have internal risk management programs in place to ensure that derivative-based strategies do not result in magnified risks to the portfolio.

Use of Pooled Funds

Investments in pooled funds (e.g., mutual funds, common trust funds, etc.) are permitted provided that their investment guidelines do not violate the University's endowment investment polices and guidelines.

Liquidity

The University advises investment managers of any anticipated need for liquidity as such needs become known. Investment managers are to presume no liquidity needs other than those provided to it by the University.

Rebalancing

The endowment portfolio will be rebalanced at least quarterly to keep asset classes within the allowable ranges. The purpose of rebalancing is to control risk and maintain the policy asset allocation within the ranges approved by the Board. Endowment cash flow will be utilized to implement rebalancing activities to minimize transactions costs.

Performance Evaluation

The endowment pool rate of return is compared with:

- A weighted-average of the returns of broad market indices representing the asset classes in the target allocation established by the Board of Trustees,
- The returns of a universe of funds with similar policies and,
- A measure of relative purchasing power.

The weighted average benchmark referred to above is:

Index	Allocation Weight (%)
Wilshire 5000 Stock Index	55
MSCI ACWI Ex U.S. Foreign Stock Index	15
Wilshire 5000 Stock Index plus 300 basis points	5
Lehman Brothers Bond Index	25
NCREIF Property Index	0

The universe of comparison is the EnnisKnupp Endowment Fund Universe, which consists of the returns of approximately 129 endowments and foundations as provided by Russell Mellon Analytical Services.

The primary inflation measure used to determine purchasing power is the Consumer Price Index.

The University will evaluate performance on a net-of-fees basis.

Reporting and Review

The endowment funds investment policy will be reviewed at least annually by the Board of Trustees. The Office of Cash Management and Investments will prepare quarterly investment and performance reports for review by the Board of Trustees.

University Funds Governed By The Operating Investment Policy

The operating funds of the University of Illinois represent operating and gift funds available for current use in support of the University's academic programs and support functions. This category also includes student loan funds, agency funds, self-insurance reserves, and auxiliary operating funds. Operating funds are pooled to provide the University continuity, investment flexibility, and efficient administration.

Operating funds with unique requirements preventing participation in the pool are separately invested. Funds earmarked for construction and funds generated through debt issues are generally separately invested in order to meet bond covenants and to foster project accountability. Separately invested funds will follow the quality guidelines contained in the operating funds policy, but the maturity structure will be guided by projected cash flows.

Definition of Responsibilities

The Board of Trustees is responsible for establishing the investment policy (described below) that is to guide the investment of the University's operating funds. The investment policy describes the overall level of risk that the Trustees deem appropriate.

Investment managers appointed to invest the operating funds shall do so in accordance with the policy, but apply their own judgments concerning relative investment values. Investment managers are accorded full discretion, within policy limits, to select individual investments and diversify their portfolios.

Investment Objective

Operating funds are invested to preserve the value and safety of the principal, maintain liquidity appropriated to the forecasted working capital requirements of the University, provide prudent diversification of investments and maximize the rate of return on investment. Funds expected to be used within one year are invested in money market instruments to ensure they are available for expenditure. Core operating funds are those which are not needed for liquidity purposes. Core operating funds will be invested in longer maturity investment instruments in order to earn a higher return. These longer maturity investments will experience some variation in market value as capital market conditions change. This market value variation is acceptable since these investments are not expected to be utilized to meet liquidity needs. Operating funds are invested as a pool to provide the University continuity, investment flexibility, and efficient administration.

Delegation of Authority

The Comptroller is authorized to invest University operating funds at his/her discretion in investments consistent with the Board of Trustees' policy and/or with investment managers appointed by the Board.

Reporting and Review

The operating funds investment policy shall be reviewed at least annually by the Board of Trustees. The Office of Cash Management and Investments prepares quarterly investment and performance reports for the Board of Trustees.

Allocation of Assets

It is University policy to invest its operating funds in the following approximate proportions:

Average Maturity Range (years)	Benchmark	Allocation Range (% of pool)
5 – 30	Blended Endowment Pool Index	15 - 25%
3 – 7	Lehman Brothers Intermediate Aggregate Bond Index	20 - 35%
1 – 3	Lehman Brothers One-to Three-Year Government/Credit Index	30 - 40%
0 – 1	90-Day Treasury Bills	5 - 35%

Permissible Investments

The University's non-core operating funds shall be invested in fixed-income securities and short-term (money market) instruments. Fixed-income securities shall be rated "Baa" or better by Moody's or Standard & Poor's or equivalent. Unrated securities are not allowed unless specifically permitted by an individual manager's guidelines. Money market instruments selected shall be of investment grade quality.

The University's core operating funds shall be invested in the University's endowment pool investment program. Investments in pooled fund (e.g., mutual funds, common trust funds, etc.) are permitted provided that their investment guidelines do not violate the University's investment policies and guidelines for short-term assets.

The University Comptroller and investment managers shall not invest in any security which, in their opinion, entails a material probability of default.

Diversification

The total operating funds portfolio will be broadly diversified across securities in order to reduce the impact of losses in individual investments in a manner that is consistent with fiduciary standards of diversification. This diversification shall be achieved by employing multiple investment managers and by imposing 5% maximum position limits with the exception of U.S. government securities for each manager.

Liquidity

The Director of Cash Management and Investments will be responsible for maintaining adequate cash balances for the liquidity needs of the University. The Director of Cash Management and Investments will advise the external managers of any anticipated need for cash withdrawals as such needs become known. External managers are to presume no cash withdrawal needs other than those provided to them by the Director of Cash Management and Investments.

Derivative Securities

For the purposes of this policy, a derivative instrument is defined as any contract or investment instrument whose performance, risk characteristics or value is based on any asset, interest rate or index value.

Derivatives are permitted to be used for the following purposes:

1. To gain broad bond market exposure in a manner that does not create the effect of leverage in the overall portfolio.

2. To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. Dollar).

3. To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the manager and other policies and guidelines provided to the manager.

4. To make other portfolio adjustments that are consistent with other elements of the University's investment policies and guidelines and that, when viewed from a total portfolio standpoint, do not increase risk or expected volatility of rate-of-return in the portfolio.

All other uses of derivatives are prohibited unless specifically approved by the University's Board of Trustees.

Investment managers are expected to have internal risk management programs in place to ensure that derivative-based strategies do not result in magnified risks to the portfolio.

Performance Evaluation

The University will evaluate performance on a net-of-fees basis. The total operating funds portfolio rate of return will be compared with a weighted average of returns of broad indices representing the maturity structure of the investment policy allocation. The indices to be used in the weighted average and the ranges within which the weights will fall are displayed in the table below:

Benchmark	Allocation Range
Blended Endowment Pool Benchmark	15 - 25%
Lehman Brothers Intermediate Aggregate Bond Index	20 - 35%
Lehman Brothers One-to Three- Year Government/Credit Index	30 - 40%
90-Day Treasury Bills	5 - 35%

The University will evaluate performance on a net-of-fees basis.

Separately invested funds are funds under the control of the University which do not participate in a pooled investment program. The University has five primary groups of funds that are separately invested:

Agency funds invested for the benefit of related organizations.

1. Current funds that cannot participate in the short-term investment pool due to donor restriction or to meet specific investment objectives which are not consistent with those of the operating funds investment pool.

2. Endowment funds where a donor has stated that the endowment fund may not be commingled or the gift is non-marketable.

3. Plant funds that must comply with an underlying bond issue resolution or gift agreement.

4. Student loan funds invested in student loans.

SEPARATELY INVESTED AGENCY, CURRENT AND STUDENT LOAN FUNDS

Investment Objective

Maximize the rate of return on investments consistent with restrictions placed on the account and the following:

1. Current income should exceed the yield on three-month Treasury bills measured for the same period.

2. Invest these separately invested funds to preserve the value and safety of the principal involved.

3. Maintain liquidity appropriate to the forecasted working capital requirements of the University.

4. Provide for prudent diversification.

SEPARATELY INVESTED ENDOWMENT FUNDS

Investment Objective

Preserve the purchasing power of the separately invested endowment funds and the income provided by them. Invest separately invested endowments to follow, as nearly as possible, the endowment pool investment program adopted by the Board of Trustees while following the special restrictions prohibiting participation in the pooled program.

Investment returns on separately invested endowments will be compared with the following:

1. A weighted-average of the returns of broad market indices representing the asset classes in the target asset allocation in the investment policy for the endowment pool established by the Board of Trustees.

2. Returns of a universe of funds with similar policies.

3. A measure of relative purchasing power.

SEPARATELY INVESTED PLANT FUNDS

Investment Objective

Invest plant funds under guidelines approved by the Board of Trustees by adoption of the resolution accompanying the underlying bond issue or gift agreement. If there is no resolution, invest plant funds using the same requirements as those used for short-term operating funds.

Invest construction funds to earn current income at the best rate possible with the least amount of risk until the funds are needed for construction or completion of the project. Construction funds related to a debt issue must conform with debt covenant restrictions.

Invest debt service reserves to provide a stable income stream with acceptable principal risk and to conform with debt covenant restrictions.

From time to time farmland and related buildings are acquired by the University of Illinois. This land is utilized by the University for research purposes or is managed as an investment to produce income for a designated University purpose. This section deals with farms being managed as an investment to produce income. In most cases these farms are acquired as gifts and are managed as endowment (long-term) assets.

Authority

The Board of Trustees develops University policy on investments and delegates the execution of those policies to its administrative agents, who act under the Board's general supervision. The Board has delegated authority to manage University investments to the Comptroller. The Comptroller has contracted with the Agricultural Property Services division of the College of ACES to oversee and manage the endowment farms.

Gifts of Farmland

The Office of Business Affairs and the Legal Counsel Office process University gifts of real estate. If the real estate gift contains farmland, the Agricultural Property Services Division is informed and requested to review the land prior to acceptance. The purpose of the review is to determine if the land has research potential for the College of ACES, to determine if there are any environmental or other issues the University should consider before accepting the gift and to confirm the gift value of the property.

Management and Oversight

If the farmland gift is accepted, the Agricultural Property Services Division is guided by the following principles in managing the property:

1. Utilize sound management practices that have been recognized and tested which strive for maximum profits.

2. Utilize recognized soil conservation techniques.

3. Employ environmentally safe farming practices and comply with environmental protection laws and regulations.

4. Consider the importance of public relations as it relates to decisions involving University farms.

5. Ensure donor restrictions or intents regarding the management of the farm are followed.

6. Evaluate and apply new ideas and technology related to the practice of farm management.

7. Utilize College of ACES expertise in the formulation of farm management decisions.

8. Utilize external farm operators to perform day-to-day operations.

9. Evaluate farm management practices on a continual basis.

The Agricultural Property Services Division shall appraise the value of all farms on a regular basis.

Selection of Farm Operators

It is the responsibility of the College of ACES to oversee the selection of farm operators for University farmland and to establish guidelines for the selection of farm operators. The Agricultural Property Services Division performs the selection process under the guidance of the College.

Sale of Farmland Production

It is the responsibility of the College of ACES to oversee the sale of the landowner's share of University farmland production and to establish guidelines for sales operations. The Agricultural Property Services Division oversees the sale of farm production under the guidance of the College.

The sales management program includes the use of risk hedging techniques. It is the responsibility of the College of ACES to establish procedures to govern the risk management program and to monitor compliance.

Reporting and Performance Evaluation

The Agricultural Property Services Division shall prepare an annual report of endowment farms. The investment performance of University farms shall be computed on a total return basis and compared with the NCREIF cornbelt index and the Chicago Federal Reserve farmland index.

BARCLAYS GLOBAL INVESTORS — U.S. EQUITY MARKET

Objective

To match, with reasonable tracking error, the returns of the Wilshire 5000 Stock Index.

Permissible Investments

The assets are to be invested in Barclays Global Investors' commingled U.S. Equity Market Fund which in turn invests in publicly traded U.S. equity securities. Barclays Global Investors may use futures (no more than 2% of the Fund) to remain fully invested in the U.S. Equity Market Fund.

Securities Lending

The Fund may engage in securities lending. The Fund requires 102% collateral.

Benchmark

The benchmark for the portfolio is the Wilshire 5000 Stock Index. The University will evaluate performance on a net-of-fees basis.

GRANTHAM, MAYO, VAN OTTERLOO (GMO) U.S. SECTOR FUND

Objective

The objective of the Grantham, Mayo, Van Otterloo (GMO) U.S. Broad Strategy portfolio is to provide long-term capital appreciation through the purchase of small- to medium- to large-capitalizaton common stocks and REITs via commingled mutual funds.

Permissable Investments

1. The manager may invest in up to a minimum of 0% and a maximum of 10% in cash equivalent investments.

2. GMO will invest in mutual funds with different market capitalization and style characteristics. The underlying securities within each fund would consist of U.S. companies with prospects of strong earnings growth and attractive overall business fundamentals, selling at reasonable valuations.

3. The ranges on the underlying mutual funds are as follows:

U.S. Core Fund	20% - 100%
Growth Fund	0% - 60%
Intrinsic Value Fund	0% - 60%
Small Growth Fund	0% - 35%
Small Value Fund	0% - 35%
REITs	0% - 25%

4. The portfolio shall be diversified to reduce the impact of large losses in individual investments. The portfolio will normally invest in six different mutual funds to achieve adequate diversification.

5. As an overriding principle, the manager is to maintain an overall portfolio character that is unlikely to produce a level of rate-of-return volatility significantly in excess of that of the benchmark when measured over three- to five-year periods.

Diversification

The portfolio shall be diversified to reduce the impact of large losses in individual investments on the total portfolio in a manner that is consistent with fiduciary standards of diversification. The portfolio, via the commingled funds, shall be diversified over a broad cross section of economic sectors and industries.

Risk Control

It is the responsibility of the manager to maintain adequate risk management controls in order to ensure Foundation assets are invested in compliance with established policies and guidelines. To help control risk, GMO compares the portfolio's economic sector weightings to a broad index of small-, medium-, and large-capitalization stocks.

Liquidity

The investment manager is to presume no need for liquidity other than that provided to it from time to time by the Treasurer's office.

Performance Measurement

1. The portfolio's return should exceed the rate of return of the Wilshire 5000 Stock Index net of fees over reasonable measurement periods.

2. The portfolio's risk-adjusted performance will be compared with that of the Wilshire 5000 Index over reasonable measurement periods.

3. The portfolio's returns should exceed those of the median U.S. equity manager over reasonable time periods.

Schedule II

Investment Management Services Fees for University of Illinois
Annual Charges – Investment Management

0.90% on the first $20 million of assets
0.75% on the balance of the assets
Minimum fee of $135,000

MORGAN STANLEY CORE PLUS FIXED INCOME PORTFOLIO

Objective

The objective of the Morgan Stanley portfolio is to provide an above-average total return while minimizing risk relative to the broad fixed income market.

Guidelines

1. The portfolio shall be invested in a minimum of 80% and a maximum of 100% in investment-grade, fixed-income securities.

2. The portfolio may be invested in up to 20% of non-investment-grade, fixed-income securities as rated by both of the major credit rating agencies.

3. Bonds not rated by the major credit rating agencies are limited to 5% of the portfolio's value. In determining the credit quality of unrated bonds for compliance with non-investment-grade bond allocations, the manager will compare the investment characteristics of the unrated bonds to those bonds rated by the credit rating agencies in order to determine an appropriate rating.

4. The portfolio may invest in Rule 144(a) securities.

5. The portfolio may be invested in up to 20% of non-U.S.-dollar-denominated, fixed-income securities.

6. Morgan Stanley shall be responsible for determining the maturities of all fixed-income securities within the portfolio. The duration of the portfolio may vary within plus-or-minus 50% of that of the benchmark.

7. The portfolio shall be diversified to reduce the impact of large losses in individual investments on the total portfolio. The manager may invest up to 5% of the portfolio's assets in obligations of any one issuer. This 5% maximum shall not apply to obligations of the U.S. Government and/or its agencies or securities within the Advisory portfolios.

8. Fixed-income derivative securities are allowed to the extent that they are used in a manner that does not materially increase portfolio volatility.

9. As an overriding principle, the manager is to maintain an overall portfolio character that is unlikely to produce a level of rate-of-return volatility significantly in excess of that of the benchmark when measured over three- to five-year periods.

Performance Measurement

1. To exceed the rate of return of the Lehman Brothers Aggregate Bond Index net of fees over reasonable measurement periods.

2. To consistently achieve an above-median ranking within a universe of fixed-income funds over reasonable measurement periods.

TEMPLETON INVESTMENT COUNSEL, LLC

Objective

The Templeton International Equity Account seeks long-term growth of capital primarily through a diversified portfolio of marketable foreign equity securities.

Guidelines

The manager will diversify investments among several countries. The Fund may invest in:

1. The portfolio shall be invested in a minimum of 90% and a maximum of 100% in non-U.S. common stock securities. The portion of the portfolio not invested in common stock shall be held in cash equivalents with maturities not exceeding one year.

2. The portfolio's exposure to emerging market securities shall not exceed 20% of the portfolio's value subject to a minimum allocation of 0%.

3. The portfolio shall be diversified to reduce the impact of large losses in individual investments. The manager may invest up to 5% of the portfolio's assets in obligations of any one issuer.

4. The portfolio's currency exposure may be unhedged or hedged back into U.S. dollars. Cross hedging is not permitted.

5. Index future contracts may be used to implement major country allocation changes.

6. As an overriding principle, the manager is to maintain an overall portfolio character that is unlikely to produce a level of rate-of-return volatility significantly in excess of that of the benchmark when measured over three- to five-year periods.

7. Under normal market conditions, the portfolio's emerging markets exposure will comprise at least 65% of issuers located in countries with emerging markets. Emerging markets include those countries that: have an emerging stock market as defined by International Finance Corporation, or in the opinion of the manager, the markets may not fully reflect the potential of the developing economy.

8. The portfolio will invest primarily in equity securities including:

    Common Stock
    Convertible Bonds
    Convertible Preferred Stock
    Rights and Warrants to Purchase Common Stock
    Depository Receipts

The manager may not use derivative securities, with the following exceptions:

- Forward currency exchange contracts
- Currency and stock index futures contracts and related options
- Options on currencies and stock indexes (purchase and sell)
- Put options on stocks (purchase only)
- Call options on stocks (purchase and sell)
- Repurchase agreements

The manager is responsible for notifying the University should it change its policy regarding the use of derivative securities.

Securities Lending

The manager does not enter into securities lending transactions.

Benchmark

The primary investment objective is to exceed, net of fees, the rate of return of the Morgan Stanley Capital International All-Country World Ex-U.S. Index over three- to five-year periods.

The University will also evaluate the manager's performance against that of a universe of non-U.S. stock funds. Over three- to five-year periods, a second investment objective is to exceed the rate of return of the median manager in this foreign stock fund universe.

THE COMMON FUND - ENDOWMENT REALTY INVESTORS II

Objective

The Endowment Realty Investors II (ERI II) is to provide the University of Illinois the opportunity to invest in a comprehensive and broadly diversified pool of real estate investments.

The Common Fund invests its assets in the ERI II Trust, a commingled investment fund. The purpose of these guidelines is to provide an understanding of the investment restrictions and policies The Common Fund follows in the management of the ERI II Trust.

Permissible Investments

Following is a listing of investment policies and restrictions as found in the Trust Information Memorandum:

It is the goal of the Endowment Realty Investors Inc. trustees to create a pool of real estate investments that will have the following characteristics:

(1) wide diversification among regional real estate markets; (2) diversification among a variety of income producing properties such as office, retail, industrial, residential and hotel; (3) diversification among the various types of real property equity interests such as, (a) direct ownership of an income producing property; (b) ownership of land subject to a leasehold that includes income producing properties; (c) participation in partnerships and other joint ventures for the ownership of interests in real property; (d) investment in mortgage loans providing for shared appreciation in revenues; and (e) investment in other types of interests in real property that can contribute to the realization of the Trust's objective.

In addition to the characteristics outlined above, the Trust will implement the following limitations: (1) no more than 50% of the Trust's assets may be invested in office, retail, industrial or residential properties; (2) no more than 25% of the Trust's assets may be invested in a single metropolitan area; (3) no more than 15% of the Trust's assets may be invested in any single investment or group of integrally related investments; (4) each mortgage loan incurred by the Trust to finance or refinance an individual property shall be non-recourse except with respect to the property it finances or refinances; (5) the aggregate borrowings of the Trust, including mortgage indebtedness, shall not exceed 35% of the Trust's total assets; and, (6) the working capital or revolving term loans may be recourse loans secured by some or all of the Trust's properties and shall be used for property improvements expansions and other purposes.

These policies will be reviewed from time to time by The Common Fund, which may modify, amend or repeal them.

Benchmark

The University of Illinois' benchmark for ERI II is the NCREIF Real Estate Index. The University will evaluate performance on a net-of-fees basis.

THE COMMON FUND - SHORT TERM INVESTMENTS FUND

Objective

The goal is to provide a portfolio that emphasizes preservation of capital and will outperform 90-day Treasury bills. The portfolio will be the primary source of liquidity for University operations. Active management is expected to provide increased income and total return to the University of Illinois. These guidelines should be reviewed periodically by the University of Illinois and The Common Fund to assure that the University's objectives are being achieved.

Permissible Investments

Only obligations issued or guaranteed by the U.S. government, U.S. federal agencies and government-sponsored corporations are allowed, as are investment-grade cash equivalents held on a temporary basis. In addition, the Fund may invest in obligations of: (a) commercial banks and bank holding companies organized under the laws of the United States; (b) corporations organized under the laws of the United States including their foreign subsidiaries; and, (c) foreign institutions and corporations, including banks, either payable in U.S. dollars or fully hedged against currency risk.

Financial futures contracts and options on financial futures contracts are permissible given that the writing of uncovered calls is prohibited. The Fund may not enter into swap agreements or leverage Fund assets. No more than 25% of the Fund may be invested in floating rate obligations. No more than 50% of the Fund’s assets may be committed to repurchase and reverse repurchase agreements. The Fund may enter into repurchase agreements and reverse agreements given such agreements are collateralized by 102% of the agreement. No more than 50% of the Fund’s assets may be invested in Collateralized Mortgage Obligations (CMOs) or Real Estate Mortgage Investment Conduits (REMICs)

Credit Quality

The Fund will invest in issues with a credit rating of equal to or better than:

Duff & Phelps, Inc:	DP-1/AA
Fitch Investors Service, Inc:	F-1/AA
Moody’s Investors Services:	P-1/AA
Standard & Poor's Corporation:	A-1/AA
IBCA:	AA
Thomson BankWatch:	B/C

Any two rating services may be used in determining eligibility, however, at least one shall be Fitch, Moody’s, S&P or Thomson BankWatch.

Maturities

The final maturity of any single investment shall be no more than 5.5 years except in the case of CMOs and REMICs.

Diversification

The manager must maintain sufficient diversification to effectively track the benchmark's return. No more than 5% of the Fund's assets may be invested in obligations of any one issuer except in the case of securities issued by or guaranteed by the U.S. Treasury or its agencies. Other diversification guidelines are stated in the Permissible Investments section above.

Securities Lending

The manager does not enter into securities lending transactions.

Benchmark

The benchmark for the portfolio is 90-day Treasury bills. The University will evaluate performance on a net-of-fees basis.

AMERVEST COMPANY, INC.

This statement will serve as the investment guideline for the University of Illinois operating funds pool portfolio. Liquidity in the portfolio is of primary importance. Amervest Company is the designated investment advisor ("Advisor") for the funds. Advisor will seek to add value to the portfolio by investing the funds in government and high quality money market instruments.

Investment Objectives

The objective is to provide a portfolio that emphasizes safety of principal and will outperform institutional money market funds. The portfolio will be a primary source of liquidity for University operations, and the University will ordinarily communicate withdrawal needs at least 30 days in advance. Active management is expected to provide increased income and total return to the University of Illinois. These guidelines should be reviewed periodically by the University of Illinois and Amervest Company, Inc. to assure that the University's objectives are being achieved.

Eligible Investments

U.S. dollar denominated instruments as follows:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored of the U.S. Treasury and U.S. Federal Agencies.

2. High quality and marketable domestic money market instruments including certificates of deposit and banker's acceptances issued by domestic and international banks which are rated at least "A" by Standard & Poor's or Moody's.

3. Commercial Paper defined under Section 4(2) of the Securities Act of 1933 and rated A-1 or P-1 or better by at least one or more nationally recognized statistical rating organizations (NRSRO).

4. Obligations of U.S. and non-U.S. corporations such as short-term corporate notes rated at least "A" by either Standard & Poor's or Moody's.

5. Short-term asset-backed securities rated in the highest credit rating (AAA) by either Standard & Poor's or Moody's.

6. Mortgage-backed securities including plain-vanilla collateralized mortgage obligations rated in the highest credit rating ("AAA") by Standard & Poor's or Moody's. CMO securities may be used as long as their use does not materially increase the risk of the overall portfolio.

7. Repurchase agreements and reverse repurchase agreements with maturities of 30 days or less and 102% collateralized by obligations issued or guaranteed by the U.S. Government, U.S. Federal Agencies and Government-sponsored corporations.

The Northern Trust Company diversified assets money market fund.

Credit Quality

Credit quality restrictions are described under "Eligible Investments" above.

Maturities

The average weighted duration of portfolio security holdings are expected to be between the duration of the 90 Day Treasury Bill Index and the 1 Year Treasury Bill Index. The maximum maturity of any security in the portfolio will be five (5) years.

Diversification

A maximum of 5% of the portfolio's market value, at the time of purchase, may be invested in any one issuer, except that there are no limits on securities of the U.S. Government or its agencies and the custodian bank's STIF.

Investment review and Reporting

Advisor shall prepare monthly reports to the client detailing the cash transactions, monthly yield and earnings, and asset holdings in the portfolio. At least semi-annually, Advisor shall prepare a performance report comparing the portfolio's performance against various short-term cash benchmarks.

Performance Measurement

Total portfolio return will be reported at the end of each calendar quarter, and the increment from management will be judged against the following standards:

1. The portfolio's return should exceed the rate of return of the Lehman Brothers 90 Day Treasury Bill Index net of fees over reasonable measurement periods.

2. The portfolio's risk-adjusted performance will be compared with that of the 90 Day Treasury Bill Index over reasonable measurement periods.

3. The portfolio's returns should exceed those of the median 90 Day Treasury Bill fixed income manager, as measured by recognized measurement services, over reasonable measurement period (3 years).

Review and Modifications

These Guidelines will be reviewed at least annually and revised or confirmed as appropriate.

WESTERN ASSET MANAGEMENT COMPANY — 1-3 YEAR GOVERNMENT/CREDIT

Objective

The goal is to provide a portfolio that emphasizes safety of principal and will outperform institutional money market funds. Active management is expected to provide increased income and total return to the University of Illinois. These guidelines should be reviewed periodically by the University of Illinois and Western Asset Management Company to assure that the University's objectives are being achieved.

Eligible Securities

U.S. dollar denominated instruments as follows:

Any of the following fixed income securities and their futures or options derivatives, individually or in commingled vehicles, subject to credit, diversification and marketability guidelines below, may be held outright and under resale agreement:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies;

2. Obligations of U.S. and non-U.S. corporations such as notes and debentures, mortgage bonds, “busted” convertible bonds (convertibles trading on their bond values), preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations;

3. Asset-backed securities;

4. Mortgage-backed securities including plain-vanilla collateralized mortgage obligations. CMO securities and other mortgage derivatives may be used as long as their use does not materially increase the risk of the overall portfolio;

5. Obligations issued or guaranteed by non-U.S. governments and agencies, and supranationals;

6. Obligations issued or guaranteed by U.S. local, city and state governments and agencies;

7. Swaps, forwards, options on swaps, options on forwards;

8. Securities defined under Rule 144A and;.

9. Commercial Paper defined under Section 4(2) of the Securities Act of 1933 and rated A-1 or P-1 or better;

10. Repurchase agreements with maturities of 30 days or less. (100% collateralized by obligations issued or guaranteed by the U.S. government, U.S. federal agencies and government sponsored corporations.

11. The Northern Trust diversified asset money market fund.

Duration Exposure

The average weighted duration of portfolio security holdings including futures positions shall not vary from that of the market by more than +/- 20%. Options positions will be limited to those which, in a reasonable range of market scenarios, will not change the portfolio's average weighted duration by more than +/- 20%.

Credit Quality

In all categories, emphasis will be on high-quality securities and the weighted average of portfolio holdings will not fall below AA- or equivalent. Holdings are subject to the following limitations:

1. Rated Securities: 100% of the portfolio will be of "investment grade", i.e., rated as high or higher than the following standards or their equivalent by one or more nationally recognized statistical rating organizations (NRSRO):

Standard & Poor's	BBB-, or A-1, or
Moody's	Baa3, or Prime-1, or
Fitch	BBB-, or F-1

2. Other Unrated Securities: Securities not covered by the standards in (1) above will normally be, in the judgment of Western Asset Management, at least equal in credit quality to the criteria implied in those standards.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at Western Asset Management's discretion. Client will be notified of all such downgrades.

4. Securities Inside 270 Days: For securities with legal maturities of 270 days or less, Western Asset Management may use the underlying credit's short term ratings as proxy for establishing the minimum credit requirement.

Diversification

1. Maturity: Securities covering the full range of available maturities are acceptable.

2. Sector: The portfolio will at all times be diversified among the major market sectors. The maximum allocation to convertible bonds is 5%.

3. Issuer: Holdings are subject to the following limitations:

   (a) Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies are eligible without limit.

   (b) Obligations of other national governments are limited to 10% per issuer.

   (c) Private mortgage-backed and asset-backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer.

   (d) Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.

4. Credit: The portfolio will be invested in issues rated "investment grade", as noted in the Credit Quality, sections (1) & (2) above.

5. Derivatives: No more than 5% of the portfolio will be invested in original futures margin and option premiums, exclusive of any in-the-money portion of the premiums. Short (sold) options positions will generally be hedged with cash, cash equivalents, current portfolio security holdings, or other options or futures positions.

Marketability

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at minimum cost and accurate market valuation.

Futures and options contracts will be limited to liquid instruments actively traded on major exchanges or, if over-the-counter for options, executed with major dealers.

Performance Measurement

Total portfolio return will be reported at the end of each calendar quarter, and the increment from management will be judged against the following standards:

1. The portfolio's return should exceed the rate of return of the Lehman Brothers 1-3 Year Government/Credit Bond Index net of fees over reasonable measurement periods.

2. The portfolio's risk-adjusted performance will be compared with that of the 1-3 Year Government/Credit Bond Index over reasonable measurement periods.

3. The portfolio's returns should exceed those of the median 1-3 Year fixed income manager, as measured by recognized measurement services, over reasonable measurement periods (3 years).

Reporting

Formal management reporting will include:

1. A monthly accounting statement showing portfolio income, holdings and transactions.

2. A quarterly total return computation.

3. A quarterly market outlook and investment strategy.

Review and Modifications

These Guidelines will be reviewed at least annually and revised or confirmed as appropriate.

LINCOLN CAPITAL — INTERMEDIATE INDEX FUND

Objective

To match as closely as is reasonably practical the returns of the Lehman Brothers Intermediate Aggregate Bond Index before fees.

Permissible Investments

U.S. dollar denominated instruments as follows:

1. Obligations issued or guaranteed by the U.S. government, U.S. federal agencies and government-sponsored corporations.

2. Obligations of foreign and domestic corporations rated investment grade or better by at least one of the two major rating agencies (includes floating rate notes and asset-backed securities).

3. Mortgage- and asset-backed obligations.

Credit Quality

The portfolio will at all times maintain an average credit quality consistent with the benchmark index.

Maturities

Eligible securities include those with maturities that, if purchased, would not create a violation of the maximum +/- 0.03% yield curve and duration risk exposure constraints, as calculated by Lincoln Capital.

Diversification

There are no specific position limits. However, the manager must maintain sufficient diversification to effectively track the benchmark's return.

Benchmark

The benchmark for the portfolio is the Lehman Brothers Intermediate Aggregate Bond Index. The University will evaluate performance based on portfolio variance from the benchmark risk characteristics and based on portfolio return variance from benchmark investment return on a net-of-fees basis.

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