

UNIVERSITY OF ILLINOIS SYSTEM



Office of Investments Annual Report
Fiscal Year Ending June 30, 2025

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Introduction

We are pleased to present the University of Illinois System Office of Investments Annual Report for the fiscal year ended June 30, 2025.

This year's market environment was marked by elevated volatility stemming from shifting interest rate expectations, macroeconomic uncertainty, and geopolitical developments. Following a period of weakness heading into Liberation Day, risk assets rebounded meaningfully, supported by stabilizing rates and credit spreads. Private equity performance remained subdued, reflecting lower exit activity and cautious valuation adjustments, while real estate began to show early signs of stabilization. Diversifying strategies contributed positively, taking advantage of volatility and dispersion across asset classes. Meanwhile, our neutralized interest rate exposure in fixed income positioned the portfolio to benefit from rate declines, following a period of strategically reduced duration that began in late 2020.

Program-specific positioning played an important role this year. Our passive approach to public equity continued to be additive, as a concentrated group of mega-cap stocks drove much of the market's gains—performance that is often diluted in active strategies. Further, our historically measured posture in private markets—grounded in discipline and strong liquidity management—allowed us to act while many investors were constrained. This enabled us to secure allocations to several high-quality, capacity-constrained private market managers that are often inaccessible in more competitive environments. Both pools outperformed their benchmarks for the year, with the Long Term Investment Pool ('LTIP') returning 10.2% and the operating pool 5.7%, distributing a combined total of \$235 million to support University System operations and priorities.

Looking ahead, we are entering FY2026 with a strong liquidity position and a risk-aware posture that provides flexibility to respond to continued macro uncertainty. We have also completed an asset allocation study, the results of which will be incorporated once finalized.

Enclosed is an overview of invested assets, along with key performance and asset allocation metrics for both pools. A fee summary, security inventory, and transaction report are included as separate reports.

Office of Investments Overview

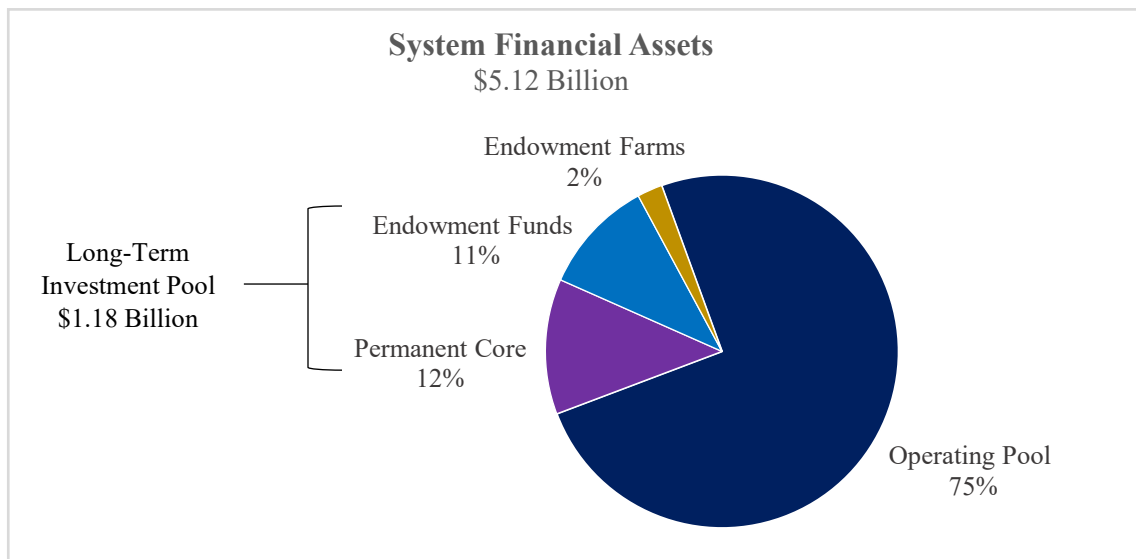
Under supervision of the CFO, the Office of Investments manages the University System's invested assets, including farmland donated to the University. Operating and LTIP assets are invested through carefully selected external investment firms, while farmland is managed internally by the Agricultural Property Services department.

The University of Illinois BOT establishes policies for managing University asset pools. The Investment Policy sets forth asset allocation ranges for the LTIP and operating pool. The Audit, Budget, Finance, and Facilities (ABFF) Committee of the BOT reviews asset allocation and performance and makes recommendations to the BOT regarding investment policy. The BOT has delegated to the CFO management of the University's assets within the BOT approved policies. The CFO has charged the Investment Office with the day-to-day management of the investment program. It is important to note that the assets managed by the Office of Investments are distinct from those managed by the University of Illinois Foundation (UIF). UIF is a university related organization with an independent board.

Financial Asset Overview

The Investment Office manages two investment portfolios—the LTIP and the operating pool. The permanent core is an investment of operating pool funds that, combined with the endowment funds, forms the LTIP. Endowment farms are managed by the Agricultural Property Services Office. The distribution of the collective pools is displayed in Figure 1.

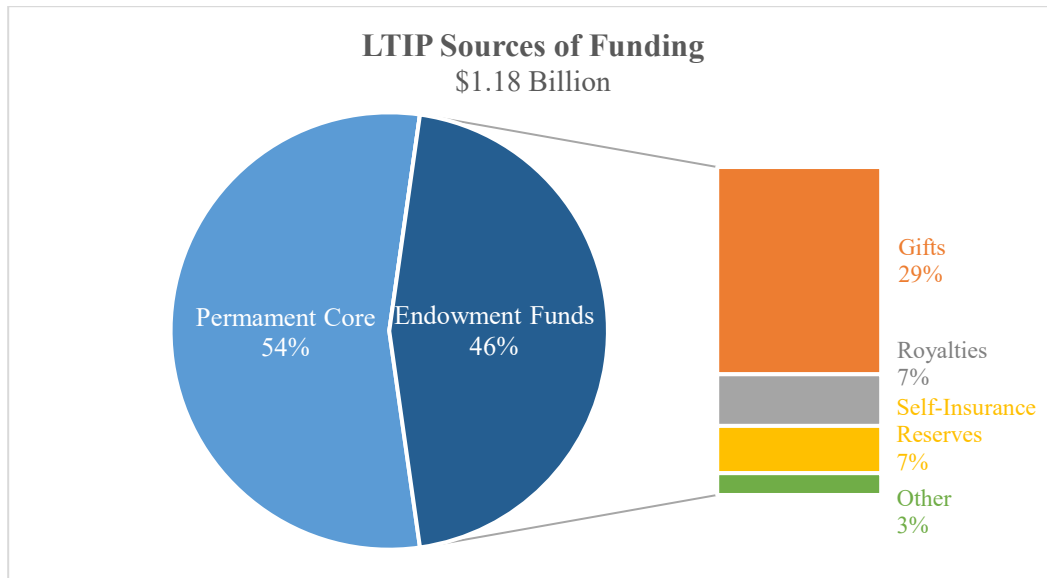
Figure 1



Long Term Investment Pool

The *LTIP* (market value \$1.18 billion) consists of two categories of funding. The first source is *Endowment Funds*, defined as financial assets of the University System that have been deemed appropriate for long-term investment. Endowment funds comprise 46% of the LTIP. The second source of funding consists of operating pool funds that are managed as part of the LTIP—the *Permanent Core*. This comprises 54% of the LTIP. The composition of the funding sources is summarized in Figure 2.

Figure 2



Asset Allocation

The LTIP is invested across a variety of asset classes in accordance with policy approved by the BOT. The current distribution of LTIP funds across primary and sub-asset classes is shown in Figure 3. Figure 4 compares the actual allocations to long term policy ranges. All asset classes remain within policy ranges.

Figure 3

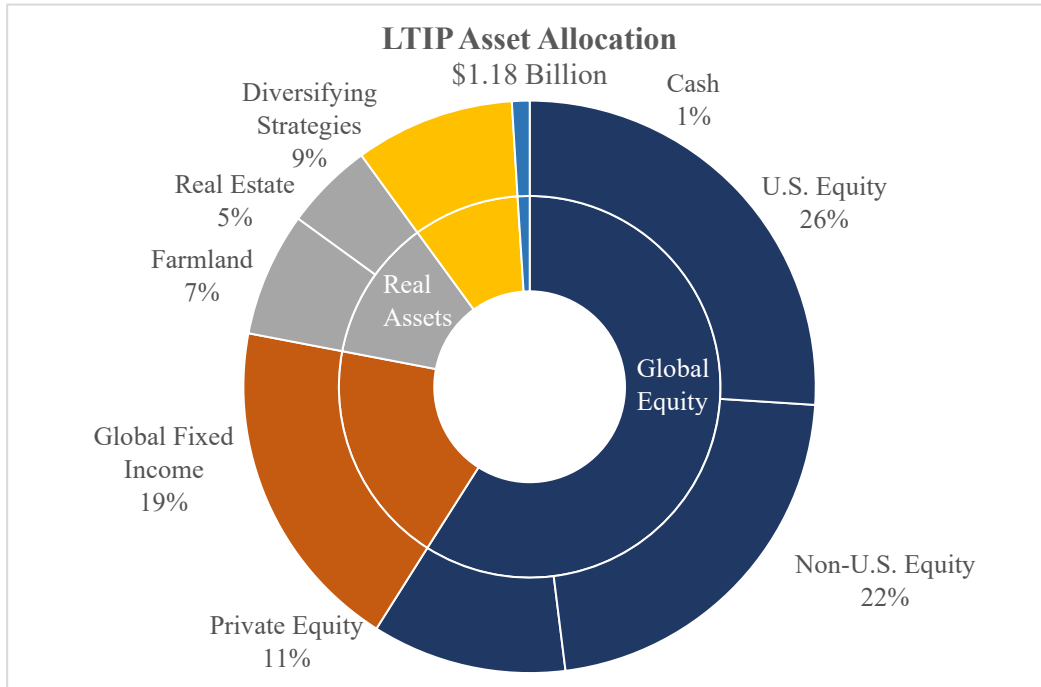
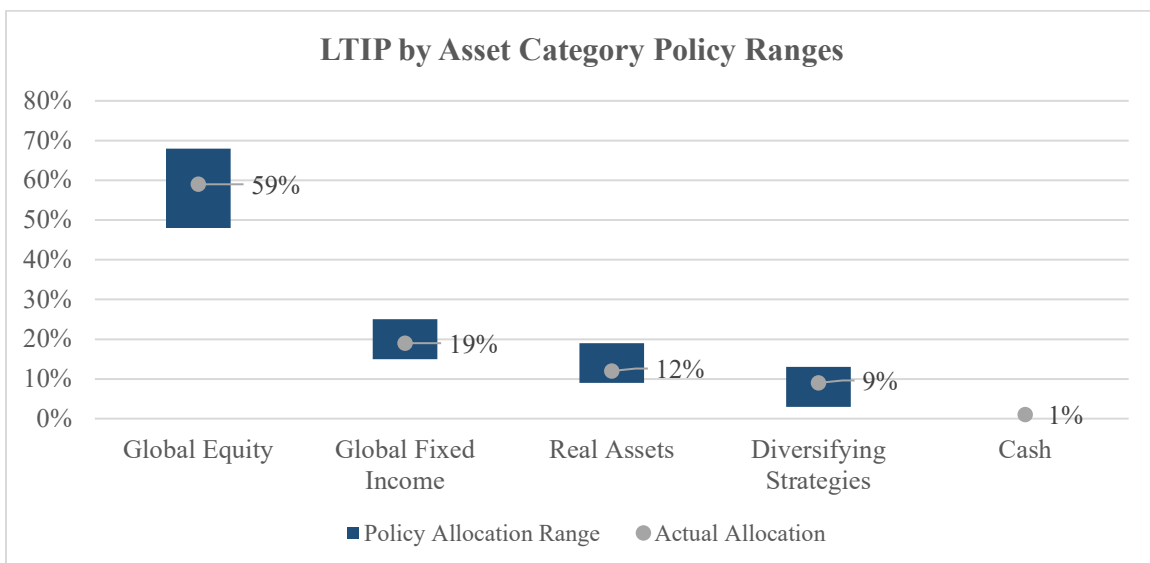


Figure 4



The LTIP is highly liquid compared to peers. Relative to a policy requirement of 60% liquid assets (*i.e.*, at least weekly redemptions) and 70% semi-liquid assets (*i.e.*, at least quarterly redemptions), 68% of the pool meets the liquid asset definition while 78% is semi-liquid. Our preference for low-cost passive investments in public equity markets reduces the fee burden. The inclusion of farmland as an asset class also distinguishes the LTIP from its peers. Farmland includes agricultural land donated to the University, as well as an investment into a closed-end U.S. farmland partnership, which serves to increase our allocation and diversify the geographical exposure. Income from endowment farms supports student scholarship and research programs.

Spending Policy

The investment objective of the LTIP is to preserve the purchasing power of pool assets and provide annual support for an infinite period. The LTIP annual spending policy for fiscal year 2025 is based on a percentage of a six-year moving average of the unit market value of the LTIP. The spending rate—set by the Comptroller annually in consultation with the President—is 5.3%, inclusive of a 1.2% administrative fee. The LTIP distributed approximately \$32.3 million during the 2025 fiscal year (inclusive of the administrative fee and excluding income distributed from the permanent core allocation).

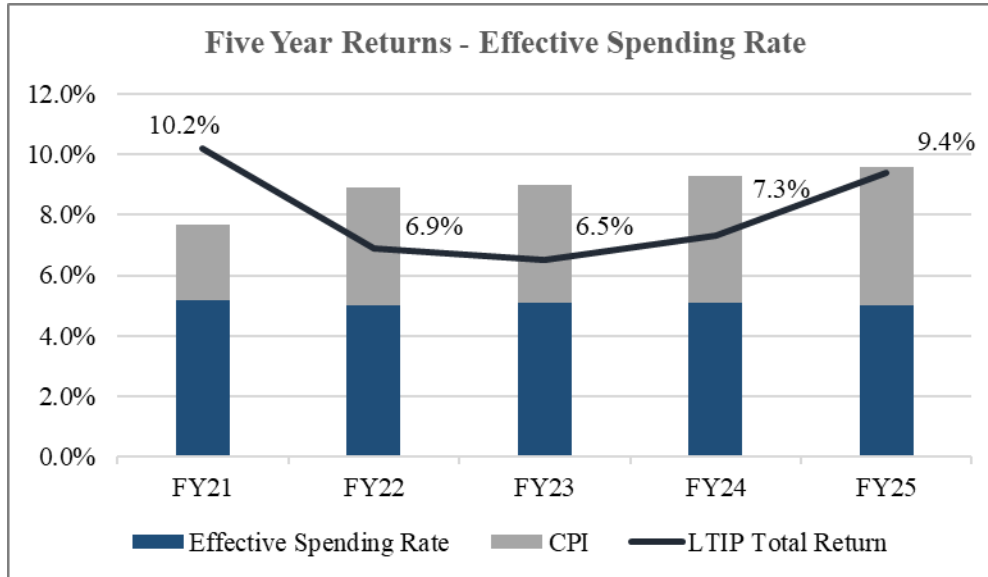
Performance Measurement

A variety of approaches can be taken in measuring investment performance. Three methods — (1) total return relative to the combined rate of spending and inflation, (2) total return relative to the performance benchmark, and (3) cash flow activity—are presented below to provide a holistic view of LTIP performance.

Total Return Relative to Spending and Inflation Rates

Five year returns as of fiscal years 2021-2025 are presented relative to the LTIP's hurdle rate (*i.e.*, effective spending rate plus the consumer price index (CPI)) in Figure 5. The effective spending rate is inclusive of the administrative fee. This comparison provides a medium-term assessment of whether LTIP returns are sufficient to offset inflation and spending. LTIP returns exceeded the hurdle rate for one of the five periods while approximating the most recent period. The LTIP's ability to continue to meet the hurdle rate is a key consideration of the aforementioned asset allocation study.

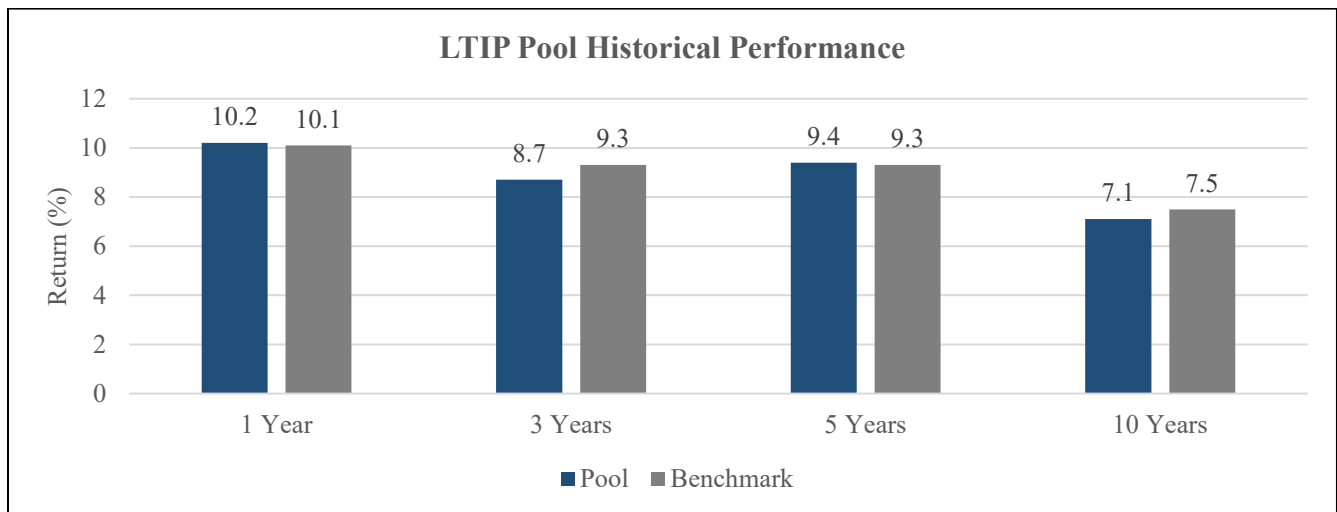
Figure 5



Total Return Relative to Performance Benchmark

The LTIP outperformed its performance benchmark over the one- and five-year periods but lagged over the three- and 10-year. Three-year relative underperformance primarily reflects farmland timing—a valuation write-up occurred a year before the benchmark, depressing the reported period. Over ten years, diversifying strategies were the main detractor; we have since moved to multi-strategy funds and performance has drastically improved. The historical investment performance of the LTIP has been provided in Figure 6.

Figure 6



Cash Flow Activity

The LTIP balance is impacted by three factors—net additions, the spending distribution, and capital appreciation. The impact of these factors on the pool (excluding the permanent core allocation) over a ten-year period as of June 30, 2025, is summarized in Figure 7.

Figure 7

Summary of LTIP Activity	
FY16 - FY25	
All figures in millions	
	Ten Year Totals
Beginning Balance	330.8
Net Additions	125.8
Distributions	-203.2
Capital Appreciation	286.9
Ending Balance	540.3

Operating Pool

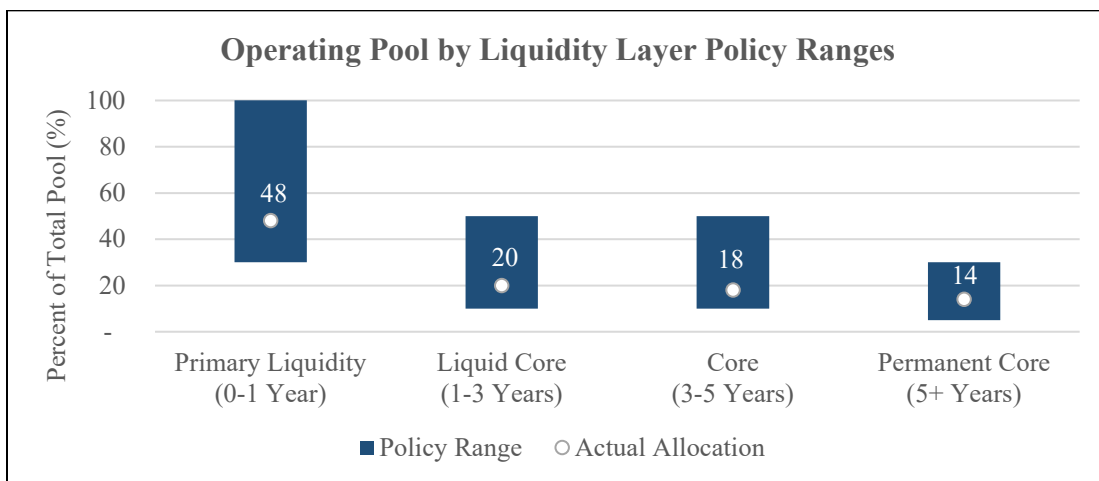
The *Operating Pool* (market value \$3.83 billion) consists of funds available for current use by academic and administrative units within the System. The pool includes tuition and fees, student loan funds, self-insurance programs, and hospital and auxiliary funds. The consolidated management of funds provides robust tracking and efficient investment management.

The investment objective for the operating pool is to preserve the value of the principal, maintain liquidity appropriate to the forecasted working capital requirements of the System, provide prudent diversification, and maximize the rate of return on investment. Income from the pool is returned to units in proportion to their share of the assets. During fiscal year 2025, \$201 million was distributed from the operating pool (including the permanent core allocation) after banking and investment management fees were paid.

Asset Allocation

Operating pool assets are invested in fixed income securities and cash equivalents. The assets are allocated by liquidity layer. Investment managers within a given liquidity layer follow fundamentally consistent investment guidelines that set forth restrictions on duration, credit quality, diversification, performance benchmarks, and permissible security types, amongst others. Provided that state regulation does not allow the System to borrow for working capital, the operating pool has ample liquidity and is of high quality with an average AA credit rating. Figure 8 demonstrates the operating pool's asset allocation on June 30, 2025, within the policy ranges by liquidity layer.

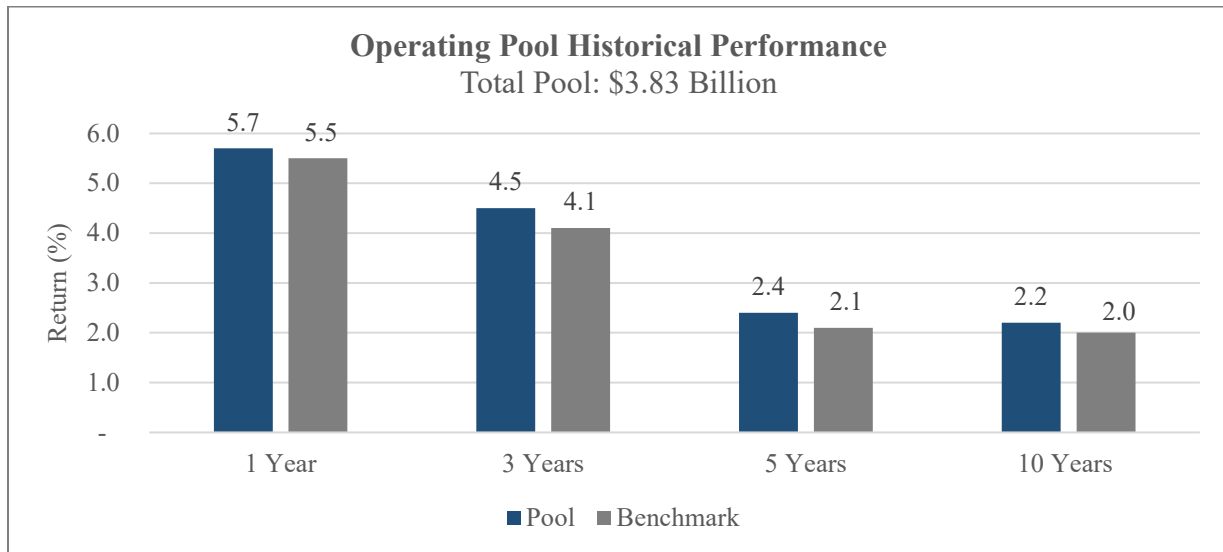
Figure 8



Performance Measurement

Operating pool managers have consistently outperformed the performance benchmark. Historical performance relative to the performance benchmark is displayed in Figure 9.

Figure 9



*Note: The total operating pool market value does not include the permanent core allocation. This allocation is included in the LTIP market value.



Financial Impact

The investment program generates investment income, as well as investment management costs, to the University System. All costs are offset or paid directly from investment income. The Investment Office works diligently to maintain the cost structure at a reasonable level.

Income Distribution

During the 2025 fiscal year, the investment program distributed income of \$235 million to units across the University System after paying investment management fees. The summary of the distribution by source is shown in Figure 10.

Figure 10

(\$ Millions)	Distribution
LTIP Pool	32.3
Operating Pool	200.7
Endowment Farms	1.9
Total Distribution	234.9

Program Costs

The most significant cost to the investment program is external counterparty (*i.e.*, investment manager, custody, investment consultant) fees. For fiscal year 2025, this comprised \$14.1 million or 29 basis points of total assets. Investment manager fees are net against performance. The fiscal year 2025 fee summary is included separately in the board materials. Internally, the Investment Office is comprised of three full-time employees with a fiscal year 2025 salary cost to the System of approximately \$470k and additional budgetary expenses (*i.e.*, travel, technology, training) totaling approximately \$220k. In total, investment office expenses comprised 1 basis point (0.01%) of total assets or less than 6 basis points (0.06%) of LTIP assets.

The fiscal year 2025 security listing and LTIP transaction report have also been included as separate attachments in the board materials.