

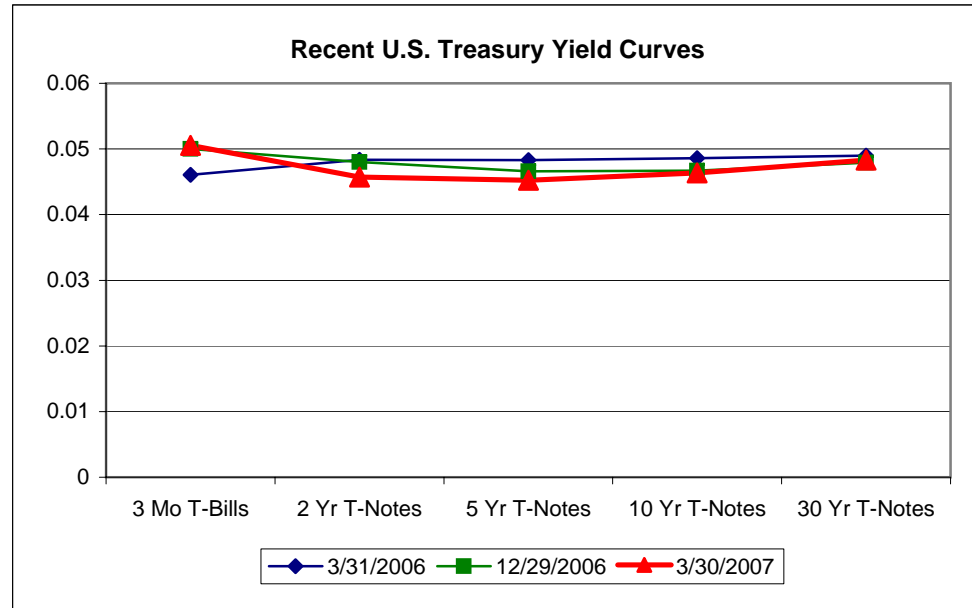


Southern Illinois University

Quarterly Investment Report
March 31, 2007

Performance Analysis

The interest rate story this quarter continued to be yield curve inversion, as short-term rates remained higher than long-term rates for the entire quarter. In fact, interest rates declined a further 10-20 basis points in the 2-to-5 year maturity range, while both the long-end and very short-end of the curve finished basically unchanged. This has given the yield curve a more distinctively "cupped" appearance, as seen in the chart at right. In an strange twist, it's the short-term interest rates that have been the most stable, staying within a narrow 23 basis point range (from 5.00% to 5.23%) during the period. Longer-term rates, however, have been buffeted by mildly negative inflation news on the one hand, and speculations on the possibility of a U.S. recession on the other. Consequently, longer-term rates moved in a larger 40-50 basis point range during the quarter.



Overall, Southern Illinois University achieved a quarterly return of 1.36% this period, on par with the weighted benchmark return of 1.33%. Strong short-term interest rates continue to generate solid income for the University, while slightly lower interest rates in the 2-to-5 year maturity range added some capital gains to the Short-Term and Intermediate portfolios. The assets invested in the Illinois Funds, now just under 49% of the total, returned a strong 1.29% quarterly return, beating the Merrill Lynch Ready Assets benchmark by 14 basis points. Monies allocated to the Illinois Prime Fund have added an additional 5 basis points above the yield of the Illinois Money Market Fund.

The Short-Term and Intermediate accounts, managed by Western Asset Management, enjoyed some capital gains due to lower interest rates, and produced reasonable returns for the quarter. The Short-Term portfolio generated a 1.38% quarterly return, comparable to its Lehman Brothers 1-3 Yr Government benchmark return of 1.40%. The Intermediate portfolio delivered a 1.45% quarterly return, slightly underperforming its Lehman Brothers Intermediate Government benchmark by 8 basis points.

John S. Vincent & Company LLC

Operating Investments

Operating Investment Position

Investment Balance

Market Value (\$ in millions)

	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007
State Treasury Fund- Money Market	\$ 124.9	\$ 62.7	\$ 87.4	\$ 52.2	\$ 50.1
State Treasury Fund- Prime				7.2	32.4
Western Asset - Short Portfolio	20.2	20.3	20.7	20.9	21.2
Western Asset - Intermediate Portfolio	<u>61.9</u>	<u>62.0</u>	<u>63.8</u>	<u>64.4</u>	<u>65.4</u>
Total Portfolio	\$ 207.0	\$ 145.0	\$ 171.9	\$ 144.7	\$ 169.1

Market Value Change (\$ in millions)

	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007
Beginning Market Value	\$ 172.0	\$ 207.0	\$ 145.0	\$ 171.9	\$ 144.7
Deposits (Withdrawals)	35.2	(62.2)	23.8	(28.9)	22.0
Interest Income, Net of Fees	0.8	0.8	1.8	1.8	2.1
Realized Gain (Loss)	(0.2)	(0.4)	0.0	0.0	(0.1)
Unrealized Gain (Loss)	<u>(0.8)</u>	<u>(0.2)</u>	<u>1.3</u>	<u>(0.1)</u>	<u>0.4</u>
Ending Market Value	\$ 207.0	\$ 145.0	\$ 171.9	\$ 144.7	\$ 169.1

Operating Performance

Quarterly Performance

	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007
State Treasury Fund Rate of Return					
State Treasury Portfolio	1.0%	1.18%	1.29%	1.31%	1.29%
iMoney Net Money Fund	0.8%				
Merrill Lynch Ready Assets		1.02%	1.13%	1.15%	1.15%
Short Term Portfolio Rate of Return					
Western Asset Short Term Portfolio	0.5%	0.57%	2.06%	0.99%	1.38%
Lehman Bros 1-3 Year Govt Index	0.4%	0.66%	2.01%	0.98%	1.40%
Intermediate Portfolio Rate of Return					
Western Asset Intermediate Portfolio	-0.3%	0.25%	2.97%	1.02%	1.45%
Lehman Bros Intermediate Govt Index	-0.3%	0.30%	2.92%	0.89%	1.53%
Total Fund Rate of Return					
Total Portfolio	0.6%	0.80%	2.09%	1.15%	1.36%
Benchmark	0.3%	0.76%	2.00%	1.02%	1.33%

Historical Performance

	FY 2003	FY 2004	FY 2005	FY 2006	Fiscal YTD ending 3/31/2007
Total Fund Rate of Return					
Total Portfolio	6.9%	0.2%	3.5%	2.36%	4.61%
Benchmark	6.2%	-0.1%	3.0%	2.08% *	4.42% *

* The Merrill Lynch Ready Assets benchmark has been used because it is more easily obtained and is comparable to the iMoney Net Money Fund.

Asset Allocation

Asset Allocation As of March 31, 2007

	Market Value (in millions)	Actual Allocation	Policy Range	Target (in millions)	
State Treasury Fund	\$82.5	49%	20-35%	\$40.0	Minimum
Western Asset - Short Term Portfolio	21.2	12%	10-40%	\$10.0	Minimum
Western Asset - Intermediate Term Portfolio	65.4	39%	35-60%	\$65.0	Maximum
	<u>\$169.1</u>				

The portfolio was heavily weighted to the State Treasury Fund as of March 31, 2007. The decision to keep the investment portfolio short was driven by the need to maintain liquidity for cash flow requirements, the uncertain timing of the release of state appropriated operating funds, and the inverted yield curve.

Fees

Investment Manager Fees

	Basis Points					
	As of 12/31/06	3/31/2006	6/30/2006	9/30/2006	12/31/2006*	Total
State Treasury Fund- Money Market	9.5	\$30,598.04	\$15,371.50	\$15,953.94	\$12,536.61	\$74,460.09
State Treasury Fund- Prime	10.0				\$3,478.15	\$3,478.15
Western Asset - Short Term Portfolio	25.0	12,590.00	12,659.00	12,858.58	13,044.89	51,152.47
Western Asset - Intermediate Term Portfolio	25.0	<u>38,764.00</u>	<u>38,724.00</u>	<u>39,552.06</u>	<u>40,267.63</u>	<u>157,307.69</u>
Total Investment Manager Fees		\$81,952.04	\$66,754.50	\$68,364.58	\$69,327.28	\$286,398.40

Custody Bank Fees

	3/31/2006	6/30/2006	9/30/2006	12/31/2006*	Total
JP Morgan Chase	\$6,119.19	\$6,220.42	\$6,520.44	\$6,181.95	<u>\$25,042.00</u>
Total Custody Fees					<u>\$25,042.00</u>

* Fees for the current quarter were not available at the time this report was prepared. All fees are reflected on an accrual basis

Capital Investments

Capital Investments Position

Investment Balance

Market Value (\$ in millions)

	3/31/2006	6/30/2006	9/30/2006	12/31/2006	3/31/2007
Housing & Auxiliary Facilities System					
Construction Proceeds	23.68	70.19	55.78	40.58	29.69
Interest Sinking Fund	12.75	7.59	11.03	11.98	14.46
Debt Service Reserve	10.67	9.27	9.38	9.29	9.44
Total HAFS	<u>47.10</u>	<u>87.06</u>	<u>76.19</u>	<u>61.85</u>	<u>53.59</u>
Medical Facilities System					
Construction Proceeds	7.42	7.46	7.22	7.27	7.37
Interest Sinking Fund	0.94	0.48	0.79	0.71	1.11
Debt Service Reserve	0.00	0.00	0.00	0.00	0.00
Total MFS	<u>8.36</u>	<u>7.94</u>	<u>8.01</u>	<u>7.98</u>	<u>8.48</u>
Certificates of Participation					
Construction Proceeds	15.38	14.01	13.63	12.88	11.99
Interest Sinking Fund	3.08	3.08	2.69	2.69	2.70
Debt Service Reserve	0.00	0.00	0.00	0.00	0.00
Total COPS	<u>18.46</u>	<u>17.10</u>	<u>16.32</u>	<u>15.57</u>	<u>14.69</u>
Total Capital Investment Portfolio	\$ 73.92	\$ 112.09	\$ 100.52	\$ 85.40	\$ 76.76

Capital Investments are managed internally and are invested in high quality, low risk government securities. The investment maturity, rate of return and type are limited by covenants in the debt financing documents.