

AGENDA ITEM 10.

COLLEGE ILLINOIS! 529 FIXED RATE TUITION PLAN INVESTMENT POLICY

Submitted for: Action

Summary: In January 1999, the Commission adopted its initial Statement of Investment Policy for the *College Illinois!* prepaid tuition program. Since that time, the Commission has reevaluated and considered changes to this policy at least annually. In January 2007, the Commission adopted changes to the policy that included (1) new language that requires program staff and the Investment Consultant to present a plan for Commission approval by the end of June 2007 which will establish a specific process for selecting emerging, minority-owned and women-owned investment management firms; and (2) new language that requires certain asset allocation changes for the program's portfolio be evaluated and recommendations made to the Commission by the end of June 2007.

Subsequently staff consulted with ISAC legal counsel and, after considerable research, specific procedural adjustments have been incorporated into the program's method for selecting investment managers and other vendors, designed to ensure appropriate consideration of emerging, minority-owned and woman-owned firms, as well as firms owned by persons qualified under the Disabilities Act.

The *College Illinois!* Investment Advisory Panel also was convened on March 19, 2007 to consider possible changes to the program's asset allocation. The Panel already had determined in November 2006 that the current asset allocation was appropriate given the current set of asset classes and that higher returns could be achieved only by taking on a higher level of risk *unless* the Panel considered diversifying into alternative asset classes. Therefore, at the Panel's March meeting several alternative asset allocations, incorporating new asset classes into the portfolio, were modeled by the program's investment consultant, Marquette Associates, and presented to the Panel for evaluation. After extensive discussion, Panel members agreed with the asset allocation changes being recommended for Commission approval, which include:

- expanding the portfolio's equity allocation to 70 percent -- from 65%; and
- adding to the portfolio, beginning in FY2008, new asset classes of Real Estate, Senior Secured Bank Loans and Private Equity.

Given the persistent rise in Illinois public university tuition and fees during the past five years, the purpose of the new asset allocation is to ensure that an increasingly higher, yet achievable, investment performance target can be assumed for the program, while at the same time minimizing downside risk to the portfolio. This can be realized while using only those investment asset classes that are appropriate to both maintaining public confidence in *College Illinois!* and ensuring the expected liquidity needs of the program.

The *College Illinois!* program will have approximately \$1 billion under management, subject to this investment policy during FY2008. The policy will be reviewed periodically, at the Commission's request, but no later than this time next year, as required by law.

Action requested:

That the Commission approve the following resolution:

“BE IT RESOLVED that the Commission adopts the Statement of Investment Policy for *College Illinois!* as currently revised and that the Commission directs all investment decisions for the program be consistent with the provisions set forth in the policy.”