

COLLEGE ILLINOIS!

**STATEMENT OF
INVESTMENT POLICY**

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PROLOGUE

The "Program" Defined

This document represents the Statement of Investment Policy (the "Policy") for *College Illinois!*. The purpose of *College Illinois!* is to promote the furtherance of higher education for the citizens of the State of Illinois by providing a vehicle that will assist with the systematic savings for tuition and fees for college.

The "Commission" Defined

In this Policy, the "Commission" refers to the Illinois Student Assistance Commission.

The "Investment Advisory Panel" Defined

In this Policy, references to the "Investment Advisory Panel" or "Panel" are to the Panel which will provide advice to the Commission on issues related to the investments of *College Illinois!*. The Commission appoints members of the Panel.

The Commission's Authority and Responsibilities

The Commission will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Commission may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. A Commission member or other fiduciary shall discharge their duties with respect to the Program solely in the interest of the Program.

The Commission will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Developing a sound and consistent Investment Policy, revising the Policy to reflect changing conditions within the markets or Program, or to refine the Policy in order to make it more effective.
- 3) Searching for and maintaining qualified investment managers and consultants.
- 4) Monitoring and evaluating investment performance and compliance with this Policy.

- 5) Establishing the primary duties and responsibilities of those accountable for achieving investment results.
- 6) Producing an Annual Report covering the following subjects:
 - a) investment performance summary including comparisons to benchmarks
 - b) current and historical asset allocation in the Program
 - c) progress toward the stated performance objectives in the Policy
 - d) other pertinent matters
- 7) Providing guidelines to investment managers regarding their voting of proxies or investment securities owned on behalf of the Program.
- 8) Taking action under circumstances to terminate an investment manager or consultant for failing to perform according to stated expectations or to abide by this Policy.
- 9) Establishing and reviewing the appropriateness of the Program's asset allocation policy.
- 10) Ensuring that value is added to the investment portfolio on a risk-adjusted basis through the inclusion of managers that have been excluded for whatever reason from the traditional manager search process. ~~To this end, staff and the investment consultant shall develop and present to the Commission for approval by June 30, 2007, an overall plan with different component strategies whose purposes shall include discovering existing and new emerging, minority and women-owned firms, to provide for monitoring and performance measurement, and to establish the necessary protocols for retention, graduation, and termination of said firms.~~

The Investment Advisory Panel's Authority and Responsibilities

The Panel will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Providing advice to the Commission for developing a sound and consistent asset allocation and Policy, recommending revisions to the allocation and Policy to reflect changing conditions within the markets or Program, or to refine the allocation and Policy in order to make them more effective.

The Responsibilities of the Investment Managers

The Commission will hire competent registered professional investment managers to manage the assets of the Program. Investment managers have the responsibility for voting proxy issues on securities held. All proxies will be voted exclusively for the best interests of the Program and their participants. Investment Managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. A

written report will be provided semi-annually. The investment managers shall also provide written reports to the ~~plan sponsor~~ Commission and investment consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets. The investment managers must execute all trading on the portfolios that they manage on a best execution basis and absolutely no soft-dollar trades may occur. No new investment managers hired or current investment managers that renew their contract after January 1, 2007 may be compensated with soft dollars generated from trading on the Fund.

Also, it is the policy objective of the Commission to increase access and business with minority-owned brokers/dealers. The term "minority" will be used for all firms as defined in the Illinois Business Enterprise for Minorities (Black/African American, Asian American, Hispanic, Native American, or Alaskan Native), Females, and Persons with Disabilities Act. Broker/dealer transactions completed with minority firms on behalf of the Fund must be completed at rates fully competitive with the market. The Commission will strongly encourage verbally and in writing the Program's domestic equity and investment grade fixed income managers to utilize minority brokers. The investment managers shall provide written reports to the Commission and investment consultant on at least a quarterly basis detailing the use of minority brokers/dealers. If an investment manager reports less than 15% of the volume of trades are completed through minority firms, the Commission will require the investment manager to report in writing the reason for the shortfall, at which time, the Commission will decide if the manager's practices are in accordance with the Policy.

All qualified investment managers retained by the Commission will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Fund ~~Prepaid Tuition Trust Fund ("the Fund")~~ (see Addendum A).

The Responsibilities of the Investment Consultant

The Fund will be evaluated by an investment consultant on a quarterly basis. Written reports will be provided to the Commission no later than 45 days after the end of each calendar quarter. The investment consultant will meet with the various investment managers of the Fund on a regular basis to review the investment guidelines and analyze the general liability structure of the Fund. As needed, the investment consultant will assist the Commission and the Investment Advisory Panel with the selection of investment managers and custodians. The qualified investment consultant retained by the Commission will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Fund (see Addendum A).

The Responsibilities of the Custodian

The Commission utilizes a third party custodian to safe-keep the assets of the Fund and to provide reports on a monthly basis to all necessary parties. The custodian will be responsible for sweeping all interest and dividend payments and any other uninvested cash into a short-term money market fund for re-deployment. The custodian retained by the Commission will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Fund (see Addendum A).

The Responsibilities of the Securities Lending Provider

The Commission may utilize a securities lending provider, which refers to any third party firm that lends the assets of the Fund to other parties in exchange for collateral and interest. Securities lending providers will provide reports on a monthly basis to all necessary parties. The securities lending provider will be responsible for ensuring that adequate collateral will be provided to the Fund for the securities that are lent and that the interest rate generated by the securities lending program is fair and reasonable. Furthermore, the securities lending provider will attempt to return all lent securities to the Fund's appropriate account before any transactions on the lent securities are executed (see Addendum A).

I. PURPOSE OF POLICY

To Record Long Range Policy

This document represents the conclusions and decisions made after a deliberate and focused review of the Program's expected obligations and funding resources over a long-range future period. The Program's investments represent an opportunity:

- to provide a resource for future tuition payments to beneficiaries
- to insulate the Program's assets against the deterioration of purchasing power caused by inflation
- to diversify assets across and within capital markets.

The Commission recognizes that investment markets have repeatedly demonstrated broad performance cycles having two fundamental characteristics which bear heavily on the Program's expectations toward its future:

- 1) The cycles cannot be accurately predicted as to either their beginning points, ending points, or their magnitude, and
- 2) There is little or no relationship between market cycles and the convenient fiscal or calendar periods commonly used for measurement and evaluation.

Although the Commission will review investment performance and investing activities on a regular, periodic basis, the formation of judgments and the actions to be taken on those judgments will be aimed at matching the emerging long-term needs of the Program with the proven, long-term performance patterns of the various investment markets.

To Promote Understanding Among Various Functional Roles

This document is intended to serve as a reference tool, an operating code, and a communications link between the Commission and

- its staff,
- its own new members,
- its Investment Advisory Panel,
- its investment managers, and
- its other professional advisors.

To Address Fiduciary Obligations

This document records the Commission's logical and diligent process of study, examination, evaluation, and conclusions about the most suitable combination of investment risk level and rate of return which will satisfy both the Program's emerging obligations and the priorities for funding them.

The Commission recognizes its duty to remain aware of conditions and developments in the Program's investment activity, but it is not believed desirable or productive for the Commission to react to short term situations in a manner which contradicts the long term approach underlying this Policy Statement.

II. ASSET ALLOCATION

Investment Objective

The primary investment objectives of the Fund are to: (a) earn the highest possible total return consistent with levels of risk prudent to the cash flow requirements of the Fund, (b) to create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the Fund assets, (c) to achieve 100 percent funding, and (d) to preserve the safety of principal.

The Fund has been optimized to meet its actuarial assumed rate of return. The performance objective for the Fund is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Commission will compare the performance of the Fund to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark will consist of a monthly re-balanced weighted average of market indices that represents a passive implementation of the historical investment policy targets. The current custom benchmark consists of the following indices and corresponding weights:

Index	Weight
Lehman Brothers Intermediate Govt./Credit Index	169.0%
Lehman Brothers Aggregate Index	108.0%
<u>CSFB Leveraged Loan Index</u>	<u>5.0%</u>
<u>NCREIF Index</u>	<u>5.0%</u>
S&P 500 Index	15.0%
Russell 1000 Value Index	172.0%
Russell 1000 Growth Index	13.0%
Russell 2000 Value Index	5.0%
Russell 2000 Index	10.0%
MSCI EAFE Index	510.0%
<u>Venture Economics All-Private Equity Index</u>	<u>5.0%</u>
91 Day T-Bills	1.0%

Asset Allocation/Rebalancing

In establishing investment policy for the Fund, the Commission has considered applicable State statutes, the long-term nature of the asset pool, as well as the needs of the participants. In addition, the Commission has considered the risk and returns characteristics of the various asset classes available to institutional investors and sought the guidance of outside consultants. The Commission has established the target asset allocation and permissible percentage ranges shown in the table set forth below:

Asset Class	Target	Minimum*	Maximum*
Intermediate Bonds	16 9.0%	11 4.0%	21 6.0%
Core Bonds Core Bonds	10.0% 18.0 %	5.0% 13.0%	18.0% 23.0%
Sr. Secured Loans Total Fixed Income	5.0% 34.0%	0.0% 29.0%	10.0% 39.0%
Total Fixed Income	24.0%	19.0%	35.0%
Large-Cap Core Equity	15.0%	10.0%	20.0%
Real Estate Large-Cap Value Equity	5.0% 17.0%	0.0% 12.0%	10.0% 22.0%
Total Real Estate Large-Cap Growth Equity	5.0% 13.0%	0.0% 8.0%	10.0% 18.0%
 Large-Cap Core Equity	 15.0%	 10.0%	 20.0%
Large-Cap Value Equity	12 17.0%	7 12.0%	17 22.0%
Large-Cap Growth Equity	13.0%	8.0%	18.0%
Small-Cap Value Equity	5.0%	0.0%	10.0%
Small-Cap Core Equity	10.0%	5.0%	15.0%
Total Domestic Equity	<u>55</u> 60.0%	<u>50</u> 55.0%	<u>60</u> 65.0%
 Large-Cap International Equity	 5 10.0%	 0 5.0%	 10.0%
Total International Equity	10 5.0%	0 5.0%	10.0%
 Private Equity Fund-of-Funds	 5.0%	 0.0%	 10.0%
Total Private Equity	5.0%	0.0%	10.0%
 Total Cash	 <u>1.0%</u>	 <u>0.0%</u>	 <u>5.0%</u>
TOTAL	<u>100.0%</u>		

*Does not equal 100%

The Commission, with the assistance of the investment consultant, will review the asset allocation of the Fund on a regular basis and adjust the portfolio to comply with the guidelines above as necessary. The Commission anticipates that the on-going natural cash flow needs of the Fund (contributions and withdrawals) will be sufficient to maintain the asset allocation of the Fund within policy guidelines under most market conditions.

~~During 2007, a re-evaluation of the custom benchmark shall be conducted, considering whether to increase the allocation to the MSCI EAFE Index or other international indices, whether to add an inflation-adjusted fixed income allocation, whether to add an allocation to alternative asset classes, and such other changes that might be recommended by the investment consultant, the Investment Advisory Panel, or the Executive Director and staff, with recommendations for changes to be presented to the Commission no later than June 30, 2007.~~

III. INVESTMENT MANAGER SELECTION AND COMMUNICATION

Manager Selection

It is the policy objective of the Commission to increase access and business with emerging investment managers. The term “emerging” will be used for all firms as defined with total firm assets under \$2 billion. Also, the Commission will communicate verbally and in writing encouraging emerging and minority investment management firms to participate in the search process. No investment managers shall be hired who have not, by their record and experience, demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the *College Illinois!* Program shall:

- Acknowledge in writing a fiduciary relationship with respect to the Program.
- Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis; and
- Be granted by the Program the power to manage, acquire or dispose of any assets of the Program pursuant to the Program documents.

College Illinois! will establish investment guidelines for the investment managers and will conduct thorough due diligence before the appointment of all investment managers.

Investment Manager Evaluation Terminology

The following terminology has been developed to facilitate efficient communication between the investment managers, investment consultant, and the program staff. Each term signifies a particular status with the Fund and any conditions that may require improvement. In each case, communication is made only after consultation with the program staff and/or the Investment Advisory Panel.

<u>STATUS</u>	<u>DESCRIPTION</u>
A. <i>"In Compliance"</i>	The investment manager is acting in accordance with the Investment Policy Guidelines.
B. <i>"Alert"</i>	The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in

investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities. The investment manager will be completing a monthly compliance checklist to ensure thorough oversight.

- C. ***"On Notice"*** The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination.
- D. ***"Termination"*** The program's management has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

Manager Terminations

Investment managers may be terminated whenever in the opinion of the Commission:

- They have committed a significant or intentional breach of their mandate or directive, they have experienced the loss of key personnel, they have breached a fiduciary duty, or for any other reason they have lost the confidence of the members.
- Performance has not been acceptable. Generally, decisions based on performance will be made only after a significant period of disappointing performance, although the period may be shorter when severe underperformance or other evidence exists that suggests inconsistencies between the investment manager's stated style and the characteristics of investments actually made.
- Managers' inability to comply with any and all state requirements.

IV. OPERATIONAL GUIDELINES

Investment Policy Guidelines for the Intermediate Bond Manager

This document contains the guidelines and restrictions that apply to the intermediate bond manager of the Fund (see Addendum A).

Permissible Investments

1. No single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation.
2. Securities rated below investment grade by at least two of the three rating agencies (Standard & Poor's, Fitch or Moody's) may not be purchased. If a security already held in the portfolio is downgraded below investment grade by two of the rating agencies, it may be held at the manager's discretion for up to 6 months.
3. The average quality of the overall portfolio should be rated no less than A- (or A3) by at least two of the three rating agencies.
4. Non-U.S. dollar securities, derivatives, options, financial futures, private placements, 144-A issues, or venture capital may not be purchased.
5. The average duration of the portfolio is not to vary more than +/-30% of the duration of the LB Intermediate Government/Credit Index.
6. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Lehman Brothers Intermediate Government/Credit Index.

Investment Policy Guidelines for the Passive Intermediate Bond Manager

This document contains the guidelines and restrictions that apply to the passive, intermediate bond manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of the broad intermediate bond market as measured by the Lehman Brothers Intermediate Government/Credit Index.

Investment Policy Guidelines for the Core Bond Manager

This document contains the guidelines and restrictions that apply to the core bond manager of the Fund (see Addendum A).

Permissible Investments

1. No single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation.
2. Securities rated below investment grade by at least two of the three rating agencies (Standard & Poor's, Fitch or Moody's) may not be purchased. If a security already held in the portfolio is downgraded below investment grade by two of the rating agencies, it may be held at the manager's discretion for up to 6 months.
3. The average quality of the overall portfolio should be rated no less than A- (or A3) by at least two of the three rating agencies.
4. Non-U.S. dollar securities, derivatives, options, financial futures, private placements, 144-A issues, or venture capital may not be purchased.
5. The average duration of the portfolio is not to vary more than +/-30% of the duration of the LB Aggregate Index.
6. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Lehman Brothers Aggregate Index.

Investment Policy Guidelines for the Passive Core Bond Manager

This document contains the guidelines and restrictions that apply to the passive, core bond manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of the broad bond market as measured by the Lehman Brothers Aggregate Index.

Investment Policy Guidelines for the ~~Passive Core Bond~~Senior Secured Loan Manager

This document contains the guidelines and restrictions that apply to the ~~passive, core bond~~senior secured loan manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of ~~the broad bond market as measured by the Lehman Brothers Aggregate~~CSFB Leveraged Loan Index.

Investment Policy Guidelines for the Real Estate Manager

This document contains the guidelines and restrictions that apply to the real estate manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of the NCREIF Index.

Investment Policy Guidelines for the Passive Large-Cap Core Equity Manager

This document contains the guidelines and restrictions that apply to the passive, large-capitalization core equity manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of the broad equity market as measured by the S&P 500 Index.

Investment Policy Guidelines for the Large-Cap Value Equity Manager

This document contains the guidelines and restrictions that apply to the large-capitalization value equity manager of the Fund (see Addendum A).

Permissible Investments

1. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, 144-A issues, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. Exchange-traded funds are permissible investments.
4. No investments should be made in securities not traded on a U.S. exchange or traded in U.S. dollars.
5. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Russell 1000 Value Index.

Investment Policy Guidelines for the Large-Cap Growth Equity Manager

This document contains the guidelines and restrictions that apply to the large-capitalization growth equity manager of the Fund (see Addendum A).

Permissible Investments

1. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, 144-A issues, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. Exchange-traded funds are permissible investments.
4. No investments should be made in securities not traded on a U.S. exchange or traded in U.S. dollars.
5. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Russell 1000 Growth Index.

Investment Policy Guidelines for the Small-Cap Value Equity Manager

This document contains the guidelines and restrictions that apply to the small-capitalization value equity manager of the Fund (see Addendum A).

Permissible Investments

1. The manager may hold up to 10% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, 144-A issues, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. Exchange-traded funds are permissible investments.
4. No investments should be made in securities not traded on a U.S. exchange or traded in U.S. dollars.
5. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
6. At no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair market value of the outstanding stock of the company.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Russell Small-Cap Value Index.

Investment Policy Guidelines for the Small-Cap Core Equity Manager

This document contains the guidelines and restrictions that apply to the small-capitalization core equity manager of the Fund (see Addendum A).

Permissible Investments

1. The manager may hold up to 10% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, 144-A issues, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. Exchange-traded funds are permissible investments.
4. No investments should be made in securities not traded on a U.S. exchange or traded in U.S. dollars.
5. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
6. At no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair market value of the outstanding stock of the company.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the Russell 2000 Index.

Investment Policy Guidelines for the Large-Cap International Equity Manager

This document contains the guidelines and restrictions that apply to the large-cap international equity manager of the Fund (see Addendum A).

Permissible Investments

1. The manager may hold up to 10% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, 144-A issues, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. Exchange-traded funds are permissible investments.
4. No single security in the manager's portfolio will comprise more than the greater of 5% or a 3% overweight relative to the security's benchmark weight, of its international equity allocation at the time of purchase, nor will it be more than 10% of the international equity allocation of the portfolio after accounting for price appreciation.
5. At no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair market value of the outstanding stock of the company.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the broad international equity market as measured by the MSCI EAFE Index.

Investment Policy Guidelines for the Private Equity Fund-of-Fund Manager

This document contains the guidelines and restrictions that apply to the private equity fund-of-fund manager of the Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should match the return of the Venture Economics All-Private Equity Index.

V. EVALUATION AND REVIEW

Frequency of Measurement

The Commission expects to measure investment performance quarterly.

Frequency of Reports

The Commission shall receive and review investment performance reports at least semi-annually. These reports shall document, both in dollars and in basis points, the overall investment performance as well as annual costs of administering the program, including benchmark cost comparisons, where available, with other state programs and other competing investment vehicles.

Expected Interim Progress Toward Multi-Year Objectives

The Commission will follow its time horizons, as set forth in this Policy, when making judgments about indications of inferior performance. However, investment managers for the Program should be advised that the Commission intends to track the interim progress toward multi-year goals. If there is a clear indication that performance is so substandard that reasonable hope of recovery to the Policy's target level in the remaining time horizon period would require either high risk or good fortune, then the Commission will not feel constrained by this Policy to avoid an "early" decision to take corrective action. An important goal of program management is to reduce overall costs whenever possible and to achieve appropriate economies of scale based upon the size and efficient management of the overall investment portfolio.

Inconsistent Management Style Not Acceptable

As stated in other parts of this Policy, the Commission will have little or no tolerance for an inconsistent investment approach. Therefore, the Commission will carefully monitor its investment managers on several key indicators of possible inconsistency:

- (1) changes in portfolio managers,
- (2) surges in portfolio trading volume,
- (3) evidence that actual portfolio characteristics do not follow the manager's published investing style,
- (4) performance patterns not logically explainable in terms of the published style, or performance out-of-step with manager's style peer group,
- (5) major ownership changes,
- (6) changes in firm structure,
- (7) soft-dollar trading,
- (8) financial irregularities, and
- (9) deficiencies in reporting.

None of these indicators is taken to be conclusive evidence of inconsistency. Such a finding would be based upon the facts and situation.

Frequency of Meetings

The Commission staff expects to meet with representatives of active managers at least annually.

VI. POLICY MODIFICATION AND REVISION

Frequency of Policy Review

The Commission will use each of its periodic investment performance evaluations as occasions to also consider whether any elements of the existing Policy are either insufficient or inappropriate. However, a formal review of the Statement of Investment Policy will occur annually. Key environmental or operational occurrences which could result in a Policy modification include:

- (1) significant changes in expected patterns of the Program's liability stream,
- (2) impractical time horizons or changes,
- (3) change in the Program's priorities,
- (4) convincing arguments for change presented by investment managers and consultant,
- (5) legislation, and
- (6) areas found to be important, but not covered by the Policy.

Commission's Philosophy Toward Policy Modification

The Commission shall review this Policy annually with the intention to improve investment performance in collaboration with its staff, the Investment Advisory Panel, and professionals hired by the Commission to manage the portfolio. Any such improvements should be made in keeping with the appropriate fiduciary standards and with the goal to improve the program for its participants. The Commission's overall purpose in adopting and adapting this Policy is to enhance access to higher education for Illinois citizens. The policy should be responsive to changing conditions, particularly to those having to do with program liabilities.

VII. POLICY ADOPTION

The Policy document was originally adopted by the Commission for *College Illinois!* on January 22, 1999 and has been revised on ~~five~~six occasions, most recently on ~~January~~November 18~~26~~57, 2007. The Commission approved this policy revision on ~~June~~January~~26~~22, 2007.

Investment Manager's Acknowledgments:

We have received this copy of the Program's Investment Policy. We have studied its provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

Firm Name

Investment Manager

Addendum A

Intermediate Bonds	Income Research and Management Galliard Capital Management
Passive Intermediate Bonds	TBA
Core Bonds	J P Morgan Chase Investment Advisors
<u>Senior Secured Loans</u>	<u>TBA</u>
<u>Real Estate</u>	<u>TBA</u>
Passive Core Bonds	SSgA Broad Market Index
Passive Large-Capitalization Core Equity	SSgA S&P 500 Index Fund
Large-Capitalization Value Equity	State Street LSV Asset Management
Large-Capitalization Growth Equity	William Blair & Company, LLC Holland Capital New Amsterdam Partners
Small-Capitalization Value Equity	Nicholas-Applegate Kenwood Capital<u>RhumbLine Advisers</u> <u>TBA</u>
Small-Capitalization Core Equity	Nicholas-Applegate Denver Investment Advisors
Large-Capitalization International Equity	LSV Asset Management
<u>Private Equity Fund-of-Funds</u>	<u>TBA</u>
Custodian	US Bank
Investment Consultant	Marquette Associates, Inc.
Securities Lending Provider	TBA<u>US Bank</u> <u>State Street</u>