

AGENDA ITEM 10.

SELECTION OF *COLLEGE ILLINOIS!* INVESTMENT MANAGERS

Submitted for: Action

Summary: A recommendation is being made for the selection of six investment managers for the *College Illinois!* prepaid tuition program. These managers are being recommended to fill three separate investment mandates for the program: (1) a passive large cap equity/S&P 500 Index manager; (2) the large cap growth equity investment manager mandate; and (3) the small cap value equity manager mandate. The program already has managers in place for the first two mandates; those contracts, however, are due for rebidding. The small cap value equity manager mandate is being added at this time, in accordance with requirements of the *College Illinois!* Investment Policy, adopted in January 2004.

Requests for Proposals (RFP's) were published on the Illinois Procurement Bulletin Board and numerous money managers nationwide were notified that the program was seeking investment management services. Marquette Associates, the program's investment consultant, provided assistance with development of the three RFP's and the notification of potential respondents. These efforts resulted in the submission of 37 proposals for the RFP's.

Marquette Associates proposed weighted criteria by which the proposals would be evaluated, as well as a specific procedure to be followed in the evaluation process. As always, ISAC's General Counsel and her staff were consulted to ensure compliance with the state's procurement process and provided administrative assistance and guidance. Marquette Associates analyzed each proposal in accordance with criteria agreed upon with ISAC staff and subsequently compiled summary reports of their analysis, ranking all of the firms that responded to and met qualifications specified in each RFP. Firms that responded to the Large Cap Growth Equity and Small Cap Value Equity RFP's also were categorized and ranked within subgroups, according to their approach toward investing. The subgroups used for the Large Cap Growth Equity mandate included: growth at a reasonable price (GARP), core growth, or aggressive growth. For the Small Cap Value Equity mandate, the subgroups used included: relative value, core value, or deep value. The Marquette reports were submitted to the Evaluation Committee consisting of five senior ISAC staff, Commissioner Pauline Betts and Investment Advisory Panel Member George Clam.

The Evaluation Committee met with Patrick Krolak of Marquette Associates on May 12th and after reviewing reports on the responding firms' qualifications and performance, came to several decisions. The Committee members agreed that an oral presentation was not necessary for the passive large cap equity mandate and selected one of the two bidding firms to recommend to the Commission. With

regard to the two active investment management mandates, the Committee decided to invite eight finalist firms--four large cap growth equity managers and four small cap value equity managers--for oral presentations. Those presentations took place on May 19th in the ISAC Deerfield offices. Following the presentations, the Evaluation Committee ranked the firms for each mandate and voted to recommend the top two small cap managers and the top three large cap managers to the Commission. A detailed report was shared with the Chairman that included the following recommendations:

Large Cap Core Equity Manager:	State Street Global Advisors
Large Cap Growth Equity Manager:	New Amsterdam Partners Holland Capital Management William Blair and Company
Small Cap Value Equity Manager:	Nicholas Applegate Kenwood Capital Management

A representative from each recommended firm has been invited to attend the Commission meeting.

Action requested:

That the Commission approve the following resolution:

“**BE IT RESOLVED** that the Commission authorizes the Executive Director to negotiate and enter into contractual agreements for the *College Illinois!* Program with: State Street Global Advisors to serve as an investment manager for the large capitalization core equity portfolio; New Amsterdam Partners, Holland Capital Management and William Blair and Company to serve as investment managers for the large capitalization growth equity portfolio; and Nicholas Applegate and Kenwood Capital Management to serve as investment managers for the small capitalization value equity portfolio.”