

AGENDA ITEM 5.

***COLLEGE ILLINOIS!*SM PREPAID TUITION PROGRAM
INVESTMENT PERFORMANCE REPORT FOR THE PERIOD ENDING
SEPTEMBER 30, 2008**

Submitted for: Information

Summary: Commissioners have been provided with a copy of the most recent Investment Performance Analysis for *College Illinois!*, prepared by investment consultant Marquette Associates of Chicago. The report reviews and analyzes the performance of the program's 12 investment managers (in eight separate investment mandates) for both the 3-month and the trailing 12-month period ending September 30, 2008. Due to the challenging economic and financial crisis that has engulfed the U.S. and global economies, a special report has been prepared to offer a perspective and analysis of the market, asset classes and issues important to the Fund. The report also provides an overview of the investing environment for the other asset classes (i.e. Alternatives) that are not as closely correlated to the public equity markets, such as Real Estate, Private Equity, Infrastructure and Hedge Funds. It concludes with a review of the fees associated with investment of program assets, which indicates that investment fees paid by the program are low relative to investment industry standards.

As of September 30, 2008, the Fund had a market value of \$940.5 million, a net decrease of \$55.6 million over the previous quarter of \$996 million in June 2008. The investment performance for the quarter was -6.6%, underperforming the policy benchmark of -5.6% and the Fund's actuarial quarterly return target of 2.1 percent. The program's overall gross investment return since inception was 3.1 percent.

During the period, the equities portion of the program's portfolio was diversified among seven investment managers in six different mandates: State Street Global Advisors (Large Cap Core/S&P 500 Index); LSV Asset Management (Large Cap Value and International Equity); Earnest Partners and Great Lakes (Large Cap Value Equity); Rhumblin Advisors (Large Cap Growth Equity Index and Small Cap Value); Denver Investment Advisors and Nicholas-Applegate (Small Cap Core). The *College Illinois!* fixed income portion of the portfolio was managed by six different managers: CS McKee Investment Managers, Piedmont Investment Advisors, and Pugh Capital Management (Domestic Core); Galliard Capital and Income Research (Domestic Intermediate); and State Street Global Advisors (LB Aggregate Index). Performance for each manager is specified within the report. Three of the managers (Earnest Partners, Denver and Nicholas-Applegate) have been cited in the report for performance issues and two (Earnest Partners and Nicholas-Applegate) for compliance issues.

Action requested: None