AGENDA ITEM 9.

REVISIONS TO *COLLEGE ILLINOIS*!® PREPAID TUITION PROGRAM STATEMENT OF INVESTMENT POLICY

Submitted for: Action

Summary: Most recently, on January 30, 2009 the Commission adopted and approved changes to *College Illinois!* ® Statement of Investment Policy (the "Policy").

In consultation with the Investment Advisory Panel, ISAC's Executive Director, Marquette Associates and ISAC's General Counsel, the Chief Investment Officer prepared further revisions to the Investment Policy. Given the persistent rise in college tuition at Illinois public universities over the past decade, the purpose of the current revisions to the investment policy document was to ensure that an increasingly higher, yet achievable, investment performance target could be assumed for the *College Illinois!* Prepaid Tuition Program (the "Program"), while at the same time minimizing downside risk to the portfolio.

On May 28, 2009, the *College Illinois!* Investment Advisory Panel reviewed and agreed with the suggested changes to the Investment Policy.

The following is a summary of key changes:

1. Revisions to the defined terms, expanding the disclosure requirements from investment managers on investment agreements and clarifying scope of "quiet period" during bidding processes.
2. Revisions to the asset allocation asset classes, ranges and targets
3. Establishment of a Portfolio Committee to review the asset allocation monthly
4. Revisions to the investment policy guidelines for bonds and equity mandates, TIPS, non-US equity and closed-end funds such as Real Estate, Hedge Fund of Funds, Hedge Funds, Infrastructure, Private Equity and Private Equity Fund of Funds.
5. Clarifying permissive use of transition managers.
6. Addition of an enhanced index covered call strategy as an enhancement to the S&P 500 Index mandate with the investment guideline for using the strategy.

Action requested: That the Commission approve the following resolution:

"**BE IT RESOLVED** that the Commission adopts the revisions to the *College Illinois*! ® Statement of Investment Policy in the form attached hereto as **Exhibit A**."

Draft Dated: 6/16/09

COLLEGE ILLINOIS!~~*SM*~~®

STATEMENT OF INVESTMENT POLICY

Initially Approved on January 22, 1999
Last Revised ~~January 30,~~May 21, 2009
Draft June 10, 2009
Draft June 16, 2009

STATEMENT OF INVESTMENT POLICY

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I. PROLOGUE

This document represents the Statement of Investment Policy (the "Policy" or "Investment Policy") for the *College Illinois!*~~SM~~® Prepaid Tuition Program. The Illinois Prepaid Tuition Trust Fund (the "Fund") is subject to the provisions of the Illinois Prepaid Tuition Act, 110 ILCS 979/1 *et seq*. (the "Act"), as amended from time to time.

II. DEFINED TERMS

~~**The "Program" Defined**~~

~~In this Policy, the "Program" refers to the *College Illinois!* Prepaid Tuition Program. The purpose of the Program is to promote the furtherance of higher education for the citizens of the State of Illinois by providing a vehicle that will assist with their systematic savings for tuition and fees for college.~~

The "Chief Investment Officer " Defined

In this Policy, the "Chief Investment Officer" refers to the individual employed by the Commission in such capacity. The Chief Investment Officer shall report to the Executive Director and shall have the duties and responsibilities with respect to the ~~program~~Program and the ~~fund~~Fund set forth in this Policy.

The "Commission" Defined

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

The "Director of Portfolio Management and Direct Investment " Defined

In this Policy, the "Director of Portfolio Management and Direct Investment" refers to the individual employed by the Commission in such capacity. The Director of Portfolio Management and Direct Investment shall report to the Executive Director and shall have the duties and responsibilities with respect to the Program and the Fund set forth in this Policy.

The "Executive Director " Defined

In this Policy, the "Executive Director" refers to the individual employed by the Commission in such capacity. The Executive Director and shall have the duties and responsibilities with respect to the Program and the Fund set forth in this Policy.

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 the Program. The Commission appoints members of the Panel and the Panel shall meet at least twice annually. At least one of those meetings shall be held in public with the Commission in accordance with the Act.

The "Investment Committee" Defined

In this Policy, the "Investment Committee" refers to a committee consisting of at least two (2) members of the Commission appointed by the Chairman of the Commission, which will provide advice and guidance to the Chief Investment Officer on issues related to the investments of Fund assets.

~~The "Investment Advisory Panel" Defined~~The "Investment Consultant" Defined

In this Policy, the "Investment Consultant" refers to an investment advisory consultant, acting in a fiduciary capacity on behalf of the Fund, with knowledge and capacity to provide investment consulting and advisory services to the Commission.

The "Investment Manager" Defined

In this Policy, the "Investment Manager" refers to outside professional money managers, acting in a fiduciary capacity on behalf of the Fund, with knowledge and capacity to manage the assets of the Program in a responsible manner meeting all required guidelines.

"Investment Services" Defined

In this Policy, "Investment Services" refers to services provided by an Investment Manager, Investment Consultant and other additional professionals including but not limited to attorneys, actuaries, auditors, custodians, appraisers, banks and investment banking professionals, marketing agents, and other third party professionals retained by the Commission to assist in achieving the goals of the Fund.

~~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 the Program. The Commission appoints members of the Panel and the Panel shall meet at least twice annually. At least one of those meetings of the Panel shall be held in public with the~~

Investment services provided by an Investment Manager or Investment Consultant shall be rendered pursuant to a written agreement between the Investment Manager or Investment Consultant and the Commission~~ in accordance with the Act~~.

The "Portfolio Committee" Defined

In this Policy, the "Portfolio Committee" refers to a committee consisting of the Executive Director, Chief Investment Officer and Director of Portfolio Management and Direct Investment. The Portfolio Committee will meet monthly to review the portfolio, asset allocation and affect any rebalancing based on decisions of the Committee and acting within the guidelines of this Policy.

The "Program" Defined

In this Policy, the "Program" refers to the *College Illinois!* Prepaid Tuition Program. The purpose of the Program is to promote the furtherance of higher education for the citizens of the State of Illinois by providing a vehicle that will assist with their systematic savings for tuition and fees for college.

III. RESPONSIBILITIES OF FIDUCIARIES

The Commission's Authority and Responsibilities

The Commission shall 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 these matters and acting in a like capacity 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 these matters could properly delegate under the circumstances. A Commission member or other fiduciary, and their employees and agents, 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. Adopting a sound Investment Policy, revising said Policy to reflect changing conditions within the markets or Program, or refining the Policy in order to make it more effective.

3. Searching for and identifying qualified Investment Managers and consultants.

4. Monitoring and evaluating investment performance of Investment Managers and their 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, current, and historical asset allocation in the Program;

b) progress toward the stated performance objectives in the Policy; and
c) 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 to terminate an Investment Manager or consultant for failing to perform according to stated expectations or to abide by this Policy.

9. Establishing, reviewing and, if necessary, amending the appropriateness of the Program's asset allocation policy.

10. Establishing a process that encourages the utilization and hiring of qualified Emerging and Minority Investment Managers and Broker Dealers in managing assets of the Program within the bounds of financial and fiduciary prudence. For purposes of this Policy, the term "emerging investment manager" shall mean a qualified investment adviser that manages an investment portfolio of less than $10 billion. The term "minority" will be used for all firms as defined in the Illinois Business Enterprise ~~Program~~ for Minorities (Black/African American, Asian American, Hispanic, Native American, or Alaskan Native), Females, and Persons with Disabilities Act.

11. Assuring that its members and employees attend continuing educational forums, sessions, seminars to improve knowledge on new investment products, strategies and opportunities available in the marketplace and other subjects relevant to the operation of the ~~program~~Program.

12. Making investment decisions within the bounds of financial and fiduciary prudence within asset classes that permit direct investments of Fund assets by the Commission.

13. Assuring that its members and employees acknowledge annually, compliance with the Conflicts of Interests provisions of the Policy and any additional ethics policies and guidelines established by the Commission or other rules mandated by applicable law.

The Chief Investment Officer's Responsibilities

The Chief Investment Officer is responsible for ensuring that forecasts of the Program's liabilities and assets are created, updated and reviewed as necessary to ensure the long-term viability of the Program. Additional responsibilities of the Chief Investment Officer include, but are not limited to, the following:

1. Complying with applicable, laws, regulations and rulings.

2. Producing forecasts to identify Program needs.

3. Developing a strategy to assure structuring Fund assets to meet Program liabilities.

4. ~~3. Developing a strategy to assure structuring Fund assets to meet Program liabilities and protecting~~Protecting Fund assets against fraud, error, misrepresentation by third parties and imprudent actions by employees and Fund agents or delegatees.

5. ~~4.~~ Developing and maintaining a system of internal controls to assure compliance with this Investment Policy and investment objectives.

6. ~~5.~~ Developing a sound and consistent Policy, revising the Policy to reflect changing conditions within the markets or Program, and refining the Policy in order to make it more effective.

7. ~~6.~~ Monitoring and evaluating investment performance and compliance with this Policy.

8. ~~7.~~ Establishing the primary duties and responsibilities of appointed ~~investment managers (“~~Investment Managers~~”)~~ to achieve investment results.

9. ~~8.~~ Providing guidelines to Investment Managers regarding their voting of proxies of investment securities ~~owned~~managed on behalf of the Program.

10. ~~9.~~ Establishing and reviewing the appropriateness of the Program's asset allocation policy in conjunction with the Investment Consultant and the Investment Advisory Panel for purposes of adoption by the Commission.

11. ~~10.~~ Establishing a process that encourages the utilization of qualified Emerging and Minority Investment Managers and broker dealers in managing the assets of the Program within the bounds of financial and fiduciary prudence.

12. ~~11.~~ Reviewing, evaluating and recommending direct investments (including private equity investments) appropriate for consideration by the Commission and consistent with the overall objectives of this Policy.

13. ~~12.~~ Coordinating the production of an Annual Report covering the following subjects:

    a) ~~investment~~Investment performance summary including comparisons to benchmarks, current, and historical asset allocation in the Program;
    b) ~~progress~~Progress toward the stated performance objectives in the Policy; and
    c) ~~other~~Other pertinent matters.

14. ~~13.~~ Providing monthly investment reports as specified in this Investment Policy to the Investment Committee at least monthly and to the Commission at least quarterly.

15. ~~14.~~ Developing policies regarding trading practices, which meet the objectives of this Investment Policy.

16. ~~15.~~ The Chief Investment Officer is also authorized to purchase suitable short-term United States government obligations, United States Obligation only money markets and United States Treasury Inflation Protected Securities (TIPS) for cash management and investment purposes in accordance with the objectives of this ~~policy~~Policy.

The Investment Committee's Authority and Responsibilities

The Investment Committee shall meet at least quarterly with the Chief Investment Officer. The Chairman of the Commission, at the request of the Chief Investment Officer, may call more frequent meetings as deemed necessary. Responsibilities of the Investment Committee include, but are not limited to the following:

1. Complying with applicable laws, regulations, and rulings.

2. Reviewing the reports provided by the Chief Investment Officer to monitor compliance with the Investment Policy.

3. Reviewing and discussing investment strategy and trading practice.

4. Reviewing relationships with financial institutions, including Investment Managers to ensure that Investment Managers are being selected and reviewed in accordance with the guidelines in this Investment Policy.

5. Monitoring use of all Program ~~Funds~~funds, to ensure appropriateness and compliance with Investment Policy objectives.

6. Reviewing policies regarding trading practices.

7. Reviewing the system of internal controls established by the Chief Investment Officer.

The Investment Advisory Panel's Authority and Responsibilities

The Investment Advisory 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.

3. Assuring that its members attend continuing educational forums, sessions, seminars to improve knowledge on new investment products, strategies and opportunities available in the marketplace.

The Responsibilities of the Investment Managers

The Commission will hire ~~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~~its 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 to the Commission. The Investment Managers shall also provide written reports to the Commission and ~~investment consultant~~Investment Consultant, on at least a quarterly basis, detailing performance for the most recent period, net of all fees, as well as the current outlook of the markets related to the Fund assets managed by the Investment Manager . 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. Investment Managers also have discretionary investment authority including decisions to buy, sell, or hold individual securities within the guidelines established in this Policy.

Investment Managers must communicate on a timely basis to the Chief Investment Officer, Investment Consultant and Commission (1) any significant changes regarding economic outlook, investment strategy, or any other factors which may have an impact upon the achievement of their portion of the Fund's investment objectives and (2) changes within the investment management organization within five (5) business days of such change(s). Examples include but are not limited to: changes in portfolio management personnel, ownership structure, and investment philosophy or the initiation of any legal or regulatory action that could materially affect the Investment Manager's ability to manage the portfolio.

Participation by Minority/Women/Disabled Owned Broker Dealers

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 Investment 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 trades 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 Investment Manager's practices are in accordance with the Policy.

The Responsibilities of the Investment Consultant

The Investment Consultant is an advisor to the Commission retained to provide investment management advice and act as a fiduciary for the purposes of the duties outlined in their agreement with the Commission. The Investment Consultant will provide investment management advice concerning Program asset allocation. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and on-going review and maintenance of the Policy.

2. Conducting Investment Manager searches as authorized by the Commission and, as needed, assisting the Commission with the selection of Investment Managers and custodians.

3. Providing "due diligence" reports or research on each of the Fund's Investment Managers.

4. Monitoring the performance of the Investment Managers and providing the Commission with reports to determine their progress towards achieving the investment objectives.

5. Providing the Commission and the Chief Investment Officer with a written report evaluating the performance of the Fund no later than 45 days after the end of each calendar quarter or more frequently if requested by the Chief Investment Officer and Commission.

6. Communicating advice on matters of policy and Investment Manager performance to the Commission, the Chief Investment Officer and the Investment Advisory Panel.

7. Reviewing Fund investment history, historical capital markets' performance and the contents of this Policy with the Commission and the Chief Investment Officer.

8. Providing continuing asset/liability allocation review and specific recommendations.

9. Communicating with the Chief Investment Officer and related professionals retained by the Fund as required or prudent. This shall include, but not be limited to, notifying Investment Managers of "Alert", "On Notice" and "~~Terminations~~Termination" status, changes to the investment guidelines, and coordinating meeting attendance.

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 daily and 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~~it manages 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 cash collateral will be provided to the Fund for the securities that are lent to the approved borrower and that the income generated from the securities lending program shall accrue to the benefit of the Fund. The collateral pool shall be marked to market daily and additional collateral shall be obtained to cover the securities lent. Furthermore, the securities lending provider will ensure the return of all lent securities to the Fund's appropriate account before any transactions on the lent securities are executed (see Addendum A). The reinvestment of proceeds obtained from the collateral pool shall be managed in accordance with the parameters set forth in these guidelines as being applicable to securities lending and so as to minimize the loss of principal of the ~~Funds~~Fund's lent securities.

Additional Professionals

Additional professionals, including but not limited to attorneys, specialized investment consultants, actuaries and auditors may be retained by the Commission, as necessary, to assist the prudent administration of the Fund.

Investment Agreements

Agreements are an integral part of the selection of investment ~~professional~~professionals and, therefore, guidelines apply to the selection of outside investment professionals.

With respect to all investment relationships, it is the responsibility of the Program's attorneys to review and negotiate all agreements. Staff will assist in the review of all agreements and negotiate fees on all relationships.

The investment agreement or contract shall include all of the following:

(1) Acknowledgement in writing by the Investment Manager or Investment Consultant that they are a fiduciary with respect to the Fund.

(2) ~~Investment Managers shall affirm within their investment contract that they are considered a co-fiduciary of the Program. Investment Managers~~The description of the Fund's investment policy and notice that the policy is subject to change. The Investment Manager or Investment Consultant shall also acknowledge and comply with the Conflicts of Interests provisions of the Policy and any additional ethics policies and guidelines established by the Commission or pursuant to applicable law.

(3) Full disclosure of direct and indirect fees, commissions, penalties, and other compensation, including reimbursement for expenses, that may be paid by or on behalf of the consultant or others in connection with the provision of services to the Fund.

(4) A requirement that the Investment Manager or Investment Consultant submit periodic written reports, on at least a quarterly basis, for the Commission's review. All returns on investments shall be reported as net returns after payment of all fees, commissions, and any other compensation.

(5) Compensation to Investment ~~Managers~~Manager or Investment Consultant shall be limited to hard dollars for all services rendered~~. No~~ and no other form of compensation~~,~~; including any type of soft dollar arrangements are allowed.~~ The Investment Consultant also shall affirm that they act as a co-fiduciary of the Program with respect to the investment advice given.~~

(6) Disclosure of the names and addresses of (i) the Investment Manager or Investment Consultant (ii) any entity that is a parent of, or owns a controlling interest in, the Investment Manager or Investment Consultant; (iii) any entity that is a subsidiary of, or in which a controlling interest is owned by, the Investment Manager or Investment Consultant; (iv)any persons who have an ownership or distributive income share in the Investment Manager or Investment Consultant that is in excess of 7.5%; or (v) serves as an executive officer of the Investment Manager or Investment Consultant.

(7) Disclosure of the names and addresses of all subcontractors, if applicable, and the expected amount of money each will receive under the agreement,

including an acknowledgement that the contractor must promptly make notification, in writing, if at any time during the term of the contract a contractor adds or changes any subcontractors. For purposes of the subparagraph (6), "subcontractor" does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services and investment fund-of-funds where the Commission has no direct contractual relationship with the Investment Managers or underlying partnerships.

~~Investment Mangers are also required to fully disclose in writing to the Commission any third-party marketing arrangements.~~

Investment Management Transitions

In the event of the need to transfer the management of the assets from one investment firm to another, investment staff will effect the change in as efficient and prudent a manner as possible. The use of transition manager(s) is permitted when deemed in the best interests of the Fund. Transition plans may include, but are not limited to, the following: a transfer of securities to an appropriate index fund, crossing securities with other institutional investors, or a transfer of securities to another approved investment manager.

IV. INTERNAL CONTROLS AND CONFLICTS OF INTERESTS

Internal Controls

The Chief Investment Officer shall establish a system of internal controls, which shall be documented and reviewed by the Investment Committee and the Investment Advisory Panel. The controls shall be designed to prevent losses of Program funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees.

Conflicts of Interests

The Commission and its members, employees and any other persons authorized to make investment decisions, including Investment Managers and other fiduciaries ~~or~~of the investment (either directly or through Investment Managers) of any Fund assets on behalf of the Commission must (1) comply with all obligations and requirements of ISAC's Ethics Policy, the Illinois Governmental Ethics Act and all other applicable laws pertaining to ethics, prohibited acts or gift bans and (2) refrain from personal business activity that could potentially conflict with proper execution of this Investment Policy or impair their ability to make impartial decisions. The Chief Investment Officer shall implement an annual attestation to be completed by all Commissioners and Commission personnel authorized to make investment decisions (either directly or through Investment Managers) of any Fund assets on behalf of the Commission, disclosing actual or potential conflicts and such other information deemed relevant by counsel to the Commission.~~.~~ The Chief Investment Officer shall collect and review such attestations and file them with the Chief Financial Officer and Ethics Officer.

Under no circumstances shall a participant in the investment process receive any type of financial gain, either directly or indirectly, from the investment of any Program funds, or from an account of the administration of the ~~program.~~Program. Any real or potential conflict of interest must be reported to the Chief Financial Officer and Ethics Officer.

No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Chief Investment Officer. The Chief Investment Officer will be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

Quiet Period

Purpose

The Quiet Period Policy is intended to establish guidelines by which Commission members and investment staff will communicate with prospective service providers during a search process.

Policy Objectives

The objectives of the policy are to ensure that:

- Prospective service providers competing to become employed by the Fund have equal access to information regarding the search parameters;
- Communications related to the selection are consistent and accurate; and
- The process of selecting service providers is efficient, diligent, and fair and complies with the Illinois Procurement Code.

Policy Guidelines

The following guidelines will be instituted during a search process for a service provider:

- A quiet period will commence upon action by ISAC staff (or Commission action if the selection is not initiated through ISAC staff) to authorize a search for a service provider and end once a selection has been made by the Commission and accepted by the service provider;
- Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations;
- All Commissioners, and investment staff not directly involved in the search process, shall refrain from communicating with service provider candidates regarding any product or service related to the search offered by the candidate throughout the quiet period and shall refrain from accepting meals, travel, hotel, or other value from the candidates;
- Throughout the quiet period, if any Commissioner is contacted by a candidate, the Commissioner shall refer the candidate to the Fund's Chief Investment Officer or ISAC's procurement officer;
- All authority related to the search process shall be exercised solely by the relevant ISAC staff or Commission as a whole, and not by individual Commissioners;
- All information related to the search process shall be communicated by the Investment Consultant and Chief Investment Officer or ISAC's procurement officer to the relevant Investment Committee or Commission as a whole, and not to individual Commission members; and
- The quiet period does not prevent Commission approved due diligence, client conference attendance or communications with an existing service provider that happens to be a candidate in the ordinary course of services provided by such service provider; however, discussions related to the pending selection shall be avoided during those activities.
- The provisions of this policy will apply to service provider candidates throughout the quiet period and shall be communicated to candidates in conjunction with any competitive proposal process;

- ~~During the time a request for proposal~~A service provider may be disqualified from a search process~~ is pending, no bidders for any services shall contact any member of the Commission or any member of the Investment Advisory Panel. Failure to comply with this provision of the Policy may, at~~, in the sole discretion of the Commission, ~~result in disqualification of the bidder's response.~~

for a knowing violation of this policy.

V. 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 shall be managed to:

- ~~provide~~Provide a resource to fund present and future tuition payments due to beneficiaries

- ~~manage~~Manage the Program's assets against (1) the deterioration of purchasing power caused by inflation and (2) the expected rate of tuition inflation

- ~~diversify~~Diversify assets across and within capital markets.

The Commission recognizes that investment markets have repeatedly demonstrated broad performance cycles having two fundamental characteristics that 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.~~expected returns on investments.

The Commission also recognizes the need to review the liability structure of the Program and commitment to fund future tuition payments. The liabilities of the Fund will be analyzed periodically and managed to insulate the Program from factors that may be controllable and matching the liabilities to available sources of revenues and to the various investment classes in which the Fund is invested with the goal of achieving a fully funded status over the long-term life of the Program.

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~~prudent 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 assets for funding them.

The Commission, the Investment Advisory Panel, Investment Managers, the Chief Investment Officer and other fiduciaries involved in the investment process ~~recognizes~~recognize the duty to remain aware of and the timely communication and action on, any significant changes regarding market conditions, investment strategy, outlook or any other exigent factor(s) which may have an impact upon the achievement of the Fund's investment objectives. Decisions made will also consider recognition of the long-term approach underlying this Policy.

VI. ASSET ALLOCATION

Investment Objective

The primary investment objectives of the Fund are to: (a) earn the highest possible total return consistent with corresponding acceptable levels of investment risk and liquidity requirements of the Fund, (b) to create a stream of investment returns to insure the systematic and adequate funding of actuarially determined tuition obligations through contributions and professional management of the Fund assets, and (c) to achieve 100 ~~percent~~% funding.

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,~~earn returns that exceed the projected growth rate in its liabilities. The events of 2007 and 2008 have once again demonstrated that the investment world is highly complex and does not lend itself to accurate modeling. However, to help evaluate performance the Commission will compare the performance of the Fund to ~~the~~an 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 Policy targets. The current custom benchmark consists of the following indices and corresponding weights.

Index	**Weight %**
BarCap Intermediate Govt./Credit Index	5.0%
BarCap Aggregate Index	15.0%
BarCap TIPS	5.0%
BarCap Mortgage	5.0%
NCREIF Fund ODCE Index	20.0%
Wilshire 5000 Index	15.0%
MSCI EAFE Index	8.0%
LIBOR + 4%	5.0%
HFR Hedged Fund-of-Funds Index	15.0%
Russell 3000 +5%	7.0%

The Commission has established the target asset allocation and permissible percentage ranges shown in the table set forth below:

Asset Class	Target	Minimum*	Maximum*
Fixed Income:			
Broad Fixed Income	15.0%	10.0%	20.0%
Int Govt/ Credit	5.0%	3.0%	8.0%
U.S. Treasury Inflation Protected Securities (TIPS)	5.0%	2.0%	10.0%
Mortgage/Other	5.0%	0.0%	10.0%
Total Fixed Income	30.0%		
Real Estate	10.0%	5.0%	15.0%
Real Estate (GSA)	10.0	0.0%	15.0%
Total Real Estate	20.0%		
Equity:			
Total Domestic Equity	15.0%	10.0%	25.0%
Total International Equity	8.0%	5.0%	12.0%
Total Equity	23.0%		
Alternative Investments			
Hedge Funds, Hedge Fund of Funds	15.0 %	5.0%	20.0%
Infrastructure	5.0%	0.0%	10.0%
Private Equity	7.0%	0.0%	12.0%
Total Alternatives	27.0%		
Total Cash	0%	0.0%	5.0%
TOTAL	100.0%		

~~Index~~	~~Weight~~
~~BarCap Intermediate Govt./Credit Index~~	~~7.0%~~
~~BarCap Aggregate Index~~	~~7.0%~~
~~BarCap TIPS~~	~~5.0%~~
~~NCREIF Index~~	~~10.0%~~
~~S&P 500 Index~~	~~10.0%~~
~~Russell 1000 Value Index~~	~~10.0%~~
~~Russell 1000 Growth Index~~	~~5.0%~~
~~Russell Mid-Cap Growth Index~~	~~5.0%~~
~~Russell 2000 Value Index~~	~~5.0%~~
~~Russell 2000 Index~~	~~5.0%~~
~~MSCI EAFE Index~~	~~10.0%~~
~~Small Cap Non-US < $2 Bil.~~	~~5.0%~~

~~LIBOR + 4%~~	~~5.0%~~
~~HFR Hedged Fund-of-Funds Index~~	~~5.0%~~
~~Russell 3000 + 5%~~	~~5.0%~~
~~91 Day T-Bills~~	~~1.0%~~

Asset Allocation/Rebalancing

~~In establishing the 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 the Fund and sought the guidance of outside consultants.~~ The Portfolio Committee will review the asset allocation of the Fund on at least a monthly basis and adjust the Fund within the guidelines above. Rebalancing shall automatically occur whenever an asset class is [5%] greater or lesser than the target allocation level. Rebalancing, when required, shall occur as soon as practical. If allocations are re-balanced away from any of the targets, the Portfolio Committee will document all the quantitative and qualitative justifications for the adjustment away from the target.

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.

An Asset Liability Modeling (ALM) study shall be completed in no longer than two (2) year intervals. An ALM may be conducted more frequently or deferred as determined by the Chief Investment Officer.

The Commission will establish liability management strategies to include the following:

1) Analysis of maturing tuition obligations or liabilities year by year as compared to funds and investments available to meet the liabilities due at the time;

2) Liability matching strategies that employ the use of risk shifting to third parties; and

3) Potential use of liability driven investment (LDI) strategies that do not compromise total return on investment below the cost of liabilities or assigned benchmark.

~~The Commission has established the target asset allocation and permissible percentage ranges shown in the table set forth below:~~

~~Asset Class~~	~~Target~~	~~Minimum*~~	~~Maximum*~~
~~Fixed Income:~~			
~~Intermediate Bonds~~	~~7.0%~~	~~2.0%~~	~~17.0%~~
~~Core Bonds~~	~~7.0%~~	~~2.0%~~	~~20.0%~~
~~United States Treasury Inflation Protected Securities (TIPS)~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Total Fixed Income~~	~~19.0%~~	~~14.0%~~	~~40.0%~~
~~Real Estate~~	~~10.0%~~	~~5.0%~~	~~15.0%~~
~~Total Real Estate~~	~~10.0%~~	~~5.0%~~	~~15.0%~~
~~Equity:~~			
~~Large-Cap Core Equity~~	~~10.0%~~	~~5.0%~~	~~20.0%~~
~~Large-Cap Value Equity~~	~~10.0%~~	~~5.0%~~	~~15.0%~~
~~Large-Cap Growth Equity~~	~~5.0%~~	~~0.0%~~	~~15.0%~~
~~Mid-Cap Growth Equity~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Small-Cap Value Equity~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Small-Cap Core Equity~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Total Domestic Equity~~	~~40.0%~~	~~35.0%~~	~~60.0%~~
~~Large-Cap International Equity~~	~~10.0%~~	~~5.0%~~	~~10.0%~~
~~Small- Cap International Equity~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Total International Equity~~	~~15.0%~~	~~10.0%~~	~~20.0%~~
~~Alternative Investments:~~			
~~Hedge Fund of Funds~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Infrastructure~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Private Equity (Fund-of-Funds and Direct Investments**)~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Total Private Equity~~	~~5.0%~~	~~0.0%~~	~~10.0%~~
~~Total Cash~~	~~1.0%~~	~~0.0%~~	~~5.0%~~
~~TOTAL~~	~~100.0%~~		

~~*Does not equal 100%~~

~~**Direct private equity investments cannot exceed 30% of the Private Equity allocation within the Fund.~~

~~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.~~

VII. INVESTMENT MANAGER SELECTION AND COMMUNICATION

Manager Selection

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 Program shall:

- Acknowledge in writing a fiduciary relationship with respect to the ~~Program~~Fund.

- Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of ~~1940,~~1940 ("IAA Act"), 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~~.~~; provided, however, Investment Managers engaged to manage assets in the following asset classes are not required to be registered as an Investment Advisor under the IAA Act: Real Estate, Hedge Fund-of-Funds, Infrastructures, Private Equity Fund-of-Funds or Private Equity Fund.

- Be granted by the Program the power to manage, acquire or dispose of any assets of the Program pursuant to the Program documents.

- Comply with the ethical standards established by the Commission.

- Have no legal or regulatory actions/judgments pending or outstanding that would have, as determined in the sole discretion of the Commission, an adverse affect on the Investment Manager's ability to continue managing assets of the Fund.

- Have no other material issues that would negatively impact the Fund.

- Have in effect the required insurance policies and/or bonds, as specified in the investment management agreement, to protect the Fund against losses from the negligent acts and errors or omissions of the Investment Manager.

The goal of each Investment Manager, over the investment horizon, shall be to:

A. Exceed the market index, or blended market index, selected and agreed upon by the Commission that most closely corresponds to its style of investment management.

~~B.~~ Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified. Typically, risk will be primarily measured by the standard deviation of returns, secondarily by tracking error.

Investment Manager Evaluation Terminology

The following terminology has been developed to facilitate efficient communication between the Investment Managers, ~~investment consultant~~Investment Consultant, and 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 Program staff and/or the Investment Advisory Panel.

	STATUS	***DESCRIPTION***
A.	***"In Compliance"***	The Investment Manager is acting in accordance with the Policy Guidelines.
B.	***"Alert"***	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 Chief Investment Officer and/or Investment Consultant may take the step of notifying the Investment Manager ~~is notified of continued concern~~of concerns 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 for cause whenever in the sole 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 legal requirements.

VIII. OPERATIONAL GUIDELINES

Investment Policy Guidelines for the ~~Intermediate~~Actively-Managed Bond Manager

This document contains the guidelines and restrictions that apply to the ~~intermediate~~actively managed 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 ~~that~~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~~, except that up to 20% of the portfolio, measured at the time of purchase, may be allocated to corporate securities rated below investment grade by two or more of the ratings agencies. Such corporate securities must be rated at least B- or equivalent by two or more of the ratings agencies. If a security already held in the portfolio~~. If a security is downgraded to below investment grade status by at least two of the ~~rating agencies, it may be held at the manager's discretion for up to 6 months.~~three rating agencies (Standard & Poor's, Fitch or Moody's) the Investment Manager must notify the CIO and the Investment Consultant in writing of the downgrade and their recommended action. Furthermore, the Investment Manager may hold up to 20% of the portfolio in securities rated below investment grade by at least two of the three rating agencies (Standard & Poor's, Fitch or Moody's) only if the securities are downgraded to below investment grade while the Investment Manager held the security in the portfolio.

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, except that up to 10% of the portfolio may be invested in corporate and government-related bonds issued under Rule 144-A.

5. The average duration of the portfolio is not to vary more than +/-~~30~~50% of the duration of the ~~BarCap Intermediate Government/Credit Index~~appropriate benchmark index (see Addendum A).

~~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 ~~BarCap Intermediate Government/Credit Index~~appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the ~~Passive Intermediate Bond~~Passively-Managed Bond or Equity Commingled Fund Manager

This document contains the guidelines and restrictions that apply to the ~~passive, intermediate~~passively-managed bond or equity commingled fund manager of the Fund (see Addendum A).

Permissible Investments

1. This ~~fund~~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 BarCap 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~~meet the return of the appropriate benchmark index (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 that 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, except that up to 20% of the portfolio, measured at the time of purchase, may be allocated to corporate securities rated below investment grade by two or more of the ratings agencies. Such corporate securities must be rated at least B- or equivalent by two or more of the ratings agencies. 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, except that up to 10% of the portfolio may be invested in corporate and government-related bonds issued under Rule 144-A.~~

~~5. The average duration of the portfolio is not to vary more than +/-30% of the duration of the BarCap 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 BarCap 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 BarCap Aggregate Index~~.

Investment Policy Guidelines for the Passively-Managed Equity Separate Account Manager

This document contains the guidelines and restrictions that apply to the passively-managed equity separate account manager of the Fund (see Addendum A).

Permissible Investments ~~**in United States Treasury Inflation Protected Securities (TIPS)**~~

1. The separate account will replicate the characteristics and weightings of the appropriate benchmark (see Addendum A) through full replication or sampling techniques.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should meet the return of the appropriate benchmark index (see Addendum A).

Enhanced Index S&P 500 Program

When the stock market is unusually volatile, risks and opportunities increase in frequency and magnitude. With its fixed range of investment in equities, the Fund may periodically take advantage of some of those opportunities in more volatile markets. Historically, volatility in the U. S. Stock market has been around 20%. As measured by the "VIX" which represents the index of volatility, the average over the last 20 years has been 20.07% measured on a monthly basis. As volatility increases, the price of options increases. From time to time, at the discretion of the Portfolio Committee, the Fund may increase its income and reduce its risk by selling calls on the S&P500 index for a face amount not to exceed the Fund's holdings of an S&P 500 basket of stocks. At its monthly meeting (or at an interim meeting), the Portfolio Committee may direct the manager of the S&P 500 index strategy to execute the sale or repurchase of calls against the portfolio holdings.

Investment Policy Guidelines for the Passively Managed Enhanced Index-Covered Call Program

This document contains the guidelines and restrictions that apply to the passively managed enhanced equity index covered call separate account manager of the Fund (see Addendum A).

Permissible Investments:

1. The separate account will replicate the characteristics and weightings of the S&P 500 or other appropriate benchmarks.

2. The manager will execute the covered call overlay on the S&P 500 within the limits of portfolio holdings.

Investment Objective:

To generate additional income through a limited use of a covered call on the S&P 500 index when appropriate. The objective is to reduce risk in the overall portfolio and not for speculative purposes.

Investment Policy Guidelines for Investments in U.S. Treasury Inflation Protected Securities (TIPS)

This document contains the guidelines and restrictions that apply to investments made by the Fund in TIPS:

Permissible Investments

1. The Chief Investment Officer must obtain at least two bids from qualified broker dealers for all TIPS purchased or sold.

2. The Chief Investment Officer must compare the quoted prices to prices quoted on Bloomberg or other pricing sources.

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

3. All purchases and sales will be approved by the Chief Investment Officer. The Chief Investment Officer will document the amount purchased, price paid, and obtain confirmation ticket and forward a copy to the custodian.

~~2. Investments can be made in appropriate TIPS.~~

4. The Chief Investment Officer will provide a monthly report to the Portfolio Committee.

Investment Objective

Over ~~the comparable~~reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should ~~match~~exceed the return of the ~~BarCap TIPS Index at the various maturity points~~appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the ~~Real Estate Manager~~Active U.S. Equity Managers

~~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 (5 to 10 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.~~No single security in the Investment Manager's portfolio will comprise more than 10% of its equity allocation at the time of purchase, nor will it be more than 15% of the equity allocation of the portfolio after accounting for price appreciation.

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.~~ Financial futures are allowed for hedging purposes only. They are not allowed for speculation or for leveraging the portfolio.~~

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.~~investments should be made in securities not traded on a U.S. exchange or traded in U.S. dollars.

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.~~ 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~~appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the ~~Small-Cap International~~Separately-Managed, Non-U.S. Equity Manager(s)

This document contains the guidelines and restrictions that apply to the ~~small-cap international~~separately-managed Non-U.S. equity ~~manager~~Investment Manager(s) 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.~~No single security in the Investment Manager's portfolio will comprise more than 10% of its equity allocation at the time of purchase, nor will it be more than 15% of the equity allocation of the portfolio after accounting for price appreciation.

2. ~~Options, private~~Private placements, restricted stock, issues related to the ~~Investment Manager, 144-A issues~~investment manager, or venture capital may not be purchased. The purchase of securities on margin and short -selling is prohibited. ~~Financial futures are allowed for hedging purposes only. They are not allowed for speculation or for leveraging the portfolio.~~

3. The combined holdings of preferred stocks and convertible bonds shall not exceed 10% of the portfolio.

4. ~~3.~~ Exchange-traded funds are permissible investments. No single security in the Investment Manager's portfolio, including Exchange-Traded Funds, shall comprise more than 10% of the portfolio at market.

~~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~~shall the portfolio hold a security ~~such that the investment management firm's~~in which the Investment Manager's firm has an aggregate position in ~~that company~~the security that exceeds ~~20~~15% of the fair market value of the outstanding stock of the company.

6. Financial futures are allowed for hedging purposes only. They are not allowed for speculation or for leveraging the portfolio.

7. No more than 25% of the portfolio may be comprised of companies domiciled in emerging countries.

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 Citigroup Ex. U.S~~appropriate benchmark index (see Addendum A).
~~Market Cap < $2B Index.~~

Investment Policy Guidelines for the ~~Private Equity Fund-of-Fund Manager~~ Closed-end Funds (i.e. Managers investing Real Estate, Hedge Fund-of-Funds, Hedge Fund, Infrastructure, Private Equity Fund-of-Funds or Private Equity Fund)

This document contains the guidelines and restrictions that apply to the closed-end funds (i.e. Managers investing real estate, hedge fund-of-funds, hedge funds, infrastructure, private equity fund-of-~~fund manager~~funds, or private equity fund) of the Fund (see Addendum A).

Permissible Investments

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

Investment Objective

Over reasonable measurement periods (~~12~~3 to ~~15~~5 years), the portfolio's return net of fees should ~~match~~exceed the return of the ~~Russell 3000 Index + 5.0%~~appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for Direct Private Equity Investments

This document contains the guidelines and restrictions that apply to direct investments in Private Equity (see Addendum A)

Due Diligence Process:

The Chief Investment Officer shall obtain report(s), due diligence documents and analysis from an independent investment consultant or registered financial advisor, with experience and qualifications necessary to independently evaluate the investments regarding the prudence of such investments, consistent with the overall goals and objectives of the Fund.

The Chief Investment Officer shall provide the Investment Committee and the Commission with a full description of the investment, prudent opinion of an independent ~~investment consultant~~Investment Consultant or registered financial advisor, along with a copy of the ~~investment consultant~~Investment Consultant or registered financial advisor's written report and any related prospectus, private placements or offering documents.

The Chief Investment Officer shall make a recommendation and submit the proposed investment to the Investment Committee. With the approval of the Investment Committee, the Chief Investment Officer may then recommend said investment to the Commission. The Commission is responsible for making the investment decision for the Fund.

Permissible Investments and Limitations:

This Fund is governed by the guidelines and restrictions contained in this Policy and are stated as follows:

1. The total allocation to all Private Equity investments including Direct Private Equity Investments, Private Equity Fund of Funds and Private Equity Funds is currently 5% of the Fund.

2. New investments in direct private equity deals should not exceed 30% of the normal policy allocation to Private Equity. The target policy weight for Private Equity for the Total Fund currently stands at ~~5~~7%. Therefore, no single investment in direct private equity shall exceed ~~1.5%~~ 2.1% (30% X ~~5~~7%) of the Total Fund value.

3. Investments in any single company stock, preferred equity or subordinated debt shall be less than 10% of the entity's total outstanding shares or ownership structure or any other limitations, regulations or guidelines as required by law.

4. The financial advisor or consultant will provide to the Fund any and all documents pertaining to the private equity partnership investments, including, but not limited private equity agreements, private equity partnership subscription agreements and amendments to said agreements.

Investment Objective

Over reasonable measurement periods (12-15 years), the portfolio's return net of fees should match the return of the ~~Russell 3000 Index+~~ Russell 3000 Index + 5.0%.

~~Time Horizon~~	~~Performance Standard~~	
~~One market cycle (12-15 yrs)~~	~~Universe~~	~~Index~~
	~~N/A~~	~~Russell 3000+5%~~

IX. 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 comparisons, where available, with other state programs and other investment vehicles.

Expected Interim Progress ~~Toward~~toward Multi-Year Objectives

The Commission should 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 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 should 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.

Investment Discipline Objectives:

Each separately managed portfolio assigned to an Investment Manager will have specific guidelines and objectives established by the Commission. Investment Managers are expected to adhere to the investment discipline for which they were hired. Investment Managers will be evaluated for adherence to their stated investment discipline for consistency.

Therefore, the Commission will carefully monitor its Investment Managers on several key indicators including:

(1) changes in portfolio managers;
(2) surges in portfolio trading volume;
(3) evidence that actual portfolio characteristics do not follow the Investment 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) financial irregularities; and
(8) deficiencies in reporting.

The Commission will review the circumstances pertaining to the Investment Manager and make a decision on the Investment Manager.

Frequency of Meetings

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

X. 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 insufficient or inappropriate. However, a formal review of the 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 Committee, 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~~Policy should be responsive to changing conditions, particularly to those having to do with Program liabilities.

XI. POLICY ADOPTION

The Policy document was originally adopted by the Commission for the Program on January 22, 1999 and has been revised on nine occasions, most recently on September 19, 2008. The Commission approved this policy revision on ~~January 30,~~June 26, 2009.

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~~

Addendum A - Defining the Investment Professionals and Benchmark Indexes

~~Managers as of January 1, 2009~~

~~Intermediate Bonds~~	~~Income Research and Management~~ ~~Galliard Capital Management~~
~~Passive Intermediate Bonds~~	~~TBA~~
~~Core Bonds~~	~~C.S. McKee, LP~~ ~~Pugh Capital Management, Inc.~~ ~~Piedmont Investment Advisors, LLC~~
~~U.S. Treasury Inflation Protected Securities (TIPS)~~	~~Internally Managed~~
~~Real Estate~~	~~TBA~~
~~Passive Core Bonds~~	~~State Street Global Advisors Broad Market Index~~
~~Passive Large-Capitalization Core Equity~~	~~State Street Global Advisors S&P 500 Index Fund~~
~~Large-Capitalization Value Equity~~	~~State Street Global Advisors~~ ~~LSV Asset Management~~ ~~Great Lakes Advisors, Inc.~~
~~Passive Large-Capitalization Growth Equity~~	~~RhumbLine Advisers~~
~~Passive Small-Capitalization Value Equity~~	~~RhumbLine Advisers~~ ~~TBA~~
~~Passive Small-Capitalization Core Equity~~	~~RhumbLine Advisers~~
~~Large-Capitalization International Equity~~	~~LSV Asset Management~~ ~~State Street Global Advisors~~
~~Private Equity Fund-of-Funds~~	~~TBA~~
~~Custodian~~	~~US Bank National Association~~ ~~State Street Bank~~
~~Investment Consultant~~	~~Marquette Associates, Inc.~~
~~Securities Lending Provider~~	~~US Bank National Association~~

Asset Class	Investment Manager	Benchmark Index

Intermediate Bonds (Active)	Income Research & Mgmt.	BarCap Int. Govt./Credit
Intermediate Bonds (Active)	Galliard Capital Mgmt.	BarCap Int. Govt./Credit
Core Bonds (Active)	C.S. McKee	BarCap Aggregate
Core Bonds (Active)	Piedmont Investment Advisors	BarCap Aggregate
Core Bonds (Active)	Pugh Capital Mgmt.	BarCap Aggregate
Core Bonds (Passive)	SSgA	BarCap Aggregate
TIPS	Internally Managed	BarCap TIPS
Real Estate	TBD	NCREIF Index
Infrastructure	Alinda II	LIBOR + 4%
U.S. Large-Cap Core Equity (Passive)	SSgA	S&P 500
U.S. Large-Cap Value Equity (Active)	LSV	Russell 1000 Value
U.S. Large-Cap Value Equity (Passive)	RhumbLine Advisors	Russell 1000 Value
U.S. Large-Cap Growth Equity (Passive)	RhumbLine Advisors	Russell 1000 Growth
U.S. Mid-Cap Growth Equity	TBD	Russell Mid-Cap Growth
U.S. Small-Cap Core Equity (Passive)	RhumbLine Advisors	Russell 2000
U.S. Small-Cap Value Equity (Passive)	RhumbLine Advisors	Russell 2000 Value
Non-U.S. Large-Cap Equity (Active)	LSV	MSCI EAFE
Non-U.S. Large-Cap Equity (Passive)	SSgA	MSCI EAFE
Non-U.S. Small-Cap Equity (Active)	TBD	CitiGroup ex. U.S. < $2B
Private Equity	TBD	Russell 3000 Index + 5%
Hedge Fund	TBD	TBD

Investment Professional	**Service Provider**
Custodian	US Bank
Investment Consultant	Marquette Associates, Inc.
Securities Lending Provider	US Bank
Third Party Proxy Voting Service Provider	None

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