

AGENDA ITEM 10.

**COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM
FISCAL YEAR 2011 ANNUAL REPORT
AND
INVESTMENT REPORT AS OF FEBRUARY 2012**

Submitted for: Information

Summary: **Investment Performance**

Commissioners of the Illinois Student Assistance Commission have been provided with a copy of the most recent preliminary Investment Performance Report for the Program prepared by the Program's Consultant, Callan Associates. The report provides details of the assets allocation and trailing performance for periods ending February 29, 2019.

As of February 29, 2012, the Illinois Prepaid Tuition Trust Fund (Fund) had \$1.11 billion invested, a decrease of \$21.6 million for the fiscal year to date (since June 30, 2011). The decrease in the portfolio is attributable primarily to tuition payments of \$58.9 million offset by positive investment returns of \$41.1 million. Contributions of \$27.7 million were offset by refunds of \$28.2 million.

The portfolio has returned 5.29% for fiscal 2012 year to date. Fixed income leads the public asset classes with a 7.99% return, followed by domestic equity (+4.60%) and a loss of 4.75% in international equity. Strong fixed income returns were driven by the market flight to safety in the third quarter of 2011 as well as exposure to TIPS. The alternative asset classes have all posted positive returns for the fiscal year. Private equity has posted the strongest results (+19.77%), but we note that these gains are unrealized. We also note that the performance for the alternatives is time-lagged to varying degrees.

Key investment initiatives in progress include the passive domestic equity search (RFP evaluation stage), fixed income search (RFP development stage), Asset Allocation Study, and the Investment Policy Update.

The Investment Committee met on February 23 to begin a process of quarterly portfolio reviews. The next Investment Committee meeting is scheduled for May 23.

Annual Report

The Commission has received copies of the College Illinois![®] Prepaid Tuition Program (“Program”) Fiscal Year 2011 Annual Report (2011 Annual report) which is required by the Illinois Prepaid Tuition Act (110 ILCS 979). The report is incomplete due to lacking audited financial statements. The financial statements will be provided following completion of the final audit by the Auditor General. The actuarial soundness valuation report as of June 30, 2011 was prepared by Gabriel, Roeder Smith & Company (“Actuarial Report”).

As of June 30, 2011, there is an estimated actuarial deficit of \$536 million based on the market value of assets. This deficit compares to \$531 million as of June 30, 2010. The modest increase can be attributed to three fairly large, but offsetting factors. Lowering the assumed rate of return from 8.4% to 7.5% added \$113 million to the deficit, while positive investment returns served to reduce the deficit by \$83 million. Lower-than-expected tuition and fees also served to lower the deficit.

The estimated deficit is equivalent to a funded ratio of 70.5% compared to 68.6% for the prior year. This funded ratio is a point estimate of the deficit and is based upon a number of assumptions, including expectations regarding future investment returns and future tuition inflation and fees and is subject to considerable uncertainty.

Action requested: None