

## AGENDA ITEM 10B.

### COLLEGE ILLINOIS!<sup>®</sup> PREPAID TUITION PROGRAM INVESTMENT PERFORMANCE

**Submitted for:** Information

**Summary:** The quarterly report for the period ending March 31, 2012 prepared by the investment consultant, Callan Associates, was previously provided to the Commission and the monthly flash report for May is included in this agenda item. Additional information, including the sources and uses of funds, is provided in the Executive Director's report.

Since June 30, 2011, the Fund value has declined by \$68 million from \$1.132 billion to an estimated \$1.064 billion as of May 31, 2012. The decline was primarily driven by \$92 million paid in tuition offset by \$25 million from positive investment performance. Following are investment performance highlights for the fiscal year to date (FYTD, 7/1/11 – 5/31/12).

- Domestic Equity outperformed its benchmark by 0.48%, gaining 0.49% vs. 0.01% for the US Total Stock Market Index. The outperformance was driven by the relative overweight to large cap as both managers performed in line with their benchmarks (as expected for passive managers).
- International Equity was the worst performing asset class, losing 13.32%. However, active management substantially mitigated losses as the EAFE benchmark was down 19.09% (5.77% positive excess return from active). Madison Square Investors and Harris/Pyrford are to be commended for strong excess returns greater than 9.0%. Ativo lost 18.53%, but still beat the benchmark by 0.56%.
- Domestic Fixed Income was the strongest asset class, returning 9.54% FYTD, compared to 7.43% for the Barclays' Aggregate index. All managers outperformed and there was an additional contribution from the liquidation of the TIPS portfolio in August.
- Real estate performance has been tepid for the past year due primarily to early stage funding (j-curve) and limited sales transactions. The strong since-inception performance for SCM Preferred Growth (+16%) and Kennedy Wilson III (+24%) should be noted.
- The infrastructure asset class returned 6.35% FYTD, including a strong 19.63% return since inception for Alinda. The JP Morgan Asia Infrastructure fund was moved from the private equity asset class to infrastructure on the advice of Callan. Their performance will be included in infrastructure for 2012 and beyond and private equity for earlier periods.

- Hedge fund (absolute return) performance has been a bit tepid, but not outside expectations. Pinnacle has been the workhorse FYTD, returning 10.08%. This performance is offset somewhat by Reynoso's 9.54% decline, but the Pinnacle mandate is much larger (3-4 times bigger). Substantial additional information is included in a separate agenda item on the absolute return asset class structure. It is important to note that ISAC's absolute return portfolio is "risk mitigating". Modest returns and risk combined with minimal correlation to public equities are expected.
- Private equity performance primarily reflects performance through December due to reporting lags. However, DDJ, which holds distressed debt, reports monthly and is up to date in this report. All of the funds have strong performance since inception, with relatively modest returns FYTD. The negative 15% since-inception return for the private equity asset class is driven by large percentage losses in 2008 and 2009.

**Action requested:** None

May 31, 2012

**Illinois Student Assistance Commission**



**Investment Measurement Service  
Monthly Review**

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of May 31, 2012, with the distribution as of April 30, 2012. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	May 31, 2012		Net New Inv.	Inv. Return	April 30, 2012	
	Market Value	Percent			Market Value	Percent
<b>Domestic Equity</b>	<b>\$205,569,661</b>	<b>19.38%</b>	<b>\$0</b>	<b>\$(13,357,208)</b>	<b>\$218,926,869</b>	<b>20.22%</b>
SSgA S&P 500 Index Fund	78,610,152	7.41%	0	(5,024,974)	83,635,127	7.72%
Rhumblin Advisors	126,959,508	11.97%	0	(8,332,234)	135,291,743	12.49%
<b>International Equity</b>	<b>\$95,815,533</b>	<b>9.03%</b>	<b>\$0</b>	<b>\$(10,127,370)</b>	<b>\$105,942,904</b>	<b>9.78%</b>
SSgA MSCI EAFE Index Fund	12,937,222	1.22%	0	(1,678,890)	14,616,112	1.35%
Madison Square Investors	27,338,153	2.58%	0	(3,290,706)	30,628,859	2.83%
LSV Asset Management	5,396	0.00%	0	(378)	5,774	0.00%
Harris/ Pyrford	29,317,358	2.76%	0	(2,364,672)	31,682,030	2.93%
Ativo	26,217,404	2.47%	0	(2,792,724)	29,010,129	2.68%
<b>Domestic Fixed-Income</b>	<b>\$222,063,767</b>	<b>20.93%</b>	<b>\$0</b>	<b>\$1,507,820</b>	<b>\$220,555,947</b>	<b>20.37%</b>
C.S. McKee	72,250,948	6.81%	0	558,433	71,692,514	6.62%
Piedmont Investment Advisors	35,981,576	3.39%	0	309,684	35,671,893	3.29%
Pugh Capital	45,455,930	4.28%	0	374,826	45,081,104	4.16%
Income & Research Management	68,375,313	6.44%	0	264,876	68,110,437	6.29%
<b>Real Estate</b>	<b>\$195,440,919</b>	<b>18.42%</b>	<b>\$5,088,560</b>	<b>\$(522,563)</b>	<b>\$190,874,922</b>	<b>17.63%</b>
Kennedy Wilson IV (1)	27,157,269	2.56%	3,744,519	(619,410)	24,032,160	2.22%
SCM Preferred Growth RE	50,925,226	4.80%	0	(506,750)	51,431,975	4.75%
SCM Stable Value REIT	55,635,550	5.24%	0	197,277	55,438,274	5.12%
Kennedy Wilson III (3)	23,169,869	2.18%	(8)	306,710	22,863,167	2.11%
Mesirow RE Value Fund LP (3)	17,336,360	1.63%	1,344,048	99,610	15,892,701	1.47%
Lyrical Antheus Realty III (1)	21,216,645	2.00%	0	0	21,216,645	1.96%
<b>Infrastructure</b>	<b>\$47,993,954</b>	<b>4.52%</b>	<b>\$0</b>	<b>\$1,345,778</b>	<b>\$46,648,176</b>	<b>4.31%</b>
Alinda Capital II (3)	30,459,146	2.87%	0	729,278	29,729,868	2.75%
JP Morgan Asia Infrastructure (3)	17,534,808	1.65%	0	616,500	16,918,308	1.56%
<b>Absolute Return</b>	<b>\$153,999,727</b>	<b>14.51%</b>	<b>\$0</b>	<b>\$(725,817)</b>	<b>\$154,725,544</b>	<b>14.29%</b>
Reynoso Options Arbitrage	14,601,695	1.38%	0	133,295	14,468,400	1.34%
NB Diversified Arbitrage (2)	26,696,655	2.52%	0	0	26,696,655	2.47%
Balestra Spectrum II (2)	50,916,143	4.80%	0	0	50,916,143	4.70%
Pinnacle Natural Resources (4)	61,785,234	5.82%	0	423,397	61,361,837	5.67%
<b>Private Equity</b>	<b>\$132,511,170</b>	<b>12.49%</b>	<b>\$(345,652)</b>	<b>\$(397,294)</b>	<b>\$133,254,116</b>	<b>12.30%</b>
Portfolio Advisors Secondary (1)	15,015,599	1.42%	0	0	15,015,599	1.39%
Morgan Stanley Secondary (1)	16,411,094	1.55%	0	0	16,411,094	1.52%
DDJ Distressed Fund	64,131,284	6.04%	0	(930,524)	65,061,808	6.01%
Camelot Secondary Fund LP (1)	19,579,871	1.85%	(345,652)	0	19,925,523	1.84%
Camelot Secondary Co-Invest (1)	17,373,322	1.64%	0	0	17,373,322	1.60%
<b>Cash</b>	<b>\$7,582,472</b>	<b>0.71%</b>	<b>\$(4,438,872)</b>	<b>\$1,383</b>	<b>\$12,019,961</b>	<b>1.11%</b>
Cash Account	6,707,902	0.63%	252,224	1,250	6,454,428	0.60%
Interest and Dividends	874,570	0.08%	(4,691,095)	132	5,565,533	0.51%
<b>Total Fund</b>	<b>\$1,060,977,203</b>	<b>100.0%</b>	<b>\$304,036</b>	<b>\$(22,275,272)</b>	<b>\$1,082,948,438</b>	<b>100.0%</b>

(1) December 2011 market values adjusted for cashflows.

(2) Market values and performance are lagged by one month.

(3) March 2012 market values adjusted for cash flows.

(4) Based on manager estimate.

## Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended May 31, 2012. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended May 31, 2012

	Last Month	Last 3 Months	Last 12 Months	Fiscal YTD	Since Inception (1)
<b>GROSS OF FEE</b>					
<b>Domestic Equity</b>	<b>(6.10%)</b>	<b>(3.94%)</b>	<b>(1.66%)</b>	<b>0.49%</b>	<b>1.62%</b>
SSgA S&P 500 Index Fund (07/31/99)	(6.01%)	(3.53%)	(0.41%)	1.28%	1.44%
S&P 500 Index	(6.01%)	(3.53%)	(0.41%)	1.28%	1.48%
Rhumblin Advisors (08/31/09)	(6.16%)	(4.18%)	(1.66%)	0.04%	12.77%
US Total Stock Market Idx	(6.20%)	(3.92%)	(1.77%)	0.01%	13.36%
<b>International Equity</b>	<b>(9.56%)</b>	<b>(9.00%)</b>	<b>(15.02%)</b>	<b>(13.32%)</b>	<b>6.89%</b>
SSgA MSCI EAFE Index Fund (8/31/11)	(11.49%)	(13.61%)	-	-	(18.20%)
Madison Square Investors (12/31/10)	(10.74%)	(8.16%)	(12.77%)	(9.32%)	(1.65%)
Harris/ Pырford (12/31/10)	(7.46%)	(7.03%)	(10.27%)	(9.22%)	2.66%
Ativo (12/31/10)	(9.63%)	(9.61%)	(18.76%)	(17.90%)	(4.22%)
MSCI EAFE US\$ Gross Div	(11.35%)	(13.34%)	(20.08%)	(19.09%)	(5.31%)
<b>Domestic Fixed-Income</b>	<b>0.68%</b>	<b>1.44%</b>	<b>9.27%</b>	<b>9.54%</b>	<b>6.55%</b>
C.S. McKee (8/31/07)	0.78%	1.36%	8.44%	8.52%	8.03%
Piedmont Investment Advisors (09/30/07)	0.87%	1.72%	7.51%	8.04%	7.46%
Pugh Capital (08/31/07)	0.83%	1.67%	7.57%	7.98%	8.48%
BC Aggregate Index	0.90%	1.46%	7.12%	7.43%	6.84%
Income & Research Mgmt (12/31/06)	0.39%	1.23%	6.10%	6.34%	6.61%
BC Gov/Credit Inter	0.48%	1.04%	5.17%	5.34%	5.63%

(1) Inception date is indicated in parentheses.

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### Returns for Periods Ended May 31, 2012

	Last Month	Last 3 Months	Last 12 Months	Fiscal YTD	Since Inception (1)
<b>NET OF FEE</b>					
<b>Domestic Equity</b>	<b>(6.10%)</b>	<b>(3.94%)</b>	<b>(1.66%)</b>	<b>0.49%</b>	<b>1.62%</b>
SSgA S&P 500 Index Fund (07/31/99)	(6.02%)	(3.54%)	(0.44%)	1.25%	1.41%
S&P 500 Index	(6.01%)	(3.53%)	(0.41%)	1.28%	1.48%
Rhumblin Advisors (08/31/09)	(6.16%)	(4.21%)	(1.72%)	(0.02%)	12.72%
US Total Stock Market Idx	(6.20%)	(3.92%)	(1.77%)	0.01%	13.36%
<b>International Equity</b>	<b>(9.56%)</b>	<b>(9.00%)</b>	<b>(15.02%)</b>	<b>(13.32%)</b>	<b>6.89%</b>
SSgA MSCI EAFE Index Fund (8/31/11)	(11.51%)	(13.65%)	-	-	(18.27%)
Madison Square Investors (12/31/10)	(10.86%)	(8.41%)	(13.39%)	(9.89%)	(2.30%)
Harris/ Pырford (12/31/10)	(7.64%)	(7.20%)	(10.99%)	(9.89%)	1.92%
Ativo (12/31/10)	(9.63%)	(9.77%)	(19.44%)	(18.53%)	(4.94%)
MSCI EAFE US\$ Gross Div	(11.35%)	(13.34%)	(20.08%)	(19.09%)	(5.31%)
<b>Domestic Fixed-Income</b>	<b>0.68%</b>	<b>1.44%</b>	<b>9.27%</b>	<b>9.54%</b>	<b>6.55%</b>
C.S. McKee (8/31/07)	0.78%	1.31%	8.22%	8.31%	7.83%
Piedmont Investment Advisors (09/30/07)	0.87%	1.72%	7.26%	7.82%	7.18%
Pugh Capital (08/31/07)	0.83%	1.55%	7.31%	7.74%	8.23%
BC Aggregate Index	0.90%	1.46%	7.12%	7.43%	6.84%
Income & Research Mgmt (12/31/06)	0.39%	1.18%	5.88%	6.14%	6.41%
BC Gov/Credit Inter	0.48%	1.04%	5.17%	5.34%	5.63%

(1) Inception date is indicated in parentheses.

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The table below details the rates of return for the fund's investment managers over various time periods ended May 31, 2012. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended May 31, 2012

	Last Month	Last 3 Months	Last 12 Months	Fiscal YTD	Since Inception (1)
<b>Real Estate</b>	<b>(0.27%)</b>	<b>1.79%</b>	<b>2.27%</b>	<b>2.98%</b>	<b>12.66%</b>
Kennedy Wilson IV (06/30/11) (2)	(2.40%)	3.55%	(1.08%)	2.34%	(1.08%)
SCM Preferred Growth RE (12/31/09)	(0.99%)	2.04%	3.89%	3.91%	15.91%
SCM Stable Value REIT (09/30/09)	0.36%	1.53%	4.86%	4.65%	12.53%
Kennedy Wilson III (09/30/10) (7)	1.34%	4.83%	2.20%	5.51%	24.13%
Mesirow RE Value Fund LP (03/31/11) (7)	0.63%	0.52%	(0.39%)	0.76%	(9.21%)
Lyrical Antheus Rlty III (03/31/11) (2)	0.00%	(1.81%)	(3.76%)	(3.02%)	(7.64%)
NCREIF Total Index	0.86%	2.59%	12.43%	10.99%	13.10%
NFI-ODCE Eq Wgt Gross (4)	0.93%	4.74%	16.77%	11.66%	16.82%
<b>Infrastructure</b>	<b>2.88%</b>	<b>2.40%</b>	<b>7.12%</b>	<b>6.35%</b>	<b>20.05%</b>
Alinda Capital II (12/31/09) (7)	2.45%	1.70%	6.19%	5.43%	19.63%
JP Morgan Asia Infrastructure (7) (5)	3.64%	3.64%	1.90%	2.37%	(1.95%)
LIBOR+4%	0.35%	1.07%	4.25%	3.90%	4.27%
<b>Absolute Return</b>	<b>0.36%</b>	<b>0.59%</b>	<b>1.29%</b>	<b>3.10%</b>	<b>2.79%</b>
Reynoso Options Arbitrage (06/30/10)	0.92%	0.13%	(8.75%)	(9.54%)	0.39%
S&P 500 Index	(6.01%)	(3.53%)	(0.41%)	1.28%	11.99%
NB Diversified Arbitrage (02/28/10) (3)	0.00%	0.42%	(2.15%)	(1.77%)	2.84%
HFRI Relative Value (Total) Index (8)	0.00%	0.88%	1.36%	1.62%	6.14%
Balestra Spectrum II (02/28/10) (3)	0.00%	(2.80%)	(0.87%)	0.94%	0.58%
HFRI Macro (Total) Index (8)	0.00%	(1.72%)	(3.31%)	(1.60%)	2.52%
Pinnacle Natural Resources(02/29/10) (6)	0.69%	(0.14%)	6.41%	10.08%	5.09%
HFRI Fund of Funds Composite (8)	0.00%	(0.23%)	(3.78%)	(2.51%)	1.33%
<b>Private Equity</b>	<b>(0.70%)</b>	<b>(5.25%)</b>	<b>19.55%</b>	<b>6.70%</b>	<b>(15.09%)</b>
Portfolio Advisors Secondary(12/31/09)(2)	0.00%	0.07%	23.10%	16.55%	31.73%
Morgan Stanley Secondary (05/31/10) (2)	0.00%	(0.95%)	4.70%	(2.97%)	34.79%
DDJ Distressed Fund (06/30/10)	(1.43%)	2.04%	10.96%	11.74%	13.25%
Camelot Secondary Fund (04/30/10) (2)	0.00%	(10.14%)	59.48%	13.75%	15.53%
Camelot Secondary Co-Inv (02/28/11) (2)	0.00%	(30.71%)	73.73%	(7.26%)	51.33%
Russell 3000+5%	(5.77%)	(2.67%)	3.13%	4.51%	7.99%
<b>Cash</b>	<b>0.01%</b>	<b>0.03%</b>	<b>-</b>	<b>-</b>	<b>0.30%</b>
Cash Account (07/31/99)	0.02%	0.06%	0.64%	0.64%	2.87%
Interest and Dividends (10/31/08)	0.00%	0.01%	0.03%	0.03%	0.09%
3-month Treasury Bill	0.01%	0.03%	0.05%	0.05%	0.19%
<b>Total Fund</b>	<b>(1.99%)</b>	<b>(1.51%)</b>	<b>2.73%</b>	<b>2.67%</b>	<b>3.64%</b>
Total Fund Benchmark	(1.73%)	(0.74%)	2.84%	3.24%	3.68%

(1) Inception date is indicated in parentheses.

(2) December 2011 market values adjusted for cash flows.

(3) The custodian is showing lagged market values. Current performance is not yet available.

(4) NFI-ODCE benchmark is estimated based on the previous quarter's return of 2.82%.

(5) JP Morgan Asia Infrastructure has been moved to the Infrastructure composite starting January 2012.

(6) Based on manager estimate.

(7) March 2012 market values adjusted for cash flows.

(8) Current index performance is not yet available.