

College Illinois!® Investment Advisory Panel Meeting

January 5, 2010

James R. Thompson Center
100 W. Randolph St.
Chicago, Illinois

Attendees: Alex Rorke
Ed Donnellan
George Clam
Andrew Davis
Frank Bello
George Egan
Kim Lee
Pat Krolak
Lynn Reed, Chicago Board Options Exchange
Matt Moran, Chicago Board Options Exchange

Via Telephone: Susan Keegan
Chris Peterson
Tom Breyer
Lynn Hynes
Debora Calcara

Ms. Lee informed the meeting attendees that due to recent amendments to Illinois law which states that if an open public meeting is audio taped that tape must be posted on the agency's website.

Mr. Bello thanked those present for taking the time to meet and then asked all present to introduce themselves. He then asked Pat Krolak with Marquette Associates to give a brief market update.

Mr. Krolak stated that the College Illinois! 529 Prepaid Tuition Program portfolio finished November 2009 at \$970 million, 44% in fixed income, 12% in real estate, 28% in U.S. equity and about 11% international and a small allocation to the private equity. He indicated that during 2009 a search was done for infrastructure and real estate managers, private equity and a massive hedge fund manager search. In addition, a re-evaluation of the Intermediate Fixed Income managers, Galliard and Income Research was performed. He then gave a brief overview of the investments that have been funded.

Mr. Krolak noted three major changes in 2009, Great Lakes Advisors, which is a large cap value manager, was terminated; the domestic equity portfolio was consolidated to an entirely passive structure; and LSV, a large cap value manager, was terminated.

Mr. Krolak stated that having had two pretty bad fiscal years (2008 and 2009); the fund has a great start with the first five months of 2010 being up 10.5% this fiscal year to date and for a one-year timeframe, the fund is up 18.2%. He was pleased to report the fund has out performed its policy benchmark and is out performing its actuarial rate of return. He then gave an overview of the current managers and funds.

Mr. Bello agreed with Mr. Krolak that 2009 was a very busy year for the program and a lot of work has been put into the portfolio to ensure that risk was mitigated. He indicated he is looking to the

Panel for their thoughts on the 10-year treasury. He indicated that currently it is about 3.8% but with the heavy borrowing the government is doing it is possible the treasury could go to maybe 4-5%. He stated that there is a risk to the bond portfolio when rates begin to rise; the value of the bond portfolio will decline. He stated that the current allocation for bonds is heavy at 44% and the target should get down to about 30% of the overall portfolio. He stated that they will maintain the equity international allocation but the domestic portion will come down due to reallocation into the hedge fund in early 2010. After discussion on fees, Mr. Bello introduced Mr. Matthew Moran and Ms. Lynne Howard-Reed from the Chicago Board Options Exchange who then gave a presentation on options based portfolio management strategies.

After the presentation Mr. Bello referred to the Investment Policy where he indicated changes have been made on pages 1, 25, 26 and 38. He noted on page one the addition of the Director of Beta Management position and on page 25 the strategy itself, the objective and guidelines have been outlined. He indicated the limits permissible on the investment are on page 26. Mr. Krolak suggested adding the performance objective in the policy for this option. Mr. Bello requested that the panel review the changes and if agreed it will be taken to the Commission at its January 22, 2010 meeting for approval.

Mr. Bello confirmed that the current TIP portfolio is managed in-house and must follow standardized process of receiving competitive bids and then must come before the Portfolio Committee to make the final approval. He stated that the Portfolio Committee currently consists of Andy Davis, George Egan and himself.

Continuing, Mr. Bello indicated a change also on page 38 with the addition to Addendum A, the equity and bond ETF's indexes. Mr. Rorke suggested adding the indexes from the Chicago Board Options Exchange also. A verbal approval was given by the panel to go forward with the changes to the policy.

Mr. Bello reviewed the calendar of events for 2010. He stated that they issued an RFP for the third-party sales agent to help sell prepaid tuition contracts. He indicated they received six bids, which included firms such as Northern Trust. Mr. Davis indicated that all who responded to the RFP will be recommended to the Commission for approval since this will not be an exclusive contract as everyone who responded are financially responsible and capable to sell the product. Mr. Davis indicated there is no way to tell what the sales will be from this partnership but feels there is potential for dramatic increase in sales.

Mr. Bello indicated that the selected hedge fund managers will be recommended to the Commission at its January 22, 2010 meeting. He stated that for the fourth quarter 2010 an RFP for real estate and private equity will be issued and the actuarial and soundness report will be prepared by PriceWaterhouse at that time also. He indicated that new contract pricing would be brought to the Commission at its September meeting for the 2010-2011 academic year. He then thanked all members of the panel for their participation.

Respectfully submitted,



Debora A. Calcara
Secretary to the Commission