

State of Illinois
Office of the Treasurer

BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY STATEMENT

Effective March 2009

1.0 Statement of Purpose of Investment Policy: The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Illinois College Savings Pool that are contributed to the Bright Directions College Savings Program (the “Program”) and to assist the Treasurer’s Office in evaluating the performance of such contractors by:

- Describing the Treasurer’s investment objectives;
- Providing general guidelines for the investment of assets of the Program;
- Describing the Treasurer’s long-term investment strategy;
- Describing the process of evaluating the performance of employees or contractors that provide investment management services to the Program; and
- Specifying the responsibilities of any contractors that provide investment management services to the Program.

This is the official Investment Policy Statement of the Program. Deviation from this Policy is not permitted without prior, explicit, written permission from the Treasurer.

2.0 Establishment and Authority of Entity: The Bright Directions College Savings Program has been established as part of the Illinois College Savings Pool, and is intended to qualify as a qualified tuition program in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. The Program is sold through financial advisors and was established to compliment the existing Bright Start College Savings Program by allowing families to utilize a financial advisor to assist them with investing toward future college education expenses.

3.0 Participating Financial Institution: Accounts in the Program will be distributed through registered broker-dealers and financial institutions that have entered into a Selling Agent Agreement with Northern Trust Securities, Inc., acting as distributor for the Program. All new accounts in the Program will be processed through Union Bank & Trust Company (“Union Bank”) as a participating financial institution. Union Bank has elected not to accept deposits in the Program as provided in Illinois Public Act 91-0607.

4.0 Investment Philosophy: The Treasurer has adopted a long-term total return strategy regarding the Program and its investments. In order to achieve the Program’s objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms

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of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity.

Contributions to the Program will be directed to one or more of the available underlying portfolios (the "Underlying Portfolios"), each composed of a designated mix of investments or an individual investment fund. The determination of the investment parameters of each Underlying Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 18 years.

The Treasurer will review the investment performance of each Underlying Portfolio at least quarterly and shall review this Investment Policy Statement at least annually.

The holdings of the Program and the Underlying Portfolios are divided into the following broad asset categories:

- A. Short Term Investments
- B. Fixed Income Investments
- C. Real Estate Investments
- D. Domestic Equity Investments
- E. International Equity Investments

The Treasurer will establish reasonable guidelines for each Underlying Portfolio, specifying (as applicable) limits on asset and asset class exposures, risk constraints and investment return objectives. While the investment parameters offered under the Program are developed by the Treasurer, participants bear the risk of investment results. Individual participants who seek investments materially different from those offered may wish to select an investment alternative outside of the Program.

The administration and offering of the Program should not be relied upon as a guarantee to participants. Each participant should seek appropriate advice as he or she deems necessary.

5.0 Investment Objectives: The overall investment program for the Program and, as applicable, the individual Underlying Portfolios provided to the participants shall seek to achieve the following long-term investment objectives:

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- A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof.
- An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

6.0 Investment Responsibilities: The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Program. In order to properly carry out his responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Program. The Treasurer has engaged, and plans to rely heavily on Union Bank for administrative services and on Union Bank and its investment advisor, Wilshire Funds Management, the investment management business unit of Wilshire Associates Incorporated, for investment management services. The Treasurer also plans to rely heavily on an external investment consultant for investment advisory services. Among the current responsibilities of Union Bank is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Underlying Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Treasurer's approval, Union Bank has retained Wilshire Funds Management to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Underlying Portfolios and the implementation of the investment strategy outlined in this policy. The Treasurer's Office and Union Bank shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the Program and the Underlying Portfolios, Union Bank agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

7.0 Investment Parameters: Contributions will be invested in one or more of the available Underlying Portfolios, each composed of a designated mix of investments or an individual investment fund, which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Underlying Portfolio may allocate assets among domestic equity, international equity, real estate, fixed-income, and/or money market investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by Union Bank. The Treasurer may adjust the weighting in stocks, bonds, real estate, and cash in each Underlying Portfolio and may change the mutual funds within the Underlying Portfolios consistent with this Investment Policy Statement.

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The policy target asset allocations and benchmarks for the mutual funds within the Age-Based and Target Portfolios are shown below. There is a permissible range of plus or minus 10% of the target allocation for each mutual fund.

Age-Based Aggressive

Age of Beneficiary

	Benchmark	0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value	Russell 1000 Value	20.00%	16.50%	12.00%	7.50%	3.50%
Large Cap Blend	S&P 500	21.00%	17.00%	12.50%	8.00%	3.50%
Large Cap Growth	Russell 1000 Growth	20.00%	16.50%	12.00%	7.50%	3.50%
Small Cap Value	Russell 2000 Value	3.50%	2.50%	2.00%	1.50%	1.00%
Small Cap Blend	Russell 2000	4.00%	3.00%	2.50%	2.00%	1.00%
Small Cap Growth	Russell 2000 Growth	3.50%	2.50%	2.00%	1.50%	1.00%
Global Real Estate	FTSE EPRA/NAREIT Global	3.00%	2.00%	2.00%	2.00%	1.50%
Foreign Stock	MSCI EAFE	25.00%	20.00%	15.00%	10.00%	5.00%
Money Market	3-month T-Bills	0.00%	0.00%	0.00%	0.00%	20.00%
Ultra-Short Bond	3-month T-Bills	0.00%	0.00%	0.00%	20.00%	23.00%
Short Bond	ML 1-3 yr Treasury	0.00%	0.00%	20.00%	19.00%	17.00%
Intermediate Bond	Barclays U.S. Aggregate Bond	0.00%	20.00%	17.00%	14.00%	12.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	0.00%	3.00%	7.00%	8.00%

Age-Based Growth

Age of Beneficiary

	Benchmark	0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value	Russell 1000 Value	16.50%	12.00%	7.50%	3.50%	2.00%
Large Cap Blend	S&P 500	17.00%	12.50%	8.00%	3.50%	2.00%
Large Cap Growth	Russell 1000 Growth	16.50%	12.00%	7.50%	3.50%	2.00%
Small Cap Value	Russell 2000 Value	2.50%	2.00%	1.50%	1.00%	0.50%
Small Cap Blend	Russell 2000	3.00%	2.50%	2.00%	1.00%	0.50%
Small Cap Growth	Russell 2000 Growth	2.50%	2.00%	1.50%	1.00%	0.50%
Global Real Estate	FTSE EPRA/NAREIT Global	2.00%	2.00%	2.00%	1.50%	0.00%
Foreign Stock	MSCI EAFE	20.00%	15.00%	10.00%	5.00%	2.50%
Money Market	3-month T-Bills	0.00%	0.00%	0.00%	20.00%	40.00%
Ultra-Short Bond	3-month T-Bills	0.00%	0.00%	20.00%	23.00%	25.00%
Short Bond	ML 1-3 yr Treasury	0.00%	20.00%	19.00%	17.00%	15.00%
Intermediate Bond	Barclays U.S. Aggregate Bond	20.00%	17.00%	14.00%	12.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	3.00%	7.00%	8.00%	10.00%

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Age-Based Balanced

Age of Beneficiary

	Benchmark	0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value	Russell 1000 Value	12.00%	7.50%	3.50%	2.00%	0.00%
Large Cap Blend	S&P 500	12.50%	8.00%	3.50%	2.00%	0.00%
Large Cap Growth	Russell 1000 Growth	12.00%	7.50%	3.50%	2.00%	0.00%
Small Cap Value	Russell 2000 Value	2.00%	1.50%	1.00%	0.50%	0.00%
Small Cap Blend	Russell 2000	2.50%	2.00%	1.00%	0.50%	0.00%
Small Cap Growth	Russell 2000 Growth	2.00%	1.50%	1.00%	0.50%	0.00%
Global Real Estate	FTSE EPRA/NAREIT Global	2.00%	2.00%	1.50%	0.00%	0.00%
Foreign Stock	MSCI EAFE	15.00%	10.00%	5.00%	2.50%	0.00%
Money Market	3-month T-Bills	0.00%	0.00%	20.00%	40.00%	50.00%
Ultra-Short Bond	3-month T-Bills	0.00%	20.00%	23.00%	25.00%	28.00%
Short Bond	ML 1-3 yr Treasury	20.00%	19.00%	17.00%	15.00%	12.00%
Intermediate Bond	Barclays U.S. Aggregate Bond	17.00%	14.00%	12.00%	0.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	3.00%	7.00%	8.00%	10.00%	10.00%

Target Portfolios

	Benchmark	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Fund 10	Fixed Income
Large Cap Value	Russell 1000 Value	20.00%	16.50%	12.00%	7.50%	3.50%	2.00%	0.00%
Large Cap Blend	S&P 500	21.00%	17.00%	12.50%	8.00%	3.50%	2.00%	0.00%
Large Cap Growth	Russell 1000 Growth	20.00%	16.50%	12.00%	7.50%	3.50%	2.00%	0.00%
Small Cap Value	Russell 2000 Value	3.50%	2.50%	2.00%	1.50%	1.00%	0.50%	0.00%
Small Cap Blend	Russell 2000	4.00%	3.00%	2.50%	2.00%	1.00%	0.50%	0.00%
Small Cap Growth	Russell 2000 Growth	3.50%	2.50%	2.00%	1.50%	1.00%	0.50%	0.00%
Global Real Estate	FTSE EPRA/NAREIT Global	3.00%	2.00%	2.00%	2.00%	1.50%	0.00%	0.00%
Foreign Stock	MSCI EAFE	25.00%	20.00%	15.00%	10.00%	5.00%	2.50%	0.00%
Money Market	3-month T-Bills	0.00%	0.00%	0.00%	0.00%	20.00%	40.00%	50.00%
Ultra-Short Bond	3-month T-Bills	0.00%	0.00%	0.00%	20.00%	23.00%	25.00%	28.00%
Short Bond	ML 1-3 yr Treasury	0.00%	0.00%	20.00%	19.00%	17.00%	15.00%	12.00%
Intermediate Bond	Barclays U.S. Aggregate Bond	0.00%	20.00%	17.00%	14.00%	12.00%	0.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	0.00%	3.00%	7.00%	8.00%	10.00%	10.00%

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Individual Fund Portfolios

Participants in the Program open their Accounts through registered broker-dealers and other financial advisors. As a result, the Treasurer deems it appropriate to offer individual mutual funds as separate Underlying Portfolios in the Program. The individual mutual funds the Treasurer selects will be described in the Program's current Program Disclosure Statement and may include the following asset classes:

<u>Asset Class</u>	<u>Benchmark</u>
Money Market/Ultra Short Bond	3 Month T-Bill
Low Duration	ML 1-3 Treasury Index
Corporate Bond	Barclays U.S. Credit Index
Intermediate Bond	Barclays U.S. Aggregate Bond Index
U.S. TIPS	Barclays U.S. TIPS Index
Balanced	Barclays U.S. Aggregate Bond Index; S&P 500; MSCI EAFE
Large Cap Value	Russell 3000 Value, Russell 1000 Value
Large Cap Growth	Russell 1000 Growth
Large Cap Blend	Russell 1000, S&P 500
Mid-Cap Value	Russell 2500 Value
Mid-Cap Growth	Russell Mid-Cap Growth
Mid-Cap Blend	Wilshire 4500 Index
Small-Cap Value	Russell 2000 Value
Small-Cap Growth	Russell 2000 Growth
Small-Cap Blend	Russell 2000
Foreign Stock	MSCI EAFE
Socially Responsible	S&P 500
Real Estate	DJ Wilshire Real Estate Securities
Global Real Estate	FTSE EPRA/NAREIT Global Index

7.0 Investment Parameters – Continued

Each mutual fund's return objective is to equal or exceed, over a three-year rolling period, the return of the applicable benchmark. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each mutual fund is also expected to perform favorably relative to its peer group.

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To the extent that the assets of an Underlying Portfolio are invested in one or more mutual funds approved by the Treasurer having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such a mutual fund's underlying assets may not be entirely invested in the asset class in which such fund has been placed.

8.0 Female- and Minority-Owned Portfolios

The Program has included an asset allocation portfolio, the Female- and Minority-Owned Growth Portfolio, and Individual Fund Portfolios for participants who would like to have a more diverse set of fund options. The female and minority owned funds utilized in the program were screened on three initial criteria: 1) firms with at least 50% female and/or racial minority ownership or 2) funds that have a female and/or racial minority investment manager that makes the portfolio management decisions (i.e. a minority owned subadvisor), and 3) funds that delivered above median returns over a 3-year and/or 5-year time period. The mutual fund options provided in the program include relatively high scoring female and minority owned investment managers representing a diverse set of asset classes.

Investment Parameters: Contributions will be invested in one or more of the available Underlying Portfolios, each composed of a designated mix of investments or an individual investment fund, which is appropriate for the investment objective of the Portfolio. Each Underlying Portfolio allocates assets among domestic equity, fixed-income, and/or real estate investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by Union Bank. The Treasurer may adjust the weighting in stocks, bonds, and real estate in each Underlying Portfolio and may change the mutual funds within the Female- and Minority-Owned Portfolios consistent with this Investment Policy Statement.

The policy target asset allocation and benchmark for the mutual funds within the Female- and Minority-Owned Portfolio is shown below. There is a permissible range of plus or minus 10% of the target allocation for each mutual fund.

Female- and Minority-Owned Growth Portfolio

	<u>Benchmark</u>	
Large Blend	S&P 500	68.0%
SMID Value	Russell 2500 Value	13.0%
Mid Cap Growth	Russell Mid-Cap Growth	9.0%
Small Cap Blend	Russell 2000	7.0%
Real Estate	DJ Wilshire REIT Index	3.0%