

AGENDA ITEM 7D.

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM SUMMARY OF INVESTMENT COMMITTEE AND ADVISORY PANEL MEETINGS

Submitted for: Information

Summary: **Background**

As stated in our Statement of Investment Policy, the asset allocation targets are reviewed annually and, at least every three years, a formal asset liability modeling study is conducted along with our investment consultant. This study is used to set our strategic investment plan and asset allocation targets. We have worked with our investment consultant, Callan, and prepared an asset liability study presentation which was presented and thoroughly discussed at the Investment Committee meeting of May 13, 2021. The presentation is included in this book as Item 7D1.

Of note, we are not recommending both interim and long-term policy targets due to the shorter time span for the investment portfolio. In addition, based on our liquidity needs and manager performance, investment staff and Callan have lowered the absolute return allocation down to zero. Although all mixes presented are prudent, staff and investment consultant provided two recommendations. Based on the Investment Committee's discussions of risk tolerance, the portfolio's time span, expected returns, expected risk of the optimal mixes and other considerations, the Committee coalesced around asset allocation optimal mix 6 on page 13 of the Callan presentation. This mix was one of the recommended mixes by staff and investment consultant.

During the deliberations, the Committee requested for staff to convene the Investment Advisory Panel for the purpose of obtaining the input and advice from the Investment Advisory Panel on the strategic asset allocation policy targets prior to the final recommendation to the full Commission in June.

Based on the duties and responsibilities of the Panel, in the Prepaid Tuition Act, which are to

"...offer advice and counseling regarding the investments of the Illinois prepaid tuition program with the objective of obtaining the best possible return on investments consistent with actuarial soundness of the program. The panel is required to annually review and advise the Commission on provisions of the strategic investment plan for the prepaid tuition program."

...the Investment Advisory Panel met on June 3, 2021. At this meeting, the Investment Committee's deliberations and agreed upon asset mix were not shared with the Panel members. During the meeting, it was noted that our

current portfolio targets have served our portfolio well by allowing us to participate in the market upside. Additionally, all optimal asset mixes presented are conservative and prudent. Panel members discussed the pluses and minuses of decreasing the risk of the portfolio or increasing the return expectations of the portfolio by increasing the portfolio risk. After a robust discussion among Panel members, staff and investment consultant, there was common agreement in maintaining our approach and continuing our current portfolio stance. Therefore, the Investment Advisory Panel unified on recommending asset allocation optimal mix 6 on page 13 of the Callan presentation.

Based on the consistent recommendation of the Investment Committee and the Investment Advisory Panel, investment staff and consultant recommend the following asset allocation policy targets and rebalancing ranges:

Asset Class	Current Long-Term Target	Current Interim Target	Recommended Asset Mix	Rebalancing Ranges
US Equity	17%	18%	21%	17-25%
Non-US Equity	17%	18%	21%	17-25%
Private Equity	1%	1%	1%	
EQUITY	35%	37%	43%	
Fixed Income	39%	36%	35%	31-39%
High Yield	6%	5%	5%	3-7%
FIXED INCOME	45%	41%	40%	
REIT	6%	5%	5%	3-7%
Real Estate	4%	5%	7%	
Infrastructure	2%	5%	5%	
REAL ASSETS	12%	15%	17%	
ABSOLUTE RETURN	6%	5%	0%	
CASH	2%	2%	0%	0-4%
Totals	100%	100%	100%	

The policy benchmark for the investment portfolio will be updated to reflect the new policy targets and continue with the same asset class indices, as noted in the table below:

Asset Class	Index	Weight
US Equity	Russell 3000	21%
Non-US Equity	MSCI ACWI ex USA IMI	21%
Private Equity	Russell 3000	1%
Fixed Income	Barclays US Aggregate	35%
High Yield	BofA MLHY Master II	5%
REIT	MSCI US REIT	5%
Real Estate	NREIF ODCE	7%
Infrastructure	90-day T Bills + 4%	5%
Cash	90-day T-Bills	0%

Action requested: For the Commission to approve the recommended Investment Policy Asset Allocation targets, proposed rebalancing ranges and benchmark change recommendation.