



**State of Illinois**  
**Office of the Treasurer**  
**BRIGHT START COLLEGE SAVINGS PROGRAM**  
**INVESTMENT POLICY STATEMENT**  
**Effective August 2018**



### **1.0 Statement of Purpose of Investment Policy**

The purpose of this Investment Policy Statement (the “Policy”) is to assist contractors retained by the Office of the Illinois State Treasurer (the “Treasurer”) to provide services related to the management of the assets of the Illinois College Savings Pool (the “Pool”) that are contributed to the Bright Start College Savings Program (the “Program”) and to assist the Treasurer 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 Policy 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 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 was established to provide families with an opportunity to invest toward future college education expenses.

### **3.0 Investment Philosophy**

The Treasurer has adopted a long-term total return strategy for 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 financial 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 of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.); (2) geography/country; (3) industry; (4) maturity; and (5) duration.

Contributions to the Program will be directed to one or more of the available Portfolios (the “Portfolios”), each composed of a designated mix of investments or an individual investment fund. The determination of the investment parameters of each 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 Portfolio at least quarterly and shall review this Policy at least annually.

The holdings of the Program and the Portfolios may be 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 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.

Consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer will endeavor to identify and evaluate investment managers that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons.

Consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer will prudently exercise investment stewardship to fulfill its fiduciary duty, increase expected financial returns, minimize projected risk, and contribute to a more just, accountable and sustainable State of Illinois. Sustainability factors shall be implemented within a framework predicated on the following:

- A. Prudent integration of material sustainability factors, including, but not limited to environmental, social capital, human capital, business model and innovation, and leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership given that these tangible and intangible factors may have a material and relevant financial impacts;
- B. Recurring evaluation of sustainability factors to ensure the factors are relevant to the Program and the evolving marketplace;
- C. Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through engagement with entities, such as investment funds, investment holdings, portfolio companies, government bodies, and other organizations, and move the marketplace toward more prudent sustainability investment practices; and
- D. Consideration of other relevant factors such as legal, regulatory, and reputational risks that enable an optimal risk management framework and supports long-term investment value.

#### **4.0 Investment Objectives**

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

- A. A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section 7.0 hereof; and
- B. An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each participant with the ability to invest in a diversified portfolio to meet his or her investment goals.

#### **5.0 Investment Responsibilities**

The Treasurer is responsible for the investment policy statement, 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 will engage and plan to rely heavily on said contractor (the “Manager”) for administrative services as well as the contractor’s pertinent investment advisor, should they retain one, 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 the Manager is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Age-Based and Target Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Treasurer’s approval, the Manager may retain an investment advisor to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Portfolios and the implementation of the investment strategy outlined in this Policy. The Treasurer and the Manager 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 Portfolios, the Manager 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.

In addition, the Treasurer may engage an independent investment consultant that will:

- Measure investment performance results, evaluate the investment program, and advise the Treasurer as to the performance and continuing appropriateness of each investment manager;
- Recommend modifications to the investment policies, objectives, guidelines, or management structure as appropriate; and
- Promptly inform the Treasurer regarding significant matters pertaining to the investment program.

## **6.0 Investment Parameters**

Contributions will be invested in one or more of the available 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 Portfolio may allocate assets among domestic equity, international equity, real estate, fixed-income, and/or short-term investments. The asset allocation of each Portfolio will be established by the Treasurer and managed by the Manager. The Treasurer may adjust the weighting in stocks, bonds, real estate, and cash in each Portfolio and may change the underlying investment funds within the Portfolios consistent with this Policy.

The Policy target asset allocations and benchmarks for the underlying investments within the Age-Based and Target Portfolios are shown in the following table. There is a permissible range of plus or minus 10% of the target allocation for each underlying investment fund.

## 7.0 Plan Options

### Direct Plan: Index Age-Based and Target Portfolios

Age-Based Portfolios		Age of Beneficiary										
Aggressive Option		0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +		
Moderate Option			0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +	
Conservative Option				0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +
Target Portfolios		Equity Portfolio				Balanced Portfolio						Fixed Income
Asset Class	Benchmark											
Domestic Equity	CRSP U.S. Total Market Index	57.0%	54.0%	49.0%	42.0%	36.0%	32.0%	25.0%	19.0%	14.0%	7.0%	0.0%
Real Estate	MSCI US REIT Index	7.0%	6.0%	5.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	1.0%	0.0%
International Equity	FTSE Global All Cap ex US Index	36.0%	30.0%	26.0%	23.0%	19.0%	15.0%	12.0%	9.0%	4.0%	2.0%	0.0%
Domestic Fixed Income	BofA/Merrill Lynch – High Yield Master II Index	0.0%	1.0%	3.0%	5.0%	5.0%	6.0%	7.0%	5.0%	5.0%	3.0%	0.0%
	Bloomberg Barclays U.S. 1-5 Year Government / Credit Float Adjusted Index	0.0%	2.0%	4.0%	6.0%	9.0%	11.0%	14.0%	22.0%	25.0%	22.0%	20.0%
	Bloomberg Barclays U.S. Aggregate Float Adjusted Index	0.0%	4.0%	7.0%	11.0%	17.0%	23.0%	24.0%	25.0%	25.0%	25.0%	15.0%
	Bloomberg Barclays U.S. 0-5 Year TIPS Index	0.0%	2.0%	3.0%	4.0%	4.0%	4.0%	9.0%	13.0%	11.0%	14.0%	15.0%
Foreign Bonds	Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged)	0.0%	1.0%	3.0%	4.0%	5.0%	6.0%	6.0%	5.0%	5.0%	3.0%	0.0%
Money Market	3-month T-Bills	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%	23.0%	50.0%

## Direct Plan: Multi-Firm Age-Based and Target Portfolios

Age-Based Portfolios		Age of Beneficiary										
		0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +		
Aggressive Option												
Moderate Option			0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +	
Conservative Option				0 - 2	3 - 5	6 - 8	9 - 10	11 - 12	13 - 14	15 - 16	17 - 18	19 +
Target Portfolios		Equity Portfolio				Balanced Portfolio						Fixed Income
Asset Class	Benchmark											
<b>Domestic Equity</b>	Russell 1000 Value	12.0%	12.0%	11.0%	9.0%	8.0%	7.0%	6.0%	4.0%	3.0%	2.0%	0.0%
	S & P 500 Index	23.0%	20.0%	19.0%	16.0%	14.0%	12.0%	9.0%	7.0%	6.0%	2.0%	0.0%
	Russell 1000 Growth	12.0%	12.0%	11.0%	9.0%	8.0%	7.0%	6.0%	4.0%	3.0%	2.0%	0.0%
	Russell 2500 Value	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	0.0%
	Russell 2500 Growth	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%
<b>Global Real Estate</b>	FTSE EPRA/NAREIT Developed Real Estate Index	7.0%	6.0%	5.0%	5.0%	5.0%	3.0%	3.0%	2.0%	2.0%	1.0%	0.0%
<b>International Equity</b>	MSCI ACWI ex-U.S. Index	26.0%	22.0%	19.0%	17.0%	14.0%	12.0%	10.0%	7.0%	4.0%	2.0%	0.0%
	MSCI World ex-U.S. Small Cap Index	5.0%	4.0%	3.0%	3.0%	2.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%
	MSCI Emerging Markets Index	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	1.0%	1.0%	0.0%	0.0%	0.0%
<b>Domestic Fixed Income</b>	BofA/Merrill Lynch – High Yield Master II Index	0.0%	1.0%	2.0%	3.0%	3.0%	3.0%	4.0%	3.0%	3.0%	2.0%	0.0%
	Bloomberg Barclays 1-3 Year U.S. Government / Credit Bond Index	0.0%	2.0%	4.0%	6.0%	9.0%	11.0%	14.0%	22.0%	25.0%	22.0%	20.0%
	Bloomberg Barclays U.S. Aggregate Bond Index	0.0%	4.0%	7.0%	11.0%	17.0%	23.0%	24.0%	25.0%	25.0%	25.0%	15.0%
	Bloomberg Barclays U.S. 0-5 Year TIPS Index	0.0%	2.0%	3.0%	4.0%	4.0%	4.0%	9.0%	13.0%	11.0%	14.0%	15.0%
	Credit Suisse Leveraged Loan Index	0.0%	0.0%	1.0%	2.0%	2.0%	3.0%	3.0%	2.0%	2.0%	1.0%	0.0%
<b>Global Bonds</b>	Bloomberg Barclays Global Aggregate Index (Hedged)	0.0%	1.0%	3.0%	4.0%	5.0%	6.0%	6.0%	5.0%	5.0%	3.0%	0.0%
<b>Money Market</b>	3-month T-Bills	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%	23.0%	50.0%

\*Benchmarks are subject to change as mutually agreed by the Treasurer and Manager in order to ensure that they remain appropriate for each underlying investment and consistent with industry standards.

Each underlying investment fund’s return objective is to equal or exceed, over a five-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 underlying investment is also expected to perform favorably relative to its peer group.

To the extent that the assets of a Portfolio are invested in one or more underlying investments 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 an underlying investment’s assets may not be entirely invested in the asset class in which such underlying investment has been placed.

**Individual Fund Portfolios (Direct Plan):**

To provide additional diversity and flexibility to participants the Individual Fund Portfolios and underlying investment funds the Treasurer selects will be described in the Program’s current Program Disclosure Statement and may include the following asset classes:

<b>Asset Class</b>	<b>Benchmark</b>
Money Market	3 Month T-Bills
Short Term Fixed Income	Bloomberg Barclays 1-3 Year U.S. Government/Credit Bond Index Bloomberg Barclays U.S. 1-5 Year Government/Credit Float Adjusted Index
Core Bond	Bloomberg Barclays U.S. Aggregate Float Adjusted Index Bloomberg Barclays U.S. Aggregate Bond Index
High Yield Bonds	BofA/Merrill Lynch – High Yield Master II Index
Short Term U.S. TIPS	Bloomberg Barclays U.S. 0–5 Year TIPS Index
Foreign Bonds	Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged)
Global Bonds	Bloomberg Barclays Global Aggregate Index (Hedged)
Bank Loans	Credit Suisse Leveraged Loan Index
Balanced	60% S&P 500 Index / 40% Bloomberg Barclays U.S. Aggregate Bond Index
All Cap US Equity	CRSP U.S. Total Market Index
Large Cap Value	Russell 1000 Value
Large Cap Blend	S&P 500 Index
Large Cap Growth	Russell 1000 Growth
Small-Cap Value	Russell 2500 Value
Small-Cap Growth	Russell 2500 Growth
All-Country Non-US	FTSE Global All Cap ex US Index
Emerging Market	MSCI Emerging Markets Index
Non-U.S. Small Cap	MSCI World ex-U.S. Small Cap Index
Real Estate	MSCI U.S. REIT Index FTSE EPRA/NAREIT Developed Real Estate Index

**8.0 Minority- and Woman-Owned Portfolios**

The Treasurer may also add additional Individual Fund Portfolios – for example, Minority, Woman, Veteran, and Disabled-Managed Portfolios – for participants who would like to have a more diverse set of investment options as new viable options become available.