



**OFFICE OF THE ILLINOIS STATE TREASURER  
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**Investment Policy Statement for the  
Bright Directions College Savings Program**

*Effective November 2021*

**State of Illinois**  
**Office of the Treasurer**  
**BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM**  
**INVESTMENT POLICY STATEMENT**  
**Effective November 2021**



## **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 (“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 in evaluating the performance of such contractors by:

- Describing the Treasurer’s investment philosophy for the Program;
- Describing the Treasurer’s investment objectives for the Program;
- Specifying the responsibilities of the Treasurer and any contractors that provide investment management services to the Program to thereby provide a basis to evaluate the performance of contractors that provide services to the Program;
- Providing investment parameters for the investment of assets of the Program;
- Describing the Treasurer’s objective to include sustainability factors within the investment decision process; and
- Detailing the investment plan options available through the Program and the applicable performance benchmarks.

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 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 complement 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 the designated distributor for the Program. All new accounts in the Program will be processed through the designated participating financial institution.

### **4.0 Investment Philosophy**

The Treasurer has adopted a long-term total return strategy for the Program and its investments. 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.

As part of 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; and (4) maturity.

Contributions to the Program will be directed to one or more of the available Age-Based, Target, Individual, 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 are divided into the following broad asset categories:

- A. Short-Term Investments;
- B. Fixed Income Investments;
- C. Real Estate Investments;
- D. Domestic Equity Investments; and
- 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.

Section 30 of the State Treasurer Act (15 ILCS 505/30) declares that it is the policy of the Treasurer to promote and encourage the use of businesses owned by or under the control of qualified veterans of the

armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability (“MWVD Persons”) and sets forth the aspirational goal of directing 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons. As such, 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 MWVD Persons.

Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty. As such, consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer will prudently exercise investment stewardship and integrate sustainability factors within such a framework predicated on the following:

- A. **Integration of Material Sustainability Factors** – Prudent integration of material sustainability factors, including, but not limited to (1) corporate governance and leadership factors, (2) environmental factors, (3) social capital factors, (4) human capital factors, and (5) business model and innovation 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 material and relevant financial impacts;
- B. **Regular Evaluation of Sustainability Factors** – Recurring evaluation of sustainability factors to ensure the factors are relevant and decision-useful to the Program and the evolving marketplace;
- C. **Active Ownership** – Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through the exercise of proxy voting rights and engagement with entities – such as investment funds, investment holdings, portfolio companies, government bodies, and other organizations – and move the marketplace toward more prudent, sustainable business practices; and
- D. **Additional Relevant and Financially Material Factors** – 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.

## 5.0 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 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

- 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 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 on said contractor (the “Manager”) for administrative services as well as the contractor’s pertinent investment advisor, should they retain one, for certain 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.

## **7.0 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.

## 8.0 Plan Options

| 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     |  | Fund 100           |       | Fund 80 |        | Fund 60 |         | Fund 40 |         | Fund 20 | Fund 10 | Fixed Income |
| Asset Class           | Benchmark  |                    |       |         |        |         |         |         |         |         |         |              |
| Domestic Equity       | Russell 1000 Value                               | 11.5%              | 10.5% | 10.0%   | 8.5%   | 7.5%    | 6.0%    | 5.0%    | 4.0%    | 3.0%    | 2.5%    | 0.0%         |
|                       | S & P 500 Index                                  | 23.0%              | 21.0% | 19.0%   | 17.0%  | 14.0%   | 12.0%   | 10.0%   | 8.0%    | 5.0%    | 2.0%    | 0.0%         |
|                       | Russell 1000 Growth                              | 11.5%              | 10.5% | 10.0%   | 8.5%   | 7.5%    | 6.0%    | 5.0%    | 4.0%    | 3.0%    | 1.5%    | 0.0%         |
|                       | Russell 2000 Value                               | 2.5%               | 2.5%  | 2.0%    | 2.0%   | 1.5%    | 1.5%    | 1.0%    | 1.0%    | 1.0%    | 0.0%    | 0.0%         |
|                       | Russell 2500 Value                               | 3.0%               | 2.5%  | 2.5%    | 2.0%   | 2.0%    | 1.5%    | 1.5%    | 1.0%    | 1.0%    | 1.0%    | 0.0%         |
|                       | Russell Mid Cap Growth                           | 3.0%               | 2.5%  | 2.5%    | 2.0%   | 2.0%    | 1.5%    | 1.5%    | 1.0%    | 1.0%    | 1.0%    | 0.0%         |
|                       | Russell 2000 Growth                              | 2.5%               | 2.5%  | 2.0%    | 2.0%   | 1.5%    | 1.5%    | 1.0%    | 1.0%    | 0.0%    | 0.0%    | 0.0%         |
| Global Real Estate    | FTSE EPRA/NAREIT Global                          | 7.0%               | 6.0%  | 5.0%    | 5.0%   | 4.0%    | 4.0%    | 3.0%    | 2.0%    | 2.0%    | 1.0%    | 0.0%         |
| International Equity  | MSCI EAFE  | 24.0%              | 21.5% | 18.0%   | 15.5%  | 13.5%   | 10.5%   | 8.0%    | 5.0%    | 4.0%    | 2.0%    | 0.0%         |
|                       | MSCI World ex - U.S. Small Cap                   | 4.0%               | 3.5%  | 3.0%    | 2.5%   | 2.0%    | 2.0%    | 1.5%    | 1.0%    | 0.0%    | 0.0%    | 0.0%         |
|                       | MSCI Emerging Markets                            | 8.0%               | 7.0%  | 6.0%    | 5.0%   | 4.5%    | 3.5%    | 2.5%    | 2.0%    | 1.0%    | 0.0%    | 0.0%         |
| Domestic Fixed Income | Bloomberg Barclays U.S. Gov't/Credit 1-3yr       | 0.0%               | 0.0%  | 0.0%    | 0.0%   | 3.0%    | 5.5%    | 7.0%    | 11.0%   | 12.5%   | 11.0%   | 10.0%        |
|                       | ML 1-3 yr Treasury                               | 0.0%               | 0.0%  | 0.0%    | 0.0%   | 3.0%    | 5.5%    | 7.0%    | 11.0%   | 12.5%   | 11.0%   | 10.0%        |
|                       | Bloomberg Barclays U.S. Aggregate Bond           | 0.0%               | 5.0%  | 12.0%   | 18.0%  | 20.0%   | 23.0%   | 24.0%   | 27.0%   | 25.0%   | 25.0%   | 15.0%        |
|                       | Bloomberg Barclays U.S. 0-5 Year TIPS Index      | 0.0%               | 3.0%  | 3.0%    | 4.0%   | 4.0%    | 4.0%    | 9.0%    | 11.0%   | 12.0%   | 14.0%   | 15.0%        |
|                       | BofA/Merrill Lynch - High Yield Master II Index  | 0.0%               | 1.0%  | 2.0%    | 3.0%   | 3.5%    | 4.0%    | 4.0%    | 3.0%    | 3.0%    | 2.0%    | 0.0%         |
|                       | Credit Suisse Leveraged Loan Index               | 0.0%               | 0.0%  | 1.0%    | 2.0%   | 2.5%    | 3.0%    | 3.0%    | 2.0%    | 2.0%    | 1.0%    | 0.0%         |
| Global Bonds          | Bloomberg Barclays Global Aggregate (USD Hedged) | 0.0%               | 1.0%  | 2.0%    | 3.0%   | 4.0%    | 5.0%    | 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%    | 4.0%    | 11.5%   | 25.0%        |
| High Yield Savings    | 3-month T-Bills                                  | 0.0%               | 0.0%  | 0.0%    | 0.0%   | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 4.0%    | 11.5%   | 25.0%        |

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 fund 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 investment 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 underlying investment fund’s underlying assets may not be entirely invested in the asset class in which such underlying investment fund has been placed.

### **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 funds as separate Portfolios in the Program. 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>   |
|----------------------|--|
| High Yield Savings   | 3 Month T-Bill   |
| Money Market         | 3 Month T-Bill   |
| Ultra Short Bond     | Bloomberg Barclays U.S. Gov’t/Credit 1-3yr Index                   |
| Low Duration         | ML 1-3 Treasury Index  |
| Bank Loans           | Credit Suisse Leveraged Loan Index                                 |
| Corporate Bond       | Bloomberg Barclays U.S. Credit Index                               |
| Intermediate Bond    | Bloomberg Barclays U.S. Aggregate Bond Index                       |
| High Yield           | BofA/Merrill Lynch – High Yield Master II Index                    |
| Global Bonds         | Bloomberg Barclays Global Aggregate (USD Hedged)                   |
| U.S. Short Term TIPS | Bloomberg Barclays U.S. 0-5 Year TIPS Index                        |
| Balanced             | Bloomberg Barclays U.S. Aggregate Bond Index; S&P 500; MSCI EAFE   |
| Large Cap Value      | Russell 3000 Value Index, Russell 1000 Value Index                 |
| Large Cap Growth     | Russell 1000 Growth Index  |
| Large Cap Blend      | Russell 1000 Index, S&P 500  |
| Mid-Cap Value        | Russell 2500 Value Index   |
| Mid-Cap Growth       | Russell Mid-Cap Growth Index                                       |
| Mid-Cap Blend        | Wilshire 4500 Index  |
| Small-Cap Value      | Russell 2000 Value Index   |
| Small-Cap Growth     | Russell 2000 Growth Index  |
| Small-Cap Blend      | Russell 2000 Index   |
| Foreign Stock        | MSCI EAFE, MSCI World ex U.S. Small Cap, and MSCI Emerging Markets |
| Socially Responsible | S&P 500  |
| Real Estate          | DJ Wilshire Real Estate Securities                                 |

## 9.0 Minority- and Woman-Owned Portfolios

The Program has included the Woman- and Minority-Owned Portfolios for participants who would like to have a more diverse set of investment options. The woman- and minority-owned underlying investment funds utilized in the program were screened on the following initial criteria: (1) firms with at least 50% female and/or racial minority ownership or (2) funds that have a woman 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 woman- and minority-owned options provided in the program include relatively high scoring woman- and minority-owned investment managers representing a diverse set of asset classes.

Contributions will be invested in one or more of the available Portfolios, each composed of an individual investment fund, which is appropriate for the investment objective of the Portfolio. The Treasurer may change the underlying investment funds within specially designated portfolios, such as the woman- and minority-owned portfolios, consistent with this Policy.

The Treasurer may also add additional portfolios – for example, a veteran- or disabled-owned and/or managed portfolio – as new viable options become available.