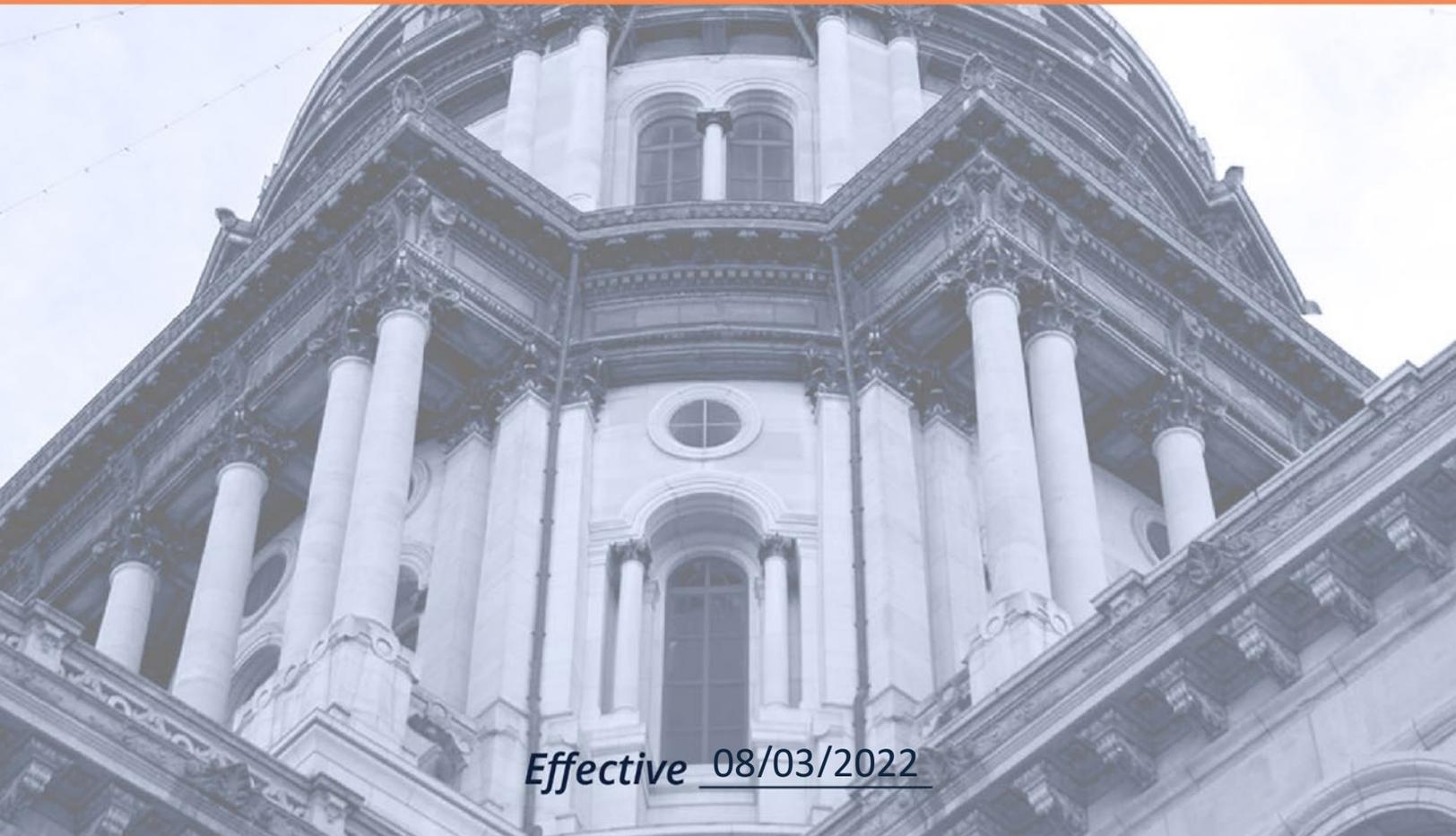




OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS

Illinois Student Investment Account Investment Policy Statement



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**Office of the Illinois State Treasurer
ILLINOIS STUDENT INVESTMENT ACCOUNT
INVESTMENT POLICY STATEMENT**

1.0 PURPOSE

This document sets forth the investment policy (“Policy”) for the Illinois Student Investment Account (“Program”) of the Office of the Illinois State Treasurer (“Treasurer”).

The purpose of the Policy is to ensure that the Treasurer, as well as any contractors the Treasurer retains to provide services related to The Program, take prudent, measured, effective actions while supporting the Program. Specifically, this Policy addresses the following key areas:

- a) The investment objectives and underlying investment strategy of the Program;
- b) General parameters for the investment of assets in the Program;
- c) The roles and responsibilities of the Treasurer and any contractors retained that provide investment oversight-related services related to the Program; and
- d) The administrative and reporting requirements for the Program.

This Policy is designed to allow for sufficient flexibility in the oversight process to take advantage of investment opportunities as they arise, while setting forth reasonable parameters to ensure prudence and care in the execution of the Program.

The Treasurer establishes and executes this Policy in accordance with applicable local, state, and federal laws (“Applicable Law”).

2.0 ESTABLISHMENT AND AUTHORITY OF THE PROGRAM

In August of 2019, the Illinois General Assembly passed the Student Investment Account Act, 110 ILCS 991 (the “Act”), allowing the Treasurer to invest up to five percent (5%) of the State Investment Portfolio to originate, guarantee, acquire, and/or service education loans; facilitate such arrangements between borrowers and eligible lenders; and perform such other acts as may be necessary or desirable in connection with education loans for Illinois residents who are attending or have attended Illinois institutions of higher education. The Act seeks to support Illinois residents’ access to affordable education at approved institutions located in Illinois while generating acceptable returns for the State of Illinois.

3.0 DEFINITIONS

- a) **"Borrower"** means an Illinois resident student who has received an education loan or an Illinois resident parent who has received or agreed to pay an education loan, subject to approval by the Treasurer.

- b) **“Education loan”** means a loan made to a borrower in accordance with the Act to finance an Illinois resident student's attendance at an institution of higher education.
- c) **“Institution of Higher Education”** means a post-secondary educational institution located in Illinois and approved by the Treasurer as articulated in Section 16.5(a) of 15 ILCS 505.
- d) **“Partner”** means an entity who provides education loans to eligible borrowers to finance attendance at eligible Institutions of Higher Education.
- e) **“Illinois Nexus”**: Refers to loans that are made to Borrowers for attendance at an Institution of higher education.
- f) **“Student Investment Account”** means that portion of the Treasurer's State Investment Portfolio described in Section 15 of the Act. (Source: P.A. 101-586, eff. 8-26-19.)

4.0 INVESTMENT OBJECTIVES

The Program has three (3) primary objectives: (i) investment performance; (ii) generating local economic impact through lowering the cost of higher education financing for residents in Illinois, and (iii) ensuring equitable Program access to all qualified state residents, including groups such as qualified veterans of the armed forces of the United States, qualified service-disabled veterans, racial minority groups, women, or persons with a disability (“MWVD Persons”).

- a) **Performance** – The Program seeks to facilitate competitively priced and/or lower-cost Education Loans to Program Borrowers while generating a return to the State Investment Portfolio. It is intended that the returns generated by the Program will be sufficient to compensate the State for the investment risk level associated with Program investments.

The performance will be evaluated over time and measured against (1) similar investment securities and (2) the Program’s performance in relation to its impact goals. While the Treasurer recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally remunerated with compensating returns in the long term. Additionally, to ensure the Program’s impact goals are met, the Program may at times strategically target returns that differ from similar programs.

To evaluate performance, the Treasurer will track the yield paid on the fixed coupon amount. Furthermore, the Treasurer and its contractors shall perform and report benchmark comparisons against similar programs.

- b) **Diversification** – In order to achieve the Program’s investment objectives, investments shall be diversified to minimize the risk of loss. A long-term focus on investment results, as well as prudent diversification and active oversight, will be the primary risk control mechanisms. Diversification shall chiefly be considered along the following lines: (1) partner type; (2) size of investment; (3) end-user loan type (tuition or refinance loan); and (4) end-user Borrower profile.
- c) **Strategy Classifications** – Program investments may be classified by type, including, but not limited to the following:
- Prime Tuition Loans: Education loans made to Borrowers with a strong credit profile and/or strong cosigner credit profile. Though non-cosigned accounts and borrowers with FICO® scores down to 670 may be eligible, the Prime Tuition Loan portfolio as a whole is expected to have a weighted average FICO® score in excess of 750 and consist of 90% or more cosigned loans.
 - Alternative Tuition Loans: Education loans made to Borrowers who fall out of the Prime Tuition Loan segment because they do not meet eligibility criteria.
 - Prime Refinance: Refinancing education loans for borrowers with strong credit profiles measured by credit score, income and other measures.
 - Alternative Refinance: Refinancing education loans to borrowers who do not meet the criteria for Prime Refinance loans.
- d) **Cost-Efficiency and Fee Transparency** – The Treasurer and its contractors shall seek to minimize fees or costs that diminish from the total assets or value of the Program. Furthermore, the Treasurer and its contractors shall strive to achieve full transparency by clearly delineating fees and expenses associated with the Program.
- e) **Illinois Nexus Requirement** – The Treasurer and any contractors servicing the Program shall ensure that the loans facilitated through the Program are made to Illinois residents attending or who have attended Illinois Institutions of Higher Education.
- f) **Diversity among Partners** – According to the Illinois State Treasurer Act, 15 ILCS 505/30 (c) it shall be the aspirational goal of the Treasurer to use businesses owned by or under the control of MWVD Persons for not less than twenty-five percent (25%) of the total dollar amount of funds under management, purchases of investment securities, and other contracts.

To the greatest extent feasible within the bounds of financial prudence, it shall be the policy of the Treasurer and any contractors servicing the Program to identify, recruit, and recommend and to remove any barriers to the full participation of

partners, that are more than fifty percent (50%) owned by or under the control of MWVD Persons.

The terms "minority person", "woman", "person with a disability", "minority-owned business", "women-owned business", "business owned by a person with a disability" and "control", have the meanings provided in Section 2 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2) the terms "veteran" and "qualified service-disabled veteran", have the meanings provided in Section 45-57 of the Illinois Procurement Code (30 ILCS 500/45-57).

- g) **Diversity among Borrowers** – The Treasurer and any contractors shall seek to ensure loans facilitated through the Program are accessible to MWVD Persons.
- h) **Sustainability Integration** – Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238), 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 risks, and more effectively execute its fiduciary duties.

Consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate financially material sustainability factors into its investment decision-making processes. As a complement to traditional financial analysis, the integration of sustainability factors provides an additional layer of decision-useful information by which the Treasurer and its agents can better assess the risk and return prospects of investment vehicles.

Sustainability factors shall be implemented within a framework predicated on the following:

- **Materiality** – The Treasurer considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.
- **Industry-Specific Information** – The Treasurer considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.
- **Integration of Material Sustainability Factors in Investment Programs** – The Treasurer prudently integrates material and relevant sustainability factors, including, but not limited to, (1) corporate governance and leadership, (2) environmental factors, (3) social capital, (4) human capital, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due

diligence, prospective value proposition, risk management, and investment ownership in internally and externally managed investment programs.

- **Active Ownership** – The Treasurer attentively oversees investment holdings to address sustainability risks and opportunities through the exercise of proxy voting rights and direct engagement with entities, such as investment funds, portfolio companies, government bodies, and other organizations.
- **Regular Evaluation of Sustainability Factors** – The Treasurer performs a recurring annual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.
- **Additional Relevant and Financially Material Factors** – The Treasurer considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

5.0 INVESTMENT PARAMETERS

The Program maintains its guiding investment parameters regarding capital deployment, capital reinvestment, and portfolio diversification, summarized below.

- a) **Total Investable Capital:** The Treasurer may allocate up to five percent (5%) of the Treasurer's State Investment Portfolio to the Program. The 5% cap shall be calculated based on: (1) the balance of the Treasurer's State Investment Portfolio at the inception of the State's fiscal year; or (2) the average balance of the Treasurer's State Investment Portfolio in the immediately preceding five (5) fiscal years, whichever number is greater.
- b) **Re-Investment of Earnings** – Earnings on the investments from the Program may be reinvested into the Program without being counted against the 5% cap under Section 15. Net earnings on investments under this Act that are not reinvested shall be deposited in the same manner as interest is deposited under Section 4.1 of the State Finance Act. The General Assembly shall prioritize any such funds deposited into the General Revenue Fund towards appropriations to support higher education in the State of Illinois.
- c) **Portfolio Diversification Approach** – The Program's investments shall be prudently allocated across a number of qualified Partners whose main objective is to facilitate education loans to Borrowers attending Institutions of higher education. SIA may provide capital to lender Partners facilitating Prime Tuition Loans, Prime Refinance Loans, Alternative Tuition Loans, and Alternative Refinance loans for study at eligible Institutions of Higher Education.

6.0 INVESTMENT ROLES AND RESPONSIBILITIES

The Program's investment oversight roles and responsibilities are specified below.

a) **Treasurer**

The Treasurer exercises authority and control over the management of the Program by setting policy and procedures which the staff of the Treasurer executes either internally or through the use of contractors.

Key roles and responsibilities include, but are not limited to:

- **Investment Policy** – The Treasurer is responsible for this Policy and shall review this Policy annually to ensure accuracy and continued relevance.
- **Oversight** – The Treasurer is responsible for the direction of investments and administration of the assets of the Program.
- **Contractors** – In order to properly carry out its responsibilities, the Treasurer may use one or more contractors to assist in the administration of the Program.
- **Performance and Monitoring** – The Treasurer will review the investment performance of each Program investment, as well as the expenses, and economic impact on a quarterly and annual basis.
- **Due Diligence** – The Treasurer will monitor investments and participate in operational and investment due diligence activities in coordination with its contractors retained to assist in the administration and oversight of the Program.
- **Accounting** – The Program's assets must be kept and accounted for according to relevant guidelines of the Governmental Accounting Standards Board of the Financial Accounting Foundation. The Treasurer will execute investment valuation procedures in compliance with existing guidelines, relevant laws, and internal requirements.
- **Investment Policy Committee Review:** The Treasurer maintains an Investment Policy Committee ("IPC") which is chaired by the Treasurer and includes the following members of the Treasurer's staff: Chief Investment Officer, Chief Financial Products Officer, Director of Corporate Governance and Sustainable Investments, General Counsel, Director of Alternative Investments, Director of Fiscal Operations, Chief of Staff, Chief Fiscal Officer, Director of Banking, Chief Legislative and Policy Officer, Director of State Investments, Chief Banking Officer, Director of Illinois Public Treasurer's

Investment Pool (“IPTIP”), any additional personnel deemed appropriate by the Treasurer.

The IPC will perform oversight and advisory duties on behalf of the Treasurer to support the Program, including, but not limited to:

- Reviewing monthly reports to evaluate the investment portfolio with regard to safety of principal, liquidity, rate of return, diversification, and general performance.
- Reviewing and providing insight into the investment policies, objectives, parameters, responsibilities, benchmarks, or management structure as appropriate;
- Ensures that investment decisions are made in compliance with Applicable Law, regulations, and policies.
- Review and approve pertinent updates to the Program Investment Policy Statement on an annual basis

b) **Strategic & Investment Advisory Services**

The Treasurer may use one or more qualified external vendors (“Strategic & Investment Advisors”) to assist in the administration of the Program. The services provided by the Strategic & Investment Advisors may include, but are not limited to:

- **Investment Strategy Advisory** –The Strategic & Investment Advisor may provide analysis and recommendations to the Treasurer regarding the design, development, and implementation of the Program. This includes but is not limited to creating financial and economic analysis, including financial modeling and social impact modeling. The Strategic & Investment Advisor may also advise on Program guidelines, principles, and the suitability of new and alternative student loan financing solutions for inclusion in the Program.
- **Evaluation of Partners** – The Strategic & Investment Advisor may advise and provide Partner evaluations to the Treasurer, taking into consideration the objectives set forth in this Policy. Evaluation and due diligence of potential service providers for the investment of all applicable assets under the Student Investment Account. Due diligence shall include but is not limited to, research, reference checking, financial analysis, and vetting the financial and litigation background of all applicable entities.

- While the Strategic & Investment Advisor will have the responsibility to seek, screen, evaluate, and recommend opportunities for investment through the Program, the Treasurer retains its independent decision-making authority and reserves the right to reject recommendations.
- **Investment Monitoring and Reporting** – The Strategic & Investment Advisor will monitor the performance of Program Investments. Reporting will include, but it not limited to, quarterly report on the Program’s economic and social impact and relevant investment performance including but not limited to borrower demographics, geographic dispersion, economic and financial benefits provided, investment returns, capital allocations, program costs, loan defaults, and other related information.
- **Quarterly Meetings** – The Treasurer and the Strategic & Investment Advisor shall meet will meet quarterly or more as necessary to review to review the market landscape and Program performance.
- **Annual Report** – The Strategic & Investment Advisor will prepare and provide the Treasurer with an annual report that describes the economic and social impact and relevant investment performance of the Program, including but not limited to Borrower demographics, geographic dispersion, economic and financial benefits provided, investment returns, capital allocations, Program costs, loan defaults, and other related information.
- **General Resource** – The Strategic & Investment Advisor will serve as a general resource to the Treasurer and its consultants for information, guidance, and training regarding investment, reporting, investment opportunity vetting and management, and other advisory duties.

7.0 REPORTING REQUIREMENTS

The Treasurer will obtain reports with information from all the Program recipient funds on all investments. In order to fulfill these duties, the Strategic & Investment Advisor shall track, aggregate, and report specific data and information to the Treasurer on a quarterly or annual basis, as determined by the Treasurer for all Program investments. Not only is this intended to ensure compliance with Applicable Law, but it will enable the Treasurer and the State of Illinois to obtain a more precise, comprehensive read on the outcomes and impact of the Program.

Key reporting components include, but are not limited to the following:

- a) The aggregate amount of capital that is invested by the Program;
- b) The date of the initial investments;
- c) The cost of the investment, including all pertinent fees;
- d) Coupon and investment details of the investments;
- e) The current fair market value of the investment collateral; and
- f) The ownership and/or management status of recipient Partners with regard to MWVD Persons.

In order to maintain sound accounting and financial reporting processes in accordance with generally accepted accounting principles, the Program investments and disclosures must be tracked and reported at par.

The Treasurer shall execute the Program investment valuation procedures in compliance with applicable GASB Standards, completing and maintaining pertinent documents.

The Strategic & Investment Advisor shall provide quarterly reports and fiscal year-end reports to the Treasurer in a timely manner.

8.0 BEST PRACTICES

The Treasurer seeks transparency, good governance practices, and alignment of interests when investing Program capital. Although the Treasurer will examine any and all investment terms on a case-by-case basis, the investment objectives, parameters, roles and responsibilities, and reporting requirements in this document provide a general framework for discussing prospective investments and managing investment oversight to improve the long-term outcomes of the Program. This policy is intended to promote thought-leadership, consistency, and equity in the development the Program and in the management of Program assets by ensuring strong Program governance, oversight, and transparency.

9.0 EXCEPTIONS TO THIS POLICY

The Treasurer may permit exceptions to this Policy. Such exceptions shall be reviewed to ensure activities remain relevant and appropriate with the intent of the Act, this Policy, and prudent investment standards.

10.0 POLICY REVIEW

The Treasurer shall review this Policy annually to ensure that it remains relevant and appropriate.