IX. Securities Lending Policy

The Illinois State Board of Investment ("ISBI" or the "Board") has established the following Securities Lending Policy (the "Policy") to set forth objectives and procedures for its Securities Lending Program ("the Program"). In furtherance of the Board's fiduciary responsibilities, this Policy outlines the objectives and procedures that shall ensure that the Board's securities lending agent (the "Agent") and cash collateral investment adviser ("Adviser"(s)) take prudent and careful action while managing the Program.

A. Strategic Objectives

1. The Program serves as an investment function to enhance portfolio return without interfering with overall portfolio strategy.

2. The primary investment objective of the Program is protection of principal and maintenance of liquidity while generating sufficient income or alpha to justify the Program.

3. The Program shall focus on intrinsic value lending rather than collateral investment return and emphasize lending quality rather than loan quantity.

4. The Program shall only use well-capitalized Agents that agree to indemnify the Board against borrower default.

5. In order to maintain transparency and utmost control of the Program, only separate accounts shall be used for the investment of cash collateral.

B. Performance Benchmark

On a monthly basis, the overall lending portfolio shall be measured against the securities lending universe. The Agent shall provide written performance analysis for each asset class of securities on loan on a monthly basis, at a minimum. Other evaluation criteria may be mutually agreed upon by ISBI staff ("Staff") and the Agent.

C. Responsibilities

In relation to the Program, Staff is responsible for the following:

1. Updating this Policy and all attachments to this Policy as necessary.

2. Negotiating the appropriate form securities lending management agreement(s) for the Program with the Agent and Adviser.

3. Reporting to the Executive Director regarding the Program's performance on a quarterly basis, at a minimum.

4. Advising the Executive Director regarding any changes to the Program's collateralization levels, acceptable credit ratings for counterparty lending limits, and changes to permissible securities, including changes in duration targets and credit ratings.

5. Monitoring the implementation of, and compliance with, the Policy by the Agent and cash collateral Advisers(s). Staff shall report any issues, material changes, and/or any violations of the Policy, a securities lending management agreement and/or an investment advisory agreement immediately to the Executive Director. These reports shall provide a detailed description of the issue(s) and appropriate recommendations for corrective action.

6. Meeting with the Agent and Adviser, either in person or via telephonic means, on a quarterly basis, at a minimum, to review the current market environment and overall portfolio positioning.

7. Ensuring that the monthly valuation of the securities lending portfolio is reported by appropriate Staff to the Board in accordance with generally accepted accounting principals.

The Board's general consultant ("Consultant") is responsible for the following:

1. Evaluating and recommending to the Board an appropriate Program that meets the Board's fiduciary responsibilities.

2. Updating Staff in key areas of the Program, including, but not limited to, the performance of cash collateral investment separate account(s), utilization rates, and risks of the Program.

3. Monitoring, evaluating, and reporting quarterly to the Board regarding the Program's performance relative to the Program's strategic and performance objectives.

The Agent is responsible for the following:

1. Lending securities on an agency basis, in accordance with the securities lending management agreement between the Agent and ISBI.

2. Requiring third party banks to undertake certain custodial functions in connection with holding of collateral provided by a borrower.

3. Reporting to the Staff and Consultant immediately in writing regarding all violations of the securities lending management agreement.

4. Providing monthly standardized reports to Staff and Consultant, which shall include detailed daily lending activity (including, but not limited to, securities on loan, market values and collateralization, loan duration, security location and currency, and borrower

information) and monthly portfolio level statistics (including, but not limited to, market values, average on-loan positions, utilization rate rebates, intrinsic earnings and fees).

5. Indemnifying ISBI against borrower default.

The Adviser (s) is responsible for the following:

1. Investing cash collateral in compliance with the investment advisory agreement(s) between the Board and the Adviser(s).

2. Notifying the Staff immediately in writing regarding all violations of the investment advisory agreement(s).

3. Providing daily and monthly standardized reports as specified by the Staff. The standardized reports shall include, but not be limited to, security information (e.g., CUSIP, description, par value, market value, duration, yield to maturity, coupon, credit quality, collateral (repo), location, currency, and broker information, etc.), portfolio weighted average life, and monthly portfolio level statistics (e.g., reinvestment earnings, rebates, fees, etc.).

D. Violation Reporting

The violation reporting process shall be as follows:

1. The Agent and/or Adviser shall report all violations to Staff immediately by telephone, followed by a written notification, describing in detail the violation(s) at issue. Staff shall report all violations immediately to the Executive Director and provide recommendations, if any, for corrective action(s).

2. The Executive Director shall determine what further action should be taken and/or what additional reporting is needed, based upon his/her judgment of the magnitude, sensitivity, and severity of the violation.

E. Calculations, Computations and Proxy Voting

The Agent and Adviser selected by the Board shall make all calculations and computations on a mark-to-market or amortized cost method, depending on market convention. The Board's Program shall adhere to the Board's investment policy for proxy voting; however, ISBI shall not be authorized to vote proxies with respect to securities that are on loan as of the applicable record date for such securities. Prior to each proxy season, Staff shall provide the Agent with the list of securities of companies at which the Board plans on filing shareholder resolutions. Upon receipt of the list of securities, Agent shall seek ensure that such securities are not on loan as of the applicable record date.

G. Reporting

The Agent shall provide detailed reporting, as requested by Staff and/or Consultant from time to time. On a quarterly basis, Staff shall furnish a report to the Board for review, which shall include, but not be limited to, the following information: lending volume, income generated, borrower allocations, and the NAV of the cash collateral investment account(s). The Agent must establish and maintain such records as is necessary to account for loans that are made and the income derived therefrom. The securities that make up a loan shall be noted in the Board's custody account as being on loan. The Agent shall maintain all records and supporting documentation relating to loans for five (5) years after the term of the Agent's securities lending management agreement.

H. Program Structure

The goal of the Program is to maximize return through intrinsic value lending, not through cash collateral reinvestment. Overarching goals of the Program include increasing transparency in fees and the cash collateral investment account(s), as well as enhancing reporting, performance, and risk monitoring. The basic operational structure of the Program shall be comprised of two segments: intrinsic value lending ("Specials") and general collateral lending.

The long term strategic objective of the Program shall focus on intrinsic value lending and increasing the utilization of non-cash collateral. The short term goal of the Adviser and Agent is to manage the distribution of ISBI's assets in the State Street Bank and Trust Company Quality Funds for Short-Term Investment ("Quality D Fund" or "legacy cash collateral account") and minimize any potential for investment loss. It is the intention of ISBI to prudently unwind all positions in the legacy cash collateral account.

The lending structure for this Program is outlined below:

- Intrinsic Value Lending – The focus of the Program shall be to lend Specials. Specials are defined as highly sought after securities with a demand spread (risk free rate less rebate rate) of 20 basis points or greater. Increasing the utilization of specials will meet the strategic objectives of focusing on intrinsic value lending and maintaining sufficient liquidity.

- General Collateral Lending - Equity and fixed income securities utilizing the general collateral pool shall be de-emphasized, but are permissible to maintain sufficient liquidity. These securities may generate significant revenue over time; however, by increasing loan volume, thus increasing the cash collateral reinvestment pool, the overall potential reinvestment risk to the Program is increased. The elimination of general collateral lending shall be dictated by maturing securities in the legacy cash collateral account and market conditions.

The acceptable forms of collateral for this Program are outlined below:

- Non-Cash Collateral – The primary form of collateral for this Program is non-cash collateral. The Agent shall match non-cash collateral with securities on loan, in order to reduce overall exposure to cash collateral and potential reinvestment risks. This approach transfers the collateral risk to the Agent, who must indemnify the Program in the event of borrower default. The need for a well-capitalized Agent is an important factor in structuring the Program. Specific forms of acceptable non-cash collateral, credit ratings and exposure levels shall be established in a securities lending management agreement.

- Cash Collateral – Cash Collateral should be the secondary form of collateral. Cash collateral should be utilized to maintain sufficient liquidity in the Program.

The Reinvestment Program Structure is outlined below:

- ISBI shall maintain a separate, dedicated cash collateral account. This account shall enable ISBI to maintain liquidity, transparency, and oversight of the reinvestment program. It shall be held at the ISBI's Custodian.

- The only new investment permissible for the reinvestment of cash collateral shall be repurchase agreements ("repos"). Specific forms of acceptable repos and exposure levels shall be established in a securities lending management agreement.

- The Adviser of this account shall be evaluated on a regular basis. The Adviser's investment goals and objectives shall be determined by Staff and outlined in the investment advisory agreement between the Adviser and the Board. This account shall be evaluated on a monthly, quarterly, and annual basis.

I. Guidelines

Securities eligible for loan and loan agreements shall meet the following criteria:

1. Each securities loan agreement entered into with a U.S. borrower shall contain a grant of a security interest in U.S. borrower collateral in a form sufficient to allow for the perfecting of such security interest in such U.S. borrower collateral, as permissible by law, in accordance with the provisions of Articles 8 and 9 of any applicable State's Uniform Commercial Code.

2. On an annual basis, at minimum, Staff shall provide Agent with a list of approved securities accounts for lending, as approved by the Board. The list may be updated as new securities accounts for lending are either added or removed by the Board.

3. All borrowers shall provide for delivery of the collateral to the custody and control of ISBI's Custodian.

4. ISBI's Custodian or Agent may receive and hold, on ISBI's behalf, collateral from borrowers to secure the obligations of borrowers with respect to any loans of securities made on behalf of the Board pursuant to a securities lending management agreement.

5. The Agent may only lend securities in countries approved by the Board. This list shall be reviewed by Staff and Consultant, in conjunction with the Agent, on an annual basis, at minimum. Any changes to this list shall be approved by the Board.

6. The maximum value of ISBI securities on loan at any one time shall be established in a securities lending management agreement.

7. On an annual basis, the Agent shall provide Staff with a list of potential borrowers and repo sellers and potential borrower and repo seller exposure limits. The Board shall approve the list and limits on an annual basis and has discretion to remove any borrower or repo seller from the list at any time.

8. Loans must be callable by ISBI or the Agent to ensure timely delivery of the security on the applicable trade settlement date, if the loaned security is sold by an ISBI portfolio. Non-callable loan terms are prohibited.

9. Loaned securities and initial collateral delivered by the borrower shall be marked- to-market at the close of each business day based upon the market value of the collateral and the loaned securities at the close of business employing the most recently available pricing information. Each securities lending management agreement shall require each borrower, if necessary, to deliver additional collateral to ISBI in the event the market value of the collateral falls below the required collateralization level(s).

10. Required margin collateralization levels for all types of loans and all types of repos shall be established in a securities lending management agreement.

This Policy shall be effective upon the successful completion of the FY 2010 search for securities lending services.

ISBI reserves the right to amend this Policy at any time.

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