

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
SEPTEMBER 26, 2014 – 9:15 A.M.

Present:	<u>Board Members</u>	Devon Bruce Judy Baar Topinka (via telephone) Roderick Bashir Michele Bush John Casey Steve Powell Mary Seminara-Schostok
	<u>Staff</u>	Andrew Armonaitis William Atwood Genette Bacon Johara Farhadieh Katherine Novel Timothy Kominiarek Scott Richards Linsey Schoemehl Alise White
	<u>Guests</u>	Marquette Associates Brian Wrubel, Dave Smith, Kelli Schrade, Nichole Roman-Bhatty
Absent:	<u>Board Member</u>	James Clayborne Dan Rutherford

ROLL CALL

Chairman Bruce called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present. Justice Schostok moved to allow Comptroller Topinka to participate via telephone due to personal illness. Mr. Powell seconded and the motion passed unanimously.

COMMUNICATIONS:

Chairman Bruce introduced the newly hired ISBI intern, Dean Goldater, as well as the newly retained Portfolio Manager Risk & Analytics, Katherine Novel, and welcomed both to the meeting.

Director Atwood advised the Board of his recent trip to Washington, D.C., where he was invited to discuss the Board’s emerging manager program in an effort to encourage more emerging and minority investment manager utilization at the federal level.

REPORT OF THE CHAIRMAN

Chairman Bruce referred the Members to the proposed 2015 Schedule of Meetings and noted that the location of the June 2015 Board meeting would be determined at the December Board meeting. Hearing no conflicts, Mr. Casey moved to approve the 2015 Schedule of Meetings, as previously distributed. Justice Schostok seconded and the motion passed unanimously. (Official minutes contain attachments.)

MINUTES OF PREVIOUS MEETING

Mr. Bashir moved to approve the minutes of the Board meeting held June 27, 2014, in the form previously submitted. Mr. Powell seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Emerging Manager Committee

Mr. Bashir stated that the Emerging Manager Committee had met prior to this meeting and reported the following actions:

- Committee approved the minutes of the June 26, 2014 meeting.
- Committee recommended a \$20M real estate allocation to Avanath Affordable Housing II, LLC.
- Committee recommended the termination of Opus Capital Management, with a transition of assets as set forth in the recommendation provided by Marquette.
- Committee approved the revised Emerging and Minority Investment Manager and Minority and Illinois Brokerage Policy.

Following review, Mr. Powell moved to approve the above recommendations and ratify the actions of the Emerging Manager Committee. Ms. Bush seconded and the motion passed unanimously.

Investment Policy Committee

Chairman Bruce stated that the Investment Policy Committee had met the previous afternoon and reported the following actions:

- Committee approved the minutes of the June 26, 2014 meeting.
- Committee heard a presentation from Columbia Acorn, an investment option under the Deferred Compensation Plan, and discussed.
- Committee recommended a \$30M real estate allocation to AG Core Plus Realty Fund IV, L.P.
- Committee recommended the liquidation of Cozad/Westchester Premiere Partner V, consistent with the recommendation provided by Marquette.

Following review, Mr. Powell moved to approve the above recommendations and ratify the actions of the Investment Policy Committee. Ms. Bush seconded and the motion passed unanimously.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- Committee approved the minutes of the June 27, 2014 meeting.
- Committee approved the Commission Recapture Report for 06/30/14.
- Committee approved the Records of Vouchers for the months of April, May, and June, 2014.
- Committee approved the Placement Agent Report for 1Q15.

Following review, Mr. Powell moved to approve the above recommendations and ratify the actions of the Audit & Compliance Committee. Mr. Casey seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Consultant – Marquette Associates

Ms. Roman-Bhatty, Marquette Associates, referred the Board Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the quarter June 2014. (Official minutes contain attachments.) Ms. Roman-Bhatty then reviewed the capital markets, the Plan summary and investment performance. Finally, Ms. Roman-Bhatty reviewed the Watch List. (Official minutes contain attachments.)

Summary of Columbia Acorn Participant Communication

Ms. Roman-Bhatty referred Members to the memorandum, “Columbia Acorn,” as previously distributed, and reviewed. (Official minutes contain attachments.) Following discussion, the Board move to evaluate the status of the Columbia Acorn Fund as an investment option for the Deferred Compensation Plan and to develop a plan to re-allocate Plan Participant investments if necessary.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – June 2014

Mr. Wrubel reported that the Investment Performance Report for the quarter ending June 2014 had previously been distributed and reviewed. (Official minutes contain attachments.)

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment contracts (5 ILCS 120/2(c)(7)), review of closed session minutes (5 ILCS 120/2 (21)), employment of specific employees (5 ILCS 120/2(c)(1), and potential Board litigation (5 ILCS 120/2(c)(11)). Ms. Bush moved to go into Executive Session for the above-stated purposes. Mr. Casey seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Messrs. Richards, Kominiarek, Wrubel and Ms. Schoemehl.

Upon returning to Open Session, Director Atwood continued his report.

Matters Relating to Existing Managers

Director Atwood stated that the matter was discussed during Executive Session. (Official minutes contain attachment.)

Watch List

Director Atwood stated that the matter was discussed during Executive Session. (Official minutes contain attachment.)

Legal Matters

Director Atwood stated that the matter was discussed during Executive Session.

Approval of Closed Session Minutes

Director Atwood stated that the matter was discussed during Executive Session. Mr. Casey moved to approve and maintain the confidentiality of the Closed Session minutes. Mr. Bashir seconded and the motion passed unanimously.

Report on ISBI Internship Program

Director Atwood reintroduced the ISBI Intern, Dean Goldater, to the Members and explained the hiring process, resulting from 57 applicants.

Update on Securities Lending – Quarter Ended 06/30/14

Ms. Farhadieh referred Members to a memorandum “Securities Lending Reporting – June 30, 2014” dated August 14, 2014 and reviewed. (Official minutes contain attachment.)

Minority Broker Usage Report – Quarter Ended 06/30/14

Ms. Farhadieh reviewed the minority brokerage commissions for the quarter ended June 30, 2014, as outlined in the memorandum “Minority Broker Commission Report as of June 30,

2014.” Mr. Powell moved to accept the report. Mr. Casey seconded and the motion passed unanimously. (Official minutes contain attachment.)

Review of Transaction Cost Analysis

Ms. Farhadieh referred Members to “Transaction Cost Analysis (TCA) Summary Report – Equity and Fixed Income Reports” for the period ended June 30, 2014, and reviewed. (Official minutes contain attachment.)

Review of Transitions

Ms. Farhadieh referred Members to the memorandum regarding the transition of assets from William Blair to State Street Global Advisers, as previously distributed, and reviewed. (Official minutes contain attachment.)

Review of FX Cost Analysis

Ms. Novel stated that the FX Summary Report for the quarter ended June 30, 2014 was previously submitted, and reviewed. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ended June, 2014 was previously distributed. The Chairman ordered the report filed. (Official minutes contain attachment.)

Revised Tuition Reimbursement Policy

Ms. Schoemehl referred Members to the memorandum, “Tuition Reimbursement Policy,” dated August 8, 2014, previously distributed. (Official minutes contain attachment.) Following review, Mr. Powell moved to approve the revised Tuition Reimbursement Policy, contained within the Board’s Employee Directives Manual. Mr. Bashir seconded and the motion passed unanimously.

Revised Administrative Rules

Ms. Schoemehl referred Members to the memorandum, “Revised Administrative Rules,” dated September 9, 2014, previously distributed. (Official minutes contain attachment.) Following review, Mr. Powell moved (i) to approve the proposed amendments to 70 Ill. Adm. Code 800 and 80 Ill. Adm. Code 2700, (ii) approve the adoption of 2 Ill. Adm. Code 2260, and (iii) grant Staff discretion to make further, non-material changes to the Administrative Rules during the rulemaking process. Justice Schostok seconded and the motion passed unanimously.

Board Liability and D&O Insurance

Director Atwood referred Members to the memorandum, “Directors and Officers (“D&O”) Insurance,” dated September 8, 2014, previously distributed. (Official minutes contain attachment.) Following review, the Board asked Staff to issue a request for information from applicable insurance companies and present the proposed premiums and associated information to the Board at its December meeting.

IT Improvements

Director Atwood referred Members to the memorandum, "Board Automation," dated September 7, 2014, previously distributed. (Official minutes contain attachment.) Following review, Mr. Powell moved to distribute information, including Board packets, to Members on an electronic basis, through the purchase of tablets. Justice Schostok seconded and the motion passed unanimously.

Revised Password Policy and Disaster Recovery Plan

Director Atwood referred Members to the memorandum, "Revised Password Policy and Disaster Recovery Plan," previously distributed, and reviewed. (Official minutes contain attachment.) Mr. Powell moved to approve the revised Password Policy and Disaster Recovery Plan as set forth in the memorandum. Mr. Casey seconded and the motion passed unanimously.

List of Forbidden Entities and Scrutinized Companies

Director Atwood referred the Members to the memoranda "List of Forbidden Entities-Public Act 95-0521" and "List of Scrutinized Companies-Public Act 95-616" dated September 3, 2014. Following review, Mr. Casey moved to approve the lists of Forbidden Entities and Scrutinized Companies as distributed. Mr. Powell seconded and the motion passed unanimously. (Official minutes contain attachments.)

Legislative Update

Director Atwood advised Members of the upcoming Senate Committee Hearings, scheduled for October, where which ISBI Staff will be testifying as a matter of regular procedure.

Update on Corporate Governance Matters

Ms. Schoemehl informed Members that the Harvard Law School Shareholder Rights Project will not continue into the 2015 proxy season. Ms. Schoemehl further advised the Board of an initiative with other institutional investors regarding implementation of clawback provisions at various companies. Given the Board's history with clawback reporting at Wal-Mart, the Board recommended moving forward with the aforementioned initiative.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

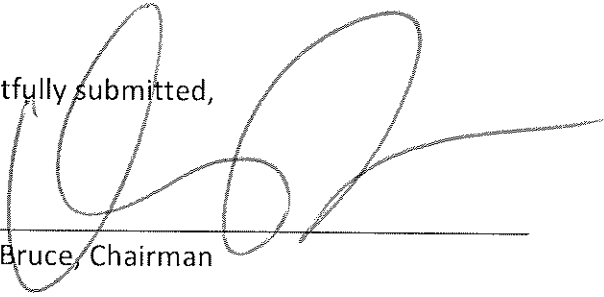
NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

Chairman Bruce noted that the next meeting of the Board is scheduled for December 5, 2014 at 9:15 a.m. in Chicago, Illinois; formal notices to be distributed at a later date. At 11:15 a.m., there being no further business to come before the Board, Ms. Bush moved to adjourn. Mr. Casey seconded and the meeting was adjourned.

Respectfully submitted,



Devon Bruce, Chairman

