

ROLL CALL

Chairman Levine called the meeting to order at 9:30 a.m. The General Counsel called the roll and noted that a quorum was present. Trustee Powell motioned to allow Comptroller Munger to participate via telephone due to matters relating to her employment pursuant to 7(a) of the Open Meetings Act. Justice Schostok seconded and the motion passed unanimously.

REPORT OF THE CHAIRMAN: PROPOSED 2016 SCHEDULE OF MEETINGS

Chairman Levine referred the Members to the proposed 2016 Schedule of Meetings; following discussion, Justice Schostok moved to approve the proposed 2016 schedule of meetings provided however that the March meeting would be held on Friday, March 11 at 9:15 a.m. Trustee Reiches seconded and the motion passed unanimously. (Official minutes contain attachments.)

MINUTES OF PREVIOUS MEETING

Discussion ensued regarding the minutes from the previous meetings of the Board.

Chairman Levine stated that the Board would go into Executive Session to discuss compensation of specific employees (5 ILCS 120/2(c)(1), specific investment contracts (5 ILCS 120/2(c)(7), pending litigation (5 ILCS 120/2(c)(11), and minutes of meetings lawfully closed under the Open Meetings Act (5 ILCS 120/2(c)(21). Trustee Cozzi moved to go into Executive Session for the above-stated purposes. Trustee Reiches seconded and the motion was called to a vote pursuant to the Open Meetings Act. All in favor were: Chairman Levine, Mssers. Cozzi, Flores, and Powell, Treasurer Frerichs, Comptroller Munger, Trustee Reiches, and Justice Schostok. The motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Mr. Rowell, and Mses. Burns, Payne and White.

Upon returning to Open Session, Chairman Levine stated that approval of the minutes from the previous meeting would be tabled until the March Board meeting.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Director Atwood stated that the Investment Policy Committee had met the previous afternoon and reported the following actions:

- Committee approved the minutes of the September 17, 2015 Investment Policy Committee meeting.
- Committee heard a presentation from Segall Bryant & Hamill, in accordance with the Board's Watch List Policy.
- Committee heard a presentation from Westbrook Real Estate Fund X and approved the Consultant's and ISBI's Investment Staff's recommendation to allocate \$50M to the fund, subject to legal review and successful contract negotiations.
- Committee heard a presentation from Madison International Real Estate Liquidity Fund IV, L.P. and approved the Consultant's and ISBI's Investment Staff's recommendation to allocate \$50M to the fund, subject to legal review and successful contract negotiations.

Chairman Levine requested that a motion be made to approve and ratify the actions of the Investment Policy Committee. Trustee Cozzi moved to adopt the recommendations and ratify the actions of the Investment Policy Committee. Justice Schostok seconded and the motion passed unanimously.

Audit & Compliance Committee

Chairwoman Schostok stated that the Audit & Compliance Committee had met earlier that morning and reported the following actions:

- Committee approved the minutes of the September 17, 2015 Audit & Compliance Committee meeting.
- Committee accepted the 2015 Annual Report.
- Committee approved the Record of Vouchers for the months of July, August, September 2015.
- Committee approved the Commission Recapture Report as of September 30, 2015.
- Committee approved the Placement Agent Report for Q2 2016.

Chairman Levine requested that a motion be made to approve and ratify the actions of the Investment Policy Committee. Trustee Powell moved to adopt and ratify the actions of the Audit & Compliance Committee. Justice Schostok seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Staff

Ms. Farhadieh referred Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the quarter ending September 2015. Ms. Farhadieh gave a brief overview of the Plan summary and investment performance and discussed matters relating to existing investment options and the Plan’s Watch List. Discussion ensued regarding the Board’s Deferred Compensation Plan. (Official minutes contain attachments.)

Update on Implementation of Roth Contributions and In-plan Rollovers

Ms. Farhadieh informed Members that implementation of Roth contributions remains on schedule for rollout on January 1, 2016. Ms. Farhadieh noted that communication to Plan Participants, including education, is currently underway.

Status of Target Date Fund RFP

Ms. Farhadieh advised Members that the selection date for the Target Date Fund RFP will be extended until the Board retains a consultant for the Deferred Compensation Plan.

Consideration and Approval of Deferred Compensation Plan

Ms. Farhadieh referred Members to the memoranda, “Recommendation to Issue an RFP for Deferred Compensation Plan Custodian” and “Recommendation to Issue an RFP for Deferred Compensation Plan Consultant,” as previously distributed, and reviewed. (Official minutes contain attachments.) Discussion ensued regarding the RFPs for Deferred Compensation Plan Custodian and Deferred Compensation Plan Consultant. Trustee Powell moved to approve the RFP for Deferred Compensation Plan Consultant. Trustee Reiches seconded and the motion passed unanimously. Trustee Powell moved to table the RFP for Deferred Compensation Plan

Custodian until Treasurer Frerichs reviews his role as custodian of the Board's assets. Trustee Cozzi seconded and the motion passed unanimously.

REPORT OF CONSULTANT – MEKETA INVESTMENT GROUP

Board Fiduciary Education – Asset Allocation Overview

Messrs. Benham and Wooley and Ms. Wallace, Meketa Investment Group ("Meketa"), were invited to join the meeting to present Members with an overview of the proposed asset allocation for the Board in partial satisfaction of the fiduciary training requirement for Members. Discussion ensued regarding the overview of the proposed asset allocation with Meketa providing detailed explanations to the Trustees as to the potential benefits of passive versus active management in asset categories where active managers historically have provided little or no alpha. Meketa also discussed in detail with the Trustees ISBI's current private equity investments and how that allocation could be improved. Chairman Levine and Executive Director Atwood noted that Mr. Wooley, at a previous meeting with the Chairman, ISBI Staff and Meketa, had recommended that ISBI Staff ask its hedge fund of fund managers to maintain liquidity and maximum flexibility pending Meketa's proposed asset allocation and that ISBI's Staff had concurred with that recommendation. Treasurer Frerichs requested that Meketa review a report on hedge funds and that Meketa consider the report's conclusions while preparing the asset allocation for the Board's review and consideration. Following review of materials, previously distributed, and comments from Members, the Meketa representatives thanked the Members for their time and committed to completing the presentation at a Special Meeting of the Board for the purpose of discussing the Board's overall asset allocation. (Official minutes contain attachment.)

Trustee Cozzi informed Members that he is currently working with ISBI Staff to call a Special Meeting of the Board for the sole purpose of hearing presentations from the Board's hedge fund managers.

Investment Performance Report – September 2015

Mr. Benham reported that the Investment Performance Report for the quarter ending September 2015 had previously been distributed and reviewed. (Official minutes contain attachments.) Discussion ensued regarding the Investment Performance Report for the quarter ending September 2015.

REPORT OF THE DIRECTOR

Update on Securities Lending – Quarter Ended 09/30/15

Ms. Farhadieh referred Members to the memorandum "Securities Lending Quarterly Reporting – September 30, 2015," as previously distributed, and reviewed. (Official minutes contain attachment.) Discussion ensued regarding the Securities Lending Quarterly Report.

Review of Transition

Ms. Farhadieh referred Members to the memoranda, "Transition from Ariel Micro-Cap to Cash" and "Transition from Herndon Capital to Rhumblin S&P 500," as previously distributed, and reviewed. (Official minutes contain attachment.) Discussion ensued regarding the investment transitions referenced in the memoranda.

Review of Transaction Cost Analysis

Ms. Novel referred Members to the memoranda, “Transaction Cost Analysis Summary Report – Equity” and “Transaction Cost Analysis Summary Report – Fixed Income” for the period ending September 30, 2015, as previously distributed, and reviewed. (Official minutes contain attachment.) Discussion ensued regarding the transaction cost analysis referenced in the memoranda.

Review of FX Cost Analysis

Ms. Novel stated that the FX Summary Report for the quarter ending September 30, 2015 was previously distributed, and reviewed. (Official minutes contain attachment.) Discussion ensued regarding the FX Summary Report.

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ending September 30, 2015 was previously distributed. (Official minutes contain attachment.)

Legislative Update

The General Counsel stated there was nothing to report.

Appointment to Illinois Investment Policy Board

Pursuant to Public Act 99-0128, which creates the Illinois Investment Policy Board (the “Policy Board”) to oversee divestment of certain prohibited investments by the State’s retirement systems, Chairman Levine moved to appoint Director Atwood to the Policy Board, noting that other State retirement systems had appointed their respective Executive Directors to the Policy Board. Justice Schostok seconded and the motion passed unanimously.

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.

Consideration and Approval of FY16 Budget

Justice Schostok reported to Members that following the meeting of the Executive Committee on November 16, 2015, she contacted the other State retirement systems and determined that the systems had included a cost of living adjustment (“COLA”) to their budgeted annual salaries for FY16. Following discussion, Trustee Cozzi moved to approve the FY16 budget, as previously distributed, provided however that the line item for employee salaries would be voted upon separately. Trustee Reiches seconded and the motion was called to a vote. All in favor were: Mssers. Cozzi, Flores, and Powell, Treasurer Frerichs, Comptroller Munger, Trustee Reiches, Justice Schostok, and Chairman Levine. The motion passed unanimously.

Trustee Cozzi moved to increase the FY16 budgeted salary for Ms. Farhadieh by 20 percent to compensate Ms. Farhadieh for the additional responsibilities associated with her role as Portfolio Manager to the Deferred Compensation Plan. Trustee Flores seconded and discussion ensued. Trustee Powell stated his belief that the salaries for ISBI Staff are low overall and have been held hostage by politics. Comptroller Munger stated that in light of the State's current fiscal conditions, she believes the proposed salary increase to be high.

The motion was called to a vote. All in favor were: Mssers. Cozzi, Flores, and Powell, Trustee Reiches, Justice Schostok, and Chairman Levine. All opposed were: Comptroller Munger. Treasurer Frerichs voted present. The motion passed.

Justice Schostok moved to retroactively apply a COLA of 1.8 percent to the FY16 budgeted annual salaries for those ISBI Staff not subject to the Illinois Personnel Code, consistent with the other State retirement systems, to be applied retroactively. Trustee Powell seconded and discussion ensued. Trustee Powell echoed his prior statement regarding his belief that the salaries for ISBI Staff are low overall and have been held hostage by politics. Comptroller Munger echoed her prior statement regarding the State's current fiscal conditions and noted that while she agrees with the intent of the COLA, an increase to salaries adds further constraints to the State's ability to continue to fund its pension systems. Trustee Cozzi noted that the COLA for federal employees was 1.5 percent in 2014, 1.7 percent in 2015, and 0 percent in 2016. Trustee Powell noted that Justice Schostok was tasked with determining the level of COLA for the State's retirement systems; 1.8 percent is consistent with those levels.

The motion was called to a vote. All in favor were: Treasurer Frerichs, Trustee Powell, Trustee Reiches, Justice Schostok and Chairman Levine. All opposed were: Comptroller Munger. Mssers. Cozzi and Flores voted present. The motion passed.

Semi-Annual Review of Closed Session Minutes and Destruction of Verbatim Records

Director Atwood stated that the matter was discussed during Executive Session; action on the matter would be postponed until a future meeting of the Board.

NEW/OLD BUSINESS

Chairman Levine stated that he would like to call a Special Meeting of the Board on January 29, 2015, with a meeting of the Investment Policy Committee occurring on January 28, 2015, to discuss the Board's private equity portfolio, including possible investment allocations, and the Board's overall asset allocation. Specific times will be circulated and official notice would be posted once the dates have been confirmed with Senator Clayborne.

Trustee Powell asked the Meketa representatives to, at the next meeting of the Board, present to the Board whether the firm has ever recommended to their clients investments in either GTCR or Waud Capital and, if so, the number of clients who made such investments.

Trustee Powell requested from Director Atwood copies of the job descriptions for all ISBI Staff.

Trustee Powell asked the Board's General Counsel and Fiduciary Counsel whether a Board member directing ISBI's investment managers on investment strategy is consistent with a Board Member's fiduciary duty. Ms. Burns responded that it depends on the facts presented and requested if Trustee Powell had specific facts that he could share it might impact the answer. Ms. Burns stated that it would be a violation of a Board Member's fiduciary duty to direct an investment manager to take an action that was directly contrary to action that has been approved by the Board, provided however that Board Members should have access to investment managers in order to gain knowledge of the manager's business and strategy and to be able to satisfy the Trustee's duty to monitor the Board's investment managers.

Treasurer Frerichs requested from Director Atwood a copy of any scoring mechanism used by ISBI Staff in the RFP for general investment consultant as well as the memorandum that was distributed to the Board during Executive Session of the Special Meeting of the Board on October 19, 2015.

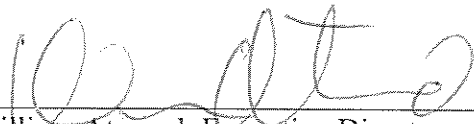
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that the next regular meeting of the Board is scheduled for March 11, 2015; however, as previously discussed, a Special Meeting of the Board to discuss asset allocation will be scheduled for January 29, 2016, formal notices to be distributed at a later date. At 12:35, there being no further business to come before the Board, Trustee Powell moved to adjourn. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director

