

MINUTES OF THE
INVESTMENT POLICY COMMITTEE
MEETING HELD
Thursday, January 28, 2016 – 2:00 P.M.

Present:

Committee Members

Marc Levine
Mark Cozzi
Ezequiel Flores
Steven Powell
Shari Greco Reiches

Justice Schostok participated as a Board member via telephone.

Staff

William Atwood
Johara Farhadieh (participated via telephone)
Ciara Jackson
Tondalaya Lewis-Hozier
Linsey Payne
Scott Richards
Tim Kominiarek

Guests

Courtland Partners:
Jarrod Rapalje

Brookfield Strategic Real Estate Partners:
John Stinebaugh
Merope Pentogenis

Meketa Investment Group:
Frank Benham

Franklin Park:
Bradley T. Atkins

JFL Equity Investors:
Lou Mintz

Illinois State Treasurer's Office
Jay Rowell

Burke Burns & Pinelli, Ltd.:
Mary Pat Burns
Sarah Boeckman

ROLL CALL

At 2:08 p.m., the General Counsel called the roll and noted a quorum was present.

REPORT OF THE INVESTMENT POLICY COMMITTEE CHAIR

Chairman Levine thanked Committee Members, Investment Staff and Consultants for spending the time and effort on ISBI's asset allocation study.

PRIVATE EQUITY PRESENTATION: FRANKLIN PARK

JFL Equity Investors IV, L.P. ("JFL Equity")

Mr. Atkins, on behalf of Franklin Park, referred Committee Members to the presentation materials, "JFL IV Investment Considerations" previously distributed, and reviewed. (Official minutes contain attachments.) Discussion ensued regarding Franklin Park's recommendation. Chairman Levine asked Franklin Park if Franklin Park had any clients currently investing in JFL Equity funds and Franklin Park stated that several of Franklin Park's clients do invest with JFL Equity including some clients committing to Fund IV.

Mr. Mintz, on behalf of JFL Equity, was invited to join the meeting. Following the presentation, Committee Member Reiches asked the JFL Equity representative to explain the large increase in the size of the new JFL Equity's fund as compared to the dollar amounts of prior funds. The JFL Equity representative stated that the prior funds increased funding by approximately \$200 million dollars compared with earlier funds and that such funds were being successful. Further, he indicated he is confident the team assigned to the new Fund IV would be adequately sized to handle this type of growth in relation to the prior funds. Chairman Levine asked the JFL Equity representative if all of the previous investors in JFL Equity older funds were returning to invest in the new fund. The JFL Equity representative stated that fifteen (15) previous investors were committed to investing with the new Fund IV and that JFL Equity currently had ten (10) new investors for the new Fund IV.

Following the presentation by JFL Equity, Committee Member Reiches asked Franklin Park if ISBI was getting the best fees with JFL Equity because of ISBI's status as one of the largest potential investors. Committee Member Cozzi seconded Trustee Reiches comments and requested that Franklin Park negotiate better fees, if possible, for ISBI. The Franklin Park representative stated that Franklin Park had already reduced the organizational expenses charged by JFL Equity but that they would enter additional negotiations in order to attempt to lower the fees charged by JFL Equity based on the aggregate size of the investments being made by Franklin Park clients. Committee Member Reiches stated that the contract negotiations would be an appropriate place to negotiate better fees and asked what law firms ISBI utilizes for investment contract negotiations. After lengthy discussions regarding the process for insuring that ISBI investment contracts meet the requirements of Illinois law, during which discussion the Executive Director notified the Committee that ISBI uses the services of one law firm located in Springfield, Illinois to undertake its investment contract review and negotiations, Chairman

Levine suggested that ISBI Staff prepare a Request for Proposal (“RFP”) for law firms specializing in investment negotiations and investment contracts for the Board’s consideration at the March meeting. Committee Member Cozzi agreed that value for ISBI may be created in negotiating fees during the contract process by utilizing law firms with expertise in a particular field. He stated that as an example, attorneys with an expertise in private equity deals might add value in knowing how to lower fees and ensure transparency.

Guest Jay Rowell from the Illinois Treasurer’s Office asked Franklin Park about the process for picking potential firms for ISBI to consider for investment. Discussion as to Franklin Park’s process ensued. Chairman Levine requested that Franklin Park specifically look at Illinois private equity firms with a sizable amount of assets under management in light of public policy considerations encouraging ISBI to invest with Illinois firms. Franklin Park responded that they would bring a list of Illinois private equity firms for the Board’s consideration at the March meeting.

The General Counsel reported that JFL Equity had completed a Vendor Disclosure Questionnaire; there was nothing material to report and all disclosures had been considered in formulating the Investment Staff’s recommendation.

Committee Member Powell moved for the Committee to approve the recommendation from Franklin Park and ISBI Investment Staff regarding the allocation of \$40 million dollars to JFL Equity Investors IV, LP subject to successful contract negotiations. Committee Member Reiches seconded and the motion passed unanimously.

Mr. Atkins, on behalf of Franklin Park, thanked the Members for their time and excused himself from the meeting.

***REAL ESTATE CONSULTANT PRESENTATION: COURTLAND PARTNERS
 (“COURTLAND”)***

Brookfield Strategic Real Estate Partners II, L.P. (“Brookfield”)

Mr. Rapalje, on behalf of Courtland, referred Members to the memorandum, “Evaluation of a Proposed Commitment of Brookfield Strategic Real Estate Partners II, LP” as previously distributed, and reviewed. (Official minutes contain attachment.) Mr. Stinebaugh and Ms. Pentogenis, on behalf of Brookfield, were invited to join the meeting. Discussion ensued regarding Brookfield’s presentation and the proposed investment.

Chairman Levine requested that the Brookfield representatives explain the corporate structure of Brookfield. The Brookfield representatives indicated that the parent company is based in Toronto with approximately \$225 billion worth of assets under management and that the operating partner is Brookfield Asset Management. Committee Member Reiches asked the

Brookfield representatives to explain the organizational flow chart in more detail. Committee Member Cozzi asked Brookfield representatives to explain the employee compensation structure and whether Brookfield employees receive any type of incentive pay as part of their compensation. Brookfield representatives confirmed that employees are not committing capital personally and that employees are not required to invest in any of Brookfield's investments.

Following additional comments from Members, the Brookfield representatives thanked the Members for their time and excused themselves from the meeting. Discussion ensued regarding the investment. The Members asked Courtland various questions regarding the proposed investment. Committee Member Reiches raised a question as to Brookfield's organizational structure and indicated that she did not believe her question about how Brookfield is investing the funds had been answered to her satisfaction. Committee Member Cozzi indicated he had concerns regarding Brookfield's organizational and compensation structures in order to ensure an alignment of interests. The General Counsel reported that Brookfield had completed a Vendor Disclosure Questionnaire; there was nothing material to report and all disclosures had been considered by ISBI's Investment Staff in reaching its recommendation.

Committee Member Powell moved to approve the recommendation from Courtland regarding the allocation of \$50 million dollars to Brookfield Strategic Real Estate Partners. There was no second and the motion failed.

Oak Street Real Estate Capital Fund III, LP ("Oak Street")

The Courtland representative referred Members to the memorandum, "Oak Street Real Estate Capital Fund III Commitment Upsizing," as previously distributed, and reviewed. (Official minutes contain attachment.) Discussion ensued regarding Courtland's recommendation. Courtland recommended that an additional allocation be made to Oak Street for the same reasons that it initially recommended a \$30 million dollar allocation to Oak Street. Courtland further noted that the fee savings for ISBI with the recommended new allocation would be significant. Committee Member Powell moved that the Committee approve the recommendation from Courtland Partners and ISBI Investment Staff that the existing allocation to Oak Street Real Estate Capital Fund be increased in the amount of an additional \$20 million dollars for a Global Opportunistic mandate. Trustee Cozzi seconded the motion and the motion passed unanimously.

MATTERS RELATING TO EXISTING MANAGERS

Chairman Levine asked if there was a motion that the Board move into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss investment contracts (5 ILCS 120/2(c)(7)). Committee Member Cozzi moved to go into Executive Session. Committee Member Powell seconded the motion 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, Trustee Reiches, and Justice Schostok. The motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood and Mses. Burns.

Upon returning to Open Session, Chairman Levine asked Courtland to clarify ISBI's current direction to Clarion Partners ("Clarion") based on previous Committee meetings. The Courtland representative confirmed that Clarion is not currently investing ISBI's money after the Committee's direction following the discussion of Clarion's organizational management change. The Courtland representative indicated that Clarion's organizational management change is still pending as it has been announced but not yet approved. Discussion ensued regarding Courtland's recommendation. Chairman Levine pointed out to the Committee that this account was in place prior to the Board's hiring of Courtland. Executive Director Atwood stated that putting Clarion on the Board's Watch List is consistent with the Board's Investment Policy.

Committee Members discussed the Board's Transition Management Policy and the process for transitioning certain assets to the Board's transition manager pool. Chairman Levine discussed how ISBI is outbalanced in the equity space and proposed directing ISBI Staff to develop a RFP for a private equity consultant for the Board's consideration. The Committee agreed and directed ISBI Staff to develop a RFP for a private equity consultant for the Board's consideration at its March meeting.

Committee Member Reiches moved that the Committee approve the recommendation from Courtland and ISBI Investment Staff regarding putting Clarion on the Board's Watch List for organizational reasons consistent with the Board's Watch List policy is approved. Committee Member Flores seconded and the motion passed unanimously.

Committee Member Reiches moved that the Committee approve the recommendation from Meketa and ISBI Investment Staff regarding the termination of Standish for organizational reasons and that Meketa and ISBI Investment Staff are directed to transition the portfolio in accordance with the Board's Transition Management Policy. Committee Member Cozzi seconded and the motion passed unanimously.

Committee Member Reiches moved that the Committee approve the recommendation from Meketa and ISBI Investment Staff regarding putting Entrust on the Board's Watch List for organizational reasons consistent with the Board's Watch List policy is approved. Committee Member Flores seconded and the motion passed unanimously.

NEW BUSINESS/ OLD BUSINESS

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine stated that the next meeting of the Investment Policy Committee is currently scheduled for March 11, 2016, official notices to be distributed at a later date. At 4:58 p.m., there

being no further business to come before the Committee, Trustee Cozzi moved to adjourn the meeting. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director