

MINUTES
SPECIAL MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
January 29, 2016 – 9:00 A.M.

Present:

Board Members

Mark Cozzi
Ezequiel Flores
Michael Frerichs
Marc Levine
Leslie Munger
James Clayborne
Steven Powell
Shari Greco Reiches
Mary Seminara-Schostok

Staff

William Atwood
Genette Bacon-Cordova
Johara Farhadieh (participated by telephone)
Ciara Jackson
Tondalaya Lewis-Hozier
Katherine Novel
Linsey Payne
Scott Richards
Alise White

Guests

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

Meketa Investment Group:
Frank Benham, Ali Wallace, Peter Wooley

Illinois State Treasurer's Office:
Jay Rowell
Rodrigo Garcia

ROLL CALL

Chairman Levine called the meeting to order at 9:12 a.m. The General Counsel called the roll and noted that a quorum was present.

REPORT OF THE CHAIRMAN:

Chairman Levine thanked ISBI's Investment Consultant, Meketa Investment Group ("Meketa"), for its time and energy in developing ISBI's asset allocation study. Chairman Levine also thanked the Board for meeting with Meketa and spending the time to review the asset allocation study prior to the Board meeting.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Director Atwood stated that the Investment Policy Committee had met the previous afternoon, on January 28, 2016, and reported the following actions:

- Committee heard a presentation from JFL Equity Investors IV, LP and approved the Consultant, Franklin Park's, and ISBI's Investment Staff's recommendation to allocate \$50M to Fund IV, subject to legal review and successful contract negotiations.
- Committee heard a presentation from Courtland Partners regarding an increased allocation of \$20 million to Oak Street Real Estate Capital Fund and approved the Consultant's and ISBI's Investment Staff's recommendation to allocate an additional \$20M to the Oak Street Real Estate Capital Fund, subject to legal review and successful contract negotiations.
- Committee approved Meketa's and ISBI's Investment Staff's recommendation terminating Standish based on organizational changes and directed Meketa and ISBI Investment Staff to transition the portfolio in accordance with the Board's Transition Management Policy.
- Committee approved Meketa's and ISBI's Investment Staff's recommendation that Entrust be put on the Board's Watch List for organizational reasons consistent with the Board's Watch List policy.
- Committee approved Courtland and ISBI's Investment Staff's recommendation that Clarion be put on the Board's Watch List for organizational reasons consistent with the Board's Watch List policy.

Chairman Levine requested that a motion be made to approve and ratify the actions of the Investment Policy Committee. Treasurer Frerichs moved to adopt the recommendations and ratify the actions of the Investment Policy Committee. Comptroller Munger seconded and the motion passed unanimously.

COUNSULTANT ASSET ALLOCATION STUDY: MEKETA INVESTMENT GROUP ("MEKETA")

Mssers. Benham and Wooley and Ms. Wallace, Meketa Investment Group ("Meketa"), were invited to join the meeting to present the proposed asset allocation for the Board's consideration. Meketa referred Members to the "Illinois State Board of Investment January 29, 2016 Meeting Materials" and discussed its proposed asset allocation with the Members in partial satisfaction of the fiduciary training requirement for Members. (Official minutes contain attachment.) During

the presentation, Justice Schostok asked Meketa to explain why they recommended that ISBI reduce its allocation to hedge fund investments. Meketa explained that its recommendation was in large part because of hedge fund fees, noting that ISBI spends on average \$46 million dollars a year in hedge fund fees, and that ISBI could get similar returns with an increased allocation to the public equity portfolio. Trustee Reiches noted that there are additional fees within the fund to fund investments in the hedge fund space. Chairman Levine commented that the Board cannot reward hedge fund managers, or other investment managers, for returns based on the strength of the S&P or normal market conditions without assessing the strength of the underlying investment considerations utilized by the manager. Chairman Levine also noted that the Board's review of hedge fund investments should also extend to the private equity portfolio to ensure that ISBI is getting the best deal on all its investments. Chairman Levine updated the Board that he, Director Atwood and Trustee Cozzi have received numerous communications from Entrust and Rock Creek that discussed different ideas on lower cost alternatives to ISBI's current hedge fund of fund structure.

Meketa noted that the proposed asset allocation includes greater utilization of passive management including minimum passive management mandates resulting in lower management fees through passive exposure. Chairman Levine noted that moving to a market weight in small caps pursuant to the proposed asset allocation would also result in a significant change to the portfolio.

Trustee Cozzi noted that it is important the Board understand the composition of the hedge fund portfolio to properly address the implementation stages of Meketa's asset allocation study. Trustee Cozzi suggested scheduling a Special Meeting of the Board for the sole purpose of hearing presentations from the Board's hedge fund managers. Chairman Levine noted that the process for implementing Meketa's asset allocation study, both in the hedge fund portfolio and private equity allocations, would take at least twelve (12) months and perhaps longer and that it was important for the Board to understand the implementation process. The Board discussed having a special day devoted to hedge funds so that Members had a chance to focus on what role if any hedge funds should play and are playing in the ISBI portfolio. Treasurer Frerichs noted Meketa and ISBI Staff should be conscious of moving assets, pursuant to the asset allocation study, away from emerging managers because of Illinois legislation and public policy concerns addressing the Board's use of emerging managers. Treasurer Frerichs requested that Meketa provide a report to the Board regarding the impact of the asset allocation on emerging investment managers.

Trustee Reiches inquired as to the benefits of choose option "A" over option "B" presented in Meketa's proposed asset allocation. The representatives from Meketa explained that to implement option B would take longer to implement compared to Option A given the liquidity of ISBI's hedge fund portfolio. Chairman Levine noted that implementing the proposed private equity increases will take several years whereas the proposed changes to the hedge funds would be mostly executed in the first year of implementation.

Trustee Reiches thanked Meketa for its presentation and commented that she was comfortable with the Board voting on the asset allocation but only if Board members felt comfortable that they had been afforded the proper time and had all the necessary materials to vote on the asset

allocation proposal being made by Meketa. Comptroller Munger stated that she was comfortable in supporting Policy A within the asset allocation study as presented. After discussion of the different policy alternatives, the Board agreed to move forward with the vote. Trustee Reiches moved for the Board to approve and adopt the recommendation of Meketa regarding Policy A presented in the asset allocation for ISBI and directed ISBI Staff during the implementation stage of the asset allocation to take such steps that are consistent with ISBI's new asset allocation while acting in the normal course of business. Trustee Powell seconded and the motion passed unanimously. Ms. Burns stated that any Board member who receives any media inquiries regarding ISBI's new asset allocation should direct such inquiry to Chairman Levine or the Executive Director.

REPORT OF THE DIRECTOR

Treasurer's Proposed Legislative Amendment

Executive Director Atwood directed the Board to the Treasurer's legislative amendment distributed to the Board seeking to have the Treasurer removed as the custodian for ISBI (official minutes contain attachment). Trustee Powell moved that the Board approve as presented the Treasurer's Proposed Legislative Amendment and that the Chairman and Fiduciary Counsel be delegated the authority to agree to such other non-material revisions as they may be requested by the Treasurer's office during the legislative process. Trustee Reiches seconded and the motion passed unanimously.

Board Portal

Executive Director Atwood directed the Board to the memorandum prepared by Fiduciary Counsel and ISBI Staff regarding Board portal options for the Board's consideration. Discussion ensued regarding ISBI Staff's recommended Board portal. Trustee Reiches moved that the Board approve the recommendation of ISBI's Staff regarding the Board portal platform Boardvantage, subject to legal review and successful contract negotiations. Trustee Flores seconded and the motion passed unanimously.

NEW/OLD BUSINESS

Chairman Levine stated that based on a suggestion he received from Justice Schostok, he would like to suggest an educational day for the Board in Chicago and following the conference the Board could have a Board dinner. Justice Schostok agreed and suggested that Meketa present investment education during the morning session of the proposed conference day. Trustee Reiches suggested that a segment of the proposed conference day could include governance and fiduciary training. Chairman Levine said he would work with Executive Director Atwood to schedule an educational conference day for the Board.

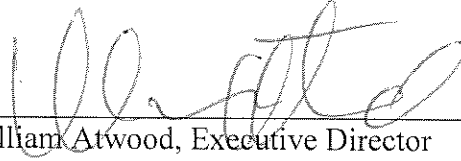
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that the next regular meeting of the Board is scheduled for March 11, 2016, formal notices to be distributed at a later date. At 11:27 a.m., 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,

A handwritten signature in cursive script, appearing to read "W. Atwood", is written over a horizontal line.

William Atwood, Executive Director

