

MINUTES OF THE
ILLINOIS STATE BOARD OF INVESTMENT
MEETING HELD
Wednesday, April 27, 2016 – 2:00 P.M.

Present:	<u>Board Members</u>	Marc Levine Mark Cozzi Ezequiel Flores Steven Powell Shari Greco Reiches Treasurer Michael Frerichs (via telephone) Justice Mary Seminara-Schostok Senator James Clayborne Comptroller Leslie Munger
	<u>Staff</u>	William Atwood Johara Farhadieh Scott Richards Tim Kominiarek Tondalaya Lewis-Hozier Katherine Novel Ciara Jackson
	<u>Guests</u>	Burke Burns & Pinelli Mary Patricia Burns, Sarah Boeckman Illinois State Treasurer's Office Jay Rowell, Garcia Rodrigo (via telephone) Mesirow Financial Craig Goesel, Tim Bowen
Absent:	<u>Board Members</u>	None

ROLL CALL

Chairman Levine called the meeting to order at 1:47 p.m. Ms. Lewis-Hozier called the roll and noted a quorum was present. Ms. Burns suggested that the Board go out of the regular order of business to accommodate Treasurer Frerichs' plan to conference call into the meeting. Comptroller Munger moved to allow the Board to go out of the regular order of business to afford Treasurer Frerichs additional time to conference call into the meeting. Trustee Powell seconded and the motion passed unanimously.

ILLINOIS DEFERRED COMPENSATION HARDSHIP APPEAL 16-014

Ms. Burns referred Members to the "Hardship Appeal 16-014 Findings of Fact and Recommendation of the Hearing Officer" in the Board materials. (Official minutes contain attachment.) Ms. Burns noted that the applicant's son suffers from a severe medical condition due to the deteriorated nature of the applicant's air conditioning and furnace unit. Ms. Burns also noted that the applicant provided sufficient documentation evidencing the son's medical condition and the deteriorated condition of the air conditioning and furnace unit. Ms. Burns stated it was her recommendation to approve the applicant's request for \$5,410.00 to replace his air conditioning and furnace unit. After discussion amongst the Members, Trustee Powell moved to approve the recommendation from the Hearing Officer. Comptroller Munger seconded and the motion passed unanimously.

CONSIDERATION AND APPROVAL OF PREVIOUS MINUTES

Chairman Levine noted that he had discussions with the Treasurer's Office regarding the minutes from the Board's March 11, 2016 meeting and recommended that the Board wait until its June meeting to approve the minutes to afford Treasurer Frerichs sufficient time to review and provide revisions. The Board agreed to postpone approving the March 11, 2016 open session minutes until the Board's June meeting. Justice Schostok moved to approve the Executive Session minutes of the March 11, 2016 meeting as presented. Trustee Reiches seconded and the motion passed unanimously. (Official minutes contain attachment.)

CONSIDERATION AND APPROVAL OF STANDING COMMITTEES

Chairman Levine noted that the Executive Committee met on March 30, 2016 to consider and approve the General Counsel job description and the RFP scoring criteria for the Private Equity Consultant search. Trustee Reiches moved to adopt and ratify the report of the Executive Committee from its March 30, 2016 meeting and Trustee Flores seconded the motion. Mr. Rowell noted the Treasurer's continuing objection to the RFP scoring criteria that was approved at the March 3, 2016 meeting. The motion to adopt and ratify the report of the Executive Committee passed unanimously.

Senator Clayborne provided the report of the Emerging Manager Committee meeting from its April 27, 2016 meeting. Trustee Powell moved to adopt and ratify the report from the Emerging

Manager Committee as presented by Senator Clayborne. Trustee Flores seconded and the motion passed unanimously.

Trustee Cozzi moved pursuant to Section 7(a) of the Open Meetings Act to allow Treasurer Frerichs, as a Board Member, to participate via telephone due to his absence as a result of matters relating to his employment. Trustee Reiches seconded and the motion passed unanimously.

Ms. Farhadieh provided the report of the Investment Policy Committee from its April 27, 2016 meeting. Chairman Levine requested that a motion be made by consent agenda to approve and ratify the following actions of the Investment Policy Committee (noted on the consent agenda as items 1-8, with the exception of item #2 on the consent agenda). Senator Clayborne moved to approve and ratify the following actions of the Investment Policy Committee. Trustee Cozzi seconded and the motion passed unanimously.

1. Committee approved the recommendation from ISBI Staff and the Real Estate Consultant regarding terminating the Clarion Separate Account and liquidating the assets.
3. Committee approved the recommendation of ISBI Staff and Meketa to appoint State Street Global Adviser as Investment Manager for the Barclays Aggregate, the 50% Barclays Intermediate and 50% Barclays Long-Term, and Inflation Linked Barclays US TIPS, subject to legal review and contract negotiations.
4. Committee approved the recommendation from Meketa and Investment Staff to appoint Northern Trust as Investment Manager for the MSCI Emerging Markets and MSCI EAFE Small Cap, subject to legal review and contract negotiations.
5. Committee approved the recommendation from Meketa to terminate SSGA Emerging Markets Small Cap Index, Mesirow Small Cap Value and Segall Bryant Hamill Small Cap Core consistent with the Board's previously approved asset allocation at some time and in such manner as Investment Staff deem prudent.
6. Committee approved the recommendation from Meketa to maintain the current fee arrangement with IFM Global Infrastructure.
7. Committee approved the recommendation from Meketa regarding the proposed investment benchmarks.
8. Committee approved the recommendation from ISBI Staff to approve the Money Market Fund RFP subject to the review of Counsel and the Deferred Compensation Consultant.

Chairman Levine noted that the Investment Policy Committee also approved the recommendation from ISBI Staff to appoint Meketa as ISBI's Deferred Compensation Consultant, subject to legal review and contract negotiations (noted as Item #2 on the consent agenda). Chairman Levine asked that a Roll Call vote be made with respect to the Investment

Policy Committee's approval of Meketa as the Board's Deferred Compensation Plan Consultant. Senator Clayborne moved to adopt and ratify the Investment Policy Committee's approval of Meketa as the Board's Deferred Compensation Plan Consultant and Trustee Cozzi seconded the motion. Treasurer Frerichs thanked the Board for reviewing the scoring metrics utilized by Investment Staff and noted he continues to raise objections to the scoring process because he believes the process lacks consistency. The motion was called to a Roll Call vote and all in favor were: Trustees Cozzi, Flores, Reiches, Powell, Chairman Levine, Senator Clayborne and Comptroller Munger. All opposed were: Justice Schostok and Treasurer Frerichs. The motion passed.

REPORT OF EXECUTIVE DIRECTOR

Delegation of Authority to Executive Director and Deputy Executive Director

Ms. Burns referred Members to a memorandum, "Delegation of Authority to Executive Director and Deputy Executive Director for Time Sensitive Investment Matters". (Official minutes contain attachment). Ms. Burns noted that it is a best practice for pension funds of a similar size to include the delegation of certain investment authority for time sensitive items in order to protect the assets of the fund. Trustee Cozzi suggested postponing the issue to afford Counsel and Investment Staff additional time to review the proper checks and balances for investment decisions. Ms. Burns agreed and suggested that this item should be discussed in the context of reviewing and revising ISBI's administrative rules.

Conflicts of Interest Guidance Memorandum

Ms. Burns referred Members to a memorandum, "Conflicts of Interest Guidance Memorandum". Ms. Burns thanked certain Members for highlighting certain conflict of interest issues that may be helpful for Trustees in reviewing investment decisions. Ms. Burns encouraged Trustees to reach out to Counsel for guidance if ever faced with a potential conflict of interest.

Communications Policy

Ms. Burns referred Members to the "Communications Policy". (Official minutes contain attachment.) Ms. Burns noted that it is a best practice to have a clear policy outlining the appropriate spokesperson for ISBI to protect the Board as a whole. Treasurer Frerichs noted his interest in having his Director of Communications review the policy prior to Board approval. Trustee Powell noted his opinion that Trustees should be able to communicate their disagreement with a Board decision. Ms. Burns stated that all Members must make independent decisions with respect to Board actions but a Member cannot undermine a Board decision because of a personal disagreement with the decision. The Members agreed to postpone the approval of the Communications Policy until its June meeting.

RFP for Investment Counsel

Ms. Burns referred Members to the “Request for Proposal for Investment Counsel”. (Official minutes contain attachment.) Following discussion amongst the Members, Trustee Cozzi moved to approve the RFP for Investment Counsel. Justice Schostok seconded and the motion passed unanimously.

Travel Authorization

Ms. Burns referred Members to the memorandum “Training Requirements and Travel Approval for Board Members and ISBI Staff”. (Official minutes contain attachment.) Ms. Burns noted that the Pension Code requires the Board to approve a Members attendance at a conference. Ms. Burns also noted that it is a best practice for Staff and Counsel to provide the Board with a list of conferences for the Board’s approval at every meeting. Trustee Powell suggested that Trustees be limited to two conferences a year in order to limit the expenses associated with such travel. Ms. Burns agreed and suggested that the Trustees and Staff be limited to two out of state conferences a year. Ms. Burns additionally suggested that Counsel work with Staff to develop a comprehensive travel policy for the Board’s consideration. Trustee Powell made a motion to approve the list of conferences. Trustee Reiches seconded and the motion passed unanimously.

MESIROW FIDUCIARY INSURANCE PRESENTATION:

Mr. Goesel and Mr. Bowen referred Members to their presentation materials “Fiduciary Liability Insurance Coverage Review”. (Official minutes contain attachment.) Mr. Goesel outlined the Board’s fiduciary responsibilities provided in the Illinois Pension Code and noted that the Illinois Pension Code specifically allows the Board to procure fiduciary insurance. Trustee Powell moved to direct Mesirow to present specific coverage options for the Board at its June meeting. Trustee Cozzi seconded and the motion passed unanimously.

INTERIM GENERAL COUNSEL REPORT:

Ms. Burns provided an update on FOIA requests and the ongoing GM litigation. Ms. Burns reminded Members that the “Statement of Economic Interests” for Members is due May 1, 2016. Ms. Burns suggested that the Board go into closed session to discuss personnel issues. Trustee Cozzi moved to go into closed session pursuant to Section 2(c)(1) of the Open Meetings Act. Trustee Powell seconded and the motion was called to a Roll Call vote. All in favor were: Trustees Cozzi, Powell, Reiches, Flores, Senator Clayborne, Treasurer Frerichs, Chairman Levine, Justice Schostok and Comptroller Munger. The motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Mr. Rowell, Ms. Burns and Ms. Boeckman.

Chairman Levine moved to return to the open meeting. Trustee Cozzi seconded and the motion passed unanimously.

NEW BUSINESS/OLD BUSINESS

Director Atwood noted that ISBI was invited to make a presentation to the Secure Choice Board. Justice Schostok noted her concern with ISBI providing investment management services to the Secure Choice Board because of the possible cost associated with such services. Director Atwood agreed and stated that he notified the Secure Choice Board that any costs associated with the services would be borne by the Secure Choice Board and not ISBI. Justice Schostok also noted her concern regarding the co-mingling of funds. Treasurer Frerichs thanked Ms. Farhadih and Director Atwood for their presentation to the Secure Choice Board and noted that the Secure Choice Board is interested in continuing the discussion with ISBI.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURMENT

Chairman Levine stated that the next meeting of the Board is set for June 16, 2016 and that the Board Education Forum is currently scheduled for July 22, 2016. Chairman Levine noted that official notices would be distributed at a later date. At 4:08 p.m., there being no further business to come before the Board, Mr. Powell moved to adjourn the meeting. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director