

MINUTES OF THE
INVESTMENT POLICY COMMITTEE
MEETING HELD
Wednesday, April 27, 2016 – 9:15 A.M.

Present:

Committee Members

Marc Levine
Mark Cozzi
Ezequiel Flores
Steven Powell
Shari Greco Reiches

Board Members

Treasurer Michael Frerichs (via
telephone)
Justice Mary Seminara-Schostok
Senator James Clayborne
Comptroller Leslie Munger

Staff

William Atwood
Johara Farhadieh
Scott Richards
Tim Kominiarek
Tondalaya Lewis-Hozier
Katherine Novel
Ciara Jackson

Guests

Burke Burns & Pinelli
Mary Patricia Burns, Sarah Boeckman

Illinois State Treasurer's Office
Jay Rowell, Garcia Rodrigo (via
telephone)

Courtland Partners, Ltd.
Jarrod Rapalje, Steven Novick

Clarion Partners, Inc.
Steven Spey, Kate Vaz

Meketa Investment Group
Frank Benham, Alli Wallace

RVK, Inc.
Christian Eicher, Robert Palmin, John
Roache

Northern Trust Investment, Inc.
Chelsea Smith, Jason J. Tyler, Patrick
Dwyer

State Street Global Advisors
Mary Guy, Brian A. Kinney

Absent: Committee Members None

ROLL CALL

Chairman Levine called the meeting to order at 9:15 a.m. Ms. Lewis-Hozier called the roll and noted a quorum was present. 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.

REPORT OF THE INVESTMENT POLICY COMMITTEE CHAIR

Chairman Levine thanked everyone for joining the meeting and noted the work that ISBI Staff and Meketa Investment Group, Inc. ("Meketa") completed on the Board's asset allocation and related investment transitions that were approved by the Committee at its March meeting.

CONSIDERATION AND APPROVAL OF PREVIOUS MINUTES

Trustee Flores moved to approve the minutes of the March 9-10th, 2016 Investment Policy Committee meeting as presented. Trustee Cozzi seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF REAL ESTATE CONSULTANT: COURTLAND PARTNERS ("COURTLAND")

Ms. Farhadieh and Courtland representatives provided the Committee with a short background of the Clarion separate account and the Committee's previous direction to Clarion to halt any new investments pending further direction.

Clarion Partners, Inc. Separate Account ("Clarion")

Mr. Spey and Ms. Vaz from Clarion joined the meeting and referred the Committee to the presentation materials, "ISBI Portfolio Overview". (Official minutes contain attachments). Following the presentation, discussion ensued amongst the Members. Trustee Cozzi asked Clarion representatives to describe the inherent risk involved in the build to core investments and raised the concern that the real estate market might be at the top of its cycle. Clarion representatives responded that the inherent risk involved in the build to core investments depend on the specific product type and location and noted the expected high returns on the build to core investments. Clarion representatives also stated that Clarion mitigates risk by establishing joint venture partnership structures with build to core investments. Clarion representatives additionally stated that they do not believe that the real estate market is at the top of the real estate cycle. Following their presentation and additional questions from Members, Clarion representatives thanked the Committee for its time and left the meeting.

Courtland representatives, Mssers. Rapalje and Novick, referred Members to the presentation materials "Core Portfolio Reconstruction Recommendation". Chairman Levine noted the Committee's previous concern with the concentrated nature of the Clarion separate account.

Chairman Levine also noted that the investment returns on the Clarion separate account were acceptable and comparable with other investments in the real estate market but the significant risk inherent in the concentrated nature of the separate account presented serious concerns. Following a short discussion, Trustee Reiches moved that the Committee go into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment contracts. Trustee Cozzi seconded and the motion was called to a Roll Call vote. All in Favor were: Trustees Cozzi, Flores, Powell, Reiches and Chairman Levine. The motion passed unanimously.

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

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

Trustee Reiches moved to terminate the Clarion separate account and monetize the assets in a prudent manner. Trustee Cozzi seconded and the motion passed unanimously.

DEFERRED COMPENSATION PLAN CONSULTANT PRESENTATIONS:

Ms. Farhadieh referred Members to the summarized the background of the Deferred Compensation Plan Consultant search for the Members and detailed Investment Staff's

Meketa Investment Group ("Meketa")

Meketa representatives referred Members to its presentation materials, "Presentation to the Illinois State Board of Investment Deferred Compensation Plan". (Official minutes contain attachment.) Discussion ensued amongst the Members. Fiduciary Counsel asked Meketa representatives if they had any conflict of interest concerns with serving as both the General Investment Consultant and the Deferred Compensation Consultant. Meketa representatives noted that they serve in both roles for other pension fund clients and that they believe serving in both roles provides advantages to the Board. Following discussion and comments from Members, the Meketa representatives thanked the Committee for its time and excused themselves from the meeting.

RVK, Inc. ("RVK")

RVK representatives referred Members to its presentation materials, "Illinois State Board of Investments Finals Presentation". (Official minutes contain attachment.) Discussion ensued amongst the Members. Following discussion and comments from Members, the RVK representatives thanked the Committee for its time and were excused from the meeting.

Ms. Burns noted that the Pension Code requires the Board to consider the vendor disclosures submitted by the finalists prior to awarding a contract and referred Members to the vendor disclosures in the Committee materials. Ms. Burns noted that she had reviewed the disclosures and there was nothing material to report. Ms. Farhadieh stated that it is Investment Staff's recommendation to hire Meketa as the Deferred Compensation Plan Consultant because of the favorable fees offered by Meketa and Meketa's proposed strategy for the Deferred Compensation Plan. Mr. Rowell noted the Treasurer's concern with Investment Staff's scoring process.

Trustee Cozzi moved that the Committee, consistent with the recommendation of ISBI Staff, appoint Meketa as ISBI's Deferred Compensation Consultant subject to legal review and contract negotiations. Trustee Flores seconded and the motion passed unanimously.

RFP PASSIVE SEARCH PRESENTATIONS:

State Street Global Advisors ("State Street")

State Street representatives referred Members to its presentation materials, "Illinois State Board of Investment Presentation", (Official minutes contain attachment.) Discussion ensued amongst the Members. Following discussion and comments from Members, the State Street representatives thanked the Committee for its time and were excused from the meeting.

Northern Trust Investments, Inc. ("Northern Trust")

Northern Trust representatives referred Members to its presentation materials, "International Equity Indexes". Discussion ensued amongst the Members. Following discussion and comments from Members, the Northern Trust representatives thanked the Committee for its time and were excused from the meeting.

Ms. Burns referred Members to the vendor disclosures contained in the Committee materials. Ms. Burns noted that both State Street and Northern Trust made certain political contribution disclosures but none were material nor required any Member to recuse him/herself. Following discussion, Trustee Reiches moved that the Committee appoint State Street as Investment Manager for the Barclays Aggregate, the 50% Barclays Intermediate and 50% Barclays Long-Term, and Inflation Linked Barclays US TIPS, consistent with the recommendations of ISBI Staff and Meketa, subject to legal review and contract negotiations. Trustee Cozzi seconded and the motion passed unanimously.

Following discussion, Trustee Reiches moved that the Committee appoint Northern Trust as Investment Manager for the MSCI Emerging Markets and MSCI EAFE Small Cap, consistent with the recommendations of ISBI Staff and Meketa, subject to legal review and contract negotiations. Trustee Cozzi seconded and the motion passed unanimously.

REPORT OF INVESTMENT CONSULTANT: MEKETA INVESTMENT GROUP

Actions Related to Implementation Plan

Mr. Benham referred members to the memorandum “Asset Allocation Implementation Plan Checklist”. (Official minutes contain attachment.) As part of their presentation Meketa referenced its recommendation regarding the liquidation of certain small cap allocations and its opinion that ISBI’s current allocations are overweight in the small cap space. Meketa and Ms. Farhadieh also noted that Mesirov Small Cap Value and Segall Bryan Hamill Small Cap Core have been on ISBI’s Watch List due to organizational and investment return concerns.

After discussion amongst the Members, Trustee Flores moved that the Committee approve the recommendation from Meketa to terminate SSGA Emerging Markets Small Cap Index, Mesirov 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. Trustee Cozzi seconded and the motion passed unanimously.

IFM Global Infrastructure (US), LP Fee Proposal

Meketa representatives referred Members to its memorandum, “IFM Recommendation”. (Official minutes contain attachment). After discussion amongst the Members, Trustee Cozzi moved that the Committee approve the recommendation from Meketa to maintain the current fee arrangement with IFM Global Infrastructure. Trustee Reiches seconded and the motion passed unanimously.

Fund Benchmarks

Meketa representatives referred Members to its memorandum, “Illinois State Board of Investment Custom Benchmark Proposal”. (Official minutes contain attachment). Meketa representatives stated that the recommended benchmarks are reflective of the new target allocations pursuant to the Board’s approved asset allocation. After discussion amongst the Members, Trustee Flores moved that the Committee approve the recommendation from Meketa regarding the proposed investment benchmarks. Trustee Reiches seconded and the motion passed unanimously.

Opportunistic Hedge Fund Strategies

Meketa representatives stated that they would present certain opportunistic hedge fund strategies to the Committee at a later meeting date.

REPORT OF THE DEPUTY EXECUTIVE DIRECTOR

Ms. Farhadieh referred Members to the memorandum, “ISBI Watch List 4Q 2015”, and noted that two of the investment managers listed on the memorandum were terminated by the Committee consistent with the recommendation of ISBI Staff and the Investment Consultant. (Official minutes contain attachment.) Discussion ensued amongst the Members. Ms. Farhadieh referred Members to the memorandum, “Matters Relating to Existing Managers”, and discussion ensued amongst the Members. (Official minutes contain attachment.)

Ms. Farhadieh referred Members to the memorandum, "Recommendation to Issue a Request for Proposal ("RFP") to replace Institutional Prime Money Market Fund in the State of Illinois Deferred Compensation Plan", and discussion ensued amongst the Members. (Official minutes contain attachment). Ms. Farhadieh noted that ISBI Staff would work with the Board's new Deferred Compensation Consultant to issue the RFP for the Institutional Prime Money Market Fund and to bring the finalists before the Committee at its June meeting. Trustee Reiches moved for the Committee to approve the Money Market Fund RFP as recommended by ISBI Staff subject to the review of Counsel and the Deferred Compensation Consultant. Trustee Powell seconded and the motion passed unanimously.

NEW BUSINESS/OLD BUSINESS

Chairman Levine noted a thorough review of the Board's Investment Policy by Meketa, Investment Staff and Counsel would be prudent considering the new asset allocation. The Committee agreed and directed Investment Staff, Meketa and Counsel to present the revised Investment Policy at the September meeting.

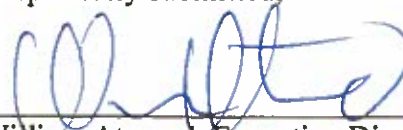
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURMENT

Chairman Levine stated that the next meeting of the Investment Policy Committee would be scheduled for May 19, 2016 to interview the Private Equity Consultant finalists and that the "Fixed Income" Educational Session day would occur on June 15, 2016, prior to the regular scheduled Board meeting on June 16, 2016. Chairman Levine noted that official notices would be distributed at a later date. At 1:27 p.m., there being no further business to come before the Committee, Trustee Powell moved to adjourn the meeting. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director