

MINUTES OF THE
INVESTMENT POLICY COMMITTEE
MEETING HELD
Wednesday-Thursday, June 15-16, 2016 – 1:00 P.M.

Present:

Committee Members

Marc Levine
Mark Cozzi
Ezequiel Flores
Steven Powell (Present for June 16th)
Shari Greco Reiches

Board Members

Mary Seminara-Schostok
Senator James Clayborne
Comptroller Leslie Munger (Present for
June 15th)

Staff

William Atwood
Genette Bacon
Johara Farhadieh
Tim Kominiarek
Tondalaya Lewis-Hozier
Scott Richards
Katherine Novel
Alise White

Guests

Meketa Investment Group
Ali Wallace, Frank Benham, Colleen
Smiley,
Crescent
Jim Fellows
THL Credit
Jim Fellows
Fort Washington
Brandan White
Crescent Direct Lending
John Bowman, Jonathan Insull
Chicago Equity Partners
Curt Mitchell
Garcia Hamilton
Karan Taas
LM Capital
Mario Modiano
Sudhir Krishnamurthi
Alifia Doriwala
Ronald von der Wouden

Siddarth Sudhir

Absent:

Committee Members

None

ROLL CALL

Chairman Levine called the meeting to order at 1:08 p.m. Ms. Lewis-Hozier called the roll and noted a quorum was present. Chairman Levine thanked Investment Staff for organizing the educational session focused on ISBI's fixed income allocation.

FIXED INCOME PRESENTATIONS (Education Session)

The Impact of Monetary Stimulus on Foreign & Domestic Bond Markets

Meketa representatives referred Members to their presentation, "The Impact of Monetary Stimulus on Foreign & Domestic Bond Markets". (Official minutes contain attachment.) Following a review of the presentation materials and comments from Members, Chairman Levine thanked Meketa for their presentation to the Committee.

Private Debt Discussion

Meketa representatives then referred Members to their presentation, "Private Debt Discussion". (Official minutes contain attachment.) Following a review of the presentation materials and comments from Members, Chairman Levine thanked Meketa for their presentation to the Committee.

Non-Core Bond Manager Panel Discussion

Representatives from Crescent, THL Credit, Crescent Direct Lending and Fort Washington were invited to join the meeting. Following a review of the presentation materials and comments from Members, Chairman Levine thanked the representatives for their presentation to the Committee.

Core Bond Manager Panel Discussion

Representatives from Chicago Equity Partners, LM Capital and Garcia Hamilton were asked to join the meeting. Following a review of the presentation materials and comments from Members, Chairman Levine thanked the representatives for their presentation to the Committee.

Emerging Market Debt Discussion

Colleen Smiley from Meketa's California office was asked to join the meeting. Ms. Smiley referred Members to her presentation, "Emerging Market Debts Education". (Official minutes contain attachment.) Following a review of the presentation materials and comments from Members, Chairman Levine thanked Ms. Smiley for her presentation to the Committee.

RECESS

Chairman Levine called for a recess and indicated that the Investment Policy Committee would reconvene the following morning at 8:00 a.m. consistent with the public notice.

ROLL CALL

Chairman Levine reconvened the meeting 8:12 a.m. Ms. Lewis-Hozier called the roll and noted a quorum was present. All Members from the previous day's meeting were present with the addition of Trustee Powell.

CONSIDERATION AND APPROVAL OF MINUTES

Trustee Reiches moved to approve the open meeting minutes from the April 27, 2016 and May 19, 2016 meeting of the Investment Policy Committee. (Official Minutes contain attachment). Trustee Powell seconded and the motion approved unanimously. Trustee Flores moved to approve the executive session minutes from the April 27, 2016 and May 19, 2016 meeting of the Investment Policy Committee and Trustee Cozzi seconded. (Official Minutes contain attachment). The motion passed unanimously. Ms. Burns noted that it was her recommendation that the executive session minutes from the April 27, 2016 and May 19, 2016 meeting remain closed pursuant to the Open Meetings Act. Trustee Flores moved to keep the April 27, 2016 and May 19, 2016 meeting minutes closed and Trustee Cozzi seconded. The motion passed unanimously.

REPORT OF REAL ESTATE CONSULTANT: COURTLAND PARTNERS

Real Estate Portfolio Construction

Mr. Rapalje from Courtland Partners ("Courtland") referred Members to their presentation materials, "Illinois State Board of Investment Real Estate Portfolio Update". (Official Minutes contain attachment). Mr. Rapalje reviewed ISBI's real estate portfolio and noted that Courtland is increasing ISBI's non-core exposure and stated that they would provide a report to the Committee in six months on the progress of ISBI's non-core exposure. Trustee Cozzi asked how Courtland invests cash on an interim basis in between real estate investments. Ms. Farhadieh indicated that any cash that comes in from the real estate portfolio is put into ISBI's fixed income allocation. Trustee Cozzi requested that Courtland report on international core investments in the future. Courtland representatives additionally discussed the process for moving ISBI's portfolio into a core-plus allocation in the future.

H/2 Special Opportunities IV, L.P.

Courtland referred Members to their presentation materials, "H2 Special Opportunities IV, L.P.". (Official Minutes contain attachment). H2 is an opportunistic debt investment firm. Following discussion amongst the Members, H/2 was invited to join the meeting.

H/2 SPECIAL OPPORTUNITIES IV L.P.

Representatives from H/2 were invited to join the meeting and referred Members to their presentation materials, "Evaluation of a Proposed Investment of Up to \$50 Million in H/2 Special Opportunities IV L.P.". (Official Minutes contain attachment). H/2 representatives noted that the proposed fund is seeking attractive risk-adjusted returns in private debt investments anticipated to include rescue financings, commercial mortgage loans, bank loans, entity-level investments and commercial mortgage backed securities. Senator Clayborne requested that H/2 provided Members with a breakdown of their utilization of vendors owned by minority, women

and people with disabilities as required under the Illinois Pension Code. H/2 representatives noted that they would provide such a report to the Committee following the presentation. Following a review of the presentation materials and comments from Members, Chairman Levine thanked the representatives for their presentation to the Committee. Trustee Cozzi moved to invest \$50 million dollars in the H/2 Special Opportunities IV Fund subject to legal review and successful contract negotiations consistent with the recommendation of ISBI Staff and the Real Estate Consultant. Trustee Flores seconded and the motion passed unanimously.

PRESENTATIONS BY EMERGING MARKET DEBT RFP FINALISTS

Meketa representatives were invited to join the meeting to discuss their recommendations with respect to the Emerging Markets Debt Manager Search. Ms. Farhadieh provided background on the search and referred Member's to Meketa's presentation, "Illinois State Board of Investment Emerging Markets Debt Manager Search". (Official Minutes contain attachment). Meketa representatives provided background to the Committee regarding their vetting process and review of the responses to the Emerging Market Debt RFP.

State Street Global Advisors

Representatives from State Street Global Advisors ("State Street") were invited to join the meeting. Representatives referred Members to their presentation, "Emerging Market Debt Hard and Local Currency". (Official Minutes contain attachment). Trustee Cozzi asked the State Street representatives to comment on their biggest challenges in the Emerging Market Debt market. State Street representatives noted that the transaction costs inherent within the Emerging Market Debt market are problematic. Chairman Levine thanked the State Street representatives for their presentation to the Committee.

Payden & Rygel Investment Management

Representatives from Payden & Rygel Investment Management ("Payden") were invited to join the meeting. Payden representatives referred Members to their presentation, "Payden Emerging Markets Debt (USD) Strategy". (Official Minutes contain attachment). Payden representatives stated that Payden utilizes its niche expertise in next generation countries and that is where they add value for clients. Trustee Cozzi noted that Payden's figures trailed the benchmark on one year returns, three year returns, five year returns, and ten year returns. Payden representatives stated that most firms with any exposure in corporate bonds failed to outperform the benchmark returns. Chairman Levine thanked the Payden representatives for their presentation to the Committee.

BlueBay Asset Management

Representatives from BlueBay Asset Management ("BlueBay") were invited to join the meeting. BlueBay Representatives referred Members to their presentation, "Emerging Market Select Debt Strategy". (Official Minutes contain attachment). BlueBay noted that their strategy involves a combination of different asset allocations with an emphasis on flexibility in order to add value

across the market for their clients. Trustee Cozzi noted that the investment returns presented indicate that BlueBay lagged the benchmark. BlueBay representatives stated that this was an abrogation because of a down-market in Brazil, Turkey and Russia. Chairman Levine thanked the BlueBay representatives for their presentation to the Committee.

Trustee Reiches moved that the Committee moves into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment contracts. Trustee Cozzi seconded the motion and it was called to a Roll Call vote. All in Favor were: Trustees Cozzi, Flores, Reiches, Powell 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 and the Meketa representatives.

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

After returning to the open meeting, Trustee Cozzi moved, consistent with the recommendation of Meketa and ISBI Staff, to appoint State Street as Emerging Market Debt Passive Local Currency portfolio Investment Manager of 50% of the Emerging Market Debt allocation subject to legal review and contract negotiations. Trustee Reiches seconded and the motion passed unanimously.

Chairman Levine moved to allocate the remaining Emerging Market Debt allocation with State Street's Passive Local Currency portfolio. Trustee Cozzi seconded. Discussion ensued amongst the Members. Chairman Levine and Trustee Cozzi noted that they were not impressed with the presentations from the two active managers and specifically noted that Payden's returns lagged the benchmark over the last five and ten years. Chairman Levine noted that ISBI's Staff is limited, making it challenging to oversee an extensive active management roster. Trustee Powell noted his concerns with voting against the recommendation of ISBI's Investment Consultant regarding the Emerging Market Debt allocation. ISBI Staff was asked to comment on the recommendation to invest a portion of the Emerging Market Debt allocation with an active manager. Ms. Fahradiéh stated that ISBI Staff believes that there is value with an active manager but noted that the Trustees' concern regarding Payden's investment returns was prudent. Trustee Reiches suggested splitting the remaining Emerging Market Debt allocation between passive and active managers. Trustee Powell requested that Meketa provide its opinion as to splitting the remaining Emerging Market Debt allocation between a passive and active manager. Meketa stated that it would be comfortable with a recommendation to split the Local Currency Emerging Market Debt allocation. Chairman Levine asked Meketa if it was comfortable with ISBI investing 100% of Emerging Market Debt in a passive index and Meketa

lead consultant Frank Benham stated that he was equally comfortable with a recommendation to invest 100% of Emerging Market Debt in a passive index.

Chairman Levine moved to withdraw his motion and Trustee Cozzi seconded. Trustee Reiches then moved, consistent with the recommendation of Meketa and ISBI Staff, to appoint Payden & Rygel as the Emerging Market Debt Active Hard Currency portfolio Investment Manager of 25% of the Emerging Market Debt allocation, subject to legal review and contract negotiations and to appoint the remaining 25% of the Emerging Market Debt allocation to State Street as the Emerging Market Debt Hard Currency Passive portfolio Investment Manager subject to legal review and contract negotiations. Trustee Flores seconded and the motion was called to a Roll Call Vote. All in Favor were: Trustee Flores, Reiches and Powell. Trustee Cozzi voted present and Chairman Levine voted no. The motion passed. Chairman Levine noted that the reason for his no vote was due to the fact that ISBI has a limited Investment Staff to monitor an extensive active manager roster and that he was not impressed with the returns presented by Payden.

PRESENTATIONS BY DEFERRED COMPENSATION MONEY MARKET RFP FINALISTS

Deputy Executive Director Farhadieh informed the Board that new SEC regulations allowed for the money market fund that is currently utilized by our DC plan to impose fees and gates on participants in times of stress. Therefore, Staff and consultants recommended issuing an RFP for a government money market fund in the DC plan.

The Vanguard Group

Representatives from the Vanguard Group (“Vanguard”) were invited to join the meeting and referred Members to their presentation, “Illinois State Board of Investment Treasury Money Market Fund”. (Official Minutes contain attachment). Discussion ensued amongst the Members. Following Vanguard’s presentation, Meketa representatives provided background on the Money Market RFP search and their recommendation. Trustee Cozzi asked whether Northern Trust was a respondent to the Money Market RFP and noted that Northern Trust’s after-fee performance was more impressive than Vanguard. Trustee Cozzi additionally noted that in the future if there are two tied competing firms responding to an ISBI RFP, that ISBI should strongly consider the Illinois firm. Ms. Farhadieh noted that they were considered but their higher proposed fees were a distinguishing factor in addition to the fact that their program was not currently compatible with the T. Rowe Price platform utilized by the Deferred Compensation Plan. Trustee Powell moved to appoint Vanguard as Investment Manager of the Deferred Compensation Money Market Fund consistent with the recommendations from Meketa and Investment Staff, subject to legal review and successful contract negotiations. Trustee Reiches seconded and the motion passed unanimously.

DEFERRED COMPENSATION PLAN

Ms. Farhadieh referred Members to her memorandum, "State of Illinois Deferred Compensation Plan Watch List Notifications as of March 31, 2016". (Official Minutes contain attachment.) She noted that there was one firm on watch, Wellington Diversified Growth Fund, for poor performance. Ms. Farhadieh stated that Wellington has been on the Board's Watch List for over a year and consistent with the Board's Watch List Policy, ISBI Staff and Meketa recommend that the Board terminate Wellington Diversified Growth Fund and invest the proceeds in a the Vanguard Institutional Index Fund investment option. Trustee Reiches moved that the Committee terminate the Wellington Diversified Growth investment option and invest the proceeds in the Vanguard Institutional Index Fund investment option at such time and in such manner as Investment Staff deemed prudent, consistent with the recommendations from Meketa and Investment Staff. Trustee Cozzi seconded and the motion passed unanimously.

REPORT OF GENERAL CONSULTANT: MEKETA INVESTMENT GROUP

Meketa representatives referred Members to their presentation, "Illinois State Board of Investment Pension Fund Quarterly Review". (Official Minutes contain attachment.) Meketa representatives stated that ISBI's performance over the first quarter is up 1.1% from the previous year. Discussion ensued amongst the Members. Meketa representatives referred Members to their presentation, "Illinois State Board of Investment Asset Allocation Implementation Plan Checklist". (Official Minutes contain attachment.) Ms. Farhadieh noted how much work ISBI Staff and Meketa have accomplished on ISBI's Implementation Plan. Board Members thanked ISBI Staff and Meketa for all their work on the ISBI's Implementation Plan.

REPORT OF THE DEPUTY EXECUTIVE DIRECTOR

Ms. Farhadieh referred Members to her memorandum, "Watch List Notifications as of March 31, 2016". (Official Minutes contain attachment.) She noted that ISBI Staff and Meketa are vetting the managers who are on the Board's Watch List and that Staff and Meketa would likely give the Board a recommendation in September with respect to the Domestic Equity manager and International Equity manager who are currently on the Board's Watch List. Trustee Cozzi noted the importance of adding managers to the high yield mandate. Ms. Farhadieh noted that Staff plans to initiate a high yield manager search in 2017. Ms. Farhadieh referred Members to her memorandum, "Matters Relating to Existing Managers". (Official Minutes contain attachment). Discussion ensued amongst the Members. Ms. Farhadieh referred Members to her memorandum, "Transition Updates". (Official Minutes contain attachment). Ms. Farhadieh outlined the process for the hedge fund transitions and noted that Rock Creek has submitted full redemption requests to Entrust Capita, Appomattox Advisory Inc., and Mesirow Financial. She additionally noted that Staff and Meketa are working with Rock Creek to structure the remaining hedge fund portfolio. Chairman Levine noted that the Committee has already voted to give Rock Creek discretion to structure the remaining hedge fund portfolio.

NEW BUSINESS/OLD BUSINESS

None.

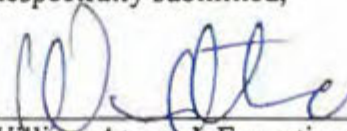
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine stated that the next meeting of the Investment Policy Committee would be scheduled for July 13 at 1:00 P.M, official notices to be distributed at a later date. At 12:03 p.m., there being no further business to come before the Committee, Mr. Powell moved to adjourn the meeting. Chairman Levine seconded and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'W. Atwood', written over a horizontal line.

William Atwood, Executive Director

