

MINUTES OF THE
ILLINOIS STATE BOARD OF INVESTMENT
MEETING HELD
Thursday, June 16, 2016 – 12:00 P.M.

Present:

Board Members

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

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

Mesirow Financial
Craig Goesel, Tim Bowen

Meketa Investment Group
Ali Wallace and Frank Benham

Absent:

Board Members

None

ROLL CALL

Chairman Levine called the meeting to order at 1:47 p.m. Ms. Burns 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 to participate in the meeting via telephone due to his absence as a result of matters relating to his employment. Senator Clayborne seconded and the motion passed unanimously.

REPORT OF THE CHAIRMAN

Ms. Burns provided the Members with a background of the search for a new General Counsel. She thanked Justice Schostok and Director Atwood for assisting in the search. Ms. Burns introduced Chris Brannan as ISBI's new General Counsel.

CONSIDERATION AND APPROVAL OF PREVIOUS MINUTES

Chairman Levine noted that at the April 27, 2016 meeting the Board postponed the approval of the March 11, 2016 minutes due to Treasurer Frerichs needing additional time to review and provide any revisions. Trustee Cozzi moved to approve the March 11, 2016 minutes as written and Trustee Reiches seconded. Treasurer Frerichs noted his continuing concern with the March 11, 2016 minutes and that the minutes do not accurately portray the confusion that was involved in the discussion regarding the hedge fund transition. Discussion ensued amongst the Members. Chairman Levine noted that certain hedge fund managers were terminated but that prior to the vote ISBI had a \$100 million dollar allocation to underlying emerging managers and that mandate remains. Mr. Rowell suggested that a revision be made to the March 11, 2016 minutes to reflect that their concern was expressed with respect to the impact on emerging managers. Trustee Cozzi moved to withdraw his motion to approve the minutes as written. Justice Schostok seconded and the motion passed unanimously. Trustee Powell moved to approve the open session minutes from the March 11, 2016 Board meeting with the revision provided by the Treasurer's office. Justice Schostok seconded and the motion passed unanimously. (Official minutes contain attachment.)

Trustee Cozzi moved to approve the open session minutes from the April 27, 2016 meeting of the Board. Justice Schostok seconded and the motion passed unanimously. (Official minutes contain attachment.) Chairman Levine moved to approve the executive session minutes from the April 27, 2016 meeting of the Board and to keep the minutes closed due to pending matters. Trustee Cozzi seconded and the motion passed unanimously. (Official minutes contain attachment.)

CONSIDERATION AND APPROVAL OF STANDING COMMITTEES

Senator Clayborne provided the report of the Emerging Manager Committee meeting from its June 16, 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.

Ms. Farhadieh provided the report of the Investment Policy Committee from its May 19, 2016 meeting and its June 16, 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 1-6, with the exception of item #2, #3, and #4 on the consent agenda). Trustee Cozzi moved to approve and ratify the following actions of the Investment Policy Committee represented items #1, #5 and #6 on the consent agenda. Trustee Reiches seconded. Senator Clayborne noted that he would be voting no because of the firms who failed to have a diversity policy in place and failed to utilize minority vendors. The motion was called to a Roll Call vote and all in favor were: Chairman Levine, Trustees Flores, Reiches, Powell, Cozzi and Justice Schostok. All opposed were: Senator Clayborne. The motion passed.

1. The recommendation from ISBI Staff and the Real Estate Consultant regarding investing \$50 million dollars in the H/2 Special Opportunities IV Fund subject to legal review and successful contract negotiations is adopted and ratified.
2. The recommendation from Meketa and ISBI Staff to appoint Payden & Rygel as Emerging Market Debt Active Hard Currency portfolio Investment Manager for 25% of the Emerging Market Debt allocation, subject to legal review and contract negotiations is adopted and ratified.
3. The recommendation of ISBI Staff and Meketa to appoint State Street as Emerging Market Debt Passive Local Currency portfolio Investment Manager for 50% of the Emerging Market Debt allocation.
4. The recommendation of ISBI Staff and Meketa to appoint State Street as Emerging Market Debt Passive Hard Currency portfolio Investment Manager for 25% of the Emerging Market Debt allocation, subject to legal review and contract negotiation, is adopted and ratified.
5. The recommendation from Meketa and Investment Staff to appoint Vanguard as Investment Manager of the Deferred Compensation Money Market Fund, subject to legal review and contract negotiations is adopted and ratified.
6. The recommendation from Meketa to 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 deem prudent is adopted and ratified”

Chairman Levine noted that the Investment Policy Committee also approved the recommendation from ISBI Staff to appoint Payden & Rygel as Emerging Market Debt Active Hard Currency portfolio Investment Manager for 25% of the Emerging Market Debt allocation (noted as Item #2 on the consent agenda). Chairman Levine noted that he voted “no” to appoint Payden & Rygel as they had under-performed their benchmark over one, three, five, and ten years. He stated that ISBI would be spending around \$325,000 in incremental money to invest \$125 million dollars in this actively managed strategy when ISBI could get the same exposure and returns with utilizing State Street as a passive manager. He additionally noted his concerns with the small ISBI Staff monitoring a longer active manager roster. Trustee Reiches noted that Payden & Rygel is a woman-owned firm and the fact that Meketa originally recommended Payden & Rygel for 40% of the Emerging Market Debt allocation. Trustee Powell reiterated Trustee Reiches comment and noted the importance of relying on the recommendation from the Investment Consultant. Chairman Levine asked that a Roll Call vote be made with respect to the consent agenda items #2. Trustee Powell moved to adopt and ratify the Investment Policy Committee’s approval of Payden & Rygel as Emerging Market Debt Active Hard Currency portfolio Investment Manager for 25% of the Emerging Market Debt allocation. Trustee Reiches seconded the motion. The motion was called to a Roll Call vote and all in favor were: Trustees Flores, Reiches, Powell and Justice Schostok. All opposed were: Trustee Cozzi, Chairman Levine, Comptroller Munger and Senator Clayborne. The motion failed.

Chairman Levine asked that a Roll Call vote be made with respect to the consent agenda items #3 and #4. Trustee Reiches moved to adopt and ratify the Investment Policy Committee’s approval of State Street as Emerging Market Debt Passive Local Currency portfolio Investment Manager for 50% of the Emerging Market Debt allocation and as Emerging Market Debt Passive Hard Currency portfolio Investment Manager for 25% of the Emerging Market Debt allocation. Trustee Reiches seconded the motion. The motion was called to a Roll Call vote and all in favor were: Chairman Levine, Trustees Flores, Reiches, Justice Schostok and Comptroller Munger. All opposed were: Trustee Powell and Senator Clayborne. The motion passed. Trustee Powell reiterated his comments that he voted “no” because it was contrary to the original recommendation presented by Staff and Meketa.

Justice Schostok provided the report of the Audit and Compliance Committee meeting from its June 16, 2016 meeting. Trustee Powell moved to adopt and ratify the report from the Audit and Compliance Committee as presented by Justice Schostok. Trustee Flores seconded and the motion passed unanimously.

CONSIDERATION AND APPROVAL OF FIDUCIARY LIABILITY INSURANCE

Ms. Burns noted the importance of having fiduciary liability insurance as a best practice for pension funds. Ms. Burns noted that Board Members are indemnified by the State statute but noted that it was not a mandatory indemnification and a future Board could determine not to

indemnify Board Members. She stated that fiduciary insurance is a protection against that risk. Ms. Burns also referred to a recent Florida audit that determined that a pension fund that failed to have fiduciary insurance breached their fiduciary responsibility to participants.

Craig Goesel and Tim Bowen from Mesirow entered the meeting and referred Members to their presentation materials "Fiduciary Liability Insurance Coverage Summary". (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. Mr. Goesel outlined the proposed insurance coverage options for the Board. Trustee Reiches moved that the Board procure Mesirow's proposed "Option 3" consisting of Ullico as the primary carrier on the first \$15 million dollars of coverage and Euclid as the excess carrier on the next \$5 million dollars of coverage. Trustee Cozzi seconded and the motion passed unanimously.

PRESENTATIONS BY PRIVATE EQUITY CONSULTANT RFP FINALISTS:

Ms. Farhadieh provided background on the Private Equity Consultant search. She noted that ISBI received 7 responses to the RFP. She further noted that the Investment Policy Committee met on May 19, 2016 to interview the semi-finalists for the Private Equity Consultant RFP.

Cambridge Association LLC ("Cambridge")

Cambridge representatives referred Members to their presentation materials, "Illinois State Board of Investment Partnering with Cambridge Associates". (Official Minutes contain attachment). Senator Clayborne asked that the Cambridge representatives present their diversity numbers both within the company and their utilization of minority vendors. Cambridge noted that nearly one-half of their staff is a minority or a woman and that they utilize certain minority vendors for professional services including legal counsel. Discussion ensued amongst the Members.

Hamilton Lane Advisors LLC ("Hamilton Lane")

Hamilton Lane representatives referred Members to their presentation materials, "Hamilton Lane Illinois State Board". (Official Minutes contain attachment). Hamilton Lane representatives noted that they utilize a unique technology focus on investments for their clients. Senator Clayborne asked that the Hamilton Lane representatives present their diversity numbers both within the company and their utilization of minority vendors. Hamilton Lane noted that 40% of their staff are women and that they were unsure of the number of minority vendors the firm utilized. Discussion ensued amongst the Members.

Ms. Burns suggested that the Board go into Executive Session to discuss specific investment contracts. Trustee Cozzi moved to go into Executive Session pursuant to Section 2(c)(7) 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, Ms. Farhadieh, Mr. Richards, Mr. Rowell, Ms. Burns and Ms. Boeckman.

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

Trustee Cozzi moved, consistent with the recommendation of ISBI Staff, to appoint Hamilton Lane Advisors as the Board's Private Equity Investment Consultant, subject to legal review and successful contract negotiations. Trustee Flores seconded. All in favor were: Trustees Flores, Reiches, Powell, Cozzi, Chairman Levine, Comptroller Munger and Justice Schostok. All opposed were: Senator Clayborne.

DEFERRED COMPENSATION PLAN

Consideration and Approval of Plan Participant Fee Analysis

Ms. Farhadieh provided background on the proposed Plan Participant fee. She noted that Staff reviewed the Plan expense account with Meketa and determined that a 1.0% fee per year paid quarterly by Plan Participants with account balances below \$6,700 was necessary. Ms. Farhadieh also noted that the Administrative Code caps the Plan Participant fee at 1.0%. Trustee Powell asked how the proposed Plan Participant fee would be notified to Plan Participants. Ms. Farhadieh noted that she anticipated the fee being implemented in March 2017 with notifications going out in the next few months and that she would be working with T. Rowe Price and Meketa on the notification to Plan Participants. She additionally stated that she would provide an updated timeline to the Board at its September meeting. Trustee Powell moved, consistent with the recommendation of Meketa and ISBI Staff, to approve a 1.0% fee per year paid quarterly for Deferred Compensation Plan Participants with account balances below \$6,700 and rebate revenue sharing back to Participants invested in those investment options from which revenue sharing originates. Trustee Reiches seconded and the motion passed unanimously.

REPORT OF THE INVESTMENT CONSULTANT: MEKETA INVESTMENT GROUP

Meketa referred Members to their presentation materials, "Illinois State Board of Investment Fee Savings Analysis". (Official Minutes contain attachment.) Meketa representatives noted that ISBI's cost savings pursuant to the implementation of the asset allocation are \$36.7 million dollars. Discussion ensued amongst the Members.

Meketa referred Members to their presentation materials, "Illinois State Board of Investment Comparable Public Fund Staffing Data". (Official Minutes contain attachment.) Meketa representatives noted that they conducted a review of similar public pension funds and found that many public pension funds have a Chief Investment Officer, in addition to an Executive Director, on staff.

REPORT OF THE EXECUTIVE DIRECTOR

Director Atwood referred Members to his memorandum, "Consideration and Approval of FY 2017 Budget". Ms. Burns suggested that the Board go into Executive Session to discuss personnel issues related to the Budget. Trustee Cozzi moved to go into Executive 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, Ms. Farhadieh, Ms. White, Mr. Rowell, Ms. Burns and Ms. Boeckman.

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

Senator Clayborne moved, consistent with the recommendation of ISBI Staff, to approve the Fiscal Year 2017 Budget. Trustee Reiches seconded and the motion passed unanimously. Justice Schostok moved, consistent with the recommendation of ISBI Staff, to approve the revised job descriptions and organizational chart. Trustee Powell seconded and the motion passed unanimously.

REPORT OF THE DIRECTOR OF OPERATIONS, ACCOUNTING AND AUDIT

Ms. White referred Members to her memorandums, "Consideration and Approval of Updates to Agency Directives", "Consideration and Approval of Updates to Disaster Recovery Plan", and Consideration and Approval of Updates to Information Technology Policy". (Official Minutes contain attachment.) Ms. White detailed the proposed revisions to each policy and noted that many of the revisions were necessary because of Ms. Farhadieh's new title of Deputy Executive Director. Trustee Powell moved, consistent with the recommendation of ISBI Staff, to approve the proposed revisions to the Agency Directives, the Disaster Recovery Plan and the Information Technology Policy. Trustee Cozzi seconded and the motion passed unanimously. Ms. White referred Members to her memorandum, "Consideration and Approval of Defined Benefit Custodian Search". (Official Minutes contain attachment.) Ms. White noted that the Board's current contract with State Street is set to expire on June 30, 2016 and that an extension agreement needs to be extended in order to afford Staff the appropriate time to conduct a new RFP search for a custodian for the Defined Benefit Plan. Justice Schostok moved, consistent with the recommendation of ISBI Staff, to approve the Defined Benefit Custodian Agreement Extension subject to legal review and successful contract negotiations. Trustee Powell seconded and the motion passed unanimously. Trustee Reiches moved, consistent with the recommendation of ISBI Staff, to approve the Defined Benefit Custodian RFP subject to the review of Counsel and the Investment Consultant. Trustee Flores seconded and the motion passed unanimously. Ms. Burns noted that due to the Board's issuance of the RFP that the Board and Staff were now in a "quiet period".

REPORT OF THE INTERIM GENERAL COUNSEL

Ms. Burns referred Members to the revised Communication Policy and noted that it was a best practice for the Board to adopt a Communications Policy and that she had added certain revisions from the Treasurer's Office and concerns presented by Trustee Powell at the March meeting. (Official Minutes contain attachment.) Mr. Rowell from the Treasurer's Office thanked Ms. Burns for working with the Treasurer's Office to accommodate their concerns in the Communications Policy. Trustee Cozzi moved, consistent with the recommendation of Fiduciary Counsel, to approve the Communication Policy. Justice Schostok seconded and the motion passed unanimously. Ms. Burns referred Members to her memorandum, "Training Requirements and Travel Approval for Board Members and ISBI Staff". (Official Minutes contain attachment.) Trustee Flores noted that many of ISBI's Consultants offer an online

training portal and noted that the Board's recently approved Private Equity Consultant, Hamilton Lane, has such a portal. Trustee Powell noted the importance of limiting Trustee's out of state travel to two trips a year. He suggested that Fiduciary Counsel work on drafting a travel policy for the Board's consideration. Trustee Cozzi moved, consistent with the recommendation of Fiduciary Counsel, to approve the travel of Trustees and ISBI Staff to attend conferences or trainings listed on the June 2016 list of Upcoming Training Opportunities and that all resulting allowable expenses consistent with ISBI's policies be reimbursed; provided, however that Board Members are limited to two out of State travel opportunities a year. Trustee Powell seconded and the motion passed unanimously. Comptroller Munger left the meeting due to employment obligations.

Trustee Powell moved to reconsider the Board's motion regarding approving Payden & Rygel as the Emerging Market Debt Active Hard Currency portfolio Investment Manager for 25% of ISBI's Emerging Market Debt allocation. Trustee Reiches seconded the motion. The motion was called to a Roll Call vote and all in favor were: Trustees Flores, Reiches, Powell, Treasurer Frerichs and Justice Schostok. All opposed were: Trustee Cozzi, Chairman Levine and Senator Clayborne. The motion passed.

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, and Justice Schostok. The motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of 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

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURMENT

Chairman Levine stated that the next meeting of the Board is set for the "Educational Day" on July 22, 2016. Chairman Levine noted that official notices would be distributed at a later date. At 4:48 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

