

MINUTES OF THE
INVESTMENT POLICY COMMITTEE MEETING

525 W. Monroe, Suite 560
Chicago, IL 60661

Tuesday, November 15, 2016 – 10:00 A.M.

Present:

Committee Members

Mark Cozzi
Ezequiel Flores
Marc Levine
Shari Greco Reiches

Board Members

Treasurer Michael F. Frerichs
Justice Mary Seminara-Schostok

Staff

William Atwood
Christopher Brannan
Shawn Evans
Johara Farhadieh
Tondalaya Lloyd
Scott Richards

Guests

Burke Burns & Pinelli, Ltd.
Sarah Boeckman
Mary Patricia Burns

Illinois State Treasurer's Office
Rodrigo Garcia

Kivvit

Max Bever
Eric Herman

Meketa Investment Group

Tim Atkinson
Frank Benham
Mitch Dynan
David Hetzer
Colleen Smiley
Alli Wallace

Absent:

Committee Members

Steven Powell

ROLL CALL

Chairman Levine called the meeting to order at 10:09 a.m. Mr. Brannan called the roll and noted that a quorum was present. Trustee Reiches moved pursuant to Section 7(a) of the Open Meetings Act to allow Treasurer Frerichs to participate via telephone due to his absence as a result of matters related to his employment. Trustee Cozzi seconded and the motion passed unanimously.

REPORT OF THE INVESTMENT POLICY COMMITTEE CHAIR

Chairman Levine thanked everyone for joining the meeting and introduced the Committee to Shawn Evans, the new generalist portfolio manager on the ISBI Staff investment team. In addition, Chairman Levine introduced Max Bever of Kivvit, ISBI's new communications consultant.

ACTIVE INVESTMENT MANAGEMENT PORTFOLIO REVIEW (Educational Session)

Ms. Wallace, representative of the Investment Consultant (Meketa), provided an overview for the Committee presentations, which would discuss each of the Defined Benefit Plan portfolio's (the "Portfolio") active public markets investment managers. Ms. Wallace referred the Committee members to their presentation materials and described how the discussion of asset managers would be categorized under each applicable asset class, including: High Yield Fixed Income, Bank Loans, Core Fixed Income, Emerging Market Debt, Domestic Equity, International Equity, and Emerging Market Equity. Ms. Wallace noted that as of June 30, 2016, approximately 60% of the overall Portfolio was invested in passive and passive-equivalent strategies (active management with broadly diversified open end funds, and with fees similar to passive manager fees).

Fixed Income Portfolio (Overview)

Mr. Atkinson, representative of Meketa, provided an overview of the Portfolio's allocation to fixed income. Mr. Atkinson discussed how the fixed income portion of the Portfolio underperformed its benchmark. He indicated that the primary detractor of performance was the Portfolio's lack of exposure to emerging market debt during the first half of calendar 2016. Chairman Levine noted that the lack of an index fund in emerging market debt is what led to the lack of exposure and resulting under-performance after Meketa and Staff appropriately recommended immediate termination of Standish (the sole emerging market debt manager) in December 2015. Chairman Levine noted that he believes ISBI's Investment Policy should require an index investment in each asset class (where possible) which would provide exposure to these areas while searches for new managers take place. Chairman Levine further noted that he believes this is ISBI developing a future national best practice. Ms. Wallace confirmed that ISBI has indexed many of its asset classes since adopting its revised asset allocation in January 2016. Trustee Cozzi inquired as to how the Portfolio is structured to handle a large increase in

interest rates and how the Portfolio compares to other pension funds. Ms. Wallace noted that the portfolio's long term government bond allocation is most sensitive to interest rate fluctuations, however they provide a strong equity market hedge, and equity risk is the largest risk in the Fund. In addition, Ms. Wallace stated that Meketa has run stress tests based on interest rate fluctuations and they will be happy to provide them at a future meeting. Mr. Atkinson confirmed that some pension funds have long-term government bonds, while others do not. Trustee Reiches noted that ISBI has performed stress tests for changes in interest rates, among other scenarios.

Mr. Atkinson noted that a new search has been issued for a high yield bond manager and that Meketa and ISBI Staff ("Staff") intend to bring two finalists to present at the December Investment Policy Committee meeting. Ms. Farhadieh noted that the high yield bond manager search would be broken out into two strategies: opportunistic (to be presented in December) and index aware (to be presented in March).

Chairman Levine moved to go into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment managers and applicable contracts. Trustee Cozzi seconded and the motion was called to a roll call vote. All in favor: Trustees Cozzi, Flores, Levine, and Reiches. The motion passed unanimously.

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

Trustee Cozzi moved to terminate Chicago Equity Partners and transition the proceeds to the SSgA Barclays Aggregate Index at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and Meketa. Chairman Levine seconded and the motion passed unanimously.

Trustee Flores moved to terminate LM Capital and allocate 50% of the proceeds to Garcia Hamilton and 50% to the SSgA Barclays Aggregate index at such time and in such manner as ISBI Staff deems prudent consistent with the recommendation of ISBI Staff and Meketa. Trustee Cozzi seconded and the motion passed unanimously.

Chairman Levine moved to transition the allocation for the underweight in Infrastructure from the active core fixed income investment managers to the SSgA Barclays Aggregate Index in such manner as ISBI Staff deems prudent consistent with the recommendation of ISBI Staff and Meketa. Trustee Reiches seconded and the motion passed unanimously.

Chairman Levine moved to terminate the LSV Large Cap Value account and transition the proceeds to the SSgA Russell 1000 Value index at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and Meketa. Trustee Reiches seconded and the motion passed unanimously.

Trustee Reiches moved to transition the SSgA Russell 2000 Index portfolio to track the SSgA S&P 600 Index benchmark at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and the Investment Consultant. Chairman Levine seconded and the motion passed unanimously.

Chairman Levine moved to terminate Franklin Templeton and transition the proceeds to (i) the Ariel International Equity to the extent necessary for this account to manage 1.5% of the Portfolio, (ii) LSV International Equity to the extent necessary for this account to manage 1.5% of the Portfolio, and (iii) the remainder to the SSgA MSCI EAFE index at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and the Investment Consultant. Trustee Reiches seconded and the motion passed unanimously.

Trustee Flores moved to terminate the SSgA Non-U.S. Small Cap (active) account and transition the proceeds to the Northern Trust MSCI EAFE Small Cap Index at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and the Investment Consultant. Chairman Levine seconded and the motion passed unanimously.

Trustee Cozzi moved to terminate Ashmore Emerging Markets Small Cap and transition the proceeds to the previously liquidated SSgA MSCI Emerging Markets Small Cap Index at such time and in such manner as ISBI Staff deems prudent, consistent with the recommendation of ISBI Staff and the Investment Consultant. Chairman Levine seconded and the motion passed unanimously.

Chairman Levine moved to authorize ISBI Staff to revise the investment guidelines of ISBI's public market active managers at such time and in such manner as ISBI Staff deem prudent, consistent with the recommendation of ISBI Staff and the Investment Consultant; provided, however, that any material revisions to the investment guidelines will require further Board approval. Trustee Reiches seconded and the motion passed unanimously.

NEW BUSINESS/OLD BUSINESS

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

At 3:23 p.m., there being no further business to come before the Committee, Trustee Cozzi moved to adjourn the meeting. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director