



***ROLL CALL***

Chairman Levine called the meeting to order at 1:08 p.m. Mr. Brannan called the roll and noted that a quorum was present.

***PRESENTATION BY COURTLAND PARTNERS "Real Estate Portfolio Review" (Education Session)***

Courtland representatives were welcomed to the meeting to discuss the real estate holdings in the Defined Benefit Plan's portfolio (the "Portfolio"), including performance and relationships with specific managers.

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, Levine, Powell, and Reiches. Nays: None. The motion passed.

Trustee Flores joined the meeting.

Trustee Flores moved to return to the open meeting. Trustee Reiches seconded and the motion passed unanimously.

***RECESS***

At approximately 4:45 p.m., Trustee Cozzi called for a recess and indicated that the Investment Policy Committee would reconvene the following morning at 8:30 a.m. consistent with the public notice.

***ROLL CALL***

Chairman Levine reconvened the meeting 8:50 a.m. Mr. Brannan called the roll and noted a quorum was present. All Members from the previous day's Investment Policy Committee meeting were present.

***CONSIDERATION AND APPROVAL OF MINUTES***

Trustee Flores moved to approve the open meeting minutes from the July 13, 2016, September 15, 2016, and November 15, 2016 meetings of the Investment Policy Committee. Trustee Reiches seconded and the motion passed unanimously.

Trustee Cozzi moved to approve and keep closed the executive session minutes from the September 15, 2016 and November 15, 2016 meeting of the Investment Policy Committee. Trustee Reiches seconded and the motion passed unanimously.

***REPORT OF PRIVATE EQUITY CONSULTANT: HAMILTON LANE***

Hamilton Lane representatives were invited to join the meeting to discuss the private equity market overview, as well as the Portfolio's holdings and strategic plan.

Trustee Reiches 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, Powell, and Reiches. Nays: None. The motion passed unanimously.

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

#### ***BENEFIT STREET PARTNERS FUND IV, L.P.***

Benefit Street representatives were invited to join the meeting to discuss their firm and their upcoming Fund IV. Benefit Street representatives provided an overview of the firm, as well as its extensive history in managing credit funds. Discussion ensued amongst Benefit Street representatives and Members about the fund's strategy, industry competition, and typical security profiles of its investments. Benefit Street representatives stated that in their previous fund, there were only two defaults, neither of which lost money. Following additional review of the presentation materials and comments from Members, Chairman Levine thanked the Benefit Street representatives for their presentation to the Committee.

Hamilton Lane noted that its recommendation was for a \$30 million commitment to Benefit Street's Fund IV based on Hamilton Lane's current pacing model for the Portfolio. Chairman Levine noted this was Hamilton Lane's first opportunistic credit recommendation. In addition, Chairman Levine noted that Rock Creek was also progressing in allocating its portion of the opportunistic credit portfolio. Trustee Cozzi inquired whether Hamilton Lane would be comfortable with ISBI committing a larger amount, such as \$40 million or \$50 million. Hamilton Lane representatives confirmed that they would be comfortable recommending a larger commitment size, such as \$40 million.

Trustee Cozzi moved that the Committee invests \$40 million dollars in the Benefit Street Fund IV, at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of Hamilton Lane and ISBI Staff. Trustee Powell seconded and the motion passed unanimously.

#### ***PRESENTATIONS BY HIGH YIELD DEBT RFP FINALISTS***

Meketa representatives were invited to join the meeting to provide an overview of the High Yield Debt Manager Search and to introduce the finalists from the search. Meketa representatives provided general background on the high yield bond sector. Discussion ensued amongst Members and Meketa representatives regarding active versus passive managers in this space. Meketa representatives noted that passive management in this space is difficult to index, resulting in high tracking errors. In addition, Meketa representatives noted that a certain reputable firm that is a large proponent of passive management fails to have passive products in this particular asset class. Discussion ensued regarding the current proposed allocation to an opportunistic manager with a future allocation of the remaining half of the high yield debt allocation to an index-aware manager at the March meeting. Trustee Cozzi recommended that the Committee consider selecting two opportunistic managers instead of including an index-aware manager.

#### ***BRIGADE CAPITAL***

Brigade representatives were invited to join the meeting to discuss their firm's opportunistic high yield debt strategy. Brigade representatives provided an overview of the firm as well as its staffing and strategy in this space. Chairman Levine noted that Brigade also has a hedge fund with a similar strategy and inquired as to whether the product in which ISBI invests would be in substantially the same securities. Brigade representatives noted that this product will have similar long investments, but will lack the shorts of the hedge fund. Brigade representatives stated that the overlap between the products is about 70%. Discussion ensued amongst Brigade representatives and Members about fees, the impact of potential credit spread movements, and diversification. Following additional review of the presentation materials and comments from Members, Chairman Levine thanked the Brigade representatives for their presentation to the Committee.

### ***BEACH POINT CAPITAL***

Beach Point representatives were invited to join the meeting to discuss their firm's opportunistic high yield debt strategy. Beach Point representatives provided an overview of the firm as well as its staffing and strategy in this space, including its focus on legal terms in the underlying credit agreements. Chairman Levine asked about the overlap with Beach Point's hedge fund. Beach Point representatives stated that the overlap is about 25%. Chairman Levine noted that ISBI wants Beach Point's best ideas. Beach Point representatives stated that overlap between the two products was higher in prior quarters since credit spreads were much wider. Discussion ensued amongst the Committee members Beach Point representatives. Following additional review of the presentation materials and comments from Committee members, Chairman Levine thanked the Beach Point representatives for their presentation to the Committee.

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 Reiches seconded and the motion was called to a roll call vote. All in favor: Trustees Cozzi, Flores, Levine, Powell, and Reiches. Nays: None. The motion passed unanimously.

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

Trustee Cozzi moved to select Brigade Capital as the Portfolio's opportunistic high yield manager and to allocate 50% of its high yield allocation to Brigade contingent upon fee negotiations, in such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of Meketa and ISBI Staff. Trustee Reiches seconded and the motion passed unanimously.

Trustee Reiches moved that the Committee approve the execution of IFM's Interest Election Form with respect to its proposed new fee structure, consistent with the recommendation of Meketa and ISBI Staff. Trustee Flores seconded and the motion passed unanimously.

### ***REPORT OF DEFINED BENEFIT CONSULTANT: MEKETA INVESTMENT GROUP***

#### **Defined Benefit Portfolio Review**

Meketa representatives referred Members to their presentation, "Illinois State Board of Investment Pension Fund Quarterly Review". Meketa representatives discussed current asset

allocations versus the respective targets, including the on-going transition towards the target allocations. Meketa representatives then discussed performance of asset classes versus their assigned benchmarks as of September 30, 2016, noting that each of the Portfolio's active fixed income managers was underperforming its benchmark.

Implementation Plan-Checklist

Meketa representatives referred Members to their presentation, "Asset Allocation Implementation Plan Checklist". Meketa representatives discussed progress made towards moving assets in line with the Board's previously approved asset allocation. The Committee thanked Meketa representatives and ISBI Staff on the progress made on the approved asset allocation.

***REPORT OF DEFERRED COMPENSATION CONSULTANT: MEKETA INVESTMENT GROUP***

Meketa representatives referred Members to their presentation, "Illinois State Board of Investment Deferred Compensation Plan Quarterly Review". Meketa representatives summarized the investment option allocations chosen by DC Plan participants as well as the investment options' performance versus the respective assigned benchmark. Meketa representatives noted that all active managers in the DC Plan underperformed their benchmarks.

***NEW BUSINESS/OLD BUSINESS***

None.

***PUBLIC COMMENT***

None.

***NEXT MEETING AND ADJOURMENT***

Chairman Levine stated that the next meeting of the Investment Policy Committee would be scheduled for March 16, 2017 at 1:00 P.M., official notices to be distributed at a later date. At 1:40 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

