

MINUTES OF THE
INVESTMENT POLICY COMMITTEE
MEETING HELD
Friday, March 3, 2017, 9:00 a.m.

Present:

Committee Members

Marc Levine
Mark Cozzi
Ezequiel Flores
Steven Powell
Shari Greco Reiches

Board Members

Senator Clayborne

Staff

William Atwood
Chris Brannan
Shawn Evans
Johara Farhadieh
Mitchell Green
Tondalaya Lloyd
Scott Richards

Guests

Meketa Investment Group
Alli Wallace
Frank Benham

Hamilton Lane
Matt Silverio
Sean Barber

Cornell Capital Partners
Henry Cornell
Justine Cheng
Steven LeDew
Joanna Reiss

Silver Lake Partners
Joe Osnoss
Lindsey Press

Nomura Asset Management
Stephen Kotsen
Charles Youngblood

Pension & Investments
Richard Baert

Loop Capital
Angela Myers

Office of the State Treasurer
Rodrigo Garcia

Absent:

Committee Members

Steven Powell

ROLL CALL

Chairman Levine called the meeting to order at 9:00 a.m. Mr. Brannan called the roll and noted a quorum was present.

REPORT OF THE INVESTMENT POLICY COMMITTEE CHAIR

Chairman Levine and Ms. Farhadieh introduced the Committee members to Mitchell Green, ISBI Staff's recently hired investment officer.

CONSIDERATION AND APPROVAL OF MINUTES

At the request of Chairman Levine, the Committee will defer the approval of the December 14-15, 2016 meetings minutes to the next meeting.

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

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

Ms. Burns confirmed with all Committee members that they had an opportunity to review the vendor disclosures made by Cornell Capital Partners, Silver Lake Partners, and Hamilton Lane, as required by Section 1.113.21 of the Illinois Pension code.

Trustee Reiches moved that the Committee invests \$50 million dollars in the Cornell Capital Partners Fund III, at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of Hamilton Lane and ISBI Staff. Trustee Flores seconded and the motion passed unanimously.

Trustee Cozzi moved that the Committee invests \$50 million dollars in the Silver Lake Partners Fund V, at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of Hamilton Lane and ISBI Staff. Trustee Reiches seconded and the motion passed unanimously.

Trustee Cozzi moved that the Committee invests \$30 million dollars in the Hamilton Lane Venture Capital Fund (Series 2017), at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of ISBI Staff. Trustee Reiches seconded and the motion passed unanimously.

PRESENTATIONS BY HIGH YIELD BOND RFP FINALIST

Meketa representatives discussed their recommendations with respect to the High Yield Bond Manager Search. Meketa representatives referred Committee members to Meketa's presentation, "Illinois State Board of Investment High Yield Search Review". Meketa representatives provided background to the Committee regarding their vetting process and review of the responses to the High Yield Bond Request for Competitive Proposal (the "RFP"). Meketa representatives discussed that Brigade is managing half of the Portfolio's high yield allocation with Fort Washington managing the other half. Meketa representatives stated that Nomura's credit analysis and performance are what set them apart from other respondents. They also discussed the long tenure and stability of Nomura's investment team. In addition, they discussed how Nomura's strategy will complement the Brigade portfolio. Mr. Richards discussed ISBI Staff's analysis of this manager compared to other RFP respondents.

NOMURA ASSET MANAGEMENT

Representatives from Nomura Asset Management ("Nomura") were invited to join the meeting. Representatives referred Committee members to their presentation. Nomura representatives discussed Nomura's high performance, risk-adjusted analysis, and staff organization. Nomura representatives then discussed in detail the firm's investment strategy in identifying opportunities and evaluating risks. Trustee Reiches asked about the representatives' views on the high yield bond space is going forward. Nomura representatives discussed how it views the quality of issuers as never being higher. Chairman Levine asked about how risk of high yield is assessed given its lower on the capital structure to bank debt and leverage loans. Discussion ensued amongst Committee members and Nomura representatives. Chairman Levine thanked the Nomura representatives for their presentation to the Committee.

Ms. Burns confirmed with all Committee members that they had an opportunity to review the vendor disclosures made by Nomura, as required by Section 1.113.21 of the Illinois Pension code.

Trustee Cozzi moved that the Committee terminates Fort Washington, selects Nomura Asset Management and allocates 50% of the portfolio's high yield debt allocation to Nomura, at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendation of ISBI Staff and Meketa. Trustee Flores seconded and the motion passed unanimously.

REPORT OF DEFINED BENEFIT CONSULTANT: MEKETA INVESTMENT GROUP

Meketa representatives referred Committee members to their presentation, "Illinois State Board of Investment Pension Fund Quarterly Review". Meketa representatives discussed performance for the calendar year ended 12/31/2016, including the positive impact of the presidential election on the U.S. equity market. Meketa representatives then discussed the current asset allocation vs. the target asset allocation and performance of asset classes vs. their respective benchmarks. Meketa representatives provided an update on the hedge fund portfolio transition, noting that Rock Creek is in the process of liquidating the legacy hedge fund portfolios and transitioning their hedge fund portfolio to a more concentrated portfolio with higher long-term return potential. In addition, Meketa representatives noted that they recently held a due diligence call with Rock Creek to discuss the opportunistic debt and hedge fund portfolios. Based on the new mandates, Meketa Investment Group believes that the portfolios are both being well constructed.

Ms. Farhadieh noted that Rock Creek will present to the Committee at a later meeting. Trustee Cozzi recommended that Rock Creek bring its best ideas regardless of current allocation levels.

Meketa representatives referred Committee members to their presentation, "Illinois State Board of Investment Asset Allocation Implementation Plan Checklist". Meketa representatives noted that Rock Creek, Hamilton Lane, and Courtland continue to allocate funds in the opportunistic debt asset class. In addition, Meketa representatives noted that the high yield bond allocation is now complete. Meketa representatives stated that the implementation is complete in regard to most of the Portfolio's target allocations, except for opportunistic debt and the ongoing transition of the hedge fund portfolios.

REPORT OF DEFERRED COMPENSATION CONSULTANT: MEKETA INVESTMENT GROUP

Meketa representatives referred Committee members to their presentation, "Illinois State Board of Investment Deferred Compensation Plan Quarterly Review". Meketa representatives summarized the investment option allocations and noted that the Deferred Compensation Plan transition previously approved will be implemented later in March.

REPORT OF THE DEPUTY EXECUTIVE DIRECTOR

Ms. Farhadieh referred Committee members to her memorandum, "Watch List Notifications". Ms. Farhadieh discussed managers on the current Investment Watch List. Ms. Farhadieh noted that the Committee moved to terminate Fort Washington earlier this meeting and that Staff would continue to monitor managers on this watch list. Trustee Cozzi noted concerned with Courtland Partners' organizational issues. Discussion ensued amongst Committee members.

Ms. Farhadieh then discussed matters relating to current managers. Ms. Farhadieh noted that ISBI Staff is in the process of negotiating an updated fee arrangement with Rock Creek. The aggregate fees paid by ISBI will be substantially similar to the previous arrangement, but that more fees would be paid to opportunistic credit managers, as opposed to hedge fund managers.

NEW BUSINESS/OLD BUSINESS

None.

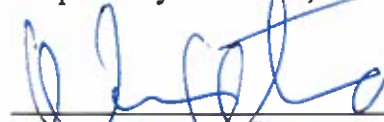
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that Committee members will be notified of the time and date for the next meeting. At 12:58 p.m., there being no further business to come before the Committee, Trustee Flores moved to adjourn the meeting. Trustee Reiches seconded and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director

