

MINUTES OF THE
MEETING
OF THE
INVESTMENT POLICY COMMITTEE

Wednesday, June 14, 2017 – 12:00 P.M.
50 S. LaSalle St., 9th Floor
Chicago, IL 60603

Present:

Committee Members

Chairman Marc Levine
Ezequiel Flores
Shari Greco Reiches
Katherine Hennessy

Board Members

Justice Mary Seminara-Schostok
Senator James Clayborne
Stacey Woehrle

Staff

William Atwood
Chris Brannan
Shawn Evans
Johara Farhadieh
Mitchell Green
James Karls
Scott Richards
David Zaloga

Guests

Meketa Investment Group
Alli Wallace
Frank Benham
David Hetzer

The Rock Creek Group
Alifia Doriwala
Afsaneh Beschloss

GQG Partners
Rajiv Jain
Meredith Martens

Office of the State Comptroller
Chasse Rehwinkel

MXO Tech

Brandon Cabrera

Absent: Committee Members None.

ROLL CALL

Chairman Levine called the meeting to order at 9:09 a.m. Mr. Brannan called the roll and noted a quorum was present.

REPORT OF THE INVESTMENT POLICY COMMITTEE CHAIR

Chairman Levine welcomed Trustee Hennessy and Trustee Woehrlé to the Board.

CONSIDERATION AND APPROVAL OF MINUTES

Trustee Reiches moved to approve the minutes of the December 14-15, 2016, and March 3, 2017 meetings as previously presented. Chairman Levine seconded and the motion passed unanimously.

Trustee Reiches moved to approve the closed session minutes of the December 14-15, 2016 and the March 3, 2017 meetings as previously presented and that the minutes should remain closed pursuant to the recommendation of Fiduciary Counsel. Chairman Levine seconded and the motion passed unanimously.

PRESENTATION BY AND SELECTION OF EMERGING MARKET EQUITY MANAGER SEARCH FINALIST

Meketa Investment Group (“Meketa”) representatives discussed the search process for selecting the Emerging Market Equity Manager Search finalist. Meketa representatives discussed how a Request for Competitive Proposals (“RFP”) was initially issued in August 2016. ISBI Staff and Meketa determined that the proposed fee structure was too restrictive. As a result, ISBI reissued the RFP. Meketa representatives provided an overview of GQG Partners LLC (“GQG”), including how ISBI previously invested in a strategy managed by GQG’s Chairman and Chief Investment Officer, Rajiv Jain. Meketa representatives discussed the emerging market strategy. Ms. Farhadieh noted that GQG qualifies as an emerging manager under Illinois law and ISBI’s Diversity Policy. Discussion ensued amongst Committee members. Trustee Flores entered the meeting.

At 12:21 p.m., 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. Chairman Levine seconded and the motion was called to a roll call vote. All in favor: Trustees Levine, Reiches, and Hennessy. Nays: None. The motion passed unanimously.

Trustee Hennessy moved to return to the open meeting at 2:07 p.m. Trustee Reiches seconded and the motion passed unanimously.

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

Trustee Reiches moved to select GQG as an emerging market equity manager to manage 2% (approximately \$340 million) of the overall Portfolio, which shall not exceed 10% of GQG’s emerging market strategy at the time of investment, at such time and in such manner as deemed prudent by ISBI Staff, consistent with the recommendations of ISBI Staff and Meketa, subject to

legal review and successful contract negotiations. Trustee Hennessy seconded and the motion passed unanimously.

Trustee Flores moved to recommend the approval of the revisions to the current investment management agreement with The Rock Creek Group, LLC, consistent with the recommendations of ISBI Staff, at such time and in such manner as deemed prudent by ISBI Staff. Chairman Levine seconded and the motion passed unanimously.

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 discussed ISBI's Watch List process as background for new Board Members. Ms. Farhadieh discussed the potential removal of one of ISBI's bank loan strategy managers from the Watch List. Discussion ensued amongst ISBI Staff and Members. Trustee Hennessy inquired as to the criteria for putting a manager on the Watch List. Ms. Wallace discussed the manager's recent and historic performance metrics. Chairman Levine discussed the overall bank loan asset class. Trustee Reiches inquired about the reasoning for taking this manager off of the Watch List. Ms. Farhadieh noted the correction of the issue which caused the manager's inclusion on the Watch List. Discussion ensued about keeping the manager on the Watch List and bringing the decision back to the Committee when discussing the entire asset class.

Chairman Levine moved to approve the recommendation of Meketa and ISBI Staff to maintain Crescent Capital on the Investment Watch List, pending later discussion at such time and in such manner as deemed prudent by ISBI Staff. Trustee Flores seconded and the motion passed unanimously.

Ms. Farhadieh noted the resignation of the Portfolio's real estate consultant Courtland Partners. Ms. Farhadieh discussed the transition and strategies going forward for this asset class.

Ms. Farhadieh discussed various items related to current managers, including but not limited to organizational transitions, settlements, and amendments to existing agreements. Chairman Levine noted that he would like an update on the Clarion relationship at a later meeting. Notably, Ms. Farhadieh disclosed that ISBI's commitment to Silver Lake Partners, which was approved by the Committee and Board at the March meetings, was declined by Silver Lake Partners as a result of its oversubscribed fund.

REPORT OF THE DEFINED BENEFIT CONSULTANT: MEKETA INVESTMENT GROUP, LLC

Ms. Farhadieh commended ISBI Staff and Meketa on its hard work over the last year to implement changes. Meketa Representatives referred Members to their presentation, "Implementation Plan Checklist." Meketa representatives discussed progress made towards moving assets in line with the Board's approved target asset allocation. The Committee thanked Meketa and ISBI Staff on the progress made on the approved asset allocation.

CONSIDERATION AND APPROVAL OF REVISIONS TO INVESTMENT POLICY AND PROCUREMENT POLICY

Ms. Farhadieh referred Members to their meeting materials, which included proposed revisions to ISBI's Investment Policy and Procurement Policy. Ms. Farhadieh noted that these changes reflect updates required in order to allow ISBI to proceed with its strategic partnership plan to be discussed in more detail at the Board meeting. Ms. Farhadieh provided background related to the strategic partnership recommendation to be made at the Board meeting in order to provide Members context for the proposed changes. Discussion ensued amongst members.

Chairman Levine moved to recommend the revisions to the Investment Policy and Procurement Policy as presented to the Committee. Trustee Flores seconded and the motion passed unanimously.

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 3:03 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

EXECUTIVE SESSION MINUTES
OF THE
INVESTMENT POLICY COMMITTEE

Wednesday, June 14, 2017 – 12:20 P.M.
50 S. LaSalle St., 9th Floor
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Present:

Committee Members

Chairman Marc Levine
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Katherine Hennessy

Board Members

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Chasse Rehwinkel

MXO Tech
Brandon Cabrera

At 12:20 p.m., 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. Chairman Levine seconded and the motion was called to a roll call vote. All in favor: Trustees Levine, Reiches, and Hennessy. Nays: None. The motion passed unanimously.

GQG representatives were asked to join the meeting and referred the Committee to the presentation materials. GQG representatives noted that Mr. Jain has a significant portion of his net worth in the firm and is investing alongside his clients. GQG representatives provided a firm overview of personnel and performance, the emerging market industry, and GQG's company-focused investment approach. Trustee Reiches asked whether GQG's emerging market strategies first analyze the countries or companies. Mr. Jain stated that GQG has a bottom-up approach and analyzes companies, while taking into account various factors that may impact those companies. Mr. Jain discussed the positive outlook in the emerging markets related to better international policies relative to the last six to seven years. Following their presentation and additional questions from Members, the representatives thanked the Committee for its time and left the meeting.

Discussion ensued amongst ISBI Staff and Committee members about concentration in GQG's emerging markets strategy. Committee members stated that ISBI's investment should not exceed ten-percent (10%) of the strategy.

REPORT BY THE ROCK CREEK GROUP, LLC (Education Session)

Rock Creek representatives were asked to join the meeting and referred the Committee to the presentation materials. Rock Creek representatives discussed its organizational background, general strategies, and its relationship with ISBI. Rock Creek Representatives discussed its success in beating its benchmarks with low volatility. Ms. Farhadieh noted ISBI Staff's relationship with Rock Creek and how it has been a great partnership over the years. Trustee Flores inquired about the on-going hedge fund transition. Ms. Farhadieh discussed the decrease in the hedge fund allocation and manager roster. Trustee Reiches noted that only having one hedge fund of fund manager eliminates overlap and overconcentration.

Rock Creek representatives discussed the status of the hedge fund transition, including the redemption of \$635 million of hedge fund assets. Rock Creek representatives noted that the transition from the legacy hedge fund portfolio has been very quick and cost effective, and that that over 90% of the legacy portfolio will have been redeemed by July 1, 2017, with 98% redeemed by July 1, 2018. Discussion ensued about the current MWDBE managers in the hedge fund portfolio.

Rock Creek representatives then discussed the Portfolio's opportunistic credit allocation, including an overview of the opportunistic credit space, the Portfolio's current allocation, and current MWDBE managers in the opportunistic credit portfolio.

Rock Creek representatives then discussed the current hedge fund portfolio, which has performed well over the past year.

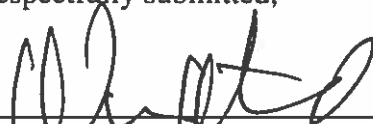
CONSIDERATION AND APPROVAL OF AMENDMENT TO CONTRACTS WITH THE ROCK CREEK GROUP ("ROCK CREEK")

Ms. Farhadieh discussed negotiations with Rock Creek to amend its agreement guidelines and fee structure. The proposed fee structure would include separate fee schedules for the separate asset classes that Rock Creek manages, with the aggregate fee being much lower than it would have been. Trustees Reiches and Hennessy inquired about various fee elements proposed, including the flat and performance fee structures. Ms. Farhadieh discussed previous fee structure and the proposed fee structure as negotiated.

Chairman Levine inquired about changes to the guidelines. Ms. Farhadieh noted concentration restrictions, co-investments, and a minimum of \$100 million in emerging managers. Chairman Levine noted that there should be some flexibility in guidelines for managers and Staff to do what they do best.

Trustee Hennessy moved to return to the open meeting at 2:07 p.m. Trustee Reiches seconded and the motion passed unanimously.

Respectfully submitted,



William Atwood, Executive Director