

MINUTES OF THE
MEETING
OF THE
ILLINOIS STATE BOARD OF INVESTMENT

Thursday, June 15, 2017 – 9:00 A.M.

50 S. LaSalle St., 1st Floor

Chicago, IL 60603

Present:

Board Members

Chairman Marc Levine
Ezequiel Flores
Katherine Hennessy
Shari Greco Reiches
Treasurer Michael Frerichs
Justice Mary Seminara-Schostok
Comptroller Susana Mendoza
Senator James F. Clayborne
Stacey Woehrle

Staff

William Atwood
Genette Bacon-Cordova
Chris Brannan
Shawn Evans
Johara Farhadieh
Mitchell Green
Scott Richards

Guests

Burke Burns & Pinelli
Mary Pat Burns

Illinois State Treasurer's Office
Jay Rowell
Rodrigo Garcia

Illinois State Comptroller's Officer
Chase Rehwinkel

Meketa Investment Group
Alli Wallace
Frank Benham

Absent

ROLL CALL

Chairman Levine called the meeting to order at 9:07 a.m. Mr. Brannan called the roll and noted that a quorum was present.

Trustee Flores moved to permit Comptroller Mendoza to participate by phone due to matters relating to her employment, as permitted by Section 7(a) of the Open Meetings Act. Senator Clayborne seconded and the motion passed unanimously.

REPORT OF THE CHAIRMAN

Chairman Levine welcomed Trustee Hennessy and Trustee Woehrle to the Board, as well as their appointments to the Investment Policy Committee and Audit and Compliance Committee, respectively.

Chairman Levine congratulated Scott Richards, ISBI's Senior Investment Officer on winning 2nd place in the United States in swimming the 200 meter butterfly.

Comptroller Mendoza joined the meeting.

CONSIDERATION AND APPROVAL OF RESOLUTIONS HONORING TRUSTEES

Chairman Levine thanked former Trustees Powell and Cozzi for their service to ISBI. Chairman Levine noted that Trustee Cozzi's efforts and acumen have been instrumental in ISBI's progress and wished him the best as a trustee at the State Universities Retirement System. Chairman Levine asked that a Resolution of Appreciation for ISBI Trustees Steven Powell and Mark Cozzi be read to the Board members. Mr. Brannan read the resolutions.

Senator Clayborne made a motion to approve the Resolution of Appreciation for Trustee Powell and enter it into ISBI's permanent record. Treasurer Frerichs seconded and the motion passed unanimously.

Trustee Reiches made a motion to approve the Resolution of Appreciation for Trustee Cozzi and enter it into ISBI's permanent record. Chairman Levine seconded and the motion passed unanimously.

CONSIDERATION AND APPROVAL OF APPOINTMENT OF OFFICERS

Chairman Levine moved to elect Trustee Reiches as Vice Chairwoman. Senator Clayborne seconded and the motion passed unanimously.

Chairman Levine noted that the election of Trustee Reiches as Vice Chairwoman created a vacancy in the Member-at-Large position. Chairman Levine moved to elect Trustee Flores as Member-at-Large. Senator Clayborne seconded and the motion passed unanimously.

CONSIDERATION AND APPROVAL OF MINUTES

Treasurer Frerichs moved that the minutes of the December 15, 2016 and March 3, 2017 minutes be approved as presented. Chairman Levine seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Frerichs, Mendoza, Schostok, Levine, Flores, and Reiches. Nays: None. Present: Trustee Hennessy and Trustee Woehrle.

Senator Clayborne moved the Executive Session meeting minutes from the December 15, 2016 meeting be approved as presented. Justice Schostok seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Frerichs, Mendoza, Schostok, Levine, Flores, and Reiches. Nays: None. Present: Trustee Hennessy and Trustee Woehrle.

Trustee Flores moved that the Board and Committee meeting minutes recommended by Fiduciary Counsel to be opened pursuant to Section 2.06(d) of the Open Meetings Act be approved and that any verbatim record recommended by Fiduciary Counsel to be destroyed be approved. Chairman Levine seconded and the motion passed unanimously.

CONSIDERATION AND APPROVAL OF REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

Investment Policy Committee

Ms. Farhadieh provided the report of the Investment Policy Committee from its June 14, 2017 meeting. Ms. Farhadieh read through the recommendations approved by the Investment Policy Committee. Senator Clayborne moved to adopt the recommendation and ratify the recommendations of the Investment Policy Committee from its June 14, 2017 meeting. Trustee Hennessy seconded and the motion passed unanimously.

Audit and Compliance Committee

Mr. Atwood provided the report of the Audit and Compliance Committee meeting from its June 14, 2017 meeting. Mr. Atwood read through the recommendations approved by the Audit and Compliance Committee. Chairman Levine moved to adopt the recommendations and ratify the actions of the Audit and Compliance Committee. Justice Schostok seconded and the motion passed unanimously.

Emerging Manager Committee

Ms. Farhadieh provided the report of the Emerging Manager Committee meeting from its June 14, 2017 meeting. Ms. Farhadieh read through the recommendations approved by the Emerging Manager Committee. Senator Clayborne moved to adopt and ratify the report made by the Emerging Manager Committee as presented by Ms. Farhadieh. Chairman Levine seconded and the motion passed unanimously.

PRESENTATION BY DEPUTY EXECUTIVE DIRECTOR – STRATEGIC PARTNERS

Overview

Ms. Farhadieh referred Members to their presentation materials. Ms. Farhadieh discussed the current process of manager selection, which provides for the Board to approve recommendations made by ISBI Staff and other investment professionals. Ms. Farhadieh noted that under the current process, the Board's approval comes after a short manager presentation, while the majority of the diligence is performed by other parties. Ms. Farhadieh stated that if manager selection was delegated to strategic partners, the Board would have more time at meetings to monitor the overall portfolio, including strategic asset allocation, fund performance, risk attributes, and overall fund governance. Ms. Farhadieh noted that the Board would also spend time monitoring current managers investing ISBI's funds rather than prospective managers discussing unrelated past performance. Ms. Farhadieh also noted timing issues that exist with

coordinating fund closings that may occur before a scheduled Board meeting, which has led to missed opportunities. Ms. Farhadieh discussed governance and the Board's role under the recommended strategic partnership model, including the Board setting parameters through a strategic plan, and monitoring performance through presentations by strategic partners about the current Portfolio on a quarterly basis, or as requested by the Board. In addition, the Board may hear from underlying managers as requested, but the discretion to invest in or terminate underlying managers will be with the strategic partners. ISBI Staff and fiduciary counsel noted that these strategic partners will adhere to statutory requirements and ISBI's policies.

Senator Clayborne inquired about frequency of strategic partner presentations to the Board. Ms. Farhadieh noted that this will be part of the quarterly review process or as otherwise requested by the Board. Chairman Levine noted that presentations by strategic partners and underlying managers would be very helpful when discussing specific asset classes. Trustee Reiches noted the benefits of the strategic partners, including additional educational materials. Mr. Atwood noted that Trustee Flores and Justice Schostok visited Hamilton Lane for an education session, providing additional opportunities for trustees to learn about markets and the Portfolio outside of Board meetings.

Revisions to Investment Policy and Procurement Policy

Mr. Brannan noted that in order to adopt the strategic partner manager selection model previously discussed, the Investment Policy and Procurement Policy needs to be revised. Mr. Brannan highlighted changes to the policies. Mr. Brannan noted that additional revisions to the Investment Policy would be forthcoming at a future Board meeting.

New Strategic Partners

Ms. Farhadieh discussed Staff's recommendation to perform a search for a new strategic partner to select and provide access to best-in-class managers in the public markets and private markets, including real estate.

Comptroller Mendoza inquired as to why Staff recommended issuing a search for a public markets strategic partner rather than utilizing ISBI's general consultant. Ms. Farhadieh noted that it would be prudent to go out into the market for an additional strategic partner under a discretionary manager selection model.

Private Equity and Real Estate Allocations

In light of the resignation of ISBI's real estate consultant, Ms. Farhadieh then discussed Staff's recommendation to allocate the real estate asset class to Rock Creek and Hamilton Lane under the strategic partner discretionary model. Ms. Farhadieh noted that it would be prudent to have an advisor oversee the real estate allocation as soon as possible. Ms. Farhadieh also noted that she would consider private markets in the upcoming RFP. Ms. Farhadieh noted that Staff recommends allocating core real estate to Rock Creek and splitting the non-core real estate allocation between Rock Creek and Hamilton Lane. Ms. Farhadieh noted how the different strengths of Rock Creek and Hamilton Lane would complement each other in finding the best managers, and that both firms had proven their ability to access best-in-class private market funds.

Comptroller Mendoza inquired as to whether there are other strategic partners who can manage the real estate allocation. Ms. Farhadieh noted that ISBI has issued two RFPs for real estate consultants within the last few years and is confident that Hamilton Lane and Rock Creek are currently best suited to manage this asset class. Trustee Reiches noted that these strategic relationships allow the board to focus more on asset allocations.

At 10:45 a.m., 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. Justice Schostok seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy, Mendoza, Reiches, Schostok, Woehrle and Levine. Nays: None. The motion passed unanimously.

Chairman Levine moved to come out of closed session. Trustee Woehrle seconded and the motion passed unanimously.

Senator Clayborne moved to approve the revisions to the Investment Policy and Procurement Policy as presented and recommended by ISBI Staff. Trustee Woehrle seconded and the motion passed unanimously.

Chairman Levine moved to approve ISBI Staff's recommendation to revise ISBI's contract with Hamilton Lane to provide Hamilton Lane with discretionary investment authority over ISBI's private equity and opportunistic credit allocations at such time and in such manner as deemed prudent by ISBI Staff, subject to successful contract negotiations. Trustee Reiches seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Hennessy, Reiches, Schostok, Woehrle and Levine. Nays: Trustees Frerichs and Mendoza. The motion passed.

Treasurer Frerichs and Comptroller Mendoza noted that they believe that the discretionary strategic partner model is prudent for manager selection. In addition, they noted that they would favor public searches when changing the structure of the relationships even though not legally required. Comptroller Mendoza stated that she favors the transparency of public searches.

Chairman Levine noted his confidence in Hamilton Lane and given the recent private equity search resulting in Hamilton Lane's selection, he doesn't favor running a search for that relationship.

Trustee Reiches moved to approve ISBI Staff's recommendation to issue a request for proposal for a strategic partner as presented by ISBI Staff. Justice Schostok seconded and the motion passed unanimously.

Trustee Flores moved to approve ISBI Staff's recommendation to appoint the Rock Creek Group to act as discretionary investment advisor over the Portfolio's core real estate portfolio and 50% of ISBI's non-core real estate portfolio at such time and in such manner as deemed prudent by ISBI Staff, subject to successful contract negotiations. Trustee Reiches seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy,

Mendoza, Reiches, Schostok, Woehrle and Levine. Nays: None. The motion passed unanimously.

Justice Schostok moved to approve ISBI Staff's recommendation to appoint Hamilton Lane to act as discretionary investment advisor over the remaining 50% of ISBI's non-core real estate portfolio at such time and in such manner as deemed prudent by ISBI Staff, subject to successful contract negotiations. Trustee Woehrle seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy, Mendoza, Reiches, Schostok, Woehrle and Levine. Nays: None. The motion passed unanimously.

Treasurer Frerichs noted that he is in favor of Hamilton Lane and Rock Creek managing the Portfolio's real estate allocation given the recent resignation of ISBI's real estate consultant, but would favor a public search.

REPORT OF THE DEFINED BENEFIT CONSULTANT: MEKETA INVESTMENT GROUP, INC.

Meketa representatives referred Committee members to their meeting materials. Meketa representatives discussed the Portfolio's progress towards the current target asset allocation previously passed by the Board. Meketa representatives discussed the utilization of passive strategies where prudent and the utilization of active strategies only where significant alpha can be consistently recognized. Meketa representatives then discussed recent performance of the Portfolio, including the performance of individual asset classes versus their respective benchmarks.

REPORT OF THE DEFERRED COMPENSATION CONSULTANT: MEKETA INVESTMENT GROUP, INC.

Meketa representatives referred Committee members to their meeting materials. Meketa representatives discussed the Deferred Compensation Plan's recent transition into a more simplified, low-cost, passively managed selection of investments for participants. Meketa representatives that the transition is complete and that there were no issues of note.

REPORT OF THE DEPUTY EXECUTIVE DIRECTOR – UPDATE ON DEFERRED COMPENSATION PLAN

Ms. Farhadieh provided an update on the previously discussed Deferred Compensation Plan transition, including correspondence from Plan participants and how ISBI Staff is responding to various inquiries. Ms. Farhadieh noted the efforts of Meketa in the successful execution of the transition. Trustee Reiches noted the difficult transition and commended those involved with the education, communications, and other execution items.

REPORT OF THE EXECUTIVE DIRECTOR

Consideration and Approval of Organizational Chart and Job Descriptions

At 12:05 p.m., Trustee Reiches moved to go into Executive Session pursuant to Section 2(c)(1) of the Open Meetings Act to discuss matters related to individual employees. Trustee Flores seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy, Mendoza, Reiches, Schostok, Woehrle and Levine. Nays: None. The motion passed unanimously.

Justice Schostok moved to come out of closed session. Trustee Flores seconded and the motion passed unanimously.

Senator Clayborne moved to approve the revisions to the organizational chart and job descriptions as presented by the Executive Director. Justice Schostok seconded and the motion passed unanimously.

Trustee Woehrle moved to approve the Compensation Guidelines as presented by ISBI Staff. Trustee Reiches seconded and the motion passed unanimously.

Senator Clayborne moved to approve the salary raise for the Chief Investment Officer as required by the recently adopted Compensation Guidelines. Justice Schostok seconded and the motion passed unanimously.

Comptroller Mendoza moved to approve a revision to the organizational chart previously approved. Trustee Reiches seconded and the motion passed unanimously.

Consideration and Approval of Proposed FY2018 Budget

Mr. Atwood referred Members to their meeting materials. Mr. Atwood discussed the proposed Fiscal Year 2018 budget compared to the Fiscal Year 2017 budget. Mr. Atwood noted the significant decreases in operating expenses, including a decrease of almost \$20 million in investment management fees. Mr. Atwood noted that this does not include the additional decrease in hedge fund fees.

Trustee Hennessy moved to approve the Fiscal Year 2018 Budget as presented by the Executive Director. Trustee Flores seconded and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy, Mendoza, Reiches, Schostok, and Woehrle. Nays: None. The motion passed unanimously.

Update Regarding Staff Succession Plan

Mr. Atwood discussed Staff's efforts to update ISBI's Staff Succession Policy as previously discussed by the Board. Mr. Brannan highlighted that the Succession Guidelines expand upon the current Succession Policy in addressing succession of positions other than just the Executive Director. In addition, Mr. Brannan noted that the guidelines provide flexibility for the Board to run searches based on prudence rather than previously adopted rules. Mr. Brannan noted that the Guidelines will be ready for Board approval at the next scheduled Board meeting.

Consideration and Approval of 9/30/2016 and 12/31/2016 Financial Statements

Mr. Atwood referred Members to the Financial Statements for the periods ending September 30, 2016 and December 31, 2016.

Trustee Hennessy moved to approve the September 30, 2016 and December 31, 2016 Financial Statements as presented by ISBI Staff. Trustee Flores seconded and the motion passed unanimously.

PRESENTATION AND APPROVAL OF COMMUNICATIONS PLAN BY KIVVIT, LLC

Kivvit representatives were asked to join the meeting and referred Members to their presentation materials. Kivvit representatives provided background on the firm and its relationship with ISBI. Kivvit representatives discussed amendments to the Communications Plan as presented to the Board. Discussion ensued about Kivvit's fee structure and scope of services set forth in the proposed Communications Plan. Kivvit representatives explained the Communications Plan presented to the Board, including the communications consultant's assistance with incoming media requests, website development, staff communications to the Board, among other items.

Chairman Levine moved to approve the Communications Plan as presented by ISBI's Communications Consultant. Trustee Reiches seconded and the Motion was called to a roll call vote. All in favor: Trustees Flores, Frerichs, Hennessy, Mendoza, Reiches, Schostok, and Woehrlé. Nays: Senator Clayborne. The motion passed.

Treasurer Frerichs, Comptroller Mendoza, and Justice Schostok each noted their yes votes, but would like to be kept apprised of expenses.

PRESENTATION BY MESIROW FINANCIAL ("MESIROW")

Mesirow representatives were asked to join the meeting and referred Members to their presentation materials, which were previously distributed and reviewed. Mesirow representatives noted that consistency in director and officer insurance across ISBI, the State Employees Retirement System, and the Judges Retirement System saved the state money. Mesirow representatives then discussed the proposed policy for ISBI for the 2018 Fiscal Year, which would retain the same coverage from the previous year, but cost \$16,422 less.

Treasurer Frerichs disclosed to the Board a personal relationship with one of the Mesirow representatives.

Trustee Reiches moved that the Board approved the renewal of the Director and Officer Liability Insurance Policy as presented by Mesirow Financial. Justice Schostok seconded and the motion passed unanimously.

REPORT OF THE GENERAL COUNSEL

Mr. Brannan discussed various proposed legislative items that may impact ISBI. Discussion ensued amongst Members related to various pieces of legislation. Mr. Brannan also discussed current organization memberships, including corporate governance organizations that provide education and updates on corporate governance best practices.

NEW BUSINESS/OLD BUSINESS

None.

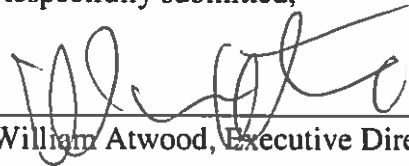
PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine stated that date of the next meeting of the Board would be communicated, with official notices to be distributed at a later date. At 3:05 p.m., there being no further business to come before the Committee, Chairman Levine moved to adjourn the meeting. Trustee Hennessy seconded and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Atwood', is written over a horizontal line.

William Atwood, Executive Director