

MINUTES OF THE  
ILLINOIS STATE BOARD OF INVESTMENT

Thursday, July 19, 2017 – 9:00 A.M.

One South Wacker Drive

Chicago, IL 60606

Present:

Board Members

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

Staff

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

Guests

Burke Burns & Pinelli  
Sarah Boeckman

Illinois State Treasurer's Office  
Jay Rowell  
Rodrigo Garcia

Meketa Investment Group  
Alli Wallace  
Frank Benham

Glass Lewis & Co.  
Aaron Bertinetti  
Anna Willis

The Rock Creek Group  
Sudhir Krishnamurthi  
Peter Klein

Kivvit Communications

Eric Hermann  
Akeem Anderson

Delice Peters

Treasurer Michael Frerichs

Absent:

### ***ROLL CALL***

Chairman Levine called the meeting to order at 9:22 a.m. Mr. Brannan called the roll and noted that a quorum was present.

### ***REPORT OF THE CHAIRMAN***

None.

### ***PRESENTATION BY DEFINED BENEFIT CONSULTANT: MEKETA INVESTMENT GROUP, INC.***

#### Asset Allocation Overview and Updates

Meketa representatives referred Board members to their presentation, "Illinois State Board of Investment Asset Allocation Review and Risk Analysis." Meketa representatives provided an overview of the Portfolio's current target asset allocation as well as general asset allocation principles, including the risk and return assessments that drive asset allocation analysis. Discussion ensued about projected liquidity needs of SERS. Trustee Flores joined the meeting.

Meketa representatives noted that ISBI's previous update to its asset allocation provided for greater risk-adjusted returns than the previous allocation. As part of its on-going diligence, Meketa and ISBI Staff discussed recommended adjustments. Notably, Meketa and ISBI Staff recommended classifying the hedge fund portfolio as part of the Portfolio's public equity bucket. This would allow the hedge funds to be classified, and benchmarked against, based on the strategies invested. Discussion ensued about assigning appropriate benchmarks given differing long/short ratios amongst hedge funds. Meketa representatives provided various asset allocation policy options, including proposed increases and corresponding reductions from the current target asset allocation. Meketa representatives then recommended the target asset allocation set forth as "Policy B." Meketa representatives discussed peer public fund average target allocations. Meketa representatives discussed the justifications for their recommended asset allocation policy, including performance in various up and down-market scenarios. Trustee Hennessy inquired about timeline to reach allocation updates. Meketa representatives discussed how most asset class targets can be reached within one year, except for private equity, which may take multiple years. Meketa representatives noted that this lag time is the main reason for the recommended reduction in private equity and addition to opportunistic credit.

Senator Clayborne moved, consistent with the recommendation of Meketa and ISBI Staff, to adopt the target asset allocation set forth as Policy B. Trustee Reiches seconded and the motion passed unanimously.

### ***PRESENTATION BY THE ROCK CREEK GROUP, LLC***

Chairman Levine, moved to go into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment contracts. Trustee Reiches seconded and the motion was called to a roll call vote. All in favor: Senator Clayborne, Trustee Flores, Trustee Hennessy, Comptroller Mendoza, Trustee Reiches, Justice Schostok, Trustee Woehrle, Chairman Levine. Nays: None. The motion passed.

Justice Schostok moved to return to the open meeting at 12:15. Trustee Reiches seconded and the motion passed unanimously.

Justice Schostok moved that the Board approve the guidelines for the real estate discretionary investment managers with those guidelines being provided to all Board members and implemented by ISBI Staff in such time and in such manner as deemed prudent by ISBI Staff. Trustee Hennessy seconded and the motion passed unanimously.

### ***REPORT OF THE CHIEF INVESTMENT OFFICER***

#### **Request for Competitive Proposal – Strategic Partner**

Ms. Farhadieh discussed the status of the prospective Request for Competitive Proposal for a third strategic partner previously discussed at the June, 2017 Board meeting. Ms. Farhadieh discussed ISBI Staff's goals for the search and a preferred timeline. Ms. Farhadieh noted that ISBI Staff would like to issue the Request for Competitive Proposal before the next regularly scheduled Board meeting.

Trustee Hennessy moved that the Board delegate authority to the Executive Committee to approve the Strategic Partner Request for Competitive Proposal to be presented by ISBI Staff at such time and in such manner as deemed prudent by ISBI Staff. Trustee Woehrle seconded and the motion passed unanimously.

### ***CORPORATE GOVERNANCE UPDATE***

#### **Overview**

Mr. Brannan provided an overview of ISBI's current proxy voting practices, including context and basic background information related to proxy voting. Mr. Brannan discussed ISBI Staff's role in proxy voting and introduced ISBI's service provider, Glass, Lewis & Co. ("Glass Lewis")

#### **Presentation by Glass Lewis**

Glass Lewis representatives referred Board members to their presentation, "ISBI Market Overview and Policy Review." Discussion ensued about Glass Lewis' research and policymaking process. Glass Lewis noted that they do not support or help create shareholder proposals. Discussion ensued about the proxy voting industry and differences between Glass Lewis and Institutional Shareholder Services, the other main service provider in the industry.

Discussion ensued about fiduciary best practices in aligning proxy voting with shareholder value. Glass Lewis representatives noted that its Glass Lewis standard policy is much more widely utilized than ISBI's current policy. Glass Lewis representatives also noted that many funds customize their proxy voting guidelines but there are added costs with customizing guidelines.

Glass Lewis representatives then discussed the on-going analysis and execution related to proxy voting for ISBI. Glass Lewis representatives discussed Glass Lewis' approach to various topics, such as board selection, executive compensation, corporate transactions, and various types of shareholder proposals. Glass Lewis representatives also provided specific examples where Glass Lewis' standard analysis and voting approach differed with other guidelines, including ISBI's current proxy voting guidelines.

### General Counsel Update and Recommendation

Mr. Brannan discussed the recent analysis performed by ISBI Staff in regard to proxy voting norms and updated fiduciary guidance provided by federal regulators. Mr. Brannan discussed possible approaches to proxy voting, including ISBI's current guidelines. Mr. Brannan noted that recent guidance by the United States Department of Labor as well as practices and trends involving other public pension plans led ISBI Staff to recommend ISBI move to the Glass Lewis Policy Proxy Voting Guidelines. Discussion ensued amongst Board members and ISBI Staff.

Trustee Hennessy moved that the Board adopt the Glass Lewis Proxy Voting Guidelines to replace the current Taft Hartley Proxy Voting Guidelines, as recommended by ISBI Staff. Trustee Woehrle seconded and the motion was called to a roll call vote. All in favor: Trustee Flores, Trustee Hennessy, Trustee Reiches, Justice Schostok, Trustee Woehrle, Chairman Levine. Nays: Senator Clayborne, Comptroller Mendoza. The motion passed.

Comptroller Mendoza noted that diversity in the board room is very important. Discussion ensued about ways to improve diversity in corporate board rooms while also maximizing shareholder value.

Comptroller Mendoza moved that Staff should engage with an outside service provider at a later time to determine potential ways to improve corporate boardroom diversity while maximizing shareholder value. Trustee Flores seconded and the motion passed unanimously.

### ***HARDSHIP APPEAL***

Mr. Brannan (the "Hearing Officer") discussed the background of the Hardship Appeal at issue before the Board. The Hearing Officer referred Members to his memoranda, "Report of Hearing Officer's Findings" and "Recommendation of Hearing Officer." The Hearing Officer discussed the legal and factual findings leading to his recommendation to uphold the Hardship Committee's ruling.

Justice Schostok moved to approve the recommendation provided by the Hearing Officer with respect to H/S 17-050. Senator Clayborne seconded and the motion passed unanimously.

### ***NEW BUSINESS/OLD BUSINESS***

None.

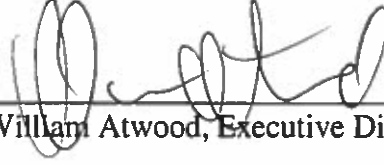
### ***PUBLIC COMMENT***

None.

### ***NEXT MEETING AND ADJOURNMENT***

Chairman Levine stated that the next meeting of the Board would be communicated to trustees and official notices would be distributed at a later date. At 2:45 p.m., there being no further business to come before the Committee, Justice Schostok moved to adjourn the meeting. Trustee Flores seconded and the meeting was adjourned.

Respectfully submitted,

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

William Atwood, Executive Director