

MINUTES OF THE  
ILLINOIS STATE BOARD OF INVESTMENT

Wednesday, December 13, 2017 – 10:30 a.m.  
180 N. LaSalle St., Suite 2015  
Chicago, IL 60601

Present:

Board Members

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

Staff

William Atwood  
Genette Bacon-Cordova  
Shannon Bond  
Shawn Evans  
Johara Farhadieh  
Mitchell Green  
James Karls  
Scott Richards  
Atul Talwar  
David Zaloga

Guests

Burke Burns & Pinelli, Ltd.  
Mary Pat Burns

Illinois State Comptroller's Office  
Chasse Rehwinkel

Illinois State Treasurer's Office  
Rodrigo Garcia  
Jay Rowell

State Employees Retirement System  
Tim Blair

Meketa Investment Group, Inc.  
Alli Wallace  
Frank Benham

Governmental Consulting Solutions,

Inc.  
Steve Zahn

Absent:

Senator James F. Clayborne

## ***ROLL CALL***

Chairman Levine called the meeting to order at 10:25 a.m. in the Board Room of the Illinois State Board of Investment at 180 North LaSalle Street, Suite 2015, in Chicago. Ms. Bond called the roll and noted that a quorum was present.

Trustee Reiches moved to allow Treasurer Frerichs to participate in the meeting via conference call pursuant to Section 7(a) of the Open Meetings Act. Trustee Woehrle seconded, and the motion passed unanimously. At 10:40 a.m., Treasurer Frerichs joined the meeting by conference call.

## ***REPORT OF THE CHAIR***

None.

## ***CONSIDERATION AND APPROVAL OF 2018 MEETING DATES***

Following discussion, Justice Schostok moved to approve quarterly Board meetings on February 23, 2018, June 15, 2018, September 21, 2018, and December 11 - 12, 2018; an Investment Policy Committee meeting on January 18, 2018; and a Board Meeting on April 20, 2018. Trustee Reiches seconded, and the motion passed unanimously.

## ***CONSIDERATION AND APPROVAL OF MINUTES***

Justice Schostok moved to approve the October 10, 2017 Board meeting minutes. Trustee Hennessy seconded, and the motion passed unanimously.

Trustee Flores moved to approve and keep closed the executive session minutes from the October 10, 2017 Board meeting, pursuant to the recommendation of Fiduciary Counsel. Justice Schostok seconded, and the motion passed unanimously.

Fiduciary Counsel outlined its Semi-Annual Review of Executive Session Minutes memorandum in conformance with the Open Meetings Act requirements. Fiduciary Counsel recommended that the following approved Executive Session Minutes be opened to the public consistent with the requirements of the Open Meetings Act because the need for confidentiality with respect to such minutes no longer exists:

- September 15, 2016      Investment Policy Committee (Session #2)
- December 15, 2016      Investment Policy Committee (Session #3)
- December 15, 2016      Board Meeting
- June 15, 2017              Board Meeting (Session #1)

Chairman Levine moved that the recommendation of Fiduciary Counsel to open the identified Executive Session Minutes of the Board and Committees, pursuant to Section 2.06(d) of the Open Meetings Act be approved. Justice Schostok 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.

Ms. Farhadieh read through the recommendation approved by the Investment Policy Committee at its December 12, 2017 meeting to approve the Investment Guidelines for the Investment Management Agreement with Hamilton Lane Advisors, L.L.C., as presented, consistent with the recommendation of ISBI's Staff and Meketa Investment Group, Inc. Trustee Hennessy moved to adopt and ratify the recommendation from the Investment Policy Committee at its December 12, 2017 meeting. Trustee Reiches seconded, and the motion passed unanimously.

### **Audit and Compliance Committee**

Justice Schostok provided the report of the Audit and Compliance Committee and read through the recommendations approved by the Audit and Compliance Committee at its December 13, 2017 meeting:

1. To approve and accept for filing, as presented, the Record of Vouchers and Agent Contact Report.
2. To approve the conferences and trainings listed on the December 2017 list of Upcoming Training Opportunities, as presented, pursuant to Section 1-150 of the Illinois Pension Code, and that all resulting allowable expenses incurred by Trustees be reimbursed, consistent with ISBI's policies.

Trustee Woehrle moved to adopt and ratify the recommendations of the Audit and Compliance Committee from its December 13, 2017 meeting. Trustee Reiches seconded, and the motion passed unanimously.

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

### **Update on Investment Reporting Services Search**

Ms. Farhadieh discussed the status of the search process for an Investment Reporting Service Provider, reminding the Members that the Request for a Proposal ("RFP") was reissued to assist ISBI Staff in better understanding the different offerings and capabilities of each service provider. She stated that the RFP closed on December 6, 2017 and that the results would be reported to the Board at the April, 2018 meeting.

## ***CONSIDERATION AND POSSIBLE ACTION REGARDING THE INVESTMENT POLICY***

Ms. Farhadieh referred Members to the memorandum, "Investment Policy Revisions," which was previously provided to the Members. Ms. Farhadieh reviewed the process for revising the Investment Policy and implementing the comments from the Members. Discussion ensued regarding the changes that were made and the need to make minor changes to incorporate the final comments from Members.

Trustee Reiches moved that the Investment Policy presented by ISBI Staff subject to minor revisions, as discussed, be approved and formally replace the Investment Policy previously approved by the Board. Trustee Hennessy seconded, and the motion passed unanimously.

***CONSIDERATION AND POSSIBLE ACTION REGARDING JCAR RULEMAKING PROCESS & BYLAWS***

Fiduciary Counsel reviewed the Board operational sections of the JCAR Administrative Code and recommended that those sections be moved from the Administrative Code to the proposed Board bylaws that were prepared by Fiduciary Counsel and ISBI Staff. Fiduciary Counsel also outlined the proposed Committee Charters governing the respective Board Committees that are included as exhibits to the Board bylaws.

Ms. Farhadieh outlined the proposed revisions to the Deferred Compensation Plan (“DC Plan”) specified portions of the JCAR Administrative Code and noted that the suggested revisions were approved by the Department of Central Management Services as the administrator of the Deferred Compensation Plan. In the course of the discussion related to the proposed revisions to the DC Plan specified portions of the JCAR Administrative Code, Trustee Reiches inquired as to whether it would be prudent to have the target date fund investment options serve as the Qualified Default Investment Alternative (“QDIA”) for the DC Plan participants. Ms. Farhadieh and Meketa discussed how many deferred compensation plans have chosen to adopt a QDIA consistent with the direction from the Department of Labor. Ms. Farhadieh and Meketa noted their recommendation that the ISBI Deferred Compensation Plan designate its suite of target date funds as the Deferred Compensation Plan QDIA consistent with the direction from the Department of Labor. The Board directed Ms. Farhadieh to work with Fiduciary Counsel to update the proposed revisions to the JCAR Administrative Code to include the target date fund investment options as the QDIA for the Deferred Compensation Plan.

Justice Schostok moved that the proposed Board bylaws, as presented, be adopted, pursuant to the recommendation of Fiduciary Counsel. Trustee Reiches seconded, and the motion passed unanimously.

Trustee Woehrle moved that the filing of the proposed rulemaking with JCAR be approved, substantially in the form presented, consistent with the recommendation of ISBI Staff and Fiduciary Counsel. Trustee Hennessy seconded, and the motion passed unanimously.

***REPORT BY GENERAL CONSULTANT – MEKETA INVESTMENT GROUP, INC.***

**Defined Benefit Portfolio Review as of September 30, 2017**

Representatives of Meketa Investment Group, Inc. referred Board Members to the presentation materials. Representatives discussed the effect of current events on the market and the Portfolio’s progress toward the current target asset allocation. Representatives then discussed recent performance of the Portfolio, including the performance of individual asset classes versus their respective benchmarks. Discussion ensued regarding the benchmarks.

### Deferred Compensation Plan Performance Review as of September 30, 2017

Representatives of Meketa Investment Group, Inc. referred Board Members to the presentation materials. Representatives discussed current allocations and performance. Discussion ensued regarding expenses and participation in the Target Date Funds.

Ms. Farhadieh offered to have T. Rowe Price provide a presentation to the Board regarding participant demographics. The Board directed Ms. Farhadieh to invite T. Rowe Price to the next Board meeting to conduct a presentation on the Deferred Compensation Plan.

### ***LEGISLATIVE UPDATE***

Mr. Zahn referred Board Members to the presentation materials and provided an update on the status of Public Act 100-23. Mr. Zahn also updated the Board Members with respect to new laws, Public Act 100-0542 (sponsored by Senator Clayborne) and Public Act 100-0551 (the result of a joint effort by Rep. Jaime Andrade and Treasurer Frerichs). Mr. Zahn also discussed Public Act 100-554 and the fact that Trustees will need to take Sexual Harassment Training, pursuant to the revisions to the State Ethics Act. Mr. Zahn noted that he will discuss new bills at the next Board meeting after the Spring Session of the Legislature begins.

### ***REPORT OF THE DIRECTOR OF OPERATIONS, ACCOUNTING AND AUDIT***

#### Actual vs. Projected Budget Forecast as of 09/30/17

Mr. Zaloga referred Members to the report in the meeting materials, which was previously provided to Members. Mr. Zaloga noted that total expenses as of 09/30/17 were less than budgeted. Trustee Reiches asked about the payment for insurance. Mr. Zaloga noted that it would be reviewed and adjusted next quarter.

#### Consideration and Approval of Financial Statements (06/30/17)

Mr. Zaloga referred Members to the report in the meeting materials, which was previously provided to Members. Mr. Zaloga noted the increase in Net Asset Value and Fair Market Value of investments.

Justice Schostok moved that the Financial Statements be approved and accepted for filing, as presented, consistent with the recommendation of ISBI Staff. Trustee Reiches seconded, and the motion passed unanimously.

### ***HARDSHIP APPEAL***

Fiduciary Counsel served as the Hearing Officer in the Hardship Appeal titled 17-111. The Hearing Officer referred Members to the "Report of Hearing Officer's Findings" and "Recommendation of Hearing Officer." The Hearing Officer discussed the legal and factual findings leading to the recommendation to uphold the Hardship Committee's decision and deny the hardship distribution. Justice Schostok moved to affirm the recommendation provided by the Hearing Officer with respect to H/S 17-111. Trustee Woehrle seconded and the motion passed unanimously.

## ***REPORT OF THE INTERIM GENERAL COUNSEL***

### **Update Regarding Compliance with Public Act 100-0542**

Fiduciary Counsel discussed Staff's work with Meketa Investment Group, LLC in requesting the consultant disclosures in compliance with Public Act 100-0542 prior to January 1, 2018.

### **Update Regarding Compliance with Public Act 100-0554**

Fiduciary Counsel discussed that Staff currently has annual sexual harassment training consistent with its Sexual Harassment Policy. Fiduciary Counsel noted that pursuant to Public Act 100-0554, Board Members need to complete annual sexual harassment training and noted that Fiduciary Counsel would work with Staff to ensure Members received such training.

### **Consideration and Possible Action Regarding General Counsel Search**

At 1:15 p.m., Comptroller Mendoza joined the meeting.

At 1:16 p.m., Trustee Hennessy moved to go into Executive Session pursuant to Section 2(c)(1) of the Open Meetings Act to discuss the employment and performance of specific employees. Trustee Woehrle seconded, and the motion was called to a roll call vote. All in favor: Trustees Flores, Frerichs, Hennessy, Levine, Mendoza, Reiches, Schostok, and Woehrle. Nays: None. The motion passed unanimously.

At 3:16 p.m., Trustee Hennessy moved to return to the open meeting. Trustee Woehrle seconded, and the motion passed unanimously.

At 3:21 p.m., Treasurer Frerichs disconnected from the conference call.

### ***PRESENTATION BY STATE EMPLOYEES RETIREMENT SYSTEM EXECUTIVE DIRECTOR – TIM BLAIR (EDUCATION SESSION)***

Mr. Blair referred Members to the document, "Statutory Funding Plan," in the meeting materials. Mr. Blair discussed retirement trends, the process for applying and receiving retirement benefits, certain specific Tier 2 benefits, and cash flow projections for the State Employees' Retirement System. Discussion ensued regarding Illinois' unfunded pension liabilities and legislative plans to request increases in funding over time.

### ***REVIEW OF FACTOR BASED INVESTING - MEKETA INVESTMENT GROUP, INC. (EDUCATION SESSION)***

The presentation, "Review of Factor Based Investing," was deferred to a later Board meeting.

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

Trustee Reiches thanked Staff for their hard work over the past year.

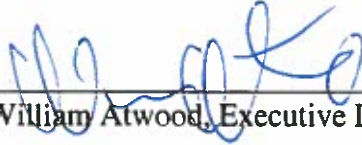
### ***PUBLIC COMMENT***

None.

***NEXT MEETING AND ADJOURNMENT***

Chairman Levine noted that the next meeting of the Board will be held on February 23, 2018 at 8:30 a.m. At 4:02 p.m., there being no further business to come before the Board, Trustee Reiches moved to adjourn the meeting. Trustee Hennessy seconded, and the meeting was adjourned.

Respectfully submitted,



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William Atwood, Executive Director