

MINUTES OF THE
ILLINOIS STATE BOARD OF INVESTMENT

Friday, February 23, 2018 – 1:00 p.m.
180 N. LaSalle St., Suite 2015
Chicago, IL 60601

Present:

Board Members

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

Staff

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

Burke Burns & Pinelli, Ltd.
Mary Pat Burns
(Interim General Counsel)

Guests

Illinois State Comptroller's Office
Chasse Rehwinkel

Illinois State Treasurer's Office
Rodrigo Garcia
Jay Rowell

Meketa Investment Group, Inc.
Alli Wallace
Frank Benham

Governmental Consulting Solutions,
Inc.

Steve Zahn
State Retirement Systems of Illinois
Tim Blair

T. Rowe Price
Dominick Cipolla
George Ebner

fin|daily
Cassandra Hernandez

ROLL CALL

Chairman Levine called the meeting to order at 12:54 p.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.

Senator Clayborne moved to allow Treasurer Frerichs to participate in the meeting via conference call pursuant to Section 7(a) of the Open Meetings Act. Justice Schostok seconded, and the motion passed unanimously. At 12:59 p.m., Treasurer Frerichs joined the meeting by conference call.

REPORT OF THE CHAIR

None.

PRESENTATION BY THE VICE CHAIR

Trustee Reiches reviewed ISBI's accomplishments regarding board governance, the Defined Benefit Plan and Deferred Compensation Plan investment portfolios, and general operational accomplishments. Trustee Reiches specifically noted the creation of ISBI bylaws and revision of JCAR rules, the increased Trustee education sessions, the simplification of the Defined Benefit portfolio and reduction of net fees by approximately \$36 million annually. Ms. Reiches, additionally, noted that ISBI achieved a reduction of investment management fees for the Deferred Compensation Plan and enhanced fee transparency for Deferred Compensation Plan participants, created a new ISBI logo and website, and retained a new Custodian for the Defined Benefit Plan. Trustee Reiches thanked Staff for their efforts in achieving the accomplishments noted during her presentation.

CONSIDERATION AND APPROVAL OF MINUTES

Trustee Hennessy moved to approve the December 13, 2017 Board meeting minutes. Trustee Woehrle seconded, and the motion passed unanimously.

Trustee Reiches moved to approve and keep closed the executive session minutes from the December 13, 2017 Board meeting, pursuant to the recommendation of Fiduciary Counsel. Trustee Woehrle seconded, and the motion passed unanimously.

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

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 recommendations approved by the Investment Policy Committee at its February 23, 2018 meeting:

1. To approve the allocation of Infrastructure Assets to Hamilton Lane Advisors, L.L.C. and the revised Investment Guidelines for the discretionary Investment Management

Agreement with Hamilton Lane Advisors, L.L.C., as presented, consistent with the recommendation of Staff and Meketa Investment Group, Inc.

2. To approve the revised Investment Guidelines for the discretionary Investment Manager Agreement with The Rock Creek Group, LP, as presented, consistent with the recommendation of Staff and Meketa Investment Group, Inc.
3. To approve the Amendment to the Scope of Services and the One-Year Extension of the General Consultant Agreement with Meketa Investment Group, Inc., as presented, consistent with the recommendation of Staff.

Senator Clayborne moved to adopt and ratify the recommendations from the Investment Policy Committee at its February 23, 2018 meeting. Trustee Hennessy seconded, and the motion passed unanimously.

Emerging Manager Committee

Ms. Farhadieh provided the report of the Emerging Manager Committee.

Ms. Farhadieh noted the recommendation approved by the Emerging Manager Committee at its February 23, 2018 meeting to approve the revised Diversity Policy, as presented, consistent with the recommendation of Staff, Investment Consultant, and Interim General Counsel.

Senator Clayborne moved to adopt and ratify the recommendation from the Emerging Manager Committee at its February 23, 2018 meeting. Trustee Hennessy 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 February 23, 2018 meeting:

1. To approve and accept for filing, as presented, the Record of Vouchers.
2. To approve the conferences and trainings listed on the February 2018 list of Upcoming Training Opportunities, as presented and supplemented, 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 Flores moved to adopt and ratify the recommendations of the Audit and Compliance Committee from its February 23, 2018 meeting. Trustee Reiches seconded, and the motion passed unanimously.

UPDATE REGARDING ONGOING REVIEW OF POLICIES

Fiduciary Counsel referred Members to the memorandum, "Ongoing Review of Policies." Fiduciary Counsel explained that by June 2019 all the referenced policies will have been reviewed by Counsel and that any necessary revisions or updates will be presented to the Board on an ongoing process for review and approval.

DEFERRED COMPENSATION PLAN UPDATE

Presentation by T. Rowe Price – Plan Demographics

Representatives of T. Rowe Price were invited to join the meeting. Representatives referred Members to the presentation materials. Representatives reviewed the services provided as Recordkeeper for the Deferred Compensation Plan (the “Plan”), reviewed the 2017 cash flow, reviewed participants’ 2017 asset allocations, and the rates of loans and rollovers during 2017.

Discussion ensued amongst the Members. Trustee Reiches noted that it would be useful to see a comparison of the use of target date funds by Plan participants to the use of target date funds in peer groups. T. Rowe Price Representatives noted that the usage rate is 57.5% for Plan participants and 47.0% for peer groups. Trustee Hennessy asked whether participants were given the option to opt-out of target date funds during the last re-enrollment period. Ms. Farhadieh confirmed that participants were given the option to opt-out of the target date funds during the last re-enrollment period. Ms. Farhadieh further explained that there was extensive communication with participants to ensure participants were informed of their respective investment options. Such communications included webinars, brochures, and live events held throughout the State. Senator Clayborne asked whether the team at T. Rowe Price to comment on its internal diversity initiatives. T. Rowe Price Representatives noted that their Retirement Plan Services is generally a diverse group and the team directly supporting ISBI is also diverse.

Consideration and Approval of MWDBE Passive Global Equity Search

Ms. Farhadieh discussed Staff’s recommendation that the Board approve a search for emerging investment managers or minority investment advisory firms qualified to provide the Deferred Compensation Plan with Passively-Managed Global Equity Investment Advisory Services. Ms. Farhadieh noted that the Deferred Compensation Plan does not currently have an MWDBE option, and the search is consistent with ISBI’s commitment and goals regarding diversity and inclusion. Ms. Farhadieh also noted that, if approved by the Board, Staff anticipates presenting the results of the search to the Board by the next quarterly meeting.

Justice Schostok moved that a request for proposals (“RFP”) be issued for a qualified investment management firm interested in providing Passively-Managed Global Equity Investment Services for ISBI’s State of Illinois Deferred Compensation Plan, consistent with the recommendation of Staff and the General Consultant. Senator Clayborne seconded, and the motion passed unanimously.

Fiduciary Counsel noted that, as a result of the Board’s approval to issue the RFP, the quiet period for Staff and Board Members had begun and that all Board Members and Staff not directly involved in the RFP process should refrain from any communications with potential respondents to the RFP.

LEGISLATIVE UPDATE

Mr. Zahn referred Board Members to his presentation materials. Mr. Zahn reviewed House Bill 4371, House Bill 4411, House Bill 4413, House Bill 4414, Senate Bill 3545, and Public Act 100-40. Mr. Zahn noted that pursuant to Public Act 100-40, online cybersecurity training must be completed by Staff and appointed Board Members. Mr. Zahn also discussed the Governor’s

budget address and the House Personnel and Pensions Committee's intent to hold a subject matter hearing regarding retirement readiness.

REPORT OF THE DIRECTOR OF OPERATIONS, ACCOUNTING AND AUDIT

Actual vs. Projected Budget Forecast as of 12/31/17

Mr. Zaloga referred Members to the Actual vs. Projected Budget Forecast as of December 31, 2017 in the meeting materials, which was previously provided to Members.

Consideration and Approval of Financial Statements (09/30/17)

Mr. Zaloga referred Members to the Financial Statements in the meeting materials, which were previously provided to Members.

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

REPORT OF THE INTERIM GENERAL COUNSEL

Consideration and Approval of Hardship Appeal Recommendation from Hearing Officer

Fiduciary Counsel served as the Hearing Officer in the Hardship Appeal for Case Number H/S 18-001. 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 18-001. Trustee Woehrle seconded and the motion passed unanimously.

Update Regarding "Education Training Day" Meeting

Fiduciary Counsel discussed proposed dates for an "Education Training Day" Meeting at which a presentation would be made by Rick Funston of Funston Advisory Services, LLC. Discussion ensued, and the Members agreed that the best date would be April 19, 2018.

Update and Possible Action Regarding Contract Negotiations with Strategic Partner and Update Regarding Personnel Matters

At 2:33 p.m., Justice Schostok moved to go into Executive Session pursuant to Section 2(c)(7) and Section 2(c)(1) of the Open Meetings Act to discuss specific investment contracts and the employment of specific employees. Trustee Reiches seconded, and the motion was called to a roll call vote. All in favor: Trustees Clayborne, Flores, Frerichs, Hennessy, Levine, Mendoza, Reiches, Schostok, and Woehrle. Nays: None. The motion passed unanimously.

At 4:36 p.m., Trustee Hennessy moved to return to the open meeting. Justice Schostok seconded, and the motion passed unanimously.

NEW BUSINESS/OLD BUSINESS

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that the next meeting of the Board was scheduled for April 20, 2018 and Board Members will be notified of the time at a later date. At 4:40 p.m., there being no further business to come before the Board, Justice Schostok moved to adjourn the meeting. Trustee Reiches seconded, and the meeting was adjourned.

Respectfully submitted,



William Atwood, Executive Director