

**MINUTES OF THE
ILLINOIS STATE BOARD OF INVESTMENT**

Friday, April 20, 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 Woehrle

Staff

William Atwood
Shannon Bond
Shawn Evans
Johara Farhadieh
Mitchell Green
James Karls
Dipesh Mehta
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

Meketa Investment Group, Inc.
Alli Wallace
Frank Benham

Hamilton Lane Advisors, L.L.C.
Matt Silverio

HighVista Strategies LLC
Luke Chan

Timothy Meckel
Adam Posner
Raphael Schorr

ROLL CALL

Chairman Levine called the meeting to order at 1:05 p.m. in the Boardroom of the Illinois State Board of Investment office 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 and Comptroller Mendoza 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 1:05 p.m., Treasurer Frerichs joined the meeting by conference call. At 1:10 p.m., Comptroller Mendoza joined the meeting by conference call.

REPORT OF THE CHAIR

Chairman Levine introduced the new General Counsel and Chief Compliance Officer, Dipesh Mehta. Chairman Levine invited Trustee Reiches to provide a report on the April 19, 2018 Board meeting.

Trustee Reiches reminded the Members that Rick Funston gave a fiduciary educational presentation at the meeting and directed the Members' attention to the copies of Mr. Funston's presentation that had been handed out to the Members who were not able to attend. Trustee Reiches noted that Mr. Funston talked about what makes a board successful, the value of diversity of thought, and how to move toward "unity of direction" from "diversity of opinion." Mr. Funston also acknowledged that ISBI's utilization of Strategic Partners is a leading best practice.

Justice Schostok noted that the General Counsel will also be reviewing the Board's ethics policy to ensure it aligns with best practices and current legal requirements. Discussion ensued amongst the Members about having an educational presentation regarding corporate governance on a regular basis.

CONSIDERATION AND APPROVAL OF MINUTES

Trustee Woehrle moved to approve the February 23, 2018 Board meeting minutes. Senator Clayborne seconded, and the motion passed unanimously.

Trustee Hennessy moved to approve and keep closed the executive session minutes from the February 23, 2018 Board meeting, pursuant to the recommendation of Fiduciary Counsel. Trustee Woehrle seconded, and the motion passed unanimously.

REPORT BY STRATEGIC PARTNER – HAMILTON LANE ADVISORS, L.L.C.

Presentation and Possible Action Regarding Hamilton Lane Venture Capital LP

Ms. Farhadieh reminded Members that in 2017, Hamilton Lane Advisors, L.L.C. ("Hamilton Lane") gave a presentation regarding the Hamilton Lane Venture Capital vehicle. The Venture Capital vehicle is comprised solely of Hamilton Lane clients and the purpose of the fund is to give those clients access to top-tier venture capital funds. Hamilton Lane does not charge any management or administrative fees. To ensure such potential investment is in compliance with the legal requirements under the Illinois Pension Code, Fiduciary Counsel prepared certain representations and warranties that were certified by Hamilton Lane.

At 1:26 p.m., Trustee Hennessy moved to go into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment contracts. Justice Schostok 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 1:50 p.m., Justice Schostok moved to return to the open meeting. Senator Clayborne seconded, and the motion passed unanimously.

Justice Schostok moved that \$30 million be allocated, annually, to the Hamilton Lane Venture Capital vehicle, provided that Hamilton Lane annually certifies that the investment conforms to required representations and warranties prepared by ISBI's General Counsel prior to such investment, consistent with the recommendation of Hamilton Lane. Trustee Woehrle seconded, and the motion passed unanimously.

Consideration and Approval of Revisions to Hamilton Lane Advisors, L.L.C. Investment Management Agreement

Senator Clayborne moved that the Board approve Hamilton Lane to provide reporting of The Rock Creek Group LP's ("Rock Creek") opportunistic debt allocation and approve the Amendment to ISBI's Investment Management Agreement with Hamilton Lane, including an increased annual fee to Hamilton Lane, as presented, consistent with the recommendation of Staff. Justice Schostok seconded, and the motion passed unanimously.

Chairman Levine noted that during Executive Session, Rock Creek's fee was discussed. Justice Schostok noted that the services provided by Rock Creek have changed over time and discussions of lowering the fee should be revisited. Chairman Levine noted that Rock Creek does provide access to some managers which ISBI would not otherwise been able to access. Board Members expressed appreciation for Rock Creek's quality of work, but also expressed concern about Rock Creek's fee.

REPORT REGARDING STRATEGIC PARTNER UTILIZATION

Ms. Farhadieh referred Members to her presentation materials. Ms. Farhadieh reviewed the structure of the defined benefit portfolio, discussed the current roles of the Strategic Partners and General Consultant, and discussed the roles that future Strategic Partners may play, pending Board approval.

At 2:03 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 contracts. Senator Clayborne 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 3:10 p.m., Trustee Reiches moved to return to the open meeting. Senator Clayborne seconded, and the motion passed unanimously.

Presentation by and Approval of Discretionary Investment Manager Search Finalist – HighVista Strategies LLC

The Board directed Staff to recommence discussions with Progress Investment Management Company (one of the finalists for the RFP who gave a presentation to the Board on the October 10, 2017).

Mr. Rowell noted that HighVista Strategies LLC (“HighVista”) has no women on the investment team and a low percentage of minorities. He expressed hope that the Board will continue to focus on the issue of diversity and hold HighVista accountable for improving their diversity. Discussion ensued amongst the Board about various initiatives that HighVista may explore regarding increasing its commitment to diversity.

Justice Schostok moved that the Board approve the recommendation of Staff and Meketa Investment Group, Inc. to appoint HighVista to act as discretionary investment advisor with a public markets initial allocation of no more than 1% of ISBI’s total assets and an opportunistic debt allocation of no more than 1% of ISBI’s total assets, at such time and in such manner as ISBI Staff deems prudent, subject to successful contract negotiations. Trustee Flores seconded. All in favor: Trustees Flores, Frerichs, Hennessy, Levine, Mendoza Reiches, Schostok, and Woehrle. Nays: None. Present: Senator Clayborne. The motion passed.

At 3:20 p.m., Comptroller Mendoza disconnected from the conference call.

Consideration and Approval of Optimal Index Portfolio

Representatives of Meketa Investment Group, Inc. (“Meketa”) referred Members to their presentation materials. Representatives discussed recommended modifications to the existing passive fund line-up and implementation of a factor-based equity portfolio. The modifications will improve the ability to rebalance between large and midcap equities, mitigate overlap, allow better accounting for active management exposures, and incorporate exposure to Canada. The factor-based equity portfolio will reduce the portfolio’s risk, increase long-term return potential, and maintain low fees. Chairman Levine noted that the changes would also improve transparency. Ms. Farhadieh thanked Staff and Meketa for their analysis.

Trustee Hennessy moved that the Board approve the recommendation of Staff and Meketa Investment Group, Inc. to replace the S&P 500, Russell 1000 Growth, and Russell 1000 Value Indices within the Domestic Equity Portfolio with the Russell Top 200 and Russell MidCap Indices, at such time and in such manner as ISBI Staff deems prudent. Justice Schostok seconded, and the motion passed unanimously.

Trustee Woehrle moved that the Board approve the recommendation of Staff and Meketa Investment Group, Inc. that the current large cap equity account guidelines, the RhumbLine S&P 500 and RhumbLine Russell 1000 Value Indices, be combined into one large cap account, the Russell Top 200 Index, approximating \$3 billion in passive large cap equity assets, at such time and in such manner as ISBI Staff deems prudent. Trustee Hennessy seconded, and the motion passed unanimously.

Trustee Hennessy moved that the Board approve the recommendation of Staff and Meketa Investment Group, Inc. to transition the MSCI EAFE and MSCI EAFE Small Cap Indices to the MSCI World ex. U.S. and MSCI World ex. U.S. Small Cap Indices, respectively, at such time and in such manner as ISBI Staff deems prudent. Trustee Reiches seconded, and the motion passed unanimously.

Consideration and Approval of Issuance of Request for Competitive Proposal for Strategic Partner: Passive Management, Factor-Based Investing, Legacy Assets and Operations

Ms. Farhadieh reviewed the Strategic Partner services that would be sought if the Board approved issuance of a Request for Competitive Proposal (“RFP”) from investment advisory firms qualified to provide Non-Discretionary Passive Index Advisory Services, Non-Discretionary Passive Factor-Based Index Advisory Services, Discretionary Advisory Services for legacy assets, and services related to Operational and Risk Management Support. Ms. Farhadieh stated that the scope of the RFP may allow ISBI to obtain bundled pricing with potentially a lower fee and more services. Discussion ensued amongst Board Members.

Ms. Farhadieh noted that due to the scope of the new Strategic Partner search, the new search may impact the results of the Investment Reporting Services RFP which was reissued on November 13, 2017. Therefore, the results of the Investment Reporting Services RFP will be reported to the Board at a later date.

Senator Clayborne moved that, consistent with the recommendation of Staff and Meketa, a RFP be issued for investment advisory firms qualified to provide the Defined Benefit Plan with Non-Discretionary Passive Index Advisory Services, Non-Discretionary Passive Factor-Based Index Advisory Services, Discretionary Advisory Services for legacy assets, and services related to Operational and Risk Management Support. Chairman Levine 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.

UPDATE AND POSSIBLE ACTION REGARDING DEFERRED COMPENSATION PLAN MWDBE PASSIVE GLOBAL EQUITY SEARCH

Ms. Farhadieh reaffirmed ISBI’s commitment to make best efforts to improve diversity within State of Illinois Deferred Compensation Plan. She noted that the MWDBE Passive Global Equity Index Provider Search only resulted in two responses. Neither respondent had a global equity product, but both were willing to create one. However, due to proposed fees, it would not be prudent or cost effective to move forward with either of the respondents. Staff will continue to evaluate options to improve diversity and report back to the Board.

Trustee Hennessy moved that the Board decline to move forward with the MWDBE Passive Global Equity Index Provider Search, consistent with the recommendation of Staff and Meketa. Trustee Reiches seconded, and the motion passed unanimously.

CONSIDERATION AND POSSIBLE ACTION REGARDING SECURITIES LENDING PROGRAM

Representatives of Meketa referred Members to their presentation materials. Representatives explained the mechanics of securities lending, discussed the risks involved, and reviewed ISBI’s Securities Lending Program and its specific risks. Discussion ensued amongst Board Members. Ms. Farhadieh stated that, pending Board approval, the legacy assets would ultimately transition into a residual account.

Chairman Levine moved that the Board eliminate the securities lending program and that the securities lending legacy assets be moved to ISBI's residual account, at such time and in such manner as Staff deems prudent, consistent with the recommendation of Staff and Meketa. Trustee Hennessy seconded, and the motion passed unanimously.

REPORT BY GENERAL CONSULTANT – MEKETA INVESTMENT GROUP, INC.

Defined Benefit Portfolio Review as of December 31, 2017

Representatives of Meketa referred Board Members to the presentation materials. Representatives discussed recent performance of the Defined Benefit Portfolio. Specifically, Representatives discussed the performance of individual asset classes versus their respective target allocations and benchmarks and performance attribution for each asset class.

Deferred Compensation Plan Performance Review as of December 31, 2017

Representatives of Meketa referred Board Members to the presentation materials. Representatives discussed current allocations and performance of the Deferred Compensation Portfolio. Trustee Reiches noted that ISBI is still waiting for JCAR approval of the proposed revisions to the Administrative Code, including having the target date fund investment options serve as the Qualified Default Investment Alternative ("QDIA") for Deferred Compensation Plan participants.

CONSIDERATION AND POSSIBLE ACTION PERTAINING TO INVESTMENT WATCH LIST NOTIFICATIONS

Ms. Farhadieh referred Board Members to the Watch List.

Trustee Woehrle moved that the Board remove Crescent Capital Group LP from the watch list, consistent with the recommendation of Staff and Meketa. Justice Schostok seconded, and the motion passed unanimously.

UPDATE REGARDING PERSONNEL MATTERS

Fiduciary Counsel reminded Members that they should see the Ethics Officer, Ms. Bond, if they had not already done so, regarding training matters and the required Statement of Economic Interest forms.

Fiduciary Counsel stated that she has been working with the Communications Consultant on the newsletter for participants, as previously directed by the Board. The newsletter will be one page and included in SERS mailings.

Fiduciary Counsel reminded Members that they should be familiar with the Securities Litigation Policy.

At 4:24 p.m., Justice Schostok moved to go into Executive Session pursuant to Section 2(c)(1) of the Open Meetings Act to discuss 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, Reiches, Schostok, and Woehrle. Nays: None. The motion passed unanimously.

At 5:11 p.m., Trustee Hennessy moved to return to the open meeting. Trustee Reiches seconded, and the motion passed unanimously.

NEW BUSINESS/OLD BUSINESS

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that Board Members will be notified of the date and time of the next meeting. At 5:16 p.m., there being no further business to come before the Board, Trustee Woehrle moved to adjourn the meeting. Justice Schostok seconded, and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Johara Farhadi", written over a horizontal line.

Johara Farhadi, Executive Director/Chief
Investment Officer