

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

Monday, July 9, 2018 - 11:30 a.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

Genette Bacon-Cordova
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
Lauren Peters
Kathleen Stralka

Illinois State Treasurer's Office
Rodrigo Garcia
Allen Mayer

Meketa Investment Group, Inc.
Alli Wallace

BlackRock Financial Management

Jonathan McBride

Andrea Picard

Mark McCombe

Tim Murray

Mesirow Insurance

Tim Bowen

Craig Goesel

Kahn Swick & Foti, LLC

Dahlia Ronen

ROLL CALL

Chairman Levine called the meeting to order at 11:43 a.m. in the Boardroom of the Illinois State Board of Investment office at 180 North LaSalle Street, Suite 2015, in Chicago. Mr. Mehta 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. Trustee Woehrle seconded, and the motion passed unanimously.

REPORT OF THE CHAIR

None.

CONSIDERATION AND APPROVAL OF MINUTES

Justice Schostok moved to approve the April 19 and 20, 2018 Board meeting minutes. Trustee Hennessy seconded, and the motion passed unanimously.

Justice Schostok moved to approve and keep closed the executive session minutes from the April 20, 2018 Board meeting, pursuant to the recommendation of Fiduciary Counsel. Trustee Woehrle seconded, and the motion passed unanimously.

Senator Clayborne moved that the Executive Session Minutes recommended by Fiduciary Counsel be opened to the public pursuant to Section 2.06(d) of the Open Meetings Act and that the verbatim records presented by Fiduciary Counsel be discarded pursuant to Section 2.06(c) of the Open Meetings Act. Trustee Woehrle 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 July 9, 2018 meeting:

1. To approve revisions to the discretionary Investment Manager Agreement with The Rock Creek Group, LP, as presented, subject to legal review, contract negotiations, and consistent with the recommendation of Staff and Meketa Investment Group, Inc.

Justice Schostok moved to adopt and ratify the recommendation from the Investment Policy Committee at its July 9, 2018 meeting. Trustee Reiches seconded, and the motion passed unanimously.

Emerging Manager Committee

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

Trustee Woehrle moved to adopt and ratify the report from the Emerging Manager Committee at its July 9, 2018 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 July 9, 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 July 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.

Justice Schostok moved to adopt and ratify the recommendations of the Audit and Compliance Committee from its July 9, 2018 meeting. Chairman Levine seconded, and the motion passed unanimously.

PRESENTATION BY AND POSSIBLE APPROVAL OF STRATEGIC PARTNER: PASSIVE MANAGEMENT, FACTOR-BASED INVESTING, LEGACY ASSETS AND OPERATIONS SEARCH FINALIST

Presentation and Possible Action Regarding BlackRock Financial Management, Inc.

Ms. Farhadieh provided an overview of the methodology used by ISBI in its search process for a strategic partner. Ms. Farhadieh noted that Staff conducted extensive research into each submittal. By partnering with a large firm, ISBI can receive operational and software support in addition to investment services for a lower fee.

At 11:59 a.m., Senator Clayborne moved to go into Executive Session pursuant to Section 2(c)(7) of the Open Meetings Act to discuss specific investment contracts. Trustee Woehrle 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 1:08 p.m., Justice Schostok moved to return to the open meeting. Senator Clayborne seconded, and the motion passed unanimously.

Several Trustees discussed the presentation by BlackRock and asked Ms. Farhadieh for a preliminary timeline for onboarding BlackRock as a Strategic Partner. Ms. Farhadieh stated the proposed timeline is three to six months subject to successful contract negotiations. She also stated she will work with BlackRock on its diversity initiatives.

Comptroller Mendoza moved that the Board approve ISBI Staff's and Meketa's recommendation to appoint BlackRock Financial Management, Inc. as ISBI's Passive Discretionary Strategic Partner to provide traditional index management, factor management, discretionary portfolio oversight, operational services and a risk and reporting platform subject to legal review and successful contract negotiations. Chairman Levine seconded, and the motion passed unanimously.

REPORT BY GENERAL CONSULTANT – MEKETA INVESTMENT GROUP, INC.

Defined Benefit Portfolio Review as of March 31, 2018

Ms. Wallace of Meketa referred Board Members to the presentation materials. She discussed recent performance of the Defined Benefit Portfolio as well as the performance of individual asset classes versus their respective target allocations and benchmarks and performance attribution for each asset class. Ms. Wallace noted performance gains were due to the selection effect versus an allocation effect. Trustee Reiches appreciated the additional information Meketa began including in its quarterly report at the request of Trustees.

Deferred Compensation Plan Performance Review as of March 31, 2018

Ms. Wallace of Meketa referred Board Members to the presentation materials. She 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. Fiduciary Counsel updated the Board on the status of JCAR approval for the DC Plan.

CONSIDERATION AND POSSIBLE ACTION REGARDING REVISIONS TO DEFINED BENEFIT POLICIES

Investment Policy

Ms. Farhadieh referred Members to the Investment Policy. Ms. Farhadieh reviewed the proposed revisions highlighted by ISBI’s two-thirds passive and one-third active investment allocation being formally included in the Policy.

Trustee Hennessy moved that the Board, consistent with the recommendation of Meketa Investment Group & ISBI Staff, approve the proposed revisions to the Investment Policy. Justice Schostok seconded, and the motion passed unanimously.

REPORT BY GENERAL COUNSEL

Consideration and Approval of Revised Vacation Policy

Mr. Mehta referred Board Members to the revised Vacation Policy. Board Members reviewed the revised policy to ensure its language was legally sound and consistent with best practices for Illinois public pension funds.

Trustee Reiches moved that the Board, consistent with the recommendation of ISBI Staff, approve the proposed revisions to the Vacation Policy. Trustee Woehrle seconded, and the motion passed unanimously.

REPORT OF THE DIRECTOR OF OPERATIONS, ACCOUNTING AND AUDIT

Actual vs. Projected Budget Forecast as of 3/31/18

Mr. Zaloga referred Members to the Actual vs. Projected Budget Forecast as of March 31, 2018 in the meeting materials, which was previously provided to Members.

Consideration and Approval of Financial Statements (12/31/17)

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

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.

REPORT BY FIDUCIARY COUNSEL

Update Regarding Newsletter for Pension Plan Participants

Fiduciary Counsel referred Board Members to the newsletter prepared for distribution. Ms. Farhadieh noted that she had several discussions with Board Members and Fiduciary Counsel regarding revising the newsletter to be more useful for plan participants. Board Members discussed various options regarding the newsletter and directed Ms. Farhadieh to prepare a revised newsletter consistent with the Board's direction.

PRESENTATION BY MESIROW FINANCIAL ("MESIROW")

Consideration and Approval of Fiduciary Liability Insurance Policy

Mesirow representatives were asked to join the meeting and referred Members to their presentation materials, which were previously distributed. Mesirow representatives and Fiduciary Counsel noted the level of coverage provided was appropriate for the size and structure of ISBI. Mesirow representatives then discussed the proposed policy for ISBI for the 2019 Fiscal Year, which would retain the same coverage from the previous year but cost approximately \$411 more than the 2018 Fiscal Year policy.

Justice Schostok moved that the Board approve the renewal of ISBI's Fiduciary Liability Insurance Policy as presented by Mesirow Financial. Comptroller Mendoza seconded, and the motion passed unanimously.

LEGISLATIVE UPDATE

Mr. Zahn referred Board Members to his presentation materials. Mr. Zahn reviewed House Bill 109, House Bill 3342, House Bill 4412, and House Bill 4413. Mr. Zahn noted that the Government Severance Pay Act recently passed and was awaiting signature from the Governor.

NEW BUSINESS/OLD BUSINESS

None.

PUBLIC COMMENT

None.

NEXT MEETING AND ADJOURNMENT

Chairman Levine noted that the next meeting will take place on September 21, 2018. At 2:51 p.m., there being no further business to come before the Board, Senator Clayborne moved to adjourn the meeting. Justice Schostok seconded, and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Johana Farhadieh". The signature is written in a cursive style with a horizontal line underneath it.

Johana Farhadieh, Executive Director/
Chief Investment Officer