

ROLL CALL

Chairman Powell called the meeting to order at 9:50 a.m. The Secretary called the roll and noted that a quorum was present. The Chairman called for introductions by guests.

Chairman Powell stated that Senator Clayborne was present telephonically. Ms. Bush moved to approve Senator Clayborne participating in the meeting via telephone. Mr. Montgomery seconded and the motion passed unanimously.

COMMUNICATIONS

None.

REPORT OF THE CHAIRMAN

Chairman Powell stated that a revised 2010 Schedule of Meetings was previously distributed and that the meeting dates remained unchanged, however, the starting time of the Audit & Compliance Committee and the Board had been moved to 8:30 a.m. and 8:45 a.m., respectively. (Official minutes contain attachment.)

MINUTES OF PREVIOUS MEETING

Ms. Bush moved to approve the minutes of the meeting of the Board held September 25, 2009, in the form previously submitted. Mr. Montgomery seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Director Atwood stated that the Investment Policy Committee met on December 3, 2009. Further, the Director reported that a quorum was not present; however, presentations and discussion were held on the agenda items as follows, with the following Board members present: Casey, Hoffman, and Parish; with Montgomery joining for discussion.

Private Equity Presentation

Presentation was made by representatives of the Riverside Fund IV. Consultant recommended a \$25 million commitment. It was the consensus of the Board Members present to refer this matter to the Executive Committee due to time constraints.

International Index Fund Presentations

Presentations were made by State Street Global Advisors (SSgA) and RhumbLine for an international all-world, ex-US index mandate, for approximately \$500 million.

Discussion was held regarding the International Index presentations. It was the consensus of the Board Members that discussion and recommendation by the members present be held at the December 18, 2009 Board meeting, since there was no urgency to engaging an international index manager.

Transition Manager Review

Staff and Consultant reviewed the RFP process and goals for the transition manager search, stating that 12 RFP's were submitted with only 3 of 12 meeting qualification requirements: BGI, JP Morgan and Russell. It was anticipated to add three to the list and conduct a new search after the new year, for additional transition managers.

Discussion was held regarding the transition manager recommendation. It was the consensus of the Board Members that discussion and recommendation by the members present be held at the December 18, 2009 Board meeting.

The Director referred the Board Members to Marquette Associates written report "International Equity Manager Search" that had previously been distributed and distributed a memorandum "International Index Fund Management" dated December 18, 2009. Following review and discussion, Judge Hoffman moved to approve the recommendation outlined in the memorandum to continue the retention of a State Street Global Advisors (SSgA) for an international all-world, ex-US index mandate with a commitment of approximately \$500 million. Mr. Casey seconded and the motion passed unanimously. (Official minutes contain attachments.)

Mr. Wrubel referred the Board Members to the Marquette report "Transition Management Search". Following discussion, Mr. Montgomery moved to approve including BGI, J. P. Morgan, and Russell in the transition manager pool and reissue the RFP to expand the pool, with a goal of 6-7 managers. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Executive Committee

Director Atwood reported that the Investment Policy Committee and Executive Committee had met on December 3, 2009. The Director stated that a presentation was made by Riverside Fund IV and the Executive Committee approved a \$25 million commitment to the Riverside Fund IV.

Ms. Reid reported that under Public Act 96-0006 a description of all investment services contacts must be posted on the Board's website and recommended the following disclosure statement:

The Board selects investments advisers and consultants based upon the expert recommendation(s) of Staff and/or Consultant, the experience and qualifications of the firms' principals, the soundness of the firm's strategy and process and the strength of the firm's investment performance.

Mr. Casey moved to approve the above-recommended disclosure language and to delegate authority to Staff to describe any additional factors unique to each investment adviser or consultant that contributed to the Board's selection, where necessary, in addition to the disclosure statement above. Mr. Montgomery seconded and the motion passed unanimously.

Audit & Compliance Committee

Chairman Powell stated that the Audit & Compliance Committee had met prior to this meeting and referred to Ms. Bush to report on the Committee's actions. Ms. Bush reported the following actions by the Audit & Compliance Committee:

- Ms. Bush reported that she had been re-elected Chairman of the Audit & Compliance Committee.
- Minutes of the September 25, 2009 meeting were approved.
- Third party travel reimbursements were approved for Linsey Schoemehl to attend the CERS Investment Summit on Climate Risk to be held January 14, 2010 in New York, and for William Atwood to attend the Infrastructure Investments Forum Americas 2010 Conference in New York on February 23, 2010.
- The Committee discussed the usage of placement agents and their compensation relating to Section 1-145 of Chapter 40 of the Illinois Pension Code and recommended amending the Board and Staff's Ethics Codes. The amendments would require that Members and Staff memorialize in their ex-parte records all communications with placement agents, third-party marketing agents or similar persons or entities attempting to influence Board action, including communications with agents attempting to influence Board action that are compensated by a person or entity on a non-contingent basis, and report such communications to the Board's Ethics Officer.
- Ms. White reported that the fiscal year 2009 audit had been completed and findings were reviewed. Further, the Committee had agreed that Staff should discuss revisions to the Alternative Investments finding with the auditors at the Exit Conference and, if unable to resolve, the auditors would be invited to the next Audit & Compliance Committee meeting.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through September 2009.
- The Commission Recapture Report for the quarter ending September 2009 was reviewed and approved.
- The Records of Vouchers for the months of July, August and September 2009 were reviewed and approved.

Judge Hoffman moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Ms. Parish seconded and the motion passed unanimously.

PRESENTATION: PROXY VOTING

RiskMetrics/Institutional Shareholder Services

Ms. Schoemehl referred the Board Members to the memorandum "Proxy Voting Advisory and Related SRI Services Recommendation" dated December 8, 2009. Ms. Schoemehl reported that following the RFP for proxy voting services, staff was recommending

engaging RiskMetrics Group's Institutional Shareholder Services for proxy voting and advisory services related socially responsible investment services. Ms. Schoemehl stated that Mr. Brian Parish of RiskMetrics Group was present to make a presentation.

Mr. Brian Parish joined the meeting and distributed written presentations. Following introductions, copies of written presentations were distributed. Following the presentation and answering questions posed by Board Members, Mr. Parish thanked the Board for its time and excused himself from the meeting. (Official minutes contain attachment.)

Judge Hoffman moved to approve the staff recommendation to continue the Board's engagement with RiskMetrics Group's Institutional Shareholder Services for proxy voting and advisory services related socially responsible investment services. Mr. Montgomery seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty of Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the 3rd quarter and an updated report dated November, 2009, and reviewed. (Official minutes contain attachments.)

Update on HB 489

Ms. Reid referred the Board Members to the memorandum "Deferred Compensation: PA 06-806" dated December 8, 2009. Following the report, Ms. Reid stated that she would keep the Board apprised on this matter.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – September 2009 and Interim Report – November 2009

Chairman Powell stated that representatives of Marquette Associates were in attendance and called on Brian Wrubel to review the investment performance. Mr. Wrubel reported that the Investment Performance Report for the quarter ending September 2009 had previously been distributed. Mr. Wrubel distributed the Flash Report for November 30, 2009, and reviewed. Following detailed review and answering questions posed by Board Members, the Chairman thanked Mr. Wrubel for the report. (Official minutes contain attachments.)

Recommendation on Portuguese Tax Issue

Mr. Wrubel referred the Board Members to the memorandum "Portuguese Tax Issue (Non-U.S. equity portfolio)" dated December 7, 2009, which had previously been received and reviewed. Following review and detailed discussion, Mr. Montgomery moved to approve the recommendation outlined by the consultant, as follows:

- 1) Going forward, non-U.S. equity managers utilized by the Board, both passive and active, are not allowed to buy Portuguese stocks.

- 2) Regarding the current holdings, we would allow the managers to continue to hold these issues and only sell them in the normal course of business. As exposure is relatively small and the tax dollar loss at this point is minimal, we would not want the managers to sell the entire position immediately.

Judge Hoffman seconded and the motion passed unanimously.

REPORT OF THE DIRECTOR

Matters Relating to Existing Managers

Director Atwood referred the Board Members to the memorandum "Investment Guideline Revisions / Foreign Currency Exchange (FX) Trading" dated December 7, 2009. Ms. Reid reported the changes being made to the ISBI investment manager investment guidelines providing guidance as to the execution of FX trades.

Mr. Kominiarek reported that a memorandum "Matters relations to Existing Managers /Investments" dated December 7, 2009 had previously been distributed. (Official minutes contain attachment.)

Mr. Richards stated that a memorandum "Matters relating to existing managers" dated December 2, 2009 had previously been distributed. (Official minutes contain attachment.)

Watch List

Mr. Richards reviewed the previously distributed "Watch List" (Official minutes contain attachment.)

Update on Securities Lending

Director Atwood reported that Staff is working with State Street to convert the securities lending Quality D Fund to a separate account.

Recommendation regarding Foreign Securities Litigation Settlement Recovery

Ms. Reid reported that ISBI had requested a recommendation from the Attorney General regarding appropriate procedures for dealing with the recovery of class settlement proceeds distributed in foreign securities litigation cases. Ms. Reid further reported that the response received from the Attorney General was that foreign securities class actions should be considered on a case-by-case basis and recommended that as notices are received the relevant materials should be forwarded to the Attorney General, and ISBI in conjunction with the Attorney General should review, confer and decide how to proceed in a given situation.

Ms. Reid stated that with respect to the foreign securities class action notices ISBI has received to date, the Attorney General recommended not to join the efforts to form or participate in a purported class in these foreign jurisdictions. The Attorney General's research into the prospective cases to which the notices relate did not indicate that ISBI involvement was advisable.

Adoption of Policies Relating to PA 96-0006

Director Atwood referred to Ms. Schoemehl. Ms. Schoemehl referred the Board Members to the memorandum "Emerging and Minority Policies" dated December 4, 2009, and stated that staff recommends adopting the fiduciary diversification policy, the minority contract/service utilization policy, the minority and Illinois brokers and money managers policy and the targeted investment policy, as previously distributed, in furtherance of Public Act 96-0006. Following detailed discussion, it was the consensus to make amendments to the policies and consider the amendments at the next meeting.

Minority Brokerage Usage Report – Quarter Ended September 30, 2009

Ms. El-Harazin stated that the "Minority Broker Commission Report as of September 30, 2009" dated December 4, 2009, had previously been distributed and stated that all domestic equity and fixed income managers had surpassed the utilization goal of 20%. Further, Ms. El-Harazin reported that staff had begun monitoring the minority brokerage utilization for the international equity managers and three of the seven did not meet the minimum goal of 20%. Ms. El-Harazin stated that Franklin Templeton had reported 57.3% for the first quarter of fiscal year 2010. (Official minutes contain attachment.) Following review, Mr. Montgomery moved to accept the report. Ms. Bush seconded and the motion passed unanimously.

Legislative Update

Ms. Reid referred the Board Members to the memorandum "PA 96-0753" dated December 7, 2009, which had previously been distributed and reviewed.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

None.

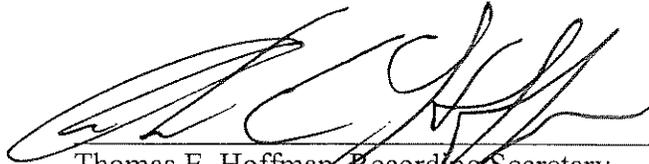
NEXT MEETING AND ADJOURNMENT

Chairman Powell stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, March 19, 2010 at 8:30 a.m. and 8:45 a.m., respectively.

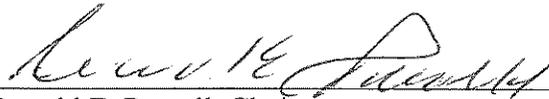
Discussion ensued regarding scheduling an Emerging Manager Committee meeting, with Director Atwood stating that he would poll the Members and firm up a date.

At 11:35 p.m., there being no further business to come before the Board, Judge Hoffman moved to adjourn. Mr. Montgomery seconded and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Thomas E. Hoffman', written over a horizontal line.

Thomas E. Hoffman, Recording Secretary
Illinois State Board of Investment

A handwritten signature in black ink, appearing to read 'Ronald E. Powell', written over a horizontal line.

Ronald E. Powell, Chairman
Illinois State Board of Investment