MINUTES
ANNUAL MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, SEPTEMBER 24, 2010 – 8:45 A.M.

Present:	Board Members	Roderick Bashir Devon Bruce Michele Bush John Casey James Clayborne Thomas Hoffman Daniel Hynes Fred Montgomery
	Staff	William Atwood Johara El-Harazin Timothy Kominiarek Scott Richards Linsey Schoemehl Katherine Spinato Alise White
	Guests	Office of the State Treasurer Paul Miller Office of the Comptroller Alexis Sturm Marquette Associates Brian Wrubel, Elizabeth Francis, Nichole Roman-Bhatty, Gregory Leonberger Franklin Park Brad Atkins Dept. of Central Management Services Janice Bonneville Governmental Consulting Solutions Steve Zahn Service Employees International Union Edgar Hernandez Pensions & Investments Barry Burr Loop Capital Edward Rozell Podesta & Co. Sharon Piet
Absent:	Board Members	Alexi Giannoulias

ROLL CALL

Chairman Casey called the meeting to order at 9:45 a.m. The Secretary called the roll and noted that a quorum was present.

COMMUNICATIONS

Resolutions of Appreciation
Comptroller Hynes moved to approve the Resolutions of Appreciation for former Board Members Heather Parish and Ronald Powell and Staff Emily Reid, as previously distributed. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachments.)

Schedule of Meetings – Calendar Year 2010
Chairman Casey stated that the proposed schedule of meetings for calendar year 2011 was previously distributed. Following discussion, it was the consensus of the Board Members to accept the schedule as proposed with the exception of the amending the start time of the Audit and Compliance Committee and the ISB Board Meetings to 9:00 a.m. and 9:15 a.m., respectively. (Official minutes contain attachment.)

Chairman Casey introduced and welcomed Messrs. Roderick Bashir and Devon Bruce, the newly appointed members to the Illinois State Board of Investment.

REPORT OF THE CHAIRMAN

Chairman Casey stated that with the appointments of Messrs. Bashir and Bruce, the Committee appointments would be, as follows:

Audit & Compliance Committee
Michele Bush
James Clayborne, Jr.
Thomas Hoffman
Daniel Hynes
Fred Montgomery

Emerging Manager Committee
Roderick Bashir
John Casey
James Clayborne, Jr
Alexi Giannoulias
Daniel Hynes

Investment Policy Committee
Devon Bruce
Michele Bush
John Casey
Alexi Giannoulias
Thomas Hoffman

Chairman Casey informed the Board Members that he was creating an Ad Hoc Committee consisting of the Executive Committee members to review Personnel Policies and Procedures for Non-Code Staff. Further, the Chairman reported that a memorandum had previously been distributed and that the Ad Hoc Committee on Personnel Policies and Procedures would meet following this meeting. (Official minutes contain attachment.)

MINUTES OF PREVIOUS MEETING

Mr. Montgomery moved to approve the minutes of the meeting of the Board meeting held June 25, 2010 and the Special Board meeting held July 21, 2010, in the forms previously submitted. Ms. Bush seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Executive Committee
Ms. Spinato reported that the Executive Committee had met on August 16, 2010 and reviewed two deferred compensation hardship appeal cases.

Audit & Compliance Committee
Chairman Casey 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. White reported that the fiscal year 2010 financial audit had begun.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through June 2010.
- The Commission Recapture Report for the quarter ending June 2010 was reviewed and approved.
- The Records of Vouchers for the months of April, May and June 2010 were reviewed and approved.
- The Committee reviewed the report on placement agent contacts for FY 2011 1st Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

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

Emerging Manager Committee

Chairman Casey stated that the Emerging Manager Committee had met the prior afternoon and referred to Senator Clayborne to report on the Committee's actions. Senator Clayborne reported the following actions and recommendations by the Emerging Manager Committee:

- The Committee reviewed and discussed Emerging Manager Program.
- The Committee heard a presentation by Buford Dixon Harper & Sparrow and it was the consensus of the Committee to communicate to Buford Dixon Harper & Sparrow the Board's concerns and their performance after the 4th calendar quarter.
- The Committee reviewed the response to the RFP for a fixed income intermediate government credit manager and heard a presentation by Garcia Hamilton & Associates, L.P. The Committee recommends allocating $50 million to Garcia Hamilton.
- The Committee reviewed the response to the RFP for a minority transition manager. The Committee recommends adding Loop Capital to the ISBI transition manager pool.
- The Committee agreed to schedule a meeting in late January, early February to review the Buford Dixon Harper & Sparrow calendar year performance.

Ms. Schoemehl reported the ownership and political contribution disclosures for Garcia Hamilton and Loop Capital.

Ms. Bush moved to ratify and affirm the actions of the Committee and approve the recommendations to allocate $50 million to Garcia Hamilton for a fixed income intermediate government credit mandate and add Loop Capital to the ISBI pool of transition managers. 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 2nd quarter June 30, 2010 and an updated report dated August 31, 2010, and reviewed.

Ms. Roman-Bhatty initiated discussion regarding enhancements to the program. Following detailed review and discussion, it was the consensus of the Board to have Staff and Consultant prepare a policy and rules for the December meeting to offer a loan program to participants in the Deferred Compensation Plan. It was further the consensus of the Board to accept the Staff and Consultant recommendation to not pursue automatic enrollment to the Deferred Compensation Plan at this time.

Ms. Roman-Bhatty reviewed the Staff and Consultant recommendation to conduct a RFP for custody services to the Deferred Compensation Plan as due diligence. It was the consensus of the Board to accept the recommendation.

Update on Joint Committee on Administrative Rules
Ms. Schoemehl stated that ISBI was working with the other agencies involved and there was nothing to report on the HB489 rules status.

Discussion on Hardship Appeal Guidelines
Ms. Schoemehl referred the Board Members to a previously distributed memorandum "Revised Guidelines for Hardship Distribution" dated September 10, 2010. Following review, Mr. Montgomery moved to accept the recommendation of Staff and adopt the Guidelines for Hardship Distribution from the State of Illinois Deferred Compensation Plan, as proposed. Ms. Bush seconded, and the motion passed unanimously. (Official minutes contain attachment.)

Participant Hardship Appeal Request
Chairman Casey stated that Hardship Appeal requests had been received and copies of the recommendation of the hearing officer were distributed.

Following review and discussion, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer and approve a partial distribution of $4,500 in the case of Kimberly Bowling (10-251). Mr. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review and discussion, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer and approve a partial distribution of $5,693 in the case of Judy Merritt (H/S10-283). Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review and discussion, Mr. Bashir moved to approve a lump sum distribution of $1,404.89 in the case of Beverly Helm-Renfro (H/S10-286). Mr. Bruce seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review and discussion, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer to uphold and reaffirm the Hardship Committee's decision and deny a distribution in the case of Daniel Cunningham (H/S10-249). Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

PRESENTATION: FRANKLIN PARK

Private Equity Review
Chairman Casey invited Brad Atkins of Franklin Park to join the meeting. Mr. Atkins referred the Board Members to a written presentation "Private Equity Performance Return Analysis" dated September 24, 2010. (Official minutes contain attachment.) Following review and discussion, The Chairman thanked Mr. Atkins for the informative presentation.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Discussion of Funding Challenges
Director Atwood reported that he had asked Marquette Associates to prepare an analysis of the liquidity needs and portfolio performance given the funding issues of the State Retirement Systems, and noted that this had previously been distributed to the Board Members. Mr.

Montgomery moved to include Director Atwood's memorandum "Liquidity Needs/Portfolio Performance" dated September 3, 2010, including the Marquette correspondence and response to this meeting record. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Judge Hoffman questioned Mr. Wrubel as to what rate of return assumption was reasonable. Mr. Wrubel responded that it was his opinion that the current 8 ½ % rate was unrealistic and that the actuarial assumption rate should be somewhere between 6-7%.

Following discussion, Director Atwood recommended that an interim asset allocation review be discussed at the December meeting once the State Retirement Systems have met and set the actuarial assumption for each of the systems and after the General Assembly acted on funding for fiscal year 2011. It was the consensus of the Board Members to accept the Director's recommendation.

Investment Performance Report – June 2010 and August 2010 Interim Report
Mr. Wrubel reported that the Investment Performance Report for the quarter ending June 2010 had previously been distributed. Mr. Wrubel distributed the Flash Report for August 31, 2010, and reviewed. Following detailed review and answering questions posed by Board Members, the Chairman thanked Mr. Wrubel for the report. (Official minutes contain attachments.)

REPORT OF THE DIRETOR

Revised Employee Directives Manual
Ms. Spinato referred the Board Members to the ISBI Employee Directives Manual which had previously been distributed. Mr. Bruce moved to approve the Manual, as distributed. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

Revised Code of Ethics for Members of The Board
Ms. Schoemehl stated that a revised Code of Ethics for Members of the Board had previously been distributed. Judge Hoffman noted that the judicial members were not covered by the Code of Ethics. Mr. Montgomery moved to approve the revised Code of Ethics for Members of The Board, as distributed. Mr. Bruce seconded and the motion passed unanimously. (Official minutes contain attachment.)

Portfolio Rebalancing
Director Atwood called on Lorna Scott to review a memorandum "Portfolio rebalancing" dated September 13, 2010. Detailed discussion ensued after which Mr. Montgomery moved to approve the amended Investment Policy reflecting additional detail on current portfolio rebalancing, as presented by Staff. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Watch List
Mr. Richards reviewed the previously distributed "Watch List" stating that J for Jobs and Amalgamated Bank Construction Loan Fund remained on the list and were both previously discussed. (Official minutes contain attachment.)

Revised Securities Lending Policy
Ms. El-Harazin reviewed the revised Securities Lending Policy, as previously distributed. Following review and discussion, Mr. Bruce moved to approve the revised Securities Lending Policy, as recommended by Staff. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Budget Comparison
Ms. Spinato stated that the preliminary Budget Comparisons for the quarter ending June 2010 had previously been submitted. Following review, there being no questions or comments, the Budget Comparison for June 2010 was ordered filed. (Official minutes contain attachments.)

Minority Brokerage Usage Report
Ms. El-Harazin stated that the "Minority Brokerage Usage Report" for the period ended June 30, 2010 had previously been distributed. (Official minutes contain attachment.)

List of Forbidden Entities and Scrutinized Companies
Ms. Schoemehl reviewed the Lists of Forbidden Entities and Scrutinized Companies. Following review, Ms. Bush moved to approve the lists as prepared by Staff. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachments.)

Legislative Update
Revised Open Meetings Act Policy – Ms. Schoemehl referred the Board Members to the memorandum "Legislative Update" dated September 9, 2010, and reviewed. Following review, Ms. Bush moved to adopt the revised Resolution relating to the Open Meetings Act, as proposed by Staff. (Official minutes contain attachment.)

Revised Freedom of Information Act Policy (FOIA) – Ms. Schoemehl reviewed the revised Freedom of Information Act Requests Policy, as proposed. Following review, Mr. Montgomery moved to approve adoption of the Freedom of Information Act Requests Policy, as proposed by Staff. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Impact of the Dodd Frank Wall Street Reform and Consumer Protection Act – Ms. Scott reviewed a memorandum "Assessing the Impact of The Dodd-Frank Wall Street Reform and Consumer Protection Act" dated September 13, 2010.

Chairman Casey stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), current Board litigation (5 ILCS 120/2(c)(11)), specific employee compensation (5 ILCS 120/2(c)(1)) and to review closed session minutes of previous meetings (5 ILCS 120/2(c)21). Ms. Bush moved to go into Executive Session for the above-stated purposes. Judge Hoffman seconded and the motion passed unanimously.

Guests and staff were excused from the meeting with the exception of Director Atwood, Mss. Spinato, Schoemehl, El-Harazin and White, Mr. Kominiarek and the Marquette representatives.

Mr. Montgomery moved to return to the open meeting. Ms. Bush seconded and the motion passed unanimously.

Ms. Bush moved to approve the minutes of the closed session meetings held June 25, 2010, keeping such minutes confidential and to destroy the verbatim records, in accordance with 5 ILCS 120/20.06 (c), when there is no longer a need to retain. Mr. Montgomery seconded and the motion passed unanimously.

Review of Securities Lending RFP and Recommendation
Ms. Schoemehl reported ownership and political contribution disclosures for Credit Suisse. Mr. Montgomery moved to approve engaging Credit Suisse as the Securities Lending agent for ISBI and transitioning the Securities Lending from State Street Bank & Trust. Ms. Bush seconded and the motion passed unanimously.

REPORT OF ANY BOARD MEMBER

Mr. Bashir stated that he was involved with an organization, International Foundation of Employee Benefit Plans and further stated that the organization would welcome ISBI as a member and requested consideration.

UNFINISHED BUSINESS

None.

NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

Chairman Casey stated that the next meeting of the Audit & Compliance Committee and Board were scheduled to be held Friday, December 17, 2010 at 8:30 a.m. and 8:45 a.m., respectively.

At 12:20 p.m., there being no further business to come before the Board, Mr. Montgomery moved to adjourn. Mr. Bruce seconded and the meeting was adjourned.

Respectfully submitted,

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

John W. Casey, Chairman
Illinois State Board of Investment