

ROLL CALL

Chairman Powell 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

Judge Hoffman moved to approve the Resolutions of Appreciation for former Board Members Michael Goetz, Guy Alongi and Allison Davis as previously distributed. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachments.)

Schedule of Meetings – Calendar Year 2010

Chairman Powell stated that the schedule of meetings for calendar year 2010 was previously distributed. Ms. Bush moved to approve the Proposed Schedule of Meetings. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

ELECTION OF OFFICERS

Chairman Powell stated that the regularly scheduled election of officers was required to be held biennially and called for nominations. Judge Hoffman moved to nominate the current officers to their respective positions as follows:

Chairman	Ronald Powell
Vice Chairman	John Casey
Recording Secretary	Thomas Hoffman
Member at Large	Fred Montgomery

Mr. Casey seconded. There being no further nominations, the nominations were closed and the current officers were reelected to their respective positions.

REPORT OF THE CHAIRMAN

Chairman Powell stated that the Committee appointments would remain unchanged, as follows:

Audit & Compliance Committee

Michele Bush
James Clayborne, Jr.
Thomas Hoffman
Daniel Hynes
Fred Montgomery

Investment Policy Committee

Ronald Powell
Michele Bush
Alexi Giannoulas
Thomas Hoffman
Heather D. Parish

Emerging Manager Committee

John Casey
James Clayborne, Jr.
Alexi Giannoulas
Daniel Hynes
Heather D. Parish

Chairman Powell reported that he and Director Atwood had recently attended a Senate Sub-Committee hearing regarding minority and emerging managers with State and City pension funds.

MINUTES OF PREVIOUS MEETING

Ms. Bush moved to approve the minutes of the meeting of the Board held July 10, 2009, in the form previously submitted, Ms. Parish seconded and the motion passed unanimously.

Discussion ensued regarding the funding level of the pension systems and the actuarial assumptions utilized. Following lengthy and detailed discussion, Tim Blair of the State Retirement Systems (SRS) stated that he would forward the most recent actuarial report prepared for SERS and would be happy to answer any further questions regarding the matter.

REPORT OF THE DIRETOR

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

Guest and staff were excused from the meeting with the exception of Director Atwood, Ms. Spinato, Ms. Reid and Ms. Schoemehl and the three Marquette representatives.

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

Ms. Bush moved to approve the minutes of the closed session meetings held July 11, 2008, September 26, 2008, March 20, 2009 and May 7, 2009, keeping such minutes confidential. In addition, Ms. Bush moved to destroy the verbatim records, in accordance

with 5 ILCS 120/20.06 (c), since there is no longer a need to retain. Mr. Montgomery seconded and the motion passed unanimously.

Matters Relating to Existing Managers

Mr. Montgomery moved to approve amending the Investment Manager Agreements with each non-U. S. Equity manager, adding language as follows:

Foreign currency exchange transactions shall be executed on a “best effort” basis with brokers as selected by the investment manager. The manager’s selection of a broker or dealer shall take into account such relevant factors as: (a) price and commission; (b) bid/ask spread; and (d) the ability of the broker to effect foreign currency transactions, particularly with regard to such aspects thereof as timing, order size, and execution of orders. The manager shall make all reasonable efforts to obtain the most competitive exchange rate.”

Mr. Casey seconded and the motion passed unanimously.

Chairman Powell disclosed that Political Fund of Illinois was UFCW 881’s Political Fund and had received \$2,500 on 4/4/07 from EnTrust.

Update on Securities Lending

Ms. Bush moved to approve the recommendation of Director Atwood that upon receipt of the new pension bond monies, anticipated to be received later in the year, ISBI’s cash collateral account shall be restructured into a separate account whereby ISBI would receive its pro rata share of assets out of Quality D Fund to secure outstanding securities on loan. Going forward, all new securities placed on loan would be secured by collateral invested through the Navigator Fund. Ms. Parish seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

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. White reported that the fiscal year 2009 financial audit had begun.
- Ms. Spinato reported there were no exceptions to report to the Staff’s Monthly Personal Interest Statements through June 2009.
- The Commission Recapture Report for the quarter ending June 2009 was reviewed and approved.
- The Records of Vouchers for the months of April, May and June 2009 were reviewed and approved.
- The Committee reviewed and recommended an amendment to the ISBI Code of Ethics for Board Members reflecting the statutory requirement that Governor appointed members submit timesheets to the Ethics Officer, to be maintained by the Compliance Officer.

Mr. Casey moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above, including the amendment to the Code of Ethics as described. Ms. Bush seconded and the motion passed unanimously.

Executive Committee

Ms. Spinato reported that the Executive Committee had met August 18, 2009 for the purpose of considering a Deferred Compensation Hardship Appeal.

REPORT OF THE DIRECTOR

Investment of New Monies

Director Atwood referred the Board Members to his memorandum "Investment of New Monies" dated September 9, 2009. (Official minutes contain attachment.) Following review and discussion, Ms. Parish moved to approve the Director's recommendation as outlined in the memorandum. Mr. Montgomery seconded and the motion passed with Comptroller Hynes abstaining from the vote.

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 and an updated report dated August 31, 2009, and reviewed. Following detailed review and discussion, Ms. Bush moved to approve the following recommendations to the Deferred Compensation Plan:

- Conduct a search to add an international small-cap option to the Plan.
- Conduct a search in the large/all cap asset class as an alternative to the existing Legg Mason option.
- Move the T. Rowe Price mutual fund to a commingled fund vehicle at an approximate annual savings of \$265,000.

Ms. Parish seconded and the motion passed unanimously.

Hardship Appeal

Ms. Schoemehl distributed a Deferred Compensation Hardship Appeal received from Janet Melsness (H/S #09-296). Following review, Ms. Bush moved to accept the Hearing Officer's recommendation to grant the request in the amount of \$2,971.18. Mr. Casey seconded and the motion passed unanimously.

REPORT OF THE DIRECTOR (continued)

List of Forbidden Entities and Scrutinized Companies

Director Atwood stated that the Lists of Forbidden Entities and Scrutinized Companies had previously been distributed. Ms. Bush moved to approve the Lists of Forbidden Entities and Scrutinized Companies as distributed. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachments.)

Adoption of Policy for Referral Practices

Ms. Reid reviewed the memorandum "Referral Policy" dated September 15, 2009, which had previously been distributed. Following review and discussion, Ms. Parish moved to approve Staff's recommendation to adopt the referral policy as proposed in furtherance of the new law governing placement agent activity under Public Act 96-0006. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

Adoption of Transition Policy

Ms. Reid referred the Board Members to the Transition Management Policy that had been previously distributed. Following review, Ms. Bush moved to approve the Transition Management Policy as proposed by Staff. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

Report on Portuguese Tax Authority Issue

Detailed discussion ensued regarding Portuguese tax matters as outlined in a memorandum "Portuguese Tax Matters" dated September 14, 2009. Following discussion, Mr. Casey moved to approve Staff's recommendation that ISBI investment advisors refrain prospectively from investing in securities of companies domiciled in Portugal until tax matters have been resolved and that a letter be sent to the Portuguese tax authority stating its intent to direct its investment advisors in this manner. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

It was the consensus of the Board Members to have the consultant review to discuss divestiture of Portuguese securities at the December meeting.

Matters Relating to Existing Managers

Director Atwood stated that Franklin Park, the Private Equity consultant, was recommending that ISBI benchmark its Private Equity portfolio time-weighted horizon returns against time-weighted horizon returns published by Thomson Venture Economics. Following review, Mr. Casey moved to approve changing the Private Equity benchmark, as outlined in the Franklin Park memorandum "Private Equity Performance Measurement & Benchmark" dated July 15, 2009. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

Legislative Update

Director Atwood referred the Members to the memorandum "Legislative Update – Public Acts 99-0555 and 96-0542" dated September 14, 2009. Following review, Mr. Montgomery moved to approve Staff's recommendation to delegate authority to the Executive Director to designate certain employees or members to receive training under

the Open Meetings Act and to designate one of more employees to act as Freedom of Information Act Officers, in accordance with Public Acts 99-0555 and 96-0542. Ms. Parish seconded and the motion passed unanimously. (Official minutes contain attachments.)

Comptroller Hynes left the meeting and rejoined via telephone. Mr. Montgomery moved to approve Comptroller Hynes participation by telephone. Ms. Parish seconded and the motion passed unanimously.

DEFERRED COMPENSATION (continued)

Discussion on Hardship Appeal Process

Ms. Reid referred the Board Members to her memorandum "Deferred Compensation Plan Hardship Appeal Procedural Matters" dated September 15, 2009. Following discussion and review, it was the consensus of the Board Members to retain the existing rules and procedures for Deferred Compensation Hardship Appeals. (Official minutes contain attachment.)

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

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 June 2009 had previously been distributed. Mr. Wrubel distributed the Flash Report for August 31, 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.)

PRESENTATION – FRANKLIN TEMPLETON

Mr. Bill Stevenson of Franklin Templeton was invited to join the meeting. Following introductions, Chairman Powell requested Mr. Stevenson to review and explain why Franklin Templeton was unable to meet the Board's minority brokerage usage requirement and what efforts Franklin Templeton would make in future transactions. Following review, Mr. Stevenson excused himself from the meeting.

Matters Relating to Existing Managers (continued)

Mr. Kominiarek reviewed his memorandum "Matters Relating to Existing Managers/Investments" dated September 14, 2009 which had previously been distributed. (Official minutes contain attachments.)

Mr. Richards referred the members to his memorandum "Matters Relating to Existing Managers" dated September 14, 2009 and reviewed. (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 were on the list and were both previously discussed. (Official minutes contain attachment.)

Budget Comparison

Ms. Spinato stated that the Budget Comparisons for the quarter ending June 2009 had previously been submitted and reviewed. There being no questions or comments, the Budget Comparison was ordered filed. (Official minutes contain attachments.)

Minority Brokerage Usage Report

Ms. Garcia stated that the "Minority Brokerage Usage Report" for the period ended June 30, 2009 had previously been distributed and stated that all managers, with the exception of Franklin Templeton, had met or exceeded the 20% usage of minority broker/dealers. (Official minutes contain attachment.)

Ethics Training Schedule

Following discussion, the following dates were scheduled for Board Member Training:

Friday, November 13, 2009	2:00 p.m.
Thursday, December 17, 2009	2:00 .pm.
Thursday, January 14, 2010	2:00 p.m.

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, December 18, 2009 at 9:30 a.m. and 9:45 a.m., respectively.

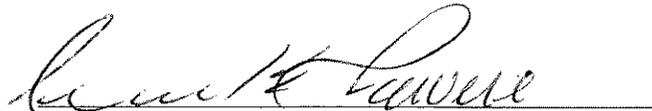
Discussion ensued regarding scheduling future meetings an hour earlier. The Chairman stated that the meeting times on the 2010 Schedule of Meetings can be amended at the next meeting.

At 12:35 p.m., there being no further business to come before the Board, Ms. Bush moved to adjourn. Mr. Casey seconded and the meeting was adjourned.

Respectfully submitted,



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



Ronald E. Powell, Chairman
Illinois State Board of Investment