

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
JUNE 27, 2014 – 9:30 A.M.

Present:

Board Members

Devon Bruce
Judy Baar Topinka
Roderick Bashir
Michele Bush
John Casey
James Clayborne
Mary Seminara-Schostok
Judy Baar Topinka

Staff

Andrew Armonaitis
William Atwood
Genette Bacon
Johara Farhadieh
Timothy Kominiarek
Scott Richards
Linsey Schoemehl
Alise White (via telephone)

Guests

Marquette Associates
Brian Wrubel, Dave Smith, Nichole Roman-Bhatty

Absent:

Board Member

Steve Powell
Dan Rutherford

ROLL CALL

Chairman Bruce called the meeting to order at 9:30 a.m. The Secretary called the roll and noted that a quorum was present. The Chairman thanked everyone for making the trip to Rockford and suggested that greater publicizing efforts be made for the next Board meeting held outside of Chicago in an effort to increase participant attendance. The Chairman also extended gratitude to the Staff for their hard work and dedication to the Board.

COMMUNICATIONS: CORRESPONDENCE FROM STATE EMPLOYEES RETIREMENT SYSTEM

Director Atwood noted that the State Employees' Retirement System voted to lower its return assumption to 7.25%. As a result Marquette Associates will conduct an asset allocation study of the Board's portfolio and present any recommendations to the Board at its meeting in September. Director Atwood also reported to the Board that Lorna Scott submitted her resignation; Director Atwood is currently in the process of conducting a search to fill the Portfolio Manager for Risk and Analytics role. Finally, Director Atwood reported that he and Ms. Farhadieh met with a representative from the Muslim Advancement Investment Council about the possibility of offering a socially responsible investment option under the State's Deferred Compensation Plan (the "Plan"). Director Atwood and Ms. Farhadieh will review the matter and report back to the Board.

REPORT OF THE CHAIRMAN

Chairman Bruce stated he had nothing to report.

MINUTES OF PREVIOUS MEETING

Comptroller Topinka moved to approve the minutes of the Board meeting held March 21, 2014, in the form previously submitted. Senator Clayborne seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Emerging Manager Committee

Senator Clayborne stated that the Emerging Manager Committee had met on May 2, 2014 as well as the previous afternoon and reported the following actions:

- Committee approved the minutes of the December 16, 2014 and May 2, 2014 meetings.
- Committee heard a presentation from Opus Capital; Marquette will review the investment and provide the Committee with a recommendation at its next meeting.

Investment Policy Committee

Chairman Bruce stated that the Investment Policy Committee had met the previous afternoon and reported the following actions:

- Committee approved the minutes of the March 20, 2014 meeting.
- Committee recommended a \$125M infrastructure allocation to IFM Global Infrastructure Fund.
- Committee recommended a \$30M private equity allocation to the BVIP, Fund VIII.
- Committee recommended the following real estate allocations: (i) \$30M to Oaktree Real Estate Debt Fund and (ii) \$30M to Ares Europe Fund

Following review, Justice Schostok moved to approve the above recommendations and ratify the actions of the Investment Policy Committee. Senator Clayborne seconded and the motion passed unanimously.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- Committee approved the minutes of December 17, 2014 and March 21, 2014.
- Committee approved the Commission Recapture Reports for 12/31/13 and 03/31/14.
- Committee approved the Records of Vouchers for the months of January, February, and March, 2014.
- Committee approved the Placement Agent Reports for 3Q14 and 4Q14.

Following review, Justice Schostok moved to approve the above recommendations and ratify the actions of the Audit & Compliance Committee. Mr. Casey seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Consultant – Marquette Associates

Ms. Roman-Bhatty and Mr. Wrubel, Marquette Associates, referred the Board Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the quarter March 2014. (Official minutes contain attachments.) Ms. Roman-Bhatty stated that there was nothing to report regarding matters related to existing managers. Ms. Roman-Bhatty directed Members to the Watch List, as previously distributed, and reviewed Lord Abbett. Following discussion, Comptroller Topinka moved to terminate Lord Abbett, consistent with the recommendation provided by Marquette Associates. (Official minutes contain attachment.) Mr. Casey seconded and the motion passed unanimously.

Discussion further ensued regarding the number of large-cap investment options offered to participants under the Plan. (Official minutes contain attachments.) Senator Clayborne moved to accept the recommendation provided by Marquette Associates, limiting the number of large-cap investment options offered to participants under the Plan. Comptroller Topinka seconded and the motion passed unanimously.

Adoption of Revised Policy

Ms. Farhadieh referred Members to the amended Plan Investment Policy, as previously distributed, and reviewed. (Official minutes contain attachment.) Mr. Bashir moved to adopt the revised Plan Investment Policy. Comptroller Topinka seconded and the motion passed unanimously.

In reviewing the Plan's Investment Policy, Ms. Bush requested additional information regarding Member indemnification. Ms. Schoemehl agreed to prepare a memorandum on the matter to present to the Board at its next meeting in September.

Recordkeeper Search

Ms. Farhadieh reported that the search for a Plan Recordkeeper would be concluded in June 2015.

Hardship Appeal

Director Atwood reported that this matter would be discussed during Executive Session.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – March 2014

Mr. Wrubel reported that the Investment Performance Report for the quarter ending March 2014 had previously been distributed and reviewed. (Official minutes contain attachments.)

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment contracts (5 ILCS 120/2(c)(7)), review of closed session minutes (5 ILCS 120/2 (21)), matters presented during an open hearing (5 ILCS 120/2(c)(4)), and potential Board litigation (5 ILCS 120/2(c)(11)). Comptroller Topinka moved to go into Executive Session for the above-stated purposes. Mr. Casey seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Messrs. Richards and Kominarek and Mses. Schoemehl and White.

Upon returning to Open Session, Mr. Bashir moved to approve the Hearing Officer's recommendation for the Hardship Appeal. Mr. Casey seconded and the motion passed unanimously.

Director Atwood continued his report.

Revised Watch List Policy and Watch List

Director Atwood stated that the matter was discussed during Executive Session. (Official minutes contain attachment.)

Matters Relating to Existing Managers

Director Atwood stated that the matter was discussed during Executive Session. (Official minutes contain attachment.)

Legal Matters

Director Atwood stated that the matter was discussed during Executive Session.

Approval of Closed Session Minutes

Director Atwood stated that the matter was discussed during Executive Session. Mr. Bashir moved to approve and maintain the confidentiality of the Closed Session minutes. Mr. Casey seconded and the motion passed unanimously.

Proposed FY15 Budget

Director Atwood stated that the matter was discussed during Executive Session. Mr. Bashir moved to approve the proposed FY15 budget. Mr. Casey seconded and the motion passed unanimously.

Approve Selection of Proxy Voting and ESG Advisory Services

Director Atwood stated that the matter was discussed during Executive Session. Justice Schostok moved to retain the services of Glass Lewis, in conjunction with IW Financial. Mr. Bashir seconded and the motion passed unanimously.

Revised Investment Policy- Proxy Voting Policy and ESG

As a result of the Board's approval of the retention of Glass Lewis for proxy voting services and IW Financial for ESG advisory services, Ms. Schoemehl recommended the Board revise its Investment Policy to reflect this change. Mr. Bashir moved to revise the Board's Investment Policy to reflect this change. Mr. Casey seconded and the motion passed unanimously.

Update on Securities Lending – Quarter Ended 03/31/14

Ms. Farhadieh referred Members to a memorandum "Securities Lending Reporting – March 31, 2014" dated June 2, 2014 and reviewed. (Official minutes contain attachment.)

Revised Schedules I-III of the Securities Lending Agreement

Ms. Farhadieh referred Members to a memorandum "Amended Securities Lending Agreement" dated May 28, 2014 and reviewed. (Official minutes contain attachment.) Mr. Bashir moved to amend Schedules I, II and III of the Securities Lending Agreement as previously distributed. Mr. Casey seconded and the motion passed unanimously.

Minority Broker Usage Report – Quarter Ended 03/31/14

Ms. Farhadieh reviewed the minority brokerage commissions for the quarter ended March 31, 2014, as outlined in the memorandum "Minority Broker Commission Report as of March 31, 2014." Ms. Bush moved to accept the report. Senator Clayborne seconded and the motion passed unanimously. (Official minutes contain attachment.)

Review of Transaction Cost Analysis

Ms. Farhadieh referred Members to "Transaction Cost Analysis (TCA) Summary Report – Equity and Fixed Income Reports" for the period ended March 31, 2014, and reviewed. (Official minutes contain attachment.)

Review of Transitions

Ms. Farhadieh referred Members to the memorandum regarding the transitions to the Ariel Capital Management and Lombardia Capital Management accounts, as previously distributed, and reviewed. (Official minutes contain attachment).

Review of FX Cost Analysis

Director Atwood stated that the FX Summary Report for the quarter ended March, 2014 was previously submitted, and reviewed. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ended March, 2014 was previously distributed. The Chairman ordered the report filed. (Official minutes contain attachment.)

Review of Financial Statements

Ms. White reviewed the Financial Statements for the quarters ended December 31, 2014 and March 31, 2014. Senator Clayborne moved to approve the Financial Statements as submitted. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Revised Investment Policy- Derivatives Policy

Director Atwood referred Members to the memorandum, "Derivatives Policy," previously distributed, and reviewed. (Official minutes contain attachment.) Mr. Bashir moved to revise the Board's Investment Policy to reflect the adoption of the Derivatives Policy. Mr. Casey seconded and the motion passed unanimously.

Revised IT Policies

Director Atwood referred Members to the memorandum, "Revised IT Policies," previously distributed, and reviewed. (Official minutes contain attachment.) Senator Clayborn moved to adopt the FY15 IT Manual, in the form distributed, and provide Staff discretion to make de minimis revisions to the Board's Disaster Recovery Plan on an annual basis to reflect the updated testing dates. Justice Schostok seconded and the motion passed unanimously.

Following adoption of the FY15 IT Manual, Ms. Bush asked Staff to ensure that language regarding special character password requirements was included.

Legislative Update

Director Atwood reported that Staff would continue to monitor the status of the pension reform legislation.

Update on Corporate Governance Matters

Ms. Schoemehl informed Members that the Board is continuing to have success with its corporate engagement through its work with the Harvard Law School Shareholder Rights Project for the 2014 proxy season. Ms. Schoemehl further reported that she attended the Wal-Mart annual meeting to represent the Board's shareholder resolution,

asking the company to disclosure the use of its clawback policy. Although the proposal did not pass, it received large support from non-Wal-Mart affiliated shareholders.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

Chairman Bruce noted that the next meeting of the Board is scheduled for September 26, 2014 at 9:15 a.m. in Chicago, Illinois; formal notices to be distributed at a later date. At 12:15 p.m., there being no further business to come before the Board, Mr. Bashir moved to adjourn. Mr. Casey seconded and the meeting was adjourned.

Respectfully submitted,



Devon Bruce, Chairman

