

**AGENDA ITEM 2B**

**APPROVAL OF MINUTES OF THE APRIL 25, 2019  
INVESTMENT COMMITTEE MEETING**

**Submitted for:** Action

**Summary:** This report includes the minutes of the Investment Committee meeting held on April 25, 2019

**Action requested:** That the Investment Committee approve the minutes of the April 25, 2019 meeting.

**MINUTES OF THE  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
INVESTMENT COMMITTEE MEETING**

James R. Thompson Center  
3rd Floor, Room 105  
100 W. Randolph Street, Chicago, IL

April 25, 2019  
1:00 p.m.

**COMMISSIONERS PRESENT:**

Kevin Huber, Commission Chair and Investment Committee Member  
Niketa Brar, Investment Committee Member  
Mark Donovan, Investment Committee Member

**COMMISSIONERS ABSENT:**

None

**STAFF PRESENT:**

Eric Zarnikow, Executive Director  
Carmen Heredia, Chief Investment Officer  
Roger Rojas, Investment Officer  
Brienne Weymouth, Callan  
Jim O'Connor, Callan  
Natalie Wandall, Secretary to Commission  
Kathleen Cole, Staff Attorney

**Item 1. Announcements**

The Illinois Student Assistance Commission Investment Committee Meeting was called to order at 1:06 p.m. Ms. Heredia asked for a roll call to be taken and a quorum was established. Ms. Heredia announced that the next meeting of the Investment Committee will be a joint meeting with the Commission, and is scheduled for June 13, 2019.

**Item 1A. Public Comments**

Ms. Heredia asked if there were any public comments and there were none.

**Item 2. Approval of the Minutes of the April 4, 2019 joint Meeting of the Investment Committee (Action)**

Mr. Donovan **MOVED THAT** the Investment Committee approve the minutes of the April 4, 2019 meeting as incorporated into the full Commission minutes. Mr. Huber seconded that motion, and it was approved unanimously.

### **Item 3. Investment Update (Information) - Carmen Heredia / Roger Rojas**

Mr. Rojas reviewed the fund risk profile, asset allocation and performance attribution as provided in the consultant (Callan) quarterly report.

Mr. Rojas provided an in-depth review of the College Illinois investments across asset classes. Furthermore, he reviewed thoroughly all closed-end fund investments including outstanding risks and current/projected realizations.

Mr. Huber had various questions regarding investments which Mr. Rojas and Callan answered. Ms. Brar asked about the past decision-making process and Mr. Donovan explained that there were not a lot of commissioners and that there was not a lot of direction and coordination. Ms. Brar asked about what corrective measures has the current agency administration undertaken to avoid similar problems in the future. Mr. Rojas explained that the current administration continuously works on improving the Investment Policy (College Illinois! Trust Fund's governing document) by adding safeguards to internal controls and procedures as needed. Governance has also improved as our process now requires approval from the Investment Committee and Commission before any investments are made.

Ms. Brar suggested that we need more commissioners who are highly qualified. Mr. Zarnikow noted that work continues to be done to source qualified candidates for the Commission and that the current agency staff plans to continue being good stewards of public funds and the College Illinois! Trust Fund.

### **Item 4. Approval of Changes to the Watch List (Action) - Carmen Heredia / Roger Rojas**

Ms. Heredia reviewed the watch list memo and staff and consultant's recommendation to terminate Pinnacle Asset Management (hereinafter "Pinnacle"). She explained that ISAC hired Pinnacle in January 2010 and since that time staff and consultant's conviction in the manager has had its peaks and valleys. In March 2017, Pinnacle was put on watch due to short-term and longer-term underperformance, missed opportunities and poor execution. In June 2018, Pinnacle was removed from watch given the significant upswing in performance and noticeable improvements in execution of trades. As a market neutral commodity absolute return hedge fund of funds, their performance has been very volatile versus its hedge fund of funds peers and its benchmark (90-Day T-bill + 4%). Further, Pinnacle's risk-adjusted return measures call into question the amount of return received versus the risk taken by the manager. As noted in previous Investment Committee and Commission meetings, the absence of consistent improvements has led staff and consultant to lose conviction in the manager and its ability to hold on to performance gains. Ms. Heredia noted that we do not propose hiring a new manager to replace Pinnacle.

Mr. Huber **MOVED THAT** the Investment Committee recommend to the Commission the termination of Pinnacle Asset Management. Mr. Donovan seconded that motion, and it was approved unanimously.

### **Item 5. Compliance Review (Information) - Carmen Heredia / Roger Rojas**

Mr. Rojas reviewed the compliance report as provided in the agenda book including minority brokerage and minority investment manager participation. Staff noted that we plan to

recommend no changes to the current Minority Investment Manager Policy given the circumstances of the College Illinois! program.

**Item 6A. College Illinois! Prepaid Tuition Program Investment Policy Asset Allocation (Action) - Carmen Heredia / Roger Rojas**

As established in the College Illinois! Investment Policy, staff and consultant annually review the asset allocation targets for the College Illinois! Trust Fund. Ms. Weymouth from Callan reviewed Callan's Capital Market Projections: 2019-2028. Using that information, Ms. Heredia stated, we developed asset mixes that lie on the efficient frontier and therefore provide the targeted return for the least amount of risk. The proposed interim asset mix continues to take the Fund on a path towards the long-term asset allocation approved at the June 14, 2018 Commission meeting. In addition, staff and consultant recommend changing the private equity asset class benchmark to the Russell 3000 due to the fact that current funds are in wind down mode and no new funds are planned to be added to this asset class.

Mr. Donovan **MOVED THAT** the Investment Committee approve the proposed Investment Policy Asset Allocation and benchmark change recommendation for approval by the Commission at the June 13, 2019 Commission meeting. Ms. Brar seconded that motion, which was approved unanimously.

**Item 6D. College Illinois! Prepaid Tuition Program Investment Policy Revisions (Action) - Carmen Heredia / Roger Rojas**

Ms. Heredia noted that the recently approved asset allocation and benchmark change recommendation are reflected in the Investment Policy document.

Although no changes are recommended by Staff and consultant on the following two policy goals, Ms. Heredia asked the Commission to review the policy goals established in the Investment Policy first as they relate to diversity of fiduciaries and second as they relate to the utilization of minority investment managers. These policy goals are reviewed annually as established in the College Illinois! Investment Policy.

Mr. Huber **MOVED THAT** the Investment Committee approve the proposed changes to the Investment policy document. Ms. Donovan seconded the motion, which was approved unanimously.

Mr. Donovan **MOVED THAT** the Illinois Student Assistance Commission Investment Committee Meeting be adjourned. Ms. Brar seconded the motion, which was approved unanimously.

The meeting adjourned at 2:00.

Respectfully submitted,

Kathleen Cole