

AGENDA ITEM 2B.

**APPROVAL OF MINUTES OF THE MAY 28, 2020
ILLINOIS STUDENT ASSISTANCE COMMISSION
INVESTMENT COMMITTEE**

Submitted for: Action

Summary: This report includes the minutes of the Investment Committee held on May 28, 2020

Action requested: That the Investment Committee approve the minutes of the May 28, 2020 meeting.

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

VIDEO CONFERENCE
Instruction to be provided on ISAC.org

May 28, 2020
10:00 a.m.

COMMISSIONERS PRESENT via WebEx:

Kevin Huber, Commissioner, Board Chair, Investment Committee Member
Maureen Amos, Commissioner, Investment Committee Member
James Hibbert, Commissioner, Investment Committee Member

STAFF PRESENT via WebEx:

Eric Zarnikow, Executive Director
Carmen Heredia, Chief Investment Officer
Roger Rojas, Investment Officer
Karen Salas, General Counsel
Natalie Wandall, Secretary to Commission
Kathleen Cole, Staff Attorney
Eddie Brambila, Managing Director, Capacity Development

PUBLIC ATTENDANCE via WebEx:

Jim O'Connor, Callan LLC
Brienne Weymouth, Callan LLC

Item 1. Announcements / Public Comments

The Investment Committee meeting of the Illinois Student Assistance Commission was called to order at 10:03 a.m.

Mr. Eric Zarnikow began by stating that this is a meeting of the Illinois Student Assistance Commission Investment Committee.

Mr. Zarnikow explained that the meeting today is being conducted through electronic means pursuant to Governor Pritzker's Executive Order 2020-07 which suspended the Open Meetings Act requirements for physical presence at meetings of public bodies during the Gubernatorial COVID-19 Disaster Proclamation.

He further stated that there is a specific time reserved in the agenda for public comment. He instructed board members how motions and roll calls would be handled and then asked Eddie Brambila to provide all participants and the public the WebEx instructions.

He then asked if anyone had any questions before he began the meeting. Hearing no questions, he proceeded with the meeting.

Mr. Zarnikow called for a roll call of the Investment Committee. A roll call of the Investment Committee members was taken, and a quorum was established.

Ms. Carmen Heredia began the meeting by stating that the next regularly scheduled Investment Committee meeting will be a joint meeting with the Commission on Thursday, June 18, 2020.

Ms. Heredia asked if there were any public comments, but there were none.

Item 2. Approval of the Minutes of the April 28, 2020 Joint Commission/Investment Committee/Investment Advisory Panel Meeting (Action: Investment Committee)

Ms. Amos **MOVED THAT** the Investment Committee approve the investment related portion of the minutes of the April 28, 2020 meeting as incorporated into the full Commission minutes. Mr. Hibbert seconded the motion, which was unanimously approved by the Investment Committee.

Item 3. Market Review (Information) - Carmen Heredia /Callan

Ms. Heredia started the Market Review covering the COVID-19 Timeline and Market Reflection memo. The memo highlights key dates during the first four months of 2020 covering the pandemic and consequently Federal Reserve market actions. The conclusion is that market volatility is part of investing. In order to benefit from higher potential returns, investors must be willing to accept increased uncertainty. A key part of good long-term investing is being able to stay with your investment philosophy, even during tough times. Having a transparent investment approach, like we have for College Illinois!, can help people be better prepared to face uncertainty.

Ms. Brianne Weymouth followed the Market Review covering Callan's Economic and Capital Markets Review for periods ended March 31, 2020. She indicated that market rebounds can be swift and powerful. Therefore, history shows that only by staying invested can investors

participate in the full breadth of the ensuing recovery. Ms. Weymouth covered each asset class performance and the impact of COVID-19 during the first quarter of 2020.

Item 4. 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. He noted that the Fund outperformed the policy benchmark by 192 bps for the past year, as the fund conservative asset allocation provided downside protection as expected during the recent market crisis caused by the COVID-19 pandemic. The Fund longer-term performance (5 years) is pretty close to the policy benchmark.

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. Rojas noted that the Security Capital Preferred Growth REIT fund has done an amazing job since inception and staff retains very strong conviction in the team and process. Mr. Rojas indicated that he foresees further writedowns in coming quarters for Alinda, TRG and CM Growth. Finally, Mr. Rojas reviewed the Status Updates as shown in the agenda book.

Ms. Amos asked why the JPM AIRRO Fund transition to TRG is beneficial to the fund. Mr. Rojas explained that TRG has specialized expertise and experience dealing with challenging investments in private equity and infrastructure funds in foreign countries (India in this case). Furthermore, TRG has done an amazing job ensuring that the underlying companies are well capitalized (which was not the case when they took over), in addition to constantly looking for ways to improve the performance/operations of those firms.

Item 5. Asset Allocation Review for FY 2021

Staff had felt optimistic and energized by the Governor's original FY21 budget recommendations, which included the major step of beginning to honor the state's moral obligation to pay down the unfunded liability in the College Illinois! Prepaid Tuition Program. That proposal would have devoted \$27 million in FY21 contingent on voter approval of the graduated income tax this November with a plan to continue payments annually for about 14 years. Unfortunately, that budget recommendation was set aside once it became clear that the pandemic and the efforts to contain it would drive up state costs and reduce revenues.

He indicated that this was a setback, but that we will keep pushing to include funding for College Illinois! in the budget.

Ms. Heredia reviewed the Asset Allocation recommendation for FY2021. She noted that investment staff and the consultant review the asset class targets annually. This year's recommendation continues to keep us on the path of de-risking the portfolio and brings us closer to our long-term targets. The recommended asset mix and respective rebalancing ranges are shown on page 5-2 of the Investment Committee meeting book. The recommended asset mix is based on Callan's "Capital Market Assumptions: 2020-2029" and is a result of analysis of various optimal asset mixes and our liquidity needs. We will be doing a formal asset liability modeling study for FY2022.

Mr. Huber **MOVED THAT** the Investment Committee approve the proposed Investment Policy Asset Allocation recommendation for approval by the Commission at the June 18, 2020 Commission meeting. Mr. Hibbert seconded the motion, which was unanimously approved by the Investment Committee.

Item 5A. Statement of Investment Policy Update (Action)

Ms. Heredia indicated that the changes recommended in the Statement of Investment Policy reflect the changes just approved relating to the interim asset mix target and respective rebalancing changes. For the Commission's annual review of policy goals relating to the utilization of minority investment managers and diversity of fiduciaries, no changes were recommended.

Ms. Amos **MOVED THAT** the Investment Committee approve the proposed revisions to the Investment Policy Asset for recommendation for approval by the Commission at the June 18, 2020 Commission meeting. Mr. Huber seconded the motion, which was unanimously approved by the Investment Committee.

Item 6. Approval of Changes to Watch List - (Action: Investment Committee)

Ms. Heredia noted that as a follow up to the April 28, 2020 Commission meeting, where we indicated that we would be doing a deeper review of Garcia Hamilton due to recent underperformance, she presented a summary of the analysis and recommendation. She reviewed the manager evaluation guidelines included in the College Illinois! Statement of Investment Policy. Then she outlined the evaluation process for Garcia Hamilton as follows:

First, performance and peer group analysis were performed for Garcia Hamilton; second, deviation from their investment philosophy was evaluated; and third, long-term investment statistics were analyzed. Further, qualitative factors were also evaluated.

Based on the analysis of quantitative factors along with an evaluation of qualitative factors, we did not recommend Garcia Hamilton to be placed on the watch list.

Ms. Heredia noted, however that Garcia Hamilton's performance will be closely monitored as the magnitude of the first quarter of 2020 underperformance has impacted their longer-term performance record.

In closing, Mr. Zarnikow thanked everyone for their time and service.

Seeing no further business to come before the Investment Committee, Ms. Heredia asked for a motion to adjourn Mr. Hibbert **SO MOVED** and Mr. Huber seconded that motion, which was unanimously approved by the Investment Committee. The meeting adjourned at 11:09 a.m.

Respectfully submitted,

Kathleen Cole