

AGENDA ITEM 2B.

**APPROVAL OF MINUTES OF THE MAY 25, 2023
INVESTMENT COMMITTEE**

Submitted for: Action

Summary: This report includes the minutes of the Investment Committee held on May 25, 2023

Action requested: That the Investment Committee approve the minutes of the May 25, 2023.

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

**ILLINOIS STUDENT ASSISTANCE COMMISSION
3rd Floor, Room 3030
1755 Lake Cook Road, Deerfield, IL**

**May 25, 2023
11:00 a.m.**

COMMISSIONERS PRESENT:

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

STAFF PRESENT:

Eric Zarnikow, Executive Director
Roger Rojas, Director of Investments
Lisa Schlessinger, Staff Attorney

STAFF PRESENT (via Webex):

Rich Nowell, Interim General Counsel
Natalie Wandall, Secretary to Commission

PUBLIC ATTENDANCE:

Brianne Weymouth, Callan LLC
James O'Connor, Callan LLC
John Pirone, Callan LLC

The Illinois Student Assistance Commission Investment Committee Meeting was called to order at 11:00 a.m.

Mr. Zarnikow, ISAC's Executive Director, began by explaining that the Open Meetings Act provides for virtual meetings when the Governor has issued a health-related disaster proclamation and that the pandemic disaster proclamation expired on May 11th, which means that the meeting must be in person. He noted that we are proceeding with the meeting under the general provisions of the Open Meetings Act that were followed prior to the pandemic. He further stated that pursuant to the Open Meetings Act, the meeting was not being recorded.

A roll call of the Investment Committee was taken, and a quorum was established.

Item 1. Announcements

Mr. Zarnikow announced that the next regularly scheduled meeting of the Investment Committee will be a joint meeting with the Illinois Student Assistance Commission on Thursday, June 22, 2023, at 1:00 p.m. There will be an Audit Committee meeting earlier in the day at 11:00 a.m. He also indicated that the upcoming meetings will be held in-person in ISAC's Deerfield and Springfield offices.

Mr. Zarnikow next announced that the General Assembly and Governor had agreed on a budget, and advised that ISAC will send out a more detailed report to the Commission regarding the details of the budget as it pertains to ISAC. He then provided a brief overview of the budget, including an increase in the MAP funding, the increases in the operational lines requested, funding and making Aim High a permanent program, funding of the Golden Apple program and a new line item to procure and provide free test prep for students applying to graduate school or licensing exams.

There was discussion regarding whether the new test preparation program would be in house or whether ISAC would procure the services.

Mr. Zarnikow reiterated that a more detailed budget summary will be shared with the full commission.

Item 1A. Public Comments

There were no requests for public comment.

Item 2. Approval of the Minutes of the April 13, 2023, Joint Meeting of the Illinois Student Assistance Commission, Investment, and Investment Advisory Panel Meeting- Investment Portion (Action)

Investment Committee Member Amos **MOVED THAT** the Investment Committee approve the Investment Committee portion of the minutes of the April 13, 2023, Joint Commission, Investment and Investment Advisory Panel meeting. Investment Committee Member Huber seconded the motion, which was unanimously approved by the Investment Committee.

Item 3. Investment Update (Information)- see notes in agenda book

Mr. Rojas reviewed the fund risk profile and performance as of March 31, 2023, as provided in the Callan quarterly report and the agenda book. In addition, he presented a detailed performance review of the managers in the public market portfolio, as well as the open-end and the closed-end limited partnerships.

During Mr. Rojas review of the open-end limited partnerships, there was a discussion regarding the political aspirations of Gilbert Garcia (who is the Managing Partner of Garcia Hamilton & Associates, LP). At this point in time, we are not recommending the manager be added to the Watch List and our investment consultant Callan agrees. Mr. Rojas noted that ISAC is monitoring such developments very closely and will keep the Investment Committee, Investment Advisory Panel and Commission informed about any relevant changes on this matter.

Mr. Rojas also reviewed the Asset Allocation, Status Updates and Search Update sections as shown in the agenda book.

Item 4A. Asset Allocation and Liability Study (Action)

Mr. Rojas explained that College Illinois! along with Callan LLC, reviews the asset allocation targets annually and conducts a formal asset liability modeling study every three years with fiscal year 2024 being the next regularly scheduled study. He reviewed the updated capital market assumptions for the study and presented the suggested asset mixes that appear on page 5 of the Callan Asset Allocation Evaluation. Mr. Rojas emphasized that the goal is to meet the actuarial rate of return while minimizing the drawdown risk needed to achieve the rate of return.

Mr. Pirone, of Callan LLC, presented the asset allocation and liability study by providing an overview of the market assumptions and the asset-liability study process which included scenario analysis. He then reviewed proposed asset mix scenarios, the probabilities for the ranges of projected rates of return and the probabilities for ranges of plan assets. There was discussion about the percentage attributed to infrastructure and how changing the percentage would not have a material impact on the outcome of the asset mix scenarios.

Mr. Pirone emphasized that without additional funding, a return of 5.7% is required to restore full funding in ten years. He explained that the goal is to stay in line with that target and not go below or be too aggressive above the percentage in the asset mix selection. He stated that the current asset mix selection, with an expected return of 5.9% is in line with the return target.

Mr. Rojas summarized that the goal with asset mix selection is to make sure we're getting the best rate of return with lowest risk while funding the program. He stated that Mix 4 (which has an identical asset allocation to the current targets) is what the investment staff and investment consultant are recommend to the Investment Committee for approval and recommendation to the full Commission.

Investment Committee Member Hibbert **MOVED THAT** the Investment Committee approve the agreed upon Investment Policy Asset Allocation targets and recommend such Investment Policy Asset Allocation targets for approval by the Commission at the June 22, 2023, Commission meeting. Investment Committee Member Amos seconded the motion, which was unanimously approved by the Investment Committee.

Item 5. Watch List (Action)

Mr. Rojas reviewed the Watch List memorandum as provided in the agenda book.

No managers were recommended for addition to the Watch List.

Item 6A. International Equity Restructuring Proposal (Action)

Mr. Rojas reviewed the memorandum provided in the agenda book with the proposal to transition the current active international equity portfolio to passive management. He reviewed Dimensional Fund Advisors LP (“DFA”) and Ativo Capital Management LLC’s (“Ativo”) performance since inception through March 31, 2023 and highlighted that by transitioning to passive management, there would be reduced risk along with lower management costs. Mr. Rojas stated that ISAC investment staff is recommending transitioning the International Equity asset class to passive management which includes the replacement of both Ativo and DFA with a passive international equity commingled fund managed by Rhumblin Advisers.

There was discussion commending the recommendation and clarifying that this recommendation was why Ativo was not being considered for the watch list. There was consensus among the Investment Committee that it was advantageous to lower risk while also lowering fees.

Investment Committee Member Hibbert **MOVED THAT** the Investment Committee approve investment staff and investment consultant recommendation to transition the International Equity portfolio to a passive commingled fund managed by Rhumblin Advisers benchmark against the MSCI ACWI ex US. Furthermore, to recommend such transition for approval by the Commission at the June 22, 2023, Commission meeting. Investment Committee Member Amos seconded the motion, which was unanimously approved by the Investment Committee.

There was discussion that future in person meetings would likely be held at both Springfield and Deerfield ISAC offices, allowing for a quorum to be present between the two locations.

Seeing no further business to come before the Investment Committee, Mr. Zarnikow asked for a motion to adjourn. Committee Member Huber **SO MOVED**. Committee Member Amos seconded that motion, which was unanimously approved by the Investment Committee.

The meeting adjourned at 12:05 p.m.

Respectfully submitted,

Lisa R. Schlessinger