

**AGENDA ITEM 2.**

**MINUTES OF THE DECEMBER 29, 2011**

**INVESTMENT ADVISORY PANEL MEETING**

**MINUTES OF A MEETING**  
**OF THE**  
**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**INVESTMENT ADVISORY PANEL**

**December 29, 2011**

**James R. Thompson Center**  
**Room 2-025**  
**100 W. Randolph St.**  
**Chicago, Illinois**

**COMMISSIONERS PRESENT:** Kym Hubbard, Chair

**PANEL MEMBERS PRESENT:** Louis Paster  
Karen Kissel  
Joy Winterfield  
Paul Hagy  
Jeanna Cullins

**PANEL MEMBERS ABSENT:** Patrick Rea

**STAFF PRESENT:** John Sinsheimer, Interim Executive Director  
Debora Calcara, Commission Secretary  
Kent Custer, Chief Investment Officer  
Nicholas O'Keefe, Deputy General Counsel  
Annie Pike, General Counsel  
John Samuels, Chief Communications Officer

**PUBLIC PRESENT:** Mary Patricia Burns, Burke Burns & Pinelli

Commission Chair Kym Hubbard welcomed members of the Investment Advisory Panel and announced that in compliance with the Open Meetings Act, audio taping of all meetings of the Investment Advisory Panel will be made. Chair Hubbard stated that this is an introductory meeting of the new Panel members, as well as the new Chief Investment Officer. She thanked the new Panel members for making the commitment to serve the agency and the State of Illinois. She stated that each member was selected for their financial expertise and what they can bring to the Prepaid Tuition Program and the challenges that face the program. She then asked staff present and Panel members to introduce themselves.

Staff present:

Mr. John Sinsheimer, Interim Executive Director of the Illinois Student Assistance Commission (ISAC). He stated that prior to being appointed as Interim Executive Director in July 2011 he served as ISAC's Chief Financial Officer from March 2007 through October 2009, when he was appointed to a dual position as Director of Capital Market for the State of Illinois.

Ms. Mary Pat Burns, special counsel to the College Illinois! Prepaid Tuition Program. Ms. Burns stated that she was contracted to serve as special counsel prior to the appointment of Chair Hubbard by the previous ISAC administration due to the vacancy of an internal General Counsel. She stated that she has represented many governmental bodies and has extensive experience representing pension funds within the city, county and the State of Illinois.

Ms. Debora Calcara, Secretary to the Commission.

Ms. Annie Pike, ISAC General Counsel, who stated she was appointed General Counsel in June 2011.

Mr. Kent Custer, who stated he was appointed Chief Investment Officer (CIO) on December 27, 2011 and that prior to joining the Commission, was Senior Investment Officer at the Illinois Teachers' Retirement System.

Investment Advisory Panel members present:

Mr. Paul Hagy, Corporate Treasurer for AON Corporation. He stated he has spent three years managing fixed income portfolios for the underwriting companies of AON and is responsible for the oversight of about \$8 billion in pension liabilities that AON has in the associated assets that they invest. He stated he has 20 plus years as corporate treasurer in Fortune 200 type companies. He stated he is representing ISAC on the Panel.

Mr. Louis Paster, who stated he has been with UBS Financial Services, Inc. for almost 20 years and is currently senior portfolio manager in the corporate cash management division where they manager approximately \$20 billion in fixed income assets for corporations across the country. He stated he is representing the Illinois State Treasurer on the Panel.

Ms. Jeanna Cullins, who stated she has worked with pension funds for over 25 years and currently heads up the fiduciary services practices of Hewitt Ennis Knupp, an AON company. She has worked with funds in terms of their investment program, the governance of those programs and how they are structured to ensure they follow prudent process in their decision making. Ms. Cullins represents ISAC on the Panel.

Ms. Karen Kissel, Associate Vice President and Comptroller at Governor's State University, stated she has over 20 years experience in accounting and financial analysis with about eight of those being at Governor's State University. She stated she is representing the Illinois Board of Higher Education on the Panel.

Ms. Joy Winterfield, Portfolio Manager at Allstate, stated she is responsible for Allstate's \$2 billion real estate equity investments. She stated she is representing ISAC on the Panel.

Chair Hubbard stated that the final Panel member who was unable to attend the meeting is Mr. Patrick Rea. She gave a brief overview of Mr. Rea's qualifications indicating he is currently serving as Village Clerk for Tinley Park. She stated his experience includes being appointed in 2003 by President George Bush as regional administrator for the SBA Midwest Region. She stated Mr. Rea represents the Office of the State Comptroller on the Panel.

Chair Hubbard then asked Ms. Burns to give an overview of the Panel's responsibilities, as defined when created by the State Legislature.

Ms. Burns reviewed with the Panel the statute that governs ISAC and the Prepaid Tuition Act and specifically the Investment Advisory Panel. She indicated the Act says the Panel offers advice and counsel regarding the investments of the Illinois Prepaid Tuition Program and that it should do this with the objective of obtaining the best possible return on investments consistent with the actuarial soundness of the program. She stated it indicates the Panel is charged with reviewing and advising the Commission with regard to the Annual Report for the program and adopting a comprehensive investment plan (policy). She suggested that although the statute only calls the Commission fiduciaries, the Investment Advisory Panel should also act as fiduciaries for the program.

Ms. Burns stated that the Statute requires each member to complete a Statement of Economic Interest before being installed, which has been done, and also states that the Panel is required to meet two times per year, with one of those being a joint meeting of the Commission and the Panel. It is also recommended that the Panel meet more than only two times per year in order to meet the overall goal of providing advice and counsel about the investments of the program.

Responding to Mr. Hagy, Ms. Burns stated that the complete Statute is called the Illinois Prepaid Tuition Act, and its location on the Internet and will be provided to the Panel members.

Responding to Ms. Cullins, Ms. Burns stated that the State Officers and Employees Indemnification Act does not technically cover the Panel members, due to the fact that they serve in an advisory capacity, but the Panel members are covered under ISAC's indemnification policy. Ms. Burns feels that as long as the Panel members are acting within the scope of their duty and not being willful and malicious she would argue that the members should be covered by the State of Illinois' Officials Indemnification Act because they are acting in an official capacity for the State. Ms. Burns confirmed for Ms. Cullins that they would be provided with a copy of the indemnification language that covers the Panel members and ensure that they are comfortable with the language.

Mr. Paster expressed his concern that the information the Panel will be discussing be kept confidential. Chair Hubbard stated that there is new legislation that is anticipated to be signed into law which requires all investment decisions to be made in open meetings and not in executive sessions. She stated that all meetings will then need to be conducted in open session and recorded, however, should for example the Chief Investment Officer reach out to Panel members individually, that does not fall under the Open Meetings Act. Chair Hubbard asked that due to the sensitive nature of the program, Panel member refrain from speaking to the media but refer any inquires to Mr. John Samuels, Chief

Communications Officer for ISAC, the Interim Executive Director or herself. Chair Hubbard asked that the Panel members keep information provided to them confidential until it is brought public in an open meeting.

Ms. Burns agreed that Panel members should consider themselves fiduciaries and treat information provided to them as confidential. She stated that the Panel members will find it difficult to separate their professional lives from their loyalty to the Prepaid Tuition Program as a Panel member.

Chair Hubbard encouraged Panel members to reach out to staff or legal counsel should they need clarification on possible conflicts.

Responding to Ms. Cullins, Ms. Burns indicated that they could provide the Panel with a communication charter if they felt it beneficial.

Chair Hubbard continued by discussing the meeting schedule of the Panel. She reiterated that the Statute requires the Panel to meet two times per year with one of those being a joint meeting with the Commission. She recommended to the Panel that the next scheduled Commission meeting on January 27, 2012 be considered that joint meeting. She felt it beneficial to hold the second mandatory meeting in June prior to the end of the fiscal year. She suggested that given the challenges before the Panel they consider meeting one or two more times between the January and June meetings. She stated that she anticipates that she, as well as the CIO, will be reaching out to members individually for their input and guidance.

Chair Hubbard indicated that the top priority facing the Panel will be reviewing the investment managers and working with the new investment consultant on an asset allocation study. She suggested the Panel members review the existing investment policy and the portfolio and feel free to contact staff with suggestions for revisions.

Responding to Mr. Paster, Chair Hubbard agreed to provide the Panel with a description of the investment managers. She stated that it is not relevant to the new Panel how the current investment managers came into the program as they will now be focusing on moving the program forward.

Mr. Sinsheimer provided the Panel with a brief overview of the College Illinois! Prepaid Tuition Program and the process involved in the selling of the contracts for a prepaid tuition plan and where the origin of the funds the Panel is charged with investing came from.

Chair Hubbard reminded the Panel of their focus, which is the investments in the portfolio, the investment policy and managers. She felt they may be concerned with sales and pricing but their focus should remain on why the Panel was created, which is to advise on investments in the portfolio.

Ms. Kissel inquired as to why the enrollment in the program has been dropping. Chair Hubbard indicated that anytime there is bad press people are concerned, but it is unknown if the reduction in contracts and cancellations are attributed to that or the result of the economy. Mr. Sinsheimer stated that the reduction in contracts being sold is felt nationwide among other prepaid tuition programs and is not unique to Illinois' Prepaid Tuition Program. He also stated it is reflective of the cost of the contracts, indicating that during the last enrollment period a newborn prepaid tuition contract for eight semesters at the University of Illinois was priced at \$94,500.

Chair Hubbard then introduced Mr. John Samuels, Chief Communications Officer for ISAC and Mr. Nicholas O'Keefe, Associate General Counsel for Investments and indicated that Panel members should contact Mr. Samuels should they have inquiries from the media.

Ms. Burns then took the opportunity to brief the Panel on the regulations they need to adhere to with the Open Meetings Act as a public body. She indicated a new requirement has been passed by the legislature which requires members of public bodies to annually take an Open Meetings Act (OMA) online training. She stated that staff will ensure that they are notified and directed on how to take the training.

Ms. Burns stated that Panel members are now subject to the Freedom of Information Act (FOIA). She clarified that should a Panel member take hand-written notes pertaining to the Prepaid Tuition Program, those notes are now discoverable through FOIA and cautioned members to be cognizant of the this fact. Ms. Burns informed them that a new FOIA law is currently being appealed which will make private cell phones, your Blackberry, your personal IPAD or computer, discoverable through FOIA. The new law covers only State-owned property, but also privately owned instruments.

Responding to Ms. Winterfield, Ms. Burns confirmed there is an exemption of the OMA for private equity, but this exemption does not cover hedge funds.

Ms. Burns reviewed with the Panel members their responsibility in complying with the Secretary of State's Statement of Economic Interest, which each Panel member completed upon their appointment to the Panel. She indicated that the Panel members are not subject to complying with the State Officials and Employees Ethics Act, however, as counsel, she strongly recommended that members comply with the Gift Ban Act, of which she provided a printed copy to the members. She then outlined for the Panel members their responsibility in complying with this Act.

Ms. Burns also reviewed for the Panel a section of the Investment Policy known as the Quiet Period, which is a period during a Request For Proposal (RFP) when no one will be allowed to speak to anyone regarding the RFP. For example, she explained that if there is an RFP for a fixed income provider, during this Quiet Period members are not allowed to speak to any fixed income provider but could refer that provider to the CIO or Executive Director.

On a final point, Ms. Burns directed Panel members that with inquiries being made throughout the industry, particularly with respect to public pension funds and state agencies, should they be contacted by anyone indicating they are conducting an investigation they should immediately contact Ms. Pike as ISAC's General Counsel, or herself as outside counsel, and not speak with anyone without a lawyer present. She stated that the agency is more than willing to cooperate, but wants to ensure that those serving the State of Illinois are protected.

Chair Hubbard concluded the meeting by stating she feels that the Investment Advisory Panel is an asset to ISAC and the Commission as a whole. She stated the Governor believes that they were appointed to the Panel to add value and credibility to the program. She then thanked the Panel members for their time and adjourned the meeting at 2:25 p.m.

Respectfully submitted,



Debora A. Calcara  
Secretary to the Commission