

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

February 23, 2012

James R. Thompson Center
Suite 3-348
100 W. Randolph St.
Chicago, Illinois

**COMMITTEE MEMBERS
PRESENT:**

Mark Donovan
Kevin Huber

**COMMITTEE MEMBERS
ABSENT:**

Verett Mims

STAFF PRESENT:

Brian Begrowicz, Deputy Chief Financial Officer
Kent Custer, Chief Investment Officer
Nicholas O'Keefe, Associate General Counsel
John Samuels, Chief Communications Officer
Eric Zarnikow, Executive Director
Debora Calcara, Commission Secretary

PUBLIC PRESENT:

Mary Patricia Burns, Burke Burns & Penelli, Ltd.
Daniel Welker, J.P. Morgan Asset Management
Brienne Weymouth, Callan Associates, Inc.

Item 1. Announcements

The February 23, 2012 meeting of the Illinois Student Assistance Commission Investment Committee opened at 2:03 p.m. with the Secretary calling roll, which established a quorum was present. Those present at the meeting took the opportunity to introduce themselves.

Mr. Custer informed the Committee that the minutes from the December 29, 2011 meeting are not available but will be presented at the next meeting of the Committee.

Item 2. Risk Profile

Mr. Custer indicated that he feels it is important to understand the risk profile of the portfolio.. He stated that the allocation to alternatives, not including real estate, is not excessively risky. Referring to the Callan Associates report, he stated the asset allocation projected return for the total fund is 7.16 percent with a projected risk of 13.35 percent.

Mr. Custer stated that he is in the process of looking at all the managers, beginning with the hedge fund managers, which are risk mitigating. He indicated that they took \$10 million out of the hedge fund portfolio, \$5 million from Reynoso Options Arbitrage Fund and \$5 million from Balestra Spectrum II, in order to fund the spring tuition needs.

Mr. Custer brought the Committee's attention to Fisker Automotive, which is an investment held through Camelot Secondary Fund and a Camelot Co-Investment vehicle, is doing quite well, however, thought it prudent to make the Committee aware of the three percent exposure in an automotive start-up. Mr. Custer confirmed that Fisker automotive was recently about 61 percent of the Camelot Secondary fund holdings.

Referring the Callan's report, Mr. Huber noted that the risk expectation around 13 percent seemed a little high relative to the return expectations in the 7 percent range. He noted that he would expect something closer to 12 percent risk. Ms. Weymouth noted that projected returns have decreased with Callan's most recent capital market assumptions. She noted that while ISAC's did not have a typical asset allocation, they have other plans with a similar risk/return profile, but they've gotten there through a different mix of assets.

Mr. Huber continued the risk inquiry noting that he was looking at three factors: liquidity, Beta, and projected risk. Mr. Custer stated that he was also used to risk around 12 percent for return expectations in the 7 percent range and noted that the portfolio was in the 12 percent range using Callan's capital market assumptions for last year before Callan updated their capital market assumptions.

Mr. Custer stated that, based upon the analysis, there is time to restructure the portfolio and work through the robust asset allocation and structure process and does not anticipate any immediate action needing to be taken. Mr. Custer confirmed for Mr. Donovan that an asset allocation study will be completed to determine what investments are contributing to the risk Mr. Custer agreed with Mr. Huber that there may be too many managers within the portfolio's standard vanilla asset classes..

Addressing the liquidity issue, Ms. Weymouth noted that 70 to 80 percent of the portfolio is rather liquid. Mr. Custer noted that this could change depending on capital commitments and distributions.

Item 3. Asset Allocation

Mr. Custer reviewed with the Committee the Asset Allocation variance as printed in the agenda materials and expectations of sources to fund cash needs.

Mr. Huber expressed concern about vintage year exposure and risk in private equity if there are no new investments. Mr. Huber expressed his view that contributions should be bled in each year and ultimately distributions are used to fund new investments. Ms. Burns informed the Committee that the State Legislature has passed a resolution that there be no further private equity investments until directed by the Legislature..

Mr. Custer referred to Ms. Weymouth of Callan Associates to give an update on the asset allocation study. Ms. Weymouth stated they have a representative from its capital markets group working on the modeling of the liabilities based upon various scenarios received by the actuary. Mr. Custer indicated that it is anticipated to have the new asset allocation recommendation available at the June Commission meeting.

Item 4. Investment Manager Search

Mr. Custer stated that the Request For Proposal (RFP) were due on January 27, 2012 for the passive domestic equity manager. He stated that they just received approval for Callan Associates to be on the RFP evaluation team and is awaiting final technical details to be completed. He indicated that the Commission has approved delegating the approval of managers to the Investment Committee and he anticipates bringing this to the Committee at its May meeting.

Responding to Mr. Huber, Mr. Custer and Mr. Donovan explained the procurement procedure that they must adhere to as a State of Illinois agency.

Mr. Custer stated that he is working on the contracts for the Barclays Agg (Fixed Income) managers which are expiring in June and hopes to have their contract renewed and is also working on an RFP for the fixed income managers. He stated that the evaluation team will interview for this manager and will make a recommendation to the Investment Committee. He inquired if the Committee will want to have the managers come before the Committee or to the full Commission. Mr. Donovan suggested that the Committee discuss the procedure with the full Commission to ascertain their preference.

Mr. Custer stated that he concurs with Callan's recommendation to expand the core manager search to core and core plus. Mr. Huber agreed.

Item 5. Performance Review

Mr. Custer briefly reviewed the portfolio performance as presented in Callan Associates quarterly review. Ms. Weymouth also reviewed the performance for the Committee. Regarding the asset allocation she indicated that the fund has done poorly versus peers in the group but well versus its benchmark. Regarding the policy target, Mr. Custer stated that last year the policy target would have been in the 96th percentile but the fund's actual performance was in the 80th percentile. Ms. Weymouth stated that it is still below peers but did beat the benchmark. Mr. Custer stated that it is his understanding there is wrong allocation but the right managers executing.

Ms. Weymouth discussed preparing an executive summary for the Committee at Mr. Huber's suggestion. Mr. Huber would like to see a more focused document which includes a couple pages on the economy and a scorecard similar to what was provided. Mr. Donovan agreed with the suggestion that the Committee be provided a small couple page document which has information condensed from the full quarterly report in addition to providing the full quarterly report.

Item 6. Investment Policy Review

Mr. Custer informed the Committee that he is currently in the process of reviewing the current investment policy and is working from a template provided by Callan Associates in order to combine the new policy with the old policy. He anticipates having the new policy to the Committee in advance of their next meeting.

Item 7. Future Agenda Planning

Mr. Custer stated that he is hopeful to have the information to the Committee at least seven calendar days prior the meetings in order for them to have time to review the information.

Mr. Custer also asked for the Committee's feedback on the content of information that they are covering in the Committee meetings and welcomed their suggestions.

Mr. Custer stated the next meeting of the Investment Committee will be held on May 23, 2012. Mr. Calcara confirmed that the consensus from the Committee was that it be held from 12:00 p.m. – 2:00 p.m.

Ms. Weymouth stated that they will provide the Committee with the monthly flash report the 15th business day of each month which is when it is posted to the agency website. Mr. Custer agreed that he will send this to the Investment Committee as well as the Investment Advisory Panel.

Mr. Donovan **MOVED THAT** the February 23, 2012 meeting of the Investment Committee be adjourned. Mr. Huber seconded the motion, which was approved unanimously. The meeting adjourned at 2:56 p.m.

Respectfully submitted,



Debora A. Calcara
Secretary to the Commission