

AGENDA ITEM 2A.

**APPROVAL OF MINUTES OF THE JUNE 14, 2018 MEETING
OF THE INVESTMENT COMMITTEE**

Submitted for: Action

Summary: This report includes the minutes of the investment related items of the joint meeting of the Investment Committee and the Commission held on June 14, 2018.

Action requested: That the Investment Committee approve the minutes of the June 14, 2018 meeting as incorporated into the full Commission minutes.

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

Michael A. Bilandic Building
Room N-502
160 N. LaSalle St.
Chicago, IL

June 14, 2018

1:00 p.m.

COMMISSIONERS PRESENT: Niketa Brar, Investment Committee Member
Miguel del Valle, Vice Chair, Audit Committee Member
Mark Donovan, Investment Committee Member
James Hibbert, Investment Advisory Panel Member
Kevin Huber, Chair and Investment Committee Member
Emma Johns
Claudia Quezada, Audit Committee Member
Kim Savage, Audit Committee Member
Dr. Patrick M. Twomey

STAFF PRESENT: Eric Zarnikow, Executive Director
Lynne Baker, Managing Director, Communications
Carol Cook, Director, Program Services and Compliance
Kishor Desai, Chief Internal Auditor
Wendy Funk, Managing Director, Finance and Accounting
Ellen Greenan, RPPA
Katharine Gricevich, Director, Government Relations
Sandra Houston, Director, College Illinois!
Shoba Nandhan, Chief Financial Officer
Sam Nelson, Director, Outreach Development
Shana Rogers, RPPA
Roger Rojas, Investment Officer
Karen Salas, General Counsel
Evelyn Smith, Director, Portfolio Management
Natalie Wandall, Assistant to Executive Director
Michael Wilder, Telecom and Network Engineer
Debora Calcara, Commission Secretary

STAFF PRESENT VIA TELEPHONE: Kent Custer, Chief Investment Officer

PUBLIC ATTENDANCE: Ryan Ball, Callan Associates
Jessie Gotsdiner, Women Employed
Eric Hiatt, University of Illinois
Mark Szymanoski, DeVry University
Brianne Weymouth, Callan Associates

The following agenda items at the joint meeting of the Commission and the Investment Committee pertained to the Investment Committee and are incorporated in the full Commission minutes.

Chair Huber stated they would move ahead on the agenda to the College Illinois! Prepaid Tuition Program Investments since Mr. Custer was joining the meeting via telephone.

Item 8. College Illinois!® Prepaid Tuition Program Investments

Item 8A. Approval of the Minutes of the March 7, 2018 Meeting of the Investment Committee

Chair Huber asked for a motion by a member of the Investment Committee to approve the minutes of the March 7, 2018 meeting. Mr. Donovan **SO MOVED** and Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Item 8B. Investment Update

Mr. Custer provided a brief overview of the Investment Update provided in the agenda book.

Item 8C. Approval of Changes to the Watch List

Mr. Custer reviewed the memorandum regarding the Watch List provided in the agenda book. The Ativo fund modest underperformance since inception is slightly disappointing, but within the range of expectations, and recent improvement is encouraging.

Moving on to Pinnacle, who is on the Watch List, Mr. Custer and Mr. Rojas reviewed their history of catching commodity rallies while avoiding downturns. Investment staff continues to value the diversification benefit Pinnacle provides to the Fund and recent recovery is encouraging. Therefore, staff is recommending to remove Pinnacle Natural Resources from the Watch List.

Chair Huber asked for a motion from a member of the Investment Committee to approve the removal of Pinnacle Natural Resources from the Watch List.

Ms. Brar **SO MOVED**, Mr. Huber seconded the motion, which was approved unanimously.

Item 8D. Compliance Review

Mr. Rojas provided a brief overview of the Compliance Review memorandum provided in the agenda book.

Item 8E. Asset Allocation Study

Mr. Custer noted that the Investment Policy states the asset allocation shall be reviewed annually for reasonableness and a formal asset allocation study will be conducted at least every three years. The asset allocation study performed each year is one of the most important endeavors the investment staff undertakes with the support of our consultant Callan Associates.

The Prepaid Tuition Program Investment Consultant, Callan Associates, provided a high level overview of the Asset Allocation and Liability Study presented to the Commission.

Mr. Custer reviewed the proposed interim and long-term asset allocation changes, including the revised Absolute Return structure, as detailed on page 8E-1 of the agenda book. Mr. Custer also reviewed the risk and return for relevant asset allocation profiles provided on page 8E-2 of the agenda book.

Chair Huber asked for a motion from a member of the Investment Committee to recommend the proposed interim and long-term asset allocation for approval by the Commission. Mr. Donovan **SO MOVED**, Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Chair Huber asked for a motion from a member of the Investment Committee to recommend the proposed structure for the Absolute Return asset class with a 50% target each to Pinnacle Natural Resources and Neuberger Berman for approval by the Commission. Ms. Brar **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously by the Investment Committee.

Continuing, Chair Huber asked for a motion for the full Commission to approve the proposed interim and long-term asset allocation.

Dr. Twomey **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Chair Huber asked for a motion for the full Commission to approve the proposed structure for the Absolute Return asset class with a 50% target each to Pinnacle Natural Resources and Neuberger Berman. Mr. Donovan **SO MOVED**, Ms. Quezada seconded the motion, which was approved unanimously.

Item 8F. Investment Policy Review and Adoption

Mr. Custer reviewed the proposed changes to the Investment Policy as outlined on page 8F of the agenda book. A red-lined version of the Investment Policy reflecting the proposed revisions was provided in the agenda book. Chair Huber asked for a motion by a member of the Investment Committee to recommend the proposed revisions to the Investment Policy for approval by the Commission. Mr. Donovan **SO MOVED**, Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Chair Huber asked for a motion for the full Commission to adopt the Investment Policy as submitted in the agenda book. Ms. Quezada **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Item 8G. College Illinois! Prepaid Tuition Program Update

Mr. Zarnikow reminded the Commission of the unfunded liability as of June 30, 2017 and indicated the actuarial estimate will be updated in the fall. He stated we believe it is in the best interest of the program to continue selling contracts and ultimately be self-sustaining. However, continuing to sell contracts in the current situation is counterproductive without legislative action to address the unfunded liability and strengthen the program going forward. He added that staff continues to be in communication with the Governor's office and the legislative staff regarding challenges facing the program and need of honoring current contract holders.

Responding to Mr. Donovan's inquiry regarding state support needed to address the unfunded liability if program remains closed for enrollment, Mr. Zarnikow stated that they have provided the Governor's office and staff of the General Assembly with an estimate of the annual appropriation that is needed to address the unfunded liability in order to honor contract holders in the program. It was noted that this annual estimate could change in the future depending on the results of future annual actuarial updates.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara". The signature is written in black ink on a light-colored background.

Debora A. Calcara
Secretary to the Commission