

AGENDA ITEM 2B.

**APPROVAL OF MINUTES OF THE OCTOBER 22, 2020 MEETING
OF THE INVESTMENT ADVISORY PANEL**

Submitted for: Action

Summary: This report includes the minutes of the Investment Advisory Panel.

Action requested: That the Investment Advisory Panel approve the minutes of the October 22, 2020 meeting.

**MINUTES OF THE MEETING OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION
INVESTMENT ADVISORY PANEL**

**VIDEO CONFERENCE
Instruction to be provided by ISAC.org**

**October 22, 2020
12:00 p.m.**

INVESTMENT ADVISORY PANEL MEMBERS PRESENT via WebEx:

Rodrigo Garcia, Investment Advisory Panel Member
James Hibbert, Investment Advisory Panel Member
Karen Kissel, Investment Advisory Panel Member
Cameron Mock, Investment Advisory Panel Member
Louis Paster, Investment Advisory Panel Member
Chasse Rehwinkel, Investment Advisory Panel Member
Jeanna Cullins, Investment Advisory Panel Member Joined the Meeting in progress

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

PUBLIC ATTENDANCE via WebEx:

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

Mr. Zarnikow began the meeting of the Investment Advisory Panel by stating the following.

The meeting today is being conducted through electronic means pursuant to Governor Pritzker's extension of his Gubernatorial COVID-19 Disaster Proclamation and Public Act 101-0640 which suspends the Open Meetings Act requirements for physical presence at meetings of public bodies during gubernatorial disaster proclamations.

As required by the Act, I as head of ISAC, find that it is not practical or prudent to conduct the meeting in person or at the usual meeting location in downtown Chicago due to the COVID-19 disaster, so we will proceed virtually.

As with all ISAC public meetings, there is a specific time reserved in the agenda for public comment. Instructions for making public comments will be given shortly.

In order to best facilitate this meeting, I would like to go over some basic procedures.

I will then turn it over to Eddie Brambila to provide us with WebEx instructions. Mr. Brambila then turned it over to Anna for WebEx instructions.

The Act requires a roll call for every vote. So, first we will ask for a motion to take a roll call vote on an action item. We will handle the making of motions and seconds like we would during an in-person meeting but will pause to make sure it is clear who made and seconded the motions to record for the minutes.

Then when responding to your name in the roll call you will need to speak so we can hear your answer. So, please unmute when your name is called and speak your answer. We need to ensure that the Panel members are able to hear each other, so we will address that requirement in a few minutes when we do the initial roll call to determine a quorum for the meeting. We will ask you to remute your phone after each vote to minimize background noise.

The law also requires that there be a verbatim recording of the whole meeting so we will be recording today.

Item 1. Announcements/Public Comments

At 12:08 p.m. a roll call of all Investment Advisory Panel members (the Panel) was taken and a quorum was established. Carmen Heredia called the October 22, 2020 meeting to order by announcing that this is a meeting of the Investment Advisory Panel. She then asked if there were any public comments, and there were none.

Ms. Heredia welcomed Mr. Cameron Mock, as the newest member to the Investment Advisory Panel. She then asked him to give a little description of his background.

Ms. Heredia noted that the next tentatively scheduled joint meeting of the Commission and the Investment Advisory Panel will be on Thursday, April 15, 2021 at 1:00 p.m. She noted that

currently, the plan is to meet in the Michael A. Bilandic Building but that there may continue to be a need to conduct the meeting virtually.

Then, Ms. Heredia-Lopez asked each of the Investment Advisory Panel Members to give a brief description of their background. Mr. Louis Paster, Mr. Rodrigo Garcia, Ms. Karen Kissel, Mr. Chasse Rehwinkel and Mr. James Hibbert all spoke. Ms. Jeanna Cullins was not present at the meeting at this time.

Item 1A. Approval of 2021 Meeting Dates and Locations (Action)

Mr. Garcia **MOVED THAT** the Panel approve the tentative 2021 meeting dates and locations as presented. Mr. Rehwinkel seconded the motion and a roll call was taken, which was unanimously approved by the Panel.

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

Ms. Kissel **MOVED THAT** the Panel approve the minutes of the April 28, 2020 meeting as incorporated into the full Commission minutes. Mr. Mock seconded the motion and a roll call was taken, which was unanimously approved by the Panel.

Item 3. Review of the Investment Advisory Panel Duties and Responsibilities (Information) - Roger Rojas

Mr. Rojas reviewed the roles and responsibilities of the Investment Advisory Panel. He noted that the statute identifies two primary areas requiring the Panel's attention, which are the Investment Policy and Annual Report. He stated that members of the Panel receive copies of the Investment Committee and Commission agenda materials and are invited, but not required, to attend these meetings. Mr. Rojas then asked the Panel if there were any questions or concerns that Panel members would like to share with the Commission. No comments were provided by the Panel to the Commission.

Item 4. Program Update (Information) - Eric Zarnikow/Carmen Heredia

Mr. Zarnikow stated that the last actuarial update was done on June 30, 2019 and the one from June 30, 2020 is still in progress. He reported that although tuition and fee growth was lower than projected, he expects the unfunded liability to be larger in the June 30, 2020 actuarial report.

He noted that he and other ISAC staff worked with the Governor's office and lawmakers to propose funding in the FY21 budget that would begin to pay down the unfunded liability of the College Illinois! program. He noted that, much of that work was done with Mr. Mock. Mr. Zarnikow observed that, although the Governor was committed to fund College Illinois!, unfortunately when COVID-19 occurred, the General Assembly passed, and the Governor signed essentially a flat budget without that requested funding. He went on to explain that ISAC intends to request funding again in the FY22 budget request. That budget request will likely be about \$35-40 million.

Mr. Hibbert asked about the unfunded liability in general, and Mr. Garcia asked about how the unfunded liability is shaping our investment strategy. Ms. Heredia answered both questions by stating that due to the status of the College Illinois! Trust Fund, the last asset liability modeling study resulted in our conservative investment strategy. Additionally, she stated that in 2021 staff and Callan will be doing another asset liability modeling study. The results will be presented at the June 2021 Commission meeting.

Item 5. Investment Update (Information) - Carmen Heredia/Roger Rojas

Item 5A. Callan Investment Report as of 6/30/2020 (provided separately)

Ms. Heredia referred to the Callan Report and she noted that, “Risk” and “Risk Mitigation” were the key words to describe the second quarter of 2020. Since then, she continued, we have seen that the stock market is not the economy and the path from recession remains unknown. For College Illinois! liquidity is top priority. A close second is what asset mix can we tolerate while we maximize our returns, i.e. what is our true tolerance for risk?

The work plan for 2021 includes an asset liability modeling study that will consider the program’s future liabilities, risk tolerance and updated capital market assumption. The study will evaluate different scenarios and asset mixes. For the remainder of FY21, Ms. Heredia noted that there is market uncertainty. It is important to remember the program’s investment strategies, which are: diversification, portfolio construction based on a risk/return lens, liquidity management, and a disciplined investment approach.

Item 5B. Investment Review Memo

Ms. Heredia gave a general investment review referring to the Callan Report. She reviewed the portfolio’s attribution analysis over different time horizons. The investments that detracted from performance over the longer time periods are private market investments that the program entered during the prior administration. Staff is monitoring such investments and the aim is value maximization and realization. Importantly, however, she noted that our liquidity is sound with 82% of assets available within one year as of Sept. 27, 2020.

The second quarter of 2020 has been very volatile with some securities hitting all-time highs and others bottoming out. The same can be said for some of our managers’ whose style is currently out of favor or whose portfolio has been affected by the monetary intervention and/or the announcements from the Federal Reserve. Ms. Heredia then analyzed the performance of the public market asset classes and respective managers. She noted the underperformance of our international equity portfolio for the year ended June 30, 2020.

Ms. Jeanna Cullins joins meeting 12:54pm.

Mr. Rojas reviewed thoroughly all closed-end fund investments including outstanding risks and current/projected realizations. Mr. Rojas indicated that he is concerned that there may be further write-downs in future periods for Alinda, TRG and CM Growth. Mr. Rojas also reviewed the Asset Allocation, Status Updates and Search Update sections as shown in the agenda book.

The Panel members discussed with management the performance of certain individual investment managers. They expressed concern about the performance of certain managers and asked management to consider whether indexing might be a better strategy in some cases.

Ms. Heredia and Mr. Rojas responded to the Panel members' comments by noting that many of these managers are staying true to their philosophy and that the market has not rewarded their investment style noting the long underperformance (about 10 years) in equities of value vs. growth. Also, the recent market dislocation due to the pandemic and Fed intervention has impacted the program's equity, fixed income and absolute return managers. The program has not yet fully seen the impact to its private market managers. She reassured the Panel that the investment team is monitoring all managers heavily.

Mr. Rojas continued by stating that with regards to the private assets, namely Alinda, TRG and CM Growth, there have been challenges over the years and he agrees that performance has been suboptimal in some managers. He pointed out that staff has always had limited options due to the nature of these partnerships but continues to monitor each manager very closely. He stated that the comments and concerns brought up by the IAP members are appreciated and will be taken into consideration.

Mr. Rojas noted that the program has had a conservative strategy related to the program's asset allocation/investment manager selection over the past eight years due the uncertainty about the status of the program.

Item 6. Compliance Review (Information) - Roger Rojas

Item 6A. Compliance Memorandum

Mr. Rojas reviewed the Compliance Memorandum of the Agenda Book and noted that no issues or violations were identified. He stated that the ISAC investment staff has for many years employed a very robust compliance review process.

Item 6B. Minority Brokerage

Mr. Rojas gave a summary review of the Minority Brokerage tables found on pages 6B-1 and 6B-2 of the Agenda Book.

Item 6C. Minority Investment Managers

Mr. Rojas also reviewed the Minority Investment Manager Participation tables found on pages 6C-1 and 6C-2 of the Agenda Book.

Item 6D. Investment Expenses

Finally, Mr. Rojas reviewed the Investment Expenses found on page 6D of the Agenda Book.

Item 7. Review of FY19 Annual Report (provided separately) and Discussion of FY20 Annual Report (Information) - Eric Zarnikow-Carmen Heredia-Roger Rojas

Ms. Heredia reviewed the introductory letter in the Annual Report for FY19 regarding the status of the plan. She asked if there were any questions or comments on the annual report. In addition, she asked if the Panel had any advice or recommendations for future annual reports. Panel members had no questions or recommendations.

Item 8. Review of Investment Policy/Strategic Investment Plan (Information) - Carmen Heredia

Item 8A. Overview Memorandum

Ms. Heredia gave a general overview of the latest updates by the Commission to the Statement of Investment Policy for College Illinois!.

Item 8B. Investment Policy

Ms. Heredia reviewed the Statement of Investment Policy in section 8 of the Agenda Book. She updated the Panel on the adoption of a sustainability policy. She also reviewed the new asset class target changes as well as the benchmark target changes that were approved by the Commission in June 2020. Finally, she reported that next year staff will perform an asset liability modeling study with Callan.

Mr. Garcia expressed his gratitude and appreciation for inclusion of the sustainability policy and for staff's efforts.

Item 9. Approval of Advice to the Commission (Action) - Eric Zarnikow-Carmen Heredia

Mr. Zarnikow asked the Panel if there was any formal advice to bring to the Commission and there was none.

Mr. Zarnikow thanked all the Investment Advisory Panel members for volunteering their time.

Seeing no further business to come before the Panel, Mr. Zarnikow asked for a motion to adjourn. Mr. Garcia **SO MOVED** and Mr. Hibbert seconded the motion and a roll call was taken, which was unanimously approved by the Panel. The meeting was adjourned at 1:49 p.m.

Respectfully submitted,

Kathleen Cole