

ROLL CALL

Chairman Montgomery called the meeting to order at 1:35 p.m. The Secretary called the roll and noted that a quorum was present.

ELECTION OF CHAIRMAN

Mr. Casey moved to nominate Fred Montgomery as Chairman of the Ad Hoc Committee on Personnel Policy and Procedures. Judge Hoffman seconded and the motion passed unanimously. There being no further nominations Mr. Montgomery assumed the Chair.

MINUTES OF PREVIOUS MEETING

Mr. Casey moved to approve the minutes of the Ad Hoc Committee meeting held November 1, 2010, in the form submitted. Judge Hoffman seconded and the motion passed unanimously.

REPORT OF DIRECTOR

Consideration of Changes to Terms of Employment for Non-Code Employees

Director Atwood referred the Committee to the "Possible Changes to Terms of Employment for Non-Code Employees at Illinois State Board of Investment (ISBI)" report. (Official minutes contain attachment.) It was the consensus of the Committee to review each item of the report.

Judge Hoffman initiated discussion regarding whether ISBI has authority to reduce benefits to its employees and referred to a memorandum "Employee Benefits" dated November 4, 2010. (Official minutes contain attachment.)

Following detailed and lengthy discussion regarding Compensatory Time and the requirement for professional staff keeping time sheets, the Committee Members concurred to recommend the following to the Board:

Compensatory Time. The policy for keeping timesheets with a minimum requirement of 37.5 hours of work per week should allow more flexibility around the statutorily required accounting of time, e.g. by pay period. The policy for allowing non-code employees to accrue compensatory time and use it as vacation or personal time is discontinued December 31, 2010.

Detailed and lengthy discussion regarding Vacation Time was held. Following the discussion, Mr. Casey moved to recommend to the Board amending the Non-Code Vacation Schedule as shown below. Judge Hoffman seconded and the motion passed unanimously.

Vacation Time. The existing Vacation Policy will remain in effect for existing employees. For any new non-code employees employed after December 31, 2010, the vacation schedule contained in the Personnel Code is effective.

Discussion on Vacation Accrual ensued. Following detailed discussion, Ms. Bush moved to recommend to the Board the following.

Vacation Accrual. Consistent with the State Personnel Code, except for the Executive Director, non-code employees are allowed to accrue up to two years of earned vacation time. Beyond that amount, employees lose whatever vacation time that they do not use. Effective December 31, 2010, the allowed vacation accrual for the Executive Director cannot exceed the level of accrual at December 31, 2010.

Judge Hoffman seconded and the motion passed unanimously.

Lengthy discussion ensued pertaining to the State Employees' Retirement System employee contribution of 4%. Director Atwood stated that the Board began paying the 4% SERS employee contribution effective January 1, 1991. ISBI also makes the employer contributions as required by State law.

Judge Hoffman moved and Ms. Bush seconded the following recommendation to the Board:

Employee Contributions to SERS. The Board currently pays the 4% employee contributions for all ISBI employees (code and non-code). This practice will remain in effect for all existing employees and is discontinued for all new personnel employed after November 17, 2010.

Discussion ensued and Chairman Montgomery recommended amending the SERS retirement pick up policy to discontinue for non-code personnel with a 4% salary increase effective January 1, 2011, retain for code personnel, and discontinue the policy for any new personnel employed after December 31, 2010.

Following further discussion, Judge Hoffman moved to call for the vote. The Secretary called the roll. The motion passed with Judge Hoffman, Ms. Bush and Mr. Casey voting aye and Mr. Montgomery opposed.

The Committee Members unanimously approved recommending the following:

Payroll/Staff Freeze. Until further action by the Board, all salaries and compensation will be capped at current levels and no new hires or staff replacements will be allowed without prior Board approval.

Furlough Days. The ISBI will not require staff to take furlough days as is required for most State employees.

Further, it was the consensus of the Committee to instruct Director Atwood and staff to compile a revised employee directives manual with current policies for the March, 2011 meeting.

UNFINISHED BUSINESS

None.

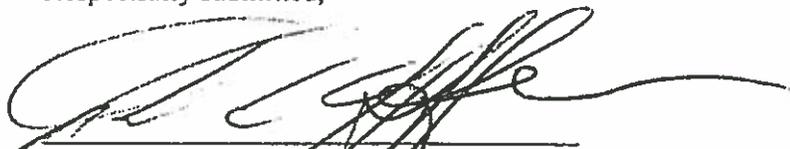
NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

At 3:05 p.m., there being no further business to come before the Committee, Judge Hoffman moved to adjourn. Mr. Casey seconded and the motion passed unanimously.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary
Illinois State Board of Investment



Fred Montgomery, Chairman
Ad Hoc Committee on Personnel Policies and Procedures

11-10/10

Possible Changes to Terms of Employment for Non-Code Employees at Illinois State Board of Investment (ISBI)

At the meeting of the Ad Hoc Committee for Personnel Policies and Procedures (Ad Hoc Committee) held Monday, November 1, 2010, discussion was held concerning potential changes to terms of employment at ISBI. Those conversations focused on three areas related to non-code employees: ISBI's compensatory time policy, allocation of vacation time for non-code employees, and payment of the employee contribution to the State Employees Retirement System (SERS) by the Board. Subsequently, the General Counsel circulated a memo which concluded that the offer letter to new employees and the employee manual need to be analyzed to determine whether either states a clear offer or promise about an employee's entitlement to a benefit.

In the context of that discussion and the memo- please find below some possible recommendations to the Board:

Compensatory Time The policy for keeping time sheets with the minimum requirement of 37.5 hours of work per week should allow more flexibility around the statutorily required accounting of time, e.g. by pay period. The policy of allowing non-code employees to accrue compensatory time and use it as vacation or personal time should be discontinued effective December 31, 2010.

The offer letter does not mention compensatory time. The employee manual states "Exceptions to usage of time and expiration may be approved by the Executive Director when it is in the best interest of ISBI."

Vacation Time The vacation time for non-code employees is more generous than for code employees. For existing employees, the rate at which they earn vacation time should be capped at the current level effective December 31, 2010. After that date, the schedule contained in the Personnel Code should apply to those employees once that schedule would increase their allotted vacation time. The schedule contained in the Personnel Code should apply to all new employees.

The offer letter refers to the "current vacation policy", and the employee manual states "The Board may, from time to time, amend the Vacation Policy."

Vacation Accrual Consistent with the State Personnel Code, except for the Executive Director, non-code employees are allowed to accrue up to two years of earned vacation time. Beyond that amount employees lose whatever vacation time that they do not use. Effective December 31, 2010, the accrued vacation for the Executive Director should be capped at the current level.

Employee Contribution to SERS The Board currently pays the 4% employee contribution for all ISBI employees (code and non-code). This practice was discontinued by the State of Illinois for ~~many of (most or all of?)~~ its employees ~~a few years ago~~ effective January 1, 2006. This practice should be discontinued by ISBI for all employees effective December 31, 2010.

Neither the offer letter nor the employee manual mention anything about ISBI paying the employee's contribution to their pension fund.

~~**Disclosure of Liabilities**—All accrued liabilities related to employee compensation and benefits should for accounted for and disclosed on the annual audited financial statements.~~

Payroll/Staff Freeze Until further action by the Board, all salaries and compensation will be capped at current levels and no new hires or staff replacements will be allowed without prior Board approval.

Furlough Days The ISBI Board will not require staff to take furlough days as is required for most State employees.

ROLL CALL

Chairman Casey called the meeting to order at 9:00 a.m. The Secretary called the roll and noted that a quorum was present. Mr. Montgomery moved to allow Board Members Bush and Clayborne to participate in the meeting via telephone. Mr. Bruce seconded and the motion passed unanimously.

COMMUNICATIONS

Resolutions of Appreciation

Chairman Casey stated that this would be the last meeting of the Treasurer and Comptroller and thanked each of them for their service to the Board. Further, the Chairman presented Resolutions of Appreciation for Treasurer Giannoulis and Comptroller Hynes. Judge Hoffman moved to approve the Resolutions of Appreciation as presented by Chairman Casey. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachments.)

REPORT OF THE CHAIRMAN

Chairman Casey stated that with new Board Members in January, the Committee appointments would be as follows:

Audit & Compliance Committee

Michele Bush
James Clayborne, Jr.
Thomas Hoffman
Judy Baar Topinka
Fred Montgomery

Emerging Manager Committee

Roderick Bashir
John Casey
James Clayborne, Jr.
Dan Rutherford
Judy Baar Topinka

Investment Policy Committee

Devon Bruce
Michele Bush
John Casey
Dan Rutherford
Thomas Hoffman

MINUTES OF PREVIOUS MEETING

Mr. Bashir moved to approve the minutes of the meeting of the Board meeting held September 24, 2010, in the form previously submitted. Judge Hoffman seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Audit & Compliance Committee

Chairman Casey stated that the Audit & Compliance Committee had met prior to this meeting and referred to Ms. Bush to report on the Committee's actions. Ms. Bush reported the following actions by the Audit & Compliance Committee:

- Minutes of the September 24, 2010 meeting were approved.
- Ms. White reported on the fiscal year 2010 and the Committee instructed Director Atwood to communicate via written correspondence the Board's concern regarding the delay in the audit process to the McGladrey & Pullen partner, with a copy to the Auditor General.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through September 2010.
- The Commission Recapture Report for the quarter ending September 2010 was reviewed and approved.
- The Records of Vouchers for the months of July, August and September 2010 were reviewed and approved.
- The Committee reviewed the report on placement agent contacts for FY 2011 2nd Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

Mr. Montgomery moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Bruce seconded and the motion passed unanimously.

Executive Committee

Director Atwood reported that the Executive Committee had met on November 1, 2010 and reported that three deferred compensation hardship appeals were considered. Further, the Committee met November 17, 2010 and Director Atwood reported that a deferred compensation hardship appeal was considered, the Committee approved discontinuing ISBI paying the 4% SERS employee contribution for all employees hired after November 17, 2010, and that Columbia Acorn an investment option in the deferred compensation plan, was placed on the Alert list due to notification that the portfolio manager would be on an extended leave from January 14 through March 31, 2011.

Ad Hoc Committee for Personnel Policies and Procedures

Director Atwood referred the members to "Changes to Terms of Employment for Employees at Illinois State Board of Investment (ISBI)" that had previously been distributed. Mr. Bruce moved to approve the recommendations of the Ad Hoc Committee as outlined in the above-referenced report. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – September 2010 and November 2010 Interim Report

Chairman Casey welcomed the Marquette representatives to the meeting. Mr. Wrubel reported that the Investment Performance Report for the quarter ending September 2010 had previously been distributed. Mr. Wrubel distributed the Flash Report for November 30, 2010, and reviewed. Following detailed review and answering questions posed by Board Members, the Chairman thanked Mr. Wrubel for the report. (Official minutes contain attachments.)

Asset Allocation Review

Following detailed discussion and review from Director Atwood and Brian Wrubel, regarding asset allocation models, Mr. Montgomery moved to approve the recommendation of the Director to table the issue of the asset allocation model for the remainder of FY 2011 and not make any new commitments to illiquid assets (real estate, private equity or infrastructure) through the remainder of FY 2011 and direct the real estate separate account managers to not make any new acquisitions without the prior written authorization of the Executive Director for the same time period. Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

DEFERRED COMPENSATION

Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty of Marquette Associates referred the Board Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the 3rd quarter September 30, 2010 and an updated report dated November 30, 2010, and reviewed. (Official minutes contain attachments.)

Proposed Revision to Hardship Appeal Policy

Ms. Schoemehl referred the Board Members to a memorandum “Deferred Compensation” dated December 2, 2010. Ms. Schoemehl requested approval to revise the Hardship Distribution Appeal Policy to require participants to submit a statement of appeal within 20 days of the mailing date of the Notice letter. Ms. Bush pointed out that the notices are sent certified mail and it’s easier to track 20 days from date of mailing rather than date of letter. Following review, Mr. Bashir moved to approve the revision to the Deferred Compensation Hardship Appeal Policy as outlined in the memorandum. Mr. Bruce seconded and the motion passed unanimously. (Official minutes contain attachment.)

Proposed Amendments to 80 IL Administrative Code 2700

Ms. Schoemehl stated that proposed amendments to the Board’s Administrative Rules (80 Ill. Adm. Code 2700) were previously distributed. Following discussion, Mr. Bashir moved to approve the amendments to the Board’s Administrative Rules to include the change proposed by Ms. Bush. Mr. Bruce seconded and the motion passed unanimously.

Loan Program Policy

Ms. Schoemehl reported that a draft Loan Program Policy had been prepared pursuant to actions of the September Board meeting. Following review, Mr. Bruce moved to adopt the Loan Program Policy as previously distributed and grant Staff, in conjunction with the Plan’s consultant,

discretion to make modifications to the Policy in order to accommodate administrative issues presented during the rulemaking process. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

Chairman Casey stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), current Board litigation (5 ILCS 120/2(c)(11)) and to review closed session minutes of previous meetings (5 ILCS 120/2(c)21). Mr. Montgomery moved to go into Executive Session for the above-stated purposes. Mr. Bruce seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Mss. Spinato, Schoemehl, and the Marquette representatives.

Judge Hoffman moved to return to the open meeting. Mr. Bruce seconded and the motion passed unanimously.

Judge Hoffman moved to approve the minutes of the closed session meetings held September 24, 2010, keeping such minutes confidential and to destroy the verbatim records, in accordance with 5 ILCS 120/20.06 (c), when there is no longer a need to retain. Mr. Montgomery seconded and the motion passed unanimously.

Consideration of Hardship Appeals

Ms. Schoemehl stated that there were two Deferred Compensation Hardship Appeals pending and distributed copies.

Following review and discussion, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer to uphold and reaffirm the Hardship Committee's decision and deny a distribution in the case of Adalberto Melendez (H/S10-378). Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review and discussion, Mr. Bashir moved to approve the recommendation of the Hearing Officer and allow a distribution of \$6,000 in the case of Lavond Borders (H/S10-397). Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF THE DIRECTOR

Matters Relating to Existing Managers

Mr. Richards referred the Board Members to his memorandum "Matters Relating to Existing Managers" dated December 6, 2010 and reviewed. (Official minutes contain attachment.)

Watch List

Mr. Richards stated that the Watch List had previously been submitted. (Official minutes contain attachment.)

Recommendation on Trade Cost Analysis Service

Ms. El-Harazin referred the Board Members to a memorandum "Transaction Cost Analysis Service Provider Recommendation" dated December 7, 2010, and reviewed with a

recommendation that ISBI retain Global Trading Analytics, LLC as transaction cost analysis service provider. Ms. Schoemehl provided ownership disclosures. Following review, Mr. Bashir moved to approve the recommendation of Staff to retain Global Trading Analytics, LLC as the transaction cost analysis service provider, subject to successful contract negotiations. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the preliminary Budget Comparisons for the quarter ending September 2010 had previously been submitted. Following review, there being no questions or comments, the Budget Comparison for September 2010 was ordered filed. (Official minutes contain attachments.)

Financial Statements

Ms. White stated that the Financial Statements for the quarter ending June 30, 2010 had been distributed previously. Following review, Mr. Montgomery moved to approve the Financial Statements for the quarter ending June 30, 2010, as submitted. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

Minority Brokerage Usage Report

Ms. El-Harazin stated that the "Minority Brokerage Usage Report" for the quarter ending September 30, 2010 had previously been distributed. (Official minutes contain attachment.)

Legislative Update

Ms. Schoemehl referred the Members to her memorandum "Legislative Update" dated December 2, 2010 and reviewed as follows:

Public Act 96-0006 – Ms. Schoemehl proposed changes to the ISBI Administrative Rules (74 Ill. Adm. Code 800) to update antiquated language to reflect policy modifications. Following review, Mr. Montgomery moved to approve the proposed changes as outlined and grant Staff discretion to make additional immaterial changes pursuant to the direction of the Joint Committee on Administrative Rules during the rulemaking process.

Public Act 96-0795 – Ms. Schoemehl referred to the previously distributed proposed amendments to the Procurement Policy which incorporates newly required reporting requirements. Following discussion, Mr. Montgomery moved to approve the revised Procurement Policy as drafted by Staff and previously distributed. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

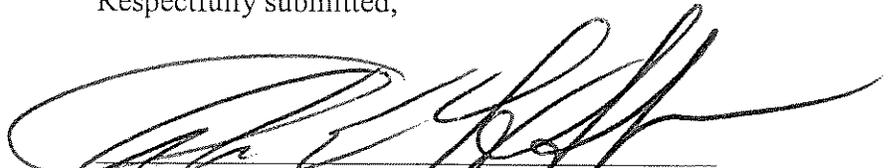
None.

NEXT MEETING AND ADJOURNMENT

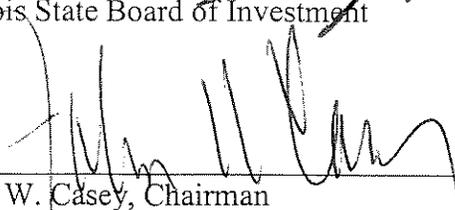
Chairman Casey stated that the next meeting of the Audit & Compliance Committee and Board were scheduled to be held Friday, March 18, 2011 at 9:00 a.m. and 9:15 a.m., respectively.

At 11:20 a.m., there being no further business to come before the Board, Judge Hoffman moved to adjourn. Ms. Bush seconded and the meeting was adjourned.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary
Illinois State Board of Investment



John W. Casey, Chairman
Illinois State Board of Investment