



**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Compliance Examination

Year Ended June 30, 2019

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

(With Independent Auditors' Report Thereon)

**ILLINOIS STATE BOARD OF INVESTMENT**  
 (An Internal Investment Pool of the State of Illinois)

Year ended June 30, 2019

**Table of Contents**

	<b>Page(s)</b>
Agency Officials	1
Management Assertion Letter	2
Compliance Report:	
Summary	3–4
Independent Accountants’ Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes	5–7
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	8–9
Schedule of Findings:	
Current Findings – <i>Government Auditing Standards</i>	10
Current Findings – State Compliance	11–14
Prior Findings Not Repeated	15
Financial Statement Report:	
The Agency’s financial statement report for the year ended June 30, 2019, which includes the Independent Auditors’ Report, Management Discussion and Analysis, Basic Financial Statements and Notes to the Basic Financial Statements, Required Supplementary Information Other than Management Discussion and Analysis, and the Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> has been issued separately	
Supplementary Information for State Compliance Purposes:	<b>Schedule</b>
Summary	16
Fiscal Schedules and Analysis:	
Comparative Schedules of Operations	1 17
Schedules of Investment Portfolio	2 18

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Year ended June 30, 2019

**Table of Contents**

Schedules of Investment Manager Fees	3	19
Schedules of Property and Equipment	4	20
Reconciliation of the State Treasurer's Cash Balance with that of ISBI	5	21
Schedules of Analysis of Accounts Receivable	6	22
Analysis of Operations:		
Board Functions and Planning Program (Unaudited)		23-24
Number of Employees (Unaudited)		24
Proceeds from General Obligation Bonds (Unaudited)		24-25
Third-Party Marketing Fees Paid (Unaudited)		25
Service Efforts and Accomplishments (Unaudited)		25
Overall Rates of Return (Unaudited)		26
Investment Returns – Benchmark and Actual (Unaudited)		26-27
Net Position Allocation as of June 30, 2019 (Unaudited)		28
Schedules of Investment Commissions (Unaudited)		29

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Agency Officials

Executive Director / Chief Investment Officer

Ms. Johara Farhadieh

General Counsel / Chief Compliance Officer

Mr. Dipesh Mehta

Director of Operations, Accounting and Audit

Mr. David Zaloga

Portfolio Officer for Financial Reporting and Accounting

Ms. Genette Bacon-Cordova

Illinois State Board of Investment Office is located at:

180 North LaSalle Street  
Suite 2015  
Chicago, Illinois 60601



KPMG LLP  
Certified Public Accountants  
200 East Randolph Street, Suite 5500  
Chicago, IL 60601

February 25, 2020

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of Illinois State Board of Investment (ISBI). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the ISBI's compliance with the following specified requirements during the one-year period ended June 30, 2019. Based on this evaluation, we assert that during the year ended June 30, 2019, ISBI has materially complied with the specified requirements listed below.

- A. ISBI has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. ISBI has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. ISBI has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by ISBI are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by ISBI on behalf of the State or held in trust by ISBI have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Illinois State Board of Investment

---

Johara Farhadieh, *Executive Director/Chief Investment Officer*

---

Genette Bacon, *Portfolio Officer for Financial Reporting and Accounting*

---

David Zaloga, *Director of Operations, Accounting and Audit*

---

Dipesh Mehta, *General Counsel and Chief Compliance Officer*

**ILLINOIS STATE BOARD OF INVESTMENT**  
 (An Internal Investment Pool of the State of Illinois)

Compliance Report Summary

Year ended June 30, 2019

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**Accountants' Reports**

The Independent Accountants' Report on State Compliance, on Internal Control over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

**Summary of Findings**

Number of	Current report	Prior report
Findings	3	2
Repeated findings	—	1
Prior recommendations implemented or not repeated	2	1

**Schedule of Findings and Responses**

**Findings (*Government Auditing Standards*)**

Item no.	Page	Last Reported	Description	Finding type
None reported				

**Findings (*State Compliance*)**

Item no.	Page	Last Reported	Description	Finding type
2019-001	11	New	Untimely Preparation of Employee Timesheets	Significant deficiency and noncompliance
2019-002	12	New	Incomplete Preparation of Employment Eligibility Verification Form I-9's	Significant deficiency and noncompliance
2019-003	14	New	Inaccurate Recording of Vouchers During the Fiscal Year	Significant deficiency and noncompliance

**ILLINOIS STATE BOARD OF INVESTMENT**  
 (An Internal Investment Pool of the State of Illinois)  
 Compliance Report Summary  
 Year ended June 30, 2019

**Prior Year Findings Not Repeated**

<u>Item no.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding type</u>
2018-001	15	2018	Inaccurate Financial Reporting	Material Weakness and noncompliance
2018-002	15	2018	Untimely Preparation of Annual Financial Report	Significant deficiency and noncompliance

**Exit Conference**

On January 27, 2020, the Illinois State Board of Investment waived the exit conference relating to the State Compliance Examination.

The responses to the recommendations were provided by David Zaloga, Director of Operations, Accounting and Audit, in correspondence dated February 3, 2020.



KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
Chicago, IL 60601-6436

**Independent Accountants' Report on State Compliance,  
on Internal Control over Compliance, and on  
Supplementary Information for State Compliance Purposes**

The Honorable Frank J. Mautino  
Auditor General of the State of Illinois

and

The Board of Trustees  
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Board of Investment's (Board) and its investment trust funds, the Illinois State Board of Investment Member Systems and the Illinois Power Agency Trust Fund, (collectively referred to as ISBI) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2019. Management of ISBI is responsible for ISBI's compliance with the specified requirements. Our responsibility is to express an opinion on ISBI's compliance with the specified requirements based on our examination.

- A. ISBI has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. ISBI has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. ISBI has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by ISBI are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by ISBI on behalf of the State or held in trust by ISBI have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards and the Act and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether ISBI complied with the specified requirements referenced above in all material respects. An examination involves performing procedures to obtain evidence about whether ISBI complied with the specified requirements. The nature, timing, and extent of the procedures





selected depend on our judgment, including an assessment of the risks of material noncompliance with the specific requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on ISBI's compliance with specified requirements.

In our opinion, ISBI complied, in all material respects, with the specified requirements listed in the first paragraph of this report during the year ended June 30, 2019. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, which are described in the accompanying schedule of findings and responses as findings 2019-001, 2019-002, and 2019-003.

ISBI's responses to the compliance findings identified in our examination are described in the accompanying schedule of findings and responses. ISBI's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

#### **Report on Internal Control Over Compliance**

Management of ISBI is responsible for establishing and maintaining effective internal control over compliance with the specified requirements listed in the first paragraph of this report. In planning and performing our examination, we considered ISBI's internal control over compliance with the specified requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ISBI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the specified requirements listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the specified requirements listed in the first paragraph of this report that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and responses as items 2019-001, 2019-002, and 2019-003, that we consider to be significant deficiencies.

There were no immaterial findings that have been excluded from this report.



ISBI's responses to the findings identified in our examination are described in the accompanying schedule of findings and questioned costs. ISBI's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide. Accordingly, this report is not suitable for any other purpose.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the Statements of Net Position of ISBI, an internal investment pool of the State of Illinois, as of June 30, 2019 and 2018, and the related Statements of Changes in Net Position for the years then ended and the related notes to the financial statements. We have also audited ISBI's investment trust funds, the Illinois State Board of Investment Member Systems and the Illinois Power Agency Trust Funds (the Trust Funds) as of and for the years ending June 30, 2019 and 2018. ISBI and the Trust Funds collectively comprise the basic financial statements. We have issued our report as of and for the year end June 30, 2019 thereon dated December 10, 2019. We have also issued our report as of and for the year ended June 30, 2018 thereon dated December 12, 2018. Our reports contained unmodified opinions on those financial statements. Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise ISBI's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 10, 2019.

The accompanying supplementary information for the years ended June 30, 2019 and 2018 in Schedules 1 through 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of ISBI. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the years ended June 30, 2019 and 2018 in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2019 and 2018 in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2019 and 2018.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

/s/KPMG LLP

Chicago, Illinois  
February 25, 2020



KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
Chicago, IL 60601-6436

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Honorable Frank J. Mautino  
Auditor General of the State of Illinois  
and  
The Board of Trustees  
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Illinois State Board of Investment (ISBI) and its investment trust funds, the Illinois State Board of Investment Member Systems and the Illinois Power Agency Trust Fund (the Trust Funds) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise ISBI and the Trust Funds' basic financial statements, and have issued our report thereon dated December 10, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ISBI and the Trust Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ISBI and the Trust Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of ISBI and the Trust Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ISBI and the Trust Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect



on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ISBI and the Trust Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ISBI and the Trust Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/KPMG LLP

Chicago, Illinois  
December 10, 2019

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Schedule of Findings  
Current Findings – *Government Auditing Standards*  
Year ended June 30, 2019

None reported

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Current Findings – *State Compliance*

Year ended June 30, 2019

**Finding 2019-001 – Untimely Preparation of Employee Timesheets**

The Illinois State Board of Investment (ISBI) did not ensure employees prepared and submitted their timesheets within two workdays of the end of each pay period.

During our testing of 40 timesheets submitted by 13 employees for various pay periods during fiscal year 2019, we noted nine timesheets (prepared by five employees) were submitted in excess of two workdays after the end of the pay period. Delays in submitting timesheets ranged from 1 to 70 workdays days late.

The State Officials and Employees Ethics Act (the Act) (5 ILCS 430/5-5(c)) requires State agencies to adopt and implement personnel policies. The Act also requires the policies to require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees must satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for a means of compliance with the requirement.

ISBI's Agency Directives Manual includes personnel policies which outline requirements for attendance records to be prepared each pay period for each workday. The policies state "Every employee shall complete timesheets covering each pay period and submit such timesheets to the Director of Operations, Accounting and Audit or his/her designee within two (2) workdays of the end of the reporting period. The timesheets must document to the nearest quarter hour the time the employee spend each day on official ISBI business. Timesheets may be maintained on paper or in electronic format."

In discussing these conditions with ISBI officials, they stated the exceptions identified by the auditors were the result of an oversight by management related to this administrative process.

Failure to submit timesheets in accordance with ISBI's internal policies results in noncompliance with State Positive Time Reporting requirements.

A similar finding was not reported in the prior year examination. (Finding Code 2019-001)

*Recommendation*

We recommend ISBI establish procedures to ensure employee timesheets are prepared in accordance with the Act and Agency Directives

*ISBI Response*

ISBI agrees with the finding and recommendation. ISBI employs a comprehensive time tracking software to govern the whereabouts of ISBI employees during business hours. As such, all time sheets for each employee & period were submitted, reviewed and approved during the fiscal year. ISBI will endeavor to ensure that all time sheets are submitted within the guidelines established by the Employee Directives Manual. ISBI is also actively investigating alternate methods using its time tracking software to ensure active compliance within the discretion of ISBI management.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Current Findings – *State Compliance*

Year ended June 30, 2019

**Finding 2019-002 – Incomplete Preparation of Employment Eligibility Verification Form I-9's**

The Illinois State Board of Investment (ISBI) did not properly complete the Employment Eligibility Verification Form I-9 for its employees during the fiscal year ended June 30, 2019.

During our testwork over 13 employee files, we noted eight employees whose Form I-9 were not properly completed. Specifically, we identified the following:

- For two ISBI employees, there was no documentation of a completed Form I-9.
- For two ISBI employees, Section 1 of Form I-9 was not completed by the employee on or before his/her first date of employment. Delays in completing the form were 1 to 2 days after the start of employment.
- For two ISBI employees, ISBI did not properly complete and sign Section 2 of Form I-9 to verify employment authorization. As of the date of our testing (October 17, 2019) these forms still have not been signed.
- For two ISBI employees, Section 1 of Form I-9 was not completed by the employee on or before his/her first date of employment and Section 2 of Form I-9 was not completed and signed by ISBI within 3 business days of the employee's hired date. Delays in completing Section 1 were 1 and 4 days. As of the date of our testing (October 17, 2019), Section 2 for one out of the two Form I-9's still has not been signed. Additionally, the delay in completing Section 2 of Form I-9 for one of the two forms was 4 days after the employee's hired date.

According to the Instructions for Form I-9 published by the Department of Homeland Security (OMB No. 1615-0047), employers must complete Form I-9 to document verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986, to work in the United States. Both employers and employees are responsible for completing their respective sections of Form I-9. Newly hired employees must complete and sign Section 1 of Form I-9 no later than the first day of employment. Subsequently, the employer must complete and sign Section 2 within 3 business days of the employee's first day of employment attesting they physically examined the documents presented by the employee, the document(s) reasonably appear to be genuine and relate to the employee named, the employee is authorized to work in the United States, and the information entered in Section 2 is complete, true and correct. The employer is responsible for ensuring that all parts of Form I-9 are properly completed.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires ISBI to maintain a system of fiscal and administrative controls. Effective internal controls should include procedures to ensure each employee properly completed a Form I-9 and to complete the employer verification procedures within required timeframes.

In discussing these conditions with ISBI officials, they stated the exceptions identified by the auditors were the result of an oversight by management related to this administrative process.

Failure to ensure each employee has a completed Employment Eligibility Verification Form I-9 results in noncompliance with Federal regulations and could result in unauthorized individuals being employed by ISBI.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Current Findings – *State Compliance*

Year ended June 30, 2019

A similar finding was not reported in the prior year examination. (Finding Code 2019-002)

*Recommendation*

We recommend ISBI establish procedures to ensure Employment Eligibility Verification Form I-9's are complete for each employee in accordance with State regulations.

*ISBI Response*

ISBI agrees with the finding and recommendation. ISBI conducts thorough background checks on all new employees prior to the employee reporting to ISBI. This procedural due diligence verifies a significant portion of the information included on the I-9 form and minimizes the risk of an unauthorized individual being employed by ISBI. Required documents for the background check also mirror the required documents for the I-9, including a passport or driver's license, and social security card.

While the background check process largely fulfills the requirements and purpose of the I-9; ISBI also has a process in place to obtain I-9s for all employees. In testing the procedural aspects of completing an I-9, some discrepancies were found. The discrepancies were caused by oversights related to ISBI's administrative process and will be corrected in the future. ISBI has recently developed an onboarding checklist for all new employees. Proper completion of I-9's is an element of this checklist. Going forward, ISBI will ensure that properly completed I-9's are included in the personnel files of all current employees and are obtained from each new employee no later than the guidelines recommended by the Department of Homeland Security.



**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Current Findings – *State Compliance*  
Year ended June 30, 2019

**Finding 2019-003 – Inaccurate Recording of Vouchers During the Fiscal Year**

The Illinois State Board of Investment (ISBI) did not record vouchers for contractual service expenditures in the correct fiscal year.

During our testing of 25 contractual service expenditures (with total expenditures of \$1,040,330), we noted two expenditures (totaling \$29,110) with service periods overlapping fiscal years for which the entire expense was recorded during fiscal year 2019. Based upon the service periods on the respective invoices, the expenses should have been allocated between fiscal years 2019 and 2020. Contractual expenditures totaled \$2,583,660 during the year ended June 30, 2019.

U.S. Generally Accepted Accounting Principles (US GAAP) require expenses to be recorded in the accounting period in which the expense is incurred (when services are provided). Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires ISBI to maintain a system of fiscal and administrative controls. Effective internal controls should include procedures to ensure expenditures are recorded in the proper fiscal year.

In discussing these conditions with ISBI officials, they stated the errors identified were the result of an administrative oversight related to the allocation of the amounts pertaining to fiscal year 2019.

Failure to record expenses in the proper accounting period results in noncompliance with state regulations and inaccurate financial reporting.

A similar finding was not reported in prior year audit. (Finding Code 2019-003)

*Recommendation*

We recommend ISBI establish procedures to ensure expenses are recorded in the proper accounting period in which the expense is incurred.

*ISBI Response*

ISBI agrees with the finding and recommendation. ISBI currently has a process in place to account for the recognition of expenses related to contracts and subscriptions that cross fiscal years. This process records the expenses as a Prepaid Asset to ensure the correct future period is utilized. The two transactions identified as exceptions were partially allocated to an incorrect period and the misallocation totaled less than \$1,000. Management will ensure that the existing process is correctly applied to all transactions of this type in the future by reviewing all contracts and enhancing the review of the Prepaid calculations for individual transactions.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Prior Findings not Repeated

Year ended June 30, 2019

**Finding 2018-001 – Inaccurate Financial Reporting**

In the prior year, ISBI did not establish adequate internal controls over the financial reporting process related to investments. (Finding Code No. 2018-001, 2017-001)

In the current year, similar exceptions were not identified in the auditors' testing.

**Finding 2018-002 – Untimely Preparation of Annual Financial Report**

In the prior year, ISBI did not prepare its annual report within the timeframe required by the Illinois Pension Code. (Finding Code No. 2018-002)

In the current year, similar exceptions were not identified in the auditors' testing.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Supplementary Information for State Compliance Purposes  
Year ended June 30, 2019

**Summary**

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
  - Comparative Schedules of Operations
  - Schedules of Investment Portfolio
  - Schedules of Investment Manager Fees
  - Schedules of Property and Equipment
  - Reconciliation of the State Treasurer's Cash Balance with that of ISBI
  - Schedules of Analysis of Accounts Receivable
- Analysis of Operations (Unaudited):
  - Board Functions and Planning Program (Unaudited)
  - Number of Employees (Unaudited)
  - Proceeds from General Obligation Bonds (Unaudited)
  - Third-Party Marketing Fees Paid (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)
  - Overall Rates of Return (Unaudited)
  - Investment Returns – Benchmark and Actual (Unaudited)
  - Net Position Allocation as of June 30, 2019 (Unaudited)
  - Schedules of Investment Commissions (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Comparative Schedules of Operations

Years ended June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>	<b>Increase (decrease)</b>
Investment income:			
Interest	\$ 188,699,335	227,060,817	(38,361,482)
Dividends	122,301,887	172,658,524	(50,356,637)
Securities lending	102	1,817,362	(1,817,260)
Realized gain on investments	1,097,480,189	930,314,393	167,165,796
Unrealized gain (loss) on investments	(198,234,113)	26,819,446	(225,053,559)
Total investment income	1,210,247,400	1,358,670,542	(148,423,142)
Administrative expenses:			
Salaries and benefits	2,425,766	2,259,753	166,013
Operating expenses	996,123	1,109,250	(113,127)
External support	22,790,220	23,840,072	(1,049,852)
Total expenses	26,212,109	27,209,075	(996,966)
Excess of investment income over			
administrative expenses	\$ 1,184,035,291	1,331,461,467	(147,426,176)

See accompanying independent accountants' report.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

## Fiscal Schedules and Analysis

## Schedules of Investment Portfolio

Years ended June 30, 2019 and 2018

	2019		2018	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Measured at fair value:				
Fixed income securities:				
Government and agency obligations:				
U.S. Treasury	\$ 137,474,273	0.72 %	3,051,823,419	16.66 %
Federal agencies and other governments	111,736,905	0.58	721,173,138	3.94
Municipal Obligations	2,174,758	0.01	8,911,164	0.05
Foreign government obligations	145,836,447	0.76	317,071,356	1.73
Corporate obligations:				
Finance	384,384,066	2.01	306,945,996	1.68
Industrials	28,443,584	0.15	92,423,482	0.50
Asset backed	—	—	578,786,352	3.16
Miscellaneous	274,599,248	1.44	—	—
Commingled funds - Fixed Income <sup>1</sup>	4,521,009,685	23.67	—	—
<b>Total fixed-income securities</b>	<b>5,605,658,966</b>	<b>29.34</b>	<b>5,077,134,907</b>	<b>27.72</b>
Equities:				
Common stocks:				
U.S. equities:				
Consumer discretionary	290,912,762	1.52	677,209,349	3.71
Consumer staples	234,162,507	1.23	427,655,991	2.33
Energy	143,397,226	0.75	317,091,533	1.73
Financials	397,937,201	2.08	1,052,470,928	5.74
Healthcare	438,948,486	2.30	635,872,088	3.47
Industrials	253,207,406	1.33	711,232,202	3.88
Information technology	678,912,713	3.55	1,015,657,190	5.54
Materials	63,967,025	0.33	143,097,676	0.78
Telecommunication services	343,526,354	1.80	90,979,497	0.50
Utilities	58,685,893	0.31	155,440,941	0.85
Other	58,052,081	0.30	510,927	—
Commingled funds - Equity	233,224,060	1.22	1,721,839,058	9.40
Non-U.S. equities	6,270,630,122	32.83	2,310,044,822	12.61
<b>Total equities</b>	<b>9,465,563,836</b>	<b>49.55</b>	<b>9,259,102,202</b>	<b>50.54</b>
Hedge funds	141,715,793	0.74	360,744,003	1.97
Opportunistic debt	506,150,801	2.65	225,053,335	1.23
Real estate funds	1,737,430,583	9.10	1,594,774,574	8.70
Private equity	779,475,084	4.08	706,768,270	3.86
Real assets	316,264,251	1.66	408,985,767	2.23
Bank loans	392,020,733	2.06	464,315,920	2.53
Foreign currency forward contracts	—	—	(7,847,062)	(0.04)
Measured at amortized cost:				
Money market instruments	156,715,534	0.82	231,743,812	1.26
<b>Total investments</b>	<b>\$ 19,100,995,581</b>	<b>100.00 %</b>	<b>18,320,775,728</b>	<b>100.00 %</b>

<sup>1</sup> - Commingled funds - Fixed Income includes amounts moved to Blackrock commingled funds in FY 2019. These amounts were classified as Government & Agency, Municipal, Foreign and Corporate obligations in FY 2018

See accompanying independent accountants' report.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Schedules of Investment Manager Fees

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Ariel Investments	\$ 1,387,021	1,523,780
Blackrock	1,332,117	—
Brigade	1,147,896	864,897
Channing	884,440	884,894
Commonwealth	—	25,374
Crescent Capital	860,611	863,768
Garcia Hamilton	602,321	584,771
Hamilton Lane	1,300,000	—
High Vista	2,039,792	—
ING Clarion	341,921	983,384
LSV Asset Management	2,065,836	2,763,202
Macquarie	1,357,897	1,838,444
Nomura	868,957	952,910
Northern Trust Emerging Markets	307,804	595,100
Northern Trust EAFE	95,794	248,400
Oak Hill Advisors	324,820	—
Payden Rygel	240,556	463,625
Rhumblin	248,725	273,572
Rockcreek	3,113,520	4,012,955
SSgA Russell Midcap	30,951	59,467
SSgA Russell 1000	81,610	173,033
SSgA (Cash Overlay)	60,274	125,000
SSgA Barclays US Aggregate	314,278	526,725
SSgA EAFE	213,594	453,043
SSgA Separately Managed MSCI EAFE Index	48,701	120,756
SSgA Passive Emerging Markets Local Currency Bond	115,718	228,474
SSgA Emerging Markets Hard Currency Bond	101,079	100,504
SSgA Small Cap Global	—	626,209
SSgA S&P 600	25,274	47,407
SSgA TIPS	34,942	70,918
SSgA Treasury	69,110	129,019
THL Credit	523,914	523,773
William Blair	977,229	1,552,747
	<u>\$ 21,116,702</u>	<u>21,616,151</u>

Investment manager fees are related to fees paid to various investment managers. Fees are negotiated primarily on market values. A graduated rate is used for most managers based upon various increments per million dollars of market value.

See accompanying independent accountants' report.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Schedules of Property and Equipment

Years ended June 30, 2019 and 2018

Schedules of property and equipment are as follows:

	<b>Balance at June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2019</b>
Cost	\$ 117,329	3,306	—	120,635
Less accumulated depreciation	(61,355)	(3,463)	—	(64,818)
Net property and equipment	\$ <u>55,974</u>	<u>(157)</u>	<u>—</u>	<u>55,817</u>
	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2018</b>
Cost	\$ 107,740	9,589	—	117,329
Less accumulated depreciation	(54,999)	(6,356)	—	(61,355)
Net property and equipment	\$ <u>52,741</u>	<u>3,233</u>	<u>—</u>	<u>55,974</u>

Note: Amounts reported in the schedule of property and equipment have been reconciled to property reports submitted to the Illinois Office of the Comptroller

See accompanying independent accountants' report.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Reconciliation of the State Treasurer's Cash Balance with that of ISBI

Years ended June 30, 2019 and 2018

**Reconciliation of the State Treasurer's Cash Balance with that of ISBI**

	<b>2019</b>		
	<b>Illinois State Board of Investment</b>	<b>Illinois Power Agency Trust Fund</b>	<b>Total</b>
Balance per State Treasurer at June 30	\$ 515,822	—	515,822
Vouchers in transit	(26,913)	—	(26,913)
Balance per ISBI at June 30	<u>\$ 488,909</u>	<u>—</u>	<u>488,909</u>

	<b>2018</b>		
	<b>Illinois State Board of Investment</b>	<b>Illinois Power Agency Trust Fund</b>	<b>Total</b>
Balance per State Treasurer at June 30	\$ 903,540	—	903,540
Vouchers in transit	—	—	—
Balance per ISBI at June 30	<u>\$ 903,540</u>	<u>—</u>	<u>903,540</u>

See accompanying independent accountants' reports.



**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Schedules of Analysis of Accounts Receivable

Years ended June 30, 2019 and 2018

**Schedule of Analysis of Accounts Receivable**

A summary of ISBI's receivables are as follows:

	<u>2019</u>	<u>2018</u>
Receivables		
Foreign taxes	\$ 9,812,259	9,989,126
Accounts receivable	338,911	804,989
Investments sold	131,260,631	39,530,945
Interest and dividends	<u>17,343,433</u>	<u>46,610,768</u>
Total receivables	<u>\$ 158,755,234</u>	<u>96,935,828</u>

ISBI's receivable balance at June 30, 2019 and 2018 amounted to \$158,755,234 and \$96,935,828 respectively. The balance consisted of \$27,494,603 and \$57,404,883 of dividends, interest, foreign taxes, and accounts receivable on investments held as of June 30, 2019 and 2018, respectively, and included receivables of \$131,260,631 and \$39,530,945 for investments sold prior to June 30, 2019 and 2018, respectively, but settled after year-end. Because the collection of this interest is relatively assured and the sale of investments is merely an issue of timing, ISBI does not maintain a reserve for uncollectible receivables or age the receivable detail.

See accompanying independent accountants' report.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Analysis of Operations (Unaudited)  
Year ended June 30, 2019

**Board Functions and Planning Program (Unaudited)**

The Illinois State Board of Investment (ISBI) was created on October 10, 1969, by Article 22A of the Illinois Pension Code to manage and invest the assets and reserves of any pension fund or retirement system that transfers this responsibility to ISBI. In accordance with Article 22A, the Trustees of the State Employees' Retirement System, the General Assembly Retirement System, and the Judges' Retirement System transferred all of their investment assets to ISBI as of June 30, 1970. Since that date, all additional funds available for investment for those three systems have been transferred to ISBI.

In 1978, in accordance with Article 24, ISBI shall be responsible for developing and establishing the State Employees' Deferred Compensation Plan (the Plan). Initial enrollment began in 1979, at which time the Department of Personnel (now Department of Central Management Services) was named as the Administrator of the Plan. With respect to developing and establishing the Plan, ISBI reviews investment offering options for the Plan and supervises the Department of Central Management Services' administration of the Plan.

Beginning July 1, 1978, ISBI merged the Illinois Board Fund, Illinois Equity Fund, and Illinois Segregated Fund into the Illinois State Board of Investment Commingled Fund (the Commingled Fund). The purpose of this consolidation was to enhance control over investment policy through increased flexibility in the allocation of cash reserves between fixed income and equity investments. ISBI's investment policy and strategy can be more uniformly applied to each member system irrespective of cash flow. In addition, it simplified ISBI's accounting and reporting systems. The result is that the Commingled Fund now represents all of the assets under ISBI's supervision.

Beginning in 1982, ISBI expanded the asset base of the Commingled Fund to include both real estate and venture capital.

In 1992, ISBI completed its investment strategy to have all equity security investments managed externally.

During fiscal year 2004, ISBI engaged an external investment consultant and adopted a written Asset Allocation Study. The Asset Allocation Study summarizes ISBI's investment policies and measures of performance, formally documents objectives of ISBI, and details a strategic plan for ISBI. Criteria for the review and evaluation of investment managers are included in the Asset Allocation Study. Additionally, a methodology and format is outlined to highlight the results of the objectives and goals established within the Asset Allocation Study. The Asset Allocation Study reaffirms the broadly diversified investment strategy that has been pursued by ISBI with the belief that, over a period of time, this approach will maximize investment return within a prudent level of risk. The Asset Allocation Study has since been updated on a regular basis to incorporate asset classes and revise asset allocation percentages. During fiscal year 2016, ISBI engaged Meketa Investment Group as its external investment consultant. ISBI and Meketa conducted an asset allocation study and, in January 2016, adopted a written Asset Allocation Study. The Asset Allocation Study has since been reviewed on a regular basis.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Analysis of Operations (Unaudited)  
Year ended June 30, 2019

**Board Functions and Planning Program (Continued) (Unaudited)**

Members of the Board of Trustees as of June 30, 2019 include:

Justice Mary Seminara Schostok	Elizabeth Sanders
Comptroller Susana Mendoza	Jaye Williams
Treasurer Michael Frerichs	Michael Tarnoff
Senator Robert Martwick	Gisela Attlan
Ronald Powell	

ISBI has established both long-term and short-term goals with the intention of maximizing earnings for Member Retirement Systems' investments. These goals are reviewed in accordance with the Strategic Investment Policy.

**Number of Employees (Unaudited)**

ISBI had 13 full-time employees at June 30, 2019 and had 11 full-time employees at June 30, 2018.

**Proceeds from General Obligation Bonds (Unaudited)**

Public Act 93-0002 (the Act) became effective on April 7, 2003 and authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System are "designated retirement systems" for the purpose of this law.

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series June 2003. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System (member systems) received an allocation of bond proceeds equal to \$1,554,924,744 on July 1, 2003. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment on July 2, 2003. ISBI initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with ISBI's other investments and invested in accordance with the asset allocation policy of ISBI during the year ended June 30, 2004.

Public Act 96-0043 (the Act) became effective on July 15, 2009 and authorized the State of Illinois to issue \$3.466 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System are "designated retirement systems" for the purpose of this law.

On January 7, 2010, the State of Illinois issued \$3.466 billion of General Obligation Bonds, Taxable Bond Series January 2010. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act. The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System received an allocation of bond proceeds equal to \$809,401,372 on January 20, 2010. The monies were deposited into the Master Trust

**ILLINOIS STATE BOARD OF INVESTMENT**  
 (An Internal Investment Pool of the State of Illinois)  
 Analysis of Operations (Unaudited)  
 Year ended June 30, 2019

Account with the Illinois State Board of Investment the same day. The monies were combined with ISBI's other investments and invested in accordance with the asset allocation policy of ISBI during the year ended June 30, 2010. The General Obligation Bonds issued in 2010 matured in 2015.

Public Act 96-1497 (the Act) became effective on January 14, 2011 and authorized the State of Illinois to issue up to \$4.1 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. On March 10, 2011, the State of Illinois issued \$3.7 billion of General Obligation Bonds, Taxable Bond Series February 2011. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System received an allocation of bond proceeds equal to \$745,546,496 on March 14, 2011. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment the same day. The monies were combined with ISBI's other investments and invested in accordance with the asset allocation policy of ISBI during the year ended June 30, 2011. The General Obligation Bonds issued in 2011 matured on March 1, 2019.

During fiscal years 2019 and 2018, respectively, employer and employee funding transfers were sent directly by the State of Illinois to Member systems, rather than to ISBI. As a result, ISBI reports no contributions from the State of Illinois in fiscal years 2019 and 2018. In fiscal year 2019, ISBI received no contributions from any of the Member systems. In fiscal year 2018, ISBI received \$11,600,000 in contributions from the Judges Retirement System and \$700,000 in contributions from the General Assembly Retirement System which were deposited into the Master Trust Account the same day.

ISBI estimates the annualized return of the remaining pension bond series are as follows:

<b>Series</b>	<b>Return</b>
General Obligation Bonds, Pension Fund Series June 2003	7.1 %
General Obligation Bonds, Pension Fund Series June 2011	7.7 %

Note: The return on the 2011 Series Bonds is from July 1, 2018 to March 1, 2019 (maturity date)

**Third-Party Marketing Fees Paid (Unaudited)**

ISBI discloses whether investment managers hired marketing groups to assist with promoting their investment product to ISBI. There were no third party marketing fees paid by investment managers as of June 30, 2019 and 2018, respectively.

**Service Efforts and Accomplishments (Unaudited)**

For purposes of evaluating service efforts and accomplishments, three different measures have been included. One measure presents a historical perspective of overall annual and compound rates of return, another compares benchmark rates of return with actual rates of return by fund, and the last presents asset allocations by fund type.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Analysis of Operations (Unaudited)

Year ended June 30, 2019

**Overall Rates of Return (Unaudited)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual total return	7.1 %	7.6 %	12.3 %	(0.8)%	4.7 %
Compound annual rate of return since July 1, 1982	9.0%	9.1%	9.1%	9.0%	9.3%

**Investment Returns – Benchmark and Actual (Unaudited)**

ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to 6.75%, the actuarially assumed interest rate of return for one of ISBI's member systems, the State Employees' Retirement System (SERS). The GARS and JRS return assumptions were both 6.50% at June 30, 2019. ISBI has assumed the same rate of return as SERS (6.75% as of June 30, 2019), as SERS's net assets represent approximately 94% of ISBI's net position as of June 30, 2019.
- At least equal to the return of a composite benchmark of market indices in the same proportions as ISBI's asset allocation policy targets.

ISBI earned a total rate of return of 7.1% for the year ended June 30, 2019.

	(Annualized)										
	2019	2018	2017	2016	2015	2014	2013	2012	3 Yrs.	5 Yrs.	10 Yrs.
	%	%	%	%	%	%	%	%	%	%	%
<b>Total Fund</b>	7.1	7.6	12.3	-0.8	4.7	17.9	14.1	0.1	9.0	6.1	9.2
Composite Benchmark*	7.0	7.4	12.0	0.7	4.0	16.3	11.8	0.9	8.8	6.1	8.8
Consumer Price Index	1.7	2.9	1.6	1.0	0.1	2.1	1.8	1.7	2.1	1.5	1.7
<b>U.S. Equities</b>	10.3	14.3	18.7	-1.7	6.4	24.1	23.3	1.3	14.4	9.3	14.2
Russell 3000 Index	9.0	14.8	18.5	2.1	7.3	25.2	21.5	3.8	14.0	10.2	14.7
<b>International Equities</b>	1.2	7.6	22.1	(7.1)	(1.0)	23.8	16.8	(10.7)	10.0	3.9	8.7
MSCI-ACWI ex US Index	0.3	7.7	20.5	(9.2)	(4.6)	22.8	14.4	(14.4)	9.2	2.3	6.8
<b>Fixed Income</b>	7.5	0.9	0.9	1.6	-1.4	6.5	2.4	6.8	3.0	1.8	3.5
Barclays Capital U.S. Universal Index	8.1	-0.3	0.9	5.8	1.6	5.2	0.2	7.4	2.8	3.2	4.4
<b>Real Estate</b>	5.4	7.3	7.1	12.0	16.3	14.5	13.0	5.3	6.6	9.2	8.2
Real Estate CB	6.6	7.1	6.9	10.8	13.4	11.7	11.1	11.3	6.9	8.9	9.3
<b>Private Equity</b>	19.8	20.6	17.9	7.9	21.5	24.7	16.2	7.6	19.5	16.9	16.7

Note: Calculations are based on a time series of linked monthly returns (IRR), producing a time weighted effect.

Total fund return is presented net of fees. All other return information is presented gross of fees.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Analysis of Operations (Unaudited)  
Year ended June 30, 2019

\* Composite Benchmark:

- Effective 07/17: 23% Russell 3000; 13% MSCI-EAFE Index; 8% MSCI Emerging Markets Index; 7% Cambridge Private Equity Index (1Q lagged); 10% Barclays Aggregate; 4% Barclays Intermediate Treasuries; 4% Barclays Long Term Treasury Index; 4% Barclays US TIPS Index; 2.5% Barclays High Yield Index; 2.5% CSFB Leveraged Loan Index; 1.0% JPM GBI EM Global Diversified (unhedged); 1.0% JPM EMBI Global Diversified (hedged); 8% S&P/LSTA US Levered Loan 100 Index; 10% NCREIF ODCE (1Q lagged); 2% CPI + 3.5%
- Effective 07/16: 23% Russell 3000; 13% MSCI-EAFE Index; 7% MSCI Emerging Markets Index; 10% Cambridge Private Equity Index; 11% Barclays Aggregate; 3% Barclays Long Term Treasury Index; 5% Barclays US TIPS Index; 3% Barclays High Yield Index; 3% CSFB Leveraged Loan Index; 1.5% JPM GBI EM Global Diversified (unhedged); 1.5% JPM EMBI Global Diversified (hedged); 11% NCREIF; 5% CPI + 4.0%; 3% HFRI Fund of Fund Composite
- Effective 06/14: 30% Russell 3000; 20% MSCI-ACWI ex US IMI Gross; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Custom Private Equity Benchmark, which is based on preliminary data subject to change; 10% HFRI Fund of Funds Index. The Custom Private Equity benchmark is based on peer universe return data compiled and published by Cambridge Associates, LLC. The custom benchmark returns are calculated as pooled internal rates of return (IRR).
- Effective 01/14: 30% Russell 3000; 20% MSCI-ACWI ex US; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Venture Economics Pooled Average Periodic IRR, which is based on preliminary data subject to revision on a quarterly basis; 10% HFRI Fund of Funds Index.
- Effective 07/11: 30% Russell 3000; 20% MSCI-ACWI ex US; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Venture Economics Pooled Average Periodic IRR, which is based on preliminary data subject to revision on a quarterly basis; 10% HFRX Equity Hedged Index.
- Effective 07/07: 30% Russell 3000; 20% MSCI-EAFE; 25% Lehman Universal; 10% NCREIF; 5% Venture Economics Pooled Average Periodic IRR, which is based on preliminary data subject to revision on a quarterly basis; 10% HFRX Equity Hedged Index.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)

Analysis of Operations (Unaudited)

Year ended June 30, 2019

**Net Position Allocation as of June 30, 2019 (Unaudited)**

The investment policy of ISBI establishes asset allocation targets and ranges for each asset class, selected to accomplish the long-range investment plan. The actual asset mix is roughly in line with the policy target, with modest over allocations to U.S. equity and unallocated cash with offsetting under allocations to private equity, opportunistic debt and real estate.

	Fair Value \$	Actual Asset Mix %	Policy Target %
U.S. equity	\$ 2,961,709,654	15	
Commingled funds - US equity	2,453,682,764	13	
Total U.S. equity	<u>5,415,392,418</u>	<u>28</u>	<u>23</u>
International equity	233,224,060	1	
Commingled funds - International equity	3,816,947,358	20	
Total International equity	<u>4,050,171,418</u>	<u>21</u>	<u>21</u>
Fixed income <sup>1</sup>	1,084,649,281	6	
Commingled funds - Fixed income	4,521,009,685	23	
Total Fixed income	<u>5,605,658,966</u>	<u>29</u>	<u>29</u>
Equity hedge funds	141,715,793	1	—
Bank loans	392,020,733	2	—
Real estate <sup>2</sup>	1,737,430,583	9	10
Private equity <sup>2</sup>	779,475,084	4	7
Infrastructure <sup>2</sup>	316,264,251	2	2
Opportunistic Debt <sup>2</sup>	506,150,801	3	8
Cash <sup>3</sup>	214,984,962	1	—
Total	<u>\$ 19,159,265,009</u>	<u>100%</u>	<u>100%</u>

<sup>1</sup> Maturities of one year or longer, including convertible bonds.

<sup>2</sup> Interests in limited partnerships and other entities which have limited liquidity.

<sup>3</sup> Includes money market instruments (at amortized cost) and other assets, less liabilities.

**ILLINOIS STATE BOARD OF INVESTMENT**  
 (An Internal Investment Pool of the State of Illinois)  
 Analysis of Operations (Unaudited)  
 Year ended June 30, 2019

**Schedules of Investment Commissions (Unaudited)**

	<u>2019</u>	<u>2018</u>
Investment brokerage firms:		
Academy Securities	\$ 43,113	41,366
Alamo Capital	6,268	—
Bank of America Merrill Lynch	—	19,960
Barclays Capital	—	16,106
BNY Mellon Capital	11,230	11,428
Cabrera Capital Markets	94,693	71,657
CastleOak	16,170	15,518
Citigroup Inc.	7,837	27,930
CLSA	—	5,298
Credit Suisse	9,882	18,453
DA Davidson	—	6,379
Deutsche	—	5,303
FTN Financial	33,363	5,323
Goldman Sachs	—	12,875
Great Pacific Securities	34,781	—
Instinet	—	15,919
INTL FCStone Partners	7,125	—
Investment Technology Group, Inc.	—	8,713
Jefferies & Company	5,969	6,361
JMP Securities	70,140	—
JP Morgan Chase	5,783	24,624
Keefe Bruyette	5,264	6,716
Liquidnet	5,119	5,209
Loop Capital	111,409	145,256
Merrill Lynch	—	15,208
MFR Securities	25,425	7,803
Mizuho Securities, USA	102,085	—
Mischler Financial	—	14,442
Morgan Stanley	9,270	8,456
Morgan Stanley Group	—	8,088
Nomura	5,139	12,866
Penserra Securities	—	22,586
RBC Capital Markets	8,825	—
Robert W. Baird	7,841	9,760
Stephens & Co.	—	7,402
UBS	5,055	18,214
Wells Fargo	15,445	—
Williams Capital	35,693	22,504
Under (\$5,000)	102,585	101,604
	<u>\$ 785,509</u>	<u>719,327</u>

Commissions relate to fees paid to investment brokerage firms for the purchase and sale of investments.

See accompanying independent accountants' reports.