

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

Compliance Examination

Year ended June 30, 2010

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

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

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The annual financial statements of the Illinois State Board of Investment for the year ended June 30, 2010 were issued under a separate cover.

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

Agency Officials

Executive Director	Mr. William R. Atwood
Deputy Executive Director	Ms. Katherine A. Spinato
Chief Fiscal Officer	Ms. Alise White
General Counsel/Chief Compliance Officer	Ms. Emily A. Reid (July 1, 2009 – September 2010) Ms. Linsey J. Schoemehl (Current)

Illinois State Board of Investment Office is located at:

180 N. LaSalle Street
Suite 2015
Chicago, Illinois 60601



ILLINOIS STATE BOARD OF INVESTMENT

180 North LaSalle Street, Suite 2015
Chicago, Illinois 60601
(312) 793-5718

March 14, 2011

McGladrey & Pullen, LLP
20 N. Martingale Road, Suite 500
Schaumburg, IL 60173

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 the 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 ISBI's compliance with the following assertions during the year ended June 30, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010, ISBI has materially complied with the assertions 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. The 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. The 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.

Very truly yours,

ILLINOIS STATE BOARD OF INVESTMENT

William Atwood
Executive Director

Katherine Spinato
Deputy Executive Director

Alise White
Chief Financial Officer/
Investment Accounting
Portfolio Officer

Linsey J. Schoemehl
General Counsel/ Chief
Compliance Officer

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

Compliance Report

Summary

Year ended June 30, 2010

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

	<u>Current Report</u>	<u>Prior Report</u>
Number of:		
Findings	1	2
Repeated findings	-	-
Prior recommendations implemented or not repeated	2	-

Details of findings are presented in a separate section of the report.

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			

None

FINDINGS (STATE COMPLIANCE)

The following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

10-1	8	Noncompliance with Statutory Mandates	Material Noncompliance and Significant Deficiency
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PRIOR FINDINGS NOT REPEATED

A	Securities Lending
B	Alternative Investments

Exit Conference

In correspondence received from the Illinois State Board of Investment on February 28, 2011, ISBI elected to waive a formal exit conference. Responses to the recommendations were provided by Alise White in a letter dated March 9, 2011.



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

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
Illinois State Board of Investment

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Board of Investment's (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, 2010. The management of ISBI is responsible for compliance with these requirements. Our responsibility is to express an opinion on ISBI's compliance 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. The 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.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; 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; and, accordingly, included examining, on a test basis, evidence about ISBI's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides 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 requirements listed in the first paragraph of this report during the year ended June 30, 2010. However, the results of our procedures disclosed an instance of noncompliance, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 10-1.

Internal Control

The management of ISBI is responsible for establishing and maintaining effective internal control over compliance with the 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 requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, 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 an entity's 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 over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as item 10-1. A *significant deficiency* is a deficiency, or 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.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

ISBI's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine ISBI's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of ISBI as of and for the year ended June 30, 2010, and have issued our report thereon dated January 12, 2011. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of ISBI. The 2010 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, ISBI's basic financial statements for the year ended June 30, 2009. In our report dated January 20, 2010, we expressed an unqualified opinion on those financial statements. In our opinion, the 2009 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Illinois State Board of Investment Board of Trustees, and ISBI's management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 14, 2011

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

Schedule of Findings

Current Findings

Year ended June 30, 2010

Finding No. 10-1 Noncompliance with Statutory Mandates

The Illinois State Board of Investment (ISBI or Board) did not comply with mandate requirements related to the management of the Power Agency Trust Fund, quarterly and annual financial reporting, and publishing information on their website.

During the mandate compliance testing, we noted that ISBI was not in compliance with the State Finance Act (30 ILCS 105/6z-75) that requires ISBI to manage the investments in the Power Agency Trust Fund once the fund has reached a balance of \$25 million. We noted that the Power Agency Trust Fund amounted to a balance of \$25 million in FY08, but ISBI has not been managing the investments in the Power Agency Trust Fund in the current fiscal year or any prior years.

We also noted that the Illinois State Board of Investment was not in compliance with the Illinois Pension Code (40 ILCS 5/22A-115) that requires a quarterly report to each pension fund under its jurisdiction and an annual report to each pension fund. The mandate requires that the quarterly reports include a full description of the investments acquired showing average costs and a full description of securities sold or exchanged; however, we noted this information was not provided.

During our testing of revenues and receipts, we noted that ISBI did not update its monthly financial information to their website by the 15th of the following month. Furthermore, ISBI does not have a published list of approved depository institutions, commercial paper issuers, or broker dealers.

The Accountability for the Investment of Public Funds Act (30 ILCS 237/10) requires that each state agency shall make available on the Internet, and update at least monthly by the 15th of the month, sufficient information concerning the investment of public funds held by the State agency to identify the following:

- 1) The amount of funds held by that agency on the last day of the preceding month or the average daily balance for the preceding month;
- 2) The total monthly investment income and yield for all funds invested by that agency;
- 3) The asset allocation of the investments made by that agency; and
- 4) A complete listing of all approved depository institutions, commercial paper issuers, and broker-dealers approved to do business with that agency.

According to ISBI management, the Illinois State Board of Investment was unaware of the specific requirements of these mandates.

Failure to comply with applicable mandate requirements related to the management of the Power Agency Trust Fund, quarterly and annual financial reporting and publishing information on their website resulted in the Illinois State Board of Investment violating state statutes and regulations. (Finding Code No. 10-1)

ILLINOIS STATE BOARD OF INVESTMENT
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Schedule of Findings

Current Findings

Year ended June 30, 2010

Finding No. 10-1 Noncompliance with Statutory Mandates (Continued)

Recommendation

We recommend that the Illinois State Board of Investment perform a periodic review of general mandates and those specific to the Illinois State Board of Investment to ensure compliance with state statutes and regulations.

ISBI Response:

The Board agrees with the recommendation. The Board will incorporate Power Agency Trust Fund and the Accountability of the Investment of Public Funds Act into its function. The Power Agency Trust Fund is currently under \$25 million but the Board will work with the Illinois State Treasurer so as to monitor when the fund has a balance of \$25 million or more in order to manage the fund investment. Procedures are also being implemented to ensure that investment summary information is updated by the 15th of the month. Also the Board will incorporate sufficient information concerning the investment of public funds held by the Board into the Board website to comply with all of the requirements of the Accountability of the Investment of Public Funds Act.

ILLINOIS STATE BOARD OF INVESTMENT
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Schedule of Findings

Prior Findings Not Repeated

Year ended June 30, 2010

A. Securities Lending

During the previous audit, the Illinois State Board of Investment (ISBI) did not have adequate controls over financial reporting for its securities lending transactions. The ISBI's did not record the fair value of the investment of cash collateral received for securities lending transactions and an adjustment was required to be recorded. During the current audit, the ISBI updated its internal control procedures to incorporate a monthly closing process for securities lending that records all securities lending assets and obligations at fair value. Therefore, this finding will not be repeated. (Finding Code No. 09-1)

B. Alternative Investments

During the previous audit, the Illinois State Board of Investment (ISBI) did not have adequate procedures over determining and reviewing the fair value measurements and disclosures used for reporting its alternative investments on a timely basis. As a result, alternative investment balances were required to be adjusted prior to the issuance of the financial statements. During the current audit, the ISBI has updated its internal control procedures to include the process of performing a retroactive look back process that would require a restatement if changes occur that exceed 2% in a particular asset class and to send annual communications on the importance of timely reporting to its investment advisors. Additionally, the ISBI has revised the footnote disclosure regarding the accounting policy for the use of estimates to clarify the process used to value alternative investments. Therefore, this finding will not be repeated. (Finding Code No. 09-2)

ILLINOIS STATE BOARD OF INVESTMENT

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Supplementary Information for State Compliance Purposes

Year ended June 30, 2010

Summary

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

Fiscal Schedules and Analysis:

- Comparative Schedule of Operations
- Schedules of Investment Portfolio
- Schedules of Investment Manager Fees
- Schedules of Soft Dollar Credits (Unaudited)
- Schedules of Investment Commissions (Unaudited)
- Schedules of Property and Equipment
- Reconciliation of the State Treasurer's Cash Balance with that of ISBI
- Analysis of Accounts Receivable

Analysis of Operations:

- Board Functions and Planning Program
- Number of Employees
- Proceeds from General Obligation Bonds
- Third-Party Marketing Fees Paid (Unaudited)
- Service Efforts and Accomplishments (Unaudited)
- Overall Rates of Return
- Investment Returns – Benchmark and Actual
- Net Asset Allocations as of June 30, 2010

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 accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis
 Comparative Schedule of Operations
 Years ended June 30, 2010 and 2009

	2010	2009	Increase (decrease)
Investment income (loss):			
Interest	\$ 128,588,561	\$ 145,432,334	\$ (16,843,773)
Dividends	114,725,819	116,732,339	(2,006,520)
Securities lending	6,605,329	17,578,262	(10,972,933)
Realized gain (loss) on investments	178,915,029	(1,304,768,681)	1,483,683,710
Unrealized gain (loss) on investments	<u>455,098,197</u>	<u>(1,287,700,460)</u>	<u>1,742,798,657</u>
Total investment income (loss)	<u>883,932,935</u>	<u>(2,312,726,206)</u>	<u>3,196,659,141</u>
Administrative expenses:			
Salaries and benefits	1,946,875	1,647,133	299,742
Operating	527,166	556,791	(29,625)
External support	<u>35,210,736</u>	<u>39,068,759</u>	<u>(3,858,023)</u>
Total expenses	<u>37,684,777</u>	<u>41,272,683</u>	<u>(3,587,906)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 846,248,158</u>	<u>\$ (2,353,998,889)</u>	<u>\$ 3,200,247,047</u>

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis
 Schedules of Investment Portfolio
 June 30, 2010 and 2009

Fair value	2010		2009	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Fixed income securities:				
Government and agency obligations:				
U.S. Treasury	\$ 155,303,411	1.61%	\$ 75,529,694	0.86%
Federal agencies and other governments	655,435,901	6.78	589,489,195	6.75
Foreign obligations	44,409,906	0.46	33,237,090	0.38
Corporate obligations:				
Finance	246,087,134	2.54	159,283,917	1.82
Industrials	496,856,383	5.14	425,239,911	4.87
Collateralized mortgage obligations	39,240,826	0.41	19,360,918	0.22
Asset backed	1,835,282	0.02	4,250,520	0.05
Miscellaneous	136,515,033	1.41	58,042,621	0.66
Private placement	5,133,730	0.05	1,869,874	0.02
Total fixed income securities	<u>1,780,817,606</u>	<u>18.42</u>	<u>1,366,303,740</u>	<u>15.63</u>
Equities:				
Common stocks:				
U.S. equities:				
Consumer discretionary	343,626,241	3.55	288,525,305	3.30
Consumer staples	258,447,603	2.67	198,788,386	2.28
Energy	256,984,831	2.66	277,081,008	3.17
Financials	513,834,902	5.31	405,461,851	4.64
Healthcare	362,369,958	3.75	339,642,565	3.89
Industrials	351,096,444	3.63	355,994,151	4.08
Information Technology	443,096,046	4.58	441,994,173	5.06
Materials	111,765,377	1.16	111,517,856	1.28
Telecommunication Services	79,229,563	0.82	77,968,101	0.89
Utilities	113,802,554	1.18	96,433,794	1.10
Other	22,891,040	0.24	16,811,543	0.19
Commingled funds	270,510,642	2.80	335,484,184	3.84
Preferred stock	517,676	0.02	286,429	0.01
Non-U.S. equities	1,733,357,594	17.93	1,482,642,287	16.97
Total equities	<u>4,861,530,471</u>	<u>50.30</u>	<u>4,428,631,633</u>	<u>50.70</u>
Hedge funds	917,854,201	9.50	880,939,190	10.09
Real estate investments	750,210,957	7.76	875,929,700	10.03
Private equity	542,441,291	5.61	450,491,810	5.16
Money market investments	270,231,935	2.80	235,126,490	2.69
Infrastructure Funds	320,293,041	3.31	305,969,947	3.50
Bank Loans	222,623,999	2.30	197,259,098	2.26
Forward foreign currency contracts	(266,410)	0.00	(5,594,545)	(0.06)
Total investments	<u>\$ 9,665,737,091</u>	<u>100.00%</u>	<u>\$ 8,735,057,063</u>	<u>100.00%</u>

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis
Schedules of Investment Manager Fees
Years ended June 30, 2010 and 2009

	2010	2009
Alinda	\$ 2,744,372	\$ 3,195,065
Amalgamated Bank NY	987,814	1,588,826
Ativo	-	1,894
Atlanta Life	300,960	240,813
Brandywine	-	287,074
Buford, Dixon	100,924	98,033
Channing	223,301	183,964
Chicago Equity Partners	877,030	543,606
Credo	55,028	-
Decatur	67,543	58,166
Entrust	1,663,552	1,315,389
Fiduciary Management Associates	300,102	255,324
Fort Washington	695,611	544,379
Globeflex Capital	442,446	422,216
Grosvenor Capital Management	1,655,792	1,381,832
Howland	-	43,015
IronBridge Capital Management	1,057,326	962,932
Ivy	-	1,245,306
JP Morgan Asset Management	-	1,979,405
LM Capital	354,350	326,408
Loomis Sayles	-	1,721,179
LSV Asset Management	2,796,100	1,685,160
Lynmar	129,575	532,234
Martingale Asset Management	-	406,733
Macquarie	3,749,940	4,316,862
McDonnell Investment Management	681,434	574,657
Mesirow	1,781,227	1,378,512
NWQ	-	361,511

(Continued)

ILLINOIS STATE BOARD OF INVESTMENT

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Fiscal Schedules and Analysis

Schedules of Investment Manager Fees (Continued)

Years ended June 30, 2010 and 2009

	2010	2009
Opus Capital Management	\$ 379,617	\$ 321,190
Profit	645,010	541,662
Rhumblin	182,889	102,680
Rockcreek	1,897,327	1,456,971
Segall Bryant and Hamill	929,913	839,846
SSgA (Cash Overlay)	125,000	125,000
SSgA Intermediate Gov./Credit Index	-	5,713
SSgA MSCI ACWI Index	210,180	101,670
SSgA MSCI EAFE Index	41,821	68,607
SSgA MSCI EAFE Small Cap	-	49,683
SSgA Small Cap Global	1,224,675	1,039,746
Templeton	1,622,204	1,442,991
Trust Company of the West (TCW)	672,204	632,276
Union Labor Life Investment Co. (ULLICO)	1,095,090	1,101,149
Various (allocated equally to all Investment Managers)	39,500	39,500
Vontobel Asset Management	1,895,693	1,637,983
Western Asset Management	-	359,328
William Blair	1,914,850	1,756,051
	<u>\$ 33,540,400</u>	<u>\$ 37,272,541</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.

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis
 Schedules of Soft Dollar Credits (Unaudited)
 Years ended June 30, 2010 and 2009

	2010	2009
Soft dollar credits outstanding, at beginning of fiscal year	\$ 318,210	\$ 323,619
Soft dollar credits earned	6,977	6,342
Investment expenses paid with soft dollar credits	<u>-</u>	<u>(11,751)</u>
Soft dollar credits outstanding, at end of fiscal year	<u>\$ 325,187</u>	<u>\$ 318,210</u>

Soft dollar credits are issued to ISBI by certain brokers based on the level of activity of investment managers using that particular broker. ISBI can use these credits to pay for various investment expenses.

ILLINOIS STATE BOARD OF INVESTMENT

(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Schedules of Investment Commissions (Unaudited)

Years ended June 30, 2010 and 2009

	2010	2009
Investment brokerage firms:		
ABN Amro Holding NV	\$ -	\$ 18,640
Banc of America Securities Inc.	69,070	-
Banco Santander C H S A	-	18,481
Bank of New York	-	10,073
Barclays Capital	33,997	22,758
Bear Stearns Securities Corp.		10,576
Bernstein Sanford & Co	-	5,203
Bloomberg Tradebook	18,034	28,594
BNY Brokerage	34,432	9,412
BOE Securities	19,199	11,663
Brockhouse & Cooper Inc.	6,840	8,025
Cabrera Asset Management	271,731	742,505
Cantor Fitzgerald & Co.	98,617	83,225
Carnegie Inc. New York	12,054	-
Cazenove Investment Bank	-	13,145
CF Global Trading LLC	8,117	14,782
Chase Manhattan Bank	-	8,533
Cheevers & Company	147,882	61,061
Cheurex de Virieu Paris	37,662	30,355
Chicago Analytic Trading Co.	37,508	-
Citigroup Smith Barney Inc.	174,644	349,788
Collins Stewart LLC	12,102	-
Cowen & Company	-	6,930
Credit Agricole Indosuez	6,654	5,010
Credit Lyonnais Securities	-	25,557
Credit Suisse First Boston Corp.	261,287	240,725
Dain Rauscher	-	7,504
Daiwa Securities	-	6,397
Deutsche Banc Securities Inc.	46,296	78,067
Direct Access Partners	12,608	10,382
ESP	-	34,886
First Analysis Securities	5,123	7,085
Fox Pitt Kelton	-	6,941
Friedman Billings and Ramsey & Co. Inc.	12,132	13,367
Gardner Rich & Co.	237,164	256,183
Goldman Sachs & Company	30,833	290,097
Good body	-	6,368

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

Fiscal Schedules and Analysis
 Schedules of Investment Commissions (Unaudited) (Continued)
 Years ended June 30, 2010 and 2009

	2010	2009
Investment brokerage firms (Continued):		
G Port	\$ -	\$ 8,734
Greentree Brokerage	11,856	-
HSBC Securities	-	13,673
ICAP Securities	-	10,671
Instinet	60,905	146,584
International Strategy & Investment	83,401	8,939
Investment Technology Group	-	102,351
J.P. Morgan Securities, Inc.	82,061	90,125
Jefferies & Company	66,045	46,295
Johnson Rice	9,635	-
Jones Trading	10,541	8,179
Keefe Bruynette and Woods Inc.	10,264	17,969
Kepler Equities	-	14,628
Knight Securities	-	6,195
Ladenburg Thalmann	5,103	-
Leerink Swan	13,259	6,390
Lehman Brothers Inc.	-	141,507
Lifehouse	-	18,433
Liquidnet Inc.	165,928	223,566
Loop Capital Markets	223,420	197,416
Loopus	27,702	-
Lynch Jones & Ryan	11,520	12,181
M. Ramsey King Securities	98,270	135,893
Macquarie Equities Ltd	23,484	58,101
Magna Securities	43,997	98,296
Melvin Securities Corp	42,774	96,500
Merrill Lynch Pierce Fenner & Smith	93,832	89,426
Mischler Financial Group	-	7,522
Morgan Stanley & Co.	108,348	152,197
MR Beal	88,055	137,298
Muriel Siebert	9,748	-
NCB Stockbrokers	-	8,982
Natixis Group	8,729	-
Needham & Company	5,596	-
Noble Financial	-	5,098
Nomura Securities	53,023	65,152
Numis	-	10,858

(Continued)

ILLINOIS STATE BOARD OF INVESTMENT

(An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Schedules of Investment Commissions (Unaudited) (Continued)

Years ended June 30, 2010 and 2009

	2010	2009
Investment brokerage firms (Continued):		
Nutmeg Securities	\$ 6,721	\$ 51,222
NYFIX	-	-
Oppenheimer	7,848	6,229
Pacific American	13,627	10,127
Pacific Crest Securities	-	5,555
Pershing	17,681	15,477
Piper, Jaffrey & Hopwood Inc.	11,064	-
Portware	-	8,898
Pulse Trading	66,235	91,355
Ramirez	-	36,005
Raymond James & Assoc.	-	14,118
Robert W. Baird & Co.	65,255	42,929
Roberts & Ryan Investments	-	5,478
Salomon Smith Barney	-	23,846
Samdler & O'Neil	7,613	-
Sanford C. Bernstein	30,289	38,073
SBK Brooks	-	34,270
Scotia Capital Markets Toronto	6,213	-
SG Cowen and Company	-	14,507
Sidoti	6,981	7,182
Signal Hill	5,314	-
Societe Generale	9,872	12,051
Sogen Securities	46,039	246,695
Stephen Inc.	9,040	6,317
Stiffel, Nicolaus & Company Inc.	18,692	9,346
Svenska Handelsbank	9,371	6,587
U.S. Bancorp Piper Jaffray Inc.	-	6,891
UBS Securities	86,714	196,431
Union Bank of Switzerland	-	19,167
Viewpoint Securities	9,369	18,062
Weeden & Co.	10,949	21,759
William Blair & Co.	-	5,304
Williams Capital Group	331,790	91,045
Various (Under \$5,000)	195,958	179,214
	<u>\$ 3,924,117</u>	<u>\$ 5,605,617</u>

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

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis

Year ended June 30, 2010

Schedule of Property and Equipment

A schedule of changes in property and equipment is as follows:

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Cost	\$ 107,938	\$ 8,962	\$ -	\$ 116,900	\$ -	\$ -	\$ 116,900
Less accumulated depreciation	(55,141)	(4,124)	-	(59,265)	(7,244)	-	(66,509)
Net property and equipment	<u>\$ 52,797</u>	<u>\$ 4,838</u>	<u>\$ -</u>	<u>\$ 57,635</u>	<u>\$ (7,244)</u>	<u>\$ -</u>	<u>\$ 50,391</u>

Note: Amounts reported in the Schedule of Property and Equipment have been reconciled to property reports submitted to the Office of the Comptroller.

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

	<u>2010</u>	<u>2009</u>
Balance per State Treasurer at June 30	\$ 34,557	\$ 184,259
Vouchers in transit	(70,540)	(134,027)
Balance per ISBI at June 30	<u>\$ (35,983)</u>	<u>\$ 50,232</u>

Analysis of Accounts Receivable

ISBI's receivable balance at June 30, 2010 and 2009 amounted to \$68,431,963 and \$186,099,275, respectively. The balance consisted of \$33,086,416 and \$31,874,039 of dividends, interest, foreign taxes, and accounts receivable on investments held as of June 30, 2010 and 2009, respectively, and included receivables of \$35,345,547 and \$154,225,236 for investments sold prior to June 30, 2010 and 2009, 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.

ILLINOIS STATE BOARD OF INVESTMENT
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Analysis of Operations
Year ended June 30, 2010

Board Functions and Planning Program

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 Marquette Associates as its investment consultant. ISBI conducted an asset allocation study and, in December 2003, 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. In March 2008, the Asset Allocation Study was updated to incorporate asset classes and revise asset allocation percentages.

Members of the Board of Trustees as of June 30, 2010 include:

Michele Bush	Comptroller Daniel Hynes
John W. Casey	Fred H. Montgomery
Senator James F. Clayborne	Heather D. Parish
Treasurer Alexi Giannoulas	Ronald E. Powell
Justice Thomas E. Hoffman	

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.

ILLINOIS STATE BOARD OF INVESTMENT
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Analysis of Operations
Year ended June 30, 2010

Number of Employees

ISBI had 10 full-time employees at June 30, 2010 and 11 full-time employees at June 30, 2009.

Proceeds from General Obligation Bonds

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 received an allocation of bond proceeds equal to \$1,544,924,744 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 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.

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

<u>Series</u>	<u>Return</u>
General Obligation Bonds, Pension Fund Series June 2003	4.38%
General Obligation Bonds, Taxable Bond Series January 2010	(4.55)%

ILLINOIS STATE BOARD OF INVESTMENT
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Analysis of Operations

Year ended June 30, 2010

Third-Party Marketing Fees Paid (Unaudited)

ISBI disclosed that investment managers hired marketing groups to assist with promoting their investment product to ISBI. Marketing fees paid by investment managers were as follows:

Investment Manager	Third Party Marketer	Type of Fund	Year Ended June 30,	
			2010	2009
Alinda Infrastructure Fund	C.P. Eaton & Associates	Infrastructure	\$ 324,357	\$ 349,000
Alinda Infrastructure Fund II	Pinnacle and Chors	Infrastructure	21,771	-
Blackstone Capital Ptrs. V	Park Hill Group	Private Equity	350,000	125,000
Court Square Capital Partners II	UBS P.E. Funds Group	Private Equity	148,502	-
Ironbridge Capital	Frontier Partners-Fronterage Asset Mgmt.	Equity	-	1,067,511
Resolute II	Credit Suisse LLC	Private Equity	2,284,488	-
			<u>\$ 3,129,118</u>	<u>\$ 1,541,511</u>

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.

Overall Rates of Return (Unaudited)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual total return	9.1%	(20.1)%	(6.2)%	17.1%	11.0%
Compound annual rate of return since July 1, 1982	9.0	8.9	10.3	11.0	10.7

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 the assumed actuarial interest rate (8.5% as of June 30, 2010)
- At least equal to the return of a composite benchmark of market indices in the same proportions as ISBI's asset allocation policy targets

ILLINOIS STATE BOARD OF INVESTMENT
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Analysis of Operations

Year ended June 30, 2010

ISBI earned a total rate of return of 9.1% for the year ended June 30, 2010.

	(Annualized)							
	2010	2009	2008	2007	2006	3 Yrs.	5 Yrs.	10 Yrs.
	%	%	%	%	%	%	%	%
Total Fund	9.1	(20.1)	(6.2)	17.1	11.0	(6.5)	1.2	1.7
Composite Benchmark*	10.2	(17.0)	(4.6)	16.4	11.5	(4.5)	2.5	2.7
Consumer Price Index	1.1	(1.4)	5.0	2.7	4.2	1.5	2.3	2.4
U.S. Equities**	17.3	(25.1)	(12.7)	19.9	10.7	(8.4)	0.4	0.5
Russell 3000 Index	15.7	(26.6)	(12.5)	20.1	9.6	(9.5)	(0.5)	(0.9)
Hedge Funds **	4.4	(11.6)	(2.6)	19.3	N/A	(3.5)	N/A	N/A
HFRX Equity Hedge	3.1	(20.0)	(4.9)	14.7	7.6	(7.8)	(0.6)	2.8
International Equities	13.1	(29.1)	(10.3)	28.8	28.9	(10.4)	3.6	2.0
MSCI-EAFE Index	6.4	(31.0)	(10.2)	27.5	27.1	(12.9)	1.4	0.6
Fixed Income	5.5	(2.4)	5.3	6.9	0.8	2.9	3.3	4.7
Barclays Capital Universal Index	10.6	4.9	6.2	6.6	(0.3)	7.2	5.6	6.6
Real Estate	(8.2)	(31.7)	2.6	15.3	19.5	(13.7)	(2.4)	3.1
NCRIF Real Estate Index	(1.5)	(19.6)	9.2	17.2	18.7	(4.7)	3.8	7.2
Private Equity	14.0	(18.8)	(4.9)	31.7	21.3	(4.2)	7.1	4.0

* Composite Benchmark:

Effective 07/09: 30% Russell 3000; 20% MSCI-EAFE; 25% Barclays Capital Universal; 10% NCRIF; 5% Venture Economics Pooled Average Periodic IRR; 10% HFRX Equity Hedged Index.
 Effective 11/08: 30% Russell 3000; 20% MSCI-EAFE; 25% Barclays Capital Universal; 10% NCRIF; 5% Venture Economic All Private Equity Index; 10% HFRX Equity Hedged Index.
 Effective 04/08: 30% Russell 3000; 20% MSCI-EAFE; 25% Lehman Universal; 10% NCRIF; 5% Venture Economic all Private Equity Index; 10% HFRX Equity Hedged Index.
 Effective 12/03: 45% Wilshire 5000; 10% MSCI-EAFE; 25% Lehman Universal; 10% NCRIF; 5% Venture Economic all Private Equity Index; 5% HFRX Equity Hedged Index.
 Effective 4/02: 46% Russell 3000; 15% MS-AC Free ex US; 23% Lehman Universal; 8% NCRIF; 8% Russell 2000 + 3.0%.
 Prior to 4/02: 43% Russell 3000; 20% MS-AC Free ex US; 22% Lehman Aggregate; 7% NCRIF; 8% absolute return of 12%.

**U.S Equities and Hedge Funds:

Prior year return information has been restated to conform to 2010 presentation. ISBI began investing in Hedge Funds in Fiscal 2007, therefore actual return information is not available prior to that period.

Note: Effective 11/08, the Lehman Universal benchmark ceased to exist. Barclays Capital Universal is the benchmark currently used by the Board.

ILLINOIS STATE BOARD OF INVESTMENT
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Analysis of Operations

Year ended June 30, 2009

Net Asset Allocation as of June 30, 2010 (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 international equity, alternative investments, and real estate.

	<u>Fair Value</u>	<u>Actual Asset Mix</u>	<u>Policy Target</u>
	(\$ million)		
U.S. equity	\$ 2,857,662,235	30%	30%
U.S. equity hedge funds	917,854,201	9	10
International equity	1,733,357,594	18	20
Commingled funds ⁴	270,510,642	3	—
Fixed income ¹	1,780,817,606	18	18
Bank Loans	222,623,999	2	2
Real estate	750,210,957	8	10
Private Equity ²	542,441,291	6	5
Infrastructure ²	320,293,041	3	5
Cash ³	282,932,236	3	—
Total	<u>\$ 9,678,703,802</u>	<u>100%</u>	<u>100%</u>

¹ Maturities of one year or longer, including convertible bonds.

² Interests in limited partnerships and other entities which have limited liquidity.

³ Includes money market instruments and other assets, less liabilities.

⁴ Holdings include fixed income and equity instruments.