

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

Compliance Examination

Year ended June 30, 2013

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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Financial Statement Report: The Agency's financial statement report for the year ended June 30, 2013, which includes the independent auditors' report, management discussion and analysis, basic financial statements and notes and the independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i> has been issued separately.	
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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. Alise M. White
Chief Fiscal Officer	Vacant
General Counsel/Chief Compliance Officer	Ms. Linsey J. Schoemehl

Illinois State Board of Investment Office is located at:

180 N. LaSalle Street
Suite 2015
Chicago, Illinois 60601

January 8, 2014

McGladrey 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, 2013. Based on this evaluation, we assert that during the year ended June 30, 2013, 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

Alise White
*Deputy
Executive Director*

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, 2013

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	-	-
Repeated findings	-	-
Prior recommendations implemented or not repeated	-	-

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>
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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.

None

PRIOR FINDING NOT REPEATED

None

Exit Conference

In correspondence received from the Illinois State Board of Investment on December 30, 2013, ISBI elected to waive a formal exit conference.



**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 (Board) and its investment trust fund, 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, 2013. 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. 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; 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 of ISBI's compliance with specified requirements.

In our opinion, ISBI complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2013.

Internal Control

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 to determine the examination procedures that are appropriate in the circumstances 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 ISBI's 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the Statements of Net Position and the related Statements of Changes in Net Position of ISBI as of and for the year ended June 30, 2013, and the Statement of Net Position and the related Statement of Changes in Net Position of its investment trust fund, the Illinois Power Agency Trust Fund as of and for the year ended June 30, 2013, and have issued our report thereon dated December 6, 2013, which contained unmodified opinions on those financial statements. Our audit was 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 6, 2013. The accompanying supplementary information for the year ended June 30, 2013 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 year ended June 30, 2013 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 year ended June 30, 2013 in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the ISBI's basic financial statements as of and for the years ended June 30, 2012 and June 30, 2011 (not presented herein), and have issued our reports thereon dated December 13, 2012 and December 14, 2011, which contained unmodified opinions on the respective financial statements. The accompanying supplementary information for the years ended June 30, 2012 and June 30, 2011 in Schedules 1 through 6, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2012 and June 30, 2011 financial statements. The accompanying supplementary information for the years ended June 30, 2012 and June 30, 2011 in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audits of the June 30, 2012 and June 30, 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those 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, 2012 and June 30, 2011 in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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.

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 LLP

Schaumburg, Illinois
January 8, 2014



**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***

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General, 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 Statements of Net Position and Statements of Changes in Net Position of the Illinois State Board of Investment (ISBI Member Systems), as of and for the years ended June 30, 2013 and June 30, 2012, and the Statements of Net Position of its investment trust fund, the Illinois Power Agency Trust Fund (Trust Fund), as of June 30, 2013 and June 30, 2012, and the Statement of Changes in Net Position for the year ended June 30, 2013, which collectively comprise ISBI's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ISBI's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of ISBI's 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISBI's financial statements are free of 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 results of that testing, and not to provide an opinion on the effectiveness of ISBI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ISBI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Schaumburg, Illinois
December 6, 2013

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

Schedule of Findings

Current Findings

Year ended June 30, 2013

None.

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

Schedule of Findings

Prior Finding Not Repeated

Year ended June 30, 2013

None.

ILLINOIS STATE BOARD OF INVESTMENT
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Supplementary Information for State Compliance Purposes

Year ended June 30, 2013

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
 - 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, 2013 (Unaudited)
 - Schedules of Soft Dollar Credits (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, it 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)

Schedule 1

Fiscal Schedules and Analysis
 Comparative Schedules of Operations
 Years ended June 30, 2013 and 2012

	2013	2012	Increase (decrease)
Investment income (loss):			
Interest	\$ 216,655,123	\$ 163,451,935	\$ 53,203,188
Dividends	150,346,989	138,635,610	11,711,379
Securities lending	4,750,591	2,856,652	1,893,939
Realized gain on investments	247,580,743	336,892,624	(89,311,881)
Unrealized gain (loss) on investments	<u>1,005,988,055</u>	<u>(600,396,365)</u>	<u>1,606,384,420</u>
Total investment income	<u>1,625,321,501</u>	<u>41,440,456</u>	<u>1,583,881,045</u>
Administrative expenses:			
Salaries and benefits	1,972,176	1,854,896	117,280
Operating	539,357	535,140	4,217
External support	<u>35,397,479</u>	<u>34,013,759</u>	<u>1,383,720</u>
Total expenses	<u>37,909,012</u>	<u>36,403,795</u>	<u>1,505,217</u>
Excess of investment income over administrative expenses	<u>\$ 1,587,412,489</u>	<u>\$ 5,036,661</u>	<u>\$ 1,582,375,828</u>

ILLINOIS STATE BOARD OF INVESTMENT
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Schedule 2

Fiscal Schedules and Analysis
 Schedules of Investment Portfolio
 June 30, 2013 and 2012

Fair value	2013		2012	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Fixed income securities:				
Government and agency obligations:				
U.S. Treasury	\$ 381,380,855	2.97%	\$ 383,122,214	3.40%
Federal agencies and other governments	506,019,218	3.94	575,009,065	5.11
Foreign government obligations	415,070,013	3.23	385,628,617	3.43
Corporate obligations:				
Finance	166,390,995	1.29	149,245,144	1.33
Industrials	409,132,090	3.18	412,232,689	3.66
Collateralized mortgage obligations	912,944	0.01	1,076,456	0.01
Asset backed	771,437	0.01	832,141	0.01
Miscellaneous	96,946,662	0.75	93,591,233	0.83
Total fixed income securities	<u>1,976,624,214</u>	<u>15.38</u>	<u>2,000,737,559</u>	<u>17.77</u>
Equities:				
Common stocks:				
U.S. equities:				
Consumer discretionary	601,964,559	4.68	443,462,667	3.94
Consumer staples	295,294,021	2.30	263,054,840	2.34
Energy	337,747,551	2.63	282,792,717	2.51
Financials	774,434,969	6.03	590,584,161	5.25
Healthcare	429,385,210	3.34	368,770,331	3.28
Industrials	578,851,632	4.50	445,858,426	3.98
Information technology	551,354,471	4.29	513,532,688	4.56
Materials	183,687,034	1.43	176,154,551	1.56
Telecommunication services	52,336,593	0.41	65,435,689	0.58
Utilities	104,879,942	0.82	97,938,487	0.88
Other	6,542,323	0.05	5,519,009	0.05
Commingled funds	317,408,396	2.47	225,608,712	2.00
Non-U.S. equities	2,329,869,123	18.13	2,013,366,729	17.88
Total equities	<u>6,563,755,824</u>	<u>51.08</u>	<u>5,492,079,007</u>	<u>48.78</u>
Hedge funds	1,166,602,482	9.08	1,026,725,785	9.13
Real estate funds	1,294,600,976	10.07	967,346,450	8.59
Private equity	643,775,529	5.01	679,423,383	6.04
Money market instruments	237,649,781	1.85	255,922,180	2.27
Real assets	550,739,042	4.29	507,019,665	4.49
Bank loans	416,649,247	3.23	328,593,596	2.92
Foreign currency forward contracts	(412,825)	0.01	(43,859)	0.01
Total investments	<u>\$ 12,849,984,270</u>	<u>100.00%</u>	<u>\$ 11,257,803,766</u>	<u>100.00%</u>

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

Schedule 3

Fiscal Schedules and Analysis
 Schedules of Investment Manager Fees
 Years ended June 30, 2013 and 2012

	2013	2012
Amalgamated Bank NY	\$ 617,621	\$ 663,310
Ariel Investments	21,013	-
Channing	306,612	251,523
Chicago Equity Partners	741,289	977,144
Credo	370,173	350,129
Crescent Capital	741,570	664,014
Decatur	77,861	66,942
Entrust	2,471,611	2,104,723
Fiduciary Management Associates	377,420	333,571
Fort Washington	899,913	750,472
Garcia Hamilton	76,739	71,056
Globeflex Capital	484,571	467,434
Grosvenor Capital Management	673,491	1,560,559
Herndon Capital	454,005	393,731
IronBridge Capital Management	1,342,097	1,196,074
LM Capital	411,451	425,271
LSV Asset Management	3,130,508	2,997,809
Macquarie	3,547,521	3,606,411
Mesirow	1,887,564	2,001,389

(Continued)

ILLINOIS STATE BOARD OF INVESTMENT
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Schedule 3

Fiscal Schedules and Analysis
 Schedules of Investment Manager Fees (Continued)
 Years ended June 30, 2013 and 2012

	2013	2012
Opus Capital Management	\$ 494,837	\$ 432,237
Rhumblin	161,970	175,941
Rockcreek	2,500,601	2,193,579
Segall Bryant and Hamill	1,146,497	1,023,254
State Street Bank	280,000	280,000
SSgA (Cash Overlay)	137,813	125,000
SSgA Emerging Markets	114,589	62,632
SSgA MSCI ACWI Index	267,483	266,612
SSgA Mid Cap Growth	119,626	48,122
SSgA Small Cap Core	54,527	28,303
SSgA Small Cap Global	1,398,090	1,210,345
THL Credit	588,626	604,880
Templeton	1,819,740	1,650,646
Union Labor Life Investment Co. (ULLICO)	626,975	664,832
Various (allocated equally to all Investment Managers)	38,000	38,000
Vontobel Asset Management	2,424,059	2,246,391
Wellington	855,638	259,300
William Blair	2,210,063	2,056,892
	<u>\$ 33,872,164</u>	<u>\$ 32,248,528</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
 (An Internal Investment Pool of the State of Illinois)

Fiscal Schedules and Analysis

Year ended June 30, 2013

Schedules of Property and Equipment

Changes in property and equipment are as follows:

	Schedule 4						
	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Cost	\$ 107,351	\$ 11,244	\$ (25,142)	\$ 93,453	\$ 10,873	\$ -	\$ 104,326
Less accumulated depreciation	(71,003)	(3,104)	18,253	(55,854)	(4,396)	-	(60,250)
Net property and equipment	<u>\$ 36,348</u>	<u>\$ 8,140</u>	<u>\$ (6,889)</u>	<u>\$ 37,599</u>	<u>\$ 6,477</u>	<u>\$ -</u>	<u>\$ 44,076</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

	2013			2012*
	Illinois State Board of Investment	Illinois Power Agency Trust Fund	Total	
Balance per State Treasurer at June 30	\$ 448,431	\$ 986	\$ 449,417	\$ 25,096,663
Vouchers in transit	(153,404)	(337)	(153,741)	(103,639)
Balance per ISBI at June 30	<u>\$ 295,027</u>	<u>\$ 649</u>	<u>\$ 295,676</u>	<u>\$ 24,993,024</u>

* The assets of the Illinois Power Agency Trust Fund came under management of the Illinois State Board of Investment in fiscal year 2012.

In August 2007, by enactment of 30 ILCS 105/6z-75 of the Illinois Compiled Statutes, ISBI was given responsibility for the management of the Illinois Power Agency Trust Fund. This resulted in the transfer of the Illinois Power Agency Trust Fund's cash amounting to \$24,854,573, to ISBI in fiscal year 2012. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust Company occurred on July 19, 2012.

ILLINOIS STATE BOARD OF INVESTMENT
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Fiscal Schedules and Analysis

Year ended June 30, 2013

Analysis of Accounts Receivable

Schedule 6

A summary of ISBI's receivables are as follows:

Receivables	<u>2013</u>	<u>2012</u>
Foreign taxes	\$ 3,827,119	\$ 2,515,736
Accounts receivable	-	3,105,150
Investments sold	379,123,089	50,215,916
Interest and dividends	35,978,861	32,854,218
Total receivables	<u>\$ 418,929,069</u>	<u>\$ 88,691,020</u>

ISBI's receivable balance at June 30, 2013 and 2012 amounted to \$418,929,069 and \$88,691,020, respectively. The balance consisted of \$39,805,980 and \$38,475,104 of dividends, interest, foreign taxes, and accounts receivable on investments held as of June 30, 2013 and 2012, respectively, and included receivables of \$379,123,089 and \$50,215,916 for investments sold prior to June 30, 2013 and 2012, 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
(An Internal Investment Pool of the State of Illinois)

Analysis of Operations (Unaudited)

Year ended June 30, 2013

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 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. In June 2011, the Asset Allocation Study was again updated to incorporate asset classes and revise allocation percentages effective for fiscal year 2012. In June 2013 the Asset Allocation was again revised after a search for a General Consultant was completed. There were no major changes to the asset allocation however certain strategies were refined within allocations.

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Analysis of Operations (Unaudited)

Year ended June 30, 2013

Members of the Board of Trustees as of June 30, 2013 include:

Roderick Bashir	Steven Powell
Devon Bruce	Treasurer Dan Rutherford
Michelle Bush	Justice Mary Seminara Schostok
John Casey	Comptroller Judy Baar Topinka
Senator James Clayborne	

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 11 full-time employees at June 30, 2013 and had 11 full-time employees at June 30, 2012.

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 \$1,544,924,744 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.

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

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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.

During fiscal year 2013 and 2012, 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 year 2013 and 2012.

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

Series	Return
General Obligation Bonds, Pension Fund Series June 2003	6.8%
General Obligation Bonds, Taxable Bond Series January 2010	8.9%
General Obligation Bonds, Taxable Bond Series February 2011	8.4%

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, 2013 and June 30, 2012, 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.

Overall Rates of Return (Unaudited)

	2013	2012	2011	2010	2009
Annual total return	14.1%	0.1%	21.7%	9.1%	(20.1)%
Compound annual rate of return since July 1, 1982	9.2	9.1	9.4	9.0	8.9

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Year ended June 30, 2013

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 7.75%, the actuarially assumed interest rate of return for one of ISBI's member systems, the State Employees' Retirement System (SERS). Historically, SERS had adopted 8.5% as the actuarially assumed rate of return, while the other two member systems - General Assembly Retirement System (GARS) and the Judges' Retirement System (JRS) have assumed 8.0%. In September 2010, SERS reduced its return assumption from 8.5% to 7.75%. Similarly, the GARS and JRS reduced their return assumptions from 8.0% to 7.0%. ISBI has assumed the same rate of return as SERS (7.75% as of June 30, 2013), as SERS' net assets represents approximately 95% of ISBI's net assets as of June 30, 2013.
- At least equal to the return of a composite benchmark of market indices in the same proportions as ISBI's asset allocation policy targets.

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Year ended June 30, 2013

ISBI earned a total rate of return of 14.1% for the year ended June 30, 2013.

	(Annualized)							
	2013	2012	2011	2010	2009	3 Yrs.	5 Yrs.	10 Yrs.
	%	%	%	%	%	%	%	%
Total Fund	14.1	0.1	21.7	9.1	(20.1)	11.6	3.9	6.6
Composite Benchmark*	11.8	0.9	19.6	10.2	(17.0)	10.5	4.1	7.3
Consumer Price Index	1.8	1.7	3.6	1.1	(1.4)	2.3	1.3	2.4
U.S. Equities	23.3	1.3	33.9	17.3	(25.1)	18.7	8.0	8.5
Russell 3000 Index	21.5	3.8	32.4	15.7	(26.6)	18.6	7.3	7.8
Hedge Funds **	12.6	(4.3)	12.7	4.4	(11.6)	6.7	2.3	N/A
HFRX Equity Hedge	8.3	(10.7)	3.4	3.1	(20.0)	0.0	(3.8)	0.2
International Equities	16.8	(10.7)	32.7	13.1	(29.1)	11.4	2.1	9.4
MSCI-ACWI ex US Index	14.4	(14.4)	30.9	6.4	(31.0)	8.6	(1.2)	7.6
Fixed Income	2.4	6.8	5.7	5.5	(2.4)	4.9	3.5	3.9
Barclays Capital U.S. Universal Index	0.2	7.4	4.8	10.6	4.9	4.1	5.5	4.8
Real Estate	13.0	5.3	17.0	(8.2)	(31.7)	11.7	(2.7)	4.5
NCREIF Real Estate Index	11.1	11.3	16.7	(1.5)	(19.6)	13.0	2.7	8.6
Private Equity	16.2	7.6	24.0	14.0	(18.8)	15.7	7.5	12.2

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.

* Composite Benchmark:
 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.
 Effective 03/06: 8% Russell Midcap Growth; 7% Russell 2000 Value; 5% Russell 1000 Growth; 15% Russell 1000 Value; 10% S&P 500; 3% S&P Dev. Ex-U.S.<\$2B; 7% MSCI-EAFE; 10% NCREIF; 5% Lehman High Yield; 10% Lehman Aggregate; 10% Lehman Int. Govt/Corp; 10% NCREIF
 Effective 12/03: 45% Wilshire 5000; 10% MSCI-EAFE; 25% Lehman Universal; 10% NCREIF; 5% Venture Economic All Private Equity Index which is based on preliminary data subject to revision on a quarterly basis; 5% HFRX Equity Hedged Index.

**Hedge Funds: 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 U.S. Universal is the benchmark currently used by ISBI.

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Analysis of Operations (Unaudited)

Year ended June 30, 2013

Net Position Allocation as of June 30, 2013 (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>
U.S. equity	\$ 3,916,478,305	30	30%
U.S. equity hedge funds	1,166,602,482	9	10
International equity	2,329,869,123	18	20
Commingled funds ⁴	317,408,396	3	-
Fixed income ¹	1,976,624,214	16	16
Bank loans	416,649,247	3	4
Real estate	1,294,600,976	10	10
Private equity ²	643,775,529	5	5
Real assets ²	550,739,042	4	5
Cash ³	253,709,922	2	-
Total	<u>\$ 12,866,457,236</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 investments.

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Analysis of Operations (Unaudited)

Schedules of Soft Dollar Credits (Unaudited)

Years ended June 30, 2013 and 2012

	2013	2012
Soft dollar credits outstanding, at beginning of fiscal year	\$ -	\$ 14,853
Soft dollar credits earned	5,917	16,176
Bank of New York payout amount	-	(16,176)
Citibank payout amount	-	(14,853)
Adjustment***	-	-
Soft dollar credits outstanding, at end of fiscal year	<u>\$ 5,917</u>	<u>\$ -</u>

*** This reflects an adjustment to record prior year soft dollar credits earned but not recorded for soft dollars held at Bank of New York and a balance outstanding in soft dollars held at Citibank.

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.

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Analysis of Operations (Unaudited)

Schedules of Investment Commissions (Unaudited)

Years ended June 30, 2013 and 2012

	2013	2012
Investment brokerage firms:		
Auerbach Grayson Co. Inc.	\$ 8,884	\$ -
Banc of America Securities Inc.	40,873	59,139
Barclays Capital	39,281	26,471
Blaylock	8,221	-
Bley Investment Group	10,563	-
Bloomberg Tradebook	5,940	27,176
BMO Harris	7,558	-
BNP Paribas Securities	-	6,893
BNY Brokerage	37,430	34,255
BTIG Trading	22,933	-
Cabrera Capital Markets LLC	150,354	114,155
Cantor Fitzgerald & Co.	92,288	68,170
CastleOak Securities	11,622	-
CF Global Trading LLC	-	18,457
Cheevers & Company	141,336	143,785
Cheurex de Virieu Paris	-	7,359
Chicago Analytic Trading Co.	-	25,025
Citigroup Smith Barney Inc.	93,499	92,212
CLSA Singapore Pte. Ltd.	18,698	-
ConvergEx	21,331	5,704
Credit Agricole Indosuez	-	8,549
Credit Lyonnais Securities	11,447	14,782
Credit Suisse First Boston Corp.	81,819	104,495
Daiwa Securities	-	25,907
Deutsche Banc Securities Inc.	37,147	55,326
Direct Access Partners	66,622	45,603
DNB Markets	8,113	-
Fig Partners	40,050	-
Friedman Billings and Ramsey & Co. Inc.	11,718	-
Gardner Rich & Co.	-	15,241
Goldman Sachs & Company	39,837	47,746

(Continued)

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Analysis of Operations (Unaudited)
 Schedules of Investment Commissions (Unaudited) (Continued)
 Years ended June 30, 2013 and 2012

	2013	2012
Investment brokerage firms (Continued):		
Goodbody Stockbrokers	\$ 5,308	\$ 11,370
Greentree Brokerage	9,245	-
Helvea Inc.	-	10,970
HSBC Securities	7,164	-
Instinet	85,514	63,817
Investment Technology Group	84,379	29,110
ISI Trading Group	-	16,338
Ivy Securities	5,093	-
J.P. Morgan Securities, Inc.	34,863	58,581
Jefferies & Company	13,412	24,712
Joh Berenberg, Glossler & Co.	12,655	13,973
Jones Trading	17,410	-
Keefe Bruynette and Woods Inc.	5,014	20,759
Kepler Capital Markets	-	22,514
Knight Equity Markets	9,534	-
Liberum Capital	7,915	-
Liquidnet Inc.	62,198	62,230
Loop Capital Markets	260,028	381,910
M. Ramsey King Securities	31,771	11,640
Macquarie Equities Ltd	33,833	26,659
Merrill Lynch Pierce Fenner & Smith	18,580	-
Mischler Financial Group	-	7,572
Morgan Stanley & Co.	64,929	63,655
MR Beal	22,471	107,278
Natixis Group	-	17,250
Nomura Securities	45,594	84,824
North South Capital	11,524	-

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Analysis of Operations (Unaudited)

Schedules of Investment Commissions (Unaudited) (Continued)

Years ended June 30, 2013 and 2012

	2013	2012
Investment brokerage firms (Continued):		
Numis Securities	\$ -	\$ 13,176
Piper, Jaffrey & Hopwood Inc.	5,123	-
Podesta & Co.	5,823	-
Pulse Trading	-	13,138
Rabo Securities	5,114	-
Ramsey King	36,672	42,147
RBC Capital Markets	10,271	6,014
Redburn Partners LLC	9,362	13,427
Robert W. Baird & Co.	28,751	41,272
Sanford C. Bernstein	54,441	65,031
Scotia Capital Markets Toronto	-	10,983
Simmons & Co. International	-	5,366
Societe Generale	39,621	10,290
State Street Global	9,664	-
Stiffel, Nicolaus & Company Inc.	34,139	32,157
Telsey Advisory Group	9,447	-
UBS Securities	104,274	106,052
Weeden & Co.	10,925	39,235
William Blair & Co.	9,399	-
Williams Capital Group	107,690	64,752
Various (Under \$5,000)	<u>137,973</u>	<u>412,281</u>
	<u>\$ 2,474,687</u>	<u>\$ 2,856,933</u>

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