



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE BOARD OF INVESTMENT

State Compliance Examination
 For the Year Ended June 30, 2016

Release Date: April 20, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0				
Category 2:	0	0	0				
Category 3:	1	0	1				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers our Compliance Examination of the Illinois State Board of Investment (Board or ISBI) for the year ended June 30, 2016. A separate Financial Audit as of and for the year ending June 30, 2016 was previously released on January 12, 2017. That report did not contain any findings.

SYNOPSIS

- (16-01) The Board did not always obtain completed disclosures from investment managers as required in the Illinois Pension Code.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on the next page.}

**ILLINOIS STATE BOARD OF INVESTMENT
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2016**

SCHEDULE OF OPERATIONS	FY 2016	FY 2015
REVENUE:		
Investment Income - Interest.....	\$ 297,332,952	\$ 354,281,150
Investment Income - Dividends.....	175,131,744	153,292,990
Investment Income - Securities Lending.....	3,012,190	3,155,070
Realized Gain on Investments.....	135,425,578	518,779,744
Unrealized Gain on Investments.....	(703,921,929)	(264,401,473)
Total Investment Income.....	(93,019,465)	765,107,481
External Support (Investment Expense).....	(37,960,494)	(41,962,049)
Net Investment Income	(130,979,959)	723,145,432
EXPENSES:		
Operating Expenses.....	(2,682,221)	(2,677,718)
Revenue Over Expenses.....	\$ (133,662,180)	\$ 720,467,714
INVESTMENT PORTFOLIO ANALYSIS - Fair Value		
	June 30, 2016	June 30, 2015
Total Government and Agency Obligations.....	\$ 2,349,026,919	\$ 907,835,826
Total Corporate Obligations.....	746,537,021	814,440,237
Foreign Government Obligations.....	80,165,287	892,854,266
U.S. Common Stocks, Equities & Commingled Funds.....	5,279,640,587	5,519,297,786
Non - U.S. Equity Securities.....	2,244,023,753	2,380,176,737
Real Estate Funds.....	1,704,064,846	1,610,826,230
Private Equity.....	582,943,357	667,080,662
Real Assets.....	592,736,380	532,718,107
Hedge Funds.....	1,181,203,258	1,576,250,129
Money Market Instruments.....	356,617,721	231,115,398
Bank Loans.....	449,925,261	697,836,613
Foreign Currency Forward Contracts.....	(1,337,420)	979,645
Total Investment Portfolio.....	\$ 15,565,546,970	\$ 15,831,411,636
INVESTMENT ALLOCATION (unaudited)		
	June 30, 2016	June 30, 2015
U.S. Equity & Commingled Funds.....	33%	35%
U.S. Equity Hedge Funds.....	8%	10%
International Equity.....	14%	15%
Fixed Income.....	20%	17%
Real Estate.....	11%	10%
Private Equity.....	4%	4%
Real Assets.....	4%	3%
Bank Loans.....	3%	4%
Cash.....	3%	2%
Total.....	<u>100%</u>	<u>100%</u>
SELECTED INVESTMENT RETURNS ACTUAL (bold) AND BENCHMARK (unaudited)		
	June 30, 2016	June 30, 2015
Total Fund.....	-1.0%	5.0%
Composite benchmark.....	1.0%	4.0%
U.S. Equities.....	-2.0%	6.0%
Russell 3000 Index.....	2.0%	7.0%
International Equities.....	-7.0%	-1.0%
MSCI-ACWI ex US Index IMI Gross.....	-9.0%	-5.0%
Fixed Income.....	2.0%	-1.0%
Barclays Capital U.S. Universal Index.....	6.0%	2.0%
Real Estate.....	12.0%	16.0%
NCREIF Real Estate Index.....	11.0%	13.0%
EXECUTIVE DIRECTOR		
During Engagement Period: William R. Atwood		
Currently: William R. Atwood		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO COMPLY WITH THE ILLINOIS PENSION
CODE**

**Noncompliance with the Illinois
Pension Code**

The Illinois State Board of Investment (ISBI) did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

During our testwork of eight investment manager disclosures returned to ISBI, we noted the following:

**Investment manager disclosures
pertaining to minorities, females
and person with disabilities were
not always obtained**

- The investment manager disclosure for one investment manager did not properly disclose the number of its investment and senior staff and the percentage of its investment and senior staff who are a person with a disability.
- The investment manager disclosures for three investment managers did not properly disclose the number of contracts with businesses owned by a minority, a female, or a person with a disability.
- The investment manager disclosures for five investment managers (including the four investment manager disclosures identified above) did not properly disclose the number of contracts with other than those businesses owned by a minority, a female, or a person with a disability if more than 50% of services performed pursuant to the contract are performed by a minority, a female, or a person with a disability. (Finding 1, pages 11-13).

We recommended the ISBI comply with the Illinois Pension Code or seek legislative remedy.

ISBI disagrees with the auditors

ISBI officials did not agree with the finding and stated they considered the disclosures required by the Illinois Pension Code, however, the service providers were selected based on an exhaustive due diligence RFP process and that these service providers were deemed to be best suited to maximize value for the Retirement Systems' state employee beneficiaries.

AUDITOR'S OPINION(S)

The auditors stated the financial statements of the Board as of and for the year ended June 30, 2016 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Board for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the Board complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by KPMG LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK