

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

Financial Statements
June 30, 2021
(With Independent Auditors' Report Thereon)
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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ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)

AGENCY OFFICIALS

Executive Director / Chief Investment Officer (7/1/2018 – Present)	Ms. Johara Farhadieh
Deputy Executive Director / General Counsel / Chief Compliance Officer (7/1/2019 – Present)	Mr. Dipesh Mehta
Chief Financial Officer / Chief Operating Officer (8/31/2020 – Present)	Mr. Jansen Hein
Portfolio Officer for Financial Reporting and Accounting (2/10/2014 – Present)	Ms. Genette Bacon-Cordova

BOARD OFFICERS

Chair of the Board (9/27/2013 – 9/29/2021)	Justice Mary Seminara-Schostok
Chair of the Board (9/29/2021 – Present)	Terrence Healy
Vice Chair of the Board (1/12/2015 – Present)	Treasurer Michael W. Frerichs
Recording Secretary (3/29/2019 – 9/29/2021)	Gisela Attlan
Recording Secretary (9/29/2021 – Present)	Justice Mary Seminara-Schostok
Member at Large (12/5/2016 – Present)	Comptroller Susana A. Mendoza

BOARD MEMBERS

Trustee (3/29/2019 – Present)	Gisela Attlan
Trustee (5/1/2019 – Present)	Senator Robert Martwick
Trustee (9/9/2019 – Present)	Elizabeth Sanders
Trustee (3/29/2019 – Present)	Michael Tarnoff
Trustee (3/29/2019 – Present)	Jaye Williams

Illinois State Board of Investment Office is located at:

180 North LaSalle Street
Suite 2015
Chicago, Illinois 60601

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

Financial Statement Report Summary

The audit of the accompanying financials statements of the Illinois State Board of Investment (ISBI) as of and for the year ended June 30, 2021 was performed by KPMG LLP. Based on their audit, the auditors expressed an unmodified opinion on ISBI's basic financial statements.

Summary of Findings

Number of:	<u>Current Report</u>	<u>Prior Year Report</u>
Findings	None	None
Repeated findings	None	None
Prior recommendations implemented or not repeated	None	None

Exit Conference

On December 3, 2021, the Illinois State Board of Investment waived the exit conference relating to the Financial Statement Report.



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

Independent Auditors' Report

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the accompanying Statement of Net Position of the Illinois State Board of Investment (ISBI), an internal investment pool of the State of Illinois, as of June 30, 2021, and the related Statement of Changes in Net Position for the year then ended and the related notes to the financial statements. We have also audited ISBI's investment trust funds, the Illinois State Board of Investment Member Systems and the Illinois Power Agency Trust Fund (the Trust Funds) as of and for the year ending June 30, 2021. ISBI and the Trust Funds collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of ISBI and the Trust Funds, as of June 30, 2021, and the changes in net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2021 on our consideration of ISBI and the Trust Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ISBI and the Trust Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ISBI and the Trust Funds' internal control over financial reporting and compliance.

/s/KPMG LLP

Chicago, Illinois
December 14, 2021

Management's Discussion and Analysis

In October 1969, the Illinois State Board of Investment (ISBI) was created by enactment of Article 22A of the Illinois Pension Code by the 76th General Assembly of Illinois. By statute, ISBI was given the responsibility for management of the assets of the General Assembly Retirement System of Illinois, the Judges' Retirement System of Illinois and the State Employees' Retirement System of Illinois (Member Systems). In August 2007, by enactment of 30 ILCS 105/6z-75 of the Illinois Compiled Statutes, ISBI was also given responsibility for the management of the Illinois Power Agency Trust Fund (Trust Fund). Board membership consists of five members appointed by the Governor and four ex officio members consisting of the State Treasurer and the Chairman of the Board of Trustees of each of the Member Systems. ISBI maintains its office in Chicago, Illinois.

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview of ISBI financial activities for the fiscal years ended June 30, 2021 and 2020.

Financial Highlights

ISBI's net asset position totaled approximately \$24.9 billion as of the June 30, 2021 fiscal year end, compared to approximately \$19.8 billion as of June 30, 2020. The increase from the previous year is primarily the result of investment income and appreciation.

COVID-19 Overview

The COVID-19 pandemic continued to evolve throughout the current fiscal year, significantly impacting local and global economies alike. Measures taken by federal, state, and local governments to contain the virus have affected professional and economic activity across the business world. In alignment with federal and state regulations, ISBI took several measures to monitor and mitigate the ongoing business operating effects of COVID-19, including continuing staff-wide work from home arrangements and designing personnel in-office safety and health protocols for when ISBI's office formally re-opens in the future. In alignment with information previously reported in our 2020 annual report, impact on our business operations continued to be insignificant throughout the 2021 fiscal year and, based on our experience to date, we expect this to remain the case going forward. We will continue to follow applicable government policies and do our best to continue our operations in the safest way possible for all ISBI personnel.

General Market Risk

ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on ISBI's investment portfolio depends in large measure on how significant the market downturn/rally is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact ISBI's financial condition. In light of the ongoing global COVID-19 pandemic and associated national and global economic volatility, readers of these financial statements are advised that financial markets remain volatile and may experience significant changes on a daily basis.

Overview of the Financial Statements

ISBI's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are comprised of the Statement of Net Position, the Statement of Changes in Net Position, and Notes to Financial Statements.

The Statement of Net Position presents information on ISBI's assets and liabilities and the resulting net position. This statement also reflects ISBI's investments along with the cash and short-term investments, receivables, and other assets and liabilities.

The increase in investments at June 30, 2021 is a result of investment gains of 25.8% for the fiscal year, net of expenses, shown in the Statement of Changes in Net Position. The increase in liabilities and receivables for fiscal 2021 when compared against 2020 is primarily related to more pending investment purchases and sales on June 30, 2021 compared to the prior year, simply the result of the timing of these transactions.

Management's Discussion and Analysis (Continued)

Condensed Statement of Net Position			
June 30			
	2021	2020	Change
	\$	\$	\$
Cash	21,070,143	13,810,790	7,259,353
Receivables	77,523,457	35,146,223	42,377,234
Investments	24,880,137,818	19,809,844,873	5,070,292,945
Prepaid expenses	67,644	122,078	(54,434)
Capital assets	50,263	53,250	(2,987)
Total assets	24,978,849,325	19,858,977,214	5,119,872,111
Liabilities	117,998,116	48,013,703	69,984,413
Total net position	24,860,851,209	19,810,963,511	5,049,887,698

The Statement of Changes in Net Position presents information regarding changes during the fiscal year ended June 30, 2021. These statements reflect additions and deductions, which include the investment income and losses derived from realized and unrealized gains/losses and Member Systems and Trust Fund contributions. Also reflected in the statements are deductions, which include withdrawals from the Member Systems and Trust Fund and administrative expenses of ISBI.

ISBI recorded \$5.1 billion in net investment income for the current fiscal year resulting from upward aggregated movement in investments held as of June 30, 2021. Prior year net investment income was \$905 million. Additionally, Member Systems withdrawals decreased in the current year to \$69.7 million compared with \$226.8 million in fiscal year 2020. Withdrawals are determined by the Member Systems and Trust Fund based on the State of Illinois' funding and the Member Systems' benefit payment needs and Trust Fund requirements. The increase in administrative expenses for fiscal year 2021 compared to 2020 is primarily due to an increase in investment management fees, driven by the significant portfolio asset value increases realized throughout the year.

Condensed Statement of Changes in Net Position			
Fiscal Years Ended June 30			
	2021	2020	Change
	\$	\$	\$
Additions:			
Net investment income	5,148,278,429	905,109,235	4,243,169,194
Contributions from the Member Systems and Trust Fund	2,300,252	658	2,299,594
Total additions	5,150,578,681	905,109,893	4,245,468,788
Deductions:			
Member Systems' and Trust Fund withdrawals	69,681,987	226,848,000	(157,166,013)
Administrative expenses	31,008,996	26,563,391	4,445,605
Total deductions	100,690,983	253,411,391	(152,720,408)
Net increase in net position	5,049,887,698	651,698,502	4,398,189,196

Management's Discussion and Analysis (Continued)

Future Outlook

In the future, ISBI plans to continue to accomplish its strategy of seeking to maximize the likelihood of meeting long-term return objectives while maintaining prudent risk exposure, controlling fees and expenses related to the management of the fund and complying with the governing provisions of the Illinois Pension Code (40 ILCS 5/1 et seq.) and other applicable laws and regulations. Long-term return objectives are based on actuarial rate of return set forth by the State Employees' Retirement System.

The Notes to Financial Statements provide additional information, which is necessary to fully understand the data provided in the financial statements.

Illinois State Board of Investment

**Statement of Net Position
June 30, 2021**

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ASSETS			
Cash	\$ 21,029,570	\$ 40,573	\$ 21,070,143
Receivables:			
Foreign taxes	8,230,963	15,880	8,246,843
Investments sold	53,037,482	102,327	53,139,809
Interest and dividends	16,105,732	31,073	16,136,805
Total receivables	<u>77,374,177</u>	<u>149,280</u>	<u>77,523,457</u>
Prepaid expenses	<u>67,513</u>	<u>131</u>	<u>67,644</u>
Capital assets	<u>50,166</u>	<u>97</u>	<u>50,263</u>
Investments:			
US government, agency, and municipal obligations	520,823,822	1,004,838	521,828,660
Domestic equities	3,331,264,473	6,427,091	3,337,691,564
International equities	306,463,554	591,268	307,054,822
Domestic bank loans	145,114,917	279,974	145,394,891
Domestic corporate obligations	270,489,349	521,862	271,011,211
International obligations	17,174,623	33,135	17,207,758
Commingled funds	14,523,165,413	28,019,904	14,551,185,317
Real estate funds	2,229,617,215	4,301,656	2,233,918,871
Private equity funds	1,687,589,272	3,255,908	1,690,845,180
Infrastructure funds	309,493,465	597,113	310,090,578
Opportunistic debt funds	1,129,064,206	2,178,332	1,131,242,538
Hedge funds	76,775,253	148,124	76,923,377
Money market instruments	250,260,218	482,833	250,743,051
Deposit (Subscription advance)	34,932,604	67,396	35,000,000
Total investments	<u>24,832,228,384</u>	<u>47,909,434</u>	<u>24,880,137,818</u>
Total assets	<u>24,930,749,810</u>	<u>48,099,515</u>	<u>24,978,849,325</u>
LIABILITIES			
Payables:			
Investments purchased	111,648,095	215,405	111,863,500
Administrative expenses	6,122,803	11,813	6,134,616
Total liabilities	<u>117,770,898</u>	<u>227,218</u>	<u>117,998,116</u>
Net position	<u>24,812,978,912</u>	<u>47,872,297</u>	<u>24,860,851,209</u>

See notes to financial statements, pages 11 - 25.

Illinois State Board of Investment

**Statement of Changes in Net Position
June 30, 2021**

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ADDITIONS			
Investment income:			
Net increase in fair value			
of investments	\$ 4,877,366,144	\$ 9,671,808	\$ 4,887,037,952
Interest and other	194,848,715	385,389	195,234,104
Dividends	65,876,078	130,295	66,006,373
Total investment income	<u>5,138,090,937</u>	<u>10,187,492</u>	<u>5,148,278,429</u>
Contributions from the State of Illinois	<u>2,300,000</u>	<u>252</u>	<u>2,300,252</u>
Total additions	<u>5,140,390,937</u>	<u>10,187,744</u>	<u>5,150,578,681</u>
DEDUCTIONS			
Administrative expenses:			
Salaries and benefits:			
Salaries	1,459,322	2,892	1,462,214
Benefits	1,115,049	2,209	1,117,258
Operating expenses:			
Rent and utilities	355,762	705	356,467
Audit	261,981	519	262,500
Other	447,860	887	448,747
External support:			
Custody	575,401	1,140	576,541
Consulting and professional	723,759	1,434	725,193
Investment advisors/managers	24,317,082	48,184	24,365,266
Investment services and research	108,663	215	108,878
Other	1,757,448	3,484	1,760,932
Reimbursement of DC Plan Expenses	(174,654)	(346)	(175,000)
Total administrative expenses	<u>30,947,673</u>	<u>61,323</u>	<u>31,008,996</u>
Member Systems' and Trust Fund withdrawals	<u>68,000,000</u>	<u>1,681,987</u>	<u>69,681,987</u>
Total deductions	<u>98,947,673</u>	<u>1,743,310</u>	<u>100,690,983</u>
Increase in net position	5,041,443,264	8,444,434	5,049,887,698
Net position at beginning of year	<u>19,771,535,648</u>	<u>39,427,863</u>	<u>19,810,963,511</u>
Net position at end of year	<u>24,812,978,912</u>	<u>47,872,297</u>	<u>24,860,851,209</u>

See notes to financial statements, pages 11 - 25.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Illinois State Board of Investment is considered an internal investment pool of the State of Illinois (the State), operating from investment income and contributions from the State. ISBI manages and invests the pension assets of three separate public employee retirement systems (Member Systems): the General Assembly Retirement System, the Judges' Retirement System of Illinois, and State Employees' Retirement System of Illinois. ISBI also manages the assets of the Illinois Power Agency Trust Fund (Trust Fund). The Member Systems and Trust Fund are reported as investment trust funds of ISBI.

The assets of the Member Systems and the Trust Fund are accounted for in a single commingled fund. Separate information on each System's participation, including the Trust Fund, is presented in Note 3. The assets of the Trust Fund came under the management of ISBI in fiscal year 2012. The assets and liabilities of the Member Systems and Trust Fund are reported on the Statement of Net Position. The revenues and expenses for the Member Systems and Trust Fund for fiscal year 2021 are reported on the Statement of Changes in Net Position.

Basis of Accounting

Accounting records are maintained on an accrual basis. Units are allocated monthly to each Member System and the Trust Fund based upon percentage of ownership. Administrative expenses are deducted monthly from income before allocation.

Valuation of Investments

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Domestic and International Corporate Obligations, Bank Loans, Convertible Bonds and Municipal Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, International Equity Securities and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – amortized cost; (4) Alternative Investments (Real Estate Funds, Private Equity Funds, Hedge Funds, Opportunistic Debt Funds, Commingled Funds and Infrastructure Funds) – fair values based on audited financial statements of the funds and then adjusted by ISBI and its investment managers for activity from audit date to fiscal year end.

Investment Transactions and Investment Income

Investment transactions are accounted for on a trade date (date order to buy or sell is initiated) and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis. ISBI's investment pool as established by the State is exempt from Federal, State, and local income taxes.

Custody and Investment Management Fees

ISBI has contracted with investment managers approved by the Board of Trustees to make investment decisions based on investment guidelines provided to them by ISBI staff and consultants. The investment managers serve as investment advisors to ISBI. ISBI pays an investment management fee to each investment manager for these services on a quarterly basis. The investment management fee is based upon contractual agreement provisions and is computed as a percentage of each manager's portfolio market value or based on a flat fee.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Management fees paid to certain Commingled funds, Multi-Sector Credit funds, Opportunistic Debt funds, and Real Estate funds are calculated based upon the terms of each individual fund agreement, each manager's portfolio market value or ISBI's capital commitment and are reported as Investment Advisor/Managers Expense on the Statement of Changes in Net Position. Other Commingled fund, Hedge fund, Infrastructure fund, Opportunistic Debt fund, Private Equity fund, and Real Estate fund fees are reported net of investment income on the Statement of Changes in Net Position.

Northern Trust Company (Northern Trust) provides custody services for the assets managed by ISBI. These services include safekeeping and transaction processing services for all pension assets of the Member Systems and the Trust Fund. Northern Trust also provides cash management services and all necessary reporting for pension assets including performance reporting and accounting reports. Custody fees paid to Northern Trust are paid quarterly on a fixed fee basis, per ISBI's contract with Northern Trust, which includes custody services, performance and analytics services and various accounting data interface feeds.

Operational Risk Management

ISBI, as part of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program, which handles processing of all claims. ISBI retains annual commercial liability insurance. There have been no commercial insurance claims in the past five years. ISBI also maintains governmental fiduciary liability policies to insure against the risk of potential claims related to a breach of responsibilities, obligations, or duties imposed by applicable laws or regulations.

Investment Risks and Uncertainties

ISBI invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Net Position.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, ISBI makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates and assumptions and the differences may be material.

The determination of fair value for illiquid/alternative investments, such as investments in Bank Loans, Commingled funds, Hedge Funds, Infrastructure funds, Opportunistic Debt funds, Private Equity funds, and Real Estate funds, take into account consideration of a range of factors, including but not limited to the price at which the underlying investments were acquired, the nature of the underlying investments, local market conditions, trading values on public exchanges for comparable underlying investments, current and projected operating performance of the underlying investments, and financing transactions subsequent to the acquisition of the investment. Determining fair value of such investments involves a significant degree of judgment by ISBI, its custodian, and its investment managers.

Because of the inherent uncertainty of the above referenced fair values, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for ISBI employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary and includes salary-related costs (e.g., social security and Medicare tax). The liability is included in Administrative Expenses Payable on the Statement of Net Position and the annual increase or decrease in the liability is reflected in Salaries Expense on the Statement of Changes in Net Position.

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

ISBI's policy related to vacation days earned for all employees under the jurisdiction of the State of Illinois Personnel Code and employees employed on or after January 1, 2011 not subject to the jurisdiction of the Personnel Code (non-code) is in accordance with the following schedule:

- From the date of hire until the completion of 5 years of continuous service – 10 work days per year
- From the completion of 5 to 9 years of continuous service – 15 work days per year
- From the completion of 9 to 14 years of continuous service – 17 work days per year
- From the completion of 14 to 19 years of continuous service – 20 work days per year
- From the completion of 19 to 25 years of continuous service – 22 work days per year
- From the completion of 25 years of continuous service – 25 work days per year

All employees of ISBI employed prior to January 1, 2011, not subject to the Personnel Code (non-code), earn vacation leave in accordance with the following schedule adopted by ISBI:

- From date of hire until completion of 1 year of continuous service – 15 work days per year
- From completion of 1 year of continuous service until the completion of 3 years continuous service – 20 work days per year
- Thereafter – 25 work days per year

On each employee's creditable service date, any vacation time accumulated in excess of two year's vacation allowance at the current rate will be forfeited.

Note 2. Deposits, Investments, Investment Risk, and Fair Value

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, ISBI's deposits may not be returned. Non-investment related bank balances at year-end are held in a state Treasurer's Office assigned account and insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2021, ISBI had non-investment related bank balances of \$755,688.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

A Custodial Credit Risk Policy was implemented by ISBI staff and formally adopted by ISBI in July of 2007 pertaining to investment related deposits. The Policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of Northern Trust which has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody's. Certain investments of ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, ISBI reports these types of cash equivalents as Money Market Instruments in the Statement of Net Position. As of June 30, 2021, ISBI had investment related bank cash balances of \$20,314,455. These balances include various foreign cash balances at year end. Cash held in the investment related bank account is neither federally insured nor collateralized for amounts in excess of \$250,000. However, ISBI is the beneficiary of multiple policies and bonds held by Northern Trust providing for recovery of various potential losses related to services provided by Northern Trust as ISBI's custodian. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Enabling Statutes/Investment Policy

ISBI's investment authority and responsibilities are specified in the Illinois Compiled Statutes, 40 ILCS 5/1 and 40 ILCS 5/22A. These statutes provide ISBI with the authority to manage and invest certain assets.

As described in Note 1, ISBI currently manages and invests the assets of the General Assembly Retirement System, the Judges' Retirement System, the State Employees' Retirement System, and the Illinois Power Agency Trust Fund. All investments undertaken by ISBI are governed by 40 ILCS 5 adopted by the General Assembly in 1982, and other standards codified in the above reference to the statutes.

40 ILCS 5/1-109 requires all members of ISBI and other fiduciaries to "... discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and: With the care, skill, prudence and diligence...By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses[.]"

ISBI has developed a formal investment policy, which has been approved by the Board of Trustees, that outlines investment objectives and philosophies that are implemented in order to achieve the mandates established by the enabling statute.

Investment Commitments

ISBI had total unfunded investment commitments of \$3.2 billion as of June 30, 2021 across its Infrastructure, Opportunistic Debt, Private Equity, and Real Estate investment portfolios. These portfolios consist primarily of passive interests in limited partnerships. ISBI funds outstanding commitments by utilizing available cash and/or selling liquid portfolio securities as necessary.

Investment Liquidity

While the majority of ISBI's portfolio is highly liquid, ISBI does hold investments in Bank Loans, specific Commingled Funds, Hedge Funds, Infrastructure Funds, Opportunistic Debt Funds, Private Equity Funds, and Real Estate Funds that are considered illiquid by the very nature of the investment. As such, liquidity risk exists as ISBI may not be able to exit from the illiquid investments during periods of significant market value declines.

Investment Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested (e.g., Member Systems contributions and withdrawals). For

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 26.03 percent.

Fair Value Measurements of Investments

ISBI categorizes its fair value measurements within the fair value hierarchy as prescribed by U.S. generally accepted accounting principles. For the year ended June 30, 2021, ISBI had the following recurring fair value measurements:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
	\$	\$	\$	\$
Investments by fair value level				
Debt securities				
US Government, agency, and municipal obligations	310,337	521,518,323	—	521,828,660
Domestic bank loans	—	118,374,739	27,020,152	145,394,891
Domestic corporate obligations	3,719,167	239,897,539	27,394,505	271,011,211
International obligations	—	13,822,884	3,384,874	17,207,758
Total debt securities	4,029,504	893,613,485	57,799,531	955,442,520
Equity securities				
Domestic equities	3,322,805,440	8,269,963	6,616,161	3,337,691,564
International equities	306,588,527	—	466,295	307,054,822
Total equity securities	3,629,393,967	8,269,963	7,082,456	3,644,746,386
Other				
Commingled funds ¹	12,517,722,651	—	—	12,517,722,651
Total other	12,517,722,651	—	—	12,517,722,651
Total investments by fair value level	16,151,146,122	901,883,448	64,881,987	17,117,911,557
Investments measured at Net Asset Value				
Commingled funds ²				2,033,462,666
Real estate funds				2,233,918,871
Private equity funds				1,690,845,180
Infrastructure funds				310,090,578
Opportunistic debt funds				1,131,242,538
Hedge funds				76,923,377
Total investments measured at Net Asset Value				7,476,483,210
Investments not measured at fair value				
Money market instruments				250,743,051
Deposit (Subscription advance)				35,000,000
				285,743,051
Total investments				24,880,137,818

¹ Commingled Funds comprised of index tracking marketable securities with readily determinable fair values reported as Level 1

² Commingled Funds with limited individual investment look through priced using Net Asset Value

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price). Fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Unadjusted quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, either directly or indirectly. These inputs include:

- (a) Quoted prices for similar assets in active markets;
- (b) Quoted prices for identical or similar assets in markets that are not active;
- (c) Inputs other than quoted prices that are observable for the asset; or
- (d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable for the asset. The valuation of these investments requires significant judgment due to the absence of quoted market values, inherent lack of liquidity, and changes in market conditions.

Valuation methodologies are as follows:

- U.S. Treasuries and U.S. Agencies: quoted prices for identical securities in markets that are not active;
- International Government and Corporate Obligations: Brokers quote in an active market;
- Corporate Bonds: quoted prices for similar securities in active markets;
- Municipal Bonds: quoted prices for similar securities in active markets;
- Bank Loans: discounted cash flow, internal assumptions, weighting of the best available pricing inputs and third-party pricing services;
- Common Stock and Equity Funds, International Equity Securities, and Commingled Funds made up entirely of index tracking marketable securities: quoted prices for identical securities in an active market. Brokers quote in an active market;
- Money Market Funds: Amortized cost which approximates fair value;
- Derivative instruments: valued using a market approach that considers foreign exchange rates

Investments Measured at Net Asset Value

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and often take the form of limited partnerships. ISBI values these investments based on the partnerships’ audited financial statements. If June 30 audited statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 audited valuations are not available, the value is adjusted from the most recently available valuation taking into account subsequent calls and distributions, adjusted for unrealized appreciation/depreciation, other income and fees.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for alternative investments measured at NAV:

Investments Measured at NAV

June 30, 2021	FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Commingled funds	\$ 2,033,462,666	\$ —	Quarterly	90 days
Real estate funds	2,233,918,871	619.3 million	Quarterly	90 days
Private equity	1,690,845,180	1,176.2 million	N/A	N/A
Infrastructure	310,090,578	276.5 million	Quarterly	90 days
Opportunistic debt	1,131,242,538	1,126.8 million	N/A	N/A
Hedge funds	76,923,377	—	Quarterly	90 days
Total investments measured at NAV	<u>7,476,483,210</u>			

Alternative Investments

ISBI's investments in Alternative Investment vehicles consist of Commingled Funds, Hedge Funds, Infrastructure Funds, Opportunistic Debt Funds, Private Equity Funds, and Real Estate Funds. These types of vehicles are used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

- 1) Commingled Funds measured at NAV – ISBI's assets in this category consist of various investments that are blended together in order to provide economies of scale, allowing for lower trading costs per dollar of investment and diversification. These investments provide primarily liquid exposure to publicly traded equity and fixed income markets. The equity and fixed income portfolios provide diversification benefits and return enhancement to the overall fund in both domestic and international markets. Commingled funds are also called "pooled funds" and "master trusts". ISBI's current NAV measured Commingled fund exposure consists of investments in 34 domestic and international public equity (32) and fixed income (2) funds. Nine of these funds are domestic and 25 are international. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 2) Private Equity Funds – ISBI's assets in this category consist of investments in funds not listed on public exchanges. ISBI's current Private Equity exposure consists of investments in 91 funds with the goals of generating returns significantly greater than typically available in the public market and diversifying ISBI's overall portfolio that is comprised predominantly of equity and fixed income assets. The strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital and growth capital. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

- 3) Hedge Funds – ISBI's assets in this category have historically consisted of investments in funds that seek to generate better than average return and provide a hedge against a downward trend in the overall market. ISBI is currently in the process of transitioning investments in hedge fund vehicles to long-only equity vehicles. ISBI's current Hedge Fund exposure consists of investments in three funds including hedge fund and long only equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 4) Infrastructure Funds – ISBI's assets in this category consist of investments in funds that target infrastructure assets that provide essential services or facilities to a community (ports, bridges, toll roads, etc.). ISBI's current infrastructure exposure consists of investments in 12 funds that seek to diversify ISBI's overall portfolio (comprised predominantly of equity and fixed income assets) and provide capital appreciation and income generation through both open-end and closed-end structures. Investments in this category are globally diversified and consist of Core and Non-Core assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 5) Opportunistic Debt Funds – ISBI's assets in this category consist of investments in private fixed income markets. ISBI's current Opportunistic Debt exposure consists of investments in 65 funds with the goals of diversifying ISBI's overall portfolio, providing downside protection through assets that are capital collateralized, and supplementing the total return of the portfolio which is comprised predominantly of equity and fixed income assets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 6) Real Estate Funds – ISBI's assets in this category consist of investments in Core and Non-Core Real Estate Fund categories. ISBI's current Real Estate exposure consists of investments in 60 funds with the goals of diversifying ISBI's overall portfolio, providing capital appreciation and supplementing the total return of the portfolio through exposure to private real estate assets in both open-end and closed-end structures. Investments in this category are globally diversified and consist of office, industrial, multi-family, retail, storage and other types of assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 7) Deposit (Subscription Advance) – ISBI's assets in this category consist of cash contributed to alternative investment managers prior to June 30 that is being held for a pending new investment subscription on July 1. ISBI's current exposure consists of one subscription advance in Generation IM Global Equity Fund (a domestic equity commingled fund). The deposit (subscription advance) will be invested into the designated traditional commingled investment effective July 1, 2021.

Illinois State Board of Investment

Notes to Financial Statements
June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

Concentration of Credit Risk and Credit Risk for Investments

ISBI's portfolio of investments is managed by professional investment management firms. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. ISBI did not have any single issuer investment that exceeded 5% of the total investments of ISBI as of June 30, 2021.

The following table presents the quality ratings of debt securities held by ISBI as of June 30, 2021:

	Moody's Quality Rating	\$
U.S. government obligations and agency obligations	AAA	521,828,660
Total U.S. government and agency obligations		<u>521,828,660</u>
Domestic corporate obligations		
Banks	A	123,578,249
Total banks		<u>123,578,249</u>
Insurance	A	31,823,958
Total insurance		<u>31,823,958</u>
Commercial services	Not rated	9,116,800
Total commercial services		<u>9,116,800</u>
Other	A	7,564,230
	BA	10,396,447
	B	8,427,457
	CAA	5,706,905
	CA	420,000
	Not rated	73,977,165
Total other		<u>106,492,204</u>
Total domestic corporate obligations		<u>271,011,211</u>
Domestic bank loans		
	B	4,086,406
	CAA	44,741,890
	CA	2,220,005
	Not rated	94,346,590
Total domestic bank loans		<u>145,394,891</u>
International obligations		
	BAA	1,500,045
	BA	2,239,263
	C	76,765
	Not rated	13,391,685
Total international obligations		<u>17,207,758</u>
Money market instruments		
	Not rated	250,743,051
Total money market instruments		<u>250,743,051</u>

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, ISBI will not be able to recover the value of investments or collateral securities that are in the possession of counterparty. As of June 30, 2021, there were no securities held by the counterparty or by its trust department or agent but not in ISBI's name.

Interest Rate Risk

ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration. As of June 30, 2021, the effective weighted duration of ISBI's fixed income portfolio was 4.7 years and the effective duration of the benchmark index (Barclay's U.S. Universal Index) was 6.2 years.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. Below is the detail of ISBI's duration by investment type as of June 30, 2021:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Weighted Duration</u>
	\$	Years
U.S. government, agency, and municipal obligations		
U.S. government	521,518,323	4.9
U.S. federal agency	310,337	0.0
Total U.S. government, agency, and municipal obligations	<u>521,828,660</u>	
Domestic corporate obligations		
Banks	123,578,249	6.1
Insurance	31,823,958	4.4
Commercial services	9,116,800	4.9
Other	106,492,204	2.5
Total domestic corporate obligations	<u>271,011,211</u>	
International obligations	<u>17,207,758</u>	2.5
	<u><u>810,047,629</u></u>	

For the ISBI bank loans portfolio the appropriate measure of interest rate risk is weighted average maturity. Weighted average maturity is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. At June 30, 2021, the weighted average maturity of ISBI's bank loan portfolio was 5.0 years.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality, growth, and value. Risk of loss arises from changes in currency exchange rates and other factors. Certain investments held in Infrastructure, Opportunistic Debt, Private Equity, and Real Estate funds trade in a reported currency of Euro-based dollars valued at \$251,298,068 as of June 30, 2021. The following table presents other foreign currency risk by type of investment as of June 30, 2021:

	<u>International Equities</u>	<u>International Obligations</u>
	\$	\$
Australian Dollar	5,838,232	—
Brazilian Real	7,663,169	—
British Pound Sterling	32,494,361	—
Canadian Dollar	11,987,931	1,008,897
Danish Krone	4,330,169	—
Euro Currency	107,952,260	2,375,977
Hong Kong Dollar	14,240,773	—
Japanese Yen	39,986,656	—
Mexican Peso	2,207,748	—
New Israeli Shekel	289,630	—
New Taiwan Dollar	1,495,846	—
New Zealand Dollar	376,032	—
Norwegian Krone	1,112,839	—
Singapore Dollar	1,708,671	—
South African Rand	1,401,795	—
South Korean Won	13,219,954	—
Swedish Krona	3,974,494	—
Swiss Franc	27,406,232	—
Foreign Investments		
denominated in U.S. Dollars	29,368,030	13,822,884
	<u>307,054,822</u>	<u>17,207,758</u>

Derivative Securities

In fiscal year 2010, ISBI implemented GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. ISBI invests in derivative instruments including futures, options, rights and warrants, and swaps. ISBI's derivatives are considered investment derivatives.

ISBI investment managers use options to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability on ISBI's financial statements within investments purchased payable. As a purchaser of financial options, ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the Statement of Changes in Net Position.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 2. Deposits, Investments, Investment Risk, and Fair Value (Continued)

Rights and warrants allow ISBI investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. These investments are reported at fair value in the investment section of the Statement of Net Position within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the Statement of Changes in Net Position.

ISBI investment managers use swaps to periodically exchange cash flows or liabilities with a defined counterparty, primarily as a method to hedge against specific risk exposures (e.g., interest rate risk, currency risk). Principal is usually not exchanged between the counterparties as part of these agreements. The fair values of the swap contracts represent current outstanding settlement receivables (assets) or payables (liabilities). These investments are reported at fair value in either the Investments Purchased or Investments Sold lines depending on their period end position as an outstanding receivable or payable. Gains or losses are recognized in the net increase/decrease in the fair value of investments in the Statement of Change in Net Position.

The following table presents the investment derivative instruments aggregated by type that were held by ISBI as of June 30, 2021:

	Changes in Fair Value	Fair Value at Year End	Notional Amount
	\$	\$	Number of shares
Options	111,808	—	—
Rights/Warrants	432,009	458,430	752,192
Swaps	(506,818)	—	—
	<u>36,999</u>	<u>458,430</u>	<u>752,192</u>

Derivative transactions involve, to varying degrees, credit risk, and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by ISBI management and the risk positions of the investment managers are periodically reviewed by ISBI's strategic partners to monitor compliance with the limits.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 3. Member Systems' and Trust Fund Participation

	General Assembly	Judges	State Employees'	Illinois State Board of Investment Member Systems	Power Agency	Total Illinois State Board of Investment *
	\$	\$	\$	\$	\$	\$
Member Systems' and Trust Fund's Income and Expenses						
Fiscal Year Ended June 30, 2021						
Interest and dividends	758,979	14,234,650	245,731,164	260,724,793	515,684	261,240,477
Net realized gain on investments	2,231,322	42,061,153	726,090,907	770,383,382	1,517,054	771,900,436
Net unrealized gain on investments	11,891,510	224,158,857	3,870,932,395	4,106,982,762	8,154,754	4,115,137,516
Administrative expenses	(90,273)	(1,689,525)	(29,167,875)	(30,947,673)	(61,323)	(31,008,996)
Net income	<u>14,791,538</u>	<u>278,765,135</u>	<u>4,813,586,591</u>	<u>5,107,143,264</u>	<u>10,126,169</u>	<u>5,117,269,433</u>
Member Systems' and Trust Fund's Changes in Net Position						
Fiscal Year Ended June 30, 2021						
Net assets at beginning of period	57,128,518	1,076,891,158	18,637,515,972	19,771,535,648	39,427,863	19,810,963,511
Member systems' net contributions (withdrawals)	2,300,000	-	(68,000,000)	(65,700,000)	(1,681,735)	(67,381,735)
Net income	14,791,538	278,765,135	4,813,586,591	5,107,143,264	10,126,169	5,117,269,433
Net assets at end of period	<u>74,220,056</u>	<u>1,355,656,293</u>	<u>23,383,102,563</u>	<u>24,812,978,912</u>	<u>47,872,297</u>	<u>24,860,851,209</u>

The source of net assets of the Member Systems and Trust Fund since inception at June 30, 2021, is as follows:

Member systems' net contributions (withdrawals)	(89,110,878)	(101,935,968)	(3,141,826,841)	(3,332,873,687)	16,841,311	(3,316,032,376)
Accumulated net income	163,330,934	1,457,592,261	26,524,929,404	28,145,852,599	31,030,986	28,176,883,585
Net position at fair value	<u>74,220,056</u>	<u>1,355,656,293</u>	<u>23,383,102,563</u>	<u>24,812,978,912</u>	<u>47,872,297</u>	<u>24,860,851,209</u>

* Combined column for the Member Systems and Trust Fund is presented for information purposes only and does not indicate that the assets of one system may be used for another system.

Member Systems' and Trust Fund's Money Weighted Returns						
Fiscal Year Ended June 20, 2021	26.02%	26.03%	26.04%	n/a	26.07%	26.03%

Note 4. Pensions

Plan Description

All ISBI employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer, defined-benefit, public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS are included in the State of Illinois' Annual Comprehensive Financial Report (Annual Report). SERS, the General Assembly Retirement System of Illinois, the Judges' Retirement System of Illinois also issue separate Annual Reports that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, IL 62704 or by calling (217) 782-8500. The State of Illinois Annual Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, IL 62704-1858 or by calling (217)782-6000.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' Annual Report. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

ISBI also manages the investment related assets of the Illinois Power Agency Trust Fund. The Illinois Power Agency issues a separate Annual Report that may be obtained by writing to the Illinois Power Agency, 105 West Madison Street – Suite 1401, Chicago, IL 60602 or by calling (312)793-0263.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2021

Note 4. Pensions (Continued)

Funding Policy

ISBI pays employer retirement contributions based upon an actuarially determined percentage of payroll. For fiscal year 2021, the employer contribution rate was 54.831%. ISBI's contributions on behalf of ISBI employees to SERS for fiscal year 2021 was \$796,055, equal to the required contribution.

Effective for pay periods beginning after December 31, 1991, the Board opted to pay the employee portion of retirement for ISBI employees covered by the State Employees' Retirement Systems. In November 2010 the Board amended the policy to pay the employee portion of retirement to only apply to current employees as of the date of the policy change. New employees from that date forward must pay their own employee portion of retirement contributions. ISBI employee contributions to SERS for the employee portion for fiscal year 2021 was \$18,479.

Member System Contributions and Withdrawals

Member systems' contributions are comprised of amounts received directly from the State Employees' Retirement System, General Assembly Retirement System, Judges' Retirement System, and the Trust Fund. One contribution was made by the General Assembly Retirement System in fiscal year 2021, totaling \$2,300,000. A separate contribution was made by the Trust Fund in fiscal year 2021, totaling \$252. Member systems' withdrawals are determined by the member retirement systems based on the State's funding and other needs, the systems' benefit payment needs and the ability for ISBI to liquidate available assets. The total withdrawals for fiscal year 2021 (including \$1,681,987 by the Illinois Power Agency Trust Fund) were \$69,681,987.

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System, do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Annual Report. The State finances the cost on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

The Governmental Accounting Standards Board (GASB) Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* became effective for ISBI beginning in fiscal year 2018. This statement requires the allocation of Other Post Employment Benefit Plan (OPEB) liability to funds and agencies of the State of Illinois. ISBI is excluded from the allocation requirement because allocations to internal service funds, the State Employees Retirement Pension Trust Fund and

Illinois State Board of Investment

Notes to Financial Statements

June 30, 2021

the Pension Investment Fund are not considered to be appropriate because the allocation of OPEB costs for these funds must ultimately be recovered through charges to other state funds.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois 62706-4100.

Note 5. New Governmental Accounting Standards

At this time, management is not aware of any new accounting standards that will impact the financial statement presentation for its year ended June 30, 2021.



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

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

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Illinois State Board of Investment (ISBI) and its investment trust funds, the Illinois State Board of Investment Member Systems and the Illinois Power Agency Trust Fund (the Trust Funds) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise ISBI and the Trust Funds' basic financial statements, and have issued our report thereon dated December 14, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISBI and the Trust Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

/s/KPMG LLP

Chicago, Illinois
December 14, 2021

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

Prior Year Findings Not Repeated

Year Ended June 30, 2021

There were no prior year findings identified.