

AGENDA ITEM 2.

**APPROVAL OF MINUTES OF THE DECEMBER 3, 2020 JOINT MEETING
OF THE ILLINOIS STUDENT ASSISTANCE COMMISSION AND THE
INVESTMENT COMMITTEE**

Submitted for: Action

Summary: This report includes the minutes of the investment related items of the joint meeting of the Investment Committee and the Commission held on December 3, 2020

Action requested: That the Investment Committee approve the investment related portion of the minutes of the December 3, 2020 meeting as incorporated into the full Commission minutes.

**MINUTES OF THE JOINT MEETING OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION
AND THE
INVESTMENT COMMITTEE**

**VIDEO CONFERENCE
Instruction to be provided by ISAC.org**

December 3, 2020

1:00 p.m.

COMMISSIONERS PRESENT via WebEx:

Kevin Huber, Commissioner, Board Chair, Investment Committee Member
Maureen Amos, Commissioner, Investment Committee Member
James Hibbert, Commissioner, Investment Committee Member
Elizabeth Lopez, Commissioner, Vice Chair, Audit Committee Member
Darryl Arrington, Commissioner, Audit Committee Member
Franciene Sabens, Commissioner
Jonathon Bullock, Commissioner
Thomas Dowling, Commissioner
Emma Johns, Student Commissioner

COMMISSIONERS ABSENT:

Niketa Brar, Commissioner, Audit Chair and Committee Member

STAFF PRESENT via WebEx:

Eric Zarnikow, Executive Director
Lynne Baker, Managing Director, Communications
Rammath Cidambi, Chief Information Officer
Carol Cook, Director, Program Services and Compliance
Kishor Desai, Chief Internal Auditor
Katharine Gricevich, Director, Government Relations
Carmen Heredia, Chief Investment Officer
Roger Rojas, Investment Officer
Karen Salas, General Counsel
Lisa Murphy-Convey, Staff Attorney
Kathleen Cole, Staff Attorney
Shana Rogers, Managing Director, RPPA
Shoba Nandhan, Chief Financial Officer

STAFF PRESENT COND'T:

Wendy Funk, Managing Director, Accounting and Finance
Evelyn Smith, Director, Loan Portfolio
Marisa Lowe, Deputy Director, Budget & Financial Analysis
Anne Hunter, Deputy Director, Financial Reporting
Natalie Wandall, Secretary to Commission
Michael Wilder, Telecom and Network Engineer
Eddie Brambila, Managing Director Capacity Development
Meghan Chrum, Professional Development Specialist
Manuel Talavera, Professional Development Specialist
Ana Moya, Professional Development Specialist, GEAR UP
Paul Oliver III, GEAR UP Specialist
ISAC Professional Development Team
Kenya Harris, Public Relations and Social Media Manager

PUBLIC ATTENDANCE:

Jim O'Connor, Callan LLC
Brienne Weymouth, Callan LLC
Nick O'Dea, University of Illinois
Meegan Bassett, Women Employed
Eric Hiatt, University of Illinois
Joe Orsolini
Justin Slaughter
Jim Reed
Nathan
Unidentified Caller 2

The Joint Meeting of the Illinois Student Assistance Commission and the Investment Committee was called to order at 1:04 p.m.

Mr. Zarnikow, ISAC's Executive Director, began by explaining that the meeting today is being conducted through electronic means pursuant to Governor Pritzker's extension of his Gubernatorial COVID-19 Disaster Proclamation and Public Act 101-0640 which suspends the Open Meetings Act requirements for physical presence at meetings of public bodies during gubernatorial disaster proclamations.

Mr. Zarnikow stated further that is not practical or prudent to conduct the meeting in person or at the usual meeting location in downtown Chicago due to the COVID-19 disaster, so we will proceed virtually.

He further stated that with all ISAC public meetings, there is a specific time reserved in the agenda for public comment. Instructions for making public comments will be given shortly.

He indicated that WebEx instructions for all would be provided by Ana Moya.

He also explained that the new law requires a roll call for every vote and gave Commission members instructions for doing that.

He also explained that there would be a verbatim recording of the whole meeting, open and closed session, as required by law. Mr. Zarnikow then turned it over to Chair Huber.

Chair Huber called for a roll call of the Commission. A roll call of the Commission members was taken, and a quorum was established.

Chair Huber called for a roll call of the Investment Committee. A roll call of the Investment Committee members was taken, and a quorum was established.

Item 1. Announcements

Chair Huber stated that the next regularly scheduled joint meeting of the Commission will be on Thursday April 15, 2021 in Chicago. The Audit Committee is scheduled to start at 11:00 a.m. and the Joint Meeting of the Illinois Student Assistance Commission, Investment Committee and the Illinois Prepaid Tuition Investment Advisory Panel Meeting is scheduled to begin at 1:00 p.m. Currently we plan to meet in the Michael A. Bilandic Building, but we may need to do another virtual meeting.

Item 2. Approval of Minutes

Item 2A. Approval of the Minutes of the September 17, 2020 Joint Commission/Investment Committee Meeting - (Action: Investment Committee)

Ms. Amos **MOVED THAT** the Investment Committee approve the minutes of the September 17, 2020 Investment Committee meeting as incorporated into the full Commission minutes. Mr. Hibbert seconded the motion and a roll call was taken, which was unanimously approved by the Investment Committee.

Item 2B. Approval of the Minutes of the September 17, 2020 Joint Commission/Investment Committee Meeting - (Action: Commission)

Mr. Arrington **MOVED THAT** the Commission approve the minutes of the September 17, 2020 Joint Commission meeting. Ms. Johns seconded the motion and a roll call was taken, which was unanimously approved by the Commission.

Item 6. College Illinois! Prepaid Tuition Program Investments-Carmen Heredia/Roger Rojas

Item 6A. Investment Update - (Information)

Ms. Heredia reviewed the economic and market movements for the portfolio for the third quarter of 2020 (3Q20). She noted equity markets have reversed course in dramatic fashion in the space of a few weeks. What has remained the same is what we are facing in 2021; that is uncertainty related to the pandemic and therefore the economy & financial markets; liquidity concerns for the College Illinois! investment portfolio and how to maximize returns going forward within a risk-return framework. She continued by reviewing the performance for the College Illinois! investment portfolio for the quarter and longer-term periods. Referring to the Callan report, Ms. Heredia reviewed the portfolio's attribution analysis over different time horizons. She observed that due to the sharp reversal in the markets, most of our managers outperformed in the last quarter but the outperformance was not large enough to reverse the underperformance of the one-year returns. Ms. Heredia analyzed the performance of the public markets asset classes and respective managers. Active management performance will continue to be tested as the threat remains from exogenous events impacting the financial markets.

Mr. Rojas reviewed thoroughly all closed-end fund investments including outstanding risks and current/projected realizations. Mr. Rojas indicated that he foresees the potential for further writedowns in coming quarters for Alinda, TRG and CM Growth. Referring to page 33 of the Callan Report, Chair Huber asked if we should be doing something different with the private markets portfolio to get better returns or if we had any alternatives. Mr. Rojas referred to page 6A-6 of the Agenda Book and noted that the overall fund performance has been on target with the actuarial rate of return assumption for the trailing 5, 7 and 10 years. Mr. Rojas added that the fund has not kept up with the policy benchmark (-124 bps excess return for 5 years), which he agreed was disappointing. However, this has largely been driven by the inherited troubled assets within Infrastructure (contributed -72 bps) and Private Equity (contributed -33 bps) and staff did not have

any good alternatives for resolution due to the nature of these partnerships. A few years ago, we had the choice of either holding the private assets to try to maximize value (which was our preferred path) or try to exit these investments in the secondary market at an estimated 50% discount. Mr. Hibbert added that if we receive funds from the state, we might want to change our asset allocation. Mr. Rojas noted that the Commission following staff recommendations has held a very conservative asset allocation over the past eight years. The conservatism is based on the ongoing uncertainty about the long-term situation with the plan given that the State had not yet provided funding to the plan and that it is closed to new contract sales. Ms. Heredia added that the 2021 workplan for College Illinois! includes an asset liability study in which we will evaluate various scenarios for the investment portfolio. An asset allocation recommendation will be presented to the Commission in the June Commission meeting. Mr. Dowling asked about the long-term plan for the illiquid portfolio. Mr. Rojas stated that private funds have a natural life cycle (usually about 10 years) in which the manager tries to liquidate the investments at the best valuations possible, which typically is the best approach for value maximization in the long-term rather than doing sales in the secondary market. Ms. Heredia noted that we will reevaluate our options for the private markets section of our portfolio and present to the Investment Committee management's recommendation.

Mr. Rojas reviewed the Asset Allocation, Status Updates and Search Update sections as shown in the agenda book.

Item 6B. Approval of Changes to Watch List - (Action: Investment Committee)

Mr. Rojas reviewed the Approval of Changes to the Watch List as provided in the agenda book. He noted that no managers were being recommended for addition to the Watch List. However, he noted that they are currently reviewing the recent and longer-term underperformance of Ativo which may lead to a Watch List recommendation. He added that they also continue to monitor very closely Garcia Hamilton's moderate but continued underperformance.

Item 6C. Compliance Review - (Information)

Mr. Rojas reviewed the compliance report as provided in the agenda book including minority brokerage, minority investment manager participation and investment expenses. No violations or issues of concern were identified.

Item 6D. Actuarial Soundness Valuation Report - (Information)

Ms. Heredia reviewed the Summary of the Actuarial Soundness Valuation Report on page 6D-1 of the Agenda Book. She noted that the unfunded liability has gone up to approximately \$340 million from last year's actuarial soundness report due to the following variables, investment returns, changes in assumptions, tuition/fee inflation and demographic experience. However, over the last eight years we have seen a long-term improvement from the \$536 million unfunded liability estimate as of June 30,2012. An important change from last year's actuarial soundness valuation report is that we will need state funding starting FY2025 vs FY2026.

Item 6E. Prepaid Tuition Program Update - (Information)

Mr. Zarnikow noted that ISAC continues to work with the Governor's Office and General Assembly on funding from the State to address the Prepaid Tuition Program's unfunded liability. He stated that the independent actuaries for the plan determined that a roughly \$35 million dollar payment into the College Illinois! trust fund from the State would be required each year for the next 12 years to cover the program's unfunded obligations over time. He stated that the Governor had proposed to provide \$27 million in annual funding to the plan beginning with the FY 2021 budget, but because of the pandemic, the General Assembly passed a flat budget for FY2021 without any College Illinois! funding. Mr. Zarnikow stated that they are continuing to advocate for funding for College Illinois! in the budget for FY2022. We should know by mid-February 2021 what the Governor is proposing in his budget recommendation for FY2022. If the Plan cannot get the full \$35 million, we will advocate for as much as possible.

Seeing no further business to come before the Commission, Chair Huber asked for a motion to adjourn. Mr. Hibbert **SO MOVED** and Mr. Bullock seconded that motion and a roll call was taken, which was unanimously approved by the Commission.

The meeting adjourned at 3:12 p.m.

Respectfully submitted,

Kathleen Cole