



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

Compliance Examination

Year Ended June 30, 2017

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

(With Independent Auditors' Report Thereon)

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

Year ended June 30, 2017

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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
Director of Operations, Accounting and Audit	Ms. Alise M. White, 7/1/16 to 3/15/17 Mr. David Zaloga, 3/15/17 to present
Chief Fiscal Officer	Ms. Willie Genette Bacon-Cordova
General Counsel/Chief Compliance Officer	Mr. Christopher Brannan, 7/18/16 to 9/22/17 Vacant, 9/22/17 to present

Illinois State Board of Investment Office is located at:

180 North LaSalle Street
Suite 2015
Chicago, Illinois 60601

March 19, 2018

KPMG LLP
200 East Randolph Street, Suite 5500
Chicago, IL 60601

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, 2017. Based on this evaluation, we assert that during the year ended June 30, 2017, 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. 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.

Very truly yours,

ILLINOIS STATE BOARD OF INVESTMENT

SIGNED ORIGINAL ON FILE

William Atwood

Executive Director

SIGNED ORIGINAL ON FILE

David Zaloga

Director of Operations, Accounting and Audit

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

Compliance Report Summary

Year ended June 30, 2017

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

Number of	Current report	Prior report
Findings	2	1
Repeated findings	1	—
Prior recommendations implemented or not repeated	—	1

Schedule of Findings and Responses

Findings (*Government Auditing Standards*)

Item no.	Page	Description	Finding type
2017-001	10	Inaccurate Financial Reporting	Material weakness

Findings (*State Compliance*)

Item no.	Page	Description	Finding type
2017-002	12	Noncompliance with the Illinois Pension Code	Noncompliance

In addition, the following finding which is reported as a current finding relating to *Government Auditing Standards* also meets the reporting requirements for State Compliance.

Item no.	Page	Description	Finding type
2017-001	10	Inaccurate Financial Reporting	Material weakness and noncompliance

ILLINOIS STATE BOARD OF INVESTMENT
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Compliance Report Summary
Year ended June 30, 2017

Prior Year Findings Not Repeated

<u>Item no.</u>	<u>Page</u>	<u>Description</u>	<u>Finding type</u>
None			

Exit Conference

On March 8, 2018, the Illinois State Board of Investment waived the exit conference relating to the State Compliance Examination.

The responses to the recommendations were provided by David Zaloga, Director of Operations, Accounting and Audit, in correspondence dated March 8, 2018.



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

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

The Honorable Frank J. Mautino
Auditor General of the State of Illinois

and

The 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 funds, the Illinois State Board of Investment Member Systems and the 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, 2017. 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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform our examination to obtain reasonable assurance about whether ISBI complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether ISBI complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error.



We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on ISBI's compliance with specified requirements.

In our opinion, ISBI complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2017. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and responses as findings 2017-001 and 2017-002.

ISBI's responses to the findings identified in our examination are described in the accompanying schedule of findings and responses. ISBI's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control over Compliance

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in here accompanying schedule of findings and responses as item 2017-001, that we consider to be a material weakness.

There were no immaterial findings that were excluded from this report.

ISBI's responses to the findings identified in our examination are described in the accompanying schedule of findings and responses. ISBI's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the Statement of Net Position of ISBI, an internal investment pool of the State of Illinois, as of June 30, 2017, 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 Funds (the Trust Funds) as of and for the year ending June 30, 2017. ISBI and the Trust Funds collectively comprise the basic financial statements. We have issued our report thereon dated January 16, 2018, 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 January 16, 2018.

The accompanying supplementary information for the year ended June 30, 2017 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, 2017 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, 2017 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, 2017.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, ISBI's basic financial statements as of and for the year ended June 30, 2016 (not presented herein), and have issued our report thereon dated December 21, 2016, which contained unmodified opinions on the respective financial statements of ISBI. The accompanying supplementary information for the year ended June 30, 2016 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, 2016 financial statements. The accompanying supplementary information for the year ended June 30, 2016 in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the June 30, 2016 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 year ended June 30, 2016 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.

SIGNED ORIGINAL ON FILE

/s/KPMG LLP

Chicago, Illinois
March 19, 2018



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

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, 2017, 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 January 16, 2018.

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) 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 and the Trust Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of ISBI and the Trust Funds' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.



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 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.

Example Entity's Response to Findings

ISBI and the Trust Funds' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. ISBI and the Trust Funds' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 the 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.

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/s/KPMG LLP

Chicago, Illinois
January 16, 2018

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Schedule of Findings
Current Findings – *Government Auditing Standards*
Year ended June 30, 2017

Finding 2017-001 – Inaccurate Financial Reporting

The Illinois State Board of Investment (ISBI) has not established adequate internal controls over the financial reporting process.

During our audit of the financial statements as of and for the year ended June 30, 2017, we noted the value reported for one real estate investment sampled in our testing (\$13,837,421) was understated by \$5,894,255. Upon further review, we noted ISBI reported the cost basis of the investment instead of its fair value (\$19,731,676) at year end. The error (representing 42.6% of the recorded balance of the investment) was not identified during ISBI's preparation of investment reconciliations or related supervisory review procedures.

ISBI's real estate investments and total investments were \$1,601,026,564 and \$17,530,882,474, respectively, as of June 30, 2017.

Generally accepted accounting principles require investments to be measured at fair value. An investment is a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires ISBI to establish and maintain a system or systems of internal fiscal and administrative controls to ensure: (1) resources are utilized efficiently, effectively and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to accurately record investment values in ISBI's accounting records to allow for the preparation of accurate financial statements.

In discussing these conditions with ISBI management, they stated the error was the result of the failure to perform a detailed review of the real estate investment's audited financial statements and footnotes.

Failure to accurately report investments may result in the misstatement of the financial statements. (Finding Code No. 2017-001)

Recommendation

We recommend ISBI review its internal control procedures and implement the changes necessary to ensure investment accounts are accurately reported in its accounting records and in the financial statements.

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Schedule of Findings
Current Findings – *Government Auditing Standards*
Year ended June 30, 2017

ISBI Response

ISBI has reviewed its internal control procedures and has determined that this error is an isolated instance. The error was related to a single alternative investment out of a total of 117 investments of this type and resulted in an overall misstatement of 0.03% of Net Assets. Additional audit procedures were applied subsequent to the identification of the initial misstatement, including a verification of 100% of the alternative investment values included in ISBI's financial statements as of June 30, 2017.

Based on the additional audit procedures and isolated nature of the error, the existing internal control procedures related to reporting of alternative investments, which include a comparison to values independently determined and reported by our custodian, are generally adequate and result in accurate financial reporting. However, in the future the controls will be enhanced to include a more detailed review of the most recent audited financial statement for all alternative investments (including all footnote disclosures) to ensure that an error of this nature is not repeated.

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

Schedule of Findings

Current Findings – *State Compliance*

Year ended June 30, 2017

Finding 2017-002 – 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 twelve investment manager disclosures returned to ISBI, we noted the following:

- The investment manager disclosures for four investment managers did not properly disclose the number of contracts with businesses owned by a minority, a woman, or a person with a disability.
- The investment manager disclosures for the four investment managers identified above also did not properly disclose the number of contracts with other than those businesses owned by a minority, a woman, or a person with a disability if more than 50% of services performed pursuant to the contract are performed by a minority, a woman, or a person with a disability.

The Illinois Pension Code Section 40 ILCS 5/1-113.21 (a) states “No contract, oral or written, for investment services, consulting services, or commitment to a private market fund shall be awarded by a retirement system, pension fund, or investment board established under this Code unless the investment advisor, consultant, or private market fund first discloses:

- (1) the number of its investment and senior staff and the percentage of its investment and senior staff who are (i) a minority person, (ii) a woman, and (iii) a person with a disability; and
- (2) the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services that the investment advisor, consultant, or private market fund has with (i) a minority-owned business, (ii) a woman owned business, or (iii) a business owned by a person with a disability; and
- (3) the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services the investment advisor, consultant, or private market fund has with a business other than (i) a minority-owned business, (ii) a woman owned business or (iii) a business owned by a person with a disability, if more than 50% of services performed pursuant to the contract are performed by (i) a minority person, (ii) a woman, and (iii) a person with a disability.”

The Illinois Pension Code Section 40 ILCS 5/1-113.21 (b) states “The disclosures required by this Section shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for investment services, consulting services, or commitment to a private market fund.”

In discussing these conditions with ISBI officials, they stated a Request For Proposal (RFP) form was developed to document the data elements required in the law; however, some forms submitted by investment managers did not contain numerical responses but, instead, the managers indicated that they did not know, or did not track, the required information. The RFP form documenting the disclosures is given to Board members for use in the selection process. According to ISBI officials, ISBI operates under the broad financial and fiduciary standards set in 40 ILCS 5/1-109. ISBI believes it would be imprudent to exclude managers solely on the basis of this reporting requirement.

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

Schedule of Findings

Current Findings – *State Compliance*

Year ended June 30, 2017

ISBI officials also stated while all required information is requested in the RFP process, some investment managers stated that disclosure requirements of this nature are specific to Illinois law and either do not track or cannot legally provide all of the required disclosures.

Failure to obtain the necessary disclosures from the investment managers prior to awarding the contract results in noncompliance with the Illinois Pension Code. (Finding Code No. 2017-002, 2016-001)

Recommendation

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

ISBI Response

This finding is a carry forward from the fiscal year 2016 Audit and was originally communicated to ISBI in December of 2016. Subsequent to the communication of the original finding, ISBI has implemented corrective action and was in full compliance with the statute for the period January 2017 to June 2017. For the portion of fiscal year 2017 prior to the communication of the original finding (July 2016 – December 2016) ISBI was operating under the procedures that were in place during 2016, described below.

Prior to December 2016, ISBI had developed an RFP form to document the data elements required in the law; however, some forms submitted by investment managers did not contain numerical responses but, instead, the managers indicated that they did not know, or did not track, the required information. The RFP form documenting the disclosures is given to Board members for use in the selection process. According to ISBI officials, ISBI operates under the broad financial and fiduciary standards set in 40 ILCS 5/1-109. ISBI believed it would be imprudent to exclude managers solely on the basis of this reporting requirement.

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Supplementary Information for State Compliance Purposes
Year ended June 30, 2017

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
 - Schedules of 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, 2017 (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 auditor's opinion, 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)

Fiscal Schedules and Analysis
Comparative Schedules of Operations
Years ended June 30, 2017 and 2016

Schedule 1

	2017	2016	Increase (decrease)
Investment income:			
Interest	\$ 256,201,121	297,332,952	(41,131,831)
Dividends	164,227,154	175,131,744	(10,904,590)
Securities lending	954,142	3,012,190	(2,058,048)
Realized gain on investments	459,724,734	135,425,578	324,299,156
Unrealized gain (loss) on investments	1,067,652,614	(703,921,929)	1,771,574,543
Total investment income	1,948,759,765	(93,019,465)	2,041,779,230
Administrative expenses:			
Salaries and benefits	2,026,338	2,095,226	(68,888)
Operating	1,027,621	586,995	440,626
External support	27,526,126	37,960,494	(10,434,368)
Total expenses	30,580,085	40,642,715	(10,062,630)
Excess of investment income over administrative expenses	\$ 1,918,179,680	(133,662,180)	2,051,841,860

See accompanying independent accountants' report.

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

Fiscal Schedules and Analysis

Schedules of Investment Portfolio

Years ended June 30, 2017 and 2016

Schedule 2

	2017		2016	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Measured at fair value:				
Fixed income securities:				
Government and agency obligations:				
U.S. Treasury	\$ 2,463,827,683	14.19 %	\$ 1,626,996,131	10.45 %
Federal agencies and other governments	703,727,727	4.05	722,030,788	4.64
Municipal Obligations	8,524,179	0.05	—	—
Foreign government obligations	259,928,956	1.50	80,165,287	0.52
Corporate obligations:				
Finance	238,676,054	1.37	233,128,652	1.50
Industrials	332,736,578	1.92	388,110,620	2.49
Miscellaneous	211,290,951	1.22	125,297,749	0.80
Total fixed-income securities	4,218,712,128	24.29	3,175,729,227	20.40
Equities:				
Common stocks:				
U.S. equities:				
Consumer discretionary	650,338,240	3.74	588,257,680	3.78
Consumer staples	472,979,081	2.72	392,870,092	2.52
Energy	272,667,516	1.57	275,470,714	1.77
Financials	1,021,294,602	5.88	741,848,644	4.77
Healthcare	623,708,691	3.59	592,840,381	3.81
Industrials	670,084,908	3.86	452,337,089	2.91
Information technology	858,239,506	4.94	851,489,323	5.47
Materials	133,559,386	0.77	137,822,353	0.89
Telecommunication services	92,736,869	0.53	117,432,105	0.75
Utilities	164,411,483	0.95	167,189,595	1.07
Other	—	—	351,625	—
Commingled funds	1,334,987,865	7.69	961,730,986	6.18
Non-U.S. equities	2,517,173,942	14.49	2,244,023,753	14.42
Total equities	8,812,182,089	50.74	7,523,664,340	48.34

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

Fiscal Schedules and Analysis

Schedules of Investment Portfolio

Years ended June 30, 2017 and 2016

Schedule 2

	2017		2016	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Hedge funds	\$ 831,753,718	4.79	\$ 1,181,203,258	7.59
Real estate funds	1,601,026,564	9.22	1,704,064,846	10.95
Private equity	609,298,253	3.51	582,943,357	3.75
Real assets	587,711,767	3.38	592,736,380	3.81
Bank loans	424,188,017	2.44	449,925,261	2.89
Foreign currency forward contracts	(11,493,448)	(0.07)	(1,337,420)	(0.02)
Measured at amortized cost:				
Money market instruments	294,723,455	1.70	356,617,721	2.29
Total investments	\$ 17,368,102,543	100.00 %	\$ 15,565,546,970	100.00 %

See accompanying independent accountants' report.

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

Fiscal Schedules and Analysis

Schedules of Investment Manager Fees

Years ended June 30, 2017 and 2016

	2017	2016
	\$	
Appomattox	—	170,993
Ariel Investments	1,090,395	820,157
Ashmore	299,455	638,693
Brigade	277,367	—
Channing	791,574	656,857
Chicago Equity Partners	215,140	497,918
Crescent Capital	1,014,552	1,313,027
Decatur	32,459	119,393
Entrust	1,547,767	3,133,068
Fiduciary Management Associates	—	482,579
Fort Washington	685,969	1,210,286
Garcia Hamilton	545,919	438,889
Herndon Capital	—	85,421
LM Capital	300,423	510,228
LSV Asset Management	3,014,982	4,221,537
Lombardia	130,748	435,038
Macquarie	1,848,174	2,727,463
Mesirow	—	1,958,563
Nomura	103,791	—
Northern Trust Emerging Markets	1,038,704	—
Northern Trust EAFE	361,750	—
Payden Rygel	60,499	—
Rhumblin	225,986	202,517
Rockcreek	5,249,874	3,880,432
Russell Midcap	51,771	5,912
Russell1000	155,607	18,387
Segall Bryant and Hamill	—	1,642,705
Standish	—	778,398
State Street Bank	152,188	280,000

Schedule 3

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

Fiscal Schedules and Analysis

Schedules of Investment Manager Fees

Years ended June 30, 2017 and 2016

Schedule 3

	<u>2017</u>	<u>2016</u>
SSgA (Cash Overlay)	\$ 125,000	125,000
SSgA Bare	453,646	—
SSgA EAFE	311,687	—
SSgA Emerging Markets Commingled Fund	62,661	179,850
SSgA Emerging Markets Debt	110,261	—
SSgA Emerging Markets Hard Currency	54,203	—
SSgA MSCI ACWI Index	83,716	293,175
SSgA Mid Cap Growth	—	242,308
SSgA Small Cap Core	38,898	95,793
SSgA Small Cap Global	973,466	2,356,346
SSgA S&P 600	10,917	—
SSgA TIPS	75,282	—
SSgA Treasury	86,220	—
THL Credit	565,486	899,433
Templeton	1,119,624	1,726,376
Union Labor Life Investment Co. (ULLICO)	—	221,970
Vontobel Asset Management	—	1,542,691
Wellington	—	674,895
William Blair	1,398,989	1,330,602
	<u>\$ 24,665,150</u>	<u>35,916,900</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.

See accompanying independent accountants' report.

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

Fiscal Schedules and Analysis
 Schedules of Property and Equipment
 Years ended June 30, 2017 and 2016

Schedule 4

Schedules of property and equipment are as follows:

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
Cost	\$ 94,002	13,738	—	107,740
Less accumulated depreciation	<u>(41,906)</u>	<u>(13,093)</u>	<u>—</u>	<u>(54,999)</u>
Net property and equipment	<u>\$ 52,096</u>	<u>645</u>	<u>—</u>	<u>52,741</u>
	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Cost	\$ 98,174	10,016	(14,188)	94,002
Less accumulated depreciation	<u>(56,951)</u>	<u>857</u>	<u>14,188</u>	<u>(41,906)</u>
Net property and equipment	<u>\$ 41,223</u>	<u>10,873</u>	<u>—</u>	<u>52,096</u>

Note: Amounts reported in the schedule of property and equipment have been reconciled to property reports submitted to the Illinois Office of the Comptroller

See accompanying independent accountants' report.

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

Fiscal Schedules and Analysis
 Reconciliation of the State Treasurer's Cash Balance with that of ISBI
 Years ended June 30, 2017 and 2016

Schedule 5

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

	2017		
	Illinois State Board of Investment	Illinois Power Agency Trust Fund	Total
Balance per State Treasurer at June 30	\$ 574,898	—	574,898
Vouchers in transit	(6,117)	—	(6,117)
Balance per ISBI at June 30	<u>\$ 568,781</u>	<u>—</u>	<u>568,781</u>
	2016		
	Illinois State Board of Investment	Illinois Power Agency Trust Fund	Total
Balance per State Treasurer at June 30	\$ 393,683	—	393,683
Vouchers in transit	—	—	—
Balance per ISBI at June 30	<u>\$ 393,683</u>	<u>—</u>	<u>393,683</u>

See accompanying independent accountants' reports.

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

Fiscal Schedules and Analysis
Schedules of Analysis of Accounts Receivable

Years ended June 30, 2017 and 2016

Schedule 6

Schedule of Analysis of Accounts Receivable

A summary of ISBI's receivables are as follows:

	2017	2016
Receivables:		
Foreign taxes	\$ 7,435,797	5,252,269
Accounts receivable	2,546,898	303,146
Investments sold	97,846,112	1,064,061,296
Interest and dividends	37,694,772	35,808,385
Total receivables	\$ 145,523,579	1,105,425,096

ISBI's receivable balance at June 30, 2017 and 2016 amounted to \$145,523,579 and \$1,105,425,096, respectively. The balance consisted of \$47,677,467 and \$41,363,800 of dividends, interest, foreign taxes, and accounts receivable on investments held as of June 30, 2017 and 2016, respectively, and included receivables of \$97,846,112 and \$1,064,061,296 for investments sold prior to June 30, 2017 and 2016, 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.

See accompanying independent accountants' report.

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Analysis of Operations (Unaudited)
Year ended June 30, 2017

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 Study 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. At the June 2015 Board Meeting, the allocation of the Board's real estate portfolio target was temporarily adjusted to 10.4% of total plan assets. Money will be taken from the Fixed Income portfolio to fund this increase in Real Estate. The additional monies will be targeted towards International Real Estate. During fiscal year 2016, ISBI engaged Meketa Investment Group as its investment consultant. ISBI conducted an asset allocation study and, in January 2016, adopted a written Asset Allocation Study.

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Analysis of Operations (Unaudited)
Year ended June 30, 2017

Members of the Board of Trustees as of June 30, 2017 include:

Senator James Clayborne	Comptroller Susana Mendoza
Stacey Woehrle	Katherine Hennessy
Ezequiel Flores	Shari Greco Reiches
Treasurer Michael Frerichs	Justice Mary Seminara Schostok
Marc Levine	

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 10 full-time employees at June 30, 2017 and had 10 full-time employees at June 30, 2016.

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

ILLINOIS STATE BOARD OF INVESTMENT
 (An Internal Investment Pool of the State of Illinois)
 Analysis of Operations (Unaudited)
 Year ended June 30, 2017

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 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 years 2017 and 2016, 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 years 2017 and 2016. In fiscal year 2017, ISBI received \$17,000,000 in contributions from the Judges Retirement System and \$2,000,000 in contributions from the General Assembly Retirement System which were deposited into the Master Trust Account the same day. In fiscal year 2016 ISBI received \$6,500,000 in contributions from the Judges Retirement System which was deposited into the Master Trust Account the same day.

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

Series	Return
General Obligation Bonds, Pension Fund Series June 2003	7.0 %
General Obligation Bonds, Taxable Bond Series January 2010	8.4
General Obligation Bonds, Taxable Bond Series February 2011	8.2

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, 2017 and 2016, 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.

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

Analysis of Operations (Unaudited)

Year ended June 30, 2017

Overall Rates of Return (Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual total return	12.3 %	(0.8)%	4.7 %	17.9 %	14.1 %
Compound annual rate of return since July 1, 1982	8.2	9.0	9.3	9.5	9.2

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 7.0%, the actuarially assumed interest rate of return for one of ISBI's member systems, the State Employees' Retirement System (SERS). The GARS return assumption was 7.0% at June 30, 2017. The JRS return assumption was 6.75% at June 30, 2017 (reduced, effective June 30, 2016, from 7.0% to 6.75%). ISBI has assumed the same rate of return as SERS (7.0% as of June 30, 2017), as SERS's net assets represent approximately 95% of ISBI's net position as of June 30, 2017. In July 2016, SERS's return assumption was reduced from 7.25% to 7.0% effective immediately.
- At least equal to the return of a composite benchmark of market indices in the same proportions as ISBI's asset allocation policy targets.

ISBI earned a total rate of return of 12.3% for the year ended June 30, 2017.

	(Annualized)									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>
	%	%	%	%	%	%	%	%	%	%
Total fund	12.3 %	(0.8)%	4.7 %	17.9 %	14.1 %	0.1 %	21.7 %	5.3 %	9.4 %	4.6 %
Composite Benchmark*	12.0	0.7	4.0	16.3	11.8	0.9	19.6	5.4	8.8	4.8
Consumer Price Index	1.6	1.0	0.1	2.1	1.8	1.7	3.6	0.9	1.3	1.6
U.S. equities	18.7 %	(1.7)%	6.4 %	24.1 %	23.3 %	1.3 %	33.9 %	7.4 %	13.6 %	6.9 %
Russell 3000 Index	18.5	2.1	7.3	25.2	21.5	3.8	32.4	9.1	14.6	7.3
Hedge funds**	11.7 %	(8.9)%	6.0 %	15.0 %	12.6 %	(4.3)%	12.7 %	2.4 %	6.7 %	2.8 %
HFRX Equity Hedge	6.5	(5.4)	4.0	8.5	8.3	(10.7)	3.4	1.5	4.2	(1.1)
International equities	22.1 %	(7.1)%	(1.0)%	23.8 %	16.8 %	(10.7)%	32.7 %	3.7 %	9.9 %	3.0 %
MSCI-ACWI ex US Index	20.5	(9.2)	(4.6)	22.8	14.4	(14.4)	30.9	1.1	7.6	1.4
Fixed income	0.9 %	1.6 %	(1.4)%	6.5 %	2.4 %	6.8 %	5.7 %	0.3 %	1.8 %	2.8 %
Barclays Capital										
U.S. Universal Index	0.9	5.8	1.6	5.2	0.2	7.4	4.8	2.8	2.7	4.7
Real estate	7.1 %	12.0 %	16.3 %	14.5 %	13.0 %	5.3 %	17.0 %	11.1 %	11.8 %	3.1 %
NCREIF Real Estate Index	6.9	10.8	13.4	11.7	11.1	11.3	16.7	10.3	10.5	6.5
Private equity	17.9 %	7.9 %	21.5 %	24.7 %	16.2 %	7.6 %	24.0 %	14.8 %	16.6 %	9.6 %

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.

ILLINOIS STATE BOARD OF INVESTMENT
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 Analysis of Operations (Unaudited)
 Year ended June 30, 2017

* Composite Benchmark:

- Effective 07/16: 23% Russell 3000; 13% MSCI-EAFE Index; 7% MSCI Emerging Markets Index; 10% Cambridge Private Equity Index; 11% Bardays Aggregate; 3% Bardays Long Term Treasury Index; 5% Bardays US TIPS Index; 3% Bardays High Yield Index; 3% CSFB Leveraged Loan Index; 1.5% JPM GBI EM Global Diversified (unhedged); 1.5% JPM EMBI Global Diversified (hedged)
- Effective 06/14: 30% Russell 3000; 20% MSCI-ACWI ex US IMI Gross; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Custom Private Equity Benchmark, which is based on preliminary data subject to change; 10% HFRF Fund of Funds Index. The Custom Private Equity benchmark is based on peer universe return data compiled and published by Cambridge Associates, LLC. The custom benchmark returns are calculated as pooled internal rates of return (IRR).
- Effective 01/14: 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% HFRF Fund of Funds Index.
- 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.; 27% 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.

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

Analysis of Operations (Unaudited)

Year ended June 30, 2017

Net Position Allocation as of June 30, 2017 (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	\$ 4,960,020,282	29 %	23 %
U.S. equity hedge funds	824,911,805	5	3
International equity	2,517,173,942	15	20
Commingled funds ⁴	1,334,987,865	8	—
Fixed income ¹	4,218,712,128	24	24
Bank loans	424,188,017	2	2
Real estate	1,601,026,564	9	10
Private equity ²	609,298,253	4	9
Real assets ²	587,711,767	3	5
Opportunistic Debt	6,841,913	—	4
Cash ³	221,425,669	1	—
Total	<u>\$ 17,306,298,205</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.

ILLINOIS STATE BOARD OF INVESTMENT
 (An Internal Investment Pool of the State of Illinois)
 Analysis of Operations (Unaudited)
 Schedules of Soft Dollar Credits (Unaudited)
 Years ended June 30, 2017 and 2016

	2017	2016
Soft dollar credits outstanding, at beginning of fiscal year	\$ —	6,230
Soft dollar credits earned	—	—
Bank of New York payout amount	—	(6,230)
Soft dollar credits outstanding, at end of fiscal year	\$ —	—

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

ILLINOIS STATE BOARD OF INVESTMENT
 (An Internal Investment Pool of the State of Illinois)
 Analysis of Operations (Unaudited)
 Schedules of Investment Commissions (Unaudited)
 Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Investment brokerage firms:		
Auerbach Grayson Co. Inc.	\$ —	5,344
Bank of America Merrill Lynch	36,889	21,888
Barclays Capital	7,416	9,908
Cabrera Capital Markets LLC	22,457	57,862
Cantor Fitzgerald & Co.	—	8,877
Cheevers & Company	8,745	55,906
Citigroup Smith Barney Inc.	21,646	37,603
CL King & Associates	—	60,166
CLSA Singapore Pte. Ltd.	5,988	14,071
Craig Hallum	—	9,320
Credit Suisse First Boston Corp.	19,743	56,347
Deutsche Bane Securities Inc.	11,604	27,210
Exane	—	6,166
Fig Partners	69,575	31,382
Goldman Sachs & Company	16,060	20,025
Instinet	—	9,929
Investment Technology Group	17,289	45,210
ISI Group Inc.	—	6,872
ITG INC STC	9,586	—
J.P. Morgan Securities, Inc.	22,517	26,429
Jefferies & Company	—	22,281

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Analysis of Operations (Unaudited)
Schedules of Investment Commissions (Unaudited)
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Investment brokerage firms (continued):		
JMP Securities	\$ —	8,897
Johnson Rice	7,139	6,946
Jones Trading	—	7,684
Keefe Bruyette	7,835	21,722
Kepler Capital Markets	—	15,928
KeyBank Inc.	—	22,332
Liquidnet Inc.	—	14,452
Loop Capital Markets	154,181	348,987
Macquarie Equities Ltd.	5,516	13,183
Merrill Lynch Pierce Fenner & Smith	—	12,627
Mischler Financial Group	16,684	—
Morgan Stanley & Co.	8,762	27,591
Nomura Securities	13,146	5,186
Oppenheimer	—	15,560
Ramsey King	—	13,011
Raymond James & Assoc.	—	37,235
Robert W. Baird & Co.	—	26,636
Sanford C. Bernstein	—	28,992
Seaport Global	6,227	6,552
SG Securities	—	7,129
Societe Generale	6,266	10,356
Stephens Inc.	—	6,514
Stiffel, Nicolaus & Company Inc.	—	18,554
UBS Securities	7,667	49,560
US Capital	7,575	15,947
Williams Capital Group	45,218	85,143
Various (Under \$5,000)	108,676	129,790
	<u>\$ 664,407</u>	<u>1,489,310</u>

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

See accompanying independent accountants' reports.