



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

Compliance Examination

Year Ended June 30, 2018

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, 2018

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

Executive Director (Current)	Ms. Johara Farhadieh
Executive Director (7/1/17 to 6/30/18)	Mr. William R. Atwood
Director of Operations, Accounting and Audit	Mr. David Zaloga
Chief Fiscal Officer	Ms. Genette Bacon-Cordova
General Counsel/Chief Compliance Officer	Mr. Dipesh Mehta

Illinois State Board of Investment Office is located at:

180 North LaSalle Street  
Suite 2015  
Chicago, Illinois 60601



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

March 12, 2019

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 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, 2018. Based on this evaluation, we assert that during the year ended June 30, 2018, 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.

Yours truly,

ILLINOIS STATE BOARD OF INVESTMENT

**SIGNED ORIGINAL ON FILE**

Johara Farhadieh, Executive Director/Chief Investment Officer

**SIGNED ORIGINAL ON FILE**

David Zaloga, Director of Operation, Accounting and Audit

**SIGNED ORIGINAL ON FILE**

Genette Bacon, Portfolio Officer for Financial Reporting and Accounting

**SIGNED ORIGINAL ON FILE**

Dipesh Mehta, General Counsel and Chief Compliance Officer

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

Compliance Report Summary

Year ended June 30, 2018

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	2
Repeated findings	1	1
Prior recommendations implemented or not repeated	1	—

**Schedule of Findings and Responses**

**Findings (Government Auditing Standards)**

Item no.	Page	Description	Finding type
2018-001	11	Inaccurate Financial Reporting	Material weakness

**Findings (State Compliance)**

Item no.	Page	Description	Finding type
2018-002	13	Untimely Preparation of Annual Financial Report	Significant Deficiency and 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
2018-001	11	Inaccurate Financial Reporting	Material weakness and noncompliance

**Prior Year Findings Not Repeated**

Item no.	Page	Description	Finding type
2017-002	15	Noncompliance with the Illinois Pension Code	Noncompliance

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Compliance Report Summary  
Year ended June 30, 2018

**Exit Conference**

On March 1, 2019, 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 1, 2019.



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, 2018. 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, 2018. 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 2018-001 and 2018-002.

ISBI's responses to the compliance 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2018-001 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2018-002 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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



ISBI's responses to the internal control 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, 2018, 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, 2018. ISBI and the Trust Funds collectively comprise the basic financial statements. We have issued our report thereon dated December 12, 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 December 12, 2018.

The accompanying supplementary information for the year ended June 30, 2018 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, 2018 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, 2018 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, 2018.

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, 2017, and have issued our report thereon dated January 16, 2018, which contained unmodified opinions on the respective financial statements of ISBI. The accompanying supplementary information for the year ended June 30, 2017 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, 2017 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 June 30, 2017 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, 2017 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**

Chicago, Illinois  
March 12, 2019



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, 2018, 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 12, 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 2018-001 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*

#### **ISBI and the Trust Funds' Response to Findings**

ISBI and the Trust Funds' response to the finding 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 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 ISBI and the Trust Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Chicago, Illinois  
December 12, 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, 2018

**Finding 2018-001 – Inaccurate Financial Reporting**

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

During our audit of the financial statements as of and for the year ended June 30, 2018, we noted the following:

- For two private equity funds sampled in our testing (totaling \$31,335,419), the fair value of the investments reported was understated by \$1,947,059. Upon further review, we noted ISBI reported preliminary estimated investment values received from the investment manager for these investments and did not have procedures in place to evaluate and update the final fair value amounts reported by the manager (\$33,282,478). In response to the error identified in our audit procedures, ISBI identified nine additional private equity funds under the same investment manager for which an estimated fair value of the investments was reported (totaling \$79,456,829). The final fair value provided by the investment manager for these nine investments totaled \$80,589,143, resulting in an understatement of \$1,132,314. The errors (representing 2.78% of the recorded balance of the investments) were not identified during ISBI's preparation of investment reconciliations or related supervisory procedures. Correcting adjustments were made to the financial statements by ISBI to account for these errors.
- For one bank loan fund sampled in our testing (totaling \$187,206,014), the fair value of the investment reported was overstated by \$160,342. Upon further review, we noted ISBI reported the value of the investment inclusive of the applicable management fees and accrued expenses instead of its fair value (\$187,045,672) at year end. The error (representing 0.09% of the recorded balance of the investment) was not identified during ISBI's preparation of investment reconciliations or related supervisory procedures. ISBI determined this error was not material to the financial statements and a correcting adjustment was not made to account for this error.

ISBI's private equity investments, bank loan investments, and total investments were \$706,768,270, \$464,315,920, and \$18,320,775,728, respectively, as of June 30, 2018.

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.

**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, 2018

In discussing these conditions with ISBI officials, they stated the errors identified by the auditors in the first bullet were the result of late reporting by an investment manager for several funds which was not communicated by management when the initial draft was provided. The error reported in the second bullet was the result of an oversight by management.

Failure to accurately report investments may result in the misstatement of the financial statements. (Finding Code 2018-001, 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. To the extent preliminary or estimated balances are initially reported, ISBI should establish procedures to evaluate, monitor, and update (if necessary) these items when final valuations are received.

*ISBI Response*

ISBI agrees with the finding and recommendation. ISBI reviewed its internal control procedures and determined that this error was primarily isolated to a single private equity fund manager (with an immaterial variance identified for a second bank loan fund manager). The total error identified resulted in an overall net understatement of \$2,919,031 or 0.02% of Net Assets. The root cause of the error was the use of final estimated values received instead of the values included on the final capital statements. Additional management review and audit procedures were applied subsequent to the identification of the initial misstatement and outside of the two aforementioned managers, no additional issues were identified. ISBI adjusted its final financial statements to correct the initial understatement related to the private equity funds (\$3,079,373). The overstatement related to the bank loan fund (\$160,342) was not adjusted for due to its immateriality.

Based on the additional audit procedures, management review and the limited scope of the error (isolated primarily to a single private equity fund manager), 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, controls will be enhanced to eliminate the use of estimated values in the quarterly and year-end alternative investment analysis even on a preliminary basis. ISBI will also enhance the additional control related to comparison of final alternative investment values to an independent third-party source in addition to the custodian. Finally, management will proactively communicate with investment managers that have historically provided information late in each reporting cycle and attempt to obtain final capital statements as early in the cycle as possible.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Current Findings – *State Compliance*  
Year ended June 30, 2018

**Finding 2018-002 – Untimely Preparation of Annual Financial Report**

The Illinois State Board of Investment (ISBI) did not prepare its annual report within the timeframe required by the Illinois Pension Code.

During our testing of State mandates applicable to ISBI, we noted the audit of ISBI's annual financial report was not completed until January 16, 2018 (date of auditors' report) and was publicly released by the Illinois Office of the Auditor General on January 31, 2018. Accordingly, ISBI did not provide its annual report to each pension fund, retirement system or education fund under its jurisdiction within 6 months after the close of the fiscal year as required by the Illinois Pension Code.

The Illinois Pension Code Section 40 ILCS 5/22A-115 states "At least annually, the books, records, accounts and securities of the board shall be audited by a certified public accountant designated by the Auditor General of the State. The audit opinion shall be published as a part of the annual report of the board.

An annual report shall be prepared by the board for submission to each pension fund, retirement system or education fund under its jurisdiction within 6 months after the close of each fiscal year. A fiscal year shall date from July 1 of one year to June 30 of the year next following. This report shall embody full information concerning the results of investment operations of the board for the year, including the foregoing information and, in addition thereto, the following:

- (1) a listing of the investments held by the board as at the end of the year showing their book values and market values and their income yields on market value;
- (2) the amounts as determined under paragraph (a) above allocable to each pension fund or education fund managed by the board;
- (3) comments on the pertinent factors affecting the operations of the board for the year;
- (4) a review of the policies maintained by the board and any changes therein that occurred during the year;
- (5) a copy of the audited financial statements for the year;
- (6) recommendations for possible changes in the law governing the operations of the board; and
- (7) a listing of the names of securities brokers and dealers dealt with during the year showing the total amount of commissions received by each on transactions with the board".

In discussing these conditions with ISBI officials, they stated the delay in meeting the mandate requirement was due to financial reporting errors identified by the auditors which needed to be investigated and corrected by management.

Failure to prepare the annual report for submission within required timeframes results in noncompliance with the Illinois Pension Code.

A similar finding was not reported in prior year audit. (Finding Code 2018-002)

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

Current Findings – *State Compliance*

Year ended June 30, 2018

*Recommendation*

We recommend ISBI establish procedures to ensure annual financial reports are prepared and made available to the pension funds, retirement systems, and education funds under its jurisdiction within timeframes required by the Illinois Pension Code.

*ISBI Response*

ISBI agrees with the finding and recommendation. The issuance of the fiscal year 2017 audit report on January 16, 2018 was impacted by an error identified in mid-December 2017 which required additional audit procedures. Prior to the additional audit procedures, ISBI was on track to issue the financial audit report by December 31, 2017. Identification of the finding late in the audit process was impacted by a delay in the completion of the fiscal year 2017 financial statements by approximately two weeks due to additional work that was required related to ISBI's transition to a new custodian during the year. This additional work caused a delay in the confirmation process and resulted in the late return of one confirmation that was the basis of the finding. ISBI has reviewed its procedures related to the audit processes and determined that they are sufficient in a normal year. If a custodian transition occurs in a future year, ISBI will ensure that all work related to the preparation of the year- end financial statements and audit schedules are completed in timeframes that will allow for the issuance of the annual financial report consistent with the requirements of the Illinois Pension Code.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Prior Findings not Repeated – *State Compliance*  
Year ended June 30, 2018

**Finding 2017-002 – Noncompliance with the Illinois Pension Code**

In the prior year, the Illinois State Board of Investment (ISBI) did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code. (Finding Code No. 2017-002, 2016-001).

During 2018, ISBI did not enter into any new investments subject to the disclosure requirements included in the Illinois Pension Code. As such, similar exceptions were not identified in the current year.

**ILLINOIS STATE BOARD OF INVESTMENT**  
(An Internal Investment Pool of the State of Illinois)  
Supplementary Information for State Compliance Purposes  
Year ended June 30, 2018

**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, 2018 (Unaudited)
  - Schedules of Investment Commissions (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, 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, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Increase (decrease)</u>
Investment income:			
Interest	\$ 227,060,817	256,201,121	(29,140,304)
Dividends	172,658,524	164,227,154	8,431,370
Securities lending	1,817,362	954,142	863,220
Realized gain on investments	930,314,393	459,724,734	470,589,659
Unrealized gain on investments	<u>26,819,446</u>	<u>1,067,652,614</u>	<u>(1,040,833,168)</u>
Total investment income	<u>1,358,670,542</u>	<u>1,948,759,765</u>	<u>(590,089,223)</u>
Administrative expenses:			
Salaries and benefits	2,259,753	2,026,338	233,415
Operating expenses	1,109,250	1,027,621	81,629
External support	<u>23,840,072</u>	<u>27,526,126</u>	<u>(3,686,054)</u>
Total expenses	<u>27,209,075</u>	<u>30,580,085</u>	<u>(3,371,010)</u>
Excess of investment income over			
administrative expenses	\$ <u>1,331,461,467</u>	<u>1,918,179,680</u>	<u>(586,718,213)</u>

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, 2018 and 2017

	2018		2017	
	Amount	Percentage of portfolio	Amount	Percentage of portfolio
Measured at fair value:				
Fixed income securities:				
Government and agency obligations:				
U.S. Treasury	\$ 3,051,823,419	16.66 %	2,463,827,683	14.19 %
Federal agencies and other governments	721,173,138	3.94	703,727,727	4.05
Municipal Obligations	8,911,164	0.05	8,524,179	0.05
Foreign government obligations	317,071,356	1.73	259,928,956	1.50
Corporate obligations:				
Finance	306,945,996	1.68	238,676,054	1.37
Industrials	92,423,482	0.50	332,736,578	1.92
Asset backed	578,786,352	3.16	—	—
Miscellaneous	—	—	211,290,951	1.22
Total fixed-income securities	<u>5,077,134,907</u>	<u>27.72</u>	<u>4,218,712,128</u>	<u>24.30</u>
Equities:				
Common stocks:				
U.S. equities:				
Consumer discretionary	677,209,349	3.70	650,338,240	3.74
Consumer staples	427,655,991	2.33	472,979,081	2.72
Energy	317,091,533	1.73	272,667,516	1.57
Financials	1,052,470,928	5.74	1,021,294,602	5.88
Healthcare	635,872,088	3.47	623,708,691	3.59
Industrials	711,232,202	3.88	670,084,908	3.86
Information technology	1,015,657,190	5.54	858,239,506	4.94
Materials	143,097,676	0.78	133,559,386	0.77
Telecommunication services	90,979,497	0.50	92,736,869	0.53
Utilities	155,440,941	0.85	164,411,483	0.95
Other	510,927	0.01	—	—
Commingled funds	1,721,839,058	9.39	1,334,987,865	7.69
Non-U.S. equities	2,310,044,822	12.60	2,517,173,942	14.49
Total equities	<u>9,259,102,202</u>	<u>50.52</u>	<u>8,812,182,089</u>	<u>50.73</u>
Hedge funds	360,744,003	1.97	831,753,718	4.79
Opportunistic debt	225,053,335	1.23	—	—
Real estate funds	1,594,774,574	8.70	1,601,026,564	9.22
Private equity	706,768,270	3.86	609,298,253	3.51
Real assets	408,985,767	2.23	587,711,767	3.38
Bank loans	464,315,920	2.53	424,188,017	2.44
Foreign currency forward contracts	(7,847,062)	(0.03)	(11,493,448)	(0.08)
Measured at amortized cost:				
Money market instruments	231,743,812	1.27	294,723,455	1.71
Total investments	<u>\$ 18,320,775,728</u>	<u>100.00 %</u>	<u>17,368,102,543</u>	<u>100.00 %</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Ariel Investments	\$ 1,523,780	1,090,395
Ashmore	—	299,455
Brigade	864,897	277,367
Channing	884,894	791,574
Chicago Equity Partners	—	215,140
Commonwealth	25,374	—
Crescent Capital	863,768	1,014,552
Decatur	—	32,459
Entrust	—	1,547,767
Fort Washington	—	685,969
Garcia Hamilton	584,771	545,919
ING Clarion	983,384	—
LM Capital	—	300,423
LSV Asset Management	2,763,202	3,014,982
Lombardia	—	130,748
Macquarie	1,838,444	1,848,174
Nomura	952,910	103,791
Northern Trust Emerging Markets	595,100	1,038,704
Northern Trust EAFE	248,400	361,750
Payden Rygel	463,625	60,499
Rhumblin	273,572	225,986
Rockcreek	4,012,955	5,249,874
Russell Midcap	59,467	51,771
Russell 1000	173,033	155,607
State Street Bank	—	152,188
SSgA (Cash Overlay)	125,000	125,000
SSgA Bare	526,725	453,646
SSgA EAFE	453,043	311,687
SSgA Emerging Markets Commingled Fund	120,756	62,661
SSgA Emerging Markets Debt	228,474	110,261
SSgA Emerging Markets Hard Currency	100,504	54,203
SSgA MSCI ACWI Index	—	83,716
SSgA Small Cap Core	—	38,898
SSgA Small Cap Global	626,209	973,466
SSgA S&P 600	47,407	10,917
SSgA TIPS	70,918	75,282
SSgA Treasury	129,019	86,220
THL Credit	523,773	565,486
Templeton	—	1,119,624
William Blair	1,552,747	1,398,989
	<u>\$ 21,616,151</u>	<u>24,665,150</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, 2018 and 2017

**Schedules of property and equipment are as follows:**

	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2018</b>
Cost	\$ 107,740	9,589	—	117,329
Less accumulated depreciation	<u>(54,999)</u>	<u>(6,356)</u>	—	<u>(61,355)</u>
Net property and equipment	\$ <u>52,741</u>	<u>3,233</u>	<u>—</u>	<u>55,974</u>

	<b>Balance at June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2017</b>
Cost	\$ 94,002	13,738	—	107,740
Less accumulated depreciation	<u>(41,906)</u>	<u>(13,093)</u>	—	<u>(54,999)</u>
Net property and equipment	\$ <u>52,096</u>	<u>645</u>	<u>—</u>	<u>52,741</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, 2018 and 2017

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

	<b>2018</b>		
	<b>Illinois State Board of Investment</b>	<b>Illinois Power Agency Trust Fund</b>	<b>Total</b>
Balance per State Treasurer at June 30	\$ 903,540	—	903,540
Vouchers in transit	—	—	—
Balance per ISBI at June 30	<u>\$ 903,540</u>	<u>—</u>	<u>903,540</u>
	<b>2017</b>		
	<b>Illinois State Board of Investment</b>	<b>Illinois Power Agency Trust Fund</b>	<b>Total</b>
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>

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, 2018 and 2017

**Schedule of Analysis of Accounts Receivable**

A summary of ISBI's receivables are as follows:

	<u>2018</u>	<u>2017</u>
Receivables		
Foreign taxes	\$ 9,989,126	7,435,797
Accounts receivable	804,989	2,546,898
Investments sold	39,530,945	97,846,112
Interest and dividends	<u>46,610,768</u>	<u>37,694,772</u>
Total receivables	<u>\$ 96,935,828</u>	<u>145,523,579</u>

ISBI's receivable balance at June 30, 2018 and 2017 amounted to \$96,935,828 and \$145,523,579, respectively. The balance consisted of \$57,404,883 and \$47,677,467 of dividends, interest, foreign taxes, and accounts receivable on investments held as of June 30, 2018 and 2017, respectively, and included receivables of \$39,530,945 and \$97,846,112 for investments sold prior to June 30, 2018 and 2017, 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, 2018

**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, 2018

**Board Functions and Planning Program (Continued) (Unaudited)**

Members of the Board of Trustees as of June 30, 2018 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 11 full-time employees at June 30, 2018 and had 10 full-time employees at June 30, 2017.

**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

**ILLINOIS STATE BOARD OF INVESTMENT**  
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 Analysis of Operations (Unaudited)  
 Year ended June 30, 2018

Account with the Illinois State Board of Investment the same day. The monies were combined with ISBI's other investments and invested in accordance with the asset allocation policy of ISBI during the year ended June 30, 2010.

Public Act 96-1497 (the Act) became effective on January 14, 2011 and authorized the State of Illinois to issue up to \$4.1 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. On March 10, 2011, the State of Illinois issued \$3.7 billion of General 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 2018 and 2017, 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 2018 and 2017. In fiscal year 2018, ISBI received \$11,600,000 in contributions from the Judges Retirement System and \$700,000 in contributions from the General Assembly Retirement System which were deposited into the Master Trust Account the same day. 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 was deposited into the Master Trust Account the same day.

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

<b>Series</b>	<b>Return</b>
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, 2018 and 2017, 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, 2018

**Overall Rates of Return (Unaudited)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual total return	7.6 %	12.3 %	(0.8)%	4.7 %	17.9 %
Compound annual rate of return since July 1, 1982	8.2	8.2	9.0	9.3	9.5

**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, 2018. The JRS return assumption was 6.75% at June 30, 2018 (reduced, effective June 30, 2017, from 7.0% to 6.75%). ISBI has assumed the same rate of return as SERS (7.0% as of June 30, 2018), as SERS's net assets represent approximately 94% of ISBI's net position as of June 30, 2018. 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 7.6% for the year ended June 30, 2018.

	(Annualized)									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>
	%	%	%	%	%	%	%	%	%	%
Total fund	7.6	12.3	(0.8)	4.7	17.9	14.1	0.1	6.2	8.1	6.0
Composite benchmark*	7.4	12.0	0.7	4.0	16.3	11.8	0.9	6.6	7.9	6.0
Consumer price index	2.9	1.6	1.0	0.1	2.1	1.8	1.7	1.8	1.5	1.6
U.S. equities	14.3	18.7	(1.7)	6.4	24.1	23.3	1.3	10.0	11.9	9.8
Russell 3000 Index	14.8	18.5	2.1	7.3	25.2	21.5	3.8	11.6	13.3	10.2
International equities	7.6	22.1	(7.1)	(1.0)	23.8	16.8	(10.7)	6.7	8.1	4.9
MSCI-ACWI ex US index	7.7	20.5	(9.2)	(4.6)	22.8	14.4	(14.4)	5.5	6.4	2.9
Fixed income	0.9	0.9	1.6	(1.4)	6.5	2.4	6.8	1.1	1.6	2.4
Barclays capital U.S. universal index	(0.3)	0.9	5.8	1.6	5.2	0.2	7.4	2.1	2.6	4.1
Real estate	7.3	7.1	12.0	16.3	14.5	13.0	5.3	8.4	10.8	3.6
Real estate CB	7.1	6.9	10.8	13.4	11.7	11.1	11.3	8.3	10.0	6.3
Private equity	20.6	17.9	7.9	21.5	24.7	16.2	7.6	14.8	17.6	12.3

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**  
 (An Internal Investment Pool of the State of Illinois)  
 Analysis of Operations (Unaudited)  
 Year ended June 30, 2018

\* Composite Benchmark:

- Effective 07/17: 23% Russell 3000; 13% MSCI-EAFE Index; 8% MSCI Emerging Markets Index; 7% Cambridge Private Equity Index; 10% Barclays Aggregate; 4% Barclays Intermediate Treasuries; 4% Barclays Long Term Treasury Index; 4% Barclays US TIPS Index; 2.5% Barclays High Yield Index; 2.5% CSFB Leveraged Loan Index; 1.5% JPM GBI EM Global Diversified (unhedged); 1.0% JPM EMBI Global Diversified (hedged); 8% S&P/LSTA US Levered Loan 100 Index; 10% NCREIF OCE; 2% CPI + 3.5%
- Effective 07/16: 23% Russell 3000; 13% MSCI-EAFE Index; 7% MSCI Emerging Markets Index; 10% Cambridge Private Equity Index; 11% Barclays Aggregate; 3% Barclays Long Term Treasury Index; 5% Barclays US TIPS Index; 3% Barclays 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% HFRI 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% HFRI 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. <\$287% 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.

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

Analysis of Operations (Unaudited)

Year ended June 30, 2018

**Net Position Allocation as of June 30, 2018 (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	\$ 5,219,371,260	28 %	23 %
U.S. equity hedge funds	360,744,003	2	—
International equity	2,310,044,822	13	21
Commingled funds <sup>4</sup>	1,721,839,058	9	—
Fixed income <sup>1</sup>	5,077,134,907	28	26
Bank loans	464,315,920	3	3
Real estate	1,594,774,574	9	10
Private equity <sup>2</sup>	706,768,270	4	7
Infrastructure <sup>2</sup>	408,985,767	2	2
Opportunistic debt	225,053,335	1	8
Cash <sup>3</sup>	231,743,812	1	—
Total	<u>\$ 18,320,775,728</u>	<u>100 %</u>	<u>100 %</u>

<sup>1</sup> Maturities of one year or longer, including convertible bonds.

<sup>2</sup> Interests in limited partnerships and other entities which have limited liquidity.

<sup>3</sup> Includes money market instruments (at amortized cost) and other assets, less liabilities.

<sup>4</sup> 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)

Year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Investment brokerage firms:		
Academy Securities	\$ 41,366	—
Bank of America Merrill Lynch	19,960	36,889
Barclays Capital	16,106	7,416
BNY Mellon Capital	11,428	—
Cabrera Capital Markets LLC	71,657	22,457
CastleOak	15,518	—
Cheevers & Company	—	8,745
Citigroup Inc.	27,930	21,646
CLSA Singapore Pte. Ltd.	5,298	5,988
Credit Suisse First Boston Corp.	18,453	19,743
DA Davidson	6,379	—
Deutsche Bank Securities Inc.	5,303	11,604
Fig Partners	—	69,575
FTN Financial	5,323	—
Goldman Sachs & Company	12,875	16,060
Instinet	15,919	—
Investment Technology Group	8,713	17,289
ITG INC STC	—	9,586
J.P. Morgan Securities, Inc.	24,624	22,517
Jefferies & Company	6,361	—
Johnson Rice	—	7,139
Keefe Bruyette	6,716	7,835
Liquidnet Inc.	5,209	—
Loop Capital Markets	145,256	154,181
Macquarie Equities Ltd.	—	5,516
Merrill Lynch Pierce Fenner & Smith	15,208	—
MFR Securities	7,803	—
Mischler Financial Group	14,442	16,684
Morgan Stanley & Co.	16,544	8,762
Nomura Securities	12,866	13,146
Penserra Securities	22,586	—
Robert W. Baird & Co.	9,760	—
Seaport Global	—	6,227
Societe Generale	—	6,266
Stephens Inc.	7,402	—
UBS Securities	18,214	7,667
US Capital	—	7,575
Williams Capital Group	22,504	45,218
Various (Under \$5,000)	101,605	108,676
	<u>\$ 719,328</u>	<u>664,407</u>

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

See accompanying independent accountants' reports.