

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

Financial Statements
June 30, 2022
(With Independent Auditors' Report Thereon)
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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

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ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Agency Officials, Board Officers, and Board Members
Year Ended June 30, 2022

AGENCY OFFICIALS

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

BOARD OFFICERS

Chair of the Board (12/11/2018 – 9/29/2021)	Justice Mary Seminara-Schostok
Chair of the Board (9/29/2021 – Present)	Terrence Healy
Vice Chair of the Board (1/12/2015 – Present)	Treasurer Michael W. Frerichs
Recording Secretary (3/29/2019 – 9/29/2021)	Gisela Attlan
Recording Secretary (9/29/2021 – 9/30/2022)	Justice Mary Seminara-Schostok
Recording Secretary (9/30/2022 – Present)	Gisela Attlan
Member at Large (12/5/2016 – Present)	Comptroller Susana A. Mendoza

BOARD MEMBERS

Trustee (5/1/2019 – Present)	Senator Robert Martwick
Trustee (9/9/2019 – Present)	Elizabeth Sanders
Trustee (3/29/2019 – Present)	Michael Tarnoff
Trustee (9/17/2022 – Present)	Justice Debra Walker
Trustee (3/29/2019 – Present)	Jaye Williams

Illinois State Board of Investment Office is located at:

180 North LaSalle Street
Suite 2015
Chicago, Illinois 60601

ILLINOIS STATE BOARD OF INVESTMENT
(An Internal Investment Pool of the State of Illinois)
Summary
Year Ended June 30, 2022

Financial Statement Report Summary

The audit of the accompanying financial statements of the Illinois State Board of Investment (ISBI) as of and for the year ended June 30, 2022 was performed by KPMG LLP. Based on their audit, the auditors expressed an unmodified opinion on ISBI's basic financial statements.

Summary of Findings

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

Exit Conference

On December 2, 2022, the Illinois State Board of Investment waived the exit conference relating to the Financial Statement Report.



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

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the financial statements of the Illinois State Board of Investment (ISBI), an internal investment pool of the State of Illinois, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise ISBI's basic financial statements as listed in the table of contents. We also have audited the financial statements of each fund of ISBI, as of and for the year ended June 30, 2022, as displayed in ISBI's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of ISBI, as of June 30, 2022, and the changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles. In addition, in our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective net position of each fund of ISBI, as of June 30, 2022, and the respective changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ISBI, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of ISBI are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of ISBI. They do not purport to, and do not, present fairly the financial position of the State of Illinois, as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ISBI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022 on our consideration of ISBI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ISBI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ISBI's internal control over financial reporting and compliance.

/s/KPMG LLP

Chicago, Illinois
December 15, 2022

Illinois State Board of Investment

Management's Discussion and Analysis – Unaudited

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

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview of ISBI financial activities for the fiscal years ended June 30, 2022 and 2021.

Financial Highlights

ISBI's net asset position totaled approximately \$23.2 billion as of June 30, 2022, compared to approximately \$24.9 billion as of June 30, 2021. The decrease from the previous year is primarily the result of investment valuation decreases related to the current global economic downturn.

COVID-19 Overview

The COVID-19 pandemic continued to evolve throughout the fiscal year, significantly impacting local and global economies alike. Measures taken by federal, state, and local governments to contain the virus across the business world as enacted and enforced throughout 2020 and 2021 were eased in 2022. In alignment with federal and state regulations, ISBI designed personnel in-office safety and health protocols prior to reopening the office formally in the spring of 2022. ISBI follows applicable government policies and strives to execute its operating mandates in the safest way possible for all ISBI personnel.

General Market Risk

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

Financial Statement Overview

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

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

The decrease in investments at June 30, 2022 is a result of investment losses of 6.3% for the fiscal year, net of expenses, shown in the Statement of Changes in Net Position. The decrease in liabilities and receivables for fiscal year 2022 when compared against 2021 is primarily related to less pending investment purchases and sales at June 30, 2022 compared to the prior year, simply the result of the timing of these transactions.

Illinois State Board of Investment

Management's Discussion and Analysis – Unaudited (Continued)

Condensed Statement of Net Position			
June 30			
	2022	2021	Change
	\$	\$	\$
Cash	11,343,185	21,070,143	(9,726,958)
Receivables	51,299,857	77,523,457	(26,223,600)
Investments	23,140,651,302	24,880,137,818	(1,739,486,516)
Prepaid expenses	17,062	67,644	(50,582)
Capital assets and capital leases	315,116	50,263	264,853
Total assets	23,203,626,522	24,978,849,325	(1,775,222,803)
Liabilities	25,742,435	117,998,116	(92,255,681)
Total net position	23,177,884,087	24,860,851,209	(1,682,967,122)

The Statement of Changes in Net Position presents information regarding changes during the fiscal year ended June 30, 2022. These statements reflect additions and deductions, which include the investment income and losses derived from realized and unrealized gains/losses and Member Systems and Trust Fund contributions. Also reflected in the statements are deductions, which include withdrawals from the Member Systems and Trust Fund and administrative expenses of ISBI.

ISBI recorded \$1.6 billion in net investment losses in the fiscal year resulting from decreased valuations of investments held as of June 30, 2022. Prior year net investment income was \$5.1 billion. Additionally, Member Systems withdrawals decreased in the current year to \$9.3 million compared with \$69.7 million in fiscal year 2021. Withdrawals are determined by the Member Systems and Trust Fund based on the State of Illinois' funding and the Member Systems' benefit payment needs and Trust Fund requirements. The decrease in administrative expenses for fiscal year 2022 compared to 2021 is primarily due to decreases in portfolio transaction related fees, driven by a decrease in separately managed account transaction activity.

Condensed Statement of Changes in Net Position			
Fiscal Years Ended June 30			
	2022	2021	Change
	\$	\$	\$
Additions:			
Net investment income/(loss)	(1,647,074,557)	5,148,278,429	(6,795,352,986)
Member Systems' and Trust Fund contributions	3,200,240	2,300,252	899,988
Total additions	(1,643,874,317)	5,150,578,681	(6,794,452,998)
Deductions:			
Member Systems' and Trust Fund withdrawals	9,256,000	69,681,987	(60,425,987)
Administrative expenses	29,836,805	31,008,996	(1,172,191)
Total deductions	39,092,805	100,690,983	(61,598,178)
Net increase/(decrease) in net position	(1,682,967,122)	5,049,887,698	(6,732,854,820)

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

Illinois State Board of Investment

**Statement of Net Position
June 30, 2022**

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ASSETS			
Cash	\$ 11,322,910	\$ 20,275	\$ 11,343,185
Receivables:			
Foreign taxes	5,421,660	9,708	5,431,368
Investments sold	21,521,633	38,537	21,560,170
Interest and dividends	24,264,870	43,449	24,308,319
Total receivables	<u>51,208,163</u>	<u>91,694</u>	<u>51,299,857</u>
Prepaid expenses	<u>17,032</u>	<u>30</u>	<u>17,062</u>
Capital assets	<u>28,117</u>	<u>50</u>	<u>28,167</u>
Capital lease	<u>286,436</u>	<u>513</u>	<u>286,949</u>
Investments:			
US government, agency, and municipal obligations	445,405,622	797,552	446,203,174
Domestic equities	3,966,439,155	7,102,384	3,973,541,539
International equities	291,336,055	521,672	291,857,727
Domestic bank loans	142,343,165	254,882	142,598,047
Domestic corporate obligations	277,102,739	496,186	277,598,925
International obligations	13,312,583	23,838	13,336,421
Commingled funds	11,057,949,243	19,800,583	11,077,749,826
Real estate funds	2,848,135,215	5,099,927	2,853,235,142
Private equity funds	2,055,765,156	3,681,094	2,059,446,250
Private credit funds	1,381,669,381	2,474,044	1,384,143,425
Infrastructure funds	447,072,669	800,537	447,873,206
Hedge funds	557,143	998	558,141
Money market instruments	167,210,069	299,410	167,509,479
Deposit (Subscription advance)	4,991,063	8,937	5,000,000
Total investments	<u>23,099,289,258</u>	<u>41,362,044</u>	<u>23,140,651,302</u>
Total assets	<u>23,162,151,916</u>	<u>41,474,606</u>	<u>23,203,626,522</u>
LIABILITIES			
Payables:			
Investments purchased	17,999,410	32,230	18,031,640
Administrative expenses	7,410,576	13,270	7,423,846
Capital lease obligations	<u>286,436</u>	<u>513</u>	<u>286,949</u>
Total liabilities	<u>25,696,422</u>	<u>46,013</u>	<u>25,742,435</u>
Net position	<u>23,136,455,494</u>	<u>41,428,593</u>	<u>23,177,884,087</u>

See notes to financial statements, pages 11 - 24.

Illinois State Board of Investment

**Statement of Changes in Net Position
June 30, 2022**

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ADDITIONS			
Investment income/(loss):			
Net increase/(decrease) in fair value			
of investments	\$ (2,112,848,683)	\$ (3,793,214)	\$ (2,116,641,897)
Interest and other	405,295,572	742,746	406,038,318
Dividends	63,412,811	116,211	63,529,022
Total investment income/(loss)	<u>(1,644,140,300)</u>	<u>(2,934,257)</u>	<u>(1,647,074,557)</u>
Member Systems' and Trust Fund contributions	<u>3,200,000</u>	<u>240</u>	<u>3,200,240</u>
Total additions	<u>(1,640,940,300)</u>	<u>(2,934,017)</u>	<u>(1,643,874,317)</u>
DEDUCTIONS			
Administrative expenses:			
Salaries and benefits:			
Salaries	1,626,189	2,931	1,629,120
Benefits	1,283,657	2,314	1,285,971
Operating expenses:			
Rent and utilities	392,951	708	393,659
Audit	278,498	502	279,000
Other	391,076	705	391,781
External support:			
Custody	546,515	985	547,500
Consulting and professional services	604,016	1,089	605,105
Investment advisors/managers	24,793,291	44,692	24,837,983
Investment services and research	92,548	167	92,715
Other	5,960	11	5,971
Reimbursement of DC Plan Expenses	(231,583)	(417)	(232,000)
Total administrative expenses	<u>29,783,118</u>	<u>53,687</u>	<u>29,836,805</u>
Member Systems' and Trust Fund withdrawals	<u>5,800,000</u>	<u>3,456,000</u>	<u>9,256,000</u>
Total deductions	<u>35,583,118</u>	<u>3,509,687</u>	<u>39,092,805</u>
Increase/(decrease) in net position	(1,676,523,418)	(6,443,704)	(1,682,967,122)
Net position at beginning of year	<u>24,812,978,912</u>	<u>47,872,297</u>	<u>24,860,851,209</u>
Net position at end of year	<u>23,136,455,494</u>	<u>41,428,593</u>	<u>23,177,884,087</u>

See notes to financial statements, pages 11 - 24.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

The assets of the Member Systems and the Trust Fund are accounted for in a single commingled fund. Separate information on each Member System's and the Trust Fund's participation is presented in Note 3. The assets of the Trust Fund came under the management of ISBI in fiscal year 2012. The assets and liabilities of the Member Systems and Trust Fund are reported on the Statement of Net Position. The revenues and expenses for the Member Systems and Trust Fund for fiscal year 2022 are reported on the Statement of Changes in Net Position.

Basis of Accounting

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

Valuation of Investments

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Domestic and International Corporate Obligations, Bank Loans, Convertible Bonds and Municipal Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, International Equity Securities and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Commingled Funds, Real Estate Funds, Private Equity Funds, Private Credit Funds, Infrastructure Funds, and Hedge Funds – generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV.

Money market instruments are measured at amortized cost.

Investment Transactions and Investment Income

Investment transactions are accounted for on a trade date (date order to buy or sell is initiated) and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis. ISBI's investment pool as established by the State is exempt from Federal, State, and local income taxes. In the event that income taxes are withheld on investments held outside of the United States as required by local international governments, foreign tax reclaim processes are performed to recover applicable foreign tax withholdings.

Custody and Investment Management Fees

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

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Operational Risk Management

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

Investment Risks and Uncertainties

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

Use of Estimates

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

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

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

Illinois State Board of Investment

**Notes to Financial Statements
June 30, 2022**

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

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

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

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

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

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

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

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

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

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, ISBI's deposits may not be returned. Non-investment related bank balances at year-end are held in a state Treasurer's Office assigned account and insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2022, ISBI had non-investment related bank balances of \$761,339.

A Custodial Credit Risk Policy was implemented by ISBI staff and formally adopted by ISBI in July of 2007 pertaining to investment related deposits. The Policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of Northern Trust which has an A+ Long-term Deposit/Debt rating by Standard & Poor's and an A2 rating by Moody's. Certain investments of ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, ISBI reports these types of cash equivalents as Money Market Instruments in the Statement of Net Position. As of June 30, 2022, ISBI had investment related bank cash balances of \$10,581,845. These balances include various foreign cash balances at year end. Cash held in the investment related bank account is neither federally insured nor collateralized for amounts in excess of \$250,000. However, ISBI is the beneficiary of multiple policies and bonds held by Northern Trust providing for recovery of various potential losses related to services provided by Northern Trust as ISBI's custodian. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Enabling Statutes/Investment Policy

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

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

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

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

Investment Commitments

ISBI had total unfunded investment commitments of \$3.4 billion as of June 30, 2022 across its Real Estate, Private Equity, Private Credit, and Infrastructure investment portfolios. These portfolios consist primarily of passive interests in limited partnerships. ISBI funds outstanding commitments by utilizing available cash and/or selling liquid portfolio securities as necessary.

Investment Liquidity

While the majority of ISBI's portfolio is highly liquid, ISBI does hold investments in Bank Loans, specific Commingled Funds, Real Estate Funds, Private Equity Funds, Private Credit Funds, Infrastructure Funds,

Illinois State Board of Investment

**Notes to Financial Statements
June 30, 2022**

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

and Hedge Funds that are considered illiquid by the very nature of the investment. As such, liquidity risk exists as ISBI may not be able to exit from the illiquid investments during periods of significant fair value declines.

Investment Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested (e.g., Member Systems contributions and withdrawals). For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -6.68 percent.

Fair Value Measurements of Investments

ISBI categorizes its fair value measurements within the fair value hierarchy as prescribed by U.S. generally accepted accounting principles. For the year ended June 30, 2022, ISBI had the following recurring fair value measurements:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
<u>Investments by fair value level</u>	\$	\$	\$	\$
Debt securities				
US Government, agency, and municipal obligations	241,763	445,961,411	—	446,203,174
Domestic bank loans	6,276,099	122,459,154	13,862,794	142,598,047
Domestic corporate obligations	4,326,722	257,928,753	15,343,450	277,598,925
International obligations	2,289,423	10,172,680	874,318	13,336,421
Total debt securities	<u>13,134,007</u>	<u>836,521,998</u>	<u>30,080,562</u>	<u>879,736,567</u>
Equity securities				
Domestic equities	3,962,708,697	—	10,832,842	3,973,541,539
International equities	291,599,417	—	258,310	291,857,727
Total equity securities	<u>4,254,308,114</u>	<u>—</u>	<u>11,091,152</u>	<u>4,265,399,266</u>
Other				
Commingled funds ¹	9,423,825,696	—	—	9,423,825,696
Total other	<u>9,423,825,696</u>	<u>—</u>	<u>—</u>	<u>9,423,825,696</u>
Total investments by fair value level	<u>13,691,267,817</u>	<u>836,521,998</u>	<u>41,171,714</u>	<u>14,568,961,529</u>
<u>Investments measured at Net Asset Value</u>				
Commingled funds ²				1,653,924,130
Real estate funds				2,853,235,142
Private equity funds				2,059,446,250
Private credit funds				1,384,143,425
Infrastructure funds				447,873,206
Hedge funds				558,141
Total investments measured at Net Asset Value				<u>8,399,180,294</u>
<u>Investments not measured at fair value</u>				
Money market instruments				167,509,479
Deposit (subscription advance) ³				5,000,000
Total investments not measured at fair value				<u>172,509,479</u>
Total investments				<u>23,140,651,302</u>

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

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

³ Cash contributed prior to June 30, 2022 that is being held by the manager for a new investment subscription on July 1, 2022

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

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

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

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

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

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

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

Valuation methodologies are as follows:

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

Investments Measured at Net Asset Value

Investments valued using the net asset value (NAV) per share (or its equivalent) are mostly “alternative investments” which, unlike more traditional investments, generally do not have readily obtainable fair values. ISBI’s estimate of the fair value of these alternative investments is determined based on the NAVs of the respective investment funds provided by external investment fund managers. NAV may be used as a practical expedient to estimate the fair value of the investment if certain eligibility criteria are met. Additionally, ISBI’s NAV measurement date (June 30) is different than the year-end the auditors’ reports cover (December 31) for a majority of these investment funds. ISBI evaluates the reliability of the NAVs reported by fund managers at June 30, 2022 based upon, among other factors, the funds’ audited financial statements as of December 31, 2021, as well as the key factors and assumptions used to monitor, collect, and analyze the valuations of the alternative investments in relation to relevant literature.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

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

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

Investments Measured at NAV

June 30, 2022	FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Commingled funds	\$ 1,653,924,130	\$ —	Quarterly	90 days
Real estate funds	2,853,235,142	692.1 million	Quarterly	90 days
Private equity	2,059,446,250	1,257.9 million	N/A	N/A
Private credit	1,384,143,425	1,201.0 million	N/A	N/A
Infrastructure	447,873,206	253.0 million	Quarterly	90 days
Hedge funds	558,141	—	Quarterly	90 days
Total investments measured at NAV	<u>8,399,180,294</u>			

The following content provides further descriptions of investments measured at NAV:

- 1) Commingled Funds measured at NAV – ISBI's assets in this category consist of various investments that are blended together in order to provide economies of scale, allowing for lower trading costs per dollar of investment and diversification. These investments provide primarily liquid exposure to publicly traded equity and fixed income markets. The equity and fixed income portfolios provide diversification benefits and return enhancement to the overall fund in both domestic and international markets. Commingled funds are also called "pooled funds" and "master trusts". ISBI's current NAV measured Commingled fund exposure consists of investments in 35 domestic and international public equity (34) and fixed income (1) funds. 16 of these funds are domestic and 19 are international. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. ISBI has no plans to liquidate these investments as of June 30, 2022. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.
- 2) Real Estate Funds – ISBI's assets in this category consist of investments in Core and Non-Core Real Estate Funds. ISBI's current Real Estate exposure consists of investments in 71 funds with the goals of diversifying ISBI's overall portfolio, providing capital appreciation and supplementing the total return of the portfolio through exposure to private real estate assets in both open-end and closed-end structures. Investments in this category are globally diversified and consist of office, industrial, multi-family, retail, storage and other types of assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2022. It is not probable that any investment will be sold at an amount different from the NAV of ISBI's ownership interest.

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

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

- 3) Private Equity Funds – ISBI’s assets in this category consist of investments in funds not listed on public exchanges. ISBI’s current Private Equity exposure consists of investments in 107 funds with the goals of generating returns significantly greater than typically available in the public market and diversifying ISBI’s overall portfolio that is comprised predominantly of equity and fixed income assets. The strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital and growth capital. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. ISBI has no plans to liquidate these investments as of June 30, 2022. It is not probable that any investment will be sold at an amount different from the NAV of ISBI’s ownership interest.
- 4) Private Credit Funds – ISBI’s assets in this category consist of investments in private fixed income markets. ISBI’s current Private Credit exposure consists of investments in 82 funds with the goals of diversifying ISBI’s overall portfolio, providing downside protection through assets that are capital collateralized, and supplementing the total return of the portfolio which is comprised predominantly of equity and fixed income assets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2022. It is not probable that any investment will be sold at an amount different from the NAV of ISBI’s ownership interest.
- 5) Infrastructure Funds – ISBI’s assets in this category consist of investments in funds that target infrastructure assets that provide essential services or facilities to a community (ports, bridges, toll roads, etc.). ISBI’s current infrastructure exposure consists of investments in 19 funds that seek to diversify ISBI’s overall portfolio (comprised predominantly of equity and fixed income assets) and provide capital appreciation and income generation through both open-end and closed-end structures. Investments in this category are globally diversified and consist of Core and Non-Core assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. ISBI has no plans to liquidate these investments as of June 30, 2022. It is not probable that any investment will be sold at an amount different from the NAV of ISBI’s ownership interest.
- 6) Hedge Funds – ISBI’s assets in this category have historically consisted of investments in funds that seek to generate better than average return and provide a hedge against a downward trend in the overall market. ISBI is currently in the process of transitioning investments in hedge fund vehicles to long-only equity vehicles. ISBI’s current Hedge Fund exposure consists of investments in two funds including hedge fund and long only equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. It is not probable that any investment will be sold at an amount different from the NAV of ISBI’s ownership interest.

Deposit (Subscription Advance)

This asset category consists of cash contributed to alternative investment managers prior to June 30 that is being held for a pending new investment subscription on July 1. ISBI’s current period end balance consists of one subscription advance in WindAcre Partnership International Fund (an international equity commingled fund). The deposit (subscription advance) will be invested into the designated traditional commingled investment effective July 1, 2022.

Illinois State Board of Investment

Notes to Financial Statements
June 30, 2022

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

Concentration of Credit Risk and Credit Risk for Investments

ISBI's portfolio of investments is managed by professional investment management firms. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. ISBI does not set specific credit risk limits within its investment policy and did not have any single issuer investment that exceeded 5% of the total investments of ISBI as of June 30, 2022.

The following table presents the quality ratings of debt securities held by ISBI as of June 30, 2022:

	Moody's Quality Rating	\$
U.S. government obligations and agency obligations	AAA	446,203,174
Total U.S. government and agency obligations		446,203,174
Domestic corporate obligations		
Banks	A	143,995,302
Total banks		143,995,302
Insurance	A	26,852,975
	CAA	193,000
Total insurance		27,045,975
Other	AA	9,641,434
	A	6,156,865
	BAA	2,952,171
	BA	5,485,890
	B	7,044,294
	CAA	5,653,293
	CA	174,492
	Not rated	69,449,209
Total other		106,557,648
Total domestic corporate obligations		277,598,925
Domestic bank loans		
	B	3,242,658
	CAA	33,629,377
	CA	40,020
	Not rated	105,685,992
Total domestic bank loans		142,598,047
International obligations		
	BA	2,979,677
	Not rated	10,356,744
Total international obligations		13,336,421
Money market instruments		
	Not rated	167,509,479
Total money market instruments		167,509,479

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

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

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, ISBI will not be able to recover the value of investments or collateral securities that are in the possession of counterparty. ISBI's investment policy places no limit on the amount ISBI may invest in any one issuer. As of June 30, 2022, there were no securities held by the counterparty or by its trust department or agent but not in ISBI's name.

Interest Rate Risk

ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration. ISBI does not set specific investment weighted duration limits within its investment policy. As of June 30, 2022, the effective weighted duration of ISBI's fixed income portfolio was 6.9 years and the effective duration of the benchmark index (Barclay's U.S. Universal Index) was 6.4 years.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. Below is the detail of ISBI's duration by investment type as of June 30, 2022:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Weighted Duration</u>
	\$	Years
U.S. government, agency, and municipal obligations		
U.S. government	445,961,411	8.6
U.S. federal agency	241,763	4.3
Total U.S. government, agency, and municipal obligations	<u>446,203,174</u>	
Domestic corporate obligations		
Banks	143,995,302	5.3
Insurance	27,045,975	3.4
Other	106,557,648	3.4
Total domestic corporate obligations	<u>277,598,925</u>	
International obligations	<u>13,336,421</u>	2.5
	<u>737,138,520</u>	

For the ISBI bank loans portfolio, the appropriate measure of interest rate risk is weighted average maturity. Weighted average maturity is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. At June 30, 2022, the weighted average maturity of ISBI's bank loan portfolio was 5.2 years.

Illinois State Board of Investment

Notes to Financial Statements
June 30, 2022

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

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality, growth, and value. Risk of loss arises from changes in currency exchange rates and other factors. Certain investments held in Real Estate, Private Equity, Private Credit, and Infrastructure funds trade in a reported currency of Euro-based or British Pound-based dollars valued at \$367,448,304 as of June 30, 2022. ISBI does not set specific foreign denominated investment limits within its investment policy. The following table presents other foreign currency risk by type of investment as of June 30, 2022:

	<u>International Equities</u>	<u>International Obligations</u>
	\$	\$
Australian Dollar	6,139,172	—
Brazilian Real	10,830,286	—
British Pound Sterling	34,003,683	360,692
Canadian Dollar	10,769,830	1,100,168
Danish Krone	3,459,734	—
Euro Currency	98,686,656	—
Hong Kong Dollar	6,871,261	—
Japanese Yen	31,840,567	—
Mexican Peso	2,311,268	—
New Israeli Shekel	310,010	—
New Taiwan Dollar	1,274,640	—
New Zealand Dollar	107,701	—
Norwegian Krone	1,265,896	513,626
Singapore Dollar	1,162,627	—
South African Rand	336,961	—
South Korean Won	17,491,090	—
Swedish Krona	4,117,593	—
Swiss Franc	22,788,031	—
Foreign Investments		
denominated in U.S. Dollars	38,090,721	11,361,935
	<u>291,857,727</u>	<u>13,336,421</u>

Derivative Securities

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

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

Illinois State Board of Investment

Notes to Financial Statements
June 30, 2022

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

The following table presents the investment derivative instruments aggregated by type that were held by ISBI as of June 30, 2022:

	Changes in Fair Value	Fair Value at Year End	Notional Amount
	\$	\$	Number of shares
Rights/Warrants	(96,366)	362,064	249,323
	<u>(96,366)</u>	<u>362,064</u>	<u>249,323</u>

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

Note 3. Member Systems' and Trust Fund Participation

	General Assembly	Judges	State Employees'	Illinois State Board of Investment Member Systems	Power Agency	Total Illinois State Board of Investment *
	\$	\$	\$	\$	\$	\$
Member Systems' and Trust Fund's Income and Expenses						
Fiscal Year Ended June 30, 2022						
Interest and dividends	1,413,647	25,561,103	441,733,633	468,708,383	858,957	469,567,340
Net realized gain on investments	2,533,541	45,237,539	782,074,416	829,845,496	1,513,209	831,358,705
Net unrealized gain/(loss) on investments	(8,967,891)	(160,125,354)	(2,773,600,934)	(2,942,694,179)	(5,306,423)	(2,948,000,602)
Administrative expenses	(90,600)	(1,623,235)	(28,069,283)	(29,783,118)	(53,687)	(29,836,805)
Net income/(loss)	<u>(5,111,303)</u>	<u>(90,949,947)</u>	<u>(1,577,862,168)</u>	<u>(1,673,923,418)</u>	<u>(2,987,944)</u>	<u>(1,676,911,362)</u>

Member Systems' and Trust Fund's Changes in Net Position
Fiscal Year Ended June 30, 2022

Net assets at beginning of period	74,220,056	1,355,656,293	23,383,102,563	24,812,978,912	47,872,297	24,860,851,209
Member systems' net contributions/(withdrawals)	3,200,000	(5,800,000)	-	(2,600,000)	(3,455,760)	(6,055,760)
Net income/(loss)	(5,111,303)	(90,949,947)	(1,577,862,168)	(1,673,923,418)	(2,987,944)	(1,676,911,362)
Net assets at end of period	<u>72,308,753</u>	<u>1,258,906,346</u>	<u>21,805,240,395</u>	<u>23,136,455,494</u>	<u>41,428,593</u>	<u>23,177,884,087</u>

The source of net assets of the Member Systems and Trust Fund since inception at June 30, 2022, is as follows:

Member systems' net contributions/(withdrawals)	(85,910,878)	(107,735,968)	(3,141,826,841)	(3,335,473,687)	13,385,551	(3,322,088,136)
Accumulated net income	158,219,631	1,366,642,314	24,947,067,236	26,471,929,181	28,043,042	26,499,972,223
Net position at fair value	<u>72,308,753</u>	<u>1,258,906,346</u>	<u>21,805,240,395</u>	<u>23,136,455,494</u>	<u>41,428,593</u>	<u>23,177,884,087</u>

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

Member Systems' and Trust Fund's Money Weighted Returns						
Fiscal Year Ended June 20, 2022	(6.78%)	(6.66%)	(6.68%)	n/a	(6.48%)	(6.68%)

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

Note 4. Pensions

Plan Description

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

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

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

Funding Policy

ISBI pays employer retirement contributions based upon an actuarially determined percentage of payroll. For fiscal year 2022, the employer contribution rate was 56.169%. ISBI's contributions on behalf of ISBI employees to SERS for fiscal year 2022 was \$888,551, equal to the required contribution.

Effective for pay periods beginning after December 31, 1991, the Board opted to pay the employee portion of retirement for ISBI employees covered by the State Employees' Retirement Systems. In November 2010 the Board amended the policy to pay the employee portion of retirement to only apply to current employees as of the date of the policy change. New employees from that date forward must pay their own employee portion of retirement contributions. ISBI employee contributions to SERS for the employee portion for fiscal year 2022 was \$19,167.

Member Systems and Trust Fund Contributions and Withdrawals

Member systems' contributions are comprised of amounts received directly from the State Employees' Retirement System, General Assembly Retirement System, Judges' Retirement System, and the Trust Fund. One contribution was made by the General Assembly Retirement System in fiscal year 2022, totaling \$3,200,000. A separate contribution was made by the Trust Fund in fiscal year 2022, totaling \$240. Member systems' withdrawals are determined by the member retirement systems based on the State's funding and other needs, the systems' benefit payment needs and the ability for ISBI to liquidate available assets. The total withdrawals for fiscal year 2022 (including \$3,456,000 by the Illinois Power Agency Trust Fund) were \$9,256,000.

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is

Illinois State Board of Investment

Notes to Financial Statements June 30, 2022

Note 4. Pensions (Continued)

covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System, do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

The Governmental Accounting Standards Board (GASB) Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* became effective for ISBI beginning in fiscal year 2018. This statement requires the allocation of Other Post Employment Benefit Plan (OPEB) liability to funds and agencies of the State of Illinois. ISBI is excluded from the allocation requirement because allocations to internal service funds, the State Employees Retirement Pension Trust Fund and the Pension Investment Fund are not considered to be appropriate because the allocation of OPEB costs for these funds must ultimately be recovered through charges to other state funds.

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

Note 5. New Governmental Accounting Standards

GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Further, GASB No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset where a lessee must recognize a lease liability and an intangible right-to-use lease asset, and a lessor must recognize a lease receivable and a deferred inflow of resources. ISBI has adopted GASB No. 87 and the impact to ISBI's financial statements and related disclosures was not material.

At this time, management is not aware of any other new accounting standards that will materially impact the financial statement presentation for its year ended June 30, 2022.

Note 6. Subsequent Events

ISBI has performed an evaluation of subsequent events through December 15, 2022, which is the date the financial statements were available to be issued, noting no material subsequent events that require disclosure.



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

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

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Illinois State Board of Investment (ISBI), which comprise ISBI's statement of net position as of June 30, 2022, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements, which collectively comprise ISBI's basic financial statements, and have issued our report thereon dated December 15, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISBI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our



audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

/s/KPMG LLP

Chicago, Illinois
December 15, 2022

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

Prior Year Findings Not Repeated

Year Ended June 30, 2022

There were no prior year findings identified.