



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE BOARD OF INVESTMENT

State Compliance Examination
 For the Year Ended June 30, 2017

Release Date: April 5, 2018

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	2016			17-2
Category 2:	0	0	0				
Category 3:	0	1	1				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers our Compliance Examination of the Illinois State Board of Investment (Board or ISBI) for the year ended June 30, 2017. A separate Financial Audit as of and for the year ending June 30, 2017 was previously released on January 31, 2018. That report contained one finding.

SYNOPSIS

- (17-02) The Board did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditure and Activity Measures are summarized on the next page.}

**ILLINOIS STATE BOARD OF INVESTMENT
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2017**

SCHEDULE OF OPERATIONS	FY 2017	FY 2016
REVENUE:		
Investment Income - Interest.....	\$ 256,201,121	\$ 297,332,952
Investment Income - Dividends.....	164,227,154	175,131,744
Investment Income - Securities Lending.....	954,142	3,012,190
Realized Gain on Investments.....	459,724,734	135,425,579
Unrealized Gain on Investments.....	1,067,652,614	(703,921,929)
Total Investment Income.....	<u>1,948,759,765</u>	<u>(93,019,464)</u>
External Support (Investment Expense).....	(27,526,126)	(37,960,494)
Net Investment Income	<u>1,921,233,639</u>	<u>(130,979,958)</u>
EXPENSES:		
Operating Expenses.....	<u>(3,053,959)</u>	<u>(2,682,221)</u>
Revenue Over Expenses.....	<u>\$ 1,918,179,680</u>	<u>\$ (133,662,179)</u>
INVESTMENT PORTFOLIO ANALYSIS - Fair Value		
	June 30, 2017	June 30, 2016
Total Government and Agency Obligations.....	\$ 3,167,555,410	\$ 2,349,026,919
Total Corporate Obligations.....	782,703,583	746,537,021
Foreign Government and Municipal Obligations.....	268,453,135	80,165,287
U.S. Common Stocks, Equities & Commingled Funds.....	6,295,008,147	5,279,640,587
Non - U.S. Equity Securities.....	2,517,173,942	2,244,023,753
Real Estate Funds.....	1,601,026,564	1,704,064,846
Private Equity.....	609,298,253	582,943,357
Real Assets.....	587,711,767	592,736,380
Hedge Funds.....	831,753,718	1,181,203,258
Money Market Instruments.....	294,723,455	356,617,721
Bank Loans.....	424,188,017	449,925,261
Foreign Currency Forward Contracts.....	(11,493,448)	(1,337,420)
Total Investment Portfolio.....	<u>\$ 17,368,102,543</u>	<u>\$ 15,565,546,970</u>
INVESTMENT ALLOCATION (unaudited)		
	June 30, 2017	June 30, 2016
U.S. Equity & Commingled Funds.....	37%	33%
U.S. Equity Hedge Funds.....	5%	8%
International Equity.....	15%	14%
Fixed Income.....	24%	20%
Real Estate.....	9%	11%
Private Equity.....	4%	4%
Real Assets.....	3%	4%
Bank Loans.....	2%	3%
Cash.....	<u>1%</u>	<u>3%</u>
Total.....	<u>100%</u>	<u>100%</u>
SELECTED INVESTMENT RETURNS ACTUAL (bold) AND BENCHMARK (unaudited)		
	June 30, 2017	June 30, 2016
Total Fund.....	12.3%	-0.8%
Composite benchmark.....	12.0%	0.7%
U.S. Equities.....	18.7%	-1.7%
Russell 3000 Index.....	18.5%	2.1%
International Equities.....	22.1%	-7.1%
MSCI-ACWI ex US Index IMI Gross.....	20.5%	-9.2%
Fixed Income.....	0.9%	1.6%
Barclays Capital U.S. Universal Index.....	0.9%	5.8%
Real Estate.....	7.1%	12.0%
NCREIF Real Estate Index.....	6.9%	10.8%
EXECUTIVE DIRECTOR		
During Engagement Period: William R. Atwood		
Currently: William R. Atwood		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONCOMPLIANCE WITH THE ILLINOIS PENSION CODE

Noncompliance with the Illinois Pension Code

The Illinois State Board of Investment (ISBI) did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

During our testwork of twelve investment manager disclosures returned to ISBI, we noted the following:

- The investment manager disclosures for four investment managers did not properly disclose the number of contracts with businesses owned by a minority, a woman, or a person with a disability.
- The investment manager disclosures for the four investment managers identified above also did not properly disclose the number of contracts with other than those businesses owned by a minority, a woman, or a person with a disability if more than 50% of services performed pursuant to the contract are performed by a minority, a woman, or a person with a disability. (Finding 2, pages 12-13)

Investment manager disclosures were not fully completed in compliance with the Illinois Pension Code

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

ISBI officials stated that subsequent to December 2016 they have implemented corrective action and were in full compliance with the statute for the period January 2017 to June 2017.

AUDITOR'S OPINION

The financial audit was previously released. The auditors stated the financial statements of the Board as of and for the year ended June 30, 2017 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Board for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the Board complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by KPMG LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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