KPMG

ILLINOIS STATE BOARD OF INVESTMENT

An Internal Investment Pool of the State of Illinois

Financial Statements
June 30, 2020
(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)

Table of Contents

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

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
Director of Operations, Accounting and Audit (7/1/2017 – 6/26/2020)	Mr. David Zaloga
Director of Operations, Accounting and Audit (Acting) (6/27/2020 – 8/30/2020)	Mr. Jansen Hein
Director of Operations, Accounting and Audit (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 (9/27/2013 – Present)	Justice Mary Seminara-Schostok
Vice Chair of the Board (1/12/2015 – Present)	Treasurer Michael W. Frerichs
Recording Secretary (3/29/2019 – Present)	Gisela Attlan

BOARD MEMBERS

Member at Large (12/5/2016 – Present)	Comptroller Susana A. Mendoza
Trustee (5/1/2019 – Present)	Senator Robert Martwick
Trustee (9/9/2019 – Present)	Elizabeth Sanders
Trustee (3/29/2019 – Present)	Michael Tarnoff
Trustee (3/29/2019 – Present)	Jaye Williams
Trustee (3/29/2019 – 3/22/2020)	Ronald Powell
Trustee (3/23/2020 – 8/30/2020)	Vacant
Trustee (8/31/2020 – Present)	Terrence Healy

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)

Financial Statement Report Summary

The audit of the accompanying financials statements of the Illinois State Board of Investment (ISBI) as of and for the year ended June 30, 2020 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:	Current Report	Prior Year Report
Findings	None	None
Repeated findings	None	None
Prior recommendations implemented or not repeated	None	1

Exit Conference

On December 9, 2020, 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 Financial Statements

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the accompanying Statement of Net Position of the Illinois State Board of Investment (ISBI), an internal investment pool of the State of Illinois, as of June 30, 2020, 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 Fund (the Trust Funds) as of and for the year ending June 30, 2020. ISBI and the Trust Funds collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of ISBI and the Trust Funds, as of June 30, 2020, and the changes in net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6-8 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 10, 2020 on our consideration of ISBI and the Trust Funds' 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 and the Trust Funds' 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 and the Trust Funds' internal control over financial reporting and compliance.

/s/KPMG LLP

Chicago, IL
December 10, 2020

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, 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 Chairman 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 the Illinois State Board of Investment (ISBI) financial activities for the fiscal years ended June 30, 2020 and 2019.

Financial Highlights

ISBI's net asset position totaled approximately $19.8 billion as of the June 30, 2020 fiscal year end, compared to approximately $19.2 billion at June 30, 2019. The increase from the previous year is primarily the result of investment income and appreciation.

COVID-19 Overview

The COVID-19 pandemic developed rapidly in 2020, significantly impacting local and global economies alike. Measures taken by federal, state, and local governments to contain the virus have affected professional and economic activity across the business world. In alignment with federal and state regulations, ISBI took several measures to monitor and mitigate initial business operating effects of COVID-19, including staff-wide work from home arrangements and personnel in-office safety and health planning for when ISBI's office formally re-opens in the future. At this stage, the impact on our business operations has not been significant and, based on our experience to date, we expect this to remain the case going forward. We will continue to follow applicable government policies and do our best to continue our operations 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 deep a market downturn 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 current global COVID-19 pandemic and associated national and global economic volatility, readers of these financial statements are advised that financial markets remain volatile and may experience significant changes on a daily basis.

Overview of the Financial Statements

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 the cash and short-term investments, receivables, and other assets and liabilities.

The increase in investments at June 30, 2020 is a result of an investment gain of 4.6% for the fiscal year, net of expenses which are shown in the Statement of Changes in Net Position. The decrease in liabilities and receivables for fiscal 2020 when compared against 2019 is primarily related to less pending investment purchases and sales on June 30, 2020, simply the result of the timing of these transactions. Additionally, 2020 operating expense accrual increases were observed resulting from third quarter management fee payment limited delays attributed to COVID-19 operational adjustments.

Condensed Statement of Net Position
June 30

	2020	2019	Change
	$	$	$
Cash	13,810,790	10,614,738	3,196,052
Receivables	35,146,223	158,755,234	(123,609,011)
Investments	19,809,844,873	19,100,995,581	708,849,292
Prepaid expenses	122,078	81,102	40,976
Capital assets	53,250	59,455	(6,205)
Total assets	19,858,977,214	19,270,506,110	588,471,104
Liabilities	48,013,703	111,241,101	(63,227,398)
Total net position	19,810,963,511	19,159,265,009	651,698,502

The Statement of Changes in Net Position presents information regarding changes during the fiscal year ended June 30, 2020. These statements reflect additions and deductions, which include the investment income and losses derived from realized and unrealized gains/losses and Member System 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 $905 million in increased net investment income for the current fiscal year resulting from upward aggregated movement in investments held as of June 30, 2020. Additionally, Member Systems withdrawals decreased in the current year to $226.8 million compared with $361.2 million in fiscal year 2019. 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. Administrative expenses for fiscal year 2020 remained consistent when compared to 2019 expenses.

Condensed Statement of Changes in Net Position

	Fiscal Years Ended June 30		
	2020	2019	Change
	$	$	$
Additions:			
Net investment income	905,109,235	1,210,247,400	(305,138,165)
Contributions from the Member Systems and Trust Fund	658	-	658
Total additions	905,109,893	1,210,247,400	(305,137,507)
Deductions:			
Member Systems' and Trust Fund withdrawals	226,848,000	361,204,731	(134,356,731)
Administrative expenses	26,563,391	26,212,109	351,282
Total deductions	253,411,391	387,416,840	(134,005,449)
Net increase (decrease) in net position	651,698,502	822,830,560	(171,132,058)

Future Outlook

In the future, ISBI plans to continue to accomplish its strategy of seeking to maximize the likelihood of meeting long-term return objectives while maintaining prudent risk exposure, controlling fees and expenses related to the management of the fund and complying with the governing provisions of the Illinois Pension Code (40 ILCS 5/1 et seq.) and other applicable laws and regulations. Long-term return objectives are based on actuarial rate of return set forth by the State Employees' Retirement System.

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, 2020

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ASSETS			
Cash	$ 13,783,304	$ 27,486	$ 13,810,790
Receivables:			
Foreign taxes	8,165,460	16,283	8,181,743
Investments sold	10,179,460	20,300	10,199,760
Interest and dividends	16,731,355	33,365	16,764,720
Total receivables	35,076,275	69,948	35,146,223
Prepaid expenses	121,835	243	122,078
Capital assets	51,518	103	51,621
Capital lease	1,626	3	1,629
Investments:			
Measured at fair value:			
US Government, Agency, and Municipal Obligations	237,230,198	473,078	237,703,276
Domestic Equities	2,846,930,133	5,677,271	2,852,607,404
International Equities	234,843,722	468,319	235,312,041
Domestic Bank Loans	242,492,009	483,571	242,975,580
Domestic Corporate Obligations	732,245,486	1,460,224	733,705,710
International Obligations	283,617,208	565,582	284,182,790
Commingled Funds	10,897,001,203	21,730,506	10,918,731,709
Real Estate Funds	1,956,943,835	3,902,485	1,960,846,320
Private Equity Funds	940,998,702	1,876,514	942,875,216
Infrastructure Funds	278,843,791	556,063	279,399,854
Opportunistic Debt Funds	820,847,931	1,636,913	822,484,844
Hedge Funds	46,262,503	92,255	46,354,758
Restricted Cash (Subscription Advance)	39,920,392	79,608	40,000,000
Measured at amortized cost:			
Money market instruments	212,242,123	423,248	212,665,371
Total investments	19,770,419,236	39,425,637	19,809,844,873
Total assets	19,819,453,794	39,523,420	19,858,977,214
LIABILITIES			
Payables:			
Investments purchased	33,345,882	66,497	33,412,379
Administrative expenses	14,572,264	29,060	14,601,324
Total liabilities	47,918,146	95,557	48,013,703
Net position	19,771,535,648	39,427,863	19,810,963,511

See notes to financial statements, pages 11 - 28.

Illinois State Board of Investment

Statement of Changes in Net Position
June 30, 2020

	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment
ADDITIONS			
Investment income:			
Net increase in fair value of investments	$ 684,094,491	$ 1,389,060	$ 685,483,551
Interest and other	155,800,454	321,276	156,121,730
Dividends	63,373,272	130,682	63,503,954
Total investment income	903,268,217	1,841,018	905,109,235
Contributions from the State of Illinois	-	658	658
Total additions	903,268,217	1,841,676	905,109,893
DEDUCTIONS			
Administrative expenses:			
Salaries and benefits:			
Salaries	1,303,202	2,664	1,305,866
Benefits	1,019,928	2,085	1,022,013
Operating expenses:			
Rent and utilities	354,446	725	355,171
Audit	262,264	536	262,800
Other	429,104	877	429,981
External support:			
Custody	787,066	1,609	788,675
Consulting and professional	834,315	1,706	836,021
Investment advisors/managers	20,440,457	41,790	20,482,247
Investment services and research	103,637	212	103,849
Other	1,149,418	2,350	1,151,768
Reimbursement of DC Plan Expenses	(174,644)	(356)	(175,000)
Total administrative expenses	26,509,193	54,198	26,563,391
Member Systems' and Trust Fund withdrawals	225,000,000	1,848,000	226,848,000
Total deductions	251,509,193	1,902,198	253,411,391
Increase in net position	651,759,024	(60,522)	651,698,502
Net position at beginning of year	19,119,776,624	39,488,385	19,159,265,009
Net position at end of year	19,771,535,648	39,427,863	19,810,963,511

See notes to financial statements, pages 11 - 28.

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 of Illinois. 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 System'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 2020 are reported on the Statement of Changes in Net Position.

Basis of Accounting
Accounting records are maintained on an accrual basis. Units are allocated monthly 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, Convertible Bonds and Municipal Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, International Preferred Stock, 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) Money Market Instruments – amortized cost; (4) Alternative Investments (Real Estate Funds, Private Equity Funds, Hedge Funds, Bank Loans, Opportunistic Debt Funds, Commingled Funds and Infrastructure Funds) – fair values based on audited financial statements of the funds and then adjusted by ISBI and its investment managers for activity from audit date to fiscal year end.

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 of Illinois is exempt from Federal, State, and local income taxes.

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 market value or based on a flat fee.

Note 1. Summary of Significant Accounting Policies (Continued)

Management fees paid to certain Commingled funds, Multi-Sector Credit funds, Opportunistic Debt funds, and Real Estate funds are calculated based upon the terms of each individual fund agreement, each manager's portfolio market 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, Hedge fund, Infrastructure fund, Opportunistic Debt fund, Private Equity fund, and Real Estate 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 the Custodian, which includes custody services, performance and analytics services and various accounting data interface feeds.

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.

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 illiquid/alternative investments, such as investments in Bank Loans, Commingled funds, Hedge Funds, Infrastructure funds, Opportunistic Debt funds, Private Equity funds, and Real Estate 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 ISBI, its custodian, and its 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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Lease Obligation
ISBI entered a capital lease agreement for office equipment in 2016. The capital lease is for a 60-month term with a purchase option for fair value at the end of the lease period. Future minimum commitments for the capital lease as of June 30, 2020 are as follows:

Capital Lease Year Ending June 30	Principal	Interest
	$	$
2021	1,777	148
	1,777	148

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, 2020, ISBI had non-investment related bank balances of $993,049.

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 AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 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, 2020, ISBI had investment related bank balances of $12,817,741. These balances include USD and foreign cash balances. 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 Statute/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, and 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[.]"

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

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 $2.4 billion as of June 30, 2020 across its Infrastructure, and Opportunistic Debt, Private Equity, and Real Estate investment portfolios. These portfolios consist of passive interests in limited partnerships. ISBI will fund 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, hedge funds, infrastructure funds, opportunistic debt funds, private equity funds, and real estate 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 market 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 System contributions and withdrawals). For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.66 percent.

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

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, 2020, ISBI had the following recurring fair value measurements:

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Totals**
Investments by fair value level	$	$	$	$
Debt securities				
US Government, agency, and municipal obligations	263,763	237,439,513	—	237,703,276
Domestic bank loans	—	214,364,449	28,611,131	242,975,580
Domestic corporate obligations	1,400,276	703,425,133	28,880,301	733,705,710
International obligations	—	279,863,625	4,319,165	284,182,790
Total debt securities	1,664,039	1,435,092,720	61,810,597	1,498,567,356
Equity securities				
Domestic equities	2,849,678,420	467,928	2,461,056	2,852,607,404
International equities	232,538,953	—	2,773,088	235,312,041
Total equity securities	3,082,217,373	467,928	5,234,144	3,087,919,445
Other				
Commingled funds[1]	9,575,456,371	—	—	9,575,456,371
Total other	9,575,456,371	—	—	9,575,456,371
Total investments by fair value level	12,659,337,783	1,435,560,648	67,044,741	14,161,943,172
Investments measured at Net Asset Value				
Commingled funds[2]				1,343,275,338
Real estate funds				1,960,846,320
Private equity funds				942,875,216
Infrastructure funds				279,399,854
Opportunistic debt funds				822,484,844
Hedge funds				46,354,758
Restricted Cash (Subscription Advance)				40,000,000
Total investments measured at Net Asset Value				5,435,236,330
Investments not measured at fair value				
Money market instruments				212,665,371
Total investments				19,809,844,873

[1] Commingled Funds comprised of index tracking marketable securities with readily determinable fair value reported as Level 1
[2] Commingled Funds with limited individual investment look through priced using Net Asset Value

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 market values, inherent lack of liquidity, and changes in market conditions.

Valuation methodologies are as follows:

- U.S. Treasuries and U.S. Agencies: quoted prices for identical securities in markets that are not active;
- International Government and Corporate Obligations: Brokers quote in an active market;
- Corporate Bonds: quoted prices for similar securities in active markets;
- Municipal Bonds: 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;
- Common Stock and Equity Funds, International Preferred Stocks, 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 which approximates fair value;
- Derivative instruments: 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 considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and often take the form of limited partnerships. ISBI values these investments based on the partnerships’ audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is adjusted from the most recently available valuation taking into account subsequent calls and distributions, adjusted for unrealized appreciation/depreciation, other income and fees.

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, 2020	FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Commingled funds	1,343,275,338	—	Quarterly	90 days
Real estate funds	1,960,846,320	458.0 million	Quarterly	90 days
Private equity	942,875,216	1,015.9 million	N/A	N/A
Infrastructure	279,399,854	105.6 million	Quarterly	90 days
Opportunistic debt	822,484,844	875.7 million	N/A	N/A
Hedge funds	46,354,758	—	Quarterly	90 days
Restricted Cash (Subscription Advance)	40,000,000	—	Quarterly	90 days
Total investments measured at NAV	5,435,236,330			

Alternative Investments

ISBI's investments in Alternative Investment vehicles consist of Commingled Funds, Hedge Funds, Infrastructure Funds, Opportunistic Debt Funds, Private Equity Funds, and Real Estate Funds. These types of vehicles are used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

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 24 domestic and international public equity (23) and fixed income (1) funds. Seven of these funds are domestic and 17 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, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

2) 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 74 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, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

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

3) 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 six 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 the plan's ownership interest.

4) 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 nine funds that seek to diversify ISBI's overall portfolio (comprised predominantly of equity and fixed income assets) and provide capital appreciation and income generation. 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, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

5) Opportunistic Debt Funds – ISBI's assets in this category consist of investments in private fixed income markets. ISBI's current Opportunistic Debt exposure consists of investments in 42 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, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

6) Real Estate Funds – ISBI's assets in this category consist of investments in Core and Non-Core Real Estate Fund categories. ISBI's current Real Estate exposure consists of investments in 48 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, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

7) Restricted Cash (Subscription Advance) – ISBI's assets in this category consist 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 exposure consists of one subscription advance in Durable Capital Onshore Fund LP (a domestic equity commingled fund). Restricted cash held at period end rolled into the designated investment vehicle to be tracked as a traditional commingled investment effective July 1, 2020.

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. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. ISBI did not have any issuer investment that exceeded 5% of the total investments of ISBI as of June 30, 2020.

The following table presents the quality ratings of debt securities held by ISBI as of June 30, 2020:

	Moody's Quality Rating	$
U.S. government obligations and agency obligations	AAA	235,558,975
	B	468,116
Total U.S. government and agency obligations		236,027,091
U.S. municipal bonds		
	BA	67,125
	BAA	254,081
	CA	420,410
	Not rated	934,569
Total U.S. municipal bonds		1,676,185
Domestic corporate obligations		
Banks	A	263,165,926
	B	3,841,550
	Not rated	23,384,670
Total banks		290,392,146
Media	A	61,329,076
	BA	966,206
	B	11,026,775
	CAA	3,758,053
	Not rated	2,024,680
Total media		79,104,790
Insurance	A	30,105,880
	BA	2,475,489
	CAA	7,089,846
Total insurance		39,671,215
Other	AAA	1,080,998
	AA	7,006,652
	A	70,987,895
	BAA	10,448,214
	BA	51,021,037
	B	40,600,349
	CAA	43,976,776
	CA	1,265,753
	C	56,000
	Not rated	98,093,885
Total other		324,537,559
Total domestic corporate obligations		733,705,710

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

	Moody's Quality Rating	$
Domestic bank loans		
	BA	1,789,700
	B	95,081,167
	CAA	45,530,738
	CA	2,289,692
	Not rated	98,284,283
Total domestic bank loans		242,975,580
International obligations		
	AAA	3,082,474
	AA	5,423,058
	A	21,731,231
	BAA	62,302,697
	BA	57,305,098
	B	44,795,256
	CAA	21,854,110
	CA	3,280,616
	C	79,638
	Not rated	64,328,612
Total international obligations		284,182,790
Money market instruments		
	Not rated	212,665,371
Total money market instruments		212,665,371

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. As of June 30, 2020, there were no investments that were uninsured and unregistered, 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 consistent with the Barclay's U.S. Universal Index (benchmark index). As of June 30, 2020, the effective weighted duration of ISBI's fixed income portfolio was 4.6 years and the effective duration of the benchmark index was 6.3 years.

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

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, 2020:

Investment Type	Fair Value	Effective Weighted Duration
	$	Years
U.S. government, agency, and municipal obligations		
U.S. government	64,308,682	**2.4**
U.S. federal agency	171,718,409	**0.3**
U.S. municipal bonds	1,676,185	**-**
Total U.S. government, agency, and municipal obligations	237,703,276	
Domestic obligations		
Banks	290,392,146	**5.5**
Media	79,104,790	**6.6**
Insurance	39,671,215	**7.4**
Other	324,537,559	**4.6**
Total domestic obligations	733,705,710	
International obligations	284,182,790	**6.0**
	1,255,591,776	

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 measure 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, 2020 the weighted average maturity of ISBI's bank loan portfolio was 4.8 years.

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 Infrastructure, Opportunistic Debt, Private Equity, and Real Estate funds trade in a reported currency of Euro-based dollars valued at $164,136,390 as of June 30, 2020. The following table presents other foreign currency risk by type of investment as of June 30, 2020:

	Foreign Equities	Foreign Obligations
	$	$
Argentine Peso	—	36,904
Australian Dollar	3,895,539	—
Brazilian Real	955,409	671,712
British Pound Sterling	20,842,921	—
Canadian Dollar	6,561,841	—
Danish Krone	2,033,859	—
Euro Currency	82,570,645	5,341,098
Hong Kong Dollar	14,060,309	—
Indonesian Rupiah	—	538,388
Japanese Yen	43,605,460	—
Kazakhstan Tenge	—	333,620
Mexican Peso	1,605,317	318,626
New Israeli Shekel	175,509	—
New Taiwan Dollar	1,279,127	—
New Zealand Dollar	327,853	—
Norwegian Krone	333,257	—
Peruvian Nuevo Sol	—	1,902,832
Russian Ruble	—	835,809
Singapore Dollar	970,531	—
South African Rand	473,094	543,017
South Korean Won	9,522,094	—
Swedish Krona	1,879,068	—
Swiss Franc	22,544,505	—
Thailand Baht	1,783,087	—
United Arab Emirates Dirham	239,619	—
Ukrainian Hryvnia	—	361,784
Uruguayan Peso Uruguayo	—	790,054
Foreign Investments denominated in U.S. Dollars	19,652,997	272,508,946
	235,312,041	284,182,790

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

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 invests in derivative instruments including futures, options, rights and warrants, and swaps. ISBI's derivatives are considered investment derivatives.

ISBI investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, financial futures are used in the ISBI fixed income portfolio to adjust portfolio strategy and overall portfolio duration. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. The fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the Statement of Change in Net Position. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

ISBI investment managers use options to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability on ISBI's financial statements within investments purchased payable. As a purchaser of financial options, ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the Statement of Changes in Net Position.

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.

ISBI investment managers use swaps to periodically exchange cash flows or liabilities with a defined counterparty, primarily as a method to hedge against specific risk exposures (e.g., interest rate risk, currency risk). Principal is usually not exchanged between the counterparties as part of these agreements. The fair values of the swap contracts represent current outstanding settlement receivables (assets) or payables (liabilities). These investments are reported at fair value in either the Investments Purchased or Investments Sold lines depending on their period end position as an outstanding receivable or payable. Gains or losses are recognized in the net increase/decrease in the fair value of investments in the Statement of Change in Net Position.

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, 2020:

	Changes in Fair Value	Fair Value at Year End	Notional Amount
	$	$	Number of shares
Fixed Income Futures	-	-	23
Options	(111,808)	(111,808)	(8,670,000)
Rights/Warrants	24,995	26,421	580,428
Swaps	2,131,396	506,818	17,824,917
	2,044,582	421,431	9,735,369

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 the Board of Trustees and management of ISBI and the risk positions of the investment managers are reviewed on a periodic basis 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' Income and Expenses Fiscal Year Ended June 30, 2020	$	$	$	$	$	$
Interest and dividends	629,898	11,938,509	206,605,319	219,173,726	451,958	219,625,684
Net realized gain on investments	1,476,020	28,027,429	484,913,846	514,417,295	1,067,558	515,484,853
Net unrealized gain on investments	494,424	9,246,190	159,936,582	169,677,196	321,502	169,998,698
Administrative expenses	(76,255)	(1,444,664)	(24,988,274)	(26,509,193)	(54,198)	(26,563,391)
Net investment income	2,524,087	47,767,464	826,467,473	876,759,024	1,786,820	878,545,844
Member Systems' Changes in Net Position Fiscal Year Ended June 30, 2020						
Net assets at beginning of period	54,604,431	1,040,123,694	18,025,048,499	19,119,776,624	39,488,385	19,159,265,009
Member systems' net contributions (withdrawals)	-	(11,000,000)	(214,000,000)	(225,000,000)	(1,847,342)	(226,847,342)
Net investment income	2,524,087	47,767,464	826,467,473	876,759,024	1,786,820	878,545,844
Net assets at end of period	**57,128,518**	**1,076,891,158**	**18,637,515,972**	**19,771,535,648**	**39,427,863**	**19,810,963,511**

The source of net assets of the member systems since inception at June 30, 2020, is as follows:

	General Assembly	Judges	State Employees'	Illinois State Board of Investment Member Systems	Power Agency	Total Illinois State Board of Investment *
Member systems' net contributions (withdrawals)	(91,410,878)	(101,935,968)	(3,073,826,841)	(3,267,173,687)	18,523,046	(3,248,650,641)
Accumulated net investment income	148,539,396	1,178,827,126	21,711,342,813	23,038,709,335	20,904,817	23,059,614,152
Net position at fair value	**57,128,518**	**1,076,891,158**	**18,637,515,972**	**19,771,535,648**	**39,427,863**	**19,810,963,511**

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

	General Assembly	Judges	State Employees'	Illinois State Board of Investment Member Systems	Power Agency	Total Illinois State Board of Investment *
Member Systems Money Weighted Returns Fiscal Year Ended June 20, 2020	4.67%	4.67%	4.66%	n/a	4.61%	4.66%

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 State of Illinois' Comprehensive Annual Financial Report (CAFR). The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255 or by calling (217)785-7444. The State of Illinois CAFR 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' CAFR. 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 2020, the employer contribution rate was 54.290%. ISBI's contributions on behalf of ISBI employees to SERS for fiscal year 2020 was $742,097, 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. Generally, this pickup of employee retirement was part of the budget process and was, in part, a substitute for salary increases. 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 2020 was $17,591.

Member System 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 Illinois Power Agency Trust Fund. One contribution was made by the Illinois Power Agency Trust Fund in fiscal year 2020, totaling $658. Member systems' withdrawals are determined by the member retirement systems based on the State's funding, the systems' benefit payment needs and the ability for ISBI to liquidate available assets. The total withdrawals for fiscal year 2020 (including $1,848,000 by the Illinois Power Agency Trust Fund) were $226,848,000.

Note 4. Pensions (Continued)

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 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 benefits become $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 Comprehensive Annual Financial 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

At this time, Management is not aware of any new accounting standards that will impact the financial statement presentation for its year ended June 30, 2021.

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, 2020, 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 10, 2020.

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) as a basis for designing 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.

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 may exist that have not been identified.

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 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 ISBI and the Trust Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ISBI and the Trust Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/KPMG LLP

Chicago, Illinois
December 10, 2020

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

Prior Year Findings Not Repeated

Year Ended June 30, 2020

There were no prior year findings identified.