



## Teachers' Retirement System of the State of Illinois

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### MINUTES Meeting of the Investment Committee October 26-27, 2011

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 26-27, 2011 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 1:40 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Marcia Campbell, Cinda Klickna (departed at 11:40 a.m.), Sharon Leggett, Bob Lyons, Sonia Walwyn and Molly Phalen. Absent: Jan Cleveland, Janice Reedus, and Chris Koch.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Kent Custer, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Zak Doehla, Sr. Investment Officer; Kenyatta Matheny, Investment Officer; Chuck Handy, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Bill Thomas, Sr. Investment Analyst; Jerry Quandt, Sr. Investment Analyst; Chris Weis, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Sally Sherman, Director of Member Services; Kathleen Farney, Director of Research; Gina Larkin, Director of Human Resources; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); Pat Donohue, State Street (Custodian); Mike Kremms, Kara King, and David Fann, PCG (Private Equity Consultant); and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Don Davis, IRTA Rep.; Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.; Jack Tucker, IEA-R; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital.

## **APPROVAL OF MINUTES**

A draft of the August 3-4, 2011 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Sonia Walwyn, and by unanimous voice vote, the minutes were approved as printed.

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's public markets investment managers as of final fiscal year end June 30 and preliminary values as of September 30, 2011. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. Documentation is on file.

### Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. Looking forward, current cash projections through December 2011 reflect minimal cash withdrawals are needed if monthly state contributions are received. Since TRS does not have an estimated time of state contributions and the amounts, a motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to withdraw up to 2.0 percent of the main TRS trust fund's total value, or \$621 million, based on the 8/31/11 ending market value. The motion passed by a unanimous voice vote. Documentation is on file.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – June 30, 2011

RV Kuhns provided an overview of the final June 30, 2011 fiscal year end investment performance report noting a 24 percent rate of return during FY 11. Total assets: \$37.1 billion. Stan Rupnik provided preliminary data of the investment performance for the quarter ended September 30, 2011. Documentation is on file. The June 30, 2011 total fund return, net of fees:

- Quarter: 2.27%
- 1 year: 23.6%
- 3 year: 2.6%
- 5 year: 4.1%
- 10 year: 6%

### Real Estate Performance – June 30, 2011

Callan Associates provided an overview of the real estate performance for the quarter ended June 30, 2011. Documentation is on file. Total fund return:

- Quarter: 8.17%
- 1 year: 18.7%
- 3 year: (7.3%)
- 5 year: 1.13%
- 10 year: 7%

### **RECESS**

The meeting recessed at 2:58 p.m. and reconvened at 3:15 p.m.

### **EXECUTIVE SESSION**

A motion was made by Molly Phalen, seconded by Marcia Campbell, that the Investment Committee enter into executive session for the purpose of discussing the sale or purchase of securities, investments, or investment contracts under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (7). Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Klickna (departed 4:00 p.m.), Leggett, Lyons, O’Neill, Phalen, and Walwyn. Motion CARRIED.

No action was taken during executive session. A motion was made by Marcia Campbell, seconded by Molly Phalen, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Leggett, Lyons, O’Neill, Phalen, and Walwyn. Motion CARRIED.

### **RECESS**

The meeting recessed at 5:00 p.m. and reconvened the following day at 8:00 a.m.

### Trustbridge Partners – Private Equity

Representatives of Trustbridge Partners presented an investment opportunity in their private equity fund, Trustbridge Partners IV, L.P. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to invest up to \$30 million to Trustbridge Partners IV, L.P. within the main TRS trust fund. The motion passed by a unanimous voice vote.

## **RECESS**

The meeting recessed at 9:05 a.m. and reconvened at 9:20 a.m.

### Watch List – September 30, 2011

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2011. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity) and Turner Investment Partners (domestic equity). Staff recommended the removal of McKinley Capital Management (international equity) from the watch list due to improved performance during fiscal year 2011. A motion was made by Marcia Campbell, seconded by Bob Lyons, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

### Transition Summaries

Stan Rupnik reported on the following transition activities within the TRS portfolio.

- Rebalancing of the domestic equity asset class
- International equity DFA emerging market small cap fund
- Rebalancing of fixed income to international equity asset class
- International equity Mondrian Investment Partners and McKinley Capital to Northern Trust – Passive World Ex-US Index

### Transition Management RFP

Since 2008, the transition manager pool has gone from six firms to three firms. Due to these circumstances, staff recommended a search for transition management services. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to approve a search for transition management services. The motion passed by a unanimous voice vote.

### W/MBE Utilization Report

Stan Rupnik provided data on the participation of women/minority-owned brokers and investment managers within the TRS investment portfolio through June 30, 2011. Assets under management for MBE-owned investments were \$5.66 billion, representing 15.19% of the total TRS portfolio. Documentation is on file.

Staff recommended that the brokerage utilization goals for fiscal year 2012 remain at 15% for domestic equity and 15% for fixed income while increasing the goal for international equity to 11%, up by 1.0%. Additionally, staff recommended the

goal for assets under management be set at 14.5% of the total fund, up by 1.0% from the prior fiscal year. Additional data related to the composition of that goal was also presented. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to approve the W/MBE FY 12 goals, as presented. The motion passed by a unanimous voice vote.

#### Fixed Income and Real Return Reports and Annual Reviews

Scottie Bevill, Sr. Investment Officer, reported on the recent activity within the fixed income and real return portfolios. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. A motion was made by Jan Cleveland, seconded by Sharon Leggett, that the committee recommend to the Board the approval of staff's recommendations within the fixed income asset class and real return asset class, as presented. The motion passed by a unanimous voice vote.

#### Absolute Return Tactical Plan/Absolute Return Report and Annual Reviews

Kent Custer, Senior Investment Officer, reported on the recent activity within the \$1.49 billion absolute return asset class and provided an overview of the FY 2012 absolute return tactical plan. A report was submitted on the investment manager annual reviews along with a summary of recommendations. The FY 12 tactical plan calls for additional investments to meet the long term goal of enlarging the portfolio to eight percent of the System's total assets under management. Staff requested approval to increase current commitments to BlueMountain, ClarenRoad, and Carlson DBD with an additional \$150 million each (\$450 million total). A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to approve the recommendations within the real return asset class and approve the FY 12 absolute return tactical plan, as presented, including additional commitments to BlueMountain, ClarenRoad, and Carlson Capital. The motion passed by a unanimous voice vote.

### **NEW BUSINESS**

#### Flintlock Capital Asset Management

The committee interviewed Flintlock Capital Asset Management to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm, search process, and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to invest \$15 million in Flintlock Capital Asset Management's Commodity Opportunity Partners, L.P. The motion passed by a unanimous voice vote.

*(Trustee Klickna departs)*

### CityView

The committee interviewed CityView to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm, search process, and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Jan Cleveland, seconded by Sonia Walwyn, that the committee recommend to the Board to invest \$25 million in Southwest Multifamily Partners, L.P. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 12:00 p.m. and reconvened at 12:55 p.m.

### PIMCO – Fixed Income

Representatives of PIMCO presented an investment opportunity in PIMCO Distressed Senior Credit Opportunities Fund II, Limited Partnership to continue to invest in Fund I's strategy beyond its term. Their presentation booklet is on file. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to invest \$75 million to PIMCO DISCO II, L.P. The motion passed by a unanimous voice vote.

### Private Equity Performance – June 30, 2011

PCG Asset Management provided an overview of the investment performance within the private equity asset class for the quarter ending June 30, 2011 and provided program initiatives for FY 2012. Documentation is on file.

- 1 year: 22.3%
- 3 year: 6.3%
- 5 year: 8.9%
- 10 year: 8.4%

### Leonard Green & Partners – Private Equity

Representatives of Leonard Green & Partners presented an investment opportunity in their private equity fund, Green Equity Investors VI, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to invest up to \$200 million to Green Equity Investors VI, L.P. Discussion followed noting concerns. The motion passed by a voice vote.

## **RECESS**

The meeting recessed at 3:20 p.m. and reconvened at 3:30 p.m.

### Longitude Capital Management – Private Equity

Representatives of Longitude Capital Management provided an investment opportunity in their private equity fund, Longitude Venture Partners II, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Molly Phalen, that the committee recommend to the Board to invest up to \$30 million to Longitude Venture Partners II, L.P. The motion passed by a unanimous voice vote.

### Tave Risk Management – Real Estate

Bob Trompeter of Risk Resources provided an overview of the RFP process for insurance brokerage services. Staff provided an overview of the firm and due diligence that was conducted. The committee interviewed Tave Risk Management as the finalist to serve as the System's real estate property insurance broker services contractor. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to award Tave Risk Management a five-year contract to provide insurance brokerage services for the System. The motion passed by a unanimous voice vote. Tave has served the System since 2006.

### 6/30/11 Quarterly Compliance Summary

Staff reviews alerts triggered by the State Street compliance system to determine if there are any violations. Deron Bertolo, Director of Investment Operations, provided a summary of the quarterly compliance for the quarter ended June 30, 2011. Documentation is on file.

### Annual Reports

Mr. Bertolo presented the standard year-end reports for fiscal year 2011. The reports included proxies, broker activity, security lending, bankruptcy and securities litigation. In addition, a new report was included this year, "Annual Scorecards", documenting the quality of service provided by consultants and custodian.

**ADJOURNMENT**

There being no further business to come before the Investment Committee, a motion was made by Molly Phalen, seconded by Cinda Klickna, to adjourn the meeting at 5:15 p.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_