



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES

Meeting of the Investment Committee December 12-13, 2011

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 12-13, 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 8:55 a.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, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Janice Reedus, Molly Phalen, and Chris Koch (arrived 12:30 p.m.). Absent: Sonia Walwyn

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; Jerry Quandt, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Tom Gray, General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Jana Bergschneider, Director of Administration; Sally Sherman, Director of Member Services; Kathleen Farney, Director of Research; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Public Information Officer; Tammy Green, Asst. to Executive Director; Becky Gratsinger, Marcia Beard, and John McLaughlin, RV Kuhns (Investment Consultant); Jay Nyack and Avery Robinson, Callan Associates (Real Estate Consultant); Mike Kremms, TorreyCove (Private Equity Consultant); and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Don Davis, IRTA Rep.; Dennis Murfin, IRTA Rep.; Jack Tucker, IEA-R; and Christine Williamson, Pensions & Investments.

APPROVAL OF MINUTES

A draft of the October 26-27, 2011 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Marcia Campbell, seconded by Sharon Leggett, 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 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. No cash withdrawals were required in October and November.

Transition Management RFP

Staff is conducting a search for transition management services. The RFP was posted on November 28 with a deadline of December 19, 2011. The search shall be completed by February 2012.

STAFF/CONSULTANT PRESENTATIONS

W/MBE Utilization Report

Stan Rupnik provided preliminary data on the participation of women/minority-owned brokers and investment managers within the TRS investment portfolio through September 30, 2011. Assets under management for MBE-owned investments were \$4.89 billion, representing 14.55% of the total TRS portfolio. Documentation is on file. Director Ingram reported on the annual minority hearings of the Senate Select Committee on Public Pensions Investments. TRS was represented by staff, four trustees, and three consultants.

Investment Performance Review – September 30, 2011

RV Kuhns provided an update of the investment performance for the quarter ending September 30, 2011 and provided a preliminary update through November. Total assets: \$33.5 billion. Documentation is on file. The total fund return, gross of fees:

- Quarter: (-8.74%)
- 1 year: 4.25%
- 3 year: 3.62%
- 5 year: 1.95%
- 10 year: 6.11%

RECESS

The meeting recessed at 9:40 a.m. and reconvened at 9:52 a.m.

Investment Education

RVKuhns provided an educational presentation on derivatives. Documentation is on file.

Private Equity Co-investments

Zak Doehla, Sr. Investment Officer, requested ratification of a co-investment opportunity with Blackstone Capital Partners VI, Limited Partnership in a take-private transaction of Emdeon, Inc. focused on the U.S. healthcare information technology market. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to ratify the Emdeon co-investment with Blackstone Fund VI. The motion passed by a unanimous voice vote.

Further, staff requested ratification of a co-investment opportunity with Energy Capital Partners II, Limited Partnership in an equity capital raise for Summit Midstream Partners, a pipeline company focused on the North American O&G market. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to ratify the Summit Midstream co-investment with Energy Capital Partners II. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 11:50 a.m. and reconvened at 1:35 p.m.

NEW BUSINESS

Channing Capital Management – Emerging Manager Program

The committee interviewed Channing Capital 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 Jan Cleveland, seconded by Molly Phalen, that the committee recommend to the Board to invest \$30 million in Channing Capital Management's domestic equity small cap value strategy. The motion passed by a unanimous voice vote.

LM Capital - Emerging Manager Program

The committee interviewed LM Capital for an additional 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 Sharon Leggett, that the committee recommend to the Board to reassign LM Capital's existing emerging manager portfolio to the fixed income total return composite and invest an additional \$10 million to LM Capital within this strategy. The motion passed by a unanimous voice vote.

Pine River Capital Management – Absolute Return

The committee interviewed Pine River Capital Management for an allocation within the direct hedge fund component of the absolute return portfolio. Their presentation booklet is on file. Staff provided an overview of the firm, search process, and due diligence that was conducted. A motion was made by Mike Busby, seconded by Janice Reedus, that the committee recommend to the Board to invest up to \$150 million to the Pine River Fund within the Grosvenor Monarch Series B, LLC. The motion passed by a unanimous voice vote.

STAFF PRESENTATIONS

Real Return Asset Class Report

Scottie Bevill, Sr. Investment Officer, reported that staff was notified in November that Gresham Investment Management sold a 60 percent ownership stake to Nuveen Investments. Gresham requested that clients sign a Form of Consent acknowledging the majority sale of Gresham to Nuveen. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board

to authorize staff to accept the Gresham Consent letter for 60 percent ownership stake of their firm to Nuveen. The motion passed by a unanimous voice vote.

Transition Summary

Stan Rupnik reported on the funding of DFA's emerging markets small cap fund within the TRS portfolio.

9/30/11 Quarterly Compliance Summary

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

RECESS

The meeting recessed at 3:45 p.m. and reconvened at 3:55 p.m.

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Molly Phalen, 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, Cleveland, Klickna, Leggett, Lyons, O'Neill, Reedus, Phalen, and Koch. Motion CARRIED.

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

RECESS

The meeting recessed at 5:00 p.m. and reconvened the following day at 8:03 a.m.

Global Equity Asset Class Report & Annual Reviews

Kent Custer, Sr. Investment Officer, reported on the recent activity within the domestic and international equity asset classes. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. Further, staff provided the Sudan cost report for FY 11. A

motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to approve staff's recommendations within the global equity asset classes, as presented. The motion passed by a unanimous voice vote.

Mondrian

Staff recommended a revised fee schedule, effective July 1, 2011, for Mondrian's international equity mandate to align the first tier of their asset based fee schedule to the amount of assets in the emerging market comingled fund. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to adopt a revised fee schedule for Mondrian, as proposed. The motion passed by a unanimous voice vote.

Investment Education

Zak Doehla, Sr. Investment Officer, provided an educational presentation on venture capital and reported on the System's private equity venture investment strategy. Documentation is on file.

NEW BUSINESS

Blackstone Group – Real Estate

Representatives of Blackstone Group presented an investment opportunity in the firm's real estate fund, Blackstone Real Estate Partners VII, Limited Partnership. 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 up to \$200 million to Blackstone Real Estate Partners VII, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 9:48 a.m. and reconvened at 9:58 a.m.

Morgan Creek Capital Management – Private Equity

Representatives of Morgan Creek Capital Management provided an investment opportunity in their venture capital fund, Morgan Creek Partners Venture Access Fund I, 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 Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to invest up to \$100 million to Morgan Creek Partners Venture Access Fund I, L.P. The motion passed by a unanimous voice vote.

Rhone Capital – Private Equity

Representatives of Rhone Capital provided an investment opportunity in their private equity fund, Rhone Partners IV, 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 Bob Lyons, that the committee recommend to the Board to commit up to €50 million to Rhone Partners IV, L.P. The motion passed by a unanimous voice vote.

Private Equity RFP

Zak Doehla reported that Houlihan has been removed from the co-investment advisor pool due to contract negotiations. Staff requested approval to re-issue the co-investment RFP to maintain at least three advisors in the pool. Following the Houlihan removal, TRS currently employs two advisors. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to issue an RFP for co-investment adviser services. The motion passed by a unanimous voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Janice Reedus, seconded by Cinda Klickna, to adjourn the meeting at 12:37 p.m.

Richard W. Ingram, Executive Director

Approved _____