



## Teachers' Retirement System of the State of Illinois

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### MINUTES Meeting of the Investment Committee May 23-24, 2012

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on May 23-24, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 3:40 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, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Janice Reedus, Sonia Walwyn, and Molly Phalen. Absent: Chris Koch

Others present: Dick Ingram, Executive Director; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Zak Doehla, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Dakin Sanert, Sr. Investment Analyst; Bill Thomas, Investment Officer; Jerry Quandt, Investment Officer; Chuck Handy, Investment Officer; Kenyatta Matheny, Investment Officer; Jana Bergschneider, Director of Administration; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); Becky Gratsinger, Marcia Beard, and John McLaughlin, RV Kuhns (Investment Consultant); Mike Kremms, TorreyCove (Private Equity Consultant); and Pat Donahue, State Street (Custodian); Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; Jack Tucker, IEA-R; Shirley Dodds, IRTA Rep.; Rachael Bromleve, Unite Here; and Antony Dugdale, Unite Here.

## **APPROVAL OF MINUTES**

A draft of the February 8-9, 2012 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Cinda Klickna, seconded by Marcia Campbell, the minutes were approved as printed by voice vote.

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's public markets investment managers as of December 31, 2011 and March 31, 2012. 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.

### POB Debt Service Request

As a result of the reduced state contributions to the System caused by POB debt service, annual cash transfers are required from the POB fund to the main TRS trust fund in order to offset the contribution loss. The amount to cover debt service for FY 2013 is \$347 million. Documentation is on file. A motion was made by Marcia Campbell, seconded by Bob Lyons, that the committee recommend to the Board to approve the transfer of \$347 million from the POB account to the main TRS trust fund cash account within FY13. The motion passed by a unanimous voice vote.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – March 31, 2012

RV Kuhns provided an update of the investment performance for the quarter ending March 31, 2012 and provided a preliminary update through April

2012. Total assets: \$37 billion. Documentation is on file. The total fund return, gross of fees:

- Quarter: 7.83%
- 1 years: 5.22%
- 3 years: 15.28%
- 5 years: 2.71%
- 10 years: 6.79%

### Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended March 31, 2012. The existing managers remain on watch due to performance/organizational concerns: Brandes Investment Partners (international equity), Turner Investment Partners (domestic equity), and Hartford Investment Management Company (fixed income). A motion was made by Jan Cleveland, seconded by Sharon Leggett, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

### 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 March 31, 2012. Assets under management for WMBE-owned investments were \$4.97 billion, representing 13.42% of the total TRS portfolio. Documentation is on file.

### Denali – Global Equity

In order to be proactive in terms of risk control, staff requested reducing Denali's large cap value mandate from 3.0% to 2.0% while increasing the Rhumblin S&P 500 target from 23% to 24%. Staff negotiated a revised fee agreement due to the reduction in invested assets with Denali and requested ratification of the new fee schedule that is retroactive to April 1, 2012. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board approve the global equity recommendations, as presented. The motion passed by a unanimous voice vote.

### Transition Management RFP

Per the TRS Investment Policy, staff must re-evaluate the transition management program every three years. Currently, State Street Global Markets and JP Morgan provide transition management services to TRS. Staff posted an RFP in November 2011 seeking transition management services and received responses from 13 firms. Staff provided an overview of six firms and the due diligence that was conducted. A motion was made by Marcia Campbell, seconded by Bob Lyons, that the committee recommend to the Board to approve State Street Global Markets, JP Morgan, Credit Suisse, Citi Group, and Loop Capital as transition management providers. The motion passed by a unanimous voice vote.

### 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 summaries of the quarterly compliance reports for the quarter ended December 31, 2011 and March 31, 2012. Documentation is on file.

### State Street/Global Fund Solutions Update

Last year, Global Fund Solutions (GFS) evaluated and observed the workflow processes between TRS and State Street, the System's Custodian. GFS reported 58 recommendations/action items in its final review, and staff has implemented a plan with State Street. Staff reported that the project plan is on schedule and both sides continue to move forward.

### Performance System RFP Request

Due to the increased size of the TRS investment portfolio, staff requested a search for a performance system solution. Currently, TRS tracks investment activity and calculates performance returns for about 650 accounts and aggregates each month. The performance system currently utilized by TRS is done internally using a series of linked Excel spreadsheets. Data is at risk when information is input manually. Staff noted GFS's recommendation to develop a data strategy that best fits the organization going forward. A motion was made by Molly Phalen, seconded by Bob Lyons, that the committee recommend to the Board to issue an RFP in June for an enhanced

performance reporting system. The motion passed by a unanimous voice vote.

### Investment Consultant RFP

Public Act 96-0006 requires Illinois pension systems to re-bid all investment consulting relationships at a minimum of every five years. The law also prohibits extension of consultant contracts without a formal RFP. RV Kuhns has served as the System's investment consultant since 2009 and its contract expires at the end of 2012. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to authorize an RFP for general consulting services. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 5:34 p.m. and reconvened the following day at 8:03 a.m.

### **NEW BUSINESS**

#### Cortina Asset Management – Domestic Equity

The committee interviewed Cortina Asset Management to fill allocations within the domestic equity small cap portfolio. Their presentation booklet is on file. Staff provided a manager profile 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 select Cortina Asset Management's SMID cap product for an initial 1.25% mandate. The motion passed by a unanimous voice vote.

#### Providence Equity Partners – Private Equity

Representatives of Providence Equity Partners provided an investment opportunity in their private equity fund, Private Equity Partners VII, 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 Marcia Campbell, seconded by Sharon Leggett, that the committee recommend to the Board to invest \$200 million to Providence Equity Partners for investments in telecommunications, media, and information sectors. The motion passed by a unanimous voice vote.

### Riverstone Holdings – Private Equity

Representatives of Riverstone Holdings provided an investment opportunity in their private equity fund, Riverstone Global Energy and Power Fund V, 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 Sonia Walwyn, that the committee recommend to the Board to commit \$250 million to Riverstone Global Energy and Power Fund V, L.P. for investments in energy companies. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 11:03 a.m. and reconvened at 11:24 a.m.

### Oaktree Capital Management – Private Equity

Representatives of Oaktree Capital Management provided an investment opportunity in their distressed debt fund, Oaktree Opportunities Fund IX, 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 Marcia Campbell, seconded by Cinda Klickna, that the committee recommend to the Board to invest \$100 million (85% main fund, 15% POB account) to Oaktree Opportunities Fund IX, Limited Partnership for investments in companies that are in financial distress. The motion passed by a unanimous voice vote.

### Fixed Income/Real Return Report

Scottie Bevill, Sr. Investment Officer, provided an update on the recent recommendations within the fixed income and real return asset classes. The Board authorized a search in October 2011 for qualified providers for assignments in the GTAA/Global Macro sector of the real return asset class. Staff provided a search timeline and overview of the due diligence conducted. AQR and Standard Life were selected as finalists.

Staff recommended a commitment to Westwood's Income Opportunities Strategy as an investment for the fixed income special situations bucket. In addition, staff requested an increase to the Special Situation allocation

within the fixed income portfolio from 3.0% to 5.0%, with an offset 1.0% reduction to PIMCO and Loomis Sayles mandate targets within fixed income. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to approve the fixed income target changes, as presented. The motion passed by a unanimous voice vote.

Staff also recommended an additional allocation to the PIMCO DISCO II fund within the fixed income special situations sector due to an opening within the firm's Distressed Senior Credit Opportunities Fund II. PIMCO presented this strategy to the Investment Committee at the October 2011 meeting. A motion was made by Mike Busby, seconded by Jan Cleveland, that the committee recommend to the Board to commit an additional \$40 million to the PIMCO DISCO II fund. The motion passed by a unanimous voice vote.

## **RECESS**

The meeting recessed at 12:18 p.m. and reconvened at 1:15 p.m.

### Lasalle - Real Estate

Representatives of LaSalle presented an investment opportunity in the firm's real estate fund, LaSalle Asia Opportunity Fund IV, Limited Partnership. 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 invest \$75 million, or up to 20% maximum exposure, to LaSalle Asia Opportunity Fund IV, L.P. for investments in office, retail, residential, warehousing, hotels, and other commercial properties in the major economies in Asia. The motion passed by a unanimous voice vote.

### Westwood Management Corporation – Fixed Income

Representatives of Westwood Management Corporation presented an investment opportunity in the firm's Fixed Income Opportunities Strategy. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to invest \$75 million to Westwood Management's Income Opportunities Strategy within the fixed income special situations sector. The motion passed by a unanimous voice vote.

### AQR – Real Return

Representatives of AQR Capital Management presented an investment opportunity in the firm's Real Return Strategy. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to invest AQR's real return strategy at a 10.0% target (approx. \$300 million) within the real return asset class. The motion passed by a unanimous voice vote.

### Standard Life – Real Return

Representatives of Standard Life Investments presented an investment opportunity in the firm's Global Absolute Real Return Strategy. Their presentation booklet is on file. A motion was made by Mike Busby, seconded by Sonia Walwyn, that the committee recommend to the Board to invest Standard Life's global real return strategy at a 14.0% target (approx. \$400 million) within the real return asset class. The motion passed by a unanimous voice vote.

### Terminations

Due to more efficient and cost effective means to achieve commodity exposures within the GTAA/Global Macro strategies, staff recommended the elimination of current long-only commodity allocations within the real return asset class. A motion was made by Molly Phalen, seconded by Sharon Leggett, that the committee recommend to the Board to terminate the existing mandates for commodity managers, Gresham and Schrodgers. The motion passed by a unanimous voice vote.

A motion was made by Molly Phalen, seconded by Mike Busby, that the committee recommend to the Board to terminate Wellington's diversified inflation hedges strategy. The motion passed by a unanimous voice vote.

### Real Return Targets

A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to approve revised targets within the real return asset class. The motion passed by a unanimous voice vote.



Real Return	Composite	Current Yr %	Target Yr %	Diff
PIMCO GILB	Global Linkers	16.50%	16.50%	0.00%
New Century	Global Linkers	7.50%	7.50%	0.00%
AQR	Global Macro	20.00%	20.00%	0.00%
Bridgewater	Global Macro	20.00%	20.00%	0.00%
Standard Life GARS	Global Macro	0.00%	14.00%	14.00%
PIMCO	Global Macro	15.00%	12.00%	-3.00%
AQR Global Real Return	Global Macro	0.00%	10.00%	10.00%
Wellington	<i>Global Macro (TERM)</i>	11.00%	0.00%	-11.00%
Gresham	<i>Commodities Long (TERM)</i>	3.50%	0.00%	-3.50%
Schroder	<i>Commodities Long (TERM)</i>	6.50%	0.00%	-6.50%
Flintlock	Commodities AR	0.00%	0.00%	0.00%
<b>TOTAL</b>		<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

## ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Marcia Campbell, seconded by Janice Reedus, to adjourn the meeting at 4:15 p.m.

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 Richard W. Ingram, Executive Director

Approved \_\_\_\_\_