



## Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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### MINUTES

#### Meeting of the Investment Committee

June 20, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on June 20, 2013 at the Springfield office of the Illinois Teachers' Retirement System 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 8:25 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 (via telephone until 8:50 a.m.), Enrique Vasquez, Sonia Walwyn, and Molly Phalen.

Absent: Chris Koch (President)

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Cynthia Fain, Sr. Assistant General Counsel; Rich Frankenfeld, Director of Outreach; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Jamie Shen, Callan Associates (Real Estate Consultant).

Visitors present: Rainy Kaplan and Mark Bailey (new trustees effective 7/15/13); John Doerrer, SELF; Dennis Culluton, RSG; Christine Williamson, Pensions & Investments; Angela Myers, Loop Capital Markets; Renaye Manley, SEIU; Lou Ann Jacobs, Lambda State; Janet Kilgus, IEA-R; Bob Kaplan, IEA-R & IRTA; Dennis Murfin, IRTA Rep.; Rey Lopez-Calderson

and Brian Gladstein, Common Cause Illinois; UNITE HERE/Rivers Casino: Jim Baker, Jordan Fein; Valerie Owes, Meredith Maloney, and Jim Masterani.

## **PUBLIC COMMENT**

Jim Baker from UNITE HERE, a union trying to organize casino staff at the Rivers Casino in Pittsburg, appeared before the Investment Committee, with several employees of Rivers Casino, to describe allegations of unfair labor practices they have filed with the National Labor Relations Board. The allegations stem from a dispute at the casino that concerns UNITE HERE's on-going attempt to organize casino workers. The trustees received a summary of the allegations and a copy of the filings. UNITE HERE brought these allegations to the TRS Board because the System has an investment in Walton Street Capital, which owns the casino.

TRS has previously expressed to Walton Street that the firm should remain "neutral" in the labor organizing process. UNITE HERE wants Walton Street and the casino's contract operators to sign a "labor peace" agreement with UNITE HERE that would essentially initiate negotiations over a collective bargaining agreement. Mr. Baker said the unfair labor practices have escalated in recent months and that Walton Street has broken its promise to remain neutral.

Representatives from Walton Street appeared before the Investment Committee to respond to the allegations. Walton Street denied the accusations of unfair labor practices made by UNITE HERE. Neil Bluhm, managing principal of Walton Street, said the only reason the union is asking TRS to get involved in the dispute is because UNITE HERE has been unsuccessful in its attempts to gather enough petition signatures from casino employees to call a labor organizing election controlled by the NLRB. Mr. Bluhm said he would have no problem with an election properly called under the law and supervised by the NLRB. Mr. Bluhm agreed with the analysis of several trustees that the dispute with UNITE HERE creates an unfortunate image problem for all sides in the matter.

After the discussion, the TRS Board met in executive session to discuss the matter with attorneys.

Renaye Manley, a representative from Service Employees International Union, appeared before the Investment Committee regarding concerns the organization has about a potential sale of the Tribune Company newspapers to the Koch brothers. She stated that in her opinion the Koch brothers would use the Tribune newspapers to promote an anti-union agenda. She said unions and other groups are organizing an effort to block a sale of Tribune Company newspapers to the Kochs. Since the System has invested money with Oaktree Capital, the Tribune Company's largest shareholder, she requested that TRS communicate to Oaktree her concerns about the potential sale of the Tribune Company newspapers to the Koch brothers.

## **RECESS**

The meeting recessed at 9:40 a.m. and reconvened at 9:50 a.m.

Rey Lopez-Calderon and Brian Gladstein of Common Cause Illinois appeared before the Investment Committee to express their opposition to a potential sale of the Tribune Company's newspapers to the Koch brothers. They said in their opinion the sale would be detrimental to the public sector and workers across the country. They asked that TRS play a role in the effort to oppose a sale of the Tribune Company newspapers to the Kochs by repeating their concerns to Oaktree Capital, which is the largest shareholder in Tribune Company. TRS has funds invested with Oaktree.

## **APPROVAL OF MINUTES**

A draft of the May 22-23, 2013 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Bob Lyons, seconded by Marcia Campbell, the minutes were approved, as printed.

## **NEW BUSINESS**

### Carlson Capital – Absolute Return

Representatives of Carlson Capital presented an investment opportunity in the firm's Double Black Diamond Thematic Fund. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to commit \$50 million to

Carlson Capital's Double Black Diamond Thematic strategy. The motion passed by a unanimous voice vote.

#### Magnetar Capital – Absolute Return

Representatives of Magnetar Capital presented an investment opportunity in the firm's Constellation IV fund. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Sharon Leggett, seconded by Sonia Walwyn, that the committee recommend to the Board to commit \$150 million to Magnetar Capital's Constellation IV fund. The motion passed by a unanimous voice vote.

### **STAFF/CONSULTANT PRESENTATIONS**

#### Private Equity Tactical Plan

TorreyCove presented a review of the December 31, 2012 private equity portfolio, the FY 13 program initiatives, the initiatives for FY 14 and beyond, and the FY 2014 private equity tactical plan. Documentation is on file. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to approve the FY 2014 private equity tactical plan, as presented. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 12:15 p.m. and reconvened at 1:05 p.m.

#### GMO Termination

Staff recommended the termination of GMO's international equity emerging markets portfolio due to poor performance and reduced conviction in the investment team and process. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to terminate Grantham, Mayo, Van Otterloo's international equity market mandate.

### AQR Capital Management – International Equity

Chuck Handy, Investment Officer, reported on the recent international equity emerging markets manager search and provided an overview of the due diligence that was conducted. The committee interviewed AQR Capital Management as a candidate to manage an international equity emerging market assignment. Their presentation booklet is on file. Staff also extended an invitation to Newgate Capital Management as candidate for the System's Emerging Manager Program. Staff plans to conduct further analysis on the firm. A motion was made by Mike Busby, seconded by Sonia Walwyn, that the committee recommend to the Board to hire AQR Capital Management's international emerging market equity product to a 5.5% target weight within the international equity asset class. The motion passed by a unanimous voice vote.

### Principal – Real Estate

Tim Hays, Sr. Investment Officer, reported on the search for an industrial focused separate account advisor and provided an overview of the due diligence that was conducted. Staff and Callan Associates recommended increasing the System's exposure to industrial properties within the real estate portfolio. The committee interviewed Principal as a candidate to fulfill an industrial asset mandate. Their presentation booklet is on file. A motion was made by Cinda Klickna, seconded by Enrique Vasquez, that the committee recommend to the Board to award a \$200 million allocation to Principal to fulfill the industrial asset mandate. The motion passed by a unanimous voice vote.

### Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. Further withdrawals will be necessary to meet TRS's cash obligations. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to withdraw up to 2.0 percent of the main TRS trust fund's total value or \$708.7 million based on the April 30, 2013 ending market value. The motion passed by a unanimous voice vote.

### Asset Class Report

Scottie Bevill, Sr. Investment Officer, reported that the Cleared Derivative Execution Agreement is expected to replace Futures Commission Merchant agreements, International Swap and Derivatives Association agreements, and the Master Forward Agreement. Under Dodd-Frank regulations, all the agreements are going to be consolidated into one umbrella platform. Staff and outside legal counsel believe it's in the System's best interest to consolidate under one umbrella with TRS managers for separate accounts.

### Iran Divestment Update

In accordance with the Iran divestment law, staff submitted an updated list of "scrutinized" companies. Documentation is on file. Staff will communicate with the companies on the list to determine their business relationships within the Iran energy sector and report the findings at the August meeting. A motion was made by Marcia Campbell, seconded by Bob Lyons, that the committee recommend to the Board to approve the list of scrutinized companies, as presented. China National Petroleum Corporation, China Petroleum & Chemical Corp., China National Offshore Oil Corp., Daelim Industrial Co., Gazprom OAO (Russia), Indian Oil Corp., Oil and National Gas Corp., and PetroChina Co. The motion passed by a unanimous voice vote.

### Transition Management

Staff reported that two institutions plan to close their transition management business units on June 30, 2013. Staff revisited two semifinalists from last year's search and recommended selecting Northern Trust and Frank Russell to help administer transition services to TRS. A motion was made by Marcia Campbell, seconded by Jan Cleveland, that the committee recommend to the Board to approve Northern Trust and Frank Russell as transition managers subject to final successful contract negotiations. The motion passed by a unanimous voice vote.

### Investment Policy Revisions

Staff proposed the following revisions to the TRS Investment policy. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the

committee recommend to approve revisions to the TRS Investment Policy, as presented. The motion passed by a unanimous voice vote.

Page	Section
5	<b>Section III: Investment Philosophy</b> Removes reference to Pension Obligation Bond proceeds to reflect closing of the POB account July 1, 2013.
12-14	<b>Section VII: Asset Allocation and Rebalancing Strategy</b> Revision to appropriately reflect global nature of TRS's fixed income portfolio.
15-16	<b>Section VIII: Investment Manager Structure</b> Reflects structure changes through fiscal year across multiple asset classes.
31-32	<b>Section XV: Permissible Investments</b> <b>Section XVI: General Investment Restrictions and Guidelines</b> Reflects changes related to specific mandates approved through fiscal year.
34	<b>Section XVII: TRS Investment Protection Principles</b> Section removed as principles are superseded by provisions in Dodd-Frank.
46	<b>Section XXV: Pension Obligation Proceeds</b> Section removed to reflect closing of the pension obligation bond account July 1, 2003

## ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Sonia Walwyn, seconded by Marcia Campbell, to adjourn the meeting at 3:00 p.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_