



## Teachers' Retirement System of the State of Illinois

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### MINUTES

#### Meeting of the Investment Committee December 10-11, 2014

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 10-11, 2014 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street, Springfield, IL. Cynthia O'Neill, Chair, called the meeting to order at 2:07 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Mark Bailey, Marcia Campbell, Mark Harris, Rainy Kaplin, Cinda Klickna, Bob Lyons, Sonia Walwyn, Sharon Leggett, and Chris Koch (arrived 9:24 a.m. 12/11/14).

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; Ken Musick, Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Kirk Sims, Investment Officer; Bob Jiroutek, Risk Manager; Brennan Basnicki, Investment Analyst; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Stefan Backus, Investment Officer; 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; Dave Urbanek, Director of Communications; Gina Larkin, Director of Human Resources; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Avery Robinson, Jamie Shen, and Sally Haskins, Callan Associates (Real Estate Consultant); Becky Gratsinger, RV Kuhns (Investment Consultant); Mike Krems and David Fann, TorreyCove (Private Equity Consultant).

Visitors present: Dennis Murfin, IRTA; Don Davis, IRTA; Tony Casalino, IFT; Jim Baker, UNITE HERE; Jack Tucker, IEA-R; Bob Kaplan, IEA-IRTA; Kelley Gallagher, BNY Mellon; Loop Capital; and Christine Williamson, Pensions & Investments.

## **APPROVAL OF MINUTES**

A draft of the October 29-30, 2014 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Marcia Campbell, seconded by Cinda Klickna, 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 investment managers as of September 30, 2014. Documentation is on file. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. In addition, the committee received a chart detailing the System's largest manager relationships.

### Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to withdraw up to 1.5 percent of the TRS trust fund's value or \$667.0 million based on the September 30, 2014 ending market value. The motion passed by a unanimous voice vote.

## **STAFF/CONSULTANT PRESENTATIONS**

### W/MBE Utilization Report

Kenyatta Matheny, Sr. Investment Officer, provided preliminary data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through September 30, 2014. Assets under management for WMBE-owned investments were \$6.69 billion, representing 14.51% of the total TRS portfolio. Documentation is on file.

## Investment Performance Review

RV Kuhns provided an update of the investment performance for the quarter ending September 30, 2014. Total assets: \$44.5 billion. Documentation is on file.

The total fund return, gross of fees:

- 1 year: 11.94%
- 3 years: 13.79%
- 5 years: 11.30%
- 10 years: 7.67%

The total fund return, net of fees:

- 1 year: 11.32%
- 3 years: 13.13%
- 5 years: 10.66%
- 10 years: 7.15%

## **RECESS**

The meeting recessed at 2:40 p.m. and reconvened at 2:55 p.m.

## Global Equity Asset Class Report

Staff reported on the recent activity within the global equity asset class as of September 30, 2014 including the annual investment manager reviews along with a summary of recommendations. Staff proposed the following:

- Ratify termination of Cortina Asset Management's \$8.96 billion domestic equity SMID cap growth mandate
- Ratify termination of American Century's 4.0% international equity small cap growth mandate
- Ratify the hire of Wasatch Advisors to administer approximately \$130 million within the international equity small cap growth mandate
- Domestic equity target mandate revisions
  - a. Increase J.P. Morgan 130/30 large cap core active from 7.0% to 8.0%
  - b. Increase Levin large cap core active from 5.0% to 6.0%
  - c. Increase Herndon large cap core active from 2.0% to 3.0%
  - d. Decrease T Rowe Price large cap enhanced core from 6.0% to 5.0%
  - e. Decrease J.P. Morgan large cap growth from 6.0% to 4.0%

- International equity target mandate revisions
  - f. Decrease Aberdeen large cap active from 9.0% to 8.5%
  - g. Decrease LSV large cap active from 9.0% to 8.5%
  - h. Decrease McKinley large cap active from 9.0% to 8.5%
  - i. Decrease Mondrian large cap active from 9.0% to 8.5%
  - j. Increase SGA large cap active from 2.0% to 4.0%
  - k. Decrease Aberdeen emerging markets from 6.5% to 5.0%
  - l. Decrease Northern Trust Passive emerging market from 4.5% to 3.0%
- Increase the international equity small cap allocation range from +/-3% to +/-4%.
- Additional funding of 2.0% of the international equity portfolio to Strategic Global Advisors
- Launch an emerging markets manager search within the international equity asset class.

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

#### Private Equity Asset Class Report

Staff requested ratification of the secondary sales within the private equity program that have been approved by the Investment Committee Chair.

- Trilantic Capital Partners III and IV
- Warburg Pincus IX

A motion was made by Bob Lyons, seconded by Rainy Kaplan, that the committee recommend to the Board to ratify the Investment Committee Chair approvals for the secondary program to sell Trilantic Capital Partners III and IV and Warburg Pincus IX. The motion passed by a unanimous voice vote.

Due to an inability to agree on terms in a creditor agreement, staff removed the request to ratify an increase to the existing co-investment with Providence Equity Partners VI. In addition, NGP Bravo IV was a co-investment ratified by the Board but due to volatility in the energy markets, the management team decided to not pursue this transaction.

Jerry Quandt, Investment Officer, reported on the limited partnership agreement amendments voted on during fiscal year 2014 by the staff's Private Capital Oversight Committee and TorreyCove, the System's private equity consultant.

The committee received a summary of the stock distributions for the years 2008-2014. JPMorgan has been responsible for the sale of stock distributions since late 2007. The goals for stock distribution management are to preserve principal and exit the securities in a timely manner. Since inception, the program has realized a slight loss of -1.4 percent.

### Private Equity Consultant RFP

The current private equity contract with TorreyCove Capital Partners expires June 2015. Staff requested issuance of a Request for Proposal (RFP) for private equity consulting services. Public Act 96-0006 requires investment consulting contracts to be re-bid at a minimum every five years and prohibits renewing or extending existing contracts without completion of the RFP process. Finalist(s) for the search are expected to be presented at the June meeting. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to issue a RFP for private equity consulting services. The motion passed by a unanimous voice vote.

## **NEW BUSINESS**

### Rhone Capital – Private Equity

Staff presented a re-investment opportunity in the firm's Rhone Partners V, Limited Partnership and provided an overview of the firm and due diligence that was conducted. The System currently has an existing relationship within the private equity portfolio with a commitment to Rhone Partners Fund IV. A motion was made by Cinda Klickna, seconded by Sharon Leggett, that the committee recommend to the Board to commit €100 million to Rhone Partners V, L.P., with a provision that the commitment ratchets down to €75 million if Fund V exceeds €2.5 billion in commitments at the final close. The motion passed by a unanimous voice vote.

## **STAFF PRESENTATION**

### Quarterly Compliance Summary

Deron Bertolo, Director of Investment Operations, provided a summary of the quarterly compliance for the quarter ended September 30, 2014 including a historical review of the opportunity costs associated with the Sudan law Documentation is on file. TRS is in compliance with Public Acts 95-0616 (Iran) and 95-0521 (Sudan). Sudan divestments have cost the TRS global equity portfolio approximately \$135.8 million in costs during the past six fiscal years.

## **RECESS**

The meeting recessed at 4:40 p.m. and reconvened the following day at 8:03 a.m.

## **NEW BUSINESS**

### Integrated Capital – Emerging Manager Program

The committee interviewed Integrated Capital to fill an allocation within the System's Emerging Manager Program for hospitality real estate investments. 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 Marcia Campbell, that the committee recommend to the Board to invest up to \$30 million in IC Hospitality Fund II, L.P. within the System's Emerging Manager Program subject to successful completion of contract negotiations. The motion passed by a unanimous voice vote.

## **EDUCATION**

TorreyCove provided an educational session regarding private equity regulation and fee variety. Documentation is on file.

## **RECESS**

The meeting recessed at 9:55 a.m. and reconvened at 10:00 a.m.

## **NEW BUSINESS**

### Tourbillion Capital Partners – Absolute Return

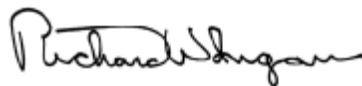
Representatives of Tourbillion Capital Partners presented an investment opportunity in the firm's Tourbillion Global Master Fund. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted including a report from Albourne, the System's hedge fund consultant. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to select Tourbillion Global Master Fund for an 8% target commitment, approximately \$175-200 million, within the System's absolute return program. The commitment is subject to successful completion of contract negotiations. The motion passed by a unanimous voice vote.

### Real Estate Consultant

The current contract with Callan Associates expires on December 31, 2014. Following a full RFP process, staff identified Callan Associates and Courtland Partners as finalists. Staff provided an overview of the firms and due diligence that was conducted. Presentation booklets are on file. The committee interviewed both finalists and held a considerable discussion on the strengths and weaknesses of each firm, fees, resources, and the long-term relationship the System has with Callan. Callan has served as TRS's real estate consultant since 2002. Following deliberation, a motion was made by Mike Busby, seconded by Sonia Walwyn, that the committee recommend to the Board to award a five- year contract to Courtland Partners to provide real estate consulting services to the System. The motion passed by a voice vote with Trustees Klickna and Campbell voting nay.

## **ADJOURNMENT**

There being no further business to come before the Investment Committee, a motion was made by Mike Busby, seconded by Mark Bailey, to adjourn the meeting at 1:05 p.m.



Richard W. Ingram, Executive Director

Approved 2/18/15