



# Teachers' Retirement System of the State of Illinois

## MINUTES

### Meeting of the Investment Committee February 24-25, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 24-25, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 1:20 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Cinda Klickna (Vice Chair), Marcia Boone, Mike Busby, Jan Cleveland, Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, and Molly Phalen.

The following trustees were absent: Livia Kiser, Sonia Walwyn, and Chris Koch.

Others present: Stan Rupnik, CIO & Acting Exec. Director; Greg Turk, Director of Investments; Mike Bartletti, Director of Real Estate; Tassi Maton, Director of Investment Operations; Kent Custer, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Chuck Handy, Investment Officer; Juan Lopez, Investment Officer; Zak Doehla, Investment Officer; Bill Thomas, Sr. Investment Analyst; Jerry Quandt, Investment Analyst; Sally Sherman, Director of Member Services; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Melissa Oller, Internal Auditor; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Marcia Beard, RV Kuhns; Pat Donohue, State Street (Custodian); Jamie Shen, Callan Associates (Real Estate Consultant); Mike Kremms, PCG (Private Equity Consultant); Kara King, PCG; and Ken Lee, PCG.

Visitors present: Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep.; Marilyn Hall, IRTA Rep.; Angie Myers, Loop Capital; Caitlin Cavanagh, Cabrera Capital Markets; and Christine Williamson, Pensions & Investments.

## APPROVAL OF MINUTES

Drafts of minutes from the December 9, 2009 Ad Hoc Proxy Committee meeting and the December 9-10, 2009 Investment Committee meeting were sent to the

committee for review. On a motion by Marcia Boone, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

## **EXECUTIVE SESSION**

A motion was made by Marcia Boone, seconded by Jan Cleveland, 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 Boone, Busby, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, and Phalen. Motion CARRIED.

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

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Acting Executive Director/Chief Investment Officer, provided an organizational chart of TRS's public markets investment managers as of December 31, 2009. 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.

### Manager Search Update

The domestic equity large cap core and international equity large cap core searches are expected to conclude in May 2010. Documentation is on file.

### Bond Proceed Investment Update

Mr. Rupnik reported that on January 20, 2010, the System received \$1.22 billion of the \$3.47 billion of general obligations bonds which the State sold on January 4, 2010 for the purpose of making pension contributions to the state's pension systems. This amount represents the remaining balance of the FY10 State

appropriation to TRS. The proceeds will be invested and used to pay annuity payroll in the coming months.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – December 31, 2009

RV Kuhns provided an update of the investment performance for the quarter ended December 31, 2009. The fiscal year to date return was 15.3%. Documentation is on file. Total assets: \$32.1 billion. The December 31, 2009 total fund return, gross of fees:

- Quarter: 3.8%
- 1 year: 15.4%
- 3 years: (-2.3%)
- 5 years: 3.3%
- 10 years: 4.1%

## **RECESS**

The meeting recessed at 3:27 p.m. and reconvened at 3:40 p.m.

### Watch List – December 31, 2009

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 31, 2009. The existing managers remain on watch for performance reasons: EARNEST Partners (domestic equity and fixed income); Dodge & Cox (domestic equity); Emerald (domestic equity); Goldman Sachs (fixed income); Mazama Capital Management (domestic equity); McKinley Capital (international equity); PIMCO StocksPlus (domestic equity); Trilogy Global Advisors (international equity); and Turner Investments (domestic equity).

The investment managers added to the watch list due to performance reasons include: Brandes Investment Partners (international equity); Copper Rock Capital Partners (domestic equity); GMO (international equity); SSgA (international equity); and Tygh Capital Management (domestic equity).

Staff recommended the removal of AQR Capital Management's small value account from the watch list due to improved performance. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

### BlackRock – Termination

Staff recommended termination of BlackRock's large-cap enhanced index account due to performance and organizational concerns and to move the assets to large cap passive. A motion was made by Mike Busby, seconded by Bob Lyons, that the committee recommend to the Board to terminate the domestic enhanced equity mandate of BlackRock. The motion passed by a unanimous voice vote.

### MBE/WBE Utilization Report

Stan Rupnik provided an update on the participation of women/minority-owned brokers and investment managers within the TRS investment portfolio through December 31, 2009. Assets under management for MBE-owned investments were \$3.6 billion, representing 11% of the total TRS portfolio. Documentation is on file.

The System held its 6<sup>th</sup> Annual Broker/Dealer Opportunity Forum during December with a record number in attendance.

## **NEW BUSINESS**

### Fixed Income – Oaktree PPIP Private Fund, L.P.

Representatives of Oaktree Capital Management presented an investment opportunity in the public private investment partnership, Oaktree PPIP Private Fund, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to commit within the fixed income asset class \$100 million to Oaktree's PPIP Private Fund, L.P. The motion passed by a unanimous voice vote.

### Private Equity – Oaktree Opportunities Fund VIII, L.P.

Representatives of Oaktree Capital Management presented an investment opportunity in their private equity fund, Oaktree Opportunities Fund VIII/VIIIb, Limited Partnership to invest in distressed debt opportunities. 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 Marcia Boone, that the committee recommend to the Board to commit \$100 million to Oaktree Opportunities Fund VIII and \$50 million to Fund VIIIb. The commitments will be split 85% to the main fund (\$85 million-Fund VIII, \$15 million-Fund VIIIb) and 15% to the POB account (\$42 million-Fund VIII, \$7.5 million-Fund VIIIb). The motion passed by a unanimous voice vote.

## **STAFF/CONSULTANT PRESENTATIONS**

### Private Equity Education – Co-Investment

Pacific Corporate Group (PCG) and staff provided an educational presentation and timeline on developing a private equity co-investment program. In May, staff will present a process document and request a search for a co-investment advisor.

## **RECESS**

The meeting recessed at 6:00 p.m. and reconvened the following day at 11:45 a.m.

## **NEW BUSINESS**

### Domestic Equity

Staff proposed several recommendations to the domestic large cap value portfolio. Kent Custer, Sr. Investment Officer, provided a summary of proposed changes to LCV mandates. Documentation is on file. Staff recommended graduating Denali Advisors from the Emerging Manager Program to a 2.25% mandate and reducing the Dodge & Cox mandate to 4.75% from 7%. A motion was made by Sharon Leggett, seconded by Cinda Klickna, that the committee recommend to the Board to approve the mandate reduction of Dodge & Cox. The motion passed by a unanimous voice vote. Further, staff recommended renaming the large cap 130/30 composite to active core and move the portfolios of EARNEST Partners and PIMCO StocksPlus to this composite. A motion was made by Sid Marder, seconded by Sharon Leggett, that the committee recommend to the Board to approve the establishment of a domestic equity large cap active core composite. The motion passed by a unanimous voice vote.

The committee interviewed Loomis Sayles, Lombardia Capital Partners, and Cooke & Bieler as candidates to fill an allocation to a domestic equity large cap value mandate. Their presentations books are on file. Staff provided an overview of the search process 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 select Loomis Sayles for a 3% large cap value mandate, approximately \$260 million. The motion passed by a unanimous voice vote.

### Domestic Equity – Boston Partners

The committee interviewed Boston Partners as a candidate for conversion to a 130/30 long-short extension mandate. Their presentation book is on file. Staff provided an overview of the current relationship and due diligence that was conducted. A motion was made by Sid Marder, seconded by Marcia Boone, that

the committee recommend to the Board to revise Boston Partners' current long-only large cap value portfolio to a 130/30 long-short extension mandate with an allocation of \$100 million. The motion passed by a unanimous voice vote.

#### Emerging Manager Program – Denali Advisors

Staff recommended the “graduation” of the emerging manager portfolio of Denali Advisors to the main trust fund with a 2.25% large cap value mandate in the domestic equity portfolio. Staff provided an overview of the due diligence conducted and an update on the performance of the existing portfolio. Funding will come from rebalancing, index fund portfolios, and a target reduction for the Dodge & Cox large cap value portfolio. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to graduate Denali Advisors from the EMP to a full 2.25% allocation within the System's domestic equity portfolio. The motion passed by a unanimous voice vote.

#### Lombardia

Staff recommended Lombardia for a domestic equity large cap value mandate within the System's Emerging Manager Program. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to commit \$50 million to Lombardia's large cap portfolio within the Emerging Manager Program. The motion passed by a unanimous voice vote.

#### State Street Market Custody Services

Staff recommended the use of State Street Bank and Trust Enhanced Custody Services to provide prime brokerage for the Boston Partners domestic equity large cap value 130/30 mandate. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board the use of State Street Global Markets Enhanced Custody Services. The motion passed by a unanimous voice vote.

#### **RECESS**

The meeting recessed at 2:17 p.m. and reconvened at 2:28 p.m.

#### Domestic Equity Small Cap Screen

Staff and RV Kuhns reported they have formally screened the small and mid cap public equity manager universe in accordance to the TRS Investment Policy.

### International Equity Small Cap

In order to move the small cap portfolio exposure closer to its long term target, staff recommended increasing American Century's small cap growth portfolio and Putnam's small cap core portfolio. Following the fiscal year end screening of the international equity small cap universe, staff did not recommend any new hires. A motion was made by Sonia Walwyn, seconded by Marcia Boone, that the committee recommend to the Board to adjust the mandate sizes for international equity small cap managers American Century and Putnam to 3% each of the portfolio. The motion passed by voice vote with Trustee Phalen voting in opposition.

### Emerging Manager Program - Illinois VENTURES

The committee interviewed Illinois VENTURES, regarding the firm's private equity fund, Illinois Emerging Technologies Fund II, Limited Partnership for commitment within the System's Emerging Manager Program. Their presentation book is on file. Staff provided an overview of the existing relationship. Following discussion regarding the firm's establishment by the University of Illinois, the committee requested no action be taken at this time.

### **RECESS**

The meeting recessed at 4:26 p.m. and reconvened at 4:40 p.m.

### Private Equity – Veritas Capital Fund Management

Representatives from Veritas Capital Fund Management presented an investment opportunity in their private equity fund, Veritas Capital Fund IV, Limited Partnership. Their presentation booklet is on file. This is a new relationship for the TRS private equity portfolio. Staff provide an overview of the firm and due diligence that was conducted. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to invest \$75 million to Veritas Capital Fund IV, L.P. The motion passed by a unanimous voice vote.

### Absolute Return Consultant

Greg Turk, Chief Investment Officer, and Kent Custer, Sr. Investment Officer, reported that a request for proposal (RFP) was issued for an absolute return consultant to assist with various components of the program. Staff interviewed all consultants who responded to the RFP and concluded that it's in the best interest of the System to not pursue dedicating consulting services and to instead utilize RV Kuhns, the System's investment consultant, along with incumbent fund of

fund managers K2 and Grosvenor, to develop a strategic direction for the absolute return asset class.

### Fixed Income

Staff reported on recent activity within the fixed income asset class and proposed revised fixed income targets including a new 2.5% target to “Special Situations” within the main fund to reflect commitments to PIMCO TALF fund and Oaktree PPIP. Further, staff recommendation a 2.5% reduction in the target mandate to Goldman Sachs to 17% from 19.5%. A motion was made by Sid Marder, seconded by Livia Kiser, that the committee recommend to the Board to approve the fixed income target changes as presented. The motion passed by a unanimous voice vote.

### Private Equity Consultant

Staff reported that Public Act 96-0006 prohibits any contract extension without completing the RFP process. The current private equity consulting contract with Pacific Corporate Group expires June 30, 2010. A motion was made by Cinda Klickna, seconded by Marcia Boone, that the committee recommend to the Board to authorize staff to issue an RFP for private equity consulting 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 Jan Cleveland, seconded by Marcia Boone, to adjourn the meeting at 5:35 p.m.

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Stan Rupnik, Acting Executive Director

Approved \_\_\_\_\_