



Teachers' Retirement System of the State of Illinois

MINUTES

Meeting of the Investment Committee May 19-20, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on May 19-20, 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 2:50 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Marcia Boone (departed at 3:30 p.m.), Mike Busby, Jan Cleveland, Livia Kiser (phone participation/off 4:30 p.m.), Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, Sonia Walwyn, and Molly Phalen.

The following trustees were absent: Cinda Klickna 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; Zak Doehla, Investment Officer; Jerry Quandt, Investment Analyst; Dakin Sanert, Investment Officer; Kenyatta Matheny, Investment Officer; Sally Sherman, Director of Member Services; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Gina Larkin, Director of Human Resources; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Dan Perusich, Intern; Stacy Smith, Director of Internal Audit; Melissa Oller, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John Long, 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); David Fann, PCG (Private Equity Consultant); and Kara King, PCG.

Visitors present: Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Jack Tucker, IEA-R; and Angela Myers, Loop Capital.

APPROVAL OF MINUTES

A draft of minutes from the February 24 and 26, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett,

seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

TRS Employee

Stan Rupnik introduced Kenyatta Matheny as the System's investment officer for emerging managers. Mr. Matheny replaces Juan Lopez and began his employment at TRS on May 17.

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 March 31, 2010. 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. A motion was made by Jan Cleveland, seconded by Marcia Boone, that the committee recommend to the Board to withdraw up to 2.0 percent of the main TRS trust fund's total value, or \$584.7 million based on the 3/31/10 ending market value. The motion passed by a unanimous voice vote. Documentation is on file. Trustee Cleveland requested that staff prepare a chart detailing when the cash withdrawals began and the current status. Further cash withdrawals will be necessary to meet TRS's cash obligations.

POB Debt Service

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 2011 is \$320.7 million. Documentation is on file. A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to approve the transfer of \$320.7 million from the POB account to the main TRS trust fund cash account. The motion passed by a unanimous voice vote.

Manager Search/RFP Updates

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

Finalists for the private equity consultant will be presented at the June meeting. An RFP was issued in February.

STAFF/CONSULTANT PRESENTATIONS

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 March 31, 2010. Assets under management for MBE-owned investments were \$4.2 billion, representing 12.4% of the total TRS portfolio. Documentation is on file.

Investment Performance Review – March 31, 2010

RV Kuhns provided an update of the investment performance for the quarter ended March 31, 2010. The fiscal year to date return was \$19.6%. Documentation is on file. Total assets: \$33.7 billion. The March 31, 2010 total fund return, gross of fees:

- Quarter: 3.7%
- 1 year: 26.4%
- 3 years: (-1.9%)
- 5 years: 4.2%
- 10 years: 4.2%

Pacific Corporate Group provided an update of the private equity performance for the quarter ended December 31, 2010. Documentation is on file. The private equity program has achieved a return of 17.8% since inception.

(Trustee Boone departs, Trustee Kiser no longer on phone)

RECESS

The meeting recessed at 4:28 p.m. and reconvened at 4:38 p.m.

NEW BUSINESS

Private Equity – SKBHC Holding LLC

Representatives of SKBHC Holdings presented a private placement investment opportunity SKBHC, LLC. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. Following discussion, a motion was made by Molly Phalen, seconded by Mike Busby, that the committee

recommend to the Board to commit up to \$100 million to SKBHC Holdings LLC within the main TRS trust fund. The motion passed by a unanimous voice vote.

STAFF/CONSULTANT PRESENTATIONS

Illinois VENTURES

At the February meeting, representatives from Illinois VENTURES presented a commitment within the System's Emerging Manager Program. Staff conducted further due diligence and concluded to not add the fund to the portfolio due to long term risk.

Transition Summaries

Staff reported on the international & domestic equity transitions of American Century/Putnam, Lombardia/Loomis Sayles, and Boston Partners 130/30 allocation.

Domestic Equity and International Equity Asset Class Reports

TRS Investment Policy states that Staff and Consultant will formally screen the small and mid cap public equity manager universe on a semi-annual basis. Staff and RV Kuhns reported they have formally screened the small cap universe for the domestic equity and international equity asset classes.

Mazama Fee Structure

Mazama's current fee agreement is based solely on assets under management. Staff negotiated a new performance based fee structure, net of fees, that will be advantageous to TRS. A motion was made by Bob Lyons, seconded by Jan Cleveland, that the committee recommend to the Board to adopt the performance based fee structure for the Mazama small cap growth and small/mid cap growth mandates. The motion passed by a unanimous voice vote. Documentation is on file.

Credo

Staff notified the Board of a revised fee schedule with Credo Capital Management. TRS was offered the new fee schedule in recognition of the Most Favored Nation clause of the investment management agreement. Documentation is on file.

RECESS

The meeting recessed at 6:00 p.m. and reconvened the following day at 10:10 a.m.

Private Equity Co-Investment Program

In February, staff discussed the development of a private equity co-investment program. To begin the process, staff requested authorization to issue a Request for Proposal to seek a co-investment advisor to assist in the oversight and decision making process. A final recommendation to the Board will be at the August meeting. A motion was made by Sid Marder, seconded by Sharon Leggett, that the committee recommend to the Board to issue an RFP for private equity co-investment advisor services. The motion passed by a unanimous voice vote.

NEW BUSINESS

Private Equity - Littlejohn Fund IV, L.P.

Representatives of Littlejohn presented an investment opportunity in their private equity fund, Littlejohn Fund IV, Limited Partnership. Their presentation booklet is on file. Staff provide an overview of the firm and due diligence that was conducted. A motion was made by Janice Reedus, seconded by Sonia Walwyn, that the committee recommend to the Board to invest a total of \$75 million to Littlejohn Fund IV, L.P. The motion passed by a unanimous voice vote.

STAFF/CONSULTANT PRESENTATIONS

Fixed Income Asset Class

Staff reported on recent activity within the fixed income asset class and provided additional fixed income recommendations. As a result of the fixed income structure study, staff and RV Kuhns proposed new fixed income targets and requested a search for a global/non-dollar/emerging market fixed income manager. The search is expected to be completed by August. A motion was made by Livia Kiser, seconded by Marcia Boone, that the committee recommend to the Board to approve the new targets as presented and to conduct a search for a firm to oversee an allocation to international bond investments within the fixed income bond portfolio. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 12:00 p.m. and reconvened at 12:35 p.m.

EXECUTIVE SESSION

A motion was made by Mike Busby, seconded by Sonia Walwyn, 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, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Marcia Boone, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Boone, Cleveland, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, and Phalen. Motion CARRIED. (Trustee Busby was not present during roll call)

Watch List – March 31, 2010

Staff provided an update of the investment managers currently on the watch list for the quarter ended March 31, 2010. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); Copper Rock Capital Partners (domestic equity); EARNEST Partners (domestic equity); Dodge & Cox (domestic equity); Emerald (domestic equity); GMO (international equity); Goldman Sachs (fixed income); Mazama Capital Management small & SMID cap (domestic equity); McKinley Capital (international equity); SSgA Enhanced (international equity); Turner Investments (domestic equity); and Tygh Capital Management (domestic equity).

Piedmont Investment Advisors enhanced index account (domestic equity) was added to the watch list due to performance reasons.

Staff recommended the removal of the PIMCO StocksPlus large core account (domestic equity) and the Trilogy Global Advisors large cap core account (international equity) from the watch list due to improved performance. A motion was made by Jan Cleveland, seconded by Janice Reedus, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

EARNEST – Termination

Staff recommended termination of EARNEST Partner's fixed income core plus account due to performance and organizational concerns and to temporarily assign assign the 2.5% target to Prudential's enhanced index mandate. A motion was

made by Mike Busby, seconded by Bob Lyons, that the committee recommend to the Board to terminate the EARNEST fixed income account. The motion passed by a unanimous voice vote.

NEW BUSINESS

Emerging Manager Program – David Hamilton Jackson & Associates

Staff interviewed Davis Hamilton Jackson & Associates as a candidate to fill an allocation within the System's Emerging Manager Program. Their presentation booklet is on file. Staff provided an overview of the firm and the due diligence conducted. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to invest \$25 million in Davis Hamilton Jackson & Associates fixed income core plus strategy within the Emerging Managers Program. The motion passed by a unanimous voice vote.

STAFF/CONSULTANT PRESENTATIONS

Absolute Return Strategic Plan

Staff proposed a new strategic plan for the absolute return portfolio building on the current foundation of fund of funds with small and diversified direct investments as the portfolio grows to its long term target. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to approve a strategic plan for the absolute return portfolio. The motion passed by a unanimous voice vote.

Investment Process

Discussion was held regarding a restructure of the Investment Committee's role in interviewing potential finalists within the public markets asset classes only, excluding the TRS Emerging Manager Program and W/MBE candidates presented to the board in compliance with Public Act 96-0006. Currently, a majority of the Investment Committee's time is spent interviewing manager candidates. Restructuring the current process will allow more time for strategic portfolio decisions, education, and other topics. Staff proposed revisions to TRS's current investment manager search process. Following discussion, a motion was made by Sid Marder, seconded by Mike Busby, that the committee recommend to the Board to give discretion to investment staff to hire investment managers for the existing large cap core domestic equity and international equity searches subject to review and ratification by the Board. The motion passed by a unanimous voice vote. Staff will provide documents to the committee in advance of the board packet mailing when trades are complete.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Sonia Walwyn, seconded by Janice Reedus, to adjourn the meeting at 3:27 p.m.

Stan Rupnik, Acting Executive Director

Approved _____