



MINUTES
Meeting of the Investment Committee
June 24-25, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on June 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 11:32 a.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, Livia Kiser (6/24 phone participation 11:45-5:30), Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, and Molly Phalen.

The following trustees were absent: Sonia Walwyn and Chris Koch, Livia Kiser (6/25)

Others present: Stan Rupnik, Acting Exec. Director /CIO; Tom Gray, General Counsel; Cynthia Fain, Sr. Asst. General Counsel; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Kathleen Farney, Director of Research; Dan Perusich, Intern; Gina Larkin, Director of Human Resources; Jana Bergschneider, Director of Administration; Tassi Maton, Director of Investment Operations; Mike Bartletti, Director of Real Estate; Greg Turk, Director of Investments; Zak Doehla, Investment Officer; Kenyatta Matheny, Investment Officer; Scottie Bevill, Sr. Investment Officer; Kent Custer, Sr. Investment Officer; Jerry Quandt, Investment Analyst; Sally Sherman, Director of Member Services; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); Ken Lee (6/24), David Fann (6/25), and Kara King, PCG (Private Equity Consultant).

Visitors present: Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Marilyn Hall, IRTA Rep., Angela Myers, Loop Capital; Harry Bailey, Cheevers & Co.; and Jack Tucker, IEA-R.

APPROVAL OF MINUTES

A draft of minutes from the May 19-20, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Sid Marder, seconded by Mike Busby, and by unanimous voice vote, the minutes were approved as amended.

OLD BUSINESS

Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. Further cash withdrawals will be necessary to meet TRS's cash obligations.

Manager Search/RFP Updates

The domestic equity large cap core and international equity large cap core searches are expected to conclude before the August meeting. The fixed income search that was authorized in May is currently posted on the Web site. Staff continues to finalize the RFP for a private equity co-investment advisor. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

MBE/WBE Utilization Report.....

Andrew Bodewes, Legislative Consultant, and Kenyatta Matheny, Investment Officer, provided an update on the Senate Select Committee on Public Pension Investments minority hearing held June 14th in Chicago. Trustee Leggett attended the hearing with staff. Issues going forward include: continued utilization of minority/broker dealers, performance of minority managers, Latino and Illinois based managers.

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 12.5% of the total TRS portfolio. Documentation is on file.

Iran Divestment Update

In accordance with the Iran divestment law, staff submitted an updated list of scrutinized companies. The list remains the same as the 2009 approved list of companies: ENI (Italy), Gazprom (Russia), INPEX (Japan), Lukoil (Russia), and Statoil (Norway). Staff will communicate with the companies to determine their business relationships within the Iran energy sector and report findings of communications at the August meeting. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to

approve the updated list of scrutinized companies relating to business in Iran. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 12:10 p.m. and reconvened at 12:50 p.m.

Interim Asset Allocation/Policy Benchmark

Staff recommended adjusting the System's policy benchmark to reflect the current positioning of the TRS investment portfolio and to rebalance the public market asset classes toward the System's long-term targets for the new fiscal year beginning July 1, 2010. Documentation is on file. A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to accept the revised interim asset allocation targets and policy benchmark effective 7/1/10. The motion passed by a unanimous voice vote.

Investment Policy Revisions

Staff proposed the following revisions to the Investment Policy. Documentation is on file. A motion was made by Cinda Klickna, seconded by Sharon Leggett, that the committee recommend to the Board to accept revisions to the investment policy as presented. The motion passed by a unanimous voice vote.

- New Section VII: Asset Allocation & Rebalancing Strategy
- Section VIII: Investment Manager Structure revised to reflect all FY 10 changes
- New Section XIII: Performance Benchmarks
- Section XVI: change reflects language within the securities lending documents with custodian State Street
- Section XXII: changes reflect requirements of Public Act 96-0006
- New Section XXV: Pension Obligation Bond Proceeds

International Equity Asset Class/Termination

Kent Custer, Sr. Investment Officer, reported that the SSgA Enhanced EAFE Plus has been on the watch list since December 2008 and recommended termination of the portfolio due to performance and organization concerns. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to terminate SSgA's Enhanced EAFE Plus portfolio. The motion passed by a unanimous voice vote.

Mazama Update

Mazama Capital Management has been on the watch list for 16 consecutive quarters. A representative from Mazama provided an update on the performance

of the firm's small cap portfolio. Following the Mazama presentation, staff and trustees discussed concerns at length. Staff acknowledged poor recent performance and somewhat higher risk for this manager but emphasized the strength of the Mazama investment team and the portfolio benefits of low correlation to other small growth managers and strong up-market capture.

RECESS

The meeting recessed at 3:15 p.m. and reconvened at 3:24 p.m.

Private Equity Tactical Plan

PCG and staff presented the FY 2011 private equity tactical plan. The plan calls for private equity allocations of \$700 million to \$1.1 billion. A co-investment program will be developed that will make direct, non-control co-investments in privately held companies alongside existing private equity fund manager investments. A motion was made by Sid Marder, seconded by Janice Reodus, that the committee recommend to the Board to approve the FY 2011 private equity tactical plan. The motion passed by a unanimous voice vote.

NEW BUSINESS

Blackstone/GSO

In May 2009, the Board allocated \$100 million to the Blackstone/GSO Capital Solutions Fund, L.P. Based on further due diligence, staff recommended an additional allocation of \$50 million to the fund. Representatives of Blackstone/GSO provided an update on their distressed-focused private equity fund, Blackstone/GSO Capital Solutions Fund, L.P. Their presentation booklet is on file. A motion was made by Cinda Klickna, seconded by Marcia Boone, that the committee recommend to the Board to increase the commitment to Blackstone/GSO Capital Solutions Fund, L.P. from \$100 million to \$150 million with the additional allocation divided equally, \$25 million to main fund and \$25 million to POB account. The motion passed by a unanimous voice vote.

Private Equity – EIF United States Power Fund IV, L.P.

Representatives of Energy Investors Funds presented an investment opportunity in their private equity fund, EIF United States Power Fund, 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 Sharon Leggett, seconded by Marcia Boone, that the committee recommend to the Board to invest a total of \$75 million to EIF United States Power Fund, L.P. (\$65 million main fund, \$10 million POB account). The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 5:32 p.m. and reconvened the following day at 8:05 a.m.

Private Equity Consultant

Public Act 96-0006 bans systems from renewing or extending existing consulting contracts without a RFP. Staff reviewed seven RFP submissions, interviewed three semi-finalist firms, and recommended PCG as the finalist candidate. The committee interviewed PCG Asset Management to continue serving as the System's private equity investment consultant. PCG's current contract is set to expire on June 30, 2010. Their presentation booklet is on file. A motion was made by Jan Cleveland, seconded by Janice Reedus, that the committee recommend to the Board to award PCG a five year contract to serve as the System's private equity investment consultant. The motion passed by a voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Bob Lyons, seconded by Cinda Klickna, to adjourn the meeting at 8:53 a.m.

Stan Rupnik, Acting Executive Director

Approved _____