



## Teachers' Retirement System of the State of Illinois

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R. Stanley Rupnik, Acting Executive Director

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### MINUTES

#### Meeting of the Investment Committee

August 4-5, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 4-5, 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 2:07 p.m. A quorum was present.

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

Others present: Stan Rupnik, Acting Exec. Director & CIO; 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; Chuck Handy, Investment Officer; Jerry Quandt, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; 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; 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; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); and Jamie Shen, Callan Associates (Real Estate Consultant).

Visitors present: Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Jack Tucker, IEA-R; Angela Myers, Loop Capital; Rich Mahoney, Williams Capital; Harry Bailey, Cheevers & Company; Sharon Piet, Podesta & Company; and Christine Williamson, Pensions & Investments.

### APPROVAL OF MINUTES

A draft of minutes from the June 24-25, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Marcia Boone, seconded by Bob Lyons, and by unanimous voice vote, the minutes were approved as printed.

## **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 June 30, 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 and provided a chart detailing the cash withdrawals from FY 06 through FY 10. Documentation is on file. Further withdrawals will be necessary to meet TRS's cash obligations if monthly state contributions are not received. A motion was made by Sid Marder, 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 \$557 million based on the 5/31/10 ending market value. The motion passed by a unanimous voice vote. Documentation is on file.

### Private Equity Co-Investment Advisor RFP

The RFP posting for a private equity co-investment advisor closed on July 16, 2010. Staff is currently reviewing the responses and plans to present a recommendation to the committee in October.

### Iran Divestment Update

Staff has not received any responses from the identified companies regarding their business relationships within the Iran energy sector. Absent a detailed and justifiable response, a motion was made by Livia Kiser, seconded by Bob Lyons, that the committee recommend to the Board to add ENI (Italy), Gazprom (Russia), INPEX (Japan), Lukoil (Russia), and Statoil (Norway) to TRS's list of "scrutinized" companies. The motion passed by a unanimous voice vote. Documentation is on file.

## **STAFF/CONSULTANT PRESENTATIONS**

### MBE/WBE Utilization Report

Stan Rupnik provided preliminary data on the participation of women/minority-owned brokers and investment managers within the TRS investment portfolio through June 30, 2010. Documentation is on file.

### Investment Performance Review – March 31, 2010

RV Kuhns provided an update on the stock and bond markets. Stan Rupnik provided preliminary data of the investment performance for the quarter ended June 30, 2010. Total assets: \$31.3 billion

### Transition Summary

Staff reported on the funding of Davis Hamilton Jackson & Associates.

### **RECESS**

The meeting recessed at 2:47 p.m. and reconvened at 3:03 p.m.

### Real Estate Tactical Plan

Staff and Callan Associates presented the FY 2011 real estate tactical plan and provided an outlook of the current real estate market. The plan will identify core and specialty investments that will move the portfolio towards the long term allocation target of 14% and will continue to seek new opportunities to add further exposure to international and emerging manager investments. Staff recommended increasing allocations to four existing real estate managers: Cornerstone - \$100 million, Invesco - \$100 million, Lincoln Property Company - \$50 million, KBS - \$72.6 million. Further, staff recommended a one year contract extension for insurance brokerage services through March 2012. A motion was made by Sid Marder, seconded by Cinda Klickna, that the committee recommend to the Board to adopt the FY 2011 real estate tactical plan including approval of the IMA changes and riders, the new administrative reporting guidelines, quarterly report template, and the one year extension of the contract with Tave Risk Management. The motion passed by a unanimous voice vote.

### Absolute Tactical Plan

Staff and RV Kuhns presented the FY 2011 absolute return tactical plan. Key objectives include the continued development of direct investment infrastructure (systems, procedures and reports) and the identification of two to four direct investment candidates for FY 2011. K2 Advisors, Grosvenor Capital Management, and RV Kuhns will provide assistance in the selection of managers. Staff anticipates establishing eight to ten direct hedge fund relationships over the next two to three years. A motion was made by Janice Reodus, seconded by Bob Lyons, that the committee recommend to the Board to adopt the FY 2011 absolute return tactical plan as presented. The motion passed by a unanimous voice vote.

## **EXECUTIVE SESSION**

A motion was made by Janice Reedus, seconded by Marcia Boone, 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, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, and Walwyn. Trustee Phalen was not present during the roll call. Motion CARRIED.

No action was taken during executive session. A motion was made by Cinda Klickna, 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, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

## **RECESS**

The meeting recessed at 5:35 p.m. and reconvened the following day at 9:35 a.m.

### Risk Management Education

K2 Advisors provided an educational presentation on the current issues and best practices within risk management. Documentation is on file.

## **RECESS**

The meeting recessed at 10:35 a.m. and reconvened at 10:45 a.m.

### Watch List – June 30, 2010

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2010. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); Copper Rock Capital Partners (domestic equity); Dodge & Cox (domestic equity); EARNEST Partners (domestic equity); Emerald (domestic equity); GMO (international equity); Goldman Sachs (fixed income); Mazama Capital Management small & SMID cap (domestic equity); McKinley Capital (international equity); Piedmont Investment Advisors (domestic equity); Turner Investments (domestic equity); and Tygh Capital Management (domestic equity). A motion was made by Molly Phalen, seconded by Marcia Boone, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

## **NEW BUSINESS**

### Private Equity – JMI Equity Fund VII, L.P.

Representatives of JMI Equity presented an investment opportunity in their private equity fund, JMI Equity Fund VII, 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 Marcia Boone, seconded by Livia Kiser, that the committee recommend to the Board to invest up to \$30 million to JMI Equity Fund VII, L.P. The motion passed by a unanimous voice vote.

### Large Cap Core Manager Search

At the May meeting, the Board approved a pilot program allowing investment staff to select and fund investment managers for the existing large cap core domestic equity and international equity searches subject to review and Board ratification. The Staff Public Market Oversight Committee (PMOC) approved the selection of Aberdeen's large cap core product for a mandate within the international equity portfolio. Further, the PMOC approved the selection of Northern Trust to manage a MSCI World ex-US passive mandate. Staff provided an overview of the search process and all candidate firms. The committee interviewed Globeflex (a minority-owned firm) and ratified the selection of Aberdeen Asset Management and Northern Trust. Presentation booklets are on file. A motion was made by Sonia Walwyn, seconded by Cinda Klickna, that the committee recommend to the Board to ratify the selection of Aberdeen and Northern Trust to each manage 5.75% international equity mandate. The motion passed by a unanimous voice vote.

### Emerging Manager Program – Fiduciary Management Associates

Staff recommended the “graduation” of the small cap value portfolio of Fiduciary Management Associates from the System's Emerging Manager Program to the main trust fund with a 2% mandate in the domestic equity portfolio. The committee interviewed FMA as a candidate to “graduate” from 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 Marcia Boone, seconded by Sharon Leggett, that the committee recommend to the Board to graduate FMA's small cap value portfolio to a 2% mandate in the domestic equity portfolio and continue the current fee schedule with FMA. The motion passed by voice vote.

Emerging Manager Program – Lombardia Capital Partners

Staff recommended the “graduation” of the small cap value portfolio of Lombardia Capital Partners from the System’s Emerging Manager Program to the main trust fund with a 2% mandate in the domestic equity portfolio. The committee interviewed Lombardia as a candidate to “graduate” from 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 Mike Busby, seconded by Livia Kiser, that the committee recommend to the Board to graduate Lombardia’s small cap value portfolio to a 2% mandate in the domestic equity portfolio and adopt the proposed fee structure. The motion passed by voice vote. The funding for these graduations will be provided by the temporary SSgA Russell 2500 Value optimized account and the Russell Small Cap Completeness account. Staff recommended the target allocations be reduced to accommodate the graduation of FMA and Lombardia. Documentation is on file. A motion was made by Sharon Leggett, seconded by Marcia Boone, that the committee recommend to the Board to reduce the SSgA & Russell Small Cap Completeness target allocations as necessary. The motion passed by voice vote.

**ADJOURNMENT**

There being no further business to come before the Investment Committee, a motion was made by Bob Lyons, seconded by Marcia Boone, to adjourn the meeting at 2:47 p.m.

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Stan Rupnik, Acting Executive Director

Approved \_\_\_\_\_