



## **Teachers' Retirement System of the State of Illinois**

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### **MINUTES**

#### **Meeting of the Investment Committee**

**February 23-24, 2011**

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 23-24, 2011 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 1:22 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Marcia Boone, Jan Cleveland, Cinda Klickna, Bob Lyons, Sid Marder, Janice Reedus, Sonia Walwyn (arrived 1:50 p.m.), and Molly Phalen. Absent: Mike Busby (Vice Chair), Livia Kiser, Sharon Leggett (departs 4:15 p.m. 2/24) and Chris Koch, President.

Staff present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Kent Custer, Sr. Investment Officer; Kenyatta Matheny, Investment Officer; Tim Hays, Sr. Investment Officer; Chuck Handy, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Bill Thomas, Sr. Investment Analyst; Jerry Quandt, Sr. Investment Analyst; Chris Weis, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Tom Gray, General Counsel; Sally Sherman, Director of Member Services; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Internal Auditor; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Becky Gratsinger, Marcia Beard, and Jon McLaughlin, RV Kuhns (Investment Consultant).

Visitors present: Jack Tucker, IEA-R; Don Davis, IRTA; Dennis Murfin, IRTA; Shirley Dodds, IRTA; Phil Robbins, IRTA; Angela Myers, Loop Capital Markets; and Christine Williamson, Pensions & Investments.

#### **APPROVAL OF MINUTES**

A draft of the December 9, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Molly Phalen, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

Stan Rupnik, Chief Investment Officer, announced the upcoming retirement of Mike Bartletti, Director of Real Estate. He also introduced new employee, Chris Weis as Senior Investment Analyst.

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers as of December 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. Documentation is on file.

### Manager Search/RFP Updates

Staff reported that responses to the Risk Management RFP have been received, and staff is in the process of reviewing the information.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – December 31, 2010

RV Kuhns provided an update of the investment performance for the quarter ended December 31, 2010 and provided a preliminary update through January 2011. Documentation is on file. Total assets: \$34.6 billion. The December 31, 2010 total fund return:

#### Gross of fees:

- Quarter: 6.72%
- 1 year: 14.32%
- 3 years: (-1.30%)
- 5 years: 4.20%
- 10 years: 5.44%

#### Net of fees:

- Quarter: 6.58%
- 1 year: 13.65%
- 3 years: (-1.82%)
- 5 years: 3.73%
- 10 years: 5.04%

### Asset Allocation

Staff and RV Kuhns provided an update on the status of the current asset allocation study. The final report will be presented at the April Board retreat.

## **RECESS**

The meeting recessed at 3:00 p.m. and reconvened at 3:15 p.m.

### Global Equity Asset Class Report

Kent Custer, Sr. Investment Officer, and Chuck Handy, Investment Officer, reported on the recent activity within the global equity asset classes. Staff provided a summary of their recommendations and observations from the benchmark review process. Representatives from JP Morgan and McKinley Capital provided updates on their existing portfolios. Presentation booklets are on file. A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to accept the recommendations within the international equity asset class, as presented. The motion passed by a unanimous voice vote.

## **RECESS**

The meeting recessed at 5:00 p.m. and reconvened the following day at 8:00 a.m.

### Global Fixed Income Asset Class

Scottie Bevill, Sr. Investment Officer, reported on recent activity within the \$5.3 billion global fixed income portfolio. Staff recommended modifications to the investment mandates of PIMCO and Loomis Sayles, allowing tactical moves between the various recommended additional structures. Further, staff requested a search for a fixed income core plus manager. Representatives from PIMCO and Loomis Sayles provided an overview of the PIMCO Global Advantage Bond Strategy/PIMCO Unconstrained Bond Strategy and the Loomis Absolute Return Strategy, respectively. A motion was made by Bob Lyons, seconded by Jan Cleveland, that the committee recommend to the Board to initiate a search for a fixed income core plus manager. The motion passed by a unanimous voice vote.

A lengthy discussion was held regarding the global fixed income asset class. Trustee Marder commented that the composition of the asset class has evolved over time to include holdings that are more complex than traditional fixed income instruments, and constituents need to know. Trustee Marder expressed his desire that the composition and nature of the asset class be explained as best possible to constituents such that there is a better understanding of the risk/return profile under varying economic environments.

### PIMCO

A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to revise the existing PIMCO fixed income

mandate to a structure tactically utilizing the Total Return portfolio, the Unconstrained Bond Fund, and the Global Advantage Bond Strategy portfolio. Discussion followed. The motion passed by a unanimous voice vote.

### Loomis Sayles

A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to revise the Loomis Sayles existing Global MultiSector mandate to allow for a maximum 25% of the mandate be invested in the firm's Absolute Return Strategies Fund. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 10:45 a.m. and reconvened at 10:55 a.m.

### Emerging Manager Program – Herndon Capital Management

The committee interviewed Herndon Capital Management to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm, search process, and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to invest \$25 million in Herndon Capital Management's domestic equity large cap value strategy within the EMP. The motion passed by a unanimous voice vote.

### Emerging Manager Program – Strategic Global Advisors

The committee interviewed Strategic Global Advisors to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm, search process, and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Sid Marder, seconded by Marcia Boone, that the committee recommend to the Board to invest \$25 million in Strategic Global Advisors' international equity all cap strategy within the EMP. The motion passed by a unanimous voice vote.

### Private Equity – Oaktree European Principal Fund, L.P.

Representatives of Oaktree Capital Management presented an investment opportunity in their private equity fund, Oaktree European Principal Fund III, Limited Partnership. Their presentation booklet is on file. A motion was made by Janice Reedus, seconded by Jan Cleveland, that the committee recommend to the Board to commit \$67.5 million to Oaktree European Principal Fund III, L.P. to

invest in middle-market distressed debt opportunities primarily in Europe. The motion passed by a unanimous voice vote.

## **RECESS**

The meeting recessed at 12:27 p.m. and reconvened at 1:04 p.m.

### Private Equity – Sofinnova Venture Partners VIII, L.P.

Representatives of Sofinnova Management presented an investment opportunity in their private equity fund, Sofinnova Venture Partners VIII, Limited Partnership. Their presentation booklet is on file. A motion was made by Marcia Boone, seconded by Jan Cleveland, that the committee recommend to the Board to commit up to \$30 million to Sofinnova Venture Partners VIII, L.P. to invest in emerging growth companies in the biotechnology and pharmaceutical industries. The motion passed by a unanimous voice vote.

### Absolute Return Investment Education

Grosvenor provided education and market analysis related to the absolute return asset class and investment process. Their presentation booklet is on file.

### Absolute Return – BlueMountain Credit Alternatives Fund, L.P.

Representatives of BlueMountain Capital Management presented an investment opportunity in their credit fund, BlueMountain Credit Alternatives Fund, Limited Partnership. Their presentation booklet is on file. A motion was made by Jan Cleveland, seconded by Sharon Leggett, that the committee recommend to the Board to commit \$50 million to BlueMountain Credit Alternatives Fund, L.P. for various credit alternative opportunities. The motion passed by a unanimous voice vote.

### Absolute Return – Claren Road Master Credit Fund, L.P.

Representatives of Claren Road Asset Management presented an investment opportunity in their credit fund, Claren Road Master Credit Fund, Limited Partnership. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to commit \$50 million to Claren Road Master Credit Fund, L.P. for various credit alternative opportunities. The motion passed by a voice vote.

## **RECESS**

The meeting recessed at 3:35 p.m. and reconvened at 3:45 p.m.

### Private Equity Asset Class

Stan Rupnik and Zak Doehla, Sr. Investment Officer, provided an update on the recent activity within the private equity asset class. Mr. Doehla reported on a co-investment opportunity with Veritas Capital Fund IV.

### Watch List – December 31, 2010

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 31, 2010. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); GMO (international equity); Mazama Capital Management small & SMID cap (domestic equity); McKinley Capital (international equity); Turner Investments (domestic equity). Taplin, Canida & Habacht (fixed income) was added to the watch list due to organizational changes. Emerald (domestic equity) was removed from watch due to improved performance. A motion was made by Molly Phalen, seconded by Cinda Klickna, that the committee recommend to the Board to accept the watch list as presented. 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 through December 31, 2010. Assets under management for MBE-owned investments were \$5.26 billion, representing 15.18% of the total TRS portfolio. Documentation is on file.

### Transition Summaries

Staff reported on the following transition activities within the TRS portfolio.

- Analytic large cap core 130/30 termination
- Boston Partners large value portfolio to the Boston Partners 130/30 mandate
- International equity portfolio

### Bond Proceeds

The State has begun issuance of a \$3.7 billion general obligation bond for the purposes of making required pension contributions. TRS expects to receive \$2.019 billion from the sale. Staff presented a recommendation for investment of the bond proceeds and proposed an investment allocation schedule. Documentation is on file. A motion was made by Marcia Boone, seconded by Cinda Klickna, that the committee recommend to the Board to approve the investment of general

obligation bond proceeds, as presented. 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 Janice Reedus, seconded by Marcia Boone, to adjourn the meeting at 4:25 p.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_