



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

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Richard W. Ingram, Executive Director

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### **MINUTES Meeting of the Investment Committee May 19, 2011**

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on May 19, 2011 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Mike Busby, Vice Chair, called the meeting to order at 8:00 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mike Busby (Vice Chair), Marcia Boone, Jan Cleveland, Cinda Klickna (departs 1:30 p.m.), Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, Sonia Walwyn, and Molly Phalen. Absent: Cynthia O'Neill (Chair) 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; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Sally Sherman, Director of Member Services; Kathleen Farney, Director of Research; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; John Long, Cavanagh & O'Hara (Fiduciary Counsel); Pat Donohue, State Street (Custodian), Avery Robinson, Callan Associates (Real Estate Consultant); and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Don Davis, IRTA; Dennis Murfin, IRTA; Shirley Dodds, IRTA; Angela Myers, Loop Capital Markets; and Christine Williamson, Pensions & Investments.

### **APPROVAL OF MINUTES**

A draft of the February 23-24, 2011 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, Chief Investment Officer, provided an organizational chart of TRS's investment managers as of March 31, 2011. 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.

### POB Debt Service Request

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 2012 is \$349.2 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 \$349.2 million from the POB passive index funds, enhanced index funds, and/or public markets active IMAs that may be overweight to the main TRS trust fund cash account. The motion passed by a unanimous voice vote.

### Risk Management System RFP Update

Staff is in the process of evaluating finalists for a risk management system. Documentation is on file.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Education

Representatives of Goldman Sachs provided an educational presentation on the market outlook and inflation. Documentation is on file.

### Investment Performance Review – March 31, 2011

RV Kuhns provided an update of the investment performance for the quarter ended March 31, 2011 and provided a preliminary update through April.

Documentation is on file. Total assets: \$37.3 billion. The March 31, 2011 total fund return:

Gross of fees:	Net of fees:
○ Quarter: 4.49%	Quarter: 4.35%
○ 1 year: 15.24%	1 year: 14.57%
○ 3 years: 2.31%	3 years: 1.77%
○ 5 years: 4.13%	5 years: 3.66%
○ 10 years: 6.43%	10 years: 6.02%

#### MBE/WBE Utilization Report (preliminary figures)

Stan Rupnik provided an update on the participation of women/minority-owned brokers and investment managers through March 31, 2011. Assets under management for MBE-owned investments were \$5.57 billion, representing 14.96% of the total TRS portfolio. Documentation is on file. Currently, the fund is 1.46% above the FY 2011 goal. Staff expects some movement of assets and will present new goals in August.

#### **RECESS**

The meeting recessed at 9:35 a.m. and reconvened at 9:50 a.m.

#### Global Equity Asset Class Report

Representatives of State Street, TRS's custodian, provided an overview of foreign exchange services. Recently, legal proceedings have been initiated against State Street including headlines in the press relating to foreign exchange procedures. Documentation is on file. Staff will keep the investment committee updated with any new information.

#### Fixed Income Asset Class

Scottie Bevill, Sr. Investment Officer, provided an update and recommendations on recent activity within the fixed income asset class. Staff recommended approval of the Consent to Assignment, acknowledging the sale of Taplin, Canida & Habacht's parent company Marshall & Ilsley to the Bank of Montreal. A motion was made by Bob Lyons, seconded by Marcia Boone, that the committee recommend to the Board to allow staff to execute the Taplin, Canida & Habacht Consent to Assignment document. The motion passed by a unanimous voice vote.

Further, staff recommended ratification of the selection of Hartford Investment Management Company with a U.S. Treasury Inflation Protection Securities (TIPS) manager with an initial 5% target. A motion was made by Cinda Klickna, seconded by Marcia Boone, that the committee recommend to the Board to ratify

the selection of Hartford Investment Management Company for a 5% target within fixed income. The motion passed by a unanimous voice vote.

As a result of the ratification of Hartford's initial 5% U.S. TIPS target, modifications to other manager targets are necessary. Staff recommended a decrease to the targets for Prudential by 2% (16.5% to 15.5%), GSAM by 2% (15% to 13%), and PIMCO by 1% (20.5% to 19.5%). A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to decrease the targets for Prudential by 2%, GSAM by 2%, and PIMCO by 1%. The motion passed by a unanimous voice vote.

### Transition Summaries

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

- Herndon large cap value domestic equity portfolio
- Boston Partners large cap value portfolio to the Boston Partners 130/30 mandate
- Additional funding for Northern Trust Passive World Ex-US Index (international equity)
- Strategic Global Advisors and cash flow (international equity)

### Manager Evaluation

Becky Gratsinger, RV Kuhns, reviewed watch list manager evaluation practices and outlining approaches to manager evaluation. Documentation is on file.

## **EXECUTIVE SESSION**

A motion was made by Jan Cleveland, 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, Leggett, Lyons, Marder, Phalen, Reedus, and Walwyn. 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, Busby, Cleveland, Klickna, Leggett, Lyons, Marder, Phalen, Reedus, and Walwyn. Motion CARRIED.

## **RECESS**

The meeting recessed at 12:35 p.m. and reconvened at 1:30 p.m.

### Watch List – March 31, 2011

Staff provided an update of the investment managers currently on the watch list for the quarter ended March 31, 2011. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); McKinley Capital (international equity); and Turner Investments (domestic equity). Taplin, Canida & Habacht (fixed income) and GMO (international equity) were removed from watch. A motion was made by Sid Marder, 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.

### Mazama – Termination

In April, staff requested Chair approval to terminate the Mazama Small Growth and SMID Growth mandates due to performance. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to ratify the termination of Mazama's mandates. 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 Reodus, seconded by Marcia Boone, to adjourn the meeting at 1:35 p.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_