



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

August 3-4, 2011

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 3-4, 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 2:00 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 Campbell, Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder (8/4/11), Janice Reedus, Sonia Walwyn (arrived 2:30 p.m.), and Molly Phalen (arrived 2:45 p.m.). Absent: Jan Cleveland, Sid Marder (8/3/11), and Chris Koch.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Tom Gray, General Counsel; Cynthia Fain, Sr. Asst. General Counsel; Kathleen Farney, Director of Research; Jana Bergschneider, Director of Administration; Sally Sherman, Director of Member Services; Dave Urbanek, Public Information Officer; Stacy Smith, Director of Internal Audit; Tassi Maton, Internal Auditor; Christina Baker, Internal Auditor; Tim Hays, Sr. Investment Officer; Kent Custer, Sr. Investment Officer; Zak Doehla, Sr. Investment Officer; Kenyatta Matheny, Investment Officer; Chuck Handy, Investment Officer; Scottie Beville, Sr. Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Bill Thomas, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Pat O'Hara and John Long, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); and Avery Robinson, Callan Associates (Real Estate Consultant).

Visitors present: Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; and Angela Myers, Loop Capital; Craig Bardo, BroadRiver Asset Management; and Jack Tucker, IEA-R.

APPROVAL OF MINUTES

A draft of the June 23, 2011 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by

Marcia Campbell, 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 public markets investment managers as of June 30, 2011. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. Documentation is on file.

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 Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to add China National Petroleum Corporation (China), ENI (Italy), Gazprom (Russia), and Petronas (Malaysia) to TRS's list for possible divestment. The motion passed by a unanimous voice vote. Since last year, three companies – INPEX (Japan), Lukoil (Russia), and Statoil (Norway) – were removed from the source lists and two companies – China and Petronas – were added to the TRS list. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – Preliminary 6/30/11

Stan Rupnik provided preliminary data of the investment performance for the quarter ended June 30, 2011, noting preliminary investment returns of 24 percent for FY 2011. Total assets: \$37 billion, an 18.5 percent increase over the 2010 total. Documentation is on file.

(Trustee Walwyn arrives)

Watch List – June 30, 2011

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2011. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); McKinley Capital (international equity); and Turner Investments (domestic equity). A motion was made by Bob Lyons, seconded by Sharon Leggett, that the

committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Domestic Equity

Kent Custer, Sr. Investment Officer, reported on the recent rebalancing of the domestic equity portfolio and small cap outperformance. Staff recommended target allocation changes to the following mandates: Rhumblin S&P 500, Rhumblin Small Cap Completeness, MFS Enhanced Large Cap Core, and Levin Active Large Cap Core. A motion was made by Marcia Campbell, seconded by Janice Reedus, that the committee recommend to the Board approve the domestic equity allocation changes, as presented. The motion passed by a unanimous voice vote.

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, 2011. Assets under management for MBE-owned investments were \$5.68 billion, representing 15.06% of the total TRS portfolio. Documentation is on file.

Director Ingram announced that the annual Stakeholder Forum will be February 10, 2012 and the Opportunity Forum will be March 6, 2012. Both forums will be held in Springfield.

Fixed Income Asset Class Report

Staff provided a summary of the search process for a fixed income core plus manager and recommended ratification of MacKay Shields and Manulife Asset Management for core plus mandates with initial 10.0 percent and 6.0 percent long term targets, respectively, within the fixed income asset class.

To enhance the volatility of the fixed income portfolio, staff recommended revising structure targets by reducing Taplin, Canida & Habacht's target from 5.0 percent to 1.0 percent; increasing Dolan McEniry's target from 5.0 percent to 7.5 percent; increasing Special Situations target from 1.5 percent to 3.0 percent; increasing Hartford's TIPS mandate from 5.0 percent to 7.5 percent; and reducing Prudential's core target from 15.5 percent to 10.0 percent.

Given the selection of Manulife and MacKay Shields to the global fixed income portfolio, staff requested ratification of the termination of Goldman Sachs Asset Management's (GSAM) core plus portfolio. A motion was made by Bob Lyons,

seconded by Mike Busby, that the committee recommend to the Board the approval of staff's recommendations within the fixed income asset class, as presented. The motion passed by a unanimous voice vote.

Scottie Bevill, Sr. Investment Officer, reported that the PIMCO TALF (Term Asset-Backed Loan Facility) portfolio ceased in June and provided a time-weighted return of 20.7 percent (net of fees) to TRS over the two-year life of the program.

RECESS

The meeting recessed at 3:20 p.m. and reconvened at 3:30 p.m.

Private Equity Co-Investment

Staff requested ratification of a co-investment opportunity with Stone Point Capital Trident Fund V in an equity raise for NXT Capital with investments focusing on the middle market commercial finance industry. TRS's share is to co-invest up to \$40 million with Stone Point Capital. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to ratify the co-investment with Stone Point Capital. The motion passed by a unanimous voice vote.

Transition Summaries

Stan Rupnik reported on the following transition activities within the TRS portfolio.

- Domestic equity Boston Partners large cap value to Boston Partners 130/30
- Domestic equity rebalance of Boston Partners to Rhumblin S&P 500
- International equity Brandes Inv. Partners, Mondrian Inv. Partners, SSgA Optimized EAFE growth funded to Northern Trust Passive World Ex-US Index

Quarterly Compliance Summary

Deron Bertolo, Director of Investment Operations, reported that staff monitors separate account manager compliance to each manager's individual restrictions. Staff reviews alerts triggered by the State Street compliance system to determine if there are any violations. Mr. Bertolo provided a summary of the quarterly compliance dashboard system output by public market asset class for the quarter ended March 31, 2011.

NEW BUSINESS

Sofinnova Venture Partners Fund VIII, L.P.

In February, the Board approved a \$30 million commitment to Sofinnova Venture Partners Fund VIII, Limited Partnership to invest in emerging growth companies in biotechnology and pharmaceutical industries. Staff reported that the General Partner has increased the fund size, therefore, allowing existing investors to make additional commitments. Staff has high conviction in the manager and recommended an additional commitment to SVP Fund VIII. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to increase commitment to SVP Fund VIII from \$30 million to \$40 million. The motion passed by a unanimous voice vote.

Carlson Capital, L.P. – Absolute Return

Representatives of Carlson Capital presented an investment opportunity in their multi-strategy fund, Double Black Diamond Fund. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Molly Phalen, seconded by Sonia Walwyn, that the committee recommend to the Board to invest \$50 million to Carlson Capital's Double Black Diamond Fund, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 4:48 p.m. and reconvened the following day at 8:07 a.m.

LiveOak Venture Partners I, L.P. – Emerging Manager Program

The committee interviewed LiveOak Management Services to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Mike Busby, seconded by Janice Reedus, that the committee recommend to the Board to commit \$10 million to LiveOak Venture Partners I, L.P., with the ability to scale up to \$25 million. The motion passed by a unanimous voice vote.

Siris Partners II, L.P. – Emerging Manager Program

The committee interviewed Siris Capital Group to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the firm and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee

recommend to the Board to commit \$45 million to Siris Partners II, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 10:10 a.m. and reconvened at 10:25 a.m.

Providence Equity Partners VII, L.P. – Private Equity

Representatives of Providence Equity Partners presented an investment opportunity in their private equity fund, Providence Equity Partners VII, 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 Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to invest up to \$125 million to Providence Equity Partners VII, L.P. Discussion followed noting concerns. The motion passed by a voice vote.

Vista Equity Partners Fund IV, L.P. – Private Equity

Representatives of Vista Equity Partners presented an investment opportunity in their private equity fund, Vista Equity Partners IV, 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 Sid Marder, seconded by Marcia Campbell, that the committee recommend to the Board to invest up to \$100 million to Vista Equity Partners IV, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 12:20 p.m. and reconvened at 12:52 p.m.

STAFF PRESENTATION

Real Estate Tactical Plan

Staff and Callan Associates presented the FY 2012 real estate tactical plan and provided a summary of the initiatives and outlook of the real estate market. The plan will continue to identify core and specialty investments that will increase the portfolio towards the long-term allocation target of 14%. Staff recommended increasing allocations to two existing real estate managers: Heitman - \$200 million and Lincoln Property Company - \$150 million. A motion was made by Marcia Campbell, seconded by Sharon Leggett, that the committee recommend to the Board to adopt the FY 2012 real estate tactical plan including approval of the IMA amendments and riders. 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 Bob Lyons, seconded by Marcia Campbell, to adjourn the meeting at 2:20 p.m.

Richard W. Ingram, Executive Director

Approved _____