



## Teachers' Retirement System of the State of Illinois

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### MINUTES

#### Meeting of the Investment Committee February 21-22, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 21-22, 2013 at the Springfield office of the Illinois Teachers' Retirement System 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 9:55 a.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, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Enrique Vasquez, Sonia Walwyn, Molly Phalen, and Chris Koch. Absent: Janice Reedus

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Zak Doehla, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Kenyatta Matheny, Investment Officer; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Cynthia Fain, Sr. Assistant General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Kathleen Farney, Director of Research; Gina Larkin, Director of Human Resources; Dave Urbanek, Director of Communications; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Jamie Shen, Callan Associates (Real Estate Consultant); Mike Kremms and Tom Martin, TorreyCove (Private Equity Consultant).

Visitors present: Don Davis, IRTA Rep; Dennis Murfin, IRTA Rep.; Alan Jones, IEA-R; Jeanne Jones, IEA-R; and Angela Myers, Loop Capital.

## **APPROVAL OF MINUTES**

A draft of the December 10-11, 2012 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Marcia Campbell, seconded by Jan Cleveland, the minutes were approved, as amended. Page 10, “domestic” changed to “international”.

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS’s investment managers as of December 31, 2012. 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. A motion was made by Cinda Klickna, seconded by Sharon Leggett, that the committee recommend to the Board to withdraw up to 2% of the main TRS trust fund’s total value, \$672 million based on 12/31/12 ending market value. The motion passed by unanimous voice vote.

### RFP Updates

Staff is conducting due diligence for an investment performance reporting system and a private equity secondary advisor. A final recommendation is expected in May or June.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – December 31, 2012

RV Kuhns provided an update of the investment performance for the quarter ending December 31, 2012 and provided a preliminary update through January 2013. Total assets: \$38.2 billion. Documentation is on file.

The total fund return, gross of fees:

- Quarter: 2.2%
- 1 year: 14.6%
- 3 year: 10.1%
- 5 year: 2.4%
- 10 year: 8.1%

### Watchlist

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 30, 2012. Frontier Capital Management (domestic equity) and Levin Capital Management (domestic equity) remain on watch due to performance reasons. Staff recommended Franklin Templeton-Emerging Market Debt (fixed income), Grantham, Mayo, Van Otterloo (international equity), and Trilogy Global Advisors (international equity) be added to the watch list due to performance reasons. In addition, staff recommended the termination of Boston Company's domestic equity small-to-mid-cap value strategy due to performance. A motion was made by Mike Busby, seconded by Sonia Walwyn, that the committee recommend to the Board to approve the 12/31/12 watch list, as presented. The motion passed by a unanimous voice vote.

### **RECESS**

The meeting recessed at 11:15 a.m. and reconvened at 11:25 a.m.

### **NEW BUSINESS**

#### Carlyle Partners – Private Equity

Representatives of The Carlyle Group presented an investment opportunity in the firm's private equity fund, Carlyle Partners VI, L.P. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted and the System's exposure to the firm. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to commit \$250 million to Carlyle Partners VI, L.P. within the TRS main fund (85%%) and the POB account (15%). The motion passed by a voice vote. Trustee Walwyn abstained from voting and a vote of opposition was heard from Trustee Vasquez.

## **RECESS**

The meeting recessed at 12:55 p.m. and reconvened at 1:30 p.m.

### PIMCO – Fixed Income

Representatives of PIMCO presented an investment opportunity in the PIMCO Bank Recapitalization and Value Opportunities Fund II, L.P. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to commit \$125 million to the PIMCO BRAVO Fund II, L.P. The motion passed by a unanimous voice vote.

## **STAFF/CONSULTANT PRESENTATIONS**

### Fixed Income Asset Class

Scottie Bevill, Sr. Investment Officer, reported on the recent activity and recommendations related to the fixed income portfolio. Discussion was held regarding consolidation of the main fund and POB account. CIO Stan Rupnik will present an implementation plan at the May meeting.

A motion was made by Marcia Campbell, seconded by Enrique Vasquez, that the committee recommend to the Board to allow current TRS holdings of State of Israel notes/bonds to mature as scheduled with proceeds invested into the System's cash accounts. The motion passed by a unanimous voice vote. TRS does not manage any other fixed income or other assets internally.

A motion was made by Mike Busby, seconded by Bob Lyons, that the committee recommend to the Board to approve revisions to the fixed income asset class structure, as presented. The motion passed by a unanimous voice vote.

- An increase in target allocation to Special Situations from 6.0% to 7.0%
- A decrease in target allocation to Prudential's core fixed income portfolio from 9.0% to 8.0%
- Addition of a short term investment/cash/low duration allocation within the asset class. Target allocation is intended to range from 0-10%.
  - The allocation will allow for rebalance of the asset class, as prudent.

- Duration of the allocation may not exceed 1.5 years. Any deviation will require staff PMOC and board approval.
- For implementation, TRS staff may utilize the existing State Street STIF portfolio or similar products of any existing TRS global fixed income managers. Multiple mandates may be utilized as needed and/or prudent.

A motion was made by Enrique Vasquez, seconded by Sonia Walwyn, that the committee recommend to the Board to conduct a search for a specific global emerging market credit manager. The motion passed by a unanimous voice vote.

A motion was made by Sharon Leggett, seconded by Sonia Walwyn, that the committee recommend to the Board to ratify the increase in the maximum allowed in the Loomis Sayles Strategic Alpha Fund portfolio from 25.0% to 40.0% of the overall Loomis Sayles fixed income portfolio. The motion passed by a unanimous voice vote.

### Oaktree

Staff recommended increasing its allocation to Oaktree Capital Management. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to invest an additional \$50 million to its Enhanced Income Fund, resulting in a total commitment of \$125 million to the fund. The motion passed by a voice vote. A vote of opposition was heard from Trustee Vasquez.

## **NEW BUSINESS**

### Ativo Capital Management – Emerging Manager Program

The committee interviewed Ativo Capital Management to fill an allocation within the System's Emerging Manager Program. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Sharon Leggett, seconded by Cinda Klickna, that the committee recommend to the Board to invest \$25 million in Ativo Capital Management's international equity strategy within the EMP. The motion passed by a unanimous voice vote.

## **STAFF/CONSULTANT PRESENTATIONS**

### W/MBE Utilization Report

Kenyatta Matheny provided data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through December 31, 2012. Assets under management for WMBE-owned investments were \$5.23 billion, representing 13.72% of the total TRS portfolio. Documentation is on file.

Staff reported on the December 12 hearing of the Senate Committee on Pensions and Investments. Discussion followed.

### Global Equity Asset Class

Greg Turk, Director of Investments, reported on the recent activity and recommendations related to the global equity asset class. Staff requested ratification for the termination of the Boston Company's SMID cap value domestic mandate (2% target) due to poor performance and lack of conviction in the investment process. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to ratify the termination of Boston Company's SMID cap value 2% domestic equity mandate. The motion passed by a unanimous voice vote.

A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to approve the domestic equity target revisions, as presented. The motion passed by a unanimous voice vote.

- Increase LSV SMID value from 3.0% to 4.0%
- Increase CRM SMID value from 2% to 3.0%
- Decrease interim Russell 2500 Growth from 1.25% to 0.0%
- Increase Boston Company's SMID cap growth from 2.5% to 3.25%
- Increase Emerald small cap growth from 2.5% to 3.0%

Staff requested ratification to continue use of State Street's Enhanced Custody Model to provide prime brokerage services for Boston Partners' domestic equity 130/30 accounts. A motion was made by Sharon Leggett, seconded by Jan Cleveland, that the committee recommend to the Board to ratify the continued use of State Street's Enhanced Custody Model to provide prime brokerage services for Boston Partners' domestic equity 130/30 accounts. The motion passed by a unanimous voice vote.

## Quarterly Compliance Report 12/31/12

Deron Bertolo, Director of Investment Operations, provided a summary of compliance issues for the quarter ended December 31, 2012. Documentation is on file. TRS is in compliance with Public Acts 95-0616 and 95-0521.

### Private Equity Co-Investment Advisor

In October 2012, the Board authorized a search for private equity co-investment advisory services. Following a thorough review of the responses, staff recommended adding Stout Risius Ross to the private equity co-investment advisory pool. A motion was made by Molly Phalen, seconded by Cinda Klickna, that the committee recommend to the Board to add Stout Risius Ross to the private equity co-investment advisor pool. The motion passed by a unanimous voice vote.

### Real Estate Co-Investment Advisor

In March 2012, the Board authorized a search for real estate co-investment advisory services to provide the System advice in creating a co-investment program. Following a thorough review and due diligence process, staff recommended the approval of ORG Portfolio Management and Real Asset Portfolio Management as advisors for co-investment opportunities within the System's real estate portfolio. A motion was made by Cinda Klickna, seconded by Sonia Walwyn, that the committee recommend to the Board to approve ORG Portfolio Management and Real Asset Portfolio Management as advisors. The motion passed by a unanimous voice vote.

### Investment Policy Revisions

Staff requested the approval of revisions to the TRS Investment Policy due to the shift to a third party provider for securities lending services. A motion was made by Cinda Klickna, seconded by Molly Phalen, that the committee recommend to the Board to approve the investment policy revisions, as presented. The motion passed by a unanimous voice vote.

Section IV: Role Definition, Page 9

Section XV: Permissible Investments, Page 31

Section XVI: General Investment Restrictions & Guidelines, Page 32

Section XVIII: Performance Monitoring, Page 35

## RECESS

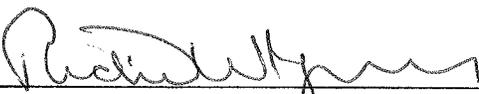
The meeting recessed at 4:55 p.m. and reconvened the following day at 8:35 a.m.

### Absolute Return Annual Reviews- 2012

Greg Turk and Ken Musick reported on the recent activity within the absolute return asset class and on the annual reviews of investment managers including a summary of future considerations.

## ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Molly Phalen, seconded by Jan Cleveland, to adjourn the meeting at 10:13 a.m.

  
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Richard W. Ingram, Executive Director

Approved 5/22/13