



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES Meeting of the Investment Committee June 23, 2011

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on June 23, 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 12:30 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, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, Sonia Walwyn, and Molly Phalen. Absent: Chris Koch

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Cynthia Fain, Sr. Asst. General Counsel; Kathleen Farney, Director of Research; Jana Bergschneider, Director of Administration; Sally Sherman, Director of Member Services; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Public Information Officer; Stacy Smith, Director of Internal Audit; Tim Hays, Sr. Investment Officer; Kent Custer, Sr. Investment Officer; Zak Doehla, Investment Officer; Kenyatta Matheny, Investment Officer; Chuck Handy, Investment Officer; Scottie Bevill, 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); Marcia Beard, RV Kuhns (Investment Consultant); Ken Lee, Mike Kremms, and Kara King, PCG (Private Equity Consultant).

Visitors present: Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep.; and Angela Myers, Loop Capital.

APPROVAL OF MINUTES

A draft of the May 19, 2011 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Marcia Campbell, seconded by Sharon Leggett, and by unanimous voice vote, the minutes were approved as printed.

OLD BUSINESS

Cash Withdrawal

Stan Rupnik, Chief Investment Officer, discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file.

NEW BUSINESS

EQT Funds Management - Private Equity

Representatives of EQT Funds Management presented an investment opportunity in their private equity fund, EQT VI Fund, 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 Molly Phalen, seconded by Cinda Klickna, that the committee recommend to the Board to invest approximately \$108 million to EQT VI Fund, L.P. (€63.75 million main fund, €11.25 million POB account). The motion passed by a unanimous voice vote.

Black River Asset Management – Private Equity

Representatives of Black River Asset Management presented a new investment opportunity in their private equity fund, Black River Food Fund, Limited Partnership. Their presentation booklet is on file. Staff and PCG provided an overview of the firm and due diligence that was conducted. While staff supported the passage of a recommendation to the Board, PCG did not, citing risks that were explained and discussed fully by the committee. A motion was made by Sid Marder, seconded by Jan Cleveland, that the committee recommend to the Board to invest up to \$75 million to Black River Food Fund, L.P. The motion passed by a voice vote (Trustees Reedus and Walwyn abstained from voting).

RECESS

The meeting recessed at 2:55 p.m. and reconvened at 3:05 p.m.

STAFF/CONSULTANT PRESENTATIONS

MBE/WBE Utilization Report

Stan Rupnik provided an update on the participation of women/minority-owned brokers/dealers and investment managers within the TRS investment portfolio through March 31, 2011. Assets under management for MBE-owned investments

were \$5.6 billion, representing 14.97% of the total TRS portfolio. Documentation is on file.

Iran Divestment Update

In accordance with the Iran divestment law, staff submitted an updated list of scrutinized companies including China National Petroleum Corp., ENI (Italy), Gazprom (Russia), and Petronas (Malaysia). Staff will communicate with the companies to determine their business relationships within the Iran energy sector. A motion was made by Cinda Klickna, seconded by Sonia Walwyn, that the committee recommend to the Board to approve the updated list of scrutinized companies relating to business in Iran. The motion passed by a unanimous voice vote.

Interim Asset Allocation/Policy Benchmark

Staff recommended adjusting the System's policy benchmark to reflect the current positioning of the TRS investment portfolio and implementation plan for the new fiscal year beginning July 1, 2011. Documentation is on file. A motion was made by Marcia Campbell, seconded by Jan Cleveland, that the committee recommend to the Board to accept the revised interim asset allocation targets and policy benchmark effective 7/1/11. The motion passed by a unanimous voice vote.

Investment Policy Revisions

Staff proposed the following revisions to the investment policy relating to the adoption of a new asset allocation including modification to the interim asset allocation, policy benchmark and manager structure. Documentation is on file. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to accept revisions to the investment policy, as presented. The motion passed by a unanimous voice vote.

- Section VII: Asset Allocation & Rebalancing Strategy, Pages 12-14
- Section VIII: Investment Manager Structure, Pages 15-18
- Section XIII: Performance Benchmarks, Pages 30-31

Dimensional Fund Advisors

Staff outlined the search process for an emerging markets small cap manager and recommended ratification of the selection of Dimensional Fund Advisors (DFA). Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Molly Phalen, seconded by Marcia Campbell, that the committee recommend to the Board to ratify the selection of DFA for a 2% MCSI

emerging markets small cap mandate. The motion passed by a unanimous voice vote.

Foreign Currency Exchange

Due to the recent accusations of improper dealing by certain custodians in the foreign currency exchange market, staff conducted a detailed review of TRS foreign exchange transactions. Kent Custer, Sr. Investment Officer, reported that staff found no indications of impropriety with respect to foreign exchange at State Street, the System's custodian, or any of TRS's investment managers.

Real Return Asset Class Report

Staff recommended increasing New Century Advisors global inflation-linked bond (GILB) target within the real return portfolio from 5 percent to 7.5 percent and to decrease PIMCO's GILB target from 19 percent to 16.5 percent. This would modestly increase the GILB beta within the portfolio. A motion was made by Sonia Walwyn, seconded by Marcia Campbell, that the committee recommend to the Board to increase NCA's GILB target from 5 percent to 7.5 percent with PIMCO's GILB target reduced from 19 percent to 17.5 percent. The motion passed by a unanimous voice vote.

Fixed Income Asset Class Report

To allow Prudential to better manage portfolio volatility and due to an index concentrated heavily U.S. government issues, staff recommended revising the current Prudential enhanced index mandate from core conservative to core guidelines effective 7/1/11. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to revise the current Prudential enhanced index mandate, as presented. The motion passed by a unanimous voice vote.

Real Estate Insurance Brokerage Services RFP

Staff recommended issuing a Request for Proposal (RFP) to administer real estate insurance brokerage services for the System. The current contract with Tave Risk Management is due to expire in February 2012. Staff plans to issue the RFP in July and have presenters at the October investment committee meeting. A motion was made by Sid Marder, seconded by Bob Lyons, that the committee recommend to the Board to issue a RFP for real estate insurance brokerage services. The motion passed by a unanimous voice vote.

Transition Summaries

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

- Domestic equity rebalance and Mazama termination
- International equity rebalance of Brandes/McKinley Capital to Northern Trust

Private Equity Tactical Plan

PCG and staff presented the FY 2012 private equity tactical plan. TRS recently increased its private equity target from 10% to 12% of total assets. The plan calls for the private equity portfolio to continue to increase in size with commitments of \$900 million to \$1.4 billion. The private equity team will focus on its key initiatives: continued development of the global fund portfolio, execution of co-investment opportunities, and enhancement of its secondary market capabilities.

A motion was made by Marcia Campbell, seconded by Jan Cleveland, that the committee recommend to the Board to approve the FY 2012 private equity tactical plan, 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 Molly Phalen, seconded by Marcia Campbell, to adjourn the meeting at 5:30 p.m.

Richard W. Ingram, Executive Director

Approved _____