



Teachers' Retirement System of the State of Illinois

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MINUTES Meeting of the Investment Committee February 8-9, 2012

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 8-9, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 3:40 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, Sharon Leggett (arrived 4:00 p.m.), Bob Lyons, Janice Reedus, Sonia Walwyn, Molly Phalen, and Chris Koch (arrived 2/9 11:40 a.m.). Absent: Cinda Klickna and Chris Koch (2/8).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Zak Doehla, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Chris Weis, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Kenyatta Matheny, Investment Officer; Cynthia Fain, Sr. Assistant General Counsel; Sally Sherman, Director of Member Services; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); Becky Gratsinger, RV Kuhns (Investment Consultant); Mike Kremms, TorreyCove (Private Equity Consultant); and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

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

APPROVAL OF MINUTES

A draft of the December 12-13, 2011 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Marcia Campbell, seconded by Bob Lyons, the minutes were approved as printed by voice vote. Trustee Walwyn abstained from voting.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's public markets investment managers as of December 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.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – December 31, 2011

RV Kuhns provided an update of the investment performance for the quarter ending December 31, 2011 and provided an update through January 2012. Total assets: \$34.6 billion. Documentation is on file. The total fund return, gross of fees:

- Quarter: 4.37%
- 1 years: 1.96%
- 3 years: 10.39%
- 5 years: 1.70%
- 10 years: 6.08%

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 30, 2011. The existing managers remain

on watch due to performance reasons: Brandes Investment Partners (international equity) and Turner Investment Partners (domestic equity). Staff recommended Hartford Investment Management Company (fixed income) be added to the watch list due to organizational concerns. A motion was made by Marcia Campbell, seconded by Sonia Walwyn, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Wellington Management – Termination

In January 2012, the Chair of Investments approved staff's recommendation to terminate Wellington's domestic equity large cap growth mandate due to performance. Staff requested ratification of the termination. Assets will be reassigned to T. Rowe Price's large cap growth portfolio and Boston Partners large cap value portfolio. A motion was made by Marcia Campbell, seconded by Sonia Walwyn, that the committee recommend to the Board to ratify the termination of Wellington Management. The motion passed by a unanimous voice vote.

W/MBE Utilization Report

Stan Rupnik provided preliminary data on the participation of women/minority-owned brokers and investment managers within the TRS investment portfolio through December 31, 2011. Assets under management for WMBE-owned investments were \$5.12 billion, representing 14.77% of the total TRS portfolio. Documentation is on file. Kenyatta Matheny, Investment Officer, provided an overview of the agenda for the March 6, 2012 Opportunity Forum to be held at the Crowne Plaza, Springfield, IL.

Transition Summary

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

- International equity DFA emerging market small cap fund III
- Rebalancing of the global equity asset class
- Funding of Aberdeen emerging markets from GMO emerging markets

Investment Education

RV Kuhns provided an educational presentation on securities lending. Documentation is on file. Staff and RVK have researched ways to enhance the current securities lending program and believes TRS will benefit from conducting an RFP for third-party securities lending providers. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to issue a securities lending RFP. The motion passed by a unanimous voice vote.

EXECUTIVE SESSION

A motion was made by Sharon Leggett, seconded by Marcia Campbell, 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 Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

No action was taken during executive session. A motion was made by Jan Cleveland, seconded by Marcia Campbell, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

RECESS

The meeting recessed upon conclusion of executive session (6:10 p.m.) and reconvened the following day at 8:35 a.m.

Terminations

The System has transitioned all assets from EARNEST, AQR, and Fred Alger. Staff recommended termination of the domestic equity IMAs for these accounts since no assets are under management. A motion was made by Marcia Campbell, seconded by Jan Cleveland, that the committee recommend to the Board the termination of the domestic equity IMAs for EARNEST, AQR, and Fred Alger. The motion passed by a unanimous voice vote.

Mondrian

Staff proposed a new fee schedule for Mondrian's international equity value mandate that allows Mondrian to manage all assets including emerging markets equities within its current separate account. The new fee schedule gives TRS the ability to recoup all redemption fees incurred for exiting the emerging markets pooled trust. A motion was made by Mike Busby, seconded by Jan Cleveland, that the committee recommend to the Board to adopt the newly proposed fee structure for Mondrian's international equity mandate effective April 1, 2012. The motion passed by a unanimous voice vote.

NEW BUSINESS

OakBrook Investments – Emerging Manager Program

Staff recommended “graduation” of the enhanced index portfolio of OakBrook Investments from the System's Emerging Manager Program to the main TRS investment portfolio. The committee interviewed OakBrook and recommended a 2% mandate within the domestic equity portfolio. 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 Jan Cleveland, that the committee recommend to the Board to graduate the OakBrook Investments portfolio from the TRS Emerging Manager Program. The motion passed by a unanimous voice vote.

Alibaba Group – Private Equity Co-Investment

Zak Doehla, Sr. Investment Officer, requested ratification of the Alibaba co-investment opportunity alongside Silver Lake Partners. Staff believes the Alibaba co-investment opportunity is a complementary fit with the goals and objectives of the private equity co-investment allocation strategy. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to ratify the commitment of up to \$40 million to Alibaba Group. The motion passed by a unanimous voice vote.

Lightspeed General Partner – Private Equity

Representatives of Lightspeed General Partner provided an investment opportunity in their private equity fund, Lightspeed Venture Partners IX,

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 Marcia Campbell, that the committee recommend to the Board to invest up to \$30 million to Lightspeed Venture Partners IX, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 10:20 a.m. and reconvened at 10:30 a.m.

NGP Energy Capital Management – Private Equity

Representatives of NGP Energy Capital Management provided an investment opportunity in their private equity fund, NGP Natural Resources X, 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 Sharon Leggett, seconded by Jan Cleveland, that the committee recommend to the Board to invest up to \$100 million to NGP Natural Resources X, L.P. The motion passed by a unanimous voice vote.

Parthenon Capital Partners – Private Equity

Representatives of Parthenon Capital Partners provided an investment opportunity in their private equity fund, Parthenon Investors 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 Jan Cleveland, seconded by Marcia Campbell, that the committee recommend to the Board to commit up to \$40 million to Parthenon Investors IV, L.P. The motion passed by a unanimous voice vote.

(President Koch arrives at 11:40 a.m.)

Niam – Real Estate

Representatives of Niam presented an investment opportunity in the firm's real estate fund, Niam Nordic V, Limited Partnership. Their presentation booklet is on file. A motion was made by Marcia Campbell, seconded by Sharon Leggett, that the committee recommend to the Board to invest up to €20 million to Niam Nordic V, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 12:45 p.m. and reconvened at 1:20 p.m.

Starwood Capital – Real Estate

Representatives of Starwood Capital presented an investment opportunity in the firm's real estate fund, Starwood Distressed Opportunities Fund IX, Limited Partnership. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to invest up to \$150 million to Starwood Distressed Opportunities Fund IX, L.P. 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 Marcia Campbell, seconded by Janice Reedus, to adjourn the meeting at 2:18 p.m.

Richard W. Ingram, Executive Director

Approved _____