



Teachers' Retirement System of the State of Illinois

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MINUTES

Meeting of the Investment Committee October 29-30, 2014

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 29-30, 2014 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 2:03 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Mark Bailey, Marcia Campbell, Mark Harris, Rainy Kaplan, Cinda Klickna, Bob Lyons, Sonia Walwyn, Sharon Leggett, and Chris Koch, President (Absent 10/29, arrived 10:50 a.m. on 10/30).

Others present: Dick Ingram, Executive Director; Tom Gray, General Counsel; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Bill Thomas, Investment Officer; Stefan Backus, Investment Officer; Jerry Quandt, Investment Officer; Chuck Handy, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Bob Jiroutek, Sr. Investment Analyst; Kirk Sims, Investment Analyst; Stacy Smith, Director of Internal Audit; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Mark Studivan, RV Kuhns (Investment Consultant); Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); Mike Krems, Kara King, and Kolina Kralera, TorreyCove (Private Equity Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Eric Harris, Loop Capital; Bob Kaplan; Dennis Murfin, IRTA; Don Davis, IRTA; Shirley Dodds, IRTA; Gayla Dial, IEA/IRTA; Dan Winter; Jeanne Jones, IEA-R; Alan Jones, IEA-R; and Tony Casalino, IFT.

No Public Comment.

APPROVAL OF MINUTES

A draft of the August 25-26, 2014 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 investment managers for fiscal year end June 30, 2014. 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.

RFP Update

The RFP results for real estate consulting services are under review.

NEW BUSINESS

Garcia Hamilton Associates – Emerging Manager Program

The committee interviewed Garcia Hamilton as a candidate for graduation from the System's Emerging Manager Program. Staff provided an overview of the firm and the due diligence that was conducted. Their presentation booklet is on file. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to approve graduation of Garcia Hamilton & Associates' core mandate from the Emerging Manager Program to a 4.0% mandate within the global fixed income asset class.

The motion passed by a unanimous voice vote.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – June 30, 2014

RV Kuhns provided an overview of the final June 30, 2014 fiscal year end investment performance report noting a positive 17.4 percent rate of return during FY 14, net of fees. Total assets: \$45.36 billion. Documentation is on file. The unfunded liability increased over the year to \$61.59 billion from \$55.73 billion mainly due to TRS reducing its assumed rate of return from 8.0% to 7.5% annually. The funded ratio increased from 42.5% to 44.2% (market value) but the funded ratio based on the actuarial value of assets (smoothed over a five year period) remained the same at 40.6%. The June 30, 2014 total fund return, gross of fees:

- 1 year: 18.1%
- 3 years: 10.7%
- 5 years: 13.9%
- 10 years: 7.8%
- 20 years: 8.9%

In addition, RVK provided a new quarterly portfolio manager review report as a result of an audit recommendation in the fixed income and real return audit.

PIMCO

Staff reported that the System does not plan to terminate any of PIMCO's strategies due to the resignation of Bill Gross, co-founder and CIO of PIMCO. Staff plans to utilize and retain PIMCO accounts for different purposes and is recommending all separate accounts to the watch list, core plus, unconstrained, global linkers and Multi-Asset Volatility. PIMCO GMAS is already on TRS's watch list. This excludes PIMCO's customized Horseshoe, LP account. Prior to the departure of Mr. Gross, TRS staff had implemented a specific back-up portfolio manager process for the two accounts. Staff provided a summary of all existing PIMCO accounts along with the respective portfolio manager and back-up portfolio manager. Staff continues to maintain high conviction in PIMCO and will report on any further developments.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2014. Staff recommended the removal of Levin Capital Management (domestic equity) from the watch list. American Century Investments (international equity), Cortina Asset Management (domestic equity), Franklin Templeton (fixed income), and PIMCO Global Multi-Asset and Multi-Asset volatility (real return) remain on watch due to organizational or performance concerns. PIMCO's strategies within the fixed income and real return portfolios were placed on watch due to the resignation of Bill Gross, co-founder and CIO of PIMCO. A motion was made by Marcia Campbell, seconded by Mark Bailey, that the committee recommend to the Board to accept the watch list, as presented. The motion passed by a unanimous voice vote.

Hartford Investment Management Company – Termination

Staff recommended termination of Hartford Investment Management's TIPS mandate within the global fixed income portfolio due to the restructuring of global inflation linked mandates. A motion was made by Mike Busby, seconded by Mark Bailey, that the committee recommend to the Board to terminate Hartford Investment Management's TIPS mandate. The motion passed by a unanimous voice vote.

MBE/WBE Utilization Report

Staff provided data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through June 30, 2014. Assets under management for WMBE-owned investments were \$6.60 billion, a \$1.05 billion increase compared to FY 13. The total TRS portfolio represents 14.55 percent, a .40 percent increase compared to FY 13. Documentation is on file.

Staff conducted the annual review of the System's W/MBE utilization goals for minority brokerage and investment management and proposed an increase in the domestic equity asset class broker/dealer utilization goal from 18.0% to 19.0%, an increase in the international equity asset class broker/dealer utilization goal from 12.0% to 12.5%, retain existing goal of 15.0% for fixed income, while retaining all other broker/dealer and

investment manager utilization goals at their current levels for fiscal year 2015. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to approve the W/MBE FY 15 goals, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 3:40 p.m. and reconvened at 3:52 p.m.

Fixed Income and Real Return Reports and Annual Reviews

Scottie Bevill, Sr. Investment Officer, reported on the recent activity within the global fixed income and real return portfolios. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. The committee received an outline of the global fixed income special situations tactical plan for FY 15 and FY 16 as well as the recommendation to simplify the overall global fixed income sub-asset class structures. Documentation is on file. A motion was made by Sonia Walwyn, seconded by Marcia Campbell, that the committee recommend to the Board to approve the special situations tactical plan, as presented and approve all changes to the global fixed income asset class and structure, as presented.

Annual Reports – FY14

Deron Bertolo, Director of Investment Operations, presented the standard year-end reports for fiscal year 2014. The reports included equity broker commissions, securities lending, bankruptcy and securities litigation, proxy voting, commission recapture, and the annual performance reviews documenting the quality of service provided by consultants and custodian. TRS consultants are Callan Associates, RV Kuhns and Associates, and TorreyCove Capital Partners. State Street Bank & Trust Company serves as custodian.

In addition, Mr. Bertolo summarized the approved rebalancing activity and related trading costs for the quarter ending September 30, 2014.

RECESS

The meeting recessed at 5:00 p.m. and reconvened the following day at 8:08 a.m.

LSV Asset Management - Global Equity

Staff requested ratification to hire LSV Asset Management to manage the domestic equity large cap value mandate vacancy created by the Loomis Sayles termination, which was approved at the August Board meeting. Documentation is on file. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to ratify the hire of LSV to manage a domestic equity large cap value mandate with a target allocation of 4.0% of the domestic equity asset class. The motion passed by a unanimous voice vote.

NEW BUSINESS

Affinity Investment Advisors – Emerging Manager Program

The committee interviewed Affinity Investment Advisors 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 Cinda Klickna, seconded by Mark Bailey, that the committee recommend to the Board to commit \$25 million to Affinity Investment Advisors' domestic equity large value strategy within the Emerging Manager Program. The motion passed by a unanimous voice vote.

Lombardia Capital Partners – Emerging Manager Program

The committee interviewed Lombardia Capital Partners 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 Cinda Klickna, that the committee recommend to the Board to commit \$25 million to Lombardia Capital Partners' international equity large cap value strategy within the Emerging Manager Program. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 10:04 a.m. and reconvened at 10:23 a.m.

Taurus Funds Management - Private Equity

Representatives of Taurus Funds Management provided an investment opportunity in Taurus Mining Finance Fund, Ltd. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Marcia Campbell, seconded by Sonia Walwyn, that the committee recommend to the Board to commit \$30 million to Taurus Mining Finance Fund, Ltd. Subject to successful completion of contract negotiations. The motion passed by unanimous voice vote.

(President Koch arrived)

Real Estate Performance – June 30, 2014

Callan Associates provided an overview of the real estate performance for the quarter ended June 30, 2014. Documentation is on file. Total fund return:

- 1 year: 14.4%
- 3 years: 12.8%
- 5 years: 10.1%
- 10 years: 8.2%

Private Equity Performance Review – June 30, 2014

TorreyCove Capital Partners provided an overview of the investment performance within the private equity asset class for fiscal year 2014. Documentation is on file.

- 1 year: 25.6%
- 3 years: 15.7%
- 5 years: 18.2%
- 10 years: 15.3%

RECESS

The meeting recessed at 12:15 p.m. and reconvened at 1:15 p.m.

Asia Alternatives - Private Equity

Representatives of Asia Alternatives provided an investment opportunity in Asia Investors, L.P. Their presentation booklet is on file. Staff provided an

overview of the due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Mike Busby, that the committee recommend to the Board to commit \$200 million to Asia Investors, L.P. The allocation will be split evenly between the balanced pool and the co-investment fund. The motion passed by unanimous voice vote.

Siris Capital – Private Equity

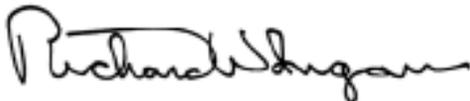
Representatives of Siris Capital provided an investment opportunity in Siris Partners III, L.P. for investments in technology. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Sonia Walwyn, seconded by Mark Bailey, that the committee recommend to the Board to commit \$100 million to Siris Partners III, L.P. The motion passed by unanimous voice vote.

Private Equity Co-Investments

Staff recommended ratification of Investment Committee Chair approval of a new co-investment opportunity with Carlyle Japan Partners III. In addition, staff received Investment Committee Chair approval for a follow-on investment in a new co-investment with NGP Natural Resources X, Limited Partnership. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to ratify the co-investments with Carlyle and NGP Natural Resources X, L.P. The motion passed by unanimous voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Rainy Kaplan, seconded by Mark Bailey, to adjourn the meeting at 3:06 p.m.



Richard W. Ingram, Executive Director

Approved: 12/10/14