



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

August 14-15, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 14-15, 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 1:34 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mark Bailey, Marcia Campbell, Rainy Kaplan, Cinda Klickna, Sharon Leggett, Bob Lyons, and Enrique Vasquez (via telephone).

Absent: Mike Busby (Vice Chair), Sonia Walwyn, Chris Koch (President)

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 Beville, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Jana Bergschneider, Director of Administration; Gina Larkin, Director of Human Resources; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Sally Sherman, Director of Member Services; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); Becky Gratsinger, Marcia Beard, and John McLaughlin, RV Kuhns (Investment Consultant); and Mike Krems, TorreyCove (Private Equity Consultant)

Visitors present: Roger Burdette, Beverly Bratcher, Jim Baker, Mitch Streeter, UNITE HERE; Jane Russell, IFT; Barb Gilhaus IEA-R; Shirley Dodds, IRTA-Rep.; Bob Kaplan, IEA-R & IRTA; Dennis Murfin, IRTA Rep.; Don

Davis, IRTA Rep.; Gayla Dial, IEA/IRTA; and Angela Myers, Loop Capital Markets.

PUBLIC COMMENT

Jim Baker from UNITE HERE appeared before the Investment Committee with employees of Caesars Entertainment, a company partially owned by Apollo Global Management and TPG Partners, concerning labor negotiations at a Caesars property and the significant transaction/monitoring fees collected by Apollo and TPG from Caesars. Mr. Baker alleged that Caesars has declined in value while TPG and Apollo have collected millions in monitoring fees from the company. Since TRS is a limited partner with Apollo, UNITE HERE requested the System ensure that Apollo ceases the collection of monitoring fees and act in the best interests of limited partners.

APPROVAL OF MINUTES

A draft of the June 20, 2013 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Bob Lyons, 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 as of June 30, 2013. 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.

RFP Updates

Staff is continuing due diligence on the investment performance reporting system RFP and anticipates a final recommendation in October.

An RFP was posted to the TRS website in July for absolute return consulting services. Staff anticipates a recommendation related to this search in October or December.

An RFP for a risk management system will soon be posted to the TRS website. Staff anticipates a recommendation related to this search in December 2013 or February 2014.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – June 30, 2013

RV Kuhns provided a summary of the public markets investment performance for the quarter ending June 30, 2013. Documentation is on file. Stan Rupnik, Chief Investment Officer, provided preliminary data of the investment performance for the fiscal year ended June 30, 2013. Total fund reports for fiscal year end will be presented at the October meeting.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2013. The existing managers remain on watch due to performance/organizational concerns: Levin Capital Management (domestic equity), Jarislowsky Fraser, Ltd (international equity), and Boston Company's small-to-mid-cap growth portfolio (domestic equity). Staff reported that Franklin Templeton's emerging market strategy (fixed income) no longer qualifies for the watch list. A motion was made by Marcia Campbell, seconded by Cinda Klickna, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 2:28 p.m. and reconvened at 2:38 p.m.

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, 2013. Assets under management for WMBE-owned investments were \$5.55 billion, representing 14.15% 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. Documentation is on file. Staff communicated with the companies on the list to determine their business relationships within the Iran energy sector. TRS received one response from the companies on the “scrutinized” list that did not justify the company to be removed from the list. A motion was made by Enrique Vasquez, seconded by Cinda Klickna, that the committee recommend to the Board that absent a detailed and justifiable response, to add China National Petroleum Corporation, China Petroleum & Chemical Corp., China National Offshore Oil Corp., Daelim Industrial Co., Gazprom OAO (Russia), Indian Oil Corp., Oil and National Gas Corp., and PetroChina Co. to the list for possible divestment. The motion passed by a unanimous voice vote.

Transition Management Update

At its June meeting, the Board approved Northern Trust to help administer transition services to TRS subject to final successful contract negotiations. Mr. Rupnik reported that a successful contract agreement could not be reached with Northern Trust. A motion was made by Cinda Klickna, seconded by Sharon Leggett, to remove Northern Trust from the transition management pool. The motion passed by a unanimous voice vote.

A report of all investment activity through July 26, 2013, including rebalancing and other transitional activity previously approved by the Investment Committee Chair, was provided to the committee for review.

International Equity Asset Class

Staff and RV Kuhns have been working on an international equity structure study to ensure the portfolio is properly positioned for future market environments. Previous studies were completed in 2007 and 2010. Chuck Handy, Investment Officer, and John McLaughlin of RV Kuhns, provided details related to the study and reported that there are no concerns with the current structure and new areas of investment are not necessary. Staff and RV Kuhns recommended minor changes to the structure.

- Add a developed large cap passive mandate to the TRS Investment Policy at a 20.0% target and 5% allocation range
- Reclassify the current core, value and growth composites as a single large cap active composite. The new composite shall have a target of 45.0% (down from the prior collective 47.5%) and a 10.0% range.
- Increase the dedicated emerging market target from 16.5% to 20.0%, and increase the allocation range from 3.0% to 5.0%.
- Increase the dedicated small cap target from 11.0% to 15.0%, with a 3.0% range.

A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to approve the recommendations as presented. The motion passed by a unanimous voice vote.

Real Estate Tactical Plan

Callan Associates presented the FY 2014 real estate tactical plan and provided a summary of the current year initiatives along with accomplishments as a result of last year's tactical plan. TRS has a long-term allocation target of 14.0 percent to real estate. The plan includes a portfolio pacing analysis, a real estate market outlook, a review of the program's long-term guidelines and objectives, an evaluation of TRS's strategy, exposures and performance. A motion was made by Cynthia O'Neill, seconded by Marcia Campbell, that the committee recommend to the Board to approve the FY 2014 real estate tactical plan as presented. The motion passed by a unanimous voice vote.

Fixed Income Asset Class

Scottie Bevill, Sr. Investment Officer, provided a summary of the transitional activity within the fixed income asset class for the quarter ending June 30, 2013. Staff provided an overview of the due diligence that was conducted for an Emerging Markets Credit-focused manager and requested to ratify the selection of TCW Emerging Market Debt mandate within the global fixed income asset class. Following the completion of the Franklin Advisors EMD annual review, staff determined the TCW debt strategy will complement the existing Franklin EMD mandate relative to Stone Harbor's EMD mandate. Staff recommended structure changes within the global fixed income portfolio. A motion was made by Bob Lyons, seconded by Cynthia O'Neill, that the committee recommend to the Board to ratify the hire of TCW Emerging Markets Fixed Income Total Return mandate. The motion passed by a unanimous voice vote. A motion was made by Bob Lyons, seconded by Sharon Leggett to retain Franklin's EMD strategy within the global fixed income asset class with an initial 5 percent target of the asset class (approx. \$300 million) to the TCW mandate. In addition, to adopt the fixed income structure targets, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 4:55 p.m. and reconvened the following day at 8:40 a.m.
(Trustee Vasquez via phone)

Investment Education

RV Kuhns provided an educational presentation on common manager evaluation practices including thoughts on manager selection, funding, and termination. Documentation is on file.

RECESS

The meeting recessed at 9:40 a.m. and reconvened at 9:47 a.m.

NEW BUSINESS

Apollo Global Management – Private Equity

Representatives of Apollo Global Management presented an investment opportunity in Apollo Investment Fund VIII, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to commit up to \$300 million to Apollo Investment Fund VIII, L.P. The motion passed by a unanimous voice vote.

New Mountain Capital – Private Equity

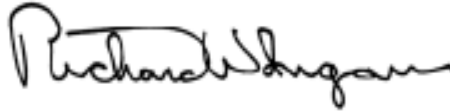
Representatives of New Mountain Capital presented an investment opportunity in New Mountain Partners IV, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Rainy Kaplan, that the committee recommend to the Board to commit \$100 million to New Mountain Partners IV, L.P. The motion passed by a unanimous voice vote.

ICV Partners – Emerging Manager Program

Representatives of ICV Partners presented an investment opportunity in ICV Partners III, Limited Partnerships. Staff provided an overview of the due diligence that was conducted. Their presentation booklet is on file. TRS is an existing investor in ICV Partners II. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to commit up to \$20 million to ICV Partners III, L.P. within the Emerging Manager Program. 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 Mark Bailey, to adjourn the meeting at 12:00 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram, Executive Director

Approved: 10/23/13