



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES

Meeting of the Investment Committee December 5, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 5, 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 8:04 a.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, Rainy Kaplin, Bob Lyons, Enrique Vasquez, Sonia Walwyn (arrived 8:30 a.m.), Sharon Leggett, and Chris Koch (arrived 12:55 p.m.) Absent: Cinda Klickna

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; Ken Musick, Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Kirk Sims, Investment Analyst; Brennan Basnicki, Investment Analyst; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor, Christina Baker, Internal Auditor; Jana Bergschneider, Director of Administration; Dave Urbanek, Director of Communications; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Avery Robinson and Sally Haskins, Callan Associates (Real Estate Consultant); Becky Gratsinger and John McLaughlin, RV Kuhns (Investment Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Jim Baker, UNITE HERE; Gayla Dial, IEA-R/IRTA; Jim Duffy, IEA-R; Don Davis, IRTA; Bob Kaplan, IEA-R; IRTA; and Robert Taylor, State Street.

APPROVAL OF MINUTES

A draft of the October 23-24, 2013 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Mark Bailey, 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 September 30, 2013. Documentation is on file. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. In addition, the committee received a chart detailing the System's top manager relationships.

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

RV Kuhns provided an update of the investment performance for the quarter ending September 30, 2013. Total assets: \$40.8 billion. Documentation is on file.

The total fund return, gross of fees:

- 1 year: 13.29%
- 3 years: 11.15%
- 5 years: 7.94%
- 10 years: 7.86%

W/MBE Utilization Report

Kenyatta Matheny provided preliminary data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through September 30, 2013. Assets under management for WMBE-owned investments were \$5.55 billion, representing 13.58% of the total TRS portfolio. Documentation is on file.

The Senate Committee on Pensions and Investments will conduct annual hearings in Chicago on December 11, 2013. A tentative date for the System's 10th annual Opportunity Forum is March 13, 2014.

Mr. Rupnik introduced Kirk Sims as Investment Analyst-Emerging Managers. Mr. Sims began employment at TRS on November 18, 2013.

Domestic Equity Asset Class Annual Review

Greg Turk, Director of Investments, reported on the recent activity within the domestic equity asset class. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. Staff proposed the following changes:

- Several target mandate revisions
- Ratification of the elimination of interim SSGM Optimized Russell 2500 Growth account
- A small/mid cap structure consolidation

A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to approve staff's recommendations within the domestic equity asset class, as presented. The motion passed by a unanimous voice vote.

International Equity Asset Class Annual Review

Staff reported on the recent activity within the international equity asset class. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. Staff proposed the following changes:

- Several target mandate revisions
- Elimination of interim SSGM MSCI ACWI Ex-US account
- Graduate Strategic Global Advisors from the emerging managers program to the international equity program

- Fund an additional 2.0% of the international equity portfolio to Jarislowsky Fraser

A motion was made by Sonia Walwyn, seconded by Marcia Campbell, that the committee recommend to the Board to approve staff's recommendations within the international equity asset class, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 9:50 a.m. and reconvened at 10:08 a.m.

Strategic Global Advisors

The committee interviewed Strategic Global Advisors (SGA) for graduation from the Emerging Manager Program to full mandate within the international 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 Mike Busby, seconded by Mark Bailey, that the committee recommend to the Board to approve the graduation of SGA's international equity all cap core product from the EMP to a 2.0% mandate within the international equity portfolio. The motion passed by a unanimous voice vote.

Investment Education

TRS staff provided an educational session regarding customized separate accounts within global fixed income and current research being conducted. Documentation is on file. Recommendations pertaining to this area will be made at future Board meetings.

Absolute Return Portfolio

Staff recommended consolidating the fund of funds mandates as a component in the restructuring of the absolute return portfolio. Staff provided an overview of the due diligence that was conducted with K2 Advisors and Grosvenor Capital Management and determined that Grosvenor will be a better fit within the new portfolio. Staff recommended terminating the existing relationship with K2 and merge the assets into Grosvenor's portfolio. A new absolute return structure will be presented at the February 2014 meeting to reflect the fund of fund consolidation. A

motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board to consolidate the fund of funds mandates to Grosvenor and to terminate the existing relationship with K2 Advisors. The motion passed by a unanimous voice vote.

Risk Management Services

Staff provided an overview of the search process and due diligence that was conducted for a risk management vendor. Staff recommended Blackrock to provide the System with absolute return risk management services. A motion was made by Marcia Campbell, seconded by Rainy Kaplan, that the committee recommend to the Board to select Blackrock to provide risk management services to the System's investment program. The motion passed by a unanimous voice vote.

Quarterly Compliance Summary

Deron Bertolo, Director of Investment Operations, provided a summary of the quarterly compliance for the quarter ended September 30, 2013 and a historical review of the opportunity costs associated with the Sudan law. TRS is in compliance with Public Acts 95-0616 (Iran) and 95-0521 (Sudan).

Investment Performance Reporting

Last year, staff posted a Request for Proposal for an investment performance reporting system since the current internal reporting system presents concerns and risk. Staff recommended Investment Metrics to provide TRS with performance measurement and reporting services. Staff provided an overview of the search process and due diligence that was conducted. A motion was made by Enrique Vasquez, seconded by Mark Bailey, that the committee recommend to the Board to select Investment Metrics to provide performance measurement and reporting services. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 11:40 a.m. and reconvened at 12:55 p.m.

Absolute Return Consultant

The committee interviewed Albourne Partners to provide the System with absolute return consulting services. Staff provided an overview of the search process and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Sharon Leggett, seconded by Enrique Vasquez, that the committee recommend to the Board to select Albourne Partners, subject to successful contract negotiations, to provide advisory services to the absolute return program. The motion passed by a unanimous voice vote.

Blackstone Group – Real Estate

Representatives of Blackstone presented an investment opportunity in the firm's real estate fund, Blackstone Real Estate Partners Asia, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Enrique Vasquez, seconded by Marcia Campbell, that the committee recommend to the Board to commit \$100 million to Blackstone Real Estate Partners Asia, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 2:45 p.m. and reconvened at 2:58 p.m.

Starwood Capital Group – Real Estate Co-investment

Staff requested ratification of a retail co-investment opportunity with Starwood Capital Group to upgrade the retail exposure within the portfolio. This is the System's first transaction within the real estate co-investment program. Staff provided an overview of the due diligence that was conducted. A motion was made by Enrique Vasquez, seconded by Sharon Leggett, that the committee recommend to the Board to ratify the \$25 million retail mall co-investment opportunity with Starwood. The motion passed by a unanimous voice vote.

Private Equity Portfolio

Kenyatta Matheny, Sr. Investment Officer – Emerging Managers, reported that staff is preparing a review of each co-investment transaction with existing private equity and real estate managers and may report details at a

future meeting. In addition, TRS has sold its interest in three private equity funds on the secondary market and noted justification for the sales. Staff requested ratification of four co-investments and three secondary sales within the private equity program which have been approved by the Investment Committee Chair.

Co-Investments:

- 1) Oaktree – up to \$30 million – real estate
- 2) Madison Dearborn – \$20 million – healthcare
- 3) MBK Partners – up to \$50 million – life insurance
- 4) Riverstone – \$20 million – energy

Secondary Sales:

- 1) Technology Crossover Ventures VII
- 2) Thayer Equity Investors V
- 3) CHS Private Equity V

A motion was made by Sonia Walwyn, seconded by Bob Lyons, that the committee recommend to the Board to ratify the co-investment commitments and three secondary sales within the private equity program. The motion passed by a unanimous voice vote.

Mr. Matheny reported on the limited partnership agreement amendments voted on during fiscal year 2013 by the staff's Private Equity Oversight Committee and TorreyCove, the System's private equity consultant.

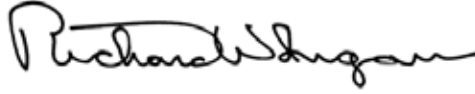
The committee received a summary of the stock distributions for the years 2008-2013. The goals for stock distribution management are to preserve principal and exit the securities in a timely manner. Since inception, the program realized a slight gain of 1.4 percent.

Asset Allocation/Liability Study

Becky Gratsinger of RV Kuhns provided an educational presentation on the difference between asset allocation studies and asset/liability studies, the objectives of each, and why TRS should pursue such a study. Documentation is on file. Since TRS has not conducted an asset liability study in some time, Director Ingram recommended that a study be conducted along with the System's asset allocation work during fiscal year 2014. RVK submitted details relating to the completion of an asset/liability study. The fee for the study is included in the February 2013 contract for investment consulting services.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Mike Busby, seconded by Mark Bailey, to adjourn the meeting at 3:25 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 a long, sweeping underline.

Richard W. Ingram, Executive Director

Approved 2/19/14