



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 May 22-23, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on May 22-23, 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 3:58 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, Janice Reedus, Sonia Walwyn (departed at 4:00 p.m. on 5/23), and Molly Phalen. Absent: Enrique Vasquez and Chris Koch (President)

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, Investment Officer; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Bob Jiroutek, Sr. Investment Analyst; Jerry Quandt, Investment Officer; 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, Dave Urbanek, Director of Communications; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Jamie Shen, Callan Associates (Real Estate Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep. (5/22); Don Davis, IRTA Rep.; Gayla Dial, IEA-R; Angela Myers, Loop Capital Markets; 5/23-UNITE HERE/River Casino: Jim Baker, Jon Scolnik, Meredith Maloney, Jim Masterani, Valerie Owes, Natasha Vandiver, Toni Kane, and Lisa James.

APPROVAL OF MINUTES

A draft of the February 21-22, 2013 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Marcia Campbell, 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 March 31, 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 August.

STAFF/CONSULTANT PRESENTATIONS

W/MBE Utilization Report

Kenyatta Matheny provided data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through March 31, 2013. Assets under management for WMBE-owned investments were \$5.66 billion, representing 14.29% of the total TRS portfolio. Documentation is on file.

POB Account Close

It's been 10 years since Public Act 93-0002 authorized the State of Illinois to issue \$10 billion in general obligation bonds. Staff recommended folding the POB accounts into the main TRS account structure which will reduce trading costs and align the pension bond proceeds into the System's present allocation structure. Staff presented a timeline that illustrates the timing, savings and costs associated with closing the POB account effective July 1, 2013. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to discontinue the segregation of the POB proceeds and consolidate the POB accounts into the main TRS trust fund. The motion passed by a unanimous voice vote.

Quarterly Compliance Summary

TRS is responsible for monitoring investment manager agreement Appendix B parameter compliance. Staff reviews alerts triggered by the State Street compliance system to determine if there are any discrepancies. Deron Bertolo, Director of Investment Operations, provided a summary of the quarterly compliance for the quarter ended March 31, 2013. TRS is in compliance with Public Acts 95-0616 (Iran) and 95-0521 (Sudan). Documentation is on file.

Private Equity Secondary Advisor

The System plans to implement secondary market capabilities for the private equity program that allows key benefits to the private equity portfolio. Staff received six responses to the private equity secondary market advisor RFP and recommended approval of three firms to serve in a secondary advisor candidate pool. A motion was made by Mike Busby, seconded by Jan Cleveland, that the committee recommend to the Board to approve CP Cogent Securities, LP; Park Hill Group, LLC; and UBS Securities, LLC to serve as a pool of secondary advisors for the System's investment portfolio. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 4:35 p.m. and reconvened the following day at 8:07 a.m.

PUBLIC COMMENTS

Representatives from UNITE HERE approached the committee regarding their personal experiences of alleged anti-union activity at the River Casino in Pittsburgh, an investment in a Walton Street Capital fund in which TRS has a limited partnership interest. Following discussion regarding neutrality and labor risk, the committee directed staff to invite representatives of Walton Street to the June meeting to respond to the allegations.

Investment Performance Review – March 31, 2013

RV Kuhns provided an update of the investment performance for the quarter ending March 31, 2013 and provided a preliminary update through April. Total assets: \$37.5 billion. Documentation is on file.

The total fund return, gross of fees:

- 1 year: 11.39%
- 3 years: 10.54%
- 5 years: 4.65%
- 10 years: 8.80%

Global Equity/Fixed Income Asset Class Recommendations

Greg Turk, Director of Investments, reported on the recent activity within the global equity asset class. Staff requested ratification for the termination of Frontier's domestic equity small cap growth portfolio due to poor performance and lack of conviction in the investment process. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to ratify the termination of Frontier's small cap growth portfolio. The motion passed by a unanimous voice vote.

Based on the termination of Frontier, staff recommended the following domestic equity target mandate revisions:

- JP Morgan large cap growth – increase from 3.0% to 5.0%
- Optimized SMID growth – increase from 0% to 1.75%
- Frontier small cap growth – decrease from 2.5% to 0% (termination)
- Boston Company SMID growth – decrease from 3.25% to 2.0%

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

Staff negotiated an improved fee structure for Boston Company's SMID cap growth mandate and requested ratification of the fee revision. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to ratify the revision to Boston Partners SMID growth mandate. The motion passed by a unanimous voice vote.

In February, ORIX Corporation acquired 90% of Robeco Group. It's necessary that the System sign consent to assignment letters acknowledging ORIX's purchase. A motion was made by Mike Busby, seconded by Cinda Klickna, that the committee recommend to the Board to approve consent of Robeco Group by ORIX. The motion passed by a unanimous voice vote.

Staff requested ratification for the termination of Trilogy Global Advisors' international growth equity mandate due to poor performance and lack of conviction in the investment process. A motion was made by Cinda Klickna, seconded by Molly Phalen, that the committee recommend to the Board to ratify the termination of Trilogy Global Advisors' international growth equity mandate. The motion passed by a unanimous voice vote.

Staff requested ratification of Northern Trust to manage an international passive MSCI equity mandate. A motion was made by Sonia Walwyn, seconded by Molly Phalen, that the committee recommend to the Board to ratify the selection of Northern Trust to manage an international passive MSCI equity 3.5% mandate. The motion passed by a unanimous voice vote.

Based on the termination of Trilogy and Northern Trust hire, staff recommended the following international equity target mandate revisions:

- Northern Trust passive emerging markets – increase from 0% to 3.5%
- Optimized EAFE/ACWI Ex-US – increase from 0% to 5%
- GMO emerging markets – decrease from 9.0% to 5.5%
- Trilogy int'l growth – decrease from 5.0% to 0% (termination)

RECESS

The meeting recessed at 9:42 a.m. and reconvened at 9:55 a.m.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended March 31, 2013. The existing managers remain on watch due to performance/organizational concerns: Franklin Advisors (fixed income), Grantham, Mayo, Van Otterloo (international equity), Jarislowsky Fraser, Ltd (international equity), and Levin Capital Management (domestic equity). Boston Company's small-to-mid-cap growth portfolio was added to the watch list due to organizational reasons. The committee recommend to the Board to ratify the terminations for Frontier's small cap growth portfolio and Trilogy's large cap growth portfolio due to performance. A motion was made by Molly Phalen, seconded by Marcia Campbell, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Fixed Income

Greg Turk reported on the recent activity within the global fixed income asset class. Staff's Public Markets Oversight Committee approved the use of Taplin, Canada and Habacht's floating rate strategy for cash management purposes within the fixed income asset class. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to ratify the selection and use of TCH's customized floating rate cash product for cash management. The motion passed by a unanimous voice vote.

Staff provided a summary of the System's special situations sleeve of the global fixed income asset class and an outline of a special situations tactical plan for FY 2014. A motion was made by Sharon Leggett, seconded by Jan Cleveland, that the committee recommend to the Board approve the special situations tactical plan, as presented. TRS staff will update this plan as needed or, at a minimum, on an annualized basis as part of the global fixed income annual reviews. The motion passed by a unanimous voice vote.

Staff requested ratification of a benchmark revision to the Loomis Sayles fixed income mandate to correspond with mandate revisions adopted at the February 2013 meeting. A motion was made by Bob Lyons, seconded by

Marcia Campbell, that the committee recommend to the Board to ratify the benchmark revision, as presented. The motion passed by a unanimous voice vote.

NEW BUSINESS

NXT – Fixed Income

Representatives of NXT Capital presented an investment opportunity in the firm's NXT Capital Senior Loan Fund II, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to commit \$40 million to NXT Capital Senior Loan Fund II, L.P. within the fixed income special situations allocation subject to final contract negotiations. The motion passed by a unanimous voice vote.

Maranon Capital – Emerging Manager Program

The committee interviewed Maranon Capital to fill an additional allocation within the System's Emerging Manager Program. 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 commit \$30 million to Maranon Senior Credit Fund II, L.P. The motion passed by a unanimous voice vote.

PIMCO

Staff proposed the addition of the PIMCO Multi-Asset Volatility (MAV) to the existing PIMCO Global Multi-Asset Structure (GMAS) structure to enhance the mandate's risk-return profile. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to ratify an allocation of up to 15% of the overall PIMCO GMAS mandate to the firm's Multi Asset Volatility fund. The allocation amount within the mandate will be determined by the PIMCO GMAS portfolio manager, with TRS staff able to modify exposures as necessary. The motion passed by a unanimous voice vote.

PIMCO recently changed the benchmark of GMAS' fund products from 60/40 to LIBOR+5% to better reflect GMAS' goal of delivering long-term absolute returns. Staff requested approval of the benchmark change, as presented. A motion was made by Sharon Leggett, seconded by Jan Cleveland, that the committee recommend to the Board to approve revision of the PIMCO GMAS strategy benchmark to 1-month LIBOR+5%, effective June 1, 2013. The motion passed by a unanimous voice vote.

Staff proposed target changes within the real return asset class. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to approve the real return structure target revisions, as presented. The motion passed by a unanimous voice vote.

- Global Inflation Linked Bonds – decrease from 24.0% to 21.0%
- Targeted Real Return – increase from 9.0% to 12.0%

ARS Advisory Services

Staff requested authorization to issue a Request for Proposals (RFP) for companies to provide advisory services to TRS on future investments within the absolute return portfolio. Staff is expecting to present a finalist in August or September. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to issue a RFP for advisory services within the absolute return asset class. The motion passed by a unanimous voice vote.

ARS Risk Management Services

Staff requested authorization to issue a Request for Proposals (RFP) for companies to provide risk management services within the absolute return portfolio to assist staff in implementing the proposed absolute return structure. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to issue a RFP for risk management services. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 11:45 a.m. and reconvened at 1:00 p.m.

Black River – Real Return

Representatives of Black River presented an investment opportunity in the firm's Black River Agriculture Fund II, 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 Jan Cleveland, that the committee recommend to the Board to commit \$75 million to Black River Agriculture Fund II, L.P. within the real return asset class. The motion passed by a unanimous voice vote.

GI Partners – Private Equity

Representatives of GI Partners presented an investment opportunity in the firm's GI Partners Fund 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 Jan Cleveland, that the committee recommend to the Board to commit \$75 million to GI Partners Fund IV, L.P. The motion passed by a unanimous voice vote.

Oaktree Capital Management – Real Estate

Representatives of Oaktree Capital Management presented an investment opportunity in the firm's Oaktree Real Estate Opportunities Fund VI, 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 Marcia Campbell, that the committee recommend to the Board to commit \$75 million to Oaktree Real Estate Opportunities Fund VI, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 3:47 p.m. and reconvened at 4:00 p.m. (Trustee Walwyn departs)

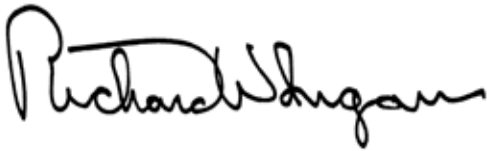
Great Point Partners – Emerging Manager Program

The committee interviewed Great Point Partners for a commitment of up to \$35 million to the Great Point Partners Fund II, L.P. within the Emerging Manager Program. 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 Sharon Leggett, that the committee recommend to the Board to invest up to \$35 million to Great Point Partners Fund II, L.P. subject to successful contract negotiations. 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 Cinda Klickna, to adjourn the meeting at 5:12 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 "W".

Richard W. Ingram, Executive Director
Approved 6/20/13