



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 October 23-24, 2013

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 23-24, 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 4:00 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 (not present during roll call), Marcia Campbell, Rainy Kaplan, Cinda Klickna, Sharon Leggett, Bob Lyons, Enrique Vasquez, and Sonia Walwyn, and Chris Koch (arrived 1:20 p.m.)

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; Jerry Quandt, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Brennan Basnicki, Investment Analyst; Gina Larkin, Director of Human Resources; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Jamie Shen, 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: Jim Baker and Ashley Walker, UNITE HERE; Angela Myers, Loop Capital Markets; Bob Kaplan; Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; Gayla Dial, IEA/IRTA; Nick Yelverton, IL Federations of Teachers; Will Lovett, IL Education Association; Christine Williamson,

Pensions & Investments; Craig Bardo, BroadRiver; Janet Kilgus, IEA-R (10/24); Shirley Dodds, IRTA-Rep. (10/24); and Ed Wollet, IRTA Rep. (10/24)

PUBLIC COMMENT

Representatives of UNITE HERE, a union trying to organize casino staff at the Rivers Casino in Pittsburg, appeared before the Investment Committee alleging that Walton Street Capital has violated its commitment to remain neutral in the labor organizing process.

APPROVAL OF MINUTES

A draft of the August 14-15, 2013 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Mike Busby, the minutes were approved as printed. (Trustee Walwyn abstained from voting)

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, 2013 and a manager chart with preliminary values as of September 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 conducting meetings with semi-finalists for a risk management system and anticipates a recommendation related to this search in December 2013 or February 2014.

A finalist for the investment performance reporting system has been identified but staff plans to wait for further progress on the risk management system RFP.

Staff is continuing due diligence on the absolute return consultant RFP and anticipates a recommendation related to this search in December.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – June 30, 2013

RV Kuhns provided an overview of the final June 30, 2013 fiscal year end investment performance report noting a positive 12.8 percent rate of return during FY 13, net of fees. Total assets: \$39.48 billion. Documentation is on file. Despite the strong investment returns, the System's unfunded liability increased due to the lack of actuarially-based funding from state government and the continued recognition of 2009 investment losses under the required smoothing of assets methodology. The June 30, 2013 total fund return, gross of fees:

- 1 year: 13.48%
- 3 years: 12.66%
- 5 years: 4.75%
- 10 years: 7.69%

Real Estate Performance – June 30, 2013

Callan Associates provided an overview of the real estate performance for the quarter ended June 30, 2013. Documentation is on file. Total fund return:

- 1 year: 13.38%
- 3 years: 14.17%
- 5 years: (0.05%)
- 10 years: 8.14%

Private Equity Performance Review – June 30, 2013

TorreyCove Capital Partners provided an overview of the investment performance within the private equity asset class for fiscal year 2013. Documentation is on file.

- 1 year: 16.8%
- 3 years: 15.5%
- 5 years: 8.9%
- 10 years: 14.2%

RECESS

The meeting recessed at 5:40 p.m. and reconvened the following day at 8:13 a.m.

Domestic Equity Fee Reductions

Staff negotiated improved fee terms with five domestic equity mandates which results in annual savings to TRS. A motion was made by Marcia Campbell, seconded by Sharon Leggett, that the committee recommend to the Board to ratify revisions to the domestic equity fee schedules, as presented. The motion passed by a unanimous voice vote.

- Boston Company SMID growth
- Fiduciary Management Associates small growth
- Lombardia small value
- Emerald small cap growth
- Cramer Rosenthal McGlynn SMID cap value

Fixed Income and Real Return Reports and Annual Reviews

Scottie Bevill, Sr. Investment Officer, reported on the recent activity within the fixed income and real return portfolios. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations.

Global Fixed Income:

Target Changes:

- Decrease Hartford's US TIPS mandate from 6.5% to 5.0%
- Increase Manulife's global mandate from 6.0% to 9.0%
- Decrease Loomis Sayles target from 12.0% to 10.5%
- Increase the allocation to fixed income special situations from 8.0% to 9.0%

Terminations:

- Terminate the Taplin, Canida & Habacht credit-tilt mandate
- Terminate the LM Capital core plus mandate within the Emerging Manager Program
- Terminate the Loomis Sayles Strategic Alpha Fund
- Eliminate the PIMCO Global Advantage mandate from the three-tiered structure within PIMCO's global fixed income mandate

Other Approvals:

- Affirm the addition of Garcia Hamilton's floating rate note
- Alter the benchmark for US TIPS (Hartford) from the Barclays Capital US TIPS index to the Barclays Capital 1-5 US TIPS index
- Alter the PIMCO combined benchmark to a 50% each Barclays Aggregate Index and 90-day LIBOR
- Approve a \$100 million commitment to the Oaktree Real Estate Debt Fund, LP
- Allow tactical ranges from 0% to 5% of the global fixed income asset class for Westwood's Income Opportunity strategy
- Alter the Dolan McEniry benchmark to the Barclays Intermediate Credit Index from the Barclays Government/Credit Index

Real Return:

No recommendations were proposed by staff.

A motion was made by Sharon Leggett, seconded by Mark Bailey, that the committee recommend to the Board to accept the changes to the global fixed income asset class, as presented. The motion passed by a unanimous voice vote.

Oaktree Capital Management – Fixed Income

Representatives of Oaktree Capital Management presented an investment opportunity in the firm's Oaktree Real Estate Debt Fund, L.P. 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 Cinda Klickna, that the committee recommend to the Board to commit \$100 million to the Oaktree Real Estate Debt Fund, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 9:45 a.m. and reconvened at 10:02 a.m.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2013. Levin Capital Management (domestic equity) remains on watch due to performance concerns. Staff recommended the removal of The Boston Company Asset Management (domestic equity) and Jarislowsky Fraser (international equity) from the watch list. A motion was made by Bob Lyons, 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.

Transition Management Update

Staff provided an update on the recent transitional activity within the TRS portfolio including a summary of transactions that were approved by the Chair of Investments.

POB Consolidation Update

Staff provided an update by asset class on the status of consolidating POB accounts into the main TRS trust fund.

Quarterly Compliance Summary

Deron Bertolo, Director of Investment Operations, provided a summary of the June 2013 quarterly compliance report. TRS is in compliance with Public Acts 95-0616 (Iran) and 95-0521 (Sudan).

Annual Reports

Deron Bertolo presented the standard year-end reports for fiscal year 2013. The reports included broker/security lending, bankruptcy and securities litigation, proxy data, 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

TorreyCove Capital Partners. State Street Bank & Trust Company serves as custodian.

Stone Point Capital – Private Equity

Representatives of Stone Point Capital provided an investment opportunity in Trident VI, Limited Partnership for investments in financial services opportunities in the U.S. and Europe. 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 Marcia Campbell, that the committee recommend to the Board to commit up to \$100 million to Trident VI, L.P. The motion passed by unanimous voice vote.

Lone Star – Real Estate

Representatives of Lone Star provided an investment opportunity in Lone Star Real Estate Fund III for investments in distressed commercial real estate debt and equity products. 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 Marcia Campbell, that the committee recommend to the Board to commit up to \$150 million to Lone Star Real Estate Fund III. The motion passed by unanimous voice vote.

RECESS

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

Apex Capital Management – Emerging Manager Program

The committee interviewed Apex Capital Management to fill an allocation within the System's Emerging Manager Program. Staff provided an overview of the due diligence that was conducted. Their presentation booklet is on file. A motion was made by Enrique Vasquez, seconded by Sharon Leggett, that the committee recommend to the Board to commit \$25 million in Apex's domestic equity strategy within the Emerging Manager Program. The motion passed by a unanimous voice vote.

Palladium Equity Partners – Emerging Manager Program

Representatives of Palladium Equity Partners provided an investment opportunity in Palladium Equity Partners IV, L.P. for investment in Hispanic-owned businesses in the U.S. Staff provided an overview of the due diligence that was conducted. Their presentation booklet is on file. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to commit up to \$15 million to Palladium Equity Partners IV, L.P. within the Emerging Manager Program. The motion passed by a unanimous voice vote.

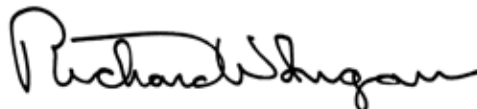
MBE/WBE Utilization Report

Staff provided data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through June 30, 2013. Assets under management for WMBE-owned investments were \$5.55 billion, representing 13.87% of the total TRS portfolio. 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 16.0% to 18.0% while retaining all other broker/dealer and investment manager utilization goals at their current levels for fiscal year 2014. A motion was made by Sharon Leggett, seconded by Mark Bailey, that the committee recommend to the Board to approve the W/MBE FY 2014 goals, as presented. 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 Rainy Campbell, to adjourn the meeting at 3:20 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with the first name "Richard" being more prominent than the last name "Ingram".

Richard W. Ingram, Executive Director

Approved: 12/5/13