TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
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MINUTES
Meeting of the Investment Committee
March 1, 2018

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on March 1, 2018 at the Hilton Rosemont Chicago O'Hare, 5550 North River Road, Rosemont, Illinois. Randy Winters, Chair, called the meeting to order at 8:10 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Matt Hower, Tracy Kearney, Laura Pearl, Fred Peronto, Larry Pfeiffer, Mark Splitstone, Dan Winter, Randy Winters, Cinda Klickna, and President Tony Smith.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Marcy Dutton, Chief Legal Counsel; Dave Urbanek, Director of Communications; Stacy Smith, Director of Internal Audit; Tammy Green, Executive Assistant; Becky Gratsinger, Marcia Beard, and Ian Bray, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Keith Johnson and Tiffany Reeves, Reinhart Boerner Van Deuren (Fiduciary Counsel).

Visitors present: Christine Williamson, Pensions & Investments; Angela Myers, Loop Capital Markets; Mark Carnevale, BNY Mellon; Sandy Hagan, IEA-R; and Jim Bachman, IRTA.

Chairman Winters noted that TRS's investment focus is long-term and TRS is out performing its peers long-term but would like to have discussion addressing benchmarking.

In December, the Board granted TRS investment staff discretion to allocate funding mandates to investment managers and advisors for all asset classes. This is the first meeting for discretion which TRS staff will report on the activity that occurred December – February.

Approval of Minutes

A draft of the December 14, 2017 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Mark Bailey, seconded by Cinda Klickna, the minutes were unanimously approved by voice vote.

Education

Dan Roberts of MacKay Shields provided an educational presentation on the current U.S. economic cycle, policies, and potential implications. Documentation is on file.

RECESS

The meeting recessed at 9:05 a.m. and reconvened at 9:20 a.m.

OLD BUSINESS

Investment Activity Report

Stan Rupnik, Chief Investment Officer, provided an overview of investment actions for the period December 15, 2017 through February 8, 2018 including asset transfers.

- Committed €100 million to EQT VIII, a European private equity fund.
- Committed $100 million to PIMCO Distressed Senior Credit Opportunities Fund II for a period not to exceed 12 months without internal committee approval. This is a re-investment to the existing PIMCO distressed credit platform.
- Terminated the international small capitalization strategy of Mondrian Investment Partners due to performance reasons and lack of conviction. Assets were transferred to Strategic Global Advisors international small cap mandate and to cash.

Investment Manager Chart

TRS staff provided the final TRS investment manager charts for the quarter ended December 31, 2017 including private equity and real estate dashboards. Documentation is on file.

Cashflow Summary

TRS staff provided a cash flow summary to fund the System's cash requirements. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Update

RV Kuhns provided an overview of the investment performance for the quarter ending December 31, 2017. Documentation is on file. Total assets: $49.9 billion. Documentation is on file. The total fund return, net of fees:

- 1 year: 14.5%
- 3 year: 7.6%
- 5 year: 9.0%
- 10 year: 5.3%

WMBE Utilization Report

TRS staff provided preliminary data as of December 31, 2017 on the utilization of minority-owned brokers and minority-owned investment managers within the TRS investment portfolio. Assets under management for WMBE-owned investments were $9.6 billion, a 0.63 billion increase from last quarter. The total TRS portfolio represents 18.74% which is .74% over the TRS goal of 18%. Documentation is on file. TRS held its annual Opportunity Forum in Springfield on March 15, 2018.

Income Asset Class Report

The Taplin, Canida & Habacht floating rate mandate currently doesn't allow investing in securities with maturities beyond five years. TRS staff and TCH recommended a benchmark revision that revises the floating rate portion of the mandate's index effective February 1, 2018.

- *Current:*
  70% Barclays Capital U.S. 1-3 Year Government Index and 30% Barclays Capital US Floating Rate Note Index
- *New:*
  70% Barclays Capital U.S. 1-3 Year Government Index and 30% Barclays Capital US Floating Rate Note under 5-Year Index

A motion was made by Cinda Klickna, seconded by Mark Bailey, that the committee recommend to the Board approve the change of floating rate portion of the TCH index. The motion passed by unanimous voice vote.

Real Estate Asset Report

Staff reported that Heitman, a real estate separate account manager, will become 100% owned by senior officers of the firm. The day-to-day operations of Heitman remains the same.

Courtland Partners, TRS's real estate consultant, has agreed to merge with StepStone Group Real Estate LP. TRS has no concerns and does not anticipate any changes during the transition. A motion was made by Laura Pearl, seconded by Andy Hirshman, that the committee recommend to the Board to approve the Courtland Partners change of control and consent to the continuation of its investment advisory agreement with StepStone Group Real Estate LP on existing terms. The motion passed by unanimous voice vote.

<u>Status of Investment RFPs</u>

The Pension Code limits investment consulting contracts to a maximum term of five years. TRS has contracts that are expiring in 2018 and 2019 that must be renewed or extended via a Request for Proposals (RFP) process. TRS staff provided the status of current consultant RFP activity. Anticipated completion of the searches is May. Documentation is on file. Discussion was held regarding the evaluation and criteria processes.

- General Investment Consultant – expires 12/13/18
- Real Estate Co-Investment Consultant – expires 6/30/18
- Private Debt/Private Capital Consultant – new initiative
- Diversifying Strategies Consultant – expires 6/30/18

RECESS

The meeting recessed at 11:30 a.m. and reconvened at 12:00 p.m.

<u>Investment Education</u>

RCP Advisors provided an educational presentation relating to the North American private equity lower middle market. Documentation is on file.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Andy Hirshman, seconded by Mark Bailey, to adjourn the meeting at 1:06 p.m.

Richard W. Ingram

Richard W. Ingram, Executive Director

Approved: 5/24/18