



MINUTES
Meeting of the Investment Committee
October 27-28, 2016

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 27-28, 2016 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Bob Lyons, Chair, called the meeting to order at 2:25 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Bob Lyons (Chair), Ann Deters, Andy Hirshman, Rainy Kaplan, Laura Pearl (present 10/27, phone participation 10/28); Sandy Stuart, Dan Winter, Randy Winters, and Cinda Klickna. Absent: Trustees Mark Bailey, Anne Marie Splitstone, and Tony Smith.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Deron Bertolo, Director of Investment Accounting; Bob Jiroutek, Risk Officer; Jerry Quandt, Investment Officer; Bill Thomas, Investment Officer; Kirk Sims, Investment Officer; Jose Gonzalez, Sr. Investment Analyst; Chad Mitchell, Investment Analyst; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Tom Smith, Chief Technology Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Sally Antonacci, Investment Administrative Services Supervisor; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, Ian Bray, and Marcia Beard, RV Kuhns (Investment Consultant); Mike Krems (10/28), TorreyCove (Private Equity Consultant); Jim McMillan and Tony Fracapane (10/27), Courtland Partners (Real Estate Consultant).

Visitors present: Dermot Dix, Jim Baker, Richard Proffitt, Brandi Miller, and Sandra Cohen of UNITE HERE; Gilbert Deimel, IRTA; Don Davis, IRTA; Larry Pfeiffer, IRTA; Christine Williamson, Pensions & Investments; Jason Parks, Loop Capital; Diane Chapman, IEA-R; and Bob Kaplan.

APPROVAL OF MINUTES

A draft of the August 25-26, 2016 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Rainy Kaplan, seconded by Sandy Stuart, the minutes were approved by unanimous voice vote.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided the TRS investment manager charts for the quarter ended June 30 and preliminary September 30, 2016. 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 Update

Staff reported that an RFP for a foreign currency advisor will be posted on the TRS website. A final recommendation is planned for 2017.

STAFF/CONSULTANT PRESENTATIONS

Fixed Income and Real Return Reports and Annual Reviews

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

- Approve global fixed income special situations tactical plan for FY 17-18, as presented.

Beta Plus:

- Reduce MacKay Shields Core Plus Opportunities target from 11% to 9%
- Decrease PIMCO (Core Plus and Unconstrained) from 13% to 10%
- Increase Prudential combined from 9% to 12%
 - Alter Prudential mandate from core to core plus
 - Expected return increase of 100 bps
 - Modest fee increase of 3 basis points
- Reassign Manulife from Global into Beta Plus and reduce target from 9% to 5% given credit emphasis and tracking error profile
- Revise Beta Plus allocation range from 49% to 64% (currently 51%)
- Remove tactical constraints for Dolan McEniry, PIMCO and Prudential

Special Situations:

- Addition of JPM Maritime and Transport Yield Fund at \$100 million
- Addition of Angelo Gordon/Twin Brook Direct Loan II, LP at \$100 million
- Redeem \$50 million each from PIMCO Horseshoe and Apollo Lincoln
- Increase PIMCO Horseshoe maximum from \$350 million to \$500 million
- Move Taurus Metals & Mining direct loans and Annex Fund from real assets to income
- Increase short term target from 20% to 22%, with longer term up to 25%

Discussion was held relating to diversification in the portfolio and the effectiveness of smaller mandates within the asset class. Staff also provided an outline of the global income special situations tactical plan for FY 17/18. A motion was made by Sandy Stuart, seconded by Andy Hirshman, that the committee recommend to the Board to approve the recommendations within the fixed income/real return asset class, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 3:30 p.m. and reconvened at 3:45 p.m.

Angelo Gordon & Company – Fixed Income

Representatives of Angelo Gordon & Company provided a new investment opportunity in Angelo Gordon Direct Loan Fund II, Limited Partnership focusing on lending to middle market companies. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Randy Winters, seconded by Ann Deters, that the committee recommend to the Board to commit \$100 million to Angelo Gordon Direct Loan Fund II, Limited Partnership within the income special situations allocation, subject to successful completion of legal documentation. The motion passed by a unanimous voice vote.

JP Morgan Asset Management – Fixed Income

Representatives of JP Morgan Global Maritime & Transport provided an investment opportunity in JP Morgan Global Maritime & Transport Yield Fund, Limited Partnership for financing shipping assets. Their presentation booklet is on file. Staff and Courtland Partners provided an overview of the firm and due diligence that was conducted. A motion was made by Dan Winter, seconded by Laura Pearl, that the committee recommend to the Board to commit up to \$100 million to JP Morgan Global Maritime & Transport Yield Fund, L.P. within the income special situations allocation, subject to successful completion of legal documentation. \$50 million will be invested to the Fund's first close with the remaining \$50 million committed within a year. The motion passed by voice vote with an opposition vote by Trustee Winter.

WMBE Utilization Report

Kirk Sims, Investment Officer, provided final June 30, 2016 fiscal year end data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio. Assets under management for WMBE-owned investments were \$8.917 billion, a 0.173 billion increase compared to FY 15. The total TRS portfolio represents 18.28% which is 2.28% over the TRS goal of 16%. Documentation is on file.

Staff conducted the annual review of the System's WMBE utilization goals for minority brokerage and investment management and proposed the following FY 17 goals:

- increase in the domestic equity target utilization goal from 20% to 23.0%
- retain the existing international equity utilization goal of 13.5%
- retain the existing fixed income utilization goal of 15%
- increase the goal for assets under management from 16% to 17% of the total fund
- increase the goal of fees paid to WMBE investment managers from 5.5-9.0% of fees to 7.0-10.5%

Documentation is on file. A motion was made by Cinda Klickna, seconded by Rainy Kaplan, that the committee recommend to the Board to approve the WMBE FY 17 utilization goals for minority brokerage managers and investment management, as presented. Discussion was held relating to the performance of the Emerging Manager Program and WMBE program. Staff will provide information related to the Emerging Manager Program at a future meeting. A motion was made by Ann Deters, seconded by Dan Winter, to amend the original motion to include “contingent upon adequate disclosure of the WMBE managers”. The motion passed by voice vote with an opposition vote by Trustee Pearl.

RECESS

The meeting recessed at 5:40 p.m. and reconvened the following day at 8:03 a.m.

Trustee Pearl requested to participate by phone since she could not physically be present due to business reasons. A motion was made by Trustee Stuart, seconded by Trustee Splitstone, to allow Trustee Pearl to participate by phone. The motion passed by unanimous voice vote.

Investment Performance Update

RV Kuhns provided an overview of the final June 30, 2016 fiscal year end investment performance report. Documentation is on file. Total assets: \$44.7 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 0.7%
- 3 year: 7.5%
- 5 year: 7.4%
- 10 year: 6.0%

Preliminary investment performance as of September 30, 2016.

Total assets: \$45.7 billion

- 1 year: 7.9%
- 3 year: 6.5%
- 5 year: 9.4%
- 10 year: 5.4%

Investment Education

RV Kuhns provided an educational presentation on asset allocation.
Documentation is on file.

MBK Partners – Private Equity

Staff and TorreyCove presented an investment opportunity within MBK Partners Fund IV, Limited Partnership that will focus on investments in South Korea, Japan, and China. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by Ann Deters, seconded by Andy Hirshman, that the committee recommend to the Board to commit up to \$150 million to MBK Partners Fund IV, L.P. contingent upon successful completion of legal documentation. The motion passed by a unanimous voice vote.

Stone Point Capital/Trident – Private Equity

Staff and TorreyCove presented an investment opportunity within Trident VII, Limited Partnership, managed by Stone Point Capital, that will focus on investments in financial services companies. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by Ann Deters, seconded by Randy Winters, that the committee recommend to the Board to commit up to \$100 million to Trident VII, L.P. based on verbal reporting of supporting information related to peer universe. Discussion was held regarding performance of the funds. The motion passed by a unanimous voice vote.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2016. Franklin Advisors (fixed

income) and Lombardia Capital Partners (domestic equity) remain on watch due to performance concerns. Staff recommended the removal of TCW Group from the watch list. A motion was made by Andy Hirshman, 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.

Annual Reports – FY16

Deron Bertolo, Director of Investment Accounting, presented the standard annual reports for fiscal year 2016. Documentation is on file. The reports include equity broker commissions, commission recapture, securities lending, bankruptcy and securities litigation, proxy voting, and the annual performance reviews documenting the quality of service provided by consultants and custodian. TRS consultants are RV Kuhns, TorreyCove Capital Partners, Albourne America, and Courtland Partners. State Street Bank & Trust Company serves as custodian.

Cornerstone – Real Estate

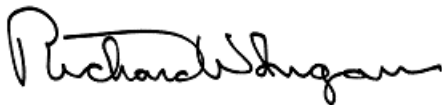
Staff disclosed the organizational consolidation and name change of Cornerstone to Barings.

Executive Director Report

Director Ingram discussed the progress TRS has made in achieving its money management diversity goals and explained the differences between the TRS WMBE program and the System's Emerging Manager Program. TRS's goal is to focus on cultivating quality minority-owned asset managers.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Rainy Kaplan, seconded by Cinda Klickna, to adjourn the meeting at 11:15 a.m.



Richard W. Ingram, Executive Director

Approved: 12/13/16