



MINUTES
Meeting of the Investment Committee
June 21-22, 2017

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on June 21-22, 2017 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Bob Lyons, Chair, called the meeting to order at 12:48 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Bob Lyons (Chair), Mark Bailey, Ann Deters, Andy Hirshman, Matt Hower, Laura Pearl, Sandy Stuart, Dan Winter, Randy Winters, Cinda Klickna; and Tony Smith, President. Absent: Rainy Kaplan and Marc Levine

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; Kirk Sims, Investment Officer; Bill Thomas, Investment Officer; Jerry Quandt, Investment Officer; Ben Skrodzki, Investment Officer; Ed Shim, Investment Officer; Chad Mitchell, Sr. Investment Analyst; Dakin Sanert, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Abby Griffith, Sr. Investment Accountant; Deron Bertolo, Director of Investment Accounting; Bob Jiroutek, Risk Officer; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Dave Urbanek, Director of Communications; Sue Billington, Executive Assistant; Tammy Green, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Ian Bray, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Jeremy Goldberg (6/22), Courtland Partners (Real Estate Consultant); Yevgeny Gelfand and Katelyn Gallagher (6/22), BlackRock.

Visitors present: Christine Williamson, Pensions & Investments; Angela Myers, Loop Capital; Carla Womack, IEA-R; Don Davis, IRTA.

APPROVAL OF MINUTES

A draft of the February 16-17, 2017 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Mark Bailey, seconded by Sandy Stuart, the minutes were approved by unanimous voice vote.

Governance

Stan Rupnik, Chief Investment Officer, discussed the current review and approval process by trustees of recommended investment mandates and how the process can be streamlined to allow the trustees more time to focus on strategic investment decision discussions. Trustees requested that staff formalize a proposal for review and further discussion.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided the TRS investment manager charts for the quarter ended March 31, 2017. Documentation is on file.

Cash Flow Summary

Staff discussed the recent cash withdrawals necessary to fund the System's cash requirements and provided a cash flow summary. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Update

RV Kuhns provided an overview of the investment performance for the quarter ending March 31, 2017. Documentation is on file. Total assets: \$46 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 11.7%
- 3 years: 6.4%
- 5 years: 8.8%
- 10 years: 5.7%

Net of fees:

- 1 year: 10.9%
- 3 years: 5.7%
- 5 years: 8.1%
- 10 years: 5.1%

Watchlist

Staff provided an update of the investment managers currently on the watch list for the quarter ended March 31, 2017. McKinley Capital Management – international equity was added to the watch list due to performance concerns. A motion was made by Mark Bailey, seconded by Tony Smith, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Lombardia – International Equity Termination

Staff reported that the Investment Committee Chair approved its recommendation to terminate Lombardia’s international equity assignment within the Emerging Manager Program due to organizational concerns. A motion was made by Tony Smith, seconded by Sandy Stuart, that the committee recommend to the Board to ratify the termination of Lombardia’s international equity emerging manager assignment. The motion passed by voice vote.

Affinity – Domestic Equity Termination

Staff reported that the Investment Committee Chair approved its recommendation to terminate Affinity’s domestic equity large cap assignment within the Emerging Manager Program due to performance concerns. A motion was made by Mark Bailey, seconded by Laura Pearl, that the committee recommend to the Board to ratify the termination of Affinity’s domestic equity large cap emerging manager assignment. The motion passed by voice vote.

RECESS

The meeting recessed at 3:05 p.m. and reconvened at 3:20 p.m.

The investment committee continues to discuss the System’s investment philosophy and strategy, specifically active vs passive concentrations. Currently, the investment committee endorses a mix of active and passive and will continue the discussion as conditions change in the investment markets and the economy.

Matarin Capital Management – Domestic Equity Emerging Manager Program

Representatives of Matarin Capital Management presented an investment opportunity within the domestic equity small cap strategy through the System's Emerging Manager Program. The presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Ann Deters, seconded by Tony Smith, that the committee recommend to the Board to allocate \$30 million in the Matarin Capital domestic equity small cap strategy through the System's Emerging Manager Program. The motion passed by voice vote.

Altaris – Private Equity

Representatives of Altaris provided a new investment opportunity in Altaris Health Partners IV, Limited Partnership and Altaris Constellation Partners IV, L.P., a smaller co-investment fund. The presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Sandy Stuart, that the committee recommend to the Board to commit up to \$75 million to Altaris Health Partners IV, L.P (\$60 million) and Altaris Constellation Partners IV (\$15 million). The commitment is contingent upon successful negotiation of legal documentation. The motion passed by voice vote.

Apollo – Private Equity

Staff requested ratification of extending the term of the Apollo Private Credit Separate Account under the same terms and conditions set forth in 2014. A motion was made by Sandy Stuart, seconded by Randy Winters, that the committee recommend to the Board to ratify a three-year extension of the \$250 million Apollo Private Credit Separate Account. The motion passed by voice vote.

Staff presented an investment opportunity within Apollo Investment Fund IX, Limited Partnership and provided an overview of the firm and due diligence that was conducted. Discussion was held regarding the recent SEC investigation into multiple private equity funds, including Apollo. The investigation related to disclosure of certain fees and expenses, including accelerated monitoring fees, and other potential conflict of interest disclosures.

A motion was made by Cinda Klickna, seconded by Tony Smith, that the committee recommend to the Board to commit up to \$250 million to Apollo Investment Fund IX, L.P. contingent upon successful negotiation of legal documentation. The motion passed by voice vote.

RECESS

The meeting recessed at 5:35 p.m. and reconvened the following day at 8:00 a.m.

New Mountain Partners – Private Equity

Staff and TorreyCove recommended a new commitment to New Mountain Partners V, Limited Partnership. Staff provided an overview of the firm and due diligence conducted. A motion was made by Ann Deters, seconded by Laura Pearl, that the committee recommend to the Board to commit up to \$100 million to New Mountain Partners V, L.P. contingent upon successful negotiation of legal documentation. The motion passed by voice vote.

WMBE Utilization Report

Stan Rupnik, Chief Investment Officer, provided an overview on TRS's utilization of minority-owned brokers and minority-owned investment managers within the TRS investment portfolio for the quarter ending March 31, 2017. Assets under management for WMBE-owned investments were \$8.5 billion. The total TRS portfolio represents 18.06% which is 1.06% over the TRS goal of 17% for fiscal year 2017. Documentation is on file.

Director Ingram reported the 2016 Compliance Examination had a finding alleging that TRS failed to obtain fully completed disclosures from investment managers as required by the IL Pension Code. Director Ingram stated the TRS strongly objected to the finding since investment managers in question clearly stated that they had not previously tracked the data required to accurately answer the question. TRS believes that in the two instances noted in the finding that all disclosure received was in compliance with the spirit of existing law. The other state pension systems also received this finding.

PIMCO – Diversifying Strategies

Staff negotiated an improved fee structure with PIMCO's Multi Asset Volatility fund (MAV) and requested ratification of the revisions. The revised terms were effective April 1, 2017. A motion was made by Sandy Stuart, seconded by Ann Deters, that the committee recommend to the Board to ratify revisions to the PIMCO MAV fee schedules, as presented. The motion passed by voice vote.

Compliance and Risk Report

TRS is responsible for monitoring investment manager trading activity to ensure compliance as related to the Investment Manager Agreement. Bob Jiroutek, Risk Officer, provided a compliance summary for the quarter ended March 31, 2017. Effective January 1, 2016, Illinois Public Act 099-0128 prohibits retirement systems from investing in companies that boycott Israel, and amends the law pertaining to Iran-restricted companies, and Sudan-restricted companies. As of March 31, 2017, TRS holds less than 0.5% of the total portfolio in restricted names.

Real Estate

Staff disclosed that Fortress Investment Group and SoftBank Group Corporation announced they had entered into a merger agreement which Fortress is to be acquired by Softbank. No changes are anticipated with regard to TRS's relationship with the firm.

Dyal Co-Investment – Real Estate

Staff requested ratification of a co-investment up to \$50 million alongside Dyal Capital (Project Zeus) to acquire and merge a minority ownership in the management entities of Starwood Capital Group. The co-investment received the approval of the Investment Committee Chair. A motion was made by Sandy Stuart, seconded by Tony Smith, that the committee recommend to the Board to ratify the co-investment opportunity with Dyal Capital in Starwood Capital Group. Discussion followed regarding concerns over redacted memorandums for co-investments and questions in terms of the structure. The motion passed by voice vote with a vote of opposition from Trustee Pearl.

Carlyle – Real Estate

Staff and Courtland Partners recommended a new commitment to Carlyle Realty Partners Fund VIII, Limited Partnership for investment in multi-family residential. Staff provided an overview of the firm and due diligence conducted. A motion was made by Randy Winters, seconded by Cinda Klickna, that the committee recommend to the Board to commit \$200 million to Carlyle Realty Partners Fund VIII, L.P. contingent upon successful negotiation of legal documentation. The motion passed by voice vote.

RECESS

The meeting recessed at 9:25 a.m. and reconvened at 9:35 a.m.

NXT – Income/Special Situations

Staff recommended a commitment to NXT Capital Senior Loan Fund (SLF) V, within Income – Special Situations and provided an overview of the firm and due diligence conducted. A motion was made by Andy Hirshman, seconded by Randy Winters, that the committee recommend to the Board to commit \$125 million to NXT Capital Senior Loan Fund (SLF) V, within Income – Special Situations contingent upon successful negotiation of legal documentation. The motion passed by voice vote.

Riverstone – Income/Special Situations

Staff recommended a commitment to Riverstone Credit Partners II, Limited Partnership, within Income – Special Situations with a strategy focus on direct loans and secondary markets. A motion was made by Tony Smith, seconded by Randy Winters, that the committee recommend to the Board to commit up to \$100 million to Riverstone Credit Partners II, L.P., within Income - Special Situations contingent upon additional analysis and successful negotiation of legal documentation. The motion passed by voice vote.

Asset Allocation

Staff, RV Kuhns, and BlackRock provided an overview of TRS's asset allocation modeling and a liquidity analysis. Staff proposed revisions to the long term and interim asset allocation targets to provide guidance and structure to the investment program. The revisions result in a change to the

System’s policy benchmark. Discussion followed. A motion was made by Sandy Stuart, seconded by Ann Deters, that the committee recommend to the Board to adjust the System’s long term and interim asset allocation targets as presented and to revise the long term asset allocation target and policy benchmark, effective July 1, 2017. The motion passed by voice vote.

| | Previous Long Term Target | Revised Long Term Target | Change |
|---------------------------|---------------------------|--------------------------|--------|
| Domestic Equity | 18.0% | 17.0% | -1.0% |
| International Equity | 18.0% | 17.0% | -1.0% |
| Private Equity | 14.0% | 15.0% | +1.0% |
| Opportunistic Real Estate | 4.0% | 5.0% | +1.0% |
| Income | 16.0% | 17.0% | +1.0% |
| Real Assets | 14.0% | 15.0% | +1.0% |
| Diversifying Strategies | 16.0% | 14.0% | -2.0% |
| Short Term Investments | 0.0% | 0.0% | |

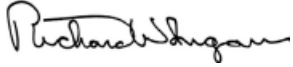
| | Previous Interim Target | Revised Interim Target | Change |
|---------------------------|-------------------------|------------------------|--------|
| Domestic Equity | 18.0% | 18.0% | |
| International Equity | 18.0% | 18.0% | |
| Private Equity | 12.0% | 12.0% | |
| Opportunistic Real Estate | 3.0% | 3.0% | |
| Income | 18.5% | 20.0% | +1.5% |
| Real Assets | 15.0% | 15.0% | |
| Diversifying Strategies | 14.5% | 13.0% | -1.5% |
| Short Term Investments | 1.0% | 1.0% | |

Investment Policy Revisions

Staff performed the annual review of the TRS Investment Policy to ensure it reflects current procedures and board action through the fiscal year. Staff proposed several revisions to the investment policy. Documentation is on file. A motion was made by Dan Winter, seconded by Laura Pearl, that the committee recommend to approve revisions to the TRS investment policy as presented. The motion passed by voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Cinda Klickna, seconded by Sandy Stuart, to adjourn the meeting at 12:00 p.m.



Richard W. Ingram, Executive Director

Approved: 8/21/17