



MINUTES
Meeting of the Investment Committee
December 14, 2017

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 14, 2017 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street, Springfield, Illinois. Andy Hirshman, Vice Chair, called the meeting to order at 10:46 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Tracy Kearney, Marc Levine, Matt Hower, Fred Peronto, Larry Pfeiffer, Mark Splitstone, Dan Winter, Randy Winters (telephone participation), Cinda Klickna, and President Tony Smith. Absent: Laura Pearl. Mark Splitstone and Tracey Kearney were appointed to the TRS Board of Trustees by the governor on December 11, 2017.

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; Chad Mitchell, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Jerry Quandt, Investment Officer; Kirk Sims, Investment Officer; Ben Skrodzki, Investment Officer; Ed Shim, Investment Officer; Bill Thomas, Investment Officer; Josh Ross, Investment Officer; Gina Larkin, Chief Human Resources Officer; Jana Bergschneider, Chief Financial Officer; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Stacy Smith, Director of Internal Audit; Lauren Russell, Internal Auditor; Deron Bertolo, Director of Investment Accounting; Abby Griffith, Investment Accounting Manager; Dave Urbanek, Director of Communications; Kathleen Farney, Director of Research; Bob Jiroutek, Risk Officer; Tammy Green, Executive Assistant; Becky Gratsinger, Marcia Beard, and Ian Bray, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); David Tatkov and Ron Mayer, Albourne Partners; and Keith Johnson, Reinhart Boerner Van Deuren (Fiduciary Counsel).

Visitors present: Christine Williamson, Pensions & Investments; Faith Vaught, IEA-Retired.

Chairman Winters provided a comprehensive report on the progress of the Investment Committee's initiatives. Documentation is on file.

Approval of Minutes

Drafts of the August 21-22 and October 26-27, 2017 minutes of the Investment Committee meetings were sent to the committee for review. On a motion by Dan Winter, seconded by Fred Peronto, the minutes were approved by voice vote. (Trustees Splitstone and Kearney abstained)

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided the final TRS investment manager charts for the quarter ended September 30, 2017. Documentation is on file.

Cash Withdrawal

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

STAFF/CONSULTANT PRESENTATIONS

WMBE Utilization Report

Kirk Sims, Investment Officer, provided preliminary data as of September 30, 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 \$8.974 billion, a 0.83 billion increase from last quarter. The total TRS portfolio represents 18.61% which is .61% over the TRS goal of 18%. Documentation is on file.

Investment Performance Update

RV Kuhns provided an overview of the investment performance for the quarter ending September 30, 2017. Documentation is on file. Total assets: \$49.9 billion. Documentation is on file. The total fund return, net of fees:

- 1 year: 12.4%
- 3 year: 6.8%
- 5 year: 8.8%
- 10 year: 4.9%

The 30-year investment return for TRS currently is 8.1%, net of fees, which exceeds the System's long-term goal of 7%.

Investment Education

RV Kuhns and BlackRock provided an educational presentation on active vs passive management. Documentation is on file.

Global Equity Asset Report

Staff provided an updated presentation of the global equity asset class including a summary of recommendations related to the annual review process.

- Ratify termination of J.P. Morgan's domestic equity large cap growth mandate.
- Combine and replace the current domestic and international equity asset classes effective January 1, 2018. The benchmark for the combined portfolios will be the global MSCI All Country World IMI index.
- Global equity portfolio management: domestic and international equity annual review target structure weights set by the MSCI All Country World IMI index. A range of +/- 12.5% would be utilized.
- Establish a maximum 5-year tracking error guideline of 2.50% per year relative to the MSCI All Country World IMI index.
- Consent to the assignment of Convergenx's existing Commission Recapture Agreement to Cowen and Company.

A motion was made by Matt Hower, seconded by Cinda Klickna, that the committee recommend to the Board to approve the global equity asset class

report. The motion passed by voice vote with a vote of opposition by Trustee Levine (Trustees Splitstone and Kearney abstained).

RECESS

The meeting recessed at 2:50 p.m. and reconvened at 3:00 p.m.

Private Debt Tactical Plan

Staff provided an overview of the private debt portfolio and recommended FY 18 tactical plan including initiatives through 2020. The plan details performance, expected pacing, and alternative sourcing options. Staff discussed whether to enhance TRS's existing relationship with Albourne or issue a Request for Proposal (RFP) for consulting services to assist with the private debt portfolio. A motion was made by Marc Levine, seconded by Tony Smith, that the committee recommend to the Board to adopt the private debt tactical plan, as presented. The motion passed by voice vote. (Trustees Splitstone and Kearney abstained)

- Estimated annual commitments of \$350 million
- Expected pacing of \$750-\$950 million from FY 2018-2020
- Increase private debt cap from 25% to 30% of Income asset class primarily for opportunistic purposes
- Issue an RFP for consultant assistance

Diversifying Strategies Tactical Plan

As requested, staff provided a more detailed presentation of the diversifying strategies tactical plan that was approved at the August meeting. Trustee Levine continued to question the effectiveness of the hedge fund portfolio and would like the investment committee to hear from sources that have an opposing view of hedge funds. Discussion was held whether to have another vote of affirmation on the hedge fund plan. Director Ingram suggested modifying the direction and revisiting the allocation dedicated to the diversifying strategies tactical plan. Following discussion, it was the consensus that further education on hedge funds is necessary and facts need to be presented on the risk of the portfolio if the allocation is modified.

Divested Securities

Effective January 1, 2016, Public Act 099-0128 prohibits Illinois public retirement systems from investing in companies that boycott Israel, and amends the law pertaining to Iran- and Sudan-restricted companies. The investment committee received the FY 17 report of costs/benefits for domestic equity and international equity for July 1, 2016 through June 30, 2017. Documentation is on file.

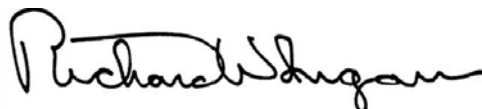
EXECUTIVE SESSION

A motion was made by Fred Peronto, seconded by Matt Hower, that the Investment Committee enter into executive session for the purpose of discussing the sale or purchase of securities, investments, or investment contracts as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (7). Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Kearney, Levine, Peronto, Pfeiffer, Splitstone, Winter, Winters, Klickna, and Smith. Motion CARRIED.

No action was taken during executive session. A motion was made by Mark Splitstone, seconded by Larry Pfeiffer, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Kearney, Levine, Peronto, Pfeiffer, Splitstone, Winter, Winters, Klickna, and Smith. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Cinda Klickna, seconded by Andy Hirshman, to adjourn the meeting at 5:35 p.m.



Richard W. Ingram, Executive Director

Approved: 3/1/18