



MINUTES
Meeting of the Investment Committee
October 26-27, 2017

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 26-27, 2017 at the Hilton Rosemont Chicago O'Hare, 5550 North River Road, Rosemont, Illinois. Randy Winters, Chair, called the meeting to order at 12:35 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Matt Hower, Marc Levine, Laura Pearl, Fred Peronto, Larry Pfeiffer, Dan Winter, Randy Winters, Cinda Klickna, and President Tony Smith (10/27).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Jerry Quandt, Investment Officer; Kirk Sims, Investment Officer; Ben Skrodzki, Investment Officer; Ed Shim, Investment Officer; Bill Thomas, Investment Officer; Josh Ross, Investment Officer; Marcy Dutton, Chief Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Stacy Smith, Director of Internal Audit; Dave Urbanek, Director of Communications; Tammy Green, Executive Assistant; Becky Gratsinger and Ian Bray, RV Kuhns (Investment Consultant); Mike Krems (10/26), and TorreyCove (Private Equity Consultant);

Visitors present: Margie Trigg, IEA-R; Shirley Forpe and Tony Casalino, IFT; Christine Williamson, Pensions & Investments; Bob Kaplan, IRTA; Robert Lyons, IRTA; Angela Myers, Loop Capital; Trampus Bright, Voya; and Craig Schorr, Alliance Bernstein.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided the final TRS investment manager charts for the quarter ended June 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

Investment Education

Steve Kaplan, Professor at the University of Chicago Booth School of Business, provided an educational presentation on private equity. Documentation is on file.

RECESS

The meeting recessed at 1:20 p.m. and reconvened at 1:40 p.m.

Investment Performance Update

RV Kuhns provided an overview of the final June 30, 2017 fiscal year end investment performance report. Documentation is on file. Total assets: \$49.4 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 13.3%
- 3 year: 6.1%
- 5 year: 9.9%
- 10 year: 5.4%

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

Greenspring Associates – Private Equity

Staff consolidated a comprehensive view of the venture capital market and evaluated the System's investment approach. Staff recommended updating TRS's strategic partner for venture capital, creating a Fund of One vehicle, and described the context of forming a partnership with Greenspring Associates. Representatives of Greenspring provided an overview of its firm. Their presentation booklet is on file. A motion was made by Marc Levine, seconded by Andy Hirshman, that the committee recommend to the Board to form a strategic partnership with Greenspring Associates comprised of

commitments of up to \$250 million to Greenspring's fund of funds ("Products") and a commitment of up to \$600 million to a "Fund of One" administered by Greenspring on TRS's behalf. The commitment is contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

Clearlake – Private Equity

Staff and Torreycove presented an investment opportunity to Clearlake Capital Partners V, Limited Partnership. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Laura Pearl, seconded by Dan Winter, that the committee recommend to the Board Commit up to \$100 million to Clearlake Capital Partners V, L.P. contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

WMBE Utilization Report

Kirk Sims, Investment Officer, provided final June 30, 2017 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 \$8.901 billion, a 0.68 billion increase compared to prior fiscal year. The total TRS portfolio represents 18.23% which is 1.23% over the TRS goal of 17%. 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 18 goals:

- increase in the domestic equity target utilization goal from 23.0% to 25%
- increase of the international equity target utilization goal from 13.5% to 14.5%
- retain the existing fixed income target utilization goal of 15%
- increase the goal for assets under management from 17% to 18% of the total fund
- retain the existing fee goal paid to WMBE investment managers of 7.0-10.5%

Documentation is on file. A motion was made by Mark Bailey, seconded by Cinda Klickna, that the committee recommend to the Board to approve the WMBE FY 18 utilization goals for minority brokerage managers and investment management, as presented. The motion passed by voice vote with an opposition vote by Trustee Pearl.

Global Income Annual Review

Scottie Bevill, Sr. Investment Officer, presented the results of the Income asset class annual reviews for the fiscal year ending June 30, 2017 including the special situations tactical plan and future initiatives. Staff recommended the following:

- Termination of four mandates:
 - New Century Advisors
 - Manulife
 - PGIM US Relative Value
 - Garcia Hamilton Floating Rate
- Internal beta target revision
- Beta Plus range adjusted to 45% to 62% of asset class
- Global/EMD target revision; conduct search
- Allocate an additional 5% of class (up to 30%) for opportunistic investments within the special situations allocation. (the investment committee removed this recommendation)
- Change name of “Special Situations” to “Private Debt Structures”
- Modify as necessary State Street STIF account to more closely mirror existing custom cash account.

Following discussion, the recommendation for an additional allocation within the special situations was eliminated. A motion was made by Larry Pfeiffer, seconded by Laura Pearl, that the committee recommend to the Board to approve the recommendations within the Income asset class, as amended. The motion passed by a unanimous voice vote.

Private Debt Tactical Plan

Staff provided an overview of the private debt portfolio and recommended FY 18 tactical plan including initiatives through 2020. Discussion was deferred until the December meeting.

RECESS

The meeting recessed at 5:17 p.m. and reconvened at 5:25 p.m.

Basis Investment Group - Income

Staff and Courtland Partners presented an investment opportunity to Basis Real Estate Fund I, Limited Partnership within the global fixed income special situation allocation. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Dan Winter, seconded by Mark Bailey, that the committee recommend to the Board to commit up to \$50 million to Basis Investment Group's Real Estate Debt Fund, L.P. The commitment is from the Emerging Manager Program and is contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 5:42 p.m. and reconvened the following day at 8:15 a.m.

Solar Capital Partners – Income

Staff presented a new investment opportunity to Solar Capital Partners Private Corporate Lending Fund platform. The proposal is a combination commitment with \$75 million into the firm's closed-end middle market direct lending fund and \$50 million to a separately managed account (SMA). A motion was made by Mark Bailey, seconded by Laura Pearl, that the committee recommend to the Board to commit \$125 million to Solar Capital Partners' Private Corporate Lending Fund platform. The commitment is contingent upon successful negotiation of legal documentation. Discussion was held regarding options for potential consultant support. Staff will present a more enhanced presentation of the private debt tactical plan at the December meeting. The motion passed by a unanimous voice vote.

Global Equity Asset Report

Staff provided an annual review of the global equity asset class including a summary of recommendations. Staff continues to make progress in reducing domestic equity portfolio fees. Staff requested ratification of improved fee terms with Emerald and T. Rowe Price retroactive to July 1, 2017. A motion

was made by Fred Peronto, seconded by Larry Pfeiffer, that the committee recommend to the Board to ratify revision of two domestic equity mandate fee schedules, as presented. The motion passed by a unanimous voice vote.

Staff recommended termination of McKinley’s international equity large cap mandate due to poor performance and TRS staff’s lack of conviction in the investment process. A motion was made by Andy Hirshman, seconded by Mark Bailey, that the committee recommend to the Board to terminate McKinley’s international equity large cap mandate. The motion passed by a unanimous voice vote.

Upon conducting further due diligence on Arrowstreet Capital, staff recommended hiring Arrowstreet to an international large cap equity mandate, approximately \$500 million. A motion was made by Cinda Klickna, seconded by Matt Hower, that the committee recommend to the Board to hire Arrowstreet. The motion passed by a unanimous voice vote.

Staff recommended ratifying the termination of Acadian’s domestic equity large cap mandate due to poor performance. A motion was made by Dan Winter, seconded by Mark Bailey, that the committee recommend to the Board to ratify the termination of Acadian’s domestic equity large cap mandate. The motion passed by a unanimous voice vote.

Diversifying Strategies Asset Class Report

Trustee Levine commented that hedge funds are an investment structure, not an asset class. They utilize strategies that TRS can access itself given the size of the fund. Further he noted that hedge funds once produced great returns, but he believes they have taken in too much capital (primarily from public pension funds) to replicate past performance.

RECESS

The meeting recessed at 10:11 a.m. and reconvened at 10:25 a.m.

Staff and Albourne provided an annual review of the diversifying strategies asset class including a summary of recommendations. As part of the restructuring of the hedge fund portfolio, staff recommended termination of the Pure Alpha directional hedge fund strategy of Bridgewater Associates and termination of Tourbillon Global Venture’s Long/Short equity strategy. A

motion was made by Marc Levine, seconded by Fred Peronto, that the committee recommend to the Board to ratify the terminations of Bridgewater and Tourbillon. The motion passed by a unanimous voice vote. The Investment Committee requested an update of the diversifying strategies tactical plan.

Man Group – Diversifying Strategies

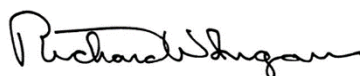
Representatives of the Man Group provided an investment opportunity in an alternative risk premium strategy. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. Discussion was held whether to defer the vote until trustees can further study the diversifying strategies new strategic tactical plan. A motion was made by Mark Bailey, seconded by Dan Winter, that the committee recommend to the Board to approve a commitment of up to \$300 million for Man Alternative Risk Premia. The motion passed by voice vote with opposition heard from Trustees Hower, Levine, and Winters. The nay votes were not revealing of their opinion towards Man but rather was awaiting final discussions regarding the diversifying strategies tactical plan.

Annual Reports – FY17

The TRS Investment Policy requires TRS staff to provide various reporting to the Board on an annual basis. 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.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Marc Levine, seconded by Andy Hirshman, to adjourn the meeting at 12:33 p.m.



Richard W. Ingram, Executive Director

Approved: 12/14/17