



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES

Meeting of the Investment Committee

August 25-26, 2014

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 25-26, 2014 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 3:33 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Marcia Campbell, Rainy Kaplan, Cinda Klickna, Bob Lyons, Sonia Walwyn, Sharon Leggett (Vice President), and Chris Koch (President) Absent: Mark Bailey and Mark Harris.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Kenyatta Matheny, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Stefan Backhus, Investment Officer; Ken Musick, Investment Officer; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Kirk Sims, Investment Analyst; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant, and John Long, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Jamie Shen and Avery Robinson, Callan Associates (Real Estate Consultant); and Mike Krems and Nic DiLoretta (Private Equity Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Dennis Murfin, IRTA; Don Davis, IRTA; Gayla Dial, IEA-R/IRTA; Bob Kaplan, IEA/IRTA; David Bishop, IEA-R; Tony Casalino, IFT; Donnie Ostrom, IRTA; Daniel Winter, and Dennis Sourtek.

APPROVAL OF MINUTES

A draft of the June 24, 2014 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Marcia Campbell, the minutes were approved, as printed.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers. Preliminary valuations are as of June 30, 2014. In addition, the committee received a chart detailing the System's top manager relationships. 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.

Manager Search/RFP Updates

A finalist for the domestic equity large cap value search will be presented in October. The contract with Callan Associates expires December 31, 2014. An RFP for real estate consulting services will be available on the TRS website in September.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance

RV Kuhns and staff provided preliminary data of the investment performance for fiscal year ended June 30, 2014. Documentation is on file. Total fund reports for fiscal year end will be presented at the October meeting. Preliminary results, gross of fees:

- 1 year: 18.0%
- 3 years: 10.7%
- 5 years: 13.9%

- 10 years: 7.8%
- 20 years: 8.9%
- 30 years: 10.0%

Total assets: \$45.3 billion, up 14.9% from end of fiscal year 2013. The estimated market value of the POB account, that was closed a year ago, is 5.2 billion.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2014. The existing managers remain on watch due to performance/organizational concerns: American Century small growth (international equity), Cortina SMID growth (domestic equity), Levin large core (domestic equity), and PIMCO Global Multi-Asset strategy (real return). Staff requested that Franklin Templeton be added to the watch list. A motion was made by Sonia Walwyn, seconded by Sharon Leggett, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

MBE/WBE Utilization Report

Kirk Sims, Investment Analyst, provided preliminary data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through June 30, 2014. Assets under management for WMBE-owned investments were \$6.59 billion, representing 14.60% of the total TRS portfolio. TRS has committed over \$1 billion during FY 14 across various asset classes.

Iran Divestment Update

In accordance with the Iran divestment law, staff submitted an updated list of “scrutinized” companies. Documentation is on file. Staff communicated with the companies on the list to determine their business relationships within the Iran energy sector. TRS received no responses from the companies. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to approve the list of scrutinized companies, as presented. China National Petroleum Corporation, China Petroleum & Chemical Corp., China National Offshore Oil Corp.,

Daelim Industrial Co., Indian Oil Corp., Oil and National Gas Corp., and PetroChina Co. The motion passed by a unanimous voice vote.

Quarterly Compliance Summary

TRS is responsible for monitoring investment manager trading activity to ensure compliance as related to the Investment Management Agreement. Monthly. TRS staff reviews alerts triggered by the State Street compliance system to determine if there are any discrepancies. Deron Bertolo, Director of Investment Operations, provided a summary of the quarterly compliance for the quarter ended June 30, 2014. TRS is in compliance with Public Acts 95-0616 (Iran) and 95-0521 (Sudan). Documentation is on file.

Domestic Equity – Loomis Sayles & Company/Termination

Staff recommended the termination of the domestic equity large cap value mandate to reduce volatility. Staff will report the results of the search for a replacement manager at the October meeting. A motion was made by Mike Busby, seconded by Bob Lyons, that the committee recommend to the Board to terminate Loomis Sayles & Company's 4.0% domestic equity large cap value mandate. The motion passed by a unanimous voice vote.

Sky Investment Council

Sky notified TRS staff in July that the firm is exiting the investment management business and plans to resign from the TRS account. Sky managed TRS assets within the Emerging Manager Program. Staff recommended that the committee accept the resignation of Sky Investment Council and to reallocate Sky's assets in-kind to Strategic Global Advisors and Northern Trusts' Passive World Ex-US Index Fund. A motion was made by Sharon Leggett, seconded by Marcia Campbell, that the committee recommend to the Board to ratify the resignation of Sky Investment Council's international equity account and approve the reallocation of assets, as presented. The motion passed by a unanimous voice vote.

Channing Capital Management – Emerging Manager Program

Staff recommended increasing Channing's target allocation within the Emerging Manager Program to \$100 million. A motion was made by Bob

Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to increase Channing Capital Management's assignment to \$100 million within the System's Emerging Manager Program. This would require additional funding of about \$55.9 million as of July 31, 2014. The motion passed by a unanimous voice vote.

Private Equity – Baring Asia Fund VI, L.P.

Staff and TorreyCove presented an investment opportunity in the firm's Baring Asia Fund VI, L.P. TRS is currently invested in Baring Asia Fund V. Staff provided an overview of the due diligence that was conducted on Fund VI. Discussion was held regarding risk. Trustee Klickna asked why a representative of Baring Asia wasn't present since the opportunity is a new investment fund being offered by the firm. A lengthy discussion was held regarding a decision made earlier this year by the Board that the trustees did not need to hear a formal presentation about an investment opportunity from a money manager if that manager has an existing relationship with TRS. Several trustees said they feel it's important to see and hear an investment manager speak about any investment opportunity, even if the manager has an existing relationship with TRS. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to commit up to \$100 million to Baring Asia Fund VI, L.P. The motion passed by a voice vote (Trustee Klickna abstained from voting).

RECESS

The meeting recessed at 5:55 p.m. and reconvened the following day at 8:05 a.m.

NEW BUSINESS

Private Equity – NGP Natural Resources Fund XI, L.P.

Staff and TorreyCove presented an investment opportunity in the firm's Natural Gas Partners Natural Resources Fund XI, Limited Partnership. Their presentation booklet is on file. NGP is an existing relationship within the TRS private equity portfolio with a commitment to Fund X. Staff provided an overview of the due diligence that was conducted for Fund XI. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee

recommend to the Board to commit up to \$100 million to NGP Natural Resources Fund XI, Limited Partnership. The motion passed by a unanimous voice vote.

Fixed Income – PIMCO

Representatives of PIMCO presented an investment opportunity within the fixed income asset class for various credit opportunities. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to select PIMCO to manage up to \$500 million customized separate account within the global fixed income asset class, categorized as a Special Situations investment. The motion passed by a unanimous voice vote.

Real Return – Sheridan Production Partners Fund III, L.P.

Representatives of Sheridan Production Company presented an investment opportunity in Sheridan Production Partners Fund III, Limited Partnership for investments in the energy sector. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to commit \$75 million to Sheridan Production Partners Fund III, L.P. The motion passed by a unanimous voice vote.

AQR Capital Management Reinsurance Update

Staff reported that the two year contract with AQR will expire December 31, 2014. TRS invested in AQR's reinsurance strategy in 2012. Due to lack of conviction in reinsurance strategies in the near future, staff is not planning to recommend renewal of the current investment with AQR. TRS will receive cash proceeds as contracts expire.

RECESS

The meeting recessed at 9:52 a.m. and reconvened at 10:02 a.m.

STAFF/CONSULTANT PRESENTATIONS

FY 15 Real Estate Tactical Plan

Staff and Callan Associates presented the FY 2015 real estate tactical plan and provided a summary of the current year initiatives along with accomplishments as a result of last year's tactical plan. TRS has a long-term allocation target of 15.0 percent to real estate, a one percent increase from last year. The plan includes a portfolio pacing analysis, a real estate market outlook, a review of the program's long-term guidelines and objectives, an evaluation of TRS's strategy, exposures and performance. A motion was made by Cinda Klickna, seconded by Marcia Campbell, that the committee recommend to the Board to approve the FY 2015 real estate tactical plan as presented and to allocate an additional \$300 million to core/value added manager Invesco Real Estate's portfolio. The motion passed by a unanimous voice vote.

FY 14 Absolute Return Annual Reviews

Ken Musick, Investment Officer, reported on the recent activity within the absolute return asset class and on the annual reviews of investment managers.

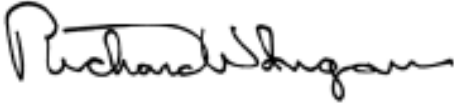
FY 15 Absolute Return Strategies Tactical Plan

Mr. Musick presented the FY 2015 absolute return strategies tactical plan and provided a summary of the FY 2014 accomplishments and FY 2015 initiatives focusing on continued implementation. The focus during FY 2015 will be on manager sourcing, portfolio construction, and due diligence. A motion was made by Marcia Campbell, seconded by Rainy Kaplan, that the committee recommend to the Board to approve the FY 2015 absolute return strategy tactical plan, as presented. The motion passed by a unanimous voice vote.

Minutes – Investment Committee Mtg.
August 25, 2014

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Rainy Kaplan, seconded by Bob Lyons, to adjourn the meeting at 11:27 a.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram, Executive Director

Approved : 10/29/14