



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES Meeting of the Investment Committee June 24, 2014

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on June 24, 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 8:32 a.m. A quorum was present.

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

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Karen Dulakis, Sr. Investment Accountant; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Stefan Backhus, Investment Officer; Ken Musick, Investment Officer; Brennon Basnicki, Investment Analyst; Brian Nobis, Investment Analyst; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Briana Hickman, TRS Intern; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Christina Baker, Internal Auditor; Kathleen Farney, Director of Research; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Avery Robinson, Callan Associates (Real Estate Consultant); Mike Krems and Kara King (Private Equity Consultant); Marcia Beard and Greg Kantor, RV Kuhns (Investment Consultant).

Visitors present: Bob Kaplan, IEA-R & IRTA; Dennis Murfin, IRTA; Don Davis, IRTA; and Barb Gilhaus, IEA-R.

APPROVAL OF MINUTES

A draft of the May 28-29, 2014 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Mike Busby, seconded by Mark Bailey, the minutes were approved, as printed. (Trustees Kaplan and Lyons voted Present)

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers as of the month end April 30, 2014. Documentation is on file. In addition, the committee received a chart detailing the System's top manager relationships.

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 August. The RFP for real estate consulting services will be posted to the TRS website.

STAFF/CONSULTANT PRESENTATIONS

Kenyatta Matheny, Sr. Investment Officer, reported that staff has attended conferences focused on emerging and minority investment firms. Staff is actively sourcing managers for the Emerging Manager Program and is proactive in allocating capital to MBE/WBE firms. Documentation is on file.

Trustees Leggett and Busby attended the Emerging Managers Summit in Chicago on June 9, 2014.

Iran Divestment Update

In accordance with the Iran divestment law, staff submitted an updated list of “scrutinized” companies. Documentation is on file. Staff will communicate with the companies on the list to determine their business relationships within the Iran energy sector and report the findings at the August meeting. A motion was made by Cinda Klickna, seconded by Bob Lyons, 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.

Absolute Return

Staff provided an overview of refurbishing the hedge fund structure and requested ratification of the updated absolute return strategic plan. Documentation is on file. The plan includes migrating to convergent/convex structure (60% convergent and 40% convex) and establishing a new liquidity schedule allowing absolute return strategies slightly less-liquid investments. A motion was made by Mike Busby, seconded by Enrique Vasquez, that the committee recommend to the Board to ratify the strategic plan, as presented. The motion passed by a unanimous voice vote.

Asset Allocation

Staff proposed revisions to the long term asset allocation targets and the interim targets to provide guidance and structure to the investment program. The targets, effective July 1, 2014, are designed to minimize investment risk and maximize returns. The revisions result in a change to the System’s policy benchmark. A motion was made by Enrique Vasquez, seconded by Rainy Kaplan, that the committee recommend to the Board to approve the following long term targets as presented by staff. The motion passed by a unanimous voice vote.

Domestic equity 20% to 18%
International equity 20% to 18%
Fixed Income 16% (remains the same as 2011 target)
Real estate 14% to 15%

Private equity 12% to 14%
Real Return 10% to 11%
Absolute Return 8% (remains the same as 2011 target)

Interim targets: Domestic equity 23% to 22%
Absolute Return 6% to 7%

Investment Policy Revisions

Mr. Rupnik summarized several revisions to the TRS Investment Policy. A motion was made by Cinda Klickna, seconded by Mike Busby, that the committee recommend to the Board to approve revisions to the TRS Investment Policy, as presented. Documentation is on file. The motion passed by a unanimous voice vote.

Section III: Investment Philosophy
Section V: Consultant Notification Process
Section VII: Asset Allocation and Rebalancing Strategy
Section VIII: Investment Manager Structure
Section XIII: Performance Benchmarks
Section XV: Permissible Investments
Section XXI: Improving Access to the TRS Investment Program
Section XXII: Emerging Manager Program
Section XXIII: Recovery of Investment Losses
Section XXIV: Glossary

RECESS

The meeting recessed at 9:48 a.m. and reconvened at 10:00 a.m.

Private Equity Tactical Plan

TorreyCove Capital Partners presented an overview of the private equity portfolio, performance results as of December 31, 2013, FY 14 program initiatives, initiatives for FY 15 and beyond, and the FY 15 private equity tactical plan. In addition, an updated portfolio pacing analysis was included. Documentation is on file. A motion was made by Sharon Leggett, seconded by Mark Bailey, that the committee recommend to the Board to approve the FY 15 private equity tactical plan, as presented. The motion passed by a unanimous voice vote.

Commission Recapture RFP

TRS staff provided an overview of due diligence related to the search for providers of commission recapture services, including finalist candidates ConvergeEx and Cabrera Capital Markets. The committee interviewed Cabrera Capital Markets as a finalist candidate. Their presentation booklet is on file. Following discussion, a motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to select ConvergeEx to provide commission recapture services. The motion passed by a unanimous voice vote. ConvergeEx replaces the existing pool of brokers.

RECESS

The meeting recessed at 12:15 p.m. and reconvened at 12:52 p.m.

NEW BUSINESS

Private Equity Asset Class

Staff requested ratification of a \$25 million co-investment alongside Leonard Green & Partners which was approved by the Chair of the Investment Committee on June 11. A motion was made by Mike Busby, seconded by Enrique Vasquez, that the committee recommend to the Board to ratify the \$25 million co-investment, plus closing costs, with Leonard Green & Partners. The motion passed by a unanimous voice vote.

Staff reported that LP Capital Advisors is being acquired by Pavilion Financial Corporation. LP Capital Advisors currently serves as a co-investment advisor and requested consent from TRS to the assignment of the existing Investment Advisory Agreement to the new entity. There are no changes to the co-investment advisory team that serves TRS. A motion was made by Bob Lyons, seconded by Rainy Kaplan, that the committee recommend to the Board to consent to the assignment of the existing Investment Advisory Agreement to the new entity and the continued use of LP Capital Advisors, now a wholly owned subsidiary of Pavilion Financial, as an approved co-investment advisor. The motion passed by a unanimous voice vote.

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Sofinnova – Private Equity

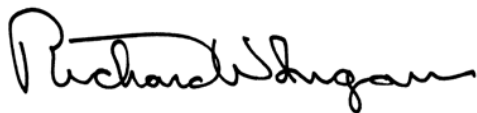
Staff and TorreyCove presented a re-investment opportunity in the firm's Sofinnova Venture Partners IX fund. Their presentation booklet is on file. Sofinnova is an existing relationship within the TRS private equity portfolio with a commitment to Fund VIII. Staff provided an overview of the due diligence that was conducted. A motion was made by Rainy Kaplan, seconded by Sharon Leggett, that the committee recommend to the Board to commit up to \$50 million to Sofinnova Venture Partners IX, L.P. The motion passed by a unanimous voice vote.

Veritas Capital - Private Equity

Staff and TorreyCove presented a re-investment opportunity in the firm's Veritas Capital Fund V. Their presentation booklet is on file. Veritas is an existing relationship within the TRS private equity portfolio with a commitment to Fund IV. Staff provided an overview of the due diligence that was conducted. A motion was made by Mike Busby, seconded by Enrique Vasquez, that the committee recommend to the Board to commit up to \$100 million to Veritas Capital Fund V, Limited Partnership. The motion passed by a unanimous voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Cinda Klickna, seconded by Mark Bailey, to adjourn the meeting at 1:32 p.m.



Richard W. Ingram, Executive Director

Approved : 8/25/14