



**MINUTES**  
**Meeting of the Investment Committee**  
**December 9-10, 2015**

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 9-10, 2015 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Mike Busby, Chair, called the meeting to order at 2:15 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mike Busby (Chair), Bob Lyons (Vice Chair), Mark Bailey, Andy Hirshman, Rainy Kaplan, Cinda Klickna, Sandy Stuart, Sonia Walwyn, Dan Winter, and Tony Smith, President.

Others present: Dick Ingram, Executive Director; Tom Gray, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Jana Bergschneider, Chief Financial Officer; Deron Bertolo, Director of Investment Accounting; Scottie Beville, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Ken Musick, Sr. Investment Officer; Bill Thomas, Investment Officer; Stefan Backus, Investment Officer; Kirk Sims, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Brennan Basnicki, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Bob Jiroutek, Risk Officer; Sally Soderberg, Chief Benefits Officer; Dave Urbanek, Director of Communications; Gina Larkin, Chief Human Resources Officer; Tom Smith, Chief Technology Officer; Kathleen Farney, Director of Research; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Steve Jarrod, Courtland Partners (Real Estate Consultant); Ron Mayer and David Tatkov, Albourne Partners (Hedge Fund Consultant) (12/9); Mike Krems and Heidi Poon, TorreyCove (Private Equity Consultant) (12/10).

Visitors present: Christine Williamson, Pensions & Investments; Jason Parks, Loop Capital; Kelley Gallagher, BNY Mellon; Shirley Dodds, IRTA; Dennis Murfin, IRTA; Don Davis, IRTA; and Jim Duffy IEA-R.

No Public Comment.

## **APPROVAL OF MINUTES**

A draft of the October 28-29, 2015 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sandy Stuart, seconded by Mark Bailey, the minutes were approved by voice vote. Trustee Walwyn abstained from voting.

## **OLD BUSINESS**

### Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers for the quarter ended September 30, 2015. 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. A motion was made by Cinda Klickna, seconded by Mark Bailey, that the committee recommend to the Board to withdraw up to 1.0 percent of the total fund's value, or \$434.5 million based on the September 30, 2015 ending market value. The motion passed by a unanimous voice vote. Further withdrawals from the fund may be necessary to meet TRS's cash obligations if state contribution payments are delayed by the Comptroller's office or if monthly contribution payments are smaller than expected.

### RFP Update

Due diligence continues in the currency management search and results are expected to be reported at the February 2016 meeting.

## **STAFF/CONSULTANT PRESENTATIONS**

### Investment Performance Review – September 30, 2015

RV Kuhns provided an overview of the investment performance for the quarter ending September 30, 2015. Total assets: \$43.4 billion. Documentation is on file. The September 30, 2015 total fund return, gross of fees:

- 1 year: 15.3%
- 3 years: 14.4%
- 5 years: 14.4%
- 10 years: 7.7%

Total fund return, net of fees:

- 1 year: 14.5%
- 3 years: 13.6%
- 5 years: 13.7%
- 10 years: 6.9%

Courtland Partners provided a summary of the TRS real estate portfolio performance. Documentation is on file. Total fund return, gross of fees:

- 1 year: 1.0%
- 3 years: 8.6%
- 5 years: 9.2%
- 10 years: 6.3%
- 20 years: 8.0%

Total fund return, net of fees:

- 1 year: 0.43%
- 3 years: 8.0%
- 5 years: 8.6%
- 10 years: 5.7%

### WMBE Utilization Report

Kirk Sims, Investment Officer, provided preliminary data on the utilization of minority-owned brokers and minority-owned investment managers within the TRS investment portfolio through September 30, 2015. Assets under management for WMBE-owned investments were \$7.42 billion. The total TRS portfolio represents 17.08% which is 1.08% over the TRS goal of 15%.

Documentation is on file including highlights of the Senate Minority Hearing held in Chicago on November 19, 2015.

### Global Equity Asset Class Report

Staff reported on the recent activity within the global equity asset class as of September 30, 2015 including the annual investment manager reviews along with a summary of recommendations. Documentation is on file. A motion was made by Mark Bailey, seconded by Sonia Walwyn, that the committee recommend to the Board to approve the domestic equity target mandate revisions, as presented. The motion passed by a unanimous voice vote.

- Increase MFS large cap core from 7.0% to 9.0%
- Increase J.P. Morgan 130/30 large cap core from 8.0% to 9.0%
- Increase LSV large cap value from 4.0% to 5.0%
- Increase FMA small cap from 2.0% to 3.0%
- Increase small cap vacancy from 1.25% to 2.0%
- Decrease OakBrook large cap enhanced core from 3.0% to 2.0%
- Decrease CRM SMID cap value from 4.0% to 2.0%
- Remove 3.0% large cap vacancy
- Consolidation of the current large cap core, large cap value, and large cap growth asset class structures into two new structures:
  - i. A passive large cap structure with 25.0% target and +/-6.0% allocation range
  - ii. An active large cap structure with a 55.0% target and +/- 10.0% allocation range
- Increase domestic equity small/mid cap allocation range from +/-4% to +/-5%

A motion was made by Cinda Klickna, seconded by Sandy Stuart, that the committee recommend to the Board to approve the international equity target mandate revisions, as presented. The motion passed by a unanimous voice vote.

- Increase SGA large cap active from 4.0% to 6.0%
- Increase Axiom emerging markets from 3.0% to 5.0%
- Decrease Aberdeen large cap active from 8.5% to 7.5%
- Decrease JF large cap active from 7.0% to 6.0%
- Decrease AQR emerging markets from 9.0% to 8.0%
- Decrease Northern Trust passive emerging markets from 3.0% to 2.0%

Staff recommended an international equity large cap manager search to seek possible replacement of one or more active mandates. A motion was made by Sandy Stuart, seconded by Sonia Walwyn, that the committee recommend to the Board to approve an international equity large cap manager search. The motion passed by a unanimous voice vote.

#### Boston Company – Termination

Staff recommended terminating Boston Company's domestic equity small to midsize cap growth mandate due to poor performance and staff's lack of conviction in the investment process. A motion was made by Bob Lyons, seconded by Tony Smith, that the committee recommend to the Board to terminate Boston Company's 2.0% domestic equity SMID cap growth mandate. The motion passed by a unanimous voice vote.

#### Crabel Capital Management – Absolute Return

Representatives of Crabel Capital Management presented an investment opportunity to the Crabel Alpha Terra Advanced Trend Fund. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted including a report from Albourne. A motion was made by Rainy Kaplan, seconded by Bob Lyons, that the committee recommend to the Board to approve the Crabel Alpha Terra Advanced Trend Fund for a 7.0% target allocation within the System's Absolute Return Strategies program. Initial funding will be \$100 million, with subsequent funding as prudent to the target allocation. The commitment is subject to successful completion of final contract negotiations. The motion passed by a unanimous voice vote.

#### Absolute Return Asset Class Report

Staff reported on the recent activity within the absolute return asset class. A motion was made by Sandy Stuart, seconded by Mark Bailey, that the committee recommend to the Board to ratify full redemption of the Claren Road Credit Master Fund, Pine River Fund, and Blue Mountain Credit Alternatives Fund. The motion passed by a unanimous voice vote.

Consistent with the annual review and tactical plan, staff recommended a reduction in the Grosvenor Monarch mandate. A motion was made by Mark

Bailey, seconded by Rainy Kaplan, that the committee recommend to the Board to ratify the reduction of the Grosvenor Monarch mandate to \$300 million from \$404 million. The motion passed by a unanimous voice vote.

## **RECESS**

The meeting recessed at 5:56 p.m. and reconvened the following day at 8:00 a.m.

### Apex Capital Management – Domestic Equity/Emerging Manager Program

The committee interviewed Apex Capital Management as a candidate for graduation from the System's Emerging Management Program to a full portfolio allocation. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Sandy Stuart, seconded by Mark Bailey, that the committee recommend to the Board to graduate Apex Capital Management to a 2.25% domestic equity SMID cap growth mandate. The motion passed by a unanimous voice vote.

### Private Equity Asset Class Report

Staff reported on the recent activity within the private equity portfolio and requested ratification of a co-investment with Carlyle Partners VI, Limited Partnership in a capital raise to acquire the assets of Veritas Software from publicly-traded Symantec. A motion was made by Cinda Klickna, seconded by Sonia Walwyn, that the committee recommend to the Board to ratify the commitment of up to \$25 million to the co-investment with Carlyle Partners VI, L.P. Closing is expected January 2016. The motion passed by a unanimous voice vote.

Staff requested ratification of a co-investment with MBK Partners III, Limited Partnership in the acquisition of the Korean hypermarket, supermarket, and convenience store subsidiaries of Tesco, PLC. A motion was made by Mark Bailey, seconded by Bob Lyons, that the committee recommend to the Board to ratify the commitment of up to \$40 million plus transaction expenses to the co-investment with MBK Partners III, L.P. The motion passed by a unanimous voice vote.

Staff reported that the private equity team at Black River will now be known collectively as Proterra Investment Partners. A motion was made by Sandy

Stuart, seconded by Andy Hirshman, that the committee recommend to the Board to consent to the Black River ownership change to Proterra Investment Partners. The change affects TRS investments in the Black River Capital Partners Food Funds I & II, and Black River Agriculture Fund II. The motion passed by a unanimous voice vote.

Staff provided an update on the secondary sale ratification of Glencoe. A motion was made by Sandy Stuart, seconded by Sonia Walwyn, that the committee recommend to the Board to ratify the sale of Glencoe Capital Partners III, L.P. and Glencoe Institutional partners III, L.P. at 92.5% as of the June 30, 2015 record date. Staff notes the exception to policy by not utilizing a secondary advisor. The motion passed by a unanimous voice vote.

Staff has elected to not commit an additional \$50 million to Riverstone Global Energy and Power Fund VI, Limited Partnership.

#### Madison Dearborn – Private Equity

At the August 2015 meeting, the Investment Committee deferred a commitment to Madison Dearborn Capital Partners VII, Limited Partnership. At the October meeting, staff and TorreyCove provided a summary of the leverage profile utilized by Madison Dearborn in its transactions. The motion carried at the Investment Committee meeting with a 6-3 vote but failed at the formal Board meeting with a 5-3 vote as all members of the Board were not present.

Staff presented the fund for further consideration as it fits well within the portfolio. Trustee Hirshman expressed concerns about recent allegations in the press and read a statement for the record. Discussion followed. A motion was made by Sandy Stuart, seconded by Sonia Walwyn, that the committee recommend to the Board to commit \$75 million to Madison Dearborn Capital Partners VII, L.P. The motion passed by voice vote. Votes of opposition were heard from Trustees Hirshman, Kaplan, and Bailey.

#### **RECESS**

The meeting recessed at 9:27 a.m. and reconvened at 9:35 a.m.

### Co- Investment Advisors

Jerry Quandt, Investment Officer, provided an overview of the candidates that would serve as consultants in the selection and review of potential co-investment opportunities. The contracts of the incumbent pool of advisors are set to expire December 31, 2015. Following due diligence, staff recommended retention of the existing pool of co-investment advisors and the addition of Caledon. A motion was made by Bob Lyons, seconded by Tony Smith, that the committee recommend to the Board to select Caledon, LP Capital Advisors, Stout Risius Ross, and TorreyCove Capital Partners as an approved pool of co-investment advisors to be used, as necessary, for evaluation of co-investment opportunities. The motion passed by unanimous voice vote.

### Battery Ventures – Private Equity

Representatives of Battery Ventures provided a new investment opportunity in Battery Ventures VI, Limited Partnership and Battery Ventures XI Side Fund, Limited Partnership. Their presentation booklet is on file. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by Sandy Stuart, seconded by Cinda Klickna, that the committee recommend to the Board to commit up to \$30 million to be split between Battery Ventures XI, L.P. and Battery Ventures XI Side Fund, L.P. The motion passed by unanimous voice vote. A motion was made by Tony Smith, seconded by Sandy Stuart, to amend the motion to commit an additional \$10 million based on continued staff and Chair approval. The motion passed by unanimous voice vote.

### Trident Capital Group – Private Equity/Emerging Manager

The committee interviewed Trident Capital to fill an allocation within the System's Emerging Manager Program for private equity investments. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Bob Lyons, seconded by Andy Hirshman, that the committee recommend to the Board to commit \$25 million to TC Growth Partners I, L.P. within the System's Emerging Manager Program. The motion passed by unanimous voice vote.

### Advent International Corporation – Private Equity

Staff and TorreyCove presented a reinvestment opportunity within the System's private equity program and provided an overview of the firm and due diligence that was conducted. Staff recommended a commitment of up to \$150 million to Advent International Global Private Equity VIII (GPE), Limited Partnership but is expected to receive only \$100 million with the potential for more. A motion was made by Rainy Kaplan, seconded by Sandy Stuart, that the committee recommend to the Board to commit up to \$150 million to Advent International Global Private Equity VIII (GPE), L.P. The motion passed by unanimous voice vote.

### Lightspeed General Partners – Private Equity

Staff and TorreyCove presented an investment opportunity within the System's private equity program and provided an overview of the firm and due diligence that was conducted. Staff recommended a commitment of up to \$40 million to be split between Lightspeed Venture Partners XI, L.P. and Lightspeed Venture Partners Select II, L.P. to invest in equity investments in high-growth technology companies. A motion was made by Cinda Klickna, seconded by Sonia Walwyn, that the committee recommend to the Board to commit up to \$40 million to split between Lightspeed Venture Partners XI, L.P. and Lightspeed Venture Partners Select II, L.P. The motion passed by unanimous voice vote.

### Leonard Green & Partners – Private Equity

Staff and TorreyCove presented a reinvestment opportunity within the System's private equity program and provided an overview of the firm and due diligence that was conducted. Staff recommended a commitment of \$200 million to Green Equity Investors VII, Limited Partnership to invest in consumer retail. A motion was made by Cinda Klickna, seconded by Rainy Kaplan, that the committee recommend to the Board to commit \$200 million to Green Equity Investors VII, L.P. The motion passed by unanimous voice vote.

### Longitude Capital Management – Private Equity

Staff and TorreyCove presented a reinvestment opportunity within the System's private equity program and provided an overview of the firm and due diligence that was conducted. Staff recommended a commitment of \$50 million to Longitude Venture Partners III, Limited Partnership to invest in life sciences. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to commit \$50 million to Longitude Venture Partners III, L.P. The motion passed by unanimous voice vote.

### Oak Street - Real Estate - Emerging Manager Program

Representatives of Oak Street provided a new investment opportunity in Oak Street Real Estate Fund III, Limited Partnership within the System's Emerging Manager Program to invest in commercial properties. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Tony Smith, seconded by Cinda Klickna, that the committee recommend to the Board to commit \$50 million to Oak Street Real Estate Capital Fund III, L.P. The motion passed by unanimous voice vote.

### **RECESS**

The meeting recessed at 12:20 p.m. and reconvened at 1:00 p.m.

### PIMCO – Global Fixed Income

Representatives of PIMCO provided an investment opportunity in PIMCO Corporate Opportunities Fund II, Limited Partnership. Their 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 Rainy Kaplan, that the committee recommend to the Board to commit \$100 million to PIMCO Opportunistic Credit II, L.P. within the special situations allocation, subject to successful completion of legal documentation. The motion passed by unanimous voice vote.

### NXT Capital – Global Fixed Income

Staff presented a reinvestment opportunity within the System's fixed income special situations allocation. Staff provided an overview of the firm and due diligence that was conducted and recommended a commitment of \$150 million to NXT Capital Senior Loan Fund IV, Limited Partnership. A motion was made by Rainy Kaplan, seconded by Cinda Klickna, that the committee recommend to the Board to commit \$150 million to NXT Capital Senior Loan Fund IV, L.P. within the special situations allocation. The motion passed by unanimous voice vote.

### Quarterly Compliance Report/Sudan FY 15 Cost Report

TRS is responsible for monitoring investment manager trading activity to ensure compliance as related to the Investment Manager Agreement. Staff provided a summary of the quarterly compliance for the quarter ended September 30, 2015. TRS is in compliance with Public Act 95-0616 (Iran) and all TRS managers signed an annual Sudan compliance certificate as of June 30, 2015. Sudan divestments have cost the TRS global equity portfolio approximately \$116.5 million during the past seven fiscal years.

Illinois Public Act 99-0128, will become effective January 1, 2016, prohibits Illinois retirement systems from investing in companies that boycott Israel, Iran-restricted companies, and Sudan-restricted companies. A newly formed Illinois Investment Policy Board will assemble a list of restricted companies and will provide the list to TRS.

Staff provided a brief summary of investment risk and a report updating costs/benefits for domestic equity and international equity for fiscal year July 1, 2014 through June 30, 2015.

### Transition Management Services RFP

The TRS Investment Policy requires a formal evaluation of the transition management program every three years. Staff requested issuing a Request for Proposal (RFP) for firms to provide the System with transition management services. The current transition management pool of managers is State Street Global Markets, Citibank, Loop Capital and Frank Russell. A motion was made by Rainy Kaplan, seconded by Cinda Klickna, that the committee

recommend to the Board to issue an RFP for transition management services. The motion passed by unanimous voice vote.

Investment Education

Greg Turk, Director of Investments, provided an educational presentation on currency exposure in the TRS investment portfolio. Documentation is on file.

**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 2:28 p.m.



Richard W. Ingram, Executive Director

Approved: 2/17/16