



MINUTES
Meeting of the Investment Committee
February 17-18, 2016

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 17-18, 2016 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Mike Busby, Chair, called the meeting to order at 2:50 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, Sonia Walwyn, Dan Winter, and Tony Smith, (President). Absent: Sandy Stuart

Others present: Dick Ingram, Executive Director (2/18); Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Tom Gray, Chief Legal Counsel; Marcy Dutton, Chief Legal Counsel; Scottie Beville, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Ken Musick, Sr. Investment Officer; Deron Bertolo, Director of Investment Accounting; Bill Thomas, Investment Officer; Stefan Backus, Investment Officer; Kirk Sims, Investment Officer; Jerry Quandt, Investment Officer; Brennan Basnicki, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Tim Hays, Sr. Investment Officer; Dakin Sanert, 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; 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 and Ian Bray, RV Kuhns (Investment Consultant); and David Tatkov, Albourne Partners (2/18) (Hedge Fund Consultant).

Visitors present: Don Davis, IRTA; Christine Williamson, Pensions & Investments; Jason Parks, Loop Capital; and Jim Baker, UNITE HERE.

PUBLIC COMMENT

Jim Baker, UNITE HERE, provided documentation regarding Leonard Green & Partners' private jet travel. Documentation is on file. The Securities and Exchange Commission (SEC) has recently highlighted the need for greater scrutiny of fee and expense practices by private equity firms. Since TRS is a limited partner with Leonard Green, UNITE HERE suggested that TRS inquire about Leonard Green's fee and expense practices relating to its private jet fleet.

APPROVAL OF MINUTES

A draft of the December 9-10, 2015 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Tony Smith, seconded by Cinda Klickna, the minutes were approved by voice vote.

RECESS

The meeting recessed at 2:55 p.m. and reconvened at 3:03 p.m.
(Trustee Winter and Director Ingram depart)

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers for the quarter ended December 31, 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 Mark Bailey, seconded by Rainy Kaplan, that the committee recommend to the Board to withdraw up to 1.0 percent of the total fund's value, or \$437.1 million based on the December 31, 2015 ending market value. The motion passed by a unanimous voice vote.

RFP Update

Staff plans to conduct due diligence in the transition management services search and make a final recommendation in May or June 2016.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – December 31, 2015

RV Kuhns provided an overview of the investment performance for the quarter ending December 31, 2015. Total assets: \$43.7 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 1.8%
- 3 years: 8.3%
- 5 years: 8.2%
- 10 years: 6.2%

Total fund return, net of fees:

- 1 year: 1.1%
- 3 years: 7.6%
- 5 years: 7.6%
- 10 years: 5.6%

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 31, 2015. Aberdeen Asset Management (international equity) remains on watch due to performance concerns. Staff recommended that Cramer Rosenthal McGlynn (domestic equity) and Jarislowsky Fraser (international equity) be added to the watch list due to performance concerns. A motion was made by Bob Lyons, seconded by Tony Smith, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

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 December 31, 2015. Assets under

management for WMBE-owned investments were \$7.86 billion. The total TRS portfolio represents 17.84% which is 1.84% over the TRS goal of 16%.

Banc Fund VII, L.P. – Private Equity

Staff provided an update on the secondary sale ratification of Banc Fund VII, Limited Partnership. A motion was made by Bob Lyons, seconded by Mark Bailey, that the committee recommend to the Board to ratify the sale of Banc Funds VII, L.P. at 91% 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.

Parthenon Capital Advisors – 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 \$100 million to Parthenon Investors V, Limited Partnership to invest within the financial, healthcare, and business services sector. A motion was made by Tony Smith, seconded by Cinda Klickna, that the committee recommend to the Board to commit \$100 million to Parthenon Investors V, L.P. subject to completion of due diligence and legal negotiation. The motion passed by unanimous voice vote.

Lone Star – Real Estate

Staff and Courtland Partners presented a reinvestment opportunity in Lone Star Real Estate Fund V, Limited Partnership to invest within distressed commercial real estate debt and equity products. Staff provided an overview of the firm and due diligence that was conducted and recommended a commitment of up to \$300 million to Lone Star Real Estate Fund V, L.P. TRS is an investor in Fund III. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to commit up to \$300 million to Lone Star Real Estate Fund V, L.P. subject to completion of due diligence and legal negotiation. The motion passed by unanimous voice vote.

Madison International Realty – Real Estate

Representatives of Madison International Realty presented a new investment opportunity to Madison International Real Estate Liquidity Fund VI, Limited Partnership for investments in the commercial real estate market. Their presentation booklet is on file. Staff and Courtland Partners provided an overview of the firm and due diligence that was conducted. A motion was made by Bob Lyons, seconded by Mark Bailey, that the committee recommend to the Board to commit \$100 million to Madison International Real Estate Liquidity Fund VI, L.P. subject to successful completion of legal review. The motion passed by unanimous voice vote.

RECESS

The meeting recessed at 5:20 p.m. and reconvened the following day at 8:00 a.m.

Vista Equity Partners – Private Equity

Staff and TorreyCove presented a reinvestment opportunity within the System's private equity portfolio for control investments in enterprise software, data, and technology-enabled solutions companies. Staff provided an overview of the firm and due diligence that was conducted and recommended a commitment of \$150 million to Vista Equity Partners Fund VI, Limited Partnership and up to \$100 million to Vista Foundation Fund III, Limited Partnership. TRS is an investor in Funds III, IV, and V. A motion was made by Bob Lyons, seconded by Tony Smith, that the committee recommend to the Board to commit \$150 million to Vista Equity Partners Fund VI, L.P. and up to \$100 million to Vista Foundation Fund III, L.P. subject to completion of due diligence and contract negotiations. The motion passed by unanimous voice vote.

Garcia Hamilton - Global Fixed Income

Staff recommended an increase to the amount of residual cash managed by Garcia Hamilton by \$100 million due to success of the cash management program. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to increase the amount of residual cash managed by Garcia Hamilton by \$100 million to a total of \$400 million. Structurally, the first \$200 million of residual TRS cash will be invested in the State Street short term investment fund with balances between \$200

million and \$600 million managed by Garcia Hamilton. The change is effective March 1, 2016. The motion passed by a unanimous voice vote.

Loomis Sayles – Termination

Staff recommended terminating Loomis Sayles global multi-sector full discretion mandate due to an asset class change in strategy. A motion was made by Cinda Klickna, seconded Mark Bailey, that the committee recommend to the Board to terminate the Loomis Sayles fixed income mandate. Assets will be reallocated and transferred to existing managers. As part of the termination, targets were increased to Dolan McEniry (2%), MacKay Shields (2%) and Manulife (3%). The motion passed by a unanimous voice vote.

Apollo Lincoln – Fixed Income

Staff reported on revisions to the Apollo Lincoln fixed income mandate. The revision is expected to be effective March 1, 2016.

Bridgewater – Absolute Return

Representatives of Bridgewater presented its new investment product, Optimal, that combines both beta and alpha strategies together in one portfolio. Their presentation booklet is on file. TRS has invested in Bridgewater's Pure Alpha and All-Weather strategies. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to approve the transfer of \$400 million from the existing Bridgewater All Weather mandate to the new Bridgewater Optimal Portfolio subject to contract negotiations. The motion passed by a voice vote. Trustee Walwyn abstained from voting.

RECESS

The meeting recessed at 9:30 a.m. and reconvened at 9:40 a.m.
(*Director Ingram arrives*)

PDT Partners – Absolute Return

Representatives of PDT Partners provided an overview of the Mosaic Fund and PDT Partners Fund. Their presentation booklet is on file. Staff and Albourne provided an overview of the firm and due diligence that was conducted. Consistent with the goals of the absolute return strategies program, staff recommended increasing the investment with PDT and approving the Partners strategy as a portion of the investment. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to commit to add PDT Partners to the existing PDT investment mandate and creating an allocation vehicle that will initially invest \$30 million in Partners and the balance in the PDT Mosaic Fund (“Mosaic”). Concurrently, staff recommends increasing the overall PDT relationship allocation toward the 8% target (approximately \$256 million), which represents an additional \$50 million allocation to Mosaic (for a total of \$80 million additional commitment to PDT overall). The motion passed by a unanimous voice vote.

Quarterly Compliance 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 December 31, 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. Illinois Public Act 99-0128, 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.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Sonia Walwyn, seconded by Bob Lyons, to adjourn the meeting at 10:08 a.m.



Richard W. Ingram, Executive Director
Approved: 3/30/16