



MINUTES
Meeting of the Investment Committee
August 25-26, 2016

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 25-26, 2016 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Bob Lyons, Chair, called the meeting to order at 1:35 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Bob Lyons (Chair), Mark Bailey, Ann Deters, Andy Hirshman, Rainy Kaplan, Sandy Stuart, Dan Winter, and Cinda Klickna. Absent: Trustees Winters and Smith.

Others present: Dick Ingram, Executive Director; Sally Soderberg, Deputy Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Ken Musick, Director of Diversifying Strategies; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Deron Bertolo, Director of Investment Operations; Bob Jiroutek, Risk Officer; Jerry Quandt, Investment Officer; Bill Thomas, Investment Officer; Kirk Sims, Investment Officer; Stefan Backhus, Investment Officer; Jose Gonzalez, Sr. Investment Analyst; Chad Mitchell, Investment Analyst; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Tom Smith, Chief Technology Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Mike Krems (8/26), TorreyCove (Private Equity Consultant); David Tatkow (8/26), Albourne (Absolute Return Investment Consultant); Michael Humphrey, Steve Novick, and Jeremy Goldberg (8/26), Courtland Partners (Real Estate Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Janet Kilgus, IEA-R; Bob Kaplan; Don Davis, IRTA; Ross Myers (8/25), IRTA; Jason Parks (8/26), Loop Capital; Greg Bishop, IL Radio Network; Owen Irwin (8/26), Senate Dem Staff; Joe Scully (8/26), HGOP Staff; Hualin Liu (8/26), RSM; Ed Murphy

(8/26), Governor Rauner's office; Doug Finke(8/26), State Journal Register; Will Lovett (8/26), IEA; and Ivan Moreno (8/26), Associated Press.

APPROVAL OF MINUTES

A draft of the May 19-20, 2016 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sandy Stuart, seconded by Rainy Kaplan, the minutes were approved by unanimous voice vote.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers for the quarter ended June 30, 2016. 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.

RFP Update

Staff reported that an RFP for a foreign currency advisor will be posted on the TRS website. A recommendation is planned for 2017.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Update

RV Kuhns provided preliminary reports of the investment performance for the quarter ending June 30, 2016. Total assets: \$44.8 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 0.7%
- 3 years: 7.5%
- 5 years: 7.4%
- 10 years: 6.0%

RECESS

The meeting recessed at 2:45 p.m. and reconvened at 3:00 p.m.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2016. Staff recommended that Franklin Advisors (fixed income) and Lombardia Capital Partners (domestic equity) be added to the watch list due to performance concerns. TCW remains on watch due to performance concerns. A motion was made by Cinda Klickna, seconded by Ann Deters, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Brown Capital – Emerging Manager Program

Representatives of Brown Capital presented an investment opportunity within the System's Emerging Manager Program for investments within the international equity portfolio. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Ann Deters, seconded by Mark Bailey, that the committee recommend to the Board to commit \$50 million to Brown Capital. The motion passed by a unanimous voice vote.

(Trustee Stuart departed at 4:00 p.m.)

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 June 30, 2016. Assets under management for WMBE-owned investments were \$7.86 billion. The total TRS portfolio represents 17.62% which is 1.62% over the TRS goal of 16%. New target recommendations will be presented at the October meeting. TRS has allocated \$2.7 billion to minority managers during the past three years.

KeyQuant – Absolute Return

Representatives of KeyQuant presented an investment opportunity within the firm's Key Trends Program. Their presentation booklet is on file. Staff and Albourne provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Dan Winter, that the committee recommend to the Board to commit 5% of the absolute return strategies program to the Key Trends Program subject to completion of legal review and contract negotiation. The motion passed by a unanimous voice vote.

T. Rowe Price - Global Equity

Staff reported on the recent activity within the global equity portfolio and recommended shifting the System's existing large cap growth mandate managed by T. Rowe Price to its large cap core growth product. A motion was made by Ann Deters, seconded by Cinda Klickna, that the committee recommend to the Board to approve the revision of the existing domestic equity large cap mandate managed by T. Rowe Price, as presented. The motion passed by a unanimous voice vote.

Ativo Capital Management – Emerging Manager Program

Due to outperformance and infrastructure improvement, staff recommended an increase to Ativo's assignment within the Emerging Manager Program for investments within the international equity portfolio. Additional funding is expected to be \$22 million. A motion was made by Mark Bailey, seconded by Rainy Kaplan, that the committee recommend to the Board to commit up to \$50 million to the international equity emerging manager mandate of Ativo Capital Management. The motion passed by a unanimous voice vote.

Jarislowsky Fraser – Termination

Aberdeen – Termination

Staff recommended the termination of Jarislowsky Fraser's international equity large cap mandate and Aberdeen's international equity large cap mandate due to performance and 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 ratify the termination of

Jarislowsky Fraser's international equity large cap mandate. The motion passed by a unanimous voice vote.

J.P. Morgan Asset Management
Acadian Asset Management

Staff provided a summary of the international equity large cap core search and recommended to hire J.P. Morgan Asset Management and Acadian Asset Management to each manage a 6.75% international large cap mandate. A motion was made by Cinda Klickna, seconded by Ann Deters, that the committee recommend to the Board to ratify the selection of J.P. Morgan and Acadian to a 6.75% target large cap mandate. The motion passed by a unanimous voice vote.

Northwood Shipping Fund III, L.P. – Fixed Income

Staff recommended increasing the System's existing commitment to Northwood Shipping Fund III, Limited Partnership from \$50 million to a \$75 million commitment. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to commit up an additional \$25 million to Northwood Shipping Fund III, L.P. at its final close in August 2016 subject to final legal review. The motion passed by a unanimous voice vote.

Taurus Mining Finance Annex Fund, L.P. – Fixed Income

The Annex Fund is being established as an alternative investment vehicle for Taurus Mining Finance and requires an additional allocation. A motion was made by Ann Deters, seconded by Mark Bailey, that the committee recommend to the Board to commit up an additional \$39 million to Taurus Mining Finance Annex Fund, L.P. subject to final legal review. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 5:08 p.m. and reconvened the following day at 8:00 a.m.

FY 2017 Real Estate Tactical Plan

Staff and Courtland Partners presented the FY 2017 real estate tactical plan and provided a summary of the current year initiatives and reviewed the new FY 2017 program initiatives. The plan provides a review of risk/return strategy exposure, manager exposure, performance review, real estate market outlook, and a pacing plan. TRS has a long-term allocation target of 15.0% to real estate and has delivered returns above the long-term expectations over the last five years. A motion was made by Andy Hirshman, seconded by Cinda Klickna, that the committee recommend to the Board to accept the real estate tactical plan as presented. The motion passed by a unanimous voice vote.

Starwood Capital Group

Staff presented an investment opportunity to Starwood Global Opportunity Fund XI, Limited Partnership for real estate investment opportunities. Staff and Courtland Partners provided an overview of the firm and due diligence that was conducted. A motion was made by Rainy Kaplan, seconded by Sandy Stuart, that the committee recommend to the Board to commit up to \$300 million to Starwood Global Opportunity Fund XI, L.P. 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 up to \$40 million alongside The Gores Group, Apollo Investment Fund VII, Limited Partnership and Metropoulos & Company for investment in the food and beverage sector. Staff provided an overview of due diligence that was conducted. A motion was made by Sandy Stuart, seconded by Andy Hirshman, that the committee recommend to the Board to ratify the commitment of up to \$40 million to the co-investment with The Gores Group. The motion passed by a unanimous voice vote.

Staff requested ratification of a co-investment up to \$25 million alongside Providence Equity Partners VII, Limited Partnership in the equity recapitalization of a global provider of wireless, retail, and home service provider industries. Staff provided an overview of due diligence that was conducted. A motion was made by Sandy Stuart, seconded by Andy

Hirshman, that the committee recommend to the Board to ratify the commitment of up to \$25 million to the co-investment with Providence Equity Partners. The motion passed by a unanimous voice vote.

Following discussion with Park Hill regarding the System's non-core portfolio, staff requested ratification of the decision to sell Onex Partners III and PAI Europe V. A motion was made by Sandy Stuart, seconded by Andy Hirshman, that the committee recommend to the Board to ratify the decision to sell Onex Partners III and PAI Europe V. The motion passed by unanimous voice vote.

The Institutional Limited Partners Association has recently led an initiative to develop a more robust and uniform reporting standard across the industry for fees and expenses. The result is a suggested Reporting Template for fund reporting that allows for easier aggregation and analysis. TRS staff supports the implementation of the template for new commitments. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to endorse the ILPA Fee Reporting Template. The motion passed by a unanimous voice vote.

FY 2017 Private Equity Tactical Plan

Staff and TorreyCove outlined the FY 17 private equity tactical plan and initiatives. The plan includes a review of TRS's existing managers, updated portfolio pacing analysis, previous program initiatives and identifies areas of strategic focus. A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to accept the private equity tactical plan as presented. The motion passed by a unanimous voice vote.

Asset Allocation

Staff is not recommending revisions to long-term asset allocation targets for the beginning of fiscal year 2017 and plans to initiate an asset study with final recommendation presented to the Board in spring 2017. To document progress towards long-term objectives, staff requested revisions to the System's interim asset allocation targets:

	Previous Interim Target	Revised Interim Target	Change
Domestic Equity	20.5%	18.0%	-2.5%
International Equity	20.5%	18.0%	-2.5%
Fixed Income	17.0%	18.5%	+1.5%
Real Estate	13.0%	15.0%	+2.0%
Private Equity	11.0%	12.0%	+1.0%
Real Return	10.0%	9.5%	-0.5%
Absolute Return	7.0%	8.0%	+1.0%
Short Term	1.0%	1.0%	

A motion was made by Ann Deters, seconded by Mark Bailey, that the committee recommend to the Board to approve revisions to the System's interim asset allocation targets, as presented. The motion passed by a unanimous voice vote.

Investment Policy Revisions

Staff presented revisions to the TRS Investment Policy. Documentation is on file.

Section IV: Role Definitions

Section VII: Asset Allocation and Rebalancing Strategy

Section VIII: Investment Manager Structure

Section XIII: Performance Benchmarks

Section XVI: General Investment Restrictions

A motion was made by Rainy Kaplan, seconded by Andy Hirshman, that the committee recommend to the Board to accept approve revisions to the System's investment policy, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 10:28 a.m. and reconvened at 10:40 a.m.

Quarterly Compliance Summary

TRS is responsible for monitoring investment manager trading activity to ensure compliance as related to the Investment Manager Agreement. Bob Jiroutek, Risk Officer, provided a compliance summary and risk report summary for the quarter ended June 30, 2016.

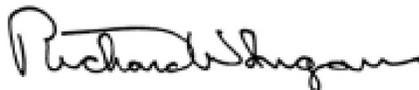
EXECUTIVE SESSION

A motion was made by Rainy Kaplan, seconded by Mark Bailey, that the Investment Committee enter into executive session for the purpose of discussing investments as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (7). Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Kaplan, Hirshman, Lyons, Stuart, Winter, Winters, Klickna and Smith. Motion CARRIED.

No action was taken during executive session. A motion was made by Cinda Klickna, seconded by Tony Smith, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Kaplan, Hirshman, Lyons, Stuart, Winter, Winters, Klickna and Smith. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Bob Lyons, seconded by Rainy Kaplan, to adjourn the meeting at 11:55 a.m.



Richard W. Ingram, Executive Director

Approved: 10/27/16