



MINUTES
Meeting of the Investment Committee
December 13, 2016

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 13, 2016 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Bob Lyons, Chair, called the meeting to order at 8:08 a.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, Laura Pearl (arrived 8:15 a.m.), Dan Winter, Randy Winters, Cinda Klickna, and Tony Smith (arrived 8:45 a.m.). Absent: Trustee Sandy Stuart

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Kirk Sims, Investment Officer; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Chad Mitchell, Investment Analyst; Deron Bertolo, Director of Investment Accounting; Bob Jiroutek, Risk Officer; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Jana Bergschneider, Chief Financial Officer; Tom Smith, Chief Technology Officer; Gina Larkin, Chief Human Resources Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Christina Baker, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Sally Antonacci, Investment Administrative Services Supervisor; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Ian Bray, RV Kuhns (Investment Consultant); Jeffrey Goldberger, TorreyCove (Private Equity Consultant); Jeremy Goldberg and Justin Thibault, Courtland Partners (Real Estate Consultant).

Visitors present: Don Davis, IRTA; Steve Welch, IEA-R; Jack Tucker, IEA-R; and Christine Williamson, Pensions & Investments.

APPROVAL OF MINUTES

A draft of the October 27-28, 2016 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Rainy Kaplan, seconded by Cinda Klickna, the minutes were approved by voice vote. Trustee Bailey abstained from voting.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided the TRS investment manager charts for the quarter ended September 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 final recommendation is planned for 2017.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Update

RV Kuhns provided an overview of the investment performance for the quarter ending September 30, 2016. Documentation is on file. Total assets: \$45.7 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 7.9%
- 3 year: 6.5%
- 5 year: 9.4%
- 10 year: 5.4%

Compliance and Risk Report

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 for the quarter ended September 30, 2017.

WMBE Utilization Report

Kirk Sims, Investment Officer, provided an overview on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio for the quarter ending September 30, 2016. Assets under management for WMBE-owned investments were \$8.12 billion. The total TRS portfolio represents 17.77% which is 0.77% over the TRS goal of 17% for fiscal year 2017. Documentation is on file.

Veritas – Private Equity

Staff and TorreyCove presented an investment opportunity within Veritas Capital Fund VI, Limited Partnership and provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Randy Winters, that the committee recommend to the Board to commit up to \$100 million to Veritas Capital Fund VI, L.P. contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 9:25 a.m. and reconvened at 9:35 a.m.

TDR Capital – Private Equity

Representatives of TDR Capital provided an investment opportunity in TDR Capital IV, 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 Rainy Kaplan, seconded by Mark Bailey, that the committee recommend to the Board to commit up to €50 million to TDR Capital IV, L.P. contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

Starwood – Real Estate

Representatives of Starwood Capital Group provided an investment opportunity in Starwood Value-Add Fund Management, Limited Partnership to invest in value-add real estate. The mandate is a new strategy and will be structured as a new fund of one for TRS real estate investments alone. 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 Cinda Klickna, seconded by Mark Bailey, that the committee recommend to the Board to commit \$300 million to Starwood Value Add Fund Management, L.P. contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

Oaktree - Income

Staff presented an investment opportunity within the Oaktree Real Estate Debt Fund II, Income - Special Situations focusing on investments in a variety of real estate related debt structures. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Mark Bailey, that the committee recommend to the Board to commit \$100 million to Oaktree Real Estate Debt Fund II, within Income - Special Situations, contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

PIMCO - Income

Staff presented an investment opportunity within the PIMCO Bank Recapitalization and Value Opportunities ("BRAVO") III Fund, Income - Special Situations, and provided an overview of the firm and due diligence that was conducted. TRS is a current investor in Funds I and II. A motion was made by Cinda Klickna, seconded by Laura Pearl, that the committee recommend to the Board to commit \$100 million to PIMCO Bank Recapitalization and Value Opportunities ("BRAVO") III Fund, within Income - Special Situations, contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

Fixed Income

Staff reported on the recent activity within the fixed income asset class. A motion was made by Rainy Kaplan, seconded by Cinda Klickna, that the committee recommend to the Board to approve the recommendations within the fixed income asset class, as presented. The motion passed by a unanimous voice vote.

- Staff and Garcia Hamilton recommend revision of the Floating Rate mandate index to BB 1-3 Yr. Govt. (70%) and BB USFR (70%) effective January 1, 2017.
- Staff and Dolan McEniry recommend revision of the High Yield mandate index to the BB High Yield Ba/B Index effective January 1, 2017.
- Staff and TCW recommend revision of the Emerging Markets Debt mandate index to 50% EMBI/25% GBI/25% CEMBI index effective January 1, 2017.

Investment Education

RV Kuhns provided an educational presentation on active vs. passive investing. Documentation is on file.

RECESS

The meeting recessed at 5:40 p.m. and reconvened the following day at 8:03 a.m.

Global Equity Asset Class Report

Staff reported on the recent activity within the global equity asset class including the annual investment manager reviews along with a summary of recommendations. A motion was made by Dan Winter, seconded by Rainy Kaplan, that the committee recommend to the Board to approve the domestic equity target revisions, as presented. The motion passed by a unanimous voice vote.

Domestic Equity Target Revisions

- Increase Acadian large cap from 5.0% to 8.0%
- Increase Levin large cap from 6.0% to 7.0%
- Increase LSV large cap from 5.0% to 9.0%
- Increase LSV SMID cap from 4.0% to 5.0%
- Decrease Boston Partners large cap from 8.0% to 6.5%
- Decrease MFS large cap from 9.0% to 7.5%
- Decrease Mesirov small cap from 3.0% to 2.0%
- Decrease small/mid cap vacancy from 4.0% to 1.0%

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

Investment Structure Revisions

- Increase large cap active structure allocation from 55.0% to 58.0%
- Decrease small/mid cap structure allocation from 20.0% to 17.0%

Lombardia – Termination

Staff reported that the Investment Committee Chair approved the recommendation to terminate Lombardia's domestic equity small cap mandate due to performance concerns and lower 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 Lombardia's 3.0% domestic equity small cap mandate. The motion passed by a unanimous voice vote.

Oakbrook – Termination

Staff recommended terminating Oakbrook's domestic equity active large cap mandate due to lower conviction in the investment process. A motion was made by Andy Hirshman, seconded by Mark Bailey, that the committee recommend to the Board to terminate OakBrook's 2.0% domestic equity large cap active mandate. The motion passed by a unanimous voice vote.

International Equity

A motion was made by Ann Deters, seconded by Mark Bailey, 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.

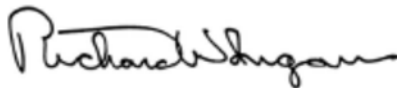
- Increase Acadian large cap from 6.75% to 8.25%
- Increase LSV large cap from 8.5% to 9.5%
- Increase Axiom emerging markets from 5.0% to 6.0%
- Decrease McKinley large cap from 8.5% to 7.0%
- Decrease Mondrian large cap from 8.5% to 7.5%
- Decrease AQR emerging markets from 8.0% to 7.0%

Channing Capital – Emerging Manager Program

The committee interviewed Channing Capital as a candidate for graduation from the System's Emerging Manager Program to managing a mandate within the System's domestic 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 Dan Winter, that the committee recommend to the Board to graduate Channing Capital Management to a 3.00% domestic equity small cap active mandate. 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 Rainy Kaplan, seconded by Mark Bailey, to adjourn the meeting at 2:15 p.m.



Richard W. Ingram, Executive Director

Approved: 2/16/17