



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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MINUTES
Meeting of the Investment Committee
August 21-22, 2017

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 21-22, 2017 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Randy Winters, Chair, called the meeting to order at 3:30 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Randy Winters (Chair), Andy Hirshman (Vice Chair), Mark Bailey, Ann Deters, Matt Hower, Marc Levine, Laura Pearl, Fred Peronto, Larry Pfeiffer, Dan Winter, Cinda Klickna and Tony Smith.

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; Josh Ross, Investment Officer; Ben Skrodzki, Investment Officer; Ed Shim, Investment Officer; Bill Thomas, Investment Officer; Jerry Quandt, Investment Officer; Brian Payne, Investment Analyst; Chad Mitchell, Sr. Investment Analyst; Dakin Sanert, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Deron Bertolo, Director of Investment Accounting; Abby Griffith, Sr. Investment Accountant; Bob Jiroutek, Risk Officer; Carlton Lenoir, Chief Benefits Officer; Marcy Dutton, Chief Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Dave Urbanek, Director of Communications; Stacy Smith, Director of Internal Audit; Tassi Maton and Christina Baker, Internal Auditors; Kathleen Farney, Director of Research; Sue Billington, Executive Assistant; Tammy Green, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Ian Bray, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Jeremy Goldberg (6/22), Courtland Partners (Real Estate Consultant);

Visitors present: Christine Williamson, Pensions & Investments; Janet Kilgus, IEA-R; Mark Carnevale and Maurice Campbell, BNY Mellon; and Charlie Weikel, Governor's office (8/21).

APPROVAL OF MINUTES

A draft of the June 21-22, 2017 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Ann Deters, seconded by Mark Bailey, the minutes were approved by voice vote. Trustee Levine abstained from voting.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided preliminary TRS investment manager charts for the quarter ended June 30, 2017. Documentation is on file.

Cash Withdrawal

Mr. Rupnik provided a cash flow summary of withdrawals necessary to fund the System's cash requirements including a summary of approved transactions by the investment committee chair. Documentation is on file. Trustee Winters requested a three-five year cash flow plan detailing what the net expectation is each year.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Update

RV Kuhns and TRS staff provided preliminary reports of the investment performance for the quarter ending June 30, 2017. Further detailed information will be provided at the October meeting. Total assets: \$48.7 billion. Documentation is on file. Preliminary return, gross of fees:

- 1 year: 13.1%
- 3 year: 6.1%
- 5 year: 9.8%
- 10 year: 5.4%

Preliminary return, Net of fees:

- 1 year: 12.3%
- 3 years: 5.4%
- 5 years: 9.1%
- 10 years: 4.8%

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended June 30, 2017. McKinley Capital Management remains on watch due to performance concerns. A motion was made by Andy Hirshman, seconded by Mark Bailey, 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 June 30, 2017. Assets under management for WMBE-owned investments were \$8.89 billion. The total TRS portfolio represents 18.32% which is 1.32% over the TRS goal of 17%.

Emerging Manager Program – Education

TRS staff provided an educational overview of the System's Emerging Manager Program. Documentation is on file.

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, 2017.

RECESS

The meeting recessed at 5:45 p.m. and reconvened the following day at 8:00 a.m.

FY 2018 Real Estate Tactical Plan

TRS staff and Courtland Partners presented the FY 2018 real estate tactical plan and provided a summary of the current year initiatives and reviewed the new FY 2018 program initiatives. The plan provides a review of risk/return strategy exposure, manager exposure, performance review, property type and geographic diversification, and a portfolio pacing plan analysis. TRS has a long-term allocation target of 16.0% to real estate and has delivered returns above the long-term expectations over the last five years. A motion was made by Ann Deters, seconded by Larry Pfeiffer, that the committee recommend to the Board to accept the real estate tactical plan as presented. The motion passed by a unanimous voice vote.

Blackstone Real Estate Partners

TRS staff and Courtland Partners provided an investment opportunity to Blackstone Real Estate Partners Asia II, Limited Partnership and provided an overview of the firm and due diligence conducted. A motion was made by Marc Levine, seconded by Laura Pearl, that the committee recommend to the Board to commit \$100 million to Blackstone Real Estate Partners Asia II, L.P. contingent upon successful negotiation of legal documents. The motion passed by a unanimous voice vote.

Real Estate Asset Class Report

TRS staff received notification from Real Asset Portfolio Management, TRS's real estate co-investment consultant, that the firm had agreed to a merger with Hamilton Lane Advisors. Documentation is on file. TRS plans to execute an assignment agreement to transfer services to Hamilton. No changes are anticipated with regard to TRS's relationship with the firm.

Education

Mark Carhart of Kepos Capital provided an educational presentation on alternative risk premia. Documentation is on file.

Diversifying Strategies Tactical Plan

TRS Staff and Albourne provided an overview of the portfolio structure and outlook of the diversifying strategies tactical plan. Categories included: Alternative Risk Premia; Risk parity; Systematic and Discretionary Macro, and Opportunistic Alpha. The updated plan will focus on reducing equity-like risk of the overall TRS portfolio. Discussion followed. A motion was made by Dan Winter, seconded by Cinda Klickna, that the committee recommend to the Board to approve the diversifying strategies tactical plan as presented. The motion passed by voice vote with votes of opposition from Trustees Deters and Levine.

RECESS

The meeting recessed at 10:40 a.m. and reconvened at 10:55 a.m.

Magnetar – Diversifying Strategies

Representatives of Magnetar presented an investment opportunity to Magnetar Constellation V. Their presentation booklet is on file. TRS is currently invested in Constellation Fund IV. 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 \$200 million to Magnetar Constellation V. The motion passed by a unanimous voice vote.

FY 2018 Private Equity Tactical Plan

TRS staff and TorreyCove outlined the FY 18 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 President Smith, 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.

RECESS

The meeting recessed at 1:10 p.m. and reconvened at 1:25 p.m.

Institutional Venture Partners – Private Equity

TRS staff presented an investment opportunity to Institutional Venture Partners XVI, Limited Partnership for investment in the technology and media sectors. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by President Smith, seconded by Laura Pearl, that the committee recommend to the Board to commit \$50-75 million to Institutional Venture Partners XVI, Limited Partnership contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

NGP Energy Capital Management – Private Equity

TRS staff presented an investment opportunity to NGP Natural Resources XII, Limited Partnership for investment in the oil and gas sector. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by Andy Hirshman, seconded by Fred Peronto, that the committee recommend to the Board to commit up to \$100 million to NGP Natural Resources XII, L.P. contingent upon successful negotiation of legal documentation. The motion passed by a unanimous voice vote.

ICV Capital Partners – Private Equity/Emerging Manager Program

TRS staff presented an investment opportunity to ICV Capital Partners Fund IV, Limited Partnership for investment in the oil and gas sector. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. A motion was made by Andy Hirshman, seconded by Dan Winter, that the committee recommend to the Board to commit \$50 million to ICV Capital Partners Fund IV, L.P. contingent upon successful negotiation of legal documentation. The motion passed by voice vote with votes of opposition by Trustees Deters, Hower, Levine, Pearl, and Winters.

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ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Mark Bailey, seconded by Cinda Klickna, to adjourn the meeting at 2:00 p.m.

Richard W. Ingram
Richard W. Ingram, Executive Director

Approved: 12/14/17