



**MINUTES**  
**Meeting of the Investment Committee**  
**October 29-30, 2018**

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 29-30, 2018 at the Hyatt Regency O'Hare, 9300 Bryn Mawr, Rosemont, Illinois. Andy Hirshman, Chair, called the meeting to order at 1:09 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, John Bloomfield, Andy Hirshman, Matt Hower, Tracy Kearney, Laura Pearl, Fred Peronto, Larry Pfeiffer, Mark Shaw, Mark Splitstone, Dan Winter, Cinda Klickna, and Tony Smith. Mr. Bloomfield was appointed by the governor on October 24, 2018 to serve as a member of the TRS Board of Trustees through July 2022.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Marcy Dutton, Chief Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Deron Bertolo, Director of Investment Accounting; Stacy Smith, Director of Internal Audit; Dave Urbanek, Director of Communications; Bob Jiroutek, Risk Officer; Scottie Bevill, Sr. Investment Officer; Tammy Green, Executive Assistant; Tiffany Reeves, Reinhart (Fiduciary Counsel); Becky Gratsinger, Ian Bray, and Tony Johnson, RVK (Investment Consultant).

Visitors present: Loretta Tisdell, IEA-Retired; Bob Lyons, IRTA; Douglas Strand, IRTA; Tommy Kilbane, JP Morgan Asset Management; Marc Dietrich, Neuberger Berman; Dahlia Ronan, Kahn Swick & Foti; and Christine Williamson, Pensions & Investments.

Approval of Minutes

A draft of the August 16-17, 2018 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Matt Hower, seconded by Tony Smith, the minutes were unanimously approved by voice vote.

## **TRS PORTFOLIO**

### Investment Manager Chart

TRS staff provided final June 30, 2018 TRS investment manager charts including private equity, diversifying strategies, and real estate dashboards. Documentation is on file.

### Cashflow Summary

TRS staff provided a cash flow summary to fund the System's cash requirements. Documentation is on file.

### Investment Performance Update

RVK provided an overview of the final June 30, 2018 fiscal year end investment performance report and current pension trends. Documentation is on file. Total assets: \$51.5 billion. Documentation is on file. The total fund return, net of fees:

- 1 year: 8.45%
- 3 year: 6.9%
- 5 year: 8.3%
- 7 year: 7.8%
- 10 year: 6.8%

#### Gross of fees:

- 1 year: 9.17%
- 3 year: 7.6%
- 5 year: 9.0%
- 7 year: 8.5%
- 10 year: 6.7%

The 30-year investment return for TRS currently is 8.4% net of fees, which exceeds the System's long-term goal of 7%.

### Risk Dashboard

TRS staff and Blackrock provided a factor based investment risk summary of the portfolio. Documentation is on file.

### Global Income Annual Review

Scottie Bevill, Sr. Investment Officer, presented the annual review for the public markets portion of the Income asset class for fiscal year ending June 30, 2018 including future initiatives and recent activity. Documentation is on file. The annual plan for the private credit portion will be presented in December. A motion was made by Cinda Klickna, seconded by Mark Bailey, that the committee received the presentation of the public global fixed income annual review as presented by TRS staff. The motion passed by voice vote with a vote of opposition from Trustee Shaw. Representatives from Beach Point Capital provided an educational presentation on credit markets. Documentation is on file.

### Diversifying Strategies Portfolio / Investment Consultant

RVK presented an overview of the System's diversifying strategies/absolute return (hedge funds) portfolio, which included the goals of TRS's current diversifying strategies strategic plan. Documentation is on file. RVK noted TRS has done extremely well in this asset class relative to its peers and benchmarks. Several trustees followed up on comments from previous meetings and expressed concern about TRS's hedge fund investments. Trustee Hower proposed reducing the diversifying strategies allocation from 10 percent of the total TRS portfolio to 3 percent. Chairman Hirshman noted that since the topic of asset allocation was not on the published agenda, no action could be taken at this time.

### **RECESS**

The meeting recessed at 5:42 p.m. and reconvened the following day at 8:00 a.m.

The current diversifying strategies consulting contract with Albourne America expires in December. TRS staff posted a Request for Proposals to provide the System with investment consulting services for the diversifying strategies portfolio, interviewed four semi-finalist firms, and conducted on-site visits with Aberdeen, Albourne, Aksia, and Pavilion. Aberdeen, Albourne and Askia were selected as finalists, and the Investment Committee interviewed each of the firms. The firms' presentation booklets are on file. As part of the discussion about the diversifying strategies consultant, the Committee again debated whether to reduce the diversifying strategies allocation in the TRS portfolio as recommended by Trustee Hower. Trustee Klickna expressed concern about not following the Board's established process and timetable regarding asset allocation decisions and requested additional information on how adjusting the asset allocation at this time would affect the TRS portfolio as a whole. She noted the TRS process to review asset allocation is normally held at the Board retreat in the spring of each year and deviating from those processes and procedures is a concern. Chairman Hirshman requested

education from staff and RVK on options to change the System's asset allocation outside of the established process and to have consultants estimate how reducing the diversifying strategies allocation would affect the System's risk profile. The trustees also wanted information about where funds would be invested in the portfolio if the diversifying strategies allocation is reduced and what the timetable for those re-allocations would be. Further discussion and a formal vote on asset allocation within the portfolio, centering on the diversifying strategies, will be held at the December meeting.

A motion was made by Tony Smith, seconded by Andy Hirshman, that the committee recommend to the Board to select Aksia to provide TRS with diversifying strategies consulting services for a contract term not to exceed five years. The motion passed by voice vote with Trustee Shaw voting against and Trustee Pearl abstaining.

### Investment Activity Report

Stan Rupnik, Chief Investment Officer, provided an overview of investment actions and asset transfers for the period August 1 through October 10, 2018. Documentation is on file. There were no compliance issues for the quarter ending June 30, 2018.

### Global Income

- Committed \$125 million to Alliance Bernstein, separate account
- Committed \$100 million to LCM Capital Management, separate account
- Committed \$137.5 million to Prudential Investment Management, separate account and emerging market debt
- Committed \$100 million to Pacific Investment Management Company, real estate debt
- Committed up to \$100 million to J.P. Morgan Asset Management, global transport income fund
- Committed \$75 million to Varde Partners, private debt opportunities fund

### Diversifying Strategies

- Committed an additional allocation of \$80 million to Tilden Park Capital Management
- Terminated the mandate of ISAM Group's Systematic Trend

### Private Equity

- Committed \$75 million to A&M Capital Partners II, new manager
- Committed \$50 million to Ridgmont Equity Partners III, new manager
- Committed \$50 million to Silver Lake Alpine, special situations

### Emerald Asset Management

TRS staff disclosed that 1251 Capital acquired an ownership stake in Emerald Asset Management. TRS and RVK has no concerns and consented to the assignment of Emerald's existing Investment Management Agreement to a new legal entity. Documentation is on file.

### WMBE Utilization Report

TRS staff provided final June 30, 2018 fiscal year end data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio. Assets under management for WMBE-owned investments were \$10.347 billion, a 1.446 billion increase compared to prior fiscal year. The total TRS portfolio represents 20.09% which is 2.09% over the TRS goal of 18%. Documentation is on file.

Staff conducted the annual review of the System's WMBE utilization goals for minority brokerage and investment management and proposed the following FY 19 goals.

- Retain the existing domestic equity target utilization goal of 25%
- increase of the international equity target utilization goal from 14.5% to 16%
- increase of the fixed income target utilization goal from 15% to 16%
- increase the goal for assets under management from 18% to 19% of the total fund
- retain the existing fee goal paid to WMBE investment managers of 7.0-10.5%

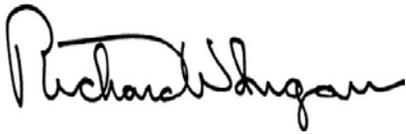
Documentation is on file. A motion was made by Mark Bailey, seconded by Cinda Klickna, that the committee recommend to the Board to approve the WMBE FY 19 utilization goals for minority brokerage managers and investment management, as presented. The motion passed by voice vote with Trustees Pearl, Kearney, and Shaw voting against.

Annual Reports – FY18

The TRS Investment Policy requires TRS staff to provide various reporting to the Board on an annual basis. The reports include equity broker commissions, securities lending, securities litigation, commission recapture, proxy voting, supplemental investment reporting, and the annual performance reviews documenting the quality of service provided by consultants and custodian. TRS consultants are RVK, TorreyCove, Albourne America, and Courtland Partners. State Street Bank & Trust Company serves as custodian. Documentation is on file.

**ADJOURNMENT**

There being no further business to come before the Investment Committee, a motion was made by Laura Pearl, seconded by Andy Hirshman, to adjourn the meeting at 12:14 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is written in a cursive style with a large initial "R".

Richard W. Ingram, Executive Director

Approved: 12/13/18