



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES

Meeting of the Investment Committee February 18-19, 2015

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on February 18-19, 2015 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street, Springfield, IL. Cynthia O'Neill, Chair, called the meeting to order at 2:40 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill, Chair; Mark Bailey, Rainy Kaplin, Cinda Klickna, Bob Lyons, Sonia Walwyn, and Sharon Leggett. Absent: Mike Busby, Vice Chair and Chris Koch, President.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Ken Musick, Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Kirk Sims, Investment Officer; Bob Jiroutek, Risk Manager; Dakin Sanert, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Investment Officer; Stefan Backus, Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor, Christina Baker, Internal Auditor; Kathleen Farney, Director of Research; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Director of Communications; Gina Larkin, Director of Human Resources; Tammy Green, Asst. to Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, Tony Johnson, and Marcia Beard, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Steve Novick, Jarrod Rapalje, and Jacqueline Smith, Courtland Partners (Real Estate Consultant).

Visitors present: Dennis Murfin, IRTA; Don Davis, IRTA; Kelley Gallagher, BNY Mellon; and Christine Williamson, Pensions & Investments.

APPROVAL OF MINUTES

A draft of the December 10-11, 2014 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Rainy Kaplan, and by unanimous voice vote, the minutes were approved as printed.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Chief Investment Officer, provided an organizational chart of TRS's investment managers as of December 31, 2014. Documentation is on file. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. In addition, the committee received a chart detailing the System's largest manager relationships.

Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review

RV Kuhns provided an update of the investment performance for the quarter ending December 31, 2014. Total assets: \$44.7 billion. Documentation is on file. The total fund return, gross of fees:

- 1 year: 7.7%
- 3 years: 12.7%
- 5 years: 10.8%
- 10 years: 6.8%

The total fund return, net of fees:

- 1 year: 7.1%
- 3 years: 12.0%
- 5 years: 10.1%
- 10 years: 6.5%

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended December 31, 2014. Franklin Templeton and PIMCO's Global Multi-Asset and Multi-Asset Volatility, Global Inflation Linked Bonds, and core plus, Unconstrained strategies remain on watch due to organizational concerns. Staff recommended that Herndon Capital Management (domestic equity) be added to the watch list due to performance. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

W/MBE Utilization Report

Kirk Sims, Investment Officer, provided preliminary data on the participation of minority and female-owned brokers/dealers and investment managers within the TRS investment portfolio through December 31, 2014. Assets under management for WMBE-owned investments were \$7.20 billion, representing 16.09% of the total TRS portfolio. The percentage of the total fund managed by WMBE firms exceeded the 15% FY 15 target due to the upsizing of several mandates. Documentation is on file.

The System's annual Opportunity Forum is March 31, 2015 at the Doubletree Abraham Lincoln hotel in Springfield.

RECESS

The meeting recessed at 3:42 p.m. and reconvened at 3:57 p.m.

NEW BUSINESS

RRJ Capital – Private Equity

Representatives of RRJ Capital presented a new investment opportunity in the firm's RRJ Capital Master Fund III, Limited Partnership for international investment opportunities. This investment represents a new relationship to the TRS private equity portfolio. Staff provided an overview of the firm and due diligence that was conducted. Their presentation booklet is on file. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to commit \$75 million to RRJ Capital

Master Fund III, L.P., subject to successful completion of legal documents. The motion passed by a unanimous voice vote.

Institutional Venture Partners – Private Equity

Representatives of Union Grove presented an investment opportunity to Institutional Venture Partners XV, Limited Partnership for private equity investment opportunities. Their presentation booklet is on file. Staff and TorreyCove provided an overview of the firm and preliminary due diligence that was conducted noting that the full due diligence process was not possible to complete prior to the meeting deadline. A motion was made by Cinda Klickna, seconded by Sharon Leggett, that the committee recommend to the Board to commit up to \$50 million to Institutional Venture Partners XV, L.P. upon the satisfactory completion of due diligence, legal review, and final approval by Chair of Investments. The motion passed by a unanimous voice vote.

Lone Star – Real Estate

Staff and Courtland Partners presented an investment opportunity to Lone Star Real Estate Fund IV, Limited Partnership for real estate investment opportunities. Their presentation booklet is on file. TRS is currently an investor in Lone Star Real Estate Fund III. Staff and Courtland Partners provided an overview of the firm and preliminary due diligence that was conducted. A motion was made by Rainy Kaplan, seconded by Sonia Walwyn, that the committee recommend to the Board to commit up to \$300 million to Lone Star Real Estate Fund IV, L.P. subject to successful completion of due diligence, legal review, and final approval by Chair of Investment Committee. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 5:43 p.m. and reconvened the following day at 8:08 a.m.

Monroe Capital - Fixed Income

Representatives of Monroe Capital presented an investment opportunity in the firm's new fund Monroe Capital Private Credit Fund II, Limited Partnership for private credit investment opportunities. Their presentation booklet is on file. Staff provided an overview of the firm and preliminary

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 \$50 million to Monroe Capital Private Credit Fund II, L.P. upon the satisfactory completion of due diligence and legal review. The motion passed by a unanimous voice vote.

Staff recommended several modifications to existing mandates within the Short-term Asset Reserves (STARS) composite. Documentation is on file. A motion was made by Sonia Walwyn, seconded by Mark Bailey, that the committee recommend to the Board to approve the recommended changes within the STARS composite: Revise the Taplin, Canida & Habacht mandate to a hybrid 70% Barclays 1-3 year maturity and 30% Barclays floating rate benchmark; maintain the Garcia Hamilton floating rate mandate and increase the target size; relax the duration constraint within STARS from a maximum of 1.5 years to 2.0 years; and reduce to zero the State Street STIF account. The motion passed by a unanimous voice vote.

Real Estate Insurance Risk Consultant

The current real estate consulting contract with Risk Resources expires in June 2015. Staff reviewed the services performed by Risk Resources and discussed transferring those services to Tave Risk Management based on the expertise of Tave and potential cost savings. Staff will monitor the transition and request approval for an RFP if necessary. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee recommend to the Board allow the insurance consulting contract with Risk Resources to expire on June 30, 2015, and expand the services to be performed by Tave Risk Management at a cost of \$15,000 per year starting on July 1, 2015. The motion passed by a unanimous voice vote.

Carlyle Japan Partners – Private Equity

Representatives of Carlyle Japan Partners presented an investment opportunity to Carlyle Japan Partners III, Limited Partnership. Their presentation booklet is on file. Staff and TorreyCove provided an overview of the firm and due diligence that was conducted. Discussion followed regarding TorreyCove's concerns. Given the consultant's concerns, staff reduced its proposed commitment amount. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to commit ¥3.5 billion to Carlyle Japan Partners III, L.P. The motion passed by voice vote. A vote of opposition was heard by Trustee Bailey.

RECESS

The meeting recessed at 10:30 a.m. and reconvened at 10:40 a.m.

New Enterprise Associates – Private Equity

Representatives of New Enterprise Associates presented an investment opportunity in New Enterprise Associates 15, Limited Partnership. Their presentation booklet is on file. Staff and TorreyCove provided an overview of the firm and preliminary due diligence that was conducted. A motion was made by Sonia Walwyn, seconded by Mark Bailey, that the committee recommend to the Board to commit up to \$50 million to New Enterprise Associates 15, L.P., subject to successful completion of legal documents. The motion passed by a unanimous voice vote.

Quadratic Capital Management – Absolute Return/Emerging Manager

The committee interviewed Quadratic Capital Management to fill an allocation within the System's Emerging Manager Program. Their presentation booklet is on file. Staff provided an overview of the firm and preliminary due diligence that was conducted. Staff recommended an initial commitment of \$50 million with the potential for additional commitments up to \$100 million for investment opportunities in absolute return strategies. A motion was made by Sonia Walwyn, seconded by Bob Lyons, that the committee recommend to the Board to commit up to \$100 million to Quadratic Capital Management within the System's Emerging Manager Program. Initial funding will be \$50 million, scalable to the full \$100 million with Chair approval. The recommendation is subject to completion of satisfactory due diligence by TRS staff and the absolute return strategies consultant. The motion passed by a unanimous voice vote.

Blackstone – Real Estate

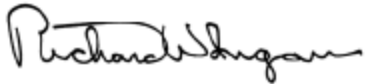
Representatives of The Blackstone Group presented a reinvestment opportunity within the System's real estate program. Their presentation booklet is on file. Staff recommended a commitment to Blackstone Real Estate Partners III, Limited Partnership. Staff and Courtland Partners provided an overview of the firm and due diligence that was conducted. A motion was made by Bob Lyons, seconded by Rainy Kaplam, that the committee recommend to the Board to commit \$300 million to Blackstone

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Real Estate Partners VIII, L.P. upon successful completion of legal documents. 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 Sonia Walwyn, seconded by Mark Bailey, to adjourn the meeting at 12:20 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with the first name "Richard" being the most prominent.

Richard W. Ingram, Executive Director

Approved 3/31/15