



MINUTES
Meeting of the Investment Committee
October 28-29, 2015

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 28-29, 2015 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Mike Busby, Chair, called the meeting to order at 1:32 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mike Busby (Chair), Bob Lyons (Vice Chair), Mark Bailey, Andy Hirshman, Rainy Kaplan, Cinda Klickna, Sandy Stuart, Dan Winter, and Tony Smith, President. Absent: Sonia Walwyn

Others present: Dick Ingram, Executive Director; Cynthia Fain, Sr. Assistant General Counsel; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Jana Bergschneider, Chief Financial Officer; Deron Bertolo, Director of Investment Accounting; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Tim Hays, Sr. Investment Officer (10/29); Ken Musick, Sr. Investment Officer; Bill Thomas, Investment Officer; Stefan Backus, Investment Officer; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst (10/29); Brennan Basnicki, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Kirk Sims, Investment Analyst; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Bob Jiroutek, Risk Officer; Sally Soderberg, Chief Benefits Officer; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Kathleen Farney, Director of Research; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, RV Kuhns (Investment Consultant); Courtland Partners (10/29) (Real Estate Consultant); Mike Krems, TorreyCove (Private Equity Consultant); Ron Mayer and David Tatkow, Albourne Partners (10/29), (Hedge Fund Consultant)

Visitors present: Christine Williamson, Pensions & Investments; Angela Myers, Loop Capital; Bob Kaplan; Dennis Murfin, IRTA; Don Davis, IRTA; Ed Wollet, IRTA; Janet Kilgus IEA-R; and Tony Casalino (10/29), IFT.

No Public Comment.

APPROVAL OF MINUTES

A draft of the August 12-13, 2015 minutes of the Investment Committee meeting was sent to the committee for review. On a motion by Bob Lyons, 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 for fiscal year end June 30, 2015. Documentation is on file.

Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements during the remainder of fiscal year 2016. Documentation is on file. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to withdraw up to 1.5 percent of the total fund's value, or \$662.8 million based on the August 31, 2015 ending market value. The motion passed by a unanimous voice vote. Further withdrawals from the fund may be necessary to meet TRS's cash obligations if state contribution payments for FY 2016 are delayed by the Comptroller's office or if monthly contribution payments are smaller than expected. A discussion was held on the impact of the prolonged state budget impasse.

RFP Update

Due diligence continues in the currency management search and results will be reported at the December meeting.

Staff recommendation relating to the search for co-investment advisory services will be made at the December meeting.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – June 30, 2015

RV Kuhns provided an overview of the final June 30, 2015 fiscal year end investment performance report noting a positive 4.57% rate of return, gross of fees, during FY 15. Total assets: \$46 billion. Documentation is on file. The June 30, 2015 total fund return, gross of fees:

- 1 year: 4.6%
- 3 years: 11.9%
- 5 years: 12.0%
- 10 years: 7.2%
- 20 years: 8.6%

The funded ratio declined from 44.2% (FY 14 market value) to 42.9%. The unfunded liability increased over the year from \$61.5 billion to 62.7 billion at the end of FY 15. The 30-year TRS return was 9.1%, net of fees, exceeding the long-term goal of 7.5%.

Watch List

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2015. Aberdeen (international equity) remains on watch due to performance concerns. Staff recommended adding Boston Company Asset Management (domestic equity) to the watch list due to performance. A motion was made by Mark Bailey, 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.

Herndon Capital Management – Termination

Staff requested ratifying the decision to terminate Herndon Capital Management's large cap core strategy due to performance. A motion was made by Sandy Stuart, seconded by Bob Lyons, that the committee recommend to the Board to ratify the termination of Herndon's 3.0% domestic equity large cap core mandate. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 2:43 p.m. and reconvened at 3:58 p.m.

WMBE Utilization Report

Staff provided final June 30, 2015 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 \$7.93 billion, a \$1.35 billion increase compared to FY 14. The total TRS portfolio represents 17.24% which is 2.24% over the TRS goal of 15%. Documentation is on file.

Staff conducted the annual review of the System's WMBE utilization goals for minority brokerage and investment management and proposed an increase in the domestic equity asset class broker/dealer utilization goal from 19% to 20%, an increase in the international equity asset class broker/dealer utilization goal from 12.5% to 13.5%, and to retain the existing goal of 15% for fixed income. Additionally, staff proposed increasing the goal for assets under management from 15% to 16% of the total fund for FY 16. Staff plans to maintain the goal of 5.5-9.0% of fees paid to WMBE investment managers during FY 16. Documentation is on file. A motion was made by Bob Lyons, seconded by Mark Bailey, that the committee recommend to the Board to approve the WMBE FY 16 goals, as presented. The motion passed by a unanimous voice vote.

Fixed Income and Real Return Reports and Annual Reviews

Scottie Bevill, Sr. Investment Officer, provided the annual review of the global fixed income and real return portfolios. A report was submitted on the recently completed investment manager annual reviews along with a summary of recommendations. The committee received an outline of the global fixed income special situations tactical plan for FY 16-17. A motion was made by Tony Smith, seconded by Rainy Kaplan, that the committee recommend to the Board to approve the recommendations within the fixed income/real return asset class, as presented. The motion passed by a unanimous voice vote.

- Accept the changes to the global fixed income asset class structure, as presented.
- Approve the global fixed income special situations tactical plan for FY 16-17, as presented.
- Approve the addition of Prudential's Global Relative Value strategy within the existing Prudential global fixed income mandate. The initial target will be 10% of the overall

Prudential mandate, or approximately \$50 million of the approximate \$700 million assigned for Prudential's long term target. The target to the strategy is expected to change over time.

- Allocate an additional \$50 million to Taurus Metals and Mining Finance, increasing the total commitment to \$80 million.

Private Equity Review

Staff reported on the recent activity within the private equity portfolio and requested ratification of a co-investment with Stone Point Capital alongside Trident VI, Limited Partnership.

Staff provided notification that the co-investment with New Mountain Partners IV, L.P. was approved by the Investment Committee Chair but staff became aware that TRS was required to grant indemnification in the contract, which is prohibited by Illinois law. TRS will not be a co-investor in the transaction due to unsatisfactory legal review.

Staff provided the annual review of stock distribution management performance and recommended a change to the distribution process for a more efficient approach to future liquidations. Since inception, the program has realized a slight loss of -1.1%. A motion was made by Andy Hirshman, seconded by Sandy Stuart, that the committee recommend to the Board to approve the recommendations within the private equity asset class, as presented. The motion passed by a unanimous voice vote.

- Ratify the commitment of up to \$30 million in a co-investment with Stone Point Capital alongside Trident VI, L.P.
- Allow staff to utilize the System's pool of transition managers in liquidating stock distributions from private equity funds and co-investments. The move would end the current contract with JPMorgan as of December 1, 2015.

Madison Dearborn – Private Equity

At the August meeting, the Investment Committee deferred a commitment to Madison Dearborn Capital Partners VII, Limited Partnership. As requested, staff and TorreyCove provided a summary of the leverage profile utilized by

Madison Dearborn in its transactions. A motion was made by Bob Lyons, seconded by Tony Smith, that the committee recommend to the Board to commit \$75 million to Madison Dearborn Capital Partners VII, L.P. The motion passed by voice vote. Votes of opposition were heard from Trustees Hirshman, Kaplan, and Bailey.

Annual Reports – FY15

Deron Bertolo, Director of Investment Accounting, presented the standard annual reports for fiscal year 2015. The reports include equity broker commissions, commission recapture, securities lending, bankruptcy and securities litigation, proxy voting, and the annual performance reviews documenting the quality of service provided by consultants and custodian. TRS consultants are RV Kuhns and Associates, TorreyCove Capital Partners, and Albourne America. State Street Bank & Trust Company serves as custodian.

RECESS

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

Investment Education

Bridgewater provided an educational presentation on currency. Documentation is on file.

Riverstone

Representatives of Riverstone provided an investment opportunity in Riverstone Credit Partners, Limited Partnership for investment in energy related companies. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Sandy Stuart, seconded by Andy Hirshman, that the committee recommend to the Board to commit \$50 million (with potential for future co-investment consideration) to Riverstone Credit Partners, L.P. within the global fixed income special situations allocation, subject to successful completion of legal documentation. The motion passed by unanimous voice vote.

RECESS

The meeting recessed at 9:55 a.m. and reconvened at 10:03 a.m.

Absolute Return Asset Class Report

Ken Musick, Sr. Investment Officer, provided an annual review of the diversifying strategies program and proposed several recommendations for consideration. The diversifying strategies program is a combination of the existing Absolute Return Strategies (ARS) and Global Macro Strategies (GMS) programs.

- Increase Alphadyne Global Rates as additional capacity becomes available
- Modify AQR Global Risk Premium Tactical Fund to allow for additional style premia components
- Increase Bridgewater Pure Alpha as additional capacity becomes available
- Decrease Grosvenor Monarch to \$300 million
- Potential restructure of the PIMCO Global Multi-Asset Strategy mandate to focus more on style premia exposure
- Decrease/Restructure the Pine River Fund mandate
- Increase Tourbillon Global Master Fund mandate
- Increase Varadero Capital mandate as additional capacity becomes available

Mr. Musick provided a summary of the fiscal year 2016 diversifying strategies program tactical plan. Key components include:

- Work towards the 16% long-term target for the diversifying strategies asset class
- Continue the reduction and/or liquidation of the fund of funds portfolios.
- Continue refining the framework of how convergent, convex and risk parity strategies can more cohesively be structured in the overall TRS portfolio.
- Enhance monitoring and risk management within the asset class and total fund.

AQR Capital Management – Absolute Return

Representatives of AQR Capital Management presented an investment opportunity to AQR's Style Premia Fund (SPF). Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted including a report from Albourne. A motion was made by Rainy Kaplan, seconded by Bob Lyons, that the committee recommend to the Board to modify the existing AQR Global Risk Parity Tactical (GPRT) account to include the AQR Style Premia Fund, subject to final completion of contract negotiations. The modification will allocate equal risk to GRPT and SPF.

There is no change to the mandate target to the AQR relationship. The motion passed by unanimous voice vote.

Penso Advisors – Absolute Return

Representatives of Penso presented an investment opportunity to Penso Advisors' high-convexity global macro opportunities strategy. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted including a report from Albourne. A motion was made by Sandy Stuart, seconded by Tony Smith, that the committee recommend to the Board to commit up to 8% of the System's absolute return asset class to Penso Advisors subject to final contract negotiations. Initial funding is anticipated to be \$100 million. The motion passed by unanimous voice vote.

RECESS

The meeting recessed at 12:20 p.m. and reconvened at 1:08 p.m.
(President Smith departs)

Scale Venture Partners - Private Equity

Representatives of Scale provided an investment opportunity in Scale Venture Partners V, Limited Partnership for investment in technology. Their presentation booklet is on file. Staff provided an overview of the due diligence that was conducted. A motion was made by Mark Bailey, seconded by Andy Hirshman, that the committee recommend to the Board to commit up to \$30 million to Scale Venture Partners V, L.P. The motion passed by unanimous voice vote.

Westbrook Partners – Real Estate

Representatives of Westbrook Partners provided an investment opportunity in Westbrook Real Estate Fund X, Limited Partnership for investment in value-add strategies across property types in the US, Europe, and Japan. Their presentation booklet is on file. Staff and Courtland Partners provided an overview of the due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Rainy Kaplan, that the committee recommend to the Board to commit \$100 million, plus a 10% fund for reserve and management fees, to Westbrook Real Estate Fund X, L.P. subject to

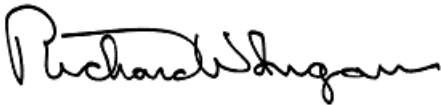
successful completion of legal review. The motion passed by unanimous voice vote.

TRUSTEE CONCERNS

Trustee Klickna initiated a discussion about a new U.S. Department of Labor rulemaking concerning changes to the fiduciary duty of retirement plan trustees. One issue is whether retirement plan trustees can or should modify the fiduciary duty rules to include added due diligence on potential investment managers. Director Ingram stated that staff will study the Department of Labor ruling and report at the next meeting. Further discussion was held regarding the proposed commitment to Madison Dearborn.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Sandy Stuart, seconded by Bob Lyons, to adjourn the meeting at 2:43 p.m.



Richard W. Ingram, Executive Director

Approved: 12/9/15