



News

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TRS Hires Alternative Investment Managers, Retains Private Equity Advisor

SPRINGFIELD, IL-The \$39.7 billion Teachers' Retirement System of the State of Illinois (TRS) has awarded initial allocations to the absolute return and real return asset classes, which were added to the System's investment portfolio in December. The TRS Board of Trustees selected real return managers **AQR Capital Management** and **Bridgewater Associates, Inc.** **AQR Capital Management** was awarded a \$250 million mandate, while **Bridgewater Associates** will manage a \$500 million mandate. **PIMCO** was hired to manage \$400 million in global inflation linked bonds.

Additionally, the Board hired absolute return fund of fund managers **K2 Advisors** and **Grosvenor Capital Management** to each manage \$250 million mandates. Source of funds for all the mandates will be cash, passive/enhanced index accounts and the rebalancing of other active public managers. TRS will take up to three years to fully fund the target allocations, which stand at 2.5 percent of the total fund for absolute return and at 10.0 percent of the total fund for real return investments.

"These managers will carefully select a diverse array of products within these new asset classes, which are designed to achieve enhanced returns and minimize overall investment risk," said TRS Executive Director Jon Bauman. "TRS will employ risk controls and consistent monitoring in order to provide the necessary oversight of these new investments." TRS earned an annualized investment return of 12.7 percent as of March 31. The System earned 12.2 percent for the three-year period, 11.0 percent for the five-year period, and 9.8 percent over 10 years.

In private equity, the Board voted to retain **PCG Asset Management** as TRS's private equity consultant. PCG was initially hired in May of 2006. Subsequent staff departures from the firm prompted TRS to issue a request for proposal for a private equity consultant in December. "TRS has confidence in PCG's new corporate structure, its research capabilities, and the expertise of its investment professionals," said TRS Chief Investment Officer Stan Rupnik. "TRS has developed a strong, professional relationship with PCG and we are pleased to continue the relationship with the organization," said Rupnik.

In addition, the Board of Trustees made \$425 million in private equity commitments. Source of funds for all the commitments, listed below, is cash and passive/enhanced index accounts.

- \$200 million to **Carlyle Partners V, L.P.**, a buyout fund
- \$100 million to **MatlinPatterson Global Opportunity Partners III, L.P.**, a distressed debt fund
- \$100 million to **New Mountain Partners III, L.P.**, a buyout fund
- \$25 million to **Evergreen Partners V, L.P.**, a venture capital fund

TRS had \$1.5 billion invested in private equity as of March 31, or nearly 4.0 percent of the total portfolio.

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The TRS Board of Trustees also adopted the second phases of structure studies completed for the System's domestic and international equity portfolios, which resulted in the terminations of the following asset managers:

- **Byram Capital**, which managed \$221 million in small cap value domestic equity for TRS
- **Delaware Investments**, which managed \$387 million in small to mid cap growth domestic equity for TRS
- **Voyageur Asset Management**, which managed \$800 million in large cap growth domestic equity for TRS
- **Harris Associates**, which managed \$618 million in international equity for TRS
- **INVESCO**, which managed \$1.2 billion in international equity for TRS
- **Pyramis Global Advisors**, which managed \$1.2 billion in international equity for TRS

The TRS Board of Trustees voted to terminate the following asset manager from the watch list:

- **ROBECO Weiss, Peck & Greer**, which managed \$885 million in fixed income core plus for TRS, was terminated for organizational reasons

The TRS Board of Trustees placed the following manager on the watch list:

- **Mazama**, which manages \$410 million in small/mid cap growth domestic equity mandate for TRS, was placed on the watch list for performance reasons

The Board maintained the watch list status for the following firms:

- **LSV Asset Management** was kept on the watch list for performance reasons. The firm manages an \$817 million small/mid value domestic equity mandate
- **Mazama**, which manages \$121 million in small cap growth domestic equity for TRS, remains on the watch list for performance reasons
- **PIMCO StocksPlus** was retained on the watch list for performance reasons. The firm manages \$1 billion in U.S. equity enhanced index for TRS

In real estate, TRS made the following commitments listed below. Source of funds for all the commitments is cash and passive/enhanced index accounts:

- \$100 million to **Beacon Capital Partners V, L.P.**, an opportunistic fund specializing in the investment of office property
- \$50 million to **Blackstone Real Estate Partners VI, L.P.**, a specialty fund diversified by property type
- \$100 million to **Lion Industrial Trust**, a core fund focused on industrial property. TRS has already committed \$100 million to this fund

In other business, TRS hired **Piedmont Investment Advisors** to manage a \$25 million enhanced index mandate as part of the System's \$500 million emerging managers program. To date, the System has committed \$180 million to the program.

The Board also voted to issue a request for proposal (RFP) for prime brokerage services related to the newly authorized 130/30 investment strategy. The RFP will be posted on the TRS Web site by June 15, 2007.

The Teachers' Retirement System provides retirement, disability, and death benefits to teachers and administrators employed at Illinois public elementary and secondary schools located outside the city of Chicago. TRS serves 326,000 members and annuitants.