



Teachers' Retirement System of the State of Illinois

MINUTES Meeting of the Investment Committee August 12-13, 2009

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on August 12-13, 2009 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 11:20 a.m. A quorum was present.

- Present: **Board Members:**
Cynthia O'Neill, Chair
Cinda Klickna, Vice Chair
Matt Berns
Jan Cleveland
Sharon Leggett
Bob Lyons
Sid Marder
Janice Reedus
Sonia Walwyn
Molly Phalen, Vice President
Christopher Koch, President (arrived 12:30 p.m. 8/13)
- Absent: Christopher Koch, President (8/12)
Mike Busby
Livia Kiser

TRS Staff:

Stan Rupnik, CIO & Acting Exec. Director
Tom Gray, General Counsel
Cynthia Fain, Sr. Assistant General Counsel
Jana Bergschneider, Director of Admin.
Sally Sherman, Director of Member Services
Gina Larkin, Director of Human Resources
Sue Billington, Executive Assistant
Tassi Maton, Director of Invest. Operations
Bill Thomas, Sr. Investment Analyst
Scottie Bevill, Sr. Investment Officer
Dakin Sanert, Investment Analyst

Kathleen Farney, Director of Research
Rich Frankenfeld, Director of Outreach
Stacy Smith, Director of Internal Audit
Ed Mabie, IS Officer
Eva Goltermann, Director of Public Info.
Tammy Green, Asst. to the Exec. Director
Dan Perusich, Intern
Greg Turk, Director of Investments
Mike Bartletti, Director of Real Estate
Tim Hays, Investment Officer
Chuck Handy, Investment Officer

Counsel:

Pat O'Hara, Cavanagh & O'Hara
Ty Fahner, Mayer Brown

Consultants/Custodian:

Becky Gratsinger, RV Kuhns
Marcia Beard, RV Kuhns
Mark Shafer, State Street

Visitors:

Angela Myers, Loop Capital
Shirley Dodds, IRTA Rep.
Dennis Murfin, IRTA Rep.
Christine Williamson, Pensions & Investments
Harry Bailey, Cheevers & Co.

APPROVAL OF MINUTES

A draft of the minutes from the May 20-21, 2009 Investment Committee meeting was sent to the committee for review. On a motion by Bob Lyons, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

Acting Director Rupnik noted that the contract with RV Kuhns, the System's general investment consultant, expired on June 30, 2009.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Acting Executive Director/Chief Investment Officer, provided a preliminary chart of TRS's public markets investment managers as of June 30, 2009. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. Documentation is on file.

Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the committee recommend to the Board to authorize a withdrawal of up to two percent of the main TRS trust fund to cover the System's cash requirements. The motion passed by a unanimous voice vote.

Manager Search Update

The System has no active searches within the public markets and real return asset classes. Documentation is on file.

RFP Updates

The RFP for a general investment consultant closed on July 14, 2009. The RFP for a real estate consultant will be issued upon the selection of a general investment consultant.

Iran Divestment Update

Staff sent letters to six companies on the scrutinized list to determine their business relationships within the Iran energy sector. Staff noted only two responses were received. Staff recommended the removal of Petrobras (Brazil) from the list. Documentation is on file. Absent a detailed and justifiable response, a motion was made by Sharon Leggett, seconded by Cinda Klickna, that committee recommend to the Board to approve the updated list of scrutinized companies, as revised. The motion passed by a unanimous voice vote.

Custodian Transition Update

Staff reported that Northern Trust “froze” the Short Term Extendable Portfolio (STEP) cash investment vehicle due to market events. Currently, Northern Trust is overseeing the STEP fund. The System is not paying management or custody fees to Northern Trust on the frozen fund. Staff recommended that securities be transferred to existing fixed income managers. A motion was made by Cinda Klickna, seconded by Sid Marder, that committee recommend to the Board to approve the in-kind redemption of the Northern Trust STEP fund, as presented. The motion passed by a unanimous voice vote.

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – June 30, 2009

Stan Rupnik provided preliminary data of the investment performance for the quarter ended June 30, 2009. Documentation is on file.

EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by Matt Berns, that the Investment Committee enter into executive session for the purpose of discussing

the sale or purchase of securities, investments, or investment contracts under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (7). Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O’Neill, Phalen, Reedus, and Walwyn. Motion CARRIED.

No action was taken during executive session. A motion was made by Sonia Walwyn, seconded by Sharon Leggett, that the Investment Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O’Neill, Phalen, Reedus, and Walwyn. Motion CARRIED.

RECESS

The meeting recessed at 11:55 a.m. and reconvened at 2:22 p.m.

Watch List – June 30, 2009

Staff recommended the placement of Emerald Advisers (domestic equity) and EARNEST Partners (fixed income) to the watch list for performance reasons. Additionally, Barclays Global Investors (domestic equity) was placed on watch for performance and organizational reasons. Dodge & Cox (domestic equity); EARNEST Partners (domestic equity); AQR (domestic equity); Goldman Sachs (fixed income); Mazama Capital Management (domestic equity); McKinley Capital (international equity); PIMCO StocksPlus (domestic equity); Taplin, Canida & Habacht (fixed income); Trilogy Global Advisors (international equity); and Turner Investments (domestic equity) were retained on watch. Staff recommended the removal of LSV’s SMID value portfolio from the watch list due to positive performance for the three year period. A motion was made by Jan Cleveland, seconded by Sharon Leggett, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

MBE/WBE Utilization Report

Staff provided preliminary data regarding the participation of minority- and female-owned investment managers and broker/dealers within the TRS investment portfolio through June 30, 2009. Documentation is on file.

Transition Summaries

Staff reported on several transitions within the public markets asset classes.

Domestic Equity Search

Staff requested a search for an active domestic equity large cap value manager based on an open allocation from a previous reduction to the Dodge & Cox mandate and the potential to improve portfolio diversification. A motion was made by Bob Lyons, seconded by Janice Reedus, that the committee recommend to the Board to authorize a search for a domestic equity large cap value manager. The motion passed by a unanimous voice vote.

POB Account Manager Structure

Staff recommended a change in the investment philosophy with regard to the POB account from the current mirroring strategy to a strategy focused on utilization of more diversified portfolios in the POB account. Further recommendations will be made as necessary. A motion was made by Cinda Klickna, seconded by Janice Reedus, that the committee recommend to the Board to approve the investment policy change in regards to the POB account. The motion passed by a unanimous voice vote.

POB Policy Benchmark

The Board adopted a new interim asset allocation and policy benchmark at the June meeting. Staff noted that the formal resolution did not specify main fund or POB account. Staff requested clarification on adopting the interim targets for the POB account as well. A motion was made by Matt Berns, seconded by Sid Marder, that the committee recommend to the Board to adopt the same targets as the main fund to the POB account effective 7/1/09. The motion passed by a unanimous voice vote.

Fixed Income and Real Return Annual Reviews

Scottie Bevill, Sr. Investment Officer, presented the results of the investment manager reviews in the fixed income and real return asset classes. Documentation is on file. In accordance with the TRS Investment Policy, staff performs annual reviews with all external managers. Staff provided preliminary June 30, 2009 performance for the fixed income and real return asset classes. Staff recommended a search for an additional global macro manager within the real return asset class and recommended the elimination of two POB accounts within the global inflation-linked bond sub-asset class. Within fixed income, staff recommended eliminating and transferring the POB accounts of EARNEST Partners, Dolan McEniry, and the State of Israel note to the main fund, and reassigning the “frozen” assets from Northern Trust’s STEP fund to existing managers. A motion was made by Bob Lyons, seconded by Sharon Leggett that

the committee recommends to the Board to adopt the proposed changes as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 4:10 p.m. and reconvened at 4:20 p.m.

Real Estate Appraisal Services RFP

The RFP for real estate appraisal services was issued June 17, 2009. Currently, the System has three firms under contract. Staff recommended 67 assignments to CB Richard Ellis Valuation and Advisory Services and 31 assignments to US Realty Consultants to conduct appraisals of separate account properties owned by TRS. A motion was made by Sid Marder, seconded by Cinda Klickna, that the committee recommend to the Board to approve the assignments to CBRE and USRC. The motion passed by a unanimous voice vote.

Real Estate Strategic & Tactical Plans

Staff presented a revised real estate strategic plan and the tactical plan for fiscal year 2010. Further, staff recommended a new allocation to Koll Bren Schreiber. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to approve the revised real estate strategic plan and FY 2010 tactical plan, as presented and provide an additional allocation to KBS not to exceed \$60 million. The motion passed by a unanimous voice vote.

Real Estate IMA Revision

Staff recommended changes to the real estate investment management agreement. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to approve the revisions and riders to the IMA and the Policy & Procedures, as presented. The motion passed by a unanimous voice vote.

General Obligation Bond Proceeds – FY2010

Staff presented an investment implementation plan with regards to the proceeds expected from the State's issuance of general obligation bonds. Proceeds are expected in September and/or October, with the amount used to fully fund the System's fiscal year 2010 contribution. The investment plan is preliminary in nature and will be refined based on the fund's actual asset allocation at the time of receipt. A motion was made by Matt Berns, seconded by Sid Marder, that the committee recommend to the Board to adopt an investment strategy for general

obligation bond proceeds, as presented. Further, to authorize a withdrawal of these bond proceeds for the purposes of fulfilling the System's cash needs. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 6:00 p.m. and reconvened the following day at 8:00 a.m.

NEW BUSINESS

Lasair Capital

The committee interviewed Lasair Capital as a candidate to fill an allocation within the System's Emerging Manager Program. Their presentation book is on file. Staff provided an overview of the search process and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Sharon Leggett, that the committee recommend to the Board to invest \$25 million in Lasair Capital's multi-manager equity long/short strategy within the Emerging Managers Program. The motion passed by voice vote.

General Investment Consultant RFP

Public Act 96-0006 restricts Illinois pension systems from hiring an investment consultant without an RFP and bans the systems from renewing or extending existing consulting contracts without an RFP. The contract with RV Kuhns expired on June 30, 2009.

The committee interviewed Ennus Knupp and RV Kuhns as finalists to consider in the search for the System's general investment consultant. Their presentation booklets are on file. Following discussion, a motion was made by Sid Marder, seconded by Cinda Klickna, that the committee recommend to the Board to retain RV Kuhns as the System's general investment consultant. 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 Molly Phalen, seconded by Jan Cleveland, to adjourn the meeting at 1:03 p.m.

Stan Rupnik, Acting Executive Director

Approved _____