



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

R. Stanley Rupnik, Acting Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES Meeting of the Investment Committee October 27-29, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on October 27-28, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 2:08 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder, Janice Reedus, Sonia Walwyn (phone), and Molly Phalen. Absent: Marcia Boone, Livia Kiser, Chris Koch, President. A motion was made by Sid Marder, seconded by Bob Lyons, to allow Trustee Walwyn to participate by phone. Motion passed by unanimous voice vote.

Others present: Stan Rupnik, Acting Exec. Director & CIO; Greg Turk, Director of Investments; Mike Bartletti, Director of Real Estate; Deron Bertolo, Director of Investment Operations; Kent Custer, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Zak Doehla, Investment Officer; Chuck Handy, Investment Officer; Jerry Quandt, Sr. Investment Analyst; Bill Thomas, Sr. Investment Analyst; Bob Jiroutek, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Kenyatta Matheny, Investment Officer; Sally Sherman, Director of Member Services; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Gina Larkin, Director of Human Resources; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John Long, Cavanagh & O'Hara (Fiduciary Counsel); Sean Ealy and Marcia Beard, RV Kuhns (Investment Consultant); Patrick Donohue, State Street (Custodian); and Avery Robinson, Callan Associates (Real Estate Consultant).

Visitors present: Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Patricia Brink, IRTA Rep.; Dennis Murfin, IRTA Rep.; Jack Tucker, IEA-R; Angela Myers, Loop Capital; and Harry Bailey, Cheevers & Company (10/28).

APPROVAL OF MINUTES

A draft of minutes from the August 4-5, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Jan Cleveland, seconded by Bob Lyons, and by unanimous voice vote, the minutes were approved as printed.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Acting Executive Director/Chief Investment Officer, provided the final organizational chart of TRS's public markets investment managers as of June 30, 2010 along with a preliminary chart of public markets managers as of September 30, 2010. 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. Further withdrawals will be necessary to meet TRS's cash obligations if monthly state contributions are not received. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the committee recommend to the Board to withdraw up to 2.0 percent of the main TRS trust fund's total value, or \$544.3 million based on the 6/30/10 ending market value. The motion passed by a unanimous voice vote. Documentation is on file.

STAFF/CONSULTANT PRESENTATIONS

MBE/WBE Utilization Report

Stan Rupnik presented the June 30, 2010 report on women/minority-owned brokers and investment managers. Assets under management for WMBE-owned investments were \$3.8 billion through June 30, 2010, representing 12.15% of the total TRS portfolio. Documentation is on file.

Staff recommended that the utilization goals for fiscal year 2011 remain at 15% for domestic equity and 15% for fixed income while increasing the goal for international equity to 10%, up by 1.5%. Additionally, staff recommended the goal for assets under management be set at 13.5% of the total fund, up by 1%; increase assets under management goal for equities to 13.5%, up by 1%; and increase assets under management for alternatives to 8.5%, up by 1%. A motion was made by Bob Lyons, seconded by Sharon Leggett, that the committee

recommend to the Board to approve the FY 2011 WMBE goals as presented. The motion passed by a unanimous voice vote.

Annual Reviews

Tassi Maton, Director of Investment Operations, presented the standard year-end reports for fiscal year 2010. Documentation is on file. The reports include proxies, bankruptcies and securities litigation, commission recapture, securities lending, and brokerage activity.

RECESS

The meeting recessed at 2:47 p.m. and reconvened at 2:55 p.m.

Investment Performance Review – June 30, 2010

RV Kuhns provided the June 30, 2010 fiscal year end investment performance report noting a 13.5 percent rate of return during FY 10. Documentation is on file. Total assets: \$31.3 billion. Stan Rupnik provided preliminary data of the investment performance for the quarter ended September 30, 2010. The June 30, 2010 total fund return, gross of fees:

- Quarter: (5.1%)
- 1 year: 13.5%
- 3 years: (5.6%)
- 5 years: 2.5%
- 10 years: 3.7%

Fixed Income Annual Reviews

Scottie Bevill, Sr. Investment Officer, reported on recent activity within the \$5.5 billion fixed income portfolio. A report was submitted on portfolio annual reviews along with a summary of recommendations. Documentation is on file. Staff recommended increasing Dolan McEniry Capital Management's target from 2.5% to 5.0%, reducing Taplin Canida & Habacht's target from 7.5% to 5.0%, and establishing an initial 5.0% target within Franklin Advisors' Local Emerging Markets Opportunity Fund.

Domestic Equity/Global Equity Annual Reviews

Kent Custer, Sr. Investment Officer, reported on the recent activity within the \$8.9 billion domestic equity portfolio. A report was submitted on portfolio annual reviews along with a summary of recommendations. Staff recommended rebalancing the domestic equity portfolio and to transfer approximately \$48.6 million from the POB portfolio to the main fund. Documentation is on file. A

motion was made by Sid Marder, seconded by Bob Lyons, that the committee recommend to the Board to approve the recommendations within the global equity asset class and to rebalance the domestic equity portfolio, as presented. The motion passed by a unanimous voice vote.

Staff negotiated a reduced fee agreement with GMO based on TRS loyalty and size. The new agreement is retroactive to Oct. 1, 2009 and would save TRS approximately \$360,000 per year based on recent asset levels. A motion was made by Cinda Klickna, seconded by Molly Phalen, that the committee recommend to the Board to accept GMO's asset based fee agreement retroactive to October 1, 2009. The motion passed by a unanimous voice vote.

Watch List – September 30, 2010

Staff provided an update of the investment managers currently on the watch list for the quarter ended September 30, 2010. The existing managers remain on watch for performance reasons: Brandes Investment Partners (international equity); Emerald (domestic equity); GMO (international equity); Mazama Capital Management small & SMID cap (domestic equity); McKinley Capital (international equity); and Turner Investments (domestic equity).

The following managers were removed from the watch list due to improved performance: EARNEST Partners (domestic equity) and Goldman Sachs (fixed income).

Staff recommended termination of the following managers due to poor performance: Analytic (large core domestic equity); Copper Rock Capital Partners (SMID growth domestic equity); Dodge & Cox (large value domestic equity); Piedmont Investment Advisors (enhanced core domestic equity); and Tygh Capital Management (SMID domestic equity). A motion was made by Janice Reedus, seconded by Jan Cleveland, that the committee recommend to the Board to accept the watch list as presented. The motion passed by a unanimous voice vote.

Absolute Return – Risk Management System

Staff recommended a search for an additional risk management system for the absolute return asset class with potential implementation to the entire TRS fund. Staff believes moving forward with a more rigid risk management process will increase the portfolio's exposure to additional absolute return mandates. Costs associated with these risk platforms will be considered. A motion was made by Janice Reedus, seconded by Jan Cleveland, that the committee recommend to the Board to authorize a search for a risk management system within the absolute return asset class. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 6:00 p.m. and reconvened the following day at 8:07 a.m.

Real Estate Performance – June 30, 2010

Callan Associates provided an update of the real estate performance for the quarter ended June 30, 2010. Documentation is on file. Total fund return:

- Quarter: 0.7%
- 1 year: (4.8%)
- 3 years: (10.9%)
- 5 years: 1.3%
- 10 years: 6.3%

Real Estate Education

Heitman provided an educational presentation on the current state of the real estate markets. Documentation is on file.

RECESS

The meeting recessed at 9:35 a.m. and reconvened at 9:40 a.m.

NEW BUSINESS

Domestic Equity – Large Cap Core Search

The Staff Public Market Oversight Committee (PMOC) unanimously approved the selection of MFS Investment Management to manage a three percent enhanced index mandate. Further, the PMOC approved the selection of Levin Capital Strategies to manage a three percent active core mandate. Staff provided an overview of the search process and all candidate firms. In accordance with PA 96-0006 to invite the best qualified emerging manager to present, the committee interviewed Oakbrook. Presentation booklets are on file. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to ratify the selection of MFS and Levin to each manage three percent allocations. The motion passed by a unanimous voice vote.

PIMCO – Fixed Income

Representatives of PIMCO presented an investment opportunity in the PIMCO Bank Recapitalization and Value Opportunities “BRAVO” Fund, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda

Klickna, seconded by Sid Marder, that the committee recommend to the Board to invest \$75 million to the PIMCO Bank Recapitalization and Value Opportunities Fund, L.P. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 11:45 a.m. and reconvened at 1:00 p.m.

Private Equity – Trident V, L.P.

Representatives of Stone Point Capital presented an investment opportunity in their private equity fund, Trident V, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to invest \$75 million to Trident V, L.P. The motion passed by a unanimous voice vote. This fund will invest in midmarket insurance and financial services businesses in the U.S., U.K., Western Europe, and Bermuda.

Private Equity – Baring Asia Private Equity Fund V, L.P.

Representatives of Baring Private Equity Asia GP presented an investment opportunity in their private equity fund Baring Asia Private Equity Fund V, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Mike Busby, seconded by Molly Phalen, that the committee recommend to the Board to invest up to \$100 million to Baring Asia Private Equity Fund V, L.P. The motion passed by a unanimous voice vote. This fund will invest in companies throughout the Asia Pacific region.

Private Equity – GTCR Fund X, L.P.

Representatives of GTCR Partners presented an investment opportunity in their private equity fund GTCR Fund X, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Sharon Leggett, seconded by Bob Lyons, that the committee recommend to the Board to invest up to \$100 million to GTCR Fund X, L.P. The motion passed by voice vote.

RECESS

The meeting recessed at 4:08 p.m. and reconvened at 4:18 p.m.

Private Equity Co-Investment Advisors

The committee interviewed three candidates to provide the System with private equity co-investment advisory services. Presentation booklets are on file. Staff provided an overview of the due diligence conducted and recommended the approval of all three firms to act as co-investment advisors to the System. A motion was made by Mike Busby, seconded by Sharon Leggett, that the committee recommend to the Board to hire Houlihan Lokey, LP Advisors, and PCG as the System's private equity co-investment advisors. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 5:52 p.m. and reconvened the following day at 8:05 a.m.

Franklin Advisers – Fixed Income

The committee interviewed Franklin Advisers and Prudential Asset Management as finalists to fill an allocation to an international/emerging market debt fixed income mandate. Presentation booklets are on file. Staff provided an overview of the firms and the search process conducted. A motion was made by Cinda Klickna, seconded by Sid Marder, that the committee recommend to the Board to commit between \$250-\$275 million to Franklin Advisers. 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 Janice Reedus, seconded by Jan Cleveland, to adjourn the meeting at 9:40 a.m.

Stan Rupnik, Acting Executive Director

Approved _____