



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Thursday, April 23, 2015
The Northern Trust
50 South LaSalle Street, Global Conference Center
Chicago, Illinois 60603**

The following Trustees were present: Mr. Craig McCrohon, Chair; Ms. Lindsay Anderson (by conference call), Ms. Jacqueline Berger, Mr. Dennis Cullen, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Ms. Dorinda Miller, Mr. Antonio Vasquez and Mr. Mitchell Vogel.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt and Mr. Joseph Duncan, Senior Investment Officers; Mr. Alex Ramos and Mr. Shane Willoughby, Investment Officers; Mr. Albert Lee, Associate General Counsel; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Douglas Moseley, Ms. Kristin Finney-Cooke, Mr. Michael Wong, Mr. Kevin Cress and Mr. Kevin Leonard of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Jim Baker and Mr. Elliott Mallen of UNITE HERE; Mr. Daniel Medina and Ms. Janet Henry of Ramirez Asset Management; Ms. Renaye Manley of Service Employees International Union; Ms. Angela Myers of Loop Capital; Mr. Patrick McGarvey of Grosvenor Capital Management; Mr. Tim McPhillips of Firemen's Annuity and Benefit Fund of Chicago; Ms. Sarah Boeckman of Burke, Burns & Pinelli.

Investment Committee roll call attendance was taken. Trustee Figueroa, present; Trustee Johnson, present; Trustee McCrohon, present; Trustee Vasquez, absent; Trustee Vogel, present.

At this point, Trustee Craig McCrohon requested a motion to permit Trustee Lindsay Anderson, who was unable to physically attend the meeting, to join the meeting by conference call pursuant to Section 7(c) of the Open Meetings Act.

Trustee Paul R.T. Johnson, Jr. made the following motion:

- That Trustee Anderson be allowed to participate via conference call, pursuant to Section 7(c) of the Open Meetings Act.

Trustee Mitchell Vogel seconded and the motion carried with all Trustees present voting in favor.

Trustee Anderson joined the meeting via conference call and welcomed Executive Director W. Bryan Lewis.

APPROVAL OF MINUTES

Trustee McCrohon also welcomed Trustee Dennis Cullen and then presented the Minutes from the Investment Committee meeting of March 12, 2015. Trustee Johnson made the following motion:

- That the Minutes from the March 12, 2015 Investment Committee meeting be approved as presented.

Trustee Richard Figueroa seconded and the motion carried with all Trustees present voting in favor.

Trustee McCrohon presented the Minutes from the Closed Session Investment Committee meeting of March 12, 2015. Trustee Johnson made the following motion:

- That the closed session minutes from the March 12, 2015 Investment Committee meeting be approved as presented and remain closed.

Trustee Figueroa seconded and the motion carried with all Trustees present voting in favor.

A copy of the staff memorandum, "Report from the March 12, 2015 Investment Committee Meeting," is incorporated as a part of these Minutes as [Exhibit 1](#). A copy of the staff memorandum, "Investment Contracts Approved," is incorporated as a part of these Minutes as [Exhibit 2](#).

DISCUSSION OF BOARD RESOLUTIONS

The discussion of board resolutions was deferred at this time.

CHAIRPERSON'S REPORT

Trustee McCrohon remarked that he attended the CIO Summit at the Harvard Club in New York City last week and discussed topics covered at the event, which included smart beta strategies, factor investing, derivative products, managing a declining stock market, the current interest rate environment, risk mitigation and investment management fees.

Trustee Jacqueline Berger joined the meeting at 9:15 a.m.

CHIEF INVESTMENT OFFICER REPORT

Mr. Daniel Allen advised that, as of March 31, 2015, the total fund has a market value of approximately \$17.3 billion, liabilities are approximately \$38 billion and the funding ratio is estimated at 45%. The investment portfolio has generated an investment return of 2.6% for the fiscal year through March 31, 2015, and thus far, April has been a strong month. Mr. Allen welcomed Trustee Cullen and noted that detailed investment performance data is included in the Investment Update which is provided on a monthly basis.

COMMENTS FROM THE EXECUTIVE DIRECTOR

Mr. Bryan Lewis expressed his gratitude to the Board and remarked that he looks forward to working collaboratively with the all of the Trustees, consultants and others involved in the work of the retirement system.

CONSIDERATION OF NON-CORE REAL ESTATE DIRECT FUNDS SEARCH

Mr. Shane Willoughby reported that staff and NEPC have narrowed the list of potential candidates for the direct fund portion of the real estate search to four finalists. Semi-finalist interviews were held on March 23 and 24, 2015, at NEPC's Chicago office with Staff and NEPC participating. Mr. Willoughby stated that, upon the conclusion of the interviews, three firms were eliminated from further consideration for various strategic fit reasons. Those firms were Oaktree Capital Management, Westbrook Partners, and Westport Capital Partners. Mr. Willoughby announced the four finalists and provided a brief background on each. The four firms were Crow Holdings Capital, The Carlyle Group, Brookfield Asset Management, and Blue Vista Capital Management.

Mr. Joseph Duncan provided an update on the structure of the direct funds search and a recommendation. Mr. Duncan noted that staff and NEPC recommended commitments be made to three of the finalists presenting for a total of \$105 million (\$35 million per fund). Mr. Duncan said that another non-core real estate direct fund search will take place in approximately 18-24 months to complete the \$300 million three-year Real Estate Funding Plan. Mr. Duncan also referenced the manager presentations, candidate summary, tear sheets and Public Act 98-1022 disclosures that were provided.

Mr. Michael Yang of NEPC followed up Mr. Duncan's remarks by providing additional information on the strategy of each of the four finalists, along with advantages and concerns of each firm.

Trustee Antonio Vasquez joined the meeting at 9:52 a.m.

The following representatives of the finalist candidate firms gave presentations to the Investment Committee:

- * Crow Holdings Capital - Mr. Dan Feeney and Mr. Coe Juracek
- * The Carlyle Group – Mr. Chip Lippman and Mr. Alok Gaur
- * Brookfield Asset Management Inc. – Mr. John Stinebaugh, Ms. Sophie Pullan and Ms. Merope Pentagenis
- * Blue Vista Capital Management, LLC – Mr. Robert Byron, Mr. Peter Stelian, Mr. Dan Reynolds and Ms. Laurie Smith

Trustee Johnson made the following motions:

- That a commitment of \$35 million be authorized, contingent on successful contract negotiations, to Crow Holdings Capital
- That a commitment of \$35 million be authorized, contingent on successful contract negotiations, to Blue Vista Capital Management, LLC.
- That a commitment of \$35 million be authorized, contingent on successful contract negotiations, to Brookfield Asset Management Inc.

Trustee Dorinda Miller seconded and the motions carried with all Trustees present voting in favor.

Copies of the staff memorandum, “Non-Core Real Estate Search Update,” SURS Non-Core Real Estate Search Summary of Direct Fund Finalist Candidates April 2015, and the NEPC memo entitled “Non-Core RE Search Direct Fund Finalists” are incorporated as a part of these Minutes as [Exhibit 3](#), [Exhibit 4](#) and [Exhibit 5](#).

Copies of the NEPC Fund Tear Sheets are incorporated as a part of these Minutes as [Exhibit 6](#), [Exhibit 7](#), [Exhibit 8](#), [Exhibit 9](#) and [Exhibit 10](#).

Copies of the Public Act 98-1022 Disclosures are incorporated as a part of these Minutes as [Exhibit 11](#), [Exhibit 12](#), [Exhibit 13](#) and [Exhibit 14](#).

U.S. EQUITY ASSET CLASS PORTFOLIO REVIEW

Ms. Kimberly Pollitt provided an overview of the U.S. equity asset class for the year ended December 31, 2014. Approximately \$5.7 billion or 33.7% of the total fund was invested in U.S. equity as of December 31, 2014, with approximately 55% of the total U.S. equity portfolio managed by MFDB investment managers. The total U.S. equity portfolio returned 11.77% for calendar year 2014, lagging the benchmark return of 12.47%. Although the Structured Active U.S. Equity portfolio performed well relative to its benchmark during calendar 2014, the Active U.S. Equity portfolio significantly underperformed during the period. Ms. Pollitt also advised that the U. S. equity portfolio demonstrates similar risk and return characteristics to that of the median manager in the eVestment universe, and that the portfolio has a modest overweight to small- and mid-cap exposure relative to the benchmark.

Ms. Kristin Finney-Cooke of NEPC provided additional comments on the structure and performance of the U.S. equity portfolio. Underperformance for the year in the overall U.S. Equity portfolio was driven primarily by active manager underperformance, particularly in the Active Mid Cap category, and a small capitalization bias present in the portfolio structure.

Ms. Finney-Cooke also recommended that Holland Capital and Progress' U.S. Equity product be placed on watch list for performance issues. Discussion followed regarding manager performance and the watch list process.

CONSENT AGENDA –U.S. EQUITY ASSET CLASS **ANNUAL MANAGER REVIEW**

A consensus was reached to table the consent agenda vote and to continue the dialogue on the U.S. equity portfolio and individual manager retention decisions at the June Investment Committee meeting. In addition, a more in-depth review of the watch list process will also be conducted, and an update to U.S. Equity investment manager performance will be provided.

Trustee Anderson joined the meeting in person at this point at 12:40 p.m.

Copies of the staff memorandum, "U.S. Equity Asset Class Portfolio Review," and NEPC memorandum, "Review of U.S. Equity Asset Class," are incorporated as a part of these Minutes as [Exhibit 15](#) and [Exhibit 16](#).

A copy of the staff memorandum, "Consent Agenda for the U.S. Equity Asset Class," and the NEPC U.S. Equity Manager Peer Rankings are incorporated as a part of these Minutes as [Exhibit 17](#) and [Exhibit 18](#).

HEDGE FUND DISCUSSION/STATUS UPDATE OF HEDGE FUND OF FUNDS **SEARCH**

Mr. Douglas Moseley of NEPC provided information to the Committee in response to a number of questions from a Trustee on the subject of hedge funds. Mr. Moseley addressed both the shorter- and longer-term results of the HFRI Composite Index. While public equity markets have provided stronger performance during the past five years, hedge funds have provided attractive risk and return characteristics over the longer term (ten year) period. Mr. Moseley also noted that hedge funds provide benefits such as an expansion in the traditional fixed income and equity opportunity set, an absolute return focus that provides more tactical and less benchmark-specific positioning, and lower equity market beta and sensitivity to interest rates. A review of the risk, return and correlation assumptions was also presented, as was additional information on the HFRI Composite Index.

Ms. Pollitt provided a brief update on the status of the Hedge Fund-of-Funds search currently in progress. SURS received responses from 40 different investment managers by the April 9 deadline, eight of which were submitted by firms of diversity. Staff and NEPC are in the process of reviewing the responses and plan to conduct semi-finalist interviews with a narrowed list of candidates sometime this summer. Tentative plans are to bring finalists to the Board for consideration later in the Fall of 2015. It was noted that the Quiet Period remains in effect.

Copies of NEPC's memorandum, "Follow-up Questions to March Hedge Fund Presentation and Discussion," and staff memorandum, "Hedge Fund-of-Funds Manager Search Update," are incorporated as a part of these Minutes as [Exhibit 19](#) and [Exhibit 20](#).

**UPDATE OF THE SELF-MANAGED PLAN (SMP) PROVIDER SEARCH
AND ANNUAL REVIEWS**

Mr. Kevin Cress discussed NEPC's involvement in the SMP provider search and presented the timeline for the various stages of the project. After the request for proposal (RFP) is finalized, it will be posted on the SURS website on May 4, 2015, and advertised in Pensions & Investments. During the summer, staff and NEPC will review responses and hold interviews with semi-finalist candidates after which recommendations are planned to be presented at the September or October meeting. Mr. Cress noted that a provider change would require substantial time and would likely not take effect until April 2016. Ms. Burns remarked that the statute requires a minimum of two and a maximum of seven SMP providers and she recommended that the trustees receive education in the coming months regarding their current obligations with respect to the SMP. Mr. Cress advised that NEPC would provide the trustees with a list of RFP respondents to assist with the Quiet Period policy. Among the topics that will be examined during the search process are the option of a master administrator, the conversion process in the event of a provider change and the incumbents' capabilities with regard to participant reenrollment. Discussion of various issues related to reenrollment, the provider search and the SMP in general followed.

Mr. Cress reviewed the performance of the SMP investment fund options, as well as organizational changes and concerns, and noted the fee concessions reached last year with the current providers. Mr. Cress also confirmed that all participants who were 100% invested in the CREF Money Market Account have now been contacted.

Ms. Lou Ann Fillingham remarked that SMP participants can obtain fixed or variable annuities from Principal Financial Group or TIAA-CREF at competitive rates when they retire; however, 100% of their SMP assets must be annuitized in order to receive health insurance benefits. Ms. Fillingham also referenced the annual reviews of the SMP providers and the summaries of the SMP offerings that were included in the board materials and advised that staff and NEPC recommend retention of the current SMP providers.

Trustee McCrohon made the following motions:

- That Fidelity Investments be retained as an investment service provider for the SURS Self-Managed Plan.
- That TIAA-CREF be retained as an investment service provider for the SURS Self-Managed Plan.

Trustee Mitchell Vogel seconded and the motions carried with all Trustees present voting in favor, except for Trustee Anderson who abstained.

Copies of "NEPC SURS Self-Managed Plan Provider Search Update & Plan Review," and the staff memorandum, "Self-Managed Plan (SMP) Provider Search Update," are incorporated as a part of these Minutes as [Exhibit 21](#) and [Exhibit 22](#).

Copies of the staff memorandums, "Executive Summary of the SMP Providers," "Fidelity Investments Self-Managed Plan (SMP) Annual Review," and "TIAA-CREF Self-Managed

Plan (SMP) Annual Review,” are incorporated as a part of these Minutes as [Exhibit 23](#), [Exhibit 24](#) and [Exhibit 25](#).

CONSIDERATION REGARDING THE MESIROW FINANCIAL PROPOSED TRANSACTION TO TRANSITION FUNDS TO COURTLAND PARTNERS

Ms. Mary Pat Burns provided background information on the proposed consent requested by Mesirow Financial relating to its transaction to transition its real estate fund of funds business to sub-advisor Courtland Partners. Representatives from SURS (including Ms. Burns and Trustees Anderson, Engstrom, and Johnson), NEPC, Mesirow Financial, and Courtland Partners met at NEPC’s Chicago office on April 22, 2015 to discuss the proposal. Upon the conclusion of that meeting, Ms. Burns noted in the Investment Committee meeting that she became comfortable with the proposed transaction from a fiduciary perspective. It was further noted that external SURS legal counsel (Mayer Brown) will proceed with legal negotiations regarding the consent with the intent to have all negotiations and any other outstanding assurances completed by the June 11, 2015 Investment Committee meeting, providing the Board the opportunity to approve the consent, if appropriate, at that time. Both Mesirow Financial and Courtland Partners will present at the June Investment Committee meeting.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Trustee Vogel requested that UNITE HERE’s March 2015 report, which was referenced in UBS’ response included in the informational items, be provided with the June meeting materials.

The following items were provided for reference and are incorporated as a part of these Minutes:

1. [Exhibit 26](#) - SURS Projected Funding Status through March 2015.
2. [Exhibit 27](#) - Illinois Public Pension Funds Total Fund Performance, Actual and Target Allocations for periods ending December 31, 2014.
3. [Exhibit 28](#) - Staff memorandum entitled “December 2014 Investment Manager Watch List.”
4. [Exhibit 29](#) - UBS response to UNITE HERE dated March 2015.
5. [Exhibit 30](#) - Investment Compliance Activities 2015.
6. [Exhibit 31](#) - Fiscal Years 2015-16 Summary Work Plan Investment Committee Schedule.
7. [Exhibit 32](#) - Summary of Investment Projects.
8. [Exhibit 33](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
9. [Exhibit 34](#) - Staff memorandum “Schedule of Investment Committee Meetings.”

PUBLIC COMMENT

There were no public comments presented to the Investment Committee.

Since there was no further business before the Committee, Trustee Johnson moved that the meeting be adjourned. The motion was seconded by Trustee Vogel and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mr. W. Bryan Lewis". The signature is written in a cursive, flowing style with a prominent initial "M" and "L".

Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL/lk