



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
10:00 a.m., Thursday, December 11, 2014
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, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Peter Newell, Mr. Antonio Vasquez and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, 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; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Mr. Albert Lee, Associate General Counsel; Mr. Jeffrey Houch, Legislative Liaison; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Douglas Moseley, Ms. Kristin Finney-Cooke, Mr. Sean Ruhmann and Mr. Michael Yang of NEPC; Mr. Seungkoo Yoon and Mr. Bill Suh of the Northern Trust Company; Ms. Sharon Piet of Podesta & Co.; Ms. Angela Myers of Loop Capital; Mr. Patrick McGarvey and Mr. Erik Hall of Grosvenor Capital Management; Mr. Steve Zahn of Governmental Consulting Solutions.

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

APPROVAL OF MINUTES

Trustee Craig McCrohon presented the Minutes from the Investment Committee meeting of October 30, 2014. Trustee Mitchell Vogel made the following motion:

- That the Minutes from the October 30, 2014 Investment Committee meeting be approved, as presented.

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

A copy of the staff memorandum, "Report from the October 30, 2014 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](#).

CHAIRPERSON'S REPORT

In the interest of time, Trustee McCrohon deferred the Chairperson's Report.

CHIEF INVESTMENT OFFICER REPORT

Mr. Daniel Allen informed the Trustees that John Cross, who was recently hired as an investment officer, has resigned from the position. Mr. Allen further advised that the investment return for the fiscal year as of November 30, 2014, amounts to approximately 1% and the investment portfolio is valued at approximately \$17.3 billion.

Mr. Allen also presented the consent agenda for the retention of the index fund providers. Trustee McCrohon invited discussion, noting that he has made a request for additional information regarding the fees involved and other providers of similar services.

After noting possible courses of action, Trustee McCrohon moved to approve the consent agenda motions below subject to supplemental information regarding fees and alternative service providers being delivered to the Board prior to the next meeting:

Consent Agenda Topics

Index Fund Provider Reviews

- That Northern Trust Asset Management be retained as a U.S. Equity index fund manager.
- That BlackRock Institutional Trust Company be retained as an index fund manager in the following mandates; BTC International Equity, BTC Emerging Markets Equity, BTC Global REITs and BTC US REITs.
- That RhumbLine Advisers be retained as a U.S. Equity index fund manager.
- That State Street Global Advisors be retained as a U.S. Fixed Income index fund manager.

Trustee Paul R. T. Johnson Jr. seconded and the motions carried as amended by Trustee McCrohon with all Trustees present voting in favor.

A copy of the staff memorandum, "Executive Summary of Index Fund Provider Reviews," is incorporated as a part of these Minutes as [Exhibit 3](#).

CONSIDERATION OF CANDIDATES FOR FIXED INCOME
EMERGING MARKET DEBT SEARCH MANDATE

Trustee McCrohon advised that four firms will make presentations today in connection with the fixed income emerging market debt search and that staff and NEPC recommend four firms be hired to manage the approximate \$520 million total allocation. Trustee McCrohon remarked that as Trustee Johnson attended the semi-finalist candidate interviews and believes two more firms merit discussion, two additional presentations could be heard at the February meeting before the final decision is made. Discussion followed. Mr. Allen reviewed the search process and the pacing of new investments. The best use of the Board's time and other aspects of manager searches were also given consideration. Favor emerged to interview the additional candidates; however, Trustee Lindsay Anderson recommended that Trustees participating in the search set expectations at an earlier stage in order to ensure a more efficient process. Discussion continued and consensus formed in favor of more choice in general and to interview the two additional candidates at the February meeting prior to making the selection. After observing that this search experience will help inform the process for future searches, Trustee McCrohon requested that the additional statistical information and commingled fund legal documents which he recently received from staff be made available for all six candidates prior to the February meeting. Remarking that past practice has generally been to interview more candidates than are hired, Trustee Vogel concurred with the proposed plan but observed that the sense of the Board is preference for firm recommendations from staff for future searches.

Mr. Douglas Wesley noted the matrix document and the diversity disclosures required by Public Act 98-1022 that were distributed with respect to the candidate firms and discussed the proposed structure of the emerging market debt (EMD) portfolio. Mr. Wesley commented that staff recommends SURS' manager of emerging managers provider, Progress Investment Management (Progress), receive additional funding to establish an EMD component in the Progress portfolio. A brief discussion of the fees paid to Progress and its underlying managers followed. Trustee Richard Figueroa expressed favor for the proposal to work with Progress, noting that it would be a way to leverage an existing platform to identify new strategies and new firms that could be incubated to create a larger pool of diverse managers. Trustee Andrew Matthews agreed that the concept could be an initial step toward meeting the objectives of the Emerging Manager and Diversity Matters Subcommittee.

Mr. Douglas Moseley discussed the different types of EMD strategies in further detail and the breakdown of blended, local currency and corporate strategies recommended for the portfolio. Mr. Moseley also provided a summary of the search and assessment process, noting that the list of firms that responded, including reasons for elimination, was provided in the agenda materials. Discussion regarding the strategy breakdown followed.

Representatives from the following finalist candidate firms then gave presentations to the Investment Committee:

- * BlueBay Asset Management – Mr. David Dowsett and Ms. Janet Quarberg
- * Prudential Fixed Income – Mr. David Bessey and Mr. Peter Taggart

- * Colchester Global Investors – Ms. Mamak Shahbazi and Mr. Keith Lloyd
- * LM Capital Group and Progress Investment Management Company – Mr. Luis Maizel and Mr. Todd Crescenzo; Mr. Jose Balagot and Ms. Mona Williams

Copies of the staff memorandum, “Emerging Market Debt Search Recommendations,” and the NEPC memorandum, “Emerging Markets Debt Search Summary & Recommendations,” are incorporated as a part of these Minutes as [Exhibit 4](#) and [Exhibit 5](#).

Copies of the documents that were distributed, “EMD Manager Search Candidate Summary” and “Public Act 98-1022 Disclosures,” are incorporated as a part of these Minutes as [Exhibit 6](#) and [Exhibit 7](#).

Copies of the Progress memorandum, “Emerging Manager Emerging Market Debt Proposal,” and the Progress presentation, “Emerging Market Debt Portfolio Analysis,” are incorporated as a part of these Minutes as [Exhibit 8](#) and [Exhibit 9](#).

REVIEW OF SURS INVESTMENT PERFORMANCE AND RISK MANAGEMENT REPORTS

Ms. Kristin Finney-Cooke presented an overview of recent market conditions, particularly the increase in volatility in the third quarter of 2014 and the factors that contributed. As of September 30, 2014, the total portfolio was valued at approximately \$16.9 billion. Although the investment return for the first quarter of fiscal year 2015 was -1.4%, the three-year and five-year period returns are well above the actuarial rate of return and standard deviation has decreased. Asset allocation as of September 30, 2014, is essentially in line with the approved target allocation except for a small underweight to fixed income and a slight overweight to real estate.

Mr. Joseph Duncan presented the key findings from the Executive Summary of the SURS Risk Report for the quarter ended September 30, 2014. Total plan risk declined to 9.7% from 10.4% for the previous quarter, indicating that over the next one-year period, the return of the portfolio is expected to be between +9.7% and -9.7% based on a normal distribution of outcomes and a one standard deviation confidence level (68% of the time). Although equity exposure represents approximately 68% of the portfolio, it accounts for nearly 90% of the total plan risk. Mr. Duncan noted that the portfolio continues to exhibit slightly higher risk and slightly higher return as compared to the Northern Trust peer group. Mr. Duncan also discussed the potential for further incremental reduction to overall risk as a result of the new cash overlay program and the anticipated allocation to emerging market debt.

Copies of the NEPC Third Quarter IPA – Board Report, the staff memorandum, “Executive Summary of Risk Report,” and the Northern Trust Risk Services report, “SURS Executive Risk Review 3Q2014,” are incorporated as a part of these Minutes as [Exhibit 10](#), [Exhibit 11](#) and [Exhibit 12](#).

**(Educational Topic) REAL ESTATE INVESTMENT PRINCIPLES,
FUNDAMENTALS AND STRATEGIES**

The educational session commenced at 1:00 p.m., lasted for 1 hour and concluded at 2:00 p.m.

Mr. Sean Ruhmann and Mr. Michael Yang of NEPC led the educational session on the topic of real estate, which examined the various types of real estate investments and the strategies involved, as well as the risks associated with each and the return expectations. The session also covered the current market environment for real estate, possible approaches for optimal portfolio construction and pacing considerations. Mr. Ruhmann remarked the importance of reviewing the pacing plan annually and consistently committing capital every year based on market conditions. A three year plan was recommended by NEPC and staff, which would commit \$100 million per year to non-core (value-add and opportunistic) real estate funds through 2017 in order to attain the approved 6% target allocation to private real estate.

A copy of the NEPC presentation, “Real Estate Education,” is incorporated as a part of these Minutes as [Exhibit 13](#).

STATUS OF REAL ESTATE SEARCH

Mr. Yang and Mr. Duncan provided an update on the status of the non-core real estate manager search. The Request for Proposal specified geographic and property type diversification, closed end fund structure and final close no later than the second quarter of 2015. There were 64 responses from 58 firms, of which 51 were direct funds and 13 were fund-of-funds, and evaluation of the responses is currently underway. The response from minority-, female- or persons with a disability-owned (MFDB) investment managers was discussed and Trustee Figueroa requested a list of the firms that responded which identifies the MFDB managers to provide more background about the search and to assist with tracking such firms. Mr. Duncan advised that staff had targeted finalist presentations at the March meeting and requested the Board’s direction regarding investment through fund-of-funds versus direct funds.

The alternatives were discussed at length and factors such as the potential to increase the use of MFDB managers, the fee comparison between the two structures, the number of relationships that would likely be added and the staff’s ability to manage numerous additional managers were given consideration. Trustee Matthews advised taking every opportunity to try to increase the use of MFDB managers. Trustee Figueroa agreed that real estate is an area where it may be possible to identify a MFDB manager for an allocation and Trustee McCrohon requested that he stay on top of the issue and report back at the next meeting.

Trustee Anderson noted that consensus had appeared for not limiting the candidate evaluation exclusively to the 13 fund-of-funds. Mr. Moseley suggested focusing on a hybrid model, returning in February with a plan that incorporates the feedback provided and then scheduling presentations that will give the Board a range of choice at the March meeting.

Trustee Figueroa remarked that this represents the first installment of an ongoing plan and he reiterated the importance of taking time to evaluate the options.

A copy of the staff memorandum, “Non-Core Real Estate Manager Search Update,” is incorporated as a part of these Minutes as [Exhibit 14](#).

REAL ESTATE ASSET CLASS PORTFOLIO REVIEW

Mr. Shane Willoughby presented the review of the real estate asset class, noting the 10% target allocation to real estate consists of 4% in REITs and 6% in direct open-end and closed-end funds. Mr. Willoughby advised that the investments in JP Morgan Strategic Property Fund and Heitman HART Fund are now fully committed. The performance of the REIT portfolio has exceeded the benchmark for the one-, three-, five- and ten-year periods as of September 30, 2014, while the direct real estate portfolio has slightly underperformed in each except for the five-year period. Mr. Willoughby referenced the consent agenda for retention of the current real estate managers, noting that the closed-end fund investments do not require annual Board approval for retention.

A copy of the staff memorandum, “Executive Summary of the Real Estate Asset Classes,” is incorporated as a part of these Minutes as [Exhibit 15](#).

CONSENT AGENDA – REAL ESTATE ASSET CLASS ANNUAL MANAGER REVIEWS

Trustee McCrohon presented the consent agenda pertaining to the retention of real estate managers and suggested that it be approved subject to the provision of supplemental information that provides context regarding the other alternatives considered.

Consent Agenda Topics

Real Estate Manager Reviews

- That CBRE Clarion Securities be retained as a U.S. REIT manager.
- That CBRE Clarion Securities be retained as a global REIT manager.
- That UBS Trumbull Property Fund be retained as a direct real estate manager.
- That JP Morgan Strategic Property Fund be retained as a direct real estate manager.
- That Heitman America Real Estate Trust Fund be retained as a direct real estate manager.

Trustee McCrohon moved to adopt the consent agenda amended to specify that staff will provide supplemental information on the performance of these funds and any alternative funds that operate in a similar space so that the Board can better appreciate the context for their performance. Trustee Johnson seconded and the motion carried with all Trustees present voting in favor.

Trustee McCrohon remarked that the supplemental information should be similar to that provided in connection with other recent consent agenda resolutions which had included charts detailing relative performance.

A copy of the staff memorandum, "Consent Agenda for the Real Estate Asset Class," is incorporated as a part of these Minutes as [Exhibit 16](#).

**CONSIDERATION OF APPROVAL TO CONDUCT SEARCH
FOR PHASE I OF HEDGED STRATEGIES MANDATE**

Mr. Allen remarked that staff and NEPC recommend approval of a hedge fund-of-funds manager search and he noted the education provided to the Trustees during the past year as well as the 5% target allocation to hedged strategies approved by the Board. Noting that the majority, approximately 3-4%, is anticipated to be deployed in a hedge fund-of-funds program, Mr. Allen presented the proposed timeline for the search.

Trustee Johnson made the following motion:

- That a search be conducted to identify qualified hedge fund-of-funds investment managers.

Discussion followed. Trustee Vogel noted that favor had been expressed for educating SURS members about hedged strategies prior to moving forward. Mr. Mabe advised that the topic was discussed with the State Universities Member Advisory Committee (SURSMAC) and no concerns were raised. Trustee Engstrom also stated his preference that education on the asset class be provided to SURS members and Trustee Vogel indicated that he would not vote in favor of the search until the condition is met.

Trustee McCrohon then seconded and the motion carried with all Trustees present voting in favor except for Trustee Vogel who voted against.

Since Trustee Figueroa exited the meeting prior to the above vote, the next agenda item, "Review and Receipt of Report to the Governor and General Assembly Regarding Usage of Emerging Investment Managers / Report from the Emerging Manager and Diversity Matters Subcommittee," was deferred until later in the meeting.

A copy of the staff memorandum, "Recommendation to Conduct Hedge Fund-of-Funds Manager Search," is incorporated as a part of these Minutes as [Exhibit 17](#).

PRESENTATION OF THE SURS INVESTMENT MANAGER WATCH LIST

Mr. Alex Ramos presented the December 2014 Investment Manager Watch List which reflects investment performance for the period ending September 30, 2014. Four managers are currently on watch, Herndon Capital Management due to performance, Calamos Advisors due to performance and organizational issues, and PIMCO and Smith Graham & Company due to key personnel changes. Mr. Ramos reviewed each of the specific situations and further discussion of Calamos Advisors and PIMCO followed. Mr. Allen noted the usefulness of the Watch List as a tool for staff, advising that firms on watch are subject to a heightened level of monitoring by staff and NEPC.

A copy of the staff memorandum, "December 2014 Investment Manager Watch List," is incorporated as a part of these Minutes as [Exhibit 18](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Allen remarked that the Trustee Educational Forum is scheduled on February 6, 2015, with committee meetings expected to be held on February 5, 2015. Tentative educational topics include board governance best practices, enterprise risk management and some investment topics. Trustee Vogel suggested that representatives of other public pension funds also be invited to speak periodically to share insights with the Board.

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

1. [Exhibit 19](#) - SURS Projected Funding Status through October 2014.
2. [Exhibit 20](#) - Potential Topics for SURS Trustee Educational Forum.
3. [Exhibit 21](#) - SURS Pension Trustee Education Program Pensions 101.
4. [Exhibit 22](#) - Investment Compliance Activities 2014/2015.
5. [Exhibit 23](#) - Staff memorandum entitled "Compliance Update."
6. [Exhibit 24](#) - Fiscal Years 2015-16 Summary Work Plan Investment Committee Schedule.
7. [Exhibit 25](#) - Staff memorandum entitled "Introduction of the Fiscal Year 2015 Investment Plan."
8. [Exhibit 26](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
9. [Exhibit 27](#) - Summary of Investment Projects.
10. [Exhibit 28](#) - Staff memorandum "Schedule of Investment Committee Meetings."

RECESS

At 2:45 p.m., Trustee Johnson made the following motion:

- That the Investment Committee meeting be recessed.

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

RECONVENE

At 3:20 p.m., when Trustee Figueroa was again present, Trustee McCrohon reconvened the Investment Committee meeting.

The following Trustees were present: Mr. Craig McCrohon, Chair; Ms. Lindsay Anderson, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Peter Newell, Mr. Antonio Vasquez and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, 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; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Douglas Moseley and Ms. Kristin Finney-Cooke of NEPC.

REVIEW AND RECEIPT OF REPORT TO THE GOVERNOR AND GENERAL ASSEMBLY REGARDING USAGE OF EMERGING INVESTMENT MANAGERS / REPORT FROM THE EMERGING MANAGER AND DIVERSITY MATTERS SUBCOMMITTEE

Mr. Allen noted that the draft 2015 Work Plan for the Emerging Manager and Diversity Matters Subcommittee and the fiscal year 2014 Report to the Governor and General Assembly Regarding Usage of Emerging Investment Managers were provided with the meeting materials.

Trustee Figueroa recognized the efforts of the staff and Board members to develop guidelines that will assist in fulfilling SURS' commitment to diversity. Trustee Figueroa remarked that the draft strategic plan is a working document and he invited comments, noting the discussion held earlier on ways of nurturing emerging managers, becoming more active across manager searches and continuing outreach. Trustee Figueroa advised that the Subcommittee would report its progress to the Board periodically and he expressed aspiration for its work to constitute a leadership role in the area of diversity.

Mr. Allen advised that development of a TOIGO Internship Program with SURS is being explored, likely in collaboration with universities within the system, and Trustee Matthews expressed interest in pursuing the concept. After encouraging feedback on the Subcommittee's plan, Mr. Allen presented the Report to the Governor and General Assembly Regarding Usage of Emerging Investment Managers, which is compiled by staff and posted to various legislators as well as the SURS website, and recommended that it be received and filed.

Trustee McCrohon made the following motion:

- That the annual Report to the Governor and General Assembly Regarding Use of Emerging Investment Managers for the period ending June 30, 2014, be received and filed with the Illinois Governor and members of the General Assembly as required by statute and any corresponding regulations and policies.

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

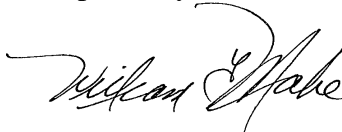
Copies of the staff memorandum, “Report from the Emerging Manager and Diversity Matters Subcommittee,” the draft SURS Diversity and Inclusion Strategic Plan 2014 -2016, and the staff memorandum, “Report to the Governor and General Assembly Regarding Use of Emerging Investment Managers,” are incorporated as a part of these Minutes as [Exhibit 29](#), [Exhibit 30](#) and [Exhibit 31](#).

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 Figueroa and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:mb