



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
1:00 p.m., Thursday, February 14, 2013
The Northern Trust
50 South LaSalle Street, Assembly Room 6th Floor
Chicago, Illinois 60603**

The following Trustees were present: Ms. Jacqueline Berger, Dr. John Engstrom, Ms. Carrie Hightman, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller and Mr. Antonio Vasquez.

Others present: Mr. William Mabe, Executive Director; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt and Mr. Joseph Duncan, Senior Investment Officers; Ms. Lou Ann Fillingham and Mr. Gabriel Ayoroa, Investment Officers; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Albert Lee, Associate General Counsel; Ms. Beth Spencer, Communications Manager; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. John Jackson, Mr. Mark Kline, Mr. Jay Kloepfer, Ms. Sally Haskins and Mr. Yosangel Haddad of Callan Associates; Ms. Amy Bacich of the Northern Trust Company, Ms. Elizabeth Wohlleb of RREEF, Ms. Sharon Piet of Podesta & Co., Ms. Renaye Manley of Service Employees International Union, Mr. Keith Lathan of Williams Capital Group, Mr. Elliot Mallen of UNITE HERE and Mr. Dudley Brown, Jr. of Blaylock Robert Van.

Roll call attendance was taken. Trustee Engstrom, present; Trustee Figueroa, absent; Trustee Johnson, present; Trustee Matthews, present; Trustee McCrohon, present; Trustee Vasquez, absent; Trustee Vogel, absent.

Since Trustee Mitchell Vogel was unable to be present, Trustee John Engstrom served as the Investment Committee Chair.

APPROVAL OF MINUTES

Trustee Engstrom presented the Minutes from the Investment Committee meeting of December 13, 2012. Trustee Andrew Matthews moved that:

- The Minutes from the December 13, 2012 Investment Committee meeting be approved as presented.

Trustee Paul R. T. Johnson seconded and the motion carried with all Trustees present voting in favor.

Copies of the staff memorandums, entitled “Report from the December 13, 2012 Investment Committee Meeting” and “Investment Contracts Approved,” are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

CHAIRPERSON’S REPORT

Trustee Engstrom noted that the Chairperson’s Report would be deferred to the next meeting. Mr. Daniel Allen advised that he and Mr. Mark Kline of Callan Associates (Callan) have been engaged in succession planning with regard to the Callan service team. Mr. Allen introduced Mr. John Jackson and Mr. Yosangel Haddad, who will serve the SURS account together with Mr. Kline and additional Callan staff that specialize in particular areas.

Mr. Allen reported that investment returns for the portfolio as of December 31, 2012, are 13.9% for the one-year period, 9.0% for the three-year period and 8.2% for the ten-year period. Also, the preliminary return for the fiscal year as of January 31, 2013, is 10.1%. In addition, Mr. Allen advised that the State Comptroller has set the Effective Rate of Interest at 6.75% for fiscal year 2014 and that SURS Comprehensive Annual Financial Report for fiscal year 2012 has been released.

A copy of the graph, “SURS Projected Funding Status through January 2013”, that was distributed at the meeting is incorporated as a part of these Minutes as [Exhibit 3](#).

(Educational Topic) – DISCUSSION OF POTENTIAL STRATEGIES FOR IMPLEMENTATION OF PHASE III OF THE ASSET STRUCTURE ANALYSIS – FIXED INCOME AND TREASURY INFLATION-PROTECTED SECURITIES (TIPS) ASSET CLASSES

Mr. Jay Kloepfer of Callan Associates conducted the educational session, which began at 1:10 p.m., regarding the implementation of the third phase of the Asset Structure Analysis commenced in 2011. (Trustee Antonio Vasquez joined the meeting during the presentation at 1:30 p.m.) Mr. Kloepfer focused on the fixed income and Treasury Inflation-Protected Securities (TIPS) asset classes and the characteristics, expected future returns and role of these investments within the overall portfolio. Furthermore, Mr. Kloepfer discussed the long-term strategic composition of the portfolio, the current fixed income manager structure and the path to achieve portfolio optimization. The first scenario offered for consideration would rebalance allocations among existing managers and increase exposures to passive and core fixed income. The second would reduce the exposure to passive fixed income, increase the exposure to core plus fixed income and create an unconstrained mandate that provides the manager greater discretion to exercise tactical moves. Discussion of the concepts and strategies presented followed.

The educational session lasted for 50 minutes and concluded at 2:00 p.m.

A copy of the staff memorandum, "Introduction to Fixed Income Structure Analysis," is incorporated as a part of these Minutes as [Exhibit 4](#). Copies of the Callan reports, "Fixed Income Portfolio Structure Study" and "On the Frontline of Fixed Income," are incorporated as a part of these Minutes as [Exhibit 5](#) and [Exhibit 6](#).

**CONSENT AGENDA – FIXED INCOME AND TREASURY INFLATION-
PROTECTED SECURITIES (TIPS) ANNUAL MANAGER REVIEW**

Mr. Allen remarked that the fixed income managers are routinely reviewed at the February meeting and that retention of the managers would be presented as a consent agenda. Ms. Kimberly Pollitt discussed organizational issues that currently exist at certain of the managers, noting that many are positive developments, and she reported that the fixed income portfolio returned 7.73% for the year ended September 30, 2012, versus 5.16% for the benchmark and TIPS returned 10.27% versus 9.10% for the benchmark. Ms. Pollitt advised that staff and Callan recommend that the existing fixed income managers be retained with no allocation changes at this time.

Trustee Engstrom presented the following motions and Trustee Johnson moved that:

- That PIMCO be retained as a core plus fixed income manager.
- That PIMCO be retained as a TIPS fixed income manager.
- That TCW MetWest be retained as a core plus fixed income manager.
- That Neuberger Berman be retained as a core plus fixed income manager.
- That Taplin, Canida & Habacht be retained as a core plus fixed income manager.
- That LM Capital Management be retained as a core plus fixed income manager.
- That Smith Graham be retained as a core plus fixed income manager.
- That Garcia Hamilton & Associates, L.P. be retained as a core plus fixed income manager.
- That Chicago Equity Partners be retained as a core fixed income manager.
- That Pugh Capital be retained as a core fixed income manager.
- That Longfellow Investment Management be retained as a TIPS fixed income manager.
- That New Century Advisors be retained as a TIPS fixed income manager.

Trustee Vasquez seconded the motion. Trustee Engstrom requested that any concerns be raised. None were raised and the motion carried with all Trustees present voting in favor.

A copy of the staff memorandum, "Executive Summary of the Actively Managed Fixed Income Asset Class," is incorporated as a part of these Minutes as [Exhibit 7](#).

**REAL ESTATE ASSET CLASS REVIEW AND
CORE REAL ESTATE MANAGER INTERVIEWS**

Mr. Allen opened the discussion, remarking that the RREEF relationship was discussed in detail at the December meeting. Mr. Joseph Duncan briefly reviewed the organizational concerns surrounding the firm, including Deutsche Bank's proposed sale of RREEF, reductions to staff and fee increases in some accounts, and he noted the Board's termination of RREEF America II in December and previous termination of RREEF America III. Staff met with RREEF in January at the firm's Chicago office and while performance and client service for the two Real Estate Investment Trust (REIT) accounts have been satisfactory, Mr. Duncan advised that concerns with organizational stability remain and that staff and Callan recommend both accounts be terminated and the assets transferred to a global REIT index fund at BlackRock. Ms. Sally Haskins concurred, noting there is uncertainty whether RREEF will remain a Deutsche Bank-owned entity whereas the index fund at BlackRock is backed by organizational stability, less dependent on management and also low cost. Consideration of the issue followed.

Trustee Johnson moved that:

- That RREEF be terminated as a U.S. REIT manager.
- That RREEF be terminated as a global REIT manager.
- That BlackRock's guideline and fee agreement be amended to include the Global Real Estate Securities Index Fund.

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

Mr. Allen reported that 22 responses were received from core real estate investment management firms as a result of the search that was approved at the September meeting. After reviewing the responses to the request for proposal and narrowing the pool of candidate firms to seven, interviews were conducted by staff and Callan in January and three finalist firms were selected.

Ms. Haskins discussed the search process and each of the firms that responded in further detail, including criteria that led to elimination and the characteristics of the finalists. (Trustee Carrie Hightman joined the meeting at 2:15 p.m. at the beginning of the discussion) In response to the Trustees' request, Ms. Haskins advised that staff and Callan recommend selection of J.P. Morgan Asset Management and Heitman for the mandate and she discussed the factors forming the analysis. Mr. Allen advised that the recommended amount of the allocation is \$300 million, divided equally between the two firms. Discussion of the recommendations followed. Ms. Haskins noted that entry queues currently exist for all three of the finalist firms.

The Trustees then heard presentations from the following representatives of the finalist candidate firms under consideration as core real estate investment managers:

- AEW – Mr. David McWhorter, Mr. Michael Acton and Mr. Daniel Bradley
- J.P. Morgan Asset Management – Ms. Melissa Brown, Ms. Anne Pfeiffer, Ms. Kimberly Adams and Ms. Rebekah Brown
- Heitman – Ms. Christina Polito, Mr. Blaise Keane and Ms. Mary Ludgin

Discussion of the capabilities and performance of the firms and relative characteristics of the specific core real estate funds followed.

Trustee Johnson moved that:

- That a commitment of \$150 million be authorized, contingent on successful contract negotiations to the JPMCB Strategic Property Fund.
- That a commitment of \$150 million be authorized, contingent on successful contract negotiations to the Heitman America Real Estate Trust.

Trustee Matthews seconded the motion. After further discussion regarding the size of each allocation, the need to diversify and fund fee schedules, the motion carried with all Trustees present voting in favor.

Copies of the staff memorandum, “RREEF Real Estate Securities,” and the Callan memorandum, “RREEF,” are incorporated as a part of these Minutes as [Exhibit 8](#) and [Exhibit 9](#). Copies of the staff memorandum, “Core Real Estate Manager Search Recommendation,” and the Callan reports, “Real Estate Discussion” and “Core Open-End Commingled Real Estate Fund,” are incorporated as a part of these Minutes as [Exhibit 10](#), [Exhibit 11](#) and [Exhibit 12](#). Copies of the presentations of AEW Core Property Trust (U.S.), Inc., J.P. Morgan Asset Management and Heitman are incorporated as a part of these Minutes as [Exhibit 13](#), [Exhibit 14](#) and [Exhibit 15](#). A copy of Callan’s research paper, “An Overview of Institutional Real Estate,” is also incorporated as a part of these Minutes as [Exhibit 16](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Allen advised that the search for a private equity emerging manager fund of funds provider is underway. Staff will provide an update at the March meeting and anticipate that finalist candidates will make presentations to the Committee at the June meeting. Mr. Allen noted that the next Investment Committee meeting will convene on March 13, 2013, in Springfield, Illinois.

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

1. [Exhibit 17](#) - SURS Projected Funding Status through December 2012.
2. [Exhibit 18](#) - Staff memorandum entitled “Private Equity Emerging Manager Fund of Funds Provider Search Update.”
3. [Exhibit 19](#) - Staff memorandum entitled “June 2012 Investment Manager Watch List.”
4. [Exhibit 20](#) - Investment Compliance Activities 2013.

5. [Exhibit 21](#) - Fiscal Years 2013-14 Summary Work Plan Investment Committee Schedule.
6. [Exhibit 22](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
7. [Exhibit 23](#) - Staff memorandum entitled "Schedule of Investment Committee Meetings."

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William E. Mabe". The signature is written in a cursive style with a large, looping initial "W".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:mb