



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
1:00 p.m., Thursday, June 13, 2013
The Northern Trust
50 South LaSalle Street, London Room B9
Chicago, Illinois 60603**

The following Trustees were present: Mr. Mitchell Vogel, Chair; Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon and Ms. Dorinda Miller.

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. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; 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; Mr. Chris Hansen, Director of Operations; Mr. Jeffrey Houch, Legislative Liaison; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. John Jackson, Mr. Yosangel Haddad, Mr. Mark Kline, Ms. Sally Haskins and Mr. Gary Robertson of Callan Associates; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Ms. Amy Williams of Gabriel Roeder Smith & Company; Ms. Renaye Manley of Service Employees International Union and Mr. Jason Parks of Loop Capital.

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

APPROVAL OF MINUTES

Trustee Mitchell Vogel presented the Minutes from the Investment Committee meeting of May 2, 2013. Trustee John Engstrom moved:

- That the Minutes from the May 2, 2013 Investment Committee meeting be approved as presented.

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

CHAIRPERSON'S REPORT

Trustee Vogel reported that infrastructure investment has been a focus of the Clinton Global Initiative meeting, which he attended this morning, and two large working groups representing major U.S. cities are meeting to study the issue. Trustee Vogel also remarked on the letters sent by him in his own personal capacity and Mr. William Atwood of the Illinois State Board of Investment to Oaktree Capital Management regarding the possible sale of the *Chicago Tribune* to buyers that have shown opposition to public pension funds.

Mr. Daniel Allen remarked that the Adams Street Conference held last week was attended by Trustee Paul R.T. Johnson, Trustee Craig McCrohon, Mr. Douglas Wesley and Ms. Kimberly Pollitt. Mr. Allen also reported that the fiscal year to date return as of May 31, 2013, stands at 14.6% and he reviewed accomplishments over the past year related to the investment program. Trustee Vogel recommended that a report from the Chief Investment Officer be included as an agenda item in the future.

Copies of the staff memorandums, entitled "Report from the May 2, 2013 Investment Committee Meeting" and "Investment Contracts Approved," are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#). A copy of the chart that was distributed, "SURS Projected Funding Status through May 2013," is also incorporated as a part of these Minutes as [Exhibit 3](#).

CONSIDERATION OF OPPORTUNISTIC REAL ESTATE

Mr. Wesley remarked that the real estate asset class pacing analysis approved last September is designed to assist with achieving the 6% long term target to private real estate. The retention of two core real estate managers in February, combined with the existing allocation to UBS Trumbull Property Fund, completes the build-out of the core real estate portion of the portfolio. The pacing model indicates \$100 million to non-core real estate in fiscal years 2013, 2014 and 2015, and \$75 million per fiscal year thereafter in order to maintain levels of 80% core and 20% non-core. Mr. Wesley advised that staff and Callan Associates (Callan) recommend an allocation of \$100 million to Dune Real Estate Fund III, which employs the same strategy as the firm's Fund II in which SURS is invested.

Ms. Sally Haskins discussed the fund under consideration in further detail, noting that non-core real estate opportunities arising from the downturn remain and overlap with existing real estate fund of funds investments is minimal. With regard to the fund's manager, Ms. Haskins cited the strength of the team, robust investment process, performance track record and the firm's willingness to invest alongside. Ms. Haskins also advised that Callan has successfully negotiated stricter investment limitations and a reduced management fee given the size of the commitment. Discussion of the fund and the characteristics of non-core real estate followed. Ms. Mary Pat Burns advised that, as indicated by Illinois House Bill 2620, a follow-on investment in a closed-end fund would not necessitate a new investment manager search.

A presentation was made to the trustees regarding the real estate fund under consideration by the following representatives of the fund's manager:

- Dune Real Estate Partners – Mr. Dan Neidich and Ms. Cia Buckley

Deliberation followed. Trustee Figueroa expressed favor for Dune Real Estate Partners but he noted that a competitive bid process could be beneficial given the investment size and associated risk. The possibility of engaging with additional opportunistic real estate managers was discussed. Mr. Wesley observed that the real estate pacing model indicates additional investment in real estate in coming years since maturing investments will increase an income distribution stream from the asset class. Ms. Haskins also remarked that Dune Real Estate Partners is a top quartile manager and that timing is a factor since fund access is cyclical. Trustee Vogel noted the Board's preference that a search be conducted for future real estate investments.

Trustee Richard Figueroa then made the following motion:

Opportunistic Real Estate Investment

- That a commitment of \$100 million be authorized, contingent on successful contract negotiations, to the Dune Real Estate Fund III, LP.

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

Following the motion, Trustee Vogel noted the fee negotiation and remarked that several Chicago pension funds have met on the issue of standardizing investment management fees.

Copies of the staff memorandum, "Dune Real Estate Fund III," the Callan memorandum, "Real Estate Pacing Analysis," and the Callan report, "Dune Real Estate Fund III, L.P.," are incorporated as a part of these Minutes as [Exhibit 4](#), [Exhibit 5](#) and [Exhibit 6](#). A copy of the Dune Real Estate Partners presentation is incorporated as a part of these Minutes as [Exhibit 7](#).

PRIVATE EQUITY EMERGING MANAGER FUND OF FUNDS PROVIDER INTERVIEWS

Trustee McCrohon remarked on the semi-finalist interviews that he attended in connection with the private equity emerging manager fund of funds provider search. Trustee McCrohon noted concurrence with the finalists selected and the attention to investment process and personnel in addition to performance.

Mr. Allen briefly reviewed the search process and Private Equity Funding Plan, noting that the mandate under consideration is focused on investment in private equity funds that qualify as 51% or more minority-, women- or persons with a disability-owned entities. Mr. Allen also noted the organizational changes developing at Credit Suisse and discussion of the matter followed.

Mr. Gary Robertson discussed the search in further detail and he advised that ten firms responded to the request for proposal (RFP) and six semi-finalist interviews were conducted. Mr. Robertson observed that the 51% requirement of the mandate is more stringent than usual, and he reviewed the differences in the fee proposals provided by the finalist candidates as well as their relative capabilities, distinguishing characteristics and historical performance.

Presentations were made to the trustees by the following representatives of the three finalist candidate firms under consideration for the role:

- Credit Suisse – Ms. Kelly Williams, Mr. Derek Jones, Ms. Mina Pacheco Nazemi and Mr. Jason Howard

- Fairview Capital Partners – Ms. JoAnn Price, Mr. Laurence Morse and Mr. Matthew Schaefer

- J.P. Morgan Asset Management – Mr. Larry Unrein, Ms. Lauren Costa, Ms. Ashmi Mehrotra, Mr. Bertram Cooke and Ms. Melissa Brown Anezinis

After the presentations were heard, it was decided to remain in open session for the deliberation. Discussion ensued during which each of the trustees indicated their preferred candidate and communicated their thought process. In response to the trustees' inquiry, Mr. Allen advised that staff and Callan recommend Fairview Capital Partners (Fairview) due to the firm's stability, longevity in the industry, minority-ownership structure, low fee and sound investment process. Ms. Pollitt also remarked that the reference checks for Fairview were positive and Mr. Gabriel Ayoroa noted the firm's improved performance since 2008. The discussion turned to the consideration of legislative requirements and the fiduciary role of the trustees. Ms. Mary Pat Burns advised that the Illinois legislation, subject to fiscal and fiduciary responsibilities, requires the trustees to set an annual goal for the utilization of public monies by enterprises which are at least 51% owned by minority, women and persons with a disability.

After the discussion, Trustee Johnson made the following motion:

Private Equity Emerging Manager Fund of Funds Provider Search

- That a commitment of up to \$75 million be authorized, contingent on successful contract negotiations, to J.P. Morgan Asset Management.

Trustee Jacqueline Berger seconded; however, the motion was not carried by the roll call vote:

Trustee Berger	- yes
Trustee Engstrom	- no
Trustee Figueroa	- no
Trustee Johnson	- yes
Trustee McCrohon	- no
Trustee Miller	- no
Trustee Vogel	- no

Trustee Engstrom then made the following motion:

- That a commitment of up to \$75 million be authorized, contingent on successful contract negotiations, to Fairview Capital Partners.

Trustee Miller seconded and the motion was carried by the roll call vote:

Trustee Berger	- no
Trustee Engstrom	- yes
Trustee Figueroa	- yes
Trustee Johnson	- no
Trustee McCrohon	- yes
Trustee Miller	- yes
Trustee Vogel	- yes

Copies of the staff memorandum, “Private Equity Emerging Manager Fund of Funds Provider Search Recommendation,” and the Callan report, “Finalist Candidates MWD Private Equity Manager-of-Managers Search,” are incorporated as a part of these Minutes as [Exhibit 8](#) and [Exhibit 9](#). The presentations of Credit Suisse, Fairview Capital Partners and J.P. Morgan Asset Management are incorporated as a part of these Minutes as [Exhibit 10](#), [Exhibit 11](#) and [Exhibit 12](#).

UPDATE OF SURS INVESTMENT PERFORMANCE AND RISK MANAGEMENT REPORTS

Mr. John Jackson reported that equities outperformed significantly during the first quarter of 2013, returning 10.6%, while fixed income returns were negative. The investment return for the total fund was 5.32% for the first quarter and total assets increased to \$14.9 billion as of March 31, 2013, placing SURS in the 36th percentile of the large public fund peer group. The asset allocation stood at approximately 67% equities, 25% fixed income and 7% real estate. Annualized returns were 7.18% for the last two-year period and 9.5% for the last three-year period ended March 31, 2013. Mr. Jackson advised that outperformance of 0.32% relative to the total fund benchmark for the first quarter was attributable to manager effect rather than asset allocation and he noted the difficulty of measuring private equity returns against a publicly-traded index benchmark.

Mr. Joseph Duncan presented the current findings from the SURS Risk Report, which he noted is a relatively new report still in the early stage of development. The quarterly report is one year forward looking and staff is monitoring for any changes from quarter to quarter. Up to this point, the total plan risk number has remained stable or decreased slightly and continues to be consistent with other public funds. Mr. Duncan noted that more robust reporting will be available as time allows for more data to be collected.

Copies of the staff memorandum, “Executive Summary of Risk Report,” and the Northern Trust Market Risk Services report as of March 31, 2013, are incorporated as a part of these Minutes as [Exhibit 13](#) and [Exhibit 14](#).

APPROVAL OF THE SCRUTINIZED COMPANIES LIST
AS DEFINED BY IRAN LEGISLATION

Ms. Marilyn Branson provided a report of SURS' compliance with the requirements of Public Act 95-616, which prohibits investments that are related to Iran's petroleum-energy sector. After discussing the changes to the Iran Scrutinized Companies list during fiscal year 2013 and the communications undertaken with companies and investment managers, Ms. Branson advised that no divestment was required this year since the amount invested in scrutinized companies represented less than 0.5% of the \$15.2 billion total fund as of April 30, 2013. Ms. Branson also remarked that, since the legislation requires the list to be updated annually, staff recommends adoption of the Iran Scrutinized Companies list updated as of May 1, 2013.

Trustee Johnson made the following motion:

Compliance with Iran Legislation

- That the Board adopt the Iran Scrutinized Companies list updated as of May 1, 2013, as presented.

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

Trustee Vogel noted that the Sudan legislation does not require the Board to adopt a list and report regarding compliance with Public Act 95-521 will be provided at a future meeting.

A copy of the staff memorandum, entitled "Iran Legislation Compliance," is incorporated as a part of these Minutes as [Exhibit 15](#).

REVIEW OF THE FISCAL YEAR 2014 INVESTMENT DEPARTMENT BUDGET

Ms. Lou Ann Fillingham presented the Investment Department Operations Budget for fiscal year 2014, noting that new budget factors include the addition of enhanced risk reporting services and the shift to a risk-averse securities lending strategy which ended the custody fee reimbursement program. Proposed administrative expenses are approximately \$3.4 million, an increase of 2.8% from fiscal year 2013, and investment management expenses are projected at approximately \$46 million, representing a decrease of 6.8%. The investment management fees paid by SURS have compared favorably to other Illinois public funds and the median public fund for over twenty years. Ms. Fillingham advised that staff recommends acceptance of the projected investment management fees given the inherent fluctuation in these calculations and approval of the administrative expense budget. Ms. Fillingham also explained that reductions to performance based fees due to fee restructurings and manager turnover are the basis for the projected decline in management fees.

Trustee Johnson made the following motions:

Fiscal Year 2014 Investment Budget

- That the Investment Department Administrative Expense Budget for Fiscal Year 2014 be approved as presented.
- That the projected Investment Department Investment Management Fees for Fiscal Year 2014 be accepted as presented.

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

Copies of the staff memorandum, “Investment Operations Budget – Fiscal Year 2014,” the Investment Operations Budget: Administrative Expenses and the Statement of Investment Expenses for Fiscal Year 2013 as of March 31, 2013, are incorporated as a part of these Minutes as [Exhibit 16](#), [Exhibit 17](#) and [Exhibit 18](#).

RECOMMENDATION TO APPROVE
ACTUARIAL SERVICES PROVIDER SEARCH

Mr. Allen advised that a search for an actuarial services provider was conducted in 2008 and a one-year contract extension was approved by the Board last September. Mr. Allen remarked that the creation of the State Actuary has increased responsibilities and he recommended that a new search be opened with the request for proposal issued this summer and completion of the project targeted for December. Noting that the quiet period commences upon approval of the search, Mr. Allen recommended that the trustees refer any questions they receive to appropriate staff. Trustees were invited to participate in the search process and it was planned for Trustee Engstrom to serve on the search committee.

Trustee Miller made the following motion:

Actuarial Services Provider Search

- That a search be conducted to identify a qualified actuarial services provider.

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

A copy of the staff memorandum, “Recommendation to Conduct Actuarial Services Provider Search,” is incorporated as a part of these Minutes as [Exhibit 19](#).

PRIVATE EQUITY AND OPPORTUNITY FUND ASSET CLASSES
ANNUAL MANAGER REVIEWS

Ms. Pollitt reported that the private equity portfolio has a market value of nearly \$1.1 billion or 7.2% of the total fund as of March 31, 2013. Although higher than the 6% long term target, the percentage is expected to decline as distributions continue to exceed contributions in the coming year. Ms. Pollitt remarked that the private equity portfolio has been very successful over the long term, delivering a 21.9% internal rate of return since inception which compares favorably to the public equity benchmark plus 300 basis points return of 12.7%.

Ms. Pollitt advised that staff and Callan recommend retention of Adams Street Partners and Pantheon Ventures and she noted that a motion is not required for Muller and Monroe Asset Management due to the closed-end structure of their funds.

Trustee Johnson made the following motions:

Private Equity Asset Class Manager Review

- That Pantheon Ventures be retained as a private equity manager.
- That Adams Street Partners be retained as a private equity manager.

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

Mr. Duncan reported that the Opportunity Fund has a total market value of approximately \$98 million as of March 31, 2013, with \$75 million invested in infrastructure and \$22 million in Public-Private Investment Program (PPIP) investments. No organizational issues exist with respect to the infrastructure managers and performance as a whole has been above benchmark. Remarking that a total of \$160 million was committed to the PPIP managers, Mr. Duncan advised that RLJ Western Asset Management has made its final distribution and the other two managers are expected to do so by year end. The PPIP investments have performed well, exceeding the benchmark by over 700 basis points, and there are no organizational issues.

Copies of the staff memorandums, “Executive Summary of the Private Equity Asset Class” and “Executive Summary of Opportunity Fund,” are incorporated as a part of these Minutes as [Exhibit 20](#) and [Exhibit 21](#). A copy of the U.S. Treasury document, entitled “Legacy Securities Public-Private Investment Program,” is incorporated as a part of these Minutes as [Exhibit 22](#).

**ANNUAL CONSULTANT EVALUATION
OF SURS MANAGER DIVERSITY PROGRAM**

Mr. Yosangel Haddad presented the annual review of the Manager Diversity Program, which is focused on investment opportunities with minority-, women- and persons with a disability-owned investment managers. As of March 31, 2013, there are 31 firms participating that manage over \$1.9 billion in assets, including \$1.4 billion in direct relationships and \$538 million via the Progress Investment Management manager of managers program. After discussing changes within the program in the past year, Mr. Haddad remarked that assets have grown substantially over the years and fees are favorable relative to the median fee for the asset classes represented although slightly higher than for the entire SURS’ portfolio.

A copy of the Callan memorandum, “Annual Manager Diversity Program Review,” is incorporated as a part of these Minutes as [Exhibit 23](#).

PRESENTATION OF THE SURS INVESTMENT MANAGER WATCH LIST

Mr. Ayoroa presented the June 2013 Investment Manager Watch List which reflects investment performance for the period ending March 31, 2013. Mr. Ayoroa advised that, with the addition of Profit Investment Management, three managers are currently on watch due to underperformance relative to benchmark. In addition, Calamos Advisors remains on watch since September 2012 due to organizational changes pertaining to upper management.

A copy of the staff memorandum, "June 2013 Investment Manager Watch List," is incorporated as a part of these Minutes as [Exhibit 24](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

On behalf of the trustees, Trustee Vogel requested Ms. Amy Williams to extend the Board's best wishes to Ms. Leslie Thompson of Gabriel Roeder Smith & Company (GRS). (Trustee McCrohon departed the meeting at this point at 5:10 p.m.)

Ms. Williams gave a brief report regarding actions related to the State Actuary and she advised that the assumptions and methods used by GRS in the June 30, 2012 actuarial valuation were determined to be reasonable by the State Actuary. Ms. Williams also noted that the State Actuary made recommendations for additional disclosures as well as annual review of the investment return assumption and benefit recipient loss.

Mr. Allen referenced the NASRA Issue Brief, which reported an average investment return assumption of 7.77% for public pension plans. Mr. Allen also provided an update on the investment consultant search, noting that six RFP responses were received for general consultant services and five for real estate only. Staff is currently reviewing the responses and semi-finalist interviews are anticipated to be held in Champaign in late summer. Trustee Vogel encouraged the trustees to take an active role in the process after the initial round of interviews. Mr. Allen confirmed that the Board will be kept informed of the search schedule.

Mr. Allen advised that arrangements are underway for the Trustee Educational Forum on September 12, 2013, from 8:30 a.m. to 12:00 p.m. The session will include segments on the Council of Institutional Investors, infrastructure investment and risk management strategies. Discussion of logistics for the September meetings followed. Trustee Vogel suggested that educational visits to the Chicago Board Options Exchange and the Northern Trust facility on South Canal Street be conducted at a future date.

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

1. [Exhibit 25](#) - SURS Projected Funding Status through April 2013.
2. [Exhibit 26](#) - Letter to Oaktree Capital, LP dated May 15, 2013.
3. [Exhibit 27](#) - Letters to Oaktree Capital Management, L.P. dated May 8, 2013.
4. [Exhibit 28](#) - Staff memorandum entitled "Status Update of Investment Consultant Search."

5. [Exhibit 29](#) - GRS report entitled “GRS and SURS Board Actions to FY 2012 State Actuary Report.”
6. [Exhibit 30](#) - NASRA Issue Brief: Public Pension Plan Investment Return Assumptions.
7. [Exhibit 31](#) - Topics for SURS Trustee Educational Forum.
8. [Exhibit 32](#) - Staff memorandum entitled “Compliance Update.”
9. [Exhibit 33](#) - Investment Compliance Activities 2013-14.
10. [Exhibit 34](#) - Fiscal Years 2013-14 Summary Work Plan Investment Committee Schedule.
11. [Exhibit 35](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
12. [Exhibit 36](#) - Schedule of Investment Committee Meetings.

Since there was no further business before the Committee, Trustee Engstrom moved that the meeting be adjourned. The motion was seconded by Trustee Miller 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, sweeping initial "W".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:mb