



## MINUTES

**Meeting of the Investment Committee  
of the Board of Trustees of the  
State Universities Retirement System  
11:00 a.m., Thursday, May 2, 2013  
The Northern Trust  
50 South LaSalle Street, London Room B9  
Chicago, Illinois 60603**

The following Trustees were present: Mr. Mitchell Vogel, Chair; Ms. Carrie Hightman (via teleconference), Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, 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. 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. Angela Lieb, Director of Member Services; Mr. Michael Sheppard, Assistant Deputy Director of the Self-Managed Plan; Ms. Beth Spencer, Communications Manager; Mr. Jeffrey Houch, Legislative Liaison; Ms. Lori Kern and Ms. Karen Hipskind, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. John Jackson, Mr. Yosangel Haddad, Mr. Mark Kline and Ms. Jamie McAllister of Callan Associates; Ms. Patti Somerville-Koulouris of the Northern Trust Company and Mr. Larry Sallberg.

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, present.

Trustee Mitchell Vogel remarked that Chairwoman Carrie Hightman requested to join the meeting via teleconference and Trustee Paul R. T. Johnson made the following motion:

- That Chairwoman Hightman be allowed to participate by telephone for the Committee and Board meetings, pursuant to Section 7 of the Illinois Open Meetings Act; her physical absence being due to employment purposes.

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

## **APPROVAL OF MINUTES**

Trustee Vogel presented the Minutes from the Investment Committee meeting of March 13, 2013. Trustee Andrew Matthews moved:

- That the Minutes from the March 13, 2013 Investment Committee meeting be approved as presented.

Trustee Johnson seconded the motion.

Mr. Daniel Allen remarked that execution of the real estate transactions with Heitman and J.P. Morgan Asset Management has been finalized by staff. Mr. Allen also advised that the Mesirov Financial Advisory Committee, on which staff participates, has approved extending the final closing date for the MFIRE Global Partnership Fund II from April 5, 2013, to September 15, 2013.

The motion to approve the Minutes then carried with all Trustees present voting in favor.

(Trustee Richard Figueroa joined the meeting at 11:05 a.m.)

Copies of the staff memorandums, entitled “Report from the March 13, 2013 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 Vogel thanked Trustee John Engstrom and staff for attending the Council of Institutional Investors’ (CII) Spring Meeting. Trustee Engstrom provided his reflections on the conference and the various panel discussions that were held. Trustee Vogel remarked that the next CII meeting is scheduled to be held in Chicago this September and he encouraged the trustees to attend.

### **(Educational Topic) – DEFINED CONTRIBUTION (DC) INDUSTRY OVERVIEW AND SURS SELF-MANAGED PLAN (SMP) ANNUAL REVIEWS**

Mr. Allen introduced the educational session on defined contribution retirement plans and he advised that SURS Self-Managed Plan (SMP) assets currently total in excess of \$1 billion.

Ms. Jamie McAllister of Callan Associates (Callan) and Mr. Lou Gadoury of Fidelity Investments (Fidelity) conducted the educational session, which began at 11:10 a.m. Ms. McAllister provided an overview of the defined contribution marketplace, historical return comparisons and behavioral trends. Ms. McAllister also remarked on plan fees, fund due diligence and compliance, which now represent the top areas of concern for plan sponsors.

Mr. Gadoury discussed Fidelity’s role as an SMP provider, remarking on the importance of diversified options for plan participants, and he noted that the SMP offers a robust array of

investment vehicles. Mr. Gadoury advised that SMP assets under management by Fidelity have grown to approximately \$681M as of April 30, 2013, and he reviewed the asset allocation choices of a statistical sample of the 12,507 members they serve. Discussion of the number and type of contacts between Fidelity and SMP members as well as the methods and frequency of education provided to SMP members by SURS followed. Mr. William Mabe remarked on the need to better target educational opportunities and to define the roles that are responsible for providing education. Trustee Vogel recommended that a discussion of defined contribution plan providers and their educational capabilities be included as a future agenda item. Revenue-sharing programs and other cost-saving measures were also discussed. Mr. Mabe noted that SURS plans to work with Professor Jeffrey Brown of the University of Illinois this summer on research exploring the factors that drive retirement plan decisions.

The educational session lasted for 55 minutes and concluded at 12:05 p.m.

Ms. Lou Ann Fillingham presented the executive summary of the SMP providers, advising that total assets in the plan amounted to approximately \$1.1B as of December 31, 2012, with 57.4% managed by Fidelity and 42.6% by TIAA-CREF. Ms. Fillingham reported that returns were reasonable relative to their respective benchmarks for all of the SMP investment options for the year ended December 31, 2012, and the weighted average expense ratios for both providers are below median. Ms. Fillingham advised that staff recommends retention of both Fidelity and TIAA-CREF as SMP service providers. Mr. Michael Sheppard also remarked on the plan's experience with regard to the distribution choices selected by terminating and retiring participants. Discussion of the two providers followed. As no objection was raised, Trustee Vogel advised that retention of the firms would be voted on as part of the consent agenda.

Copies of the presentations provided by Callan and Fidelity, entitled "Defined Contribution Overview" and "Your Defined Contribution Retirement Plan: A Strategic Discussion," are incorporated as a part of these Minutes as [Exhibit 3](#) and [Exhibit 4](#). Copies of the staff memorandums, "Executive Summary of the SMP Providers," "Fidelity Investments Self-Managed Plan (SMP) Annual Review" and "TIAA-CREF Annual Review," are incorporated as a part of these Minutes as [Exhibit 5](#), [Exhibit 6](#) and [Exhibit 7](#). Copies of the Self-Managed Plan History and Self-Managed Plan Performance March 31, 2013 Returns are also incorporated as [Exhibit 8](#) and [Exhibit 9](#).

**(Educational Topic) – DISCUSSION OF THE ROLE OF THE PROGRESS  
INVESTMENT MANAGEMENT COMPANY RELATIONSHIP**

Ms. Mona Williams and Mr. Thurman White of Progress Investment Management Company (Progress) conducted an educational session, which began at 12:20 p.m., regarding their firm and its role within the SURS portfolio as Manager of Emerging Managers. The session covered the firm's strategies to source, nurture and actively manage talented investment managers qualified as minority-, female-, and persons with a disability-owned (MFDB) companies, the growth of the relationship, performance returns, contributions to SURS policy objectives and industry changes. In addition, Mr. White and Ms. Williams presented the

diversity scoring model that Progress developed to assist plan sponsors with the evaluation of their diversity initiatives. Discussion of the emerging manager concept, the scoring model, diversity barriers and challenges, and historical returns followed.

The educational session lasted for 50 minutes and concluded at 1:10 p.m. (Trustee Jacqueline Berger departed the meeting at 1:10 p.m.)

A copy of the Progress presentation, "Manager of Emerging Managers Overview," is incorporated as a part of these Minutes as [Exhibit 10](#).

### **U.S. EQUITY ASSET CLASS ANNUAL MANAGER REVIEWS**

Mr. John Jackson advised that the total fund amounted to \$14.3B as of December 31, 2012, of which approximately \$4.3B or 30% was invested in U.S. equities. Although 2012 was a difficult year for active U.S. equity, structured U.S. equity performed particularly well and passive U.S. equity tracked the market. Mr. Jackson also remarked on the current structure of the U.S. equity portfolio, which he advised returned 15.96% for the year ended December 31, 2012, slightly below the benchmark return of 16.38%. However, for the three year period ended December 31, 2012, the portfolio returned 11.56%, exceeding the benchmark return of 11.39% and placing SURS in the 32<sup>nd</sup> percentile of the large fund sponsor peer universe for domestic equity returns. Discussion of outcomes associated with the 2011 asset class structure analysis followed.

Mr. Joseph Duncan reviewed the U.S. equity portfolio in greater detail, noting that as of December 31, 2012, the allocation was 56.4% passive, 30.5% large cap, 6.6% mid cap and 6.5% small cap. After reporting organizational changes and performance issues pertaining to the U.S. equity investment managers, Mr. Duncan advised that staff and Callan recommend termination of NCM Capital Management (NCM) due to continued underperformance, professional staff turnover and decline of assets under management. The NCM assets would be transferred to the Northern Trust Index account.

After a brief discussion regarding the items to be included in the consent agenda, Trustee Vogel presented the following motions and Trustee Johnson moved:

#### **Self-Managed Plan (SMP) Review**

- 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.

#### **U. S. Equity Asset Class Manager Review**

- That CastleArk Management be retained as a domestic equity manager.
- That Profit Investment Management be retained as a domestic equity manager.
- That Lombardia Capital Partners be retained as a domestic equity manager.
- That EARNEST Partners be retained as a domestic equity manager.
- That Holland Capital Management be retained as a domestic equity manager.

- That Channing Capital Management be retained as a domestic equity manager.
- That Jacobs Levy Equity Management be retained as a structured active U.S. equity manager.
- That PIMCO be retained as a structured active U.S. equity manager.
- That Piedmont Investment Advisors be retained as a structured active U.S. equity manager.
- That T. Rowe Price Associates be retained as a structured active U.S. equity manager.
- That Progress Investment Management be retained as a manager of emerging managers.

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

Discussion regarding the performance of Fiduciary Management Associates (FMA) followed; however, the account's inception in May of 2011 was noted. Mr. Allen advised that managers are not considered for inclusion on the watch list until they have a three year track record. Mr. Yosangel Haddad also remarked that FMA plans to add additional resources for financial sector research in order to enhance future performance. Discussion of the watch list process followed. Trustee Johnson then moved:

- That Fiduciary Management Associates be retained as a domestic equity manager.

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

After inviting discussion, Trustee Vogel presented the recommendation regarding NCM and Trustee Johnson moved:

- That NCM Capital Management be terminated as a domestic equity manager.

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

Copies of the Callan memorandum, "U.S. Equity Overview," and the staff memorandums, "Executive Summary of the U.S. Equity Asset Class" and "NCM Capital Management Annual Review and Recommendation," are incorporated as a part of these Minutes as [Exhibit 11](#), [Exhibit 12](#) and [Exhibit 13](#).

### **UPDATE OF THE PRIVATE EQUITY EMERGING MANAGER FUND OF FUNDS PROVIDER SEARCH**

Mr. Allen reported that staff has been reviewing responses to the request for proposal (RFP) for the private equity emerging manager fund of funds provider search. Staff and Callan will conduct semi-finalist interviews next week with six of the ten responding firms and two or three will be selected to make finalist presentations to the Committee at the June meeting. Discussion of the mandate followed. Trustee Vogel recommended that the trustees contact Mr. Allen if they wish to attend the semi-finalist interviews.

A copy of the staff memorandum, "Private Equity Emerging Manager Fund of Funds Provider Search Update," is incorporated as a part of these Minutes as [Exhibit 14](#).

### **CONSIDERATION OF POTENTIAL BOARD EDUCATIONAL TOPICS AND STRATEGIES**

Trustee Vogel remarked that staff was requested to develop a second Trustee Educational Forum this year and Mr. Allen discussed the list of potential topics. Consideration of the topics and the timing of the event followed. (Chairwoman Hightman joined the meeting via telephone at this point at 1:45 p.m.) Consensus was reached to schedule the event for the morning of September 12, 2013. An optional session on Northern Trust's risk reporting was also suggested.

A copy of the staff memorandum, "Potential Board Investment Education," is incorporated as a part of these Minutes as [Exhibit 15](#).

### **RECOMMENDATION TO APPROVE INVESTMENT CONSULTANT SEARCH**

Mr. Allen referenced the discussion at the last meeting regarding the term of the investment consultant contract with the current provider. In 2010, SURS moved to a new consultant with a three year contract and, although the contract allows renewal, Mr. Allen advised that staff and legal counsel recommend a new search be commenced and the incumbent be allowed to rebid. Mr. Mabe remarked that the search would provide an opportunity for new trustees to be involved in the process. Ms. Mary Pat Burns recommended a new five year contract with a clause that allows termination with 30 or 60 days notice. Since the search would need to be completed by December 31, 2013, finalist presentations would be planned for the October meeting. Mr. Allen reviewed the various stages of the search process and welcomed the trustees to become involved. Trustee Vogel recommended that the trustees consider participating in the onsite interviews. It was discussed to specify the due date for RFP responses as June 10, 2013.

Trustee Johnson made the following motion:

#### **Investment Consultant Search**

- That a search be conducted to identify a qualified investment consultant.

Trustee Figueroa seconded the motion.

After Mr. Allen noted the start of the quiet period policy with respect to the investment consultant search, the requirements of the policy were discussed. Mr. Allen recommended that trustees refer interested parties to the RFP that will be posted on the SURS website in approximately one week.

The motion then carried with all Trustees present voting in favor.

A copy of the staff memorandum, "Recommendation to Conduct Investment Consultant Search," is incorporated as a part of these Minutes as [Exhibit 16](#).

### **INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION**

Mr. Allen reported a fiscal year to date return of 12.6% as of March 31, 2013, and he remarked on the guideline changes approved for New Century Advisors and the Adams Street Partners 2013 Client Conference. Mr. Allen also referenced the update provided regarding firearms manufacturers, observing that Illinois House Bill 1296 did not pass, and he presented the semi-annual Investment Manager Watch List. Trustee Johnson mentioned the board room at the Chicago Board Options Exchange as a possible venue for the September meeting.

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

1. [Exhibit 17](#) - Illinois Public Pension Funds Total Fund Performance for periods ending December 31, 2012.
2. [Exhibit 18](#) - SURS Projected Funding Status through March 2013.
3. [Exhibit 19](#) - Documents regarding modifications to investment guidelines for New Century Advisors.
4. [Exhibit 20](#) - Adams Street Partners 2013 Client Conference Agenda.
5. [Exhibit 21](#) - Staff memorandum entitled "Update of Actions Pertaining to Firearms Manufacturers."
6. [Exhibit 22](#) - Staff memorandum entitled "December 2012 Investment Manager Watch List."
7. [Exhibit 23](#) - Investment Compliance Activities 2013.
8. [Exhibit 24](#) - Fiscal Years 2013-14 Summary Work Plan Investment Committee Schedule.
9. [Exhibit 25](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
10. [Exhibit 26](#) - Staff memorandum entitled "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 Matthews and carried with all Trustees present voting in favor.

Respectfully submitted,



Mr. William E. Mabe  
Secretary, Board of Trustees