



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
10:30 a.m., Thursday, October 17, 2013
The Northern Trust
50 South LaSalle Street, London Room B9
Chicago, Illinois 60603**

The following Trustees were present: Mr. Craig McCrohon, Chair; Ms. Lindsay Anderson, Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, 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. Phyllis Walker, Chief Financial Officer; Mr. Albert Lee, Associate General Counsel; 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. Jeffrey Houch, Legislative Liaison; Ms. Lori Kern and Ms. Karen Hipskind, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Leslie Thompson, Ms. Amy Williams, Mr. Lance Weiss, Ms. Kristen Brundirks and Mr. Paul Wood of Gabriel Roeder Smith & Company; Ms. Sharon Piet of Podesta & Co.; Mr. Jason Parks of Loop Capital; Ms. Maureen Rathnakumar and Ms. Haley Rucker of J.P. Morgan Asset Management.

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

APPROVAL OF MINUTES

Trustee Craig McCrohon presented the Minutes from the Investment Committee meeting and Trustee Educational Forum of September 12, 2013, and the Investment Committee meetings of September 17 and 18, 2013. Trustee Paul R. T. Johnson Jr. made the following motions:

- That the Minutes from the September 12, 2013 Trustee Educational Forum be approved, as presented.

- That the Minutes from the September 12, 2013 Investment Committee meeting be approved, as presented.
- That the Minutes from the September 17, 2013 On-Site Investment Consultant Candidate Interview be approved, as presented.
- That the Minutes from the September 18, 2013 On-Site Investment Consultant Candidate Interview be approved, as presented.

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

CHAIRPERSON’S REPORT

Trustee McCrohon remarked that several trustees and staff attended the Council of Institutional Investors Fall Meeting last week, and he advised that he found the educational sessions and networking opportunities provided at the conference to be beneficial.

EXECUTIVE SESSION – DISCUSSION OF LEGAL AND INVESTMENT CONTRACTS

Trustee McCrohon recommended that the Committee go into executive session in order to discuss one of the fund’s investments since it could potentially involve legal negotiations.

Trustee Andrew Matthews moved that the Committee go into executive session under the Open Meetings Act to consider the sale or purchase of securities or investments, or to consider an investment contract, pursuant to §2(c)(7). The motion was seconded by Trustee Johnson and was carried by a roll call vote:

Trustee Anderson	– yes
Trustee Berger	– yes
Trustee Engstrom	– yes
Trustee Figueroa	– yes
Trustee Johnson	– yes
Trustee Matthews	– yes
Trustee McCrohon	– yes
Trustee Miller	– absent
Trustee Vasquez	– absent
Trustee Vogel	– yes

RETURN TO OPEN SESSION

The committee returned to open session. (Trustee Antonio Vasquez joined the meeting at 10:40 a.m. during the executive session.)

CHIEF INVESTMENT OFFICER REPORT

Mr. Daniel Allen remarked that the trustees are invited to an event hosted by Northern Trust at which the Illinois Governor is scheduled to speak and he advised that registration is requested by November 1, 2013. Mr. Allen also reported an investment return of approximately 5.2% for the first quarter of fiscal year 2014 and he noted that trustees recently attended the Roundtable for Consultants & Institutional Investors, the Ariel Investments Client Conference and the due diligence interviews with the investment consultant candidates.

Copies of the staff memorandums, entitled "Report from the September 12, 2013 Investment Committee Meeting and Trustee Educational Forum" and "Investment Contracts Approved," are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

INVESTMENT CONSULTANT CANDIDATE INTERVIEWS

Prior to the interviews, Mr. Allen noted the memorandum and summary materials that were provided by staff. Ms. Mary Pat Burns advised that any completed scoring sheets must be turned in, becoming part of the official record and subject to release under the Freedom of Information Act (FOIA). Ms. Burns also remarked that executive session recordings are not subject to FOIA requests.

Presentations were then made by the following representatives of the three finalist candidate firms under consideration for the role of general investment consultant:

- Hewitt EnnisKnupp – Mr. Russell Ivinjack, Mr. P. J. Kelly, Mr. Brandon Patterson, Ms. Catherine Polleys and Mr. David Rose
- Callan Associates, Inc. – Mr. Gregory Allen, Mr. John Jackson, Mr. Yosangel Haddad and Ms. Sally Haskins
- NEPC, LLC – Mr. Douglas Moseley, Ms. Kristin Finney-Cooke, Mr. Timothy McCusker and Mr. Kevin Leonard

Following the conclusion of the interviews and a brief break, Trustee John Engstrom and Trustee Vasquez requested to hear input from the staff. Some discussion occurred regarding how to best proceed (open or closed session) and Ms. Burns and Mr. Michael Weinstein recommended that discussion of the candidates be held in open session. Mr. Allen presented the conclusions of the staff regarding each of the finalist candidates' strengths, weaknesses and distinguishing characteristics, and after observing the difficulty of the decision, he advised that staff recommends the selection of NEPC for the role of general investment consultant. Trustee Mitchell Vogel expressed a preference for all of the trustees to share their views regarding the investment consultant decision. Trustee Lindsay Anderson remarked that she is limiting her involvement due to the potential for a perceived conflict of interest with respect to her spouse's employment at Aon Hewitt and Trustee Jacqueline Berger advised likewise with respect to her friendship with the spouse of a Callan Associates

employee. Ms. Burns noted that Trustees Anderson and Berger may or may not participate in the voting depending on the specific motion being made.

A lengthy discussion and deliberation followed, during which the trustees expressed their views and gave further consideration to the relative merits and capabilities, as well as the philosophical differences, of the three finalist candidates. The possibility of offering either a two-year or a five-year contract was also debated. At the end of the discussion, Trustee Anderson expressed her appreciation to trustees and staff for their diligence in bringing forward three worthy candidates and Trustee McCrohon also thanked Mr. Allen for creating a search process which allowed for the trustees' full participation.

Trustee McCrohon made the following motion:

Investment Consultant Search

- That the candidate field be narrowed to Callan Associates and NEPC and that Hewitt EnnisKnupp be eliminated from consideration.

After Trustee Vasquez seconded the motion, no further discussion was requested and the motion was carried by a roll call vote:

Trustee Anderson – present
Trustee Berger – yes
Trustee Engstrom – yes
Trustee Figueroa – yes
Trustee Johnson – yes
Trustee Matthews – yes
Trustee McCrohon – yes
Trustee Miller – absent
Trustee Vasquez – yes
Trustee Vogel – yes

Trustee McCrohon then made the following motion:

- That NEPC be retained as general investment consultant for a five-year term, subject to successful completion of contract negotiations.

After Trustee Johnson seconded the motion, no further discussion was requested and the motion was carried by a roll call vote:

Trustee Anderson – yes
Trustee Berger – present
Trustee Engstrom – no
Trustee Figueroa – yes
Trustee Johnson – yes
Trustee Matthews – yes
Trustee McCrohon – yes

Trustee Miller – absent
Trustee Vasquez – yes
Trustee Vogel – no

A copy of the staff memorandum, entitled “Investment Consultant Search Recommendation,” is incorporated as a part of these Minutes as [Exhibit 3](#). Copies of the presentations provided by Hewitt EnnisKnupp, Callan Associates and NEPC are incorporated as a part of these Minutes as [Exhibit 4](#), [Exhibit 5](#) and [Exhibit 6](#).

DISCUSSION OF LEGAL AND INVESTMENT CONTRACTS

Pursuant to the earlier executive session discussion, Trustee McCrohon made the following motion:

Legal and Investment Contracts

- That a Request for Proposal be issued for the retention of one or more outside legal counsel.

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

CERTIFICATION OF STATE CONTRIBUTION FOR FISCAL YEAR 2015 AND PRELIMINARY DISCUSSION OF THE ACTUARIAL VALUATION REPORT

After introducing the Gabriel Roeder Smith & Company (GRS) team who perform actuarial work for SURS, Ms. Leslie Thompson advised that, following the completion of the annual actuarial valuation, the statutory contribution amount is reviewed at the October meeting and the valuation is then discussed in further detail at the December meeting. Ms. Amy Williams reviewed the key assumptions utilized in the valuation, which included 7.75% assumed investment return, 2.75% assumed price inflation and 7% assumed effective rate of interest. The valuation showed a funded ratio of 41.5% based on the actuarial (smoothed) value of assets and 43.7% based on the market value of assets and also an unfunded actuarial accrued liability of approximately \$20.1 billion. Ms. Williams advised that the statutory contribution for fiscal year 2015 amounts to \$1,588.2 million under the statutory funding policy; however, under the GRS recommended funding policy, the contribution would be approximately \$138.5 million higher.

Ms. Thompson also discussed the issue of market risk and the cost of investment return volatility. Noting that the State Actuary requested that the assumed rate of investment return be reviewed every year, Ms. Thompson advised that the probability of achieving the current 7.75% assumed rate of return has lessened due to the effect of higher volatility, which could portend a lower recommended assumed rate of return. Discussion of the volatility concept followed.

After the actuarial discussion, Ms. Phyllis Walker requested that the Board certify \$1,544,200,000 as the proposed net state contribution for fiscal year 2015. The proposed net

state contribution results from the \$1,588,200,000 statutory contribution calculated by GRS under the statutory funding policy less the estimated trust or federal funds which are projected to be \$44 million for fiscal year 2015. Ms. Walker noted that the net state contribution amount is finalized at the December meeting.

Trustee Johnson made the following motion:

Required State Contributions for Fiscal Year 2015

- That based upon the results of the preliminary actuarial valuation, conducted by Gabriel Roeder Smith & Company (GRS), as well as their recommendation, that the amount of \$1,544,200,000 be certified for Fiscal Year 2015 as the proposed net State Contribution.

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

Ms. Walker also requested that the contribution to the Community College Health Insurance Security Fund for fiscal year 2015 be certified in the amount of \$4,459,547 based upon the projected annual payroll provided by the Illinois Community College Board.

Trustee Vogel made the following motion:

- That based upon the projected payroll provided by the Illinois Community College Board, that the amount of \$4,459,547 be certified for Fiscal Year 2015 to the Community College Health Insurance Security Fund.

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

Copies of the GRS document, “Preview of June 30, 2013 Valuation Results,” and the draft SURS Actuarial Valuation Report As of June 30, 2013, are incorporated as a part of these Minutes as [Exhibit 7](#) and [Exhibit 8](#). Copies of the staff memorandums, entitled “Fiscal Year 2015 Certification of Projected State Contribution and Community College Health Insurance Security Fund,” “Proposed State Contribution for Fiscal Year 2015” and “Required State Contribution to the Community College Health Insurance Security Fund for Fiscal Year 2015,” are incorporated as a part of these Minutes as [Exhibit 9](#), [Exhibit 10](#) and [Exhibit 11](#).

STATUS OF ACTUARIAL PROVIDER SEARCH

Mr. Allen reported that three responses, submitted by GRS, Milliman Inc. and Segal Consulting, were received in connection with the actuarial services provider search. It is planned that the three firms will be interviewed in Champaign by the search team and the finalists will provide presentations to the Board at the December meeting.

A copy of the staff memorandum, entitled “Actuarial Service Provider Search Update,” is incorporated as a part of these Minutes as [Exhibit 12](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Allen referenced the Callan memorandum outlining the fee reduction that was obtained in relation to the account managed by Calamos Investments.

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

1. [Exhibit 13](#) - SURS Projected Funding Status through September 2013.
2. [Exhibit 14](#) - Callan memorandum "Calamos Global Opportunities Strategy".
3. [Exhibit 15](#) - Callan Research Note "SURS Global Equity Manager Review – Calamos".
4. [Exhibit 16](#) - June 2013 Investment Manager Watch List.
5. [Exhibit 17](#) - Investment Compliance Activities 2013-14.
6. [Exhibit 18](#) - Fiscal Years 2014-15 Summary Work Plan Investment Committee Schedule.
7. [Exhibit 19](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
8. [Exhibit 20](#) - Schedule of Investment Committee Meetings.

Since there was no further business before the Committee, Trustee Johnson 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

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