



## **MINUTES**

**Meeting of the Investment Committee  
of the Board of Trustees of the  
State Universities Retirement System  
9:30 a.m., Thursday, February 5, 2015  
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, Ms. Jacqueline Berger (by conference call), Mr. Dennis Cullen (by conference call), Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Ms. Dorinda Miller, 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; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Ms. Kristen 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 and Mr. Kevin Leonard of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Ms. Sharon Piet of Podesta & Co.; Ms. Angela Myers of Loop Capital; Mr. Mark Levine of the Illinois State Board of Investment; Mr. Craig Bardo of BroadRiver Asset Management; Ms. Janet Henry of Ramirez Asset Management.

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

Per the motion approved at the earlier Administration Committee meeting, Trustee Dennis Cullen joined the Investment Committee meeting by conference call; however, Trustee Cullen abstained from voting at this meeting as he was just recently appointed a member of the Board.

## **APPROVAL OF MINUTES**

Trustee Craig McCrohon presented the Minutes from the Investment Committee meeting of December 11, 2014. Trustee Paul R. T. Johnson Jr. made the following motion:

- That the Minutes from the December 11, 2014 Investment Committee meeting be approved as presented.

Trustee McCrohon seconded and the motion carried with all Trustees present voting in favor except for Trustee Cullen who abstained.

A copy of the staff memorandum, "Report from the December 11, 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](#).

## **DISCUSSION OF BOARD RESOLUTIONS**

Trustee McCrohon remarked that he has been in discussions with Ms. Mary Pat Burns and Mr. Daniel Allen to clarify when the use of consent resolutions is considered appropriate. Trustee McCrohon observed that he has remarked in past meetings that the record should reflect that thorough due diligence has been conducted for items deemed to require the approval of the trustees. Since the issue is still being evaluated, Trustee McCrohon advised that he will report back to the Committee.

Copies of the document, "Motions of the Board of Trustees Adopted December 12, 2014," the NEPC memorandum, "Review of Passive and Real Estate Manager Fee Structures," and the NEPC analysis, "Manager Fee Review – Index & Real Estate Managers," are incorporated as a part of these Minutes as [Exhibit 3](#), [Exhibit 4](#) and [Exhibit 5](#).

## **CHAIRPERSON'S REPORT**

Trustee McCrohon provided a short presentation regarding the various types of investment fund structures, the typical disclosure documents associated with them and related pros and cons. Trustee McCrohon remarked that more information regarding the proportion and size of the different investment structures in the portfolio would allow for a better understanding of the implications of the decisions made by the trustees and noted that diversity goals can be impacted by pursuing certain types of structures more so than others.

## **CHIEF INVESTMENT OFFICER REPORT**

Mr. Allen remarked that a letter was received at the end of January advising that the State Comptroller has set the effective rate of interest for retirement benefit calculations under the money purchase formula at 7% for fiscal year 2016, which is identical to the rate that was set by the Board for other types of calculations.

Mr. Allen advised that an investment return of 6.5% was achieved for calendar year 2014 and Mr. Douglas Moseley noted that the median return for the period for the public fund universe was 5.8%. Mr. Allen also remarked on the recent volatility of the markets and advised that the investment return for the fiscal year to date is essentially zero as of January 31, 2015.

### **CONSIDERATION OF PRIVATE EQUITY INVESTMENT STRATEGY**

Mr. Allen introduced the next topic, consideration of investment in the Adams Street 2015 Global Fund, and the following representatives of Adams Street Partners provided a presentation regarding their firm, the specific fund under consideration, the opportunity set with respect to emerging managers and the disclosures required by Illinois Public Act 98-1022:

- Mr. Bon French
- Mr. Miguel Gonzalo
- Ms. Lauren Bozzelli

Trustee Jacqueline Berger joined the meeting by conference call during the presentation at approximately 10:00 a.m. pursuant to a previously approved motion pursuant to Section 7 of the Open Meetings Act.

As the presentation concluded, Ms. Burns reminded the trustees that they are required to consider the Public Act 98-1022 disclosures when making their determination regarding the investment opportunity.

Ms. Kimberly Pollitt remarked that the three-year private equity funding plan approved by the Board in June 2014 calls for \$850 million in commitments from 2015 to 2017, including \$250 million during 2015. Ms. Pollitt advised that staff and NEPC recommend commitment of \$125 million to the Adams Street 2015 Global Fund to begin implementation of the plan.

Trustee Johnson made the following motion:

- That a commitment of \$125 million be authorized, contingent on successful contract negotiations, to the Adams Street 2015 Global Fund LP.

Trustee Antonio Vasquez seconded the motion.

Discussion followed. Mr. Moseley advised that NEPC fully supports the recommendation, noting that the manager's capabilities, performance and fee structure are the key factors. Mr. Moseley discussed other managers that compete with Adams Street Partners but noted that SURS works with two of the better private equity managers and the fee structures obtained are quite low. Mr. Allen also observed Adams Street Partners' interest in the issue of diversity and emerging managers and remarked that he anticipates a plan in this regard to be presented to the Committee in the near future.

The motion then carried with all Trustees present voting in favor except for Trustee Cullen who abstained.

Copies of the staff memorandum, “Adams Street Partners 2015 Global Fund,” the NEPC Fund Tear Sheet, the Public Act 98-1022 Disclosures and the NEPC analysis, “Private Equity Supplemental Information – Preqin Database Comparison,” are incorporated as a part of these Minutes as [Exhibit 6](#), [Exhibit 7](#), [Exhibit 8](#) and [Exhibit 9](#).

### **STATUS OF REAL ESTATE INVESTMENT MANAGER SEARCH**

Mr. Shane Willoughby presented an update on the non-core real estate search and a detailed overview of the minority-, female-, and persons with a disability-owned (MFDB) investment managers that responded. Of the 64 firms that responded, ten qualified as MFDB managers (eight direct real estate fund managers and two fund-of-funds managers). Given the size, concentration and other characteristics of the eight MFDB direct fund managers, Mr. Willoughby advised that a fund-of-funds commitment is recommended, specifically a fund-of-one approach that would allow for customized guidelines and appropriate diversification.

Mr. Willoughby also remarked that four of the fund-of-fund managers that responded to the search had previous MFDB experience and two, Oak Street Real Estate Capital and Perennial Capital Advisors, qualify as MFDB themselves. Noting that previous MFDB management experience, performance track record and ability to source new opportunities were among the factors considered, Mr. Willoughby advised that staff and NEPC believe Franklin Templeton, Grosvenor Real Estate and Oak Street Real Estate Capital merit selection as semi-finalists. Trustees were encouraged to participate in interviews with semi-finalists on February 17, 2015, in Chicago and it is anticipated two finalists will make presentations at the March meeting.

Mr. Willoughby noted that a \$90 million commitment is recommended for the fund-of-one product as well as an additional \$70 million over each of the next three years to direct non-core real estate funds per the current real estate funding plan. Responses were received from over 50 direct fund managers in the current search and it is planned that semi-finalist interviews will be scheduled in Chicago during March and finalist presentations will be made at the April meeting.

Consideration of the proposed approach followed. Mr. Joseph Duncan discussed the rationale for the plan, noting that the \$90 million commitment to a fund-of-one, which amounts to 30% of the total three-year real estate funding plan, constitutes a progression from the existing investment in Franklin Templeton’s Emerging Manager Real Estate Fund of Funds. The significant allocation to the MFDB strategy would be supplemented by investment in various diversified direct real estate funds. Discussion of the proposed pacing of additional real estate searches and the current pattern of real estate fund-raising cycles followed. Mr. Moseley noted that, rather than conducting three searches for two managers during each of the next three years, it might be more feasible to conduct two searches for three managers in each of the next two 18-month periods.

Trustee McCrohon commented that all of the trustees are welcome to attend the interviews on February 17, 2015, and Trustee Richard Figueroa advised that he would attend. Ms. Burns noted that Requests for Proposal may have to be updated if new legal requirements are enacted and she also recommended that trustees inform Mr. Allen if they plan to attend the interviews in order to ensure compliance with the Open Meetings Act.

A copy of the staff memorandum, “Non-Core Real Estate Manager Search Additional Information,” is incorporated as a part of these Minutes as [Exhibit 10](#).

### **REVIEW OF NEPC 2015 CAPITAL MARKET ASSUMPTIONS**

Mr. Kevin Leonard and Ms. Kristin Finney-Cooke presented NEPC’s current capital markets assumptions and recommendations. Given changing conditions related to quantitative easing, interest rates and oil prices, as well as lower yield and growth expectations, lower expected returns are projected for the next five, seven and thirty-year periods. Mr. Leonard noted that NEPC’s 30-year forecast indicates expected return will exceed the 7.25% actuarial return assumption based on the portfolio’s current asset allocation; however, achievement of the 7.25% assumed rate of return is believed unlikely over the next five to seven years. The presentation also included discussion of projected returns for equities, fixed income, emerging market investments and other specific asset classes, as well as the importance of portfolio risk management.

Copies of the NEPC 2015 Outlook and NEPC’S 2015 Asset Allocation Letter are incorporated as a part of these Minutes as [Exhibit 11](#) and [Exhibit 12](#).

### **FIXED INCOME ASSET CLASS PORTFOLIO REVIEW**

Mr. Moseley presented the review of the fixed income asset class, which included discussion of the outlook for interest rates, economic conditions and fixed income market sectors. Mr. Moseley noted that the fixed income portfolio is well-diversified and he discussed the current portfolio structure, recommending that PIMCO and Smith Graham & Co. Investment Advisors remain on watch. Mr. Moseley also remarked on the fee analysis that was provided and noted that the fixed income manager fees paid by SURS are well below average overall.

Mr. Alex Ramos reported that the fixed income portfolio is valued at approximately \$4 billion as of September 30, 2014, which represents 23.4% of the total fund. For the year ended September 30, 2014, the fixed income portfolio excluding TIPS returned 3.77% versus the benchmark return of 3.96% and the TIPS portfolio returned 1.78% versus 1.59% for the benchmark; however, both portfolios exceeded the benchmark return for the three, five and ten year time periods.

Copies of the NEPC memorandum, “Fixed Income Asset Class Portfolio Review,” and the staff memorandum, “Fixed Income Asset Class Portfolio Review,” are incorporated as a part of these Minutes as [Exhibit 13](#) and [Exhibit 14](#).

## **CONSENT AGENDA – FIXED INCOME ASSET CLASS**

Mr. Duncan provided an update regarding organizational changes impacting the fixed income investment managers, remarking that recent and upcoming changes to Chief Investment Officer and portfolio management positions at Chicago Equity Partners, Smith Graham & Co. Investment Advisors and PIMCO are not viewed to be problematic. Mr. Duncan also noted the detailed individual manager performance data that was provided for the one, three and five year period as of September 30, 2014, and advised that staff and NEPC recommend approval of the consent agenda for retention of all of the reviewed fixed income managers.

Trustee Figueroa and Trustee Johnson departed the meeting at 1:00 p.m.

Trustee McCrohon noted the earlier discussion of board resolutions and the issue of whether consent agenda items are considered informational items being acknowledged or rather action being taken. Trustee McCrohon observed the need for appropriate backup, proposing that the resolution be adopted subject to amendment as appropriate by the Investment Committee subsequent to this meeting. Discussion of the matter followed. Ms. Burns recommended that resolutions not be adopted with a “subject to” clause in order to avoid any uncertainty about whether the contingency has been satisfied and the resolutions should be implemented. As the discussion concluded, Ms. Burns remarked that the minutes and record should reflect that the motion is based on the decision made after considering the facts and recommendations provided by staff and NEPC, as well as the information provided in the board materials, and she recommended that, for future meetings, this form of resolution be memorialized in the form of a written resolution so that the trustees have it in writing to review prior to the meeting.

Per the previous discussion, after having considered the facts and recommendations provided by staff and NEPC, as well as the information provided in the board materials, Trustee Mitchell Vogel moved to adopt the consent agenda:

### **Consent Agenda Topics**

#### *Fixed Income Asset Class Manager Review*

- That Chicago Equity Partners be retained as a core fixed income manager.
- That Garcia Hamilton & Associates be retained as a core fixed income manager.
- That Pugh Capital Management be retained as a core fixed income manager.
- That Smith Graham & Company be retained as a core fixed income manager.
- That LM Capital Group be retained as a core plus fixed income manager.
- That Neuberger Berman be retained as a core plus fixed income manager.
- That PIMCO Total Return be retained as a core plus fixed income manager.
- That Taplin, Canida & Habacht be retained as a core plus fixed income manager.
- That TCW MetWest be retained as a core plus fixed income manager.
- That PIMCO Unconstrained be retained as an unconstrained fixed income manager.
- That Longfellow Investment Management be retained as TIPS manager.
- That New Century Advisors be retained as TIPS manager.
- That PIMCO U.S. TIPS be retained as TIPS manager.

Trustee McCrohon seconded and the motion carried with all Trustees present voting in favor except for Trustee Figueroa and Trustee Johnson who were not present at the vote, Trustee Berger who was not present on the phone at the time the vote was taken and Trustee Cullen who abstained.

Copies of the staff memorandum, “Consent Agenda for the Fixed Income Asset Class,” and NEPC’s Fixed Income analysis are incorporated as a part of these Minutes as [Exhibit 15](#) and [Exhibit 16](#).

### **CONSIDERATION OF CANDIDATES FOR FIXED INCOME EMERGING MARKET DEBT SEARCH MANDATE**

Mr. Douglas Wesley remarked that presentations from four of the finalist candidate firms were heard at the December meeting and he discussed the materials provided for today’s meeting, which included Public Act 98-1022 diversity disclosures and the most recent eVestment reports for all six finalist candidates. Mr. Wesley referenced the memorandum outlining the funding sources for the emerging market debt allocation and remarked on the finalist candidate firms scheduled to make presentations today.

The following representatives of the remaining finalist candidate firms then gave presentations to the Investment Committee:

- \* Ashmore Group – Mr. Mark Weiller and Mr. Jan Dehn
- \* Goldman Sachs Asset Management – Mr. Joe Hernandez and Mr. Yacov Arnopolin

Trustee Johnson and Trustee Figueroa rejoined the meeting during the first presentation at 1:20 p.m. and 1:30 p.m., respectively.

After the presentations, Mr. Wesley discussed the matrices provided that contained comparisons of the six finalist candidates and the specific strategies and funds they recommended. Consideration of numerous factors, including fee differences, performance track record, investment strategy, overall expertise and Public Act 98-1022 disclosures, followed. Ms. Burns noted that the statute designates Public Act 98-1022 disclosures as one of the factors that shall be considered within the bounds of financial and fiduciary prudence prior to the awarding of a contract. The disclosures were reviewed and discussed and deliberation continued. Mr. Allen remarked that, after considering the disclosures as well as all other factors, staff continues to recommend selection of the four firms that made presentations at the December meeting. Mr. Moseley noted NEPC’s concurrence and discussed the rationale for the recommendation in further detail.

Trustee Vogel made the following motions:

#### **Emerging Market Debt Search**

- That the following emerging market debt investment managers be retained to manage a Blend Mandate, contingent on successful contract negotiations.

Manager Name	Mandate Type	% of Asset Class	Estimated Allocation*
BlueBay Asset Management	Blend Mandate	33.5%	\$175 million
Prudential Fixed Income	Blend Mandate	33.5%	\$175 million

- That the following emerging market debt investment manager be retained to manage a Local Mandate, contingent on successful contract negotiations.

Manager Name	Mandate Type	% of Asset Class	Estimated Allocation*
Colchester Global Investors	Local Mandate	20%	\$105 million

- That Progress Investment Management receive additional funding for an Emerging Market Debt allocation and that the Investment Guidelines for Progress Investment Management be amended as such.

Manager Name	Mandate Type	% of Asset Class	Estimated Allocation*
Progress Investment Management	Corporate Mandate	13%	\$65 million

Trustee Johnson seconded the motions. Trustee Vogel proceeded to also make the following motion:

- That the following sources be utilized to fund the Emerging Market Debt allocation:

Funding Sources	Account Type	Estimated Withdrawal*
From Non-U.S. Equity		
BlackRock ACWI ex US Fund	passive	\$50 million
From U.S. Equity		
Jacobs Levy	structured active	\$90 million
PIMCO StocksPLUS	structured active	\$80 million
Rhumblin	passive	\$100 million
Northern Trust	passive	\$200 million
Total Estimated Withdrawal		<b>\$520 million</b>

**\*Subject to change based on the actual asset allocation at the time of funding.**

Trustee Johnson seconded and all four motions carried with all Trustees present voting in favor except for Trustee Lindsay Anderson and Trustee Cullen who both abstained and Trustee Berger who was not present on the phone.

Copies of the staff memorandum, “Emerging Market Debt Search Update,” and the NEPC memorandum, “Emerging Markets Debt Search Summary & Recommendations,” are incorporated as a part of these Minutes as [Exhibit 17](#) and [Exhibit 18](#).

Copies of the staff memorandum, “Emerging Market Debt Search Recommendations,” the Public Act 98-1022 Disclosures and the finalist candidate summaries are incorporated as a part of these Minutes as [Exhibit 19](#), [Exhibit 20](#) and [Exhibit 21](#).

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

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

1. [Exhibit 22](#) - SURS Projected Funding Status through December 2014.
2. [Exhibit 23](#) - Adams Street Partners letter dated January 27, 2015.
3. [Exhibit 24](#) - Staff memorandum entitled “December 2014 Investment Manager Watch List.”
4. [Exhibit 25](#) - Investment Compliance Activities 2015.
5. [Exhibit 26](#) - Fiscal Years 2015-16 Summary Work Plan Investment Committee Schedule.
6. [Exhibit 27](#) - Summary of Investment Projects.
7. [Exhibit 28](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
8. [Exhibit 29](#) - Staff memorandum “Schedule of Investment Committee Meetings.”

### **PUBLIC COMMENT**

Mr. Elliott Mallen, a representative of UNITE HERE, and Mr. Jose Aguilar, an employee at the Doubletree by Hilton Hotel Los Angeles Downtown (Doubletree), addressed the Committee to inform them of a developing labor dispute at the Doubletree hotel. SURS is not invested in the UBS Property Growth & Income Fund which owns the hotel property; however, Mr. Mallen and Mr. Aguilar apprised the Committee of the situation since SURS is invested in the UBS Trumbull Property Fund which is also under the management of UBS Realty Investors.

Copies of the flyers that UNITE HERE distributed are incorporated as a part of these Minutes as [Exhibit 30](#).

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

Respectfully submitted,



Mr. William E. Mabe  
Secretary, Board of Trustees