



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
12:30 p.m., Thursday, March 12, 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, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Ms. Dorinda Miller (by conference call), 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; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Mr. Albert Lee, Associate General Counsel; 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 and Mr. Sean Ruhmann of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Jim Baker of UNITE HERE; Ms. Janet Henry of Ramirez Asset Management; Mr. Keith Lathan of Williams Capital.

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

Trustee Dorinda Miller joined the meeting by conference call pursuant to a previously approved motion pursuant to Section 7(c) of the Open Meetings Act.

APPROVAL OF MINUTES

Trustee Craig McCrohon presented the Minutes from the Investment Committee meeting of February 5, 2015. Trustee Mitchell Vogel made the following motion:

- That the Minutes from the February 5, 2015 Investment Committee meeting be approved as presented.

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

A copy of the staff memorandum, "Report from the February 5, 2015 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 noted that the appropriate format for resolutions has been raised in prior meetings and observed that clarification is underway. Ms. Mary Pat Burns remarked that a consent agenda is typically utilized at the Board level, when there is no discussion and no background is presented. Ms. Burns remarked that she agrees with Trustee McCrohon from a fiduciary standpoint that the resolutions of the Investment Committee that follow full discussion should be more robust and serve as a record of the due diligence and analysis behind the decision. Ms. Burns noted that a form is being developed with Trustee McCrohon's input which she anticipates will be shared with the Board at the June meeting.

CHAIRPERSON'S REPORT

CLOSED SESSION

Trustee McCrohon recommended that the Committee go into closed session due to the confidential nature of some of the information in his report and requested that staff, consultants and individuals who work with SURS be allowed to remain in the room.

Trustee Vasquez moved that the Investment Committee go into closed session pursuant to §2(c)(7) of the Open Meetings Act to consider the sale or purchase of securities or investments or to consider an investment contract. Trustee Richard Figueroa seconded and the motion carried in a roll call vote:

Trustee Figueroa	-	aye
Trustee Johnson	-	aye
Trustee Matthews	-	absent
Trustee McCrohon	-	aye
Trustee Vasquez	-	aye
Trustee Vogel	-	aye

RETURN TO OPEN SESSION

CHIEF INVESTMENT OFFICER REPORT

Noting that investment returns as of December 31, 2014, would be discussed in detail later in the meeting, Mr. Daniel Allen reported an investment return of 0.0% for the fiscal year to date as of January 31, 2015, and approximately 2% for the month of February based on preliminary data.

CONSIDERATION OF REAL ESTATE FUND OF FUNDS SEARCH MANDATE

Mr. Shane Willoughby reported that staff and NEPC have narrowed the list of potential candidates for the direct fund portion of the real estate search to seven semi-finalists. Interviews have been scheduled on March 23 and 24, 2015, at NEPC's Chicago office and Trustees were encouraged to participate. It is anticipated that four or five finalist candidates will make presentations at the April Investment Committee meeting and approval will be sought for two or three mandates amounting to \$70-100 million in total commitments for 2015 direct fund investments. Mr. Willoughby also remarked on the semi-finalists and noted the timing of the expected final close of their funds. Mr. Allen requested the Trustees to advise if they have an interest to attend the March interviews so that arrangements can be made to notice the meeting if needed. Trustee Figueroa noted that he cannot attend this round of interviews but highly recommended that Trustees participate if possible.

Mr. Joseph Duncan noted that following the February 17, 2015, semi-finalist interviews, preference emerged for all three semi-finalists for fund-of-funds manager to be heard today in connection with the first phase of the real estate search. It is anticipated that one firm will be hired for a \$90 million mandate to be focused exclusively on minority-, female- and persons with a disability-owned (MFDB) real estate investment managers and invested over the next three year period. Mr. Duncan referenced the manager presentations, candidate summary, tear sheets and Public Act 98-1022 disclosures that were provided. Ms. Burns remarked that the Public Act 98-1022 disclosures must be considered and recommended that any resolution made after the presentations today reflect that these were taken into account.

The following representatives of the finalist candidate firms made presentations to the Investment Committee:

- Oak Street Real Estate Capital – Mr. Marc Zahr, Ms. Larissa Herczeg and Mr. Jim Hennessey
- GCM Grosvenor – Mr. Peter Braffman, Ms. Anar Chudgar and Mr. Patrick McGarvey
- Franklin Real Asset Advisors – Mr. Marc Weidner, Mr. J. Carter Bailey, Jr., Ms. Julie Donegan and Ms. Danita Johnson

Deliberation followed. Mr. Sean Ruhmann discussed NEPC's analysis of the capabilities and experience of the three firms. Consideration was given to numerous factors including management team stability, firm resources, performance track record and physical location. Ultimately, consensus formed that a proven track record, robust infrastructure and high level of resources are necessary to achieve success for the MFDB mandate. Mr. Allen remarked that staff and NEPC recommend that one firm be hired and Mr. Duncan discussed the ranking order that emerged from the semi-finalist interview process. Ms. Burns reminded the Trustees that they are required to consider the Public Act 98-1022 disclosures when making their determination.

Trustee Figueroa made the following motion:

- That a commitment of \$90 million be authorized, contingent on successful contract negotiations, to Franklin Real Asset Advisors.

Trustee Vasquez seconded the motion and the motion carried with all Trustees present voting in favor except for Trustee Vogel and Trustee Paul R. T. Johnson who both voted against.

Ms. Burns recommended that a more detailed resolution be written that describes the process followed and the criteria taken into consideration. Trustee McCrohon agreed and advised that it would be made available to the Trustees.

Copies of the staff memorandum, “Non-Core Real Estate Search Update,” the finalist candidate summary and the NEPC memorandum, “Non-Core RE Search Fund-of-Funds Finalists,” are incorporated as a part of these Minutes as [Exhibit 3](#), [Exhibit 4](#) and [Exhibit 5](#).

Copies of the NEPC Fund Tear Sheets are incorporated as a part of these Minutes as [Exhibit 6](#), [Exhibit 7](#) and [Exhibit 8](#).

Copies of the Public Act 98-1022 Disclosures are incorporated as a part of these Minutes as [Exhibit 9](#), [Exhibit 10](#) and [Exhibit 11](#).

UPDATE OF EMERGING MANAGER AND DIVERSITY MATTERS SUBCOMMITTEE

Mr. Allen remarked that some slight modifications were made to the draft Diversity and Inclusion Strategic Plan presented at the December meeting and recommended that the document be approved. Mr. Allen noted that Progress Investment Management Company was awarded a \$65 million mandate at the February meeting for an emerging market debt allocation, Franklin Real Asset Advisors was hired today to manage a fund-of-one focused on real estate funds managed by MFDB firms, the upcoming search for hedged strategies will offer further opportunities and discussions have been held with current private equity managers to explore increased utilization of MFDB firms. In addition, SURS will be actively involved in the annual conference of the National Association of Securities Professionals which will convene in Chicago this year, staff is conducting meetings with state legislators and the TOIGO internship program is moving forward with the selection of summer interns for SURS investment and information technology departments. Trustee Figueroa commended the staff for its efforts and the progress made over the past few months.

Trustee McCrohon made the following motion:

- That the Board acknowledges the draft Diversity and Inclusion Strategic Plan and accepts it for inclusion in policy.

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

Copies of the staff memorandum, “Update of the Emerging Manager and Diversity Matters Subcommittee,” and the draft SURS Diversity and Inclusion Strategic Plan 2014-2016 are incorporated as a part of these Minutes as [Exhibit 12](#) and [Exhibit 13](#).

REVIEW OF SURS INVESTMENT PERFORMANCE AND RISK MANAGEMENT REPORTS

After remarking that NEPC's Director of Real Assets Research, Sean Ruhmann, was recently named a Partner of the firm, Mr. Douglas Moseley presented an overview of recent market conditions and investment performance. Mr. Moseley noted that the U.S. equity market experienced another year of strong returns in 2014, bond rates moved counter to expectations and emerging market debt conditions indicate a favorable time for entry. After discussing NEPC's historical return assumptions and actions taken as conditions have changed over time, Mr. Moseley noted that the total portfolio was valued at just over \$17 billion as of December 31, 2014, and a 6.7% investment return was achieved for the calendar year. SURS ranked in the top quartile of the public fund peer universe for the one-, three- and five-year periods and as of December 31, 2014, the asset allocation was very near the approved target allocation. During the discussion, request was made for NEPC to provide performance reporting on a net-of-fees, as well as gross-of-fees, basis. Mr. Moseley discussed the performance of the cash overlay program, noting that the commodities component was negatively impacted by the recent drop in oil prices. Trustee Johnson raised concern regarding the implementation of the commodities segment through the cash overlay program and remarked that his understanding from prior meetings was that we would use managed futures. Mr. Moseley commented that the Board might hire a long-only managed future advisor, later this year. The current work plan includes an actively-managed commodities search to be initiated in the fall of 2015.

Mr. Duncan presented the key findings from the Executive Summary of the SURS Risk Report for the quarter ended December 31, 2014. Total plan risk increased slightly to 9.83% from 9.7% for the previous quarter, primarily due to volatility in non-U.S. and global equity areas of the portfolio. Equity exposure continues to be the largest driver of risk in the portfolio, accounting for approximately 68% of total assets but nearly 90% of total plan risk. For fixed income, seven-, ten- and thirty-year exposures show the greatest sensitivity to interest rate changes. Also, the plan overlay program reduced portfolio risk by 11 basis points.

During discussion of the Risk Report, Trustee McCrohon requested that additional detail be made available regarding the calculation of the Northern Trust report. Mr. Moseley suggested that the Northern Trust Risk Services team be invited to discuss the report in greater depth.

Trustee Figueroa and Trustee Vasquez departed the meeting at 4:25 p.m.

Copies of the NEPC Fourth Quarter IPA – Board Report, the staff memorandum, "Risk Report Executive Summary," and the Northern Trust Risk Services report, "SURS Executive Risk Review 4Q2014," are incorporated as a part of these Minutes as [Exhibit 14](#), [Exhibit 15](#) and [Exhibit 16](#).

(Educational Topic) STATUS OF HEDGE FUND OF FUNDS SEARCH

Ms. Kimberly Pollitt provided an update on the hedge fund-of-funds search, noting that the Request for Proposal (RFP) has been issued, posted on the SURS website and advertised in

various publications. Responses are due on April 9, 2015, after which they will be reviewed by staff and NEPC. Semi-finalist candidate interviews will be conducted during the summer and finalist candidate presentations are tentatively scheduled for the October meeting.

The educational session commenced at 4:30 p.m., lasted for 20 minutes and concluded at 4:50 p.m.

Mr. Moseley led the educational session, which provided a review of the rationale for investing in hedge funds as well as the various product categories that the fund-of-funds manager will consider to construct the portfolio. Mr. Moseley observed that the ability to negotiate fees with more attractive terms and to manage the transparency and risk of a broad hedge fund portfolio are important aspects of the manager's role as is the capacity to identify MFDB hedge fund managers. During discussion of historical and projected returns for the different strategies, the issue of survivorship bias was raised with respect to the HFRI Indices and Mr. Moseley advised that NEPC will obtain the information and report back.

Copies of the staff memorandum, "Hedge Fund-of-Funds Manager Search Update," and the NEPC paper, "Hedge Fund Search & Market Update," are incorporated as a part of these Minutes as [Exhibit 17](#) and [Exhibit 18](#).

UPDATE OF THE SELF-MANAGED PLAN (SMP) PROVIDER SEARCH

Mr. Allen remarked that the RFP for the Self-Managed Plan Provider search will be issued during April and finalist candidate presentations are expected to be scheduled at the September meeting. The project will be an extensive one and updates will be presented to the Board at each Investment Committee meeting during the course of the search.

Copies of the staff memorandum, "Self-Managed Plan (SMP) Update," and the NEPC memorandum, "SMP Provider Search," are incorporated as a part of these Minutes as [Exhibit 19](#) and [Exhibit 20](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Allen reported that notification was just received that Mesirow Financial (Mesirow) plans to seek limited partner approval to close its real estate fund-of-funds platform. Mr. Ruhmann discussed the situation at the firm, advising that Mesirow is proposing to transfer management of the existing funds to a real estate consulting firm, Courtland Partners, Ltd. (Courtland), which has been the sub-advisor for the portfolio from the outset. Mr. Ruhmann advised that NEPC recently met with Courtland and believes the firm very capable of managing the funds through to fruition. Discussion followed regarding the options available to SURS. Ms. Burns expressed concern that due diligence must be performed on Courtland, noting that conflicts of interest could exist and statutory disclosure requirements must be met. Trustee McCrohon raised the possibility of a fee concession and Trustee Lindsay Anderson suggested that NEPC report back regarding the possible impacts and outcomes of alternative courses of action. Mr. Douglas Wesley noted that Mayer Brown has been contacted to review the matter. Mr. Moseley observed that blocking the transfer could have adverse consequences and suggested communicating with the other limited partners, doing the required due diligence on Courtland and conducting a legal review of the contractual

documents. The opportunity to renegotiate terms and seek a fee reduction was noted. Mr. Moseley disclosed that another of NEPC's clients is also a limited partner in the fund and Ms. Burns remarked that, as a fiduciary, whenever NEPC is advising SURS, it must always act in the best interest of SURS and also that SURS must act in its own best interest. The review of the legal documents was deemed to be the first order of business to arrive at a resolution.

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

1. [Exhibit 21](#) - SURS Projected Funding Status through January 2015.
2. [Exhibit 22](#) - NEPC memorandum entitled "Mesirov Fund-of-Fund Platform Changes."
3. [Exhibit 23](#) - Staff memorandum entitled "December 2014 Investment Manager Watch List."
4. [Exhibit 24](#) - Investment Compliance Activities 2015.
5. [Exhibit 25](#) - Staff memorandum entitled "Compliance Update."
6. [Exhibit 26](#) - Fiscal Years 2015-16 Summary Work Plan Investment Committee Schedule.
7. [Exhibit 27](#) - Summary of Investment Projects.
8. [Exhibit 28](#) - Schedule of Formal Reviews for SURS Investment Managers: Defined Benefit Plan & SMP.
9. [Exhibit 29](#) - Staff memorandum "Schedule of Investment Committee Meetings."

PUBLIC COMMENT

There were no public comments presented to the Investment Committee.

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

Respectfully submitted,



Mr. William E. Mabe
Secretary, Board of Trustees

WEM:mb