



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
2:15 p.m., Thursday, June 10, 2010
The Northern Trust, London Room B9
50 South LaSalle Street, Chicago, Illinois 60603**

The following Trustees were present: Dr. J. Fred Giertz, Chair; Dr. Jeffrey Beaulieu, Mr. Matthew Berns, Ms. Patricia Cassidy (via teleconference), Dr. John Engstrom, Ms. Carrie Hightman, Ms. Dorinda Miller, Mr. Steven Rogers, Mr. Antonio Vasquez, Mr. Mitchell Vogel and Dr. Marva Williams.

Others present were: Ms. Judith Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt, Senior Investment Officer; Ms. Lou Ann Fillingham, Mr. Tony Lee, and Mr. Joe Duncan, Investment Officers; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Lori Kern and Ms. Stefanie Rice, Executive Assistants; Mr. Terrin Krantz, Director of Human Resources; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Shelley Porter, Chief Financial Officer; Ms. Angie Lieb, Director of Member Services; Mr. Douglas Steele, Application Development Manager; Mr. Chris Hansen, Information Systems & Building Services Manager; Mr. Michael Sheppard, Assistant Deputy Director of the Self-Managed Plan; Mr. Steve Hayward, Director of Internal Audit; Mr. Russell Ivinjack, Ms. Laurel Nicholson, Mr. Tom Brennan and Mr. Rob Parkinson, Ennis Knupp & Associates; Ms. Leslie Thompson, Gabriel, Roeder, Smith & Company; Ms. Patti Somerville-Koulouris, The Northern Trust Company.

Trustee Giertz called the meeting to order at approximately 2:15 p.m.

Roll call attendance was taken. Trustee Beaulieu, present; Trustee Berns, present; Trustee Cassidy, present (via teleconference); Trustee Engstrom, absent; Trustee Giertz, present; Trustee Hightman, present; Trustee Miller, absent; Trustee Rogers, present; Trustee Vasquez, absent; Trustee Vogel, absent; Trustee Williams, present.

Trustee Engstrom, Trustee Miller, Trustee Vasquez and Trustee Vogel appear immediately after roll call.

Trustee Patricia Cassidy was unable to physically attend the meeting due to employment commitments. Trustee Hightman moved that:

- Trustee Cassidy be allowed to participate via teleconference.

Motion seconded and carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Mr. Daniel Allen acknowledged Trustee Vasquez's participation on a panel for the Illinois Public Employee Retirement System Summit on the Use of Emerging Managers. Mr. Allen referenced a handout reflecting SURS' funding status through May 2010 of 45.2% with a fiscal year-to-date investment return of 17%. Mr. Allen also provided an Illinois Public Pension Fund performance chart that compares SURS to other Illinois funds for the year ending March 31, 2010. SURS experienced a strong return of 38.3% for the one year period ending March 31, 2010. Copies of SURS Funding Status and the chart entitled "Illinois Public Pension Funds Total Fund Performance" are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

Mr. Russell Ivinjack of Ennis Knupp & Associates (EKA) summarized EKA's 1st Quarter Performance Report by noting the equity markets for year ending March 31, 2010, advanced strongly with U.S. markets up over 50% and international markets up over 60%.

Copies of staff's memorandums entitled "Report from the April 16, 2010 Investment Committee Meeting" and "Investment Contracts Approved" are incorporated as a part of these Minutes as [Exhibit 3](#) and [Exhibit 4](#).

APPROVAL OF MINUTES

Trustee Giertz presented the Minutes from the Investment Committee meeting of April 16, 2010. Trustee Vasquez moved that:

- The Minutes from the April 16, 2010, Investment Committee meeting be approved as presented.

Motion seconded and carried with all Trustees present voting in favor.

FIXED INCOME MANAGER INTERVIEWS

Mr. Allen provided an overview of the fixed income search noting the Board's approval for the same in February 2010. Mr. Allen advised that the request for proposal (RFP) received a number of responses and that staff, with the assistance of EKA, has been evaluating the candidates. As discussed at the April Investment Committee meeting, the first phase of the search includes the selection of a passive manager and an evaluation of PIMCO.

Trustee Giertz noted the development of the selection process for interviewing managers. Mr. Ivinjack and Mr. Tom Brennan discussed the evaluation process used by EKA prior to bringing a candidate before the Committee for presentation. The Committee discussed the process. EKA educated the Committee on active versus passive investments. Presentations were made by the following managers: PIMCO, which offers an active strategy, and State Street Global Advisors, which offers a passive strategy.

PIMCO:	Michael Chandra, CFA Kristen S. Monson, CFA Marc P. Seidner, CFA
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State Street Global Advisors:	Craig DeGiacomo John Kirby
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After the presentations, the Committee continued with discussion regarding manager selection, the Committee's fiduciary duty, and the passive and active fixed income program. Mr. Allen advised that additional presentations are scheduled for the September Investment Committee meeting.

Trustee Hightman suggested staff taking into consideration the questions and comments of the Committee when reviewing the investment policy. Mr. Allen advised that the investment policy will be brought to the Committee for approval in September.

Trustee Hightman moved that:

- State Street Global Advisors be retained as a passive fixed income manager, contingent on successful contract negotiations.
- Pacific Investment Management Company (PIMCO) be retained as an active fixed income manager, contingent on successful contract negotiations.

Motions seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Fixed Income Investment Manager Search Recommendations" is incorporated as part of these Minutes as [Exhibit 5](#). EnnisKnupp's memorandums entitled "Fixed Income Search: PIMCO" and "EKProfile Pacific Investment Management company Core Plus – Total Return Full Authority May 2010" are incorporated as a part of these Minutes as [Exhibit 6](#) and [Exhibit 7](#). EnnisKnupp's

memorandum entitled “Fixed Income Search Update” is incorporated as a part of these Minutes as [Exhibit 8](#).

PRIVATE EQUITY ASSET CLASS MANAGER REVIEWS
AND UPDATE OF FUNDING PLAN

Mr. Rob Parkinson provided an overview of SURS’ private equity portfolio and noted private equity performed well over the last couple of years compared to other asset classes. Mr. Doug Wesley discussed private equity performance data and presented the manager reviews. As of March 31, 2010, private equity represented 8% of the total fund assets and, despite the market downturn in May, had risen to approximately 8.5%, which is within acceptable asset allocation target ranges. Mr. Wesley noted SURS’ participation on several advisory boards which provides for meaningful interaction with the private equity managers. He also noted the asset class returned 6.8% for the one year period ending December 31, 2009.

The Committee discussed the watch list and the impact of the same.

Trustee Hightman moved that:

- Adams Street Partners be retained as a private equity manager;
- The limited partnership interest in the Venture Partnership Acquisition Fund II, L.P. be retained;
- The limited partnership interests in the Brinson Non-U.S. Partnership Fund Trust Program be retained;
- The limited partnership interest in the Adams Street Partnership Fund – 2004 Non-U.S. Fund, L.P. be retained;
- The limited partnership interest in the Adams Street Global Opportunities Secondary Fund, L.P. be retained;
- The limited partnership interest in the Adams Street 2007 Global Opportunities Portfolio, L.P. be retained;
- The limited partnership interest in the Adams Street 2008 Global Offering Program be retained;
- The limited partnership interest in the Adams Street 2009 Global Offering Program be retained;
- Pantheon Ventures be retained as a private equity manager;
- The limited partnership interest in the Pantheon Europe Fund III, L.P. be retained;
- The limited partnership interest in the Pantheon Global Secondary Fund II, L.P. be retained;
- The limited partnership interest in the Pantheon USA fund VIII, L.P. be retained;
- The limited partnership interest in the Pantheon Europe Fund VI, L.P. be retained;
- The limited partnership interest in the Private Opportunities Fund, L.P. be retained;
- The limited partnership interest in the Illinois Private Equity Fund of Funds, L.P. be retained;

- The limited partnership interest in the M² Private Equity Fund of Funds, L.P. be retained; and
- Progress Investment Management be retained as a private equity manager.

Motions seconded and carried with all Trustees present voting in favor.

A copy of EnnisKnupp’s presentation entitled “Private Equity Overview” is incorporated as part of these Minutes as [Exhibit 9](#). A copy of staff’s memorandums entitled “Executive Summary of the Private Equity Asset Class and Manager Reviews,” “Pantheon Ventures Private Equity Annual Review,” “Adams Street Partners Private Equity Annual Review,” “Muller & Monroe Private Equity Annual Review,” “Progress Investment Management Private Equity Annual Review,” “Private Equity Funding Plan for Calendar Years 2009 – 2011,” are incorporated as a part of these Minutes as [Exhibit 10](#), [Exhibit 11](#), [Exhibit 12](#), [Exhibit 13](#), [Exhibit 14](#), and [Exhibit 15](#).

OPPORTUNITY FUND ASSET CLASS MANAGER REVIEWS

Ms. Kimberly Pollitt reviewed the opportunity fund asset class which has been a part of the portfolio for approximately 10 years. She noted that the opportunity fund was designed to encourage more innovative investment ideas and opportunities. In the latter part of 2009 the Board approved two new strategies for the Opportunity Fund – the Public Private Investment Program (PIIP) and infrastructure portfolios. In total the Board committed \$160 million to three PIIP managers to invest in distressed commercial and residential mortgage-backed securities and a total of \$80 million to two infrastructure managers. Ms. Pollitt referenced the program update from the United States Department of the Treasury on the PIIP program, which is attached hereto as [Exhibit 16](#).

Trustee Beaulieu moved that:

- The limited partnership interest in RLJ Western Asset Public Private Investment Fund, L.P. be retained;
- The limited partnership interest in AG GECC Public-Private Investment Fund, L.P. be retained;
- The limited partnership interest in Oaktree PIIP Private Fund (Cayman), L.P. be retained;
- The limited partnership interest in the Alinda Infrastructure Fund II, L.P. be retained; and
- The limited partnership interest in the Macquarie Infrastructure Partners II, L.P. be retained.

Motions seconded and carried with all Trustees present voting in favor.

A copy of EKA’s memorandum entitled “Opportunity Fund Overview” is incorporated as a part of these Minutes as [Exhibit 17](#). A copy of staff’s memorandums entitled “Executive Summary of Opportunity Fund Asset Class and Manager Reviews,” “RLJ

Western (PPIP) Annual Review,” “Angelo, Gordon & Co. (PPIP) Annual Review,” “Oaktree Capital Management (PPIP) Annual Review,” “Alinda Capital Partners (Infrastructure) Annual Review,” and “Macquarie (Infrastructure) Annual Review,” are incorporated as a part of these Minutes as [Exhibit 18](#), [Exhibit 19](#), [Exhibit 20](#), [Exhibit 21](#), [Exhibit 22](#), and [Exhibit 23](#).

**APPROVAL OF THE SCRUTINIZED COMPANIES LISTING AS
DEFINED BY ILLINOIS PUBLIC ACT 95-616
(IRAN LEGISLATION)**

Ms. Marilyn Branson updated the Committee regarding Public Act 95-616, the Iran Legislation, which became effective January 1, 2008. Within 90 days of the effective date, SURS was required to identify scrutinized companies involved in Iran’s petroleum-energy sector. The legislation afforded SURS the right to retain an independent research firm to identify such companies. RiskMetrics Group was retained by SURS to provide a list of scrutinized companies, which must be updated and adopted annually by the Board. After reviewing the divestment process and other actions required by the legislation, Ms. Branson presented the updated list, entitled “Iran Legislation Compliance Scrutinized Companies List for Fiscal Year 2011,” for the Committee’s approval.

Trustee Hightman moved that:

- The Board adopt the scrutinized companies list updated as of June 1, 2010, pursuant to Public Act 95-616, as presented.

Motion seconded and carried with all Trustees present voting in favor.

A copy of staff’s memorandum entitled “Iran Legislation Compliance (Public Act 95-616)” is incorporated as a part of these Minutes as [Exhibit 24](#).

PRESENTATION OF THE SURS INVESTMENT MANAGER WATCH LIST

Mr. Tony Lee reviewed the investment manager watch list by noting five managers currently on the list. BlackRock Equity PLUS, GlobeFlex Capital, L.P., and Martin Currie Inc. were placed on the list for performance concerns and PIMCO and Metropolitan West were placed on the list for organizational issues. Mr. Allen advised that the watch list was created in 2007 as a tool for staff to track issues with managers, and Mr. Wesley noted some of the reasons for a manager to be placed on the list and when a manager can be removed from watch status.

A copy of staff’s memorandum entitled “June 2010 Investment Manager Watch List” is incorporated as a part of these Minutes as [Exhibit 25](#).

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

Ms. Laurel Nicholson provided an overview of SURS' Manager Development Program (MDP) and its objective to identify qualified investment opportunities with minority-, female-, and persons with a disability-owned investment management firms. EKA evaluates the oversight and structure of the program as well as performance at the asset class and total program level and advises the Committee as to whether the objective is being met. A copy of EKA's memorandum entitled "Annual Manager Development Program Review" is incorporated as a part of these Minutes as [Exhibit 26](#).

**RECOMMENDATION TO APPROVE SURS MANAGER DEVELOPMENT
PROGRAM DOMESTIC EQUITY SEARCH**

Mr. Allen reviewed a letter addressed to Trustee Hightman from Senator Raoul inquiring about the utilization of minority- and women-owned asset management firms and brokerages by public pension systems for the upcoming Senate hearings schedule for June 14 and 15, 2010. Staff prepared responses to the questions posed in the letter and Mr. Allen advised that Trustee Vasquez, Ms. Parker, and he will be attending the hearings. Mr. Allen also discussed recent activity in the Manager Development Program and requested a domestic equity search be approved to recognize qualified managers to participate in the MDP. An update will be provided to the Committee in September as to the search.

Trustee Engstrom moved that:

- A search be conducted to identify qualified U.S. equity investment managers in the Manager Development Program

The motion was seconded and carried with all Trustees present voting in favor.

A copy of a letter from Senator Kwame Raoul dated May 12, 2010, is incorporated as a part of these Minutes as [Exhibit 27](#). A copy of staff's memorandum entitled "SURS Manager Development Program Expansion – Domestic Equity" is incorporated as a part of these Minutes as [Exhibit 28](#).

**APPROVAL OF FISCAL YEAR 2011
INVESTMENT DEPARTMENT BUDGET**

Trustee Giertz advised the Committee that the investment budget comes from State appropriated funds. The Committee discussed the operations budget noting the investment fees and administrative expenses.

In response to questions raised by the Trustees, Shelley Porter explained that a percentage of the appropriation SURS receives from the State is designated to cover administrative costs of the System. The Committee discussed the operations budget noting the investment fees and administrative expenses. The Committee discussed the investment management fee schedule in comparison to other systems as well as which investments have the most impact on fees and the cost of investment legal counsel. Ms. Burns noted that the Board bylaws state that one of the duties of the Investment Committee is to recommend to the Board an annual budget.

Trustee Hightman moved that:

- The Investment Department Administrative Budget for Fiscal Year 2011 be approved as presented and the estimated Investment Operations Budget be accepted as presented.

The motion was seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Investment Operations Budget – Fiscal Year 2011" is incorporated as a part of these Minutes as [Exhibit 29](#).

RECOMMENDATION TO APPROVE INVESTMENT CONSULTANT SEARCH

Trustee Giertz remarked that SURS is required to conduct an investment consultant search every five years. Mr. Allen noted staff's last search for an investment consultant was conducted in 2005. He indicated that Public Act 96-0006 requires a search be conducted every five years. Mr. Allen and fund counsel advised the Committee of EKA's agreement to extend their contract through December of 2010 at the current fee arrangement in order for a search to be conducted and completed by the end of the year. Trustee Hightman mentioned that EKA has been SURS' consultant firm for approximately 25 years. Mr. Allen indicated that an RFP will be drafted and made available to the Committee for their review.

Motion by Trustee Hightman that:

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

The motion was seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Recommendation to Conduct Investment Consultant Search" is incorporated as a part of these Minutes as [Exhibit 30](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Allen noted that staff communicated with TIAA-CREF as a result of inquiries from the Committee at the April meeting regarding the fund's performance. TIAA-CREF addressed the concerns and staff will continue to monitor the fund.

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

1. [Exhibit 31](#) - SURS Funding Status 2010 Fiscal Year-to-Date Results.
2. [Exhibit 32](#) - Investment Compliance Activities
3. [Exhibit 33](#) - Schedule of Formal Reviews for SURS Investment Managers Defined Benefit Plan & SMP
4. [Exhibit 34](#) - SURS and Ennis Knupp & Associates Fiscal Year 2010-11 Work Plan.
5. [Exhibit 35](#) - Memorandum entitled "Schedule of Investment Committee Meetings"
6. [Exhibit 36](#) - Staff memorandum entitled "TIAA-CREF Update"
7. [Exhibit 37](#) - Letter to TIAA-CREF dated May 4, 2010
8. [Exhibit 38](#) - TIAA-CREF responses to SURS questionnaire
9. [Exhibit 39](#) - Staff memorandum entitled "Self-Managed Plan History of Provider Selection"
10. [Exhibit 40](#) - Self-Managed Plan History

There being no further business to come before the Committee, Trustee Williams moved that the meeting be adjourned. The motion was seconded and carried.

Respectfully submitted,



Ms. Judith A. Parker
Interim Executive Director

JAP:ssr