



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
3:30 p.m. Wednesday, March 10, 2010
President Abraham Lincoln Hotel & Conference Center
701 East Adams Street, Springfield, Illinois 62701**

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

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. Stacy Smith 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 and Ms. Laurel Nicholson, Ennis Knupp & Associates; Ms. Leslie Thompson, Gabriel, Roeder, Smith & Company; Ms. Patti Somerville-Koulouris, The Northern Trust Company; and Mr. Steve Zahn, Governmental Consulting Solutions.

Trustee Giertz called the meeting to order at approximately 3:30 p.m.

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

Trustee Stephen Rogers was unable to physically attend the meeting due to employment commitments. Trustee Berns moved:

- To allow Trustee Rogers to participate via teleconference.

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

CHAIRPERSON'S REPORT

Mr. Daniel Allen referenced a handout reflecting SURS' funding status through February 2010 of 46.8% 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. SURS experienced a strong rebound in 2009 with a return of 23.4% for the calendar year. 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](#).

Ms. Laurel Nicholson of Ennis Knupp & Associates (EKA) summarized EKA's 4th Quarter Performance Report by noting that 2009 ended with a healthy return of over 23% which is comparable with the policy benchmark. Mr. Russell Ivinjack remarked that the "since inception return," which is a long-term return dating back 28 years, is 10.3%. The objective of the fund is to achieve an 8.5% annualized investment return. The shortfall of the fund over the years is not a result of what the capital markets have provided, but rather the result of insufficient State funding.

Trustee Giertz noted that had SURS been fully funded each year, the estimated funding ratio would have been 95.3%. With the current 17% return, SURS would have been funded at a ratio of 106% had the State appropriately funded the system on a year-to-year basis.

Mr. Allen advised that upon the Committee's request, SURS resigned from the TCW Advisory Committee. A copy of the resignation letter is attached as a part of these Minutes as [Exhibit 3](#).

Copies of staff's memorandums entitled "Report from the February 4, 2010 Investment Meeting" and "Investment Contracts Approved" are incorporated as a part of these Minutes as [Exhibit 4](#) and [Exhibit 5](#).

APPROVAL OF MINUTES

Trustee Giertz presented the Minutes from the Investment Committee meeting of February 4, 2010, and the Trustee Educational Forum of February 5, 2010. Trustee Hightman moved that:

- The Minutes from the February 4, 2010, Investment Committee meeting be approved as presented.
- The Minutes from the February 5, 2010, Trustee Educational Forum be approved as presented.

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

SELF-MANAGED PLAN (SMP) ANNUAL REVIEW

Mr. Michael Sheppard presented the Self-Managed Plan (SMP) Annual Review and expressed his gratitude towards Ms. Lou Ann Fillingham for her support and assistance within the SMP Team. Mr. Sheppard reported that the SMP has experienced steady growth in participation and overall assets since its inception in 1998. As of December 31, 2009, the SMP had 15,745 current participants. The average SMP participant is 45 years of age with 6.6 years of service credit. The average account balance is over \$42,000. Of the new hires in 2009, 8% chose the Self-Managed Plan.

Mr. Sheppard noted that SURS utilizes two fund providers, Fidelity Investments and TIAA-CREF. As of December 31, 2009, more than \$661 million was invested in SMP options, and 31 various investment options are offered. Staff is currently evaluating the implementation of an additional socially responsible investment fund. Education regarding the SMP continues to be a primary objective.

Mr. Sheppard remarked that SURS continues to monitor the plan to ensure alignment with ERISA compliance and indicated that the last SMP survey was conducted in 2007. He recommended conducting another survey during 2010 with surveys to be completed every three to five years thereafter. A copy of staff's memorandum entitled "2009 Self-Managed Plan Review" is incorporated as part of these minutes as [Exhibit 6](#).

EDUCATIONAL TOPIC – OVERVIEW OF DEFINED CONTRIBUTION PLANS

Mr. Russ Ivinjack and Ms. Laurel Nicholson of EKA provided an educational session on defined contribution plans. A copy of EKA's presentation entitled "Defined Contribution Overview, March 2010" is incorporated as a part of these Minutes as [Exhibit 7](#).

STATUS REPORT REGARDING THE FIXED INCOME ASSET CLASS SEARCH

Mr. Allen noted that SURS is receiving considerable national attention regarding the fixed income search. Trustees may be receiving emails pertaining to the Request For Proposal (RFP) and are encouraged to contact the investment staff due to the Investment Policy quiet period that is in effect.

Ms. Nicholson advised that the current fixed income RFP has been posted on the SURS website as of February 12, 2010. EKA has assigned a fixed income research team composed of six specialists to oversee this search. A number of investment managers have contacted EKA with questions. Answers to these questions have been posted to SURS website. Submission deadline for responses to the RFP is March 22, 2010. Mr. Allen indicated that an update of the search will be provided to the Committee at the April 16, 2010, meeting.

A copy of EKA's memorandum entitled "Fixed Income Portfolio Evaluation" is incorporated as a part of these Minutes as [Exhibit 8](#). A copy of SURS Request for Proposal – Passive & Active Fixed Income Mandates, February 2010, is incorporated as a part of these Minutes as [Exhibit 9](#).

**RECOMMENDATION OF CANDIDATES FOR THE TREASURY INFLATION-
PROTECTED SECURITIES (TIPS) ASSET CLASS MANDATE IN THE
MANAGER DEVELOPMENT PROGRAM (MDP)**

Ms. Lou Ann Fillingham provided a summary of the MDP TIPS Manager recommendation. An RFP for the TIPS program was posted in December of 2009 with seven managers responding, three of which are currently investment managers for SURS. Two firms were identified as outlined in the selection criteria and are being presented for the Committee's consideration: Longfellow Investment Management and New Century Advisors. Ms. Fillingham summarized each recommended firm as outlined in Appendix B of staff's memorandum.

Trustee Giertz noted the lack of Illinois managers responding to the RFP. The Committee continued discussion regarding the TIPS search, the current managers and the potential effects this search will have on the portfolio.

Trustee Vogel moved that:

- Longfellow Investment Management be retained as a domestic Treasury Inflation-Protected Securities (TIPS) manager in the Manager Development Program, contingent on successful contract negotiations, with an initial allocation of \$100 million.
- New Century Advisors be retained as a domestic Treasury Inflation-Protected Securities (TIPS) manager in the Manager Development Program, contingent on successful contract negotiations, with an initial allocation of \$75 million.

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

A copy of staff's memorandum entitled "Manager Development Program – TIPS Manager Recommendation" is incorporated as a part of these Minutes as [Exhibit 10](#).

MANAGER DEVELOPMENT PROGRAM ANNUAL REVIEW

Mr. Tony Lee summarized the annual MDP review and remarked that there are currently 13 investment managers in the Manager Development Program. SURS staff meets with the MDP managers on at least a quarterly basis via conference calls and/or in-person meetings. For calendar year 2009, the overall MDP outperformed its benchmark by 90 basis points in spite of negative returns in the private equity class for the “since inception” period. As of December 31, 2009, the MDP was valued at \$384 million and is expected to grow in the next 12 to 18 months.

The Committee discussed the performance of Buford, Dickson, Harper & Sparrow and Holland Capital Management. Mr. Lee and Ms. Kimberly Pollitt indicated that even though these two firms underperformed for 2009, their longer term performance has been satisfactory. Overall, the equity asset class within the MDP has performed well by outperforming the benchmark since inception and exceeding its respective benchmark by 30 basis points in the past year. Mr. Allen advised that staff monitors the managers closely and any changes/concerns will be brought to the Committee for review.

Trustee Berns moved that:

- Buford, Dickson, Harper & Sparrow be retained as a domestic equity manager.
- Channing Capital Management be retained as a domestic equity manager.
- Holland Capital Management be retained as a domestic equity manager.
- Lombardia Capital Partners be retained as a domestic equity manager.
- NCM Capital Management be retained as a domestic equity manager.
- Profit Investment Management be retained as a domestic equity manager.

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

Copies of staff’s memorandums entitled “Executive Summary of the Manager Development Program,” “Buford, Dickson, Harper & Sparrow Annual Review,” “Channing Capital Management Annual Review,” “Holland Capital Management Annual Review,” “Lombardia Capital Partners Annual Review,” “NCM Capital Management Annual Review,” and “Profit Investment Management Annual Review” are incorporated as a part of these Minutes as [Exhibit 11](#), [Exhibit 12](#), [Exhibit 13](#), [Exhibit 14](#), [Exhibit 15](#), [Exhibit 16](#), and [Exhibit 17](#), respectively.

APPROVAL OF THE NASP CONFERENCE

Mr. Allen provided information to the Committee on the NASP 21st Annual Pension and Financial Services Conference scheduled for June 16–18, 2010, in Chicago. Mr. Allen suggested the Board consider attending said conference and requested the Board’s approval for Trustee attendance and all allowable travel expenses.

Motion by Trustee Vasquez that:

- The Board of Trustees travel to attend the 2010 National Association of Securities Professionals (NASP) Annual Pension and Financial Services Conference in Chicago, Illinois from June 16-18, 2010 and all resulting travel expenses allowable be approved.

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

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

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

1. [Exhibit 18](#) - SURS Funding Status 2010 Fiscal Year-to-Date Results.
2. [Exhibit 19](#) - Pantheon memorandum entitled "Pantheon Change of Ownership."
3. [Exhibit 20](#) - Letter from Pantheon dated February 10, 2010.
4. [Exhibit 21](#) - Ennis Knupp & Associates memorandum entitled "AMG Announces Acquisition of Pantheon Ventures."
5. [Exhibit 22](#) - Letter to Mr. John Lowder dated February 10, 2010.
6. [Exhibit 23](#) - Memorandum entitled "December 2009 Investment Manager Watch List."
7. [Exhibit 24](#) - Investment Compliance Activities 2010
8. [Exhibit 25](#) - SURS and Ennis Knupp & Associates Fiscal Year 2010-11 Work Plan.
9. [Exhibit 26](#) - Schedule of Formal Reviews for SURS Investment Managers, Defined Benefit Plan & SMP.
10. [Exhibit 27](#) - Memorandum entitled "Schedule of Investment Committee Meetings"

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

Respectfully submitted,



Ms. Judith A. Parker
Interim Executive Director

JAP:ssr