



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
1:00 p.m. Tuesday, October 20, 2009
EnnisKnupp – Michigan Conference Room
10 S. Riverside Plaza, Suite 1600
Chicago, Illinois**

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

Others present were: Ms. Judith A. Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Kelly A. Jenkins, General Counsel; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt, Senior Investment Officer; Ms. Lou Ann Fillingham and Mr. Tony Lee, Investment Officers; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Shelley Porter, Chief Financial Officer; Ms. Lori Kern and Ms. Stacy Smith, Executive Assistants; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Mr. Russell Ivinjack, Ms. Laurel Nicholson, Mr. Dan Kim, Ms. Heather Christopher, Ms. Amy Paris, and Mr. Rob Parkinson, EnnisKnupp; Ms. Leslie Thompson, Gabriel Roeder Smith & Company; Mr. Don Pollak, Northern Trust Investments; Mr. Walt Koziol, Illinois Municipal Retirement Fund; and Rob Talaga, Public School Teachers' Pension and Retirement Fund of Chicago.

Trustee Giertz called the meeting to order at 1:00 p.m.

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

Trustee Giertz introduced Mr. Richard Ennis, a founding partner of EnnisKnupp. Mr. Ennis welcomed the Trustees and thanked them for the continued confidence that SURS has placed in his firm throughout the years.

REPORT FROM THE SEPTEMBER 10, 2009, INVESTMENT COMMITTEE MEETING

Mr. Daniel Allen reported that Trustee John Engstrom attended EnnisKnupp's training session, "Navigating Your Investment Program", on October 13th. Trustee Engstrom commented that the program was very worthwhile.

Mr. Allen reviewed the estimated funding summary as of September 30, 2009, which is incorporated as a part of these Minutes as [Exhibit 1](#). Mr. Allen advised that the fiscal year to date return as of September 30 is 13.5%, and assets total slightly over \$12 billion. The market value funding ratio is estimated at 46%. The August 2009 Investment Update was distributed ([Exhibit 2](#)).

Mr. Allen's Investment Committee Meeting Status Report and his memorandum, entitled "Investment Contracts Approved", dated October 9, 2009, are incorporated as a part of these Minutes as [Exhibit 3](#) and [4](#).

APPROVAL OF MINUTES

Trustee Antonio Vasquez made the following motion:

- that the Minutes from the September 10, 2009, Investment Committee meeting be approved as presented. The motion was seconded and the motion carried.

Trustees Steven Rogers and Mitchell Vogel were both unable to physically attend the meeting due to employment commitments. Trustee Giertz moved:

- that Trustees Rogers and Vogel be allowed to participate fully in the meeting by audio. The motion was seconded and it carried.

Trustee Rogers joined the meeting at this point via teleconference.

DISCUSS SENATE PENSIONS AND INVESTMENT COMMITTEE HEARINGS

Mr. Allen reported that SURS testified before the Senate Committee on Pensions and Investments on September 21, 2009. Mr. Allen, Ms. Judith Parker, and Mr. Tony Lee were present representing SURS staff. Trustees Steven Rogers and Antonio Vasquez also attended and provided oral testimony. During their comments, Trustees Rogers and Vasquez reiterated SURS' commitment to the utilization of minority- and women-owned firms. The Trustees' comments were well received.

Trustee Rogers stated that he viewed the hearing as a positive experience for SURS. Mr. Allen was very well prepared for the hearing and the information he provided to the Committee was outstanding. Trustee Vasquez agreed and added that he would encourage SURS' expanded outreach efforts to increase diversity within the SURS investment program and the SURS organization in general.

Incorporated as a part of these Minutes as [Exhibit 5](#) is Mr. Allen's memorandum entitled "Senate Pensions and Investment Committee Hearing". The presentation provided to the Senate Committee on Pensions and Investments, as well as staff's response to a list of 26 questions asked of SURS prior to the hearing, are incorporated as a part of these Minutes as [Exhibits 6](#) and [7](#).

The Committee discussed the idea of developing a comprehensive diversity program through internships and other mentoring programs. As Chair of the Governmental Affairs Committee, Trustee Williams suggested that development of such a program be a joint effort between the Governmental Affairs Committee and the Personnel & Resource Committee. Trustee Vasquez agreed.

REAL ESTATE FUND OF FUNDS MANAGER INTERVIEW

Mr. Allen provided a summary of the developments that lead to Franklin Templeton being invited to make a presentation before the Committee. Mr. Allen reported that the consortium, which includes SURS, Illinois Municipal Retirement Fund, and the Public School Teachers' Pension and Retirement Fund of Chicago, now believes Franklin Templeton to be the best candidate for the real estate fund of funds mandate. Mr. Allen's memorandum "Recommendation for Real Estate Fund of Funds Manager Search" is incorporated as a part of these Minutes as [Exhibit 8](#).

Ms. Heather Christopher reported that EnnisKnupp has a great deal of confidence in Franklin Templeton. Franklin Templeton was one of the first real estate firms to offer a fund of funds program. EnnisKnupp recently conducted due diligence on Franklin Templeton for a second time and found there to be no material changes in the organization as a whole. Incorporated as a part of these Minutes as [Exhibit 9](#) is EnnisKnupp's Emerging Manager Fund of Funds Real Estate Search Report.

In response to concerns raised by Trustee Rogers, Mr. Allen discussed the selection process followed by the previous Board and the staff. There were nine responses to the RFP and three finalist candidates were interviewed by the consortium. Trustee Vasquez stated that he participated in the interviews and the manager initially chosen recently withdrew from the mandate. Franklin Templeton was the consortium's runner-up candidate.

Trustee Hightman asked if consideration was given to reissuing the RFP since a year has passed. Mr. Allen and Ms. Christopher indicated that the market in this area has not changed and it is unlikely that reissuing the RFP would produce different results.

Ms. Christopher noted that Mr. Walt Koziol of Illinois Municipal Retirement Fund and Mr. Rob Talaga of the Public School Teachers' Pension and Retirement Fund of Chicago, were present.

Presentation was then made to the Committee by Franklin Templeton which was represented by Mr. Marc Weidner, Managing Director; Ms. Larissa Herczeg, Vice President; Ms. Danita Johnson, Investment Manager; and Mr. Carter Bailey, Senior Vice-President of Client Services. Franklin Templeton's presentation is incorporated as [Exhibit 10](#).

Following the presentation, the Committee further discussed the firm's qualifications and their commitment to the mandate.

Trustee Hightman moved:

- that a commitment of \$75 million, contingent upon successful contract negotiations, be authorized to Franklin Templeton Real Estate Advisors to serve as a real estate fund of funds investment manager, with the intent to utilize emerging, minority and women-owned funds when possible. As part of the contract negotiations, SURS will require a statement of the firm's commitment to diversity, including a plan of specific timetables and milestones to evidence such commitment. The motion was seconded and it carried unanimously.

Prior to leaving the meeting, Trustee Rogers asked to make a few comments. Trustee Rogers stated that he is not supportive of investing in the Public Private Investment Program (PPIP) and he has concerns with RLJ/Western Asset.

Brief discussion was held regarding the 2010 meeting schedule that was set at the September meeting.

NON-U.S. EQUITY ASSET CLASS ANNUAL MANAGER REVIEW

Mr. Wesley briefly commented on the Non-U.S. equity manager reviews and noted that the staff and EnnisKnupp jointly recommend retention of all managers. Mr. Wesley specifically commented on GlobeFlex's performance, which is still of concern. GlobeFlex has been on the Watch List since June. Mr. Wesley also mentioned that EnnisKnupp and staff continue to monitor the developments of BlackRock's acquisition of Barclays Global Investors.

Trustee Giertz reminded the Committee of the "quiet period" restrictions that prevent Trustees from making direct contact with managers during a search period. During a search, correspondence with firms seeking a contract with SURS should be left to the staff.

Trustee Williams made the following motions:

- that Martin Currie be retained as a Non-U.S. equity manager.
- that Mondrian Investment Partners be retained as a Non-U.S. equity manager.
- that Globeflex Capital be retained as a Non-U.S. equity manager.
- that Pyramis Global Advisors be retained as a Non-U.S. equity manager.

- that Atlanta Life Investment Advisors be retained as a Non-U.S. equity manager in the Manager Development Program.
- that Strategic Global Advisors be retained as a Non-U.S. equity manager in the Manager Development Program.
- that Ativo Capital Management be retained as a Non-U.S. equity manager via Progress Investment Management.
- that Barclays Global Investors be retained as a structured active Non-U.S. equity manager of the International Alpha Tilts portfolio.

The motions were seconded and the motions carried.

Copies of summary memoranda prepared by EnnisKnupp and SURS staff are incorporated as a part of these Minutes as [Exhibit 11](#) and [12](#). The annual reviews of Martin Currie ([Exhibit 13](#)), Mondrian Investment Partners ([Exhibit 14](#)), Globeflex Capital ([Exhibit 15](#)), Pyramis Global Advisors ([Exhibit 16](#)), Atlanta Life Investment Advisors ([Exhibit 17](#)), Strategic Global Advisors ([Exhibit 18](#)), Ativo Capital Management ([Exhibit 19](#)), and Barclays Global Investors ([Exhibit 20](#)), are also incorporated.

**CERTIFICATION OF STATE CONTRIBUTIONS FOR FISCAL YEAR 2011
AND PRELIMINARY DISCUSSION OF THE ACTUARIAL VALUATION
REPORT AS OF JUNE 30, 2009**

Ms. Leslie Thompson of Gabriel, Roeder, Smith & Company, presented a brief preview of the 2009 Actuarial Valuation. The presentation is incorporated as a part of these Minutes as [Exhibit 21](#). Ms. Thompson reported that the complete 2009 Actuarial Valuation will be available at the December Investment Committee meeting.

Ms. Thompson reported that legislation enacted this year changes the method for valuing assets to one that will smooth gains and losses over a five year period. The legislation also placed actuarial value in the statutory rate calculation. The statutory language is not in accordance with acceptable actuarial standards or acceptable accounting standards and is therefore perpetually underfunding the plan. The Committee discussed the funding situation and whether or not the legislators were aware of the seriousness.

Following Ms. Thompson's presentation, Ms. Shelley Porter advised that the net amount of the required state contribution for fiscal year 2011 is \$848,142,000 and the required state contribution to the Community College Health Insurance Security Fund for fiscal year 2011 is \$4,237,280.

Trustee Hightman moved:

- that the required state contribution to the State Universities Retirement System for Fiscal Year 2011 be certified in the amount of \$848,142,000. The motion was seconded and it carried.

Trustee Vasquez moved:

- that the projected contributions to the Community College Health Insurance Security Fund for Fiscal Year 2011 be certified in the amount of \$4,237,280. The motion was seconded and it carried.

Copies of memoranda by Ms. Shelley Porter, entitled “Required State contribution for FY 2011” and “Required State contribution to the Community College Health Insurance Security Fund for FY 2011” are incorporated as a part of these Minutes as [Exhibit 22](#) and [Exhibit 23](#).

INFRASTRUCTURE ASSET CLASS INVESTMENT MANAGER INTERVIEWS

The Committee decided that it would be appropriate to hold interviews in closed session.

Trustee Vasquez moved that the Committee go into closed session under the Open Meetings Act to consider the sale or purchase of securities or investments, or to consider an investment contract, pursuant to Section 2(c)(7). The motion was seconded and it carried in a roll call vote.

Trustee Beaulieu	aye
Trustee Cassidy	aye
Trustee Engstrom	aye
Trustee Giertz	aye
Trustee Hightman	aye
Trustee Miller	aye
Trustee Rogers	absent
Trustee Vasquez	aye
Trustee Vogel	aye
Trustee Williams	aye

Upon the Committee’s return to open session, Trustee Williams moved:

- that the following investment management firms and funds be selected, contingent upon successful contract negotiations, and be funded an allocation of \$40 million each:
 - Alinda Capital Partners – Alinda Infrastructure Fund II or a parallel vehicle established for tax-exempt investors.
 - Macquarie Capital – Macquarie Infrastructure Partners II or a parallel vehicle established for tax-exempt investors.

The motion was seconded and it carried.

Incorporated as a part of these Minutes as [Exhibit 24](#) is a memorandum prepared by SURS staff entitled “Infrastructure Investment manager Search Recommendations”. EnnisKnupp’s Infrastructure Manager Search Report is also incorporated as [Exhibit 25](#).

**PUBLIC PRIVATE INVESTMENT PROGRAM INVESTMENT MANAGER
INTERVIEWS**

Trustee Cassidy moved that the Committee go into closed session under the Open Meetings Act to consider the sale or purchase of securities or investments, or to consider an investment contract, pursuant to Section 2(c)(7). The motion was seconded and it carried in a roll call vote.

Trustee Beaulieu	aye
Trustee Cassidy	aye
Trustee Engstrom	aye
Trustee Giertz	aye
Trustee Hightman	aye
Trustee Miller	aye
Trustee Rogers	absent
Trustee Vasquez	aye
Trustee Vogel	aye
Trustee Williams	aye

Trustee Rogers joined the meeting by teleconference during the closed session. Trustees Cassidy and Hightman left during the presentations.

Upon the Committee’s return to open session, Trustee Vogel moved:

- that SURS move forward with participation in the Public-Private Investment Program. The motion was seconded and it carried with all trustees present voting in favor except for Trustees Rogers and Vogel.

Trustee Beaulieu moved:

- that the following investment management firms and funds be selected, contingent upon successful contract negotiations, and be funded an allocation of \$40 million each:
 - AG GECC Public-Private Investment Fund, L.P. or a parallel vehicle established for tax-exempt investors.
 - RLJ Western Assets Public/Private Fund, L.P. or a parallel vehicle established for tax-exempt investors.
 - TCW Special Mortgage Credits Fund III or a parallel vehicle established for tax-exempt investors.

The motion was seconded and it carried with all trustees present voting in favor except for Trustees Rogers and Vogel.

A memorandum prepared by SURS staff entitled “PPIP Investment Manager Search Recommendations” is incorporated as [Exhibit 26](#). Also incorporated as [Exhibit 27](#) is EnnisKnupp’s memorandum, “Public-Private Investment Program”, which includes a company profile for Angelo Gordon & Co., RLJ/Western Asset Management, and TCW Asset Management Company.

Mr. Allen requested approval to adjust the strategic policy targets in order to reflect the 1% allocation to the PPIP. Since it is opportunistic in nature, the PPIP allocation will be included the Opportunity Fund.

Trustee Vogel moved:

- that the strategic policy allocation targets be approved as presented, giving staff the discretion to incrementally implement those policy targets in coordination with the actual transition of assets. The motion was seconded and it carried.

<i>ASSET ALLOCATION POLICY MIX (as of 10/1/2009)</i>	<i>STRATEGIC POLICY ALLOCATION</i>	<i>ADJUSTED STRATEGIC TARGET</i>
<i>U.S. Equity</i>	<i>31.0%</i>	<i>35.0%</i>
<i>Private Equity</i>	<i>6.0%</i>	<i>6.0%</i>
<i>Non-U.S. Equity</i>	<i>18.0%</i>	<i>18.0%</i>
<i>Global Equity</i>	<i>10.0%</i>	<i>9.0%</i>
<i>Fixed Income</i>	<i>18.0%</i>	<i>21.0%</i>
<i>TIPS</i>	<i>4.0%</i>	<i>5.0%</i>
<i>Real Estate</i>	<i>10.0%</i>	<i>6.0%</i>
<i>REITS</i>	<i>4.0%</i>	<i>4.0%</i>
<i>Direct Real Estate</i>	<i>6.0%</i>	<i>2.0%</i>
<i>Opportunity Fund</i>	<i>3.0%</i>	<i>0.0%</i>
<i>Infrastructure</i>	<i>1.0%</i>	
<i>Commodities</i>	<i>1.0%</i>	
<i>PPIP</i>	<i>1.0%</i>	

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

The following items were included for reference:

1. [Exhibit 1](#) - SURS Funding Status Chart as of September 30, 2009.
2. [Exhibit 28](#) - EnnisKnupp’s memorandum “RREEF America III Investor Forum”
3. [Exhibit 29](#) - Investment Compliance Activities 2009-2010
4. [Exhibit 30](#)- Fiscal Year 2010-11 Work Plan
5. [Exhibit 31](#)- Schedule of Formal Reviews for SURS Investment Managers
6. [Exhibit 32](#)- Schedule of Investment Committee Meetings.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Judith A. Parker".

Ms. Judith A. Parker
Interim Executive Director

JAP:ss