



## MINUTES

**Meeting of the Investment Committee  
of the Board of Trustees of the  
State Universities Retirement System  
8:30 a.m., Thursday, September 10, 2009  
The Northern Trust – London Room B9  
50 S. LaSalle Street  
Chicago, Illinois**

The following Trustees were present: Dr. Jeffrey Beaulieu, Ms. Patricia Cassidy, Dr. John Engstrom, Dr. J. Fred Giertz, Ms. Carrie J. Hightman (via teleconference), Mr. Steven Rogers, Mr. Antonio Vasquez, Mr. Mitchell Vogel, 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; Mr. Steve Hayward, Internal Audit Director; Ms. Angie Lieb, Director of Member Services; Mr. Douglas Steele, Director of Application Development and Research; Mr. Chris Hansen, Director of Operations; Mr. Terrin Krantz, Director of Human Resources; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Ms. Lori Kern and Ms. Stacy Smith, Executive Assistants; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Mr. Russell Ivinjack, Ms. Laurel Nicholson, Ms. Heather Christopher, Ms. Amy Paris, and Mr. Rob Parkinson, Ennis Knupp + Associates; Ms. Amy Williams, Gabriel Roeder Smith & Company; Mr. Don Pollak, Northern Trust Investments; Ms. Patricia Somerville-Koulouris, Mr. Dan Hynes, Ms. Amy Sproull, Mr. Mike Oberlin, Mr. Mark Thein-Wai, Mr. Jeff Feeney, and Mr. Mark Bovier, The Northern Trust Company; Ms. Linda Brookhart, SUAA; Mr. Edgar Hernandez, Service Employees International Union; Ms. Angela Myers, Loop Capital; Ms. Kathy Murray, North Sub Capital, and Mr. Barry Burr, Pensions & Investments.

Trustee Giertz called the meeting to order at 8:35 a.m.

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

Trustee Carrie Hightman joined the meeting via teleconference at 8:40 a.m. Since she was unable to physically attend the meeting due to business commitments, Trustee Vogel moved that:

**Trustee Hightman be allowed to participate fully in the meeting by audio. The motion was seconded and it carried.**

**DUTIES OF THE INVESTMENT COMMITTEE AND REPORT FROM THE  
JUNE 11, 2009 INVESTMENT COMMITTEE MEETING**

Trustee Giertz identified the members of the Investment Committee and stated that any member of the Board can participate and vote in the Investment Committee meeting. Trustee Giertz briefly outlined the purpose and goals of the Investment Committee. The prime goal of the Committee is to generate return for the System while satisfying various mandates. Trustee Giertz noted that there are a number of ways that the Committee could chose to operate. One way is to give a great deal of discretion to the professional staff and allow them to make individual investment decisions. In the recent past, the Board chose instead to review each investment mandate, which requires Committee members to be willing and able to put forth significant time and effort. Trustee Giertz stated that the Committee has two levels of support to rely on, the internal investment staff and the investment consultant. Trustee Hightman commented that it is her belief that the role of the Committee is that of a policy-setter. The professional staff and the consultant should be relied upon to carry out the detailed operations.

Trustee Giertz provided the Committee with history on the use of passive investments as a core strategy, which provides broad market returns at low cost. The market is so efficient and it is virtually impossible to beat. While this philosophy has been followed for many years, it is open for discussion.

Mr. Daniel Allen welcomed the Committee and stated that much of the meeting agenda will focus on the performance of the recent fiscal year. Mr. Allen pointed the Committee to the Investment Update of June 2009, which is incorporated as a part of these Minutes as [Exhibit 1](#). Mr. Allen also distributed the SURS Funding Status chart as of August 31, 2009 ([Exhibit 2](#)). Mr. Allen noted that SURS sells between \$60-70 million in assets each month in order to cover benefit payments.

Mr. Allen's memoranda entitled "Report from the June 11, 2009 Investment Committee Meeting" and "Investment Contracts Approved" are incorporated as a part of these Minutes as [Exhibit 3](#) and [4](#).

Discussion was held regarding a recent issue of Pensions & Investments that ranked top pension funds around the country.

Mr. Ivinjack provided comments on the practice SURS has followed in hiring investment managers. Typically, SURS staff and consultants review investment manager candidates

and narrow the pool to three to four managers to be interviewed and selected by the Board. Mr. Ivinjack stated that this practice is consistent with how most boards operate. The staff and consultant will provide a recommendation on the manager selection as well as the allocation. In response to a question raised by Trustee Rogers, Mr. Ivinjack further stated that the decision making process used includes quantitative and qualitative analysis and risk budgeting consideration.

Discussion was held regarding the System's negative cash flow and how that isn't necessarily unusual. Most systems pay out more in monthly benefits that they receive from the state. The funding is two-fold; the state contribution and the investment growth. SURS hasn't earned as much investment income as it should have due to the chronic underfunding, which has contributed to the low funding ratio. According to Mr. Ivinjack, a mature retirement system spends 5-10% of its assets annually to pay benefits.

**FINANCIAL MARKET UPDATE, ANNUAL STATUS REPORT AND  
CONSIDERATION OF SEARCH TO PARTICIPATE IN  
PUBLIC PRIVATE INVESTMENT PARTNERSHIP (PPIP)**

Mr. Ivinjack reported that the actual asset allocation was closely in line with the policy target at June 30, 2009. This is due largely in part to the Board's decision in March to rebalance from the Treasury Inflation Protected Securities (TIPS) asset class to equities.

Mr. Ivinjack stated that the asset allocation policy targets are continually reviewed and the core allocations may be altered slightly (plus or minus 1-2 percentage points) as necessary. An asset-liability study is done every three to five years. The last asset liability study was completed in early 2008 and the Board approved the recommendations in June of that year.

Mr. Ivinjack commented on the long-term investment performance of SURS. The long-term return expectation is 8.5%. Since inception, SURS has earned 9.8%, net of fees.

Ms. Laurel Nicholson reported on the recent market performance, noting that fiscal year-to-date the U.S. Stock Market is up by almost 19%. Bonds and Non-U.S. stocks are also up by 4.8% and 30%, respectively. Despite the recent U.S. market recovery and reported strength overseas, concern remains. Currently, unemployment is at 9.7%, the highest seen since 1982.

A question was raised regarding the definitions of emerging markets and emerging managers. Mr. Ivinjack indicated that emerging markets are countries with stock market exchanges (or bond market exchanges) that are defined by the index providers as being countries on their way to becoming a developed market. An emerging manager is strictly defined as a money manager with \$2 billion or less under management.

Ms. Heather Christopher provided an overview of the SURS Real Estate Portfolio. At the end of June, SURS' real estate portfolio had assets of \$534 million across five managers. 56% of the portfolio is held in REITs versus 44% in private real estate. Ms. Christopher

reported that for the quarter ended March 2009, SURS' direct real estate portfolio returned -15.5% compared to the performance benchmark return of -13.7%. Ms. Christopher identified distressed investments, secondary market investments, debt and mezzanine lending, and preferred equity as current areas of real estate investment opportunity.

Mr. Ivinjack presented the Annual Review ([Exhibit 5](#)) for the State Universities Retirement System and reminded the Board of the policy portfolio allocation changes that were adopted by the Board in early 2008. Movement has been made towards the new policy allocation in the areas of global equity (from 5% to 10%) and the reduction in the U. S. stock allocation (from 39.5% to 32%). However, no investments have been made in the infrastructure or commodities areas that should eventually reach 1% each.

In response to a question raised regarding measuring SURS' investment performance through peer comparison, Mr. Ivinjack cautioned that such comparison can be misleading. While many commonalities exist among various funds, each fund makes investment decisions based on individual circumstances, including fund liabilities, level of maturity, and liquidity needs. A comparison of SURS' asset allocation compared to three surveys (Greenwich, Mellon Public Fund Universe, and RV Kuhns Public Fund) was provided as part of EK's annual review. Trustee Rogers requested that the Committee be provided with comparison information for a set of peers that is more comparable to SURS, noting that the three surveys used contain data from funds with assets of \$200 million to \$50 billion. Trustee Giertz pointed out that the Committee will also be provided with data comparing SURS to the other Illinois funds.

Mr. Ivinjack reported that a risk budgeting exercise was conducted as part of the annual review. The results indicate that SURS' total fund active risk is currently 0.9, which means that in 2 out of 3 years, SURS can expect to earn +/- 0.9% relative to the policy benchmark.

EK's presentation, "Market Update: State Universities Retirement System" is incorporated as a part of these Minutes as [Exhibit 6](#).

Mr. Allen directed the Committee's attention to his memorandum entitled "Public Private Investment Program (PPIP)", which is incorporated as a part of these Minutes as [Exhibit 7](#). Mr. Allen noted that SURS staff and EK will jointly recommend going forward with a search to identify investment managers in which SURS should consider as an investment partner with the U.S. Treasury in the Public Private Investment Program (PPIP).

Mr. Ivinjack introduced Ms. Amy Paris of EK. Ms. Paris reported that the Legacy Securities Public-Private Investment Program was launched by the U.S. Treasury in March of 2009. The program objective is to re-liquefy the securities markets of the residential mortgage backed securities and the commercial mortgage backed securities. This program was designed to stimulate the economy by allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. The Treasury will invest up to \$40 billion in eligible assets, which include

securities issued prior to 2009 that were originally rated AAA. The U.S. Treasury has identified nine pre-qualified managers that will each raise a minimum of \$500 million.

Mr. Ivinjack reported that EK worked with the U.S. Treasury to identify the nine pre-qualified managers. In order to maintain confidentiality, EK created a separate internal team to independently vet the nine managers identified by the U.S. Treasury.

Ms. Paris' presentation, which includes research by EK on the PPIP program, is incorporated as a part of these Minutes as [Exhibit 8](#).

The Committee discussed various aspects of the program, including the expected rate of return, the risk involved, and the timeline. Trustees expressed concern with the concept and that a number of questions remain unanswered. However, the Trustees concluded that they would like to pursue the opportunity further without a commitment to the investment.

Mr. Ivinjack stated that potential managers would be invited to present before the Committee at the October meeting. This would provide an opportunity to ask specific questions to the firms directly. After discussion, Trustee Vogel moved that:

**Ennis Knupp + Associates conduct a search, with SURS staff oversight, to identify potential investment managers for the Public-Private Investment Program. This motion was seconded.**

Trustee Williams asked that the firms be asked at least one question regarding Corporate Governance, specifically how they assess more qualitative data when making management decisions.

Trustee Engstrom asked for clarification that the staff and EK are in favor of pursuing this investment. Mr. Allen confirmed that staff and EK are supportive of moving forward.

Trustee Rogers stated that this appears to be a good opportunity for investment return. He believes the opportunity to ask more questions should provide more comfort.

Mr. Ivinjack briefly added that one other requirement of the nine approved firms is that they are encouraged to partner with a minority- or women-owned business enterprise in this initiative.

The motion carried.

**APPROVAL OF SURS INVESTMENT POLICIES AND  
STATUS UPDATE REGARDING COMPLIANCE ACTIVITIES PER  
PUBLIC ACT 96-0006**

Mr. Allen reported that the investment policy is reviewed annually at the September Investment Committee meeting. Staff is recommending several modifications to the Investment Policy.

Ms. Kimberly Pollitt directed the Committee to the memorandum entitled “Review of Investment Policy”, which is incorporated as a part of these Minutes as [Exhibit 9](#). Although several areas of the Investment Policy underwent minor change, Ms. Pollitt identified and discussed three areas of significance, including Section V – Asset Allocation and Rebalancing Strategy, Section VI – Investment Manager Structure, and Section XV – Emerging Investment Managers and Broker/Dealers.

The summary memorandum and the redlined Investment Policy, which is also incorporated as a part of these Minutes as [Exhibit 10](#), provide rationale for the recommendations.

Ms. Pollitt noted that the Self-Managed Plan Investment Policy was also reviewed; however, there are no recommended changes to that policy at this time.

Mr. Douglas Wesley provided a report ([Exhibit 11](#)) to the Committee on the compliance with Public Act 96-0006, which was signed by Governor Quinn on April 3, 2009. The Act requires, among other things, increased disclosure between the Illinois pension systems and the general public. Mr. Wesley identified two areas of disclosure that will require modifications to the website: 1) description of every contract for investment services, which must include a disclosure approved by the Board describing the factors that contributed to the selection of an investment adviser or consultant, and 2) names and e-mail addresses of all Trustees and senior staff.

Mr. Wesley recommended that the Board adopt a disclosure statement consistent with language already contained in the Investment Policy, which states that factors contributing to the selection of investment advisers and consultants include: “Experience and qualifications of the firm’s principals, the soundness of the firm’s investment philosophy and process, as well as the strength of the investment record and organization”. Trustee Giertz commented that fees are also a consideration and should be included in the disclosure statement.

Mr. Wesley informed that, in order to comply with item 2 as described above, staff is in the process of creating e-mail addresses for the Trustees to be used for SURS business. These addresses will be accessible to the public on the SURS website.

After further discussion, Trustee Vogel moved that:

**the revised Investment Policy document for the defined benefit plan be approved as presented, and that the Investment Policy document for the Self-Managed Plan (SMP) be approved. The motion was seconded and it carried.**

Trustee Vasquez moved that:

**the following disclosure be approved as factors that contributed to the selection of investment advisors and consultants: Experience and qualifications of the firm's principals, the soundness of the firm's investment philosophy and process, as well as the strength of the investment record and organization in accordance with the selection criteria as stated in the investment policy. The motion was seconded and it carried.**

**DISCUSS SENATE PENSIONS AND INVESTMENTS COMMITTEE  
HEARINGS, STATUS REPORT OF MANAGER DEVELOPMENT PROGRAM  
(MDP) AND PROPOSED MODIFICATIONS TO THE SURS INVESTMENT  
PROGRAM**

Mr. Allen reported that SURS staff will testify before the Senate Committee on Pensions and Investments on September 21<sup>st</sup> in Chicago. In preparation for the hearing, staff has spent numerous hours responding to a list of 26 questions regarding SURS' use of minority- and female-owned asset management firms and brokerages. Incorporated as a part of these Minutes as [Exhibit 12](#), is a letter from the Chair of the Senate Committee on Pensions and Investments, Senator Kwame Raoul. Also incorporated as [Exhibit 13](#), are the list of questions as well as SURS' response.

Ms. Parker indicated that each trustee should also receive a letter informing them of the hearing and inviting them to attend. Trustee Williams commented that she attended the hearing last year, along with Trustees Palmer and Vogel, and she advocated for Board participation again this year. Mr. Allen agreed and further commented that statements from Trustees have been well received in the past.

Mr. Allen provided the Committee with an update on the Manager Development Program (MDP). As of June 30, 2009, the SURS total investment program had assets of \$11.1 billion, of which approximately \$1.6 billion, or 14.4%, is managed by minority- and women-owned firms. Mr. Allen was pleased to note that this is the highest percentage to date. Despite this success, SURS continues to be challenged in the area of locating Latino-owned firms. Trustee Rogers asked how SURS' progress in this area compares to that of its peers. Mr. Allen responded that SURS is recognized throughout the country as having a good program and he believes there is data that would support that statement.

Mr. Allen reviewed the proposed MDP searches for fiscal year 2010 as well other goals that have been identified to continue growth within the Manager Development Program. Mr. Allen's memorandum, entitled "SURS Manager Development Program (MDP)", is incorporated as a part of these Minutes as [Exhibit 14](#).

Mr. Allen reported that, in an effort to gradually implement the revised strategic policy target allocations, staff is proposing a modification to the investment program. In June of 2008, the Board of Trustees approved the reduction of the core fixed income policy target from 21% to 18%. Mr. Allen reported that staff and EK jointly recommend liquidating assets in the RhumbLine Core Bond Index Fund and transferring those assets to Progress Investment Management. This recommended action is consistent with the findings of the recent asset/liability study, and it would assist SURS in achieving desired goals as required by Public Act 96-0006. Mr. Allen's memorandum, "RhumbLine Advisers Fixed Income Reallocation", is incorporated as a part of these Minutes as [Exhibit 15](#). Discussion was held.

Trustee Beaulieu moved that:

**SURS assets in the Rhumbline Core Bond Pooled Index Fund be liquidated with proceeds being transferred to Progress Investment Management. The motion was seconded and it carried.**

#### **GENERAL DISCUSSION OF INVESTMENT ISSUES**

Incorporated as a part of these Minutes as [Exhibit 16](#), is SURS' Funding Status chart for the fiscal year ended 2009. The chart indicates that, at June 30, 2009, assets totaled \$11 billion and the estimated funding ratio was 42.1%.

Mr. Allen was pleased to report that Piedmont Investment Advisors recently honored the most favored nation clause that exists in the investment management agreement and proposed a reduced fee schedule. A memorandum prepared by Mr. Allen and Mr. Tony Lee entitled, "Piedmont Investment Advisors Management Fee Reduction", as well as Piedmont's letter outlining the proposal, are incorporated as a part of these Minutes as [Exhibit 17](#).

Pantheon Ventures' Annual Investor Meeting is scheduled for November 3-6, 2009, in Dublin, Ireland. Mr. Allen requested the Committee's approval to attend the meeting. Incorporated as a part of these Minutes as [Exhibit 18](#) is a memorandum from Mr. Allen, as well as Pantheon's letter of invitation and the meeting agenda. Trustee Giertz expressed his support and stated that it is important to participate in the meetings as SURS is a member of the Advisory Board.

Ms. Mary Pat Burns reminded the Board that Public Act 96-0006 removed educational mission exemption for pension fund trustees and staff. Ms. Burns recommended that the Committee take action in order to clarify that the purpose of this travel is furtherance of due diligence and that expenditures, including travel, hotel, meals and other incidentals,

will be paid by SURS, as to not violate the provisions of Public Act 96-0006 concerning the State Officials and Employee Ethics Act. Trustee Vogel moved that:

**Daniel Allen, as a member of the Advisory Board, attend the 2009 Pantheon Annual Investor Meeting and his expenses be reimbursed in compliance with the SURS Travel Policy and ethics statutes. The motion was seconded and it carried.**

In June of 2008, the Board approved the hiring of an additional Senior Investment Officer position. Staff delayed the process of filling this position largely due to the asset consolidation initiative that was being discussed among the legislature over the last year. Mr. Allen reported that staff is now moving forward in the recruitment process. Incorporated as a part of these Minutes as [Exhibit 19](#) are memoranda dated August 28, 2009, and May 30, 2008, which support staff's request for additional resources.

Mr. Allen announced that Ennis Knupp + Associates is holding their Client Education session on October 13 & 14, 2009, in Chicago. Trustees are invited and encouraged to attend the session if their calendars permit. Incorporated as a part of these Minutes as [Exhibit 20](#) is a memorandum from Mr. Allen, as well as a sample agenda from a previous EK client education session.

### **DISCUSSION OF REAL ESTATE ASSET CLASS INVESTMENT ISSUES**

Mr. Allen reminded the Committee that American Value Partners (AVP) was selected by the Consortium of SURS, Illinois Municipal Retirement Fund and the Public School Teachers' Pension and Retirement Fund of Chicago, to serve as a real estate fund of funds provider. In a letter to SURS dated August 11, 2009, AVP regrettably withdrew its offer to serve in this capacity. As a result, Franklin Templeton, the runner-up in the search process, will be invited to present before the Investment Committee at the October 20, 2009, meeting. Mr. Allen stated that the other members of the Consortium are taking similar action.

Incorporated as a part of these Minutes as [Exhibit 21](#), is Mr. Allen's memorandum entitled, "Real Estate Fund of Fund Mandate", and AVP's letter of withdrawal.

Ms. Heather Christopher of EKA provided an update on RREEF America III. Ms. Christopher noted that as of June 30, 2009, SURS investment in the RREEF America III fund had a value of \$10.7 million. The initial commitment was \$30 million. Ms. Christopher commented on RREEF's underperformance as well as the company's efforts to restructure. Memoranda from EKA dated August 27, 2009, and May 29, 2009, are incorporated as [Exhibit 22](#).

## **STATUS UPDATE OF INFRASTRUCTURE SEARCH PROCESS**

Mr. Allen reported that SURS received 30 responses to the infrastructure RFP. SURS staff and EK have narrowed the pool to six semi-finalists.

Mr. Rob Parkinson of EK provided an overview on infrastructure as an asset class, which is incorporated as a part of these Minutes as [Exhibit 23](#). Also incorporated as [Exhibit 24](#) is a memorandum from EK entitled, "SURS – Infrastructure Manager Search Process". Mr. Parkinson informed the Committee that the next step in the process is semi-finalist interviews, which will be conducted by SURS staff and EK on September 16 & 17 in Chicago. Two or three finalist firms will be identified and asked to present before the Committee at the October 20, 2009 meeting. Mr. Parkinson confirmed that none of the 30 candidates that responded to the RFP were minority- or women-owned firms.

The Committee discussed the partnership structure being utilized within the SURS Opportunity Fund for the 1% infrastructure investment. Mr. Ivinjack stated that SURS will be one of a number of investors for each chosen infrastructure fund. The Committee also discussed expected fees, which are to be 1-1.5%.

## **SURS FISCAL YEAR 2009 ANNUAL REVIEW**

Mr. Allen noted that the SURS Fiscal Year 2009 Annual Review was included in the materials ([Exhibit 25](#)). However, due to time constraints, the staff did not provide an oral report.

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

The following items were included for reference:

1. [Exhibit 26](#) - Memorandum from Mr. Wesley, "Pension Obligation Notes Update".
2. [Exhibit 27](#) - Memorandum from Ms. Branson, "Compliance Update".
3. [Exhibit 28](#) - "Report to the Governor and General Assembly on Economic Opportunity Investments", dated August 31, 2009.
4. [Exhibit 29](#) - Memorandum from EKA, "BlackRock's Acquisition of BGI".
5. [Exhibit 30](#) - Memorandum from Ms. Fillingham, "Northern Trust Master Custodian Review".
6. [Exhibit 31](#) - Memorandum from EKA, "Dow Jones Wilshire Benchmark Change".
7. [Exhibit 32](#) - Correspondence regarding investment guideline modifications.
8. [Exhibit 33](#) - "Ennis Knupp Capital Markets Modeling Assumptions – Updated July 2009".
9. [Exhibit 34](#) – Schedule of Investment Compliance Activities and the FY2010 Work Plan.

## **STANDARD INVESTMENT REPORTS**

Ms. Lou Ann Fillingham presented the standard investment reports, which are incorporated as a part of these Minutes as [Exhibit 35](#). Ms. Fillingham highlighted the net securities lending income for the fiscal year ended June 30, 2009, was \$15 million. This is a significant increase over the \$10.6 million received the previous year. Ms. Fillingham also pointed out that SURS' investment budget was 17% under budget for fiscal year 2009. This underage is attributable to the decreased asset base.

There being no further business to come before the Committee, Trustee Beaulieu 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