



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
10:00 a.m., April 16, 2010
Ennis Knupp & Associates
Michigan Conference Room
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606**

The following Trustees were present: Mr. Mitchell Vogel, Chair; Mr. Matthew Berns, Ms. Patricia Cassidy, Dr. John Engstrom, Dr. J. Fred Giertz (via teleconference), Mr. Antonio Vasquez, Ms. 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. Stefanie Rice, Executive Assistant; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Mr. Russell Ivinjack, Ms. Laurel Nicholson, and Mr. Tom Brennan and Ms. Rebecca Chow, Ennis Knupp & Associates; Ms. Patti Somerville-Koulouris, The Northern Trust Company.

Trustee Vogel called the meeting to order at approximately 10:00 a.m.

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

Trustee Fred Giertz was unable to physically attend the meeting due to personal reasons. Trustee Vasquez moved:

- To allow Trustee Giertz to participate by telephone pursuant to Section 7 of the Open Meetings Act.

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

APPROVAL OF MINUTES

Trustee Vogel presented the Minutes from the Investment Committee meeting of March 10, 2010. Trustee Engstrom moved that:

- The Minutes from the March 10, 2010, Investment Committee meeting be approved as presented.

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 March 2010 of 48.4%, indicating a strong fiscal year-to-date investment return of 22.7% with over \$13 billion in assets. A copy of SURS Funding Status is incorporated as a part of these Minutes as [Exhibit 1](#).

A copy of staff's memorandum entitled "Report from the March 10, 2010 Investment Meeting" is incorporated as a part of these Minutes as [Exhibit 2](#). A copy of staff's memorandum entitled "Investment Contracts Approved" is incorporated as a part of these Minutes as [Exhibit 3](#).

TIAA-CREF SELF-MANAGED PLAN (SMP) REVIEW

Mr. Allen reported that more members are participating in the SMP option of the SURS investment program. There are two main providers of the SMP – TIAA-CREF and Fidelity. Individual reviews of these managers occur each year.

Ms. Lou Ann Fillingham provided an update on TIAA-CREF. TIAA-CREF was chosen as a provider of the SMP plan 12 years ago. Ms. Fillingham reported that it currently manages approximately \$295 million, or 44.3%, of the SMP assets. The CREF Stock Account holds approximately 23% of the TIAA-CREF assets followed by the TIAA Traditional Annuity with 18% of assets.

Ms. Fillingham provided some background on TIAA-CREF noting that TIAA and CREF are separate entities with separate board of directors/trustees. At the end of 2009, the combined organizations had approximately \$414 billion in assets under management with approximately \$383 billion representing retirement plan assets.

In 2009 TIAA-CREF began a five-year plan to reduce its expense ratio by 30%. It has earned an expense reduction ranging from 9% to 21%. A key strength of the fund is its ability to offer low-cost investment options.

The Trustees discussed various options available to the members aside from TIAA-CREF. It was noted that TIAA-CREF is one of the largest retirement investment

providers in the world closely followed by Fidelity. Trustee Vasquez noted the performance of TIAA-CREF within a 10-year period. Mr. Doug Wesley indicated that TIAA-CREF is a renowned organization highly attracted by its low fees.

Trustee Vasquez moved that:

- TIAA-CREF be retained as an investment provider for the SURS Self-Managed Plan with an indication regarding concerns pertaining to its performance.

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

A copy of staff's memorandum entitled "TIAA-CREF Annual Review" is incorporated as part of these Minutes as [Exhibit 4](#).

U.S. EQUITY STRUCTURE OVERVIEW

Ms. Laurel Nicholson presented an overview of the U.S. equity portfolio, which accounts for \$4.3 billion, over 34% of SURS' total portfolio assets. She noted that even though the equity markets experienced significant negative returns in 2007 and 2008, in 2009 SURS' portfolio earned over 33% and outperformed its benchmark. Approximately half of the SURS portfolio is invested in index funds. Enhanced index funds, which are low tracking error investments, are the second largest piece of the SURS portfolio and comprise of approximately 34% of the U.S. equity portfolio. Mr. Russ Ivinjack discussed the strategies used to invest this segment of the portfolio in order to add value. Discussion followed.

Mr. Wesley discussed performance concerns with the Paradigm Asset Management (Paradigm) small cap growth portfolio. Paradigm has been on the watch list since June of 2009. Mr. Wesley noted the portfolio has had five years of history with SURS as of the end of March. Although relative performance was positive early in the account's history, it has consistently lagged the benchmark since then. Since Paradigm's inception, they have lagged the benchmark by 350 basis points annually. While on the watch list staff has been in regular communication with the manager.

Based on the reports and recommendation of staff and after further discussion by the Trustees, Trustee Williams moved that:

- PIMCO be retained as a structured active equity manager.
- BlackRock be retained as a structured active equity manager.
- Jacobs Levy Equity Management be retained as a structured active U.S. equity manager.
- T. Rowe Price Associates be retained as a structured active U.S. equity manager.
- Progress Investment Management be retained as a manager of emerging managers.
- Piedmont Investment Advisors be retained as a structured active U.S. equity manager.

- Paradigm Asset Management be terminated as a U.S. equity manager.

The motions were seconded and carried with all Trustees present voting in favor.

A copy of EKA's memorandum entitled "U.S. Equity Structure Overview" is incorporated as a part of these Minutes as [Exhibit 5](#). A copy of staff's memorandum entitled "Executive Summary of the U.S. Equity Asset Class and Manager Reviews" is incorporated as a part of these Minutes as [Exhibit 6](#). Copies of staff's memorandums entitled "PIMCO StocksPlus Annual Review," "BlackRock Financial Management Annual Review," "Jacobs Levy Equity Management Annual Review," "T. Rowe Price Associates Annual Review," "Progress Investment Management Annual Review," "Piedmont Advisors Annual Review," and "Paradigm Asset Management Annual Review" are incorporated as a part of these Minutes as [Exhibit 7](#), [Exhibit 8](#), [Exhibit 9](#), [Exhibit 10](#), [Exhibit 11](#), [Exhibit 12](#), and [Exhibit 13](#), respectively.

EDUCATIONAL TOPIC – ESSENTIALS OF FIXED INCOME

Mr. Tom Brennan and Ms. Rebecca Chow of Ennis Knupp & Associates (EKA) provided an educational session on the essentials of fixed income. A copy of EKA's presentation entitled "Essentials of Fixed Income" is incorporated as a part of these Minutes as [Exhibit 14](#).

FIXED INCOME SEARCH OVERVIEW

Mr. Ivinjack reported on the status of the fixed income search noting that 96 managers responded to the RFP with 125 different strategies. Out of the 125 strategies, 119 were active and 6 were passive. Brennan reviewed the search process. Due to the large response, the search process will be divided into two parts – 1) evaluation of the passive managers and PIMCO and 2) evaluation of the remaining active managers. He noted the long history with PIMCO and the key role the portfolio has played in the SURS portfolio. Mr. Allen indicated that the current schedule of the search notes interviews with passive managers on May 13 followed by a meeting with PIMCO on May 14. The plan is to bring a recommendation to the Board at the June meeting for the first segment of the search. Mr. Allen will send invitations to the Trustees who would like to attend any of the interviews.

A copy of EKA's memorandum entitled "Fixed Income Search Overview" is incorporated as a part of these Minutes as [Exhibit 15](#).

**CONSIDERATION FOR REQUEST FOR CONSENT TO ASSIGNMENT OF
INVESTMENT MANAGEMENT AGREEMENT WITH PANTHEON
VENTURES, INC.**

Mr. Allen summarized the long relationship SURS has had with Pantheon Ventures. Approximately 10 years ago Pantheon was retained to help diversify the private equity program. Currently the SURS portfolio value with Pantheon is approximately \$500 million. In addition, Pantheon manages the Private Opportunities Fund for SURS, which is valued at approximately \$6 million. On February 10, 2010, an announcement was made that Affiliated Managers Group would be acquiring the Pantheon business from Russell Investments which would increase employee ownership to approximately 15% of the partnership. The increased equity stake should serve to better align management's interests with those of clients. Mr. Allen recommended approving the assignment of the existing investment management agreements.

Trustee Cassidy moved that:

- The assignment of the existing SURS investment management agreement with Pantheon Ventures, Inc. be approved, pending legal review.
- The assignment of the existing Private Opportunities Fund LP's investment advisory agreement with Pantheon Ventures, Inc. be approved, pending legal review

The motions were seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Pantheon Ventures, Inc. Consent" is incorporated as a part of these Minutes as [Exhibit 16](#). A copy of EKA's memorandum entitled "Update on AMG Acquisition of Pantheon Ventures" is incorporated as a part of these Minutes as [Exhibit 17](#). A copy of a memorandum from Pantheon entitled "Pantheon Change of Ownership" is incorporated as a part of these Minutes as [Exhibit 18](#). A copy of a letter dated March 31, 2010, is incorporated as a part of these Minutes as [Exhibit 19](#).

APPROVAL OF BOARD TRAVEL

Mr. Allen provided information to the Committee on several conferences and annual meetings being held during the spring that may be of interest. Mr. Allen requested the Board's approval for attendance and all allowable travel expenses of the same.

Trustee Cassidy moved that:

- The Board of Trustees travel to attend the Credit Suisse Private Equity Conference on Small & Emerging Managers & In-State Investments in Chicago, Illinois from April 28-29, 2010 and all resulting travel expenses allowable be approved.

- The Board of Trustees travel to attend the Illinois Public Employee Retirement Systems Summit in Chicago, Illinois from June 2-3, 2010 and all resulting travel expenses allowable be approved.
- The Board of Trustees travel to attend the Adams Street Partners 2010 Chicago Client Conference from June 9-10, 2010 and all resulting travel expenses allowable be approved.

The motions were seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Approval of Board Travel" is incorporated as a part of these Minutes as [Exhibit 20](#). Copies of the Credit Suisse Conference, the Illinois Public Employee Retirement Systems Summit, the Adams Street Client conference and the EKUniversity Program are incorporated as a part of these Minutes as [Exhibit 21](#), [Exhibit 22](#), [Exhibit 23](#) and [Exhibit 24](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

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

1. [Exhibit 25](#) - December 2009 Investment Manager Watch List.
2. [Exhibit 26](#) - Investment Compliance Activities 2010-2011.
3. [Exhibit 27](#) - Schedule of Formal Reviews for SURS Investment Managers, Defined Benefit Plan & SMP.
4. [Exhibit 28](#) - Fiscal Year 2010-11 Work Plan
5. [Exhibit 29](#) - Memorandum entitled "Schedule of Investment Committee Meetings"

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

Respectfully submitted,



Ms. Judith A. Parker
Interim Executive Director

JAP:ssr