



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Thursday, October 28, 2010
Hewitt EnnisKnupp
Suite 1600, Michigan Room
10 South Riverside Plaza
Chicago, Illinois 60606**

The following Trustees were present: Dr. J. Fred Giertz, Chair; Dr. Jeffrey Beaulieu, Ms. Patricia Cassidy, Dr. John Engstrom, Ms. Carrie Hightman, Ms. Dorinda Miller, Mr. Steven Rogers, and Dr. Marva Williams.

Others present were: Mr. William Mabe, Executive Director; Ms. Judith Parker, Associate Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Lou Ann Fillingham and Mr. Joseph Duncan, Investment Officers; Ms. Stefanie Rice, Executive Assistant; Ms. Shelley Porter, Chief Financial Officer; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of The Northern Trust Company; Mr. Russ Ivinjack, Ms. Laurel Nicholson, Ms. Rebekah Chow and Mr. Francois Otieno of Hewitt EnnisKnupp; Ms. Leslie Thompson and Ms. Amy Williams of Gabriel, Roeder, Smith & Company; Mr. Edgar Hernandez, SEIU; Mr. Brad Tank, Mr. Andy Johnson and Mr. Keith Beaudoin of Neuberger Berman; Mr. Luis Maizel, Mr. John Chalker, Mr. Richard Deary of LM Capital Group; Mr. Jeff Moore, Mr. Dan Tremblay, Mr. Jerry Branka of Pyramis Global Advisors; Ms. Sharon Piet of Podesta & Company; Mr. Jared Feeney and Mr. Cameron Rogers of JP Morgan; and Mr. Ed Rozell of Loop Capital.

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

Trustee Vasquez and Trustee Vogel appeared immediately after roll call.

Trustee Giertz called the meeting to order at approximately 9:00 a.m.

APPROVAL OF MINUTES

Trustee Giertz presented the Minutes from the Investment Committee meeting of September 2, 2010. Trustee Rogers moved that:

- The Minutes from the September 2, 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 reported a positive fiscal year-to-date performance beginning July 1, 2010 with a return of 9.6%. He noted that September alone had a return of 6.1%. SURS continues to rank favorably in total fund performance in comparison with other Illinois Public Pension Funds.

FIXED INCOME MANAGER INTERVIEWS AND RECOMMENDED FUNDING PLAN

Mr. Allen remarked that today's interviews will conclude the fixed income manager search. This search has been a three step process which began in June 2010 and continued in September 2010. The Committee will complete the third phase of the process today by selecting additional core plus active fixed income managers and providing additional funding to current active fixed income managers.

Mr. Joseph Duncan and Ms. Rebekah Chow introduced LM Capital Group.

LM Capital Group:	Mr. Luis Maizel, Senior Managing Director
	Mr. John Chalker, Managing Director
	Mr. Richard T. Deary, Director – Business Development

Discussions had by the Committee at the conclusion of the interview. After further discussion, Trustee Rogers moved that:

- LM Capital Group be retained as a core plus active fixed income manager, with an initial funding of \$50 million, contingent on successful contract negotiations.

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

Mr. Duncan introduced additional firms to the Committee for interviews providing some informational background of each.

Neuberger Berman:	Mr. Keith Beaudoin, Senior Vice President
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Mr. Brad Tank, Chief Investment Officer
Mr. Andy Johnson, Managing Director

Pyramis Global Advisors: Mr. Jeff Moore, Portfolio Manager
Mr. Dan Tremblay, Senior Vice President and Fixed
Income Investment Director
Mr. Jerry Branka, Senior Vice President,
Relationship Manager

The Committee continued discussions after the interviews.

Trustee Rogers moved that:

- Neuberger Berman be retained as a core plus active fixed income manager, with an initial funding of up to \$250 million, contingent on successful contract negotiations.

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

Additional discussions followed regarding the allocation of funds to current managers.

Trustee Vasquez moved that:

- Pugh Capital Management be funded an additional \$25 million.
- Taplin, Canida and Habacht be funded an additional \$25 million.
- Western Asset Management be terminated as a core plus active fixed income manager.

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

SCENARIO PLANNING ANALYSIS OF THE INVESTMENT PROGRAM

Mr. Russ Ivinjack provided a scenario planning analysis to the Committee. He presented background on the projections of the pension plan asset value as well as noted the key metrics that are evaluated. The Committee discussed the various scenarios and potential outcomes. Mr. William Mabe recapped the implications of the various scenarios and remarked that the next step to take is to conduct an experience study followed by an asset/liability study.

**CERTIFICATION OF STATE CONTRIBUTION FOR FISCAL YEAR 2012 AND
PRELIMINARY DISCUSSION OF THE ACTUARIAL VALUATION**

Ms. Leslie Thompson of Gabriel, Roeder, Smith & Company presented a preview of the estimated valuation results as of June 30, 2010, using assumed rates of investment return of 8.50% and 7.75%. A copy of the presentation is incorporated as a part of these Minutes as [Exhibit 1](#). Ms. Thompson discussed the calculations of the assumed rates of investment return and the implications of changing the rate. She further noted that other public pension systems have begun to change their assumed rates of returns. She encouraged an experience study to be conducted immediately with the results presented at the December Committee meeting. The Committee discussed the current assumption and the effects of changing said rate.

Trustee Vogel moved that:

- The long-term assumed rate of investment return be reduced from 8.5% to 7.75%, effective with the valuation period as of June 30, 2010, based upon the recommendation of the System's actuary and with concurrence of the outside investment consultant.

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

Trustee Rogers requested additional educational information regarding actuarial analyses.

Following Ms. Thompson's presentation, Ms. Shelley Porter advised that the net amount of the required state contribution for fiscal year 2012 with an updated assumed rate of investment return of 7.75% is \$980,485,000. In addition, the required state contribution to the Community College Health Insurance Security Fund for fiscal year 2012 is \$4,298,962. Ms Porter commented that the certification of the State contribution is an annual process established by statute. After further discussion by the Board regarding the date to send the request to the Governor, Trustee Beaulieu moved that:

- The required net state contribution to the State Universities Retirement System for Fiscal Year 2012 be certified in the amount of \$980,485,000.

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

Ms. Porter presented a brief overview of the certification for the project contribution to the Community College Health Insurance Security Fund for Fiscal Year 2012.

Trustee Vogel moved that:

- The projected contribution to the Community College Health Insurance Security Fund for Fiscal Year 2012 be certified in the amount of \$4,298,962.

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

Trustee Vasquez moved that:

- GRS conduct an experience study for the period of 2006 through 2010.

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

A copy of GRS's handout entitled "Alternative Investment Return" is incorporated as a part of these Minutes as [Exhibit 2](#). A copy of staff's memorandum entitled "Certification of State Contribution and Recommendation of Experience Study" is incorporated as a part of these Minutes as [Exhibit 3](#). A copy of staff's memorandum entitled "Required State Contribution for FY 2012" is incorporated as a part of these Minutes as [Exhibit 4](#).

GLOBAL AND NON-U.S. EQUITY ASSET CLASS ANNUAL MANAGER REVIEWS

Mr. Douglas Wesley provided a review of the global equity asset class. He noted that the asset class represents approximately 10% of the total fund and consists of five managers. Overall, the asset class had strong performance over the past year.

At the conclusion of the global equity manager review, Trustee Rogers moved that:

- Wellington Management be retained as a global equity manager.
- Aberdeen Asset Management be retained as a global equity manager.
- T. Rowe Price be retained as a global equity manager.
- Payden & Rygel be retained as a global equity manager.
- Calamos Advisors be retained as a global equity manager.

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

Mr. Wesley updated the Committee on the Non-U.S. equity class noting that this class contains eleven managers. Four of the active managers outperformed their benchmark over the past year. Staff is recommending retention of all managers with some recommended funding changes. At the conclusion of discussion, Trustee Rogers moved that:

- Martin Currie be retained as a Non-U.S. equity manager with a reduction of assets of \$200 million.
- Mondrian Investment Partners be retained as a Non-U.S. equity manager.
- GlobeFlex Capital be retained as a Non-U.S. equity manager.
- Herndon Capital be retained as a Non-U.S. equity manager in the Manager Diversity Program and be provided an additional allocation of \$50 million.
- Strategic Global Advisors be retained as a Non-U.S. equity manager in the Manager Diversity Program.

- Ativo Capital Management be retained as a Non-U.S. equity manager in the Manager Diversity Program via a direct relationship and that the firm be provided an additional allocation of \$15 million.
- BlackRock be retained as a structured active Non-U.S. equity manager of the International Alpha Tilts portfolio with a reduction of assets of \$200 million.
- Pyramis Global Advisors be retained as a structured active Non-U.S. equity manager and be provided an additional allocation of \$100 million.

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

A copy of Hewitt EnnisKnupp's memorandum entitled "International and Global Equity Overview" is incorporated as a part of these Minutes as [Exhibit 5](#). Copies of staff's memoranda entitled "Executive Summary of the Global Equity Asset Class" and "Executive Summary of the Non-U.S. Equity Asset Class" are incorporated as a part of these Minutes as [Exhibit 6](#) and [Exhibit 7](#).

Trustee Cassidy left at the conclusion of the Global and Non-U.S. equity review.

FIDELITY INVESTMENTS SELF-MANAGED PLAN (SMP) **ANNUAL REVIEW**

Ms. Lou Ann Fillingham provided an annual review of the Fidelity Investments Self-Managed Plan (SMP). She reported that the SMP currently has two service providers – Fidelity and TIAA-CREF. TIAA-CREF was previously reviewed in April of 2010; the Fidelity annual review will be moved to April and the TIAA-CREF annual review will be presented in March beginning 2011. As of August 2010, approximately \$700 million was invested in the SMP with \$386 million, or 56% of the SMP assets, managed by Fidelity. Fidelity has been a mutual fund provider in the SMP for more than seven years and holds investments for more than 11,200 SMP participants. During February 2010, SURS converted 14 options offered by Fidelity to the lower cost Class K Mutual Funds. Principal Financial Group has been providing annuities to SMP members for approximately five years on behalf of Fidelity. Ms. Fillingham indicated that fund reviews of investment options offered by Fidelity are posted to the SURS website as an informational resource for SURS members.

At the conclusion of the review Trustee Rogers moved that:

- Fidelity Investments be retained as an investment service provider for the SURS Self-Managed Plan.

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

A copy of staff's memorandum entitled "Fidelity Investment Self-Managed Plan (SMP) Annual Review" is incorporated as a part of these Minutes as [Exhibit 8](#).

**STATUS REPORT OF THE INVESTMENT
CONSULTANT SEARCH PROCESS**

Mr. Allen updated the Committee on the consultant search process. He noted that seven responses to the request for proposal were received. Three potential consultants will be presented to the Committee in December for review. He advised that due diligence trips are currently scheduled with each candidate. Discussion followed.

Trustee Hightman moved that:

- The Committee go into closed session pursuant to the Open Meetings Act to consider the sale or purchase of securities or investments or to consider an investment contract pursuant to § 2(c)(7). Motion seconded and carried in a roll call vote:

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

Committee returned to open session. Discussions continued.

After further discussion, Trustee Rogers moved that:

- The Committee go back into closed session pursuant to the Open Meetings Act to consider the sale or purchase of securities or investments or to consider an investment contract pursuant to § 2(c)(7). Motion was seconded and carried in a roll call vote:

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

After completion of the discussion, the Committee returned to open session.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

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

1. [Exhibit 9](#) - SURS Funding Status 2011 Fiscal Year-to-Date Results
2. [Exhibit 10](#) - Illinois Public Pension Funds Comparison Chart
3. [Exhibit 11](#) - Staff Memorandum entitled "Annual Review of Minority-, Female- and Persons with a Disability-Owned Broker/Dealer Usage by SURS Investment Managers
4. [Exhibit 12](#) - June 2010 Investment Manager Watch List
5. [Exhibit 13](#) - Investment Compliance Activities 2010-2011
6. [Exhibit 14](#) - Fiscal Year 2011-12 Work Plan
7. [Exhibit 15](#) - Schedule of Formal Reviews for SURS Investment Managers Defined Benefit Plan & SMP
8. [Exhibit 16](#) - Memorandum entitled "Schedule of Investment Committee Meetings"

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

Respectfully submitted,



Mr. William E. Mabe
Secretary, Board of Trustees

WEM:ssr