

ILLINOIS MUNICIPAL RETIREMENT FUND
MEETING NO. 12-02-I

MEETING OF THE
INVESTMENT COMMITTEE

The Investment Committee met in the IMRF offices in Oak Brook, Illinois, on Thursday, February 23, 2012. Mr. Stafford, Chairman of the Investment Committee, called the meeting to order at 3:10 P.M.

(12-02-01)(Roll Call) Mr. Sambol called the roll:

Present: Nannini, Copper, Piechocinski, Stafford, Henry
Absent: Thompson

Also in attendance were: Ms. Becker-Wold and Mr. Ball of Callan Associates; Mr. Kosiba, IMRF Executive Director; Ms. Shah, IMRF Chief Investment Officer; Mr. Sambol, IMRF Investment Manager; and Ms. Seplak, Ms. Vasquez, Ms. Bulger, Ms. Villarreal, Ms. Brunke, and Mr. Talaga, IMRF Investment Analysts.

(12-02-02)(Action Items)

- A. Approve Investment Committee Meeting Minutes from July 21, 2011 The Chief Investment Officer asked for the approval of the minutes of the July 21, 2011 Investment Committee Meeting.

It was moved by Mr. Piechocinski; and seconded by Ms. Henry; that the minutes of the July 21, 2011 meeting of the Investment Committee be approved.

Vote:

The motion was approved unanimously.

- B. Approve Investment Committee Charter The Chief Investment Officer presented changes to the Investment Committee Charter. She then asked the Committee to approve this Charter as amended.

It was moved by Ms. Henry; and seconded by Ms. Copper; to recommend that the Board approve the Investment Committee Charter as amended.

Vote:

The motion was approved unanimously.

- C. Approve Real Estate Statement of Investment Policy The Chief Investment Officer presented the Real Estate Statement of Investment Policy. After this presentation, she asked the Committee to recommend approval of this policy to the Board.

It was moved by Mr. Piechocinski; and seconded by Mr. Nannini; to recommend that the Real Estate Statement of Investment Policy be approved.

Vote:

The motion was approved unanimously.

(12-02-03)(Annual Proxy Voting Report) Staff presented the 2011 Annual Proxy Voting Report to the Committee. It was noted that IMRF voted 1,713 domestic ballots and 1,539 international ballots. Examples of IMRF's votes against management were also presented to the Committee.

(12-02-04)(Annual Minority, Female, and Person with a Disability-Owned Business (MFPDOB) Reports)

- A. 2011 Money Manager Utilization Report The 2011 Annual Minority, Female, and Disabled Person-Owned (MFPDOB) Money Manager Utilization Report was presented to the Committee. As of December 31, 2011, IMRF's emerging manager allocations by manager classification were: minority-owned businesses 12.8% versus a goal of 9% to 13%; female-owned businesses 2.4% versus a goal of 2% to 6%; and businesses owned by a person with a disability 0% versus a goal of 0.5 to 1%. As of December 31, 2011, IMRF's emerging manager allocations by asset class were: Equities 13.6% versus a goal of 10% to 12%; Fixed Income 21.5% versus a goal of 15% to 20%; and Alternatives 5.6% versus a goal of 5% to 10%. Additional information reported during the presentation included: a summary of Staff activities in 2011; and a review of the growth of assets managed by MFPDOB-owned firms since 2002.
- B. 2011 Broker Utilization Report Staff presented the 2011 Annual Minority, Female, and Disabled Person-Owned (MFPDOB) Broker Utilization Report. As of December 31, 2011, IMRF's utilization of these broker/dealers was: U.S. Equities 35.39% versus a goal of 20%; International Equities 25.07% versus a goal of 20%; Fixed Income 33.16% versus a goal of 20%; High Yield Bonds 20.67% versus a goal of 5%; International Small-Cap Equities 9.62% versus a goal of 5%; U.S. Micro-Cap Equities 17.50% versus a goal of 5%; Emerging Market Equities 0% versus a goal of 5%; and Commingled Accounts 0.36% versus a goal of best efforts. Additional information presented to the Committee included: the 31% growth in brokerage commissions executed with minority, female, and disabled person-owned broker/dealers in 2011; a summary of brokerage commission allocations by ethnicity; and a review of Staff activities in 2011.

(12-02-05)(International Large-Cap Value Equity Manager Search)

- A. International Large-Cap Value Equity Manager Presentation Staff and Consultant presented an overview of the international large-cap value equity manager search. The objective of this search was to increase the assets in the value component of the international equity portfolio to equal that of growth, and to evaluate Brandes in the context of a manager search.

Thirty-one firms responded to the IMRF RFP. Three responses were received from minority, female, and disabled person-owned (MFPDOB) firms. After all responses were evaluated by Staff and Consultant, nine semi-finalists —excluding Brandes —were interviewed. Following these interviews, five firms were selected for on-site visits. Three finalists — Lazard, Lombardia (a MFPDOB firm), and Mondrian — were selected to present to the Investment Committee.

Following this overview, Staff and Consultant presented recommendations pertaining to the international equity manager search and the structure of the international equity portfolio:

Search recommendations

- ◆ the allocation of up to \$400 million in Mondrian for an international large-cap value equity portfolio, subject to satisfactory completion of legal diligence;
- ◆ the allocation of up to \$75 million in Lazard for an international large-cap value equity portfolio; subject to satisfactory completion of legal diligence;
- ◆ the allocation of up to \$25 million in Lombardia, with an initial funding of \$5 million, subject to satisfactory completion of legal diligence; Staff will fund the remaining amount based on milestones set by Staff and achieved by manager.
- ◆ that the allocation to Brandes be reduced to \$400 million, a reduction of approximately \$197 million;

Structure recommendations

- ◆ that McKinley be terminated from the international large-cap growth equity mandate;
- ◆ that the allocations to the EARNEST Partners and William Blair international large-cap growth equity portfolios be equalized at \$450 million each, translating to an increase of approximately \$159 million to EARNEST Partners and a reduction of approximately \$266 million to William Blair;

- ◆ that Staff be authorized to implement the allocation of assets among Brandes, EARNEST Partners, Lazard, Lombardia, McKinley, Mondrian, and William Blair to achieve the recommended mandates for each manager;
 - ◆ that the resulting overflow from these manager allocation recommendations (currently estimated to be \$76 million) be allocated to the NTI EAFE Index; and,
 - ◆ that Staff be authorized to complete all documentation necessary to execute these recommendations.
- B. Mondrian Presentation Messrs. Bliss and Ross, and Ms. Desmond of Mondrian presented a review of their firm’s organization structure, performance history, investment strategy, and fees. This presentation was followed by questions from the Committee.
- The Committee recessed at 4:32 P.M.
 - The meeting of the Investment Committee reconvened at 4:37 P.M.
- C. Lazard Freres Presentation Messrs. Reinsberg and Bennett of Lazard Freres presented a review of their firm’s organization structure, performance history, investment strategy, and fees. This presentation was followed by questions from the Committee.
- D. Lombardia Capital Partners Presentation Messrs. Graham, Polit, and Castro of Lombardia Capital Partners presented a review of their firm’s organization structure, performance history, investment strategy, and fees. This presentation was followed by questions from the Committee.

(12-02-06)(Action Items)

- A. Approve International Large-Cap Value Equity Search Recommendations Following these presentations, it was moved by Mr. Piechocinski; and seconded by Mr. Nannini; to recommend that the Board approve the international equity portfolio search recommendations presented by Staff and Consultant.

Vote:

The motion was approved unanimously.

- B. Approve International Equity Structure Recommendations It was moved by Ms. Henry; and seconded by Ms. Copper; to recommend that the Board approve the international equity portfolio structure recommendations presented by Staff and Consultant.

Vote:

The motion was approved unanimously.

- C. Approve recommended action item for Buford, Dickson, Harper & Sparrow Staff and Consultant presented a recommendation to terminate Buford, Dickson, Harper & Sparrow due to concerns related to recent changes to this firm's organization structure and underperformance relative to their benchmark. It was also noted that this firm has been on the manager watch-list for performance since February 2011.

After discussion, it was moved by Mr. Nannini; and seconded by Ms. Henry; to recommend that the Board approve the recommendation presented by Staff and Consultant.

Vote:

The motion was approved unanimously.

(12-02-07)(New Business) There was no new business presented or discussed during the meeting.

- The next meeting of the Investment Committee is tentatively scheduled to be held on Thursday, March 22, 2012.

(12-02-08)(Trustee Comments) There were no trustee comments.

(12-02-09)(Public Comments) There were no public comments

(12-02-10)(Adjourn) By unanimous consent, the meeting of the Investment Committee adjourned at 5:43 P.M.

Chairman

Date

Clerk

Date