TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the June 7, 2000 Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 12, 2000

INFORMATION: ____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session June 7, 2000 are submitted on the following pages.

Attachment 1
Investment Committee – Item 3
July 12, 2000

PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
JUNE 7, 2000
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA

COMMITTEE MEMBERS PRESENT
Gary Lynes, Chairperson
Yvonne Gallegos Bodle
Marty Mathiesen
Lillian Raffel
Emma Zink
Philip Angelides, State Treasurer
Kathleen Connell, State Controller
Delaine Eastin, State Superintendent of Public Instruction
Annette Porini, representing State Director of Finance
Tim Gage

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT
Jennifer DuCray Morrill
Chris Drevalas
Walter Barnes
Curt Robinson

STAFF PRESENT
James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Real Desrocher, Director of Alternative Investments
Janice Hester Amey, Principal Investment Officer
Richard Rose, Principal Investment Officer
Jim Hurley, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Terry Sander, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Terry Dennison, William Mercer Investment Consulting Inc.
Jay Schenirer, Sacramento City Unified School District Board of Education
Michael Green, CTA
Beverly Carlson, CTA
Ellen Logue, CTA-Retired
Donald Douglas, CTA-Retired
Steve DePue
Pat Geyer
Dorothy Moser, UTLA-Retired
Loretta Toggenburger,
Karen Stapf Walters,
Paul Knepprath, American Lung Association of CA
Ann Stupy, CFT

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:02 a.m.

I. **ANNOUNCEMENTS** (Item 2)
There were no announcements.

II. **APPROVAL OF MINUTES OF THE MAY 3, 2000 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Mathiesen, seconded by Ms. Porini and carried to approve the minutes of the May 3, 2000, Investment Committee, Open Session as presented.

III. **REPORT OF SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)
Ms. DuCray Morrill reported that no action had been taken at the Subcommittee meeting. She announced that there would be no Subcommittee on Corporate Governance meeting in the months of July and August.

BY CONSENSUS the Investment Committee accepted the report.

IV. **GENERAL – BENCHMARK MODIFICATION POLICY (TOBACCO INDUSTRY)** (Item 5)
Mr. Emkin reviewed and discussed the written analysis specific to the tobacco industry as it pertains to the Benchmark Modification Policy.

MOTION duly made by Mr. Angelides and seconded by Mr. Robinson to modify the benchmark to exclude tobacco production companies, as defined by IRRC. This decision being made following analysis, due diligence and concurrence of the findings to the Benchmark Modification Policy.

Discussion continued.

Ms. Eastin arrived at the meeting at 9:15 a.m.

Mr. Schenirer expressed support of adoption of a modification to the Benchmark as it relates to tobacco investments.

Ms. Eastin stated, for the record, support for modification of the benchmark to exclude tobacco stocks. In her view, this reflects an alignment of public policy with the goal of education to discourage young people from smoking.

Mr. Emkin provided clarification that a change in the benchmark to exclude tobacco production companies would result in a liquidation of such holdings in the passive portfolio and prohibit purchase of such holdings in the passive portfolio. In the active portfolios the benchmark would change, but the active managers would still have the discretion to buy, sell or hold tobacco production stocks.

> MOTION - Benchmark modification: A roll call vote was taken on the motion. Dr. Bodle, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Angelides, Ms. Eastin, and Ms. Porini voted yes. Mr. Barnes abstained. By consensus, the Committee later allowed Dr. Connell to change Mr. Barnes vote to a yes vote. Chairperson Lynes recorded a vote of yes. The motion carried.

V. **REAL ESTATE - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1999** (Item 6)

Ms. Gerardo Lietz and Ms. Sander reviewed the written report. Mr. Mitchell stated that the report presented was completed with the same methodology as previous reports.

> MOTION duly made by Mr. Mathiesen, seconded by Ms. Zink and carried to adopt a resolution to accept the semi-annual performance report submitted by Pension Consulting Alliance as presented.

VI. **LEGISLATION** (Item 7)

Mr. Derman discussed AB 107, a tobacco divestment bill.

Dr Connell arrived at the meeting at 9:40 a.m.

> MOTION duly made by Ms. Raffel, seconded by Mr. Angelides and carried to adopt no position on AB 107.

Dr. Connell stated for the record that she had been delayed, but wanted to commend staff and consultants for the process developed and the information provided regarding the benchmark modification policy. She requested that the Committee allow a change of the abstain vote by her representative Mr. Barnes to a yes vote on the acceptance of the benchmark modification to exclude tobacco production companies. By consensus, the Committee allowed Dr. Connell to change Mr. Barnes' abstention to a yes vote.

VII. **REAL ESTATE – REAL ESTATE CONSULTANT CONTRACT** (Item 8)

Mr. Mitchell reported that the contract had been amended to incorporate Ziegler Company as the performance measurement organization under the real estate consultant contract.

Dr. Connell left the meeting at 9:50 a.m. Mr. Barnes represented the State Controller.

VIII. **EXTERNAL EQUITY – REPORT ON ENHANCED INDEX STRATEGY** (Item 9)
Mr. Dennison reviewed and discussed an overview of Long-Short enhanced indexing. Discussion ensued. Mr. Dennison stated that he would not recommend this portfolio strategy for use by CalSTRS at this time.

Chairperson Lynes recessed the meeting at 10:20 a.m.
The meeting reconvened at 10:35 a.m.

IX. **INTERNAL EQUITY – REPORT ON CASH EQUITIZATION PROGRAM** (Item 10)
Mr. Tong reviewed the written report on the cash equitization program since its inception. The report showed that the fund has gained $9.9 million (gross) due to the program.

X. **REAL ESTATE – REPORT ON PUBLIC REAL ESTATE SECURITIES (REITS)** (Item 11)
Ms. Gerardo Lietz reviewed a written report on REITs. A historical overview, performance, and use within public pension fund portfolios were discussed.

XI. **GENERAL – UPDATE ON 1999/00 INVESTMENT OBJECTIVES** (Item 12)
Mr. Mitchell reviewed the report on the progress and completion of 1999/00 objectives.

Ms. Eastin left the meeting at 11:25 a.m. Mr. Robinson represented the Superintendent of Public Instruction

XII. **CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT** (Item 13)
Mr. Rose presented the written report.

XIII. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 14)
Mr. Mitchell and Mr. Hurley discussed the written report.

XIV. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 15)
Mr. Desrocher reviewed the written report and reported on an investment of $200 million made under delegation of authority in VantagePoint Venture partners IV.

XV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 16)
Mr. Mitchell reviewed the written report.

XVI. **DRAFT AGENDA FOR JULY INVESTMENT COMMITTEE MEETING** (Item 17)
Mr. Mitchell presented a draft agenda for the July Investment Committee meeting. The Committee determined that they would not hold an Investment Committee meeting in August.

XVII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 18)
Ms. Carlson commended Mr. Mitchell and presented him with flowers for a job well done during his tenure with CalSTRS.

XVIII. **MOVE TO CLOSED SESSION**
Chairperson Lynes recessed the meeting at 11:55 a.m. and reconvened into closed session.

XIX. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to personnel and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 4:05 p.m.

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James D. Mosman, Chief Executive Officer and Secretary to the Teachers' Retirement Board

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Gary Lynes, Chairperson