TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the September 2, 1998 Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: October 7, 1998

INFORMATION: ____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee

Attachment 1
Investment Committee - Item 3
October 7, 1998

PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
STATE TEACHERS' RETIREMENT SYSTEM
SEPTEMBER 2, 1998
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA

COMMITTEE MEMBERS PRESENT
Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Michael Mayer
Emma Zink
Fred Buenrostro, representing State Controller
Kathleen Connell
Raymond Reinhard, representing Superintendent
of Public Instruction, Delaine Eastin
Wen Hong, representing State Treasurer Matthew Fong
Robin Dezember, representing State Director
of Finance, Craig Brown

ALSO PRESENT
James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Christine Drevalas, Treasury Program Manager
Jennifer DuCray-Morrill, DCEO, Gov. Affairs & Program Development
Doug Wills, Staff Counsel
Mitch Pleis, Director of Real Estate
Michelle Cunningham, Director of Fixed Income
Real Desrochers, Director of Alternative Investments
Steven Tong, Director of Internal Equities
Paul Shantic, Investment Officer
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Terri Sander, Pension Consulting Alliance
Al Clerc, Pathway Capital Management
George Roberts, KKR
Ronald Spogli, Freemen Spogli
Carl Thoma, Thoma Cressey
Arthur Geisler, California Teachers' Association
Beverly Carlson, California Teachers' Association
Ellen Logue, California Teachers' Association, Retired
Loretta Toggenburger, United Teachers of Los Angeles

Charles Giarratana, California Teachers' Association
Edna White, California Retired Teachers' Association
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:35 a.m.

I. **ANNOUNCEMENTS** (Item 2)

There were no announcements.

II. **APPROVAL OF MINUTES OF THE AUGUST 5, 1998 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Mathiesen, seconded by Mr. Fenimore and carried to the minutes of the August 5, 1998 Investment Committee, Open Session as presented.

III. **ALTERNATIVE INVESTMENT - PANEL ON ALTERNATIVE INVESTMENT MARKETPLACE** (Item 8)

Mr. Mitchell introduced Messrs. Roberts, Spogli and Thoma. The panel discussed the alternative investment marketplace, its complexity, future and opportunities. The panelists engaged in a group discussion with the Committee.

Chairperson Lynes recessed the meeting at 10:45 a.m.
The meeting reconvened at 10:50.
Mr. Fenimore did not return following the recess.

IV. **EQUITY - RFP FOR REAL ESTATE MANAGERS** (Item 4)

Mr. Pleis and Ms. Gerardo Lietz presented proposed specifications for a RFP for Real Estate Managers. Discussion ensued regarding discretion to managers and fee structures. Mr. Waddell discussed issues raised by Mr. Lanoff , who could not be present at the meeting, regarding delegation of manager selection and performance measurement.

MOTION duly made by Mr. Mathiesen and seconded by Mr. Dezember to adopt a resolution to approve the specifications and authorize staff to release the RFP for Real Estate Managers including the concepts of pooling, evergreen contracts, delegation of the final selection to Staff and modification to Real Estate Policy to allow external real estate managers acquisition and disposition discretion up to $100 million per transaction.. a roll call vote was taken. Messrs. Mayer, Mathiesen, Hong Dezember, and Ms. Zink voted yes. Ms. Bodle and Mr. Buenrostro voted no. Mr. Reinhard abstained. Chairperson Lynes voted yes. The motion carried. Mr. Buenrostro stated for the record that he voted no as the Controller is opposed to evergreen contracts and delegation of manager selection to Staff.

Mr. Fenimore returned to the meeting.

Mr. Mosman raised the issue of quorum when board members temporarily leave the meeting and are not present for a vote. Discussion ensued. Messrs. Waddell and Mosman will prepare a memo or item as the Governance Committee deems appropriate regarding quorum issues.

V. **LEGISLATION** (Item 5)

Ms. DuCray-Morrill reported the following updates to State Legislation: SB 2123 which

allows CalSTRS to enter into credit enhancement agreements with California public schools passed; SB 1433 did not pass; SB1879 following amendments, no longer has impact to STRS; and SB 1945 which provides changes to the member home loan program has been signed.

VI. **ALTERNATIVE INVESTMENT - DUAL ROLE OF CONSULTANT/ADVISOR** (Item 6)
Mr. Mitchell discussed the written report. He reported that Staff recommendation was to continue the current policy of utilizing an external consultant/advisor with oversight provided by STRS staff.

Staff was directed to schedule an agenda item at Board or Committee level, as appropriate, to discuss criteria for an annual performance review of consultant/advisor.

Chairperson Lynes recessed the meeting at 12:10 p.m.
The meeting reconvened at 1:00 p.m.
Ms. Bodle did not return following the recess.

VII. **GENERAL - 1998 INVESTMENT MANAGEMENT PLAN** (Item 7)
Mr. Mitchell presented the revised draft of the Investment Management Plan.

MOTION duly made by Mr. Mayer, seconded by Ms. Zink and carried to approve the 1998 Investment Management Plan as presented.

Ms. Bodle returned to the meeting.

VIII. **FIXED INCOME - UPDATE ON HOME LOAN PROGRAM** (Item 9)
Ms. Cunningham and Mr. Shantic presented a historical overview and an update on the planned revitalization of the home loan program. Issues discussed were objectives of the revitalization, impact of legislation, the marketing strategy, the action plan, the financial plan and monitoring activities.

IX. **INVESTMENT EXPENDITURES AND OTHER INCOME - QUARTERLY UPDATE** (Item 10)
Ms. Okada discussed the written report which included actual investment expenditures for support and continuous appropriation budgets for 1996/97 and 1997/98, projected expenditures for 1998/99 , securities lending income for 1996/97 and 1997/98 and soft dollar expenditures for 1997 and 1998.

X. **CREDIT ENHANCEMENT - ACTIVITY STATUS REPORT** (Item 11)
Mr. Rose presented the written report.

XI. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 12)
Mr. Pleis presented the written report.

XII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 13)
Mr. Desrochers presented the written report.

XIII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 14)
Mr. Mitchell presented the written report and discussed recent stock market corrections. He also noted that for the first time benefits exceeded contributions due to the reduction in contribution by the State.

XIV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 15)
There were no statements from the public.

XV. **MOVE TO CLOSED SESSION**

Chairperson Lynes moved the meeting directly to closed session at 2:13 p.m.

XVI. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to litigation and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 2:50 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