



News

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TRS Board Restates Opposition to State Pension Consolidation *Retirement System hires new custodian and managers*

LISLE, IL- The Board of Trustees of the Teachers' Retirement System of the State of Illinois (TRS) reaffirmed its opposition to the scheme to consolidate the investment functions of the state pension systems proposed earlier this week by Illinois State Treasurer Alexi Giannoulias.

"The numbers didn't add up correctly for Governor Blagojevich when he proposed a similar plan in 2003, and they still don't add up for the Treasurer. Were Mr. Giannoulias in my class, I would have to fail him on this assignment," said TRS elected Trustee Jan Cleveland, a special education teacher from Carmi. During its meeting held December 4, 2008, the TRS Board restated its support for stronger ethics reforms and greater fiscal transparency.

Major stakeholders of TRS, including the Illinois Education Association, are also strongly opposed to the proposed consolidation of the investment functions of the five state pension systems.

"Consolidation is costly, it removes input about investment decisions from active and annuitant members and makes it easier for politicians to wield control over one investment entity," said IEA President Ken Swanson. Giannoulias claims a consolidation would save the state money, when in fact; the cost of transitioning separate assets into a single investment fund could cost the state hundreds of millions of dollars and wipe out any savings for years to come.

In other business, the TRS Board of Trustees selected **State Street Corporation** to serve as the System's new master trustee/custodian and securities lending provider, subject to contract execution. The position requires the safeguarding of System assets, calculating and reporting investment performance, cash management, and multi-currency accounting. State Street Corporation replaces Northern Trust Company, which had served TRS as master custodian since 1996.

Further, the TRS Board of Trustees authorized TRS staff and the System's consultants to conduct a new asset allocation study. The Teachers' Retirement System performs thorough reviews of its investment strategies every three years to examine and anticipate important market trends and risk and return assumptions.

The recommendations contained in the most recent study, adopted in 2006, reduced TRS exposure to U.S. stocks during a time when that asset class was still performing well. Two new asset classes were added in an effort to further diversify the investment portfolio and therefore minimized overall risk. The results of the new study are expected to be presented to the Board at its April 2009 meeting.

"It's been a turbulent time in the global financial markets. While most TRS investment managers have performed well, the System is taking action, where necessary, to stabilize returns and to minimize future risk," said TRS Executive Director Jon Bauman.

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Preliminary returns show the market value of TRS assets dropped by 11 percent to \$30 billion as of October 31, 2008, down from \$34 billion on September 30, 2008, one of the most volatile periods in the history of the global financial markets. However, TRS has earned an average return of 11 percent each year since 1982; long term results that will help the System offset its short-term losses. In addition, constitutional provisions protect TRS benefits from being reduced, regardless of market activity or state budget shortfalls.

Separately, TRS increased the mandate held by **K2 Advisors**, an absolute return fund of fund manager that currently manages \$236 million for TRS. The Board voted to award the firm an additional \$100 million. In addition, the TRS Board hired **Bridgewater Associates** to directly manage a \$179 million absolute return mandate. Bridgewater Associates also manages a \$506 million Global Tactical Asset Allocation (GTAA) mandate within the real return portfolio for TRS. Source of funds are from rebalancing within the fixed income portfolio.

The TRS Board also awarded \$15 million to **StarVest Partners II**, a technology-focused, woman-owned venture capital fund, as part of the TRS Emerging Manager Program. This is the first private equity manager to be included in the \$500 million program since it was formally expanded in June 2008 to include private market investments. To date, \$240 million has been invested in the program, which is designed to provide the oversight and support needed to help promising firms grow into larger mandates.

In other action, the Board approved a \$50 million commitment to **Onex Partners III, L.P.**, a private equity buyout fund. Source of funds will come from cash and passive/enhanced index accounts. Private equity has historically been one of the best performing asset classes for TRS, providing 20 percent returns over the three-, five-, and ten-year reporting periods.

Private equity investment firms pool money from endowments, pension plans such as TRS, and other institutional investors. The funds are used to buy publicly and privately held companies. Many private equity firms then restructure the companies' capital structures and management strategies in order to improve their overall performance and profits. Private equity bolsters the economy by providing the capital to start-up companies, also known as venture capital, and allowing growth at established firms.

Finally, the Board terminated **Neuberger Investment Management** (formerly **Lehman Brothers Asset Management**) due to performance and for organizational concerns regarding the recent sale of the firm's asset management division to Neuberger. The firm managed \$903 million in fixed income, enhanced index assets for TRS.

In a related action, the TRS Board of Trustees awarded **Prudential Fixed Income Management** an enhanced index mandate within the fixed income portfolio. Source of funding for the commitment, which is approximately \$700 million, will come from the termination of Neuberger Investment Management. The remaining proceeds will be distributed to existing fixed income managers that are underweight relative to their target allocations.

The Teachers' Retirement System provides retirement, disability, and survivor benefits to 355,584 teachers and administrators employed at Illinois public elementary and secondary schools located outside the city of Chicago.

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