



# Teachers' Retirement System of the State of Illinois

## MINUTES Board of Trustees August 12-13, 2009

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 12-13, 2009 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Molly Phalen, Vice President, called the meeting to order at 11:54 a.m. A quorum was present.

Present:        **Board Members:**  
Molly Phalen, Vice President  
Matt Berns  
Jan Cleveland  
Cinda Klickna  
Sharon Leggett  
Bob Lyons  
Sidney Marder  
Cynthia O'Neill  
Janice Reedus  
Sonia Walwyn

Absent:         Christopher Koch, President  
Mike Busby  
Livia Kiser

### **TRS Staff:**

Stan Rupnik, CIO & Acting Exec. Director  
Tom Gray, General Counsel  
Cynthia Fain, Sr. Assistant General Counsel  
Jana Bergschneider, Director of Admin.  
Sally Sherman, Director of Member Services  
Gina Larkin, Director of Human Resources  
Sue Billington, Executive Assistant  
Bill Thomas, Sr. Investment Analyst  
Kent Custer, Sr. Investment Officer  
Scottie Beville, Sr. Investment Officer  
Dakin Sanert, Investment Analyst

Kathleen Farney, Director of Research  
Rich Frankenfeld, Director of Outreach  
Stacy Smith, Director of Internal Audit  
Tassi Maton, Director of Inv. Operations  
Eva Goltermann, Director of Public Info.  
Tammy Green, Asst. to the Exec. Director  
Dan Perusich, Intern  
Greg Turk, Director of Investments  
Mike Bartletti, Director of Real Estate  
Tim Hays, Investment Officer  
Chuck Handy, Investment Officer

**Visitors:**

Angela Myers, Loop Capital  
Shirley Dodds, IRTA Rep.  
Dennis Murfin, IRTA Rep.  
Harry Bailey, Cheevers & Co.

**EXECUTIVE SESSION**

A motion was made by Bob Lyons, seconded by Cinda Klickna, that the Board enter into executive session for the purpose of discussing the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body, or legal counsel for the public body; probable or imminent litigation; and discussion of closed meeting minutes as permitted under the following exceptions set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (1), 5 ILCS 120/2(c) (11), and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Phalen, Reedus, and Walwyn. Motion CARRIED.

No action was taken during executive session. A motion was made by Bob Lyons, seconded by Matt Berns, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Phalen, Reedus, and Walwyn. Motion CARRIED.

**RECESS**

The meeting recessed at 12:50 p.m. and reconvened the following day at 1:20 p.m.

**NEW BUSINESS**

**Executive Director Search Firm**

Upon the recommendation of the Executive Director Search Committee, the Board interviewed Hudepohl and Associates to conduct a search for the position of executive director. Gary Hudepohl provided an overview of the firm.

**EXECUTIVE SESSION**

A motion was made by Sid Marder, seconded by Janice Reedus, that the Board enter into executive session for the purpose of discussing the appointment, employment, compensation, discipline, performance, or dismissal of specific

employees of the public body, or legal counsel as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (1). Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Sid Marder, seconded by Sharon Leggett, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

### **APPROVAL OF MINUTES**

Drafts of minutes from the April 8 and May 21, 2009 regular meeting of the Board of Trustees were sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

### **INVESTMENT COMMITTEE REPORT–*Cynthia O'Neill, Chair***

#### Cash Withdrawal

On a motion by Sid Marder, seconded by Jan Cleveland, it was resolved:

To withdraw up to 2.0 percent of the main TRS trust fund's total value, or \$514.7 million, based on the May 31, 2009 ending market value. Dependent on the most efficient source of liquidity, source of funds will be the index accounts, enhanced index accounts, or public markets active investment accounts that may be overweight to target allocations.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Iran Divestment

On a motion by Sharon Leggett, seconded by Janice Reedus, it was resolved:

To approve the updated list of scrutinized companies relating to business in Iran, as amended.

- ENI (Italy)
- Gazprom (Russia)
- INPEX (Japan)
- Lukoil (Russia)
- Statoil (Norway)

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Northern Trust STEP fund distribution

On a motion by Cinda Klickna, seconded by Jan Cleveland, it was resolved:

To approve the in-kind redemption of the Northern Trust STEP fund with the securities transferred to existing fixed income managers, as presented. Further, all POB STEP accounts will be transferred to the main TRS trust fund, with the transfer amount applied to POB debt service for FY 10.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Watch List 6/30/09

On a motion by Sonia Walwyn, seconded by Jan Cleveland, it was resolved:

To accept the 6/30/09 watch list, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Domestic Equity Search

On a motion by Bob Lyons, seconded by Cinda Klickna, it was resolved:

To authorize a formal search for an active domestic equity large cap value manager.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

#### POB Account Structure

On a motion by Sharon Leggett, seconded by Sonia Walwyn, it was resolved:

To approve a change to the investment philosophy regarding the POB account structure, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

#### POB Policy Benchmark

On a motion by Janice Reedus, seconded by Sonia Walwyn, it was resolved:

To adopt the same interim targets as the main fund to the POB account effective July 1, 2009.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

#### Real Estate Strategic Plan and Tactical Plan

On a motion by Matt Berns, seconded by Molly Phalen, it was resolved:

To approve the revised real estate strategic plan and FY 2010 tactical plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

#### Private Equity Tactical Plan

On a motion by Sid Marder, seconded by Matt Berns, it was resolved:

To approve the FY 2010 private equity tactical plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Fixed Income and Real Return

On a motion by Sid Marder, seconded by Jan Cleveland, it was resolved:

To adopt the proposed changes to the fixed income and real return asset classes, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### KBS

On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To provide an additional allocation to KBS not to exceed \$60 million (\$46 million main fund, \$14 million POB account).

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

#### Real Estate IMA Revision

On a motion by Janice Reedus, seconded by Matt Berns, it was resolved:

To adopt revisions to the real estate IMA (including three riders) and the Policy & Procedures, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

### Appraisal Services

On a motion by Cinda Klickna, seconded by Sonia Walwyn, it was resolved:

To approve 67 assignments to CB Richard Ellis Valuation and Advisory Services at a cost of \$382,500. Further, 31 assignments to US Realty Consultants at a cost of \$259,500 over the next three years.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

### Lasair Capital

On a motion by Bob Lyons, seconded by Janice Reedus, it was resolved:

To approve a commitment of \$25 million to Lasair Capital LLC's multi-manager equity long/short strategy within the Emerging Managers Program. Source of funds to be Rhumblin S&P 500 index fund dedicated to the Emerging Managers Program.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

### General Obligation Bond Proceeds

On a motion by Jan Cleveland, seconded by Sonia Walwyn, it was resolved:

To adopt investment strategy for general obligation bond proceeds, as presented. Final amounts and timing is contingent of the actual date of the cash proceeds are received. Final investment amounts will be presented to the Investment Chair for approval, with a complete report, including amounts and transition costs, presented to the Investment Committee.

Further, to authorize withdrawal of these bond proceeds for the purposes of fulfilling the System's cash needs. Withdrawals will be at the discretion of the Chief Investment Officer, with concurrence/approval by the Investment Chair.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

Investment Consultant – RV Kuhns

On a motion by Sharon Leggett, seconded by Jan Cleveland, it was resolved:

To retain RV Kuhns as the System's general investment consultant through 12/31/12 upon successful negotiation and execution of final contract.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

**AUDIT COMMITTEE-*Bob Lyons, Chair***

Internal Audit Charter

On a motion by Cinda Klickna, seconded by Cynthia O'Neill, it was resolved:

To approve the Internal Audit Charter, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

**RULES & PERSONNEL COMMITTEE-*Sharon Leggett, Chair***

Revisions to Board Bylaws and Committee Charters

On a motion by Sid Marder, seconded by Jan Cleveland, it was resolved:

To approve proposed revisions to the Board bylaws, committee charters, and standards of conduct, as amended.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch.  
Motion CARRIED.

Executive Director Search Firm – Hudepohl & Associates

On a motion by Jan Cleveland, seconded by Sid Marder, it was resolved:

To hire Hudepohl and Associates to conduct a search for the position of executive director.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

**OLD BUSINESS**

Strategic Plan

Claire Ribelin, Deputy Director – Counseling Services, presented the strategic plan for FY 2010 and 2011. Documentation is on file. The plan includes the following goals:

- 1) Set the customer service standard for teacher retirement systems by streamlining ways to provide accurate and timely information to our members;
- 2) Initiate comprehensive organizational risk assessment to ensure compliance with law and best practices in public sector retirement system administration; and
- 3) Advance TRS technological systems to provide state of the art service.

On a motion by Cynthia O'Neill, seconded by Sonia Walwyn, it was resolved:

To approve the FY10/FY11 Strategic Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Berns, Cleveland, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

**ACTING EXECUTIVE DIRECTOR'S REPORT**

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period ending June 30, 2009
- EEOC Report for the quarter ending June 30, 2009
- Employer Services Report for the period January 19-July 24, 2009

Cynthia Fain, Senior Assistant General Counsel, reported an increase in FOIA (Freedom of Information Act) requests requiring disclosure of member-specific benefit information due to the recent developments in open records law.

### **APPROVAL OF EXECUTIVE SESSION MINUTES**

The following drafts of executive session meeting minutes were sent to the trustees for prior review. On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To approve the following executive session minutes, as printed.

May 20, 2009 – Investment Committee

May 21, 2009 – Board

June 18, 2009 – Rules & Personnel Committee

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Trustee Berns, Marder, Reedus, and Walwyn abstained. Motion CARRIED.

### **ADJOURNMENT**

There being no further business to be brought before the Board, on a motion by Jan Cleveland, seconded by Sharon Leggett, and by unanimous voice vote, the meeting adjourned at 3:45 p.m.

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Stan Rupnik, Acting Executive Director

Approved \_\_\_\_\_