



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees May 20, 2010

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 20, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 8:10 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Christopher Koch (President), Molly Phalen (Vice President), Marcia Boone, Mike Busby, Jan Cleveland, Livia Kiser, Cinda Klickna (by phone), Sharon Leggett, Bob Lyons, Sid Marder, Cynthia O'Neill, Janice Reedus, and Sonia Walwyn.

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Sonia Walwyn, 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 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 Boone, Busby, Cleveland, Kiser, Klickna (phone), Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

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

RECESS

The meeting recessed at 10:00 a.m. and reconvened at 3:40 p.m.

Absent: Trustees Klickna and Koch.

Others present: Stan Rupnik, CIO & Acting Exec. Director; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Rich Frankenfeld, Director of Outreach; Gina Larkin, Director of Human Resources; Stacy Smith, Director of Internal Audit; Melissa Oller,

Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat Donohue (State Street); Jamie Shen, Callan Associates (Real Estate Consultant); Becky Gratsinger, RV Kuhns (Investment Consultant); David Fann, PCG (Private Equity Consultant), Kara King, a PCG (Private Equity Consultant); and Pat O’Hara, Cavanagh & O’Hara (Fiduciary Counsel).

Visitors present: Jack Tucker, IEA-R; Will Lovett, IEA; Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; Glenn Decker, IRTA Rep.; Angela Myers, Loop Capital; and Jim Bruner, Former Trustee.

APPROVAL OF MINUTES

A draft of the minutes from the February 26, 2010 regular board meeting was sent to the trustees for prior review. On a motion by Marcia Boone, 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 Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To withdraw up to 2.0 percent of the main TRS trust fund’s total value, or \$584.7 million based on the 3/31/10 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 management accounts that may be overweight to target allocations.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

POB Debt Service

On a motion by Mike Busby, seconded by Livia Kiser, it was resolved:

To transfer \$320.7 million from the POB passive index funds, enhanced index funds, and/or public markets active IMAs that may be overweight to the main TRS trust fund account, at the

discretion of the Chief Investment Officer. The full amount of the transfer will be completed within FY 2011.

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

Watch List 3/31/10

On a motion by Janice Reedus, seconded by Marcia Boone, it was resolved:

To accept the 3/31/10 watch list, as presented.

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

Mazama

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

To adopt the performance based fee structure for the Mazama small cap growth and small/mid cap growth mandates, as presented.

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

Fixed Income

On a motion by Bob Lyons, seconded by Livia Kiser, it was resolved:

To approve recommendations within the fixed income asset class, as presented.

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

EARNEST Fixed Income – Termination

On a motion by Mike Busby, seconded by Marcia Boone, it was resolved:

To terminate EARNEST fixed income mandate with the 2.5% target temporarily assigned to Prudential's enhanced index mandate.

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

Davis Hamilton Jackson & Associates

On a motion by Janice Reedus, seconded by Jan Cleveland, it was resolved:

To invest \$25 million in Davis Hamilton Jackson & Assoc. fixed income core plus strategy within the Emerging Managers Program. Source of funds to be the Rhumblin S&P 500 index fund dedicated to the Emerging Managers Program.

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

Private Equity Co-Investment Advisor RFP

On a motion by Sid Marder, seconded by Mike Busby, it was resolved:

To authorize the issuance of an RFP for private equity co-investment advisor services.

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

Absolute Return Strategic Plan

On a motion by Bob Lyons, seconded by Sid Marder, it was resolved:

To approve a strategic plan for the absolute return portfolio, as presented.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

Littlejohn Fund IV, L.P.

On a motion by Sonia Walwyn, seconded by Livia Kiser, it was resolved:

To commit \$75 million to Littlejohn Fund IV, Limited Partnership (\$65 million in the main TRS trust fund and \$10 million within the POB account). Source of funds to be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

SKBHC Holdings, LLC

On a motion by Mike Busby, seconded by Janice Reedus, it was resolved:

To commit up to \$100 million to SKBHC Holdings LLC within the main TRS trust fund. Source of funds to be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

Hiring of Investment Managers

On a motion by Sid Marder, seconded by Marcia Boone, it was resolved:

To delegate authority to investment staff to hire investment managers for the existing large cap core domestic equity and international equity searches. This delegation is a pilot program within the public markets asset classes only, excluding the TRS Emerging Manager Program and W/MBE candidates presented to the Board in compliance with Public Act 96-0006. Authority shall be subject to review and ratification at the next Board meeting following said hiring.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

AUDIT COMMITTEE REPORT-*Bob Lyons, Chair*

On a motion by Janice Reedus, seconded by Marcia Boone, it was resolved:

To approve the two year FY 2011-12 Internal Audit Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

Director of Internal Audit Appointment

On a motion by Cynthia O’Neill, seconded by Mike Busby, it was resolved:

To authorize the Acting Executive Director to appoint Stacy Smith to serve a 5-year term as Director of Internal Audit commencing July 1, 2010 in accordance with Public Act 96-795.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

RULES & PERSONNEL COMMITTEE-*Sharon Leggett, Chair*

The Rules & Personnel Committee recommended to the Board the following committee slates effective July 15, 2010.

Vice President: Molly Phalen

Investment: Cynthia O’Neill, Chair; Mike Busby, Vice Chair

Legislative: Jan Cleveland, Chair; Cinda Klickna, Vice Chair; Marcia Boone, Bob Lyons, Sid Marder

Rules & Personnel: Sharon Leggett, Chair; Molly Phalen, Vice Chair; Mike Busby, Jan Cleveland, Livia Kiser

Claims Hearing: Cynthia O’Neill, Chair; Jan Cleveland, Vice Chair; Janice Reedus, Sid Marder-alternate

Audit Committee: Janice Reedus, Chair; Sonia Walwyn, Vice Chair;
Marcia Boone, Jan Cleveland, Cinda Klickna

On a motion by Livia Kiser, seconded by Sid Marder, it was resolved:

To approve FY 2011 standing committees, as presented.

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

NEW BUSINESS

2010-2011 Meeting Calendar

The Board discussed meeting dates for FY 2011. The meeting calendar is located on the TRS Web site: [trs.illinois.gov--board of trustees](http://trs.illinois.gov--board-of-trustees), calendar. On a motion by Bob Lyons, seconded by Sharon Leggett, it was resolved:

To approve the FY 2011 Investment Committee/Board meeting calendar: August 4-6, 2010; October 27-29, 2010; December 8-10, 2010; January 28, 2011; February 23-25, 2011; April 6-8, 2011; May 18-20, 2011; June 23-24, 2011. The meetings will be held in Springfield with the exception that the April location be determined at a later date.

The motion passed by a unanimous voice vote.

FY 2011 Budget and Contracts > \$50,000

The proposed FY 2011 budget and contracts over \$50,000 were sent to the trustees for their review prior to the meeting. Jana Bergschneider, Director of Administration, provided a brief overview of the budget initiatives. The proposed budget is \$22.6 million, representing a 1.25% increase over the FY 10 budget. On a motion by Jan Cleveland, seconded by Marcia Boone, it was resolved:

To approve the FY 2011 administrative budget and listing of contracts over \$50,000, as presented.

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

EXECUTIVE DIRECTOR'S REPORT

Financial Statement and Administrative Expenses

The financial statement, administrative expenses, and vendor payments > \$50,000 for the quarter ended March 31, 2010 were sent to the trustees for review. The reports are on file. On a motion by Cynthia O'Neill, seconded by Sonia Walwyn, it was resolved:

To approve the administrative expenses for the quarter ended March 31, 2010 as presented.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, and Phalen. Motion **CARRIED**.

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period ending April 30, 2010
- EEOC Report for the quarter ending March 31, 2010

EXECUTIVE SESSION

A motion was made by Mike Busby, seconded by Livia Kiser, 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 Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, and Phalen. Motion **CARRIED**.

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

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 Sharon Leggett, seconded by Mike Busby, it was resolved:

To approve the following executive session minutes, as printed.

February 24, 2010 – Investment Committee

February 25-26, 2010 – Board

February 25, 2010 – Executive Director Search Committee

February 26, 2010– Board

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, and Phalen. Motion CARRIED.

ADJOURNMENT

There being no further business to be brought before the Board, on a motion by Jan Cleveland, seconded by Marcia Boone, and by unanimous voice vote, the meeting adjourned upon conclusion of executive session at 4:30 p.m.

Stan Rupnik, Acting Executive Director

Approved _____