



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES Board of Trustees August 23, 2012

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 23, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 2:26 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: President Chris Koch (departs 4:10 p.m.), Vice President Molly Phalen, Marcia Campbell (departs 3:00 p.m.), Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O'Neill, and Janice Reedus. Absent: Mike Busby and Sonia Walwyn

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Gina Larkin, Director of Human Resources; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Rich Frankenfeld, Director of Outreach; Kathleen Farney, Director of Research; Sally Sherman, Director of Member Services; Jana Bergschneider, Director of Administration; Dave Urbanek, Director of Communications; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Dakin Sanert, Investment Officer; Sue Billington, Executive Assistant; Tammy Green, Assistant to the Executive Director; John Long, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); and Larry Langer, Paul Wilkinson, and Kai Petersen (Actuary).

Visitors present: Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; Angela Myers, Loop Capital Markets; Rob Lauer, Barclays; Erika Lindley, ED-RED; Jim Baker and Jordan Fein, Unite Here; Barb Gelhaus, IEA-R; Dan Hankiewicz and Matt Dragoo, COGFA; Andrew Perkins, Kim Fowler, and Tom LaHood, Senate GOP; Joe Sculley, House GOP; Maria Martinez and William Kingston, Hotel Palomar; Kristen Clark, Governor's Office; Sara Kaufman, IEA & IRTA; and Nick Scipione, IEA.

PUBLIC COMMENT

The Board heard comments from a UNITE HERE representative and from an employee of the Chicago Palomar Hotel. UNITE HERE is a union that represents hotel workers and is attempting to organize staff. In addition, UNITE HERE

opposes TRS's investments with Walton Street, a real estate investor, due to concerns about the labor friendliness of Walton executives.

APPROVAL OF MINUTES

Drafts of minutes from the May 25, 2012 Rules & Personnel Committee and the regular meeting of the Board of Trustees were sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

EXECUTIVE DIRECTOR'S REPORT

Actuarial Experience Analysis

Buck Consultants, the System's actuary, presented the five-year actuarial experience analysis for the period July 1, 2006-June 30, 2011. Documentation is on file. Buck Consultants provided recommendations regarding TRS's actuarial assumptions for the next five-year period, including a recommendation to lower the System's long-term assumed rate of investment return from 8.5 percent to either 8.25 percent, 8.0 percent, or 7.75 percent. Lowering the assumed rate of return will increase the System's unfunded liability and the state's annual contribution to TRS in the future. In addition, Buck recommended a prudent funding policy that would result in a funded ratio of 100 percent within 30 years as opposed to the current 90 percent funded ratio that is the goal under the state law.

Following discussion, the Board decided to further study the proposals and take final action when a full Board is present. Dates selected for a special board meeting were September 19 or 21, 2012.

INVESTMENT COMMITTEE REPORT—*Cynthia O'Neill, Chair*

Watch List 6/30/12

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

To accept the watch list as of June 30, 2012, as presented.

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

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 \$619 million based on the May 31, 2012 ending market value.

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

Credo Capital Management - Termination

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

To terminate Credo Capital Management's domestic equity mid cap growth portfolio from the TRS Emerging Manager Program. Proceeds will be allocated to the domestic equity asset class or cash flow portfolio at staff discretion, contingent upon Chair approval. The Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program will be reimbursed for Credo's \$25 million initial funding.

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

Oaktree Capital Management

On a motion by Jan Cleveland, seconded by Bob Lyons, it was resolved:

To commit \$75 million to Oaktree Capital Management's Enhanced Income Fund within the fixed income special situations bucket. Source of funds will be existing fixed income managers who may be overweight or utilized for rebalance purposes. Funding will be at the discretion of the CIO with Chair approval.

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

Co-Investment

On a motion by Cinda Klickna, seconded by Janice Reedus, it was resolved:

To ratify the co-investment with Apollo Global Management to EP Energy.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Co-Investment

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

To ratify the co-investment with Providence Equity Partners to GTS.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

KBS Realty Advisors - Termination

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

To terminate KBS Realty Advisors from the TRS real estate portfolio. All assets within the portfolio (both main and POB accounts), as well as the approximate \$51.5 million outstanding allocation from prior capital and debt restructuring commitments, will be transferred to Lincoln Property for management under the firm’s existing Investment Management Agreement.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Absolute Return

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

To approve a revision of the absolute return asset class structure targets to reflect a 10 percent increase to Credit Funds, offset by a 10 percent decrease to Fund of Funds.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

FY 13 Private Equity Tactical Plan

On a motion by Bob Lyons, seconded by Sharon Leggett, it was resolved:

To approve the FY 13 Private Equity Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Private Equity Secondary Advisory Services RFP

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

To authorize an RFP for private equity secondary advisory services.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Real Estate Appraisal Services RFP

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

To authorize an RFP for real estate appraisal services.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

FY 13 Real Estate Tactical Plan

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

To approve the FY 13 Real Estate Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Investment Policy Revisions

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

To approve revisions to the Investment Policy, as amended.
Sections VI, VII, VIII, IX, XIII, XXII

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Interim Asset Allocation Target/Policy Benchmark

On a motion by Jan Cleveland, seconded by Bob Lyons, it was resolved:

To adopt the revised interim asset allocation target and policy benchmark, as presented, effective July 1, 2012.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Advent International Corporation – Private Equity

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

To commit up to \$150 million to Advent International GPE VII, L.P., split between the main TRS trust fund (85%) and the POB account (15%). 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 Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Real Estate Audit Services

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

To select KPMG to provide real estate audit services for a five year contract period.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Clearlake Capital Group – Emerging Manager Program

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

To commit \$50 million to Clearlake Capital Partners III, L.P. from the Emerging Managers Program. Source of funds to be the

Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Iran Divestment Update

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

To approve the scrutinized list of forbidden entities for fiscal year 2013.

- China National Petroleum Corporation “CNPC” (China)
- Gazprom (Russia)
- Petronas (Malaysia)

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Walton Street Real Estate Fund VII, L.P.

On a motion by Sharon Leggett, seconded by Bob Lyons, it was resolved:

To commit \$100 million to Walton Street Real Estate Fund VII, L.P. (\$75 million main fund and \$25 million POB account) subject to Walton Street Capital LLC confirming (in terms acceptable to the System) that it will remain neutral with respect to labor organization organizing activities. 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 Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

CLAIMS HEARING COMMITTEE REPORT–*Cynthia O’Neill, Chair*

Nuzzi Administrative Review

On a motion by Jan Cleveland, seconded by Bob Lyons, it was resolved:

To adopt the Claim Hearing Committee’s recommended decision in the administrative review of Thomas Nuzzi and Deborah Nuzzi.

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

Annual Ethics Training Certification

On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To certify that the following trustees of the Illinois Teachers’ Retirement System have completed a minimum of 8 hours of ethics training during FY 12 in accordance to Public Act 96-0006, Article 1 of the IL Pension Code, Section 1-113.18. Certification will be submitted to the Division of Insurance of the Department of Financial and Professional Regulation.

Marcia Campbell, Mike Busby, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O’Neill, Molly Phalen, Janice Reedus, Sonia Walwyn, and Chris Koch.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

Strategic Plan Update

The final year of the FY10-12 strategic plan has been completed. The Board received a summary of the third year accomplishments. Documentation is on file. Director Ingram plans to provide reports on future strategic planning during October or December.

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the quarter ending June 30, 2012
- Employer Services Report for the period January 16 to July 13, 2012
- EEOC Report quarter ending June 30, 2012

TRUSTEE CONCERNS

Trustee Lyons instructed staff to explore a statement of investment beliefs.

Trustee Klickna requested that a letter be sent to Kimpton, a majority owner of the Chicago Palomar Hotel, regarding union neutrality with respect to UNITE HERE's efforts to organize employees of the Palomar Hotel.

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, seconded by Sharon Leggett, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and discussion of closed meeting minutes, including semi-annual review, 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) (11) and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Cleveland, Klickna, Leggett, Lyons, O'Neill, Phalen, and Reedus. Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES – Semi-Annual Review

A memorandum from the System's Legal Department regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act was sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

That the following minutes no longer require confidential treatment and will be available for public inspection:

April 15, 1999	Investment Committee
July 9, 1999	Board of Trustees
August 13, 1999	Board of Trustees
February 15, 2007	Audit Committee
December 12, 2011	Investment Committee
December 13, 2011	Board of Trustees
February 8, 2012	Investment Committee
February 9, 2012	Board of Trustees

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

ADJOURNMENT

There being no further business to come before the Board, on a motion by Bob Lyons, seconded by Cynthia O’Neill, and by unanimous voice vote, the meeting adjourned at 5:09 p.m.

Richard W. Ingram, Executive Director

Approved _____