



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES Board of Trustees October 24 and 26, 2012

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 24 and 26, 2012 at the Springfield office, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 2:35 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Chris Koch, President; Molly Phalen, Vice President; Mike Busby, Marcia Campbell, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O'Neill (10/24), Janice Reedus, and Sonia Walwyn. Absent: Enrique Vasquez, Cynthia O'Neill (10/26).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Kathleen Farney, Director of Research; Sally Sherman, Director of Member Services; Gina Larkin, Director of Human Resources; Rich Frankenfeld, Director of Outreach; Jana Bergschneider, Director of Administration; Dave Urbanek, Director of Communications; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Andrew Bodewes, Legislative Consultant; John McLaughlin and Jonathon Kowolik, RV Kuhns (Investment Consultant); Larry Langer and Paul Wilkinson (Actuary).

Visitors present: Dennis Murfin, IRTA Rep., Shirley Dodds, IRTA Rep.; Janet Kilgus, IEA-R; Will Lovett, IEA (10/24); Jon Bauman, TRS Annuitant (10/24), Ed Wollet, IRTA (10/24); Christine Williamson, Pensions & Investments; Tom LaHood, Andrew Perkins, and Kim Fowler, Senate GOP (10/26); Jason Parks, Loop Capital (10/26); Jim Baker, UNITE HERE (10/26).

PUBLIC COMMENT

Janet Kilgus and Ed Wollet stated that many IEA and IRTA members had concerns regarding Director Ingram's recent statements to *Crain's Chicago Business* relating to pension reform efforts in the General Assembly.

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Jan Cleveland, 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn (departed 4:30 p.m.), Phalen, and Koch. Motion CARRIED.

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

RECESS

The meeting recessed at 5:52 p.m. and reconvened on October 26th at 9:20 a.m.

PUBLIC COMMENT

Jim Baker of UNITE HERE provided a letter to the Board regarding fees that Walton Street Capital collected on the failed CalWest Industrial portfolio. Documentation is on file.

Approval of Minutes

A draft of the August 23, 2012 minutes of the regular meeting of the Board of Trustees was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Sonia Walwyn, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT – *Mike Busby, Vice Chair*

Watch List 9/30/12

On a motion by Jan Cleveland, seconded by Marcia Campbell, it was resolved:

To accept the September 30, 2012 watch list, as presented.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

MBE/WBE Goals

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

To approve the FY 13 goals for the utilization of minority-and female-owned investment managers and broker/dealers, as presented.

--Broker/Dealer Utilization: Increase international equity by one percent (11.0% to 12.0%); increase domestic equity by one percent (15.0% to 16.0%); fixed income remains the same at 15.0%.

--Manager Utilization: Increase overall goal for total TRS fund from 14.5% to 15.0%; Increase goal for public equities from 14.5% to 15.0%; Increase goal for alternatives from 9.5% to 10.0%; Increase range of total fund fee goals from a floor of 4.5% to 5.5% , while leaving the ceiling at 9.0%; Increase the minority floor from 3.0% to 4.0%.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Denali - Termination

On a motion by Marcia Campbell, seconded by Jan Cleveland, it was resolved:

To ratify the termination of Denali Advisor's large cap value mandate (2.0% target).

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Turner Investments - Termination

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

To ratify the termination of Turner Investment's domestic equity mandate (5.0% target).

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

J.P. Morgan – Domestic Equity

On a motion by Chris Koch, seconded by Bob Lyons, it was resolved:

To ratify hire of J.P. Morgan's large cap growth product (3.0% target).

Roll call resulted in affirmative voice votes from Trustees Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Trustee Busby abstained from voting. Motion CARRIED.

Domestic Equity

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

To approve the domestic equity mandate target revisions, as presented.

- Increase Rhumblin S&P 500 index target from 24% to 26%
- Assign target of 3.0% to J.P. Morgan Asset Management's large cap growth mandate

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Fee Revisions

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

To ratify fee revisions for Boston Company's SMID value product, Frontier's small growth product, and J.P. Morgan's 130/30 portfolio, as presented.

Boston's revised terms: 0.70% for first \$100 million; 0.50% above 100 million

Frontier's revised terms: reduce asset based fee from 0.51% to 0.45%; increase performance fee participation rate from 10% to 13%

J.P. Morgan’s revised terms: reduce asset based fees by 0.35%; participation rate of 15% on excess returns above the S&P 500 (net fees); maximum total annual fee of 0.90%

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Brandes Investment Partners – Termination

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

To ratify the termination of Brandes Investment Partners’ current 10.0% international equity large cap value mandate.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

LSV Asset Management.

On a motion by Sharon Leggett, seconded by Marcia Campbell, it was resolved:

To ratify the hire of LSV Asset Management’s international equity large cap value product. Initial allocation is targeted at 5.0% of the international equity asset class, with the intent of a full 10% mandate over time. Residual assets from the termination of Brandes will be temporarily invested in an optimized MSCI EAFE Value portfolio managed by State Street at no fee for up to six months pending the decision on LSV’s long-term funding level.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Putnam Investments - Termination

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

To ratify the termination of Putnam Investments' current 3.0% international small cap equity mandate.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Mondrian Investment Partners

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

To ratify the hire of Mondrian Investment Partners' international equity small cap product (3.0% mandate).

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Fixed Income

On a motion by Sharon Leggett, seconded by Molly Phalen, it was resolved:

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

- Reduce Dolan McEniry Capital Management's target from 7.5% to 5.0%
- Increase MacKay Shields' target from 10.0% to 13.5%
- Reduce Loomis Sayles' target from 14.0% to 13.0%
- Reduce Prudential's target from 10.0% to 9.0% as an offset to a proposed increase to the Special Situations target from 5.0% to 6.0%
- Approve paying LM Capital's incentive fee annually instead of quarterly.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

AQR Risk Balance Reinsurance Fund

On a motion by Sonia Walwyn, seconded by Chris Koch, it was resolved:

To commit \$40 million to the AQR Risk Balanced Reinsurance Fund, Ltd in the 2013 REIN vehicle (funding likely to occur in early December 2012). Source of funds to be existing TRS assets in AQR real return mandates. TRS staff, with the approval of the Investment Chair, shall retain discretion over future reinvestment of account proceeds, provided no additional new allocations are made to the fund.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Real Return Asset Class

On a motion by Sharon Leggett, seconded by Marcia Campbell, it was resolved:

To approve the recommendations within the real return asset class, as presented.

- Adjust the allocation range around the global inflation linked composite target of 24% to +/-10% (from current range of +/-5%)
- Maintain PIMCO Global Multi-Asset Strategy (GMAS) at current target, with elimination of the GMAS POB account. Proceeds from the GMAS POB account will be rebalanced into GMAS main trust fund account or rebalanced into other real return accounts as appropriate.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Private Equity Co-Investment Advisor RFP

On a motion by Cinda Klickna, seconded by Molly Phalen, it was resolved:

To authorize a RFP for the Private Equity Co-Investment Advisor.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

K2 Advisors

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

To allow K2 Advisors to provide advisory services to K2 Bluegill Fund LLC following the majority sale to Franklin Templeton International.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Silver Lake Partners IV, L.P.

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

To commit \$150 million to Silver Lake Partners IV, L.P. (85% TRS main fund, 15% POB account). Source of funds shall be TRS cash account, 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Security Lending Provider

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

To select Citi to be the System's securities lending provider, subject to successful contract negotiations, to provide third party securities lending services.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

AUDIT COMMITTEE – *Janice Reedus, Chair*

On a motion by Sonia Walwyn, seconded by Marcia Campbell, it was resolved:

All processes or changes in Employer Services must be reviewed by an Auditor II level or above by the December 2012 Board meeting.

Staff shall provide a preliminary cost benefit analysis of the automated submit and verify functions within STAR for Employer Services processes by the February 2013 Board meeting.

Staff shall develop parameters for requesting documentation from employers for changes to credible earnings, salary rate, and days worked. Such parameters shall be communicated to the Audit Committee for approval at the December 2012 Board meeting.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

RULES & PERSONNEL COMMITTEE – *Sharon Leggett, Chair*

On a motion by Jan Cleveland, seconded by Marcia Campbell, it was resolved:

To promulgate the proposed revisions to TRS administrative rules, as presented, to Subpart L: Board Election Procedures.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

NEW BUSINESS

June 30, 2012 Actuarial Valuation Results & Proposed Certification of FY 2014 State Contributions

Larry Langer and Paul Wilkinson of Buck Consultants presented the results of the System's June 30, 2012 actuarial valuation and the proposed state contribution requirements for FY 2014. The valuation reflects 8.0% assumed rate of return and other new actuarial assumptions the Board adopted in September 2012. Documentation is on file. Illinois' funding policy was discussed as well as the reasons it does not conform to GASB and actuarial standards. The funded ratio using the smoothed value of assets was 42.1% on June 30, 2012, down from 46.5% on June 30, 2011. The proposed contribution to TRS for FY 2014 under current law is \$3.439 billion, which is higher than the amount projected for FY 2014 in last year's valuation. The increase is mainly due to lower than expected investment returns during FY 2012 and the impact of assumption changes. The state funding amount required under generally accepted actuarial standards for the coming year should be \$4.381 billion. On a motion by Bob Lyons, seconded by Mike Busby, it was resolved:

To accept the results of the June 30, 2012 actuarial valuation and to submit the following for FY 2014:

For TRS, a proposed certification showing

- \$3,438,578,000 as the state funding amount required under current law,
- \$4,380,537,000 as the state funding amount required under generally accepted actuarial standards, and
- 17.29% as the total normal cost for certain optional service purchases.

The proposed certification is to be filed with the governor, general assembly, and state actuary by November 1, 2012, with the final certification due January 15, 2013.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

On or before November 15 each year, the Board is required to submit its certified state funding amounts for TRS and the Teacher Health Insurance Security (THIS) Fund to the Governor. The THIS Fund certification of the state matching

contribution is based on the assumption that the active member contribution rate increases to 0.97% from 0.92%. On a motion by Molly Phalen, seconded by Sharon Leggett, it was resolved:

To certify \$90,430,000 as the required state contribution in FY 2014 for the Teacher Health Insurance Security (THIS) Fund.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

RECESS

The meeting recessed at 10:40 a.m. and reconvened at 10:45 a.m.

EXECUTIVE DIRECTOR'S REPORT

Legislative Update

Andrew Bodewes reported that a significant amount of discussion is still occurring in the General Assembly regarding pension reform but there are no new developments. Discussion was held regarding the administrative burden TRS will encounter if the current proposals are passed by the General Assembly and signed into law. Currently, the proposal would require all active, inactive, and retired members to choose between two options- (1) accept a reduced cost of living adjustment going forward and keep their eligibility for state-subsidized health insurance or (2) keep the current COLA and lose their eligibility for state-supported health insurance. The Board is concerned with the administrative burden the System will encounter if this current proposal is passed. Director Ingram has and will continue to communicate to legislators the administrative burden the proposal would create.

Strategic Plan

Director Ingram provided a memo outlining strategic planning discussions that he has had with TRS staff. He has met with all TRS employees in small groups to collect their input regarding strategic focus. The primary areas for strategic focus are Contributions, Investment Income, Benefits Paid, and Expenses/Resources. The next round of discussions will be identifying and agreeing on goals.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2012 and the FY 12 lapse period of July 1 to August 31, 2012 were sent to the trustees for review. The Board also received detailed vendor payment information for expenditures greater than \$50,000 for the period July 1, 2011 through fiscal year end August 31, 2012. Additionally, FY 13 vendor payments greater than \$50,000 for the first quarter were included. The reports are on file. On a motion by Janice Reedus, seconded by Sharon Leggett, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2012 including the FY 12 lapse period expenses, as presented.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Phalen, Reedus, Walwyn, and Koch. Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period ending August 31, 2012
- EEOC Report for the quarter ending September 30, 2012

External Legal Fees

Staff provided legal fees paid to external counsel by TRS and real restate managers during FY 10-12. Documentation is on file.

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Molly Phalen, 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; investments; 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

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

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

The Board of Trustees of the Teachers' Retirement System reiterates and reaffirms its resolution of March 30, 2012 (as amended on April 30, 2012) declaring that present legislative action is paramount to ensure the continued solvency and viability of the plan, by providing for fairness and equity in benefits, adequate funding, and adherence to generally accepted actuarial principles and standards. Additionally, the Board of Trustees underscores its unalterable position that any changes to the Pension Code must adhere to the Pension Protection Clause, Article 13, Section 5, of the Illinois Constitution 1970.

The motion passed by unanimous voice vote.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the August 22, 2012 executive session minutes of the Audit Committee and August 23, 2012 executive session minutes of the Board of Trustees were sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Janice Reedus, it was resolved to approve the August 23, 2012 executive session minutes of the Board, as printed. Roll call resulted in affirmative voice votes from Trustees Campbell, Cleveland, Klickna, Leggett, Reedus, Phalen, and Koch. Trustees Busby and Walwyn abstained from voting. Motion CARRIED.

ADJOURNMENT

On a motion by Jan Cleveland, seconded by Janice Reedus, the meeting adjourned at 12:45 p.m.

Richard W. Ingram, Executive Director

Approved _____