



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 December 11, 2012

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 11, 2012 at the Springfield office, 2815 West Washington Street. Molly Phalen, Vice President, called the meeting to order at 11:25 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Molly Phalen, Vice President; Mike Busby, Marcia Campbell, Jan Cleveland, Cinda Klickna (departed 1:18 p.m.), Sharon Leggett, Bob Lyons, Cynthia O'Neill, Janice Reedus (arrived 11:32 a.m.), Enrique Vasquez, and Sonia Walwyn. Absent: Chris Koch, President.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Sally Sherman, Director of Member Services; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Director of Communications; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Deron Bertolo, Director of Investment Operations; Greg Turk, Director of Investments; Scottie Beville, Sr. Investment Consultant; Zak Doehla, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Jerry Quandt, Investment Officer; Kenyatta Matheny, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove Capital Partners (Private Equity Consultant); and Jamie Shen, Callan Associates (Real Estate Consultant).

Visitors present: Janet Kilgus, IEA-R; Dennis Murfin, IRTA Rep.; Don Davis, IRTA Rep.; Erika Lindley, ED-RED; Diane Rutledge, Large Unit District Association; and Christine Williamson, Pensions & Investments.

Approval of Minutes

Drafts of the September 21, 2012 minutes of the special meeting of the Board of Trustees and the October 24 and 26, 2012 regular meeting of the Board of Trustees

were sent to the trustees for prior review. On a motion by Mike Busby, seconded by Marcia Campbell, the minutes were approved, as printed. (Trustee Vasquez abstained from voting.)

INVESTMENT COMMITTEE REPORT – *Mike Busby, Vice Chair*

Investment Policy Revisions

On a motion by Marcia Campbell, seconded by Cinda Klickna, it was resolved:

To approve the investment policy revisions, as presented, to reflect the recent change in the System's assumed rate of return.

- Section III (pg. 5)
- Section XIII (pg. 28)
- Section XXV (pg. 46)

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

Herndon Capital Management

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

Approve graduation of Herndon Capital Management's large cap core product from the Emerging Manager Program to a 2.0% mandate (approx. \$170M) within the domestic equity portfolio. The allocation will be offset by a reduction in the Rhumblin S&P 500 target from 28% to 26%. The Rhumblin S&P 500 index fund dedicated to the EMP will be reimbursed for Herndon's \$25 million initial funding.

Shift Herndon to the large core composite and adopt the core Russell 1000 index.

Ratify the revised fee schedule, as presented.

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

Lombardia Capital Management - Termination

On a motion by Mike Busby, seconded by Jan Cleveland, it was resolved:

To terminate Lombardia Capital Management's domestic equity large cap value mandate from the Emerging Manager Program. Proceeds will be allocated to the domestic equity asset class or cash flow at staff discretion, contingent upon Chair approval. The Rhumblin S&P 500 index fund dedicated to the EMP will be reimbursed for Lombardia's \$50 million initial funding.

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

Domestic Equity

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

To approve the recommendations within the domestic equity asset class, as presented.

- Increase Boston Partners 130/30 large cap value from 6.0% to 7.0%
- Increase OakBrook large cap enhanced index from 2.0% to 3.0%
- Increase Lombardia small cap value from 2.0% to 3.0%
- Decrease Levin large cap core active from 6.0% to 5.0%
- Decrease Boston Company SMID cap value from 3.0% to 2.0%
- Decrease Rhumblin S&P 500 index allocation from 26.0% to 25.0%

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

International Equity

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

To approve the recommendations within the international equity asset class, as presented.

- Increase emerging manager Strategic Global Advisors international equity all-cap core mandate by \$25 million. Source of funds will be the Rhumblin S&P 500 Emerging Manager account.

- Authorize a search for an emerging market equity manager.

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

Co-Investment

On a motion by Mike Busby, seconded by Jan Cleveland, it was resolved:

To ratify the Mosaic energy co-investment opportunity with Natural Gas Partners.

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

Real Estate Appraisal RFP

On a motion by Enrique Vasquez, seconded by Cinda Klickna, it was resolved:

To engage Butler Burgher Group and Joseph J. Blake & Associates for appraisal services at a total cost of \$415,650 for TRS’s existing assets. In addition, retain US Realty Consultants as a potential service provider for individual assignments, as needed. Contract period for all firms is three years.

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

Sky Investment Council

On a motion by Mike Busby, seconded by Jan Cleveland, it was resolved:

To Select Sky Investment Council’s international equity large cap product for a \$25 million assignment within the Emerging Manager Program. Funding will come from the Rhumblin S&P 500 index account dedicated to the EMP.

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

MBK Partners Fund III, L.P.

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

To commit up to \$125 million to MBK Partners Fund III, L.P., with 85% allocated to the main TRS trust fund and 15% to the 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, O’Neill, Phalen, Reedus, and Walwyn. A vote of opposition was heard from Trustee Vasquez. Motion CARRIED.

Gateway Real Estate Fund IV, L.P.

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

To commit \$50 million to Gateway Real Estate Fund IV, L.P. within the TRS main fund subject to successful completion of contract negotiations. 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, O’Neill, Phalen, Reedus, Vasquez, and Walwyn. Motion CARRIED.

General Investment Consultant

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

To hire R.V. Kuhns to serve as the System’s General Investment Consultant subject to successful completion of contract and fee negotiations. Contract period is five years.

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

CLAIMS HEARING COMMITTEE

The Claims Hearing Committee met on October 24, 2012 to consider the appeal of Schaumburg Community Consolidated School District 54 challenging staff’s determination regarding the assessment of an “in excess of six percent” FASCAP employer contribution in relation to the retirement of M. Dada. Documentation is on file. On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To adopt the proposed decision in the administrative review of Schaumburg Community Consolidated School District 54.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, Reedus, Vasquez, and Walwyn. Motion CARRIED.

EXECUTIVE DIRECTOR’S REPORT

Final FY 2014 Funding Certification

Director Ingram provided an overview of the state actuary’s preliminary report on the FY 2014 recommended state contribution calculated by Buck Consultants. The report does not recommend any changes in the assumptions upon which the state funding certification was based. Documentation is on file. The final FY 14 funding certification is due January 15, 2013. On a motion by Cinda Klickna, seconded by Marcia Campbell, it was resolved:

To certify the final FY 2014 state funding amounts which are identical to the preliminary FY 2014 amounts certified at the October 26, 2012 regular board meeting:

- \$3,438,578,000, which has been reduced by \$344,738,000, as the state funding amount required under current law,
- \$4,380,537,000 as the state funding amount required under generally accepted actuarial standards (subject to revision), and
- 17.29% as the total normal cost for certain optional service purchases.

The state actuary's preliminary report does not recommend any changes in the assumptions upon which the state funding certification was based. Additional disclosures on merit pay and new hires that are recommended by the state actuary in the 2012 actuarial valuation report will be made by addendum.

The state funding amount under generally accepted actuarial standards was not part of the state actuary's review under Public Act 97-0694.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O'Neill, Phalen, Reedus, Vasquez, and Walwyn. Motion CARRIED.

RECESS

The meeting recessed at 12:10 p.m. and reconvened at 12:22 p.m.

Pension Reform

The General Assembly has discussed several pension proposals that would greatly impact the TRS membership. Dave Urbanek, Director of Communications, and Sally Sherman, Director of Member Services, provided an outline of a plan that would be implemented to keep TRS members informed and help them comply with any changes in the law, should pension reform occur in the future. Documentation is on file. New public pension laws would require the expansion of operations in Member Services, Employers, Services, Records Center, and Information Technology. Currently, existing resources are insufficient.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2012 were sent to the trustees for review. The reports are on file. On a motion by Cynthia O'Neill, seconded by Marcia Campbell, it was resolved:

To approve the administrative expenses for the quarter ended September 30, as presented.

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

Member Services Statistical Report

The Board received a copy of the Member Services Statistical Report for the period ending October 31, 2012. Documentation is on file.

Paperless

Trustee Campbell requested the use of electronics for meeting materials to eliminate the surplus of paper. Jana Bergschneider, Director of Administration, will research the cost and report back to the Board.

(Trustee Klickna departs)

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, 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; 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, Leggett, Lyons, O'Neill, Reedus, Walwyn, and Phalen. (Trustees Cleveland and Vasquez were not present during roll call). Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the October 24 and 26, 2012 executive session minutes of the Board of Trustees were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, it was resolved to approve the October 24 and 26, 2012 executive session minutes of the Board, as printed. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Vasquez, Walwyn, and Phalen. Motion CARRIED.

ADJOURNMENT

On a motion by Jan Cleveland, seconded by Janice Reedus, the meeting adjourned at 2:58 p.m.

Richard W. Ingram, Executive Director

Approved _____