



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 October 24-25, 2013

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 24, 2013 at the System's Springfield office located at 2815 West Washington Street. Chris Koch, President, called the meeting to order at 3:45 p.m. with a quorum present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Marcia Campbell, Rainy Kaplan, Cinda Klickna (departed at 4:00 p.m. on 10/24), Bob Lyons, Cynthia O'Neill, Enrique Vasquez (departed 9:35 on 10/25), Sonia Walwyn (absent 10/25), Sharon Leggett, Vice President, and Christopher Koch, President (departed at 4:15 p.m. on 10/24).

Others present: Dick Ingram, Executive Director; Tom Gray, General Counsel; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Tim Hays, Sr. Investment Officer; Ken Musick, Investment Officer; Bill Thomas, Investment Officer; Jerry Quandt, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Brennan Basnicki, Investment Analyst; Gina Larkin, Director of Human Resources; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Jamie Shen, Callan Associates (Real Estate Consultant); Becky Gratsinger, Marcia Beard, and John McLaughlin, RV Kuhns (Investment Consultant); and Mike Krems, TorreyCove (Private Equity Consultant).

Visitors present: Dennis Murfin, IRTA; Janet Kilgus, IEA-R; Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Gayla Dial, IEA/IRTA; Ed Wollet, IRTA Rep.; Bob Kaplan; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital Markets.

APPROVAL OF MINUTES

A draft of the August 15, 2013 regular board meeting was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved as printed.

Communications – GASB

Dave Urbanek, Director of Communications, described the challenges that TRS will face in the next two years in communicating details about the System's financial health under new account reporting guidelines adopted by the Government Accounting Standards Board. The major challenge presented by the new GASB guidelines will be the use of a formula to determine the System's unfunded liability that automatically creates a "worst-case scenario" by artificially reducing anticipated revenues. Mr. Urbanek outlined the steps TRS will take to help members, the media and the public understand the limitations of the new GASB reporting guidelines. Documentation is on file.

LEGISLATIVE COMMITTEE REPORT—*Marcia Campbell, Chair*

Legislative Consultant

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved:

To authorize staff to enter into a three year contract for governmental affairs consulting services with Leinenweber, Baroni & Daffada Consulting.

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

RULES & PERSONNEL COMMITTEE REPORT—*Sharon Leggett, Chair*

On a motion by Enrique Vasquez, seconded by Bob Lyons, it was resolved:

To select Mark Bailey to fill the vacant position on the Audit Committee created by former trustee Janice Reedus.

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

INVESTMENT COMMITTEE REPORT–*Cynthia O’Neill, Chair*

Watch List

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

To accept the 9/30/13 watch list, as presented.

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

W/MBE Utilization Goals

On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To accept the W/MBE utilization goals for fiscal year 2014, as presented.

- Broker/Dealer Utilization: Increase the domestic equity trading goal from 16.0% to 18.0%; retain existing goal of 12.0% for international equity; and retain existing goal of 15.0% for fixed income.
- Investment Manager Utilization: Retain existing goal of 15.0% for total assets under management and retain existing goal of 5.5%-9.0% of fees paid to W/MBE firms during FY 14.

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

Domestic Equity Fee Schedules

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

To ratify revisions to the five domestic equity fee schedules, as presented.

- Boston Company SMID growth
- Fiduciary Management Associates small growth
- Lombardia small value
- Emerald small cap growth
- Cramer Rosenthal McGlynn SMID cap value

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

Oaktree Capital Management – Fixed Income

On a motion by Enrique Vasquez, seconded by Sonia Walwyn, it was resolved:

To commit \$100 million to the Oaktree Real Estate Debt Fund, L.P. within the fixed income special situations allocation. The source of funds will be rebalancing of the asset class or cash accounts. Funding will be at the discretion of the CIO, as capital is called.

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

Fixed Income Asset Class

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved:

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

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

On a motion by Mike Busby, seconded by Mark Bailey, it was resolved:

To terminate the following portfolios within the fixed income asset class:

- Taplin, Canida & Habacht credit-tilt mandate (currently one percent). Proceeds go to the TCH floating rate portfolio, fixed income cash or cash flow as needed.
- LM Capital core plus mandate within the Emerging Manager Program. Proceeds will go to Manulife's increased target from 6.0% to 9.0%. The Emerging Manager allocation is to be replaced by the new Garcia Hamilton floating rate portfolio with funding from Taplin, Canida & Habacht.
- Loomis Sayles Strategic Alpha Fund. Proceeds will be redistributed to Manulife's increased target and bring the

- existing Loomis Sayles duration mandate to its revised target of 10.5%
- PIMCO's Global Advantage mandate

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

On a motion by Marcia Campbell, seconded by Rainy Kaplan, it was resolved:

To affirm the selection of Garcia Hamilton's floating rate note portfolio within the fixed income asset class. Initial funding is the termination of the LM Capital mandate. Additional funding to or withdrawals from the portfolio will be consistent with the Board approved allocation to short term/cash/low duration mandates (target allocation of 0-10%)

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

Stone Point Capital – Private Equity

On a motion by Sonia Walwyn, seconded by Mike Busby, it was resolved:

To commit up to \$100 million to Trident VI, L.P. 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 Bailey, Busby, Campbell, Kaplan, Lyons, O'Neill, Vasquez, Walwyn, and Leggett. Motion CARRIED.

Lone Star – Real Estate

On a motion by Mike Busby, seconded by Mark Bailey, it was resolved:

To commit up to \$150 million to Lone Star Real Estate Fund III, L.P. subject to successful contract negotiation. 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 Bailey, Busby, Campbell, Kaplan, Lyons, O'Neill, Vasquez, Walwyn, and Leggett. Motion CARRIED.

Apex Capital Management – Emerging Manager Program

On a motion by Rainy Kaplan, seconded by Marcia Campbell, it was resolved:

Invest \$25 million in Apex Capital Management's domestic equity strategy within the System's Emerging Manager Program. Source of funds is the Rhumblin S&P 500 index fund dedicated to the Emerging Managers Program. Contingent to chair approval, staff could initially fund Apex from other domestic equity sources (with subsequent reimbursement) to reduce trading costs.

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

Palladium Equity Partners – Emerging Manager Program

On a motion by Enrique Vasquez, seconded by Mike Busby, it was resolved:

Commit up to \$15 million to Palladium Equity Partners IV within the System's Emerging Manager Program. Source of funds is the Rhumblin S&P 500 index fund dedicated to the Emerging Managers Program.

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

EXECUTIVE DIRECTOR'S REPORT-*Dick Ingram*

Director Ingram reported that management is working with the Illinois State Police to conduct a security review of the TRS buildings in Springfield and Lisle to ensure the safety of the employees and public.

Buck Consultants

Director Ingram and Kathleen Farney, Director of Research, met and held several conversations with Buck Consultants regarding their incorrect analysis of the cost savings in calculating the fiscal impact of Senate Bill 1. Upon fully reviewing their tools and methods, staff remains committed to Buck and continues to trust their work. Documentation is on file.

Budget Amendments

Staff proposed two amendments to the FY 14 budget to fund the final phase of improvements to the call center and the purchase of cyber insurance coverage. Documentation is on file. Since staff anticipates savings in other budget lines items over the year, the costs shall be absorbed by making transfers in the current budget. On a motion by Mark Bailey, seconded by Cynthia O'Neill, it was resolved:

To increase the FY14 budget by \$366,308 to fund the call center/building improvements (\$290,236) and cyber insurance coverage (\$76,072).

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

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2013 and the FY 13 lapse period of July 1 to August 31, 2013 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, 2012 through June 30, 2013. The reports are on file. On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2013 including the FY 13 lapse period expenses, as presented.

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

RECESS

The meeting recessed at 4:48 p.m. and reconvened the following day at 8:30 a.m.

June 30, 2013 Actuarial Valuation Results & Proposed Certification of FY 2015 Funding Requirements

Larry Langer and Paul Wilkinson of Buck Consultants presented the results of the System's June 30, 2013 actuarial valuation and the proposed state contribution requirements for FY 2015. Documentation is on file. TRS investments earned a positive 12.8% rate of return during FY 13, net of fees. Despite the high investment returns, the unfunded pension obligation increased over the year to \$55.73 billion from \$52.08 billion. The state contribution required by law continues to fall short of the required amount.

The proposed contribution to TRS for FY 2015 under current law is \$3.413 billion, which is lower than the \$3.547 billion estimated in last year's valuation. The decrease is due to higher investment return than expected and methodology improvements. The state funding amount required under generally accepted actuarial standards for the coming year should be \$4.062 billion. On a motion by Cinda Klickna, seconded by Sharon Leggett, it was resolved:

To accept the results of the June 30, 2013 actuarial valuation and to submit the following for FY 2015:

For TRS, a proposed certification showing

- \$3,412,878,000 as the state funding amount required under current law,
- \$4,062,168,000 as the state funding amount required under generally accepted actuarial standards, and
- 17.42% 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, 2013, with the final certification due January 14, 2014. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Leggett, 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 1.02% of payroll during FY 15 and includes a correction for overestimating active member contributions in FY 13. On a motion by Marcia Campbell, seconded by Mark Bailey, it was resolved:

To certify \$100,983,000 as the required state contribution in FY 2015 for the Teacher Health Insurance Security (THIS) Fund.

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Leggett, and Koch. Motion CARRIED.

RECESS

The meeting recessed at 9:56 a.m. and reconvened the following day at 10:07 a.m.

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report through August 31, 2013
- EEOC Report for the quarter ending September 30, 2013

TRUSTEE TRAVEL

Trustee Lyons and Trustee Campbell attended the NCTR Annual Convention during October in Washington, DC. Trustee Lyons reported that it was worthwhile and highly recommended attendance at next year's convention in Indianapolis.

EXECUTIVE SESSION

A motion was made by Mike Busby, seconded by Marcia Campbell, that the Board enter into executive session for the purpose of discussing the employment, compensation, discipline, performance, or dismissal of specific employees of the public body; litigation; and 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 Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Leggett, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Cynthia O'Neill, seconded by Cinda Klickna, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Leggett, and Koch. Motion CARRIED.

Chief Investment Officer Contract

On a motion by Cinda Klickna, seconded by Rainy Kaplan, it was resolved:

To update CIO Stan Rupnik's employment agreement as discussed.

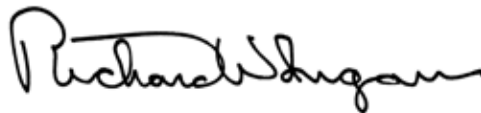
Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Leggett, and Koch. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

The August 15, 2013 executive session meeting minutes of the Board was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved as printed.

ADJOURNMENT

There being no further business to come before the Board, on a motion by Cinda Klickna, seconded by Cynthia O'Neill, and by unanimous voice vote, the meeting adjourned at 11:14 a.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with the first name "Richard" being more prominent.

Richard W. Ingram, Executive Director

Approved 12/5/13