



MINUTES
Board of Trustees
December 14, 2017

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 14, 2017 at the Springfield Office of the Illinois Teachers' Retirement System, Springfield. President Tony Smith called the meeting to order at 9:00 a.m. and a quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Matt Hower, Tracy Kearney, Marc Levine, Fred Peronto, Larry Pfeiffer, Mark Splitstone, Dan Winter, Randy Winters (telephone participation), Cinda Klickna, Vice President and Dr. Tony Smith, President. Absent: Laura Pearl.

Trustee Hirshman moved to allow Trustee Winters to participate by phone due to illness. The motion was seconded by Trustee Bailey and passed by unanimous voice vote. Note: The board bylaws were revised in October to allow trustees to vote when they participate via video or teleconference in accordance to Article III, Section 3.

Mr. Splitstone and Ms. Kearney were appointed by the governor on December 11, 2017 to serve as members of the TRS Board of Trustees. Trustee Kearney will complete the term of former trustee Alexander Sandy Stuart, expiring July 2020. Trustee Splitstone will complete the term of former trustee Ann Deters, expiring July 2020.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Chad Mitchell, Sr. Investment Analyst; Jose Gonzalez, Sr. Investment Analyst; Jerry Quandt, Investment Officer; Kirk Sims, Investment Officer; Ben Skrodzki, Investment Officer; Ed Shim, Investment Officer; Bill Thomas, Investment Officer; Josh Ross, Investment Officer; Jana Bergschneider, Chief Financial Officer; Tom Smith, Chief Technology Officer; Gina Larkin, Chief Human Resources Officer; Stacy Smith, Director of Internal Audit; Christina Baker, Sr. Internal Auditor; Lauren Russell, Internal Auditor; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Dave Urbanek, Director of Communications; Kathleen Farney, Director of Research; Deron Bertolo, Director of Investment Accounting; Abby Griffith, Investment Accounting Manager; Bob Jiroutek, Risk Officer; Rich Frankenfeld, Director of Outreach; Nick Stabler, Outreach Coordinator; Tammy Green, Executive Assistant; Sue Billington, Executive Assistant; Mike Krems, TorreyCove (Private Equity Consultant); Becky Gratsinger and Ian Bray, RVKuhns (Investment Consultant); Andrew Bodewes, Legislative Consultant; and Keith Johnson, Reinhart Boerner Van Deuren (Fiduciary Counsel).

Visitors present: Christine Williamson, Pensions & Investments and Faith Vaught, IL Education Association-Retired.

APPROVAL OF MINUTES

A draft of the October 26-27, 2017 minutes of the regular board meeting was sent to the trustees for prior review. On a motion by Mark Bailey, seconded by Cinda Klickna, the minutes were approved by unanimous voice vote.

Board Delegation for Selection of Investment Managers

Following on discussions held at the August and October board meetings regarding delegation for the final selection authority of investment managers to TRS professional staff, the Board received a memorandum from newly hired fiduciary counsel, Rienhart, that provided an analysis of the Holland & Knight and Cavanagh memoranda received at the October Board meeting. Rienhart agrees with Holland & Knight's opinion and concludes that with prudent policies, processes, and procedures in place, the Board has authority to delegate the selection of investment managers to qualified TRS staff designated as fiduciaries. The recent trend is toward delegation with 73% of peer funds delegating investment decisions to qualified investment personnel. Documentation is on file. Staff proposed revisions to the TRS Investment Policy, Administrative Rules, and Board Manual necessary for staff delegation. Documentation is on file.

Director Ingram proposed the following resolution and reported that the Board would receive an activity report from staff on activity that occurs between Board meetings. On a motion by Marc Levine, seconded by Matt Hower, it was resolved:

That TRS staff be immediately given the discretion to allocate funding mandates to investment managers and advisors for the purpose of executing TRS's investment strategy. These allocations to managers and advisors shall be made conforming to the Board approved investment policies and asset allocation plan. Further, these allocations will be executed in a manner consistent with the tactical plan or asset class structure that has been approved by the Board for the individual asset classes that make up the TRS investment portfolio. Voting members of the applicable staff oversight committee are deemed to be functioning as fiduciaries on behalf of the Board when exercising the discretion authorized herein.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Kearney, Levine, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Trustee Splitstone abstained from voting. Motion CARRIED.

On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To promulgate amendments to the TRS Administrative Rules, Competitive Selection Procedures for Investment Services through the JCAR process, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Levine, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Trustees Kearney and Splitstone abstained from voting. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

FY 2018 and FY 2019 Final Certifications of Funding Requirements

Public Acts 100-0023 and 100-0340 resulted in a net reduction in the state's FY 2018 and FY 2019 contributions to the System. PA 100-0023 modifies the pension funding formula and establishes a Tier 3 hybrid retirement plan that will be implemented after obtaining approval by the Internal Revenue Service. PA 100-0340 increases the state contribution because it reduces the federal funds contribution rate to the total employer normal cost rate. Previously the federal contribution rate was equal to the state's contribution rate. Neither the FY 2018 recertification nor the FY 2019 certification reflect any assumptions on the impact of Tier 3. Director Ingram noted that the unfunded liability will continue to rise for the next 10-15 years and then begin to decline.

As required by state statute, the Board must certify the state funding requirements in final form after review by the state actuary, Cheiron. The Board gave preliminary certification at the October 2017 meeting. Cheiron reviewed the assumptions, methods, and calculations contained in the draft June 30, 2017 valuation report prepared by TRS actuary, Segal Consulting. It did not recommend any changes to the assumptions or to the FY 2018 or FY 2019 state contributions. On a motion by Andy Hirshman, seconded by Mark Bailey, it was resolved:

To accept the final recertifications under Public Act 100-0023 and Public Act 100-0340 of the following, which have been reviewed by the state actuary and are unchanged from the preliminary amounts presented by Segal Consulting at the October 27, 2017 board meeting:

- Based on Illinois statute, an FY 2018 state funding amount of \$4,095,316,146, including \$700,000 for minimum retirement benefits;

- Based on the Board’s Actuarial Funding Policy, an FY 2018 state funding amount of \$6,993,032,528, including \$700,000 for minimum retirement benefits; and
- Based on the total employer normal cost rate, a federal contribution rate of 10.10 percent of pay.

The FY 2018 total normal cost of 19.10 percent of pay and total employer normal cost 10.10 percent are unchanged from the board’s January 2017 certification of the FY 2018 state contribution.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Levine, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Trustees Kearney and Splitstone abstained from voting. Motion CARRIED.

On a motion by Fred Peronto, seconded by Andy Hirshman, it was resolved:

To accept the results of the final June 30, 2017 actuarial valuation and to adopt final certifications of the following, which have been reviewed by the state actuary and are unchanged from the preliminary results presented by Segal Consulting at the October 27, 2017 board meeting:

- Based on Illinois statute, an FY 2019 state funding amount of \$4,466,178,109, including \$600,000 for minimum retirement benefits;
- Based on the Board’s Actuarial Funding Policy, an FY 2019 state funding amount of \$7,370,930,484, including \$600,000 for minimum retirement benefits;
- The total normal cost rate of 18.85 percent of pay, a rate that includes a total employer normal cost rate of 9.85 percent and a member contribution rate of 9.00 percent; and
- Based on the total employer normal cost rate, a federal contribution rate of 9.85 percent of pay.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Levine, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Trustees Kearney and Splitstone abstained from voting. Motion CARRIED.

Quarterly Financial Statements

The financial reports for the quarter ended September 30, 2017 were sent to trustees for review. Documentation is on file. On a motion by Cinda Klickna, seconded by Andy Hirshman, it was resolved:

To approve the financial statement and administrative expenses for the quarter ending September 30, 2017, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Levine, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Trustees Kearney and Splitstone abstained from voting. Motion CARRIED.

Enterprise Risk Report

The Board received the TRS enterprise risk committee's report for November 2017 containing a risk matrix, spotlight report, risk heat map, and risk level score. Documentation is on file.

Tier 3 Update

Director Ingram reported TRS is still waiting for legal clarification on the implementation of the new Tier 3 benefit structure. Staff continues to work on the details of changing to monthly reporting and will provide a cost estimate to upgrade TRS's current pension administration system to process monthly reporting. Further information will be provided at March meeting.

TRS Meeting Cost Analysis

The Board received cost comparison of holding a meeting in Rosemont versus in Springfield. Documentation is on file.

Approval of Executive Session Minutes

A draft of the October 27, 2017 executive session minutes of the Board was sent to the trustees for prior review. On a motion by Mark Bailey, seconded by Fred Peronto, and by unanimous voice vote, the minutes were approved as presented.

RECESS

The meeting recessed at 10:32 and reconvened at 5:35 p.m.

INVESTMENT COMMITTEE REPORT

President Smith presented the consent agenda. All items listed under the consent agenda are enacted by one motion with a roll call vote. No separate discussion of these items is held unless a request is made prior to voting on the motion. Trustee Pfeiffer moved that the Board approve the consent agenda as stated. Trustee Hirshman seconded the motion and it passed unanimously with a roll call vote from Trustees Bailey, Hower, Hirshman, Kearney, Levine, Peronto, Pfeiffer, Splitstone, Winter, Winters, Klickna, and Smith. Motion CARRIED. The following motions were approved by action taken in the consent agenda motion.

Approve the private debt tactical plan, as presented.

- Estimated annual commitments of approximately \$350 million.
- Expected pacing of \$750 – \$950 million from FY 2018 through FY 2020.
- Increase private debt cap to 30% of Income asset class to use primarily for opportunistic purposes.
- To issue an RFP for consultant and/or strategic oversight assistance of the private debt portfolio.

Approve Project Lincoln, which is the sale of 20 funds with a combined fair market value of \$766 million.

End of Consent Agenda

Global Equity Asset Class Report

On a motion by Larry Pfeiffer, seconded by Andy Hirshman, it was resolved:

Approve the Global Equity Asset Class Report, as presented.

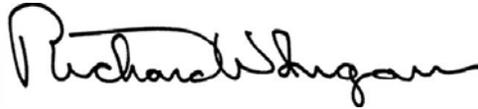
- Ratify termination of J.P. Morgan’s domestic equity large cap growth mandate.
- Approve the annual review recommendations, as presented.
 - a. For total plan rebalancing and benchmarking purposes only: create a global equity asset class which would combine and replace the current domestic and international equity asset classes. Global equity would be benchmarked to the global MSCI All Country World IMI index effective 1/1/18.
 - b. For global equity exposure management: establish the domestic and international equity target weights (reset annually in conjunction with the asset class annual review) based on their underlying weights in the global MSCI All Country World IMI index. Ranges of +/- 12.5% would be utilized.

- c. For the global equity portfolio: establish a maximum annualized five-year tracking error guideline of 2.5% relative to the MSCI All Country World IMI index.
- Consent to the assignment of Convergenx’s existing Commission Recapture Agreement to Cowen and Company.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. A vote of opposition was heard by Trustee Levine. Trustees Kearney and Splitstone abstained from voting. Motion CARRIED.

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Mark Bailey, seconded by Andy Hirshman, to adjourn the meeting at 5:39 p.m. The motion passed by unanimous voice vote.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram, Executive Director

Approved: 3/1/18