



Teachers' Retirement System of the State of Illinois

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News

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TRS LOWERS ITS ASSUMED RATE OF INVESTMENT RETURN

SPRINGFIELD, IL – The Teachers' Retirement System Board of Trustees today lowered the System's assumed rate of investment return to 7.5 percent from 8 percent, following a recent review of its asset liability model and revised capital market assumptions.

"The assumed rate of return greatly influences the financial future of TRS. Reducing the rate from 8 percent to 7.5 percent is a prudent move that balances expected future reality with the needs of TRS members," said Executive Director Dick Ingram. "The Board's decision takes into consideration extensive input from our actuaries and investment consultants. It is one of the most important elements of the fiduciary duty we have to keep the System as strong as possible."

The new revised rate of return is the product of an extensive review by the System's actuaries, **Buck Consultants of Chicago**, and general investment consultant, **R.V. Kuhns and Associates of Portland, Oregon**.

"Our process is very deliberate and considerable analysis is used to develop this estimate," Ingram added. "It is the fiduciary duty of the Board to set a rate that is realistic and will fairly distribute the cost of TRS benefits."

The former 8 percent rate of return, adopted by the TRS Board in 2012, has proven to be appropriate. The actual long-term TRS investment rate of return currently exceeds 9 percent. Back in 2012, the Board voted to revisit the long-term assumed rate of return every three years in the future instead of the customary five years. Trustees said the change was prompted by increasing volatility in the international economy.

The National Association of State Retirement Administrators reported earlier this year that of 126 major state and municipal pension systems across the country, including TRS, 32 had set an assumed rate of return between 7.5 percent and 8 percent; 37 had set a rate between 7 percent and 7.5 percent and 45 had an 8 percent rate. The average return rate of the 126 systems is 7.72 percent. The NASRA study also found that over the last 25 years, the 126 pension systems recorded a median actual investment return of 9 percent.

(MORE)

In other action during the Board’s regularly scheduled June meeting, the trustees:

- Approved the latest revisions to the System’s long-term asset allocation targets. These goals provide guidance and structure to the TRS investments program by determining how much money from the overall investment portfolio will be dedicated to each kind of investment. The targets are designed to minimize investment risk and maximize returns. The last revisions to the long-term targets were made in 2011.

<u>Asset Class</u>	<u>2014 Target</u>	<u>2011 Target</u>
Domestic Equity	18%	20%
International Equity	18%	20%
Global Fixed Income	16%	16%
Real Estate	15%	14%
Private Equity	14%	12%
Real Return	11%	10%
Absolute Return	8%	8%

- Committed \$100 million from the \$4.6 billion TRS Private Equity portfolio to **Veritas Capital Fund Management of New York, New York** for investments in a variety of businesses. Veritas currently administers \$75 million in TRS assets.
- Committed up to \$50 million from the Private Equity portfolio to **Sofinnova Venture Partners of Menlo Park, California** for investments in biotechnology and pharmaceuticals. Sofinnova currently administers \$40 million in TRS assets.
- Hired **ConvergEx Group of New York, New York**, to assist the System with its existing program to “recapture” a portion of the commissions paid to its external money managers for investment activities. TRS has had a commission recapture program in place since 1986 and last conducted a search for brokers in 2006. ConvergEx will replace an existing pool of firms advising TRS on its commission recapture program.

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About Teachers’ Retirement System

The Teachers’ Retirement System of the State of Illinois is the 39th largest pension system in the United States, and provides retirement, disability and survivor benefits to teachers, administrators and other public school personnel employed outside of Chicago. The System serves 390,000 members and had assets of \$44.2 billion as of May 30, 2014.