



MINUTES
Board of Trustees
February 19, 2015

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 19, 2015 at the Springfield office, 2815 West Washington Street. Sharon Leggett, Vice President, called the meeting to order at 2:10 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Rainy Kaplan, Cinda Klickna, Bob Lyons, Cynthia O'Neill, Sonia Walwyn, Sharon Leggett (Vice President). Absent: Mike Busby and Chris Koch.

Staff present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Kathleen Farney, Director of Research; Rich Frankenfeld, Director of Outreach; Gina Larkin, Director of Human Resources; Sally Sherman, Director of Member Services; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, Tony Johnson, and Marcia Beard, RV Kuhns (Investment Consultant).

Visitors present: Dennis Murfin, IRTA; Don Davis, IRTA; Christine Williamson, Pensions & Investments; Jim Baker, UNITE HERE; and Kelley Gallagher, BNY Mellon.

PUBLIC COMMENT

Employees of the Hotel Burnham in Chicago described allegations of unfair labor practices they have filed with the National Labor Relations Board alleging hotel management threatened Hotel Burnham employees seeking to organize a union. The Lone Star Fund, a private equity firm, acquired the hotel in 2014. Jim Baker of UNITE HERE reported that there has been persistent turnover of senior executives and staff at Lone Star and its

affiliate, Hudson Advisors. Mr. Baker circulated documentation regarding Lone Star and urged that Lone Star settle the dispute at Burnham hotel. Documentation is on file.

Approval of Minutes

A draft of the December 11, 2014 regular minutes of the Board of Trustees meeting was sent to the trustees for prior review. On a motion by Sonia Walwyn, seconded by Bob Lyons, and by unanimous voice vote, the minutes were approved as printed.

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

Watch List 12/31/14

On a motion by Sonia Walwyn, seconded by Bob Lyons, it was resolved:

To accept the December 31, 2014 watch list, as presented.

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

Fixed Income

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

To approve the recommended changes within the Short Term Asset Reserves composite, as presented.

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

Monroe Capital – Fixed Income

On a motion by Sonia Walwyn, seconded by Rainy Kaplan, it was resolved:

To commit \$50 million to Monroe Capital Private Credit Fund II, L.P., within the global fixed income special situations allocation, subject to successful completion of certain due diligence items and legal documents. Source of funds shall be TRS cash accounts, 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

Carlyle – Private Equity

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

To commit ¥3.5 billion to Carlyle Japan Partners III, L.P. Source of funds shall be TRS cash accounts, 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 Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. A vote of opposition was expressed by Trustee Bailey. Motion CARRIED.

Institutional Venture Partners – Private Equity

On a motion by Sonia Walwyn, seconded by Rainy Kaplan, it was resolved:

To commit up to \$50 million to Institutional Venture Partners XV, L.P. upon the satisfactory completion of due diligence, legal review, and final approval by Chair of Investments. Source of funds shall be TRS cash accounts, 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

New Enterprise Associates – Private Equity

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

To commit up to \$50 million to New Enterprise Associates 15, L.P., subject to successful completion of legal documents. Source of funds shall be TRS cash accounts, 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

RRJ Capital – Private Equity

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

To commit \$75 million to RRJ Capital Master Fund III, L.P. subject to successful completion of legal documents. Source of funds shall be TRS cash accounts, 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

Blackstone Group – Real Estate

On a motion by Sonia Walwyn, seconded by Rainy Kaplan, it was:

To commit \$300 million to Blackstone Real Estate Partners VIII, L.P. upon successful completion of legal documents. 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

Lone Star – Real Estate

On a motion by Sonia Walwyn, seconded by Bob Lyons, it was:

To commit up to \$300 million to Lone Star Real Estate Fund IV, L.P. subject to successful completion of due diligence, legal review, and final approval by Chair of Investment Committee. 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

Quadratic Capital Management – Emerging Manager/Absolute Return

On a motion by Mark Bailey, seconded by Sonia Walwyn, it was:

To commit up to \$100 million to Quadratic Capital Management within the System’s Emerging Manager Program. Initial funding will be \$50 million, scalable to the full \$100 million with Chair approval. The recommendation is subject to completion of satisfactory due diligence by TRS staff and the absolute return strategies consultant. Source of funds shall be the RhumbLine S&P 500 index fund dedicated to the Emerging Manager Program. To reduce trading costs, initial funding may be from other rebalancing activity, with subsequent reimbursement when such funding is most efficient.

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

Risk Resources

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

To allow the insurance consulting contract with Risk Resources to expire on June 30, 2015, and expand the services to be performed by Tave Risk Management at a cost of \$15,000 per year starting on July 1, 2015.

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

CLAIMS HEARING COMMITTEE – *Sonia Walwyn, Chair*

The Claims Hearing Committee met on October 29, 2014 to consider the appeal of TRS annuitant Julia Hansen regarding sick leave service credit.

Documentation is on file. On a motion by Mark Bailey, seconded by Cynthia O’Neill, it was resolved:

To affirm the Claims Hearing Committee’s proposed decision in the administrative review of Julia Hansen.

Roll call resulted in affirmative voice votes from Trustees Bailey, Kaplan, Klickna, Lyons, O’Neill, and Leggett. Trustee Walwyn abstained from voting. Motion CARRIED.

LEGISLATIVE COMMITTEE – *Cinda Klickna, Chair*

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

The Teachers’ Retirement System Board of Trustees takes the following positions on legislation introduced into the 99th General Assembly.

SUPPORT House Bill 254 - increases funding ratio from 90% to 100% by 2046 if Senate Bill 1 is found unconstitutional.

OPPOSE House Joint Resolution Constitutional Amendment 0009 – repeals the Constitutional protections on pensions.

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

On a motion by Rainy Kaplan, seconded by Sonia Walwyn, it was resolved:

To authorize staff to pursue repeal of 40 ILCS 5/16-149.6 which currently allows members receiving TRS disability benefits to return to teaching service on a limited basis subject to certain eligibility requirements.

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

EXECUTIVE DIRECTOR’S REPORT

Executive Orders and State Finances

Governor Rauner has issued various executive orders to address the state’s fiscal crisis. Director Ingram noted that executive orders and directives of the governor’s office do not apply to TRS because TRS is not an executive branch agency. Documentation is on file describing the legal analysis behind this determination. TRS will comply with the intent of the orders to the extent that complying is consistent with fulfilling fiduciary obligations to TRS members. However, a great deal of TRS’s existing practice and procedures already comply with executive branch agencies.

2015 Trustee Election

Director Ingram announced that the terms of Trustees Klickna, Leggett, and O’Neill expire July 2015. There will be a contested trustee election on May 1, 2015 for two of the three open seats on the TRS Board. Documentation is on file. There is one annuitant member candidate and four active member candidates that have received the required 500 signatures on the election petitions. Paper and electronic balloting will open in late March or early April for the election of two active member trustees to the board. An annuitant election is not required since there is one candidate and one annuitant vacancy. Results of the election will be certified at the May board meeting.

Actuarial Services Update

Director Ingram and staff held a meeting with Larry Langer and David Driscoll of Buck Consultants, the System’s actuary, to discuss ongoing concerns with the timeliness of the completion of projects and fee estimates for projects. Documentation is on file. Buck is on watch and discussions are ongoing. Director Ingram stated it is currently impractical to go through an RFP process for a new vendor to provide actuarial services. At this time, Buck plans to complete the June 2015 TRS valuation as scheduled. In December, the board authorized staff to contract with a second actuarial firm to assist with any required analyses of proposals introduced by the General Assembly. Staff contracted with Segal as an alternative source of actuarial services. Gabriel Roeder Smith and Segal Consulting are available to conduct any analyses required by TRS if Buck’s performance doesn’t improve.

Board Retreat Update

Director Ingram suggested the March 30-31, 2015 annual board retreat be held in Springfield in conjunction with the Opportunity Forum. It's in the best interest to not conduct a full retreat since four governor appointed vacancies on the board still exist.

Disaster Recovery Test

Director Ingram reported that staff conducts a disaster recovery test each year at a backup facility in northern Illinois. The annual test was successfully completed.

Meeting Calendar

The board discussed FY 16 meeting dates. A calendar will be approved at the May meeting.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2014 were sent to the trustees for review. The reports are on file. On a motion by Bob Lyons, seconded by Mark Bailey, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2014, as presented.

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

Darlington Partners

Director Ingram requested budget approval to contract with Darlington Partners, an executive search firm, to assist with the hiring of a TRS key personnel position that will become vacant due to an upcoming retirement. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To approve contract expenditure exceeding \$50,000 for Darlington Partners professional services.

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

TRS Online Tutorials

TRS is enhancing its educational platform and plans to have tutorials placed on its website to further educate members on key topics. Dave Urbanek, Director of Communications, provided an overview of the first tutorial explaining the difference between a defined benefit plan and a defined contribution retirement plan. Several more tutorials are being planned.

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the period ending December 31, 2014
- Employer Services Report for the period July 2014 through January 2015
- EEOC Report for the quarter ending December 31, 2014

RECESS

The meeting recessed at 3:03 p.m. and reconvened at 3:10 p.m.

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Bob Lyons, that the Board enter into executive session for the purpose of discussing the employment, compensation, discipline, performance of specific employees of the public body; probable or imminent litigation; and discussion of closed meeting minutes including review of semi-annual 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, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

No action was taken during executive session. A motion was made by Bob Lyons, seconded by Rainy Kaplan, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Kaplan, Klickna, Lyons, O’Neill, Walwyn, and Leggett. Motion CARRIED.

Personnel

On a motion by Sonia Walwyn, seconded by Rainy Kaplan, it was resolved:

To extend both the Executive Director and Chief Investment Officer's contract terms for a one-year increment through June 30, 2020.

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

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the December 11, 2014 executive session minutes of the Board of Trustees was sent to the trustees for prior review. In addition, the Board received a memorandum from the System's Legal Department regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To approve the December 11, 2014 executive session meeting minutes of the Board of Trustees, as printed,

That the following executive session minutes no longer require confidential treatment and will be made available for public inspection:

Dec. 11, 2012	Board
June 20, 2013	Board
Jan. 31, 2014	Board
Apr. 14, 2014	Board
May 28, 2014	Audit
May 29, 2014	Investment & Board
June 24, 2014	Board
Oct. 30, 2014	Audit & Board

ADJOURNMENT

On a motion by Bob Lyons, seconded by Mark Bailey, the meeting adjourned at 3:38 p.m.



Richard W. Ingram, Executive Director
Approved 3/31/15