



Teachers' Retirement System of the State of Illinois

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R. Stanley Rupnik, Acting Executive Director

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MINUTES Board of Trustees August 5, 2010

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 5, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 8:03 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Christopher Koch (President, arrived 8:10), Molly Phalen (Vice President), Marcia Boone, Mike Busby, Jan Cleveland, Livia Kiser (arrived 8:14), Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder (arrived 8:09), Cynthia O'Neill, Janice Reedus, and Sonia Walwyn.

Others present: Stan Rupnik, CIO & Acting Executive Director; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Gina Larkin, Director of Human Resources; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitor present: Christine Williamson, Pensions & Investments

NEW BUSINESS

Executive Director Search

The Board interviewed Korn/Ferry International as a candidate to continue the search for the position of executive director.

EXECUTIVE SESSION

A motion was made by Marcia Boone, seconded by Mike Busby, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (1). Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen and Koch. Motion CARRIED.

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

RECESS

The meeting recessed at 9:35 a.m. and reconvened at 2:55 p.m.

Visitors present: Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Christine Williamson, Pensions & Investments; Harry Bailey, Cheevers & Company; Sharon Piet, Podesta & Company; and Angela Myers, Loop Capital.

APPROVAL OF MINUTES

A draft of the minutes from the June 25, 2010 regular meeting of the Board of Trustees was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

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

Cash Withdrawal

On a motion by Jan Cleveland, seconded by Marcia Boone, it was resolved:

To withdrawal up to 2% of the main TRS trust fund, or \$557 million based on 5/31/10 ending market value, to cover the System's cash requirements.

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

Iran Divestment

On a motion by Sharon Leggett, seconded by Mike Busby, it was resolved:

To add ENI (Italy), Gazprom (Russia), INPEX (Japan), Lukoil (Russia), and Statoil (Norway) to TRS's list of "scrutinized" companies.

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

Watch List 6/30/10

On a motion by Jan Cleveland, seconded by Sonia Walwyn, it was resolved:

To accept the watch list as of June 30, 2010, as presented.

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

Absolute Return Tactical Plan

On a motion by Marcia Boone, seconded by Sid Marder, it was resolved:

To approve the FY 2011 Absolute Return Tactical Plan, as presented.

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

Real Estate Tactical Plan

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

To adopt the FY 11 Real Estate Tactical Plan, as presented, including approval of the IMA changes & riders, the new administrative and reporting guidelines, quarterly report template, and the one year extension of the insurance brokerage contract with Tave Risk Management.

Allocations include:

- Cornerstone - \$100 million (\$75 million main fund and \$25 million POB);
- Invesco - \$100 million (\$75 million main fund and \$25 million POB). Further, to allow reinvestment of proceeds by Invesco for CrownPointe;
- LCP Core - \$50 million
- KBS - \$72.6 million (\$61.5 million main fund and \$11.1 million POB)

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

Northern Trust

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

To ratify the selection of Northern Trust for a 5.75% passive international equity mandate.

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

Aberdeen EAFE Plus

On a motion by Janice Reedus, seconded by Livia Kiser, it was resolved:

To ratify the selection of Aberdeen EAFE Plus for a 5.75% mandate within the international equity large cap core portfolio.

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

Lombardia Capital Partners

On a motion by Cinda Klickna, seconded by Sharon Leggett, it was resolved:

To graduate Lombardia Capital Partners small cap value portfolio from the TRS Emerging Manager Program to a 2% mandate in the domestic equity portfolio. Funding will be provided by the SSgA Russell 2500 Value optimized account and the Russell Small Cap Completeness account. The TRS Emerging Manager Program shall be reimbursed at cost for this graduation by an in-kind transfer between Rhumblin's main fund and emerging manager program S&P 500 index portfolios.

To adopt the proposed fee structure for Lombardia Small Cap Value.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. A vote of opposition was heard by Trustee Marder. Motion CARRIED.

Fiduciary Management Associates

On a motion by Sharon Leggett, seconded by Cinda Klickna, it was resolved:

To graduate Fiduciary Management Associates’ small cap value portfolio from the TRS Emerging Manager Program to a 2% mandate in the domestic equity portfolio. Funding will be provided by the SSgA Russell 2500 Value optimized account and the Russell Small Cap Completeness account. The TRS Emerging Manager Program shall be reimbursed at cost for this graduation by an in-kind transfer between Rhumblin’s main fund and emerging manager program S&P 500 index portfolios.

Further, to continue the current fee schedule with FMA Small Cap Value.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, and Koch. Votes of opposition were heard from Trustees Marder and Phalen. Motion CARRIED.

On a motion by Jan Cleveland, seconded by Marcia Boone, it was resolved:

To reduce the SSgA & Russell Small Cap Completeness target allocations as necessary.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, and Koch. Votes of opposition were heard from Trustees Marder and Phalen. Motion CARRIED.

Private Equity – JMI Equity Fund VII, L.P.

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

To invest up to \$30 million to JMI Equity Fund VII, L.P. within the main TRS trust fund. Source of funds to 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 Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

AUDIT COMMITTEE REPORT–*Janice Reedus, Chair*

Internal Audit Charter

On a motion by Jan Cleveland, seconded by Marcia Boone, it was resolved:

To approve revisions to the Internal Audit Charter, as presented.

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

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

On a motion by Jan Cleveland, seconded by Molly Phalen, it was resolved:

To approve amendments to TRS Rule 1650.481 – Employer Contribution Required for Salary Increases in excess of 6%.

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

CLAIMS HEARING COMMITTEE REPORT–*Cynthia O’Neill, Chair*

On a motion by Marcia Boone, seconded by Sid Marder, it was resolved:

To adopt the Claims Hearing Committee’s proposed decision in favor of the staff determination in the administrative review of Scott Birtman.

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

NEW BUSINESS

Kathleen Farney, Director of Research, provided an informational update on the costs of defined contribution plans and the potential impact on total state contributions if a defined contribution plan became mandatory for new hires. In addition, estimates were included on the annual cost to school districts if teachers were covered by social security. Documentation is on file.

EXECUTIVE DIRECTOR'S REPORT

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the quarter ending June 30, 2010
- Employer Services Report for the period January 18 to July 9, 2010
- EEOC Report quarter ending June 30, 2010

Jana Bergschneider, Director of Administration, provided documentation noting TRS's spending reductions to comply with the Governor's Executive Order 10 which requires additional spending reductions due to the State of Illinois fiscal crisis. Documentation is on file.

Annual Ethics Training Certification

On a motion by Molly Phalen, seconded by Cinda Klickna, it was resolved:

To certify that the following trustees of the Illinois Teachers' Retirement System have completed a minimum of 8 hours of ethics training during FY 10 in accordance to Public Act 96-0006, Article 1 of the IL Pension Code, Section 1-113.18. Certification will be submitted to the Division of Insurance of the Department of Financial and Professional Regulation.

Marcia Boone, Mike Busby, Jan Cleveland, Livia Kiser, Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder, Cynthia O'Neill, Molly Phalen, Janice Reedus, and Chris Koch.

Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Phalen, and Koch. Trustee Walwyn abstained. Motion CARRIED.

Executive Director Search

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

To authorize staff to negotiate an agreement with the executive search firm Korn/Ferry International.

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

Strategic Planning Update

The Board received a memorandum summarizing the first year accomplishments of the FY 10-11 strategic plan. Documentation is on file.

EXECUTIVE SESSION

A motion was made by Marcia Boone, seconded by Molly Phalen, 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, or legal counsel for 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 Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Jan Cleveland, seconded by Marcia Boone, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the June 25, 2010 Board executive session meeting minutes was sent to the trustees for prior review. On a motion by Molly Phalen, seconded by Marcia Boone, it was resolved:

To approve the executive session minutes of the June 25, 2010 regular meeting of the Board of Trustees, as printed.

Roll call resulted in affirmative voice votes from Boone, Busby, Cleveland, Kiser, Klickna, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, Phalen, and Koch.
Motion CARRIED.

ADJOURNMENT

There being no further business to be brought before the Board, on a motion by Molly Phalen, seconded by Livia Kiser, and by unanimous voice vote, the meeting adjourned upon conclusion of executive session at 4:10 p.m.

Stan Rupnik, Acting Executive Director

Approved _____