



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES Board of Trustees October 28, 2011

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 28, 2011 at the Springfield office, 2815 West Washington Street. Molly Phalen, Vice President, called the meeting to order at 8:30 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Molly Phalen, Vice President, Mike Busby, Marcia Campbell, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O'Neill, and Sonia Walwyn. Absent: Chris Koch, President and Janice Reedus.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Kathleen Farney, Director of Research; Sally Sherman, Director of Member Services; Gina Larkin, Director of Human Resources; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christine Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; John Long, Cavanagh & O'Hara (Fiduciary Counsel); Andrew Bodewes, Legislative Consultant; and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Jack Tucker, IEA-Retired, Dennis Murfin, IRTA Rep., Don Davis, IRTA Rep., and Christine Williamson, Pensions & Investments.

Approval of Minutes

A draft of the August 4, 2011 minutes of the regular meeting of the Board of Trustees was sent to the trustees for prior review. On a motion by Marcia Campbell, seconded by Cynthia O'Neill, and by unanimous voice vote, the minutes were approved as printed.

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

Watch List 9/30/11

On a motion by Marcia Campbell, seconded by Sharon Leggett, it was resolved:

To accept the September 30, 2011 watch list, as presented.

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

Cash Withdrawal

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

To withdrawal up to 2% of the main TRS trust fund, or \$621 million based on the 8/30/11 ending market value. Dependent on the most efficient source of liquidity, source of funds will be the index accounts, enhanced index accounts, or public markets active investment management accounts that may be overweight to target allocations.

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

MBE/WBE Goals

On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To approve the FY 12 goals for the utilization of minority-and female-owned investment managers and broker/dealers, as presented.

--Broker/Dealer Utilization: Increase international equity from 10% to 11%; domestic equity and fixed income remain the same at 15%.

--Manager Utilization: Increase overall goal for total TRS fund from 13.5% to 14.5%; Increase goal for equities from 13.5% to 14.5%; Increase goal for alternatives from 8.5% to 9.5%; Increase range of total fund fee goals from a floor of 2.5% to 4.5% and the ceiling from 8% to 9%;

Increase the minority floor from 2% to 3% and the total range for female managers from 0.5%-1.5% to 1.5% to 2.5%.

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

Real Return Asset Class

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

To approve the recommendations within the real return asset class, as presented:

- AQR - increase target from 15.0% to 20.0%
- PIMCO GMAS – increase target from 13.5% to 15.0%
- Wellington DIH – decrease target from 17.5% to 11.0%
- Initiate search for Global Macro investment manager(s)

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

PIMCO – Fixed Income

On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To commit \$75 million to PIMCO Distressed Senior Credit Opportunities Fund II, L.P. (DISCO). Funding for the commitment will be a combination of overweight fixed income mandates within the adopted style ranges, including PIMCO and Taplin, Canida & Habacht. Main fund account only.

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

Flintlock Commodity Opportunity Partners, L.P.

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

To commit \$15 million to Flintlock Commodity Opportunity Partners, L.P. within the Emerging Manager Program. Source of funds shall be the Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program.

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

Absolute Tactical Plan FY 12

On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To approve the FY 12 absolute return tactical plan, as presented.

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

Blue Mountain, ClarenRoad, Carlson DBD

On a motion by Bob Lyons, seconded by Mike Busby, it was resolved:

To invest \$150 million each to BlueMountain, ClarenRoad, and Carlson DBD (\$450 million total) with timing subject to staff recommendation and the approval of the Investment Committee Chair. Source of funding to be cash or public markets rebalancing.

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

Transition Management Services - RFP

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

To issue an RFP for transition management services.

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

Southwest Multifamily Partners, L.P.

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

To commit up to \$25 million in Southwest Multifamily Partners, L.P. strategy within the Emerging Manager Program. Source of funds shall be the Rhumblin S&P500 index fund dedicated to the Emerging Manager Program.

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

Green Equity Investors VI, L.P. – Private Equity

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

To commit up to \$200 million to Green Equity Investors VI, L.P., split between the main TRS trust fund (85%) and the POB account (15%). 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Walwyn. Motion CARRIED.

Longitude Venture Partners, II, L.P. – Private Equity

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

To commit up to \$30 million to Longitude Venture Partners, L.P. within the main TRS trust fund. 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Walwyn. Motion CARRIED.

Trustbridge Partners IV, L.P. – Private Equity

On a motion by Marcia Boone, seconded by Sharon Leggett, it was resolved:

To commit up to \$30 million to Trustbridge Partners IV, 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Walwyn. Motion CARRIED.

Tave Risk Management – Real Estate

On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To award Tave Risk Management a five-year contract for insurance brokerage services.

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

AUDIT COMMITTEE – *Janice Reedus, Chair*

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

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

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

RULES & PERSONNEL COMMITTEE – *Sharon Leggett, Chair*

On a motion by Sonia Walwyn, seconded by Cynthia O’Neill, it was resolved:

To promulgate the proposed administrative rules amendments, as presented, to Subpart P -- Competitive Selection Procedures for Investment Services.

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

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

On a motion by Sonia Walwyn, seconded by Marcia Campbell, it was resolved:

To adopt the Claims Hearing Committee’s proposed decision in favor of the staff determination in the administrative review of Schaumburg CCSD #54.

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

OLD BUSINESS

Trustee Personal Trading Policy

The Board received a draft of the TRS Trustee Personal Trading Policy that staff prepared with the assistance of fiduciary counsel. Documentation is on file. TRS trustees are prohibited from misusing material, nonpublic investment information acquired through their trustee position in their day-to-day personal trading activity. The policy sets restrictions related to personal trading, defines roles and responsibilities for maintaining compliance, establishes procedures for monitoring, reporting, and documentation of compliance, and further defines fiduciary duties and obligations under the Illinois Pension Code in the context of personal trading activity. On a motion by Bob Lyons, seconded by Sonia Walwyn, it was resolved:

To adopt the Trustee Personal Trading Policy, as presented.

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

NEW BUSINESS

June 30, 2011 Actuarial Valuation Results & Certification of FY 2013 State Contributions

Larry Langer and Paul Wilkinson of Buck Consultants presented the results of the System's June 30, 2011 actuarial valuation and state contribution requirements for FY 2013. Documentation is on file. The funded ratio was 46.5% on June 30, 2011 based on the actuarial value of assets (5-year smoothing), down from 48.4% on June 30, 2010. Without smoothing, the June 30, 2011 funded ratio is 46.1%.

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 FY 2013 certified contribution to TRS is based on the current 8.5% investment return assumption. The THIS Fund certification of the state matching contribution is based on an assumed increase in the member rate to 0.92% from 0.88%. On a motion by Bob Lyons, seconded by Sonia Walwyn, it was resolved:

To accept the results of the June 30, 2011 actuarial valuation and to certify the following for TRS and the Teacher Health Insurance Security (THIS) Fund.

- The FY 2013 state funding amount of \$2,703,478,000, including \$1,200,000 for minimum retirement benefits;
- The FY 2013 total normal cost of 17.63 percent; and
- The FY 2013 THIS Fund state funding amount of \$86,683,000

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

RECESS

The meeting recessed at 10:13 a.m. and reconvened at 10:30 a.m.

EXECUTIVE DIRECTOR'S REPORT

Senate Bill 512

Larry Langer and Paul Wilkinson of Buck Consultants, and Andrew Bodewes, Legislative Consultant, provided an in-depth analysis of Senate Bill 512 and a

summary of the financial impact it will have on the state of Illinois. Documentation is on file. The data projects that, depending on the assumptions used, Senate Bill 512 will not accomplish the proposal's stated goals and could create a significant increase in state contributions of nearly \$63 billion over the next 30 years.

The legislation would mandate TRS members three options for members that would begin on July 1, 2013. Trustees Klickna and Campbell requested that the Board take a position of opposition on Senate Bill 512 because it financially impacts the integrity of the System. Debate followed and discussion continued on whether the Board can take a position on legislation if it financially impacts the System. Trustee Klickna believes the bill is a disservice to staff, to members, and to the System.

RECESS

The meeting recessed at 12:23 p.m. and reconvened at 12:35 p.m.

Director Ingram proposed language for the Board to consider regarding Senate Bill 512. Discussion and debate continued on the distribution of the resolution. On a motion by Marcia Campbell, seconded by Cinda Klickna, it was resolved:

Senate Bill 512 purports to be a response to concerns that the current funding mechanism for public pensions in Illinois is unsustainable and will prove to be too great a drain on taxpayer resources at some point in the future.

A detailed analysis of Senate Bill 512, conducted by Teachers' Retirement System and the System's actuaries, Buck Consultants, of Chicago, shows that the bill does not accomplish the states goals of its sponsors and in fact will increase taxpayer costs over the next 30 years by some \$63 billion.

As a result, Senate Bill 512 would worsen the overall financial future of the State of Illinois and, in turn, would imperil the financial integrity of TRS and the state's other public pension systems.

The TRS Board of Trustees is legally required to strictly adhere to the fiduciary responsibilities owed our 362,000 members. The TRS Board of Trustees is bound by oath to oppose any bill that would increase the likelihood that the State of Illinois will not meet its funding

obligation to TRS and continue its historic practice of deferring pension costs to the future.

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

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2011 and the FY 11 lapse period of July 1 to August 31, 2011 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, 2010 through September 30, 2011. The reports are on file. On a motion by Bob Lyons, seconded by Cynthia O’Neill, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2011, including the FY 11 lapse period expenses, as presented.

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

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period ending August 31, 2011
- EEOC Report for the quarter ending September 30, 2011

December Meeting

Director Ingram announced that the December 12-13, 2011 meeting will begin on Monday at 8:00 a.m. and conclude Tuesday mid-afternoon.

Litigation Counsel RFP

Director Ingram noted that the Request for Proposals for Legal Services issued June 2011 for Chicago area litigation counsel did not elicit sufficient response. Holland & Knight, which currently provides legal services to the System, is qualified and prepared to provide litigation services in the event they are needed.

Holland & Knight will also provide governance counsel and represent TRS's interests in Chicago.

EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by Cynthia O'Neill, 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; investments; 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) (7), 5 ILCS 120/2(c) (11) and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O'Neill, Phalen, and Walwyn. Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the August 4, 2011 executive session minutes of the Board of Trustees was sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved to approve the August 4, 2011 executive session minutes of the Board, as printed. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O'Neill, Phalen, and Walwyn. Motion CARRIED.

ADJOURNMENT

On a motion by Sonia Walwyn, seconded by Cynthia O'Neill, the meeting adjourned at 1:45 p.m.

Richard W. Ingram, Executive Director

Approved _____