



## Teachers' Retirement System of the State of Illinois

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# News

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### **TRS INVESTMENTS BEAT EXPECTATIONS IN FISCAL YEAR 2010; EARN \$2.8 BILLION FOR RETIRED TEACHERS' PENSIONS**

SPRINGFIELD, IL – Investments made on behalf of educators by the Teachers' Retirement System posted a 13.5 percent rate of return during fiscal year 2010, earnings that boosted the System's total assets to \$31.3 billion, an increase of \$2.8 billion over the previous year's total.

The TRS Board of Trustees reported that assets held for the System's 365,000 members totaled \$31,302,702,799 on June 30, 2010, the end of the state's fiscal year. Assets at the end of fiscal year 2009 totaled \$28,497,729,443.

"The earnings on our investments during fiscal 2010 are good news for our members, especially after the losses incurred in 2008 and 2009 because of the world-wide financial crisis," said Stan Rupnik, acting executive director of TRS.

The FY 2010 rates of return and market value of each asset class in the TRS portfolio were:

• Domestic Equity	+17.4 percent	\$8.93 billion
• International Equity	+11.68 percent	\$6.05 billion
• Fixed Income	+ 17.05 percent	\$5.53 billion
• Real Return	+14.09 percent	\$3.10 billion
• Real Estate	- 4.83 percent	\$3.25 billion
• Absolute Return	+11.0 percent	\$1.23 billion
• Private Equity	+19.01 percent	\$2.99 billion

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In other action during its October meeting, the TRS Board of Trustees:

- Certified \$2.406 billion as the amount of state funds TRS will formally request from the General Assembly for fiscal year 2012. However, the Board reserved the right to amend the request in the future based on changes in the state's financial picture or any legislative action regarding public pensions. The request is \$48 million higher than the FY 2011 request of \$2.35 billion. The amount is determined by the TRS actuaries, **Buck Consultants**, of Chicago and is the estimated amount of money required under state law to cover current and long-term obligations of the System. The state's annual contribution is added to investment income and the contributions TRS receives from active members, school districts and the federal government to fund short-term obligations and future commitments.
- Approved Buck Consultants' determination that at the end of fiscal year 2010, the unfunded liability of TRS stood at \$39.8 billion, or 52 percent of all outstanding obligations. The new unfunded liability is \$4.8 billion higher than the FY 2009 figure of \$35 billion. The increase in the unfunded liability during FY 2010 continues to reflect the 26 percent loss in investment income recorded during the 2008-2009 financial crisis and the accompanying sale of assets needed to meet pension and benefit payments.
- Authorized mandate target changes for certain investment managers recommended by the annual review of the System's \$8.9 billion Domestic Equity portfolio. The changes help keep the portfolio in line with the System's investment strategy:
  - Increase the allocation within the Active Large Cap Core portfolio to **J.P. Morgan Asset Management** from 5 percent to 6 percent. J. P. Morgan, of New York, New York currently manages \$441 million in assets
  - Increase the allocation to **Loomis, Sayles & Company** of Boston, Massachusetts from 3 percent to 5 percent in the Active Large Cap Value portfolio. Loomis currently manages \$236 million in assets

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- Increase the allocation to **Denali Advisors** of LaJolla, California from 2.25 percent to 3 percent in the Active Large Cap Value portfolio. Denali currently manages \$192 million in assets
  - Increase the allocation in the Active Small / Mid Growth portfolio to 2.5 percent each for **Fred Alger Management**, of New York, New York, from 1.5 percent; for the **Boston Company Asset Management**, of Massachusetts from 1.5 percent; and in the Active Small Cap Growth portfolio for **Emerald Advisors** of Lancaster, Pennsylvania from 2 percent and for **Frontier Capital Management Company** of Boston, Massachusetts from 2 percent. Alger manages \$136 million in assets; Boston manages \$135 million; Emerald manages \$188 million and Frontier manages \$185 million
  - Increase the allocations for **Rhumblin Advisors** of Boston, Massachusetts in the Passive Small/Mid Core portfolio from 0.75 percent to 2.5 percent and 16 percent to 24 percent in the S&P 500 Index account. Rhumblin manages \$278 million in Passive Small/Mid Core assets and \$1.25 billion in S&P 500 Index assets
  - Shift 0.5 percent in allocation from the \$339 million in assets managed by **LSV Asset Management**, of Chicago, Illinois, to **Cramer Rosenthal McGlynn** of New York, New York. Both firms invest in the Active Small / Mid Value portfolio. Cramer administers \$136 million in assets
  - Reduce the allocation to **Turner Investment Partners**, of Berwyn, Pennsylvania, in the Active Large Cap Growth portfolio from 7 percent to 5 percent. Turner currently manages \$620 million in assets
  - Reduce the allocation of **Mazama Capital Management**, of Portland Oregon, in the Active Small Mid Growth portfolio from 1.25 percent to 1 percent. Mazama manages \$115 million in assets in that portfolio
- Approved two new, separate 3 percent allocations of the Domestic Equity Large Cap Core portfolio to **MFS Investment Management**, of Boston, Massachusetts and **Levin Capital Strategies**, of New York, New York. The target funding amount for each firm is \$250 million. The search process began in October of 2009 and began with a review of more than 600 large cap core products that fit the criteria of the search.
  - Committed an investment of \$75 million to the PIMCO Bank Recapitalization and Value Opportunities Fund, sponsored by **PIMCO**, of Newport Beach, California. This fund, which is expected to grow to between \$1.5 billion and \$2 billion, will invest in financial institutions that are pursuing acquisitions of distressed or failed banks and other lending institutions.

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- Authorized mandate target changes for certain investment managers recommended by the annual review of the System's \$5.5 billion Fixed Income portfolio. The changes help keep the portfolio in line with the System's investment strategy:
  - Increase the target within the Active Core Plus – Credit Tilt portfolio of **Dolan McEniry Capital Management**, of Chicago from 2.5 percent to 5 percent. Dolan McEniry currently manages \$189 million in TRS assets
  - Grant an initial investment mandate to **Franklin Advisors'** Local Opportunities portfolio and establish a 5 percent target. Franklin, of Rancho Cordova, California, currently manages \$714 million in TRS assets
  - Reduce the target within the Active Core Plus – Credit Tilt portfolio of **Taplin, Canida & Habacht**, of Miami, Florida, from 7 percent to 5 percent. Taplin currently manages \$424 million in assets
- Committed an investment of up to \$100 million in Private Equity assets to **Baring Private Equity Asia**, of Hong Kong, which is seeking to raise \$1.75 billion in order to invest in growth companies throughout the Pacific Rim and Asia – China, Singapore, India and Japan. This investment will increase TRS Private Equity investments in Asia from the current 4 percent of the portfolio. TRS staff believes an increased investment in Asia is warranted due to the growth of the region's economy.
- Committed to an investment of up to \$100 million in Private Equity assets to GTCR Fund X, sponsored by **GTCR Partners** of Chicago. The firm invests in growth technology companies within the healthcare, information services and financial services sectors of the economy.
- Committed an investment of \$75 million in Private Equity assets to Trident V, a fund sponsored by **Stone Point Capital** of Greenwich, Connecticut. The firm invests in midmarket insurance and financial services companies in the United States, United Kingdom, Europe and Bermuda.
- Committed between \$250 million and \$275 million to **Franklin Advisors**, of San Mateo, California for Fixed Income investments in emerging markets around the world.

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- Voted to hire three investment firms to advise TRS staff on its new co-investment program in the Private Equity portfolio. The search for a co-investment advisor began in May and five investment firms submitted proposals to TRS. Following the selection process, staff recommended to the Board that instead of one firm, three firms be hired to act as advisors on particular co-investment opportunities as determined by TRS. Using multiple firms as advisors will provide greater flexibility to match investment opportunities with the skill set of each firm. The three firms are **Houlihan Lokey** of Los Angeles, California, **LP Advisors** of Sacramento, California and **PCG Asset Management** of LaJolla, California.
- Voted to authorize TRS staff to seek proposals for the engagement of an additional risk management system for the Absolute Return asset class. A more rigid risk management process will allow TRS staff to assess the overall strength and weaknesses of future components of the portfolio.
- Made changes to the TRS “Watch List” of investment firms administering System assets that are being monitored for performance and/or operational reasons:
  - Voted to remove **EARNEST Partners**, of Atlanta, Georgia and **Goldman Sachs Asset Management**, of New York, New York, from the Watch List because of improved performance during fiscal year 2010. EARNEST manages \$87.4 million in the TRS Domestic Equity – Active Large Cap Core portfolio. Goldman Sachs manages \$1.02 billion in the TRS Fixed Income – Active Core Plus portfolio. Both firms had been on the Watch List since 2008.
- As approved by the TRS Board, the current Watch List is composed of:
  - **American Century, of Kansas City, Missouri**, which manages \$183 million in the International Equity – Active Small Cap portfolio
  - **Brandes Investment Partners, of San Diego, California**, which manages \$857 million of the International Equity – Active Core Value portfolio
  - **Emerald Advisors, of Lancaster, Pennsylvania**, which manages \$188 million of the Domestic Equity – Small Growth portfolio
  - **Grantham, Mayo, Van Otterloo & Company, of Boston, Massachusetts**, which manages \$781 million of the International Equity – Emerging Markets portfolio
  - **Mazama Capital Management, of Portland, Oregon**, which manages \$ 256 million of the Domestic Equity – Small Growth and Domestic Equity – Active Small / Mid Growth portfolios
  - **McKinley Capital Management, of Anchorage, Alaska**, which manages \$829 million of the International Equity – Active Core Growth portfolio

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- **Trilogy Financial Services of Huntington Beach, California**, which manages \$306 million in the International Equity – Active Growth portfolio
- **Turner Investment Partners, of Berwyn, Pennsylvania**, which manages \$619 million of the Domestic Equity – Large Growth portfolio.
- **Wellington Management, of Boston, Massachusetts**, which manages \$249 million in Domestic Equity – Active Large Cap Growth assets

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### **About Teachers' Retirement System**

The Teachers' Retirement System of the State of Illinois is the 86<sup>th</sup> largest pension system in the world, and provides retirement, disability and survivor benefits to teachers, administrators and other public school personnel employed outside of Chicago. The System serves 365,000 members and had assets of \$31.3 billion as of June 30, 2010.