



## 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 October 29, 2010

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 29, 2010 at the Springfield office, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 9:54 a.m. A quorum was present.

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

Others present: Stan Rupnik, CIO & Acting Exec. Director; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Beville, Sr. Investment Officer; Kenyatta Matheny, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Stacy Smith, Director of Internal Audit; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; John Long, Cavanagh & O'Hara (Fiduciary Counsel); and Marcia Beard, RV Kuhns (Investment Consultant).

Visitors present: Jack Tucker, IEA-Retired and Dennis Murfin, IRTA Rep.

#### Approval of Minutes

A draft of the August 5, 2010 minutes of the regular meeting of the Board of Trustees were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, and by unanimous voice vote, the minutes were approved as printed.

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

##### Cash Withdrawal

On a motion by Molly Phalen, seconded by Bob Lyons, it was resolved:

To withdrawal up to 2% of the main TRS trust fund, or \$544.3 million based on 6/30/10 ending market value, to cover the System's cash requirements.

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

Watch List 9/30/10

On a motion by Jan Cleveland, seconded by Cinda Klickna, it was resolved:

To accept the September 30, 2010 watch list, as presented.

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

Terminations – Domestic Equity

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

To terminate the following domestic equity investment managers due to poor performance:

Analytic large core  
Copper Rock SMID growth  
Dodge & Cox large value  
Piedmont enhanced core  
Tygh SMID growth  
Thompson, Siegal & Walmsley

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

MBE/WBE Goals

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

To approve the FY11 W/MBE goals, as presented.

--Broker/Dealer Utilization: Increase international equity from 8.5% to 10%; Domestic equity and fixed income remain the same at 15%  
--Manager Utilization: Increase overall goal for total TRS fund from 12.5% to 13.5%

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

#### Fixed Income Asset Class

On a motion by Jan Cleveland, seconded by Janice Reedus, it was resolved:

To approve recommendations within the fixed income asset class, as presented.

- Increase Dolan McEniry's target from 2.5% to 5%
- Decrease Taplin Canida & Habacht's target from 7% to 5%
- Remove Goldman Sach's from the watch list and maintain the target at 16%

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

#### Franklin Local Markets Opportunity Fund

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

To hire Franklin's Local Markets Opportunity Fund product at an initial 5% target within the fixed income asset class.

Staff will continue to review final allocation sizing of Franklin and Prudential (the other finalist in this search) in conjunction with the System's current asset allocation study and fixed income benchmark study.

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

#### Global Equity Asset Class

On a motion by Mike Busby, seconded by Sid Marder, it was resolved:

To approve the recommendations within the global equity asset classes and to rebalance the domestic equity portfolio, as presented. Further, to transfer approximately \$48.6 million from the POB portfolio to the main fund.

1. Increase J.P. Morgan (LCC 130/30) from 5% to 6%
2. Reduce PIMCO Stocks Plus mandate to zero without termination
3. Increase Loomis Sayles Large Cap Value mandate from 3% to 5%
4. Increase Denali Large Cap Value mandate from 2.25% to 3.0%
5. Continue Boston Partners migration to 130/30 at staff discretion
6. Reduce Turner Large Cap Growth mandate from 7% to 5%
7. Shift 0.5% from LSV Asset Management SMCV (3.5% to 3.0%) to Cramer Rosenthal SMCV (1.5% to 2.0%)
8. Reduce Mazama SMCG mandate from 1.25% to 1.0%. Mazama SCG will remain at 1.5% for a total of 2.5% exposure to Mazama
9. Increase the following managers to 2.5% mandates: Fred Alger SMCG (+1.0%), Boston Company SMCG (+1.0%), Emerald SCG (+0.5%) and Frontier SCG (+0.5%)
10. Increase the Rhumblin Russell Small Cap Completeness index account from 0.75% to 2.5%
11. Increase the Rhumblin S&P500 index account from 16% to 24%
12. Accept GMO's asset based fee agreement, retroactive to 10/1/09

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

#### Risk Management

On a motion by Sid Marder, seconded by Sharon Leggett, it was resolved:

To approve a formal search for a risk management system for the absolute return asset class with potential implementation to the entire TRS fund.

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

#### MFS Investment Management

On a motion by Cinda Klickna, seconded by Janice Reedus, it was resolved:

To ratify the selection of MFS Investment Management for an initial 3% enhanced index mandate subject to final contract execution. Funding will be provided by the Rhumblin S&P 500 index account.

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

#### Levin Capital Strategies

On a motion by Sid Marder, seconded by Jan Cleveland, it was resolved:

To ratify the selection of Levin Capital Strategies for an initial 3% active core mandate subject to final contract execution. Funding will be provided by the Rhumblin S&P 500 index account.

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

#### PIMCO BRAVO

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

To invest \$75 million to the PIMCO Bank Recapitalization and Value Opportunities Fund, L.P. within the fixed income asset class. Source of funds to be the PIMCO core plus fixed income account. Commitment to the fund will be in the main TRS trust fund only.

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

#### Baring Private Equity Fund V, L.P.

On a motion by Cinda Klickna, seconded by Janice Reedus, it was resolved:

To invest up to \$100 million to Baring Private Equity Fund V, L.P., with 85% committed within the main TRS trust fund and 15% to the POB account subject to final contract negotiation. 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, Cleveland, Klickna, Leggett, Lyons, Marder, O’Neill, Reedus, Phalen, and Koch. Motion CARRIED.

GTCR Fund X, L.P.

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

To invest up to \$100 million to GTCR Fund X, L.P., with 85% committed within the main TRS trust fund and 15% to the POB account subject to final contract negotiation. 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, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, Phalen, and Koch. A vote of opposition was heard by Trustee Marder. Motion CARRIED.

Trident V, L.P.

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

To invest \$75 million to Trident V, L.P., with \$65 committed within the main TRS trust fund and \$10 million to the POB account subject to final contract negotiation. 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, Cleveland, Klickna, Leggett, Lyons, Marder, O’Neill, Reedus, Phalen, and Koch. Motion CARRIED.

Private Equity Co-Investment Advisors

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

To hire Houlihan Lokey, LP Advisors, and PCG to serve as the System’s private equity co-investment advisors. Advisors will be utilized on a specific deal basis based on each firm’s competitive strength and deal terms.

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

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

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

To adopt the Claims Hearing Committee’s proposed decision in favor of the staff determination in the administrative review of Kildeer School District #96.

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

**NEW BUSINESS**

June 30, 2010 Valuation Results & Certification of FY 2012 State Funding

Larry Langer, Marco Ruffini, and Lara Minetz of Buck Consultants presented the results of the System’s June 30, 2010 actuarial valuation and state contribution requirements for FY 2012. Documentation is on file.

The funded ratio was 48.4% on June 30, 2010 using the actuarial value of assets (5-year smoothing), down from 52.1% on June 30, 2009. Per Public Act 96-0043, the method for determining the actuarial value of assets was changed from the market value to a smoothed value beginning with the June 30, 2009 valuation. Without smoothing, the June 30, 2010 funded ratio is 40.5%. The decline in the funded ratio is due to continued recognition of the FY 2009 losses on investments and asset sales required to pay benefits. The 2010 unfunded pension benefit obligation grew to \$40 billion using the actuarial value of assets, up from \$35 billion the previous fiscal year. In addition, the valuation projections reflect a new pension law (Public Act 96-0889) was passed that applies to anyone first hired in a TRS position on or after January 1, 2011 (Tier II).

The Board is required to submit the board-certified state funding amounts for TRS to the Governor on or before November 15 each year as well as certification of the Teachers’ Retirement Insurance Program (THIS) Fund state contribution requirement. For fiscal year 2011 the System has, through October, received \$110 million out of the \$2.358 billion requested from the state. The Board discussed at length about the possibility of the state not making the required annual contribution and the impact of that lack of funding on the System and taxpayers. Because the

state contribution has been delayed, the Board discussed the possibility of holding a special meeting close to the November 15 submission deadline to reconsider the certified number with the possibility of adjusting the request to reflect the fact that the state contribution is delayed. One key to whether a special board meeting is needed is a potential vote in the General Assembly's fall veto session to approve \$3.7 billion in bonds that would enable the state to make the FY 2011 contribution to TRS and the other state pension systems. On a motion by Molly Phalen, seconded by Cinda Klickna, it was resolved:

To accept the results of the June 30, 2010 valuation, which includes new assumptions for new hires beginning 1/1/2011 (Tier II), and to certify the FY 2012 state funding amounts for TRS and the Teacher Health Insurance Security (THIS) Fund.

- The FY 2012 state funding amount of \$2,406,472,000, including \$1,300,000 for minimum retirement benefits; and
- The FY 2012 total normal cost of 17.83, a rate which includes an employer normal cost of 8.43 percent of pay; and
- The FY 2012 THIS Fund state funding of \$87,622,000.

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

## **ACTING EXECUTIVE DIRECTOR'S REPORT**

### Annual Ethics Training Certification

On a motion by Sid Marder, seconded by Cynthia O'Neill, it was resolved:

To certify that Sonia Walwyn, Trustee of the Illinois Teachers' Retirement System, has 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.

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

### Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2010 and the FY 10 lapse period of July 1 to August 31, 2010 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, 2009 through August 31, 2010. The reports are on file. On a motion by Cinda Klickna, seconded by Mike Busby, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2010 as presented.

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

### Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period ending August 31, 2010
- EEOC Report for the quarter ending September 30, 2010

### **TRUSTEE COMMENTS/TRAVEL REQUESTS**

Trustee Lyons and Trustee O'Neill represent TRS at several IRTA meetings. Trustee Lyons requested guidance from the Board whether TRS or IRTA should pay for the travel expenses. It was consensus of the Board that TRS pay for travel expenses when a trustee attends IRTA meetings as a representative of TRS.

### **EXECUTIVE SESSION**

A motion was made by Sharon Leggett, 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; 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, Klickna, Leggett, Lyons, Reedus, Marder, O'Neill, Phalen, and Koch. (Trustee Cleveland was not present during roll call, Trustee Walwyn participated by phone) Motion CARRIED.

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

### **APPROVAL OF EXECUTIVE SESSION MINUTES**

The following executive session minutes were sent to the trustees for prior review.

- August 4, 2010 Investment Committee
- August 5, 2010 Board of Trustees

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved to approve the above executive session minutes as printed. Roll call resulted in affirmative voice votes from Trustees Busby, Cleveland, Klickna, Leggett, Lyons, Reedus, Marder, O'Neill, Phalen, and Koch. Motion CARRIED.

### **Semi-Annual Review of Minutes**

A copy of a memorandum from the System's Legal Department regarding the confidentiality of executive session minutes according to the Open Meetings Act was sent to the Trustees for prior review. On a motion by Cinda Klickna, seconded by Mike Busby, it was resolved:

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

- May 17-18, 2007 Rules & Personnel Committee
- June 19, 2008 Rules & Personnel Committee
- December 4, 2008 Investment Committee
- October 29, 2009 Board
- April 9, 2010 Board
- April 23, 2010 Board
- May 20, 2010 Board and Investment Committee
- June 25, 2010 Board

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

### TRS Investment Manager Search Process

Following discussion of the recent investment staff discretion pilot program, a motion was made to continue the program through the end of the calendar year with a formal policy recommendation at the December meeting. On a motion by Mike Busby, seconded by Cynthia O’Neill, it was resolved:

1. Staff will present a proposed policy related a staff discretion investment model within the public markets asset classes at the December meeting of the TRS Investment Committee.
2. The current staff discretion pilot program shall be extended through the end of the 2010 calendar year pending presentation of a new policy.
3. The current pilot program shall be broadened to allow staff, upon approval by the Chair, to:
  - a. Hire public market investment managers as necessary to fill open positions within the exiting manager structure
  - b. Rebalance public market portfolios as necessary to reposition specific investment managers to their stated targets
  - c. Terminate public market investment managers as necessary based on performance and/or organizational concerns. Staff is permitted to terminate only those managers currently on the System’s watch list.
4. Ratification by the full board at the meeting following activity.

For the purposes of this resolution, “public markets asset classes” is defined as Domestic Equity, International Equity and Fixed Income. However, the pilot program does not apply to private investment funds within these asset classes (such as the TALF, PPIP and PIMCO BRAVO funds within fixed income).

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

### **ADJOURNMENT**

On a motion by Janice Reedus, seconded by Cinda Klickna, the meeting adjourned at 2:40 p.m.

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Stan Rupnik, Acting Executive Director

Approved \_\_\_\_\_