



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES Board of Trustees August 4, 2011

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 4, 2011 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 2:21 p.m. A quorum was present.

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

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Rich Frankenfeld, Director of Outreach; Kathleen Farney, Director of Research; Sally Sherman, Director of Member Services; Jana Bergschneider, Director of Administration; Dave Urbanek, Public Information Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Beville, Sr. Investment Officer; Zak Doehla, Sr. Investment Officer; Kenyatta Matheny, Investment Officer; Jerry Quandt, Sr. Investment Analyst; Dakin Sanert, Investment Officer; Sue Billington, Executive Assistant; Tammy Green, Assistant to the Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Marcia Beard, RV Kuhns (Investment Consultant); and Mike Kremms, PCG (Private Equity Consultant).

Visitors present: Angela Myers, Loop Capital Markets; Don Davis, IRTA Rep.; and Jack Tucker, IEA-R.

APPROVAL OF MINUTES

A draft of the minutes from the June 24, 2011 regular meeting of the Board of Trustees was sent to the trustees for prior review. On a motion by Sonia Walwyn, seconded by Sid Marder, and by unanimous voice vote, the minutes were approved as printed.

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

Iran Divestment

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

To add the following names to TRS’s “scrutinized” companies for possible divestment:

- China National Petroleum Corporation
- ENI (Italy)
- Gazprom (Russia)
- Petronas (Malaysia)

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

Watch List 6/30/11

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

To accept the watch list as of June 30, 2011, as presented.

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

Domestic Equity

On a motion by Molly Phalen, seconded by Sonia Walwyn, it was resolved:

To approve the domestic equity allocation changes, as presented.

- Rhumblin S&P 500 24% to 23%
- Rhumblin Small Cap Completeness 2.5% to 1.5%
- MFS Enhanced Large Cap Core 3% to 4%
- Levin Active Large Cap Core 3% to 4%

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

Fixed Income

On a motion by Janice Reedus, seconded by Marcia Campbell, it was resolved:

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

- Ratify the selection of MacKay Shields LLC and Manulife Asset Management for 10% and 6% long term targets, respectively. MacKay Shields will deploy both a main fund and POB account, while Manulife will manage a main trust fund account only.
- Reduce Taplin, Canida & Habacht's target from 5% to 1%. This includes the elimination of the TCH POB account, with the proceeds applied to the FY12 POB debt service.
- Increase Dolan McEniry's target from 5% to 7.5%.
- Increase Special Situations target from 1.5% to 3%.
- Increase TIPS weighting from the core weighting reducing Prudential's core mandate target from 15.5% to 10% and increasing Hartford's TIPS mandate from 5% to 7.5%.

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

Goldman Sachs Asset Management – Termination

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

To ratify the termination of Goldman Sachs Asset Management's core plus portfolio with assets distributed to newly hired mandates or other revised target mandates or managers in need of rebalance. Oaktree's PPIP mandate will be funded by other fixed income mandates at the discretion of the CIO, with approval of the Investment Committee Chair.

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

Emerging Manager Program - LiveOak Venture Partners I, L.P.

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

To commit an initial allocation of \$10 million to LiveOak Venture Partners I, L.P., with the ability to scale up to \$25 million should the fund (a) prove successful in raising capital from other institutional investors and reach \$100 million and (b) allow investment staff time to appropriately structure and negotiate a potential ownership stake in the General partnership. Source of funds will 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, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Emerging Manager Program - Siris Partners II, L.P.

On a motion by Bob Lyons, seconded by Janice Reedus, it was resolved:

To commit \$45 million in Siris Partners II, Limited Partnership within the Emerging Managers Program. Source of funds will 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, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Private Equity - Providence Equity Partners, L.P.

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

To commit up to \$125 million in Providence Equity 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, Leggett, Lyons, O'Neill, Reedus, and Walwyn. Votes of opposition were heard from Trustees Marder and Phalen. Trustees Campbell and Koch abstained from voting. Motion FAILED.

Private Equity - Vista Equity Partners Fund IV, L.P.

On a motion by Mike Busby, seconded by Molly Phalen, it was resolved:

To commit up to \$100 million in Vista Equity Partners IV, 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, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Co-Investment – Stone Point Capital

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

To ratify the co-investment with Stone Point Capital, as presented.

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

Sofinnova Fund VIII

On a motion by Janice Reedus, seconded by Marcia Campbell, it was resolved:

To increase commitment to Sofinnova Fund VIII from \$30 million to \$40 million. 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, Leggett, Lyons, Marder, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Absolute Return – Carlson Capital, L.P.

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

To commit \$50 million to Carlson Capital's Double Black Diamond Fund, L.P. within the main TRS trust fund subject to completion of

legal review and subscription administration. Source of funds shall be rebalancing within the domestic equity asset class.

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

FY 12 Real Estate Tactical Plan

On a motion by Molly Phalen, seconded by Marcia Campbell, it was resolved:

To approve the FY 12 Real Estate Tactical Plan, as presented.

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

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

Administrative Rules

On a motion by Mike Busby, seconded by Janice Reedus, it was resolved:

To approve revisions to TRS administrative rules: Section 1650.511 Separation of Service and Sections 1650.3100-1650.3025 New Subpart Q: Plan Qualification.

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

EXECUTIVE DIRECTOR’S REPORT

Fiduciary Duty - Education

Ian Lanoff, principal in the Washington, DC-based Groom Law Group, discussed his views on the fiduciary duties of the boards of trustees of large institutional pension systems, as well as the on-going debate around the country about “pension shortfalls.” Mr. Lanoff serves as fiduciary counsel to a number of large public pension plans in the U.S.

- The primary duties in Illinois law that apply to pension fund trustees are prudence, loyalty, and avoiding conflicts of interest. The prudence and loyalty standards are taken directly from the federal ERISA statute. These standards establish that trustees must protect the overall actuarial soundness of the fund, but do not extend to a protection of particular benefits for members.
- Conflict of interest. Trustees owe no duty to the legislature, organized labor, the governor, retired teacher associations or contributing employers. The basic concept behind this standard is for trustees to act solely in the interests of participants and beneficiaries. This includes a focus on the financial welfare of the system and the protection of the fund now and into future.
- Prudence is described as a duty to perform due diligence in protecting the actuarial soundness of the fund into the future so the system can provide reasonable benefits.
- Loyalty is a “two hat” doctrine. While trustees are entitled to fill multiple roles, they cannot wear more than one hat when sitting at the table as a trustee. In the board room, trustees serve only the members of the system.
- Educating stakeholders and providing information is the most effective thing trustees can do to affect legislation and issues that impact the system. Trustees that actively lobby will be viewed as a fiduciary with limited, specific responsibilities by those who may challenge you.
- The legislature and executive branch are the sponsors or “settlers” of the fund and are not covered by a fiduciary duty. Fiduciaries are at times faced with what can be the unpleasant task of administering what the settlers have established as the plan provisions.
- A board of trustees should oppose any proposal that would according to the system’s actuary harm the actuarial soundness of the fund; as well as anything that would violate the Internal Revenue Code and jeopardize the plan’s tax status.
- A trustee’s fiduciary duty does not require opposing benefit reductions. Determining the benefit structure is a sponsor function. Trustees must keep in mind that benefit reductions improve the fiscal soundness of a fund. This fact highlights the potential conflict of interest for a trustee who is also a member. While it depends on the statutory construct of the various states, more public plan boards are proposing benefit reductions as a way to address their fiduciary duty of ensuring fiscal soundness.

- Litigating constitutional questions would not typically be an action for trustees, as this more naturally falls to the sponsor and the employee member groups.

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 11 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 Campbell, Mike Busby, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Sid Marder, Cynthia O'Neill, Molly Phalen, Janice Reedus, Sonia Walwyn, and Chris Koch.

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

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the quarter ending June 30, 2011
- Employer Services Report for the period January 17 to July 8, 2011
- EEOC Report quarter ending June 30, 2011

NCTR Convention

On a motion by Bob Lyons, seconded by Marcia Campbell, and by unanimous voice vote, the board approved travel for Cynthia O'Neill to attend the NCTR Convention in Baltimore, Maryland, October 9-13, 2011. (At the May meeting, four trustees were approved to attend. The number has been revised to five.)

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Jan Cleveland, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and discussion of closed meeting minutes, including semi-annual review, 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) (11) and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Leggett, Lyons, Marder, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES INCLUDING SEMI-ANNUAL REVIEW

A draft of the June 24, 2011 Board executive session meeting minutes and a memorandum from the System’s Legal Department regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act were sent to the trustees for prior review. On a motion by Bob Lyons, seconded by Sid Marder, it was resolved:

To approve the executive session minutes of the June 24, 2011 regular meeting of the Board of Trustees, as printed.

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

February 16, 2007	Board of Trustees
April 20, 2007	Board of Trustees
May 18, 2007	Board of Trustees
October 26, 2007	Board of Trustees
December 6, 2007	Investment Committee
February 21, 2008	Board of Trustees
April 8, 2009	Board of Trustees
October 29, 2010	Board of Trustees
December 9, 2010	Board of Trustees
February 24, 2011	Board of Trustees
May 19, 2011	Board of Trustees

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

ADJOURNMENT

There being no further business to come before the Board, on a motion by Janice Reedus, seconded by Mike Busby, and by unanimous voice vote, the meeting adjourned at 4:01 p.m.

Richard W. Ingram, Executive Director

Approved _____