



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 February 22, 2013

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 22, 2013 at the Springfield office, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 10:14 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O'Neill, Enrique Vasquez, Sonia Walwyn, Molly Phalen, and Chris Koch, President. Mike Busby and Marcia Campbell were not present during roll call. Absent: Janice Reedus

Staff present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Zak Doehla, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Bill Thomas, Investment Officer; Chuck Handy, Investment Officer; Kenyatta Matheny, Investment Officer; Ken Musick, Investment Officer; Jerry Quandt, 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; Dave Urbanek, Director of Communications; Kathleen Farney, Director of Research; Gina Larkin, Director of Human Resources; Rich Frankenfeld, Director of Outreach; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Don Davis, IRTA; Dennis Murfin, IRTA; Angela Myers, Loop Capital Markets; Alan and Jeanne Jones, IEA-Retired.

Approval of Minutes

A draft of the December 11, 2012 minutes of the Board of Trustees meeting was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Sharon Leggett, and by unanimous voice vote, the minutes were approved as printed.

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

Watch List 12/31/12

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

To accept the December 31, 2012 watch list, as presented.

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

Boston Company – Termination

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

To ratify the termination of Boston Company’s SMID cap value domestic equity mandate. (2% target)

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

Domestic Equity

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

To approve the domestic equity mandate target revisions, as presented.

- Increase LSV SMID value from 3.0% to 4.0%
- Increase CRM SMID value from 2% to 3.0%
- Decrease interim Russell 2500 Growth from 1.25% to 0.0%
- Increase Boston Company’s SMID cap growth from 2.5% to 3.25%
- Increase Emerald small cap growth from 2.5% to 3.0%

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

State Street Enhanced Custody Services

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

To ratify the continued use of State Street’s Enhanced Custody Model to provide prime brokerage services (to facilitate securities borrowing and shorting) for Boston Partners’ domestic equity 130/30 accounts.

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

Cash Withdrawal

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

To withdraw up to 2.0% of the main TRS trust fund’s total value, (\$672 million based on 12/31/12 ending market value). Dependent on the most efficient source of liquidity, source of funds will be 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, Vasquez, Walwyn, Phalen, and Koch. Motion CARRIED.

Global Fixed Income Asset Class

On a motion by Enrique Vasquez, seconded by Mike Busby, it was resolved:

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

- Allow current TRS holdings of State of Israel notes/bonds to mature as scheduled with proceeds invested into the System’s cash accounts.
- Revisions to the fixed income asset class structure, as presented.
 - An increase in target allocation to Special Situations from 6.0% to 7.0%

- A decrease in target allocation to Prudential's core fixed income portfolio from 9.0% to 8.0%
- Addition of a short term investment/cash/low duration allocation within the asset class. Target allocation is intended to range from 0-10%.
 - The allocation will allow for rebalance of the asset class, as prudent.
 - Duration of the allocation may not exceed 1.5 years. Any deviation will require staff PMOC and board approval.
 - For implementation, TRS staff may utilize the existing State Street STIF portfolio or similar products of any existing TRS global fixed income managers. Multiple mandates may be utilized as needed and/or prudent.
- Conduct a search for a specific global emerging market credit mandate.
- Ratify the increase in the maximum allowed in the Loomis Sayles Strategic Alpha Fund portfolio from 25.0% to 40.0% of the overall Loomis Sayles fixed income portfolio.

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

Oaktree

On a motion by Sonia Walwyn, seconded by Enrique Vasquez, it was resolved:

To allocate an additional \$50 million to Oaktree's Enhanced Income Fund, resulting in a total commitment of \$125 million to the fund. Source of funds to be fixed income cash or other rebalancing within the asset class.

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

Private Equity Co-Investment Advisor

On a motion by Mike Busby, seconded by Cinda Klickna, it was resolved:

To add Stout Risius Ross, Inc. to the Private Equity Co-investment Advisor pool.

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

Real Estate Co-Investment Advisor

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

To approve ORG Portfolio Mgmt. and Real Estate Asset Portfolio Mgmt. as advisors for co-investment opportunities within the System's real estate portfolio.

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

Investment Policy Revisions

On a motion by Enrique Vasquez, seconded by Sharon Leggett, it was resolved:

To approve changes to the TRS Investment Policy:
Section IV: Role Definition, Page 9
Section XV: Permissible Investments, Page 31
Section XVI: General Investment Restrictions & Guidelines, Page 32
Section XVIII: Performance Monitoring, Page 35

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

PIMCO – Fixed Income

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

To commit \$125 million to the PIMCO Bank Recapitalization and Value Opportunities Fund II, L.P. within the main TRS trust fund. Source of funds to be cash flow, fixed income cash or other overweight positions within the fixed income portfolio.

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

Carlyle – Private Equity

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

To commit \$250 million to Carlyle Partner VI, L.P. within the TRS main fund. Source of funds shall be TRS cash account, 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 Koch. Trustee Walwyn abstained from voting and a vote of opposition was heard from Trustee Vasquez. Motion CARRIED.

Ativo Capital Management

On a motion by Enrique Vasquez, seconded by Sonia Walwyn, it was resolved:

To invest \$25 million in Ativo Capital Management’s international equity strategy within the Emerging Managers Program.

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

LEGISLATIVE COMMITTEE – *Jan Cleveland, Chair*

On a motion by Molly Phalen, seconded by Cynthia O’Neill, it was resolved:

The Board of Trustees of the IL Teachers' Retirement System supports HB 1277 – Changes actuarial method to entry-age normal, and opposes SB2203 due to the requirement that the State Actuary recommendations be followed, 100% funding target.

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

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

The Claims Hearing Committee met on October 24, 2012 to consider the administrative review of Laurie Friedman regarding her denial of disability benefits. Documentation is on file. On a motion by Marcia Campbell, seconded by Jan Cleveland, it was resolved:

To adopt Claims Hearing Committee’s recommended decision in the administrative review of Laurie Friedman.

A brief discussion followed. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, O’Neill, Vasquez, Phalen, and Koch. Trustee Lyons abstained from voting and a vote of opposition was heard from Trustee Walwyn. Motion CARRIED.

EXECUTIVE DIRECTOR’S REPORT

Fiduciary Insurance

Director Ingram presented a memorandum prepared by Holland & Knight that revisits the topic of obtaining fiduciary liability insurance to protect the assets of the System, Board members, officers and key personnel. Peter Friedman and Marty Durkin of Holland & Knight discussed issues and options regarding the purchase of Directors and Officers liability insurance.

D & O insurance is intended to protect the TRS assets from the cost of indemnifying lawsuits brought against Board members and officers of TRS and protect board member and officer assets from lawsuits brought against them for which TRS is not permitted to provide indemnification under the IL Pension Code.

A 2010 study says the number of claims against fiduciaries, both public and private plans, have increased three-fold since the 1990s and that planned fiduciaries now surpass the medical profession as target for litigation.

Holland & Knight will work with TRS' insurance consultant to analyze and assess the costs and benefits of obtaining D&O insurance and report back to the Board in approximately three months.

Electronic Board Materials

The Board recently expressed interest in making board meeting materials available in electronic format to eliminate the surplus of paper. Ed Mabie, IS Officer, and Charlotte Morgan, IS Support Manager, provided a demonstration of the Samsung Galaxy Note 10.1 tablet. Staff has established a secure location for Board members to electronically access meeting information via the TRS Website. Staff will place an order and have the Galaxy tablets available for use at the next meeting.

RECESS

The meeting recessed at 11:30 a.m. and reconvened at 11:35 a.m.

TRS Website Re-design

The Communications Department presented a preview of the changes currently being made to the TRS Website. The look of the Website will be modernized. The goal is to have visitors to the website find the information they need with two or fewer clicks of a mouse. Staff will be setting up focus group meetings with members to test the changes before activating the updated site later this year.

Trustee Election

Two active members and one annuitant member submitted the sufficient number of signatures needed to be eligible for this spring's scheduled Board

of Trustees election by the January 31, 2013 deadline. Since only three seats are being contested – two active member seats and one annuitant seat – there will be no Board election in 2013. Two member trustee candidates, Rainy Kaplan and Mark Bailey, received more than the required 500 member signatures on the election petitions received by TRS. For the annuitant seat, Trustee Robert Lyons, who has served on the Board since 2005, submitted more than the required 500 signatures of annuitant members on the petition. Terms will commence on July 15, 2013. Ms. Kaplan and Mr. Bailey will replace retiring trustees Molly Phalen and Jan Cleveland. On a motion by Cinda Klickna, seconded by Jan Cleveland, it was resolved:

To affirm Lorraine (Rainy) Kaplan and Mark Bailey, as active elected teacher trustees and Robert Lyons as an elected annuitant trustee. Term July 15, 2013 – July 14, 2017.

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

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2012 were sent to the trustees for review. The reports are on file. On a motion by Molly Phalen, seconded by Marcia Campbell, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2012, as presented.

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

Document Imaging Update

Ed Mabie reported that staff currently is working in Phase I of the document imaging project, building more workflows, and planning to move to Phases II and III by the end of the fiscal year. Further updates and a demonstration will be presented at the April Board retreat.

Updates

Director Ingram provided the following updates. Documentation is on file.

- ❖ The existing contract with Buck Consultants expires on June 30, 2013. The Request for Proposal for actuarial consulting services was posted on January 28. Staff plans to review the responses and have finalists present to the Board in April, followed by a final decision at the May Board meeting.
- ❖ We are renewing our continuing tax-exempt status with the IRS.
- ❖ The April Board retreat will be held at the Peoria Civic Center, April 17-19, 2013. Topics include FY 2014 strategic plan, investment education, ethics training, preview of the FY 2014 budget, legislative update, fiduciary insurance, update on the data imaging project, and presentations from finalists to provide actuarial services.

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the period ending December 31, 2012
- Employer Services Report for the period July 2012 through January 2013
- EEOC Report for the quarter ending December 31, 2012

TRUSTEE TRAVEL REQUEST

Trustees Klickna, Leggett, and Campbell are invited to a retirement security seminar during June in Cambridge, Massachusetts. On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To approve the travel to Cambridge, Massachusetts for Trustees Klickna, Leggett, and Campbell to attend the Trustee Leadership Forum for Retirement Security June 10-11, 2013 at the Harvard Kennedy School.

The motion passed by a unanimous voice vote.

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Marcia Campbell, 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 including review of semi-annual minutes and destruction of audio recordings, 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O'Neill, Vasquez, Walwyn, Phalen, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Jan Cleveland, 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, Vasquez, Walwyn, Phalen, and Koch. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the December 11, 2012 executive session minutes of the Board of Trustees was sent to the trustees for prior review. In addition, the Board received a memorandum from the System's Legal Department regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act. On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To approve the December 11, 2012 executive session meeting minutes of the Board of Trustees, as printed.

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

| | |
|------------------|-----------------------------|
| May 16, 2002 | Board |
| August 1, 2006 | Board |
| December 7, 2007 | Board |
| April 7, 2009 | Rules & Personnel Committee |
| April 8, 2011 | Board |
| May 19, 2011 | Investment Committee |
| June 24, 2011 | Board |
| May 23, 2012 | Audit Committee |
| August 22, 2012 | Audit Committee |
| August 23, 2012 | Board |
| August 23, 2012 | Investment Committee |
| October 24, 2012 | Board |
| October 26, 2012 | Board |
| October 26, 2012 | Audit |

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

Executive Session Audio Recording

Article III, Section 8 of the Board Bylaws provides that audio recordings of executive session meetings are to be retained for at least 18 months and may be destroyed after the Board has approved written minutes of the executive session and has approved destruction of the particular recording. Staff has kept recordings on file dating back to 2004 due to the federal investigation relating to former trustee Levine. Now that the trials are concluded, staff requested approval to destroy executive session audio recordings more than 18 months old. Documentation is on file. On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To approve the destruction of audio recordings of committee/board meetings that are more than 18 months old pursuant to Article III, Section 8 of the Board bylaws.

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

Executive Director Contract

On a motion by Chris Koch, seconded by Sharon Leggett, it was resolved:

To extend the Executive Director’s contract term for a one-year increment through June 30, 2018.

To amend deferred compensation arrangement to provide annual payment structure.

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

ADJOURNMENT

On a motion by Jan Cleveland, seconded by Molly Phalen, the meeting adjourned at 1:07 p.m.

Richard W. Ingram, Executive Director

Approved _____