



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 June 20, 2013

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on June 20, 2013 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Molly Phalen, Vice-President, called the meeting to order at 3:15 p.m. A quorum was present.

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

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Cynthia Fain, Sr. Assistant General Counsel; Rich Frankenfeld, Director of Outreach; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Dennis Murfin, IRTA Rep.; Christine Williamson, Pensions & Investments; Janet Kilgus, IEA-R; and Angela Myers, Loop Capital.

OATH OF OFFICE

Mark Bailey of Palos Park and Rainy Kaplan of Schaumburg are filling two active member seats that are occupied by Trustee Molly Phalen and Trustee Jan Cleveland until July 14, 2013. Trustees Phalen and Cleveland retired from the Board after 16 years of service to TRS and its members.

Mr. Bailey and Ms. Kaplan took the Oath of Office and will assume their roles as trustees during the Board's regularly scheduled August meeting. Both will serve for four year terms.

APPROVAL OF MINUTES

A draft of the minutes from the May 22 and May 24, 2013 regular board meeting was sent to the trustees for prior review. On a motion by Sharon Leggett,

seconded by Marcia Campbell, the minutes were approved by voice vote, as presented. (Trustee Vasquez abstained from voting)

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

Cash Withdrawal

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

Staff requests authorization to withdraw up to 2.0 percent of the main TRS trust fund’s total value, or \$708.7 million based on the April 30, 2013 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, Vasquez, Walwyn, and Phalen. Motion CARRIED.

Transition Management

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

To approve Northern Trust and Frank Russell as transition managers subject to successful contract negotiations.

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

Investment Policy Revisions

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

To approve revisions to the TRS Investment Policy, as presented.

Page	Section
5	Section III: Investment Philosophy Removes reference to Pension Obligation Bond proceeds to reflect closing of the POB account July 1, 2013.
12-14	Section VII: Asset Allocation and Rebalancing Strategy Revision to appropriately reflect global nature of TRS's fixed income portfolio.
15-16	Section VIII: Investment Manager Structure Reflects structure changes through fiscal year across multiple asset classes.
31-32	Section XV: Permissible Investments Section XVI: General Investment Restrictions and Guidelines Reflects changes related to specific mandates approved through fiscal year.
34	Section XVII: TRS Investment Protection Principles Section removed as principles are superseded by provisions in Dodd-Frank.
46	Section XXV: Pension Obligation Proceeds Section removed to reflect closing of the pension obligation bond account July 1, 2003

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

AQR Capital Management

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

To hire AQR Capital Management's international emerging market equity product to a 5.5% target weight within the international equity asset class. Source of funds shall be the terminated emerging markets portfolio managed by GMO and/or general rebalancing of the portfolio.

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

Grantham, Mayo and Van Otterloo - Termination

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

To terminate GMO’s international equity market mandate.

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

Principal

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

To award a \$200 million allocation to Principal to fulfill an industrial asset mandate.

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

Carlson Capital Black Diamond Thematic

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

To allocate \$50 million to Carlson Capital’s Black Diamond Thematic strategy on July 1, 2013. Source of funds shall be the System’s cash accounts or general rebalancing activity.

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

Magnetar Capital

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

To allocate \$150 million to Magnetar Capital’s Constellation IV strategy. The commitment to the fund is expected to be drawn over the next 18-24 months, with the source of funds being the System’s cash accounts or general rebalancing activity.

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

FY14 Private Equity Tactical Plan

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

To approve the FY 2014 private equity tactical plan, as presented.

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

Iran Divestment

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

To approve the list of “scrutinized companies”, as presented.

- China National Petroleum Corporation
- China Petroleum & Chemical Corp Sinopec
- China National Offshore Oil Corp.
- Daelim Industrial Company
- Gazprom OAO
- Indian Oil Corp.
- Oil and Natural Gas Corp.
- PetroChina Co.

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

EXECUTIVE DIRECTOR’S REPORT-*Dick Ingram*

Legislative Contract Extension

The current contract with Andrew Bodewes, the System’s legislative liaison with the General Assembly, is due to expire on June 30, 2013. Director Ingram requested extending the contract through December 31, 2013 with Leinenweber Baroni & Daffada. Documentation is on file. On a motion by Marcia Campbell, seconded by Enrique Vasquez, it was resolved:

To extend the current contract with Leinenweber Baroni & Daffada through December 31, 2013 to provide the system with legislative services. The monthly rate will remain the same.

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

Fiduciary Insurance

Director Ingram reported that a conference was held in Chicago with various insurance companies that were interested in providing fiduciary liability coverage to the System. Staff presented an overview of TRS and its fiscal picture to the attending firms. AIG expressed interest in being the lead underwriter with nine firms interested in participating on a secondary basis in the underwriting. Director Ingram presented a premium quote from AIG and requested permission for the System to pursue locking in this type of coverage. Fiduciary Counsel Pat O’Hara and General Counsel Tom Gray agreed it is prudent to purchase this type of coverage. On a motion by Cinda Klickna, seconded by Jan Cleveland, it was resolved:

To authorize staff to purchase fiduciary liability insurance and other related coverages subject to successful negotiations and to pay brokerage fees incident thereto.

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

Retirement

Farewell to Trustee Molly Phalen and Trustee Jan Cleveland as they retire from the Board effective July 14, 2013. The System has been well served by both for the last 16 years. They shared the following statement to the staff:

To the Staff of TRS,

(Molly) We cannot leave the Board of Trustees without expressing to you our gratitude for the job you do in serving the educators of the State of Illinois. Your professionalism and dedication to TRS are exemplary. The TRS system is such an efficient, well-run organization.

(Jan) Over our 16 years as trustees, we have received innumerable accolades from teachers regarding their encounters with TRS. It is you they are complimenting because each of you, in your own way, is contributing to that successful experience.

(Molly) We are proud to have been trustees of such an outstanding system with such an exceptional staff.

(Jan) We sincerely thank you for your hard work and your commitment to TRS.

(Both) Keep calm and carry on....

Jan and Molly

EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by Marcia Campbell, that the Board enter into executive session for the purpose of discussing the sale or purchase of securities, investments, or investment contracts, litigation, and 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) (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, Vasquez, Walwyn, and Phalen. Motion CARRIED.

No action was taken during executive session. A motion was made by Mike Busby, seconded by Cinda Klickna, 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, and Phalen. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

The May 22 and May 24, 2013 executive session meeting minutes of the Board were 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.

ADJOURNMENT

There being no further business to be brought before the Board, on a motion by Jan Cleveland, seconded by Molly Phalen, and by unanimous voice vote, the meeting adjourned at 4:42 p.m.

Richard W. Ingram, Executive Director

Approved _____