



MINUTES
Board of Trustees
August 26, 2016

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 26, 2016 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Dr. Tony Smith, President, called the meeting to order at 12:40 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Ann Deters, Andy Hirshman, Rainy Kaplan, Bob Lyons, Laura Pearl, Anne Marie Splitstone, Sandy Stuart, Dan Winter, Randy Winters, Cinda Klickna, Vice President and Tony Smith, President.

Others present: Dick Ingram, Executive Director; Sally Soderberg, Deputy Executive Director; Stan Rupnik, Chief Investment Officer; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Sr. Internal Auditor; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Gina Larkin, Chief Human Resources Officer; Carlton Lenoir, Chief Benefits Officer; Deron Bertolo, Director of Investment Accounting; Jana Bergschneider, Chief Financial Officer; Ken Musick, Director-Diversifying Strategies; Jose Gonzalez, Sr. Investment Analyst; Chad Mitchell, Investment Analyst; Kirk Sims, Investment Officer; Jerry Quandt, Investment Officer; Stefan Backus, Investment Officer; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Kathleen Farney, Director of Research; Bob Jiroutek, Risk Officer; Mona Scoles, Systems Design Manager; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Matt Sturdiran, RV Kuhns (Investment Consultant); Mike Krems, TorreyCove (Private Equity Consultant); John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); and Andrew Bodewes, Legislative Consultant.

Visitors present: Christine Williamson, Pensions & Investments; Jason Parks, Loop Capital; Janet Kilgus, IEA-R; Will Lovett, IEA; Bob Kaplan; Don Davis, IRTA; Greg Bishop, IL Radio Network; Owen Irwin, Senate Dem Staff; Joe Scully, HGOP Staff; Hualin Liu, RSM; Ed Murphy, Governor Rauner's office; Doug Finke, State Journal Register; and Ivan Moreno, Associated Press.

Director Ingram introduced Anne Marie Splitstone and Laura Pearl, two new trustees appointed by Governor Rauner on August 26 prior to the start of the TRS meeting. Due to a scheduled decision on the System's assumed rate of return, this meeting attracted more visitors than usual, including members of the media and staff from the governor's office and the General Assembly. The discussion and decision on the TRS assumed rate of return was streamed live via the Internet by BlueRoomStream, a video production company.

PUBLIC COMMENT – There were no public comments.

APPROVAL OF MINUTES

A draft of the May 20, 2016 minutes of the Board meeting was sent to the trustees for prior review. On a motion by Bob Lyons, seconded by Dan Winter, the Board approved the minutes as presented.

INVESTMENT COMMITTEE REPORT

Watch List

On a motion by Rainy Kaplan, seconded by Mark Bailey, it was resolved:

To accept the 6/30/16 Watch List, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

T. Rowe Price

On a motion by Rainy Kaplan, seconded by Mark Bailey, it was resolved:

To approve revision of the existing domestic equity large cap mandate managed by T. Rowe Price, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Ativo Capital Management

On a motion by Ann Deters, seconded by Mark Bailey, it was resolved:

To commit up to \$50 million to the international equity emerging manager mandate of Ativo Capital Management. Additional funding is expected to be approximately \$22 million and will be from the S&P 500 index account dedicated to the Emerging Manager Program. For cost effectiveness, initial funding may be from cash accounts or other rebalancing activity.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Jarislowsky Fraser – Termination

On a motion by Sandy Stuart, seconded by Rainy Kaplan, it was resolved:

To ratify termination of Jarislowsky Fraser's international equity large cap mandate.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Aberdeen – Termination

On a motion by Cinda Klickna, seconded by Mark Bailey, it was resolved:

To ratify termination of Aberdeen's international equity large cap mandate.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

J.P. Morgan

On a motion by Mark Bailey, seconded by Sandy Stuart, it was resolved:

To ratify selection of J.P. Morgan to a 6.75% target large cap mandate within the international equity portfolio.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Acadian

On a motion by Rainy Kaplan, seconded by Ann Deters, it was resolved:

To ratify selection of Acadian to a 6.75% target large cap mandate within the international equity portfolio.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Northern Shipping Fund III, Limited Partnership

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved:

To commit an additional \$25 million to Northern Shipping Fund III, L.P. at its final close in August 2016. TRS's total commitment to the Fund would be \$75 million. The commitment is subject to final legal documentation approval. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation or rebalancing objectives.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Taurus Mining Finance Annex Fund, Limited Partnership

On a motion by Cinda Klickna, seconded by Sandy Stuart, it was resolved:

To commit up to \$39 million to the Taurus Mining Finance Annex Fund, L.P., subject to final legal documentation approval. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation or rebalancing objectives.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

The Gores Group – Co-Investment

On a motion by Ann Deters, seconded by Rainy Kaplan, it was resolved:

To ratify the commitment of up to \$40 million to the co-investment with The Gores Group.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Providence Equity Partners – Co-Investment

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved:

To ratify the commitment of up to \$25 million to the co-investment with Providence Equity Partners.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Onex Partners III, Limited Partnership and PAI Europe V, Limited Partnership - Secondary Sale

On a motion by Rainy Kaplan, seconded by Sandy Stuart, it was resolved:

To ratify the decision to sell Onex Partners III at 100.5% of 3/31/16 NAV to CPPIB, and to sell PAI Europe V at 104.5% of 3/31/16 NAV to Partners Group.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Fund Reporting

On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To endorse the Institutional Limited Partners Association Fee Reporting Template.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Private Equity Tactical Plan

On a motion by Cinda Klickna, seconded by Ann Deters, it was resolved:

To approve the Private Equity tactical plan as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Real Estate Tactical Plan

On a motion by Sandy Stuart, seconded by Mark Bailey, it was resolved:

To approve the Real Estate tactical plan as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Asset Allocation/Policy Benchmark

On a motion by Rainy Kaplan, seconded by Mark Bailey, it was resolved:

To approve revisions to the System’s interim asset allocation targets effective July 1, 2016, as presented.

	Previous Interim Target	Revised Interim Target	Change	Note
Domestic Equity	20.5%	18.0%	-2.5%	Long term target
International Equity	20.5%	18.0%	-2.5%	Long term target
Fixed Income	17.0%	18.5%	+1.5%	Will fund ARS/DS growth
Real Estate	13.0%	15.0%	+2.0%	Long term target
Private Equity	11.0%	12.0%	+1.0%	Growth toward target
Real Return	10.0%	9.5%	-0.5%	
Absolute Return	7.0%	8.0%	+1.0%	Long term target
Short Term	1.0%	1.0%		

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Investment Policy

On a motion by Sandy Stuart, seconded by Ann Deters, it was resolved:

To approve revisions to the System’s Investment Policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Brown Capital – International Equity

On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To select Brown Capital for a \$50 million assignment within the System’s Emerging Manager Program. Source of funds will be the S&P 500 index account dedicated to the Emerging Manager Program, but for cost effectiveness may initially come from cash accounts or other rebalancing activity.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Starwood Global Opportunity Fund XI – Real Estate

On a motion by Tony Smith, seconded by Randy Winters, it was resolved:

To commit up to \$300 million to Starwood Global Opportunity Fund XI, L.P. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation and rebalancing objectives.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

KeyQuant – Absolute Return

On a motion by Dan Winter, seconded by Sandy Stuart, it was resolved:

To approve selection of KeyQuant’s Key Trends Program to a 5% target allocation within the absolute return strategies program subject to completion of legal review and contract negotiation. The mandate will be funded with an initial \$100 million allocation from the System’s cash flow account.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

EXECUTIVE DIRECTOR’S REPORT

Executive Director Update

Director Ingram provided an update on the cash flow and funding, financial statement and expense approvals, strategic plan, disaster recovery, ERO program, vision statement, and transparency initiatives. Documentation is on file.

Revised TRS Vision Statement

“TRS will be widely respected as a premier retirement system grounded in an absolute commitment to its members, dedicated to the highest standards of service and public accountability, and characterized by the resilience to overcome any challenge”

ERO Sunset Refunds

The Early Retirement Option (ERO) program expired on June 30, 2016. TRS is working with the Comptroller’s office to refund approximately 200,000 members later this year. Documentation is on file.

FY 2017 Total Normal Cost Rate

At the October 2015 meeting, the Board certified the FY 2017 total normal cost rate of 18.08 percent of pay which was based on the assumption that the Early Retirement Option (ERO) would continue after June 30, 2016. Since the ERO program was not extended, staff reported that the contribution of

0.40 percent of pay has been subtracted from the Board's certified rate and 17.68 percent is the total normal cost for FY 2017. Documentation is on file.

Review of Investment Return Assumption

Director Ingram provided comments addressing the background of the annual valuation review process and the recommendation to lower the assumed rate of return by Segal Consulting. Documentation is on file.

Segal Consulting conducted a review of the investment return assumption and recommended changes in economic assumptions for the June 30, 2016 annual actuarial valuation that will be presented at the October meeting. Economic assumptions include inflation, investment return, individual salary increases, and Tier II COLA and pay cap. Documentation is on file. Segal noted that the Board has been gradually reducing its assumed investment return in recognition of lower expected returns over the long term. In 2012, the Board reduced the assumption from 8.5 percent to 8.0 percent and lowered the rate again in 2014 from 8.0 percent to 7.5 percent. By lowering the assumed rate of investment return, the state contribution, accrued liability, and unfunded liability will increase. On a motion by Bob Lyons, seconded by Sandy Stuart, it was resolved:

To approve the following changes in economic assumptions in the June 30, 2016 actuarial valuation, as presented by Segal Consulting:

- To lower the 7.50% investment return assumption to 7%,
- To lower the assumed individual salary increases by .5%,
- To lower the 3.00% inflation assumption to 2.5%, and
- To lower the Tier II pensionable salary cap and average automatic annual increase assumptions to 1.25%.

As documented in Segal’s presentation, the proposed changes would have resulted in the following changes if they had been applied to the June 30, 2015 actuarial valuation:

Description	7.00%
Actuarial Accrued Liability & Unfunded Liability	+ \$7.383 billion
FY 2017 state contribution under current law	+ \$421 million
FY 2017 state contribution under Actuarial Math 2.0	+ \$594 million
Funded ratio based on actuarial value of assets	- 2.7%

The impact on the June 30, 2016 actuarial valuation results and the fiscal year 2018 state contribution are expected to be of similar magnitude.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Winters, Klickna, and Smith. Motion CARRIED. Trustees Pearl and Splitstone abstained from voting.

Annual Ethics Training Certification

On a motion by Mark Bailey, seconded by Bob Lyons, it was resolved:

To certify that the following trustees of the Illinois Teachers’ Retirement System have completed a minimum of eight hours of ethics training during FY 16 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 Professional Regulation.

Mark Bailey, Mike Busby, Ann Deters, Andy Hirshman, Rainy Kaplan, Cinda Klickna, Bob Lyons, Tony Smith, Alexander Stuart, Sonia Walwyn, Dan Winter, and Randy Winters.

The motion passed with a unanimous voice vote.

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report (6/30/16)
- Employer Services Report (1/23/16 -7/17/16)
- EEOC Report (6/30/16)

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Andy Hirshman, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and closed meeting minutes including the semi-annual review of 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) (11) and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Pearl, Splitstone, Winter, Winters, Klickna, and Smith. Motion CARRIED.

No action was taken during executive session. A motion was made by Ann Deters, seconded by Bob Lyons, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Pearl, Splitstone, Winter, Winters, Klickna, and Smith. Motion CARRIED.

Approval of Executive Session Minutes

Drafts of the February 18 and May 20, 2016 executive session minutes of the Board were sent to the trustees for prior review. In addition, the Board received a memorandum from the System's legal counsel regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act. The following minutes no longer require confidential treatment and will be available to the public: December 10, 2015 Board of Trustees

In accordance with Board Bylaw, Article III, Section 8, staff requested the destruction of audio recordings of executive session meetings. Documentation is on file.

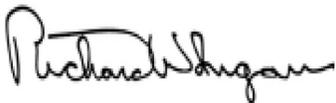
Jan 31, 2014 Board
Feb 19, 2014 Audit
Feb 20, 2014 Board
Apr 14, 2014 Board
May 28, 2014 Audit/Claims
May 29, 2014 Board/Investment

June 24, 2014 Board
Aug 25, 2014 Audit
Aug 26, 2014 Board
Oct 30, 2014 Audit/Board
Dec 11, 2014 Board

On a motion by Mark Bailey, seconded by Ann Deters, and by unanimous voice vote, the minutes were approved as presented including the destruction of executive session audio recordings.

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Mark Bailey, seconded by Cinda Klickna, to adjourn the meeting adjourned at 2:40 p.m. The motion passed by unanimous voice vote.



Richard W. Ingram, Executive Director

Approved: 10/28/16