



MINUTES
Board of Trustees
December 13, 2016

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 13, 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 2:15 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, Dan Winter, Randy Winters, Cinda Klickna, Vice President; and Tony Smith, President. Absent: Sandy Stuart.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Deron Bertolo, Director of Investment Accounting; Stacy Smith, Director of Internal Audit; Christina Baker, Sr. Internal Auditor; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Tom Smith, Chief Technology Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger, Ian Bray and Matt Sturdivan, RV Kuhns (Investment Consultant).

Visitors present: Christine Williamson, Pensions & Investments; Don Davis, IRTA; Steve Welch, IEA-R; and Jack Tucker, IEA-R/IRTA.

APPROVAL OF MINUTES

A draft of the October 28, 2016 minutes of the Board meeting was sent to the trustees for prior review. On a motion by Ann Deters, seconded by Rainy Kaplan, the minutes were approved by unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Lombardia - Termination

On a motion by Rainy Kaplan, seconded by Andy Hirshman, it was resolved:

To ratify termination of Lombardia's 3.0% domestic equity small cap mandate.

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

Oakbrook - Termination

On a motion by Mark Bailey, seconded by Andy Hirshman, it was resolved:

To terminate OakBrook's 2.0% domestic equity large cap active mandate.

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

Domestic Equity

On a motion by Rainy Kaplan, seconded by Andy Hirshman, it was resolved:

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

Domestic Equity Target Revisions

- Increase Acadian large cap from 5.0% to 8.0%
- Increase Levin large cap from 6.0% to 7.0%
- Increase LSV large cap from 5.0% to 9.0%
- Increase LSV SMID cap from 4.0% to 5.0%
- Decrease Boston Partners large cap from 8.0% to 6.5%
- Decrease MFS large cap from 9.0% to 7.5%
- Decrease Mesirov small cap from 3.0% to 2.0%
- Decrease small/mid cap vacancy from 4.0% to 1.0%

Investment Structure Revisions

- Increase large cap active structure allocation from 55.0% to 58.0%
- Decrease small/mid cap structure allocation from 20.0% to 17.0%

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

International Equity

On a motion by Dan Winter, seconded by Cinda Klickna, it was resolved:

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

- Increase Acadian large cap from 6.75% to 8.25%
- Increase LSV large cap from 8.5% to 9.5%
- Increase Axiom emerging markets from 5.0% to 6.0%
- Decrease McKinley large cap from 8.5% to 7.0%
- Decrease Mondrian large cap from 8.5% to 7.5%
- Decrease AQR emerging markets from 8.0% to 7.0%

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

Fixed Income

On a motion by Rainy Kaplan, seconded by Tony Smith, it was resolved:

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

- Staff and Garcia Hamilton recommend revision of the Floating Rate mandate index to BB 1-3 Yr. Govt. (70%) and BB USFR (70%) effective January 1, 2017.
- Staff and Dolan McEniry recommend revision of the High Yield mandate index to the BB High Yield Ba/B Index effective January 1, 2017.
- Staff and TCW recommend revision of the Emerging Markets Debt mandate index to 50% EMBI/25% GBI/25% CEMBI index effective January 1, 2017.

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

PIMCO – Income

On a motion by Ann Deters, seconded by Randy Winters, it was resolved:

To commit \$100 million to PIMCO Bank Recapitalization and Value Opportunities ("BRAVO") III Fund, within Income - Special Situations. The source of funds shall be the TRS cash account, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

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

Oaktree - Income

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

To commit \$100 million to Oaktree Real Estate Debt Fund II, within Income - Special Situations. The source of funds shall be the TRS cash account, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

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

TDR Capital – Private Equity

On a motion by Randy Winters, seconded by Rainy Kaplan, it was resolved:

To commit up to €50 million to TDR Capital IV, L.P. Source of the funds shall be TRS cash accounts or other accounts based on asset allocation or rebalancing objectives. The

commitment is contingent upon successful negotiation of legal documentation.

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

Veritas Capital – Private Equity

On a motion by Rainy Kaplan, seconded by Andy Hirshman, it was resolved:

To commit up to \$100 million to Veritas Capital Fund VI, L.P. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

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

Starwood – Real Estate

On a motion by Mark Bailey, seconded by Tony Smith, it was resolved:

To commit \$300 million to Starwood Value Add Fund Management, L.P. Source of funds shall be TRS cash account, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

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

Channing Capital Management – Emerging Manager Program

On a motion by Ann Deters, seconded by Tony Smith, it was resolved:

To graduate Channing Capital Management to a 3.00% domestic equity small cap active mandate. Funding for the mandate will come from sources within the domestic equity portfolio. The RhumbLine S&P 500 account dedicated to the

Emerging Manager Program will be reimbursed for Channing's investment.

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

EXECUTIVE DIRECTOR'S REPORT

Education

Staff provided history of the state's annual contribution to TRS compared to the contributions of active members; history of the active member contribution rates; and legal overview of the Illinois Constitution Pension Protection Clause. Documentation is on file.

Final Certification of FY 2018 Funding Requirements

Director Ingram reported that the System received the state actuary's preliminary report on the draft TRS June 30, 2016 actuarial valuation. The state actuary, Cheiron, reviewed the assumptions, methods, and calculations contained in the draft June 30, 2016 valuation report prepared by the TRS actuary, The Segal Group, and did not recommend any changes to the assumptions or to the certified FY 2018 state contributions. The state actuary's final report containing its recommendations and the retirement systems' responses will be available on the Auditor General's website in mid-January 2017. On a motion by Rainy Kaplan, seconded by Andy Hirshman, it was resolved:

To accept the results of the preliminary June 30, 2016 actuarial valuation and to adopt final certifications of the following, which have been reviewed by the state actuary and are unchanged from the preliminary results presented by Segal Consulting at the October 28, 2016 board meeting:

- Based on the current statutory funding plan, an FY 2018 state funding amount of \$4,564,952,674, including \$700,000 for minimum retirement benefits;
- Based on "Actuarial Math 2.0," an FY 2018 state funding amount of \$6,876,283,032, including \$700,000 for minimum retirement benefits;

- The FY 2018 total normal cost of 19.10 percent of pay, a rate which includes an employer normal cost of 10.10 percent of pay and an assumed employee contribution rate of 9.00 percent of pay; and
- A federal contribution rate of 44.61 percent of pay.

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

Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2016 were sent to trustees for review. Documentation is on file. On a motion by Cinda Klickna, seconded by Mark Bailey, it was resolved:

To approve the financial statement and administrative expenses for the quarter ending September 30, 2016, as presented.

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

Strategic Plan Update

Director Ingram discussed the status of the current strategic plan as well as efforts to recalibrate the plan at the Board retreat in April. Documentation is on file. Progress on some elements of the current plan have been delayed due to other pressing issues imposed by the General Assembly. The legislature's decision to sunset the Early Retirement Option (ERO) and to pass a new law to restore the survivor benefit for members who had previously cashed it out upon retirement consumed an enormous amount of staff time. In addition, the decision to outsource the administration of health benefits for state employees and retirees to Morneau Shepell has been an enormous drain on TRS resources and time.

Member Services Report

The Member Services Statistical Report for September/October 2016 is on file.

EXECUTIVE SESSION

A motion was made by Mark Bailey, seconded by Cinda Klickna, that the Board enter into executive session for the purpose of discussing the appointment, employment, compensation, discipline, performance, or dismissal of specific employees or legal counsel for the public body; probable or imminent 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) (1), 5 ILCS 120/2(c) (11), and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Trustees Bailey, Deters, Hirshman, Kaplan, Lyons, Pearl, Winter, Winters, Klickna, and Smith. Motion CARRIED.

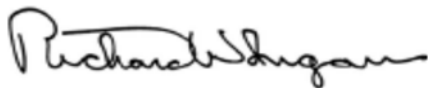
No action was taken during executive session. A motion was made by Bob Lyons, seconded by Andy Hirshman, that the Board come out of executive session. The motion passed by unanimous voice vote.

Approval of Executive Session Minutes

A draft of the October 28, 2016 executive session minutes of the Board was sent to the trustees for prior review. On a motion by Dan Winter, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as presented.

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Mark Bailey, seconded by Ann Deters, to adjourn the meeting at 3:50 p.m. The motion passed by unanimous voice vote.



Richard W. Ingram, Executive Director

Approved: 2/17/17