



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees December 11, 2014

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 11, 2014 at the System's Springfield office located at 2815 West Washington Street. Chris Koch, President, called the meeting to order at 1:25 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Marcia Campbell, Mark Harris, Rainy Kaplan, Cinda Klickna, Bob Lyons, Cynthia O'Neill, Sonia Walwyn, Sharon Leggett and Christopher Koch, President.

Others present: Dick Ingram, Executive Director; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Stan Rupnik, Chief Investment Officer; Ken Musick, Investment Officer; Tim Hays, Sr. Investment Officer; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, 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: Christine Williamson, Pensions and Investments; Dennis Murfin, IRTA; Don Davis, IRTA; Jack Tucker, IEA-R; Bob Kaplan, IEA/IRTA; and Tony Casalino, IFT.

APPROVAL OF MINUTES

A draft of the October 30-31, 2014 regular board meeting minutes was sent to the trustees for prior review. On a motion by Mark Harris, seconded by Mark Bailey, and by unanimous voice vote, the minutes were approved as printed.

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

Cash Withdrawal

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

To authorize staff to withdraw up to 1.5 percent of the TRS trust fund’s value, or \$667.0 million based on the September 30, 2014 ending market value.

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

Domestic Equity

On a motion by Mike Busby, seconded by Marcia Campbell, it was resolved:

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

- 1) Approve the domestic equity target mandate revisions, as presented.
 - a. Increase J.P. Morgan 130/30 large cap core active from 7.0% to 8.0%
 - b. Increase Levin large cap core active from 5.0% to 6.0%
 - c. Increase Herndon large cap core active from 2.0% to 3.0%
 - d. Decrease T Rowe Price large cap enhanced core from 6.0% to 5.0%
 - e. Decrease J.P. Morgan large cap growth from 6.0% to 4.0%
- 2) Approve the international equity target mandate revisions, as presented.
 - a. Decrease Aberdeen large cap active from 9.0% to 8.5%
 - b. Decrease LSV large cap active from 9.0% to 8.5%
 - c. Decrease McKinley large cap active from 9.0% to 8.5%
 - d. Decrease Mondrian large cap active from 9.0% to 8.5%
 - e. Increase SGA large cap active from 2.0% to 4.0%
 - f. Decrease Aberdeen emerging markets from 6.5% to 5.0%
 - g. Decrease Northern Trust Passive emerging market from 4.5% to 3.0%
- 3) Increase the international equity small cap allocation range from +/-3% to +/-4%.

- 4) Approve funding SGA an additional 2.0% of the international equity portfolio. Source of funds shall be rebalanced from within the international equity asset class.
- 5) Approve launching an emerging markets manager search for a 3.0% target weight of the international equity asset class.

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

Cortina – Termination

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

To ratify termination of Cortina’s 1.25% domestic equity SMID cap growth mandate. The allocation vacated by Cortina will remain vacant pending review of potential replacement candidates.

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

American Century - Termination

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

To ratify termination of American Century’s 4.0% international equity small cap growth mandate.

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

Wasatch Advisors

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

To ratify the hire of Wasatch Advisors for a 4.0% international equity small cap growth mandate.

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

Secondary Sales

On a motion by Mark Bailey, seconded by Sharon Leggett, it was resolved:

To ratify Investment Committee Chair approvals for the secondary program to sell Trilantic III & IV and Warburg Pincus IX.

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

RFP for Private Equity Consulting Services

On a motion by Sonia Walwyn, seconded by Rainy Kaplan, it was resolved:

To authorize a RFP for private equity consulting services. The current contract with TorreyCove Capital Partners is scheduled to expire in June 2015.

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

IC Hospitality Fund II, L.P.

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

To invest up to \$30 million in IC Hospitality Fund II, L.P. within the System’s Emerging Manager Program subject to successful completion of contract negotiations. Source of funds

is the Rhumblin S&P 500 index account dedicated to the Emerging Manager Program. To reduce trading costs, initial funding may be from other rebalancing activity, with subsequent reimbursement when such funding is most efficient.

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

Rhone Partners V, L.P.

On a motion by Marcia Campbell, seconded by Rainy Kaplan, it was resolved:

To commit €100 million to Rhone Partners V, L.P., with a provision that the commitment ratchets down to €75 million if Fund V exceeds €2.5 billion in commitments at the final close. 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 Bailey, Busby, Campbell, Harris, Kaplan, Klickna, Lyons, O’Neill, Walwyn, Leggett, and Koch. Motion CARRIED.

Tourbillon – Absolute Return Strategies

On a motion by Sonia Walwyn, seconded by Sharon Leggett, it was resolved:

To select Tourbillon Global Master Fund for an 8% target commitment within the System’s absolute return program. The commitment is subject to successful completion of contract negotiations. Initial funding is expected to be approximately \$175-200 million, with future increases as necessary to fully fund the mandate.

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

Courtland Partners – Real Estate Consulting Services

On a motion by Mike Busby, seconded by Rainy Kaplan, it was resolved:

To award a five year contract to Courtland Partners to provide real estate consulting services to the System.

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

AUDIT COMMITTEE REPORT–*Bob Lyons, Chair*

Chairman Lyons reported that staff responsible for reviewing Requests for Proposals should ensure all required documentation is submitted with bid responses.

EXECUTIVE DIRECTOR’S REPORT–*Dick Ingram*

Strategic Plan Update

Director Ingram provided an update on the progress of the 2013-2015 strategic plan. Documentation is on file. A revised strategic plan will be presented at the Board retreat in March with continued commitment to providing the best service to TRS members. The foundation of the next strategic plan will be conducting a full review of the administrative side of the organization. Trustee Klickna stated she would like staff to study the possibility of expanding the System’s pro-active communications effort and use online video and other technologies to help members gain a better understanding of TRS, the System’s role, its responsibilities, and where TRS fits into the structure of Illinois government. These efforts also could explain the basics of System operations, benefit structures and other issues faced by TRS and its members. Director Ingram responded that he will develop some proposals for the Board to review.

Final FY 2016 Funding Certification

Kathleen Farney, Director of Research, reported that the System received the preliminary report from Cheiron, the Illinois state actuary. The state actuary reviewed the assumptions and calculations contained in the preliminary

valuation report prepared by Buck Consultants, the System's actuarial consultant. The state actuary did not recommend any changes to the FY 2016 state contribution based on the statutory funding plan or to the normal cost certification. The state contribution amounts and the normal cost rates contained in the final funding certification are identical to those contained in the Board's October 30, 2014 resolution. The recommendations presented by Cheiron for the Board to consider in future valuations are reasonable and staff will provide responses to the recommendations. The state actuary's final report containing its recommendations and the retirement systems' responses will be available on the auditor general's website in January 2015. On a motion by Cinda Klickna, seconded by Bob Lyons, it was resolved:

To accept the results of the June 30, 2014 actuarial valuation and to adopt final certifications of the following:

- Based on the current statutory funding plan, an FY 2016 state funding amount of \$3,742,702,194, including \$900,000 for minimum retirement benefits;

- Based on minimum generally accepted actuarial standards, an FY 2016 state funding amount of \$4,365,257,249, including \$900,000 for minimum benefit reimbursements;

- Based on an amount that would cover the state's share of the employer normal cost and keep the projected unfunded liability from growing during the fiscal year, an FY 2016 amount of \$5,338,280,276, including \$900,000 for minimum benefit reimbursements; and

- The FY 2016 total normal cost of 19.19 percent of pay, a rate which includes an employer normal cost of 9.36 percent of pay and an assumed employee contribution rate of 9.83 percent of pay (which is the projected rate including the base rate of 9.40 percent and member contributions for optional service and lump sum contributions at retirement for the early retirement option).

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED. (Trustee Harris was not present during roll call)

Review of Actuarial Services

Director Ingram reported that Buck Consultants provided fee estimates for two projects, and the estimates seemed excessive. In addition, the timeline for delivering results seemed lengthy. Director Ingram requested the Board's permission to ask another consulting firm to evaluate proposals on a short term basis if necessary. The Board may interview actuarial firms in February or May if a longer term change is desired. On a motion by Cinda Klickna, seconded by Bob Lyons, it was resolved:

To authorize staff to engage other consulting services to enhance the System's ability to provide timely and cost-efficient actuarial analysis, subject to successful contract negotiations.

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Harris, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED. Director Ingram and Kathleen Farney, Director of Research, plan to meet with Gabriel, Roeder, Smith & Company and the Segal Company to discuss what options they may be able to offer.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2014 were sent to the trustees for review. The reports are on file. On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To approve the administrative expenses for the quarter ended September 30, 2014, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Harris Kaplan, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED. (Trustee Klickna was not present during roll call)

EXECUTIVE SESSION

A motion was made by Mike Busby, seconded by Mark Bailey, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and closed meeting minutes pursuant to 5 ILCS

120/2(c)(11) and 5 ILCS 120/2(c)(21) of the Open Meetings Act which authorizes the closing of the meeting to the public.

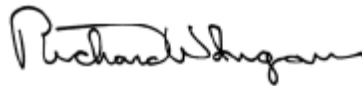
No action was taken during executive session. On a motion by Marcia Campbell, seconded by Cinda Klickna, and by unanimous voice vote, the executive session meeting adjourned.

APPROVAL OF EXECUTIVE SESSION MINUTES

The October 30, 2014 executive session meeting minutes of the Board was sent to the trustees for prior review. On a motion by Marcia Campbell, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

ADJOURNMENT

There being no further business to come before the Board, a motion was made by Marcia Campbell, seconded by Mark Bailey, to adjourn the meeting at 2:27 p.m. The motion passed by a unanimous voice vote.



Richard W. Ingram, Executive Director

Approved 2/19/15