



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 February 20, 2014

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 20, 2014 at the Springfield office, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 10:40 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Marcia Campbell, Rainy Kaplan, Cinda Klickna, Bob Lyons, Cynthia O'Neill, Sonia Walwyn (present at 10:45 a.m.), Sharon Leggett (Vice President), and Chris Koch (President). Absent: Enrique Vasquez

Staff present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Tom Gray, General Counsel; Gina Larkin, Director of Human Resources; Sally Sherman, Director of Member Services; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Larry Langer, Buck Consultants (Actuary); Becky Gratsinger & Greg Kantor, RV Kuhns (Investment Consultant)

Visitors present: Shirley Dodds, IRTA; Dennis Murfin, IRTA; Angela Myers, Loop Capital Markets; Gayla Dial, IEA-Retired; Bob Kaplan, IEA-Retired/IRTA; and Jim Baker, UNITE HERE

PUBLIC COMMENT

Jim Baker of UNITE HERE reported that employees of Caesars Entertainment recently voted to ratify a new contract. Caesars is a company partially owned by Apollo Global Management and TPG Partners. In August 2013, employees of Caesars Entertainment appeared before the Investment Committee concerning labor negotiations and transaction/monitoring fees collected by Apollo and TPG from Caesars.

Mr. Baker thanked the Board and staff for the attention to this matter and also circulated documentation regarding the Rivers Casino in Pittsburg.

Approval of Minutes

A draft of the December 5-6, 2013 minutes of the Board of Trustees meeting was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Sonia Walwyn, and by unanimous voice vote, the minutes were approved as printed.

EXECUTIVE DIRECTOR'S REPORT

GASB 67 & 68

Larry Langer of Buck Consultants and Jana Bergschneider, Director of Administration, provided an overview of GASB 67 & 68 and how TRS plans to implement the new account reporting guidelines adopted by the Government Accounting Standards Board (GASB). Documentation is on file. GASB has made significant changes to the accounting and financial reporting standards for governmental pension plans. The new reporting requirements will revise the retirement plans' financial statements (GASB 67) and the employer's financial statement (GASB 68). The System's unfunded liability will be determined that automatically creates a "worst-case scenario" by artificially reducing anticipated revenues. A discussion was held regarding the potential for confusion, different unfunded liabilities reported, headline risk, communications issues, and extreme volatility.

Communications Update

TRS is beginning to increase its presence in social media as a key element of communicating to members, employers, and the public. The potential tools being used to expand the reach of TRS include: Facebook, Twitter, Instagram, LinkedIn, Blogs, and Websites. Dave Urbanek, Director of Communications, provided a social media update and reported that TRS has contracted with Meltwater Group to help monitor TRS's presence on the internet and in social media.

TRS is working on a communications plan to help the stakeholders and general public understand the state's new pension law, Public Act 98-0599 (Senate Bill 1), that is scheduled to become effective June 1, 2014. TRS is preparing to implement the law as scheduled, but a court may act to delay the implementation of the law. TRS has compiled a list on its website of the most Frequently Asked Questions (FAQs) about the new pension law.

Actuarial Services Update

Director Ingram provided a memo to the Board concerning Buck Consultants timeliness of responses to requests for analyses, particularly a Senate Bill 1 estimate that was needed by the Governor's Office before a bond sale. Documentation is on file. Buck has assigned additional managers to assist with project management. TRS continues to have confidence in the technical ability of the Buck professionals assigned to the TRS account.

RECESS

The meeting recessed at 12:20 p.m. and reconvened at 2:47 p.m.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2013 were sent to the trustees for review. The reports are on file. On a motion by Bob Lyons, seconded by Sharon Leggett, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2013, as presented.

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

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the period ending December 31, 2013
- Employer Services Report for the period July 2013 through January 2014
- EEOC Report for the quarter ending December 31, 2013

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

Watch List 12/31/13

On a motion by Sonia Walwyn, seconded by Cinda Klickna, it was resolved:

To accept the December 31, 2013 watch list, as presented.

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

Global Equity

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

To approve recommendations within the global equity asset classes, as presented:

- Approve revision of the OakBrook domestic equity mandate to the 1.75% tracking error product as presented.
- Approve a request for proposal (RFP) to identify one or more commission recapture broker for the System’s investment program.

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

Capri Capital, Invesco, Heitman

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

To allocate an additional \$125 million each to Capri Capital and Invesco, and allocate an additional \$100 million to Heitman for a total allocation of \$350 million. 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 Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED.

Carlson Black Diamond Thematic

On a motion by Sonia Walwyn, seconded by Mike Busby, it was resolved:

To approve and increase the allowable allocation to Carlson Black Diamond Thematic from \$50 million to \$150 million. Source of funds shall be the TRS cash account or routine rebalancing of the total plan.

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

Apollo Global Management

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

To select Apollo to manage a \$250 million customized separate account within the global fixed income asset class. The mandate will be categorized as a Special Situations investment within the System's global fixed income asset class.

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

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

To commit \$250 million to a separate account with Apollo to target credit investments with high-teens net returns. Source of funds shall be TRS cash account, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitments are subject to successful completion of contract negotiations.

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

Oaktree Capital Management

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

To commit \$100 million to the Oaktree Enhanced Income Fund II, L.P. The mandate will be categorized as a Special Situations investment within the System's global fixed income asset class. The commitment is subject to successful completion of contract negotiations.

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

Lightspeed Venture Partners

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

To commit up to \$30 million between Lightspeed Venture Partners X, L.P. and Lightspeed Venture Partners Select, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitment is contingent upon successful completion of all staff and consultant due diligence, as well as negotiation of legal documentation.

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

Union Grove Venture Partners

On a motion by Cinda Klickna, seconded by Rainy Kaplan, it was resolved:

To commit \$100 million to Union Grove Venture Partners Fund I, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that

may be above their intended target weight. The commitment is contingent upon successful completion of all staff and consultant due diligence, as well as negotiation of legal documentation.

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

Vista Equity Partners

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

To invest \$200 million to Vista Equity Partners Fund V, L.P. and \$100 million to Vista Co-Investment Fund, L.P. 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, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED.

Fixed Income

On a motion by Sonia Walwyn, seconded by Mark Bailey, it was resolved:

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

1. Approve the removal of the State Street Liquidity Management Control System. Residual U.S. dollar cash deposits exceeding the State Street STIF deadline for overnight reinvestment is to be replaced by the State Street Interest Bearing Demand Deposit function. This would be effective upon completion of all necessary documentation.
2. Approve revision to the global fixed income targets, as presented.
 - Decrease Dolan McEniry from 5.0% to 4.0%
 - Decrease MacKay Shields from 12.5% to 12.0%

- Decrease PIMCO Core Plus from 17.5% to 17.0%
 - Decrease Loomis Sayles from 10.5% to 10.0%
 - Decrease Franklin Advisors EMD from 7.5% to 7.0%
 - Increase allocation to Special Situations from 9.0% to 12.0%
3. Ratify the temporary exemption to the 10% cash reserve maximum pending rebalance/funding of new mandates and/or other portfolio cash needs.
 4. Approve revisions to the Investment Management Agreement, as presented.
 5. Approve the index name change from the Barclays Global Inflation-linked index to the Barclays World Inflation-linked index. This change will be reflected in the contracts of existing mandates PIMCO and New Century Advisors. Going forward (retroactive to January 1, 2014) the benchmark will be a hybrid of the former Global Index and the World Index.

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

Private Equity

On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To ratify the recommendations within the private equity asset class, as presented.

- ratify Investment Committee Chair approval of the follow-on co-investment with Energy Capital Partners.
- ratify Investment Committee Chair approval for the secondary portfolio sale.

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

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

The Claims Hearing Committee met on October 23, 2013 to consider Cross Motions for Summary Judgment in the administrative review of Alice Mical. Ms. Mical filed exceptions to findings of the Claims Hearing Committee in

December. Documentation is on file. On a motion by Mark Bailey, seconded by Cynthia O'Neill, it was resolved:

To affirm the Claims Hearing Committee's proposed decision in the administrative review of Alice Mical.

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

LEGISLATIVE COMMITTEE – *Jan Cleveland, Chair*

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

That the Board of Trustees of the IL Teachers' Retirement System supports SB 3517 – Provides that the effective date of a retirement annuity shall be no earlier than 2 years before the date of receipt by the System of the application for retirement; and opposes HB3769 – Prohibits the investment in any fund trading derivatives in off markets or non-open markets.

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

AUDIT COMMITTEE – *Bob Lyons, Chair*

FY 14 Audit Plan

On a motion by Mark Bailey, seconded by Sonia Walwyn, it was resolved:

To approve revisions to the schedule of the FY14 Internal Audit Plan, as presented.

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

TRUSTEE TRAVEL

Upcoming travel for trustees:

- NCTR Legislative Committee, 3/2/14
- Institutional Investors Forum, 3/27/14
- IEA Representative Assembly, 4/10-12/14

EXECUTIVE SESSION

A motion was made by Marcia Campbell, seconded by Cinda Klickna, that the Board enter into executive session for the purpose of discussing the employment, compensation, discipline, performance, or dismissal of specific employees of 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 Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Mike Busby, seconded by Marcia Campbell, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Kaplan, Klickna, Lyons, O'Neill, Walwyn, Leggett, and Koch. Motion CARRIED.

Personnel

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

To extend both the Executive Director and Chief Investment Officer's contract terms for a one-year increment through June 30, 2019.

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

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the December 5-6, 2013 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 Rainy Kaplan, seconded by Sharon Leggett, it was resolved:

To approve the December 5-6, 2013 executive session meeting minutes of the Board of Trustees, as printed,

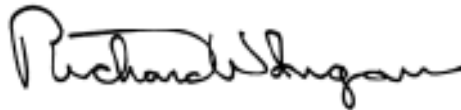
That the following executive session minutes no longer require confidential treatment and will be made available for public inspection:

February 22, 2013	Board
August 14, 2013	Audit Committee
August 15, 2013	Board
October 25, 2013	Board

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

ADJOURNMENT

On a motion by Bob Lyons, seconded by Cinda Klickna, the meeting adjourned at 3:27 p.m.



Richard W. Ingram, Executive Director

Approved: 5/28/14