



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees June 24, 2014

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on June 24, 2014 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Sharon Leggett, Vice-President, called the meeting to order at 1:33 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Rainy Kaplan, Cinda Klickna, Bob Lyons, Cynthia O'Neill, Enrique Vasquez, and Sharon Leggett (Vice President). President Koch was not present during roll call. Absent: Marcia Campbell, Mark Harris, and Sonia Walwyn.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Scottie Bevill, Sr. Investment Officer; Kenyatta Matheny, Sr. Investment Officer; Stefan Backhus, Investment Officer; Ken Musick, Investment Officer; Brennon Basnicki, Investment Analyst; Brian Nobis, Investment Analyst; Jerry Quandt, Investment Officer; Dakin Sanert, Sr. Investment Analyst; Briana Hickman, TRS Intern; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Christina Baker, Internal Auditor; Kathleen Farney, Director of Research; 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); and Avery Robinson, Callan Associates (Real Estate Consultant); Mike Krems and Kara King (Private Equity Consultant); Marcia Beard and Greg Kantor, RV Kuhns (Investment Consultant).

Visitors present: Bob Kaplan, IEA-R & IRTA; Dennis Murfin, IRTA; Don Davis, IRTA; and Barb Gilhaus, IEA-R.

APPROVAL OF MINUTES

A draft of the May 28-29, 2014 minutes of the regular board meeting was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Mark Bailey, and by unanimous voice vote, the minutes were approved, as printed. (Trustee Lyons voted Present)

INVESTMENT COMMITTEE REPORT

On a motion by Mike Busby, seconded by Bob Lyons, it was resolved:

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

- 1) Ratify the \$25 million co-investment, plus closing costs (approx. \$27,000), with Leonard Green & Partners.
- 2) Consent to the assignment of the existing Investment Advisory Agreement to the new entity and the continued use of LP Capital Advisors, now a wholly owned subsidiary of Pavilion Financial Corporation, as an approved co-investment advisor.

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

Absolute Return

On a motion by Bob Lyons, seconded by Rainy Kaplan, it was resolved:

To approve recommendations within the absolute return asset class, as presented.

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

Asset Allocation

On a motion by Cinda Klickna, seconded by Enrique Vasquez, it was resolved:

To approve revisions to the System's asset allocation, interim asset allocation and policy benchmarks, as presented, effective July 1, 2014.

Long term target revisions:

Domestic equity 20% to 18%
International equity 20% to 18%
Real estate 14% to 15%
Private equity 12% to 14%
Real Return 10% to 11%

Interim target revisions:

Domestic equity 23% to 22%
Absolute return 6% to 7%

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Kaplan, Klickna, Lyons, O'Neill, Vasquez, and Leggett. Motion CARRIED. (President Koch abstained from voting)

TRS Investment Policy

On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

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

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

Private Equity Tactical Plan

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

To approve the fiscal year 2015 private equity tactical plan, as presented.

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

Iran Divestment

On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To approve the list of “scrutinized companies”, as presented. China National Petroleum Corp., China Petroleum & Chemical Corp., China National Offshore Oil Corp., Daelim Industrial Co., Indian Oil Corp., Oil and National Gas Corp., and PetroChina Co.

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

Commission Recapture

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

To select ConvergeEx for commission recapture services for the System's investment program, replacing existing pool of brokers (Abel Noser, Russell and Guzman).

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

Veritas Capital

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

To commit up to \$100 million to Veritas Capital Fund V, 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, Kaplan, Klickna, Lyons, O’Neill, Vasquez, Leggett, and Koch. Motion CARRIED.

Sofinnova

On a motion by Rainy Kaplan, seconded by Sharon Leggett, it was resolved:

To commit up to \$50 million to Sofinnova Venture Partners IX, 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, Kaplan, Klickna, Lyons, O’Neill, Vasquez, Leggett, and Koch. Motion CARRIED.

Check Stub Changes

Director Ingram reported that effective August 1, 2014, the Illinois Comptroller will no longer be mailing a paper Earnings Statement to retired TRS members every time the net total of their annuities change. Instead, members may access an electronic copy of their Earnings Statement through the Secure Member Account Access area on the TRS website. Sally Sherman, Director of Member Services, and Dave Urbanek, Director of Communications, have initiated a communications plan to notify all retired members of this change and how they can set up secure member accounts on the TRS website.

Rate of Investment Return

At the May meeting, the System's investment consultant RV Kuhns provided an extensive review of the asset liability model and capital market assumptions. The System's actuary, Buck Consultants, analyzed the System's long-term assumed rate of return using RVK's recommended asset allocation. Although Buck Consultants believes the 8.0% assumption could be supported, other considerations led them to recommend a reduction in the rate of investment return from the current 8.0% to 7.5%. Reducing the estimated rate of return brings TRS in line with other major pension funds that have already lowered their investment return assumptions and provides more benefit security for Illinois teachers. Lowering the inflation component of the investment return would require changes in other actuarial assumptions that are affected by inflation. Documentation is on file. On a motion by Bob Lyons, seconded by Cynthia O'Neill, it was resolved:

To make the following changes in economic assumptions in the June 30, 2014 actuarial valuation as presented by Buck Consultants at the May 29, 2014 board meeting and explained in Buck's letter dated June 17, 2014:

- To lower the 8.00% investment return assumption to 7.50%,
- To lower the 6.00% average salary increase assumption to 5.75%,
- To lower the 3.25% inflation assumption to 3.00%,
- To lower the real rate of investment return assumption from 4.75% to 4.50%
- To lower the Tier 2 salary increase assumption from 1.625% to 1.50%, and
- To lower the Tier 2 cost of living increase assumption from 1.625% to 1.40%

Actuarial tables used to calculate benefits and local employer and member contributions will be revised after the 2015 experience analysis, with changes first effective July 1, 2016.

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

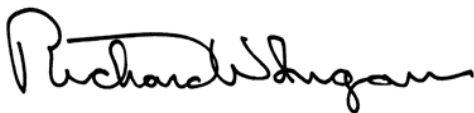
EXECUTIVE SESSION

A motion was made by Sharon Leggett, seconded by Mark Bailey, that the Board enter into executive session for the purpose of discussing the compensation matters as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (1). Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Kaplan, Klickna, Lyons, O'Neill, Vasquez, Leggett, and Koch. Motion CARRIED.

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

ADJOURNMENT

There being no further business to be brought before the Board, on a motion by Cinda Klickna, seconded by Rainy Kaplan, and by unanimous voice vote, the meeting adjourned at 2:22 p.m.



Richard W. Ingram, Executive Director

Approved: 8/26/14