



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 October 30-31, 2014

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 30-31, 2014 at the System's Springfield office located at 2815 West Washington Street. Chris Koch, President, called the meeting to order at 3:34 p.m. with a quorum 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 (absent 10/31), Sharon Leggett-Vice President, 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; Gina Larkin, Director of Human Resources; Sally Sherman, Director of Member Services; 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; Lori Dour, Claims Manager; Rene Troppa, Benefits Counseling Supervisor; Robert Powers, Call Center Supervisor; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Dennis Murfin, IRTA; Shirley Dodds, IRTA; Don Davis, IRTA; Gayla Dial, IEA/IRTA; Bob Kaplan; Jeanne Jones, IEA; Alan Jones, IEA; Tony Casalino, IFT; and Maddison Harner, Senate GOP.

APPROVAL OF MINUTES

A draft of the August 26, 2014 regular board meeting was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Rainy Kaplan, and by unanimous voice vote, the minutes were approved as printed.

CLAIMS HEARING COMMITTEE REPORT—*Sonia Walwyn, Chair*

An administrative review was held in May 2014 to consider the appeal of Libertyville School District 128, challenging the TRS staff determination that member Lester Perry's 2007 contract with the district caused a loss of exemption resulting in TRS charging a contribution to the district. The Claims Hearing

Committee proposed that the Board adopt the the staff recommended decision relating to Lester Perry’s retirement. Documentation is on file. On a motion by Mark Bailey, seconded by Bob Lyons, it was resolved:

To adopt the proposed decision in the administrative review of Libertyville, CHSD #128.

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

LEGISLATIVE COMMITTEE REPORT—*Marcia Campbell, Chair*

Fiduciary Governance Principles

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

To approve the Fiduciary Governance Principles, as amended.

The motion passed by a unanimous voice vote. Motion CARRIED.

RULES & PERSONNEL COMMITTEE REPORT—*Sharon Leggett, Chair*

QILDRO Rules

On a motion by Rainy Kaplan, seconded by Cynthia O’Neill, it was resolved:

To approve proposed amendments to TRS Administrative Rules relating to Qualified Illinois Domestic Relations Orders (QILDROs), Section 1650.1111 - 1650.1114 and Income Tax Reporting for QILDROs, Section 1650.1124.

The motion passed by a unanimous voice vote. Motion CARRIED.

DIVERSITY COMMITTEE

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

To elect Mike Busby and Rainy Kaplan to serve as Chair and Vice Chair of the Diversity Committee.

The motion passed by a unanimous voice vote. Motion CARRIED.

AUDIT COMMITTEE—*Bob Lyons, Chair*

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

To elect Mark Bailey to serve as Vice Chair of the Audit Committee.

The motion passed by a unanimous voice vote. Motion CARRIED.

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

Watch List

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

To accept the 9/30/14 watch list, as presented.

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

W/MBE Utilization Goals

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

To accept the W/MBE utilization goals for fiscal year 2015, as presented.

- Broker/Dealer Utilization: Increase the domestic equity trading goal from 18.0% to 19%; Increase the international equity goal from 12.0% to 12.5%; and retain existing goal of 15.0% for fixed income.
- Investment Manager Utilization: Retain existing goal of 15.0% for total assets under management and retain existing goal of 5.5%-9.0% of fees paid to W/MBE firms during FY 15.

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

LSV Asset Management

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

To ratify the hire of LSV Asset Management to a large cap value mandate. A target allocation of 4.0% of the domestic equity asset class (replacing the vacancy created by Loomis Sayles).

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

Fixed Income and Real Return

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

To approve recommendations within the fixed income and real return asset classes, as presented.

- Approve special situations tactical plan, as presented
- Approve changes to fixed income asset class and structure, as presented

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

Harford Investment Management - Termination

On a motion by Mike Busby, seconded by Mark Bailey, it was resolved:

To terminate Harford Investment Management’s TIPS 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.

Private Equity

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

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

- Ratify the co-investment with Carlyle Japan Partners III
- Ratify the follow-on co-investment with NGP Natural Resources X, L.P.

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

Affinity Investment Advisors – Emerging Manager Program

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

To invest \$25 million in Affinity Investment Advisors’ domestic equity large value strategy within the System’s Emerging Manager Program. Source of funds is the Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program. To reduce trading costs, staff may initially fund Affinity from other domestic equity sources, with subsequent reimbursement when such funding is more 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.

Lombardia Capital Partners – Emerging Manager Program

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

To invest \$25 million in Lombardia Capital Partners’ international equity value strategy within the System’s Emerging Manager Program. Source of funds is the Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program. To reduce trading costs, staff may initially fund Lombardia from other public equity sources, with subsequent reimbursement when such funding is more 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.

Garcia Hamilton & Associates – Emerging Manager Program

On a motion by Marcia Campbell, seconded by Mark Bailey, it was resolved:

To approve graduation of Garcia Hamilton & Associates’ core mandate from the Emerging Manager Program to a 4.0% mandate within the global fixed income asset class. Source of funds will be a reduction of Prudential’s core mandate and other fixed income rebalancing activities, with the expectation of funding over time based on market conditions.

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

Taurus Mining Finance Fund – Real Return

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

Invest \$30 million to Taurus Mining Finance Fund, L.P. subject to successful completion of contract negotiations. Source of funds will 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.

Asia Investors – Private Equity

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

To invest \$200 million to Asia Investors, L.P. Of this amount, \$100 million will be committed to the “Balanced Pool” and up to \$100 million committed to the “Co-Investment Pool”, with discretion within these pools as detailed in due diligence materials. Source of funds will 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.

Siris Capital III - Private Equity

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

To invest \$100 million to Siris Partners III, L.P. subject to successful completion of contract negotiation. Source of funds will be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitment represents a graduation of Siris from the System’s Emerging Manager Program.

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

TRUSTEE TRAVEL

Trustees Lyons, Campbell, O’Neill, Bailey, and Leggett provided commentary on the recent National Council on Teacher Retirement (NCTR) Annual Conference that they attended in Indianapolis, IN.

EXECUTIVE DIRECTOR’S REPORT-*Dick Ingram*

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2014 and the FY 14 lapse period of July 1 to August 31, 2014 were sent to the trustees for review. The Board also received detailed vendor payment information for expenditures greater than \$50,000 for the period July 1, 2013 through June 30, 2014 (FY 14) and July 1-September 30, 2014 (FY 15). The reports are on file. On a motion by Bob Lyons, seconded by Mark Bailey, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2014 including the FY 14 lapse period expenses, as presented.

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

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report through August 31, 2014
- EEOC Report for the quarter ending September 30, 2014

Membership to Council of Institutional Investors

Director Ingram requested to reinstate membership to CII, effective January 1, 2015, at a cost that is based upon assets. CII educates its members about corporate governance, shareowner rights and related investment issues. On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To approve \$30,000 annual membership dues to Council of Institutional Investors.

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

EXECUTIVE SESSION

A motion was made by Mark Bailey, seconded by Marcia Campbell, 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 including legal counsel; 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 Bailey, Busby, Campbell, Harris, Kaplan, Klickna, Lyons, O'Neill, Walwyn, and Leggett, and Koch. Motion CARRIED.

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

RECESS

The meeting recessed at 4:10 p.m. and reconvened the following day at 8:03 a.m. (Trustee Walwyn absent)

June 30, 2014 Actuarial Valuation Results & Proposed Certification of FY 2016 Funding Requirements

Larry Langer and Paul Wilkinson of Buck Consultants presented the preliminary results of the System's June 30, 2014 actuarial valuation and the proposed state contribution requirements for FY 2016. Documentation is on file and can be viewed on the TRS website, trs.illinois.gov. The unfunded liability increased over the year to \$61.59 billion from \$55.73 billion mainly due to TRS reducing its assumed rate of return from 8.0% to 7.5% annually. The funded ratio increased from 42.5% to 44.2% (market value) but the funded ratio based on the actuarial value of assets (smoothed over a five year period) remained the same at 40.6%. TRS still ranks as one of the worst funded public pension system in the United States due to insufficient contributions made by the State to fully fund the System according to actuarial standards.

The proposed contribution to TRS for FY 2016 under current law is \$3.74 billion, which does not follow generally accepted actuarial standards. The state funding amount required under generally accepted actuarial standards for the coming year would be \$4.37 billion. If the state contribution is calculated with the goal of preventing growth in the unfunded liability, the minimum state amount in terms of contributions would be \$5.34 billion. The actuaries reported that Tier II members (new hires first contributing to TRS on or after January 1, 2011) pay more for **lower** benefits and subsidize the unfunded liability for Tier I employees, so the employer normal cost for Tier II is negative. At a later date, the actuaries and trustees will discuss changes being considered by the actuarial profession that would shorten amortization periods.

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

To accept the results of the June 30, 2014 actuarial valuation and to adopt proposed 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).

The proposed certification will be filed with the governor, General Assembly, and state actuary by November 1, 2014, with the final funding certification and valuation submitted by January 15, 2015 after the state actuary's review. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Campbell, Harris, Kaplan, Klickna, Lyons, O'Neill, Leggett, and Koch. Motion CARRIED.

On or before November 15 each year, the Board is required to submit its certified state funding amounts for TRS and the Teacher Health Insurance Security (THIS) Fund to the governor. The THIS Fund certification of the state matching contribution is based on the assumption that the active member contribution rate increases to 1.07% of payroll during FY 2016. On a motion by Sharon Leggett, seconded by Mark Bailey, it was resolved:

To certify \$108,258,261 as the required state contribution in FY 2016 for the Teacher Health Insurance Security (THIS) Fund assuming the active member contribution rate increases 5% to 1.07%.

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

RECESS

The meeting recessed at 10:20 a.m. and reconvened at 10:27 a.m.

EXECUTIVE DIRECTOR'S REPORT Continued

Update on Strategic Initiatives

The System is once again working with CEM, an independent provider of performance benchmarking. The data for fiscal year 2014 has been submitted to CEM and results will be presented to the Board at the May 2015 meeting.

The annual performance evaluation process for staff has been revised and will include 360 reviews for all TRS managers and supervisors.

Sally Sherman, Director of Member Services, reported that approximately 4,000 TRS members have to take action if they want to stay in the Medicare Advantage plan. To date, TRS has received 2,100 Medicare Advantage enrollment applications.

Director Ingram provided an update on the organizational review of Member Services and parts of the administrative side of the System. LRWL, Inc. performed an assessment of the TRS organization and their preliminary report has identified a number of areas for improvement. Documentation is on file

Call Center and Benefits Counseling Update

Robert Powers, Call Center Supervisor and René Troppa, Benefits Counseling Supervisor, provided an overview of TRS benefits counseling and the call center. Documentation is on file. A Go Green policy was recently implemented with the call center and counseling department that requires staff to be more available for TRS members. September was the first full month under the Go Green policy. As a result of this policy change, a side by side comparison between September 2013 vs September 2014 showed the number of abandoned calls by members decreased by 72% etc., voicemails decreased by 59%, outgoing calls to members decreased by 13%, and calls received increased by 13%. A measurement tool was implemented that charts employee activities and reports to them on a quarterly basis on how their time is spent. These improvements have provided higher production, greater staff accessibility, and higher results.

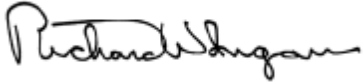
Mr. Troppa reported that “user action” was created that allows a TRS counselor and member service representative to re-create a member issue by two clicks of a button. The issue is forwarded to Mr. Troppa or Mr. Powers and a reply is sent to the member within 24-48 hours. “Call coaching” was developed to conduct training for employees to better serve TRS members. The first coaching session was completed in October. Staff visited the Colorado pension system to discuss best practices with their peers and believes the System is incorporating the right tools on being successful going forward while providing the best service to TRS members.

APPROVAL OF EXECUTIVE SESSION MINUTES

The August 26, 2014 executive session meeting minutes of the Board was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved as printed.

ADJOURNMENT

There being no further business to come before the Board, on a motion by Rainy Kaplan, seconded by Cinda Klickna, and by unanimous voice vote, the meeting adjourned at 10:47 a.m.

A handwritten signature in cursive script, appearing to read "Richard W. Ingram".

Richard W. Ingram, Executive Director

Approved 12/11/14