



MINUTES
Board of Trustees
October 28, 2016

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 28, 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 11:25 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Ann Deters, Andy Hirshman, Rainy Kaplan, Bob Lyons, Laura Pearl (phone participation until 12:30 p.m.), Anne Marie Splitstone, Sandy Stuart (departed 1:00 p.m.), Dan Winter, Cinda Klickna, Vice President; and Tony Smith, President. Absent: Mark Bailey and Randy Winters.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Tom Smith, Chief Technology Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Dave Urbanek, Director of Communications; Chad Mitchell, Investment Analyst; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); and Matt Sturdiran, RV Kuhns (Investment Consultant).

Visitors present: Bob Kaplan; Don Davis, IRTA; Diane Chapman, IEA-R; Christine Williamson, Pensions & Investments; Jason Parks, Loop Capital; UNITE HERE: Dermot Dix, Richard Proffitt, Brandi Miller, Sandra Cohen, and Jim Baker.

PUBLIC COMMENT

Representatives of UNITE HERE made public comments related to Oaktree Capital Management and an investment made by the firm in mortgage assets.

APPROVAL OF MINUTES

A draft of the August 26, 2016 minutes of the Board meeting was sent to the trustees for prior review. On a motion by Bob Lyons, seconded by Sandy Stuart, the minutes were approved by unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Watch List

On a motion by Rainy Kaplan, seconded by Ann Deters, it was resolved:

To accept the 9/30/16 Watch List, as presented.

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

WMBE FY 17 Utilization Goals

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

To approve the WMBE FY 17 utilization goals for minority brokerage managers and investment management, as presented, contingent upon adequate disclosure of the WMBE managers.

- long term minority utilization goal of 20%, with an interim goal of 17%
- increase the goal of fees paid to WMBE investment managers to 7.0-10.5%
- increase in the domestic equity minority brokerage goal to 23.0%
- retain the existing international equity minority brokerage goal of 13.5%
- retain the existing fixed income minority brokerage goal of 15%

Roll call resulted in affirmative voice votes from Trustees Deters, Hirshman, Kaplan, Lyons, Stuart, Winter, Klickna, and Smith. Motion CARRIED. Trustee Splitstone abstained from voting.

Fixed Income

On a motion by Rainy Kaplan, seconded by Dan Winter, it was resolved:

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

- Approve revision to the global income asset class structure, as presented
- Approve the global fixed income special situations tactical plan, as presented

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

Angelo Gordon – Fixed Income

On a motion by Sandy Stuart, seconded by Tony Smith, it was resolved:

To commit \$100 million to Angelo Gordon Direct Loan Fund II, Limited Partnership within the income special situations allocation, subject to successful completion of legal documentation. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation or rebalancing objectives.

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

JP Morgan – Fixed Income

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

To commit up to \$100 million to JP Morgan Global Maritime & Transport Yield Fund, L.P. within the income special situations allocation, subject to successful completion of legal documentation. The System will commit \$50 million to the Fund's first close with the remaining \$50 million committed within a year based on evaluation of the portfolio construction and performance. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation or rebalancing objectives.

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

MBK Partners

On a motion by Sandy Stuart, seconded by Ann Deters, it was resolved:

To commit up to \$150 million to MBK Partners Fund IV, L.P. contingent upon successful completion of legal documentation. 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 Deters, Hirshman, Kaplan, Lyons, Splitstone, Stuart, Winter, Klickna, and Smith. Motion CARRIED.

Trident

On a motion by Ann Deters, seconded by Sandy Stuart, it was resolved:

To commit up to \$100 million to Trident VII, L.P. based on verbal reporting of supporting information related to peer universe. 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 Deters, Hirshman, Kaplan, Lyons, Splitstone, Stuart, Winter, Klickna, and Smith. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE REPORT

Revisions to Board Bylaws

Recent legislation amended the Open Meetings Act to allow board members to review or to listen to executive session board and committee meeting minutes not yet released to the public. On a motion by Andy Hirshman, seconded by Rainy Kaplan, it was resolved:

To approve the Board Bylaws revisions, as presented.

A trustee may access executive session minutes not yet released for public inspection at the TRS administrative office, and in the presence of the Executive Director or designee. The minutes shall not be removed from the TRS office location.

Executive sessions shall be recorded by audio medium. Audio recordings of executive sessions shall be retained no fewer ~~less~~-than 18 months after completion of the executive session, and may be destroyed only after the Board has approved written minutes of the executive session and has approved destruction of the particular audio recording.

A trustee may access executive session recordings at the TRS administrative office, and in the presence of the Executive Director or designee. Requests shall be made to the Executive Director or Board President. Before making such request, the trustee should consider whether such request is germane to their TRS trustee responsibilities. While a trustee is listening to a recording, it shall not be re-recorded or removed from the TRS office location.

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

Standing Committees

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

To accept the following changes to membership and leadership of the Board standing committees:

- Vice Chair of Investment Committee – Sandy Stuart
- Rules and Personnel Committee – Mark Bailey-Chair; **Rainy Kaplan**-Vice Chair; Cinda Klickna, **Sandy Stuart**, and **Bob Lyons**.
- Claims Hearing Committee – **Mark Bailey**-Chair; **Dan Winter**-Vice Chair; **Laura Pearl**, and Rainy Kaplan (alternate).

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

NEW BUSINESS

June 30, 2016 Actuarial Valuation Results & Proposed Certification of FY 2018 Funding Requirements

Segal Consulting presented the preliminary results of the System's June 30, 2016 actuarial valuation and the proposed state contribution requirements for FY 2018. Documentation is on file. The results and funding recommendations are preliminary until the state actuary has reviewed.

The market value of assets decreased from \$46.4 billion to \$45.3 billion as of June 30, 2016. The actuarial value of assets (smoothed investment gains/losses over a five year period) increased from \$45.4 billion to \$47.2 billion. The funded ratio based on the actuarial value of assets decreased from 42.0% in 2015 to 39.8% in 2016.

The unfunded liability based on actuarial value of assets increased from \$62.7 billion to \$71.4 billion mainly due to TRS reducing its assumed rate of return from 7.5% to 7.0% and continuous insufficient contributions made by the State to fully fund the System according to actuarial standards.

The preliminary state contribution to TRS for FY 2018 under current law is \$4.56 billion, up from \$3.99 billion for FY 2017. The state funding amount required under generally accepted actuarial standards for the coming year is \$6.88 billion. On a motion by Bob Lyons, seconded by Dan Winter, it was resolved:

To accept the results of the preliminary June 30, 2016 actuarial valuation as presented by Segal Consulting and to adopt proposed certifications:

- 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.

The proposed certification will be filed with the governor, General Assembly, and state actuary by November 1, 2016, with the final funding certification and valuation submitted by January 15, 2017 after the state actuary's review. Roll call resulted in affirmative voice votes from Trustees Deters, Hirshman, Kaplan, Lyons, Splitstone, Stuart, Winter, Klickna, and Smith. Motion CARRIED.

On or before November 15 each year, the Board is required to submit its certified state funding amounts for the Teacher Health Insurance Security (THIS) Fund to the governor and others. The THIS Fund certification of the state matching contribution is based on the assumption that the active member contribution rate increases to 1.18% of payroll during FY 2017. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To certify \$114,167,713 as the required state contribution to the Teacher Health Insurance Security (THIS) Fund for FY 2018, assuming the member contribution is increased to 1.18 percent of pay, as presented by Segal Consulting.

Roll call resulted in affirmative voice votes from Trustees Hirshman, Kaplan, Lyons, Winter, Klickna, and Smith. Trustees Deters, Splitstone, and Stuart abstained from voting. Motion FAILED. After further explanation, the matter was reconsidered and roll call resulted in affirmative voice votes from Trustees Deters, Hirshman, Kaplan, Lyons, Splitstone, Stuart, Winter, Klickna, and Smith. Motion CARRIED.

(Trustee Stuart departs)

EXECUTIVE DIRECTOR'S REPORT

Executive Director Update

Director Ingram provided an update on the status of the Early Retirement Option sunset and refunds, the State outsourcing of healthcare benefits for state employees and retirees, how the 7% investment rate of return affects TRS's internal processes, and TRS's financial statement and expense approvals. Documentation is on file.

Microsoft True-up Expenditure

Staff requested approval for an additional cost incurred during Microsoft's annual assessment of software licenses in use at TRS. Documentation is on file. On a motion by Bob Lyons, seconded by Tony Smith, it was resolved:

To approve the additional expenditure of \$137,387.51 for Microsoft True-up.

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

Trustee Election

An election for two teacher trustee seats and one annuitant trustee seat to the TRS Board is scheduled for May 1, 2017. To be nominated and placed on the ballot, prospective candidates must collect and deliver to TRS a minimum of 500 eligible signatures as defined by state law. Petitions to gather signatures and election rules are available on the TRS website trs.illinois.gov. Completed and notarized petitions must be returned to TRS no sooner than January 1, 2017 and no later than 4:30 p.m. on January 30, 2017.

Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2016 and the FY16 lapse period of July 1 to August 31, 2016 were sent to trustees for review. Documentation is on file. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To approve the financial statement and administrative expenses for the quarter ending June 30, 2016, including the FY 16 lapse period expenses, as presented.

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

Miscellaneous Reports

The following reports are on file.

- Vendor Pay Report > \$50,000 (6/30-9/30/16)
- Member Services Statistical Report (8/31/16)
- EEOC Report (9/30/16)

EXECUTIVE SESSION

A motion was made by Cinda Klickna, seconded by Rainy Kaplan, 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 Deters, Hirshman, Kaplan, Lyons, Splitstone, Winter, Klickna and Smith. Motion CARRIED.

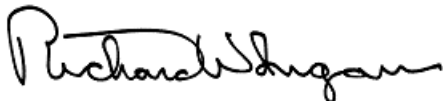
No action was taken during executive session. A motion was made by Bob Lyons, seconded by Cinda Klickna, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Deters, Hirshman, Kaplan, Lyons, Splitstone, Winter, Klickna and Smith. Motion CARRIED.

Approval of Executive Session Minutes

Drafts of the August 25, 2016 executive session minutes of the Audit Committee and the August 26, 2016 executive session minutes of the Board were sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Ann Deters, 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 Bob Lyons, seconded by Cinda Klickna, to adjourn the meeting at 1:20 p.m. The motion passed by unanimous voice vote.



Richard W. Ingram, Executive Director

Approved: 12/13/16