



**MINUTES**  
**Board of Trustees**  
**August 21-22, 2017**

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 21-22, 2017 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Dr. Tony Smith, President, called the meeting to order at 1:00 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Ann Deters, Andy Hirshman, Matt Hower, Marc Levine, Laura Pearl, Larry Pfeiffer, Fred Peronto, Dan Winter, Randy Winters (departed 3:15 p.m.), Cinda Klickna, Vice President and Dr. Tony Smith, President.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Marcy Dutton, Chief Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Deron Bertolo, Director of Investment Operations; Tom Smith, Chief Technology Officer; Tammy Green, Executive Assistant; Sue Billington, Executive Assistant; John Wolters, Cavanagh & O'Hara (Fiduciary Counsel); Becky Gratsinger and Marcia Beard, RV Kuhns (Investment Consultant); Andrew Bodewes, Leinenweber Baroni & Daffada (Legislative Consultant).

Visitors present: Janet Kilgus, IEA-Retired; Mark Carnevale and Maurice Campbell, BNY Mellon; Charlie Weikel, Governor's office (8/21); and Christine Williamson, Pensions and Investments.

**OATH OF OFFICE**

Marc Levine recited the State of Illinois Oath of Office. Mr. Levine was appointed by the governor to serve on the TRS Board effective April 17, 2017.

**APPROVAL OF MINUTES**

A draft of the June 22, 2017 minutes of the regular Board meeting was sent to the trustees for prior review. On a motion by Trustee Bailey, seconded by Trustee Pearl, the minutes were approved as printed. Trustee Levine abstained from voting.

### Investment Committee Chair Vacancy

On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved to elect Randy Winters to serve as Investment Committee Chair during FY 2018. The motion passed by unanimous voice vote.

### FY 2018 Meeting Calendar

Since a majority of the Board members are from the northern area, various trustees requested to have half of the TRS Board meetings near the suburbs of Chicago. Following discussion, the Board agreed to have the October 2017, February 2018, and May 2018 meetings near Chicago. Locations will be noted on the TRS website.

### **RECESS**

The meeting recessed at 1:21 p.m. and reconvened at 1:30 p.m.

### Board Governance

Currently, the bylaws of the Board state that trustees who participate by phone or video/audio conference are not entitled to vote. On a motion by Laura Pearl, seconded by Matt Hower, it was recommended to revise the TRS bylaws to allow voting by phone when personal attendance is not possible due to personal illness, disability, employment purposes, TRS business, or a family or other emergency. The motion passed by unanimous voice vote. Staff will propose bylaw revisions at the October Board meeting.

The Board discussed the construct of meeting agendas in order to provide more transparency and collaboration. Prior to each meeting, Director Ingram will circulate a draft agenda and consult with the Board President, Vice President, and the Chair and Vice Chair of the Investment Committee before distributing a final agenda.

Discussion was held regarding the value and benefit of having investment managers present to the Board and to consider moving towards the direction of delegating manager selection to staff. John Wolters, fiduciary counsel, noted that trustees are liable for risk but may let staff carry out the investment recommendation. The Board discussed what might be appropriate guidelines for delegating to staff and asked Director Ingram to have legal counsel review legal guidelines and report back in October.

### **EXECUTIVE SESSION**

A motion was made by Marc Levine, seconded by Andy Hirshman, that the Board enter into executive session for the purpose of discussing the appointment, employment,

compensation, discipline, performance, or dismissal of specific employees 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, Deters, Hirshman, Hower, Levine, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna and Smith. Motion CARRIED.

No action was taken during executive session. A motion was made by Marc Levine, seconded by Ann Deters, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Levine, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna and Smith. Motion CARRIED.

## **RECESS**

The meeting recessed at 3:17 p.m. and reconvened the following day at 3:03 p.m.  
(all trustees present)

## **COMMITTEE REPORTS**

President Smith presented the consent agenda. All items listed under the consent agenda are enacted by one motion with a roll call vote. No separate discussion of these items is held unless a request is made prior to voting on the motion. Trustee Levine requested removal of the following items for separate votes: (1) watch list; (4) diversifying strategies tactical plan; and (5) commitment to ICV Capital Partners Fund IV. It was moved by President Smith, seconded by Trustee Pearl, to approve the items in the consent agenda as amended. Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna and Smith. Trustee Levine abstained from voting. Motion CARRIED.

### Audit Committee

1. Approve revisions to the **internal audit charter**, as presented.

### Investment Committee

2. Approve the **private equity tactical plan**, as presented.
3. Approve the **real estate tactical plan**, as presented.
6. Commit **\$50-75 million to Institutional Venture Partners XVI**, L.P. contingent upon successful negotiation of legal documentation. Source of funds shall be TRS cash accounts or other accounts based on asset allocation or rebalancing objectives.
7. Commit up to **\$100 million to NGP Natural Resources XII**, L.P. contingent upon successful negotiation of legal documentation. Source of funds shall be TRS cash accounts or other accounts based on asset allocation or rebalancing objective.

8. Commit **\$100 million to Blackstone Real Estate Partners Asia II** contingent upon successful negotiation of legal documentation. Source of funds shall be TRS cash accounts or other accounts based on asset allocation or rebalancing objectives.
9. Commit up to **\$200 million to Magnetar Constellation V (“Con V”)**. Source of funds shall be TRS cash accounts or other accounts based on asset allocation or rebalancing objectives.

*End of Consent Agenda*

Watch List 6/30/17

On a motion by Fred Peronto, seconded by Dan Winter, it was resolved:

To accept the 6/30/17 watch list, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. A vote of opposition was heard from Trustee Levine. Motion CARRIED.

Diversifying Strategies Tactical Plan

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

To approve the diversifying strategies tactical plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Pfeiffer, Peronto, Winter, Winters, Klickna, and Smith. Votes of opposition were heard from Trustees Deters, Hower, Levine, and Pearl. Motion CARRIED. Trustee Levine commented on his concerns with hedge fund investments and expressed a preference to move the diversifying strategies allocation to other asset classes. He cited poor returns over time, misalignment of interest for the managers, and a general lack of understanding for these investments and their complex structures.

ICV Capital Partners

On a motion by Fred Peronto, seconded by Mark Bailey, it was resolved:

To approve commitment of \$50 million to ICV Capital Partners Fund IV contingent upon successful negotiation of legal documentation. Source of funds shall be the TRS Emerging Manager Program or other accounts based on asset allocation or rebalancing objectives.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Pfeiffer, Peronto, Winter, Klickna, and Smith. Votes of opposition were heard from Trustees Deters, Hower, Levine, Pearl, and Winters. Motion CARRIED.

(Trustee Winters departs)

## **EXECUTIVE DIRECTOR’S REPORT**

### FY 2018-22 Strategic Plan Update

In accordance with previous discussions with the Board, Director Ingram submitted a redraft of the strategic plan. Documentation is on file. TRS will continue to focus on the importance of advocating for the well-being of the organization and its long-term viability by serving members; ensuring future sustainability; providing fiduciary and policy leadership; strengthening organizational capacity; and developing TRS staff. Trustee Levine stated that Trustee Winters would like to delay discussion of the strategic plan. On a motion by Cinda Klickna, seconded by Mark Bailey, it was resolved:

To approve the FY 2018-22 Strategic Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Pearl, Peronto, Pfeiffer, Winter, Klickna and Smith. Votes of opposition were heard by Trustees Hower and Levine. Motion CARRIED.

### Legislative Update

The General Assembly recently passed a budget for FY 2018 that impacts TRS. The Budget Implementation Bill changes the statutory pension funding formula and creates a Tier III hybrid retirement plan for future hires that contains a basic defined benefit pension and a defined contribution plan.

The implementation schedule of Tier III will be decided by the Board at a later time. Director Ingram stated that the primary challenge for TRS will be implementing monthly reporting by employers because TRS currently requires employers to report member salary, contribution and service credit information on an annual basis. In addition, TRS expects the General Assembly to implement legislation during the fall veto session designed to correct drafting errors and other concerns that have been identified in the current law. Staff will discuss a proposed timeline for the implementation of Tier III a future meeting.

The change of the pension funding formula reduces the state's allocation to the System, moving TRS further away from financial stability. Segal Consulting, the System's actuary, recalculated the FY 2018 state contribution resulting in a reduction of the state's annual contribution to the System by \$530.8 million. Director Ingram cited his comments from the TRS press release: "The changes enacted this year in the pension funding formula move TRS further away from financial stability and continue to kick the can down the road. Period. Cutting the state's contribution only increases our concern that TRS will eventually become insolvent. For every dollar that the state cuts from the TRS contribution now, they will have to spend \$3 down the road to replace that revenue because of the interest costs. A \$530 million funding cut today just puts off the inevitable and will create a payment of \$1.6 billion in the future."

### Recertification of FY 2018 State Funding Contribution

On a motion by Ann Deters, seconded by Andy Hirshman, it was resolved:

To accept the proposed recertifications as documented by Segal Consulting, pursuant to Public Act 100-0023, 40 ILCS 5/16-158 (a-10):

- Based on "Actuarial Math 2.0," an FY 2018 state funding amount of \$6,873,855,523, including \$700,000 for minimum retirement benefits;
- Based on Illinois statute, an FY 2018 state funding amount of \$4,034,093,468, including \$700,000 for minimum retirement benefits;
- Based on the recertified state contribution calculated under Illinois statute, a federal contribution rate of 39.42 percent of pay.

The FY 2018 total normal cost of 19.10 percent of pay and employer normal cost 10.10 percent are unchanged from the board's January 2017 certification of the FY 2018 state contribution.

These proposed amounts are being submitted to the state actuary and will be resubmitted to the Board for final approval if they are accepted by the state actuary.

Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Pearl, Peronto, Pfeiffer, Winter, Klickna and Smith. A vote of opposition was heard by Trustee Levine. Motion CARRIED.

## **TRAVEL**

### Trustee Concerns

Trustee Levine suggested that the Board's decision-making process could benefit if more educational presentations on investment strategies were scheduled for future Board meetings. Specifically, he suggested presentations to discuss topics such as active investment models versus passive investment models, the role of hedge funds within the System and alternative strategies for the private equity portfolio. Trustee Hirshman stated that any future educational presentations should be comprehensive and present all sides of each topic.

Trustee Klickna expressed her disappointment over the interaction between the trustees and the demeanor of the Board during the August meeting. Noting that several trustees are new and unfamiliar with the Board's long-established rules and procedures, she asked that all trustees make a commitment to work together as a group, learn the processes used by the Board when it meets, and be honest with each other during discussions.

## **EXECUTIVE SESSION**

A motion was made by Dan Winter, seconded by Larry Pfeiffer, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and closed meeting minutes, including the semi-annual review of 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) (11) and 5 ILCS 120/2(c) (21). Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Levine, Pearl, Peronto, Pfeiffer, Winter, Klickna and Smith. Motion CARRIED.

No action was taken during executive session. A motion was made by Mark Bailey, seconded by Marc Levine, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Deters, Hirshman, Hower, Levine, Pearl, Peronto, Pfeiffer, Winter, Klickna and Smith. Motion CARRIED.

## **APPROVAL OF EXECUTIVE SESSION MINUTES**

A draft of the June 22, 2017 executive session minutes of the Board was sent to the trustees for prior review. In addition, the Board received a memorandum from the System's legal counsel regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act.

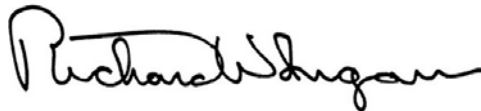
The following minutes no longer require confidential treatment and will be available to the public:

December 11, 2014 Board of Trustees  
August 12, 2015 Investment Committee  
February 17, 2016 Rules & Personnel  
February 17, 2017 Board  
April 6, 2017 Board

In accordance with Board Bylaw, Article III, Section 8, staff requested the destruction of audio recordings of executive session meetings. Documentation is on file. On a motion by Cinda Klickna, seconded by Fred Peronto, the June 22, 2017 minutes were approved including minutes for public release and destruction of executive session audio recordings. The motion passed by voice vote. Trustee Levine abstained from voting.

#### **ADJOURNMENT**

There being no further business to be brought before the Board, a motion was made by Mark Bailey, seconded by Ann Deters, to adjourn the meeting at 3:42 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram, Executive Director

Approved: 10/27/17