



**MINUTES**  
**Board of Trustees**  
**October 26-27, 2017**

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 26-27, 2017 at the Hilton Rosemont Chicago O'Hare, 5550 North River Road, Rosemont, Illinois. Vice President Cinda Klickna called the meeting to order at 9:00 a.m. and a quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Matt Hower, Marc Levine, Laura Pearl, Fred Peronto, Larry Pfeiffer, Dan Winter, Randy Winters, and Cinda Klickna. Absent: Dr. Tony Smith, President.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Stacy Smith, Director of Internal Audit; Marcy Dutton, Chief Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Dave Urbanek, Director of Communications; Tammy Green, Executive Assistant; Kirk Sims, Investment Officer; Jerry Quandt, Investment Officer, John Wolters (10/27), Cavanagh & O'Hara (Fiduciary Counsel); Mike Krems, TorreyCove (Private Equity Consultant); Becky Gratsinger and Ian Bray, RVKuhns (Investment Consultant).

Visitors present: Bob Kaplan, IRTA; Bob Lyons, IRTA; Margie Trigg, IEA-R; Shirley Forpe, IFT; Tony Casalino, IFT; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital.

Board Governance

At the request of the President of the Board, Director Ingram opened the meeting with comments addressing the recent turnover of the TRS Board and the challenge it has created. An unprecedented turnover in Board membership – nine trustees have served on the Board for two years or less – has created new challenges for the trustees as a group, including a loss of institutional memory regarding best practices for a governing body. Director Ingram suggested that the trustees adhere to the established standards of the past, which include: one person talking at a time; seeking permission before speaking; a respect for different opinions; the assumption that all trustees have the best intentions; and trustees explaining their votes as a courtesy to their colleagues. Documentation is on file. TRS is governed by a 13-member board and has 11 seats filled.

Discussion was held regarding the organization of meeting materials that trustees receive prior to each meeting. The Board would like the material streamlined, one page noting all items that require a vote, and a summary of important data points.

### Board Delegation for Selection of Investment Managers

As discussed at the August board meeting, legal counsel reviewed guidelines to delegate the final selection authority of investment managers to TRS professional staff. The Board received a memorandum from Holland & Knight stating that the Illinois Pension Code permits the Board to designate TRS professional staff as fiduciaries to select and appoint investment managers to manage TRS assets, although the Board still has ongoing responsibility and liability with regard to investment managers and the System's investment performance. Documentation is on file. After circulation of Holland & Knight's memo, the Board received a memorandum from Cavanagh & O'Hara, the System's fiduciary counsel, informing the board of its disagreement in the opinion of Holland & Knight and its interpretation of the Illinois Pension Code. Documentation is on file. Fiduciary Counsel believes that statutory language does not allow the Board to delegate investment manager selection to TRS staff and is not prudent since the decision remains with the Board. Following discussion, the Board requested the newly hired fiduciary counsel weigh in on the topic. Trustees expressed opinion that they are in favor of moving towards this direction and would like to see documentation of policy changes that will be necessary to delegate authority to staff to select investment managers and an explanation of what staff will be executing.

### Board Manual Update

Marcy Dutton, Chief Legal Counsel, summarized the proposed revisions to the TRS Board of Trustees Manual. The changes bring the manual into compliance with current law and practice. Documentation is on file. Per the Board's request, trustees who attend meetings via video or audio conference in accordance to Article III Section 3 of the Bylaws are allowed to vote on matters. On a motion by Matt Hower, seconded by Larry Pfeiffer, it was resolved:

To approve revisions to the TRS Board Manual, as presented. [Exhibit](#)

The motion passed by voice vote with a vote of opposition heard by Trustee Klickna. Trustee Levine abstained from voting.

### Chair of Audit Committee

The Chair position of the audit committee is vacant due to the resignation of Trustee Ann Deters. On a motion was made by Andy Hirshman, seconded by Mark Bailey, it was resolved:

To elect Matt Hower to serve as Audit Committee Chair during FY 2018.

The motion passed with a unanimous voice vote.

### **RECESS**

The meeting recessed at 10:34 a.m. and reconvened at 10:49 a.m.

### Fiduciary Counsel

Marcy Dutton, Chief Legal Counsel, provided an overview of the search process used for selection of fiduciary counsel. A Request for Proposal (RFP) was issued; five proposals were received; and staff evaluated and selected the three firms that received the highest scores for the Board to interview. The Board interviewed Burke Burns and Pinelli; Ottosen Britz Kelly Cooper Gilbert and DiNolfo; and Reinhart Boerner Van Deuren as candidates to provide outside counsel fiduciary legal services to TRS. Presentation booklets and RFP responses are on file.

(see notes at end of meeting for selection of counsel)

### **RECESS**

The meeting recessed at 12:35 p.m. and reconvened the following day at 12:43 p.m.

### **EXECUTIVE DIRECTOR'S REPORT**

#### 2018 State Funding Contribution Recertification

Public Act 100-0023 and Public Act 100-0340 recently approved by the General Assembly reduces the state's annual funding contribution to the System. PA 100-0023 modifies the pension funding formula and PA 100-0340 sets the federal funds contribution rate equal to the employer normal cost rate; previously the rate was equal to the state's contribution rate. The revised state contribution for TRS is now \$4.03 billion. The previous FY 2018 contribution, certified by the Board last October, was \$4.56 billion.

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

On a motion by Matt Hower, seconded by Andy Hirshman, it was resolved:

To accept the proposed recertifications under Public Act 100-0023 and Public Act 100-0340, as presented by Segal Consulting:

- Based on the Actuarially Determined Contribution, an FY 2018 state funding amount of \$6,993,032,528, including \$700,000 for minimum retirement benefits;
- Based on Illinois statute, an FY 2018 state funding amount of \$4,095,316,146, including \$700,000 for minimum retirement benefits;
- Based on the total employer normal cost rate, a federal contribution rate of 10.10 percent of pay.

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

#### June 30, 2017 Actuarial Valuation Results and Preliminary Certification of Results and FY 2019 Funding Requirements

Segal Consulting presented the preliminary results of the System's June 30, 2017 actuarial valuation and the proposed state contribution requirements for FY 2019. Documentation is on file. The results and funding recommendations are preliminary until the state actuary has reviewed. The market value of assets increased from \$45.3 billion to \$49.4 billion as of June 30, 2017. The actuarial value of assets (smoothed investment gains/losses over a five year period) increased from \$47.2 billion to \$49.5 billion as of June 30, 2017. The funded ratio based on the actuarial value of assets increased from 39.8% in 2016 to 40.2% in 2017.

The unfunded liability based on actuarial value of assets increased from \$71.4 billion to \$73.4 during FY 2017. The contribution made during FY 2017 by the State, as required by the Illinois Pension Code, was insufficient to reduce the unfunded actuarial accrued liability. Since TRS's inception, state government has never appropriated an annual contribution to TRS that equaled full funding. Segal Consulting strongly recommended an actuarial funding method that targets 100% funding where payments at least cover interest on the unfunded actuarial accrued liability and a portion of the principal balance.

The preliminary state contribution to TRS for FY 2019 is \$4.47 billion, a nine percent increase over FY 2018. The state funding amount required under generally accepted actuarial standards for the coming year is \$7.4 billion. 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. On a motion by Andy Hirshman, seconded by Fred Peronto, it was resolved:

To accept the results of the preliminary June 30, 2017 actuarial valuation and proposed certifications, as presented by Segal Consulting and as shown in the attached Exhibit A:

- Based on Actuarially Determined Contribution, an FY 2019 state funding amount of \$7,370,930,484, including \$600,000 for minimum retirement benefits;
- Based on Illinois statute, an FY 2019 state funding amount of \$4,466,178,109, including \$600,000 for minimum retirement benefits;
- The total normal cost rate of 18.85 percent of pay, a rate that includes a total employer normal cost rate of 9.85 percent and a member contribution rate of 9.00 percent;
- Based on the total employer normal cost rate, a federal contribution rate of 9.85 percent of pay.

The proposed certification will be filed with the governor, General Assembly, and state actuary by November 1, 2017, with the final funding certification and valuation submitted by January 15, 2018 after the state actuary's review. Roll call resulted in affirmative voice votes from Trustees Bailey, Hower, Hirshman, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. A vote of opposition was heard by Trustee Levine. 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 1.24% of payroll during FY 2019. On a motion by Mark Bailey, seconded by Larry Pfeiffer, it was resolved:

To certify \$125,261,961, as the required state contribution to the Teacher Health Insurance Security (THIS) Fund for FY 2019, assuming the member

contribution is increased to 1.24 percent of pay in FY 2019, as presented by Segal Consulting and as shown in Exhibit B.

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

#### Annual Ethics Training Certification

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

To certify that the following trustees of the Illinois Teachers' Retirement System have completed a minimum of eight hours of ethics training during FY 17 in accordance to Public Act 96-0006, Article 1 of the IL Pension Code, Section 1-113.18. Certification will be submitted to the Division of Insurance of the Department of Financial Professional Regulation.

Mark Bailey, Ann Deters, Andy Hirshman, Cinda Klickna, Bob Lyons, Laura Pearl, Tony Smith, Dan Winter, and Randy Winters.

The motion passed by unanimous voice vote.

#### Quarterly Financial Statements

The financial reports for the quarter ended June 30, 2017 were sent to trustees for review. Documentation is on file. On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To approve the administrative expenses for the quarter ending June 30, 2017, as presented.

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

#### Miscellaneous Reports

The following reports are on file.

- FY 2017 Vendor Pay Report > \$50,000 (6/30/16-9/30/17)
- FY 2017 Vendor Utilization Report
- Member Services Statistical Report (8/31/17)

## **APPROVAL OF MINUTES**

A draft of the August 21-22, 2017 minutes of the regular board meeting was sent to the trustees for prior review. On a motion by Laura Pearl, seconded by Fred Peronto, the minutes were approved by unanimous voice vote.

## **INVESTMENT COMMITTEE REPORT**

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 Pfeiffer moved that the Board approve the consent agenda as stated. Trustee Hirshman seconded the motion and it passed unanimously with a roll call vote from Trustees Bailey, Hower, Hirshman, Levine, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Motion CARRIED. The following motions were approved by action taken in the consent agenda motion.

### **Approve the changes to the Income asset class, as presented.**

- Termination of four mandates
  - New Century Advisors
  - Manulife
  - PGIM US Relative Value
  - Garcia Hamilton Floating Rate
- Internal beta target revision
- Beta Plus range adjusted to 45% to 62% of asset class
- Global/EMD target revision; conduct search
- Change name of “Special Situations” to “Private Debt Structures”
- Modify as necessary State Street STIF account to more closely mirror existing custom cash account.

### **Approve the Global Equity Asset Class, as presented.**

- ratify revision of two domestic equity mandate fee schedules, as presented.
  - a. Emerald Small Cap Growth
  - b. T. Rowe Price Large Cap Growth
- terminate McKinley’s international equity large cap mandate.
- hire Arrowstreet for an international equity large cap mandate, as presented.
- ratify termination of Acadian’s domestic equity large cap mandate.

**Ratify the termination of Bridgewater Pure Alpha and Tourbillon Global Long/Short.** The liquidation will be handled by a transition manager, with liquidated proceeds directed to cash flow for future asset allocation and/or rebalancing needs. Expectations are for a full withdraw of Bridgewater Pure Alpha by the end of November and Tourbillon by the end of December. Terms will be discussed further with managers upon redemption approval.

**Commit up to \$50 million to Basis Investment Group’s Real Estate Debt Fund, L.P.** within the global fixed income special situation allocation. The source of funds shall be the TRS Emerging Manager Program, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

**Commit \$125 million to Solar Capital Partners' Private Corporate Lending Fund platform.** The proposal is a combination commitment to a separately managed account (SMA) and Fund, within Income - Special Situations. Source of funds shall be the TRS cash account, or other accounts based on asset allocation or rebalancing objectives. The commitment is contingent upon successful negotiation of legal documentation.

**Commit up to \$100 million to Clearlake Capital Partners V, L.P.** 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.

**Form a strategic partnership with Greenspring Associates comprised of commitments of up to \$250 million to Greenspring’s fund of funds (“Products”) and a commitment of up to \$600 million to a “Fund of One” administered by Greenspring on TRS’s behalf.** 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.

*End of Consent Agenda*

WMBE FY 18 Utilization Goals

On a motion by Cinda Klickna, seconded by Andy Hirshman it was resolved:

To approve the WMBE FY 18 utilization goals for minority brokerage managers and investment management, as presented.

- increase the interim target goal to 18% of total Plan assets for minority manager utilization (from 17%).
- retain the existing fee goal paid to WMBE investment managers of 7.0-10.5%
- increase in the domestic equity minority brokerage goal to 25.0% (from 23.0%)
- increase in the international equity brokerage goal to 14.5% (from 13.5%).
- retain the existing fixed income minority brokerage goal of 15%



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

#### Man Group – Diversifying Strategies

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

To approve a commitment of up to \$300 million for Man Alternative Risk Premia (“Man”). The proposed investment targets annualized volatility of 8% and 0.8 Sharpe.

Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Pearl, Peronto, Pfeiffer, Winter, Klickna, and Smith. Votes of opposition were heard from Trustees Hower, Levine, and Winters. Motion CARRIED. The trustees voting against the commitment was not due to their opinion of Man but rather to have final discussions regarding the diversifying strategies tactical plan during the December meeting.

#### **EXECUTIVE SESSION**

A motion was made by Cinda Klickna, seconded by Mark Bailey, 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 Bailey, 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 Andy Hirshman, seconded by Cinda Klickna, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Hirshman, Hower, Levine, Pearl, Peronto, Pfeiffer, Winter, Winters, Klickna, and Smith. Motion CARRIED.

#### Fiduciary Counsel

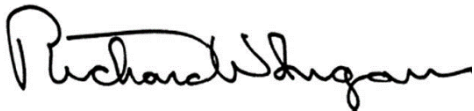
On a motion by Fred Peronto, seconded by Randy Winters, and by unanimous declaration, the Board selected Reinhart Boerner Van Deuren to serve as fiduciary counsel effective immediately through 6/30/20 subject to early termination in accordance with the terms of the Agreement.

Approval of Executive Session Minutes

A draft of the August 21-22, 2017 executive session minutes of the Board 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 presented.

**ADJOURNMENT**

There being no further business to be brought before the Board, a motion was made by Laura Pearl, seconded by Cinda Klickna, to adjourn the meeting at 2:50 p.m. The motion passed by unanimous voice vote.

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: 12/14/17