



MINUTES
Board of Trustees
May 25, 2018

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 25, 2018 at the Hyatt Regency O'Hare, 9300 W. Bryn Mawr Avenue, Rosemont. President Tony Smith called the meeting to order at 8:00 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Andy Hirshman, Matt Hower, Tracy Kearney, Fred Peronto, Larry Pfeiffer, Mark Splitstone, Laura Pearl, Dan Winter, Randy Winters, 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; Gina Larkin, Chief Human Resources Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Dave Urbanek, Director of Communications; Tammy Green, Executive Assistant; Tiffany Reeves, Reinhart (Fiduciary Counsel); and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Christine Williamson, Pensions and Investments; Jessica Thunberg, Jasculca Terman, Strategic Communications; and Ilene Slegel, IEA-Retired.

APPROVAL OF MINUTES

A draft of the March 1, 2018 minutes of the Board meeting was sent to the trustees for prior review. On a motion by Trustee Bailey, seconded by Trustee Klickna, 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 Winter moved that the Board approve the consent agenda as presented. Trustee Pearl seconded the motion and it passed unanimously with a roll call vote from Trustees Bailey, Hirshman, Hower, Kearney, Peronto, Pfeiffer, Splitstone, Pearl, Winter, Winters, Klickna, and Smith. Motion

CARRIED. The following motions were approved by action taken in the consent agenda motion.

Transfer \$50 million from the ILAI Co-Invest Pool to the ILAI Balanced Pool to provide the account additional investment runway into 2019.

Make no adjustments to the Interim Asset Allocation Targets at this time.

Approve the Investment Policy revisions as presented.

Select Bard Consulting, LLC, ORG Portfolio Management, LLC, and RCLCO Fund Advisors as a pool of eligible advisors for real estate co-investment consulting services. The services of each firm will be on a project basis as real estate co-investment opportunities are presented to the System.

End of Consent Agenda

Investment Consultant

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

To rehire RVK to provide general investment consulting services for a contract not to exceed five years.

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

RULES & PERSONNEL COMMITTEE

Board Manual Revisions

The TRS Office of Legal Counsel presented updates to the TRS Board Manual. Documentation is on file. A motion was made by Cinda Klickna, seconded by Tony Smith, to approve the revisions as presented. The motion passed by unanimous voice vote.

Bylaws Article V: Committees, Section 1: Standing and Ad Hoc Committees (p. 9)

This revision simply clarifies that the Board will discuss committee appointments at its last meeting of the fiscal year.

Bylaws Article VII: Reimbursement of Necessary Expenses, Section 1: Travel Policy (p. 11)

This revision clarifies that Trustees are not restricted to the provisions of the TRS Operating Policy related to travel. This clarification is made because the provisions of the Illinois Pension Code, 40 ILCS 5/16-167, provides that Trustees may be reimbursed for “all necessary expenses.”

AUDIT COMMITTEE REPORT

FY 19-20 Internal Audit Plan

A motion was made by Mark Bailey, seconded by Larry Pfeiffer, to approve the FY 2019 and 2020 Internal Audit Plan, as presented during the audit committee meeting. The motion passed by unanimous voice vote.

Revised FY 2018 Internal Audit Plan

A motion was made by Mark Bailey, seconded by Larry Pfeiffer, to approve the revised FY 2018 Internal Audit Plan, as presented during the audit committee meeting. The motion passed by unanimous voice vote.

Revised Internal Audit Charter

A motion was made by Mark Bailey, seconded by Larry Pfeiffer, to approve revisions to the Internal Audit Charter, as presented during the audit committee meeting. The motion passed by unanimous voice vote.

EXECUTIVE DIRECTOR’S REPORT

Economic Experience Analysis/ Investment Return Assumption

In accordance with Article 16 Section 176 of the Pension Code, Segal Consulting presented the results of their investigation comparing actuarial assumptions to actual experience. The period covered was July 1, 2014-June 30, 2017. Documentation is on file. An experience study provides the basis for developing recommended assumptions on the economic and

demographic factors to be used in the annual actuarial valuation and is conducted once every three years. Segal recommended that the Board maintain the inflation assumption of 2.5%; maintain the Tier 2 assumed annual increase and rate of increase of the Tier 2 pensionable salary cap at 1.25%; increase the offset for investment expenses to 0.75%; and lower the current investment return assumption of 7.0% to 6.75% to maintain a confidence level greater than 50% for achieving that return. Other changes were recommended on salary increases, severance pay, and mortality. A lengthy discussion was held with fiduciary counsel regarding data points, comparison to other retirement systems, and whether there is a fiduciary duty to lower the investment return assumption versus staying at the current rate of 7.0%. Further discussion will be held at the August Board meeting when the Board will be asked to decide what assumptions will be used in the June 30, 2018 actuarial valuation.

RECESS

The meeting recessed at 9:39 a.m. and reconvened at 9:48 a.m.

TRS Sustainability

Director Ingram reviewed a strategy document on the “Sustainability Project” and reported that the main goal of the initiative is to provide state officials and stakeholders with a strong justification to support sufficient government funding for TRS in the future. Action is required by state officials, TRS members, stakeholders, and the general public to strengthen the financial stability of TRS. TRS’s unfunded liability continues to grow due to underfunding by state government. Director Ingram illustrated a couple of scenarios showing, under current conditions, how close insolvency can be for the System. A lengthy discussion was held regarding how to communicate the threat of insolvency and how to answer a basic question from members: “Will there be money to pay future benefits?” Further discussion on a communication plan will be held at the August meeting. Final decisions/proposals on the sustainability project will be scheduled for the December meeting.

Agile Progress – Gemini Project

Director Ingram requested an additional allocation to begin work on the next generation of TRS’s pension administration system, Gemini. This request does not increase the overall budget as it will be transferred from a budgeted initiative that TRS will not be pursuing during FY18. Trustee Winters reported that he had asked fiduciary counsel to opine on hiring an expert to advise TRS if the Gemini project is being appropriately implemented. Tiffany Reeves, fiduciary counsel, noted that due to the size and cost of this project, it would be appropriate to have an oversight consultant who reports directly to the Board on the status of the project. Other options include establishing a tech oversight committee

comprised of board members or rely entirely on TRS staff to manage the project. Director Ingram noted that Agile is assisting with the project and updates will be provided to the Board on an ongoing basis with Agile providing a report on the status of the project. On a motion by Fred Peronto, seconded by Tony Smith, it was resolved:

To approve an amendment to the existing contract with Agile Progress in the amount of \$55,000 to begin work on the Gemini pension administration system project.

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

FY 19 Budget and Contracts > \$50,000

Director Ingram provided an overview of the FY 19 budget initiatives and contracts over \$50,000. Documentation is on file. Following discussion, the Board noted that TRS staff should remain mindful about the difficult financial status of the State of Illinois as a whole and about the need to show cost reduction initiatives within the budget. Staff will provide ongoing budget updates to the Board at future meetings. On a motion by Dan Winter, seconded by Randy Winters, it was resolved:

To approve the FY 19 administrative budget and listing of contracts over \$50,000, as presented.

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

Director and Officer Insurance

Marcy Dutton, Chief Legal Counsel, presented the provision of the Director's and Officer's liability insurance issue by the Argo Insurance Company and provided an overview of the cost, coverages, and exclusions within the policy. Trustee Winters inquired if the policy covered acts of "gross negligence" committed by the trustees. Ms. Dutton answered that the Argo policy does not cover gross negligence and under the provisions of 40 ILCS 5/1-107 the System is prohibited from providing indemnification or insurance coverage for "willful misconduct and gross negligence."

The coverages and exclusions covered by the cyber-liability policy purchased from the Beasley Insurance Company were also addressed.

Legislative Update

Marcy Dutton provided an overview of bills that could have an impact on TRS including legislation affecting TRS that has been sent to the Governor. Documentation is on file. The House and Senate reconvene on Memorial Day.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2018 were sent to the trustees for review. The reports are on file. On a motion by Cinda Klickna, seconded by Fred Peronto, it was resolved:

To accept the financial statement and administrative expenses for the quarter ended March 31, 2018, as presented.

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

FY 2019 Meeting Calendar

The Board Bylaws, Article III, Section 1 requires regular meetings of the Board shall be scheduled at the beginning of each fiscal year. The meeting calendar is located on the TRS website: www.trsil.org. On a motion by Mark Bailey, seconded by Larry Pfeiffer, and by unanimous voice vote, the following meeting dates were approved. Location will be TRS Springfield headquarters or Rosemont.

The FY 19 calendar of TRS Committee/Board meetings:

August 16-17, 2018	March 14-15, 2019
October 29-30, 2018	April 25-26, 2019
December 13-14, 2018	June 13-14, 2019

2018-19 Standing Committees (July 15, 2018 – July 14, 2019)

On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved to approve the standing committees for FY 19. The motion passed by unanimous voice vote.

Vice President: Cinda Klickna

Investment: All Trustees, Randy Winters, Chair; Andy Hirshman, Vice Chair

Audit Committee: Matt Hower, Chair; Fred Peronto, Vice Chair; Andy Hirshman, Tracy Kearney, Larry Pfeiffer

Legislative: Cinda Klickna, Chair; Dan Winter, Vice Chair; Andy Hirshman, Tracy Kearney, Larry Pfeiffer

Rules & Personnel: Mark Bailey, Chair; Mark Splitstone, Vice Chair; Cinda Klickna, Laura Pearl, Randy Winters

Claims Hearing: Mark Bailey, Chair; Dan Winter, Vice Chair; Laura Pearl, Matt Hower-Alternate

TRAVEL

Annual Travel

Pursuant to Public Act 96-0006, the Board must vote annually to authorize trustees to travel within the State of Illinois to attend TRS board and committee meetings, TRS-related functions, and educational missions related to TRS business. On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To authorize TRS trustees to travel within the State of Illinois during FY 19 to attend TRS Board meetings, stakeholder group meetings, or any other meeting or event related to TRS duties and responsibilities, and that all out-of-state TRS trustee travel must be approved in advance by Board vote.

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

Trustee Travel

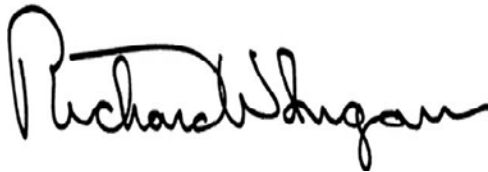
In accordance to Board Bylaws, Article II, Section I, trustee travel outside the State of Illinois or the United States must be approved by the Board in advance. On a motion by Mark Bailey, seconded by Cinda Klickna, it was resolved:

To approve out-of-state travel for Trustees Peronto and Pfeiffer to attend the NCTR Trustee Workshop in Berkley, CA, July 22-25, 2018

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

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Matt Hower, seconded by Mark Bailey, to adjourn the meeting at 12:40 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 "W".

Richard W. Ingram, Executive Director

Approved: 8/16/18