



MINUTES
Board of Trustees
August 16-17, 2018

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 16-17, 2018 at the Springfield office of the Illinois Teachers' Retirement System, 2815 W. Washington Street. President Tony Smith called the meeting to order at 12:05 p.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 Shaw, Mark Splitstone, Laura Pearl (departed 11:28 a.m. 8/17), Dan Winter, 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; Cynthia Fain, Sr. Legal Counsel; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Tom Smith, Chief Technology Officer; Carlton Lenoir, Chief Benefits Officer; Kathleen Farney, Director of Research; Deron Bertolo, Director of Investment Accounting; Stacy Smith, Director of Internal Audit; Christina Baker, Sr. Internal Auditor; Lauren Russell, Internal Auditor; Dave Urbanek, Director of Communications; Rich Frankenfeld, Director of Outreach; Tammy Green, Executive Assistant; Sue Billington, Executive Assistant; and Tiffany Reeves, Reinhart (Fiduciary Counsel).

Visitor present: Janet Kilgus, IEA-Retired.

APPROVAL OF MINUTES

Drafts of the April 27-28 and May 25, 2018 meeting minutes of the Board were sent to the trustees for prior review. On a motion by Trustee Bailey, seconded by Trustee Hower, the minutes were approved by unanimous voice vote.

RULES AND PERSONNEL COMMITTEE REPORT

FY 19 Standing Committees - Update

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

To approve the FY 19 Standing Committees, as presented.

Andy Hirshman – Chair of Investments

Matt Hower – Vice Chair of Investments

Mark Shaw – Rules & Personnel Committee

The motion passed by unanimous voice vote.

Administrative Rules

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

To promulgate amendments to TRS Administrative Rules through the JCAR process, as presented.

- establishes the calculation method applicable to the 3% employer excess cost;
- sets forth the circumstances which would result in an otherwise exempt agreement losing its exemption from the 3% employer excess cost threshold; and
- establishes the maximum time period for exemptions from the 3% employer cost threshold for those who notify their TRS covered employer of an intent to retire under either an exempt contract or policy.

The motion passed by unanimous voice vote.

Personnel

On a motion by Tracy Kearney, seconded by Dan Winter, it was resolved:

To extend Director Ingram's employment contract by one-year through June 30, 2023. The motion passed by a unanimous voice vote.

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

RECESS

The meeting recessed at 12:08 p.m. and reconvened the following day at 10:33 a.m.

EXECUTIVE DIRECTOR’S REPORT

Economic Experience Analysis/ Investment Return Assumption

Segal Consulting presented at the May 2018 Board meeting, the results of their comparison of actuarial assumptions to actual experience. The period covered was July 1, 2014-June 30, 2017. 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 had 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.

Continuing on the discussion held at the May meeting regarding Segal Consulting’s recommendation to decrease the investment return assumption to 6.75%, the Board held a lengthy discussion whether to lower the rate or remain at the current rate of 7.0%. A motion was made by Mark Bailey, seconded by Laura Pearl, to decrease the assumed rate of return on investments from 7.0% to 6.75% as recommended by Segal Consulting. Roll call resulted in affirmative voice votes from Trustees Bailey, Pfeiffer, Kearney, Pearl, Winter, and Klickna. Votes of opposition from Hirshman, Hower, Peronto, Shaw, Splitstone, and Smith. Motion FAILED 6-6.

A motion was made by Matt Hower, seconded by Mark Splitstone, to adopt the actuarial assumptions, as presented, and that the assumed rate of return on investments remain at the current rate of 7.0%.

- decrease assumed rates of termination from active employment;
- decrease assumed rates of disability retirement;
- decrease assumed optional service purchases;
- increase assumed rates of regular service retirement for Tier 1;
- increase the merit and seniority components of the salary increase assumption;

- increase assumed severance pay;
- adjust the amounts of sick leave used for service credit at retirement; and
- adjust rates of mortality for various groups,

No change in the 2.5% inflation assumption. Actuarial tables used to calculate benefits and local employer and member contributions will be revised after the 2018 valuation and will be effective July 1, 2019.

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

(Trustee Pearl departs)

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 Bailey seconded the motion and it passed by roll call vote from Trustees Bailey, Hirshman, Hower, Kearney, Peronto, Pfeiffer, Splitstone, Winter, Klickna, and Smith. Trustee Shaw abstained from voting. Motion CARRIED. The following motions were approved by action taken in the consent agenda motion.

Approve the Private Equity Tactical Plan, as presented.

Approve the Real Estate Tactical Plan, as presented.

End of Consent Agenda

Aksia

On a motion by Tracy Kearney, seconded by Cinda Klickna, it was resolved:

To select Aksia to provide private debt investment consultant services for a contract not to exceed five years.

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

Edelweiss

On a motion by Tracy Kearney, seconded by Cinda Klickna, it was resolved:

To commit up to \$75 million to the Edelweiss Stressed Asset Fund II within the Fixed Income Special Situations allocation contingent upon successful completion of legal documentation. The source of funds will be from cash accounts or other rebalancing activity.

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

CLAIMS HEARING COMMITTEE REPORT

Huiner Administrative Review

On a motion by Matt Hower, seconded by Cinda Klickna, it was resolved:

The Board finds in favor of Petitioner, Cara Huiner, and orders that her disability retirement annuity is hereby reinstated retroactive to the date her disability annuity was terminated. As a condition precedent to reinstating the disability annuity, the Petitioner is to disclose the amount of her earnings from her employment to TRS (by providing copies of her tax returns for the period in question). After review by TRS, her benefit payable from the date of termination of the TRS benefit payment to the present shall be adjusted according to 40 ILCS 16-149.2(c). Furthermore, Petitioner, Cara Huiner, as a requirement of continuing to receive a disability benefit is required to submit to an independent medical examination by a physician designated by the Staff, said examination to be conducted within 90 days of the entry of this Order.

The findings of the independent physician's medical examination will determine whether Cara Huiner is incapable of performing the duties of a teacher. Should the independent medical examination determine she remains incapacitated to perform the duties of a teacher, she will continue to receive a disability retirement annuity in accordance with rules and conditions applicable to the program. Should the independent medical examination determine Petitioner

Cara Huiner is capable of performing the duties of a teacher, her disability benefits will be terminated. The petitioner shall also be subject to reexaminations consistent with 40 ILCS 5/16-149.2(c).

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

Budget Management

Director Ingram provided a memorandum noting potential cost reduction initiatives within the FY 19 budget. As requested by the Board, staff will continue to prudently manage expenditures. Documentation is on file.

Gemini/Employer Report Update

TRS is in the beginning stages of developing new IT systems necessary to implement various legislative changes to the pension code and to build the next generation of TRS's pension administration system, Gemini. TRS staff presented a synopsis of the Gemini and Employer Reporting systems development projects. Documentation is on file.

TRS will convert from annual to monthly employer reporting as required for Tier 3/Deferred compensation plans. Director Ingram reported that further analysis and experience is necessary before determining whether to use a custom in-house development solution or a framework approach. Staff intends to deliver a recommendation to the Board by the end of FY19 on how to proceed with the project to re-write the system.

ESG Investing Update

Director Ingram reported that it's not necessary for TRS to determine its own set of environmental, social and governance (ESG) factors when managing its investment portfolio and may consider adopting a policy or set of principles for managers to model. Documentation is on file. According to a survey conducted by NEPC Investment Consultants, defined benefit plans are uninterested in integrating ESG into investment manager selections.

Annual Certification of Trustee Ethics Training

In accordance to Public Act 96-0006, the Board shall annually certify that trustees have completed a minimum of eight hours of ethics training during the fiscal year. On a motion by Cinda Klickna, seconded by Mark Bailey, 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 18 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, Andrew Hirshman, Matt Hower,
Tracy Kearney, Cinda Klickna, Fred Peronto, Larry Pfeiffer,
Tony Smith, Mark Splitstone, Randy Winters

The motion passed by unanimous voice vote.

Informational Items

The TRS Technology Department successfully completed its annual disaster discovery.

The Member Services Department recently implemented “post counseling surveys” for TRS members to complete following their appointment with a TRS counselor. The recorded satisfaction rate was in the 90's.

The following information is on file:

- TRS Accomplishments from fiscal year 2018
- Comment Letter submitted by NASRA, NCPERS, and NCTR in response to the Exposure Draft of Actuarial Standards of Practice (ASOP) No. 4 which would require an additional calculation intended to measure risk faced by public pension plans.
- Member Services Statistical Report for the period ending June 30, 2018
- Employer Services Report for the period January 13 – July 13, 2018

BOARD TRAVEL

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 Matt Hower, seconded by Mark Bailey, it was resolved:

To approve out-of-state travel expenses for Trustee Hirshman to attend the NCTR annual conference in Washington, DC, October 6-9, 2018

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

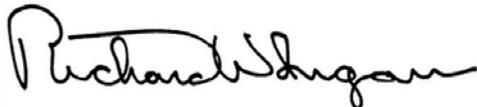
Approval of Executive Session Minutes/Semi-Annual Review of Minutes

A draft of the April 27, 2018 executive session minutes of the Board was sent to the trustees for prior review. Documentation is on file. On a motion by Larry Pfeiffer, seconded by Andy Hirshman, the minutes were approved as presented. The motion passed by voice vote with a vote of abstention from Trustee Shaw.

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. Documentation is on file. On a motion by Mark Bailey, seconded by Andy Hirshman, and by unanimous voice vote, the Board did not release any closed meeting minutes to the public.

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Matt Hower, seconded by Tracy Kearney, to adjourn the meeting at 1:05 p.m.



Richard W. Ingram, Executive Director

Approved: 10/30/18