



MINUTES
Board of Trustees
October 28-29, 2015

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 28-29, 2015 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Dr. Tony Smith, President, called the meeting to order at 5:13 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Andy Hirshman, Rainy Kaplan, Bob Lyons, Alexander Stuart, Dan Winter, Cinda Klickna, Vice President and Tony Smith (10/28), President. Absent: Sonia Walwyn and Tony Smith (10/29).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Cynthia Fain, Sr. Assistant General Counsel; Gina Larkin, Chief Human Resources Officer; Jana Bergschneider, Chief Financial Officer; Kathleen Farney, Director of Research; Sally Soderberg, Chief Benefits Officer; Bob Jiroutek, Risk Officer; Deron Bertolo, Director of Investment Accounting; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Becky Gratsinger, RV Kuhns (Investment Consultant); and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Dennis Murfin, IRTA; Don Davis, IRTA; Ed Wollet; IRTA; Janet Kilgus, IEA-R; Tony Casalino, IFT; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital Markets.

PUBLIC COMMENTS

Dennis Murfin, IRTA representative, has attended TRS board meetings for many years. His last meeting as an IRTA spectator will be December.

APPROVAL OF MINUTES

A draft of the August 12-13, 2015 minutes of the Board meeting was sent to the trustees for prior review. On a motion by Bob Lyons, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

EXECUTIVE DIRECTOR'S REPORT

Toigo Foundation

Director Ingram provided an overview of the Toigo Foundation and his appointment to serve on the Advisory Board of Toigo. Documentation is on file. The Toigo Mission is to foster the career advancement and increased leadership of underrepresented talent in Finance and allied industries and to create mechanisms for greater inclusion from the classroom to the boardroom. TRS partnered with the Toigo Foundation and successfully mentored its first Toigo intern this past summer. TRS plans to provide a summer internship for up to two investment candidates for the next three years and continues to develop a workforce that promotes diversity.

Communications Review

As part of the TRS strategic plan regarding a comprehensive review of all aspects of communications and outreach, Director Ingram proposed the engagement of Jасulca Terman and Associates of Chicago to conduct a professional review of the System's internal and external messages and communications tools and strategies. A large part of the review will be to help TRS determine what members want to know from TRS and what messages the System should be sharing with members, stakeholders, elected officials, the general public and the media. Director Ingram will establish a timeline for the review that will enable a report to be made to the Board in February. A motion was made by Cinda Klickna, seconded by Mike Busby, to permit staff to negotiate a contract with Jасulca Terman (JT) Strategic Communications to perform a strategic communication review not to exceed \$60,000. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Hirshman, Kaplan, Klickna, Lyons, Stuart, and Winter. Motion CARRIED.

TRS Retirements

Tom Gray, General Counsel and Sally Soderberg, Chief Benefits Officer, plan to retire in 2016. Interviews for general counsel will be conducted in mid-November. Director Ingram recommended Darlington Partners, an executive search firm, to assist with the hiring of a chief benefits officer. Documentation is on file. A motion was made by Cinda Klickna, seconded by Mike Busby, to approve a contract with Darlington Partners to conduct an executive search for a chief benefits officer for a fixed fee of \$75,000 plus necessary expenses estimated not to exceed \$10,000. Roll call resulted in

affirmative voice votes from Trustees Bailey, Busby, Hirshman, Kaplan, Klickna, Lyons, Stuart, and Winter. Motion CARRIED.

Request for Proposal for Actuarial Services

The current three-year contract with Buck Consultants expires June 2016. State law requires all external vendor contracts be put out for bid every three years. Staff requested approval to begin the RFP process of seeking proposals for actuarial consulting services. Documentation is on file. A motion was made by Mike Busby, seconded by Dan Winter, to authorize staff to issue an RFP for actuarial services. The motion passed by a unanimous voice vote.

Strategic Plan Update

Director Ingram provided an outline of the TRS strategic plan and requested approval. Documentation is on file. A motion was made by Bob Lyons, seconded by Mark Bailey, to approve the strategic plan outline. The motion passed by a unanimous voice vote.

Vision – *To be recognized by our members and the public as dedicated to the highest professional standards of service and accountability, despite operating in the nation’s most challenging environment for public pension plans.*

Mission – *TRS will continually deliver the retirement security promised to our members by maintaining the highest and most efficient level of service and by living our values:*

- *Put the best interests of others first*
- *Diversity*
- *Teamwork*
- *Continuous Improvement*

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2015 and the FY 15 lapse period of July 1 to August 31, 2015 were sent to the trustees for review. The Board also received detailed vendor payment information for expenditures greater than \$50,000 for the period July 1, 2014 through June 30, 2015. Documentation is on file. On a motion by Cinda Klickna, seconded by Rainy Kaplan, it was resolved:

To approve the administrative expenses and financials for the quarter ended June 30, 2015, including the FY 15 lapse period expenses, as presented.

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

TRUSTEE TRAVEL

Director Ingram, Trustee Lyons, and Sally Soderberg provided commentary on the recent National Council on Teacher Retirement (NCTR) Annual Conference that they attended.

RECESS

The meeting recessed at 5:53 p.m. and reconvened the following day at 2:44 p.m.
Note: Votes noted above were taken on 10/29/15.

INVESTMENT COMMITTEE REPORT

Watch List

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved:

To accept the 9/30/15 Watch List, as presented.

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

Herndon Capital Management - Termination

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

To terminate Herndon's 3.0% domestic equity large cap core mandate.

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

Cash Withdrawal

On a motion by Mark Bailey, seconded by Bob Lyons, it was resolved:

To withdraw up to 1.5 percent of the total fund's value, or \$662.8 million based on the August 31, 2015 ending market value.

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

WMBE Utilization Goals

On a motion by Sandy Stuart, seconded by Cinda Klickna, it was resolved:

To approve the WMBE utilization goals for fiscal year 2016, as presented.

Broker/Dealer Utilization:

- Domestic Equity increase 19.0% to 20.0%
- International Equity –increase 12.5% to 13.5%
- Fixed Income –maintain goal of 15%

Investment Manager Utilization:

- Asset Management Goal –increase 15.0% to 16%
- Fees Paid – maintain goal of 5.5 – 9.0%

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

Fixed Income/Real Return

On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

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

- Accept the changes to the global fixed income asset class structure, as presented.
- Approve the global fixed income special situations tactical plan, as presented.
- Approve the addition of Prudential's Global Relative Value strategy within the existing Prudential global fixed income mandate. The initial target will be 10% of the overall Prudential mandate, or approximately \$50 million of the approximate \$700 million assigned for Prudential's long term target. The target to the strategy is expected to change over time.

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

Taurus Metals and Mining Finance

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

To allocate an additional \$50 million allocation to Taurus Metals and Mining Finance, increasing the total new commitment to \$80 million. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation and rebalancing objectives.

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

Trident VI – Private Equity

On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To ratify the commitment of up to \$30 million to the co-investment with Trident VI, L.P.

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

Stock Distributions – Private Equity

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

Allow staff to utilize the System's pool of transition managers in liquidating stock distributions from private equity funds and co-investments. The move would end the current contract with JPMorgan as of December 1, 2015. Note, in the interest of preventing information leakage, distributions would not necessarily be bid to all transition managers, but rather selected based on each firm's specific expertise at trading thinly traded securities.

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

Madison Dearborn – Private Equity

On a motion by Sandy Stuart, seconded by Bob Lyons, it was resolved:

To commit \$75 million to Madison Dearborn Capital Partners VII, L.P. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation and rebalancing objectives.

Roll call resulted in affirmative voice votes from Trustees Busby, Klickna, Lyons, Stuart, and Winter. Votes of opposition were heard from Trustees Bailey, Kaplan, and Hirshman. Motion FAILED 5-3. (A majority of the trustees presently serving on the Board is six)

Riverstone

On a motion by Rainy Kaplan, seconded by Sandy Stuart, it was resolved:

To commit \$50 million (with potential for future co-investment consideration) to Riverstone Credit Partners, L.P. within the global fixed 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 and rebalancing objectives.

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

Absolute Return Asset Class

On a motion by Rainy Kaplan, seconded by Mark Bailey, it was resolved:

To approve recommendations within the absolute asset class, as presented.

- Increase Alphadyne Global Rates as additional capacity becomes available
- Modify AQR Global Risk Premium Tactical Fund to allow for additional style premia components.
- Increase Bridgewater Pure Alpha as additional capacity becomes available
- Decrease Grosvenor Monarch to \$300 million
- Potential restructure of the PIMCO Global Multi-Asset Strategy mandate to focus more on style premia exposure.
- Decrease/Restructure the Pine River Fund mandate
- Increase Tourbillion Global Master Fund mandate

- Increase Varadero Capital mandate as additional capacity becomes available

To approve the the FY 16 Diversifying Strategies Tactical Plan, as presented.

- Work towards the 16% long-term target for the diversifying strategies asset class
- Continue the reduction and/or liquidation of the fund of funds portfolios. Staff continues to use these proceeds as the source of funds for new direct investments.
- Continue refining the framework of how convergent, convex and risk parity strategies can more cohesively be structured in the overall TRS portfolio.
- Enhance monitoring and risk management within the asset class and total fund.

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

AQR Capital Management – Absolute Return

On a motion by Mark Bailey, seconded by Bob Lyons, it was resolved:

To modify the existing AQR Global Risk Parity Tactical account to include the AQR Style Premia Fund, subject to final completion of contract negotiations. The modification will allocate equal risk to GRPT and SPF. There is no change to the mandate target to the AQR relationship.

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

Penso Advisors – Absolute Return

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

To commit up to 8% of the System’s absolute return asset class to Penso Advisors subject to final contract negotiations. Initial funding is anticipated to be \$100 million.

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

Westbrook Partners – Real Estate

On a motion by Mark Bailey, seconded by Sandy Stuart, it was resolved:

To commit \$100 million, plus a 10% fund for reserve and management fees, to Westbrook Real Estate Fund X, L.P. subject to successful completion of legal review by Jackson Walker. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation and rebalancing objectives.

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

Scale Venture Partners – Private Equity

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

To commit up to \$30 million to Scale Venture Partners V, L.P. Source of funds shall be TRS cash accounts, or other accounts based on asset allocation and rebalancing objectives.

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

CLAIMS HEARING COMMITTEE REPORT

An administrative review was held on August 12, 2015 to consider the appeal of Karen Maupin challenging the TRS staff determination denying Ms. Maupin's request that TRS waive interest on the purchase of two years of pension credits for recognized Illinois non-public service. The Claims Hearing Committee proposed that the Board adopt the the staff recommended decision. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To approve recommended decision of the Claims Hearing Committee re: the administrative review of Karen Maupin, as presented.

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

RULES AND PERSONNEL COMMITTEE REPORT

Board Bylaws Revisions

On a motion by Bob Lyons, seconded by Rainy Kaplan, it was resolved to accept the Board Bylaws revisions, as presented. Documentation is on file. The motion passed by unanimous voice vote.

Article III, Section 8 - The Board and its Committees shall keep a full record written minutes of all ~~its~~ proceedings, whether open or closed, in which shall be recorded the date, time, and place of the meeting, whether each trustee was physically present, participated by telephone or video or audio conference, or was absent, a summary of all matters discussed, and a record of any votes taken. ~~The Committees of the Board are also subject to this Section.~~ Board proceedings shall be ~~recorded by audio medium and~~ transcribed into written minutes, which shall be submitted to the Board for approval at the next meeting.

~~Audio recordings of Board meetings open to the public shall be posted on the TRS website for at least two years, and may be destroyed after the two-year posting period. Executive sessions shall be recorded by audio medium.~~ Audio recordings of executive sessions shall be retained no 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.

Article IV, Section 3 - The Executive Director shall serve as the Secretary to the Board. ~~He, she, or a designee shall record the proceedings of each meeting of the Board and shall see that copies thereof are made available to the trustees as herein provided.~~ He, she, or a designee shall give proper and timely notice of all meetings of the Board. He or she shall authenticate with his or her signature any resolutions of the Board, shall notify the Board when the oath of office has been administered to new trustees, and shall perform such other duties as may be assigned by the Board.

AUDIT COMMITTEE REPORT

Internal Audit Charter

On a motion by Mark Bailey, seconded by Rainy Kaplan, it was resolved to accept the Internal Audit Charter revisions, as presented, to comply with the new elements of the International Professional Practice of Internal Audit. The motion passed by unanimous voice vote.

EXECUTIVE DIRECTOR'S REPORT

June 30, 2015 Actuarial Valuation Results & Proposed Certification of FY 2017 Funding Requirements

Larry Langer and Paul Wilkinson of Buck Consultants presented the preliminary results of the System's June 30, 2015 actuarial valuation and the proposed state contribution requirements for FY 2017. The results and funding recommendations are preliminary until the state actuary has reviewed; both will be finalized by January 15, 2016. Documentation is on file. The funded ratio based on market value declined from 44.2% in FY 14 to 42.9% in FY 15. The funded ratio based on the actuarial value of assets (smoothed over a five-year period) increased slightly to 42.0%, up from 40.6% last year. The unfunded liability based on the actuarial value of assets increased from \$61.6 billion at the end of FY 14 to \$62.7 billion at the end of FY 15. The preliminary contribution to TRS for FY 2017 under current law, which does not follow generally accepted actuarial standards, is \$3.99 billion. The state funding amount required under generally accepted actuarial standards for the coming year would be \$6.07 billion. Buck noted that TRS still ranks as one of the worst funded public pension system in the United States due to insufficient state contributions and cited the need for funding reform. On a motion by Bob Lyons, seconded by Rainy Kaplan, it was resolved:

To accept the results of the June 30, 2015 actuarial valuation and to adopt proposed certifications of the following:

- Based on the current statutory funding plan, an FY 2017 state funding amount of \$3,986,583,351, including \$800,000 for minimum retirement benefits;
- Based on "Actuarial Math 2.0," an FY 2017 state funding amount of \$6,070,973,314, including \$800,000 for minimum retirement benefits; and
- The FY 2017 total normal cost of 18.08 percent of pay, a rate which includes an employer normal cost of 8.27 percent of pay and an assumed employee contribution rate of 9.81 percent of pay (which is the projected rate including the base rate of 9.40 percent and member contributions for optional service and lump sum contributions at retirement for the early retirement option).

Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Hirshman, Kaplan, Klickna, Lyons, Stuart, and Winter. 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, state comptroller, and the director of Central Management Services. The THIS Fund certification of the state matching contribution is based on the assumption that the active member contribution rate increases to 1.12% of payroll during FY 2017 and includes an adjustment for overestimating actual member contributions in FY 2015. The FY 2017 certified amount for THIS Fund is \$109,703,000. On a motion by Rainy Kaplan, seconded by Bob Lyons, it was resolved:

To certify \$109,703,000 as the required state contribution to the Teacher Health Insurance Security (THIS) Fund for FY 2017 assuming the active member contribution is increased to 1.12 percent of pay, as presented.

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

Risk Report

Bob Jiroutek, Risk Officer, presented a risk report for the TRS fund including investment risk measurements and other output from BlackRock Aladdin. Documentation is on file.

Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report (8/31/15)
- EEOC Report (9/30/15)

EXECUTIVE SESSION

A motion was made by Mark Bailey, seconded by Cinda Klickna, that the Board enter into executive session for the purpose of discussing the employment, compensation, discipline, performance, or dismissal of specific employees of 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, Busby, Hirshman, Kaplan, Lyons, Stuart, Winter, and Klickna. Motion CARRIED.

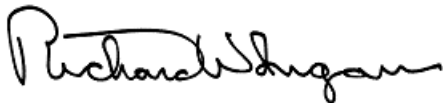
No action was taken during executive session. A motion was made by Mark Bailey, seconded by Bob Lyons, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bailey, Busby, Hirshman, Kaplan, Lyons, Stuart, Winter, and Klickna. Motion CARRIED.

Approval of Executive Session Minutes

Drafts of the August 12-13, 2015 executive session minutes of the Investment Committee and Board meetings were sent to the trustees for prior review. On a motion by Rainy Kaplan, 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, on a motion by Mark Bailey, seconded by Rainy Kaplan, and by unanimous voice vote, the meeting adjourned at 5:09 p.m.



Richard W. Ingram, Executive Director

Approved: 12/10/15