



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

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MINUTES Board of Trustees February 9, 2012

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 9, 2012 at the Springfield office, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 3:05 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mike Busby, Marcia Campbell, Jan Cleveland, Sharon Leggett, Bob Lyons, Cynthia O'Neill, Janice Reedus, Sonia Walwyn, Molly Phalen, and Chris Koch, President. Absent: Cinda Klickna.

Staff present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Cynthia Fain, Sr. Assistant General Counsel; Sally Sherman, Director of Member Services; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Kathleen Farney, Director of Research; Gina Larkin, Director of Human Resources; Sue Billington, Executive Assistant; Tammy Green, Asst. to the Exec. Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Jack Tucker, IEA-R; Don Davis, IRTA; Dennis Murfin, IRTA; Angela Myers, Loop Capital Markets; and Christine Williamson, Pensions & Investments.

Approval of Minutes

A draft of the December 13, 2011 minutes of the Board of Trustees meeting was sent to the trustees for prior review. On a motion by Marcia Campbell, seconded by Bob Lyons, the minutes were approved as printed. (Trustee Walwyn abstained from voting)

CLAIMS HEARING COMMITTEE REPORT – *Cynthia O'Neill, Chair*

Glenbard Township High School District No. 87

The Claims Hearing Committee met on October 26, 2011 to consider the administrative review of Glenbard Township High School District No. 87. Documentation is on file. The committee found in favor of staff in this matter. On a motion by Sharon Leggett, seconded by Marcia Campbell, it was resolved:

To adopt Claims Hearing Committee's recommended decision in the review of Glenbard Township High School District No. 87.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

INVESTMENT COMMITTEE REPORT – *Cynthia O'Neill, Chair*

Watch List 12/31/11

On a motion by Sharon Leggett, seconded by Sonia Walwyn, it was resolved:

To accept the December 31, 2011 watch list, as presented.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Wellington Management Company – Termination

On a motion by Sharon Leggett, seconded by Mike Busby, it was resolved:

To ratify the termination of Wellington Management Company's domestic equity large cap growth mandate. The 3% target mandate will be reassigned to T. Rowe Price's large cap growth portfolio (a 2% increase to 7%) and Boston Partners' large cap value portfolio (a 1% increase to 6%).

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Domestic Equity Terminations

On a motion by Sharon Leggett, seconded by Jan Cleveland, it was resolved:

To terminate the Investment Management Agreements for the domestic equity mandates of EARNEST, AQR, and Fred Alger.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Mondrian Investment Partners

On a motion by Marcia Campbell, seconded by Janice Reedus, it was resolved:

To adopt a new fee schedule for Mondrian Investment Partners international equity mandate, as presented. The effective date for the new fee schedule is April 1, 2012.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Private Equity – Co-Investment

On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To ratify commitment of up to \$40 million to Alibaba Group, a co-investment opportunity offered by Silver Lake Partners.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Securities Lending RFP

On a motion by Mike Busby, seconded by Janice Reedus, it was resolved:

To issue a RFP for third party securities lending providers.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Oakbrook Investments – Emerging Manager Program

On a motion by Sonia Walwyn, seconded by Jan Cleveland, it was resolved:

To “graduate” the Oakbrook Investments enhanced index portfolio from the emerging manager program to a 2% target mandate within

the domestic equity portfolio. The mandate will be offset by a decrease in the Rhumblin S&P 500 target mandate from 25% to 23%.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Lightspeed Venture Partners IX, L.P.

On a motion by Marcia Campbell, seconded by Janice Reedus, it was resolved:

To commit \$30 million to Lightspeed Venture Partners IX, L.P. within the main TRS trust fund. Source of funds shall be TRS cash accounts, passive/enhanced index accounts or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

NGP Natural Resources Fund X, L.P.

On a motion by Mike Busby, seconded by Marcia Campbell, it was resolved:

To commit up to \$100 million to NGP Natural Resources Fund X, L.P. The commitment will be in two tranches of \$50 million each, first in February and the second tranche anticipated to be completed before the end of the second calendar quarter of 2012. Staff would like to reserve the right to allocate the second tranche, with Chairperson approval, contingent upon negotiations with NGP and another energy-focused private equity firm in the market. Source of funds shall be TRS cash accounts, passive/enhanced index accounts or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Parthenon Investors IV, L.P.

On a motion by Sharon Leggett, seconded by Marcia Campbell, it was resolved:

To commit up to commit up to \$40 million to Parthenon Investors IV, L.P. within the main TRS trust fund. Source of funds shall be TRS cash accounts, passive/enhanced index accounts or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Niam Nordic V, L.P.

On a motion by Mike Busby, seconded by Jan Cleveland, it was resolved:

To commit up to □20 million (approximately \$26.6 million) to Niam Nordic V, L.P. within the main TRS trust fund. Source of funds shall be TRS cash accounts, passive/enhanced index accounts or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Starwood Distressed Opportunity Fund IX, L.P.

On a motion by Janice Reedus, seconded by Jan Cleveland, it was resolved:

To commit \$150 million to Starwood Distressed Opportunity Fund IX, L.P. within the main TRS trust fund. Source of funds shall be TRS cash accounts, passive/enhanced index accounts or active manager accounts that may be above their intended target weight.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2011 were sent to the trustees for review. The reports are on file. On a motion by Cynthia O'Neill, seconded by Marcia Campbell, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2011, as presented.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Updates

Director Ingram provided several updates. Documentation is on file.

Senate Bill 3813 passed during veto session. This legislation includes changes in reporting potential fraud by members. Staff will be reviewing existing policies and evaluate additional procedures to satisfy the new rules. Any possible instances of fraud involving TRS will be reported to the board by the executive director and passed on to the State's Attorney for action.

At the December 2010 board meeting, the System's insurance consultant reported on the cost of fiduciary liability insurance and recommended no purchase of coverage due to cost factors and restrictions. Director Ingram has asked staff and outside counsel at Holland & Knight to re-visit the issue of fiduciary insurance to see if coverage is available and affordable.

Staff will conduct the annual review of the Business Resumption Plan during February and March. The plan deals with business interruptions that may occur due to natural disasters.

Director Ingram provided a demonstration of the internal blog at TRS. Currently, the goal is to write a daily post and the platform is open to staff only. The purpose of the blog is to improve communication between staff and senior management.

The board received a memorandum from Director Ingram regarding the challenges TRS and the pension systems face due to the fiscal crisis in Illinois. The memo included analyses and hypothetical insolvency scenarios for TRS

performed by Buck Consultants. Director Ingram reported that in order to determine the true cost of reform proposals, it is important that the state use actuarial math rather than Illinois political math. Documentation is on file.

Miscellaneous Reports

The following reports are on file:

- Member Services Statistical Report for the period ending December 31, 2011
- Employer Services Report for the period July 2011 through January 2012
- EEOC Report for the quarter ending December 31, 2011

EXECUTIVE SESSION

A motion was made by Marcia Campbell, seconded by Sonia Walwyn, that the Board enter into executive session for the purpose of discussing the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body or legal counsel for the public body; probable or imminent litigation; and discussion of closed meeting minutes including review of semi-annual 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 Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Sharon Leggett, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the December 12-13, 2011 Investment Committee and Board executive session minutes were sent to the trustees for prior review. In addition, the Board received a memorandum from the System's Legal Department regarding the confidentiality of executive session minutes pursuant to the Open Meetings Act. On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To approve the executive session minutes of the December 12 Investment Committee and the December 13, 2011 Board of Trustees meetings, as printed.

That the following executive session minutes no longer require confidential treatment and will be made available for public inspection:

May 25, 2004 Board of Trustees

August 4, 2011 Board of Trustees

October 26, 2011 Investment Committee

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Executive Director Contract

On a motion by Mike Busby, seconded by Bob Lyons, it was resolved:

To approve a new employment agreement with Executive Director Richard Ingram.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

ADJOURNMENT

On a motion by Molly Phalen, seconded by Sonia Walwyn, the meeting adjourned at 4:18 p.m.

Richard W. Ingram, Executive Director

Approved _____