



## Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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### MINUTES Board of Trustees May 25, 2012

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 25, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Chris Koch, President, called the meeting to order at 9:48 a.m. A quorum was present.

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

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Jana Bergschneider, Director of Administration; Sally Sherman, Director of Member Services; Rich Frankenfeld, Director of Outreach; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; John McLaughlin, RV Kuhns (Investment Consultant); and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.; and Don Davis, IRTA Rep.; and Jack Tucker, IEA-R.

### APPROVAL OF MINUTES

Drafts of minutes from the February 9 regular meeting, March 30 regular meeting, and April 30, 2012 special meeting of the Board of Trustees were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved as printed.

### INVESTMENT COMMITTEE REPORT—*Cynthia O'Neill, Chair*

#### POB Debt Service

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

To transfer \$347 million from the POB account to the main TRS trust fund within FY 13. Transfers will be completed at the

discretion of the Chief Investment Officer with the approval of the Investment Committee Chair.

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

#### Watch List 3/31/12

On a motion by Jan Cleveland, seconded by Molly Phalen, it was resolved:

To accept the 3/31/12 watch list, as presented.

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

#### Global Equity

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

To approve the global equity recommendations, as presented.

- \*Reduce Denali's target allocation from 3% to 2%
- \*Increase Rhumblin S&P 500 target allocation from 23% to 24%
- \*Ratify revision to Denali fee structure, as presented

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

#### Fixed Income

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

To increase the Special Situation allocation within the fixed income portfolio from 3% to 5%, with a corresponding 1% reduction to both the PIMCO and Loomis Sayles mandate targets.

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

## PIMCO DISCO II

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

To commit an additional \$40 million to the PIMCO DISCO II fund, representing an allocation of \$115 million to the fund. Source of funds to be cash flow.

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

## Fixed Income - Westwood Management Corporation

On a motion by Jan Cleveland, seconded by Molly Phalen, it was resolved:

To commit \$75 million to Westwood Management's Income Opportunities Strategy within the fixed income special situations sector. Source of funds to be cash flow and rebalancing of the fixed income portfolio.

Roll call resulted in affirmative voice votes from Trustees Campbell, Busby, Cleveland, Leggett, Lyons, O'Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna abstained from voting)

## Real Return – AQR Investment Management

On a motion by Sharon Leggett, seconded by Cynthia O'Neill, it was resolved:

To hire AQR Investment Management's Real Return Strategy at a 10% target within the real return asset class.

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

## Real Return – Standard Life Investments

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

To hire Standard Life's Global Absolute Return Strategy at a 14% target within the real return asset class.

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

#### Wellington - Termination

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

To terminate Wellington's Diversified Inflation Hedges strategy.

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

#### Gresham and Schroders - Termination

On a motion by Sharon Leggett, seconded by Molly Phalen, it was resolved:

To terminate the dedicated long-only commodity allocations within the real return asset class with the elimination of this strategy. The existing mandates of both Gresham and Schroders are terminated. Proceeds from the mandates shall be used to fund new mandates and rebalancing within the revised real return structure.

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

#### Real Return Asset Class

On a motion by Marcia Campbell, seconded by Jan Cleveland, it was resolved:

To approve revised targets within the real return asset class, as presented.

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

### Transition Management

On a motion by Jan Cleveland, seconded by Marcia Campbell, it was resolved:

To approve the following firms as transition management providers.

- State Street Global Markets
- JP Morgan
- Credit Suisse
- Citi Group
- Loop Capital

Roll call resulted in affirmative voice votes from Trustees Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Busby abstained from voting)

### Investment Consulting RFP

On a motion by Cinda Klickna, seconded by Molly Phalen, it was resolved:

To authorize an RFP for general consulting services.

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

### Performance Reporting System

On a motion by Marcia Campbell, seconded by Cinda Klickna, it was resolved:

To authorize an RFP for a performance reporting system.

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

### Domestic Equity – Cortina Asset Management

On a motion by Marcia Campbell, seconded by Jan Cleveland, it was resolved:

To select Cortina Asset Management’s SMID cap product for an initial 1.25% mandate w/in the domestic equity portfolio. Source of funds and the offsetting target allocation reduction (2.5% to 1.5%)

shall come from the SSGM Optimized Russell 2500 Growth portfolio.

Roll call resulted in affirmative voice votes from Trustees Campbell, Busby, Cleveland, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna abstained from voting)

Private Equity – Oaktree Capital Management

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

To commit \$100 million to Oaktree Opportunities Fund IX, L.P. split between the main TRS trust fund (85%) and POB account (15%). Source of funds to 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 Campbell, Busby, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED.

Private Equity – Providence Equity Partners

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

To commit \$200 million to Providence Equity Partners VII, L.P. within the main TRS trust fund. Source of funds to 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 Campbell, Busby, Cleveland, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna abstained from voting)

Private Equity – Riverstone

On a motion by Mike Busby, seconded by Molly Phalen, it was resolved:

To commit \$250 million to Riverstone Global Energy and Power Fund V, L.P., split between the main TRS trust fund (85%) and the POB account (15%). Source of funds to 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 Campbell, Busby, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED.

Real Estate – LaSalle

On a motion by Jan Cleveland, seconded by Marcia Campbell, it was resolved:

To commit \$75 million, or up to 20% maximum exposure, to LaSalle Asia Opportunity Fund IV within the main TRS trust fund. Source of funds to 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 Campbell, Busby, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED.

**AUDIT COMMITTEE REPORT-*Janice Reedus, Chair***

Internal Audit Plan

On a motion by Cinda Klickna, seconded by Marcia Campbell, it was resolved:

To approve the FY 2012 and 2013 Internal Audit Plan, as presented.

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

Real Estate Audit

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

To hire Deloitte to provide real estate audit services for a 5-year contract period.

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

## **RULES & PERSONNEL COMMITTEE-*Sharon Leggett, Chair***

The Rules & Personnel Committee proposed standing committee slates effective July 15, 2012. On a motion by Jan Cleveland, seconded by Marcia Campbell, and by unanimous voice vote, the FY 13 standing committees were approved, as presented.

Vice President: Molly Phalen

Investment: Cynthia O’Neill, Chair; Mike Busby, Vice Chair

Audit Committee: Janice Reedus, Chair; Bob Lyons, Vice Chair; Mike Busby, Marcia Campbell, Cynthia O’Neill

Legislative: Jan Cleveland, Chair; Cinda Klickna, Vice Chair; Marcia Campbell, Bob Lyons, Janice Reedus

Rules & Personnel: Sharon Leggett, Chair; Mike Busby, Vice Chair; Molly Phalen, Janice Reedus, Sonia Walwyn

Claims Hearing: Cynthia O’Neill, Chair; Sonia Walwyn, Vice Chair; Jan Cleveland, Marcia Campbell-alternate

## **NEW BUSINESS**

### 2012-2013 Meeting Calendar

The meeting calendar is located on the TRS Web site: [trs.illinois.gov--board](http://trs.illinois.gov--board) of trustees, calendar. On a motion by Molly Phalen, seconded by Bob Lyons, and by unanimous voice vote, the following meeting dates were approved:

#### The FY 13 Investment Committee/Board meeting calendar:

August 22-24, 2012	February 20-22, 2013
October 24-26, 2012	April 17-19, 2013
December 10-11, 2012	May 22-24, 2013
	June 20-21, 2012 (tentative)

### FY 2013 Budget and Contracts > \$50,000

The proposed FY 2013 budget and contracts over \$50,000 were sent to the trustees for their review prior to the meeting. Documentation is on file. Jana Bergschneider, Director of Administration, provided a brief overview of the budget initiatives. The proposed budget is \$25 million, representing a 7.28% increase over the FY 12 budget. On a motion by Cinda Klickna, seconded by Bob Lyons, it was resolved:

To approve the FY 2013 administrative budget and listing of contracts over \$50,000, as presented.

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

### **EXECUTIVE DIRECTOR’S REPORT**

Legislation has passed that ends the opportunity for Mr. David Piccioli to purchase his prior Illinois Federation of Teachers service. Pursuant to Public Act 97-0651, the System shall immediately refund any contributions made by or on behalf of a person to receive service credit as well as any amount determined by the Board to be equal to the investment earned by the System on those contributions since their receipt. Mr. Piccioli purchased prior service and has requested a refund. Staff provided an overview of two calculation options to determine the type of refund amount. On a motion by Mike Busby, seconded by Molly Phalen, it was resolved:

To refund David Piccioli the amount of his TRS contribution which is \$192,667.57 plus the actual earnings applied to those contributions \$34,319.46.

Roll call resulted in affirmative voice votes from Trustees Busby, Cleveland, Klickna, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Campbell abstained from voting)

### Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2012 were sent to the trustees for review. The reports are on file. On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To approve the administrative expenses for the quarter ended March 31, 2012, as presented.

Roll call resulted in affirmative voice votes from Trustees Campbell, Busby, Cleveland, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna was not present during roll call)

### Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period January through April 30, 2012
- EEOC Report for the quarter ending March 31, 2012

### **BOARD TRAVEL**

#### Annual Travel

Pursuant to Public Act 96-0006, the Board must vote to authorize trustees to travel within the State of Illinois during FY 13. On a motion by Bob Lyons, seconded by Cynthia O’Neill, it was resolved:

To authorize TRS trustees to travel within the State of Illinois during FY13 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 voice votes from Trustees Campbell, Busby, Cleveland, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna was not present during roll call)

#### NCTR

Out-of-state travel must be approved by the Board in advance. On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To approve travel for five trustees to attend the NCTR annual convention to be held in Tucson, Arizona October 7-10, 2012.

Roll call resulted in affirmative voice votes from Trustees Campbell, Busby, Cleveland, Leggett, Lyons, O’Neill, Phalen, and Koch. Motion CARRIED. (Trustee Klickna was not present during roll call)

#### Trustee Concern

Trustee Lyons reported that the trustees received correspondence from an annuitant, dated May 12, 2012, expressing concerns over the Board’s fiduciary responsibility and also requesting that Buck Consultants, the System’s actuary, prepare a scenario that illustrates what would happen if the General Assembly

would properly fund the System. Director Ingram reported that Buck has done several scenarios of this kind using actuarial math.

### **APPROVAL OF EXECUTIVE SESSION MINUTES**

The following drafts of executive session meeting minutes were sent to the trustees for prior review. On a motion by Mike Busby, seconded by Cynthia O’Neill, it was resolved:

To approve the following executive session minutes, as printed.  
February 8, 2012 – Investment Committee  
February 9, 2012 – Board

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

### **ADJOURNMENT**

There being no further business to be brought before the Board, on a motion by Marcia Campbell, seconded by Jan Cleveland, and by unanimous voice vote, the meeting adjourned at 10:32 a.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_