



# Teachers' Retirement System of the State of Illinois

## MINUTES

### Board of Trustees

May 22 and 24, 2013

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 22 and 24, 2013 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Molly Phalen, Vice-President, called the meeting to order at 9:17 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, Janice Reedus, Sonia Walwyn, and Molly Phalen (Vice President). Trustees absent: Enrique Vasquez and Christopher Koch (President); Mike Busby (5/24) and Sonia Walwyn (5/24).

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; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.; and Don Davis, IRTA Rep.; Gayla Dial, IEA-R; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital.

## APPROVAL OF MINUTES

Drafts of minutes from the February 22 regular board meeting and April 17-18, 2013 board retreat were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Marcia Campbell, the minutes were approved by voice vote, as printed. (Trustees Phalen and Busby abstained from voting)

## EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by Marcia Campbell, 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; probable or imminent litigation; and discussion of 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 Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. (Trustees Walwyn was not present during roll call). Motion CARRIED.

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

## **RECESS**

The meeting recessed at 11:10 a.m. and reconvened at 11:23 a.m.

## **EXECUTIVE DIRECTOR’S REPORT**

### Fiduciary Insurance

Staff has meetings scheduled with Holland & Knight and representatives from Willis to further explore fiduciary insurance coverage for the System and Board of Trustees. Director Ingram noted that the landscape of this type of coverage is changing; therefore, the board needs to consider whether to purchase fiduciary coverage. Director Ingram provided a chart that summarizes the responses to a NAPPA survey which lists coverage that other plans have in place. Documentation is on file. Staff will provide a recommendation at the June board meeting.

### Strategic Plan

Director Ingram summarized areas of strategic focus and tactical goals that staff will be pursuing. In April, the board received an outline of the strategic plan discussions that were held with TRS staff. Documentation is on file. On a motion by Cynthia O’Neill, seconded by Sharon Leggett, it was resolved:

To approve the 2012-13 strategic plan, as presented.

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

FY 2014 Budget and Contracts > \$50,000

Jana Bergschneider, Director of Administration, provided a brief overview of the FY 2014 budget initiatives and contracts over \$50,000. Documentation is on file. The proposed budget is \$27 million, representing a 6.26% increase over the FY 13 budget. Healthcare costs continue to dramatically increase. On a motion by Bob Lyons, seconded by Sonia Walwyn, it was resolved:

To approve the FY 2014 administrative budget and listing of contracts over \$50,000, as presented.

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

FY 2014 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 Marcia Campbell, seconded by Cynthia O'Neill, and by unanimous voice vote, the following meeting dates were approved:

The FY 14 Investment Committee/Board meeting calendar:

August 14-16, 2013	February 19-21, 2014
October 23-25, 2013	April 14-15, 2014
December 4-6, 2013	May 28-30, 2014
	June 24-25, 2014 (tentative)

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2013 were sent to the trustees for review. The reports are on file. On a motion by Bob Lyons, seconded by Cynthia O'Neill, it was resolved:

To approve the administrative expenses for the quarter ended March 31, 2013, as presented.

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

### Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period January through April 30, 2013
- EEOC Report for the quarter ending March 31, 2013

### **RECESS**

The meeting recessed at 12:04 p.m. and reconvened on May 24<sup>th</sup> at 8:07 a.m.

### **NEW BUSINESS**

#### Actuarial Services

The board interviewed incumbent Buck Consultants and Gabriel Roeder Smith as finalists to provide the System with actuarial consulting services. Their presentation books are on file. The current contract with Buck Consultants expires on June 30, 2013. On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To authorize TRS staff to negotiate a three-year contract with Buck Consultants for actuarial services for the period beginning July 1, 2013.

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

### **RECESS**

The meeting recessed at 10:05 a.m. and reconvened at 10:15 a.m.

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

#### Watch List 3/31/13

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

To accept the 3/31/13 watch list, as presented.

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

### POB Proceeds

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

To discontinue the segregation of the pension obligation bond (POB) proceeds and consolidate POB accounts into the main TRS trust fund. Staff will seek the most cost effective timeline in achieving this consolidation and will provide details on the transition as necessary.

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

### Global Equity

On a motion by Bob Lyons, seconded by Cinda Klickna, it was resolved:

To approve the following recommendations within the global equity asset class, as presented.

- Domestic Equity target mandate revisions
  - JP Morgan large cap growth – increase from 3.0% to 5.0%
  - Optimized SMID growth – increase from 0% to 1.75%
  - Frontier small cap growth – decrease from 2.5% to 0% (termination)
  - Boston Company SMID growth – decrease from 3.25% to 2.0%
- Ratify fee revision to Boston Partners’ SMID growth mandate
- Consent to assignment for ORIX’s acquisition of Robeco
- Ratify selection of Northern Trust to manage an international passive MSCI equity mandate. Mandate size 3.5%
- International Equity target mandate revisions
  - Northern Trust passive emerging markets – increase from 0% to 3.5%
  - Optimized EAFE/ACWI Ex-US – increase from 0% to 5%
  - GMO emerging markets – decrease from 9.0% to 5.5%
  - Trilogy int’l growth – decrease from 5.0% to 0% (termination)

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

### Frontier Capital Management - Termination

On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To ratify the termination of Frontier Capital Management’s small cap growth mandate.

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

### Trilogy Global Advisors - Termination

On a motion by Janice Reedus, seconded by Bob Lyons, it was resolved:

To ratify the termination of Trilogy Global Advisors’ international growth mandate.

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

### Fixed Income

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

To approve the following recommendations within the fixed income asset class, as presented.

- TCH’s customized floating rate cash product for cash management–Ratify selection
- Fixed income special situations tactical plan. TRS staff will update this plan as needed or, at a minimum, on an annualized basis as part of the global fixed income annual reviews.
- Ratify benchmark revision to the Loomis Sayles fixed income mandate to correspond with mandate revisions adopted at the February 2013 meeting.

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

### Real Return

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

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

- Ratify allocation of up to 15% of the overall PIMCO GMAS mandate to the firm’s Multi Asset Volatility fund. The allocation amount within the mandate will be determined by the PIMCO GMAS portfolio manager, with TRS staff able to modify exposures as necessary.
- Approve revision of the PIMCO GMAS strategy benchmark to 1-month LIBOR+5%, effective June 1, 2013
- Real Return structure target revisions
  - Global Inflation Linked Bonds – decrease from 24.0% to 21.0%
  - Targeted Real Return – increase from 9.0% to 12.0%

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

### Advisory Services RFP

On a motion by Cinda Klickna, seconded by Janice Reedus, it was resolved:

To issue a Request for Proposal (“RFP”) for advisory services within the System’s absolute return asset class.

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

### Risk Management Services RFP

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

To issue a Request for Proposal (“RFP”) for risk management services in order to assist staff in implementing the proposed absolute return structure.

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

### NXT Capital

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

To invest \$40 million to NXT Capital Senior Loan Fund II, L.P. within the fixed income special situations allocation. The commitment is subject to successful final negotiation of contracts. Source of funds will be rebalancing of the asset class or cash accounts. Funding will be at the discretion of the CIO, as capital is called.

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

### Maranon Capital

On a motion by Sharon Leggett, seconded by Cinda Klickna, it was resolved:

To commit \$30 million to Maranon Senior Credit Fund II, L.P. within the Emerging Manager Program and fixed income asset class. Source of funds shall be rebalancing of the fixed income asset class or global fixed income cash accounts. Funding will be at the discretion of the CIO, as capital is called.

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

### Black River

On a motion by Bob Lyons, seconded by Cinda Klickna, it was resolved:

To invest \$75 million to Black River Agriculture Fund II, L.P. within the real return asset class. Source of funds shall be the existing global inflation linked bond mandates, rebalance of the real return asset class or global fixed income cash accounts. Funding will be at the discretion of the CIO, as capital is called.

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

### GI Partners

On a motion by Sharon Leggett, seconded by Bob Lyons, it was resolved:

To invest \$75 million to GI Partners Fund IV, L.P. (North America). Source of funds shall be the TRS cash account, 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, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

### Oaktree Capital Management

On a motion by Marcia Campbell, seconded by Bob Lyons, it was resolved:

To invest \$75 million to Oaktree Real Estate Opportunities Fund VI, L.P. to the main TRS trust fund. Source of funds shall be the TRS cash account, 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, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

### Great Point Partners

On a motion by Cinda Klickna, seconded by Jan Cleveland, it was resolved:

To commit up to \$35 million to Great Point Partners Fund II, L.P. within the Emerging Manager Program. Source of funds shall be cash flow and the Rhumblin S&P 500 index fund dedicated to the Emerging Manager Program.

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

### Private Equity Secondary Advisors

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

To approve the selection of three firms to serve as a pool of available private equity secondary advisors.

- o CP Cogent Securities, LP
- o Park Hill Group, LLC
- o UBS Securities, LLC

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

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

#### Internal Audit Plan

On a motion by Bob Lyons, seconded by Marcia Campbell, it was resolved:

To approve the FY 2013 and 2014 Internal Audit Plan, as presented.

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

#### Revisions to Audit Charters

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

To approve revisions to the Internal Audit Charter and the Audit Committee Charter, as presented.

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

#### Revisions to FY 13 Audit Plan

On a motion by Bob Lyons, seconded by Jan Cleveland, it was resolved:

To approve revisions to the FY 13 Audit Plan, as presented.

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

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

The Rules & Personnel Committee proposed standing committee slates effective July 15, 2013. On a motion by Cinda Klickna, seconded by Marcia Campbell, it was resolved:

To approve the FY 14 standing committees, as presented.

Vice President: Sharon Leggett

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

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

Legislative: Marcia Campbell, Chair; Cinda Klickna, Vice Chair; Bob Lyons, Rainy Kaplan, Enrique Vasquez

Rules & Personnel: Sharon Leggett, Chair; Mike Busby, Vice Chair; Rainy Kaplan, Cinda Klickna, Sonia Walwyn

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

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

### Annual Travel

Pursuant to Public Act 96-0006, the Board must vote to authorize trustees to travel within the State of Illinois during FY 14. On a motion by Jan Cleveland, seconded by Marcia Campbell, it was resolved:

To authorize TRS trustees to travel within the State of Illinois during FY14 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, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

## NCTR

Out-of-state travel must be approved by the Board in advance. On a motion by Cinda Klickna, seconded by Janice Reedus, it was resolved:

To approve travel for five trustees to attend the NCTR annual convention to be held in Washington D.C., October 5-9, 2013.

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

## External Legal Services

Cynthia Fain, Sr. Assistant General Counsel, reported that the external legal contracts for fiduciary counsel and administrative review hearing officer expire on June 30, 2013. The board directed staff to extend the current contracts.

## **APPROVAL OF EXECUTIVE SESSION MINUTES**

The February 22 and April 18, 2013 executive session meeting minutes of the Board were sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Cynthia O’Neill, and by unanimous voice vote, the minutes were approved as printed.

## **EXECUTIVE SESSION**

A motion was made by Jan Cleveland, seconded by Cynthia O’Neill, that the Board enter into executive session for the purpose of discussing the sale or purchase of securities, investments, or investment contracts as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c) (7). Roll call resulted in affirmative voice votes from Trustees Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, and Phalen. Motion CARRIED.

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

**ADJOURNMENT**

There being no further business to be brought before the Board, on a motion by Janice Reedus, seconded by Molly Phalen, and by unanimous voice vote, the meeting adjourned at 11:16 a.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_