



# Teachers' Retirement System of the State of Illinois

## **MINUTES Board of Trustees August 15, 2013**

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 15, 2013 at the System's Springfield office located at 2815 West Washington Street. Sharon Leggett, Vice-President, called the meeting to order at 1:04 p.m. with a quorum present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Marcia Campbell, Rainy Kaplan, Cinda Klickna, Bob Lyons, Cynthia O'Neill, Enrique Vasquez (via telephone), Sharon Leggett (Vice President), and Christopher Koch, President (arrived 2:34 p.m.) Absent: Mike Busby and Sonia Walwyn. A motion carried that Trustee Vasquez, who is unable to physically attend the meeting of the board due to family illness, be allowed to attend the meeting by telephone.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Tom Gray, General Counsel; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Kathleen Farney, Director of Research; Gina Larkin, Director of Human Resources; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Dennis Murfin, IRTA Rep.; Donald Davis, IRTA Rep.; Jim Baker, UNITE HERE; Jane Russell, IFT; Barb Gilhaus, IEA-R; Bob Kaplan, IEA/IRTA; and Gayla Dial, IEA/IRTA.

### **APPROVAL OF MINUTES**

A draft of the June 20, 2013 regular board meeting was sent to the trustees for prior review. On a motion by Marcia Campbell, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

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

Watch List 6/30/13

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

To accept the June 30, 2013 watch list, as presented.

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

Global Equity Asset Class

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

To approve the following recommendations within the global equity asset classes:

- Add a developed large cap passive mandate to the TRS Investment Policy at a 20.0% target and 5% allocation range
- Reclassify the current core, value and growth composites as a single large cap active composite. The new composite shall have a target of 45.0% (down from the prior collective 47.5%) and a 10.0% range.
- Increase the dedicated emerging market target from 16.5% to 20.0%, and increase the allocation range from 3.0% to 5.0%.
- Increase the dedicated small cap target from 11.0% to 15.0%, with a 3.0% range.

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

### FY 14 Real Estate Plan

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

To approve the fiscal year 2014 real estate tactical plan, as presented.

- Allow core separate account advisors the flexibility to increase their exposure to value-add investments up to 25%
- Adopt the portfolio pacing study specifying FY14 allocations totaling approximately \$600 million in new commitments
- Continue to strategically upgrade the real estate portfolio by selling less desirable assets and replacing them with higher quality ones
- Continue to assess property debt levels and where prudent reduce the debt level to retain an overall conservative loan-to-value level for the overall portfolio
- Continue to selectively make property visits to increase knowledge of the System's separate account assets
- Continue development of the 20% allocation for international investments within the real estate asset class
- Continue development of the emerging manager platform within the real estate asset class
- Continue to opportunistically identify core and specialty investments that will increase the real estate commitment level toward the long term allocation target of 14%
- Continue on-site due diligence process for select separate account acquisitions
- Continue implementation and growth of a co-investment program within the real estate program

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

### Iran Divestment

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

To add the following names to TRS's scrutinized list for possible divestment, absent a detailed and justifiable response.

- China National Petroleum Corporation (CNPC)
- China Petroleum & Chemical Corp (CPCC) Sinopec
- CNOOC Ltd. (China National Offshore Oil Corporation)

- Daelim Industrial Co., Ltd.
- Gazprom OAO (Russia)
- Indian Oil Corp Ltd. (IOCL)
- Oil and Natural Gas Corporation (ONGC)
- PetroChina Co., Ltd.

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

#### TCW – Fixed Income

On a motion by Marcia Campbell, seconded by Rainy Kaplan, it was resolved:

To ratify the hire of TCW Emerging Markets Fixed Income Total Return within the global fixed income asset class. Source of funds is the rebalancing activity within the asset class per the proposed new targets.

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

#### Apollo Global Management – Private Equity

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

To invest up to \$300 million to Apollo Investment Fund VIII, L.P. 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 Bailey, Campbell, Kaplan, Klickna, Lyons, O’Neill, and Leggett. Motion CARRIED.

#### New Mountain Capital – Private Equity

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

To invest \$100 million to New Mountain Partners IV, L.P. 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 Bailey, Campbell, Kaplan, Klickna, Lyons, O’Neill, and Leggett. Motion CARRIED.

ICV Partners – Emerging Manager Program

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

To commit up to \$20 million to ICV Partners III, 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 Bailey, Campbell, Kaplan, Klickna, Lyons, O’Neill, and Leggett. Motion CARRIED.

**AUDIT COMMITTEE REPORT-*Bob Lyons, Vice Chair***

On a motion by Mark Bailey, seconded by Cynthia O’Neill, it was resolved:

To elect Bob Lyons as Chair of the Audit Committee and Enrique Vasquez as Vice Chair of the Audit Committee.

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

**CLAIMS HEARING COMMITTEE REPORT-*Cynthia O’Neill, Vice Chair***

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

To adopt the Claim Hearing Committee’s proposed decision in the administrative review of Mannheim School District #83.

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

**EXECUTIVE DIRECTOR’S REPORT-*Dick Ingram***

Annual Ethics Training Certification

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

To certify that the following trustees of the Illinois Teachers’ Retirement System have completed a minimum of 8 hours of ethics

training during FY 13 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 and Professional Regulation.

Mike Busby, Marcia Campbell, Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O’Neill, Molly Phalen, Janice Reedus, Sonia Walwyn, and Chris Koch.

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

### Legislative Update

The pension reform conference committee currently is the focus of legislative activity. The committee was established to come up with a solution to the state’s pension crisis. Director Ingram stated that requests from the pension committee, which require a response from the System, will be put in writing due to their complexity. No specified target for state savings has been articulated. Actuarial funding would lead to significant financing savings over the long term. Kathleen Farney, Director of Research, explained how the TRS actuaries, Buck Consultants, are putting together their analyses of the committee’s proposals. Buck’s intent is to show the elements of the proposals in steps so their impact can be more easily understood.

### Pension Funding Update

Director Ingram presented a memorandum that updated the analysis of the funding status of TRS that was originally presented to the board a year ago. The General Assembly still has not addressed the concerns raised by the board in its March 2012 resolution. As predicted last year, it is still not prudent to expect that the General Assembly will be able to meet its future funding obligations to TRS required by law currently. Buck Consultants reexamined three insolvency scenarios that were presented to the board last year plus a fourth “affordable” scenario applying the contributions required under SB2404 to the current benefit cost structure. This scenario projected that TRS would be 29 percent funded in the year 2045. The others projected insolvency or no improvement over TRS’ current status. Documentation is on file. TRS’s future ability to pay full benefits to its members still remains a serious concern based on recent actuarial analysis. Discussion was held regarding the costs of the Tier II benefit and the need to address the Social Security safe harbor requirements.

### Communication Protocols

Director Ingram reported that a panel discussion held at a recent NASRA conference revolved around the use of social media and how it has changed and continues to change the way pension systems communicate with their members and other stakeholders. TRS plans to begin monitoring social media and will be making some changes that will have staff focus more on monitoring what's going on in the on-going electronic conversation. This includes using "word cloud" software to show what words and topics are most frequently being used by members and stakeholders on the Internet. This protocol will help TRS develop and implement its messages to members in order to address their needs. Dave Urbanek, Director of Communications, discussed the importance of maintaining a unified communications strategy so that TRS speaks with "one voice" in public on issues of importance. He noted that a recent divergence from this strategy caused "unforced errors" that required valuable staff time to resolve; opened up the System to unwarranted criticisms; and left TRS vulnerable to accusations of delivering mixed messages to the public. Steps will be taken to more adequately remind TRS trustees and staff about the importance of speaking with one voice in public and to make sure news of interest to TRS and the System's message is better disseminated.

### Federal Contribution Rate

If a teacher is paid from federal funds, the employer must remit an employer pension contribution to TRS from those federal funds. Under a policy adopted by the Board that became effective in FY 2006, the federal and state employer contribution rates to TRS have been the same. However, the state contribution rate has increased much more than anticipated due to growth in the unfunded liability. Staff recommended that the Board revise the policy so that beginning in FY 2015, the federal contribution rate will be the same as the state share of the employer's normal cost. On a motion by Chris Koch, seconded by Cinda Klickna, it was resolved:

To lower the employer contribution rate for teachers paid from federal funds from the state contribution rate to the state share of employer normal cost beginning in FY 2015.

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

### Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the quarter ending June 30, 2013
- EEOC Report for the quarter ending June 30, 2013
- Employer Services Report for the period January 21-July 19, 2013

### **RECESS**

The meeting recessed at 2:55 p.m. and reconvened at 3:00 p.m.

### **EXECUTIVE SESSION**

A motion was made by Bob Lyons, 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; litigation; and closed meeting minutes including semi-annual review of 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, Campbell, Kaplan, Klickna, Lyons, O’Neill, Leggett, and Koch. Motion CARRIED.

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

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

The June 20, 2013 executive session meeting minutes of the Board was 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 Bob Lyons, seconded by Mark Bailey, it was resolved:

To approve the June 20, 2013 executive session meeting minutes of the Board, as printed.

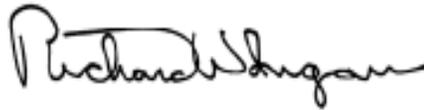
That the following minutes no longer require confidential treatment and will be available for public inspection:

April 18, 2013	Board of Trustees
May 22, 2013	Board of Trustees

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

### **ADJOURNMENT**

There being no further business to come before the Board, on a motion by Cinda Klickna, seconded by Marcia Campbell, and by unanimous voice vote, the meeting adjourned at 3:07 p.m.



Richard W. Ingram, Executive Director

Approved 10/24/13