



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 28-29, 2014

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 28-29, 2014 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Sharon Leggett, Vice-President, called the meeting to order at 3:15 p.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, Mike Busby, Marcia Campbell, Mark Harris, Cinda Klickna, Cynthia O'Neill, Sonia Walwyn, and Sharon Leggett (Vice President). Trustees absent: Rainy Kaplan, Bob Lyons, Enrique Vasquez, and Christopher Koch (President).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; 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; and Christine Williamson, Pensions & Investments.

APPROVAL OF MINUTES

Drafts of minutes from the February 20 regular board meeting and April 14-15, 2014 board retreat were sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved, as printed.

AUDIT COMMITTEE REPORT

Internal Audit Plan

On a motion by Sonia Walwyn, seconded by Cynthia O’Neill, it was resolved:

To approve the FY 2015 and 2016 Internal Audit Plan, as presented.

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

RULES & PERSONNEL COMMITTEE

The Rules & Personnel Committee proposed standing committee slates effective July 15, 2014. On a motion by Cinda Klickna, seconded by Sonia Walwyn, it was resolved:

To approve the FY 15 standing committees, as presented.

Vice President: Sharon Leggett

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

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

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

Motion passed by a unanimous voice vote. Motion CARRIED.

Administrative Rules

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

To approve revisions to the TRS Administrative Rules, Section 1650.410, Return of Contributions for Duplicate or Excess Service, as presented.

Motion passed by a unanimous voice vote. Motion CARRIED.

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 15. On a motion by Marcia Campbell, seconded by Mark Bailey, it was resolved:

To authorize TRS trustees to travel within the State of Illinois during FY15 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 Bailey, Busby, Campbell, Harris, Klickna, O'Neill, Walwyn, and Leggett. Motion CARRIED.

NCTR

Out-of-state travel must be approved by the Board in advance. On a motion by Cynthia O'Neill, seconded by Mark Bailey, it was resolved:

To approve travel for up to six trustees to attend the NCTR annual convention to be held in Indianapolis, IN, October 11-15, 2014.

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

EXECUTIVE DIRECTOR’S REPORT

Diversity Initiatives

TRS is increasing investment assets committed to its Emerging Manager Program and is doing more to make sure all investment managers are committed to helping TRS meet its diversity goals. During the last nine months, new TRS commitments to minority and women-owned investment firms totaled \$1.025 billion. Director Ingram requested approval of diversity initiatives of the investment program as discussed at the April Board retreat. On a motion by Marcia Campbell, seconded by Cinda Klickna, it was resolved:

- Increase the capital committed to the Emerging Manager Program from \$500 million to \$750 million
- Expand the watch list criteria to include money managers who demonstrate a lack of commitment towards meeting the minority/woman owned brokerage goals.
- Establish a subcommittee of the Investment Committee of the Board to provide regular oversight of TRS’s efforts to broaden diversity within the investment program.

Motion passed by a unanimous voice vote. Motion CARRIED. The legal department will draft a diversity committee charter and present amendments to the bylaws for review at a later meeting.

FY 2015 Meeting Calendar

The meeting calendar is located on the TRS Web site: trs.illinois.gov—About TRS/trustees/meetings. On a motion by Cinda Klickna, seconded by Mike Busby, and by unanimous voice vote, the following meeting dates were approved:

The FY 15 Committee/Board meeting calendar:

August 25-27, 2014	February 18-20, 2015
October 29-31, 2014	March 30-31, 2015
December 10-12, 2014	May 20-22, 2015
June 25-26, 2015 (tentative)	

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2014 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 March 31, 2014, as presented.

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

RECESS

The meeting recessed at 3:27 p.m. and reconvened the following day at 3:48 p.m. (Trustees Kaplan, Lyons, Vasquez, Walwyn, and Koch were not present)

LEGISLATIVE UPDATE

Andrew Bodewes, legislative consultant, provided an update on current legislation of interest to TRS. Documentation is on file. Senate Bill 452 makes several changes to the minority investment requirements and has passed the Senate and the House.

Mr. Bodewes continues to work with TRS staff on administrative issues relating to Senate Bill 3517. SB 3517 changes the pension code to provide that the effective date of a retirement annuity shall be no earlier than two years before the date of receipt by the System of the application for retirement.

House Bill 4380 changes all references in Illinois statutes of “children out of wedlock” to “non-marital children”.

The Budget Implementation Bill legislatively reverses the Board’s 2013 decision to change the way school district contributions for federally-funded salaries are calculated; reverts the calculation back to the methodology used prior to the Board’s 2013 decision.

The state government capitol bill includes an appropriation of \$35 million for the Chicago Teachers Pension Fund, a payment which will directly offset the amount Chicago Public Schools are statutorily required to pay.

EXECUTIVE SESSION

A motion was made by Mark Bailey, seconded by Cynthia O’Neill, that the Board enter into executive session for the purpose of discussing the compensation of specific employees, 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 Bailey, Busby, Campbell, Harris, Klickna, Leggett, and O’Neill. Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES

The April 14, 2014 executive session meeting minutes of the Board was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Marcia Campbell, and by unanimous voice vote, the minutes were approved as printed.

BUDGET

FY 2015 Budget and Contracts > \$50,000

Director Ingram provided a brief overview of the FY 2015 budget initiatives and contracts over \$50,000. Documentation is on file. The proposed budget is \$29.8 million, representing an approximate 8% increase over the FY 14 budget. On a motion by Mark Bailey, seconded by Mark Harris, it was resolved:

To approve the FY 2015 administrative budget and listing of contracts over \$50,000, as presented.

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

INVESTMENT COMMITTEE REPORT

Watch List 3/31/14

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

To accept the 3/31/14 watch list, as presented.

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

Cash Withdrawal

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

To authorize cash withdrawal up to 1.5 percent of the TRS trust fund’s total value, or \$653.9 million based on the March 31, 2014 ending market value.

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

Fixed Income

On a motion by Mike Busby, seconded by Mark Harris, it was resolved:

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

1. TRS staff recommends the selection of Garcia Hamilton & Associates to manage a customized \$300 million short term duration cash portfolio for the TRS fund. The Garcia Hamilton account is initially targeted for the second \$300 million of TRS fund residual cash (that is, for fund level cash balances between \$300 million and \$600 million). Cash balances under \$300 million and over \$600 million will continue to be invested in State Street STIF.
2. TRS staff recommends the Board adopt the policy revision, as presented. These changes will be reflected

in the Investment Policy, to be updated at the Board's June 2014 meeting.

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

State Street

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

To approve the extension of the State Street Master Trust Agreement.

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

Real Estate - RFP

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

To authorize a RFP for real estate consulting services.

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

Vista

On a motion by Mike Busby, seconded by Mark Bailey, it was resolved:

To commit \$40 million to the Vista Credit Opportunities Fund I, L.P. within the System's Emerging Manager Program. Source of funds shall be the Rhumblin S&P 500 index account dedicated to the Emerging Manager Program.

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

Prudential

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

To approve the addition of Prudential's Relative Value strategy as part of the overall Prudential mandate within the global fixed income asset class. The initial PRV target will be 40% of the overall Prudential strategy, or approximately \$250 million of the approximate \$750 million to be managed by Prudential. Allocation amounts are contingent on the overall Prudential target change, to be recommended separately by TRS staff.

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

Black River

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

To commit up to \$75 million to Black River Food Fund II, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitment is contingent upon successful completion of all staff and consultant due diligence, as well as negotiation of legal documentation.

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

JMI

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

To commit up to \$50 million to JMI Equity Fund VIII, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitment is contingent upon successful completion of all

staff and consultant due diligence, as well as negotiation of legal documentation.

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

Shasta

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

To commit up to \$20 million to Shasta Ventures IV, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target weight. The commitment is contingent upon successful completion of all staff and consultant due diligence, as well as negotiation of legal documentation.

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

Carlyle

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

To commit up to \$100 million to Carlyle Realty Partners VII, L.P. subject to negotiations of legal documents. 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 Bailey, Busby, Campbell, Harris, Klickna, O’Neill, and Leggett. Motion CARRIED.

Starwood

On a motion by Mike Busby, seconded by Mark Bailey, it was resolved:

To commit up to \$300 million to Starwood Global Opportunity Fund X, L.P. Source of funds shall be TRS cash accounts, passive/enhanced index accounts, or active manager accounts that may be above their intended target

weight. The commitment is contingent upon successful completion of all staff and consultant due diligence, as well as negotiation of legal documentation.

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

Alphadyne Asset Management

On a motion by Mike Busby, seconded by Mark Harris, it was resolved:

To commit up to 10% of the absolute return asset class to Alphadyne Asset Management for investment in the Alphadyne Global Rates product. Staff plans to allocate approximately 5% of absolute return assets to the mandate in the near term, retaining the flexibility to increase investment up to a long term target of 8% and the allowance to overweight the investment up to 10% depending on the market environment.

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

Varadero Capital

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

To commit up to 8% of the absolute return asset class to Varadero Capital, subject to completion of contract negotiations. Staff plans to initially allocate approximately 5% of absolute return assets to Varadero, retaining the flexibility to increase investment to 8% over time.

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

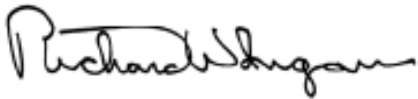
Miscellaneous Reports

The following reports are on file.

- Member Services Statistical Report for the period January through April 30, 2014
- EEOC Report for the quarter ending March 31, 2014

ADJOURNMENT

There being no further business to be brought before the Board, on a motion by Mark Harris, seconded by Marcia Campbell, and by unanimous voice vote, the meeting adjourned at 5:03 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram, Executive Director

Approved 6/24/14