



Teachers' Retirement System of the State of Illinois

MINUTES

Regular Meeting of the Board of Trustees October 30-31, 2000

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 30-31, 2000 at the Springfield Office of the Illinois Teachers' Retirement System. James Bruner, Vice-President, called the meeting to order at 2:32 P.M. A quorum was present.

Present:

Board Members:

James Bruner, Vice-President
Jan Cleveland
William Enlow
Scott Eshelman
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Keith Bozarth, Executive Director
Jon Bauman, Chief Operating Officer
Mark Caplinger, Chief Investment Officer
John Day, Director of Government Affairs
Chuck Hunt, Director of Member Services
Jane Locascio, Internal Audit Manager
Kathleen Farney, Research Administrator
Richard Stensrud, General Counsel
Brad Morrow, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Todd Kennedy, Controller
Diane Blean, Executive Assistant
Tammy Green, Admin. Coordinator – Executive

TRS Investment Consultant:

Mike Beasley, Strategic Investment Solutions

Visitors:

Sylvia Herzag, IRTA Representative

Winnie Tipsword, IRTA Representative

David Turner, IL Principals Association

Absent: Glenn McGee, President (10/30/00)

APPROVAL OF MINUTES

A draft of the minutes from the August 18, 2000 regular Board meeting was sent to the trustees for prior review. On a motion by Molly Phalen, seconded by Jan Cleveland, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INTERNAL AUDIT MANAGER'S REPORT

Jane Locascio, Internal Audit Manager, introduced Pam Hartwig, Internal Auditor. Ms. Locascio provided an update on the fiscal year 2001 audit plan and an overview of proposed changes to the Fiscal Control and Internal Auditing Act (FCIAA). The two-year internal audit plan for fiscal years 2000 and 2001 meets the requirements of the FCIAA. An audit findings status report was mailed to the trustees prior to the meeting.

Staff will have an exit conference on November 16 with the external auditors, Friedman, Eisenstein, Raemer & Schwartz LLP.

EXECUTIVE DIRECTOR'S REPORT

Budget Re-authorization / Replacement of Chiller

Jon Bauman, Chief Operating Officer, reported that a new chiller was funded in the fiscal year 2000 budget. While being installed, the chiller slipped and was damaged. The chiller was installed in a dented condition and the System has gone through extensive negotiations with the contractor (E.L. Pruitt) and their attorney regarding the contractor's liability for potential problems from the chiller being dropped during installation.

During this period, no payment was made to E.L. Pruitt and as a result, the fiscal year 2000 allocation of funds lapsed. Staff requested the Board to reauthorize the previous year's funding in the fiscal year 2001 budget. On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was:

Resolved: To authorize the expenditure of an amount not to exceed \$128,000.00 to E.L. Pruitt from the fiscal year 2001 Administrative Budget for the purpose of repair/replacement of the chiller at the Springfield office.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, and Bruner. Motion CARRIED.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2000 were sent to the trustees for prior review. The reports are on file. On a motion by Scott Eshelman, seconded by Sharon Leggett, it was:

Resolved: To approve the administrative expenses for the quarter ended June 30, 2000, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, and Bruner. Motion CARRIED.

Miscellaneous Reports

The following reports are on file for the period ended September 30, 2000.

- TRS2000 Status Report
- Member Services Statistical Report
- EEOC Report

RECESS

The meeting recessed at 2:52 P.M. and reconvened the following day at 8:30 A.M.

President McGee called the meeting to order at 8:30 A.M.

PUBLIC COMMENTS

David Turner, Executive Director of Illinois Principals Association, expressed his concerns about the shortage of principals across the country. He reported that something needs to be done to keep administrators in the business. He asked that TRS consider that information in conjunction with the educational presentation being made to the Board later in the meeting regarding post-retirement employment limitations.

ACTUARIAL VALUATION REPORT

John Thompson and Lynn Hill of Buck Consultants presented the results of the System's June 30, 2000 actuarial valuation. As of June 30, 2000, the funding level of the System increased from 67.0% to 68.2%. Documentation is on file. The full report will be mailed in November. The State continues to comply with the statutory funding requirements. On a motion by Scott Eshelman, seconded by Sharon Leggett, it was:

Resolved: To accept the June 30, 2000 actuarial valuation, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

On a motion by John Glennon, seconded by Molly Phalen, it was:

Resolved: To certify the System's FY2002 state funding requirements, as presented.

Minutes – Board
October 30-31, 2000
Page 5

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

On a motion by Sharon Leggett, seconded by Stuart Levine, it was:

Resolved: To certify the System's total normal cost and employer's normal cost for FY2002, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was:

Resolved: To certify the FY2002 state contribution to THIS Fund, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Post-retirement Employment

The Board has had several discussions regarding post-retirement employment issues during the last several months. John Day, Director of Government Affairs, discussed the TRS survey of post-retirement legislation enacted in other states. A lengthy discussion was held regarding initiatives that have been undertaken in other states since January 1, 1999 and strategies to both bring people into the teaching field and ways to keep them. The Board concluded that the Legislative Committee shall meet in December to further discuss this topic and determine whether the Board wants to take a position on this issue.

RECESS

The meeting recessed at 10:42 A.M. and reconvened at 10:50 A.M.

EXECUTIVE SESSION

A motion was made by William Enlow, seconded by Molly Phalen, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and discussion of closed meeting minutes, as permitted under the following exceptions in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(11) and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by James Bruner, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the minutes of the August 18, 2000 executive session meeting of the Board was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was:

Resolved: To approve the minutes of the August 18, 2000 executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 11:16 A.M.



Keith Bozarth, Executive Director



Teachers' Retirement System of the State of Illinois

MINUTES

Regular Meeting of the Board of Trustees December 8, 2000

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 8, 2000 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Glenn McGee, President, called the meeting to order at 8:03 A.M. A quorum was present.

Present:

Board Members:

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
Scott Eshelman
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Keith Bozarth, Executive Director
Jon Bauman, Chief Operating Officer
John Day, Director of Government Affairs
Jane Locascio, Internal Audit Manager
Diane Blean, Executive Assistant
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Visitors:

Ed Gonwa, IARSS
Rich Frankenfeld, IL Education Association
Dennis Murfin, IRTA Representative
Joe Purpura, IRTA Representative
Roger Steingraber, IRTA Representative

PUBLIC COMMENTS

Comments were heard from Ed Gonwa, Dennis Murfin, and Roger Steingraber.

APPROVAL OF MINUTES

A draft of the minutes from the October 30-31, 2000 regular Board meeting was sent to the trustees for prior review. On a motion by John Glennon, seconded by Jan Cleveland, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Scott Eshelman, Chair, presented the Investment Committee report.

Real Estate Consultant

On a motion by Scott Eshelman, seconded by Jan Cleveland, it was:

Resolved: That finalists for a project consultant for real estate be presented at the February 15-16, 2001 meeting. The project is defined as follows:

In conjunction with the Board and Staff,

- The Project Consultant will conduct a review of the System's real estate portfolio.
- This review will include educational sessions with the Board of Trustees to establish a foundation from which to make decisions.

- This review will culminate in a recommended investment mix or mixes, giving proper consideration to economic factors, property types, appropriate diversification, and structural issues.
- The results and recommendations shall be presented orally and in writing to the TRS Board of Trustees by the project consultant.

Staff will work with the Board members in preparing a list of candidates. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE REPORT

Molly Phalen, Chair, reported that a vacancy exists on the Legislative Committee. On a motion by William Enlow, seconded by Cynthia O'Neill, it was:

Resolved: That John Glennon will no longer serve on the Rules and Personnel Committee and will fill the vacancy on the Legislative Committee. Stuart Levine will fill the vacancy on the Rules and Personnel Committee formerly held by John Glennon.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT

Jan Cleveland, Chair, provided an overview of the December 7, 2000 Legislative Committee meeting.

INTERNAL AUDIT MANAGER'S REPORT

Jane Locascio, Internal Audit Manager, reported that the Special Assistants for the Auditor General have completed the external audit. The final audit report is pending. The Internal Audit Department has completed the

Expenditure Control Audit. The report is forthcoming. She continues to review the TRS2000 project. The Auditor General's office performed an IS review and made no control recommendations regarding the Internal Audit Department's monitoring efforts.

EXECUTIVE DIRECTOR'S REPORT

Keith Bozarth presented the Director's report.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2000 were sent to the trustees for prior review. The reports are on file. On a motion by John Glennon, seconded by William Enlow, it was:

Resolved: To approve the administrative expenses for the quarter ended September 30, 2000, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- Employer Services Report for the period July 16 – November 15, 2000
- Member Services Statistical Report for the period ended October 31, 2000.

EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by James Bruner, that the Board enter into executive session for the purpose of discussing probable or imminent litigation as permitted under the following exception in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(11). Roll call resulted in affirmative voice votes from

Minutes – Board
December 8, 2000
Page 5

Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by William Enlow, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

ADJOURNMENT

Upon return to open session, the meeting adjourned at 11:00 A.M.


Keith Bozarth, Executive Director



Teachers' Retirement System of the State of Illinois

MINUTES

Regular Meeting of the Board of Trustees February 16, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 16, 2001 at the Springfield Office of the Illinois Teachers' Retirement System. Glenn "Max" McGee, President, called the meeting to order at 8:16 A.M. A quorum was present.

Present:

Board Members:

Glenn "Max" McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow (arrived 8:50 A.M.)
Scott Eshelman
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Keith Bozarth, Executive Director
Jon Bauman, Chief Operating Officer
John Day, Director of Government Affairs
Chuck Hunt, Director of Member Services
Brad Morrow, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Rick Begando, Investment Officer/Fixed Income
Diane Blean, Executive Assistant
Tammy Green, Admin. Coordinator – Executive

TRS Outside Counsel:

Steve Loren, Piper Marbury Rudnick & Wolfe

TRS Investment Consultant:

Mike Beasley, Strategic Investment Solutions

Visitor:

Rich Frankenfeld, IL Education Association

PUBLIC COMMENTS

No comments from the public.

APPROVAL OF MINUTES

A draft of the minutes from the December 8, 2000 regular Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Molly Phalen, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Scott Eshelman, Chair, presented the Investment Committee Report.

Joseph J. Blake and Associates

On a motion by Scott Eshelman, seconded by Jan Cleveland, it was:

Resolved: To appoint Joseph J. Blake and Associates to provide real estate appraisal services in accordance with the terms and conditions set forth in the Agreement for Appraisal Services.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Real Estate Consultant

On a motion by Scott Eshelman, seconded by Molly Phalen, it was:

Resolved: That finalists for a project consultant for real estate be presented at the May 24-25, 2001 meeting. The project is defined as follows:

In conjunction with the Board and Staff,

The Project Consultant will conduct a review of the System's real estate portfolio from a diversification, investment mix and property type basis.

This review will include educational sessions with the Board of Trustees to establish a foundation from which to make decisions.

This review will culminate in a recommended investment mix or mixes, giving proper consideration to economic factors, property types, appropriate diversification, and structural issues.

The results and recommendations shall be presented orally and in writing to the TRS Board of Trustees by the project consultant.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Subcommittee-Minority Investment Matters

On a motion by Scott Eshelman, seconded by Sharon Leggett, it was:

Resolved: To appoint a subcommittee to convene as soon as possible to discuss Speaker Michael Madigan's request regarding participation of minority investment managers. The subcommittee will consist of 3-4 volunteers and will provide a

preliminary report at the March 29, 2001
Investment Committee Meeting.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT

Jan Cleveland, Chair, reported on the successful Stakeholder Forum that was held in January and also provided an overview of the February 15th Legislative Committee Meeting.

“34-and-out” Legislation

On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was:

Resolved: To adopt a position to support “34-and-out” legislation that will permit a member to retire at any age without a discount upon the attainment of 34 years of creditable service.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Post-Retirement Employment

On a motion by Sharon Leggett, seconded by John Glennon, it was:

Resolved: That the System supports increasing the post-retirement employment limitation to 120 days/600 hours, from the current 100 days/500 hours for the purpose of facilitating job sharing and part-time employment of annuitants (with the intent to have a window period).

Minutes - Board
February 16, 2001
Page 5

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

INTERNAL AUDIT MANAGER'S REPORT

Director Bozarth announced that Jane Locascio will provide the Board with a status report under separate cover since she was unable to attend the meeting due to family illness.

EXECUTIVE DIRECTOR'S REPORT

Sentinel Technologies

TRS is currently using the services of Sentinel Technologies for maintenance, programming and development services. Additional projects are anticipated resulting in increased expenditures. The additional funding will not increase the budget, but rather reallocate previously approved funds within the Information Systems budget. On a motion by Jan Cleveland, seconded by Stuart Levine, it was:

Resolved: To approve total expenditures to Sentinel Technologies for 2001 in an amount not to exceed \$125,000. No single project will exceed \$100,000.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Telephone Software Purchases

Staff requested authority to purchase additional software components for the TRS telephone system. Staff provided an explanation of each product and its expected benefits to TRS. President McGee requested that an update be provided to the Board six months after installation of the software. On a motion by James Bruner, seconded by Molly Phalen, it was:

Resolved: To approve the purchase of the QueWorX application software at an amount not to exceed \$60,000 and the Unified Messaging application software at an amount not to exceed \$40,000.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Miscellaneous Reports

The following reports are on file for the period ended December 31, 2000.

- FY2000 External Audit Update
- TRS2000 Status Report
- Member Services Statistical Report
- EEOC Report

(Trustee Enlow arrives)

The Board instructed Director Bozarth to send a letter of appreciation to Member Services staff thanking them for their exceptional work.

Keith Bozarth – Resignation

President McGee read a statement from the Board announcing the resignation of Director Bozarth. The statement is on file.

TRUSTEE CONCERNS

Real Estate Insurance

Trustee Bruner formally requested that bids be taken for the System's real estate insurance broker. Discussion followed.

April 23-24, 2001 Board Retreat

It was consensus of the Board to cancel the retreat that was scheduled April 23-24, 2001 at Starved Rock Lodge. An official meeting may be held on these dates, if necessary, in Chicago or Springfield.

2nd Annuitant Trustee

A lengthy discussion was held regarding the 2nd Annuitant Bill (HB4347). The Board received copies of the legislation. The bill states that the elected annuitant position shall be filled as soon as possible for an initial term ending July 15, 2001. The person to fill the position through July 15 will be appointed by the Board. The Board will take up this matter as the first agenda item at its March meeting. The Board will interview candidates at the meeting, and if someone is selected, that person can participate for the remainder of the meeting.

RECESS

The meeting recessed at 9:45 A.M. and reconvened at 10:00 A.M.

EXECUTIVE SESSION

A motion was made by Jan Cleveland, seconded by Scott Eshelman, that the Board enter into executive session for the purpose of discussing probable or imminent litigation and the appointment of an Acting Executive Director and Acting Chief Investment Officer as permitted under the following exceptions in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(11) and 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Scott Eshelman, seconded by Jan Cleveland, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Acting Chief Investment Officer and Acting Executive Director

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

Resolved: To appoint Kim Pollitt as Acting Chief Investment Officer effective immediately and Acting Executive Director effective close of business March 30, 2001.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Executive Director Search Committee

On a motion by Sharon Leggett, seconded by John Glennon, it was:

Resolved: To appoint an Executive Director Search Committee. Members will be Scott Eshelman; William Enlow; Cynthia O'Neill; Glenn Max McGee; and James Bruner serving as Chair.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Subcommittee-Minority Investment Matters

On a motion by Jan Cleveland, seconded by James Bruner, it was:

Resolved: To appoint a subcommittee on minority investment matters per Speaker Michael Madigan's request. Members will be Scott Eshelman; Stuart Levine; Sharon Leggett; and John Glennon serving as Chair.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Kennedy & Company-Executive Director Search Firm

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was:

Resolved: To name Kennedy & Company to conduct the search for a new Executive Director under the same contractual terms as the 1997-98 executive search.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Review of Contracts

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

Resolved: That all contracts greater or equal to \$10,000.00 be brought to the Board for review, effective April 2, 2001. The Board will revisit this issue upon the hiring of an Executive Director.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Executive Session Minutes

The approval of executive session minutes was deferred.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 2:00 P.M.



~~Kevin Bozarth, Executive Director~~
Acting Executive Director



Teachers' Retirement System of the State of Illinois

MINUTES Regular Meeting of the Board of Trustees March 29-30, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on March 29-30, 2001 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Glenn McGee, President, called the meeting to order at 8:30 A.M. A quorum was present.

Present:

Board Members:

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
Scott Eshelman (departs 9:20 A.M. on 3/30)
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Keith Bozarth, Executive Director
Kim Pollitt, Acting Chief Investment Officer
Brad Morrow, Deputy Chief Investment Officer
Jon Bauman, Chief Operating Officer
Chuck Hunt, Director of Member Services
John Day, Director of Government Affairs
Tom Gray, Assistant General Counsel
Jane Locascio, Internal Audit Manager
Diane Blean, Executive Assistant
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Bill Campbell, Piper Marbury Rudnick and Wolfe

Minutes - Board
 March 29-30, 2001
 Page 2

Visitors:

Kathy Stevenson, Northern Trust
 Rich Frankenfeld, IL Education Assoc.
 Christine Williamson, Pension & Investments Magazine
 Mary Abbott, IRTA Rep.
 Jacquelyn Brence, IRTA Rep.
 Carolyn Caruth, IRTA Rep.
 Delores Cavenough, IRTA Rep.
 Blanche Erst, IRTA Rep.
 Don Johnson, IRTA Rep
 Tim Lee, IRTA Executive Director
 Robert Lyons, IRTA Rep.
 Larry Baran, TRS Member 3/30

Dennis Murfin, IRTA Rep.
 James Prunty, IRTA Rep.
 Joe Purpura, IRTA Rep.
 Barbara, Savitt, IRTA Rep.
 Phillip Schmidt, IRTA Rep.
 Donald Spooner, IRTA Rep.
 Jodie Stewart, IRTA Rep.
 Sally Todd, IRTA Rep.
 Mildred Burt, IRTA Rep. 3/30
 Shirley Koch, IRTA Rep. 3/30
 Rona Purpura, IRTA Rep. 3/30

PUBLIC COMMENTS

On behalf of many annuitants, Joe Purpura expressed appreciation to Keith Bozarth for the wonderful job he has done the past couple years. Mr. Purpura also expressed his concern of TRS losing three key staff members within three months.

Tim Lee encouraged the Board to select the 2nd annuitant trustee.

2ND ANNUITANT TRUSTEE

President McGee announced three candidates have expressed an interest in the 2nd annuitant trustee position: Phillip Schmidt, Robert Lyons, and Tom Howard. Due to a previous commitment, Mr. Howard was not present at the meeting. The Board entered executive session to interview Mr. Schmidt and Mr. Lyons.

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, seconded by Sharon Leggett, that the Board enter into executive session for the purpose of discussing the selection of a person to fill a public office as permitted under the following exceptions in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1) and 5ILCS 120/2(c)(3). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow,

Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Upon return to open session, Trustee Eshelman expressed appreciation to both candidates that appeared before the Board. A motion was made by Scott Eshelman, seconded by Cynthia O'Neill, to nominate Robert Lyons to the vacant 2nd annuitant trustee position. Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Leggett, O'Neill, and Phalen. Votes of opposition were heard from Trustees Enlow, Glennon, Levine, Bruner, and McGee. Motion FAILED.

A motion was made by William Enlow, seconded by John Glennon, to nominate Phillip Schmidt to the vacant 2nd annuitant trustee position. Roll call resulted in affirmative voice votes from Trustees Enlow, Glennon, Levine, Bruner, and McGee. Votes of opposition were heard from Trustees Cleveland, Eshelman, Leggett, O'Neill, and Phalen. Motion FAILED. The Board was unable to reach a consensus on an individual and will further discuss this topic at its next meeting.

RECESS

A motion was made by Cynthia O'Neill, seconded by Sharon Leggett, to recess the Board meeting at 10:10 A.M. and reconvene upon conclusion of the Investment Committee meeting. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

The meeting reconvened on March 30, 2001 at 8:00 A.M.

PUBLIC COMMENTS

Tim Lee expressed his disappointment that the Board failed to fulfill its statutory obligation to fill the 2nd annuitant trustee position and felt a tie vote was inadequate.

Robert Lyons thanked the Board for the consideration given to him for the annuitant trustee position. He stated that his continued presence at the meeting is a continued statement of his candidacy.

Rona Purpura thanked Keith Bozarth for his professionalism and wished him well in his new endeavors.

Dr. Larry Baran, a TRS disability recipient, addressed the Board about his concern regarding the disability policy and asked the Board to review an interpretation of “Reasonable Employment Accommodation” under the 1990 Americans with Disabilities Act. TRS currently defines disability being completely disabled or not disabled at all, which means no teaching when disabled. Dr. Baran would appreciate a special case study for consideration to continue to receive TRS disability benefits and at the same time be able to teach within a limited capacity. President McGee responded that the trustees would take his case under advisement.

EXECUTIVE SESSION

A motion was made by Cynthia O’Neill, seconded by Sharon Leggett, that the Board enter into executive session for the purpose of discussing probable or imminent litigation; employment of an Executive Director; discussion of closed meeting minutes; and the semi-annual review of minutes as permitted under the following exceptions in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(11), 5ILCS 120/2(c)(1), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O’Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Jan Cleveland, seconded by John Glennon, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees

Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

APPROVAL OF MINUTES

A draft of the minutes from the February 16, 2001 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by William Enlow, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Scott Eshelman, Chair, presented the Investment Committee report.

Investment Policy Review

On a motion by Scott Eshelman, seconded by Cynthia O'Neill, it was:

Resolved: To approve the revisions to the Investment Policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

DLJ Merchant Banking Partners

On a motion by Scott Eshelman, seconded by Cynthia O'Neill, it was:

Resolved: To authorize Staff to give consent to the assignment of the investment advisory agreement contained in the Partnership Agreements of DLJ Merchant Banking Partners II, L.P. and DLJ Merchant Banking Partners III, L.P. that may have been deemed to occur upon the consummation of the merger between Donaldson, Lufkin & Jenrette and the Credit Suisse Group. Also, to authorize Staff to give consent to changes in the Partnership Agreements and the Co-Investment

**Agreements for DLJ Merchant Banking Partners II, L.P.
 and DLJ Merchant Banking Partners III, L.P.**

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Apollo Investment

On a motion by Scott Eshelman, seconded by Cynthia O'Neill, it was:

Resolved: To allocate up to \$150 million to Apollo Investment Fund V, L.P. in accordance with the terms and conditions set forth in the Limited Partnership Agreement. Source of funds to be cash flow.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT

Jan Cleveland, Chair, announced the committee held a meeting to review current legislation and also considered two legislative proposals. On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved to support the following legislation:

1. Permit purchase of optional service for Peace Corps, VISTA, and Americorps service, subject to payment of full normal cost plus interest and completion of appropriate contributing service in TRS.
2. Permit the crediting of an additional 85 days of unused, uncompensated sick leave, provided contractual employment service is completed or excused by the employer.

3. Permit partial refund of 2.2 upgrade charges to persons having in excess of 34 years of service credit who retired prior to June 4, 1999.
4. Calculate the final average salary based on the highest four consecutive years in previous 15-year period.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

On a motion by Sharon Leggett, seconded by John Glennon, it was:

Resolved: To support the purchase of optional service credit for pregnancies and adoptions, consistent with the following provisions:

1. The pregnancy/adoption interrupted public school employment requiring teacher certification.
2. For service within the State of Illinois, the member shall pay the employee contributions plus regular interest.
3. For service outside the State of Illinois, the member shall pay full normal cost plus regular interest.
4. The purchases will be subject to the existing three-year limitation on leave-of-absence and related service credit.
5. Eliminate the existing June 30, 1983 eligibility deadline.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

The Board discussed the enhanced annuitant re-employment legislation and will reconsider this topic at a later date.

The Board discussed a position with regard to the proposed 5&5 Early Retirement Incentive for State Employees, including state employees covered by TRS. President McGee endorses this concept, although there was a lack of consensus on this legislation.

INTERNAL AUDIT MANAGER'S REPORT

Jane Locascio, Internal Audit Manager, provided a status report on the FY01 audit plan. The final reports for the Expenditure Control Audit (01-3) and Property, Equipment, and Inventories Audit (01-7) are still pending. The reports are forthcoming.

She reported that internal control questionnaires would soon be distributed to the division managers, in accordance with the certification guidelines for the Fiscal Control and Internal Auditing Act. The Board will receive a copy of the System's certification letter to the Auditor General.

A brief discussion was held on the role of internal audit in corporate governance. The Board will further discuss this issue when an Executive Director is hired.

(Trustee Eshelman departs)

EXECUTIVE DIRECTOR'S REPORT

Keith Bozarth presented the Director's report.

Teachers' Retirement Insurance Program (TRIP)

The Board discussed the constituent organization request regarding TRIP actuarial services. The request will necessitate a Request for Proposal process leading to the selection of a qualified health insurance actuary. On a motion by John Glennon, seconded by William Enlow, it was:

Resolved: To authorize staff to seek proposals and to engage the appropriate professional firm to perform the required analysis, not to exceed \$50,000.00.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2000 were sent to the trustees for prior review. The reports are on file. On a motion by Molly Phalen, seconded by Jan Cleveland, it was:

Resolved: To approve the administrative expenses for the quarter ended December 31, 2000, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Fiduciary Counsel Discussion

Tom Gray, Assistant General Counsel, provided the Board with background, analysis, and a draft RFP for the purpose of retaining Board fiduciary counsel. A memorandum prepared by Mr. Gray and the proposed RFP are on file. A lengthy discussion followed. It was consensus of the Board to further discuss this topic after an Executive Director and General Counsel are hired.

Executive Director Search Expenses

President McGee announced that interviews for an Executive Director would begin the first week of May. Kennedy & Company is actively talking with interested candidates. On a motion by James Bruner, seconded by Sharon Leggett, it was:

Resolved: To authorize necessary expenses incident to the Executive Director search in an amount not to exceed \$60,000.00 as an addition to the FY2001 budget.

Minutes - Board
March 29-30, 2001
Page 10

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Board Election Status Report

Director Bozarth provided an update on the Board election process. Ballots have been mailed to contributing members of the System and must be returned to TRS by May 1.

RECESS

The meeting recessed at 9:45 A.M. and reconvened at 9:55 A.M.

Member Services Statistical Report

The Board received copies of the Member Services Statistical Report for the period ended February 28, 2001 and the current counseling plan. Chuck Hunt announced that e-service was implemented last week. This service allows active/inactive members that receive member statements to review their personal information on-line.

Keith Bozarth - Recognition

Trustee Bruner presented a plaque to Director Bozarth honoring him for his leadership, dedication, and commitment to the Active and Retired Teachers of Illinois, Board of Trustees, and Staff. Mr. Bozarth has accepted the CEO position at Orange County Employees' Retirement System in California. His last day of employment at TRS was March 30, 2001.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the October 31, 2000; December 8, 2000; and February 16, 2001 minutes of the executive session meetings of the Board were sent to the trustees for review. On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was:

Resolved: To approve the minutes of the October 31, 2000; December 8, 2000; and February 16, 2001 executive session meetings of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Semi-annual Review of Executive Session Minutes

The Board received a memorandum from the System's Legal Department regarding confidentiality of executive session minutes according to the Open Meetings Act. On a motion by Sharon Leggett, seconded by James Bruner, it was:

Resolved: That the following executive session minutes no longer require confidential treatment and will be made available for public inspection: August 12, 1999 Rules and Personnel Committee; February 29, 2000 Rules and Personnel Committee; April 7, 2000 Board of Trustees; and May 23, 2000 Rules and Personnel Committee.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

ADJOURNMENT

The meeting adjourned at 10:15 A.M.



Kim Pollitt, Acting Executive Director and
Acting Chief Investment Officer



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees May 24-25, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 24-25, 2001 at the Springfield office, 2815 West Washington Street. Glenn McGee, President, called the meeting to order at 8:30 A.M. A quorum was present.

Present:

Board Members:

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
Scott Eshelman
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Kim Pollitt, Acting Chief Investment Officer
Jon Bauman, Chief Operating Officer
John Day, Director of Government Affairs
Brad Morrow, Deputy Chief Investment Officer
Ruby Reynolds, Director of Human Resources
Chuck Hunt, Director of Member Services
Cynthia Fain, Assistant General Counsel
Tom Gray, Assistant General Counsel
Jane Locascio, Internal Audit Manager
Kathleen Farney, Research Analyst
Tammy Green, Admin. Coordinator – Executive
Diane Blean, Executive Assistant

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Visitors:

Kay Caruso, IRTA Rep.
 James Caruso, IRTA Rep
 Rich Frankenfeld, IL Education Assoc
 Estella Martin, IRTA Rep.
 Suzanna Merrick, IRTA Rep.
 Winnie Tipsword, IRTA Rep.
 Harry Mack, IRTA Rep.
 Blanche Erst, IRTA President
 Larry Montgomery, IRTA Rep
 Tim Lee, IRTA Executive Director
 Robert Lyons, IRTA Rep.
 Beth Bourland, IRTA Rep.
 Joseph Taylor, W.R. Hambrecht & Co
 Bob Pinkerton, IRTA Rep. (5/25)
 Muriel Garber, IRTA Rep. (5/25)

Shirley Dodds, IRTA Rep.
 Gilbert Deimel, IRTA Rep.
 Jane Wilson, IRTA Rep.
 Jean Quinn, IRTA Rep.
 Phillip Schmidt, IRTA Rep.
 Richard Rislar, IRTA Rep.
 Helen Dunn, IRTA Rep.
 Richard Clark, IRTA Rep.
 Elizabeth Starkey, IRTA Rep.
 Elmer Starkey, IRTA Rep.
 Sylvia Herzog, IRTA Rep.
 R. Lane Miller, IRTA Rep.
 Carol Cross, IRTA Rep.
 Albert Garber, IRTA Rep. (5/25)
 Jack Tucker, IEA-R (5/25)

PUBLIC COMMENTS

Blanche Erst, on behalf of IRTA, again recommended Robert Lyons to the 2nd annuitant trustee position.

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 selection of a person to fill a public office as permitted under the following exceptions set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1) and 5ILCS 120/2(c)(3). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Molly Phalen, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Minutes – Board Meeting
May 24-25, 2001
Page 3

President McGee announced that the Board agreed to defer further discussion regarding the 2nd annuitant trustee position until the following day.

EXECUTIVE DIRECTOR SEARCH UPDATE

Trustee Bruner announced that the Executive Director Search Committee plans to interview seven candidates on May 30-31. Discussion was held to determine a date when the Board could interview the finalists. A motion was made by James Bruner, seconded by Scott Eshelman, that a special board meeting will be held May 31, 2001 in Chicago for the purpose of interviewing finalists for the Executive Director position. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

RECESS

The meeting recessed at 9:50 A.M. and reconvened the following day at 10:00 A.M.

APPROVAL OF MINUTES

A draft of the minutes from the March 29-30, 2001 Board meeting was sent to the trustees for prior review. On a motion by Scott Eshelman, seconded by James Bruner, the minutes were approved as printed. The motion passed by a unanimous voice vote.

2nd ANNUITANT TRUSTEE POSITION

President McGee announced that the Board was unable to reach a consensus on an individual to fill the 2nd annuitant trustee position and will further discuss this topic at the August meeting.

INVESTMENT COMMITTEE REPORT

Lazard Asset Management

On a motion by Scott Eshelman, seconded by Cynthia O'Neill, it was:

Resolved: To terminate the Lazard Small Value domestic equity account and to give UBS Brinson oversight responsibilities for the assets in the Lazard account, on a temporary basis, until completion of the necessary search. UBS Brinson shall receive a fee of 10 basis points (on an annual basis) for its oversight responsibilities. Investment manager search activity will commence and is to be completed at the earliest appropriate and feasible date.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

KBS Realty Advisors

On a motion by Scott Eshelman, seconded by Sharon Leggett, it was:

Resolved: To approve the KBS Realty Advisors incentive fee side letter.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT

Trustee Cleveland proposed the following TRIP resolution. On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was resolved:

WHEREAS, In 1980, the General Assembly authorized the Teachers' Retirement System of the State of Illinois (TRS) to establish a health insurance program for benefit recipients and their dependents, with annuitants paying 50% of the cost; and

WHEREAS, In 1991, the General Assembly authorized TRS to increase the subsidy from 50% to 75% to achieve closer parity with State retirees' health insurance premiums, and

Minutes – Board Meeting
May 24-25, 2001
Page 5

WHEREAS, In 1995, the General Assembly transferred the health insurance program from TRS to the State of Illinois, to be administered by the Department of Central Management Services (CMS) and established the Teachers' Retirement Insurance Program (TRIP); and

WHEREAS, The General Assembly reduced the premium subsidy for the traditional indemnity plan from 75% to 50%; and

WHEREAS, The General Assembly mandated that active teachers pay 0.50% of their salary to help finance the CMS program; and

WHEREAS, The General Assembly mandated the State of Illinois to match the contributions of the active teachers to help finance the CMS program; and

WHEREAS, The Illinois Economic and Fiscal Commission reported in November of 2000 that current revenues would not be able to fund the current TRIP, with a shortfall of \$9.3 million by the end of fiscal year 2002; and

WHEREAS, The Illinois Economic and Fiscal Commission updated its report in April of 2001, increasing the shortfall to \$37.6 million by the end of fiscal year 2002; and

WHEREAS, TRS has hired a health insurance actuary to provide an independent review of the current TRIP funding status and an analysis of TRIP's projected financial needs, along with possible alternative scenarios; and

WHEREAS, The Illinois Economic and Fiscal Commission identified 4 possible funding sources for increasing TRIP funding: retiree premiums, active teacher contributions, State contributions, and a new contribution requirement for school districts; and

WHEREAS, CMS has proposed an increase to 45% for annuitant and dependent premiums, therefore be it

RESOLVED, BY THE BOARD OF TRUSTEES OF THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS, that the Governor reduce the 45% proposal by the Department of Central Management Services to a level similar to previous years' increases; and be it further

RESOLVED, That the TRS Board of Trustees authorizes the Executive Director of the Teachers' Retirement System to continue to cooperate with the Retiree Coalition composed of the Illinois Retired Teachers' Association, the Illinois Education Association, the Illinois Federation of Teachers and the Illinois Statewide School Management Alliance in order to reach a consensus on funding TRIP; and be it further

RESOLVED, That the TRS Board of Trustees authorizes the Executive Director of the Teachers' Retirement System and appropriate staff to cooperate with any legislative body that attempts to reach a consensus on funding TRIP by the fall session of the Illinois General Assembly; and be it further

RESOLVED, That suitable copies of this resolution be delivered to the Governor, the Illinois Retired Teachers' Association, the Illinois Education Association, the Illinois Federation of Teachers, the Illinois Statewide School Management Alliance, and the Director of Central Management Services.

A copy of the resolution will be sent to the above entities with a cover letter prepared by Kim Pollitt. Trustee Enlow stated that he has a conflict with Paragraph 10 (endorsing contributions from school districts) since he is a member of a school board and also a TRS board member.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Trustee Enlow voted present. Motion CARRIED. The Board is committed to working in cooperation with all parties in reaching a consensus on funding TRIP.

RULES AND PERSONNEL COMMITTEE

Standing Committees and Vice-President 2001/2002

The committee assignments remain the same as 2000/2001. On a motion by Molly Phalen, seconded by Jan Cleveland, it was:

Resolved: That the Standing Committees and Vice-President position for FY2002 be approved, as presented.

Vice President:	James Bruner
Investment Comm:	All trustees; Scott Eshelman, Chair
Legislative Comm:	Jan Cleveland, Chair; John Glennon; Cynthia O'Neill; Molly Phalen
Rules and Personnel Comm:	Molly Phalen, Chair; William Enlow, Sharon Leggett, Stuart Levine, Cynthia O'Neill
Claims Hearing Comm:	James Bruner, Chair; John Glennon; Sharon Leggett; Scott Eshelman, Alternate

Minutes – Board Meeting
May 24-25, 2001
Page 7

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

CLAIMS HEARING COMMITTEE MEETING

Tom Gray, Assistant General Counsel, provided an overview of the Raymond Gornik administrative review. Documentation outlining the review is on file. Staff recommended to the Committee and the Board to deny Mr. Gornik's petition in its entirety. On a motion by James Bruner, seconded by Sharon Leggett, it was:

Resolved: To affirm the staff determination and adopt the Claims Hearing Committee's proposed decision in the administrative review of Raymond Gornik.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

OLD BUSINESS

Power of Attorney – Acting Executive Director

In appointing Kim Pollitt Acting Executive Director, the Board impliedly granted her the authority to perform all acts necessary to the detailed administration of the System. However, with prior appointments to the position of Executive Director or Acting Executive Director, the Board has expressly granted a power of attorney to the appointed person. On a motion by Jan Cleveland, seconded by Molly Phalen, it was:

Resolved: To ratify the signature of Kim Pollitt on any powers of attorney or other documents executed by Ms. Pollitt in her capacity as Acting Executive Director of the Teachers' Retirement System of the State of Illinois, from close of business March 30, 2001, to the date this resolution is approved.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

WHEREAS, the Teachers' Retirement System of the State of Illinois (the "System") has, pursuant to its investment authority, entered into investment management agreements or partnership agreements with certain asset managers or investment partners who are authorized by contract to act on behalf of the System; and

WHEREAS, the above referenced asset managers and investment partners from time to time in the performance of their contractual functions must obtain from the System certain executed documents such as, for example and not by way of limitation, a Power of Attorney for real estate transactions; and

WHEREAS, the System's Board of Trustees (the "Board") has the authority, pursuant to 40 ILCS 5/16-179, to enter into such agreements and to execute such documents as it determines to be necessary to complete any investment transaction; and

WHEREAS, the Board has the authority, pursuant to 40 ILCS 5/16-169, to appoint a Secretary to serve as Chief Executive Officer of the System, responsible for the detailed administration of the System; and

WHEREAS, the Board intends that such Chief Executive Officer should have the requisite power and authority to execute such documents as are necessary to complete any transactions in or related to interests in real property or other investments on behalf of the System; and

WHEREAS, Kim Pollitt, as of close of business March 30, 2001, is the System's Acting Chief Executive Officer, more commonly known as its Acting Executive Director, appointed on an interim basis by and serving with the consent of the Board;

NOW, THEREFORE, the Board hereby grants, commencing retroactively from close of business March 30, 2001, for so long as she shall serve as the System's Acting Executive Director, the authority to execute on behalf of the System such powers of attorney or any other necessary documents as may be required for the completion of any transactions directly or indirectly related to the System's investments.

Minutes – Board Meeting
 May 24-25, 2001
 Page 9

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

NEW BUSINESS

Trustee Election

The Board received a memorandum from Alice Kern, the System's Election Coordinator, certifying that Jan Cleveland and Molly Phalen have been elected to the two available members seats of the Board effective July 15, 2001. On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

WHEREAS, the Secretary has certified that Janice Cleveland and Molly (Mary) Phalen have been duly elected for the two available active member seats on the Board of Trustees for four-year terms beginning July 15, 2001; and

WHEREAS, the Board finds that Janice Cleveland and Molly (Mary) Phalen are qualified to be teacher members; and

NOW, THEREFORE, according to the provisions of Section 16-165 of the Pension Code, the Board hereby declares the above individuals elected to the Board of Trustees, each for a four-year term commencing July 15, 2001.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

FY2002 Budget and Contracts > \$10,000

The proposed budget and contracts over \$10,000 were sent to the trustees for prior review. A copy of the budget is on file. Jon Bauman, Chief Operating Officer, presented the proposed FY2002 administrative budget that represents a 4.75% increase over the FY2001 final approved budget. On a motion by William Enlow, seconded by Stuart Levine, it was:

Resolved: To approve the FY2002 administrative budget and administrative contracts over \$10,000.00, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Trustee Cleveland requested that Staff provide the trustees with a listing of actual and estimated expenses for the TRS 2000 project.

2001-2002 Meeting Dates

The proposed Investment Committee/Board meeting calendar for FY2002 was sent to the trustees for prior review. At Trustee Cleveland's request, the Board will hold a meeting in Marion, Illinois on April 11-12, 2002. On a motion by James Bruner, seconded by Sharon Leggett, it was:

Resolved: To approve the FY2002 Investment Committee/Board meeting calendar, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Ark Asset Management

Pursuant to discussion held in executive session to review pending litigation matters the following resolution was approved. On a motion by Scott Eshelman, seconded by Molly Phalen, it was:

Resolved: The Board authorizes the Acting Executive Director to work with Counsel to negotiate a settlement agreement with Ark Asset Management in accordance with the terms outlined in executive session for later distribution to the Board. Absent hearing objection from trustees after they have had opportunity to review the proposed settlement documentation, the Acting Executive Director is authorized to execute the settlement on behalf of the Board of Trustees.

Minutes – Board Meeting
 May 24-25, 2001
 Page 11

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, O'Neill, Phalen, Bruner, and McGee. (Trustee Levine was not present during roll call). Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

In February, the Board approved to purchase two new phone components for the telephone system (QueWorX and Unified Messaging). Jon Bauman, Chief Operating Officer, announced that a new product has replaced QueWorx. On a motion by James Bruner, seconded by Stuart Levine, it was:

Resolved: To approve the purchase of the ~~QueWorX~~ Interactive Voice Response application software at an amount not to exceed \$60,000 and the Unified Messaging application software at an amount not to exceed \$40,000.

This motion amends the resolution adopted at the February 16, 2001 Board meeting. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

CEM Benchmarking Survey

Jon Bauman presented the results of the 2001 Cost Effectiveness Measurement (CEM) Benefit Administration Survey. TRS was compared to 24 other similar US pension funds and 11 systems in other countries in terms of service to members and administrative cost. For the second year in a row, the analysis showed TRS service levels were high, ranking 5th highest in overall service level, and costs low compared to other large public retirement systems. The survey results are on file.

"Discovering the Differences" Report

John Day, Director of Government Affairs, presented a report "Discovering the Differences." The report explains why TRS funds and benefits are different than other state retirement systems—SERS, SURS, IMRF. In conclusion, no one factor explains the differences in funding between the systems. The report is on file.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2001 were sent to the trustees for review. The reports are on file. On a motion by Cynthia O'Neill, seconded by James Bruner, it was:

Resolved: To approve the administrative expenses for the quarter ended March 31, 2001, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- TRS2000 Status Report for the quarter ended 3/31/01;
- EEOC Report for the quarter ended 3/31/01;
- Employer Services Report for the period November 16, 2000-April 30, 2001; and
- Member Services Statistical Report for the period ended April 30, 2001

INTERNAL AUDIT MANAGER'S REPORT

Jane Locascio, Internal Audit Manager, provided a copy of the internal control certification letter that was sent to the Auditor General on May 1 and a copy of the final report of the Expenditure Control Audit 01-3. She also gave a report on recent audit activities and discussed the risk assessment methodology to be used in developing the two-year audit plan.

TRUSTEE COMMENTS

The use of cell phones is disruptive and it was requested that the trustees refrain from incoming calls and conversations during meetings.

Staff was thanked for providing such superior service to TRS members. Some of the trustees receive nothing but positive feedback from members.

Minutes – Board Meeting
May 24-25, 2001
Page 13

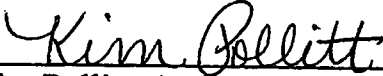
If a meeting is scheduled for two days, public comments will be placed on the agenda for both days.

PUBLIC COMMENTS

Blanche Erst, IRTA President, stated that Robert Lyons has remained in attendance for TRS meetings and that his commitment should be noted.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 11:37 A.M.



Kim Pollitt, Acting Executive Director and
Acting Chief Investment Officer



Teachers' Retirement System of the State of Illinois

MINUTES Special Meeting of the Board of Trustees May 31, 2001

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 31, 2001 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Glenn McGee, President, called the meeting to order at 3:00 P.M. A quorum was present.

Present:

Board Members:

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland (arrived at 3:05 p.m.)
William Enlow
Scott Eshelman
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Kim Pollitt, Acting Chief Investment Officer
Ruby Reynolds, Director of Human Resources
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Kennedy & Company:

Thomas Moran
Sharman McGurn

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by William Enlow, that the Board enter into executive session for the purpose of interviewing and discussing finalists for the Executive Director position as permitted under the following exception set forth in the Open Meetings Act as follows: "The appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body... 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

(Trustee Cleveland arrived at 3:05 p.m.)

No action was taken during executive session. A motion was made by James Bruner, seconded by Glenn McGee, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

Upon return to open session, President McGee stated that the Board would like to continue with the search. A motion was made by Stuart Levine, seconded by James Bruner, that Kennedy & Company continue the search and bring additional candidates to the Board at its August meeting. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Bruner, and McGee. Motion CARRIED.

President McGee thanked Ruby Reynolds and the search committee for their diligent work.

ADJOURNMENT

On a motion by James Bruner, seconded by Molly Phalen, and by unanimous vote, the meeting was adjourned at 6:15 P.M.



Kim Pollitt, Acting Executive Director and
Acting Chief Investment Officer



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees August 9, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 9, 2001 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Glenn McGee, President, called the meeting to order at 8:30 A.M. A quorum was present.

Present: **Board Members:**

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

TRS Staff:

Kim Pollitt, Acting Chief Investment Officer
Jon Bauman, Chief Operating Officer/Exec. Director
John Day, Director of Government Affairs
Ruby Reynolds, Director of Human Resources
Chuck Hunt, Director of Member Services
Cynthia Fain, Assistant General Counsel
Tom Gray, Assistant General Counsel
Ann Sweetland, Investment Officer
Tammy Green, Admin. Coordinator – Executive
Diane Blean, Executive Assistant

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Investment Consultant:

Mike Beasley, Strategic Investment Solutions

Visitors:

Ruth Milner, IRTA Rep.
 Blanche Erst, IRTA Rep.
 Harriett Ostlund, IRTA Rep.
 Walt Warfield, IASA
 John Vespo, IRTA Rep.
 John Huizinga, IRTA Rep.
 Sam Leopardo, IEA
 Peter Titre, IRTA Rep.
 Rich Chierico, IRTA Rep.
 Dustin Chierico, IEA
 Doria Haak, IRTA Rep.
 Bill McCauley, IRTA Rep.
 Robert Ferguson, IRTA Rep.
 Jane McCauley, IRTA Rep.
 Len Kortekaas, IRTA Rep.

Bob Lyons, IRTA Rep.
 S.B. Simo, IRTA Rep.
 Wayne McKinley, IRTA Rep.
 Liedy Kyzemka, IRTA Rep.
 Rona Purpura, IRTA Rep.
 Joe Purpura, IRTA Rep.
 Peter Mitshas, IRTA Rep.
 Don Johnson, IRTA Rep.
 Phil Schmidt, IRTA Rep.
 Mildred Burt, IRTA Rep.
 M.A. Stompanot, IRTA Rep.
 Roger Steingraber, IRTA Rep.
 Dennis Murfin, IRTA Rep.
 Herb Range, IRTA Rep.

Christine Williamson, Pensions & Investments Magazine

Paul Leisner, Manager of the Holiday Inn Chicago City Centre, introduced himself to the trustees and mentioned that he and his staff are available to provide any assistance required.

PUBLIC COMMENTS

Roger Steingraber, IRTA representative, distributed a written statement to the Board outlining concerns in regards to the turnover of TRS management and seating of a second annuitant to the Board. A copy of the statement is on file.

Walt Warfield, Executive Director of the Illinois Association of School Administrators, distributed a letter to the Board nominating Dr. William Mattingly for any vacancies that may occur on the Board. Copies of the recommendation letter and Dr. Mattingly's résumé are on file.

John Vespo, IRTA representative, commented that members in his district are disappointed that the Board has not selected a second annuitant.

Minutes - Board Meeting
 August 9, 2001
 Page 3

ELECTED TEACHER TRUSTEE POSITION

President McGee distributed a memorandum from School District U-46 stating that Scott Eshelman retired from teaching effective June 4, 2001. Prior to the meeting, President McGee asked outside legal counsel to address the issue whether or not Mr. Eshelman is eligible to continue serving on the TRS Board since he is no longer contributing to the System. A memorandum from outside counsel was distributed to the trustees regarding Mr. Eshelman's Board membership status. A copy of the memorandum is on file. Outside counsel concurs with Staff's legal opinion (October 24, 2000 memorandum from Cynthia Fain, TRS Assistant General Counsel) that a trustee is no longer eligible to serve as an elected teacher trustee when he/she ceases to be employed by a contributing employer, and thus is no longer a teacher as defined in Section 16-106 of the Pension Code. As a matter of law, a vacancy exists among the elected teacher trustees. Discussion followed.

On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

Pursuant to the opinion of Staff Counsel and Outside Counsel, adopted by the Board in accordance to Section 1650.610 of the Administrative Code, a vacancy exists among the elected teacher trustees as the result of the recent retirement of Trustee Scott Eshelman from School District U-46.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Cleveland, Phalen, Glennon, Levine, Leggett, O'Neill, and McGee. Motion Carried.

Due to the Mr. Eshelman's departure, a vacancy currently exists for Chair of the Investment Committee. On a motion by William Enlow, seconded by Stuart Levine, it was resolved:

To appoint James Bruner as Chair of the Investment Committee.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Cleveland, Phalen, Glennon, Levine, Leggett, O'Neill, and McGee. Motion Carried.

SECOND ANNUITANT TRUSTEE POSITION

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To appoint Bob Lyons to the second annuitant trustee position, effective immediately.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Phalen, Leggett, and O'Neill. Votes of opposition were heard from Trustees Enlow, Bruner, Glennon, Levine, and McGee. Motion Failed.

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

To appoint Scott Eshelman to the second annuitant trustee position at the time when he becomes an annuitant.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Phalen, Leggett, and O'Neill. Votes of opposition were heard from Trustees Enlow, Bruner, Glennon, Levine, and McGee. Motion Failed.

On a motion by John Glennon, seconded by Stuart Levine, it was resolved:

To appoint Phillip Schmidt to the second annuitant trustee position, effective immediately.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Glennon, Levine, and McGee. Votes of opposition were heard from Trustees Cleveland, Phalen, Leggett, and O'Neill. Motion Carried.

President McGee presented the Oath of Office to Mr. Schmidt. Discussion followed.

Trustee O'Neill expressed appreciation to Bob Lyons for his willingness to serve on the Board and also recommended that the Board express gratitude to Scott Eshelman for his experience, knowledge, and dedicated service to

Minutes – Board Meeting
 August 9, 2001
 Page 5

TRS. On motion by James Bruner, seconded by William Enlow, it was resolved:

To recognize Scott Eshelman for his extraordinary contributions and service to the Teachers' Retirement System.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Cleveland, Phalen, Glennon, Levine, Leggett, O'Neill, Schmidt, and McGee. Motion Carried. Staff will prepare a plaque for Mr. Eshelman.

PERSONNEL

Executive Director

A lengthy discussion was held regarding the position of Executive Director. On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

To hire Jon Bauman as Executive Director for three years at a salary of \$139,000.00, effective immediately.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Glennon, Levine, Schmidt, and McGee. Votes of opposition were heard from Trustees Cleveland, Phalen, Leggett, and O'Neill. Motion Carried.

Acting Chief Investment Officer

Prior to hiring an Executive Director, Kim Pollitt held the positions of Acting Executive Director and Acting Chief Investment Officer. On a motion by James Bruner, seconded by William Enlow, it was resolved:

That Kim Pollitt return to the position of Acting Chief Investment Officer.

Roll call resulted in affirmative voice votes from Trustees Enlow, Bruner, Cleveland, Phalen, Glennon, Levine, Leggett, O'Neill, Schmidt, and McGee. Motion Carried. The Board thanked Kim for leading the System and doing an excellent job serving as Acting Executive Director.

RECESS

The meeting recessed at 9:40 A.M. and reconvened at 3:50 P.M.

APPROVAL OF MINUTES

A draft of the minutes from the May 24-25, 2001 Board meeting and the May 31, 2001 Special Board meeting were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, the May 24-25, 2001 minutes were approved as printed. The motion passed by a unanimous voice vote. On a motion by Sharon Leggett, seconded by John Glennon, the May 31, 2001 minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT

Domestic Equity Small Cap Value Managers

On a motion by James Bruner, seconded by William Enlow, it was resolved:

To hire Ariel Capital Management and NorthPointe Capital as active small value domestic equity managers assigned to each manage 1.5% of the domestic equity portfolio. Source of funds to be the portfolio formerly managed by Lazard Asset Management.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Segal Actuarial Contract

Staff requested an additional spending authorization of \$25,000 for the Segal Actuarial Contract in order to accommodate any requests for actuarial work that may arise from various task forces reviewing TRIP. On a motion by John Glennon, seconded by William Enlow, it was resolved:

To authorize additional expenditures to The Segal Company in a total amount not to exceed \$75,000 for actuarial services

Minutes – Board Meeting
 August 9, 2001
 Page 7

concerning the Teachers' Retirement Insurance Program. Source of funding will be the Teachers' Health Insurance Security (THIS) Fund.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

Strategic Plan Update

Director Bauman provided an update on the strategic plan process. Documentation is on file.

Miscellaneous Reports

The following reports are on file.

- TRS2000 Status Report for the quarter ended 6/30/01;
- EEOC Report for the quarter ended 6/30/01;
- Member Services Statistical Report for the period ended 6/30/01

NEW BUSINESS

Power of Attorney – Executive Director

In appointing Jon Bauman, Executive Director, the Board implicitly granted him the authority to perform all acts necessary to the detailed administration of the System. On a motion by James Bruner, seconded by John Glennon, it was resolved:

WHEREAS, the Teachers' Retirement System of the State of Illinois (the "System") has, pursuant to its investment authority, entered into investment management agreements or partnership agreements with certain asset managers or investment partners who are authorized by contract to act on behalf of the System; and

WHEREAS, the above referenced asset managers and investment partners from time to time in the performance of their contractual functions must obtain from the System certain executed documents such as, for example and not by way of limitation, a Power of Attorney for real estate transactions; and

WHEREAS, the System's Board of Trustees (the "Board") has the authority, pursuant to 40 ILCS 5/16-179, to enter into such agreements and to execute such documents as it determines to be necessary to complete any investment transaction; and

WHEREAS, the Board has the authority, pursuant to 40 ILCS 5/16-169, to appoint a Secretary to serve as Chief Executive Officer of the System, responsible for the detailed administration of the System; and

WHEREAS, the Board intends that such Chief Executive Officer should have the requisite power and authority to execute such documents as are necessary to complete any transactions in or related to interests in real property or other investments on behalf of the System; and

WHEREAS, Jon Bauman, as of August 9, 2001, is the System's Chief Executive Officer, more commonly known as its Executive Director, appointed by and serving with the consent of the Board;

NOW, THEREFORE, the Board in accordance with resolution approved by the Board at its August 9, 2001 Board meeting, hereby grants, Jon Bauman, commencing August 9, 2001, for so long as he shall serve as the System's Executive Director, the authority to execute on behalf of the System such powers of attorney or any other necessary documents as may be required for the completion of any transactions directly or indirectly related to the System's investments.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

TRUSTEE COMMENTS

Trustee Phalen noted that, under the System's present salary rule, stipends paid to nine-month teachers for extra duties performed during the summer months are not creditable earnings. In many districts, summer earnings are therefore subject to FICA withholding. This allows teachers to qualify for Medicare coverage and to earn social security quarters. Staff was directed to research the issue of Social Security coverage summer earnings. Staff was also called to develop a recommendation as to whether summer earnings should alternatively be subject to TRS member contributions.

EXECUTIVE SESSION

A motion was made by Stuart Levine, seconded by James Bruner, that the Board of Trustees resolve itself 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 in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Sharon Leggett, seconded by William Enlow, that the Board come out of executive session. Roll call resulted in affirmative votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the minutes from the May 25, 2001 executive session meeting of the Investment Committee was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, it was resolved:

To approve the minutes of the May 25, 2001 executive session meeting of the Investment Committee, as presented.

Roll call resulted in affirmative votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

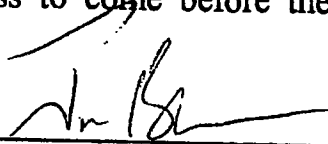
Drafts of the minutes from the May 24 and May 31, 2001 executive session meetings of the Board were sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To approve the minutes of the May 24 and May 31, 2001 executive session meetings of the Board, as presented.

Roll call resulted in affirmative votes from Trustees Cleveland, Enlow, Eshelman, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 4:43 P.M.



Jon Bauman, Executive Director

Approved 10/22/01
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees September 21, 2001

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on September 21, 2001 at the Springfield office, 2815 West Washington Street. Glenn McGee, President, called the meeting to order at 1:10 P.M. A quorum was present.

Present: **Board Members:**

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Tom Gray, General Counsel
Cynthia Fain, Assistant General Counsel
Kim Pollitt, Acting Chief Investment Officer
Rick Begando, Deputy Chief Investment Officer
Ruby Reynolds, Chief Operating Officer
Tammy Green, Admin. Coordinator – Executive
Sue Billington, Executive Assistant

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Investment Consultant:

Mike Beasley, Strategic Investment Solutions

Visitors:

Rich Frankenfeld, IEA
 Hershel Fitzpatrick, Retired Teacher
 Mr. & Mrs. Underwood, Retired Teachers
 Suzanna Merrick, Retired Teacher
 Helen Dunn, Retired Teacher
 Delores Busher, Retired Teacher
 Jeanne Carmody, Retired Teacher
 Marilyn Hall, Retired Teacher
 Robert Lyons, IRTA Rep.
 Tim Lee, IRTA Executive Director

Blanche Erst, IRTA President
 Dick Resko, IRTA Rep.
 Gilbert Deimel, IRTA Rep.
 Melvin McCoy, Retired Teacher
 Charlyne Koch, Retired Teacher
 Al Garber, IRTA Rep.
 Muriel Garber, IRTA Rep.
 Beth Bourland, IRTA Rep.
 Winnie Tipsword, IRTA Rep.
 Shirley Dodds, IRTA Rep.
 Jack Tucker, IEA-R

The meeting began with a moment of silence in respect to the national tragedy that took place in New York City, Washington, and Pennsylvania on September 11, 2001.

PUBLIC COMMENTS

Blanche Erst, IRTA President, referenced her letter written to President McGee regarding the second annuitant position. She stated the law specifies that one elected annuitant trustee shall be elected in 2001, and in every fourth year thereafter, for a term of 4 years beginning July 15 next following his/her election. The IRTA Board of Directors believes that the August 2001 annuitant appointment must be reconsidered and an immediate annuitant trustee election shall be held in accordance with the statutes. A copy of the letter is on file.

President McGee stated that he has prepared a response to Ms. Erst's letter and that this subject will not be addressed at this time due to the special meeting that requires discussion to be limited to agenda items.

REVIEW OF INVESTMENT ANALYSIS

Jon Bauman, Executive Director, noted in opening comments that Staff plans to adopt "*Retirement Security for Illinois Educators*" as its Statement of Purpose. The statement will be displayed on TRS publications and correspondence. This statement does not replace, but stands with the TRS mission statement.

As requested by the Board at its August 2001 meeting, Director Bauman presented an analysis of TRS' investment performance. The presentation booklet is on file. Among the report's findings and conclusions:

- Over the past 5 years, TRS' total fund performance compared against TUCS/ICC universe databases has been below median (54th average percentile).
- The one-year total fund ranking in the ICC/DB universe was 23rd percentile as of 12/31/99 and dropped to 67th percentile as of 6/30/01 following implementation of the 1999-2000 asset allocation and manager structure changes.

Note: The TUCS universe does show different results during this period of time.

- After 18-months experience under the new asset allocation, index returns in four of six asset classes showed negative performance in classes with increased allocations and positive performance in classes with smaller allocations than the prior allocation.
- A theoretical comparison of current vs. prior asset allocation indicates that respective allocations and benchmark indexes that compose those allocations reveals that the old would have outperformed the new. The theoretical estimated difference between the old and new allocations based on index returns totals \$562 million for the 18-month period.
- In July 1999, five alternatives were presented to the Board for asset allocation. Comparing the adopted mix (Mix 4) to the actual return as of 6/30/01 shows that the actual mix outperformed the policy mix.
- Performance for recent periods has improved in comparison to the other state-funded systems (IMRF, SURS, SERS). Performance over the past five years is basically equal.

- TRS' funded ratio has improved only slightly over the past ten years, primarily due to demographic factors causing rapid liability growth.
- The private equity portfolio incurred estimated write-downs of 9.1% as of 6/30/01.
- The rebalancing event in April 2001, although in accord with the adopted Investment Policy, resulted in net losses. At 6/30/01, the estimated loss, based on index returns, was \$6 million; by 8/31/01, that loss had increased to an estimated \$79 million according to Staff calculations.

A lengthy discussion followed. Some of the trustees expressed concern regarding the current asset allocation and recommended that a discussion be held regarding asset allocation and investment policy. A further discussion was held regarding the current asset mix.

The Board received materials from Staff regarding rebalancing—Why? When? How Often? Extended discussion followed. On a motion by James Bruner, seconded by Stuart Levine, it was:

Resolved: To temporarily suspend the rebalancing of the portfolio until October 24.

Roll Call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED. It was noted that Staff and SIS support this concept. Staff will present an educational briefing on rebalancing at the October meeting.

Following a lengthy discussion regarding real estate, Trustee O'Neill encouraged that the selection of two real estate consultants be placed on the October agenda.

RECESS

The meeting recessed at 3:00 PM and reconvened at 3:09 PM.

INVESTMENT CONSULTANT

Trustee Bruner announced that only five out of ten performance evaluation forms were returned to him regarding the annual performance of Strategic Investment Solutions (SIS). The ratings were 5, 5, 4, 3 and 1 (5 being high and 1 being low). An overall “score” could not be determined due to mixed and incomplete responses. On a motion by Stuart Levine, seconded by John Glennon, it was:

Resolved: To authorize Staff to initiate an RFP for a general investment consultant and that the RFP determine whether or not the responding consultants are capable of advising on real estate.

An extended discussion followed. Mike Beasley of SIS made a statement and offered the resignation of SIS as the System’s consultant if it would bring the Board together. Discussion continued. Roll call resulted in affirmative voice votes from Trustees Enlow, Glennon, Levine, Schmidt, Bruner, and McGee. Votes of opposition were heard from Trustees Cleveland, Leggett, O’Neill, and Phalen. Motion CARRIED.

Trustee Bruner requested that the Board form a committee to review the RFP’s. President McGee will appoint a three-member committee next week to work with Staff and present recommendations to the Board. Mr. Beasley stated that SIS will not be responding to the RFP and announced SIS’ resignation as the System’s investment consultant. The Board, Executive Director, and Chair of the Investment Committee will receive a resignation letter next week from Mr. Beasley.

RETENTION OF INSURANCE CONSULTANT

The current real estate insurance coverage expires March 1, 2002. Staff presented a draft RFP to the Board. Documentation is on file. Staff requested permission from the Board to issue the RFP, receive proposals from firms, and form a committee to review the proposals. Based on the unanimous selection by the committee and after concurring with Chair of the Investment Committee, Staff proposes to hire a real estate insurance consultant. Upon retention of a real estate insurance consultant, Staff will issue an RFP for a real estate insurance broker that the Board will

subsequently authorize. On a motion by Stuart Levine, seconded by James Bruner, it was:

Resolved: To authorize Staff to initiate a Request for Proposal for a real estate insurance consultant. In addition, Staff is authorized to form a committee to review the RFP respondents and, based on the unanimous selection by the committee and after conferring with the Chairman of the Investment Committee, Staff is further authorized to retain a real estate insurance consultant. Upon the retention of the new real estate insurance consultant, Staff is authorized to initiate a Request for Proposal for a real estate insurance broker.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Enlow, Glennon, Leggett, Levine, O'Neill, Schmidt, Bruner, and McGee. Votes of opposition were heard from Trustees Cleveland and Phalen. Motion CARRIED.

EXECUTIVE SESSION

A motion was made by Sharon Leggett, seconded by James Bruner, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Phillip Schmidt, seconded by James Bruner, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

Minutes – Special Board Meeting
September 21, 2001
Page 7

TRUSTEE COMMENTS

Discussion was held regarding Piper Marbury Rudnick & Wolfe's attendance at each Board meeting. President McGee indicated that Steve Loren was present at his request as counsel to the Board.

Concern was expressed regarding the resignation of Strategic Investment Solutions as the System's investment consultant.

John Day provided a brief update on TRIP.

Trustee Schmidt described instances of direct deposit payments not being made available to benefit recipients at the time the monies have been electronically transferred to the annuitant's bank. He asked staff to investigate and to take appropriate steps to ensure that financial institutions are not receiving inappropriate use of these funds.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 5:02 PM.



Jon Bauman, Executive Director

Approved 10/22/01
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees October 22, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 22, 2001 at the Springfield office, 2815 West Washington Street. Glenn McGee, President, called the meeting to order at 8:49 a.m. A quorum was present.

Present:

Board Members:

Glenn McGee, President
James Bruner, Vice-President
Jan Cleveland
William Enlow
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Tom Gray, General Counsel
Kim Pollitt, Acting Chief Investment Officer
Rick Begando, Deputy Chief Investment Officer
Ruby Reynolds, Chief Operating Officer (p.m.)
Kathleen Farney, Research Administrator (p.m.)
Tammy Green, Admin. Coordinator – Executive
Sue Billington, Executive Assistant

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Visitors:

Rich Frankenfeld, IEA
Alan Jones, IEA-R
Delores Busher, IRTA Rep.
Robert Lyons, IRTA Rep.
Tim Lee, IRTA Executive Director
Beth Bourland, IRTA Rep.
Blanche Erst, IRTA President
Winnie Tipsword, IRTA Rep
Gilbert Deimel, IRTA Rep.
Estella Martin, IRTA Rep.
Judy Meeks, IRTA Rep.
Thomas Kizziah, McGladrey & Pullen, LLP

Jack Tucker, IEA-R
Gary Jones, IEA
K. Lane Miller, IRTA Rep.
Michal See, IRTA Rep.
Bill See, IRTA Rep.
Audrey Roman, IRTA Rep.
Sandy Carlson, IRTA Rep.
Sylvia Herzog, IRTA Rep.
Shirley Dodds, IRTA Rep.
Ray McHatton, IRTA Rep.
Kathy Stevenson, Northern Trust
Christine Williamson, Pension &
Investments Magazine

EXECUTIVE SESSION

A motion was made by Sharon Leggett, seconded by James Bruner, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Phillip Schmidt, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

RECESS

The meeting recessed at 9:11 a.m. and reconvened at 1:08 p.m.

PUBLIC COMMENTS

Blanche Erst, IRTA President, provided a copy of a resolution that was issued by the IRTA Delegate Assembly on October 16, 2001. A copy of the resolution is on file. Discussion followed.

APPROVAL OF MINUTES

Drafts of the minutes from the August 9, 2001 Board meeting and the September 21, 2001 Special Board Meeting were sent to the trustees for prior review. On a motion by Phillip Schmidt, seconded by James Bruner, the August 9, 2001 minutes were approved as printed. The motion passed by a unanimous voice vote. On a motion by James Bruner, seconded by William Enlow, the September 21, 2001 minutes were approved as printed. The motion passed by a unanimous voice vote.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Actuarial Valuation Report/Certification of FY03 State Contributions

John Thompson and Lynn Hill of Buck Consultants presented the results of the System's June 30, 2001 actuarial valuation. Documentation is on file. As of June 30, the funding level for the System decreased from 68.2% to 59.5% resulting in a net actuarial loss of \$3.7 billion. This is the first negative return since 1994. Discussion followed. The State continues to comply with the statutory funding requirements. On a motion by Phillip Schmidt, seconded by Jan Cleveland, it was resolved:

To accept the June 30, 2001 actuarial valuation, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

On a motion by Cynthia O'Neill, seconded by Phillip Schmidt, it was resolved:

To certify the System's FY 2003 state funding requirements, as presented, in an amount totaling \$930,050,000.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by James Bruner, it was resolved:

To certify the System's total normal cost and employer's normal cost for FY 2003, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To certify the FY 2003 state contribution to THIS Fund, as presented.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Lincoln Capital

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To terminate the Lincoln large growth domestic equity account. The assets in the Lincoln account will be invested in the S&P 500 Flagship Fund managed by State Street Global Advisors, on a temporary basis until completion of the necessary search. Investment manager search activity will commence upon the hiring of the chief investment officer and investment consultant and is to be completed at the earliest appropriate and feasible date.

Minutes -- Board Meeting
 October 22, 2001
 Page 5

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

Rebalancing Policy

On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

To continue the temporary suspension of the rebalancing policy through December 17, 2001.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

Real Estate

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

Pending further action on the part of the Board, the System's Separate Account Real Estate Investment Managers shall be permitted to reinvest the proceeds derived from the sale or other disposition of real estate assets being managed in their portfolios. The staff is directed to negotiate and finalize any amendments to particular investment management agreements necessary to effectuate the implementation of this resolution. Pending reinvestment, any proceeds derived by the sale or other disposition of real estate assets covered by this resolution shall be returned to the System and retained at Northern Trust.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Schmidt, Bruner, and McGee. A vote of opposition was heard from Trustee Phalen. Motion CARRIED.

Progress Investment Management

On a motion by William Enlow, seconded by Phillip Schmidt, it was resolved:

To authorize Staff to notify Progress Investment Management Company to release any manager who through acquisition no longer meets the selection criteria set forth in Progress' Investment Management Agreement, replacing the firm with another qualified manager meeting the criteria as soon as possible.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

VS&A Communications Partners II, L.P.

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To approve the extension of the three-year period for follow-on investments in VS&A Communications Partners II, L.P. from the current termination date of November 10, 2001 until December 31, 2002.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To endorse the two proposals as submitted by the Pension Laws Commission per letter dated October 17, 2001 in regards to military service credit and survivor annuities.

Discussion followed. The Board agreed not to endorse the proposals until an estimated cost is provided for these benefits. Action was deferred until the November Special Board Meeting.

Minutes – Board Meeting
October 22, 2001
Page 7

RULES AND PERSONNEL COMMITTEE-Molly Phalen, Chair

Administrative Rules

On a motion by Sharon Leggett, seconded by James Bruner, it was resolved:

To authorize Staff to take the steps necessary to promulgate the recommended changes to the TRS Administrative Rules regarding administration of the TRS Payroll Deduction Program and amendment of the System's rollover rules to take advantage of the liberalized rollover provisions provided in the Economic Growth and Tax Relief Reconciliation Act of 2001.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

RECESS

The meeting recessed at 2:54 p.m. and reconvened at 3:10 p.m.

OLD BUSINESS

Fiduciary Counsel

At the March Board meeting, issuance of an RFP for the services of a fiduciary counsel was deferred pending the appointment of an Executive Director. The Board further discussed the need for services of a fiduciary counsel. The Board directed Staff to review the IFS report, look at what peer systems are doing, and discuss scope of services, costs, and possible projects. Staff will report its findings to the Board at the December meeting.

On a motion by Jan Cleveland, seconded by Stuart Levine, it was resolved:

To direct Staff at their earliest convenience, but no later than February 2002, to prepare a Request For Proposal for legal services for the Board to review.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Glennon, Leggett, Levine, Phalen, and O'Neill. Votes of opposition were heard from Trustees Enlow, Schmidt, Bruner, and McGee. Motion CARRIED.

NEW BUSINESS

Establishing an Audit Committee

Jon Bauman recommended that the Board consider establishing a four-member Audit Committee to strengthen the liaison process between the internal auditor and the Board. The Board received a memorandum from Cynthia Fain, Assistant General Counsel, regarding other public pensions systems' use of audit committees. Staff will draft bylaws amendments for the Rules and Personnel Committee to consider at the December meeting.

FY03 Southern Illinois Meeting

The Board concurred to have its April 3-4, 2003 meeting in southern Illinois.

Vice President Position

Trustee Bruner recommended an amendment to the bylaws of the Board regarding the position of Vice President. On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

That Article 111, Section 2 of the TRS Board Bylaws be amended as follows:

The Vice President shall be elected by the Trustees at the May Board meeting or any other meeting if a vacancy occurs in the office of the Vice President.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED. Since Trustee Bruner assumed the Investment Committee Chair position in August, he announced his resignation as Vice President of the Board.

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

That Molly Phalen be elected to serve as Vice President of the Board.

Roll call resulted in affirmative voice votes from Trustees O'Neill, Phalen, Schmidt, Cleveland, and Leggett. Votes of opposition were heard from Trustees Levine, Enlow, Glennon, Bruner, and McGee. Motion FAILED.

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

That William Enlow be elected to serve as Vice President of the Board.

Roll call resulted in affirmative voice votes from Trustees Levine, Enlow, Glennon, Schmidt, Bruner, and McGee. Votes of opposition were heard from Trustees O'Neill, Phalen, Cleveland, and Leggett. Motion CARRIED.

RECESS

The meeting recessed at 4:00 p.m. and reconvened at 4:10 p.m.

Active Member Trustee Candidates

Gary Jones and Bill Mattingly expressed their interest in the vacant active member trustee position. Mr. Jones is the Secretary/Treasurer for the Illinois Education Association and Mr. Mattingly is Superintendent of Streator High School. The Board entered into executive session to conduct interviews.

EXECUTIVE SESSION

A motion was made by Stuart Levine, seconded by William Enlow, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett,

Levine, O'Neill, Schmidt, Bruner, and McGee. A vote of opposition was heard from Trustee Phalen. Motion CARRIED.

No action was taken during executive session. A motion was made by Phillip Schmidt, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT (cont.)

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2001 and the final reports for the FY01 lapse period were sent to the trustees for prior review. The reports are on file. On a motion by William Enlow, seconded by John Glennon, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2001, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

Amendment to TRS Operating Policy – Expenditure Management

Effective April 2001, several thresholds for Board approval of certain procurements and contracts were reduced to \$10,000.00 pending the appointment of an Executive Director. The Board received an amendment to TRS Operating Policy-Expenditure Management restoring the thresholds to their prior levels. On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

That the TRS Operating Policy-Expenditure Management be amended as presented, effective October 24, 2001.

Minutes – Board Meeting
October 22, 2001
Page 11

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

TRS2000 Update

TRS2000 demonstration of the benefit estimate system was deferred due to time constraints. Director Bauman announced that the employer system is 100% complete and staff is currently testing the accounting, insurance, and payroll systems.

Miscellaneous Reports

The Board received copies of the following reports: TRS2000 Status Report for the quarter ended 9/30/01; EEOC Report for the quarter ended 9/30/01; Member Services Statistical Report for the period ended 9/30/01; and Employer Services Report for the period May 1 through September 14, 2001. The reports are on file.

EXECUTIVE SESSION

A motion was made by Stuart Levine, seconded by Phillip Schmidt, 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 in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Phillip Schmidt, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the August 9, 2001 and September 21, 2001 minutes of the executive session meetings of the Board and the May 30-31, 2001 Executive Director Search Committee were sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To approve the minutes of the August 9, 2001 and September 21, 2001 executive session meetings of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Enlow, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Bruner, and McGee. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To approve the minutes of the May 30-31, 2001 executive session meeting of the Executive Director Search Committee, as printed.

Roll call resulted in affirmative voice votes from committee members Enlow, O'Neill, Bruner, and McGee. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 8:55 p.m.



 Jon Bauman, Executive Director

Approved 12/20/01
 (date)



Teachers' Retirement System of the State of Illinois

MINUTES Special Meeting of the Board of Trustees November 30, 2001

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on November 30, 2001 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Glenn McGee, President, called the meeting to order at 8:30 A.M. A quorum was present.

Present: **Board Members:**

Glenn McGee, President
William Enlow, Vice-President
James Bruner
Jan Cleveland
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
Chuck Self, Chief Investment Officer (effective 12/3/01)
Tom Gray, General Counsel
Kim Pollitt, Acting Chief Investment Officer
Rick Begando, Deputy Chief Investment Officer
Tammy Green, Admin. Coordinator-Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Minutes – Board
November 30, 2001
Page 2

Visitors:

Kathy Stevenson, Northern Trust	Mildred Burt, IRTA Rep.
Christine Williamson, Pension & Investments Magazine	Donald Sproner, IRTA Rep.
Dennis Murfin, IRTA Rep.	Jodie Stewart, IRTA Rep.
Joe Purpura, IRTA Rep.	Wil Hemeyer, IRTA Rep.
Rona Purpura, IRTA Rep.	James Prunty, IRTA Rep.
Bob Lyons, IRTA Rep.	Roger Steingraber, IRTA Rep.
Louis Schairer, IRTA Rep.	Lloyd Mueller, IRTA Rep.
Tim Lee, IRTA Executive Director	Billie Paige, IRTA Rep.
John Vespo, IRTA Rep.	Jack Tucker, IEA-R
Ernest Wish, IL State Board of Education	

No comments from the public.

President McGee introduced Ernest Wish, Interim State Superintendent and President of the TRS Board of Trustees effective January 2002.

TEACHERS' RETIREMENT INSURANCE PROGRAM (TRIP)

Jon Bauman, Executive Director, announced that the legislature approved the TRIP bill, which awaits approval by the Governor. The legislation averts a likely 80% premium increase and keeps TRIP on a secure financial footing through June 30, 2004. TRS will continue to work with the legislature and the Governor to reach a permanent solution. Detailed information will be posted on the TRS Web site.

APPROVAL OF MINUTES

Drafts of the minutes from the November 2 and November 15, 2001 Investment Consultant RFP Review Committee meetings were sent to the trustees for prior review. On a motion by James Bruner, seconded by Cynthia O'Neill, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT CONSULTANT INTERVIEWS

Callan Associates

Gordon Dickinson, Jamie Kuster, and Jay Kloepfer presented an overview of Callan Associates describing the organization, personnel, investment philosophy, technical capabilities and areas of recognized expertise. Callan is an investment consulting firm with headquarters in San Francisco, California and a regional office in Chicago, Illinois. Callan is an independent firm owned by 48 active employees and was formerly the consultant for TRS. Callan's presentation booklet is on file.

RECESS

The meeting recessed at 9:54 a.m. and reconvened at 10:15 a.m.

Marquette Associates

David Fitch, Brian Wrubel, and Tim Burdick presented an overview of Marquette Associates describing the organization, personnel, investment philosophy, technical capabilities, and areas of recognized expertise. Marquette is an investment consulting firm located in Chicago, Illinois. Marquette is an independent, employee owned firm with 13 investment professionals. Marquette's presentation booklet is on file.

RECESS

The meeting recessed at 11:05 a.m. and reconvened at 11:10 a.m.

Staff commented on the on-site visits to each consulting firm. Documentation is on file. A lengthy discussion was held regarding the difference in size of the two firms, fees, and reasons why Callan was not selected as a finalist in the 1999 search. Following deliberation, a motion was made by James Bruner, seconded by Phillip Schmidt:

To retain Callan Associates as the System's General Investment Consultant effective January 1, 2002 for a one-year term with a six-month review.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Leggett, Levine, O'Neill, Schmidt, Enlow, and McGee. Votes of opposition were heard from Trustees Cleveland and Phalen. Motion CARRIED.

Trustee Glennon requested that Staff relay to Marquette that their presentation was excellent, and the TRS Board was impressed with their firm.

Real Estate Insurance Broker Selection

Staff furnished RFP's to four insurance brokers: AON Risk Services; Near North National Group; Mesirow Financial Services; and USI Midwest. Three proposals were received; Mesirow chose not to quote due to time constraints.

Bob Trompeter from Risk Resources presented an analysis of the RFP process and results. Mr. Trompeter's review indicated Near North Insurance was overall the most responsive to the System's RFP. Staff concurred with his assessment. Documentation is on file. On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To retain Near North Insurance Brokerage, Inc. as the System's Real Estate Insurance Broker for a three-year term.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED. Near North succeeds AON Risk Services.

Brinson Partners Small Cap Equity Account

The Board revisited the issue of Brinson's underperformance. On a motion by Phillip Schmidt, seconded by John Glennon, it was resolved:

To terminate the Brinson Partners small cap value domestic equity account. Assets shall be reallocated equally between Ariel Capital and NorthPointe Capital.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.


EXECUTIVE SESSION

A motion was made by Stuart Levine, seconded by Jan Cleveland, 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 and probable or imminent litigation as permitted under the following exceptions in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1) and 5ILCS 120/2(c)(11). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Stuart Levine, seconded by Phillip Schmidt, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

ADJOURNMENT

Upon return to open session, the meeting adjourned at 1:15 p.m.



Jon Bauman, Executive Director

Approved: 02/15/02
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees December 17, 2001

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 17, 2001 at the Holiday Inn Chicago City Centre, 300 East Ohio Street. William Enlow, Vice-President, called the meeting to order at 3:21 p.m. A quorum was present.

Present: **Board Members:**

Glenn McGee, President (arrived 3:45 p.m.)
William Enlow, Vice-President
James Bruner
Jan Cleveland
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Ruby Reynolds, Chief Operating Officer
Chuck Self, Chief Investment Officer
Rick Begando, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Tom Gray, General Counsel
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Visitors:

Gordon Dickinson, Callan Associates
 Anne Coupe, Callan Associates
 Rona Purpura, IRTA Rep.
 Joe Purpura, IRTA Rep.
 Dennis Murfin, IRTA Rep.
 Mildred Burt, IRTA Rep.
 Blanche Erst, IRTA Rep.
 Francis Compton, IRTA Rep.
 Bob Lyons, IRTA Rep.
 Roger Steingraber, IRTA Rep.

Kevin Dolsen, Callan Associates
 Christine Williamson, Pensions & Investments
 Marti Swanson, IRTA Rep.
 Barbara Savitt, IRTA Rep.
 Gus Nizzi, IRTA Rep.
 Richard Chierico, IRTA Rep.
 Jack Tucker, IEA-R
 Rich Frankenfeld, IEA
 Kathy Stevenson, Northern Trust

PUBLIC COMMENTS

Blanche Erst, IRTA President, stated that the IRTA received a letter from President Glenn McGee responding to issues raised by the IRTA. President McGee requested that a meeting be held sometime in January with two members of the IRTA Board.

Roger Steingraber stated that the rehiring of Callan Associates as the System's investment consultant is noted. In his opinion, their dismissal in 1998 was controversial and unwarranted.

Rich Frankenfeld thanked the Board for their efforts in solving the problems with the Teachers' Retirement Health Insurance Program.

APPROVAL OF MINUTES

A draft of the minutes from the October 22, 2001 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Philip Schmidt, the October 22, 2001 minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Rebalancing

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To continue the temporary suspension of the rebalancing policy through April 15, 2002.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Progress Investment Management

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To maintain the current allocation to the Progress Emerging Manager program pending completion of the asset allocation and manager structure studies.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Minority Manager Search

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To authorize Staff and Consultant to commence a search for minority fund managers to manage an amount not to exceed \$450 million, and provide recommendations to the Board at the February meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Israel Bonds

On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To purchase \$5 million (purchase price) in ten-year zero coupon Government of Israel bonds over the course of the next two months. Source of funds: Cash Flow Account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Leggett, Levine, O'Neill, Schmidt, and Enlow. Votes of opposition were heard from Trustees Cleveland and Phalen. Motion CARRIED.

Capri/Capital Advisors

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

That Capri/Capital Advisors be allowed to reinvest the approximately \$7.6 million in cash proceeds derived from the sale of the St. Charles land.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Capri/Capital Advisors - New Investment

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

That the System invest \$100 million in Capri/Capital Advisors Apartment Fund III, L.P. Source of funds to be Private/Market Cash Flow Account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

Chair Cleveland provided a brief overview of the Legislative Committee meeting. On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To support legislation proposed by the Pension Laws Commission to reduce or eliminate certain member costs associated with the granting of optional credit for military service.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE REPORT-*Molly Phalen, Chair*

Revisions to Board Manual

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

To approve revisions to the Board manual, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Administrative Rules

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

To authorize Staff to take the steps necessary to promulgate the recommended changes to the TRS Administrative Rules, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

OLD BUSINESS

Fiduciary Counsel

Jon Bauman, Executive Director, discussed matters pertaining to the appointment of fiduciary counsel for the Board. The Board received a memorandum from Tom Gray, General Counsel, accompanied by materials from CalSTRS regarding their use of fiduciary counsel, a memorandum from the U of I Law Journal, and a cost survey. Documentation is on file. Discussion followed.

(President McGee and Ernest Wish arrive)

On a motion by James Bruner, seconded by William Enlow, it was resolved:

To appoint a three member sub-committee of the Board to work with Staff to develop a list of law firms for the Board to consider to serve as the System's fiduciary counsel and report those findings at a future Board meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

NEW BUSINESS

Membership to Council of Institutional Investors

The Board received a memorandum from Director Bauman regarding TRS' membership in the Council of Institutional Investors. Documentation is on file. TRS has been a member of CII for two years, paying annual dues of \$30,000. Director Bauman stated that the membership expense does not appear commensurate with the level of benefit we are receiving and recommended to not continue TRS' membership. The Board indicated if staff was not finding benefits to the System in this or other memberships, the Director should discontinue TRS' participation.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Executive Director's report.

THIS Fund Certifications

Due to the recently passed TRIP legislation, it is necessary for TRS to amend the amounts that are annually certified in order to allow increased State contributions to THIS Fund as provided in the legislation. The additional certification amounts are \$5,000,000 for FY 2002 and \$10,582,000 for FY 2003. On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To certify additional appropriations to the Teacher Health Insurance Security Fund for the remainder of FY 2002 and for FY 2003 as described in Senate Bill 1174.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, O'Neill, Phalen, Schmidt, Enlow, and McGee. (Levine was not present during roll call). Motion CARRIED.

Operating Cash Flow Projections

Director Bauman conducted a presentation on TRS' current and projected cash flow situation. Documentation is on file.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2001 were sent to the trustees for prior review. The reports are on file. On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To approve the administrative expenses for the quarter ended September 30, 2001, as presented:

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

Member Services Statistical Report

The Board received a copy of the Member Services Statistical Report for the period ending October 31, 2001. The report is on file.

TRUSTEE CONCERNS

Due to the state budget shortfalls, President McGee stated that Staff should carefully review TRS' administrative budget and be prepared to make reductions should TRS be requested to do so by the Governor.

TRUSTEE RECOGNITION-Glenn Max McGee

On a motion by Willam Enlow, seconded by James Bruner, it was resolved:

Whereas, Glenn W. "Max" McGee has served as State Superintendent of education and ex-officio President of the Teachers' Retirement System Board of Trustees since 1998; and

Whereas, Max McGee served as an effective advocate for Illinois public education, demonstrating at all times a commitment to the children of this state; and

Whereas, Max McGee pursued his objectives for Illinois schools with the endurance learned in his athletic pursuits as a long distance cyclist and runner; and

Whereas, he provided effective leadership, attended to his duties as President with poise, preparation, and purpose, and sought to address and resolve the problems facing Illinois education; now, therefore be it

RESOLVED, that the Teachers' Retirement System of the State of Illinois expresses its appreciation to Max McGee for his generous service and numerous contributions to public education and the retirement security of Illinois educators and that we express our best wishes for the continuation of a distinguished career in public education; and be it further

RESOLVED, that a suitable copy of this preamble and resolution be presented to our esteemed colleague and printed in the official minutes of the Board of Trustees. Given this the 17th day of December, 2001.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Jan Cleveland, 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; probably or imminent litigation; discussion of closed meeting minutes; and the semi-annual review 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: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees

Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Phillip Schmidt, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the October 22, 2001 minutes of the three executive session meetings of the Board were sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

To approve the minutes of the October 22, 2001 executive session meetings of the Board (3 meetings), as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

Semi-annual Review of Executive Session Minutes

The Board received a memorandum from the System's Legal Department regarding confidentiality of executive session minutes according to the Open Meetings Act. On a motion by Jan Cleveland, seconded by Sharon Leggett, it was resolved:

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

August 17, 2000 Rules & Personnel
August 18, 2000 Rules & Personnel
December 7, 2000 Investment Committee
December 7, 2000 Rules & Personnel
December 8, 2000 Board of Trustees
February 15, 2001 Investment Committee
February 16, 2001 Board of Trustees
May 31, 2001 Board of Trustees
September 21, 2001 Board of Trustees

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and McGee. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 4:57 p.m.



Jon Bauman, Executive Director

Approved 02/15/02
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees February 14, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 14, 2002 at the Springfield office, 2815 West Washington Street. Respicio Vazquez, President, called the meeting to order at 3:26 p.m. A quorum was present.

Present: **Board Members:**
 Respicio Vazquez, President
 James Bruner
 Jan Cleveland
 John Glennon
 Sharon Leggett
 Stuart Levine
 Cynthia O'Neill
 Molly Phalen
 Phillip Schmidt

TRS Staff:
 Jon Bauman, Executive Director
 John Day, Assistant Executive Director
 Tom Gray, General Counsel
 Chuck Self, Chief Investment Officer
 Kim Pollitt, Deputy Chief Investment Officer
 Rick Begando, Deputy Chief Investment Officer
 Tammy Green, Admin. Coordinator – Executive

Outside Counsel:
 Steve Loren, Piper Marbury Rudnick and Wolfe

Absent: William Enlow, Vice-President

Visitors:

Rich Frankenfeld, IEA	Robert Lyons, IRTA Rep.
Jack Tucker, IEA-R	Elizabeth Bourland, IRTA Rep.
Alan Jones, IEA-R	Shirley Dodds, IRTA Rep.
Kathy Stevenson, Northern Trust	Gilbert Deimel, IRTA Rep.
Tim Lee, IRTA Executive Director	Winnie Tipsword, IRTA Rep.
Sylvia Herzog, IRTA Rep.	
Christine Williamson, Pension & Investments Magazine	

PUBLIC COMMENTS

Bob Lyons stated that he is now the official spokesperson on behalf of the IRTA to communicate information between TRS and IRTA; Blanche Erst's term as IRTA President has expired. Mr. Lyons stated that although a considerable number of changes have occurred recently at TRS, the main objective remains the same—to grow investments for the future of teachers.

APPROVAL OF MINUTES

Drafts of the minutes from the November 30, 2001 Special Board Meeting and the December 17, 2001 Regular Board Meeting were sent to the trustees for prior review. On a motion by James Bruner, seconded by Jan Cleveland, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT—*James Bruner, Chair*

Dresdner RCM

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To terminate the Dresdner RCM international equity account, with proceeds being invested temporarily in the All Country World Ex-US Index fund managed by State Street Global Advisors until the completion of the asset allocation and manager structure studies.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

Progress Investment Management

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To terminate the Progress Investment Management Emerging Manager Program, with proceeds transferred to the minority-owned managers hired as a result of the current equity and fixed income searches.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

MDL Capital Management and Earnest Partners

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To allocate \$100 million each to MDL Capital Management, Inc. and Earnest Partners, LLC, subject to successful completion of contract and fee negotiations. Source of funds shall be the Progress Emerging Manager Program and the Lehman Aggregate Index fund managed by State Street Global Advisors.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

Earnest Partners and Holland Capital Management

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To allocate \$75 million each to Earnest Partners and Holland Capital Management, subject to successful completion of contract and fee negotiations. Source of funds shall be the Progress Emerging Manager Program and the S&P 500 Index fund managed by State Street Global Advisors.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

Cambridge Integrated Services Group

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To approve the third amendment to the agreement between the System and Cambridge as the System's real estate general liability third party administrator for a term of one year commencing on March 1, 2002, through February 28, 2003, with an estimated annual cost not expected to exceed \$50,000.00 at current claim levels.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

TCW Latin America Private Equity Fund

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To sell the Convergence Communications, Inc. options in the Dutch auction.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by Jan Cleveland, seconded by Stuart Levine, it was resolved:

The Teachers' Retirement System supports legislation that allows retired teachers to return to work without loss of pension benefits if the following criteria are met:

- 1) A shortage area and/or a subject shortage area are affected by the return to work program. The Regional Superintendent should determine the shortage area.
- 2) The program is in effect for a period of five years.
- 3) Retirees will participate in the school district's health insurance plan.
- 4) Retirees with either 34 or more years of service or age 60 shall have a reasonable waiting period before being allowed to participate in the program.
- 5) Retirees with less than 34 years of service and who retire before the age of 60 shall have at least a one year waiting period before being allowed to participate in the program.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Molly Phalen, Chair*

Amendment to TRS Salary Rule

On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

To direct staff to prepare an amendment to the TRS salary rule to include summer school earnings as creditable compensation. Staff will send a copy of the proposed rule change to each Board member for review. The proposed rule change will be considered at the next regular Board meeting.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion **CARRIED.**

OLD BUSINESS

Fiduciary Counsel Sub-Committee

In December, the Board appointed a three-member fiduciary counsel sub-committee to develop a list of law firms for the Board to consider serving as the System's fiduciary counsel. Director Bauman noted that the original motion did not designate a Chairperson and that the slate of the committee was not reflected on composition of the Board. On a motion by Jan Cleveland, seconded by James Bruner, it was resolved:

To expand the membership of the Fiduciary Counsel Sub-committee from three to five members, with the additional members appointed by the President, and to have a sub-committee Chair elected by the sub-committee.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion **CARRIED.**

RFP for General Legal Services

The Board received a draft Request for Proposals (RFP) for general legal services. Documentation is on file. A brief discussion followed. The Board and staff agreed to defer the issuance of the RFP since the work presently being performed

by Piper, Marbury, Rudnick & Wolfe is satisfactory and the rates are competitive and below market.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Internal Audit Update

Director Bauman introduced Stacy Smith, TRS' new Internal Auditor. Stacy provided an update on internal audit activities.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2001 were sent to the trustees for review. The reports are on file. On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2001, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

Miscellaneous Reports

The following reports are on file:

- EEOC Report for the quarter ending December 31, 2001
- Member Services Statistical Report for the period ending December 31, 2001
- Employer Services Report for the period September 15, 2001-January 15, 2002
- TRS2000 Status Report for the period ending January 31, 2002
- FY2002 Strategic Plan

TRS 2000/FY 2002 Budget Amendments

Director Bauman stated that the completion of the TRS 2000 project has once again been extended. The project will now be completed in January 2003. Sikich Gardner & Company prepared a report assessing the reasonableness of the TRS2000 project's implementation date and believes January 2003 is an

achievable date. The report is on file. Therefore, on a motion by Stuart Levine, seconded by Phillip Schmidt, it was resolved:

To approve the reallocation of funds for contractual programmers within the Information Systems budget, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED. Director Bauman noted that all contract amendments exceeding \$100,000.00 would be brought to the Board for approval.

Director Bauman noted that in consideration of the State's current budget situation, he has reduced TRS' budget by 5%. The funds have been placed in the Director's Reserve.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Cynthia O'Neill, 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: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Vazquez. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, and Vazquez. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the November 30 and December 17, 2001 minutes of the executive session meetings of the Board and the December 17, 2001 executive session minutes of the Rules and Personnel Committee were sent to the trustees for prior review. On a motion by Molly Phalen, seconded by Jan Cleveland, it was resolved:

To approve the minutes of the November 30 and December 17, 2001 executive session meetings of the Board and December 17, 2001

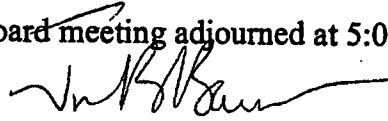
Minutes – Board Meeting
February 14, 2002
Page 8

executive session minutes of the Rules and Personnel Committee, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, and Vazquez. Motion CARRIED.

ADJOURNMENT

Upon return to open session, the Board meeting adjourned at 5:02 p.m.



Jon Bauman, Executive Director

Approved 4/11/02
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees April 11, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on April 11, 2002 at the John A. Logan College, 700 Logan College Road, Carterville, Illinois. Respicio Vazquez, President, called the meeting to order at 1:08 p.m. A quorum was present.

Present: **Board Members:**

Respicio Vazquez, President
William Enlow, Vice-President
James Bruner
Jan Cleveland
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Ruby Reynolds, Chief Operating Officer
Chuck Self, Chief Investment Officer
Tom Gray, General Counsel
Cynthia Fain, Senior Assistant General Counsel
Rick Begando, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Investment Consultant:

Gordon Dickinson, Callan Associates
Anne Coupe, Callan Associates

Visitors:

Bob Lyons, IRTA Rep.
 Rose Lee Plunkett, IRTA Rep.
 A.B. Plunkett, IRTA Rep.
 Lelia Marvin, IRTA Rep.
 Thelma Pierson, IRTA Rep.
 Donna Randolph, IRTA Rep.
 Donald Lawrence, IRTA Rep.
 Lou Ann Yates, IRTA Rep.
 Kathy Stevenson, Northern Trust
 Emma Williams, IRTA Rep.
 J. Van Munsey, IRTA Rep.
 Joann Corcoran, IRTA Rep.
 Barbara Emling, IRTA Rep.
 Phyllis Bretsch, IRTA Rep.
 Charles Weishaupt, IEA-R
 Glenn Monken, IEA-R

Pernie Hensley, IRTA Rep.
 Charles Leming, IRTA Rep.
 Robert Keen, IRTA Rep.
 Gary Threw, IEA-R
 Lewis Miles, IEA-R
 Sandra Barra, IRTA Rep.
 Billie Zimney, IRTA Rep.
 Jack Yates, IRTA Rep.
 Sarah Doerner, IRTA Rep.
 James Lipe, IRTA Rep.
 Nan Munsey, IRTA Rep.
 Don White, IRTA Rep.
 Ellen Boyd, IRTA Rep.
 Joann Longhorn, IRTA Rep.
 Rich Frankenfeld, IEA

APPROVAL OF MINUTES

A draft of the minutes from the February 14, 2002 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Phillip Schmidt, the minutes were approved as printed. The motion passed by a unanimous voice vote.

CMS TRIP Presentation

Lori Skinner and Dave Harmon from Central Management Services (CMS) presented their first annual presentation on TRIP and the FY2003 benefit choice period. Documentation is on file. A TRIP Task Force meeting was held on March 20, 2002 and the next meeting is scheduled for April 22, 2002.

The benefit choice period is May 1-31, 2002. Listed below are some changes that will become effective July 1, 2002.

- PersonalCare has been split into two plans: PersonalCare East and PersonalCare. The two-service area arrangement is essential in order to maintain access to managed care choices for covered members in a large geographic area while attempting to hold down costs. PersonalCare (AS) will no longer be available in Edgar, Livingston, Macon, Montgomery, and Morgan counties.

- Humana POS will no longer be available.
- Pharmacy program co-payments will increase from \$6.00-\$12.00-\$24.00 to \$7.00-\$14.00-\$28.00 (Generic, Formulary, Non-Formulary)
- The individual plan deductible will increase from \$200.00 to \$250.00
- Life-time maximum available to teachers will increase from \$1 million to \$2 million
- CIGNA will become the new medical claims administrator (UniCare was the previous administrator)
- Caremark will become the pharmacy benefit manager (NPA was the previous manager). All TCHP participants will be receiving new medical and prescription drug identification cards. The new cards will be mailed the end of June.
- CMS is going to utilize a nationwide CIGNA physician and hospital network.
- A Mail Order Program will be available to order a 90-day supply of maintenance medications for home delivery. The 90-day supply will cost two co-payments--\$14.00-\$28.00-\$56.00.

Detailed information will be available on the TRS Web site, www.trs.state.il.us.

RECESS

A motion was made by Phillip Schmidt, seconded by William Enlow, to recess the Board meeting at 1:48 p.m. and reconvene the Investment Committee meeting.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Banc Funds Company

On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To allocate \$50 million in Banc Fund VI, L.P. subject to confirmation of no less than 1% investment from the General Partners. Final approval subject to favorable completion of due diligence, contract negotiation and documentation of errors/omissions insurance coverage. The source of funds will be the TRS cash flow account.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Morgan Stanley

On a motion by Phillip Schmidt, seconded by John Glennon, it was resolved:

To terminate the Morgan Stanley small/mid cap growth equity account with proceeds being invested temporarily in the S&P 500 Flagship Fund managed by State Street Global Advisors until the completion of the asset allocation and manager structure studies.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Minority Manager Allocation

On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

To allocate \$100 million, divided equally in \$25 million increments, to Earnest Partners (U.S. equity), Earnest Partners (U.S. fixed), MDL Capital Management, and Holland Capital. The source of funds will be the TRS cash flow account.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Securities Fraud Litigation Policy

On a motion by William Enlow, seconded by Sharon Leggett, it was resolved:

To rescind the current Securities Fraud Litigation Policy and adopt in its place the proposed Recovery of Investment Losses Policy.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Asset Allocation and Liability Study

On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To adopt Policy Asset Mix 3 as set forth in the following table, to be implemented at the earliest prudent and feasible time.

<u>Asset Class</u>	<u>New Target</u>
U.S. Equity	41%
International Equity	15%
Fixed Income	23%
Real Estate	14%
Private Equity	6%
Short-Term Investments	1%

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Rebalancing

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

To continue the suspension of the present rebalancing policy until May 17, 2002.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

Military Service

On a motion by Phillip Schmidt, seconded by James Bruner, it was resolved:

To approve an amendment to the TRS Article of the Pension Code allowing a person discharged for the convenience of the military service a 30-day grace period.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

2.2 Upgrade Costs

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

The Teachers' Retirement System supports legislation that allows members retiring after June 30, 2003 to have retirement benefits reduced to pay 2.2 upgrade costs.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Disability Legislation

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

To approve the proposed legislation regarding disability that:

- Permits persons in receipt of a disability benefit to return to teaching after a minimum of one year
- Provides that the earned salary when added to the disability benefit may not exceed 100% of the salary upon which the benefit is computed

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

Pension Obligation Bonds

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

The System supports measures to improve the System's funded position including the issuance of pension obligation bonds by the State to reduce the System's unfunded liability.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Molly Phalen, Chair*

Change to TRS Salary Rule

On a motion by Stuart Levine, seconded by Jan Cleveland, it was resolved:

To approve the proposed TRS salary rule change, as presented, to include summer school earnings as creditable compensation.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

CLAIMS HEARING COMMITTEE-*James Bruner, Chair*

Administrative Review – Richard Olson

Information pertaining to the administrative review of Richard Olson was sent to the trustees for review. On a motion by Phillip Schmidt, seconded by Jan Cleveland, it was resolved:

To affirm the staff disposition and adopt the Claims Hearing Committee's proposed decision in the administrative review of Richard Olson.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

OLD BUSINESS

Fiduciary Counsel Sub-Committee

Jon Bauman, Executive Director, reported that the fiduciary counsel subcommittee has been expanded to five members: Jan Cleveland, Cynthia O'Neill, John Glennon, Bill Enlow, and Stuart Levine. The subcommittee will convene at its convenience.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman presented the Director's report.

Update on Current Activities

Jon Bauman announced that as of April 8, 2400 members have elected to retire this summer.

Employer Services is beginning to provide employer education seminars throughout the state. Trustees received a brochure noting all scheduled seminars.

In order to improve sound at meetings, it was the consensus of the Board to purchase a sound system with individual microphones to be placed at each station of the table.

Member Services Statistical Report

The Board received a copy of the Member Services Statistical Report for the period ending February 28, 2002. The report is on file.

APPROVAL OF EXECUTIVE SESSION MINUTES

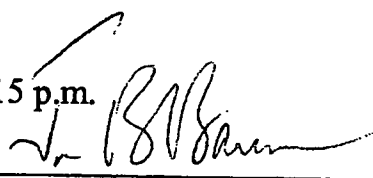
A draft of the February 14, 2002 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by John Glennon, seconded by Jan Cleveland, it was resolved:

To approve the minutes of the February 14, 2002 executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

ADJOURNMENT

The Board meeting adjourned at 4:15 p.m.



 Jon Bauman, Executive Director

Approved 05/23/02
 (date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees May 16, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 16, 2002 at the Springfield office, 2815 West Washington Street. William Enlow, Vice-President, called the meeting to order at 2:30 p.m. A quorum was present.

Present:

Board Members:

Respicio Vazquez, President (arrived 3:15 p.m.)
William Enlow, Vice-President
James Bruner
Jan Cleveland
John Glennon
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Ruby Reynolds, Chief Operating Officer
Chuck Self, Chief Investment Officer
Tom Gray, General Counsel
Cynthia Fain, Senior Assistant General Counsel
Rick Begando, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Chuck Handy, Investment Officer
Stacy Smith, Internal Auditor
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Investment Consultant:

Gordon Dickinson, Callan Associates
Janet Becker-Wold, Callan Associates

Minutes – Board Meeting
 May 16, 2002
 Page 2

Visitors:

Alan Jones, IEA-R
 Tim Lee, IRTA Director
 Winnie Tipsword, IRTA Rep.
 Kathy Stevenson, Northern Trust

Rich Frankenfeld, IEA
 Bob Lyons, IRTA Rep.
 Sylvia Herzog, IRTA Rep.
 Jack Tucker, IEA-R

APPROVAL OF MINUTES

A draft of the minutes from the April 11, 2002 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Phillip Schmidt, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Revised Investment Policy

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To approve the revised Investment Policy, as amended.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Real Estate Insurance Broker - RFP

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved:

To initiate a Request for Proposal for real estate insurance brokerage services.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Minutes – Board Meeting
 May 16, 2002
 Page 3

Domestic Equity Portfolio

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

1. To transfer assets from the All Country World Ex-U.S. (ACWI Ex-US) Fund managed by State Street Global Advisors to the domestic equity portfolio in an amount sufficient to decrease the international equity allocation to its 15% target.
2. To transfer all assets in the Bond Market Index Fund managed by State Street Global Advisors to the domestic equity portfolio.
3. To allocate proceeds from the ACWI Ex-US Fund and the Bond Market Index Fund to a new Russell Small Cap Completeness Index Fund managed by State Street Global Advisors in an amount up to 2.0% of the domestic equity allocation with the remainder invested in the S&P 500 Flagship Fund managed by State Street Global Advisors.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow.
 Motion CARRIED.

Domestic Equity Structure

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

1. To adopt Alternative C in the domestic equity manager structure study, as presented below:

Assignments	Investment Manager	Target Weights
Enhanced Large Cap Core	PIMCO StocksPlus	10.0%
Passive Large Cap Core	State Street Global Advisors S&P 500 Index Fd	40.0%
Active Large Cap Growth 1	Holland Capital	1.0%

Active Large Cap Growth 2	Geewax, Terker & Co.	4.2%
Active Large Cap Growth 3	Oak Associates	1.5%
Active Large Cap Growth 4	Manager A – Search necessary	3.3%
Active Large Cap Value 1	Alliance-Bernstein	9.0%
Active Large Cap Value 2	Dodge & Cox	9.0%
Active Large Cap Value 3	EARNEST	1.0%
Active Large Cap Value 4	Manager B – Search necessary	1.0%
Passive Small/Mid Cap Core	Manager C Index Fund	2.0%
Small/Mid Cap Growth	Manager D – Search necessary (1 or 2 managers)	6.6%
Small/Mid Cap Value 1	NorthPointe Capital	3.3%
Small/Mid Cap Value 2	Manager E – Search necessary	3.3%
Small Cap Growth	Neuberger Berman	2.4%
Small Cap Value	Ariel Capital	<u>2.4%</u>
Total		100.0%

2. To retain a small-to-mid cap index fund (the Russell Small Cap Completeness Fund) managed by State Street Global Advisors.
3. To terminate the large cap value account managed by GE Asset Management. Proceeds shall be allocated to the existing accounts managed by Alliance-Bernstein, Dodge & Cox, NorthPointe Capital, Neuberger Berman, and PIMCO StocksPlus in amounts sufficient to move each manager's allocation in line with the proposed manager structure target. If necessary, any additional proceeds remaining after the aforementioned allocations will be transferred to State Street Global Advisors for investment in the S&P 500 Flagship Fund.
4. To authorize Staff and Callan Associates to conduct the following searches in accordance with Alternative C of the domestic equity manager structure study:
 - Large cap growth manager
 - Illinois-based large cap value manager with total firm assets under management of less than \$2 billion
 - Small-to-mid cap value manager
 - Small-to-mid cap growth manager(s)
5. Decrease PIMCO's domestic fixed income account in an amount equal to the additional funds allocated to PIMCO StocksPlus.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Minutes – Board Meeting
 May 16, 2002
 Page 5

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

Medicare Referendum

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

WHEREAS, the Illinois Teachers' Retirement System (the System) is a qualified retirement system for the purposes of adopting Medicare-only coverage pursuant to Title II, Section 218 of the Social Security Act and Illinois Compiled Statutes, Chapter 40, Act 5, Article 21;

WHEREAS, the System, in order to adopt Medicare-only coverage has chosen to conduct a divided referendum (which would permit each eligible employee covered by the System to elect or reject Medicare-only coverage for the period of his or her employment with System-covered employers): such referendum to be held on a series of dates to be determined by the System.

WHEREAS, pursuant to Illinois Compiled Statutes, Chapter 40, Act 5, Section 21-105, the System is required to adopt a plan of coverage prior to conducting a referendum:

NOW THEREFORE BE IT RESOLVED that the Board of Trustees (Board) of the Illinois Teachers' Retirement System hereby authorizes Jon Bauman, the System's Executive Director, to take all measures necessary to proceed with a divided referendum for Medicare-only coverage (in accordance with Title II, Section 218 of the Social Security Act and Illinois Compiled Statutes, Chapter 40, Act 5, Article 21) to be conducted as expeditiously as possible and to obtain the necessary authorization from the Governor and such assistance from State Employees Retirement System (SERS) and Social Security officials as he deems necessary and appropriate; and

BE IT FURTHER RESOLVED that it is the intention of the Board that all current System-covered employees who elect to do so become covered by this Medicare-only agreement.

BE IT FURTHER RESOLVED that it is the intention of the Board that the contributions and benefits provided by entering into a Medicare-only coverage agreement be in addition to and in no way reduce or impair contributions and benefits required under the System and

BE IT FURTHER RESOLVED that in accordance with the provisions of Illinois Compiled Statutes, Chapter 40, Act 5, Section 21-105, the Board formulates the following plan of coverage:

- A) It is hereby declared to be the policy and purpose of the Board to extend to such eligible employees thereof effective on a series of dates

to be determined, the opportunity to elect to receive the benefits of the Federal Health Insurance Provisions of the Federal Social Security Act and amendments thereto. In pursuance of said policy, and for that purpose, the System's Executive Director shall take such action with the Social Security Division of the State Employees' Retirement System of Illinois as may be required by applicable state and federal laws or regulations.

- B) The System's Executive Director shall execute an agreement with the Social Security Division of the State Employees' Retirement System to secure Medicare-only coverage of eligible System-covered employees as provided in Section A, hereof.
- C) Withholdings from salaries or wages of System-covered employees for the purpose provided in Section A shall be made in the amounts and at such times as are required by the applicable federal laws and regulations and shall be paid over to the Internal Revenue Service by their individual employers in such amounts and at such times as are required by applicable federal laws and regulations.
- D) Employer contributions shall be paid to the Internal Revenue Service from amounts appropriated for such purposes in such amounts and at such times as are required by applicable federal laws and regulations.
- E) Each System-covered employer shall maintain such records and submit such reports as may be required by applicable federal laws and regulations.

BE IT FURTHER RESOLVED that the Executive Director of the System is authorized to approve the form of Ballot, Governor's Proclamation, Notice to Employees, and Governor's Certification of the Referendum Results without further action by this Board.

This resolution shall take effect and be in full force from and after its passage. Passed and approved this 16th day of May 2002.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Minutes – Board Meeting
 May 16, 2002
 Page 7

RULES AND PERSONNEL COMMITTEE-*Molly Phalen, Chair*

Change to TRS Administrative Rules - QILDROs

On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

To authorize Staff to take the steps necessary to promulgate the recommended changes to the TRS Administrative Rules regarding Qualified Illinois Domestic Relations Orders (QILDROs).

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion **CARRIED**.

Board Committee Vacancies

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

That a newly elected or appointed Board member will fill the committee vacancies, excepting committee Chair positions, created by the outgoing Board member, pending ratification by the full Board.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion **CARRIED**.

2002-2003 Standing Committees and Vice-President Appointments

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

That the Standing Committees, Committee Chairs, and Vice-President position for fiscal year 2003 be approved, as follows:

Vice-President: Enlow

Investment: Bruner, Chair; All trustees

Minutes – Board Meeting
 May 16, 2002
 Page 8

Legislative: Cleveland, Chair; O'Neill, Glennon, Phalen, and Enlow

Rules &

Personnel: Phalen, Chair; O'Neill, Levine, Schmidt, Leggett

Claims

Hearing: Leggett, Chair; Glennon, Schmidt, Cleveland

Roll call resulted in affirmative voice votes from Trustees Leggett, O'Neill, Phalen, and Cleveland. Votes of opposition were heard from Trustees Bruner, Glennon, Levine, Schmidt, and Enlow. Motion FAILED.

On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

That the Standing Committees, Committee Chairs, and Vice-President position for fiscal year 2003 be approved, as follows:

Vice-President: Enlow

Investment: Bruner, Chair; All trustees

Legislative: Cleveland, Chair; Enlow, Glennon, O'Neill, Phalen

Rules &

Personnel: Levine, Chair; Enlow, Leggett, Schmidt, O'Neill

Claims

Hearing: Leggett, Chair; Phalen, Bruner, Glennon

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Levine, Schmidt, and Enlow. Votes of opposition were heard from Trustees Leggett, O'Neill, Phalen, and Cleveland. Motion CARRIED.

CLAIMS HEARING COMMITTEE-*James Bruner, Chair*

Administrative Review – Signe Oakley

Chairman Bruner announced that a telephonic hearing was held in the Signe Oakley's administrative review. The Committee has voted to uphold Staff's determination and deny Ms. Oakley's claim. Since the exception filing period has not yet run, no action is requested at this time.

NEW BUSINESS

FY2003 Budget & Contracts > \$50,000

The proposed budget and contracts over \$50,000 were sent to the trustees for review. A copy of the budget is on file. Ruby Reynolds, Chief Operating Officer, presented the proposed FY2003 administrative budget that represents a 1.2% increase over the FY2002 final approved budget. This is the smallest requested increase in at least 10 years. On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To approve the FY2003 administrative budget and listing of FY2003 contracts over \$50,000, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

2002-2003 Meeting Calendar

The proposed Investment Committee/Board meeting calendar for FY2003 was sent to the trustees for review. On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To approve the FY2003 Investment Committee/Board meeting calendar, as amended:

August 14-16, 2002 (14th tentative) (Chicago); October 28-29, 2002 (Springfield); December 5-6, 2002 (Chicago); February 20-21, 2003 (Springfield); April 3-4, 2003 (Giant City State Lodge); May 22-23, 2003 (Springfield).

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

A date to have the Stakeholders Forum will be determined in the near future.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2002 were sent to the trustees for review. The reports are on file. On a motion by Molly Phalen, seconded by Jan Cleveland, it was resolved:

To approve the administrative expenses for the quarter ended March 31, 2002, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Enlow. Motion CARRIED.

Member Services Counseling Plan

The Board received a copy of the Member Services Counseling Plan for FY2003. The report is on file.

(President Vazquez arrives)

Internal Audit Update

Stacy Smith, Internal Auditor, provided an update on internal audit activities.

Miscellaneous Reports

The following reports are on file.

- TRS-STAR Status Report for the period ending April 26, 2002
- EEOC Report for the quarter ending March 31, 2002
- Member Services Statistical Report for the period ending March 31, 2002

Trustee O'Neill requested that stickers be made noting TRS' Web site address for each school office, etc. computer.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by William Enlow, 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 and probable or imminent litigation as permitted under the following exceptions set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1) and 5ILCS 120/2(c)(11). Roll call resulted in affirmative voice votes from Trustees Cleveland, Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Jan Cleveland, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, Enlow, and Vazquez. Motion CARRIED.

ADJOURNMENT

The Board meeting adjourned at 4:05 p.m.



Jon Bauman, Executive Director

Approved 8/15/02
 (date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees August 15, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 15, 2002 at the Holiday Inn Chicago City Centre, 300 East Ohio Street. Dr. Robert Schiller, President, called the meeting to order at 2:00 p.m. A quorum was present.

Present:

Board Members:

Dr. Robert Schiller, President
Phillip Schmidt, Vice President
James Bruner
Jan Cleveland
Michael Colsch (not present during roll call)
John Glennon
Sharon Leggett
Stuart Levine (departs at 4:45 p.m.)
Cynthia O'Neill
Molly Phalen

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Ruby Reynolds, Chief Operating Officer
Chuck Self, Chief Investment Officer
Tom Gray, General Counsel
Rick Begando, Deputy Chief Investment Officer
Kim Pollitt, Deputy Chief Investment Officer
Stacy Smith, Internal Auditor
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Piper Marbury Rudnick and Wolfe

Visitors:

Marti Swanson, IRTA Rep.
Roger Steingraber, IRTA Rep.
Bob Lyons, IRTA Rep.
Dennis Murfin, IRTA Rep.

Rich Frankenfeld, IEA
Jack Tucker, IEA-R
Mildred Burt, IRTA Rep.

This is the first meeting Dr. Robert Schiller and Michael Colsch have attended.

PUBLIC COMMENTS

Bob Lyons thanked Jon Bauman for his professionalism while serving as Director during the past year.

TRUSTEE RECOGNITION – *William Enlow*

Bill Enlow served as trustee from October 24, 1996 through July 14, 2002. The Governor appointed Michael Colsch of Springfield to replace Bill Enlow. On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

WHEREAS, William Enlow is retiring from the Board of Trustees of the Teachers' Retirement System after six years of service to Illinois public education; and

WHEREAS, Mr. Enlow discharged his duties faithfully and with a seriousness of purpose that represents a worthy example to those charged with fiduciary stewardship; and

WHEREAS, he served as vice president of this board and as a member of the Rules and Personnel Committee, generously contributing leadership skills at all times; and

WHEREAS, his commitment to community service has led his to serve on the Springfield Board of Education since 1989, providing leadership to the district from which he and his children graduated; and

WHEREAS, he has served as fundraising chairman and as a director of the Springfield United Way and as chairman of the Memorial Hospital and Health System; now therefore be it

RESOLVED, by the Board of Trustees of the Teachers' Retirement System of the State of Illinois that we express our heartfelt appreciation for the service of William Enlow during the past six years and extend to him our gratitude and best wishes for his future success.

Roll call resulted in affirmative voice votes from Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Colsch was not present during roll call) Motion CARRIED. A plaque will be mailed to Mr. Enlow.

ELECTION OF VICE PRESIDENT

The changes in Board membership required an election for the office of Vice President. A motion was made by Sharon Leggett, seconded by Jan Cleveland, to:

Elect Cynthia O'Neill to serve as Vice President of the Board.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Leggett, O'Neill, and Phalen. Votes of opposition were heard from Trustees Bruner, Glennon, Levine, Schmidt, and Colsch. President Schiller abstained. Motion FAILED.

On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

To elect Phillip Schmidt to serve as Vice President of the Board.

Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Levine, Schmidt, and Colsch. Votes of opposition were heard from Trustees Cleveland, Leggett, O'Neill, and Phalen. President Schiller abstained. Motion CARRIED.

APPROVAL OF MINUTES

A draft of the minutes from the May 16, 2002 Board meeting was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Stuart Levine, the minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Investment Consultant Contract

On a motion by John Glennon, seconded by Jan Cleveland, it was resolved:

To retain Callan Associates for the balance of the contract's initial term through December 31, 2002.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Active Manager Concentration Review

On a motion by Phillip Schmidt, seconded by Jan Cleveland, it was resolved:

To approve the revision of Section VIII of the Investment Policy, as presented, to include a limitation that no single active investment management firm, including a parent and/or all subsidiary firms, be allowed to manage more than ten percent of the total fund. Deviations above ten percent caused by market fluctuations will not result in an automatic withdrawal of funds from the manager. However, the manager will not be eligible to receive additional funds resulting from rebalancing or from a new mandate as long as the asset level remains above ten percent.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Private Equity Structure Analysis

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

To adopt the conceptual Private Equity Strategic Portfolio Structure and Private Equity Partnership Portfolio Policies and Procedures and to also accept Model IV in the Private Equity Commitment Schedule memo, subject to the development and approval of an implementation plan at a future meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Interim Asset Allocation Targets

On a motion by Phillip Schmidt, seconded by John Glennon, it was resolved:

To adopt Alternative A for interim asset allocation targets, as presented in the memorandum, until the funds targeted for private equity and real estate can be committed to meet the System's current asset allocation targets.

	<u>Target</u> <u>06/30/2001</u>	<u>Target</u> <u>06/30/2003</u>	<u>Target</u> <u>06/30/2004</u>	<u>Target</u> <u>06/30/2005</u>	<u>Target</u> <u>06/30/2006</u>
U. S. Equity	30.0%	43.4%	42.7%	41.8%	41.0%
International Equity	20.0%	15.0%	15.0%	15.0%	15.0%
Fixed Income	34.0%	24.7%	23.0%	23.0%	23.0%
Real Estate	8.0%	12.3%	14.0%	14.0%	14.0%
Private Equity	7.0%	3.6%	4.3%	5.2%	6.0%
Short Term	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Investment Management Agreement Review

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To approve the standard Investment Management Agreement, as presented, subject to a review of errors and omissions insurance.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Transition Manager List

On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To approve the following list of firms eligible to provide transition management services to the System:

- Deutsche Bank Securities, Inc.
- Frank Russell/Gardner Rich
- Goldman Sachs & Co.
- Morgan Stanley & Co., Inc.
- State Street Global Markets/Loop Capital

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Rogge Global Partners - Termination

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To terminate the Rogge Global international fixed income account. Proceeds shall be combined with available cash from the TRS Cash Flow account and reallocated to the domestic equity portfolio, as presented.

- Subject to action by the Board to hire two new Illinois-based large value managers, each manager shall be allocated 0.5% of the domestic equity portfolio.
- Subject to action by the Board to hire a new large growth manager, the manager shall be allocated 3.3% of the domestic equity portfolio.
- Remaining proceeds shall be allocated to the existing accounts managed by Oak, Dodge & Cox, Earnest, NorthPointe Capital, and Neuberger Berman in amounts sufficient to move each manager's allocation in line with the manager structure target. Any additional proceeds remaining after the aforementioned

allocations will be transferred to State Street Global Advisors for temporary investment in the S&P 500 Flagship Fund until the completion of the small/mid growth and value searches.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Northern Trust Fee Schedule

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

To approve the amended fee schedule for the Master Trust Agreement, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

International Equity and Currency Structure Analysis

On a motion by Cynthia O'Neill, seconded by Phillip Schmidt, it was resolved:

To adopt:

- Alternative 3 in the international equity structure study.
- Change of the State Street Global Advisors international equity index mandate from All Country World Ex-US (ACWI) Free Index to Europe, Australasia and Far East (EAFE) Index.
- Authorization of the following searches in accordance with Alternative 3 of the international equity structure study:
 - Return-focused international equity manager
 - Emerging markets manager

Investment manager search activity will commence and is to be completed at the earliest appropriate and feasible date.

- The Currency Policy, as presented, by revising Section XV of the Investment Policy to reflect that international managers should not be required to hedge their currency exposure and should be measured against unhedged benchmarks.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Domestic Equity

On a motion by Phillip Schmidt, seconded by Stuart Levine, it was resolved:

To allocate 0.5% of the domestic equity portfolio each to Advisory Research, Inc. and Great Lakes Advisors, Inc., subject to successful completion of contract and fee negotiations. Source of funds shall be the terminated Rogge Global international fixed income account and available cash from the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Stuart Levine, seconded by Phillip Schmidt, it was resolved:

To allocate 3.3% of the domestic equity portfolio to MFS Investment Management, subject to successful completion of contract and fee negotiations. Source of funds shall be the terminated Rogge Global international fixed income account and available cash from the TRS Cash Flow account.

Minutes – Board Meeting
 August 15, 2002
 Page 9

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

The Carlyle Group

On a motion by Stuart Levine, seconded by Sharon Leggett, it was resolved:

To invest up to \$150 million in Carlyle Venture Partners II, L.P., subject to favorable completion of contract negotiation.
 Source of funds to be TRS Cash Flow Account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

No report from the Legislative Committee.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

Audit Committee

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To establish an Audit Committee of the Board with Trustees Leggett, Levine, Glennon, and O'Neill initially serving a one-year term with subsequent years' membership determined annually. This Committee will establish rules and procedures for the Committee and report to the Board at the October meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Bylaws Amendments

On a motion by John Glennon, seconded by Cynthia O'Neill, it was resolved:

To approve the Bylaws amendments as presented at the Rules and Personnel Committee meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Executive Session

A motion was made by Phillip Schmidt, seconded by James Bruner, 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 the 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: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

(reconvened at 4:40 p.m.)

Executive Director's Evaluation

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To increase the annual compensation of the Executive Director's salary by six percent effective August 8, 2002.

The Executive Director's employment agreement, which presently is due to expire on August 8, 2004, is hereby extended through and until August 8, 2005 with salary adjustments to be made at the discretion of the Board.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Glennon was not present at time of vote) Motion CARRIED.

CLAIMS HEARING COMMITTEE-*James Bruner, Chair*

Administrative Reviews – Signe Oakley and William Cochran

The Board accepted the Claims Hearing Committee's proposed decisions in the administrative reviews of Signe Oakley and William Cochran. On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To affirm the staff determination and adopt the Claims Hearing Committee's proposed decision in the administrative review of Signe Oakley.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Glennon was not present at time of vote) Motion CARRIED.

On a motion by Phillip Schmidt, seconded by James Bruner, it was resolved:

To affirm the staff determination and adopt the Claims Hearing Committee's proposed decision in the administrative review of William Cochran.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Glennon was not present at time of vote) Motion CARRIED.

FIDUCIARY COUNSEL SUB-COMMITTEE-*John Glennon, Chair*

Chair Glennon announced that the sub-committee plans to interview two firms and will make a recommendation to the Board at the October meeting.

NEW BUSINESS

Board Retreat

Discussion was held regarding the planning of the Board Retreat to be held April 3-4, 2003 at Giant City State Park. A business meeting will be conducted along with the retreat. Director Bauman requested that the trustees provide to him any input regarding potential retreat topics.

2003-2004 Meeting Schedule

The Board received a proposed 2003-2004 meeting schedule.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

The Year in Review

Due to time constraints, the "Year in Review" presentation, summarizing the System's accomplishments during FY 2002 was distributed without comment. Documentation is on file. A copy of the presentation will be available on the TRS Web site.

Board Election Timetable

The Board received a memorandum detailing the schedule for the 2003 trustee election for two members and one annuitant. Documentation is on file.

Strategic Planning Committee

The Board received a summary of the strategic planning for FY 2003 and the final FY 2000 – FY 2002 strategic plan status report. Documentation is on file.

Audit Update

Stacy Smith, Internal Auditor, provided an update on recent audit activities.

WorldCom

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved:

To affirm the Staff decision to enter into a contingency fee arrangement with the law firm of Milberg Weiss Bershad Hynes & Lerach LLP, to pursue a cause of action under the Securities Act of 1933 against persons and entities involved in the promotion and sale of various WorldCom bond offerings in an effort to recover approximately \$11 million in System losses arising from its purchase of WorldCom bonds.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Levine was not present) Motion CARRIED.

Retirement Announcement – John Day

John Day, Assistant Executive Director, commented on his planned retirement effective April 2003.

Standing Committees

On a motion by Phillip Schmidt, seconded by Jan Cleveland, it was resolved:

To endorse Michael Colsch to serve on the Legislative Committee and Rules and Personnel Committee. Mr. Colsch replaces Bill Enlow.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Levine was not present) Motion CARRIED.

TRUSTEE CONCERNS

Several trustees asked Director Bauman to extend their appreciation to staff for serving Illinois teachers with professionalism and dedication. The

trustees often receive compliments from retired teachers regarding the staff at TRS.

Miscellaneous Reports

The following reports are on file.

- TRS-STAR Status Report
- EEOC Report for the quarter ending June 30, 2002
- Employer Services Report for the period January 16-July 15, 2002
- Member Services Statistical Report for the period ending June 30, 2002

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the May 16, 2002 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To approve the minutes of the May 16, 2002 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. President Schiller abstained. (Trustee Levine was not present) Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, a motion was made by Phillip Schmidt, seconded by Jan Cleveland, to adjourn the meeting at 5:10 p.m.



Jon Bauman, Executive Director

Approved 10/29/02
 (date)



Teachers' Retirement System of the State of Illinois

MINUTES Special Meeting of the Board of Trustees September 20, 2002

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on September 20, 2002 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Dr. Robert Schiller, President, called the meeting to order at 9:10 a.m. A quorum was present.

Present: **Board Members:**
 Dr. Robert Schiller, President
 Phillip Schmidt, Vice-President
 James Bruner
 Jan Cleveland
 Michael Colsch
 John Glennon (via telephone)
 Stuart Levine (via telephone)
 Cynthia O'Neill
 Molly Phalen (via telephone)

Absent: Sharon Leggett

TRS Staff:
 Jon Bauman, Executive Director
 Tom Gray, General Counsel
 Cynthia Fain, Senior Assistant General Counsel
 Tammy Green, Admin. Coordinator-Executive

No visitors from the public were present at the meeting.

As an outcome of the August meeting of the Board, the System is seeking general outside counsel due to a business conflict with Piper Rudnick.

Staff developed a Request for Proposals (RFP) for outside legal services. Jon Bauman, Executive Director, reported that the RFP was advertised locally and in the State newspaper, and Staff received three requests to receive the document. The law firms of Ice Miller, located in Indianapolis, and Gardner Carton & Douglas, located in Chicago, were the only two firms that responded to the RFP. Director Bauman, Tom Gray, and Cynthia Fain reviewed the two responses and found the firms sufficient to interview. Director Bauman provided an overview of each firm mentioning their strengths, weaknesses, responsiveness to RFP, and conflicts. Documentation prepared by the System's legal staff summarizing the interviews and the proposals is on file. Following discussions regarding the RFP process; conflicts; fees; and concerns; a motion was made by James Bruner, seconded by Jan Cleveland, to hire Gardner Carton & Douglas as the System's new general outside counsel based upon successful negotiation of fees. Discussion followed. Roll call resulted in affirmative voice votes from Bruner, Cleveland, Colsch, Glennon, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED. Staff will negotiate an agreement with Gardner Carton & Douglas for three years and begin the transfer process with Piper Rudnick with November 1, 2002 as a possible completion date. Staff will keep the Board updated.

TRUSTEE CONCERNS

Director Bauman updated the trustees on pending TRS personnel hirings for the Investment Department.


ADJOURNMENT

A motion was made by Cynthia O'Neill, seconded by Jan Cleveland, to adjourn the meeting. The meeting adjourned at 10:27 a.m.



Jon Bauman, Executive Director

Approved: 10/29/02
(date)



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees October 29, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 29, 2002 at the Springfield office, 2815 West Washington Street. Dr. Robert Schiller, President, called the meeting to order at 12:30 p.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President (departs 1:10 p.m.)

Phillip Schmidt, Vice President

James Bruner

Jan Cleveland

Michael Colsch

John Glennon

Sharon Leggett (departs 1:55 p.m.)

Cynthia O'Neill

Molly Phalen

Absent: Stuart Levine

TRS Staff:

Jon Bauman, Executive Director

John Day, Assistant Executive Director & Acting CIO

Tom Gray, General Counsel

Cynthia Fain, Senior Assistant General Counsel

Rick Begando, Deputy Chief Investment Officer

Kim Pollitt, Deputy Chief Investment Officer

Stacy Smith, Internal Auditor

Ed Mabie, IS Officer (portion of meeting)

Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Visitors:

Sylvia Herzog, IRTA Rep.

Bob Lyons, IRTA Rep.

Gilbert Deimel, IRTA Rep.

Tim Lee, IRTA Director

Winnie Tipsword, IRTA Rep.

Ellen Boyd, IRTA Rep.

Barbara Emling, IRTA/IEA

Rich Frankenfeld, IEA

Jack Tucker, IEA-R

Kathy Stevenson, Northern Trust

PUBLIC COMMENTS

Bob Lyons expressed his confidence in the work performed by the Board.

APPROVAL OF MINUTES

Drafts of the minutes from the August 15, 2002 Board meeting and September 20, 2002 Special Board meeting were sent to the trustees for prior review. On a motion by Phillip Schmidt, seconded by James Bruner, the August 15th minutes were approved as printed. The motion passed by a unanimous voice vote. On a motion by Phillip Schmidt, seconded by James Bruner, the September 20th minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Delaware Investments

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To allocate 3.3% of the domestic equity portfolio (approximately \$285 million) to Delaware Investments subject to successful completion of contract and fee negotiations. Source of funds shall be the S&P 500 Flagship Fund managed by State Street Global Advisors.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LSV Asset Management

On a motion by James Bruner, seconded by Michael Colsch, it was resolved:

To allocate 3.3% of the domestic equity portfolio (approximately \$285 million) to LSV Asset Management, subject to successful completion of contract and fee negotiations. Source of funds shall be

the S&P 500 Flagship Fund managed by State Street Global Advisors.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Private Equity Annual Tactical Plan

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To adopt the Private Equity Annual Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Private Equity Implementation Plan

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To adopt Appendix C to the Private Equity Policies and Procedures, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Thayer Capital Partners

On a motion by James Bruner, seconded by John Glennon, it was resolved:

To invest \$50 million in Thayer Equity Investors V, L.P. subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Evergreen Partners

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To invest \$25 million in Evergreen IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

VS&A Communications Partners

On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To approve the General Partner's requested amendment to VS&A Communications Partners II, L.P. authorizing the General Partner to reinvest up to \$20 million of sales proceeds of the partnership, of which TRS' portion would be approximately \$1.8 million, in order to allow the partnership to best attempt to maximize the returns on its remaining portfolio company investments.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Errors and Omissions Insurance

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To amend the standard form IMA for public market managers to require the following levels of errors and omissions insurance coverage:

- \$5 million for portfolios of less than \$500 million in assets;
- \$10 million for portfolios of greater than \$500 million but less than \$1 billion in assets; and
- \$20 million for portfolios of greater than \$1 billion.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Large Cap Value Search

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To initiate a search for a large cap value manager or managers as a possible replacement for the Alliance Bernstein large cap value account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Real Estate

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To adopt the Real Estate Strategic Plan and Implementation Plan for Fiscal 2003, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To adopt the Real Estate Investment Management Agreement, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Commonwealth Realty Advisors

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To allocate \$150 million to Commonwealth Realty Advisors, Inc. subject to successful completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Koll Bren Schreiber Realty Advisors

On a motion by James Bruner, seconded by Molly Phalen, it was resolved:

To allocate \$100 million to Koll Bren Schreiber Realty Advisors, Inc. subject to successful completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Lincoln Property Realty Advisors

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To allocate \$150 million to Lincoln Property Realty Advisors, Inc. subject to successful completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Stone/Levy

On a motion by James Bruner, seconded by Molly Phalen, it was resolved:

To allocate \$50 million to Stone/Levy LLC subject to successful completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

The John Buck Company

On a motion by James Bruner, seconded by Michael Colsch, it was resolved:

To invest \$100 million in JBC Opportunity Fund II, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and the reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Walton Street Capital

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To invest \$75 million in Walton Street Real Estate Fund IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account and the reallocation of funds from fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Real Estate Broker

On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To select Near North to provide real estate insurance brokerage services to the System for a period of three years.

Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Schmidt, and Schiller. Votes of opposition were heard from Trustees O'Neill, Cleveland, Leggett, and Phalen. Trustee Colsch voted Present. Motion FAILED.

Director Bauman noted that December will be the last opportunity for the Board to select a broker, or the System will be without insurance coverage on \$2.5 billion worth of property. On a motion by Jan Cleveland, seconded by Molly Phalen, it was resolved:

To select Marsh USA to provide real estate insurance brokerage services to the System for a period of three years.

Minutes – Board Meeting
October 29, 2002
Page 9

Roll call resulted in affirmative voice votes from Trustees O'Neill, Cleveland, Leggett, and Phalen. Votes of opposition were heard from Trustees Bruner, Colsch, Glennon, Schmidt, and Schiller. Motion FAILED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

Legislative Platform

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

To approve the revisions to the Legislative Platform, as amended.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Chair Cleveland announced that the Stakeholder Forum will be held January 31, 2003 in Springfield.

RULES AND PERSONNEL COMMITTEE-*Cynthia O'Neill, Acting Chair*

Administrative Rules

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To authorize Staff to take the steps necessary to promulgate the recommended changes to the TRS Administrative Rules, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

FIDUCIARY COUNSEL SUB-COMMITTEE-*John Glennon, Chair*

The Fiduciary Counsel Sub-Committee interviewed two firms to serve as the Board's fiduciary counsel: Cavanaugh & O'Hara and Lawrence Gallagher. On a motion by John Glennon, seconded by Phillip Schmidt, it was resolved:

To retain Cavanagh & O'Hara to serve as Fiduciary Counsel to the TRS Board of Trustees for a three year term upon successful negotiation of contractual terms by the Legal Staff.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED. The Board does not expect fiduciary counsel to attend all Board meetings but to be "on call" at the Board's discretion.

INVESTMENT COMMITTEE CONTINUED

Real Estate Broker

Steve Loren, outside counsel, noted there was concern on part of the staff that it may be very difficult to place insurance coverage in a timely manner prior to the contract expiration if the Board chose to wait until December to select an insurance broker. Mr. Loren suggested that the Board consider having further conversation to select a candidate. A motion was made by James Bruner, seconded by Phillip Schmidt, to reconsider the vote on selecting a real estate broker. The motion to reconsider passed by a unanimous voice vote. Discussion followed. Trustee O'Neill suggested that the original resolution be modified to include that Risk Resources, the System's independent insurance consultant, recommends Near North as the System's broker. On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

Based upon the results of the System's Request For Proposals, the recommendation of the System's independent insurance consultant, and that Near North was the lowest bid; the TRS Board of Trustees selects Near North Insurance to provide real estate insurance brokerage services to the System for a period of three years.

Minutes -- Board Meeting
 October 29, 2002
 Page 11

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Schmidt, and Schiller. A vote of opposition was heard from Trustee Phalen. Motion CARRIED.

AUDIT COMMITTEE

Chairman

On a motion by John Glennon, seconded by Phillip Schmidt, it was resolved:

To elect John Glennon to serve as Chairman of the Audit Committee.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

CLAIMS HEARING COMMITTEE-*Sharon Leggett, Chair*

Administrative Reviews – James Taylor

The Board accepted the Claims Hearing Committee's proposed decision in the administrative review of James Taylor. On a motion by James Bruner, seconded by Phillip Schmidt, it was resolved:

To affirm the staff determination and adopt the Claims Hearing Committee's proposed decision in the administrative review of James Taylor.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

(President Schiller departs)

NEW BUSINESS

Actuarial Experience Analysis/Actuarial Valuation Report/Certification of FY04 State Contributions

John Thompson and Lynn Hill of Buck Consultants presented the results of the System's five-year experience analysis and the June 30, 2002 actuarial valuation. Documentation is on file. As of June 30, the funding level for the System decreased from 59.5% to 52.0%. Buck did not recommend a change in the 8.5% interest rate investment return assumption. On a motion by Phillip Schmidt, seconded by Molly Phalen, it was resolved:

To accept the recommendations contained in the 1996-2001 actuarial experience analysis, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. A vote of opposition was heard from Trustee Bruner. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To accept the June 30, 2002 actuarial valuation, as presented.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. A vote of opposition was heard from Trustee Bruner. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To certify the System's FY2004 state funding requirements, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Minutes – Board Meeting
October 29, 2002
Page 13

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To certify the System's total normal cost and employer's normal cost for FY2004, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Jan Cleveland, it was resolved:

To accept the Staff's recommendation that the FY 2004 total normal cost rate for optional service purchases be effective on November 1, 2002.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To certify the FY2004 state contribution to THIS Fund, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

(Trustee Leggett departs)

Hudepohl Contract

Director Bauman advised the Board that the contract with the executive search firm of Hudepohl and Associates might exceed \$100,000 depending on the eventual scope of services. This contract was amended to include the position of Chief Investment Officer.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2002 were sent to the trustees for review. The reports are on file. On a motion by Phillip Schmidt, seconded by Michael Colsch, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2002, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, O'Neill, Phalen, and Schmidt. Motion CARRIED.

TRS STAR Update

Ed Mabie, IS Officer, provided an update of the TRS STAR system. Implementation of the system is planned for January 2003.

Audit Update

Stacy Smith, Internal Auditor, provided an update on recent audit activities.



Teachers' Retirement System of the State of Illinois

MINUTES

Board of Trustees

December 6, 2002

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 6, 2002 at the Holiday Inn Chicago City Centre, 300 East Ohio Street. Dr. Robert Schiller, President, called the meeting to order at 8:35 a.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President (departs 1:00 p.m.)

Phillip Schmidt, Vice President

James Bruner

Michael Colsch (arrives 11:15 a.m.)

John Glennon

Sharon Leggett

Stuart Levine

Cynthia O'Neill

Molly Phalen

Absent: Jan Cleveland

TRS Staff:

Jon Bauman, Executive Director

John Day, Assistant Executive Director &
Acting Chief Investment Officer

Ruby Reynolds, Chief Operating Officer

Tom Gray, General Counsel

Kim Pollitt, Deputy Chief Investment Officer

Stacy Smith, Internal Auditor

Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel:

Bill Cavanagh, Cavanagh & O'Hara

Visitors:

Bob Lyons, IRTA Rep.
Dennis Murfin, IRTA Rep.
Mildred Burt, IRTA Rep.
Marti Swanson, IRTA Rep.

Roger Steingraber, IRTA Rep.
Jack Tucker, IEA-R
Kathy Stevenson, Northern Trust

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Sharon Leggett, 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 the 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: 5ILCS 120/2(c)(1), 5ILCS 120/2(c)(11), and 5ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Molly Phalen, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

RECESS

The meeting recessed at 10:45 a.m. and reconvened at 12:47 p.m.

APPROVAL OF MINUTES

Drafts of the minutes from the October 28, 2002 Fiduciary Counsel Sub-Committee meeting and the October 29, 2002 Board meeting were sent to the trustees for prior review. On a motion by John Glennon, seconded by Phillip Schmidt, the Fiduciary Counsel Sub-Committee minutes were approved as printed. The motion passed by a unanimous voice vote. On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, the Board minutes were approved as printed. The motion passed by a unanimous voice vote.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Smid Cap Growth Domestic Equity Assignments

On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To allocate 1.65% of the domestic equity portfolio to J&W Seligman and 1.65% to Mazama Capital Management (approximately \$305 million), subject to successful completion of contract and fee negotiations. Source of funds shall be the pending reallocation of assets from the fixed income portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion **CARRIED.**

Domestic Equity Large Cap Assignments

On a motion by Phillip Schmidt, seconded by John Glennon, it was resolved:

To allocate 4.5% of the domestic equity portfolio to Bear Stearns and 4.5% to Boston Partners (approximately \$830 million), subject to successful completion of contract and fee negotiations, and to terminate Alliance Bernstein. Source of funds shall be the Alliance Bernstein large cap value account and the pending reallocation of assets from the fixed income portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion **CARRIED.**

Evercore Capital Partners II, Limited Partnership

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To invest \$50 million in Evercore Capital Partners II, L.P. subject to satisfactory completion of contract negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Carlyle/Riverstone Global Energy and Power Fund II, Limited Partnership

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

To invest \$75 million in Carlyle/Riverstone Global Energy and Power Fund II, L.P. subject to satisfactory completion of contract negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Index Fund Provider Search

On a motion by Phillip Schmidt, seconded by Stuart Levine, it was resolved:

To authorize a search for an index fund provider.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Fixed Income Structure

On a motion by Stuart Levine, seconded by Sharon Leggett, it was resolved:

To adopt Alternative D in the fixed income structure study.

Fixed Income Structure

<u>Managers by Style</u>	<u>% of Asset Class</u>
Passive Index Fund (LB Aggregate)	
Manager A	15.0%
Core	
EARNEST Partners	2.5%
MDL Capital	2.5%
Morgan Stanley	10.0%
Payden & Rygel	10.0%
Weiss, Peck & Greer	10.0%
Core Plus	
BlackRock	20.0%
PIMCO	20.0%
UBS Global	10.0%

Roll call resulted in affirmative voice votes from Trustees Bruner, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Trustee Colsch voted Present. Motion CARRIED.

Chicago Capital and Julius Baer - Termination

On a motion by Phillip Schmidt, seconded by Stuart Levine, it was resolved:

To terminate Chicago Capital and Julius Baer. Proceeds shall be allocated to the TRS Cash Flow account and to the domestic equity portfolio in accordance with the Reallocation of Fixed Income Assets flowchart.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Oak Associates - Termination

On a motion by Cynthia O'Neill, seconded by Stuart Levine, it was resolved:

To terminate the Oak Associates domestic equity portfolio. Proceeds shall be allocated to the portfolio managed by MFS Investment Management.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Interim Allocation Targets

On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

To accept the new interim asset allocation targets for FY 2003.

	Original FY'03 Interim Targets	Revised FY'03 Interim Targets
U.S. Equity	43.4%	44.0%
International Equity	15.0	15.0
Fixed Income	24.7	26.0
Real Estate	12.3	11.0
Private Equity	3.6	3.0
Short-Term Investments	<u>1.0</u>	<u>1.0</u>
Total	100.0%	100.0%

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Callan Associates Contract Renewal

On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To renew the Callan Associates contract for a three-year term (calendar years 2003 through 2005).

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Israel Bonds

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To purchase a \$2 million (purchase price) ten-year zero coupon Government of Israel bond during the month of February 2003. The estimated market value at maturity will be \$3.667 million. The source of funds will be proceeds from the maturing \$2 million face value bond to be received on January 31, 2002.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Revision to Transition Management Policy

On a motion by Stuart Levine, seconded by Phillip Schmidt, it was resolved:

To revise Section XII of the Investment Policy to address the incidental disposition of assets, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

AUDIT COMMITTEE REPORT-*John Glennon, Chair*

John Glennon, Chair, reported that the Audit Committee plans to meet no less than four times a year and that it is prudent to add a fifth person to the committee. A recommendation will be discussed at the February meeting along with a solution of having staggered terms.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

On a motion by Stuart Levine, seconded by Phillip Schmidt, it was resolved:

As a result of an Executive Director's position adjustment, the Executive Director's salary is adjusted 5% effective January 1, 2003.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE-*Cynthia O'Neill, Chair Pro Tem*

Trustee O'Neill announced that the Legislative Committee is working on the agenda for the Stakeholder Forum to be held in Springfield on January 31, 2003.

(President Schiller departs)

NEW BUSINESS

FY 2002 Legal Fees Paid

Tom Gray, General Counsel, summarized the legal fees paid by the System and by System real estate managers to outside counsel during the period July 1, 2001 to June 30, 2002. Documentation is on file.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Board Retreat Update

Director Bauman proposed an agenda for the Board Retreat to be held in April 2003. Documentation is on file.

FY 2003 Affirmative Action Plan

The Board received a letter from the Department of Human Rights approving TRS' fiscal year 2003 Affirmative Action Plan. Documentation is on file.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2002 were sent to the trustees for review. The reports are on file. On a motion by Stuart Levine, seconded by John Glennon, it was resolved:

To approve the administrative expenses for the quarter ended September 30, 2002, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- TRS-STAR Status Report
- Member Services Statistical Report for the period ending October 31, 2002

Callan Conference

Director Bauman announced that Callan's Client Conference will be held during January 2003.

APPROVAL OF EXECUTIVE SESSION MINUTES


Drafts of the October 28-29, 2002 minutes of the executive session meetings of the Board were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, it was resolved:

To approve the minutes of the October 28-29, 2002 minutes of the executive session meetings of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 1:12 p.m.



Jon Bauman, Executive Director

Approved 02-28-2002
(date)



Teachers' Retirement System of the State of Illinois

MINUTES

Special Meeting of the Board of Trustees January 31, 2003

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on January 31, 2003 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. The meeting was conducted by teleconference with those Board members in attendance. Dr. Robert Schiller, President, called the meeting to order at 8:05 a.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President
Phillip Schmidt, Vice-President
Jan Cleveland
Michael Colsch
John Glennon (via telephone)
Sharon Leggett (via telephone)
Stuart Levine (via telephone)
Cynthia O'Neill
Molly Phalen (via telephone)

Absent: James Bruner

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Exec. Director and Acting CIO
Tom Gray, General Counsel

Outside Counsel:

Steve Loren, Gardner, Carton, & Douglas
(via telephone)

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, seconded by Jan Cleveland, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by Cynthia O'Neill, seconded by Jan Cleveland, that the Board recess the executive session meeting. The motion passed by a unanimous voice vote. Motion CARRIED.

RECESS

The meeting recessed at 9:10 a.m. and reconvened at 11:40 a.m.

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, seconded by Molly Phalen, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by Molly Phalen, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

ADJOURNMENT

A motion was made by Cynthia O'Neill, seconded by Phillip Schmidt, to adjourn the meeting. The meeting adjourned at 12:16 p.m.



Jon Bauman, Executive Director

Approved: 4/4/03
(date)



Teachers' Retirement System of the State of Illinois

MINUTES

Special Meeting of the Board of Trustees February 5, 2003 and February 7, 2003

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 5, 2003 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. The meeting was conducted by teleconference with those Board members in attendance. Dr. Robert Schiller, President, called the meeting to order at 4:00 p.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President (via telephone)

Phillip Schmidt, Vice-President

James Bruner

Jan Cleveland (via telephone)

Michael Colsch (via telephone)

John Glennon (via telephone)

Sharon Leggett (via telephone)

Stuart Levine (via telephone)

Cynthia O'Neill (via telephone)

Molly Phalen (via telephone)

TRS Staff:

Jon Bauman, Executive Director

Tom Gray, General Counsel

Tammy Green, Admin. Coordinator - Executive

Outside Counsel:

Steve Loren, Gardner, Carton, & Douglas
(via telephone)

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Cynthia O'Neill, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by Cynthia O'Neill, seconded by Phillip Schmidt, that the Board recess the executive session meeting until February 7, 2003. The motion passed by a unanimous voice vote. Motion CARRIED.

RECESS

The meeting recessed at 4:57 p.m. and reconvened on February 7, 2003 at 4:00 p.m.

Present: **Board Members:**
 Dr. Robert Schiller, President (via telephone)
 Phillip Schmidt, Vice-President
 James Bruner
 Jan Cleveland (via telephone)
 John Glennon (via telephone)
 Sharon Leggett (via telephone)
 Stuart Levine (via telephone)
 Cynthia O'Neill (via telephone)
 Molly Phalen (via telephone)

Absent: Michael Colsch

TRS Staff:
 Jon Bauman, Executive Director
 John Day, Asst. Executive Director and Acting CIO
 Tom Gray, General Counsel
 Tammy Green, Admin. Coordinator – Executive

Outside Counsel:
 Steve Loren, Gardner, Carton, & Douglas
 (via telephone)

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Cynthia O'Neill, 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 as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(1). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Phillip Schmidt, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

ADJOURNMENT

A motion was made by Jan Cleveland, seconded by Cynthia O'Neill, to adjourn the meeting. The meeting adjourned at 4:28 p.m.



Jon Bauman, Executive Director

Approved: 4/4/03
(date)



Teachers' Retirement System of the State of Illinois

MINUTES

Board of Trustees

February 20-21, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 20-21, 2003 at the Springfield office, 2815 West Washington Street. Phillip Schmidt, Vice-President, called the meeting to order at 10:01 a.m. A quorum was present.

Present: *Board Members:*

Phillip Schmidt, Vice-President
James Bruner
Jan Cleveland
John Glennon
Stuart Levine
Cynthia O'Neill
Molly Phalen

Absent: Dr. Robert Schiller, President (2/20)
Michael Colsch (2/20)
Sharon Leggett

TRS Staff:

Jon Bauman, Executive Director
John Day, Assistant Executive Director
Ruby Reynolds, Chief Operating Officer
Tom Gray, General Counsel
Cynthia Fain, Senior Assistant General Counsel
Stacy Smith, Internal Audit Manager
Lora Dour, Internal Auditor
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Visitors:

Sylvia Herzog, IRTA Rep.
 Bob Lyons, IRTA Rep.
 Elizabeth Bourland, IRTA Rep.

Estella Martin, IRTA Rep.
 Winnie Tipsword, IRTA Rep.
 Jack Tucker, IEA-R

NEW TRUSTEE

Trustee Cleveland recommended that Cinda Klickna fill the elected trustee vacant position that was created in 2001 by the retirement of Scott Eshelman. On a motion by Jan Cleveland, seconded by Stuart Levine, it was:

Resolved: In as much as the Board vacancy created by the previous retirement of teacher trustee Scott Eshelman has yet to be filled, it is hereby moved pursuant to 40 ILCS 5/16-165 (f) to appoint Cinda Klickna, who is a qualified individual, to serve as a teacher trustee for the balance of the Eshelman term which expires on July 15, 2003.

Director Bauman announced that Trustees Klickna, Leggett, and O'Neill were the only three candidates that filed sufficient petitions; therefore, an election is not required. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED. Their four-year terms will begin in July 2003.

RECESS

A motion was made by Molly Phalen, seconded by Jan Cleveland, to recess the meeting at 10:03 a.m. President Schiller reconvened the meeting the following day at 9:30 a.m.

Present: **Board Members:**
 Dr. Robert Schiller, President
 Phillip Schmidt, Vice President
 James Bruner
 Jan Cleveland
 Michael Colsch
 John Glennon
 Cinda Klickna
 Stuart Levine
 Cynthia O'Neill
 Molly Phalen

Absent: Sharon Leggett

Oath of Office was administered to Cinda Klickna. President Schiller welcomed Trustee Klickna to the Board.

APPROVAL OF MINUTES

A draft of the minutes from the December 6, 2002 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by John Glennon, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Castle Harlan Partners

On a motion by Jan Cleveland, seconded by John Glennon, it was resolved:

To allocate \$50 million in Castle Harlan Partners IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Oaktree Capital Management

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved:

To allocate an amount equal to 10% of the total commitments to OCM Opportunities Fund V, L.P., not to exceed \$50 million, subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Harris Associates and Artisan Partners

On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To allocate 7.5% of the international equity portfolio to Harris Associates and 7.5% to Artisan Partners (approx. \$430 million) to manage an international equity return focused mandate, subject to successful completion of contract and fee negotiations. Source of funds shall be a reallocation of funds within the international equity asset class.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Grantham, Mayo, Van Otterloo, & Company

On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was resolved:

To hire Grantham, Mayo, Van Otterloo, & Co. to manage an international emerging markets mandate totaling 8.0% of the international equity portfolio (approx. \$230 million) subject to successful completion of contract and fee negotiations. Source of funds shall be a reallocation of funds within the international equity asset class.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Index Provider – State Street Global Advisors

On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To hire State Street Global Advisors as an index provider for a term of two years to manage the passive accounts within the overall manager structure.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Bruner, Phalen, Klickna, Cleveland, O'Neill, and Schmidt. Votes of opposition were heard from Trustees Levine, Glennon, and Schiller. Trustee Colsch voted Present. Motion CARRIED.

Martin Currie

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To initiate a search for the possible replacement manager for the Martin Currie international account and to retain the Martin Currie international account until a pending Board assessment of other international equity managers.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

NorthPointe Capital

On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

That the allocation to NorthPointe Capital be deferred and placed in the State Street Russell Completeness index fund.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

UBS Global Asset Management Fee Proposal

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

To adopt the UBS performance incentive fee proposal as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Investment Policy Revision

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To adopt the revisions of Sections VIII and XIII of the Investment Policy to address changes in the asset allocation policy mix and manager structure allocation, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

International Equity Benchmark Change

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

To change the benchmark for Capital Guardian Trust, INVESCO, and Martin Currie from the MSCI ACWI Index to the MSCI EAFE Index and allowing them a maximum of 5% investment to the emerging markets on an opportunistic basis.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by Molly Phalen, seconded by James Bruner, it was resolved:

While the Teachers' Retirement System Board of Trustees recognizes the impact on the system's unfunded liability, the Board endorses the extension of the Early Retirement Option (ERO) program to the year 2010. The existence of the ERO program for 23 years has created the expectation that the program will be available to educators. As a result, the Board also recognizes that in the absence of the ERO program the system would experience a significant increase in the rates of retirement by educators who would not otherwise retire. Furthermore, the Board urges the General Assembly and the Governor to avoid taking any action that could adversely impact the funding of the system's pension benefit obligation as a result of the ERO continuation to the year 2010.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

The Teachers' Retirement System Board of Trustees takes the following positions on legislation that has been introduced into the 93rd General Assembly.

<u>Legislation</u>	<u>Description</u>	<u>TRS Position</u>
House Bill 376	Increase amount of out of system service credit that can be purchased from 10 years to 15 years	OPPOSE
House Bill 1470 Senate Bill 309	Changes in the administration of QILDRO	OPPOSE
House Bill 1562	Reduction in the cost of purchasing military service credit	SUPPORT

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, Phalen, Schmidt, and Schiller. (Trustee O'Neill was not present during roll call) Motion CARRIED.

CLAIMS HEARING COMMITTEE-*James Bruner, Acting Chair*

Administrative Review – Paul Kimmelman

The Board accepted the Claims Hearing Committee's proposed decision in the administrative review of Paul Kimmelman. On a motion by Phillip Schmidt, seconded by Molly Phalen, it was resolved:

To affirm the staff determination and adopt the Claims Hearing Committee's proposed decision in the administrative review of Paul Kimmelman.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Levine, O'Neill, Phalen, Schmidt, and Schiller. Trustee Klickna voted Present. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

Bylaws Amendments

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

To rescind Article II, Section 4, Emergency Meetings, of the Bylaws of the Board of Trustees, which reads as follows, and to renumber the remaining sections accordingly:

~~Emergency Meetings. Emergency meetings may be called in the event of a bona fide emergency at any time by the President of the Board or a majority of the trustees. Written notice shall be given to each trustee of the time and place of each emergency meeting as soon as practicable, but in any event prior to the holding of the meeting.~~

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by James Bruner, seconded by John Glennon, it was resolved:

To amend Article II, Section 3, Special Meetings, of the Bylaws of the Board of Trustees, as follows:

Special Meetings. Special meetings may be called at any time by the President of the Board, either at the President's own demand or at the written request of ~~er~~ a majority of the trustees. ~~Written notice~~ Notice shall be given to each trustee of the time and place of each special meeting at least three days prior to the date of the meeting, by overnight courier, by electronic mail, by facsimile transmission if the trustee has a facsimile number on file with the System, or by telephone. Such notice shall contain information as to the subject matter for consideration at the meeting. Notice of a special meeting shall not be valid until a sufficient number of trustees to constitute a quorum have confirmed with the Executive Director's office in writing or by telephone that the trustee has received notice of the special meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

OLD BUSINESS

Board Retreat

Director Bauman provided an overview of the agenda for the April Board Retreat to be held at the Giant City Lodge. Documentation is on file.

NEW BUSINESS

TRS STAR Demonstration

Staff provided a demonstration of the new TRS STAR system to the Board that was implemented on January 23, 2003. Documentation is on file.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2002 were sent to the trustees for review. The reports are on file. On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2002, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. (Trustee Glennon was not present during roll call) Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- TRS-STAR Status Report
- EEOC Report for the quarter ending December 31, 2002
- Member Services Statistical Report for the period ending December 31, 2002
- Employer Services Report for the period July 16, 2002 through January 15, 2003

Director Bauman introduced Lora Dour, Internal Auditor to the Board.

TRUSTEE COMMENTS

Trustee Phalen expressed her appreciation to Ron Taylor, Deputy Director of Counseling Services, and to the insurance department for the smooth transition to TRIP insurance for the annuitants from her district. The work performed by TRS employees is recognized and appreciated.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Jan Cleveland, 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) and 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Klickna, Glennon, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. No action was taken during executive session. A motion was made by James Bruner, seconded by Cinda Klickna, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

(Trustee Bruner departs 12:30 p.m.)

APPROVAL OF EXECUTIVE SESSION MINUTES

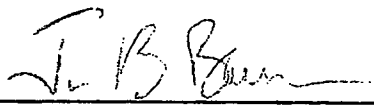
A draft of the December 6, 2002 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

To approve the minutes of the December 6, 2002 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Cleveland, Colsch, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 12:31 p.m.



 Jon Bauman, Executive Director

Approved 4/4/03



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees April 4, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on April 4, 2003 at the Giant City State Lodge in Makanda, Illinois. Phillip Schmidt, Vice-President, called the meeting to order at 10:22 a.m. A quorum was present.

Present: **Board Members:**
 Phillip Schmidt, Vice President
 James Bruner
 Jan Cleveland
 Cinda Klickna
 Sharon Leggett
 Cynthia O'Neill
 Molly Phalen

Absent: Michael Colsch
 John Glennon
 Stuart Levine
 Dr. Robert Schiller, President

TRS Staff:
 Jon Bauman, Executive Director
 John Day, Assistant Executive Director & Acting
 Chief Investment Officer
 Ruby Reynolds, Chief Operating Officer
 Tom Gray, General Counsel
 Cynthia Fain, Senior Assistant General Counsel
 Stacy Smith, Internal Audit Manager
 Terry Viar, Director of Member Services
 Jana Bergschneider, Benefits Claims Manager
 Kathleen Farney, Research Analyst
 Erin Kullick, Benefits Counselor
 Sharon Powell, Call Center Supervisor
 Scott Parrish, Investment Analyst
 Tammy Green, Admin. Coordinator – Executive

Outside Counsel:
 Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Investment Consultant:

Gordon Dickinson, Callan Associates

Visitors:

George Dychton, Cabrera Capital Markets, Inc.

Gerald Uhe, IRTA Rep.

Lori Uhe, IRTA Rep.

Sandra Barra, IRTA Rep.

Donna Randolph, IRTA Rep.

Gail Borton, IRTA Rep.

STANDING COMMITTEE APPOINTMENTS

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To appoint Cinda Klickna to serve on the Legislative Committee and Claims Hearing Committee for the balance of fiscal year 2003.

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

RECESS

A motion was made by Cynthia O'Neill, seconded by Molly Phalen, to recess the meeting at 10:23 a.m. The motion passed by unanimous voice vote. The meeting reconvened at 12:43 p.m.

APPROVAL OF MINUTES

Drafts of the minutes from the January 31, February 5 and February 7, 2003 Special Board Meetings and the February 20-21, 2003 Regular Board Meeting were sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by James Bruner, and by unanimous voice vote, the January 31, 2003 minutes were approved as printed. On a motion by James Bruner, seconded by Jan Cleveland, and by unanimous voice vote, the February 5 and February 7, 2003 minutes were approved as printed. On a

motion by Cinda Klickna, seconded by Cynthia O'Neill, and by unanimous voice vote, the February 20-21, 2003 minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Investment Protection Principles

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

To adopt the Investment Protection Principles, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion **CARRIED.**

HealthPoint Partners, L.P.

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

To invest \$20 million in HealthPoint Partners, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion **CARRIED.**

Securities Litigation

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

To authorize staff to initiate a Request for Proposal to identify three law firms qualified to serve as the System's Securities Class Action litigation counsel.

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

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by James Bruner, seconded by Molly Phalen, it was resolved:

To oppose Senate Bill 518 (set quotas for the allocation of brokerage business to Illinois, minority, and female owned firms) and to oppose Senate Bill 892 (cap annuities at \$75,000).

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

NEW BUSINESS

Extension of Actuarial Contract with Buck Consultants

The System's four-year contract with Buck Consultants expires June 30, 2003. Director Bauman recommended a one-year extension maintaining the current fee structure. Documentation is on file. On a motion by Molly Phalen, seconded by Cinda Klickna, it was resolved:

To authorize the Executive Director to extend the current contract with Buck Consultants to June 30, 2004, maintaining the current fee structure.

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

Rule Amendment

Staff recommended withdrawing the confidentiality rule amendment that was approved by the Board at its December 2002 meeting based upon objections received from the Illinois Education Association, the Illinois Association of School Administrators, the Illinois Principals Association,

and the Illinois Federation of Teachers. Documentation is on file. On a motion by Cynthia O'Neill, seconded by James Bruner, it was resolved:

Based upon the objections received by Staff to the proposed amendment to TRS Rule 1650.160, Confidentiality of Records, approved for promulgation at the December 5, 2002 Board meeting, the Board hereby directs Staff to withdraw such amendment from consideration by the Joint Committee on Administrative Rules.

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

EXECUTIVE DIRECTOR'S REPORT

Director Bauman announced that an 8% budget reserve has been established for the fiscal year 2003 budget.

Information on the upcoming Callan College seminar was distributed to the trustees.

Strategic Plan

Beginning in July 2002, a staff committee met regularly and prepared a strategic plan. During the retreat, Cynthia Fain, Senior Assistant General Counsel, and Erin Kullick, Benefits Counselor, presented the strategic plan for fiscal years 2004-2006. Documentation is on file. On a motion by Molly Phalen, seconded by Cinda Klickna, it was resolved:

To approve the strategic plan, as presented.

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

EXECUTIVE SESSION

A motion was made by Cynthia O'Neill, seconded by Sharon Leggett, 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) and 5 ILCS 120/2(c)(11); and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

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

APPROVAL OF EXECUTIVE SESSION MINUTES


Drafts of the January 31, February 5 and February 7, and February 20-21, 2003 minutes of the executive session meetings of the Board were sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To approve the minutes of the January 31, February 5 and February 7, and February 20-21, 2003 executive session meetings of the Board, as printed.

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

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 12:31 p.m.



Jon Bauman, Executive Director

Approved 5/23/03



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees May 23, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 23, 2003 at the Springfield office, 2815 West Washington Street. Robert Schiller, President, called the meeting to order at 8:47 a.m. A quorum was present.

Present: **Board Members:**
 Dr. Robert Schiller, President (departs at 10:10 a.m.)
 Phillip Schmidt, Vice President
 James Bruner
 Jan Cleveland
 John Glennon (not present during roll call)
 Cinda Klickna
 Sharon Leggett
 Stuart Levine
 Cynthia O'Neill
 Molly Phalen

TRS Staff:
 Jon Bauman, Executive Director
 Ruby Reynolds, Chief Operating Officer
 Tom Gray, General Counsel
 Tammy Green, Admin. Coordinator – Executive

Outside Counsel:
 Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel
 Bill Cavanagh, Cavanagh & O'Hara

EXECUTIVE SESSION

A motion was made by Molly Phalen, seconded by Sharon Leggett, 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; discussion of closed meeting minutes; and the semi-annual review of minutes of closed meetings, 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) and 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED. (Trustee Glennon not present during roll call)

No action was taken during executive session. A motion was made by James Bruner, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Upon conclusion of the executive session meeting, the regular Board meeting resumed at 9:50 a.m.

APPROVAL OF MINUTES

A draft of the minutes from the April 4, 2003 Board meeting was sent to the trustees for prior review. On a motion by Phillip Schmidt, seconded by James Bruner, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Private Equity Annual Tactical Plan

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To approve the Private Equity Annual Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Watch List

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

To accept the Watch List for the quarter ended March 31, 2003.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Phillip Schmidt, seconded by Cinda Klickna, it was resolved:

To terminate the Martin Currie international equity portfolio. Proceeds to be allocated to a new manager based on the outcome of the international equity manager search.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Investment Policy Revisions

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To approve revisions to the Investment Policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Fidelity Management Trust Company

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To hire Fidelity Management Trust Company as a benchmark aware international equity manager to manage 15% of the international equity asset class (approx. \$440 million) subject to successful completion of contract and fee

negotiations. Source of funds will be the terminated Martin Currie account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Smith Whiley & Company

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

To allocate \$25 million in SW Pelham Fund II, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

GTCR

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

To allocate \$50 million in GTCR Fund VIII, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Carlyle Group

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To allocate \$50 million in Carlyle Europe Real Estate Partners L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be the TRS Cash Flow account.

Minutes – Board Meeting
 May 23, 2003
 Page 5

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Use of Futures

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To allow the Executive Director to execute the necessary agreements to allow the use of futures in the Weiss, Peck & Greer, BlackRock, and Payden & Rygel fixed income accounts.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by John Glennon, seconded by James Bruner, it was resolved:

To support House Bill 3797-Vacancy on TRS Board of Trustees.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

AUDIT COMMITTEE REPORT-*John Glennon, Chair*

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To adopt the FY04-05 Internal Audit Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

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

To approve the Standing Committees and Committee Chairs for FY 2004, as presented.

Investment Committee: All Trustees; Bruner, Chair
 Legislative Committee: Cleveland, Chair; Glennon; Klickna; O'Neill; Phalen
 Rules & Personnel
 Committee: Levine, Chair; Leggett; Schmidt; O'Neill; Cleveland
 Claims Hearing
 Committee: Leggett, Chair; Bruner; Glennon; Klickna; Phalen
 Audit Committee: Glennon, Chair; Bruner; Leggett; Levine; O'Neill

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED. No action was taken regarding the position of Vice President of the Board for fiscal year 2004.

NEW BUSINESS

FY2004 Budget & Contracts > \$50,000

The proposed budget and contracts over \$50,000 were sent to the trustees for review. A copy of the budget is on file. The proposed budget represents a decrease from the FY2003 budget of 4.03%. On a motion by Phillip Schmidt, seconded by Molly Phalen, it was resolved:

To approve the FY2004 administrative budget and list of FY2004 contracts over \$50,000, deferring action regarding staff salary increases until the June special board meeting.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Minutes – Board Meeting
May 23, 2003
Page 7

2003-2004 Meeting Calendar

The proposed Investment Committee/Board meeting calendar for FY2004 was sent to the trustees for review. Documentation is on file. Approval of the calendar was deferred until the June special board meeting.

(President Schiller departs)

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

The Board received a list of potential topics for the 2004 Board retreat. Director Bauman asked that the trustees indicate their level of interest for each topic.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2003 were sent to the trustees for review. The reports are on file. On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To approve the administrative expenses for the quarter ended March 31, 2003, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Enhanced Member Security Project

Ruby Reynolds, Chief Operating Officer, provided an update on the removal of Social Security numbers on out-going TRS correspondence. A report has been prepared by the Enhanced Security Committee providing information on how TRS will remove Social Security numbers from outgoing documents and limit access of Social Security numbers to staff with a job related need.

Miscellaneous Reports

The following reports are on file.

- EEOC Report for the quarter ending March 31, 2003
- Member Services Statistical Report for the period ending April 30, 2003

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the April 4, 2003 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Stuart Levine, it was resolved:

To approve the minutes of the April 4, 2003 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Semi-annual Review of Executive Session Minutes

The Board received a memorandum from the System's Legal Department regarding confidentiality of executive session minutes according to the Open Meetings Act. On a motion by Cinda Klickna, seconded by Sharon Leggett, it was resolved:

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

October 30, 2000	October 22, 2001 (2)
March 29, 2001	October 22, 2001 (3)
May 24, 2001	November 30, 2001
May 25, 2001	December 17, 2001
August 9, 2001	October 28, 2002

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Transfer of Investment Authority – Resolution

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

To adopt the following statement of position concerning the transfer of TRS investment authority to the State Board of Investment.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.


The TRS Board of Trustees, after consultation with representatives of its members and annuitants (the Illinois Education Association, the Illinois Federation of Teachers, the Illinois Retired Teachers Association and the Illinois Education Association Retired), is opposed to any transfer of the TRS Board's investment authority to the Illinois State Board of Investments.

The TRS Board's unfettered commitment solely to its participants and in recognition of the historic and significant superior investment performance of the TRS demonstrates that the interests of both TRS' participants as well as the State and its taxpayers have been best served under the long-standing legislative framework under which the TRS Board of Trustees acting in their fiduciary capacity and in concert with the advice of an independent investment consultant invests the TRS trust funds.

Significantly, TRS' investment performance during this most recent period of market volatility has outperformed 90% of all similarly-situated public pension funds. The Board would further like to point out two additional factors: (1) the State's pension systems are best served by spreading their investment risk among several distinct portfolios; and (2) the transition costs involved in the type of consolidation envisioned by the proposal now under consideration would be substantial. In this regard, the State of Texas which recently went through a \$17 billion dollar consolidation incurred administrative expenses in excess of \$150 million dollars to accomplish the transfer of funds.

ADJOURNMENT

On a motion by Cynthia O'Neill, seconded by Stuart Levine, and by unanimous vote, the meeting adjourned at 10:30 a.m.



Jon Bauman, Executive Director

Approved 8/15/03



Teachers' Retirement System of the State of Illinois

MINUTES

Special Meeting of the Board of Trustees June 10, 2003

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on June 10, 2003 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. The meeting was conducted by teleconference with those Board members in attendance. Dr. Robert Schiller, President, called the meeting to order at 10:25 a.m. A quorum was present.

Present:

Board Members:

Dr. Robert Schiller, President

James Bruner

Jan Cleveland

John Glennon (via telephone-disconnected 12:08 p.m.)

Cinda Klickna

Sharon Leggett (via telephone-disconnected 12:25 p.m.)

Stuart Levine

Cynthia O'Neill

Molly Phalen

Absent:

Phillip Schmidt, Vice-President

TRS Staff:

Jon Bauman, Executive Director

Stan Rupnik, Director of Investments

Kathleen Farney, Director of Research

Gina Larkin, Director of Human Resources

Tom Gray, General Counsel

Cynthia Fain, Senior Assistant General Counsel

Nick Yelverton, Government Affairs Officer

Tammy Green, Admin. Coordinator - Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Investment Consultant:

Gordon Dickinson, Callan Associates

Visitors:

Tim Lee, Director of IRTA

Kathy Stevenson, Northern Trust

Laura Arterburn, IFT

Darren Massey, Merrill Lynch

2003-2004 Meeting Calendar

On a motion by Cynthia O'Neill, seconded by James Bruner, it was resolved:

To approve the proposed Investment Committee/Board meeting calendar: August 13-15, 2003 (Chicago); October 30-31, 2003 (Spfld.); December 11-12, 2003 (Chicago); February 19-20, 2004 (Spfld.); April 1-2, 2004 (Rend Lake); and May 24-25, 2004 (Spfld.)

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion **CARRIED**.

Legislative Update

Nick Yelverton, Government Affairs Officer, provided an update on the activities of the legislative spring session. Documentation is on file.

Pension Obligation Bonds

Director Bauman distributed a draft copy of an educational presentation for review regarding POBs that will be discussed at a future stakeholder forum. The Board also received documents prepared by the Governor's Office of Management and Budget regarding the allocation of bond proceeds—

\$10 billion issued, 5.05% average interest. Documentation is on file. Buck Consultants, the System's actuary, estimates that a return of 7.03% is needed to break even.

Bill Cavanagh, fiduciary counsel, distributed a copy of his June 9, 2003 letter to the Board noting that separate investment of pension obligation monies is in accordance with their fiduciary obligations. Mr. Cavanagh commented that investments could be treated differently than the general fund. Documentation is on file.

The Board reviewed and discussed alternative allocation strategies and expected returns for the investment of pension obligation bond proceeds as presented by Gordon Dickinson of Callan Associates. Documentation is on file. (John Filan, Director of the Governor's Office of Management and Budget, and Larry Morris, Senior Managing Director of Mesirow Financial, arrived at the meeting)

RECESS

The meeting recessed at 11:20 a.m. and reconvened at 11:25 a.m.

Mr. Filan and Mr. Morris joined the Board at the table to discuss recommendations regarding the investment strategy of the bonds. The System will receive \$4.3 billion in proceeds from the bond sale after July 1. Mr. Filan emphasized short term investing and enhanced reporting and communication among the three systems (TRS, SURS, and ISBI). A brief summary of comments and questions is attached. Following a lengthy discussion, it was the consensus of the Board to keep the bond assets separate from the TRS trust fund but to manage them using the existing asset allocation. During the transition period, July to mid-August, the proceeds will be placed in index funds with Northern Trust Global Investors. Staff will interview existing managers and make recommendations to the Board at its August meeting as to which managers should receive allocations from the POB proceeds. On a motion by Molly Phalen, seconded by Jan Cleveland, it was resolved:

To adopt the following targets: 51% broad domestic equity;
18% international equity; and 31% domestic fixed income.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Investment Policy

Staff presented revisions to the Investment Policy reflecting changes required by the pension obligation bond issue. Documentation is on file. On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To approve revisions to the Investment Policy, as revised.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Index Fund Manager

Representatives from Northern Trust presented an overview on indexing. Their presentation booklet is on file. On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To hire Northern Trust Global Investors as an index fund provider for the following mandates:

- EAFE 18% (\$774,000,000)
- Lehman Aggregate 31% (\$1,330,000,000)
- S&P 500 41% (\$1,763,000,000)
- Wilshire 4500 10% (430,000,000)

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Stakeholder Forum

A stakeholder forum on pension obligation bonds and other investment matters will be held at the System's Springfield office on July 18, 2003 at 9:00 a.m.

Executive Director Receives Award

The Board congratulated Director Bauman on being named the winner of the “Public Plan Sponsor of the Year”, an award given by *Money Management Letter*. The winner is selected through a process involving nominations and comments to *MML* from industry professionals. A copy of the press release is on file.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Molly Phalen, 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 and probable or imminent litigation 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) and 5 ILCS 120/2(c)(11). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Levine, O’Neill, Phalen, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Stuart Levine, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Levine, O’Neill, Phalen, and Schiller. Motion CARRIED.

ADJOURNMENT

The meeting adjourned upon conclusion of the executive session meeting at 1:58 p.m.



Jon Bauman, Executive Director

Approved: 8/15/03
(date)

**TRS SPECIAL BOARD MEETING
JUNE 10, 2003**

Attendees: John Filan, Director of the Governor's Office of Management and Budget for the State of IL
Larry Morris, Financial Advisor-Mesirow, Chicago

Director Filan noted:

- The successful sale of all \$10 billion in pension obligation bonds at a rate of just over 5% aided by a statute change allowing the use of variable rate debt.
- The State pension systems' unfunded liability is effectively a general obligation of the State.
- Because of the role the unfunded liability plays in the State's financial picture, effective management of all State assets and liabilities is our collective responsibility.
- The POB issuance allowed "3-4 years advance payments" toward the systems' unfunded liabilities.
- The OMB is looking for a more coordinated approach to investing; presently the assets are in three places, and the liabilities in three, causing a "teeter totter" effect.
- The results of retirement system operations impact the State budget directly; they are "first in line" for budget consideration.
- A better understanding of how the funds' investment policies interact with the State budget will allow more effective management of the State's assets amid economic uncertainty. (TRS provided Investment Policy revisions)
- The OMB plans to take a more proactive approach to the pension systems than in prior administrations and is looking to enhance reporting and communications between the systems and the office.
- The OMB is not interested in directing the investment decisions or the types of investments made by the pension systems.

Larry Morris' comments:

- Reiterated Director Filan's request for more communication.
- In these times of low rates and uncertain valuation, suggests the conservative side of asset allocation alternatives.

TRS Board Questions: (Director Filan's comments in italics except where noted)

- Who pays debt service on POBs?
*The State is responsible for paying debt service.
Debt service is "backed out" of future contributions to the systems. (Morris)*
- What is the effect if investment returns are less than debt service?
That will be compensated for in future actuarial calculations like all other actuarial variances.
- What is the purpose of the June 26, 2003 meeting?
To ensure effective communication. OMB's responsibility is to ensure that asset policy is as consistent as possible across the funds.
- Who has the fiduciary liability for the pension funds?
The pension boards are the primary fiduciaries, but the State is the ultimate fiduciary.
- Can you provide an example of "inconsistent" asset policy?
*For example, when one fund holds a large amount of real estate and the others do not;
Or when one fund is selling a security when another is buying.
The concern is uncertainty; we want the funds to stay flexible and liquid. (Morris)*



Teachers' Retirement System of the State of Illinois

MINUTES Board of Trustees August 15, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 15, 2003 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. Phillip Schmidt, Vice President, called the meeting to order at 8:00 a.m. A quorum was present.

Present:

Board Members:

Dr. Robert Schiller, President (arrives 9:15 a.m.)

Phillip Schmidt, Vice President

James Bruner

Jan Cleveland

John Glennon

Cinda Klickna

Sharon Leggett (departed 11:00 a.m.)

Stuart Levine

Cynthia O'Neill

Molly Phalen

TRS Staff:

Jon Bauman, Executive Director

Tom Gray, General Counsel

Nick Yelverton, Government Affairs Officer

Mike Bartletti, Director of Real Estate

Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Investment Consultant:

Gordon Dickinson, Callan Associates

APPROVAL OF MINUTES

Drafts of the minutes from the May 23, 2003 Board meeting and the June 20, 2003 Special Board meeting were sent to the trustees for prior review. On a motion by James Bruner, seconded by John Glennon, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Investment Policy Revisions

On a motion by Cynthia O'Neill, seconded by John Glennon, it was resolved:

To approve the revisions to the Investment Policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Real Estate Insurance Broker

On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was resolved:

Whereas, Near North Insurance Brokerage, Inc. has announced its pending sale to Hub International/Mack and Parker, and anticipating that the TRS real estate insurance brokerage and service Near North has been rendering to TRS will terminate in the near future, and based on the recommendation of TRS' contractual insurance consultant, Robert Trompeter, staff is hereby authorized to initiate a request for proposal for Insurance Brokerage and related services, and to submit such results and recommendations at the next Board meeting for action. Staff is further authorized to accept such interim assignment of the Near North Insurance brokerage contract on an interim basis as staff deems appropriate until the procurement of such services by RFP is completed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Morgan Stanley

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved:

To terminate Morgan Stanley's fixed income portfolio. Proceeds should be allocated to the SSgA Lehman Aggregate Index Fund pending completion of a fixed income core manager search. Illiquid holdings of the Morgan Stanley portfolio not selected in-kind by SSgA should be made available to the System's other fixed income managers as necessary.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Watch List

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

To accept the Watch List for the quarter ended June 30, 2003, as amended.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Artisan Partners

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

To not include Artisan Partners on the watch list at this time due to their long-term outperformance and the recommendation of Callan Associates and Staff. Artisan Partners will receive its proportionate allocation of POB

proceeds as defined by the Investment Policy and Staff recommendation.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. A vote of opposition was heard from Trustee Glennon. Motion CARRIED.

Real Estate Tactical Plan

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

To adopt the Real Estate Annual Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Cash Flow

On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To allow Staff to withdraw up to 1% of the fund's total value from the domestic equity and fixed income funds from the SSgA index accounts as necessary to fund cash requirements.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Pension Obligation Bond Allocations

On a motion by Molly Phalen, seconded by Cynthia O'Neill, it was resolved:

To accept the proposed allocation of Pension Obligation Bond proceeds, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Northern Trust Transition Management

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

To add Northern Trust as an approved transition manager.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

State Street Global Advisors Contract

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To amend the current investment management agreement with SSgA to exclude the two-year expiration clause.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Glencoe Capital Partners

On a motion by Cynthia O'Neill, seconded by Stuart Levine, it was resolved:

To invest \$25 million in Glencoe Capital Partners III, L.P. and invest up to \$25 million to Glencoe Capital Institutional Partners III, L.P., subject to the satisfactory completion of contract and fee negotiations. Source of funds will be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Apex Venture Partners

On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To invest \$25 million in Apex Investment Fund V, L.P., subject to the satisfactory completion of contract and fee negotiations. Source of funds will be the TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, Phalen, and Schmidt. A vote of opposition was heard from Trustee O'Neill. Motion CARRIED.

Real Estate Appraisal Services

On a motion by Cinda Klickna, seconded by Stuart Levine, it was resolved:

To award the following firms for the System's appraisal services for both the current real estate portfolio and any future assigned work:

Blake, 65 Assignments, \$335,600
Amer. Appraisal Assoc., 12 Assignments, \$53,200
CB Richard Ellis, 5 Assignments, \$63,250

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, and Schmidt. A vote of opposition was heard from Trustee Phalen. Motion CARRIED.

PricewaterhouseCoopers

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To award PricewaterhouseCoopers for an approximately \$225,000 inflation adjusted three-year

contract provide Control Environment Review Services.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

AUDIT COMMITTEE REPORT-*John Glennon, Chair*

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To approve the Internal Audit Charter and Policies and Procedures Manual, as presented, pending revisions to be proposed in October.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

Vice President

On a motion by Cinda Klickna, seconded by James Bruner, it was resolved:

To elect Phillip Schmidt to serve as Vice President of the Board through June 30, 2004.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Erasure of Board Meeting Tapes

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

To authorize Staff to erase all stored audiotape recordings of Board proceedings for which transcribed minutes were approved by the Board in February 2003 or earlier.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

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

To amend the Bylaws of the Board of Trustees, Article II, Meetings, Section 7, Record of Proceedings, as follows:

Sec. 7. Record of Proceedings. The Board shall keep a full record of all its proceedings in which shall be recorded all transactions. The Director shall ensure that materials for each Board meeting are forwarded to all trustees on a timely basis, generally at least ten days prior to the meeting date. Board proceedings shall be recorded on audiotape and transcribed into written minutes, which shall be submitted to the Board for approval at the next meeting. At least one week before the date of the next meeting, the Director shall furnish each trustee with a draft of the minutes of the previous meeting. Audiotape recordings of Board proceedings that are open to the public shall be erased upon the lapse of six (6) months following the Board's approval of the transcribed minutes.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

OLD BUSINESS

Educational Programs

The trustees received the results of a survey concerning their preferences for future educational programs. Documentation is on file.

Securities Litigation RFP

Tom Gray, General Counsel, provided a copy of the securities litigation legal services Request For Proposal along with a list of the twelve firms that

responded to the RFP. Staff recommended that the Board appoint a subcommittee to review the responses and make recommendations to the Board for interview and selection. On a motion by James Bruner, seconded by Jan Cleveland, it was resolved to form a subcommittee of the Board and to appoint Trustees O'Neill, Levine, Schmidt, and Phalen to serve on the subcommittee. The subcommittee will review the securities litigation RFP responses and make recommendations to the Board at a later meeting. The motion passed by a unanimous voice vote.

NEW BUSINESS

Medicare Referendum

Nick Yelverton, Government Affairs Officer, noted that the Governor signed Public Act 93-0119 that allows teachers continuously employed by the same employer since March 31, 1986, to make an irrevocable election to participate in Medicare. This authorizes TRS to conduct a divided coverage Medicare referendum. On a motion by Molly Phalen, seconded by Jan Cleveland, it was resolved:

WHEREAS, the Illinois Teachers' Retirement System (the System) is a qualified retirement system for the purpose of adopting Medicare-only coverage pursuant to Title II, Section 218 of the Social Security Act and Illinois Compiled Statutes, Chapter 40, Act 5, Article 21;

WHEREAS, the System, in order to adopt Medicare-only coverage, has chosen to conduct a divided referendum (which would permit each eligible employee covered by the System to elect or reject Medicare-only coverage for the period of his or her employment with their current System-covered employer): such referendum to be held on a series of dates to be determined by the System.

WHEREAS, pursuant to Illinois Compiled Statutes, Chapter 40, Act 5, Section 21-105, the System is required to adopt a plan of coverage prior to conducting a referendum:

NOW THEREFORE BE IT RESOLVED that the Board of Trustees (Board) of the Illinois Teachers' Retirement System hereby authorizes Jon Bauman, the System's Executive Director, to take all measures necessary to proceed with a divided referendum for Medicare-only coverage (in accordance with Title II, Section 218 of the Social Security Act and Illinois Compiled Statutes, Chapter 40, Act 5, Article 21) to be conducted as expeditiously as possible and to obtain the necessary authorization from the Governor and such assistance from State Employees Retirement System (SERS) and Social Security officials as he deems necessary and appropriate; and

BE IT FURTHER RESOLVED that it is the intention of the Board that all eligible current System covered employees who elect to do so become covered by this Medicare-only agreement.

BE IT FURTHER RESOLVED that it is the intention of the Board that the contributions and benefits provided by entering into a Medicare-only coverage agreement be in addition to and in no way reduce or impair insurance contributions and retirement benefits required under the System and

BE IT FURTHER RESOLVED that in accordance with the provisions of Illinois Compiled Statutes, Chapter 40, Act 5, Section 21-105, the Board formulates the following plan of coverage:

- A) It is hereby declared to be the policy and purpose of the Board to extend to such eligible employees effective on a series of dates to be determined, the opportunity to elect to receive the benefits of the Federal Health Insurance Provisions of the Federal Social Security Act and amendments thereto. In pursuance of said policy, and for that purpose, the System's Executive Director shall take such action with the Social Security Division of the State Employees' Retirement System of Illinois as may be required by applicable State and federal laws or regulations.
- B) The System's Executive Director shall execute an agreement with the Social Security Division of the State Employees' Retirement System to secure Medicare- only coverage of eligible System-covered employees as provided in Section A, hereof.
- C) Withholdings from salaries or wages of System-covered employees for the purpose provided in Section A shall be made in the amounts and at such times as are required by the applicable federal laws and regulations and shall be paid over to the Internal Revenue Service by their individual employers in such amounts and at such times as are required by applicable federal laws and regulations.
- D) Employer contributions shall be paid to the Internal Revenue Service from amounts appropriated for such purposes in such amounts and at such times as are required by applicable federal laws and regulations.
- E) Each System-covered employer shall maintain such records and submit such reports as may be required by applicable federal laws and regulations.

BE IT FURTHER RESOLVED that the Executive Director of the System is authorized to approve the form of Ballot, Governor's Proclamation, Notice to Employees, and Governor's Certification of the Referendum Results without further action by this Board.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

(President Schiller arrives)

Discussion was held regarding the denial of travel from the Governor's office. It was consensus of the Board to have fiduciary counsel examine this issue.

Miscellaneous Reports

The following reports are on file.

- EEOC Report for the quarter ending June 30, 2003
- Employer Services Report for the period January 16-July 15, 2003
- Member Services Statistical Report for the period ending June 30, 2003

EXECUTIVE SESSION

A motion was made by Phillip Schmidt, seconded by Jan Cleveland, 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) and 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. No action was taken during executive session. A motion was made by James Bruner, seconded by Cynthia O'Neill, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

Drafts of the May 23 and June 10, 2003 minutes of the executive session meeting of the Board were sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To approve the minutes of the May 23 and June 10, 2003 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Personnel

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To approve a 2.6% COLA pay adjustment to all TRS staff effective July 1, 2003.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.


On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To extend the Executive Director's employment contract one year through August 8, 2006.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

ADJOURNMENT

On a motion by Cynthia O'Neill, seconded by Stuart Levine, and by unanimous vote, the meeting adjourned at 11:28 a.m.



Jon Bauman, Executive Director

Approved 10/31/03



Teachers' Retirement System of the State of Illinois

MINUTES

Board of Trustees

October 31, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on October 31, 2003 at the Springfield office, 2815 West Washington Street. Robert Schiller, President, called the meeting to order at 9:10 a.m. A quorum was present.

Present:

Board Members:

Dr. Robert Schiller, President
 Phillip Schmidt, Vice President
 James Bruner
 Jan Cleveland
 John Glennon
 Cinda Klickna
 Sharon Leggett
 Stuart Levine
 Cynthia O'Neill
 Molly Phalen

TRS Staff:

Jon Bauman, Executive Director
 Ruby Reynolds Taylor, Chief Operating Officer
 Tom Gray, General Counsel
 Cynthia Fain, Senior Assistant General Counsel
 Kathleen Farney, Director of Research
 Stacy Smith, Internal Audit Manager
 Lori Dour, Internal Auditor
 Nick Yelverton, Government Affairs Officer
 Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Visitors:

Bob Lyons, IRTA Rep.

Gilbert Deimel, IRTA Rep.

Helen Dunn, IRTA Rep.

PUBLIC COMMENTS

Bob Lyons, IRTA Representative, distributed a copy and read a resolution that the IRTA adopted at its October meeting endorsing the TRS Board and its continued independence from the Illinois State Board of Investments. Documentation is on file.

APPROVAL OF MINUTES

A draft of the minutes from the August 15, 2003 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

MDL Capital

Neuberger Berman

On a motion by Cynthia O'Neill, seconded by Phillip Schmidt, it was resolved:

To terminate the MDL Capital fixed income portfolio and the Neuberger Berman domestic small cap growth equity portfolio. Proceeds from MDL Capital should be allocated to the SSgA Lehman Aggregate Index Fund pending completion of a fixed income core manager search. Proceeds from Neuberger Berman should be allocated to a transition account pending completion of a domestic small cap growth equity manager search.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Private Equity – POB Fund

On a motion by Phillip Schmidt, seconded by Stuart Levine, it was resolved:

To invest \$15 million in Carlyle/Riverstone Global Energy & Power Fund II, L.P. and \$15 million in HealthPoint Partners, L.P. as initial investments in the POB Private Equity Investment Program. Source of funds will be the POB domestic equity passive index fund.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Real Estate Insurance Brokerage

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To authorize the award of the Insurance Brokerage Services contract to USI Midwest subject to successful completion of contract and fee negotiations. Contractual costs shall be apportioned and expensed to the System's real estate assets.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Dodge & Cox

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To hire Dodge & Cox as a fixed income core manager to manage approximately \$715 million, representing a 10% core mandate in the fixed income asset class. Of the total assignment, approximately \$588 million is allocated to the primary TRS account, with approximately \$127 million allocated to the POB account. Source of funds for the main

account is the terminated assets of the Morgan Stanley portfolio, primarily passively invested in the SSgA Lehman Aggregate Index Fund. Source of funds for the POB account is the Northern Trust Lehman Aggregate Index Fund. Assignment is subject to successful completion of contract and fee negotiations.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Texas Pacific Group

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

To invest \$50 million in TPG Partners IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account. Also, invest an additional \$25 million in TPG Partners IV, L.P., for the POB account. Source of funds will be the POB domestic equity passive index fund.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Edgewater

On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To invest \$25 million in Edgewater Private Equity Fund IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

UBS Global Asset Management

On a motion by Sharon Leggett, seconded by Phillip Schmidt, it was resolved:

To approve the revision to UBS Global Asset Management's IMA, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Cash Account

On a motion by Sharon Leggett, seconded by Phillip Schmidt, it was resolved:

To withdraw up to 1% of the fund's total value from the State Street S&P 500 Index Fund to fund cash requirements.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

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

Whereas: Teachers that have earned an annuity of at least 74.6% and attain age 55 on or before December 31 during the year that commences on July 1 shall be deemed to attain age 55 on the preceding June 1. As a result, members whose 55th birthday falls in June of that year do not qualify under law to be deemed 55 on June 1 and must wait for their birthday in order to begin their annuity.

Resolved: The Teachers' Retirement System Board of Trustees supports legislation that changes the day in which a teacher that has earned an annuity of at least 74.6% is

deemed to attain age 55 from June 1 to May 15 of the year in which the teacher turns age 55.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To amend the Bylaws of the Board of Trustees, Article II, Meetings, Section 7, Record of Proceedings, as follows:

Sec. 7.

Record of Proceedings. The Board shall keep a full record of all its proceedings in which shall be recorded all transactions. **Committees of the Board are also subject to this Section.** The Director shall ensure that materials for each Board meeting are forwarded to all trustees on a timely basis, generally at least ten days prior to the meeting date. Board proceedings shall be recorded by audio medium and transcribed into written minutes, which shall be submitted to the Board for approval at the next meeting. At least one week before the date of the next meeting, the Director shall furnish each trustee with a draft of the minutes of the previous meeting. Audio recordings of Board proceedings that are open to the public shall be destroyed upon the lapse of six (6) months following the Board's approval of the transcribed minutes. **Audio recordings of executive sessions shall be retained no less than eighteen (18) months after completion of the executive session, and may be destroyed only after the Board has approved written minutes of the executive session and has approved destruction of the particular audio recording.**

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

AUDIT COMMITTEE REPORT-*John Glennon, Chair*

Chair Glennon provided a brief update on audit activities. The Audit Committee is meeting after the Board meeting.

NEW BUSINESS

Actuarial Valuation Report/Certification of FY05 State Contributions

John Thompson and Lynn Hill of Mellon Human Resources & Investor Solutions (formerly known as Buck Consultants) presented the results of the June 30, 2003 actuarial valuation. Documentation is on file. Without including the POB proceeds, the funded ratio at June 30, 2003 was 49.3%, down from 52.0% at June 30, 2002. Including the POB assets, the funded ratio would increase to 58.5%. On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To accept the June 30, 2003 actuarial valuation, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

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

To certify the System's FY2005 state funding requirements, as presented, in an amount totaling \$907,028,000. This amount includes the state's required contribution for the state employee early retirement incentive, \$1,684,000, and minimum benefit reimbursements of \$3,100,000.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

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

To certify the total normal cost and employer's normal cost for FY2005, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

To certify the FY2005 state contribution to health insurance funding, as presented in the amount of \$57,714,000.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Stuart Levine, seconded by James Bruner, it was resolved:

To certify the \$10,850,000 increase in unfunded liability resulting from the state employee early retirement incentive and the \$1,684,000 state contribution that will be required each year from FY2005 through FY2013, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended June 30, 2003 and the final reports for the FY03 lapse period of July 1, 2003 to August 31, 2003 were sent to the trustees for review on file. The reports are on file. On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To approve the administrative expenses for the quarter ended June 30, 2003, as presented.

Minutes – Board Meeting
October 31, 2003
Page 9

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Cash Flow Projections

Director Bauman provided an update on TRS' long-term cash flow situation for FY2003, projected FY2004, and projections through FY2010, including effects of POB debt service. Documentation is on file. Discussion followed.

Medicare Referendum

Nick Yelverton, Government Affairs Officer, provided an update on the Medicare only referendum. Documentation is on file. The Illinois Social Security Administrator and representatives from Social Security indicate that this will be the largest Medicare only referendum held in the last 40 years.

Securities Litigation Legal Services RFP

Tom Gray, General Counsel, reported that the securities litigation subcommittee met on October 23 and selected the following firms for the Board to interview at the December Board meeting:

- Bernstein Liebhart & Lifshitz and the Lakin Law Firm (joint proposal)
- Entwistle & Cappucci
- Kirby McInerney & Squire; Carroll & Sain; Futterman & Howard (joint proposal)
- Bernstein Litowitz Berger & Grossman

The Board received copies of the RFP responses of these firms.

Miscellaneous Reports

The following reports are on file.

- EEOC Report for the quarter ending September 30, 2003
- Member Services Statistical Report for the period ending August 31, 2003

EXECUTIVE SESSION

A motion was made by Phillip Schmidt, seconded by James Bruner, 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 the 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) and 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

No action was taken during executive session. A motion was made by Sharon Leggett, seconded by Stuart Levine, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

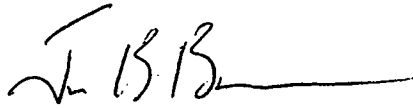
A draft of the August 15, 2003 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To approve the minutes of the August 15, 2003 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Glennon, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

ADJOURNMENT

The meeting adjourned upon conclusion of the executive session meeting at 11:50 a.m.



Jon Bauman, Executive Director

Approved 12/12/03



Teachers' Retirement System of the State of Illinois

MINUTES

Board of Trustees

December 11-12, 2003

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 11-12, 2003 at the Holiday Inn Chicago City Centre, 300 East Ohio Street, Chicago, Illinois. James Bruner called the meeting to order at 2:30 p.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President (12/12/03)
James Bruner
Jan Cleveland
Cinda Klickna
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen

Absent: Dr. Robert Schiller, President (12/11/03)
Phillip Schmidt, Vice President

TRS Staff:

Jon Bauman, Executive Director
Tom Gray, General Counsel
Ruby Reynolds Taylor, Chief Operating Officer
Stan Rupnik, Director of Investments
Gina Larkin, Director of Human Resources
Stacy Smith, Internal Audit Manager
John Day, Communications Advisor
Nick Yelverton, Government Affairs Officer
Mike Bartletti, Director of Real Estate
Scott Parrish, Investment Officer
Scottie Bevill, Investment Officer
Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Investment Consultant:

Gordon Dickinson, Callan Associates
Kevin Dolsen, Callan Associates

Visitors:

Bob Lyons, IRTA Rep.
Silvija Martincevic, IRTA Rep.

Kathy Stevenson, Northern Trust
Robert Libertini, Cabrera Capital

NEW BUSINESS

Retreat Agenda

Director Bauman proposed an agenda for the Board Retreat to be held April 1-2, 2004 at the Rend Lake Resort. Documentation is on file.

OMB Actuarial Review

Director Bauman reported that the Office of Management and Budget (OMB) issued a Request For Proposals (RFP) for actuarial services. An analysis of the deliverables under the RFP is on file along with a list of firms that have submitted bids for this project. Staff will keep the Board updated.

EXECUTIVE DIRECTOR'S REPORT

Updates

Nick Yelverton, Government Affairs Officer, provided an update on the Medicare only referendum. December 19th is a tentative date that Governor Blagojevich plans to sign the proclamation. The ballots and TRS materials will be sent to eligible participants on February 9, 2004. The voting period will conclude on May 15, 2004. The Board received copies of the TRS Medicare brochure and a schedule of the Medicare referendum regional meetings. Documentation is on file. Additional information is included on the TRS Web site.

Ruby Reynolds Taylor, Chief Operating Officer, reported that staff has formed a standing committee that will conduct a detailed review of the Pension Code as it applies to TRS. The project is scheduled to be complete in mid-April. Documentation is on file. Ms. Reynolds Taylor also provided an update on the progress of removing social security numbers from the Trustee Election Petition and from various correspondence sent to members due to recent events involving identity theft. Documentation is on file.

Member Services Statistical Report

The report for the period ending October 31, 2003 is on file.

Retirement

Director Bauman announced that John Thompson, the System's actuary, is retiring at the end of the year from Mellon Human Resources & Investor Solutions (formerly known as Buck Consultants). The Board requested that staff send a letter to Mr. Thompson expressing TRS's appreciation for his contributions.

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 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) and 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, and Phalen. Motion CARRIED.

No action was taken during executive session. A motion was made by Cynthia O'Neill, seconded by Sharon Leggett, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, and Phalen. Motion CARRIED.

RECESS

The meeting recessed at 4:45 p.m. and reconvened the following day at 8:05 a.m.

Roll call: Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller.

APPROVAL OF MINUTES

A draft of the minutes from the October 31, 2003 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Cynthia O'Neill, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Watch List

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

To approve the watch list, as revised.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Interim Targets

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

To accept the asset allocation interim targets as presented effective 1/1/04.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

PIMCO Fee Structure

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

To approve the new PIMCO fee structure for the fixed income core plus account as presented to take effect January 1, 2004.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

MatlinPatterson

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

To invest \$50 million in MatlinPatterson Global Opportunities Fund II, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account. Also, to invest an additional \$15 million in MatlinPatterson Global Opportunities Fund II, L.P. for the POB account. Source of funds will be the POB domestic equity passive index fund.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Hopewell

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

To invest 10% of the total private commitments, up to \$10 million, in Hopewell Ventures, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Walton Street – POB Real Estate Program

On a motion by Cinda Klickna, seconded by Stuart Levine, it was resolved:

To invest \$25 million in Walton Street IV as an initial investment in the POB Real Estate Program. Source of funds will be the POB passive accounts.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Watch List Policy

On a motion by Sharon Leggett, seconded by James Bruner, it was resolved:

To approve the watch list policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

Executive Director's Employment Agreement

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

To amend the Executive Director's Employment Agreement, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Chair of Audit Committee

On a motion by Sharon Leggett, seconded by James Bruner, it was resolved:

To elect Cynthia O'Neill as Chair of the Audit Committee.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

Trustee Appreciation – John Glennon

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

WHEREAS, John Glennon has served as a member of the Board of Trustees since his appointment in 2001, and

WHEREAS, John has graciously shared his intellect, imagination and considerable experience in the investment community; and

WHEREAS, he was among the very first to suggest the issuance of pension obligation bonds as a means improving the System's funded status; and

WHEREAS, he played a prominent role in developing the charter of the Audit Committee, serving as its initial chair, exerting a strong guiding influence, and implementing procedures to assure appropriate oversight of financial, compliance, and internal control issues; and

WHEREAS, John chaired a subcommittee dedicated to improving the System's relationships with all segments of the Illinois financial community, with the result that the System's commitment to minority and female managers and brokers is demonstrable and productive; and

WHEREAS, John served as a member of the Legislative and Claims Hearings Committees, providing much welcomed guidance and input; and

WHEREAS, John's service and participation on this Board is appreciated and valued; therefore be it

RESOLVED, By the Board of Trustees of the Teachers' Retirement System of the State of Illinois that we extend our congratulations and sincere appreciation to John Glennon for his dedicated service as a member of the Board of Trustees.

Motion passed by a unanimous voice vote.

AUDIT COMMITTEE-Cynthia O'Neill, Chair

Chair O'Neill noted that the Internal Audit Manager reported on the internal audits and upcoming real estate audit.

SENATE HEARING

President Schiller announced that on December 8th, he and Director Bauman addressed the Senate Select Committee on Pension Investments regarding minority-owned firms in the TRS investment program. Following the presentation, the Senate Committee made three recommendations to TRS.

- 1) Establish a policy for utilization of minority/female brokerage and manager firms with measurable goals;
- 2) In reporting of brokerage commissions that both the executing and clearing broker be properly reported to the System;
- 3) Appoint a trustee to oversee the utilization of minority firms in asset management and brokerage.

Discussion followed. Staff plans to report back to the Senate Committee in March.

Ethics Law Presentation

Jim Morphey of the Sorling Law Firm provided an educational presentation on the recent passage of ethics legislation and its impacts on the Board and staff. Discussion followed. Tom Gray, General Counsel, will prepare a compliance memorandum for the Board.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended September 30, 2003 were sent to the trustees for review. The reports are on file. On a motion by Molly Phalen, seconded by Cinda Klickna, it was resolved:

To approve the administrative expenses for the quarter ended September 30, 2003, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES


A draft of the October 31, 2003 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, it was resolved:

To approve the minutes of the October 31, 2003 executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schiller. Motion CARRIED.

ADJOURNMENT

On a motion by Molly Phalen, seconded by Cynthia O'Neill, and by unanimous vote, the meeting adjourned at 10:00 a.m.



Jon Bauman, Executive Director

Approved 2/20/04



Teachers' Retirement System of the State of Illinois

MINUTES

**Board of Trustees
February 20, 2004**

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on February 20, 2004 at the Springfield office, 2815 West Washington Street. Robert Schiller, President, called the meeting to order at 8:10 a.m. A quorum was present.

Present: **Board Members:**

Dr. Robert Schiller, President (departs 9:40; arrives 10:30;
departs 11:40)

Phillip Schmidt, Vice President

James Bruner (departs 11:35)

Jan Cleveland

Cinda Klickna

Sharon Leggett

Stuart Levine

Cynthia O'Neill

Molly Phalen

TRS Staff:

Jon Bauman, Executive Director

Ruby Reynolds Taylor, Chief Operating Officer

Stan Rupnik, Director of Investments

Tom Gray, General Counsel

Cynthia Fain, Senior Assistant General Counsel

Kathleen Farney, Director of Research

Stacy Smith, Internal Audit Manager

Lori Dour, Internal Auditor

Nick Yelverton, Government Affairs Officer

Tammy Green, Admin. Coordinator – Executive

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Visitors:

Bob Lyons, IRTA Rep.
 Gilbert Deimel, IRTA Rep.
 Jack Tucker, IEA-R

Marilyn Hall, IRTA Rep.
 Rich Frankenfeld, IEA

PUBLIC COMMENTS

Bob Lyons, IRTA Representative, announced that IRTA has hired Jim Bachman as its new Executive Director.

APPROVAL OF MINUTES

A draft of the minutes from the December 11-12, 2003 Board meeting was sent to the trustees for prior review. On a motion by Stuart Levine, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

Drafts of the minutes from the October 23 and November 25, 2003 Securities Litigation Subcommittee meetings were sent to the trustees for prior review. This subcommittee has completed its work. On a motion by Molly Phalen, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Watch List

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To approve the watch list, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion **CARRIED**.

MFS - Termination

On a motion by Jan Cleveland, seconded by Phillip Schmidt, it was resolved:

To terminate the MFS large cap growth portfolio. Assets from this portfolio will be transitioned into S&P 500 Index Funds (managed by State Street Global Advisors in the main TRS trust fund and Northern Trust Global Investments in the POB account), pending completion of a large cap growth manager search.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Absolute Return Strategy

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

To allocate 1% of the main TRS account to an absolute return strategy. Investment in the asset class will be made through the hiring of 2-4 hedge fund-of-funds managers identified in a comprehensive manager search. Source of funds shall be the domestic equity large cap passive index fund.

Roll call resulted in affirmative voice votes from Trustees Bruner, Klickna, Leggett, Levine, Schmidt, and Schiller. Votes of opposition were heard from Trustees Cleveland, O'Neill, and Phalen. Motion CARRIED.

Brandes IMA Revision

On a motion by Molly Phalen, seconded by Phillip Schmidt, it was resolved:

To accept the Brandes Investment Partners, L.P., Appendix B: Investment Parameters revision, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Fixed Income Core Managers

On a motion by Cynthia O'Neill, seconded by Molly Phalen, it was resolved:

To hire two firms: Taplin, Canida, and Habacht and LM Capital Management as fixed income core managers, each at 2.5% of the fixed income asset class of the main TRS trust fund and 2.5% each for the mandate of the fixed income POB account. In addition, within the Investment Policy, the strategic targets for the passive State Street Lehman Aggregate Index fund and the POB Northern Trust Global Investments Lehman Aggregate fund will be reduced to 12.5% of the fixed income asset class in the main TRS trust fund and the POB fixed income fund from 15.0%, respectively.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Carlyle Strategic Partners

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

To allocate \$25 million in Carlyle Strategic Partners, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account. Also, to invest an additional \$15 million in the Carlyle Strategic Partners, L.P., for the POB account. Source of funds will be the POB passive index funds.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Merit Capital Partners

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

To allocate \$50 million in Merit Mezzanine Fund IV, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account. Also, invest an additional \$10 million in the Merit Mezzanine Fund IV, L.P., for the POB account. Source of funds will be the POB passive index funds.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Commonwealth Realty Advisors

On a motion by Cinda Klickna, seconded by Stuart Levine, it was resolved:

To allocate \$100 million to Commonwealth Realty Advisors, Inc. to be invested in the vintage real estate core portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

On a motion by Cynthia O'Neill, seconded by Jan Cleveland, it was resolved:

To allocate \$120 million to Commonwealth Realty Advisors, Inc. to be invested in the POB real estate core portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Koll Bren Schreiber Realty Advisors

On a motion by Phillip Schmidt, seconded by Sharon Leggett, it was resolved:

To allocate \$75 million to Koll Bren Schreiber Realty Advisors to be invested in the vintage real estate specialty portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

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

To allocate \$50 million to Koll Bren Schreiber Realty Advisors to be invested in the POB real estate specialty portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LPC Realty Advisors

On a motion by Phillip Schmidt, seconded by Cynthia O'Neill, it was resolved:

To allocation of \$50 million to LPC Realty Advisors I, Ltd. to be invested in the POB real estate specialty portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Stone-Levy

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

To allocate \$35 million to Stone-Levy to be invested in the POB real estate specialty portfolio.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

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

The Teachers' Retirement System Board of Trustees takes the following positions on legislation that has been introduced into the 93rd General Assembly.

House Bill 3962	Cap the amount of liability of the State on annuities based on salary increases that exceed specified thresholds	Oppose
House Bill 4013	Increase out-of-state service to 15 yrs	Oppose
House Bill 4749	Tax annuities over \$40,000	Oppose
House Res. 629	Repeal the Windfall Elimination Provision and the Government Pension Offset	Support
Senate Bill 2303	Private school credit for non-certified employment	Oppose
Senate Bill 2826	TRS Board elect President	Support

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

RULES AND PERSONNEL COMMITTEE-*Stuart Levine, Chair*

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

To approve the proposed amendments to TRS Administrative Rules, *Section 1650.1010, Petitions*, and to

approve a new administrative rule, *Section 1650.416
Optional Increase in Retirement Annuity—1%
Contribution Reduction.*

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

AUDIT COMMITTEE REPORT-Cynthia O'Neill, Chair

On a motion by Sharon Leggett, seconded by Phillip Schmidt, it was resolved:

To remove "Class Action Litigation" from the TRS FY04 Internal Audit Plan to allow more time to the Investment Management Fees audit.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

CLAIMS HEARING COMMITTEE REPORT-Sharon Leggett, Chair

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To adopt the proposed decision recommended by the Administrative Review Claims Hearing Committee in the matter of Thomas Schuerman.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

NEW BUSINESS

Securities Litigation Counsel Interviews

The Securities Litigation Subcommittee selected six securities litigation law firms to make presentations to the Board. The firms hired will provide

securities fraud monitoring and litigation services. The Board interviewed the following firms. Documentation is on file.

- Barrack Rodos & Bacine
- Bernstein Libhard & Lifshitz/Lakin Law Firm
- Bernstein Litowitz Berger & Grossman
- Entwistle & Cappucci
- Kirby McInerney & Squire; Carroll & Sain; and Futterman & Howard
- Lovell Stewart Halebian & Barth

RECESS

The meeting recessed at 10:30 a.m. and reconvened at 10:40 a.m.

Following the interviews, the Board held discussion with outside general counsel. The Board concurred that they are free to hire firms in addition to those selected today in the event a particular situation so requires. On a motion by Molly Phalen, seconded by James Bruner, it was resolved:

To hire the following law firms to provide securities fraud monitoring and litigation services: Barrack Rodos & Bacine; Bernstein Libhard & Lifshitz/Lakin Law Firm; Bernstein Litowitz Berger & Grossman; Lovell Stewart Halebian & Barth.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Jon Bauman, Executive Director, presented the Director's report.

FY05 Budget

Director Bauman provided a staff analysis of the Governor's FY2005 budget message and reported that TRS will receive 86% of the certified contribution for FY05 (\$778 million). Documentation is on file. The trustees expressed concerns regarding the budget proposal and the effect of the reduced contribution on the System's unfunded liability.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended December 31, 2003 were sent to the trustees for review. The reports are on file. Director Bauman reported that assets exceed \$30 billion. On a motion by Cynthia O'Neill, seconded by Sharon Leggett, it was resolved:

To approve the administrative expenses for the quarter ended December 31, 2003, as presented.

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

Mellon Human Resources & Investor Solutions

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

To extend the actuarial services contract with Mellon Human Resources & Investor Solutions (formerly Buck Consultants) for one year under the same terms as fiscal year 2004.

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

Amendments to Board of Trustees Policy Manual

Tom Gray, General Counsel, proposed revisions to the Board Manual to ensure Board compliance with the requirements of the newly enacted State Officials and Employees Ethics Act. Documentation is on file. Staff will mail letters to investment managers and brokers regarding the Act. On a motion by Cinda Klickna, seconded by Phillip Schmidt, it was resolved:

To approve the amendments to the Board of Trustees Policy Manual, as amended.

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

Miscellaneous Reports

The following reports are on file.

- EEOC Report for the quarter ending December 31, 2003
- Member Services Statistical Report for the period ending December 31, 2003
- Employer Services Report for the period July 16, 2003 through January 6, 2004

APPROVAL OF EXECUTIVE SESSION MINUTES

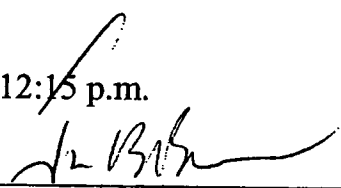
A draft of the December 11, 2003 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Stuart Levine, seconded by Cinda Klickna, it was resolved:

To approve the minutes of the December 11, 2003 minutes of the executive session meeting of the Board, as printed.

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


ADJOURNMENT

The meeting adjourned meeting at 12:15 p.m.



 Jon Bauman, Executive Director

Approved 4/2/04



Teachers' Retirement System of the State of Illinois

MINUTES
Board of Trustees
April 2, 2004

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on April 2, 2004 at the Rend Lake Resort, Whittington, Illinois. Phillip Schmidt, Vice President, called the meeting to order at 12:45 p.m. A quorum was present.

Present: **Board Members:**

Phillip Schmidt, Vice President
James Bruner
Jan Cleveland
Cinda Klickna
Sharon Leggett
Cynthia O'Neill

Absent: Dr. Robert Schiller, President
Stuart Levine
Molly Phalen

Present: **TRS Staff:**

Jon Bauman, Executive Director
Stan Rupnik, Director of Investments
Mike Bartletti, Director of Real Estate
Gina Larkin, Director of Human Resources
Kathleen Farney, Director of Research
Tom Gray, General Counsel
Cynthia Fain, Senior Assistant General Counsel
Terry Viar, Director of Member Services
John Day, Communications Advisor
Stacy Smith, Internal Audit Manager
Tammy Green, Asst. to the Exec. Director

Outside Counsel:

Steve Loren, Gardner, Carton & Douglas

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Visitors:

Bob Lyons, IRTA Rep.
 Gail Borton, IRTA Rep.
 Doris Heaton, IRTA Rep.
 Earlene Bullock, IRTA Rep.
 Gary Threw, IRTA Rep.
 Marilyn Morris, IRTA Rep.
 Wayne Dunn, IRTA Rep.

Elizabeth Bourland, IRTA Rep.
 Rosa Lee Plunkett, IRTA Rep.
 Sharon Petry, IRTA Rep.
 Thelma Peirson, IRTA Rep.
 Mary Ruth Witter, IRTA Rep.
 Betty VanWinkle, IRTA Rep.

APPROVAL OF MINUTES

A draft of the minutes from the February 20, 2004 Board meeting was sent to the trustees for prior review. On a motion by James Bruner, seconded by Jan Cleveland, and by unanimous voice vote, the minutes were approved as printed.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Investment Policy Revision

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

To accept the revision (Section XXI) to the TRS Investment Policy, as revised.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

Soft Dollars

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To accept the revision to the TRS directed brokerage program, as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

Minutes – Board Meeting
April 2, 2004
Page 3

Draper Fisher Jurvetson

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To invest \$25 million in Draper Fisher Jurvetson Metafund, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account. Also invest an additional \$15 million in Draper Fisher Jurvetson Metafund, L.P., for the POB account. Source of funds will be the POB passive index funds.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

Hispania Capital Partners

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

To invest \$5 million in USHCC Private Equity Fund, L.P., subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS Cash Flow account.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

Thayer Lodging Group

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To invest \$15 million for the POB account in Thayer Hotel Investors IV, L.P. plus the System's proportionate share of the Trust's formation expenses and the System's proportionate share of the management fees to the extent that cash flow is unable to support payment during the Commitment Period.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

Cash Requirements

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To withdraw up to 1.0 percent of the fund's total value from the State Street Global Advisors passive index accounts in April and May as necessary to fund cash requirements.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by Cinda Klickna, seconded by Cynthia O'Neill, it was resolved:

To support Senate Resolution 476 – Repeal Windfall Elimination Provision (WEP) and the Government Pension Offset (GOP), as presented.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

The POB fund as of March 31, 2004 is approximately \$5 billion. Total fund value at the end of February: \$31.3 billion.

Director Bauman reported that ISBI has requested that TRS join them to take proxy action against Safeway. TRS holds no voting shares of Safeway in actively managed accounts so we are not in a position to take a proxy action.

It was consensus of the Board to have The Segal Company proceed with a project that was initiated last year. Based on Segal's studies that found support among members and employers for a TRS-sponsored supplemental

defined contribution plan, the Board directed staff to have Segal formally study the feasibility of implementing such a plan.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Cynthia O'Neill, 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; sale or purchase of securities, investments, or investment contracts; probable or imminent litigation; discussion of closed meeting minutes; and the semi-annual review of minutes of closed meetings, 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)(7), 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

No action was taken during executive session. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the February 19, 2004 minutes of the executive session meeting of the Investment Committee was sent to the trustees for prior review. On a motion by Jan Cleveland, seconded by Cinda Klickna, it was resolved:

To approve the minutes of the February 19, 2004 minutes of the executive session meeting of the Investment Committee, as printed.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

A copy of a memorandum from the System's Legal Department regarding the confidentiality of executive session minutes according to the Open Meetings Act was sent to the trustees for prior review. On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

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

December 17, 2001 Rules & Personnel
October 29, 2002 Board
February 5&7, 2003 Board
May 23, 2003 Board
June 10, 2003 Board
August 15, 2003 Board

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Klickna, Leggett, O'Neill, and Schmidt. Motion CARRIED.

ADJOURNMENT

The meeting adjourned meeting at 2:14 p.m.



Jon Bauman, Executive Director

Approved 5/25/04



Teachers' Retirement System of the State of Illinois

MINUTES
Board of Trustees
May 25, 2004

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 25, 2004 at the Springfield office, 2815 West Washington Street. Robert Schiller, President, called the meeting to order at 12:26 p.m. A quorum was present.

Present: **Board Members:**

James Bruner, Chair
Tony Abboud
Jack Carriglio
Jan Cleveland
Cinda Klickna
Sharon Leggett
Stuart Levine
Cynthia O'Neill
Molly Phalen
Phillip Schmidt
Dr. Robert Schiller, President (departs 12:40 p.m.)

Present: **TRS Staff:**

Jon Bauman, Executive Director
Stan Rupnik, Director of Investments
Mike Bartletti, Director of Real Estate
Kathleen Farney, Director of Research
Nick Yelverton, Director of Government Affairs
Tom Gray, General Counsel
Cynthia Fain, Senior Assistant General Counsel
Terry Viar, Director of Member Services
John Day, Communications Advisor
Stacy Smith, Internal Audit Manager
Lori Dour, Internal Auditor
Tammy Green, Asst. to the Exec. Director

Fiduciary Counsel

Bill Cavanagh, Cavanagh & O'Hara

Minutes – Board Meeting
 May 25, 2004
 Page 2

Visitors:

Jack Tucker, IEA-R
 Jana Schreuder, Northern Trust
 Kevin Rochford, Northern Trust
 Bob Lyons, IRTA Rep.

Sylvia Herzog, IRTA Rep.
 Gil Deimel, IRTA Rep.

PUBLIC COMMENTS

Bob Lyons, IRTA Rep., announced that James Bachman is the new IRTA Director.

APPROVAL OF MINUTES

A draft of the minutes from the April 2, 2004 Board meeting was sent to the trustees for prior review. On a motion by Stuart Levine, seconded by Sharon Leggett, and by unanimous voice vote, the minutes were approved as printed.

RULES AND PERSONNEL COMMITTEE REPORT-*Stuart Levine, Chair*

Standing Committees 2004-2005

Vice President

Discussion was held regarding the positions of Vice President and Investment Committee Chair. On a motion by Stuart Levine, seconded by Tony Abboud, it was resolved:

To elect Phillip Schmidt as Vice President of the Board for fiscal year 2005.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Levine, Schmidt, and Schiller. Votes of opposition were heard from Trustees Phalen, O'Neill, Leggett, Cleveland, and Klickna. Motion CARRIED.

Investment Committee Chair

On a motion by Stuart Levine, seconded by Phillip Schmidt, it was resolved:

To elect James Bruner as Investment Committee Chair.

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

To elect Cynthia O'Neill as Investment Committee Chair

Roll call was taken on the first motion. Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Levine, Schmidt, and Schiller. Votes of opposition were heard from Trustees Phalen, O'Neill, Leggett, Cleveland, and Klickna. Motion CARRIED.

Legislative Committee Chair

On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

To elect Jan Cleveland as Legislative Committee Chair.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Audit Committee Chair

On a motion by Sharon Leggett, seconded by Stuart Levine, it was resolved:

To elect Cynthia O'Neill as Audit Committee Chair.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Rules and Personnel Committee Chair

On a motion by Phillip Schmidt, seconded by Tony Abboud, it was resolved:

To elect Stuart Levine as Rules and Personnel Committee Chair.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Claims Hearing Committee Chair

On a motion by Stuart Levine, seconded by Jan Cleveland, it was resolved:

To elect Sharon Leggett as Claims Hearing Committee Chair.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, Schmidt, and Schiller. Motion CARRIED.

Committees

On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To approve the following committee slates:

Legislative: Cleveland, Klickna, O'Neill, Phalen, Abboud

R&P: Levine, Leggett, Schmidt, O'Neill, Carriglio

Claims: Leggett, Bruner, Klickna, Phalen

Audit: O'Neill, Bruner, Leggett, Levine, Cleveland

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

TRS Rule 1650.310

On a motion by Stuart Levine, seconded by Cynthia O'Neill, it was resolved:

To authorize staff to promulgate the proposed amendment to TRS Rule 1650.310, Effective Date of Membership, to clarify the methodology for calculating interest on private school optional service purchases.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

EXECUTIVE SESSION

A motion was made by James Bruner, seconded by Cynthia O'Neill, 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; sale or purchase of securities, investments, or investment contracts; probable or imminent

Minutes – Board Meeting
 May 25, 2004
 Page 5

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)(7), 5 ILCS 120/2(c)(11), and 5 ILCS 120/2(c)(21). Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

No action was taken during executive session. A motion was made by James Bruner, seconded by Cinda Klickna, that the Board come out of executive session. Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

LEGISLATIVE COMMITTEE REPORT-*Jan Cleveland, Chair*

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To support Senate Bill 3002 (as amended) that provides a set of health insurance benefits for retired teachers.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

AUDIT COMMITTEE REPORT-*Cynthia O'Neill, Chair*

On a motion by Cynthia O'Neill, seconded by Cinda Klickna, it was resolved:

To approve the Audit Committee Charter as presented.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

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

To accept the fiscal year 2005-06 Internal Audit Plan as presented.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

INVESTMENT COMMITTEE REPORT-*James Bruner, Chair*

Cash Requirements

On a motion by Jan Cleveland, seconded by Cynthia O'Neill, it was resolved:

To withdraw up to 1.0 percent of the fund's total value from the State Street Global Advisors passive index accounts, as necessary, to fund cash requirements.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Great Lakes Advisors

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To allocate POB proceeds (approximately \$13 million) to Great Lakes Advisors.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Watch List

On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To approve the watch list, as presented.

Minutes – Board Meeting
May 25, 2004
Page 7

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Private Equity Tactical Plan

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To adopt the Private Equity Tactical Plan, as presented.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Real Estate Insurance Consultant

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To retain Risk Resources as the System's real estate insurance consultant for a three-year period of July 1, 2004 through June 30, 2007.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Israel Bond

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To purchase a \$5 million in ten-year floating coupon Government of Israel note in the TRS main fund. Source of funds will be the Fixed Income Transition account based on the 6/30/04 note maturity proceeds. Additionally, to purchase a \$3 million in ten-year floating coupon Government of Israel note in the TRS POB account. Source of funds will be the NTGI Lehman Aggregate Index account, with the bond housed in the Fixed Income Transition account.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Investment Policy Revision

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To accept the revisions to the Investment Policy, as presented.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, O'Neill, Phalen, and Schmidt (Trustee Levine was not present during roll call) Motion CARRIED.

Turner Investment Partners

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To hire Turner Investment Partners as a large cap growth core manager to manage 2.4 percent of the domestic equity portfolio in both the main TRS trust fund and the POB account, or approximately \$365 million in aggregate.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Sands Capital Management

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To hire Sands Capital Management as a non-benchmark sensitive large cap growth manager to manage 2.4 percent of the domestic equity portfolio in both the main TRS trust fund and the POB account, or approximately \$365 million in aggregate.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Holland Capital Management

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To reallocate 1 percent of the total domestic equity asset class (including the POB account), or approximately \$150 million, from the Geewax Terker large cap growth portfolio to the Holland Capital Management large cap growth portfolio.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

JER Real Estate Partners III

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To invest \$60 million in JER Real Estate Partners III, L.P. (Fund III) for investment within the TRS Main Trust Fund and \$25 million for investment within the POB account subject to satisfactory completion of contract and fee negotiation. Source of funds will be \$60 million from TRS cash flow and \$25 million from the POB passive index accounts.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

OCM Opportunities Fund V, L.P.

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To invest up to \$50 million in OCM Opportunities Fund V, Limited Partnership subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS cash flow.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Reliant Equity Partners

On a motion by James Bruner, seconded by Cinda Klickna, it was resolved:

To invest \$10 million in Reliant Equity Partners, Limited Partnership subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS cash flow.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Carriglio, Cleveland, Klickna, Leggett, Levine, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Illinois Emerging Technologies Fund, L.P.

On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To invest \$2 million plus accumulated interest in Illinois Emerging Technologies Fund, Limited Partnership subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS cash flow.

Discussion followed. Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, and Schmidt. Votes of opposition were heard from Trustees Phalen and O'Neill. Motion CARRIED.

Prism Mezzanine Fund, L.P.

On a motion by James Bruner, seconded by Sharon Leggett, it was resolved:

To invest \$10 million in Prism Mezzanine Fund, Limited Partnership subject to satisfactory completion of contract and fee negotiations. Source of funds shall be TRS cash flow.

Minutes – Board Meeting
May 25, 2004
Page 11

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Capri/Capital Advisors, LLC

On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To allocate an additional \$100 million to Capri/Capital Advisors, LLC to be invested in the Main Trust Fund real estate core portfolio. Source of funds shall be TRS cash.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Trustee Abboud abstained. Motion CARRIED.

On a motion by James Bruner, seconded by Stuart Levine, it was resolved:

To allocate \$120 million to Capri/Capital Advisors, LLC to be invested in the POB real estate core account. Source of funds shall be the POB passive index accounts.

Roll call resulted in affirmative voice votes from Trustees Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Trustee Abboud abstained. Motion CARRIED.

POB Cash Request

On a motion by James Bruner, seconded by Molly Phalen, it was resolved:

To transfer \$294 million from the S&P 500 index account to TRS main fund cash account during FY05 at the discretion of the Director of Investments.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Delaware International Advisors

On a motion by James Bruner, seconded by Jan Cleveland, it was resolved:

To consent to the transaction of Delaware International's change in ownership structure.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

OLD BUSINESS

Medicare Referendum Results

Nick Yelverton, Director of Government Affairs, presented the results of the Medicare referendum. Documentation is on file. There was an approximate 50% response of the 28,800 ballots that were mailed in February. Mr. Yelverton commended staff for conducting the largest divided coverage Medicare referendum held in the country. (Applause)

NEW BUSINESS

FY2005 Budget & Contracts > \$50,000

Trustee Bruner excused himself during discussion of the budget. He indicated that he is a stockholder and director of an entity scheduled to receive a contract for services of less than \$10,000 in the FY05 budget, as such, he will abstain from deliberations and voting on the budget.

The proposed budget and contracts over \$50,000 were sent to the trustees for review. The proposed budget represents a nine percent increase over the FY2004 total budget. The increase is primarily driven by costs for a new telephone system, increased healthcare costs, a Board election, and contractual programmers. On a motion by Molly Phalen, seconded by Stuart Levine, it was resolved:

To approve the FY2005 administrative budget and listing of contracts over \$50,000 as presented.

Minutes – Board Meeting
May 25, 2004
Page 13

Roll call resulted in affirmative voice votes from Trustees Abboud, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Strategic Plan Accomplishments

Cynthia Fain, Sr. Assistant General Counsel, and Kathleen Farney, Director of Research, updated the Board on the accomplishments during the first year of the strategic plan. Documentation is on file.

2004-05 Meeting Calendar

The proposed Investment Committee/Board meeting calendar for FY2005 was sent to the trustees for review. On a motion by Stuart Levine, seconded by Sharon Leggett, it was resolved:

To approve the proposed FY2005 Investment Committee/Board meeting calendar as presented: Aug. 9-10, 2004 Chicago; October 28-29 Springfield; Dec. 9-10 Chicago; January 28, 2005 Stakeholder Forum; Feb. 17-18 Springfield; April 7-8 Retreat; and May 19-20 Springfield.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Securities Litigation

At the February meeting, the Board selected four securities litigation law firms to potentially represent the System in the event the System elects to serve as lead plaintiff in a particular securities class action lawsuit. Director Bauman reported that at that time the Securities Litigation Subcommittee was considering the Milberg Weiss Law Firm but was waiting for the results of that firm's reorganization. Now that the reorganization is complete, a motion was made by James Bruner, seconded by Jan Cleveland, to:

Add the Milberg Weiss/Freeborn & Peters securities litigation team to the securities litigation preferred provider list.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

Governor's Pension Commission Update

Director Bauman provided an update on the on the activities of the Governor's Pension Commission on the future of pension financing. A copy of the interim draft report is on file.

Financial Statement and Administrative Expenses

The financial statement and administrative expenses for the quarter ended March 31, 2004 were sent to the trustees for review. The reports are on file. On a motion by James Bruner, seconded by Cynthia O'Neill, it was resolved:

To approve the administrative expenses for the quarter ended

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

Miscellaneous Reports

The following reports are on file.

- EEOC Report for the quarter ending March 31, 2004
- Member Services Statistical Report for the period ending April 30, 2004

Director Bauman reported to date 4,300 members have elected to retire.

A special investment/board meeting is scheduled in Chicago on July 21 to discuss investments and legislation.

Director Bauman reported that staff met with The Segal Company regarding the possibility of a TRS-sponsored supplemental savings plan and the future timeline of this project. Documentation is on file.

APPROVAL OF EXECUTIVE SESSION MINUTES

A draft of the April 2, 2004 minutes of the executive session meeting of the Board was sent to the trustees for prior review. On a motion by Cinda Klickna, seconded by Jan Cleveland, it was resolved:

To approve the minutes of the April 2, 2004 minutes of the executive session meeting of the Board, as printed.

Roll call resulted in affirmative voice votes from Trustees Abboud, Bruner, Cleveland, Carriglio, Levine, Klickna, Leggett, O'Neill, Phalen, and Schmidt. Motion CARRIED.

ADJOURNMENT

On a motion by Jan Cleveland, seconded by Sharon Leggett, the meeting adjourned meeting at 3:25 p.m.



Jon Bauman, Executive Director

Approved 8/10/04