



MINUTES

**Annual Meeting of the Board of Trustees of the
State Universities Retirement System
8:30 a.m., Thursday, June 11-12, 2009
Northern Trust – London Room B9
50 S. LaSalle Street
Chicago, Illinois**

The following Trustees were present: Mr. Mitchell Vogel (President), Mr. Mark Donovan, Mr. Michael Mackey, Dr. Alice Palmer, Mr. Antonio Vasquez, and Dr. Marva Williams.

Others present were: Ms. Judith A. Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Kelly A. Jenkins, General Counsel; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt, Senior Investment Officer; Ms. Lou Ann Fillingham and Mr. Tony Lee, Investment Officers; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Shelley Porter, Chief Financial Officer; Mr. Steve Hayward, Internal Auditor; Mr. Douglas Steele, Director of Applications Development & Research; Mr. Chris Hansen, Director of Operations; Ms. Angela Lieb, Director of Member Services; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Mr. Terrin Krantz, Director of Human Resources; Ms. Hanea Schluter and Ms. Lori Kern, Executive Assistants; Ms. Mary Patricia Burns, Burke, Burns & Pinelli; Ms. Leslie Thompson and Ms. Amy Williams, Gabriel, Roeder, Smith & Company; Ms. Amy Sproull, Mr. Dan Hynes, and Ms. Amy Bacich, The Northern Trust; Mr. Russell Ivinjack, Ms. Laurel Nicholson, and Mr. Mike Comstock, Ennis Knupp + Associates; Mr. Dick Johnson and Ms. Linda Brookhart, SUAA; Ms. Carrie Hightman, Illinois Board of Higher Education; and Mr. Thomas Kizziah, Office of the Auditor General; Mr. John Engstrom.

Mr. Mitchell Vogel called the meeting to order at 8:45 a.m. at the location set forth in the notice of the meeting.

PRESIDENT'S REPORT

Trustee Vogel introduced Ms. Carrie Hightman as the new Chairperson-designate of the Board of Trustees. Trustee Vogel welcomed Ms. Hightman to the Board meeting and briefly introduced each Trustee.

Roll call attendance was taken. Trustee Boardman, absent; Trustee Donovan, present; Trustee Mackey, present; Trustee Palmer, absent; Trustee Pizzuto, absent; Trustee Vasquez, present; Trustee Vogel, present; Trustee Williams, present.

On behalf of the Board of Trustees, Trustee Vogel read a letter that was written to the SURS consultants in order to express the Board's sincere appreciation for their work. Trustee Williams moved that the letter be adopted and presented to The Northern Trust, Ennis Knupp + Associates, and Gabriel Roeder Smith & Company. The motion was seconded and it carried.

Trustee Vogel introduced Ms. Judith Parker as the Interim Executive Director and mentioned that the Board was in the process of conducting a national search for an Executive Director. However, due to the passage of Public Act 96-0006, the Board decided to stop the search until the new Trustees were in place.

For the benefit of Ms. Hightman, each member of the staff introduced themselves described the work they do for SURS. Ms. Hightman also said a few words.

Trustee Mackey thanked Trustee Vogel for his leadership over the past few years.

EXECUTIVE DIRECTOR'S REPORT

Ms. Parker reported that she and Mr. Daniel Allen testified before the Senate Appropriations Committee and the House General Services Committee regarding the fiscal year 2010 annual certified contribution. The hearings went well. In addition, staff spent a great deal of time working on language proposals for a possible 2nd tier of benefits, initially SB 1292. The language as proposed would have been very problematic for SURS. SURS staff worked with staff from both the Speaker of the House's office as well as the Governor's office.

Ms. Parker thanked Gabriel, Roeder, Smith & Company for their quick response to the many requests for actuarial scenarios that were necessary in order for SURS to comment and participate in discussions concerning various funding proposals.

Public Act 96-0006, which became effective April 3, 2009, required that the Governor's appointments to the SURS Board be made by June 2, 2009. Ms. Parker reported that the Governor's office indicated that there is a provision in the language that allows the current Board to remain seated for 90 days, providing the Governor with another 30 days to make appointments. All of the new Trustees, elected and appointed, will be in place on July 1, 2009.

Ms. Parker reported that since SURS is holding an election, the Board will not need to hold a special meeting at the end of June in order to certify the new Trustees. The certification process only needs to take place in the event that an election is not necessary and the Trustees wish to certify the new Trustees based on the petition process.

However, a meeting is being organized for July 9-10, 2009, for the purpose of orientating the new Board.

GENERAL COUNSEL'S REPORT

Mr. Kelly Jenkins presented the General Counsel's FOIA report that is incorporated as a part of these Minutes as [Exhibit 1](#). Mr. Jenkins reported that the Sun Times recently requested data on SURS' members, including retirement benefit amounts. Mr. Jenkins expects that the newspaper will have a searchable database with this information available on their website. Ms. Burns added that the reporter also requested similar information from all of the city of Chicago and Cook County funds.

Mr. Jenkins directed the Board's attention to the new QILDRO rules. The rules will be before the Joint Committee on Administrative Review at their hearing next week. The rules are incorporated as a part of these Minutes as [Exhibit 2](#).

Mr. Jenkins presented the July 2009 Regulatory Agenda for approval ([Exhibit 3](#)). Mr. Jenkins noted that progress on the rulemaking schedule has been a bit delayed due to the time involved in drafting the emergency Board of Trustees Election rules and the vacancy of the Assistant General Counsel position towards the end of last year.

After review, Trustee Donovan moved that the July 1, 2009, Regulatory Agenda be approved as presented. The motion was seconded and it carried.

APPROVAL OF MINUTES

Trustee Vogel presented the Minutes from the March 9 and April 1, 2009, Executive Director Search Sub-Committee meetings, the Quarterly Board meeting of March 12-13, 2009, and the Board meeting of April 23, 2009. Trustee Vasquez moved to approve these Minutes. The motion was seconded and it carried.

TRAVEL APPROVAL FOR BOARD MEETINGS

In accordance with Public Act 96-0006, Trustee Donovan moved that Board trustee travel to attend the SURS Board of Trustees special meeting July 9-10, 2009, and the Council of Institutional Investors meeting October 1-2, and travel associated with the orientation of new Board members, be approved and that all resulting travel expenses allowable under the Board Travel Approval and Expense Reimbursement Policy be approved. The motion was seconded and it carried.

Ms. Burns reported that many pension funds are dealing with the issue of travel approval. A joint meeting is scheduled for this purpose on June 18, 2009.

RECESS

Trustee Vogel then recessed the meeting of the Board of Trustees.

RECONVENE

Trustee Vogel reconvened the meeting of the Board of Trustees at 3:45 p.m. on June 11, 2009.

CONTINUATION OF GENERAL COUNSEL'S REPORT

Mr. Jenkins reviewed a number of suggested changes to the Bylaws of the Board of Trustees. A redlined version of the Bylaws is incorporated as a part of these Minutes as [Exhibit 4](#).

Mr. Jenkins reported that since Public Act 96-0006 declares that SURS will have a Chairperson (instead of a President), all references to President in the Bylaws should be changed to Chairperson, and all references made to Vice-President should be changed to Vice-Chairperson. These changes will allow the Chairperson and Vice-Chairperson to assume the status of President or Vice-President as referred to in Statute.

Separately, at the request of the Board President, a revision has been included in order to establish a Corporate Governance Committee. Trustee Palmer moved that the proposed amendments to the Bylaws of the Board of Trustees changing references to the Board President to the Board Chairperson and related amendments be approved as presented and be effective July 1, 2009, and that Section 15.6 which establishes the Corporate Governance Committee be approved. The motion was seconded and it carried.

Public Act 96-0006 requires that all committees of a retirement board must have a majority of the members be members of the Board. Mr. Jenkins noted that only one of the three members of the SURS Claims Committee is a member of the Board. The Claims Committee is responsible for reviewing claims as a step in the administrative review process. The Claims Committee makes a recommendation to the Executive Committee on every case that comes before them. The Executive Committee's decision is the final step in the administrative review process. The recent law change prompted a review of the current practice, and Mr. Jenkins provided the Board with a few alternatives. The Board heard comments from Trustees Donovan and Williams who have both served on the Claims Committee.

After discussion Trustee Donovan moved that the proposed amendments to the Bylaws of the Board of Trustees eliminating the Claims Committee and establishing a Claims Panel and related amendments as presented shall be approved as presented, specifically, in summary:

- The Claims Panel will be an attorney hearing officer and the executive director, with an additional appointment by the Chairperson to be selected from (a) the membership of the Board; (b) a participant in SURS; or (c) an attorney licensed to practice law in the State of Illinois; and,

- A decision of two members of the Claims Panel is a final administrative decision of the Board unless a statement of exceptions is filed and the Executive Committee decides claims as appropriate.

The motion was seconded and it carried.

Mr. Jenkins directed the Board's attention to the proposed Administrative Rule Section 1600.500 Rules of Practice – Nature and Requirements of Formal Hearings ([Exhibit 5](#)). Mr. Jenkins stated that the previous conversation and action of the Board as it relates to the Claims Panel will require further revisions to the Rule. Trustee Donovan moved that the staff is authorized to file proposed amendments to 80 Ill. Admin. Code Section 1600.500 substantially as presented but in compliance with a decision making process consistent with the amendment to the Bylaws of the Board of Trustees previously adopted. The motion was seconded and it carried.

RECESS

Trustee Vogel then recessed the meeting of the Board of Trustees.

RECONVENE

Mr. Vogel reconvened the meeting of the Board of Trustees at 8:30 a.m. on June 12, 2009.

The following Trustees were present: Mr. Mitchell Vogel (President), Mr. Mark Donovan, Mr. Michael Mackey, Dr. Alice Palmer, Mr. Antonio Vasquez, and Dr. Marva Williams.

Others present were: Ms. Judith A. Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Kelly A. Jenkins, General Counsel; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Shelley Porter, Chief Financial Officer; Mr. Steve Hayward, Internal Auditor; Mr. Douglas Steele, Director of Applications Development & Research; Mr. Chris Hansen, Director of Operations; Ms. Angela Lieb, Director of Member Services; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Mr. Terrin Krantz, Director of Human Resources; Ms. Hanea Schluter and Ms. Lori Kern, Executive Assistants; Ms. Mary Patricia Burns, Burke, Burns & Pinelli; Mr. Tony Ackerman, Wells Fargo Insurance Services.

Roll call attendance was taken. Trustee Boardman, absent; Trustee Donovan, present; Trustee Mackey, present; Trustee Palmer, absent; Trustee Pizzuto, absent; Trustee Vasquez, present; Trustee Vogel, present; Trustee Williams, present.

EXECUTIVE COMMITTEE REPORT

Trustee Vogel reported that the Executive Committee met on June 1st to consider a request for a third party mailing to SURS annuitants concerning the pending Board of

Trustees Election. Trustee Vogel noted that he recused himself from the discussion at the meeting since he is a candidate on the ballot. Ultimately, the Committee decided that no action was necessary and the request was granted through the Board's Third Party Mailing Policy.

REPORT FROM THE AUDIT COMMITTEE

Trustee Donovan reported that the Audit Committee met on June 11, 2009. On behalf of the Audit Committee, Trustee Donovan moved that the SURS Fraud Policies and Procedures be approved as presented. The motion was seconded and it carried.

REPORT FROM THE PERSONNEL & RESOURCE COMMITTEE

On behalf of the Personnel & Resource Committee, Trustee Vasquez moved:

- 1) That the compensation of the Interim Executive Director be increased as recommended, based on the past Executive Director's salary plus standard inflation increase, effective July 1.
- 2) That the compensation of the Deputy Chief Investment Officer be increased as recommended based on salary survey information, effective July 1.
- 3) That the fiscal year 2010 administrative and SMP expense budget be approved as presented.
- 4) That the fiscal year 2010 capital budget be approved as presented.

The motions were seconded and they carried.

REPORT FROM THE GOVERNMENTAL AFFAIRS COMMITTEE

Trustee Williams reported that the Governmental Affairs Committee met on June 11, 2009. Trustee Williams commented that, going forward, the Governmental Affairs Committee should consider stepping outside the policy-maker role and work with other groups in order to influence public opinion regarding funding of pension systems.

REPORT FROM THE INVESTMENT COMMITTEE

On behalf of the Investment Committee, Trustee Donovan presented the following motions from the June 11, 2009, meeting of the Committee:

- 1) That the results from the Report of the Review of Actuarial Assumptions be approved, maintaining the assumed rate of return at 8.5% pending the outcome of the next experience study.
- 2) That Adams Street Partners be retained as a private equity manager.

- 3) That Pantheon Ventures be retained as a private equity manager, which includes the Private Opportunities Fund.
- 4) That Muller and Monroe be retained as a private equity manager.
- 5) That Progress Investment Management be retained as a private equity manager.
- 6) That Credit Suisse be retained as a securities lending provider.
- 7) That the Investment Department Operating Budget for Fiscal Year 2010 be approved as presented.
- 8) That the Board of Trustees adopt the Scrutinized Companies list updated as of June 1, 2009, pursuant to Public Act 95-616, as presented.

The motions were seconded and they carried.

COMPARATIVE FINANCIAL REPORTS AND BUDGET VARIANCE

Ms. Shelley Porter reviewed the financial statements for the quarter ended March 31, 2009. Ms. Porter remarked that the drastic change in total assets from the prior year is due to the investment performance. Ms. Porter directed the Board's attention to the Statement of Income and Expenditure and noted that the total contributions over expenditures show a \$515 million deficit. The amount of employee and employer contributions is not enough to cover the benefit payments. Ms. Porter advised that administrative expenses are 3.8% under budget for the fiscal year as of March 31, 2009.

Mr. Hayward presented the SURS Variance Analysis for 3rd Quarter 2009 Administrative Expenses. Mr. Hayward reviewed the variances, specifically noting that the legal consultant line item is over budget by \$132,912. The overage is due largely to three complex litigation cases and the unexpected filing of IRS determination letters and trademark application and enforcement. Mr. Hayward expects overage in this area to be \$240,000. The actuarial consultant line item is currently over budget by \$24,000. The overage is due to a number of small projects. The overage in this area is expected to be \$50,000 for the year. Mr. Hayward briefly reviewed the Statistical and tabulation applications and operations categories noting that they are both under budget, partially due to a few projects being deferred to create a budget reserve.

Trustee Mackey asked staff for clarification on two checks listed on the quarterly check report.

The financial reports and SURS Variance Analysis for 3rd Quarter 2009 Administrative Expenses are incorporated as a part of these Minutes as [Exhibit 6](#) and [Exhibit 7](#).

**REPORT ON REFUNDS, DISABILITY, DEATH, SURVIVOR, RETIREMENT
AND DISABILITY RETIREMENT ALLOWANCE CLAIMS**

Ms. Angela Lieb presented the report on Refunds, Disability, Death, Survivor, Retirement and Disability Retirement Allowance Claims, incorporated as a part of these Minutes as [Exhibit 8](#). Ms. Lieb remarked that 706 retirement claims were finalized for the quarter ended March 31st, which is a substantial increase from previous quarters. More than 2/3rds of the retirement claims processed were calculated under the money purchase formula. However, the highest monthly annuity of \$18,288 was calculated to be higher under the General Formula. The average length of service continues to be 21 years, and the average age of a retiree is 61 years.

Ms. Lieb provided a summary of 6% billings. Through April, 555 bills totaling over \$8.1 million have been sent to employers. Approximately \$1.6 million in payments has been received and approximately \$129,000 continues to be outstanding. SURS has accepted disputes in the amount of \$5.5 million. Ms. Lieb's report, "Summary of 6% Billings" is also incorporated as a part of these Minutes as [Exhibit 9](#).

ELECTION UPDATE

Mr. Douglas Steele provided the Board with an update on the election process. Staff working on the election first developed a calendar and set out key dates over the 90-day period in order to have the Board in place by July 2. Election Day is set for June 17 and the results are expected to be announced that day. The two week period between Election Day and the date the new Board is to be in place has been set aside as time to review any challenges or questions that may come up.

Mr. Steele described the process staff went through in preparing for the election. Staff surveyed other Illinois funds and helpful input on how they have held elections. The policy and various procedures were written, and emergency Administrative Rules were written and adopted. Staff interviewed third party firms to assist in the development and mailing of the ballots, and to tabulate the ballots and certify the election. Approximately 121,000 ballots were mailed. At this point, approximately 14,000 ballots have been received.

Discussion was held regarding the handling of ballots that arrive after the deadline of 10:00 a.m. on June 17th. Trustee Donovan moved that all ballots that arrive in the SURS office after 10:00 a.m. on June 17, 2009, will be held until the election is certified. The motion was seconded and it carried.

Mr. Steele described the process of opening, reviewing the signature cards, and tabulating the ballots. The Board discussed the process. Trustee Vogel suggested that a third party vendor handle the entire election process for future elections.

SELF-MANAGED PLAN REPORTS

Mr. Michael Sheppard presented the Self-Managed Plan (SMP) financial report and administrative expense budget, a copy of which is incorporated as a part of these Minutes as [Exhibit 10](#). Mr. Sheppard remarked that SMP assets totaled approximately \$511 million as of March 31, 2009.

Mr. Sheppard provided an update to the Board of the operational side of the Self-Managed Plan ([Exhibit 11](#)). Mr. Sheppard directed the Board's attention to the SURS Plan Elections by Quarter chart which shows that for members who did not default, only 9% chose the Self-Managed Plan, which is the lowest quarter to-date. Mr. Sheppard attributed the decline in SMP election to the current state of the economy. Mr. Sheppard briefly discussed the remaining member demographic charts, including academic vs. staff, male vs. female, full-time vs. part-time employees, average SMP account balance, and SMP distributions by type for the quarter ended March 31, 2009. Mr. Sheppard noted that there are currently 21,515 participants in the Self-Managed Plan. Of that amount 1,247 are currently eligible to retire.

Mr. Sheppard reported that the SMP team continues to streamline internal processes and increase communication with the SMP participants. Since January, about 510 members have attended various seminars. In addition, a webcast has been recorded and will be available through the website.

Mr. Sheppard noted that the Department of Labor has extended their deadline on clarification of advice versus education. The deadline is now November 18, 2009.

Trustee Vogel thanked Mr. Sheppard for his work with the Self-Managed Plan.

FIDUCIARY LIABILITY INSURANCE

Trustee Vogel welcomed Mr. Tony Ackerman of Wells Fargo Insurance Services. Ms. Shelley porter remarked that she had conversations with Mr. Ackerman regarding the policy currently held by the Board. Mr. Ackerman reviewed the terms of the current Fiduciary Liability Policy and pointed out that the policy contains a change in control clause that terminates the policy if more than 50% of the Board turns over within a 30-day period.

Mr. Ackerman outlined two different options available to the Board. The first option is to let the policy terminate, effective July 1, 2009. The deadline for submission of claims arising out of the Board members' actions is January 1, 2010. The Board could purchase a discovery period which would allow the claims reporting period to be extended for up to six years.

The second option is to request an endorsement of the carrier, AIG, to waive the change in control provision which would allow the current policy to stay in place through the end

of the calendar year. The new Board would have the option to renew the policy. If the policy is renewed, the outgoing Board would also be covered. If the new Board decides not to renew this policy, the outgoing members of the Board would no longer have coverage.

Discussion was held. Trustee Mackey recommended that this issue be deferred to the Executive Committee for further due diligence. Trustee Vogel asked Trustee Mackey to participate in the Executive Committee meeting where this issue is discussed. Mr. Ackerman indicated that a decision needed to be made prior to the end of the current Board's term.

Trustee Vogel moved that this matter be deferred to the Executive Committee and Trustee Mackey. The motion was seconded and it carried.

CLOSED SESSION

Trustee Donovan moved that the Board go into closed session under the Open Meetings Act to consider pending litigation and probable and imminent litigation pursuant to §2(c)(11) and to discuss closed session minutes pursuant to §2(c)(21). The motion was seconded and carried in a roll call vote:

Trustee Boardman	absent
Trustee Donovan	aye
Trustee Mackey	aye
Trustee Palmer	absent
Trustee Pizzuto	absent
Trustee Vasquez	aye
Trustee Vogel	aye
Trustee Williams	aye

OPEN SESSION

The Board of Trustees returned to open session.

Trustee Vasquez moved that the minutes of the closed meeting of the Executive Director Search Sub-Committee of March 9, 2009, be approved as presented and that they be opened, and that the minutes of the closed meeting of the Board of Trustees of March 13, 2009, be approved as presented and revised and that they be opened.

Trustee Vasquez moved that the minutes of the closed meeting of the Board of September 12, 2008, remain closed. The motion was seconded and it carried.

There being no further business to come before the Board, Trustee Donovan moved that the meeting adjourn. The motion was seconded and it carried.

Respectfully submitted,

Judith A. Parker

Ms. Judith A. Parker
Secretary, Board of Trustees

JAP:ss