



MINUTES

**Meeting of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Thursday, March 12, 2009
&
8:30 a.m., Friday, March 13, 2009
SURS Main Conference Room
1901 Fox Dr., Champaign, Illinois**

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

Others present were: Ms. Judith Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Mr. Kelly A. Jenkins; General Counsel, 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. Hanea Schluter, Ms. Lori Kern and Ms. Stacy Smith, Executive Assistants; Mr. Terrin Krantz, Director of Human Resources; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Shelley Porter, Chief Financial Officer; Ms. Angie Lieb, Director of Member Services; Mr. Douglas Steele, Application Development Manager; Mr. Chris Hansen, Information Systems & Building Services Manager; Mr. Douglas Taylor, Internal Auditor; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Mr. Steve Hayward, Internal Audit Director; Mr. Bryan Perrero, Assistant General Counsel; Ms. Brenda Dunn, Human Resource Officer; Ms. Kendra Iffland, Publications Editor; Mr. Gary Guibert, The Northern Trust Company; and Mr. Don Pollak, Northern Trust Investments.

Mr. Mitchell Vogel called the meeting to order at the time and location set forth in the notice of the meeting.

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

PRESIDENT'S REPORT

Mr. Mitchell Vogel stated that the office of Board Treasurer is currently vacant due to Trustee Robert Hilgenbrink's retirement. The Treasurer also serves on the Executive Committee of the Board. Mr. Vogel indicated that a Treasurer should be elected at the end of the Board meeting to take place the following day.

Mr. Vogel briefly mentioned the ILPERS legislation that has been introduced by Treasurer Alexi Giannoulis as Senate Bill 1734. The legislation is sponsored by Senator Schoenberg.

Mr. Vogel reported that he plans to attend the Council of Institutional Investor's Spring meeting which is taking place April 4-7, 2009, in Washington, D.C. Trustee Antonio Vasquez, as well as a few members of staff, will also be in attendance.

EXECUTIVE DIRECTOR'S REPORT

Ms. Judith Parker thanked the staff for all of their hard work and support during her time so far as Interim Executive Director.

Ms. Parker reported that staff extended an invitation for this meeting to Treasurer Giannoulis. Due to scheduling conflicts Treasurer Giannoulis was unable to attend. An attempt will be made for the April Investment Committee Meeting.

GENERAL COUNSEL'S REPORT

Mr. Kelly Jenkins introduced Mr. Bryan Perrero as the new Assistant General Counsel. Mr. Jenkins then presented the General Counsel's FOIA report, which is incorporated as a part of these Minutes as [Exhibit 1](#).

APPROVAL OF MINUTES

Mr. Vogel presented the Minutes from the Quarterly Board meeting of December 11-12, 2008. Ms. Christine Boardman moved to approve these minutes, the motion was seconded and it carried. Mr. Vogel also presented the Minutes from the Board meeting of February 4, 2009. Mr. Michael Pizzuto moved to approve these minutes, the motion was seconded and it carried.

RECESS

Mr. 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 March 13, 2009.

The following Trustees were present: Mr. Mitchell Vogel (President), Ms. Christine Boardman, Mr. Mark Donovan, Mr. Michael Pizzuto, Mr. Antonio Vasquez and Dr. Marva Williams.

Others present were: Ms. Judith Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Mr. Kelly A. Jenkins; General Counsel, 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. Hanea Schluter, Ms. Lori Kern and Ms. Stacy Smith, Executive Assistants; Mr. Terrin Krantz, Director of Human Resources; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Shelley Porter, Chief Financial Officer; Ms. Angie Lieb, Director of Member Services; Mr. Douglas Steele, Application Development Manager; Mr. Chris Hansen, Information Systems & Building Services Manager; Mr. Douglas Taylor, Internal Auditor; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Mr. Steve Hayward, Internal Audit Director; Mr. Bryan Perrero, Assistant General Counsel; Ms. Brenda Dunn, Human Resource Officer; and Ms. Kendra Iffland, Publications Editor.

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

Mr. Mitchell Vogel spoke about the upcoming Investment meeting that will also be held at SURS. He stated that the meeting will begin at 10:00 a.m.

EXECUTIVE COMMITTEE REPORT

Mr. Vogel presented the Minutes of the Executive Committee meetings of December 12, 2008, for review by the Board.

REPORT FROM THE AUDIT COMMITTEE

Mr. Michael Pizzuto advised that internal audit reports and an external audit update were presented to the Audit Committee. Mr. Pizzuto remarked that there was one material finding resulting from the external audit. The finding relates to the valuation of alternative investments. Mr. Mark Donovan made the motion:

- That the staff formulate a Formal Fraud Policy to be reviewed by outside fiduciary counsel, in response to the external auditor's recommendation.

The motion was seconded and it carried.

REPORT FROM THE GOVERNMENTAL AFFAIRS COMMITTEE

Dr. Marva Williams advised that the Governmental Affairs Committee received reports regarding pending legislation and upcoming legislative outreach efforts. On behalf of the Governmental Affairs Committee, Dr. Williams moved:

- That, the Board having determined adopting the Principles for Responsible Investment (PRI) will have a positive effect on the economic value of the plan's investments that will outweigh the cost of adoption, the PRI be adopted.
- That staff will take no position on HB 1117, SB 0320, HB 4067, SB 0319, HB 2624 and SB 2020.
- That the legislative liaison contacts with Morrill and Associates, P.C. and with Governmental Consulting Solutions, Inc. and GII of Illinois be extended for an additional year, through June 30, 2010.

The motions were seconded and carried.

REPORT FROM THE PERSONNEL & RESOURCE COMMITTEE

On behalf of the Personnel & Resource Committee, Mr. Antonio Vasquez made the following motions:

- That pay increases for civil service and exempt staff be approved in the amount of 1.9% for fiscal year 2010 subject to further approval as part of the complete operating budget in June.
- That the pay range minimums and maximums be increased by 1.9% effective the first pay period that includes July 1, 2009 and that staff moved to the range minimum will also be eligible for an additional 1.9% increase at their anniversary date.
- That pay increases for 36E3 (exempt) staff be approved in the amount of 1.9%, effective the first pay period that includes July 1, 2009 subject to further approval as part of the complete operating budget in June.
- That \$50,000 over and above the 1.9% pay increase be budgeted to fund the performance recognition program.

The motions were seconded and they carried.

Mr. Vogel made the following motion:

- That the Senior Investment Analyst position occupied by Kimberly Pollitt be increased to 100% FTE effective the first pay period beginning after this Board meeting.

The motion was seconded and carried. Mr. Mark Donovan abstained.

REPORT FROM THE INVESTMENT COMMITTEE

On behalf of the Investment Committee, Ms. Boardman made the following motions:

- That the compliance exception related to the 3% asset allocation bands of the investment policy be approved until the April 23, 2009 Investment Committee meeting.
- That the passive U.S. Equity Index fund managed by Northern Trust and the BGI International Equity Index fund.

The motions were seconded and carried.

Ms. Boardman then made the following motions:

- That Gabriel Roeder Smith & Company conduct an economic assumption update.
- That Buford, Dickson, Harper & Sparrow be retained as a domestic equity manager.
- That Channing Capital Management be retained as a domestic equity manager.
- That Holland Capital Management be retained as a domestic equity manager.
- That Lombardia Capital Management be retained as a domestic equity manager.
- That NCM Capital Management be retained as a domestic equity manager.
- That Profit Investment Management be retained as a domestic equity manager.
- That Attucks Asset Management be terminated as a passive domestic equity manager.
- That Holland Capital Management be allocated an additional \$10 million.
- That Lombardia Capital Management be allocated an additional \$10 million.
- That Channing Capital Management be allocated an additional \$15 million.
- That Atlanta Life Investment Advisors be retained as a Non-U.S. equity manager.
- That Strategic Global Advisors be retained as a Non-U.S. equity manager.
- That Ativo Capital Management be retained as a Non-U.S. equity manager through Progress Investment Management in a separate account structure.

The motions were seconded and carried.

Ms. Boardman also made the following motion:

- That the revised Marco Consulting Group proxy policy statement as customized for SURS be approved as presented.

The motion was seconded and carried.

COMPARATIVE FINANCIAL REPORTS AND BUDGET VARIANCE

Ms. Shelley Porter presented the financial reports for the quarter ended December 31, 2008. Ms. Porter noted that to date administrative expenses are 5.7% under budget.

Mr. Steve Hayward presented the administrative expense variance analysis and reviewed the variances and explanations by line item. Mr. Hayward noted that salaries and wages, health insurance, repairs, statistical and tab, medical consultant fees, professional and artistic services, utilities, postage and printing expenses are under budget through the end of the second quarter.

The financial reports and SURS Variance Analysis for 2nd Qtr 2009 Administrative Expenses are incorporated as a part of these Minutes as [Exhibit 2](#) and [Exhibit 3](#).

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 4](#). Ms. Lieb provided an update regarding the 6% employer billings as of January 2009. Discussion of employer billing and dispute procedures followed. A copy of the report, Summary of 6% Billings, is incorporated as a part of these Minutes as [Exhibit 5](#).

Ms. Lieb then directed the Board's attention to her memorandum regarding overpayments. Ms. Lieb reported that staff recommended that a total of \$85,000 in benefits overpaid to deceased survivors be certified as uncollectible. This recommendation is in accordance with SURS' Administrative Rule on overpayment recovery, 80 Illinois Administrative Code 1600.450, which became effective September 25, 2008. Ms. Lieb noted that multiple requests have been made in attempt to recover these funds. However, in most cases the estate for these decedents have been closed and no further funds are payable from this System from which to collect. After discussion, Ms. Boardman moved that the benefit overpayments presented by staff be certified uncollectible in accordance with 80 IL Administrative Code 1600.450. The motion was seconded and it carried. Ms. Lieb's memorandum, which includes the list of uncollectible overpayments and the Administrative Rule, is incorporated as a part of these Minutes as [Exhibit 6](#).

OPERATIONS UPDATE

Ms. Becky Grove and Mr. Michael Sheppard presented the Overview of the Self Managed Plan Team. The presentation, which is incorporated as part of these Minutes as [Exhibit 7](#), included a brief overview of the SMP staff members, their duties, and various process-related statistics. Discussion followed.

SELF-MANAGED PLAN REPORTS

Mr. Sheppard presented the Self-Managed Plan financial reports, a copy of which is incorporated as a part of these Minutes as [Exhibit 8](#). Mr. Sheppard advised that SMP assets as of December 31, 2008, are at \$514 million, which is down considerably from

\$622 million a year previous. It was also noted that the Statement of Income and Expenditures reported investment expenses exceeding income by approximately \$103 million. Mr. Sheppard indicated that this is due to the recent market downturn.

ANALYSIS OF PLAN DEFAULTS

Ms. Parker reported that the SURS Operations and Management Team recently conducted research regarding the retirement plan options. The Board authorized this research project in response to a request made by the State Universities Retirement System Member Advisory Committee (SURSMAC). Mr. Douglas Steele presented the Analysis of the SURS Default Retirement Plan Options to the Board. In conclusion, SURS staff recommended no changes in the default retirement plan, which is currently the Traditional Plan. Discussion followed. A copy of the presentation is incorporated as a part of these Minutes as [Exhibit 9](#).

CLOSED SESSION

Mr. Mark Donovan moved that the Board go into closed session under the Open Meetings Act to consider pending 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:

Ms. Christine Boardman	- aye
Mr. Mark Donovan	- aye
Mr. Michael Mackey	- absent
Dr. Alice Palmer	- absent
Mr. Michael Pizzuto	- aye
Mr. Antonio Vasquez	-aye
Mr. Mitchell Vogel	- aye
Dr. Marva Williams	- aye

OPEN SESSION

The Board of Trustees returned to open session.

Mr. Vogel moved to approve the Minutes of the closed meeting of December 12, 2008, and February 4, 2009, and to make them public. The motion was seconded and the motion carried.

Mr. Vogel moved to open the Minutes of June 13, 2008. The motion was seconded and the motion carried.

Mr. Vogel made a motion:


- That Mark Donovan be nominated to serve as Treasurer of the Board and Executive Committee.

The motion was seconded and it carried.

Further discussion took place regarding Dr. Marva Williams desire to serve on the Claims Committee. Dr. Williams stated that she would be willing to serve on the Committee through the end of the year.

There being no further business to come before the Board, the meeting adjourned.

Respectfully submitted,

A handwritten signature in cursive script that reads "Judith A. Parker".

Ms. Judith A. Parker
Interim Executive Director

JAP:hns