



## MINUTES

**Meeting of the Investment Committee  
of the Board of Trustees of the  
State Universities Retirement System  
1:00 p.m., Thursday, December 9, 2010  
The Northern Trust, 50 South LaSalle Street  
London Room B9, Chicago, Illinois 60603**

The following Trustees were present: Dr. J. Fred Giertz, Chair; Dr. Jeffrey Beaulieu, Mr. Matthew Berns, Dr. John Engstrom, Ms. Carrie Hightman, Mr. Steven Rogers, Mr. Anthony Vasquez, Mr. Mitchell Vogel, and Dr. Marva Williams.

Others present were: Mr. William Mabe, Executive Director; Ms. Judith Parker, Associate Executive Director; Mr. Daniel L. Allen, Chief Investment officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Kimberly Pollitt, Senior Investment Officer; Mr. Joseph Duncan, Investment Officer; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Stefanie Rice, Executive Assistant; Ms. Shelley Porter, Chief Financial Officer; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of The Northern Trust Company; Ms. Leslie Thompson, Ms. Amy Williams, and Mr. Lance Weiss of Gabriel, Roeder, Smith & Company (GRS); Mr. Edgar Hernandez, Service Employees International Union (SEIU).

Roll call attendance was taken. Trustee Beaulieu, present; Trustee Berns, present; Trustee Cassidy, absent; Trustee Engstrom, present; Trustee Giertz, present; Trustee Hightman, present; Trustee Miller, absent; Trustee Rogers, present; Trustee Vasquez, present; Trustee Vogel, present; Trustee Williams, present.

Trustee Giertz called the meeting to order at approximately 1:00 p.m.

Trustee Cassidy is unable to physically attend the meeting due to employment commitments. Trustee Rogers moved that:

- Trustee Cassidy be allowed to participate via teleconference.

Motion seconded and carried with all Trustees present voting in favor.

## **APPROVAL OF MINUTES**

Trustee Giertz presented the Minutes from the Investment Committee meeting of October 28, 2010. Trustee Rogers moved that:

- The Minutes from the October 28, 2010, Investment Committee meeting be approved as presented.

Motion seconded and carried with all Trustees present voting in favor.

## **REVIEW OF CLOSED SESSION MINUTES**

Trustee Giertz presented the closed session Minutes from the Investment Committee meeting of October 28, 2010. Trustee Beaulieu moved that:

- The closed session Minutes from the October 28, 2010, Investment Committee meeting be approved as presented and remain closed.

Motion seconded and carried with all Trustees present voting in favor.

## **STATUS UPDATE OF THE EXPERIENCE STUDY, REVIEW OF THE 2010 ACTUARIAL VALUATION REPORT AND RECERTIFICATION OF THE STATE CONTRIBUTION FOR FISCAL YEAR 2011**

Ms. Leslie Thompson, Ms. Amy Williams and Mr. Lance Weiss of GRS reviewed the "SURS Experience Study - Review of Economic Assumptions" presentation which is incorporated as a part of these Minutes as [Exhibit 1](#). Ms. Thompson noted that the study, which covers the time period of 2006-2010, is separated into two phases. Phase one examines viability of the current economic assumptions and phase two examines the demographic assumptions. Ms. Thompson and Ms. Williams reviewed the first phase of the experience study. Ms. Thompson recapped the reduction of the assumed rate of investment return from 8.5% to 7.75%. The Committee continued discussions.

Ms. Thompson indicated that phase two of the study will be completed and presented to the Committee in March of 2011, and that any assumption changes from the two phases will be applied to the June 30, 2011, valuation.

Ms. Thompson reviewed the actuarial valuation report as of June 30, 2010. A recent change in benefits, which is to take effect January 1, 2011, was noted. Ms. Thompson reviewed the investment return assumption and the effect of lowering said rate. Discussions continued regarding the measure of actuarial soundness. Ms. Williams reviewed the five year history of the statutory contribution in comparison to the annual required contribution and the funding levels of the State. Discussions followed regarding GASB and the statutory funding level.

Trustee Cassidy joined the meeting via teleconference.

Trustee Beaulieu moved that:

- The Fiscal Year 2010 Actuarial Valuation Report be received and filed.

Motion seconded, after further discussion was carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Status of Actuarial Experience Study" is incorporated as a part of these Minutes as [Exhibit 2](#). A copy of GRS's letter entitled "4-Year Experience Analysis for the Illinois State Universities Retirement System" is incorporated as a part of these Minutes as [Exhibit 3](#). A copy of staff's memorandum entitled "Fiscal Year 2010 Actuarial Valuation Report" is incorporated as a part of these Minutes as [Exhibit 4](#). Copies of GRS's materials entitled "Actuarial Valuation as of June 30, 2010" and "SURS Actuarial Valuation Report as of June 30, 2010," are incorporated as a part of these Minutes as [Exhibit 5](#) and [Exhibit 6](#), respectively.

Ms. Shelly Porter discussed the recertification process and noted the certification for Fiscal Year 2012 was approved in October of 2010. Discussions followed regarding the certified amount.

Trustee Williams moved that:

- The required net State contribution to the State Universities Retirement System for Fiscal Year 2011 be recertified in the amount of \$775,781,000 subject to passage of pending legislation.

Board continued discussions regarding the recertification process and past certifications. Ms. Porter and Mr. Mabe informed the Committee that the Governor's office will be notified of the recertification by correspondence. After continued discussion, motion seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Required State Contribution for FY 2011 – Recertification" is incorporated as a part of these Minutes as [Exhibit 7](#).

#### **APPROVAL OF THE NORMAL COST RATE FOR FISCAL YEAR 2012 AND RECOMMENDATION OF THE EFFECTIVE RATE OF INTEREST**

Mr. Allen advised the Board that a Normal Cost Rate, provided by GRS, needs to be approved on an annual basis.

The effective rate of interest (ERI) is primarily set by the State Comptroller's Office; however, the ERI must also be set by the SURS Board of Trustees for purposes of

calculating service credits, and refunding excess contributions, traditional refunds and lump sum portable retirements.

Trustee Vogel moved that:

- The Normal Cost Rate of 12.71% be approved for Fiscal Year 2012.
- That Effective Rate of Interest (ERI) be set at 7.5% to be applied to account balances for Fiscal Year 2012, beginning July 1, 2011.

Motion seconded and carried with all Trustees present voting in favor.

A copy of staff's memorandum entitled "Normal Cost Recommendation" is incorporated as a part of these Minutes as [Exhibit 8](#). A copy of GRS's letter entitled "Breakdown of Normal Cost for FY 2011-2012" is incorporated as a part of these Minutes as [Exhibit 9](#). A copy of staff's memorandum entitled "Effective Rate of Interest Recommendation – Fiscal Year 2012" is incorporated as a part of these Minutes as [Exhibit 10](#).

### **INVESTMENT CONSULTANT CANDIDATE INTERVIEWS**

Mr. Allen recapped the investment consultant search process which began in June of 2010. Ms. Kimberly Pollitt provided a summary to the Committee and noted characteristics of each firm. Screening strategies conducted during the search process were discussed among the Committee.

Presentations were given by the following firms:

Callan Associates, Inc.:      Mr. Greg Allen, President  
   Mr. Ryan Ball, Vice President  
   Mr. Gordon Dickinson, Senior Vice President  
   Ms. Inga Sweet, Senior Vice President

NEPC, LLC:                      Mr. Michael Manning, President  
   Mr. Douglas W. Moseley, Partner  
   Ms. Kristin R. Finney-Cooke, Senior Consultant

Trustee Cassidy left the meeting.

Hewitt EnnisKnupp:              Mr. Russell K. Ivinjack, Principal  
   Ms. Laurel Nicholson, Associate  
   Ms. Mary Moreland, Practice Director for  
   Retirement & Investment Consulting

At the conclusion of the interviews, Trustee Vogel moved that the Board go into closed session under the Open Meetings Act to consider the sale or purchase of securities or

investments, or to consider an investment contract, pursuant to §2(c)(7). Motion seconded and carried with a roll call vote.

Trustee Beaulieu	aye
Trustee Berns	aye
Trustee Cassidy	absent
Trustee Engstrom	aye
Trustee Giertz	aye
Trustee Hightman	aye
Trustee Miller	absent
Trustee Rogers	aye
Trustee Vasquez	aye
Trustee Vogel	aye
Trustee Williams	absent

Committee returned to open session. Discussions continued.

Trustee Vogel moved that:

- Callan be retained as general investment consultant for a term of three years, subject to an agreed upon scope of services covering all of SURS' investment activities; an assigned team acceptable to SURS' investment staff and successful completion of contract negotiations.

Motion seconded and carried.

### **INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION**

The following items were provided for reference and are incorporated as a part of these Minutes:

1. [Exhibit 11](#) - SURS Funding Status 2011 Fiscal Year-to-Date Results
2. [Exhibit 12](#) - December 2010 Investment Manager Watch List
3. [Exhibit 13](#) - U.S. Equity Mandate SURS Manager Diversity Program RFP
4. [Exhibit 14](#) - Compliance Update
5. [Exhibit 15](#) - Investment Compliance Activities 2010-2011
6. [Exhibit 16](#) - Fiscal Year 2011-2011 Work Plan
7. [Exhibit 17](#) - Schedule of Formal Reviews for SURS Investment Managers Defined Benefit Plan & SMP
8. [Exhibit 18](#) - Schedule of Investment Committee Meetings

There being no further business to come before the Committee, Trustee Rogers moved that the meeting be adjourned. Motion seconded and carried.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe  
Secretary, Board of Trustees

WEM:ssr