



MINUTES

**Meeting of the Board of Trustees
of the State Universities Retirement System
Friday, September 11, 2009
The Northern Trust – London Room B9
50 S. LaSalle Street
Chicago, Illinois**

The following Trustees were present: Ms. Carrie Hightman, Chairwoman; Dr. Jeffrey Beaulieu, Ms. Patricia Cassidy, Dr. John Engstrom, Dr. J. Fred Giertz, Ms. Dorinda Miller, Mr. Steven Rogers, Mr. Antonio Vasquez, Mr. Mitchell Vogel, 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. Doug Steele, Director of Application Development & Research; Mr. Chris Hansen, Director of Operations; Mr. Terrin Krantz, Director of Human Resources; Ms. Angela Lieb, Director of Member Services; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Lori Kern and Ms. Stacy Smith, Executive Assistants; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Patricia Somerville-Koulouris, The Northern Trust; Mr. Don Pollak, Northern Trust Investments; Mr. Edgar Hernandez, SEIU; and Mr. Barry Burr, Pensions & Investments.

Trustee Carrie Hightman called the meeting to order at 10:00 a.m.

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

CHAIRWOMAN'S REPORT

Trustee Hightman welcomed Trustees Patricia Cassidy and Steven Rogers to their first meeting of the Board, and also welcomed Trustee Marva Williams as a returning member to the newly constituted Board.

Trustee Hightman informed the Board that Ms. Christine Boardman recently resigned from her position on the SURS Board effective August 26, 2009. Ms. Boardman served on the Board since 2004 and did a great job fulfilling her fiduciary responsibility on behalf of the participants and annuitants of SURS. Ms. Boardman will be invited to the Board dinner in December where she will be honored for her service.

Trustee Hightman reported that the meeting agenda is quite full. In addition to the regular reports, a former member of the System will be present in order to address the Board regarding “irregular and intermittent employees” and their participation in the System. Trustee Hightman suggested that the Board discuss, possibly at the next meeting, developing a policy on allowing members of the System or members of the public in general, to address the Board.

Trustee Hightman indicated that Ms. Elena McCall from EFL Associations will be present in order to provide the Board with a status update on the pending search for an Executive Director. In addition, the Board will discuss fiduciary insurance coverage, the 2010 meeting schedule, recommended revisions to the Board Bylaws. Trustee Hightman announced that the committee assignments were distributed. Trustee Hightman stated that she appreciates the work of the committee chairs and the staff in getting this new Board founded. The last item of business will be the election of officers.

Discussion was held regarding the Order of Business that is set forth in the Board Bylaws. Since the agenda as prepared does not follow the specified Order of Business, Mr. Kelly Jenkins recommended that the Board take action to allow the meeting order as presented.

Trustee Giertz moved that the Order of Business specified by Section 12 of the Bylaws be suspended to allow business to be considered in the order provided in the Agenda. The motion was seconded and it carried.

Trustee Hightman made the following announcement: Pursuant to Section 15 of the Board Bylaws, as Chairperson of the Board, I have appointed the Chairs and members of the standing committees of the Board as the Board was previously notified in writing, except that former Trustee Boardman is now unable to serve. Also, pursuant to Section 16 of the Board Bylaws, I have appointed Trustee Engstrom to the Claims Panel. Trustee Hightman’s memorandum announcing the committee assignments is incorporated as a part of these Minutes as [Exhibit 1](#).

Trustee Vogel moved that the September 10, 2009, actions of the standing committees constituted as such be recognized. The motion was seconded and it carried.

EXECUTIVE DIRECTOR’S REPORT

As part of her report, Ms. Judith Parker provided the Board with an update on the progress of the Pension Modernization Task Force. The Task Force, which was established through House Joint Resolution 65, is charged with recommending changes to

modernize the state pension systems benefits. The Task Force will provide the Governor and members of the General Assembly with their final report by November 1st. Ms. Parker reported that the Task Force members include a number of Governor-appointed members, legislative leaders, members of the private sector, union representatives, and representatives of annuitant groups. The Task Force has established subcommittees that meet on a bi-weekly basis. While pension systems are not part of the Task Force, SURS staff has been in attendance at the meetings and has been accessible to the members for questions that arise during the Task Force's research.

Ms. Parker reported that Public Act 96-543 became effective August 17, 2009. This Act, among other things, requires that governing boards with a full-time information technology staff post any audio or video recordings of open meetings on their website for two years, and that the minutes of meetings also be made available on the website for two years. In addition, a regularly updated schedule of future meetings of the Board must be made available on the website. Ms. Parker noted that this law does not require that a recording be made, only that if one is made that it must be made available on the website for a minimum of two years. After discussion, consensus was reached that the remainder of this meeting, and all future meetings of the Board, will not be recorded. Meetings held in closed session are still required to be recorded. It was clarified, however, that the meetings of the Board's committees will continue to be recorded as they are not affected by Public Act 96-543.

Ms. Parker's summary of recent legislation is incorporated as a part of these Minutes as [Exhibit 2](#).

Ms. Parker was then asked to delay the remainder of her report so that EFL Associates could make their presentation on time.

CLOSED SESSION

Trustee Giertz moved that the Board go into closed session under the Open Meetings Act to consider the appointment, employment, compensation, discipline, performance or dismissal of the Executive Director, pursuant to Section 2(c)(1). The motion was seconded and carried in a roll call vote:

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

OPEN SESSION

The Board of Trustees returned to open session.

CONTINUATION OF EXECUTIVE DIRECTOR'S REPORT

Ms. Parker reported that Public Act 96-0043, which became effective July 15, 2009, authorized the sale of pension obligation bonds to be used for the purpose of making a portion of the State's Fiscal Year 2010 required contributions to the State-funded systems. Ms. Parker noted that SURS typically receives a monthly payment of 1/12th of the annual certified contribution. Public Act 96-0043 will provide the annual State appropriation amount (less expenses) in one lump-sum. The month of July has already been paid in full. In addition, SURS received \$4 million to cover the SMP member contributions for August.

The Board then discussed the usage of the funds held in the SMP Forfeiture account. When available, those funds can be borrowed to make the employer contributions to the SMP member accounts. The forfeiture account is then replenished as soon as SURS receives the State contribution. Ms. Shelley Porter commented that SURS will continue to send monthly vouchers to the State Pension Fund. SURS can also, through its continuing appropriation authority, request payment from the General Revenue Fund, assuming funds are available.

The Board discussed the importance of the timing bond sale and Trustee Vogel suggested that the Board send a letter to Governor Quinn and Comptroller Hynes urging the sale of the bonds be completed as soon as possible. It was agreed that a letter would be sent under the Chairwoman's signature, and copies would also be distributed to the four legislative leaders.

Ms. Parker reported that Public Act 96-0006 requires that trustees keep track of time spent on SURS Board matters. Ms. Parker referenced a sample Quarterly Timesheet, which is incorporated as part of these Minutes as [Exhibit 3](#). The timesheets should be submitted to SURS quarterly, beginning with the quarter-ended December 31, 2009. Ms. Parker stated that time spent attending meetings, conferences on behalf of the Board, travel, and the SURS Board dinners that held in conjunction with the regular meetings, should all be reported on the timesheet.

At the July 2009 meeting of the Board, the staff was asked to solicit and compile the Trustees' comments and suggested changes to the Board Bylaws. Ms. Parker directed the Board's attention to a redlined version of the Bylaws as prepared by staff ([Exhibit 4](#)), and a summary memorandum prepared by Mr. Jenkins entitled "Bylaw Amendments" ([Exhibit 5](#)). The Board reviewed the document and each proposed change, and determined that certain changes to Sections 6, 8, 15 and 17 were unnecessary.

The Board discussed at length the Chairwoman's proposal to delete Section 12 "Order of Business" and ultimately agreed to remove that language from the Bylaws. This change

had not been noticed as required by Section 17, so this amendment may be tentative until the Board has been given an opportunity to object to the amendment at the December meeting.

Discussion was also held regarding the previous Section 13 “Parliamentary Procedure” and whether it should be stated that Robert’s Rules of Order will govern the procedures of the Board. The language was left unchanged.

Trustee Vogel moved that the proposed Bylaws provisions be adopted as presented and amended by the Chair. The motion was seconded and it carried. The approved version of the Bylaws is incorporated as [Exhibit 6](#) (still noting the redlined tentative Section 12 change and the numbering changes should that section be permanently stricken).

Mr. Chris Hansen distributed a copy of CMS’ Joint Purchasing Program Participation Resolution for the Board’s consideration. Mr. Hansen stated that participation in this program will allow SURS to take advantage of statewide contracting that has already been through the competitive bid process. Trustee Rogers moved that the Board participate on a voluntary basis in the Joint Purchasing Program administered by the Department of Central Management Services from the date of the signing of the Resolution until such time as the Department is given written notice that this Resolution be revoked. The motion was seconded and it carried.

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 7](#). Mr. Jenkins noted that multiple FOIA requests were received from members of the press this quarter. Trustee Giertz asked if SURS required a fee when responding to a FOIA request. Mr. Jenkins reported that a fee is not typically required as the research and compilation can be done through a data query.

Mr. Jenkins directed the Board’s attention to the revised rule on Rules of Practice – Nature and Requirements of Formal Hearings, 80 Illinois Administrative Code, 1600.500. Incorporated as a part of these Minutes as [Exhibit 8](#), is the Notice of Proposed Amendment and the text of the rule that was recently published in the Illinois Register.

APPROVAL OF MINUTES

Trustee Hightman presented for approval the Minutes from the July 10, 2009, meeting of the Board of Trustees. Trustee Beaulieu moved that the Minutes of the meeting of July 10, 2009, be approved as presented. The motion was seconded and it carried.

Discussion was held regarding the approval of Board travel. Trustee Giertz moved that Trustee Vogel’s travel to attend a meeting with Marco Consultants on September 4, 2009, be approved and that all of Trustee Engstrom’s future travel associated with his responsibilities to the Claims Panel be approved. The motion was seconded and it carried.

COMMITTEE REPORTS

Investment Committee

On behalf of the Investment Committee, Trustee Giertz moved:

1. That Ennis Knupp + Associates conduct a search, with SURS staff oversight, to identify potential investment managers for the Public-Private Investment Program (PPIP).
2. That the revised Investment Policy document for the defined benefit plan be approved, as presented.
3. That the Investment Policy document for the Self-Managed Plan (SMP) be approved.
4. That the following disclosure be approved as factors that contributed to the selection of investment advisers and consultants:

Experience and qualifications of the firm's principals, the soundness of the firm's investment philosophy and process, as well as the strength of the investment record and organization in accordance with the selection criteria as stated in the investment policy.

5. That SURS assets in the Rhumblin Core Bond Pooled Index Fund be liquidated with proceeds being transferred to Progress Investment Management.
6. That Daniel Allen, as a member of the Advisory Board, attend the 2009 Pantheon Annual Investor Meeting and his expenses be reimbursed in compliance with the SURS Travel Policy and ethics statutes.

The motions carried. Trustee Giertz noted for the record that the Investment Committee met the previous day and thoroughly considered each of the motions brought to the Board for ratification.

Audit Committee

Trustee Engstrom reported that the Audit Committee heard reports on the internal and external audits from Mr. Hayward. The Committee also decided to invite the representatives from the Office of the Auditor General and McGladrey & Pullen to attend the next meeting. On behalf of the Audit Committee, Trustee Engstrom moved that the Internal Audit Plan for Fiscal Years 2010 and 2011 be approved as presented. The motion carried.

Governmental Affairs Committee

Trustee Williams reported that members of the SURS lobby team were present and provided a summary of the recent legislative session and a look forward to the upcoming

veto session. Ms. Linda Brookhart, Executive Director of the State Universities Annuitants Association, also provided an update to the Committee. The Committee took no action.

Personnel & Resource Committee

Trustee Vasquez reported that Mr. Terrin Krantz provided the Personnel & Resource Committee with an overview of the SURS' Human Resources department. The Committee took no action.

Corporate Governance

Trustee Vogel reported that the first meeting of the Corporate Governance Committee took place the previous day. Ms. Marilyn Branson provided an update on SURS efforts in the area of corporate governance. On behalf of the Committee, Trustee Vogel moved that the existing agreement with Marco Consulting Group, to provide institutional proxy voting and reporting services for domestic securities, be extended for a period of nine months, commencing January 1, 2010, contingent on successful contract negotiations. The motion carried.

BUDGET OVERVIEW – FISCAL YEAR 2010

Ms. Shelley Porter described the SURS budget process and noted that the administrative expense and capital expenditure budgets are not subject to the State of Illinois' annual budgeting process. As determined by the actuaries, a portion of the annual State appropriation is used to cover operating and administrative expenses. Ms. Parker stated that SURS staff appears before the House and Senate appropriation committees on an annual basis in order to provide testimony and present justification for the entire appropriation amount being certified. SURS staff begins work on the budget during the spring of each year and the formal recommendation is made to the Board during the annual meeting in June.

Ms. Porter reviewed the 2010 budget packet, which is incorporated as a part of these Minutes as [Exhibit 9](#). Ms. Porter reviewed the administrative expenses for the past few years and explained that the significant increase in the FY 2010 budget compared to the FY 2009 projected actual is due largely to assumption that most, if not all, of the 7.5 full-time equivalent positions that are currently vacant will be filled during the fiscal year. Other contributing factors include the 1.9% salary increase approved for staff and the increase in depreciation.

Ms. Porter reviewed the capital expenditure history, pointing out the spike in 1999 when the SURS rewrote the business system programming. The 2010 capital expenditures are also significantly higher due to the planned roof replacement, which is expected to be approximately \$515,000.

FIDUCIARY LIABILITY INSURANCE

Incorporated as a part of these Minutes as [Exhibit 10](#) is a memorandum from Ms. Porter which summarizes the Board's current fiduciary liability insurance policy. Ms. Porter discussed the current policy limit of \$10 million and the Waiver of Recourse Premium to be paid individually by each trustee. The carrier of the current policy will not write a policy that exceeds \$10 million in coverage.

Mr. Jenkins stated that he researched what other Illinois systems have in place for fiduciary indemnification and his findings were reviewed ([Exhibit 11](#)). Mr. Jenkins noted that a number of Illinois systems do not carry fiduciary insurance but instead indemnify their trustees through an indemnification agreement or indemnification resolution (examples provided as [Exhibit 12](#) and [13](#)). In addition, there are a couple of systems that are self-insured.

Ms. Burns expressed concern with the idea of an indemnification agreement or resolution but agreed that an acceptable indemnification agreement could be drafted. Ms. Burns disclosed that she represents other funds that hold fiduciary insurance policies, and she may have influenced those decisions.

The Board reached agreement that a fiduciary liability insurance policy with coverage of \$10-15 million and an indemnification agreement would be adequate. Trustee Hightman asked Ms. Burns to draft an acceptable indemnification agreement for the Board's consideration. Trustee Rogers requested that the staff do further research to include what other pension systems outside Illinois are doing.

Ms. Porter reported that she continues to work with SURS' broker on getting a quote for a rolling run off policy that would cover each trustee for five to six years after their term on the Board ends. AIG has informed that they have never written such a policy and suggested instead that individual run off policies be purchased for each exiting trustee. Ms. Porter also agreed to work with the broker to seek quotes for excess coverage over the current policy limit, and to present them at the next Board meeting.

Trustee Hightman requested that the staff continue in their efforts and bring recommendations to the Board at the December meeting.

BOARD GOVERNANCE DISCUSSION

Trustee Hightman presented the proposed meeting dates for 2010. Trustee Williams recommended that the March meeting be held in Springfield so that the annual legislative outreach event could be held in conjunction with the meeting. It was agreed that the March meeting would be held in Springfield. After discussion, the following dates were set:

Tuesday, February 3, 2010	1:00 p.m. – 5:00 p.m.	Investment Committee
Wednesday, February 4, 2010	9:00 a.m. – 12:00 p.m.	Educational Forum
Wednesday, March 10, 2010	1:00 p.m. – 5:00 p.m.	Committee Meetings
Thursday, March 11, 2010	9:00 a.m. – 12:00 p.m.	Board Meeting
Friday, April 16, 2010	1:00 p.m. – 5:00 p.m.	Investment Committee
Thursday, June 10, 2010	1:00 p.m. – 5:00 p.m.	Committee Meetings
Friday, June 11, 2010	9:00 a.m. – 12:00 p.m.	Board Meeting
Thursday, September 2, 2010	1:00 p.m. – 5:00 p.m.	Committee Meetings
Friday, September 3, 2010	9:00 a.m. – 12:00 p.m.	Board Meeting
Thursday, October 28, 2010	1:00 p.m. – 5:00 p.m.	Investment Committee
Thursday, December 9, 2010	1:00 p.m. – 5:00 p.m.	Committee Meetings
Friday, December 10, 2010	9:00 a.m. – 12:00 p.m.	Board Meeting

With the exception of the March meeting, all meetings will take place in Chicago.

ELECTION OF OFFICERS

Trustee Antonio Vasquez resigned as Vice-Chairperson of the Board and Trustee John Engstrom resigned as Treasurer of the Board.

Trustee Williams nominated Trustee Mitchell Vogel to serve as Vice-Chairperson of the Board. Trustee Williams nominated Trustee Antonio Vasquez to serve as Treasurer of the Board.

Trustee Rogers moved to accept the resignation of the temporary officers and elect the trustees nominated for the positions of Vice-Chairperson and Treasurer. The motion carried.

COMPARATIVE FINANCIAL REPORTS AND BUDGET VARIANCE

Ms. Porter directed the Board’s attention to her report, which is incorporated as [Exhibit 14](#), and decided not to provide an oral report in the interest of time.

CLOSED SESSION

Upon a recommendation by Trustee Hightman, Trustee Giertz moved that the Board go into closed session under the Open Meetings Act to consider the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body or legal counsel for the public, including hearing testimony on a

complaint lodged against an employee of the public body or against legal counsel for the public body to determine its validity. The motion was seconded and carried in a roll call vote:

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

Trustee Williams stepped out during the roll call but was present during the closed session discussion.

OPEN SESSION

The Board of Trustees returned to open session.

Trustee Cassidy moved that the Board retain attorney James Morphey, at a fee not to exceed \$20,000, to provide a legal opinion on the legal issue of whether or not the practice of withholding annuitant deductions to be forwarded to a political action committee violates the State Salary and Annuity Withholding Act. The motion was seconded and it carried.

LITIGATION REPORT

Mr. Jenkins' written litigation report was distributed to the Trustees. Mr. Jenkins noted that there are a few cases that may come to resolution prior to the next meeting of the Board, in which case the Executive Committee may be called upon to act.

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

Ms. Lieb's quarterly claims summary report is incorporated as a part of these Minutes as [Exhibit 15](#).

SELF-MANAGED PLAN REPORTS

Mr. Sheppard briefly addressed the Board and noted that the SMP staff continues to increase member education and is in the final stages of developing a webinar that will easily reach all members. Mr. Sheppard's report is incorporated as [Exhibit 16](#).

Prior to the conclusion of the meeting, Mr. George Wissmiller addressed the Board and provided an overview of his concerns regarding participation in SURS for irregular and

intermittent employees. Following Mr. Wissmiller's statements, the Board discussed the matter and requested that staff review the participation requirements and the reporting inequities that may exist between employers. Staff agreed to provide the Board with an update at the December meeting.

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
Secretary, Board of Trustees

JAP:ss