

PROCEEDINGS  
OF THE  
**Board of Trustees**  
OF THE  
**Public School Teachers' Pension and  
Retirement Fund of Chicago**

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**Regular Meeting – Official Report  
Tuesday, December 18, 2018**

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A regular meeting of the Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago was held Tuesday, December 18, 2018.

The President, Mr. Jeffery Blackwell, called the meeting to order at 9:31 a.m.

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**PUBLIC PARTICIPATION**

**Presentation by Maria J. Rodriguez**

Ms. Maria J. Rodriguez, a Pensioner Trustee and retired member, expressed her concern regarding the new Trustee seating arrangement. She expressed her opinion that the faces of the Fund are the Trustees, not the Executive Director and Chief Legal Counsel. Ms. Rodriguez expressed her concerns regarding CTPF administration, pension overpayments, CTPF hiring practices, alleged discrimination on the CTPF Board, CTPF whistleblower complaints, a CTPF non-disclosure form, and other CTPF policies.

President Blackwell addressed Ms. Rodriguez's concern regarding the new Trustee seating arrangement and commented on his reasoning for the change.

**Presentation by Lois Lubin**

Ms. Lois Lubin, a retired member, requested clarification regarding the 2018 Trustee election email as to whether all such emails provided access to the website voting page.

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**ROLL CALL**

Members present: Mr. Jeffery Blackwell, Mr. James Cavallero, Ms. Gervaise Clay, Ms. Tina Padilla, Mr. Gregory Redfeairn, Ms. Maria J. Rodriguez, Mr. Jerry Travlos, Ms. Jacqueline Price Ward, Ms. Gail D. Ward – 9

Members absent: Mr. Robert F. Bures, Mr. Mark F. Furlong, Ms. Mary Sharon Reilly – 3

Ms. Reilly subsequently joined the meeting via telephone during the Report of Investment staff.

Also in attendance were Mr. Charles A. Burbridge (*Executive Director*), Ms. Mary Cavallaro (*Deputy Executive Director*), Mr. John F. Schomberg (*Chief Legal Officer*), Ms. Adriane McCoy (*Internal Audit Director*), Ms. Angela Miller-May (*Chief Investment Officer*), Mr. Joseph Burns of Jacobs, Burns, Orlove and Hernandez (*Board Counsel*), and various observers and staff members.

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## **APPROVAL OF MINUTES**

### **Motion to Approve Minutes of Regular Board Meeting on November 13, 2018, Approved**

Mr. Cavallero made a motion, seconded by Mr. Redfeairn, to approve the minutes of the Regular Board Meeting on November 13, 2018. The motion passed unanimously.

### **Motion to Defer Organization of the Board, Approved**

Mr. Cavallero made a motion, seconded by Ms. Ward, to defer the Organization of the Board. The motion passed unanimously.

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## **REPORT OF THE INVESTMENT TEAM**

### **Prohibited Vendor List**

Ms. Angela Miller-May, Chief Investment Officer, reviewed the Prohibited Vendor List. Ms. Miller-May addressed questions raised by the Trustees.

### **Private Equity Emerging Markets RFP Approval to Hire Managers**

Ms. Miller-May reviewed the Private Equity Emerging Markets Africa-Focused search. Ms. Miller-May stated that as part of the 2018 private equity pacing study, staff and Callan proposed up to \$25M in new investments in Emerging Markets allocations. She stated that the decision to focus on Africa this year was primarily driven by the current calendar of investable General Partners. She reminded the Board that representatives from AFIG Funds, Development Partners International, Pantheon Ventures, and Sango Capital Management presented to the Board at the November Board meeting. Ms. Miller-May reviewed RFP finalists' responses and stated that any of the managers will offer CTPF a unique and distinct opportunity. Staff recommends hiring two firms: one with a \$15M allocation and one with a \$10M allocation. Ms. Miller-May addressed questions and concerns raised by the Board.

Discussion ensued regarding concerns with allocation of funds to the Private Equity Emerging Markets – Africa-Focused Managers.

The Board agreed to retain Callan, subject to final contract negotiations, to conduct a due diligence review of AFIG Funds (if still available as an investment option), Development Partners International, and Sango Capital Management, on a project basis for Private Equity, as a risk mitigation process. The Board also requested that Foster Pepper perform an analysis of the current investment contract documents for AFIG Funds (if still available as an investment option), Development Partners International, and Sango Capital Management.

**Motion to Retain Callan to Perform Due Diligence Review of AFIG, Development Partners International, and Sango Capital Management as part of the Private Equity Emerging Markets—Africa-Focused RFP, Approved**

Ms. Padilla made a motion, seconded by Mr. Redfeairn, to approve the retention of Callan for purposes of a due diligence review of AFIG Funds (if still available as an investment option), Development Partners International, and Sango Capital Management as part of the Private Equity Emerging Markets – Africa-Focused RFP, subject to final contract negotiations.

The motion passed by the following vote:

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Clay, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Mr. Travlos, Ms. Price Ward, Ms. Ward – 9

Abstentions: Ms. Rodriguez – 1

**Approval to Release MWDBE Private Equity RFP**

Ms. Miller-May and Mr. Andrew Kelsen, Private Equity Portfolio Manager, requested approval to release an MWDBE Private Equity RFP for \$40M. They reported that CTPF's private equity target is 5% and is currently under allocated at fewer than 3.5%. They addressed questions raised by the Board.

**Motion to Approve Release of MWDBE Private Equity RFP, Approved**

Mr. Redfeairn, made a motion, seconded by Ms. Padilla, to approve release of an MWDBE Private Equity RFP for \$40M.

The motion passed unanimously.

**Approval to Release MWDBE Infrastructure RFP**

Ms. Miller-May requested approval to release an MWDBE Infrastructure RFP for \$25M. Ms. Miller-May addressed questions raised by the Board.

**Motion to Approve Release of MWDBE Infrastructure RFP, Approved**

Ms. Price Ward made a motion, seconded by Ms. Ward, to approve release of an MWDBE Infrastructure RFP for \$25M.

The motion passed unanimously.

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**REPORT OF THE COMMITTEE ON INVESTMENTS****December 7, 2018, First Friday Meeting Report Presented**

Chairperson Padilla presented the December 7, 2018, First Friday Meeting report. (see Exhibit A)

Chairperson Padilla reminded the Board that the next Investment Committee meeting is scheduled for January 24, 2019, at 9:30 a.m.

Chairperson Padilla moved the Report of the Committee on Investments to the omnibus.

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## **REPORT OF THE COMMITTEE ON CLAIMS AND SERVICE CREDITS**

Chairperson Rodriguez stated that she will be meeting with Ms. Rosemary Ihejirika to schedule Claims and Service Credits committee meetings, if needed.

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## **REPORT OF THE COMMITTEE ON FINANCE AND AUDIT**

### **December 6, 2018, Finance and Audit Committee Meeting Report Presented**

Chairperson Redfeairn presented the December 6, 2018, Finance and Audit Committee Meeting report. (See Exhibit B)

### **Motion to Accept Committee Recommendation Regarding CPS Agreed Upon Procedures and Remediation Plan, with Modification, Approved**

Mr. Redfeairn made a motion, seconded by Ms. Rodriguez, to accept the Committee recommendation, modified to enter into negotiations immediately, to negotiate different deadlines for resolution (e.g. in some cases, 30 days to remediate may be reasonable), depending on the subject matter.

The motion passed unanimously.

### **Recommendation Regarding Employer Audit Team Staffing**

Staff recommended approving new headcount of up to seven additional staff members for the creation of a dedicated employer payroll audit team to monitor and manage the charter school audit program, anticipated CPS audit, and to initiate additional concurrent audit processes based on licensing and participant identification.

### **Motion to Accept Committee Recommendation Regarding Employer Audit Team Staffing, Approved**

Mr. Redfeairn made a motion, seconded by Mr. Cavallero, to accept the Committee recommendation regarding employer audit team staffing, with potential budgets to be provided for approval for a team of 3 to 7 new employees, with an emphasis on diversity in hiring.

The motion passed unanimously.

### **Recommendation Regarding CPS Payroll Audit and Timing**

Staff recommends engaging a payroll audit firm to begin work within 30 days of completion of the CPS AUP remediation work plan. Staff recommendation would be to engage Calibre, based on (i) their pricing (\$90/Hour), (ii) their bandwidth, and (iii) their bid on participating in and responsiveness for the charter school payroll audits.

After further discussion, including regarding having a separate audit firm, specific to the CPS audit, the Board agreed to engage Macnell to audit CPS.

**Motion to Accept Committee Recommendation Regarding CPS Payroll Audit and Timing, As Modified, Approved**

Ms. Padilla made a motion, seconded by Ms. Rodriguez, to accept the Committee recommendation, but modified to engage Macnell as the CPS payroll audit firm. The motion passed by the following vote:

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Ms. Rodriguez, Mr. Travlos, Ms. Price Ward, Ms. Ward – 9

Nays: Ms. Clay – 1

**Motion to Accept Modifications to GRS Actuarial Report and Accept Timeline of the CAFR, Approved**

Mr. Redfeairn made a motion, seconded by Mr. Cavallero, to accept the timeline of the CAFR and the proposed modifications to GRS's actuarial report to the full Board. The motion passed unanimously.

**Motion to Accept Committee Recommendation Regarding the Procurement of Cybersecurity Insurance, Approved**

Mr. Redfeairn made a motion, seconded by Mr. Cavallero, to accept the Committee recommendation to retain Alliant/Mesirow Insurance Services, Inc., as a broker in order to conduct an informal procurement of cybersecurity insurance. The motion passed unanimously.

**Motion to Accept Committee Recommendation Waiving Certain Statutory Penalties, Liquidated Damages, and Interest for Amandla Charter School and Noble Network of Charter Schools, Approved**

Ms. Padilla made a motion, seconded by Mr. Cavallero, to accept the Committee recommendation to waive late fees for Amandla Charter School and Noble Network of Charter Schools (Teachers and Administrators).

The motion passed by the following vote:

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Clay, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Mr. Travlos, Ms. Price Ward, Ms. Ward – 9

Nays: Ms. Rodriguez – 1

**Motion to Deny Waiver Request for L.E.A.R.N. Charter School Network, Approved**

Mr. Redfeairn made a motion, seconded by Mr. Cavallero, to deny the waiver request for L.E.A.R.N. Charter School Network.

The motion was passed unanimously.

Ms. Rodriguez requested that the Public Participation section of the December 6, 2018, Finance and Audit Committee report be amended.

Mr. Joseph Burns, Board Counsel, recommended that the Public Participation section of the Committee report be deleted until the amendment is reviewed and approved.

Chairperson Redfeairn agreed to delete the Public Participation section from the report.

Ms. Rodriguez will work with staff to amend her comments made during Public Participation and submit at the January 17, 2019, Board meeting.

Chairperson Redfeairn moved the Finance and Audit Report, with the deletion of the Public Participation section, subject to amendment, to the omnibus.

Ms. Alise White, Chief Financial Officer, reported that there will be four new contract schools that will be added as contributors to the Fund and that staff would be recommending a conditional waiver process at the January 2019 Board meeting, similar to the one put in place in the summer and fall 2018 due to the new ERS system, to be applied to these joint employers as new contributors and system users.

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## **REPORT OF THE COMMITTEE ON COMMUNICATIONS**

Chairperson Price Ward presented the Communications summary for November 2018.

Chairperson Price Ward moved the Communications Report to the omnibus.

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## **REPORT OF THE POLICY COMMITTEE**

Mr. John F. Schomberg, Chief Legal Officer, reviewed the Contributions Required During Leaves for Qualified Military Service Policy and Nonforfeitability Policy for Board approval. He stated that the Fund currently follows these policies, but the Internal Revenue Service (IRS) is requesting that the Fund formally adopt the policies. Mr. Schomberg addressed questions raised by the Board.

### **Motion to Adopt the Contributions Required During Leaves for Qualified Military Service Policy and Nonforfeitability Policy, Approved**

Mr. Redfeairn made a motion, seconded by Ms. Price Ward, to adopt the Contributions Required During Leaves for Qualified Military Service Policy and Nonforfeitability Policy.

The motion passed unanimously.

Mr. Schomberg reviewed the Delinquencies and Waiver of Delinquencies/Collection Actions/Settlements Policy. He reported that amendments have been made to be consistent with the statutory language (i.e. changing references to “late fees” to “statutory penalties”). He noted that language has been added regarding the priority of payments being made for overdue contributions and delinquencies (statutory penalties, liquidated damages, and interest) for both Multi-Campus Charterholders and all employers other than Multi-Campus Charterholders. Mr. Schomberg addressed questions raised by the Board.

### **Motion to Accept Proposed Amendments to the Delinquencies and Waiver of Delinquencies/Collection Actions/Settlements Policy, Approved**

Ms. Padilla made a motion, seconded by Mr. Cavallero, to accept the proposed amendments to the Delinquencies and Waiver of Delinquencies/Collection Actions/Settlements Policy.

The motion passed unanimously.

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## REPORT OF THE RETURN TO WORK COMMITTEE

Chairperson Rodriguez reviewed the Hearing Officer's recommendation regarding Faye Grady and Miriam Valcarcel regarding their Return to Work appeals. The Hearing Officer recommended that the Board find that Faye Grady exceeded the Return to Work limitations and that her pension should be cancelled from the date she exceeded the limitations until the end of the school year for which she exceeded the limitations. The Hearing Officer recommended that Miriam Valcarcel's appeal be dismissed as moot because it was determined, based on revised payroll data from CPS, that she did not exceed the Return to Work limitations.

### **Motion to Accept Hearing Officer's Recommendation Regarding Faye Grady and Miriam Valcarcel, Approved**

Ms. Rodriguez made a motion, seconded by Ms. Price Ward, to accept the Hearing Officer's recommendations regarding Faye Grady and Miriam Valcarcel regarding their Return to Work appeals.

The motion passed unanimously.

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## REPORT OF THE PRESIDENT

### **Motion to Approve Board Training Hours, Approved**

Ms. Padilla made a motion, seconded by Mr. Cavallero, to approve the December 18, 2018, Board Training hours on Board Docs Training, General Trustee Training/Refresher, Trustee Travel, Fiduciary Training by Ice Miller, Enterprise Risk Training by Plante Moran, Ethics Training, Acceptable Use Training/International iPad Usage, as well as Mr. Travlos qualitative research course and legal training.

The motion passed by the following vote:

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Clay, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Mr. Travlos, Ms. Price Ward, Ms. Ward – 9

Nays: Ms. Rodriguez – 1

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## REPORT OF THE EXECUTIVE DIRECTOR

### **Executive Director Report**

Mr. Charles A. Burbridge, Executive Director, reported on departmental efforts during the past month. He highlighted engagement activities during the months of November 2018 and December 2018. He also reminded the Board of current RFPs and the quiet period. He addressed questions raised by the Board.

### **2018 Trustee Election Recap**

Ms. Tracey Schroeder, Election Coordinator, gave a summary of the 2018 Board of Trustees Election. Ms. Schroeder addressed questions raised by the Board.

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**OMNIBUS VOTE**

On a motion by Ms. Padilla, seconded by Mr. Cavallero, and by unanimous vote, the foregoing committee reports, which were moved to the omnibus, were approved.

**Motion to go into Executive Session, Approved**

Ms. Padilla made a motion, seconded by Mr. Cavallero, to go into Executive Session for the purpose of discussing litigation matters, personnel matters, internal control matters, and disability and duty disability applications. The motion passed unanimously.

The Executive Session lasted from 12:44 p.m. to 3:15 p.m.

Ms. Ward left the meeting during Executive Session.

**Motion to go into Open Session, Approved**

Ms. Rodriguez made a motion, seconded by Mr. Cavallero, to go into Open Session. The motion passed unanimously.

**Motion to Approve Non-Duty Disability Report, Approved**

Mr. Redfeairn made a motion, seconded by Ms. Rodriguez, to accept the non-duty applicants as presented at the December 18, 2018, Board meeting. The motion passed unanimously.

**Conference Requests**

Ms. Reilly and Mr. Bures requested approval to attend the Callan Conference in January 2019 in San Francisco.

**Motion to Approve Trustee Travel, Approved**

Ms. Padilla made a motion, seconded by Mr. Cavallero, to approve Trustee travel as listed above.

The motion passed by the following vote:

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Clay, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Mr. Travlos, Ms. Price Ward – 8

Nays: Ms. Rodriguez – 1

**Motion to Authorize Lawsuit for Top Eight Overpayments, Approved**

Mr. Travlos made a motion, seconded by Mr. Cavallero, to authorize staff and outside counsel to go directly to lawsuit for the top eight violators (in dollars overpaid) of overpayments.

Ayes: Mr. Blackwell, Mr. Cavallero, Ms. Clay, Ms. Padilla, Mr. Redfeairn, Ms. Reilly, Mr. Travlos, Ms. Price Ward – 8

Nays: Ms. Rodriguez – 1



**Motion to Establish a Hold Harmless Policy, Approved**

Ms. Price Ward made a motion, seconded by Ms. Rodriguez, to establish a hold harmless policy regarding Fund members who are incorrectly reported as deceased, subject to final administrative rule. The motion passed unanimously.

**Board Training**

CTPF staff covered Board Training and made presentations to the Board which included Board Docs Training, General Trustee Training/Refresher, Trustee Travel, Fiduciary Training by Ice Miller, Enterprise Risk Management Training by Plante Moran, Ethics Training, and Acceptable Use Training/International iPad Usage.

Ms. Padilla left the meeting after the Enterprise Risk Management training by Plante Moran.

Ms. Rodriguez left the meeting after the Ethics training by Mr. John F. Schomberg.

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**ADJOURNMENT**

The meeting adjourned at 6:29 p.m.

Respectfully submitted,



Jacqueline Price Ward  
Recording Secretary

PROCEEDINGS  
OF THE  
**Board of Trustees**  
OF THE  
**Public School Teachers' Pension and  
Retirement Fund of Chicago**

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**Executive Session – Official Report  
Tuesday, December 18, 2018**

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An executive session of the Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago was held Tuesday, December 18, 2018.

The President, Mr. Jeffery Blackwell, called the meeting to order at 12:44 p.m.

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**ROLL CALL**

Members present: Mr. Jeffery Blackwell, Mr. James Cavallero, Ms. Gervaise Clay, Ms. Tina Padilla, Mr. Gregory Redfeairn, Ms. Mary Sharon Reilly (via telephone), Ms. Maria J. Rodriguez, Mr. Jerry Travlos, Ms. Jacqueline Price Ward, Ms. Gail D. Ward – 10

Members absent: Mr. Robert F. Bures, Mr. Mark F. Furlong – 2

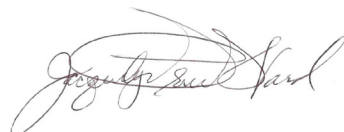
Also in attendance for portions of the Executive Session (with Mr. Burns attending the entirety) were Mr. Charles A. Burbridge (*Executive Director*), Ms. Mary Cavallaro (*Deputy Executive Director*), Mr. John F. Schomberg (*Chief Legal Officer*), Ms. Adriane McCoy (*Internal Audit Director*), and Mr. Joseph Burns of Jacobs, Burns, Orlove and Hernandez (*Board Counsel*).

Discussion ensued regarding litigation matters, personnel matters, internal control matters, and disability pensions and duty disability benefits. No action was taken.

Ms. Ward left during Executive Session.

There being no further business, the executive session adjourned at 3:15 p.m.

Respectfully submitted,



Jacqueline Price Ward  
Recording Secretary

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**EXHIBIT A****Investment Committee Informal Meeting****Summary of Presenters, December 7, 2018**

Attendees: CTPF Trustees: Tina Padilla, Jeffery Blackwell, Mary Sharon Reilly

Staff: Angela Miller-May, Andrew Kelsen, John Freihammer, Summer Qui, Barbara Meyer, Robert Dickman-Lopez, Kelly Paulk, Sharena Bridgmon, James Binsfeld, Chuck Burbridge, Mary Cavallaro

Others: Brianne Weymouth of Callan Associates, Vennie Lyon, Patrick Silvestri, Mariya Nikolova of Attucks

At the May 20, 2006, Board meeting, Trustees were encouraged to attend Management and Consultant's (Callan) "First Friday" monthly meetings with investment managers and service providers. These meetings provide access to ANY investment service provider that would like to meet with management and Callan and have a product that is potentially beneficial to the Fund. The attendees met with the following investment service providers:

- 9:30 a.m. Driehaus Capital Management (DCM) – Dan Burr and Lee Diamandakis presented their firms International Small Cap Equity strategy. DCM is an independent investment advisor based in Chicago, Il that manages \$7.3B in assets. DCM's international small cap strategy was inceptioned in 2001, and utilizes an active, equity growth investment philosophy which targets inefficiencies that persist across developed international and emerging market public small-cap equities. DCM was founded in 1982 and is a majority-owned firm.
- 9:55 a.m. Lisanti Capital Growth – Mary Lisanti and Timothy Woods presented their firm Domestic Small Cap Equity strategy. Founded in 2003, Lisanti is a highly focused boutique firm that specialized in investments in US small and smid cap growth equities. Lisanti is committed to providing value to its clients by investing in small cap growth companies that are at the forefront of secular, structural and transformative changes. Lisanti is a woman-owned firm and has an AUM of \$296.2M.
- 10:20 a.m. High Pointe Capital Management – Gautam Dhingra and Ritu Dhingra presented their firms Domestic Equity strategy. High Pointe has a differentiated investment approach that works to solve the intractable problem of valuing and incorporating intangible assets and ESG factors via its franchise quality framework. .
- 10:45 a.m. Ramirez Asset Management (RAM) – Sam Ramirez and James Haddon presented their firms Core Fixed income strategy. Ramirez (RAM) utilizes a disciplined and repeatable investment process that is driven by sector rotation and security selection. RAM process maximizes the expertise of its investments professionals while integrating quantitative market indicators and metrics. RAM was founded in 2002 and currently manages \$2.2B in assets.

- 11:10 a.m. Merrill Lynch – Cheryl Washington and Mark Thorndyke presented their firm's Multi-Cap Domestic and International Equity strategy. Merrill Lynch (Thorndyke Wealth Equity Strategy) is a multi-cap, global equity strategy that was launched in January 2003. Their firm's strategy is to provide investors with long-term capital growth through diverse equities. Their firm has over \$1.9B in AUM.
- 11:10 a.m. Applied Fundamental Research (AFR) – Theodore Wagenknecht, Kevin Curran and Christine Sobolewski presented their firm Domestic Small Cap Equity strategy. AFR This Cambridge, Mass., firm focuses on North American small-cap equities and pursues a long-term approach that seeks to capitalize on dislocations between intrinsic value and market price. AFR was founded in 2013 and has an AUM of \$21.2M.



Chicago Teachers' Pension Fund



## FINANCE & AUDIT COMMITTEE REPORT

**Date: December 6, 2018**

**Submitted by: Mr. Gregory Redfeairn, Chair**

**Meeting Time: 5:06 p.m.—8:28 p.m.**

**Exhibit B**

## ATTENDEES

Trustees	Staff	Consultants
Trustee Gregory Redfeairn, Chair	Mr. Charles Burbridge, Executive Director	Mr. Joseph Burns, Board Counsel
Trustee Tina Padilla	Ms. Mary Cavallaro, Deputy Executive Director	
Trustee Mary Sharon Reilly	Ms. Alise White, Chief Financial Officer	
Trustee Maria J. Rodriguez	Mr. John Schomberg, Chief Legal Counsel	
	Ms. Adriane McCoy, Internal Audit Director	
	Ms. Janet Camacho, Accountant	

## AGENDA ITEMS

1. Public Participation
2. Recommendation Regarding CPS Agreed Upon Procedures and Employer Payroll Audits
  - 90 Day Agreed Upon Procedures Remediation Work Plan
  - Employer Audit Team Staffing
  - CPS Payroll Audit Timing
3. Recommendation Regarding the FY 2018 CAFR Approval Timeline and Report of the State Actuary
4. Recommendation Regarding the Procurement of Cybersecurity Insurance
5. Report on Employer Payroll Delinquencies and Payroll Audit Adjustments
  - Recommendation Regarding Waiver Requests
  - Recommendation Regarding Historical Charter School Late Fee Assessments
6. Executive Session
  - Personnel Matters
  - Litigation Matters
  - Internal Control

## DISCUSSIONS

### **Recommendation Regarding CPS Agreed Upon Procedures and 90 Day Remediation Plan**

Deputy Executive Director Mary Cavallaro discussed the remediation of CPS AUP results. The Agreed Upon Procedures (“AUP”), conducted by agreement with CPS utilizing their external audit firm, Baker Tilly, were performed to review the accuracy, timeliness, and completeness of member census data as reported by CPS to the Fund office.

Staff recommended seeking to engage CPS in a tolling agreement as to any potential legal claims that CTPF could have arising out of a payroll audit of CPS and engaging in a 90 day work plan to remediate variances identified through the AUP, including entering into a formal agreement with CPS to implement procedures and quality control measures to improve the accuracy, timeliness, and completeness of reported member data.

### **Motion to Make Staff Recommendation Regarding CPS Agreed Upon Procedures and 90 Day Remediation Plan to the Full Board, with Modification, Approved**

Trustee Redfeairn, made a motion to accept the staff’s recommendations, modified to enter into negotiations immediately and, rather than 90 days, to negotiate different deadlines for resolution (e.g. in some cases, 30 days to remediate may be reasonable), depending on the subject matter. The motion passed unanimously.

### **Recommendation Regarding Employer Audit Team Staffing**

Staff recommends approving new headcount of up to seven additional staff members for the creation of a dedicated employer payroll audit team to monitor and manage the charter school audit program, anticipated CPS audit, and to initiate additional concurrent audit processes based on licensing and participant identification.

### **Motion to Make Staff Recommendation Regarding Employer Audit Team Staffing to the Full Board, Approved**

Trustee Redfeairn, made a motion to accept the staff’s recommendations, with potential budgets for a team of 3 to 7 new employees, with an emphasis on diversity in hiring. The motion passed unanimously.

### **Recommendation Regarding CPS Payroll Audit and Timing**

Staff recommends engaging a payroll audit firm to begin work within 30 days of completion of the CPS AUP remediation work plan. Staff recommendation would be to engage Calibre, based on (i) their pricing (\$90/Hour), (ii) their bandwidth, and (iii) their bid on, participating in, and responsiveness for the charter school payroll audits.

**Motion to Make Staff Recommendation Regarding CPS Payroll Audit and Timing to the Full Board, As Modified, Approved**

Trustee Padilla made a motion, seconded by Trustee Rodriguez, to make the staff's recommendation to the full Board, but modified to engage Macnell as the payroll audit firm. The motion passed by the following vote:

Aye: Ms. Padilla, Ms. Rodriguez—2.

Abstentions: Mr. Redfeairn, Ms. Reilly—2.

**Recommendation Regarding the FY 2018 CAFR Approval Timeline and Report of the State Actuary**

Ms. Alise White, Chief Financial Officer, reviewed the Board Action Request regarding the FY 2018 CAFR timeline and report of the State Actuary. Ms. White stated that she has requested an extension to file the CAFR and it was granted for January 31, 2019. She stated that since her arrival she has streamlined the process to prepare the CAFR. Staff and Plante Moran are working together to ensure that the CAFR will be presented at the January 17, 2019 Board Meeting. Staff is in process of filing the Illinois Department of Insurance Annual Survey by the required December 31, 2018 statutory deadline.

Ms. White reviewed the Preliminary Report from Cheiron, the State Actuary, on the Public School Teachers' Pension and Retirement Fund of Chicago Pursuant to Public Act 100-0465 Regarding Gabriel, Roeder, Smith & Company's Draft June 30, 2018 Actuarial Valuation. Ms. White stated that CTPF Staff will be addressing the report recommendations as follows:

1. We recommend that the Actuary in their valuation report disclose and reconcile explicitly the difference between the total normal cost disclosed in the summary table of results and the normal cost shown in the Development of Normal Cost State Contributions under Section 17-127(d)(1) of the Illinois Pension Code (the difference between the values of \$366,153,498 and \$376,739,000).

CTPF Response: Staff will work with Gabriel, Roeder, Smith & Company to update the June 30, 2018 Actuarial Valuation Report to address the recommendation.

2. We recommend the CTPF Board continue to annually review the economic assumptions (interest rate and inflation) prior to commencing the valuation work and adjust assumptions accordingly, as they did for this valuation.

CTPF Response: Staff will be working on a policy for Board approval to address this recommendation.

3. We agree with CTPF's actuary, GRS, that the two assumption changes that were not adopted by the Board based on the Chicago Public Schools request, continue to be monitored and

assumption changes be adopted if there continue to be reductions in the active participants and if the early retirement behavior patterns continue.

CTPF Response: Staff will be working on a policy for Board approval to address this recommendation.

4. Comment for CTPF Consideration:

I. Actuarial Cost Method

The System uses the projected unit credit cost method (PUC) to assign costs to years of service, as required under the Pension Code (40 ILCS 5/17). We have no objections with respect to using the PUC method, although we, as GRS does, would prefer the Entry Age Normal (EAN) cost method as it is more consistent with the requirement in 40 ILCS 5/17-129 for level percent of pay funding.

Under the PUC method, which is used by *some* public sector pension funds, the benefits of active participants are calculated based on their compensation projected with assumed annual increases to ages at which they are assumed to leave the active workforce by any of these causes: retirement, disability, turnover, or death. Only past service (through the valuation date but not beyond) is taken into account in calculating these benefits. The cost of providing benefits based on past service and future compensation is the actuarial accrued liability for a given active participant. Under the PUC cost method, the value of an active participants benefits tends to increase more sharply over his or her later years of service than over his or her earlier ones. As a result of this pattern of benefit value increasing, while the PUC method is not an unreasonable method, more plans use the EAN cost method to mitigate this effect. It should also be noted that the EAN cost method is the required method to calculate liability for GASB 67 & GASB 68. CTPF Response: Staff will be working on a policy for Board approval to address this comment.

**Motion to Accept GRS Modifications Actuarial Report and Accept Timeline of the CAFR and GRS Modifications to Actuarial Report, Approved**

Trustee Redfeairn made a motion to recommend the timeline of the CAFR and the proposed modifications to GRS's actuarial report to the full Board. The motion passed unanimously.

**Recommendation Regarding the Procurement of Cybersecurity Insurance**

Ms. White reviewed the Board Action Request regarding procuring Cybersecurity insurance. Staff recommends retaining Alliant/Mesirow Insurance Services Inc. as a broker to retain Cybersecurity insurance for the Fund. A committee of CTPF staff from Finance, IT, Legal, and Internal Audit will work with Alliant/Mesirow to conduct an informal procurement, by looking at 3 or more Cybersecurity Insurance plan providers in order to make an ultimate insurance selection. This assessment will include consideration of the ramifications to the Fund of the upcoming office relocation.

**Motion to Make Staff Recommendation Regarding the Procurement of Cybersecurity Insurance to the Full Board, Approved**

Trustee Redfeairn made a motion, seconded by Trustee Padilla, to make staff's recommendation regarding retaining Alliant/Mesirow Insurance Services Inc. as a broker in order to conduct an informal procurement of cybersecurity insurance to the full Board. The motion passed unanimously.

**Report on Employer Delinquencies and Payroll Audit Adjustments**



Ms. Janet Camacho, Accountant, presented and reviewed the Monthly Aging Report for employer payroll delinquencies and payroll audit adjustments.

Ms. White reviewed a Staff recommendation to waive Statutory Penalties, Liquidated Damages, and Interest due on unsubmitted contributions that were not billed due to a CTPF reporting issue for Amandla Charter School and Noble Network of Charter Schools for both Teachers and Administrators. Staff recommends waiving the total Statutory Penalties, Liquidated Damages, and Interest due late fees in the amount of \$1,858.70.

**Motion to Make Staff Recommendation Waiving Certain Statutory Penalties,  
Liquidated Damages, and Interest for Amandla Charter School and Noble Network of  
Charter Schools to the Full Board, Approved**

Trustee Redfeairn made a motion to accept staff's recommendation to waive late fees for Amandla Charter School and Noble Network of Charter School (Teachers and Administrators) and to refer the same to the full Board. The motion passed unanimously.

**Recommendation Regarding L.E.A.R.N. Charter School Network Delinquency Waiver Request**

Staff recommends deny the delinquency waiver request and billing L.E.A.R.N. Charter School network for the delinquencies relating to pay period end date 8/3/18 in the amount of \$410.83. The employer has been delinquent for 8 pay periods during FY 2018 and 3 pay periods during FY 2019 and is currently in litigation. There were no system issues that prevented L.E.A.R.N. from submitting their payroll records and pension contributions on or before the due date.

**Motion to Deny Waiver Request for L.E.A.R.N. Charter School Network, Approved**

Trustee Redfeairn made a motion to deny the waiver request for L.E.A.R.N. Charter School Network. The motion was passed unanimously.

**Executive Session****Motion to go into Executive Session**

Trustee Redfeairn made a motion and unanimously passed, to go into Executive Session for the purpose of discussing personnel, litigation, and internal controls.

The executive session lasted from 7:18 p.m. to 8:28 p.m.

**Motion to go into Open Session**

Trustee Redfeairn made a motion and unanimously passed, to go into open session.

**The meeting adjourned at 8:28 p.m.**

December 6

2018

PROCEEDINGS  
OF THE  
**Board of Trustees**  
OF THE  
**Public School Teachers' Pension and  
Retirement Fund of Chicago**

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Executive Session - Official Report

Thursday, December 6, 2018

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An Executive Session of the Finance & Audit Committee of the Public School Teachers' Pension and Retirement Fund of Chicago was held Thursday, December 6, 2018.

Chairperson Redfeairn called the meeting to order at 7:18 p.m.

**ROLL CALL**

Members present: Ms. Tina Padilla, Mr. Gregory Redfeairn, Ms. Mary Sharon Reilly, Ms. Maria J. Rodriguez—4.

Members absent: Mr. Jeffery Blackwell, Mr. Robert F. Bures, Mr. James Cavallero, Ms. Gervaise Clay, Mr. Mark F. Furlong, Mr. Jerry Travlos, Ms. Jacquelyn Price Ward, Ms. Gail Ward—8.

Also in attendance, for all or part of the session, were Mr. Charles Burbridge (*Executive Director*), Ms. Mary Cavallaro (*Deputy Executive Director*), Mr. John Schomberg (*Chief Legal Officer*), Ms. Adriane McCoy (*Internal Audit Director*), Mr. Daniel Hurtado (*Associate General Counsel*), and Mr. Joseph Burns (*Board Counsel*) of Jacobs, Burns, Orlove and Hernandez.

Discussion ensued regarding personnel, litigation, and internal controls.

Ms. Reilly left during the Executive Session.

There being no further business, the Executive Session adjourned at 8:28 p.m.

Respectfully submitted,

Gregory Redfeairn  
Chairperson

