

The

Advocate



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Note to Members on Recent Market Events

The recent turmoil in the financial markets has been unprecedented. The investment banking model employed on Wall Street for decades no longer exists. Investors are nervous and the federal government has taken unprecedented steps to shore up the nation's capital markets.

As always, SURS staff is monitoring the situation very closely. SURS is in constant contact with its investment managers and its investment consultant, Ennis Knupp + Associates.

It is important to place these events in context. Although fiscal year 2008 return was a negative 4.5% and the first four months of fiscal year 2009 have been even more difficult, this was preceded by four years of double digit investment returns. SURS's return over five years has been 10.3%, our return over 10 years has been 6.2%, and our return over 22 years (the average length of employment of a SURS participant upon retirement) has been 9.34%.

SURS, like other pension funds, is a quintessential long-term investor. With an investment time frame of 30+ years, SURS can ride out market turmoil and maintain a long-term investment philosophy. We maintain confidence that an appropriate overall structure of the U.S. and international financial system will arise from the current market stresses and that patient long-term investors, such as SURS, will ultimately be rewarded. □

– Mitchell Vogel (Board President) and Dan Slack (Executive Director)

Benefit Summary Statements

As we reached the end of the SURS academic year, SURS started assembling and testing the information for the annual Benefit Summary Statements. Members enrolled in the Traditional or Portable Benefit Packages can expect to receive their statements in December, beginning with the actively employed members and ending with the inactive members. The annual statement information will be updated through August 31, 2008, the end of the academic year. Members in the Self-Managed Plan (SMP) can also expect their statements in early December.

This year, the statements will have a new look. The new statement layout will group demographic and benefit information by type and display them in separate text boxes for added visual appeal and clarity. Text will be included in the boxes to provide information about each demographic or benefit group.

Also included this year with the demographic information is a new field called Reciprocal Time Reported. This field will appear only if SURS has received notification that the member has service established with one or more of the main Illinois retirement systems under the Illinois Retirement Systems Reciprocal Act. The

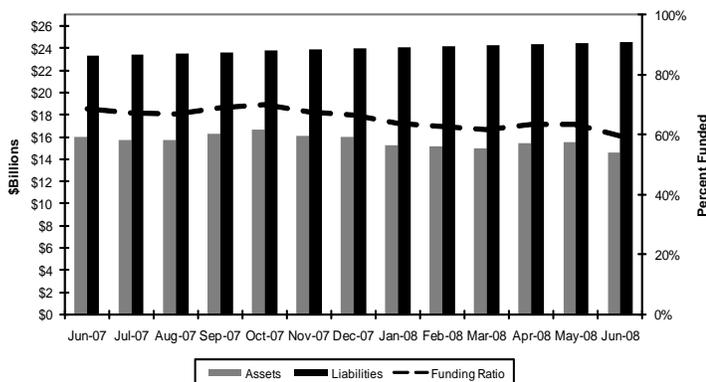
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Investment Update

Fiscal Year 2008 Investment Results



Fiscal year 2008 was a year of unprecedented turmoil in the financial markets. Distress in the sub-prime mortgage arena, record high oil prices, a slowing economy, and inflation fears combined to form an environment which offered little place to hide from declining financial markets. Although the broad diversification of the total portfolio helped to cushion the impact, the total investment portfolio experienced a -4.5% return for fiscal year 2008, the first negative return since fiscal year 2002. Despite the negative return, the total portfolio exceeded the return of the policy benchmark by 50 basis points and ranked near the top third of the Russell Mellon Public Fund universe. The broad U.S. equity market returned -13.4% over the period, as measured by the Dow Jones Wilshire 5000 Index. Non-U.S. equity markets fared somewhat better, but still declined by 6.6%, as measured by the MSCI All Country World Excluding U.S. Index.

The fixed income asset class served as an anchor to the portfolio in the turbulent markets, with the Lehman Aggregate Index returning +7.1% for the fiscal year. Treasury Inflation Protection Securities, sometimes called TIPS or inflation-linked bonds, performed particularly well, returning +15.1% for the year. SURS's investments in private equity and direct real estate also helped to soften the impact of the declining equity markets on the overall portfolio.

Year-to-year volatility in financial markets is not unexpected. SURS takes a long term view in constructing and managing the investment portfolio, preferring a proactive, rather than reactive, approach. Even taking into account the recent fiscal year, the total portfolio continues to produce strong long term returns.

As of June 30, 2008, the total combined fund assets in the defined benefit and defined contribution plans exceeded \$15.2 billion. The System's preliminary fund-

ing ratio at the end of the fiscal year was estimated at 59.4%. Also, the Self-Managed Plan (SMP) celebrated its tenth year of existence and has grown to over \$613 million in assets.

SURS completed several noteworthy projects in the past year, each designed to enhance a particular facet of the SURS investment operation. During the fiscal year, SURS successfully implemented a third party securities lending program, which has significantly enhanced the lending income to the plan. In addition, an asset/liability study was completed to verify the optimal asset allocation for the investment portfolio. This table illustrates both the old and new asset allocation targets.

Asset Class	Prior Target	New Target
U.S. Equity	39.5%	32%
Non-U.S. Equity	18.5	18
Global Equities	5	10
Fixed Income	21	18
TIPS	5	4
Direct Real Estate	2	6
REITS	4	4
Private Equity	5	6
Opportunity Fund	0	2
Infrastructure	0	1
Commodities	0	1
Total	100%	100%

Significant changes include increases to the global equity and direct real estate targets, with corresponding decreases to U.S. equity and fixed income. Small allocations to commodities and infrastructure were also approved, with further education and discussion with the SURS Board necessary in the coming months. Also completed over the last year were manager searches for an Emerging Manager Fund of Funds provider, stock-based enhanced equity managers, and global equity managers.

The Manager Development Program (MDP), focusing on emerging, minority-owned, and women-owned firms, was expanded in the past year. Five deserving investment managers earned additional allocations and two additional firms were hired in June 2008 to manage non-U.S. equity portfolios for SURS. A search for one or more fixed income managers for the MDP is in the final stages. Upcoming searches in the MDP will focus on U.S. equity and real estate. □

From the Desk of...

Dan M. Slack, Executive Director



For Fiscal Year 08, our return will be in the neighborhood of -4.5%. No one likes to report that, but it is important to keep this past year's return in perspective. It was preceded by four years of double-digit returns: FY 2007, 18.3%; FY 2006, 11.7%; FY 2005, 10.4%; FY 2004, 17.0%. SURS, like all investors, has faced tremendous challenges over the last several

months. Our investment staff is closely monitoring SURS's portfolio and is making strategic adjustments as needed.

Bear in mind that SURS's portfolio will largely replicate the returns in our capital markets. While we hope to exceed index returns through active management of our investment portfolio and while we obtain diversification from stocks and bonds through our alternative investments, the bulk of the SURS portfolio will, to a large extent, mirror the cycles of the financial markets themselves.

SURS will continue to invest for the long term. The Board of Trustees continues to periodically examine the appropriate asset allocation mix that will enable SURS to provide strong investment returns. Earlier this year, the trustees completed an asset/liability study and made several changes as a result. These changes were made primarily to reduce overall risk (volatility) in the portfolio while maintaining the same expected level of return. The new asset allocations can be found on the previous page in the Investment Update. The move from the old allocation to the new allocation will not be done abruptly. Staff will methodically proceed to implement these changes over an 18-24 month period.

I have been asked what the difference is between international equities and global equities. It is a different investment mandate. The managers who invest in international equities for SURS must invest in non-U.S. companies. The managers who invest in global equities for SURS are allowed to invest in U.S. companies or non-U.S. companies. Global equity managers can purchase stocks of a company, wherever located, that they believe will add value for SURS. In the increasing global environment in which companies (and countries) participate, we think that this increased flexibility, in the hands of an investment manager who is sophisticated enough to handle such a mandate, should add value to the SURS portfolio.

A word for our colleagues in the Self-Managed Plan. Please note that my comments are not intended as investment advice for any individual, but are comments of a general nature. So often, investors will panic during a downturn in the markets, move to cash, and then miss out on the time when the market cycle moves back into positive territory, effectively buying high and selling low. However, it is important to take an appropriate time-horizon view on investments. The farther away one is from retirement, the more one can "afford" to have riskier assets and to ride out market cycles. One often-mentioned rule of thumb is to take one's age and subtract it from 100 to determine a percentage to allocate to riskier assets, such as equities.

The required state contribution to SURS for FY 2009 is \$450,216,000. Although the state budget for FY 2009 does not include that full amount as an appropriation to SURS, SURS has continuing appropriation authority, which it will use to obtain the shortfall from the state's General Revenue Fund. The board of trustees has recently certified the required state contribution to SURS for FY 2010 as \$702,514,000.

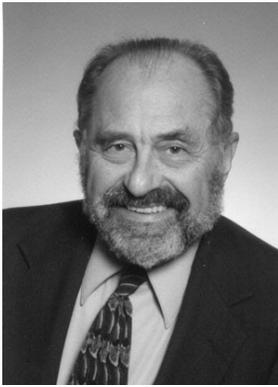
This will be my last column as the Executive Director of SURS.

This will be my last column as the Executive Director of SURS. I have accepted the position of Chief Executive Officer of the Fire & Police Pension Association

of Colorado, effective at the end of December. I was not actively looking to leave SURS. However, my outside interests are mountain-related and my family and I have vacationed for many years in Colorado. I could not pass up the opportunity to work for a well-respected pension fund in an area that is geographically desirable for us.

It has been a great honor for me to work for the participants and beneficiaries of the State Universities Retirement System. During my 17 years of involvement with SURS (10 years on staff) I have always been impressed with the quality and the service orientation of the SURS staff. I leave knowing that system participants and beneficiaries are in good hands.

The Board of Trustees has begun the search process for the next Executive Director. In order to obtain the highest quality candidates for the position, staff has been directed to issue a request for proposals from executive search firms. Once a search firm has been chosen, a nationwide search will be conducted for the next Executive Director. This is the same process that was used in hiring me and in hiring my predecessor. I am confident that this process will result in the hiring of a very capable Executive Director. □



SURS Board Increases Role in Corporate Governance

**By: Mitchell Vogel,
SURS Board President**

In the past, I have solicited input from SURS participants and annuitants. In return, you have responded with many practical and effective solutions. Your Board has implemented some of your most important suggestions and we are in a far better situation because of it. Our new top administrative leadership has performed admirably and our unfortunate financial situation caused by major underfunding has improved in the past two years.

Now, I call upon you again. Even though, historically, your Board has been active in the arena of corporate governance, over the past three years we have increased our involvement dramatically. This increase is due to the many publicized and non-publicized incidents of corporate malfeasance. Some of the headlines we have all seen include excessive salaries for corporate executives, banks creating sub-prime mortgages, boards of directors instituting mergers inappropriately, and shareholders not being allowed to address corporate leadership. These acts of malfeasance have, of course, affected our financial base as millions of dollars have been wasted and, in some cases, have fraudulently been misused.

Your SURS Board decided it was our responsibility to play a more active role in protecting your investments against these actions. We are not alone, as other large public and non-public pension funds have worked together and separately to make a difference. In fact, public pension funds are amongst the largest shareholder blocks of many major American companies. We have already been successful in a number of situations. [Please let us know if you think we are on the right path in the following three areas: proxy voting, securities litigation, and shareholder advocacy.](#)

In the past, our external investment managers voted our proxies for corporate board elections and other issues. We gave them very broad and

non-programmatic guidelines that asked them to vote for the exclusive benefit of our participants and beneficiaries. This led them to vote essentially in accordance with their own guidelines, which weren't necessarily ours.

In March of 2007, this changed. The SURS Board hired Marco Consulting Group to cast our proxy votes according to guidelines which we established in conjunction with other pensions systems through a national organization, the Council of Institutional Investors. These guidelines are posted on the SURS website. During the last year, we have supported the existing management proposals 64% of the time. Our opposition the other 36% of the time has led to, in at least one case, a change in the direction of the Board.

Prior to 2001, SURS participated in securities litigation in a more passive role solely through receiving payouts in class action suits where our custodian bank filed claims on our behalf. In 2001, the Board established its own criteria for the possible active involvement in claims and created a pool of external litigation firms to work with us on these law suits. Subsequently, we have been the lead plaintiff in a number of class action suits, opted out of some suits, and have sued on our own. Previous issues of the *Advocate* have described our success in these cases, bringing back millions of dollars to our fund. In particular, we successfully restored more than \$5.8 million to our fund from Qwest Communications International, Inc. We are now in litigation against several companies concerning fraud on the marketplace and, when necessary and appropriate, have applied for lead plaintiff status in litigation concerning the sub-prime mortgage scandals.

Another area of new activity for your Board also began in 2007. At the September 2007 meeting, the SURS Board authorized its Executive Director to correspond with issuers, regulatory agencies, and other parties regarding our concerns with specific corporate governance actions or proposed actions. This correspondence could possibly carry a great deal of weight since in some cases we own a very significant share of a company's stock. We have

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already noticed some positive response to these letters as companies have changed their proposed policy changes to incorporate some of our suggestions and concerns.

These new activities have resulted in some significant gains for SURS, both directly through the restoration of millions of dollars to our fund from guilty companies or indirectly through some changes in some company operations and corporate policies.

However, they come with a price. Our legal staff spends time and effort working with outside legal counsel. Marco Consulting Group charges us an annual fee of \$25,000 for casting our proxy votes. Your Executive Director and your Board of Trustees spend a good deal of time on these issues as well.

We think it is worth it, but we want your input. Do you agree with us? Do you have other concerns in this area? Please contact me at mvogel@surs.org. As always, I look forward to hearing from you. □

Benefit Summary Statements

(continued from page 1)

acronym for the reporting system(s) will be noted on the statement. All statement figures, however, will be based solely on SURS service and earnings information.

The section providing the balances and current year activity will be pared back to highlight the most pertinent balance information. It will detail the contributions and interest balance totals for the statement year and the total balance received to date for each. This section will also detail the combined totals as of the end of the fiscal year and as of the end of the academic year. Purchases made during the statement year will also be noted.

The Projected Retirement Annuity Estimate section will undergo the most significant changes. For most active members, the retirement estimate will include projected service and a set earnings increase under the assumption that the members will remain continuously employed up to the estimated earliest eligible date of retirement. New this year, SURS will be calculating the General Formula cal-

New Board Member: Antonio Vasquez

Antonio Vasquez was appointed to the SURS Board of Trustees by the governor in June 2008. Vasquez is a Lecturer of Economics at Wilbur Wright College in Chicago, Illinois. Prior to that, he lectured at Harold Washington College, Center for Distance Learning, the University of Illinois at Chicago, and Northeastern Illinois University.

Vasquez obtained his B.A. from DePaul University and his M.A. from the University of Illinois at Chicago. He is currently enrolled in a Ph.D program in Disability Studies. Vasquez is a member of the American Economics Association, Society for Community Research & Action, and the Association on Higher Education and Disability.

Vasquez works in the Hispanic community with El Valor in developing entrepreneurial opportunities for artists with disabilities. Vasquez is a member of the Center for Capacity Building on Minorities with Disabilities Research (CBMDR) team at the University of Illinois at Chicago. □

ulation and the Money Purchase calculation, if eligible. Members must have been certified in the SURS system prior to July 1, 2005, in order to be eligible for the Money Purchase calculation. The highest of the applicable benefit calculations will be provided on the statement.

As always, specific estimates that reflect a member's unique employment situation can be obtained by visiting www.surs.org and logging on to Member Access. The website features the Benefit Estimator, which members can use to project retirement benefits, as well as the SURS Member Guides, for the most up-to-date plan information. Members who are within four years of their anticipated date of retirement can also contact our office to receive a written estimate or to initiate the process for an appointment with a counselor.

SURS strongly encourages you to keep us posted of any email or mailing address changes so that we may continue to provide you with the latest benefit information. □

A Tribute To Marge Martinie



In this issue, SURS would like to include a tribute to our fellow co-worker, Marge Martinie, who passed away on May 29, 2008. Marge started working for SURS in the records department in 1986. She later became instrumental in the implementation of IBM ImagePlus, a computer-based image storage and retrieval system that replaced the paper-based folder management system. Marge helped promote and implement this process, making it possible for staff to answer member questions in one phone call instead of waiting a few hours to get the information they needed.

She became the Records Management Officer in 1993, where she oversaw the use of the new system and initiated cross training of the records staff. SURS later split their Member Services division into regional teams and Marge became team leader for the southwest team. In this position, she mentored and guided her team members while also maintaining statistical information and coordinating training and orientation for new staff members.

In 1998, SURS introduced two new plan options to members; the Portable Benefit Plan and the Self-Managed Plan. Marge joined a group of staff who traveled to different employers in the state to give presentations on the new options. In 1999, she participated in the development of standards for the Call Center. This helped lay the groundwork for the Call Center that our Benefit Counselors operate today.

In 2000, Marge moved into the position of Training Coordinator and team leader of the Employer Representatives. In this role, she developed, scheduled, and tracked all of the training for new employees and the Member Services division. In other words, she served as the welcome wagon for new hires and assured that everyone else continued to receive the appropriate training needed for their jobs.

The Employer Representatives act as a liaison between SURS and the 68 employers it serves. Not only did Marge oversee them, but she also participated in employer presentations and communicated with the employers personally.

The following comment was made in a past review by one of Marge's team members: "Marge displays a caring, supportive, and people-oriented attitude to all the members of the team. A family atmosphere has been developed within the team by following her lead." Marge definitely helped create a family atmosphere here at SURS. While we will always value the contributions she made to this organization, staff will most remember her positive attitude, caring nature, and boisterous laugh. Marge always knew a little bit about everyone and made you feel like a part of her family. In her time at SURS she served our members, staff, and employers well.

Marge is survived by her daughter, Melissa Colburn, mother, Eileen Pierce, and four sisters: Kenna Bowman, Patty Easton, Nancy Griffith, and Vicki Budinger. □

Self-Managed Plan News

SMP members contribute 8% of earnings and the state contributes 7.6%, of which up to 1% of the state contribution is used by statute to establish a reserve to pay for employer-provided disability benefits. Since inception, the remaining 6.6% of the state contribution has been contributed to the SMP member's investment choice(s).

The SMP has been in existence since 1998. Since that time, a reserve has been built up for the payment of disability benefits. There have been several years of actuarial experience with respect to the incidence of disability for SMP members. As a result, SURS recently performed an actuarial valuation of the SMP disability program, which resulted in the recommendation that the employer contribution into the SMP disability reserve be reduced from 1.0% of pay to 0.5% of pay. This recommendation was adopted by the Board in June 2008.

As a result, the employer contribution to the SMP member's investment choice(s) increased from 6.6% to 7.1% of earnings. SURS plans to monitor the SMP disability program and conduct an actuarial valuation on a biennial basis. Please note, it is possible that the employer contribution to the SMP disability reserve could be increased or decreased in future years, in accordance with statute.

TIAA-CREF

Beginning August 1, 2008, contributions to TIAA-CREF investment options are credited to the Retirement Choice (RC) contract instead of the Group Retirement Annuity (GRA) contract. This change will not affect existing account values or the way money is invested. Existing account values will remain in the original

contract(s) unless TIAA-CREF participants, whether actively employed or terminated, opt to transfer them to the new RC contract.

The new contract allows SURS the capability to eliminate or replace investment funds that do not meet the SURS investment policy guidelines. If an investment fund is eliminated as an allocation choice and a participant has funds invested in that option, those funds may be transferred to another offering within TIAA-CREF or another SURS fund provider.

Through the RC contract, SURS participants will have additional investment choices for diversifying their retirement savings. In response to participant requests, SURS has expanded the investment choices to include:

TIAA Real Estate Account

This is a new choice of asset class for the portfolio, investing in accounts that own real estate or real estate related securities.

Lifecycle Funds: 2045, 2050

These diversified funds are designed for participants with targeted retirement dates of 2045 and 2050.

Lifecycle Retirement Income Fund

This fund is intended for investors nearing retirement or investors already in retirement who seek the convenience of a diversified income generating fund.

To learn more about these new choices, log onto www.tiaa-cref.org/illinois or call TIAA-CREF at 1-800-842-2776. □

SURS Military Leave and USERRA

A participating employee who is called to duty in the armed forces of the United States maintains all of his or her SURS pension rights and benefit rights (including disability benefit rights). Under Illinois law, the employee is entitled to up to five years of free service credit for such service, provided the employee receives a discharge other than dishonorable and again becomes a participating employee under SURS within one year after discharge.

The employee may also elect to exercise his/her rights under the federal Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) to make up the SURS contributions missed during the active duty period. These makeup contributions must be made within the guidelines and time periods set forth under USERRA and USERRA regulations. In order for SURS to calculate the amount of contributions due for the given period, the member must provide SURS with documentation of the military service and the SURS-covered employer(s) must provide SURS with salary and leave information.

For more information on USERRA rights, visit www.dol.gov/vets/regs/fedreg/final/2005023961.htm. □

Please note that the State Universities Retirement System does not endorse any provider of financial advice. Members seeking financial advice or planning assistance are encouraged to carefully select credentialed professionals.

Member Service Representative
1-800-275-7877
217-378-8800 (Champaign-Urbana Area)

Internet
www.surs.org

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Editor: Kendra Iffland

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