

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 254
MINUTES OF THE ANNUAL MEETING OF THE
BOARD OF TRUSTEES**

October 28, 2016

The annual meeting of the Board of Trustees of the General Assembly Retirement System convened at 1 p.m. on Friday, October 28, 2016, in Room S721 of the Bilandic Building, Chicago, Illinois.

Roll Call was taken with the following trustees present:

- Senator James Clayborne, Jr., Chairman
- Representative David Harris, Vice-Chairman
- Senator Don Harmon
- Representative Michael Zalewski
- Representative Elaine Nekritz
- Representative Daniel Pierce, Retired Trustee

Absent was:

- Senator Bill Brady

Others in attendance were:

- Timothy B. Blair, Secretary
- Jayne Waldeck, GARS Manager
- Jeff Houch, Assistant to Secretary
- William Atwood, Director, Illinois State Board of Investment
- Johara Farhadieh, Deputy Director, Illinois State Board of Investment
- Alex Rivera, Gabriel Roeder Smith & Company
- Ryan Gunderson, Gabriel Roeder Smith & Company
- Kerry Lester, Daily Herald

With a quorum present, the meeting was called to order by Chairman Clayborne at 1 p.m.

PUBLIC COMMENTS

Chairman Clayborne asked if there were any members of the public in attendance who wished to make comments. There were none.

CONSIDERATION OF APPEAL OF JOSEPH TOPINKA

Chairman Clayborne referred the Board to a Decision prepared by the System's Attorney, Steve Bochenek. He noted Mr. Bochenek was present for the April 13, 2016 testimony of the appellant, Joseph Baar Topinka and that all records of the System and applicable rules and statutes were considered when preparing the Decision. Secretary Blair added the Decision concludes the designated beneficiary of Judy Baar Topinka is entitled to a death benefit equal to total contributions made by Topinka, less total benefits paid to Topinka. In this instance, total benefits paid exceed total contributions, so no death benefit is payable.

Following discussion, Senator Harmon moved to accept the Decision as prepared by Mr. Bochenek. Vice-Chairman Harris seconded the motion and all present voted in the affirmative. A copy of the decision is made a part of these minutes as *Exhibit A*.

CONSIDERATION OF SUSPENSION OR TERMINATION OF REP. DENNIS HASTER T'S BENEFIT

Secretary Blair reminded the Board of the suspension of Representative Hastert's retirement benefit on April 27, 2016, due to a felony conviction. He noted that Representative Hastert had not appealed the suspension or possible termination of his GARS benefit by the October 13, 2016 deadline required by Board policy. Secretary Blair added that the requested Attorney General's opinion regarding the possible felony forfeiture had not yet been received by GARS staff. Additionally, Representative Hastert had appealed the termination of his retirement benefit from the Teacher's Retirement System (TRS). Representative Hastert had retired reciprocally using TRS and GARS service credit.

After discussion regarding the TRS suspension/termination and appeal process and the options available to the Board, Representative Zalewski motioned to ratify the decision of staff to suspend Representative Hastert's GARS retirement benefit, as provided by Board policy and revisit the issue at the January Board meeting. Staff was instructed to monitor Representative Hastert's TRS appeal. Representative Nekritz seconded the motion and it passed unanimously.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Director, distributed copies of the Quarterly Review dated June 30, 2016. Mr. Atwood noted that Johara Farhadieh would present information on the alternative investment classes and would also provide a report on the utilization of emerging and minority investment managers at ISBI. Mr. Atwood began his presentation by noting the portfolio lost 0.8% in FY 2016, net of fees, compared with the benchmark return of 0.7%. Net of fees, the Fixed Income portfolio returned 1.4% in FY 2016, while the U.S. Equity portfolio lost 1.8%, compared to their respective benchmark returns of 5.8% and 2.1%.

Johara Farhadieh, ISBI Deputy Director, continued the ISBI report by noting the Hedge Fund of Funds portfolio lost 9.0% in FY 2016, compared to the benchmark return of -5.4%. Ms. Farhadieh concluded the portfolio review by reporting the Non-U.S. Equity portfolio lost 7.4% (benchmark lost 9.6%) while the Real Estate portfolio was up 10.8%, equaling the benchmark return.

Ms. Farhadieh ended the ISBI report by detailing the ISBI utilization of emerging and minority investment managers. She provided that at September 30, 2016, 21.3% of ISBI assets were managed by minority managers and 9.8% of ISBI assets were managed by emerging managers.

Mr. Atwood offered to answer questions from the Board. Following some discussion regarding the underperformance of the portfolio when compared to benchmarks and a brief discussion of ISBI changes, Senator Harmon moved to approve the ISBI Report. Vice-Chairman Harris seconded the motion and all were in favor. Chairman Clayborne thanked Director Atwood and excused him from the meeting. A copy of the June 30, 2016 Quarterly Review is maintained in the ISBI office and made part of these minutes as *Exhibit B*.

MINUTES OF PREVIOUS MEETING

Chairman Clayborne presented the minutes of Meeting No. 253 held on April 13, 2016, for approval. Copies of the minutes were previously submitted to the trustees for preliminary

review. Vice-Chairman Harris moved to approve the minutes of the April 13, 2016 GARS Board meeting. Representative Nekritz seconded the motion and all were in favor.

ACTUARIAL VALUATION AS OF JUNE 30, 2016

Alex Rivera and Ryan Gunderson of Gabriel, Roeder, Smith & Company, distributed draft copies of the FY 2016 GARS actuarial valuation. Mr. Rivera began his remarks by noting the assumption changes adopted by the Board in April were used in the FY 2016 valuation. He added the funded ratio, on a market value basis, decreased from 16.63% at June 30, 2015, to 13.50% at June 30, 2016, and pointed out the employer contribution requirement increased from \$21.7 million in FY 2017 to \$26.7 million in FY 2018.

Mr. Rivera reiterated the decrease in the funded ratio and the increase in the FY 2018 required employer contribution reflected the reduction in the investment return assumption and the adoption of a mortality table that provides for future longevity improvements. He elaborated that although the financial condition, as measured by the funded ratio at June 30, 2016, appears to have deteriorated, the assumption changes actually strengthen the condition of GARS by recognizing the reality of lower future investment earnings and increasing life expectancy, thereby increasing the required employer contributions to the system.

Following a review of projected benefits and contributions, Representative Harris moved to accept the draft valuation and certify the \$26.7 million FY 2018 employer contribution. Representative Pierce seconded the motion and all were in favor. Chairman Clayborne thanked Mr. Rivera and Mr. Gunderson and excused them from the remainder of the meeting.

REPORT OF CHAIRMAN

Chairman Clayborne noted recent changes at ISBI, including a shift of assets from active to passive management.

REPORT OF ANY TRUSTEE

No other trustees offered a report.

REPORT OF ADMINISTRATIVE SECRETARY

2017 Meeting Dates. Secretary Blair submitted a list of suggested GARS Board meeting dates for 2017. A motion was made by Senator Harmon to approve the following dates:

January 13, 2017, 1:00 p.m. – Chicago
April 26, 2017, 9:00 a.m. – Springfield
October 20, 2017, 1:00 p.m. - Chicago

Representative Pierce seconded the motion and all were in favor.

March 31, 2016, June 30, 2016 and September 30, 2016 Financial Statements. Secretary Blair reviewed the financial statements for the year ended June 30, 2016, and the quarter ended September 30, 2016. For the year ended June 30, 2016, GARS had receipts of \$23.1 million, including \$1 million in employee contributions, \$16 million in employer contributions, and \$6 million in withdrawals from ISBI. For FY 2016, total GARS disbursements were \$22.4 million, with more than \$21.8 million in retirement and survivor annuities paid. In addition, \$229,300 in refunds were paid and administrative expenses amounted to \$417,000.

Secretary Blair continued his report by reviewing the financial statements for the quarter ended September 30, 2016. He noted total GARS receipts in the first quarter of FY 2016 amounted to \$5.6 million, including a withdrawal of \$250,000 from ISBI. System staff estimate the need to withdraw \$2.75 million from ISBI in FY 2017 in order to pay projected benefits. Total disbursements for the first quarter were \$5.6 million, including the payment of almost \$5.5 million in benefits. Representative Nekritz moved to adopt the March 31, 2016, June 30, 2016 and September 30, 2016 financial statements. Senator Harmon seconded the motion and it passed unanimously. Official copies of these Financial Statements have been placed on file and made a part of these minutes as *Exhibit C*.

Supplemental FY 2016 Budget Request and Final FY 2017 Budget Request. Secretary Blair noted a supplemental FY 2016 request of \$10,885 and reviewed the final proposed FY 2017 GARS administrative budget of \$423,653, a 3.31% increase from the FY 2016 budget. Discussion was held and Representative Nekritz moved to approve the supplemental FY 2016 request and the final FY 2017 budget. Vice-Chairman Harris seconded the motion and all were in favor.

REPORT OF MANAGER

GARS Manager Jayne Waldeck presented the Annuities for approval. Since the last Board meeting, three new retirement annuities totaling \$8,278.26 per month and five survivor annuities of \$10,845.83 per month were processed by GARS staff. Representative Zalewski moved to approve the Annuities as presented. Representative Nekritz seconded the motion and all were in favor.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being no further business to be brought before the Board, Senator Harmon moved to adjourn at 2:30 p.m. His motion was seconded by Vice-Chairperson Harris and passed unanimously. Chairman Clayborne reminded the Board the next meeting is scheduled for January 13, 2017 at 1 p.m. in Chicago.

Timothy B. Blair, Administrative Secretary

Date: _____

APPROVED:

Senator James Clayborne, Jr., Chairman