

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 262
MINUTES OF THE ANNUAL MEETING OF THE
BOARD OF TRUSTEES**

October 25, 2019

The annual meeting of the Board of Trustees of the General Assembly Retirement System convened at 1 p.m. on Friday, October 25, 2019, in Room S721 of the Bilandic Building, Chicago, Illinois.

Roll Call was taken with the following trustees present:

- Senator Robert Martwick, Chairman
- Senator Sue Rezin, Vice-Chairperson (by phone)
- Representative Charles Meier
- Representative Michael Zalewski
- Representative Daniel Pierce, Retired
- Senator Napoleon Harris (by phone)

Others in attendance were:

- Timothy B. Blair, Secretary
- Jeff Houch, Assistant to Secretary
- Angie Ackerson, GARS Manager
- Joharah Farhadieh, Executive Director/CIO, Illinois State Board of Investment
- Scott Richards, Senior Investment Officer, Illinois State Board of Investment
- Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company
- Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Company

With a quorum present, the meeting was called to order by Chairman Martwick at 1 p.m. Representative Pierce moved to allow Senator Harris and Senator Rezin to participate by phone and Representative Zalewski seconded the motion, which passed unanimously.

ELECTION OF 2020 OFFICERS

Chairman Martwick announced the annual election of officers for the ensuing year was in order and opened the meeting for nominations. Representative Zalewski nominated Chairman Martwick to remain Chairman and Senator Rezin to remain Vice-Chairperson. After no further nominations were offered, Chairman Martwick closed the nominations. The motion was seconded by Representative Pierce, and all were in favor.

PUBLIC COMMENTS

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

Johara Farhadieh, ISBI Director, distributed copies of her presentation to the Illinois Senate Special Committee on State and Pension Fund Investments on October 23, 2019. She provided a summary of her presentation, which focused on ISBI's efforts relating to diversity and inclusion through their Emerging and Minority Program. She noted that 69.2% of ISBI's Board of

Trustees and staff are minority or non-minority female. She also indicated ISBI is partnering with BlackRock, a \$6 trillion asset manager, to trade ISBI's \$10 billion portfolio with MWDBE firms and has received a commitment from CEO Larry Fink to trade their full \$6 trillion portfolio with MWDBE firms as well. Director Farhadieh is a member of the newly created Emerging Broker Council to hold BlackRock accountable to this agreement.

Currently, 36% of ISBI's assets are managed by emerging and minority investment firms which is the highest allocation in ISBI's history. Part of the steep increase from 2018 (25.5%) to 2019 was due to Rock Creek, originally a women-owned firm that had merged with Wells Fargo, in 2019 separated from Wells Fargo and returned to MWDBE status. Director Farhadieh indicated ISBI paid \$24 million in fees to MWDBE managers as of June 30, 2018, with Latino and African American MWDBE managers receiving 68.2% of the \$24 million. She noted that fees paid to MWDBE managers have not increased overall portfolio fees, which have decreased by approximately \$80 million in the last three years.

Scott Richards, ISBI Senior Investment Officer, distributed copies of the Quarterly Review dated June 30, 2019 and reported that in FY 2019 the total portfolio returned 7.1%, net of fees, slightly outperforming the benchmark return of 7.0%. He added the portfolio totaled more than \$19.1 billion on that date, up by \$828 million since June 30, 2018 and was ranked in the 27th percentile against their peers over the 2019 fiscal year period. Of the seven asset classes, only fixed income and real estate underperformed with the other five outperforming their custom benchmarks.

Mr. Richards then reviewed the performance of selected asset classes, first pointing out the Fixed Income portfolio returned 7.5%, net of fees, in FY 2019, trailing the benchmark return of 8.1%. The Emerging Markets Debt was the strongest performing fixed income asset class, gaining 10.1% during the past fiscal year while the High Yield Fixed Income portfolio returned 3.5% in FY 2019 compared to its benchmark return of 7.5%. Core Fixed Income was up 8.2% and Opportunistic Debt returned 6.9%.

Mr. Richards continued his report by providing the U.S. Equity portfolio returned 10.3%, outperforming the broad U.S. equity market by 1.3%. The International Equity portfolio gained 1.2%, outperforming the benchmark by 0.9%. The Private Equity portfolio was the strongest performing asset class and gained 19.8%, net of fees, in FY 2019, and outperformed the benchmark return of 12.7%. The Infrastructure Composite portfolio was up 13.6%, significantly outperforming the benchmark return of 5.2%, while the Real Estate Composite portfolio returned 5.4% net of fees, underperforming the benchmark of 6.6%.

After a brief discussion, Chairman Martwick thanked Director Farhadieh and Mr. Richards for their reports and excused them from the remainder of the meeting. Representative Zalewski moved to approve the ISBI report and Representative Meier seconded the motion, which passed unanimously. A copy of the June 30, 2019 Quarterly Review is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Jeff Tebeau of Gabriel, Roeder, Smith & Company, distributed draft copies of the FY 2019 JRS actuarial valuation. Mr. Rivera began by summarizing the recent

changes to the actuarial assumptions, highlighting the reduction of the investment return assumption from 6.75% to 6.5% and the wage inflation assumption from 2.75% to 2.50%. Turnover rates and normal and early retirement rates were updated to better reflect observed experience and the mortality tables were updated. The combined changes in actuarial assumptions decreased the actuarial accrued liability as of June 30, 2019, by \$8.8 million.

Mr. Tebeau reported the funded ratio, on a market value basis, increased from 15.12% at June 30, 2018, to 15.94% at June 30, 2019, and the State contribution requirement increased from \$25.8 million in FY 2020 to \$27.3 million in FY 2021. Mr. Tebeau noted that FY 2019 actuarial accrued liability was \$374.6 million, or slightly lower than the FY 2018 accrued liability of \$375.8 million. He added the funded ratio is expected to increase slowly from 16% in 2019 to 28.3% in 2033, and then increase rapidly to 90% by 2045, and added that from 2023 to 2031.

Following review of projected benefits and contributions over the remainder of the funding plan, Representative Meier moved to accept the preliminary June 30, 2019 actuarial valuation and certify the FY 21 State contribution of \$27,299,000. Representative Zalewski seconded the motion, and all were in favor. Chairman Martwick thanked Mr. Rivera and Mr. Tebeau and excused them from the remainder of the meeting.

MINUTES OF PREVIOUS MEETING

Chairman Martwick presented the minutes of Meeting No. 261 held on May 1, 2019, for approval. Copies of the minutes were previously submitted to the trustees for preliminary review. Representative Pierce moved to approve the minutes of the May 1, 2019 minutes as presented. Representative Meier seconded the motion, and all were in favor.

REPORT OF CHAIRMAN

Chairman Martwick invited Senator Harris to provide a summary of his involvement as co-chair of the Illinois Senate Special Committee on State and Pension Fund Investments.

REPORT OF ANY TRUSTEE

Senator Harris stated the Illinois Senate Special Committee on State and Pension Fund Investments hearings were valuable in learning more about the status of many pension systems in Illinois and their efforts to increase their MWDBE investments. He invited trustees to contact him for further discussion.

REPORT OF ADMINISTRATIVE SECRETARY

June 30, 2019 and September 30, 2019 Financial Statements. Secretary Blair reviewed the financial statements for the year ended June 30, 2019, and the quarter ended September 30, 2019. For the year ended June 30, 2019, GARS had receipts of almost \$24.5 million, including \$1.3 million in employee contributions and \$22.8 million in employer contributions. In FY 2019, GARS disbursements were slightly more than \$25 million, with \$24.5 million in retirement and survivor annuities paid. In addition, \$169,134.03 in refunds were paid, \$260,000 was transferred to ISBI, and administrative expenses amounted to \$385,507.

Secretary Blair continued his report by reviewing the financial statements for the quarter ended September 30, 2019. He noted total GARS receipts in the first quarter of FY 2019

amounted to \$6.6 million, including employer contributions of \$6.3 million. Total disbursements for the first quarter were almost \$6.6 million, including the payment of \$6.3 million in benefits. Representative Pierce moved to adopt the June 30, 2019 and September 30, 2019 financial statements. Representative Meier 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 B*.

Final FY 2020 Budget Request. Secretary Blair reviewed the final FY 2020 GARS administrative budget request of \$405,625, an increase of \$5,900 or 1.64%, from the FY 2019 budget. The request was impacted by a \$10,575 increase in the Personal Services line due primarily to a \$33,000 payment in retroactive steps owed to three employees and a \$9,300 increase due to the annualization of the steps granted in April 2019. He also noted a \$9,125 increase in the Retirement line due to the increase in the Personal Services line and the SERS employer contribution rate increasing from 51.614% in FY 19 to 54.290% in FY 20. In addition, the request included a decrease of \$19,450 in the Contractual line (professional services) due mainly to an expected reduction in actuarial services, reflecting the completion of the three-year experience review in FY 2019. Representative Meier moved to approve the FY 2020 budget as presented. Representative Pierce seconded the motion, and all were in favor.

FY 2020 Funding Update. Secretary Blair told the Board the Comptroller's Office is current in making the state contributions to GARS and the November contribution will be made on time.

Optional Service Purchases Employer Normal Cost Policy. Jeff Houch, Assistant to the Secretary, explained the current employer normal cost policy of using Tier 1 and Tier 2 normal cost rates to arrive at a blended employer normal cost rate of 23.41%. He noted the current employer's normal cost is 35.7% for a Tier 1 member and 8.25% for a Tier 2 member. Many types of optional service purchases require the member to pay the employer normal cost, including military service, transfers from other retirement systems, and elected county, township or municipal office service that could not be established under Article 7.

Mr. Houch offered two alternatives for the Board's consideration. The first option presented was to calculate Tier 2 service purchases using the Tier 2 employer normal cost rate and continue using the blended rate for Tier 1 purchases. The second option presented was to discontinue the use of the blended rate for service purchases and use the rate associated with the member's tier. Chairman Martwick added that he had inquired about a service transfer and felt the blended rate was unfair to Tier 2 members. Following discussion, Representative Zalewski motioned that for future optional service credit purchases, the rate applicable to the member's tier would be used in the calculation. The motion was seconded by Representative Pierce, and all were in favor.

2020 Meeting Dates. Secretary Blair submitted a list of suggested GARS Board meeting dates for 2020. All Chicago meetings will be held in Room S721 of the Bilandic Building, 160 North LaSalle Street, and the Springfield meeting will be held in Room 627A of the Capitol Building.

Friday, January 10, 2020, 1:00 9.m. – Chicago
Wednesday, April 29, 2019, 9:00 a.m. – Springfield
Friday, October 30, 2020, 1:00 p.m. - Chicago

A motion was made by Representative Zalewski to approve the dates. Representative Meier seconded the motion, and all were in favor.

REPORT OF MANAGER

GARS Manager Angie Ackerson presented Annuities for approval. Since the last Board meeting, ten new retirement annuities totaling \$32,276.00 per month and three survivor annuities totaling \$8,325.12 per month were processed by GARS staff. In addition, Ms. Ackerson noted two termination refunds totaling \$98,590.89 had been processed, one survivor contribution refund for \$38,639.32, and one error refund for \$213.61. Representative Zalewski moved to approve the annuities and refunds as presented. Representative Pierce 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, Chairman Martwick moved to adjourn at 2:30 p.m. His motion was seconded by Representative Zalewski and passed unanimously.

Timothy B. Blair, Administrative Secretary

Date: _____

APPROVED:

Senator Robert F. Martwick, Chairman