

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 329
MINUTES OF A REGULAR MEETING
OF THE BOARD OF TRUSTEES**

January 15, 2016

A meeting of the Board of Trustees of the Judges' Retirement System convened on Friday, January 15, 2016, at 10:00 a.m. in Room N-1810 of the Michael Bilandic Building, 160 North LaSalle Street, Chicago, Illinois.

Roll Call was taken with the following trustees in attendance:

Justice Mary S. Schostok, Chairperson
Justice James R. Moore, Vice-Chairperson
Judge Debra Walker, Proxy for Chief Justice Rita Garman

Absent was:

Judge John C. Anderson
Rodrigo Garcia, Proxy for State Treasurer Michael Frerichs

Others present:

Timothy B. Blair, Administrative Secretary
Jeff Houch, Assistant to Secretary
William Atwood, Illinois State Board of Investment

With a quorum present, Justice Schostok called the meeting to order at 10:15 a.m.

PUBLIC COMMENTS

Justice Schostok asked if any members of the public wished to address the Board. There were no members of the public in attendance.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Executive Director, distributed copies of the Quarterly Review dated September 30, 2015, and informed the Board that the report was prepared by the Meketa Group, the new ISBI general consultant. He began by noting that for the one year period ended September 30, 2015, the portfolio returned 0.6% (net of fees) over the period, while the benchmark lost 0.4%.

Director Atwood reported that for the year ended September 30, 2015, the Fixed Income portfolio lost 1.9% and the U.S. Equity portfolio lost 0.9%. Both portfolios underperformed their benchmarks, which returned 2.3% and -0.5%, respectively. He briefly reviewed the returns of several asset classes, noting that some asset classes, and the portfolio as a whole, outperformed the relevant benchmarks.

Director Atwood continued his report by informing the Board that the Meketa Group was preparing an asset allocation study for ISBI, to be presented at a special Board meeting scheduled for January 29, 2016. He noted that he expects the Board to reduce the utilization of active managers and

increase the utilization of passive managers in the equity portfolio. In addition, the Board may consider reducing allocations to the value and small cap equity portfolios to more accurately reflect the global equity markets and reduce overall equity exposure. Other possible ISBI actions include reducing hedge fund exposure below 10%, increasing private equity exposure from the current 5% allocation and creating some exposure to inflation-linked U.S. treasuries in order to provide protection against inflation.

Director Atwood referred the Board to the ISBI annual report on minority utilization. He briefly reviewed the report and noted it is filed annually pursuant to statute. Justice Schostok asked if there were any questions. Hearing none, Justice Moore moved to approve Director Atwood's presentation of the ISBI Quarterly Review for the period ending September 30, 2015. Judge Walker seconded the motion and it passed unanimously. A copy of the Quarterly Review is maintained in the ISBI office and made a part of these minutes as Exhibit A.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 328 held on October 30, 2015, were presented by Justice Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. On a motion by Judge Walker and seconded by Justice Moore, the minutes of the meeting held October 31, 2015 were unanimously approved, with one wording change offered by Judge Walker.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Ryan Gunderson of Gabriel, Roeder, Smith & Company (GRS), Consulting Actuaries, were not in attendance due to a scheduling conflict. Secretary Blair reviewed the State Actuary's report, including the GRS/JRS response, and presented the final version of the FY 2015 Actuarial Valuation and the FY 2017 certified State contribution. He noted the review of updated stress testing would be deferred until the April meeting.

FY 2015 Actuarial Valuation and FY 2017 Employer Contribution Certification. Secretary Blair distributed the final draft of the FY 2015 Actuarial Valuation and reviewed the documents that will be used to certify the FY 2017 State contribution of \$131,334,000, or 79.683% of projected payroll. Justice Schostok asked if there were any questions. Seeing none, she asked for a motion to approve the FY 2015 Actuarial Valuation and the FY 2017 State contribution amount. Judge Walker moved to approve the FY 2015 Actuarial Valuation and the FY 2017 State contribution, as presented. Justice Moore seconded the motion and all present voted in the affirmative.

State Actuary's Report. Secretary Blair began the review by noting the State Actuary concluded that the assumptions and methodology used for the FY 2015 Actuarial Valuation are reasonable and that the certified contributions were calculated in accordance with State law. The State Actuary recommended JRS complete a full replication actuarial audit. Secretary Blair voiced his agreement with the recommendation and advised the Board that staff was preparing a Request for Proposal (RFP) to find an actuarial firm to perform the audit, with the goal of having the audit completed prior to June 30, 2016.

Secretary Blair then reviewed the remainder of the State Actuary's recommendations and noted all would be addressed prior to the June 30, 2016 actuarial valuation. The letter outlining the State

Actuary's recommendations and the GRS/JRS response to these recommendations is attached and made a part of these minutes as Exhibit B.

Stress Testing. Secretary Blair noted the consulting actuaries would present the recently updated stress testing at the next JRS Board meeting scheduled for April.

READING OF COMMUNICATIONS

Justice Schostok asked Secretary Blair if there were any communications to be presented to the Board. He provided to the Board copies of a letter from Director Michael Tardy of the Administrative Office of the Illinois Courts (AOIC), expressing interest in meeting with JRS staff regarding the administrative problems caused by the statutory requirement to collect and distribute county-paid stipends. He informed the Board that JRS staff would work with the AOIC in order to discuss the administrative issues and seek an agreed remedy.

REPORT OF CHAIRPERSON

Justice Schostok had nothing to report.

REPORT OF ANY TRUSTEE

There were no reports from any trustee.

REPORT OF SECRETARY

FY 2016 Funding Update. Secretary Blair informed the Board that Comptroller Munger, who serves as Chairperson of the State Employees' Retirement System (SERS), told the SERS Board at the most recent Board meeting that she hoped to provide all FY 2016 funding to all the State-funded retirement systems by the end of the fiscal year, with the plan being to make the missed November State contribution in April.

Accounting Cost Allocation Methodology. Secretary Blair explained the purpose of the Accounting Cost Allocation Methodology is the fair and adequate allocation of the personnel costs associated with the SRS Accounting Division between the Judges' Retirement System (JRS), GAR and SERS. He explained that for all three systems, the Accounting Division produces financial statements and reports, processes cash deposits, and reviews and maintains active member accounts.

Previously, JRS and GARS had fully funded an Accounting Division position that worked on SERS related issues to a large extent and the person in that position had recently retired. Rather than JRS and GARS funding an entire position, the proposed accounting cost allocation methodology provides a more reasonable and documentable way to allocate accounting costs among the systems and parallels the cost allocation methodology put into place during FY 2015 for the IT modernization costs. Effectively, the methodology allocates costs based on a five year rolling average of the total membership served by each system.

Judge Walker moved to approve the methodology and Justice Moore seconded the motion. All present voted in the affirmative.

Tier 2 Legislation. Secretary Blair referred the Board to a memo prepared by his assistant Jeff Houch, outlining several technical and clarifying changes that would be helpful in the administration of Tier 2 JRS benefits. Mr. Houch briefly reviewed the proposed changes and offered to answer questions. There were none.

REPORT OF THE MANAGER

Annuities and Refunds for Approval. Jayne Waldeck, Division Manager, was unable to attend the meeting. Secretary Blair reported six retirement annuities for approval in the amount of \$54,226.93 per month and five survivor annuities in the amount of \$38,953.93 per month. He also reported there were four survivor contribution refunds processed totaling \$234,801.83. Judge Walker moved to approve the annuities as presented. Justice Moore seconded the motion and it passed unanimously.

Deaths of Members. Secretary Blair reported the deaths of six JRS members since the October meeting. This report is made a part of these minutes as Exhibit C.

OLD BUSINESS

No old business was reported.

NEW BUSINESS

No new business was reported.

ADJOURNMENT

There being no further business to be brought before the Board, Judge Walker moved to adjourn at 12:05 p.m. The motion was seconded by Justice Moore and passed unanimously.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairperson Mary S. Schostok