

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

January 12, 2021

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 12, 2021, at 10:05 a.m. To protect the health of staff, trustees, and members of the public during the COVID-19 pandemic, this meeting was held electronically from the SERS administrative office in Springfield, as allowed under Section 7 of the Open Meetings Act (5 ILCS 120/7).

The following trustees were in attendance by videoconference:

Susana A. Mendoza, Chairperson  
David Morris, Vice-Chairperson  
Barbara Baird, Elected Retired Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Danny Silverthorn, Appointed Trustee  
John Tilden, Elected Retired Trustee  
Carl Jenkins, Appointed Trustee

Absent:

Shaun Dawson, Elected Active Trustee  
Stephon Mittons, Elected Active Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Alan Fowler, Manager, Accounting Division  
Casey Evans, Chief Internal Auditor  
Jeff Houch, Assistant to Executive Secretary  
Jessica Blood, Recording Secretary  
Chris Maley, Illinois Office of the Comptroller  
Andrew Ranck, Illinois Office of the Comptroller  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Scott Richards, Senior Investment Officer, Illinois State Board of Investment  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Maria Britton-Sipe, AFSCME Retiree Coordinator

Chairperson Mendoza called the meeting to order at 10:05 a.m. with a quorum present.

## REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began the ISBI presentation by highlighting the current ISBI asset allocation policy. She informed the Board that ISBI recently altered the allocation policy to a “barbell” approach by investing in risk-on assets to help achieve the targeted rate of return but also protect against downside by ensuring exposure to uncorrelated asset classes. Consequently, ISBI has increased its target allocation in Private Equity from 7% to 9%, in private credit from 8% to 9% and in Infrastructure from 2% to 3%. They also increased the exposure to treasuries by 1% and the core bond portfolio by 1%. To increase the allocation to these asset classes, the Board had to reduce its allocation to Treasury Inflation-Protected Securities (TIPS) by 1%, and to the Multi-Sector Credit portfolio by 5%.

Ms. Farhadieh continued her presentation by summarizing ISBI’s recent testimony to the Senate Pension Investments Committee on diversity and inclusion, noting that 39% of the ISBI portfolio is currently managed by Minority, Women, or Disabled Person owned firms.

Mr. Richards began his review of the performance of the portfolio by noting that the total portfolio through September 30, 2020 was up 4.9% and slightly trailed the benchmark of 5.0%. He stated that managers of assets within multiple asset classes have not yet reported their numbers given the timing of the report and he expects that once those numbers are reported, the total return will be higher than 4.9%.

Mr. Richards reviewed the performance of several asset classes by starting with the Fixed Income portfolio, noting it was up 1.4% for the first quarter and was in the 51st percentile among its peer group. He added that the Global Equities Composite returned 8.4% for the quarter ending September 30, 2019, outpacing the benchmark return of 8.1%. Mr. Richards continued his report by stating that the U.S. Equity portfolio returned 9.3% exceeding the benchmark return of 9.2%.

Mr. Richards then discussed the Non-U.S. Equity composite, which had a fiscal year to date return of 8.3%, significantly exceeding the benchmark return of 6.8%. He noted that the private equity composite was up 5.0% compared to the benchmark return of 11.6% and indicated that most private equity managers had not yet reported updated returns and that he expected the actual return would be in the double digits once all have been reported.

Mr. Richards concluded his report by stating that the Infrastructure portfolio slightly trailed the benchmark by 0.4% but added most of these managers have not yet reported updated returns. One of the managers recently sold off assets at a price higher than the carried value. Trustee Silverthorn moved to approve the ISBI Quarterly Review for the period ended September 30, 2020 and Trustee Jenkins seconded the motion. A rollcall vote was taken, and the motion passed unanimously. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

## MINUTES OF THE OCTOBER 27, 2020 BOARD MEETING

The minutes of the Board meeting held October 27, 2020, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Hawk moved to approve the minutes as submitted and Trustee Friedman seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

### REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by stating that the estimated current bill backlog for the State totaled approximately \$5.3 billion; one year ago it was \$6.4 billion and two years ago it was \$7.5 billion after adjusting for Debt Transparency Act agency reports. She stated that the State borrowed \$2 billion to leverage an additional \$3.5 billion from the federal Government after paying bills that received Medicaid reimbursements. She reminded the Board this borrowing must be repaid, along with other state borrowing and investments used to pay down the bill backlog.

She concluded her report by stating that the Comptroller's office had made the January 2021 SERS contribution on time and that the Comptroller's office has continued to prioritize payments to healthcare, social services, education, and the pension systems. She offered to answer any questions from the Board. There were none.

### REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. Trustee Baird indicated that she would like to offer a report. She noted that the SERS website had recently been revamped, but there is nothing in the News Section addressed specifically to retirees. Furthermore, she indicated that it would be difficult for a retiree to gather 100 signatures to run for the elected annuitant trustee spot under the current circumstances. Finally, she stated that the website should contain a COVID update more recent than the current update, which is dated March 25, 2020.

### REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by thanking the trustees for completing all annual training requirements for 2020. He noted that the Secretary of State will be sending out statements of economic interest, adding that he would be sending out instructions via email with regards to those statements as March approaches.

Mr. Evans reported the Committee discussed a recent IT Security Audit that involved social engineering, phishing, and impersonating users. Essentially, system employees were tested by the Audit department on these various categories after the recent completion of the annual cybersecurity awareness training. For the most part, the staff did well but there was room for improvement.

Mr. Evans also remarked that the System had recently undergone its annual testing from the external auditors and that the audit was going well but that there would be a few compliance audit findings. One of the findings is related to the current Board vacancies but noted all such vacancies require appointments by the Governor. He offered to answer any questions from the Board. None were offered.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, reported the committee had authorized staff to pursue legislation and two rules. The legislation would authorize the System to indemnify financial institutions as it relates to efforts to retrieve overpaid benefits to the accounts of deceased members. The first rule would clarify that benefit adjustments due to back wages can be made at the staff level and do not require approval by the Board. The second rule would clarify that a candidate for Board trustee must meet the eligibility requirements as of the date the petitions are due.

#### REPORT OF THE EXECUTIVE SECRETARY

State Actuary's 2020 Report and System Responses. Secretary Blair began by stating that the State Actuary's report for 2020 was consistent with prior reports and that it may be time to conduct a full scope actuarial audit as such audit was recommended in this year's report and had been recommended in prior years. He mentioned that the report highlighted the inadequacy of the Statutory contribution formula, indicating that the System agrees with such recommendation and provides an "actuarial determined contribution" amount in each year's certification documents. Secretary Blair concluded that the report recommends some additional disclosures be included in future valuations, and that those additions will be considered by GRS.

FY 20 Actuarial Valuation and FY 22 Certified Contribution. Secretary Blair provided that the Board must finalize the FY 20 actuarial valuation and the FY 22 certified contribution amount of \$2,574,820,000. Trustee Tilden moved to accept the June 30, 2020 actuarial valuation and the certification of the FY 22 State contribution. Trustee Friedman seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

FY 21 Funding Update. Secretary Blair told the Board that the Comptroller's Office continues to submit the monthly contributions in the correct amount and in a timely manner. He added the IOC has informed him of their plans to continue the timely payment of monthly contributions through FY 21.

Update on Back-Wage Recalculations. Secretary Blair noted the pandemic has severely hampered the processing of benefit recalculations due to back wage payments. He added that an automated process has been created to allow the System to increase processing efficiency these adjustments, and that the adjustments associated with frozen wages under the Rauner Administration would be much easier to process.

Secretary Blair mentioned that staff will consider putting information on the website and Facebook page detailing the progress being made in calculating adjustments. Trustee Morris asked how many back wage adjustments are left and the approximate timeline in which all adjustments would be completed. Secretary Blair indicated that approximately 5,000 remained and that the goal is to complete the workload in 1 year. He added the system staff is looking forward to the completion of this extremely heavy workload.

Buyout Update. Secretary Blair noted the COLA buyout program had a participation rate of 25% and added that approximately \$143.1 million had been processed for the COLA and total buyout programs.

#### FIRST QUARTER FY 2020 FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the first quarter of FY 21. Mr. Fowler noted that the employer contributions received during the first quarter of FY 21 were \$173 million higher than the employer contributions received during the first quarter of FY 20, due to the timing of GRF contributions from the Comptroller's Office. In addition, he noted that the FY 20 SERS CAFR had been completed and submitted to the GFOA but has not been published on the website as the Auditor General's office has not yet released it.

Mr. Fowler concluded his report and offered to answer questions. Hearing none, Chairperson Mendoza asked for a motion to approve the first quarter FY 21 financial statements as presented. Trustee Tilden moved approval. The motion was seconded by Trustee Baird. A rollcall vote was taken, and the motion passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit B*.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the October and November 2020 Executive Committee minutes for review. There being no changes to the minutes, Trustee Baird moved to approve the minutes. Trustee Mittons seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

#### OLD BUSINESS

Chairperson Mendoza asked if there was any old business. There was no old business.

#### NEW BUSINESS

For new business, Chairperson Mendoza presented Board resolutions to be presented to former Trustee Yasmin Bates-Brown and former Trustee and recent Comptroller Designee to the Audit and Compliance Committee and the Executive Committee, Loren Iglarsh, in recognition of their service to the System.

Chairperson Mendoza read the Bates-Brown resolution to the Board. Trustee Friedman made a motion to approve the resolution and Trustee Silverthorn seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

Chairperson Mendoza then read the Iglarsh resolution to the Board, and Trustee Baird motioned for approval. Trustee Friedman seconded the motion, and a rollcall vote was taken. The motion passed unanimously.

#### PUBLIC COMMENTS

Chairperson Mendoza asked if there were any members of the public who wished to address the Board. There were no members of the public .

#### ADJOURNMENT

There being no further business to be brought before the Board, Chairperson Mendoza asked for a motion to adjourn. Trustee Hawk offered the motion and Trustee Silverthorn seconded. A rollcall vote was taken, and the motion passed unanimously. The meeting adjourned at 11:35 a.m.

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Susanna Mendoza, Chairperson

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Timothy Blair, Executive Secretary

Date: \_\_\_\_\_