

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

July 27, 2021

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 27, 2021, at 10:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway with a videoconference location at the Bilandic Building, Room N-700, 160 North LaSalle Street, Chicago, Illinois.

The following trustees were in attendance by videoconference:

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

Absent:

Renee Friedman, Appointed 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, via teleconference  
James Stivers, Internal Counsel  
Robert Cooper, Manager, Administrative Services Division  
Jessica Blood, Recording Secretary  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Jennifer Koelle, Investment Officer, Illinois State Board of Investment  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Kevin Schoeben, Assistant Comptroller  
Chris Maley, Illinois Office of the Comptroller

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

INTRODUCTION OF TRUSTEE MATTHEWS

Secretary Blair introduced Trustee Jack Matthews, replaced Trustee Dawson on the Board. Trustee Matthews began his term on July 15, 2021, and currently works for the Illinois State Police in Springfield.

## 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 introducing investment officer Jennifer Koelle, who oversees the ISBI public market portfolio.

Director Farhadieh informed the Board that ISBI ranked number one in private equity performance for the second year in a row, noting that the fund's return was 16.1% for the ten years ended June 30, 2020, compared to a median return of approximately 12%. She added that 23.8% of the private equity portfolio is committed to minority and women owned firms.

Director Farhadieh stated that ISBI had been given the leadership award for outstanding plan design and administration for its deferred compensation plan by the National Association of Government Defined Contribution Administrators.

Director Farhadieh directed the Board's attention to the ISBI Quarterly Review for the period ended March 31, 2021. She noted that the total value of assets was \$23.1 billion on that date, compared to \$19 billion on March 31, 2020. She then reviewed ISBI's rate sensitive exposure, with an allocation of approximately 20% of the portfolio. Director Farhadieh noted that as the market rallies, ISBI won't capture as much of the upside as their peers due to rate sensitive exposure but will be protected during market downturns.

Director Farhadieh noted the portfolio's significant allocation to private markets, including private equity, real estate, private credit, and infrastructure. She added that funds are allocated to these markets every year, and that they would be underweighted until target allocations are met. Director Farhadieh highlighted the public market equivalents where the funds are placed before they allocated to private markets. Trustee Jenkins inquired what the average commitment to private markets. Director Farhadieh stated that the average commitment is 30%-50%.

Jennifer Koelle then reviewed the performance of various asset classes for the quarter ending March 30, 2021, noting that the total fund composite had outperformed the custom benchmark and continues to outperform the assumed rate of return of 6.75%. She noted that the portfolio outperformed the custom benchmark by 2.2% during the twelve months ended March 31, 2021, which translates to approximately \$400 million. Ms. Koelle stated that the fixed income composite continues to deliver excess returns over most periods, adding that the strong performance over the one-year period is driven by multi-asset credit allocation where the fund exceeded the custom benchmark return by 6.8%.

Ms. Koelle then noted that the strong performance of the multi-sector credit composite was offset by the rate sensitive composite, which lagged modestly for the year ended March 31, 2021. She pointed out that the private credit composite continues to exceed the benchmark except for the most recent one-year period, noting that returns remained positive at 8.6%.

Ms. Koelle noted that the global equity composite performed strongly returning 55.1%, though it lagged the benchmark return of 57.6%. The domestic large cap composite posted a 49.5% return but lagged the index return of 60.6%. These lags were offset by strong performance with international and emerging market equity composites, as well as other portions of ISBI's domestic equity portfolio. The private equity composite continues to remain top tier, generating excess returns for all annualized periods since inception and 24.9% for the one-year period.

Director Farhadieh then highlighted ISBI's diversity efforts, noting that they apply their diversification efforts to include staff, vendor utilization and workplace culture. She added that 39.1% of assets are committed to minority or women owned firms or those owned by a person with a disability. Trustee Mittons inquired if the minority, women and disabled owned firms were proven. Director Farhadieh responded that funds are allocated to these firms in the same manner that they are allocated to non-diverse firms, adding that ISBI does not do seed funding.

Trustee Tilden moved to approve the ISBI Quarterly Review for the period ended March 31, 2021. Trustee Silverthorn seconded the motion, which passed unanimously. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

#### REPORT OF CONSULTING ACTUARIES

Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company, presented the economic assumption update review for the June 30, 2021 actuarial valuation. Mr. Rivera noted that he recommended no change to the economic assumptions, which include a 6.75% annual investment return and a 2.25% annual inflation assumption.

Mr. Rivera reviewed a summary of the analysis, noting the GRS model provides an expected return of 6.72% with a 49% likelihood of annual returns exceeding 6.75%, while Meketa's model provides an expected return of 6.85% with a 51% likelihood of annual returns exceeding 6.75% over a twenty-year investment horizon period. He added that the return assumptions are slightly lower over a ten-year period, at 5.98% with a 41% likelihood of annual returns exceeding 6.75%. Mr. Rivera stated that twenty years is a better time period for a long-term actuarial valuation and is consistent with Meketa.

Chairperson Mendoza asked if there were any questions from the Board regarding Mr. Rivera's report. No questions were offered. A copy of the summary is made a part of these minutes as *Exhibit B*.

#### MINUTES OF THE APRIL 27, 2021, BOARD MEETING

The minutes of the Board meeting held April 27, 2021, 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 Jenkins seconded the motion. A voice vote was taken, and the motion passed unanimously.

## SELECTION OF ACTUARIAL AUDIT VENDOR

Secretary Blair presented a memo summarizing the proposals for selection of an actuarial audit vendor. He noted that the vendors' proposed fees were comparable with Segal's proposal at \$68,000 and Foster & Foster at \$60,000. He added that Segal was a larger and more established firm with more experience in Illinois, specifically as the consulting actuary for the Teachers' Retirement System since 2016. Foster & Foster has grown rapidly over the past several years, expanding their public client base. Secretary Blair stated that references as well as information on data security for both firms were acceptable.

After some discussion, Trustee Silverthorn motioned to select Foster & Foster to perform the actuarial audit for SERS. The motion was seconded by Trustee Tilden and after a voice vote, passed unanimously.

## REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by providing an update on the current estimated bill backlog for the State, which totals approximately \$3.9 billion; one year ago, it was \$4.8 billion and two years ago it was \$6 billion. She noted that the backlog in June was the lowest it has been to end a fiscal year in ten years.

She stated that the oldest voucher currently at the Comptroller's office is dated July 12<sup>th</sup>, adding that this is the most current the office has been on paying bills since before September 11, 2001. Chairperson Mendoza also noted that her office had reduced the current backlog from the approximately \$15 billion this time four years ago.

Chairperson Mendoza reminded the Board that \$3.2 billion in borrowing must be repaid, noting that her office had prioritized paying medical bills to leverage federal matching funds. She added that the reduction in the bill backlog had happened without federal stimulus funds. She stated that \$1.2 billion of the borrowing that had to be paid by June was repaid early in May with another \$1 billion, of the remaining \$2 billion, repaid to date. She added that the remaining \$1 billion should be paid off ahead of schedule in June 2022, saving an estimated \$100 million in interest.

Chairperson Mendoza highlighted for the Board that Illinois had received its first bond rating upgrades in twenty years from two of the three rating agencies, noting that this would cause the state to incur lower interest costs. She added that this had been accomplished during a global pandemic by practicing fiscal discipline while also caring for the most vulnerable populations. She stated that her office had continued to make pension payments on time while also meeting debt service obligations, and that her office had reduced late payment interest from \$1.14 billion in January 2018 to \$20 million.

Vice-Chairperson Morris asked what the COVID federal rescue funds could be used for. Chairperson Mendoza responded that it could be used for economic incentives for businesses and COVID relief, adding that Illinois would not have had to borrow money if there had been no global pandemic.

Assistant Comptroller for Fiscal Policy Kevin Schoeben informed the Board that, of the \$8.1 billion in American Rescue Plan funds allocated to Illinois, the General Assembly had appropriated all but \$5.5 billion to legislative initiatives, the Department of Public Health and COVID response. Chairperson Mendoza added that her office would continue to be vocal about fiscal responsibility with the remaining funds. She concluded her report by offering 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. No trustee offered a report.

#### REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by stating that the Committee met prior to the Board meeting and discussed the audit charter and the two-year audit plan for FY 22 and FY 23. He noted that the audits would focus on disability benefits, back-wage recalculations, service purchases, pension payments and financial reporting.

Mr. Evans noted that another audit would focus on recommendations for IT security. He added that SERS had formed a Security Committee to enhance information security by using multi-factor authentication as the standard, regular security scans from DoIT, ethical hacking, IT patching, and extra security training beyond the statutory requirements.

Mr. Evans concluded his report by offering to answer any questions from the Board. Vice-Chairperson Morris asked if the Committee needed an additional member. Mr. Evans responded that the Committee currently consisted of Marvin Becker as the Comptroller's designee and Trustee Baird. He added that the remaining position was expected to be filled in January 2022.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Vice Chairperson Morris informed the Board that the Committee had completed Secretary Blair's evaluation for the previous year and that he had passed satisfactorily. Chairperson Mendoza asked if there were any questions from the Board. No questions were offered.

#### REPORT OF THE EXECUTIVE SECRETARY

Final FY 22 Operations Budget Request. Secretary Blair presented the FY 22 operations budget request, noting an increase of \$803,328 or 4.67%, from the FY 21 operations budget. He identified a \$279,000 increase due to the 3.95% COLA increase for staff and scheduled step increases for bargaining unit employees, as well as increased staffing. Secretary Blair then stated the increase of \$400,000 in the Group Insurance line is partially due to underbudgeting in FY21, as well as an expected increase in employer premiums by \$900 per employee from FY21 to FY22.

Secretary Blair stated the decrease in the Contractual line was due to the reduction in the use of contractual employees and temporary help, adding that savings also include a reduction in workshops in FY 22 due to the pandemic, providing member statements online and not having a Board election in FY 22.

Secretary Blair gave an update on workshops for SERS. He noted that telephone counseling and informational webinars would be available to members. Trustee Morris suggested the consideration of providing hybrid education for members. Trustee Baird asked if there might be issues with requiring members to be vaccinated. Secretary Blair responded that Field Services staff would not be held responsible for this. However, proof of vaccination or masks would be required when in-person counseling resumes effective August 9<sup>th</sup>.

A motion was made by Vice-Chairperson Morris to approve the budget with an amendment removing \$8,000.00 for the difference between the actuarial audit vendors. Trustee Silverthorn seconded the motion. A voice vote was taken, and the motion passed unanimously. A copy of this budget request is made a part of these minutes as *Exhibit C*.

Back Wage Processing Update. Secretary Blair stated that the Claims Division is processing approximately 350 back wage recalculations per month and were down to three years from eight years of retirement calculations.

Buyout Update. Secretary Blair noted that the payments for the ongoing buyout programs totaled approximately \$184 million, noting the money is recouped from bond proceeds and reduces SERS' liabilities. He stated that SERS would be meeting with legislators to discuss more of these types of options for members.

Trustee Baird asked if staff are giving financial advice and pushing these options on members to save the system money. Secretary Blair assured the Board that staff do not give financial advice to members. He added that letters are sent out including twenty-year projections as well as fact sheets to eligible members to enable them to make the decision themselves. Trustee Jenkins asked if the Board could be provided with an example of the letter. Secretary Blair stated that he would send an actual redacted letter so the Board could see what is provided to members. He reminded the Board that a requirement of the program is that members must roll over their funds into a qualified retirement plan.

Legislative Update. Jeff Houch reported on the legislation that affects the system. Senate Bill 539 applies various ethics reforms measures including changes to reporting requirements on the Statement of Economic Interest forms.

Senate Bill 1056 is an omnibus bill that includes provisions to: amend the required minimum distribution age under the Internal Revenue Code from 70.5 to 72; authorize SERS to indemnify financial institutions as it relates to collecting overpaid benefits to bank accounts of deceased members and survivors. Mr. Houch added that SB 1056 also provides that certain eligible State public safety employees may elect to transfer service credit from either IMRF, a Downstate Firefighters' pension fund, or Cook County to SERS provided

that the eligibility criteria are met and allows a state policeman or Conversation police officer to convert SERS regular formula service credit to non-coordinated alternative formula service credit if the member pays the required costs.

House Bill 3004 (as amended by Senate Amendment #2) prohibits any trustee of a retirement system or investment board from being employed by a pension fund, investment board, or retirement system under the Pension Code, for a period of 12 months after he or she ceases to be a board member. Mr. Houch added that HB 3004 does permit a board member to fill a vacancy of a senior administrative staff position during the process to fill the vacancy provided that: the Board votes to designate a board member to service in that position; the board member does not receive compensation or benefits while serving in the position; the board member serves in the position for no longer than six months; and the board member vacates their position on the board while serving in the role.

After some discussion regarding the specific requirements of the revised Statement of Economic Interest forms, Secretary Blair informed the Board that further guidance would be provided to them. Chairperson Mendoza asked if there were any further questions from the Board regarding the legislative report. No further questions were offered. A copy of this legislative update is made a part of these minutes as *Exhibit D*.

Minority Owned Business Inclusion Policy Update. Mr. Houch informed the Board that, on March 23, 2021, Public Act 101-0657 increased the aspirational goals of agencies subject to the Illinois Procurement Code to award service contracts and purchases to businesses owned by minorities, women, and disabled persons from 20% to 30%. Mr. Houch added that while Public Act 101-0657 does not apply to SERS, given the spirit of the Act and the SERS Inclusion Policy, staff recommends increasing the SERS' goal to 30%.

Vice-Chairperson Morris asked if SERS was reaching its current policy goal of 20%. Secretary Blair responded that he would provide the Board with the latest numbers. Mr. Houch added that SERS provides notice of each RFP to BEP firms, so they have an opportunity to bid. Secretary Blair added that SERS RFPs are always posted longer than the Procurement Code requires to give additional time for smaller firms to prepare a proposal.

Vice-Chairperson Morris motioned to adopt the Minority Owned Business Inclusion Policy update. Trustee Hawk seconded the motion and with a voice vote, the motion passed unanimously.

#### REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, began his presentation by providing a funding update to the Board. In reviewing the FY 21 third quarter financial statements, Mr. Fowler stated that retirement annuities for this quarter were \$26 million higher compared to the same quarter of FY 20 due primarily to the increased number of annuitants and the 3% annual increase. Additionally, the employer contributions increased in the current quarter as compared to the same quarter from FY 20, due to timing of the receipt of those contributions.

Mr. Fowler stated that the system is up to date on state funding, adding that the August contribution is scheduled to be released overnight. He concluded his report by offering to answer any questions from the Board. No questions were offered.

Trustee Baird moved approval of the third quarter FY 21 financial statements as presented. The motion was seconded by Trustee Silverthorn. A voice vote was taken, and the motion passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit E*.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the April, May, and June 2021 Executive Committee minutes for review. There being no changes to the minutes, Trustee Hawk moved to approve the minutes. Trustee Baird seconded the motion. A voice vote was taken, and the motion passed unanimously.

#### OLD BUSINESS

Chairperson Mendoza asked if there was any old business. Secretary Blair informed the Board that he had a contact at the Governor's office and had requested appointments to fill three long standing Board vacancies.

#### NEW BUSINESS

Chairperson Mendoza asked if there was any new business. There was none offered.

#### 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 in attendance.

#### ADJOURNMENT

There being no further business to be brought before the Board, Chairperson Mendoza asked for a motion to adjourn. Trustee Tilden offered the motion and Trustee Hawk seconded and the motion passed unanimously. The meeting adjourned at 12:15 p.m.

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Susana Mendoza, Chairperson

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

ATTEST:

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

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