

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES

October 26, 2021

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 26, 2021, at 10:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway. 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:

Carl Jenkins, Appointed Trustee

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

Jack Matthews, Elected Active Trustee

Stephen Mittons, Elected Active Trustee

John Tilden, Elected Retired Trustee

Absent:

Danny Silverthorn, 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

James Stivers, Internal Counsel

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

Jennifer Koelle, Investment Officer, Illinois State Board of Investment

Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.

Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Co.

Martha Merrill, AFSCME

Chairperson Mendoza called the meeting to order at 10:00 a.m. Secretary Blair noted per Public Act 101-0640 and the ongoing COVID-19 public health emergency, it was

not prudent to conduct the SERS Board meeting in person and that it would be conducted by virtual means. He noted for the record, as required by Public Act 101-0640 the System's Executive Secretary and General Counsel were physically present at the meeting location. Recording Secretary Jessica Blood called the roll, and a quorum was present.

MINUTES OF THE JULY 27, 2021 BOARD MEETING

The minutes of the Board meeting held July 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 rollcall vote was taken, and the motion passed unanimously.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began her report by highlighting the portfolio return of 25.8% for the fiscal year ended June 30, 2021, noting that is well above the assumed rate of return of 6.75% annually.

Director Farhadieh reminded the Board that ISBI uses a barbell approach to provide downside protection within the rate sensitive asset classes. She noted that ISBI uses public market equivalents when private market investments are underweighted, adding that private equity is currently underweight by 2.4% compared to a year ago due to ISBI's specific pacing model. She then reviewed the portfolio's active and passive allocations, noting that passive investments allow for cheap, broad market exposure and active management allows ISBI to choose a fund manager that will outperform a benchmark.

Director Farhadieh concluded her presentation by noting that approximately 35.9% of the actively manager portfolio is committed to minority and women owned investment managers, which is slightly lower than previously reported due to a few female owned asset managers that were recently terminated. She added that ISBI continues to be proactive in utilizing minority and women owned managers and had recently made some commitments in the private market space.

Director Farhadieh then turned the presentation over Jennifer Koelle, ISBI Investment Officer, to review the performance of individual asset classes. Ms. Koelle began her review by noting the Fixed Income portfolio returned 5%, net of fees, for the year ended June 30, 2021, outperforming the benchmark during the period by 3.9%. She added the Core Fixed Income portfolio and the Treasury Inflation Protected Securities Composite (TIPS) returned -2.3% and 6.5%, respectively, while the Multi Asset Credit portfolio returned 18.2%, outperforming the benchmark by 4.5%. Ms. Koelle noted the Private Credit portfolio returned 19.4%, outperforming the benchmark by 10%, and the Global Equity portfolio returned 43.2%, beating the index by 2.3%. The U.S. Equity portfolio gained 43.4%, lagging the broad U.S. equity market by 80 basis points.

Ms. Koelle continued her report by informing the Board the Non-U.S. Equity portfolio returned 39.2% for the 12 months ended June 30, 2021, exceeding the benchmark return by

2%, while the Private Equity portfolio advanced 54.9% and outperformed the benchmark by 1.1%. She concluded her review of the asset classes by adding the Infrastructure Composite returned 11.6% and outperformed the benchmark by 2.5%. Ms. Koelle concluded her presentation by highlighting the Real Estate portfolio returned 13.7% in FY 21, net of fees, and beat the benchmark by 12.2%.

Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended June 30, 2021. Vice-Chairperson Morris seconded the motion, which passed unanimously on a roll call vote. 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 draft June 30, 2021, actuarial valuation and the preliminary FY 23 State contribution. He began his report by noting the 25% FY 21 investment return increased the funded ratio but decreased the annual statutory contribution rate amount. Mr. Rivera added that because of the 90% funding target, this combination of excess FY 21 investment returns combined with the decrease in annual contributions, causes the gap between benefits paid and incoming contributions to increase over the next several years.

Mr. Rivera then touched on the highlights of the actuarial valuation by stating that the actuarial liabilities increased from \$50.1 million to \$51.8 million, noting that significant retroactive pay increases caused the liabilities to increase more than expected. The market value of assets increased roughly 25% to \$23.8 million, and the funded ratio increased significantly from 38% on June 30, 2020, to 46% on June 30, 2021.

Mr. Rivera then told the Board the employer contributions will decrease from \$2.586 billion in FY 22 to \$2.485 billion projected for FY 23, due primarily to favorable FY 21 investment experience. He added that the projected employer contribution for FY 24 and FY 25 will remain relatively steady with a slight decrease due to more tier two members.

Mr. Rivera noted the projected increase in negative cashflow over the next several years, with benefits and expenses continuing to exceed State and employee contributions by wider margins annually. He then noted the ongoing annual shortfalls between the actuarially determined contribution and the statutory funding requirement. Trustee Baird asked why the actuarially determined amortization period is 19 years. Mr. Rivera responded that a 25-year amortization period was adopted by the Board 6 years ago and added the amortization period would need to be refreshed in the future.

Mr. Rivera reminded the Board of the statutory requirement of conducting a full experience study every three years. He stated that the upcoming study for July 1, 2018, through June 30, 2021, would review all demographic and economic assumptions, including the mortality tables. Chairperson Mendoza asked if the pandemic would influence the mortality tables. Mr. Rivera answered that it would be difficult to isolate the impact of the pandemic on future mortality tables but would have to be done in the next several years.

Jeff Tebeau continued the actuarial report by reviewing how the significant investment gains in FY 21 would impact funding and cash flow over time, noting that the fund will rely more heavily on investment income to pay for future benefits.

Mr. Tebeau then reviewed active membership data, noting a slight decrease in active membership compared to the previous year, adding that payroll still increased by approximately 4%. He added that membership had been growing annually since 2017 before the slight decrease in FY 21. Mr. Tebeau noted benefit recipients increased by approximately 600 from FY 20 to FY 21, with a total FY 21 benefit payout of nearly \$2.8 billion.

Mr. Rivera then directed the Board's attention to the FY 23 preliminary certification documents reflecting a required State contribution of \$2,593,827,000, or 53.258% of expected payroll. Chairperson Mendoza asked if there were any questions from the Board regarding the draft FY 21 actuarial valuation or the preliminary FY 23 certification amount. No questions were offered.

Trustee Jenkins moved to accept the draft June 30, 2021, actuarial valuation, and the preliminary certification of the FY 23 State contribution with the inclusion of the recommended assumption changes due to the increase in the buyout program participation. Vice-Chairperson Morris seconded the motion. A rollcall vote was taken, and the motion passed unanimously. A copy of the summary is made a part of these minutes as Exhibit B.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans reported the Committee met before the Board meeting and discussed the internal audit charter and the two-year audit plan for FY 22 and FY 23. He added that there is currently an Internal Auditor I vacancy, noting the possibility of adding another position to the Internal Audit Division in FY 23.

Mr. Evans noted he had updated the Committee on the progress on the recent IT audit recommendations, noting specifically the implementation of multi-factor authentication for both local and remote computing sessions, in order to provide additional network security. Mr. Evans told the Board that SERS is currently conducting security awareness training both from the State as well as supplemental training that is provided to all employees through a vendor. He added that there would be user testing following the required training sessions.

Mr. Evans noted that the Committee reviewed the FY 21 audit report and briefly discussed an ongoing statewide project reconciling member census data from all agencies within the State. He stated that the data includes member demographic and payroll data used in the actuarial valuation and added that the reconciliation is being done to remedy a statewide audit finding.

Mr. Evans concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the Rules and Personnel Committee's October 25, 2021, meeting, noting the committee authorized staff to pursue rulemaking for several provisions.

Mr. Houch highlighted a few of the key rules that the committee approved at its most recent meeting, including clarifying the ambiguities in the rules governing alternate payees and the consequences of failing to provide necessary documentation or complete necessary actions in a timely manner. Mr. Houch added that coverage would be provided in the rules regarding suspending the processing certain types of payments to members who had been on a temporary or non-occupational disability benefit while they have a claim pending with the Social Security Administration. Mr. Houch noted that clarification would also be provided in the rules regarding how SERS is to treat overpayments to members who had returned to work and are subject to benefit suspension.

Chairperson Mendoza asked if there were any questions from the Board. No questions were offered.

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 \$4.1 billion; one year ago, it was \$8.1 billion and two years ago it was \$6.4 billion after adjusting for Debt Transparency Act agency reports. She reminded the Board that the pandemic had stalled her office's efforts to keep chipping away at the backlog last year.

Chairperson Mendoza added that the backlog is a good way to see the fiscal challenges that the State faces and track improvements in the State's fiscal condition, such as going from a record backlog of nearly \$17 billion four years ago to about \$4 billion today. She stated that another important tool for tracking the progress of paying bills is the length of time the oldest general funds voucher has been at the Office of the Comptroller, which at the bill backlog's worst point was 210 business days. She noted that with the progress made, the oldest voucher at the end of FY21 was two days old and as of close of business on October 25, 2021, the oldest voucher was well within the thirty-day window at 21 days. Chairperson Mendoza stated that the progress with the bill backlog paydown has resulted in two of the three credit agencies upgrading the State's credit. She offered to answer any questions regarding her report. No questions were offered.

Election of 2022 Vice-Chairperson. Chairperson Mendoza informed the Board that an election for 2022 Vice-Chairperson of the Board was in order. She nominated Vice-

Chairperson Morris to continue serving as Vice-Chairperson. Trustee Baird seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

2022 Executive Committee. Chairperson Mendoza stated that elections for the 2022 Executive Committee were required. She informed the Board that Marvin Becker would continue to serve as her 2022 designee as Chairperson of the Executive Committee and a member of the Audit and Compliance Committee. Trustee Jenkins moved to nominate Vice-Chairperson Morris to the 2022 Executive Committee to serve as Vice-Chairperson of the Committee, and Trustee Hawk to serve as Vice-Chairperson Morris' alternate on the Executive Committee. Trustee Mittons seconded the motion and by rollcall vote the motion passed unanimously.

2022 Audit and Compliance Committee. Trustee Jenkins motioned to nominate Trustees Baird and Matthews to the 2022 Audit and Compliance Committee, with Trustee Baird to serve as Chairperson and Trustee Matthews to service as Vice-Chairperson. Trustee Mittons seconded the motion and by rollcall vote, the motion passed unanimously.

2022 Rules and Personnel Committee. Trustee Jenkins motioned to nominate Trustees Hawk and Silverthorn and Vice-Chairperson Morris to the 2022 Rules and Personnel Committee, with Vice-Chairperson Morris serving as the Chairperson and Trustee Hawk serving as Vice-Chairperson. Trustee Mittons seconded the motion and by rollcall vote, the motion passed unanimously.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. No trustee offered a report.

REPORT OF THE EXECUTIVE SECRETARY

Calendar Year 2022 Meeting Dates. Secretary Blair directed the Board's attention to the proposed meeting dates for calendar year 2022. Trustee Hawk moved to adopt the proposed 2022 schedule and Trustee Jenkins seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

Re-appointment of Accounting Division Manager Alan Fowler. Secretary Blair informed the Board that Alan Fowler's current four-year term ends December 1, 2021 and requested the Board's approval in re-appointing Mr. Fowler to an additional four-year term. Secretary Blair noted that in Mr. Fowler's eight years serving as the Accounting Division Manager, SERS had not had a financial audit finding and has earned the Government Finance Officers' Association Award for Excellence in Financial Reporting every year.

Chairperson Mendoza asked if there were any questions regarding the re-appointment. No questions were offered. Trustee Hawk motioned to approve the re-appointment of Alan Fowler as Accounting Division Manager. The motion was seconded by Vice-Chairperson Morris and passed unanimously by rollcall vote of all present.

Appointed Trustee Update. Secretary Blair informed the Board that he had been in contact with the head of the Governor's executive appointments and Deputy Governor Manar regarding the filling of multiple Board vacancies. He stated that Jameson Ramirez had been suggested as a potential appointee and that he had been in contact with Mr. Ramirez regarding Board responsibilities and time commitments. Secretary Blair added that he would remain in contact with the Governor's office to try to get the additional vacancies filled in a timely manner.

FY 22 Funding Update. Secretary Blair stated that the November funding had been received a week ahead of schedule. He added that the stability and timing of the monthly funding enabled SERS to pay benefits without withdrawing funds from the ISBI portfolio. Chairperson Mendoza reiterated her office's ongoing focus on prioritizing consistent and timely retirement system funding so drawdowns would be minimized.

Back Wage Claims Update. Secretary Blair told the Board that during the months of April through July, SERS had processed between 350-400 back wage adjustments per month. The number of back wage adjustments processed fell during the months of August through October due to an increase in the processing of new retirement benefits, as well as staffing and technology issues. Vice-Chairperson Morris asked if the back wage adjustments would be completed by the end of CY 22. Secretary Blair responded that he hoped to have them completed sooner.

Buyout Update. Secretary Blair stated that SERS has processed 1,845 COLA buyouts, with an average payment of \$108,000. He reminded the Board that SERS is reimbursed for the amount the buyout payments from bond proceeds, which reduces SERS' liabilities. He noted that \$727 million of the original \$1 billion in bonding authorization had been borrowed and paid out, and that conversations are ongoing with the Governor's Office of Management and Budget regarding borrowing more funding to extend the program.

Chairperson Mendoza asked if there were any questions regarding the Executive Secretary's report. No questions were offered.

REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 21. He noted that the retirement annuities were approximately \$30 million more than the same quarter of the previous fiscal year due to additional retirements and the three percent annual COLA. He added that the COLA buyout payments processed during the quarter ending June 30, 2021, were approximately \$12 million more compared to the same quarter of the previous fiscal year.

Mr. Fowler concluded his report by noting that the Accounting Division is currently working on the FY 21 annual financial reports and offered to answer any questions from the Board. No questions were offered.

Trustee Hawk moved approval of the fourth quarter FY 21 financial statements as presented. The motion was seconded by Trustee Mittons. 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 C*.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the July, August, and September 2021 Executive Committee minutes for review. There being no changes to the minutes, Trustee Baird moved to approve the minutes. Trustee Jenkins seconded the motion. A voice 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

Trustee Friedman Resolution. Chairperson Mendoza presented a resolution honoring Trustee Friedman for her 12 years of service on the Board. Trustee Baird made a motion to adopt the resolution and the motion was seconded by Trustee Jenkins. A rollcall vote was taken, and the motion passed unanimously.

Trustee Dawson Resolution. Chairperson Mendoza presented a resolution honoring Trustee Dawson for his service to the Board. Trustee Hawk made a motion to adopt the resolution and the motion was seconded by Trustee Mittons. A rollcall vote was taken, and the motion passed unanimously.

Required Training. Casey Evans reminded the Board to complete their required annual ethics and sexual harassment and discrimination training by the end of the calendar year and to send completion certificates to him.

Trustee Mittons Retirement. Secretary Blair informed the Board that this would be Trustee Mittons' last meeting as an elected active trustee, as he was planning to retire at the end of the year. Chairperson Mendoza thanked him for his service to the Board and the members of SERS. Several other trustees expressed their appreciation for Trustee Jenkin's service and his commitment to the membership of SERS. Trustee Mittons thanked the Board for the well wishes and added that he enjoyed working with the SERS staff and Trustees. He added that he was confident the retirement system and its membership is in good hands with the Trustees and staff.

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 who wish to address the Board.

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 Mittons seconded. The motion passed unanimously by rollcall vote and the meeting adjourned at 11:45 a.m.

Susana Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____