

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS  
MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

April 16, 2013

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 16, 2013, 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-703, 160 North LaSalle Street, Chicago, IL.

The following trustees were in attendance:

Judy Baar Topinka, Chairperson  
Lori Laidlaw, Vice Chairperson  
Shirley Byrd, Trustee  
Thomas Allison, Trustee  
David Morris, Trustee  
Patricia Rensing, Trustee  
Virginia Yates, Trustee

Absent:

Patricia Ousley, Trustee  
Danny Silverthorn, Trustee  
Harold Sullivan, Trustee  
Michael Noser, Trustee  
Renee Friedman, Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Michelle Clatfelter, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Nicholas Merrill, Manager, Accounting Division  
Staci Crane, Chief Internal Auditor  
Gerry Mitchell, Chief Information System Officer  
Denise Connelly, Manager, Human Resources Division  
Dave O'Brien, Manager, Administrative Services Division  
Loren Iglarsh, Executive Committee Chairperson  
Alexis Sturm, Office of the Comptroller  
Barbara Baird, Manager, SERS Chicago Office  
Dawn Blakeman, Recording Secretary

Chairperson Topinka presided and called the meeting to order at 10:22 a.m. with a quorum present.

## PUBLIC COMMENTS

Chairperson Topinka asked if there were any members of the public in the Springfield or Chicago locations who wished to address the Board. There were no public comments.

## REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, Director of ISBI distributed copies of the Executive Summary of the ISBI report for the period ended February 28, 2013, and addressed the Board. He first called attention to the portion of the report reflecting a 10.6% return, gross of fees, for the entire portfolio for FY 2013 through February 28. This return compares favorably to the total portfolio benchmark return of 9.4% (based on the target asset allocation). For the same time period, the Fixed Income portfolio returned 3.6%, while the benchmark returned 2.5%.

Director Atwood continued by noting the U.S. Equity portfolio, excluding the Hedge Fund of Funds allocation, returned 15.0% in FY 2013 through February 28, while the benchmark returned 13.8% over the same time period. He then directed the Board to the Hedge Fund of Funds asset class, which returned 9.0% in FY 2013 year to date, compared to the benchmark return of 7.6%. Over the same time period, the non-U.S. Equity portfolio performed very well, returning 19.4%, while the benchmark returned 17.5%.

Director Atwood noted that all of the asset classes are ahead of the respective benchmark, which doesn't happen very often. He added that it's unrealistic to expect that to continue going forward and that the portfolio has always experienced problems during the end of the fiscal year ("sell in May and go away").

Director Atwood informed the Board a Request for Proposal (RFP) was completed in March and Marquette and Associates will continue to be the ISBI consultant. Marquette will undertake an asset allocation study. He doesn't believe there will be a big change in the ISBI asset allocation but does expect some changes to the Fixed Income portfolio based on concerns about an eventual rise in interest rates. The study will be presented by Marquette at the June ISBI meeting.

Director Atwood announced that he had concluded his report and Chairperson Topinka asked if the Board if there were any questions. There being no questions, Trustee Morris moved to accept the ISBI Report for the period ending February 28, 2013 and Trustee Rensing seconded the motion, which passed unanimously. A copy of the report is maintained in the ISBI office and made a part of these minutes as Exhibit A. Chairperson Topinka thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

## REVIEW OF THE INTEREST RATE ASSUMPTION

Executive Secretary Blair briefly reviewed the information prepared by the consulting actuaries and suggested that further discussion and any consideration of changing the interest rate assumption be deferred until the July Board meeting. The Board discussed the option of deferring the assumption review and agreed the matter could be deferred.

## MINUTES OF THE JANUARY 8, 2013 BOARD MEETING

The minutes of the meeting of the Board of Trustees held January 8, 2013 were presented to the members by Chairperson Topinka for approval. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Yates moved to approve the minutes as submitted. Vice Chairperson Laidlaw seconded the motion and all were in favor.

### REPORT OF CHAIRPERSON TOPINKA

Chairperson Topinka stated she had nothing to report.

### REPORT OF ANY TRUSTEE

There were no Trustee reports offered.

### REPORT OF CHIEF INTERNAL AUDITOR

Chairperson Topinka introduced Staci Crane, the SERS Chief Internal Auditor. Vice Chairperson Laidlaw made a motion to go into closed session to discuss the Internal Auditor's reports. Trustee Morris seconded the motion. At 10:40 a.m. a roll call vote was taken by Recording Secretary Blakeman with all trustees present voting in the affirmative.

The Board returned to open session at 11:35 a.m.

### REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Systems Modernization. Mr. Mitchell reported that IT methodology documentation is being enhanced to better satisfy audit controls and the SRS website has been moved from CMS to SRS to allow more control by SRS. He continued by noting the Reciprocal Web System has been completed and the re-engineering of the pension calculations for use on the web and internally has begun.

Based on an audit finding, Mr. Mitchell noted the member databases were being upgraded to allow for encryption of the whole database. Also, a web-based workshop reservation system is being configured for use by the Field Services Division and the agency-wide deployment of Windows 7/Office 10 is complete.

Imaging. Mr. Mitchell reported the imaging backfile conversion is complete and all equipment has been cleansed of images and data by SRS staff. Executive Secretary Blair pointed out the hard work done by Mr. Mitchell and his staff, and Dave O'Brien, Administrative Services Division Manager, and his staff in the timely and successful completion of the project. Chairperson Topinka and Trustee Rensing voiced their appreciation to Mr. Mitchell and Mr. O'Brien and requested that commendations be put in their employee files.

Disaster Recovery. Mr. Mitchell reported the required network upgrades are in progress and preparations continue for use of the Northern Data Center with a test scheduled to be completed by June 30, 2013. In addition, a surplus generator has been procured from the Jacksonville Developmental Center and an Invitation For Bid (IFB) is being prepared for the installation.

Risk Assessment. The SRS business divisions have completed risk assessments for their functional areas and these assessments are being coordinated and analyzed. The IT risk assessment has been completed using various materials provided by the internal auditor. Mr. Mitchell noted there are good security controls in place to protect our systems and data but SRS needs to formalize security administration and risk assessment functions.

## REPORT OF THE EXECUTIVE SECRETARY

Preliminary Review of FY 2014 Budget. Executive Secretary Blair presented the preliminary FY 2014 budget. Copies of the Executive Summary, as well as the detailed budget, were provided to the trustees for review prior to the meeting. The final budget submission will occur at the July 16, 2013 meeting. Approval of the budget at this meeting will allow the staff to continue operating after July 1, 2013, until the final approval in July.

The requested operating budget for FY 2014 is \$21,325,200, an increase of 3.19%, or \$659,600 more than the FY 2013 budget amount of \$20,665,600. Personal services are increased \$529,800 from the FY 2013 budget, a 9.46% increase. Step increases and 2% cost of living adjustments are budgeted for the 71 bargaining unit employees. Included is a 2% increase effective July 1, 2013 for 12 merit comp employees. Termination pay for nine employees and three 75 day employees is included.

The Board certified rate of 40.312% (from 37.987%) will result in an increase of \$343,800 to the FY 2013 budget amount, a 16.16% increase. Group insurance premiums are budgeted with a 23.8% increase to the FY 2013 amount. After a brief discussion, Trustee Morris moved to approve the preliminary FY 2014 budget. The motion was seconded by Vice Chairperson Laidlaw and all were in favor.

Review of Updated Board Manual. The review of an updated Board Manual was deferred to the July Board meeting.

Administrative Procedures Act. A discussion of the Administrative Procedures Act and its application to SERS was deferred to the July Board meeting. Executive Secretary Blair asked the Trustees to review the relevant Sorling memo prior to the July meeting.

## SECOND QUARTER FINANCIAL STATEMENTS

Nicholas Merrill, Accounting Division Manager, presented the financial statements for the second quarter of Fiscal Year 2013 and noted the changes from the second quarter of FY 2012. He noted employer contributions increased by \$19.9 million as a result of a change in the employer contribution rate from FY 2012 to FY 2013 and administrative expenses increased by \$1.5 million due primarily to increased contractual services and IT purchases.

Vice Chairperson Laidlaw questioned Mr. Merrill on how many petty cash funds SERS had. She noted that it appeared there are two listed in the financial statements with two different amounts. She asked if there are two funds or if one was incorrect. Mr. Merrill responded there is one fund for the entire agency. He then briefly reviewed how the petty cash fund is used and where it is reported in the Comprehensive Annual Financial Report.

On motion by Trustee Rensing, seconded by Trustee Morris, and by unanimous vote, the Board approved the financial statements as presented. Copies of these financial statements are attached to these minutes as Exhibit B.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the January, February and March 2013, Executive Committee minutes for review. There being no changes to these minutes, Trustee Morris moved for adoption. Vice Chairperson Laidlaw seconded the motion, which prevailed by the affirmative vote of all trustees.

OLD BUSINESS

There was no old business to review.

NEW BUSINESS

There was no new business to review.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Morris moved for adjournment at 12:15 p.m. The adjournment motion was seconded by Trustee Yates and all were in favor.

\_\_\_\_\_  
Judy Baar Topinka, Chairperson

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

ATTEST:

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

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