

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING

OF THE BOARD OF TRUSTEES

January 19, 2012

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Thursday, January 19, 2012, at 10:00 A.M. in the System's Springfield office located at 2101 South Veterans Parkway with videoconference location at the Bi-landic Building, Room 14-612, 100 West Randolph Street, Chicago, IL.

The following trustees were in attendance:

Judy Baar Topinka, Chairperson
Lori Laidlaw, Vice Chairperson
Thomas Allison, Trustee
Renee Friedman, Trustee
David Morris, Trustee
Michael Noser, Trustee
Patricia Ousley, Trustee
Patricia Rensing, Trustee
Danny Silverthorn, Trustee
Virginia Yates, Trustee

Absent:

Shirley Byrd, Trustee
Harold Sullivan, Jr., Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Steve Bochenek, Attorney
William Atwood, Director, Illinois State Board of Investment
Nicholas Merrill, Manager, Accounting Division
David O'Brien, Manager, Administrative Services Division
Gerald Mitchell, Chief Information Systems Officer
Loren Iglarsh, Office of the Comptroller
Alexis Sturm, Office of the Comptroller
Barbara Baird, Manager, SERS Chicago Office
Dawn Blakeman, Recording Secretary

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment (ISBI) distributed draft copies of the Flash Report (Executive Summary) for the period ending December 31, 2011, and addressed the Board. He called attention to the portion of the report reflecting a -5.0% return for the first six months of FY 12 and a 0.8% return for calendar year 2011. The FY 12 total portfolio benchmark totaled -4.6% while the calendar year 2011 benchmark was -0.5%. Director Atwood pointed out the portfolio outperformed the benchmark in calendar year 2011, even though it has underperformed in the first 6 months of FY 12. Director Atwood further stated the investment portfolio is slightly more than \$10.7 billion at December 31, 2011, compared to approximately \$10.55 billion at December 31, 2010.

Director Atwood then briefly reviewed for the Board the performance of the various asset classes within the portfolio, specifically pointing out the FY 12 underperformance of the fixed income and U.S. equity allocations. ISBI has taken action to terminate the relationship with Amalgamated CLF and ULLICO, two fixed income managers that have significantly underperformed for the last several years. Offsetting some of FY 12 underperformance was the significant outperformance of non-U.S. equities and hedge funds in comparison to their benchmarks. Director Atwood then offered to address any questions the Board may have.

Trustee Friedman asked Director Atwood about the benchmarks used to measure the relative performance of the various asset classes. Mr. Atwood explained the benchmarks are generally well known benchmarks, and are used to measure the performance of the entire portfolio's actual and target asset allocation. Trustee Friedman followed up by asking Director Atwood about the relationship between the assumed rate of investment return and the ISBI asset allocation and if anything had been done since the Board lowered the investment return assumption to 7.75%. Director Atwood informed the Board that action that was to occur in December 2011 had been postponed until June 2012 and reminded the Board that the investment return assumption is reviewed every 5 years.

Director Atwood explained to the Board that asset allocation is a function of the assumed rate of return adopted by the SERS Board, but funding issues, primarily the lack of a stable employer funding source, has also affected ISBI's asset allocation over the last few years. Due to the lack of reliable State funding, ISBI has been required to maintain more liquidity to meet the needs of SERS, which affects asset allocation.

Trustee Friedman pointed out that the 10 year annual return number is only 4.4%, which is considerably lower than the current assumed rate of return. Director Atwood responded that the 30 year ISBI return is still more than 8%, even with the economic and funding problems of the last several years.

Trustee Allison asked Director Atwood about the new Chairman of ISBI. Mr. Atwood informed the Board that Devon Bruce had recently been appointed as the ISBI Chairman. He said that Chairman Bruce is a "hands-on" chairman who will be very active and a great asset to ISBI. Director Atwood mentioned there has been discussion of holding an ISBI meeting in Springfield but that it has not been scheduled yet.

Trustee Noser asked Director Atwood about contracts with various vendors and questioned the fairness of the payment of fees to vendors who underperform. Director Atwood answered by pointing out the differences in investment types and that fees must be paid even when those investments don't provide the returns expected when a contract is signed.

Trustee Morris moved to accept the ISBI Flash Report for the period ending December 31, 2011 and Vice Chairperson Laidlaw 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.

MINUTES OF THE OCTOBER 25, 2011 BOARD MEETING

The minutes of the meeting of the Board of Trustees held October 25, 2011 were presented to the members by Chairperson Topinka for approval. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Ousley moved to approve the minutes as submitted. Trustee Silverthorn seconded the motion, and all were in favor.

REPORT OF CHAIRPERSON

Chairperson Topinka indicated she had no official report,

REPORT OF THE EXECUTIVE SECRETARY

IT Update on Modernization. Gerry Mitchell, CISO of SERS provided an update on the ongoing SRS IT modernization efforts. Mr. Mitchell reported recent accomplishments include the completion and implementation of Phase 1 of the Active Member system and the projected savings that it will provide. Phase 2 of the Active Member system is underway. A Help Desk system has been developed and is currently being piloted. The modernization has progressed enough that more staff can be added to the effort to speed up the modernization.

Mr. Mitchell reported that the winning bid for the IFB issued for the imaging backfile conversion is Perfect Image Incorporated who bid \$332,811.15. References provided were checked and all reported good experiences with Perfect Image including the Illinois Secretary of State's Office. The board recommended that silver reclamation of the fiche be investigated, contact be made with the Secretary of State to request acceleration of records disposal, and ensure background checks are performed for all vendor staff involved in the backfile conversion.

The development of a new Business Continuity/Disaster Recovery Plan continues. Mr. Mitchell reported that a five day recovery time is being requested by the Divisions. Options are being investigated by IT.

Report of Internal Auditor. Executive Secretary Blair informed the Trustees the System's Chief Internal Auditor, Larry Stone transferred to the Department of Central Management Services. Mr. Blair reported Mr. Stone completed no audits during the period, but

three monthly death matches were completed since the last Board meeting. The amount of potential overpayments detected was \$65,254. Vice-Chairperson Laidlaw expressed concern over the vacancy and Secretary Blair responded that getting the right type of auditor is his highest priority. Vice-Chairperson Laidlaw moved to approve the auditor's report. Trustee Ousley seconded the motion, and all were in favor.

FY 2012 Funding Update. Secretary Blair informed the Trustees that SERS has received contributions from the State representing FY 12 employer contributions through mid-December. Secretary Blair added that no withdrawals have been taken from ISBI since before the October Board meeting. Mr. Blair informed the Trustees that he had worked with the Legislative Reference Bureau (LRB) to draft funding legislation that is compliant with that recommended by the Governmental Accounting Standards Board (GASB). The legislation has not yet been introduced and Chairwoman Topinka suggested Mr. Blair contact Peg Mosgers from the Comptroller's Office if guidance was needed on a legislative sponsor.

FIRST QUARTER FINANCIAL STATEMENTS

Nicholas Merrill, Manager of the Accounting Division, presented the financial statements for the first quarter of Fiscal Year 12.

Mr. Merrill indicated that for the first quarter, the System had \$235 million in employer contributions, up from \$105 million in the first quarter of FY 11. In FY 11 the majority of the employer contributions were submitted in the third quarter from the proceeds of bonds sold. In the current fiscal year, the State made the employer contributions for July and August during the first quarter. In addition, the employer contribution rate increased from 27.988% of payroll to 34.190% of payroll. The increase in contributions allowed the System in the first quarter to withdraw \$36 million less from ISBI when compared to the first quarter of FY 11.

In the first quarter, total benefits paid in the first quarter increased by \$29.0 million, from \$359.6 million in FY 11 to \$388.6 million in FY 12. The increase attributable to retirement benefits totaled \$26.2 million, with much smaller increases in survivor, disability and lump sum death benefits accounting for the remaining \$2.8 million increase.

On motion by Vice Chairperson Laidlaw, seconded by Trustee Rensing, and by unanimous vote, the Board approved the financial statements as presented for the period July 1, 2011 through September 30, 2011. Copies of the financial reports are attached to these minutes as Exhibit C.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The Trustees had previously been furnished with copies of the October, November and December, 2011, Executive Committee minutes for review. Trustee Noser asked about the lack of consistency in the treatment of members requesting waivers of certain filing deadlines. Executive Secretary Blair explained those types of appeals are decided on a case by case basis, with the Committee relying on the particular facts of each appeal. Trustee Ous-

ley moved for adoption of the minutes as presented. Trustee Morris seconded the motion, which prevailed by the affirmative vote of all trustees.

OLD BUSINESS

Trustee Allison asked Executive Secretary Blair about the Chicago Tribune Freedom of Information Act (FOIA) request discussed at the last Board meeting. Mr. Blair provided the requested information had been furnished to the Tribune.

NEW BUSINESS

Trustee Noser inquired as to the expiration of the terms of current Board members. Executive Secretary Blair informed the Board the three year terms of Trustees Noser, Allison and Friedman would expire in July of 2012. Mr. Blair promised to follow up with these trustees regarding their intentions of remaining on the Board and work with the Governor's Office if the trustees wished to be reappointed.

Based on a member's request received by Executive Secretary Blair, the Board was asked if there was any interest in providing the email addresses of Trustees to members of SERS. Following a brief discussion, Mr. Blair informed the Board that no action would be taken on this request.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Silverthorn moved for adjournment at 12:20 P.M. The adjournment motion was seconded by Trustee Rensing and all were in favor.

Judy Baar Topinka, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____