

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

January 15, 2019

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 15, 2019, 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:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Shaun Dawson, Elected Active Trustee
Renee Friedman, Appointed Trustee
Tad Hawk, Elected Active Trustee
Stephen Mittons, Elected Active Trustee
Thomas Allison, Appointed Trustee
Yasmin Bates-Brown, Appointed Trustee
John Tilden, Elected Retired Trustee

Absent:

Carl Jenkins, Appointed Trustee
Alan Latoza, Elected Retired Trustee
Danny Silverthorn, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Jeff Houch, Assistant to Executive Secretary
Steve Bochenek, System Attorney
Chris Maley, Illinois Office of the Comptroller
Chasse Rehwinkel, Illinois Office of the Comptroller
Johara Farhadieh, Director, Illinois State Board of Investment
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Jenna March, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Jennifer Staley, Recording Secretary
Loren Iglarsh, SERS Retiree
Yev Gelfland, BlackRock

Chairperson Mendoza called the meeting to order at 10:00 a.m. with a quorum present.

PUBLIC COMMENTS

Chairperson Mendoza asked if there were any members of the public in either the Springfield or Chicago location who wished to address the Board. There were none.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the estimated bill backlog as of January 15, 2019, which totaled \$7.538 billion. She pointed out that the backlog totaled \$16.7 billion in November of 2017, but the proceeds from \$6 billion in General Obligation Bonds allowed that number to decrease to \$9.2 billion by January of 2018. Chairperson Mendoza summarized that the legislature authorized two provisions to assist in the efforts to manage the backlog, interfund borrowing and the ability for the State Treasurer to deploy funds from the investment portfolio towards the backlog. By investing in the backlog, the deployed capital would yield 3.5% in interest, and would allow the State to avoid paying the 12% interest rate associated with the late bill payments.

Chairperson Mendoza continued her report by reminding the Board that Governor Pritzker will be providing his first Budget Address on February 20, 2019. She stated that her office will continue to advocate for State spending prioritization which includes spending on education, senior citizens, human services, debt service, and pension funding.

Chairperson Mendoza concluded her report by summarizing the results of the first year of reporting related to the Debt Transparency Act. Not only has the reporting allowed for greater transparency on the financial condition of State agency expenditures, but such Act allows the public to analyze the spending patterns of State agencies. Chairperson Mendoza stated that her office will be publishing a special report that will highlight the impact that law has had on the State budget and the short-term fiscal challenges. Chairperson Mendoza concluded her report by offering to answer any questions from the Board. None were offered.

MINUTES OF THE OCTOBER 30, 2018 BOARD MEETING

The minutes of the Board meeting held on October 30, 2018, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for preliminary review. Vice-Chairperson Morris moved to approve the minutes as submitted. Trustee Bates-Brown seconded the motion, and all were in favor.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Director of the Illinois State Board of Investment (ISBI), distributed copies of the Quarterly Review for the period ending September 30, 2018, prepared by Meketa Group. She began by reviewing the actual and target asset allocations as of September 30, 2018, noting that the opportunistic debt and private equity asset classes are underweight. She summarized that the timing of capital deployment to private markets is strategically managed in order to maximize vintage year diversification, which is why the portfolio is underweight in such classes. However, ISBI is working diligently with its strategic partners to meet the target asset allocations of these two asset classes.

Director Farhadieh continued her report by highlighting the data that indicates the portion of the portfolio managed by active and passive managers. 65.9% of the portfolio is managed passively, while 34.1% is handled by active managers. She stated that it is the goal of ISBI to utilize only active managers that consistently outperform the benchmark. ISBI utilizes factor investing strategies to identify such managers.

Director Farhadieh then began summarizing the performance of the portfolio, which for the quarter ending September 30, 2018, tallied 1.9% which was below the benchmark of 2.4%.

The underperformance was attributed to the core fixed income portfolio which was negatively impacted by performance in the emerging markets space. Director Farhadieh then pointed to the Opportunistic Debt class noting it returned 7.8% exceeding the benchmark of 4.0%. For the quarter ending September 30, 2018, the U.S. Equity class returned 6.8% which was below the benchmark of 7.1%. This underperformance was attributed to the small-cap active management portfolio. The non-U.S. equity portfolio produced a -0.4 return and is primarily attributed to the emerging markets exposure. Director Farhadieh concluded her summary of the equities portfolio by pointing out that the private equity allocation the nine months ending September 30, 2018 returned 18.0%, exceeding the benchmark return of 13.7%.

Director Farhadieh then turned it over to Yev Gelfand with BlackRock, a strategic partner of ISBI. Mr. Gelfand stated he would spend a few minutes summarizing the factor investing model, which helps aid the selection of active managers to the ISBI portfolio. Factor investing has existed for several years, but recent technological advances have allowed investors to access such factors and make it difficult for active managers to disguise underperformance. Factor investing allows investors to seek true diversification, minimize fees, and identify legitimate alpha managers. Upon the conclusion of Mr. Gelfand's summary, Director Farhadieh stated that she wanted to discuss this model with the Board so that the trustees would have a better understanding on the active manager selection process.

Director Farhadieh referred the Board to a document detailing the utilization of emerging and minority investment managers as of September 30, 2018. As of that date, she reported that 25.6% of assets were managed by emerging and minority managers. Ms. Farhadieh stated that such report contains many items that are provided to the legislature that highlight the portfolio's utilization of emerging and minority managers.

Director Farhadieh concluded her report by answering some questions related to her presentation. Following some discussion, Chairperson Mendoza asked if there was a motion to adopt the ISBI report ending September 30, 2018. Trustee Mittons moved to approve the ISBI Quarterly Review for the period ended September 30, 2018. Vice-Chairperson Morris 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*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Jenna March, Consulting Actuaries, Gabriel, Roeder, Smith & Company, distributed the FY 2018 valuation and the FY 2020 final certification documents for review. Mr. Rivera stated that GRS received updated asset information after the initial certification at the October 30, 2018 meeting which slightly increased the value of assets and produced a slight decrease to the FY 2020 certified contribution. The FY 2020 State contribution totaled 54.290% of the expected 2020 payroll, or \$2,385,271,000. Mr. Rivera reminded the Board that SERS is due for an experience study and it will impact the June 30, 2019 valuation. Following some discussion related to the details of the experience study, Trustee Hawk motioned to approve the FY 2020 certified contribution. Trustee Friedman seconded the motion, which passed unanimously. A copy of these certification documents are made a part of these minutes as *Exhibit B*.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. None did.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Vice-Chairman Morris referred the Board to Chief Internal Auditor Casey Evans to provide the report of the Audit and Compliance Committee. Mr. Evans began his report by reminding everyone that the statements of economic interest will be sent out on March 15, 2019 and are due by May 1, 2019. Additionally, he mentioned that there was a vacancy in the auditing department that is anticipated to be filled shortly. He continued his report by stating that the committee met at 9:00 am and much of the discussion focused on auditing efforts associated with the accelerated pension benefit payment program. Discussion regarding the utilization associated with the program followed and Mr. Evans stated that the most current utilization rate was 20.8%. Secretary Blair contributed to the discussion by noting that 210 out of 1,012 members had elected such payment option, with an average payout of just over \$100,000. The total projected payout for the program was approximately \$21.3M. Discussion regarding the member services efforts associated with the program ensued. Upon the conclusion of that discussion, Mr. Evans had no further comments.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the actions of the Rules and Personnel Committee meeting from the preceding day. Mr. Houch stated that the Committee authorized staff to pursue rulemaking related to the QILDRO provisions of the plan design. QILDRO allows members to divide pension benefits and provide to alternate payees. The proposed rule provides that the System shall not accept a QILDRO order validated by the Court after the member's death. This rule provision is modeled after provisions found in rules of other comparable retirement systems.

Mr. Houch then summarized the next rule that was approved for rulemaking, which is related to the recently enacted accelerated pension benefit payment programs. Such rule provides that if a member charged with a job connected felony applies for an accelerated pension benefit payment, then the System will delay the vouchering of the payment until the adjudication process of that charge has been completed. If the member is convicted and sentenced of such felony, then the System will not voucher the payment.

Mr. Houch continued by noting that the committee authorized staff to file legislation in the 2019 Legislative Session. Such legislation represents the System's efforts to modernize the administration of the disability programs administered by SERS. Such provisions include eliminating the deadlines associated with disability applications, allow other qualified medical professionals to sign off on medical certifications and replace a few outdated terms and references in the SERS article of the Pension Code. Mr. Houch concluded his report by offering to answer any questions. There were none.

REPORT OF THE EXECUTIVE SECRETARY

FY 2019 Funding Update. Mr. Blair noted that funding was current and the January contribution had already been submitted to SERS by the Comptroller's Office. He added that in 2009, SERS held \$8.5B in assets and as of 2018 that number had increased to approximately \$18.5B. Chairperson Mendoza asked if there were any questions. There were none.

FIRST QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the first quarter of FY 2019. Mr. Fowler noted that he recently modified the format of the financial reporting provided at the quarterly meetings and summarized such changes. He indicated that such modifications incorporate a cash-based model and are intended to illustrate financial activity on a quarter by quarter basis. Discussion followed regarding the details of the efforts to manage and report the cashflows associated with the trust fund. Upon conclusion of that discussion, Trustee Mittons moved to approve financial statements and the motion was seconded by Trustee Bates-Brown. It 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 October and November 2018 Executive Committee minutes for review. There being no changes to the minutes, Trustee Hawk moved to approve. Trustee Mittons seconded the motion, which prevailed by the affirmative vote of all present.

OLD BUSINESS

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

NEW BUSINESS

Chairperson Mendoza asked if there was any new business to be brought before the Board. There was no new business.

ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 11:40 a.m. Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for April 30, 2019, at 10:00 a.m. in the Springfield Office with the videoconference location in the Bilandic Building.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____