

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

July 14, 2015

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 14, 2015, at 10:00 a.m. in the Bilandic Building, Room N-703, 160 North LaSalle Street, Chicago, IL with a video conference location at the System's Springfield office located at 2101 South Veterans Parkway.

The following trustees were in attendance:

Leslie Geissler Munger, Chairperson  
David Morris, Vice Chairperson  
Shirley Byrd, Elected Trustee  
Yasmin Bates-Brown, Appointed Trustee  
Patricia Ousley, Elected Trustee  
Thomas Allison, Appointed Trustee (by phone)  
Renee Friedman, Appointed Trustee  
Danny Silverthorn, Appointed Trustee  
Robert Fierstein, Elected Trustee

Absent:

Harold Sullivan, Appointed Trustee  
John Aguilar, Appointed Trustee  
Alan Latoza, Elected Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Jeff Houch, Assistant to Executive Secretary  
Casey Evans, Chief Internal Auditor  
Steve Bochenek, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Alan Fowler, Manager, Accounting Division  
David O'Brien, Manager, Administrative Services Division  
Gerry Mitchell, Chief Information System Officer  
Barbara Baird, Manager, SERS Chicago Office  
Jennifer Staley, Recording Secretary

Chairperson Munger presided and called the meeting to order at 10:05 a.m. with a quorum present. Trustee Byrd moved to allow Trustee Allison to participate by phone. Vice-Chairperson Morris seconded the motion and it passed unanimously.

INTRODUCTION OF TRUSTEES AGUILAR AND BATES-BROWN

Chairperson Munger introduced to the Board and welcomed newly appointed trustees Yasmin Bates-Brown and John Aguilar. Trustee Bates-Brown thanked Chairperson Munger and the Board for the warm welcome and noted that she had briefly served on the Board previously and was looking forward to working with the members of the Board. Chairperson Munger informed the Board that newly appointed trustee Aguilar had a scheduling conflict but hoped to arrive prior to the end of the meeting.

## ELECTED TRUSTEE VACANCY POLICY

Chairperson Munger asked Executive Secretary Blair to introduce the draft Elected Trustee Vacancy Policy. The draft policy was not included in the meeting material, but Secretary Blair outlined the main components. The draft policy would require System staff to notify the active membership of SERS of the vacancy by posting information on the website and by emailing notifications to all active members. Members interested in the vacancy would be required to submit a Statement of Interest, a short biography that includes the reason for their interest in the position and petitions with 250 valid signatures.

He noted the proposed process was used to solicit candidates to fill the Board vacancy created by the retirement of Vice-Chairperson Laidlaw, except for the proposed petition requirement. The System received 28 valid applications and a few applications that were not valid as they candidates were not statutorily qualified to serve or the applications were submitted late or were incomplete. Following further discussion Secretary Blair agreed to make some changes to the policy and provide to the Board to consider at the meeting scheduled for October 27<sup>th</sup>.

## CONSIDERATION OF ELECTED TRUSTEE CANDIDATES

Chairperson Munger began the discussion by suggesting each Trustee offer the candidates they would like the Board to consider. She first offered her list of candidates, which included Scott Brandt, Jason Ground, Scott Stahlman, Steven King, Jim Ofcarcik and Reva Bauch. Following discussion about the process and a question by Trustee Fierstein, Reva Bauch was removed from consideration due to the inclusion of extra material in her application packet. The motion to remove Ms. Bauch was made by Trustee Friedman, seconded by Trustee Silverthorn and unanimously approved.

Trustee Friedman noted her support for the consideration of Ofcarcik, King and Brandt. Trustee Ousley then noted that all backgrounds should be considered as the Board represents 65,000 members of varying backgrounds and the composition of the Board should reflect that diversity. She requested Robert Fanti be added to the short list of candidates to be considered. Chairperson Munger asked if any other member had someone to add to the list of candidates and Trustee Fierstein offered Jim Poortinga for consideration. Trustee Bates-Brown offered her top three to be Ofcarcik, Poortinga and Brandt.

Vice-Chairperson Morris added the diversity of the Board was ensured by the composition of the Board, with 6 Governor appointees, 6 elected SERS members and the Comptroller serving as Chairperson. Chairperson Munger agreed that diversity on the Board is important. No other candidates were offered for consideration.

After a recap of the candidates, Trustee Friedman moved to appoint Robert Fanti to fill the elected trustee vacancy. Trustee Ousley seconded the motion and a roll call vote was taken.

Trustee Byrd	Yes	Trustee Fierstein	Yes
Trustee Friedman	Yes	Trustee Ousley	Yes
Trustee Silverthorn	Yes	Vice-Chairperson Morris	Yes
Trustee Allison	Yes	Trustee Bates-Brown	Present
Chairperson Munger	Present		

With 7 members voting in the affirmative and 2 members voting present, Robert Fanti was selected to fill the vacant term which ends July 14, 2016. Steve Bochenek, the system's attorney, suggested the policy be presented for consideration at the October meeting of the Board.

### PUBLIC COMMENTS

Chairperson Munger asked if there were any members of the public who wished to address the Board. There were none.

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

William Atwood, ISBI Director, distributed copies of the Executive Summary for the period ending May 31, 2015, and addressed the Board. He began by noting the entire portfolio returned 5.2% (net of fees) for the eleven months ended May 31, 2015, surpassing the benchmark return of 5.1% over the same time period, but lagging the actuarially assumed rate of 6.6% (7.25% prorated for the 11 month time period).

Director Atwood continued by noting that over that time period, the Fixed Income portfolio returned -0.6% and the U.S. Equity portfolio, excluding Hedge Funds, returned 7.5%, while their benchmarks returned 2.8% and 9.1%, respectively. Mr. Atwood continued by noting the Hedge Fund and Non-U.S. Equity portfolios outperformed their respective benchmarks.

Director Atwood informed the Trustees that since the beginning of the year, there were six new ISBI members. Four of those members were appointed by Governor Rauner, while the other two were Chairperson Munger and newly-elected State Treasurer Frerichs. He noted the strong investment experience of the new members and the amount of time the members have devoted to ISBI, including several special meetings to take an in-depth look at the various asset classes.

Director Atwood noted the new Board has a sensitivity to investment fees and some skepticism regarding active management. He concluded his report and asked if there were any questions. Trustee Bates-Brown asked Director Atwood to review the manager status, specifically the four managers that are on the watch list. He noted that a manager may end up on the list due to poor performance, a change in leadership or significant staff turnover, or any other matter that ISBI staff believes should be brought to the Board's attention. Director Atwood added that ULLICO was on the watch list due to holding too much cash in the portfolio. In addition, Wellington, Herndon Capital, and Ariel were on the watch list for poor performance.

Chairperson Munger asked if there were any additional questions for Mr. Atwood. There were none. Trustee Byrd moved to accept the ISBI report and trustee Ousley 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 Munger thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

### MINUTES OF THE APRIL 21, 2015 BOARD MEETING

The minutes of the Board meeting held April 21, 2015 were presented to the members by Chairperson Munger. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Fierstein moved to approve the minutes as submitted. Trustee Ousley seconded the motion and all were in favor.

## REPORT OF CHAIRPERSON MUNGER

Chairperson Munger told the Board the Comptroller's Office continues to pay things they are allowed to pay in the absence of a budget. Generally, a continuing appropriation or court order is required to make payments without a state budget. She noted the IOC is able to process payroll pursuant to a court order.

Chairperson Munger then recognized Trustee Bates-Brown for a more in-depth introduction. Trustee Bates-Brown told the Board she retired from Harris Bank after 34 years of service, noting various community affairs and development roles within the bank, as well as involvement in several other charitable organizations. She expressed her continued interest in serving on the SERS Board of Trustees.

## REPORT OF ANY TRUSTEE

Chairperson Munger asked if any other trustees would like to offer a report. Trustee Fierstein informed the Board that he was leaving State employment and therefore was leaving the Board. He thanked the Trustees for the opportunity to work with them on behalf of the members and retirees of SERS and encouraged them to keep up the good work.

## REPORT OF AUDIT AND COMPLIANCE COMMITTEE.

Vice-Chairperson Morris, Chairperson of the Audit and Compliance Committee, reported the GAAP reporting had been completed. He also updated the Board on fraud-prevention efforts that had been undertaken over the last several weeks.

## REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Ethics. Gerry Mitchell, CISO and Ethics Officer, reminded the Board the annual ethics training is due and should be turned in as soon as possible.

Systems Modernization. Mr. Mitchell continued by informing the Board that progress continues on the re-engineering of the active member system, including the implementation of the interactive employee website. Members are now able to look at estimated retirement, disability and death/survivor benefits. In addition members may review service credit and earnings and generate bar coded forms. Over 11,000 member have registered. The system conducted a survey and the responses to the new functionality have been very positive. The members have noted they would like to see an enhanced "what if" retirement estimator that allows variables to be changed by the member.

Computer Security. Mr. Mitchell noted the annual security awareness had been completed by all employees. In addition, Dell has completed security vulnerability assessment and penetration testing. Dell was not able to hack into the IT systems from outside and they found no high risk areas. They did note some internal risks and recommended software to better track hardware and monitor security and those areas will be addressed.

Risk Assessment. The System continues its remediation efforts from the recent risk assessment. Lockable doors are being installed at the top of the stairs on the second floor to secure the second floor and stairwell and locks will be installed on the first floor doors in the lobby area to prevent access of non-employees. In addition, the State Police are being scheduled to provide physical security training to all SERS employees and an additional door was added in the Claims Division to allow easy exit for those employees in case of an emergency.

Chairperson Munger asked if there were any questions for Mr. Mitchell. Seeing none she thanked Mr. Mitchell for his hard work and his informative report.

### THIRD QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the third quarter of FY 15. Mr. Fowler noted that in comparison to the third quarter of FY 14, there was an increase in employer contributions of \$73.9 million, due to the timing of receipt of GRF contributions. He noted retirement annuities increased by \$19.7 million when compared with the previous quarter. This is generally the result of the statutory 3% COLAs provided to retirees in January and an increase in the number of retirees from the previous year.

Chairperson Munger asked if there were any questions for Mr. Fowler. Seeing none she thanked Mr. Fowler for his report. Trustee Silverthorn moved to accept the third quarter financial statement. Trustee Byrd seconded the motion and all were in favor. Copies of these financial statements are made a part of these minutes as Exhibit B.

### REPORT OF THE EXECUTIVE SECRETARY

Final Review of FY 2016 Operations Budget. Secretary Blair asked to defer final consideration of the FY 2016 operations budget until the October Board meeting. He is implementing budgeting by Division, rather than the agency as a whole, and changing the format and presentation of the budget request, beginning with the final FY 2016 budget.

Legislative Update. Secretary Blair explained the Jeff Houch of his staff had handled all legislative duties over the last year. House Bill 422 passed both chambers of the General Assembly. It requires all systems to complete an actuarial review every 3 years rather than the currently required 5 years. House Bill 3484 was initiated by SERS and has passed both chambers and been sent to the Governor. The bill was the result of an immaterial audit finding and allows SERS to verify the accuracy of member data by physically reviewing agency personnel records.

Secretary Blair added that Senate Bill 1334 has passed both chambers. The bill requires all agencies to set goals to utilize minorities, women or disabled persons in 20% of all contracts. All State agencies are required to develop a policy and plans for implementation.

Kanerva Law Suit Update. Secretary Blair noted that 55,000 Kanerva health insurance refund checks in the amount of \$36 million had been processed and distributed to retirees by the end of June. Trustee Byrd expressed her appreciation for the hard work of all involved in the refunding process and added the Peggy Budd did a great job in presenting information at a recent retiree meeting.

### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the April, May and June 2015, Executive Committee minutes for review. There being no changes to these minutes, Trustee Byrd moved to approve. Trustee Silverthorn seconded the motion, which prevailed by the affirmative vote of all trustees.

### OLD BUSINESS

Chairperson Munger asked if anyone had any old business to discuss. No old business was offered.

NEW BUSINESS

Secretary Blair stated he was going to forward information on training opportunities to all members of the Board.

ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned. Chairperson Munger reminded the Board the next meeting is scheduled for October 27, 2015, at 10 a.m.

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Leslie Geissler Munger, Chairperson

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

ATTEST:

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

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