

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES

May 26, 2020

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, May 26, 2020, 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 Executive Order 2020-07, as amended and re-issued by Executive Order 2020-33.

The following trustees were in attendance:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Barbara Baird, Elected Retired Trustee
Yasmin Bates-Brown, Appointed Trustee
Renee Friedman, Appointed Trustee
Tad Hawk, Elected Active Trustee
Carl Jenkins, Appointed Trustee
Stephen Mittons, Elected Active Trustee
John Tilden, Elected Retired Trustee

Absent:

Shaun Dawson, Elected Active Trustee
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, General Counsel
Jessica Blood, Recording Secretary
Steve Bochenek, System Attorney
Chris Maley, Illinois Office of the Comptroller
Andrew Ranck, Illinois Office of the Comptroller
Johara Farhadieh, Executive Director, Illinois State Board of Investment
Scott Richards, Senior Investment Officer, Illinois State Board of Investment

Chairperson Mendoza called the meeting to order at 10:05 a.m. with a quorum present.

PUBLIC COMMENTS

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

MINUTES OF THE JANUARY 14, 2020 BOARD MEETING

The minutes of the Board meeting held on January 14, 2020, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each

trustee for preliminary review. Trustee Hawk moved to approve the minutes as submitted. Trustee Friedman seconded the motion, and all were in favor.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the estimated bill backlog as of May 26, 2020, which totaled approximately \$7.4 billion. She noted the increase from \$6.9 billion at this time last year, adding that the COVID-19 pandemic has significantly changed things.

Chairperson Mendoza touched on the management of her office during the pandemic, noting the new COVID-19 resources and response page. She then pointed to an Associated Press article about Illinois leading the nation with regards to transparency when reporting coronavirus related spending.

Chairperson Mendoza concluded her report by stating that her office continues to prioritize payments to education as well as pensions and offered to answer any questions from the trustees. There were no questions.

REPORT OF ANY TRUSTEE

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), presented the Quarterly Review dated March 31, 2020, noting the value of the portfolio on that date was approximately \$18.0 billion. She stated that the significant volatility in the markets from the COVID-19 pandemic resulted in a 10.4% loss in the 3rd Quarter of FY 20 but added the ISBI team remains focused on long term strategies, while being aware of short-term implications. Director Farhadieh noted the portfolio's structure and diversification fares very well in down markets when compared to the peer group and consequently, the portfolio ranked in the top decile for the quarter ended March 31, 2020.

Director Farhadieh then reviewed the performance of various asset classes for the 3rd Quarter of FY 20, noting the Multi-Sector Credit Composite lost 15.3%, which trailed the benchmark by 200 basis points. The equities composite lost 20% but exceeded the benchmark by 240 basis points, finishing in the top quartile for the quarter. Director Farhadieh concluded her review by stating that the Private Equity asset class returned 3.7% for the quarter but underperformed the benchmark by 20 basis points.

Director Farhadieh offered to answer any questions. There being none, Trustee Bates-Brown moved to approve the ISBI Quarterly Review for the period ended March 31, 2020. Trustee Tilden seconded the motion, which passed unanimously. A copy of the report is maintained in the ISBI offices and made a part of these minutes as *Exhibit A*.

REPORT OF THE EXECUTIVE SECRETARY

Preliminary FY 21 Operations Budget Request. Secretary Blair presented the preliminary FY 21 budget for review, noting the request represents a decrease of \$805,477, or 4.68%, from the FY 20 budget. He added the primary reason for the reduction is a \$453,452 decrease in the Personal Services line, due to back wages that were paid in FY 20, and a \$193,675 decrease in the Retirement line. Secretary Blair added that the proposed FY 21 budget includes an increase of \$58,000 in the Contractual line, due to the 2021 trustee

elections and a \$182,323 increase in the IT line, due to increases in the Personal Services, Retirement, and Group Insurance lines.

Secretary Blair concluded the budget presentation by noting that the budget includes \$245,000 in funding for SERS retirees and \$301,000 in staff overtime to process benefit adjustments due to back wage payments. He offered to answer any questions regarding the preliminary FY 21 budget. There being none, a motion was made by Trustee Baird to approve the budget as presented. The motion was seconded by Trustee Hawk and all were in favor. A copy of the preliminary budget is made a part of these minutes as *Exhibit B*.

Buyout Update. Secretary Blair noted that 4,484 SERS members have made an election regarding the COLA buyout, and a total of 1,074, or almost 24.0%, chose a lump sum payment at retirement rather than the Tier 1 compounded COLA. To date, 981 retirees have been paid \$97,062,674.02, for an average COLA buyout payment of \$98,942.58. The smallest COLA buyout payment has been \$3,233.46, and the largest payment has been \$399,182.37.

Secretary Blair stated the participation assumptions for the COLA buyout program are 21% for regular formula members and 28% for alternative formula members, while the actual participation rate for regular formula members is 21%. The participation rate for coordinated alternative formula members is 31.7%, while 41.4% of non-coordinated alternative formula members have participated. The blended participation rate for both types of alternative formula employees is 32.7%.

Secretary Blair noted that approximately 3,400 vested inactive SERS members are eligible to participate in the total buyout program, adding that thirty-two members have elected to do so, with a total payout of \$4,267,132.64. The average payment is \$133,347.90, with the lowest payout of \$30,664.22, and the largest payout of \$420,565.80. The total buyout participation assumption is 5%. Secretary Blair added that the scheduled mailing to all vested 3,400 inactive members was delayed due to the pandemic and is now tentatively scheduled for June or July, depending on circumstances.

Back Wage Processing Update. Secretary Blair provided an update regarding the processing of back wage recalculations, stating almost 500 each month had been processed during January and February. He noted that an additional 300 had been processed in March before shifting the focus of limited staff resources to processing new retirements due to the COVID-19 pandemic. Secretary Blair added that SERS restarted processing back wage recalculations in May and concluded by offering to answer any questions. There were none.

REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, presented the financial statements for the second quarter of FY 20, noting that the COLA and Total Buyout programs were the primary cause of the quarterly increases when compared with the same quarters from the prior fiscal year. He stated that the Comptroller's Office continues to make timely monthly contributions.

Mr. Fowler concluded his presentation by noting that the FY 19 Comprehensive Annual Financial Report (CAFR) is on the website and noted a link will be emailed to the trustees. He offered to answer any questions. There being none, Trustee Tilden moved to approve the financial statements. The motion was seconded by Trustee Jenkins and passed unanimously. A copy of these 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 January, February, and March 2020 Executive Committee minutes for review. There being no changes to the minutes, Trustee Tilden moved to approve the minutes. Trustee Bates-Brown seconded the motion, which prevailed by the affirmative vote of all present.

OLD BUSINESS

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

NEW BUSINESS

Trustee Allison Resolution. Chairperson Mendoza presented a resolution honoring Trustee Allison for his years of service on the Board. Trustee Friedman made a motion to adopt the resolution. The motion was seconded by Trustee Baird and all were in favor.

ISBI MINORITY & FEMALE OWNED FIRM UPDATE

Trustee Jenkins requested Director Farhadieh provide her usual update on ISBI diversity efforts. Director Farhadieh returned to the meeting to provide an update on ISBI's efforts to utilize Emerging and Minority-owned firms, stating that as of December 31, 2019, 38.1% of the portfolio was managed by such firms. She then pointed out that 70% of the actively managed portfolio was managed by Emerging and Minority-owned firms. Trustee Jenkins and Trustee Bates-Brown asked for additional detail and Director Farhadieh offered to provide the information to Secretary Blair to forward to all trustees.

ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 11:10 a.m. The next meeting of the Board is scheduled for July 28, 2020, at 10:00 a.m. in the Springfield Office with the videoconference location in Room N-703 of the Bilandic Building.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____