

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

October 27, 2020

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 27, 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 Section 7 of the Open Meetings Act (5 ILCS 120/7).

The following trustees were in attendance:

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

Absent:

Danny Silverthorn, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Jim Stivers, General Counsel
Jeff Houch, Assistant to Executive Secretary
Jessica Blood, Recording Secretary
Johara Farhadieh, Executive Director, Illinois State Board of Investment
Scott Richards, Senior Investment Officer, Illinois State Board of Investment
Chris Maley, Illinois Office of the Comptroller
Andrew Ranck, Illinois Office of the Comptroller
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smooth & Co.
Loren Iglarsh, SERS Retiree and Executive Committee Chairman
Steve Bochenek, External Counsel
Aaron Evans, External Counsel
Martha Merrill, AFSCME

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

MINUTES OF THE JULY 27, 2020 BOARD MEETING

The minutes of the July 27, 2020, Board meeting were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Hawk moved to approve the minutes with a correction to a meeting date.

Trustee Friedman seconded the motion. A roll call vote was taken, and the motion passed unanimously.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

Johara Farhadieh, ISBI Executive Director and Scott Richards, ISBI Senior Investment Officer, presented the ISBI Quarterly Review dated June 30, 2020. Director Farhadieh began by noting that the ISBI Private Equity Portfolio ranked number one in its public fund peer group for the ten-year period ending June 30, 2019, adding that 25% of that portfolio is committed to minority and women-owned firms.

Director Farhadieh continued her report by informing the Board that ISBI had recently retained Meketa Investment Group as the ISBI general consultant for the next three years, with the option for two one-year renewals. She then directed the Board's attention to a slide comparing the actual and target asset allocation for the ISBI portfolio, telling the Board that a preliminary review of the asset allocation had been conducted in September. Director Farhadieh added that at the December meeting ISBI would determine if any changes in the portfolio's target asset allocation are necessary.

Director Farhadieh then explained that ISBI uses public market equivalents to hold capital when private market investments are underweighted to ensure diversification. She highlighted the portfolio's active and passive allocations, noting that it is ISBI's investment policy to allocate two-thirds of the total portfolio to passive investments and one-third to actively managed investments.

Scott Richards, ISBI Senior Investment Officer, continued the ISBI report by reviewing the performance of the portfolio and various asset classes, noting that for the year ended June 30, 2020, the Total Fund Composite returned 4.6%, exceeding the custom benchmark by 0.7%. The Fixed Income Composite returned 7.8% for the same period, slightly trailing the benchmark of 7.9% but still performing in the top 25th percentile of its peers. The Global Equity Composite returned 2.7% for the year ended June 30, 2020, beating its custom benchmark by 1.5% and finishing in the top 11th percentile of its peers.

Mr. Richards continued his review of asset classes with the U.S. Equity Composite, which slightly trailed its benchmark at 6.3% for the year ended June 30, 2020, but still finished in the top 10th percentile of its peers. The Non-U.S. Equity Composite lost 2.9% for the same period, finishing in the top 37th percentile of its peers. The Private Equity Composite returned 7.9%, which exceeded the benchmark, while the Infrastructure Composite returned 8%, which outperformed the benchmark by 3.8%.

Comptroller Mendoza asked about the performance of Alinda Fund II. Mr. Richards responded that the Alinda Fund II faced several challenges, including assets that were substantially written down due to poor performance and costly debt financing. He added that getting out of the fund is difficult, as it is not publicly traded. Mr. Richards concluded his review of the portfolio by stating that the Real Estate Composite returned 2.3% over the year ended June 30, 2020, trailing the benchmark by 1.6%. He then offered to answer any questions from the Board. No questions were offered.

Trustee Jenkins moved to approve the June 30, 2020 ISBI Quarterly Review. Trustee Baird seconded the motion. A roll call vote was taken, and the motion passed unanimously.

A copy of the ISBI report is maintained in the ISBI offices and made a part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Heidi Barry, Consulting Actuaries, Gabriel, Roeder, Smith & Company, presented the preliminary June 30, 2020 actuarial valuation and the preliminary FY 2022 State contribution. Mr. Rivera began with the highlights of the actuarial valuation by stating that the estimated FY 20 return on assets was 4.5%, compared to the actuarial assumption of 6.75%. Based on the market value of assets, the funded ratio increased slightly to 38.27% from 37.92% in FY 19, while the employer contribution rate increased from 54.8% in FY 21 to 56.2% in FY 22.

Heidi Barry continued the report by noting the actuarial accrued liability on June 30, 2020 was \$50.1 billion and the market value of assets was \$19.2 billion, resulting in an unfunded accrued liability of \$30.1 billion on a market value basis. She added that the actuarial value of assets was \$19.4 billion and the unfunded liability on an actuarial basis was \$30.8 billion.

Ms. Barry noted the statutory requirement of conducting an experience study every three years and added that the next review for the period of July 1, 2018 through June 30, 2021 will be effective for the June 30, 2022 actuarial valuation. Ms. Barry concluded her report by offering to answer questions from the Board. Trustee Friedman asked why the funded ratio is projected to increase even though the annual benefits paid are greater than the annual employee and employer contributions, resulting in negative cashflow. Ms. Barry responded that despite the negative cashflow resulting from benefits paid being higher than total contributions, the fund produces significant investment returns that make up for the deficit and increase the funded ratio.

Following a brief discussion of funded ratio projections and the relationship to the maximum contribution limit associated with the 2003 pension obligation bonds, Executive Secretary Blair directed the Board's attention to the preliminary certification of FY 2022 State contribution of \$2,574,820,000, which includes \$104,517,000 for debt service on the 2003 pension obligation bonds.

Trustee Friedman moved to accept the preliminary June 30, 2020 actuarial valuation and preliminary certification of the FY 2022 State contribution. Trustee Hawk seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

A copy of the report of the consulting actuaries is made a part of these minutes as *Exhibit B*.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans told the Board that the committee met prior to the Board meeting and discussed the FY 20 internal audit report, noting that the report included audits that had been performed on the disability section, the accelerated pension benefit program, and a business continuity review.

Mr. Evans continued by stating that the Committee reviewed and discussed the recently completed survivor and death benefit audit covering FY 18 through FY 20. He noted that most routine claims for survivor and death benefits were processed without error, but that

certain less routine scenarios caused a few issues, resulting in a finding related to system weaknesses and limitations. Mr. Evans added that \$627,990.00 in underpayments had been found, mainly due to unpaid reversionary annuities and occupational death benefits when the worker's compensation offset had not been removed.

Mr. Evans then discussed the contribution refund audit, noting that there were minor recommendations for improvement but no findings. He stated that refunds were due to members who had terminated service and received a refund, but later received back wages and frozen wages. Mr. Evans said that approximately 2,800 former members were impacted, with an average refund of \$180.00. He noted that there was a decrease in refunds compared to FY 19, primarily due to fewer applications being processed and a delay in sending out inactive member statements due to the pandemic.

Mr. Evans stated that the committee had discussed the upcoming IT audit. He stated that Internal Audit would perform social engineering and security testing to gauge staff awareness in identifying potential threats. Mr. Evans concluded his report by stating that the current external audit was going well and that he would update the Board at the January meeting. He offered to answer any questions from the Board. None were offered.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the Rules and Personnel Committee's October 26, 2020 meeting, noting the committee authorized staff to pursue rulemaking related to nonoccupational disability benefits regarding permanent disability and final average compensation for alternative formula members.

Mr. Houch concluded his report by offering to answer any questions from the Board. Trustee Baird requested clarification of the final average compensation rules for alternative formula members, which Mr. Houch provided. Chairperson Mendoza asked if there were any further questions. No further questions were offered. Mr. Houch concluded by adding that the Committee is finalizing Executive Secretary Blair's annual performance evaluation.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. No reports were offered.

REPORT OF THE EXECUTIVE SECRETARY

Calendar Year 2021 Meeting Dates. To comply with the Open Meetings Act, it is necessary to post a schedule of meetings for the upcoming calendar year in the System's offices in Springfield and Chicago and on the SERS website. Trustee Friedman moved to adopt the 2021 scheduled meeting dates:

Tuesday, January 12, 2021

Tuesday, April 27, 2021

Tuesday, July 27, 2021

Tuesday, October 26, 2021

Trustee Baird seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

All 2021 meetings will begin at 10 a.m. The System's Springfield office is located at 2101 South Veteran's Parkway, and the Chicago location is Room N-703 of the Bilandic Building, 160 N. LaSalle St. All meetings will be available via videoconference at both locations.

Public Comments Policy. Secretary Blair presented a proposed public comments policy for the Board's consideration. The policy was summarized to include provisions that require the speaker to only address topics that are on the current agenda and that public comments be limited to 5 minutes per speaker, with flexibility for the Chairperson. Trustee Baird motioned to adopt the public comments policy as presented. Trustee Friedman seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

FY 2021 Funding Update. Secretary Blair reiterated that contributions continued to be made in a timely manner. He added that SERS would not need to make any drawdowns from the ISBI portfolio until January at the earliest.

Back Wage Claims Update. Secretary Blair noted the pandemic has negatively impacted the processing of back wage claims. He added that the Claims Division has been working with IT to develop a more efficient way to recalculate retirement benefits. Secretary Blair stated that the Claims Division has processed many of the recalculations dating back to the Quinn administration, noting that processing recalculations due to the payment of the Rauner administration back wages would be quicker due to better information provided by agencies.

Buyout Update. Secretary Blair stated that nearly 1,100 COLA buyout payments had been processed, with over \$111 million paid out, for an average lump sum of nearly \$102,000. He added that interest in the program remained high with participation among alternative formula non-coordinated members at 40% and alternative formula coordinated members at 33%. Secretary Blair added that 3,400 total buyout letters had been mailed to vested inactive SERS members in the last two weeks.

Secretary Blair concluded his report by offering to answer any questions from the Board. Trustee Baird asked what actions SERS has taken with regards to the pandemic. He noted that staff are currently rotating in to work at 50% capacity and the agency continues to follow IDPH guidelines. In addition, SERS has purchased Plexiglass and personal protective equipment to allow staff to be safe while in the office. Chairperson Mendoza asked if there were any further questions from the Board. None were offered.

FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 20. He noted that annuities increased by \$28.5 million when compared to the fourth quarter of FY 19, primarily due to an increase in the number of retirees and the annual 3% COLA. Mr. Fowler added that the sale of investments was \$20 million higher in the fourth quarter of FY 20 than in the fourth quarter of FY 19. He noted that employer contributions from the General Revenue Fund (GRF) were up to date and \$103.6 million higher than GRF employer contributions in the fourth quarter of FY 19.

Mr. Fowler concluded his report by offering to answer questions. Hearing none, Trustee Hawk motioned to approve the fourth quarter FY 20 financial statements as presented. The motion was seconded by Trustee Tilden. A rollcall vote was taken, and the motion 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 July, August, and September 2020 Executive Committee minutes for review. There being no changes to the minutes, Trustee Baird moved to approve the minutes. Trustee Friedman seconded the motion. A roll call vote was taken, and the motion passed unanimously.

OLD BUSINESS

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

NEW BUSINESS

Chairperson Mendoza asked if there was any new business to be brought before the Board. Secretary Blair noted that Trustee Bates-Brown had resigned from the Board as she is moving out of state. He added that he would contact the Governor's office regarding the three vacant appointed trustee positions.

PUBLIC COMMENTS

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

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Hawk moved to adjourn the meeting at 11:28 a.m. Trustee Dawson seconded the motion. A roll call vote was taken, and the motion passed unanimously.

Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for January 12, 2021, at 10:00 a.m.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____