

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS  
MEETING NO. 352**

**MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES**

**July 30, 2021**

A meeting of the Board of Trustees of the Judges' Retirement System of Illinois convened on Friday, July 30, 2021, at 10 a.m. in Room N-1810 of the Michael Bilandic Building, 160 North LaSalle Street, Chicago, Illinois. Illinois.

Roll Call was taken with the following trustees in attendance:

Justice Mary S. Schostok, Chairperson  
Justice James R. Moore, Vice-Chairman  
Judge Debra Walker, Proxy for Chief Justice Anne Burke  
Catherine Shannon, Proxy for State Treasurer Michael Frerichs

Absent was:

Judge John Anderson

Others present:

Timothy B. Blair, Secretary  
Angie Ackerson, JRS Division Manager  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Jennifer Koelle, Investment Officer, Illinois State Board of Investment  
Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Company  
Justice Judy L. Cates

With a quorum present, Chairperson Schostok called the meeting to order at 10 a.m.

**PUBLIC COMMENTS**

Chairperson Schostok asked if any members of the public wished to address the Board. There were no members of the public in attendance, and no public comments had been submitted.

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

Johara Farhadieh, ISBI Executive Director, started her presentation by announcing that ISBI was recognized by the American Investment Council as the top-performing private equity portfolio of any public pension fund in the country for the second year in a row. Of the 178 plans surveyed, she stated ISBI had the highest annualized rate of return over a 10-year period of 16.1%, net of fees, while the median return of all funds was 12.3%. Director Farhadieh also mentioned that ISBI's Defined Contribution Plan (the State of Illinois' Deferred Compensation Plan) received a leadership recognition award from the National Association of Government Defined Contribution Administrators (NAGDCA) for its Plan Design and Administration.

Director Farhadieh then directed the Board's attention to the ISBI March 31, 2021, Performance Report and noted the portfolio's market value increased 29.3%, or almost \$5 billion from last year, and was at approximately \$23.1 billion for the quarter ending March 31, 2021. She attributed ISBI's

significant gains to the outsized exposure to long-term treasuries in the rate-sensitive composite which represents 20.4% of the portfolio and provides protection in a downside market. Director Farhadieh also briefly discussed the Fund's strategic asset allocation and noted that ISBI methodically deploys assets in a public market equivalent for any private assets that are underweight. She stated that while two-thirds of the portfolio is indexed, the portfolio is doing well and ISBI's goal is to find managers who are outperforming in the specific asset classes they are deploying.

Director Farhadieh then introduced Jennifer Koelle, Investment Officer – Public Markets, who joined ISBI in December 2020 after spending 15 years at Mercer in the Manager Research Group. Ms. Koelle added that she provides oversight for ISBI's public market investments and monitors and assesses risk for ISBI's investment program. She then proceeded to provide an overview of the portfolio and noted the Fund ranked in the 87<sup>th</sup> percentile of its public fund peer group over the one-year period and outperformed the custom benchmark by 220 basis points.

Ms. Koelle then reviewed several asset classes, noting the Global Equity Composite was up 31.1% for the fiscal year-to-date, slightly underperforming the benchmark return of 31.5%, and ranked in the 34<sup>th</sup> percentile against its peers. She noted the Multi-Asset Credit and Emerging Debt outperformed their custom benchmarks and had one-year returns of 28.8% and 15.8%, respectively. Ms. Koelle also noted that the Private Equity portfolio returned 24.9%, while Infrastructure was up 11.7%, and Real Estate returned 4.2%.

Ms. Koelle then explained the portfolio's performance was impacted by underperformance in the Private Credit Composite which returned 8.6%, trailing the benchmark of 15.3% and attributed the soft performance due to it being a newer asset class. She noted the Core Fixed Income Composite was down 2.3% for the year, underperforming the benchmark of 0.7%, and the Rate Sensitive Composite had a -0.70% return and attributed the lag to its conservative positioning. Ms. Koelle concluded her summary of the portfolio's asset classes and turned the presentation over to Director Farhadieh.

Director Farhadieh referred the Board to her Diversity Policy Review as of March 31, 2021, which was presented to the Emerging and Minority Investment Managers. She noted that 39.1% of the portfolio is under management by emerging and minority managers. Director Farhadieh reviewed the report and noted that ISBI attempted to provide a more transparent dissection of the dollar amounts and percentages attributed to MWDBE firms and concluded that approximately \$9 billion in assets are under management with MWDBE firms.

Chairperson Schostok asked if any trustees had questions. Hearing none, she asked for a motion to approve the ISBI presentation. Trustee Walker made a motion to approve the ISBI report, and the motion was seconded by Vice-Chairman Moore. All trustees voted in the affirmative. A copy of the March 31, 2021, Performance Report and the Diversity Policy Review for the Emerging and Minority Investment Managers as of March 31, 2021, are maintained in the ISBI office and made part of these minutes as *Exhibit A*.

## **REPORT OF CONSULTING ACTUARIES**

Jeff Tebeau of Gabriel, Roeder, Smith & Company presented copies of the annual economic assumption review. Mr. Tebeau explained the purpose of the review is to determine the continued appropriateness of the economic actuarial assumptions and indicated the conclusion is to recommend no assumption changes. He then provided an overview of the economic assumptions, stating that the

inflation assumption was evaluated using data from several independent investment consulting firms, the Social Security Administration's 2020 Trustee Report, and several federal reserve banks, including the Federal Reserve Bank of Cleveland. He indicated that annual inflation forecasts from six investment consulting firms with longer time horizons ranged from 1.80 to 2.60 percent, with an average of 2.27 percent. Based on these findings, Mr. Tebeau stated they recommended maintaining the current long-term inflation assumption of 2.25%.

Mr. Tebeau addressed the wage inflation and salary increase assumptions, indicating that during the plan year ending June 30, 2020, average salary increases were less than the assumption for those continuing employment since the prior valuation. He recommended maintaining the current assumption of 2.50% for wage growth and salary increases and stated the next experience study is scheduled to be completed for the three-year period ending June 30, 2021.

Mr. Tebeau reviewed the investment return assumption, noting that the current target asset allocation and average return figures from Meketa's asset allocation review were used in their analysis. The analysis showed that over a 20-year period the probability of exceeding the 6.5% return assumption is 52%. He reviewed the survey of 12 different investment consultants and referred to the 10-year horizon chart, which indicates that the probability of exceeding the 6.5% return assumption is approximately 43%. He concluded by telling the Board that no change was recommended to the 6.5% investment return assumption.

After a brief discussion, Chairperson Schostok asked for a motion to adopt the recommended assumptions as presented. Trustee Walker moved to adopt the recommended assumptions as presented. The motion was seconded by Vice-Chairman Moore, and all were in favor. Chairperson Schostok thanked Mr. Tebeau and excused him from the remainder of the meeting. A copy of the Economic Assumption Review for the June 30, 2020 Actuarial Valuation is made part of these minutes as *Exhibit B*.

#### **APPEAL OF JUSTICE JUDY L. CATES**

Justice Judy Cates was present at the meeting to present her personal appeal to revoke her prior election not to participate in JRS. Justice Schostok called on Ms. Ackerson to provide a brief overview of the case. Ms. Ackerson indicated that JRS sent Justice Cates a new member letter dated December 21, 2012, which did not provide any information regarding the JRS benefits that she was forfeiting by signing the form. Ms. Ackerson also noted the letter stated a Tier 2 benefits handbook was currently being updated and that she would receive a copy once completed. She added that the JRS Tier 2 Member Handbook was finalized in March 2018 and made available on the JRS website. Ms. Ackerson was not made aware by her predecessor, Jayne Waldeck, of any obligation to provide Tier 2 judges with printed handbooks. Justice Cates also indicated she was willing to pay all contributions plus interest using the actuarially assumed rate of return if approved to revoke her prior election. Secretary Blair added that Tier 2 benefit information is available on the JRS' new website and includes an audio and slideshow presentation of Tier 2 benefits, as well as the Tier 2 Member Handbook.

After a brief discussion, Justice Schostok asked if there was a motion to approve the appeal of Justice Judy L. Cates to revoke her irrevocable election not to participate in JRS. Judge Walker made a motion to approve Justice Cates' appeal to participate in JRS. The motion was seconded by Vice-Chairman Moore, and all were in favor. Justice Schostok thanked Justice Cates for attending the meeting and excused her from the remainder of the meeting.

## **MINUTES OF PREVIOUS MEETING**

The minutes of Meeting No. 351 held on March 26, 2021, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. Trustee Walker motioned to approve the minutes, and the motion was seconded by Vice-Chairman Moore, and all voted in the affirmative.

## **READING OF COMMUNICATIONS**

Justice Schostok asked Secretary Blair if there were any communications to be presented to the Board. There were no communications to report.

## **REPORT OF CHAIRPERSON**

Justice Schostok offered no report.

## **REPORT OF ANY TRUSTEE**

Justice Schostok asked if there were any trustee reports. No reports were offered.

## **REPORT OF SECRETARY**

Final Review of FY22 Operations Budget. Secretary Blair requested a net increase of \$57,460.00 to meet all expected FY22 obligations. He added that the memorandum included in the Board packet requested \$62,460 but was reduced due to finalizing a vendor for the actuarial audit. Mr. Blair indicated that Foster & Foster's bid was \$5,000 less than he originally budgeted for and added that a representative from Foster & foster may be attending the next Board meeting.

Secretary Blair noted the budget request includes a \$23,200 increase in the Personal Services line due to AFSCME steps and COLAS at the rate of 3.95% in July 2021 for employees that would be covered by the bargaining unit if employed by SERS. The request also includes a 3.95% COLA in July 2021 for the Division Manager and those receiving a stipend to match the scheduled AFSCME COLA and a stipend for the SRS attorney. Secretary Blair said the increase was also attributed to a \$45,700 increase in the Contractual line due to the comprehensive review of all actuarial assumptions and funding a full scope actuarial audit. He also noted the increase was offset by a \$23,040 decrease in the IT line due to the purchase of four computers and a scanner in FY 21 and the payment of an FY 20 IT chargeback in FY 21. Trustee Walker motioned to approve the FY 22 Operations Budget increase of \$57,460, which was \$5,000 less than the memorandum originally requested.

After discussion, Chairperson Schostok asked for a motion to approve a \$57,460.00 increase in the FY 22 budget. Judge Walker moved to approve the request. Vice-Chairman Moore seconded the motion, and all were in favor.

March 31, 2021, and June 30, 2021 Financial Statements. Secretary Blair reviewed the financial statements, noting that the System's total receipts for the year were \$161.4 million and \$170.3 million in pension benefits were paid. He added that the System disburses approximately \$14.5 million per month in benefit payments and receives approximately \$14.2 million in employee and employer contributions. Secretary Blair also informed the Board that JRS is now paying benefit payments to 955 retirees and 320 survivors.

Secretary Blair indicated there were no transfers from the ISBI investment portfolio in FY 2021. He noted the cash balance increased in the fourth quarter to approximately \$23.7 million due to Tier 2 judges paying contributions in the first half of the year. Secretary Blair indicated that the cash balance held at the Treasurer's Office was approximately \$23.7 million on June 30, 2021, which is approximately 1.5 months of benefit payments. Secretary Blair explained that JRS is maintaining a smaller cash balance in the Treasurer's overnight portfolio because the Comptroller's Office has provided monthly contributions in a predictable and timely manner and has stated its intentions to continue doing so. He added that by avoiding a drawdown from ISBI, more JRS assets can remain invested in the ISBI portfolio. He added that 122 payments are being paid monthly out of the Excess Benefit Fund, which is funded when a portion of the monthly employer contribution is periodically directed to this fund.

Trustee Walker moved to approve the March 31, 2021, and June 30, 2021, financial statements. The motion was seconded by Vice-Chairman Moore, and all were in favor. Official copies of these Financial Statements have been made a part of these minutes as *Exhibit C*.

FY 2021 Funding Update. Secretary Blair informed the Board that the Comptroller's Office is current in making the State contributions and that there have been no delayed payments in FY 21. He noted the August payment was received Monday, July 26, 2021.

Review of Legislation. Secretary Blair referred the Board to the report on page 49 outlining legislation impacting JRS. He began by stating that two of the bills, SB 338, and SB 1056, were technical corrections related to the Revised Uniform Unclaimed Property Act (RUUPA), which had been passed by both the House and the Senate and were sent to the Governor on June 28, 2021. He then addressed SB 539 which applies various ethics reforms measures, including a change in the asset value from \$5,000 to \$10,000 for those who are required to complete an annual Statement of Economic Interest.

Secretary Blair then noted that Public Act 102-0017 represents the FY 2022 full certified General Revenue Fund (GRF) contributions for JRS. PA 102-0017 was signed into law on June 17, 2021 and provides the FY 2022 full certified appropriation to JRS in the amount of \$152,422,000.

Secretary Blair concluded his legislative report by briefly discussing SB 1675 which amends the current automatic enrollment in the State of Illinois Deferred Compensation Program to automatically increase annually by an amount determined by the Illinois State Board of Investment. He added the amount of the increase shall not exceed 1% of compensation and those who do not wish to participate in the State of Illinois Deferred Compensation can elect to opt-out of participation.

Minority Owned Business Inclusion Policy Update. Secretary Blair informed the Board that Governor Pritzker authorized Public Act 101-0657 on March 23, 2021, which increased the aspirational goals of agencies regulated under the Illinois Procurement Code to adjust their goals to award 30% of service contracts and purchases to businesses owned by minorities, women, and disabled persons. He added that while Illinois public retirement systems and investment boards are not subject to the Illinois Procurement Code, JRS staff are recommending increasing the goal target of that policy to 30% to match the law. Secretary Blair noted that a prior JRS Board policy was adopted on October 30, 2015 to establish an aspirational goal to award 20% of service contracts and purchases to businesses owned by MWDBE vendors.

Chairperson Schostok asked if there was a motion to approve updating the minority-owned business inclusion policy from 20% to 30%. Judge Walker made a motion to approve an update in the aspirational goal from 20% to 30% in the current minority-owned business inclusion policy. The motion was seconded by Vice-Chairman Moore, and all voted in the affirmative.

County Stipend Payment Policy. Secretary Blair informed the Board that the proposed policy on page 55 did not need to be addressed at this time. He explained that SRS is reviewing all available options to streamline the current process to maintain accurate records for six collar counties (Cook, DuPage, Lake, Kane, McHenry and Will) who submit \$500 stipends for all active judges, except appellate and supreme court justices, who serve in these respective counties. He added that the work involved in verifying that each county has accurately paid the contributions for each judge and incorporating the earnings and contribution records into the account of each judge is very time-consuming. Secretary Blair concluded that the policy would be presented at a future board meeting once possible solutions are identified.

Board Member Travel Reimbursement Policy. Secretary Blair noted that the Board directed JRS staff to draft a policy regarding travel reimbursement at the March 26, 2021, Board meeting. He proposed a policy that would automatically reimburse a Trustee up to \$500 for travel expenses for a travel event incurred in service as a board member. Additionally, he indicated the proposed travel policy recommends any travel expenses exceeding \$500 would only be reimbursed if the board approves the travel before the travel date.

After a brief discussion, Chairperson Schostok motioned to approve the proposed board member travel reimbursement policy and the motion was seconded by Judge Walker. All voted in the affirmative.

## **REPORT OF THE MANAGER**

Annuities and Refunds for Approval. Angie Ackerson, Division Manager, reported three retirement annuities had been processed since the last Board meeting totaling \$26,508.17 per month and four survivor annuities totaling \$23,060.46 per month. A review of refunds for approval reflected one death after retirement refund in the amount of \$21,069.84, one termination refund in the amount of \$25,000.35, three survivor annuity contribution refunds totaling \$135,662.43, and eleven error refunds totaling \$3,546.21. There being no questions, Trustee Walker moved to approve the annuities and refunds as presented; the motion was seconded by Vice-Chairman Moore. The motion passed unanimously.

Deaths of Members. Ms. Ackerson reported the deaths of nine retired JRS members since the March meeting. This report is made a part of these minutes as *Exhibit D*.

## **OLD BUSINESS**

No old business was reported.

## **NEW BUSINESS**

Secretary Blair informed the Trustees that Judge Thomas Foster had been previously denied the option to purchase service credit for time he served as State's Attorney for Gallatin County due to a misinterpretation of the statute. He added that JRS staff will be providing an estimate to Judge Foster and will allow him the option to purchase this service credit.

**ADJOURNMENT**

There being no further business to be brought before the Board, Trustee Walker moved to adjourn at 10:50 a.m. Her motion was seconded by Vice-Chairman Moore, and all were in favor to adjourn.

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Timothy B. Blair, Secretary

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

APPROVED:

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Chairperson Mary S. Schostok