

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

January 11, 2022

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 11, 2022, at 11:20 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 in the Springfield office:

Danny Silverthorn, Appointed Trustee

The following trustees were in attendance by videoconference:

Susana A. Mendoza, Chairperson

David Morris, Vice-Chairperson

Barbara Baird, Elected Retired Trustee

Tad Hawk, Elected Active Trustee

Jack Matthews, Elected Active Trustee

Jameson Ramirez, Appointed Trustee

John Tilden, Elected Retired Trustee

Absent:

Mark Donovan, Appointed Trustee

Carl Jenkins, 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, Internal Counsel

Jessica Blood, Recording Secretary

Chris Maley, Illinois Office of the Comptroller

Andrew Ranck, Illinois Office of the Comptroller

Johara Farhadieh, Executive Director, Illinois State Board of Investment

Jennifer Koelle, Investment Officer, Illinois State Board of Investment

Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.

Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Co.

Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Co.

Martha Merrill, AFSCME Council 31

Chairperson Mendoza called the meeting to order at 11:20 a.m. with a quorum present.

INTRODUCTION OF TRUSTEE RAMIREZ

Chairperson Mendoza introduced Trustee Jameson Ramirez, who was recently appointed by Governor Pritzker. Trustee Ramirez thanked Comptroller Mendoza for the introduction and shared that he works as a strategic researcher for Service Employees International Union Local 1.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began the ISBI presentation by reporting the portfolio's asset value was \$24.7 billion on September 30, 2021, noting a \$2.2 billion increase since January 1, 2021.

Director Farhadieh reminded the Board that ISBI uses a barbell approach to provide downside protection within the rate sensitive asset classes. She added that this approach was instrumental in the portfolio's performance during the height of the pandemic. She then reviewed the portfolio's active and passive allocations, reminding the Board that passive investments allow for inexpensive, broad market exposure and actively managed assets allow ISBI to choose a fund manager that will outperform a benchmark and add value.

Director Farhadieh turned the presentation over to Jennifer Koelle, ISBI Investment Officer, to review the performance of individual asset classes. Ms. Koelle began her review by noting that the portfolio returned 19.6% return during the prior year, which corresponds to 2.2% excess returns relative to the custom benchmark over the one-year period ending 30 September 2021. For the quarter ended September 30, 2021, the portfolio declined 0.2% and lagged the custom benchmark and allocation benchmark by 130 and 80 basis points respectively.

Ms. Koelle stated the fixed income portfolio had a strong performance for the year ending September 30, 2021, exceeding the benchmark by 3.5%, and attributed the strong performance to the credit composite portfolio. The rate sensitive portfolio lagged the benchmark by 60 basis points, reflecting ISBI's relatively conservative position in treasuries. For the quarter ended September 30, 2021, the rate sensitive composite outperformed its benchmark by 20 basis points. Ms. Koelle reiterated that the rate sensitive composite continues to provide down market protection and is performing in line with ISBI's expectations.

Ms. Koelle continued by reporting the Global Equity composite delivered a 31.5% return for the one-year period and beat the benchmark by 2.6%. The portfolio saw robust returns from international equity and emerging market composites, both of which outperformed their benchmarks. For the one-year period, the domestic factor composite returned 25.9%, but was 5% under the custom benchmark. This under performance was offset by strong performance in the rest of the domestic equity portfolio. The private equity portfolio continues to be a key contributor to performance and returned 56.3% for the one-

year period and 42.1% for the calendar year to date, significantly exceeding the applicable benchmarks. Ms. Koelle added that the private equity portfolio has generated strong excess returns over all annualized periods since inception and has delivered consistent with ISBI's expectations.

Ms. Koelle noted the real asset composite posted 14.7% return for the one-year period ending September 30, 2021, outperforming the benchmark by 6.7%. Ms. Koelle concluded her report by offering to answer any questions from the Board. No questions were offered.

Director Farhadieh concluded the ISBI report by highlighting diversity initiatives, noting that 35.5% of the portfolio is committed to minority and woman owned investment managers. She added that ISBI made allocations to two such managers since the last SERS board meeting. She summarized ISBI's other diversity initiatives such as encouraging minority and woman owned brokerage dealers for trading, ensuring diversity among vendors, the ISBI board and staff, as well as a new initiative to advocate for the use of minority and female owned investment banks, which often have lower fees and other advantages.

Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended September 30, 2021. Trustee Silverthorn seconded the motion, which passed unanimously by roll call vote. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

MINUTES OF THE OCTOBER 26, 2021 BOARD MEETING

The minutes of the Board meeting held October 26, 2021, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Baird moved to approve the minutes with a minor correction and Trustee Hawk seconded the motion. A roll call vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by providing an update on the current estimated bill backlog for the State, which totals approximately \$4 billion. One year ago, it was an estimated \$5.3 billion and two years ago it was \$6.4 billion after adjusting for the Debt Transparency Act agency reports.

Chairperson Mendoza reminded the Board that her office had to borrow from the Federal Reserve's Municipal Liquidity Facility in 2020 to address revenue shortfalls caused by the pandemic. In June and December 2020, the state borrowed a combined \$3.2 billion, which is required to be paid back with interest. She added that her office worked to repay the first \$1.2 billion in full a month early in May of 2021, saving taxpayer cost in interest, allowing that money to be used for other critical state needs. The terms of the remaining \$2 billion required three annual principal and interest payments beginning in December 2021. Her office paid \$1.2 billion by June of 2021, and \$600 million in December 2021,

bringing the eight-month total to \$1.75 billion. Last week, her office made the final payment nearly two years ahead of schedule, which saved taxpayers \$82 million in interest costs.

Chairperson Mendoza reminded the Board of the bill payment cycle is an important tool for tracking the progress in paying bills that are owed to vendors. At the highest point about four years ago, the oldest voucher was 210 business days old. The current bill payment cycle continues to be well within the thirty-day window, with the oldest voucher being 15 business days old as of the close of business on January 10th, 2022.

Chairperson Mendoza stated that her office continues to work with Executive Secretary Blair to pay SERS vouchers ahead of schedule, ensuring that pension benefits are paid on time and no drawdown of invested assets is necessary to pay monthly benefits. She offered to answer any questions regarding her report. No questions were offered.

REPORT OF ANY TRUSTEE

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

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by stating that the Committee had discussed potential internal control weaknesses and fraud risks, as well as controls that have been implemented to mitigate these risks.

Mr. Evans reported that the Committee discussed the reconciliation of the retirement system's census data, adding that his office is working with all agencies to ensure that member demographics and payroll information are correct. Mr. Evans noted that 22% of the active members' data has been reconciled, adding that reconciliation data had not yet been received from some of the largest agencies.

Mr. Evans noted SERS implemented a supplemental security awareness training program through a third-party vendor that provides additional security awareness training as well as simulated phishing and social engineering emails to help staff be cognizant of potential threats to agency security. Mr. Evans noted that this training builds a risk profile of users to address where additional training is needed.

Mr. Evans noted that SERS is working to complete a peer review of the internal audit function, which is done every five years. He added that the Internal Audit section has a vacancy that was posted in November 2021, however no qualified candidate was selected. He noted that SERS will continue the search in 2022 with the hope of adding one or two new staff to the audit function.

Mr. Evans concluded his report by offering to answer questions. None were offered.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the Rules and Personnel Committee's January 10, 2022 meeting, noting the Committee authorized staff to pursue rulemaking for three provisions.

Mr. Houch stated the first rule would reflect the new IT process used by the system to calculate interest when an installment plan is used to purchase service credit, negating the need to issue interest rebates upon the conclusion the payment plan.

Mr. Houch described the proposed rule for handling benefits divided under a QILDRO. Specifically, when a member made post-tax contributions to the system, the member would receive credit the full non-taxable portion of the total benefit, provided that the QILDRO does not explicitly direct non-taxable amounts are to be credited to the alternate payee.

Mr. Houch noted that under the Tier one plan, earnings in the final year of the final average compensation (FAC) period that exceed the FAC by 25% are non-pensionable. He stated that this provision would be extended by rule to Tier two members.

Mr. Houch concluded his presentation by offering to answer any questions. No questions were offered.

REPORT OF THE EXECUTIVE SECRETARY

State Actuary's 2021 Report and System Responses. Secretary Blair began by highlighting some of the State Actuary's report recommendations, including a funding method that amortizes 100% of the unfunded liability over a reasonable period, and to phase in assumption changes that impact contributions over three years rather than five to coincide with the statutory requirement to review all assumptions every three years. Secretary Blair stated that the System agrees with the recommendations, while acknowledging the funding plan and phase-in period are set by statute. Secretary Blair concluded that the report recommends certain additional disclosures in future valuations.

Approval of FY 21 Valuation and FY 23 Employer Certification. Secretary Blair stated that the Board must finalize the FY 21 actuarial valuation and the FY 23 certified contribution amount of \$2,593,827,000. He noted that the certification documents include the amount required by the Board's Actuarially Determined Contribution (ADC) policy, consistent with the Governmental Accounting Standards Board (GASB) Statement No. 67.

Secretary Blair concluded by offering to answer any questions from the Board. Trustee Hawk asked why the system doesn't use the ADC. Secretary Blair responded that statute determines the methodology used to determine annual contributions. Trustee Tilden requested Alex Rivera's comments on the matter. Mr. Rivera responded that GRS would be doing an experience study and will present the results at the July Board meeting for review. He added that ensuring the contributions remain stable is a priority.

Trustee Silverthorn moved to approve the FY 21 valuation and the FY 23 employer certification as presented, and Trustee Tilden seconded the motion. A roll call vote was taken, and the motion passed unanimously. A copy of the valuation is maintained in the SERS office and made a part of these minutes as *Exhibit B*.

FY22 Funding Update. Secretary Blair told the Board that the Comptroller's Office made the January contributions ahead of schedule. He noted that the contribution stability combined with employee contributions should enable the system to pay benefits without having to draw down invested assets through the end of the fiscal year.

Back Wage Claims Update. Secretary Blair stated that the system processed and paid approximately two hundred adjusted benefit payments in November. He added that, while no payments could be made in December and January, staff are still processing adjustment calculations to be paid in February.

Buyout Update. Secretary Blair stated the COLA buyout program has paid out \$243 million to date. He noted that funding for the program has almost been exhausted, but the legislature has expressed interest in extending the program and providing additional funding. Mr. Houch added that Representative Morgan filed a bill in the House that would extend the program and increase the bond authorization.

Trustee Ramirez inquired how the effects of the "great resignation" might impact actuarial assumptions moving forward. Secretary Blair stated that termination and retirement rates will be two of the assumptions that are reviewed and presented in the experience study at the July meeting. Alex Rivera added that the valuation looks at experience over a three-year period, however the assumptions are expected to be long term and cautioned against overvaluing recent experience that may be an anomaly.

REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, presented the financial statements for the first quarter of FY 22. Mr. Fowler stated that there was no sale of investments in the first quarter of FY 22 compared to a \$30 million sale for the same quarter of FY 21.. He added that retirement annuities are approximately \$28 million higher than the same quarter of FY 21 due to a higher number of retirees and the annual COLA increase. He concluded his report by offering to answer any questions from the Board. No questions were offered.

Trustee Hawk moved approval of the first quarter FY 22 financial statements as presented. The motion was seconded by Trustee Tilden. A roll call 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 October and November 2021 Executive Committee minutes for review. There being no changes, Trustee Baird

moved to approve the minutes. Trustee Silverthorn seconded the motion. A voice 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

Trustee Mittons Resolution. Chairperson Mendoza presented a resolution honoring trustee Stephen Mittons for his years of service on the Board. Trustee Silverthorn moved to adopt the resolution and Trustee Hawk seconded the motion. A roll call vote was taken, and the motion passed unanimously.

PUBLIC COMMENTS

Chairperson Mendoza asked if there were any members of the public who wished to address the Board. There were no members of the public.

NEW TRUSTEES

Executive Secretary Blair informed the Board that Mark Donovan had recently been appointed to the Board. Mark is originally from Gibson City and currently lives in Springfield and is a Senior Vice President at Illinois National Bank.

Secretary Blair briefed the Board on the election process that would be held to determine a replacement for former Trustee Stephen Mittons.

ADJOURNMENT

There being no further business to be brought before the Board, Chairperson Mendoza asked for a motion to adjourn. Trustee Baird moved to adjourn. Trustee Silverthorn seconded the motion, which passed unanimously by a roll call. The meeting adjourned at 12:46 p.m.

Susana Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____

