

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

April 16, 2024

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 16, 2024, at 10:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway.

The following trustees were in attendance:

David Morris, Vice-Chairperson
Barbara Baird, Elected Retired Trustee
Arnold Black, Elected Active Trustee
Tad Hawk, Elected Active Trustee
Ray Koenig III, Appointed Trustee
Jack Matthews, Elected Active Trustee
Mona Naser, Appointed Trustee
Jameson Ramirez, Appointed Trustee
Danny Silverthorn, Appointed Trustee
John Tilden, Elected Retired Trustee

The following trustees participated remotely:

Melverta Wilkins, Appointed Trustee

The following trustees were absent:

Susana A. Mendoza, Chairperson
Mohamad Nasir, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Casey Evans, Chief Internal Auditor
Jeff Houch, Associate Executive Secretary
Robert Cooper, Manager, Administrative Services Division
Samantha Goetz, SERS General Counsel
Jessica Blood, Recording Secretary
Dipesh Mehta, Deputy Director, Illinois State Board of Investment (Remote)
Scott Richards, Senior Investment Officer, Illinois State Board of Investment (Remote)
Chris Maley, Illinois Office of the Comptroller
Martha Merrill, AFSCME Council 31 (Remote)
John Day, Active Trustee Elect

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Director Dipesh Mehta began the ISBI report by reminding the Board that ISBI invests the funds of the State Retirement Systems, including SERS, the Judges' Retirement System, and the General Assembly Retirement System. He provided an overview of the portfolio, noting the portfolio's 2023 return of 10.5% lagged the benchmark return of 11.1%

but exceeded the assumed return of 6.75% annually. Director Mehta added the portfolio's value increased by more than \$2 billion in the 12 months ended December 31, 2023. Director Mehta then reviewed ISBI's asset allocation, the structure of the portfolio and introduced Scott Richards to continue the ISBI report.

Scott Richards, Senior ISBI Investment Officer, began his performance review by providing the portfolio returned 4% for the 6 months ended December 31, 2023, lagging the policy benchmark by 10 basis points. The Fixed Income Portfolio returned 2.7% for the 6 months ending December 31, 2023, lagging the benchmark return of 3.8% over the period. Mr Richards noted the U.S. Equity Portfolio returned 8.5% for the 6 months ending December 31, 2023, outperforming the benchmark return of 8.4%, while the non-U.S Equity portfolio returned 6.4% compared to the benchmark return of 6.0%. He attributed the U.S Equity outperformance to the performance of two active managers.

Mr. Richards continued by reminding the Board that Private Equity reported returns are generally delayed and are therefore difficult to compare to the benchmark. He concluded his report by noting that the Infrastructure portfolio and the Real Estate portfolio outperformed their respective benchmarks.

Vice-Chairperson Morris asked if anyone had questions regarding the ISBI report. Hearing none, he asked for a motion to approve the ISBI report. Trustee Hawk moved to approve. The motion was seconded by Trustee Ramirez, and all voted in the affirmative. A copy of the December 31, 2023, Performance Report is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

MINUTES OF THE JANUARY 9, 2024 BOARD MEETING

The minutes of the Board meeting held January 9, 2024, were presented by Vice-Chairperson Morris. Copies of the minutes were previously provided to each trustee for review. Trustee Silverthorn moved to approve the minutes as presented and Trustee Baird seconded the motion. A voice vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chris Maley reported on behalf of Chairperson Mendoza, noting that as of today, general funds accounts payable are \$845 million with an adjustment expected due to the submission of agency reports required by the Debt Transparency Act. One year ago, general funds accounts payable totaled \$2.5 billion. He reminded the Board that general funds accounts payable total is a snapshot in time and changes daily. Mr. Maley noted that by the end of April 2023, the Comptroller's office had reduced the payable balance to less than \$500 million, representing an 80% decrease from the \$2.5 billion in mid-April and the lowest accounts payable since 2008. He stated that the current General Revenue Fund billing cycle is 13 business days compared to 15 business days one year ago.

Mr. Maley added that the Budget Stabilization Fund totals \$2.062 billion and continues to grow with no withdrawals to date. He reiterated the importance of growing the Budget Stabilization Fund to ensure the State can withstand economic surprises and continue to pay obligations in a timely manner.

Mr. Maley noted Chairperson Mendoza's ongoing commitment to pay SERS vouchers as quickly as possible each month, adding that the most recent voucher had again been paid

ahead of time. He concluded the report by offering to answer any questions. No questions were offered.

Election of Vice-Chairperson and Committee Members. Trustee Baird moved to nominate the following 2024 standing committee members:

- Trustee Black to serve as Vice-Chairperson of the Board, effective May 1, 2024,
- Trustee Black to serve as member and Vice-Chairperson of the Executive Committee, effective May 1, 2024, with Trustee Matthews to serve as an alternate member of the Executive Committee, effective July 16, 2024,
- Trustee Black to serve as member and Chairperson of the Rules and Personnel Committee, effective May 1, 2024,
- Trustee Matthews to serve as member and Vice-Chairperson of the Rules and Personnel Committee, effective July 16, 2024.

With no other nominations offered, Trustee Silverthorn seconded the motion. A voice vote was taken and passed unanimously.

REPORT OF ANY TRUSTEE

Trustee Baird offered her commendation of Jeff Houch and SERS staff on behalf of a member when assisting with an issue he was facing. She noted that Mr. Houch and staff went above and beyond to help the member with a solution to his issue.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by reminding the Board that Statements of Economic Interest and Supplemental Statements are due May 1st.

Mr. Evans reported on an OEIG case alleging internal employee misconduct. He noted that an investigation had been conducted and a response sent to the OEIG. Mr. Evans added that the System would be implementing various changes and training in response to this matter.

Mr. Evans continued his report by discussing the System's ongoing fraud monitoring, adding that the System has provided notices on the website to warn members of external entities implying affiliation with SERS to gain access to members. He reported that the System is enhancing authentication for the Member Services portal, noting the use of two-factor authentication, identity proofing and personal activation codes. Mr. Evans discussed the System's internal audit work, including the identification of \$1.1 million in unclaimed survivor benefits and their beneficiaries.

Mr. Evans mentioned the System's involvement in various external audits, noting the financial audit produced a clean opinion with no findings. He stated that work is wrapping up on the compliance audit and IT review, with results expected for the July Board meeting. Mr. Evans concluded his report by offering to answer any questions. None were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch reported that the Rules and Personnel Committee authorized rulemaking to codify the process of filling vacancies of elected Board positions and refreshed the Board on that process. He noted the Committee authorized rulemaking to clarify the Tier 2

alternative formula eligibility age of 55 with 20 years of alternative formula service. This rule would clarify that those 20 years of alternative formula service must be as a vested law enforcement officer.

Mr. Houch then noted his appreciation of Vice-Chairperson Morris's and Trustee Hawk's service on the Committee and concluded his report by offering to answer any questions from the Board. Trustee Baird asked if there was any pending legislation that could significantly impact the System. Mr. Houch responded that most of that legislation would likely be addressed after the upcoming election and added that there was discussion around enhancing Tier 2 benefits. After a discussion regarding the Tier 2 plan, Vice-Chairperson Morris asked for any further questions. No further questions were offered.

REPORT OF THE EXECUTIVE SECRETARY

Preliminary FY 25 Operations Budget. Secretary Blair presented the preliminary FY 25 operations budget request. After giving a brief explanation of the budget process to the newer trustees, Secretary Blair noted an increase of \$1,643,437, or 7.42% over the FY 24 budget. He stated the increase is partly due to staffing needs, including 4 high level IT staff to help speed up the migration to more modern IT systems, the addition of a Chief Compliance Officer, and 3 additional Pension Benefit Techs. A brief discussion followed about the functions, hiring process and credentials required for the Chief Compliance Officer role.

Trustee Baird inquired if the System was working to move toward online applications and digital signatures. Secretary Blair responded that with the increase in staffing and new leadership in the IT Division, the System was planning for the development of electronic submission.

Trustee Hawk moved to approve the preliminary FY 25 operations budget request as presented and Trustee Matthews seconded the motion. A voice vote was taken, and the motion passed unanimously.

Second Quarter FY 24 Financial Statements. Secretary Blair referred the Board to the second quarter FY 24 financial statements. He noted the payout of \$823 million in benefits, refunds of \$6.2 million and administrative expenses of \$5 million. Secretary Blair stated that withdrawals of \$30 million per month from ISBI were necessary to pay monthly benefits and that he expected this to continue for the foreseeable future.

Secretary Blair discussed the drawdown of invested assets, noting that the expected drawdown for FY 24 would be closer to \$300 million rather than the initial projection of \$420 million. Some discussion followed regarding the drawdown of investments, the funding plan and the statutorily required calculation of contributions.

Trustee Tilden moved to approve the second quarter FY 24 financial statements as presented and Trustee Koenig seconded the motion. A voice vote was taken, and the motion passed unanimously. A copy of the financial statements is maintained in the SERS office and made a part of these minutes as *Exhibit B*.

FY 24 Funding Update. Secretary Blair stated that funding from the IOC is current and that contributions continue to be made in a timely manner, recently within 5 to 10 days of the submission of vouchers.

Back Wage Processing Update. Secretary Blair informed the Board that back wage recalculations from the Rauner wage freeze are complete. He added that many unions are only now finalizing their collective bargaining agreements, which will necessitate recalculations for members who have retired since July 1, 2023.

Buyout Update. Secretary Blair informed the Board that the COLA buyout program continues to be popular, with approximately \$470 million paid out. He reminded the Board that the program is scheduled to sunset in June 2026, with an extension probable due to the program's popularity. After some discussion regarding the program's positive effect on the System's funding liability, Secretary Blair offered to answer any further questions. No further questions were offered.

Legislative Update. Jeff Houch, Associate Executive Secretary, reported on pending legislation that would impact SERS. He began by noting that the System has concerns regarding HB 4870, which would require SERS to implement a process whereby Alternative Formula members receive their first "estimated" pension payment within 30 days of retirement. Mr. Houch noted that this formula is complicated and increasing the System's workload in this way would either delay the processing of other claims or increase cost.

Mr. Houch then touched on SB 2739, which authorizes the State Comptroller to accept voucher files for a given month's payment in advance of the 15th of the month and will provide flexibility to the Comptroller's Office when paying employer contributions, potentially leveraging investment returns. Mr. Houch concluded his report by offering to answer any questions regarding pending legislation. Following some discussion on opposing legislation that could be detrimental to the System and potential funding changes proposed by the legislature, no further questions were offered.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the December 2023, and January, February, and March 2024 Executive Committee minutes for review. Trustee Baird moved to approve the December 2023, and January, February, and March 2024 Executive Committee minutes as presented. Trustee Tilden seconded the motion. A voice vote was taken, and the motion passed unanimously.

OLD BUSINESS

Vice-Chairperson Morris asked if there was any old business. Executive Secretary Blair informed the Board that a trustee election would not be necessary in May. He added that only three active members and one retiree had qualified for the ballot, which covers all upcoming Board vacancies. Mr. Blair also noted that John Day, one of the newly elected trustees, was in attendance today.

NEW BUSINESS

Vice-Chairperson Morris Resolution. Trustee Black presented a resolution honoring Vice-Chairperson Morris for his service on the Board. Trustee Baird moved to adopt the resolution and the motion was seconded by Trustee Silverthorn. A voice vote was taken, and the motion passed unanimously.

Trustee Hawk Resolution. Trustee Black presented a resolution honoring Trustee Hawk for his service on the Board. Trustee Matthews moved to adopt the resolution and

the motion was seconded by Trustee Koenig. A voice vote was taken, and the motion passed unanimously.

Secretary Blair thanked Vice-Chairperson Morris and Trustee Hawk for their service, noting that David Morris served on the Board for almost 15 years and that Tad Hawk served for 8 years. He added that both had served on various committees for many years, including the Executive Committee, which requires attending monthly meetings that deal with difficult situations and sometimes last several hours. Secretary Blair concluded his remarks by saying that both gentlemen contributed greatly to the SERS Board over their many years of service and that they made SERS better in many ways through their efforts.

Trustee Silverthorn added that he had the privilege to serve on the Rules and Personnel Committee with David and Tad for several years and that both offered significant knowledge and expertise to the Committee and that they would be missed. Trustee Silverthorn also noted that he had served on the Board with Vice-Chairperson Morris since they became trustees in mid-2009.

PUBLIC COMMENTS

Vice-Chairperson Morris asked if there were any public comments. None were offered.

ADJOURNMENT

There being no further business, Vice-Chairperson Morris asked for a motion to adjourn. Trustee Matthews moved to adjourn. Vice-Chairperson Morris seconded the motion, which passed unanimously by voice vote. The meeting adjourned at 11:45 a.m.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____