



MINUTES

Closed Meeting of the Administration Committee of the
State Universities Retirement System
June 10, 2016, 9:00 a.m.

The Northern Trust
50 South LaSalle Street, Global Conference Center
Chicago, Illinois 60603

Upon a motion by Trustee Antonio Vasquez, seconded by Trustee Steven Rock, and a unanimous roll call vote, the board of trustees went into closed session under the Open Meetings Act pursuant to §2(c)(1).

The following trustees were present: Mr. Antonio Vasquez, Chair; Mr. Aaron Ammons, Mr. Tom Cross, Mr. Dennis Cullen, Dr. John Engstrom, Dr. Fred Giertz, Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon (via conference call); Ms. Dorinda Miller (via conference call), and Dr. Steven Rock.

Others present: Mr. Bryan Lewis, Executive Director; Ms. Bianca Green, General Counsel; Ms. Brenda Dunn, Director of Human Resources; Ms. Monique Cullotta, Executive Assistant; and Ms. Mary Pat Burns of Burke, Burns & Pinelli.

Ms. Burns stated for the record that Trustee Craig McCrohon and Trustee Dorinda Miller were participating via conference call per the motion approved at the Investment Committee meeting on June 9, 2016, Trustees may be allowed to participate via conference call for all meetings on June 9, 2016, and June 10, 2016, pursuant to Section 7(c) of the Open Meetings Act.

PERFORMANCE REVIEWS

Ms. Brenda Dunn remarked that this year as universities are implementing lay-offs and furloughing employees, SURS is facing a ferocious workload and this appears to be the new normal. With the refund of insurance premiums, an exceptional amount of retirement claims due to the recent money purchase factors changes this past January, and increased counseling sessions, SURS staff has relentlessly pressed on to serve the SURS membership at even higher rates than before. Thus, she is requesting a merit increase pool of funds to recognize SURS staff for their performance over the past fiscal year. Ms. Dunn presented the annual staff pay review and provided a summary of the proposed staff salary increases which includes a 3 percent increase for those meeting job expectations, and funding the

performance recognition and star awards programs, at the same levels as last year. Ms. Dunn explained the SURS performance recognition program which is used to recognize top performers annually and the star award performance recognition program is used to award note-worthy performance throughout the year. Ms. Dunn further noted that both of these programs are one-time, lump-sum awards that are not included in the base salary.

Ms. Dunn remarked that upon conducting her research, she received confirmation from the Illinois Municipal Retirement Fund and the State Teachers Retirement System and they are both implementing increases for their employees this year of 4.5 percent and 2.5 percent, respectively. She noted that she was not able to obtain information from State Employees Retirement System or Chicago Teachers Pension Fund. Ms. Dunn stated that she also reached out to organizations that specialize in compensation surveys such as The Economic Research Institute, Society of Human Resource Management, Mercer, Segal Simpson and The Hay Group. They are predicting a 2.7 percent - 3.0 percent increase for 2016.

Ms. Dunn recognized the SURS staff and noted that she has continually witnessed the dedication of not only SURS employees but also the SURS board in supporting the employees within the organization. Although the economic conditions of the state are uncertain, Ms. Dunn remarked that she feels that human capital is the most important factor in the success of an organization and that SURS staff is more than deserving of consideration of a 3 percent increase.

Mr. Bryan Lewis noted that when looking at the budget, the administration budget had actually come in under budget by 3 percent this past fiscal year. He also reported on other areas within the organization where staff had diligently worked to significantly reduce spending and costs throughout the year. Mr. Lewis remarked that with employer changes, state budget challenges and as additional legislation is passed that affects how SURS administers benefits; the job of SURS and its employees continues to become more and more complex. He also noted that while SURS affiliated employers are implementing lay-offs and furloughing employees, as Ms. Dunn mentioned, these things impact SURS and create more work. Mr. Lewis concurred with Ms. Dunn and believes that we need to reward those who have outperformed over the past year and intend to retain the human capital currently in place.

At this time, Chairman Cross reminded the group of the confidential nature of the discussions and deliberations taking place, whether they take part in the decision making process or not. Chairman Cross further noted that all discussions at the board or committee level that occur in closed session, should remain confidential until it has been decided that the information can be made available to the public.

The committee discussed the current system of awarding salary increases and Ms. Dunn noted that we have moved to more of a performance-based evaluation and the manager will be given a pool of money to distribute amongst their department. Ms. Dunn explained the current employee appraisal/rating process and remarked that all evaluations are run through the SURS executive team for a level of accountability. Mr. Lewis further noted that the manager and the employee agree upon work objectives for the upcoming year and the

manager is tasked with evaluating individual's progress on these objectives throughout the year. Thus, when the employee evaluation takes place, both the manager and employer are working on an agreed upon set of job goals and objectives, and there should have had documented, periodic discussions regarding the employee's performance in regards to these goals and objectives throughout the year. Mr. Lewis noted that by moving to a more performance-based process, SURS is trying to change the mind-set of the employees by empowering individuals and motivating them to try to exceed their goals and objectives based on standards and agreed upon goals. The question was posed as to whether or not there is a discriminatory appeals process for an employee if they disagree with their manager on their appraisal. Ms. Dunn assured the board that there is an appeal process in place.

Discussion in regards to merit-based increases ensued and some trustees expressed their concerns regarding the 3 percent merit increase recommendation, considering the current economic environment that the state is in. Mr. Lewis noted that what SURS is proposing is a budget-neutral allocation based on savings that the organization was able to implement through efficiencies this past year. Mr. Lewis also remarked that the intent is to continue these efficiencies in the coming years. Discussion regarding these specific cost savings continued. At the conclusion of the discussion, it was the consensus of the committee that staff will gather additional information about the cost savings discussed, and disseminate this information to the committee at the next scheduled meeting for further consideration.

SUCCESSION PLANNING

Ms. Dunn provided a status update on Mr. Daniel Allen's impending retirement noting that he is currently on a FMLA leave; however, he is planning on returning to work on July 8, 2016, and will be retiring on August 1, 2016. Circumstances regarding Mr. Allen's FMLA request were further discussed as was the process for time off or leave requests for executive level staff. The committee discussed the current policy in regards to SURS vacation time. Ms. Green remarked that the policy does state that the employee is encouraged to manage their vacation time in a manner that will not cause them to have excess benefits at the end of their tenure; however, the policy also tries to discourage that close to an employee's departure date, they should plan on minimal vacation usage during the last 4-6 weeks of employment in order to allow for a seamless transition. It was noted that SURS does allow staff to accumulate and roll their vacation time from year-to-year; however, the maximum amount that can be paid out upon termination is 56 days. Chairman Cross asked that Ms. Dunn solicit feedback from staff and asked that the committee further review and discuss the staff vacation policy on a future agenda.

Mr. Lewis confirmed that in Mr. Allen's absence, Mr. Douglas Wesley has been the point person for managing the day-to-day operations of the investment team. Ms. Burns recounted that at the May 28, 2016, Executive Committee Meeting, the decision was made to appoint Mr. Wesley as interim chief investment officer effective May 24, 2016. Discussion regarding this appointment ensued. Ms. Burns noted that according to the board bylaws and charters, the executive committee has the authority to act as the full board and their actions do not have to be ratified by the board; however, if the board wanted to revisit an executive committee decision, that is always an option.

Mr. Lewis also discussed succession planning initiatives within the organization and specifically focused on the executive leadership team identifying critical positions and competencies. Mr. Lewis commended SURS Chief Operating Officer Mr. Andrew Matthews on his efforts over the past year. Mr. Lewis remarked that many times over this past year, the executive director has been pulled away for different stakeholders; and it has been the chief operating officer who has worked with legal, business, finance and accounting to tie everything together; thus, he feels that the role of the chief operating officer within SURS is vitally important. Mr. Lewis further remarked that the executive leadership team will continue working on identifying, building and developing talent and leadership within the organization in order to ensure that we have a successful plan in place moving forward.

The question was posed as to at what point an external search is required when filling an internal professional services vacancy. Ms. Burns noted that under Illinois law, the only time that SURS is required to do this is for investment consultants; however, SURS has their own procurement policy but it doesn't address internal professional services. Ms. Burns remarked that although a search is not required when selecting an external candidate, it is always best practice to conduct a search.

Trustee Johnson remarked that in conversations with senior staff, he received feedback that they all felt SURS has come together over this past year and become stronger as an organization. Mr. Lewis concurred with Trustee Johnson and reported that over the past year, senior staff went through leadership training which he feels was instrumental in building a solid foundation within the senior leadership team.

Upon a motion by Trustee Aaron Ammons that was seconded by Trustee Paul R.T. Johnson, Jr. and carried, the meeting of the SURS Board of Trustees resumed its meeting in open session.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mr. W. Bryan Lewis". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL: lk