



P E R S E V E R A N C E

2015 The Comprehensive  
Annual Financial Report  
for Fiscal Year Ended  
June 30, 2015

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EDUCATING

# INTRODUCTORY

Message from Our Executive Director

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Board of Trustees

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Consulting and Professional Services

**SURS**2015





Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**State Universities Retirement System  
Illinois**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO



## MESSAGE FROM OUR EXECUTIVE DIRECTOR



December 21, 2015

2015 was a dynamic year for SURS with the hiring of new executive leadership, the appointment and election of new trustees, an Illinois Supreme Court pension decision, and a global economy with uneven expansion patterns. Through it all, SURS remains a strong administrator of benefits for our members and their families. We received 100% of our statutory contribution from the State of Illinois and continued to enhance our efficient service to members.

In 2015, the investment fund earned a 2.9% return, net of fees. While lower than recent annual returns, the investment fund continues to produce positive long-term returns with a focus on reducing risk in the portfolio. The portfolio has earned an average return of 11.2% over the last five years, 8.2% over the last 20 years, and 9.2% over the last 30 years.

A well-diversified asset allocation continues to help produce positive risk adjusted returns in a global economy that has not maintained consistent growth patterns in recent years. We continue to manage these changing conditions by focusing on risk measurement and monitoring the investment implementation to help assure the financial soundness of the System.

We achieved high levels of customer satisfaction in 2015 as measured by our member surveys and feedback from our members and annuitants. Our focus on the member remains critical to our success and we continue to put an emphasis on meeting the pension benefit needs of all members.

While the defined benefit plan continues to be underfunded because of not consistently receiving full contributions from the State in prior years, solid investment returns and consistency in contributions for the past four years have us on the right path to a strong funded position in the future.

In addition to focusing on investment asset diversification and excellent service, SURS has made progress during the past year in the following areas:

- Improving organizational leadership in operations and compliance
- Updating information technology systems
- Expansion of member education and outreach efforts
- Education and training of staff
- Strategic planning

SURS remains an efficient provider of services with a focus on continuous improvement. The total operating expenses were 0.08% of the System's assets.

Our most valuable resource remains our employees. With the support of the SURS board members and the commitment to strive to be a better organization each year, we look forward to continuing to serve and delivering the retirement benefits promised to our members.

Sincerely,

A handwritten signature in black ink that reads "W. Bryan Lewis". The signature is fluid and cursive.

W. Bryan Lewis  
Executive Director

# LETTER OF TRANSMITTAL



1901 Fox Drive, Champaign, IL 61820-7333  
800-275-7877 • 217-378-8800 • (Fax) 217-378-9800  
[www.surs.org](http://www.surs.org)

December 21, 2015

Board of Trustees and Executive Director  
State Universities Retirement System  
1901 Fox Drive  
Champaign, IL 61820

I am pleased to present the 74th Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a component unit of the State of Illinois) for the fiscal year ended June 30, 2015.

The System was established for the benefit of the staff members and employees of the state universities, community colleges, and certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees. Our vision is to continue to be a respected leader among public pension funds. The SURS staff strives to deliver the exceptional service our members expect and prudently manage the System's assets. The continuing value of the colleges and universities in the SURS system is clearly evident. Each has a significant impact on their communities. The knowledge, wealth and civic pride generated by these educational institutions enhance the well-being of the students, the communities and the state.

The management of SURS is responsible for the compilation and accuracy of the financial, investment, actuarial, and statistical information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SURS.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. SURS' internal controls over financial reporting are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records in accordance with generally accepted accounting principles. These controls include appropriate segregation of duties and responsibilities, and sound practices in the performance of those duties. The cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgments by management. The objective of internal controls is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

SURS maintains an internal audit program that employs the services of three internal auditors to determine that all controls implemented are as designed. The internal audit personnel provide a continuing review of the internal controls of SURS and report to the SURS Board of Trustees. Audit findings and recommendations for improvements are presented to the Board. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls.

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent public certified accountants selected by the State Auditor General. This requirement has been complied with, and the independent auditor's unqualified report on the System's 2015 financial statements has been included in this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found on page xx of the report.



## LETTER OF TRANSMITTAL

### Profile

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for employees, survivors and other beneficiaries of those employees of the state universities, community colleges, and certain other state educational and scientific agencies. SURS services 61 employers and 228,000 members and annuitants. The plans administered by SURS include a defined benefit plan established in 1941 and a defined contribution plan established in 1998. SURS is governed by an 11-member Board of Trustees that includes four members elected, two annuitant elected, and five members appointed by the Governor of which the chairperson is the appointed chair of the Illinois Board of Higher Education.

### Funding

The State of Illinois, a non-employer contributing entity, provides funding from two sources: the General Revenue Fund and the State Pensions Fund, which is funded with proceeds from unclaimed property. Annually, the SURS actuary determines the annual "Statutory Contribution" needed to meet current and future benefit obligations in accordance with the Pension Code. The determination of the total employer contributions for fiscal year 2015 was based on Public Act 98-0680, which appropriated \$1,544.2 million. The Pension Code sets forth the manner of calculating the statutory contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the state to contribute annually an amount equal to a constant percent of pensionable (capped) payroll necessary to allow the System to achieve a 90% Funded Ratio by fiscal year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. As of June 30, 2015, the plan net position as a percentage of the total pension liability was 42.37%. The funding issue confronting SURS continues to represent a challenge to the System. Although the statutory contribution requirement was met in fiscal year 2015, the Statutory Funding policy creates a perpetual contribution variance of underfunding the System in earlier years, and in later years that the Statutory contribution would exceed a contribution equal to normal cost plus a 30-year open period level percent of pay amortization of the unfunded liability. Further information is presented in the Required Supplementary Schedules related to employer contributions and the funding of the plan.

### Investments

Investments are made under the authority of the prudent expert rule, which states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. This standard has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the Board of Trustees. Our goal is to optimize the long-term return of the System's investments.

The SURS defined benefit assets held in trust increased to \$17.4 billion. Yield information is detailed in the Investment Section of this report. Taken as a whole, the SURS portfolio of investments produced a return of 2.9%, net of fees, for the year ended June 30, 2015. The SURS investment program has a long-term horizon. The returns, net of fees, are 11.0% over the last three years and 7.1% over the last 10 years. The SURS defined contribution assets increased from \$1.6 billion to \$1.7 billion.

The System has shown a negative return of 0.8% through October 31, 2015, bringing total investments to approximately \$16.9 billion.

### Legislation

- 1) Public Act 98-1022, signed into law on August 22, 2014, prohibits a contract, oral or written, for investment services, consulting services or commitment to a private market fund from being awarded, beginning January 1, 2015, unless specific information is disclosed regarding the awarded contract. It also required the System to adopt a policy by February 1, 2015, with three separate goals (reviewed annually) to increase utilization of minority investment managers.

## LETTER OF TRANSMITTAL

- 2) Public Act 98-1137, signed by the Governor on December 29, 2014, clarifies that the Illinois attorney general can bring civil action to enjoin the payment of pension benefits to any person convicted of a felony in relation to his or her service as an employee under the Illinois Pension Code.
- 3) Public Act 98-1144, signed by the Governor on December 30, 2014, exempts SURS retirees who receive an annualized retirement annuity of less than \$10,000 from the provisions of the Return to Work Policy for Affected Annuitants through Public Act 97-0968.

### Major Initiatives

In fiscal year 2015, the SURS staff united to implement legislative changes, strengthen the System and work on programs that would benefit its members. SURS will continue to be the trusted source for information and guidance.

Public Act 97-0695 was signed into law on June 12, 2012, reforming state retiree health insurance. Several lawsuits were filed challenging the constitutionality of this law. Kanerva vs Weems was the consolidated case. On August 28, 2014, the Sangamon County Circuit Court judge ordered the state to stop deducting the monthly percentage-of-annuity health premiums from retiree and survivor annuities. The decision further required the refunding of insurance premiums by June 15, 2015. SURS received approximately \$23.4 million from Central Management Services to repay the premiums that were deducted from annuitants' checks from July 1, 2013, through September 1, 2014. SURS staff:

- Reviewed and updated 3,000 addresses in preparation for the Opt-Out Notice mailing
- Processed over 34,000 annuitant insurance refunds
- Issued letters to approximately 2,000 deceased members' beneficiaries

SURS has until June 30, 2016, to return monies that cannot be paid to members to the State Treasurer.

The investment staff implemented a cash overlay program in August 2014. This program provides SURS the ability to efficiently implement changes to asset allocation targets. In addition, the program assists the System in managing daily portfolio cash flows.

Several information technology improvements were made in fiscal year 2015 including:

- Implementing a new method for developing targeted email campaigns to the membership
- Redesigning the Employer Website
- Launching a SURS Facebook page
- Developing and implementing a new procurement/business page
- Creating a board portal for use by the Board and staff. The usage of iPads eliminates the production and mailing of board books.

### Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2014. This is the thirty-first consecutive year the System has earned this award.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

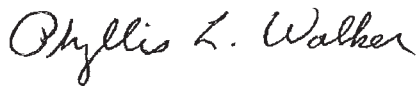
## LETTER OF TRANSMITTAL

### Acknowledgements

This report was prepared through the combined effort of the SURS staff under the leadership of the Board of Trustees. It is intended to provide reliable information to its users for making decisions and for determining responsible stewardship for the assets contributed by the members and the State of Illinois.

The report is made available to the Governor, the State Auditor, the members of the General Assembly, participating employers, and to other interested persons by request. Their cooperation is significant to the success of SURS. We thank all those whose impact in Illinois' universities and colleges guide the future. We hope they will find this report informative. A copy of this report and our Annual Report Summary will be available on our website, [www.surs.org](http://www.surs.org).

Respectfully submitted,



Phyllis L. Walker  
Chief Financial Officer

## BOARD OF TRUSTEES



**Lindsay Anderson**  
Chairperson  
Appointed



**Dorinda Miller**  
Vice Chairperson  
Elected



**John Engstrom**  
Treasurer  
Elected



**Jacqueline Berger**  
Elected



**Dennis Cullen**  
Appointed



**Richard Figueroa**  
Appointed



**Paul R. T. Johnson Jr.**  
Appointed



**Craig McCrohon**  
Appointed



**Antonio Vasquez**  
Elected



**Mitchell Vogel**  
Elected

## ADMINISTRATIVE STAFF



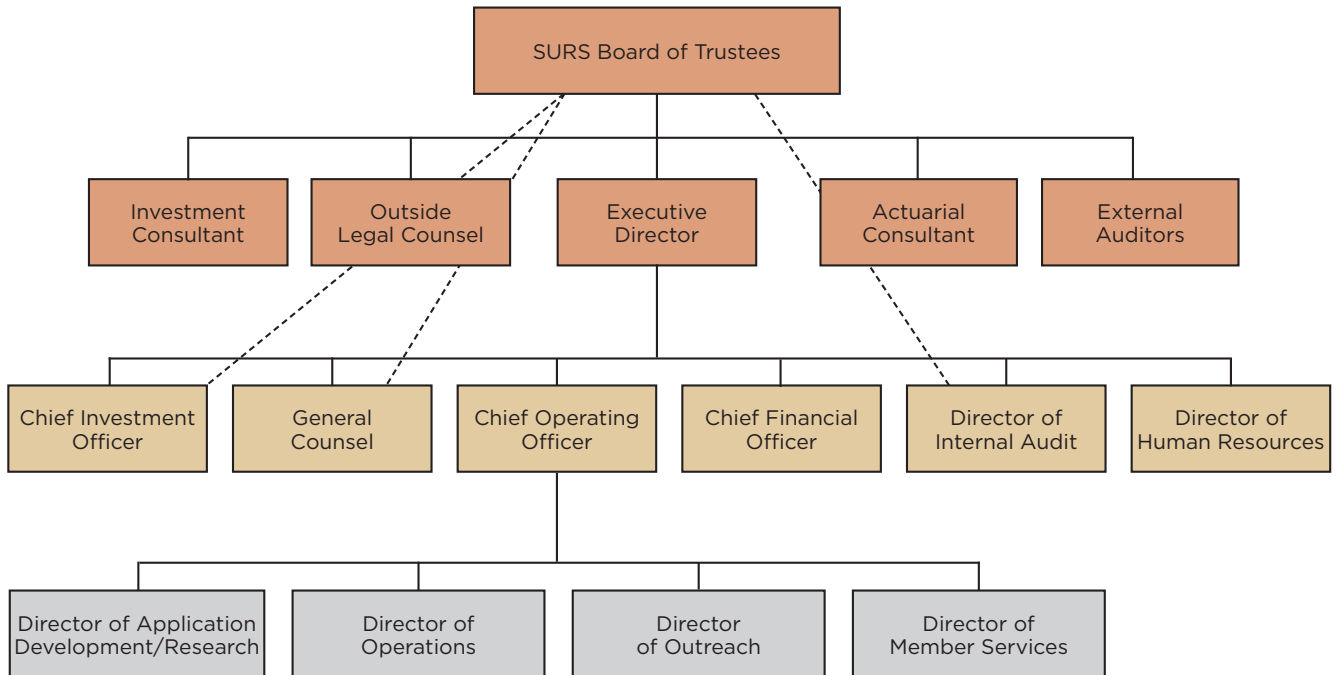
**Front Row (left to right)**

Deputy Chief Investment Officer Douglas Wesley, Chief Investment Officer Daniel L. Allen, Executive Director W. Bryan Lewis, and Chief Operating Officer Andrew Matthews

**Back Row (left to right)**

Director of Internal Audit Steven L. Hayward, Chief Financial Officer Phyllis Walker, Director of Human Resources Brenda Dunn, Director of Application Development and Research Douglas J. Steele, Director of Outreach Suzanne Mayer, Director of Member Services Angela Lieb, and Director of Operations M. Christopher Hansen

# ORGANIZATIONAL CHART



## CONSULTING AND PROFESSIONAL SERVICES

### Actuary

Gabriel, Roeder, Smith & Co. - Chicago, Illinois

### Auditor

RSM US LLP - Schaumburg, Illinois

(Acting as Special Assistant Auditor for the Illinois Office of the Auditor General)

### Legal Counsel

Burke, Burns & Pinelli, Ltd. - Chicago, Illinois

Chapman and Cutler LLP - Chicago, Illinois

Jackson Walker L.L.P. - Dallas, Texas

### Consultants and Other Vendors

Dell Secure Works - Atlanta, Georgia

Document Access Systems - Richmond, Virginia

MRC Information Technology, Inc. - Omaha, Nebraska

Reliable Mechanical Co. - Champaign, Illinois

Schomburg & Schomburg Construction Incorporated - Danville, Illinois

Sirius Computer Solutions - Dallas, Texas

The Hollins Group, Inc. - Chicago, Illinois

### Master Custodian and Performance Measurement

The Northern Trust Company - Chicago, Illinois

### Investment Consultant

NEPC, LLC - Boston, Massachusetts

### Investment Advisors

Adams Street Partners - Chicago, Illinois

Alinda Capital Partners - New York, New York

BlackRock Institutional Trust Company - San Francisco, California

BlueBay Asset Management - London, England

Calamos Advisors - Naperville, Illinois

CastleArk Management - Chicago, Illinois

CBRE Clarion Real Estate Securities - Radnor, Pennsylvania

Chicago Equity Partners - Chicago, Illinois

Colchester Global Investors Limited - London, England

Dune Capital Management - New York, New York

Fairview Capital Partners - West Hartford, Connecticut

Franklin Templeton Real Estate Advisors - New York, New York

GlobeFlex Capital, L.P. - San Diego, California

Heitman - Chicago, Illinois

Jacobs Levy Equity Management - Florham Park, New Jersey

JPMorgan Chase Bank, N.A. - New York, New York

Macquarie Capital - New York, New York

Mesirow Financial Investment Management - Chicago, Illinois

Mondrian Investment Partners - London, England

Muller and Monroe Asset Management - Chicago, Illinois

Neuberger Berman - Chicago, Illinois

Northern Trust Asset Management - Chicago, Illinois

Pacific Investment Management Company - Newport Beach, California

Pantheon Ventures - San Francisco, California

Piedmont Investment Advisors - Durham, North Carolina

Progress Investment Management Company - San Francisco, California

Pyramis Global Advisors Trust Company - Smithfield, Rhode Island

RhumbLine Advisers - Boston, Massachusetts

RREEF - Chicago, Illinois

State Street Global Advisors - Boston, Massachusetts

T. Rowe Price - Baltimore, Maryland

Taplin, Canida & Habacht - Miami, Florida

TCW Metropolitan West Asset Management - Los Angeles, California

UBS Realty Investors - Hartford, Connecticut

Wellington Management Company - Boston, Massachusetts

### Manager Diversity Program Investment Advisors

Ativo Capital Management - Chicago, Illinois

Channing Capital Management - Chicago, Illinois

EARNEST Partners - Atlanta, Georgia

Fiduciary Management Associates - Chicago, Illinois

Garcia Hamilton & Associates - Houston, Texas

Herndon Capital Management - Atlanta, Georgia

Holland Capital Management - Chicago, Illinois

LM Capital Group - San Diego, California

Lombardia Capital Partners - Pasadena, California

Longfellow Investment Management - Boston, Massachusetts

New Century Advisors - Chevy Chase, Maryland

Pugh Capital Management - Seattle, Washington

Smith Graham & Company - Houston, Texas

Strategic Global Advisors - Newport Beach, California

### Progress Investment Management Company Emerging Manager Investment Advisors

Affinity Investment Advisors - Irvine, California

Brown Capital Management - Baltimore, Maryland

Cheswold Lane Asset Management - West Conshohocken, Pennsylvania

Fortaleza Asset Management - Chicago, Illinois

Garcia Hamilton & Associates - Houston, Texas

GIA Partners - New York, New York

Glovista Investments - Jersey City, New Jersey

Hahn Capital Management - San Francisco, California

Hanoverian Capital - Kennett Square, Pennsylvania

Herndon Capital Management - Atlanta, Georgia

High Pointe Capital Management - Chicago, Illinois

Holland Capital Management - Chicago, Illinois

John Hsu Capital Group - New York, New York

LM Capital Group - San Diego, California

Lombardia Capital Partners - Pasadena, California

Martin Investment Management - Evanston, Illinois

New Century Advisors - Chevy Chase, Maryland

Pocas Financial Corporation - Alameda, California

Piedmont Investment Advisors - Durham, North Carolina

Ramirez Asset Management - New York, New York

StoneRidge Investment Partners - Malvern, Pennsylvania

Strategic Global Advisors - Newport Beach, California

### Self-Managed Plan Service Providers

Fidelity Investments - Boston, Massachusetts

Teachers Insurance Annuity Association - College Retirement Equities Fund - New York, New York