



MINUTES

**Quarterly Meeting of the Administration Committee
of the Board of Trustees of the
State Universities Retirement System
Friday, June 2, 2023, 9:00 a.m.**

**Northern Trust - 333 S. Wabash Ave., 44th Floor - Chicago, IL
*Optional Remote Connection for Members of the Public***

The meetings on June 1-2, 2023, were conducted in person at Northern Trust – Chicago, IL. Because an in-person quorum was present, a motion was made at the beginning of the meeting that allowed trustees Lyons and Vasquez to participate in the meetings by electronic means.

The following trustees were present: Mr. John Atkinson, Dr. Andriy Bodnaruk, Ms. Jamie-Clare Flaherty, Dr. Fred Giertz, Mr. Scott Hendrie, Mr. John Lyons (via zoom), Dr. Steven Rock, Mr. Collin Van Meter (chair) and Mr. Antonio Vasquez (via zoom).

Others present: Ms. Suzanne Mayer, Executive Director; Mr. Douglas Wesley, Chief Investment Officer (CIO); Ms. Ellen Hung, Deputy CIO; Ms. Tara Myers, Chief Financial Officer; Mr. Shane Willoughby, Sr. Investment Officers; Ms. Bianca Green, General Counsel; Ms. Nichole Hemming, Chief Human Resources Officer; Mr. Albert Lee, Associate General Counsel; Ms. Heather Kimmons, Associate Legal Counsel; Ms. Anna Dempsey, Investment Counsel; Ms. Kristen Houch, Director of Legislative and Stakeholder Relations; Ms. Alicia Route, Legislative Analyst; Mr. Jefferey Saiger, Chief Technology Officer; Ms. Kelly Carson, Ms. Chelsea McCarty and Ms. Annette Ackerman, Executive Assistants; and Mr. Michael Calabrese of Foley.

Administrative Committee roll call attendance was taken. Trustee Atkinson, present; Trustee Flaherty, present; Trustee Rock, present; Trustee Van Meter, present

Prior to any business brought before the committee and after an in-person quorum was established, Trustee Atkinson moved to allow remaining trustees to participate via video or conference call for the Administration Committee meeting on June 2, 2023, pursuant to Section 7(a) of the Open Meetings Act. The motion was seconded by Trustee Rock, and it passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

APPROVAL OF MINUTES

Trustee Van Meter presented the minutes from the Administration Committee meeting of April 20, 2023.

Trustee Rock made the following motion:

- That the minutes from the April 20, 2023 Administration Committee meeting be approved as presented.

Trustee Atkinson seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

APPROVAL OF CLOSED MINUTES

Trustee Van Meter presented the closed minutes from the Administration Committee meeting of April 20, 2023.

Trustee Rock made the following motion:

- That the closed minutes from the April 20, 2023 Administration Committee meeting be approved as presented and remain closed.

Trustee Atkinson seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

CHAIRPERSON’S REPORT

Trustee Van Meter did not have a formal chairperson’s report.

RECERTIFICATION OF THE STATE CONTRIBUTION TO THE COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND FOR FISCAL YEAR 2024

Ms. Tara Myers presented and discussed the certified contribution requests with the Administrative Committee. Every October SURS calculates the certified contribution request and then presents it to the board for approval. The percentage of members’ salary was 0.5% which has not changed since the creation of the program. She explained that the fiscal year 2024 budget implementation bill that is pending the governor’s signature will increase that percentage to 0.75%. After recalculating with that percentage, Ms. Myers suggested that the following motion be considered:

Trustee Rock made the following motion:

- That based on the recommendation of SURS Staff, the recalculated amount of \$7,712,026 be recertified for fiscal year 2024 and submitted to the governor, the director of CMS, and the state Comptroller upon the FY 2024 BIMP becoming law.

Trustee Atkinson seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

A copy of the staff memorandum titled "FY2023 Recertification of State CIP Contribution" is incorporated as part of these minutes as [Exhibit 1](#).

QUARTERLY PENSION SYSTEM UPDATE

Mr. Jefferey Saiger presented an update on Project Velocity (the PAS project) and introduced Ms. Erica Oropeza of Linea Solutions to share additional details.

Ms. Erica Oropeza began by providing an update on the status of the project and gave the board a look into the fiscal year 2023 budget as of May 19, 2023. She addressed some concerns they had and explained how SURS staff and Linea plan to respond to these concerns, such as extending the project to avoid overlaps with Validation Testing and to accommodate additional sprints. She also explained that project schedule changes will be needed, and she noted that the contingency budget will not last for the entirety of the project which means additional project funds will be needed for fiscal years 2025 and 2026. Vendors and SURS will continue to work collaboratively to keep the project on track and moving forward.

A copy of the staff memorandum and a copy of the Linea presentation are incorporated as part of these minutes as [Exhibit 2](#) and [Exhibit 3](#).

FISCAL YEAR 2024 ADMINISTRATIVE EXPENSE & CAPITAL EXPENDITURE BUDGET/FISCAL YEAR 2024 INVESTMENT DEPARTMENT BUDGET

Ms. Myers presented the proposed Administrative Expense and Capital Budget for Fiscal Year 2024 and the Investment Department Administration Expense Budget.

A copy of the SURS memorandum titled "Recommendation of Approval of FY24 Budget" and the staff presentations titled "SURS FY24 Budget Presentation" and "SURS FY24 Investment Operation Budget" are incorporated as part of these minutes as [Exhibit 4](#), [Exhibit 5](#), and [Exhibit 6](#).

CLOSED SESSION

Trustee Atkinson moved that the Administrative Committee go into closed session pursuant to §2(c)(1) of the Illinois Open Meetings Act to consider the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body or legal counsel for the public body. Trustee Flaherty seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

RETURN TO OPEN SESSION

The Administrative Committee returned to open session at 11:50 a.m.

Trustee Rock made the following motion:

- That the Fiscal Year 2024 Administrative Expense Budget be approved as presented.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

Trustee Rock made the following motion:

- That the Fiscal Year 2024 Capital Expenditure Budget be approved as presented.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

Trustee Rock made the following motion:

- That the Investment Department Administrative Expense Budget for Fiscal Year 2024 be approved as presented.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |

Trustee Rock made the following motion:

- That the projected Investment Department Investment Management Fees for Fiscal Year 2024 be accepted as presented.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

| | | |
|------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Flaherty | - | aye |

Trustee Rock - aye
Trustee Van Meter - aye

Trustee Rock made the following motion:

- That the Chief Investment Officer's salary be increased at the percentage assigned to his performance rating, beginning with the pay period including July 1, 2023.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

Trustee Atkinson - aye
Trustee Flaherty - aye
Trustee Rock - aye
Trustee Van Meter - aye

Trustee Rock made the following motion:

- That the Executive Director's salary be increased at the percentage assigned to her performance rating, beginning with the pay period that included July 1, 2023.

Trustee Flaherty seconded the motion which passed via the following roll call vote:

Trustee Atkinson - aye
Trustee Flaherty - aye
Trustee Rock - aye
Trustee Van Meter - aye

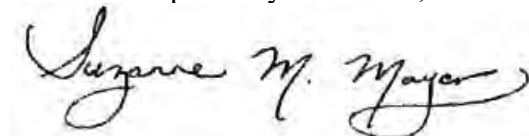
PUBLIC COMMENT

There was no public comment presented to the Administration Committee.

There was no further business brought before the committee and Trustee Rock moved that the meeting be adjourned. The motion was seconded by Trustee Flaherty, and it passed via the following roll call vote:

Trustee Atkinson - aye
Trustee Flaherty - aye
Trustee Rock - aye
Trustee Van Meter - aye

Respectfully submitted,



Ms. Suzanne M. Mayer
Executive Director and Secretary, Board of Trustees



To: Administration Committee
 From: Tara R. Myers
 Date: June 2, 2023
 Re: Recertification of the Required State Contribution to the Community College Health Insurance Security Fund for Fiscal Year 2024

The College Insurance Program (“CIP”) provides health insurance benefits to retired community college employees under SURS. To be eligible to receive benefits, the SURS member must have been a full-time employee at a community college district or an association of community college boards and must have retired under SURS.

CIP receives funding from three sources: employees, employers, and the State. Full-time employees contribute 0.5% of salary, employers contribute 0.5% of salary for full-time employees, and the State contributes an amount estimated to match the full-time employee contributions. SURS calculates the amount of the State contribution to CIP and certifies the amount annually by November 15th, pursuant to 5 ILCS 375/6.10. The FY 2024 State contribution certified by SURS is \$5,120,262.

The Department of Central Management Services (“CMS”) is the plan administrator for CIP and responsible for plan design and administration. Contribution rates for CIP have not changed since the creation of the program. Unlike the comparable program for retired teachers (“TRIP”), CIP contributions do not adjust to account for inflation or the increased costs of healthcare. Consequently, CIP has carried a substantial bill backlog, with current bills outstanding dating back to October 2019 (nearly 3.5 years).

The FY 2024 Budget Implementation Bill (“BIMP”) modifies employee, employer, and State contributions to CIP, beginning July 1, 2023. The contribution rate for full-time employees increases to 0.75% of salary, the contribution rate for employers increases to 0.75% of salary for full-time employees, and the State contribution rate increases to match the full-time employee contributions to CIP. Beginning July 1, 2024, the Department of Central Management Services will determine the contribution rates, but such contribution rates cannot increase by more than 0.1% from the previous year. Beginning July 1, 2026, the contribution rates will be a percentage of salary determined by CMS but cannot exceed 105% of the percentage in the previous year.

The FY 2024 BIMP further requires SURS, by June 30, 2023, to recalculate and recertify the FY 2024 State contribution to CIP based on the changes to the full-time employee contribution rates made by the legislation. Based on the increased rates under the FY 2024 BIMP, the recalculated and recertified State contribution to CIP for FY 2024 is \$7,712,026.

Recommendation

SURS staff recommends that the recalculated amount of \$7,712,026 be recertified for Fiscal Year 2024 and submitted to the Governor, the Director of CMS, and the State Comptroller upon the FY 2024 BIMP becoming law.



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To: Administration Committee
From: Jefferey S. Saiger, Chief Technology Officer
Date: 06/02/2023
Re: Project Velocity Update

The SURS Information Technology Department is here before the Administration Committee today to present an update regarding Project Velocity; our ongoing project to replace our legacy pension administration system (PAS) with one that is built upon modern technology and design principles.

Presenting today will be Erica Oropeza, our lead project manager from implementation partner, Linea Solutions. She will be joined by Catherine Dietrich, a project manager with Vitech and Alicia DeVore, a project manager with MBS.

The pension system administration replacement project is facing increasing challenges regarding resourcing and scope. The complexities of the SURS pension code combined with the architecture of the data structure in the legacy system have caused scope to be expanded and conversion hours to go longer than anticipated. Despite these challenges, the collective team is still making good progress in configuring the system and continuing to work together in a positive & collegial manner.

Our core vendors on this project (Linea, Vitech, MBS) are here to discuss where we are at in the project, how we got to this point, and what the way forward looks like. They will also field any questions the board may have for them and their roles in the project.

We welcome an engaged and informed dialogue regarding Project Velocity.

Thank you for your time and attention.



LINEASOLUTIONS

SURS Project Velocity Update

Pension Administration System (PAS) Replacement

June 2023



Agenda



- Project Status
- Budget
- Vendor Presentation
 - Explanation of Project Status









Project Status

35%
Complete



Project Status

| Scope | Schedule |
|---|---|
|  |  |
| Budget | Quality |
|  |  |

LEGEND

GREEN - ON TRACK

YELLOW - AT RISK

RED - RISK IS REALIZED

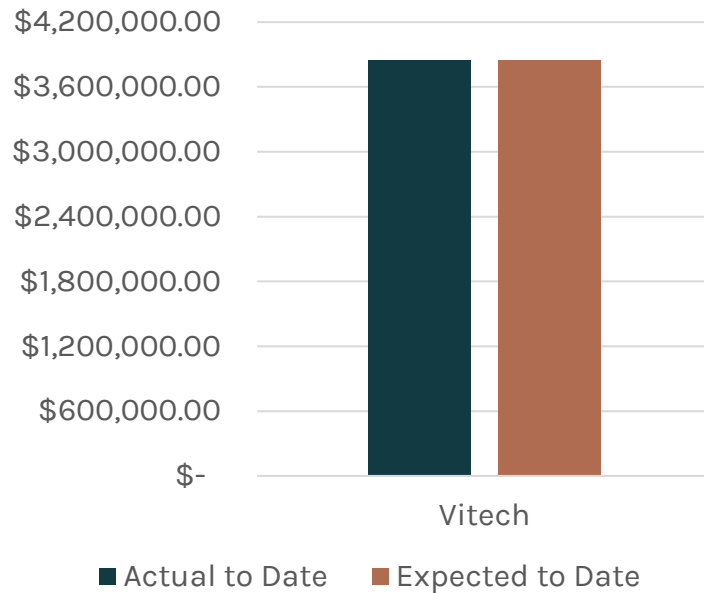
- Additional sprints are needed to address requirements for the following topics:
 - Pension calculations
 - Service credit purchase (SCP)
 - Reciprocal retirement estimates
 - Retirement Savings Plan (RSP)
- The development of letters and interfaces is coming up to speed with a revised process.
- Change orders related to data conversion will deplete most of the remaining contingency budget in FY24.



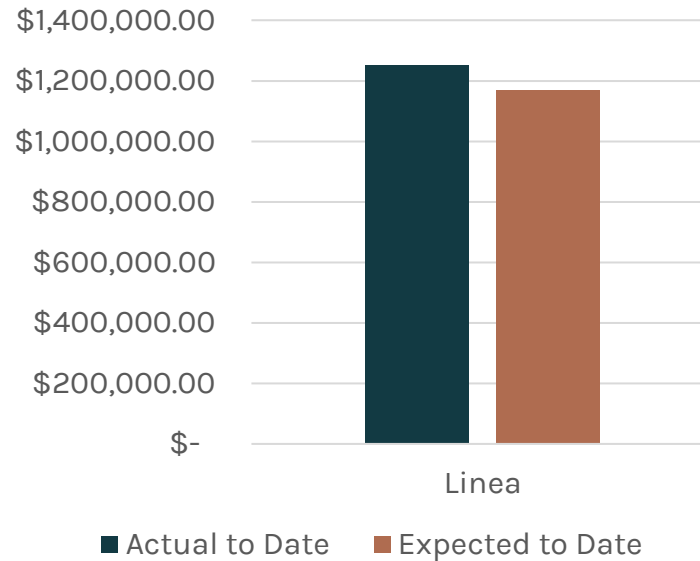
FY2023 Budget

Invoices received through May 19, 2023.

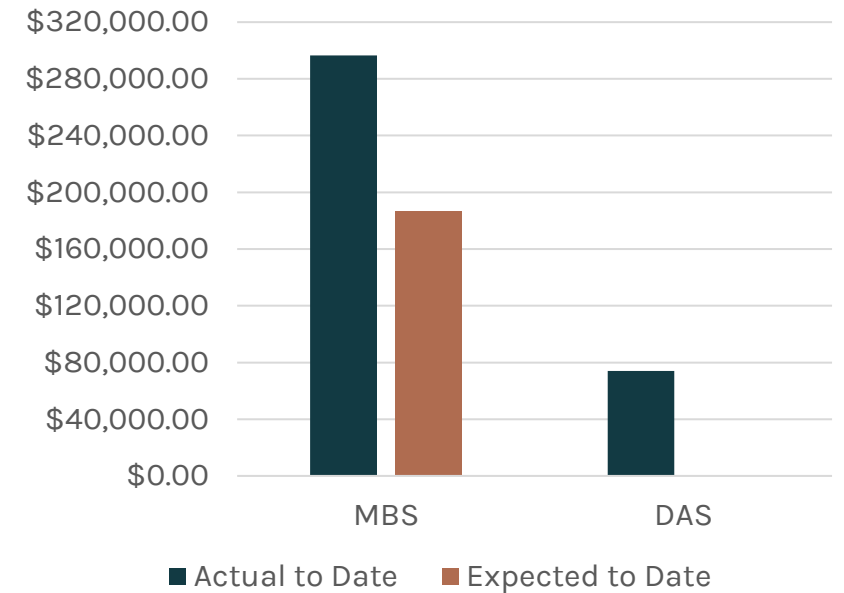
Implementation



Implementation Support



Data Conversion





Contingency Budget – Invoiced & Approved

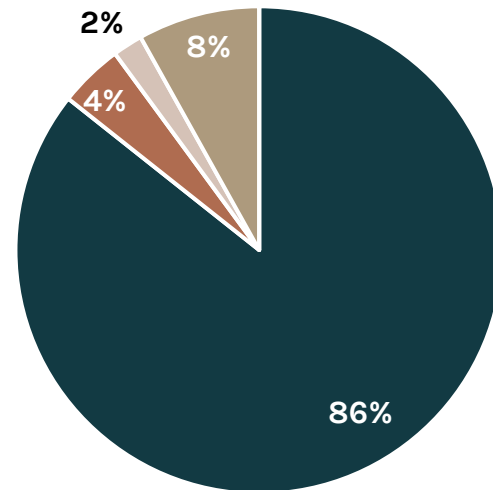
Contingency is used for work that is considered out of original scope.

The change orders pending approval thus far will deplete a large portion of the contingency.

Contingency amount from FY25 and unused travel funds from FY22 and FY23 will be pulled to increase the contingency available for FY24.

Contingency Paid Out

- Remaining
- DAS - FileNet
- MBS
- Linea - Ops
- Vitech



| Fiscal Year | Contingency - Planned Burndown |
|--------------|--------------------------------|
| 2022 | \$600,710 |
| 2023 | \$559,585 |
| 2024 | \$569,459 |
| 2025 | \$270,246 |
| 2026 | \$0 (Parallel Testing) |
| Total | \$2,000,000 |



Contingency Budget: Approved & Pending Change Orders

| Vendor | Amt | Date | Description | Approved Running Total | Remaining Contingency |
|-----------|------------|---------|--|-----------------------------|-----------------------|
| Linea | \$ 830,400 | 04/2021 | C21-116 Amendment #1 Additional Resources: Training, Op Support, BPI | *included in project budget | \$ 2,000,000 |
| Linea | \$ 230,400 | 04/2022 | C22-109 Amendment #2 Additional Resources: Operational Support for FY22 and FY23 | \$ 188,884 | \$ 1,811,116 |
| MBS | \$ 91,750 | 04/2022 | C22-111 Amendment #3 Subcontract DAS for FileNet Migration | \$ 280,634 | \$ 1,719,366 |
| MBS | \$ 42,068 | 07/2022 | C223-011 Amendment #4 Added scope to DAS FileNet Migration | \$ 322,702 | \$ 1,677,298 |
| MBS | \$ 58,172 | 12/2022 | C23-039 Amendment #5 Additional Jira tickets related to SCP | \$ 380,874 | \$ 1,619,126 |
| Linea | \$ 0 | 01/2023 | Additional Resource: Implementation Support - Track 3 | \$ 380,874 | \$ 1,238,252 |
| Carahsoft | \$ 60,000 | 02/2023 | Genesys IVR API integration, subcontractor GTS | \$ 440,874 | \$ 1,559,126 |
| Vitech | \$1,925 | | Pending - SSN indicator (work is completed) | \$ 442,799 | \$ 1,557,201 |
| Vitech | \$11,700 | | Pending - Data Conversion hours for FY23 | \$ 454,499 | \$ 1,545,501 |
| Vitech | \$702,000 | | Pending - Data Conversion hours for FY24 | \$ 1,156,499 | \$ 843,501 |
| MBS | \$104,781 | | Pending - Additional meetings and custom tables and rework | \$ 1,261,280 | \$ 738,720 |



Why are we where we are?

Linea, MBS, and Vitech are here to be transparent and accountable.
No decisions are expected from the SURS Board today.

Root Cause Issues

- Process complexity
- Resource constraints
- Scope clarifications
- Complex data structure



Process Complexity & Resource Constraints

Timeliness is best in all matters.

- Hesiod

Pension Code Complexity

SURS pension code is more complex than most pension agencies.

- Complex administration is a result of a more complex pension code.
- Process ownership and decision making is unclear
- Decision by consensus via meetings can cause delays
- Action item response times
- Project team is addressing process ownership and response times.

Key Staff Availability

SURS staff are stretched between daily work and project work.

- Validation testing is intensive
- Limited QA resources and experienced testers
- Holidays & PTO
- Lack of fully dedicated resources
- Weekly meeting cadence for configuration is low
- Other SURS projects are needed
- Proposed changes to sprint plan account for reducing overlaps.



Scope Clarifications

- Reciprocal estimates
 - Did not know business practice was tied to a legal obligation under the Reciprocal Agreement.
 - Original requirements include reciprocal estimates but do not document the specific retirement calculations for other reciprocal agencies.
- RSP functionality
 - Program was not fully built out during requirements gathering and RFP/procurement process.
 - There are still outstanding questions regarding desired functionality.

Linea focused on the
“what.”

Not the “how.”



Complex Data Structure

Atypical Functionality

Ticklers: queues, workflows, notes
FileNet annotation editability
Earnings are imputed based on contribution amounts.

Robust Custom Structure

Functionality will not be the same with a modern PAS
Service credit purchase
Participant account detail

Data Sources

Double to triple data sources expected for data tables
100 of 446 active tables being used (out of a total of 988 tables)
Creating the structural bridge between CSG and Velocity becomes more difficult
Increase in meeting times to get to decisions
Multiple custom tables needed
Rework due to mismatch between data and design



Possible Response to Address Concerns

- Extend the project to avoid overlaps with Validation Testing and to accommodate additional sprints.

Goal

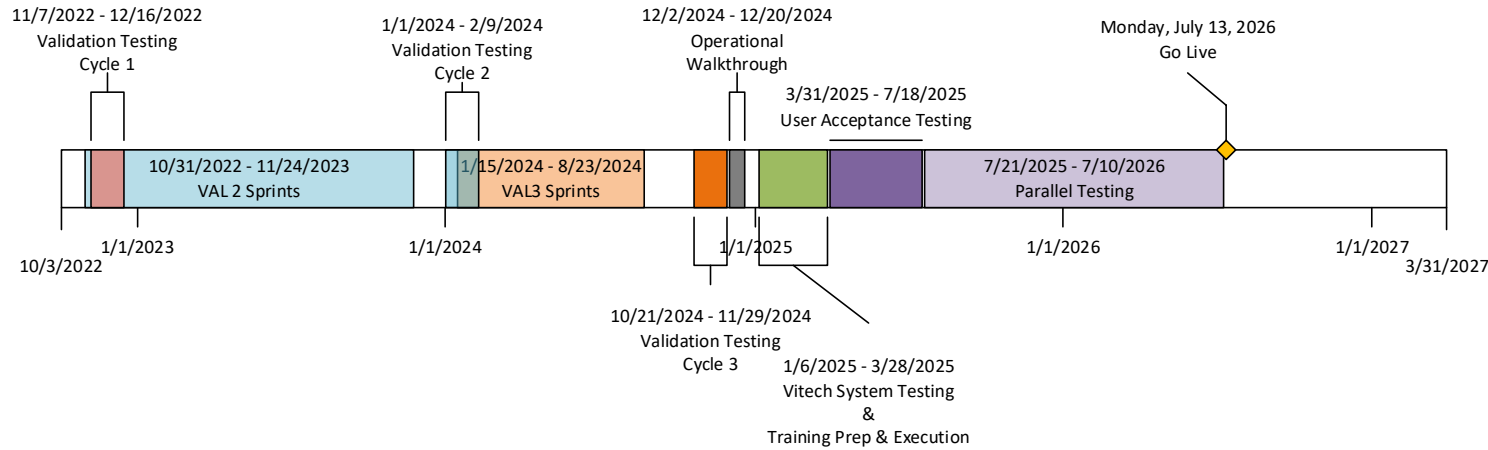
- Prevent future large change orders while meeting SURS's functionality needs.

Options Under Consideration

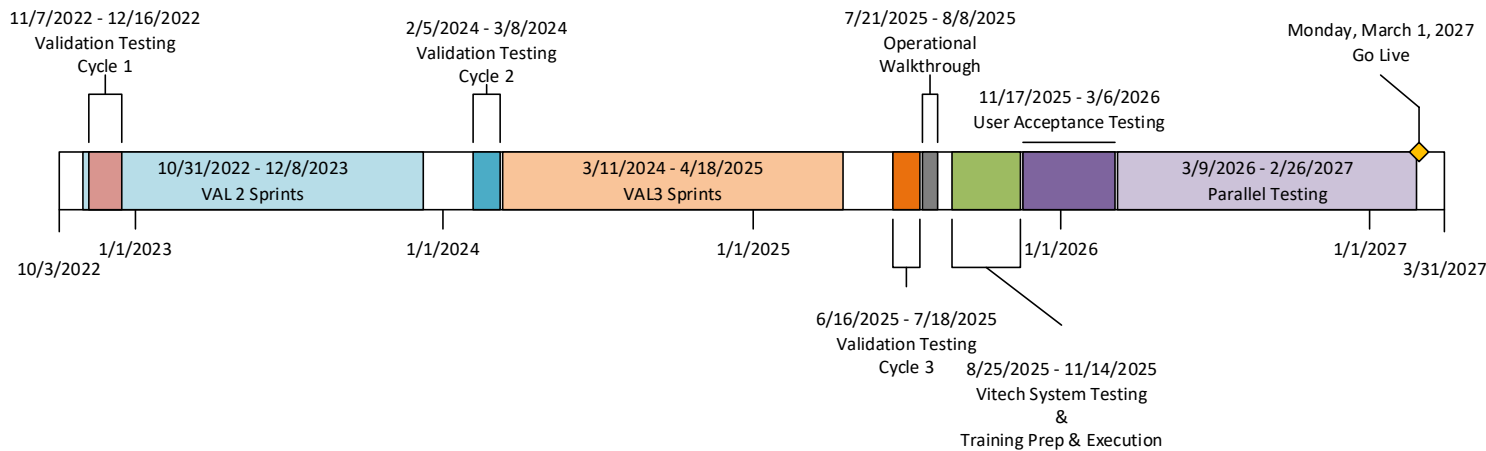
- Reduce scope
- Extend project duration



Original Project Schedule



Proposed Project Schedule



Project Schedule Comparison

- Total extension:
 - 7.5 months
- Sprints added for these topics:
 - Pension calculations
 - Reciprocal estimates
 - RSP
 - SCP
- Avoid VAL2 & VAL3 overlaps: 2 months



Costs

- We are still working on crunching the numbers.
- We will be ready to discuss details in September.
 - No additional monies needed for FY24.
 - A budget ask will be made for FY25 – FY27.

Expected change orders

Linea: Extension of current resources.

MBS: Extension of current resources, 2 additional data cycles, additional custom tables.

Vitech: Extension of current resources, additional resources, additional data conversion hours (already projected).



Mitigation Strategies to Prevent Further Changes

“An ounce of prevention is worth a pound of cure.”
- Benjamin Franklin

Go-live planning early and throughout the project

Manage scope more aggressively

Set expectations for minimum viable product

Focus more on preparation of sprints

Actively review test scenarios at start of sprint

Avoid overlaps between Validation Testing and holidays with sprints

Increase change management efforts

Increase face-to-face interactions

Communicate with SURS early and often to find alternatives to complexity



Risks to the Proposed Plan



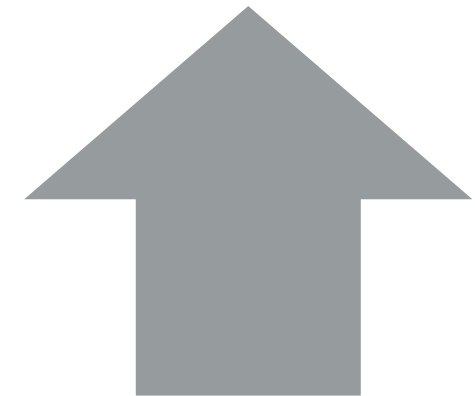
Loss of key resources

- SURS: Retirements
 - Multiple in early 2024
 - Impacts staff availability
- Vendors: Project reassignment and replacement of resources



Additional changes may be needed

- Legislation
 - Example: SB1235 impacts service credit calculations
- Underestimated complexities





Project Status Summary

- Project schedule changes are needed, though what that looks like is still under analysis.
- The contingency budget will not last for the whole project. Additional funds will be needed for FY2025-2026.
- Vendors and SURS are working collaboratively to keep the project on track and moving forward.



Next Steps & Looking Ahead

1. Agree upon a revised project schedule.
2. Approve related change orders.





LINEASOLUTIONS

Questions?





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To: Administration Committee
From: Tara R. Myers
Date: June 2, 2023
Re: Administrative Expense and Capital Budget – Fiscal Year 2024

Overview

Annually, the administrative expense and capital budget is submitted for approval. The administrative expense budget covers all operational costs of the Defined Benefit Plan, the Retirement Savings Plan (RSP), the Deferred Compensation Plan (DCP) and the Investment Department administrative expenses. The total proposed Fiscal Year 2024 administrative budget is \$36,228,452 or 4.2% more than the Fiscal Year 2023 budget of \$34,758,326.

The capital budget includes major initiatives, services, and purchases. The total proposed Fiscal Year 2024 capital budget is \$7,630,035 and includes the Pension Administration System (PAS) work to be performed in Fiscal Year 2024. The capital budget excluding the PAS is \$2,406,669 which is an increase of \$294,669 or 14% compared to the Fiscal Year 2023 budget of \$2,112,000 (excluding the PAS).

Recommendation

SURS staff recommends:

- **That the Fiscal Year 2024 Administrative Expense Budget be approved as presented.**
- **That the Fiscal Year 2024 Capital Expenditure Budget be approved as presented.**



**State Universities Retirement System
Fiscal Year 2024
Administrative Expense and Capital Budget**

**June 2, 2023
Administration Committee**



Date: June 2, 2023

To: Administration Committee

From: Suzanne M. Mayer, Executive Director and Tara R. Myers, Chief Financial Officer

Re: Fiscal Year 2024 SURS Administrative and Capital Budget

We are pleased to submit for your review and approval the Administrative Operating Expense and Capital Budget for the State Universities Retirement System (SURS) for the Fiscal Year 2024, which begins July 1, 2023, and ends June 30, 2024. The budget reflects the staff's commitment to provide services and programs in alignment with the SURS mission and strategic goals. Our staff has been resilient through the challenges of changes in administration, state funding and pension reform. The staff continues to service our members and employers with skill, professionalism, and passion.

The proposed Fiscal Year 2024 administrative budget of \$36,228,452 is a 4.2% increase over prior year's budget and a 18.4% increase over the prior year's projected actual. The total proposed Fiscal Year 2024 capital budget is \$7,630,035 and includes the Pension Administration System (PAS) implementation work to be performed in Fiscal Year 2024. The capital budget excluding the PAS is \$2,406,669 which is an increase of \$294,669 or 14% compared to the Fiscal Year 2023 budget of \$2,112,000.

Thank you to the management team for their assistance as we completed the Fiscal Year 2024 budget.

Sincerely,

A handwritten signature in black ink that reads 'Suzanne M. Mayer'.

Suzanne M. Mayer
Executive Director

A handwritten signature in black ink that reads 'Tara R. Myers'.

Tara R. Myers
Chief Financial Officer

**STATE UNIVERSITIES RETIREMENT SYSTEM
FISCAL YEAR 2024 CONSOLIDATED OPERATING BUDGET**

| | FY 2023 Budget | FY 2023 Projected Actual* | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|---|---------------------------|--------------------------------------|---------------------------|---|--|---|--|
| Salaries/Wages | 13,306,803 | 12,527,816 | 13,884,898 | 1,357,082 | 10.8% | 578,095 | 4.3% |
| Insurance | 4,149,234 | 3,679,552 | 4,168,255 | 488,703 | 13.3% | 19,021 | 0.5% |
| Pension | 1,602,889 | 1,446,800 | 1,627,435 | 180,635 | 12.5% | 24,546 | 1.5% |
| Payroll Tax | 192,949 | 166,188 | 201,331 | 35,143 | 21.1% | 8,382 | 4.3% |
| Less: PAS Related Payroll & Benefits | (333,958) | (389,727) | (450,000) | (60,273) | 15.5% | (116,042) | 34.7% |
| Total Personnel & Benefits | 18,917,916 | 17,430,629 | 19,431,919 | 2,001,290 | 11.5% | 514,003 | 2.7% |
| Statistical & Tabulation | 4,692,261 | 3,726,764 | 5,337,815 | 1,611,051 | 43.2% | 645,553 | 13.8% |
| Recruitment and Relocation | 200,000 | 142,000 | 200,000 | 58,000 | 40.8% | - | 0.0% |
| Medical/Disability Program | 3,000 | 3,642 | 5,000 | 1,358 | 37.3% | 2,000 | 66.7% |
| Auditing and Management Services | 148,802 | 20,405 | 118,902 | 98,497 | 482.7% | (29,900) | -20.1% |
| Professional & Technical | 1,052,332 | 782,206 | 1,212,452 | 430,246 | 55.0% | 160,120 | 15.2% |
| Actuarial Services | 361,000 | 319,500 | 355,600 | 36,100 | 11.3% | (5,400) | -1.5% |
| Legal Fees | 566,000 | 395,802 | 518,000 | 122,198 | 30.9% | (48,000) | -8.5% |
| Postage | 212,444 | 202,430 | 257,200 | 54,770 | 27.1% | 44,756 | 21.1% |
| Copying, Photographic & Printing | 38,990 | 54,808 | 48,500 | (6,308) | -11.5% | 9,510 | 24.4% |
| Surety Bond & Insurance | 581,000 | 575,963 | 576,000 | 37 | 0.0% | (5,000) | -0.9% |
| Freight & Express Mail | 4,908 | 5,219 | 5,000 | (220) | -4.2% | 92 | 1.9% |
| EDP Equipment Repairs & Maintenance | 239,000 | 181,218 | 256,468 | 75,251 | 41.5% | 17,468 | 7.3% |
| Office Rental | 32,000 | 30,570 | 30,000 | (570) | -1.9% | (2,000) | -6.3% |
| Office Equipment Repairs & Maintenance | 12,474 | 12,016 | 12,500 | 484 | 4.0% | 26 | 0.2% |
| Equipment Rental-Telephone | 302,150 | 291,360 | 293,150 | 1,790 | 0.6% | (9,000) | -3.0% |
| Subscriptions & Information Services | 55,841 | 37,127 | 100,554 | 63,427 | 170.8% | 44,713 | 80.1% |
| Office & Library Supplies | 60,683 | 49,916 | 55,740 | 5,824 | 11.7% | (4,943) | -8.1% |
| Meeting Expenses | 3,275 | 950 | 2,075 | 1,125 | 0.0% | (1,200) | -36.6% |
| Printing Supplies | 32,500 | 33,647 | 34,000 | 353 | 1.0% | 1,500 | 4.6% |
| EDP Supplies | 65,000 | 50,000 | 50,000 | - | 0.0% | (15,000) | -23.1% |
| EDP Operating Equipment | 25,300 | 25,050 | 167,220 | 142,170 | 567.5% | 141,920 | 560.9% |
| Registration & Conference Expenses | 57,191 | 24,190 | 67,825 | 43,635 | 180.4% | 10,634 | 18.6% |
| Employee Training Programs | 135,000 | 69,225 | 118,125 | 48,900 | 70.6% | (16,875) | -12.5% |
| Employer Training Programs | 420 | 420 | - | (420) | 0.0% | (420) | -100.0% |
| Board Travel | 25,000 | 20,000 | 25,000 | 5,000 | 25.0% | - | 0.0% |
| Board Meeting | 15,000 | 15,000 | 20,000 | 5,000 | 33.3% | 5,000 | 33.3% |
| Association Fees | 30,618 | 30,004 | 32,829 | 2,825 | 9.4% | 2,211 | 7.2% |
| Employee Tuition | 12,800 | 1,953 | 2,500 | 547 | 28.0% | (10,300) | -80.5% |
| Travel | 118,410 | 72,262 | 139,740 | 67,478 | 93.4% | 21,330 | 18.0% |
| Building & Grounds Maintenance | 327,944 | 315,231 | 277,700 | (37,531) | -11.9% | (50,244) | -15.3% |
| Utilities | 191,475 | 171,571 | 197,219 | 25,648 | 14.9% | 5,744 | 3.0% |
| Total Non-Personnel Expense | 9,602,818 | 7,660,449 | 10,517,113 | 2,856,664 | 37.3% | 914,295 | 9.5% |
| Subtotal-Defined Benefit Expense | 28,520,735 | 25,091,079 | 29,949,033 | 4,857,954 | 19.4% | 1,428,298 | 5.0% |
| Depreciation | 1,220,000 | 1,120,000 | 1,240,000 | 120,000 | 10.7% | 20,000 | 1.6% |
| Total Defined Benefit Expenses | 29,740,735 | 26,211,079 | 31,189,033 | 4,977,954 | 19.0% | 1,448,298 | 4.9% |
| Investment Administrative | 5,017,591 | 4,392,386 | 5,039,420 | 647,034 | 14.7% | 21,829 | 0.4% |
| Total Administrative Expense | 34,758,326 | 30,603,464 | 36,228,452 | 5,624,988 | 18.4% | 1,470,127 | 4.2% |
| Capital Budget | 7,235,010 | 6,773,883 | 7,630,035 | 856,152 | 12.6% | 395,025 | 5.5% |

* Projected Actual equals Actual amounts paid through April plus anticipated amounts to be paid in May and June.

**STATE UNIVERSITIES RETIREMENT SYSTEM
FISCAL YEAR 2024 PERSONNEL & BENEFITS BUDGET**

| | FY 2023 Budget | FY 2023 Projected Actual | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|--|---------------------------|-------------------------------------|---------------------------|---|--|---|--|
| Staff - excludes the Investments Dept | | | | | | | |
| Salaries/Wages | 13,306,803 | 12,527,816 | 13,884,898 | 1,357,082 | 10.8% | 578,095 | 4.3% |
| Insurance | 4,149,234 | 3,679,552 | 4,168,255 | 488,703 | 13.3% | 19,021 | 0.5% |
| Pension | 1,602,889 | 1,446,800 | 1,627,435 | 180,635 | 12.5% | 24,546 | 1.5% |
| Payroll Tax | 192,949 | 166,188 | 201,331 | 35,143 | 21.1% | 8,382 | 4.3% |
| Less: PAS Related Payroll & Benefits | (333,958) | (389,727) | (450,000) | (60,273) | 15.5% | (116,042) | 34.7% |
| Total Personnel & Benefits | 18,917,916 | 17,430,629 | 19,431,919 | 2,001,290 | 11.5% | 514,003 | 2.7% |

| | FY 2023 Budget | FY 2023 Projected Actual | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|---------------------------------------|---------------------------|-------------------------------------|---------------------------|---|--|---|--|
| Investment Dept only | | | | | | | |
| Salaries/Wages | 1,813,329 | 1,599,675 | 1,770,958 | 171,283 | 10.7% | (42,371) | -2.3% |
| Insurance | 269,518 | 253,051 | 277,650 | 24,599 | 9.7% | 8,132 | 3.0% |
| Pension | 214,046 | 192,123 | 203,803 | 11,681 | 6.1% | (10,243) | -4.8% |
| Payroll Tax | 26,293 | 23,386 | 25,679 | 2,292 | 9.8% | (614) | -2.3% |
| Less: PAS Related Payroll & Benefits | - | - | - | - | - | - | - |
| Total Personnel & Benefits | 2,323,187 | 2,068,235 | 2,278,090 | 209,855 | 10.1% | (45,097) | -1.9% |

| | FY 2023 Budget | FY 2023 Projected Actual | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|---------------------------------------|---------------------------|-------------------------------------|---------------------------|---|--|---|--|
| All SURS Staff Payroll | | | | | | | |
| Salaries/Wages | 15,120,132 | 14,127,491 | 15,655,856 | 1,528,365 | 10.8% | 535,724 | 3.5% |
| Insurance | 4,418,752 | 3,932,603 | 4,445,905 | 513,302 | 13.1% | 27,153 | 0.6% |
| Pension | 1,816,935 | 1,638,922 | 1,831,238 | 192,315 | 11.7% | 14,303 | 0.8% |
| Payroll Tax | 219,242 | 189,574 | 227,010 | 37,435 | 19.7% | 7,768 | 3.5% |
| Less: PAS Related Payroll & Benefits | (333,958) | (389,727) | (450,000) | (60,273) | 15.5% | (116,042) | 34.7% |
| Total Personnel & Benefits | 21,241,103 | 19,498,864 | 21,710,009 | 2,211,145 | 11.3% | 468,906 | 2.2% |

**STATE UNIVERSITIES RETIREMENT SYSTEM
FISCAL YEAR 2024 PERSONNEL & BENEFITS BUDGET**

| | FY 2023 Budget | FY 2023 Projected Actual* | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|---------------------------------------|---------------------------|--------------------------------------|---------------------------|---|--|---|--|
| All SURS Staff Payroll | | | | | | | |
| Salaries/Wages | 15,120,132 | 14,127,491 | 15,655,856 | 1,528,365 | 10.8% | 535,724 | 3.5% |
| Insurance | 4,418,752 | 3,932,603 | 4,445,905 | 513,302 | 13.1% | 27,153 | 0.6% |
| Pension | 1,816,935 | 1,638,922 | 1,831,238 | 192,315 | 11.7% | 14,303 | 0.8% |
| Payroll Tax | 219,242 | 189,574 | 227,010 | 37,435 | 19.7% | 7,768 | 3.5% |
| Less: PAS Related Payroll & Benefits | (333,958) | (389,727) | (450,000) | (60,273) | 15.5% | (116,042) | 34.7% |
| Total Personnel & Benefits | 21,241,103 | 19,498,864 | 21,710,009 | 2,211,145 | 11.3% | 468,906 | 2.2% |

FY 2023 Budget vs FY 2023 Projected Actual

| | FY 2023 Budget | FY 2023 Projected Actual* | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget |
|---------------------------------------|---------------------------|--------------------------------------|---|--|
| All SURS Staff Payroll | | | | |
| Salaries/Wages | 15,120,132 | 14,127,491 | (992,641) | -6.6% |
| Insurance | 4,418,752 | 3,932,603 | (486,149) | -11.0% |
| Pension | 1,816,935 | 1,638,922 | (178,012) | -9.8% |
| Payroll Tax | 219,242 | 189,574 | (29,667) | -13.5% |
| Less: PAS Related Payroll & Benefits | (333,958) | (389,727) | (55,769) | 16.7% |
| Total Personnel & Benefits | 21,241,103 | 19,498,864 | (1,742,239) | -8.2% |

FY 2023 Projected Actual vs FY 2024 Budget

| | FY 2023 Projected Actual* | FY 2024 Budget | \$ Increase from Proj Actual | % Increase from Proj Actual |
|---------------------------------------|--------------------------------------|---------------------------|---|--|
| All SURS Staff Payroll | | | | |
| Salaries/Wages | 14,127,491 | 15,655,856 | 1,528,365 | 10.8% |
| Insurance | 3,932,603 | 4,445,905 | 513,302 | 13.1% |
| Pension | 1,638,922 | 1,831,238 | 192,315 | 11.7% |
| Payroll Tax | 189,574 | 227,010 | 37,435 | 19.7% |
| Less: PAS Related Payroll & Benefits | (389,727) | (450,000) | (60,273) | 15.5% |
| Total Personnel & Benefits | 19,498,864 | 21,710,009 | 2,211,145 | 11.3% |

FY23 Projected actual vs FY24 Budget variance:

| | |
|---|------------------|
| Overall expected cost of salary increases | 652,000 |
| Compensation study salary increases | 230,000 |
| Budgeted cost for new position added in FY24 | 95,000 |
| FY24 planned promotions/reclassifications | 131,000 |
| Overlap of new CIO | 55,000 |
| Vacancies/other compensation/timing adjustments | 893,365 |
| 27th payroll in FY23 (not in FY24) | (528,000) |
| | 1,528,365 |

* Projected Actual equals Actual amounts paid through April plus anticipated amounts to be paid in May and June.

FY 2023 Budget vs FY 2023 Projected Actual

| | FY 2023 Budget | FY 2023 Projected Actual* | \$ Increase from Prior Yr Budget | % Increase from Prior Yr Budget | |
|--------------------------------------|-------------------|------------------------------|--|---------------------------------------|---|
| Statistical & Tabulation | 4,692,261 | 3,726,764 | (965,498) | -20.58% | The variance is a result of spending that did not get addressed in FY23 as planned, specifically in the IT department. Some of these items are being carried over into the FY24 budget. |
| Recruitment and Relocation | 200,000 | 142,000 | (58,000) | -29.00% | FY23 budget included fees for the recruitment/relocation of the CDO position as well as some high level IT positions. Not all positions were recruited in FY23. |
| Medical/Disability Program | 3,000 | 3,642 | 642 | 21.40% | |
| Auditing and Management Services | 148,802 | 20,405 | (128,397) | -86.29% | The Actuarial Audit (\$80k) was postponed until FY24. The timing of the Employer Audit (\$44k) was delayed to allow the employers to focus on the census audit being performed for the OAG. |
| Professional & Technical | 1,052,332 | 782,206 | (270,126) | -25.67% | Legal budgeted for a Board retreat (\$25k) as well as other special projects (\$57k) that were not incurred. The compensation study completed by HR was \$50k less than budgeted. Bank Fees were \$33k underbudget. There were also budgeted amounts in Admin for professional services that were not incurred (\$85K). |
| Actuarial Services | 361,000 | 319,500 | (41,500) | -11.50% | The extent that GRS is used for special projects varies from year to year. |
| Legal Fees | 566,000 | 395,802 | (170,198) | -30.07% | Costs related to Fiduciary Counsel were lower than budgeted. There were budgeted legal projects for the RSP/DCP plans related to auto enrollment and a private letter ruling that did not occur in FY23. |
| Postage | 212,444 | 202,430 | (10,014) | -4.71% | |
| Copying, Photographic & Printing | 38,990 | 54,808 | 15,818 | 40.57% | |
| Surety Bond & Insurance | 581,000 | 575,963 | (5,037) | -0.87% | |
| Freight & Express Mail | 4,908 | 5,219 | 311 | 6.35% | |
| EDP Equipment Repairs & Maintenance | 239,000 | 181,218 | (57,782) | -24.18% | Budgeted maintenance (firewall, switches and printer) was either not done in FY23 or the cost was less than anticipated. |
| Office Rental | 32,000 | 30,570 | (1,430) | -4.47% | |
| Office Equipment Repairs & Maintenan | 12,474 | 12,016 | (458) | -3.67% | |
| Equipment Rental-Telephone | 302,150 | 291,360 | (10,791) | -3.57% | |
| Subscriptions & Information Services | 55,841 | 37,127 | (18,714) | -33.51% | |
| Office & Library Supplies | 60,683 | 49,916 | (10,767) | -17.74% | |
| Meeting Expenses | 3,275 | 950 | (2,325) | -70.99% | |
| Printing Supplies | 32,500 | 33,647 | 1,147 | 3.53% | |
| EDP Supplies | 65,000 | 50,000 | (15,000) | -23.08% | |
| EDP Operating Equipment | 25,300 | 25,050 | (250) | -0.99% | |
| Registration & Conference Expenses | 57,191 | 24,190 | (33,001) | -57.70% | FY23 budget assumed that we would be back to attending conferences similar to pre-COVID. The spending is increasing but more slowly than anticipated. |
| Employee Training Programs | 135,000 | 69,225 | (65,775) | -48.72% | FY23 budget included training of current personnel on the new PAS and related systems as well as training on the new firewall/security system that has been added. Not all training was done this year, and some will carry over to the FY24 budget. |
| Employer Training Programs | 420 | 420 | - | 0.00% | |
| Board Travel | 25,000 | 20,000 | (5,000) | -20.00% | |
| Board Meeting | 15,000 | 15,000 | - | 0.00% | |
| Association Fees | 30,618 | 30,004 | (614) | -2.01% | |
| Employee Tuition | 12,800 | 1,953 | (10,847) | -84.75% | |
| Travel | 118,410 | 72,262 | (46,148) | -38.97% | FY23 budget assumed that we would be back to attending Board meetings and conferences in person. Travel did increase from the previous year, but slowly. More travel is anticipated in future years. |
| Building & Grounds Maintenance | 327,944 | 315,231 | (12,713) | -3.88% | |
| Utilities | 191,475 | 171,571 | (19,904) | -10.39% | |
| Total Non-Personnel Expense | 9,602,818 | 7,660,449 | (1,942,369) | -20.23% | |

* Projected Actual equals Actual amounts paid through April plus anticipated amounts to be paid in May and June.

FY 2023 Projected Actual vs FY 2024 Budget

| | FY 2023 Projected Actual* | FY 2024 Budget | \$ Increase from Actual | % Increase from Actual | |
|--|------------------------------|-------------------|-------------------------------|------------------------------|---|
| Statistical & Tabulation | 3,726,764 | 5,337,815 | 1,611,051 | 43.2% | The variance includes the carryover of items that were not addressed in FY23, plus additional cost related to the increasing reliance on 3rd parties to support the legacy system. Prior year unused contingency that is expected to be used in future years is also included here. |
| Recruitment and Relocation | 142,000 | 200,000 | 58,000 | 40.8% | FY24 budget includes fees for the recruitment and/or relocation of vacant senior level positions (including certain IT positions) as well as on-line recruiting services. |
| Medical/Disability Program | 3,642 | 5,000 | 1,358 | 37.3% | |
| Auditing and Management Services | 20,405 | 118,902 | 98,497 | 482.7% | The Actuarial Audit (\$80k) was postponed until FY24. The Employer Audit (\$44k) was also postponed to allow the employers to focus on the census audit being performed for the OAG. |
| Professional & Technical | 782,206 | 1,212,452 | 430,246 | 55.0% | Increases in the FY24 budget include \$60k for the Board election vendor, \$30k for a Lobbyist Services, and \$160k for death match services. The FY24 budget for MSR consultants increased by \$105k. The RSP/DCP Voya costs are expected to increase \$20k. The remaining balance of the variance is for various professional services. |
| Actuarial Services | 319,500 | 355,600 | 36,100 | 11.3% | The extent that GRS is used for special projects varies from year to year. An experience study is done every three years with the next one occurring in FY24 (\$58K). |
| Legal Fees | 395,802 | 518,000 | 122,198 | 30.9% | The increase for FY24 is due to the carryover of legal projects that were budgeted in FY23 but did not end up being completed, including projects related to RSP/DCP. |
| Postage | 202,430 | 257,200 | 54,770 | 27.1% | Increase of \$40k expected for member notification required by new IRS regulations |
| Copying, Photographic & Printing | 54,808 | 48,500 | (6,308) | -11.5% | |
| Surety Bond & Insurance | 575,963 | 576,000 | 37 | 0.0% | |
| Freight & Express Mail | 5,219 | 5,000 | (220) | -4.2% | |
| EDP Equipment Repairs & Maintenance | 181,218 | 256,468 | 75,251 | 41.5% | Variance due to an increase in fees for maintenance items across the organization. |
| Office Rental | 30,570 | 30,000 | (570) | -1.9% | |
| Office Equipment Repairs & Maintenance | 12,016 | 12,500 | 484 | 4.0% | |
| Equipment Rental-Telephone | 291,360 | 293,150 | 1,790 | 0.6% | |
| Subscriptions & Information Services | 37,127 | 100,554 | 63,427 | 170.8% | \$60k for Advisory and Research services for Internal Audit. |
| Office & Library Supplies | 49,916 | 55,740 | 5,824 | 11.7% | |
| Meeting Expenses | 950 | 2,075 | 1,125 | 0.0% | |
| Printing Supplies | 33,647 | 34,000 | 353 | 1.0% | |
| EDP Supplies | 50,000 | 50,000 | - | 0.0% | |
| EDP Operating Equipment | 25,050 | 167,220 | 142,170 | 567.5% | Increase for equipment that is up for replacement, including items that were previously considered capital but now will be expensed under the new capitalization policy. |
| Registration & Conference Expenses | 24,190 | 67,825 | 43,635 | 180.4% | The current year spend was still low as we return to "normal" before COVID conference attendance levels. Spending is expected to increase in FY24. |
| Employee Training Programs | 69,225 | 118,125 | 48,900 | 70.6% | Training of current personnel on the new PAS and related systems as well as training on the new firewall/security system has been added. Some training was carried over from the FY23 budget. |
| Employer Training Programs | 420 | - | (420) | 0.0% | |
| Board Travel | 20,000 | 25,000 | 5,000 | 25.0% | |
| Board Meeting | 15,000 | 20,000 | 5,000 | 33.3% | |
| Association Fees | 30,004 | 32,829 | 2,825 | 9.4% | |
| Employee Tuition | 1,953 | 2,500 | 547 | 28.0% | |
| Travel | 72,262 | 139,740 | 67,478 | 93.4% | FY24 budget takes into consideration that staff will be back to attending Board meetings and conferences fully in person whereas in FY23 we were a hybrid situation of in person and remote attendance. |
| Building & Grounds Maintenance | 315,231 | 277,700 | (37,531) | -11.9% | Janitorial services were reduced to three days a week rather than five. |
| Utilities | 171,571 | 197,219 | 25,648 | 14.9% | |
| Total Non-Personnel Expense | 7,660,449 | 10,517,113 | 2,856,664 | 37.3% | |

* Projected Actual equals Actual amounts paid through April plus anticipated amounts to be paid in May and June.

**STATE UNIVERSITIES RETIREMENT SYSTEM
FISCAL YEAR 2024 CAPITAL BUDGET**

Pension Administration System Replacement

| | |
|--|------------------|
| Vitech: PAS system and related services | 3,500,000 |
| Linea: PAS implementation oversight | 1,172,650 |
| MBS: PAS data cleansing & migration services | 100,716 |
| PAS related payroll & benefits | 450,000 |
| Total | <u>5,223,366</u> |

IT Infrastructure, Building Security and Technology

| | |
|--|----------------|
| LAN Switch Refresh | 303,700 |
| Cisco EOL equipment | 175,000 |
| Replacement of tap library | 114,489 |
| Cisco EOL equipment carry over from PY | 102,500 |
| PureStore additional Storage | 59,400 |
| Staff laptop replacements | 32,500 |
| Audio/Video | 30,000 |
| Migrate special filing from FileNet (software) | 25,000 |
| Misc. replacement furniture/equipment | 25,000 |
| Replacement batteries for APC UPS | 24,080 |
| Total | <u>891,669</u> |

Renovations 1901 A-Wing

| | |
|-------------------------|------------------|
| G/C demo & construction | 1,005,000 |
| Furniture & equipment | 200,000 |
| Architect fees | 25,000 |
| Total | <u>1,230,000</u> |

Building/Grounds Improvements

| | |
|--------------------------------|----------------|
| Parking lot replacement | 100,000 |
| Exterior lighting improvements | 100,000 |
| HVAC replacements | 50,000 |
| Noise remediation at 1901 | 35,000 |
| Total | <u>285,000</u> |

Grand Total 7,630,035



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Investment Department

To: Administration Committee
From: Douglas C. Wesley, CFA
Tara R. Myers, CPA
Date: June 2, 2023
Re: Investment Operations Budget – Fiscal Year 2024

Overview

SURS staff annually submits a budget for the Department's administrative expenses. The Department also presents a projection of investment management fees to be paid in accordance with fee agreements negotiated between SURS and each of its external managers. Staff routinely evaluates and monitors fees and expenses in an attempt to identify cost savings in the investment program.

Investment Department Budget: Administrative Expenses

The administrative expenses budget encompasses essential services for the management and fiduciary oversight of SURS' investments. The proposed fiscal year 2024 administrative expenses budget totals \$2.8 million. This proposed amount is around \$67,000 more than the \$2.7 million budget approved for fiscal year 2023. Of the \$2.8 million budget proposed for fiscal year 2024, \$2.5 million (or 91%) is allocated to three areas: investment consultants, external legal counsel, and the master custodian. Each of the major line items is discussed in greater detail below.

Investment Consulting

Investment consulting expenses for retainers are expected to increase by \$39,000 from the fiscal year 2023 budget. The increase is entirely attributable to the increase for the consultants that is outlined in the new consulting contracts for Meketa and Callan.

Investment Counsel

The investment counsel line increases by \$60,000 from the fiscal year 2023 budget and reflects updated rates from the recently completed RFP. The amount of legal expenses correlates to the amount of search activity to be completed and the resulting number of agreements to be drafted. Additional legal expenses may be incurred if revisions are made to existing agreement guidelines or if fees are renegotiated.

Custody, Performance & Databases

The custody, performance and database line decreased by \$38,000 from the fiscal year 2023 budget. The decrease is attributable to discontinuance of the Dynamo private market software.

Resources

The resources category includes costs related to corporate governance, education, training, conferences, reference materials, subscriptions, participation in research projects and studies, RFP search advertisements, and professional dues and memberships. This line item increases by \$6,000 from fiscal year 2023 mainly due to the budgeted educational expenses for tuition reimbursement & CFA exam fees.

Investment Travel

The travel line includes transportation, meals and lodging to attend due diligence meetings, conferences and Investment Committee and Board meetings for the Department's staff. The travel budget remained the same as the fiscal year 2023 budget.

| | FY 2023 Approved Budget | FY 2024 Proposed Budget | \$ Increase (Decrease) | % Increase (Decrease) |
|--------------------------------------|--|--|-----------------------------------|----------------------------------|
| Investment Consultant - Retainer | \$ 857,230 | \$ 896,500 | \$ 39,270 | 4.6% |
| Investment Counsel | 595,000 | 655,000 | 60,000 | 10.1% |
| Custody, Performance & Databases | 1,011,095 | 973,205 | (37,890) | (3.7)% |
| Resources | 171,079 | 176,625 | 5,546 | 3.2% |
| Travel | 60,000 | 60,000 | - | 0.0% |
| Total Administrative Expenses | \$ 2,694,404 | \$ 2,761,330 | \$ 66,926 | 2.5% |

Please note that the administrative expenses shown here do not include the Investment department personnel and benefits cost. Those costs are included in the amounts shown in the Administrative Expense & Capital Expenditure budget discussed prior to this presentation.

Investment Management Fees

The investment management fees proposed for fiscal year 2024 are based upon February 28th, 2023 asset values adjusted for any known or anticipated cash flows occurring after that date, including the expectation of receiving 100% of appropriated state contributions. In total, overall assets are projected to increase 3.36% from February 28th, 2023 to February 29th, 2024. This projection considers both the asset return assumptions and the expected outflows needed to cover member benefits in excess of the state appropriation. The projected investment assets were then applied to the manager's current fee schedule to determine the investment management fee for the fiscal year. Performance-based fees were estimated in total by weighting the actual annual performance fees incurred over the past three years. No attempt is made, when constructing the projection, to attribute performance-based fees to specific managers. While some factors affecting portfolio assets are reasonably predictable (e.g., state appropriations and projected benefit payments), other factors like market performance are inherently uncertain. A projected rate of growth was applied to each asset class as follows, based on the capital market assumptions provided by SURS' investment consultant:

| Asset Class Growth Rates | | |
|--------------------------|-------------------------------|------------------------------|
| Strategy | Asset Class | Projected Annual Growth Rate |
| Crisis Risk | Alternative Risk Premia | 5.60% |
| Crisis Risk | Long Duration | 5.00% |
| Crisis Risk | Long Volatility | 1.10% |
| Crisis Risk | Trend Following | 4.80% |
| Inflation Sensitive | TIPS | 4.50% |
| Non-Traditional Growth | Non-Core Farmland | 9.60% |
| Non-Traditional Growth | Non-Core Infrastructure | 9.50% |
| Non-Traditional Growth | Non-Core Real Assets | 8.30% |
| Non-Traditional Growth | Private Equity | 11.00% |
| Principal Protection | Fixed Income (Core) | 3.70% |
| Stabilized Growth | Core Infrastructure | 7.80% |
| Stabilized Growth | Core Real Estate | 6.50% |
| Stabilized Growth | Emerging Market Debt - Hard | 6.40% |
| Stabilized Growth | Emerging Market Debt - Local | 6.00% |
| Stabilized Growth | Fixed Income (Public Credit) | 5.40% |
| Stabilized Growth | Fixed Income (Private Credit) | 9.00% |
| Stabilized Growth | Options Strategies | 7.20% |
| Traditional Growth | Global Equity | 9.20% |

The Fiscal Year 2023 Investment Management Fee Budget, accepted by the Investment Committee in June 2022, was \$103.2 million with actual expenditures currently anticipated to be approximately \$112.3 million. Assuming returns are in line with long-term asset class forecasts, fees are projected to be approximately \$134.8 million in fiscal year 2024. Total investment management fees are projected to increase by \$31.6 million from fiscal year 2023 budgeted fees and include fees paid directly from alternative asset funds. This increase is attributable to the continued growth of the private credit portfolio and the non-traditional growth portfolio. Also contributing to the increase is the decision not to treat funds under discretionary managers as underlying GP fees due to the LP contracts being directly with SURS. Private equity fees with Aksia GPs are estimated to be \$23.1 million and private credit fees with Meketa are estimated to be \$7.2 million, which account for the majority of the budget increase.

| | FY 2023 Accepted Fees | FY 2024 Proposed Fees | \$ Increase (Decrease) | % Increase (Decrease) |
|---|-----------------------|-----------------------|------------------------|-----------------------|
| Asset-Based Fees | \$ 94,593,400 | \$ 122,935,179 | \$ 28,336,779 | 30.0% |
| Performance-Based Fees | 7,612,900 | 10,917,700 | 3,304,800 | 43.4% |
| Securities Lending Fees | 525,900 | 478,300 | (47,600) | (9.1)% |
| STIF Fees | 457,000 | 434,400 | (22,600) | (4.9)% |
| Total Investment Management Expenses | \$ 103,189,200 | \$ 134,765,579 | \$ 31,571,379 | 30.6% |
| Total fees as a % of assets (basis points) | 42.1 bps | 57.1 bps | | |

Recommended Action

Consistent with past years, staff is recommending the approval of the Investments Administrative Expense Budget for the fees and expenses relating to the operations and oversight of the SURS Investment Program.

Staff is recommending acceptance of the Investment Management Fees Budget. As a result of the challenge of accurately projecting the asset value of accounts and continual developments that affect performance-based fees, the SURS Board of Trustees has previously chosen to accept rather than approve the recommendation from staff. Staff is recommending the practice of accepting the budget be continued for fiscal year 2024.

Recommendations

SURS staff recommends that:

- **The Investment Department Administrative Expense Budget for fiscal year 2024 be approved as presented.**
- **The projected Investment Department Investment Management Fees for fiscal year 2024 be accepted as presented.**

Investment Operations Budget: Administrative Expenses

| | FY 2023 Approved Budget | FY 2024 Proposed Budget | \$ Increase (Decrease) | % Increase (Decrease) |
|--------------------------------------|--|--|-----------------------------------|----------------------------------|
| Investment Consultant - Retainer | \$ 857,230 | \$ 896,500 | \$ 39,270 | 4.6% |
| Investment Counsel | 595,000 | 655,000 | 60,000 | 10.1% |
| Custody, Performance & Databases | 1,011,095 | 973,205 | (37,890) | (3.7)% |
| Resources | 171,079 | 176,625 | 5,546 | 3.2% |
| Travel | 60,000 | 60,000 | - | 0.0% |
| Total Administrative Expenses | \$ 2,694,404 | \$ 2,761,330 | \$ 66,926 | 2.5% |

Investment Operations Budget: Investment Management Fees

| | FY 2023 ACCEPTED | | | FY 2024 PROPOSED ¹ | | |
|--|----------------------------|---------------|-----------------------|-------------------------------|---------------|-----------------------|
| | ACCEPTED | FY 2023 | FY 2023 | PROPOSED | FY 2024 | FY 2024 |
| | Acct Size (\$ millions) | Fee % | Fee \$ | Acct Size (\$ millions) | Fee % | Fee \$ |
| TRADITIONAL GROWTH | \$ 8,894.4 | 0.177% | \$ 15,742,000 | \$ 8,133.0 | 0.187% | \$ 15,191,000 |
| STABILIZED GROWTH | 3,947.9 | 0.500% | 19,723,000 | 4,010.6 | 0.708% | 28,413,930 |
| CORE REAL ASSETS | 1,398.6 | 0.828% | 11,583,000 | 1,985.3 | 0.800% | 15,876,680 |
| CREDIT | 2,003.7 | 0.322% | 6,448,000 | 2,025.3 | 0.619% | 12,537,250 |
| OPTION/HEDGE STRATEGIES | 545.6 | 0.310% | 1,692,000 | - | 0.000% | - |
| PRINCIPAL PROTECTION | 1,796.2 | 0.112% | 2,016,000 | 2,270.1 | 0.106% | 2,416,000 |
| NON-TRADITIONAL GROWTH | 3,843.2 | 0.765% | 29,389,400 | 4,256.8 | 1.262% | 53,714,249 |
| PRIVATE EQUITY | 2,902.3 | 0.361% | 10,482,000 | 3,207.7 | 1.001% | 32,108,134 |
| NON-CORE REAL ASSETS | 940.9 | 2.010% | 18,907,400 | 1,049.1 | 2.059% | 21,606,115 |
| INFLATION | 1,212.9 | 0.007% | 85,000 | 1,105.9 | 0.007% | 78,000 |
| CRISIS RISK | 4,792.2 | 0.577% | 27,638,000 | 3,810.5 | 0.607% | 23,122,000 |
| Investment Management Asset-Based Fees | \$ 24,486.8 | 0.386% | \$ 94,593,400 | \$ 23,586.9 | 0.521% | \$ 122,935,179 |
| Investment Management Performance Fees based on three-year average | | 0.031% | \$ 7,612,900 | | 0.046% | \$ 10,917,700 |
| Securities Lending Expense | | 0.002% | \$ 525,900 | | 0.002% | \$ 478,300 |
| Short Term Invested Funds (STIF) Fee | | 0.002% | \$ 457,000 | | 0.002% | \$ 434,400 |
| Total Investment Management Fees | | 0.421% | \$ 103,189,200 | | 0.571% | \$ 134,765,579 |

¹ Management fees are only projected for investment mandates that have been approved as of March 31, 2023.

STATE UNIVERSITIES RETIREMENT SYSTEM

STATEMENT OF INVESTMENT EXPENSES

Fiscal Year 2023 to Date
July 1, 2022 through March 31, 2023

| Investment Managers | 1st Qtr | 2nd Qtr | 3rd Qtr | Total | Budget | Balance |
|---|--------------|--------------|--------------|--------------|--------------|------------|
| Adams Street Partners | \$ 1,071,240 | \$ 1,069,685 | \$ 1,062,653 | \$ 3,203,578 | \$ 4,098,000 | \$ 894,422 |
| Aksia CA LLC | 229,167 | 250,000 | 250,000 | 729,167 | 980,000 | 250,833 |
| Advent Int'l GPE X | - | - | 218,407 | 218,407 | - | (218,407) |
| Avance Investment Management | 111,364 | 116,456 | 116,456 | 344,276 | - | (344,276) |
| Base10 Partners | 358,539 | 197,784 | 197,784 | 754,107 | - | (754,107) |
| Bregal Sagemount | 196,355 | 375,671 | 314,027 | 886,053 | - | (886,053) |
| Clearlake Capital Partners | (226,618) | (43,133) | 129,152 | (140,599) | - | 140,599 |
| Cortec Group | - | 234,384 | - | 234,384 | - | (234,384) |
| GGV Capital | 153,000 | 153,000 | 153,000 | 459,000 | - | (459,000) |
| Great Hill Equity Partners | - | 13,972 | 15,961 | 29,933 | - | (29,933) |
| Harvest Partners | 291,942 | 52,283 | 55,364 | 399,589 | - | (399,589) |
| Hg Capital | 196,057 | 227,816 | 259,152 | 683,025 | - | (683,025) |
| Inflexion Private Equity Partners | 99,464 | 86,085 | 96,525 | 282,074 | - | (282,074) |
| MBK Partners | 218,151 | 130,344 | 130,344 | 478,839 | - | (478,839) |
| Nautic Partners | 94,223 | 116,305 | 123,678 | 334,206 | - | (334,206) |
| Oak HC-FT Partners | 71,672 | 421,566 | 286,885 | 780,123 | - | (780,123) |
| OceanSound Partners | - | - | 34,977 | 34,977 | - | (34,977) |
| One Equity Partners | 96,727 | 96,617 | 114,815 | 308,159 | - | (308,159) |
| One Rock Capital | 96,575 | 156,154 | 55,773 | 308,502 | - | (308,502) |
| Orchid Asia Group | 149,589 | 151,233 | 151,233 | 452,055 | - | (452,055) |
| Reverence Capital Partners | 82,842 | 142,832 | 147,927 | 373,601 | - | (373,601) |
| Rubicon Technology Partners | 177,612 | 487,500 | 325,000 | 990,112 | - | (990,112) |
| Stellex Capital Management | 92,825 | 92,851 | 92,844 | 278,520 | - | (278,520) |
| Thoma Bravo | - | 125,000 | 125,000 | 250,000 | - | (250,000) |
| TorreyCove Co-Inv | 22,738 | 25,923 | 25,923 | 74,584 | - | (74,584) |
| Alinda Capital Partners | 14,887 | 1,347 | (1,933) | 14,301 | 75,000 | 60,699 |
| Ariel Investments | 272,389 | 281,056 | 292,704 | 846,149 | 1,240,000 | 393,851 |
| Aspect Capital | 584,956 | 692,257 | 635,137 | 1,912,350 | 3,128,000 | 1,215,650 |
| Ativo Capital Management | 182,495 | 183,909 | 194,234 | 560,638 | 904,000 | 343,362 |
| Basis Investment Group | 239,562 | 248,279 | 233,198 | 721,039 | 1,000,000 | 278,961 |
| Bivium Capital Partners | 445,167 | 444,775 | 465,315 | 1,355,256 | 2,008,000 | 652,744 |
| BlackRock | 235,896 | 248,464 | 255,419 | 739,779 | 1,026,000 | 286,221 |
| Blackstone Group | 984,555 | 959,208 | 1,125,396 | 3,069,158 | 4,355,000 | 1,285,842 |
| Blue Vista Capital Management | 63,996 | 44,196 | 61,243 | 169,435 | 346,500 | 177,065 |
| Brasa Capital Management | 184,301 | 104,712 | 141,151 | 430,164 | 560,000 | 129,836 |
| Brookfield Asset Management | 443,455 | 451,314 | 439,659 | 1,334,428 | 1,890,000 | 555,572 |
| Cabot Properties | 187,500 | 233,611 | 256,318 | 677,429 | 1,500,000 | 822,571 |
| Campbell & Company | 720,817 | 673,279 | 612,791 | 2,006,887 | 3,015,000 | 1,008,113 |
| Carlyle Property Partners | 321,658 | 329,997 | 574,479 | 1,226,134 | 1,216,000 | (10,134) |
| Channing Capital Management | 146,886 | 150,895 | 158,705 | 456,485 | 738,000 | 281,515 |
| Clarion Partners | - | 18,142 | 248,036 | 266,178 | - | (266,178) |
| Credit Suisse Asset Management | 406,456 | 338,888 | 311,194 | 1,056,538 | 1,630,000 | 573,462 |
| Crow Holdings Realty Partners | 133,502 | 136,373 | 130,990 | 400,865 | 1,532,500 | 1,131,635 |
| Dune Real Estate Partners | 369,174 | 360,140 | 330,424 | 1,059,738 | 1,596,900 | 537,162 |
| EARNEST Partners | 278,381 | 283,298 | 310,107 | 871,785 | 1,332,000 | 460,215 |
| Ember Infrastructure Partners | 234,548 | 149,226 | 149,222 | 532,996 | 875,000 | 342,004 |
| Fairview Capital Partners | 130,442 | 144,745 | 152,829 | 428,016 | 500,000 | 71,984 |
| Franklin Templeton Real Estate Advisors | 53,560 | 193,755 | 105,846 | 353,161 | 655,828 | 302,667 |
| Garcia Hamilton & Associates | 127,349 | 125,338 | 127,920 | 380,608 | 523,000 | 142,392 |
| GI Partners | 215,681 | 120,315 | 123,947 | 459,943 | 249,000 | (210,943) |
| Gladius Capital Management | 134,591 | 136,176 | 140,287 | 411,054 | 785,000 | 373,946 |
| GlobeFlex Capital | 159,071 | 166,043 | 161,223 | 486,337 | 789,000 | 302,663 |
| GQG Partners | 281,860 | 283,593 | 279,142 | 844,595 | 1,320,000 | 475,405 |
| Heitman Capital Management | 556,065 | 570,014 | 543,907 | 1,669,986 | 2,277,000 | 607,014 |
| Homestead Capital | 207,177 | 225,000 | 217,081 | 649,258 | 900,000 | 250,742 |
| J.P. Morgan Asset Management | 581,453 | 604,838 | 595,977 | 1,782,267 | 2,484,000 | 701,733 |
| LM Capital Group | 117,606 | 115,457 | 117,896 | 350,959 | 491,000 | 140,041 |
| Lombard Odier Asset Management | 405,923 | 397,994 | 282,005 | 1,085,922 | 1,619,000 | 533,078 |

STATE UNIVERSITIES RETIREMENT SYSTEM

STATEMENT OF INVESTMENT EXPENSES

Fiscal Year 2023 to Date
July 1, 2022 through March 31, 2023

| <u>Investment Managers</u> | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>Total</u> | <u>Budget</u> | <u>Balance</u> |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|
| Longpoint Realty Partners | \$ 162,055 | \$ 163,836 | \$ 160,860 | \$ 486,751 | \$ 650,000 | \$ 163,249 |
| LongTail Alpha | 1,243,487 | 1,216,564 | 1,218,166 | 3,678,217 | 5,752,000 | 2,073,783 |
| Long Wharf Capital | 149,589 | 151,233 | 151,233 | 452,055 | 600,000 | 147,945 |
| Macquarie Infrastructure Partners | 282,908 | 286,323 | 290,932 | 860,162 | 1,399,000 | 538,838 |
| Meketa Investment Group | 95,187 | 95,528 | 96,625 | 287,340 | 384,000 | 96,660 |
| Ares Management | - | 15,053 | 182,027 | 197,080 | - | (197,080) |
| Crayhill Capital Management | (13,683) | 57,095 | 61,344 | 104,756 | - | (104,756) |
| Fortress Capital Formation | 17,745 | 22,648 | 11,571 | 51,964 | - | (51,964) |
| Neuberger Berman Private Credit | 164,186 | 309,082 | 376,285 | 849,553 | - | (849,553) |
| Silver Rock Financial | 206,221 | 301,575 | 380,952 | 888,748 | - | (888,748) |
| Turning Rock Partners | 21,198 | 84,129 | 83,088 | 188,415 | - | (188,415) |
| Mesirow Financial Investment Management | 377,500 | 377,500 | 377,500 | 1,132,500 | 1,949,000 | 816,500 |
| Mondrian Investment Partners | 276,525 | 350,040 | 386,333 | 1,012,897 | 1,477,000 | 464,103 |
| Muller and Monroe Asset Management | 150,000 | 129,348 | 100,000 | 379,348 | 480,000 | 100,652 |
| Neuberger Berman | 787,544 | 703,335 | 639,322 | 2,130,200 | 2,851,000 | 720,800 |
| Newport Capital Partners | 35,980 | 28,078 | 26,870 | 90,929 | 300,000 | 209,071 |
| Nipun Capital | - | 36,392 | 135,168 | 171,560 | - | (171,560) |
| Northern Trust Asset Management | 18,357 | 16,454 | 18,942 | 53,753 | 75,000 | 21,247 |
| Oaktree Capital Management | 36,041 | 35,208 | 34,410 | 105,659 | 220,000 | 114,341 |
| One River Asset Management | 803,750 | 1,206,789 | 1,205,625 | 3,216,164 | 5,048,000 | 1,831,836 |
| PAAMCO | 5,804 | 5,013 | 4,583 | 15,400 | - | (15,400) |
| Pantheon Ventures | 808,717 | 847,102 | 839,296 | 2,495,115 | 3,375,000 | 879,885 |
| Parametric Clifton | 93,364 | 95,458 | 89,061 | 277,883 | 291,000 | 13,117 |
| PIMCO | 1,766,995 | 1,584,595 | 1,537,208 | 4,888,798 | 7,128,000 | 2,239,202 |
| Prologis | 490,780 | 488,875 | 457,796 | 1,437,452 | 1,552,000 | 114,548 |
| Pugh Capital Management | 114,622 | 113,303 | 114,542 | 342,466 | 470,000 | 127,534 |
| Ramirez Asset Management | 126,181 | 123,139 | 126,099 | 375,419 | 532,000 | 156,581 |
| RhumbLine Advisers | 56,562 | 57,451 | 59,693 | 173,706 | 258,000 | 84,294 |
| Solstein Capital | 78,725 | 80,740 | 87,966 | 247,430 | 345,000 | 97,570 |
| State Street Global Advisors | 8,130 | 6,481 | 305 | 14,916 | 41,000 | 26,084 |
| StepStone Real Estate | 29,568 | 29,568 | 29,568 | 88,704 | 112,922 | 24,218 |
| Strategic Global Advisors | 340,510 | 383,297 | 415,853 | 1,139,660 | 1,761,000 | 621,340 |
| T. Rowe Price | 328,100 | 355,950 | 379,236 | 1,063,286 | 1,897,000 | 833,714 |
| Torchlight Investors | 175,000 | 175,000 | 230,639 | 580,639 | 700,000 | 119,361 |
| UBS Realty Investors | 159,420 | 163,057 | 158,616 | 481,092 | 659,000 | 177,908 |
| Versor Investments | 579,007 | 527,527 | 516,424 | 1,622,958 | 2,397,000 | 774,042 |
| Wellington Management Company | 382,917 | 390,995 | 414,731 | 1,188,643 | 1,932,000 | 743,357 |
| Westbrook Partners | 266,455 | 259,439 | 162,453 | 688,347 | 1,068,750 | 380,403 |
| William Blair | - | - | 84,454 | 84,454 | - | (84,454) |
| Xponance Global Equity | 175,246 | 224,194 | 341,408 | 740,847 | 715,000 | (25,847) |
| Xponance Non-U.S. Equity | 131,623 | 89,332 | 788 | 221,743 | 535,000 | 313,257 |
| Short Term Invested Funds (STIF) | 119,982 | 117,430 | 88,349 | 325,760 | 457,000 | 131,240 |
| Performance Fees | 714,226 | 4,285,190 | 2,819,549 | 7,818,965 | 7,612,900 | (206,065) |
| <u>Securities Lending Expense</u> | <u>36,389</u> | <u>62,631</u> | <u>87,067</u> | <u>186,087</u> | <u>525,900</u> | <u>339,813</u> |
| Total Investment Management Fees | \$ 24,807,735 | \$ 30,148,934 | \$ 29,237,663 | \$ 84,194,331 | \$ 103,189,200 | \$ 18,994,869 |
| <u>Investment Administrative Expenditures:</u> | | | | | | |
| Investment Consultant (includes Legal Counsel) | \$ 291,888 | \$ 233,065 | \$ 340,058 | \$ 865,012 | \$ 1,452,230 | \$ 587,218 |
| Custody, Performance & Databases | 272,854 | 266,665 | 245,518 | 785,037 | 1,011,095 | 226,058 |
| <u>Resources, Travel</u> | <u>40,107</u> | <u>56,242</u> | <u>43,654</u> | <u>140,002</u> | <u>231,079</u> | <u>91,077</u> |
| Total Investment Administrative Expenditures | \$ 604,849 | \$ 555,972 | \$ 629,230 | \$ 1,790,051 | \$ 2,694,404 | \$ 904,353 |
| <u>Total Investment Expenditures</u> | <u>\$ 25,412,584</u> | <u>\$ 30,704,906</u> | <u>\$ 29,866,893</u> | <u>\$ 85,984,383</u> | <u>\$ 105,883,604</u> | <u>\$ 19,899,221</u> |