

February 2017



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

## Board Appoints Richard Stensrud as SERS Executive Director

On February 17, the SERS Board appointed Richard Stensrud as executive director. Stensrud is the seventh executive director since the System's founding in 1937.

Before joining SERS, Stensrud served as the chief executive officer of the \$8 billion Sacramento County Employees' Retirement System (SCERS) for 13 years. In addition to his duties as CEO of SCERS, he was chair of the Legislative Committee for the State Association of County Retirement Systems.

A [press release](#) detailing Stensrud's professional and educational background can be found on SERS' website at [www.ohsers.org](http://www.ohsers.org). He is expected to join the staff in late May.



Richard Stensrud, right, with Board Chair Barbra M. Phillips, left

## Investments Quarterly Report

David Lindberg of Wilshire Associates, SERS' general investment consultant, provided the Board with an update of current investment conditions in the U.S. and SERS' fourth quarter investment results.

Currently, the U.S. is in its fourth longest economic expansion of the last 100 years. The country's Gross Domestic Product has been positive for 90 straight months. U.S. equity has produced eight straight years of positive returns since the Great Recession, and various sources have reported strong fund flows into equities.

In the fourth quarter, SERS' total fund returned 0.75% net of fees, which was slightly below the policy benchmark of 0.79%. Over the last 12 months, the total fund returned 7.37% net of fees, which is above the 6.78% benchmark. All portfolios, except global fixed income, produced positive returns for the quarter.

## Total Fund Update

<b>TOTAL FUND BALANCE</b>		
<b>November 30</b>	<b>December 31</b>	<b>Difference</b>
\$12.59 billion	\$12.78 billion	▲ \$190 million
<b>TOTAL FUND RETURN (net of fees)</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 4.52%	▲ 7.37%	▲ 5.28%
<b>TOTAL FUND RETURN vs. BENCHMARK</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 0.31%	▲ 0.58%	▲ 0.30%

## Multi-Asset Strategies Portfolio Review

Investment staff presented an annual review of the multi-asset strategies (MAS) portfolio focusing on the portfolio's performance, role, and FY2017 goals.

The long-term return target for MAS is to outperform the three-month U.S. Treasury bill, plus 4.5% net of fees. The custom benchmark is the HFRI Fund of Funds Index, plus 1%.

Over the last year, SERS has increased exposure to the event driven and tactical trading sectors, while reducing exposure to the equity long/short, relative value, and risk focus/multi-strategy sectors. Over the last 12 months, the MAS portfolio has realized a return of 2.20% net of fees, outperforming the benchmark by 0.49%.

Since 2012, SERS' investment staff has been able to reduce management fees by 30 basis points and incentive fees by approximately 250 basis points. Several initiatives to reduce fees have been implemented, including direct negotiations with managers. Chief Investment Officer Farouki Majeed sent a letter to all MAS managers asking for better fee alignment. As a result, investment staff is currently in discussion with some managers on alternate fee arrangements.

The primary role of MAS portfolio is to reduce risk while adding diversification, which is particularly favorable in times of increased market volatility.

Staff objectives for FY2017 include evaluating the role of the MAS portfolio and implementing any changes as a result of the asset liability study; evaluating liquid alternative hedge fund strategies; engaging managers in discussions about aligning management and incentive fee structures with performance; and issuing a request for proposal for a hedge fund consultant, which is required every five years.

## Health Care Update

Anne Jewel, SERS' director of health care services, summarized the results of SERS' 2016 health care experience and provided an outlook for 2017.

In 2016, SERS' Health Care Fund decreased \$38 million to \$370 million. Two main contributors to the decrease were minimal income from investment returns and no funding from employer contributions, beyond the surcharge. Fortunately, medical expenses decreased for both the Medicare and non-Medicare plans, which helped to offset increases in prescription drug costs (5% for Medicare and 7% for non-Medicare). Much of the prescription drug cost increase was the result of an increase in the cost of expensive specialty drugs.

For 2017, the outlook seems more positive than 2016 with the exception of a couple of unknowns. On the plus side, the employer surcharge remains steady and is one of the most important revenue streams for health care. Additionally, medical expenses should continue to decrease as the wraparound enrollment, which reached 5%, should help decrease costs along with early Medicare enrollment. The unknowns are investment returns and an unpredictable federal health care regulatory environment.

## Executive Director's Update

### ***Governor Signs H.B. 520***

In early January, Governor Kasich signed H.B. 520, the pension funds' omnibus clean-up bill. The bill will be effective April 6, 2017. It will require certain disability recipients under age 65 who enroll in SERS' health care to apply for early Medicare and SSDI. It also contains a change to the Alternative Retirement Plan (ARP) mitigating rate, which will affect approximately 200 SERS members.

### ***SMART is Ready to "Go Live"***

The new SERS Member and Retiree Tracking (SMART) pension administration computer system is on target for implementation on February 27, 2017. Staff has been training over the last several months in preparation for the transition.

To ensure a smooth transition to the new system, the member, retiree, and employer portals on the SERS website will be unavailable until early March.

## Board Approves New and Amended Administrative Rules

The Board has approved a new rule that addresses changes made in the five-system omnibus clean-up bill, H.B. 520. The bill requires certain SERS disability benefit recipients enrolled in SERS' health care program to apply for Social Security Disability Insurance (SSDI) and early Medicare. This new rule gives SERS the authority to exempt individuals from the application requirements for good cause shown, such as circumstances under which application would be duplicative, unnecessary, or overly burdensome for the recipient.

In addition, the Board has approved an amendment to the rule concerning remittance of employee and employer contributions by employers. Once SMART is implemented, remittance of contributions and payments, and reporting of payroll data will change from monthly to per pay.

As a reminder to employers, there will be no penalties during the adjustment period. We will notify employers prior to reinstatement of penalties.

## Monthly Retirement and Survivor Benefit Transactions

For March, the SERS Board approved 802 active members for service retirements, and 29 survivor benefits for spouses and/or dependents.

## March Meeting Dates

The next Board meeting will take place Thursday, March 16, and Friday, March 17

(if necessary) at 8:30 a.m.

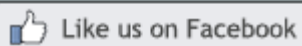
The *Board Highlights* are a high-level summary of select information discussed during SERS' Board meetings. Details of all Board discussions are contained in the *Board Meeting Minutes*.

Previous *Highlights* and *Minutes* can be accessed on our website at: [www.ohsers.org/board-of-trustees](http://www.ohsers.org/board-of-trustees).

[Click here](#) to view and download a printer-friendly version of this month's *Board Highlights*.

Retiring in the next 12 months? [Click here](#) to register for a *Retiring with SERS* webinar.

**CALL** toll-free 800-878-5853 / **VISIT** [www.ohsers.org](http://www.ohsers.org)



#### SERS Retirement Board:

Barbra M. Phillips, *Chair*

Madonna D. Faragher, *Vice-Chair*

Jeffrey T. DeLeone, *Appointed Member*

James Haller, *Employee-Member*

Christine D. Holland, *Employee-Member*

Catherine D. Moss, *Retiree-Member*

James A. Rossler, Jr., *Appointed Member*

Daniel L. Wilson, *Appointed Member*

Beverly A. Woolridge, *Retiree-Member*