



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **APRIL 2017**

#### **SERS Awaiting Word on Pension Legislation**

SERS' government relations and executive staff have been busy meeting with legislators in anticipation of a COLA bill being introduced in the House and/or Senate in the next few weeks.

SERS' Board, on the advice of its actuary, approved the [COLA changes](#) for the following reasons:

1. At 66% funded over 28 years for pensions:
  - a. SERS is susceptible to moving outside of the state's mandated 30-year funding window (if this happens, more extensive benefit changes will likely be needed)
  - b. The fund has little cushion to weather another major financial recession (SERS dropped to 62% funded from 82% funded following the Great Recession of 2008)
2. SERS' investment consultants have predicted that investment returns could be below expectations for up to 10 years
3. SERS is unable to provide any employer contributions to support health care until the pension fund reaches 70% funded

According to SERS' actuary, 60% of the System's unfunded liabilities are attributable to retirees. This is because life expectancy rates have continued to increase after they retired. The COLA changes address the financial challenges SERS faces, and equally and fairly affect active members and retirees.

Importantly for retirees, all COLAs received before January 1, 2018 will continue to be paid. There is no clawback.

#### **Fixed Income Portfolio Review**

Staff presented a review of the fixed income portfolio focusing on current market conditions, the portfolio's performance, and progress on FY2017 goals.

The fixed income portfolio's role is to provide stable income and risk diversification to the total fund. It is one of two diversifying aspects in the total portfolio, the other being private equity.

The portfolio is currently outperforming in the 1-year, 3-year, 5-year, and 10-year time periods. Interest rates are expected to rise before the end of the calendar year. Staff has tried to address this by underweighting fixed income and hiring active managers that will take a defensive position in the portfolio.

To rectify the underweighted US Treasuries in FY2016, staff hired a US government bond manager in FY2017 as a slightly defensive position. Staff also implemented new manager guidelines by moving one manager from core to core plus, hiring a new core manager, and terminating a core plus manager. The portfolio currently consists of four core managers, four core plus managers, and one emerging market debt (EMD) manager.

Staff will continue to monitor the portfolio, and implement any changes as a result of the asset allocation study, if necessary.

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#### RETIREMENT BOARD

BARBRA M. PHILLIPS  
*Chair, Employee-Member*

MADONNA D. FARAGHER  
*Vice-Chair, Employee-Member*

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*

## Total Fund Update

TOTAL FUND BALANCE		
January 31	February 28	Difference
\$12.94 billion	\$13.03 billion	▲ \$90 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 7.52%	▲ 2.87%	▲ 5.91%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.40%	▲ 0.06%	▲ 0.37%

### SERS Commits to Private Equity Investment

The Staff Investment Committee approved a \$50 million commitment to Silver Lake V, a large cap technology-focused buyout strategy within SERS' private equity portfolio.

This investment will be funded from cash reserves.

### Health Care Update

Anne Jewel, SERS' director of health care services, gave a presentation on health care planning for 2018.

In addition to discussing a Request for Information issued to identify organizations that provide second opinions and guidance on physician quality, Jewel also discussed a Request for Proposal issued for a consultant to advise and assist SERS' health care services department with the selection of health care coverage vendors.

Currently, enrollment in the Marketplace Wraparound Coverage has reached a total of 276 retirees, exceeding SERS' first year goal, which was 5% of the non-Medicare population. For our other initiative of assisting health care members with qualifying for early Medicare before age 65 as the result of a disability, 78 applications have been approved, 123 applications are pending decision with Social Security, and 25 applications are pending reconsideration.

Final recommendations for 2018 planning will be made next month. The Board may vote on the recommendations in June.

On the topic of health care reform and SERS, Jewel also has been accompanying Laurel Johnson, SERS' senior government relations officer, on numerous legislative visits. She has been asking Ohio's congressional delegation to promote stabilizing the federal Marketplace.

### Board Education Session Centers on the Economy

Alan Bowser, Senior Client Advisor and Patrick Dimick, Senior Portfolio Strategist with Bridgewater Associates, presented an education session with SERS' Board on the workings of the U.S. economy. SERS has been invested with Bridgewater for nine years.

The central theme of Bridgewater's presentation was that the creation and servicing of debt plays a central role in the U.S. economy. The bursting of the debt bubble led to the Great Recession and eight years later the economy is still struggling with debt levels.

Bridgewater believes that the current economic environment is uncertain because there are significant risks:

- Central banks have kept long-term interest rates low for a long time, which limits their ability to ease a future economic downturn
- Rising global populism could lead to further Eurozone fragmentation

- c. It is difficult to predict U.S. policy with the Trump administration just getting organized

In this type of environment, Bridgewater advises clients to diversify their investments, stay liquid in order to enter and exit strategies quickly, and have an investment game plan for a wide range of economic scenarios.

#### **Executive Director's Update**

##### **New Long-Term Lease Keeps SERS' Building Full**

SERS' Building Services department reported that an existing tenant in SERS' headquarters building recently signed a 15-year lease to remain at the site. Currently, SERS' staff occupies about 70% of the building while the other 30% is completely leased to nine businesses. Additionally, SERS rents out parking spaces to neighboring businesses. In FY2018, rental income from leases and parking spaces is expected to be nearly \$1 million.

#### **Monthly Retirement and Survivor Benefit Transactions**

For April, the SERS Board approved 102 active members for service retirements, and 6 survivor benefits for spouses and/or dependents.

#### **May Meeting Dates**

The next Board meeting will take place Thursday, May 18, and Friday, May 19 (if necessary) at 8:30 a.m.