

SERS Retirement Board Meeting Minutes

May 19, 2022

The nine hundredth and forty-ninth meeting of the Retirement Board of the School Employees Retirement System was held in the boardroom at 300 E. Broad Street, Columbus, Ohio, and streamed via Zoom videoconferencing on Thursday, May 19, 2022.

Pledge of Allegiance

The SERS Retirement Board meeting convened at 8:30 a.m. with the Pledge of Allegiance.

Roll Call

Following the Pledge of Allegiance, the roll call was as follows: Barbra Phillips, Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, and Daniel Wilson. Also attending in person was Lisa Reid, representative of the Ohio Attorney General's Office and various members of the SERS staff. Attending virtually was several SERS staff members and members of the public.

Consent Agenda

The consent agenda for May 19, 2022, included:

- Minutes from the **April 21, 2022, Board Meeting**
- Summary of Investment Transactions for the period of **March 1, 2022, through March 31, 2022.**
- Retirement Report – Superannuation and Survivor Benefits and Special Cases
- Disability Report - Approval of Disability Benefits, Disapproval of Disability Benefits, Disapproval of Appeal for Disability Benefits, Termination of Disability Benefits – Any Occupation, Approval of Appeal of Termination– Any Occupation, and Approval of Appeal of Termination on Personal Appearance – Any Occupation

Catherine Moss moved and James Haller seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, May 19, 2022. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

Investment Report

Quarterly Performance Report – Wilshire Associates

Joanna Bewick of Wilshire Associates provided an executive summary of the investment performance as of March 31, 2022. Ms. Bewick reported that SERS total fund continues to consistently beat benchmarks and total value add is 2.3% over the benchmark.

Despite the -1.50% investment performance for the quarter, SERS' portfolio performance against its benchmark was positive. Ms. Bewick noted SERS' consistency of performance over the last 20 quarters in which there were only three that were below the benchmark. Bewick also said that SERS' diversified portfolio was well positioned to counter the effects of inflation. Over the last year, staff reduced exposure to equities and increased exposure to private equity, private credit, commodities, and real assets, all of which perform better during inflationary periods.

In response to Board questions about what staff could do to further position the portfolio to withstand inflationary pressures, Ms. Bewick stated SERS' policy allocation remains good with exposure to equities below that of its peers, and it has significant cash available to purchase equities if opportunities arise. CIO Farouki Majeed also noted that staff will continue to "work the edges" of its portfolio allocations but that big changes are not necessary.

SERS' historical Total Fund returns continue to rank in the top 10% of peer groups over the 1-, 3-, 5-, and 10-year periods. Over one year, SERS ranked 6th; over three years, SERS ranked 6th; over five years, SERS ranked 3rd, and over 10 years, SERS ranked 2nd.

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Annual Overlay Program Review

Farouki Majeed, SERS Chief Investment Officer, provided an update on the annual Overlay Program. Mr. Majeed reported the overlay program is designed to directly enhance Total Fund performance and is not funded through asset class policy allocations. It is a zero net exposure, long/short program requiring only a small cash funding for futures/forwards collateral and margin requirements. Exposures are managed within a notional dollar limit and active risk targets. The program's performance objective is to add 10 to 20 basis points to Total Fund performance on a three-to-five-year time horizon within a 1% tracking error limit. The Overlay Program consists of two sub-programs, Tactical Asset Allocation (TAA) and Active Currency.

As of March 31, 2022, the TAA program has added six basis points of excess return annually to the total fund since inception. Overall, the active currency program has realized a net loss of \$16.6 million since inception due to two legacy mandates, but the remaining manager, P/E Global, has generated inception-to-date gains of \$4.4 million.

Mr. Majeed stated the cumulative gains of the Overlay Program are \$49.1 million as of March 2022. Below is a summary of the Overlay Program's performance on Total Fund performance.

Overlay Program Impact (Net-of-Fees)	FYTD Return	1 Yr Return	3 Yr Return	5 Yr Return
Tactical Allocation - Impact to Total Fund	0.08	0.10	0.07	0.06
Currency Overlay - Impact to Total Fund	0.13	0.12	(0.06)	(0.02)
Total Overlay Impact to Total Fund	0.21	0.22	0.01	0.04

Annual Portfolio Review – Private Equity

SERS Chief Investment Officer Farouki Majeed and SERS Investment Staff Adam Messerschmitt presented the Private Equity portfolio review for 2021. Mr. Majeed reported as of February, the portfolio was \$690.6M and is comprised of 18 funds. This represents 3.9% of the total fund. Staff continues to focus on increasing the allocation to 5% by making new investments that fit within SERS' investment policy, ensuring appropriate risk and return characteristics are present with the new target allocation, and making new investments that generate consistent income for the Total Fund.

Quarterly Investment Report

SERS Chief Investment Officer, Farouki Majeed, advised the board that he would skip the quarterly investment report as much of the information was already covered in the Quarterly Performance report provided by Wilshire Associates.

Annual Investment Plan – FY23 Draft Discussion

Mr. Majeed continued his presentation and discussed the SERS Annual Investment Plan for FY23. The Board's Statement of Investment Policy (SIP) requires the Chief Investment Officer prepare and present to the Board for its approval an Annual Investment Plan (Plan).

As in prior years, the Plan reviews the economic environment based upon consensus reports from leading sources, SERS' asset allocation target and long-term performance objective for each portfolio, last year's objectives and accomplishments, a review of the market conditions over the last year and objectives for FY2023. Implementation Guidelines for each asset class portfolio were included to provide further details on how each portfolio will be managed in the coming year relative to portfolio construction parameters and risk limits.

Mr. Majeed continued stating this Plan is meant to be a living document subject to adjustment during the year. If circumstances change or opportunities arise during the year, items will be discussed with the Board which may lead to intra-year changes to the Plan or Strategy Statements.

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Mr. Majeed reported SERS major strategic goals remain unchanged. The focus will continue to be value added performance, risk management, cost effectiveness and maintenance of an investment program that meets or exceeds investment objectives over the long-term, continue to implement the asset allocation framework and targets approved by the Board and implement the leverage program as conditions and return expectations improve, and research new strategies in renewable energy, infrastructure, and commodities and implement on a selective basis.

Mr. Majeed concluded his report by stating as of March 31, 2022, SERS' Total Fund had net returns of 10.65% over five years and 9.47% over ten years exceeding the actuarial rate of 7.00%. Staff will remain focused on adding value relative to policy benchmarks and managing risks and costs. The economic environment and market outlook have changed significantly in 2022, posing downside risks to investment returns. Inflation has spiked to 8.5% and the 10-year yield has increased to 2.8% in short order. This likely will cause GDP growth to slow and higher discount rates will depress asset valuations. Expected returns will be lower than the returns experienced over recent periods.

Investment Department Incentive Program

Mr. Majeed continued by discussing the FY23 Investment Incentive Plan. The purpose of the Incentive Plan ("Plan") is to provide a compensation package that allows SERS to recruit and retain talent in the Investment Department that is necessary to maximize investment returns. The objectives of the Plan are to reinforce a performance philosophy and attract and retain high quality talent. The performance period for purposes of the Plan will coincide with SERS' fiscal year, i.e. July 1 through June 30 of each year.

Mr. Stensrud added there are no changes to the plan and this is a continuation of the plan presented last year. Mr. Stensrud continued stating the calculation is done by a 3rd party and reviewed by our internal auditor. The plan is objectively obtained and is not a result of staff input. This is based on a consistent contribution of value add by investment staff. As stated by Farouki, increasing the fund by 1% above benchmark is adding \$170 million to the fund. We believe this is a tremendous return on investment as the Investment staff have introduced added value to the fund. This investment incentive plan is a prudent approach and is appropriate with added oversight. Mr. Stensrud wanted to emphasize this is not the investment staff rewarding themselves.

After several questions and a brief discussion, Hugh Garside moved and James Rossler seconded the motion to approve the Investment Department Incentive Plan for fiscal year ending June 30, 2023, which replaces the Fiscal Year 2022 Investment Department Incentive Plan approved May 20, 2021. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

Executive Director's Report

ORSC

Richard Stensrud, SERS Executive Director, reported the ORSC met on May 12, 2022. Mr. Stensrud presented a draft FY23 budget to the Council at the May meeting. However, the bulk of discussion at the meeting was on the quarterly investment performance presented by RVK. The next regularly scheduled meeting is Thursday, June 9th subject to the call of the chair.

Advocacy Groups

Mr. Stensrud continued, reporting the annual OASBO/SERS update with their Legislative and Education Finance Committees was held as a virtual event on May 6th and 53 OASBO members attended via Zoom. This number exceeds the number of attendees normally expected to attend in person and was the highest turnout for an OASBO meeting.

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SERS staff provided a system overview and update about current issues and provided a look ahead. SERS Board Members Matthew King and James Rossler attended, and both agreed the information presented was well received and both thought the presentation was outstanding.

Mr. Stensrud also noted the SERO Annual Meeting took place on May 10th. This was the first time they had gathered in person in three years. SERS Health Care Director Christi Pepe and Mr. Stensrud provided an overview of the system and the health care program. Board Member Frank Weglarz attended the meeting and noted SERS staff who attended arrived early, were available to answer questions, and provided such a great presentation that that wasn't much need for follow-up questions. Mr. Weglarz reported the SERS staff did a great job.

Ohio General Assembly

Mr. Stensrud reported that work continues as SERS staff monitors the activities of the Ohio General Assembly as they approach their planned summer break. Mr. Stensrud also reported that efforts to introduce and pursue legislation on the SERS CBBC (Contribution-Based Benefit Cap) proposal are ongoing. SERS staff hope to have some positive news soon on this front.

Federal Legislation

Mr. Stensrud reported there are no new developments on the WEP reform front and other WEP and GPO repeal bills don't appear to have any momentum currently. There does not appear to be a way to "piggyback" onto another bill as there is not an agreement between both sides. SERS staff will continue to monitor WEP activity and will update the board with any new developments.

Medicare Part B Premiums

Mr. Stensrud reported SERS staff continue to monitor any news from CMS regarding any possible adjustments to the Medicare Part B premium. The rate for 2022 was a significant increase from last year due to anticipated use of a new Alzheimer's drug which has somewhat been mitigated through federal action. This new drug will not be getting coverage. It has been suggested that these recent developments might lead CMS to revise the current premium moving forward. SERS staff will keep the board informed of any changes.

Mr. Stensrud also reported that SERS health care staff has prepared comments for submission to the Federal Trade Commission (FTC) in response to a request for feedback on the practices of Pharmacy Benefit Managers (PBM). Most of the FTC submissions have been critical of many of the practices of PBMs relating to individual experiences and the relationships with independent pharmacies. SERS comments focus on the ways PBMs have helped facilitate the prescription drug coverage plan and added value to our health care program. This program is helpful to our retirees and our benefits. SERS wants to educate congress on the good being done by PBMs. SERS staff will keep the board informed of any updates.

Board Smart Training Session

Mr. Stensrud continued his report stating recently, board members had a training session with the leaders of Board Smart. Board Smart is the only comprehensive governance online learning resource specifically for public pension trustees and executives. This portal was created by experts who understand the unique issues faced by public retirement plans. A few SERS board members attended the 1st training session and felt the training seems to be a valuable learning tool and the board looks forward to additional training opportunities.

Enterprise Risk Management Testing

SERS ERM staff performed a series of exercises on May 18 to test the cloud based back up system. The testing involved several members of IT staff and Risk Management team. Testing was very successful and will continue as the ERM team and IT builds out the program. SERS hopes to never need the program but will continue to develop it in case the need arises.

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Chief Financial Officer Interviews

SERS leadership staff have been having panel interviews with potential CFO candidates to replace the current CFO, Tracy Valentino, who is retiring this summer. There is a great candidate pool in place and progress is being made. SERS leadership wants to build on past success from a fiscal standpoint and looks forward to presenting a final candidate to the board in the next month or two.

Member Webinars and Employer Trainings

SERS staff have hosted several member webinars and employer trainings with more in the future. Some upcoming trainings are:

- Live Employer Webinars
 - June 14 – Pick Up Plans – Will cover the basics on types of plans, requirements, and procedure for notifying SERS via the eSERS online portal.
 - August 30 – Covered Membership – Will discuss SERS covered membership guidelines.
- eSERS Live Demos
 - Monthly eSERS training via webinar demonstration will take place on June 8, August 3 (possible hands-on format at SERS), and October 11.
- Soundbite Webinars (Short webinars on timely topics)
 - July 27 – Year End Processes – Will cover process requirements and timelines for ER statements and ER surcharge.
- Employer 101 Workshops – Will cover all aspects of employer requirements. These workshops target new payroll personnel and veteran payroll staff who want a refresher course)
 - June 28 – West Chester
 - July 12 – Beachwood
 - July 13 – Perrysburg
 - August 2 – Columbus (SERS Offices)

Mr. Stensrud also stated member webinars were held on May 11 and May 14. Each webinar had over 100 attendees. One member provided positive feedback, stating *“Thank you for doing this. My wife attended with me, and she said she wished her company would have offered something like this when she retired. They were on their own.”* Board member James Rossler also provided positive feedback, stating *“SERS came and did a presentation (for his school district) and it was phenomenal. SERS staff did a great job and we really appreciated the in-person meeting with staff.”*

Mr. Stensrud concluded, stating SERS will remain committed to being a high-touch, transparent organization.

The board took a break at 10:08 a.m.

The board reconvened at 10:16 a.m.

Executive Session

Catherine Moss moved and James Haller seconded the motion that the board convene in Executive Session pursuant to R.C. 121.22 (G)(5) to discuss a matter required to be kept confidential by law. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

The board convened in executive session at 10:17 a.m.

The board reconvened in open session at 10:43 a.m.

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Healthcare Report

Christi Pepe, SERS Director of Health Care Services, introduced Alisa Bennett, FSA, President, and Consulting Actuary from Cavanaugh McDonald, who presented 2023 health care rates for SERS' self-insured medical plans and prescription drug coverage.

Ms. Bennett reviewed the data and assumptions to calculate the 2022 base rates. Last year, Ms. Bennett said a blended two-year period of medical and prescription data was used due to the COVID-19 pandemic.

Based on more recent data, Ms. Bennett noted that COVID-19 is expected to have a minimal impact on 2022 and 2023 costs. However, the impact of long-term COVID patients remains unknown.

Ms. Bennett continued her presentation and provided recommendations for 2023 rates. It was noted that the new Express Scripts contract, which is projected to reduce program prescription drug costs in 2023, was incorporated into the proposed rates.

Ms. Pepe, followed Ms. Bennett's presentation with a program status update, rate expectations, and other considerations for 2023.

Ms. Pepe noted that the Health Care Fund has grown due to program and contract changes made during the past five years, along with good investment returns in FY 2021. The March fund value is at \$612 million. Annual projected expenses remain steady.

Reduced enrollment in the non-Medicare plan continues to help control costs; in particular, transitioning enrollees out of the non-Medicare group plan into Medicare and the Wraparound HRA has been helpful. The Wraparound HRA's current enrollment level saves the health care program \$2.4 million annually.

Dental and vision plan enrollment continues to grow year to year. Rates for these two plans remain the same for 2023, along with no plan changes.

Medical plan premium expectations are that Aetna non-Medicare and Medicare plan premiums will remain unchanged for 2023. However, a 1% premium increase for the non-Medicare AultCare PPO plan is proposed.

Proposed benefit changes for the Aetna Medicare Plan (PPO) include lower primary care office visit and outpatient short-term rehabilitation co-pays. In addition, for the non-Medicare Wraparound HRA, the staff recommendation is to increase the benefit limit to the new federally authorized amount of \$1,950.

Ms. Pepe introduced two Premium Discount proposals for Board input. The first is to increase the qualifying income for the SERS Premium Discount program to 175% of the FPL from 150%. For an individual to qualify at 175%, household income would be at or below \$23,783 annually.

The second proposal is to allow applicants to continue premium discount enrollment year after year without reapplication. A review found that 98% of enrollees are determined eligible year after year. Of the 2% (approximately 15 people) who were ineligible following eligibility, a new Social Security benefit or Social Security increase was the primary reason. Still, the annual income for these individuals remained less than \$23,000.

Final rates, program and benefit changes will be brought before the Board in June.

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Executive Director's Report (continued)

SERS Mission and Values Statement

Mr. Stensrud continued and provided an update on the SERS Mission and Values statement(s). SERS has had Mission, Vision and Values statements for over 20 years. The original versions were adopted in 2002 and were modified in 2005/2006 and 2013. A Core Beliefs statement was added in 2013. The originating source of the changes in the statements has varied (sometimes Staff, sometimes the Board, and in 2005/2006, a consultant facilitated effort with focus groups including advocacy groups). In all cases the revised language was presented to the Board for approval or endorsement. The current versions of the Mission, Vision, Values and Core Beliefs have been in effect since 2013.

Mr. Stensrud provided some additional information regarding the evolution of these statements over time:

- The Mission statement adopted in 2005/2006 was as follows: “The mission of SERS is to provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.”
- The Mission statement adopted in 2013 (still in effect) is: “To provide our membership with valuable lifetime pension benefit programs and services.”
- The Values statement adopted in 2005/2006 was:
 - Member and Retiree Focus
 - Integrity
 - Open Communication
 - Continuous Innovation
 - Teamwork
- The Values statement adopted in 2013 (still in effect) is:
 - Focus
 - Accountability
 - Communication
 - Collaboration
 - Innovation
- The Core Beliefs were added in 2013 for the purpose of providing more specific guidelines for Staff action. The rationale was that both the Values and the Core Beliefs are Staff-directed, but the Values represent higher level aspirations, and the Core Beliefs express more specific standards/expectations. The Core Beliefs are:
 - We are here to serve.
 - We are open and honest.
 - We are professional.
 - We are dedicated.
 - We are enthusiastic.
 - We are high performers.
 - We are valuable partners.
 - We are member advocates.
 - We are innovators.
 - WE ARE SERS.

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As part of the Review/Renew/Reconnect analysis that was initiated upon return to onsite operations, a mixed team of Staff (drawn from across departments and across position levels) was tasked with assessing whether any changes should be considered with respect to the Mission, Vision, Values and Core Belief statements. No changes were proposed to the Mission, Vision and Core Belief statements, but the team has proposed changes to the Values statement. The proposed new Values statement is:

- Focus on Service
- Be Accountable
- Support Collaboration
- Respect Differences and Practice Inclusion
- Remain Resourceful and Embrace Change

Mr. Stensrud asked the board if they would prefer to discuss the changes at a later sustainability session. After discussion, the board decided it would be best to wait until the CBBC legislation is approved then schedule a sustainability session to revisit this topic at a later date.

SERS FY23 Administrative Budget Review

SERS Chief Financial Officer, Tracy Valentino, provided the board with a draft version of the FY2023 SERS administrative budget for their consideration. Ms. Valentino stated the FY23 draft budget presentation is not a request for approval. This FY23 draft budget presentation is an opportunity for the board to review the budget policy, what the budget proposal is, and for staff to answer any questions board members may have.

Ms. Valentino reminded the board that no action is required at today's meeting. Ms. Valentino reported many things are affecting the 2023 budget; some of those things are the SERS Compensation Study, the Technology Committee and the recommendations coming from the Technology committee. However, SERS staff has remained transparent and has had several conversations with the board and provided presentations over the last several months that will eliminate any surprises.

After a robust discussion, the board thanked Ms. Valentino for her presentation.

Final Filing of Proposed Administrative Rule

Mr. Stensrud introduced SERS Legal Counsel, Dawn Viggiano. Ms. Viggiano discussed with the Retirement Board filing with JCARR the following proposed amended rule: 3309-1-10 Mandatory direct deposit, that has been reviewed by JCARR and is ready for final adoption by the Board. This rule change requiring direct deposit for members allows SERS to save money on postage and printing and provides a secure way to send funds to members. At the present time, there are still 600 paper checks still being mailed out; a few years ago, it was over 2,000. SERS has been successful migrating members to direct deposit as this benefits the members by having certainty that payments will be received.

Catherine Moss moved and Frank Weglarz seconded that proposed amended rule 3309-1-10 be adopted. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

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Board Communication and Policy Issues

CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2022 **

AUDIT COMMITTEE MEETINGS

June 15, 2022 - 2:30 p.m. (Weds.)
September 14, 2022 - 2:30 p.m. (Weds.)
December 14, 2022 - 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

June 16, 2022 - 7:30 a.m. (Thurs.)
September 15, 2022 - 7:30 a.m. (Thurs.)
December 15, 2022 - 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

June 16, 2022 - 12:30 p.m. (Thurs.)
September 15, 2022 - 12:30 p.m. (Thurs.)
December 15, 2022 - 12:30 p.m. (Thurs.)

BOARD MEETINGS

June 16-17, 2022 – 8:30 a.m. (Thurs. and Fri.)
***** July 22, 2022 – 8:30 a.m. (Friday) *****
September 15-16, 2022 – 8:30 a.m. (Thurs. and Fri.)
October 20-21, 2022 – 8:30 a.m. (Thurs. and Fri.)
November 17-18, 2022 – 8:30 a.m. (Thurs. and Fri.)
December 15-16, 2022 – 8:30 a.m. (Thurs. and Fri.)

****NOTE:** *The above dates are tentative.*

***** The July 2022 board meeting will take place on Friday, July 22, 2022, instead of Thursday. *****

Continued or New Business

The Board continued with the review of continued or new business.

Adjournment

Barbra Phillips moved to adjourn to meet on Thursday, June 16, 2022, at 8:30 a.m. for the SERS regularly scheduled Retirement Board meeting.

The board meeting adjourned at 12:49 p.m.

Barbra Phillips, Board Chair

Richard Stensrud, Secretary