



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

APRIL 2024

Global Private Credit Portfolio Review

Investment staff provided the Board an overview of SERS' global private credit portfolio.

The global private credit allocation is set at 5% with a permissible range of 3% to 7%.

As of February 29, 2024, the portfolio had a market value of \$1.1 billion and its allocation was 6.2% of the Total Fund, an increase of \$100 million and 0.4% from last year.

The role of private credit in the Total Fund is to provide risk-adjusted returns in excess of those provided by publicly traded fixed income securities and to generate a consistent cash yield. Its performance objective is to provide returns in excess of the 90-day Treasury bill rate, plus 4.5% net of fees.

For the one-year period ending February 29, 2024, the portfolio returned 10.1% net of fees, which outperformed the policy benchmark by 23 basis points. It generated a portfolio income yield of 11.7% and a cash distribution yield of 6.3%.

The portfolio's capital commitments totaled \$2.1 billion, with \$125 million deployed during the last 12 months. These new capital commitments included two new funds with existing managers.

There are several strategies within private credit investments, each with different risk and return parameters. SERS' private credit portfolio is made up of three different strategies: direct lending, with a current allocation of 87%; stressed/distressed debt, with a current allocation of 9%; and asset-based lending/specialty finance with a current allocation of 4%.

SERS' direct lending investments target direct loans to small-to-medium sized companies that are secured by cash flows. Stressed/distressed debt includes loans made to companies undergoing operational challenges or operating in out-of-favor industries. Asset based lending/specialty finance is comprised of investments backed by financial and hard assets; these types of investments may include auto loans, real estate loans, consumer loans, litigation finance, leasing, royalties, portfolio finance, and various other types.

For FY2024, staff is focused on maintaining the allocation within the target range while considering the pace of drawdowns for new investments; re-evaluating existing manager performance as new capital is raised; evaluating new investments with a cautious approach given the economic outlook and rising interest rate environment; considering differentiated strategies that can add further diversification to the portfolio while also contributing to the portfolio's return and cash yield; and reviewing the appropriateness of the benchmark and recommending changes if necessary.

Investment Committee Approves Real Assets Investment

The SERS Staff Investment Committee approved a \$15 million commitment, plus add-ons, fees, and expenses, to GIP Pegasus Fund, an infrastructure strategy within the real assets portfolio.

RETIREMENT BOARD

FRANK A. WEGLARZ
Chair, Retiree-Member

MATTHEW KING
Vice-Chair, Employee-Member

JEFFREY T. DELEONE
Appointed Member

JAMES HALLER
Employee-Member

CATHERINE P. MOSS
Retiree-Member

BARBRA M. PHILLIPS
Employee-Member

JAMES A. ROSSLER, JR.
Appointed Member

AIMEE RUSSELL
Employee-Member

DANIEL L. WILSON
Appointed Member

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
January 31	February 29	Difference
\$18.19 billion	\$18.45 billion	▲ \$260 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 5.71%	▲ 1.70%	▲ 6.99%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.34%	▼ 0.11%	▲ 1.43%

Executive Director's Update

ORSC Meeting Results

On April 11, the Ohio Retirement Study Council (ORSC) met and discussed several items relevant to SERS.

Based on a subcommittee recommendation, the full council approved releasing a request for proposal (RFP) for an actuarial audit of SERS. The council performs this type of audit on all retirement systems once every 10 years. Interested organizations have until June to respond to the RFP with a delivery date for the final report due in December. SERS independently conducted a similar study in 2022 when it rehired Cavanaugh Macdonald as its independent actuary.

The ORSC also released a historical report on all five statewide pension systems comparing the fiscal health of the systems since 1998. The report tracked liabilities, the impact of pension reform measures following the Great Financial Crisis, and investment performance.

The report acknowledged that SERS' Board-approved pension reform changes helped reduce liabilities, and the implementation of a funding policy that prioritizes reducing unfunded liabilities and reducing the amortization period were leading practices.

Recommendations from the report included:

1. Taking action to ensure that funding for discretionary benefits like health care remain secondary to full funding of pension benefits (SERS did this in its Funding Policy)
2. Standardizing Board Authority for all of the systems as some systems have more authority to make changes to eligibility and benefits than others
3. Implementing an amortization period that is less than the current 30-year window

In response to the report, Executive Director Richard Stensrud expressed to the ORSC members that SERS' Board has made sustainability a priority over the last three years and now revisits it regularly. He also noted that a reference to SERS' average monthly benefit being lower than Social Security's average monthly benefit should not be misinterpreted as SERS members being better off in Social Security. The Social Security average is based on the salaries of all who

participate. SERS' own calculations conclude that the average career SERS member's Social Security benefit would be about half of what they would receive in a SERS pension.

Strategic Plan Update

Work on the FY2025-2029 Strategic Plan is on schedule. Staff is currently building out strategies and tactics for each of the six identified goals. The Board will be able to review a draft in May.

Board Governance Charter

The Board authorized staff to draft a Board Governance Charter that will memorialize the accomplishments of the Board as a resource for future Board members.

Board Approves New Rules on Cybersecurity and CBBC

Staff brought two new rules before the Board for consideration.

The first one amplifies R.C. 3309.55, the statute that states employers must provide information and assistance to the SERS Retirement Board that is required in the discharge of its duties. The rule provides that if an employer has a cybersecurity incident where it has been determined to have an impact on the employer prompting the need for response and recovery, SERS shall be notified. This includes ransomware that may place a SERS member's personal data at risk or a business email compromise. Notice of the incident shall be within 72 hours of discovery and further information shall be provided later within a reasonable time.

The second one amplifies R.C. 3309.363, the recently enacted contribution based benefit cap (CBBC) statute. The rule provides that the CBBC will be used when calculating retirement allowances with effective dates of August 1, 2024, or later. The rule clarifies that the CBBC calculation takes place before a retirement allowance is finalized and granted. The rule also sets forth a standard formula provided by SERS' actuary for determining the amount to credit to a member's accumulated contributions when the member's employer has purchased service credit for the member under an Early Retirement Incentive program.

Pensionable Compensation Update

Staff presented SERS' Board with a list of possible compensation elements for discussion about which ones should be considered pensionable compensation. The results of the discussion gave the staff direction on the elements that should be added to or removed from the current rule.

Because some elements are contained in statute (state law) and others are in SERS rule, staff is updating the list to include that information. Any changes to state law would require legislation, while rule changes are permitted under the Board's authority. A list of the elements discussed are included in this month's [Board materials](#).

Monthly Retirement and Survivor Benefit Transactions

For April, the SERS Board approved 244 active members for service retirements, and 9 survivor benefits for spouses and/or dependents.

May Meeting Dates

The next Board meeting will take place Thursday, May 16, and Friday, May 17, at 8:30 a.m. (if necessary).