



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **MARCH 2023**

#### **Global Equity Portfolio Review**

Investment staff provided the Board with an overview of SERS' global equity portfolio.

Effective July 1, 2022, the global equity portfolio was aligned with the MSCI ACWI index rather than having specific targets to US equity, developed markets, and emerging markets.

As of January 31, 2023, the global equity portfolio had a market value of \$7.3 billion. The portfolio was 41.4% of the total fund as follows:

- US equity was overweight by 1.77% relative to the MSCI ACWI benchmark of 60.02%
- Non-US developed equity was underweight by 1.05% relative to the MSCI ACWI benchmark of 28.66%
- Emerging markets were underweight by 0.74% relative to the MSCI ACWI benchmark of 11.32%

The global equity portfolio posted a return of -7.05% for the one year, which was 0.63% above the benchmark.

#### ***US Equity***

For the one year, SERS' US equity portfolio posted a return of -7.67%, which was above the Russell 3000 benchmark of -8.24%. SERS maintained an overweight position in small cap stocks, which helped improve portfolio returns.

The US equity portfolio had a market value of \$3.8 billion, with 71.5% of the portfolio passively invested in large cap stocks. Staff successfully reduced portfolio management fees from 18 basis points to 14 basis points and redeemed a net \$133 million.

As far as US markets were concerned, value outperformed growth over the one-year period, which is common in a rising interest rate market. Large-cap growth stocks remained in the lead for the long term, while small-cap value stocks maintained the largest discount.

US equity portfolio returns have been on an upswing since 2021. Staff has been able to improve relative performance without adding any extra risks, and reduce the tracking error, or measure of volatility, to only about 1% over the last five years.

#### ***Non-US Equity***

Unlike US equity markets, non-US markets are less efficient which means there is more opportunity to outperform benchmarks using active management. Therefore, SERS has constructed the \$2.2 billion non-US equity portfolio with 78% of active managers to increase returns.

The non-US equity portfolio posted a one-year return of -5.63%, which was 0.12% above the benchmark. Developed markets finished strong while emerging markets underperformed the benchmark by 1.65%.

As far as performance relative to risk, the non-US equity portfolio has performed consistently well for the last seven years with a tracking error below 2% for the last 10 years.

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#### RETIREMENT BOARD

JEFFREY T. DELEONE  
*Chair, Appointed Member*

FRANK A. WEGLARZ  
*Vice-Chair, Retiree-Member*

HUGH W. GARSIDE, JR.  
*Employee-Member*

JAMES HALLER  
*Employee-Member*

MATTHEW KING  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

BARBARA M. PHILLIPS  
*Retiree-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

DANIEL L. WILSON  
*Appointed Member*

### Asset Allocation Discussion

Joanna Bewick and David Lindberg with Wilshire Associates presented a review of SERS' current asset allocation policy.

Per its policy, SERS is required to perform an asset allocation review every three to five years; however, staff is committed to reviewing economic conditions and SERS' return outlook annually and will adjust the asset allocation as necessary.

SERS' last asset allocation review was in February 2020.

Bewick discussed the asset allocation framework, process, and models that the Board may want to consider going forward. She noted that any changes to the current model will be marginal.

SERS' investment team will present a final recommendation to the Board at the April meeting.

### SERS' Statement on Exposure to Failed Banks

Executive Director Richard Stensrud noted that while the news of the Silicon Valley Bank (SVB) and Signature Bank failures is newsworthy, SERS' investment exposure to those banks was small.

In total, SERS has experienced a decline in the value of those assets of \$1,566,393; -\$929,410 in SVB and -\$636,983 in Signature. This represents 0.01% of SERS' \$17 billion fund. It should be noted that the level of SERS' holdings is much smaller than amounts incorrectly reported in the media.

The investments in SVB were made as part of an index replication strategy. This type of strategy replicates a segment of the stock market and the stocks in it are selected because they are part of that market segment.

These holdings represent a small fraction of SERS' overall investment portfolio. SERS manages a diversified investment portfolio and our members' retirement security does not hinge on the success or failure of these firms.

### Investment Committee Approves Three Investments

The SERS Staff Investment Committee approved a \$50 million commitment to SVP Capital Solutions II, a restructurings/special situations strategy within the opportunistic portfolio, a \$100 million commitment to Connor, Clark, and Lunn, an emerging markets core strategy within the global equity portfolio, and a \$100 million commitment to Carlyle CCOF III, a direct lending strategy within the private credit portfolio.

These investments will be funded from cash reserves.

### Total Fund Update

TOTAL FUND BALANCE		
December 31	January 31	Difference
\$17.14 billion	\$17.64 billion	▲ \$500 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 4.78%	▲ 3.16%	▲ 8.71%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.01%	▼ 0.69%	▲ 1.45%

### Board Approves Changes to Health Care Premium Disability Subsidies and Annual Open Enrollment

At the March meeting, the Board voted to equalize the health care premium subsidy rates for non-Medicare disability recipients and service retirees based on years of service. This change will take effect beginning January 1, 2024.

With expanded Marketplace plan subsidies and SERS' Wraparound HRA, non-Medicare recipients have access to coverage and affordability that meets or exceeds that offered by SERS. Representatives from HealthSCOPE Benefits will assist disability and service retirees in selecting Marketplace plans that best meet their health care needs and budget.

The Board also approved moving to a two-year open enrollment process for dental and vision coverage. Non-Medicare enrollees, who have a SERS medical plan choice will remain on an annual open enrollment schedule for their health and prescription coverage.

Any changes to Medicare Plan annual benefit and premium changes will be communicated through the *eFocus*, emailed in October, and the printed Focus, mailed in January. Also, Aetna and Express Scripts will continue to send Medicare-required benefit mailings every fall.

**Member Share of Base Premiums by Years of Service  
for SERS Non-Medicare Plans**

<b>Service Retirees</b>			
<b>Service Years</b>	<b>Retirement on or before July 1, 1989</b>	<b>Aug. 1, 1989 through July 1, 2008</b>	<b>Retirement on or after Aug. 1, 2008*</b>
5 to 9.999	50%	Not Eligible	Not Eligible
10 to 14.999	17.50%	100%	100%
15 to 19.999	17.50%	50%	100%
20 to 24.999	17.50%	25%	50%
25 to 29.999	17.50%	17.50%	30%
30 to 34.999	17.50%	17.50%	20%
35 or more	17.50%	17.50%	15%

<b>Disability Recipients</b>			
<b>Service Years</b>	<b>Benefit effective on or before July 1, 1989</b>	<b>Aug. 1, 1989 through July 1, 2008</b>	<b>Benefit effective on or after Aug. 1, 2008*</b>
5 to 9.999	50%	100%	100%
10 to 14.999	17.50%	100%	100%
15 to 19.999	17.50%	50%	100%
20 to 24.999	17.50%	25%	50%
25 to 29.999	17.50%	17.50%	30%
30 to 34.999	17.50%	17.50%	20%
35 or more	17.50%	17.50%	15%

<b>Spouse premium**</b>		<b>Child(ren)</b>	
24.999 or less	100%		
25 to 29.999	90%		70%
30 or more years	80%		

\* Service retirees effective on or after 8/1/08 and disability recipients receive an additional 1% premium reduction for each YOS over 35.

\*\* Spouse premium is based on the service retiree, disability recipient, or member's service credit.

## Board Approves Filing of Amended Administrative Rules

The Board approved the filing of two amended administrative rules with the Joint Committee on Agency Rule Review (JCARR).

The first rule concerned federal taxation. In response to the SECURE 2.0 Act, which was enacted on December 29, 2022, rule 3309-1-09 will be amended to change the required minimum distribution age from 72 to 73.

The second rule, rule 3309-1-35, reflects the Board's desire to require new retirees and disability benefit recipients who are not eligible for Medicare to receive Marketplace counseling before enrolling in SERS' health care coverage. Counseling will be provided by SERS' vendor, HealthSCOPE Benefits, whose staff is licensed to enroll individuals in federal Marketplace plans. This requirement applies to individuals with a benefit effective date beginning June 1, 2023, and to those who have previously waived SERS' coverage but wish to enroll on or after that date due to a qualifying event.

## Executive Director's Update

### **Staff Compensation Update**

At the February Board meeting, CBIZ Compensation Consulting updated the Board on current market salary data that directly affects the salary ranges SERS has in place for its staff and advised that these ranges should be updated to stay competitive with the local labor market.

Pursuant to SERS' compensation policy, staff's salary structure is reviewed each year and adjusted as necessary based on labor market salary data.

At the March meeting, staff presented four scenarios to illustrate how various salary range updates would impact SERS' personnel expenditures.

The Board will take these into consideration when the FY2024 budget is approved at the June meeting.

Maintaining an appropriate level of individual salary growth is essential to enabling SERS to be able to attract and retain high quality employees in a very competitive Columbus labor market. It also is important that salary levels continue to remain aligned with market trends to avoid having to make substantial salary increases in subsequent compensation studies.

### **Ohio Retirement Study Council (ORSC)**

Senator Kirk Schuring was elected chairman for the current legislative session at the ORSC meeting on February 23. SERS staff provided summaries of the Annual Actuarial Valuation and Annual Health Care Report.

The ORSC also met on March 9 to receive a presentation from Auditor of State Keith Faber on a special audit of the State Teachers Retirement System of Ohio (STRS). While the audit specifically addressed STRS, the report contained a few recommendations that could potentially impact other systems:

- **The Auditor recommended that the state consider restricting the private market funds state retirement systems can invest in to those that agree to broad transparency regarding fees and investment strategy.**  
Executive Director Stensrud noted that this requirement could come at the cost of returns. As not all private market funds may agree to this requirement, it is possible that the System would have to choose between a fund that is high performing but provides less transparency and a fund that is not as strong of a performer, but provides more transparency. Since investment dollars fund two-thirds or more of SERS' benefit payments, this is an important consideration.
- **The Auditor recommended that the legislature consider limits on or elimination of performance-based investment compensation.**

Investment returns are crucial to SERS' ability to provide pension and health care benefits to current and future retirees. Good investment performance requires expertise in assembling and maintaining a diversified portfolio and selecting and overseeing high-performing investment managers. For that reason, performance-based compensation is a common component of compensation for investment professionals at large institutions like SERS. SERS' Investment Department Incentive Plan rewards the investment team for generating investment returns above established market benchmarks over multiple time periods, and is an important element of retaining and attracting the best investment talent.

- **The Auditor recommended that the Ohio legislature consider whether reducing the amortization period for reaching 100% funding from 30 to 15 or 20 years would be prudent.** Director Stensrud noted that if a pension system falls out of the amortization period, the System must present a plan to the ORSC of how they plan to get back in the statutorily set parameter. This could result in increased contribution rates or reducing liabilities, which translates into reducing benefits. This is an important consideration as the weight of this type of legislation could fall on members and retirees.

SERS will strive to make sure these considerations are understood and will continue to engage with legislators if these topics end up gaining traction in the legislature.

### ***State Legislation***

SERS staff continues to meet with members of the new House Pensions Committee and the ORSC to provide the latest information about SERS and brief them on SERS' proposed Contribution Based Benefit Cap (CBBC) legislation.

Senator Schuring re-introduced anti-environmental, social, and governance (ESG) legislation, which is currently undergoing hearings in the Senate Finance Committee. SERS submitted "interested party" correspondence which stated that the way the bill is currently drafted does not present any problems to the System as SERS does not use ESG to drive investment strategies.

The fundamental focus of SERS' investment program is to generate the best returns with a reasonable amount of risk. However, Stensrud expressed caution regarding anti-ESG provisions being presented in other states that could hinder the ability to make prudent fiduciary decisions.

### ***Drilling Down Membership Data***

In response to a recent ORSC request regarding the Final Average Salary (FAS) percentage that SERS' retirees receive, the System provided the following data:

- It takes 44 years of service to receive a benefit equal to 100% of the FAS.
- 45% of retirees receive a benefit that is less than 40% of their FAS. 55% receive a benefit that is more than 40% of their FAS.
- 63% receive a benefit that is 50% or less of their FAS.
- 91% receive a benefit that is 70% or less of their FAS.
- Less than 1% (84 people) receive a benefit that is 100% or more of their FAS.
- With respect to salary and benefits:
  - 49.7% of active members make \$20,000 or less. 81.4% make \$40,000 or less.
  - 49.5% of retirees receive a benefit of \$12,000 or less. 67% receive a benefit of \$18,000 or less.

While a SERS pension is a valuable lifetime benefit, misconceptions arise from time to time that mischaracterize SERS' members as retiring young and receiving lavish benefits. These mischaracterizations unfairly depict the financial reality of the hardworking people who serve our schools.

**Monthly Retirement and Survivor Benefit Transactions**

For March, the SERS Board approved 269 active members for service retirements, and 13 survivor benefits for spouses and/or dependents.

**April Meeting Dates**

The next Board meeting will take place Thursday, April 20, and Friday, April 21, at 8:30 a.m. (if necessary).