

SERS Retirement Board Meeting Minutes

April 18, 2024

The nine hundredth and sixty-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, April 18, 2024.

Pledge of Allegiance

The SERS Retirement Board meeting convened at 8:40 a.m. with the Pledge of Allegiance.

Roll Call

The roll call was as follows: Frank Weglarz, Matthew King, Jeffrey DeLeone, James Haller, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Catherine Moss. Also attending (remotely) was Lisa Reid, representative of the Ohio Attorney General's Office. Various members of the SERS staff attended in person. Several SERS staff members and members of the public attended virtually.

Consent Agenda

The consent agenda for **April 18, 2024**, included:

- Minutes of the **March 21, 2024**, Retirement Board meeting
- Summary of Investment Transactions for the period of **February 1, 2024**, to **February 29, 2024**
- Retirement Report – Superannuations, Survivor Benefits, and Transfers
- Disability Report – Approval of Disability Benefits, Disapproval of Disability Benefits, Termination of Disability Benefits – Any Occupation, and Approval of Appeal of Termination – Any Occupation

Matthew King moved and Aimee Russell seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, April 18, 2024. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Catherine Moss. The motion carried.

Investment Report

Annual Portfolio Review – Private Credit

SERS Chief Investment Officer, Farouki Majeed, introduced Adam Messerschmitt and Brad Carr, SERS Investment staff members, who provided the Board with an overview of SERS' Private Credit investment portfolio.

Mr. Messerschmitt reported the private credit portfolio has a current market value of \$1.1B with 12 managers, 21 funds, and 1 co-investment. The Global Private Credit allocation is currently 6.2% of the total SERS retirement fund.

Mr. Messerschmitt continued, stating the private credit has a net return of 10.1% for the one-year period ending February 29, 2024, which outperformed the policy benchmark by 23 basis points. SERS invests in private credit to provide risk adjusted returns in excess of those provided by publicly traded fixed income securities and to generate a consistent cash yield. The performance objective is to provide returns in excess of the 90-day Treasury bill rate + 4.5%, net of fees. The Global Private Credit allocation is set at 5% with a permissible range of 3% to 7%.

Mr. Carr reported that the objectives for the private credit portfolio for 2024 are to:

- Manage the private credit allocation within the target allocation range while considering the pace of drawdowns for new investments and re-evaluate existing manager performance as new capital is raised.
- Build the private credit allocation in line with the implementation guidelines and ensure appropriate risk and return characteristics are present within the target allocation.

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- Evaluate new investments with a cautious approach given the economic outlook and the rising interest rate environment, while focusing on increasing the cash yield of the portfolio and income distribution to the total fund.
- Consider adding differentiated strategies to the portfolio if capacity permits that could add further diversification to the portfolio, while also contributing to the portfolio's return and cash yield.
- Review the appropriateness of the benchmark and recommend changes if necessary.

Following a robust discussion, the board thanked Mr. Messerschmitt and Mr. Carr for their presentation.

Monthly Investment Report

SERS Chief Investment Officer, Farouki Majeed, followed up and provided an investment presentation. Mr. Majeed reported that the US economy exceeded expectations increasing 3.4% in Q4, and 2.5% in 2023. The strong growth was due to continued personal and governmental spending. The US labor market continues to be resilient, adding 303,000 jobs in March. The unemployment rate decreased by 0.1% to 3.8%.

Mr. Majeed reviewed SERS allocation classes and closed his report stating the total SERS fund is currently at \$18.5B for the period ending February 29, 2024.

Following several questions and a brief discussion, the board thanked Mr. Majeed and the investment staff for their presentations.

Executive Director's Report

ORSC

SERS Executive Director, Richard Stensrud, began his report stating the ORSC met on April 11, 2024. The ORSC discussed an upcoming SERS actuarial audit and approved an RFP with a June response deadline for submissions. This actuarial audit is a part of the regular cycle of audits the ORSC performs and is different from the external audit SERS commissioned last year. The ORSC auditor will work with Cavanaugh Macdonald, SERS' actuary, to review previous audit findings and to complete the audit.

Mr. Stensrud also reported that the ORSC reported on data collected from the five Ohio retirement systems. The report focused on key metrics and the evolution of each pension system over time. The report used system data going back to 1998 up to now and focused on key elements that were in control of the legislature and the retirement systems. The report acknowledged investment experiences, growth and liabilities, 30-year amortization periods, pension reform efforts, diversion of pension contributions to healthcare, COLA, and long-term performance of each fund. SERS is identified as having a better 2nd half experience than the 1st half of the period between 1998 and 2022.

Mr. Stensrud continued, stating investment performance is why SERS has been outperforming benchmarks in recent years. SERS is also in a positive ratio, meaning it currently has more active members than retirees, which isn't the case with all Ohio retirement systems.

Mr. Stensrud noted that the executive directors in attendance were given an opportunity to comment on the report. Mr. Stensrud felt the report was a good report that further dispelled several misconceptions, and the report is a good resource to compare and contrast Ohio retirement systems. The report also shows that SERS focus on sustainability has had positive results over the life of the retirement fund. Although SERS members receive the smallest benefit payments, SERS benefit is still valuable and worth more than SSI would be, with similar income.

The board thanked Mr. Stensrud for differentiating SERS from other pension systems. The board wants to do a better job of educating employers on the importance of educating members on their retirement options when they enter the workforce. Because there is no way to mandate retirement training without making statutory changes, Mr. Stensrud will investigate ways to engage with more employees as they are hired rather than waiting until they are ready to leave the workforce.

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The next ORSC meeting is scheduled for May 9, 2024 or at the call of the chair.

The board took a break at 10:19 a.m.

Jeffrey DeLeone excused himself from the meeting at 10:19 a.m.

The board reconvened at 10:31 a.m.

Personal Appearance

James Rossler 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: Matthew King, James Haller, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Catherine Moss and Jeffrey DeLeone. The motion carried.

The board convened into executive session at 10:31 a.m.

The board reconvened in open session at 11:15 a.m.

Advocacy Groups

Mr. Stensrud continued his report stating that SERS continues to prepare content for two upcoming stakeholder events. SERS will have an annual joint meeting with OASBO on Friday, May 3. One of the likely discussion topics will be pensionable compensation.

Mr. Stensrud also reported that SERO's annual meeting is scheduled for May 7th at Villa Milano. SERO will provide an opportunity for SERS to report on all business areas, but specifically healthcare.

Ohio General Assembly

Mr. Stensrud continued his report stating HCR 6, a bill urging Congress to repeal the WEP and GPO, received another hearing in the Senate Government Oversight Committee. SERS leaders are optimistic this will move forward and be passed by the senate.

Mr. Stensrud continued, stating that SERS leadership is also hopeful that the Senate Government Oversight Committee will schedule proponent testimony soon for HB257, which would provide authority for retirement systems to establish policies to allow board members to participate in meetings remotely. This was a valuable provision and SERS is hoping to have this provision again soon.

Strategic Plan

Mr. Stensrud stated that work on the updated SERS strategic plan has been going as planned and is on schedule to be completed by June. The strategic plan consultant team met with SERS staff recently to request input and those results will be shared with SERS leadership. SERS leadership will summarize the results and share the results with the full board once they are finalized.

Board Governance Charter

Mr. Stensrud continued his report with a proposal that the board create a governance charter to memorialize the decisions made by the board members. Mr. Stensrud believes now is a good time to adopt this type of charter to lock in place some of the best practices this current board has implemented. After proposing this idea to the board, the board agreed this is a good idea and requested that a structure be put in place to review this charter periodically. Mr. Stensrud advised the board that he will begin working on this project.

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Review of Administrative Expenses

SERS Chief Financial Officer, Marni Hall, provided a report of administrative expenses for this fiscal year and stated SERS should end the fiscal year under budget.

Ms. Hall also reviewed the draft ORSC budget that was submitted in the requested ORSC format. Ms. Hall mentioned that there was \$1.4M in savings due to an elevator repair, rather than a replacement, and the negated need to remodel space for new tenants.

Ms. Hall continued, stating that the ORSC has a requirement that each system receives an actuarial audit every ten (10) years. Although the ORSC drives the process, the systems pay for their own actuarial audits and this cost is driving the increase in the FY2025 budget. After several questions and a robust discussion, the board thanked Ms. Hall for her report.

Filing of Proposed New Administrative Rule

Associate General Counsel, Susan Russell, introduced Senior Staff Counsel Brittani Galloway, who introduced two new administrative rules for consideration. Ms. Galloway explained the rules proposed are in response to a growing cybersecurity risk for SERS and employers. The purpose of the new rules is to minimize this risk to SERS data. Ms. Galloway advised there will be monetary penalties for SERS employers who don't comply, but these requirements can be waived with good cause.

Legal Counsel discussed with the Retirement Board filing with JCARR the following proposed new administrative rule: 3309-1-69 Cybersecurity incident notification responsibilities. James Haller moved and Matthew King seconded that proposed new rule 3309-1-69 be filed with JCARR as discussed. Upon roll call, the vote was as follows: Yea: Matthew King, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Jeffrey DeLeone. The motion carried.

Filing of Proposed New Administrative Rule

Legal Counsel discussed with the Retirement Board filing with JCARR the following proposed new administrative rule: 3309-1-70 Contribution Based Benefit Cap. Barbra Phillips moved and Aimee Russell seconded that proposed new rule 3309-1-70 be filed with JCARR as discussed. Upon roll call, the vote was as follows: Yea: Matthew King, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Jeffrey DeLeone. The motion carried.

Pensionable Compensation Discussion

Mr. Stensrud began the discussion by providing the board with a list of items that could be considered compensation. The board was then asked to review each item to determine if it should or should not be included as pensionable compensation. Following a robust discussion, the board agreed that next steps include reviewing the language of the potential new rule and performing an analysis to see how the new rule would potentially affect the sustainability of the retirement fund. The board agreed that this is not an effort to move away from final average salary calculations for retirement benefits, but rather an effort to clarify what compensation counts towards retirement benefits. With no further questions, Mr. Stensrud thanked the board for the robust discussion.

Executive Session

Barbra Phillips moved and Aimee Russell seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(3) to discuss pending litigation. Upon roll call, the vote was as follows: Yea: Matthew King, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Jeffrey DeLeone. The motion carried.

The board convened in executive session at 12:35 p.m.

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The board returned to open session at 12:48 p.m.

Compensation Committee Update

Compensation Committee Chair, Daniel Wilson, reported that the committee met this morning to review proposed changes to the investment incentive compensation policy. The committee also had further discussions and will bring forward a draft retire rehire policy to the full board at the next board meeting. With no questions, the board thanked Mr. Wilson for his report.

Retirement Report

There was no executive session for the retirement report.

Board Communication and Policy Issues

Board Information Request & Follow Up Items

There were no additional requests. James Rossler and Frank Weglarz both provided the board with brief summaries of the conferences they attended last month.

Calendar Dates for Future Board Meetings

The board reviewed the meeting dates for 2024 and noted that James Rossler will not be attending the July board meeting.

CALENDAR DATES FOR SERS BOARD AND COMMITTEE MEETINGS FOR 2024 **

AUDIT COMMITTEE MEETINGS

June 20, 2024 – 2:30 p.m. **(Thurs.) ** New Date ****
September 18, 2024 - 2:30 p.m. (Weds.)
December 18, 2024 – 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

June 21, 2024 – 7:30 a.m. **(Fri.) ** New Date ****
July 18, 2024 – 7:30 a.m. (Thurs.) * **Special Meeting ***
September 19, 2024 – 7:30 a.m. (Thurs.)
December 19, 2024 – 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

June 20, 2024 – 1:30 p.m. **(Thurs.) ** New Time ****
September 19, 2024 – 12:30 p.m. (Thurs.)
December 19, 2024 – 12:30 p.m. (Thurs.)

BOARD MEETINGS

May 16 – 17, 2024 – 8:30 a.m. (Thurs. and Fri.)
June 21, 2024 - 8:30 a.m. **(Fri.) ** New Date ****
July 18 – 19, 2024 – 8:30 a.m. (Thurs. and Fri.)
September 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)
October 17 – 18, 2024 – 8:30 a.m. (Thurs. and Fri.)
November 21 – 22, 2024 – 8:30 a.m. (Thurs. and Fri.)
December 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)
**** Please note that these dates and times are tentative.**

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Adjournment

Board Chair, Frank Weglarz, moved to adjourn to meet on Thursday, May 16, 2024, at 8:30 a.m. for the next SERS regularly scheduled Retirement Board meeting.

The SERS board meeting adjourned at 12:52 p.m.

Frank Weglarz, Board Chair

Richard Stensrud, Secretary