



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

MAY 2024

Asset Class Benchmark Review

Joanna Bewick of Wilshire Associates provided the Board with a review of the benchmarks for each asset class within SERS' portfolio.

As markets and portfolios evolve, benchmarking serves as a clear means of evaluating performance and provides a realistic and achievable starting point.

During the benchmark review, Wilshire took into consideration characteristics such as performance attribution (for example, asset allocation and active/passive management), the level of risk being taken to generate returns, and manager performance. Bewick noted that while there is no perfect benchmark, the goal is to get in the "neighborhood" of the actual return.

Benchmarking is often an art and a science. There are a number of reasons that returns may differ from the benchmark, including a timing mismatch for illiquid/alternative investments and a "misfit" risk (the portfolio has characteristics not reflected in the benchmark). While it is not necessarily bad to be different from the benchmark, it should be deliberate and systematic.

In reviewing all asset classes, Wilshire uses a concept called tracking error to compare benchmarks. Shown in percentage terms, the tracking error measures the dispersion of returns around a referenced data set. A higher tracking error means more variance surrounding performance and a lower tracking error typically means a benchmark is a better fit for the portfolio.

Following its review, Wilshire recommended that SERS change its global fixed income benchmark from that of the Bloomberg U.S. Aggregate Index to the Bloomberg U.S. Universal Index.

In terms of composition, the recommended benchmark is reflective of what SERS is already doing. In addition, the Bloomberg U.S. Universal Index has a lower tracking error and outperformed the Bloomberg U.S. Aggregate Index across the 1-, 3-, 5-, and 10-year periods.

While the current global equity MSCI All Country World Index benchmark has a higher tracking error than the MSCI All Country World Investable Market Index (IMI) benchmark, it slightly outperformed the IMI Index. Therefore, the data is not significant enough to make a change to the global equity benchmark at this time.

Global private credit is still a relatively new allocation without significant data or consensus around how to benchmark that asset class. However, when compared with the Morningstar/LSTA Leveraged 100 index, the 90 Day US Treasury Bill +4.5% has a lower tracking error and better performance. Likewise, the current NCREIF Property Index benchmark for the real estate asset class has a lower tracking error and higher returns than the NCREIF ODCE Index. Wilshire does not recommend changes to these asset class benchmarks at this time.

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Similarly, Wilshire supports the continued use of the Bloomberg U.S. Aggregate +2.0% benchmark for opportunistic and tactical investments, the FTSE 30 Day U.S. Treasury Bill benchmark for cash equivalents and securities lending, and the CPI +1.2% benchmark for the global infrastructure asset class, which was recently implemented on January 1, 2024.

Staff presented a draft of the FY2025 *Annual Investment Plan*, which incorporated Wilshire's recommendations.

The Board will vote on the proposed changes at the June meeting.

Investments Quarterly Report

Bewick also provided the Board with an update of current U.S. economic conditions and a review of SERS' January-March 2024 quarterly results.

Bewick commented that while it has been a great five to ten years, some of the returns realized are pulling from future returns.

The expectation going forward is that returns will be much more modest, especially in U.S. equity markets. With the continued outperformance of the Magnificent Seven mega cap stocks, the U.S. is experiencing a phenomenon not seen since the dot-com bubble of the late 1990s.

Wage growth is now outpacing inflation, which has come down and is stubbornly settling around 3%. Wage growth is self-reinforcing because it can maintain higher inflation; wages flow through to spending, which keeps prices elevated. While inflation is on its way to 2%, the Federal Reserve indicates they will not cut interest rates any time soon. Despite this prediction, the market has stayed quite resilient.

In terms of performance, global equity and global private equity both outperformed their benchmarks this quarter. While fixed income underperformed this quarter, its underweight allocation added value to the portfolio. Bewick noted this is indicative that SERS' asset allocation and diversified portfolio is working for the System.

Bewick concluded that SERS experienced a fairly decent quarter with a total return of 3.68% net of fees, outperforming the benchmark by 24 basis points.

Total Fund Update

TOTAL FUND BALANCE		
February 29	March 31	Difference
\$18.45 billion	\$18.77 billion	▲ \$320 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 7.77%	▲ 3.68%	▲ 6.70%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.70%	▲ 0.24%	▲ 1.53%

Health Care Update

Alisa Bennett, president and consulting actuary with Cavanaugh Macdonald, presented the 2025 proposed rates for SERS' self-insured medical plans and prescription drug coverage.

Of note, she said the American Rescue Plan Act law expanded Marketplace subsidies, and that the expansion was extended by the Inflation Reduction Act through 2025. This expansion made the SERS Wraparound HRA plan more attractive to members, which also created a cost savings for SERS.

Due to the Inflation Reduction Act, the Medicare Part D standard benefit will undergo changes in 2025, including that the out-of-pocket maximum will be \$2,000 and a design change addressing catastrophic claims liabilities will be implemented.

For medical assumptions, Bennett said that industry projections suggest approximately 7% for active members and pre-Medicare retirees, and for prescription drugs assumptions, about 7% for Medicare and non-Medicare.

She said that the overall data suggested an increase of ratios from 25% to 30% of retiree cost for children and from 80% to 90% of retiree cost for spouses.

For the 2025 non-Medicare medical plan, the data suggested a 4.8% increase in retiree medical costs; a 33.3% increase in retiree prescription drug cost; and an 8.9% increase in retiree total cost.

Christi Pepe, SERS' health care services director, and Michael Steiner, SERS' health care services assistant director, reviewed the health care program status, discussed 2025 rates and expectations, and presented 2025 recommendations and plan design changes for the program.

Pepe highlighted that the non-Medicare counseling rule helped members better understand the Marketplace Wraparound HRA plan and resulted in increased election for this option. As of May 2024, the non-Medicare enrollment was at 3,204, Medicare enrollment was at 36,103; optional dental coverage was at 44,919, and optional vision coverage was at 36,814.

While there are no proposed 2025 premium changes for recipients with Aetna Medicare Plan (PPO) and Aetna Traditional Choice, benefit recipients with Aetna Choice POS II can expect an approximate 7% increase to premiums, and increased child and spouse base premiums consistent with the actuary's recommendation. Benefit recipients with AultCare PPO can expect an approximate 3% increase to premiums.

Proposed benefit changes for recipients with Aetna Choice POS II included an ambulance co-pay of \$150 due to the Mental Health Parity and Addiction Equity Act.

Proposed benefit changes for benefit recipients with the non-Medicare Wraparound HRA included an increase of the federally-authorized reimbursement amount to \$2,150.

Proposed benefit changes for benefit recipients with the Aetna Medicare Plan (PPO) included a reduction in the primary care office visit co-pay to \$0 to align with the individual market.

Steiner mentioned that the SERS Medicare Advantage Plan, which covered 36,000 enrollees, had overall high member satisfaction, and that over time, SERS maximized improvements on common out-of-pocket expenses, including primary care provider, specialist, and rehabilitative co-pays and over-the-

counter pharmacy benefits. Additionally, Medicare Advantage revenue continued to improve and offset pharmacy expenses.

The 2025 recommendation for the SERS Medicare Advantage Plan is to continue reducing out-of-pocket expenses while keeping the premium the same, along with analyzing the actual Part D claims and revenue experience during the plan year 2025 as well as conducting a survey to identify the primary reason retirees select other plans.

The Board discussed the proposed recommendations and will approve the 2025 health care premium amounts and plan changes at the upcoming June Board Meeting.

Executive Director's Update

ORSC Update

At the May Ohio Retirement Study Council (ORSC) meeting, SERS staff presented a draft of its FY2025 administrative budget.

In addition, RVK, the ORSC's independent investment consultant, presented a quarterly investment review of Ohio's five public retirement systems. The report indicated that four systems kept pace with their total custom fund benchmarks, including SERS, which outperformed its benchmark by 0.7%. The report also showed that all plans exhibited characteristics of increasingly diversified, institutional quality portfolios.

Director Richard Stensrud noted that SERS' numbers compared favorably with respect to peer retirement plans, ranking in the 11th percentile or above over the 3-, 5-, and 10-year periods. RVK's report also demonstrated that SERS' Sharpe ratio was higher than the median of the Ohio public pension systems.

A higher Sharpe ratio indicates that a fund is receiving better returns relative to the amount of investment risk it is taking.

Advocacy Group Support

In keeping with SERS' focus on engagement, transparency, accountability, and sustainability, the System holds and attends annual meetings with its stakeholders.

On May 3, SERS virtually hosted the annual Ohio Association of School Business Officials (OASBO)/SERS update with OASBO's Legislative and Education Finance Committees. Several SERS staff members gave presentations on staff initiatives, finance, membership, investments, and health care to the nearly 100 OASBO members in attendance. Several Board members also were in attendance.

The "State of the System" meeting was met with positive feedback from stakeholders.

In addition, on May 7, several SERS staff members participated in the School Employee Retirees of Ohio (SERO) Annual Meeting held in Columbus. SERS staff provided attendees with an update on investments, health care, demographics, and financial status.

Board Governance Charter

Director Stensrud updated the Board on the proposed Board governance charter, which would memorialize the accomplishments of the Board.

Staff is currently developing the charter's future framework. Used as a resource for future Board members, it will provide a menu of governance activities that can then be built into a calendar so the Board and staff can see when certain governance actions will be taken.

A draft of the charter will be presented at next month's meeting for consideration by the Board.

Pensionable Compensation Update

The Board continued its discussions regarding the definition of pensionable compensation.

Staff will present a draft of changes to the compensation rule for the Board's review and consideration at the June meeting.

Monthly Retirement and Survivor Benefit Transactions

For May, the SERS Board approved 176 active members for service retirements, and 11 survivor benefits for spouses and/or dependents.

June Meeting Dates

The next Board meeting will take place Friday, June 21, at 8:30 a.m.