



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
BOARD MEETING HIGHLIGHTS
JULY 2024

Board Members Take Oath

Employee-member Matthew King and retiree-member Catherine Moss took their oaths of office at this month's Board meeting.

King, a treasurer and chief financial officer at East Central Ohio ESC, is beginning his second full term on the Board. Moss, who retired from West Geauga Local Schools in 1997, is serving her sixth term on the Board.

Both terms run from July 1, 2024, through June 30, 2028.



Catherine Moss, left, and General Counsel Joseph Marotta, right



Matthew King, left, and General Counsel Joseph Marotta, right

Employee and Retiree Member Board Seats Up for Election

Two employee-member seats and one retiree-member seat are up for election with the terms beginning July 1, 2025, and ending June 30, 2029. Any member of SERS, other than a disability benefit recipient, is eligible to run for an employee-member seat, and any SERS disability or service retiree is eligible to run for a retiree-member seat.

To be considered for election, the following requirements must be met:

Employee-Member seat

- Obtain signatures of 500 SERS members on a paper or electronic nominating petition provided by SERS with not less than 20 signatures of members from each of at least 10 counties where those members are employed
- Make sure that each member signing the nominating petition, whether paper or electronic, indicates his or her employer, county of employment, and last four digits of his or her Social Security number or full SERS member ID number

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

Retiree-Member seat

- Obtain signatures of 150 SERS retirees on a nominating petition provided by SERS with not less than 10 signatures of retirees from each of at least five counties where those retirees reside
- Make sure that each retiree signing the nominating petition, whether paper or electronic, indicates his or her county of residence and last four digits of his or her Social Security number or full SERS member ID number

All seats

- Begin gathering signatures on or after August 6, 2024
- Deliver paper petitions with original signatures and a completed original Certification Form to the SERS office no later than 4:30 p.m., EST, December 6, 2024; electronic signature collection also will end at this time

Monthly Investment Report and Overview of U.S. Economic Conditions

Chief Investment Officer Farouki Majeed summarized the May 2024 U.S. economic conditions and SERS' investment results.

During May, the U.S. economy showed signs that inflation was leveling. The labor market remained strong by adding 272,000 jobs but unemployment inched up 0.1% to 4%, which is still a historically favorable metric. In addition, the Consumer Price Index (CPI) came down 0.1% and the Gross Domestic Product rate remained positive at 1.40%.

Some concerns included a drop in the personal savings rate from 4.8% in 2023 to 3.9% in 2024 and the continuation of an inverted yield curve in which the returns on 10-year Treasuries is lower than returns on 3-month Treasuries. In the past, this generally has indicated that a recession is coming, but this situation has lingered for months and there is no clear indication that a recession is imminent.

As higher interest rates have caused more market volatility, SERS has been proactively managing the portfolios to maximize returns. Two changes have been particularly helpful to the Total Fund: overweighting exposure to global equities while underweighting exposure to fixed income; and increasing exposure to infrastructure while lowering exposure to real estate. Over the last year, the net return for global equities was 21.37% higher than the net return for fixed income, and the net return for infrastructure was 16.41% higher than real estate.

SERS has also increased exposure to yield-oriented assets such as real estate, infrastructure, and private credit, which generate much of the income stream used to pay pension benefits.

Total Fund Update

| TOTAL FUND BALANCE | | |
|--|----------------------|-------------------|
| April 30 | May 31 | Difference |
| \$18.44 billion | \$18.85 billion | ▲ \$410 million |
| TOTAL FUND RETURN (net of fees) | | |
| Fiscal Year | Calendar Year | 3-Year |
| ▲ 8.74% | ▲ 4.62% | ▲ 5.85% |
| TOTAL FUND RETURN vs. BENCHMARK | | |
| Fiscal Year | Calendar Year | 3-Year |
| ▲ 1.51% | ▲ 1.03% | ▲ 1.65% |

Investment Committee Approves Four Investments

The SERS Staff Investment Committee approved a \$50 million commitment to Loomis Sayles Credit Dislocation Fund II, an opportunistic credit strategy within the fixed income portfolio; a \$75 million commitment to Monomoy Capital Partners V, a U.S. middle market buyout strategy within the private equity portfolio; a \$100 million commitment to BlackRock Systematic Total Alpha Strategy, a large cap core portable alpha strategy within the U.S. equity portfolio; and a \$50 million commitment to Blackstone Real Estate Debt Fund V, a non-core real estate strategy within the real assets portfolio.

These investments will be funded from cash reserves.

Board Approves Final Filing of Cybersecurity and CBBC Rules

The Board approved the final filing of two new administrative rules that were reviewed by the Joint Committee on Agency Rule Review (JCARR).

The first rule 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 communicated to SERS 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.

Executive Director's Update

ORSC Update

While the Ohio Retirement Study Council (ORSC) did not hold a regular meeting this month, a subcommittee of the Council focused on the State Teachers Retirement System (STRS) met to discuss intergenerational equity and negative normal cost.

Intergenerational equity occurs when current retirees adequately fund the benefit they are receiving, rather than future retirees or current active members, employers, and taxpayers. Normal cost refers to the amount of contributions during an active member's career that are needed to fund future benefits.

SERS' normal cost is slightly over 10% and the current employee contribution rate is 10%, meaning that current contributors are not paying the benefits of current retirees.

Director Richard Stensrud also addressed a comment regarding consolidation of the five Ohio retirement systems.

SERS provides top-level customer service to its members, retirees, and employers, as well as positive and open communication to its stakeholders. Director Stensrud noted the System is

committed to engagement, transparency, accountability, and sustainability. Stakeholders know this, appreciate this, and have trust and confidence in SERS.

Such action to consolidate the systems could disenfranchise SERS' members and retirees. From an investment perspective, SERS' investment performance is in the top 10% of public pension funds nationally. SERS' asset size puts the System in a better position to invest in the private markets and access the best investment managers.

Similarly, from a funding perspective, SERS has reduced liabilities and improved its funding status while never falling outside of the 30-year amortization mandate. SERS has not requested, nor does it need, additional employer contributions.

This proposal seeks to impose a solution for problems that do not exist at SERS. Maintaining SERS' distinct identity and approach to serving its members will help assure continued success.

State Legislation

In June, the Senate Government Oversight Committee held a hearing on HB 257, the bill that would permit retirement systems to create a policy allowing remote participation by Board members in virtual meetings. Director Stensrud provided proponent testimony, as well as a representative from the Ohio Public Employees Retirement System (OPERS).

CBBC Implementation to Take Place Next Month

The Contribution Based Benefit Cap (CBBC) is a tool used to identify and prevent pension spiking, or benefit inflation. It affects those with a retirement effective date on or after August 1, 2024. Staff has upgraded the member benefits computer system and tested the changes to ensure a smooth implementation.

Strategic Plan Update

Deputy Executive Director Karen Roggenkamp presented a final progress report of the FY2020-2024 *Strategic Plan* to the Board.

Even in the face of global pandemic, tight U.S. labor market, and inflation, SERS maintained its steadfast commitment to the System's Mission, Vision, Values, and Core Beliefs. Five-year highlights included:

- Top-tier investment performance
- "High touch" service delivery
- Additional electronic delivery options
- Increased communication and stakeholder outreach utilizing personal and virtual opportunities
- Strengthened operational flexibility and resiliency
- Diverse staffing
- Strong culture

All six goals had significant and measurable accomplishments that will carry forward into the FY2025-2029 plan, which incorporates more measurable action items, puts less emphasis on pre-determined timelines, and places additional focus on change management.

Following Deputy Executive Director Roggenkamp's review, Tiffany Wright and Maura Maher Waymire of RAMA Consulting, the consulting firm selected to assist SERS staff in the development of the System's strategic plan, presented a final version of the FY2025-2029 *Strategic Plan* to the Board.

The six goals include:

- **Sustainability:** Maintain pension and health care funds that are sustainable, adapt to changing circumstances, and continue to provide value to our current and future members, retirees, and employers.
- **Service Delivery and Operations:** Optimize SERS' operations to continually improve and enhance service delivery.
- **Technology:** Utilize technology to improve efficiency, reliability, and security, while maintaining a personalized customer service experience.
- **Education and Engagement:** Promote transparency, accountability, and awareness of SERS' benefits through educational outreach and engagement with SERS' members, retirees, and employers.
- **Talent and Culture:** Value and invest in mission-driven employees committed to providing excellent service.
- **Risk:** Expand, raise awareness about, and use our risk management programs to identify and manage risks.

Director Stensrud thanked RAMA consulting, SERS staff, the Board, and advocacy groups for their hard work and input in the development of the current strategic plan.

Pensionable Compensation Update

Over the past several months, the Board, SERS staff, and stakeholders have analyzed whether changes should be made to Ohio Administrative Code 3309-1-02, Definition of Compensation, which identifies whether earnings in addition to salary and wages qualify as pensionable compensation.

The objective of this initiative is to have a definition of pensionable compensation that is:

- Clear – Both for the member and the employer;
- Fair – It can be consistently applied across all job types;
- Easier to administer – By both the employer and SERS;
- More in alignment with both current pay practices and how such pay practices are treated as pensionable compensation at STRS; and
- Does not negatively impact the financial condition and sustainability of the pension fund.

Last month, the Board authorized staff to request impact modeling from SERS' actuary. Director Stensrud and Todd Green, president and consulting actuary with Cavanaugh Macdonald, presented the results to the Board.

The Board plans to consider approval of a new rule at the September Board meeting.

Staff Supports Operation Feed Campaign

Each year, SERS partners with the Mid-Ohio Food Collective to raise funds and food for families within our community.

Thanks to the generosity of staff, SERS raised more than \$2,000 and donated more 70 pounds of food.

Health Care Premium Overpayments/Underpayments

SERS' staff identified 59 cases where retirees overpaid for health care coverage. The Board authorized staff to issue refunds to those individuals.

Staff is also drafting a rule that will address the action to be taken in the event of underpayments. The Board will discuss that rule at an upcoming meeting.

Monthly Retirement and Survivor Benefit Transactions

For July, the SERS Board approved 119 active members for service retirements, and 12 survivor benefits for spouses and/or dependents.

September Meeting Dates

There will not be a regular Board meeting in August. The next Board meeting will take place Thursday, September 19, and Friday, September, at 8:30 a.m. (if necessary).