

April 2016



BOARD
Highlights

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Candidate Chosen for Open Employee-Member Seat

In accordance with the rules of a Special Board Election, James Haller was chosen to fill the open employee-member Board seat.

Haller is a custodial/maintenance worker at Lima City Schools. He has served the school district for nearly three decades. He also has been a member of the Ohio Association of Public School Employees for 27 years, and currently serves as chairman of the organization's Budget Committee. In addition, he has served as vice president representing Allen County for the Northwest Ohio Central Labor Council.

Haller is a graduate of Lima Technical College.

The term for this seat runs from April 21, 2016, to June 30, 2017.

Board Approves New Actuarial Assumptions

Alisa Bennett, John Garrett, and Todd Green from Cavanaugh Macdonald, SERS' independent actuary, presented the results of the 2015 Five-Year Experience Study, which is also called the quinquennial actuarial evaluation.

This study examined SERS' demographic and economic assumptions. The demographic assumptions included the likelihood of events that will happen to SERS' members and retirees, such as how long they will remain SERS members and their expected lifespans. The economic assumptions included future economic factors, such as future salary increases and pension fund investment return, over the last five years. These results were then compared with similar data over longer periods of time.

Based on the results of this study, the actuary proposed changes in the following assumptions: withdrawal rates, rates of disability retirement, pre-retirement mortality rates, salary increases, price inflation, wage inflation, and rate of return, which is how much investments will grow over a fiscal year. The actuary proposed reducing the rate of return from 7.75% to 7.50%. The Board approved all of the recommendations.

The change in the rate of return directly affects the funded status of the System's pension fund. Based on SERS' actual 2015 financials, had SERS been using the proposed assumptions, the System's unfunded liability on the pension fund would have grown by about \$650 million, dropping SERS' funded status from 68.8% over 27 years to 66.5% over 28 years. This means that for every \$1 SERS has promised in pension benefits, almost 67 cents is already in the bank.

On the health care side, because the entire amount of employer contributions will be needed to fund pensions for the next few years, the solvency period for SERS' health care fund was reduced one year, from 2024 to 2023.

A copy of SERS' Five-Year Experience Study can be found on our website at www.ohsers.org/Document/Get/15862.

Board Selects Wilshire as Investment Consultant

In a unanimous vote, SERS' Board selected Wilshire as the System's investment consultant beginning July 1, 2016, subject to contract negotiations.

The Board chose Wilshire due to its depth of internal resources, research capabilities, risk management focus, and staff experience and expertise.

These attributes will be valuable as SERS continues implementing its risk management program and making changes to the portfolio to achieve the best possible returns in a prolonged low-return environment. Wilshire will work closely with SERS' investment staff and report directly to the Board.

The other finalists were Pension Consulting Alliance and Summit Strategies Group.

"On behalf of the entire Board, I want to thank Summit Strategies for its investment guidance over the last 10 years during some challenging financial times," said Board Chair Catherine Moss. "We also appreciate Summit's role in organizing quality

education that made us better fiduciaries for our members. The door is certainly open to work with them again in the future."

Global Equities Annual Portfolio Review

Investment staff gave the Board an overview of SERS' global equities portfolio.

The strategic role for the portfolio is to earn a return premium over treasury bonds by assuming ownership risk in publicly listed companies. The allocation target is 45%, with a range of 35% to 55%. The allocation within the global equities portfolio is 50% to the US equity portfolio, and 50% to the non-US equity portfolio, with a range of 40-60% each. Currently, SERS' global equities portfolio represents 45.9% of the total fund.

Over the last year, investment staff was able to reduce manager fees in both the US and non-US equity portfolios by a total of \$3.5 million.

Staff objectives for FY2016 include improving the portfolio structure, which consists of monitoring the structural allocation and manager selection, optimizing the risk/return profile in both the US and non-US equity portfolios, and rebalancing as appropriate.

Investment Education Program Examines Global Equities

Peter Rathjens and Peter May of Arrowstreet Capital Limited Partnership, an investment firm that manages global equity portfolios for institutional investors around the world, offered an educational presentation on international and emerging market equities.

Arrowstreet's philosophy is to add value by identifying investment signals that are relevant to prices and less obvious to investors. This relevant but less obvious information often has both defining direct effects, as well as indirect effects in global markets.

Using an industrials example, Rathjens showed how Arrowstreet would measure relevant and less obvious information in the categories of sector, country, and basket to make a decision on whether to invest in a particular company.

Arrowstreet has been working with SERS since 2004.

SERS Commits to Two Investments

The SERS Staff Investment Committee approved a \$50 million commitment to Scopia Capital Management, an equity long/short strategy within the System's multi-asset strategies portfolio.

The committee also approved a \$55 million commitment to Lubert Adler Urban Neighborhood Fund, a non-core strategy within SERS' real assets portfolio. Previously, SERS invested in Lubert Adler's Real Estate Fund VII.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
January 31	February 29	Difference
\$11.93 billion	\$11.84 billion	▼ \$90 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 4.80%	▼ 3.55%	▲ 5.67%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▼ 0.43%	▼ 0.52%	▲ 0.10%

Health Care Update

Anne Jewel, director of the Health Care Department, introduced several proposals for the 2017 health care program. The proposals, which centered on eligibility and benefit changes, will be discussed in more depth at upcoming meetings.

Executive Director's Update

SERS Transitioning to a New International Custodian

By law, the Ohio Treasurer of State (TOS) is SERS' investment custodian. Every three to five years, the TOS issues requests for proposals (RFPs) to subcontract out the domestic and international custodial duties of Ohio's retirement systems. As a result of the latest RFP process, the TOS has assigned Huntington Bank as SERS' domestic custodian and BNY Mellon as the international custodian. Because SERS

also contracts with BNY Mellon for master recordkeeper services, staff is negotiating fee reductions for those services.

Omnibus Pension Bill Introduced

H.B. 520, which contains general statutory cleanup language for all five statewide public pension systems, also contains a change to the Alternative Retirement Plan (ARP) mitigating rate. Some SERS members who work in community colleges can participate in an ARP plan rather than the SERS pension plan. Those members will likely see a reduction in the amount of employer contributions that are provided to SERS.

Impressive Response from SERS Members to H.R. 711

Executive Director Lisa Morris commended all SERS members who contacted members of Congress to remind them of the unfair impact of the Windfall Elimination Program (WEP) on their finances. Preceding the first hearing on H.R. 711, the Equal Treatment of Public Servants Act, on March 22, 2016, SERS members sent 3,496 emails and letters using SERS' Congress Web tool, of which 650 contained personalized messages.

New Active Member Newsletters Being Delivered

Recognizing the differing needs of younger members and those nearer to retirement, SERS staff is producing two versions of the *Future Matters* newsletter: one designed for members under age 45 and one for members over age 45.

While some topics in the newsletters will be similar, content will differ because those closer to retirement will have different retirement planning options and interests than those farther away from retirement.

Pension Reform Discussions Continue

As we have mentioned in previous *Board Highlights* as well as in our active and retiree newsletters, SERS' staff, the Board, SERS' actuary, Cavanaugh Macdonald, and advocacy groups have been meeting to discuss a number of pension reform options.

The Board continued discussions at this month's Board meeting.

The Board will continue to consider options each month until a decision is reached. The Board will set aside the afternoon of the May 24 Board meeting to review the actuary's suggestions and devise a timeline.

The System's goal is to achieve a 90% funded status as quickly as possible. An improved funded status will help provide protection during another economic recession and allow more money to be diverted to health care funding.

Monthly Retirement and Survivor Benefit Transactions

For April, the SERS Board approved 449 active members for service retirements, and 18 survivor benefits for spouses and/or dependents.

May Meeting Dates

The next Board meeting will take place Tuesday, May 24, and Wednesday, May 25 (if necessary) at 8:30 a.m.

[Click here](#) to view and download a printer-friendly version of this month's *Board Highlights*.

Retiring in the next 12 months? [Click here](#) to register for a *Retiring with SERS* webinar.

CALL toll-free 800-878-5853 / **VISIT** www.ohsers.org

Like us on **Facebook** 

Follow us on **twitter**

View our videos on **You Tube** 

SERS Retirement Board:

Catherine P. Moss, *Chair*

Barbra M. Phillips, *Vice-Chair*

Nancy D. Edwards, *Appointed Member*

Madonna D. Faragher, *Employee-Member*

James Haller, *Employee-Member*

Christine D. Holland, *Employee-Member*

James A. Rossler, Jr., *Appointed Member*

Daniel L. Wilson, *Appointed Member*

Beverly A. Woolridge, *Retiree-Member*