



**Retirement Board Agenda  
June 17, 2021**

**Click Link to Join Zoom Meeting:**

<https://ohsers.zoom.us/j/98387621210?pwd=UmY3bDB1NUpxdIM2Q3BvbVYwWW9VUT09>

**Meeting ID:** 983 8762 1210

**Password:** 680804

To join by phone, dial: (929) 205-6099 and enter the meeting ID: **983 8762 1210** and password: **680804**

**PLEDGE OF ALLEGIANCE**

1. Roll Call

**2. CONSENT AGENDA (R)**

- Approval of **May 20, 2021** Minutes
- Summary of Investment Transactions – **April 1, 2021 through April 30, 2021**
- Retirement Report
  - Superannuation and Survivor Benefits
  - Special Cases
- Disability Report
  - Approval of Disability Benefits
  - Disapproval of Disability Benefits
  - Termination of Disability Benefits

**INVESTMENT REPORT**

- 3. Investment Committee Policy – Redline (Discussion)
- 4. Annual Investment Plan (R)
- 5. Monthly Investment Report

**EXECUTIVE DIRECTOR’S REPORT**

- 6. Executive Director’s Update
- 7. Actuarial Contract Review Discussion
- 8. Review of Administrative Expenses
- 9. Filing of Amended Administrative Rule (R)
- 10. FY 2022 Administrative Budget (R)
- 11. Agreement for Vocational Evaluation Services (R)
- 12. Agreement for Vocational Expert Services (R)
- 13. Medical Advisory Fees (R)

**COMPENSATION COMMITTEE REPORT**

- 14. Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee (R)

**RETIREMENT REPORT**

- 15. Executive Session pursuant to R.C. 121.22 (G)(5) to review applications for Disability Retirement Benefits (*if needed*) (R)

**HEALTH CARE REPORT**

- 16. Approval of 2022 Health Care Premiums and Plan Design Changes (R)
- 17. Approval of 2022 Dental and Vision Premiums (R)
- 18. Premium Discount Program (R)
- 19. Medicare Part B Eligibility and Enrollment

**AUDIT COMMITTEE REPORT**

- 20. FY 2022 Internal Audit Plan and Audit Committee Update
- 21. Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee (R)

**BOARD COMMUNICATION AND POLICY ISSUES**

- 22. Board Officer Election
- 23. Calendar Dates for Future Board Meetings
- 24. Continued or New Business
  - Board Information Requests and Follow-up Items
- 25. Recess (R)

**FRIDAY, JUNE 18, 2021 8:30AM**

**EXECUTIVE DIRECTOR’S REPORT (cont.)**

- 26. Pension Sustainability Discussion

**Click Link to Join Zoom Meeting:**

<https://ohsers.zoom.us/j/97702482033?pwd=Ukw5YzIQTGdIYk0eVZleHowSWNuUT09>

**Meeting ID:** 977 0248 2033 **Password:** 802605

To join by phone, dial: (301) 715-8592 and enter the meeting ID: **977 0248 2033** and password: **802605**

**ADJOURNMENT (R)**

**Retirement Board Meeting  
June 17, 2021**

\_\_\_\_\_ A.M.

**Roll Call:**

Hugh Garside	_____
Jeffrey T. DeLeone	_____
James Haller	_____
Matthew King	_____
Catherine Moss	_____
James Rossler	_____
Frank Weglarz	_____
Daniel Wilson	_____
Barbra Phillips	_____

**CONSENT AGENDA – JUNE 17, 2021**

1. Minutes of the **May 20, 2021** Retirement Board Meeting
2. Summary of Investment Transactions – **April 1, 2021 through April 30, 2021**
3. Retirement Report
  - a. Superannuation and Survivor Benefits
  - b. Special Cases
4. Disability Report
  - a. Approval of Disability Benefits
  - b. Disapproval of Disability Benefits
  - c. Termination of Disability Benefits

**APPROVAL OF CONSENT AGENDA**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion to approve the Consent Agenda, which includes the following items:

- 5. Minutes of the **May 20, 2021** Retirement Board meeting
- 6. Summary of Investment Transactions – **April 1, 2021 through April 30, 2021**
- 7. Retirement Report
  - a. Superannuation and Survivor Benefits
  - b. Special Cases
- 8. Disability Report
  - a. Approval of Disability Benefits
  - b. Disapproval of Disability Benefits
  - c. Termination of Disability Benefits

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

## SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO

Summary of Investment Transactions to be  
Reported to the Retirement Board for  
Ratification in June

The following is a summary of the investment transactions made during the period of **April 1, 2021 through April 30, 2021**. A detailed list of these transactions can be found in the Board Agenda mailed prior to the Retirement Board Meeting.

## A. PURCHASES

Asset Class	Approximate Cost (in millions)
Global Equities	\$ 184.2
Fixed Income	329.7
Multi-Asset Strategies	29.3
Private Equity Capital Calls	58.5
Real Asset Capital Calls	47.6
Opportunistic & Tactical	5.0
Global Private Credit	15.2
Cash Equivalents	394.1

## B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
Global Equities	\$359.8	\$ 87.8
Fixed Income	306.6	1.9
Multi-Asset Strategies	20.2	6.7
Private Equity distributions	59.4	n/a
Real Asset distributions	8.9	n/a
Opportunistic & Tactical	n/a	n/a
Global Private Credit	n/a	n/a
Cash Equivalents	321.4	n/a


APPROVAL OF SUPERANNUATION, SURVIVOR BENEFITS, AND TRANSFERS

IT WAS MOVED BY \_\_\_\_\_ AND SECONDED BY \_\_\_\_\_ THAT THE FOLLOWING **301** SUPERANNUATION RETIREMENTS, **31** SURVIVOR BENEFITS, AND **3** TRANSFERS BE APPROVED AND, FURTHER, THAT THE PERSONS LISTED BELOW BE GRANTED ALLOWANCES AND BENEFITS IN THE AMOUNTS SET FORTH AND EFFECTIVE AS OF THE DATES GIVEN IN THE REPORT.

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**SPECIAL CASES - ADJUSTMENTS**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion that the following report on Special Cases be approved in the amounts and dates as set forth below.

 <h2 style="text-align: center;">Investment Committee</h2> <p><b>INV1-024</b></p>					
<b>Effective Date:</b>	01/20/2012	<b>Revision Date:</b>	05/18/2021	<b>Audience:</b>	Investments
<b>Owner:</b>	Investments	<b>Certifier:</b>	Farouki Majeed, Richard Stensrud	<b>Co-Owner (s):</b>	None
<b>Document Links:</b>	<a href="#">Purpose</a> , <a href="#">Policy</a> , <a href="#">Procedure</a> , <a href="#">Definitions</a> , <a href="#">Related Documents</a> , <a href="#">Policy History</a>				

### Purpose

The purpose of this policy is to define structure, rules, and procedures for the Investment Committee and Opportunistic Team in accordance with the Statement of Investment Policy (INV1-001) and the Opportunistic and Tactical Investment Policy (INV1-004).

### Policy

#### INVESTMENT COMMITTEE:

- Structure:** The Investment Committee (“Committee”) is comprised of the Chief Investment Officer (CIO), who serves as Chairperson (“Chair”), Senior Investment Officers (SIO), Investment Officers (IO), and Associate Investment Officers (AIO), all who are licensed Ohio State Retirement System Investment Officers (“SRSIOs”), and one Investment Operations staff member to serve as Secretary. All members except the Secretary are voting members. An AIO shall be in the role at least six months prior to casting votes. The Executive Director is a non-voting member of the Committee. The Executive Director, Investment Compliance Department, General Counsel, and Chief Financial Officer, or their respective designees, are required to attend all meetings.
- Rules:** The Chair presides over Committee meetings. A majority of voting members of the Committee, one of whom must be the Chair, constitute a quorum. A quorum is required for voting. Voting members who are unable to attend Committee meetings may call-in to participate in the meeting, but are not permitted to vote and do not count toward a quorum. Meetings are convened by the Chair when a vote or important discussion is to take place. In scheduling meetings the Chair will make every effort to provide notice to Committee members at least one week in advance. An affirmative vote by the Committee requires a majority vote of the voting members present in-person at the Committee meeting and an affirmative vote by the Chair. In the case of a tie vote, the CIO has the authority to break a tie in favor of the vote.



The Secretary records and maintains minutes of Committee meetings and records all votes.

3. **Sponsors:** Each investment must have at least two Sponsors responsible for leading due diligence efforts and preparing and presenting recommendations. Sponsors shall be SRSIOs; however, the CIO will not act as a Sponsor unless the situation warrants the CIO's involvement, which will be documented in the recommendation to the Committee.

#### **OPPORTUNISTIC INVESTMENTS:**

1. **Structure:** The CIO may form an Opportunistic team comprised of a subset of Investment staff to assist the CIO in managing the opportunistic portfolio. When staff identifies a viable investment opportunity, the CIO will determine whether the opportunity is in accordance with the Opportunistic and Tactical Investment Policy (IV1-004). Opportunistic investments must be approved by the CIO and the Committee.
2. Opportunistic investments are subject to the same rules and procedures contained in this document.

#### **CO-INVESTMENTS:**

1. In order to allow time flexibility for the approval of co-investment opportunities, the CIO has authority under the Statement of Investment Policy (INV1-001), as approved by the Board, to either unilaterally approve co-investment or to present a co-investment to the Committee for approval.
2. If the CIO approves a co-investment without Committee consideration, the Sponsors shall present all of the applicable documentation required under paragraph 2 of the Investment Approval Procedure to the Committee at the next scheduled meeting.
3. When the CIO chooses to have a co-investment presented to the Committee, the co-investment is subject to the same rules and procedures contained in this document.

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### **Procedure [Investment Approval](#)**

#### **Investment Approval**

1. **Investment Thesis:**
    - a. Once a potential investment is identified for possible approval, the Sponsors of the investment will prepare a written Investment Thesis ("Thesis") and distribute copies to the Executive Director, the Investment Compliance Department, General Counsel, Chief Financial Officer, and Committee members for initial review and comment. The Executive Director may direct comments in writing to the CIO. Initial comments should be sent to the Sponsors within one week of receipt of the Thesis.
    - b. The Sponsors will keep Committee members informed about any changes to the Thesis, progress with due diligence, and expected timeframes for
-

completion of relevant actions.

## **2. Investment Recommendation and Supporting Documents:**

- a. When the Sponsors are ready to seek Committee approval for the investment, they will prepare and distribute to Committee members, the Executive Director, Investment Compliance Department, General Counsel, and Chief Financial Officer a detailed written investment recommendation justifying the investment.
- b. Supporting documents shall also be distributed to the Committee including:
  - i. An opinion letter from the Investment Consultant as to the proposed investment's compliance to policies.
  - ii. An investment checklist identifying the status of supporting documents;
  - iii. An operational due diligence report on private investments. Investments in publicly traded securities as well as co-investments made to approved funds are exempt from this requirement.
  - iv. The Sponsors will make every effort to provide the investment recommendation and supporting documents one week in advance, but in no event will the investment recommendation and supporting documents be distributed less than 24 hours in advance of the scheduled Committee meeting, unless a shorter time period is agreed to by the Chair.

## **3. Approvals:**

- a. The Chair will schedule a Committee meeting when appropriate.
- b. When the Chair convenes the Committee, he/she will direct the Sponsors to present the investment to the Committee and allow sufficient time for discussion among Committee members.
- c. If the Committee is satisfied with the Sponsors' presentation and all questions or issues have been addressed, the Chair will call for a vote. The Secretary will keep the minutes and record the vote of each Committee member
- d. If the Committee approves the investment under the "Rules" section of the policy, no further Committee action is required. If the investment is not approved by the Committee, the Chair may direct the Sponsors to perform additional due diligence or provide additional information, and reconvene the Committee for another vote at a later date.
- e. The CIO shall have veto authority on any investment presented to the Committee should there be material new information or changes in the investment criteria.
- f. The CIO shall have authority to approve termination of a manager or refer

such recommendations to the Committee depending on the circumstances or urgency.

- g. Within five business days after the meeting the Secretary will distribute the minutes to the Sponsors for comment. Once the minutes have been finalized by the Secretary, the Secretary will sign the minutes, submit them to the Chair for signature, and distribute to the Committee.
- h. Any significant change to the specific approval of an investment shall be brought back to the Committee for approval. **However, if there is any later change to the legal structure of an approved investment any time after an investment has been approved and legal documents have been executed, including situations where a manager is converting a fund to a new limited partnership, new legal documents can be executed without additional committee approval.**
- i. Following a Request for Proposal (RFP) search for public market investment managers, more than one manager may be recommended and approved by the Committee. The legal documents for each approved manager shall be executed within twelve months of the RFP due date (Response Date). If a Committee-approved manager is to be funded more than 90 days after the Committee approval date, the Sponsors shall submit an updated investment recommendation memo to the Committee for informational purposes prior to execution of the legal documents. Once the RFP search is completed and final recommendations are submitted to the Committee, the RFP is considered closed.
- j. Investment recommendations for private investments should include an operational due diligence report prepared by the Investment Accounting Department or other parties. If such report is not presented at the time of the Committee approval, then it must be submitted to the Committee prior to executing legal documents.

#### 4. Document Execution:

- a. Once an investment is approved by the Committee, and prior to initial funding, all legal documents will be sent in no particular order to:
    - i. SERS' Investment Compliance Department, who will affirm that the investment meets the requirements of the Statement of Investment Policy (INV1-001), and
    - ii. SERS' Legal Department, who must approve all legal documents related to the investment.
  - b. Prior to funding an approved investment, a signature cover page must be signed by (1) a Sponsor representing the investment, (2) the CIO or Assistant Director of Investments (representing him/herself and the Committee), (3) a representative of the Investment Compliance Department, (4) an attorney in SERS' Legal Department, and (5) the Executive Director or Deputy Executive Director. If either chooses not to
-

sign the signature cover page, the Executive Director shall convene a dialogue with the CIO concerning opposition to the investment. During the course of conversation, the CIO may provide reasons for the Executive Director to reconsider the decision. Without the signature of the Executive Director there is no authority to execute the investment contract. In such instances the Executive Director shall provide a memo to the Board and CIO outlining the reasons for the veto.

- c. Once the signature cover page has been signed by all parties listed in paragraph (b) above, either the CIO or Executive Director may execute any documents necessary to complete the investment.

#### 5. Additional Commitments

- a. The CIO has authority to approve an additional commitment to an approved private market investment and will provide an informational memo to the Committee.
- b. In the case of investments in private market open-end funds and publicly traded equity and fixed income strategies, the CIO has authority to add to or detract from existing allocations without Committee approval.

#### 6. Board Reporting:

- a. The Sponsors' investment recommendation and the Committee meeting minutes will be distributed to the Board on a monthly basis. Ongoing reporting, monitoring, and performance measurement will be consistent with reporting for all other investments of the Total Fund.
- b. Updates on Committee activities and manager hirings / terminations will be provided to the Board on a monthly basis.

## Definitions

**Co-Investment** – A direct investment in a single asset of a private market fund, made alongside the Fund's investment in the asset; typically involves more attractive terms and shorter time frames than those of the Fund.

**Investment Thesis** – An initial investment memo outlining the proposed investment, its merits and risks, and the rationale for including it in a portfolio.

**Sponsors** – Investment Staff members who jointly recommend an investment. These individuals shall be licensed as State Retirement System Investment Officers.

**State Retirement System Investment Officers** – Individual SERS investment staff members who are licensed by the Division of Securities in the Ohio Department of Commerce in accordance with Ohio Revised Code Section 1707.01.

## Related Documents and Information

Statutes:	N/A
Rules:	N/A

Document Links: [Purpose](#), [Policy](#), [Procedure](#), [Definitions](#), [Related Documents](#), [Policy History](#)

Forms: Request for Review and Signature (Form 75.350)

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## Policy History

**Version 1 – January 20, 2012 – Created – Approved by Robert Cowman and Lisa Morris**

**Version 2 – February 11, 2013 – Edited – Approved by Farouki Majeed and Lisa Morris**

**Version 3 – April 3, 2013 – Edited – Approved by Farouki Majeed and Lisa Morris**

**Version 4 – August 6, 2013 – Edited – Approved by Farouki Majeed and Lisa Morris**

**Version 5 – February 22, 2016 – Edited – Approved by Farouki Majeed and Lisa Morris**

**Version 6 – September 27, 2016 – Edited - Approved by Farouki Majeed and Lisa Morris**

**Version 7 – February 1, 2017 – Edited, Approved by Farouki Majeed and Helen Ninos**

**Version 8 – March 19, 2018 - Edited, Approved by Farouki Majeed and Richard Stensrud**

**Version 9 – June 9, 2020 - Edited, Approved by Farouki Majeed and Richard Stensrud**

**ANNUAL INVESTMENT PLAN FY 2022**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion to approve the Annual Investment Plan for fiscal year ending June 30, 2022, which replaces the FY 2021 Annual Investment Plan, originally approved June 18, 2020.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____



# 2022 ANNUAL INVESTMENT PLAN

For the Year Ended June 30, 2022



**School Employees Retirement System of Ohio**  
300 E. Broad St., Suite 100, Columbus, Ohio, 43215  
Toll-Free 800-878-5853 | [www.ohsers.org](http://www.ohsers.org)

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**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**  
**ANNUAL INVESTMENT PLAN**  
For the year ended June 30, 2022

Prepared by SERS Investment Staff  
300 East Broad Street, Suite 100  
Columbus, Ohio 43215-3746  
[www.ohsers.org](http://www.ohsers.org)  
*Serving the People Who Serve Our Schools®*

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**Executive Summary**

## EXECUTIVE SUMMARY

The Board's Statement of Investment Policy (SIP) requires the Chief Investment Officer prepare and present to the Board for its approval an Annual Investment Plan (Plan). The following document outlines the recommended Plan for Fiscal Year (FY) 2022.

As in prior years, the Plan reviews the economic environment based upon consensus reports from leading sources, SERS' asset allocation target and long-term performance objective for each portfolio, last year's objectives and accomplishments, a review of the market conditions over the last year and objectives for FY2022. Implementation Guidelines for each asset class portfolio are included to provide further details on how each portfolio will be managed in the coming year relative to portfolio construction parameters and risk limits. **This Plan is meant to be a living document subject to adjustment during the year.** If circumstances change or opportunities arise during the year, items will be discussed with the Board which may lead to intra-year changes to the Plan or Strategy Statements.

### REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION

The general objectives of the Investment Department for FY2021 were as follows:

- *Our major strategic goals remain unchanged. The focus will continue to be on value added performance, risk management, cost effectiveness and maintenance of an investment program that meets or exceeds investment objectives over the long-term.*

Changes made to the structure of the Fixed Income portfolio and increased allocations to credit and high yield, post-pandemic, in 2020 helped improve performance relative to the benchmark, and reverse underperformance in FY2020. For FYTD, March 2021 Fixed Income returns were positive compared to a negative return for the benchmark and exceeded the benchmark by 3.48%. Underweighting the Fixed Income allocation relative to policy target as interest rates rose from the March 2020 lows also contributed to excess returns at the Total Fund level. Overweighting Global Equities also contributed to excess returns relative to the Total Fund benchmark. For FYTD March 2021, the Total Fund net return was 20.17% which exceeded the benchmark by 2.33%.

- *Implement the new asset allocation framework and targets approved by the Board in FY2020.*

Staff has approved new commitments of \$650 million to Private Credit managers to ramp up the allocation to the interim target of 3% for this new asset class approved in FY2020. Currently, the Private Credit allocation has increased to 1.84% and is expected to move closer to the target as capital commitments are called and invested. MAS allocation has been reduced to 1.6% and will be further reduced to 0% by end of fiscal 2021 as approved in the new Asset Allocation plan. MAS managers with strong performance have been retained in the Fixed Income and Opportunistic asset classes and have contributed to performance in these portfolios. The US Equity and Non-US equity allocations, which was 50%/50%, was consolidated into a Global Exposure with allocation targets and ranges for US Equity, Non-US Developed markets, and Emerging Markets. This will provide a better alignment with current market weights of these segments in the Global Index and flexibility for staff to manage tactical allocations.

- *Conduct a search for a General Investment Consultant as the current agreement will expire June 30, 2021.*

The Board approved extending the existing General Investment Consultant's agreement for a five-year term through June 30, 2026.

- *Continue to research and invest in opportunities arising from the economic impact of the COVID-19 pandemic.*

Staff approved commitments to new stressed/distressed credit opportunities to take advantage of market dislocations due to the COVID-19 pandemic.

- *Explore and implement a leverage strategy of the Total Fund not exceeding 5% consistent with the Statement of Investment Policy and Leverage Policy.*

Staff did not believe it prudent to implement this strategy during the heightened market volatility in 2020 due to the COVID induced shut down. Since the upward trend in interest rates is expected to continue as the economy picks up, this strategy may be on hold until favorable conditions emerge.

- *Continue to develop and engage the Investment team.*

## EXECUTIVE SUMMARY

Staff was able to function at a high level remotely since March 2020, with daily calls, strategy meetings and holding Investment Committee meetings to approve new transactions. Team function and cohesion appear to have been sustained through this period. Following the retirement of the Senior Investment Officer of Real Assets, a recruitment was conducted and a candidate selected to fill this role as of June 2021. Steve Price was promoted to Assistant Director since that role fell vacant with the aforesaid retirement.

### **FY2022 OBJECTIVES**

- Our major strategic goals remain unchanged. The focus will continue to be on value added performance, risk management, cost effectiveness and maintenance of an investment program that meets or exceeds investment objectives over the long-term.
- Continue to implement the asset allocation framework and targets approved by the Board in FY2020, specifically, increase allocations to Private Credit, Private Equity and Real Assets on a selective basis.
- Research new strategies in renewable energy, infrastructure, and commodities and implement on a selective basis.
- Re-engage the investment team as they return to the office to maintain strong investment culture and team work.

### **CONCLUSION**

Capital markets have rebounded from the lows of March 2020 and reached new heights helped by the massive federal stimulus, low rates, and economic activity picking up after successful roll out of vaccinations. When markets are richly valued prospective returns are diminished. As of March 31, 2021, SERS' Total Fund has net returns of 10.6% over five years and 8.6% over ten years exceeding the actuarial rate of 7.5%. Future returns will most likely be lower than these figures. Staff will remain focused on adding value relative to policy benchmarks and managing risks and costs.

Staff appreciates the support and guidance received from the Board in FY2021 and looks forward to working with the Board in FY2022 for another successful year.

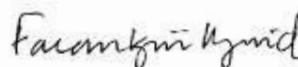
### **ACKNOWLEDGEMENTS**

SERS is very fortunate to have an experienced and deep Investment Staff. The following individuals contributed to this report.

- Economic Outlook – Farouki Majeed and Hai Yen Le
- Global Equities – Judi Masri and Dustin Matthiessen
- Global Private Equity – Steve Price and Phil Sisson
- Global Fixed Income – Jason Naber
- Global Private Credit – Adam Messerschmitt
- Global Real Assets – Michael Browning
- Cash Equivalents & Securities Lending – Jason Naber
- Opportunistic and Tactical – Farouki Majeed, Phil Sisson, Michael Browning, Dustin Matthiessen and Adam Messerschmitt
- Overlay Program – Farouki Majeed, Jason Naber and Judi Masri
- Investment Risk Management and Analytics – Hai Yen Le and Michael Browning
- Investment Operations – Terri Martin and Katie Swank

We would appreciate the opportunity to review the Annual Investment Plan with you at the June 2021 Board meeting. If you have any questions or comments before then, please let me know.

Respectfully submitted,



Farouki A. Majeed  
Chief Investment Officer

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**Global Economic  
Outlook**

## GLOBAL ECONOMIC OUTLOOK

The global economy continues to recover from the severe recession caused by the COVID-19 pandemic in 2020. Although the world GDP shrank 3.3% and the US economy declined 3.5% in 2020, the economic recovery is gaining momentum in the US since Q3 2020. The global economic recovery has been aided by accommodative monetary policy of the Federal Reserve (Fed) and other central banks, as well as by massive fiscal stimulus in the US and other major economies.

In response to the pandemic induced recession, the Fed reduced rates to zero and injected liquidity by purchasing Treasury bonds and other securities. The Fed has continued its easy monetary policy to support the recovery. The US Government also stepped in with several fiscal stimulus packages totaling \$5 trillion as of March 2021 in order to protect payrolls, expand unemployment benefits and provide funds to small businesses, education, and public health entities impacted by COVID-19 measures. The US government has also effectively conducted the COVID-19 vaccination rollout. As of May 2, 2021, according to the CDC, 31.6% of the US population was fully vaccinated and 44.3% of the US population received at least one vaccine dose. The US economy recovered 33.4% in Q3 and 4.3% in Q4, 2020. The recovery accelerated again in 2021 with a growth rate of 6.4% in Q1, and an expected rate of 8.7% for Q2, according to the Blue Chip consensus. The US labor market has improved significantly since March 2020; the unemployment rate decreased from 14.7% in April 2020 to 6.0% in March 2021.

Equity markets bounced back from the lows and finished 2020 with gains. For 2020, US equity markets gained 20.89% and non-US equity markets returned 10.65%. The credit market has also significantly improved. Credit spreads have narrowed to a level lower than their historical averages. The yield curve has steepened significantly as the US 10-year yield increased from 0.6% in June 2020 to 1.74% in March 2021 while the short-term rate has remained close to 0%. US consumer sentiment improved from the lows to 84.9 in March 2021 but remained below its historical average. While fiscal spending undertaken by the US government fuels the short-run growth, it will lead to a spike in deficits and add to the already high level of US Federal debt, likely causing inflation acceleration and devaluation of the US dollar.

Economic forecasts from the Blue Chip Consensus (US) and the International Monetary Fund (IMF) are presented below:

### US Economy:

The Blue Chip consensus expects the US economic recovery to accelerate further in the second half of 2021, and slow in 2022. Growth rates are expected to be 6.3% for 2021 and 4.3% for 2022.

According to the Blue Chip Economic forecasts, labor markets are expected to improve significantly in 2021 and 2022 as the unemployment rate is expected to decline to 5.4% in 2021 and continue to fall in 2022 to 4.2%, a level close to the natural unemployment rate (Table 1). Inflation is expected to increase to 2.5% in 2021 then decline to 2.2% in 2022. The yield on 10-year US Treasuries is expected to rise to 1.7% in 2021 and increase further to 2.0% in 2022. US corporations are expected to earn profits of \$14.2 trillion in 2021 and \$5.4 trillion in 2022.

Table 1

Period	Unemployment Rate	Inflation Rate CPI	T-Bill 3-Mo.	T-Note 10-Yr.	Corporate Profits (Cur. \$)
2017	4.3	2.1	0.9	2.3	4.5
2018	3.9	2.4	2.0	2.9	6.1
2019	3.7	1.8	2.1	2.1	0.3
2020	8.1	1.2	0.4	0.9	-6.6
2021 Consensus Forecast	5.4	2.5	0.1	1.7	14.2
2022 Consensus Forecast	4.2	2.2	0.2	2.0	5.4

Source: Blue Chip Economic Indicators, April 2021

## GLOBAL ECONOMIC OUTLOOK

### **Global Economy:**

The global GDP is projected by the IMF to recover strongly in 2021 with a growth rate of 6.0% (Table 2). For 2021, emerging and developing economies are expected to grow faster than advanced economies as the former's growth rate is expected at 6.7% while the latter's is expected at 5.1%. The US growth rate is projected to be 6.4%, significantly more favorable than 4.4% in the Euro-area. For 2022, global growth is expected to slow down yet remain at a healthy level of 4.4%. The US and Euro-area are expected to grow 3.5% and 3.6%, respectively. The emerging and developing economies are expected to maintain their growth advantage with a 5.1% growth rate.

Table 2

Annual GDP Growth	2020 (estimated)	2021 (projected)	2022 (projected)
World	-3.3	6.0	4.4
US	-3.5	6.4	3.5
Advanced Economies (including US)	-4.7	5.1	3.6
Emerging and Developing Economies	-2.2	6.7	5.0

*Source: International Monetary Fund World Economic Outlook, April 2021*

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**Portfolio Strategy**

## PORTFOLIO STRATEGY - Global Equities

### **INVESTMENT STRATEGY**

SERS invests in equity securities to earn a premium over government treasury bonds, which is compensation for assuming the relatively higher risk inherent in public equity securities. Global equities add diversification, liquidity and inflation protection to the SERS portfolio.

SERS' Statement of Investment Policy sets the Global Equities target allocation as follows:

	Total Fund Target	Permissible Range
Global Equities	45%	35% - 55%

The performance objectives of the Global Equity portfolio are as follows:

- Global Equities: Exceed the return on the combined US Equity and Non-US Equity composite benchmark composed of 55% Russell 3000 Index, 30% MSCI World ex-USA Net Total Return Index (USD) and 15% MSCI Emerging Markets Net Total Return Index (USD), net of manager fees. The target excess return is 28 basis points over three-year rolling periods.
- US Equities: Exceed the return on the Russell 3000 Index, net of manager fees. The target excess return is 10 basis points over three-year rolling periods.
- Non-US Developed Market Equities: Exceed the return of the MSCI World ex-USA Net Total Return Index (USD), net of manager fees. The target excess return is 50 basis points over three-year rolling periods.
- Non-US Emerging Market Equities: Exceed the return of the MSCI Emerging Market Net Total Return Index (USD), net of manager fees. The target excess return is 50 basis points over three-year rolling periods.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Monitor the portfolio for possible performance enhancement given FY2020 portfolio changes of US active large cap terminations and Non-US equity active manager additions. Compare SERS active managers to peers and conduct any manager searches, if appropriate.*

After performing well last FY and into fall 2020, the US Equity portfolio began underperforming as small cap and value stocks soared in November 2020. US Equities underperformed by 1.86% FYTD through March 2021. This underperformance was caused by active managers in the large cap and small cap sectors. This was a difficult period for active management as the markets rallied strongly powered by the technology and growth sectors, which then shifted sharply to favor value stocks. Staff continues to review the portfolio structure and manager exposures particularly in large cap to improve performance. The index exposure in the large cap sector has continued to increase with corresponding reduction in active management. While the current year was negative for small cap performance, longer term the small cap composite has outperformed its benchmark.

The Non-US Equity Developed Market portfolio has outperformed by 5.29% FYTD through March 2021. Staff added a new 130/30 long/short strategy in November to enhance active performance. The two managers added in late 2019 have contributed to the excess performance. Finally, Non-US small cap growth managers are being reviewed for a possible addition to the portfolio.

The Non-US Equity Emerging Market portfolio has outperformed by 6.64% FYTD through March 2021. Due diligence is currently being conducted on a China A-Share strategy, which would be the first dedicated country specific strategy within the public market portfolio.

- *Ensure the global equity portfolio has appropriate risk and return characteristics given the current equity market decline and volatility pickup.*

Global Equity risk has declined so far this FY with a 0.98 active risk as of February 2021. The Emerging Market portfolio has the most risk, followed by Non-US Developed markets. This is due to a combination of riskier Non-US markets, currency fluctuations and utilizing more active management in Non-US markets. US equity risk is kept in check by employing mostly passive management. The US portfolio is 66.5% passive

## PORTFOLIO STRATEGY - Global Equities

whereas Developed Equities are 31.2% passive and Emerging Markets are 100% active.

The US Equity portfolio's overall beta of 0.97 shows its defensive nature. SERS' US large cap active managers only have a beta of 0.81. This low active beta has been a big headwind in the market rally this year as for every \$1.00 in US Equity benchmark increase, our active managers only increase \$0.81. Staff has not redeemed from these defensive active managers as their valuations are cheap.

The Non-US Equity Developed portfolio has a beta of 1.0 and the Non-US Equity Emerging Market portfolio has a beta of 1.03. Both of these portfolios have performed well in the current up-trending market.

- *Regularly evaluate and rebalance the Global Equity Portfolio to ensure that country exposure, management mix, capitalization weight, and style orientation are appropriate and make recommendations as necessary.*

In US Equities, large-cap growth equities worked well until November when small-cap value equities became favored. Staff redeemed \$95 million from growth equities while contributing \$85 million to value equities during the first quarter of 2021 to move the portfolio away from its growth bias. The US equity portfolio growth tilt lowered from 6.57% in December 2020 down to 1.22% overweight in March 2021 on a mandate level due to these portfolio changes.

In Non-US Equity Developed Markets, \$25 million was added to growth equities in July. Similar to US Equities, the growth factor performed well until November. Staff redeemed \$60 million in growth equities in 2021 so far while adding \$55 million to value equities. Hence, value equities increased by 2.5% in our Developed Market large cap portfolio due to contributions directed by Staff.

In Non-US Equity Emerging Markets, \$100 million was added during the first seven months of the FY while emerging market returns rose. Emerging returns fell 1.5% in March, so Staff redeemed \$75 million in early April.

- *Review IMAs and Investment Guidelines on the review schedule and make necessary adjustments as needed.*

One US equity and one Non-US emerging market manager IMA were fully renegotiated during the current fiscal year.

### CURRENT MARKET CONDITIONS AND OUTLOOK

Cumulative Periods through March 31, 2021		Annualized Returns (in percent)			
	FYTD	1 Year	3 Year	5 Year	10 Year
Russell - 3000 Index	33.19	62.53	17.12	16.64	13.79
Russell - 3000 Growth Index	28.38	64.31	22.39	20.88	16.35
Russell - 3000 Value Index	38.26	58.38	10.99	11.87	10.91
Russell - 1000 Index	31.82	60.59	17.31	16.66	13.97
Russell - 2000 Index	55.36	94.85	14.76	16.35	11.68
MSCI - AC World Index (\$Net)	29.68	54.60	12.05	13.21	9.14
MSCI - AC World Ex-USA Index (\$Net)	28.67	49.41	6.51	9.76	4.93
MSCI - World Ex USA Index (\$Net)	26.46	45.86	6.34	8.92	5.21
MSCI - Emerging Markets Index (\$Net)	34.13	58.39	6.48	12.07	3.65

Source: Wilshire Compass

Fiscal years begin July 1 and end on June 30

Global equity markets experienced strong returns since the March 2020 market decline prompted by the coronavirus-related economic shutdown. Developed market governments, led by the US, implemented quick fiscal stimulus that sent markets rallying. Global markets continued to rise through March 31, 2021. The US market is the top performer amongst world equities again for the last year, keeping its lead over all time periods. However, the US market leadership gap has closed significantly. In fact, Non-US Developed and Emerging

## PORTFOLIO STRATEGY - Global Equities

markets posted higher returns during the last quarter of 2020 than the US. With US Democrats in full power and the US suffering from COVID-19 resurgence over winter, a new government stimulus bill was passed, which sent US markets to all-time highs. A more detailed summary of the FYTD follows for US and Non-US markets.

Strong US market returns were helped by broad government stimulus passed to offset COVID-19 pandemic effects. Large-cap growth equities, led by technology, topped the market through early Fall 2020 just like most of the last decade. With COVID-19 vaccine announcements in November 2020, US small-cap value equities posted the strongest returns. As markets saw the end of COVID nearing, interest rates also began climbing. Rising interest rates hurt technology stocks and helped bank and value cyclical stocks. This led to value beating growth FYTD by almost 10% and US small cap, represented by the Russell 2000 Index, beating large capitalization stocks by 23.5%. Consumer discretionary and energy were the top two performing sectors in the US over the last year with a 96.88% and 82.89% return, respectively.

Non-US Equity Developed Markets posted a 26.46% return FYTD, but longer-term returns are only in the mid-single digits. Helped by currency effects and a resurgence of value equities, Developed Markets posted a 15.85% return for the 4<sup>th</sup> quarter of 2020 outperforming the US by 1.17%. Consumer discretionary and materials were the top two performing sectors in Developed Markets ex US over the last year with a 69.42% and 68.84% return, respectively.

Non-US Equity Emerging Markets posted a 34.13% return FYTD, topping both US and Developed Market equity returns. Emerging markets still significantly trail US equity over three-, five- and ten-year periods. Asian emerging markets, which controlled COVID-19 well, performed the best FYTD. Top performers were Taiwan with a 90.70% gross return and South Korea with a 90.56% gross return. China A-Shares returned 49.92% FYTD.

The global equity market outlook is positive as vaccine measures are initiated around the globe, allowing recoveries from lock-down. The IMF expects Global GDP to grow 6% this year while US GDP is expected to grow 6.4% in 2021. US companies are expected to post near 20% earnings increases from a very low base last year due to COVID-19. Spurred by low rates from global monetary and fiscal stimulus, investors have turned to equities for return. First quarter 2021 had a record global equity inflow of \$334 billion, easily beating the previous high of \$142 billion in the first quarter of 2013. Markets could decline as global valuations are stretched or if vaccines do not curb COVID-19, but positives outweigh the negatives in 2021 for equities.

### **PORTFOLIO STRUCTURE**

At the end of March, Global Equity was overweight the 45% target allocation by 4.84% as follows:

- The US portfolio was 3.02% underweight relative to its 55% Global Equity target allocation,
- The Non-US Developed Market portfolio was overweight by 1.83% relative to its 30% Global Equity target allocation and
- The Non-US Emerging portfolio was overweight by 1.19% relative to its 15% Global Equity target allocation.

Global Equities will likely remain overweight for the next FY as equities are expected to outperform fixed income and cash. Redemptions will occur for pension benefits and for alternative capital calls as these asset classes ramp up allocations. FYTD, \$295 million in Global Equity redemptions have occurred.

Even though \$140 million was contributed to value equity mandates during the first quarter of 2021, Global Equities still has a growth style bias. Staff plans to add to value equity exposures gradually if value continues outperforming. We also remain overweight to small capitalization stocks, which is expected to continue as small caps are outperforming. The US portfolio is currently 66.5% passively allocated, which is expected to gradually increase through the next FY if active management continues to underperform passive. In Non-US, we are 31.23% passive in Developed markets and 100% active in Emerging markets as active management is more successful in Non-US Equities.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives during FY2022:



## **PORTFOLIO STRATEGY - Global Equities**

- Monitor the portfolio for possible performance enhancement. Compare SERS active managers to peers and conduct any manager searches, if appropriate.
- Complete the Non-US Equity Developed Market Small Cap and Emerging Market Dedicated China A-Share searches. Research and identify other new and innovative investment opportunities with managers who offer compelling return expectations.
- Ensure the global equity portfolio has appropriate risk and return characteristics given the continued Global Equity rally.
- Regularly evaluate and rebalance the Global Equity Portfolio to ensure that country exposure, management mix, capitalization weight, and style orientation are appropriate and make recommendations as necessary.
- Review IMAs and Investment Guidelines on the review schedule and make necessary adjustments as needed.

## PORTFOLIO STRATEGY – Global Private Equity

### **INVESTMENT STRATEGY**

SERS invests in private equity to provide risk adjusted returns in excess of those provided by publicly traded equities.

SERS' Statement of Investment Policy sets the Private Equity target allocation as follows:

	Target	Permissible Range
Global Private Equity	12%	8% - 16%

The performance objective for private equity is to provide returns in excess of the Burgiss All Private Equity Benchmark.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Manage the private equity portfolio and fiscal year commitments to reflect the increased investment allocation of 12% of the Total Fund. Seeking to achieve a target of 11% of the Total Fund by the end of fiscal year 2021 and 12% by the end of fiscal year 2022, subject to identifying opportunities that meet SERS' investment criteria.*

Staff has been actively working toward this goal and to date nearly \$200 million has been committed to four private equity opportunities. Staff is continuing due diligence on a fifth opportunity and anticipates bringing a recommendation before the Investment Committee in May 2021. Should this fifth investment opportunity be approved, total private equity commitments will increase to \$250 million for the fiscal year. \$250 million is on the upper limit of the typical private equity annual pacing of \$150 million to \$250 million per fiscal year.

- *Review the private equity portfolio strategy and structure and develop a plan to improve risk and return characteristics of the portfolio, achieve fee reductions and optimize manager counts as appropriate.*

To date three commitments have been made to private equity funds with an average management fee of 2%. Additionally, one commitment has been made to a co-investment that has no management fees or carried interest. Together the average management fees on all approved commitments is 1.5%. These private equity commitments are diversified by investment strategy, sector focus and geography.

- *Actively seek co-investment opportunities where appropriate with current SERS' private equity general partners who meet co-investment criteria, as outlined in the private equity co-investment guidelines.*

Staff reviewed several co-investment opportunities throughout the fiscal year. One opportunity met SERS criteria and was funded in January 2021. The private equity portfolio has a total of five co-investments totaling approximately \$54 million. The co-investments are in various stages of their life cycle and are generating an IRR of 21% and a 1.7x multiple of invested capital.

- *Research and identify new managers who offer compelling opportunities and return expectations that may replace current managers who no longer meet SERS' investment criteria.*

Staff reviewed over 100 investment offerings during the fiscal year 2021. One opportunity met the investment criteria and SERS committed \$50 million to this new manager in December 2020.

### **PORTFOLIO COMPOSITION**

	Commitments as of March 31, 2021	Target Range
Buyout	83%	75%
Venture Capital	2%	0%
Special Situations	15%	25%
Domestic	75%	75%
International	25%	25%

## PORTFOLIO STRATEGY – Global Private Equity

### CURRENT MARKET CONDITIONS AND OUTLOOK

Despite an economic slowdown triggered by a global pandemic, private equity emerged from 2020 relatively unscathed. Private equity investment activity fell sharply in April and May, however, the environment changed dramatically in the second half of the year as market conditions improved and private equity investors put large amounts of capital to work. The resulting annual totals for private equity demonstrate that firms continued to invest, exit companies, raise capital and generate solid returns while at the same time navigating the challenges of a high valuation environment that has raised the bar for investors looking to create value. Fund-raising totals may be the only indicator that point to the underlying volatility present in the industry throughout the year. Although returns are still attractive, they continue to come under pressure as the industry matures and competition intensifies. Taking a closer look at the data we see that after falling off in the first half of the year, the private equity industry raced to the finish line completing over \$590 billion in transactions in 2020. Overall, the year observed an 8% increase in transactions from the prior year. Highlighting the level of the second half of the year activity, \$410 billion of the \$590 billion total was completed in the third and fourth quarters. Nevertheless, the total volume of deals completed fell to approximately 3,100 in 2020 representing a 24% decrease from the 4,100 transactions completed in 2019. The rise in dollar volume combined with the decrease in transactions highlights the ever increasing transactions sizes in the marketplace with the average deal size coming in at approximately \$776 million. This is also reflective of another growing trend in the marketplace that has larger firms seeking out bigger transactions so that they can move the needle in their large and mega sized funds. The increase in deal flow is a direct result of the abundance of low-cost debt financing and the estimated \$2.9 trillion of dry powder available across all fund types and all geographies at the end of 2020. The intense competition for assets has led to growth in purchase price multiples and made it very difficult for private equity firms to find and purchase companies. Purchase price multiples have risen from 8.5 times earnings in 2010 to an average of 11.5 times earnings in 2020. Nevertheless, the same factors that complicated deal making paved the way for an excellent exit market for private equity funds in 2020. Exit activity in 2020 followed a similar pattern as many sellers sat on the sidelines in the first half of the year and then picked up their activity levels in the second half. The result was that just over 1,000 exits were completed in 2020 for a total value of \$427 billion. This was on balance with 2019 and in line with the five-year average. The first half of the year slowdown in activity also affected the fundraising market as private equity funds raised a total of \$989 billion in 2020, down from a record high \$1.1 trillion in 2019. Buyout funds once again led the way closing on over \$300 billion of new commitments, however, this total was aided by the number of large and mega buyout funds raised during the year. The level of investment activity at increased purchase valuations and steady uplift in dry powder once again underscores the importance of identifying and backing high quality private equity managers that remain disciplined in their process, due diligence and selection criteria throughout investment cycles.

Nonetheless, as illustrated in the below table, private equity continues to generate solid performance over all periods.

Annualized Returns (in percent) for Periods Ended March 31, 2021				
Fund Type	1-Year	3-Years	5-Years	10-Years
SERS Private Equity	24.53	17.62	17.57	16.55
Burgiss Benchmark	23.79	15.89	15.00	14.60

Source: Burgiss All Private Equity Index

After successfully navigating the events of 2020, the outlook for private equity in 2021 is positive. In the near term, the industry could be influenced by a wide range of factors that may include the economic effects of exiting a global pandemic, increased valuations, and global trade implications. Although it is too early to tell what impact these issues may have on the private equity market. In general, it is expected that fundraising and exit activity will accelerate in 2021 as sellers seek to take advantage of increased valuations and investor appetite for private equity continues to rise. As mentioned earlier, the increased price expectations for sellers has resulted in the average private equity firm paying a higher price to acquire new portfolio companies. However, private equity firms with finely tuned strategies and repeatable value-creation models will prosper. Top quartile private equity managers find ways to overcome problems, generate returns for their limited partners and earn the capability to raise additional funds.

With this in mind, the outlook for the SERS private equity portfolio is favorable. Current market conditions reflect positively on the style of investing employed by the general partners that make up the core of the SERS private

## **PORTFOLIO STRATEGY – Global Private Equity**

equity portfolio. Quality investments can be identified in the current market; however, finding these companies requires patience, discipline and the ability to fully understand the operations of the target company. The full impact of the pandemic on private equity still remains to be seen. However, navigating through the pandemic required firms to pay close attention to portfolio operations and in some cases reassess their approach to value creation. Top private equity firms understand and displayed their ability to create and maintain value in portfolio companies under difficult conditions in 2020, generating an opportunity for investors to more easily separate the top private equity firms from the rest of the pack. SERS' private equity portfolio is comprised primarily of general partners who have demonstrated their ability to identify, create value and exit companies in all market environments. In an effort to ensure the portfolio is properly positioned for future uncertainty, our goals for the fiscal year include: continuing to identify and invest with operationally focused managers who primarily target the middle market and avoid the competition in the large and mega space; increasing exposure to attractive investments that meet our criteria and offer lower costs through co-investments; and ensuring that we stay on top of market trends and opportunities by continuing to research and seek out managers offering investment strategies that deliver private equity like returns with differentiated and unique strategies. Additionally, as the Total Fund moves into what many believe will be a low return environment, we will seek to increase the allocation level of private equity to its new target of 12% in an effort to obtain the benefit of this higher returning asset class to the Total Fund level. This will however take time as private equity is a long-term asset class where manager selection is critical and additional capital takes more time to deploy.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives during FY2022:

- Manage the private equity portfolio and fiscal year commitments to reflect the increased investment allocation of 12% of the Total Fund by the end of fiscal year 2022, subject to identifying opportunities that meet SERS' investment criteria.
- Review the private equity portfolio strategy and structure and develop a plan to improve risk and return characteristics of the portfolio, achieve fee reductions and optimize manager counts as appropriate.
- Actively seek co-investment opportunities where appropriate with current SERS' private equity general partners who meet co-investment criteria, as outlined in the private equity co-investment guidelines.
- Research and identify new and innovative investment opportunities with managers who offer compelling return expectations. These new opportunities may be used for a combination of purposes to replace current managers who no longer meet SERS' investment criteria or to target strategies that are not currently a directly invested component of the private equity portfolio. Current areas of interest under consideration include China and Asia focused private equity, niche venture capital, GP led secondaries and investments managed by emerging and minority managers.

## PORTFOLIO STRATEGY - Global Fixed Income

### **INVESTMENT STRATEGY**

SERS invests in fixed income assets for the primary purpose of risk diversification and decreasing the overall risk of the investment plan. Fixed income assets may include sovereign debt securities, global corporates, securitized securities, private placements, convertibles, derivatives and currency.

SERS' Statement of Investment Policy sets the Fixed Income target allocation as follows:

	Target	Permissible Range
Global Fixed Income	19%	12% – 26%

The performance objective for the fixed income portfolio is to exceed the Bloomberg Barclays Capital US Aggregate Bond Index, net of manager fees, by 50 basis points over rolling three-year periods.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Implement the new fixed income guidelines pertaining to the new Tactical and Diversifying sector ensuring the selected strategies are optimally weighted relative to the expected risk and return objectives.*

The Tactical and Diversifying sector was funded in July 2020 and currently holds three fixed income-oriented alternative strategies, two COVID-related opportunistic strategies as well as the emerging market debt and opportunistic high yield mandates. The sector's weight was 15% of the Fixed Income portfolio at the end of March. The sector has been a strong contributor to portfolio FYTD performance while also bringing down absolute portfolio risk through diversification.

- *Ensure the Fixed Income portfolio has appropriate risk and return characteristics given the new Tactical and Diversifying sector manager changes and expected negative economic impacts from coronavirus.*

Since implementation at the beginning of the fiscal year, the Tactical and Diversifying sector has significantly improved the return/risk and the information ratios of the Fixed Income portfolio. The quick recovery in asset prices post the 2020 lockdown has been a strong tailwind for these out-of-benchmark exposures. Overall, Staff continues to closely monitor the portfolio risk and return and expects to reduce exposure to the Tactical and Diversifying sectors as markets continue to recover in 2021.

- *Review IMAs and Investment Guidelines to make necessary adjustments.*

One amendment was made to a side letter agreement for a Tactical and Diversifying strategy. Additionally, in 2020 JPM began including China in the GBI-EM benchmark and Staff opened a new China account allowing the portfolio to trade Chinese bonds in the emerging market debt strategy.

### **CURRENT MARKET CONDITIONS AND OUTLOOK**

The Bloomberg Barclays Capital US Aggregate Bond Index returned -2.12% for FY2021 through March 2021. The negative performance has been primarily driven by US Treasuries (UST), which was the poorest performing sector with a return of -4.88%. Negative performance in UST has been driven by rising interest rates and inflation expectations as the US economy continues to reopen in 2021. The benchmark 10-year US Treasury yield has risen from 0.65% in July 2020 to 1.74% at the end of March and is expected to be around 2.0% by the end of 2021. While high yield and emerging market debt were hit hardest in FY2020, they have seen the strongest FY2021 returns at 12.29% and 3.25%, respectively. High yield spreads have recovered to pre-pandemic lows and emerging markets stand to benefit from a weaker dollar and continued vaccine rollout in the second half of 2021. Investment grade corporates recovered quickly after March 2020 and returned 9.89% by December 31, 2021, but have since given back some of those gains with a fiscal year-to-date return of -0.23%. Residential mortgages returned -0.75% during the same period.

We have entered a period of positive macro data momentum as encouraging vaccine rollout allows for a meaningful pickup in growth in the second half of 2021. However, there are still large output and labor market gaps and limited prospects of seeing interest rate hikes in the coming year. With the exception of COVID-related

## **PORTFOLIO STRATEGY - Global Fixed Income**

sectors like airlines, hotels, and leisure, credit spreads have normalized and returned to pre-pandemic levels and default rates are expected to continue falling while recovery rates rise throughout 2021. Returns in fixed income are expected to be low to negative over the next several years due to a rising rate environment and slow long-term growth.

### **PORTFOLIO STRUCTURE**

The fixed income portfolio is currently weighted 43% core, 42% core plus and 15% to Tactical and Diversifying strategies. The portfolio continues to be underweight government assets and overweight credit sectors to earn more yield than the benchmark. Fixed income strategies that produce more income historically produce more return over the long-term, but short-term performance usually suffers as risk elevates and US Treasuries are favored as safe-haven assets. Given market expectations of rising interest rates, the portfolio has a short duration position.

Several new strategies were introduced to the portfolio at the beginning of the fiscal year when long/short credit, emerging market macro and fixed income arbitrage strategies were transferred from the MAS portfolio. Additionally, the portfolio made allocations to two opportunistic drawdown strategies, one focused on structured credit and the other corporate and emerging market debt. Along with the existing emerging market debt and opportunistic high yield strategies, these exposures constitute the Tactical and Diversifying sector that was created at the beginning of the fiscal year. This sector has had the desired effect of increasing performance and diversifying the sources of portfolio return relative to the Bloomberg Barclays US Aggregate Index. Staff will continue to monitor both markets and valuations and expects to be selectively overweight to certain fixed income sectors in fiscal year 2022.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- Ensure the fixed income portfolio has appropriate risk and return characteristics given credit spreads have already recovered to pre-pandemic levels and interest rates are expected to continue rising.
- Tactically manage the allocations to core, core plus and Tactical and Diversifying sectors to enhance risk and return. Continue to research other potential new and innovative investment opportunities.
- Review IMAs and Investment Guidelines to make any necessary adjustments.

## PORTFOLIO STRATEGY – Global Private Credit

### **INVESTMENT STRATEGY**

SERS invests in private credit to provide risk adjusted returns in excess of those offered by publicly traded fixed income securities and to generate a consistent stream of income.

SERS' Statement of Investment Policy sets the Global Private Credit target allocation as follows:

	Target	Permissible Range
Global Private Credit	3%	1% - 7%

The target allocation for Global Private Credit during the ramp-up period is set at 3% with a range of 1% - 7% for fiscal year 2022 and will increase to the policy target allocation of 5% with a range of 3% - 7% for fiscal year 2023. The performance objective for global private credit is to produce net of fee returns in excess of the 3-month LIBOR + 4.5%.

In 2017, the Alternative Reference Rates Committee selected the Secured Overnight Financing Rate (SOFR) as the rate to replace USD LIBOR. It is expected that after December 31, 2021, market participants will no longer utilize the USD LIBOR as the reference rate in loan documentation. In addition, it is expected that the USD LIBOR tenors will no longer be published after June 30, 2023. Staff is monitoring the transition and may need to change the Global Private Credit benchmark from the 3-month LIBOR to the replacement benchmark, which is expected to be a form of the SOFR, at some point during the fiscal year. Once it is determined that a benchmark replacement is required due to the discontinuation of LIBOR, Staff will notify the Board that a change is needed.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Increase the private credit allocation toward 5% of the Total Fund by making new investments that fit the SERS' investment policy. Target an allocation to private credit of 3% of the Total Fund by the end of fiscal year 2021 and 5% of the Total Fund by the end of fiscal year 2022, subject to identifying opportunities that fit SERS' investment criteria.*

Staff has made progress toward the fiscal year 2021 interim target allocation of 3%. To date, Staff has executed \$683 million in new capital commitments and total unfunded capital commitments has increased to \$870 million. An additional \$400 million in new capital commitments has been approved by the Investment Committee but are pending the execution of legal documents. If the full amount of capital commitments is executed, the total amount of unfunded capital commitments will increase to nearly \$1.3 billion. While Staff has made substantial progress toward ramping the portfolio, it will take time for the capital commitments to be called by the funds since most private credit managers draw investor capital evenly over a three or four-year period. Staff expects the ramp-up period to be longer than anticipated due to the time it takes for investor capital to be called in comparison to the original two-year ramp-up period for the portfolio. Therefore, Staff will extend the interim target allocation of 3% to the end of fiscal year 2022 and will increase the target allocation to 5% in fiscal year 2023. Staff continues to review investment opportunities that can be implemented within the private credit portfolio to reach the 5% target allocation.

- *Build the private credit allocation in line with the implementation guidelines and ensure appropriate risk and return characteristics are present within the new target allocation.*

Staff has executed \$583 million in capital commitments to investments that fall within the Direct Lending subasset class in order to bring that portion of the private credit portfolio closer to its target of 80%. The pending deals in the pipeline also fit within the Direct Lending subasset class. As the portfolio is ramped toward the target allocation and capital is called in the coming years, the subasset classes will fall within the ranges stated in the implementation guidelines. In addition, Staff has executed investments that are diversified across industries, geographies, and contain various types of private credit instruments. Most of the new investments have been made within the Direct Lending subasset class, which is primarily comprised of investments that are senior in the capital structure of a company, contain a contractual income component, are structured with robust covenants to protect investors, and have priority over a company's



## PORTFOLIO STRATEGY – Global Private Credit

cash flows or other assets in the event of a default. In addition, Staff has primarily invested in fund vehicles that do not have fund level leverage to further control risk within the private credit portfolio.

- *Make new investments that serve a primary purpose of the private credit allocation to generate consistent income for the Total Fund.*

All of the investments that have been executed or considered for the private credit portfolio include an income component, which is expected to comprise the largest part of the investment return. Most of the underlying investments within private credit funds include a contractual cash payment that is distributed to investors in the form of income on a quarterly basis. Staff also executed the first private credit co-investment, which includes a contractual cash income payment that SERS will receive.

### **CURRENT MARKET CONDITIONS AND OUTLOOK**

The private credit market continued to grow in 2020 and reached \$887 billion in assets under management as of June 2020. A total of \$110 billion was raised within private credit funds during 2020, which was a decrease from \$152 billion in 2019 and the first year-over-year decrease in capital raised since 2016. Similarly, the number of funds raising capital also decreased from 189 to 111 during 2020. Direct lending fundraising decreased the most out of the private credit strategies primarily due to the slowdown in private equity activity, while distressed and special situations strategies increased in size given the opportunity set brought about by the global pandemic. Private credit funds experienced markdowns early in 2020 in reaction to the volatility displayed in the public markets in anticipation of potential distress. However, as governments deployed stimulus into the economy and the economic outlook improved, valuations of private credit assets began to increase back toward par value. The tumultuous environment of 2020 tested the ability of private credit managers to navigate through a period of great uncertainty, but also provided a robust pipeline of lending opportunities. Despite the challenges that direct lending managers and their portfolio companies faced, the strategy continued to provide investors with an attractive yield close to 9%, which reflects a strong premium over the US High Yield market of 4.2% and the US 10-year Treasury of 0.9%. During the height of the market disruption brought about by the global pandemic, global leveraged loan yields quickly increased to 13.1% and lending within the syndicated bank loan market slowed, providing an opportunity for private credit managers to fill a lending void. Consequently, there was an increase in competition amongst private credit managers for larger deals valued at above \$1 billion, leading to larger fund raises that could deploy capital in that part of the market. Given the influx of debt financing needs, many private credit managers experienced an increase in spreads, tighter loan covenants, and equity cushions, creating a more lender-friendly environment.

The outlook for the private credit market is positive with considerable growth expected through 2025. The low interest rate environment is expected to persist in the coming years and investors are hunting for higher yielding investments that private credit funds can offer. Historically, the US private credit market has been the focal point for fundraising activity, but other markets like Europe and Asia continue to increase in size. The impacts from the global pandemic are expected to be felt by middle market companies for some time, which will continue to provide lending opportunities for private credit managers.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- Increase the private credit allocation toward 3% of the Total Fund by making new investments that fit the SERS' investment policy, subject to identifying opportunities that fit SERS' investment criteria.
- Build the private credit allocation in line with the implementation guidelines and ensure appropriate risk and return characteristics are present within the new target allocation.
- Make new investments that serve a primary purpose of the private credit allocation to generate consistent income for the Total Fund, while considering different strategies that add further diversification to the portfolio, such as venture debt, specialty finance, emerging markets, or other niche categories.
- Monitor the USD LIBOR transition to SOFR and implement the replacement benchmark at the appropriate time.



## PORTFOLIO STRATEGY - Global Real Assets

### **INVESTMENT STRATEGY**

The role of SERS' global real assets portfolio is to provide a stable income return from tangible assets, to be a partial inflation hedge over the long term and to provide low correlation to equities.

SERS' Statement of Investment Policy sets the Global Real Assets target allocation as follows:

	Target	Permissible Range
Global Real Assets	17%	14% - 20%

The performance objective for global real assets is to produce net of fee returns in excess of the NCREIF Property Index ("NPI"), one quarter in arrears, over a market cycle, with the income component of the return comprising a significant portion of the total return.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Formulate and implement a two-year plan to achieve and maintain a 17% allocation to Real Assets.*

The Real Assets portfolio ended 2020 with a Total Fund allocation of 14.7%. As of March 2021, the Real Assets portfolio has \$674 million of outstanding capital commitments. Staff made new commitments totaling \$475 million during 2020 to help increase the portfolio allocation and achieve the FY 2021 16% interim target. The majority of the new commitments will be called during FY2022. Staff continues to make new commitments during 2021 to help achieve a 17% allocation by FY2022.

- *Target demographic-driven real estate investments such as data centers, life science, and medical office versus GDP-driven sectors such as office. These sectors are anticipated to have higher rent growth and more durable income. This would maintain the overweight to the specialty property types within Real Assets.*

The Real Assets portfolio had a 10.1% allocation to the specialty property types at the end of 2020. Staff made a new commitment of \$100 million during 2020 to an existing manager to increase our exposure to the demographic-driven real estate investments. Staff expects the new \$100 million commitment to be called during FY 2022. Staff will continue to evaluate specialty property type managers in FY 2022.

- *Evaluate specific opportunities arising from the impacts of coronavirus and economic slowdown, including opportunistic strategies involving real estate recapitalizations.*

Staff committed \$100 million to a fund that is focused on capitalizing on opportunities arising from the pandemic in 2020. The commitment was made to an existing manager who will focus opportunistically providing rescue capital on stressed assets. As of March 2021, the manager has called 10% of SERS commitment.

- *As the infrastructure portfolio has been built out and is at its target allocation, switch focus to actively soliciting co-investment opportunities with existing infrastructure managers.*

Staff reviewed several co-investment opportunities during 2020 but did not make a new commitment. Staff will continue to review opportunities to expand our co-investment program in 2021.

### **CURRENT MARKET CONDITIONS AND OUTLOOK**

Returns for real estate properties were impacted by the pandemic in 2020. SERS' Real Assets portfolio returned 2.76% net of fees in 2020 versus a benchmark NPI return of 2.00% gross of fees, producing an excess return of 0.76%. The income return gross of fees during 2020 was 3.01%.

In general, 2020 was a challenging year for real estate. Real estate returns are typically driven by demographics, economic growth, interest rates, and property type fundamentals. However, COVID drastically changed the real estate markets. Large job losses and local restrictions impacted each property type differently

## PORTFOLIO STRATEGY - Global Real Assets

during 2020. COVID's impact on apartments in 2020 mostly depends on where the assets were located. Urban apartments struggled during the year as renters moved away from city centers and into suburban apartments with more space and amenities. The 4.5% vacancy level of multifamily properties was slightly higher than the previous year, but rent growth declined by about 4.8%.

Additionally, the shift to work from home has changed the way businesses and employees use offices. Office vacancy rates increased to about 15% and the future remains uncertain as more companies can provide employees the ability to work from home. Rental collections for office remained strong during the pandemic because of the long-term leases in place before the pandemic began.

Retail was severely impacted by the lockdowns during the pandemic. The best performing areas of retail were grocery anchored centers while restaurants and department stores lost foot traffic and were forced to temporarily shut down.

Industrial was the biggest winner during the pandemic as more consumers chose to place orders online and have items delivered. As e-commerce sales continue to grow, the demand for industrial warehouses will continue to support the future returns. Vacancy for industrial properties increased only slightly to 4.6%.

Valuations for properties declined in 2020 even though comparable transaction volumes were lower. SERS is currently overweight in the industrial and multifamily sectors and underweight in office and retail. For diversification, SERS' portfolio also has properties that are not in the benchmark, such as self-storage, single-family rentals, and senior housing.

The coronavirus has significantly impacted the outlook for 2021 real estate returns. Returns for Real Assets will mostly be driven by income in 2021 and total returns for the benchmark are expected to be approximately 4% per an industry consensus forecast. Infrastructure ended 2020 with an allocation of 26.3% of the Real Assets portfolio with the expectation for a higher allocation in FY2022 as capital commitments are called by managers. SERS' exposure to telecommunications, renewables, social, and healthcare are more defensive assets with contracted cash flows. In contrast, the transportation and energy assets in the portfolio are more exposed to economic cycles. Although coronavirus has impacted the transportation assets during 2020, those assets should see a strong recovery as the vaccine becomes broadly available and people begin to travel again.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- Formulate and implement a one-year plan to achieve and maintain a 17% allocation to Real Assets.
- Tactically manage real estate and infrastructure allocations to improve portfolio structure and returns without increasing risk.
- Evaluate new investment strategies for the Real Assets portfolio such as energy transition, secondaries, co-investment funds, and ESG focused funds.
- As the Real Assets portfolio has been built out, switch focus to actively soliciting co-investment opportunities with existing managers.

## PORTFOLIO STRATEGY - Cash Equivalents & Securities Lending

### **INVESTMENT STRATEGY**

SERS invests in cash equivalents for the purpose of earning market returns on cash held for benefits and expenses and to provide short-term cash needed to fund other asset classes. Cash equivalents are fixed income assets with maturities of less than 270 days and may include US government, asset-backed, corporate and high quality money market-type securities.

SERS' Statement of Investment Policy sets the cash equivalent target allocation as follows:

	Target	Permissible Range
Cash Equivalents	2%	0% – 5%

The performance objective for cash equivalents is to exceed the return on 30-day US Treasury Bills.

The securities lending program is designed to be a low risk, intrinsic value focused strategy that generates additional income for the plan by temporarily lending equity and fixed income securities. All loans are collateralized with cash at 102-105% of security market value and reinvested in government money markets and repurchase agreements. Loans to approved borrowers are limited to 25% of the average monthly market value of the loan from the prior year. Fixed income security loans require a ten basis point minimum spread at loan initiation. The program is implemented through a third-party lending agent and collateral reinvestment manager.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Research and monitor commercial paper credits and money market funds.*

Staff utilized the Fidelity and Federated Hermes money market complexes for investing the daily short-term cash. Fidelity and Federated offer competitive yields relative to money market competitors and has higher liquidity than the commercial paper market. The commercial paper market has never quite recovered from '08 financial crisis and Staff has not purchased a commercial paper credit in several years. Going forward, Staff does not anticipate making commercial paper purchases given the limited number of issuers and tenors available.

- *Evaluate opportunities to improve the cash management system and maintain liquidity requirements.*

After only investing in Fidelity's government money market fund since March 2020, a portion of the short-term cash was invested in Federated's institutional prime money market fund in December 2020. Federated's prime money market fund offers same day liquidity with a higher yield. Staff continues to keep the majority of cash in the Fidelity government money market fund due to the floating net asset value declining and low incremental yield earned in the prime money market fund.

### **CURRENT MARKET CONDITIONS AND OUTLOOK**

Yields on money market funds tend to follow short-term rates set by the Federal Reserve on a lagged basis. With the Fed expected to keep rates on hold until at least 2023, money market yields will continue to be low in fiscal year 2022. These low yields will continue to suppress the income earned on both the cash equivalents and securities lending reinvestment portfolios.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- Research and monitor money market funds.
- Evaluate opportunities to improve the cash management process and maintain liquidity needs for the portfolio.
- Monitor the securities lending program for opportunities to generate incremental income and ensure that it is operating within the program implementation guidelines.

## PORTFOLIO STRATEGY – Opportunistic & Tactical

### **INVESTMENT STRATEGY**

SERS invests in opportunistic investments for the purpose of earning returns greater than the Bloomberg Barclays US Aggregate Bond Index + 2% for investments that do not fit within the existing asset classes. The investments are defined as tactical or non-traditional investment opportunities. Such investments may involve capitalizing on short-term market dislocations or other unique situations or innovative strategies including tactical allocation.

SERS' Statement of Investment Policy sets the Opportunistic investments target allocation as follows:

	Target	Permissible Range
Opportunistic Investments	0%	0% – 5%

The performance objective for opportunistic investments is to exceed the return of the Bloomberg Barclays US Aggregate Bond Index + 2%.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Search for possible opportunistic investments for the Fund that are expected to exceed the Bloomberg Barclays US Aggregate Bond Index + 2%, with an emphasis on high yielding investments. This will be accomplished through the evaluation of markets, strategies and specific funds that offer compelling risk adjusted returns. Investments that pass initial screening will undergo detailed due diligence prior to staff recommendation.*

Two new commitments have been made as of March 2021, totaling \$125 million. The first commitment is to a fund focused on investing in structured products. The next commitment is to a distressed debt fund that will invest in both stressed trading and debt for control situations, with an emphasis on companies based in the United States and Europe.

In addition to the new commitments, there are new opportunities in the deal pipeline, including several that could lead to investment recommendations to the SERS investment committee in the coming months.

- *Actively manage the liquid portion of the portfolio to improve the risk and return profile.*

Staff continues to closely monitor and manage the liquid portion of the portfolio. Two legacy funds from the SERS multi asset strategy portfolio have moved to the opportunistic portfolio this year with the opportunistic team now responsible for the oversight of these investments. Staff is evaluating several additional multi-asset strategy funds that could move to the opportunistic portfolio prior to fiscal year end.

### **CURRENT MARKET CONDITIONS AND OUTLOOK**

The opportunistic portfolio consists of funds that seek to take advantage of market dislocations or which do not fit within the risk and return objectives of other asset classes. The return objective of the portfolio is to outperform the Bloomberg Barclays US Aggregate Bond Index + 2%. Several themes have arisen in the portfolio including financial deleveraging, distressed assets, structured credit, financial restructuring, and long/short multi strategy funds.

In addition to the opportunities discussed above, staff continues to evaluate new strategies that can take advantage of rapidly changing market conditions. For example, the outlook for inflation has changed in the last year due to government stimulus. As a result, staff is researching strategies that could act as a hedge in an inflationary environment.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- *Search for possible opportunistic investments for the Fund that are expected to exceed the Bloomberg Barclays US Aggregate Bond Index + 2%, with an emphasis on high yielding investments. This will be accomplished through the evaluation of markets, strategies and specific funds that offer compelling risk*

## **PORTFOLIO STRATEGY – Opportunistic & Tactical**

adjusted returns. Specific investments under consideration include strategies that focus on climate sustainability as well as commodity-focused strategies that can serve as an inflation hedge. Investments that pass initial screening will undergo detailed due diligence prior to staff recommendation.

- Actively manage the liquid portion of the portfolio to improve the risk and return profile.

## PORTFOLIO STRATEGY – Overlay Program

### **INVESTMENT STRATEGY**

SERS invests in overlay strategies that trade derivatives of the Total Fund's underlying assets and currency exchange rates to enhance the Total Fund portfolio's efficiency. The overlay program includes tactical asset allocation and active currency strategies.

The tactical asset allocation strategy aims to add value to the Total Fund performance through active allocations (long/short) across stocks and bonds thereby exploiting short-term macro market dislocations. The active currency strategies aim to add value and risk diversification to the Total Fund, as well as help manage currency risk by utilizing short-term inefficiency in the foreign exchange markets and low correlation of the strategies to the major asset classes such as US equity and fixed income.

The program is fully tactical; exposures to any overlay strategies in this program are not required by the Statement of Investment Policy.

The overlay program is targeted to add 10 to 20 bps excess return to the Total Fund's performance on a three to five year horizon. Tracking errors of the tactical rebalancing strategy and the currency program are expected in the ranges of 5 to 15 bps and 5 to 8%, respectively.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Actively monitor the Tactical Asset Allocation Strategy to enhance the impacts of the strategy to the Total Fund's performance.*

SERS Tactical Asset Allocation manager, Russell, initiated long equity trades in late February 2020 and added to this position in early March 2020, shorting fixed income. This trade suffered a loss as equity markets continued to trade down through much of March 2020. The trade then began to rebound throughout the second and third quarters of 2020 and was reversed in August 2020 at a gain. FYTD since inception, the program has netted a \$46.76 million gain. The program has added 5bps to Total Fund return over the last five years.

AlphaEngine (AE) was approved by the March 2021 Investment Committee as an additional Tactical Asset Allocation manager. AE is complementary to Russell as:

1. AE has positions on constantly versus just several times annually.
2. AE will place both long and short equity trades versus long only.
3. AE will have additional exposures of commodities and precious metals along with equity and fixed income.

AE is expected to be implemented with a \$500 million notional exposure at a 1% risk target later this Spring.

- *Actively monitor the Active Currency Strategies to improve the program's risk and return characteristics.*

During the Spring of 2020, Staff increased currency manager PE Global's target volatility from 3% to 6%, while simultaneously cutting their notional exposure from \$900 million to \$450 million. Gold was also added to PE's currency investment selections. After these changes were approved, PE began experiencing losses as their safe-haven currency overweights declined in value during 2020's risk-on market. The Staff guideline changes exacerbated the losses due to increasing the risk allowed in the mandate. FYTD since inception, the program has netted a \$39 million loss from PE's underperformance FYTD and from prior terminated manager losses. The program has subtracted 8bps from Total Fund return over the last five years.

### **FY2022 OBJECTIVES**

Staff will focus on the following objectives in FY2022:

- Actively monitor the Tactical Asset Allocation Strategy to enhance the impacts of the strategy to the Total Fund's performance.
- Actively monitor the Active Currency Strategies to improve the program's risk and return characteristics.

## PORTFOLIO STRATEGY - Investment Risk Management & Analytics

Investment Risk Management and Analytics is responsible for the provision and communication of diligent, thorough, timely and forward-looking investment risk analytics and other investment analytics to the Board and Investment Staff.

The equity market was extremely volatile in 2020. In March, the average daily S&P 500 Implied Volatility (VIX) reached 82.6%, its all-time high level, concurrent with the market though related to the COVID-19 pandemic. The volatility index fell significantly in April 2020 and further declined to 30.4% by the end of June 2020 as the equity market recovered from the lows. Market volatility spiked again for a brief period in late October and early November 2020, then oscillated in the range of 20% to 26% for the rest of 2020 and the first quarter of 2021 while markets recovered, recouping all losses and generating new gains.

The total risk of the Total Fund is expected to be 15.64% based on December 2020 holdings. The active risk is projected to be 1.31%, below the 3% limit stated in the Statement of Investment Policy.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION:**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Provide risk forecasts and analyses of the Total Fund and asset class portfolios.*

Staff utilized the risk system to generate risk analyses of the Total Fund and asset classes. The risk analyses based on SERS' investment holdings provide forecasted volatility of returns of portfolios. The analyses also provide portfolio risk decomposition by strategies, as well as by factors.

- *Report risk of the Total Fund to the Board on a quarterly basis*

Staff reported volatility of the Total Fund's returns, providing both total risk and active risk decomposition analysis by asset classes and by major risk factor groups. The total risk decomposition by asset classes focused on their role in the Total Fund. The total risk decomposition by factors focused on cross factor exposures, especially equity factors among the asset class portfolios as the equity factors are the largest risk driver of the Total Fund. The active risk decomposition showed risk contribution from the investment implementation, which is comprised of active allocation among the asset classes and active selection of strategies and securities.

- *Communicate asset class portfolio's risk with asset class investment officer(s) and discuss any potential changes of the portfolio structure on a quarterly basis.*

Staff discussed the risk profile of asset class portfolios with each asset class team. The discussion was focused on i) trend and level of forecast risks, ii) the portfolio's risk structure in terms of manager line-up and factor tilts and iii) the portfolio's sensitivity to market movements. The discussions assisted each asset class team in balancing their portfolio risks and minimizing unintended risk tilts.

- *Provide return attribution analysis of the Total Fund and asset classes of the Fund to the Investment Strategy Team.*

Staff reported monthly return attribution analysis of the Total Fund, analyzing effects of active weights on alpha generation of each asset class. The analyses were presented to the Investment Strategy Team. Staff also delivered to the Investment Strategy Team attribution reports of each asset class portfolio analyzing the contribution of each account within an asset class.

- *Implement a new risk system should SERS select a new provider, ensure a smooth and efficient transition, and develop report packages tailored to fit the Investment Strategy Team's needs for return attribution analysis of the Total Fund and asset classes of the Fund.*

As the service contract with the existing service provider was extended for a year until June 2021, Staff continued to work with the finalists of the 2020 search in order to evaluate their capacity in data management; risk modelling especially for private credit and private real estate; and report customization. Over the course of the year, one provider showed significant improvements in all areas listed above, thus

## **PORTFOLIO STRATEGY - Investment Risk Management & Analytics**

proved to be a better fit to SERS. The subscription negotiation is in process at the time this report was written.

- *Perform other portfolio and market analyses and research as needed.*

Staff conducted analyses of the Total Fund liquidity and leverage. Staff also conducted portfolio and market analyses as needed or upon request.

### **FY2022 OBJECTIVES:**

Staff will focus on the following objectives in FY2022:

- Provide risk forecast and analyses of the Total Fund and asset class portfolios.
- Report risk of the Total Fund to the Board and Investment Committee on a quarterly basis.
- Communicate asset class portfolio's risk with asset class investment officer(s) and discuss any potential changes of the portfolio structure on a quarterly basis.
- Provide return attribution analysis of the Total Fund and asset classes of the Fund to the Investment Strategy Team.
- Perform other portfolio and market analyses and research as needed.



## Investment Operations

The Investment Operations area is responsible for managing administrative activities for the Investment department, assisting the CIO and investment officers, and providing reports and information to Staff and the Board. The objectives for FY2022 remain consistent with those of FY2021 as these three broad categories reflect the primary duties of Investment Operations.

### **REVIEW OF FY2021 OBJECTIVES AND IMPLEMENTATION**

The FY2021 Annual Investment Plan objectives and related activities are as follows:

- *Coordinate, assist and participate in organizational initiatives including Policies, Procedures and Practices; fiscal budget; Subject Matter Experts (SMEs); and Corporate Emergency Preparedness Project (CEPP).*

Investment Operations assisted with the annual review and revisions to the Investment Department Policies, Procedures and Practices and participated in the system-wide Information Governance Project. Staff prepared and analyzed the fiscal budget for executive approval as well as participated in and provided feedback in relation to SME and CEPP activities.

- *Perform administrative duties and attend meetings for the Investment Committee, Strategy Team and Board meetings including establishing meeting dates and agendas, organizing and distributing documents to team members, producing reports and taking minutes.*

Operations attended all Investment Committee, Strategy Team and Board meetings. Agendas and documents were prepared and distributed and minutes were taken and distributed in a timely manner. Staff assisted with processing documents associated with hiring, terminating and redeeming of managers.

- *Assist with projects for the CIO and Investment officers including revising the Annual Investment Plan, updating the Statement of Investment Policy as needed, new manager searches as needed and aiding with special projects for Staff.*

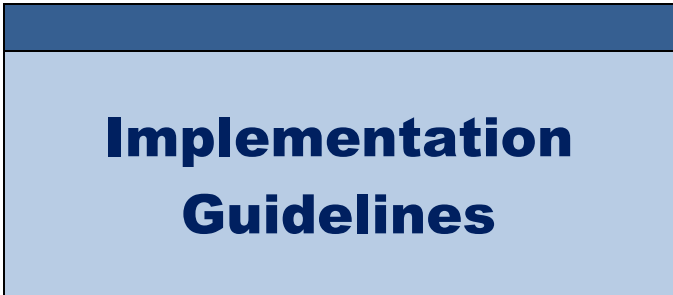
Operations coordinated revisions to and produced the FY2021 Annual Investment Plan and the amended Statement of Investment Policy, onboarding of new Investment staff, and new manager searches throughout the fiscal year.

### **FY2022 OBJECTIVES:**

Staff will focus on the following objectives in FY2022:

- *Coordinate, assist and participate in organizational initiatives including Policies, Procedures and Practices; Information Governance Project, fiscal budget; Subject Matter Experts (SMEs); and Corporate Emergency Preparedness Project (CEPP).*
- *Perform administrative duties and attend meetings for the Investment Committee, Strategy Team and Board meetings including establishing meeting dates and agendas, organizing and distributing documents to team members, producing reports and taking minutes.*
- *Assist with projects for the CIO and Investment officers including revising the Annual Investment Plan, updating the Statement of Investment Policy as needed, searches for new Investment managers as needed, and aiding with special projects for Staff.*

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**Implementation  
Guidelines**

## IMPLEMENTATION GUIDELINES - Global Equities

### I. ROLE

The role of Global Equities is to earn the equity risk premium over US Treasury bonds by investing in common stock of publicly-listed companies.

### II. ASSET ALLOCATION

	Total Fund Target	Range	
		Minimum	Maximum
Global Equity	45%	35%	55%

The US Equity, Non-US Equity Developed Market and Non-US Equity Emerging Market sub-asset classes have the following targets and ranges within Global Equities above:

	Global Equity Target	Range	
		Minimum	Maximum
US Equity (USE)	55%	50%	60%
Non-US Equity Developed Market	30%	25%	35%
Non-US Equity Emerging Market	15%	10%	20%

### III. BENCHMARK:

The Global Equity benchmark is a composite benchmark comprised of:

US Equity Portfolio	55%	Russell 3000 Index
Non-US Equity Developed Market	30%	MSCI World ex-USA Net Total Return Index (USD)
Non-US Equity Emerging Market	15%	MSCI Emerging Markets Net Total Return Index (USD)

### IV. PERFORMANCE OBJECTIVE

The annualized return objective, net of management fees, is as follows:

	Excess Return Target (over 3-year rolling periods)
US Equity Portfolio	10 basis points over USE benchmark
Non-US Developed Market Equity Portfolio	50 basis points over the Non-USE developed market benchmark
Non-US Emerging Market Equity Portfolio	50 basis points over the Non-USE emerging market benchmark
Global Equity Portfolio	28 basis points over Global Equity composite benchmark in Section III. Benchmark above

### V. PORTFOLIO DESIGN AND CONSTRUCTION:

The USE and Non-USE developed and emerging market portfolios are constructed using a multi-manager line-up and a combination of active and passive strategies to deliver risk-adjusted performance relative to their respective benchmarks. Portfolio design will consider risk/return characteristics, manager count and investment management fees.

### VI. PERMISSIBLE INVESTMENTS

Security Type	US Equity Portfolio	Non-US Equity Portfolio
Common Stock	Y	Y
Stock Treated as Common Stock	Y	Y
Cash / Treasuries	Y	Y
Preferred Stock	Y	Y

## IMPLEMENTATION GUIDELINES - Global Equities

Convertible Rights	Y	Y
Warrants	Y	Y
Depository Receipts	Y	Y
REITS	Y	Y
Rule 144a Issues	Y	Y
Private Placement	Y	Y
IPOs	Y	Y
Commingled Funds	Y	Y
Exchange Traded Funds	Y	Y
Futures	Y	Y
Options	Y	Y
Currency Forwards	N	Y
Currency Futures	N	Y
Currency Options	N	Y
Country Funds	N	Y

### VII. RISK MANAGEMENT

Active Risk Target	
US Equity Portfolio	Tracking Error of 1.0% with a range of 0.0% to 1.5%
Non-US Equity Developed Market Portfolio	Tracking Error of 1.5% within a range of 0.0% to 3.0%
Non-US Equity Emerging Market Portfolio	Tracking Error of 2.5% within a range of 0.0% to 4.0%

US Equity Implementation Guidelines			
	Investment Benchmark	Global Equity Target Allocation	Permissible Range
<b>US Equity Allocation</b>	Russell 3000 Index	55%	50% - 60%
Portfolio Structure			
Capitalization			
Large Cap Equity	Russell 1000 Index	Neutral to BM	+/- 5%
Large Cap Active	Manager Specific	-	0% - 25%
Large Cap Passive	Russell 1000 Index	-	75% - 100%
Small Cap Equity	Russell 2000 Index	Neutral to BM	+/- 10%
Small Cap Active	Manager Specific	100%	n/a
Style			
Growth	Manager Specific	Neutral to BM	+/- 5%
Value	Manager Specific	Neutral to BM	+/- 5%

Factors such as currency, sector and country limits are manager specific and outlined in each manager's Investment Guidelines. Aggregate portfolio characteristics such as P/E, B/P, yield, size, etc., shall be within a reasonable range of the US equity benchmark.

## IMPLEMENTATION GUIDELINES - Global Equities

<b>Non-US Equity Implementation Guidelines</b>			
	<b>Investment Benchmark</b>	<b>Global Equity Target Allocation</b>	<b>Permissible Range</b>
<b>Non-US Equity Developed Markets</b>	MSCI World ex-USA Net Total Return Index (USD)	30%	25 - 35%
<b>Non-US Equity Emerging Markets</b>	MSCI Emerging Markets Net Total Return Index (USD)	15%	10 – 20%
<b>Broad Market Exposure</b>			
ACW ex-US + Developed Markets Active	Manager Specific	70%	60% - 80%
Developed Markets Passive	MSCI World ex US Index (\$net)	30%	20% - 40%
Emerging Markets Active	MSCI Emerging Markets Index (\$net)	100%	+/- 10%
<b>Portfolio Structure</b>			
<b>Capitalization</b>			
Large Cap Equity	Manager Specific	BM Weight	+/- 10%
Small to Mid-Cap Equity	Manager Specific	BM Weight	+/- 10%
Small Cap Equity	Manager Specific	BM Weight	+/- 10%
Micro Cap Equity	Manager Specific	BM Weight	+/- 5%
<b>Style</b>			
Growth	Manager Specific	Neutral to BM	+/- 10%
Value	Manager Specific	Neutral to BM	+/- 10%

Factors such as currency, sector and country limits are manager specific and outlined in each manager's Investment Guidelines. Aggregate portfolio characteristics such as P/E, B/P, yield, size, etc., shall be within a reasonable range of the Non-US developed and emerging market equity benchmarks.

## IMPLEMENTATION GUIDELINES – Global Private Equity

### I. ROLE

SERS invests in private equity to provide returns in excess of those provided by publicly-traded equities to compensate for private equity's liquidity and concentration risk.

### II. ASSET ALLOCATION

The private equity target asset allocation is established with periodic asset allocation studies. The most recent asset allocation study authorized a 12% allocation target to private equity with a range of 8% - 16%.

### III. BENCHMARK

Private equity performance is benchmarked to the Burgiss All Private Equity benchmark.

### IV. PERFORMANCE OBJECTIVE

The performance objective for private equity is to provide net returns in excess of the Burgiss All Private Equity Benchmark. Over time periods of five years and longer Private Equity net returns are expected to exceed SERS Global Equity portfolio by 2%.

### V. PORTFOLIO DESIGN AND CONSTRUCTION

Capital allocation among the various market segments is a critical driver for the long-term success of the private equity portfolio. Capital allocation risk is controlled in a portfolio structure incorporating long-term sub asset target allocations.

Long-term sub-asset target exposure is detailed below:

	Target	Range	
		Minimum	Maximum
Buyout			
Small/Middle	60%	50%	70%
Large/Mega	15%	5%	25%
Total Buyout	75%	55%	95%
Venture Capital	0%	0%	10%
Special Situations	25%	5%	35%
<b>Total</b>	100%		
Domestic	75%	55%	85%
International	25%	15%	45%
<b>Total</b>	100%		
Primary Commitments	100%	80%	100%
Fund of Funds	0%	0%	15%
Co-Investments	0%	0%	10%
<b>Total</b>	100%		

The portfolio is tilted toward buyout investments and does not have a target allocation to venture capital due to higher risk and manager selection issues. Within buyouts, the preference is for small and middle market managers with a significant value creation approach and de-emphasizes larger firms with a financial engineering approach.

## IMPLEMENTATION GUIDELINES – Global Private Equity

### VI. PERMISSIBLE INVESTMENTS

Investment Structure	
Limited Partnership Interests	Y
Discretionary Managers investing in Private Equity Partnerships	Y
Co-Investments	Y
Separate Accounts	Y

Investment Type	
Buyouts	Y
Venture Capital	Y
Special Situations (secondary interests, distressed debt or equity, mezzanine, co-investments, energy, etc.)	Y

#### **Buyout**

Net Expected Return 10-15%, Moderate Risk

Capital is typically invested in more established companies, those further along the business life cycle having relatively predictable cash flows and the ability to raise capital along the entire capital structure, including secured and unsecured debt. Buyouts are targeted to represent 75% of the private equity portfolio.

#### **Venture Capital**

Net Expected Return: 15-25%, High Risk

Venture capital equity is targeted at companies in the earliest phases of a business life cycle. Companies may be classified as seed, early, middle and late stage and are characterized by their inability to access public equity and other forms of capital such as secured and unsecured debt. These companies have uncertain revenues and a need for cash to build their businesses and are subject to high failure rates. Venture capital is targeted to represent 0% of the portfolio.

#### **Special Situations**

Net Expected Return: 10-20%, Moderate Risk

Many private equity opportunities have characteristics of buyout or venture capital but have enough differences as to require separate classification. These investments include energy, distressed debt, mezzanine, opportunity and secondary funds. Special situations is targeted to represent 25% of the portfolio.

#### **Co-Investments**

Net Expected Return: 15-20%, Moderate Risk

Co-Investments are direct investments in a single asset of a multi-asset fund, made alongside the Fund's investment in the asset. Typically, co-investments are offered on more attractive economic terms and shorter time frames than those of the Fund. Co-Investments are targeted to represent up to 10% of the portfolio.

### VII. RISK MANAGEMENT

The primary risk management tool in private equity is industry diversification as well as extensive due diligence of prospective investments. Monitoring is managed through a combination of quantitative and qualitative constraints. The following sections identify the most significant risks with private equity investments and the method of control.

#### **Liquidity Risk**

Private equity investments are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity typically results in a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits.



## **IMPLEMENTATION GUIDELINES – Global Private Equity**

### **Geographic Risk**

Geographic risk is controlled through a long-term international target exposure of 25% by market value.

### **Vintage Risk**

Vintage reflects the year of first capital draw and vintage risk refers to the variability of private equity commitments over time. The investment-pacing model controls the short and long-term private equity commitment amounts and attempts to minimize vintage risk while achieving targeted exposure. Commitments will be dependent on the availability of investments that meet SERS' investment criteria and will not be driven by the target investment pace in any given year.

### **Manager Risk**

Manager risk consists of two elements, managing the exposure within a partnership and controlling the number of general partners in our private equity portfolio. Partnership exposure is controlled by limiting the commitment size within a partnership and the maximum commitment to a partnership will be 25% of a fund's size. The 25% limit does not apply to funds committed to a discretionary manager or a separate account. The maximum market value exposure to a single manager is targeted to be less than 20% of the portfolio. The optimum number of general partners in the portfolio varies with time.

### **Firm Risk**

Firm risk is the exposure to a private equity general partner and is controlled by limiting the maximum commitment to funds operated by a general partner and its affiliates.

### **Currency Risk**

The private equity program accepts the currency risks consistent with the geographic constraints. Private equity partnerships generally do not hedge currency risk and the private equity program will not implement currency hedges.

### **Industry Risk**

Typically, private equity partnerships are permitted to invest in a wide variety of industries. Industry risk is controlled primarily through appropriate diversification across classes and subclasses.

### **Leverage Risk**

General partners invest capital from private equity partnerships throughout the capital structure of firms. The capital markets control the maximum leverage available to the general partners and limited partners control leverage exposure through partnership selection and portfolio construction.

## IMPLEMENTATION GUIDELINES – Global Fixed Income

### I. ROLE

The primary role of diversified fixed income is to reduce the overall risk of the investment plan. Fixed income securities should provide stable income returns through yield oriented assets. Fixed income provides risk reduction through lower correlations to the investment program.

### II. ASSET ALLOCATION

The global fixed income allocation is established with periodic asset allocation studies. The most recent asset allocation study authorized a 19% market value exposure to global fixed income with a range of 12% - 26%.

### III. BENCHMARK

Global fixed income performance is benchmarked to the Bloomberg Barclays US Aggregate Bond Index.

### IV. PERFORMANCE OBJECTIVE

The annualized return objective for the global fixed income portfolio is 60 basis points net of fees above the benchmark over rolling three year periods and is comprised of the following strategies:

Strategy	Expected Excess Return	Tracking Error	Benchmark
Core	20 basis points	N/A	Bloomberg Barclays US Aggregate
Core Plus	60 basis points	N/A	Bloomberg Barclays US Aggregate
Tactical & Diversifying	200 basis points	N/A	Bloomberg Barclays US Aggregate
Total Portfolio	60 basis points	0 – 5%	Bloomberg Barclays US Aggregate

### V. PORTFOLIO DESIGN AND CONSTRUCTION

SERS seeks to obtain broad fixed income market exposure to gain diversification while receiving income. The portfolio is 100% externally managed in active strategies, in broad mandates of core, core plus, and Tactical & Diversifying strategies. Core mandates invest primarily in benchmark type securities. Core sector weightings can deviate from the benchmark, depending on the external manager's market views and strategies. Core plus mandates allow investments in all sectors of the Bloomberg Barclays US Aggregate Bond Index with additional allocations to the extended sectors of high yield, Non-US debt and emerging market debt. The Tactical & Diversifying sector invests in return seeking or diversification enhancing strategies and can provide high excess returns. The sector invests in emerging market debt, high yield, long/short credit and fixed income relative value arbitrage strategies.

Below are the current sector exposure limits:

Strategy	Range	
	Minimum	Maximum
Core	30%	70%
Core Plus	25%	50%
Tactical & Diversifying	5%	20%

## IMPLEMENTATION GUIDELINES – Global Fixed Income

### VI. PERMISSIBLE INVESTMENTS

Security Type	Core	Core Plus	Tactical & Diversifying
<u>Governments:</u>			
US Treasuries and Agencies	Y	Y	Y
Sovereigns/Quasi-Sov. in US \$	Y	Y	Y
Sovereigns/Quasi-Sov. in local currency	N	Y	Y
<u>Corporates:</u>			
US Corporates	Y	Y	Y
Non-US Corporates in US \$	Y	Y	Y
Non-US Corporates in local currency	N	Y	Y
High Yield	N	Y	Y
Bank Loans	N	Y	Y
<b>Mortgages</b>	Y	Y	Y
<b>Municipals</b>	Y	Y	Y
<u>Other:</u>			
144 (A)s	Y	Y	Y
Commingled Funds	Y	Y	Y
Currency	N	Y	Y
Derivatives	N	Y	Y
Money Markets	Y	Y	Y
Repurchase Agreements	Y	Y	Y

### VII. RISK MANAGEMENT

For strategies held in separate accounts, the following risk factors are controlled through limits specified in each manager's Investment Manager Agreement (IMA) and Investment Guidelines. Duration, sector and credit risk are reviewed on a total portfolio basis quarterly by SERS:

#### **Interest Rate**

Controlled by duration band limits around the benchmark duration.

#### **Yield Curve Risk**

Controlled by duration band limits around the benchmark duration.

#### **Sector Risk**

Riskier sectors like high yield, non-US, non-agency mortgages and CMBS are controlled around set limits with each individual manager. Portfolios are allowed 25% maximum exposure to any one industry.

#### **Credit Risk**

Portfolios must maintain a minimum exposure to investment grade securities. In addition, each manager of individual portfolios has an established average weighted credit quality that must be maintained at all times.

#### **Currency Risk**

Currency is not hedged at the overall portfolio level. Managers who demonstrate skill are allowed to purchase non-US securities on a hedged or unhedged basis or take direct currency positions without owning securities.

#### **Issuer Risk**

Issuer limits are specified in each IMA investment guidelines.

## **IMPLEMENTATION GUIDELINES – Global Fixed Income**

### **Liquidity Risk**

Accounts have a maximum 144(A) limit without registration rights.

### **Active Risk**

Normal tracking error is expected to be 2-4% over any rolling three-year time horizon. During periods of increased volatility, tracking error should not exceed 5% over any rolling three-year time horizon.

## IMPLEMENTATION GUIDELINES – Global Private Credit

### I. ROLE

The role of SERS' private credit portfolio is to provide risk adjusted returns in excess of those provided by publicly traded fixed income securities and to generate a consistent stream of income.

### II. ASSET ALLOCATION

SERS' Statement of Investment Policy sets the private credit target allocation at 5%, with a range of 3% to 7%. The target allocation for Global Private Credit during the ramp-up period is set at 3% with an interim range of 1% to 7% for fiscal year 2022 and will increase to the policy target allocation of 5% for fiscal year 2022.

### III. BENCHMARK

The private credit benchmark is 3-month LIBOR + 4.5%.

### IV. PERFORMANCE OBJECTIVE

The performance objective of the private credit portfolio is to provide net returns in excess of the SERS Global Fixed Income portfolio over time periods five years and longer, with the income component of the return comprising a significant portion of the total return.

### V. PORTFOLIO DESIGN AND CONSTRUCTION

The private credit portfolio is designed to gain exposure to various aspects of the private credit market with a focus on consistent income generation. It is expected that a greater portion of the private credit portfolio will be allocated to direct lending investments with higher expected cash yields.

Long-term sub asset target exposure is detailed below:

	Target	Range	
		Minimum	Maximum
Direct Lending	80%	60%	100%
Mezzanine	0%	0%	10%
Stressed/Distressed	10%	0%	15%
Structured Credit/Other	10%	0%	15%
<b>Total</b>	100%		
Domestic	50%	40%	85%
International	50%	15%	60%
<b>Total</b>	100%		
Primary Commitments	100%	80%	100%
Secondaries	0%	0%	10%
Co-Investments	0%	0%	10%
<b>Total</b>	100%		

The portfolio is tilted toward direct lending investments and does not have a target allocation to mezzanine due to the structure of investments typically containing a larger portion of equity and a less predictable cash income component than direct lending.

## IMPLEMENTATION GUIDELINES – Global Private Credit

### VI. PERMISSIBLE INVESTMENTS

Investment Structure	
Limited Partnership Interests	Y
Co-Investments	Y
Separate Accounts	Y

Investment Type	
Direct Lending	Y
Mezzanine	Y
Stressed/Distressed	Y
Structured Credit and Other	Y

#### **Direct Lending**

Net Expected Return 6-8%, Moderate Risk

Direct Lending represents loans made directly to small to medium size companies; secured by assets/cash flows/contracts, etc. depending on the type of loan. Direct Lending is targeted to represent 80% of the global private credit portfolio.

#### **Mezzanine**

Net Expected Return: 8-12%, High Risk

Mezzanine debt is subordinated to senior loans and typically is structured as an unsecured fixed or floating rate loan with an equity component. Mezzanine is targeted to represent 0% of the global private credit portfolio.

#### **Stressed/Distressed**

Net Expected Return: 12-25%, High Risk

Stressed/Distressed debt represents loans made to companies that are financially stressed and/or are likely to go through restructuring/bankruptcy. These investments typically have longer holding periods where the lender sometimes is seeking to take control of the company. Stressed/Distressed is targeted to represent 10% of the global private credit portfolio.

#### **Structured Credit & Other**

Net Expected Return: 5-20%, Moderate to High Risk

Structured credit includes investments in collateralized loan obligation tranches and other asset backed securities. Other private credit investments include specialty financing, non-performing loans, and other investment types that do not fit within the other categories. Structured Credit & Other is targeted to represent 10% of the global private credit portfolio.

### VII. RISK MANAGEMENT

The primary risk management tool in private credit is extensive due diligence of prospective investments and diversification. The following sections identify the most significant risks of private credit investments and the method of control.

#### **Credit Risk**

Credit risk is the primary risk associated with the asset class. Thorough due diligence of investments will be completed to ensure the general partners have sufficient measures in place to monitor and assess the risks involved with underlying investments, as well as the capabilities to structure loans with adequate covenants to protect the lender.

#### **Interest Rate Risk**

Interest rate risk is inherent within the private credit portfolio since investments are typically structured as floating rate credit instruments and interest rates will fluctuate over time. The risk is managed by the general

## IMPLEMENTATION GUIDELINES – Global Private Credit

partners through the structuring process to ensure appropriate interest rate floors and other measures are in place to manage an acceptable level of interest income.

### Liquidity Risk

Private credit investments are illiquid but have shorter holding periods than other private security types, with 3 – 5 years being a typical holding period. Investments are typically held until maturity and selling prior to maturity typically results in a discount to fair market value. Liquidity risk is managed through the portfolio construction process by limiting the amount of exposure to more illiquid areas of private credit, such as distressed debt.

### Geographic Risk

International exposure refers to non-US investments and is limited to 60% of the portfolio.

### Vintage Risk

Vintage reflects the year of first capital draw and vintage risk refers to the variability of private credit commitments over time. The investment-pacing model controls the short and long-term private credit commitment amounts and attempts to minimize vintage risk while achieving targeted exposure. Commitments will be dependent on the availability of investments that meet SERS' investment criteria and will not be driven by the target investment pace in any given year.

### Manager Risk

Manager risk consists of two elements, managing the exposure within a partnership and controlling the number of general partners in the private credit portfolio. Partnership exposure is controlled by limiting the commitment size within a partnership and the maximum commitment to a partnership will be 25% of a fund's size. The 25% limit does not apply to funds committed to a discretionary manager or a separate account. The maximum market value exposure to a single manager is targeted to be less than 35% of the portfolio. The optimum number of general partners in the portfolio varies with time.

### Firm Risk

Firm risk is the exposure to a private credit general partner and is controlled by limiting the maximum commitment to funds operated by a general partner and its affiliates.

### Currency Risk

The private credit program does not hedge currency risk and relies upon its external managers to determine if such hedges are appropriate. Currency risk will be managed through geographic exposure limits, as shown above under geographic risks.

### Industry/Sector Risk

Typically, private credit partnerships are permitted to invest in a wide variety of industries and sectors. Industry/Sector risk is controlled primarily through appropriate diversification across classes and subclasses.

### Leverage Risk

The capital markets control the maximum leverage available to the general partners and limited partners control leverage exposure through partnership selection and portfolio construction. Leverage at an individual fund level is managed through the portfolio construction process.

### Valuation Risk

The valuation frequency for private credit is dependent upon the external managers' internal and external valuation policies, which are reviewed during the operational due diligence process.

## IMPLEMENTATION GUIDELINES – Global Real Assets

### I. ROLE

The role of SERS' global real assets portfolio is to provide a stable income return from tangible assets, to be a partial inflation hedge over the long term and to provide low correlation to equities.

### II. ASSET ALLOCATION

SERS' Statement of Investment Policy sets the global real assets target allocation at 17%, with a permissible range of 14% to 20%.

### III. BENCHMARK

The global real assets benchmark is the NCREIF Property Index (NPI), one quarter in arrears.

### IV. PERFORMANCE OBJECTIVE

The performance objective for global real assets is to produce net of fee returns in excess of the benchmark over a market cycle, with the income component of the return comprising a significant portion of the total return.

### V. PORTFOLIO DESIGN AND CONSTRUCTION

The global real assets portfolio is designed to achieve the performance objective, to manage risks and to focus on the overall role of global real assets within the Total Fund. SERS' Global Real Assets Implementation Guidelines set the private market, public market and asset type exposures for global real assets, as shown in the table below.

Strategy	Target	Range	
		Minimum	Maximum
Private Core Real Estate	60%	40%	80%
Private Non-Core Real Estate	10%	5%	20%
Private Infrastructure	25%	15%	40%
Public Market Real Assets	5%	0%	10%

Core real estate investments include substantially leased or fully operational institutional quality properties or projects located in developed markets. The revenue streams from core real estate are generally long duration and comprise a majority of the asset's total return. Core real estate strategies are typically implemented through open-end commingled funds.

Non-core real estate investments include value-added and opportunistic strategies in which properties or projects are re-leased, re-developed, or newly constructed, particularly in developing or transitional markets. This strategy has a higher return expectation, but also comes with greater risk due to the uncertainty of cash flows. Non-core real estate strategies are typically implemented through closed-end commingled funds.

Private infrastructure typically involves the movement of goods, people, water and energy (definition provided by JPMorgan Asset Management). The sectors include but are not limited to transportation, communication, social and regulated assets. Infrastructure revenue streams are typically long-dated, contractual and inflation linked. Private infrastructure is implemented through both open and closed end commingled funds.



## IMPLEMENTATION GUIDELINES – Global Real Assets

Public market real assets are securities of companies whose primary source of revenue comes from the operation of tangible assets, including, but not limited to, real estate (REITs), listed infrastructure, natural resources and master limited partnerships. While more liquid in nature, public market real assets exhibit greater volatility than privately-held real assets. Master limited partnerships, or MLPs, are publicly-traded limited partnerships that derive most of the partnership's cash flows from infrastructure and natural resource assets. The advantage of an MLP is that it combines the tax benefits of a limited partnership with the liquidity of a publicly-traded company.

### VI. PERMISSIBLE INVESTMENTS

The underlying investments included in the global real assets portfolio generally are tangible assets, have long term investment horizons or holding periods, produce attractive income returns and cash yields and provide a partial inflation hedge over the long term. Permissible investment structures and types are as follows.

Investment Structure and Type	
Limited Partnership Interests	Y
Co-Investments	Y
Separate Accounts	Y
Commingled Funds	Y
Joint Ventures	Y
Private Real Estate Equity and Debt	Y
Real Estate Investment Trusts (REITs)	Y
Private Infrastructure Equity and Debt	Y
Public Infrastructure Securities and MLPs	Y
Natural Resources and Commodities	Y

### VII. RISK MANAGEMENT

Qualitative constraints and quantitative measures are used to manage risk in the global real assets portfolio. The following sections identify the most significant risks with real asset investments and the method of control.

#### Real Estate Life Cycle Risk

Life cycle risk refers to the stage of an investment's life and generally falls into two categories, operating and non-operating. Operating investments are those that are leased or functioning to a level in which the contractual cash payments are supporting operations. Non-operating investments are those in pre-development, construction, conversion, or in a stage of major releasing. A significant portion of the private market real assets portfolio will be in operating investments in order to achieve global real assets' role.

	Operating	Non-Operating
Target Exposure	≥85%	≤15%
Current Exposure	95%	5%

#### Real Estate Property Type Risk

Property type risk refers to the level of exposure of the five property type categories in the private market real estate portfolio relative to the NCREIF Property Index. Property type risk will be managed through portfolio design and the use of diversified commingled funds. At least 80% of the private market real estate portfolio will be invested in the four primary property type categories including apartment, industrial, office and retail.

## IMPLEMENTATION GUIDELINES – Global Real Assets

(as of December 31, 2020)	NCREIF Property Index	Private Market Portfolio	Range
Apartment	25%	31%	15% - 40%
Industrial	21%	21%	15% - 40%
Office	35%	25%	15% - 40%
Retail	18%	11%	5% - 25% -
<i>Subtotal</i>	99%	88%	80% - 100%
Hotel/Other	1%	12%	5% - 20%
<b>Total</b>	100%	100%	

### Real Estate Geographic Risk

Geographic risk can be broken down into two segments: US regional exposure and non-US exposure. US regional exposure refers to the level of exposure in the four US regions in the private market real estate portfolio relative to the NCREIF Property Index.

(as of December 31, 2020)	NCREIF Property Index	Private Market Portfolio	Range
West	40%	36%	20% - 50%
East	31%	36%	20% - 50%
Midwest	8%	7%	5% - 20%
South	21%	21%	10% - 30%
Total	100%	100%	

### Global Real Assets Geographic Risk

Non-US exposure refers to the level of exposure of non-US investments in the total global real assets portfolio. Non-US exposure will be limited to 30% of the private market portfolio.

### Liquidity Risk

Private market real asset investments are illiquid, with both holding periods and commingled fund terms ranging from 7-10 years or more. Liquidity risk will be managed through target allocations to private and public market real assets as well as through portfolio design.

### Leverage Risk

Private market real asset investments typically are acquired with a combination of equity capital and mortgage financing. The amount of leverage per asset or pool of assets depends on debt availability, property type and asset life cycle. The amount of leverage and financing terms ultimately are the responsibility of SERS' external real asset managers and are governed and constrained by partnership agreements. The leverage maximum for the total private market real assets portfolio is 50% of the gross asset value of the private market real assets portfolio. Leverage risk will be managed through target allocations and portfolio design.

### Currency Risk

The global real assets program does not hedge currency risk and relies upon its external managers to determine if such hedges are appropriate. Currency risk will be managed through geographic exposure limits, as shown above under geographic risks.

### Valuation Risk

The valuation frequency for private market real assets is dependent upon the external managers' internal and external valuation policies, which are reviewed during the operational due diligence process.

### Manager Concentration Risk

A single manager utilizing core strategies shall not constitute more than 25% of the net assets of the global real assets program. For non-core strategies, a single fund commitment shall not constitute more than 7% of the net assets of the global real assets program and a single manager with multiple fund commitments, including co-investments, shall not constitute more than 20% of the net assets of the global real assets program.

## IMPLEMENTATION GUIDELINES – Cash Equivalents & Securities Lending

### I. ROLE

Short-term cash should provide liquidity for funding investment capital calls and operational expenses. Cash should be invested in conservative, low risk securities/funds to preserve capital for future expenditures and investments.

### II. ASSET ALLOCATION

The cash allocation is established with periodic asset allocation studies. The most recent asset allocation study authorized a 2% exposure to cash with a range of 0% - 5%.

### III. BENCHMARK

The short-term cash benchmark is the Citigroup 30-day Treasury Bill Index.

### IV. PERFORMANCE OBJECTIVE

The annualized return objective for the short-term portfolio is five basis points net of fees over the benchmark.

### V. PORTFOLIO DESIGN AND CONSTRUCTION

The cash portfolio is designed with preservation of capital in mind. A cash balance of one to three months of expenditures is usually maintained. A higher allocation to cash may also be used to preserve capital in volatile markets. The average weighted maturity of the portfolio will not exceed 20 days.

Risk is constantly assessed before investment purchases are made in the portfolio. Only top tier commercial paper is purchased. Money market holdings are also reviewed on a regular basis along with choosing a top tier money market provider with a deep credit analyst team and whose short-term investments are important to the organization.

The securities lending program is designed to be a low risk, intrinsic value focused strategy that can generate additional income for the system. The program is implemented through a third-party lending agent and collateral reinvestment manager. Separately, additional securities lending income is earned by the commingled passive global equity accounts.

### VI. PERMISSIBLE INVESTMENTS

Security Type	
US Treasury Bills	Y
Commercial Paper rated A-1/P-1 or higher	Y
Money Market Funds rated at least A-1/P-1	Y
Unrated Market Funds comparable to an A-1/P-1 equivalent fund	Y

### VII. RISK MANAGEMENT

#### Liquidity Risk

The weighted average maturity shall not exceed 20 days. All money market funds must provide daily liquidity.

#### Credit Risk

A commercial paper issuer must be on the approved credit list or approved by the Chief Investment Officer before purchasing. Market and issuer news are reviewed daily by the Senior Investment Officer – Global Fixed Income. Money market funds must regularly send a holdings report to SERS, where it is reviewed on a regular basis.

#### Issuer Risk

Single issuer commercial paper investments are limited to \$20 million. Related entity commercial paper investments are limited to the lower of 30% of the short-term account or \$40 million. Overnight commercial paper issuer maturities are limited to \$50 million.

## **IMPLEMENTATION GUIDELINES – Cash Equivalents & Securities Lending**

### **Securities Lending Risk**

All loans will be collateralized with cash at 102% for US securities and 105% for non-US securities and marked-to-market daily. Collateral will be reinvested in government money market funds and/or repurchase agreements. Loans on fixed income securities will be subject to a ten-basis point minimum spread requirement at loan initiation. Loans to approved borrowers will be limited to 25% of the average monthly market value on loan for the prior calendar year.

## **IMPLEMENTATION GUIDELINES – Opportunistic & Tactical**

### **I. ROLE**

The role of SERS' opportunistic portfolio is to earn a return above the Bloomberg Barclays US Aggregate Bond Index + 2% by investing in assets and strategies that do not fit within the existing asset classes. The investments are defined as tactical or non-traditional investment opportunities.

### **II. ASSET ALLOCATION**

SERS' Statement of Investment Policy sets the opportunistic target allocation at 0%, with a range of 0% to 5%.

### **III. BENCHMARK**

The opportunistic benchmark is the Bloomberg Barclays US Aggregate Bond Index + 2%.

### **IV. PERFORMANCE OBJECTIVE**

The performance objective of the opportunistic portfolio is to earn a net of fee return in excess of the Bloomberg Barclays US Aggregate Bond Index + 2% , with a meaningful component of the total return coming from current income.

### **V. PORTFOLIO DESIGN AND CONSTRUCTION**

The opportunistic portfolio may consist of a wide variety of investment types, structures and strategies targeting cash yield as well as price appreciation. Investment strategies include separate accounts, commingled funds, ETFs, co-investments and derivatives.

### **VI. PERMISSIBLE INVESTMENTS**

Permissible investments include, but are not limited to, common stock, preferred stock, debt securities, currencies, commodities, etc.

### **VII. RISK MANAGEMENT**

#### **Leverage Risk**

Leverage will be prudent for the given strategy and consistent with the fund's offering memorandum.

#### **Liquidity Risk**

Liquidity will be monitored regularly to ensure the portfolio can be traded or rebalanced within a reasonable timeframe. Liquidity risk will be managed through target allocations to private and public market assets as well as through portfolio design.

#### **Currency Risk**

The opportunistic portfolio does not directly hedge foreign currency risk and relies upon its external managers to determine if such hedges are appropriate.

## IMPLEMENTATION GUIDELINES – Overlay Program

### I. ROLE

SERS invests in overlay strategies that trade derivatives of the Total Fund's underlying asset exposures and currency exchange rates to enhance the Total Fund portfolio's efficiency. The overlay program includes i) tactical asset allocation rebalance, and ii) active currency strategies.

The tactical asset allocation strategy aims to add value to the Total Fund performance through long and short positions based on short-term relative attractiveness of assets.

The active currency strategies aim to add value to the Total Fund on a risk-adjusted basis by employing long and short positions in various currency pairs based on relative attractiveness of the currencies. The strategies are expected to have low correlation to the major asset classes such as US equity and fixed income.

### II. ASSET ALLOCATION

The target allocation of the tactical asset allocation and currency program is 0% since long and short positions net out.

The tactical asset allocation program's notional exposure limit is +/-7% of the Total Fund to each of the following assets: US fixed income, US equity and Non-US equity. Since the tactical asset allocation positions are employed for short periods, the notional exposures are not subject to the policy asset allocation ranges set forth in the Statement of Investment Policy; however, the active risk contribution by the overlay program as a whole is subjected to the overall guideline on active risk for the management of the Total Fund specified in the Risk Management Policy.

The notional value of the active currency program is capped at 50% of the Non-US equity portfolio's value.

### III. BENCHMARK

The benchmark for the tactical asset allocation and currency overlay program is 0% since net exposure is 0%.

### IV. PERFORMANCE OBJECTIVE

The overlay program is expected to add 5 to 10 bps of excess return to the Total Fund's performance on a three to five year horizon.

### V. PORTFOLIO DESIGN AND CONSTRUCTION

The mandates are unfunded. The overlay strategies buy (long) or sell (short) futures or forwards contracts to get exposures to desired markets in order to exploit shifts in relative valuation of assets and currencies.

The tactical rebalancing strategy's net exposures, sum of long and short positions, are valued at zero on the initiating position time. Active currency strategies can go either net long or net short US dollar. Both tactical rebalancing and active currency aggregate portfolios are constructed to have no dependency on any single risk factor.

### VI. PERMISSIBLE INVESTMENTS

Tactical asset allocation: equity, fixed income, commodity and precious metals futures and options on futures.

Currency overlay: currency forwards, currency futures, gold forwards, gold futures, and limited currency options.

## **IMPLEMENTATION GUIDELINES – Overlay Program**

### **VII. RISK MANAGEMENT**

#### Counter-party risk management:

- Futures and exchange traded options are traded at exchanges thus having default risk only to the clearinghouse while having no credit risk to trade counterparties.
- Forward contracts and over-the-counter options entail default risk of the counterparties. Counterparty risk of these contracts is managed through ISDA (International Swaps and Derivatives Association) and EMIR (European Market Infrastructure Regulation) umbrella agreements with managers.

#### Volatility management:

- The tactical asset allocation program's tracking error range is 5 to 15 bps.
- All active currency strategies have targeted tracking error equal to or less than 8%; the aggregate active currency program's tracking error is expected to be in the range of 5 to 8%.

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**Sources**

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**Glossary**

## GLOSSARY

**Active Risk** – see Tracking Error.

**Alpha** – the premium an investment portfolio earns above a certain benchmark (such as the Standard & Poor's 500 Index). A positive alpha indicates the investor earned a return in excess of the index return.

**Alternative Reference Rates Committee (ARCC)** – The ARCC was established by the Federal Reserve to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption of the replacement rate.

**Asset Allocation** – the practice of allocating a certain percentage of a portfolio between different types of investment assets, such as stocks, bonds, real estate, cash, etc. By diversifying among asset classes it is expected to create a favorable risk/reward ratio for the portfolio.

**Bloomberg Barclays US Aggregate Bond Index** – a market capitalization weighted US bond index published by Bloomberg LLC. Most US traded investment grade bonds are represented in the index. The Bloomberg Barclays US Aggregate Bond Index is SERS' global fixed income policy benchmark.

**Basis Point** – one hundredth of one percent. For example, an addition of 40 basis points to a yield of 7.50 percent would increase the yield to 7.90 percent. Basis points are normally used when quoting yields or returns, alpha, or fees paid to investment managers.

**Benchmark** – a measurement or standard that serves as a point of reference by which portfolio performance is measured. Benchmarks must meet standard criteria.

**Burgiss All Private Equity (BAPE)** – BAPE is comprised of data from more than 5,000 private equity funds contributed by limited partners that are Burgiss clients and use Burgiss' web-based institutional portfolio management platform Private i. The benchmark data is sourced from Burgiss' limited partner clients and includes complete transactional and valuation history between the limited partner and their fund investments. Burgiss publishes a detailed breakdown of the dataset every quarter allowing for increased transparency.

**Citigroup 30-day T-Bill Index** – an index that measures the rate of return for 30-day US Treasury Bills, which are considered representative of the performance of short-term money market instruments. The Citigroup 30-day T-Bill index is SERS' policy benchmark for Cash Equivalents.

**Co-investment** – a direct investment in a single asset of a multi-asset Fund, made alongside the Fund's investment in the asset; typically involves terms that are more attractive and with shorter time frames than those of the Fund.

**Derivatives (Derivative Instruments)** – financial instruments (securities or contracts) whose values are derived from underlying financial assets, indices or other instruments. Derivative performance is based on the performance of assets, interest rates, currency exchange rates and various domestic and foreign indices underlying the instruments. The common forms of derivatives are forward, futures, swap and options contracts.

**Diversification** – the method of reducing risk by distributing investment assets among a variety of investment securities which have different risk/ reward ratios.

**Due Diligence** – an investigation or audit of a potential or existing investment.

**Equity Investment** – claims held by the residual owners of a firm. May also be referred to as common stock. Investments in Real Estate and certain Private Markets classifications may also be considered equity.

**Fixed Income Investment** – a security issued by a borrower that obligates the issuer to make specified payments to the holder over a specific period. May also be referred to as "debt" or "bonds."

**Fund** – fund means a limited partnership, trust or commingled investment vehicle in which SERS invests or may invest (e.g., hedge fund, private equity fund, or real estate fund).

## GLOSSARY

**Global Equities** – reflects the consolidation of what had been treated by SERS as US Equity and Non-US Equity asset classes; includes equities of US and non-US origin, equities of various capitalizations (e.g., large cap, small cap, mid cap, etc.), equities from developed, emerging and frontier markets, growth and value equities and passive and active strategies. Investments in Global Equities strategies are made in accordance with established investment guidelines, and amended as necessary, by mutual agreement between the Chief Investment Officer and the Investment Consultant.

**Guidelines** – refers to an Investment Manager’s “Investment Guidelines,” established between the Investment Manager and Staff as part in an investment management agreement. Guidelines may be general or specific.

**Hedge Fund** – a private investment partnership or an offshore investment corporation in which the general partner has made a substantial personal investment and whose offering memorandum allows for the Fund to take both long and short positions, using leverage and derivatives and invest in many markets. Hedge funds often use strategies involving program trading, selling short, swaps and arbitrage.

**HFRI Fund of Funds Composite Index** – published by Hedge Fund Research, Inc., the HFRI Fund of Funds Composite Index is an equally weighted index of funds of hedge funds, offshore and onshore. Funds in the index must have at least \$50 million under management or must have been trading actively for at least 12 months.

**Investment Committee** – a committee comprised of the Chief investment Officer and Investment Officers from SERS’ Investment Department who possess the Ohio State Retirement System Investment Officer (SRSIO) license, with clearly defined structure, rules and procedures for reviewing and approving investments in a timely and prudent fashion.

**Investment Consultant** – any consultant hired by the Board or by Staff to advise or assist with the Investment Program in accordance with the Statement of Investment Policy. Board investment consultants must be approved by the Board. Staff investment consultants shall be approved by the Executive Director.

**Investment Manager** – a manager or potential manager of SERS assets, both public market and private market. Includes, but is not limited to managers of equity, fixed income, private equity, real estate, hedge funds, commodities and cash.

**Investment Staff** – members of the investment department of SERS, including the Chief Investment Officer, Investment Officers and other department personnel.

**Leverage** – in investments, this is the control of a large amount of money by a smaller amount of money, such as buying on margin. In finance, this is the relationship of debt to equity on a company’s balance sheet in the form of the debt/equity ratio.

**LIBOR** – London Interbank Offered Rate, the interest rate that is commonly used as the benchmark reference rate for lenders. The 3-month LIBOR is the reference rate utilized by Staff.

**Long a futures contract or a forward contract** – buying exposure to the underlying assets of the contract without actually owing those assets. When the underlying assets deliver a positive return, the long position gains; when the underlying assets deliver a negative return, the reverse is true.

**Morgan Stanley Capital International – All Country World Free ex-USA Index (\$Net)** – an equity index representing 44 developed and emerging countries. “Free” indicates the index reflects actual investable opportunities for global investors by taking into account local market restrictions on share ownership by foreigners. “Net” indicates that dividends are reinvested after the deduction of withholding taxes applicable to non-resident institutional investors. The MSCI-ACWI ex-USA Index, net of dividends reinvested is SERS’ policy benchmark for Non-US Equities.

**Multi-Asset Strategies (MAS)** – active investment strategies that aim to generate absolute returns with managed volatility, using all types of investable securities (equities, bonds, commodities, currencies,

## GLOSSARY

derivatives, etc.). These strategies typically apply non-traditional portfolio management techniques including, but not restricted to shorting securities, leverage, arbitrage and creating synthetic exposures using financial instruments. In addition, funds in this portfolio may tactically allocate across asset classes and/or geographical regions depending upon the relative attractiveness of the respective asset classes. Generally, multi-asset strategies have low to medium correlation with global equities and much lower volatility.

**NCREIF Property Index (NPI)** – a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. The NCREIF Property Index is a component of SERS' Global Real Estate Policy Benchmark.

**Opportunistic and Tactical Investments** – global opportunistic investments are tactical or non-traditional investment opportunities that may be short-term or may not fit within the generally accepted risk/return parameters of specific asset classes or strategy groupings. Such opportunities may involve capitalizing on short-term market dislocations or other such unique situations. Tactical investments may include strategies with dynamic allocations to single assets or across multiple asset types or other innovative approaches.

**Options contract** - a form of financial derivatives. In an options contract, two parties (buyer and seller) agree that the buyer, who pays an option premium to the seller, has the right to exercise an option whether or not to buy or sell a particular asset at a specified price at a specified future date.

**Portfolio** – a collection of investments owned, managed, or overseen by an individual or investment manager, a board or an organization. Portfolio can mean a manager account or subset thereof (e.g., Goldman Sachs Core Plus account), an asset class (e.g., US Equity), or the entire fund (e.g., SERS' Total Fund).

**Rebalancing** – adjusting asset class or portfolio allocations relative to their targets or ranges to adjust for actual or anticipated market movements.

**Russell 3000 Index** – a market-value weighted equity index published by the Frank Russell Company. The index measures the performance of the 3,000 largest US companies in terms of market capitalization. The Russell 3000 Index is SERS' Domestic Equity Policy Benchmark.

**Secondaries** – pre-existing investor capital commitments to private funds that are purchased in the secondary market.

**Secured Overnight Financing Rate (SOFR)** – SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. There is a considerable volume of transactions executed that utilize SOFR and the rate is published on each business day.

**Securities Lending** – the temporary loan of a security from an institutional investor's portfolio to a broker/dealer to support the firm's trading activities. Loaned securities are collateralized with cash at 102-105% of the loan exposure. The lender retains the entitlement to all the benefits of the loaned security, including dividends and interest, except the right to vote proxies. The lender has a right to recall the loan at any time.

**Short a futures contract or forward contract** – selling exposure to the underlying assets of the contract without transferring the ownership of those assets to the buyers. When the underlying assets deliver a positive return, the short position experiences losses; when the underlying assets deliver a negative return, the reverse is true.

**Style** – style refers to an investment product, strategy or style offered by an Investment Management Firm and reflects how the assets are invested. For example, value versus growth; core versus value added; quantitative versus fundamental; etc.

**Total Fund** – refers to SERS' total investment assets.

**Tracking Error** – standard deviation of the excess return of the portfolio relative to the Benchmark measured over rolling three year periods.

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# Ohio SERS Investment Report

## Monthly Report to the Board

For the period ending: April 30, 2021

Prepared by Investment and IAD Staff

Farouki Majeed, Chief Investment Officer

*Meeting Date: June 2021*



## **Investment Agenda**

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Investment Committee Policy Discussion (no vote required)  
Annual Investment Plan (possible vote)  
Monthly Investment Report (April 30, 2021)



# Economic and Financial Market Outlook



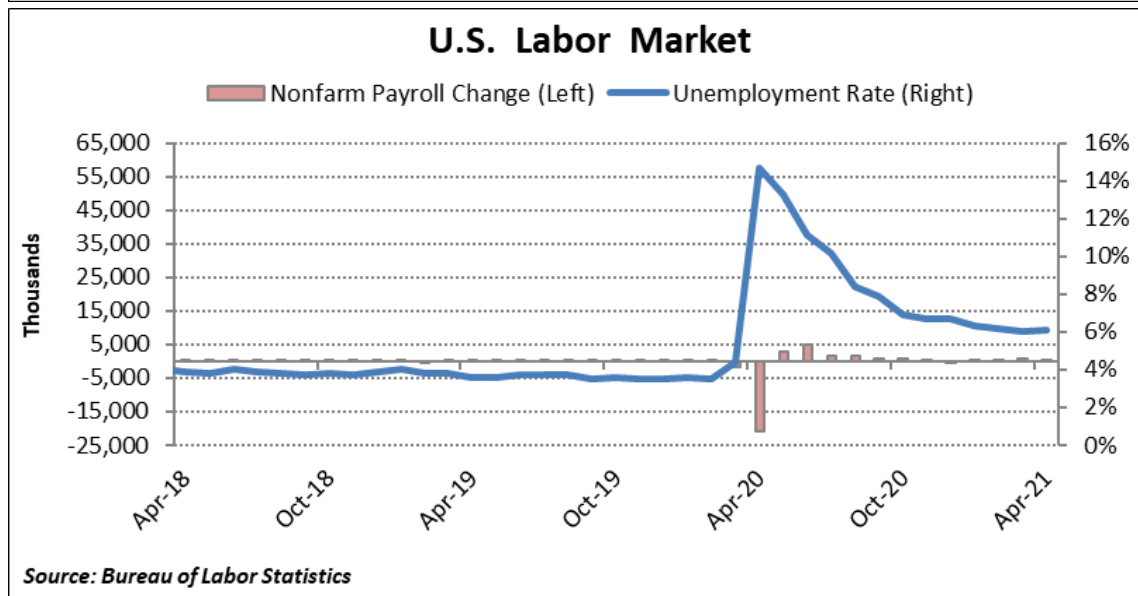
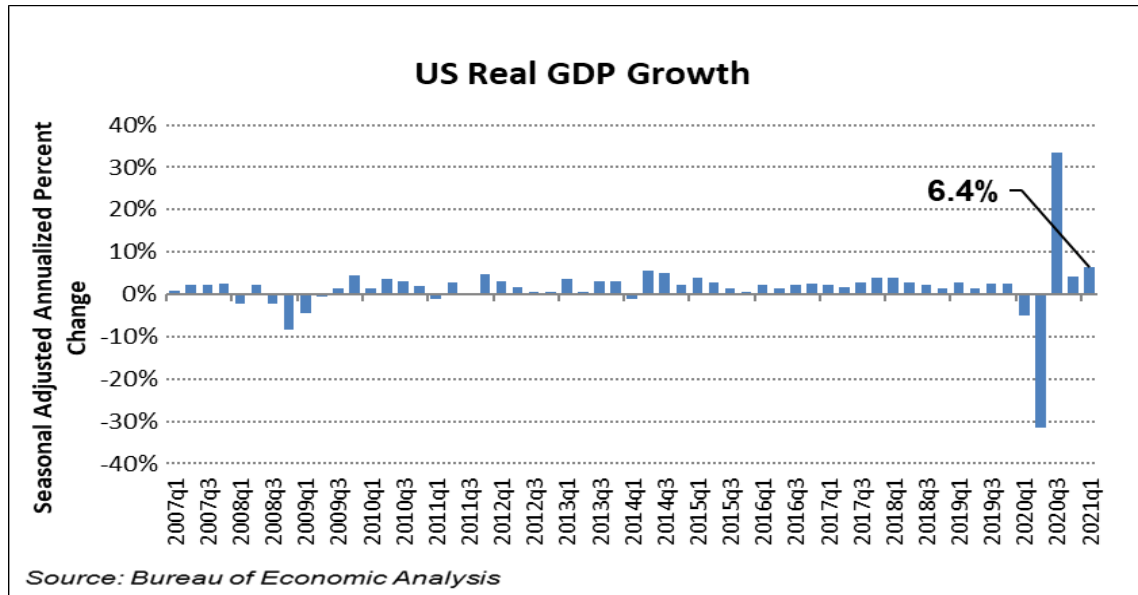
- US economy continued to recover strongly. The Q1 growth rate estimate was 6.4%. The recovery is supported by stimulus and economy re-opening following vaccination rollout. BlueChip Consensus forecasted a higher growth in Q2, at 9.2%. (Source: Bureau of Economic Analysis and May Blue Chip Indicators)
- US labor market recovery unexpectedly weakened in April, adding 266,000 jobs, well below expectation. The unemployment rate increased to 6.1%. (Sources: Bureau of Labor Statistics and Department of Labor)
- US headline inflation increased to 4.2% in April, the highest level since September 2008. The energy index increased 25.1% for the last 12 months. Other increases were noted in food 2.4% and used car and truck 21%. Core inflation, excluding food and energy, was 3.0%, increased from 1.6% in March. BlueChip Consensus projected a 2.7% headline inflation in 2021 (Source: Bureau of Labor Statistics and May Blue Chip Indicators)
- The 10-year Treasury nominal yield was down to 1.65%. As inflation spiked, the 10-year real yield slipped to -2.55%, a record low level over several decades. (Source: <https://www.treasury.gov>)
- The housing price continued to rise. In March, the S&P Case-Shiller 20-City home price index posted an annual increase of 13.13%, the strongest annual gain since December 2005, as the housing demand continued to outpace the supply.
- The Consumer Sentiment Index released by Thomson Reuters and University of Michigan continued to recover, reaching 88.3 in April, a level slightly higher than the historical average. The US Economic Surprise index was up to 77.5. The Leading Economic Index (LEI) issued by the Conference Board continued its recovery, reaching 113.3 in April.
- The US manufacturing PMI was strong at 60.7, although lower than the previous month. The JPMorgan Global Manufacturing PMI increased to 55.8 in April. (Source: Institute for Supply Management, Markit).
- Equity markets were positive in April. US markets and Non-US Developed markets were up 5.15% and 3.15%, respectively while Emerging markets were up 2.49%. As equity markets recovered and generated strong returns, the market valuation is stretched by major indicators.
- The US fixed income market, Bloomberg Barclay's US Aggregate Bond Index, was up 0.79% for April.

Notes: Acronym – PMI – Purchasing-Managers' Index



**ECONOMY**

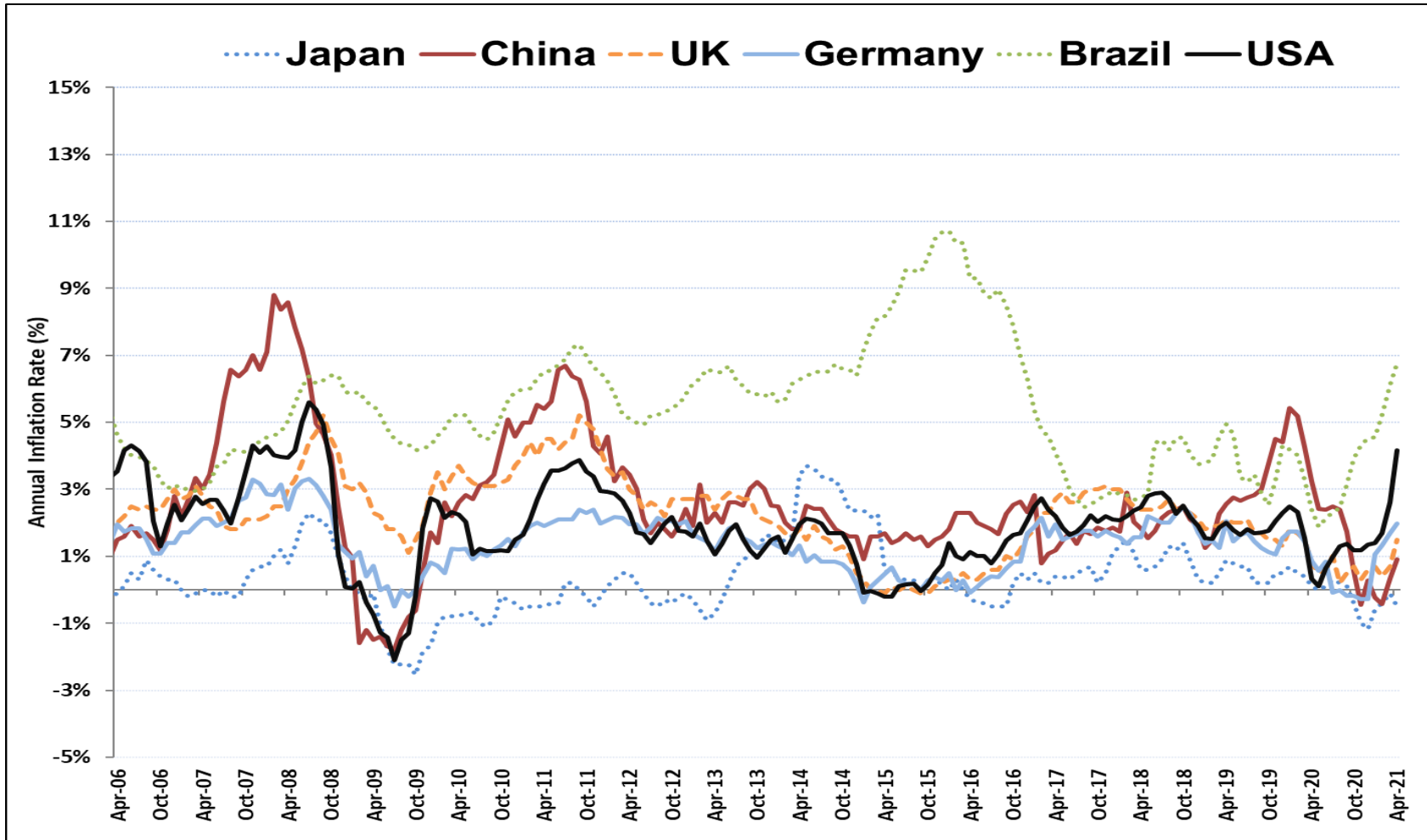
**US Real GDP Growth and Labor Market**





**ECONOMY**

**Headline Inflation**



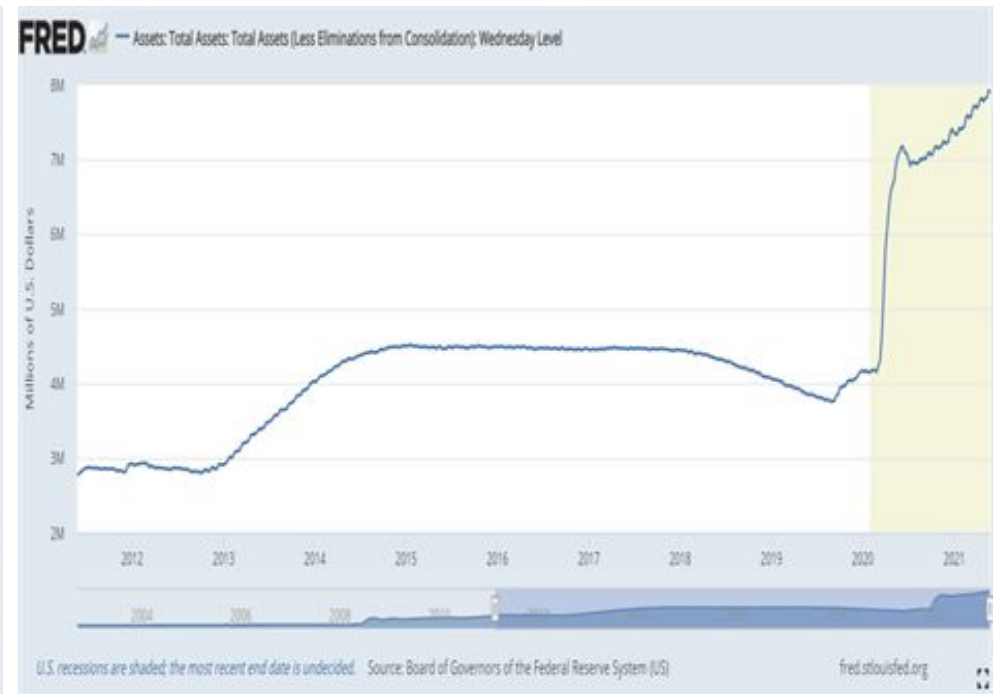
	Japan	China	UK	Germany	Brazil	USA
<b>Apr-21</b>	-0.5	0.9	1.5	2.0	6.8	4.2

Sources: [www.ons.gov.uk](http://www.ons.gov.uk), [www.oecd.org](http://www.oecd.org), [www.inflation.eu](http://www.inflation.eu), and [www.tradingeconomics.com](http://www.tradingeconomics.com)



**ECONOMY**

**US Government Debt and Federal Reserve's Total Assets**



Source: <https://fred.stlouisfed.org>

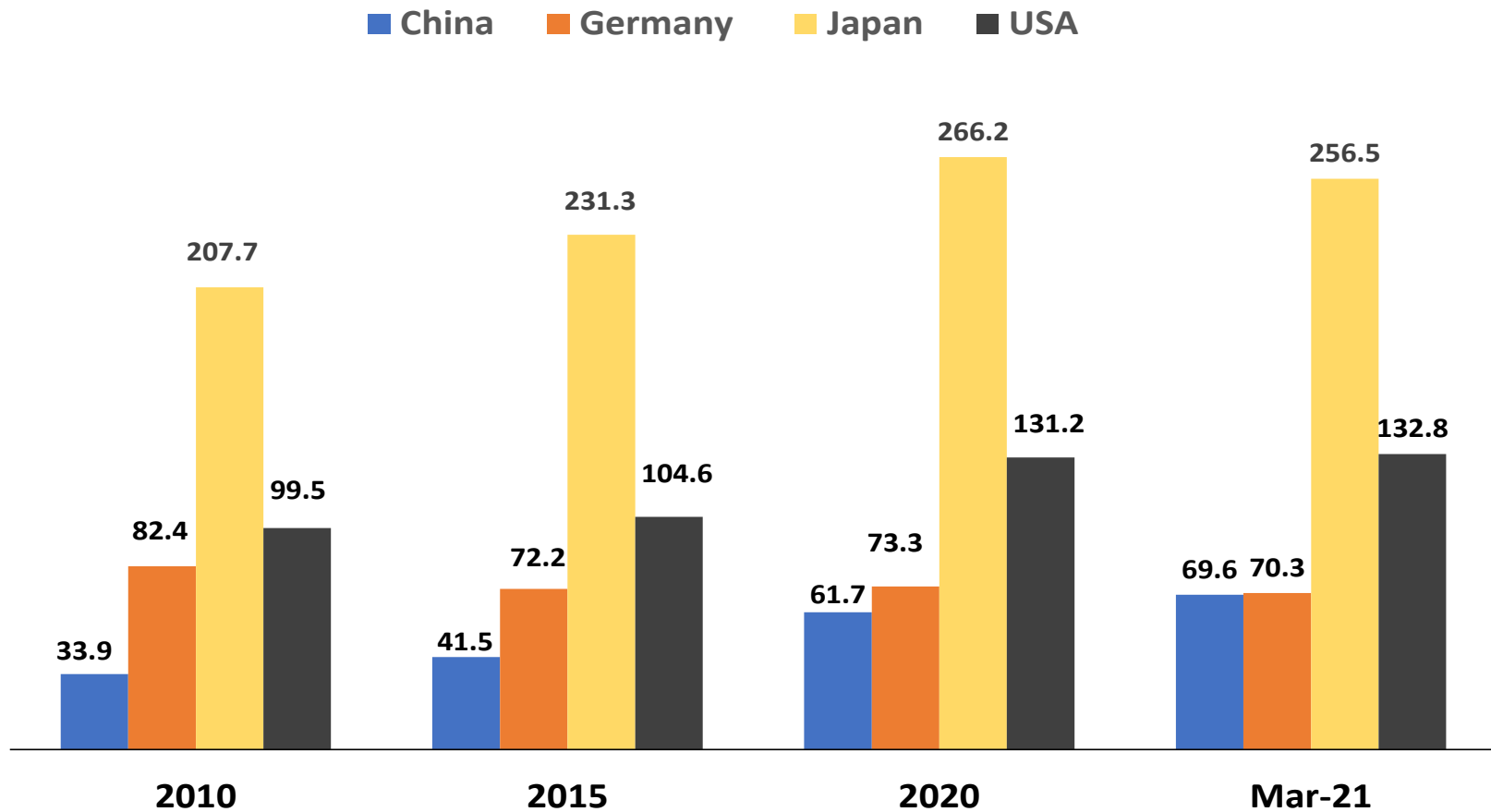




**ECONOMY**

**Government Debt**

### Government Gross Debt (Percent of GDP)



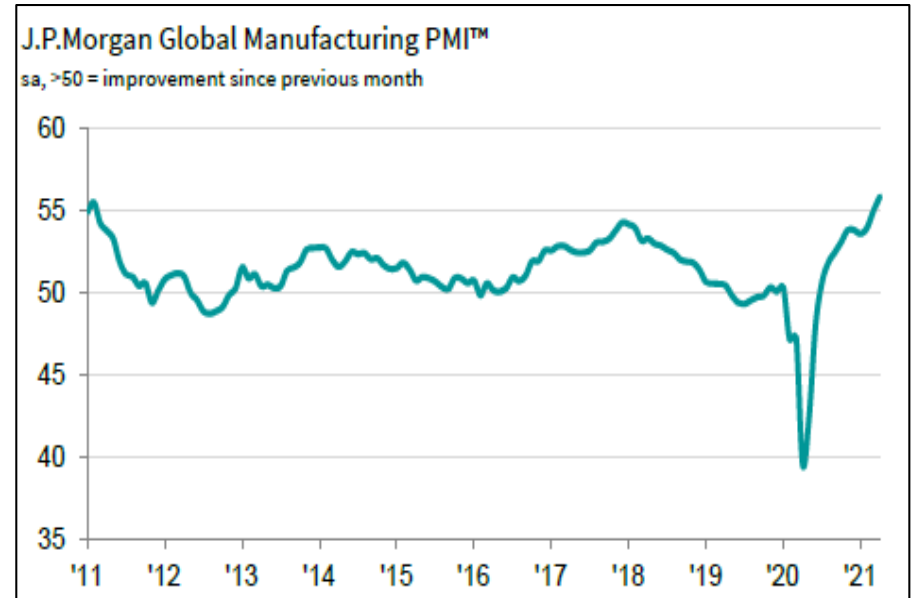
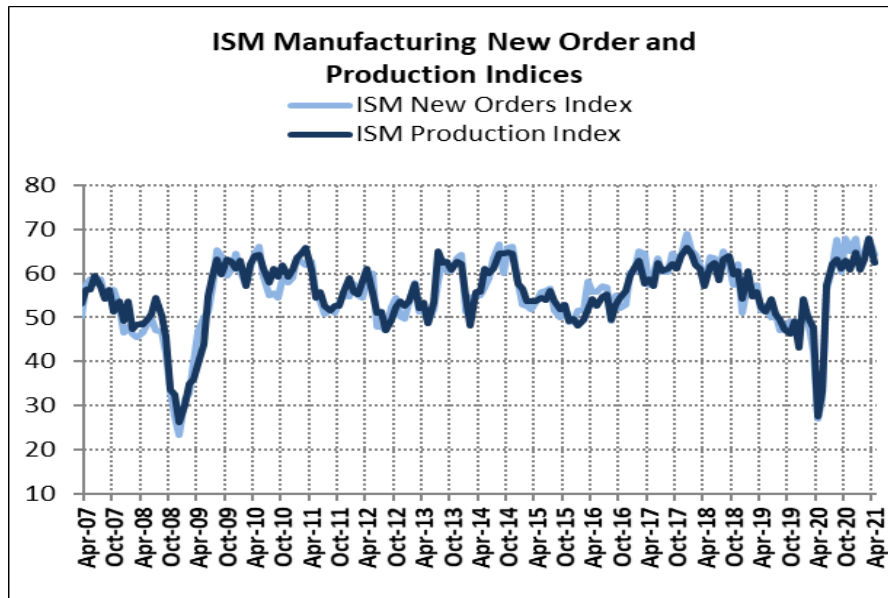
Source: [www.imf.org](http://www.imf.org), IMF data – April 2021





**ECONOMY**

**US & Global Manufacturing Activities**

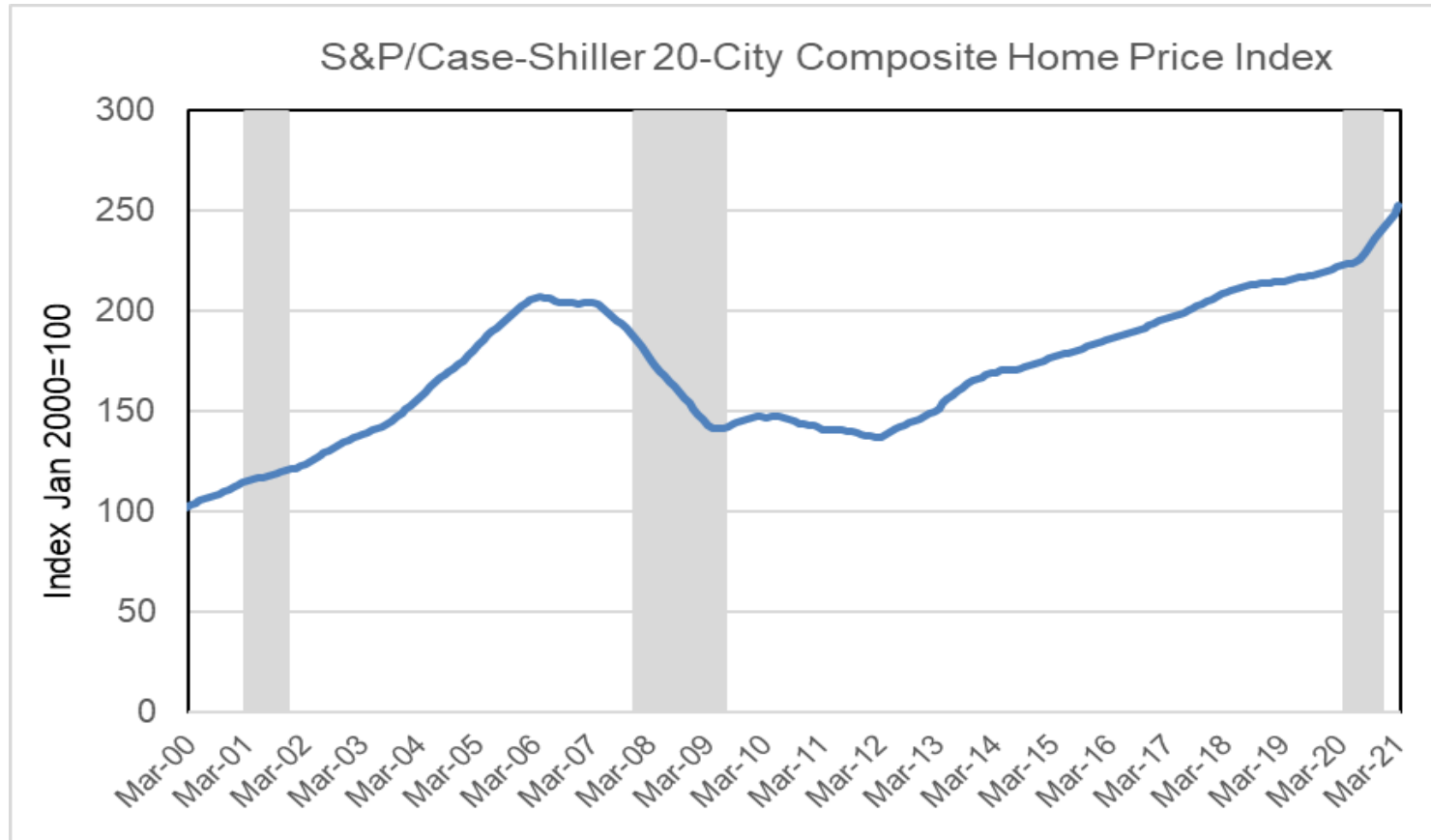


Source: Manufacturing ISM Report On Business & JPMorgan Global Manufacturing PMI™  
 Notes: Acronym – ISM – Institute of Supply Management; PMI – Purchasing Managers Index



**ECONOMY**

**US Housing Market**



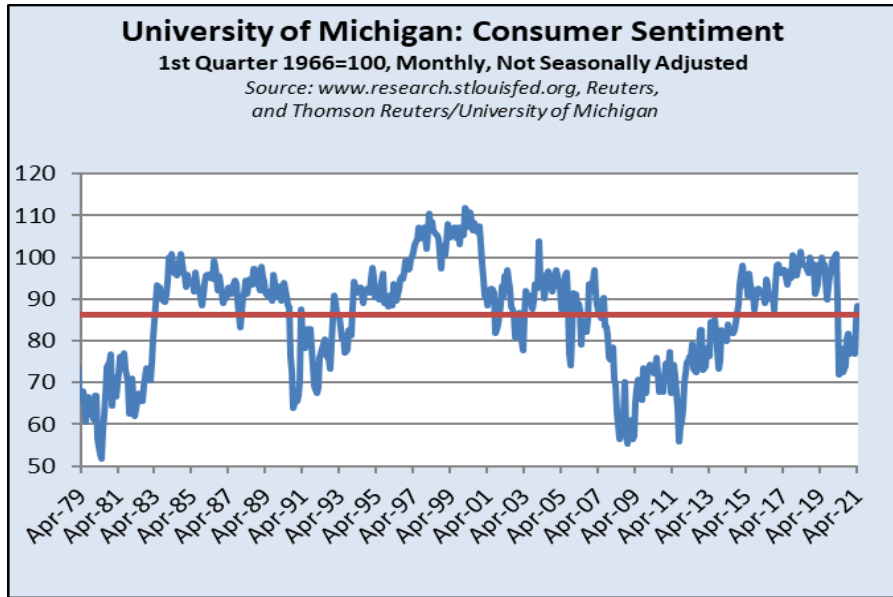
Date	S&P Case-Shiller 20-City Home Price Index January 2000 = 100, Seasonally Adjusted
Jul-16	188.79
Jul-17	200.07
Jul-18	212.06
Jul-19	216.09
Jul-20	225.63
Mar-21	252.14

Source: www.research.stlouisfed.org



**ECONOMY**

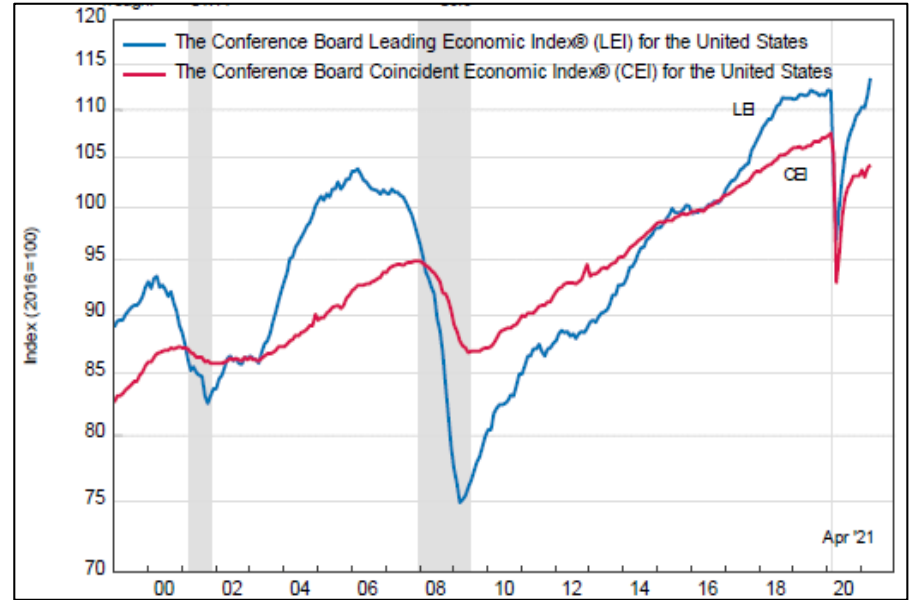
**Consumer Sentiment**



Index of Consumer Sentiment				
Mar-21	Apr-21	Apr-20	M-M Change	Y-Y Change
84.9	88.3	71.8	4.0%	23.0%

Sources: Thomson Reuters / University of Michigan

**The Leading Economic Index (LEI) and Coincident Economic Index (CEI) for the United States**



Shaded areas represent US recessions

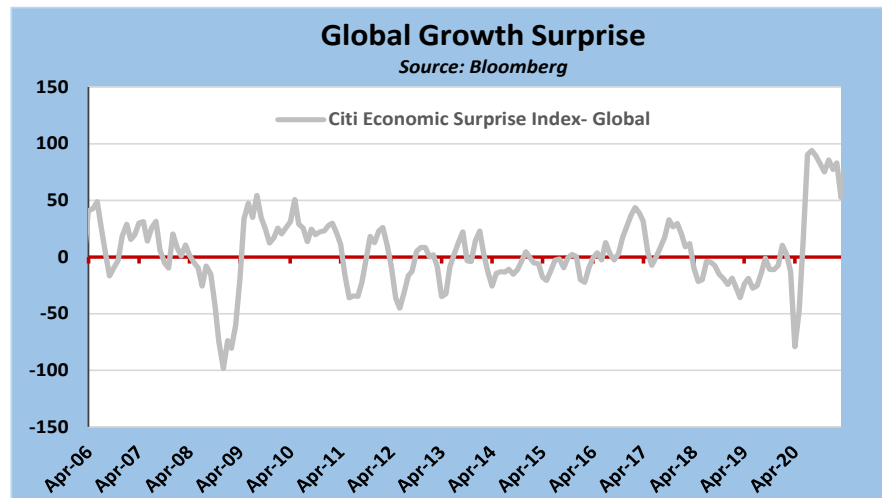
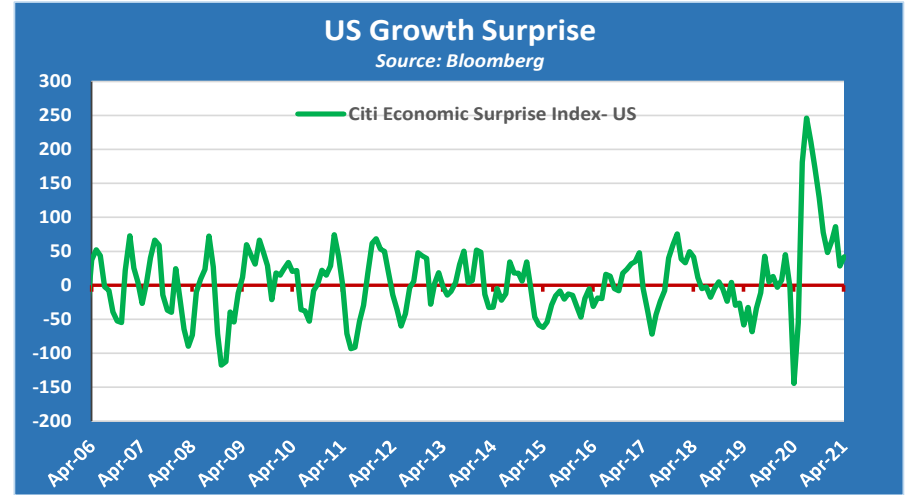
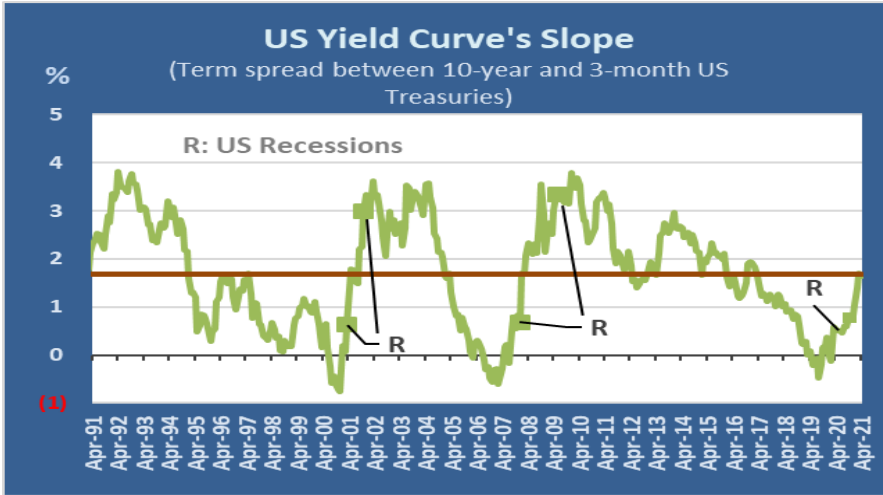
Index	Feb-21	Mar-21	Apr-21	Month -Month Percent Change	6-Month Percent Change
LEI	110.1 r	111.5 r	113.3 p	1.6	4.7
CEI	102.9 r	103.8 r	104.1 p	0.3	1.1

p Preliminary; r Revised; Indexes equal 100 in 2016

Sources: The Conference Board and advisorperspectives.com



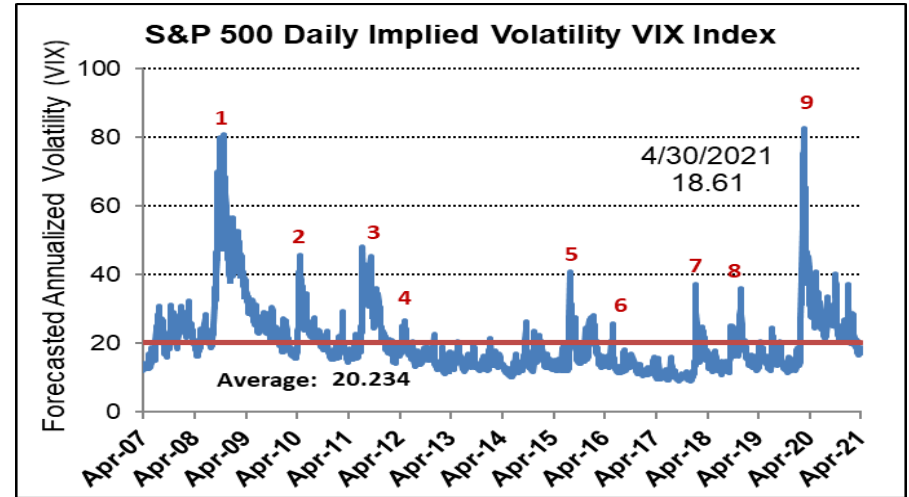
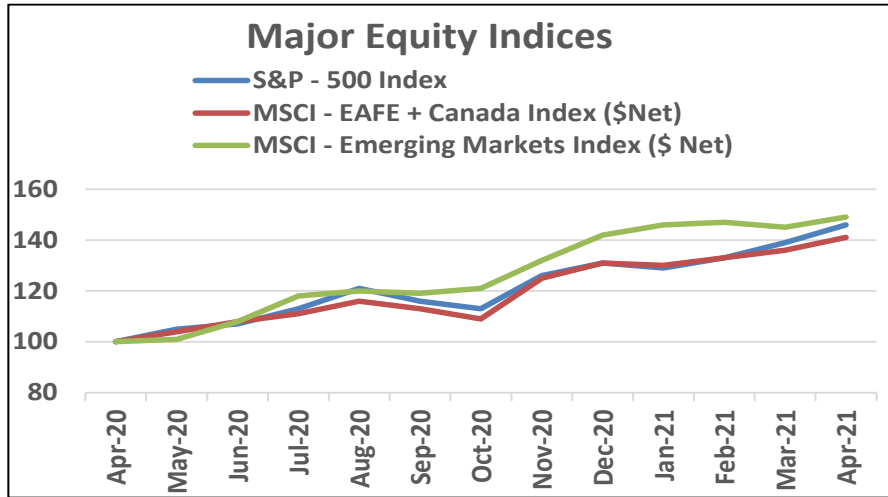
**ECONOMY**





**MARKETS**

**Equity**



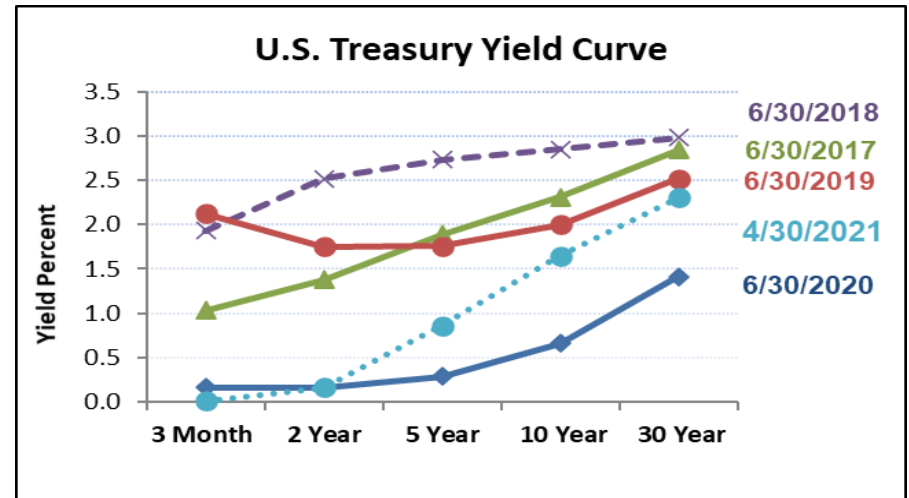
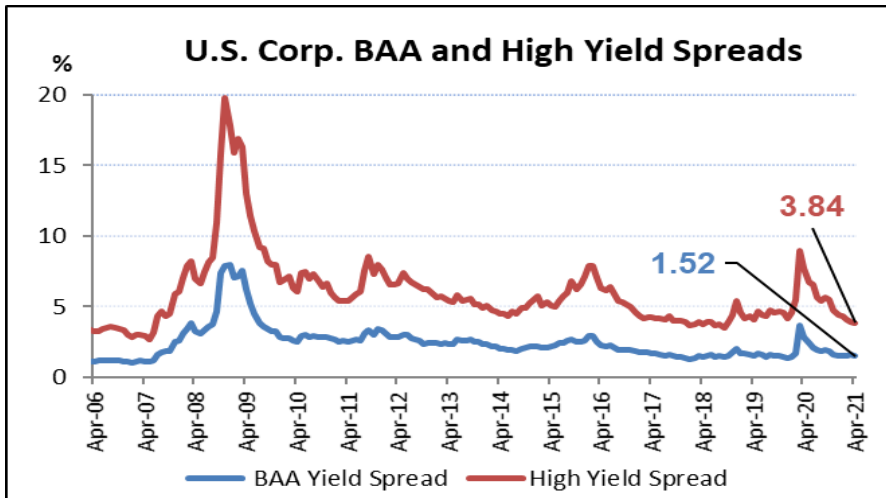
	Return as of 4/30/2021	
	1 Year	FYTD
S&P 500	45.98	36.63
MSCI - EAFE + Canada Index (\$Net)	40.64	30.44
MSCI - Emerging Markets Index (\$Net)	48.71	37.47

- 1 2008 (Nov.) Financial Crisis S&P 500: - 48.8%
- 2 2010 (May) Flash crash; Europe/ Greece debt S&P 500: -16%
- 3 2011 (Aug.) US downgrade, Europe periphery S&P 500: -19.4%
- 4 2012 (June) Eurozone double dip S&P 500: -9.9%
- 5 2015 (Aug.) Global slowdown, China, Fed S&P 500: -12.4%
- 6 2016 (Feb.) Oil crash, US recession fear, China S&P 500: -10.5%
- 7 2018 (Feb.) Inflation, trade, tech S&P 500 : -10.2%
- 8 2018 (Dec.) Interest rate hike, trade tension, global slowdown S&P 500: -10.5%
- 9 2020 (Mar.) Coronavirus, S&P 500 : -23.7%

Sources: [www.research.stlouisfed.org](http://www.research.stlouisfed.org), and Wilshire Compass



**MARKETS** Fixed Income

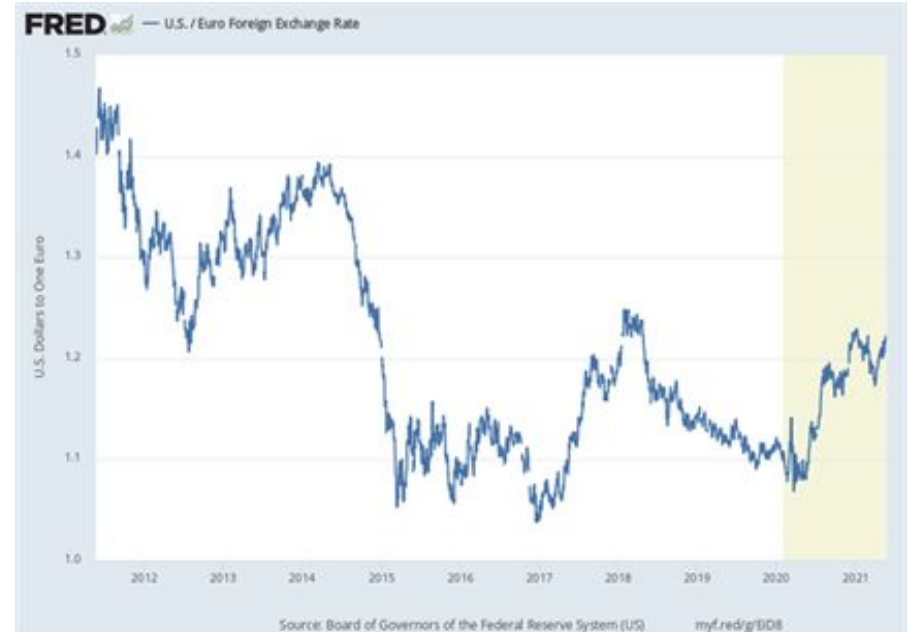
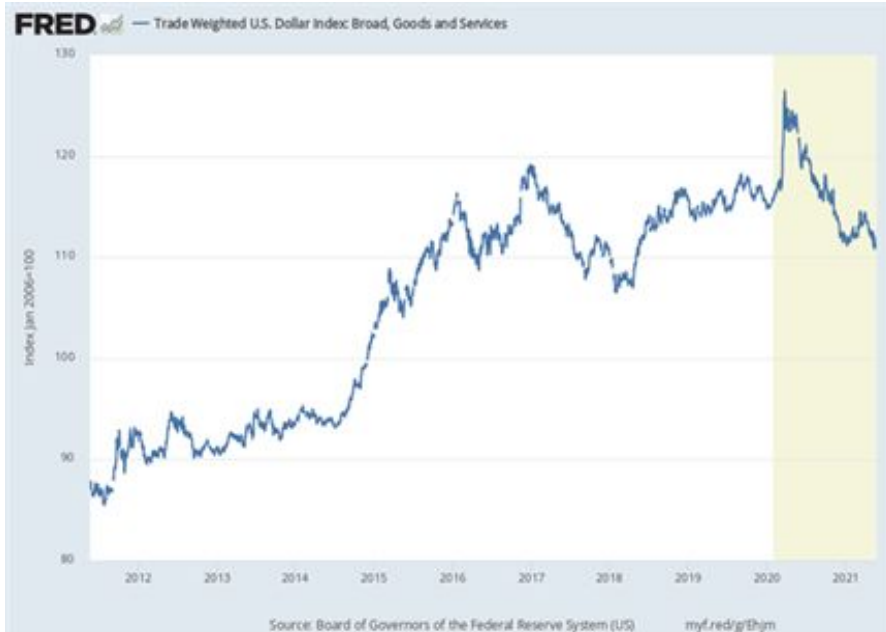


Sources: Wilshire Compass, ThomsonReuters, and Bloomberg



**MARKETS**

**Foreign Exchange**



Date	Trade Weighted Broad U.S. Dollar Index January 1997=100
June-16	112.15
June-17	111.97
June-18	113.27
June-19	114.56
June-20	120.86
April-21	112.38

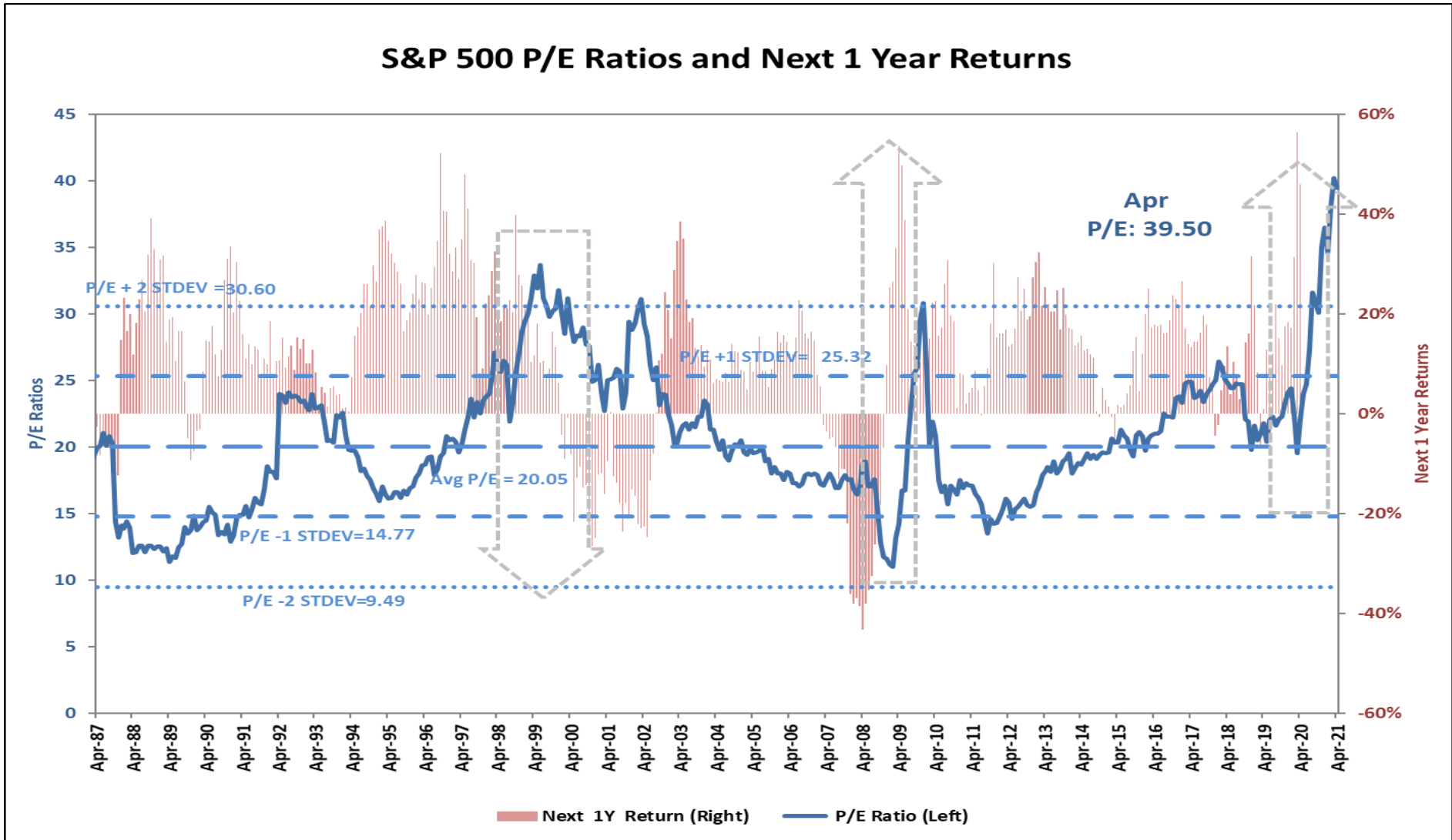
Date	U.S. / Euro Foreign Exchange Rate U.S. Dollars to One Euro
June-16	1.10
June-17	1.14
June-18	1.17
June-19	1.14
June-20	1.12
April-21	1.20

Source: www.research.stlouisfed.org





**VALUATION** **US Equity**

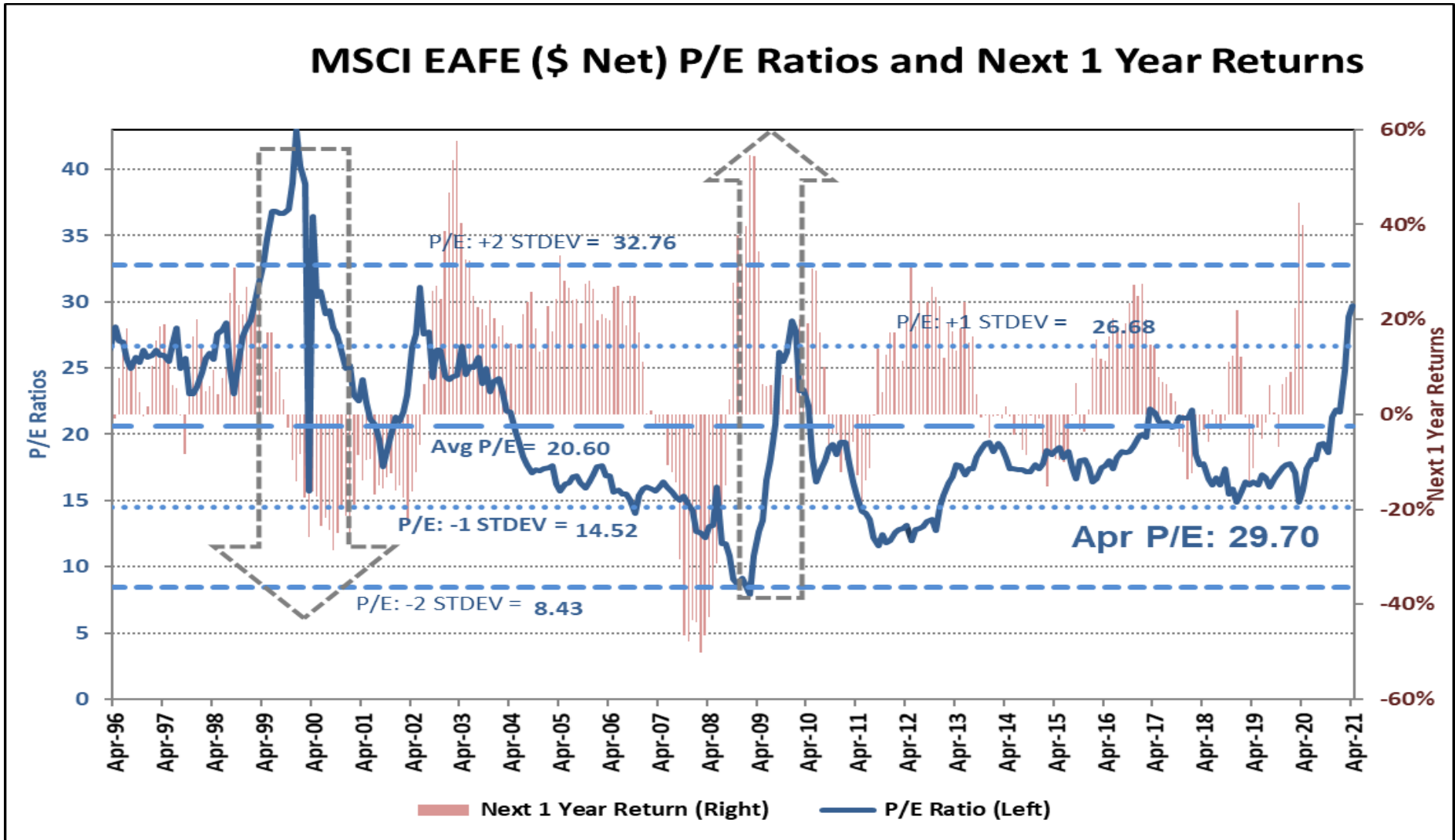


Source: Wilshire Compass





**VALUATION** Non US Developed Market Equity

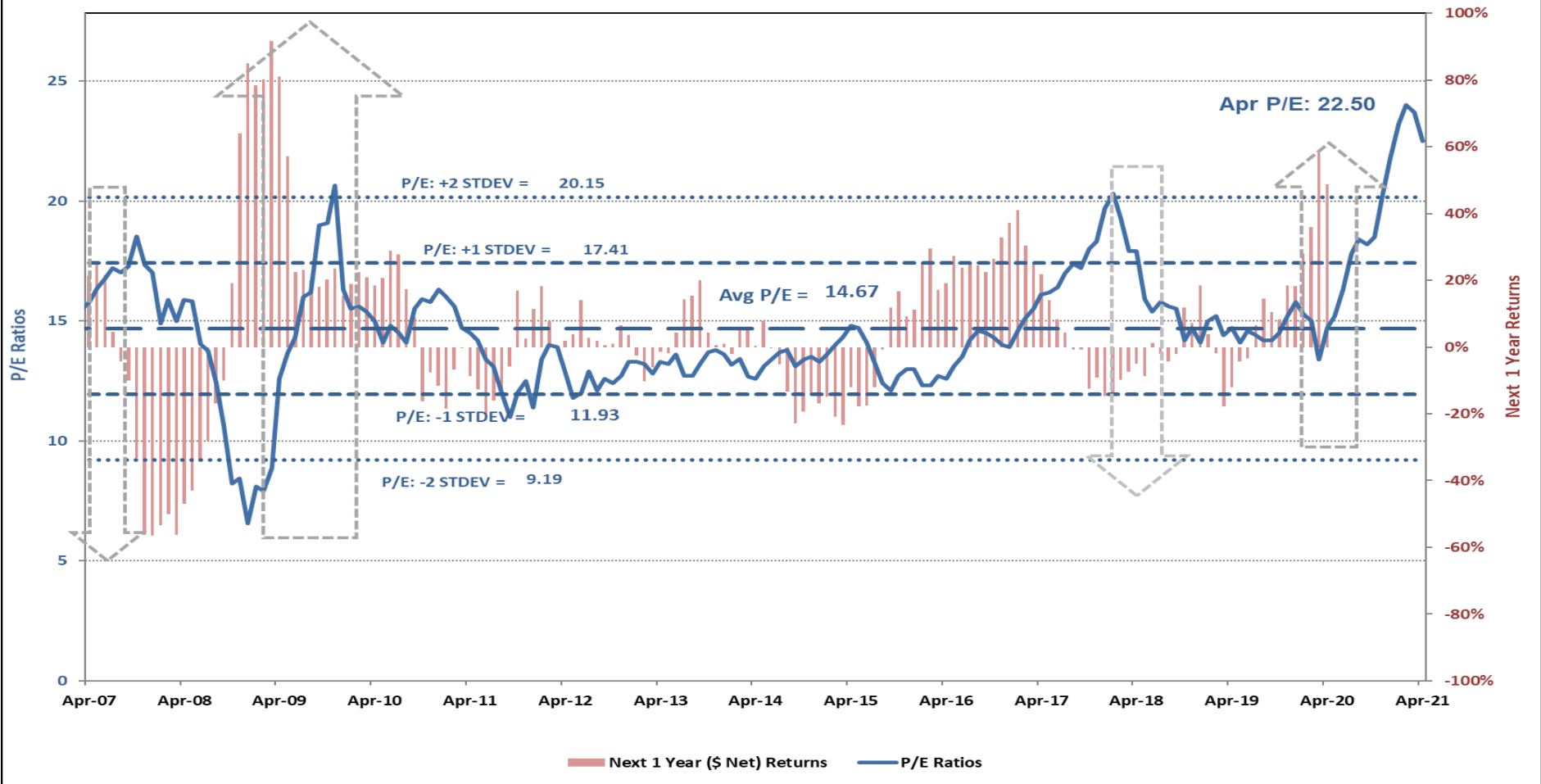


Source: Wilshire Compass



**VALUATION** Emerging Market Equity

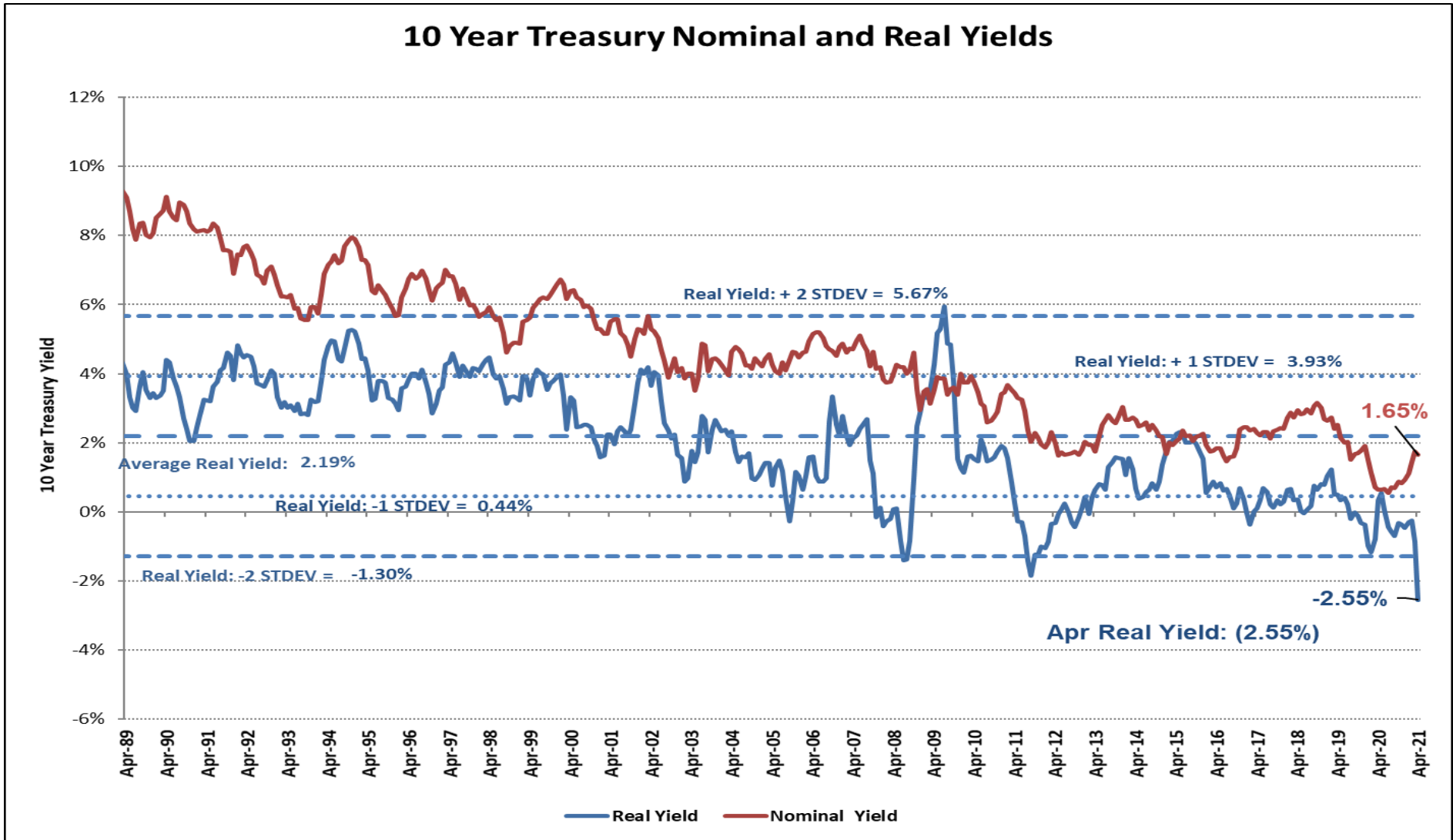
**MSCI EM P/E Ratios and Next 1 Year (\$ Net) Returns**



Source: Wilshire Compass



**VALUATION US Treasury Bonds**



Sources: Wilshire Compass and U.S. Bureau of Labor Statistics



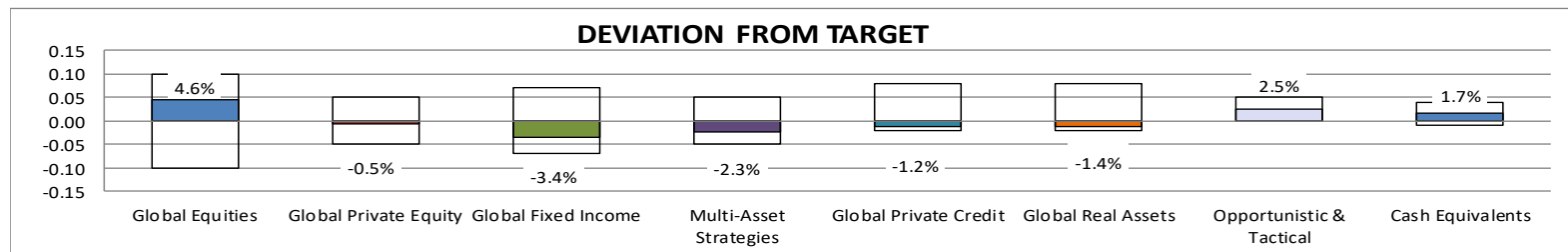
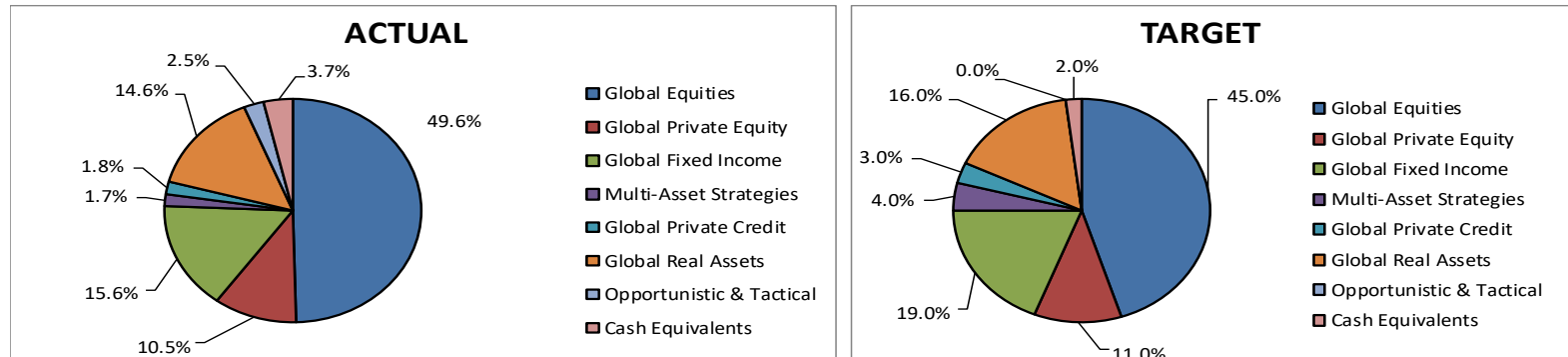
# SERS' Investment Portfolios Review

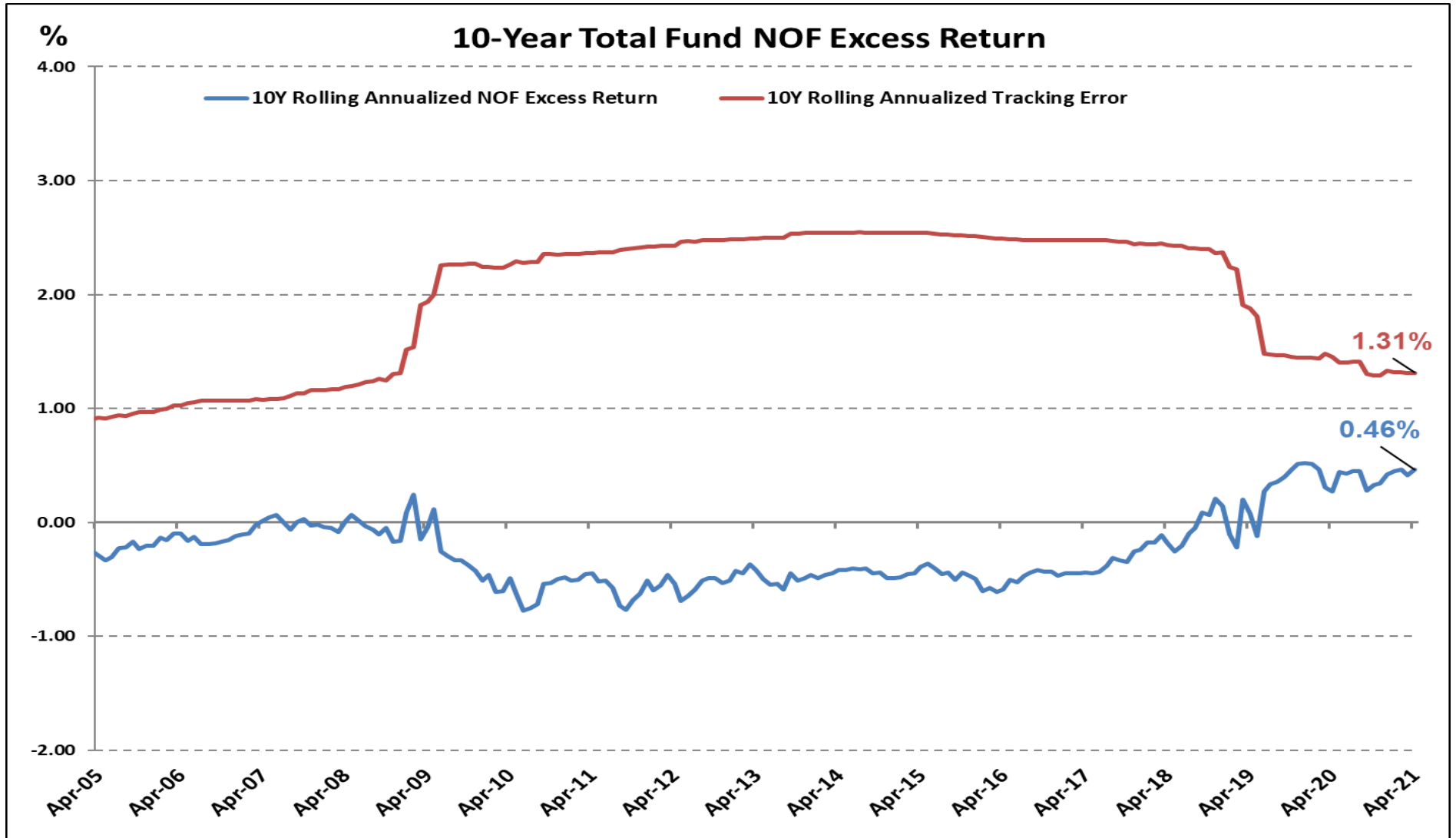


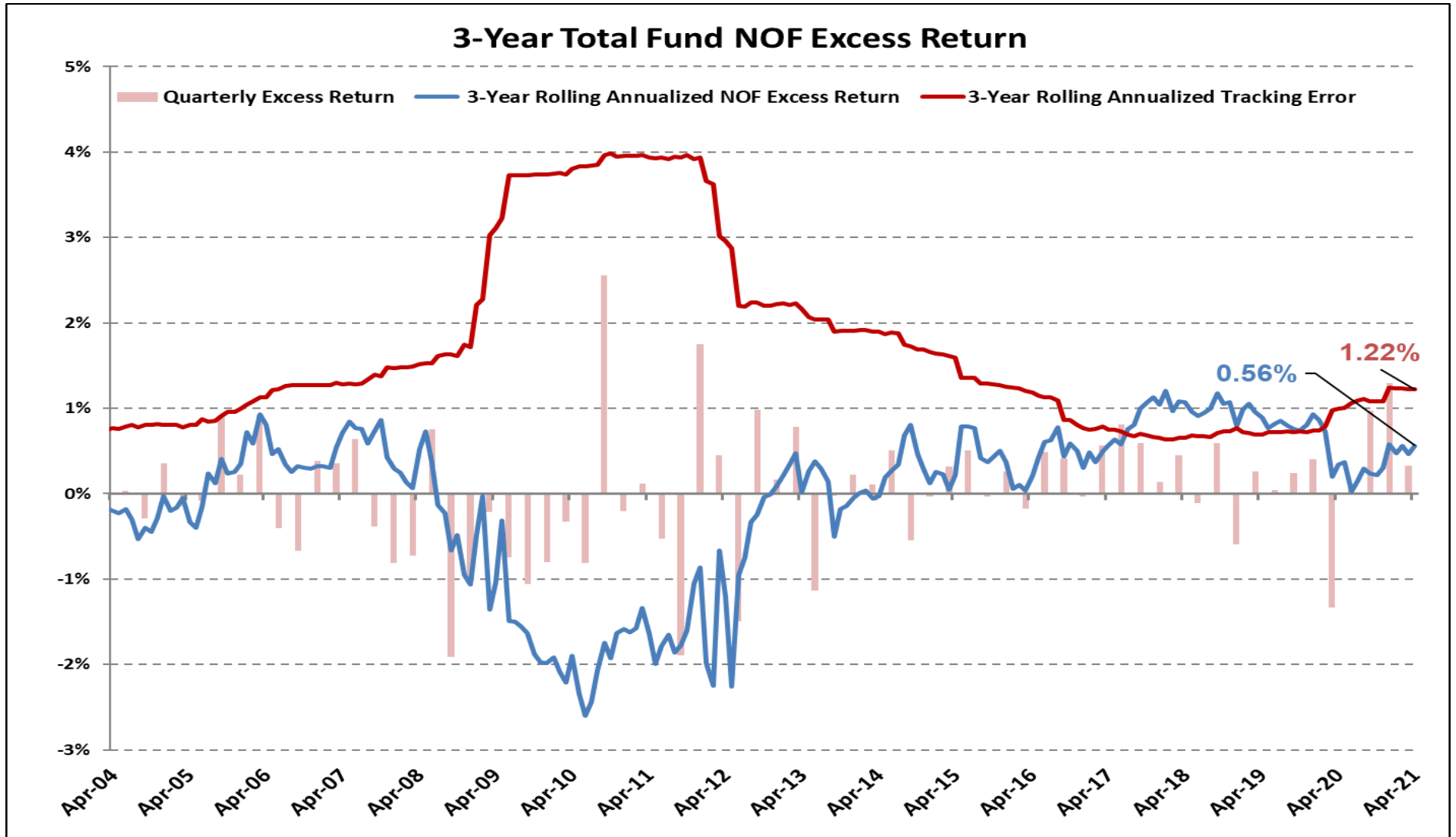
**Total Fund: Asset Allocation & Valuation**

Asset Class	Market Value \$	Actual	Target	Range
Global Equities	8,603,542,451	49.6%	45.0%	35% - 55%
US Equity	4,507,248,754	26.0%	24.8%	19.25% - 30.25%
Non-US Equity Developed Market	3,111,281,757	17.9%	13.5%	10.50% - 16.50%
Non-US Equity Emerging Market	985,011,940	5.7%	6.8%	5.25% - 8.25%
Global Private Equity	1,817,514,591	10.5%	11.0%	8% - 16%
Global Fixed Income	2,701,535,361	15.6%	19.0%	12% - 26%
Multi-Asset Strategies	296,469,221	1.7%	4.0%	0% - 0%
Global Private Credit	316,960,373	1.8%	3.0%	3% - 7%
Global Real Assets	2,537,835,148	14.6%	16.0%	14% - 20%
Opportunistic & Tactical	435,532,770	2.5%	0.0%	0% - 5%
Cash Equivalents	638,283,328	3.7%	2.0%	0% - 5%
Short-Term	617,127,712	3.6%	2.0%	
Russell EA Overlay	-946,268	0.0%	0.0%	
Aegis - Alpha Overlay	4,858,740	0.0%	0.0%	
Direct Rebalance Overlay	0	0.0%	0.0%	
Currency Overlay	17,243,143	0.1%	0.0%	
<b>Total Fund</b>	<b>17,347,673,243</b>	<b>100.0%</b>	<b>100.0%</b>	

Source: BNY Mellon GRS







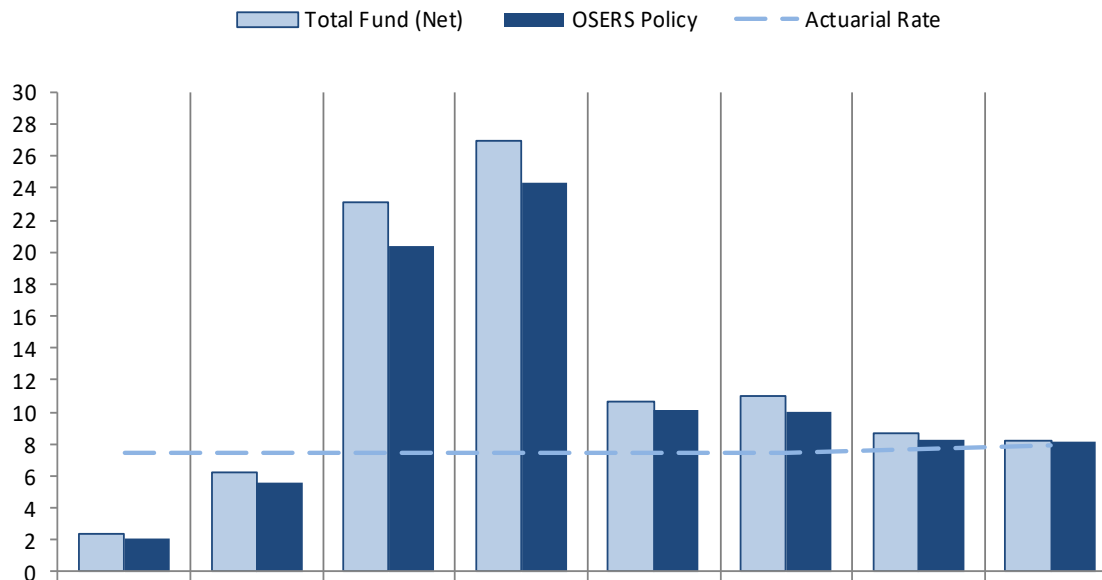




## Total Fund Performance

### Current Benchmark:

- 24.75% Russell 3000
- 13.50% MSCI World Ex US Index  
(net dividends)
- 6.75% MSCI Emerging Markets Index  
(net dividends)
- 11.00% Burgiss All Private Equity  
benchmark (1q lag) (BAPE)
- 19.00% Bloomberg Barclays  
Aggregate Bond
- 16.00% NCREIF Property (1q lag)
- 4.00% HFRI Fund of Funds  
Composite plus 1%
- 3.00% LIBOR + 4.5%
- 2.00% Citigroup 30 Day US T-Bill



### Actuarial Rate

(7.5% adopted 4/21/16)

	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year	ITD*
Total Fund (Gross)	2.45	6.40	23.57	27.59	11.34	11.64	9.39	8.61
Total Fund (Net)	2.42	6.22	23.08	26.98	10.69	10.96	8.69	8.09
OSERS Policy	2.13	5.59	20.35	24.39	10.13	10.05	8.23	8.17
Value Added (Net of Fee)	0.29	0.63	2.73	2.60	0.56	0.91	0.46	(0.08)

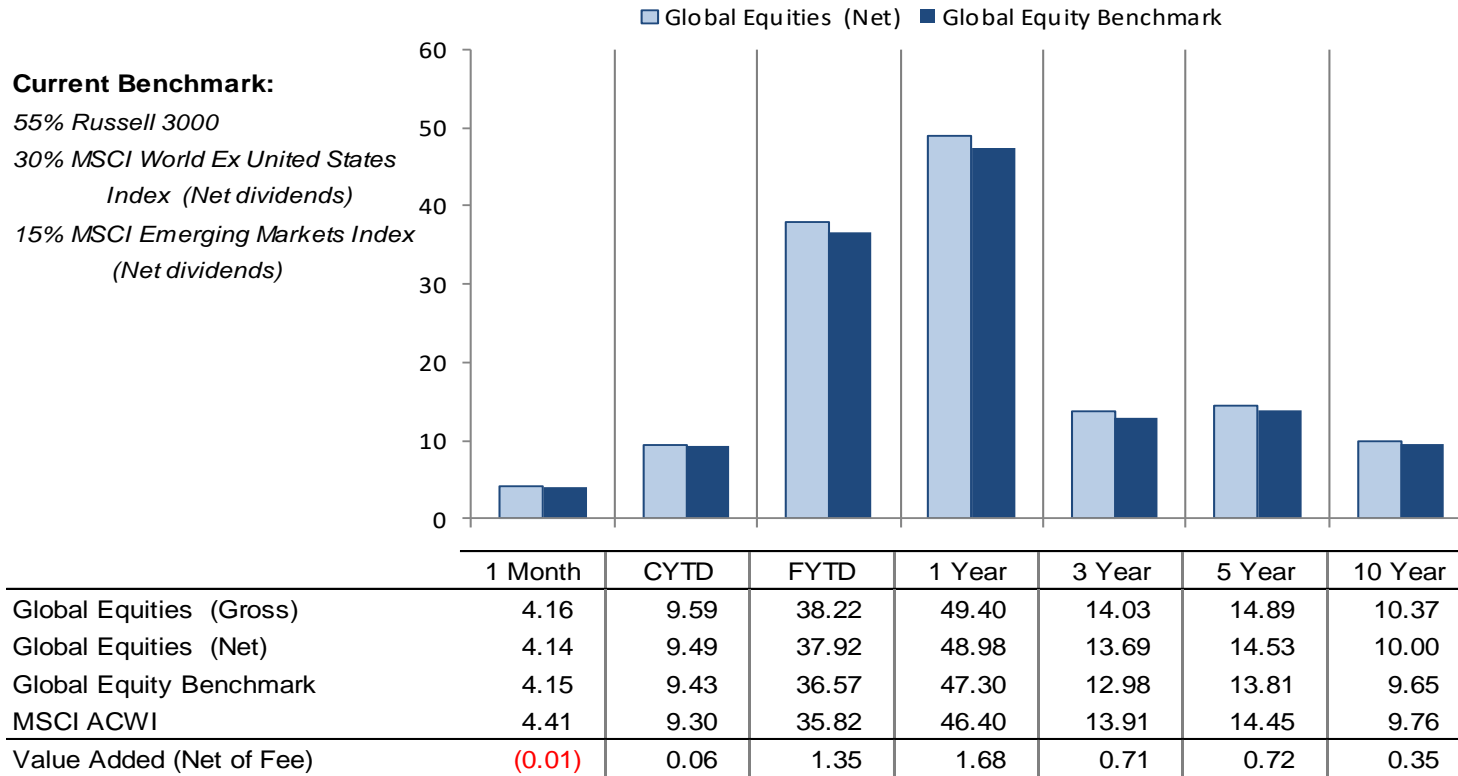
Source: BNY Mellon GRS

\*ITD is Inception date 10/1/1994 (26 years and 7 months)





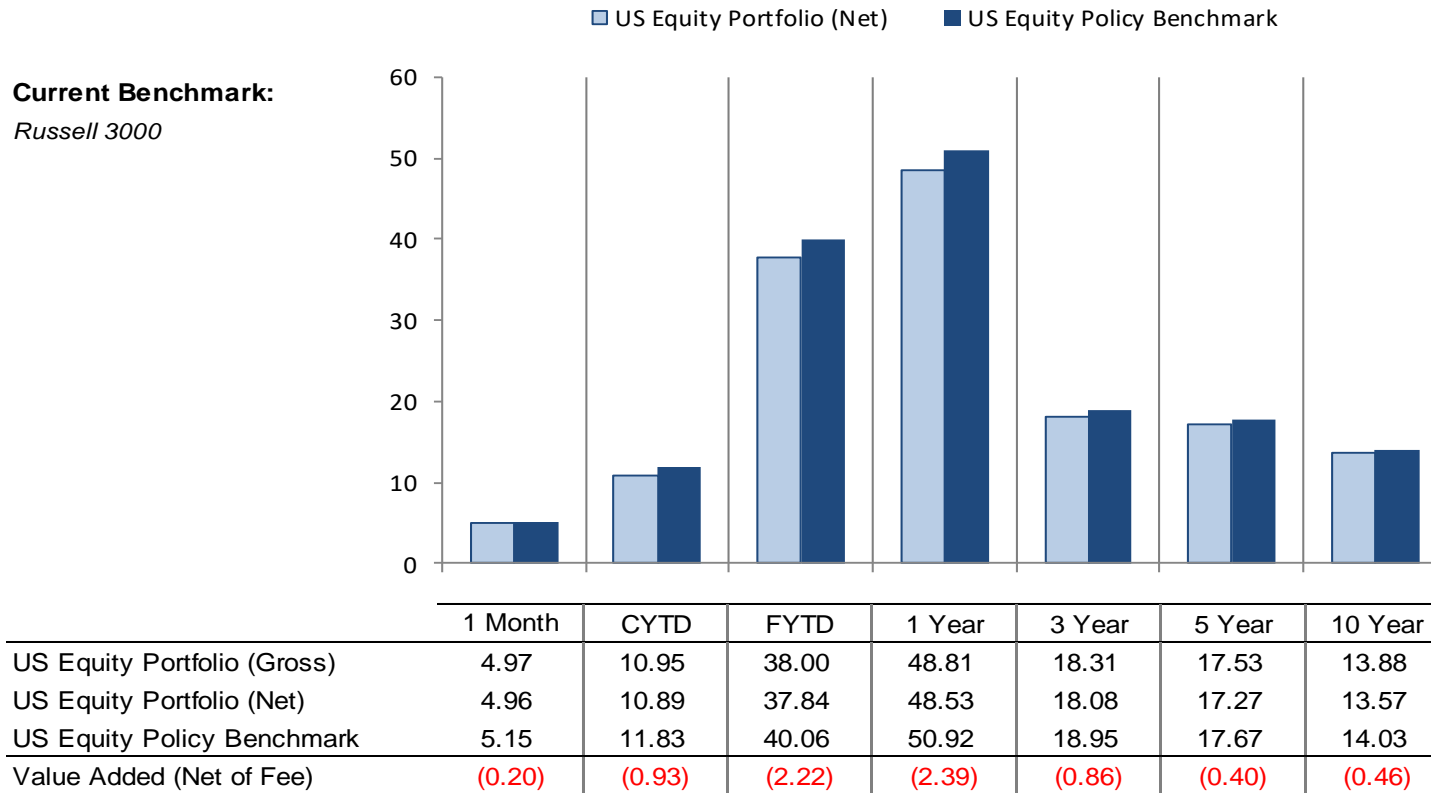
## Global Equities Performance



Source: BNY Mellon GRS



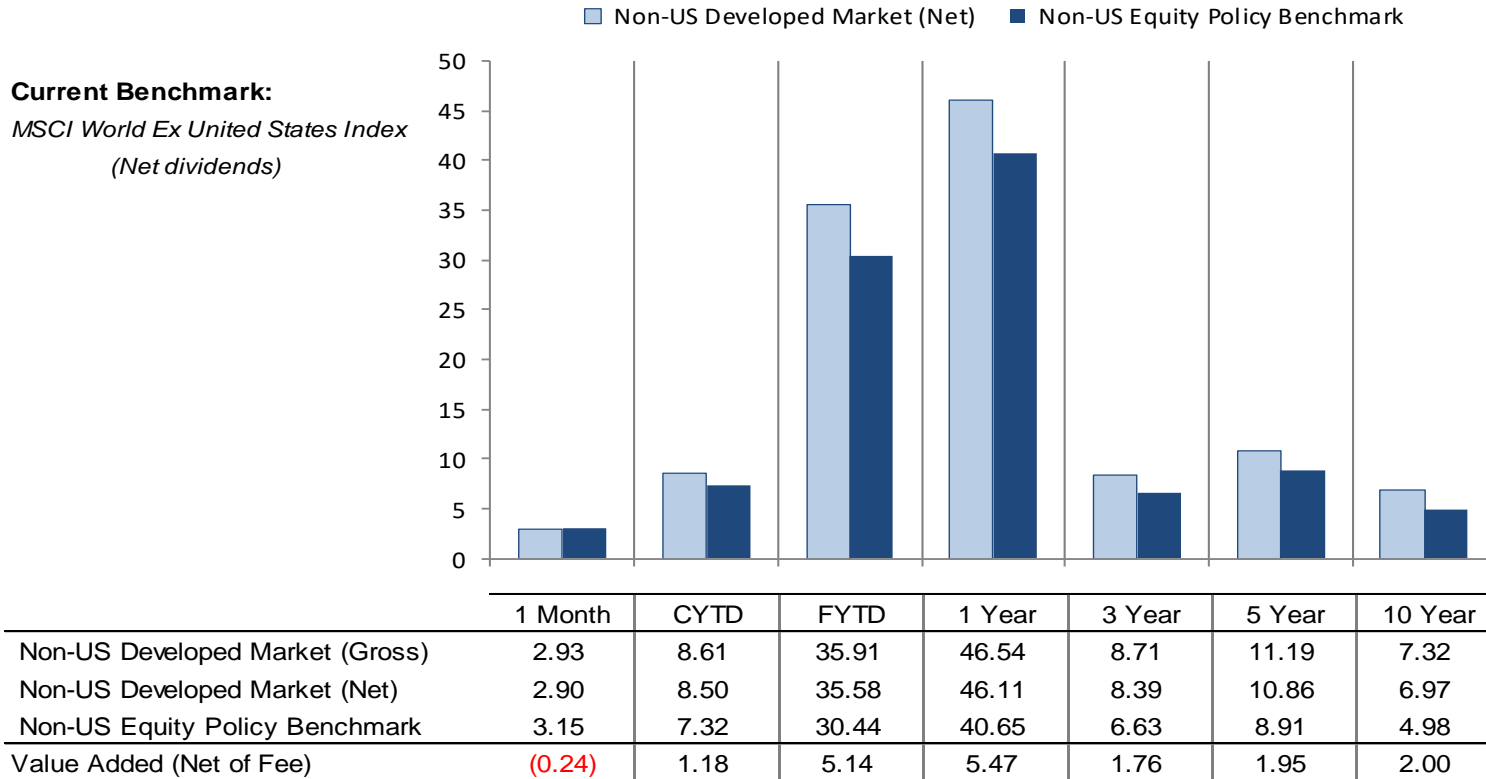
## US Equity Performance



Source: BNY Mellon GRS



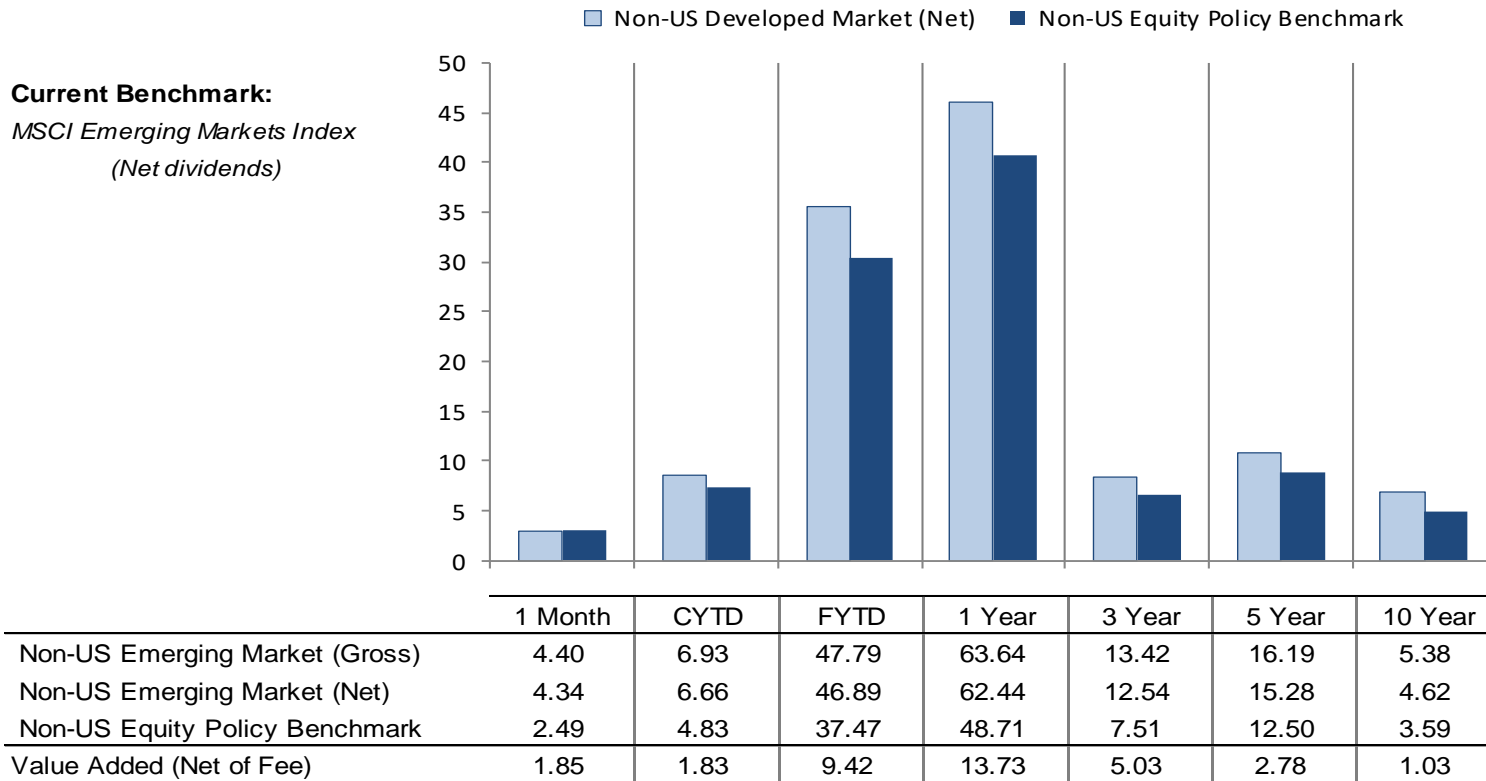
## Non-US Equity Developed Market Performance



Source: BNY Mellon GRS



## Non-US Equity Emerging Market Performance



Source: BNY Mellon GRS

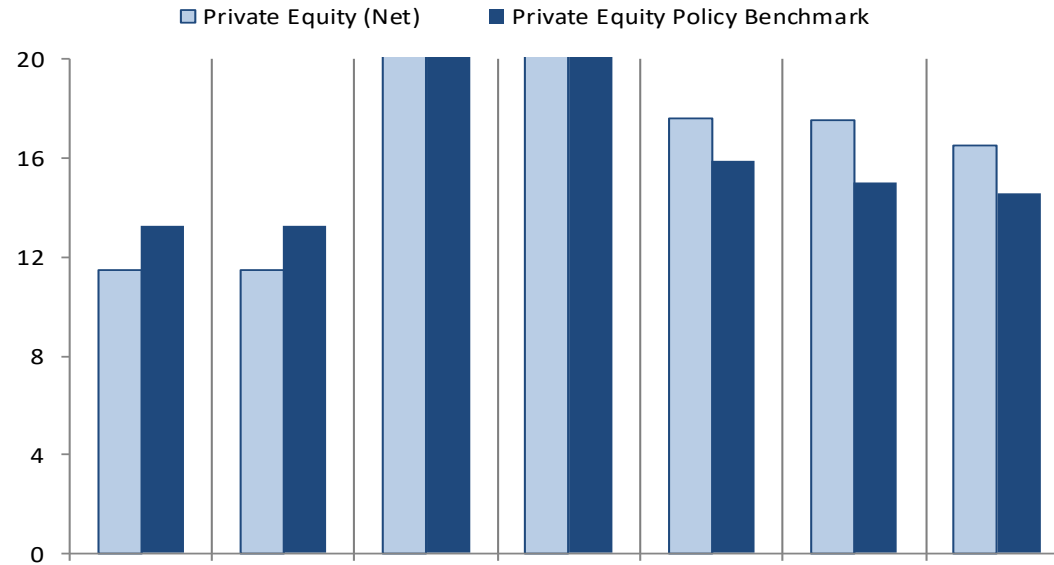


## Global Private Equity Performance

**Results as of: 03/31/2021**

**Current Benchmark:**

*Burgiss All Private Equity Index*



	Qtr	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Private Equity (Gross)	11.83	11.83	36.01	26.08	19.23	19.15	18.20
Private Equity (Net)	11.46	11.46	34.69	24.53	17.62	17.57	16.55
Private Equity Policy Benchmark	13.26	13.26	35.89	23.79	15.89	15.00	14.60
Value Added (Net of Fee)	(1.80)	(1.80)	(1.20)	0.74	1.73	2.57	1.95

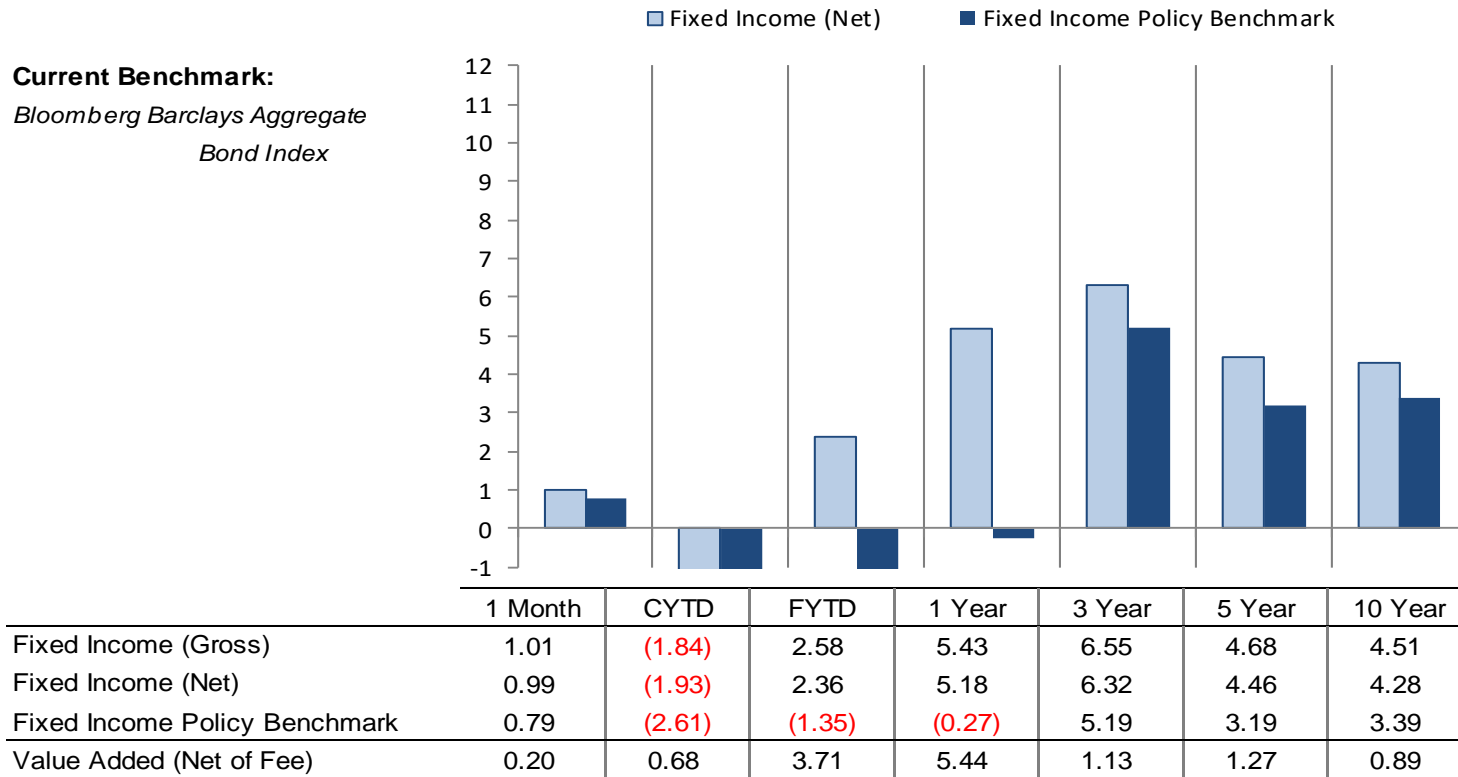
Source: BNY Mellon GRS

The difference between Gross and Net is management fee only. Performance based fees are captured in the Gross return.

Global Private Equity performance is reported one quarter in arrears.



## Global Fixed Income Performance



Source: BNY Mellon GRS

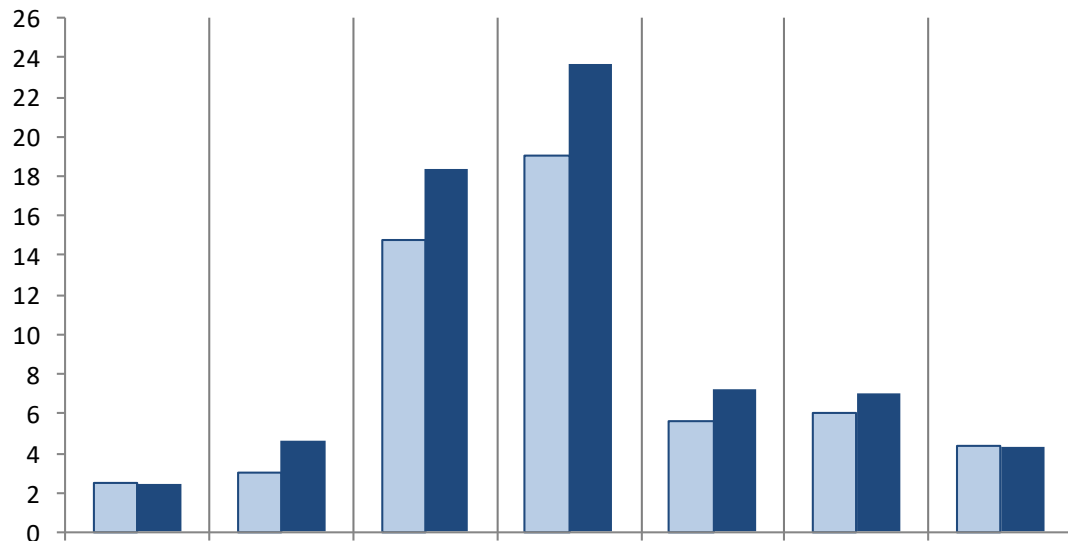


## Multi-Asset Strategies Performance

**Current Benchmark:**

*HFRI Fund of Funds Composite  
plus 1%*

Multi-Asset Strategies (Net)      Multi-Asset Strategies Policy Benchmark



	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Multi-Asset Strategies (Gross)	2.52	3.26	15.41	19.96	6.74	7.30	5.78
Multi-Asset Strategies (Net)	2.48	3.04	14.79	19.08	5.58	6.00	4.34
Multi-Asset Strategies Policy Benchmark	2.44	4.62	18.39	23.63	7.20	7.01	4.32
Value Added (Net of Fee)	0.04	(1.58)	(3.60)	(4.55)	(1.62)	(1.00)	0.02

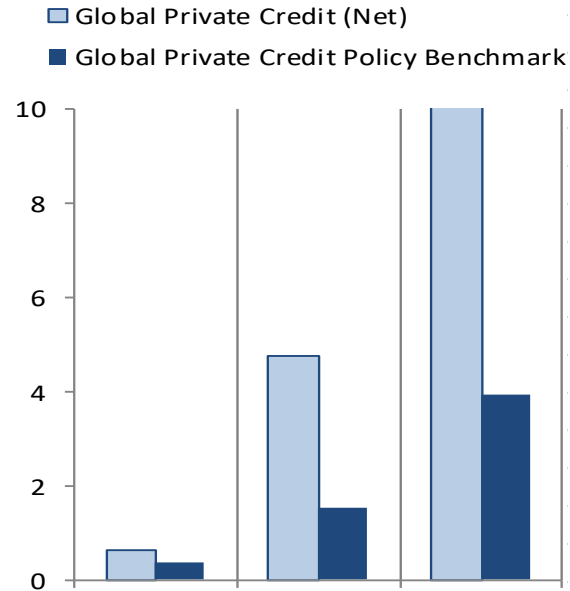
Source: BNY Mellon GRS

The difference between Gross and Net is management fee only. Performance based fees are captured in the Gross return.



## Global Private Credit

**Current Benchmark:**  
3 Month LIBOR plus 4.5%



	1 Month	CYTD	FYTD
Global Private Credit (Gross)	0.65	5.28	14.08
Global Private Credit (Net)	0.65	4.77	12.89
Global Private Credit Policy Benchmark	0.39	1.56	3.95
Value Added (Net of Fee)	0.27	3.22	8.94

Source: BNY Mellon GRS

The difference between Gross and Net is management fee only. Performance based fees are captured in the Gross return.

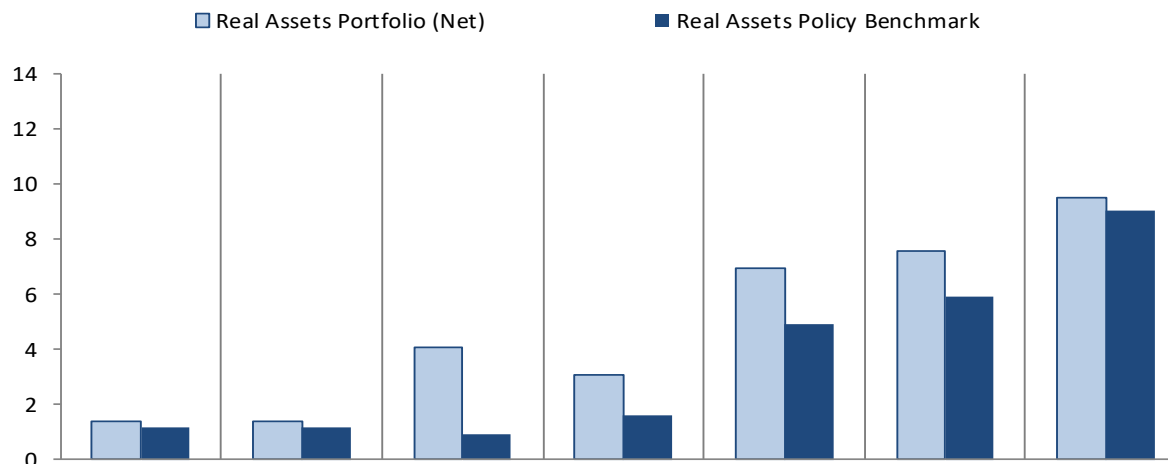




## Global Real Assets Performance

Results as of: 03/31/2021

**Current Benchmark:**  
NCREIF Property Index (1q lag)



	Qtr	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Real Assets Portfolio (Gross)	1.59	1.59	4.54	3.61	7.78	8.52	10.58
Real Assets Portfolio (Net)	1.38	1.38	4.08	3.09	6.90	7.53	9.47
Real Assets Policy Benchmark	1.15	1.15	0.88	1.60	4.89	5.91	9.00
Real Assets Value Added (NOF)	0.24	0.24	3.20	1.49	2.02	1.62	0.47
Real Assets Core (Net)	1.73	1.73	1.44	2.54	6.26	7.20	9.89
Real Assets Policy Benchmark	1.15	1.15	0.88	1.60	4.89	5.91	9.00
Real Assets Core Value Added (NOF)	0.58	0.58	0.56	0.94	1.37	1.29	0.89
Real Assets Non-Core (Net)	(0.25)	(0.25)	(0.15)	0.66	5.45	6.21	8.87
Real Assets Policy Benchmark	1.15	1.15	0.88	1.60	4.89	5.91	9.00
Real Assets Non-Core Value Added (NOF)	(1.40)	(1.40)	(1.03)	(0.94)	0.56	0.30	(0.13)
Real Assets Infrastructure (Net)	0.49	0.49	12.00	2.44	10.38	n/a	n/a
Real Assets Policy Benchmark	1.15	1.15	0.88	1.60	4.89	n/a	n/a
Real Assets Infrastructure Value Added (NOF)	(0.66)	(0.66)	11.12	0.84	5.49	n/a	n/a

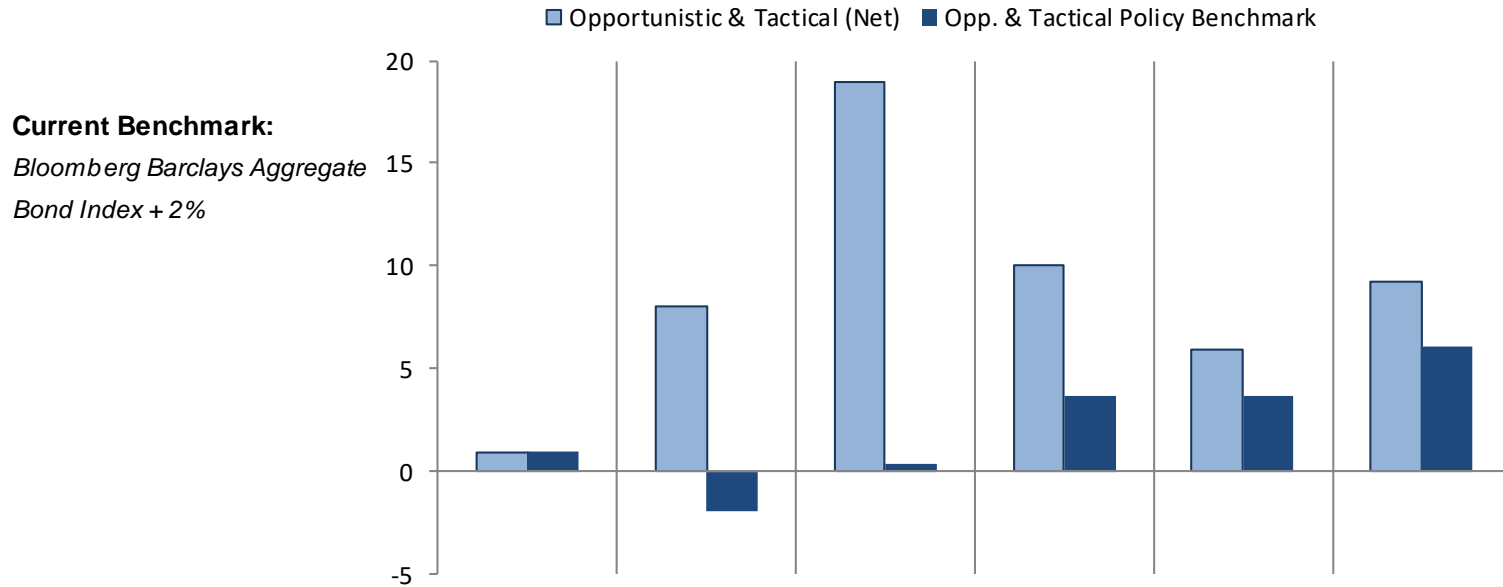
Source: BNY Mellon GRS

The difference between Gross and Net is management fee only. Performance based fees are captured in the Gross return.

Global Real Assets performance is reported one quarter in arrears.



## Opportunistic & Tactical Performance

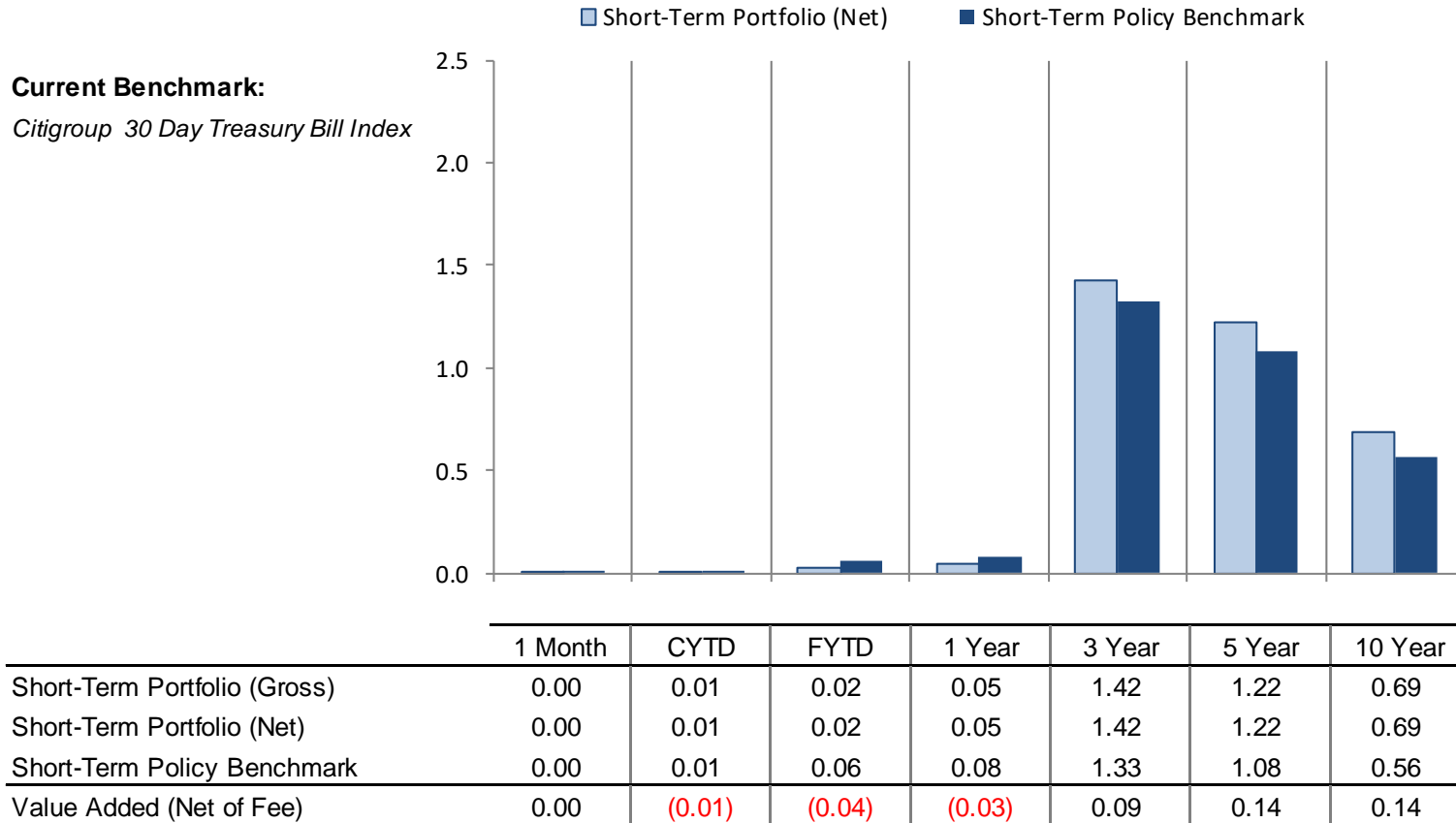


	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year
Opportunistic & Tactical (Gross)	0.89	8.52	19.95	11.33	7.49	10.72
Opportunistic & Tactical (Net)	0.89	8.06	18.93	10.06	5.93	9.24
Opp. & Tactical Policy Benchmark	0.95	(1.93)	0.31	3.68	3.64	6.12
Value Added (Net of Fee)	(0.06)	9.99	18.62	6.38	2.28	3.12

Source: BNY Mellon GRS



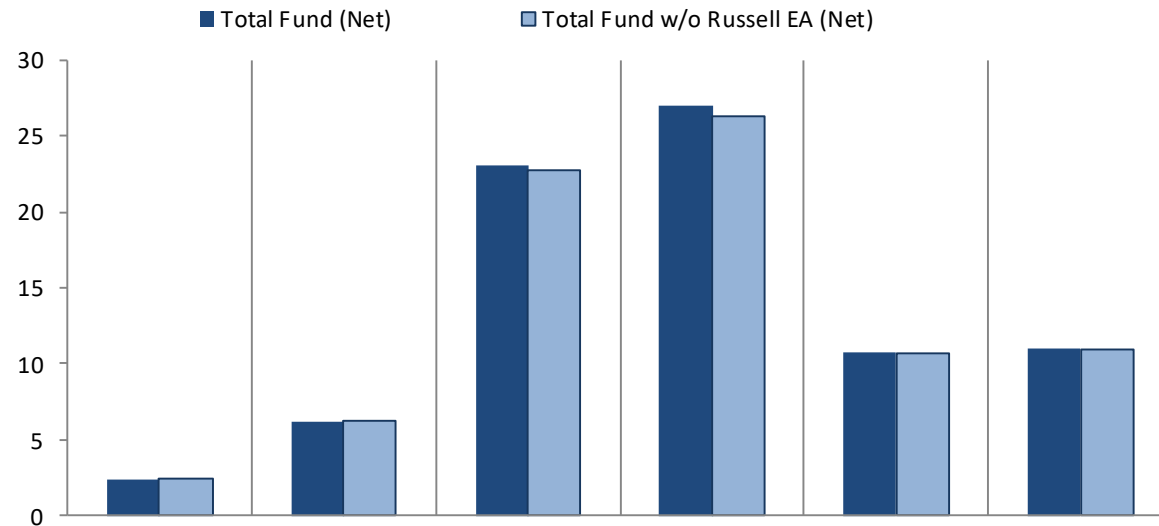
## Short-Term Performance



Source: BNY Mellon GRS



## Russell EA Overlay Performance

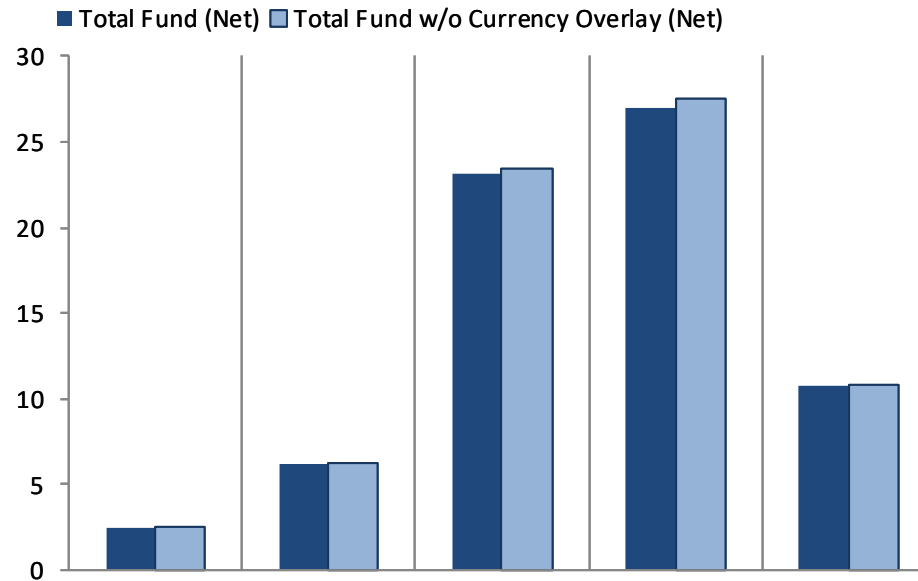


	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year
Total Fund (Gross)	2.45	6.40	23.57	27.59	11.34	11.64
Total Fund w/o Russell EA (Gross)	2.45	6.37	23.17	26.88	11.28	11.58
Total Fund (Net)	2.42	6.22	23.08	26.98	10.69	10.96
Total Fund w/o Russell EA (Net)	2.42	6.19	22.71	26.30	10.64	10.92
Russell EA Overlay Impact (Net of Fee)	0.00	0.02	0.37	0.68	0.05	0.05

Source: BNY Mellon GRS



## Currency Overlay Performance



	1 Month	CYTD	FYTD	1 Year	3 Year
Total Fund (Gross)	2.45	6.40	23.57	27.59	11.34
Total Fund w/o Currency Overlay (Gross)	2.54	6.42	23.96	28.15	11.41
Total Fund (Net)	2.42	6.22	23.08	26.98	10.69
Total Fund w/o Currency Overlay (Net)	2.50	6.24	23.47	27.54	10.79
Currency Overlay Impact (Net of Fee)	(0.08)	(0.02)	(0.39)	(0.56)	(0.10)

Source: BNY Mellon GRS



## Proposed Investment Agenda – Next Meeting

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Monthly Investment Report (May 31, 2021)

## MEMORANDUM

To: Christopher Collins, SERS Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: June 2, 2021

Re: Federal Legislative and Regulatory Report

### **OVERVIEW**

**Highlights from May:** the votes in the House and then the Senate whether to approve the creation of a bipartisan National Commission to study the January 6 attack on the Capitol; the announcement of President Biden's proposed federal \$6 trillion budget, coupled with the need to address the debt limit this summer; continued discussions in the Senate on a scaled back Infrastructure package; the issuance of several Executive Orders by President Biden; discussions on the advocacy with newly appointed legislative staff in the Department of Health and Human Services(HHS)/Centers for Medicare and Medicaid Services to discuss under-65 health care options; Zoom calls with the Public Sector HealthCare Roundtable and other organizations to finalize a campaign to educate Congress on Employer Group Waiver Plans (EGWPs) which need legislative support in H.R. 3 and any Senate bill to address the loss of revenue for EGWPs in the effort to reduce prescription drug prices; and continued advocacy with House and Senate Legislative Assistants on pension and health care issues.

### **The summer months of June and July will be full of hearings in the House and Senate, as Congress debates the:**

- Appropriations bills in the 12 Subcommittees, followed by full Committee hearings and markups;
- President's \$6 trillion budget proposal, which includes the American Families Plan (Family and Health Care Infrastructure) and the American Jobs Plan (Infrastructure);
- Expiration of the debt limit which will require both parties to come to terms on higher federal spending limits;
- Police and voting reform packages.

**The House vote on H.R. 3233, whether to create a "National Commission to Investigate the January 6 Attack on the United States Capitol Complex Act", was illustrative of the challenges the members are facing as they consider the 2022 midterm elections.** In the House, the bill passed by a vote of 252-175, with five Ohio Representatives supporting it, namely Reps. Marcy Kaptur (D-OH), Tim Ryan (D-OH), Joyce Beatty (D-OH), Anthony Gonzalez (R-OH), and David Joyce (R-OH).

### **The House of Representatives is scheduled to be in session for eleven days in June, from Monday, June 14 through Wednesday, June 30. Hearings of interest include:**

- **Committee on Oversight and Reform**  
Hearing: The SACKLER Act and Other Policies to Promote Accountability for the Sackler Family's Role in the Opioid Epidemic  
June 8, 2021 at 12:00 p.m.
- **Committee on Homeland Security, Subcommittee on Emergency Preparedness, Response, and Recovery**  
Hearing: Examining Climate Change: A Threat to the Homeland  
June 8, 2021 at 12:00 p.m.
- **Committee on Homeland Security**  
Hearing: Cyber Threats in the Pipeline: Using Lessons from the Colonial Ransomware Attack to Defend Critical Infrastructure  
June 9, 2021 at 12:00 p.m.

**On May 20, the House barely passed H.R. 3237, a \$1.9 billion bill, the “Emergency Security Supplemental to Respond to January 6th Appropriations Act, 2021.”** The vote was 213-212. The Ohio delegation vote followed party lines. The bill has moved to the Senate.

**The Senate is scheduled to be in session in June until a break starting on June 28 and continuing until July 9.** One hearing of interest:

- **Homeland Security and Governmental Affairs**

Hearing: To examine threats to critical infrastructure, focusing on examining the Colonial Pipeline cyber attack

June 8, 2021 at 10:00 a.m.

**The Senate took up H.R. 3233, the “National Commission to Investigate the January 6 Attack on the United States Capitol Complex Act” on Friday, May 28.** The vote for cloture on the motion to proceed on the measure did not pass. The vote was 54-35 and the bill needed at least 60 votes to move forward. Both Senator Sherrod Brown (D-OH) and Senator Rob Portman (R-OH) voted in favor of cloture. It was interesting that 11 Senators did not vote.

**The companion Senate bill, S. 1, the “For the People Act of 2021”, was not reported out of the Committee on Rules and Administration on May 11.** The vote was 9-9. The bill was part of the election reform effort by House and Senate Democrats. One of the sticking points was the short time for states to comply with some of the bill’s provisions. Senator Amy Klobuchar (D-MN) offered a substitute amendment to push out the deadline until 2026 for states to update voting systems or request a waiver until 2030. The bill also provided additional means for voter registration. Democrats will continue to pursue passage. The bill passed the House on March 3, 2021.

#### **APPROPRIATIONS**

**On May 28, President Biden announced his overall federal budget proposal, for Fiscal Year 2022, following the discretionary budget framework released previously.** The budget comes in around \$6 trillion and includes the American Families Plan and American Jobs Plan details, which were already expected to cost close to \$4 trillion. In the Fact Sheet, the Office of Budget & Management observed:

Today, the President released a Budget that details his proposals to advance that agenda this year. It includes the two historic plans the President has already put forward—the American Jobs Plan and the American Families Plan—and reinvests in **education**, research, public health, and other foundations of our country’s strength. **The Budget also calls on Congress to take action this year to lower prescription drug costs and expand and improve health coverage.**

**The Department of Education is the federal agency that received the most significant amount of new funding.** There are several provisions of interest, including:

- Build, Preserve, and Retrofit More Than Two Million Homes and Commercial Buildings, **Modernize Our Nation’s Schools** and Child Care Facilities, and Upgrade Veterans’ Hospitals and Federal Buildings. The President’s plan will create good jobs building, rehabilitating, and **retrofitting affordable, accessible, energy efficient, and resilient housing, commercial buildings, schools**, community colleges, and child care facilities all over the Nation, while also vastly improving the Nation’s Federal facilities, especially those that serve veterans.
- **Makes Historic Investments in High-Poverty Schools.** The Budget proposes a historic \$36.5 billion investment in Title I schools, a \$20 billion increase from the 2021 enacted level. This investment would provide historically under-resourced schools with the funding needed to deliver a high-quality education to all of their students.
- Strengthening Health Care. **The American Families Plan will also extend the expanded health insurance tax credits in the American Rescue Plan.** These improvements are lowering premiums for 9 million current enrollees by an average of \$50 per person per month and making them permanent will let an estimated four million uninsured people gain coverage. The American



Families Plan also makes historic investments to improve maternal health and reduce maternal mortality. The Plan will also support the families of veterans receiving health care services.

- Beyond the American Families Plan, **the Budget also calls on Congress to take action this year to further strengthen health care by lowering prescription drug costs and expanding and improving health coverage. The President's health care agenda includes cutting prescription drug costs by letting Medicare negotiate prices; reducing deductibles for ACA marketplace plans; improving Medicare benefits; creating a public option and giving people age 60 and older the option for people to enroll in Medicare;** and closing the Medicaid coverage gap to help millions of uninsured Americans gain health insurance.
- **Makes a Major Investment to Help End the Opioid Epidemic.** The Budget includes a historic investment of \$10.7 billion in discretionary funding in the Department of Health and Human Services, an increase of \$3.9 billion over the 2021 enacted level, to support research, prevention, treatment, and recovery support services, with targeted investments to support populations with unique needs, including Native Americans, older Americans, and rural populations. The Budget also includes \$621 million specific to the Department of Veterans Affairs Opioid Prevention and Treatment programs.
- **Invests in Tackling the Climate Crisis.** The Budget includes major new climate change investments—an increase of more than \$14 billion compared to 2021—across nearly every agency to: restore the critical capacity needed to carry out their core functions and to take a whole-of-government approach to tackling climate change; secure environmental justice for communities that have been left behind through the largest direct investment in environmental justice in history; and help developing countries reduce emissions and adapt to climate change.

A Fact Sheet was issued by the Office of Management and Budget on May 28:

<https://www.whitehouse.gov/wp-content/uploads/2021/05/FINAL-FY22-Budget-Overview-Fact-Sheet.pdf>

**This summer, House and Senate Committees and Subcommittees will continue with hearings on the budget, with testimony from the Cabinet Secretaries and federal agencies that are part of the federal budget appropriation process.** The appropriations and budget process must be approved before October 1 to avoid a government shutdown unless Congress agrees to a “CR”, or continuing resolution, to give them extra time to work out the details.

**The Senate Parliamentarian ruled today, June 2, that the Democrats only have only one more chance this year to use the budget reconciliation process unless the Senate Committee on the Budget approves another resolution.** The Committee has 11 Democrats and 11 Republicans, so it is unlikely that a Republican Senator would support a resolution for a second reconciliation measure. With one reconciliation opportunity left to pass a bill by a simple majority, Majority Leader Charles Schumer (D-NY) will need to work with his caucus to include as much language as possible in that bill.

### **INFRASTRUCTURE**

**Senate Republicans, led by Senator Shelley Moore Capito (R-WV), have offered an alternative infrastructure package of \$928 billion as a counter to the revised \$1.7 trillion amount from the White House.** President Biden and Senator Capito met this afternoon to discuss their proposals, which are closer to a compromise than previous discussions. Questions remain how to fund the proposal, along with the other budget priorities. The White House has proposed raising the corporate tax rate from 21% to 28%, raising tax rates on high-income individuals and raising the capital gains tax, as ways to fund some of the proposals. Republicans remain opposed to tax increases.

**The House Committee on Homeland Security passed the "State and Local Cybersecurity Improvement Act" which would authorize \$500 million in grant programs to state, local, tribal and territorial governments to help them protect their networks from cyber-crimes.** This would be new funding to complement the \$650 million that the federal Cybersecurity and Infrastructure Security Agency

(CISA) received from the American Rescue Plan Act passed in March. Other bills were passed as well in response to the Ransomware attack on Colonial Pipeline in May that caused a major disruption in the delivery of gasoline in the South and along the East Coast.

### **CLIMATE**

**On May 20, President Biden issued an “Executive Order on Climate-Related Financial Risk”.**

In the Order, the President said:

The failure of financial institutions to appropriately and adequately account for and measure these physical and transition risks threatens the competitiveness of U.S. companies and markets, the life savings and **pensions of U.S. workers and families**, and the ability of U.S. financial institutions to serve communities. In this effort, the Federal Government should lead by example by appropriately prioritizing Federal investments and conducting prudent fiscal management.

The Executive Order may be read here: [Executive Order on Climate-Related Financial Risk | The White House](#)

**As reported in The Texas Tribune, legislation was introduced by State Senator Brian Birdwell (R-TX), with four Republican state senators, that would require state entities, state pension funds and Texas’ K-12 school endowment, to “divest from companies that refuse to invest in or do business with fossil fuel-based energy.”** The bill directs the state comptroller to prepare, maintain, and provide to the TRS, ERS, TMRS, TCDRS, and Permanent School Fund a list of all companies that boycott energy companies. These funds would be required to notify those companies of their inclusion on the list and given 90 days to amend their positions. If those positions are not changed in 90 days, the state funds "shall sell, redeem, divest, or withdraw all publicly traded securities of the company." [Texas bill would take revenge on oil and gas disinvestments | The Texas Tribune](#)

### **EDUCATION**

**A newly released study by CMS indicated that “COVID-19 incidence was 37% lower in schools that required teachers and staff members to use masks and 39% lower in schools that improved ventilation.** Ventilation strategies associated with lower school incidence included dilution methods alone (35% lower incidence) or in combination with filtration methods (48% lower incidence).” The study also recommended vaccination of teachers and staff members. The study may be read here: [https://www.cdc.gov/mmwr/volumes/70/wr/mm7021e1.htm?s\\_cid=mm7021e1\\_w](https://www.cdc.gov/mmwr/volumes/70/wr/mm7021e1.htm?s_cid=mm7021e1_w)

**Senators Mike Lee (R-UT) and Tommy Tuberville (R-AL) introduced the “Children Have Opportunities in Classrooms Everywhere Act”, or “CHOICE Act”,** a bill to allow low-income families with children in grades K-12 to use federal education funds for educational options that best fit their needs.

**Senator Sherrod Brown’s (D-OH) bill, S. 1401, to amend the Richard B. Russell National School Lunch Act to improve nutritional and other program requirements relating to purchases of locally produced food, has not moved out of Committee.** Senator Susan Collins (R-ME) is the co-sponsor.

### **FINANCIAL SERVICES**

**H.R. 328, the “Wall Street Tax Act of 2021”, still has only 27 cosponsors, including Rep. Tim Ryan (D-OH) and has not advanced out of Committee.** The legislation would create a financial transaction tax on the sale of stocks, bonds, and derivatives at 0.1 percent (10 basis points), which could raise approximately \$777 billion over ten (10) years. A Senate companion bill, S. 817, has been introduced, however, neither Senator Sherrod Brown (D-OH) or Rob Portman (R-OH) have co-sponsored the bill.

**The House Resolution, introduced by Rep. Patrick McHenry (R-NC), H.Res. 249, “Expressing the sense of the House of Representatives that the Congress should not impose a financial transaction tax on individuals or market intermediaries in connection with trades executed on the National Market System or alternative trading systems” has not moved.** The Resolution was referred to the House Committee on Ways and Means. With the resignation of former Rep. Steve Stivers (R-OH), only Reps. Warren Davidson (R-OH) and Anthony Gonzalez (R-OH) are Ohio co-sponsors.

### **SERS ADVOCACY ON THE HRA WRAPAROUND PLAN AND EGWPs**

In continued discussions with staff from the offices of Reps. Marcy Kaptur (D-OH) and Tim Ryan (D-OH), SERS and I drafted a document to provide details on two options for under-65 health care for retirees. The document contained information on the HRA Excepted Benefit Plan and the Limited Wraparound Plan, both of which have been offered by SERS.

**SERS has been working with other plan sponsors, industry organizations and providers to create a White Paper that we can use to educate Congress on EGWP plans. The next call is set for June 10.** In a call with representatives from the Public Sector HealthCare Roundtable in May, SERS and I discussed the coalition activity and agreed to work on a legislative plan together.

### **WINDFALL ELIMINATION PROVISION (WEP)**

H.R. 2337 now has 160 co-sponsors. The bill, as introduced by Rep. Richard Neal, (D-MA), the Chairman of the Committee on Ways and Means, would amend title II of the Social Security Act to provide an equitable Social Security formula for individuals with noncovered employment and to provide relief for individuals currently affected by the Windfall Elimination Provision. The co-sponsors include Reps. Joyce Beatty, Marcy Kaptur and Tim Ryan, all Ohio Democrats.

The bill introduced by Senator Sherrod Brown (D-OH), S. 1302, now has 30 co-sponsors, however, Senator Rob Portman (R-OH) is not one of them. The bill would amend title II of the Social Security Act to repeal the government pension offset (GPO) and windfall elimination provisions (WEP). It has been assigned to the Committee on Finance.

### **SOCIAL SECURITY ADMINISTRATION (SSA)**

H.R. 82, the “Social Security Fairness Act of 2021” now has 154 co-sponsors, including Rep. Joyce Beatty (D-OH), Tim Ryan (D-OH), David Joyce (R-OH), Michael Turner (R-OH), Bob Gibbs (R-OH) and Troy Balderson (R-OH). The bill repeals provisions that reduce Social Security benefits for individuals who receive other benefits, such as a pension from a state or local government, and eliminates the GPO and the WEP for benefits payable after December 2021.

### **HHS/MEDICARE AND MEDICAID/CMS**

The Senate voted on May 25 to confirm President Biden’s nomination to lead the Centers for Medicare and Medicaid Services (CMS). Chiquita Brooks-LaSure is the first African-American woman to serve in this position. Senator Sherrod Brown (D-OH) supported the nomination while Senator Rob Portman did not. The final vote was 55-44. Previously, Ms. Brooks-LaSure served in the administration of former President Obama and worked to implement the Affordable Care Act (ACA).

On May 13, H.R. 3173, a bill to amend title XVIII of the Social Security Act to establish requirements with respect to the use of prior authorization under Medicare Advantage plans, and for other purposes, was introduced by Rep. Suzan DelBene (D-WA). There are 106 co-sponsors, including Reps. Brad Wenstrup (R-OH), Bob Gibbs (R-OH), Bill Johnson (R-OH) and Steve Chabot (R-OH). The bill has been referred to the Committees on Ways and Means and Energy and Commerce.

**S. 1279, as introduced by Senator Sherrod Brown (D-OH), the “Medicare at 50 Act”, S. 1279, has 19 co-sponsors.** The bill would “give people between the ages of 50 and 64 years old the option of buying into Medicare to provide the millions of Americans approaching retirement or forced to retire early due to layoffs or mandatory retirement, who face increasing health care needs and rising costs with an additional, affordable option for their health insurance coverage.” [Brown Introduces Medicare at 50 Act \(senate.gov\)](#)

**A bill, S. 1180, the “Choose Medicare Act”, was introduced by Senators Chris Murphy (D-CO), Jeff Merkley (D-OR) and Dianne Feinstein (D-CA) and was co-sponsored by nine other Democrats.** The bill would provide for the establishment of Medicare part E public health plans, and for other purposes. The bill would also enable HHS to be able to negotiate Medicare prescription drug prices. A copy of the text is here: [BON21374 \(senate.gov\)](#)

## **HEALTH CARE**

**David Dillon, an actuary and fellow of the Society of Actuaries (SOA), provided a recent commentary on health insurance premiums.** Mr. Dillon, a SOA board member and a senior vice president at Lewis & Ellis, wrote that typical premiums could range from 5% lower to up to 5% higher. He indicated:

- The new, temporary health insurance premium subsidies in the American Rescue Plan Act of 2021 may cut rates 1% to 4%, by keeping younger and healthier people in the pool of people who have health insurance.
- Underlying medical inflation may increase rates by 4% to 6%.
- The pandemic could cut rates by as much as 5% or increase them by as much as 5%, due to some combination of COVID-19 care costs, the effects of the COVID-19 on demand for other services and the extent to which pandemic-related delays in use of routine care have led some people to develop expensive-to-treat conditions.

The article may be read here: <https://www.thinkadvisor.com/2021/05/27/health-coverage-rates-may-be-stable-in-2022-actuary/>

**H.R. 19, the “Lower Costs, More Cures Act”, the Republican version of the Democratic H.R. 3, was reintroduced.** Reps. Brad Wenstrup (R-OH), Bob Latta (R-OH), David Joyce (R-OH) and Troy Balderson (R-OH) are the Ohio co-sponsors. It would change Medicare’s prescription drug benefit to cap out-of-pocket costs for seniors, prohibit “pay for delay,” and increase reporting requirements for drug manufacturers.

**S. 386, the “Medicare-X Choice Act”, still has only 13 cosponsors, none from Ohio.** The bill would create a public option health insurance plan that would allow Medicare to negotiate lower drug prices. The proposal would create a government-run health care plan on the Affordable Care Act exchanges to compete with plans offered by private insurers.

## **PRESCRIPTION DRUGS**

**President Biden announced that the federal government would begin the process of seeking a waiver of the patents for COVID-19 vaccines, developed by drug companies, for example, Moderna and Pfizer.** The World Health Organization (WHO) has the final say and any vote could take months. As reported, if the WHO would approve the waiver, it would allow member countries to limit intellectual property rights, including patents, for coronavirus vaccines, diagnostics, and treatments. The idea is controversial and drug companies have vowed to fight any action.

**The lawsuit filed by the Pharmaceutical Care Management Association (PCMA) against HHS and other federal agencies, in the U.S. District Court for the District of Columbia, is still pending.** The implementation of the rebate rule has been extended until January 1, 2023, pending review by the Biden Administration and the Court.

**The bills introduced by Senator Bernie Sanders (I-VT) to address the high cost of prescription drugs are still pending: S. 908, S. 909 and S. 920.** Senator Sherrod Brown (D-OH) is a co-sponsor of S. 920, the “Affordable and Safe Prescription Drug Importation Act”.

## **RETIREMENT SECURITY**

**On May 20, Senators Rob Portman (R-OH) and Ben Cardin (D-MD) introduced their bipartisan legislation, S. 1770, a bill to amend the Internal Revenue Code of 1986 to reform retirement provisions, and for other purposes.** The bill was introduced in the past legislative session. Senator Portman issued a press release to describe the provisions in the bill. It would address “four major opportunities in the existing retirement system: (1) allowing people who have saved too little to set more aside for their retirement; (2) helping small businesses offer 401(k)s and other retirement plans; (3) expanding access to retirement savings plans, including for low-income Americans without coverage; and (4) providing more certainty and flexibility during Americans’ retirement years.” The full release may be read here: [Portman, Cardin Renew Call for Sweeping Reforms to Strengthen Retirement Security | Senator Rob Portman \(senate.gov\)](#)

**On May 19, Senator Chuck Grassley (R-IA) introduced S. 1703, a bill called, the “Improving Access to Retirement Savings Act”.** The bill would allow schools, charities and other nonprofit employers that offer 403(b) tax-sheltered annuity plans to work with other nonprofit employers to offer their employees retirement benefits through Multiple Employer Plans or MEPs. The bill is supported by the American Council of Life Insurers, the Insured Retirement Institute, the American Benefits Council and the American Retirement Association.

**The news media reported that state and local governments could begin applying for the COVID-19 relief funding approved in the American Rescue Plan.** The state of Ohio would be eligible for more than \$6 billion.

**On May 20, Senators Patty Murray (D-WA) and Tina Smith (D-MN) introduced S. 1762, a bill to amend the Employee Retirement Income Security Act of 1974 to permit retirement plans to consider certain factors in investment decisions.** A companion bill, H.R. 3387, was introduced in the House by Representative Suzan DelBene (D-WA). In an article published in [insurancenewsnet.com](https://insurancenewsnet.com), the bill was “introduced legislation in the Senate and House to provide legal certainty to workplace retirement plans that choose to consider environmental, social and governance (ESG) factors in their investment decisions or offer ESG investment options.” The article may be read here:

<https://insurancenewsnet.com/oarticle/u-s-senators-tina-smith-patty-murray-u-s-representative-suzan-delbene-unveil-legislation-to-support-sustainable-workplace-retirement-plans>

**H.R. 3604 was introduced on May 28 by Rep. Andy Levin (D-MI), to amend the Employee Retirement Income Security Act of 1974 to enable consideration and disclosure by retirement plans of Sustainable Investment Policies.**

**On May 27, Senators James Lankford (R-OK) and Michael Bennet (D-CO) introduced S. 1870, “The Enhancing Emergency and Retirement Savings Act of 2021”.** The bill would permit one emergency distribution of \$1,000 per calendar year. The bill would give individuals additional flexibility and penalty-free access to funds should a family emergency occur. The bill requires that the individual replenish the amount back to the plan before an additional emergency distribution from that same plan is allowed.

**As reported, Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX), serving on the House Committee on Ways and Means, introduced H.R. 2954, the “Securing a Strong Retirement Act of 2021”, or SECURE Act 2.0.** While the bill has received bipartisan support, concerns have been expressed for at least two provisions in the bill. One of the bill's provisions includes a requirement for the issuance of paper statements once per year. Some advisors think this is a step back because lengthy annual paper statements are not as helpful for participants. A more serious concern was raised by Jamie Cox, a financial advisor in an article posted in ThinkAdvisor. Mr. Cox indicated that if the bill passes with current language, people making catch-up contributions to retirement plans (who must be 50 and older) “will be forced to make them on a Roth basis. They will no longer be allowed to be made as tax-deferred contributions. That’s a big part of the revenue raise. This particular concept has come up multiple times and is called ‘Rothification.’” The full article may be read here:

<https://www.thinkadvisor.com/2021/05/08/secure-act-2-0-a-gateway-to-rothification-of-retirement/>

#### **SECURITIES AND EXCHANGE COMMISSION (SEC)**

**On June 1, Chairman Gary Gensler surprised the governance community by issuing a statement that he was directing the Division of Corporate Finance to “consider whether the SEC should review the 2020 codification of the definition of solicitation as encompassing proxy voting advice, the 2019 Interpretation and Guidance regarding that definition, and the conditions on exemptions from the information and filing requirements in the 2020 Rule Amendments.”** <https://www.sec.gov/news/public-statement/gensler-proxy-2021-06-01>



**On May 13, Chairman Gensler indicated that the SEC plans to propose a rule requiring that public companies disclose a range of workforce data as the agency steps up environmental, social and governance (ESG) disclosures.**

**Comments on the reopening of the rules for the use of universal proxy cards in all non-exempt solicitations for contested director elections are due by Monday, June 7, 2021.**

#### **U.S. SUPREME COURT**

**The Supreme Court has 26 remaining cases that should be decided before the end of its term in June.** One important case deals with the Affordable Care Act (ACA). The legal question is whether a penalty of \$0 can still be considered a tax?

#### **REPORTS**

**Avalere Health, a market analysis and consulting firm, compared Obamacare premiums to premiums for Medicare coverage in Houston, Miami, Los Angeles, and Chicago for a hypothetical 60-year-old nonsmoker and a 65-year-old enrolled in Medicare.** The study concluded, "Simply expanding Medicare eligibility does not guarantee premium affordability." It also took into account Medicare Advantage, the private insurance option that nearly 4 in 10 Medicare enrollees select. <https://www.usnews.com/news/health-news/articles/2021-05-19/medicare-for-60-year-olds-not-guaranteed-to-be-a-better-deal>

#### **OTHER NEWS**

**On May 26, Reuters reported that "Treasurers from 15 U.S. states (including Ohio) warned U.S. climate envoy John Kerry in a letter that they could withdraw assets from any banks that reduce loans to fossil fuel companies, following reports that the Biden administration has pressured financial institutions over such loans."** In response, the State Department said financial institutions make their own decisions. "At no point has Secretary Kerry pressured financial institutions into making commitments; on the contrary, many financial institutions have reached out to (Kerry) to initiate conversations regarding the financial risks and potential opportunities related to climate change." <https://www.reuters.com/business/sustainable-business/us-state-treasurers-warn-kerry-not-pressure-banks-climate-2021-05-26/>

**The bill introduced by Rep. Bill Pascrell, Jr. (D-NJ), H.R. 1068, the "Carried Interest Fairness Act of 2021",** has 7 cosponsors (none from Ohio) and would close the carried interest loophole.

#### **ACTIVITIES:**

1. Requested appointments with Ohio delegation staff members, arranged the invitations and participated on Zoom calls. Provided follow up on requests for more information.
2. Drafted a document for circulation to CMS relating to health care options for under-65 retirees.
3. Reviewed bills, Executive Orders, statements and memoranda related to education, schools, retirement and health care. Provided a Memorandum on the infrastructure proposal.
4. Participated in calls with SERS, Government Relations Network, and the Public Sector HealthCare Roundtable.
5. Monitored bills and hearings from the House Committees on Ways & Means, Energy and Commerce, Appropriations, Finance, and others related to public pensions, COVID-19, retirement security, health care, prescription drugs, education and schools, and Social Security.
6. Monitored the U.S. Supreme Court for important retirement, health care and investment cases.
7. Reviewed bills that were introduced or cosponsored by members of the Ohio delegation or other House/Senate members on issues that could impact SERS, retirement security and/or health care.
8. Reviewed notices or proposed rules from the SEC, DOL, HHS/CMS, and regulatory agencies.
9. Monitored organizations, such as the Social Security Administration, American Benefits Council, AHIP, BMA, AARP and other entities on pension, investment, and/or health-care-related issues.
10. Reviewed reports and newsletters from CII, ICGN, NASRA, NCTR, NCPERS, Public Sector HealthCare Roundtable, Social Security, and prepared the Federal Legislative Report.

**FEDERAL LEGISLATION BOARD REPORT**  
**117<sup>th</sup> United States Congress**  
**(Prepared by Chris Collins as of June 4, 2021)**

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**H.R. 82**

SPONSOR: Rep. Rodney Davis (R-IL)

LAST ACTIONS: House - 01/04/2021 Referred to the House Committee on Ways and Means.

CAPTION: Social Security Fairness Act of 2021

COMMENT: Repeals the GPO and WEP. 158 co-sponsors; six Ohioans

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**H.R.328**

SPONSOR: Rep. Peter DeFazio (D-OR)

LAST ACTION: House - 01/15/2021 Referred to the House Committee on Ways and Means.

CAPTION: To amend the Internal Revenue Code of 1986 to impose a tax on certain trading transactions.

COMMENT: 27 co-sponsors; one Ohioan

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**H.R. 1319**

SPONSOR: Rep. John Yarmuth (D-KY)

LAST ACTIONS: 03/11/2021 Became Public Law No: 117-2.

CAPTION: American Rescue Plan Act of 2021

COMMENT: Provides additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses.

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**H.R. 2337**

SPONSOR: Rep. Richard Neal (D-MA)

LAST ACTIONS: House - 04/01/2021 Referred to the House Committee on Ways and Means.

CAPTION: To amend title II of the Social Security Act to provide an equitable Social Security formula for individuals with noncovered employment and to provide relief for individuals currently affected by the Windfall Elimination Provision.

COMMENT: 160 cosponsors; three Ohioans

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**S. 1302**

SPONSOR: Sen. Sherrod Brown (D-OH)

LAST ACTIONS: Senate - 04/22/2021 Read twice and referred to the Committee on Finance.

CAPTION: A bill to amend title II of the Social Security Act to repeal the Government pension offset and windfall elimination provisions.

COMMENT: 30 cosponsors

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**H.R. 3**

SPONSOR: Rep. Frank Pallone (D-NJ)

LAST ACTIONS: House - 04/27/2021 Referred to the Subcommittee on Oversight and Investigations

CAPTION: Elijah E. Cummings Lower Drug Costs Now Act

COMMENT: 54 cosponsors; three Ohioans

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**STATE LEGISLATION BOARD REPORT**  
**(Prepared by Chris Collins as of May 7, 2021)**

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**133<sup>rd</sup> General Assembly**

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**HB308** POST-TRAUMATIC STRESS FUND Tom Patton (R-Strongsville) To provide compensation and benefits to first responders with post-traumatic stress disorder and to study the financial and administrative requirements for that fund.

Current Status: 01/09/2021 SIGNED BY GOVERNOR; eff. 90 days

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**HB442** OCCUPATIONAL REGULATIONS Bill Roemer (R-Richfield) and Thomas West (D-Canton) Requires pupil services personnel to register with the Department of Education, rather than hold a separate license from the State Board of Education as under prior law. The change applies to school speech language pathologists, audiologists, school nurses, physical therapists, occupational therapists, and social workers, who are licensed by their respective professional boards.

Current Status: 01/07/2021 SIGNED BY GOVERNOR; eff. 90 days

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**134<sup>th</sup> General Assembly**

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**HB110** OPERATING BUDGET Scott Oelslager (R- North Canton) To make operating appropriations for the biennium beginning July 1, 2021, and ending June 30, 2023, to levy taxes, and to provide authorization and conditions for the operation of state programs.

Current Status: 06/03/2021 Senate Finance, (Ninth Hearing) – All Testimony

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**HB14** REGARDS STATE RETIREMENT SYSTEM Diane Grendell (R – Chesterland) Regarding state retirement system fiduciary duties, Public Employees Retirement System management fees and employee pay, and creating the Committee on Pension Salaries and Fees.

Current Status: 02/04/2021 Referred to Financial Institutions Committee

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**School Employees  
Retirement System of Ohio**

# Memo

To: Retirement Board  
From: Richard Stensrud, Executive Director  
CC: Karen Roggenkamp, Deputy Executive Director  
Tracy L. Valentino, CPA, Chief Financial Officer  
Date: June 9, 2021  
Re: Actuarial Services Consultant

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It has been the practice at SERS that when the contract for actuarial services approaches the contractual expiration period, SERS staff issues a Request for Proposal (RFP) to solicit proposals from firms that provide actuarial services to public retirement systems. Responses to the RFP are then reviewed and evaluated by staff and a recommendation is provided for the Board's consideration.

The current contract with Cavanaugh Macdonald to provide actuarial services expires June 30, 2021. Accordingly, consistent with past practice, in March 2021, a RFP was issued to provide actuarial services for pension and health care benefits, the annual actuarial valuations, and to serve as the consulting actuarial and fiduciary advisor to the Board. As with previous actuarial services contracts, the proposed contract would be for a five-year period commencing July 1, 2021, including separate pension and health care valuations under date of June 30, 2021, and would extend through June 30, 2026.

The scope of services in the RFP included the following:

- Consultation and Advisory Services such as legislative analysis, SERS retirement board and staff education, actuarial operating tables and factors, tax compliance, asset/liability modeling of assets, and other analyses or requests.
- Valuation Services such as annual Pension and Health Care Fund valuations, GASB 67 and 68, reports, gain/loss analysis, Surcharge certification, and a five-year experience study.
- Health Care Consultation Services such as the calculation of SERS' insurance rates for the self-insured plans, calculation of the rate for drug coverage for those eligible for

coverage who are (1) over age 65, (2) under age 65, (3) Medicare Part B only and (4) eligible as a dependent child, modeling of cost implications for proposed plan adjustments or plan alterations, and providing staff with information on trends, new initiatives, compliance advice, and best practices in the health care field.

- Other Special Projects such as modeling tools for health care, cost of purchased service, or plan design changes.

The responses to the RFP were required to include the following information:

- Firm Information such as the firm's background, history, and ownership structure; the services the firm provides and the percentage of revenue derived from actuarial services; information related to significant developments in the organization such as changes in ownership, restructuring, or personnel reorganizations within the past three years; the ways the firm manages growth; the resources the firm has that specifically address the needs of public sector and retiree health care clients; the firm's quality assurance procedures; the firm's contingency plans for loss of key personnel; and the firm's disaster recovery plan for loss of facilities and computer capabilities. Information was also requested regarding the top ten clients (by assets under management) in the public and/or corporate pension plan arena, and contact information for three public sector retirement plans comparable to SERS and three clients to whom the firm currently provides health care consultation services, if applicable.
- Standards of Conduct information such as a copy of the firm's written code of conduct or set of standards for professional behavior and a statement of how they are monitored and enforced; a copy of the firm's anti-discrimination policy and a statement of how the policy is monitored and enforced; information regarding how the firm identifies and manages conflicts of interest; and information regarding any litigation or regulatory investigations, within the last five years, the firm has been involved in as it relates to the services the firm provides.
- Consulting team information such as how many actuarial consultants the firm has; the role of each consultant assigned to the SERS engagement; biographies of team members; a description of the team's experience with similar work; a list of public employee retirement systems for which the firm currently provides actuarial services; and key personnel replacement procedures.
- Actuarial valuations and consulting services work plan outline consisting of major tasks undertaken and delineated time frames for the delivery of both the annual pension valuation under the date of June 30 and the health care liabilities OPEB valuation under date of June 30; information regarding the theory and methodology for the actuarial and economic assumptions the firm



- References 15%
- Cost 20%

The proposal evaluation team was comprised of John Grumney, Kathy Thornburg, Mike Steiner, Lindsay Rice, Stacy Easterday, Maria Robinson, Tracy Valentino, and Karen Roggenkamp, with Dawn Viggiano as team counsel. The team reviewed each proposal, reached out to the firms with any questions, contacted references, and scored the RFPs based on the criteria noted above.

Based on the scores, the team held interviews with and received presentations by the top two scorers: Cavanaugh Macdonald and GRS.

Based on the proposal scores and interviews, the evaluation team is recommending the selection of Cavanaugh Macdonald Consulting LLC (CMC) to provide actuarial services for the period July 1, 2021 through June 30, 2026.

The reasons for the recommendation of CMC are outlined below:

- CMC's theory and methodology appear reasonable and appropriate, as well as consistent with requirements established by oversight boards (i.e., Society of Actuaries, GASB, etc.).
- CMC's growth places it as one of the larger firms providing actuarial consulting service to public pension plans across the country, however, they will continue to have a dedicated team assigned to the SERS engagement.
- CMC exhibited an understanding of the scope of the engagement and has extensive experience in providing the requested services to both large and small public pension plans including healthcare.
- CMC's proposed fees were very competitive to the fee proposals from the other RFP respondents.
- CMC's client references were positive.

GRS is also one of the larger providers of actuarial consulting service to public pension plans across the country, however, their scoring was lower than CMC because of several factors:

- Communication and presentation scheduling with the listed RFP contact was difficult and not timely.
- Ambiguity concerning the firm's view on the use of market-value liability in actuarial valuations, a polarizing topic for public retirement systems.
- The experience of consultants assigned to the SERS engagement was unclear, particularly for healthcare.

- Their proposed contract language takes the position that the firm would not serve in a fiduciary capacity for SERS, which raises questions regarding the standard of care they would be held to and their ability to support the fiduciary responsibilities of the SERS Board.

In considering the last recommendation for the provider of actuarial services, which was to renew the engagement with CMC in 2014, the Board elected to forego receiving a presentation by CMC before authorizing the engagement. That said, if the Board wishes to receive a presentation by CMC, it will be scheduled for the July Board Meeting. If that is the Board's desire, please note that it would be advisable to extend the current contract with CMC for one month to provide continued coverage beyond the current June 30<sup>th</sup> expiration date.

Also, as suggested above, it should be noted that CMC has been the SERS consulting actuary for approximately thirteen years (starting March 31, 2008). Although longevity has many benefits, it can also be viewed as reducing independence over time. If the duration of the engagement is a concern of the Board, the continued engagement of CMC could be paired with direction to conduct an actuarial audit, which would review and validate the assumptions, methodology and calculations provided by CMC. An actuarial audit is conducted at the direction of the ORSC every ten years, and CMC underwent such an audit in 2014. However, nothing would prevent SERS from directing its own audit prior to the next scheduled ORSC audit in 2024.

Thank you for your consideration. I will be happy to answer any questions you might have.

**School Employees Retirement System of Ohio**Summary of administrative operation expenses during the period **May 1, 2021 - May 31, 2021.**

<b>Account</b>	<b>Amount</b>
Computer Hardware >\$5,000	180,642.32
Salaries & Wages	1,063,156.20
Salaries & Wages - Overtime	2,405.10
Vacation Leave Expense	95,634.52
Sick Leave Expense	31,326.82
Employer Contributions - PERS	157,979.72
Group Life	8,197.47
Long Term Disability	2,321.23
Short Term Disability	2,456.30
Group Health Claims	128,738.64
Group Health - Admin Fees	7,153.98
Prescription Claims	153,104.15
Group Health - Stop Loss	13,072.95
Vision Admin Fees	168.30
Group Health - Employee Cost	(27,296.41)
Group Health - Wellness Incentive	3,345.00
Group Health - Tobacco Premiums	(880.00)
Medicare Premium - Employer	15,244.40
Tuition	664.76
Deferred Compensation Match	4,695.00
Actuarial Services	12,000.00
Custodial Fees - Investment Accounting	104,138.73
Custodial Banking	13,802.82
Master Recordkeeper Fees	111,360.45
Investment Advisory Fees	54,166.67

Performance/Analytics Fee	37,401.66
Bloomberg Terminal Rentals	13,455.00
Medical Consultant	3,750.00
Special Counsel	24,452.48
Technical	91,632.50
Other Professional Services	31,998.61
Postage	151,762.16
Telecommunications Services	12,950.22
Printing Paper	368.56
Communications & Publications	4,654.75
Hardware Maintenance	6,204.12
Software Maintenance	35,170.84
Software Subscriptions	76,418.44
Hardware < \$5,000	53,068.41
Software < \$25,000	3,630.22
Equipment Repairs & Maintenance	5,046.79
Office Supplies & Expenses	30.00
Records Storage	2,913.36
Seminars & Conferences	7,015.00
Travel & Transportation	887.66
Subscriptions	6,187.66
Memberships	3,484.00
Operations Maintenance	2,938.31
Staff Support	4,131.14
Recruiting Expenses	669.99
Interior Landscaping	1,356.37
Vehicle Expense	472.03
Ohio Retirement Study Council	11,132.98
Reimbursement of Leased Svcs	(25,416.67)
<b>Total Administrative Expenses</b>	<b>2,705,365.71</b>



**School Employees Retirement System of Ohio  
REVIEW OF ADMINISTRATIVE EXPENSES  
May 2021**

The following are preliminary administrative operation expenses of the School Employees Retirement System of Ohio during the period **May 1, 2021 - May 31, 2021**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
Computer Hardware >\$5,000	Dell Marketing LP	59,065.08
	Optiv Security, Inc.	54,180.75
	Shi International Corp.	67,396.49
	Account Totals:	180,642.32
Salaries & Wages	ADP, LLC	528,078.95
	ADP, LLC	535,077.25
	Account Totals:	1,063,156.20
Salaries & Wages - Overtime	ADP, LLC	919.79
	ADP, LLC	1,485.31
	Account Totals:	2,405.10
Vacation Leave Expense	ADP, LLC	95,634.52
	Account Totals:	95,634.52
Sick Leave Expense	ADP, LLC	31,326.82
	Account Totals:	31,326.82
Employer Contributions - PERS	Ohio Public Emp. Retirement System	78,591.30
	Ohio Public Emp. Retirement System	79,388.42
	Account Totals:	157,979.72
Group Life	American United Life Insurance Company	8,197.47
	Account Totals:	8,197.47
Long Term Disability	American United Life Insurance Company	2,321.23
	Account Totals:	2,321.23
Short Term Disability	American United Life Insurance Company	1,222.23
	American United Life Insurance Company	1,234.07
	Account Totals:	2,456.30
Group Health Claims	Aetna Daily Wires - ESERS	126,595.39
	SaveonSP, LLC	2,143.25
	Account Totals:	128,738.64

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Group Health - Admin Fees	Aetna Admin - ESERS	7,153.98
	Account Totals:	7,153.98
Prescription Claims	Express Scripts - ESERS	7,613.90
	Express Scripts - ESERS	8,428.02
	Express Scripts - ESERS	14,071.19
	Express Scripts - ESERS	25,157.57
	Express Scripts - ESERS	42,621.87
	Express Scripts - ESERS	55,211.60
	Account Totals:	153,104.15
Group Health - Stop Loss	Sunlife Financial	13,072.95
	Account Totals:	13,072.95
Vision Admin Fees	VSP - (OH)	168.30
	Account Totals:	168.30
Group Health - Employee Cost	Employee Premiums	(13,508.47)
	Employee Premiums	(13,597.08)
	Aetna Admin - ESERS	(190.86)
	Account Totals:	(27,296.41)
Group Health - Wellness Incentive	ADP, LLC	3,345.00
	Account Totals:	3,345.00
Group Health - Tobacco Premiums	ADP, LLC	(440.00)
	ADP, LLC	(440.00)
	Account Totals:	(880.00)
Medicare Premium - Employer	ADP, LLC	7,936.61
	ADP, LLC	7,307.79
	Account Totals:	15,244.40
Tuition	Campbell, Ashley	138.62
	Scarver, Gina	318.40
	Rice, Lindsay	207.74
	Account Totals:	664.76
Deferred Compensation Match	ADP, LLC	2,340.00
	ADP, LLC	2,355.00
	Account Totals:	4,695.00

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Actuarial Services	Cavanaugh MacDonald Consulting, LLC	12,000.00
	Account Totals:	12,000.00
Custodial Fees - Investment Accounting	BNY Mellon Asset Servicing	104,138.73
	Account Totals:	104,138.73
Custodial Banking	Huntington National Bank	13,284.82
	Treasurer of State - Warrants	518.00
	Account Totals:	13,802.82
Master Recordkeeper Fees	BNY Mellon Asset Servicing	111,360.45
	Account Totals:	111,360.45
Investment Advisory Fees	Aksia	16,666.67
	Wilshire	37,500.00
	Account Totals:	54,166.67
Performance/Analytics Fee	BNY Mellon Asset Servicing	34,401.66
	Wilshire Associates Incorporated	3,000.00
	Account Totals:	37,401.66
Bloomberg Terminal Rentals	Bloomberg Finance LP	13,455.00
	Account Totals:	13,455.00
Medical Consultant	Borchers, M.D., Glen G.	3,750.00
	Account Totals:	3,750.00
Special Counsel	Ice Miller LLP	30.29
	Ice Miller LLP	135.50
	Ice Miller LLP	17,287.00
	Newhouse,Prophater,Kolman&Hogan LLC	350.00
	Porter, Wright, Morris,	6,481.84
	Standley LawGroup LLP	167.85
	Account Totals:	24,452.48
Technical	CGI, Inc.	22,000.00
	ComResource	20,240.00
	Sagitec Solutions, LLC	35,392.50
	Shamrock Solutions, LLC	14,000.00
	Account Totals:	91,632.50

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Other Professional Services		
	Cobalt Community Research, LLC	4,900.00
	Contoural, Inc.	12,092.50
	Drake, Carol N.	3,333.33
	LexisNexis Risk Data Management, Inc	1,789.45
	Performance Leadership Group, LLC	500.00
	Performance Leadership Group, LLC	5,625.00
	Vorys Advisors LLC	3,333.33
	Wickert, Kimberly	425.00
	Account Totals:	31,998.61
Postage		
	Columbus Courier & Freight LLC	193.40
	Columbus Courier & Freight LLC	212.74
	Pitney Bowes Inc.	70.32
	Pitney Bowes Inc.	86.42
	Pitney Bowes Inc.	120.00
	Pitney Bowes Inc.	218.24
	Quadient	675.51
	Unishippers Association	33.00
	Unishippers Association	67.40
	Unishippers Association	85.13
	United States Postal Service	150,000.00
	Account Totals:	151,762.16
Telecommunications Services		
	AT&T	40.10
	Black Box Network Services	57.50
	LUMEN	3,885.03
	Nextel Communications	111.52
	TBG Conferencing	499.26
	Time Warner Cable	6,193.78
	Verizon Wireless	334.81
	XO Communications	1,828.22
	Account Totals:	12,950.22
Printing Paper		
	Millcraft Paper Co.	368.56
	Account Totals:	368.56
Communications & Publications		
	Baise Quality Printing	1,214.75
	Bindery and Specialties, Inc.	3,440.00
	Account Totals:	4,654.75
Hardware Maintenance		
	Park Place Technologies	6,204.12
	Account Totals:	6,204.12
Software Maintenance		
	Dell Marketing LLP	170.84
	Sagitec Solutions, LLC	35,000.00
	Account Totals:	35,170.84
Software Subscriptions		
	ADP, LLC	2,771.83
	CDW-Government, Inc.	13,546.12
	Citrix Systems Inc	2,121.60
	KLDiscovery	1,275.00
	Liquid Web Inc	264.50
	LogMeIn	2,388.00
	Optiv Security, Inc.	4,435.90
	Optiv Security, Inc.	10,066.70
	SAS Institute Inc	3,970.00
	Shi International Corp.	24,363.53
	Velosio	10,244.00
	Wellable LLC	457.60
	Zoom	513.66
	Account Totals:	76,418.44

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Hardware < \$5,000		
	Amazon.com	3,347.60
	Insight	46,473.54
	Lenovo	1,252.27
	ProVideo	1,995.00
	Account Totals:	53,068.41
Software < \$25,000		
	Optiv Security, Inc.	3,630.22
	Account Totals:	3,630.22
Equipment Repairs & Maintenance		
	Canon Financial Services, Inc	1,647.27
	Digital Print Solutions	606.95
	Ricoh USA, Inc	325.00
	Ricoh USA, Inc	389.58
	Ricoh USA, Inc	678.03
	US Bank Equipment Finance	1,385.98
	Woodhull	13.98
	Account Totals:	5,046.79
Office Supplies & Expenses		
	Employers Resource Association	30.00
	Account Totals:	30.00
Records Storage		
	Vital Records Holdings, LLC	2,913.36
	Account Totals:	2,913.36
Seminars & Conferences		
	Central Ohio ACFE Chapter	290.00
	Central Ohio ISSA	1,050.00
	NCPERS	1,200.00
	New Horizons CLC of Columbus LLC	4,250.00
	Ohio State University	225.00
	Account Totals:	7,015.00
Travel & Transportation		
	Bibibop Asian Grill	257.00
	Haller, James	92.94
	Hills Market	208.75
	Katzinger's Delicatessen	86.00
	Kroger	29.47
	Moss, Catherine	67.75
	Phillips, Barbra	99.34
	Rossler, James	46.41
	Account Totals:	887.66
Subscriptions		
	CAIA Association	350.00
	Constant Contact	125.00
	Economist	210.82
	Kiplinger Letter	133.30
	Kiplinger's Personal Finance	37.57
	Shutterstock, Inc.	29.00
	Thomson Reuters	5,267.48
	Time	15.00
	Wall Street Journal	19.49
	Account Totals:	6,187.66

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Memberships		
	HRACO	200.00
	International Association of Business Communicators	319.00
	International Institute of Business Analysis	110.00
	Masri, Judi	375.00
	Ohio Ethics Commission	1,200.00
	Ohio Society of CPAs	905.00
	Ohio Society of CPAs	375.00
	Account Totals:	3,484.00
Operations Maintenance		
	Amtrec, LLC	1,666.00
	AT&T	243.43
	Northeast Ohio Natural Gas Corp.	73.31
	Northeast Ohio Natural Gas Corp.	105.57
	South Central Power Company	850.00
	Account Totals:	2,938.31
Staff Support		
	Certif-A-Gift Company	56.00
	Culligan Bottled Water of Columbus	14.94
	Matrix Integrated Psychological Services	574.20
	ThrivePass	546.00
	Employee Reimbursement	1,455.00
	Employee Reimbursement	1,485.00
	Account Totals:	4,131.14
Recruiting Expenses		
	Association of Government Accountants	295.00
	Indeed	374.99
	Account Totals:	669.99
Interior Landscaping		
	Ambius Inc.	1,356.37
	Account Totals:	1,356.37
Vehicle Expense		
	Batteries Plus Commercial	10.74
	BP Oil Company	35.00
	Firestone Complete Auto Care	243.14
	Mark Wahlberg Buick GMC	176.15
	Moo Moo Car Wash	7.00
	Account Totals:	472.03
Ohio Retirement Study Council		
	Ohio Retirement Study Council	11,132.98
	Account Totals:	11,132.98
Reimbursement of Leased Svcs		
	OSERS Broad St. LLC	(25,416.67)
	Account Totals:	(25,416.67)
<b>Total Administrative Expenses</b>		<b>2,705,365.71</b>

**FY2021 Administrative Budget  
Board Expense to Budget Reporting  
Year-to-Date Through May 31, 2021**

Major Category/Sub-Major Category	Line Item	Vendor	FY2021 Budget	YTD Expense	Budgeted Y/N?	Additional Information
<b>PROFESSIONAL SERVICES</b>			<b>\$ 6,764,785</b>	<b>\$ 4,778,836.94</b>		
ACTUARIAL ADVISORS			\$ 390,660	\$ 272,304.00		
	Actuarial	Cavanaugh Macdonald	344,660	272,304.00	Y	Actuarial Consultant
AUDITING			\$ 195,020	\$ 166,872.20		
	Auditing	RSM US LLP	145,020	166,211.00	Y	External Auditor
BANKING FEES			\$ 1,257,223	\$ 960,326.27		
	Custodial Banking		1,106,543	803,721.25	Y	
		Huntington/Fifth Third	450,000	217,265.39	Y	Domestic Custodian
		BNYM	656,543	586,455.86	Y	International Custodian
	Administrative Banking	Huntington National Bank	150,680	156,605.02	Y	Banking Services
INVESTMENT RELATED			\$ 2,818,137	\$ 2,150,194.34		
	Master Recordkeeper		1,151,600	904,247.71	Y	
	Investment Consulting & Advisory Services		825,000	595,833.37		
		Aksia	375,000	183,333.37	Y	Investment Consulting
		Wilshire	450,000	412,500.00	Y	Investment Consulting
	Performance Analytics Services		704,820	650,113.26		
		Barra-One Risk Mgmt Sys	254,000	238,445.00	Y	Investment Risk Analytics
		BNY Mellon GRS	414,820	378,418.26	Y	Investment Performance Analytics
TECHNICAL			\$ 2,063,745	\$ 1,229,140.13		
	Special Counsel		226,000	244,875.07	Y	
	Technical		1,252,300	642,767.54		
		IBM	118,000	118,000.00	Y	Data Warehouse
		Sagitec	583,200	376,291.08	Y	SMART Development Resources
	Other Professional Services		585,445	341,497.52		
		Contoural	100,000	86,462.80	Y	Record Retention Project
OTHER OPERATING EXPENSE			\$ 3,004,049	\$ 1,416,182.10		
COMPUTER SUPPORT SERVICES			\$ 1,808,505	\$ 1,416,182.10		
	Hardware Maintenance		189,771	157,492.04	Y	
	Software Maintenance		972,185	829,389.96		
		Hyland	111,500	107,310.62	Y	ImageNow
		Dell	188,830	195,590.32	Y	Microsoft Enterprise Agreement
		Sagitec	420,000	350,000.00	Y	SMART Silver Support
	Software Subscription		548,572	429,300.10	Y	

PROJECT ITEMS						
Major Category/Sub-Major Category	Line Item	Project	FY2021 Budget	YTD Expense	Budgeted Y/N?	Additional Information
<b>PROFESSIONAL SERVICES</b>						
	TECHNICAL					
	Technical					
		AWS/Cloud Compute - POC	100,000	-	Y	Consulting Services
	Other Professional Services	SMART Mobile Application	100,000	-	Y	Consulting Services
		Pension/HC Sustainability	100,000	-	Y	Consulting Services

**SERS**

UNBUDGETED PROJECT ITEMS						
Major Category/Sub-Major Category	Line Item	Project	FY2021 Budget	YTD Expense	Budgeted Y/N?	Expense Reallocation
<b>PROFESSIONAL SERVICES</b>						
	TECHNICAL		\$ -	\$ 57,730.00		
	Technical					
		VOIP Expansion - Needed to provide improved member service/reduce voice mails	-	143.75	N	Travel & Transportation
		SMART Framework Upgrade Consultant	-	57,586.25	N	Technical
<b>COMMUNICATIONS EXPENSE</b>						
	TELECOMMUNICATIONS SERVICES		\$ -	\$ 5,320.00		
	Telecommunications Services					
		VOIP Expansion - Needed to provide improved member service/reduce voice mails	-	5,320.00	N	Travel & Transportation





**SERS**

# Memo

To: Retirement Board  
From: SERS Legal Department  
CC: Richard Stensrud  
Date: June 4, 2021  
Re: Administrative Rule

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One category of resolutions on Administrative Rules is on the June Board Agenda.

- I. **Approval to file with JCARR the following proposed amended rule:**
  - **3309-1-18 Payment of contributions.**

This rule sets forth deadlines for employers to report and remit contributions, and other payments. The rule currently addresses the penalties for late reporting by employers but does not expressly address the accuracy of reporting. The proposed amendment adds a provision establishing employer liability for errors in reporting. The amendment permits the Board to seek reimbursement from employers for any penalties that SERS incurs as a result of the error.

Please call Dawn Viggiano at 614-595-6825 if you have any questions before the meeting.

**FILING OF PROPOSED AMENDED ADMINISTRATIVE RULE**

Legal Counsel discussed with the Retirement Board filing with JCARR the following proposed amended rule: 3309-1-18 Payment of contributions.

\_\_\_\_\_ moved and \_\_\_\_\_ seconded that proposed amended rule 3309-1-18 be filed with JCARR as discussed.

**3309-1-18 Payment of contributions.**

(A) For purposes of this rule:

- (1) "Employer" has the same meaning as in section 3309.01 of the Revised Code.
- (2) "Contribution report" means payroll data for each pay date that has been cleared of any errors or warnings.
- (3) "Surcharge" means the employer minimum compensation contribution amount determined pursuant to section 3309.491 of the Revised Code.

(B) Payments due under section 3309.47 of the Revised Code shall be remitted to the school employees retirement system by the fifth business day following the pay date.

(C) Contribution reports shall be submitted to the retirement system by the fifth business day following the pay date.

(D) Payments due under section 3309.51 of the Revised Code and paid by an employer directly to the employers' trust fund shall be remitted by the fifth business day following the pay date.

(E) Payments due to the employers' trust fund pursuant to section 3309.51 of the Revised Code and received from the amounts allocated under Chapter 3317. of the Revised Code, section 3314.08 of the Revised Code, and section 3326.33 of the Revised Code shall be remitted each month and attributed to that month.

(F) Annually, the retirement system shall issue a final school year statement that reconciles the estimated employer payments received with the employer payments owed. Within thirty days of the statement's issuance, the employer shall directly pay to the employers' trust fund any balance owed, or the retirement system shall directly refund to the employer any overpayments made. The retirement system shall not issue a refund to an employer whose reports or payments are delinquent.

(G) Surcharge payments due to the employers' trust fund shall be collected in one of the following ways:

- (1) An employer who does not receive amounts allocated under section 3314.08 or 3326.33 of the Revised Code may choose to pay its surcharge directly to the employers' trust fund. An employer who chooses this option must pay its surcharge within thirty days after receipt of the certified amount due from the retirement system.

(2) For those employers who do not choose the direct pay option under paragraph (G)(1) of this rule, as well as employers who receive amounts allocated under section 3314.08 or 3326.33 of the Revised Code, the retirement system shall include surcharge payments in the estimated payments certified to the superintendent of public instruction pursuant to section 3309.51 of the Revised Code.

(H) For any payments made pursuant to paragraphs (B), (D), (F) and (G)(1) of this rule, payment remittance information shall be submitted in the manner specified by the retirement system no later than the date the payment is remitted.

(I) The retirement system may extend a due date for an employer upon a finding that good cause has been shown.

(J) For purposes of section 3309.571 of the Revised Code, "days" refers to "business days."

(K) An employer may, at the sole discretion of the retirement system, be required to repay the retirement system for any amounts paid by the retirement system as the result of employer errors in reporting or certifying information to the retirement system.

History: 5/3/19, 5/15/17, 2/27/17 (Emer.), 12/4/14, 1/7/13, 7/1/10  
 Promulgated Under: 111.15  
 Statutory Authority: 3309.04  
 Rule Amplifies: 3309.47, 3309.49, 3309.491, 3309.51, 3309.55, 3309.571  
 Review Date: 2/1/24

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**School Employees  
Retirement System of Ohio**

# Memo

**To:** Retirement Board  
**From:** Richard Stensrud, Executive Director  
**CC:** Karen Roggenkamp, Deputy Executive Director  
**Date:** June 4, 2021  
**Re:** FY2022 Budget Approval

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At the meeting in May, you received the FY2022 Administrative Budgets for SERS and OSERS Holdings, LLC. During that meeting, a request was made for additional information regarding historical budget information.

The attached information includes a lookback of the budget, the actual expenditures, the Net Asset values and the Actuarial Accrued Liabilities from FY2013 to the current proposed budget. Below are some observations regarding the information:

- Budget growth has been very controlled over the period, with an average increase of 2.7% over the past 10 years. This includes the impact of the almost 9% increase that occurred in FY2015. Excluding FY2015, the average annual increase was 2%.
- We consistently under-spend relative to the budget. This is a reflection of expenditure discipline that includes competitive bidding processes such as requests for proposals and multiple quotes. We believe controlling costs post-budget approval is as important as the discipline put into preparing the budget. It should also be noted that budget dollars not spent remain in the trust.
- Managing assets and servicing liabilities (benefits) are central to our mission and thus looking at the budget relative to those objectives is a reasonable way for gauging whether our budget(s) are reasonable and in line with those responsibilities. Over the past 10 years, the Administrative Budget represents approximately 0.24% of net assets and 0.17% of actuarial accrued liabilities.

At the June meeting, we are requesting approval of these budgets through separate resolutions: one for SERS' operating and capital budgets for the next fiscal year and one for the transfer of funds to OSERS Holdings, LLC to cover the net operating expenses of OSERS Broad Street, LLC.

If you have any questions about either resolution, please call me at 614.222.5801.



# FISCAL YEAR BUDGET EVALUATION

## Lookback FY2013–FY2022

Budget Analysis											
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020		FY2021	FY2022
BUDGET	27,974,434	29,190,795	31,811,401	32,555,092	33,470,690	33,319,319	34,366,777	34,952,799		34,602,197	36,112,092
ACTUAL	27,289,964	28,050,943	29,303,853	30,881,435	32,232,224	31,553,053	33,480,365	33,001,426		33,193,491	N/A
Variance	(684,470)	(1,139,852)	(2,507,548)	(1,673,657)	(1,238,466)	(1,766,266)	(886,412)	(1,951,373)		(1,408,706)	N/A
Budget Inc/Dec %	0.79%	4.35%	8.98%	2.34%	2.81%	-0.45%	3.14%	1.71%		-1.00%	4.36%
<b>1</b> Budget Utilization %	97.6%	96.1%	92.1%	94.9%	96.3%	94.7%	97.4%	94.4%		95.9%	N/A
Percentage of Assets											
Financial Net Position	11,679,807,805	13,224,646,492	13,205,741,315	12,822,058,903	13,985,542,416	14,706,362,726	15,008,099,540	14,902,434,903	<b>2</b>	17,260,173,208	-
<b>3</b> Budget to Net Position %	0.262%	0.250%	0.241%	0.247%	0.261%	0.238%	0.234%	0.233%		0.232%	0.209%
Actuarial Accrued Liability (AAL) (as of June 30)											
Actuarial Accrued Liabilities	17,247,161,078	17,881,827,171	18,503,280,961	19,770,708,121	19,588,417,687	19,997,700,966	20,527,251,448	21,033,809,319		N/A	N/A
<b>4</b> Budget to AAL	0.167%	0.169%	0.178%	0.176%	0.169%	0.170%	0.172%	0.170%			
<b>Notes:</b>											
<b>1</b>	Budget Utilization = Administrative expenses are "draws" from the Pension Trust Funds. When fiscal year actuals are lower than Budget, the variance is retained in the Pension Trusts										
<b>2</b>	Unaudited March 2021 Financial Statement Net Position										
<b>3</b>	Budget to Net Position% = the budget year of the column/the previous year Financial Position (e.g. 0.250% under FY2014 Budget to Net Position % is the FY2014 Budget/FY2013 Financial Net Position)										
<b>4</b>	Budget to Actuarial Accrued Liabilities% = the budget year of the column/the previous year AAL (e.g. 0.169% under FY2014 Budget to AAL % is the FY2014 Budget/FY2013 AAL)										

**OPERATING TRANSFER RESOLUTION – FY2022**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded that SERS transfer to OSERS Holdings, LLC up to \$1,671,292 for payment of building operations and LLC expenses of OSERS Holdings for the fiscal year beginning July 1, 2021 and ending June 30, 2022. OSERS Holdings, LLC shall report quarterly to the SERS Board of Trustees on the expenditure of all funds and receipt of all revenues.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**BUDGET RESOLUTION – FY2022 SERS ADMINISTRATIVE BUDGET**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded that the following budget of \$34,440,800 for the fiscal year beginning July 1, 2021 and ending June 30, 2022 be approved, with such approval effective June 30, 2021.

<u>Expense Classification</u>	<u>Budget</u>
Personnel .....	\$ 23,290,658
Professional Services (including Investment-Related Consultants) .....	6,829,361
Communications .....	952,450
Other Operating Expenses .....	<u>3,087,980</u>
SERS Administrative Expenses	\$ 34,160,449
Administrative Capital .....	<u>280,351</u>
<b>Administrative Budget</b>	<b>\$ 34,440,800</b>

Be it further provided that the Board has reviewed the estimated fees and expenses for operation of the investment program and authorizes the payment of actual fees to such service providers and in such amounts as is set by the contract with the individual service providers.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

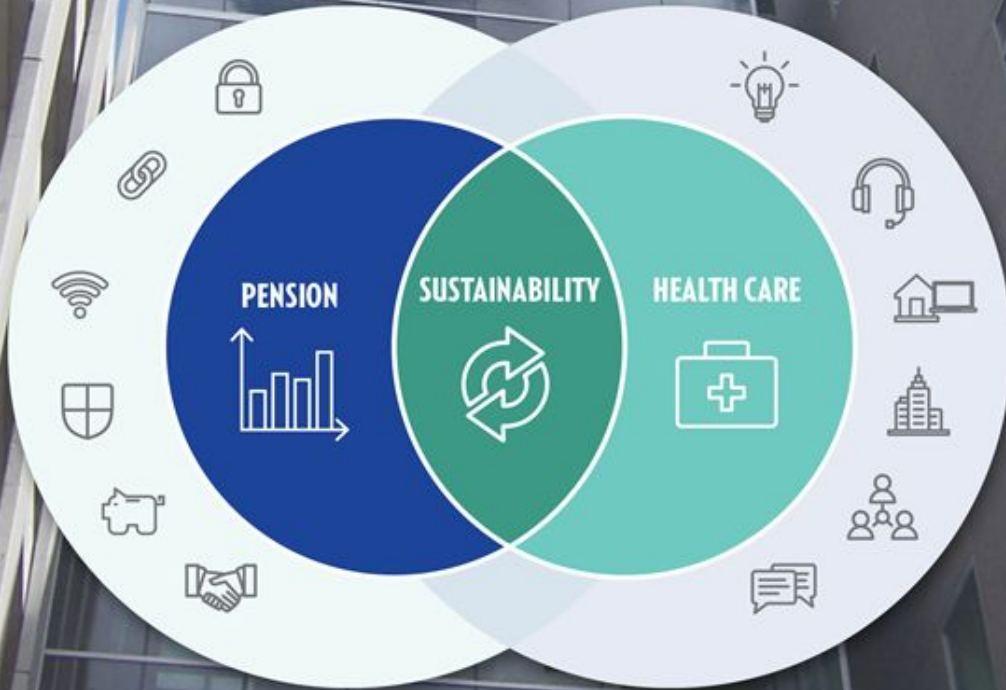




# FY2022

## Administrative Budget

**WE ARE SERS**



**A BETTER SERS**

School Employees Retirement System of Ohio  
*Serving the People Who Serve Our Schools®*

# SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

SERS is a public defined benefit pension fund that provides pensions and access to health care coverage for the people who serve our schools.

## CORE BELIEFS

We are here to serve.

We are open and honest.

We are professional.

We are dedicated.

We are enthusiastic.

We are high performers.

We are valuable partners.

We are member advocates.

We are innovators.

We are SERS.

## SERS AT A GLANCE

9

Members of the Retirement Board with fiduciary responsibility for the oversight of general administration and management of the Retirement System

---

1,051

Employers

---

156,579

Active Members

---

80,851

All Benefit Recipients

---

\$1,288

Average Monthly Benefit

---

181

SERS Employees

---

1937

The year School Employees Retirement System of Ohio was established. SERS is located at 300 East Broad Street, Columbus, Ohio, or online at [www.ohsers.org](http://www.ohsers.org)

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*All statistical information obtained from SERS' 2020 Annual Financial Report publication.*







## **SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

300 E. BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746  
614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

RICHARD STENSRUD  
*Executive Director*

KAREN D. ROGGENKAMP  
*Deputy Executive Director*

May 7, 2021

Dear Chairman Garside and SERS Retirement Board Members:

We are pleased to present the Retirement Board with the proposed FY 2022 Administrative Budget which supports our approximately 237,000 active members, retirees, and beneficiaries with valuable pension benefit programs and healthcare services.

### **FY2021 Recap**

The Pandemic events during the fiscal year changed several of our priorities and shifted focus toward providing member services and other support in a virtual environment. This also caused category changes in budgeted expenditures. We anticipate closing the year at \$33.2 million or 4.1% below budget. Most of this variance was related to lower professional services (master recordkeeping, investments advisory fees, and technical consulting), lower printing and communications expenses, and reduced employee training/travel due to cancellations or shift to virtual meetings. Although our office environment moved to a hybrid model, we had many successes during FY21.

### **Administration**

- With the Ohio Stay at Home orders, initially our MST Call Center shifted to voice mail and telephone outreach in March and then to an onsite/offsite hybrid model. A project team was put in place and expenses were realigned to prioritize the 1<sup>st</sup> quarter implementation of voice over IP (VOIP) which helped return to pre-pandemic calls answered and wait times while improving our business continuity options.
- Board meetings and other services moved to all virtual with securing Zoom enterprise licenses. Technology was upgraded in the Board and O'Keefe conference rooms, public participation increased, and counseling sessions will be continued to be offered using Zoom as an option to phone and on-site.
- Healthcare staff obtained Board approval to implement the Medicaid eligibility verification requirement to maintain eligibility for SERS Health Care and transitioned certain Medicare enrollees to Aetna Medicare plan. This process and plan transition directs enrollees to their lowest cost health care option and improves sustainability for the Health Care fund with approximately \$2.0 million in lower expenses and member premium reductions of \$0.4 million.
- Establishment of an Information Governance framework and associated policies as well as launched a pilot program for data classification and migration to the organization's collaborative platform. This project which had been on hold for several years, improves record retention and increases digital storage/retrieval options.
- Engagement and completion of the five-year Actuarial experience study and adoption of revised economic factors.
- Transition to a new domestic investment custodian.

### **Technology**

- As part of our Sagitec contract, upgraded system network infrastructure and Pension Management System (SMART 6.0) to strengthen security and controls and process flows to improve system performance and customer experience.
- Upgraded accounting software and implemented phase two of budget software rollout.



## **SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

300 E. BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746  
614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

RICHARD STENSRUD  
*Executive Director*

KAREN D. ROGGENKAMP  
*Deputy Executive Director*

### **Employers and Membership**

- Transformed all eSERS training from live to virtual sessions allowing greater participation levels and expanded topics for live webinars.
- Mitigated a shortfall in employer healthcare contributions.
- Continued to conduct member counseling sessions remotely and increased the number of webinars available and members participating.

### **FY2022 Budget Request**

As detailed in the following pages, the proposed FY2022 budget of \$36.1 million reflects a 4.36% increase over the FY2021 budget and an 8.79% increase over the FY2021 projected expenses. The significant drivers of this change are medical and prescription experience costs, budgeted merit vs. no merit in FY 21, investment fees and compensation related to positive portfolio performance, member health care contract consulting, and pre-pandemic training and travel. Additional budget information is as follows:

- Telecommunication platform end-of-life transition and VOIP migration.
- Continuation of the record management project that will assist with ensuring compliance with electronic record retention requirements and improve management of documents enterprise wide.
- Enhancements to the Member Self-Service Portal within the pension management system (SMART) concentrating on options to reduce call volumes and provide additional electronic member tools.
- Analysis of current software environment for cloud compatibility and consideration of options to improve our infrastructure capabilities.
- Acquisition of tools to assist with data analysis and improving efficiencies around review of investment managers and risk.
- Medical and prescription consulting needed to assist in reviewing the Prescription Drug and Medical contracts ending in 2022.
- A tiered two percent performance-based merit increase for staff.

We appreciate your consideration of this budget and look forward to discussions regarding its contents.

Respectfully,

A handwritten signature in black ink that reads "Richard Stensrud". The signature is written in a cursive, flowing style.

Richard Stensrud  
Executive Director

A handwritten signature in black ink that reads "Tracy L. Valentino". The signature is written in a cursive, flowing style.

Tracy L. Valentino, CPA  
Chief Financial Officer

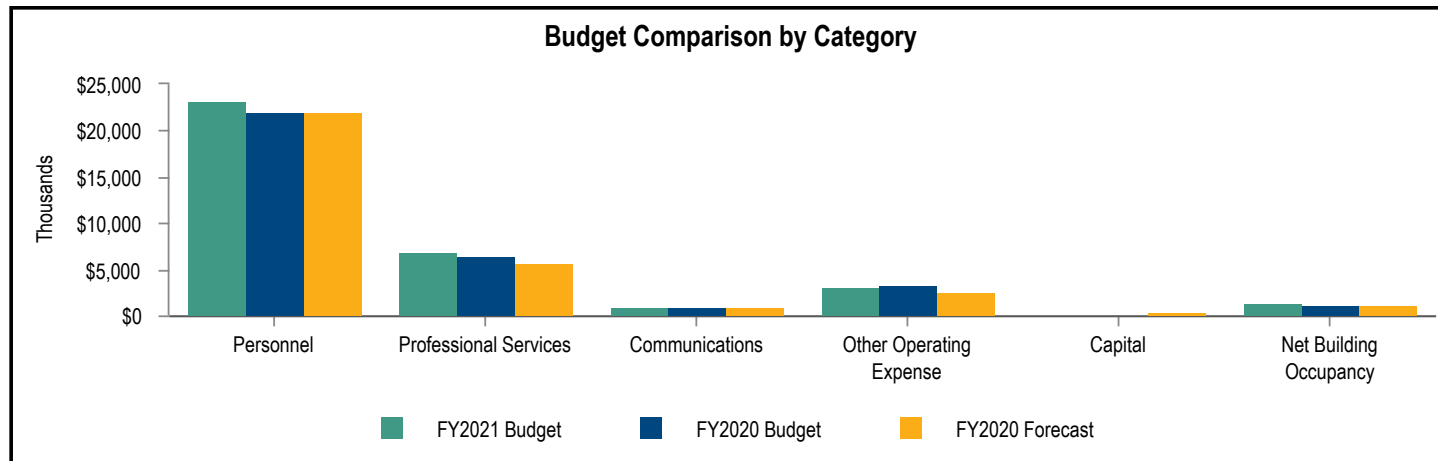


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# Budget Overview

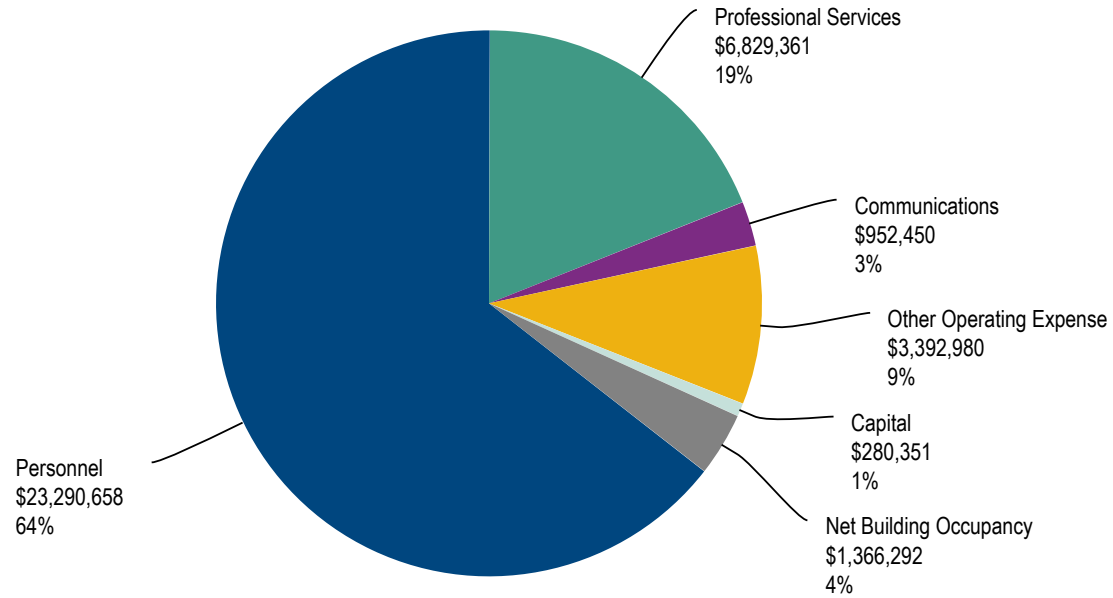
Category and Description	FY2022 Budget \$	36,112,092
<b>PERSONNEL</b>	<b>\$</b>	<b>23,290,658</b>
A performance-based merit increase of 2%, retirement contributions, Investment Staff professional incentive, and actuarial derived insurance-related staff benefits are included in this category.		
Operational Impact		64.5 %
<b>PROFESSIONAL SERVICES</b>	<b>\$</b>	<b>6,829,361</b>
Investment-related fees are analogous to expected investment performance. Also in this category are infrastructure third-party services, health care medical and pharmacy claims data repository, records retention appraisal, medical/pharmacy pricing advisement, strategic retirement guidance related to pension and health care sustainability, and consulting services across the organization.		
Operational Impact		18.9 %
<b>COMMUNICATIONS</b>	<b>\$</b>	<b>952,450</b>
Member Services, Health Care, and Employer Services will continue to provide the same standard of service to members and retirees. A postage savings occurs in the absence of an election.		
Operational Impact		2.6 %
<b>OTHER OPERATING EXPENSE</b>	<b>\$</b>	<b>3,392,980</b>
This includes annual requisite computer technology-related support for SERS' network, Board and staff training and education, insurance, and mandatory legislative oversight.		
Operational Impact		9.4 %
<b>CAPITAL</b>	<b>\$</b>	<b>280,351</b>
Projects included are virtual storage appliances, information and network security controls, disaster recovery continuity platform, and virtualized technology and networking capabilities.		
Operational Impact		0.8 %
<b>OSERS BROAD STREET, LLC</b>	<b>\$</b>	<b>1,366,292</b>
OSERS Broad Street, LLC will be 100% leased. This budget includes routine maintenance, upkeep and tenant alterations. Remodeling expected for new tenants on the first and fifth floor.		
Operational Impact		3.8 %





## FY2022 Operating Budget by Category

\$36,112,092



Budget Category	BUDGET		FORECAST
	FY2022	FY2021	FY2021
Personnel	\$ 23,290,658	\$ 22,024,598	\$ 22,135,826
Professional Services	\$ 6,829,361	\$ 6,393,785	\$ 5,673,262
Communications	\$ 952,450	\$ 1,105,880	\$ 888,886
Other Operating Expense	\$ 3,392,980	\$ 3,224,049	\$ 2,929,440
Capital	\$ 280,351	\$ 490,351	\$ 482,986
Net Building Occupancy	\$ 1,366,292	\$ 1,363,534	\$ 1,083,091
<b>TOTAL OPERATING</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>

# FY2022 Budget Summary

Budget Category	FY2022 Budget	FY2021 Approved Budget	FY2021 Forecast	Budget Change % (+/-)
Salaries & Wages	\$ 16,861,477	\$ 16,238,847	\$ 16,030,805	3.8
OPERS Retirement Contributions	2,268,381	2,192,546	2,085,237	3.5
Benefits	4,160,800	3,593,205	4,019,784	15.8
<b>PERSONNEL</b>	<b>\$ 23,290,658</b>	<b>\$ 22,024,598</b>	<b>\$ 22,135,826</b>	<b>5.7</b>
Actuarial	344,725	390,660	416,304	(11.8)
Audit Services	224,984	195,020	173,539	15.4
Custodial Banking Fees	1,105,200	835,543	870,555	32.3
Master Recordkeeper	1,010,400	1,151,600	949,553	(12.3)
Investment Consulting	1,543,817	1,666,537	1,469,279	(7.4)
Other Consulting (Information Technology, Human Resources, Legal, Medical)	2,401,815	2,003,745	1,604,418	19.9
Banking Expense	198,420	150,680	189,614	31.7
<b>PROFESSIONAL SERVICES, INCLUDING INVESTMENT COSTS</b>	<b>\$ 6,829,361</b>	<b>\$ 6,393,785</b>	<b>\$ 5,673,262</b>	<b>6.8</b>
Printing & Postage	730,138	870,860	663,309	(16.2)
Telecommunications	187,722	184,580	225,577	1.7
Member/Employer Education	34,590	50,440	—	(31.4)
<b>COMMUNICATIONS</b>	<b>\$ 952,450</b>	<b>\$ 1,105,880</b>	<b>\$ 888,886</b>	<b>(13.9)</b>
Conferences & Education	252,480	170,105	74,350	48.4
Travel	167,622	224,835	27,335	(25.4)
Computer Support Services	1,948,408	1,808,505	1,933,151	7.7
Other Operating Expenses (Insurance, Maintenance, Memberships, Supplies)	972,470	968,604	850,072	0.4
Ohio Retirement Study Council	52,000	52,000	44,532	—
<b>OTHER OPERATING</b>	<b>\$ 3,392,980</b>	<b>\$ 3,224,049</b>	<b>\$ 2,929,440</b>	<b>5.2</b>
<b>TOTAL OPERATING</b>	<b>\$ 34,465,449</b>	<b>\$ 32,748,312</b>	<b>\$ 31,627,414</b>	<b>5.2</b>
Furniture & Equipment > \$5,000	—	—	—	—
Computer Hardware > \$5,000	227,018	437,018	429,653	(48.1)
Computer Software > \$25,000	53,333	53,333	53,333	—
Vehicles	—	—	—	—
<b>CAPITAL</b>	<b>\$ 280,351</b>	<b>\$ 490,351</b>	<b>\$ 482,986</b>	<b>(42.8)</b>
<b>NET BUILDING OCCUPANCY EXPENSE</b>	<b>\$ 1,366,292</b>	<b>\$ 1,363,534</b>	<b>\$ 1,083,091</b>	<b>0.2</b>
<b>TOTAL OPERATING AND CAPITAL BUDGETS</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>	<b>4.4</b>

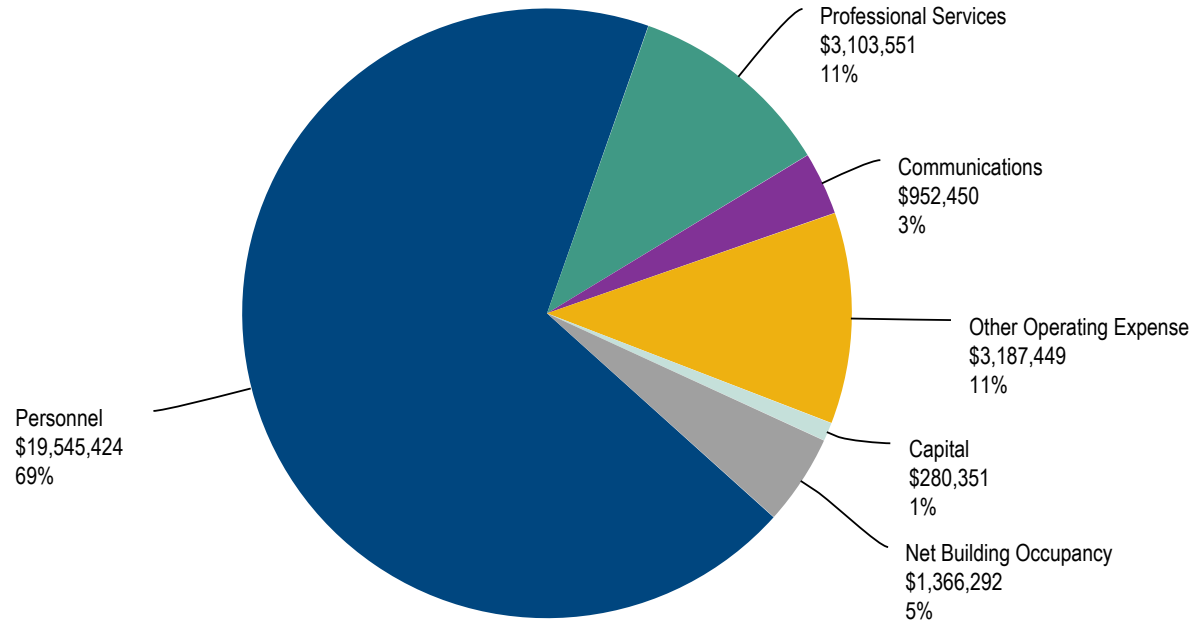
## Three-Year Review FY2020 - 22 Budget Presentation

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Description	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 16,052,733	\$ 16,030,805	\$ (21,928)	(0.1)	Salaries & Wages	\$ 16,861,477	\$ 830,672	5.2
2,146,733	2,085,237	(61,496)	(2.9)	OPERS Retirement Contributions	2,268,381	183,144	8.8
3,031,917	4,019,784	987,867	32.6	Benefits	4,160,800	141,016	3.5
<b>21,231,383</b>	<b>22,135,826</b>	<b>904,443</b>	<b>4.3</b>	<b>PERSONNEL</b>	<b>23,290,658</b>	<b>1,154,832</b>	<b>5.2</b>
274,134	416,304	142,170	51.9	Actuarial	344,725	(71,579)	(17.2)
217,402	173,539	(43,863)	(20.2)	Audit Services	224,984	51,445	29.6
1,106,615	1,060,169	(46,446)	(4.2)	Banking Fees	1,303,620	243,451	23.0
2,742,364	2,418,832	(323,532)	(11.8)	Investment Related	2,554,217	135,385	5.6
40,000	42,500	2,500	6.3	Medical	45,000	2,500	5.9
1,859,768	1,561,918	(297,850)	(16.0)	Technical	2,356,815	794,897	50.9
<b>6,240,283</b>	<b>5,673,262</b>	<b>(567,021)</b>	<b>(9.1)</b>	<b>PROFESSIONAL SERVICES</b>	<b>6,829,361</b>	<b>1,156,099</b>	<b>20.4</b>
487,260	587,958	100,698	20.7	Postage	611,738	23,780	4.0
200,061	225,577	25,516	12.8	Telecommunication Services	187,722	(37,855)	(16.8)
23,001	—	(23,001)	(100.0)	Member/Employer Education	34,590	34,590	—
122,684	75,351	(47,333)	(38.6)	Printing & Publication	118,400	43,049	57.1
<b>833,006</b>	<b>888,886</b>	<b>55,880</b>	<b>6.7</b>	<b>COMMUNICATIONS</b>	<b>952,450</b>	<b>63,564</b>	<b>7.2</b>
1,821,004	1,933,151	112,147	6.2	Computer Support Services	1,948,408	15,257	0.8
148,828	126,328	(22,500)	(15.1)	Office Equipment & Supplies	161,689	35,361	28.0
135,285	74,350	(60,935)	(45.0)	Conferences & Education	252,480	178,130	239.6
107,709	27,335	(80,374)	(74.6)	Transportation & Travel	167,622	140,287	513.2
157,689	153,566	(4,123)	(2.6)	Memberships & Subscriptions	172,486	18,920	12.3
354,938	391,771	36,833	10.4	Property & Management Liability Insurance	419,000	27,229	7.0
76,180	55,495	(20,685)	(27.2)	Maintenance	72,610	17,115	30.8
131,368	110,429	(20,939)	(15.9)	Staff Support	134,145	23,716	21.5
13,410	12,483	(927)	(6.9)	School District Reimbursement	12,540	57	0.5
42,200	44,532	2,332	5.5	Mandatory Costs - ORSC	52,000	7,468	16.8
(296,520)	(305,000)	(8,480)	2.9	Reimbursement from OSERS Broad Street, LLC, for Leased Services	(305,000)	—	—
<b>2,692,091</b>	<b>2,624,440</b>	<b>(67,651)</b>	<b>(2.5)</b>	<b>OTHER OPERATING EXPENSE</b>	<b>3,087,980</b>	<b>463,540</b>	<b>17.7</b>
<b>\$ 30,996,763</b>	<b>\$ 31,322,414</b>	<b>\$ 325,651</b>	<b>1.1</b>	<b>TOTAL DEPARTMENT EXPENSES</b>	<b>\$ 34,160,449</b>	<b>\$ 2,838,035</b>	<b>9.1</b>
—	—	—	—	Furniture & Equipment > \$5,000	—	—	—
436,121	429,653	(6,468)	(1.5)	Computer Hardware > \$5,000	227,018	(202,635)	(47.2)
195,346	53,333	(142,013)	(72.7)	Computer Software > \$25,000	53,333	—	—
—	—	—	—	Vehicles	—	—	—
<b>631,467</b>	<b>482,986</b>	<b>(148,481)</b>	<b>(23.5)</b>	<b>ADMINISTRATIVE CAPITAL</b>	<b>280,351</b>	<b>(202,635)</b>	<b>(42.0)</b>
<b>\$ 31,628,230</b>	<b>\$ 31,805,400</b>	<b>\$ 177,170</b>	<b>0.6</b>	<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 34,440,800</b>	<b>\$ 2,635,400</b>	<b>8.3</b>
<b>1,373,196</b>	<b>1,388,091</b>	<b>14,895</b>	<b>1.1</b>	<b>OSERS BROAD STREET, LLC</b>	<b>1,671,292</b>	<b>283,201</b>	<b>20.4</b>
<b>\$ 33,001,426</b>	<b>\$ 33,193,491</b>	<b>\$ 192,065</b>	<b>0.6</b>	<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 36,112,092</b>	<b>\$ 2,918,601</b>	<b>8.8</b>



## SERS FY2022 SERS Operating Budget Detail

## FY2022 SERS Operating Budget by Category excluding Investments \$28,435,517



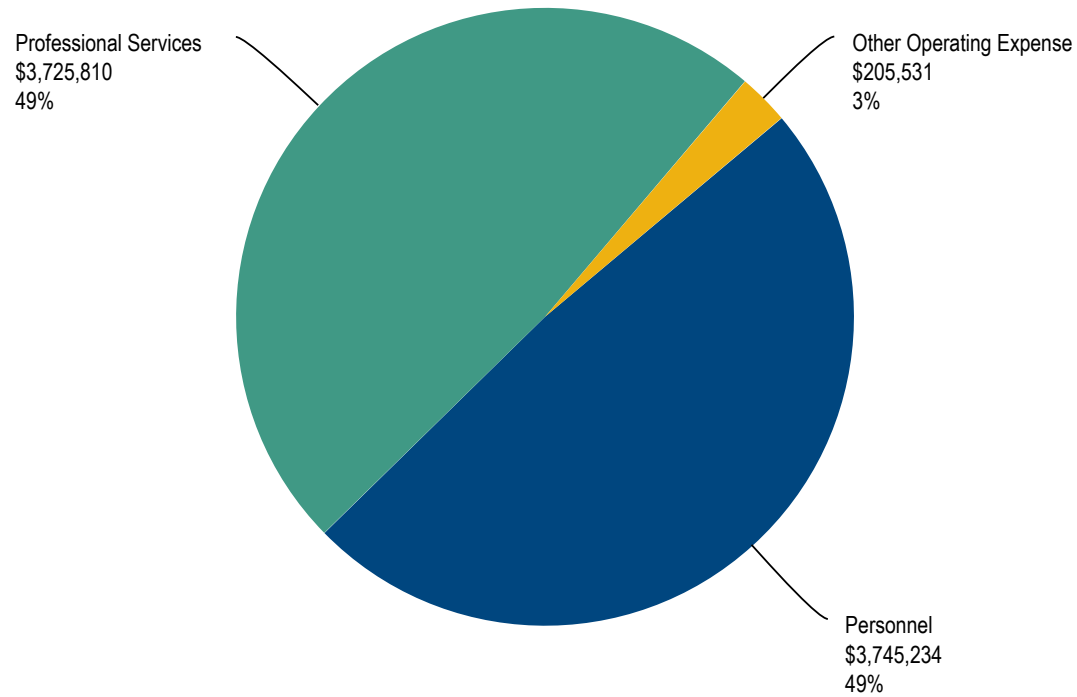
Budget Category	BUDGET		FORECAST
	FY2022	FY2021	FY2021
Personnel	\$ 19,545,424	\$ 18,866,622	\$ 18,733,127
Professional Services	\$ 3,103,551	\$ 2,691,912	\$ 1,624,353
Communications	\$ 952,450	\$ 1,105,880	\$ 888,886
Other Operating Expense	\$ 3,187,449	\$ 3,074,328	\$ 2,831,761
Capital	\$ 280,351	\$ 490,351	\$ 482,986
Net Building Occupancy	\$ 1,366,292	\$ 1,363,534	\$ 1,083,091
<b>TOTAL OPERATING</b>	<b>\$ 28,435,517</b>	<b>\$ 27,592,627</b>	<b>\$ 25,644,204</b>

## Three-Year Review FY2020 - 22 SERS Budget Presentation excluding Investments

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Description	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 13,397,609	\$ 13,267,125	\$ (130,484)	(1.0)	Salaries & Wages	\$ 13,898,478	\$ 631,353	4.8
1,822,358	1,758,617	(63,741)	(3.5)	OPERS Retirement Contributions	1,898,732	140,115	8.0
2,738,288	3,707,385	969,097	35.4	Benefits	3,748,214	40,829	1.1
<b>17,958,255</b>	<b>18,733,127</b>	<b>774,872</b>	<b>4.3</b>	<b>PERSONNEL</b>	<b>19,545,424</b>	<b>812,297</b>	<b>4.3</b>
274,134	416,304	142,170	51.9	Actuarial	344,725	(71,579)	(17.2)
217,402	173,539	(43,863)	(20.2)	Audit Services	224,984	51,445	29.6
161,913	150,469	(11,444)	(7.1)	Banking Fees	198,420	47,951	31.9
56,044	(597,482)	(653,526)	(1,166.1)	Investment Related	57,607	655,089	(109.6)
40,000	42,500	2,500	6.3	Medical	45,000	2,500	5.9
1,551,014	1,439,023	(111,991)	(7.2)	Technical	2,232,815	793,792	55.2
<b>2,300,507</b>	<b>1,624,353</b>	<b>(676,154)</b>	<b>(29.4)</b>	<b>PROFESSIONAL SERVICES</b>	<b>3,103,551</b>	<b>1,479,198</b>	<b>91.1</b>
487,260	587,958	100,698	20.7	Postage	611,738	23,780	4.0
200,061	225,577	25,516	12.8	Telecommunication Services	187,722	(37,855)	(16.8)
23,001	—	(23,001)	(100.0)	Member/Employer Education	34,590	34,590	—
122,684	75,351	(47,333)	(38.6)	Printing & Publication	118,400	43,049	57.1
<b>833,006</b>	<b>888,886</b>	<b>55,880</b>	<b>6.7</b>	<b>COMMUNICATIONS</b>	<b>952,450</b>	<b>63,564</b>	<b>7.2</b>
1,821,004	1,933,151	112,147	6.2	Computer Support Services	1,888,408	(44,743)	(2.3)
148,494	125,893	(22,601)	(15.2)	Office Equipment & Supplies	160,989	35,096	27.9
128,617	67,649	(60,968)	(47.4)	Conferences & Education	238,355	170,706	252.3
79,195	(1,705)	(80,900)	(102.2)	Transportation & Travel	107,622	109,327	(6,412.1)
95,127	92,195	(2,932)	(3.1)	Memberships & Subscriptions	101,780	9,585	10.4
354,938	391,771	36,833	10.4	Property & Management Liability Insurance	419,000	27,229	7.0
76,180	55,495	(20,685)	(27.2)	Maintenance	72,610	17,115	30.8
131,236	110,297	(20,939)	(16.0)	Staff Support	134,145	23,848	21.6
13,410	12,483	(927)	(6.9)	School District Reimbursement	12,540	57	0.5
42,200	44,532	2,332	5.5	Mandatory Costs - ORSC	52,000	7,468	16.8
(296,520)	(305,000)	(8,480)	2.9	Reimbursement from OSERS Broad Street, LLC, for Leased Services	(305,000)	—	—
<b>2,593,881</b>	<b>2,526,761</b>	<b>(67,120)</b>	<b>(2.6)</b>	<b>OTHER OPERATING EXPENSE</b>	<b>2,882,449</b>	<b>355,688</b>	<b>14.1</b>
<b>\$ 23,685,649</b>	<b>\$ 23,773,127</b>	<b>\$ 87,478</b>	<b>0.4</b>	<b>TOTAL DEPARTMENT EXPENSES</b>	<b>\$ 26,483,874</b>	<b>\$ 2,710,747</b>	<b>11.4</b>
—	—	—	—	Furniture & Equipment > \$5,000	—	—	—
436,121	429,653	(6,468)	(1.5)	Computer Hardware > \$5,000	227,018	(202,635)	3,132.9
195,346	53,333	(142,013)	(72.7)	Computer Software > \$25,000	53,333	—	—
—	—	—	—	Vehicles	—	—	—
<b>631,467</b>	<b>482,986</b>	<b>(148,481)</b>	<b>(23.5)</b>	<b>ADMINISTRATIVE CAPITAL</b>	<b>280,351</b>	<b>(202,635)</b>	<b>(42.0)</b>
<b>\$ 24,317,116</b>	<b>\$ 24,256,113</b>	<b>\$ (61,003)</b>	<b>(0.3)</b>	<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 26,764,225</b>	<b>\$ 2,508,112</b>	<b>10.3</b>

## FY2022 Investments Operating Budget by Category

\$7,676,575



Budget Category	BUDGET		FORECAST
	FY2022	FY2021	FY2021
Personnel	\$ 3,745,234	\$ 3,157,976	\$ 3,402,699
Professional Services	\$ 3,725,810	\$ 3,701,873	\$ 4,048,909
Other Operating Expense	\$ 205,531	\$ 149,721	\$ 97,679
<b>TOTAL OPERATING</b>	<b>\$ 7,676,575</b>	<b>\$ 7,009,570</b>	<b>\$ 7,549,287</b>

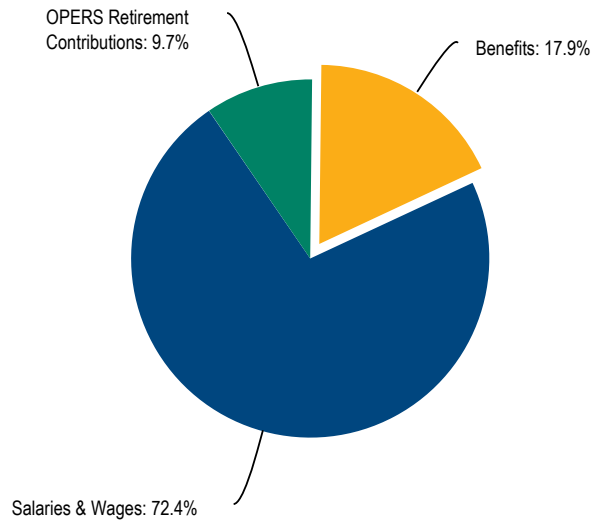
## Three-Year Review FY2020 - 22 Investments Budget Presentation

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Description	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 2,655,124	\$ 2,763,680	\$ 108,556	4.1	Salaries & Wages	\$ 2,962,999	\$ 199,319	7.2
324,375	326,620	2,245	0.7	OPERS Retirement Contributions	369,649	43,029	13.2
293,629	312,399	18,770	6.4	Benefits	412,586	100,187	32.1
<b>3,273,128</b>	<b>3,402,699</b>	<b>129,571</b>	<b>4.0</b>	<b>PERSONNEL</b>	<b>3,745,234</b>	<b>342,535</b>	<b>10.1</b>
—	—	—	—	Actuarial	—	—	—
—	—	—	—	Audit Services	—	—	—
944,702	909,700	(35,002)	(3.7)	Banking Fees	1,105,200	195,500	21.5
2,686,320	3,016,314	329,994	12.3	Investment Related	2,496,610	(519,704)	(17.2)
—	—	—	—	Medical	—	—	—
308,754	122,895	(185,859)	(60.2)	Technical	124,000	1,105	0.9
<b>3,939,776</b>	<b>4,048,909</b>	<b>109,133</b>	<b>2.8</b>	<b>PROFESSIONAL SERVICES</b>	<b>3,725,810</b>	<b>(323,099)</b>	<b>(8.0)</b>
—	—	—	—	Postage	—	—	—
—	—	—	—	Telecommunication Services	—	—	—
—	—	—	—	Member/Employer Education	—	—	—
—	—	—	—	Printing & Publication	—	—	—
—	—	—	—	<b>COMMUNICATIONS</b>	—	—	—
—	—	—	—	Computer Support Services	60,000	60,000	—
334	435	101	30.2	Office Equipment & Supplies	700	265	60.9
6,668	6,701	33	0.5	Conferences & Education	14,125	7,424	110.8
28,514	29,040	526	1.8	Transportation & Travel	60,000	30,960	106.6
62,562	61,371	(1,191)	(1.9)	Memberships & Subscriptions	70,706	9,335	15.2
—	—	—	—	Property & Management Liability Insurance	—	—	—
—	—	—	—	Maintenance	—	—	—
132	132	—	—	Staff Support	—	(132)	—
—	—	—	—	School District Reimbursement	—	—	—
—	—	—	—	Mandatory Costs - ORSC	—	—	—
—	—	—	—	Reimbursement from OSERS Broad Street, LLC, for Leased Services	—	—	—
<b>98,210</b>	<b>97,679</b>	<b>(531)</b>	<b>(0.5)</b>	<b>OTHER OPERATING EXPENSE</b>	<b>205,531</b>	<b>107,852</b>	<b>110.4</b>
\$ 7,311,114	\$ 7,549,287	\$ 238,173	3.3	<b>TOTAL DEPARTMENT EXPENSES</b>	\$ 7,676,575	\$ 127,288	1.7
—	—	—	—	Furniture & Equipment > \$5,000	—	—	—
—	—	—	—	Computer Hardware > \$5,000	—	—	—
—	—	—	—	Computer Software > \$25,000	—	—	—
—	—	—	—	Vehicles	—	—	—
—	—	—	—	<b>ADMINISTRATIVE CAPITAL</b>	—	—	—
\$ 7,311,114	\$ 7,549,287	\$ 238,173	3.3	<b>TOTAL ADMINISTRATIVE EXPENSES</b>	\$ 7,676,575	\$ 127,288	1.7

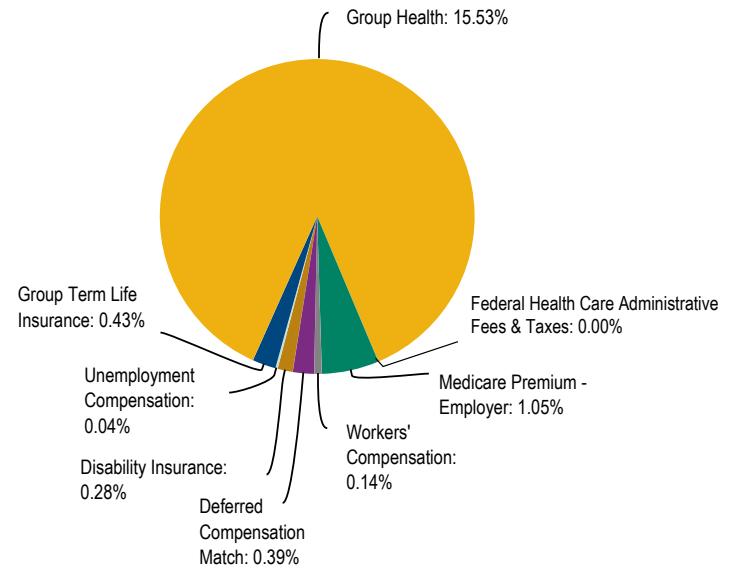


# Personnel FY2022 Budget

## Personnel



## Benefits



# Personnel

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 15,451,376	\$ 15,751,551	\$ 300,175	1.9	Salaries & Wages	\$ 16,099,884	\$ 348,333	2.2
601,357	279,254	(322,103)	(53.6)	Incentive Payout	761,593	482,339	172.7
<b>\$ 16,052,733</b>	<b>\$ 16,030,805</b>	<b>\$ (21,928)</b>	<b>(0.1)</b>	<b>Salaries &amp; Wages</b>	<b>\$ 16,861,477</b>	<b>\$ 830,672</b>	<b>5.2</b>
<b>\$ 2,146,733</b>	<b>\$ 2,085,237</b>	<b>\$ (61,496)</b>	<b>(2.9)</b>	<b>OPERS Retirement Contributions</b>	<b>\$ 2,268,381</b>	<b>\$ 183,144</b>	<b>8.8</b>
4,205	1,500	(2,705)	—	Unemployment Compensation	10,000	8,500	566.7
96,310	98,377	2,067	2.1	Group Term Life Insurance	99,611	1,234	1.3
60,351	60,263	(88)	(0.1)	Disability Insurance	65,010	4,747	7.9
2,615,340	3,651,304	1,035,964	39.6	Group Health	3,617,250	(34,054)	(0.9)
1,110	1,112	2	0.2	Federal Health Care Administrative Fees & Taxes	1,088	(24)	—
224,090	224,901	811	0.4	Medicare Premium - Employer	243,638	18,737	8.3
(30,719)	(79,553)	(48,834)	159.0	Workers' Compensation	33,730	113,283	(142.4)
61,230	61,880	650	1.1	Deferred Compensation Match	90,473	28,593	46.2
<b>\$ 3,031,917</b>	<b>\$ 4,019,784</b>	<b>\$ 987,867</b>	<b>32.6</b>	<b>Benefits</b>	<b>\$ 4,160,800</b>	<b>\$ 141,016</b>	<b>3.5</b>
<b>\$ 21,231,383</b>	<b>\$ 22,135,826</b>	<b>\$ 904,443</b>	<b>4.3</b>	<b>PERSONNEL</b>	<b>\$ 23,290,658</b>	<b>\$ 1,154,832</b>	<b>5.2</b>

## SALARIES & WAGES

The **Personnel** budget is based on 181 full-time equivalent personnel. For FY2022, SERS anticipates 179 full-time and 4 part-time staff members. This budget includes a performance-based merit increase of 2%.

**Incentive Payouts** are payments calculated for Investment staff professionals according to Retirement Board policy, and are based on FY2021 investment portfolio performance.

## RETIREMENT CONTRIBUTIONS

**OPERS Retirement Contributions** are based on the portion of Salaries & Wages and incentive payments subject to OPERS coverage.

## BENEFITS

SERS' **Unemployment Compensation** is self-funded. In FY2022, there are no anticipated reductions in staff or on-going unemployment claims.

Salary-based benefits include **Group Term Life Insurance**, **Disability Insurance**, and **Medicare**. The level of benefits remains unchanged for FY2022.

Employee **Group Health** expenses have been budgeted based on rates supplied by SERS' actuary, taking into account the number of covered lives on the plan, national trends, and SERS' experience.

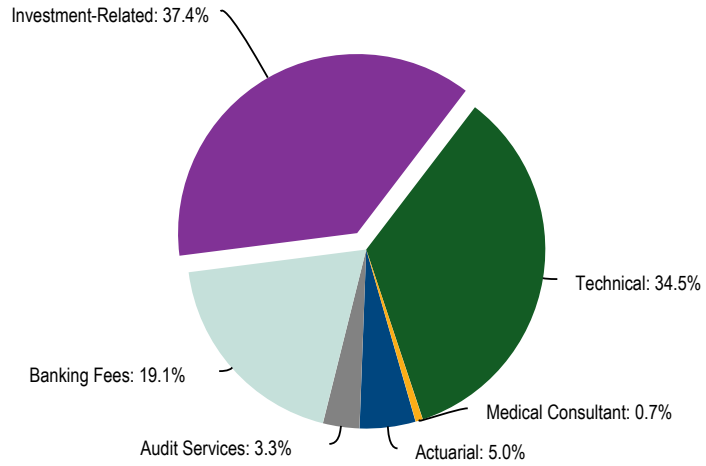
As mandated by the Affordable Care Act, SERS is required to pay **Federal Health Care Administrative Fees & Taxes**.

**Workers' Compensation** is based on payroll-driven rates.

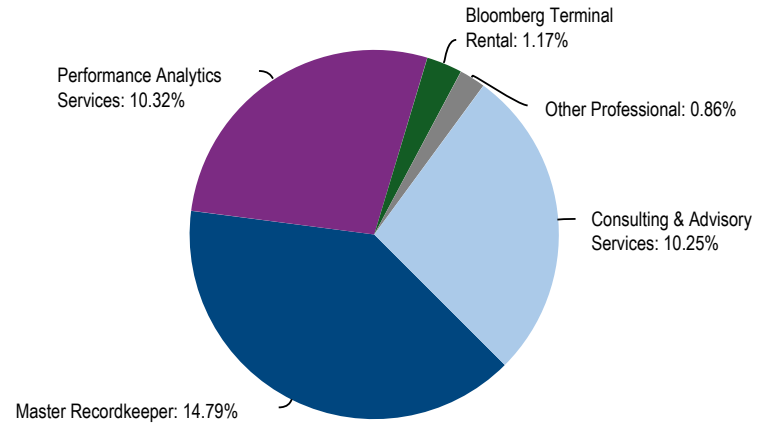
SERS' per-pay match contribution to the Ohio Public Employees **Deferred Compensation Match** program is made on behalf of the SERS' employees who are actively enrolled in the program.

# Professional Services FY2022 Budget

## Professional Services



## Investment-Related



## Professional Services

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 274,134	\$ 416,304	\$ 142,170	51.9	<b>Actuarial</b>	\$ 344,725	\$ (71,579)	(17.2)
\$ 217,402	\$ 173,539	\$ (43,863)	(20.2)	<b>Audit Services</b>	\$ 224,984	\$ 51,445	29.6
944,702	870,555	(74,147)	(7.8)	Custodial Banking	1,105,200	234,645	27.0
161,913	189,614	27,701	17.1	Administrative Banking Expense	198,420	8,806	4.6
\$ 1,106,615	\$ 1,060,169	\$ (46,446)	(4.2)	<b>Banking Fees</b>	\$ 1,303,620	\$ 243,451	23.0
1,062,452	949,553	(112,899)	(10.6)	Master Recordkeeper	1,010,400	60,847	6.4
830,172	650,004	(180,168)	(21.7)	Investment Consulting & Advisory Services	700,000	49,996	7.7
680,741	688,266	7,525	1.1	Performance Analytics Services	704,800	16,534	2.4
35,365	36,530	1,165	3.3	Investment-Related Technical Consulting	—	(36,530)	(100.0)
57,385	17,291	(40,094)	(69.9)	Other Professional Investment-Related	59,017	41,726	241.3
76,249	77,188	939	1.2	Bloomberg Terminal Rental	80,000	2,812	3.6
\$ 2,742,364	\$ 2,418,832	\$ (323,532)	(11.8)	<b>Investment-Related</b>	\$ 2,554,217	\$ 135,385	5.6
\$ 40,000	\$ 42,500	\$ 2,500	6.3	<b>Medical Consultant</b>	\$ 45,000	\$ 2,500	5.9
456,341	240,000	(216,341)	(47.4)	Special Counsel	235,000	(5,000)	(2.1)
748,835	873,285	124,450	16.6	Technical	1,595,500	722,215	82.7
654,592	448,633	(205,959)	(31.5)	Other Professional Services	526,315	77,682	17.3
\$ 1,859,768	\$ 1,561,918	\$ (297,850)	(16.0)	<b>Technical</b>	\$ 2,356,815	\$ 794,897	50.9
\$ 6,240,283	\$ 5,673,262	\$ (567,021)	(9.1)	<b>PROFESSIONAL SERVICES</b>	\$ 6,829,361	\$ 1,156,099	20.4

### ACTUARIAL

**Actuarial** fees include amounts for studies on calculations of joint retirement system transfers and pension modeling, special analyses and legislative analysis. In addition, SERS' health care plan and actuarial premiums calculations will occur along with Governmental Accounting Standards Board (GASB) Statement evaluations for pension reporting requirements.

### AUDIT SERVICES

**FY2022 Audits** include outsourcing for Internal Audit and the year-end financial audit.

### BANKING FEES

**Custodial Banking** fees have slightly increased due to higher transaction volumes and associated costs.

### INVESTMENT-RELATED PROFESSIONAL SERVICES

**Master Recordkeeper** fees increased due to higher investment returns and transaction volumes.

**Investment Consulting & Advisory Services** include the contracts with Wilshire and Aksia.

**Performance Analytics Services** fee for BNY Mellon Global Risk Solutions are based on the accounts and composites for which performance is calculated and analyzed.

**Investment-Related Technical Consulting** included investment-related database and local tax advisors in countries that require special tax consultants. In FY2021, the investment-related tax consulting was moved from the administrative expenses and paid directly from the Investment portfolio.

## Professional Services, *continued*

**Other Professional Investment-Related Consulting** includes proxy and divestiture services.

**Bloomberg Terminal Rental** fees are for the licenses to use the Bloomberg information systems.

### **MEDICAL**

The **Medical Consultant** reviews about 1,500 cases per year with the Disability Section staff, participates in the monthly meetings of the Medical Advisory Committee, and attends Board Meetings as needed.

### **TECHNICAL**

**Special Counsel** are contingent amounts for the costs of outside legal counsel. Anticipated legal fees for investment contracts comprise approximately 53% of the FY2022 Special Counsel budget.

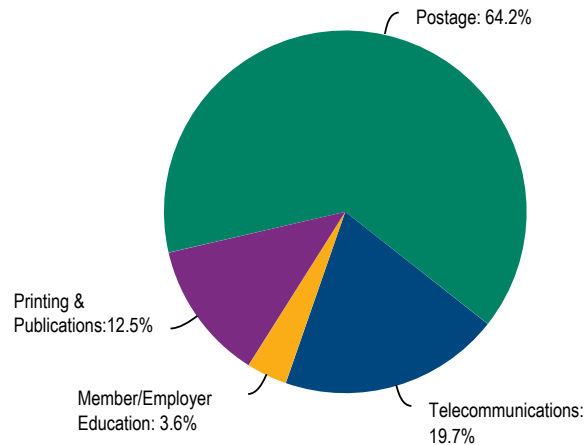
The **Technical** account includes the cost of outside consultants that provide computer security, health care data warehouse services, medical and prescription program pricing, specialized benefit system support, and website administration and design. FY2022 consists of IT strategic initiatives for cloud infrastructure and unified communication services to support SERS hybrid work environment and other consulting services to supplement internal staff for scheduled projects.

**Other Professional Services** include the cost for other consultants and advisory services, such as legislative news and political consulting providers, organizational leadership and development, professional work-study internships, surveying and focus groups, and Attorney General Staff reimbursement. Also included are consulting on initiatives around pension and health care sustainability along with the continuation of the enterprise-wide document life cycle evaluation.

# Communications

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 487,260	\$ 587,958	\$ 100,698	20.7	Postage	\$ 611,738	\$ 23,780	4.0
\$ 200,061	\$ 225,577	\$ 25,516	12.8	Telecommunications	\$ 187,722	\$ (37,855)	(16.8)
\$ 23,001	\$ —	\$ (23,001)	(100.0)	Member/Employer Education	\$ 34,590	\$ 34,590	—
37,385	29,180	(8,205)	(21.9)	Printing Paper & Supplies	43,200	14,020	48.0
85,299	46,171	(39,128)	(45.9)	Communications & Publications	75,200	29,029	62.9
\$ 122,684	\$ 75,351	\$ (47,333)	(38.6)	Printing & Publications	\$ 118,400	\$ 43,049	57.1
\$ 833,006	\$ 888,886	\$ 55,880	6.7	COMMUNICATIONS	\$ 952,450	\$ 63,564	7.2

## Communications FY2022 Budget



### POSTAGE

The **Postage** budget will decrease due to price per item efficiencies and no Board election material mailings.

### TELECOMMUNICATIONS

The **Telecommunications** budget reflects monthly services for landlines, websites, point-to-point connection, hybrid work environment video/audio communication resources and web-hosting. The purchase of telephones, headsets, and other miscellaneous telephone-related items also are included.

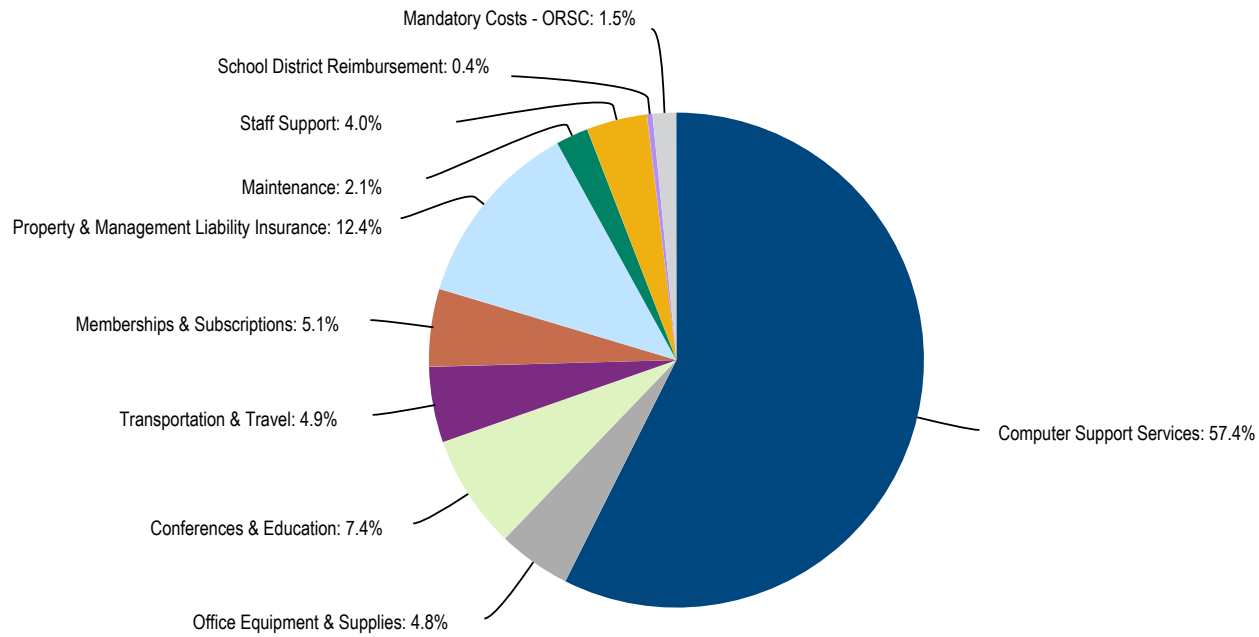
### MEMBER / EMPLOYER EDUCATION

SERS continues to maintain its outstanding service to members and retirees while reducing overnight stays and sessions based on attendance, conducting membership meetings in school facilities, and remaining in partnership with organizations that benefit SERS' member population. Member Services and Health Care plan to conduct in-house counseling, remote sessions, and open enrollment conferences based upon need and membership requests. Employer Services will continue to provide outreach services and group training for the member benefits system.

### PRINTING & PUBLICATIONS

This category includes the costs of paper and supplies, and large-quantity specific outsourced printing jobs. The Print Shop continually increases SERS' internal printing capabilities by producing items such as the *Open Enrollment Guide* booklets, *Member Benefit* and *Disability Guides*, and member benefit statements.

## Other Operating Expense FY2022 Budget



## Other Operating Expense

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 178,468	\$ 192,988	\$ 14,520	8.1	Hardware Maintenance	\$ 98,800	\$ (94,188)	(48.8)
1,161,247	954,657	(206,590)	(17.8)	Software Maintenance	975,825	21,168	2.2
383,571	680,270	296,699	77.4	Software Subscriptions	783,283	103,013	15.1
96,493	78,805	(17,688)	(18.3)	Hardware < \$5,000	60,500	(18,305)	(23.2)
1,225	26,431	25,206	2,057.6	Software < \$25,000	30,000	3,569	13.5
<b>\$ 1,821,004</b>	<b>\$ 1,933,151</b>	<b>\$ 112,147</b>	<b>6.2</b>	<b>Computer Support Services</b>	<b>\$ 1,948,408</b>	<b>\$ 15,257</b>	<b>0.8</b>
<b>\$ 148,828</b>	<b>\$ 126,328</b>	<b>\$ (22,500)</b>	<b>(15.1)</b>	<b>Office Equipment &amp; Supplies</b>	<b>\$ 161,689</b>	<b>\$ 35,361</b>	<b>28.0</b>
<b>\$ 135,285</b>	<b>\$ 74,350</b>	<b>\$ (60,935)</b>	<b>(45.0)</b>	<b>Conferences &amp; Education</b>	<b>\$ 252,480</b>	<b>\$ 178,130</b>	<b>239.6</b>
<b>\$ 107,709</b>	<b>\$ 27,335</b>	<b>\$ (80,374)</b>	<b>(74.6)</b>	<b>Transportation &amp; Travel</b>	<b>\$ 167,622</b>	<b>\$ 140,287</b>	<b>513.2</b>
<b>\$ 157,689</b>	<b>\$ 153,566</b>	<b>\$ (4,123)</b>	<b>(2.6)</b>	<b>Memberships &amp; Subscriptions</b>	<b>\$ 172,486</b>	<b>\$ 18,920</b>	<b>12.3</b>
<b>\$ 354,938</b>	<b>\$ 391,771</b>	<b>\$ 36,833</b>	<b>10.4</b>	<b>Property &amp; Management Liability Insurance</b>	<b>\$ 419,000</b>	<b>\$ 27,229</b>	<b>7.0</b>
<b>\$ 76,180</b>	<b>\$ 55,495</b>	<b>\$ (20,685)</b>	<b>(27.2)</b>	<b>Maintenance</b>	<b>\$ 72,610</b>	<b>\$ 17,115</b>	<b>30.8</b>
<b>\$ 131,368</b>	<b>\$ 110,429</b>	<b>\$ (20,939)</b>	<b>(15.9)</b>	<b>Staff Support</b>	<b>\$ 134,145</b>	<b>\$ 23,716</b>	<b>21.5</b>
<b>\$ 13,410</b>	<b>\$ 12,483</b>	<b>\$ (927)</b>	<b>(6.9)</b>	<b>School District Reimbursement</b>	<b>\$ 12,540</b>	<b>\$ 57</b>	<b>0.5</b>
<b>\$ 42,200</b>	<b>\$ 44,532</b>	<b>\$ 2,332</b>	<b>5.5</b>	<b>Mandatory Costs - ORSC</b>	<b>\$ 52,000</b>	<b>\$ 7,468</b>	<b>16.8</b>
<b>\$ (296,520)</b>	<b>\$ (305,000)</b>	<b>\$ (8,480)</b>	<b>2.9</b>	<b>Reimbursement from OSERS Broad Street, LLC, for Leased Services</b>	<b>\$ (305,000)</b>	<b>\$ —</b>	<b>—</b>
<b>\$ 2,692,091</b>	<b>\$ 2,624,440</b>	<b>\$ (67,651)</b>	<b>(2.5)</b>	<b>OTHER OPERATING EXPENSE</b>	<b>\$ 3,087,980</b>	<b>\$ 463,540</b>	<b>17.7</b>

### COMPUTER SUPPORT SERVICES

The **Hardware Maintenance** category contains annual maintenance contracts to support SERS' computer servers.

The **Software Maintenance** account includes licenses to use specific software products. SERS maintains a master list of these licenses, which is reviewed each year as part of the budgeting process.

**Software Subscriptions** cover software used by SERS that is provided both as a service and hosted locally on SERS servers. Software subscriptions renewed annually include the Human Resources management system, ServiceNow, comprehensive Microsoft product license, member benefits system performance and stress testing, conferencing services, financial accounting system and tools, ERM risk repository, USPS data feeds, media and publishing licenses, security compliance, and e-Discovery litigation services.

The FY2022 **Hardware less than \$5,000** account is comprised of routine maintenance and repair and unplanned hardware needs that may arise throughout the fiscal year.

The **Software less than \$25,000** category includes routine software purchases and unplanned software needs that may arise throughout the fiscal year.

### OFFICE EQUIPMENT & SUPPLIES

The majority of this category consists of equipment repairs and maintenance. Furniture and office supplies are purchased to meet staff needs.

### CONFERENCES & EDUCATION

This category includes both staff and Board training. This includes out-of-state conferences, attendance at MAPS classes offered at The Ohio State University, and continuing education for professional designations.

Tuition Reimbursement is based on the cost for staff members who have committed to attending higher education institutions during the coming year in accordance with the education policy.



## Other Operating Expense, *continued*

### **TRANSPORTATION & TRAVEL**

Travel costs are associated with both in-state and out-of-state conferences, and due diligence trips to current and prospective investment managers. Whenever possible, staff access training either virtually or via teleconferences instead of travel and combine trips.

### **MEMBERSHIPS & SUBSCRIPTIONS**

SERS holds memberships in several national organizations that advocate and educate on issues that affect our members and retirees. The major organizations are:

- Coalition to Preserve Retirement Security
- Council of Institutional Investors
- International Foundation of Employee Benefit Plans (IFEBP)
- National Association of State Retirement Administrators
- National Council for Real Estate Investment Fiduciaries
- Professional Resources in Information Systems Management (PRISM)
- Public Pension Financial Forum
- Public Sector HealthCare Roundtable
- State and Local Government Benefits Association

In addition to attending conferences and receiving publications from these organizations, SERS' staff serves on the boards of some of these industry organizations.

### **PROPERTY & FIDUCIARY INSURANCE**

SERS' insurance policies cover fiduciary liability, directors and officers liability, crime, cyber liability, auto and property and general liability.

### **MAINTENANCE**

The category is comprised of rent and other expenses for the Business Continuity Hot Site, interior plants maintenance, and SERS' vehicle maintenance.

### **STAFF SUPPORT**

**Staff Support** includes kitchen supplies, cleaning supplies, and first-aid items. This account also includes SERS' staff wellness program, employee assistance program, innovation awards, the administrative expenses associated with employee flexible spending accounts (health and dependent care), employee recruitment and onboarding, and cellular phone reimbursement.

### **BOARD MEMBER REIMBURSEMENT**

Employers of SERS' Board may receive reimbursement for compensation paid while Board Members attend to Board business.

### **MANDATORY COSTS - ORSC**

The five Ohio retirement systems are required to pay a proportionate share of the Ohio Retirement Study Council's (ORSC) expenses based on their respective assets under management.

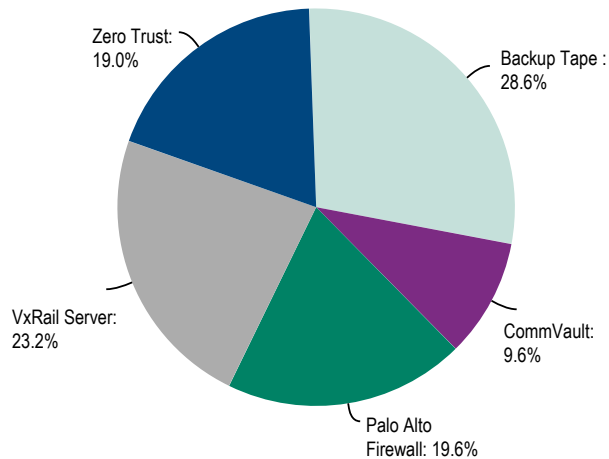
### **REIMBURSEMENT FROM OSERS BROAD STREET, LLC, FOR LEASED SERVICES**

SERS' Administrative Services staff provides building management services to OSERS Broad Street. To allow OSERS Broad Street expenses to reflect the value of these services and to pass the proportionate costs to tenants, OSERS Broad Street pays a monthly fee to SERS for the use of these services. This amount is accounted for under Facilities Expense in SERS' Annual Financial Report.

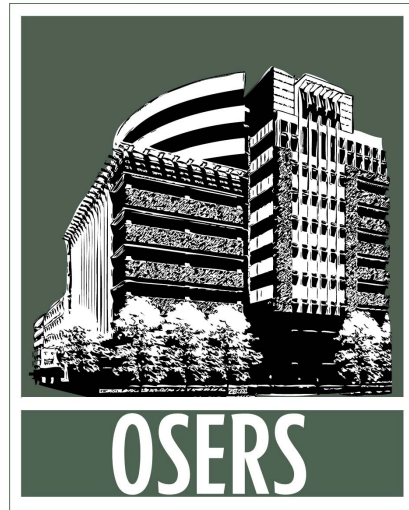
# Administrative Capital

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
436,121	429,653	(6,468)	(1.5)	Computer Hardware > \$5,000	227,018	(202,635)	(47.2)
195,346	53,333	(142,013)	(72.7)	Computer Software > \$25,000	53,333	—	—
<b>\$ 631,467</b>	<b>\$ 482,986</b>	<b>\$ (148,481)</b>	<b>(23.5)</b>	<b>CAPITAL</b>	<b>\$ 280,351</b>	<b>\$ (202,635)</b>	<b>(42.0)</b>

## Administrative Capital FY2022 Budget



DESCRIPTION	AMOUNT
<b>Backup Tape Replacement</b>	
A new storage technology to improve off-site data recovery time and reduce the current dependency on backing up critical data to tape cartridges.	\$ 80,000
<b>CommVault Hyperscale Storage</b>	
A single, all-in-one, data backup storage appliance solution that provides seamless integration with SERS' software platform and backup file retrieval. This is the last year of SERS contract.	27,018
<b>Palo Alto Firewall</b>	
A next-generation, network security firewall that identifies, and controls internet connection access, while safeguarding SERS' data. This is year two of a three year contract.	55,000
<b>VxRail Hyper-Converged Infrastructure Appliance</b>	
An additional virtualized server to maintain SERS' virtual Data Center. The hyper-converged infrastructure redundancy cluster will increase server capacity and continue service to minimize system failure.	65,000
<b>Zero Trust/ Micro-segmentation Solution</b>	
A three-year technology solution to replace SERS' traditional internal firewalls and secure perimeter controls. It will secure communications on all mapped data paths and validate identities to ensure network communication is safe and expected. This is year two of a three year contract.	53,333
	<b>\$ 280,351</b>



OSERS Broad Street, LLC  
and  
OSERS Holdings, LLC  
Budget

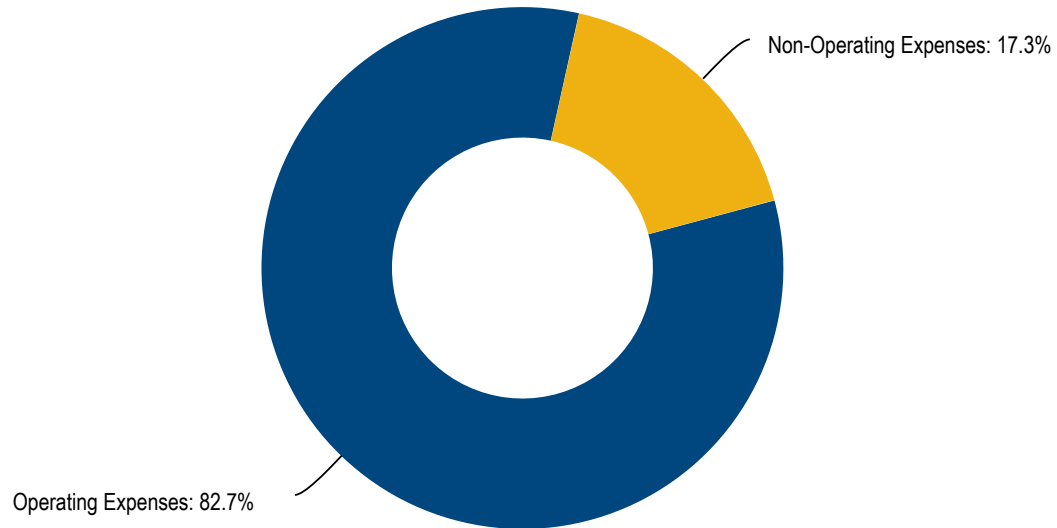
## Building Occupancy Budget / OSERS Holdings, LLC

OSERS Holdings is a limited liability company set up to own and oversee the property of its subsidiary, OSERS Broad Street, LLC, which holds the title to and operates 300 East Broad Street, a class "A" office building with 168,632 square feet of rentable space. SERS occupies 71.1% of the rentable space (119,823 square feet).

SERS does not pay rent to OSERS Broad Street, LLC; however, net expenses and operating capital in excess of rental income are funded by SERS upon request from OSERS.

The Board of Directors of SERS Broad Street, LLC, requests operating contributions from SERS to cover the OSERS Broad Street, LLC, Operating Budget, not to exceed **\$1,671,292**.

### OSERS Broad Street, LLC Budget



## OSERS Broad Street, LLC

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 731,906	\$ 683,380	\$ (48,526)	(6.6)	Suite Leases	\$ 777,473	\$ 94,093	13.8
190,180	182,836	(7,344)	(3.9)	Parking	178,215	(4,621)	(2.5)
1,950	17,923	15,973	819.1	Miscellaneous	—	(17,923)	(100.0)
<b>\$ 924,036</b>	<b>\$ 884,139</b>	<b>\$ (39,897)</b>	<b>(4.3)</b>	<b>Operating Revenue</b>	<b>\$ 955,688</b>	<b>\$ 71,549</b>	<b>8.1</b>
296,520	305,000	8,480	2.9	Property Management & Labor	305,000	—	—
24,200	60,759	36,559	151.1	Other Administrative Expenses	6,700	(54,059)	(89.0)
911,184	997,126	85,942	9.4	Building Operations & Maintenance	1,083,520	86,394	8.7
300,495	336,020	35,525	11.8	Utilities	401,260	65,240	19.4
73,316	82,960	9,644	13.2	Building/Equipment Insurance	87,000	4,040	4.9
291,987	278,232	(13,755)	(4.7)	Real Estate Taxes	288,000	9,768	3.5
<b>\$ 1,897,702</b>	<b>\$ 2,060,097</b>	<b>\$ 162,395</b>	<b>8.6</b>	<b>Operating Expenses</b>	<b>\$ 2,171,480</b>	<b>\$ 111,383</b>	<b>5.4</b>
49,673	—	(49,673)	(100.0)	Special Counsel & Other Fees	40,500	40,500	—
41,432	2,623	(38,809)	(93.7)	Remodeling for Tenants	415,000	412,377	15,721.6
<b>\$ 91,105</b>	<b>\$ 2,623</b>	<b>\$ (88,482)</b>	<b>(97.1)</b>	<b>Non-Operating Expenses</b>	<b>\$ 455,500</b>	<b>\$ 452,877</b>	<b>17,265.6</b>
308,425	209,510	(98,915)	(32.1)	Capital Improvements	—	(209,510)	(100.0)
<b>\$ 308,425</b>	<b>\$ 209,510</b>	<b>\$ (98,915)</b>	<b>(32.1)</b>	<b>Capital Improvements</b>	<b>\$ —</b>	<b>\$ (209,510)</b>	<b>(100.0)</b>
<b>\$ 1,373,196</b>	<b>\$ 1,388,091</b>	<b>\$ 14,895</b>	<b>1.1</b>	<b>OSERS Broad Street, LLC Budget</b>	<b>\$ 1,671,292</b>	<b>\$ 283,201</b>	<b>20.4</b>
(296,520)	(305,000)	(8,480)	(2.9)	Less Reimbursement to SERS for Leased Services	(305,000)	—	—
<b>\$ 1,076,676</b>	<b>\$ 1,083,091</b>	<b>\$ 6,415</b>	<b>0.6</b>	<b>Net Building Occupancy Expense</b>	<b>\$ 1,366,292</b>	<b>\$ 283,201</b>	<b>26.1</b>

### OPERATING REVENUE

**Suite Lease** revenue is based on contracted occupancy. **Parking** includes currently contracted tenant monthly parking and outside contracts. **Miscellaneous** includes contracted storage space rental for tenants and telecommunications.

### OPERATING EXPENSES

**Property Management & Labor is a Reimbursement to SERS for Leased Services** - the services provided to OSERS Broad Street, LLC by SERS' Administrative Services staff. The amount is based on a service agreement between OSERS Broad Street, LLC and SERS, that sets the reimbursement to a fair, reasonable and consistent market value rate.

The **Other Administrative Expenses** category includes expenses budgeted to run the facility administrative offices, including the costs of office supplies and banking fees.

The **Building Operations & Maintenance** category includes maintenance, supplies needed for the upkeep of the facility and its public spaces, the cost of janitorial and building security services, and an emergency notification system for life safety.

The **Utilities** category includes heat, light and power, water, and facility-related telephone service. OSERS' energy conservation and sustainability measures continue to result in lower utility costs than current market rates.

**Building/Equipment Insurance** includes some policies that are shared with SERS. The FY2022 budget is based on general market rates and an estimate of the replacement cost of the building. Real Estate Taxes are based on the rates and assessed commercial value published by the Franklin County Auditor.

### NON-OPERATING EXPENSES

**Special Counsel** is budgeted for potential outside counsel needs regarding existing tenant lease agreements.

**Remodeling** includes expenses for a first and fifth floor tenant remodel.

## OSERS Broad Street, LLC Capital Improvements

FY2020 Actual	FY2021 Forecast	FY2020-FY2021 Difference	Change % (+/-)	Budget Category	FY2022 Budget	FY2022 Budget - FY2021 Forecast Difference	Change % (+/-)
\$ 308,425	\$ 209,510	\$ (98,915)	(32.1)	CAPITAL IMPROVEMENTS	\$ —	\$ (209,510)	(100.0)





School Employees Retirement System of Ohio  
300 E. Broad St., Suite 100, Columbus, OH 43215-3746  
614-222-5853 · Toll-Free 800-878-5853 · [www.ohsers.org](http://www.ohsers.org)  
*Serving the People Who Serve Our Schools®*



# FY2022 Budget

May 20, 2021





## Goals & Objectives

- Budget Policy/Process
- Review the Proposed FY2022 Budget
- Questions / requests for future meetings
- No action required today



## Budget Policy

The Retirement Board shall be responsible for:

- Approving the Administrative Budget before the start of the budget fiscal year.
- Approving authority levels for capital contributions to any SERS-controlled LLCs.
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The approved Administrative Budget is the expenditure authority given to the Executive Director by the Retirement Board.



## Major Categories

### Personnel

- Salaries & Wages
- Employee benefits

### Professional Services

- Audit
- Actuarial
- Investment related services
- Technical consulting services

### Communications

- Printing & Postage
- Member/Employer Education
- Telecommunications

### Other Operating Expenses

- Computer Support Services
- Network Security
- Employee Professional Growth
- Liability Insurance
- Office Equipment & Supplies

### Capital Items

- Computer Hardware
- Computer Software
- Other Equipment

### Broad St. LLC

- Operating Expenses
- Capital Items



## Budget Monitoring

- **Administrative Expense Report**  
Detailed information of all expenses in that month. Provided to the Board, monthly agenda item, and posted to SERS website.
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All budgeted purchases in excess of \$100,000 and all unbudgeted projects. Provided to the Board monthly and a quarterly agenda item.
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- **Zero-based expense justification**
- **FY2021 financial review and FY2022 carryover**
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  - **How are ongoing and new projects related to the strategic plan?**
- **New Capital Projects**
- **Projected Business Area needs**



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- Upgraded system network infrastructure and Pension Management System (SMART)
- Development and initial implementation of information governance policies and tools
- Implemented Healthcare Strategies to Improve Sustainability
- Completion of the 5-year experience study
- Transitioned to a new domestic custodian
- Continued 5-year Strategic Plan Implementation



## **FY2022 Proposed Projects**

- Hybrid work environment
- Continued enterprise-wide record retention improvement project
- Analysis of current software environment for cloud compatibility & implementation of cloud solutions
- Enterprise Risk repository tool
- Medical and pharmacy program review
- Telecommunication transition





## Calendar

- |                                   |                         |
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# FY2022 Budget Summary



Budget Category	FY2022 Budget	FY2021 Approved Budget	FY2021 Forecast	Budget Change % (+/-)
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<b>PERSONNEL</b>	<b>\$ 23,290,658</b>	<b>\$ 22,024,598</b>	<b>\$ 22,135,826</b>	<b>5.7</b>
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Banking Expense	198,420	150,680	189,614	31.7
<b>PROFESSIONAL SERVICES, INCLUDING INVESTMENT COSTS</b>	<b>\$ 6,829,361</b>	<b>\$ 6,393,785</b>	<b>\$ 5,673,262</b>	<b>6.8</b>
Printing & Postage	730,138	870,860	663,309	(16.2)
Telecommunications	187,722	184,580	225,577	1.7
Member/Employer Education	34,590	50,440	—	(31.4)
<b>COMMUNICATIONS</b>	<b>\$ 952,450</b>	<b>\$ 1,105,880</b>	<b>\$ 888,886</b>	<b>(13.9)</b>
Conferences & Education	252,480	170,105	74,350	48.4
Travel	167,622	224,835	27,335	(25.4)
Computer Support Services	1,948,408	1,808,505	1,933,151	7.7
Other Operating Expenses (Insurance, Maintenance, Memberships, Supplies)	972,470	968,604	850,072	0.4
Ohio Retirement Study Council	52,000	52,000	44,532	—
<b>OTHER OPERATING</b>	<b>\$ 3,392,980</b>	<b>\$ 3,224,049</b>	<b>\$ 2,929,440</b>	<b>5.2</b>
<b>TOTAL OPERATING</b>	<b>\$ 34,465,449</b>	<b>\$ 32,748,312</b>	<b>\$ 31,627,414</b>	<b>5.2</b>
Furniture & Equipment > \$5,000	—	—	—	—
Computer Hardware > \$5,000	227,018	437,018	429,653	(48.1)
Computer Software > \$25,000	53,333	53,333	53,333	—
Vehicles	—	—	—	—
<b>CAPITAL</b>	<b>\$ 280,351</b>	<b>\$ 490,351</b>	<b>\$ 482,986</b>	<b>(42.8)</b>
<b>NET BUILDING OCCUPANCY EXPENSE</b>	<b>\$ 1,366,292</b>	<b>\$ 1,363,534</b>	<b>\$ 1,083,091</b>	<b>0.2</b>
<b>TOTAL OPERATING AND CAPITAL BUDGETS</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>	<b>4.4</b>

# Proposed FY2022 Draft Budget



## Comparison of FY2021 budget to FY2022 proposed

Budget Category	BUDGET		FORECAST
	FY2022	FY2021	FY2021
Personnel	\$ 23,290,658	\$ 22,024,598	\$ 22,135,826
Professional Services	\$ 6,829,361	\$ 6,393,785	\$ 5,673,262
Communications	\$ 952,450	\$ 1,105,880	\$ 888,886
Other Operating Expense	\$ 3,392,980	\$ 3,224,049	\$ 2,929,440
Capital	\$ 280,351	\$ 490,351	\$ 482,986
Net Building Occupancy	\$ 1,366,292	\$ 1,363,534	\$ 1,083,091
<b>TOTAL OPERATING</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>

FY2022 Draft budget reflects and 4.36% increase over FY2021 budget and an 8.79% increase over the FY2021 projected expenses



<b>Reconciliation of Changes from FY2021 Budget to FY2022 Budget</b>		
<b>FY2021 Budget</b>	<b>\$ 34,602,197</b>	
<b>Personnel Services</b>	\$ 1,266,060	<ul style="list-style-type: none"> <li>• Increase in base salary and wages due Compensation Committee approved merit inclusion</li> <li>• Increase in incentive compensation and retirement contributions</li> <li>• Substantial increase in health care and prescription claims</li> </ul>
<b>Professional Services</b>	\$ 435,576	<ul style="list-style-type: none"> <li>• Decrease in actuarial costs for quinquennial study (FY2021)</li> <li>• Increase in custodial banking costs</li> <li>• Decrease in Master Recordkeeper fees, prior year unrealized discount and advisory fee price reduction</li> <li>• Decrease in need for Sagitec Development resources</li> <li>• Increase in Consulting to improve SMART Self-Service capabilities</li> <li>• Increase in Consulting for the next generation telecommunications platform</li> <li>• Increase for RFP Consulting on expiring Medicare &amp; Prescription program contracts</li> </ul>
<b>Communications</b>	\$ (153,430)	<ul style="list-style-type: none"> <li>• No Board elections</li> <li>• Decrease in Communications &amp; Publications due to new copier agreement allowing member/retiree manual printing in-house</li> <li>• Slight increase in telecommunications portfolio of conferencing services</li> <li>• Decrease in Member/Employer education in Q1 &amp; Q2 to account for a safe return to in-person meetings</li> </ul>
<b>Other Operating</b>	\$ 168,931	<ul style="list-style-type: none"> <li>• Seminars/conferences and travel/transportation maintained at the similar level as FY2021</li> <li>• Decrease in hardware maintenance for business continuity site</li> <li>• Decrease in Business Continuity (physical) site expense as SERS evaluates its Disaster Recovery strategy</li> <li>• Increase for portable technology solutions for hybrid work environment</li> <li>• Increase in software subscription - on-prem transition to Cloud, Operational Due Diligence</li> <li>• Increase in fiduciary responsibility insurance</li> <li>• Increase in licensing costs for all Microsoft products and services</li> <li>• Increase in security enhancements and a digital repository management tool</li> </ul>
<b>Capital</b>	\$ (210,000)	<ul style="list-style-type: none"> <li>Decrease in capital priorities:</li> <li>• Addressing Data Storage and continuity of technological infrastructure and systems</li> <li>• Replacement of end-of-life Palo Alto Firewall</li> </ul>
<b>OSERS Broad Street LLC</b>	\$ 2,758	<ul style="list-style-type: none"> <li>• Decrease in lease revenue</li> <li>• Increase for building remodeling - Two (2) tenant lease expirations</li> <li>• Decrease in Capital investment</li> </ul>
<b>FY2022 Budget Requested</b>	<b>\$ 36,112,092</b>	



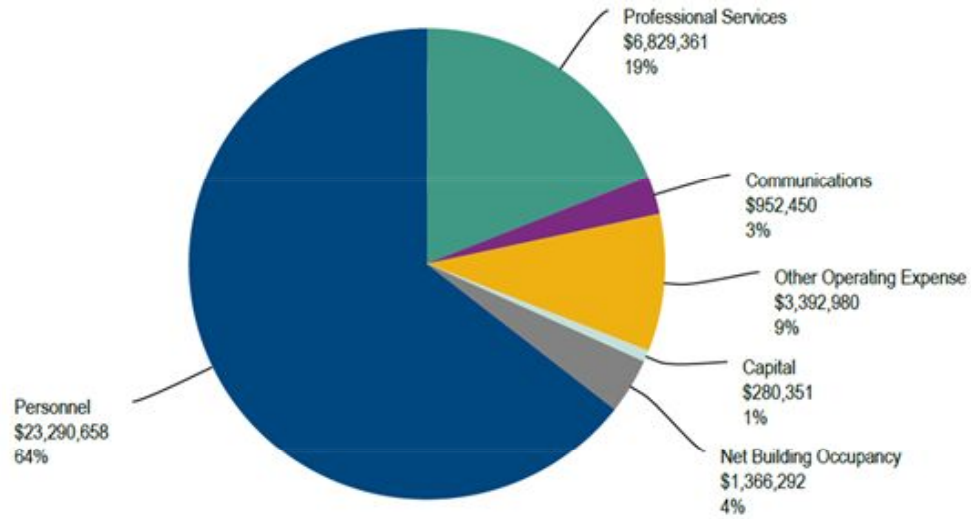


<b>Reconciliation of Changes from FY2021 Forecast to FY2022 Budget</b>		
<b>FY2021 Forecast</b>	<b>\$ 33,193,491</b>	
<b>Personnel Services</b>	\$ 1,154,832	<ul style="list-style-type: none"> <li>• Increase in base salary and wages due Compensation Committee approved merit inclusion</li> <li>• Increase in incentive compensation and retirement contributions</li> <li>• Substantial increase in health care and prescription claims</li> </ul>
<b>Professional Services</b>	\$ 1,156,099	<ul style="list-style-type: none"> <li>• Decrease in actuarial costs for quinquennial study (FY2021)</li> <li>• Increase in custodial banking costs</li> <li>• Decrease in Master Recordkeeper fees, prior year unrealized discount and advisory fee price reduction</li> <li>• Decrease in need for Sagitec Development resources</li> <li>• Increase in Consulting to improve SMART Self-Service capabilities</li> <li>• Increase in Consulting for the next generation telecommunications platform</li> <li>• Increase for RFP Consulting on expiring Medicare &amp; Prescription program contracts</li> </ul>
<b>Communications</b>	\$ 63,564	<ul style="list-style-type: none"> <li>• No Board elections</li> <li>• Decrease in Communications &amp; Publications due to new copier agreement allowing member/retiree manual printing in-house</li> <li>• Increase in telecommunications portfolio of conferencing services</li> <li>• Decrease in Member/Employer education in Q1 &amp; Q2 to account for a safe return to in-person meetings</li> </ul>
<b>Other Operating</b>	\$ 463,540	<ul style="list-style-type: none"> <li>• Seminars/conferences and travel/transportation maintained at the similar level as FY2021</li> <li>• Decrease in hardware maintenance for business continuity site</li> <li>• Decrease in Business Continuity (physical) site expense as SERS evaluates its Disaster Recovery strategy</li> <li>• Increase for portable technology solutions for hybrid work environment</li> <li>• Increase in software subscription - on-prem transition to Cloud, Operational Due Diligence</li> <li>• Increase in fiduciary responsibility insurance</li> <li>• Increase in licensing costs for all Microsoft products and services</li> <li>• Increase in security enhancements and a digital repository management tool</li> </ul>
<b>Capital</b>	\$ (202,635)	Decrease in capital priorities: <ul style="list-style-type: none"> <li>• Addressing Data Storage and continuity of technological infrastructure and systems</li> <li>• Replacement of end-of-life Palo Alto Firewall</li> </ul>
<b>OSERS Broad Street LLC</b>	\$ 283,201	<ul style="list-style-type: none"> <li>• Decrease in lease revenue</li> <li>• Increase for building remodeling - Two (2) tenant lease expirations</li> <li>• Decrease in Capital investment</li> </ul>
<b>FY2022 Budget Requested</b>	<b>\$ 36,112,092</b>	



### FY2022 Operating Budget by Category

\$36,112,092

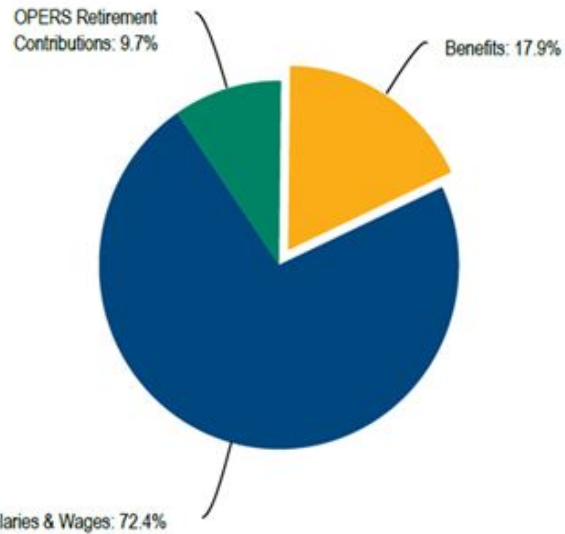


# Proposed FY2022 Draft Budget



## Personnel Services

---



**64.5% of the Total Budget**

### FY2022 Budget Summary:

- No new positions (FTE = 181)
- Performance-based merit increase of 2%
- Incentive payouts based on FY2021 Investment Portfolio Performance
- Level of benefits remains unchanged for FY2022



# Proposed FY2022 Draft Budget

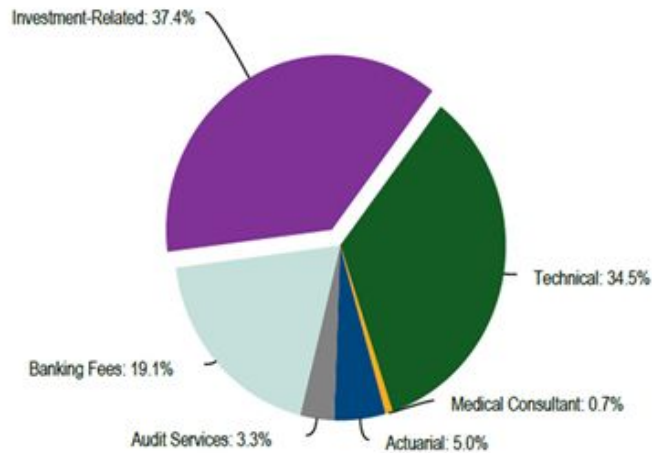
## Professional Services

---

18.9% of the Total Budget

### FY2022 Budget Summary:

- Actuarial and Audit fees
- Custodial Banking fees – increased due to higher transaction volumes and associated costs
- Master Recordkeeper fees – increased due to higher investment returns and transaction volumes
- Investment Consulting & Advisory, Performance Analytics and Investment-Related Technical Consulting
- Outside consultants that provide computer security, health care data warehouse service, medical and prescription program pricing, member benefits system support and IT strategic initiatives for infrastructure as-a-service and unified communication services







# Proposed FY2022 Draft Budget

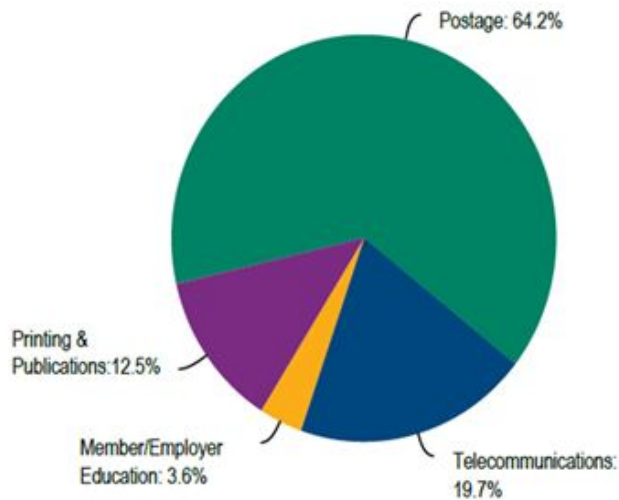
## Communications

---

2.6% of the Total Budget

### FY2022 Budget Summary:

- Decrease in Postage due to price per item efficiencies and no Board election material mailings
- Telecommunication - includes services landlines, web services, hybrid work environment video/audio communication resources
- Member/Employer Education - includes costs associated with conducting meetings and outreach services
- Printing and Publications - includes costs of paper and supplies and large-quantity specific outsourced printing jobs

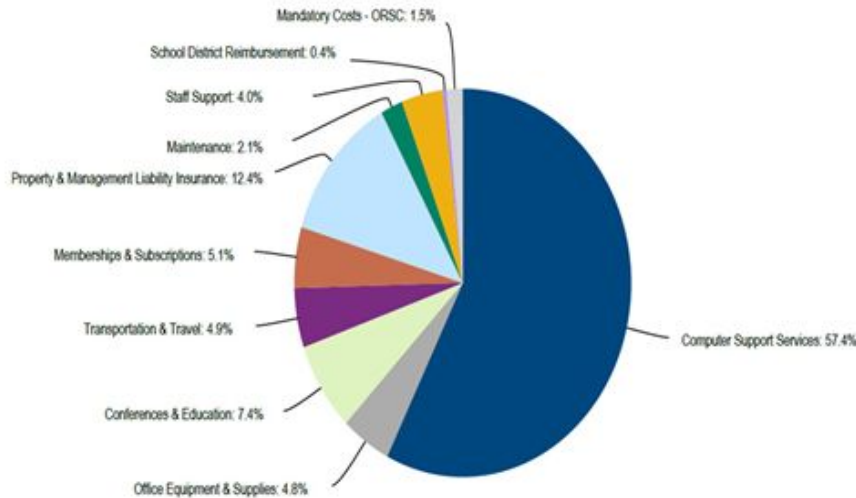


# Proposed FY2022 Draft Budget



## Other Operating Expense

9.4% of the Total Budget



### FY2022 Budget Summary:

- Computer Support Services – includes Hardware and Software Maintenance as well as Software Subscriptions
- Office Equipment & Supplies Conferences & Education Transportation and Travel
- Memberships and Subscriptions
- Property & Fiduciary Insurance
- Maintenance
- Staff Support
- Board Member Reimbursement
- Mandatory ORSC costs
- Reimbursement from OSERS Broad Street, LLC for Leased Services



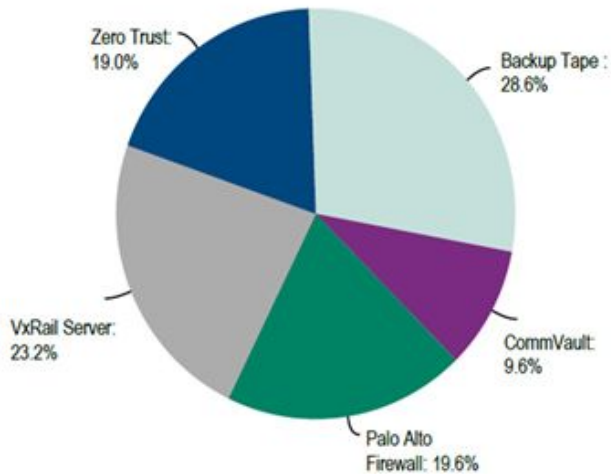
# Proposed FY2022 Draft Budget

## Administrative Capital

0.8% of the Total Budget

### FY2022 Budget Summary:

- Backup Tape Replacement – new storage technology to improve off-site data recovery time and reduce dependency on tape cartridges
- CommVault Hyperscale Storage – data backup storage solution providing seamless integration with SERS' software platform and backup retrieval
- Palo Alto Firewall – network security firewall that identifies and controls internet connection access, while safeguarding SERS' data
- VxRail Hyper-Converged Infrastructure Appliance – additional virtualized server to maintain SERS' virtual Data Center
- Zero Trust/Micro-segmentation Solution – replaces the traditional internal firewalls and secure perimeter controls to ensure network communication is safe and expected





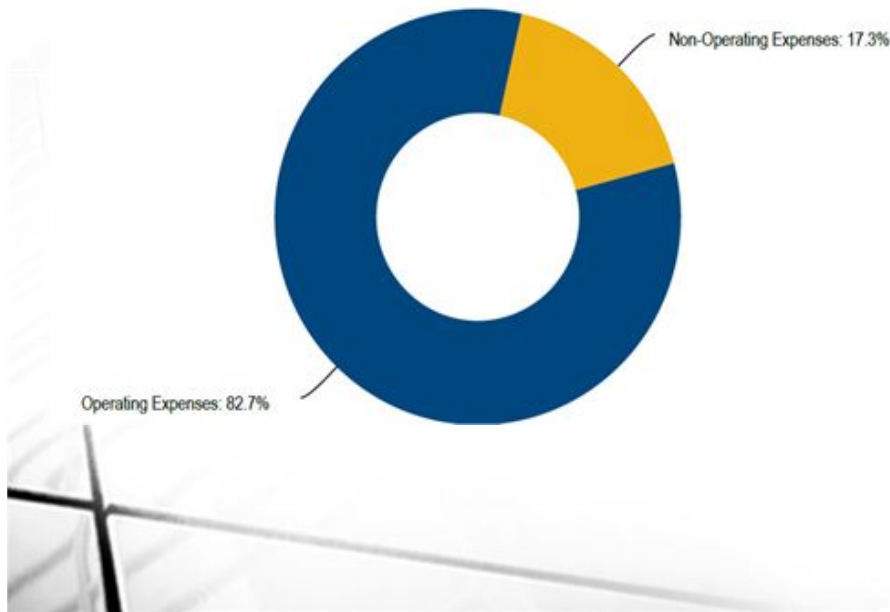
# Proposed FY2022 Draft Budget

## OSERS Broad Street, LLC

3.8% of the Total Budget

### FY2022 Budget Summary:

- Operating Revenue – includes Suite Lease revenue for 8 tenants, parking, and miscellaneous rentals
- Operating Expenses
  - Property Management & Labor
  - Other Administrative Expenses
  - Building Operations & Maintenance
  - Utilities
  - Building/Equipment Insurance
- Non-Operating Expenses
  - Special Counsel
  - Remodeling – includes expenses for a 1st and 5th floor tenant remodel



**OPERATING TRANSFER RESOLUTION – FY2022**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded that SERS transfer to OSERS Holdings, LLC up to \$1,671,292 for payment of building operations and LLC expenses of OSERS Holdings for the fiscal year beginning July 1, 2021 and ending June 30, 2022. OSERS Holdings, LLC shall report quarterly to the SERS Board of Trustees on the expenditure of all funds and receipt of all revenues.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

# FY2022 Budget

May 20, 2021





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Telecommunications	187,722	184,580	225,577	1.7
Member/Employer Education	34,590	50,440	—	(31.4)
<b>COMMUNICATIONS</b>	<b>\$ 952,450</b>	<b>\$ 1,105,880</b>	<b>\$ 888,886</b>	<b>(13.9)</b>
Conferences & Education	252,480	170,105	74,350	48.4
Travel	167,622	224,835	27,335	(25.4)
Computer Support Services	1,948,408	1,808,505	1,933,151	7.7
Other Operating Expenses (Insurance, Maintenance, Memberships, Supplies)	972,470	968,604	850,072	0.4
Ohio Retirement Study Council	52,000	52,000	44,532	—
<b>OTHER OPERATING</b>	<b>\$ 3,392,980</b>	<b>\$ 3,224,049</b>	<b>\$ 2,929,440</b>	<b>5.2</b>
<b>TOTAL OPERATING</b>	<b>\$ 34,465,449</b>	<b>\$ 32,748,312</b>	<b>\$ 31,627,414</b>	<b>5.2</b>
Furniture & Equipment > \$5,000	—	—	—	—
Computer Hardware > \$5,000	227,018	437,018	429,653	(48.1)
Computer Software > \$25,000	53,333	53,333	53,333	—
Vehicles	—	—	—	—
<b>CAPITAL</b>	<b>\$ 280,351</b>	<b>\$ 490,351</b>	<b>\$ 482,986</b>	<b>(42.8)</b>
<b>NET BUILDING OCCUPANCY EXPENSE</b>	<b>\$ 1,366,292</b>	<b>\$ 1,363,534</b>	<b>\$ 1,083,091</b>	<b>0.2</b>
<b>TOTAL OPERATING AND CAPITAL BUDGETS</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>	<b>4.4</b>



# Proposed FY2022 Draft Budget



## Comparison of FY2021 budget to FY2022 proposed

Budget Category	BUDGET		FORECAST
	FY2022	FY2021	FY2021
Personnel	\$ 23,290,658	\$ 22,024,598	\$ 22,135,826
Professional Services	\$ 6,829,361	\$ 6,393,785	\$ 5,673,262
Communications	\$ 952,450	\$ 1,105,880	\$ 888,886
Other Operating Expense	\$ 3,392,980	\$ 3,224,049	\$ 2,929,440
Capital	\$ 280,351	\$ 490,351	\$ 482,986
Net Building Occupancy	\$ 1,366,292	\$ 1,363,534	\$ 1,083,091
<b>TOTAL OPERATING</b>	<b>\$ 36,112,092</b>	<b>\$ 34,602,197</b>	<b>\$ 33,193,491</b>

FY2022 Draft budget reflects and 4.36% increase over FY2021 budget and an 8.79% increase over the FY2021 projected expenses





<b>Reconciliation of Changes from FY2021 Budget to FY2022 Budget</b>		
<b>FY2021 Budget</b>	<b>\$ 34,602,197</b>	
<b>Personnel Services</b>	\$ 1,266,060	<ul style="list-style-type: none"> <li>• Increase in base salary and wages due Compensation Committee approved merit inclusion</li> <li>• Increase in incentive compensation and retirement contributions</li> <li>• Substantial increase in health care and prescription claims</li> </ul>
<b>Professional Services</b>	\$ 435,576	<ul style="list-style-type: none"> <li>• Decrease in actuarial costs for quinquennial study (FY2021)</li> <li>• Increase in custodial banking costs</li> <li>• Decrease in Master Recordkeeper fees, prior year unrealized discount and advisory fee price reduction</li> <li>• Decrease in need for Sagitec Development resources</li> <li>• Increase in Consulting to improve SMART Self-Service capabilities</li> <li>• Increase in Consulting for the next generation telecommunications platform</li> <li>• Increase for RFP Consulting on expiring Medicare &amp; Prescription program contracts</li> </ul>
<b>Communications</b>	\$ (153,430)	<ul style="list-style-type: none"> <li>• No Board elections</li> <li>• Decrease in Communications &amp; Publications due to new copier agreement allowing member/retiree manual printing in-house</li> <li>• Slight increase in telecommunications portfolio of conferencing services</li> <li>• Decrease in Member/Employer education in Q1 &amp; Q2 to account for a safe return to in-person meetings</li> </ul>
<b>Other Operating</b>	\$ 168,931	<ul style="list-style-type: none"> <li>• Seminars/conferences and travel/transportation maintained at the similar level as FY2021</li> <li>• Decrease in hardware maintenance for business continuity site</li> <li>• Decrease in Business Continuity (physical) site expense as SERS evaluates its Disaster Recovery strategy</li> <li>• Increase for portable technology solutions for hybrid work environment</li> <li>• Increase in software subscription - on-prem transition to Cloud, Operational Due Diligence</li> <li>• Increase in fiduciary responsibility insurance</li> <li>• Increase in licensing costs for all Microsoft products and services</li> <li>• Increase in security enhancements and a digital repository management tool</li> </ul>
<b>Capital</b>	\$ (210,000)	<ul style="list-style-type: none"> <li>Decrease in capital priorities:</li> <li>• Addressing Data Storage and continuity of technological infrastructure and systems</li> <li>• Replacement of end-of-life Palo Alto Firewall</li> </ul>
<b>OSERS Broad Street LLC</b>	\$ 2,758	<ul style="list-style-type: none"> <li>• Decrease in lease revenue</li> <li>• Increase for building remodeling - Two (2) tenant lease expirations</li> <li>• Decrease in Capital investment</li> </ul>
<b>FY2022 Budget Requested</b>	<b>\$ 36,112,092</b>	

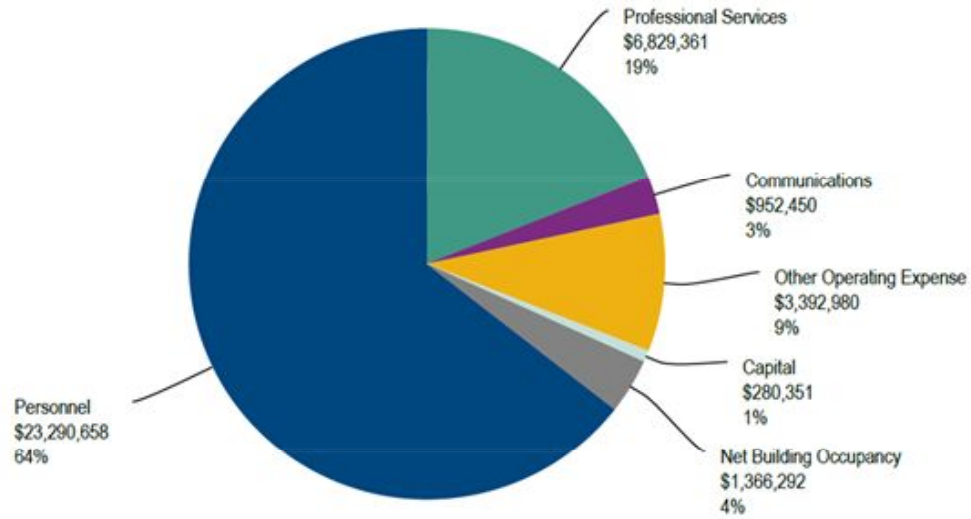


<b>Reconciliation of Changes from FY2021 Forecast to FY2022 Budget</b>		
<b>FY2021 Forecast</b>	<b>\$ 33,193,491</b>	
<b>Personnel Services</b>	\$ 1,154,832	<ul style="list-style-type: none"> <li>• Increase in base salary and wages due Compensation Committee approved merit inclusion</li> <li>• Increase in incentive compensation and retirement contributions</li> <li>• Substantial increase in health care and prescription claims</li> </ul>
<b>Professional Services</b>	\$ 1,156,099	<ul style="list-style-type: none"> <li>• Decrease in actuarial costs for quinquennial study (FY2021)</li> <li>• Increase in custodial banking costs</li> <li>• Decrease in Master Recordkeeper fees, prior year unrealized discount and advisory fee price reduction</li> <li>• Decrease in need for Sagitec Development resources</li> <li>• Increase in Consulting to improve SMART Self-Service capabilities</li> <li>• Increase in Consulting for the next generation telecommunications platform</li> <li>• Increase for RFP Consulting on expiring Medicare &amp; Prescription program contracts</li> </ul>
<b>Communications</b>	\$ 63,564	<ul style="list-style-type: none"> <li>• No Board elections</li> <li>• Decrease in Communications &amp; Publications due to new copier agreement allowing member/retiree manual printing in-house</li> <li>• Increase in telecommunications portfolio of conferencing services</li> <li>• Decrease in Member/Employer education in Q1 &amp; Q2 to account for a safe return to in-person meetings</li> </ul>
<b>Other Operating</b>	\$ 463,540	<ul style="list-style-type: none"> <li>• Seminars/conferences and travel/transportation maintained at the similar level as FY2021</li> <li>• Decrease in hardware maintenance for business continuity site</li> <li>• Decrease in Business Continuity (physical) site expense as SERS evaluates its Disaster Recovery strategy</li> <li>• Increase for portable technology solutions for hybrid work environment</li> <li>• Increase in software subscription - on-prem transition to Cloud, Operational Due Diligence</li> <li>• Increase in fiduciary responsibility insurance</li> <li>• Increase in licensing costs for all Microsoft products and services</li> <li>• Increase in security enhancements and a digital repository management tool</li> </ul>
<b>Capital</b>	\$ (202,635)	Decrease in capital priorities: <ul style="list-style-type: none"> <li>• Addressing Data Storage and continuity of technological infrastructure and systems</li> <li>• Replacement of end-of-life Palo Alto Firewall</li> </ul>
<b>OSERS Broad Street LLC</b>	\$ 283,201	<ul style="list-style-type: none"> <li>• Decrease in lease revenue</li> <li>• Increase for building remodeling - Two (2) tenant lease expirations</li> <li>• Decrease in Capital investment</li> </ul>
<b>FY2022 Budget Requested</b>	<b>\$ 36,112,092</b>	



### FY2022 Operating Budget by Category

\$36,112,092

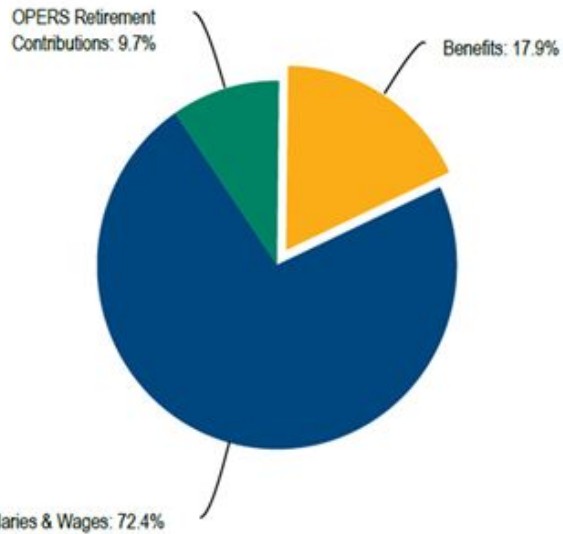


# Proposed FY2022 Draft Budget



## Personnel Services

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**64.5% of the Total Budget**

### FY2022 Budget Summary:

- No new positions (FTE = 181)
- Performance-based merit increase of 2%
- Incentive payouts based on FY2021 Investment Portfolio Performance
- Level of benefits remains unchanged for FY2022



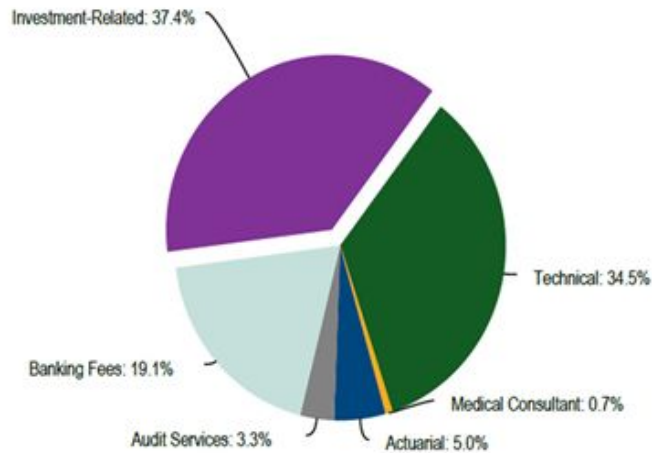
# Proposed FY2022 Draft Budget

## Professional Services

18.9% of the Total Budget

### FY2022 Budget Summary:

- Actuarial and Audit fees
- Custodial Banking fees – increased due to higher transaction volumes and associated costs
- Master Recordkeeper fees – increased due to higher investment returns and transaction volumes
- Investment Consulting & Advisory, Performance Analytics and Investment-Related Technical Consulting
- Outside consultants that provide computer security, health care data warehouse service, medical and prescription program pricing, member benefits system support and IT strategic initiatives for infrastructure as-a-service and unified communication services







# Proposed FY2022 Draft Budget

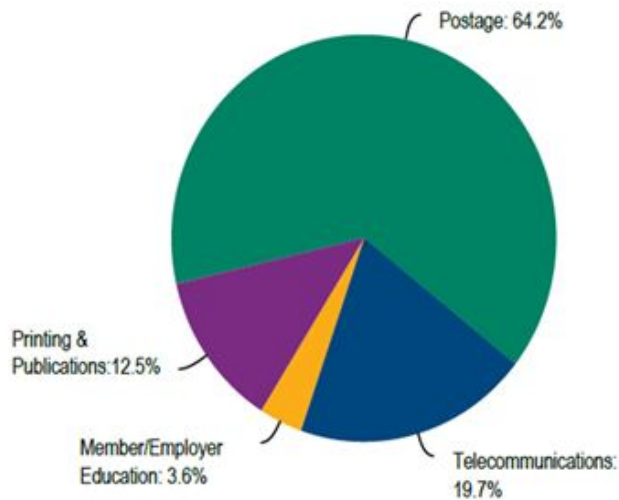
## Communications

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2.6% of the Total Budget

### FY2022 Budget Summary:

- Decrease in Postage due to price per item efficiencies and no Board election material mailings
- Telecommunication - includes services landlines, web services, hybrid work environment video/audio communication resources
- Member/Employer Education - includes costs associated with conducting meetings and outreach services
- Printing and Publications - includes costs of paper and supplies and large-quantity specific outsourced printing jobs



# Proposed FY2022 Draft Budget

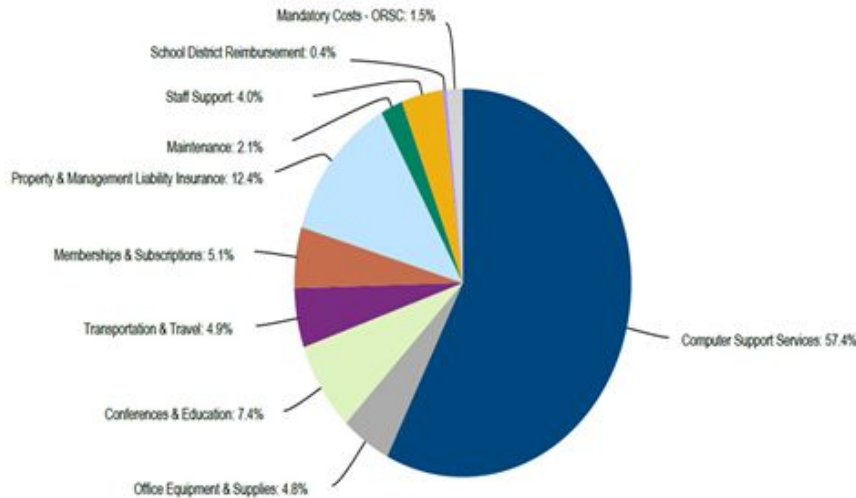


## Other Operating Expense

9.4% of the Total Budget

### FY2022 Budget Summary:

- Computer Support Services – includes Hardware and Software Maintenance as well as Software Subscriptions
- Office Equipment & Supplies Conferences & Education Transportation and Travel
- Memberships and Subscriptions
- Property & Fiduciary Insurance
- Maintenance
- Staff Support
- Board Member Reimbursement
- Mandatory ORSC costs
- Reimbursement from OSERS Broad Street, LLC for Leased Services





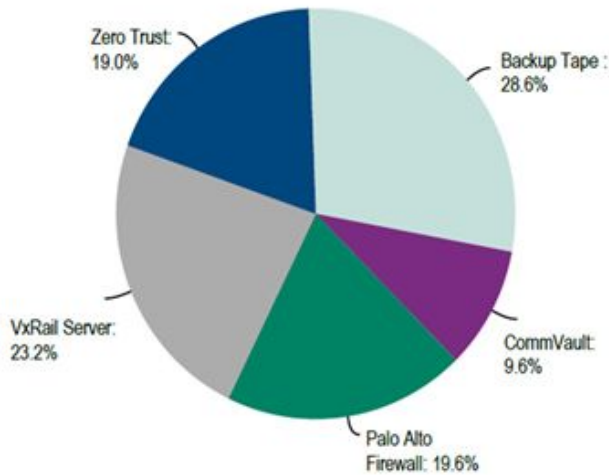
# Proposed FY2022 Draft Budget

## Administrative Capital

0.8% of the Total Budget

### FY2022 Budget Summary:

- Backup Tape Replacement – new storage technology to improve off-site data recovery time and reduce dependency on tape cartridges
- CommVault Hyperscale Storage – data backup storage solution providing seamless integration with SERS' software platform and backup retrieval
- Palo Alto Firewall – network security firewall that identifies and controls internet connection access, while safeguarding SERS' data
- VxRail Hyper-Converged Infrastructure Appliance – additional virtualized server to maintain SERS' virtual Data Center
- Zero Trust/Micro-segmentation Solution – replaces the traditional internal firewalls and secure perimeter controls to ensure network communication is safe and expected





# Proposed FY2022 Draft Budget

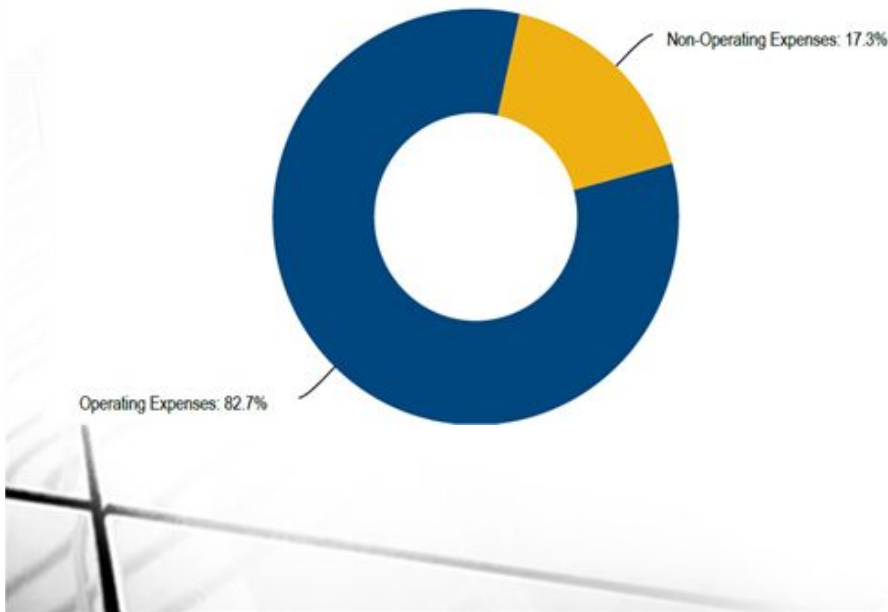


## OSERS Broad Street, LLC

3.8% of the Total Budget

### FY2022 Budget Summary:

- Operating Revenue – includes Suite Lease revenue for 8 tenants, parking, and miscellaneous rentals
- Operating Expenses
  - Property Management & Labor
  - Other Administrative Expenses
  - Building Operations & Maintenance
  - Utilities
  - Building/Equipment Insurance
- Non-Operating Expenses
  - Special Counsel
  - Remodeling – includes expenses for a 1st and 5th floor tenant remodel



**AGREEMENT FOR VOCATIONAL EVALUATION SERVICES**

The Assistant Director – Outreach for Member Services discussed with the Board the recommendation to enter an agreement for Vocational Consulting Services with the following vendors:

- Career Assessment Systems, Inc.
- CareWorks Managed Care Services, Inc.
- New Link Services, LLC
- Vocational Resource Center, Inc.
- Vocational Services Unlimited

The Assistant Director also recommended that the above Vocational Evaluators be compensated at a flat rate of \$650.00 per paper evaluation, and an hourly fee of \$85.00 per hour for an in-person evaluation, not to exceed \$1,000, effective July 1, 2021.

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_ to accept the Assistant Director’s recommendations.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**AGREEMENT FOR VOCATIONAL EXPERT SERVICES**

The Assistant Director - Outreach for Member Services discussed with the Board the recommendation to enter an agreement for Vocational Consulting Services with Vocational Expert Kimberly Wickert. The Assistant Director also recommended the Vocational Expert be compensated at an hourly rate of \$90.00, effective July 1, 2021.

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_ to accept the Assistant Director's recommendations.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**MEDICAL ADVISORY COMMITTEE FEES**

The Assistant Director – Outreach for Member Services discussed with the Board the fee for the members of the Medical Advisory Committee to review disability benefit applications. The Assistant Director recommended the fee per case review be raised to \$200.00, effective July 1, 2021.

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_ to accept the Assistant Director's recommendation.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**EXECUTIVE SESSION**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion that the Committee convene in Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee.

**IN EXECUTIVE SESSION AT \_\_\_\_\_ A.M./P.M.**

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**RETURN TO OPEN SESSION AT \_\_\_\_\_ A.M. / P.M.**

**EXECUTIVE DIRECTOR COMPENSATION**

The SERS Compensation Committee recommends that Executive Director Richard Stensrud receive a \_\_\_% merit increase in salary effective the first pay date in Fiscal Year 2022. \_\_\_\_\_ moved to adopt the Committee’s recommendation.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**EXECUTIVE SESSION**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(5) to review applications for Disability Retirement Benefits.

**IN EXECUTIVE SESSION AT \_\_\_\_\_ A.M. / P.M.**

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**RETURNED TO OPEN SESSION AT \_\_\_\_\_ A.M. / P.M.**



# 2022 Premium and Plan Changes

June 17, 2021

**Christi Pepe**

Director Health Care Services



**School Employees Retirement System**  
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# Agenda

- Medicare Premiums & Benefit Changes
- Non-Medicare Premiums & Benefit Changes
- Wraparound HRA Benefit Flexibility
- Dental and Vision
- Premium Discount Expansion
- Medicare B Enrollment (discussion)



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## Medicare Premiums

- No Aetna Medicare premium change
- Full premium remains \$198
- Most common premium remains \$84



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## Medicare Benefit Changes

### **2022 Medicare Rx Drug Network Change**

Medicare plan enrollee transition to Express Scripts  
Broad Performance Network

- Express Scripts measures and pays network pharmacies based on quality (medication adherence for certain diagnoses)
- Enrollee co-pays would remain the same
- 98% of enrollees not affected by the network change
- Out-of-network claims would be denied

**Potential SERS' 2022 Savings - \$3.3 million**

## Non-Medicare Premiums

- Aetna Choice - adopt premium recommendations from actuary (6.4% increase)
  - Full premium: \$91 increase to \$1,524 from \$1,433
  - Most common premium: \$18 increase to \$333 from \$315
- AultCare premium reduction 1%
  - Full premium to \$1,075 from \$1,086
- No benefit changes



## Wraparound HRA Benefit Flexibility

- Eliminate per-service limits starting in 2022
- \$1,800 total HRA federal reimbursement limit continues
- \$0 premium continues



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# Dental and Vision Rates

<b>Delta Dental</b>	<b>2021 Premiums</b>	<b>2022 Premiums</b>
Benefit Recipient	\$28.53	<b>\$28.25</b>
Benefit Recipient and one dependent	\$57.06	<b>\$56.50</b>
Benefit Recipient and two or more dependents	\$85.54	<b>\$84.98</b>

<b>VSP Vision</b>	<b>2021 Premiums</b>	<b>2022 Premiums</b>
Benefit Recipient	\$7.11	<b>\$6.17</b>
Benefit Recipient and one dependent	\$14.22	<b>\$12.35</b>
Benefit Recipient and two or more dependents	\$16.70	<b>\$14.49</b>



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## Premium Discount Expansion

- Expand eligibility for 25% premium reduction from  $\leq 125\%$  Federal Poverty Level (FPL) to  $\leq 150\%$  FPL
- Continue eligibility for the 2021 Premium Discount enrolled population through 2022



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# Questions



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*Serving the People Who Serve Ours Schools®*





# Medicare Part B Enrollment

June 17, 2021

**Christi Pepe**

Director Health Care Services



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## Medicare Part B Enrollment

### Calendar Year 2020

2,364 new Medicare Advantage enrollees

- 1,028 new retirees, disability enrollees, spouses
- 946 converted from a non-Medicare plan
- 390 current retirees enrolled after a qualifying event

### April 2021

322 enrollees in non-Medicare plans who should be in Medicare Advantage but have no Medicare B



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## Medicare Part B Enrollment

### **Medicare Advantage requires Medicare Part B (CMS rule)**

- Medicare Part B premium costs \$148.50 for most new enrollees

### **Incentives to enrolling in Part B and SERS Medicare Advantage**

- Lowest retiree premium
- Lowest out-of-pocket plan costs
- Medicare Part B reimbursement of \$45.50 per month

### **SERS' health care rule requires enrollees eligible for Medicare Part B to enroll**

- SERS defaults to non-Medicare plan for those without Part B

## Medicare Part B Enrollment

### **Total SERS' annual cost for Part B eligible but not enrolled - \$2.56 million**

- Individual with no Part A, no Part B - \$17,000 annual cost
- Individual with Part A but no Part B – over \$1,500 annual cost



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## Medicare Part B Enrollment

### **SERS sends communications starting at age 64**

- Four written correspondences and at least one phone contact by retirees' 65<sup>th</sup> birth month

### **Yet, some health care enrollees do not enroll in Medicare Part B at age 65**

- Current enrollment for those over 65 never enrolled: **124**



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## Medicare Part B Enrollment

- **198** current enrollees were terminated from Medicare B and enrolled in non-Medicare plans
- SERS contacts these individuals by phone and by mail and attempts to get them reinstated immediately after the termination
- Each year January thru March there is a General Enrollment Period for re-enrollment. SERS sends an enrollment reminder letter for prior-year terminations
- For every 12 months without Medicare Part B enrollment, a 10% premium penalty applies



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## Medicare Part B Enrollment

**Consider rule change to end SERS' health care eligibility for those who are eligible for Medicare Part B but fail to enroll.**

Examples:

- Require future enrollees turning 65 to enroll
- Require future enrollees whose Part B is terminated to re-enroll
- Require those who previously turned 65 to enroll
- Require those whose Part B was previously terminated to re-enroll

## Medicare Part B Enrollment

### **Requiring Medicare Part B for those eligible for Part B who failed to enroll or were terminated since:**

- Calendar year 2019 saves \$1.24 million
- Calendar year 2020 saves \$1.08 million
- Future years varies- 2021 as of April was estimated at \$127,000



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# Medicare Part B Enrollment

## Discussion



**School Employees Retirement System**  
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# Memo

To: SERS Board  
From: Christi Pepe  
CC: Richard Stensrud, Executive Director, Karen Roggenkamp, Deputy Director,  
Joe Marotta, General Counsel  
Date: June 4, 2021  
Re: 2022 Health Care Program: Premium and Benefit Changes

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This memorandum summarizes the proposed changes to the health care program for 2022.

## **Medicare Premiums and Benefits**

No changes to the Aetna Medicare Advantage rate are proposed. The Medicare prescription drug network will be transitioned to Express Scripts' Broad Performance Network.

## **Non-Medicare Premiums and Benefits**

1. The Aetna premium will increase consistent with the actuary's recommendation.
2. The AultCare rate will decrease by 1%.
3. The Wraparound HRA per-service limits will be eliminated for 2022; the total \$1800 annual limit will remain.

## **Dental Plan**

The SERS dental benefit is offered by Delta Dental. The program is fully supported by member premium and currently, as of June 2021, has 40,878 enrollees. The benefits are not changing for 2022. Dental premiums will be reduced to:

- \$28.25 per month for a single benefit recipient
- \$56.50 per month for a benefit recipient and one dependent
- \$84.98 per month for a benefit recipient and two or more dependents

**Vision Plan**

SERS vision coverage is offered by VSP. The program is also fully supported by member premium and as of June 2021 has 30,682 enrollees. Benefits are not changing for 2022. Vision premiums will be reduced to:

- \$6.17 for a single benefit recipient
- \$12.35 for a benefit recipient and one dependent
- \$14.49 for a benefit recipient and two or more dependents

**Approval of 2022 Health Care Premiums and Plan Design Changes**

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_  
to approve the 2022 health care premiums in Appendix A and the plan design changes  
in Appendix B. The premiums and plan design changes are effective January 1, 2022.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**APPENDIX A  
SERS HEALTH CARE 2022 PREMIUMS**

Fully Insured Plans		2021	2022		2021	2022		2021	2022				
<b>Aetna Medicare PPO Plan</b>	17.5%	\$64	\$64	<b>Spouse</b>			<b>Children</b>	\$149	\$149				
	20%	\$68	\$68										
	25%	\$76	\$76							80%	\$166	\$166	70%
	50%	\$117	\$117							90%	\$182	\$182	
	100%	\$198	\$198							100%	\$198	\$198	
<b>Aetna Medicare Part B Only</b>	17.5%	\$127	\$127	<b>Spouse</b>			<b>Children</b>	N/A	N/A				
	20%	\$140	\$140										
	25%	\$166	\$166							80%	\$454	\$454	70%
	50%	\$297	\$297							90%	\$506	\$506	
	100%	\$558	\$558							100%	\$558	\$558	
<b>Aultcare PPO</b>	17.5%	\$219	\$217	<b>Spouse</b>			<b>Children</b>	\$165	\$163				
	20%	\$245	\$243										
	25%	\$298	\$295							80%	\$706	\$700	70%
	50%	\$560	\$555							90%	\$790	\$783	
	100%	\$1,086	\$1,075							100%	\$874	\$866	

Self-Insured Plans		2021	2022		2021	2022		2021	2022				
<b>Aetna Choice POS II (non-Medicare)</b>	17.5%	\$280	\$296	<b>Spouse</b>			<b>Children</b>	\$280	\$296				
	20%	\$315	\$333										
	25%	\$385	\$407							80%	\$929	\$989	70%
	50%	\$734	\$780							90%	\$1,041	\$1,108	
	100%	\$1,433	\$1,524							100%	\$1,153	\$1,227	
<b>Aetna Traditional Choice (Medicare A)</b>	17.5%	\$166	\$166	<b>Spouse</b>			<b>Children</b>	\$557	\$557				
	20%	\$184	\$184										
	25%	\$222	\$222							80%	\$632	\$632	70%
	50%	\$408	\$408							90%	\$706	\$706	
	100%	\$781	\$781							100%	\$781	\$781	

	2021	2022
Aetna Choice POS II Administrative Fee	\$25.39	\$25.85
Healthscope (Wrap HRA)	\$14.00	\$14.00

**Appendix B**  
**2022 Plan Design Changes**

**Plan Design Changes**

Wraparound HRA per-service reimbursement limits will be eliminated for 2022; the total \$1800 annual limit will remain.

Medicare Part D Provider Network will transition effective 2022 to Express Scripts' "Medicare Broad Performance Network".

**Approval of 2022 Dental and Vision Premiums**

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_  
to approve the 2022 dental and vision premiums as described in Appendix A. The  
premiums are effective January 1, 2022.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**Appendix A**

<b>2022 Delta Dental Premium</b>	
<b>Benefit Recipient</b>	<b>\$28.25</b>
<b>Benefit Recipient and one dependent</b>	<b>\$56.50</b>
<b>Benefit Recipient and two or more dependents</b>	<b>\$84.98</b>

<b>2022 VSP Vision Premium</b>	
<b>Benefit Recipient</b>	<b>\$ 6.17</b>
<b>Benefit Recipient and one dependent</b>	<b>\$12.35</b>
<b>Benefit Recipient and two or more dependents</b>	<b>\$14.49</b>



# Memo

To: Retirement Board  
 From: Christi Pepe  
 CC: Richard Stensrud, Karen Roggenkamp, Joe Marotta  
 Date: June 4, 2021  
 Re: Health Care Premium Discount Program (Safety Net) for 2022

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## Summary

During the Health Care presentation, you will have before you a resolution to approve the 2022 Health Care Premium Discount Program (Safety Net).

## Background

SERS introduced the Safety Net in 2004 as a means of providing health care premium relief to lower income benefit recipients. The premium discount is based on household size and income. A 25% reduction of the health care premium has been granted to benefit recipients with household incomes at or less than 125% of the federal poverty level since its inception. The Safety Net Program is brought before the Board for approval annually.

The Health Care Premium Discount Program is offered only to applicants enrolled in a SERS Medicare plan and to “split families” in which only one spouse is enrolled in SERS’ Aetna Medicare plan.

Eligibility for the Health Care Premium Discount Program during the 2022 calendar year will be based upon the applicant’s qualifying household income for calendar year 2020. Medicare Part B reimbursement is excluded from the definition of qualifying household income. In accordance with discussion at the May 2021 Board meeting, enrollees determined eligible for the 2021 Premium Discount Program will be auto approved for 2022.

For the 2022 Plan year, if the applicant’s qualifying household income, less the total annual SERS medical premium for the applicant and covered dependents, is *less* than or equal to 150% of the 2021 federal (U.S. Department of Health and Human Services) poverty level for the household size, the applicant will be eligible to have 25% of his/her share of the SERS premium subsidized by SERS. In 2022, a family of two will qualify for a premium discount if their income is less than \$26,130.

SERS will again automatically enroll SERS health care participants into the Premium Discount Program who have been approved by Medicare for the non-institutionalized Part D low- income subsidy.

**2022 HEALTH CARE PREMIUM DISCOUNT PROGRAM (SAFETY NET)**

The 2022 Health Care Premium Discount Program is offered only to applicants enrolled a SERS Medicare Advantage plan and to “split families” in which only one spouse is enrolled in a SERS Medicare Advantage plan.

Eligibility for the Health Care Premium Discount Program during the 2022 calendar year will be based upon the applicant’s qualifying household income for calendar year 2020. Medicare Part B reimbursement is excluded from the definition of qualifying household income.

If the applicant’s qualifying household income, less the total annual SERS medical premium for the applicant and covered dependents, is *less* than or equal to 150% of the 2021 federal (U.S. Department of Health and Human Services) poverty level for the household size, the applicant will be eligible to have 25% of his/her share of the SERS premium subsidized by SERS.

If the applicant’s qualifying household income, less the total annual SERS medical premium for the applicant and covered dependents, is *more* than 150% of the 2021 federal poverty level for the household size, the applicant may request special consideration. Special consideration will be given to applicants providing written evidence satisfactory to SERS’ staff that a material change in the applicant’s financial circumstance subsequent to calendar year 2020 has caused the applicant’s qualifying household income, less the total annual SERS medical premium for the applicant and covered dependents, to become *less* than or equal to 150% of the 2021 federal poverty level for the household size.

Effective January 1, 2022, SERS health care participants approved by Medicare for the non-institutionalized Part D low-income subsidy program, which has similar household income eligibility requirements to the Premium Discount Program, will be automatically enrolled into the Premium Discount Program.

It was moved by \_\_\_\_\_ and seconded by \_\_\_\_\_ to approve the 2022 Health Care Premium Discount Program.

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

# Medicare Part B Eligibility and Enrollment Discussion

**FY2022**  
**Internal Audit Plan**  
**and**  
**Audit Committee**  
**Update**

**EXECUTIVE SESSION**

\_\_\_\_\_ moved and \_\_\_\_\_ seconded the motion that the Committee convene in Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee.

**IN EXECUTIVE SESSION AT \_\_\_\_\_ A.M./P.M.**

Upon roll call, the vote was as follows:

<b><u>ROLL CALL:</u></b>	<b><u>YEA</u></b>	<b><u>NAY</u></b>	<b><u>ABSTAIN</u></b>
Barbra Phillips	_____	_____	_____
Jeffrey DeLeone	_____	_____	_____
James Haller	_____	_____	_____
Matthew King	_____	_____	_____
Catherine Moss	_____	_____	_____
James Rossler	_____	_____	_____
Frank Weglarz	_____	_____	_____
Daniel Wilson	_____	_____	_____
Hugh Garside	_____	_____	_____

**RETURN TO OPEN SESSION AT \_\_\_\_\_ A.M. / P.M.**

**CHIEF AUDIT OFFICER COMPENSATION**

The SERS Audit Committee recommends that Chief Audit Officer Jeff Davis receive a \_\_\_% merit increase in salary effective the first pay date in Fiscal Year 2022. \_\_\_\_\_ moved to adopt the Committee's recommendation.

Upon roll call, the vote was as follows:

**ROLL CALL:**

**YEA**

**NAY**

**ABSTAIN**

**BOARD OFFICER ELECTION/APPOINT COMMITTEE CHAIRS**

**OFFICERS FOR SERS BOARD FY2022 (July 2021 to June 2022):**

As Chairperson of the SERS Board, I open the floor for nominations for **Chair**:

Nominated \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

As Chairperson of the SERS Board, I declare \_\_\_\_\_ CHAIRPERSON for the Fiscal Year 2022 (July 2021 to June 2022).

I open the floor for nominations for **Vice Chair**:

Nominated \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

As Chairperson of the SERS Board, I declare \_\_\_\_\_ VICE-CHAIRPERSON for the Fiscal Year 2022 (July 2021 to June 2022).

I open the floor for nominations for **Chair – Audit Committee**:

Nominated \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

As Chairperson of the SERS Board, I declare \_\_\_\_\_ CHAIRPERSON – AUDIT COMMITTEE for the Fiscal Year 2022 (July 2021 to June 2023).

I open the floor for nominations for Chair – **Compensation Committee**:

Nominated \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

Other Nominations \_\_\_\_\_ By: \_\_\_\_\_

As Chairperson of the SERS Board, I declare \_\_\_\_\_ CHAIRPERSON – COMPENSATION COMMITTEE for the Fiscal Year 2022 (July 2021 to June 2023).



**CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2021 - 2022**

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**REMAINING CALENDAR DATES FOR 2021**

**AUDIT COMMITTEE MEETINGS**

September 15, 2021 - 2:30 p.m. (Weds.)  
December 15, 2021 - 2:30 p.m. (Weds.)

**COMPENSATION COMMITTEE MEETINGS**

September 16, 2021 - 7:30 a.m. (Thurs.)  
December 16, 2021 - 7:30 a.m. (Thurs.)

**TECHNOLOGY COMMITTEE MEETINGS**

June 28, 2021 – 10:00 a.m. (Mon) (*Special Meeting*)

**BOARD MEETINGS**

July 15 and 16, 2021 (Thurs. and Fri.)  
September 16 and 17, 2021 (Thurs. and Fri.)  
October 21 and 22, 2021 (Thurs. and Fri.)  
November 18 and 19, 2021 (Thurs. and Fri.)  
December 16 and 17, 2021 (Thurs. and Fri.)

**\*\*NOTE: The above dates are *tentative*.**

**CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2022**

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**AUDIT COMMITTEE MEETINGS**

March 16, 2022 - 2:30 p.m. (Weds.)  
June 15, 2022 - 2:30 p.m. (Weds.)  
September 14, 2022 - 2:30 p.m. (Weds.)  
December 14, 2022 - 2:30 p.m. (Weds.)

**COMPENSATION COMMITTEE MEETINGS**

March 17, 2022 - 7:30 a.m. (Thurs.)  
June 16, 2022 - 7:30 a.m. (Thurs.)  
September 15, 2022 - 7:30 a.m. (Thurs.)  
December 15, 2022 - 7:30 a.m. (Thurs.)

**TECHNOLOGY COMMITTEE MEETINGS**

TBD

**BOARD MEETINGS**

February 17-18, 2022 – 8:30 a.m. (Thurs. and Fri.)  
March 17-18, 2022 – 8:30 a.m. (Thurs. and Fri.)  
April 21-22, 2022 – 8:30 a.m. (Thurs. and Fri.)  
May 19-20, 2022 – 8:30 a.m. (Thurs. and Fri.)  
June 16-17, 2022 – 8:30 a.m. (Thurs. and Fri.)  
July 21-22, 2022 – 8:30 a.m. (Thurs. and Fri.)  
September 15-16, 2022 – 8:30 a.m. (Thurs. and Fri.)  
October 20-21, 2022 – 8:30 a.m. (Thurs. and Fri.)  
November 17-18, 2022 – 8:30 a.m. (Thurs. and Fri.)  
December 15-16, 2022 – 8:30 a.m. (Thurs. and Fri.)

**\*\*NOTE: The above dates are *tentative*.**

**CONTINUED OR NEW BUSINESS**

**Board Information Requested**

**BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS**

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_
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9. \_\_\_\_\_  
\_\_\_\_\_
10. \_\_\_\_\_  
\_\_\_\_\_

**RECESS (R)**

\_\_\_\_\_ moved that the Board recess to reconvene on Friday, June 18, 2021 to continue the board meeting and discuss Pension Sustainability.

The meeting recessed at \_\_\_\_\_ a.m./p.m.

\_\_\_\_\_  
Hugh Garside, Jr.

\_\_\_\_\_  
Richard Stensrud, Secretary