



# SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

## BOARD MEETING HIGHLIGHTS

### SEPTEMBER 2024

#### Board Member Recognized for Service

Outgoing Employee-member Barbra Phillips was presented with a proclamation that summarized her accomplishments while serving on the Board as an employee representative for 19 years.

Phillips was a catalyst in stabilizing and strengthening SERS' health care fund, a firm believer in the power of collaboration, and a champion for regular and continuous Board education.

The Board thanked Phillips for her long and exemplary service to the retirement security of Ohio's nonteaching public school employees.



*Retiree-member Catherine Moss, left, and  
Outgoing Employee-member Barbra Phillips, right*

#### Vacant Employee-Member Seat Up for Special Election

Due to Barbra Phillips' resignation effective July 19, 2024, SERS will hold a special election to fill the vacant employee-member seat. All SERS members, other than disability recipients, are eligible to apply for this open seat.

Those interested in being chosen by the Board to fill the vacancy must submit a statement of interest and qualifications as well as a [Certification Form](#) to the Board no later than October 9, 2024.

The statement of interest and Certification Form can be emailed to [tbarbour@ohsers.org](mailto:tbarbour@ohsers.org) but the original Certification Form must be mailed to SERS.

Nominations for candidates will be held at the October 17, 2024, Board meeting and interviews of the nominated candidates will be held at the November 21, 2024, Board meeting.

The Board will choose the new member at the November meeting.

The term for this seat will end June 30, 2025.

---

#### RETIREMENT BOARD

FRANK A. WEGLARZ  
*Chair, Retiree-Member*

MATTHEW KING  
*Vice-Chair, Employee-Member*

JEFFREY T. DELEONE  
*Appointed Member*

JAMES HALLER  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

AIMEE RUSSELL  
*Employee-Member*

DANIEL L. WILSON  
*Appointed Member*

VACANT  
*Employee-Member*

**Board Appoints Compensation and Audit Committee Members**

To fill vacant Compensation and Audit Committee seats through June 30, 2025, Board Chair Matthew King appointed Catherine Moss to serve on the Compensation Committee, and Aimee Russell to serve on the Audit Committee, with James Rossler serving as Audit Committee Chair.

**Board Approves COLA for 2025**

At its September meeting, the Board unanimously voted to approve a 2.5% cost-of-living adjustment (COLA) increase for eligible benefit recipients in 2025.

By statute, SERS' COLA is based on the year-to-year change in the Consumer Price Index (June 2023 to June 2024) for Urban Wage Earners (CPI-W), with a floor of 0% and a cap of 2.5%.

This year's CPI-W was 2.9%. With input from SERS' actuary, Cavanaugh MacDonald, the Board approved the statutory maximum of 2.5%. According to Cavanaugh Macdonald, the 2.5% COLA amount will not materially impair SERS' funded status.

The 2025 COLA takes effect on the benefit anniversary of the recipient's effective date of retirement.

Benefit recipients whose benefit effective date is on or after April 1, 2018, must wait until the fourth anniversary of their allowance or benefit before receiving a COLA.

**Artificial Intelligence and Investing: A Board Education Session**

To give the full Board the opportunity to learn how AI is being used by asset managers, Michael Bishopp, managing director of Systematic Active Equity, Elaine Moore, director of Systematic Active Equity, and Donald Perault, managing director of Americas Institutional Business for BlackRock provided an overview of how AI has been incorporated into their operations.

Moore began the presentation by stating that there is more data available today than at any time in history and AI machine learning is a tool that provides more capacity to compute that information. Blackrock receives more than 6,000 broker reports every day and it is impossible for one staff member to read them, but AI can scan all of them and provide summaries of relevant data within minutes.

Bishopp said that BlackRock uses AI to translate reports received in different languages. There is relevant data from around world, in many languages, and not only can AI translate languages but it can also provide insight into the context of the reports. He also said that AI is saving the company travel costs because staff can engage in remote due diligence efforts on facilities around the world by accessing satellite and surveillance videos using their computers. Finally, he indicated that AI is useful at gathering real-time data used in government reports that provides results to BlackRock before those reports are even generated.

While BlackRock does use commercially available AI tools like ChatGPT, the group built their own proprietary large language model called BlackRock Systematic Model. Because their model is built specifically for their investment operations, they get better results in predicting market reactions to earnings data and other financial and geo-political events.

While AI excels at computing data, it does not perform logical deduction well. Bishopp stated that he doesn't believe that AI will replace human jobs in their industry in the near future because it is critical that humans constantly monitor AI-generated data to ensure it is accurate.

BlackRock manages approximately \$516 million in assets for SERS in global equities, fixed income, and real estate.

### **Overlay Program Review**

Investment staff gave the Board an overview of SERS' overlay program.

The overlay program does not have a specific asset allocation but is run as an active long/short strategy with a low net asset exposure. Its performance objective is to add 10 to 20 basis points to Total Fund performance over three- and five-year periods.

The program consists of two sub-programs: active currency and tactical asset allocation (TAA). Both programs currently utilize one manager each.

The active currency program aims to add value and reduce the currency risk of the Total Fund. The program is implemented through long and short forward currency contracts in designated currencies on an unfunded basis.

The active currency program produced \$16 million in gains for the period ending July 31, 2024, and \$79 million in gains since inception.

The TAA program invests in a strategy which actively allocates exposures across U.S. fixed income, U.S. equity, and non-U.S. equity markets by going long or short based on macroeconomic and market systematic signals.

As of September 4, 2024, the TAA program experienced a drawdown of \$77 million. Prior to this, the strategy had cumulative gains of \$68 million.

Since inception, the cumulative loss is \$9 million.

The TAA program's manager is confident that a correction in the equity market valuations would reduce the magnitude of this drawdown.

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

Joanna Bewick and Chris Tessman of Wilshire Associates provided the Board with an economic update and a quarterly (April-June 2024) review of SERS' portfolio.

At this time, Bewick said that Wilshire is forecasting lower expectations for equity returns over the next few years with returns coming in lower than core bonds. Stock valuations are currently high which dampens future returns.

While the stock market pulled back in August, the Dow is back near record highs again in September. The 50 basis point cut in interest rates by the Federal Reserve (Fed) last week is good news for the market. Already, the market is pricing in additional 25 basis point cuts by the Fed in November and December as well. Employment and economic growth are now the focus of the Fed.

The yield curve, which is the difference between the yields of the two- and ten-year U.S. Treasuries, became "uninverted" last quarter. While the inverted yield curve was historically an indicator of a coming recession, the U.S. has avoided that this time so far.

Even though the yield curve has returned to its normal state, recessionary pressures still remain.

Finally, Bewick noted that volatility is to be expected in the market along with sustained recovery; however, investment performance worldwide will continue to be turbulent.

When looking at SERS' portfolio performance over the quarter, Tessman noted that SERS returned 1.9% gross of fees during the quarter which was 30 basis points above the benchmark. Notably, he also said that over the 1-, 3-, 5-, and 10-year periods SERS' portfolio outperformed the benchmark in all periods, which includes both up and down markets.

Compared to Wilshire's universe of public pension funds, SERS' returns compare favorably. With the exception of the one-year gross of fees return of 10.46% which ranks in the 59th percentile, the 3-, 5-, and 10-year returns all rank in the top 5th percentile. SERS has a lower allocation to public equities so SERS' returns will be good but less than other funds that have more equity exposure in times when the U.S. stock market realizes big gains.

This was the case last year.

One area where SERS' portfolio leads Wilshire's universe is in risk/return. SERS' portfolio has higher returns per unit of risk than all other funds.

With the exception of real estate (-1.17) and cash equivalents (-3.04), all of SERS' portfolios registered net of fees gains for the quarter. Private equity at 3.52 and global private credit at 3.46 led the way. Global equities registered a solid 2.62 return and the fixed income return of 0.32 was top quartile.

### Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$18.98 billion	\$19.14 billion	▲ \$160 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 1.06%	▲ 6.65%	▲ 5.63%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▼ 0.05%	▲ 0.40%	▲ 1.34%

### Investment Committee Approves Two Investments

The SERS Staff Investment Committee approved a \$100 million commitment to an opportunistic ETF trading account, as well as a \$75 million commitment, plus a \$25 million side-car co-investment, to TPG Capital Rise Climate II, a clean energy strategy within the private equity portfolio.

These investments will be funded from cash reserves.

### New Rules Approved

The Board approved the filing of a new rule on the definition of compensation with the Joint Committee on Agency Rule Review (JCARR).

The definition of compensation for SERS has been modernized to align with current compensation practices in Ohio's public schools.

It has an effective date of July 1, 2025.

To see what types of compensation will and will not be counted as pensionable compensation, see page 209 of the [July 19, 2024 Board materials](#).

Additionally, the Board approved the filing of 3309-1-51, a new rule regarding the recovery of overpayments.

This rule addresses situations where new or revised information requires a correction in the calculation of a benefit payment and specifies that in the event a recalculation results in an increased payment, SERS will provide the recipient a lump sum payment to make up for any underpayment(s) before the recalculation.

In the event a recalculation results in downward adjustment of the benefit payment, the rule specifies that SERS will look to recoup the amount of the cumulative underpaid amount but includes protections to prevent undue hardship when the recipient was not the source of the incorrect information that caused an overpayment. In those cases, repayments will be limited to two years back from the time the error was discovered, with the first \$200 waived.

The Board also approved filing with JCARR amendments to a health care rule, 3309-1-35, and amendments to rule 3309-1-41, a rule that pertains to appeals for denial and termination of disability benefits.

Additionally, the Board gave approval to final file new rule 3303-1-68 on guardianship.

### **Executive Director's Update**

#### ***Director Stensrud Recognizes Outgoing SERO Executive Director***

Director Richard Stensrud congratulated School Employee Retirees of Ohio (SERO) Executive Director Valerie Rodgers on her upcoming retirement. In addition, he thanked Rodgers for consistently partnering with SERS to educate the System's members and retirees on issues involving their retirement.

Jim Janosik will assume the role of SERO's executive director effective October 1, 2024.

#### ***Board Allocates 0% to Health Care Fund***

With the Health Care Fund in solid standing, the Board elected not to allocate any of the 14.00% employer pension contributions to that fund. Under the terms of SERS' funding policy, the Board could have contributed up to 0.50% of employer contributions to the Health Care Fund.

#### ***ORSC Update***

The Ohio Retirement Study Council (ORSC) did not hold a regular meeting in August.

At its September meeting, former Rep. Gary Scherer was appointed to the Council.

Every 10 years, Ohio law requires SERS to participate in an actuarial audit to confirm that SERS' actuarial calculations are accurate and reliable.

At this month's meeting, the ORSC engaged PTA/KMS/Bolton to perform SERS' audit.

The actuarial firm will provide monthly updates to the ORSC, with an estimated delivery date of the final report in December. SERS independently conducted a similar study in 2022 when it rehired Cavanaugh Macdonald as its actuary.

Finally, SERS presented its annual disability and internal audit reports to the ORSC.

### ***State Legislation***

SERS continues to be proactive in terms of engaging with legislators.

Staff recently met with Chair Mark Romanchuk, Rep. Adam Bird, and Rep. Phil Plummer of the ORSC, as well as Chair Monica Robb Blasdel and Rep. Jack Daniels of the House Pensions Committee, to brief them on SERS' similarities and differences to other Ohio retirement systems and remind them of SERS' commitment to engagement, transparency, accountability, and sustainability.

### ***WEP/GPO Update***

Members of Congress recently filed a discharge petition on a bill to repeal Social Security's Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

Since the discharge petition recently gained more than a majority (218 signatures), the House will be required to hold a floor vote on H.R. 82, the Social Security Fairness Act. If enacted, the bill would eliminate the WEP and GPO.

### ***Staff Gives Back to Charity***

SERS once again partnered with Volunteers of America to participate in the Operation Backpack program, which aids students who our members serve.

Backpacks filled with school supplies were distributed to homeless and at-risk children throughout the Greater Columbus area.

This year, staff donated 131 backpacks to the program.

### **Monthly Retirement and Survivor Benefit Transactions**

For September, the SERS Board approved 704 active members for service retirements, and 23 survivor benefits for spouses and/or dependents.

### **October Meeting Dates**

The next Board meeting will take place Thursday, October 17, and Friday, October 18, at 8:30 a.m. (if necessary).