



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

NOVEMBER 2017

Board Member Takes Oath

Hugh W. Garside Jr. took his oath of office at this month's Board meeting. He was chosen by the Board last month to fill the employee-member seat left vacant by Dee Faragher, who resigned in June.

Garside is the treasurer and chief fiscal officer at South-Western City Schools in Columbus.

He earned a B.S. in accounting from Heidelberg University and an MBA from the Fisher College of Business at The Ohio State University.

Garside's term runs through June 30, 2019.

Actuary Presents FY2017 Analysis to Board

SERS' actuary, Cavanaugh Macdonald Consulting, LLC, presented the results of the FY2017 pension and health care actuarial valuations to the Board.

In FY2017, SERS' funded level increased from 66.67% to 70.01%, and the amortization period (the amount of time it takes to pay off all pension liabilities) decreased from 28 years to 27 years. SERS' unfunded liabilities decreased by \$998.5 million, due to the passage of HB49, as well as action by the Board to suspend COLAs for 2018, 2019, and 2020. HB49 indexes the Cost-of-Living Adjustment (COLA) to the percentage increase in the CPI-W not greater than 2.5% with a floor of 0%, beginning January 1, 2018.

Because the funded ratio is greater than 70% but less than 80%, the Board accepted the actuary's recommendation that the health care fund receive 0.50% of the 14% employer contribution. If the health care fund receives all of the 0.50% in addition to the 1.50% surcharge in future years, and all other actuarial assumptions are met, the health care fund's solvency will increase from eight years to 16 years, remaining solvent until 2033.

At the recommendation of SERS' actuary, the Board set the minimum compensation amount of \$21,600 for determination of the FY2019 health care surcharge.

Aksia to Continue as SERS' Hedge Fund Consultant

The SERS Board concurred with staff's decision to retain Aksia as SERS' hedge fund consultant.

Aksia was one of six vendors to respond to SERS' hedge fund consultant request for proposal in June and was chosen from among two finalists. Representatives from finalists Aksia and Albourne Partners made presentations to the Board and answered questions prior to the Board affirming staff's decision. Aksia's focus on hedge funds, private credit and liquid alternatives, and its assistance in reducing fees during the last five years were major factors in the decision to continue the partnership.

Aksia has served as SERS' hedge fund consultant since August 2007, when SERS first began the process of investing in hedge funds.

The contract will cover the next five years.

Multi-Asset Strategies Portfolio Review

Investment staff presented an annual review of the multi-asset strategies (MAS) portfolio focusing on the portfolio's role, performance, and FY2018 goals.

RETIREMENT BOARD

DANIEL L. WILSON
Chair, Appointed Member

JAMES A. ROSSLER, JR.
Vice-Chair, Appointed Member

JEFFREY T. DELEONE
Appointed Member

HUGH W. GARSIDE, JR.
Employee-Member

JAMES HALLER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

CATHERINE D. MOSS
Retiree-Member

BARBRA M. PHILLIPS
Employee-Member

BEVERLY A. WOOLRIDGE
Retiree-Member

The primary role of the MAS portfolio is to generate absolute returns with managed volatility and provide diversification to the Total Fund.

The long-term return target for MAS is to outperform the three-month U.S. Treasury bill, plus 4.5% net of fees. The custom benchmark is the HFRI Fund of Funds Index, plus 1%.

As of September 30, the MAS portfolio was 8.9% of the Total Fund, below the 10% target. Over the one-year period, the MAS portfolio returned 8.72% net of fees, which was 1.19% above the benchmark.

In FY2018, staff will continue to rebalance the MAS portfolio to reduce volatility. Staff will reduce allocations to equity/short and event driven managers, and increase exposure to relative value, tactical trading, and multi-strategy managers. Staff will focus on increasing the multi-strategy sector the most because it will reduce fees, increase liquidity, and increase cross asset exposure.

Currently, the multi-strategy sector is 8% of the MAS portfolio, and the goal is to increase that exposure to 18% by the end of the fiscal year. Staff expects to add 2-3 managers in the multi-strategy sector with the goal of diversifying the strategy types.

The total MAS portfolio will move closer to the 10% target as new managers are hired.

Investments Quarterly Report

Felicia Bennett of Wilshire Associates, provided the Board with an update of current investment conditions in the U.S., and SERS' quarterly investment results.

The U.S. equity market gained 4.6% during the third quarter. Solid job growth as well as strong earnings reports contributed to the increase. Reported earnings were in the double digits this quarter. The 10-year U.S. Treasury yield increased slightly to 2.33%. Non-U.S. equity markets had a strong quarter in both developed and emerging markets. Emerging markets continue to lead all non-U.S. equities.

SERS' total fund returned 4.0% net of fees during the quarter, which is above the policy benchmark of 3.4%. All portfolios, except multi-asset strategies, exceeded their benchmarks.

SERS Commits to Private Equity Investments

The Staff Investment Committee approved three commitments within the System's private equity portfolio.

The committee approved a \$25 million commitment to Primus VIII, a middle market growth equity fund, and \$50 million commitments to NGP Fund XII, an energy strategy fund, and Francisco Partners V, a technology-focused buyout strategy fund.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
August 31	September 30	Difference
\$13.77 billion	\$13.97 billion	▲ \$200 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 4.01%	▲ 12.65%	▲ 7.73%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.59%	▲ 1.92%	▲ 1.00%

Health Care Update

Anne Jewel, director of Health Care Services, presented a review of the experience of the health care program over the past fiscal year. In particular, she examined the performance of the Marketplace Wraparound Plan and the Early Medicare Program, both of which provide less expensive coverage options to retirees at the same time saving money for the health care fund. Compared with the group Non-Medicare Plan cost, the Marketplace Wraparound Plan is anticipated to cost far less per member per month. In FY2017, Aetna Medicare spending decreased from \$35 million to \$19 million; Medicare prescription spending decreased from \$74 million to \$65 million; and the rate for generic prescription fills reached 92.3%.

Also in FY2017, Non-Medicare medical costs remained flat at \$60 million; Non-Medicare prescription spending increased from \$13 million to \$14 million; and the rate for generic prescription fills reached 89.9%. Jewel also discussed the potential impact of cumulative savings for retirees due to the Marketplace Wraparound Plan and the Early Medicare Program on the Non-Medicare group expenses in the next several years.

Future Planning for Health Care

In addition to the FY2017 review, Nicole Bianco, senior consultant, from independent consultant Willis Towers Watson offered their analysis of the current state of the SERS health care program. Along with their current overview, Willis Towers Watson presented a strategic multi-year action plan and priority list. These included a recommendation that a contract be negotiated with Aetna for medical benefits; a recommendation that a RFP be issued for the pharmacy program; and a recommendation that SERS continue its exploration of other smaller changes to the program.

Executive Director's Update***Federal Tax Reform***

SERS continues to monitor tax reform legislation that may affect the System. Staff has been leading the effort again this month with a letter to the Ohio delegation opposing mandatory Rothification. In addition, SERS was in contact with the delegation on legislation that could subject SERS and other tax-exempt public retirement systems to the Unrelated Business Income Tax, or UBIT, on system investments.

COLA Delay Legislation

SERS continues to seek legislation that would permit the Board to establish a delayed COLA start date for future retirees. It is anticipated that the legislation would be effective during the first quarter of 2018.

Monthly Retirement and Survivor Benefit Transactions

For November, the SERS Board approved 793 active members for service retirements, and 26 survivor benefits for spouses and/or dependents.

December Meeting Dates

The next Board meeting will take place Thursday, December 21, and Friday, December 22 (if necessary) at 8:30 a.m.