



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

SEPTEMBER 2018

Multi-Asset Strategies Portfolio Discussion

In response to a Board request regarding the performance and role of the multi-asset strategies portfolio, Farouki Majeed, SERS' chief investment officer, and David Lindberg and Joanna Bewick of Wilshire Associates, SERS' investment consultant, in collaboration with Aksia, SERS' hedge fund consultant, presented a review of the multi-asset strategies (MAS) portfolio.

The current role of the MAS portfolio is to generate consistent returns with managed volatility and beta (a measure of volatility) to global equities, resulting in risk diversification and downside protection to the Total Fund.

Hedge funds are an investment strategy that utilize other asset classes to generate excess returns by active strategies, including short selling and hedging. SERS' allocation to hedge funds was reduced from 15% to 10% in 2012 with an amended role to be a low beta portfolio providing risk diversification to the Total Fund. The manager count also was reduced at this stage, resulting in lower fees.

Along with changes to the portfolio role and strategy, the hedge fund portfolio has been renamed "multi-asset strategies." Non-traditional hedge fund strategies, which offer multi-asset class exposure with active asset allocation and risk management, are included in the portfolio.

Since 2012, SERS' investment staff has worked with existing MAS managers to negotiate fee reductions.

In 2012, the average MAS portfolio management fee was 1.70%, with a 20% performance fee. In 2015, the management fee dropped to 1.40%, and the performance fee dropped to 17.4%. At fiscal year-end 2018, the management had decreased even further to 1.39%, with a 16.5% performance fee.

Although the MAS portfolio has experienced lower returns than the benchmark, it has a higher return-to-risk ratio, and has fulfilled its new role as a Total Fund risk diversifier with higher returns than fixed income. Staff plans to continue to reduce MAS portfolio fees and add new strategies that offer hedge fund characteristics with better liquidity, transparency, and less complexity than traditional hedge funds.

Investments Quarterly Report

David Lindberg and Joanna Bewick of Wilshire Associates provided the Board with an update of current investment conditions in the U.S., and SERS' fourth quarter investment results for FY2018.

The U.S. stock market was up 3.8% for the quarter. While the stock market performed well more days than not, the average daily losses in 2018 were considerable.

Bewick noted that the gross domestic product (GDP) rose 4.2% in SERS' fourth quarter, which was the best performance since the early 2000s.

The Federal Open Market Committee increased its overnight rate by 25 basis points in June to a range of 1.75% to 2.00%. A flattening yield curve could be an indication that investors are expecting a slowdown in the near future.

RETIREMENT BOARD

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Chair, Appointed Member

CATHERINE D. MOSS
Vice-Chair, Retiree-Member

JEFFREY T. DELEONE
Appointed Member

HUGH W. GARSIDE, JR.
Employee-Member

JAMES HALLER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

BARBRA M. PHILLIPS
Employee-Member

DANIEL L. WILSON
Appointed Member

BEVERLY A. WOOLRIDGE
Retiree-Member

This quarter, SERS' Total Fund gross-of-fees gain of 0.89% ranked 67th in the nation out of 127 funds. Over the one year, SERS' 9.86% gain ranked 18th nationally, its three-year return of 8.49% ranked 9th, and its five-year return of 9.52% ranked 11th.

SERS Commits to Multi-Asset Strategies Investment

The SERS Staff Investment Committee approved a \$30 million commitment to Schroder Diversified Growth fund, a diversified growth strategy within SERS' multi-asset strategies portfolio.

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$14.29 billion	\$14.45 billion	▲ \$160 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 1.37%	▲ 2.74%	▲ 8.13%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.04%	▲ 0.40%	▲ 0.95%

Board Approved Filing of Proposed Amended Rules

The Board approved final filing of amendments to three administrative rules.

The first amended rule gives SERS the discretion to suspend benefit payments if mail is returned to SERS as undeliverable, and the benefit recipient has not provided an updated address to SERS within 30 days.

The second amended rule provides that:

1. Effective January 1, 2019, SERS will no longer accept pre-tax, picked-up payroll deduction plans for the purchase of service credit due to the Internal Revenue Service's revised position on such programs; and
2. On and after January 1, 2019, any new payroll deduction purchase plans must be on a post-tax basis.

Finally, a third amended rule clarifies the circumstances under which a member is considered to hold multiple positions at the time of retirement.

Executive Director's Update

Funding Sustainability Update

Qualified facilitators will be selected soon, with pension funding and health care funding sustainability discussions beginning in late 2018.

In addition, SERS is approaching the completion of its five-year strategic plan, created in FY2015. The strategic plan defines current and future goals that drive the organization's actions.

SERS staff and the Board will begin discussions regarding the next strategic plan in the near future.

"Get to Know SERS" on Social Media

In August, SERS staff began a "Get to Know SERS" campaign to highlight some important accomplishments that demonstrates staff's commitment to members, retirees, and employers, and to keeping SERS on solid financial ground for years to come.

The infographics can be viewed on [Facebook](#), [Twitter](#), and [SERS' website](#).

Board Election Materials Now Available

Two employee-member seats and one retiree-member seat are up for election with the terms beginning July 1, 2019, and ending June 30, 2023. Any member of SERS, other than a disability benefit recipient, is eligible to run for an employee-member seat, and any SERS disability or service retiree is eligible to run for a retiree-member seat.

Visit [SERS' website](#) for more information, and to download the required board election materials.

Compensation Rule Discussion

Joe Marotta, interim deputy executive director and general counsel, and Susan Russell, associate general counsel, presented a review of SERS' definition of compensation as defined in the Ohio Revised Code and Ohio Administrative Code.

Staff and the Board discussed the types of compensation that are subject to SERS contributions. SERS' statute gives the Board discretion to determine whether forms of earnings not addressed in the statutory definition should be included in compensation.

Staff and the Board will continue to explore this topic at future meetings.

Monthly Retirement and Survivor Benefit Transactions

For September, the SERS Board approved 722 active members for service retirements, and 60 survivor benefits for spouses and/or dependents.

October Meeting Dates

The next Board meeting will take place Thursday, October 18, and if necessary Friday, October 19, at 8:30 a.m.