Actuary Presents FY2018 Analysis to Board
SERS' actuary, Cavanaugh Macdonald Consulting, LLC, presented the results of the FY2018 pension and health care actuarial valuations to the Board.

In FY2018, SERS' funded level increased from 70.01% to 70.07%, and the amortization period (the amount of time it takes to pay off all pension liabilities) decreased from 27 years to 26 years.

Although investment returns exceeded the 7.5% assumed rate of return, prior losses of $207.8 million were recognized in FY2018 under SERS' asset smoothing methodology, which recognizes investment gains and losses equally over a four-year period. In addition, there were actuarial experience losses due to a smaller than expected number of members terminating employment and withdrawing their contributions. The cost-of-living adjustment (COLA) changes implemented earlier this year helped to offset those losses, resulting in a slight gain in the funded ratio.

Because the funded ratio of the pension fund is greater than 70% but less than 80%, the System's funding policy allows the Board to put up to 0.50% of the 14% employer contribution toward health care, and the Board voted to make that contribution. Following that transfer, the health care fund's solvency will increase from 16 to 17 years, remaining solvent until 2035.

At the recommendation of SERS' actuary, the Board set the minimum compensation amount of $19,600 for determination of the FY2020 health care surcharge.

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 FY2019 goals.

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 8.4% of the Total Fund, below the 10% target but within the 5%-15% range. Over the one-year period, the MAS portfolio returned 2.79% net of fees, 1.29% below the benchmark.

Since November 2017, the manager count within the MAS portfolio has increased from 19 to 22, while portfolio volatility has decreased from 3.2% to 2.7%.

Within the last year, the multi-strategy sector allocation within the portfolio has increased from 8% to 19%, as the role of the sector is expanding. Staff is adding two to three managers with the goal of diversifying strategy types. Management fees within the sector have decreased from 1.40% to 1.26%, and incentive fees from 17.4% to 14.8%. In addition, three-month liquidity within the sector has increased by 11%.
In FY2019, staff will continue to complete the implementation of new MAS managers; evaluate the existing MAS benchmark versus alternatives; perform a sector analysis with SERS’ hedge fund consultant to ensure proper portfolio alignment with the benchmark; and monitor the MAS portfolio ensuring appropriate risk and return.

Investments Quarterly Report
David Lindberg of Wilshire Associates provided the Board with an update of current investment conditions in the U.S. and SERS’ FY2019 first quarter investment results.

The U.S. stock market was up 7.3% for the quarter, which was the strongest quarter in almost five years. Economic data continued to be strong as gross domestic product growth registered 3.5%. The economic conditions reacted favorably to the United States’ renegotiated trade deal with the European Commission and a new deal with South Korea. Even though the country’s trade deficit shrunk during the previous quarter, it ballooned again this quarter due to effects of China discontinuing purchases of U.S. soybeans in retaliation for U.S. tariffs.

This quarter, SERS’ Total Fund gross-of-fees gain of 3.15% ranked 35th in the nation out of 127 funds. Over the one year, SERS’ 8.80% gain ranked 29th nationally, its three-year return of 11.04% ranked 15th, and its five-year return of 9.04% ranked 13th.

Total Fund Update

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<th>TOTAL FUND BALANCE</th>
<th>August 31</th>
<th>September 30</th>
<th>Difference</th>
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<tr>
<th>TOTAL FUND RETURN (net of fees)</th>
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<th>Calendar Year</th>
<th>3-Year</th>
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<th>TOTAL FUND RETURN vs. BENCHMARK</th>
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<th>Calendar Year</th>
<th>3-Year</th>
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Executive Director’s Update

Strategic Planning Update
Mo Wright of RAMA Consulting, the consulting firm selected to facilitate strategic planning exercises that will assist the SERS staff in the creation of an operational plan to guide the organization for the next three-to-five years, presented an overview of the process, as well as a timeline.

By combining employee engagement with community and stakeholder engagement, RAMA hopes to help staff develop sustainable solutions for the organization.

Representatives of RAMA will be scheduling interviews with Board members, conducting a staff survey, reaching out to advocacy group leaders, and coordinating a Leadership Team Retreat. They also will be leading a Staff Tactical Planning Workshop as well as a Leadership Team Planning Workshop.

Employer Relations Panel
SERS’ Employer Services Outreach hosted its first Employer Relations Panel at the SERS headquarters. Participation was voluntary and included more than a dozen employers from various districts across the state. The panel plans to meet twice a year to share information and opinions, and to address any concerns. In addition to discussing current issues involving employer responsibilities, including the reporting process, compensation, membership, contract companies, Service Credit Purchase (SCP), penalties, eSERS, and upcoming training sessions, printed resources also were made available.
Compensation Rule Discussion
In response to discussions occurring at the September Board Meeting, members of the SERS Legal staff provided a presentation regarding evolving employer payment practices and possible amendments to the compensation rule. Further discussion also focused on a review of the definition of compensation along with examples illustrating how compensation is structured differently in varying districts.

With feedback from the Board on how to align the definition of compensation with compensation trends, more discussions concerning the matter will continue at the December Board Meeting.

Information Security Training
Staff participated in an organization-wide information security training. Sessions featured a “Who Wants to be a Millionaire” game show learning format, which was both educational and entertaining.

Charity Efforts
Staff donated a total of 76 pounds of candy, as well as dental supplies and homemade cards to the troops through Operation Gratitude. Staff also participated in its annual United Way campaign, through which $16,603 was raised for United Way agencies.

Monthly Retirement and Survivor Benefit Transactions
For November, the SERS Board approved 287 active members for service retirements, and 22 survivor benefits for spouses and/or dependents.

December Meeting Dates
The next Board meeting will take place Thursday, December 20, and if necessary Friday, December 21, at 8:30 a.m.