



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **DECEMBER 2018**

#### **Secretary of State Certifies Board Member Candidate**

On December 17, the Secretary of State certified that current Board member Hugh Garside submitted sufficient petitions to be certified as a qualified candidate for one of the two four-year employee member seat terms that begin July 1, 2019. Under Ohio law, because only one candidate qualified for the two open employee member seats, and no candidate qualified for the open retiree member seat, no election will be held. Because no one qualified for the other open employee member seat or the open retiree member seat, the Board will declare those seats open in July and begin the process of choosing temporary replacements.

#### **External Auditor Presents FY2018 Analysis**

David Andrews, engagement partner with SERS' independent external auditor, RSM US LLP, presented the FY2018 Independent Auditor's Report to the Board. The results of the RSM audit produced an unmodified opinion, which means that SERS' financial statements are presented, in all material respects, in accordance with applicable financial reporting framework.

The auditors examined controls governing investment transactions, assessed contributions and benefit payments for compliance with SERS' policies, and confirmed the relevance of actuarial assumptions. There were no material findings in any of the audited areas.

As the audit progresses, staff works to assemble the information contained in the *Comprehensive Annual Financial Report* (CAFR), which summarizes SERS' financial health, investment performance, and accomplishments of the last fiscal year (July 1-June 30). The CAFR also provides detailed financial statements, statistical information, and in-depth explanations of the numbers.

An electronic version of the CAFR is available on our [website](#).

#### **Global Equities Annual Portfolio Review**

Investment staff gave the Board an overview of SERS' global equities portfolio.

The strategic role for the portfolio is to earn a return premium over treasury bonds by assuming ownership risk in publicly listed companies. The allocation target is 45%, with a range of 35% to 55%. The allocation within the global equities portfolio is 54% to the US equity portfolio, and 46% to the non-US equity portfolio, with a range of 40-60% each. Currently, SERS' global equities portfolio represents 45.3% of the total fund.

The performance objective for the US equity portfolio is to exceed the Russell 3000 Index benchmark over three-year rolling periods by 20 basis points.

As of September 30, 2018, the US equity portfolio exhibited the following characteristics: by strategy, US equities were 50% actively managed, 43% passively managed, and nearly 7% managed by enhanced index; by exposure, US equities were 61% core, 25% value, and 13% growth; and by market capitalization, US equities were 63% large cap, 30% medium cap, and 8% small cap.

The performance objective for the non-US equity portfolio is to achieve the return of 50 basis points over the MSCI ACWI ex-US Index benchmark over three-year rolling periods.

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#### RETIREMENT BOARD

JAMES A. ROSSLER, JR.  
*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*

As of September 30, 2018, the non-US equity portfolio exhibited the following characteristics: by strategy, non-US equities were 72% actively managed and 28% passively managed; by exposure, non-US equities were 56% core, 27% growth, and 17% value; and by market capitalization, non-US equities were 45% large cap, 39% medium cap, and 16% small cap.

Staff reported that the US equity portfolio is currently underperforming its benchmark, while non-US equity is outperforming its benchmark. On a combined basis, global equity is outperforming its global benchmark.

Staff objectives for FY2019 include monitoring the risk/return profile in both the US and non-US equity portfolios, rebalancing as appropriate, and reviewing the non-US portfolio and its benchmark.

### Board Approves Temporary Asset Allocation Change

The SERS Board approved a temporary increase in the range for the cash portfolio. Currently, the target is 1% with a range of 0% to 5%. The target will remain at 1%, while the range is now 0% to 10%. This is intended provide an option for risk management during a volatile market.

The Board will reassess this change in December 2019.

### SERS Commits to Two Investments

The SERS Staff Investment Committee approved one commitment within the System's opportunistic portfolio and another in the private equity portfolio. SERS made a \$50 million opportunistic commitment to GoldenTree Distressed III, a distressed investments strategy fund, and a \$50 million private equity commitment to Freeman Spogli Equity Partners VIII, a middle market buyout fund.

These investments will be funded from cash reserves.

### Total Fund Update

TOTAL FUND BALANCE		
September 30	October 31	Difference
\$14.56 billion	\$13.90 billion	▼ \$660 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 1.25%	▲ 0.09%	▲ 7.50%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.37%	▲ 0.66%	▲ 1.05%

### Board Approves Filing of Amended Rules

The Board approved a staff request to file amended rules which clarify the circumstances under which an individual is considered to be in default for failure to pay health care or supplemental health care (dental or vision) premiums.

Coverage may be cancelled for default when an individual's cumulative amount in arrears totals three months of premiums. The individual must repay all amounts in default before re-enrolling in SERS' health care coverage.

In addition, the amendment clarifies that participants may enroll in dental or vision coverage within 31 days of involuntary termination of another dental or vision plan.

The Board and SERS Legal staff continued to discuss possible amendments to the compensation rule. Discussions will resume in the spring.

### Executive Director's Update

**Stakeholders' Meeting Planned**

A SERS Advocacy Group Roundtable will be held from 10 a.m. to noon on Friday, January 18, 2019, in the O'Keefe Conference Center of SERS' headquarters, located at 300 E. Broad St., Columbus, 43215. Members of the SERS staff will give presentations on key issues affecting pensions and health care, and strategic planning will be discussed.

**SERS' Culture****Cristo Rey Coat Drive**

Staff collected 53 new and gently-used coats and two full boxes of gloves, hats, and scarves to benefit students of Cristo Rey High School and other community agencies.

**Salvation Army Angel Tree Toy Drive**

Each year, staff participates in this annual toy drive, which provides toys to children in need.

This year, the Salvation Army sent SERS 75 gift tags, and all were taken by SERS staff members and replaced with toys for girls and boys throughout the central Ohio area.

**Annual IT Bake-off 'Cookie Extravaganza for Toys for Tots'**

Staff baked, judged, bought, donated, and ate dozens of cookies in order to raise \$711 for Toys for Tots.

**Year-End Federal Update**

Carol Nolan Drake, SERS' federal government relations consultant, briefed the Board on health care and pension issues legislators tackled in 2018, and issues to watch for in the coming year.

**Significant Issues Addressed in 2018 Include:**

1. SERS was able to garner support from Ohio legislators and other public pension retirement systems around the country for extending the SERS Wraparound Plan beyond December 2019.

However, the Centers for Medicare and Medicaid Services (CMS) is still deliberating and barred from releasing any information until the rules are promulgated.

2. At the end of October, CMS issued a proposed rule on excepted benefit Health Reimbursement Accounts (HRAs). The proposed rules also set forth conditions under which certain HRAs would be recognized as limited excepted benefits. Comments are due by December 28. SERS indicated that it will comment on the proposed regulations. While an excepted benefit HRA, under the proposed regulations, would provide reimbursement for premium expenses, the early review of the language shows that it does not go far enough. The regulations creating Limited Wraparound Plans gave SERS much more flexibility to scale its Wraparound Plan and include reimbursement for premiums and several other health care expenses, including prescription drugs and hearing aids. We reached out to the stakeholder organizations that supported the SERS Wraparound Plan earlier in 2018 and asked them to provide comment letters. Thus far, we were informed that ABC, AFL-CIO, and AFSMCE will be commenting.

**What's in Store for 2019?**

1. H.R. 1205, the "Social Security Fairness Act of 2017," which would repeal the GPO and WEP, has not advanced as of this date. It may be introduced in the next session, along with Senator Sherrod Brown's (D-OH) bill, S. 915, the Senate version of the "Social Security Fairness Act of 2017." With the switchover of the House to Democratic control, Rep. Richard Neal (D-MA) is expected to become the Chairman of Ways and Means. The current Chairman, Kevin Brady (R-TX) is hopeful that the bipartisan bill, H.R. 6933, the "Equal Treatment of Public Servants Act of 2018," which replaces the WEP with a formula equalizing benefits for certain individuals with non-covered employment, will be passed before the session ends. If the bill is not added to another vehicle, it may be introduced in the next session. The Committee is still accepting feedback on the latest version.

2. SERS will continue to fight for health care. We will continue lobbying to extend the wraparound pilot program beyond the December 2019 end date. We will continue to rally support for repealing the Cadillac tax, which is scheduled to be implemented in 2022.
3. SERS will continue its education and outreach to Ohio's federal delegation, especially new members and leadership in 2019.

**Monthly Retirement and Survivor Benefit Transactions**

For December, the SERS Board approved 161 active members for service retirements, and 11 survivor benefits for spouses and/or dependents.

**February Meeting Dates**

There will not be a Board meeting in January. The next Board meeting will take place Thursday, February 21 at 8:30 a.m. and Friday, February 22 at 8:30 a.m. (if necessary).