Candidates Chosen for Special Board Election Interview
From a pool of four candidates, the Board selected Felicia Drummey and Matt King as candidates to be interviewed for the open employee-member Board seat.

At the November 21 Board meeting, the Board will interview the candidates and discuss their qualifications. The candidate that receives a majority vote of the Board will fill the open seat.

The term for this Board seat runs through June 30, 2020.

Pension and Health Care Sustainability Discussions
The Board continued their discussion on pension sustainability.

You can find a detailed description of this facilitated discussion on the Sustainability page of the SERS website in the coming week.

Board Suspends Employer Contributions to Health Care for FY2020
Todd Green, president consulting actuary with Cavanaugh Macdonald Consulting, LLC, and John Garrett, principal consulting actuary, gave the Board a brief preview of the FY2019 pension actuarial valuation to aid in its decision on funding health care.

In FY2019, SERS’ funded level increased from 70.1% to 70.5%, and the amortization period, which is the amount of time it takes to pay off all pension liabilities, decreased from 26 years to 25 years.

Under the System’s funding policy, the Board is allowed to allocate up to 0.50% of the 14% employer contribution toward health care if the funded ratio of the pension fund is at least 70%, but less than 80%. Two factors led Board members to unanimously decline that option for 2020: the health care fund is financially stable through 2035 without the allocation; and there is an asset allocation study currently underway that could change the structure of SERS’ investment portfolio and affect the funded status of the System.

Representatives from Cavanaugh Macdonald will provide the Board with a thorough presentation of SERS’ FY2019 actuarial results in November.

Global Private Equity Portfolio Review
Staff presented a review of SERS’ $1.42 billion global private equity portfolio.

The role of the broadly-diversified portfolio is to provide risk adjusted returns in excess of those provided by publicly traded equities, with the objective of outperforming the Burgiss All Private Equity (BAPE) benchmark.

Since 2013, the private equity portfolio has been cash-flow positive, meaning distributions have been so good that the private equity portfolio has generated positive cash flow for the total fund. Net of fees, the private equity portfolio has realized returns of more than 15% over the one-, three-, five-, and ten-year periods. The 15.2% return in FY2019 has exceeded the benchmark by 4.9%.
Currently, investments in the private equity portfolio consist of 75% buyouts, 21% special situations, and 4% venture capital. SERS has been successful in the middle market buyout strategy and has been growing the special situations strategy.

Staff also continues to focus on fee structure and fee-saving opportunities when appropriate. In certain cases, SERS receives reduced fees for being a large investor and no fees when participating in co-investments. Private equity fees have remained steady at approximately 1.5% since 2015.

For FY2020, staff is focused on reviewing the structure of the private equity portfolio to look for ways to improve the risk/return characteristics of the portfolio, achieve fee reductions, and optimize manager counts; actively seek co-investment opportunities with current managers; and identify new managers that offer compelling opportunities and return expectations that meet SERS’ investment expectations.

## Total Fund Update

<table>
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<tr>
<th>TOTAL FUND BALANCE</th>
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<tr>
<td></td>
<td>July 31</td>
<td>August 31</td>
<td>Difference</td>
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<tr>
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<td>$14.62 billion</td>
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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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<table>
<thead>
<tr>
<th>TOTAL FUND RETURN vs. BENCHMARK</th>
<th>Fiscal Year</th>
<th>Calendar Year</th>
<th>3-Year</th>
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<tr>
<td>▼0.09%</td>
<td>▲0.32%</td>
<td>▲0.80%</td>
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## Board Education on Total Fund Leverage and Private Credit

David Lindberg and Joanna Bewick of Wilshire Associates provided an education program on the role of leverage and private credit in an investment portfolio. Both of these strategies are slated to be discussed during upcoming asset allocation presentations.

Even though SERS’ investment portfolio already has varying degrees of leverage in its real estate, private equity and equity portfolios, Wilshire discussed how economic leverage can be used to provide better risk balance by focusing greater assets on lower risk asset classes and moving away from equity risk.

One way to incorporate leverage at the total fund level is by using equity index futures. Futures allow investors to gain greater equity market exposure with less investment money (e.g., a $1 investment in futures could gain $20 in market exposure). This type of leverage provides better risk management because less money is actually allotted to equities, which reduces risk, and more money can be devoted to fixed income, which also reduces risk.

Private credit is also a strategy that SERS has employed through its opportunistic portfolio. Currently, 2% of SERS’ total assets are invested with private credit managers.

Private credit has become an increasingly important resource for small and mid-sized companies since the end of the Great Recession. Due to a reduction in the number of banks and regulatory rule changes that restrict the amount of assets banks can loan, there is now a gap between the cash companies need and what is actually available. Banks generally only loan money to large companies with good credit histories, which leaves small and mid-sized businesses looking for loans from other sources. This is where private credit offers options.

There are several different strategies within private credit investments, each with different risk and return parameters. Less risky strategies are expected to return 6-15% per year, while more risky investments can reach potential returns of 25%. Risks include loan default and interest rate changes. Another drawback is that cash is tied up for a long time. To succeed in this strategy, manager selection is important.
Investment Committee Approves Two Investments
The SERS Staff Investment Committee approved a $10 million commitment to Francisco Partners V – Prince Coinvestment fund, a buyout strategy within the private equity portfolio, and a $30 million commitment to Francisco Partners Credit Fund, a tech-focused credit strategy within the opportunistic portfolio.

Both investments will be funded from cash reserves.

Health Care Update

Plan Document for Wraparound Health Reimbursement Arrangement (HRA) Approved
The Board approved plan documents for the administration of an HRA beginning January 1, 2020.

This plan would provide for reimbursement of the same types of expenses that were provided by the SERS Wraparound Plan, except for the elimination of the hearing aid benefit. Under federal regulations, the per-family annual reimbursement is $1,800.

The HealthScope Benefits contract will be amended to include administration of the SERS Wraparound HRA Plan.

Administrative Rule Amendment
The Board approved an amendment to Administrative Rule 3309-1-35, which provides the administrative framework for SERS’ health care program, to include an excepted HRA as a coverage option offered by SERS.

The HRA will be offered beginning January 2020 as an alternative to the limited excepted benefits wraparound plan pilot offered during calendar years 2017-2019.

Board Approved Contract for Clinical Pharmacy Consulting Services
The Board approved a contract with Know Your Rx Coalition to provide clinical pharmacy consulting services to achieve cost savings in SERS’ pharmacy program and for SERS members.

The Know Your Rx Coalition will offer an intervention to achieve identified clinical cost management opportunities. Two pharmacists employed by the coalition will review SERS claims on a periodic basis, contact members to suggest lower cost prescription alternatives, and contact prescribers to achieve the change. These pharmacists will provide early intervention in high cost cases providing possible alternatives, and make pro-active timely recommendations on formulary and other cost savings opportunities related to pharmacy administration and benefits.

Executive Director’s Update

Deadline Approaching for Open Retiree-Member Board Seat
A Special Election is being held to fill one open retiree-member Board seat.

Candidates for the open retiree-member seat must submit a completed Certification Form and send a resume to the SERS Board of Trustees by November 5, 2019.

The Board will nominate candidates at the November meeting. Interviews will take place at the December meeting, and the successor member will be elected. The term for this retiree-member seat runs through June 30, 2021.

More information and materials are available on the Board Election page of the SERS website.

Deadline Approaching for Full-Term Employee-Member and Retiree-Member Board Seats
One employee-member seat and one retiree-member seat are up for election with the terms beginning July 1, 2020, and ending June 30, 2024.
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.

To be considered for election, the following requirements must be met:

**Employee-Member seat**
- Obtain signatures of 500 SERS members on a **nominating petition** provided by SERS with not less than 20 signatures of members from each of at least 10 counties where those members are employed.
- Make sure that each signing member indicates his or her employer, county of employment, and last four digits of his or her Social Security number or his or her SERS ID number.

**Retiree-Member seat**
- Obtain signatures of 150 SERS retirees on a **nominating petition** provided by SERS with not less than 10 signatures of retirees from each of at least five counties where those retirees reside.
- Make sure that each signing retiree indicates his or her county of residence and last four digits of his or her Social Security number or his or her SERS ID number.

**All seats**
- Deliver petitions with original signatures and a completed original **Certification Form** to the SERS office no later than 4:30 p.m., EDT, December 6, 2019.

**Federal Outreach for Wraparound Extension Continues**
While it is unlikely that an extension of SERS’ health care Wraparound Program will be approved in time for 2020, staff is still engaged with federal legislators to find a solution. Extension language did not make it into funding bills in the House or Senate, but Congresswoman Marcy Kaptur is spearheading a standalone bill that would extend the Wrap Program for five years.

**SERS Advocates for Diverse Board Representation**
HCR 13, a resolution in the Ohio legislature encouraging diverse gender representation on the boards and in senior management of Ohio companies and institutions, received sponsor testimony on October 1. SERS has been supportive of such resolutions in the past as examples of good corporate governance and is anticipating providing proponent testimony when the bill is scheduled for additional hearing.

**New WEP Reform Proposals Introduced**
Congressman Neal (D-MA) has introduced HR 4540, a WEP reform proposal. His version joins Congressman Brady’s (R-TX) bill to address the WEP, HR 3934. Both bills propose alternative formulas that are intended to be fairer than the current WEP formula. Each bill also proposes monthly rebates to retirees who have been impacted by the current WEP.

Staff members from the House Ways and Means Committee have indicated that both Chairman Neal and Ranking Member Brady are hoping that a bipartisan agreement will be reached to sort out the differences between the two bills.

**Monthly Retirement and Survivor Benefit Transactions**
For October, the SERS Board approved 377 active members for service retirements, and 27 survivor benefits for spouses and/or dependents.

**November Meeting Dates**
The next Board meeting will take place Thursday, November 21 at 8:30 a.m., and continuing on Friday, November 22 at 8:30 a.m. Discussions on Friday will include pension sustainability. A special Board meeting will be held on Wednesday, November 20 to discuss a personnel matter.