COVID-19 (the new coronavirus) and SERS Operations
SERS is following all state and federal executive orders and guidelines regarding COVID-19. Therefore, in accordance with Governor DeWine’s stay-at-home directive, SERS closed its building to visitors and staff at 6 p.m. on Monday March 23. Most of our staff is working from home.

During this closure, SERS is unable to answer calls to our 800 number, but members, retirees, and employers can leave a voicemail for important situations or questions.

Staff will review all messages and prioritize calls as quickly as possible.

The best way to contact SERS during this time is electronically, either through Account Login or by sending an email to information@ohzers.org. This email address is not secure so SERS asks that you do not include your Social Security number.

Staff will continue to process retirements in a timely manner and all benefit payments will be delivered on schedule.

As this situation evolves on a daily basis, please visit the SERS website for the latest information regarding the pandemic’s impact on SERS’ operations.

Investments Update
Instead of reviewing the December 2019 investment results, CIO Faroki Majeed provided a market overview to discuss the current economic conditions in the U.S.

The current economic downturn is completely different from the 2008-2009 financial crisis. While the Great Recession was caused by credit and bank leverage failures, the current crisis was not caused by economic failures. Steps to contain the COVID-19 outbreak severely impacted economic activity, and these unusual circumstances were unpredictable, unprecedented, and unforeseen.

The decline of economic activity has been extreme. With retail and transportation largely shutting down, it is likely that manufacturing will also decline. While the next three-to-eight months of economic activity look bleak, conditions should look better in a year.

Market volatility will continue until the market can estimate how long the COVID-19 crisis will last in the U.S. and globally.

Global Real Assets Portfolio Review
Investment staff gave the Board an overview of SERS’ global real assets portfolio.

The role of the global real assets portfolio is to provide stable income from tangible assets, be a partial inflation hedge over the long term, and provide low correlation to equities. Its objective is to provide returns in excess of the NCREIF Property Index (NPI).
As of December 2019, the portfolio was 14.7% of the Total Fund, which was slightly below the 15% target. The portfolio was comprised of 77.7% private real estate (core and non-core); 19.4% infrastructure; and 2.9% public real estate (REITs). Following the market volatility of the last few weeks, the Real Estate portfolio increased to nearly 17% of the Total Fund with 81% invested in private real estate.

As of December 2019, the global real assets portfolio's net-of-fees returns exceeded the policy benchmark over the 1-, 3-, 5-, and 10-year periods. The portfolio returned 8.76% for the 1-year, exceeding the benchmark by 2.53%. Returns for all four time periods were driven by the three “I’s”: income, infrastructure, and industrial.

Before the recent economic downturn, industrial and infrastructure commitments were driving returns. Four of the top five largest real assets holdings were within the infrastructure portfolio, which includes assets such as airports, railways, toll roads, energy facilities, public partnerships, universities, medical facilities, and fiber networks.

Within the real estate sector, SERS has exposure to industrial, office, retail, hotel, multifamily, and other property types. Industrial remains the highest performing property type over the 1-, 3-, 5-, and 10-year periods, while retail is the lowest performing type due to headwinds caused by e-commerce and store closings. The real estate sector is underweight in office assets, as it is a high-risk property type with volatile returns and high expenses. Assets from hotel and other property types provide diversification to the portfolio.

Geographically, 36% of SERS’ U.S. real assets holdings are in the West, 36% in the East, 21% in the South, and 8% in the Midwest, with the west region producing the highest returns during all time periods.

Goals for 2020 and 2021 include increasing the real asset allocation from 15% to 17%, with a range of 14% to 20%, with the objective of achieving a 17% portfolio weight over a two-year period; evaluating new equity and debt managers, and pursuing co-investment opportunities within the infrastructure sector; evaluating new core and non-core managers within the real estate sector; and maintaining a 4% income yield.

The impact of the recent market volatility on SERS’ Real Assets portfolio is unknown because returns lag other returns by one quarter. However, staff has indicated that while hotel, airport, seaport, retail, and mid-stream energy assets will be affected, the portfolio as a whole should withstand this economic downturn better than it did in 2008-2008 because it is more core focused.

**Total Fund Update**

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<tr>
<th>TOTAL FUND BALANCE</th>
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<tr>
<td>December 31</td>
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<td>$15.24 billion</td>
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<tr>
<th>TOTAL FUND RETURN (net of fees)</th>
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<tbody>
<tr>
<td>Fiscal Year</td>
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<td>▲5.93%</td>
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<th>TOTAL FUND RETURN vs. BENCHMARK</th>
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<tr>
<td>Fiscal Year</td>
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<td>▲0.62%</td>
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**Investment Committee Approves Two Investments**
The SERS Staff Investment Committee approved a $100 million commitment to JP Morgan High Yield High Credit, a high yield strategy within the fixed income portfolio, and a $75 million commitment to HPS V, a direct lending strategy within the opportunistic portfolio.

These investments will be funded from cash reserves.
Board Approves Filing of Proposed Amended Rules
Due to a change in Internal Revenue Code requirements, the Board approved an amendment to rule 3309-1-09 that changes the age for required minimum distributions from a defined benefit plan from age 70-1/2 to age 72. This placed SERS in compliance with the SECURE Act, which was passed by Congress at the end of 2019.

The Board also approved a change to health care rule 3309-1-35.

Going forward, any individual whose gross SERS benefit amount is less than Ohio’s income threshold for Medicaid eligibility will be presumed to be eligible for Medicaid. This means that they will no longer be eligible to receive SERS’ health care. Because such individuals could have other sources of income, they will remain eligible for SERS’ health care coverage upon providing proof of ineligibility for Medicaid. The rule also permits benefit recipients to reenroll on SERS’ health care coverage if they later become ineligible for Medicaid.

Similarly, a Board-approved change to health care rule 3309-1-64 clarifies that if individuals are ineligible for SERS’ health care because they are eligible for Medicaid, they retain their eligibility to enroll in SERS’ dental and vision coverage.

Executive Director’s Update

State Legislative Update
Legislative proposals have been introduced that would, among other things, require the public broadcasting of Board Meetings; require broader investment fee disclosure; and create a council to review the salaries paid to retirement system employees. SERS is meeting with the legislative sponsors of these proposals to understand and address their concerns.

Federal Outreach for Wraparound Extension Continues
SERS continues to push for re-authorization of its wraparound program. Earlier this month, SERS’ government relations officer and SERS’ federal government relations consultant met with congressional staff in Washington to encourage Ohio members of Congress to co-sponsor HR 4763, a five-year extension for the wraparound program.

SERS Addresses Concerns about Potential Prescription Drug Reform
While in Washington, SERS staff raised concerns with congressional staff about proposed prescription drug reforms for the Medicare Part D program. Working together with the Public Sector Health Care Roundtable, SERS shared a possible solution that would help Employer Group Waiver Plans like SERS’ prescription drug plan avoid the negative consequences of the current legislative proposal.

Board Continues Work on Sustainability Initiative
While the Board did not meet this month to discuss the sustainability initiative, Board members continue to analyze data prepared by SERS staff. Discussions are tentatively scheduled to resume at the April Board meeting.

Health Care Subsidization Discussion
SERS’ health care staff presented a report to the Board detailing SERS’ current subsidization levels for non-Medicare plan service retirees, disability members, and surviving spouses and dependents.

The report included the number of recipients grouped by their years of service in a SERS-related position and current premium levels. It also provided scenarios for changing subsidization levels among the groups.

The Board will review this data as part of the sustainability initiative.

Monthly Retirement and Survivor Benefit Transactions
For March, the SERS Board approved 216 active members for service retirements, and 21 survivor benefits for spouses and/or dependents.
April Meeting Dates
The next Board meeting will take place Thursday, April 16 at 8:30 a.m. and Friday, April 17 at 8:30 a.m. (if necessary).