



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
BOARD MEETING HIGHLIGHTS
NOVEMBER 2020

Fixed Income Annual Portfolio Review

Staff presented a review of the fixed income portfolio's structure and performance, as well as FY2021 expectations.

Currently, SERS' fixed income portfolio has a market value of \$2.74 billion and is 1% below its 19% target. This portfolio contains investments in three sectors: 44% in core (Treasuries, corporate bonds, and mortgages); 43% in core plus (core securities plus high yield and non-US debt); and 13% in tactical and diversifying (emerging market debt, high yield, dislocation strategies, and fixed income relative value). Over the last year, SERS has reduced exposure to core strategies, and increased exposure to tactical and diversifying to improve the return expectations of the portfolio.

Even though fixed income returned 8.03% in FY2020, the economic forecast for FY2021 signals that returns might only reach 2-3%. Federal interest rates at 0%, likely additional federal stimulus payments due to the COVID-19 pandemic, and the risk of temporary layoffs becoming permanent are all situations that will negatively impact fixed income returns. To improve returns, SERS is focused on income and diversification within the portfolio. It is also likely that the portfolio will remain under its 19% target until economic conditions improve.

Investments Quarterly Report

Joanna Bewick and David Lindberg of Wilshire Associates provided the Board with an update of current capital market conditions in the U.S. and SERS' FY2021 first quarter (July-September) investment results.

The U.S. stock market was up 9.1% for the quarter; however, the overall economic news was mixed. Employment, which is a key element of the post-pandemic economic recovery in the U.S., showed signs that temporary job losses were slowing while permanent job losses were increasing. Initial job losses and continuing claims had both decreased from the previous quarter.

This quarter, SERS' Total Fund gross-of-fees return of 5.64% ranked 24th in the nation out of more than 100 other U.S. funds. Over the one year, SERS' 8.14% return ranked 38th nationally, its three-year return of 7.39% ranked 19th, its five-year return of 9.28% ranked 11th, and its 10-year return of 8.98% ranked 8th.

Lindberg also noted that SERS' Total Fund during the period of October 1, 2017 to September 30, 2020, was positioned so that it was achieving higher returns with lower risk than the majority of other U.S. peer funds.

Actuary Presents Pension and Health Care Valuations

SERS' actuary, Cavanaugh Macdonald Consulting, LLC, presented the results of the FY2020 pension and health care actuarial valuations to the Board.

In FY2020, SERS' funded status for Basic Benefits increased from 70.51% to 71.49%, and the amortization period (the amount of time it takes to pay off all pension liabilities) of the unfunded actuarial accrued liability decreased from 25 years to 24 years.

Although current year investment earnings fell below the 7.5% assumed rate of return, deferred actuarial gains under SERS' asset smoothing methodology, which recognizes investment gains and losses equally over a four-

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year period, along with the changes in the retiree cost-of-living adjustment (COLA) secured through the passage of House Bill 49 and Senate Bill 8, helped offset those losses, resulting in a slight gain in the funded ratio.

Although health care is not funded on an actuarial basis, an annual valuation is performed to fulfill the requirements of GASB 74 and 75. The valuation reports that, even with no allocation of the employer contribution in 2020, health care experienced an increase in the funded ratio, increasing the solvency of the fund to 2054. This is an increase of 19 years.

The System’s funding policy allows the Board to put up to 0.50% of the 14% employer contribution toward health care if the funded ratio of the pension fund is greater than 70% but less than 80%.

At the recommendation of SERS’ actuary, the Board allocated the 14% employer contribution for FY2021 with 10.24% to the Pension Fund, 0.03% to the Death Benefit Fund, 0.59% to Medicare B Fund, and 0.00% to the Health Care Fund. In accordance with funding policy, the Board allocated the remaining 3.14% proportionately to the Pension Fund, Death Benefit Fund, and Medicare B Fund.

The Board also set the minimum compensation amount of \$25,000 for determination of the FY2022 health care surcharge.

Investment Committee Approves Two Investments

The SERS Staff Investment Committee approved a \$50 million commitment to GoldenTree Structured Products Fund VII, a structured credit strategy within the opportunistic portfolio, and \$50 million commitment to Arrowstreet International Equity - Alpha Extension 130/30/20, a quantitative strategy within the non-US equity portfolio.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
August 31	September 30	Difference
\$15.34 billion	\$15.19 billion	▼ \$150 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 5.49%	▲ 2.33%	▲ 6.72%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.97%	▼ 0.22%	▲ 0.24%

Board Approves Final Filing of Amended Administrative Rule

The Board approved final filing of an amended administrative rule regarding membership determinations that was reviewed by the Joint Committee on Agency Rule Review (JCARR).

The amendment to Administrative Rule 3309-1-11 clarifies that an individual employed in a position that would contribute to STRS if employed directly by the school is not an employee for purposes of SERS membership when employed by a contractor to work in the position. The amendment promotes consistency in membership between SERS and STRS.

Executive Director’s Update

Medicaid Outreach Update

SERS staff has made progress in reaching out to nearly 600 enrollees whose gross SERS benefit amount is less than Ohio’s income threshold for Medicaid eligibility.

Of these 600 enrollees, SERS has established Medicaid eligibility for 62. Twenty have not responded.

These 82 benefit recipients will be notified of their termination from SERS health care coverage effective December 31, 2020.

SERS Board Meetings Continue to go Virtual

The Ohio General Assembly is beginning a “lame duck” session, which occurs following the general election before a successor’s term begins.

One of the bills addressed in this session was HB 404, which allowed boards of trustees to attend meetings virtually. An omnibus extension amendment extended this authorization until July 1, 2021 (previously set to expire in December 2020).

Last year, prior to meeting virtually, SERS’ Board meetings had between one and 14 members of the public in attendance. Since changing to the virtual format earlier this year, the SERS Board meeting has averaged between 30 and 40 members of the public in attendance.

Federal Update

Earlier this month, the Trump administration submitted a final rule to the White House budget office to prohibit pharmacy benefit managers from retaining rebates paid by drugmakers.

This would have a negative impact on SERS’ health care fund as SERS passes these savings on to retirees in the form of reduced premiums. While the rule includes language that eliminating rebates could not result in increased premiums, it remains unclear how the impact will be measured.

SERS’ staff will continue to work the Public Sector Healthcare Roundtable and other organizations to urge the administration to consider the implications of the rebate rule on plans such as SERS.

The current administration also has issued an executive order concerning investment transactions with certain Chinese military companies. The order, effective January 11, 2021, prohibits new transactions but does not require divestment from these companies.

Both orders are likely to be reviewed under a new administration. SERS will continue to closely monitor these issues, and work with national organizations such as the National Association of State Retirement Administrators (NASRA), National Council on Teacher Retirement (NCTR), and Council of Institutional Investors (CII) to identify any unintended effects.

Monthly Retirement and Survivor Benefit Transactions

For November, the SERS Board approved 505 active members for service retirements, and 20 survivor benefits for spouses and/or dependents.

December Meeting Dates

The next regular Board meeting will take place Thursday, December 17 at 8:30 a.m., and Friday, December 18 at 8:30 a.m. (if necessary).