



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

DECEMBER 2020

Board Members Reappointed

James A. Rossler, Jr. took his oath of office at this month's Board meeting. He was reappointed by the Speaker of the House of Representatives and the President of the Ohio Senate.

This is Rossler's fifth term on the SERS Board. His first term began in October 2004. His term runs until November 4, 2024.

Rossler is treasurer of the Rossford Exempted Village School System and regional past president of the Ohio Association of School Business Officials.

Daniel L. Wilson took his oath of office virtually prior to this month's Board meeting. He was reappointed by Gov. Mike DeWine as an investment expert.

This is Wilson's fifth term on the SERS Board. His term runs until September 27, 2024.

Wilson is Chief Financial Officer for the Mentor Exempted Village Board of Education, where he has worked since 2004. Wilson has more than 46 years of experience in the fiscal management of Ohio public schools.

Board Member Candidates Certified

At the meeting, the Board certified that James Haller and Barbra Phillips submitted sufficient petitions to qualify as candidates for the two four-year employee-member seats. The Board also certified that Frank Weglarz submitted sufficient petitions to qualify as a candidate for the four-year retiree member seat. The terms for all three seats begin July 1, 2021, and end on June 30, 2025.

Under Ohio law, because only one candidate qualified for each open seat, no election will be held, and Mr. Haller, Ms. Phillips, and Mr. Weglarz will take office on July 1, 2021 as if elected.

External Auditor Presents FY2020 Analysis

David Andrews, engagement partner, Joe Leonard, senior assurance manager, and Jamie Robinson, assurance manager, with SERS' independent external auditor, RSM US LLP, presented the FY2020 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.

RETIREMENT BOARD

HUGH W. GARSIDE, JR.
Chair, Employee-Member

BARBRA M. PHILLIPS
Vice-Chair, Employee-Member

JEFFREY T. DELEONE
Appointed Member

JAMES HALLER
Employee-Member

MATTHEW KING
Employee-Member

CATHERINE P. MOSS
Retiree-Member

JAMES A. ROSSLER, JR.
Appointed Member

FRANK A. WEGLARZ
Retiree-Member

DANIEL L. WILSON
Appointed Member

Global Equities Portfolio Review

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

For the first time in five years, the top returning markets in SERS' global equity portfolio changed, signaling that non-U.S. equity returns were improving: the Russell 3000 Growth and Russell 1000 Large Cap investments moved out of the top four spots and were replaced by Emerging Markets and the Russell 2000 Small Cap. The other markets in the top four included the Russell 3000 and All Country Growth.

As of October 31, 2020, the global equity portfolio had a market value of \$6.9 billion. The U.S. equity portfolio was 24.5% of the Total Fund while the non-U.S. equity portfolio was 21.4%. While the portfolio targets were equally split between U.S and non-U.S. equity, the investment team intentionally tilted the portfolio toward U.S. equity to take advantage of strong U.S. equity returns.

U.S. Equity

Over the last few years, the investment team has increased the passive management of large cap U.S. stocks in the U.S portfolio. Passive management is currently used in 68% of the portfolio. Because U.S. markets are more efficiently managed than non-U.S. markets, it is more difficult to outperform benchmarks using active management. The move to more passive management has helped increase returns and is also the reason that investment fees in the U.S. equity portfolio have dropped from 21 basis points to 17.

Almost 30% of SERS' portfolio is invested in technology stocks, which continue to be the best returning sector in the U.S. over the last year. This has helped drive returns for the entire portfolio.

Non-U.S. Equity

The management of the non-U.S. equity portfolio poses different challenges from its U.S. counterpart. Because non-U.S. markets are less efficient, there is more opportunity to outperform benchmarks using active management. Therefore, SERS has constructed the non-U.S. equity portfolio with 73% of active managers to increase returns. The use of more active management in the non-U.S. equity portfolio is also a reason why management fees are higher in this portfolio.

Technology stocks are also the best returning sector outside of the U.S. More than 15% of the non-U.S. portfolio, the largest of any sector, are invested there.

Board Approves Adjustment to Global Equity Portfolio Benchmark

Following the October Board education session about different allocation scenarios for the Global Equity Portfolio, SERS' investment team began working with Wilshire, the System's independent investment consultant, to identify the optimum allocation for these investments. Based on this work, Chief Investment Officer Farouki Majeed asked the Board to approve a new benchmark that increased the target of the U.S. equity portfolio to 55%, and split the 45% non-U.S. portfolio target into 30% in developed markets and 15% in emerging markets.

Despite U.S. equity investments being expensively priced, economic forecasts continue to indicate that the U.S. market is still in position to move higher in 2021. Majeed explained that the investment staff was reluctant to move to an even higher 60/40 split within the Global Equity Portfolio because of indications that non-U.S. equity investments have greater potential for higher returns in the near future.

Investment Committee Approves Private Credit Investment

The SERS Staff Investment Committee approved a \$100 million commitment to Ares Private Credit Solutions II, a direct lending strategy within the private credit portfolio.

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE

September 30	October 31	Difference
\$15.19 billion	\$14.98 billion	▼ \$210 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 4.36%	▲ 1.23%	▲ 5.97%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.91%	▼ 0.27%	▲ 0.22%

Executive Director's Update

Board Extends Medical Advisory Committee Chair's Contract

The Board voted to approve a five-year contract extension for Dr. Glen Borchers, the chair of the Medical Advisory Committee (MAC). In addition, the Board voted to increase Dr. Borchers' annual fees from \$40,000 to \$45,000.

Dr. Borchers, who joined the MAC in July 2014 and was appointed chair in December 2015, has not received an increase since becoming chair in 2015.

His contract will run through the end of the calendar year in 2025.

CAFR Highlights Presented

Tracy Valentino, chief financial officer for SERS, presented an overview of the organization's 2020 *Comprehensive Annual Financial Report (CAFR)*. She reviewed its contents, including the transmittal letter and county map of pension recipients, as well as the investment, financial, and actuarial sections.

As a set of financial statements that comply with the accounting requirements established by the Governmental Accounting Standards Board, the CAFR is produced annually.

SERS Named Positive Education Influencer

In a recent [blog entry](#), Linq.com named SERS a top positive education influencer on Twitter.

Citing a [November 18 tweet](#) honoring Education Support Professionals, the article states that SERS' Twitter account "certainly upheld its mission [of Serving the People Who Serve our Schools] throughout the year by showing support to the professionals making sure the students of Ohio have a safe and healthy place to learn."

In addition to [Twitter](#), SERS has social media accounts on [Facebook](#) and [LinkedIn](#).

Year-end Federal Update

Carol Nolan Drake, SERS' federal government relations consultant, briefed the Board on pension and health care issues tackled in 2020, as well as issues to watch for in the coming year.

An overview of highlights for November and December included a potential bipartisan bill with a framework that could provide stimulus dollars to address the impact of COVID-19; the issuance of an executive order by President Trump to limit investments in certain Chinese companies; advocacy to address the Windfall Elimination Provision (WEP) before the end of the year; and discussions on appropriations to fund the federal government after December 11.

Significant Issues Addressed in 2020 Included:

1. Continuance of Limited Wraparound Plans

Members of SERS staff, along with Drake, have continued ongoing discussions with delegation offices during the pandemic to encourage support for Limited Wraparound Plans and expressed concerns with the final rebate rule.

2. Elimination of the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)

Currently, H.R. 141, the “Social Security Fairness Act of 2019,” which addresses a full WEP and GPO repeal, now has 263 cosponsors. A companion bill, S. 521, the “Social Security Fairness Act,” has 38 cosponsors.

3. Monitoring of Prescription Drug Pricing

With respect to Senate bill, S. 2543, the “Prescription Drug Pricing Reduction Act of 2019,” SERS has expressed concern with the proposed language that references changes to the law that will impact the Employer Group Waiver Plan under Medicare Parts C and D, changes to Medicare, and the use of pharmacy benefit managers. The Public Sector Roundtable has been holding calls on these issues, and SERS, along with Drake, have been communicating with the offices of Senators Sherrod Brown and Rob Portman.

Priorities for Advocacy in 2021 Include:

1. SERS will Continue to Advocate for WEP Reform.

SERS will meet with members of Congress to discuss and encourage bipartisan support of a permanent legislative solution for retirees who have been impacted and members who will be unfairly disadvantaged by the WEP when they retire. Previously, President-Elect Biden has been in favor of eliminating the WEP and SERS will work with his administration to see if progress can be made on this issue.

2. SERS will Continue to Advocate for Fight for Health Care.

SERS will remain vigilant in lobbying for Limited Wraparound Plans as well as for lowering the cost of prescription drugs for retirees under 65.

3. SERS Will Continue its Education and Outreach to Ohio’s Federal Delegation, Especially to New Members and Leadership.

Monthly Retirement and Survivor Benefit Transactions

For December, the SERS Board approved 375 active members for service retirements, and 12 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 18 at 8:30 a.m. and Friday, February 19 at 8:30 a.m. (if necessary). The Board will hold its annual retreat via Zoom on Wednesday, February 17.