



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

MAY 2021

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 third quarter (January - March) investment results.

The U.S. stock market was up 6.5% for the quarter with all 11 sectors registering positive returns. Energy at 31.7% and financials at 16.7% were the best performing sectors.

Inflation has been rising the last few months due to price increases in gasoline and food. Despite the inflation pressure, consumer confidence has reached its highest level since the pandemic began.

Employment, which is a key element of the post-pandemic economic recovery in the U.S., accelerated during the quarter but is still below pre-pandemic levels. There are also signs that wages are increasing as the economic recovery strengthens.

This quarter, SERS' Total Fund gross-of-fees return of 3.85% ranked 22nd in the nation when compared with all other U.S. public plan funds. Over the one year, SERS' 31.85% return ranked 63rd nationally, its three-year return of 10.59% ranked 27th, its five-year return of 11.34% ranked 13th, and its 10-year return of 9.33% ranked 9th.

Lindberg explained that the reason SERS' investment performance against peer funds becomes stronger over longer time periods is that many plans have significantly higher allocations to equities and perform better during brief periods when the stock market does well, but SERS' more diversified portfolio performs better overall.

Overlay Program Review

Investment staff gave the Board an overview of SERS' overlay program.

The overlay program does not have a specific asset allocation but is run as an active long/short strategy with a net zero asset exposure. Its performance objective is to add 10 to 20 basis points to Total Fund performance over the three- and five-year periods.

The program consists of two sub-programs: active currency and tactical asset allocation (TAA).

The active currency program aims at adding value and reducing the currency risk of the Total Fund. It adds value by going long on rising currencies and short on falling currencies on average, and also reduces currency volatility.

The program was launched in August 2016 and currently utilizes one manager. During FY2021, the manager's performance turned negative as the U.S. dollar declined and the euro appreciated.

However, the active currency program is expected to have positive returns over the next 12 months as U.S. growth outpaces the European region and interest rate differentials improve in favor of the U.S. dollar.

The TAA program invests in a strategy which actively allocates exposures across U.S. fixed income, U.S. equity, and non-U.S. equity markets by going long or short based on macroeconomic and market systematic signals.

The program started in December 2014. Since inception, the program has added \$46.76 million in excess returns and has consistently averaged five basis points of returns annually.

RETIREMENT BOARD

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Appointed Member

Staff recently added an additional TAA manager that will complement the existing manager in a number of ways, including placing both long and short equity trades, and having exposure to commodities and precious metals in addition to equity and fixed income.

Cumulative gains of the overlay program are \$7.41 million since inception.

Total Fund Update

TOTAL FUND BALANCE		
February 28	March 31	Difference
\$16.58 billion	\$16.99 billion	▲ \$410 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 20.17%	▲ 3.71%	▲ 9.94%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 2.33%	▲ 0.33%	▲ 0.46%

Investment Committee Approves Six Investments

The SERS Staff Investment Committee approved three commitments within the private credit portfolio. The committee approved a \$200 million commitment to Apollo Origination Partnership, a \$150 million commitment to Barings European Private Loan Fund III, and an \$8 million commitment to FP Credit Zocdoc Co-investment, all direct lending strategies.

Within the private equity portfolio, the committee approved a \$75 million commitment to Monomoy Capital Partners IV, a middle market buyout strategy.

The committee also approved a \$75 million commitment to Strategic Value Special Situations Fund V, a special situations strategy within the opportunistic portfolio.

These investments will be funded from cash reserves.

Finally, the committee hired AlphaEngine Global Investments Solution, a smart alpha strategy within the currency overlay program. They will manage a \$500 million notional mandate.

Health Care Update

Alisa Bennett, a president and consulting actuary with Cavanaugh Macdonald, presented the 2022 proposed rates for SERS' self-insured medical plans and prescription drug coverage. Highlights included the potential impact of COVID-19, suggesting uncertainty regarding pent-up demand for elective procedures in 2021 or 2022 and beyond due to deferral of care and non-emergency surgeries, as well as possible cost savings due to an increased use of telemedicine.

Christi Pepe, SERS' health care services director, reviewed the health care program status, discussed 2022 rates, expectations, and program considerations, and presented recommendations for program and plan design changes. She noted that as of May 2021, non-Medicare enrollment was at 4,310; Medicare enrollment was at 36,725; optional dental coverage was at 40,784; and optional vision coverage was at 30,554.

She highlighted that both Delta Dental and VSP Vision 2022 premiums were expected to be lower than the previous year. While there were no proposed 2022 benefit changes for benefit recipients with Aetna Choice/Aetna Medicare, there were potential premium increases for those with non-Medicare Aetna Choice. She also noted that the proposed premiums for AultCare PPO non-Medicare benefit recipients were lower for 2022 than the previous year.

Pepe also discussed the 2022 Medicare prescription drug network proposal, which included transitioning Medicare plan enrollees to the Express Scripts Broad Performance Network. This proposal offered a potential savings to SERS of \$3.3 million. Additionally, she examined a premium discount potential expansion, and the Wraparound HRA benefit flexibility.

Pepe requested the Board's feedback for the recommended changes.

The Board will approve 2022 health care premium amounts and plan changes at the June Board Meeting.

Executive Director's Update

Annual OASBO Meeting

On April 23, SERS virtually hosted the annual OASBO/SERS update with OASBO's Legislative and Education Finance Committees. Several SERS staff members gave presentations on staff initiatives, finance, membership, investments, and health care to the 54 OASBO members in attendance.

ORSC Releases Bi-Annual Investment Performance Results

At the May Ohio Retirement Study Council (ORSC) meeting, RVK, the ORSC's independent investment consultant, presented its six-month update of the Ohio pension funds' investment performance. The report indicated that in general, the Ohio pension funds were increasing their diversification and generating more return for each unit of risk exposure than the median peer group over the trailing five-year period. In addition, SERS ranked in the 12th percentile or above nationally in returns over the 1-, 3-, and 5-year periods.

Limited In-person Counseling Sessions Have Resumed

SERS has resumed limited in-person retirement counseling sessions on May 17. These sessions are by appointment ONLY for members within one year of retirement.

Members will still have the option to schedule a phone or Zoom counseling session.

Monthly Retirement and Survivor Benefit Transactions

For May, the SERS Board approved 355 active members for service retirements, and 19 survivor benefits for spouses and/or dependents.

June Meeting Dates

The next Board meeting will take place Thursday, June 17, and Friday, June 18, at 8:30 a.m.