



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

OCTOBER 2021

Board Education Session: Using Investment Leverage to Decrease Risk

Joanna Bewick and David Lindberg of Wilshire Advisors, SERS' independent investment consultant, provided an education session for the Board on how leverage can be used to reduce risk and enhance returns in an investment portfolio. This may be achieved by leveraging an asset class that has low volatility and low correlation to equities, for example.

There are two types of leverage: accounting leverage, where total assets are greater than net assets through the use of borrowed capital like a home mortgage; and economic leverage, where additional market exposure is gained synthetically using the difference between the market value of a security (its current price) and the notional value (its future value based on a futures contract).

Wilshire's research focused on using economic leverage in SERS' total fund portfolio.

By using 10% leverage, their research showed that SERS' plan could improve returns by 0.15% and reduce risk by 0.02% annually, which could be the key to meeting SERS' 7% assumed rate of return over the next 10 years.

Finally, cost and liquidity must be carefully considered when deciding which markets to use as leverage.

Global Private Equity Portfolio Review

Staff provided the Board with an overview of SERS' \$1.9 billion global private equity portfolio.

In FY2021, the global private equity portfolio generated a 45.8% net-of-fees return, which was the best performing portfolio. Despite the good return, the portfolio underperformed the benchmark by 1.5%. Staff explained that the benchmark included 11% dedicated to venture capital, which had favorable performance in FY2021, and SERS' portfolio contained less than 4% dedicated to venture capital. This was the primary cause of the underperformance.

Staff will look at several options to address this imbalance including adding more venture capital to the portfolio.

Since 2013, SERS' global private equity portfolio has matured to the point that it is self-sufficient, meaning it has provided positive cash flow to the portfolio.

In FY2021, distributions from global private equity managers reached an all-time high of \$400 million. At the end of FY2021, the portfolio strategy consisted of 80% buyouts, 10% special situations, 5% co-investments, and 5% fund of funds.

Staff is preparing to completely exit the fund of funds space due to the higher fees associated with that type of investment, and reduce exposure to Special Situations because there are better value options elsewhere. They also plan to increase exposure to co-investments in FY2022.

RETIREMENT BOARD

BARBRA M. PHILLIPS
Chair, Employee-Member

JEFFREY T. DELEONE
Vice-Chair, Appointed Member

HUGH W. GARSIDE, JR.
Employee-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

While staff is pleased with the geographic exposure of the portfolio with 75% in North America, 20% in Europe, and 5% in emerging markets, they recently added the first Asian fund and will continue to look for opportunities to further diversify geographic exposure.

Finally, the sector composition of the portfolio includes 28% information technology, 21% consumer, 19% health care, 11% industrial, 6% financials, 5% energy, and 10% other. Staff is pleased with the diversification of the sector composition.

In FY2022, staff will begin looking for opportunities to make direct investments in venture capital managers.

In the past, only the top 25% of venture capital managers have provided good returns. Small funds, such as SERS, could not get access to those managers. Recently, the venture capital environment has changed in that a significant portion of venture capital is now focused on information technology developments. This change should provide small funds with more access to top performing managers. Staff will assess the feasibility of adding direct investments in this strategy.

Total Fund Update

TOTAL FUND BALANCE		
July 31	August 31	Difference
\$17.81 billion	\$17.97 billion	▲ \$160 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 1.70%	▲ 11.27%	▲ 11.60%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.33%	▲ 1.36%	▲ 0.86%

Investment Committee Approves Five Investments

The SERS Investment Committee approved an \$80 million commitment to Ninety One North America, an emerging markets blended debt strategy within the fixed income portfolio.

In addition, the committee approved a \$50 million commitment to JP Morgan China A-Share Equity Fund and a \$50 million commitment to WCM Investment Management, an international small cap growth strategy, both within the non-U.S. equity portfolio.

Finally, the committee approved a \$100 million commitment to Wellington Trust Company, NA CIF II Commodities Portfolio, a long only commodity strategy, and a \$50 million commitment to ICG Europe Fund VIII, a subordinated debt and equity strategy, both within the opportunistic portfolio.

These investments will be funded from cash reserves.

Executive Director's Update

Board Allocates FY2022 Employer Contribution to Pension Fund

While the official FY2021 actuarial valuation will be presented at the November Board meeting, preliminary results show that SERS' funded level increased from 71.5% to 74.46%.

Under the System's funding policy, the Board is allowed to allocate up to 0.50% of the 14% employer contribution rate toward health care if the funded ratio of the pension fund is at least 70%, but less than 80%. At the October Board meeting, Board members agreed to allocate the entire employer contribution of 14% to the pension fund because the Health Care Fund is projected to remain solvent for the next 36 years. This is the longest solvency period for the Health Care Fund to date.

Member Services Department Continues to Exceed Expectations

In an effort to better serve our members, SERS surveys members following their retirement counseling session to obtain their feedback on the counseling process.

In September, 74% of members attended an in-person counseling session, 15% attended a phone counseling session, and 10% attended a Zoom counseling session.

The survey showed:

- 95% of members rated their satisfaction with the appointment as a 5/5
- 98% felt the counselor adequately answered their questions and was helpful
- 54% used SERS' website for information regarding their retirement options
- 65% registered for a secure online account on [Account Login](#) (available from the SERS website)

In a separate survey, SERS' Member Support Team, the team responsible for taking incoming calls from SERS' members and retirees, received a quality score of 98.58% in September, as well as a satisfaction rating of 92%.

Staff Charitable Efforts

Each year, SERS partners with the United Way of Central Ohio to raise money for organizations within the community.

This year, thanks to the generosity of the SERS staff, SERS raised \$17,480 through payroll deductions and one-time pledges, and the organization achieved 62% participation.

Monthly Retirement and Survivor Benefit Transactions

For October, the SERS Board approved 609 active members for service retirements, and 15 survivor benefits for spouses and/or dependents.

November Meeting Dates

The next Board meeting will take place Thursday, November 18, at 8:30 a.m., and Friday, November 19 (if necessary), at 8:30 a.m.