



# SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

## BOARD MEETING HIGHLIGHTS

### DECEMBER 2021

#### External Auditor Presents FY2021 Analysis

Joe Leonard, senior assurance manager, and Jamie Robinson, assurance manager, with SERS' independent external auditor, RSM US LLP, presented the FY2021 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 *Annual Comprehensive Financial Report (ACFR)*, which summarizes SERS' financial health, investment performance, and accomplishments of the last fiscal year (July 1-June 30). The ACFR also provides detailed financial statements, statistical information, and in-depth explanations of the numbers.

An electronic version of the [ACFR](#) is available on our website.

#### Global Equities Portfolio Review

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

As of October 31, 2021, the global equity portfolio had a market value of nearly \$7.7 billion. The global equity portfolio was 47.4% of the Total Fund, which was 2.4% above the policy target of 45%. US equity comprised 55.7% of the global equity portfolio while non-US equity made up the remaining 44.3%. Both segments were close to their policy allocation targets of 55% and 45%, and staff intentionally tilted the allocation toward US equity to take advantage of higher returns.

#### US Equity

SERS' US equity portfolio posted a 1-year return of 41.6%. Although a very positive return, it underperformed the benchmark. Several factors contributed to this underperformance, including market volatility, benchmark challenges, and portfolio positioning.

In 2021, the markets experienced rapid performance changes in large and small cap stocks that left managers with little time to reposition their mandates to protect returns. Also affecting performance was the fact that SERS' one passive manager matched the Russell 1000 performance, but SERS used the Russell 3000 benchmark, which was slightly higher. Finally, SERS' US equity portfolio was defensively positioned, meaning it performed better during volatility and protected assets in a downturn, but did not gain as much during bull markets.

To address this benchmark underperformance, SERS' investment team focused on adjusting the structure of the portfolio. The team continued to increase the passive management of large cap U.S. stocks in the U.S. portfolio to more closely match index returns. Passive management increased from 68% of the portfolio last year to 71.4% in 2021. Because U.S. markets were more efficiently managed than non-US markets, it was more difficult to outperform benchmarks using active management.

Another focus in 2021 was to increase diversity in small cap holdings. SERS maintained a 4% overweight position in small cap, which helped improve portfolio returns.

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#### 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*

Finally, the team shifted from a growth bias to a neutral style, which means there is more of a balance between growth stocks like technology and health care, and value stocks like financials and industrials.

### **Non-US Equity**

While the non-US equity performance was not as strong as its US equity counterpart, the portfolio still returned 37.66% in 2021. Maintaining an overweight to small cap stocks in the developed sector added to this performance. This portfolio also outperformed its benchmark by 2.07%.

Unlike US equity markets, non-US markets are less efficient which means there is more opportunity to outperform benchmarks using active management. Therefore, SERS has constructed the non-US equity portfolio with 71% of active managers to increase returns.

### **Total Fund Update**

<b>TOTAL FUND BALANCE</b>		
<b>September 30</b>	<b>October 31</b>	<b>Difference</b>
\$17.96 billion	\$18.32 billion	▲ \$360 million
<b>TOTAL FUND RETURN (net of fees)</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 4.29%	▲ 14.09%	▲ 13.69%
<b>TOTAL FUND RETURN vs. BENCHMARK</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 0.98%	▲ 1.75%	▲ 0.89%

### **Investment Committee Approves Private Equity Investment**

The SERS Investment Committee approved a \$75 million commitment to Greenspring Secondaries Fund V, a VC Secondaries strategy within the private equity portfolio.

This investment will be funded from cash reserves.

### **Board Approves Filing of No Change Administrative Rules and Amended Administrative Rules under the Five-Year Review of Rules**

Along with approving no change rules, the Board approved the filing of amended administrative rules, including 3309-1-30, with the Joint Committee on Agency Rule Review. This amended rule added language to clarify the statutory requirement that if a member is employed in a SERS position when the member's complete retirement application is filed, the effective date of retirement cannot be sooner than the month after the member's current employment ends.

Also amended were disability rules, 3309-1-40 and 3309-1-41. Notable changes involved disability benefit recipients who:

1. Were up for review under the "any occupation" standard; and
2. Reported annual earnings of 75% or more of their adjusted final average salary (FAS) under SERS.

In this situation, if the member's current medical records did not indicate a decline in the member's physical or mental capacity, the member's benefit would be terminated without a vocational evaluation or independent medical exam. In addition, these members will not have a right to appeal the termination of benefits to the retirement board.

Also, a right to a late appeal was added when the member was hospitalized or in a care facility at the time the notice of denial or termination was mailed.

Additionally, 3309-1-57, a rule on rules, was amended to reflect the current process by which SERS provides notice to interested individuals of proposed new, amended, or rescinded administrative rules.

## **Federal Relations 2021 Overview**

To update SERS' Board on the major public pension issues that were addressed at the federal level in 2021, SERS welcomed Jeannine Markoe Raymond, director of federal relations for the National Association of State Retirement Administrators.

### ***COVID Relief for Public Pensions***

As COVID relief funds for state and local governments were being discussed, public pensions were continually used as a reason not to provide that relief. Despite reassurances from pension leaders and national public pension advocates that public pensions did not need or want COVID relief funds, the American Rescue Plan Act contained the stipulation that aid "cannot be deposited into a state pension fund."

SERS is [on record](#) as not wanting or needing funding from the COVID relief measures.

### ***Confusing Private Sector Pension Plans with Public Plans***

Last year, several private single- and multi-employer pension plans facing insolvency asked Congress for assistance in addressing their funding issues. Because one of the private plans was named the Teamsters Central States Pension Fund, there was some confusion that public pension plans were asking for similar relief, which was untrue. This led to more outreach to federal legislators to reinforce that public pension plans did not need federal intervention to solve their funding issues.

### ***A Role for Public Pensions in Infrastructure Financing***

As negotiations ramped up on upgrading the nation's infrastructure, public pensions were once again mentioned as potential funding partners. This followed a recent trend of drafting legislation as a way to "compel" public pensions to invest in U.S. infrastructure upgrades. Legislation that was introduced but never passed included National Infrastructure Development Bank Act, Strengthening Pensions through Infrastructure Investment Act, and Pension Infrastructure Finance and Innovation Act. None of the proposals currently being discussed are thought to be moving forward.

### ***Retirement Security Legislation***

Secure 2.0 legislation was introduced in both houses but no action was taken on them. This legislation did not have any impact on public pensions but contained significant improvements for private sector workers such as increasing the age of recommended minimum distributions to 75, allowing additional Roth catchup contributions for people ages 62-64, and implementing administrative improvements to 457 plans.

### ***Social Security Legislation***

The Social Security 2100 Act was introduced and had 200+ co-sponsors. It would increase Social Security benefits and repeal the Government Pension Offset and Windfall Elimination Provision.

Other bills introduced in 2021 dealing with the WEP and GPO included the Equal Treatment of Public Servants Act, Public Servants Protection and Fairness Act, Social Security Fairness Act, and Social Security Fairness for Firefighters and Police Officers Act.

While SERS will continue to monitor the proposed legislation, it is unlikely to advance.

## **Executive Director's Update**

### ***Myths and Misconceptions: Investment Managers and Asset Valuations***

Each month, Executive Director Richard Stensrud addresses a common myth or misconception that does not apply at SERS.

This month's topics were investment managers and asset valuations.

There is a common misconception that assets in alternative asset classes, such as private equity, real estate, or private credit, are not transparent, or that managers fabricate the numbers. This is inaccurate.

SERS considers funds with an established track record using proven strategies. The System researches references, confirms there are no sanctions or compliance issues, and looks at the terms of every contract.

Each fund is subject to an annual audit and many have advisory boards. In addition, all funds report to the U.S. Securities and Exchange Commission (SEC). The agency will sanction a fund if there are asset valuation discrepancies.

Internally, SERS has its own valuation committee that reviews valuations and confirms whether reports are reasonable or not. The System also has an external auditor that looks at the process and methodology of valuations and confirms they are fairly reported and reasonably appropriate.

Stensrud completed the discussion with a quote from SERS' FY2021 *Annual Comprehensive Financial Report*:

*SERS performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, commingled, and real estate investments to assure that the asset values provided by the managers are reasonable.*

### **ACFR Highlights Presented**

Tracy Valentino, chief financial officer for SERS, presented an overview of the organization's FY2021 *Annual Comprehensive Financial Report* (ACFR). 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 ACFR is produced annually.

### **SERS Receives Recognition for Financial Excellence and Transparency**

For the 36th consecutive year, SERS received the Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association of the United States and Canada for its *Annual Comprehensive Financial Report* for the fiscal year ended June 30, 2020.

SERS also received the Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council for excellence in meeting professional standards that guide plan funding and administration for state and local public retirement systems.

In addition, SERS received a four-star rating according to the Ohio Auditor of State's Star Rating System. The four-star rating means that SERS not only met every Sunshine Law requirement, but attained the highest achievement in open and transparent government by implementing five or more best practices in processing public records requests.

### **Stakeholders' Meeting Planned**

The annual SERS Advocacy Group Roundtable will be held from 10 a.m. to 12:30 p.m. on Friday, January 21, 2022. Invitees will be able to attend this year's roundtable virtually via Zoom or in person in the O'Keefe Conference Center of SERS' headquarters, located at 300 E. Broad St., Columbus, 43215. Members of the SERS staff will give presentations on key issues affecting pensions and health care.

### **SERS Continues to Advocate on Proposed Medicare Part D Changes**

For almost two years, SERS has been working with the Public Sector HealthCare Roundtable and other like-minded organizations advocating to protect public sector retirees' drug coverage in the Medicare Part D redesign efforts, which would impact Employer Group Waiver Plans (EGWPs) like that at SERS.

To that end, for the past several months, SERS has been part of a diverse group of retiree plans and

allied organizations to ensure that the efforts to redesign the program do not increase costs for retirees and the plans that serve them in Employer Group Waiver Plans.

Recently, the Senate Finance Committee chairman released the revised draft of the Build Back Better Act and it includes SERS' recommended changes. While this is good news, SERS will continue to monitor the language to ensure it remains in any final version that is sent to President Biden's desk for signature.

### ***SERS Recognizes Former Federal Legislative Consultant***

The Board presented Carol Nolan Drake, SERS' former federal legislative consultant, with a proclamation summarizing her accomplishments while representing SERS since 2017.

During her tenure, Drake advocated for the repeal or reform of the Government Pension Offset and Windfall Elimination Provision penalties, as well as urged Congress to preserve innovative retiree health care programs such as the Wraparound HRA and appropriate Medicare prescription drug coverage through SERS' Employer Group Waiver Plan.

The Board thanked Drake for her guidance on federal government issues and service to SERS.

### ***Staff Charitable Efforts***

#### **Salvation Army Angel Tree Toy Drive**

Each year, staff participates in this annual toy drive, which provides toys to children in need.

This year, the Salvation Army sent SERS 75 gift tags listing specific toys and gifts requested by children. Staff surpassed the goal of 75 by purchasing a total of 120 gifts for boys and girls throughout the central Ohio area.

#### **Annual IT Bake-off 'Cookie Extravaganza for Toys for Tots'**

Staff baked, bought, donated, and ate dozens of cookies in order to raise a new high of \$796 for Toys for Tots.

### **Monthly Retirement and Survivor Benefit Transactions**

For December, the SERS Board approved 515 active members for service retirements, and 18 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 17 at 8:30 a.m. and Friday, February 18 at 8:30 a.m. (if necessary).