



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

FEBRUARY 2022

Investments Quarterly Report

Joanna Bewick and David Lindberg of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' FY2022 second quarter (October-December) investment results.

During the quarter, Bewick noted that asset class performance of the two best performers in 2022, REITs (46.2%) and commodities (27.1%) were the bottom two performers in 2021. US Equity, which was the best performer in 2021, moved to third in 2022 with a 26.7% return.

For the quarter, the U.S. stock market was up 9.6% with 10 of the 11 sectors registering positive returns. Only the communication services sector was negative at -0.8%. Large cap stocks outperformed small cap and growth stocks outperformed value in the large cap space.

Bewick also said that 2021 will be remembered for surging inflation. The Consumer Price Index (CPI) reached its highest level in 40 years. Food and energy prices experienced meaningful increases, along with major core CPI items of automobiles and apparel. Despite a strong employment situation, personal savings rate had fallen to a level last seen in late-2017, suggesting that consumers were saving less as they adjusted to rising prices.

According to Lindberg, SERS' fund performance was a great story for the year. SERS' Total Fund returned 17.1% net of fees for the calendar year which was 2.5% above the benchmark. In dollar terms, this meant that \$408 million was added to the SERS pension trust through the decisions made by SERS' investment staff. Wilshire determined that 1.9% of the value added came from manager performance, 0.7% was attributable to SERS' asset allocation, and -0.1% was incurred in other areas.

When compared with more than 400 other U.S. pension funds, SERS' Total Fund gross of fees investment performance continued to rank favorably over all periods. During the quarter, the 5.25% return ranked 14th; the 1-year return of 17.86% ranked 10th; the 3-year return of 16.16% ranked 30th; the 5-year return of 12.67% ranked 7th and the 10-year return of 11.19% ranked 5th.

Lindberg said that SERS' allocation diversification continues to be the reason that it outperforms the majority of peer system funds that have larger allocations to US equity. SERS has been achieving higher returns with less risk than most U.S. pension funds and has been able to keep pace with those funds with good performance from non-U.S. equity, real estate, and other alternative investments.

SERS' Sharpe Ratio, the comparison of the Total Fund's returns relative to the risk it took to generate those returns, ranked 3rd over the 1-year period, 7th over the 3-year period, and 5th over the 5-year period when compared to other U.S. pension plans.

Global Real Assets Portfolio Review

The role of the global real assets portfolio is to provide stable income from tangible assets, be a partial inflation hedge over the long term, and provide low correlation to equities. Its objective is to provide returns exceeding the NCREIF Property Index and focus more on income-producing strategies. The allocation target for real assets is 17% of the Total Fund with a range of 14%-20%.

The portfolio is comprised of 59.7% core strategies (properties that produce income through rents); 8.3% non-core strategies (those that appreciate in value over time); 28.1% infrastructure; and 3.7% public real estate, which

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provides portfolio liquidity.

The strategy of allocating more capital to better-performing property types boosted portfolio returns in 2021. Staff overweighted exposure to multifamily assets, which had high occupancy rates and consistent rent growth, and industrial, which is the best-performing property type over the last 10 years, and underweighted exposure to office and retail assets, both of which were adversely affected by the pandemic. SERS also maintained exposure to senior housing, self-storage, single family rentals, and life science to provide portfolio diversification.

Geographically, 40.8% of SERS' U.S. real assets holdings are in the West, 30.6% in the East, 20.7% in the South, and 7.9% in the Midwest. The West and South have been the best-performing regions over the past one, three, five, and ten-year periods. At the request of the Board, staff is looking into the possibility of increasing exposure in the Midwest. SERS' current exposure in the Midwest comes primarily from investment in industrial and multifamily holdings.

For calendar year 2021, the portfolio returned 17.24% net of fees, which was 509 basis points above the benchmark. In dollar terms, this meant that \$123 million was added to the pension trust through the decisions made by the SERS' investment staff. Staff's continued focus on lowering management fees led to a reduction of the portfolio's fee ratio from 0.82% last year to 0.75% in 2021. Since 2018, fees in the global real assets portfolio have been reduced by 0.40%.

In 2021, staff made noteworthy additions to the infrastructure portion of the global real assets portfolio. Staff added the first Environmental, Social, and Governance (ESG) investment in an energy transition infrastructure fund and the first co-investment in a cell tower platform. Currently, SERS has a 2% allocation to renewable assets, and future goals include adding more.

In FY2022, staff will be evaluating new equity and debt managers for additional diversification, exploring additional co-investment opportunities, and focusing on investments with inflation protection characteristics.

Total Fund Update

TOTAL FUND BALANCE		
November 30	December 31	Difference
\$18.24 billion	\$18.71 billion	▲ \$470 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 7.07%	▲ 17.13%	▲ 15.48%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 1.64%	▲ 2.47%	▲ 1.29%

Investment Committee Approves Four Investments

The SERS Staff Investment Committee approved commitments of \$50 million each to Brookfield Global Transition Fund and Digital Bridge Fund Partners II, both infrastructure strategies within the real assets portfolio.

The committee also approved a \$50 million commitment to Carlyle Asia Partners Growth II, a Pan-Asian growth equity strategy, and a \$10 million commitment to Freeman Spogli VIII WhiteWater Express, a buyout strategy, both within the private equity portfolio.

Board Approves Amended Statement of Investment Policy

The Board approved amendments to [SERS' Statement of Investment Policy](#), a document that contains SERS' investment philosophy, objectives, asset allocation, and governance responsibilities. The changes

included assigning a range of 0% to 10%, with a target of 0%, to leverage, which may be employed to balance risk contribution and/or potentially enhance the total fund return, and increasing the single co-investment limit from \$10 million to \$25 million.

Board Approves Filing of Amended Administrative Rule

The Board approved the filing of an amended administrative rule requiring all payments from SERS be issued by direct deposit, beginning July 1, 2022.

In 2013, SERS initiated a mandatory direct deposit requirement for all new monthly benefit recipients. This approach was an effective mechanism for delivering timely and secure payments, as well more cost effective than providing paper checks.

The direct deposit requirement is being expanded to all benefit payments, including lump sum payments and monthly benefit payments made to benefit recipients currently receiving paper checks. Advance notification will be provided to those currently receiving their monthly benefit by check.

Board Approves Compensation Study Recommendations

In accordance with the SERS Employee Compensation Policy, every five years, or as recommended by the executive director, SERS must use an independent source to determine the competitiveness and effectiveness of the employee compensation program.

The last compensation study was performed in 2013.

To fulfill this obligation, CBIZ Compensation Consulting was selected to conduct a compensation study. Based on the findings of the study and recommendations by the Compensation Committee, the following measures were approved by the Board:

- 3.2% budget for performance-based merit increases in 2022
- Compensation adjustments to bring employees to the minimum of their assigned salary grade
- Compression adjustments to create wage spacing between experienced and new employees, as well as to better align pay with employee experience

The Board recognizes that this action will help SERS attract and retain qualified, skilled, and motivated staff while continuing to maintain a high-performance culture and provide excellent service to SERS' members, retirees, and employers. The Board further determined that these objectives can be met without diminishing the sustainability of the pension fund.

Executive Director's Update

Annual Advocacy Group Roundtable

On January 21, SERS held its annual SERS Pension and Health Care Advocacy Group Roundtable virtually. Six Board members along with 11 representatives from eight advocacy groups attended.

SERS staff discussed the state of the System, as well the upcoming direct deposit requirement and other key activities expected to take place in 2022.

SERS' Board Can Continue to Attend Meetings Virtually

Shortly after the Board meeting, Gov. Mike DeWine signed HB51, which gives public bodies, such as the SERS Board, the ability to meet virtually. The authority has been extended through June 30, 2022.

State Legislative Update

Reps. Haraz Ghanbari (R-Perrysburg) and Brigid Kelly (D-Cincinnati) have re-introduced three bills from last session that would require retirement systems to broadcast their board meetings, provide greater fee

disclosure for certain investments, and prohibit the systems from doing business with entities that employ former system staff.

SERS currently broadcasts all Board and committee meetings through Zoom and has done so since 2020. As a result, public attendance at the Board meetings has increased. SERS intends to continue to broadcast going forward.

Regarding the proposed greater fee disclosure and prohibition from doing business with firms that employ former System staff, SERS is supportive of efforts to increase fee transparency and does not currently have business ties to former staff.

The System has already taken a number of measures to increase fee disclosure, including developing and adopting the Institutional Limited Partners Association (ILPA) fee reporting template, which provides not only enhanced disclosure but also consistency in fee reporting. SERS has implemented the ILPA reporting template across its private market portfolios.

Member Services Continues to Excel in Customer Service

SERS' Member Services department regularly hosts programs intended to help members prepare for retirement.

In February, the webinars and conference experienced robust registration rates. February's virtual retirement conference (for members within two years of retirement) had 300 registrants. Similarly, 241 members attended the *Retiring with SERS* webinar (intended for members within one year of retirement) on February 14, which was the highest webinar attendance to date.

A full list of upcoming webinar and conference dates is available on SERS' [website](#).

Member Services also continues to deliver exceptional customer service over the phone.

While call volumes continue to be near last year's high levels, wait times and abandon rates are declining. Last year, wait times were over four minutes, now down to an average of one minute and 20 seconds.

Monthly Retirement and Survivor Benefit Transactions

For February, the SERS Board approved 519 active members for service retirements, and 50 survivor benefits for spouses and/or dependents.

March Meeting Dates

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