



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

MARCH 2022

Opportunistic and Tactical Investment Portfolio Review

SERS' opportunistic and tactical portfolio is not a strategic asset class with a policy allocation, but staff is authorized to invest up to 5% of the Total Fund in investments that do not fit within the existing asset classes. The performance objective is to earn a net-of-fee return in excess of the Bloomberg U.S. Aggregate Bond Index +2%.

As of January 31, 2021, the portfolio's market value was \$884 million or 4.9% of the Total Fund. The 1-year return of the portfolio was 21% net of fees, and the 3-year return was 8.1%.

The investments contained in the opportunistic and tactical portfolio include diversified and tactical strategies (38%), distressed debt (20%), structured credit (13%), and diversified multi asset strategy (MAS) funds (29%).

SERS has been invested in distressed debt funds since 2014. These funds are made up of good companies with bad balance sheets.

The one-year return for this segment was 41%. Since 2013, SERS had been invested in structured credit funds and this segment realized gains of 22% over the last year. The MAS managers were moved to the opportunistic and tactical portfolio last year when the MAS portfolio was eliminated. This segment contained long-term managers and returned 15% last year. Finally, the diversified and tactical segment, which contained exposure to commodities and gold, registered a 2% return in less than a year of existence.

Over the last 12 months, staff has added seven new funds to the opportunistic and tactical portfolio with a value of more than \$427 million. The focus of these additions has been diversification and inflation protection. The ongoing market volatility has created many investment opportunities and staff has been busy researching those.

Monthly Investment Report

SERS CIO, Farouki Majeed, presented the investment report for the month ending January 2022, the preliminary report for February, and updated the Board on the economic effects of the geopolitical turmoil created when Russia invaded Ukraine on February 24, 2022.

While inflation in the U.S. became a problem before the invasion, the war and the sanctions are likely to add to inflationary pressure globally. Russia and Ukraine account for about 30% of global wheat exports and Russia is the third largest producer of oil and gas as well a significant producer of industrial materials and fertilizer raw materials.

The war and the sanctions regime also will have a longer-term negative impact on globalized trading and supply chain trends of recent decades.

The war has stoked fears of a U.S. recession among economists while others foresee a stagflation scenario emerging where high inflation will persist along with slower economic growth. Consumer sentiment also is declining which could slow economic activity.

Majeed said SERS' portfolio is well diversified and has relatively high allocation to Real Estate and Infrastructure that may mitigate the effects of inflation on financial assets.

RETIREMENT BOARD

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JEFFREY T. DELEONE
Vice-Chair, Appointed Member

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JAMES A. ROSSLER, JR.
Appointed Member

FRANK A. WEGLARZ
Retiree-Member

DANIEL L. WILSON
Appointed Member

Investment Committee Approves Two Investments

The SERS Staff Investment Committee approved a commitment of \$50 million to PanAgora, a risk parity strategy within the opportunistic portfolio.

The committee also approved a \$10 million commitment to Francisco Partners V Renaissance Co-Invest, a buyout strategy within the private equity portfolio.

These investments will be funded from cash reserves.

Total Fund Update

| TOTAL FUND BALANCE | | |
|---------------------------------|-----------------|-----------------|
| December 31 | January 31 | Difference |
| \$18.71 billion | \$18.14 billion | ▼ \$570 million |
| TOTAL FUND RETURN (net of fees) | | |
| Fiscal Year | Calendar Year | 3-Year |
| ▲ 4.09% | ▼ 2.78% | ▲ 12.85% |
| TOTAL FUND RETURN vs. BENCHMARK | | |
| Fiscal Year | Calendar Year | 3-Year |
| ▲ 1.38% | ▼ 0.21% | ▲ 1.16% |

Health Care Update

Health Care Director Christi Pepe presented results from Buck Consulting and recommendations for contract extensions with the Aetna Life Insurance Company to provide Medicare Advantage PPO and non-Medicare medical services to SERS' retirees.

Aetna also currently provides operational support to SERS to identify Medicare and Medicaid eligibility, to inform SERS' enrollment and eligibility processes.

Buck Consulting, which reviewed SERS' medical and prescription drug arrangements, concluded that the current program structure was financially positive, and recommended that SERS re-negotiate with Aetna for Medicare Advantage PPO and non-Medicare medical services for financial improvements.

With the changes, SERS' portion of the Aetna Medicare Advantage PPO risk share is expected to improve by \$21.5 million over the five-year contract term. Additionally, Aetna has agreed to a 0% increase in the administrative fee for the non-Medicare group plan for the entire five-year period, as well as to improvements in care management participation and enrollee use of the highest quality providers.

These proposed contract changes will support the long-term sustainability of the Health Care Fund and will provide value for SERS' enrollees.

The Board considered resolutions to approve the SERS staff to enter into Medicare Advantage PPO and non-Medicare Administrative Services contracts with Aetna to continue SERS' enrollee cost, quality, satisfaction, and financial stability for the SERS Health Care Fund.

The Board approved resolutions to extend SERS' Medicare Advantage PPO contract, and approved an amended resolution to extend the current non-Medicare Administrative Services contract with no administrative fee increase.

Executive Director's Update

SERS' Russian Holdings

The Board of Trustees and the SERS staff discussed SERS' exposure to Russian assets.

SERS' Board and staff recognize the gravity of the Russian incursion into sovereign Ukraine and its effect on the world. We admire the resolve of the Ukrainian people and support their continuing efforts to defend their peaceful nation.

SERS supports all state and national efforts to stop the flow of money to Russia, and has instructed its emerging markets managers to refrain from purchasing Russian and Belarusian assets until those sanctions are lifted.

As a globally diversified investor, SERS had exposure to Russian assets through our emerging market equity and bond holdings. As of March 1, 2022, SERS' Russian holdings totaled \$42.1 million, which was 0.24% of the Total Fund holdings of \$17.9 billion. As of March 17, 2022, there was no market for these assets and they had been marked down to zero as stipulated in SERS' investment valuation policy.

While SERS continues to hold the shares in the Russian assets, staff will carefully assess activity in Russian markets when they reopen and determine when it is reasonable and prudent to sell those assets. Ultimately, responsibly investing SERS' assets to provide secure retirements for our members is our utmost priority. As always, our fiduciary duties guide our decisions in buying and selling assets.

Ohio Retirement Study Council (ORSC) Update

At its February meeting, the ORSC elected Rep. Phil Plummer (R-Dayton) as chairman and Rep. Adam Bird (R-New Richmond) was appointed to replace former Rep. Rick Carfagna.

Member and Employer Outreach Remain a Top Priority

SERS' Member Services and Employer Services departments regularly host educational opportunities intended to help members prepare for retirement and employers to better understand their role at SERS.

In March, SERS' Employer Services Outreach team hosted a webinar on compensation and reporting.

In addition, the Member Services Department continued to host virtual retirement conferences, which are for members within two years of retirement, and *Retiring with SERS* webinars, which are for members within one year of retirement. Both yielded high attendance rates.

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

To ensure that SERS is providing exceptional service to its members and retirees, new retirees are regularly surveyed to determine their satisfaction with the retirement process.

On the most recent survey, SERS staff received scores between 9.6 and 9.8 (on a scale of 1 to 10) for qualities such as staff knowledge and courtesy. With respect to the process itself, SERS received scores between 9.1 and 9.6, with the highest scores related to the ease of reaching a Member Services representative, response speed, accuracy, and follow up.

Monthly Retirement and Survivor Benefit Transactions

For March, the SERS Board approved 441 active members for service retirements, and 25 survivor benefits for spouses and/or dependents.

April Meeting Dates

The next Board meeting will take place Thursday, April 21, and Friday, April 22 (if necessary), at 8:30 a.m.