



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

SEPTEMBER 2022

Board Approves COLA for 2023

At its September meeting, the Board unanimously voted to approve a 2.5% cost-of-living adjustment (COLA) increase for eligible retirees and beneficiaries in 2023.

By statute, SERS' COLA is based on the year-to-year change in the Consumer Price Index (June 2021 to June 2022) for Urban Wage Earners (CPI-W), with a floor of 0% and a cap of 2.5%. While the Board has the authority to adjust the percentage, based on information provided to the Board from SERS' actuary, Cavanaugh MacDonald, the Board approved the statutorily determined 2.5% COLA without adjustment.

The 2023 COLA takes effect on the benefit anniversary of the recipient's effective date of retirement.

Benefit recipients whose benefit effective date is on or after April 1, 2018, must wait until the fourth anniversary of their allowance or benefit before receiving a COLA.

10-Year Investment Review

When CIO Farouki Majeed was hired by SERS in 2012, plans were put in place to enhance investment performance, including improving portfolio structure, implementing a strong risk management framework, improving cost effectiveness, and developing a strong and consistent investment culture within the SERS team.

Portfolio Structure

Since 2012, the Total Fund's policy asset allocation has changed substantially with the Board's approval:

- Hedge fund exposure has dropped from 15% to 0%
- Real Assets exposure has increased from 10% to 17%
- Private Credit has become a policy asset class with a 5% target
- Private Equity has increased from 10% to 12%
- SERS' cash position has increased from 1% to 2%

Other changes include adding infrastructure investments to the Real Assets portfolio in 2013 which now comprises 26% of that portfolio, increasing exposure to core assets in Real Assets to reduce leverage and increase income, adding co-investments to the Private Equity and Private Credit portfolios to reduce fees, increasing passive exposure in the U.S. Equity portfolio from 40% to 74% to decrease tracking error and improve performance, and implementing tactical asset allocation and currency overlay programs, which have added a combined \$110 million to the Total Fund since 2014.

Risk Management

Since 2012, SERS' investment team has employed a risk budget framework where active risks are allocated to areas of outperformance and managed accordingly. Risk is also considered in each new investment and how it affects the risk balance of the Total Fund and asset class portfolios. The implementation of the BARRA risk system in 2016 increased staff's ability to track risk allocation in the portfolio. The SERS Total Fund now has less active risk than in 2012 and is realizing better performance against its benchmarks.

RETIREMENT BOARD

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Chair, Appointed Member

FRANK A. WEGLARZ
Vice-Chair, Retiree-Member

HUGH W. GARSIDE, JR.
Employee-Member

JAMES HALLER
Employee-Member

MATTHEW KING
Employee-Member

CATHERINE P. MOSS
Retiree-Member

BARBARA M. PHILLIPS
Retiree-Member

JAMES A. ROSSLER, JR.
Appointed Member

DANIEL L. WILSON
Appointed Member

Cost Effectiveness

Since 2012, SERS' staff has been successful at reducing annual investment management fees from 74 basis points to 57 basis points, a 23% decrease.

Investment Culture

In the past, the investment team worked mostly within its own asset class portfolio, but the addition of the SERS Staff Investment Committee and the Opportunistic portfolio has generated more interaction among team members. As a result, the team is more integrated thus more adaptive to change and more innovative.

Results

All of these changes have improved SERS' investment performance. In 2012, SERS was underperforming both the 3-year and 10-year rolling returns when compared to policy benchmarks. Since 2014, the 3-year rolling returns were higher than the benchmark and in 2019, the 10-year rolling returns began trending higher than the benchmark.

In addition, SERS' rank among other U.S. pension funds improved significantly. Nationally, in 2012, SERS ranked 58th in 1-year returns, 79th in 3-year returns, 93rd in 5-year returns, and 73rd in 10-year returns.

In 2022, those numbers are now 4th, 4th, 3rd, and 2nd respectively, meaning SERS is one of the best-performing investment programs in the U.S.

Investments Quarterly Report

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

Inflation continues to rise with no signs of slowing down in the near future. Rising costs can be found in nearly every sector of the economy, with energy (up 35%), shelter (up 5.5%), and food (up 10%) representing the largest components.

Bewick indicated that U.S. interest rates have increased to counter inflation.

The current four-decade high inflation level caused a tightening of federal policy, with the federal funds rate increasing from near-zero to a range of 2.25% to 2.50%. The Federal Reserve believes these rate hikes will help slow down inflation by increasing the costs of borrowing money.

During the quarter, Bewick noted that the U.S. stock market experienced the largest quarterly drop of 16.8% since the beginning of the pandemic. Large cap and small cap stocks performed comparably, while growth stocks underperformed value stocks. Every sector experienced negative returns, with the consumer discretionary, information technology, and communication services sectors performing the worst.

High inflation is affecting countries around the world, with rates in Europe approaching U.S. levels. Although COVID measures have been recently lifted in China, economic growth is not rising as quickly as expected.

For the quarter, SERS' Total Fund outperformed the benchmark by 1.5% with a -5.5% return. For the fiscal year, SERS' Total Fund outperformed the benchmark by 3.1% with a -0.5% return.

Lindberg explained that much of the reason for SERS' outperformance was due to asset allocation and manager value added throughout the portfolio. Asset allocation alone added 100 basis points above the benchmark.

In addition, Wilshire introduced a new chart that measures how well SERS and peer funds performed compared to the risk consumed. Lindberg indicated that due to the diversification of SERS' assets, SERS took less risk than

the average peer fund but performed well. He added that SERS is being paid for taking risks in the private market, which produced a return of 34.35% for the fiscal year, the highest of any asset class.

SERS' historical Total Fund returns ranked in the top 10% of peer groups over the 1-, 3-, 5-, and 10-year periods. Over one year and three years, SERS ranked 4th; over five years, SERS ranked 3rd, and over 10 years, SERS ranked 2nd.

Investment Committee Approves Four Private Equity Investments

The SERS Staff Investment Committee approved a €50 million commitment to Bridgepoint Europe VII, a \$50 million commitment to Francisco Partners Agility III, a \$100 million commitment to Francisco Partners VII, and a \$100 million commitment to Silver Lake VII, all buyout strategies within the private equity portfolio.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$17.12 billion	\$17.58 billion	▲ \$460 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 2.94%	▼ 4.32%	▲ 10.08%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▼ 0.52%	▲ 1.31%	▲ 1.52%

Board Approves Filing of Amended Administrative Rule

The Board approved the filing of an amended administrative rule concerning the determination of a statutory beneficiary.

Currently, SERS' statutory order of succession does not take into account if a beneficiary died simultaneously or within hours of the member's death.

The administrative rule is being updated to reflect that if any designated or statutory beneficiary dies within 120 hours, or five days, of the member or retiree, SERS will move on to the next beneficiary in the line of succession rather than pay benefits to the deceased beneficiary's estate.

This amendment will bring SERS in line with Ohio's current survivorship law. In addition, it will allow SERS to pay benefits sooner by reducing administrative burdens for the beneficiary.

Executive Director's Update

SERS Celebrates 85th Birthday

On September 1, SERS observed 85 years of serving the people who serve Ohio schools. To celebrate, SERS' staff chose the theme of gratitude to remind everyone to take the time to give thanks for everything good in our lives. If you follow us on Twitter and Facebook, you can test your knowledge of SERS with trivia and keep up to date on what's happening at SERS.

Board Allocates 0% to Health Care Fund

With the Health Care Fund in solid standing, the Board elected not to allocate any of the 0.50% employer pension contributions to that fund.

SERS Receives Highest Recognition for Financial Reporting

For the 37th consecutive year, SERS has received the Certificate of Achievement for Financial Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for its FY2021 Annual Comprehensive Financial Report. The award represents the highest achievement in government financial reporting. SERS also has received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for its FY2021 Summary Annual Financial Report.

SERS to Post Quarterly Alternative Investment Data

In support of the Board's continuing commitment to operational transparency, SERS will begin posting quarterly alternative investment return data to its website in the next few months. This data will contain manager-specific data that includes year of initial investment, commitment amount, contributions, distributions, valuation, total value paid in amount, and investment rate of return. This data will be available for all of SERS' alternative investment portfolios.

Also, SERS was one of the first Ohio pension systems to post its monthly administrative expense reports, even before the Ohio Checkbook was developed.

Two years of monthly reports are available at www.ohsers.org.

Inflation Reduction Act Aids SERS Health Care

In August, Congress passed the Inflation Reduction Act. Some key provisions of interest to SERS included Medicare prescription drug changes aimed at reducing drug costs, and language that spares Employer Group Waiver Plans (EGWPs) like SERS' from reductions in drug manufacturer rebates. Also included was an extension of ACA subsidies that were due to expire that will continue to keep marketplace plans more affordable for SERS Wraparound HRA enrollees.

Windfall Elimination Provision (WEP) / Government Pension Offset (GPO) Actions

SERS has sent a letter to Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX) of the House Ways and Means committee urging them to find a compromise between their two WEP reform legislative proposals before the end of this year. SERS believes that a combined bill will have a greater chance at congressional action.

SERS also shared the letter with the rest of the Ohio congressional delegation and the other members of the House Ways and Means committee.

Cobalt Survey Results

Every quarter, SERS receives results of the Cobalt survey, which shares the experiences new retirees had with SERS. This quarter, SERS received a score of 94 out of 100.

Along with positive ratings, several retirees expressed their appreciation with remarks such as the following: "Everything was excellent and I thank you for all your help and all you've done for me. SERS is a breath of fresh air in these days of...confusion."

Monthly Retirement and Survivor Benefit Transactions

For September, the SERS Board approved 723 active members for service retirements, and 44 survivor benefits for spouses and/or dependents.

October Meeting Dates

The next Board meeting will take place Thursday, October 20, and Friday, October 21 (if necessary), at 8:30 a.m.