



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

DECEMBER 2022

Board Certifies Employee-Member Board Candidates

At the meeting, the Board certified that Rebekah R. Roe and Aimee Russell submitted sufficient petitions to qualify as candidates for the four-year employee-member seat term that begins July 1, 2023, and ends on June 30, 2027. Both Roe and Russell are running for a first term on the Board.

All active members will receive a ballot, a postage-paid return envelope, and candidate biographies by early February. Ballots must be returned no later than 4:30 p.m. EST on March 6, 2023, to be valid.

External Auditor Presents FY2022 Analysis

Joe Leonard, senior assurance manager, and Jamie Robinson, assurance manager, with SERS' independent external auditor, RSM US LLP, presented the FY2022 Independent Auditor's Report to the Board.

The results of RSM's audit produced an unmodified opinion, which means that SERS' financial statements are presented, in all material respects, in accordance with applicable financial reporting framework. This is the highest rating possible.

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. In response to Board questions, the auditors confirmed that they do recommend enhancements for future implementation in the areas of control, best practices, and staffing.

The annual audit began in June, and as it progressed, staff worked 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 will be available on SERS' website later this month.

Federal Relations 2022 Overview

Jeannine Markoe Raymond, director of federal relations for the National Association of State Retirement Administrators, updated SERS' Board on the major federal legislative efforts that impacted public pensions in 2022.

Retirement Security Legislation

Secure 2.0 legislation, which was introduced in both houses in 2021 with no action, is currently part of the omnibus bill that sets funding for the upcoming year. While this legislation does not have any impact on public pensions, it contains 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.

WEP/GPO Legislation

While there is little legislative support for a full repeal of the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) because of their costs to the Social Security program, there is still some hope

RETIREMENT BOARD

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Appointed Member

DANIEL L. WILSON
Appointed Member

that legislation with a modified formula for WEP calculations could be approved. Two such bills have been introduced in the House and lawmakers would need to agree on one or come to some compromise before the end of the year. Social Security now has all the data it needs to calculate the lifetime earnings and Social Security contributions of all workers, so a new formula could be implemented quickly.

Opportunistic and Tactical Investments Portfolio Review

Staff provided the Board with an overview of SERS' \$633 million opportunistic and tactical investment portfolio which comprises 3.7% of the Total Fund.

While the portfolio is not a strategic asset class with a policy allocation, staff is authorized to invest up to 7% 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%.

The opportunistic and tactical investments portfolio is a relatively new portfolio that transpired following the 2008-09 global financial crisis. First implemented in 2013, it gives the System flexibility to invest in strategies that do not necessarily fit into other asset classes.

The one-year return of the portfolio was -1.1% net of fees, and the three-year return was 6.2%. The portfolio is exceeding the policy benchmark across all time periods. The one-year return, though negative, far exceeded the return of the bond index which was negative 16%.

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

Until 2020, SERS had a dedicated allocation to MAS. After a recent review, the MAS portfolio was eliminated, and many managers were terminated. Three high-performing MAS managers were incorporated into the opportunistic and tactical investments portfolio.

This strategy consists of debt and equity investments and makes up 17% of the portfolio.

SERS has invested in distressed debt funds since 2014. Representing 26% of the portfolio, these funds consist of managers that take advantage of volatility and buy debt below what is considered fair market value. Typically, this includes the debt of a financially distressed company undergoing operational challenges or operating in a cyclical industry such as energy or retail. With a five-year return of 14% net of fees, this area has performed well for SERS.

Since 2013, SERS has invested in structured credit funds, which include investments in commercial real estate, mortgages, and other asset-backed securities. There is a high level of current income associated with these types of investments.

As far as performance, the opportunistic and tactical investments portfolio has provided adequate downside protection and generated returns of 6.7% since inception.

Total Fund Update

TOTAL FUND BALANCE		
September 30	October 31	Difference
\$16.53 billion	\$16.93 billion	▲ \$400 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 0.24%	▼ 7.28%	▲ 8.18%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.99%	▲ 2.65%	▲ 2.03%

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 with the Joint Committee on Agency Rule Review.

Of note is an amendment to Rule 3309-1-64, which clarifies that individuals are eligible to enroll in dental and/or vision coverage provided they meet the eligibility threshold for SERS' health care coverage. They do not need to be enrolled in SERS' health care coverage to enroll in dental or vision coverage.

Rule 3309-1-13 addresses how a member may obtain service credit for non-contributing optional service and non-contributing compulsory service. Amendments to this rule include clarifying that optional service ceased to be a type of service as of June 30, 1991, and that it may be purchased in increments of one month, beginning with the most recent month.

Executive Director's Update

ACFR Highlights Presented

Marni Hall, chief financial officer for SERS, presented an overview of the organization's FY2022 *Annual Comprehensive Financial Report* (ACFR). She provided an overview of the contents of the ACFR by section, and discussed the Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB) regulations that guide the production of the ACFR.

SERS Receives Recognition for Financial Excellence and Transparency

For the 37th 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, 2021. 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.

Independent Actuarial Audit Results

When the Board awarded Cavanaugh Macdonald a new five-year contract on July 1, 2022, for actuarial services following a Request for Proposal (RFP) search, they authorized staff to pursue an actuarial audit of Cavanaugh Macdonald to ensure their performance complied with current actuarial standards and practices. From a group of three applicants, Milliman was chosen to perform the actuarial audit.

Scott Porter and Nick Collier, principal & consulting actuaries with Milliman, reported the results of the actuarial audit to the Board.

For the audit, Milliman independently reviewed the actuarial methods, procedures, actuarial assumptions and membership data, and the resulting actuarially computed normal costs and liabilities as shown in the June 30, 2021, reports on the Actuarial Valuation of Defined Benefit Allowances and Projections of Retiree Health Benefits for the School Employees Retirement System of Ohio (SERS).

The scope of the review was to determine:

- The validity, completeness, and appropriateness of the demographic and financial information used by Cavanaugh Macdonald to meet SERS' funding objectives for both the basic benefits and health care benefits
- The reasonableness of the consulting actuary's conclusions and the conformance of Cavanaugh Macdonald's work with generally accepted actuarial standards of practice

- The reasonableness of Cavanaugh Macdonald's conclusions when reviewing retiree health care premiums and funding

Milliman concluded that all major actuarial functions are being appropriately addressed and that Cavanaugh Macdonald has employed generally accepted actuarial practices and principles in studying plan experience, selecting assumptions, determining liabilities and contribution rates, and presenting the results of their work.

In response to Board questions, Porter indicated that Milliman made several recommendations for future performance improvement but none of them would have changed the June 30, 2021 reports for Defined Benefit Allowances or Health Benefits. Executive Director Stensrud assured the Board that staff will work with Cavanaugh Macdonald to identify ways to best implement Milliman's suggestions in future actuarial reporting.

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 70 gift tags listing specific toys and gifts requested by children. Staff surpassed the goal of 70 by purchasing more than 100 gifts for boys and girls throughout the central Ohio area.

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

SERS staff baked, bought, donated, and ate dozens of cookies while raising more than \$800 for Toys for Tots.

Monthly Retirement and Survivor Benefit Transactions

For December, the SERS Board approved 264 active members for service retirements, and 14 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 16, and Friday, February 17, at 8:30 a.m. (if necessary).