



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
BOARD MEETING HIGHLIGHTS
APRIL 2023

Ballot Certification of Employee-Member Seat

On March 7, staff counted ballots for the employee-member seat, with a term beginning July 1, 2023, and ending June 30, 2027.

The ballot counting process was observed by representatives of the Attorney General's Office and the Secretary of State.

A total of 9,839 valid ballots were cast. The representatives from the Attorney General's Office and the Secretary of State, and the SERS Board at its April Board meeting, certified the election results (7,265 votes to 2,561 votes) in favor of Aimee Russell. Thirteen ballots were received for write-in candidates.



Russell is a bus driver/paraprofessional and general worker in the cafeteria for Ashland City Schools. She also has been an active member of the Ohio Association of Public School Employees (OAPSE) for 11 years, and currently serves on the grievance writing committee.

Board Approves Asset Allocation Change

Following the recommendation of SERS' staff and general investment consultant, Wilshire Associates, the SERS Board approved a new investment allocation policy with the following targets:

Asset Class	Recommended Policy (Change to Current Allocation)	Recommended Range
Global Equity	40% (-5%)	35-45%
Global Real Assets	20% (+3%)	17-22%
Global Fixed Income	18% (-1%)	13-23%
Global Private Equity	14% (+2%)	11-17%
Global Private Credit	5%	3-7%
Cash	3% (+1%)	1-5%

The new asset allocation will be implemented July 1, 2023, the start of SERS' new fiscal year.

Modeling for the asset liability review began in December 2022. Staff and Wilshire reviewed numerous allocation scenarios with the goal of improving the expected return of the Total Fund without significantly increasing risk.

RETIREMENT BOARD

JEFFREY T. DELEONE
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

The new allocation is expected to increase expected returns by 2 basis points and decrease risk by 9 basis points, while keeping the Sharpe Ratio (return/risk) unchanged at 0.27.

Historically, the Board has allowed the asset allocation policy to be long-term focused and the new allocation targets continue to remain centered on preserving liquidity and maintaining an income focus. By reallocating 5% of the global equity allocation to private equity and real assets, staff believes cash flow will improve. Private equity has an attractive return premium over global equity, and the increase in real assets will provide higher inflation protection. In addition, the marginally higher allocation to cash is prudent to meet liquidity needs.

Global Private Credit Portfolio Review

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

The global private credit allocation is set at 5% with a permissible range of 3% to 7%.

As of February 28, 2023, the portfolio had a market value of \$1.0 billion and its allocation was 5.8% of the Total Fund, an increase of \$309.4 million and 1.9% from last year.

The role of private credit in the Total Fund is to provide risk-adjusted returns in excess of those provided by publicly traded fixed income securities and to generate a consistent cash yield. Its performance objective is to provide returns in excess of the 90-day Treasury bill rate, plus 4.5% net of fees.

For the one-year period ending February 28, 2023, the portfolio returned 5.9% net of fees, which trailed the policy benchmark by 0.8%. It generated a portfolio income yield of 9.8% and a cash distribution yield of 7.2%.

Staff noted that the current state of the market and continued increase in interest rates could create higher needs for private capital. The portfolio's capital commitments totaled \$1.9 billion, with \$305 million deployed during the last 12 months. These new capital commitments included three new funds and one separately managed account.

There are several strategies within private credit investments, each with different risk and return parameters. SERS' private credit portfolio is made up of three different strategies: direct lending, with a current allocation of 86%; stressed/distressed debt, with a current allocation of 7%; and structured credit/other with a current allocation of 7%.

The direct lending strategy consists of senior secured loans to middle market companies. Stressed/distressed debt includes companies undergoing operational challenges or operating in out-of-favor industries. Structured credit/other is comprised of investments in commercial mortgage-backed real estate and other securities.

For FY2023, staff is focused on maintaining the allocation within the target range, evaluating new investments with a cautious approach given the economic outlook and the rising interest rate environment, and considering differentiated strategies that can add further diversification to the portfolio while also contributing to the portfolio's return and cash yield. Additionally, staff is continuing to look for co-investment opportunities with existing managers.

Managing Organization-Wide Risks at SERS

In 2020, SERS' Board approved a fundamental change to how the organization identifies, assesses, and mitigates risk by authorizing the creation of an Enterprise Risk Management (ERM) department. Now, instead of individual departments managing all aspects of their own risk management, the ERM team provides enhanced expertise and structure to risk mitigation processes, which eases the burden on individual departments and strengthens the organization's overall risk controls.

Ultimately, ERM's role is to assess and report the status of key risks to process owners, executive leadership, and the Board. Its goals include enabling risk-informed decision making, creating a risk aware culture, lessening the impact of adverse events, enhancing Board risk oversight, and exploiting the impact of opportunities.

Joe Bell, SERS' chief risk officer, provided an update to the Board on ERM's progress. At present, SERS' ERM processes are in different stages of maturity, and department staff self-assess annually to determine the additional steps needed to continue progress on the improvement roadmap. Some future initiatives include scheduling periodic risk update meetings with department process owners, defining/refining risk appetite and tolerable risk limits for key risks, coordinating internal and external risk oversight, obtaining systemic performance data, validating risks/controls, and creating reporting models for leadership and Board.

The foundation for monitoring SERS' risks is the creation of risk registers. Risk registers document, track, and monitor potential risks and identify management's measures and actions to manage the risk to a tolerable level. A register includes a description of the risk, the appetite for risk by the owner, risk tolerance, an impact score, a likelihood score of that risk happening, inherent and residual risk scores, and controls in place to minimize that risk.

Activities implemented include business impact analyses of critical processes, emergency response guidelines, enhanced vendor monitoring, disaster recovery planning, incident response testing, and insurance.

Investment Committee Approves Three Investments

The SERS Staff Investment Committee approved a £25 million, plus £6.3 million side-car co-investment, commitment to Bridgepoint Growth II, a Pan-European/lower middle market buyout strategy within the private equity portfolio, a \$75 million commitment to HPS VI, a direct lending strategy within the private credit portfolio, and a \$25 million commitment to IFC Core Farmland Fund, an agriculture strategy within the real assets portfolio.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
January 31	February 28	Difference
\$17.64 billion	\$17.30 billion	▼ \$340 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 2.96%	▲ 1.37%	▲ 9.52%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.01%	▼ 0.68%	▲ 1.64%

Strategic Plan Update

Beginning July 1, 2019, SERS' staff implemented a *5-Year Strategic Plan* that established business direction through goals, strategies, and targets. Ultimately, six goals were established: pension fund sustainability, health care sustainability, service delivery, operations, culture, and communications and stakeholder engagement.

SERS' Deputy Director Karen Roggenkamp updated the Board on major accomplishments that supported the goals of strategic plan.

Major accomplishments for the pension and health care sustainability goals include preparing data for the Board's sustainability discussions, getting the Contribution Based Benefit Cap legislation introduced this session, stretching the health care fund solvency to 38 years, and expanding counseling around federal Marketplace incentives to reduce the cost of insurance to non-Medicare retirees and SERS.

Under the goals of service and operations, staff added virtual counseling for members, virtual retirement conferences, and streaming of monthly Board meetings, implemented a 5-year roadmap for technology expenditures, moved disaster recovery migration from a brick-and-mortar site to the Cloud, implemented Office 365 organization-wide and rolled out digital workplace to all business teams, moved most retirees to direct deposit for their benefit payments and all refunds to electronic payments, as well as added e-document capabilities to the SERS portal.

For culture, staff completed the Employee Engagement Survey, relaunched the Supervisor Roundtable, updated SERS' values to include diversity, equity, and inclusion, developed seven leadership pillars to foster interdepartmental communication, and implemented the CBIZ compensation study process with ongoing annual updates.

Finally, for communications and stakeholder engagement, staff continued regular meetings with stakeholders both in person and virtually during the pandemic, began posting [Myths and Misconceptions](#) about defined benefit pension plans on our website, branded all communications to stakeholders with an 85th anniversary logo in 2022, and began planning for changes in messaging delivery in which members and stakeholders can choose their own method of delivery (mail, email, or text) for individual handouts and publications.

Strategic Plan updates will be scheduled annually during the April Board meeting.

Board Approves Final Filing of Amended Administrative Rules and Filing of Revised Amended Administrative Rule

The Board approved the final filing of an amended rule concerning how a member may obtain service credit for non-contributing optional service and non-contributing compulsory service. Amendments to this rule included 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.

In addition, the Board approved the final filing of the amended dental and vision coverage rule, 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.

The Board also approved the final filing of an amended rule regarding the election of Board members.

The proposed amendments capture details of the existing election processes already in place at SERS.

Additionally, current language in the rule states that an employee member of the Board who retires while a member of the Board is eligible to become a retiree member once three years have elapsed between the member's effective date of retirement and the date of the retiree-member Board election. New language clarifies that an employee member of the Board "retires while a member of the Board" if they served on the Board in the month immediately preceding their effective date of retirement.

Finally, the Board approved filing revisions to the health care rule originally amended in March.

Last month, the Board approved amendments to require new retirees and disability benefit recipients who are not eligible for Medicare to receive Marketplace counseling before enrolling in SERS' health care coverage. Counseling will be provided by SERS' vendor, HealthSCOPE Benefits, whose staff is licensed to enroll individuals in federal Marketplace plans. The requirement will apply to individuals with a benefit effective date beginning June 1, 2023, and to those who have previously waived SERS' coverage but wish to enroll on or after that date due to a qualifying event.

Revisions approved by the Board in April make clear that individuals have until the later of December 31 of the calendar year of initial health care eligibility or within three months of initial health care eligibility to complete the counseling. For individuals seeking reinstatement to SERS' health care coverage due to a qualifying event, they must complete counseling by the later of December 31 of the calendar year of the qualifying event or within three months of the request for reinstatement.

Executive Director's Update

State Legislation

SERS continues to pursue its Contribution Based Benefit Cap (CBBC) legislation.

Earlier this month, Rep. Adam Bird, a member of the Ohio Retirement Study Council (ORSC) and House Pensions Committee, introduced House Bill 146, which would establish a CBBC in calculating a SERS member's retirement benefit.

SERS anticipates the first House Pensions Committee hearing for sponsor testimony soon.

Senate Bill 6, the anti-environmental, social, and governance (ESG) bill introduced by Sen. Kirk Schuring, is still pending in the Senate Finance Committee but presents little to no impact for SERS.

Monthly Retirement and Survivor Benefit Transactions

For April, the SERS Board approved 279 active members for service retirements, and 13 survivor benefits for spouses and/or dependents.

May Meeting Dates

The next Board meeting will take place Thursday, May 18, and Friday, May 19, at 8:30 a.m. (if necessary).