



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **DECEMBER 2023**

#### **Board Member Candidates Certified**

At the meeting, the Board certified that Catherine Moss and Matthew A. King submitted sufficient petitions to qualify as candidates for the open four-year retiree-member and the four-year employee-member seats.

The terms for both seats begin July 1, 2024, and end on June 30, 2028.

Under Ohio law, because only one candidate qualified for each open seat, no election will be held, and Ms. Moss and Mr. King will take office on July 1, 2024 as if elected.

#### **External Auditor Presents FY2023 Analysis**

Kristin Hunt, partner, Amanda Cronk, principal, and Ashley Raden, senior manager, with SERS' independent external auditor, Plante Moran, presented the FY2023 Independent Auditor's Report to the Board.

The results of Plante Moran'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 presented their required communication with those responsible for governance, which included management estimates within the financial statements. The auditors found no difficulties or disagreements with management in performing the audit, and there were no corrected or uncorrected misstatements.

The auditors issued a report on internal controls over financial reporting. The report included one recommendation to improve the bank reconciliation process, which is being addressed by management.

The annual audit began in the spring, 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.

#### **Federal Relations 2023 Overview**

Leigh Snell, director of federal relations for the National Council on Teacher Retirement (NCTR), updated SERS' Board on the major federal legislative efforts that impacted public pensions in 2023.

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#### RETIREMENT BOARD

FRANK A. WEGLARZ  
*Chair, Retiree-Member*

MATTHEW KING  
*Vice-Chair, Employee-Member*

JEFFREY T. DELEONE  
*Appointed Member*

JAMES HALLER  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

BARBRA M. PHILLIPS  
*Employee-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

AIMEE RUSSELL  
*Employee-Member*

DANIEL L. WILSON  
*Appointed Member*

**Retirement Security Legislation**

SECURE 2.0 legislation, which was approved as part of the omnibus spending bill late last year, presented some challenges that were recognized by both the private and public sectors. The implementation date has been extended for two years.

**WEP/GPO Legislation**

While there is significant support from House members for Windfall Elimination Provision (WEP) / Government Pension Offset (GPO) reform, the price tag remains high, which has been the dealbreaker for many years.

**ESG Legislation**

Earlier this year, the Senate voted to repeal a Department of Labor rule permitting retirement fund managers to consider environmental, social, and governance factors when making investments on behalf of pension plan participants. President Biden used the first veto of his presidency to reject this proposal.

**Opportunistic and Tactical Investments Portfolio Review**

Staff provided the Board with an overview of SERS' \$567 million opportunistic and tactical investment portfolio which comprises 3.3% of the Total Fund.

While the portfolio is not a strategic asset class with a policy allocation, 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%.

First implemented in 2013, this portfolio gives the System flexibility to invest in strategies that do not fit neatly into other asset classes.

The one-year return of the portfolio was 6.1% net of fees, and the three-year return was 9.8%. The portfolio exceeded the policy benchmark across all time periods and has provided 6.50% of added value to the Total Fund over 10 years.

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

SERS has invested in distressed debt funds since 2014. Representing 28% of the portfolio, distressed debt investing is the process of investing in the debt of financially distressed companies. This includes companies undergoing operational challenges or those that operate in cyclical industries like energy, retail, and the media.

Diversified and tactical investments make up 27% of the portfolio and include strategies that can actively allocate between opportunities. These types of investments provide inflation protection, and SERS' exposure to commodities is included here.

The MAS strategy contains portfolios that invest in debt and equity investments. This strategy makes up 22% of the portfolio.

The remaining 23% of the portfolio consists of structured credit investments. These types of funds include investments in commercial real estate, mortgages, and other asset-backed securities. SERS values the certainty of income associated with structured credit investments.

### Real Assets Portfolio Structural Changes

The Board approved a structural change to the real assets portfolio that involves the separation of real estate and infrastructure investments for better performance evaluation. As infrastructure has increased to 32% of the real assets portfolio, the existing benchmark, the NCREIF Property Index (NPI), which only includes real estate, is no longer an accurate method of measuring the portfolio's performance.

In the real assets portfolio, which has a 20% target within the Total Fund, real estate will have a 13% target and infrastructure will have a 7% target. The NPI benchmark will continue to be used for real estate, while infrastructure will be measured against CPI + 1.20% per quarter and smoothed over a four-quarter period.

The Statement of Investment Policy has been updated to reflect these changes.

### Investment Committee Approves Four Investments

The SERS Staff Investment Committee approved a \$40 million commitment to Blackstone Strategic Partners Real Estate VIII, a non-core real estate strategy within the real assets portfolio; a \$100 million commitment to Lazard EM Advantage, an emerging markets strategy within the global equity portfolio; and \$100 million commitments to JP Morgan U.S. Analyst and T. Rowe Price U.S. Structured Research Equity Strategy, both U.S. equity large cap core strategies within the U.S. equity portfolio.

These investments will be funded from cash reserves.

### Total Fund Update

TOTAL FUND BALANCE		
September 30	October 31	Difference
\$17.46 billion	\$17.15 billion	▼ \$310 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 2.70%	▲ 2.88%	▲ 8.10%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.72%	▲ 0.27%	▲ 1.97%

### Board Approves Filing of No Change Administrative Rules and Amended Administrative Rules

Ohio law requires SERS to review its administrative rules every five years to confirm the accuracy and intent of the rules. SERS staff then makes a recommendation to the Board to keep the reviewed rule as written, or amend or rescind the rule.

Along with approving no change rules, the Board approved the filing of amended administrative rules with the Joint Committee on Agency Rule Review (JCARR).

Of note is an amendment to Rule 3309-1-07. Currently, the member's signature must be notarized, or witnessed by a SERS counselor, to refund any account balance more than \$200. The amendment increases that threshold from \$200 to \$5,000.

The Board also approved an amendment to Rule 3309-1-09 to be filed with JCARR. The changes are relevant to SERS' compliance with federal tax law and are in response to SECURE 2.0, which changed

the applicable age for required minimum distributions and gave a surviving spouse the right to choose to be treated as the deceased employee.

Finally, the Board approved the final filing of Rule 3309-1-35 with JCARR. The changes to this rule reflect the Board's decision to make non-Medicare disability health care subsidy eligibility equal to that of service retirees by years of service, effective January 1, 2024.

## **Executive Director's Update**

### ***Strategic Planning Update***

Mo Wright, Tiffany Wright, and Maura Maher Waymire of RAMA Consulting, the consulting firm selected to assist SERS staff in the development of an operational plan to guide the organization for the next three-to-five years, provided an overview of the proposed process for developing the new strategic plan.

As the current Strategic Plan, covering the FY2020 to FY2024 period, winds down, the new strategic plan will be developed in three phases:

- 1) Learning Phase**, which will consist of reviewing organizational information and the outcomes of previous strategic planning efforts, as well as gaining an understanding of organizational changes since the last planning process. SERS' stakeholders will also be involved in this phase, which is estimated to take place from December through early March.
- 2) Planning Phase**, which will consist of RAMA presenting the key findings from the learning phase to SERS' Senior Leadership Team and the Board. This phase is estimated to take place during March and April.
- 3) Documentation Phase**, which will consist of development of the proposed and final strategic plan. This phase is estimated to take place in April and May.

The RAMA project team opened the process with a question for the Board: *What trends or opportunities are you seeing within the retirement system today that you want to ensure are addressed in this plan?*

Several Board members responded with suggestions for exploration, with a major theme being that SERS continue and enhance communications with its members, particularly those early in their career, to help them understand the value of a SERS pension and the importance of saving and planning for retirement.

### ***ORSC Update and State Legislation***

The Ohio Retirement Study Council (ORSC) met on December 14 to hear presentations from other Ohio retirement systems regarding their FY2023 actuarial valuation reports, as well as an amendment to the Ohio Highway Patrol Retirement System travel policy. This amendment would exclude conference registration fees from the \$6,000 annual limit.

In regard to state legislation, HB 257, the bill that would permit retirement systems to create a policy allowing remote participation by Board members in virtual meetings, was recently passed out of the House and is on its way to the Senate floor.

In addition, HCR 6, a bill that would repeal the Windfall Elimination Provision (WEP), passed the House by a vote of 85-0. While the bill is unlikely to gain much traction on the federal level, SERS will continue to educate legislators on the importance of a permanent equitable solution.

**Travel Policy Update**

At the recommendation of staff, the Board approved amendments to SERS' Education, Travel, and Expense Reimbursement Policy.

Staff proposed exclusion of conference registration fees from the \$6,000 annual travel limit and aligned SERS' maximum daily food and beverage reimbursement with the maximum allowable U.S. General Services Administration (GSA) per diem rate.

These changes will be effective following review by the Ohio Ethics Commission and ORSC.

**SERS Receives Recognition for Financial Excellence and Transparency**

For the 38th consecutive year, SERS received the Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association (GFOA) of the United States and Canada for its [Annual Comprehensive Financial Report](#) for the fiscal year ended June 30, 2022.

In addition, for the 10<sup>th</sup> consecutive year, the GFOA gave SERS an Award for Outstanding Achievement in Popular Annual Financial Reporting for its [Summary Annual Financial Report](#) (SAFR) for the fiscal year ended June 30, 2022.

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.

**Definition of Compensation Discussion**

At the request of the Board during the November meeting, SERS' legal team drafted two versions of an amended administrative rule definition of compensation for discussion.

The team researched the definition of compensation of the other Ohio public pension systems and those of public pension systems in other states as the basis for these drafts.

The ensuing discussion did not produce unanimous agreement on what the definition of compensation should include, and the Board asked staff to arrange a discussion with SERS' advocacy groups so their ideas and concerns could be addressed in future Board discussions.

**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 50 gift tags listing specific toys and gifts requested by children throughout the central Ohio area. Thanks to the generosity of SERS staff, all gift tags were fulfilled.

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

SERS staff baked, bought, donated, and ate dozens of cookies while raising a record-setting \$981 for Toys for Tots.

**Monthly Retirement and Survivor Benefit Transactions**

For December, the SERS Board approved 207 active members for service retirements, and 5 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 15, and Friday, February 16, at 8:30 a.m. (if necessary).