



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

FEBRUARY 2024

Global Equity Portfolio Review

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

As of December 31, 2023, the global equity portfolio had a market value of \$7.6 billion. The portfolio was 41.67% of the Total Fund as follows:

- US equity was overweight by 0.3% relative to the MSCI ACWI benchmark of 62.7%
- Non-US developed equity was overweight by 0.7% relative to the MSCI ACWI benchmark of 26.8%
- Emerging markets were underweight by 1.0% relative to the MSCI ACWI benchmark of 10.5%

Equity markets rebounded considerably in CY2023. The US markets were stronger in all periods due to AI advancements and the strong earnings posted by the “Magnificent Seven” high-performing, mega-cap stocks: Apple, Amazon, Alphabet Inc. (Google), Meta Platforms, Microsoft, NVIDIA, and Tesla. Emerging markets suffered due to the strong U.S. dollar, as well as geopolitical tensions and a slowing economy in China.

The global equity portfolio posted a return of 20.50% for the one year, which was 1.70% below the benchmark.

U.S. Equity

For the one year, SERS' U.S. equity portfolio posted a return of 22.88%, which was below the Russell 3000 benchmark of 25.96%.

The U.S. equity portfolio had a market value of \$3.9 billion, with 73.2% of the portfolio passively invested in large cap stocks.

The portfolio's underperformance was due in large part to the portfolio structure and a narrow market driven by the Magnificent Seven.

Staff has initiated a number of changes to improve performance. This includes termination of managers with a fundamental stock selection process resulting in concentrated portfolios not oriented to the benchmark and replacing them with more risk-controlled benchmark aware strategies.

In terms of the U.S. market, growth outperformed value over the one year due to the surge in tech stocks. Large growth continued to lead in the longer term, and small-cap value stocks maintained the largest discount.

RETIREMENT BOARD

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Non-U.S. Equity

Unlike U.S. equity markets, non-U.S. markets are less efficient which means there is more opportunity to outperform benchmarks using active management. Therefore, SERS has constructed the \$2.28 billion non-U.S. equity portfolio with 88% active managers to increase returns. This is up from 78% last year.

Non-U.S. markets rebounded in 2023, with value outperforming growth over the one year. Maintaining an overweight position in small cap has positively affected long-term performance.

The non-U.S. equity portfolio posted a one-year return of 15.38%, which was below the benchmark by 0.23%. Developed markets finished strong at 18.83%, exceeding the benchmark by 0.89%, while emerging markets underperformed the benchmark by 4.32% with a return of 5.51%.

Investments Quarterly Report

Joanna Bewick of Wilshire Associates provided the Board with an update of current U.S. economic conditions, and a review of SERS' October-December 2023 quarterly results.

An interesting historical fact shared by Bewick showed that, since 1926, the fourth quarter U.S. equity returns in the third year of a presidential term have averaged 18.8% with a median return of 22.8%. The 2023 fourth quarter results registered above the historical average as U.S. equity returns came in at 26.1%.

During the fourth quarter, the stock market was up 12.1% with the best-performing sectors being real estate (18%) and information technology (17%). The only negative sector was energy, which came in at -6.8%.

The possibility of a recession in 2024 remains high primarily because of the inverted yield spreads between long- and short-term bonds. Nearly all previous recessions were preceded by a period where short-term bond rates were higher than long-term rates and that situation occurred during the fourth quarter.

Internationally, the Eurozone fell into a mild recession in 2023 and Germany, the Eurozone's largest economy, struggled with high energy costs and interest rate hikes. China's economy also slowed as the manufacturing and service sectors contracted.

While SERS' calendar year gross return of 10.66% ranked in the 84th percentile when compared to Wilshire's universe of pension systems, SERS continues to compare favorably with other U.S. pension plans in terms of gross returns over the 3-year (2nd), 5-year (4th), and 10-year (2nd) periods and doing so with less risk.

SERS' diversified portfolio contains less U.S. equity exposure than most other pension systems and generally posts lower Total Fund returns compared to peers when the U.S. stock market registers big gains.

Investment Committee Approves Six Investments

The SERS Staff Investment Committee approved a \$50 million commitment to Carlyle CLO Partners Preferred, a collateralized loan obligation (CLO) equity strategy within the opportunistic portfolio. The Committee also approved five investments within the real assets portfolio: a \$10 million commitment to GI Partners Elk Grove Data Center Co-investment, a core real estate strategy; a \$100 million

commitment to a real asset ETF trading account; a \$10 million commitment to GIP CAPS II Lackawanna Power Plant Co-investment, an infrastructure strategy; a \$15 million investment, plus add-ons, fees, and expenses, to GIP Oak Co-invest III Core Fund Vantage Towers, a core infrastructure strategy, and a \$21,068,551 investment to Real Estate Clarion LIT, LPF, PRISA Secondary Purchases, a core real estate strategy.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
November 30	December 31	Difference
\$17.82 billion	\$18.23 billion	▲ \$410 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 3.94%	▲ 9.89%	▲ 6.71%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.44%	▼ 0.11%	▲ 1.49%

Staff Compensation Update

To aid in SERS' FY2025 budgeting process, Joe Rice, a director in the compensation consulting division for CBIZ, returned this year to update the Board on current labor market salary data that directly affects the salary ranges SERS has in place for its staff.

Based on market data, he suggested a 3.6% increase to current salary ranges with a total salary growth budget of 5.0%.

Total salary growth includes annual merit increases, promotions, staffing additions, and salary adjustments.

At SERS, the salary merit component of pay is based on an employee's performance relative to established goals and performance rating. Strong performance results in a higher merit award.

Maintaining an appropriate level of individual salary growth is essential to enabling SERS to be able to attract and retain high-quality employees. It also is important that salary levels continue to remain aligned with market trends to avoid having to make substantial salary increases in subsequent compensation studies.

The Board will further discuss the FY2025 personnel budget next month and approve the entire FY2025 budget in June.

Executive Director's Update

ORSC Update and State Legislation

Since the last SERS Board meeting in December, the Ohio Retirement Study Council (ORSC) met twice. On January 11, SERS provided reports on its annual valuations, *Annual Health Care Report*, and the annual Iran/Sudan report. On February 8, SERS learned it is the next pension system on deck for a 10-year actuarial audit. An ORSC subcommittee was formed to generate a request for

proposal (RFP) for that audit and to evaluate the submissions. SERS performed its own actuarial audit two years ago when it rehired its current independent audit firm Cavanaugh Macdonald.

Annual Pension and Health Care Advocacy Group Roundtable

On January 19, SERS held its annual Pension and Health Care Advocacy Group Roundtable via Zoom. Thirteen representatives from nine advocacy groups participated along with six members of the Board. This meeting highlighted the accomplishments of 2023 and provided a preview of what SERS expects to work on in 2024.

Definition of Pensionable Compensation Discussion

Following completion of the regular February 15 Board meeting, advocacy group representatives were invited to an afternoon special meeting to discuss changes to SERS' definition of pensionable compensation. The discussion focused on how school compensation practices have evolved.

Current compensation practices are turning to bonuses and other types of lump sum payments as more flexible compensation alternatives to traditional increases in base pay.

The Board received valuable input that will be included in future discussions.

State Legislation

Although the Ohio General Assembly is not expected to meet often during the election year, SERS continues to monitor HB 257, which is legislation that would allow Board members limited ability to attend Board meetings virtually rather than in person; HCR 6, which advocates for the federal repeal of the WEP and GPO; and HB 296, the employer contribution increase for the Ohio Police and Fire Pension Fund. SERS is not considering asking for a similar increase as its actuary reports it is on the path to 100% funding.

Monthly Retirement and Survivor Benefit Transactions

For February, the SERS Board approved 304 active members for service retirements, and 26 survivor benefits for spouses and/or dependents.

March Meeting Dates

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