



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
BOARD MEETING HIGHLIGHTS
MARCH 2024

Global Real Assets Portfolio Review

Investment staff provided an update on SERS’ Real Assets portfolio.

On Jan. 1, 2024, the portfolio was separated into real estate and infrastructure. At that time, the infrastructure portion of the portfolio began using the quarterly smoothed CPI + 1.20% per quarter benchmark, while the real estate portion continued using the NCREIF Property Index (NPI).

The real estate target allocation is 13% with a range of 10-15%, and the infrastructure target allocation is 7% with a range of 5-10%.

Staff has been able to reduce fees from 115 basis points in FY2018 to 81 basis points in FY2023. This represents about \$20 million in savings each year, which benefits the membership. Some additional fee savings may be realized as recent commitments mature and if more co-investments can be added.

Real Estate

Currently, real estate comprises 66% of the Real Assets portfolio with a market value of \$2.35 billion. The property type composition is 43% industrial, 24% multi-family, 14% niche (data centers, life science, student/senior/manufactured housing, medical office, single family rental, and storage), 12% office, and 5% retail. When compared to the benchmark, SERS is overweight in industrial and niche, and underweight in the other property types.

Geographically, 39% of SERS’ real estate exposure is in the west, 32% in the east, 23% in the south, and 6% in the Midwest. Staff has also grown its Ohio investments from \$1.7 million in FY2021 to \$10.1 million in September 2023.

SERS’ net return for real estate in FY2023 was -10.20%, which was 181 basis points below the benchmark. Challenges in the office and retail sectors were the main contributors to the loss.

Continued struggles in office and multi-family real estate are forecast for FY2024, with all property types predicted to return to profitability in FY2025-FY2028. Goals for FY2024 include exploring real estate strategies that capitalize on market corrections and adding more co-investments to the portfolio.

Infrastructure

Infrastructure is 33% of the Real Assets portfolio and has a market value of \$1.18 billion. Transportation is 48.5% of the portfolio, energy is 23.7%, communication is 13.1%, renewable is 6.3%, social is 4.9%, and utilities is 3.5%.

Geographically, most of SERS’ investments are in North America (45%) and Western Europe (33%) with smaller exposure to Eastern Europe, Latin America, Middle East, Asia, and the Pacific rim.

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Appointed Member

The net return for infrastructure in FY2023 was 8.47%. Over the 3- and 5-year periods the portfolio has returned 9.51% and 9.23% respectively. Infrastructure has provided stability and resiliency to the entire Real Assets portfolio.

Investment Committee Approves Private Equity Investment

The SERS Staff Investment Committee approved up to a \$10 million commitment, plus add-ons, fees, and expenses, to Monomoy IV Waupaca Foundry (Project Titan), a buyout co-investment strategy within the private equity portfolio.

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
December 31	January 31	Difference
\$18.23 billion	\$18.19 billion	▼ \$40 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 3.97%	▲ 0.03%	▲ 6.80%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.21%	▼ 0.22%	▲ 1.42%

Executive Director's Update

Actuarial Audit of SERS

At the March Ohio Retirement Study Council (ORSC) meeting, a working group was assembled by the ORSC Chair to develop a request for proposal (RFP) for an actuarial audit of SERS.

The audit will begin in the second half of 2024. SERS will work with an independent actuary chosen by the ORSC to analyze SERS' actuarial processes. SERS should be well positioned for this audit as the organization conducted its own review just two years ago after rehiring Cavanaugh Macdonald as its independent actuary.

Stakeholder Meetings

On May 3, 2024, SERS staff will engage with the Ohio Association of School Business Officials (OASBO) for a System update and to get further input into potential changes to SERS' pensionable compensation rule.

On May 7, 2024, SERS staff will attend the School Employee Retirees of Ohio (SERO) annual meeting and provide membership and health care updates to its membership.

Pensionable Compensation

SERS' Board briefly discussed potential changes to SERS' pensionable compensation rule. To move forward, they tasked staff with summarizing input received from stakeholder groups following last month's Board meeting. Discussion of specific recommendations will be held at forthcoming Board meetings. Board members expressed their appreciation for the stakeholder input and pledged to hold another meeting with them before final Board decisions are made.

FY2025 Budget Planning

SERS' FY2025 budget planning is nearing completion. The Board provided direction to staff regarding the personnel budget based on the recommendations of CBIZ from last month's Board meeting.

In April, SERS is required to provide a draft budget to ORSC.

In May, staff will provide the Board with nine months of FY2024 actual budget numbers along with the final three months of budget projections to aid in analysis of the FY2025 draft budget. A final budget will be approved by the Board in June.

Strategic Planning Update

Tiffany Wright and Maura Maher Waymire of RAMA Consulting, the consulting firm selected to assist SERS staff in the development of the FY2025-FY2029 strategic plan, provided an update on the progress of crafting that plan. The team has progressed through the Learning Phase, which consisted of reviewing organizational information and the outcomes of previous strategic planning efforts. The consultants conducted interviews with Board members, staff, and stakeholders, which led to the Planning Phase, in which they presented key findings to SERS' Senior Leadership Team and the Board.

They are now in the Documentation Phase, which consists of developing a draft of the proposed strategic plan.

They shared six common themes from their interviews: sustainability, service delivery, technology, operations and talent management, culture, and education and member engagement, and that these themes will serve as the goals to be accomplished by staff through specific actions.

Several staff planning sessions will take place in the next 30-45 days to develop a final draft of the plan for review by the Board in May or June.

Monthly Retirement and Survivor Benefit Transactions

For March, the SERS Board approved 325 active members for service retirements, and 20 survivor benefits for spouses and/or dependents.

April Meeting Dates

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