



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

APRIL 2026

Opportunistic and Tactical Investments Portfolio Review

Staff provided the Board with an overview of SERS' \$924 million opportunistic and tactical investments portfolio which comprises 4.1% 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 of 100 basis points 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 net return of the portfolio was 19.4% net of fees, and the three-year annualized net return was 12.2%. The portfolio is outperforming the policy benchmark across all time periods.

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

SERS has invested in distressed/stressed debt funds since 2014. Representing 24% of the portfolio, this strategy involves 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. Another 25% 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. Diversified and tactical investments make up 45% 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 remaining 6% of the portfolio is dedicated to MAS strategies that invest in debt and equity investments.

In April 2024, SERS' staff began internally managing an Exchange Traded Funds (ETF) account focused on commodities, specifically gold. Since inception, the ETF realized a 52.5% return and outperformed the benchmark by 44.6%. ETFs are attractive because they allow quicker exposure to new asset classes and have lower fees.

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:

RETIREMENT BOARD

JAMES A. ROSSLER, JR.
Chair, Appointed Member

DANIEL L. WILSON
Vice-Chair, Appointed Member

JEANINE ALEXANDER
Employee-Member

JEFFREY T. DELEONE
Appointed Member

MATTHEW KING
Employee-Member

CATHERINE P. MOSS
Retiree-Member

REBEKAH R. ROE
Employee-Member

AIMEE RUSSELL
Employee-Member

FRANK A. WEGLARZ
Retiree-Member

Asset Class	Recommended Policy (Change to Current Allocation)	Recommended Range
Global Equity	40% (0%)	35-45%
Global Private Equity	14% (0%)	11%-17%
Private Credit	5% (0%)	3%-7%
Global Fixed Income	18% (0%)	13%-23%
Real Estate	7% (-6%)	4%-10%
Infrastructure	10% (+3%)	6%-14%
Gold	3% (+3%)	0%-4%
Cash	3% (0%)	1%-5%
Opportunistic	0% (0%)	0%-5%
TOTAL	100%	

The new asset allocation will be implemented July 1, 2026, the start of SERS' new fiscal year.

Modeling for the asset liability review began in February with Board education sessions and updates in February and March. Staff and Wilshire reviewed several allocation scenarios with the goal of improving the expected return of the Total Fund without significantly increasing risk. Ultimately, because the existing asset allocation had a favorable return outcome, reducing risk became a primary objective.

The new allocation is expected to reduce the Fund's volatility by 32 basis points and marginally improve the Sharpe Ratio (return/risk).

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, expanding diversification, and maintaining an income focus.

The only allocations to change include a 6% reduction to real estate and subsequent 3% increase in infrastructure and a new 3% allocation to gold.

There are several reasons for adding gold to the strategic allocation mix. Gold has emerged more recently as a hedge to equities after interest rates bottomed in 2021 and began to increase. The correlation between equities and bonds (3-year rolling) has increased from -0.20 in 2020 to a high of 0.72 in 2024 and has retreated to 0.56 currently compared to the long-term average of 0.20. The high positive correlation between equities and bonds indicates that bonds are less reliable as a diversifier for equity risk in the current environment. The high level of debt and deficits in the U.S. make US treasuries less attractive as a safe haven asset. High levels of global debt and debasement of fiat currencies also add to gold's attractiveness as a hedge. Gold appears to be a better hedge in periods of high inflation and central banks around the world have increased gold in their reserves while reducing US Treasuries. Staff began investing in gold in the Opportunistic & Tactical bucket in April 2024 for the above reasons. The allocation is approaching 1% and the since inception return is 52.45% through February 2026.

Board Approves Actuarial Assumption Changes

Todd Green and Alisa Bennett, presidents and consulting actuaries with CavMac, provided the Board with an overview of the proposed actuarial assumption changes contained in the *Experience Study for*

the 5-year Period Ending June 30, 2025 report. The actuaries reviewed economic and demographic assumptions for pensions (basic benefits) and health care.

The economic assumptions reviewed included price inflation, investment return, wage inflation, and cost-of-living adjustments.

The actuaries proposed raising the price inflation assumption from 2.40% to 2.50% based on projections from the 2025 OASDI Trustees Report. They also proposed moving the real rate of return from 4.82% to 4.72% based on the average of the mean real return calculated by Wilshire, SERS' independent investment consultant, and the 50th percentile projected real return of 5.22% from the 2025 Survey of Capital Market Assumptions minus 0.22% for expenses. The combination of price inflation (2.50%) and real rate of return (4.72%) minus 0.22% for administrative expenses kept SERS' investment rate of return assumption at 7.0%.

The actuaries also proposed increasing SERS' real wage growth from 0.85% to 1.0%. For this assumption, they recommended a slightly lower rate than Social Security's 75-year projection of national wage growth assumption of 1.13%. Combining the price inflation rate of 2.50% and the 1.0% proposed real wage inflation rate sets the proposed wage inflation at 3.50%, which was 0.25% higher than the previous assumption.

Based on SERS' payroll growth since 2017 and projections that longer term rates of growth should be in the 2.0% range, they recommended keeping the existing payroll growth assumption at 1.75%.

Item	Current	Proposed
Price Inflation	2.40%	2.50%
Investment Return	7.00%	7.00%
Real wage Growth	0.85%	1.00%
Cost-of-Living Adjustments	2.00%	2.50%
Wage Inflation	3.25%	3.50%
Mortality Tables	Pub – 2010	Pub – 2016
Withdrawals and Retirements		Updated based on experience
Amortization – Basic Benefits	Fixed	Layered

The final economic assumption change proposed by the actuary was an increase of SERS' cost-of-living adjustment (COLA) assumption from 2.0% to 2.5%. While 2.5% is SERS' cap on annual COLAs based on the CPI-W, the 2.5% recommendation is consistent with the System's long-term inflation assumption.

CavMac also proposed demographic assumption changes to rates of withdrawal, rates of pre-retirement mortality, rates of disability retirement, rates of retirement, rates of post-retirement mortality, and rates of salary increase. Based on a recommendation from the Society of Actuaries, they also proposed a change to the Pub-2016 mortality tables from the 2010 tables.

The recommended changes will increase liabilities and decrease the funded ratio (as of June 30, 2025) for basic benefits from 79.00% to 75.98%. Despite this, SERS remains on an upward path toward full funding.

Finally, CavMac recommends that SERS move from a fixed amortization method to a layered method. This has been a recommendation from the last two independent actuarial audits.

Under this approach, the opening liability balance will continue the 19-year amortization schedule it is currently on. Each year, any new gains and losses will create a separate new layer, which will be amortized over a declining 20-year period. This switch will occur with the June 30, 2026, valuation.

None of the pension assumptions affected the existing health care assumptions or financial status of the Health Care Fund. CavMac proposed increasing the Medicare enrollment rate for participants at age 65 to be 100% of SERS' plan enrollees, adding a 3% assumed participation rate for the premium discount program, and a ten basis point increase for the assumed ultimate health care cost trend. The proposed changes result in a decrease in the unfunded actuarial accrued liability (UAAL) for the Health Care Trust Fund.

SERS' Board unanimously approved all of the proposed changes for basic benefits and health care.

Board Approves Final Filing of Amended Administrative Rule

The Board approved the final filing of an amended administrative rule regarding the Contribution Based Benefit Cap (CBBC) with the Joint Committee on Agency Rule Review (JCARR).

The rule change amends the CBBC calculation to impute contributions for any years of "free" military service credited under R.C. 3309.02. Receiving additional years of service credit will increase the member's retirement allowance; however, because SERS receives no contributions for those years, some members could be affected by the CBBC. This amendment ensures military service affects the CBBC calculation in a similar way to the calculation of the retirement allowance.

Investment Committee Approves Private Equity Investment

The SERS Staff Investment Committee approved a commitment of up to €50 million, plus a €12.5 million sidecar co-investment, to Bridgepoint Europe VIII, a pan-European buyout strategy within the private equity portfolio.

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
January 31	February 28	Difference
\$22.43 billion	\$22.72 billion	▲ \$290 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 11.70%	▲ 3.86%	▲ 12.41%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 2.50%	▲ 1.76%	▲ 1.56%

Executive Director's Update

Advocacy Group Outreach

SERS continues to stay in contact with stakeholders regarding key issues.

SERS is preparing “State of the System” presentations for the Ohio Association of School Business Officials (OASBO) annual meeting on May 1 and the School Employee Retirees of Ohio (SERO) board meeting on May 6.

CPRS Webinar on Ramifications of Mandatory Social Security

At the February Board Workshop, the administrator of the Coalition to Preserve Retirement Security (CPRS) discussed the ramifications of requiring all public employees to pay into Social Security.

On April 29, CPRS will host a webinar that examines its most recent report and the possible effects of mandating Social Security on the public sector. Director Stensrud will provide the report to the Board once it is released.

Board Authorizes Compensation Consultant RFP

In accordance with SERS’ Employee Compensation Policy, every five years, or as recommended by the executive director, SERS must use an independent source to determine the competitiveness and effectiveness of the employee compensation program.

The last compensation study was conducted in 2021.

At the April Board meeting, the Board authorized the Compensation Committee to issue a request for proposal (RFP) for the purpose of selecting and engaging a compensation consultant to conduct a full compensation study for SERS’ staff. The RFP is expected to be issued by the end of April with a goal of starting the study in August and delivering a full report to the Board in December.

SERS’ CIO Receives Strategy Award

At its 12th Annual Ohio Institutional Forum, Markets Group presented SERS’ Chief Investment Officer Farouki Majeed with the Strategy Award, a recognition given to top investment professionals who achieve excellence in investment strategy.

The global organization noted that SERS’ CIO was peer nominated for his “uncanny ability to see around corners.” They also commented that Majeed has guided the Fund to a 10-year return which has placed SERS in the top 2% of public plans and second in the country for private equity returns.

Monthly Retirement and Survivor Benefit Transactions

For April, the SERS Board approved 310 active members for service retirements, and 17 survivor benefits for spouses and/or dependents.

May Meeting Date

The next regular Board meeting will take place on Thursday, May 21, at 8:30 a.m.