SERS Retirement Board
Annual Workshop Meeting Minutes
February 19, 2025

The nine hundredth and seventy-fifth meeting of the Retirement Board of the School Employees Retirement System was held in the O'Keefe Conference Center at 300 E. Broad Street, Columbus, Ohio, and streamed via Zoom videoconferencing on Wednesday, February 19, 2025. The purpose of this special meeting is to provide a continuing education program under R.C. 171.60 and 3309.051.

Roll Call

The Annual Board Workshop, formerly known as the Annual Board Retreat, convened at 8:30 a.m. with the roll call. Present: Matthew King, Jeanine Alexander, James Haller, James Rossler, Aimee Russell, Frank Weglarz, and Daniel Wilson. Absent (excused): Catherine Moss and Jeffrey DeLeone.

Introduction

SERS Executive Director, Richard Stensrud, noted that the first workshop presenter would be Dr. Anirban Basu who would present on current U. S. economic conditions. Dr. Basu has presented to SERS in the past and is Chairman & CEO of Sage Policy Group, Inc., an economic and policy consulting firm headquartered in Baltimore, Maryland.

Mr. Stensrud noted that the second presenter would be Elizabeth Burton from Goldman Sachs. Ms. Burton would provide a presentation on global growth and economic trends.

Mr. Stensrud stated that the third presenter would be CavMac, SERS' actuaries. Todd Green of CavMac would provide an update on the sustainability of SERS' pension fund.

Mr. Stensrud stated that following lunch, SERS Chief Investment Officer Farouki Majeed would be joined by Wilshire Associates, SERS Investment Consultant, to provide a presentation on the performance and value of SERS diversified investment portfolio as compared to a '60/40' investment portfolio model.

Mr. Stensrud reported that the educational sessions would wrap up with presentation by Fred Dombo and Chris Carney from Nossaman, LLP regarding likely health care regulation at the federal level.

Monetary Masala: Educational Session on Current U.S. Economic Conditions – Dr. Basu, Sage Policy Group, Inc.

Dr. Anirban Basu, Chairman and CEO of Sage Policy Group, Inc., provided a presentation titled "Monetary Masala" that focused on the current economic conditions in Ohio, the region, and the United States.

Highlights of Dr. Basu's presentation include:

- Inflation remains the primary economic topic of interest. While the Consumer Price Index (CPI) has declined to 3.3% from 9.1% in June of 2022, inflation remains "sticky" which means it isn't moving closer to the Federal Reserve's target of 2%. Since May of 2020, CPI has increased the cost of goods nearly 25%. One of the repercussions of high inflation is the increase in the Federal Funds Rate, which currently sits at 4.50%.

- Looking forward, there are some economic policy proposals from the current administration that could increase inflation:
  - Extending the 2017 Tax Cuts and Jobs Act
  - Reducing the corporate tax rate to 15%
  - Eliminating taxes on Social Security benefits •
  - Implementing tariffs
  - Mass deportation of all undocumented immigrants

- Despite the higher inflation environment, the U.S. consumer has kept the economy healthy. Retail sales have continued to climb, and the gross domestic product has remained positive since the second quarter of 2022. While job openings are down from highs registered in 2021-2022, there are still more openings than there are unemployed workers. Businesses are still challenged to find qualified workers.

- Some other warning signs for the economy include:
  - The personal savings rate for Americans is declining and credit card debt is rising
  - Auto loan delinquencies are rising
  - Rent payment delinquencies are rising
  - Commercial real estate vacancy is high and banks may be getting close to foreclosing on properties to get the debt off their books
  - Mortgage applications are down
  - Home sale prices are 35% higher than they were in 2012
  - Building permits for multi-family structures are down

- Some good signs for the economy include:
  - Building permits for single-family homes are up
  - Small business optimism about the economy is higher, which could lead to more hiring
  - Economic indicators do not forecast a recession in the next 12-18 months
  - Forecasts predict that the U.S. economy will grow between 2.3% and 2.7% in 2025

- Since February of 2020, Ohio's, non-farm employment growth lagged behind the 4.4% U.S. average by 2.9%. Private education and health care services; construction, trade, transportation, and utilities; professional services; and financial activities all registered job gains in Ohio. Mining and logging, government, information, leisure and hospitality, and manufacturing all registered job losses. Regionally, Cincinnati, Columbus, and Cleveland registered the most job gains. No Ohio cities ranked in the top 25 largest metropolitan areas in the categories of employment growth or unemployment rates

Following a robust discussion, the Board thanked Dr. Basu for his entertaining and informative report.

The Board took a break at 9:38 a.m.
The Board reconvened at 10:00 a.m.

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***Market Snapshot: Tales, Tells, and Tails*: Educational Session on Current U.S. Economic Conditions – Elizabeth Burton, Goldman Sachs**

Elizabeth Burton, Managing Director, Goldman Sachs Asset Management provided the Board with a presentation on the US market and provided an economic overview from the perspective of an asset manager.

Goldman believes that economic data continues to be solid without any system financial imbalances. The final stretch of inflation reduction is progressing slowly and might be delayed by uncertainty over tariffs. The labor market is tightening, more from a reduction in job openings rather than layoffs. They also expect the Federal Reserve to reduce the lending rate to 3.50-3.75% by June of 2026, but the decline could be delayed by tariff implementation.

Burton said that Goldman expects the U.S., China, and emerging markets to lead the world in GDP growth in the next 1-2 years.

Next, Burton discussed Goldman's forecast for asset class returns over the next year.

- For U.S. equity, return expectations are somewhat muted by the fact that current valuations of U.S. assets are high. When equity assets are high, returns are generally lower. They believe that the Magnificent 7, the seven top stocks in the S&P 500, still have the potential to outperform the rest of the market. However, over the 10-year period, they predict U.S. equity returns could trail bond returns and only average a 3% return.
- In developed markets, international equity may offer attractive opportunities especially since valuations are lower than those in the U.S. Emerging market equities that are shielded from U.S. tariffs may also offer opportunities for outperformance.
- Even though private equity returns have declined recently, Goldman projects that a more normalized dealmaking environment will return this year leading to better returns.
- In fixed income, attractive current yields and decelerating inflation could produce good investment opportunities, especially in core bonds.
- Burton also said that private credit continues to be a good space to be invested. The biggest opportunity seems to be in hybrid capital, flexible financing solutions that can serve a range of situations, including real asset credit, directly-originated investment-grade credit, and asset finance.
- In real estate, Goldman predicts that a rebound in the market will take place if interest rates moderate. Lower rates would stimulate transaction activity, especially in core and core plus assets. US multifamily and industrial markets may see a better supply/demand balance due to a decrease in new construction projects

After a robust discussion, the Board thanked Ms. Burton for her presentation.

The Board took a break at 10:45 a.m.
The Board reconvened at 10:55 a.m.

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***Secure Your Finance Future*: Educational Session on Pension Sustainability – Risk Analysis Report, Todd Green - CavMac**

Todd Green, president and consulting actuary with CavMac Consulting, provided a risk analysis of SERS' defined benefit plan. This session was scheduled as part of the Board's ongoing commitment to review the System's sustainability metrics at least once per year.

As SERS' actuary, one of CavMac's roles is to identify risks that could impact the System's future financial condition. The primary types of risk that could affect funding are:

- Investment risk: Investment return is different than expected
- Longevity risk: Mortality experience is different than expected
- Covered payroll risk: Covered payroll will not increase as assumed
- Active population risk: Number of active members decline
- Contribution rate risk: Contribution rates are too high for the employer to pay

Actuaries assess these risks through a series of plan maturity measurements, such as comparing the number of actives to retirees; retired liability to total liability; net cash flow to market value of assets; and market value of assets to payroll.

CavMac performed its quantitative and qualitative risk assessment by examining SERS' funding and amortization policies; the size of active membership compared to growth in total covered payroll; the effect of annual cost-of-living adjustments (COLAs); and variable possible levels of investment returns.

Currently, employers and members are required to pay a contribution rate of 14% and 10%, respectfully. Employer contributions exceeding those required to pay basic benefits may be allocated the Health Care Fund. However, in keeping with SERS' objective of maintaining a closed amortization period for the Pension Fund, the Board approved a change to the System's funding policy in 2015 which limits whether any portion of the employer pension contribution can be allocated to the Health Care Fund. Green noted that SERS' funding policy is a positive factor as it has accelerated the funding of the pension plan.

The System's amortization policy is that SERS' unfunded actuarial accrued pension liability must be amortized, or paid off, within 30 years. SERS' amortization period currently stands at 20 years. Green explained that some other pension systems are using a layered amortization policy, where, with each additional actuarial valuation, the incremental change in the unfunded actuarial accrued liability is amortized over a new closed period. This results in a series of "layered" amortization bases. The total amortization payment is equal to the sum of the amortization payments for each of the "layered" amortization bases. Green commented that while this design offers some benefits, such as reducing volatility in required amortization payments and easier tracking of funding progress, it is not suitable for SERS at this time. CavMac believes the current amortization policy provides the necessary flexibility to calculate stable actuarial determined contributions and meets the requirements established by the Ohio Retirement Study Council.

Green noted that SERS has steadily improved its funding ratio since the Great Recession. Currently, the System is 78.99% funded with a 20-year amortization period to reach full funding.

When evaluating the size of SERS' active membership to the total covered payroll, and the impact on cash flow, the assessment found that this factor presents a limited risk. Currently, there are approximately two active members contributing to SERS for every retiree. While this is an adequate ratio to be able to fund basic benefits and active membership has actually increased since last fiscal year, it was noted that covered payroll may not increase as assumed if active membership decreases or salary increases are less than expected and this could impact cash flow.

In 2018, SERS obtained authority granting the SERS Board discretion in determining the COLA. Green indicated this authority is considered a positive factor as it allowed SERS to act proactively to manage liabilities rather than pursuing legislation each time it was necessary to address an issue and mitigate a portion of the risk.

With respect to mortality risk, Green noted that small, continuous improvements in mortality are anticipated. This presents a slight risk as retirees will be receiving a benefit for longer periods of time and there is the possibility of a sudden shift in life expectancy due to major medical advancements.

Green also discussed CavMac's modeling results regarding the impact on the funded ratio of various possible investment return scenarios, including differences in the order in which investment returns are experienced, low investment returns for a sustained period, and a large, single year investment collapse. The modeling showed that SERS would remain resilient across the various scenarios, including the large scale investment downturn.

Overall, Green reported that the sustainability of SERS' Pension Fund remains solid and continues to strengthen.

Following several questions, the Board thanked Mr. Green for his presentation.

The Board took a lunch break at 11:58 a.m.

The Board reconvened at 12:46 p.m.

***SERS Asset Allocation Update*: Educational Session on Asset Allocation, Farouki Majeed, SERS and Wilshire Associates**

Farouki Majeed, SERS' Chief Investment Officer, and Joanna Bewick and Chris Tessman, both of Wilshire Associates, provided an update on SERS' asset allocation changes and a comparison of SERS' Total Fund portfolio to a 60/40 equity and bond index portfolio.

Since 2010, SERS has made several asset allocation changes that have added value to the portfolio. These changes included:

- Hedge Funds reduced from 15% in 2012 to 0% in 2020
- Real Assets increased from 10% in 2012 to 20% in 2023
- Infrastructure included within Real Assets in 2024 has a target of 7%
- Private Credit increased from 0% to 5% in 2020
- Global Equities changed from 50/50 US/Non-US to Global (ACWI) benchmark

Mr. Majeed reported that making these changes created added value to the SERS retirement fund. Mr. Majeed estimated that SERS' total fund balance was $500 million higher as a result of the asset allocation changes.

Majeed and Bewick noted that SERS' diversified portfolio has several advantages over a 60% stocks/40% bonds index portfolio:

• SERS has lower risk and higher returns over a 10-year period
• SERS' portfolio has a much smaller drawdown during economic downturns
• SERS' portfolio has better diversification across inflation, interest rates, and growth factors

Ms. Bewick noted that outperformance by the diversified portfolio ranges from 100-300 bps except for the 1-year period ended December 31, 2024. Ms. Bewick stated that as equity markets continue to lead asset class performance, it is no surprise that portfolios with higher equity exposure (like a 60/40 portfolio) perform better in recent periods. Ms. Berwick further noted, however, that the best performing asset classes tend to rotate over time.

Ms. Bewick noted that long-term returns favor the diversified portfolio adopted by SERS over the 60/40 portfolio. While U.S equities and bonds are negatively correlated to inflation, meaning that as inflation increases, the returns of the 60/40 portfolio decrease, a diversified portfolio such as SERS' can blunt the harmful effect of inflation shocks.

Ms. Bewick noted that regardless of inflation level, the risk is ever present. Inflation erodes the purchasing power of a currency unit, as well as future cash flows of capital assets. Inflation catalysts are many and often in conflict. Investors should be prepared for unexpected inflation with an allocation to inflation sensitive assets, especially if they have inflation sensitive future liabilities. Real assets play a strategic role within institutional portfolios.

Ms. Bewick and Mr. Tessman stated that looking forward, the diversified portfolio increases the expected return by 87 bp. Bewick and Tessman reported that based on Wilshire's 10-year capital market assumptions, a diversified portfolio is expected to offer higher returns at every risk level versus the 60/40 portfolio.

After several questions, the Board thanked Wilshire Associates for their presentation.

***Healthcare Legislation Discussion*: Educational Session, Fred Dombo and Hon. Chris Carney, Nossaman, LLP**

Fred Dombo and Chris Carney of Nossaman, LLP provided an update on federal legislation that could affect the healthcare industry.

They noted that because it is early in the new Congressional term, it's difficult to predict what health care changes might be in the works. They believe, however, that in the search for savings currently being pursued throughout the government structure, changes to Medicaid are possible. They also suggested that changes to pharmacy benefit manager (PBM) operations could also be made.

Following several questions, the Board thanked Mr. Dombo and Mr. Carney for their presentation.

Mr. Stensrud thanked everyone who attended the SERS Annual Board Workshop.

The meeting adjourned at 2:08 p.m.

Matthew King, Board Chair	Richard Stensrud, Secretary