



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

SEPTEMBER 2026

Board Approves COLA for 2027

At its September meeting, the Board unanimously voted to approve a 2.5% cost-of-living adjustment (COLA) increase for eligible benefit recipients in 2027.

By statute, SERS' COLA is influenced by the year-to-year change in the Consumer Price Index (June 2025 to June 2026) for Urban Wage Earners (CPI-W).

This year's CPI-W was 3.5%. With input from SERS' actuary, CavMac, the Board approved the increase of 2.5%.

According to CavMac, the 2.5% COLA amount will not materially impair SERS' funded status.

The 2027 COLA takes effect on the benefit anniversary of the recipient's effective date of retirement.

Benefit recipients whose benefit effective date is on or after April 1, 2018, must wait until the fourth anniversary of their allowance or benefit before receiving a COLA.

Quarterly Overview of U.S. Economic Conditions and SERS' Investment Performance

Joanna Bewick and Chris Tessman of Wilshire Associates provided the Board with a review of SERS' April through June 2026 quarterly investment results and U.S. economic conditions during that period.

For the quarter, Bewick reported that the stock market rose 15.5%, which would be a good result for an entire year. Even though U.S. equities outperformed non-U.S. equities by 0.8% during the quarter, non-U.S. outperformed U.S. year-to-date through June by 3%. The primary reason was that Taiwan and South Korea technology stocks were surging due to increased production of computer chips needed for Artificial Intelligence (AI) data center construction.

With the exception of energy, all U.S. sectors registered positive returns for the quarter. The war with Iran and continued difficulties moving oil out of the Middle East were the main causes of the 12.9% drop in energy stocks. Technology stocks were the top performer with a 33.2% increase. Technology stocks now comprise 35% of the U.S. stock market.

Inflation in the U.S. remained high coming in at 3.5% year-over-year in June. Because inflation lingered at 3.4% in July and August, well above the Federal Reserve's 2.0% target, the Board of Governors increased the lending rate by 0.25% at the Fed's September meeting.

The market is already pricing in two more quarter-point increases, one before the end of the year and another next year.

RETIREMENT BOARD

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JAMES A. ROSSLER, JR.
Appointed Member

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Retiree-Member

According to Tessman, SERS' Total Fund returned 8.10% net-of-fees during the quarter, adding value through active management and asset allocation. Global equities registered the highest return at 16.77%, while global infrastructure came in second at 2.68%. The only portfolio that entered negative territory for the quarter was opportunistic and tactical at -2.74% but the portfolio still registered a 10.63% return for the full fiscal year.

In terms of total fund performance, SERS' portfolio continues to outperform the policy benchmark over the 1-, 3-, 5-, and 10-year periods, adding value in both up and down markets. When compared with other pension funds in Wilshire's universe, SERS' Total Fund performance ranks in the top 2% over 5 years and in the top 1% over 10 years.

Over the past year, performance was ranked in the 18th percentile.

In terms of risk and return measured by the Sharpe Ratio, SERS' Total Fund took less risk and generated more return than all other peer funds over 3 and 5 years, and ranked in the 3rd percentile over the 1-year period.

July Investment Report

Chief Investment Officer Farouki Majeed discussed economic factors that have impacted SERS' asset allocation.

During the second quarter, the U.S. gross domestic product (GDP) grew at an annualized rate of 1.5%, which was down from 2.1% previously. While personal spending and capital spending on AI infrastructure (chips and data centers) continued to be strong, declines in inventories, exports, and government spending were the reasons for the drop.

The economy sent mixed signals last quarter as 162,000 jobs were added in August, increasing labor force participation from 0.2% to 61.6%, but the housing market remained stalled due to higher mortgage rates.

Although inflation declined from 4.2% in May to 3.4% in July, bond prices have been increasing, which might be a signal that U.S. debt and deficits are entering dangerous territory. SERS has been underweight in fixed income since 2022 because bond returns have remained low.

The U.S. national debt hit \$39.5 trillion during the quarter. It is now climbing \$2 trillion every year. The government is spending \$1 trillion every year to service this debt, and debt servicing will soon overtake entitlement spending as the largest government expenditure. This situation could cause interest rates to remain elevated. Because the cost of capital is high, private equity values are down and exits are down as managers are holding onto assets longer to get better deals. Unlike some other funds, SERS' private equity cash flow is still positive with distributions higher than capital calls.

Majeed also noted that after a long period of readjustment in the global equities portfolio, the team realized returns above the benchmark. He credited the turnaround to the team's focus on global equity extension and portable alpha strategies.

Board Approves Filing of Amended Administrative Rules

The Board approved filing of amended administrative rules regarding healthcare and guardianship with the Joint Committee on Agency Rule Review (JCARR).

The first rule change addresses:

- Time frames for enrollment and reinstatement to SERS' healthcare coverage after Medicare Part B enrollment for eligible dependent spouses and children
- Enrollment requirements for stepchildren as well as dependent children who are eligible for enrollment pursuant to a National Medical Support Notice issued by a Child Support Enforcement Agency
- Cancellation of coverage if a person is incarcerated
- A requirement that benefit recipients must notify SERS if they are not enrolled in Medicare Part B but are receiving reimbursement
- The addition of SERS' Premium Discount Program

The second rule change clarifies that payment on behalf of an individual who is under a guardianship must be deposited into a guardianship account established by the guardian of the estate or as directed by a probate court order.

Investment Committee Approves Two Investments

The SERS Staff Investment Committee approved a commitment of up to \$75 million to Sagard Credit Partners III, a direct lending strategy within the private credit portfolio, and a commitment of up to \$50 million, plus a \$25 million side car co-investment, to Primus Capital Fund X, a middle market growth strategy within the private equity portfolio.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$23.45 billion	\$23.58 billion	▲ \$130 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 0.80%	▲ 9.06%	▲ 12.12%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.90%	▲ 3.03%	▲ 1.93%

Executive Director's Update

Board Allocates 0% to Healthcare Fund

With the Healthcare Fund in solid standing and due to improving sustainability, the Board elected not to allocate any of the 14.00% employer pension contributions to that fund. Under the terms of SERS' funding policy, the Board could have contributed up to 0.50% of employer contributions to the Healthcare Fund.

Healthcare Risk Report

After the Board's annual risk analysis and sustainability assessment of the Pension Fund in February, SERS requested that its actuarial consultant provide a similar review of the Healthcare Fund. Alisa Bennett, president and consulting actuary with CavMac, presented the results.

SERS' Healthcare Fund is not actuarially funded like the Pension Fund. Instead, it relies on a 1.50% employer surcharge and a portion of the statutory employer contribution, when approved.

The portion of employer contributions allocated to the Healthcare Fund has remained at 0.00% since 2020.

Under current assumptions, the Healthcare Fund is expected to remain solvent until 2065. However, there are a few risks that can affect the solvency period:

- **Healthcare Costs:** Factors such as specialty drugs, GLP-1s, and changes to healthcare law could increase expenses more than expected.
- **Demographic Changes:** If the active population headcount fails to remain stable, there could be a reduction in cash inflow and a strain on Healthcare Fund assets.
- **Investment Return Volatility:** Bennett presented investment return models that showed decreased solvency in prolonged low-return and shock-return scenarios.

Remaining aware of such risks will allow the System to better prepare if negative experience emerges.

SERS' Active Member Profile

Following a recent Board request, Staff took a deeper dive into the profile of an active SERS member based on nine job classifications.

Currently, employers submit a member's job classification at the time of initial enrollment. Historically, this is not something SERS has monitored.

Examples of some of the most common job classifications are administrative, clerical and secretarial, custodial, maintenance, coaches, and other. The largest percentage of job classifications fall under the "other" category. Staff believes this is due to the evolution of certain positions, especially in the information technology and healthcare fields.

SERS is exploring an expansion of its job classification criteria and plans to discuss the topic with employers this fall.

Staff Gives Back to Charity

SERS once again partnered with Volunteers of America to participate in the Operation Backpack program, which aids students who our members serve. Backpacks filled with school supplies were distributed to homeless and at-risk children throughout the Greater Columbus area.

This year, staff donated 151 backpacks valued at \$6,040. This exceeded the organization's goal of 150 and last year's donation by 30%.

Monthly Retirement and Survivor Benefit Transactions

For September, the SERS Board approved 1,050 active members for service retirements, and 14 survivor benefits for spouses and/or dependents.

October Meeting Date

The next regular Board meeting will take place on Thursday, October 15, at 8:30 a.m.