



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**  
**BOARD MEETING HIGHLIGHTS**  
**DECEMBER 2015**

**Secretary of State Certifies Retiree Election Candidate**

On Dec. 9, the Secretary of State certified that current Board member Catherine Moss met the minimum requirements of 150 retiree signatures, with 10 signers from at least 5 different counties of residence to be certified as a qualified candidate for a four-year retiree member seat term that begins July 1, 2016. Under Ohio law, because only one candidate qualified for this open retiree member seat, no election will be held and Ms. Moss will take office as if elected.

**Year-End Federal Update**

Jim Miller, SERS' federal government relations consultant, briefed the Board on health care and pension issues legislators tackled in 2015.

Miller praised SERS for its support and leadership on several key federal issues:

***Cadillac Tax***

Both private and public sector organizations pushed for a repeal or delay of the Cadillac tax provision of the Affordable Care Act, which would require health care plan providers to pay a 40% excise tax when their coverage value exceeds a certain cost threshold.

SERS contacted all members of the Ohio Congressional delegation and key Senate and House leaders, and although Congress did not pass a full repeal, the budget deal approved last week included a two-year delay, giving advocates more time to press for repeal.

***H.R. 711***

Miller commended SERS on taking the early lead in advocating for the Equal Treatment of Public Servants Act, or H.R. 711. As of today, the bipartisan bill has 51 cosponsors, including eight members of Ohio's Congressional delegation.

***Medicare Part B Premium Increase***

In October, SERS initiated a Call to Action and successfully lobbied for a reduction of the 2016 Medicare Part B premiums for non-Social Security recipients. Medicare initially proposed a 52% premium increase.

Thanks in part to an overwhelming response from SERS' retirees, Congress passed legislation to significantly reduce next year's Medicare Part B premiums from \$159.39 to \$121.80 for those who are subject to the Medicare Part B rate increase.

**External Auditor Presents FY2015 Analysis**

David Andrews, engagement partner with SERS' independent external auditor, RSM US LLP (formerly McGladrey LLP), presented the FY2015 Independent Auditor's Report to the Board. The auditor determined that the financial statements contained in the SERS *Comprehensive Annual Financial Report* (CAFR) presented fairly, in all material respects, SERS' net assets as of June 30, 2015, and the changes in net assets for FY2015. The auditor examined internal controls, investments, benefits and claims, and actuarial reports, and found no material weaknesses, significant deficiencies, or instances of statutory noncompliance.

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RETIREMENT BOARD

CATHERINE D. MOSS  
*Chair, Retiree-Member*

BARBRA M. PHILLIPS  
*Vice-Chair, Employee-Member*

DEBRA J. BASHAM  
*Employee-Member*

NANCY D. EDWARDS  
*Appointed Member*

MADONNA D. FARAGHER  
*Employee-Member*

CHRISTINE D. HOLLAND  
*Employee-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

DANIEL L. WILSON  
*Appointed Member*

BEVERLY A. WOOLRIDGE  
*Retiree-Member*

Andrews discussed the changes in SERS' financial statements due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the early and successful implementation of GASB Statement No. 72, *Fair Value Measurement and Application*.

The CAFR, which summarizes the financial health, investment performance, and accomplishments of the last fiscal year (July 1 - June 30), also provides detailed financial statements and an in-depth explanation of the numbers.

In addition to reviewing several sections of interest, including the financial, investment, actuarial, and statistical sections, staff highlighted various key points of information contained in the CAFR.

We will post a link to the 2015 CAFR on the [Financial Reports section](#) of our website when it is available.

### **CEM Benchmarking Report**

Every two years, SERS participates in an investment benchmarking exercise coordinated by CEM Benchmarking. In this analysis, the costs related to SERS' investment program are compared with the costs at other similar-sized U.S. public pension funds.

Bruce Hopkins of CEM Benchmarking Inc., discussed SERS' investment benchmarking results for the five-year period ending December 2014. In terms of value added, SERS' 5-year net value added was 0.1%, which was above the U.S. public and peer medians of 0.0%.

The SERS Investment staff is analyzing the results of this survey and looking into ways to improve investment returns, reduce risk, and control costs.

### **Multi-Asset Strategies Annual Portfolio Review**

Investment staff gave the Board an overview of SERS' Multi-Asset Strategies (MAS) portfolio.

The long-term return target for MAS is the three-month U.S. Treasury bill, plus 4.5% net of fees. The custom benchmark is the HFRI Fund of Funds Index + 1% annualized.

Over the last year, SERS has increased exposure to the equity long/short, event driven, and relative value sectors, while reducing exposure to the tactical trading and risk focus/multi-strategy sectors. Over the last 12 months, the MAS portfolio realized a return of 0.87%, underperforming the benchmark by 1.59%.

Staff goals for the portfolio in FY2016 include reducing the portfolio allocation to 10% (currently at 10.6%), tactically allocating resources within the portfolio to take advantage of the market outlook for each sector and strategy, improving risk-adjusted returns, and continuing to manage costs.

### **Multi-Asset Strategies Educational Session**

To supplement this month's Multi-Asset Strategies portfolio review, Robert Stockton, director of investor relations, Ryan Ogg, partner/portfolio manager, and Josh Brown, partner/portfolio manager, of Visium Asset Management, gave the Board an overview of current health care trends.

SERS has invested in Visium Balanced Fund since April 2009.

Currently, Visium manages more than \$7.7 billion in assets. The firm is continuously looking for trends in health care. Investing globally in companies across the health care sector, Visium seeks those on the cutting edge of technology. Investment decisions are based on thorough fundamental research, and a disciplined approach to capital allocation and risk management.

## Total Fund Update

TOTAL FUND BALANCE		
September 30	October 31	Difference
\$12.14 billion	\$12.55 billion	▲ \$410 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 0.40%	▲ 3.24%	▲ 9.47%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.04%	▲ 0.70%	▲ 0.44%

### SERS Commits to Four Investments

The SERS Staff Investment Committee approved three Private Equity investments and one Opportunistic investment.

The Private Equity investments include a \$75 million commitment to Warburg Pincus XII, a global private equity strategy, a €40 million commitment to Charterhouse Capital Partners X, a European buyout fund, and a \$40 million commitment to Mason Wells Buyout Fund IV, a U.S. middle market buyout strategy.

The Opportunistic investment is a \$50 million commitment to Harvest MLP Alpha Strategy, an energy master limited partnership. This investment is the result of an RFP issued in August.

These investments will be funded from cash reserves.

### Vocational Expert Appointed

Following a staff recommendation, the Board appointed Kimberly Wickert as a vocational expert who will provide services to SERS on matters of vocational rehabilitation. Her responsibilities will include recruiting qualified vocational evaluators throughout the state of Ohio, and advising the Board and Medical Advisory Committee if vocational rehabilitation is recommended for disability recipients.

### Board Approves Amended Administrative Rules

The Board approved an amendment to the rule that determines when survivors can purchase service credit a member would have been eligible to purchase prior to his or her death. The revised rule stated that the purchase must occur before a survivor receives a benefit, and, if the purchase will make the beneficiary eligible for a benefit, the benefit effective date must be the first of the month following the date of purchase.

In addition, the Board approved an amendment to the rule concerning service credit that is established under a retirement incentive plan.

Currently, employers have the option to pay for the purchased service credit over the number of years that have been purchased. The amended rule requires community schools to pay the full cost of the purchased service credit within 30 days of receiving the calculated final cost from SERS.

### Executive Director's Update

#### **Information Security Program Update**

Staff presented its FY2016 second quarter update on SERS' Information Security Program. The update included a discussion of accomplishments, in-progress initiatives, information security risk reporting, and upcoming initiatives. Among the notable accomplishments, SERS staff successfully executed its Corporate Emergency Preparedness Plan at the organization's business continuity site by having staff participate in tabletop exercises and multiple stress tests, and conducting social engineering exercises with phishing

campaigns to compute the average click rate of SERS staff on suspicious e-mails. Upcoming initiatives include a complete security benchmark assessment and report results.

***SMART Update***

Staff provided the Board with an update on the status of SERS' new computer system, SMART (SERS Member and Retiree Tracking), including work completed, upcoming milestones, and a revised timetable.

***SERS Agrees to Participate in the Ohio Checkbook***

After meeting with the Ohio Treasurer's staff several times in the last two months to understand processes, information security, and implementation expectations for the Ohio Checkbook, SERS agreed to participate. SERS has always been transparent with its expenditure data, and we currently post [monthly administrative expense reports](#) on the SERS website.

***Upcoming Pension and Health Care Roundtable***

On the morning of Jan. 28, 2016, SERS will host a Pension and Health Care Roundtable meeting in the O'Keefe Conference Center at SERS' headquarters. SERS staff will discuss potential pension reform, as well as health care and legislative issues currently affecting SERS.

**Monthly Retirement and Survivor Benefit Transactions**

For December, the SERS Board approved 430 active members for service retirements, and 26 survivor benefits for spouses and/or dependents.

**No Board Meeting in January**

The SERS Board will not meet in January.

**February Meeting Dates**

The next Board meeting will take place Thursday, Feb. 18, and Friday, Feb. 19 (if necessary), at 8:30 a.m. The Board will be holding its annual retreat in the O'Keefe Conference Center at SERS' headquarters in Columbus on Wednesday, Feb. 17.