

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO BOARD MEETING HIGHLIGHTS JUNE 2016

RETIREMENT BOARD

FY2017 Board Officers Chosen Barbra M. Phillips, active member, and Dee Faragher, active member, were nominated by the Board to be chair and vice-chair for fiscal year 2017, beginning July 1, 2016. Phillips, who is in her third term, previously served as chair from 2010-2011. Faragher, who also is in her third four-year term, served as vice-chair during the same fiscal year. Fixed Income Portfolio Review Staff presented a review of the fixed income portfolio focusing on current market conditions, the portfolio's performance and exposure, and progress on FY2016 goals.

The fixed income portfolio guidelines were changed to reduce the excess risk and return and to provide better diversification to the total fund. Return expectations were lowered from 75 basis points above the benchmark to 40 basis points.

In FY2016, the portfolio underperformed due to underweighting US Treasuries. To rectify this, staff is conducting a new manager search for a US government bond manager. The portfolio also underperformed in the area of emerging market debt. To address this, staff redeemed \$20 million from the strategy and restructured the benchmark to better match the holdings (50% local currency and 50% hard US currency).

Board Approves FY2017 Annual Investment Plan SERS' Board approved the FY2017 Annual Investment Plan (AIP), which serves as a guide to the System's investment decisions for the year.

The AIP includes an overview of the current economic environment based on reports from leading economic firms, SERS' asset allocation target, and long-term performance objectives for each type of investment. Additionally, it contains last year's objectives and accomplishments, and details about how each investment portfolio will be managed during the year. Total Fund Update

TOTAL FUND BALANCE

March 31	April 30	Difference
\$12.34 billion	\$12.45 billion	▲\$110 million

TOTAL FUND RETURN (net of fees)

Fiscal Year	Calendar Year	3-Year
▲0.63%	▲1.95%	▲6.38%

TOTAL FUND RETURN vs. BENCHMARK

Fiscal Year	Calendar Year	3-Year
▲0.16%	▲0.01%	▲0.21%

SERS Commits to US Equity, Private Equity, and Fixed Income Investments The SERS Staff Investment Committee approved three commitments within the System's US equity portfolio, one in the private equity portfolio, and one in fixed income.

The US equity investments include a \$250 million commitment to Martingale Capital Management, a \$170 million commitment to Bridgeway Capital Management, and a \$160 million commitment to Coho Partners, which are all US equity large cap value managers. These managers were identified as a result of an RFP issued in October 2015. Funding for these investments came from rebalancing the US equity portfolio.

In the private equity portfolio, the committee approved a €25 million commitment to Bridgepoint Development Capital III, a pan-European, lower middle market buyout fund.

In the fixed income portfolio, the committee approved a \$100 million U.S. government mandate investment with CS McKee Investment Managers.

Funding for the private equity and fixed income investments came from cash reserves.

FY2017 Budget Approved The proposed administrative budget for FY2017 was approved by the Board effective June 22. The approved budget totaled \$31,571,766, and included personnel costs; professional service fees, including investment-related costs; communications expenses; capital expenditures; and other operating expenses.

Health Care Update Anne Jewel, SERS' director of Health Care Services, summarized proposed changes to the health care program for 2017.

Following discussion of the 2017 vendor, premium, and benefit changes, along with changes to the 2017 Premium Discount Program, the Board approved the recommended 2017 health care plan changes and premiums.

Due to HealthSpan's termination of insurance operations in Ohio, SERS is moving its HealthSpan non-Medicare group to Aetna on July 1, 2016, and the HealthSpan Medicare group to Aetna Medicare on Jan. 1, 2017. As a result of dwindling enrollment and rising costs, SERS also is moving members currently enrolled in Paramount non-Medicare coverage to Aetna non-Medicare starting Jan. 1, 2017.

The Health Care Department recommended an extension of the Aetna Medicare Advantage contract for a 2-year term. The extension, which places SERS in alignment with the current STRS contract period, enables SERS to work with STRS on an RFP for a consultant to assist the organizations in developing an RFP for the Medicare Advantage Group Agreement for a term beginning in 2019.

Among items of interest for enrollees in the Medicare plan, SERS will reduce the pharmacy co-payment subsidy currently provided to Medicare enrollees when they are in the "Donut Hole." This will keep pharmacy co-pays level throughout the year, thereby reducing confusion for members. It also will provide a cost savings to SERS.

Notable plan design changes for non-Medicare coverage in 2017 include an increase in the annual deductible from \$1,500/\$3,000 to \$2,000/\$4,000. The individual combined out-of-pocket maximum (in-network), which includes expenses for the deductible, co-insurance, and co-pays, will increase from \$6,850 from to \$7,150 for medical and pharmacy costs. The family out-of-pocket maximum will increase from \$13,700 to \$14,300. Coverage for proton pump inhibitors will be eliminated.

In terms of the 2017 Medicare premiums, Aetna Medicare premiums for those with Part A and Part B will not increase in 2017. There will be a 4% premium increase for those with Paramount Elite, and an

8% premium increase for those with PrimeTime (Aultcare Medicare). For 2017 non-Medicare premiums, the Aetna non-Medicare plan will have an increase of 5% for retirees, 7% for spouses, and 25% for children. AultCare will not see any premium changes.

Vision plan premiums for 2017 will remain the same as last year; dental plan premiums for 2017 also will remain the same.

Additionally, eligibility for the 2017 Premium Discount Program was discussed. Staff recommended, and the Board approved, a discontinuation of the program for non-Medicare SERS retirees on the rationale that benefit recipients would receive equal or better benefits at a more affordable price through Medicaid, or the Marketplace and new SERS wrap-around program. To qualify for the program in 2017, one family member enrolled in SERS health care coverage must be eligible for Medicare.

The Premium Discount Program provides health care premium relief to qualifying recipients based on household size and income. It is brought before the Board for approval on a yearly basis.

Enterprise Risk Management Report Julie Deisler, enterprise risk management officer, provided the board with an update on the activities of SERS' Enterprise Risk Management (ERM) program.

ERM, by definition, is a process involving an organization's board of directors, management, and staff, which is intended to identify and effectively manage risks that may affect the organization.

The goal of SERS' ERM program is to create an environment at SERS that ensures risk management is an integral part of decision-making and strategic planning.

SERS' Leadership Team has spent a significant time considering the various organizational risks. As a result, staff developed a Risk Register, which identifies key risks, measures those risks in terms of likelihood and impact, velocity and preparedness, and assesses the effectiveness of the risk management controls currently in place.

Now that the top risks have been identified, the next steps are to establish core risk management processes in order to enhance future monitoring and reporting capabilities.

Audit Committee Revises Charter, Approves FY2017 Internal Audit Plan Annually, the Audit Committee reviews and assesses the Audit Committee Charter, which defines the authority, composition, and responsibilities of Board members who serve on the committee. Following recommended changes to the composition of the committee and meeting dates, the Board voted to accept the revised charter.

Joe Bell, chief audit officer, provided an overview of the FY2017 Internal Audit Plan, and the audit planning process.

The Audit Committee will receive updates on a quarterly basis.

Executive Director's Update

ORSC Votes on Two Bills At its regular meeting on June 9, the Ohio Retirement Study Council (ORSC), the state legislature's oversight committee for Ohio's five public pension funds, voted on two bills that would impact SERS.

The first, H.B. 520, or the omnibus pension bill, contained general statutory cleanup language for all five statewide public pension systems. It also contained a change to the Alternative Retirement Plan (ARP) mitigating rate. The ORSC unanimously voted to approve H.B. 520.

The ORSC recommended disapproval of the second bill, H.J.R. 6, which would require Ohio's state agencies and retirement systems to divest investments from companies with certain business operations in countries designated as state sponsors of terrorism. SERS appreciates the ORSC's thoughtful analysis of the policy implications of this mandatory divestment bill.

Pension Reform Discussions Continue

The Board continued its discussion regarding pension funding and the next phase of potential pension reform.

SERS' actuaries from Cavanaugh Macdonald were in attendance to review previously discussed reform scenarios and answer any pending questions. The Board is taking all scenarios into consideration, and plans to vote on pension reform in the near future.

Monthly Retirement and Survivor Benefit Transactions For June, the SERS Board approved 335 active members for service retirements, and 16 survivor benefits for spouses and/or dependents.

July Meeting Dates The next Board meeting will take place Thursday, July 21, and Friday, July 22 (if necessary)