



Report From the Investment Department

April 20, 2023

- **Matters requiring board action:**
 - Adoption of the amended Proxy Voting Policy
- **Educational or scheduled updates and reviews requiring no action today:**
 - Summary of Investment Activity Report, March 2023
 - Review of Statement of Investment Beliefs
 - Callan Comments
 - Review of March 2023 investment transactions
- **Summary of requests**

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Adoption of the Amended Proxy Voting Policy



- Annual review of the Stock Proxy Voting Policy – presented to STRS Ohio Board in February 2023.

- One proposed addition

- Update Guideline Header: Majority Voting for Directors

Proposed update:

“STRS Ohio will vote for proposals that require companies to amend their bylaws and/or charter to require that nominees for the board be elected by a majority of the votes cast, provided the proposal includes a carve-out for a plurality voting standard when there are more nominees than board seats (e.g., contested elections).”

Adoption of the Amended Proxy Voting Policy



STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

PROPOSED MOTION

Adoption of the Amended Stock Proxy Voting Policy

April 20, 2023

_____ moved, seconded by _____ that the Stock Proxy Voting Policy be amended, as presented on April 20, 2023.

Questions



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March Returns and Activity



- The preliminary total fund return for March was +1.21%*
- The preliminary fiscal year 2023 total fund return is estimated:
 - Gross return +4.29%*
 - Net return +4.20%*
- Fixed Income +2.4%, Domestic equity returns +2.3%, International equity +1.8%
- **Rebalancing activity**
 - Reduced Fixed Income by \$330 million
 - Reduced Domestic and International equity by \$270 million
 - Allocated to Liquidity reserves
- **Total investment assets ended March at approximately \$88.1 billion; higher by \$500 million in fiscal year 2023**

* Gross returns, except for alternative investments & real estate where the return is net of all external investment management fees and costs, including carried interest and other fund expenses.

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Statement of Investment Beliefs

The Board has developed and adopted the following Statement of Investment Beliefs that provides guidance and direction for investment decisions and governance, with the goal of achieving long-term financial success on behalf of the members. We believe this statement will serve as a valuable tool for ensuring that our investments are consistent with our mission and values. These belief statements also provide a critical means of communicating the STRS Ohio Board's framework of investment decision-making to external stakeholders.

STRS Ohio seeks to maximize return at a prudent level of risk. The primary investment objective of STRS Ohio is to maximize investment return at a prudent level of investment risk.

STRS Ohio invests for the long-term. STRS Ohio believes a long-term investment horizon is required to provide long-term retirement benefits to active and retired members of the System. Committing to a long-term investment strategy and sticking to it avoids overreacting to short-term market conditions and investing in unproven investment strategies.

Good governance is critical for success. STRS Ohio believes strong governance practices lead to strong investment results. Day-to-day management of an investment portfolio requires proper delegation accompanied by effective oversight.

Cash flows matter. Incorporating current and forecasted retirement and health care benefit payments into the portfolio construction process results in a more sustainable fund for the long-term. Managing portfolio liquidity, asset allocation and rebalancing the investment portfolio is a priority, especially in short-term market drawdowns.

Investment diversification works. An investment portfolio diversified across multiple asset classes provides better risk-adjusted performance leading to a less volatile return experience. A well-diversified portfolio also reduces the impact of losses from individual asset classes or securities. STRS Ohio will continue to evaluate new and emerging investment strategies to determine their potential viability.

Economies of scale benefit members. As a large institutional investor, STRS Ohio's scale creates cost efficiencies and access to investment offerings or unique opportunities only available to large and sophisticated institutional investors.

Costs matter. STRS Ohio will actively monitor the long-term return objectives on a net-of-fees basis, while prudently managing investment related costs in a transparent manner.

Members of STRS Ohio are rewarded for taking certain investment risks. STRS Ohio believes that there are risk premiums for accepting capital market risk and investing in illiquid investments. While risk premiums change over time, since STRS Ohio is a long-term investor, STRS Ohio and its members can benefit from remaining fully invested in a prudent allocation of diversified investments.

Active and passive investing are both appropriate. STRS Ohio believes that both active and passive strategies have a role in the portfolio. Passive strategies are used for low cost and diversified exposure to highly efficient asset classes where value added is difficult to achieve. Active management will be relied upon in those asset classes where STRS Ohio believes it can identify unique or compelling investments which may lead to above-market returns.

Internal asset management is a strategic advantage. STRS Ohio believes internal asset management capabilities are a strategic advantage providing low-cost access to both active and passive strategies.

- **Opening: Statement of Investment Beliefs**
 - “The Board has developed and adopted the following Statement of Investment Beliefs that provides guidance and direction for investment decisions and governance, with the goal of achieving long-term financial success on behalf of the members. We believe this statement will serve as a valuable tool for ensuring that our investments are consistent with our mission and values. These belief statements also provide a critical means of communicating the STRS Ohio Board’s framework of investment decision-making to external stakeholders.”

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