

**MINUTES OF
STATE TEACHERS
RETIREMENT BOARD
MEETINGS**

April 20, 2023

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The State Teachers Retirement Board met at the STRS Ohio offices in Columbus, Ohio, on Thursday, April 20, 2023, at approximately 9:00 a.m. Retirement Board Chair Carol Correthers called the meeting to order.

The following members were in attendance: Carol Correthers, Alison Falls, Rudy Fichtenbaum, Claudia Herrington, Scott Hunt, representing the Interim Superintendent of Public Instruction, Dale Price, and Julie Sellers.

APPROVAL OF MINUTES

Ms. Correthers moved, seconded by Ms. Herrington to approve the minutes of the March 2023 Retirement Board meeting.

Upon roll call the vote was as follows: Ms. Correthers, yes; Ms. Herrington, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Dr. Hunt, yes; Mr. Price, yes; Ms. Sellers, yes; The motion carried.

Ms. Correthers recognized executive director Bill Neville for opening remarks. Mr. Neville discussed the day's agenda and spoke briefly about how staff arrived at the amount budgeted for fiscal year 2024. He clarified that the Performance Based Incentive (PBI) figures reflected in the presented budget were approved by the board in June 2022. He also noted the budget had been prepared with prudent review of positions and services.

Mr. Lard joined the meeting while in progress.

Mr. Foreman joined the meeting remotely.

REPORT FROM THE FINANCE DEPARTMENT

Ms. Correthers recognized Lynn Hoover, deputy executive director – Finance, for the Report from the Finance Department.

Ms. Hoover began the presentation of the proposed fiscal 2024 operating and capital budgets and indicated that the comprehensive budget report with line-item details, budget notes and Ohio Retirement Study Council (ORSC) reporting was included in the board materials. The proposed operating budget reflects what is necessary to provide quality member services to STRS Ohio's public educators and the ability to meet legal, regulatory, and other requirements, as well as the implementation of a number of fiduciary audit recommendations.

Ms. Hoover reviewed the budget process and timeline. The proposed operating and capital budgets will be presented to ORSC at its May meeting. The Retirement Board will be asked to approve and adopt the fiscal 2024 budgets in June.

The proposed operating budget totals \$115.6 million, an increase of \$3.1 million or 2.8% from the current year budget. Ms. Hoover stated the budget includes two items – incentive compensation and associate health insurance – that account for an increase of \$3.7 million and all other items are a net decrease of \$600,000.

Compensation, excluding performance-based incentives, is decreasing. Headcount is down by 17 positions. There are 504 full-time equivalent associates (FTE's) in the proposed budget, a decrease from 521 FTE's in fiscal 2023. A 2% pool for merit-based increases and promotions is included.

Higher incentive compensation is projected to reflect expected higher relative performance for the one-and five-year periods through fiscal 2023. The fiscal 2023 policy was approved by the board in June 2022 and the proposed budget represents the projected payments based on that policy. (Fiscal Year 2023 PBI's are actually paid in fiscal 2024.) PBI's are only awarded to eligible associates within the Investment Department.

Ms. Hoover indicated that fringe benefits are increasing primarily due to associate health insurance (higher medical and pharmacy claims by STRS Ohio associates). The associate health care plan is a smaller group of covered lives as opposed to the retiree health care program, and demographics continue to influence the costs of associate health care.

Investment consulting and other consulting costs are projected higher for the board's new general and alternative investment consultants, as well as a defined contribution consultant, board governance consultant and external quality assurance review of internal audit functions, as recommended in the most recent fiduciary audit.

Kathy Boettcher, controller, presented the proposed fiscal 2024 capital budget. Ms. Boettcher stated the system's proposed capital budget is \$8.3 million and reflects an increase of \$482,000 or 6.1%. Technology-related expenditures comprise the bulk of the capital budget.

Most of the significant building improvements have been completed, but planned facility enhancements include replacement of the uninterrupted power supply system and fire safety updates.

REPORT FROM THE INVESTMENT DEPARTMENT

The Chair recognized Matt Worley for the Report from the Investment Department. There was one matter requiring board action, the Adoption of the Amended Proxy Voting Policy. Mr. Worley announced that the action was being deferred to incorporate new proposals at the request of a board member. This policy will be updated and reviewed again in May with a final review and potential adoption at the June meeting.

Mr. Worley covered the following topics for the investment activity report:

- The preliminary March total fund return is +1.21%.
- The fiscal year 2023 total fund gross return is estimated at +4.29% and the net return is estimated +4.20%.
- In rebalancing activity, staff removed \$330 million from fixed income and \$270 million from domestic and international equities combined. An estimated \$600 million was reallocated to liquidity reserves to make benefits payments.
- Total investment assets ended March at approximately \$88.1 billion; higher by \$500 million in fiscal year 2023.

Mr. Worley reviewed the Statement of Investment Beliefs as discussed by Callan at last month's board meeting. A new opening statement was drafted and read by Mr. Worley. The Statement of Investment Beliefs will be reviewed and potentially adopted in May.

Brady O'Connell commented on the Investment Beliefs and recommended that once adopted, they be posted to STRS Ohio website with the board revisiting them every three years. Mr. O'Connell also recommended that the board reference these investment beliefs when making decisions during reviews of the Annual Investment Plans, Asset Liability Studies, and other strategic plans.

Investment transactions in March 2023 were reviewed without objection.

There were no requests by the Board.

RECOGNITION OF PERSONS WISHING TO ADDRESS THE BOARD

Ms. Correthers recognized the following to address the board:

Marvin Stotz representing himself addressed the board. Mr. Stotz expressed concern about transparency and investment fees.

Dan MacDonald representing local 279R addressed the board. Mr. MacDonald expressed concern about the 2024 budget, merit raises and the PBI policy.

Suzanna Laird representing herself addressed the board. Ms. Laird expressed concerns about the board's fiduciary responsibility to the retired teachers.

Phil Long representing himself addressed the board. Mr. Long expressed concerns about the false and erroneous information circulating about STRS Ohio.

Sue Brannan representing herself addressed the board. Ms. Brannan expressed concerns about the COLA's.

Gerald Newsom representing himself addressed the board. Mr. Newsom expressed concern about the impending election and the future of STRS investments.

Cathy Steinhauser representing herself addressed the board. Ms. Steinhauser expressed concern about the board's fiduciary responsibility to STRS membership.

Dean Dennis representing himself and ORTA addressed the board. Mr. Dennis expressed concerns regarding the information communicated to its membership.

EXECUTIVE SESSION

Ms. Correthers moved, seconded by Mr. Lard to enter executive session under authority of Division (G)(1) of Section 121.22 of the Ohio Revised Code for the purpose of discussing appointment, employment or compensation of a public employee or official, Division (G)(3) of Section 121.22 of the Ohio Revised Code for the purpose of conferring with the board's attorney regarding pending or imminent court action and Division (G)(5) of Section 121.22 of the Ohio Revised Code for the purpose of discussing matters required to be kept confidential by federal law or state statutes.

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Lard, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt, yes; Mr. Price, yes; Ms. Sellers, yes; The motion carried.

The board entered Executive session at 11:36 a.m; the session ended at 12:51 p.m.

Public session resumed at 1:05 p.m.

Mr. Steen joined the meeting in progress.

RESUMPTION OF THE REPORT FROM THE FINANCE DEPARTMENT

Ms. Correthers again recognized Lynn Hoover, deputy executive director – Finance, for a continuation of the Report from the Finance Department.

Ms. Hoover introduced Gene Kalwarski of Cheiron, to present their recommendations regarding the Economic Assumptions for the June 30, 2023 Actuarial Valuation. Mr. Kalwarski began the presentation by noting that economic assumptions are reviewed annually and updated as needed to reflect market expectations. Cheiron discussed the importance of using reasonable assumptions and presented six factors to consider when setting the discount rate assumption, in order of increasing importance.

Mr. Kalwarski reviewed the current economic assumptions adopted by the board. Cheiron recommended no change to STRS Ohio's current actuarial investment return assumption of 7% or the inflation rate of 2.5% and recommends the board maintain the 3% payroll growth assumption.

Mr. Kalwarski introduced Bonnie Rightnour and Mike Noble to discuss the Sustainable Benefit Enhancement Plan (SBEP). Staff presented the benefit enhancement plan concept with the board at its March meeting.

Ms. Rightnour explained the board may adjust the benefits of the system if the board's actuary determines that the adjustment does not materially impair the fiscal integrity of the system. Cheiron has developed a three-part test to evaluate the plan's ability to withstand financial shocks and if contributions are sufficient to maintain funding levels. These tests provide the framework for the SBEP and understanding what, if any, budget is available for benefit enhancements.

Cheiron calculated the budget amount for each test and discussed the detailed calculations with the board. For this year, one of the tests produced a small budget but the other two tests produced a zero amount. If any of the three tests result in a zero-budget amount, the SBEP budget is zero for that year. The SBEP budget is the lesser of amounts calculated for the three tests.

In the event Cheiron has determined the SBEP budget to be zero, Mr. Noble discussed details of a de minimis enhancement that would not materially impair the fiscal integrity of the system. Cheiron's determination of the de minimis enhancement amount is to be no more than 1% of the actuarial value of assets, provided the plan is projected to be fully funded in twenty years or less after the inclusion of the de minimis enhancement. In 2023, the amount of de minimis enhancement that may be considered is \$830 million.

Mr. Noble then shared the budget impact for potential benefit enhancements including contributions, COLA and retirement eligibility. Enhancements and various combinations of choices based on the de minimis enhancement amount were discussed by board members. The board asked Cheiron to bring back additional analysis for further discussion at the May board meeting.

EXECUTIVE DIRECTOR'S REPORT

Ms. Correthers recognized Executive Director Bill Neville for the Executive Director's Report. Mr. Neville highlighted items from his April Executive Director's Report containing the topics listed below and offered to answer any questions.

- Final Retirement Plan Election Materials Mailed to Members
- Third Quarter Satisfaction Remains High for Member Services
- STRS Ohio Recognized for Transparency

REPORT AND APPROVAL OF EXPENSES DURING MARCH 2023

Ms. Correthers moved, seconded by Mr. Price that the report and the expenditures for the month ended March 31, 2023, in the total amount of \$7,040,178 be approved.

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Price, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt yes; Mr. Lard; yes, Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

CONSENT MOTION

Ms. Correthers moved, seconded by Mr. Lard that the Retirement Board approve the Member Benefits-related motions appended on Pages 1 - 25 with the exception of the member in the #9 position of the Recommended Disability Benefits motion. (Records are not public per Ohio Revised Code 3307.20).

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Lard, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

RECOMMENDED DISABILITY BENEFITS – MEMBERS #9

Ms. Correthers moved, seconded by Mr. Price, that the Retirement Board concurs with the reports of the medical examiners and the evaluations by the Medical Review Board in the case of the member in the #9 position and hereby orders that the member shall be granted disability benefits. (Records are not public per Ohio Revised Code 3307.20).

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Price, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt, yes; Mr. Lard, yes; Ms. Sellers, abstain; Mr. Steen, yes. The motion carried.

REPORT FROM THE INVESTMENT COMMITTEE

A meeting of the Investment Committee was called to order by Ms. Correthers, chair of the committee on Wednesday, April 19, 2023, at 1:06 p.m. Committee members present were Ms. Falls and Ms. Herrington. Other board members present were Dr. Fichtenbaum, Mr. Price, and Ms. Sellers. Staff present were Mr. Neville, Mr. Worley, Ms. Elliott, Ms. Hoover, Ms. Wideman and Ms. Ballard.

The chair recognized Matt Worley, deputy executive director – Investments, for a review of the agenda. Mr. Worley briefly reviewed the timeline for the investment consultant search. He updated the committee that staff had reached out to the top 10 investment consultants as ranked by Pension & Investments to inquire about interest in the general consultant RFP. Mr. Worley then provided the format for today's finalists, Albourne and Callan, presenting for the alternative investment consultants.

Mr. Worley recognized Albourne staff members, Kathy Rossi, David Tatkow, John Claisse and Sean Crawford to present regarding the committee's questions from the March meeting.

Mr. Worley next recognized Callan staff members Michael Joecken, Pete Keliotis David Smith, and Catherine Beard to present regarding the committee's questions from the March meeting.

The committee will discuss the finalists' presentations and proposals with the full board tomorrow, Thursday, April 20th during new business.

The meeting adjourned at 4:50 p.m.

MOTION FOR WAIVER OF COMPLIANCE WITH OPERATIONAL ASSET PROTECTION POLICY

Ms. Correthers moved, seconded by Ms. Lard, to waive compliance with the Board's Operational Asset Protection Policy for Energy Suppliers. A reverse auction will be conducted to select supplier(s) to serve STRS Ohio. This waiver expires when the contract that is subject to this waiver is terminated or May 31, 2026, whenever is sooner.

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Lard, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

MOTION TO EXTEND CALLAN CONTRACT

Ms. Correthers moved, seconded by Ms. Herrington to authorize the Executive Director to execute an amendment to the Investment Advisor Agreement date July 1, 2015 between STRS Ohio and Callan (the "Agreement") extending the term for one year (through June 30, 2024), in accordance with and pursuant to the existing terms of the Agreement.

Upon roll call the vote was as follows: Ms. Correthers, yes; Ms. Herringotn, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Dr. Hunt, yes; Mr. Lard, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

MOTION TO AUTHORIZE SECURITIES LITIGATION

Ms. Correthers moved, seconded by Mr. Lard, to authorize the Attorney General to pursue on behalf of STRS Ohio, appointment as lead-plaintiff, or co-lead plaintiff with an entity (or entities) acceptable to the Executive Director and Chief Legal Officer, in the securities action discussed in executive session on this date.

Upon roll call the vote was as follows: Ms. Correthers, yes; Mr. Lard, yes; Ms. Falls, yes; Dr. Fichtenbaum, yes; Mr. Foreman, yes; Ms. Herrington, yes; Dr. Hunt, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, abstain. The motion carried.

BOARD EDUCATION UPDATE

Ms. Correthers provided an education update on Callan Institute's 2023 National Conference.

OLD BUSINESS / NEW BUSINESS

The Investment Committee discussed the selection of the alternative investment consultant with the entire board. Mr. Worley addressed the board regarding the process in which the Investment Committee has gone through to interview prospective alternative investment consultants. He went on to explain that the Investment Committee invited both finalists, Albourne and Callan, back for a second round of interviews for additional information in several areas and confirmed that staff verified that both finalists met the qualifications and the scope as defined in the RFP.

Following discussion about each finalist, Mr. Price moved, seconded by Ms. Herrington, to direct the Executive Director to negotiate and execute a contract with Callan to be the alternative investment consultant, pending any additional due diligence warranted by the investment staff.

Upon roll call the vote was as follows: Dr. Price, yes; Ms. Herrington, yes; Ms. Corrthers, yes; Ms. Falls, yes; Dr. Fichtenbaum, no; Mr. Foreman, yes; Dr. Hunt, yes; Mr. Lard, yes; Ms. Sellers, no; Mr. Steen, yes; The motion carried.

ADJOURNMENT

Ms. Correthers announced the next Retirement Board and committee meetings would be held over May 17, 18, and 19, 2023. With no further business to come before the board, the meeting adjourned at 4:33 p.m.

APPENDICES

THE STATE TEACHERS RETIREMENT SYSTEM OF OHIO
275 East Broad Street Columbus, OH 43215-3771

**(The following reports are not public information.
Reference Section 3307.20, Ohio Revised Code)**

- **REPORT TO THE RETIREMENT BOARD ON REQUEST FOR CONTRIBUTIONS DURING LEAVE OF ABSENCE**
- **REPORT TO THE RETIREMENT BOARD ON SURVIVOR BENEFITS**
- **REPORT TO THE RETIREMENT BOARD ON RECOMMENDED DISABILITY BENEFITS**
- **REPORT TO THE RETIREMENT BOARD ON DENIAL OR TERMINATION OF DISABILITY BENEFITS**
- **REPORT TO THE RETIREMENT BOARD ON DISABILITY TRANSFERS TO OPERS/SERS**
- **REPORT TO THE RETIREMENT BOARD ON ACTION ON APPEAL HEARINGS**
- **REPORT TO THE RETIREMENT BOARD ON SERVICE RETIREMENTS AND REEMPLOYMENT BENEFITS**
- **REPORT TO THE RETIREMENT BOARD ON RESCIND ACTION OF DENIALS**
- **REPORT TO THE RETIREMENT BOARD ON FINAL AVERAGE SALARY**