

**MINUTES OF
STATE TEACHERS
RETIREMENT BOARD
MEETINGS**

March 16, 2023

March 16, 2023

March 16, 2023

The State Teachers Retirement Board met at the STRS Ohio offices in Columbus, Ohio, on Thursday, March 16, 2023, at approximately 9:02 a.m. Retirement Board Chair Carol Correthers called the meeting to order.

The following members were in attendance: Ms. Correthers, Alison Falls, Claudia Herrington, Scott Hunt, representing the Interim Superintendent of Public Instruction, Elizabeth Jones, Arthur Lard, Dale Price, Julie Sellers and Wade Steen. Rudy Fichtenbaum and Steven Foreman joined the meeting remotely.

APPROVAL OF MINUTES

Ms. Correthers moved, seconded by Mr. Lard to approve the minutes of the February 2023 Retirement Board meeting.

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; Ms. Jones, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

REPORT FROM THE FINANCE DEPARTMENT

The chair recognized Lynn Hoover, deputy executive director – Finance for a Report From the Finance Department.

Ms. Hoover introduced Brian Grinnell, STRS Ohio’s chief actuary, and Bonnie Rightnour of the board’s actuarial consulting firm Cheiron, then began the presentation of a Sustainable Benefit Enhancement Plan.

Ms. Hoover recalled that as part of 2012 pension reform, the General Assembly provided the board with limited authority to adjust COLAs, member contributions and retirement eligibility requirements. Ohio law requires the board’s actuary to determine if a proposed benefit enhancement could materially impair the fiscal integrity of the system. The board can only make adjustments with a supporting determination by its actuary.

Ms. Hoover discussed the key components of the proposed sustainable benefit enhancement plan which included a budget amount for potential enhancements to be calculated annually by the board’s actuary. This approach would meet the “fiscal integrity” requirement of Ohio law. The budget amount would vary year to year based on the financial condition of the pension plan. There could be years where no budget is available.

Mr. Grinnell reviewed the three tests developed by Cheiron last year to evaluate whether a change would materially impair the fiscal integrity of the system. He then discussed how STRS could evolve these three tests to calculate an annual benefit enhancement budget.

Benefit enhancements the board approved last year included a three percent COLA for eligible recipients in fiscal 2023, at a cost of \$1.6 billion, and elimination of the age 60 retirement eligibility requirement scheduled to go into effect August 1, 2026, at a cost of \$0.9 billion.

The board discussed the proposed plan and indicated its desire to move forward. Cheiron will present economic assumptions at the April board meeting along with providing the numeric inputs for the proposed budget and the costs for potential enhancements, including additional potential eligibility requirement and COLA changes.

Mr. Grinnell then provided a review of the possibility of a points-based retirement eligibility system, which was requested by the board at a previous meeting. In such an approach, a member's combined age and years of service would be used to determine retirement eligibility. The eligibility addition would require legislative changes as well as actuarial analysis on any introduced legislation, in compliance with Ohio law. The review showed the impact of adding points-based eligibility to current rules and its impact on unreduced retirement.

RECOGNITION OF PERSONS WISHING TO ADDRESS THE BOARD

Ms. Correthers recognized the following to address the board:

Dan MacDonald representing 279-R addressed the board. Mr. MacDonald expressed concern about investments.

Jerry Newsom representing himself addressed the board. Mr. Newsom expressed concern about potential changes to STRS Ohio.

Rita Walters representing herself addressed the board. Ms. Walters expressed concern about board members making changes without enough information or with misinformation.

Cathy Steinhauser representing herself addressed the board. Ms. Steinhauser reviewed several items she thought should change at STRS Ohio.

Marv Stotz representing himself and WCRTA addressed the board. Mr. Stotz expressed concern about investments.

Suzanne Laird representing herself addressed the board. Ms. Laird expressed concern about investments.

Dean Dennis representing himself and ORTA addressed the board. Mr. Dennis expressed concern about investments.

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; Dr. Hunt, yes; Ms. Jones, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

Executive session ended at 1:14 p.m. and public session resumed at 1:25 p.m.

REPORT FROM INVESTMENT DEPARTMENT

The chair recognized Matt Worley, deputy executive director – Investments, for a Report From the Investment Department.

There was one matter requiring Board action:

The adoption of the amended stock proxy voting policy was presented by Matt Downie. The policy was initially reviewed at the February 2022 meeting. It was decided that the policy vote be moved to the April meeting to allow more time for review.

Mr. Worley addressed the recent bank failure of Silicon Valley Bank and the impact it had on STRS Ohio. As of Wednesday, March 8, STRS Ohio held shares of SVB worth \$27.2 million which accounted for approximately 0.03% of STRS Ohio's total fund. Due to the bank's failure, SVB stock was removed from the S&P 500 and the Russell 3000 indices, and the price of its stock was written down to \$0. The STRS Ohio fund is designed to weather situations like this. The investment strategy is built on the core principle of diversification. By diversifying across various asset classes, sectors and companies, STRS Ohio can mitigate the impact of unforeseen events like the loss in SVB shares. Steve Eastwood, Director of Domestic Equities, stated that STRS Ohio has bought and sold shares of SVB stock and achieved net gains of more than \$30 million since inception, even after the write downs on March 8.

Mr. Worley provided a summary of investment activity for February. The February preliminary total fund return was -1.51%. The preliminary fiscal 2023 total fund return gross of fees was +2.99% or +2.91%, net of fees. Rebalancing activity for the month included allocating \$125 million to international equities. Total investment assets ended February at approximately \$87.3 billion, lower by \$300 million in fiscal 2023.

Jay Kloepfer began Callan's presentation with a review of the 2022 Asset-Liability Study. He discussed the process of making capital market projections and provided a comparison of risk and return assumptions for 2023 versus 2022. Mr. Kloepfer outlined their current expectations for the economic outlook, asset class outlooks, and forecast parameters for 2023. Callan is increasing its expectations for STRS Ohio's portfolio returns from 6.03% to an annualized 7.17% over the next decade.

As requested by the Board, Michael Joecken and Brady O’Connell provided details to Callan’s peer group database that were discussed in previous meetings. Callan emphasized the importance of asset allocation and how it determines investment return and portfolio volatility. They evaluated performance over the past five years and noted that different asset allocations were the primary contributor to the risk/return differences. Funds with higher return and lower risks held higher allocations to alternative investments.

Greg Allen, CEO and Chief Research Officer at Callan, discussed current benchmarking practices versus empirical benchmarking. Mr. Allen described the CFA Institutes criteria for judging performance benchmark. A benchmark must be unambiguous, investable, measurable, appropriate, specified in advance, and owned. He reviewed STRS Ohio’s current performance benchmarks and stated all except international (due to hedging) were standard indices. Mr. Allen defined the empirical benchmark as a backward-looking benchmark that is most useful for understanding the style composition of an actively managed portfolio. He analyzed empirical benchmarking over 13 years for the STRS Ohio portfolio for fiscal years 2021 and 2022. Each period provided very different results. The empirical benchmark does not meet the criteria established by the CFA Institute.

Steve Nesbitt, Chief Executive Officer at Cliffwater presented the STRS Ohio’s alternative investment performance review ending December 31, 2022. The STRS Ohio alternative investment return has exceeded the total fund return in all time periods except the current fiscal year to date period. Mr. Nesbitt provided a breakdown of returns over the one-, one and a half-, three-, five- and ten-year periods for the private equity and opportunistic diversified portfolios versus their respective benchmarks. Mr. Nesbitt stated that STRS Ohio’s alternative investments have enhanced the total fund return and reduced risk over the last 20 years.

Aaron DiCenzo, director – alternative investments, presented an update on alternative investments. He reviewed the purpose of alternative investments and how this asset class has increased the total fund returns. Mr. DiCenzo explained the STRS Ohio Business Model evolution. He updated the progress of the board’s strategic initiative for direct and co-investments. He outlined how the business model is transparent through regular reporting in an effort to support the board in its role to devise policy and exercise oversight. STRS Ohio is an Institutional Limited Partners Association (ILPA) member and supports the SEC proposed rule changes to enhance regulations of private fund managers.

Brady O’Connell and Michael Joecken continued a discussion from previous meetings on creating a Statement of Investment Beliefs as was recommended by the fiduciary audit. The board discussed ten investment belief statements that will be presented at a later meeting for formal adoption.

Investment transactions for February 2023 were reviewed without questions or comments.

EXECUTIVE DIRECTOR'S REPORT

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

- Retirement Indicators Show Increase in Expected Retirements
- Fiscal Year 2024 Budget Preparations Are Underway
- Finance Department Provides Education, Updates to STRS Ohio Employers
- STRS Ohio Holds Defined Contribution Program Meeting with Nationwide
- Board Election to Take Place This Spring

REPORT AND APPROVAL OF EXPENSES DURING FEBRUARY 2023

Ms. Correthers moved, seconded by Mr. Lard that the report and the expenditures for the month ended February 28, 2023, in the total amount of \$7,265,423 be approved.

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; Ms. Jones, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

CONSENT MOTION

Ms. Correthers moved, seconded by Mr. Price that the Retirement Board approve the Member Benefits-related motions appended on Pages 1 – 53. (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; Ms. Jones, yes; Mr. Lard, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

REPORT FROM THE INVESTMENT COMMITTEE – FEBRUARY

Ms. Correthers moved, seconded by Ms. Jones that the following February Investment Committee Report be approved as submitted and that the Board approve, affirm and adopt the recommendations of the committee.

A meeting of the Investment Committee was called to order by Dr. Hunt, vice chair of the committee on Thursday, Feb. 16, 2023, at 8:10 a.m. Committee members present were Ms. Herrington, Dr. Hunt, Ms. Falls, and Ms. Correthers. Other board members present were Dr. Fichtenbaum, Mr. Foreman, Ms. Jones, Mr. Lard, Mr. Price, Ms. Sellers.

The chair recognized Matt Worley, deputy executive director – Investments, for a review of the timeline for the consultant search. Mr. Worley announced that there were three submissions received to requests for proposals. Two responses were for general consulting and two for alternative investment consulting. The investment committee will hear finalist presentations on March 15, 2023. Mr. Worley proposed time expectations and potential interviews questions.

Michele Mazzoleni, director asset allocation and strategy – Investments, further reviewed investment beliefs and conclusions based on staff's research. Mr. Mazzoleni provided a peer comparison of key concepts in investment beliefs, philosophies, and strategies. He explained the benefit of good governance and why Ohio law requires a diversified portfolio. Mr. Mazzoleni provided a comparison of active and passive management across Ohio funds that revealed similar rates of adoption. He explained how STRS Ohio manages active risk and how active management complements passive investing. In conclusion, a list of ten investment beliefs were recommended.

Dr. Fichtenbaum presented several observations on active management and will forward the information to the board. Investment staff will review and respond to Dr. Fichtenbaum's observations.

The meeting adjourned at 10:00 am.

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

REPORT FROM THE AD HOC BOARD GOVERNANCE COMMITTEE – FEBRUARY

Ms. Correthers moved, seconded by Ms. Herrington that the following February Ad Hoc Board Governance Committee Report be approved as submitted and that the Board approve, affirm and adopt the recommendations of the committee.

Ms. Correthers called to order the Ad Hoc Board Governance Committee meeting on February 16, 2023, at 3:34 p.m. Committee members in attendance were Dr. Fichtenbaum, Ms. Herrington, Mr. Price and Ms. Sellers. Other board members in attendance were Ms. Falls, Ms. Jones and Mr. Steen. Staff in attendance were Mr. Neville, Ms. Wideman, Ms. Elliott, Ms. Hoover, Mr. Worley and Ms. Ballard.

Ms. Correthers recognized Mr. Neville for a review of the agenda. Mr. Neville provided a brief overview of the November discussion regarding the Mission, Vision, and Guiding Principles and presented modifications made in response to suggestions from the board. During the discussion, board members made additional suggestions and Mr. Neville offered to take the suggestions back to the culture committee for a rework of the statements.

Mr. Neville next reviewed the recommendations made by Funston Advisory Services regarding Board governance and administration. While staff has some capabilities around these issues, using an outside consultant to advise the board may be the most efficient and effective way to proceed. The committee directed staff to research pricing of an outside consultant and whether an RFP would be required. Ms. Wideman stated costs could add up quickly and that staff would begin compiling an RFP.

Mr. Neville said staff would bring a draft RFP for the committee's consideration to the meeting in March.

The meeting adjourned at 4:05 p.m.

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

**MOTION FOR APPROVAL OF CANDIDATES FOR THE
CONTRIBUTING MEMBER ELECTION**

Ms. Correthers moved, seconded by Ms. Jones that the names listed below, who were duly nominated for the contributing member position on the State Teachers Retirement Board as provided for in Ohio Revised Code Section 3307.07, be placed on the ballot for election to the four-year term beginning Sept. 1, 2023, through Aug. 31, 2027.

Name
Pat Davidson
Arthur Lard

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

**MOTION FOR APPOINTMENT AND APPROVAL OF EXPENSES
FOR BOARD OF TELLERS FOR 2023 RETIREMENT BOARD
ELECTION – CONTRIBUTING MEMBER POSITION**

Ms. Correthers moved, seconded by Mr. Foreman that the individuals named below be appointed to the Board of tellers to meet on May 6, 2023, to certify the election results for the contributing member position on the State Teachers Retirement Board for the four-year term beginning Sept. 1, 2023, and ending Aug. 31, 2027, and that they be paid actual expenses in accordance with the STRS Ohio Travel and Expense Policy.

<u>Candidate</u>	<u>Teller</u>
Pat Davidson	Pat Davidson
Arthur Lard	Arthur Lard

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

REPORT FROM THE INVESTMENT COMMITTEE – MARCH

Ms. Correthers moved, seconded by Mr. Lard that the following March Investment Committee Report be approved as submitted and that the Board approve, affirm and adopt the recommendations of the committee.

A meeting of the Investment Committee was called to order by Ms. Correthers, chair of the committee on Wednesday, March 15, 2023, at 12:12 p.m. Committee members present were Ms. Falls, Ms. Herrington, and Dr. Hunt. Other board members present were Ms. Jones, Mr. Lard, Mr. Price and Ms. Sellers. Mr. Foreman joined the meeting in progress remotely. Staff present were Mr. Neville, Mr. Worley, Ms. Elliott, Ms. Hoover, Ms. Wideman and Ms. Hare.

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 explained that there were two firms making finalist presentations for consulting services to the Retirement Board. Mr. Worley explained that a third had withdrawn its proposal from consideration.

Mr. Worley recognized Albourne staff members, Kathy Rossi, David Tatkow and Sean Crawford to present their proposal for providing alternative investment consulting services to STRS Ohio. Following the presentation, committee and board members asked the presenters questions relating to the proposed services.

Mr. Worley next recognized Callan staff members Brady O’Connell, Michael Joecken, Jay Kloepfer, Pete Keliuotis and Ben Taylor to present their proposal for providing general investment consulting as well as alternative investment consulting services. Following the presentation, committee and board members asked questions relating to the proposed services.

Following a lengthy discussion, the committee recommended that both firms be invited back in April to answer additional questions about their proposals for alternative investment consulting services. Questions to be included in the discussion in April should be sent to the chair by email by March 20, 2023.

Committee members indicated a desire to have a broader pool of firms for consideration for general investment consulting services.

Ms. Herrington moved, seconded by Dr. Hunt to recommend to the board that staff request a one-year contract extension with Callan for general investment consulting services.

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

The meeting adjourned at 4:15 p.m.

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; Ms. Jones, yes; Mr. Price, yes; Ms. Sellers, yes; Mr. Steen, yes. The motion carried.

BOARD EDUCATION UPDATES

Mr. Price, Ms. Jones and Ms. Sellers provided education updates for the AFT Pension Trustee Council meeting.

OLD BUSINESS / NEW BUSINESS

Dr. Hunt made a statement regarding why he voted in the affirmative when the vote of confidence in the executive director was taken at the February meeting. He listed several reasons why he has confidence in the leadership of the system.

There was a brief discussion about the upcoming election. Mr. Neville will follow-up with when the ballots will mail and what information STRS Ohio has sent out. There was a brief discussion about when misinformation about the election should be corrected.

Ms. Correthers requested approval to attend Callan's 2023 National Conference in April.

Mr. Steen moved, seconded by Mr. Price to approve the expenses in connection with Ms. Correthers' attending Callan's 2023 National Conference.

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

ADJOURNMENT

Ms. Correthers announced the next Retirement Board and committee meetings would be held over April 19, 20 and 21, 2023. With no further business to come before the board, the meeting adjourned at 6:15 p.m.

APPENDICES

PROPOSED MOTION

Retirement Board Consent Motion

March 16, 2023

Ms. Correthers moved, seconded by Mr. Price, that the Retirement Board approve the following member benefits-related motions.

1. Survivor Benefits
2. Recommended Disability Benefits
3. Denial or Termination of Disability Benefits
4. Rescind Prior Action
5. Action on Appeal Hearing
6. Service Retirements and Reemployment Benefits

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; Ms. Jones, yes; Mr. Lard, yes; Ms. Sellers, yes; Mr. Steen, yes. Motion carried.

3/16/2023

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**