

Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, Ohio 43215

Minutes
October 13, 2016

The meeting was called to order by Chairman Beagle at approximately 10:02 a.m. in room 121, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Bill Beagle
Jay Hottinger
Ron Amstutz
Dan Ramos
Kirk Schuring
Lora Miller
Dr. Thomas Pascarella, *pending Senate approval*

Non-voting members

Dennis Smith
Karen Carraher
John Gallagher
Lisa Morris
Mike Nehf
Kari Hertel

Absent

Edna Brown

Staff

Bethany Rhodes
Jeff Bernard
Ashley Wilson

Chairman Beagle welcomed Dr. Thomas Pascarella to the Council and noted that the Senate still needed to confirm his appointment; however, the Chairman thanked him for coming and asked him to introduce himself. Dr. Pascarella said he was happy to be on the Council and briefly shared his background in economics and local government.

Rep. Ramos entered the meeting at approximately 10:05 a.m.

There being a quorum present, Chairman Beagle asked that the minutes of the previous meeting be approved. Without objection the minutes were approved.

The Chairman recognized Vice-Chair Schuring as co-sponsor of HB 520 and asked for an update. Rep. Schuring apologized for the delay in releasing the amendments but stressed the importance of the bill and its amendments. He also

noted that this bill was needed to allow several members the chance to retire. He said that it was important to get HB 520 approved by the Council today so that it could be voted out of the House. Rep Ramos echoed Vice-Chair Schuring's sentiments.

The Chairman thanked Vice-Chair Schuring and Rep. Ramos for their comments and asked Mr. Bernard to review the ORSC Analysis of HB 520. Mr. Bernard reviewed the report, and Chairman Beagle entertained a motion to accept the staff recommendations. Vice-Chair Schuring moved to accept the staff recommendations, and Rep. Ramos seconded. Ms. Miller asked about AM 2391-4 and if the expansion of law enforcement positions would be a problem with any employers. Vice-Chair Schuring said that he had spoken with the Office of Budget and Management, and they were fine with the expansion of positions. He added that we live in a different world and the people in these positions were in harm's way, and it was important that they be included in PERS-Law Enforcement divisions. There were no other questions.

The Council voted on the motion. A roll call vote was taken, and the motion passed 6-0.

YES: Chairman Beagle	Vice-Chair Schuring
Sen. Hottinger	Rep. Ramos
Rep. Amstutz	Ms. Miller

The Chairman recognized Jim Voytko and Nick Woodward from RVK to present their Investment Performance Review of the systems. They presented their findings and took questions from the Council.

Chairman Beagle asked if international equity included emerging markets like China or if it was limited to developed markets. Mr. Voytko said that it included all non-U.S. equity, which would include China.

Sen. Hottinger asked what kind of investment vehicles were in a standard hedge fund. Mr. Voytko said that there were no "standard" hedge funds, as hedge funds could include everything from stocks to catastrophe bonds. He noted that hedge fund managers do tend to specialize in one investment area, but hedge funds as a class were not limited to any specific investment vehicle.

Sen. Hottinger asked if hedge funds often underperform when equities are doing well. Mr. Voytko said yes, in general, if you are hedging against equity than the hedge fund will tend to underperform when equities are over performing. Similarly, if you're hedging against equity, and equity does poorly, then the hedge fund will likely over perform. But he stressed that hedge funds have such diversity in their strategies that he cannot say universally that hedge funds will underperform if equities are performing well.

Chairman Beagle asked what the difference was between hedge funds and private equity other than their liquidity. Mr. Voytko said that probably the biggest difference had to do with the manager. Hedge funds typically are a specific historical investment strategy, while private equity was an investment commitment to a particular project. Private equity is a much greater commitment to a general partner conducting a specific project.

Rep. Ramos noted that Mr. Voytko showed in his report that the Ohio systems were performing better or on par with most successful systems in the nation. Yet Mr. Voytko was saying that the actuarial assumed rate of return was on the high end of the nation's average and that this raised some concerns, which he had heard multiple times during his 5 or 6 years on the Council. Rep. Ramos asked Mr. Voytko why the Ohio systems would lower their rate of return assumption to emulate other systems in the nation when the Ohio systems were doing so well. Mr. Voytko began by stating that, irrespective of what any other system in the nation is doing, the Ohio systems would have to grapple with lower expected capital market returns. All systems in the nation have the same market conditions. He said that the goal of a good return assumption was really to balance the contributions with return expectations, and that the benefits provided by the Ohio systems require more money than our assets are providing. He said that it was really about the benefits, not about what peers are doing.

Referring to pages 8 and 9 of the executive summary, Rep. Amstutz asked about the benchmarks consistently beating the systems during this period. Mr. Voytko said that the difference was between active versus passive management. Rather unusually, recently passive investment has consistently had higher returns than active management. These things tend to go in cycles, and there will be times that active management consistently outperforms passive management. Rep. Amstutz asked if RVK ever suggested to their clients that they use passive management. Mr. Voytko said he suggests that all the time, but that it was impossible to avoid all active management in a mature pension fund with the diversity of investments.

There were no further questions.

The Chairman asked Director Nehf to review the STRS 2016 Disability Report. There were no questions.

The Chairman asked Director Morris to review the SERS 2016 Disability Report. Director Morris reviewed the report and noted that SERS has started a program to assist their under 65 members who are on disability in moving to coverage under early Medicare which will save the member and SERS a significant amount of money. There were no questions.

Chairman Beagle asked Mr. Bernard to discuss the Discount Rate Memo. Mr. Bernard explained that the ORSC staff often receives very similar questions that

seem to come in waves. This summer, ORSC staff received a large volume of questions regarding the discrepancy in liabilities. In response to these questions, staff decided to issue a brief on the subject matter to provide a consistent answer as well as to provide a refresher and continuing education to members and interested parties. Mr. Bernard also noted that if the Council members found the memo useful, then staff would continue to periodically issue these in the future, focused on ORSC requests or due to another issue generating a large number of questions. For instance, Mr. Bernard mentioned the Government Pension Offset and Windfall Elimination Provisions as a topic that generates numerous questions. Vice-Chair Schuring said that he thought this was a great idea and that this should be the first of many issue briefs. He encouraged other members to think of subjects they would like staff to research and provide briefs on. Chairman Beagle said that these briefs could even be helpful to General Assembly members outside the Council. The Chairman entertained a vote, and Sen. Hottinger moved to accept the staff Issue Brief on Measuring Pension Liabilities. Vice-Chair Schuring seconded.

The Council voted on the motion. A roll call vote was taken, and the motion passed 6-0.

YES: Chairman Beagle	Vice-Chair Schuring
Sen. Hottinger	Rep. Ramos
Rep. Amstutz	Ms. Miller

The Chairman asked Mr. Bernard to comment on the rules for this month. Mr. Bernard said that all of the rules comply with the Revised Code, and staff had no other comments.

Chairman Beagle recognized Sandra Knoesel and congratulated her on her retirement from STRS after 25 years of service.

The Chairman also recognized Director Morris and congratulated her on her upcoming retirement from SERS.

Chairman Beagle then asked Mr. Bernard for any business to be brought before the Council. Mr. Bernard explained that the Annual Health Care Report was next on the list of reports to standardize, but staff was uncertain of how to proceed. Mr. Bernard asked the Council if they would like a brief health care report or a more in-depth report like OPERS typically submits. Vice-Chair Schuring said that uniformity was key, but that he would appreciate more information in the Health Care Report. Chairman Beagle agreed and directed staff to proceed with that in mind.

The next meeting was tentatively scheduled for November 10, 2016 at 10:00 a.m.

The meeting adjourned at approximately 11:33 a.m.

Date approved

Bill Beagle, Chair

Secretary

Kirk Schuring, Vice Chair