

OPERS Report –February 2024

The OPERS Board met on January 16 & 17, 2024 to approve the following:

- The Board Chair and Vice Chair were approved. Chris Mabe was elected as Chair and Stewart Smith is the new Vice Chair.
- The 2024 Annual Investment Plan and 2024 Dynamic Asset Allocation changes were approved. Allocations for the Defined Benefit Plan were changed slightly to decrease the percentage invested in Public Equity by 2% and increase the percentage invested in Fixed Income investments by 2%. The Health Care Fund investment allocations were changed to decrease the percentage allocated to Public Equity by 1% and Alternatives by 3%, and to increase allocations to Fixed Income by 3% and Risk Parity by 1%.

The Board received presentations from internal staff and external consultants on the following:

- Economic Outlook – Internal Economist, Nick Kotsonis, presented his view on the economy. From his analysis, the US Economy is still at risk of a recession. He reviewed various segments of the economy, specifically on the labor cycle to support his theory that the economy may be headed for a recession.
- Economic Outlook – External Economist, Gabriela Santos from JP Morgan Asset Management, presented a more positive outlook on the economy. She focused primarily on fixed income equities and national private markets. By the end of 2024, she expects growth of two percent, four percent unemployment, and no recession. This projection is consistent with the view of a “soft landing.” “Consumer and business confidence are low primarily due to cumulative inflation. Real wages have only recently turned positive. There is a rebalancing of the labor market through [a] lower [number of] job openings.” She sees plenty of opportunity in private equity and venture capital investments. Two areas with growth opportunities are artificial intelligence and glp-1 drug (for diabetes and obesity) research.
- NEPC Investment Consultants provided an investment market outlook for 2024. The “Magnificent Seven” companies (Amazon, Alphabet, Apple, Microsoft, Meta, Nvidia and Tesla) make up 28% of the S&P 500 Index. The Fed holds a third of the US Government debt, with foreign owners the second highest holder of US debt. The dollar is still the reserve currency of the world. There is increasing government debt which can result in more inflation. There is a growing awareness of the impact of artificial intelligence and what that might do to affect labor productivity and the economy.
- Fiscal Year 2023 Returns – preliminary results for 2023 (as of December 31, 2023) show that OPERS Defined Benefit Plan had a return of 11.1% and the Health Care Plan had a 13.8% return. The benchmarks for the DB plan are 6.9% and for the Health Care Plan is 6.0%. A portion of the Defined Benefit Fund’s loss in 2023 is being applied to this year’s

gain as part of the “smoothing” (over four years) that OPERS does when recognizing gains and losses.

- “As of December 31, 2023, the net assets of the Defined Benefit Fund and the Health Care Fund stood at \$98.8 billion and \$12.7 billion, respectively.”
- The amortization period for the Defined Benefit Plan is expected to decline by one year from 16 to 15 years, and the funded ratio will remain at approximately 84%. The Health Care Plan is expected to remain solvent for 22 years.
- Total plan asset class returns in 2023 were primarily from U.S. Equity (25.9%) and Non-U.S. Equity (17.2%) investments. Negative returns were from Real Estate (-5.2%) and Commodities (-7.5%).
- The OPERS Annual Investment Plan shows that 55% of investments are managed internally, and 45% are managed externally. Funds that are primarily or totally managed externally include: non-U.S. Equities, Emerging Markets Debt, Private Equity, Real Estate and Private Credit.
- “Total costs of the investment program in 2024 are projected to be \$542.7 million. External management fees are expected to be \$508.1 million. Internal management costs are projected to be \$34.6 million.”
- OPERS is in the process of evaluating bids for an external investment consulting service. An RFP was sent out in September 2023, and OPERS received bids from four firms: Callan LLC, Meketa Investment Group, NEPC, and RVK. The OPERS Board decided to meet with all four of the bidders before deciding on a finalist.
- There will not be an OPERS Board election in 2024.
- Current OPERS membership, including active and inactive members, shows that the overwhelming majority (97.6%) are in the Traditional Pension Plan.
 - Traditional Pension Plan 1,039,600
 - Member Directed Plan 17,123
 - Combined Plan 8,773
- The Combined Plan, which is now closed to new members, is being consolidated into the Traditional Pension Plan. OPERS staff is currently establishing a timetable for this consolidation, which was approved by the Ohio Legislature in 2023.

Submitted by Darian Torrance