

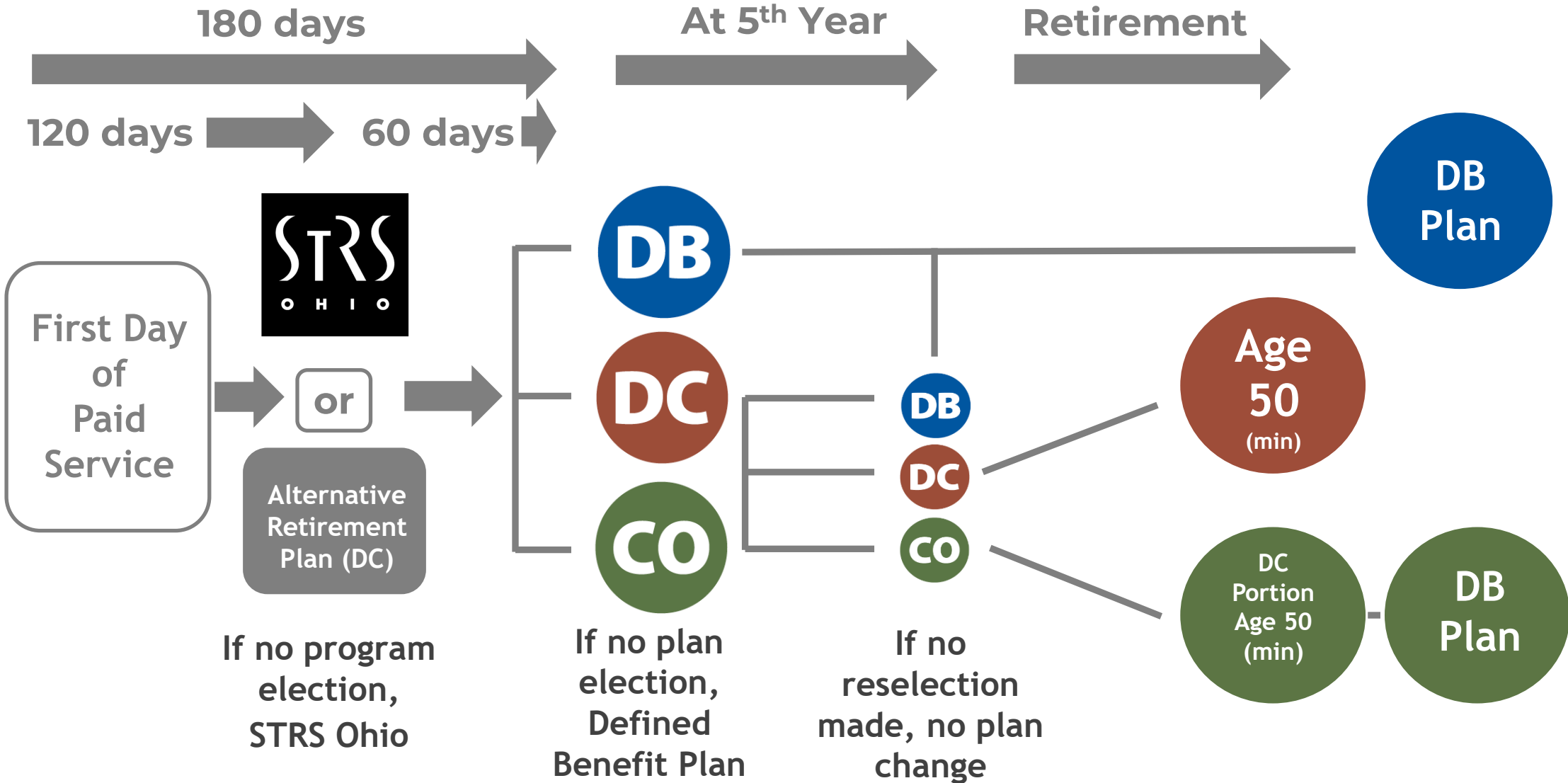


STRS Ohio Defined Contribution Program Update

Oct. 17, 2024

- **STRS Ohio**
 - Member Journey with Metrics
- **Meketa**
 - Introduction
 - Fiduciary Training
 - Initial Observations and Recommendations
 - Board Continuing Education Program
- **STRS Ohio**
 - Defined Contribution Program Member Metrics

STRS Ohio Member Journey

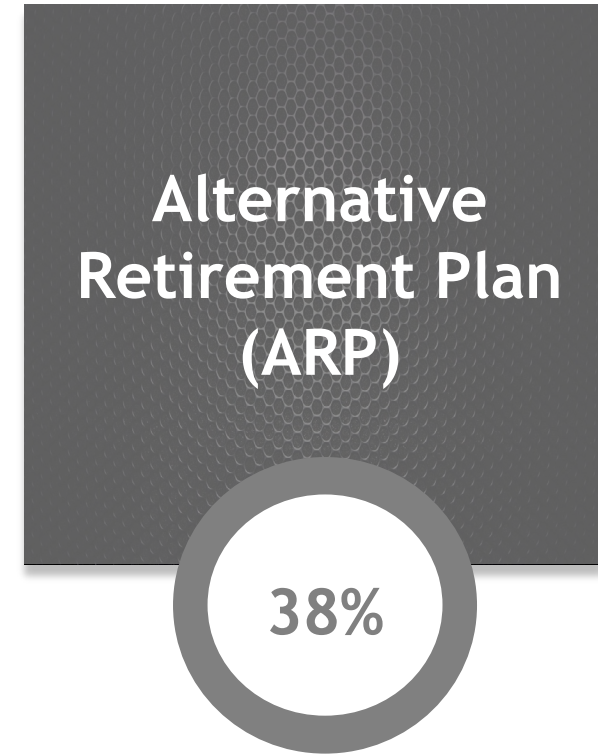


STRS Ohio Program Selection



Eligible public university and college faculty have **120 days** to select a retirement program, otherwise default into **STRS Ohio**.

55% Default to **STRS Ohio**



STRS Ohio Plan Selection



Defined Benefit Plan (DB)

88%



Defined Contribution Plan (DC)

8%



Combined Plan (CO)

4%



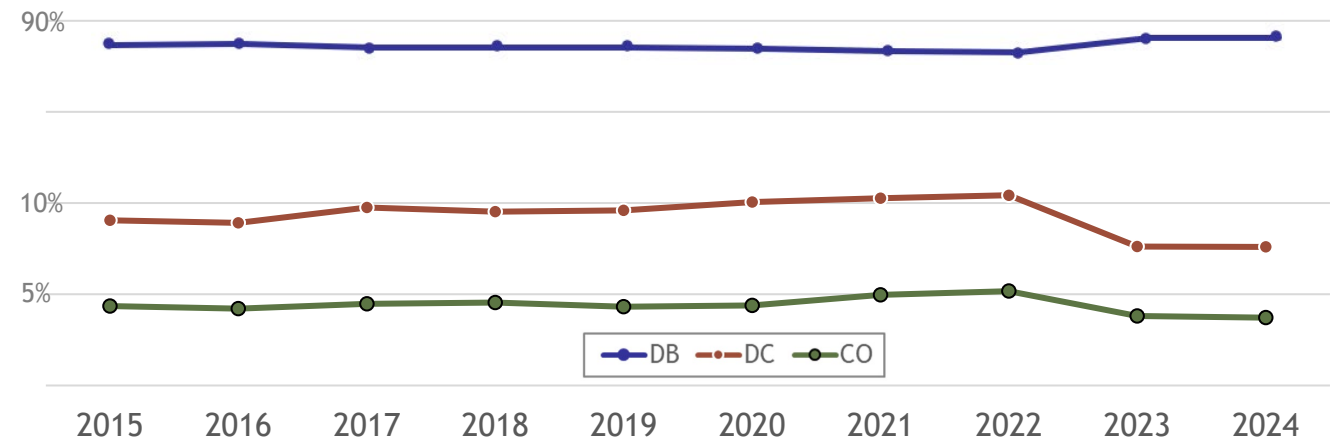
DB

DC

CO

New members have **180 days** to select a plan, otherwise default into the **DB Plan**

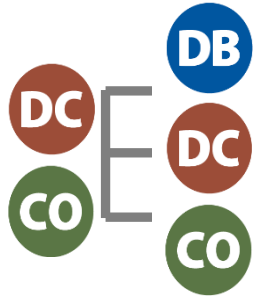
79% Default into the **DB Plan**



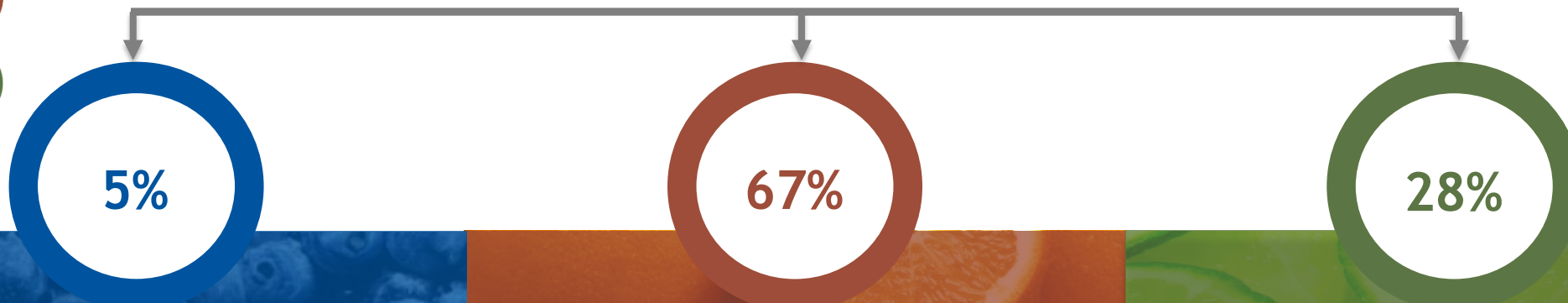
STRS Ohio Plan Reselection



Members in the **DC** and **CO** Plans have an opportunity to reselect their plan on or before June 1 of their fifth year of membership



1,606 members were eligible for plan reselection in fiscal 2024



Defined Benefit Plan (DB)



Defined Contribution Plan (DC)



Combined Plan (CO)



Introduction

Introduction

- Meketa was hired by the State Teachers Retirement System on January 1, 2024, as the Investment Consultant for the Defined Contribution (DC) Plan.
- The goal for today is twofold:
 - **Provide Fiduciary Training to the Board** that supports understanding of Meketa’s initial Observations and Recommendations that follow. Understanding that the Board receives annual Fiduciary and Governance Training, today will be a brief focus on the responsibilities specific to the Defined Contribution (DC) plan and DC portion of the Combined Plan though the context of best practices.
 - The Board Continuing Education Program will provide ongoing Fiduciary Training to the Board specific to the DC Program.
 - **Provide the Board with Meketa’s initial Observations and Recommendations on the DC Plan.** Meketa has been working with Staff to gain a thorough understanding of the DC Plan as it is today. Considering industry best practices and peer comparisons, Meketa will provide our initial observations and recommendations to the Board.

Fiduciary Training

Board Fiduciary Education Overview

Fiduciary Responsibilities

- Fiduciary Roles & Responsibilities
- Fiduciary Standards
- Ongoing Education

Governance

- Delegation of Authority
- Documents
- Processes
- Plan Administration

Best Practices

- Investment Monitoring
- Fee Benchmarking
- Member Engagement
- Service Providers

STRS Ohio Defined Contribution Plan Fiduciary

Who is a DC Plan Fiduciary?

- Simply put, a fiduciary is any individual or entity with discretionary authority over a retirement plan's administration or investments/assets.
- ORC 3307.01(K) 'Fiduciary' means a person who does any of the following:
 1. Exercises any discretionary authority or control with respect to the management of the system, or with respect to the management or disposition of its assets;
 2. Renders investment advice for a fee, direct or indirect, with respect to money or property of the system; and
 3. Has any discretionary authority or responsibility in the administration of the system.

What a DC Plan Fiduciary is Responsible for – According to the DOL:

- Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
- Carrying out their duties prudently;
- Following the plan documents;
- Diversifying plan investments; and
- Paying only reasonable plan expenses.

Key Difference Between the Defined Contribution and Defined Benefit Plans

	Defined Contribution	Defined Benefit
Retirement Benefit	Based on market value at retirement	Based on a predefined formula
Asset Allocation	Participant controlled	Board/Trustee controlled
Investment Risk	Assumed by the participant	Assumed by the Board

- Given each participant is responsible for selecting their own asset allocation, plan fiduciaries should be aware of potential risks, including:
- **Inadequate diversification** as participants can direct 100% of their DC Plan account to a single investment option, or allocate assets equally across all investment options.
 - **Chasing performance** as participants may react emotionally to market events by 1) transferring their balance into cash following a downturn and not participant in the rebound or 2) trying to time markets by transferring their assets into top performing funds at the peak (buying high) then transferring assets when performance is weak (selling low).
- Having this awareness can help guide fiduciaries in designing an effective menu of investment options with the participant in mind.

Defined Contribution Plan Best Practices – A Framework

✓ Have a strong governance structure in place

- Have an engaged Board/Committee that meets regularly
- Develop an Investment Policy Statement that is reviewed at least annually
- Document meetings and decisions
- Provide education to Board/Committee members
- Periodically review plan documents

✓ Promote employee education and savings

- Focus on participant retirement outcomes
- Implement auto-features where appropriate

✓ Implement a prudent fee structure

- Identify all costs associated with the Plan and benchmark periodically
- Minimize fees and expenses where possible
- Have a fee structure that is transparent and equitable across all participants

✓ Provide an effective investment lineup

- Use an open-architecture structure
- Implement a simplified, multi-tiered menu that provides adequate diversification and choice
- Avoid redundancy in investment options
- Consider both passive and active options
- Use target date funds (or customized accounts) as the default option/QDIA
- Evaluate and monitor investment options
- Monitor participant activity and utilization of investment options
- Monitor and review industry trends within defined contribution market

Initial Observations and Recommendations

Recommendations and Informational Items

→Meketa has reviewed various aspects of DC Plan including the current governance structure, investment menu design, the custom target date choices, and plan design features. Below is a summary of our initial observations:

Consideration	Best Practice Category	Action
Replace the STRS MSCI World ex-USA Index Choice with the STRS MSCI ACWI-ex USA Index Choice in the glidepath.	Investments	Board Action Needed
Add a 2065 and 2070 choice to the glidepath and adopt a policy to add a new vintage choice at the start of the glidepath (e.g. adding the 2065) and retire the choice at the end of the glidepath (e.g. 2020) every five years.	Investments	Board Action Needed
Establish an internal DC Advisory Committee that meets quarterly. The DC Director reports out to the Board periodically. <i>Details in Appendix.</i>	Governance	None – Internal Committee established
Create a SIOP specific to the DC Plan. <i>Details in Appendix.</i>	Governance	None – will be created following the Pension Asset Allocation Study
Determine if unmingling the DC assets and hiring external managers is appropriate for the DC plan and confirm a feasible timeline for executing. <i>Details in Appendix.</i>	Governance	None – will be reviewed following the Pension Asset Allocation Study
Keep the Plan Document focused on plan design features and separate out the Investment Program features and policies into a SIOP. <i>Details in Appendix.</i>	Plan Design / Governance	None – will be addressed during Plan Document restatement (2025) and DC Plan SIOP creation.
Benchmark both investment management and administrative fees to determine reasonableness. <i>Details in Appendix.</i>	Fees	None – will be completed in 2025

Board Recommendations: Investment Structure Design and Menu Options

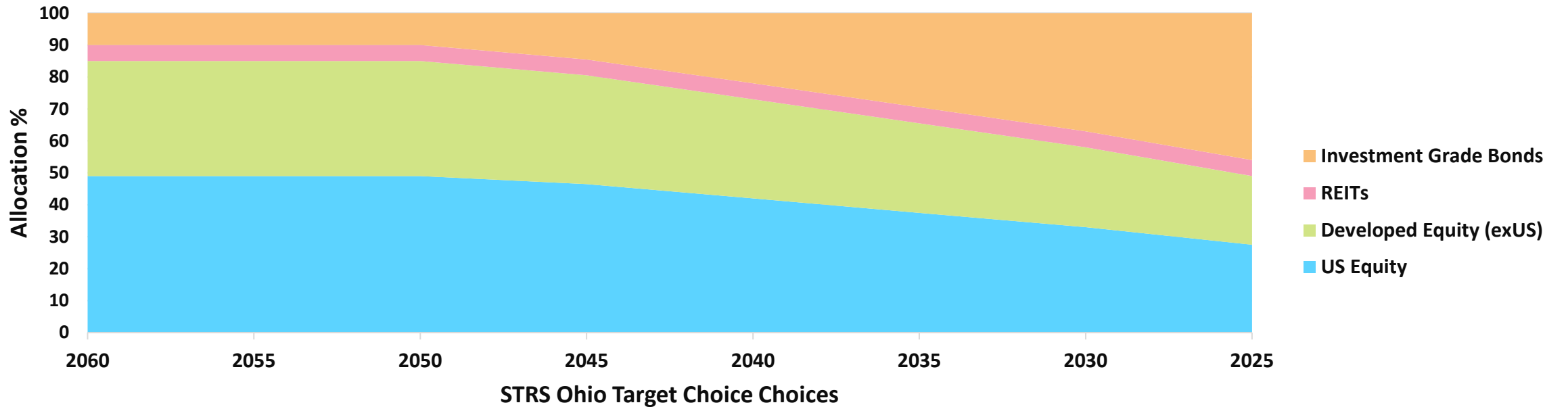
→ Regularly review the Custom Target Date Choices (DC Plan Default Investment)

- **Current State:** the DC Plan currently offers custom STRS Target Choice Options. The adopted Glidepath makes gradual shifts over time, so the design is not static.
- **Recommendations:**
 1. Add a 2065 and 2070 choice to the Glidepath (see following slide).
 2. Adopt a policy to add a new vintage choice at the start of the Glidepath (e.g. adding the 2065) and retire the choice at the end of the glidepath (e.g. 2020) every five years (see following slide).
- **Rationale:** Adding the 2065 and 2070 will allow new members coming into the plan to be appropriately invested based on the design of the STRS Target Choice glidepath. Automating this process will help ensure the appropriately dated choice is available for new members in the DC Plan.
- *Note: Implementation of the custom target date choice is delegated to Staff. However, in the past, the Board has approved the new/retired target-year options.*
- **Recommendation:** Replace the STRS MSCI World ex-USA Index Choice with the STRS MSCI ACWI-ex USA Index Choice in the glidepath.
- **Rationale:** the MSCI World ex-USA Index does not have emerging market equities, while the MSCI ACWI ex-USA does. Including this market exposure may help improve diversification.

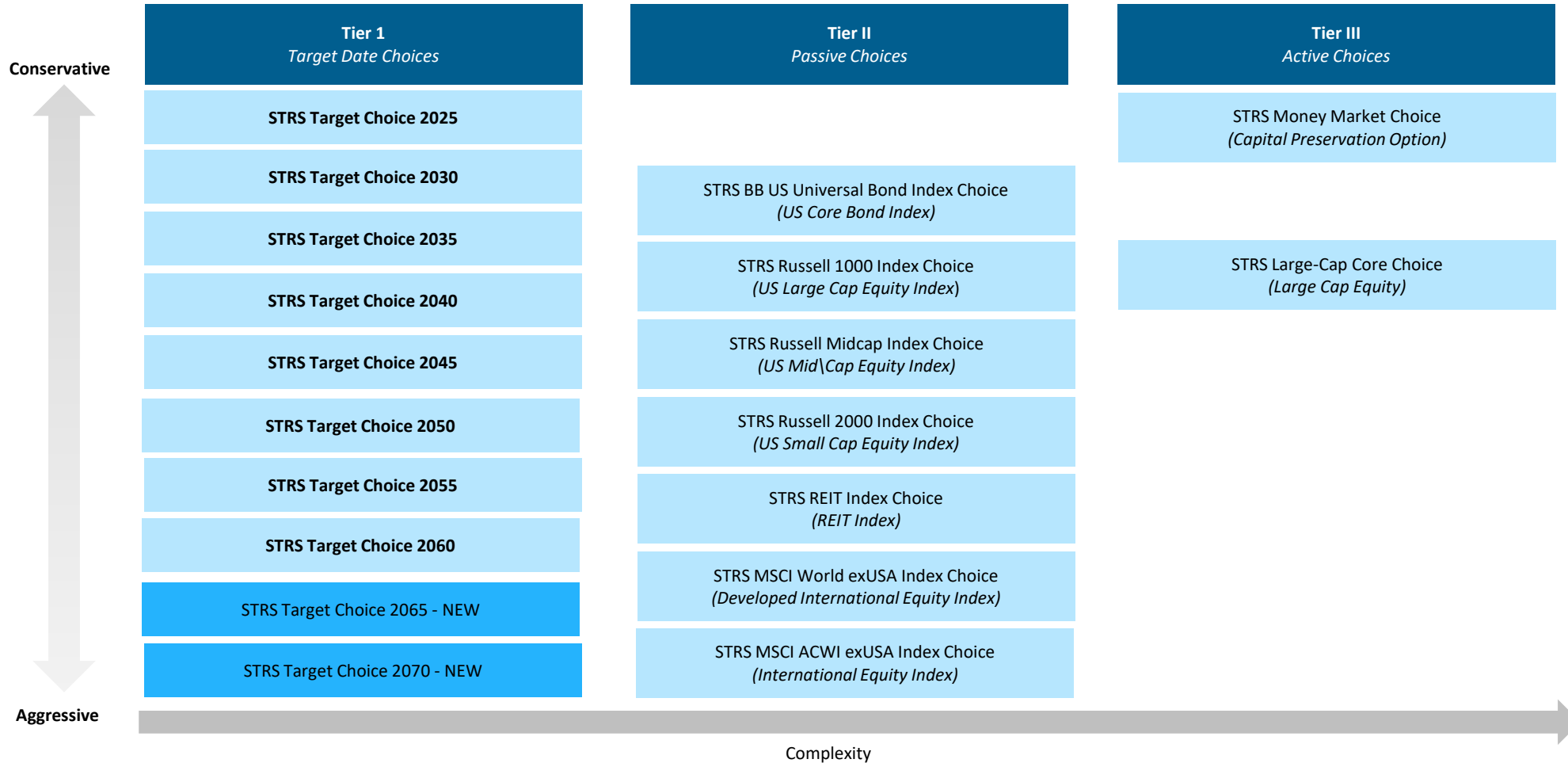
STRS Target Choice Options Glidepath Schedule

	2025	2030	2035	2040	2045 and every 5 years thereafter
Add Years	2065 and 2070	2075	2080	2085	2090 and so on
Merge Years	2025 → 2030	2030 → 2035	2035 → 2040	2040 → 2045	2045 → 2050 and so on

Current Glidepath



STRS Ohio DC plan Investment Structure



Board Continuing Education Program

Proposed Continuing Education Program

- A defined contribution training/educational program has been established for Board meetings, including but not limited to:
- Annual review of broad fiduciary duties.
 - Fiduciary education and best practices to support any recommendations or changes to the DC Plan.
 - Regularly scheduled updates, typically annually, to the Board on investment performance, fees and participant utilization.
- In order to be effective, these training/educational sessions will take place once a year or as needed to support relevant discussions and topics that relate to defined contribution.

Defined Contribution Governance Dashboard Coming!

Governance Process	Cadence
DC Fiduciary Training	Annually
DC Plan Fee Benchmarking	Annually
Statement of Investment Policy (SIOP) Review	Annually
DC Plan Document Review	Review every 2 - 4 years, or as new legislation or IRS guidance warrants
Qualified Default Investment Alternative (QDIA) Review	Review every 2 Years
Vendor Due Diligence	Every 2 years



Completed

- Develop a board continuing education program for DC Plan fiduciary responsibilities, plan design and oversight
- Hire an independent DC Plan advisor and independent investment consultant
- More formally assign an individual in the STRS Ohio organization to lead DC program
- Establish board agenda items explicit to required DC Plan and CO Plan matters and assign oversight of the plan features to a board committee

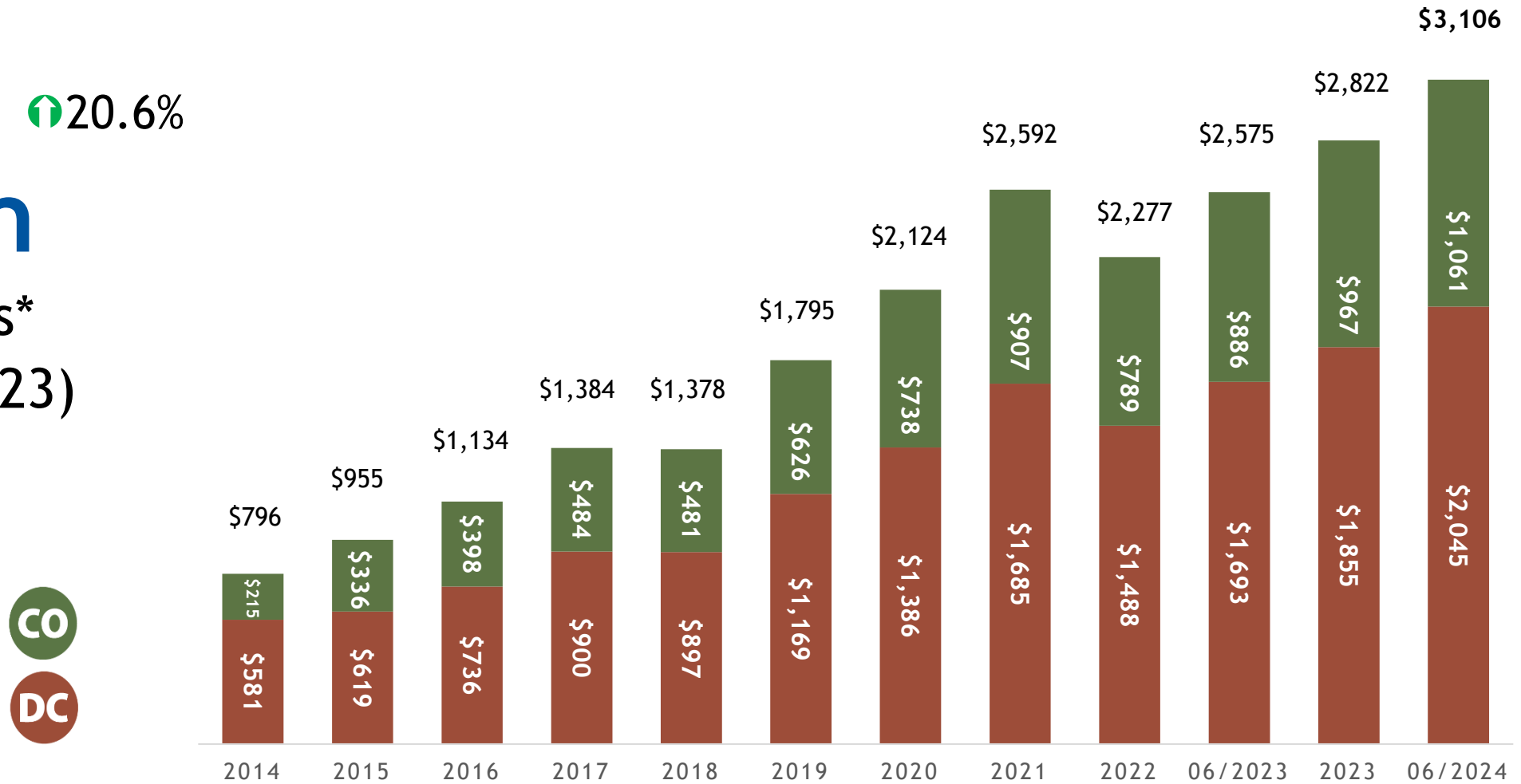
In Progress



- Engage in a review of the DC Plan design and all policies, practices and processes for the DC Plan
- Establish a Statement of Investment Objectives and Policy (SIOP) and monitoring process for the DC Plan

Defined Contribution Program – Plan Assets

\$3.1 ↑ 20.6%
billion
 Plan assets*
 (\$2.6b in 2023)



* Plan assets do not include the CO Plan assets held in the DB Plan

* All plan metric data as of June 30, 2024 (\$ in millions)

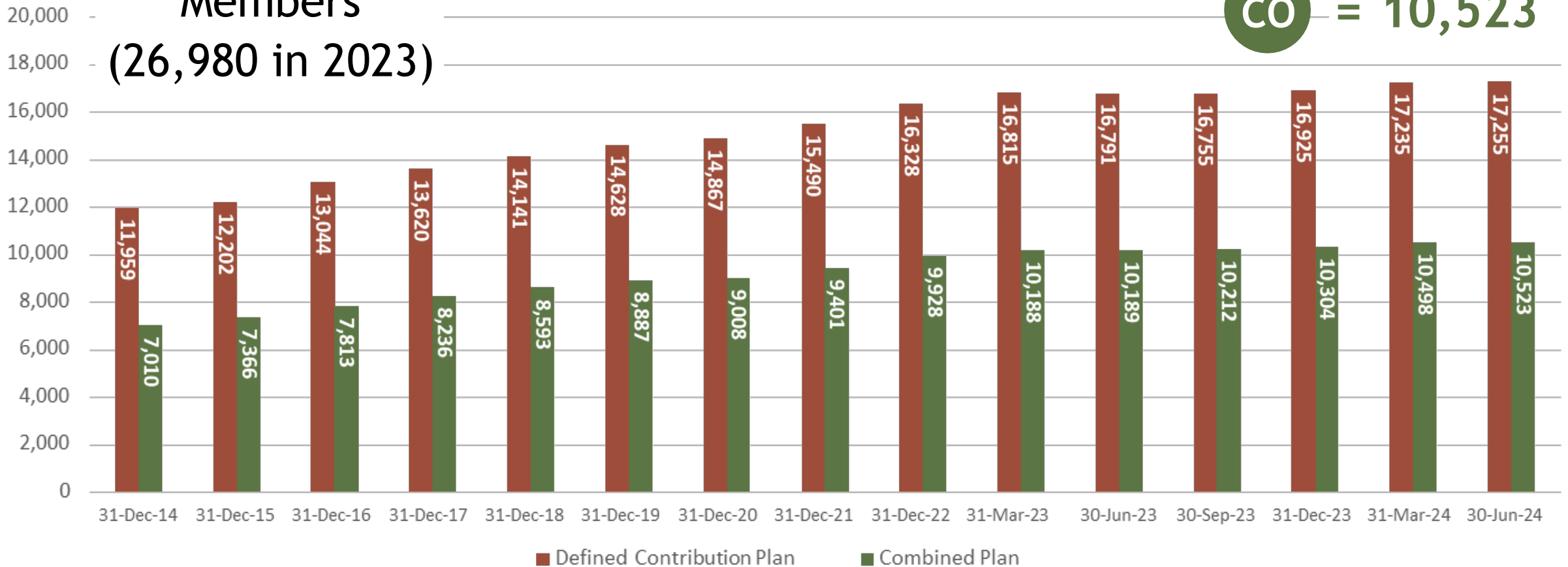
Defined Contribution Program – Members

27,778 ↑ 3.0%

Members

(26,980 in 2023)

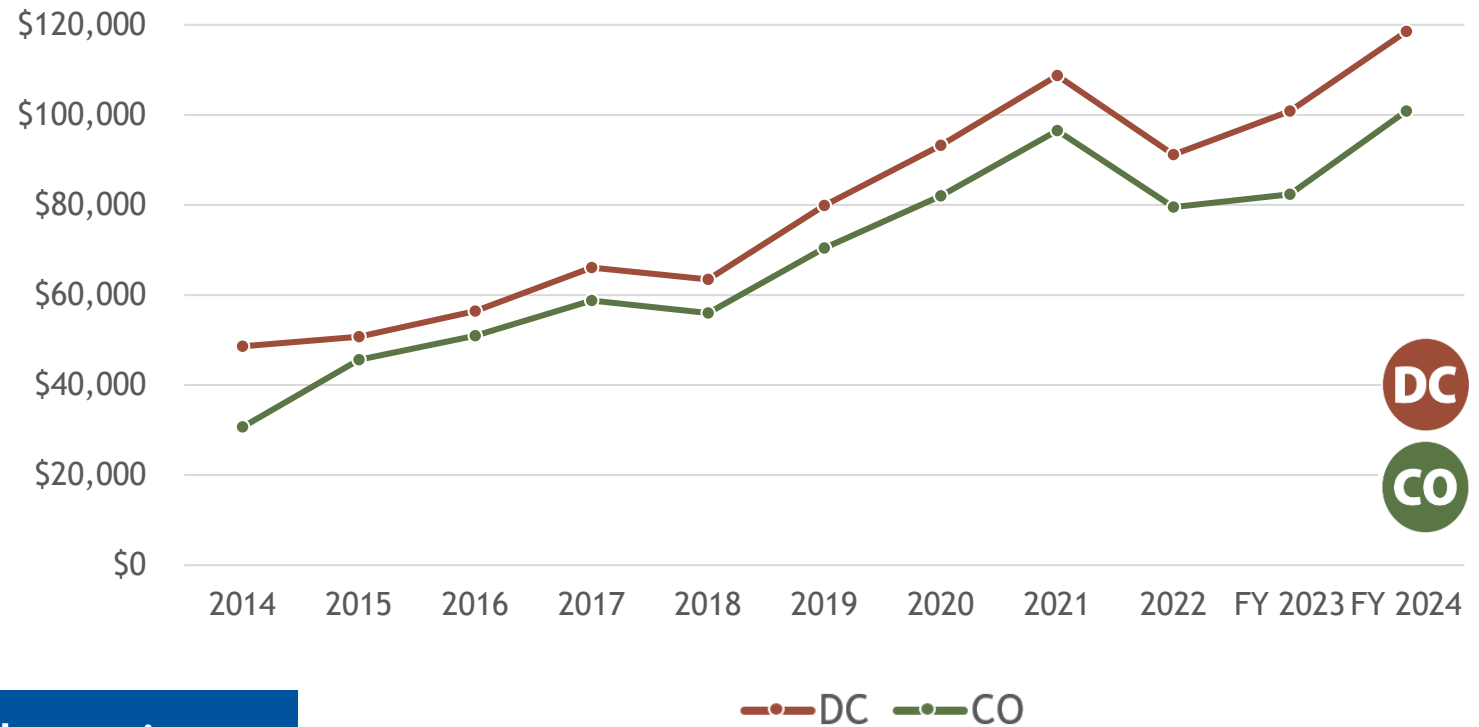
DC = 17,255
CO = 10,523



* All plan metric data as of June 30, 2024

Defined Contribution Program – Avg. Account Balance

\$112k ↑ 17%
 avg. account balance*
 (\$95.5k in 2023)



	Average	Median
All	\$134,128	\$35,286
Agriculture, mining, and construction	\$185,511	\$47,517
Finance, insurance, and real estate	\$184,561	\$53,829
Media, entertainment, and leisure	\$178,288	\$78,929
Business, professional, and nonprofit	\$141,515	\$38,189
Manufacturing	\$132,599	\$34,000
Transportation, utilities, and communications	\$105,335	\$23,261
Wholesale and retail trade	\$102,452	\$23,354
Education and health	\$96,258	\$24,114

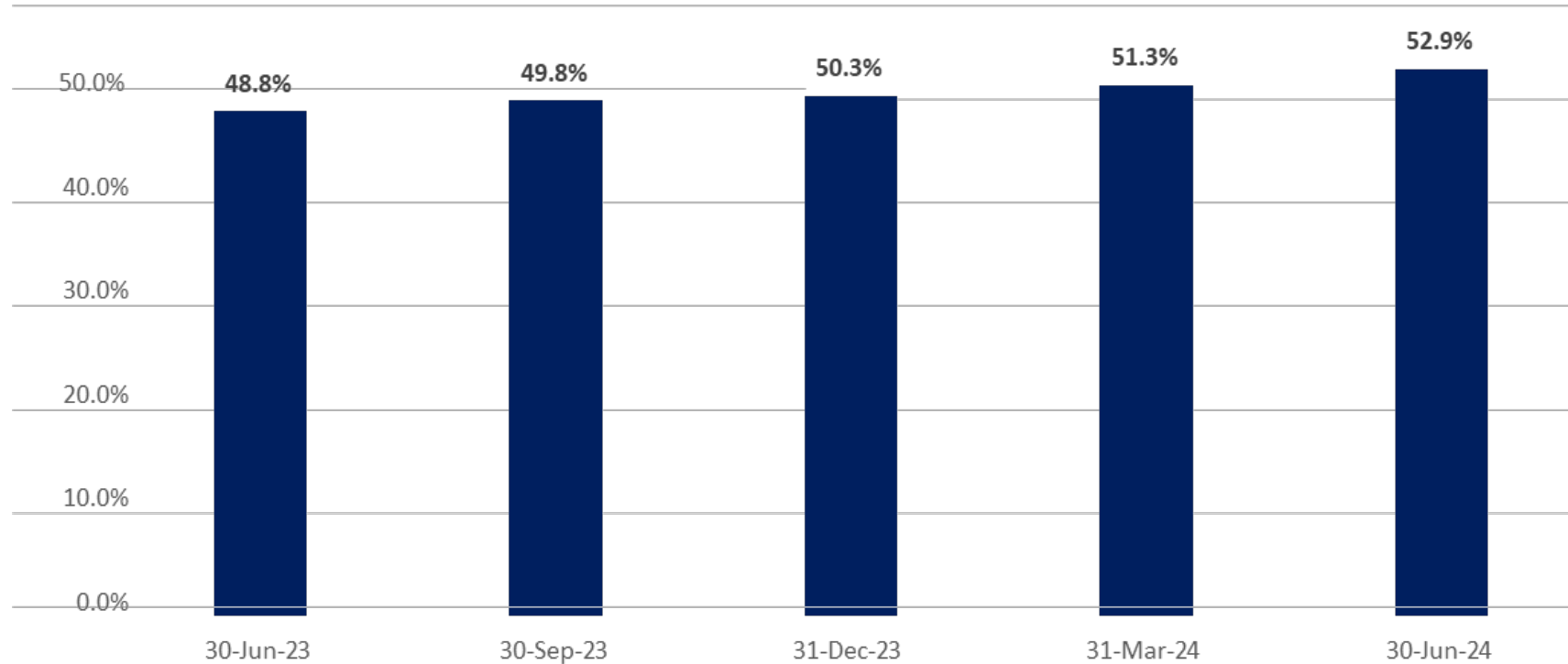
Education Industry Average: \$96k

* Plan assets and avg. account balance metrics do not include the assets in the DB portion of the CO plan members
 All plan metric data as of June 30, 2024

Defined Contribution Program – Member Access



15,205 ↑ 11.9%
Online Access
(13,590 in 2023)



In the 2024 release of *How America Saves*, Vanguard reported an 80% account access rate for Defined Contribution participants.

Vanguard®

Questions?

This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, and estimates of yields or returns. No representation is made that the information presented will be achieved by STRS Ohio, or that every assumption made in achieving, calculating or presenting either the forward-looking information or any historical performance information has been considered or stated in preparing this material. Any changes to assumptions that may have been made in preparing this material could have a material impact on the investment returns presented herein. Past performance is no guarantee of future results.

Appendix

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STRS Ohio Board Authority

- State Teachers Retirement Board of Ohio is vested with the operation and management of the State Teachers Retirement System of Ohio and has the full power to invest the assets (Fund). The Board is required to adopt policies, objectives or criteria for the operation of the investment program (SIOP).
- As required by the Ohio Revised Code, the Board adopted a resolution delegating to the Executive Director and Deputy Executive Director, Investments, the authority to acquire, dispose, operate and manage assets of the Fund, subject to the Board's policies and to subsequent approval by the Board.
- Executive Director, Deputy Executive Director, Investments, and the investment staff are responsible for preparing and maintaining numerous supporting management documents that govern the implementation of the Board policies, including but not limited to, individual investment manager mandates and guidelines, agent agreements, and limited partnership documents.

ERISA Section 404(c) “Safe Harbor” Compliance

- While STRS Ohio is not subject to ERISA, the standards set forth in this Federal Law are viewed by the industry as best practice for Boards to follow.
- Section 404(c) of ERISA addresses an employee’s ability to direct all investment related decisions for their own retirement accounts. It relieves plan sponsors and other fiduciaries from liability for losses resulting from participants’ direction of their own investments.
- The plan must satisfy three categories of requirements to receive 404(c) Safe Harbor compliance:
 - Investment Menu Requirements:
 - Must offer a broad range of options (at least 3) with materially different risk/return characteristics.
 - Investment Default (Qualified Default Investment Alternative/QDIA) must provide quarterly liquidity, must be a Target Date Option, Balanced Option, Managed Account, or Capital Preservation Option (for first 120 days only).
 - Plan Design and Administrative Requirements:
 - Must give participants the right to timely direct the investment of their account.
 - Information and Disclosure Requirements:
 - Two categories of information and disclosures: (1) items required to be provided to participants automatically in advance of investment and (2) items required to be provided only on participant request.

Board Governance Checklist - Alignment with Best Practices

Governance Checklist (Best Practice)	STRS Ohio Board	Notes
Establish a formal Board/Committee for Plan oversight	✓	Established 7/1/01
Develop an Investment Policy Statement	✓	DC Plan is covered by the STRS Ohio SIOP
Review Investment Policy Statement at least annually	✓	
Meet at least annually to review the Plan	✓	Last done 9/21/23
Document Board decisions (meeting minutes)	✓	
Ongoing education to Board – specific to the DC Program	Newly Created	2024
Periodically review the investment options/asset classes offered	✓	
Offer a simplified, multi-tiered menu that provides adequate diversification and choice.	✓	17 options (8 TDFs)
Use an open-architecture structure	Internally Managed	Not restricted by custodian/recordkeeper
Consider both active and passive investment management	✓	17 choices, 1 active
Designate a default investment option	✓	Target Choice Choices
Establish a process for comparing and selecting the Plan’s default Investment option	✓	Documentation in progress
Engage an independent third-party to advise the Board	✓	Hired Meketa 1/1/24

Governance Checklist: Delegated to Staff - Alignment with Best Practices

Governance Checklist (Best Practice)	STRS Ohio Board	Notes
Provide participants support/resources to understand and managing their account	Delegated to Staff	Supported by Nationwide
Provide statements to participants on their accounts	Delegated to Staff	Supported by Nationwide
Periodically review plan documents and update with any legislative requirements	Delegated to Staff	
Regularly review Plan’s investment performance vs benchmarks and peer groups	Delegated to Staff	
Regularly review Plan’s investment and administrative fees	Delegated to Staff	
Regularly review Plan’s service providers	Delegated to Staff	
Periodically benchmark Plan’s service providers and investment/administrative fees	Delegated to Staff	
Communicate details of the DC Program to eligible members	Delegated to Staff	

Informational Observations: Fiduciary Responsibility and Governance

→**Internal DC Advisory Committee:** The Board may authorize its administrative officers and committees to act for it in the accord with its policies (ORC Sections 3307.04 and 3307.15). This aligns with the Funston Fiduciary Audit.

- **Current State:** Staff has created an internal Committee that meets regularly with the Board Consultant to discuss matters specific to the DC Plan and support the Board in their monitoring of the DC Plan.
- **Guidance:** Having a dedicated Advisory Committee that provides oversight to a DC Plan is not only industry best practice, but it would help the Board ensure continuous progress is being made. A Committee Charter can be created to guide procedural requirements and responsibilities of the Advisory Committee.

→**DC SIOP:**

- **Current State:** The Board has adopted a Statement of Investment Objectives and Policies (SIOP) to govern the investment of the Fund, but not individual SIOP's for the DC Plan.
- **Guidance:** While the SIOP in place today governs the investments in the DC Plan, having a separate SIOP would be best practice. The Pension Plan is currently undergoing an Asset Allocation Study. Once this has been completed, a separate SIOP will be created for the DC Plan, Pension Plan and Health Plan.
 - Investment Policy Statements serve to identify and formalize the objectives and constraints governing the investment options and to establish guidelines for the implementation of an investment program. Those of the DC Plan differ from the objectives and constraints in the DB and Health Fund. Having a separate SIOP for the DC Plan would also provide useful guidance to the internal DC Advisory Committee.

Informational Observations: Investment Menu and Plan Design

→ **Use an open-architecture structure** for the Investment Option that are offered in the DC Plan.

- **Current State:** DC investment menu design is not specified in the existing SIOP for the Fund. Staff has the delegated authority over the management and implementation of investments and currently manages the DC investment options in-house.
- **Guidance:** Determine if unmingling the DC assets and/or hiring external managers is appropriate for the DC plan and confirm a timeline for executing. *This will be completed following the Pension Asset Allocation Study.*
 - The DC Plan investment menu should be designed and implemented for the sole benefit of the Plan participants.

→ Review and update the **DC Plan Document**

- **Current State:** A comprehensive review is currently underway for a Plan Document restatement in 2025.
- **Guidance:** Keep the Plan Document focused on plan design features and separate out the Investment Program features and policies into a SIOP.
 - While a written plan document is required for qualified pension plans under IRC Section 401(a), including details on the investment program is not. Plan documents are amended, from time to time, but restatements occur less frequently. Having a SIOP for the DC Plan is not required by law, but is a useful tool for the Board, and Advisory Committee if applicable, in the oversight of the DC Plan investment program and can be updated at any time.

Informational Observations: Investment Fees and Administrative Expenses

→ **Ensure fees are reasonable** for the products and services.

- **Current State:** Investment management and administrative fees are explicit and transparent to participants. A review of fees is planned for the March 2025 Board Meeting.
- **Guidance:** Periodically benchmark both investment management and administrative fees to determine reasonableness is best practice for a DC Program.

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