pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

MINUTES of SERS Board Regular Meeting - Wednesday, March 8, 2017

CALLED TO ORDER: 9:30 a.m. by Chairman David R. Fillman

ATTENDEES:

Members and Designees

David R. Fillman - Chairman
Stephen S. Aichele
Glenn E. Becker
Dan B. Frankel
Robert W. Godshall
Vincent J. Hughes
Michael V. Puppio, Jr.
T. Terrance Reese
Mary A. Soderberg
Joseph M. Torsella
Christopher Craig – Designee for Treasurer Joseph M. Torsella
Charles Duncan – Designee for Senator Vincent J. Hughes
Bernie Gallagher – Designee for Representative Dan B. Frankel
Dan Ocko – Designee for Representative Dan B. Frankel
Monica Riddle – Designee for Senator Charles T. McIlhinney, Jr.
Ned Smith – Designee for Representative Robert W. Godshall

Consultants

Michael Elio, StepStone Group, LP
Craig Graby, Korn Ferry Hay Group
Anthony K. Johnson, RVK, Inc.
Jack Koch, The Townsend Group
Rob Kochis, The Townsend Group
Brent Mowery, Korn Ferry Hay Group
Robert S. Palmeri, RVK, Inc.
Matt Roche, StepStone Group, LP
Jim Rohlinger, Empower Retirement
Ryan Skubic, The Townsend Group
Jim Voytko, RVK, Inc.

Executive Staff

David E. Durbin
Anthony Faiola
Christopher Houston
Bryan Lewis

Staff

Rose Agnew
Eric Baker

Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Linda Engle
Brittany Erney-Munïz
David Felix
Phillip Greenberg
Jesse Helman
Pamela Hile
Meredith Jones
Barbara Kiral
Cheryl Krchnar
Karen Lynn
N. Joseph Marcucci
Jeffrey McCormick
Matthew Meads
Jeffrey Meyer
Jeffrey Mozdziock
James Nolan
M. Catherine Nolan
Jay Pagni
David Tarsi
Joseph Torta
William Truong

Visitors
Chris Ade, Lord, Abbett & Co., LLC
Jim Kane, Unite Here
Matthew Lindsay, Independent Fiscal Office
Nakeya Smith, PA Department of the Auditor General
Charles Young, PA Department of the Auditor General

Presenters
Kristin Finney-Cooke, NEPC, LLC
Sean Gill, NEPC, LLC
Michael Yang, NEPC, LLC

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STATE EMPLOYEES' RETIREMENT SYSTEM

MINUTES of the SERS Board Regular Meeting
Wednesday, March 8, 2017

A. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.
Presentation: 1. Capital Market Report
Messrs. Johnson and Voytko presented the report provided to the board (3/8/2017 board handouts).

Presentation: 2. SERS Quarterly Performance Report (as of December 31, 2016)
Messrs. Johnson and Voytko presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 11).

Presentation: 3. Asset Allocation Discussion
Messrs. Johnson and Voytko presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 2).

Action: 1. Public Markets Overview Discussion
Messrs. Johnson, Nolan, Truong, and Voytko presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 3).

MOTION: 2017-10

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to replace the Hedge Fund asset class as outlined in the 2016-2017 Strategic Investment Plan, with a Multi-Strategy asset class. The Multi-Strategy asset class will include the following investments: (i) opportunistic credit-driven strategies, (ii) non-traditional opportunistic fixed income, (iii) distressed credit and equity strategies, (iv) equity, and (v) hedge funds.

MOTION: 2017-11

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to transfer the following portfolios from the Fixed Income asset class to the newly approved Multi-Strategy asset class:

a. SEI Investments Management Corporation – Structured Credit account;
b. Harvest Fund Advisors, LLC – MLP account; and
c. Kayne Anderson Capital Advisors, L.P. – MLP account.

MOTION: 2017-12

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to perform an orderly liquidation of assets from the Blackstone Customized Commodities Fund L.P. and reallocate approximately $218 million of the proceeds to the MCM Russell 1000 Index, and approximately $150 million of the proceeds to the MCM Bloomberg Barclays Aggregate Bond Index.

MOTION: 2017-13

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to approve the reallocation of $400 million from cash as follows:

a. $150 million to the MCM Bloomberg Barclays Aggregate Bond Index; and
b. $250 million to the MCM World ex US Index.

MOTION: 2017-14

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to adopt the proposed revisions to SERS' Statement of Investment Policy, as set forth in ATTACHMENT A.

B. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP, LP

Presentation: 1. Managing Director of Private Equity

Mr. Lewis noted that Mr. David Felix has been promoted to the Managing Director of Private Equity position.

Presentation: 2. Non-Core Funds Discussion

Messrs. Felix and Elio led the discussion.

Presentation: 3. Private Equity Recommendations for Interviews: Brightwood Capital Fund IV, LP; Silver Lake Partners V, LP; and Wind Point Partners VIII, LP

Messrs. Felix and Elio presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tabs 4, 5, and 6).

It was the consensus of the board to interview representatives of these managers at the April 26, 2017 board meeting.

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND THE TOWNSEND GROUP

Presentation: 1. Managing Director of Real Estate

Mr. Lewis welcomed Mr. Philip Greenberg to SERS as the Managing Director of Real Estate.

Presentation: 2. Real Estate Recommendation for Interview: Oak Street Real Estate Capital Fund IV, LP

Messrs. Greenberg and Kochis presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 7).

It was the consensus of the board to interview representatives of this manager at the April 26, 2017 board meeting.

D. Deferred Compensation Program (DCP): SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. Stable Value Program Manager Search Overview

Ms. Jones and Messrs. Nolan and Palmeri presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 8).

Action: 1. DCP Statement of Investment Policy Update

Ms. Jones and Messrs. Nolan and Palmeri presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 9).

MOTION: 2017-15

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to adopt the proposed revisions to SERS' Deferred Compensation Program Statement of Investment Policy, as set forth in ATTACHMENT B.

Action: 2. Investment Manager Update
Ms. Jones and Messrs. Nolan and Palmeri presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 10).

MOTION: 2017-16

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to extend the Weaver Barksdale contract, the manager of the Deferred Compensation Program's Stable Value Fund, for one (1) year, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 60 days.

Presentation: 2. SERS DCP Quarterly Investment Performance Analysis (as of December 31, 2016)
Ms. Jones and Messrs. Nolan and Palmeri presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 12).

E. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – January 25, 2017
Chairman Fillman presented the minutes provided to the board (3/8/2017 Board Package, Administrative Report, Tab 2).

MOTION: 2017-17

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board approves the minutes of the January 25, 2017, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Period Ending – December 31, 2016
Chairman Fillman presented the report provided to the board (3/8/2017 Board Package, Administrative Report, Tab 3).

MOTION: 2017-18

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the State Employees' Retirement System's Statement of Changes in Fiduciary Net Position for the period ending December 31, 2016.

F. EXECUTIVE SESSION #1

Presentation: 1. Agenda
At 11:50 a.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as attached in ATTACHMENT C.

G. LUNCH BREAK

H. PUBLIC MEETING RESUMES

The public meeting resumed at 3:20 p.m.

I. PERSONNEL COMMITTEE RECOMMENDATION
Action: 1. The following motion was presented as a result of discussion in executive session.

MOTION: 2017-19

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to approve the revisions to Performance Review Process for SERS' Executive Director, as set forth in the January 31, 2017 SERS Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting in ATTACHMENT D.

J. NON-DISCRETIONARY REAL ESTATE CONSULTANT INTERVIEWS
Action: 1. Interview: NEPC, LLC
Ms. Finney-Cooke and Messrs. Yang and Gill presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 13a).

Action: 2. Interview: The Townsend Group
Messrs. Kochis, Koch, and Skubic presented the report provided to the board (3/8/2017 Board Package, Investment Report, Tab 13b).

K. EXECUTIVE SESSION #2
At 4:26 p.m., the board recessed and entered executive session to review contractor qualifications, bids on proposals.

L. PUBLIC MEETING RESUMES
The public meeting resumed at 4:35 p.m.

J. NON-DISCRETIONARY REAL ESTATE CONSULTANT INTERVIEWS (continued)

MOTION: 2017-20

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board orders to hire NEPC, LLC to act as SERS' non-discretionary real estate consultant, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within six months.

M. REPORT FROM EXECUTIVE DIRECTOR
Presentation: 1. Board Adjudications
Mr. Durbin provided the board with the following information on the results of the notational ballots regarding Board Adjudications.

Account of Lawrence H. Allen (Deceased)
Docket No. 2015-08
Claim of Catherine E. Eshenour

The State Employees' Retirement Board DENIED Claimant's appeal of the denial of her request to receive a survivor annuity from the account of Lawrence H. Allen.

Account of Joseph Mickens (Deceased)
Docket No. 2015-13
Claim of Carol Ann Tarpley Mickens

The State Employees' Retirement Board DISMISSED WITH PREJUDICE Claimant's appeal of the denial of her request to receive a survivor annuity from the account of her deceased husband, Joseph Mickens.

Presentation: 2. Committees Meetings Minutes
Mr. Durbin noted that the committees meetings minutes were provided to the board (3/8/2017 Board Package, Administrative Report, Tabs 10, 11, 12, 13, and 14). He noted that minutes may be marked draft until the committees meet again to make them final.

Presentation: 3. Rep. Frankel's and Rep. Godshall's Attendance at the Budget Hearing
Mr. Durbin thanked Rep. Frankel and Rep. Godshall for attending the 2/22/2017 House Budget Hearing.

Presentation: 4. Securities Litigation Committee Member Appointment – Robert Godshall
Mr. Durbin noted that Rep. Godshall has agreed to serve on the Securities Litigation committee.

Presentation: 5. 2016 Member Statement of Account
Mr. Durbin noted that a sample of the 2016 Member Statement of Account has been placed at each board member's seat (3/8/2017 board handouts).

Presentation: 6. Financial Disclosure Statements
Mr. Durbin reminded board members and designees that the Financial Disclosure Statements are due to SERS by May 1, 2017.

N. NEXT BOARD MEETING – APRIL 26, 2017
Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for April 26, 2017.

O. MOTION TO ADJOURN
Action: 1. Adjournment

MOTION: 2017-21
By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 4:40 p.m.

Respectfully submitted,

David E. Durbin
Executive Director

ATTACHMENT A

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STATE EMPLOYEES' RETIREMENT SYSTEM

Commonwealth of Pennsylvania
State Employees' Retirement Board
Statement of Investment Policy

Adopted April 21, 2004
Amended March 8, 2017

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Commonwealth of Pennsylvania
State Employees' Retirement Board
Statement of Investment Policy

1. Introduction

The State Employees' Retirement Fund ("Fund") was established in 1923 by an act of the Pennsylvania legislature. The purpose of the Fund is the accumulation of funds exclusively for the benefit of the members and beneficiaries of members of the State Employees' Retirement System ("SERS" or the "System") for the payment of withdrawal, retirement, disability, and death benefits as provided in Pennsylvania Consolidated Statutes Title 71, Part XXV ("Retirement for State Employees and Officers"). The Fund is under the exclusive control and management of an eleven member Board of Trustees ("Board"). Six members are appointed by the Governor and confirmed by the State Senate to four–year terms. Two members of the Senate are appointed by the President Pro Tempore of the Senate, and two members of the House by the Speaker of the House, and serve on the Board for the duration of the terms for which they were elected. The State Treasurer serves as a member of the Board, ex–officio.

This Statement of Investment Policy ("Policy") was originally adopted by the Board on September 19, 1979 and was last revised by Board action on March 8, 2017.

2. Statement of Purpose of Investment Policy

This document specifically outlines the investment philosophy and practices of SERS and has been developed to serve as the governing policy for the management of the System's assets. The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The assets of SERS will be managed with the primary objectives of the payment of benefit obligations to participants in the plans as well as to maximize return with acceptable risk considerations and sufficient liquidity so that employer contributions can be minimized. Therefore, it is crucial that the Board adopt a long-term plan by which the assets of the System will be managed and enhanced through prudent investments. This Policy is intended to ensure that the level of assets is adequate to cover the accumulated liabilities of the System. This is an official investment policy document of SERS. Deviation from this document is not permitted without explicit written permission, in advance, from the Board.

In developing this Policy, the Board understands and accepts its fiduciary obligations to the members of the System. These obligations are legal in nature, and are outlined in Title 71, Pennsylvania Consolidated Statutes, Section 5931, a copy of which is attached hereto as Appendix I.

3. Prudent Investor Standard

The Board's investment authority is governed by the "prudent investor" standard as set forth in Title 71, Pennsylvania Consolidated Statutes, Section 5931(a):

> **Control and management of fund**. The members of the board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall

have the power to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.

No provision of this Policy shall be construed in contravention of the Board's statutory investment authority found in Title 71, Pennsylvania Consolidated Statutes, Section 5931.

4. Fiduciary Status, Duties, and Responsibilities of Board, Staff, Investment Managers, Other Agents, and State Treasurer

SERS is one of the larger public pension funds in the United States. Due to its size and investment structure, its operational requirements are complex. In order to administer the System and carry out its investment obligations, the Board relies heavily on both staff and external contractors. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

A. Board of Trustees

Title 71, Pennsylvania Consolidated Statutes, Section 5931(e) provides, in part, as follows:

> The members of the board, employees of the board, and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto.

In exercising this fiduciary responsibility, the members of the Board, employees of the Fund, and agents of the Fund are governed by the "prudent investor" standard and the exclusive benefit standard. The exclusive benefit standard requires these parties to act solely within the interests of SERS' participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

The Board may, when possible and consistent with its fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the exclusive benefit of the members of the System, consider whether an investment in any project or business enhances and promotes the general welfare of the Commonwealth and its citizens. Where investment characteristics are equivalent, the Board's policy will favor investments that will have a positive impact on the economy of Pennsylvania.

The members of the Board are responsible as trustees for the proper management of the assets of the Fund. The Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System's operations. Specifically with regard to investments, the Board seeks the recommendations of the staff and consultants prior to taking action. In carrying out these duties, the Board will be responsible for:

1. Reviewing and approving a biennial Investment Plan that sets forth the direction of the Fund and work plan initiatives for the coming two years. This Investment Plan shall incorporate long-term allocation ranges to the asset classes.

2. Approving the engagement and termination of investment managers. Staff and consultants will identify potential candidates. Potential managers will be evaluated based on their ability to achieve the objectives outlined in the Investment Plan and their demonstrated experience and expertise for the specific mandate. Board suggestions for potential managers who meet these criteria will be evaluated by staff and consultants. While individual Board Members may meet with prospective managers, all group meetings involving a quorum of Board Members for a presentation by prospective managers shall be through formal Board meetings or Board Committee meetings. Staff and consultants are jointly responsible for carrying out the research and initial due diligence to identify qualified candidates. Staff and consultants are also jointly responsible for performing the on-going monitoring of investment managers and funds. Lastly, all prospective investment opportunities and/or investment manager terminations which are recommended to the Board must be supported by a memo from Staff and a memo from the relevant investment consultant.

3. Approving the engagement and termination of consultants.

4. Reviewing the investment performance and risk characteristics of the Fund.

5. Reviewing and approving the Comprehensive Annual Financial Report.

6. Reviewing and approving the annual actuarial report, assumptions and funding level and, reviewing and approving an actuarial experience study that is to be conducted no less than every five years.

7. Reviewing and approving the results of an asset liability study on a periodic basis, but not less than every five years.

8. Reviewing and adopting the proxy voting guidelines.

9. Oversight and monitoring of staff including, but not limited to the hiring of the Chief Investment Officer, the Executive Director, and the Director of Internal Audit.

In discharging these responsibilities, the Board has delegated certain functions to the staff and to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty.

B. State Employees' Retirement Board Staff

The Executive Director is responsible for administrative matters relating to the operations of the System. The Chief Investment Officer is charged with the coordination of all investment activities and matters within the System. The Investment Office reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The Investment Office is responsible to the Board to review and analyze the current investment climate, and to recommend adjustments with respect to this Policy that are appropriate to take optimum advantage of new conditions and strategies as they arise in the market place. To ensure that the goals and objectives of the Board are being fulfilled, the Investment Office also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision–making processes and their investment styles in relation to present and projected investment horizons.

The Chief Investment Officer of the System is charged with the following responsibilities:

1. To manage, on a day–to–day basis, the portfolio, its components, and agents;

2. To authorize receipt or payment for the acquisition or disposition of investments;

3. To act as liaison on behalf of the Board with all investment-related contractors;

4. To review and analyze all investment transactions for conformity to certain applicable laws, regulations, each manager's investment strategy statement, and this Policy;

5. To review investment proposals presented by investment managers, and where appropriate, summarize and recommend the same for Board consideration;

6. To analyze and summarize for the Board pertinent information from relevant publications, discussions, meetings, and research on current investment related topics;

7. To respond to inquiries from the Board and Pennsylvania Legislature, the membership, the press, other governmental representatives, and the public concerning the investments of the Fund;

8. To institute an Annual Implementation Plan ("AIP") detailing what the Fund will be doing in the next year in order to implement the Investment Plan. The purpose of the AIP is to report to the Board the status of what was accomplished and what will be accomplished going forward.

9. To prepare the Investment Plan and perform analysis and recommendations for action to present to the Board for approval and implementation consistent with this Policy and achievement of the Board's investment objectives; and

10. To perform such other duties as may be required to implement this Policy.

C. Internal Audit

The Director of Internal Audit reports functionally to the Audit Committee and administratively to the Executive Director. The internal audit department is independent of the System's operational activity and is responsible for providing objective audit and review services for the entire System, including the Investment Office. Internal audit's services emphasize the promotion of adequate and effective internal controls at a reasonable cost and result in suggested improvements that will lead to economies and efficiencies in the Systems' operations.

With the advent of the Sarbanes–Oxley Act of 2002, the Board recognized the need for, and established an Audit Committee to provide additional oversight relating to the adequacy of internal controls applicable to financial reporting. The Audit Committee will meet quarterly to discuss audit related issues. The Audit Committee, at its discretion, may meet with the Director of Internal Audit in executive session. The Audit Committee may make recommendations for changes in internal controls for consideration by the Board but shall have no policy authority.

D. Investment Managers

The Board continually seeks to employ investment managers that possess superior capabilities in the management of assets of public retirement systems. The Fund has carefully documented its investment processes, including those related to hiring managers to manage the Fund's investments. Those processes are available for review on the Fund's intranet. Each manager has full discretion to carry out its investment mandate subject to the investment strategy statement contained in the investment management agreement and will be expected to conduct business on behalf of the System in accordance with the mandate for which they were retained. It is the Board's policy to limit the allocation of Fund investments such that no more than 15% of the total market value of Fund assets should be invested in any one investment product offered by an investment manager, except where management of such investments is of a passive nature (e.g., index funds). Notwithstanding any of the limitations contained in this section, no liquidation of an investment shall be required solely due to changes in market value.

Each manager's benchmark will reflect that manager's particular style or tactical role in SERS' investment process. Each benchmark will be clearly specified, measurable, and replicable. Benchmarks do not have to be published or widely recognized; they may be "customized" for a particular investment style or styles. The benchmark shall be determined in advance of funding by mutual agreement between the manager, staff, and consultant. In the event of a change in management style, agreed upon change in a manager's strategy, availability of a better benchmark construction methodology, or changes to or additions in indices, a manager's benchmark may be modified by mutual consent between the manager, staff, and consultant. Despite the foregoing, it is recognized that benchmarks in the investment industry may fail to capture the investment nuances of an investment manager, which leads to tracking error relative to the benchmark.

The Board further requires those public markets investment managers selected and working on its behalf to perform the following activities:

1. To execute investment decisions that are consistent within the scope of the approved investment guidelines expressed in the respective management agreement and other relevant documents.

2. To execute investment transactions on behalf of the Board in a manner that maximizes the investment value of each transaction from the viewpoint of the Fund, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest total cost to the Fund.

3. To report to the Board at least quarterly through the Investment Office, with the exact frequency and format of reporting to be determined by the Investment Office, on the composition and relative performance of the investments in their designated portfolios; the economic and investment outlook for the near and long term; significant changes in the portfolio during the preceding period; and the reasons for any significant differences between the performance of their portfolios and the appropriate market indices or metrics.

4. To make themselves available as needed for meetings with the Board, staff, or agents of the Board regarding investment matters.

5. To comply at all times with all laws, regulations, contractual investment guidelines, and reporting requirements as determined by staff.

6. To perform such additional activities as detailed in each manager's investment management agreement with SERS.

E. General Investment Consultant

The Board's general investment consultant acts as a fiduciary to the Fund, providing reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The general investment consultant also analyzes and makes recommendations with respect to the Board's asset allocation and investment structure, policies, the investment managers' implementation of policy and strategy, the appropriate investment horizon for the Fund given its actuarial characteristics, and provides such other research as may be required from time to time.

In addition to the general investment consultant, the Board may retain other investment consultants as required for specialized needs, such as for particular asset classes or unique investment projects. These specialty consultants will report to the Board on emerging trends and issues that are germane to their respective assignments and that are of concern to public pension funds generally and to the Fund in particular. Within the scope of their assignments, the specialty consultants will also analyze and make recommendations with respect to this Policy, the investment managers' implementation of policy and strategy, and provide such other research as may be needed from time to time.

The general and specialty consultants should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the board.

F. Private Equity Consultant

The private equity consultant acts as a fiduciary to the Fund, and will provide non–discretionary private equity consulting services. The private equity consultant will assist staff in performing due diligence investigations on prospective private equity and private debt investment opportunities, assist staff with identifying and accessing investment opportunities, recommend specific private equity investments to SERS, and maintain a deal log of private equity investment opportunities. The private equity consultant will also participate in the development and refinement of private equity policies, objectives, strategies, benchmarking, risk assumptions, and asset mix appropriate for each sub–asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The private equity consultant will make presentations to the Board supporting investment recommendations as they arise, and review performance at least semi–annually.

The private equity consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre–clearance from the Board.

G. Real Estate Consultant

The real estate consultant acts as a fiduciary to the Fund, and will provide non–discretionary real estate investment consulting services. The real estate consultant will assist staff in performing due diligence investigations on prospective real estate opportunities, assist staff with identifying and accessing investment opportunities, recommend specific real estate investments to SERS, and maintain a real estate database. The real estate consultant will also

participate in the development and refinement of real estate policies, objectives and strategies, benchmarking, risk assumptions, and asset mix appropriate for each sub–asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The real estate consultant will make presentations to the Board supporting investment recommendations as they arise and review performance at least semi–annually.

The real estate consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre–clearance from the Board.

H. Portfolio Evaluation Advisor

The general investment consultant, or another third party approved by the Board as a portfolio evaluation advisor, will provide quarterly investment performance evaluation and analysis to the Board. The portfolio evaluation advisor will provide the Board with comparative performance measurements against appropriate benchmarks at the total fund, asset class, sub–asset class, and advisor levels for all asset classes (except real estate and private equity investments).

These benchmarks will be defined and presented in each quarterly performance report. They are hereby incorporated by reference.

I. State Treasurer

The State Treasurer serves as the custodian of the Fund, pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5931(c). In this capacity, the State Treasurer is responsible for the safe physical custody of investment instruments and the safe custody of any book-entry investment instruments that are held in depositories on behalf of the Commonwealth. As custodian, the State Treasurer is also responsible for preparing and delivering securities for settlement as authorized by the Board, attending to corporate actions, maintaining a book of record for these securities, facilitating an annual examination of these securities and books, and for preparing payment for securities transactions upon presentation of warrants properly signed and authorized. The State Treasurer may enter into a contract with a sub–custodian bank to assist in the execution of these responsibilities.

The State Treasurer is responsible for the temporary investment of cash balances until funds are required to meet disbursements or to acquire investments.

J. Actuarial Consultant

Pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5902(j), the Board engages an actuary to perform a valuation of the various accounts of SERS on an annual basis within six months of the close of each calendar year. In every fifth year, the Board shall have the actuary conduct an actuarial investigation and evaluation of the system based on data including the mortality, service, and compensation experience provided by the Board annually during the preceding five years concerning the members and beneficiaries.

5. Investment Objectives

The State Employees' Retirement Fund is a mature pension plan. The appropriate investment horizon is intermediate to long–term (five to ten years) with due consideration of the characteristics of the Fund's liabilities and liquidity requirements.

The objectives of the Fund are to provide benefit payments to participants and beneficiaries at the lowest cost to the Commonwealth and to fund the program through a carefully planned and executed investment program.

The Fund seeks to produce the highest return on investment that is consistent with acceptable investment risks and sufficient liquidity that will permit the Fund to meet the System's benefit obligations, and secondarily, control the cost of the Fund to the taxpayers. The investment program is premised on modern portfolio theory. The Board recognizes that many asset classes and investments can have volatile performance and that the Fund may not achieve investment results over shorter time periods. However, over longer time periods, a well-constructed portfolio and mix of asset classes will provide the optimal results.

The Board, with the help of the staff and consultants, is charged with building a portfolio by carefully assessing the risk and return potential of the global capital markets, and making those investments that are institutionally investable and are reasonably expected to contribute to the Fund's long-term objectives and goals.

Consistent with achieving these objectives, the Board has established the following goals relative to investment performance:

- Achieve a net total return equivalent to the actuarial interest rate assumption, or preferably, in excess of this rate in order to improve the funded ratio of the Fund through investment earnings and favorably impact future employer and employee contribution rates.

- Achieve a net, total long-term return that meets or exceeds an appropriate, composite plan benchmark index on a five-to ten-year rolling time horizon. The composite benchmark index will be based on the asset allocation set forth in the Investment Plan approved by the Board.

A. Rebalancing Policy

The primary strategic objectives of rebalancing the Fund are to mitigate risk and enhance returns while meeting the liquidity needs of SERS. The specific risk mitigation objective is to keep the asset allocation and overall investment structure of the Fund consistent with the Investment Plan and the policy asset allocation and asset class goals contained within it. Due to changes in market movements, actual asset class balances will inevitably deviate from target allocations. These deviations cause the Fund to diverge from the asset allocation chosen by the Board and the expected risk and return attributes associated with it. This divergence, or tracking error, heightens the risk that the Fund may not achieve returns sought by the Board at the risk levels they deem prudent. The Investment Office will have authority to rebalance asset class exposures as necessary and prudent pursuant to the rebalancing policy which is incorporated by reference into this policy.

6. Investment Guidelines

The allocation of funds to various types of investments is of utmost importance in structuring an efficient portfolio designed to meet the Fund's investment objectives. In order to assure the most beneficial allocation of funds, the Board shall, with the advice of SERS' investment staff, consultants, and investment managers, adopt an Investment Plan that will be revised and updated periodically but not less than every two years. This plan will set forth the long-term allocation ranges for the asset classes and identify work initiatives to be pursued over the near term. Furthermore, each investment manager shall abide by specific investment guidelines that will be consistent with this Policy and the Investment Plan so

as to ensure that the Fund's broad investment objectives will be met. The managers' specific investment guidelines may be amended from time to time by mutual written consent of the staff and the manager.

If at any time the economic, fiscal, or investment environment should change significantly during the investment horizon, it shall be the duty of the staff, investment managers, and consultants to so inform the Board and, if warranted, recommend modifications to the Investment Plan or adjustment to the allocation of investment assets.

In the application and implementation of this Policy and the Investment Plan, the Chief Investment Officer in consultation with the Board Chairman, has the authority to make investment decisions on behalf of the board in emergency situations. Emergency situations are defined as those that are unforeseeable and in the absence of action taken, the Fund may be adversely impacted. In the event such action is taken, the Board will be apprised as soon as practical, but no later than the next scheduled board meeting.

7. SERS Emerging Investment Manager Program ("SERS EIM Program")

A. Objective

Consistent with the Board's fiduciary responsibilities, the Board has established the SERS EIM Program to:

1. Identify and gain early access to talented investment managers in their early stages to generate above benchmark returns (net of fees); and

2. Provide an evaluation platform of potential investment managers who have demonstrated superior risk-adjusted returns for consideration into the Fund.

B. Scope

The SERS EIM Program shall apply to emerging investment managers who manage long-only public equity assets.

C. Structure and Standards

The SERS EIM Program will be comprised of manager-of-managers selected in accordance with SERS' Hiring Investment Manager Process. The manager-of-managers will have the discretion and authority to select and invest with emerging investment managers based on the objectives and guidelines established by the Board and SERS' Investment Office. As part of SERS' Hiring Investment Manager Process, manager-of-managers' fees shall be disclosed to the Board for evaluation.

D. Emerging Investment Manager Criteria

Investment managers selected by the manager-of-managers to participate in the SERS EIM Program must meet the following criteria:

- Registered under the Investment Advisors Act of 1940 or has an exemption from registration (and will maintain such registration or exemption);
- Total firm assets under management of less than $5 billion and/or an investment strategy of less than $1 billion at the time of SERS' initial evaluation;

- A measureable track record for the investment product under consideration (or for a product with a similar investment philosophy and process as the product under consideration);
- Portfolio manager(s) with a minimum two-year track record (directly or indirectly attributable to that portfolio manager(s)) in an investment style and process similar to that which is under consideration;
- Historical performance must be CFA Institute compliant; and
- Disclosure of position and transaction level transparency (at least monthly).

As indicated in Section 4 of this Policy, "[t]he Board may, when possible and consistent with its fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the exclusive benefit of the members of the System, consider whether an investment in any project or business enhances and promotes the general welfare of the Commonwealth and its citizens. Where investment characteristics are equivalent, the Board's policy will favor investments that will have a positive impact on the economy of Pennsylvania."

Therefore, when making their selections, manager-of-managers may favor emerging investment managers who meet the SERS EIM Program objectives and criteria noted above, plus having one or more of the following characteristics:

- Pennsylvania investment management firms headquartered or incorporated within the Commonwealth; and/or

- Investment management firms owned and/or controlled by a majority of persons who are women and/or minorities.

E. Administration

The Investment Office shall be responsible for the oversight of the SERS EIM Program by recommending program policies and manager-of-managers for the Board's consideration.

F. Source of Funding

Funding for the SERS EIM Program may come from assets within SERS' Global Public Equity asset class or cash at the Board's sole discretion, depending on the current equity allocation relative to the target allocation.

8. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the Fund that are not expressly authorized by this Policy or by specific investment manager guidelines and all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with SERS' investment objectives and guidelines.

9. Investment Manager Evaluations

The Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles.

The Board's time horizon to review performance trends shall normally be over full market cycles, although the trend in investment experience over other time periods may be judged important. Any extreme or unusual events or trends will be considered when evaluating intermediate and short–term investment results. The Investment Manager Monitoring Policy has been developed in order to assist staff in applying consistent criteria to evaluate investment managers.

Notwithstanding the above, the staff will review manager performance, portfolio positioning, and transactions at least annually.

10. Corporate Governance Standards

Good corporate governance promotes responsible business practices that serve as an integral component to a corporation's long–term value creation process and are an indispensable element of an effective corporate risk management program.

SERS is committed to improve corporate governance practices of the companies within the SERS portfolio. SERS' involvement includes: the development and periodic updating of the Board approved proxy–voting policy, voting proxies, active participation in groups working to improve and enhance corporate governance practices, and ad hoc responses to important issues that affect the value of the portfolio, such as letters responding to regulatory and legislative proposals.

The proposed updates to the proxy voting policies shall be prepared by the Investment Office and submitted to the Board for approval. In the update of the policies, the Investment Office shall seek to develop best practices. Best practices shall be developed through relationships with groups working to improve and enhance corporate governance practices and input that focuses on improving corporate governance practices from other prominent plan sponsors.

In addition, SERS monitors and, where appropriate, incorporates best corporate governance practice recommendations from organizations into the proxy voting guidelines. As good corporate governance practices are not static, the annual proxy voting modifications are designed to reflect the current trends in the marketplace.

A. Proxy Voting Procedures

Stock proxies are voted in accordance with the following procedures:

1. The custodian bank forwards to SERS' proxy servicer or manager proxy statements for securities that SERS owns, excluding securities that are on loan, or investments in the form of pooled funds and limited partnerships.

2. SERS' proxy servicer or manager will vote all proxies in accordance with the Board's proxy voting guidelines, except those where a specific concern has been raised by a Board Member, manager, consultant, or staff member.

3. The proxy servicer or manager may also vote any proxy involving other issues essentially the same as those on which the Board's proxy voting guidelines are well defined.

4. With regard to proxies requiring special attention under the Board's proxy voting guidelines, as well as special issues not covered or anticipated by the proxy voting guidelines, proxies and all pertinent reference material shall be sent to the Chief Investment Officer, who will evaluate the issues with respect to the intent of the proxy voting guidelines. On issues not covered by the proxy voting guidelines, controversial, high–profile, and contested change of control issues, the Chief Investment Officer will consult with the Board's chairman to determine how such proxies will be voted. The Chief Investment Officer will then direct the proxy servicer or manager to vote the proxies accordingly.

5. The Chief Investment Officer shall regularly report to the Board the types of special issues that are being considered or that have been voted by the Chief Investment Officer.

6. The Chief Investment Officer shall cause to be maintained by SERS' proxy servicer, or manager, a listing of proxy votes cast in a calendar year. This report, along with all individual actions, shall be available for public inspection on SERS' Internet web site.

B. Corporate Actions

The custodian bank has standing instructions to forward notices of all corporate actions received, such as dividends, stock splits, mergers, acquisitions, spin–offs, or class action suits to SERS and/or its investment managers.

11. Trading and Brokerage Practices

The Board delegates the responsibility for the selection of brokerage firms to its investment managers, provided the investment managers select and utilize brokers in accordance with Section IV, D–2 ("best execution") of this Policy. Notwithstanding this practice, the Board reserves the right to enter into brokerage commission recapture programs, and to establish goals for directed commissions provided the managers' investment processes are not being affected so as to adversely impact the Fund or place the Fund in a disadvantageous position relative to the managers' other accounts. As such, managers may be requested to direct a percentage of their brokerage activity on behalf of SERS. The Board will select the brokerage firms that are designated to receive such directed commissions, and will communicate this information to the managers.

The Board also seeks to have managers direct trades through minority owned firms and reserves the right to establish proposed trading targets. However, the responsibility for the selection and use of minority brokerage firms is delegated to the investment managers.

Finally, all things being equal, the Board seeks to have investment managers trade through Pennsylvania-based brokers.

Efforts to monitor and control trading costs will be ongoing, and may include the periodic use of formal trading cost analyses.

12. Public Access to Records

Records of investment transactions are maintained by the System at its office located at 30 North Third Street, Harrisburg, PA 17101. Requests for public inspection or copies of documents that are a matter of public record will be honored in a manner consistent with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. §§ 101 - 3104, and SERS' Right-To-Know Law Policy regarding the dissemination of public information. Inquiries should be directed to SERS' Right-to-Know Law Open-Records Officer. This Right-to-Know Law Policy is incorporated by reference into this Policy.

13. Procedures for Amending this Policy Statement

This Policy may be amended from time to time by a majority vote of the Board.

14. Separate Documents Related to this Policy Statement

The following documents are incorporated by reference into this Policy and as such are considered part of this Policy as though they were presented in entirety within this Policy:

1. SERS' Investment Plan
   (adopted by the Board)

2. Public Markets Investment Manager Investment Strategy Statements
   (negotiated as part of the contracting process after Board appointment)

3. Real Estate Statement of Investment Policy
   (adopted by the Board)

4. Private Equity Statement of Investment Policy
   (adopted by the Board)

5. U.S. and International Proxy Voting Policy
   (adopted by the Board)

6. Investment Manager Monitoring Policy
   (reviewed by Board)

7. Right-To-Know Law Policy
   (adopted by the Board)

8. Derivatives Investment Policy Statement
   (reviewed by Board)

9. Portfolio Rebalancing Policy
   (adopted by Board)

10. Investment Manager, Asset Class, and Fund Benchmarks as reported in the Quarterly Performance Report
    (reviewed by Board)

11. SERS' Securities Litigation Policy
    (adopted by Board)

12. SERS' Securities Lending Policy
    (reviewed by Board)

15. Glossary of Terms

Asset Allocation – Investment choice made among broad asset classes such as equities, fixed income securities, real estate, etc.

Asset Liability Study - A study that examines how well alternative investment strategies (differing asset allocations) address the objectives of a fund, specifically the fund's "liabilities". The study acts as a guidepost for the strategic asset allocation.

Brokerage Commission – Payment for administrative costs of trading securities; the cost for execution.

Brokerage Commission Recapture – Reimbursement to the Fund for a portion of the fee paid to a broker for executing a trade.

Comprehensive Annual Financial Report (CAFR) - A set of U.S. government financial statements comprising the financial report of a state, municipal or other governmental entity that complies with the accounting requirements outlined by the Governmental Accounting Standards Board.

Corporate Governance – The procedures by which a corporation conducts its affairs.

Corpus –Specifically, the investment portfolio of SERS.

Fiduciary – A fiduciary is a legal or ethical relationship of trust between two or more parties where one party has undertaken to act for and on behalf of another party in a particular matter in circumstances which give rise to a relationship of trust and confidence.

Funded Ratio - The ratio of a pension's assets to its liabilities. A funded ratio greater than 100% indicates the pension has accumulated more assets than its liabilities. A funded ratio less than 100% indicates the pension does not have enough assets to cover its liabilities.

Net Total Return – Interest or dividend income plus any realized or unrealized capital gain (or loss) on an investment, net of any capital contributions or distributions from the corpus.

Proxy – An instrument empowering an agent to vote for a shareholder.

Qualitative Oversight – Analysis that evaluates important factors that cannot be precisely measured, e.g., experience, caliber of management, investment philosophy and strategy.

Quantitative Oversight – Analysis dealing with measurable factors, such as value of securities, the cost of capital, historical and projected patterns of sales, costs, profitability, returns, risk. Used in tandem with qualitative oversight to arrive at sound business and financial judgments.

Risk – The uncertainty of outcome or the likelihood of not meeting an objective.

Sarbanes Oxley Act - Congress passed the Sarbanes Oxley Act in 2002 that mandated new or enhanced standards for all U.S. public company boards, management and public accounting firms to improve financial disclosures in order to protect investors from the possibility of fraudulent accounting activities by corporations.

Tracking Error – The annual standard deviation of a manager's performance results in comparison to the manager's benchmark.

16. Appendix I

Title 71, Pennsylvania Consolidated Statutes, 5931. Management of fund and accounts.

(a) Control and management of fund.--The members of the board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall have the power to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.

(b) Crediting of interest.--The board, annually, shall allow the required interest on the mean amount for the preceding year to the credit of each of the accounts. The amount so allowed shall be credited thereto by the board and transferred from the interest reserve account.

(c) Custodian of fund.--The State Treasurer shall be the custodian of the fund.

(d) Payments from fund.--All payments from the fund shall be made by the State Treasurer in accordance with requisitions signed by the secretary of the board, or his designee, and ratified by resolution of the board.

(e) Fiduciary status of board.--The members of the board, employees of the board and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto. The board may, when possible and consistent with its fiduciary duties imposed by this subsection or other law, including its obligation to invest and manage the fund for the exclusive benefit of the members of the system, consider whether an investment in any project or business enhances and promotes the general welfare of this Commonwealth and its citizens, including, but not limited to, investments that increase and enhance the employment of Commonwealth residents, encourage the construction and retention of adequate housing and stimulate further investment and economic activity in this Commonwealth. The board shall, through the Governor, submit to the General Assembly annually, at the same time the board submits its budget covering administrative expenses, a report identifying the nature and amount of all existing investments made pursuant to this subsection.

(f) Name for transacting business.--By the name of "The State Employees' Retirement System" or "The State Employees' Retirement System" all of the business of the system shall be transacted, its fund invested, all requisitions for money drawn and payments made, and all of its cash and securities and other property shall be held, except that, any other law to the contrary notwithstanding, the board may establish a nominee registration procedure for the purpose of registering securities in order to facilitate the purchase, sale or other disposition of securities pursuant to the provisions of this law.

(g) Deposits in banks and trust companies.--For the purpose of meeting disbursements for annuities and other payments in excess of the receipts, there shall be kept available by the State Treasurer an amount, not exceeding 10% of the total amount in the fund, on deposit in any bank or banks in this Commonwealth organized under the laws thereof or under the laws of the United States or with any trust company or companies incorporated by any law of this Commonwealth, provided any of such banks or trust companies shall furnish adequate security for said deposit, and provided that the sum so deposited in any one bank or trust company shall not exceed 25% of the paid-up capital and surplus of said bank or trust company.

(h) Venture capital, private placement and alternative investments.--The board in its prudent discretion may make any venture capital investment, private placement investment or other alternative

investment of any kind, structure or manner which meets the standard of prudence set forth in subsection (a).

(i) Vehicles for authorized investments.--The board in its prudent discretion may make any investments which meet the standard of prudence set forth in subsection (a) by acquiring any type of interest in a business organization existing under the laws of any jurisdiction, provided that, in any such case, the liability of the State Employees' Retirement Fund shall be limited to the amount of its investment.

(j) Legislative declaration concerning certain authorized investments.--The General Assembly finds and declares that authorized investments of the fund made by or on behalf of the board under this section whereby the board becomes a joint owner or stockholder in any company, corporation, association or other lawful business organization are outside the scope of the original intent of and therefore do not violate the prohibition set forth in section 8 of Article VIII of the Constitution of Pennsylvania.
(Oct. 7, 1975, P.L.348, No.101, eff. imd.; Mar. 4, 1982, P.L.141, No.45, eff. imd.; June 29, 1984, P.L.450, No.95, eff. imd.; Aug. 5, 1991, P.L.183, No.23, eff. imd.; Apr. 29, 1994, P.L.159, No.29, eff. imd.; Dec. 20, 1995, P.L.689, No.77, eff. imd.; May 17, 2001, P.L.26, No.9, eff. imd.)

2001 Amendment. Act 9 amended subsecs. (h), (i) and (j). See section 24 of Act 9 in the appendix to this title for special provisions relating to authorized investments.

1994 Amendment. See section 14 of Act 29 in the appendix to this title for special provisions relating to authorized investments of the State Employees' Retirement Board as described in subsec. (i).

Cross References. Section 5931 is referred to in section 5102 of this title; section 5611 of Title 53 (Municipalities Generally).

ATTACHMENT B

pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

Commonwealth of Pennsylvania

State Employees' Retirement Board

Deferred Compensation Program Statement of Investment Policy

Adopted by the SERS Board: March 8, 2017
Amends Adoption of: October 28, 2015

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Commonwealth of Pennsylvania

State Employees' Retirement System

Deferred Compensation Program Statement of Investment Policy

1. Introduction

The Commonwealth of Pennsylvania is the sponsor of the Deferred Compensation Program ("DCP" or "Program") that was established for Commonwealth of Pennsylvania officers and employees through Act 81 on November 6, 1987. The Act authorizes the State Employees' Retirement Board ("Board") to establish and administer the Program as an eligible deferred compensation plan in accordance with the Internal Revenue Code (IRC) Section 457 (b) of 1986, as amended. The Program is a voluntary participant-directed defined contribution plan and is established as a trust for the exclusive benefit of participants and their beneficiaries. Program participants are responsible for all fees of the Program.

The Program's participants and beneficiaries are expected to have different investment objectives, time horizons, and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that can reasonably span the risk/return spectrum. Participants select the funds and asset mix options offered in the Program and bear the risk of the investment results of their selection(s).

2. Purpose of Statement of Investment Policy

The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The policy outlines the following components:

- Define the purpose of the Program;
- Define the roles of those responsible for managing the Program;
- Define investment options and asset mix options for the Program; and
- Establish investment funds performance standards and the objectives, standards and processes for monitoring and evaluating investment options.

3. Purpose and Objectives of Deferred Compensation Program

The purpose of the Program is to provide eligible employees with a convenient way to save on a regular and long-term basis and thereby help supplement their retirement. The objective of the Program is to allow eligible employees to defer a portion of their salary into the Program in order to supplement their income during their retirement years, promote and maximize capital accumulation by the Program participants, and enable members to meet personal retirement investment goals. It is the Board's intent to make available an array of low-cost investment options that satisfy the following criteria:

- Each fund or asset mix option is diversified within itself;
- Each fund or asset mix option has different risk and return and/or style characteristics; and
- Each fund or asset mix option, in combination with the other fund or asset mix options, contributes to the diversification and risk return opportunities of a participant's Program account portfolio.

4. Roles & Responsibilities

The Board has delegated certain functions to Investment Staff, Administrative Staff, and Legal Staff as well as to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty. The Board relies heavily on Investment Staff, Administrative Staff, Legal Staff, and external contractors in order to administer the Program and carry out the Board's responsibilities. Various responsibilities are allocated among the Board, Investment Staff, Administrative Staff, Legal Staff, Investment Consultant, Investment Managers, Custodian, and Third Party Administrator, as defined below. The responsibilities of the Program's service providers are governed by the applicable services agreements as well as this Deferred Compensation Program Statement of Investment Policy.

A. Board

The Board is the Program administrator, trustee and the named fiduciary responsible for designating the DCP investment options from which a Participant can build a diversified portfolio. The Board will act in the sole interest of Program participants and their beneficiaries for the exclusive purpose of providing benefits to the participants and their beneficiaries, and defraying the reasonable expenses of administering the Program. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under the Internal Revenue Code and other governing rules and regulations that relate to the administration and investment of the assets under the Program. At all times any final decisions/actions with regard to the DCP and the results of those actions is the sole province of the Board.

The Board performs the following in conjunction with Program and statutory provisions:

- Comply with all applicable rulings, regulations, and legislation;
- Act in accordance with the provisions of all legal documents governing the DCP;
- Approve and maintain all legal documents governing the DCP, including the Plan Document, Trust Declaration and DCP Statement of Investment Policy;
- Review and approve Program structure and design;
- Review and approve the hiring and termination of contractors to assist in managing the Program based on recommendations from Administrative Staff and, if applicable, the Investment Consultant;
- Review and approve investment fund selection and investment asset mix options based on recommendations from Investment Staff and the Investment Consultant;
- Review and approve hiring and termination of investment managers based on recommendations from Investment Staff and the Investment Consultant;

- Review the Program's audited financial statements;
- Review and evaluate the Program's investment performance and costs based on recommendations from Investment Staff and the Investment Consultant;
- Oversee and monitor Investment Staff and Administrative Staff responsible for the oversight and management of the Program; and
- Approve the engagement and termination of industry experts, including but not limited to, an independent Investment Consultant.

B. SERS Staff

The Board has delegated the Administrative Staff, the Investment Staff, and the Legal Staff of SERS with certain roles and responsibilities. The Administrative Staff includes the Executive Director and Office of Finance and Administration. The Investment Staff includes the Chief Investment Officer and SERS' Investment Office. The Legal Staff includes SERS' Chief Counsel and any attorney appointed by SERS' Chief Counsel.

1. Administrative Staff

The Administrative Staff ensures the proper and efficient administration of the Program. The Administrative Staff is specifically responsible for the oversight of the Program's Third-Party Administrator. These administration functions include, but are not limited to, the enrollment of employees as participants, the maintenance of accounts and other records, payment of Program approved fees, interpretation of the provisions (e.g. emergency withdrawals, allocation of benefits, etc.) of the Program, the preparation of periodic reports to participants, alternate payees, and beneficiaries and the distribution of deferred compensation to participants, alternate payees and beneficiaries. The Administrative Staff is responsible for coordinating the hiring of a Third-Party Administrator to assist in the administration of the Program subject to Board's approval.

2. Investment Staff

The Investment Staff is charged with the coordination of all investment activities and matters within the Program. The Investment Staff is responsible to the Board to review, analyze, develop, recommend, and monitor the Program's investment funds, investment asset mix options, and securities lending activities for the Board's consideration and approval. To ensure that the investment goals and objectives of the Program are being fulfilled, the Investment Staff also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision–making processes and their investment styles in relation to present and projected investment horizons. The Investment Staff is also responsible for updating and maintaining the Deferred Compensation Program Statement of Investment Policy and coordinating the hiring of an external Program investment consultant to assist in investment matters of the Program, subject to the Board's approval.

3. Legal Staff

The Legal Staff ensures the lawful administration of the Program. The Legal Staff is responsible for negotiating all underlying contracts within the Program as well as confirming the legalities of program designs and implementations within the Program. The Legal Staff is responsible for answering any legal questions that arise from the Administrative Staff and the Investment Staff as well as reviewing the actions and recommendations of the Investment Managers and the Investment Consultant. The Legal Staff will consult with the Board at the Board's request.

C. Investment Managers

Each investment manager will have discretion over the management of a specific mandate as designated by the Board. The specific terms of each investment management agreement (including but not limited to separate account, commingled investment fund, and commingled investment trust) will include an Investment Strategy Statement which establishes and governs the investment guidelines and responsibilities of the investment manager. Each investment manager must select investments with the same care, skill, prudence, and due diligence that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules and regulations.

D. Investment Consultant

The Board shall retain an independent investment consultant to assist in executing any and all provisions of this Deferred Compensation Program Statement of Investment Policy. While the investment consultant will act in a non-discretionary capacity, the investment consultant is to be considered a fiduciary, as defined in section 3(21) of ERISA.

The investment consultant will provide investment advice and recommendations concerning the Program structure, administration, and investment management of the Program assets consistent with the investment objectives, policies, guidelines and constraints as established in this Deferred Compensation Program Statement of Investment Policy. Specific responsibilities of the investment consultant will be established and maintained under an investment consulting agreement, though will generally include reviewing policies, investment funds, investment asset mix options, investment manager due diligence, benchmarks, ongoing due diligence, compliance monitoring as detailed in the individual management agreements, and evaluating the cost of the Program.

E. Custodian and Sub-custodian

The Custodian and Sub-custodian are expected to fulfill all the regular fiduciary duties of a custodian, pursuant to the terms of the applicable trust and custodial agreements and as required by other pertinent state and federal laws. In general, these duties include the following:

- Receive contributions and deferrals from the State and pay all benefits, as directed by the Board or its designee(s);

- Protect trust assets, ensure timely settlement of security transactions, credit all income and principal realizable by investment assets of the trust in a timely and accurate fashion, sweep excess cash from custodied Investment Manager accounts into a suitable cash management vehicle each day, and calculate the net asset value for unitized accounts or report stated net asset values for non-unitized accounts in a timely and accurate fashion;
- Report periodically to the Board or its agents and designees on all monies received or paid on behalf of the Trust and on all securities under the custody contract including all unsettled securities transactions;
- Deliver Trust assets to a successor custodian or as otherwise directed with proper instructions within a reasonable time period of termination;
- Promptly distribute all proxy materials or other corporate actions received by the Trustee/Custodian;
- Coordinate asset transfers as requested by the Board or its designee(s); and
- Provide fund accounting for investment options. Services include, but are not limited to, calculating or reporting net asset value (NAV) and posting and settling securities trades.

F. Third-Party Administrator

The Third-Party Administrator is expected to fulfill all of the contracted responsibilities including, but not limited to, maintaining individual participant investment account records and providing Participants and beneficiaries with sufficient information to manage their investments. The Third-Party Administrator is also expected to comply with the reporting requirements of the Plan Document, the requirements established and maintained under the Third-Party Administrator contract, and all pertinent federal, state, and local rules and regulations. Services may also include, but are not limited to, the provision of:

- Enrollment services in the Program for employees;
- Educational materials and programs explaining investment options in the Program;
- Advice tools and products;
- Tools to facilitate the effective exchanges and transfers to, from, and among investment options offered within the Program;
- Periodic individual statements and distributions;
- Master recordkeeping responsibilities;
- Reports in support of compliance and regulatory obligations;
- An effective and automated interface with the Custodian/Sub-custodian to initiate net trades on investment options and rebalancing transactions as directed;
- Reports and information reconciliations to the Board or its designees, and the Custodian/Sub-custodian; and
- Rebalancing Profile Funds on a quarterly basis.

5. Investment Options

To comply with the objectives of this Deferred Compensation Program Statement of Investment Policy, the Board expects the Program will offer at least one investment option which falls into each of the following asset classes:

- Processing Account/Cash/Cash Equivalents;
- Domestic Fixed Income;
- Domestic Large-cap Equity; and
- International Large-cap Equity.

All money directed into investment options is done at the direction of each Participant. Absent any direction from the Participant, money will be directed as per the Trust Declaration. The Board may establish additional investment options at its own discretion to serve the needs of the Participants. The range of investment options will span the risk/return spectrum to allow participants to diversify their investments. Further, the Program's investment options will allow participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons, and tolerance for risk. The investment options selected should be able to be implemented at a reasonable cost to the Program and/or participants in terms of management, custody, and other costs, and have investment characteristics that can be successfully communicated to participants.

The Board will select available investment options and investment managers and add or remove such options or investment managers at any time in its discretion. The screening process for the initial selection of any investment vehicle or investment manager will consider attributes relevant to the specific asset class and search objective, as developed by the Board with the assistance of the Investment Staff.

The Investment Options currently offered in the Program are shown in **Exhibit I**.

6. Objectives, Standards and Processes for Evaluating and Monitoring Investment Options and Investment Managers

A. Investment Manager Evaluations and Selection

Pursuant to its duties as defined by Section IV.B.2 (Investment Staff) the SERS Investment Staff shall, as directed by the Board and in consultation with the Investment Consultant, search for and hire investment managers to carry out investment options. The screening process for the initial selection of any investment vehicle or investment manager will consider attributes relevant to the specific search objective in question. Investment Staff and the Investment Consultant will consider but will not be limited to reviewing the manager's strategy, quality and experience of professional staff, ownership structure, investor level breakdown, assets under management by firm and product, fees and a comparison of performance history among peers and against appropriate benchmarks. Based on this analysis, Investment Staff and the Investment Consultant will determine which investment managers would be suitable candidates for further review.

B. Investment Performance Reviews

Investment Staff will review investment options and investment manager performance, portfolio positioning, and transactions at least annually. Investment Staff will use the Deferred Compensation Program Investment Manager Monitoring Policy, attached as **Exhibit II**, as may be applicable to the Investment Options, to apply consistent criteria in evaluating investment managers. The Board may change specific investment options or investment managers without amending this Deferred Compensation Program Statement of Investment Policy.

C. Investment Manager and Investment Option Termination

The Board recognizes that investment options or investment manager terminations have unique circumstances which may result in different action plans upon termination. Upon a decision to terminate an investment option or investment manager, the Board expects to review the circumstances with Investment Staff and the Investment Consultant to deliberately decide on a prudent and reasonable process for termination and replacement of the terminated investment option and/or investment manager. Investment Staff will notify Administrative Staff and Legal Staff to coordinate proper notice to the participants if an investment option is terminated.

D. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the Program that are not expressly authorized by this Deferred Compensation Program Statement of Investment Policy or by specific investment manager guidelines, offering memorandum or mutual fund prospectus. Investment managers must at all times follow all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with this Deferred Compensation Program Statement of Investment Policy or specific investment manager guidelines.

The use of derivatives is to facilitate risk management, and to manage the cost of investing in publicly traded stocks and bonds. Derivatives shall not be used to magnify exposure to investments beyond that which would be allowed by the portfolio's Investment Strategy Statement if derivatives were not used. Derivatives shall not be used to create exposures to securities, indices or other financial variables unless such exposures would be allowed by a portfolio's Investment Strategy Statement if created with non-derivatives securities.

7. Exhibits

Exhibit I – Program Investment Options

Exhibit II – Deferred Compensation Program Investment Manager Monitoring Policy

8. Exhibit I: Program Investment Options as of December 31, 2016

Investment Option	Benchmark
A. Profile Series	
Aggressive Portfolio Fund	Custom Index
Moderate Portfolio Fund	Custom Index
Conservative Portfolio Fund	Custom Index
B. Core Investment Options	
1. Equity Funds	
U.S. Large Company Stock Index Fund	S&P 500 Index
U.S. Small/Mid Company Stock Index Fund	Dow Jones U.S. Completion Total Stock Market Index
International Company Stock Index Fund	MSCI EAFE Index
2. Fixed Income Funds	
U.S. Bond Index Fund	Bloomberg U.S. Aggregate Bond Index
Stable Value Fund	Hueler Stable Value Index
3. Balanced Funds	
60/40 Balanced Stock & Bond Fund	60% S&P 500 Index / 40% Bloomberg U.S. Aggregate Bond Index
4. Money Market Funds	
Short-Term Investment Fund	BofA Merrill Lynch 3 Month T-Bill Index
C. Self-Directed Brokerage Account	
Schwab Personal Choice Retirement Account	N/A

9. Exhibit II: Deferred Compensation Program Investment Manager Monitoring Policy

pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

Commonwealth of Pennsylvania

State Employees' Retirement Board

Deferred Compensation Program Investment Manager Monitoring Policy

Adopted by the SERS Board: March 8, 2017
Amends Adoption of: October 28, 2015

SERS employs external investment managers to manage pension fund assets. SERS' Deferred Compensation Program Statement of Investment Policy charges the investment office with responsibility for coordinating all investment activities and matters for SERS, including the continual review and analysis of investment managers. It also allows for the use of external investment consultants to provide various investment-related services, including assistance with the analysis of investment managers.

SERS' investment office, in consultation with its external deferred compensation investment consultant, developed this Deferred Compensation Program Investment Manager Monitoring Policy ("Policy"). The purpose of this Policy is to provide the SERS Board with an enhanced communication tool to keep the Board informed of investment managers that warrant additional monitoring by SERS' investment office and external consultant.

A Deferred Compensation Program Investment Manager Evaluation List (Appendix 1) was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by SERS' investment office and external investment consultants. Although a quantitative analysis is clearly important, it is not a best practice to rely exclusively on such data when evaluating investment managers due to the imperfect nature of many indices used as portfolio benchmarks. In addition, the placement of an investment manager on the Investment Manager Evaluation List does not automatically serve as evidence of a problem with the investment manager. This can only be determined after SERS' investment office and external investment consultants enhance its ongoing monitoring.

A. Investment Manager Monitoring Guidelines and Evaluation List

The Investment Manager Monitoring Guidelines formalize the identification and application of qualitative and quantitative criteria employed by SERS with respect to the monitoring of current investment managers in the deferred compensation program. The Investment Manager Monitoring Guidelines: 1) establish clear expectations between the SERS' Board, investment office, external investment consultants, and investment managers, 2) enhance communication among the SERS' Board, investment office, external investment consultants, 3) encourage the use of prudently applied criteria to evaluate investment managers, 4) foster a long-term approach toward performance evaluation of investment managers, 5) focus the resources of SERS' investment office and external investment consultants on those investment managers most likely to require additional attention, 6) avoid costly turnover in investment manager relationships driven by a period of short-term poor performance, and 7) improve the probability that SERS will identify problematic relationships which otherwise might produce unsatisfactory investment returns.

The SERS Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles. All of the criteria identified in the Investment Manager Monitoring Guidelines are intended to provide a normal, minimum standard for retaining investment Managers.

However, the SERS Board may terminate any current investment manager for any reason whatsoever in accordance with the provisions of investment manager agreements between SERS and the external investment managers. These Investment Manager Monitoring Guidelines do not limit SERS' ability to take such action.

B. Criteria for Active and Passive Management

Addition to the Investment Manager Evaluation List
SERS' investment office, in consultation with its external investment consultant, will place an investment manager on the Investment Manager Evaluation List for any of the following reasons:

Quantitative Factors

1. The active investment manager's rolling, three-year return falls below the rolling, three-year benchmark return for four (4) consecutive quarters. This is a net of fee comparison.

2. The active investment manager's rolling, three-year return ranks below the median of the external investment consultant's peer group for four (4) consecutive quarters (excludes investment managers with no relative peer group). This is a gross of fee comparison.

3. The passive investment manager's rolling three-year return is not in line with the rolling, three-year benchmark return. SERS' investment office, in consultation with its external investment consultant, will determine what variance from the benchmark is deemed acceptable, given the passive strategy. This is a net of fee comparison.

The active or passive investment manager's return significantly deviates from its expected return established in its investment strategy statements (investment guidelines) with SERS. This is a net of fee comparison.

Qualitative Factors

1. A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered:

    - Violation of investment guidelines
    - Deviation from stated investment style and/ or shifts in the firm's philosophy or process
    - Turnover of one or more key personnel
    - Change in firm ownership or structure
    - Significant loss of clients and/or assets under management
    - Significant and persistent lack of responsiveness to client requests
    - Litigation
    - Failure to disclose significant information, including potential conflicts of interest
    - Chronic violations of the SERS' Deferred Compensation Program Statement of Investment Policy
    - Any other issue or situation of which SERS' investment office, external investment consultants, and/or SERS Board members become aware that is deemed material.

Removal from the Investment Manager Evaluation List

An investment manager may be removed from the Investment Manager Evaluation List when SERS' investment office, in consultation with its external investment consultant, determines that the investment manager has satisfactorily met the quantitative or qualitative criteria for removal from the Evaluation List. Generally for active investment managers, two consecutive quarters of rolling, three-year performance above the benchmark and a ranking above the median of the external investment consultant's peer group following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons. For index fund investment managers, one period of rolling, three-year performance in line with the benchmark following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons. SERS' investment office, in consultation with its external investment consultant, will typically make a decision to recommend retention or termination twelve (12) months following placing an investment manager on the Evaluation List. At the point of decision, SERS' investment office, in consultation with its external investment consultant, may recommend renewing inclusion on the Evaluation List for an additional period of time subject to supporting due diligence.

C. Application of Criteria

1. The Investment Manager Evaluation List is a confidential internal document and will only be used for internal purposes.

2. SERS' investment office, in consultation with external investment consultants, will provide the SERS Board with a current Investment Manager Evaluation List at the same board meeting when the RVK quarterly performance is provided to the SERS' Board. The Evaluation List will include all investment managers which have been added or removed and summary of the reasons for the addition or removal.

3. The Investment Manager Evaluation List will be provided to the SERS Board in executive session.

4. When an investment manager is placed on the Investment Manager Evaluation List, SERS' investment office and external investment consultants will enhance its ongoing monitoring of the investment manager to assess whether or not genuine issues of concern actually exist.

5. If genuine issues of concern are identified, SERS' investment office and external investment consultants will assess the cause, magnitude, and likely duration of the issues.

6. If the analysis from SERS' investment office, in consultation with its external investment consultants, reveals that the issues are not of concern, the investment manager will be removed from the Investment Manager Evaluation List.

7. If the investment manager resolves the issues of concern to the satisfaction of SERS' investment office, in consultation with its external investment consultants, the investment manager will be removed from the Investment Manager Evaluation List.

8. If SERS' investment office, in consultation with its external investment consultant, determines that the issues of concern have persisted without satisfactory resolution or are unlikely to be resolved within 12 months, then a recommendation on whether to retain the investment manager will be provided to the SERS' Board.

9. In emergency situations, the Chief Investment Officer, in consultation with the SERS Board Chairman, may make investment decisions (i.e. halt trading or terminate an investment manager). Emergency situations are defined as those that are unforeseeable and in the absence of action, the Fund may be adversely impacted. In the event such action is taken, the SERS Board will be notified as soon as practical, but no later than the next scheduled board meeting.

Appendix 1: Deferred Compensation Program Investment Manager Evaluation List (TEMPLATE)

Memorandum

To	SERS Board Members
From	SERS Investment Office and RVK
Subject	Deferred Compensation Program Investment Manager Evaluation List
Date	<insert date>

The following is the Deferred Compensation Investment Manager Evaluation List ("DCP Evaluation List") as of <insert quarter-end date>. The DCP Evaluation List is compiled in conformance with the criteria established in the Deferred Compensation Program Investment Manager Monitoring Policy adopted by the Board on October 28, 2015, and amended on March 8, 2017.

The placement of an investment manager on the DCP Evaluation List does not automatically serve as evidence of a problem with the investment manager. The DCP Evaluation List was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by SERS' investment office and external investment consultants.

Summary

Manager	Asset Class	Strategy	Assets	Event Date
1. Additions Since Last Report				
2. On Evaluation List				
3. Deletions Since Last Report				

Evaluation List

Manager	Reason	SERS Investment Office & RVK Recommendation

pennsylvania
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ATTACHMENT C

EXECUTIVE SESSION MINUTES
Meeting: March 8, 2017

Executive Session

1. Pending Litigation Report

2. Securities Litigation

3. Personnel Committee Recommendation

4. 2016 Actuarial Valuation Update

5. Fund Update

6. Board Update w/RVK, Inc.

7. Consultant Update

ATTACHMENT D

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: January 31, 2017

RESOLVED, that the SERS Personnel Committee recommends that the Board approve the revised *Performance Review Process* for SERS' Executive Director

ISSUE: The *Performance Review Process* has been revised to reflect that only the Executive Director position's performance is reviewed by the board; the Chief Investment Officer now reports to the Executive Director.

ACTION/REQUEST: Effective March 8, 2017:

1. Approve the revised *Performance Review Process.*

David R. Fillman, Chairman

Charles T. McIlhinney, Member

Mary Soderberg, Member

PERFORMANCE REVIEW PROCESS

SERS Executive Director

pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

EXPLANATION:

Effective **performance management** involves setting performance expectations, monitoring progress, measuring results, appraising performance, mentoring as appropriate, and rewarding or correcting employee performance. Performance management is ongoing.

This is in contrast to an **employee performance review** (EPR). An EPR is a periodic work performance review of how much, how well, and the manner by which an employee performed duties and responsibilities during a specified evaluation period.

SERS' Executive Director (ED) is one of the highest-level and most prominent positions within the agency. It is this position which establishes the culture, values, and expectations for the rest of the agency. Therefore, it is critical that this position be subject to thorough and thoughtful performance management and critique.

This process provides guidance for the completion of the performance evaluation for this highly visible and critical position.

METHODOLOGY:

SERS' board has authority to hire the Executive Director and as such, SERS' board has the responsibility to review the performance and provide feedback to the individuals in this position.

SERS has elected to use the Senior Management Service Performance Evaluation System evaluation form to evaluate performance for the Executive Director.

There are five specific factors on the evaluation form that focus on management competencies. The factors are:

- **Leadership** – measures commitment to excellence, development and implementation of strategic vision, ability to achieve results, and learning from successes and shortcomings
- **Planning** – measures excellence in strategic planning, change management, project planning and maximization of resources
- **Management** – measures the effectiveness of managing programs, operations, and human, financial, and technological resources
- **Interpersonal relations** – measures the ability to establish and maintain interpersonal relationships, effectiveness of communications, and degree of positive engagement with others
- **Results** – measures excellence in achievement and evaluation of organizational goals within established timeframes

Each of the five factors is rated using a five point scale:

- Far Exceeds Expectations
- Exceeds Expectations
- Meets Expectations
- Needs Improvement
- Unsatisfactory

The **Overall Rating** on the EPR form is a composite assessment of the employee's work performance and the factors contributing to the accomplishment of goals and expectations.

Recognizing that certain factors may be more important than others, each factor rating need not be of equal weight. Overall comments should justify the overall assessment of the employee's performance.

The **Summary of Employee's Strengths** should identify strong attributes, abilities, and proficiencies of the employee.

The **Summary of Opportunities for Employee Development** should identify areas where the employee should expand or increase his/her knowledge/skill or adjust behavior to address areas of concern or further develop for professional growth and/or success.

PROCESS:

The annual **rating cycle** for the Executive Director is January 1 through December 31. The process outlined below focuses on the annual rating period. There may be times when it is appropriate to issue an interim performance evaluation. Interim evaluations are at the discretion of the Chairman and SERS board.

The SERS Human Resources Director is available to assist, as needed, with the execution of this process. The SERS Human Resources Director, as directed by the Chairman, will make modifications and updates to this process.

The Executive Director reports to the board and it is important to have board member input into the annual evaluation of this position. The Chairman may find it equally important to gain perspective from individuals who work with the position on a regular basis. The Chairman may solicit performance feedback from the board, board designees, and any or all of SERS' senior staff members. SERS' senior staff members are:

- Director, Communications and Policy Office
- Director, Office of Member Services
- Chief Investment Officer
- Chief Financial Officer
- Chief Information Officer
- Director, Internal Audits
- Director, Human Resources Division

NOTE: All senior managers are supervised by the Executive Director. As such, even though the senior managers work closely with the Executive Director, it is not a common SERS practice to solicit performance input from subordinate staff. During each evaluation period, the Chairman should consider the circumstances/appropriateness of soliciting feedback from the senior managers for the performance review of the Executive Director. It is also the Chairman's discretion to incorporate or exclude such feedback from the final Executive Director performance evaluation.

October through December (before the annual rating cycle begins)

- Chairman, in collaboration with SERS board personnel committee, develops performance expectations.
    - Performance expectations are consistent with agency policy, strategic plans, objectives, and priorities.
    - Expectations align with the rating categories on the performance evaluation form – leadership, planning, management, interpersonal relations, and results.
- Chairman, along with SERS board personnel committee, meet with Executive Director to discuss performance expectations.
- Performance expectations are modified, if appropriate.
- Performance expectations are finalized.

January (annual rating cycle begins)

- Chairman issues performance expectations to the Executive Director for the annual rating cycle.
- Executive Director signs and dates the performance expectations.
    - Copy to SERS-Human Resources Division for filing in the employee's official personnel file.
    - Copy to employee.
    - Copy to Chairman.

Note: If a new Executive Director is hired during the rating cycle, the performance expectations will be provided to the new employee within the first month of employment.

June (mid-year performance report)

- Executive Director provides a report to the Chairman and SERS board personnel committee on the status of goals, objectives, and expectations consistent with the outlined performance expectations for the rating cycle.
- Chairman meets with the Executive Director to discuss any performance issues identified as a result of the mid-year report.

December to January (annual rating cycle ends 12/31 – evaluations due by 1/31)

- Chairman solicits feedback from appropriate parties – board, designees, and senior managers – regarding the performance of the Executive Director for the rating period of January 1 through December 31. Evaluators are provided with the appropriate *SERS Performance Evaluation Input* form for the Executive Director.
- Chairman reviews all submitted *SERS Performance Evaluation Input* forms. Chairman prepares the Senior Management Service Performance Evaluation System evaluation form for the Executive Director, incorporating relevant feedback. Chairman retains all *SERS Performance Evaluation Input* forms.
- Chairman provides the completed Executive Director Senior Management Service Performance Evaluation System evaluation forms to the SERS board personnel committee. The SERS board personnel committee reviews the evaluation forms. Chairman furnishes copies of the *SERS Performance Evaluation Input* forms upon request.
- The SERS board personnel committee provides feedback to the Chairman on the overall assessments. If the SERS board personnel committee and Chairman cannot resolve

disagreements about the evaluations, the matter is escalated to the entire SERS board for review and resolution. Chairman furnishes copies of the *SERS Performance Evaluation Input* forms upon request.

- Chairman signs the final Senior Management Service Performance Evaluation System evaluation form. Chairman meets with the Executive Director to issue the Senior Management Service Performance Evaluation System evaluation form. Chairman discusses the performance evaluation with employee.
- Employee signs the evaluation form. If the employee refuses to sign the evaluation form, the Chairman makes note of such on the form.
    - Copy to SERS-Human Resources Division for filing in the employee's official personnel file.
    - Copy to employee.
    - Copy to Chairman

Updates

01-2017	Updated to remove CIO from the process; CIO now reports to Ex Dir