

MINUTES of SERS Board Regular Meeting - Wednesday, June 14, 2017

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

ATTENDEES:

Members and Designees

David R. Fillman - Chairman
Glenn E. Becker
Dan B. Frankel
Robert W. Godshall
Vincent J. Hughes
Charles T. McIlhinney, Jr.
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 L.P.
Bruce Hopkins, CEM Benchmarking Inc.
Mikaylee O'Connor, RVK, Inc.
Michael Reid, CEM Benchmarking Inc.
Matt Roche, StepStone Group L.P.
Jim Voytko, RVK, Inc.

Executive Staff

David E. Durbin
Anthony Faiola
Christopher Houston
Bryan Lewis

Staff

Rose Agnew
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Myisha Ebersole
Brittany Erney-Muniz
David Felix

Sean Fiedler
Phillip Greenberg
Meredith Jones
Barbara Kiral
Cheryl Krchnar
Karen Lynn
N. Joseph Marcucci
Jeffrey McCormick
Sara McSurdy
Matthew Meads
Jeffrey Meyer
E. James Moreno
James Nolan
Jay Pagni
Duy Phung
David Tarsi
Joseph Torta
William Truong

Visitors

Chris Ade, Lord, Abbett & Co., LLC
Nelson Diaz, Dilworth Paxson, LLP
Lloyd Ebright, PA Treasury
Kristin Finney-Cooke, NEPC, LLC
Joseph Jacovini, Dilworth Paxson, LLP
Elizabeth Pettis, PA Office of General Counsel
Kevin Sullivan, BNY Mellon
Mike Yang, NEPC, LLC

Presenters

Cian Cotter, Insight Venture Partners X, L.P.
Andrew Gosden, Apollo Investment Fund IX, L.P.
Thomas Kichler, CVC Capital Partners VII, L.P.
Matt Nord, Apollo Investment Fund IX, L.P.
Donna Smolens, Insight Venture Partners X, L.P.
Robert Squire, CVC Capital Partners VII, L.P.

MINUTES of the SERS Board Regular Meeting Wednesday, June 14, 2017

A. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – April 26, 2017

Chairman Fillman presented the minutes provided to the board (6/14/2017 Board Package, Administrative Report, Tab 2).

MOTION: 2017-34

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

RESOLVED: That the board approves the minutes of the April 26, 2017, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Periods Ending – March 31 and April 30, 2017

Chairman Fillman presented the report provided to the board (6/14/2017 Board Package, Administrative Report, Tab 3).

MOTION: 2017-35

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 periods ending March 31 and April 30, 2017.

B. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. Capital Market Report

Mr. Voytko presented the report provided to the board (6/14/2017 board handouts).

Presentation: 2. SERS Quarterly Performance Analysis (1st Quarter 2017)

Mr. Voytko presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 6).

Presentation: 3. Transition Manager Discussion

Mr. Voytko presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 7).

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP L.P.

Action: 1. Private Equity Interview – Apollo Investment Fund IX, L.P.

Messrs. Felix, Elio, Gosden and Nord presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 10).

MOTION: 2017-36

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

RESOLVED: That the board orders to commit up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Apollo Investment Fund IX, L.P., as a follow-on investment within the Private Equity asset class,

subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

Action: 2. Private Equity Interview – CVC Capital Partners VII, L.P.

Messrs. Felix, Elio, Squire and Kichler presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 11).

MOTION: 2017-37

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

RESOLVED: That the board orders to commit up to €94 million Euros (approximately \$100 million USD), plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to CVC Capital Partners VII, L.P., as an investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

Action: 3. Private Equity Interview – Insight Venture Partners X, L.P.

Ms. Smolens and Messrs. Felix, Elio and Cotter presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 12).

MOTION: 2017-38

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

RESOLVED: That the board orders to commit up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Insight Venture Partners X, L.P., as a follow-on investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

Presentation: 1. Private Equity Recommendations for Future Interviews:

Asia Alternatives Capital Partners V, LP/Penn Asia Investors LP

Glendon Opportunities Fund II, LP

GTCR Fund XII, LP

Messrs. Felix and Elio presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tabs 2, 3 and 4).

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

D. EXECUTIVE SESSION

Presentation: 1. Agenda

At 11:45 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 A.

E. LUNCH BREAK

F. PUBLIC MEETING RESUMES

The public meeting resumed at 2:33 p.m.

G. STEPSTONE GROUP L.P. CONTRACT

Action: 1. The following action was a result of discussion in executive session.

MOTION: 2017-39

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

RESOLVED: That the board authorizes staff to amend the Agreement between PA SERS and StepStone Group L.P. to facilitate a 12-month extension of the current Private Equity Consulting Agreement and its corresponding amendments under the existing terms, services and fee schedules, 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.

H. PRIVATE EQUITY NON-CORE FUND MANAGER

Action: 1. The following action was a result of discussion in executive session.

MOTION: 2017-40

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

RESOLVED: That the board hires Fairview Capital to act as SERS' Private Equity non-core fund manager, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

I. SPECIAL ADVISORY COMMITTEE

Action: 1. The following action was a result of discussion in executive session.

MOTION: 2017-41

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

RESOLVED: That pursuant to the authority set forth in Article III of the Board's Bylaws, the board appoints Stephen Aichele, Michael Puppio and Vincent Hughes to serve as a special advisory committee to study, analyze and address the substantive and administrative issues surrounding the current structure of the board's legal representation and to make recommendations to the full board regarding the organization, complement, compensation and function of a SERS Legal Office and to report to the full board at the December board meeting. The Secretary and Chief Counsel are directed to provide to the special advisory committee such information as required and is appropriate as requested by the committee for the completion of its analysis of the issues and preparation of its recommendations.

J. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP L.P. - CONTINUED

Presentation: 1. Private Equity Semi-Annual Performance Report (Year-end 2016)

Messrs. Felix and Elio presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 9).

K. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. SERS Deferred Compensation Program Quarterly Investment Performance Analysis (1st Quarter 2017)

Ms. O'Connor and Mr. Nolan presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 8).

L. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND CEM BENCHMARKING INC.

Presentation: 1. Benchmarking Discussion

Messrs. Hopkins and Reid presented the report provided to the board (6/14/2017 Board Package, Investment Report, Tab 5 and board handouts).

M. PERSONNEL COMMITTEE

Action: 1. Recommendation (6/14/2017 board handouts)

MOTION: 2017-42

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

RESOLVED: In order to remain consistent with pay increases approved by the Governor's Executive Board, for the time period July 1, 2017 through June 30, 2019, for management employees, that the board hereby approves and grants the pay actions as set forth in the SERS Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT B).

N. 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 John J. McHale, Jr.

Docket No. 2016-10

Claim of John J. McHale, Jr.

The State Employees' Retirement Board unanimously **DENIED** Claimant's motion for Summary Judgment and his Petition for Declaratory Orders. Due to the lack of subject matter jurisdiction, this appeal is **DISMISSED WITH PREJUDICE**.

Account of Joseph J. O'Neill

Docket No. 2016-06

Claim of Joseph J. O'Neill

The State Employees' Retirement Board has **DENIED** the State Employees' Retirement System's Motion to Dismiss. Treasurer Torsella dissents. This matter shall proceed in the administrative appeal process.

Presentation: 2. Administrative Update

Mr. Durbin noted that the report was provided to the board (6/14/2017 Board Package, Administrative Report, Tab 8).

Presentation: 3. Legislative Update

Mr. Durbin noted that the report was provided to the board (6/14/2017 Board Package, Administrative Report, Tab 9 and board handouts).

Presentation: 4. Audit Committee Special Meeting Minutes – April 13, 2017

Mr. Durbin noted that the Audit Committee meeting minutes were provided to the board (6/14/2017 Board Package, Administrative Report, Tab 11).

Presentation: 5. Governance Committee Meetings Minutes – April 20 and May 15, 2017

Mr. Durbin noted that the Governance Committee meetings minutes were provided to the board (6/14/2017 Board Package, Administrative Report, Tab 12).

Presentation: 6. Personnel Committee Meeting Minutes – May 10, 2017

Mr. Durbin noted that the Personnel Committee meeting minutes were provided to the board (6/14/2017 Board Package, Administrative Report, Tab 13).

Presentation: 7. 2016 Final Actuarial Valuation Report

Mr. Durbin noted that the report was provided to the board (6/14/2017 board handouts).

Presentation: 8. Rep. Dan Frankel's Term on Audit Committee

Mr. Durbin noted that Rep. Frankel was reappointed to the Audit Committee.

O. NEXT BOARD MEETING – JULY 26, 2017

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for July 26, 2017.

P. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2017-43

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 3:45 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES

Meeting: June 14, 2017

Executive Session

1. Notational Ballot

Account of Robert E. Kinser (Deceased)
Docket No. 2015-10
Claim of Thomas K. Hamilton

2. Pending Litigation Report

3. Governance Policies

4. Fund Update

5. Non-Core Fund Update

6. Board Update with StepStone

7. Consultant Update

8. Act 2017-5 Update

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: June 14, 2017

RESOLVED, that the SERS Personnel Committee, to remain consistent with pay increases approved by the Governor's Office, recommends that the Board approve the following compensation actions for the State Employees' Retirement System, to mirror the pay actions approved by the Governor's Office.

ISSUE: July 1, 2017 general pay increase (2%)
July 1, 2018 general pay increase (2.5%)
January 2018 one step service increment
January 2019 one step service increment

ACTION/REQUEST: Upon the effective date of the Executive Board Resolutions that address pay increases for management employees for the time period of July 1, 2017 through June 30, 2019, and consistent with those Executive Board Resolutions:
Management

General Pay Increases

Grant SERS management employees who are compensated on the October 1, 2016 Standard Pay Schedule and who are in an active pay status a general pay increase of two percent (2.0%) effective July 1, 2017 and move them to the July 1, 2017 Standard Pay Schedule;

Grant SERS management employees who are compensated on the July 1, 2017 Standard Pay Schedule and who are in an active pay status a general pay increase of two and one-half percent (2.5%) effective July 1, 2018 and move them to the July 1, 2018 Standard Pay Schedule;

Permanent salaried management employees whose salaries exceed the maximum of the applicable pay scale group when the general pay increases are effective shall receive the annual amount of the general pay increase in the form of a one-time cash payment rounded to the nearest dollar;

Permanent salaried management employees whose salaries exceed the maximum of the applicable pay scale group before the general pay increase, but would not exceed the maximum after the general pay

increase, the employee's rate shall be increased by an amount which will make it equal to the new maximum. The one-time cash payment for an employee in this situation shall be reduced by the amount of increase in the employee's annual rate of pay.

Grant SERS management employees who are in an inactive pay status on the effective date of the general pay increases, the appropriate increase, as described above, upon return to an active pay status.

Service Increments

Grant SERS management employees who have been employed continuously by the commonwealth since January 31, 2017, a one-step service increment effective on the first day of the first full pay period in January 2018;

Grant SERS management employees who have been employed continuously by the commonwealth since January 31, 2018, a one-step service increment effective on the first day of the first full pay period in January 2019;

Grant SERS management employees who separate with at least one year of continuous service since their most recent appointment and who are reemployed within six months from the date of separation, a one-step service increment, if they are in an active pay status on the effective date of the increments;

Grant SERS management employees who are at or above the maximum salary for their pay scale group, and who are otherwise eligible to receive longevity increments, a one-step longevity increment in the form of a one-time cash payment of 2.25% of their annual salary in effect on the day preceding the first day of the first full pay period in January 2018, rounded to the nearest dollar;

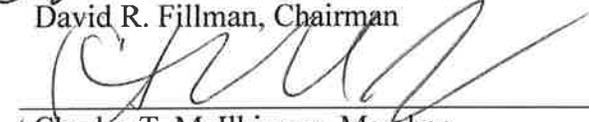
Grant SERS management employees who are at or above the maximum salary for their pay scale group, and who are otherwise eligible to receive longevity increments, a one-step longevity increment in the form of a one-time cash payment of 2.25% of their annual salary in effect on the day preceding the first day of the first full pay period in January 2019, rounded to the nearest dollar;

Grant SERS management employees who are in between steps for their pay scale group, and who are otherwise eligible to receive longevity increments, a one-step longevity increase by placing them on the next higher step of the pay scale group and providing a one-time cash payment of 2.25% reduced by the amount of increase in the employees' annual rate of pay, rounded to the nearest dollar; and

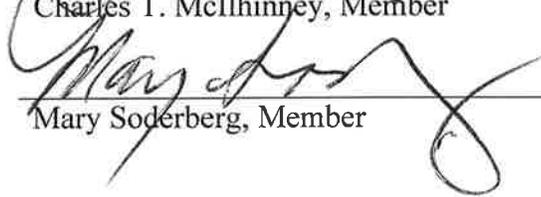
Grant SERS management employees who are in an inactive pay status on the effective dates of the longevity increment, the appropriate increase as described above, upon return to an active pay status.



David R. Fillman, Chairman



Charles T. McIlhinney, Member



Mary Soderberg, Member