

MINUTES of SERS Board Regular Meeting - Wednesday, July 26, 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
Charles T. McIlhinney, Jr.
Michael V. Puppio, Jr.
T. Terrance Reese
Joseph M. Torsella
Christopher Craig – Designee for Treasurer Joseph M. Torsella
Charles Duncan – Designee for Senator Vincent J. Hughes
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.
Anthony Johnson, RVK, Inc.
Mikaylee O'Connor, RVK, Inc.
Robert Palmeri, RVK, Inc.
Matthew Ritter, NEPC, LLC
Matt Roche, StepStone Group L.P.
Jim Rohlinger, Empower Retirement
Jim Voytko, RVK, Inc.
Michael Yang, NEPC, LLC

Executive Staff

David E. Durbin
Anthony Faiola
Bryan Lewis
N. Joseph Marcucci

Staff

Rose Agnew
Eric Baker
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Linda Engle
Brittany Erney-Muniz

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

Visitors

Chris Ade, Lord, Abbett & Co., LLC
Tom Cosmer, PineBridge Investments
Christopher Houston, PA Department of Community and Economic Development
Jim Kane, Unite Here
Elizabeth Pettis, PA Office of General Counsel

Presenters

Andy Apostol, Invesco Advisers, Inc.
Matthew Barrett, Glendon Opportunities Fund II, L.P.
Nelson Diaz, Dilworth Paxson, LLP
Dyice Ellis-Beckham, Invesco Advisers, Inc.
Stephen Gautier, The Vanguard Group, Inc.
Jennifer Gilmore, Invesco Advisers, Inc.
Susan Graef, The Vanguard Group, Inc.
Holly Kim, Glendon Opportunities Fund II, L.P.
Joseph Jacovini, Dilworth Paxson, LLP
Valerie Leung, Asia Alternatives Capital Partners V, L.P./Penn Asia Investors, L.P.
Melissa Ma, Asia Alternatives Capital Partners V, L.P./Penn Asia Investors, L.P.
Skye Nickalls, Dilworth Paxson, LLP

MINUTES of the SERS Board Regular Meeting Wednesday, July 26, 2017

A. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – June 14, 2017

Chairman Fillman presented the minutes provided to the board (7/26/2017 Board Package, Administrative Report, Tab 2).

MOTION: 2017-44

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

RESOLVED: That the board approves the minutes of the June 14, 2017, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Period Ending – May 31, 2017

Chairman Fillman presented the report provided to the board (7/26/2017 Board Package, Administrative Report, Tab 3).

MOTION: 2017-45

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 May 31, 2017.

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

Presentation: 1. Capital Markets Report

Messrs. Johnson and Voytko presented the report provided to the board (7/26/2017 board handouts).

Action: 1. Public Markets Discussion

Messrs. Nolan and Truong presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 2).

MOTION: 2017-46

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella who voted NO, it was

RESOLVED: That the board approves the orderly liquidation and transition of 100 percent of the assets managed by Harvest Fund Advisors LLC and Kayne Anderson Capital Advisors, L.P. to the Mellon Capital Management Russell 3000 Index portfolio in the Multi-Strategy asset class. A board approved transition manager may be used to assist in facilitating these transitions. Upon completion of the liquidation and transition of the assets from the aforementioned accounts, SERS' relationship with Harvest Fund Advisors and Kayne Anderson Capital Advisors will terminate.

MOTION: 2017-47

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella who ABSTAINED, it was

RESOLVED: That the board approves the orderly liquidation and transition of 100 percent of the assets managed by PNC Capital Advisors, LLC and StoneRidge Investment Partners, LLC to the PIMCO Core Bond Fund portfolio in the Fixed Income asset class. A board approved transition

manager may be used to assist in facilitating these transitions. Upon completion of the liquidation and transition of the assets from the aforementioned accounts, SERS' relationship with PNC Capital Advisors and StoneRidge Investment Partners will terminate.

MOTION: 2017-48

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella who voted NO, it was

RESOLVED: That the board orders to redeem \$200 million from the Cash portfolio and transition the assets to the Mellon Capital Management Russell 3000 Index portfolio within the Multi-Strategy asset class.

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

Action: 1. Deferred Compensation Program (DCP) Stable Value Interview: Invesco Advisers, Inc. Mses. O'Connor, Ellis-Beckham and Gilmore and Messrs. Palmeri, Nolan, Truong and Apostol presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 8).

Action: 2. DCP Stable Value Interview: The Vanguard Group, Inc.

Mses. O'Connor and Graef and Messrs. Nolan, Truong and Gautier presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 9).

MOTION: 2017-49

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

RESOLVED: That the board orders to hire Invesco Advisers, Inc. to act as SERS' Deferred Compensation Program Stable Value Fund program 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. A board approved transition manager may be used to assist in facilitating the transition.

D. Deferred Compensation Committee Presentations and Reviews: SERS OFFICE OF FINANCE AND ADMINISTRATION AND RVK, INC.

Action: 1. Development of RFP

Action: 2. Extension of Empower Contract

Action: 3. Deferred Compensation Program Committee to Act on Defined Contribution Plan

Mses. O'Connor and Engle and Messrs. Palmeri and Nolan presented the report provided to the board (7/26/2017 Board Package, Administrative Report, Tab 12).

MOTION: 2017-50

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

RESOLVED: That the board orders to authorize staff to enter into a Second Amendment to the Amended and Restated Agreement for General Investment Consultant, SERS #11-020.8, to serve as a subject matter expert in a special project to assist in the search for a third party administrator for the Deferred Compensation Program and the Defined Contribution Plan through the Request for Proposal process, subject to successful completion of contract negotiations.

MOTION: 2017-51

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

RESOLVED: That the board orders to extend the Empower contract for one year to allow for a combined Request for Proposal for the Third Party Administrator for the Deferred Compensation

Program and the Defined Contribution Plan, subject to successful completion of contract negotiations.

MOTION: 2017-52

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

RESOLVED: That the board orders to adopt a resolution granting the Deferred Compensation Program Committee the authority to make recommendations to the board for decisions regarding the Defined Contribution Plan until another committee is granted this authority or established for that purpose.

E. STRATEGIC INVESTMENT PLAN ACCOMPLISHMENTS AND GOALS

Presentation: 1. Update

Mr. Lewis presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 3).

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

Action: 1. Private Equity Interview – Asia Alternatives Capital Partners V, L.P./Penn Asia Investors, L.P.

Mses. Leung and Ma and Messrs. Felix and Elio presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 10).

MOTION: 2017-53

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

RESOLVED: That the board orders to commit up to (i) \$50 million to Asia Alternatives Capital Partners V, L.P. and (ii) \$50 million to Penn Asia Investors, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as follow-on investments 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.

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

Action: 1. Multi-Strategy Interview – Glendon Opportunities Fund II, L.P.

Ms. Kim and Messrs. Felix, Elio and Barrett presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 11).

MOTION: 2017-54

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

RESOLVED: That the board orders to commit up to \$150 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Glendon Opportunities Fund II, L.P., as an investment within the Multi-Strategy 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. Multi-Strategy Recommendation for Future Interview: TPG-TSSP Adjacent Opportunities Fund IV
Messrs. Felix, Elio and Meads presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 4).

It was the consensus of the board to interview representatives of this manager at the September 13, 2017, board meeting.

H. EXECUTIVE SESSION

Presentation: 1. Agenda

At 12:07 p.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.

I. LUNCH BREAK

J. PUBLIC MEETING RESUMES

The public meeting resumed at 2:30 p.m.

K. REPORT FROM CHIEF FINANCIAL OFFICER

Presentation: 1. Budget Update

Mr. Faiola presented the report provided to the board (7/26/2017 Board Package, Administrative Report, Tab 13).

Presentation: 2. Future Changes to Rate of Return Discussion

Mr. Faiola presented the report provided to the board (7/26/2017 Board Package, Administrative Report, Tab 13).

L. INVESTMENT MANAGER UPDATE

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

MOTION: 2017-55

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

RESOLVED: That the board orders to approve the orderly liquidation and transition of 100 percent of the assets managed by Forest Investment Associates L.P. to the Cash portfolio as soon as practicably possible. Upon completion of the liquidation and transition of the assets from the aforementioned account, SERS' relationship with Forest Investment Associates will terminate.

Action: 2. The following action was a result of discussion in executive session.

MOTION: 2017-56

By motion that was moved, seconded, and approved by board members, except Mr. Becker and Treasurer Torsella, who voted NO, it was

RESOLVED: That the board orders to redeem \$200 million from the Cash portfolio and transition the assets to the Mellon Capital Management Russell 3000 Index portfolio within the Multi-Strategy asset class.

M. DILWORTH PAXSON REPORT

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

MOTION: 2017-57

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

RESOLVED: That the board orders to accept, upon recommendation from the Audit Committee, Dilworth Paxson's report, dated July 26, 2017, on the review of any non-compliance with laws and regulations committed by SERS, or any of its agents or employees having been the subject of certain court filings and trial testimony in the matter of *United States v. Ireland*, U.S. Dist. Ct., M.D. Pa., No. 1:16-cr-203.

N. BOARD GOVERNANCE PROJECT

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

MOTION: 2017-58

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

RESOLVED: That the board orders to (1) refer to the Audit Committee (a) the Draft Foundational Governance Policy Manual (including by-laws, board committee charters, policies, processes and standards as currently drafted) ("Policy Manual"); (b) the report of Dilworth Paxson, dated July 26, 2017; (c) the final Performance Audit Report of the State Employees' Retirement System prepared by the Pennsylvania Department of Auditor General after it has been issued; and (d) any comments made and revisions or amendments suggested by all board members regarding the contents of the Policy Manual; and (2) charge the Audit Committee with making recommendations to the board (a) for amendments to the Policy Manual, and (b) for any changes in the practices and procedures of the board or the State Employees' Retirement System that may be made outside of the scope of the Policy Manual in response to the material referred to the committee.

O. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND NEPC, LLC

Presentation: 1. Real Estate Semi-Annual Performance Report (as of December 31, 2016)
Messrs. Greenberg, Ritter and Yang presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 12).

Presentation: 2. Real Estate Asset Class Review

Messrs. Greenberg, Ritter and Yang presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tab 13).

Presentation: 3. Real Estate Recommendations for Future Interviews:

SRE Opportunity Fund III, L.P.

C-III Recovery Fund III, L.P.

Blackstone Property Partners, L.P.

Messrs. Greenberg, Ritter and Yang presented the report provided to the board (7/26/2017 Board Package, Investment Report, Tabs 5, 6 and 7).

It was the consensus of the board to interview representatives of these managers at the September 13, 2017, board meeting.

P. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Board Adjudication

Mr. Durbin provided the board with the following information on the results of the notational ballots regarding Board Adjudication.

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

The State Employees' Retirement Board unanimously **DENIED** the requests of Claimant, Thomas K. Hamilton, and Intervenor, Audrey Williamson, to receive a death benefit of Robert Kinser. The board **AFFIRMS** the payment of the death benefit to Michael J. Connors.

Presentation: 2. Administrative Update – Board Education Policy

Mr. Durbin noted that the report was provided to the board (7/26/2017 Board Package, Administrative Report, Tab 8 and board handouts). He also noted that Act 2017-5 has modified Section 5901(f) of the Retirement Code to require each board member to participate in investment, actuarial costs and retirement portfolio education and training. Ms. Patti Dence was introduced as the manager of the program.

MOTION: 2017-59

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

RESOLVED: That the board orders to adopt the Board Education Policy, 2017 POL-BD-06.

Presentation: 3. Legislative Update

Mr. Durbin noted that the report was provided to the board (7/26/2017 Board Package, Administrative Report, Tab 9 and board handouts).

Presentation: 4. Audit Committee Meeting Minutes – June 14, 2017

Mr. Durbin noted that the Audit Committee meeting minutes were provided to the board (7/26/2017 Board Package, Administrative Report, Tab 10).

Presentation: 5. Deferred Compensation Program Committee Meetings Minutes – June 13 and July 12, 2017

Mr. Durbin noted that the Deferred Compensation Program Committee meetings minutes were provided to the board (7/26/2017 Board Package, Administrative Report, Tab 11).

Q. OCTOBER 25, 2017 BOARD MEETING RESCHEDULED

Chairman Fillman announced that it was necessary to reschedule the October 25, 2017, board meeting to November 1, 2017.

R. NEXT BOARD MEETING – SEPTEMBER 13, 2017

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for September 13, 2017.

S. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2017-60

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 3:38 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES

Meeting: July 26, 2017

Executive Session

1. Notational Ballots

Account of Barbara J. Dunseath
Docket No. 2015-20
Claim of Barbara J. Dunseath

Account of Diane Zeglen
Docket No. 2015-09
Claim of Diane Zeglen

2. Request for Oral Argument

Account of Willis W. Berry, Jr.
Docket No. 2016-03
Claim of Willis W. Berry, Jr.

3. Securities Litigation

4. Fund Update

5. Investment Manager Update

6. Dilworth Update

7. Independent Audit Update

8. Governance Update