

MINUTES of SERS Board Regular Meeting - Wednesday, September 13, 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
Charles T. McIlhinney, Jr.
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.
Jeff Wheeland – Designee for Representative Robert W. Godshall

Consultants

Michael Elio, StepStone Group L.P.
Anthony Johnson, RVK, Inc.
Jonathan Kowolik, RVK, Inc.
Mikaylee O'Connor, RVK, Inc.
Matt Roche, StepStone Group L.P.
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
Lena Bickle
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Myisha Ebersole
Linda Engle
Brittany Erney-Muniz
David Felix

Phillip Greenberg
Pamela Hile
Barbara Kiral
Cheryl Krchnar
Karen Lynn
Jeffrey McCormick
Matthew Meads
Jeffrey Meyer
E. James Moreno
James Nolan
Jay Pagni
Steven Shaffer
Sharon Smith
Joseph Torta
William Truong
Sheila Willrich

Visitors

Chris Ade, Lord, Abbett & Co., LLC
Sarah Emmans, PA Treasury Department
Edward Feuer, Pew Charitable Trusts
Jim Kane, Unite Here
Michele Kreisler, PA Treasury Department
Michael Lowenthal, Pew Charitable Trusts
Robert W. O'Donnell, Weaver Barksdale & Associates, Inc.
Elizabeth Pettis, PA Office of General Counsel
Elise Yoder, PA Joint State Government Commission

Presenters

A. J. Agarwal, Blackstone Property Partners L.P.
Andrew Carr, C-III Recovery Fund III L.P.
Michael Casey, Blackstone Property Partners L.P.
Sean Cunningham, GTCR Fund XII L.P.
Brian D'Arcy, TSSP Adjacent Opportunities Partners, L.P.
Joshua Easterly, TSSP Adjacent Opportunities Partners, L.P.
Andrew Farkas, C-III Recovery Fund III L.P.
Robert Lieber, C-III Recovery Fund III L.P.
Ahsha Merson, TSSP Adjacent Opportunities Partners, L.P.
Seth Singerman, SRE Opportunity Fund III, L.P.
Kiley Stevenson, SRE Opportunity Fund III, L.P.

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A. STANDARD MOTIONS

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

Chairman Fillman presented the minutes provided to the board (9/13/2017 Board Package, Administrative Report, Tab 2).

MOTION: 2017-61

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

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

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

Chairman Fillman presented the report provided to the board (9/13/2017 Board Package, Administrative Report, Tab 3).

MOTION: 2017-62

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 June 30 and July 31, 2017.

B. RESIGNATION OF BOARD MEMBER MR. MICHAEL V. PUPPIO, JR.

Presentation: 1. Resignation of Mr. Michael V. Puppio, Jr.

Chairman Fillman announced that due to professional obligations, it was necessary for Mr. Puppio to resign from the board. With the implementation of Act 2017-5, the Secretary of Banking and Securities is appointed to membership of the SERS board, which takes effect when the first of the six governor-appointed seats becomes vacant.

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

Presentation: 1. Capital Markets Report

Mr. Voytko presented the report provided to the board (9/13/2017 board handouts).

Presentation: 2. SERS Quarterly Performance Report (as of June 30, 2017)

Mr. Voytko presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 7).

Action: 1. Public Markets Discussion

Messrs. Nolan, Truong and Voytko presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 2).

MOTION: 2017-63

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

RESOLVED: That the board approves to reallocate \$200 million from cash to the Mellon Capital Management U. S. Aggregate Bond Index within the Fixed Income asset class.

Action: 2. Transition Manager Discussion

Messrs. Nolan, Truong, Voytko and Kowolik presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 4).

MOTION: 2017-64

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

RESOLVED: That the board orders to (i) retain Northern Trust as the incumbent transition manager and (ii) hire the following transition managers for optional use by SERS during portfolio restructuring: Loop Capital Markets; Penserra; and Russell Investments 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: 3. Asset Allocation Discussion

Messrs. Nolan, Truong, Voytko and Johnson presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 3).

D. Treasurer Presentations and Motions

Action: 1. Treasurer Torsella presented background information for the following motions to the SERS board.

MOTION: 2017-65

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

RESOLVED: That the board directs the SERS Investment Office and its general consultant to present to the board for adoption, on or before December 6, 2017, a three-year plan to reduce the total investment fees paid to external managers, to be measured by basis points as a percentage of total fund assets by a specified percentage over a three-year period.

MOTION: 2017-66

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

RESOLVED: That the board directs the SERS Investment Office, in cooperation with its counterpart at the Public School Employees' Retirement System and an independent and expert consultant, to identify opportunities for operational consolidation and contracting cost savings and to present to the board, within six months, a comprehensive report that identifies, without limitation, common operations, similar professional service contracting, shared Act 5 implementation mandates, and redundancies in investment and back office support operations among the pension systems that may be consolidated or more efficiently managed and to quantify potential cost savings within the System's investment operations.

MOTION: 2017-67

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

RESOLVED: That the board directs the Administrative Staff and the Deferred Compensation program provider to develop a comprehensive plan to increase the participation rate among active state workers and to identify the steps necessary to open the program to public employees of political subdivisions within the Commonwealth, including, without limitation, permitting the SERS administered plan to be adopted by local governments as the plan to offer their employees. The comprehensive plan shall be presented to the board, within three months, for consideration and adoption.

E. SERS 457 Deferred Compensation Plan: SERS OFFICE OF FINANCE AND ADMINISTRATION AND RVK, INC.

Presentation: 1. SERS 457 Deferred Compensation Plan Quarterly Investment Performance Analysis (as of June 30, 2017)

Ms. O'Connor and Mr. Nolan presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 8).

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

Action: 1. Private Equity Interview – GTCR Fund XII L.P.

Messrs. Felix, Elio and Cunningham presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 9).

MOTION: 2017-68

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

RESOLVED: That the board orders to commit up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents to GTCR Fund XII 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 Recommendation for Future Interview: Clearlake Capital Partners V, L.P.

Messrs. Felix and Elio presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 5).

It was the consensus of the board to interview representatives of this manager at the November 1, 2017, board meeting.

G. EXECUTIVE SESSION

Presentation: 1. Agenda

At 12:14 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.

H. LUNCH BREAK

I. PUBLIC MEETING RESUMES

The public meeting resumed at 1:00 p.m.

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

Action: 2. Multi-Strategy Interview – TSSP Adjacent Opportunities Partners, L.P.

Ms. Merson and Messrs. Felix, Meads, Elio, D'Arcy and Easterly presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 10).

MOTION: 2017-69

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 TSSP Adjacent Opportunities Partners, 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.

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

Action: 1. Real Estate Interview: SRE Opportunity Fund III, L.P.

Ms. Stevenson and Messrs. Greenberg, Yang and Singerman presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 11).

MOTION: 2017-70

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 SRE Opportunity Fund III, L.P. and (ii) \$50 million in co-investments alongside SRE Opportunity Fund III, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as investments within the Real Estate 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. Real Estate Interview: C-III Recovery Fund III L.P.

Messrs. Greenberg, Yang, Farkas, Carr and Lieber presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 12).

MOTION: 2017-71

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 C-III Recovery Fund III L.P., as an investment within the Real Estate 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. Real Estate Interview: Blackstone Property Partners L.P.

Messrs. Greenberg, Yang, Casey and Agarwal presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 13).

MOTION: 2017-72

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

RESOLVED: That the board orders to commit up to \$300 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Blackstone Property Partners L.P., as an investment within the Real Estate 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.

K. REPORT FROM CHIEF FINANCIAL OFFICER

Action: 1. Fiscal Year 2018-19 SERB Budgets Proposals

Mr. Faiola presented the report provided to the board (9/13/2017 Board Package, Administrative Report, Tab 12).

MOTION: 2017-73

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

RESOLVED: That the board orders to approve the SERS' Administrative Budget for Fiscal Year 2018-19, the SERS' Investment Budget for Fiscal Year 2018-19, and the 401(a) State Employees' Defined Contribution Plan Budget for Fiscal Year 2018-19 substantially in the form proposed with such amendments as are permitted by the Office of the Budget. The details of the proposed budgets are included in the memo "Re: Office of Finance and Administration Update" from the Chief Financial Officer to the State Employees' Retirement Board dated September 6, 2017, that was included in the board package.

L. INSTITUTIONAL LIMITED PARTNERS ASSOCIATION (ILPA) DISCUSSION

Presentation: 1. ILPA Discussion

Messrs. Elio and Felix presented the report provided to the board (9/13/2017 Board Package, Investment Report, Tab 6).

M. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Publication of Board Agenda and Sign-up for SERS Emails

Mr. Durbin noted that the board agenda would now be published on the Monday afternoon prior to the board meeting. Also, at the board members' seats, a tent card is provided for members to sign-up for automatic emails to receive SERS news releases and agendas (9/13/2017 board handouts).

Presentation: 2. Board Adjudications

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

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

The State Employees' Retirement Board unanimously **GRANTED** SERS' Motion to Dismiss and **DISMISSED with PREJUDICE** Claimant's appeal of the denial of her request to receive disability retirement benefits.

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

The State Employees' Retirement Board **DENIED** Claimant's appeal of the denial of her request to receive disability retirement benefits.

Presentation: 3. Board Dismissal

Mr. Durbin presented the report regarding uncontested matters that an Order was issued dismissing the following administrative appeal, as provided to the board (9/13/2017 Board Package, Administrative Report, Tab 8).

Account of Frank G. Regan
Docket No. 2017-04
Claim of Frank G. Regan

Presentation: 4. Administrative Update

Mr. Durbin noted that the report was provided to the board (9/13/2017 Board Package, Administrative Report, Tab 9).

Presentation: 5. Audit Committee Meetings Minutes – July 17, July 26 and August 2, 2017

Mr. Durbin noted that the Audit Committee meeting minutes were provided to the board (9/13/2017 Board Package, Administrative Report, Tab 10).

Presentation: 6. DRAFT 2018 Board Meeting Dates

Mr. Durbin noted that the report was provided to the board (9/13/2017 board handouts) and board members should contact the Executive Office with any conflicts that the proposed dates present before the schedule is finalized at the November 1, 2017, board meeting.

Presentation: 7. Departure of SERS Director of Communications and Policy, Mr. Jay Pagni

Mr. Durbin noted that Mr. Pagni is leaving SERS effective September 15, 2017, and thanked him for his service.

N. NEXT BOARD MEETING – NOVEMBER 1, 2017

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for November 1, 2017

O. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2017-74

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 2:40 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES

Meeting: September 13, 2017

1. Notational Ballots

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

2. Pending Litigation Report

3. Securities Litigation

4. Fund Update