

MINUTES of SERS Board Regular Meeting – Wednesday, July 25, 2018

CALLED TO ORDER: 9:00 a.m. by Chairman David R. Fillman

ATTENDEES:

Members and Designees

David R. Fillman – Chairman
Stephen S. Aichele
Glenn E. Becker
Vincent J. Hughes
Mary A. Soderberg
Robin L. Wiessmann
Thomas Clancy – Designee for Treasurer Joseph M. Torsella
Toni Marchowsky – Designee for Senator Vincent J. Hughes
Dan Ocko – Designee for Representative Dan B. Frankel
Leo Pandeladis – Designee for Secretary Robin L. Wiessmann
Monica Riddle – Designee for Senator Charles T. McIlhinney, Jr.
Ned Smith – Designee for Representative Robert W. Godshall

Consultants

Michael Elio, StepStone Group LP
Kristin Finney-Cooke, NEPC, LLC
Craig Graby, Korn Ferry Hay Group
Anthony Johnson, RVK, Inc.
Kyuman Lee, Korn Ferry Hay Group
Brent Mowery, Korn Ferry Hay Group
Mikaylee O'Connor, RVK, Inc.
Matthew Ritter, NEPC, LLC
Matt Roche, StepStone Group LP
Jim Voytko, RVK, Inc.
Michael Yang, NEPC, LLC

Executive Staff

Anthony Faiola
Bryan Lewis
N. Joseph Marcucci
Terrill Sanchez

Staff

Rose Agnew
Stephen Balucha
Myisha Ebersole
Linda Engle
David Felix
Jason Giurintano

Phillip Greenberg
Daniel Hibshman
Pamela Hile
Christopher Houston
Khalfani King
Barbara Kiral
Karen Lynn
Katie Mathews
Jeffrey McCormick
Matthew Meads
Ryan Morse
James Nolan
M. Catherine Nolan
Kathleen Ryan
David Sedlak
Sharon Smith
David Tarsi
William Truong
Carly Wismer

Visitors

Chris Ade, Lord, Abbett & Co. LLC
James Bloom, Public Pension Management and Asset Investment Review Commission
Skip Corkran, Macquarie Investment Management
Britt Erney-Muniz, PA Office of General Counsel
Alan Flannigan, PA Dept. of Banking & Securities
Khalil Gray, Toys R Us
Kireem Hudson, Toys R Us
Jared Knotte, PA Treasury
Michele Kreisler, PA Treasury
Matt Lindsay, Office of Senator Vincent J. Hughes
Leewana Thomas, Rise Up Retail

Presenters

Lisa Bowman, BlackRock Institutional Trust Company, N.A.
Alex Casale, Audax Direct Lending Solutions Fund, L.P. and Audax Private Equity Fund VI, L.P.
Jay Hoag, TCV X, L.P.
Kevin Magid, Audax Direct Lending Solutions Fund, L.P.
Nick Nefouse, BlackRock Institutional Trust Company, N.A.
Geoff Rehnert, Audax Direct Lending Solutions Fund, L.P. and Audax Private Equity Fund VI, L.P.
Nathan Sanders, TCV X, L.P.
Allen Thorpe, Hellman & Friedman Capital Partners IX, L.P.
Lisa Vincent, BlackRock Institutional Trust Company, N.A.

MINUTES of the SERS Board Regular Meeting Wednesday, July 25, 2018

A. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – June 13, 2018

Chairman Fillman presented the minutes provided to the board (7/25/2018 Board Package, Administrative Report, Tab 2).

MOTION: 2018-43

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

RESOLVED: That the board approves the minutes of the June 13, 2018, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for the Periods Ending – April 30 and May 31, 2018

Chairman Fillman presented the report provided to the board (7/25/2018 Board Package, Administrative Report, Tab 3).

MOTION: 2018-44

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 April 30 and May 31, 2018.

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

Presentation: 1. Fixed Income Education Session

Messrs. Meads, Johnson and Voytko presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 2 and board handouts).

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

Presentation: 1. Emerging Markets Equity Discussion

Messrs. Nolan, Truong, Johnson and Voytko presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 3).

MOTION: 2018-45

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

RESOLVED: That the board approves the contribution of an additional \$100 million to each of the Macquarie Group Emerging Markets portfolio and the Martin Currie Emerging Markets portfolio. Funding for both portfolios will be from the BlackRock World ex U.S. Index Fund and/or SERS' cash account (as needed).

D. SERS' Actuary, Korn Ferry Hay Group

Action: 1. Certify Assumed Rate

Messrs. Mowery, Graby, Lee and Voytko presented the report provided to the board (7/25/2018 Board Package, Administrative Report, Tab 14).

MOTION: 2018-46

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

RESOLVED: That the board orders to leave unchanged the current annual assumed rate of investment return and assumed rate of inflation, and to adopt an annual assumed rate of investment return of 7.25% compounded annually and an annual assumed rate of inflation of 2.60% compounded annually, with both assumptions to be effective with the December 31, 2018, Actuarial Valuation and remain in effect until further changed by the board.

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

Action: 1. Multi-Strategy Interview – Audax Direct Lending Solutions Fund, L.P.

Messrs. Felix, Morse, Elio, Roche, Casale, Rehnert and Magid presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 10).

MOTION: 2018-47

By motion that was moved, seconded, and approved by board members, except Mr. Clancy, designee for Treasurer Torsella, and Secretary Wiessmann, who voted NO, 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 Audax Direct Lending Solutions Fund, 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.

Action: 2. Private Equity Interview – Audax Private Equity Fund VI, L.P.

Messrs. Felix, Morse, Elio, Roche, Casale and Rehnert presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 12).

MOTION: 2018-48

By motion that was moved, seconded, and approved by board members, except Mr. Clancy, designee for Treasurer Torsella, and Secretary Wiessmann, who voted NO, it was

RESOLVED: That the board orders to commit up to \$75 million to Audax Private Equity Fund VI, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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: 3. Private Equity Interview – Hellman & Friedman Capital Partners IX, L.P.

Messrs. Felix, Morse, Elio, Roche and Thorpe presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 13).

MOTION: 2018-49

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

RESOLVED: That the board orders to commit up to \$100 million to Hellman & Friedman Capital Partners IX, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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: 4. Private Equity Interview –TCV X, L.P.

Messrs. Felix, Morse, Elio, Roche, Sanders and Hoag presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 14).

MOTION: 2018-50

By motion that was moved, seconded, and approved by board members, except Secretary Wiessmann, who voted NO, and Mr. Clancy, designee for Treasurer Torsella, who recused himself because it was not clear whether this firm created value through public or private market investments, it was

RESOLVED: That the board orders to commit up to \$75 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to TCV X, 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.

Presentation: 1. Private Equity Recommendations for Future Interviews –Vista Equity Partners VII, L.P. and NGP Natural Resources Fund XII, L.P.

Messrs. Felix, Morse, Elio and Roche presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tabs 6 and 7).

It was the consensus of the board to interview representatives of these managers at the September 12, 2018, board meeting.

F. EXECUTIVE SESSION

Presentation: 1. Agenda

At 1:05 p.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as provided in ATTACHMENT A.

G. LUNCH BREAK

H. PUBLIC MEETING RESUMES

The public meeting resumed at 2:50 p.m.

E. (continued) Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP LP

Presentation: 2. Private Equity Semi-Annual Performance Report (as of December 31, 2017)
Messrs. Elio and Felix presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 11).

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

Action: 1. 401(a) Defined Contribution Plan Investment Manager Search Presentation

Ms. O'Connor and Messrs. Nolan and Truong presented the reports provided to the board (7/25/2018 Board Package, Investment Report, Tab 4).

MOTION: 2018-51

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

RESOLVED: That the board hires Mellon Capital Management for the management of the Passive Core Investment Options under the State Employees' Retirement Board's 401(a) defined contribution plan, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within four months. The Passive Core Investment Options shall include the (i) Global Non-U.S. Stock Index, (ii) U.S. All Company Stock Index, (iii) U.S. Large Company Stock Index, (iv) U.S. Small/Mid Company Stock Index, (v) U.S. Treasury Inflation Protected Securities Index, (vi) U.S. Bond Index and (vii) Short-Term Bond index.

MOTION: 2018-52

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

RESOLVED: That the board selects Pennsylvania Treasury for the management of the Short-Term Investment/Money Market Fund under the State Employees' Retirement Board's 401(a) defined contribution plan.

MOTION: 2018-53

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

RESOLVED: That the board hires Charles Schwab & Co. as the Self-Directed Brokerage Options Provider under the State Employees' Retirement Board's 401(a) defined contribution plan and to include Exchange Traded Funds and Mutual Funds to the list of available investments, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within four months.

Action: 2. 401(a) Defined Contribution Plan Target Date Fund Interview

Mses. O'Connor, Bowman and Vincent and Messrs. Nolan, Truong and Nefouse presented the reports provided to the board (7/25/2018 Board Package, Investment Report, Tab 9).

MOTION: 2018-54

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

RESOLVED: That the board hires BlackRock Institutional Trust Company, N.A. to provide and manage the Target Date Funds under the State Employees' Retirement Board's 401(a) defined contribution plan, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within four months.

Action: 3. 457(b) Deferred Compensation Plan Self-Directed Brokerage Account Contract Extension

Ms. O'Connor and Messrs. Nolan and Truong presented the reports provided to the board (7/25/2018 Board Package, Investment Report, Tab 5).

MOTION: 2018-55

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

RESOLVED: That the board approves a renewal of the agreement with Charles Schwab & Co. to continue as the Self-Directed Brokerage Options Provider under the State Employees' Retirement Board's 457(b) deferred compensation plan, and to include Exchange Traded Funds to the list of available investments, subject to successful completion of contract negotiations and execution and

delivery of closing documents by all parties, including required Commonwealth legal approvals, within three months.

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

Presentation: 1. Real Estate Semi-Annual Performance Report (as of December 31, 2017)

Ms. Finney-Cooke and Messrs. Greenberg, Yang and Ritter presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 15).

Action: 1. Real Estate Discussion

Ms. Finney-Cooke and Messrs. Greenberg, Yang and Ritter presented the report provided to the board (7/25/2018 Board Package, Investment Report, Tab 8).

MOTION: 2018-56

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

RESOLVED: That the board approves an orderly liquidation of assets from the following accounts in the Real Estate portfolio, as soon as practicably possible:

- UBS Trumbull Property Fund LP
- UBS Trumbull Property Income Fund LP
- Fidelity Real Estate Opportunistic Income Fund, L.P.

Redemption proceeds shall be directed to SERS' cash account.

MOTION: 2018-57

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

RESOLVED: That the board approves an orderly partial redemption of no more than \$75 million in assets to maintain founder's fees, from the following account in the Real Estate portfolio, as soon as practicably possible:

- Heitman America Real Estate Trust, L.P.

Redemption proceeds shall be directed to SERS' cash account.

K. REPORT FROM INDEPENDENT COUNSEL COMMITTEE

Action: 1. Independent Legal Office Discussion

Ms. Mathews and Messrs. Marcucci and Houston presented the reports provided to the board (7/25/2018 Board Package, Administrative Report, Tab 13 and board handouts).

MOTION: 2018-58

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

RESOLVED: That the board accepts the recommendations of the Independent Counsel Committee to:

1. Delegate to the committee the authority to develop:
 - a. the broad structures and duties of an independent legal office including, the size, the broad internal organization and the major subject matters in which outside counsel are to be retained; taking into consideration the recommendations of the Audit Committee and the decisions by the board concerning the establishment and functions of the Chief Compliance Officer; and
 - b. the process by which the independent legal office is to be initially and ultimately staffed;

2. Engage a consultant, possibly in cooperation with the Public School Employees' Retirement System, to conduct a compensation benchmarking study and to develop mechanisms for periodic lawyer compensation increases and lawyer performance review and evaluation systems;
3. Authorize staff to begin the process of setting up outside counsel relationships, possibly in cooperation with the Public School Employees' Retirement System, so that primary relations on major subject matters are in place on an effective date of an independent legal office; and
4. Authorize staff to begin discussions with the Public School Employees' Retirement System, the General Counsel, the Office of Attorney General and other relevant Commonwealth agencies concerning any and all issues relevant to establishing an independent legal office, including any areas of cooperation.

L. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Administrative Update

Ms. Sanchez noted that the report was provided to the board (7/25/2018 Board Package, Administrative Report, Tabs 7 and 8). Her report expanded on the SERIS 2.0 and ACT 5 projects and the educational opportunities for the board members and their education statements.

Presentation: 2. Legislative Update

Ms. Sanchez noted that the report was provided to the board (7/25/2018 Board Package, Administrative Report, Tab 9). She noted that the Public Pension Management and Asset Investment Review Commission's hearing is Monday, July 30, 2018, and Dr. Ashby Monk, who is assisting the Commission, has requested to interview key staff and board members on August 14, 2018.

Presentation: 3. Audit Committee Meeting Minutes – June 13, 2018

Ms. Sanchez noted that the Audit Committee meeting minutes were provided to the board (7/25/2018 Board Package, Administrative Report, Tab 10).

Presentation: 4. 457 Deferred Compensation Plan Committee Meeting Minutes – July 9, 2018

Ms. Sanchez noted that the 457 DCP Committee meeting minutes were provided to the board (7/25/2018 Board Package, Administrative Report, Tab 11).

Presentation: 5. Independent Counsel Committee Meeting Minutes – July 9, 2018

Ms. Sanchez noted that the Independent Counsel Committee meeting minutes were provided to the board (7/25/2018 Board Package, Administrative Report, Tab 12).

M. REPORT FROM CHIEF INVESTMENT OFFICER

Presentation: 1. Public Pension Plan Fee Reporting Differences

Mr. Lewis noted that the report was provided to the board (7/25/2018 board handouts).

N. NEXT BOARD MEETING – September 12, 2018

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for September 12, 2018.

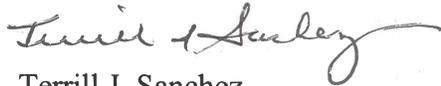
O. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2018-59

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 5:10 p.m.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES

Meeting: July 25, 2018

Executive Session

1. Fund Update
2. Private Equity Monitoring Summary and Core Portfolio Performance Assessment
3. Pending Benefits and Administration Litigation Update
4. Fiduciary Responsibilities Discussion