

MINUTES of SERS Board Regular Meeting – Wednesday, December 5, 2018

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
Charles T. McIlhinney, Jr.
T. Terrance Reese
Mary A. Soderberg
Thomas Clancy – Designee for Treasurer Joseph M. Torsella
Bernie Gallagher – Designee for Representative Dan B. Frankel
Brian LaForme – Designee for Secretary Robin L. Wiessmann
Toni Marchowsky – Designee for Senator Vincent J. Hughes
Dan Ocko – Designee for Representative Dan B. Frankel
Leo Pandeladis – Designee for Secretary Robin L. Wiessmann
Ned Smith – Designee for Representative Robert W. Godshall

Consultants

John Fellin, Empower Retirement
Craig Graby, Korn Ferry Hay Group
Anthony Johnson, RVK, Inc.
Brent Mowery, Korn Ferry Hay Group
Mikaylee O'Connor, RVK, Inc.
Matthew Ritter, NEPC, LLC
Matt Roche, StepStone Group LP
Kris Seets, Korn Ferry Hay Group
Jim Voytko, RVK, Inc.

Executive Staff

Anthony Faiola
Bryan Lewis
N. Joseph Marcucci
Terrill Sanchez

Staff

Rose Agnew
Stephen Balucha
Dhanashree Chitnis
Thomas Derr
Myisha Ebersole

Linda Engle
David Felix
Brian Gilroy
Jason Giurintano
Phillip Greenberg
Suzanne Hansel
Pamela Hile
Benjamin Holmes
Christopher Houston
Kevin Kiehl
Khalfani King
Barbara Kiral
Karen Lynn
Katie Mathews
Jeffrey McCormick
Ryan McCoy
Matthew Meads
Jeffrey Meyer
James Nolan
Joel Rimby
David Sedlak
Sharon Smith
Bruce Thomas
Joseph Torta
William Truong

Visitors

Chris Ade, Lord, Abbett & Co. LLC
James Bloom, Public Pension Management and Asset Investment Review Commission
Alan Flannigan, PA Dept. of Banking & Securities

Presenters

Lesley Nettles, Fairview
Kolawole Olofinboba, Fairview
JoAnn Price, Fairview
Peter Ruchwa, Fairview

MINUTES of the SERS Board Regular Meeting Wednesday, December 5, 2018

Chairman Fillman noted that today was a National Day of Mourning honoring President George H. W. Bush and began the meeting with a moment of silence in his honor.

A. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – October 24, 2018

Chairman Fillman presented the minutes provided to the board (12/5/2018 Board Package, Administrative Report, Tab 2).

MOTION: 2018-85

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

RESOLVED: That the board approves the minutes of the October 24, 2018, board meeting.

Action: 2. Minutes of Board Special Meeting – November 19, 2018

Chairman Fillman presented the minutes provided to the board (12/5/2018 Board Package, Administrative Report, Tab 3).

MOTION: 2018-86

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

RESOLVED: That the board approves the minutes of the November 19, 2018, board special meeting.

Action: 3. Statement of Changes in Fiduciary Net Position for the Period Ended – September 30, 2018

Chairman Fillman presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 4).

MOTION: 2018-87

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 ended September 30, 2018.

Action: 4. 457 Deferred Contribution Plan (DCP) 3rd Quarter Statement of Changes Report

Chairman Fillman presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 5).

MOTION: 2018-88

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

RESOLVED: That the board accepts the State Employees' Retirement Board's Internal Revenue Code § 457 Deferred Compensation Plan's Statement of Changes in Fiduciary Net Position for the quarter ended September 30, 2018.

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

Presentation: 1. SERS Quarterly Performance Analysis (as of September 30, 2018)

Messrs. Lewis, Johnson and Voytko presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tab 6).

Presentation: 2. SERS Deferred Compensation Program Quarterly Investment Performance Analysis (as of September 30, 2018).

Ms. O'Connor and Mr. Nolan presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tab 7).

Action: 1. 401(a) Defined Contribution Plan Annuity Provider Selection

Ms. O'Connor and Mr. Nolan presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tab 8).

MOTION: 2018-89

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

RESOLVED: That the board orders to select Metropolitan Life Insurance Company as the annuity payment option provider under the 401(a) Defined Contribution Plan, subject to (i) pending completion of due diligence, (ii) successful completion of contract negotiations and (iii) execution and delivery of closing documents by all parties, including required Commonwealth legal approvals.

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE

Presentation: 1. Fairview Transition Update

Mses. Price and Nettles and Messrs. Lewis, Felix, Olofinboba and Ruchwa presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tab 10).

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

Presentation: 1. Real Estate Semi-Annual Performance Report (as of June 30, 2018)

Messrs. Greenberg, Meads and Ritter presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tab 9).

Presentation: 2. Real Estate Recommendations for Future Interviews – PGIM Senior Housing Partnership Fund VI, L.P. and Henderson Park Enhanced Income Fund

Messrs. Greenberg, Meads and Ritter presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tabs 2 and 3).

It was the consensus of the board to interview representatives of these managers at the February 2019, board meeting.

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

Presentation: 1. Multi-Strategy Hedge Fund Recommendations for Future Interviews – PAAMCO-Prisma Apex Credit and Pine Street Fund II

Messrs. Lewis, Johnson and Voytko presented the report provided to the board (12/5/2018 Board Package, Investment Report, Tabs 4 and 5).

It was the consensus of the board to interview representatives of these managers at the February 2019, board meeting.

F. RECOGNITION FOR BOARD MEMBER CHARLES T. MCILHINNEY, JR.

MOTION: 2018-90

By motion of Chairman Fillman, the board unanimously agreed to recognize Senator Charles T. McIlhinney, Jr. with a board resolution, read by Executive Director Terrill Sanchez, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT A).

Chairman Fillman thanked Senator McIlhinney for his approachability he has shown over the course of his terms on the board.

The board recognized, Ms. Monica Riddle, designee to Senator McIlhinney, with a board resolution (ATTACHMENT B).

G. EXECUTIVE SESSION

Presentation: 1. Agenda

At 12:35 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 C.

H. LUNCH BREAK**I. PUBLIC MEETING RESUMES**

The public meeting resumed at 1:38 p.m.

J. Investment Presentations and Reviews: SERS INVESTMENT OFFICE

Action: 1. General Consultant Selection

The following motions are a result of discussion in Executive Session.

MOTION: 2018-91

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

RESOLVED: That the board orders to hire Callan LLC to act as the State Employees' Retirement Board's non-discretionary general investment consultant for its 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.

MOTION: 2018-92

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

RESOLVED: That the board orders to hire Callan LLC to act as the State Employees' Retirement Board's non-discretionary general investment consultant for its Defined Benefit Plan, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals.

MOTION: 2018-93

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

RESOLVED: That the board orders to hire Callan LLC to act as the State Employees' Retirement Board's non-discretionary general investment consultant for its 457(b) Deferred Compensation Plan, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals.

K. EDUCATION SESSION – KORN FERRY HAY GROUP, SERS' ACTUARY

Presentation: 1. Understanding the Risks for Pension Systems

Messrs. Mowery, Graby and Seets presented the education session provided to the board (12/5/2018 Board handouts).

L. REPORT FROM PERSONNEL COMMITTEE

Action: 1. Compensation Policy for Investment Professional Staff – State Employees' Retirement System

Ms. Mathews presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 15).

MOTION: 2018-94

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

RESOLVED: That the board orders to accept the recommendation of the Personnel Committee to adopt the amendments to the *Compensation Policy for Investment Professional Staff – State Employees' Retirement System*, effective January 1, 2019.

See ATTACHMENT D for the *Compensation Policy for Investment Professional Staff – State Employees' Retirement System*, effective January 1, 2019.

Action: 2. Aggregate Pay Increase Budget

Ms. Mathews presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 15).

MOTION: 2018-95

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

RESOLVED: That the board orders to accept the recommendation of the Personnel Committee to approve the annual aggregate pay increase budget for 2019 to be set at 5% of salary for investment professional staff for positions below that of the Chief Financial Officer and the Chief Investment Officer, whose pay increases will be determined in accordance with the *Compensation Policy for Investment Professional Staff – State Employees' Retirement System*.

See ATTACHMENT E for the 2019 Pay Band.

Action: 3. Performance Review Process – SERS Executive Director

Ms. Mathews presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 15).

MOTION: 2018-96

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

RESOLVED: That the board orders to accept the recommendation of the Personnel Committee to adopt the amendments to the *Performance Review Process – SERS Executive Director*, effective January 1, 2019.

See ATTACHMENT F for the *Performance Review Process – SERS Executive Director*, effective January 1, 2019.

Action: 4. Performance Review Process – SERS Chief Investment Officer

Ms. Mathews presented the report provided to the board (12/5/2018 Board Package, Administrative Report, Tab 15).

MOTION: 2018-97

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

RESOLVED: That the board orders to accept the recommendation of the Personnel Committee to adopt the *Performance Review Process – SERS Chief Investment Officer*, effective January 1, 2019.

See ATTACHMENT G for the *Performance Review Process – SERS Chief Investment Officer*, effective January 1, 2019.

M. GOVERNANCE PROJECT

Action: 1. Board Self-Assessment and Review of Its Fiduciary and Governance Practices

Mr. Houston presented the report provided to the board (12/5/2018 Board Package, Legal Report, Tab 2).

MOTION: 2018-98

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

RESOLVED: That the board orders to adopt the following Governance Policy Manual documents, as set forth in the attachments, effective immediately:

- Board Self-Assessment Policy (ATTACHMENT H)
- Fiduciary Review Policy (ATTACHMENT I)

N. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Board Adjudications

Ms. Sanchez provided the board with the following information on the results of the notational ballots regarding Board Adjudications.

Account of Andrew S. Miller**Docket No. 2018-07****Claim of Andrew S. Miller**

The State Employees' Retirement Board has **GRANTED** SERS' Motion to Dismiss and **DISMISSED WITH PREJUDICE** Claimant's appeal of the denial of his request to file a post-termination disability annuity application.

Account of Richard Boyd (Dec'd)**Docket No. 2018-03****Claim of Melvin Olinger, Trustee to Richard J. Boyd Trust**

The State Employees' Retirement Board has **GRANTED** SERS' Motion to Dismiss and **DISMISSED WITH PREJUDICE** Claimant's appeal of the denial of his request to rollover a death benefit to an IRA despite the death benefit having been paid to the Boyd Trust.

Presentation: 2. Administrative Update

Ms. Sanchez noted that the report was provided to the board (12/5/2018 board handouts). The increased preparations for Act 2017-5 continue and overtime has been authorized for a January 1, 2019, implementation date.

Another Public Pension Management and Asset Investment Review Commission (PPMAIRC) hearing is scheduled for December 12, 2018. Information will be provided as a PPMAIRC final report is anticipated to be released. Ms. Sanchez noted that educational credits are being offered for viewing the PPMAIRC video recordings.

The House budget hearing for SERS is potentially scheduled for the week of February 11, 2019.

The initial board motion for the Independent Legal Counsel (Motion 2018-75) needs to be amended to reflect the usage of the standard employee performance review system for management employees rather than the Office of Chief Counsel's rating system due to the considerable amount of IT and personnel effort, and a substantial licensing fee, necessary to use the OGC system .

MOTION: 2018-99

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

RESOLVED: That the board orders to amend Motion 2018-75 and substitute item #4 to read, as follows:

4. Grant salary increases at the time and in the amounts that match the salary increases granted by the General Counsel that the lawyers would have received had the board not established an independent legal office; and that the Board adopt the employee performance review forms and standards for most other SERS management employees for its lawyers; and

Presentation: 3. Legislative Update

Ms. Sanchez noted that the report was provided to the board (12/5/2018 Board Package, Administrative Report, Tab 12).

Presentation: 4. 457 DCP Committee Meeting Minutes – November 19, 2018

Ms. Sanchez noted that the 457 DCP Committee meeting minutes were provided to the board (12/5/2018 Board Package, Administrative Report, Tab 13).

Presentation: 5. Personnel Committee Meeting Minutes – November 19, 2018

Ms. Sanchez noted that the Personnel Committee meeting minutes were provided to the board (12/5/2018 Board Package, Administrative Report, Tab 14).

Presentation: 6. FINAL 2019 Board Meeting Dates

Ms. Sanchez noted that the schedule was provided to the board (12/5/2018 Board Package, Administrative Report, Tab 11). The 2019 board meeting dates are as follows: February 27-28; April 23-24; June 13-14; July 30-31; September 24-25; and December 3-4. A retreat is scheduled for March 11-12. She noted that board committee assignments will occur soon.

O. NEXT BOARD MEETING – February 27-28, 2019

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for February 27-28, 2019.

P. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2018-100

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 3:31 p.m.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

**Commonwealth of Pennsylvania
State Employees' Retirement System**



RESOLUTION

***WHEREAS**, Senator Charles T. McIlhinney, Jr. is culminating a distinguished public service career as the State Senator representing the citizens of the 10th Legislative District since 2006; and*

***WHEREAS**, Senator McIlhinney has served on the State Employees' Retirement Board for nine years, having first been appointed by the President Pro Tempore effective February 19, 2009, and has also served as a member of the Personnel Committee; and*

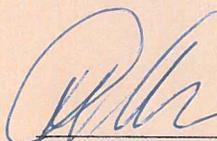
***WHEREAS**, throughout his tenure on the SERS Board Senator McIlhinney has conscientiously served the Board by sharing his knowledge and insights deriving from his public service, his community and his legislative leadership experience; and*

***WHEREAS**, Senator McIlhinney clearly exhibited a strong dedication and genuine concern for the welfare of the SERS Fund and the members of the retirement system; now therefore, be it*

***RESOLVED**, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Senator McIlhinney for his professional excellence and dedication to the System and its members, and wishes him the best of health and happiness in his retirement; and be it further*

***RESOLVED**, That the original resolution be transmitted to Senator McIlhinney, and a copy included in the minutes.*

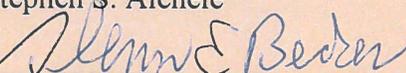
December 5, 2018
Harrisburg, Pennsylvania



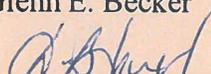
David R. Fillman, Chairman



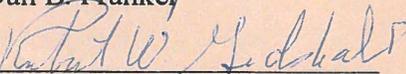
Stephen S. Aichele



Glenn E. Becker

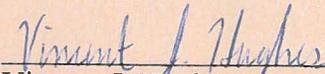


Dan B. Frankel

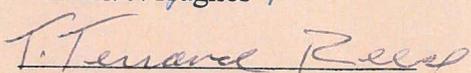


Robert W. Godshall

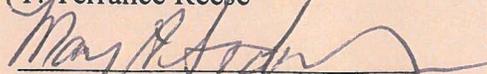




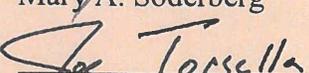
Vincent J. Hughes



T. Terrance Reese



Mary A. Soderberg



Joseph M. Torsella



Robin L. Wiessmann

**Commonwealth of Pennsylvania
State Employees' Retirement System**



RESOLUTION

WHEREAS, Monica Riddle was appointed by Senator Charles T. McIlhinney, Jr. effective October 21, 2009, as his designee to the State Employees' Retirement Board; and she has served faithfully and conscientiously in that capacity; and

WHEREAS, Monica Riddle's work on behalf of the citizens of the 10th Legislative District as an aide to Senator McIlhinney provided the Board with a valuable citizens' perspective of the pension system; and

WHEREAS, Monica Riddle has exhibited a high degree of dedication and diligence to the activities of the Board; and now therefore be it

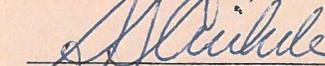
RESOLVED, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Monica Riddle for her professional excellence to the System and its members, and wishes her the best of health, happiness and success in all her future endeavors; and be it further

RESOLVED, That the original resolution be transmitted to Monica Riddle, and a copy included in the minutes.

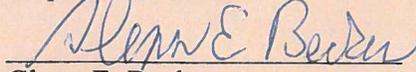
December 5, 2018
Harrisburg, Pennsylvania



David R. Fillman, Chairman



Stephen S. Aichele



Glenn E. Becker

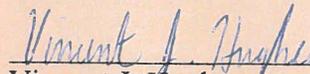


Dan B. Frankel

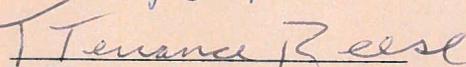


Robert W. Godshall

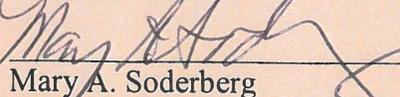




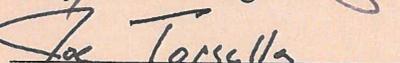
Vincent J. Hughes



T. Terrance Reese



Mary A. Soderberg



Joseph M. Torsella



Robin L. Wiessmann

ATTACHMENT C

EXECUTIVE SESSION MINUTES

Meeting: December 5, 2018

Executive Session

1. Pending Benefits and Administration Litigation Update
2. Fund Update



pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

COMPENSATION POLICY FOR INVESTMENT PROFESSIONAL STAFF

STATE EMPLOYEES' RETIREMENT SYSTEM

Effective January 1, 2017
Amended Effective January 1, 2019

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Compensation Policy for Investment Professional Staff

State Employees' Retirement System

INTRODUCTION

SERS was established by the General Assembly of the Commonwealth of Pennsylvania in 1923. SERS' enabling legislation, the State Employees' Retirement Code, was recodified in 1959 and again in 1974.

The Retirement Code establishes the Board as an independent administrative board, which has the authority to make all decisions with respect to the implementation of the Retirement Code and the management of the State Employees' Retirement Fund.

Section 5902(a) of Title 71, amended April 2, 1998:

- (1) Effective 30 days after the effective date of this paragraph, the positions of secretary, assistant secretary and investment professional shall be placed under the unclassified service provisions of the act of August 5, 1941 (P.L.752, No.286), known as the Civil Service Act, as those positions are vacated. All other positions of the board shall be placed in either the classified or unclassified service according to the definition of the terms under the Civil Service Act.
- (2) Notwithstanding any other provisions of law, the compensation of investment professionals shall be established by the board. The compensation of all other officers and employees of the board who are not covered by a collective bargaining agreement shall be established by the board consistent with the standards of compensation established by the Executive Board of the Commonwealth.

SERS' *Compensation Policy for Investment Professional Staff* is established to:

- Maintain transparency for the compensation of investment professional staff
- Attract, motivate, and retain highly qualified, experienced investment professionals needed to satisfy the standard-of-care requirements of fiduciary obligations consistent with SERS Board policy
- Provide a reasonable and competitive pay program for investment professional staff

SERS continually strives to have a compensation plan for its investment professional staff that attracts and retains highly qualified individuals, establishes internal equity of positions, and maintains external competitiveness. The Board shall establish and maintain a pay schedule and structure that reflects market competitive salary ranges for each job classification based on median salary levels in the Public Pension Funds Comparator Group. This comparator group may be re-established as appropriate with changes in the public pension systems.

DELEGATION OF AUTHORITY

The Board has authority to set compensation for SERS' investment professional staff. With approval of this policy the Board delegates the following, effective January 1, 2017 and as amended:

- Authority to SERS' Chief Investment Officer and SERS' Executive Director, in consultation with SERS' Human Resources Director, to recommend salaries and annual salary adjustments for investment professional positions in the Investment Office to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section; and
- Authority to SERS' Executive Director and SERS' Chief Financial Officer, in consultation with SERS' Human Resources Director, to recommend salaries and annual salary adjustments for the investment professional positions in the Office of Finance and Administration to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section; and
- Authority to SERS' Executive Director in consultation with SERS' Human Resources Director to recommend the salary of the Chief Financial Officer position and annual salary adjustments to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section.

If the parties named above cannot reach consensus concerning the actions that have been delegated by SERS Board, the issue(s) will be elevated to the Board Governance and Personnel Committee of SERS Board for a final determination.

The Board will maintain authority to approve the annual pay increase budget based on current market pay data and the availability of funds.

PEER COMPARATOR GROUP

The below peer comparator group, used to determine the appropriate compensation for SERS' investment professional staff, was originally established in June 2013 in conjunction with McLagan, a professional organization with well-established expertise in the area of pension system compensation. This group of 15 public pension systems, at the time the list was developed, was similar to SERS in size and investment approach, and none of the comparable pension systems utilized a bonus program. The salary structures of these comparative systems were used to determine the initial market pay for SERS' investment professional staff.

Illinois Municipal Retirement Fund

Indiana Public Retirement System

Iowa Public Employees Retirement System

LA County Employees Retirement Association

Maryland State Retirement Agency

Massachusetts Pension Reserves Investment Management Board

Minnesota State Board of Investment

Mississippi Public Employees Retirement System

Missouri Public Schools Retirement System

Nevada PERS

Pennsylvania Public School Employees' Retirement System (included in the comparator group due to geographical location)

South Carolina Retirement System

Texas County and District Retirement System

Texas Municipal Retirement System

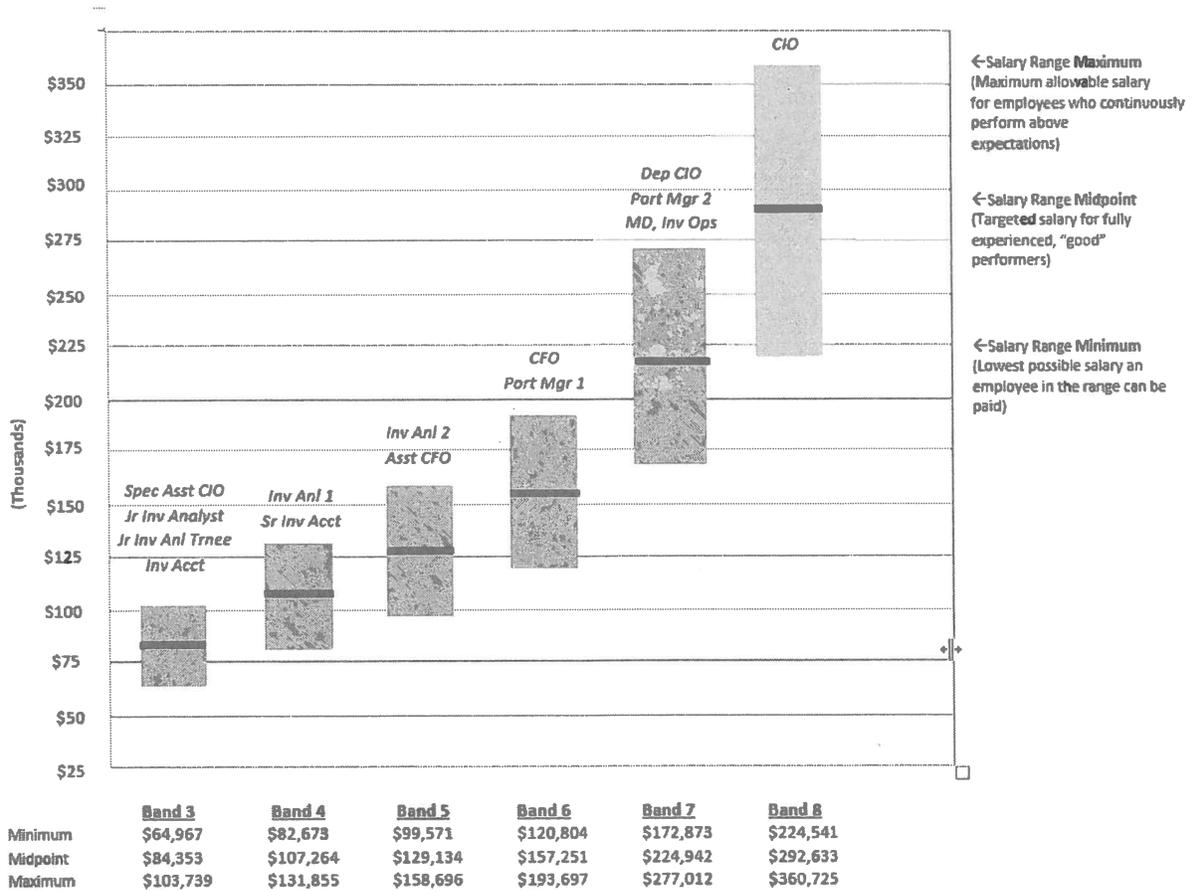
Utah State Retirement System

PAY SCHEDULE

SERS moved investment professional positions from a pay schedule of 12 pay ranges with 20 steps within each range, to a banded pay structure effective January 1, 2017. Each investment professional position was appropriately placed within the respective band based on the comparative parity with peer pension systems, experience and credentials, contributions to SERS, and internal pay equity. The banded pay structure has six bands, with minimum and maximum annual salaries for each band, but no steps. This type of structure allows for increased flexibility to differentiate salaries based on an employee’s performance, workload, contributions to SERS, etc. The below chart shows annual salaries down the left side and the bands across the bottom.

The current salary band structure is depicted below (*Figure 1*).

Figure 1
As of 01/01/2019



CLASSIFICATION

The below job titles (*Figure 2*) are currently covered by this compensation policy. SERS-Human Resources Division is responsible for maintaining the job specifications (definition of work, examples of work, knowledge, skills, abilities, minimum experience and training) for each job title. SERS-Human Resources Division is authorized to make content changes to the job specifications with the concurrence of the Executive Director and the Chief Investment Officer or Chief Financial Officer, as applicable.

Adding new jobs, abolishing jobs, or changing the designated pay level for a job requires authorization from the Board Governance and Personnel Committee.

Figure 2

Job	SAP Code	Pay Band
Junior Investment Analyst Trainee SERS	R9403	Band 3 (ISB3)
Junior Investment Analyst SERS	R9404	Band 3 (ISB3)
Investment Accountant	R9300	Band 3 (ISB3)
Special Assistant to the Chief Investment Officer SERS	R9402	Band 3 (ISB3)
Investment Analyst 1 SERS	R9405	Band 4 (ISB4)
Senior Investment Accountant	R9305	Band 4 (ISB4)
Investment Analyst 2 SERS	R9406	Band 5 (ISB5)
Assistant Chief Financial Officer SERS	R9310	Band 5 (ISB5)
Portfolio Manager 1 SERS (Director)	R9513	Band 6 (ISB6)
Chief Financial Officer SERS	R9315	Band 6 (ISB6)
Portfolio Manager 2 SERS (Managing Director)	R9511	Band 7 (ISB7)
Managing Director of Investment Operations SERS	R9515	Band 7 (ISB7)
Director of Public Markets SERS	R9512	Band 7 (ISB7)
Deputy Chief Investment Officer SERS	R9514	Band 7 (ISB7)
Chief Investment Officer SERS	R9510	Band 8 (ISB8)

PROGRAM ADMINISTRATION

A high-level annual study will be conducted to determine current market pay for the industry. The Board Governance and Personnel Committee will use the data to determine whether adjustments should be made to the salary pay bands. The data will also be considered when establishing the annual aggregate pay increase budget subject to approval by SERS Board.

Pay increases shall give consideration to individual employee performance, changes to job duties, retention, internal pay equity relationships, periodic market comparison of peer pension systems, or other relevant issues. Annual salary reviews will be conducted to make adjustments to pay based upon merit and competitive levels as necessary. Reflecting good-governance practices, each employee's salary level will be reviewed annually to ensure pay levels remain competitive, high

performers are recognized, and staff development and growth are reinforced. Adjustments to current employees' salaries outside of the annual scheduled adjustments may be made under the delegation of authority of this policy for retention purposes to meet a critical need of the agency. These adjustments will be recommended to the Board Governance and Personnel Committee for approval.

A comprehensive study, if approved by the SERS Board, will be conducted every three to five years by an external and qualified consultant, and appropriate adjustments will be made to this compensation policy to maintain comparative parity with peer pension systems.

Investment Office professional staff are currently, and will remain, on a January 1 through December 31 performance review cycle with performance reviews due to the Human Resources Division by January 31 each year. They will receive pay increases, if appropriate, effective the first full pay in March each year. Effective January 1, 2017, investment professional staff in the Investment Office will no longer be eligible to receive the general pay increases, service increments, or any other one-time pay adjustments approved by the SERS Board for management employees.

Office of Finance and Administration investment professional staff are currently on an October 1 through September 30 performance review cycle. Effective January 1, 2017, they will be transferred to the January 1 through December 31 performance review cycle. Their performance reviews will be due to the Human Resources Division by January 31 each year and they will receive pay increases, if appropriate, effective the first full pay in March each year. Effective January 1, 2017, investment professional staff in the Office of Finance and Administration will no longer be eligible to receive the general pay increases, service increments, or any other one-time pay adjustments approved by the SERS Board for management employees.

When a new investment professional is hired, initial placement in the appropriate band will take into account the person's work experience and background, most recent salary, and pay equity when compared to current staff.

The salary range in each band can be broken down into thirds that fit the following general or illustrative profiles:

Lower Third

- Employees who are not meeting the established performance criteria for the position, or
- Employees who have minimum qualifications to fulfill the job responsibilities, or
- Employees with minimum amount of relevant work experience

increase with the Executive Director and Human Resources Director. Pay increases are recommended to the Board Governance and Personnel Committee for approval

- Supervisors conduct an annual performance review with each employee, communicate the salary increase, and link the salary increase to overall performance. Pay increases for investment professional staff will be effective the first full pay in March each year
- Supervisors will conduct a formal six month performance review, using the *Employee Performance Review* form (Form 363L), for each newly appointed investment professional employee.

GUIDELINES FOR PAY ADJUSTMENTS

Annually, taking into account the pay increase budget approved by the Board, the Chief Investment Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director, will submit pay adjustment recommendations to the Personnel Committee. The pay adjustment for each investment professional staff member in the Investment Office will be within the assigned pay band and will be based on the individual's overall annual performance evaluation and the individual's position in the band at the time of the annual review. When the annual employee review results in an overall less than satisfactory rating, no pay increase is awarded. A less than satisfactory rating may result in employee discipline, up to and including termination.

For investment professional positions in the Office of Finance and Administration, the Chief Financial Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director, will follow the same process.

The performance review of the Chief Investment Officer will be conducted by the Executive Director and Investment Committee Chair with input from the Board. Pay adjustments will be recommended to the Board Governance and Personnel Committee and approved by the SERS Board.

The performance review of the Chief Financial Officer will be conducted by the Executive Director who will recommend to the Personnel Committee, in consultation with the Human Resources Director, movement within the salary range based on the overall annual performance evaluation and the individual's placement in the range at the time of the annual review.

The Executive Director, in conjunction with the Chief Investment Officer or Chief Financial Officer, as appropriate, and in consultation with the Human Resources Director, may recommend to the Board Governance and Personnel Committee salary adjustments for new investment professional staff in conjunction with a six-month performance evaluation. No action related to salary adjustments will be considered for new employees until the completion of a six-month performance evaluation.

PROMOTION/RECLASSIFICATION

Upon promotion, which is defined as moving from one job title to a higher job title either as a result of moving to a different position or the reclassification of current position, an employee may receive up to 9% pay increase per pay band or be placed at the minimum of the pay band, whichever is greater.

DEMOTION

When an employee demotion results from employee poor performance, or the employee voluntarily agrees to be demoted to a position in a lower pay band, the employee's current salary may be reduced by 9% and then compared to the maximum pay of the lower pay band. If the employee's adjusted salary is greater than the new salary grade maximum, the new salary will be reduced to the maximum pay of the lower pay band.

When an organizational change results in an employee's job title being changed to a job title in a lower pay band, the employee will be demoted to the new job title and will maintain the current pay level.

COMPLETION OF CHARTERED FINANCIAL ANALYST (CFA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Investment Officer, with the concurrence of the Executive Director and Human Resources Director, shall have the discretion to award an individual an increase of up to 2.5% of annual salary each time one of the three levels that make up the Chartered Financial Analyst (CFA) certification examination is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Investment Officer for successfully completing each level of the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

COMPLETION OF CERTIFIED PUBLIC ACCOUNTANT (CPA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Financial Officer, with the concurrence of the Executive Director and Human Resources Director, shall have the discretion to award an individual an increase of up to 2% of annual salary each time one of the four sections of the CPA certification exam is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Financial Officer for successfully completing each level of the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

COMPLETION OF CHARTERED ALTERNATIVE INVESTMENT ANALYST (CAIA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Investment Officer, with the concurrence of the Executive Director and Human Resources Director, shall have the discretion to award an individual an increase of up to 2% of annual salary each time one of the two levels of the CAIA certification exam is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Investment Officer for successfully completing the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

PERFORMANCE MANAGEMENT

SERS is committed to attracting, developing, managing, and retaining a high performing, diverse, and productive workforce. This requires effective performance management. Performance management entails constructive direction, training, assessment, feedback, and recognition of employees by managers and supervisors to assure a competent, high-performing, and motivated workforce. Establishing clear expectations and evaluating performance are very important parts of that process. The SERS General Performance Standards, provided by the supervisor to each new employee and also annually in conjunction with the performance review, provide supervisors with the opportunity to establish clear expectations. The annual performance review provides supervisors the opportunity to formally discuss performance outcomes with staff.

As part of the performance management process, performance evaluations for investment professional staff shall be issued consistent with the Management Directive 540.7, Performance Management Program, and as discussed in PROGRAM ADMINISTRATION section.

New employees will receive an interim evaluation after six months to review performance and evaluate continued employment.

The annual performance evaluation rating will be used to determine annual salary increases as outlined in PROGRAM ADMINISTRATION section.

RECRUITMENT AND PLACEMENT

SERS Board has the authority to hire the Chief Investment Officer. Recruitment for this position will be conducted internally or through the services of an executive search firm, as determined by the Board.

The filling of all investment professional vacancies will comply with the Commonwealth policies for filling senior level non-civil service positions and may involve internal promotions or active recruitment.

With the exception of the Chief Investment Officer position, investment professional positions in the Investment Office will be filled at the discretion of the Chief Investment Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director.

The Chief Financial Officer position will be filled at the discretion of the Executive Director in consultation with the Human Resources Director. All other investment professional positions in the Office of Finance and Administration will be filled at the discretion of the Chief Financial Officer and Executive Director, in consultation with the Human Resources Director.

Background investigations will be conducted on all new SERS employees. Although employees may begin employment, their continued employment is contingent upon a satisfactory background investigation report. Background investigations are conducted by the Office of Inspector General.

Consistent with Commonwealth policies and directives, recruitment shall not be influenced by race, color, religious creed, ancestry, union membership, age, gender, sexual orientation, gender identity or expression, national origin, AIDS or HIV status, or disability.

AT-WILL EMPLOYMENT

The State Employees' Retirement System reserves the right to terminate the employment of an investment professional at any time for any reason or no reason, except as prohibited by law.

SUCCESSION PLANNING

The Chief Investment Officer, Chief Financial Officer, and their direct subordinate staff are responsible for workforce and succession planning in their respective areas to ensure effective business continuity. Areas to include for this purpose include knowledge management, staff development, career progression, and staffing projections.

EXCEPTIONS

SERS Board reserves the right to revise or make exceptions to this policy at any time.

HISTORY OF POLICY CHANGES

10/2/2013	Final draft created
03/30/2015	Revisions to draft
08/09/2016	Updates to include CAIA, current dates
09/30/2016	Incorporated final edits from 08/2016
10/19/2016	Incorporated edits from PC to give Personnel Committee approval for pay increases
01/03/2017	Incorporated recommendations from SERS Board and CBIZ
05/24/2017	Updated pay band chart on page 5 with approved minimum and maximum salaries
03/16/2018	Updated pay band chart on page 5 with 01/2018 board approved min and max amts

01/01/2019	Updated pay band chart. Added classification section and removed appendix containing job specifications. Updated committee name to Board Governance and Personnel Committee. Added Investment Committee Chair to performance review of CIO
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2019 Pay Band

ATTACHMENT E

Band Structure Adjust (National Industry)
 Invest Comp Aggregate Budget
 Projected Pay Increase (Ntl & Eastern Industry)

1.60%
 5.00%
 3.50%

	Prior Year 2018							
	<u>Band 3</u>	<u>Band 4</u>	<u>Band 5</u>	<u>Band 6</u>	<u>Band 7</u>	<u>Band 8</u>		
Minimum	63,944	81,371	98,003	118,902	170,151	221,005		
Midpoint	83,025	105,575	127,100	154,775	221,400	288,025		
Maximum	102,106	129,779	156,197	190,647	272,650	355,045		
Band Width	59.68%	59.49%	59.38%	60.34%	60.24%	60.65%		

	Proposed 2019							
	<u>Band 3</u>	<u>Band 4</u>	<u>Band 5</u>	<u>Band 6</u>	<u>Band 7</u>	<u>Band 8</u>		
Minimum	64,967	82,673	99,571	120,804	172,873	224,541		
Midpoint	84,353	107,264	129,134	157,251	224,942	292,633		
Maximum	103,739	131,855	158,696	193,697	277,012	360,725		
Band Width	59.68%	59.49%	59.38%	60.34%	60.24%	60.65%		

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 individual 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 success in meeting

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 the calendar year, which runs January 1st through December 31st. 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 Chairperson 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 Chairperson, 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 Chairperson may find it equally important to gain perspective from individuals who work with the position on a regular basis. The Chairperson may solicit performance feedback from the board, board designees, and any or all of SERS' senior staff members. SERS' senior staff members are:

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

NOTE: All senior managers are supervised by the Executive Director, with the exception of the Chief Compliance Officer position which reports to the Chief Counsel. 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 Chairperson should consider the circumstances/appropriateness of soliciting feedback from the senior managers for the performance review of the Executive Director. It is also the Chairperson's discretion to incorporate or exclude such feedback from the final Executive Director performance evaluation.

Schedule of Action Items

November	December (rating cycle ends)	January (rating cycle begins)	June (mid-year report)	July (progress review)
<p>SERS-HR compiles information to be sent to Board Chairperson by December 1st.</p> <ul style="list-style-type: none"> • Senior Management Service Performance Evaluation System form <ul style="list-style-type: none"> ○ Template ○ Completed form from prior evaluation period • Goals/Expectations <ul style="list-style-type: none"> ○ Template ○ Goals/expectations from prior evaluation period • SERS General Performance Standards • SERS Performance Evaluation Input form 	<p>Board Chairperson obtains performance feedback from appropriate parties.</p> <ul style="list-style-type: none"> • Board Members and Designees • Senior Managers (Chairperson's discretion) <p>Chairperson solicits input on new performance goals/expectations from Board Members and Designees.</p> <p>Goals/expectations should:</p> <ul style="list-style-type: none"> • Align with agency policy, strategic plans, objectives, and priorities • Align with the rating categories on the Senior Management Service Performance Evaluation System form 	<p>Board Chairperson drafts the Senior Management Service Performance Evaluation System form and performance goals/expectations incorporating relevant feedback at his/her discretion.</p> <p>Board Governance and Personnel Committee review the draft Senior Management Service Performance Evaluation System form and goals/expectations. Committee suggests modifications if appropriate.</p> <p>Board Chairperson meets with Executive Director by January 31st to issue performance evaluation and goals/expectations. The Board Chairperson and Executive Director sign the Senior Management Service Performance Evaluation System form. If the Executive Director refuses to sign the form, the Chairperson makes note of such on the form.</p> <ul style="list-style-type: none"> • Completed copies to SERS-HR for retention in official personnel file • Copies to Executive Director • Copies to Board Chairperson <p>Note(s): If Board Chairperson and Governance and Personnel Committee cannot resolve disagreements about the evaluation, the matter is escalated to the entire SERS Board for review and resolution.</p> <p>If a new Executive Director is hired during the rating cycle, the performance goals/expectations will be provided to the new Executive Director within the first month of employment.</p> <p>SERS Performance Evaluation Input forms are retained by the Board Chairperson and will be made available for review upon request.</p>	<p>SERS-HR emails reminder notice by June 1st to Executive Director and Board Chairperson informing them that by June 30th the Executive Director is to provide a status report to the Board Chairperson and Governance and Personnel Committee on the status of goals/expectations.</p> <p>Executive Director provides the required mid-year report by June 30th.</p>	<p>Board Chairperson meets with the Executive Director by July 31st to discuss any performance issues identified as a result of the mid-year report.</p>

Updates

01-2017	Updated to remove CIO from the process; CIO now reports to Ex Dir
2018	Updated to revise name of committee and review process

PERFORMANCE REVIEW PROCESS

SERS Chief Investment Officer



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' Chief Investment Officer (CIO) is one of the highest-level and most prominent positions within the agency. This position assists the Executive Director in establishing the agency culture and values and is responsible for the health of the SERS Fund. 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 Chief Investment Officer and has the responsibility to provide feedback on the Chief Investment Officer's performance to the Executive Director who supervises the individual in this position.

SERS has elected to use the Senior Management Service Performance Evaluation System evaluation form to evaluate performance for the Chief Investment Officer.

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 success in 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 Chief Investment Officer is the calendar year which runs January 1st through December 31st. The process outlined below focuses on the annual rating period. The Investment Committee serves a vital role in developing quantitative and qualitative goals to be incorporated into the Chief Investment Officer's performance expectations and in the annual evaluation process. There may be times when it is appropriate to issue an interim performance evaluation. Interim evaluations are at the discretion of the Executive Director, SERS' board Chairperson, and the Investment Committee Chair.

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 Executive Director, will make modifications and updates to this process.

The Chief Investment Officer performs work directly for SERS' board and it is important to have board member and Investment Committee input into the annual evaluation of this position. The Executive Director shall solicit performance feedback from the Investment Committee, board and board designees.

Schedule of Action Items

November	December (rating cycle ends)	January (rating cycle begins)	June (mid-year report)	July (progress review)
<p>SERS-HR compiles information to be sent to the Executive Director by December 1st.</p> <ul style="list-style-type: none"> • Senior Management Service Performance Evaluation System form <ul style="list-style-type: none"> ○ Template ○ Completed form from prior evaluation period • Goals/Expectations <ul style="list-style-type: none"> ○ Template ○ Goals/expectations from prior evaluation period • SERS General Performance Standards • SERS Performance Evaluation Input form 	<p>Executive Director obtains performance feedback from appropriate parties.</p> <ul style="list-style-type: none"> • Investment Committee • Board Members and Designees <p>Executive Director solicits input on new qualitative and quantitative performance goals/expectations from the Investment Committee, Board Members and Designees.</p> <p>Goals/expectations should:</p> <ul style="list-style-type: none"> • Align with agency policy, strategic plans, objectives, and priorities • Align with the rating categories on the Senior Management Service Performance Evaluation System form 	<p>Executive Director drafts the Senior Management Service Performance Evaluation System form and performance goals/expectations incorporating relevant feedback at his/her discretion.</p> <p>Investment Committee reviews the draft Senior Management Service Performance Evaluation System form and goals/expectations. Committee suggests modifications if appropriate.</p> <p>Executive Director and Investment Committee Chair meets with Chief Investment Officer by January 31st to issue performance evaluation and goals/expectations. The Executive Director and Chief Investment Officer sign the Senior Management Service Performance Evaluation System form. If the Chief Investment Officer refuses to sign the form, the Executive Director makes note of such on the form.</p> <ul style="list-style-type: none"> • Completed copies to SERS-HR for retention in official personnel file • Copies to Chief Investment Officer • Copies to Executive Director • Copies to Investment Committee Chair <p>Note(s): If the Executive Director and Investment Committee cannot resolve disagreements about the evaluation, the matter is escalated to the entire SERS Board for review and resolution.</p> <p>If a new Chief Investment Officer is hired during the rating cycle, the performance goals/expectations will be provided to the new Chief Investment Officer within the first month of employment.</p> <p>SERS Performance Evaluation Input forms are retained by the Executive Director and will be made available for review upon request.</p>	<p>SERS-HR emails reminder notice by June 1st to Chief Investment Officer, Executive Director, and Investment Committee Chair informing them that by June 30th the Chief Investment Officer is to provide a status report to the Executive Director and Investment Committee Chair on the status of goals/expectations.</p> <p>Chief Investment Officer provides the required mid-year report by June 30th.</p>	<p>Executive Director and Investment Committee Chair meet with the Chief Investment Officer by July 31st to discuss any performance issues identified as a result of the mid-year report.</p>

Updates

____ 2018	Updated from 2015 <i>Performance Review Process</i> for Executive Director and Chief Investment Officer – process was divided into two processes – one for each position.
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Policy Name: Board Self-Assessment Policy
Policy Number: 2018 POL-BD-13
Effective Date: December 5, 2018
Reviewed Date: January 9, 2018
Applies To: SERS Board Members
Contact Person: SERS Legal Office

Purpose

The purpose of this policy is to provide a process by which the Board can regularly review and assess its performance and to identify subject areas that may be appropriate for educational/training sessions, pursuant to the Board Education Policy. This policy is based on a determination that self-assessment is necessary to maintain a high functioning Board and to foster a culture of continuous improvement. For purposes of this policy, "Board" and "Board member(s)" include designee(s).

Procedures

The Board as a whole is responsible for evaluating its own performance. All Board members are responsible for assessing their knowledge in relevant subject areas and are expected to participate in the Board self-assessment process. The Board Governance and Personnel Committee will oversee coordinating the implementation of this policy.

1. The Board self-assessment shall be initiated by the Board Governance and Personnel Committee to evaluate performance through the end of the biennial or annual evaluation period, as established by the Board Governance and Personnel Committee (the "Evaluation Period"). Subject to the Commonwealth Attorney's Act, and budget and procurement requirements, the Board Governance and Personnel Committee may, with Board authorization, engage the services of either in-house or external legal counsel or a third party, as it determines is appropriate to facilitate the self-assessment and follow-up improvement planning.
2. When a Board self-assessment is undertaken, the Board Governance and Personnel Committee shall review the process and the evaluation questionnaires being used and make modifications, as appropriate. The evaluation questionnaires shall provide Board members with a framework for evaluating the performance of the Board and Committees and identifying subject areas that may be appropriate for improvement or educational/training sessions.
 - a. The questions contained in the evaluation questionnaires may be in any format deemed appropriate, but the evaluation questionnaires must allow Board members to provide written comments or suggestions.

- b. The evaluation questionnaires shall be designated as "confidential," and responses to the evaluation questionnaires shall remain anonymous and confidential.
3. Copies of the evaluation questionnaires shall generally be distributed to each Board member in the first month of the first calendar quarter following the end of the Evaluation Period.
4. All Board members shall be asked to complete the evaluation questionnaire and return it to the chairman of the Board Governance and Personnel Committee or designated third party within two weeks of receipt.
5. The Board Governance and Personnel Committee may include evaluations from senior staff and peer-to-peer member (*i.e.*, Board member-to-Board member) evaluations in the process.
6. The chairman of the Board Governance and Personnel Committee or designated third party shall prepare a summary report without attribution of responses and discuss it with the Oversight Committee members by the close of the first calendar quarter following the end of the Evaluation Period.
7. At the next regularly scheduled meeting of the Board, the chairman of the Board Governance and Personnel Committee or designated third party shall report to the Board, in executive session, on the conclusions and recommendations of the Board Governance and Personnel Committee. The Board shall consider results of the process in planning future training, education and skills development. Completed evaluation questionnaires shall be destroyed after completion of Board discussions.
8. The evaluation process and subsequent actions on the part of the Board shall be recorded in the minutes of the Board meeting.

Review

The Board Governance and Personnel Committee shall review this policy and recommend any changes to the Board at least every two years to ensure that it remains relevant and appropriate.



Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** SERS Legal Office
- c. **Summary of Changes:**

Date	Version	Author	Summary
January 9, 2018	2018 POL-BD-13	SERS Legal Office	The process the Board has established by which the Board can regularly review and assess its performance and to identify subject areas that may be appropriate for educational/training sessions.



Policy Name: Fiduciary Review Policy
Policy Number: 2018 POL-BD-14
Effective Date: December 5, 2018
Reviewed Date: January 9, 2018
Applies To: SERS Board Members
Contact Person: SERS Legal Office

Purpose

The members of the Board (the "Board") of the State Employees' Retirement System ("SERS") stand in a fiduciary relationship to the members of SERS and have legal duties imposed by statute and common law to ensure that the funds they oversee are invested with the same degree of care that persons of prudence, discretion and intelligence would use when investing their own money. Board governance, policies and practices are the structures and processes through which these duties are implemented. In order to minimize liability exposure and to promote success in achieving its goals, the Board has determined it should obtain regular, independent reviews of its fiduciary and governance practices.

Policy

Every 3-4 years, the Board shall select and contract with a qualified independent consultant ("Consultant") to conduct a review of the Board's performance of its duties, identify developing best practices and make recommendations to the Board for improving its governance, policies and procedures. The Board may delegate the process of researching and identifying Consultant candidates to the Board Governance and Personnel Committee, which committee shall make a recommendation to the Board regarding the selection of the Consultant. The Board shall exercise reasonable discretion in setting the scope of the Consultant's review and should include examination of identified risks or issues which have come to its attention.

The Consultant shall be selected through a competitive process aimed at identifying independent experts with knowledge of public pension fund practices and experience in conducting similar reviews at a reasonable cost. In particular, the Consultant should have the following qualifications, in addition to other qualifications which the Board may determine are needed for the particular review:

- The Consultant shall be independent both in fact and in appearance. The independence of the Consultant is paramount to ensure objectivity and unbiased recommendations.

- The Consultant shall be knowledgeable about the fiduciary duties and governance practices of public pension funds. The Consultant's review may include topics from the list attached hereto as Exhibit A.
- The Consultant shall have experience providing similar reviews to public pension funds of similar size to SERS.

Cooperation with Consultant.

Board members and appropriate SERS employees shall cooperate with the review and promptly provide all information required by the Consultant. An individual shall be identified by the Executive Director to serve as SERS' liaison with the Consultant.

Exhibit A

1. Frameworks

1.1. Legal and Regulatory Framework e.g.,

- 1.1.1. Governance structure (trustee board, sole fiduciary, other)
- 1.1.2. Funding policies and mechanisms
- 1.1.3. Fiduciary responsibilities and authorities
- 1.1.4. Oversight authorities
- 1.1.5. Statutory authority/limitations
- 1.1.6. Trustee qualifications and selection criteria
- 1.1.7. Investment limitations (prudent expert, prudent person, legal list)
- 1.1.8. Non-economic investment requirements (in-state managers, minority and women-owned programs)
- 1.1.9. Resource authorities (budget, staffing and compensation)
- 1.1.10. Custodian and selection of custodial bank
- 1.1.11. Selection of external auditor
- 1.1.12. Selection of external actuary
- 1.1.13. Selection of outside counsel
- 1.1.14. Transparency requirements (freedom of information and open meetings laws, contracting, reporting)
- 1.1.15. Trustee indemnification
- 1.1.16. Plan participation requirements
- 1.1.17. Member eligibility and benefit calculation requirements

1.2. Governance Framework e.g.,

- 1.2.1. Powers reserved for the board/fiduciary
- 1.2.2. Direct reports to the board/sole fiduciary
- 1.2.3. Delegations to staff and third parties
- 1.2.4. Role of board officers
- 1.2.5. Board committee structure
- 1.2.6. Board and committee charters
- 1.2.7. Use of advisory boards
- 1.2.8. Board/fiduciary focus on strategy
- 1.2.9. Access to information and reporting to the board/fiduciary
- 1.2.10. Board/fiduciary performance
- 1.2.11. Board/fiduciary self-assessment

- 1.2.12. Board/fiduciary self-development
- 1.2.13. Trustee time commitments
- 1.2.14. Management of/response to litigation
- 1.2.15. Enterprise risk oversight
- 1.2.16. Independent reassurance

2. Strategies and Risks

2.1. Enterprise Strategies and Policies e.g.,

- 2.1.1. Setting asset allocation strategies
- 2.1.2. Setting investment return assumptions
- 2.1.3. Asset-liability matching process
- 2.1.4. Investment beliefs
- 2.1.5. Investment objectives and plans
- 2.1.6. Selection and use of benchmarks
- 2.1.7. Manager fee reporting policies and practices
- 2.1.8. Corporate governance and proxy voting
- 2.1.9. Ethics/conflicts of interest policies
- 2.1.10. Board/fiduciary/employee financial disclosure
- 2.1.11. Employee confidentiality policy
- 2.1.12. Benefit program strategy development
- 2.1.13. Health care provider strategy development
- 2.1.14. Staff organization structure
- 2.1.15. Organizational and resourcing strategies
- 2.1.16. Staff compensation policies
- 2.1.17. Procurement policies
- 2.1.18. Stakeholder relations and communications
- 2.1.19. Legislative positioning: reactive (awareness of and response to legislative proposals) and proactive (drafting and lobbying)

2.2. Enterprise Risks e.g.,

- 2.2.1. Risk appetite/tolerance
- 2.2.2. Return and risk objectives
- 2.2.3. Risk management policies and metrics (incl. investment guidelines and limits)
- 2.2.4. Enterprise risk management and reporting

3. Operations

3.1. Investment Operations e.g.,

- 3.1.1. Investment manager selection/due diligence/monitoring/termination
- 3.1.2. Use and governance of strategic partnerships
- 3.1.3. Roles and authorities of internal investment staff
- 3.1.4. Contracting process
- 3.1.5. Use of outside counsel
- 3.1.6. Internal investment management
- 3.1.7. Investment management reporting, risk, and support systems
- 3.1.8. Investment research
- 3.1.9. Investment cost management
- 3.1.10. Use of general investment consultant
- 3.1.11. Use of specialty consultants
- 3.1.12. Use of custodial services
- 3.1.13. Securities lending policies and practices
- 3.1.14. Foreign exchange practices
- 3.1.15. Use and monitoring of brokers
- 3.1.16. Transition management
- 3.1.17. Investment funding policies and practices

3.2. Pension and Insurance Operations e.g.,

- 3.2.1. Member contact center
- 3.2.2. Member self-service opportunities
- 3.2.3. New member enrollment
- 3.2.4. Member data management and data security
- 3.2.5. Member education and communication
- 3.2.6. Member statements
- 3.2.7. Dispute resolution
- 3.2.8. Adjustments and exception handling
- 3.2.9. Appeals handling
- 3.2.10. Service credit handling
- 3.2.11. Court settlement processing
- 3.2.12. Regular payment processing
- 3.2.13. Pension reporting
- 3.2.14. Pension plan design and development
- 3.2.15. Health care provider contracting

- 3.2.16. Third party provider compliance monitoring
- 3.2.17. Health care cost monitoring and cost controls
- 3.2.18. Employer contact center
- 3.2.19. Employer data management and security
- 3.2.20. Employer education and communication
- 3.2.21. Employer statements and reporting
- 3.2.22. Actuarial reporting practices and valuations

3.3. Administrative Operations e.g.,

- 3.3.1. Investment accounting, performance reporting and fund valuation
- 3.3.2. Financial accounting operations and reporting
- 3.3.3. Planning, budgeting and performance reporting
- 3.3.4. Recruitment, hiring and organizational development
- 3.3.5. Employee training and development
- 3.3.6. Succession planning
- 3.3.7. Human resources administration
- 3.3.8. Legal support
- 3.3.9. Information systems planning, governance and support
- 3.3.10. Facilities management and support
- 3.3.11. Procurement
- 3.3.12. Business resumption
- 3.3.13. Policies and procedures documentation and review
- 3.3.14. IT Security

4. Compliance and Controls

4.1. Compliance e.g.,

- 4.1.1. Internal audit effectiveness
- 4.1.2. Ethics compliance
- 4.1.3. Compliance with laws and regulations
- 4.1.4. Policy compliance
- 4.1.5. Compliance with delegations
- 4.1.6. Board and/or committee operations compliance to charters and policies
- 4.1.7. Contractual compliance
- 4.1.8. Trust and custody compliance
- 4.1.9. Compliance with compensation policies
- 4.1.10. Compliance with open meeting laws

- 4.1.11. Disclosure and Pennsylvania Right-to-Know Law compliance
- 4.1.12. Compliance with federal statutes and regulations – e.g., OFAC (Office of Foreign Asset Control), NACHA (National Automated Clearing House Association)
- 4.1.13. Compliance with documentation management policies

4.2. Controls e.g.,

- 4.2.1. Externally-managed assets
- 4.2.2. Internally-managed portfolio
- 4.2.3. Cash transfers and funding
- 4.2.4. Cash equitization
- 4.2.5. Securities lending
- 4.2.6. Foreign exchange
- 4.2.7. Performance calculations
- 4.2.8. Investment management fee validation

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** SERS Legal Office
- c. **Summary of Changes:**

Date	Version	Author	Summary
January 9, 2018	2018 POL- BD-14	SERS Legal Office	The process established by the Board to obtain regular, independent reviews of its fiduciary and governance practices, in order to minimize liability exposure and to promote success in achieving its goals.