

**MINUTES of SERS Board Meeting – Wednesday, February 26, 2020**

**CALLED TO ORDER: 11:50 a.m. by Chairman David R. Fillman**

**ATTENDEES:**

**Members and Designees**

David R. Fillman – Chairman

Dan B. Frankel

Gregory K. Jordan

Mary A. Soderberg

Gregory C. Thall

Michael G. Tobash

James Bloom – Designee for Acting Secretary Richard Vague

Susan Boyle – Designee for Representative Michael G. Tobash

Thomas Clancy – Designee for Treasurer Joseph M. Torsella

Charles Duncan – Designee for Senator Vincent J. Hughes

Lloyd Ebright – Designee for Treasurer Joseph M. Torsella

Charles Erdman – Designee for Senator John M. DiSanto

Alan Flannigan – Designee for Acting Secretary Richard Vague

Dan Ocko – Designee for Representative Dan B. Frankel

Patrick Shaughnessy – Designee for Representative Dan B. Frankel

Jill Vecchio – Designee for Representative Michael G. Tobash

**Executive Staff**

Alicia James

N. Joseph Marcucci

James Nolan

Terrill Sanchez

**Consultants**

Tom Shingler, Callan Associates

**Staff**

Rose Agnew

Randy Albright

Steve Balucha

Don Bell

Kelly Bernhard

Jason Burger

Dhanashree Chitnis

Michele Crow

Thomas Derr

David Felix  
Jonathan Ferrar  
Brian Gilroy  
Randy Gilson  
Suzi Hansel  
Pam Hile  
Christopher Houston  
Meredith Jones  
Kevin Kiehl  
Kalfani King  
Dan Krautheim  
Alan Lin  
Karen Lynn  
Katie Mathews  
Jeffrey McCormick  
Ryan McCoy  
Daniel McGarvey  
Sara McSurdy  
Matthew Meads  
Jeffrey Meyer  
Ryan Morse  
Cathy Nolan  
Kara O'Donnell  
Matthew Sechrist  
Jay Stroup  
Kate Swailes  
Bruce Thomas  
Joseph Torta  
William Truong

**Visitors**

Lesley Nettles, Fairview Capital  
Peter Ruchwa, Fairview Capital  
Cynthia Tseng, Fairview Capital

## **MINUTES of the SERS Board Meeting Wednesday, February 26, 2020**

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### 1. CALL TO ORDER

Chair Fillman called the meeting to order at 11:50 a.m.

### 2. WELCOME AND INTRODUCTIONS

Executive Director Sanchez announced that there is a new board member, Acting Banking and Securities Secretary Richard Vague. Secretary Vague's schedule did not allow him to attend today's meeting; Jim Bloom and Alan Flannigan have been designated to represent him and they were present for the meeting.

Chair Fillman offered condolences to Senator DiSanto who was not in attendance due to the death of his father. He offered sympathy to the Senator from himself and the board.

### 3. ADOPTION OF THE AGENDA

#### **MOTION: 2020-01**

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

**RESOLVED:** That the board adopts the agenda for the February 26, 2020, board meeting agenda.

### 4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes – December 4, 2019

B. Approving Statement of Changes in Fiduciary Net Position for the Periods Ending – September 30, 2019, October 31, 2019 and November 30, 2019

C. Approving Deferred Compensation Plan (DCP) 3<sup>rd</sup> Quarter Statement of Changes Report

#### **MOTION: 2020-02**

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

**RESOLVED:** That the board approves the Consent Calendar items, as listed, for the February 26, 2020, board meeting.

### 5. COMMITTEE REPORTS/ACTION ITEMS

A. Board Governance and Personnel Committee

Chair Fillman provided a report of the Board Governance & Personnel Committee to the board (SERS Board Handout). The committee members elected David Fillman to serve as the Board Governance and Personnel Committee Chair. The report was accepted by the board along with the following motions:

#### INVESTMENT COMMITTEE CHARTER

#### **MOTION: 2020-03**

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

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to concur with the recommendation of the Investment Committee to adopt the amendments to the Investment Committee Charter, as set forth in the attachment (ATTACHMENT A), to be effective immediately upon adoption.

EXECUTIVE DIRECTOR SALARY ADJUSTMENT**MOTION: 2020-04**

By motion that was moved, seconded, and approved by board members, except for Mr. Erdman, designee for Senator DiSanto, who voted No, it was

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to request the Commonwealth's Executive Board authorize a 12% increase to \$115.61 an hour for Terrill J. Sanchez, Executive Director, with an effective date of February 26, 2020.

ACTING CIO SALARY ADJUSTMENT**MOTION: 2020-05**

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

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to approve 1) a salary adjustment for James G. Nolan's Deputy Chief Investment Officer hourly rate to \$129.27 effective the first full pay period of March 2020 and 2) that the board apply the temporary 4.5% hourly pay increase on the new Deputy Chief Investment Officer rate as authorized through Motion 2019-65 for his role as Acting Chief Investment Officer, until such time as a permanent Chief Investment Officer begins employment.

**B. Defined Contribution Committee**

Chair Soderberg provided a report of the Defined Contribution Committee to the board (SERS Board Handout). The committee members elected Mary Soderberg to serve as the Defined Contribution Committee Chair. The report was accepted by the board and there were no motions brought to the board by the Defined Contribution Committee.

**C. Finance and Member Services Committee**

Chair Soderberg provided a report of the Finance and Member Services Committee to the board (SERS Board Handout). The committee members elected Mary Soderberg to serve as the Finance and Member Services Committee chair. The report was accepted by the board along with the following motion:

PSU COST AGREEMENT**MOTION: 2020-06**

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

**RESOLVED:** That the board accepts the recommendation of the Finance and Member Services Committee to certify the board's costs to estimate, determine, calculate or administer the amount of any lump sum payment and annual setoff potentially or actually resulting from an advance payment of accrued liability contributions to be paid by The Pennsylvania State University on whose behalf the costs were or will be incurred, pursuant to Act 2019-105, as set forth in Exhibit A of the draft Cost Agreement (SERS #20-004) and further to approve entering into a Cost Agreement between The Pennsylvania State University and the State Employees' Retirement Board subject to successful completion of contract negotiations and execution and delivery of closing documents, including required Commonwealth legal approvals.

**D. Investment Committee**

Chair Becker provided a report of the Investment Committee to the board (SERS Board Handout). The committee members elected Glenn Becker to serve as the Investment Committee chair. The report was accepted by the board along with the following motions:

PRIVATE EQUITY – ALTARIS HEALTH PARTNERS V, L.P.**MOTION: 2020-07**

By motion that was moved, seconded, and approved by board members, except Mr. Ebright, designee for Treasurer Torsella, who vote No, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$50 million to Altaris Health Partners V, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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.

PRIVATE EQUITY – HARBOURVEST PA CO-INVESTMENT FUND, L.P.**MOTION: 2020-08**

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

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$200 million to HarbourVest PA Co-investment Fund L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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.

PRIVATE EQUITY – NEUBERGER BERMAN PA CO-INVESTMENT FUND, LP**MOTION: 2020-09**

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

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$200 million to Neuberger Berman PA Co-investment Fund LP, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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.

PRIVATE EQUITY – AMENDMENT TO PERMIRA SUSQUEHANNA (CO-INVESTMENT) FUND, L.P.**MOTION: 2020-10**

By motion that was moved, seconded, and approved by board members, except for Mr. Ebright, designee for Treasurer Torsella, who abstained, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to amend Board Motion 2019-27 adopted on April 24, 2019, changing the board's capital commitment to Permira Susquehanna (Co-Investment) Fund, L.P. from €36 million Euros to \$40 million U.S. Dollars. All other provisions of Board Motion 2019-27 remain unchanged.

REAL ESTATE – OAK STREET REAL ESTATE CAPITAL FUND V, LP**MOTION: 2020-11**

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

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$50 million to Oak Street Real Estate Capital Fund V, LP, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a follow-on investment within the Real Estate asset class, subject to successful completion of contract negotiations

and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

### REBALANCE RECOMMENDATION

#### **MOTION: 2020-12**

By motion that was moved, seconded, and approved by board members, except Mr. Duncan, designee for Senator Hughes, who voted No, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to 1) approve the redemption of \$1.615 billion from the BlackRock MSCI World ex-US Index Fund and allocate the proceeds to Cash;

2) approve the redemption of \$535 million from the Walter Scott Global Growth Stock Portfolio and allocate the proceeds to Cash. A transition manager may be used to execute this transaction;

3) approve the redemption of \$200 million from the Harris Associates International Small Cap Equity Portfolio and allocate the proceeds to Cash. A transition manager may be used to execute this transaction;

4) approve the redemption of \$500 million from the BlackRock MSCI Emerging Markets Fund and allocate the proceeds to Cash;

5) approve a contribution of \$2.5 billion to the Mellon U.S. Aggregate Bond Index Portfolio to be funded from Cash. A transition manager may be used to execute this transaction;

6) approve a contribution of \$350 million to the Brown Brothers Harriman & CO. Treasury Inflation Protected Securities Portfolio to be funded from Cash. A transition manager may be used to execute this transaction; and

7) approve a contribution of \$750 million to the Mellon U.S. Aggregate Bond Index Portfolio to be funded from Cash. A transition manager may be used to execute this transaction.

### INVESTMENT COMMITTEE CHARTER

#### **MOTION: 2020-13**

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

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to adopt the amendments to the Investment Committee Charter, as set forth in the attachment (ATTACHMENT A), to be effective immediately upon adoption.

#### E. Securities Litigation Committee

Chair Jordan provided a report of the Securities Litigation Committee to the board (SERS Board Handout). The committee members elected Greg Jordan to serve as the Securities Litigation Committee Chair. The report was accepted by the board and there were no motions brought to the board by the Securities Litigation Committee.

#### F. Audit, Risk and Compliance Committee

Lloyd Ebright, designee for Chair Torsella, provided a report of the Audit, Risk and Compliance (AR&C) Committee to the board (SERS Board Handout). The committee members elected Joseph Torsella to serve as the AR&C Committee Chair. The report was accepted by the board and there were no motions brought to the board by the AR&C Committee.

### 6. EXECUTIVE SESSION/LUNCH/PUBLIC MEETING RESUMED

TOPIC 1 - Advice from Attorneys on Investment Policy Statement

TOPIC 2 - Notational Ballots

Account of Mark A. Lilly  
Docket No. 2018-13  
Claim of Mark A. Lilly

Account of Michael F. Kissell  
Docket No. 2016-07  
Claim of Michael F. Kissell

TOPIC 3 – Pending Benefits and Administration Litigation Update

TOPIC 4 – 2019 Annual Litigation Report

TOPIC 5 – Report on Referrals of Prospective or Existing Investment Transaction or Contract

TOPIC 6 - Fiduciary Counsel Discussion

At 12:20 p.m., the board recessed and entered executive session to receive legal advice on the above executive session agenda items. The public meeting resumed at 1:40 p.m.

## 7. OLD BUSINESS

A. Update on SERS' Legacy Private Equity Assets – Fairview Capital

Mses. Lesley Nettles and Cynthia Tseng and Mr. Peter Ruchwa provided a report to the board regarding Legacy Private Equity Assets.

## 8. NEW BUSINESS

A. Sustainable Investing/ESG Investing Discussion

Mr. Flannigan, designee for Acting Secretary Vague, led a discussion on Sustainable/ESG Investing. He would work with the Investment Office staff to see how this can be incorporated into due diligence with the managers.

## 9. REPORT OF EXECUTIVE DIRECTOR

A. Executive Director Sanchez noted the following: (i) SERS staff has reviewed and addressed 43 out of 100 PPMARC recommendations and the recommendations will continue to be updated. Staff will confirm with committees on the remaining recommendations and a pacing schedule will be brought to the board at the April 2020, board meeting.

(ii) Legislation activity is being closely monitored as there are bills which will impact SERS to varying degrees. (iii) Information including the agenda for the 2020 board retreat has been released. There are a variety of topics on the agenda which align with the draft SERS Strategic Plan. The retreat is being held at the AFSCME Conference Center and she thanked Chair Fillman for hosting the retreat.

(iv) Executive Director Sanchez presented the report regarding uncontested matters in which an Order was issued dismissing the following administrative appeals, as provided to the board.

**Account of Geralynn Zalinski**

**Docket No. 2018-02**

**Claim of Geralynn Zalinski**

**Account of Gwendolyn D. Rocca**

**Docket No. 2019-06**

**Claim of Gwendolyn D. Rocca**

v) The SERS Strategic Plan continues to be worked on by staff and the timeline for a July 1 completion is in place.

10. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

The SERS board retreat is scheduled for March 12-13, 2020 and the next regular meeting of the SERS board is scheduled for April 21-22, 2020.

11. MOTION TO ADJOURN

**MOTION: 2020-14**

By motion of Chair Fillman, the board unanimously agreed to adjourn the meeting at 2:50 p.m.

Respectfully submitted,



Terrill (Terri) J. Sanchez  
Executive Director

## **PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM**

### **INVESTMENT COMMITTEE CHARTER**

#### **I. PURPOSE.**

The Investment Committee's purpose is to assist the board (the "Board") of the Pennsylvania State Employees' Retirement System (the "SERS") in fulfilling its responsibilities in the areas of investment policy, investment strategy, investment manager oversight, and corporate governance program oversight.

#### **II. AUTHORITY.**

The Board hereby delegates all necessary power and authority to the Investment Committee (the "Committee") to perform the duties and responsibilities described in this Charter and as may otherwise be delegated by the Board from time to time. Except as expressly granted herein, nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board. The Committee may form subcommittees to assist the Committee and may delegate to such subcommittees such power and authority as the Committee deems appropriate to perform the duties and responsibilities described in a Board approved subcommittee charter; *provided, however*, that the Committee shall not delegate to a subcommittee any power or authority required to be exercised by the Committee or the Board as a whole.

#### **III. COMPOSITION.**

The Committee shall consist of the Treasurer of the Commonwealth of Pennsylvania and the Secretary of Banking and Securities and no less than five (5) other current members of the Board, who may be the designees of Board members (the "Committee Members"), as provided in the Board's Bylaws (the "Bylaws").

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

#### **IV. MEETINGS.**

Committee meetings shall be conducted in accordance with the Bylaws, except as otherwise provided in this Charter. The Committee shall meet at least four (4) times every calendar year. The Committee Chair (after consulting with the Committee Members) shall fix the dates and times of the Committee meetings, and shall request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

The Committee may invite SERS' Chief Investment Officer (the "CIO"), Executive Director, employees of SERS' Investment Office and/or SERS' Office of Chief Counsel (the "OCC"), and others to attend meetings and provide pertinent information, as it deems necessary or desirable.

**V. RESPONSIBILITIES.**

**A. Investment Policies and Controls.**

1. The Committee shall collaborate with the Finance and Member Services Committee, SERS' Investment Office, Executive Director and OCC to:
  - a. Review the Investment Policy Statement (the "IPS") and policy target asset allocation on an annual basis.
  - b. Recommend specific strategies to achieve investment goals and objectives of SERS.
  - c. Oversee SERS' Investment Office in its development and utilization of investment risk tolerance and strategy, and recommend any changes to the Board.
  - d. Oversee SERS' Investment Office in its development and utilization of investment allocations and benchmark targets, and recommend any changes to the Board.
2. The Committee shall make recommendations to the Board regarding revisions to the IPS.
3. The Chief Compliance Officer shall monitor SERS staff to ensure SERS' compliance with the IPS and make recommendations to the Committee and to the Board to improve compliance.
4. The Committee shall monitor investment controls and report any findings and recommendations to the Board.

**B. Investment Manager Selection and Oversight.**

1. The Committee shall oversee the implementation of the investment manager selection process performed by SERS' Investment Office to identify and evaluate qualified investment managers and opportunities and recommend any changes to the Board on at least a biennial basis.
2. The Committee shall monitor the implementation of the investment manager monitoring process performed by the SERS Investment Office, upon selection of an investment manager by the Board.
2. The Committee shall review any recommendations from the CIO and/or SERS' Investment Office regarding the hiring or firing of investment managers, and make recommendations to the Board for approval in a timely manner.

**C. Investment Advisor/Consultant Oversight.**

1. The Committee shall oversee the research and due diligence performed by SERS' Investment Office to identify and evaluate
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qualified investment advisors/consultants, and make recommendations to the Board.

2. The Committee shall review any recommendations from the CIO and/or SERS' Investment Office regarding the hiring or firing of investment advisors/consultants, and make recommendations to the Board.

D. Corporate Governance.

1. The Committee shall oversee the corporate governance program.
2. The Committee shall monitor the implementation of SERS' Proxy Voting Policy and review the Investment Office's recommendations for changes to SERS' Proxy Voting Policy, and recommend changes to the Board on at least an annual basis.
3. The Committee may review particular proxy voting concerns and make recommendations to the Board regarding how such proxies may be voted.
4. The Committee shall oversee corporate governance developments that may affect the value of SERS' investments and report any findings and recommendations to the Board.
5. The Committee shall collaborate with SERS' Investment Office and OCC to recommend to the Board participation by SERS in any shareholder rights initiatives.

E. Other Responsibilities.

1. The Committee shall oversee the cost effectiveness of SERS' investment program.
  2. The Committee shall have input into the candidate search process and selection of the CIO.
  3. The Committee, along with the Executive Director, shall develop quantitative performance goals to be incorporated in the CIO's performance expectations, and perform an annual evaluation of the CIO in correspondence with such performance expectations.
  4. The Committee shall seek input from the Board and collaborate with the Executive Director in the annual evaluation of the CIO.
  5. The Committee Chair, along with the Executive Director, shall deliver the Committee's annual evaluation to the CIO. The Committee may recommend discipline or the termination of the CIO to the Board and Executive Director, if appropriate.
  6. The Committee shall oversee the Department of Treasury's recommendation of the selection of SERS' custodial bank.
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7. The Committee shall perform such other activities related to the Committee's functions and duties as are reasonably appropriate or are requested by the Board from time to time.

**VI. REPORTING.**

- A. Following a Committee meeting, the Committee Chair shall provide a written report to the Board at the next regularly scheduled Board meeting to update the Board as to its activities, findings, recommendations, and any other relevant issues. Committee meeting minutes shall be distributed to the Board.
- B. If a Committee meeting has been scheduled, the Committee Chair shall share the agenda for the upcoming Committee meeting with the entire Board at the Board meeting taking place immediately prior to the scheduled Committee meeting or, in the case of a special meeting called without the opportunity to provide the agenda at such prior Board meeting, the agenda is to be shared with the Board as soon as practicable.

**VII. SELF-EVALUATION.**

- A. The Committee shall collaborate with SERS' Investment Office and OCC to review this Committee Charter and the policies and procedures described herein (or otherwise overseen by the Committee) on a biennial basis. The Committee shall recommend any changes thereto to the Board.
- B. The Committee and each Committee Member shall comply with the Board's self-assessment policies and processes, and shall participate in any independent fiduciary reviews.

**VIII. MISCELLANEOUS.**

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Bylaws.

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