

MINUTES of SERS Board Meeting – Wednesday, February 24, 2021

CALLED TO ORDER: 12:52 p.m. by Chair David R. Fillman

MICROSOFT TEAMS MEETING/LIVESTREAM

ATTENDEES:

Members and Designees

David R. Fillman – Chairperson

Glenn E. Becker – Assistant Chairperson

John M. DiSanto

Dan B. Frankel

Stacy Garrity

Gregory K. Jordan

Paul Schemel

Mary A. Soderberg

Gregory C. Thall

Richard Vague

James Bloom – Designee for Secretary Richard Vague

Susan Boyle – Designee for Representative Paul Schemel

Christopher Craig – Designee for Treasurer Stacy Garrity

Lloyd Ebright – Designee for Treasurer Stacy Garrity

Charles Erdman – Designee for Senator John M. DiSanto

Alan Flannigan – Designee for Secretary Richard Vague

Matt Lindsay – Designee for Senator Vincent J. Hughes

Toni Marchowsky – Designee for Senator Vincent J. Hughes

Dan Ocko – Designee for Representative Dan B. Frankel

Patrick Shaughnessy – Designee for Representative Dan B. Frankel

Jill Vecchio – Designee for Representative Paul Schemel

Executive Staff

Seth Kelly

N. Joseph Marcucci

Sara McSurdy

Terrill Sanchez

MINUTES of the SERS Board Meeting Wednesday, February 24, 2021

1. CALL TO ORDER

Chair Fillman called the meeting to order at 12:52 p.m.

2. WELCOME AND ROLL CALL

Executive Director Terri Sanchez conducted a roll call of board members and designees who were on the Microsoft Teams meeting.

Chair Fillman introduced and welcomed new board members Treasurer Stacy Garrity and Representative Paul Schemel.

3. ADOPTION OF THE AGENDA

MOTION: 2021-01

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

RESOLVED: That the board adopts the agenda for the February 24, 2021, board meeting.

4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes – December 2, 2020

B. Approving Statement of Changes in Fiduciary Net Position for the Periods Ending – September 30, October 31 and November 30, 2020

C. Approving Deferred Compensation Plan (DCP) Statement of Changes Report Ending – September 30, October 31 and November 30, 2020

D. Approving Defined Contribution Plan Statement of Changes Report Ending - September 30, October 31 and November 30, 2020

MOTION: 2021-02

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 24, 2021, board meeting.

5. COMMITTEE REPORTS/ACTION ITEMS

A. Finance and Member Services Committee

Committee Chair Soderberg provided a report of the Finance and Member Services Committee to the board. The report was accepted by the board along with the following motion:

FUNDING AGREEMENT WITH SERS EMPLOYER

MOTION: 2021-03

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:

- (1) enter into the attached (ATTACHMENT A) Funding Agreement between the State Employees' Retirement Board and the Pennsylvania State System of Higher Education, pursuant to Section 5508.1(a) of the State Employees' Retirement Code, including the Annual Setoff schedule contained in Exhibit A to the Funding Agreement, subject to required Commonwealth legal approvals;
- (2) accept the Pennsylvania State System of Higher Education's lump sum payment in the amount of \$825,000,000 to be applied towards its unfunded actuarial accrued liability pursuant to the Funding

Agreement, provided that the payment is received by April 30, 2021, and that the opinion of counsel required in paragraph 6.b. of the Funding Agreement has been provided to the board in a form acceptable to the board and to board counsel;

(3) certify that the Annual Setoff amount for the Pennsylvania State System of Higher Education under the Funding Agreement for fiscal year July 1, 2021 – June 30, 2022, is \$79,939,555, effective upon the receipt of a lump sum payment of \$825,000,000 pursuant to the Funding Agreement;

(4) certify that for fiscal year beginning July 1, 2021, for the first twenty-four Pay Periods of the bi-weekly Payroll Cycle, the Annual Setoff credit to the Pennsylvania State System of Higher Education shall be \$3,330,815, subject to any modification as provided for in the Funding Agreement; and

(5) delegate to the Secretary of the Board and administrative staff of the State Employees' Retirement System to: (1) determine annually the amount of the Annual Setoff credit allocated to each Pay Period under each Payroll Cycle to the Pennsylvania State System of Higher Education for fiscal years beginning on or after July 1, 2022; and (2) annually certify those credits to the Pennsylvania State System of Higher Education.

B. Investment Committee

Committee Chair Becker provided a report of the Investment Committee to the board. The report was accepted by the board along with the following motions:

PRIVATE EQUITY – Hellman & Friedman Capital Partners X, L.P.

MOTION: 2021-04

By motion that was moved, seconded, and approved by board members, except designee Christopher Craig on behalf of Treasurer Garrity, who voted NO, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to commit up to \$125 million to Hellman & Friedman Capital Partners X, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a follow-on investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

FIXED INCOME – BNYM Mellon BD SL High Yield Beta Fund

MOTION: 2021-05

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 \$500 million to BNYM Mellon DB SL High Yield Beta Fund, as an investment within the Fixed Income 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.

STEPSTONE GROUP LLC CONTRACT EXTENSION

MOTION: 2021-06

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 authorize an extension of the Agreement between SERS and StepStone Group LLC for private equity consulting services for 18 months (until October 4, 2022), under the existing terms, services, and fee schedules, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, prior to its expiration.

C. Audit, Risk and Compliance Committee

Committee Chair Thall provided a report of the Audit, Risk and Compliance Committee to the board. The report was accepted by the board.

D. Board Governance and Personnel Committee

Committee Chair Fillman provided a report of the Board Governance and Personnel Committee to the board. The report was accepted by the board along with the following motion:

BOARD EDUCATION POLICY**MOTION: 2021-07**

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 the amendments to the Board Education Policy, as set forth in the attached (ATTACHMENT B).

E. Defined Contribution Committee

Committee Chair Soderberg provided a report of the Defined Contribution Committee to the board. The report was accepted by the board.

F. Securities Litigation Committee

Committee Chair Jordan provided a report of the Securities Litigation Committee to the board. The report was accepted by the board.

6. OLD BUSINESS - NONE**7. NEW BUSINESS**

A. Board Member Secretary Vague provided a statement to reflect a different SERS than as written in the February 19, 2021, Philadelphia Inquirer article, as read by his designee Alan Flannigan. The statement is provided in ATTACHMENT C.

8. SPECIAL PRESENTATION**A. Board Education – Role of Equity in the Fund**

CIO Seth Kelly presented an education session on the Role of Equity in the Fund. Attendees will earn educational credit for this session.

9. REPORT OF EXECUTIVE DIRECTOR**A. Executive Director Sanchez provided the following reports:**

- (i) A reminder that Financial Disclosures Forms and Conflict of Interest Statements from board members and designees are due May 1, 2021.

SERS social media exposure has expanded to have a blog. The first subject of the new blog is the Deferred Compensation program provided by board member, Mary Soderberg. This blog can be found on the SERS Internet/In-Site Blog/Resource Tab.

SERS had an agency wide roll out of the Strategic Plan and goals set. Executive Director Sanchez thanked Chair Fillman who spoke at the meeting and for his time to attend the agency wide meeting.

- (ii) Executive Director Sanchez noted the Legislative update is behind TAB 9a(ii) on BoardDocs and there is a lot of informative and useful information in the update.
- (iii) The following are the results of the notational ballots regarding the following accounts:

Account of Gary E. Smith, Sr.
Docket No. 2017-08
Claim of Gary E. Smith, Sr.

The State Employees' Retirement Board has **GRANTED** the State Employees' Retirement System's Motion to Dismiss Claimant's appeal related to his application for and receipt of a disability benefit, which has been discontinued. This appeal is **Dismissed with Prejudice**.

Account of Daniel J. Kerbacher
Docket No. 2016-17
Claim of Daniel J. Kerbacher

The State Employees' Retirement Board has **DENIED** Claimant's request to be exempted from the annual compensation limits as required by Section 5506.1 of the State Employees' Retirement Code and Section 401(a)(17) of the Internal Revenue Code.

Account of Kay S. Chick
Docket No. 2018-06
Claim of Kay S. Chick

The State Employees' Retirement Board has **DENIED** Claimant's request for a waiver of the service credit adjustment of her account and recalculation of her benefit to eliminate double credit for the same service.

- (iv) The following Board Dismissal report regarding uncontested matters in which an Order was issued dismissing the following administrative appeal, as provided to the board:

Account of Tara L. Snyder
Docket No. 2020-08
Claim of Tara L. Snyder

10. EXECUTIVE SESSION

- A. Notational Ballot
- B. Pending Benefits Administration Appellate Litigation Update
- C. 2020 Annual Litigation Report
- D. Report on Referrals of Prospective or Existing Investment Transaction or Contract

At 2:36 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 2:57 p.m.

11. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

A board retreat is scheduled for Thursday, March 25, 2021. The next regular meeting of the SERS board is scheduled for April 27-28, 2021.

12. MOTION TO ADJOURN**MOTION: 2021-08**

By motion of Chair Fillman, the board unanimously agreed to adjourn the meeting at 3:00 p.m.

Respectfully submitted,



Terrill (Terri) J. Sanchez
Executive Director

ATTACHMENT A

FUNDING AGREEMENT

SERS #20-_____

This Funding Agreement ("Funding Agreement") is made this ____ day of _____, 2021, by and between the Commonwealth of Pennsylvania State Employees' Retirement Board, with its principal place of business at 30 North Third Street, Suite 150, Harrisburg, Pennsylvania 17101-1716 (the "Board"), and the Pennsylvania State System of Higher Education, with its principal place of business at 2986 North 2nd Street, Harrisburg, Pennsylvania 17110 ("PASSHE" or "Employer 2").

Witnesseth:

WHEREAS, on November 27, 2019, the Act of Nov. 27, 2019, P.L. 723, No. 105 (the "Act"), was signed into law allowing for, amongst other things, the ability of an Eligible Employer, as defined in the Act, to enter into agreements with the Board to make a lump sum advance payment of the Eligible Employer's accrued liability contributions; and

WHEREAS, PASSHE is an Eligible Employer under the Act; and

WHEREAS, as contemplated in the Act, PASSHE has entered into a Cost Agreement (SERS #20-030) with the Board, effective as of October 21, 2020 (the "Cost Agreement"), whereby PASSHE has agreed to pay PASSHE Specific Implementation Costs, as defined in the Cost Agreement, incurred by the Board in estimating, determining, calculating and administering 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 to the Board by PASSHE; and

WHEREAS, PASSHE agreed to pay upon execution of the Cost Agreement, the Board Internal Counsel Fees, as defined in the Cost Agreement, which are part of the PASSHE Specific Implementation Costs; and

WHEREAS, PASSHE has agreed to pay as reimbursement its Pro-Rata Share of General Initial Implementation Costs directly to the Pennsylvania State University ("PSU" or "Employer 1"), as described in the Cost Agreement; and

WHEREAS, PASSHE has paid in full the Board Internal Counsel Fees and its Pro-Rata Share of General Initial Implementation Costs to the respective parties, as agreed to in the Cost Agreement, as such payments are preconditions to entering into the Funding Agreement; and

WHEREAS, as also contemplated in the Act, PASSHE and the Board desire to enter into this Funding Agreement by which PASSHE agrees to make one (1) lump sum advance payment

to the Board of all or a part of PASSHE's portion of the present value of future accrued liability contributions determined under section 5508(c)(4) of the State Employees' Retirement Code, 71 Pa. C.S. §§5101 *et seq.* (the "Retirement Code"), as modified by the cumulative experience adjustment factors calculated under section 5508(f)(1) of the Retirement Code.

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, the receipt and sufficiency of which is hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

1. Recitals. The above recitals are deemed to be an integral part of this Funding Agreement and are incorporated herein by reference thereto.
2. Term. This Funding Agreement shall become effective as of the date first written above and, unless terminated sooner in accordance with Paragraph 8 below, shall continue in full force and effect until the later of June 30, 2052, or such time as all setoff credits have been utilized by PASSHE as described below and in accordance with the Retirement Code.
3. Lump Sum Payment of Accrued Liability Contributions.
 - a. PASSHE shall make one (1) lump sum payment to the Board of no less than seventy-five percent (75%) and no more than one hundred percent (100%) of the portion of the unfunded accrued liability of the State Employees' Retirement System ("SERS") allocated to PASSHE as stated below in subparagraph g. (the "Lump Sum Payment").
 - b. For purposes of determining the Lump Sum Payment, the calculation of the unfunded actuarial accrued liability of SERS, as well as the portion allocated to PASSHE, shall be: (i) made by the Board's actuary (the "Actuary") as of December 31, 2019, for SERS annual actuarial valuation in 2019 (the "2019 Determination Date") in a manner, and using actuarial factors and assumptions, as the Actuary determined, and (ii) certified and approved by the Board.
 - c. The methodology used for the allocation of the unfunded actuarial accrued liability to PASSHE (as well as other terms and conditions contained in this Funding Agreement), must be such that they satisfy the requirements of section 5508.1(b)(4) of the Retirement Code.
 - d. The parties have calculated the allocation of the unfunded actuarial accrued liability to PASSHE by using the 2019 Determination Date to calculate and allocate PASSHE's share of the unfunded actuarial accrued liability.

- e. PASSHE's Lump Sum Payment shall be applied as credits (the "Annual Setoff") to its annual accrued liability contributions due to SERS in the amounts set forth in the Setoff Schedule in Exhibit A. PASSHE's Annual Setoff amounts are consistent with selected payments from an estimated SERS amortization schedule with a calculation date of December 31, 2020, and amortization schedule starting date of July 1, 2021, based on the December 31, 2019 annual actuarial valuation, adjusted by applying: (i) the economic and demographic assumptions adopted by the Board as a result of the State Employees' Retirement System 19th Investigation of Actuarial Experience January 1, 2015 to December 31, 2019; and (ii) the recognition of one fifth of the investment gains and losses for calendar years 2016, 2017, 2018, and 2019; (the "2020 Setoff Calculation").
- f. The parties acknowledge and agree that a good faith determination and calculation has been completed and that the payment of the Lump Sum Payment when applied to the 2019 Determination Date complies with subparagraph a. above.
- g. The Lump Sum Payment shall be Eight Hundred, Twenty-Five Million Dollars and No Cents (\$825,000,000.00); to be made on or before Friday, April 30, 2021, in accordance with the wiring instructions to be provided by the Board to PASSHE upon the parties' execution of this Funding Agreement. The Lump Sum Payment shall not be refunded or repaid to PASSHE, however, all setoff credits will be credited against PASSHE's future employer contributions pursuant to the Retirement Code consistent with Paragraphs 2 and 4(a) of this Funding Agreement.

4. Effect of Lump Sum Payment.

- a. Upon making the Lump Sum Payment, PASSHE shall receive its Annual Setoff on a fiscal year basis against the payment of future contributions of PASSHE in an amount and for the time period as more fully set forth in Exhibit A. If any setoff credits remain beyond the time period accounted for in Exhibit A, then the maximum amount necessary of such unused setoff credits will be applied to any remaining liabilities PASSHE may have to SERS other than under section 5507(e) and (g) of the Retirement Code for each fiscal year subsequent to the final year assigned a non-zero Annual Setoff amount in Exhibit A until all unused setoff credits are fully utilized.
- b. The Annual Setoff amounts are calculated to be equal to the ratio of the value of the Lump Sum Payment compared to the value of selected payments

from the estimated SERS amortization schedule with a calculation date of December 31, 2020, as determined by the Actuary in the 2020 Setoff Calculation and approved by the Board.

- c. The Setoff Schedule is consistent with selected payments from an estimated SERS' amortization schedule and interest rate assumption of 7.00% compounded annually in effect as of the December 31, 2020, annual actuarial valuation in accordance with section 5902(j) of the Retirement Code and will not be adjusted for changes in future actuarial cost methodologies, except as provided in section 5508.1(b)(8)(ii) of the Retirement Code.
- d. The Annual Setoff shall be apportioned to PASSHE's Payroll Cycle as defined in Exhibit A to coincide with PASSHE's regular annual contribution payments to SERS pursuant to the Retirement Code.
- e. The parties agree that the method of apportioning the Annual Setoff to PASSHE's Payroll Cycle and individual Pay Periods contained in Exhibit A may be amended upon the written agreement of the parties to reflect modifications to PASSHE's schedule of compensation payments to employees who are members of SERS and/or participants in the State Employees' Defined Contribution Plan ("SEDCP").
- f. The calculations to determine PASSHE's Lump Sum payment are based on SERS' 2019 actuarial valuation and the 2019 Determination Date and the Annual Setoff is based on an estimated unfunded accrued liability as of December 31, 2020, as made in the 2020 Setoff Calculation.
- g. The Annual Setoff for PASSHE for the period July 1, 2021, to June 30, 2022, and all subsequent fiscal years shall be applied to the actual employer contribution rates and contribution amounts for the period July 1, 2021, to June 30, 2022, and all subsequent years, as certified by the Board.
- h. To the extent that the Annual Setoff for any year exceeds the actual employer contributions for that year in excess of the contributions due under section 5507(e) and (g) of the Retirement Code, any excess credit will be accumulated and carried forward without any adjustment for interest in accordance with section 5508.1(c)(1) of the Retirement Code until such time as the unused setoff credit may be applied to the actual employer contribution rates and contributions amount in a subsequent year.

5. Board Representations. The Board hereby represents that:

- a. The Annual Setoff amounts set forth in Exhibit A are:
 - i. in dollar amounts that are consistent with the estimated SERS' amortization bases as of December 31, 2020, as determined in the 2020 Setoff Calculation; and
 - ii. for a period not to exceed 30 fiscal years beginning July 1, 2021.
 - b. It has not been, and will not be, involved in the issuance, service, or administration of any bonds or financial instruments, or any obligations of PASSHE, the proceeds of which are used to make any portion of the Lump Sum Payment;
 - c. It has not provided, and will not provide, financial advice, or in any way act as a broker, banker, financial advisor, investment manager, or in a similar capacity to PASSHE; and
 - d. Any and all funds received as a result of the Lump Sum Payment shall be part of the general assets of the State Employees' Retirement Fund and may not be segregated or invested separately for the account or benefit of PASSHE.
6. Employer Representations. PASSHE hereby represents that:
- a. Any and all funds used to make the Lump Sum Payment shall be unrestricted funds of PASSHE or originate from a bond or other financial instrument that is permitted to be used as payment for pension obligations;
 - b. It shall, at PASSHE's sole cost and expense, provide to the Board an opinion of counsel stating, *inter alia*, that such bond or other financial instrument (as referenced in subparagraph a. above): (i) is lawfully permitted to be used for the payment of pension obligations; (ii) shall not jeopardize the tax-qualified status of SERS pursuant to Internal Revenue Code Section 401(a); (iii) shall not alter the tax-exempt status of the Board; and (iv) shall not result in prohibited transaction as defined in Internal Revenue Code Section 503(b). Said opinion of counsel shall be in a form acceptable to the Board and approved by counsel to the Board;
 - c. Any reference to PASSHE herein shall be deemed to also be a reference to the Head of the Department of PASSHE as an "Employer", as the term is defined in the Retirement Code;
 - d. Any and all reports that PASSHE is required to provide to the Board pursuant to the Retirement Code as currently in effect or as amended in the

future (including but not limited to the Retirement Deductions Report) shall include all data that PASSHE would have provided to the Board in connection with its regular annual contribution payments pursuant to the Retirement Code but for the application of the Setoff Schedule. PASSHE shall provide any new reporting in connection with this Agreement that the Board may reasonably request going forward in a form and frequency reasonably acceptable to the Board;

- e. Nothing in this Funding Agreement shall be construed to change, limit, or otherwise abate PASSHE's responsibility to make all other statutorily-required contributions to SERS and/or the Board including, but not limited to, payments to the SEDCP or the State Employees' Deferred Compensation Plan;
 - f. Nothing in this Funding Agreement shall be construed to result in the elimination of PASSHE's obligation to make its regular annual contribution payments pursuant to the Retirement Code, which shall remain unchanged and otherwise due and payable to SERS; and
 - g. It is acknowledged and agreed by PASSHE that the Lump Sum Payment shall operate solely as a credit in which its regular contribution payments, including contributions attributable to the employer normal contribution rate and any supplemental annuity contribution rate, shall be setoff on an annual basis in accordance Exhibit A, and as is otherwise set forth in this Funding Agreement.
7. Compensation. All compensation related to the costs and fees of this Funding Agreement have been set forth in the Cost Agreement, and no further compensation is contemplated in relation to this Funding Agreement beyond the Lump Sum Payment as described in Paragraph 3 above.
8. Employer Determination. Notwithstanding anything to the contrary herein, PASSHE may determine, in its sole and absolute discretion, to not make the Lump Sum Payment by providing written notice to the Board on or before April 30, 2021. If PASSHE makes such a determination, this Agreement will automatically terminate with no liability to either party, other than PASSHE's liability to reimburse the Board for the actual Outside Legal Counsel Fees and actual Outside Actuarial Fees incurred prior to the date of termination pursuant to the Cost Agreement.
9. Notices. Any notice, demand, direction, instruction and other communications required or permitted hereunder shall be confirmed in writing and shall be sufficiently given for all purposes when sent: (a) by certified or registered U.S. mail, postage prepaid; (b) by a nationally recognized courier service that maintains written verification of actual

delivery; (c) by facsimile, with a copy of the communication sent by first class U.S. mail, postage prepaid (provided that if the date of dispatch is not a business day, the facsimile shall be deemed to have been received at the opening of business of the addressee on the next business day); (d) by email (provided that written confirmation of receipt of such email by the party being notified is provided to and/or obtained by the party so notifying); or (e) by delivering the same in person to either party at the following addresses (or such other addresses as may be designated from time to time by the parties in writing):

If to the BOARD: COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT BOARD
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Executive Director
Facsimile: (717) 783-7300
Email: (To be provided in a separate writing)

With copies to: COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT BOARD
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Chief Financial Officer
Facsimile: (717) 783-1708
Email: (To be provided in a separate writing)

And COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT BOARD
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Chief Counsel
Facsimile: (717) 787-5751
Email: (To be provided in a separate writing)

If to Employer: PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
2986 N 2nd Street
Harrisburg, Pennsylvania 17110-1201
Attn: Executive Vice Chancellor
Email: (To be provided in a separate writing)

With Copies to: PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
2986 N 2nd Street
Harrisburg, Pennsylvania 17110-1201

Attn: Chief Counsel

Email: (To be provided in a separate writing)

10. Applicable Law/Jurisdiction. This Funding Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Commonwealth of Pennsylvania (without regard to any conflict of law provisions) including, but not limited to, the Pennsylvania Right-to-Know Law, 65 P.S. §§ 67.101 - 67-3104. PASSHE hereby: (a) consents to exclusive jurisdiction in any court of the Commonwealth of Pennsylvania, any federal courts in Pennsylvania, and the Board of Claims of the Commonwealth of Pennsylvania ("Board of Claims"); (b) agrees that any such court and the Board of Claims shall have *in personam* jurisdiction over it, thus waiving any claim or defense that such forum is not convenient or proper; and (c) agrees that any claim PASSHE asserts against the Board pursuant to this Funding Agreement shall only be brought before and subject to the exclusive jurisdiction of the Board of Claims pursuant to sections 1721 *et seq.* of Title 62 Pa. Statutes. PASSHE consents to service of process in any manner authorized by Pennsylvania law.
11. Reservation of Immunities. The liability of the Board for any act or omission arising out of or related to this Funding Agreement shall be as determined by a court of competent jurisdiction provided that nothing in this Funding Agreement will be construed to waive the sovereign immunity of the Board or to subject the Board to any liability not expressly authorized by law, including the remedy provided to the Employer in Paragraph 10 above. By virtue of provisions of Pennsylvania Law applicable to PASSHE as an agency of the Commonwealth of Pennsylvania and to the Board as an independent administrative board of the Commonwealth of Pennsylvania, nothing in this Funding Agreement shall be construed to waive any defense PASSHE or the Board may have, including that of sovereign immunity.
12. Indemnification. By virtue of provisions of Pennsylvania Law applicable to the Board as an independent administrative board of the Commonwealth of Pennsylvania that prohibit the Board from engaging in indemnification, PASSHE hereby agrees that it shall at no time or for any reason require the Board to directly indemnify it or anyone pursuant to or in connection with this Funding Agreement.
13. Assignment. Neither party may assign, in whole or in part, this Funding Agreement, or its rights, duties, obligations, or responsibilities hereunder, without the express written consent of the other party. Notwithstanding the foregoing, this Funding Agreement may be assigned by the Board to an affiliate or successor organization without the consent of PASSHE, provided that such affiliate or successor organization of the Board executes a document whereby the affiliate or successor organization assumes all of the applicable obligations, duties, rights, and/or responsibilities of the Board pursuant to this Funding Agreement.

14. Binding Effect. This Funding Agreement inures to the benefit of and binds all parties hereto and their respective successors and assigns.
15. Amendment. No amendment or modification of this Funding Agreement shall have any force or effect unless it is in writing and signed by the parties hereto.
16. Counterparts. This Funding Agreement may be executed and delivered in one or any number of separate counterparts, each of which shall be deemed an original, but the several counterparts shall together constitute but one and the same instrument. A signature delivered by PDF format, facsimile, or by other electronic means shall be considered original for purposes of this Funding Agreement.
17. Severability. If any one or more of the covenants, agreements, provisions or terms of this Funding Agreement shall be held contrary to any express provision of law, or contrary to the policy of express law though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Funding Agreement and shall in no way affect the validity or enforceability of the remainder of this Funding Agreement or the rights of the parties hereto.
18. Headings. The headings and captions in this Funding Agreement are for convenience and reference purposes only and shall not be construed or deemed to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions hereof.
19. Entire Agreement. This Funding Agreement and the Cost Agreement (as well as the Exhibit A attached hereto) contain the entire agreement of the parties, and shall supersede all prior contracts and undertakings, written or oral, with respect to the same subject matter between the parties.

[Remainder of Page Intentionally Left Blank; Signatures Follow]

IN WITNESS WHEREOF, the parties to this Funding Agreement have executed it by their respective duly authorized officers, to be effective as of the date first above written. This Funding Agreement will not legally bind the Board unless and until all Commonwealth signatures are affixed hereto.

**PENNSYLVANIA STATE SYSTEM
of HIGHER EDUCATION**

Federal Tax Identification No.: [REDACTED]

**COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT BOARD**

Federal Tax Identification No.: [REDACTED]

By: _____
Name: Sharon Minnich Date
Title: Executive Vice Chancellor

By: _____
Name: Terrill J. Sanchez Date
Title: Secretary

**APPROVED AS TO FISCAL RESPONSIBILITY,
BUDGETARY APPROPRIATENESS AND
AVAILABILITY OF FUNDS**

BY: _____
Comptroller Date

APPROVED FOR FORM AND LEGALITY:
Office of Legal Counsel for PASSHE

APPROVED:
SERS Office of Chief Counsel

BY: _____
Name: _____ Date
Title: _____

Office of General Counsel

BY: _____
Name: Nicholas Joseph Marcucci Date
Title: Chief Counsel

BY: _____
Name: _____ Date
Title: _____

Office of Attorney General

BY: _____
Name: _____
Title: _____

Exhibit A

ANNUAL SETOFF

Subparagraph 3(g) of the Funding Agreement specifies that the Lump Sum Payment shall be Eight Hundred, Twenty-Five Million Dollars and No Cents (\$825,000,000.00); to be made on or before April 30, 2021. Based on this amount and date, the Annual Setoff amounts shall be:

Contribution for Fiscal Year Beginning July 1	PASSHE Annual Setoff Amount
2021	\$79,939,555
2022	\$79,939,555
2023	\$79,939,555
2024	\$79,939,555
2025	\$79,939,555
2026	\$79,939,555
2027	\$79,939,555
2028	\$79,939,555
2029	\$79,939,555
2030	\$79,939,555
2031	\$69,427,421
2032	\$69,427,421
2033	\$69,427,421
2034	\$69,427,421
2035	\$69,427,421
2036	\$69,427,421
2037	\$52,258,540
2038	\$52,258,540
2039	\$52,258,540
2040	\$52,258,540
2041	\$22,001,027
2042	\$12,093,718
2043	\$12,093,718
2044	\$11,043,542
2045	\$9,574,074
2046	\$4,938,453
2047	\$2,686,967
2048	\$2,686,967

2049	\$2,686,967
2050	\$2,686,967
2051 and thereafter	\$0

The schedule of Annual Setoff amounts and the amounts calculated in the table above are based on the 2020 Setoff Calculation. They will not be adjusted for changes in future actuarial cost methodologies, except as provided in 71 Pa. C.S. §5508.1(b)(8)(ii).

Consistent with Paragraphs 2 and 4(a) of the Funding Agreement, any unused setoff credits as of June 30, 2051, will be applied to any remaining liabilities that PASSHE may have to SERS other than under 71 Pa. C.S. § 5507(e) and (g) for each fiscal year subsequent to the final year assigned a non-zero Annual Setoff amount in Exhibit A until all unused setoff credits are fully utilized.

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SETOFF SCHEDULE

1. This Exhibit will refer to Pay Periods and the Payroll Cycle, which for purposes of the Funding Agreement and particularly, this Exhibit A, will carry to following meanings:
 - a. A Pay Period shall hereinafter refer to the recurring length of time over which an employee's time is recorded for the purpose of calculating wages.
 - b. The Payroll Cycle shall hereinafter refer to the frequency by which Pay Periods occur, which, for the purposes of the Funding Agreement, PASSHE currently has one bi-weekly Payroll Cycle.

All other capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Funding Agreement.

2. The Board shall allocate the amount of the Annual Setoff credited to PASSHE to each Pay Period under the Payroll Cycle. This allocation shall be approximately the setoff amount divided by the number of Pay Periods in that schedule minus two and shall be applied starting with the first Pay Period of the Payroll Cycle of the applicable fiscal year and for each succeeding Pay Period except for the last one of the Payroll Cycle. The Board shall determine the exact amount of the Annual Setoff credit for each Pay Period and may vary such credit amount each Pay Period to account for expected annual or seasonal variations in pay Period amounts. In making this determination, the Board may request and take into consideration additional information from PASSHE regarding PASSHE's expectations of future compensation and allocation between its Payroll Cycle and Pay Periods for the July 1 to June 30 funding year at issue. This paragraph 2 may be amended by mutual agreement by the parties pursuant to Subparagraph 4(e) of the Funding Agreement.
3. Notwithstanding paragraph 2 of this Exhibit A, in each Pay Period PASSHE shall make contributions to the State Employees' Retirement Fund at least equal to the amount due under 71 Pa. C.S. §5507(e) & (g).
4. If PASSHE's contributions due to the State Employees' Retirement Fund under 71 Pa. C.S. §5507 each Pay Period that are in excess of the contributions due under 71 Pa. C.S. §5507(e) and (g) are less than the Annual Setoff credit for that Pay Period, then the amount by which the credit is greater shall be applied as a credit to PASSHE's contributions in the last two Pay Periods of the Payroll Cycle, subject to Paragraph 3 of this Exhibit A. The Board will notify PASSHE of the amount of the excess credit, if any, to be applied to PASSHE's contributions in the last two Pay Periods of the Payroll Cycle.
5. If PASSHE's contributions due to the State Employees' Retirement Fund in the last Pay

Period of the Payroll Cycle in excess of the contributions due under 71 Pa. C.S. §5507(e) and (g) are less than the accumulated excess credits carried over under Paragraph 4 of this Exhibit A, or if the actual PASSHE contribution amount is not sufficient to fully utilize all remaining credits, then the excess credits shall accumulate without any adjustment for interest and shall be applied as part of the Annual Setoff amount for the second following fiscal year. The Board will notify PASSHE of the amount of any excess setoff credits not utilized in a fiscal year that will be applied to the second following fiscal year, and to years thereafter, until such time all credits are fully utilized.

6. The Board shall certify all credit amounts pursuant to 71 Pa. C.S. §5902(k).

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SETOFF SCHEDULE EXAMPLE*

** Using rough approximations of actual numbers for convenience and ease of showing the concept and ignoring rounding issues and variations in payroll amounts each pay period*

Example employer annual retirement covered compensation = \$400,000,000

Bi-weekly Pay Period amount assuming equal retirement covered compensation paid each pay period (\$400,000,000 divided by 26) = \$15,384,615

Example Annual Setoff amount = \$72,000,000

Example contribution rate under 71 Pa. C.S. §5507(g) = .62%

Example benefit completion plan contribution rate under 71 Pa. C.S. §5507(e) = .03%

Divide \$72,000,000 (amount of example Annual Setoff amount annual retirement covered compensation) by 24 (number of bi-weekly Pay Periods in year minus two) = \$3,000,000

Example employer receives a credit of \$3,000,000 for each of the first 24 bi-weekly Pay Periods but must pay at least \$100,000 (.65% of \$15,384,615). If the otherwise assessed employer defined benefit system contributions in any of the first 24 biweekly Pay Periods are too small to take the full credit, then the excess is carried over and applied as a credit against the 25th bi-weekly Pay Period and if necessary, against the 26th bi-weekly Pay Period.

If the employer contributions in the 25th and 26th Pay Period of the bi-weekly Payroll Cycle are too small to take all the excess carry-over setoff credits, then the excess annual setoff credits are recognized in a future year's setoff amount.

This example assumes that there are 26 Pay Periods in the bi-weekly Payroll Cycle. If there happens to be an extra Pay Period in a Payroll Cycle (for example, some years have 27 bi-weekly pay days), then the Annual Setoff amounts allocated as setoff credits to each Pay Period would be adjusted to account for the additional Pay Period.

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Policy Name: Board Education Policy
Policy Number: 2017 POL-BD-06
Effective Date: July 26, 2017, as amended April 25, 2018, as amended September 12, 2018, as amended February 24, 2021
Reviewed Date: July 26, 2017, April 25, 2018, August 2, 2018, January 7, 2021
Applies To: SERS Board Members and Designees
Contact Person: Board Education and Training Manager

I. Purpose

Board members, as the trustees of the Pennsylvania State Employees' Retirement Fund (the "Fund"), and their designees are governing fiduciaries of the Fund and are subject to the exercise of that degree of judgment, skill and care that a prudent investor would observe under similar circumstances. It is the purpose of this policy to provide for the educational training of Board members and their designees, in order for them to fulfill their fiduciary obligations. All Board members are required to successfully complete a specified number of hours of training as specified in the State Employees' Retirement Code ("Retirement Code") and identified below. Pursuant to Act 2020-128 and amendments made to the Retirement Code, Board members appointed to the Audit, Risk, and Compliance Committee are also required to complete a specified number of hours of training in risk assessments, internal controls, and auditing standards, as identified below. Designees shall also be required to successfully complete the number of hours of training as required of the Board member for whom they serve as designee. In addition, Board members and designees are also required to receive one hour of ethics training annually.

Board members and designees should also individually and collectively aspire to develop an understanding of peer practices and the issues involved in managing large pools of assets. This policy sets forth the process for Board members and designees to receive such training, education and professional development. For purposes of this policy, "Chairperson" includes the Chairperson's designee.

II. Core Competencies

Board members and designees should aspire to develop a collective understanding of the following areas ("Core Competencies"). This policy does not contemplate that every member or designee become fully competent in each of these areas or that all Core Competencies must be represented on the Board. Rather, the Board should engage in a biennial evaluation and planning process focused on (a) identifying member skill sets and interests, (b) aspiring to foster development of individual and combined member Core Competencies that are as complete as practical, and (c) prioritizing development of any Core Competencies which are expected to be most needed over the next two to four years. The following nonexclusive list is merely for demonstration purposes and is not intended to reflect minimum competencies.

-
- (1) Fiduciary Responsibilities and Laws Relevant to the Board
 - (2) Governance Structure, Practices and Policies
 - (3) Regulatory and Legal Issues (*e.g.*, public records and open meetings law compliance, budget, state government oversight, tax law and plan qualification features, non-tax legal requirements etc.)
 - (4) Investment Strategies, Asset Allocation, Risk Assessment, and Retirement Portfolio Management (*e.g.* Benchmarks, performance measurement, investment risk, reporting standards, economic principles and related concepts)
 - (5) Standards of Conduct, Confidentiality, Conflicts of Interest, Ethics Code Provisions, Personal Investments and Related Disclosure Requirements
 - (6) Internal Controls, Auditing Standards, and Financial and Accounting Standards and Practice (*e.g.*, financial controls, audits, and compliance functions)
 - (7) Benefits Design and Administration (*e.g.*, benefit plan features, risks inherent in benefits administration, basic administrative operations and processes)
 - (8) Actuarial Cost Analysis, Funding and Asset-Liability concepts
 - (9) Communications and Stakeholder relations(10) Best Practices for Governing Board and the Conduct of Meetings
 - (11) Selection, Contracting, Monitoring and Evaluation of Advisors, Managers, Consultants and Other Service Providers
 - (12) Materiality of Sustainability, Environmental, Societal and Corporate Governance Factors
 - (13) Enterprise Risk Management and Oversight
 - (14) Strategic Planning Processes
 - (15) Pension Plan and Investment Industry Issues and Trends
 - (16) Other Topics Related to Particular Issues that Arise

III. Skills Inventory and Education Plan

Pursuant to the Retirement Code, each Board member and designee is required to obtain mandatory training, as follows:

- A. For the period ending December 31, 2021, eight (8) hours of mandatory training in investment strategies, actuarial cost analysis, and retirement portfolio management on an annual basis ("Pre-2022 Mandatory Core Competency Training").
- B. Pursuant to Act 2020-128, effective January 1, 2022, and annually thereafter, ten (10) hours of mandatory training in investment strategies, actuarial cost analysis, asset allocation, risk assessment, and retirement portfolio management on an annual basis ("Post-2021 Mandatory Core Competency Training").
- C. One hour of ethics training annually ("Ethics Training") (hereafter, the Pre-2022 Mandatory Core Competency Training, Post-2021 Mandatory Core Competency Training, and Ethics Training are cumulatively referred to as the "Mandatory Board Training").

Pursuant to Act 2020-128, effective February 24, 2021, in order to be newly appointed to the Audit, Risk and Compliance Committee as a voting member, a Board member must complete at least sixteen (16) hours of training in risk assessments, internal controls, and auditing standards within ninety (90) days of an initial appointment to the committee. Notwithstanding a Board member having satisfied the sixteen (16) training requirement, any new designees of that Board member must satisfy this training requirement within ninety (90) days of the designee's appointment to serve as a designee. The sixteen (16) hours of training are inclusive of the hours indicated for Mandatory Board Training. The Committee on Sponsoring Organizations enterprise risk management guidelines may be considered as a guide to the training. Individuals who were members (including designees of members) of the Audit Risk and Compliance Committee on February 23, 2021 shall be exempt from the initial 16-hour requirement. In order to continue serving as a voting member of the Audit, Risk and Compliance Committee following initial appointment, a Board member and designee must complete at least eight (8) hours of continuing education in risk assessments, internal controls, and auditing standards each calendar year thereafter. (The training required for members of the Audit, Risk, and Compliance Committee is hereinafter referred to as the "Mandatory Committee Training")

Board Members and designees are also required to obtain one hour of ethics training on an annual basis ("Ethics Competency Training") (hereinafter the Mandatory Board Training, Mandatory Committee Training, and Ethics Competency Training are cumulatively referred to as the "Mandatory Training").

The Board should undertake, in conjunction with receipt of any Board self-assessment results and in consideration of the Mandatory Training requirement, a biennial planning process to identify and prioritize those Core Competencies on which training is desired and required and those which are expected to be particularly important over the following two to four years. The Chairperson may request individual member preferences for participation in future training. A proposed education plan that contains Board and individual member educational goals and Mandatory Training requirements shall be developed for Board approval. The plan shall include an education budget to cover costs associated with authorized attendance at outside conferences, classes or training sessions. In addition to the required Mandatory Training, each Board member

and designee should attempt to receive or attend at least four hours of additional training on an annual basis for the period ending December 31, 2021, and at least two hours of additional training on an annual basis commencing January 1, 2022 ("Non-Mandatory Training"). Non-mandatory Training shall be in addition to any Mandatory Training requirements. Training hours earned for any Mandatory and Non-Mandatory Training shall be determined annually on December 31. Up to five qualifying hours of training earned in a calendar year in excess of the required number of Mandatory Training hours may be applied to the next calendar year.

For any new members or designees, the Mandatory Board Training requirements shall commence on January 1 of the calendar year following their being seated on the Board or, in the case of designees, upon their designation as designee. Relevant training received through attendance at presentations approved by the Pennsylvania Public School Employees' Retirement System, as part of the mandatory training requirements of Act 5 of 2017 and Act 2020-128, may be counted toward the Mandatory Training requirements. Relevant training received for or through other entities may be counted toward the annual requirement, upon approval of the Chairperson.

IV. New Member and Designee Orientation

1. A formal orientation program, covering the Core Competencies outlined above as well as any other pertinent topics, shall be developed by the Executive Director for the benefit of new members and designees. The orientation may consist of a single session or multiple sessions. It should be scheduled and completed as soon as reasonably practical. The orientation may be conducted by SERS staff or outside experts, or both, and may include attendance at conference sessions, classes or seminars. Members and designees participating in an orientation shall receive credit for participation in Non-Mandatory Training.
2. Prior to attending their first meeting of the Board as a trustee or as a designee, and to the extent practicable, new members and designees shall be invited by the Chairperson or Executive Director to attend a meeting of the Board or a standing committee as an observer.
3. New members and designees shall, as soon as possible, and under the direction of the Executive Director, be:
 - a. Briefed on the history, background and structure of the Pennsylvania State Employees' Retirement System ("SERS").
 - b. Briefed on current issues before the Board;
 - c. Introduced to senior management;
 - d. Briefed on their fiduciary duties, conflict of interest guidelines, financial disclosure requirements, public records and open meetings laws, and other pertinent laws, policies and regulations; and

- e. Provided with all relevant information and documentation deemed appropriate by the Chairperson or the Executive Director.
4. The Executive Director shall biennially review and, if necessary, update all orientation material and supply each member with those updates.
5. Participation in orientation sessions shall be open to all Board members and designees.

V. Mentorship

A new member may request assignment of a mentor to assist in becoming familiar with Board responsibilities. If requested, the Chairperson shall assign an experienced Board member to provide mentorship for up to a year.

VI. Regular Ongoing Educational Opportunities and Budget

1. Training on many Core Competencies may be effectively taught by staff or experts from the Office of State Treasurer, Office of Attorney General, Office of General Counsel, Pennsylvania State Ethics Commission or other local sources. To assist Board members and designees in identifying quality educational opportunities that provide relevant training, the Executive Director shall compile and maintain a list of pre-approved educational events, based on the feedback of SERS members and SERS staff who have attended such events. The list shall be distributed to the Board at each regular meeting. Board members and designees may also suggest educational events for the Executive Director to consider in developing the list. Such training and educational events for Core Competencies may satisfy other professional development requirements (*e.g.*, continuing legal education credits for attorneys).
2. Members and designees may submit requests to the Executive Director for educational credit approval for attendance at outside educational events not listed on the list of pre-approved educational events.
3. Attendance at outside educational events shall be done in compliance with all applicable travel, business expense, budget, ethics code and standards of conduct limitations. Members and designees attend events as fiduciary representatives of the Board and should avoid even the appearance of impropriety.
4. The Board with input from the Executive Director shall establish a budget to allow attendance at approved outside educational opportunities on a fair and impartial basis, pursuant to its education plan.
5. On a periodic basis throughout the year, members and designees shall be provided with updates as to credit received for Mandatory Training and Non-Mandatory Training.

6. The Executive Director shall provide regular opportunities for Board members and designees to receive industry periodicals, books and other materials that are relevant to development and maintenance of Core Competencies.
7. The Executive Director shall ensure that refresher training sessions are offered on a regular basis, in Board meetings or otherwise, with attention to specific Core Competencies and ethics training in the education plan. Board members may request scheduling of training on specific relevant topics. The Chairperson may also arrange for special educational presentations in coordination with the Executive Director.
8. Instructional materials for outside educational events received by the Executive Director from members or designees shall be made readily available for review by all members and designees.

VII. Approval to Attend Outside Training with All or Part of Costs Paid for by the Board

Approval to attend an educational event with all or part of the costs paid being paid for by the Board must be obtained from the Chairperson and from the Board member for his/her designees, in advance of attending the event. Approval requests should include a reference to how the training fits the current Board education plan and specify whether the event is on the list of recommended educational events developed by the Executive Director.

VIII. Receiving Credit for Training Hours

The Executive Director shall establish the process by which members and designees shall follow in order to receive credit for attending Mandatory and Non-Mandatory Training.

Document Properties

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

Date	Version	Author	Summary
July 26, 2017	2017 POL-BD-06	SERS Legal Office	The policy the Board established setting forth the process for Board members to receive training, education and professional development.

April 25, 2018		SERS Legal OFFICE	Revised policy to allow for carryover of Mandatory Training credit hours and for utilization of Pennsylvania Public School Employees' Retirement System board training to satisfy Mandatory Training requirements.
August 2, 2018		SERS Legal Office	Revised policy to include: (1) One hour ethics training requirement, (2) Mandatory training requirements for designees, (3) Providing updates to members and designees on credits received, and (4) Credit being given for participation in member/designee orientation.
January 7, 2021		SERS Office of Administration	Revised policy to include: (1) New Mandatory Board Training hour requirements (2) New Mandatory Board Training topics, and (3) New Mandatory Committee Training requirements.

ATTACHMENT C

SERS Board Remarks 2/24/20

In light of last Friday's article, Sec. Vague has asked me to make a brief statement for the public record.

In summary, we don't believe that article reflects the SERS of today, nor does it reflect the SERS team and SERS board that we have come to know.

When the Act 5 Commission was originally created, it was done so for a reason. Both SERS and PSERS needed change – more transparency and public accountability, more focus on fees and expenses, and improvements to their board governance. SERS was in a very different place than what we have today. Our Executive Director was brand new to the job and the investment team needed leadership and cohesive direction.

But that's no longer the SERS we have today.

Following the Act 5 Commission's work, this Board was proactive. Under the leadership of Chair Fillman and Executive Director Sanchez, we undertook a process whereby this Board systematically and diligently reviewed the Commission's over 100 recommendations – most of which we have implemented. We have had thoughtful and productive dialogue around these topics – conversations that have pushed us to evolve and think in new ways.

As a result, over the past two years, we have accomplished a great deal—

- We have become more transparent: publishing investment information, actuarial and risk information, and now livestreaming board meetings.
- We have improved our board governance framework: Implementing a new committee structure and governance policies and creating the position of Chief Compliance Officer.
- We have undertaken extensive efforts to reign in investment fees and expenses – shifting the portfolio toward low cost solutions, renegotiating manager contracts, and finding innovative ways to save fund dollars (e.g. co-investment program).

And during a year filled with tremendous uncertainty, this team – the SERS team and the SERS board – rose to the occasion, posting returns of 11.11% and adding over \$3 billion in value to the fund. Our performance over the past year, in navigating operational challenges and as investors, is performance that we should be proud to stand behind.

For the record, here's the SERS that we see—

We have a board comprised of very capable and diligent individuals, who take great pride in their service of our membership. We engage in thoughtful and productive dialogue, and we unify around the leadership of our Chairman Dave Fillman to provide this organization with direction.

We have an Executive Director in Terri Sanchez that continually goes above and beyond the call to duty. She is proactive, forward-thinking and executes the Board's direction with great enthusiasm. And more

important than any recommendation of the Act 5 commission, she and the executive team have fostered transparency and accountability as the new cultural norm.

We have a new CIO in Seth Kelly who understands the fundamental purpose of our investment portfolio – to provide benefits payments to our members. He has demonstrated great competence and skill, and helped us think differently about how we improve SERS financial position over the long-term. He is supported by a team of skilled professionals – who when things got crazy last March – stepped up to the challenge under the leadership of then Acting CIO and now Dep. Jim Nolan.

Over the past two years, SERS has fostered a culture where thoughtful and productive dialogue is now the norm. Divergent views are respected and appreciated as opportunities for us to think differently about issues, rather than being treated with cynicism or distrust. We recognize and respect differences of opinion, but there is no question that every member of this Board, the SERS executive team and SERS staff are all unified in our mission to serve the SERS membership.

We're by no means perfect, but we have made great strides, and we have no doubt that we will continue to do so going forward. With this Board and this SERS team, we believe SERS is well on its way to becoming a leader in the public pension fund industry. Our members should rest assured knowing their future is well served by the SERS organization.

On behalf of Sec. Vague, we are happy to serve as your trustee, and we're proud to stand by the people and the work of this great organization.