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**Time and Attendance of Board Meeting Held      Wednesday, December 11, 2013**

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**Date:** 12/11/2013

**Call to Order:** 9:30 AM

**Call to Order By:** Honorable Nicholas J. Maiale, Chairman

**Next meeting of SERS Board:** 01/22/2014

**Time Recessed**

12:15 PM

**Time Resumed**

1:50 PM

**Adjournment**

1:55 PM

**ATTENDEES:**

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**Chairman**

Honorable Nicholas J. Maiale

**Board Member**

Glenn E. Becker

Robert A. Bittenbender

David R. Fillman

Dan B. Frankel

Robert W. Godshall

Vincent J. Hughes

Robert M. McCord

Charles T. McIlhinney Jr.

Oliver C. Mitchell Jr.

M. Joseph Rocks

**Designee Appointed by Board Member**

Christopher Craig                      for Treasurer Robert M. McCord

Charles Duncan                          for Senator Vincent J. Hughes

Bernie Gallagher                        for Representative Dan B. Frankel

John Lisko                                 for Treasurer Robert M. McCord

Dan Ocko                                 for Representative Dan B. Frankel

Ned Smith                                 for Representative Robert W. Godshall

**SERS Executive Staff**

Thomas Brier

David E. Durbin

Anthony Faiola

Victoria Page-Wooten

**Consultant**

Chris Cunningham	The Townsend Group
Kathlika Fontes	StepStone Group LLC
Anthony Johnson	RV Kuhns & Associates, Inc.
Rob Kochis	The Townsend Group
Michael McCabe	StepStone Group LLC
Jim Voytko	RV Kuhns & Associates, Inc.
Natalie Walker	StepStone Group LLC

**SERS Administrative Staff**

Rose Agnew  
Michael Beblo  
Lena Bickle  
Karen Damiano-Stahler  
Patricia Dence  
David Felix  
Gary Green  
Brandon Halm  
Whitney Harlow  
Pamela Hile  
William Hutcheson  
Meredith Jones  
David Kalman  
Barbara Kiral  
Cheryl Krchnar  
Lauren Lenfest  
Karen Lynn  
Jeffrey McCormick  
Brian McDonough  
Mark McGrath  
Sara McSurdy  
Jeffrey Meyer  
Elizabeth Pettis  
Kyle Reinfeld  
William Riegel  
Steven Rosenberry  
David Sedlak  
Sharon Smith  
Joseph Torta  
William Truong

## **SERS Administrative Staff**

Heather Tyler

### **Visitor**

Erik Anderson

PA Office of Attorney General

Jen Blatz

PA Federation of State Employees

Kenneth Fultz

Jarad Handelman

PA Office of General Counsel

Jonathan Hogstad

Service Employees International Union

Sandy Leopold

PA Department of Treasury

Joshua Maus

PA Office of General Counsel

Jan Murphy

PennLive

Tony Parisi

Public Employee Retirement Commission

Emily Reycroft

The Blackstone Group

Mark Scolforo

Associated Press

Gary Tuma

PA Department of Treasury

Gretchen Wischart

PA Office of General Counsel

### **Presenter**

Dean Adler

Lubert-Adler Real Estate Fund VII, LP

Nadim Barakat

Horizon Strategic Fund

Jessica Brennan

Horizon Strategic Fund

Daniel Flaig

Capvis Equity IV, LP

Rolf Friedli

Capvis Equity IV, LP

Jay Katarincic Jr.

Draper Triangle Ventures III, LP

Len Klehr

Lubert-Adler Real Estate Fund VII, LP

Ira Lubert

Lubert-Adler Real Estate Fund VII, LP

David Rubenstein

Horizon Strategic Fund

Mike Stubler

Draper Triangle Ventures III, LP

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## Minutes of Board Meeting Held Wednesday, December 11, 2013

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### ***CAPITAL MARKET REVIEW***

Messrs. Brier, Johnson and Voytko presented the report provided to the board (12/11/2013 board handouts).

### ***SERS QUARTERLY PERFORMANCE REPORT (3RD QUARTER 2013)***

Messrs. Brier, Johnson and Voytko presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 8).

### ***2014-2015 STRATEGIC INVESTMENT PLAN***

Messrs. Brier, Johnson and Voytko presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 7 and board handouts). The motion will be brought before the board at the January 2014 or a later meeting.

### ***REAL ASSETS SEMI-ANNUAL PERFORMANCE REPORT (2ND QUARTER 2013)***

Messrs. Kalman, Kochis and Cunningham presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 9 and board handouts).

### ***REQUEST TO POSTPONE 12/11/2013 AGENDA***

A request to postpone the 12/11/2013 agenda was raised. Discussion involved waiting for an independent review to be completed.

**Motion:** 2013-61

By motion that was moved, seconded, and approved by board members Senator Hughes, Treasurer McCord, Mr. Fillman and Mr. Ocko on behalf of Rep. Frankel; and No votes from Senator McIlhinney, Mr. Mitchell, Senator Rocks, Mr. Bittenbender, Chairman Maiale, Mr. Becker and Rep. Godshall, it was

RESOLVED: That the postponement of 12/11/2013 agenda was defeated.

***REAL ASSETS INVESTMENTS INTERVIEW***

***Lubert-Adler Real Estate Fund VII, L.P.***

Messrs. Lubert, Adler and Klehr presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 10).

**Motion:** 2013-62

By motion that was moved, seconded, and approved by board members, except for Senator McIlhinney and Senator Hughes, who voted No, and Treasurer McCord, who recused because of past political support and business relationship with Ira Lubert of Lubert-Adler, it was

RESOLVED: That the board commits up to \$25 million, plus investment expenses and pro rata share of partnership operating expenses consistent with executed partnership documents, to Lubert-Adler Real Estate Fund VII, L.P. as a follow-on investment within the Real Assets Investments asset class, subject to successful completion of contract negotiations.

***ALTERNATIVE INVESTMENTS SEMI-ANNUAL PERFORMANCE REPORT (2ND QUARTER 2013)***

Mses. Lenfest and Walker and Mr. McCabe presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 11).

***ALTERNATIVE INVESTMENTS INTERVIEWS***

***Horizon Strategic Fund***

***Capvis Equity IV, L.P.***

***Draper Triangle Ventures III, L.P.***

***Horizon Strategic Fund***

Ms. Brennan and Messrs. Rubenstein and Barakat presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 12).

**Motion:** 2013-63

By motion that was moved, seconded, and approved by board members, except for Senator Hughes and Treasurer McCord, who voted No, it was

RESOLVED: That the board authorizes the establishment of the Horizon Strategic Fund within the Alternative Investments asset class with an investment program of up to \$500 million over five years with an initial commitment tranche of \$100 million, subject to the specific terms as outlined in the limited partnership agreement, plus investment expenses and pro rata share of partnership operating expenses consistent with executed partnership documents, and to appoint the Carlyle Group to manage the fund, subject to successful completion of contract negotiations.

***Capvis Equity IV, L.P.***

Messrs. Friedli and Flaig presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 13).

**Motion:** 2013-64

By motion that was moved, seconded, and approved by board members, except for Senator Hughes and Mr. Lisko on behalf of Treasurer McCord, who voted No, it was

RESOLVED: That the board commits up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses consistent with executed partnership documents, to Capvis Equity IV, L.P., as an investment within the Alternative Investments asset class, subject to successful completion of contract negotiations.

***Draper Triangle Ventures III, L.P.***

Messrs. Katarincic and Stubler presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 14).

**Motion:** 2013-65

By motion that was moved, seconded, and approved by board members, except for Senator Hughes, who voted No, and Mr. Lisko on behalf of Treasurer McCord who recused because of past political support and past business relationship, it was

RESOLVED: That the board commits up to \$10 million, plus investment expenses and pro rata share of partnership operating expenses consistent with executed partnership documents, to Draper Triangle Ventures III, L.P., as a follow-on investment within the Alternative Investments asset class, subject to successful completion of contract negotiations.

***ALTERNATIVE INVESTMENTS RECOMMENDATIONS FOR FUTURE INTERVIEWS***

***Asia Alternatives Capital Partners Fund IV, L.P. and Penn Asia Investors, L.P.***

***HIG Middle Market LBO Fund II, L.P.***

***TDR Capital III, L.P.***

Ms. Lenfest and Mr. McCabe presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tabs 4, 5 and 6).

It was a consensus of the Board to interview representatives of these managers at the January 22, 2014 meeting. There was discussion regarding the budget cap in AI and exceeding that cap or using an averaging method that was not in the plan.

***THE TOWNSEND GROUP CONTRACT AMENDMENT***

Messrs. Kalman and Reinfeld presented the report provided to the board (12/11/2013 Board Package, Investment Report, Tab 3).

The motion to amend the contract was tabled. The board requested that Legal staff provide a statement on amending the contract rather than going through the RFP process.

### ***MINUTES OF BOARD MEETING - OCTOBER 23, 2013***

Chairman Maiale noted that the minutes of the October 23, 2013 board meeting were provided to the board (12/11/2013 Board Package, Administrative Report, Tab 2).

**Motion:** 2013-66

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

RESOLVED: That the board approves the minutes of the October 23, 2013 board meeting.

### ***CHANGES IN PLAN NET POSITION FOR PERIOD ENDING - SEPTEMBER 30, 2013***

Chairman Maiale noted that the Statement of Changes in Plan Net Position for the period ending September 30, 2013 was provided to the board (12/11/2013 Board Package, Administrative Report, Tab 3).

**Motion:** 2013-67

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

RESOLVED: That the board accepts the State Employees' Retirement System's Statement of Changes in Plan Net Position for the period ending September 30, 2013.

### ***PERSONNEL COMMITTEE RECOMMENDATION/MOTION***

Chairman Maiale and Mr. Durbin presented the Personnel Committee recommendation.

**Motion:** 2013-68

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

RESOLVED: That the board orders to grant a general pay increase as set forth in the December 11, 2013 SERS Personnel Committee Recommendation presented to the Board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT A).

### ***SEARCH FOR CIO POSITION***

Chairman Maiale announced that Senator McIlhinney will head the search committee for a new chief investment officer.

### ***DEFERRED COMPENSATION PROGRAM (DCP) QUARTERLY REPORT - SEPTEMBER 30, 2013***

Mr. Faiola reported that the DCP Quarterly Report was provided to the board (12/11/2013 Board Package, Administrative Report, Tab 10). The balance in the program is \$2.6 billion with 50,000 participants.

### ***MEETING RECESS AND EXECUTIVE SESSION***

At 12:15 p.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT B). The meeting resumed at 1:50 p.m.

## ***INTERNAL AUDIT DIVISION - COMPREHENSIVE ASSESSMENT***

Chairman Maiale noted that the following motion was a result of discussion in Executive Session.

**Motion:** 2013-69

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

RESOLVED: That the board authorizes SERS' internal audit division, under supervision of the board, to identify and recommend independent professional services to the board to provide a comprehensive and timely assessment of and advice about how to proceed with regard to allegations as well as to ensure an independent and exhaustive review of SERS' due diligence process within the investment program.

## ***BOARD DISMISSALS***

Mr. Durbin noted that the following Orders as provided to the board (12/11/2013 Board Package, Administrative Report, Tab 6) are dismissed.

*Account of Cynthia A. Komlos*

*Docket No. 2012-23*

*Claim of Cynthia A. Komlos*

*Account of Dean R. LaSalvia*

*Docket No. 2013-09*

*Claim of Dean R. LaSalvia*

*Account of Michael A. Walaconis*

*Docket No. 2013-13*

*Claim of Michael A. Walaconis*

## ***ADMINISTRATIVE UPDATE***

Mr. Durbin presented the report provided to the board (12/11/2013 Board Package, Administrative Report, Tab 8).

## ***LEGISLATIVE UPDATE***

Mr. Durbin presented the report provided to the board (12/11/2013 Board Package, Administrative Report, Tab 9).

## ***NEXT BOARD MEETING***

Chairman Maiale reported that the next regular meeting of the SERS board is scheduled for January 22, 2014.

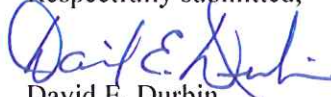


***MOTION TO ADJOURN***

**Motion:** 2013-70

By motion of Chairman Maiale, the board unanimously agreed to adjourn the meeting at 1:55 p.m.

Respectfully submitted,



David E. Durbin  
Executive Director

# ATTACHMENT A

## SERS PERSONNEL COMMITTEE RECOMMENDATION

**DATE:** December 11, 2013

**RESOLVED**, that the SERS Personnel Committee, to remain in compliance with general pay increases approved by the Governor's Office, recommends that the Board approve the following compensation action for the State Employees' Retirement System.

**ISSUE:** January 1, 2014 General Pay Increase (GPI)

**ACTION/REQUEST:** To take effect upon approval of the Executive Board Resolution that addresses pay increases for management employees anticipated to be effective January 1, 2014:  
**Management**

Adopt the Commonwealth of Pennsylvania's January 1, 2014 Management/Non-represented Pay Schedule, which is expected to be approved by the Executive Board and reflects a General Pay Increase of 0.5% to all pay ranges on the current July 1, 2013 Management/Non-represented Pay Schedule. This January 1, 2014 Management/Non-represented Pay Schedule will be used for all pay related transactions occurring on or after the January 1, 2014 implementation date (examples: promotions, demotions, appointments);

SERS management employees currently compensated on the July 1, 2013 Management/Non-represented Pay Schedule who are in an active pay status shall be placed onto the new January 1, 2014 Management/Non-represented Pay Schedule at the pay scale group and pay scale level that was in effect on the day preceding the effective date of the General Pay Increase, which will result in an expected 0.5% salary increase for SERS management employees;

Grant SERS management employees whose salary exceeds the maximum of the employees' applicable pay scale group before and after the General Pay Increase, effective January 1, 2014, a General Pay Increase in the form of a one-time cash payment of an expected 0.5% of their annual salary in effect on the day preceding the General Pay Increase effective date, rounded to the nearest dollar;

Grant SERS management employees whose salary exceeds the maximum of the employees' applicable pay scale group before the General Pay Increase, but does not exceed the maximum after the

General Pay Increase, an increase to the new maximum of the pay scale group and a one-time cash payment reduced by the amount of increase in the employees' annual rate of pay; and

Grant SERS management employees who are in an inactive pay status on January 1, 2014, the appropriate increases as described above, upon return to an active pay status.

SERS' implementation of the January 1, 2014 Management/Non-represented Pay Schedule for SERS management employees shall be consistent with the provisions of the Commonwealth's Executive Board Resolution addressing management/non-represented pay increases effective January 1, 2014, as approved by the Commonwealth Executive Board.

**ACTION/REQUEST:** To take effect in conjunction with and conditioned upon approval of the Executive Board Resolution that addresses pay increases expected to be approved for management employees to be effective on January 1, 2014:

**Investments**

Adopt a new Investment Pay Schedule effective January 1, 2014, which shall reflect a General Pay Increase of 0.5% for all pay ranges on the current July 1, 2013 Investment Pay Schedule. This January 1, 2014 Investment Pay Schedule will be used for all pay related transactions occurring on or after January 1, 2014 (examples: promotions, demotions, appointments);

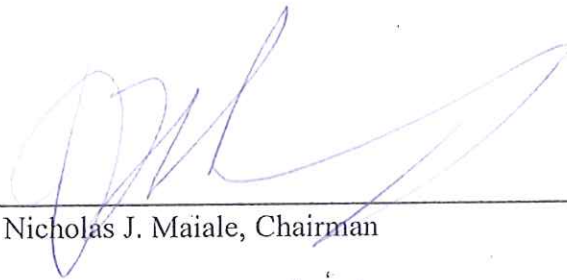
SERS' investment professionals, below the level of Chief Investment Officer, currently compensated on the July 1, 2013 Investment Pay Schedule who are in an active pay status will be placed onto the new January 1, 2014 Investment Pay Schedule at the pay scale group and pay scale level that was in effect on the day preceding the General Pay Increase effective date, which will result in an expected 0.5% salary increase for SERS investment professionals;

Grant SERS investment professionals, below the level of Chief Investment Officer, whose salary exceeds the maximum of the employees' applicable pay scale group before and after the General Pay Increase, effective January 1, 2014, a General Pay Increase in the form of a one-time cash payment of an expected 0.5% of their annual salary in effect on the day preceding the General Pay Increase effective date, rounded to the nearest dollar;

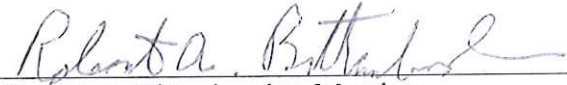
Grant SERS investment professionals, below the level of Chief Investment Officer, whose salary exceeds the maximum of the employees' applicable pay scale group before the General Pay

Increase, but does not exceed the maximum after the General Pay Increase, an increase to the new maximum of the pay scale group and a one-time cash payment reduced by the amount of increase in the employees' annual rate of pay; and

Grant SERS investment professionals, below the level of Chief Investment Officer, who are in an inactive pay status on January 1, 2014, the appropriate increases as described above, upon return to an active pay status.



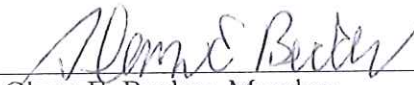
Nicholas J. Maiale, Chairman



Robert A. Bittenbender, Member



Robert M. McCord, Member



Glenn E. Becker, Member

# ATTACHMENT B

## EXECUTIVE SESSION AGENDA Meeting: December 11, 2013

### Executive Session

1. Litigation Update
2. Personnel Update
3. Notational Ballot  
  
Account of Teresa M. Koon  
Docket No. 2012-16  
Claim of Teresa M. Koon
4. Legal Update
5. Fund Update
6. Preliminary Fund Performance and Risk Statistics