
Time and Attendance of Board Meeting Held Wednesday, April 30, 2014

Date: 04/30/2014

Call to Order: 9:30 AM

Call to Order By: Honorable Glenn E. Becker, Chairman

Next meeting of SERS Board: 06/11/2014

Time Recessed

11:00 AM

Time Resumed

12:43 PM

Adjournment

12:50 PM

ATTENDEES:

Chairman

Honorable Glenn E. Becker

Board Member

Robert A. Bittenbender

Dan B. Frankel

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

Dan Ocko for Representative Dan B. Frankel

Monica Riddle for Senator Charles T. McIlhinney, Jr.

Ned Smith for Representative Robert W. Godshall

SERS Executive Staff

Thomas Brier

David E. Durbin

Anthony Faiola

Victoria Page-Wooten

Consultant

Kathlika Fontes StepStone Group LLC

Craig Graby Hay Group, Inc.

Anthony Johnson RV Kuhns & Associates, Inc.

Stephen Kennedy Albourne America LLC

Rob Kochis The Townsend Group

Michael McCabe StepStone Group LLC

Consultant

Brent Mowery

Jim Voytko

Hay Group, Inc.

RV Kuhns & Associates, Inc.

SERS Administrative Staff

Rose Agnew

Lena Bickle

Karen Damiano-Stahler

Salvatore Darigo

Dino Degennaro

Patricia Dence

Linda Engle

Brandon Halm

Pamela Hile

Anthony Hines

William Hutcheson

Meredith Jones

David Kalman

Barbara Kiral

Cheryl Krchnar

Lauren Lenfest

Karen Lynn

N. Joseph Marcucci

Mark McGrath

Jeffrey Meyer

Kyle Reinfeld

William Riegel

Steven Rosenberry

David Sedlak

Josh Thomas

Joseph Torta

William Truong

Heather Tyler

Visitor

Max Cooper

Sandy Leopold

Shawn Smith

Peter Speaks

Arch Street Real Estate Partners

PA Department of Treasury

Office of General Counsel

Sen. Vincent Hughes' Office

Minutes of Board Meeting Held Wednesday, April 30, 2014

ACKNOWLEDGE SENATOR M. JOSEPH ROCKS

Chairman Becker acknowledged Senator Rocks for being the presiding officer at the March 12, 2014 board meeting.

APPOINTMENT OF MR. STEPHEN S. AICHELE

Chairman Becker announced that a new board member, Mr. Stephen S. Aichele, has been confirmed by the Senate. He expects Mr. Aichele at the June meeting.

CAPITAL MARKET REPORT

Messrs. Johnson and Voytko presented the report provided to the board (4/30/2014 board handouts).

2014-2015 STRATEGIC INVESTMENT PLAN DISCUSSION

Messrs. Brier, Voytko, Johnson, McCabe, Kochis and Kennedy presented the report provided to the board (4/30/2014 Board Package, Investment Report, Tabs 3 and 4).

Motion: 2014-13

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

RESOLVED: That the board approves the SERS 2014-2015 Strategic Investment Plan ("Plan") and within the Plan adopts the "Increased Equity" portfolio allocation, as further described in Appendix A to the Plan.

ALTERNATIVE INVESTMENTS RECOMMENDATIONS FOR FUTURE INTERVIEWS

JMI Equity Fund VIII, LP

Meritech Capital Partners V, LP

Mses. Lenfest and Fontes and Mr. McCabe presented the report provided to the board (4/30/2014 Board Package, Investment Report, Tabs 5 and 6) identifying the above managers as potential investment opportunities for SERS.

It was the consensus of the board to interview representatives from these managers at the June 11, 2014 meeting.

2013 ACTUARIAL VALUATION DISCUSSION - HAY GROUP

Messrs. Mowery and Graby presented the report provided to the board (4/30/2014 Board Package, Administrative Report, Tab 11).

Motion: 2014-14

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

RESOLVED: That the board adopts the annual assumed rate of investment return of 7.5% compounded annually together with certain other contribution rates as calculated for the year and specified purpose by the Hay Group Inc. ("SERS' consulting actuary"), and as further described in ATTACHMENT A hereto, including in particular the establishment of a composite employer contribution rate of 31.41% necessary for the funding of system and a composite collared contribution rate of 20.50%.

Motion: 2014-15

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

RESOLVED: That the board adopts a composite final contribution rate of 20.50% and an employer contribution rate of .03% to fund the Benefits Completion Plan, as calculated for the year and specified purpose by SERS' consulting actuary, and as further described in ATTACHMENT A hereto.

MINUTES OF BOARD MEETING - MARCH 12, 2014

Chairman Becker noted that the minutes of the March 12, 2014 board meeting were provided to the board (4/30/2014 Board Package, Administrative Report, Tab 2).

Motion: 2014-16

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

RESOLVED: That the board approves the minutes of the March 12, 2014 board meeting.

CHANGES IN PLAN NET POSITION FOR PERIODS ENDING - JANUARY 31, 2014 and FEBRUARY 28, 2014

Chairman Becker noted that the Statement of Changes in Plan Net Position for the periods ending January 31, 2014 and February 28, 2014 were provided to the board (4/30/2014 Board Package, Administrative Report, Tab 3).

Motion: 2014-17

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 periods ending January 31, 2014 and February 28, 2014.

EXECUTIVE SESSION AND MEETING RECESS

At 11:00 a.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 12:43 p.m.

PERSONNEL COMMITTEE RECOMMENDATION

Chairman Becker presented the following Personnel Committee recommendation.

Motion: 2014-18

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

RESOLVED: That contingent on the prior approval of a Governor's Executive Board Resolution granting pay increases for management employees anticipated to be effective on or about July 1, 2014, the board hereby approves and grants a general pay increase of 2%, as further set forth in the April 30, 2014 SERS Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT C).

PERSONNEL COMMITTEE RECOMMENDATION - ACTING CIO PAY

Chairman Becker presented the following Personnel Committee recommendation which was a result of discussion in the executive session.

Motion: 2014-19

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

RESOLVED: That the board hereby approves and grants for Thomas Brier a temporary 4.5% hourly pay increase together with all longevity and general pay increases previously approved by the board, retroactive to the date of his appointment as Acting Chief Investment Officer on March 12, 2014, until such time as a permanent Chief Investment Officer begins employment at SERS, as further set forth in the April 30, 2014 Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT D).

BOARD ADJUDICATIONS

Mr. Durbin provided the board with the following information on the results of the notational ballots regarding Board Adjudications.

ACCOUNT OF BARRY J. HEMENCE (DECEASED)

DOCKET NO. 2012-37

CLAIM OF ALEXANDER J. HEMENCE

The State Employees' Retirement Board DENIED Claimant's request that he be named the beneficiary of his deceased father's retirement account. SERS will make payment of the death benefit from Decedent's account to the last named beneficiaries on file with SERS with payment being made to Brandon and Esteban Hemence.

ACCOUNT OF ANN H. LOKUTA

DOCKET NO. 2010-19

CLAIM OF ANN H. LOKUTA

The State Employees' Retirement Board DENIED Claimant's request to have her SERS pension benefits reinstated. Claimant's pension was forfeited pursuant to the Constitutional and Judicial Code judicial forfeiture provisions after her removal from judicial office by the Court of Judicial Discipline.

BOARD DISMISSALS

Mr. Durbin noted that the following Orders as provided to the board (4/30/2014 Board Package, Administrative Report, Tab 7) are dismissed.

Account of Joseph D. Borruto (Deceased)

Docket No. 2013-16

Claim of Debra Borruto Clark

Appeal of Butler County Community College

Docket No. 2011-23

SERS Membership Claim (Pearl Shaffer)

Account of Diane Lynn Ropey

Docket No. 2014-02

Claim of Diane Lynn Ropey

ADMINISTRATIVE UPDATE

Mr. Durbin presented the report provided to the board (4/30/2014 Board Package, Administrative Report, Tab 8).

LEGISLATIVE UPDATE

Mr. Durbin presented the report provided to the board (4/30/2014 Board Package, Administrative Report, Tab 9).

AUDIT COMMITTEE MEETING MINUTES - MARCH 12, 2014

Mr. Durbin reported that the Audit Committee minutes were provided to the board (4/30/2014 Board Package, Administrative Report, Tab 10).

NEXT BOARD MEETING - JUNE 11, 2014

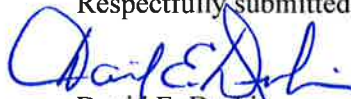
Chairman Becker reported that the next regular meeting of the SERS board is scheduled for June 11, 2014.

MOTION TO ADJOURN

Motion: 2014-20

By motion of Chairman Becker, the board unanimously agreed to adjourn the meeting at 12:50 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

RESOLVED: That the Board hereby adopts and establishes an annual assumed rate of investment return of 7.5% compounded annually, beginning on January 1, 2014, to be used for the December 31, 2013 actuarial valuation; approves the results of the 2013 actuarial valuation; and for the 2014/2015 fiscal year certifies the following:

1. Shared risk contribution rate of 0%;
2. Employer normal contribution rate of 5.0%;
3. Composite employer contribution rate necessary for the funding of the system of 31.41%;
4. Composite collared contribution rate of 20.50%;
5. Composite final contribution rate of 20.50%; and
6. Employer contribution rates by group and class of service of employees as set forth in the actuarial valuation

as calculated by the Hay Group, Inc. ("SERS' consulting actuary") pursuant to section 5508 of the State Employees' Retirement Code; and authorizes SERS' staff and SERS' consulting actuary to use these rates to develop all the employer rates for the period July 1, 2014 to June 30, 2015, and authorizes the Executive Director to certify such rates to all employers with employees who are active members of SERS and to the Secretary of the Budget.

FURTHER RESOLVED: That, if legislation is enacted that, notwithstanding the actuarial calculation resulting in a composite final contribution rate as adopted by the Board above, establishes a maximum percentage that the contribution rate can increase or decrease over the contribution rate for the immediately prior fiscal year, then Board hereby adopts a revised composite collared and composite final contribution rate for the 2014/2015 fiscal year equal to such contribution rate, authorizes SERS' staff and SERS' consulting actuary to use the revised composite final contribution rate to develop and revise all the employer rates for the period July 1, 2014 to June 30, 2015, or such shorter period as may be established in said legislation, and authorizes the Executive Director to certify such revised rates to all employers with employees who are active members of SERS and to the Secretary of the Budget.

AND FURTHER RESOLVED: That in addition to the foregoing employer contribution rates, the Board hereby adopts and establishes an employer contribution rate of .03% for the fiscal year 2014/2015 to fund the Benefits Completion Plan established pursuant to section 5941 of the State Employees' Retirement Code and authorizes the Executive Director to certify such rate to all employers with employees who are active members of SERS and to the Secretary of the Budget.

ATTACHMENT B

EXECUTIVE SESSION AGENDA

Meeting: April 30, 2014

Executive Session

1. Notational Ballot Cases

Account of Leona M. Caviston (Deceased)
Docket No. 2011-31
Claim of the Estate of Leona M. Caviston
Jennifer Rought, Administratrix
(Introduced at the March 12, 2014 Board Meeting
More Discussion Needed)

2. Motion for Oral Argument before the Board (Consolidated Cases)

Account of Bruce A. Edwards
Docket No. 2012-12
Claims of Pennsylvania State Troopers Association
and Bruce A. Edwards

Account of Joseph R. Kovel
Docket No. 2012-24
Claims of Pennsylvania State Troopers Association
and Joseph R. Kovel

Account of Joseph E. Sarkis
Docket No. 2012-13
Claims of Pennsylvania State Troopers Association
and Joseph E. Sarkis

3. Asset Acquisition
4. Fund Update
5. Preliminary Fund Performance and Risk Statistics
6. Manager Update
7. Alternative Investments Update
8. Personnel Committee Discussion

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: April 30, 2014

RESOLVED, that the SERS Personnel Committee, to remain consistent 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: July 1, 2014 General Pay Increase (GPI)

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

- Adopt the Commonwealth of Pennsylvania's July 1, 2014 Management/Non-represented Pay Schedule, which is expected to be approved by the Governor's Executive Board and reflects a General Pay Increase of 2.0% to all pay ranges on the current April 1, 2014 Management/Non-represented Pay Schedule. This July 1, 2014 Management/Non-represented Pay Schedule will be used for all pay related transactions occurring on or after July 1, 2014 implementation date (examples: promotions, demotions, appointments);
- SERS management employees currently compensated on the April 1, 2014 Management/Non-represented Pay Schedule who are in an active pay status shall be placed onto the new July 1, 2014 Management/Non-represented Pay Schedule at the pay scale group and pay scale level that is in effect on the day preceding the effective date of the General Pay Increase, which will result in an expected 2.0% 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 July 1, 2014, a General Pay Increase in the form of a one-time cash payment of an expected 2.0% 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 the effective date of this pay increase, the appropriate increases as described above, upon return to an active pay status.

SERS' implementation of the July 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 July 1, 2014, as approved by the Governor's 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 July 1, 2014:

Investments

- Adopt a new Investment Pay Schedule (IS Pay Schedule) effective July 1, 2014, which shall reflect a General Pay Increase of 2.0% for all pay ranges on the April 1, 2014 IS Pay Schedule. This July 1, 2014 IS Pay Schedule will be used for all pay related transactions occurring on or after July 1, 2014 (examples: promotions, demotions, appointments);
- SERS investment professionals compensated on the April 1, 2014 IS Pay Schedule who are in an active pay status will be placed onto the new July 1, 2014 IS Pay Schedule at the pay scale group and pay scale level that is in effect on the day preceding the General Pay Increase effective date, which will result in an expected 2.0% salary increase for SERS investment professionals;
- Grant SERS investment professionals whose salary exceeds the maximum of the employees' applicable pay scale group before and after the General Pay Increase, effective July 1, 2014, a General Pay Increase in the form of a one-time cash payment of an expected 2.0% 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 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 who are in an inactive pay status on the effective date of the General Pay Increase, the appropriate increases as described above, upon return to an active pay status.

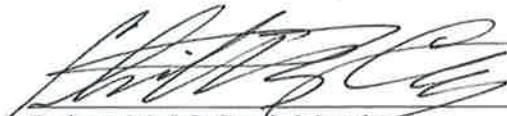
SERS' implementation of the July 1, 2014 IS Pay Schedule for SERS investment professional employees shall be consistent with the provisions of the Commonwealth's Executive Board Resolution addressing management/non-represented pay increases effective July 1, 2014, as approved by the Governor's Executive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



Glenn E. Becker, Chairman



Robert A. Bittenbender, Member



Robert M. McCord, Member
Christopher B. Craig, designee

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: April 30, 2014

RESOLVED, that the SERS Personnel Committee recommends that the Board approve the following compensation action for the State Employees' Retirement System.

ISSUE: Temporary Pay Increase for the Acting Chief Investment Officer

ACTION/REQUEST: To take effect on March 12, 2014, the date the Board appointed Thomas Brier as Acting Chief Investment Officer:


- Grant Mr. Brier a 4.5% hourly pay increase retroactive to March 12, 2014, until such time as a permanent Chief Investment Officer begins employment at State Employees' Retirement System (SERS);
- In addition to the 4.5% hourly pay increase, grant Mr. Brier all longevity and General Pay Increases approved by the Board for which he is eligible from March 12, 2014 until a permanent Chief Investment Officer begins employment at SERS;
- Effective the date that a permanent Chief Investment Officer begins employment at the SERS reduce Mr. Brier's hourly pay rate to \$107.90, his hourly rate that was in effect on March 11, 2014; longevity and General Pay Increases provided to Mr. Brier from March 12, 2014 through the effective date the permanent Chief Investment Officer begins work at SERS will be added to the \$107.90 hourly rate.



Glenn E. Becker, Chairman



Robert A. Bittenbender, Member



Robert M. McCord, Member (Christopher B. Craig) designee