
Time and Attendance of Board Meeting Held Wednesday, March 11, 2015

Date: 03/11/2015

Call to Order: 9:30 AM

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

Next meeting of SERS Board: 04/29/2015

Time Recessed

12:30 PM

Time Resumed

2:28 PM

Adjournment

2:35 PM

ATTENDEES:

Chairman

Honorable Glenn E. Becker

Board Member

Stephen S. Aichele

Christopher Craig

Dan B. Frankel

Robert W. Godshall

M. Joseph Rocks

Designee Appointed by Board Member

Charles Duncan	for Senator Vincent J. Hughes
Bernie Gallagher	for Representative Dan. B. Frankel
John Lisko	for Executive Deputy State Treasurer Christopher Craig
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
Anthony Johnson	RV Kuhns & Associates, Inc.
Rob Kochis	The Townsend Group
Michael McCabe	StepStone Group LLC
Brent Mowery	Hay Group

Consultant

Kevin Rivchun

Jim Voytko

The Townsend Group

RV Kuhns & Associates, Inc.

SERS Administrative Staff

Rose Agnew

Michael Beblo

Karen Damiano-Stahler

Dino Degennaro

Linda Engle

David Felix

Brandon Halm

Pamela Hile

Anthony Hines

Jennifer Hricak

William Hutcheson

Meredith Jones

David Kalman

Cheryl Krchnar

Lauren Lenfest

Karen Lynn

N. Joseph Marcucci

Jeffrey McCormick

Mark McGrath

Jeffrey Meyer

Jay Pagni

William Riegel

Steven Rosenberry

David Sedlak

Sharon Smith

David Tarsi

William Truong

Shana Weinstock

Visitor

Kim Aspenleider

Gary Babin

Robert A. Bittenbender

Amy Brown

Peter Cunningham

Tucker Glavin

Delaware Investments

S. R. Wojdak

Outgoing SERS board member

Goldman Sachs Asset Management

BNY Mellon

Pine Bridge Investments

Visitor

Sandy Leopold
Gary Lightman
R. W. O'Donnell

PA Department of Treasury
PA State Troopers Association
Weaver C. Barksdale & Associates, Inc.

Presenter

Fred Hu
David Lin
John Nelson
Steve Smith

Primavera Capital Fund II, L.P.
Primavera Capital Fund II, L.P.
Brandywine Global Investment Management LLC
Brandywine Global Investment Management LLC

Minutes of Board Meeting Held Wednesday, March 11, 2015

RECOGNITION FOR OUTGOING BOARD MEMBER - THE HONORABLE ROBERT A. BITTENBENDER

Rep. Godshall, on behalf of Rep. Frankel and himself, read into the record a PA House of Representatives citation (ATTACHMENT A) acknowledging Robert A. Bittenbender for 35 years of dedicated service to the State Employees' Retirement board.

Ms. Riddle presented the PA Senate citation (ATTACHMENT B), on behalf of Senator McIlhinney and Senator Hughes, recognizing Mr. Bittenbender and his commitment to the SERS board.

Mr. Durbin presented a letter from Governor Tom Wolf to Mr. Bittenbender congratulating him for his many years of service on the SERS board.

Mr. Brier noted the growth of the Fund since Mr. Bittenbender has served on the board.

Mr. Bittenbender thanked the present and past board members and staff for their collegiality and support over the years.

Motion: 2015-08

At the motion of the Chairman, the board unanimously agreed to recognize Robert A. Bittenbender with a board resolution, read by David E. Durbin, a copy of which shall be filed with the minutes of the meeting (ATTACHMENT C).

APPOINTMENT OF BOARD MEMBER - MR. MICHAEL V. PUPPIO, JR.

Chairman Becker announced that a new Board Member, Mr. Michael V. Puppio, Jr., has been confirmed by the Senate to replace Mr. Bittenbender, whose term expired in December 2013.

SERS QUARTERLY PERFORMANCE REPORT (AS OF DECEMBER 31, 2014)

Messrs. Johnson and Voytko presented the report provided to the board (3/11/2015 Board Package, Investment Report, Tab 6).

CAPITAL MARKET REPORT

Messrs. Johnson and Voytko presented the report provided to the board (3/11/2015 board handouts).

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT LLC - GLOBAL MACRO REVIEW

Messrs. Nelson and Smith presented the report provided to the board (3/11/2015 Board Package, Investment Report, Tab 7).

ALTERNATIVE INVESTMENTS INTERVIEW

Primavera Capital Fund II, L.P.

Mses. Lenfest and Fontes and Messrs. Hu, Lin and Halm presented the report provided to the board (3/11/2015 Board Package, Investment Report, Tab 8).

Motion: 2015-09

By motion that was moved, seconded, and unanimously approved by board members, 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 Primavera Capital Fund II, L.P., as an investment within the Alternative Investments 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.

ALTERNATIVE INVESTMENTS RECOMMENDATION FOR FUTURE INTERVIEW

New Enterprise Associates 15, L.P.

Mses. Lenfest and Fontes presented the report provided to the board (3/11/2015 Board Package, Investment Report, Tab 5) identifying New Enterprise Associates 15, L.P. as a potential investment opportunity for SERS.

It was the consensus of the board to interview representatives of this manager at the April 29, 2015 board meeting.

2014 ACTUARIAL VALUATION - INVESTMENT RETURN ASSUMPTION DISCUSSION

Messrs. Mowery and Voytko presented the reports provided to the board (3/11/2015 board handouts). The Hay Group will return for the April 29, 2015 meeting to further present the key results of the 2014 Actuarial Valuation.

BOARD RESOLUTION FOR RETIRING ASSISTANT CHIEF FINANCIAL OFFICER - MR. ANTHONY J. HINES

Chairman Becker recognized Mr. Hines as the retiring Assistant Chief Financial Officer and thanked him for his many years of service to the board.

Motion: 2015-10

At the motion of the Chairman, the board unanimously agreed to recognize Anthony J. Hines with a board resolution, read by Jay Pagni, SERS Director of Communications and Policy, a copy of which shall be filed with the minutes of the meeting (ATTACHMENT D).

BOARD RESOLUTION FOR RETIRING MANAGING DIRECTOR OF REAL ASSETS INVESTMENTS - MR. DAVID J. KALMAN

Chairman Becker recognized Mr. Kalman as the retiring Managing Director of Real Assets Investments and thanked him for his many years of service to the board.

Motion: 2015-11

At the motion of the Chairman, the board unanimously agreed to recognize David J. Kalman with a board resolution, read by Jay Pagni, SERS Director of Communications and Policy, a copy of which shall be filed with the minutes of the meeting (ATTACHMENT E).

EXECUTIVE SESSION AND MEETING RECESS

At 12:30 p.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT F). The meeting resumed at 2:28 p.m.

***REAL ASSET INVESTMENT CONSULTANT
Townsend Holdings LLC***

Chairman Becker noted that the following resolution is a result of discussion in executive session.

Motion: 2015-12

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

RESOLVED: That the board amends the Investment Advisory Agreement for Real Estate Investment Advisory Services dated June 30, 2014 between SERS and Townsend Holdings LLC in order to extend the term of the agreement from June 30, 2015 to March 31, 2017; expand the scope of advisory services to include certain day-to-day oversight and administrative responsibilities on a short-term as needed basis; and increase the compensation paid under the agreement to an aggregate fixed fee of \$728,000 per annum, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals.

PERSONNEL COMMITTEE RESOLUTION

Chairman Becker noted that the following resolution is a result of discussion in executive session.

Motion: 2015-13

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

RESOLVED: That the board approves a salary increase to \$196,890 annually for SERS Executive Director David E. Durbin, effective upon approval of the Governor's Executive Board, as outlined in the March 11, 2015 SERS Personnel Committee Recommendation, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT G).

AND FURTHER RESOLVED: That the board will develop a process to evaluate the Executive Director's performance on an annual basis.

MINUTES OF BOARD MEETING - JANUARY 21, 2015

Chairman Becker noted that the minutes of the January 21, 2015 board meeting were provided to the board (3/11/2015 Board Package, Administrative Report, Tab 2).

Motion: 2015-14

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

RESOLVED: That the board approves the minutes of the January 21, 2015 board meeting.

CHANGES IN PLAN NET POSITION FOR PERIOD ENDING - DECEMBER 31, 2014

Chairman Becker noted that the Statement of Changes in Plan Net Position for the period ending December 31, 2014 was provided to the board (3/11/2015 Board Package, Administrative Report, Tab 3).

Motion: 2015-15

By motion that was moved, seconded, and unanimously approved by 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 December 31, 2014.

AUDIT COMMITTEE - NEW MEMBER APPOINTMENTS

Mr. Durbin noted the following board members have agreed to serve on the Audit Committee:
Mr. Stephen A. Aichele replaces Mr. Oliver Mitchell and Representative Dan B. Frankel replaces Mr. Robert Bittenbender.

AUDIT COMMITTEE - AUDIT SERVICES CONTRACT EXTENSION KPMG, LLP

Mr. Durbin presented the report that was provided to the board (3/11/2015 board handouts).

Motion: 2015-16

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

RESOLVED: That upon recommendation of the Audit Committee, the board hereby exercises its final option to extend the current contract for audit services dated August 29, 2011 with KPMG LLP for audit and other related services, for an additional one-year period ending June 30, 2016, and otherwise under the same terms and conditions.

AUDIT COMMITTEE - CHARTER AMENDMENT

Mr. Durbin presented the report that was provided to the board (3/11/2015 board handouts).

Motion: 2015-17

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

RESOLVED: That upon recommendation of the Audit Committee, the board hereby amends and restates the Audit Committee Charter to read in full as set forth in the Fourth Amended and Restated Audit Committee Charter attached to these minutes (ATTACHMENT H).

BOARD ADJUDICATION

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

Account of Kevin Hussar

Docket No. 2013-11

Claim of Kevin Hussar

The State Employees' Retirement Board DENIED Claimant's request that he be permitted to apply for disability retirement benefits from SERS despite having missed the statutory deadline for such application.

BOARD DISMISSAL

Mr. Durbin presented the report that the following Order as provided to the board (3/11/2015 Board Package, Administrative Report, Tab 7) is dismissed.

Account of Meera Singh Jagota

Docket No. 2013-17

Claim of Meera Singh Jagota

ADMINISTRATIVE UPDATE

Mr. Durbin presented the report that was provided to the board (3/11/2015 Board Package, Administrative Report, Tab 8).

LEGISLATIVE UPDATE

Mr. Durbin presented the report that was provided to the board (3/11/2015 Board Package, Administrative Report, Tab 9).

BUDGET HEARINGS

Mr. Durbin noted that SERS will appear before the House and Senate Appropriation Committees on Monday, March 23, 2015 at 10:00 a.m. and 1:00 p.m., respectively.

FINANCIAL DISCLOSURE STATEMENTS

Mr. Durbin noted that the May 1, 2015 deadline for Financial Disclosure Statement submission is approaching.

AUDIT COMMITTEE - DUE DILIGENCE OF BOARD GOVERNANCE

Mr. Durbin noted that the Audit Committee has directed the Internal Audit Director to begin a due diligence of the board's governance.

NEXT BOARD MEETING - APRIL 29, 2015

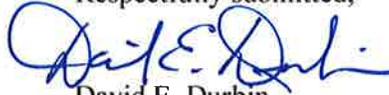
Chairman Becker noted that the next regular meeting of the SERS board is scheduled for April 29, 2015.

MOTION TO ADJOURN

Motion: 2015-18

By motion of Chairman Becker, the board unanimously agreed to adjourn the meeting at 2:35 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

Commonwealth of Pennsylvania



The House of Representatives

Citation

Whereas, Robert A. Bittenbender is being honored upon his retirement after more than thirty-four years of distinguished service to the State Employees' Retirement System (SERS) Board; and

Whereas, Mr. Bittenbender was initially appointed to the SERS Board on May 13, 1980, by former Governor Dick Thornburgh, and he was reappointed by former Governors Robert P. Casey, Thomas J. Ridge and Edward G. Rendell. He retired as Secretary of the Budget for the Commonwealth of Pennsylvania in January 2003 after a forty-year career of budget management. He was appointed to that position by former Governor Ridge and began service on January 17, 1995, and he continued to serve under former Governor Mark Schweiker until January 21, 2003. He also held the position from 1983 to 1987 during former Governor Thornburgh's second term of office. From 1987 through 1995, Mr. Bittenbender was the Executive Director of the Appropriations Committee for the Senate of Pennsylvania, and he is also a past President of the National Association of State Budget Officers, for which he served as Chair for numerous committees. A graduate of Albright College, he earned a master's degree at the Wharton School of the University of Pennsylvania. Throughout his service, Mr. Bittenbender demonstrated remarkable knowledge, ability and integrity in carrying out his many responsibilities, thus earning the respect and gratitude of all those who received the benefit of his tireless devotion to duty.

Now therefore, the House of Representatives of the Commonwealth of Pennsylvania congratulates Robert A. Bittenbender upon his well-deserved retirement; heartily recognizes his exemplary record of service, in keeping with the highest ideals and traditions of this Commonwealth; offers best wishes for a happy and fulfilling future;

And directs that a copy of this citation, sponsored by Representatives Robert W. Godshall and Dan Frankel on March 4, 2015, be transmitted to Robert A. Bittenbender.

Robert W. Godshall, Sponsor

Dan Frankel, Sponsor



Mike Turzai, Speaker of the House

Attest:

Anthony Frank Barbush, Chief Clerk of the House

Senate of Pennsylvania

ATTACHMENT B



HARRISBURG, PA

Congratulations

In the Senate, March 4, 2015

Whereas, The Senate of Pennsylvania is always pleased to recognize those individuals who, through their laudable tenure of service, contribute in a meaningful way toward the well-being of their communities and this Commonwealth; and

Whereas, Robert A. Bittenbender is being honored upon his March 11, 2015, retirement following thirty-five years of dedicated service to the State Employees' Retirement System (SERS) Board; and

Whereas, A graduate of Albright College and the University of Pennsylvania Wharton School, Mr. Bittenbender began his career with this Commonwealth as Chief of the Fiscal Management Division of the Department of General Services in 1963. He served in various positions in the Office of the Budget prior to becoming Chief Budget Analyst in 1969. Mr. Bittenbender served the Office of Budget and Administration as Deputy Secretary and Secretary of the Budget, and he later served as Deputy Secretary and Secretary of the Office of Administrative Services. Executive Director of the Appropriations Committee of the Senate of Pennsylvania from 1988 through 1994, Mr. Bittenbender was appointed as Secretary of the Budget for a second time in 1995, and he served until January 21, 2003. Appointed to the SERS Board by former Governor Dick Thornburgh on May 13, 1980, he was reappointed to the Board three times and served on the Audit, Personnel, Securities Litigation and General Consultant Committees. A member and past President of the National Association of State Budget Officers, Mr. Bittenbender serves on the Board of Trustees of Albright College, and he was a recipient of its Distinguished Alumnus Award in 1982. Active in his community, he is a Board member and Treasurer of the Neighborhood Center of the United Methodist Church in Harrisburg. Throughout his service, Mr. Bittenbender strove to adhere to the highest standards of service and earned the respect and admiration of his many friends and colleagues.

Now therefore, the Senate of the Commonwealth of Pennsylvania recognizes Robert A. Bittenbender for his many years of loyalty and service; proudly notes that he has demonstrated extraordinary commitment to the State Employees' Retirement System Board and this Commonwealth; offers best wishes for a most rewarding future;

And directs that a copy of this document, sponsored by Senator Charles F. McElhinney, Jr. and Senator Vincent J. Hughes, be transmitted to Robert A. Bittenbender, 292 Founders Way, Mechanicsburg, Pennsylvania.



Attest:


Megan Fatino Considine, Secretary

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



RESOLUTION

WHEREAS, Robert A. Bittenbender became a member of the State Employees' Retirement Board effective May 13, 1980 by appointment of Governor Dick Thornburgh; and

WHEREAS, Robert A. Bittenbender was reappointed by three successive Governors; and

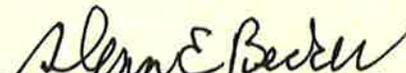
WHEREAS, Robert A. Bittenbender has exhibited throughout his tenure, a focus on the best interests of the System and its members with perspectives derived from his distinguished public sector career; and

WHEREAS, Robert A. Bittenbender also served on the Board's Audit, Personnel, Securities Litigation and General Consultant committees, where his comprehensive review of Board materials served as a catalyst for conversation and thorough analysis of the issues and options before the Board; now therefore be it

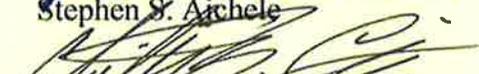
RESOLVED, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Robert A. Bittenbender for his 35 years of dedication to the System and its members, and wishes him the best of health, happiness and success in all his future endeavors; and be it further

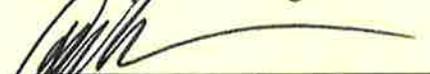
RESOLVED, That the original resolution be transmitted to Robert A. Bittenbender and a copy included in the minutes.

March 11, 2015
Harrisburg, Pennsylvania


Glenn E. Becker, Chairman


Stephen S. Ajchele

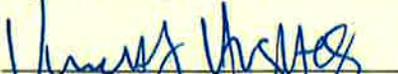

Christopher B. Craig


David R. Fillman


Dan B. Frankel




Robert W. Godshall


Vincent J. Hughes


Charles T. McIlhinney, Jr.


T. Terrance Reese


M. Joseph Rocks

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



RESOLUTION

WHEREAS, Anthony "Tony" J. Hines is retiring after nearly 38 years with the Commonwealth of Pennsylvania, having dedicated nearly 27 of those years to the Pennsylvania State Employees' Retirement System; and

WHEREAS, Tony steered development of the Commonwealth's Deferred Compensation Program, helping it grow from the first participants' contributions in October 1988 to nearly \$3 billion and more than 50 thousand participants today, and

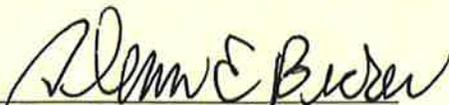
WHEREAS, Tony was instrumental in expanding the investment options available to participants in the Deferred Compensation Program, including the addition of self-directed brokerage accounts and a Roth IRA option, while also managing to keep the program one of the lowest-cost plans in the nation; and

WHEREAS, Tony has overseen a very successful implementation of a new general ledger system for the State Employees' Retirement System and has guided integration of agency accounting systems with the state Treasury's new accounting system; now therefore be it

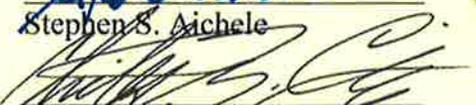
RESOLVED, That the Pennsylvania State Employees' Retirement System commends Anthony J. Hines for his dedication to this agency and the more than 230,000 members we serve, and wishes him good health and happiness in retirement; and be it further

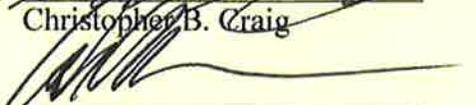
RESOLVED, That the original resolution be transmitted to Anthony J. Hines and a copy included in the minutes.

March 11, 2015
Harrisburg, Pennsylvania


Glenn E. Becker, Chairman

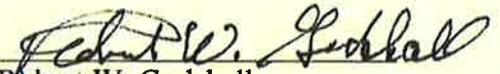

Stephen S. Aichele

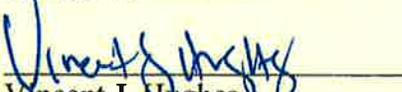

Christopher B. Craig


David R. Fillman

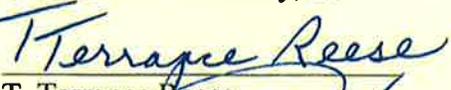

Dan B. Frankel

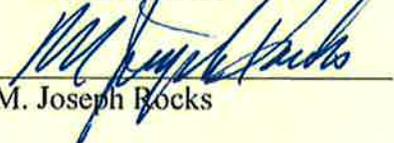



Robert W. Godshall


Vincent J. Hughes


Charles T. McIlhinney, Jr.


T. Terrance Reese


M. Joseph Rocks

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



RESOLUTION

WHEREAS, David J. Kalman is retiring after nearly 24 years of service to the Pennsylvania State Employees' Retirement System; and

WHEREAS, David oversaw the growth of the real estate program from less than \$900 million in 1991, to a nearly \$3 billion global program today; and

WHEREAS, David invested \$6 billion in property-related investments which generated \$7.4 billion in profits and sale proceeds; and

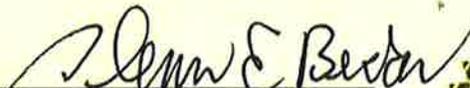
WHEREAS, David restructured SERS' direct real estate program using an incentive based model which has become an industry standard, and established other innovative investment strategies such as the timber investment program in 1992 and the REIT program in 1996, both cutting edge programs when launched; and

WHEREAS, David served on the Board of the Pension Real Estate Association and numerous investment fund advisory boards and attended 216 consecutive SERS Board meetings; now therefore be it

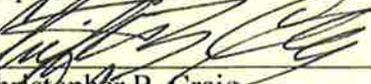
RESOLVED, That the Pennsylvania State Employees' Retirement System commends David J. Kalman for his dedication to this agency and the more than 230,000 members we serve, and wishes him good health and happiness in retirement; and be it further

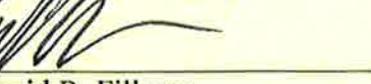
RESOLVED, That the original resolution be transmitted to David J. Kalman and a copy included in the minutes.

March 11, 2015
Harrisburg, Pennsylvania


Glenn E. Becker, Chairman

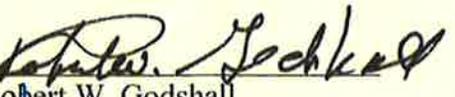

Stephen S. Aichele

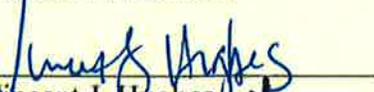

Christopher B. Craig


David R. Fillman

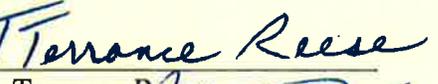

Dan B. Frankel

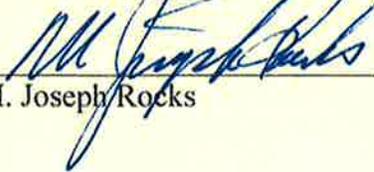



Robert W. Godshall


Vincent J. Hughes


Charles T. McIlhinney, Jr.


T. Terrance Reese


M. Joseph Rocks

ATTACHMENT F

EXECUTIVE SESSION AGENDA

Meeting: March 11, 2015

Executive Session

1. Notational Ballots

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

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

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

**(These three consolidated cases of the PST Claimants
were tabled at the December 10, 2014 and January 21,
2015 board meetings.)**

2. **SERS Gift Ban Discussion**
3. **Fund Update**
4. **Preliminary Fund Performance and Risk Statistics**
5. **Real Assets Transition Plan**
6. **Compensation Discussion**

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: March 11, 2015

RESOLVED, that the SERS Personnel Committee recommends that the Board approve the following compensation action for the State Employees' Retirement System, to be forwarded to the Governor's Executive Board for approval.

ISSUE: Salary Increase for SERS' Executive Director

The Executive Director has responsibility to plan, direct, and coordinate the administration of SERS, and manage a staff of 197 positions in seven locations throughout the state. Since 2004 the salary for the Executive Director has increased only 2.5%. David Durbin, upon appointment to Executive Director on May 3, 2012, earned \$167,434. A 2.5% increase was approved on July 1, 2013, increasing Mr. Durbin's salary to \$171,209. The average annual salary for the Executive Director position at comparable pension systems is \$230,305.

During Mr. Durbin's leadership as Executive Director the agency has provided legislative support for Act 2012-181, The Heroes Earnings Assistance and Relief (HEART) Tax Act which brought the agency into compliance with federal statute requirements; smoothly navigated through the Gerald Sandusky administrative hearing; initiated the project to upgrade and implement a new automated system for SERS core business processing to be completed in 2017; implemented a SERS re-branding project that impacts all SERS' web and hard copy documents to enhance member understanding; provided actuarial analysis, language drafting, and sponsor coordination for five separate major pension reform proposals; and assisted the board and outside counsel with the investigation into informal allegations against the former CIO. In addition Mr. Durbin has testified before legislative committees 11 times, 6 as part of the appropriation process.

ACTION/REQUEST: To take effect upon the Governor's Executive Board approval, and in order to provide pay parity with comparable pension system executive director positions and to recognize the accomplishments achieved under Mr. David Durbin's leadership:

Grant a pay increase to Mr. David Durbin to provide an annual salary of \$196,890.


Glenn E. Becker, Chairman


M. Joseph Rocks, Member


Christopher B. Craig, Executive Deputy State Treasurer

PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM

FOURTH AMENDED AND RESTATED AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee's purpose is to assist the Board (the "Board") of the Pennsylvania State Employee's Retirement System ("SERS") in fulfilling its oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes and procedures, and compliance.

II. AUTHORITY

The Audit Committee is empowered to:

- Seek any information from employees and external parties as it deems necessary or desirable to fulfill its purpose.
- Meet with such internal and external parties as it deems necessary or desirable in the performance of the Audit Committee's functions and duties.
- Review (i) the planned scope of work of the internal and external auditors, (ii) the results of their work, (iii) changes in the planned scope of work, (iv) the extent of control testing to be performed and (v) the extent and appropriateness of the coordination of their activities.
- Establish such policies and procedures as it deems necessary or desirable for the performance of its functions and duties.

Without limiting the generality of the above, the Audit Committee shall be empowered to request information pertaining to the following:

(1) Financial Reporting

- Any significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and regulatory pronouncements and their impact.
- Any significant adjustments proposed by either the external or internal auditor.
- Any significant suggestions for improving the financial reporting made by the external or internal auditor.
- Any investigations or audits conducted as to SERS' operation.
- Any legal matters that may have an effect on SERS' financial reports.

- The effectiveness of the internal control structure and procedures for financial reporting.
 - Current accounting principles and any suggested changes to those principles.
- (2) Internal Audit Function
- The effectiveness of the internal audit function and current industry standards.
- (3) Internal Control
- Any policy on internal control.
 - The effectiveness of the internal control system, including information technology security and control.
 - The scope of the internal and external auditor's review of internal control over financial reporting, reports on significant findings and recommendations and responses thereto.
 - The effectiveness of the corporate governance process.
- (4) Risk Management
- The effectiveness of the risk management system, including risks associated with information technology systems.
 - The scope of the internal and external auditor's review of risk management.
- (5) Compliance
- The effectiveness of the system for monitoring compliance with laws, regulations, policies, procedures, Code of Ethics and Management Directives and the results of management's investigation and follow-up of any reported instances of non-compliance.
 - Management or legal analysis or review of compliance matters.
 - Any findings or recommendations in connection with reviews of SERS' operations.

Except as expressly granted herein, nothing in this Charter shall be construed as giving the Audit Committee the authority to take any action or refrain from taking any action without first obtaining the approval of the Board.

III. COMPOSITION

The Audit Committee shall consist of four current members of the Board or their designee(s) as appointed by the Chairman of the Board in accordance with SERS' Bylaws (each a "Committee Member"). The four members of the Audit Committee shall include the Chairman of the Board who shall be an ex officio Committee Member. Committee Members, in their discretion, may elect

officer(s) and may establish procedural rules for the Audit Committee. The four appointed initial Committee Members shall have terms of two, three, three and four years, as specified at the time of their appointment. Each Committee Member appointed at the expiration of the term of a Committee Member shall have a term of three calendar years. In the event of a vacancy on the Audit Committee, the Chairman shall appoint a replacement for the balance of the term of the vacating Committee Member at the next regularly scheduled Board meeting. No Board member shall serve on the Audit Committee as a Committee Member for more than two consecutive full terms. A Committee Member who serves for two consecutive full terms may be reappointed by the Chairman to the Committee following a one-year absence from the Committee. There shall be no limitation on the number of full terms for which a Committee Member may be reappointed. Notwithstanding the foregoing, each Committee Member shall serve until his or her successor is duly appointed or until his or her earlier resignation or removal, it being understood that termination of membership on the Board shall constitute a resignation from the Audit Committee.

IV. MEETINGS

The Audit Committee shall meet at least quarterly every year. The Audit Committee shall fix the dates and times of its meetings. The Audit Committee may invite members of management, external auditors, internal auditors and others to attend meetings and provide pertinent information, as it deems necessary or desirable. Minutes of all meetings shall be prepared and retained with SERS' records.

V. RESPONSIBILITIES

- (1) Along with such employees of SERS as are designated by the Board, the Committee Members shall serve on the evaluation committee in the "Request for Proposal" process in the selection of SERS' external auditor.
- (2) The Audit Committee shall meet with members of management, external auditors, internal auditors and such other people, and shall review any internal or external documents, as it deems necessary or desirable to review SERS' Annual Report and examine the areas of financial reporting, internal controls and risk assessment, audit processes and procedures, and compliance.
- (3) The Audit Committee shall make recommendations for any change to the current policies or procedures in the areas of financial reporting, internal controls and risk assessment, audit processes and procedures, and compliance.
- (4) The Audit Committee shall provide a report to the Board at each regularly scheduled Board meeting following an Audit Committee meeting to update the Board as to its activities, findings and recommendations and any other relevant issues.
- (5) The Audit Committee shall perform such other activities related to the Audit Committee's functions and duties as requested by the Board.

(6) The Audit Committee shall review and assess the adequacy of this Charter at least once every three years and shall recommend to the Board any changes to this Charter that it deems necessary or desirable.