

MINUTES of Regular SERS Board Meeting - Wednesday, December 9, 2015

CALLED TO ORDER: 9:30 a.m. by Chairman David R. Fillman

ATTENDEES:

Members and Designees

David R. Fillman – Chairman

Stephen S. Aichele

Glenn E. Becker

Dan B. Frankel

Robert W. Godshall

Charles T. McIlhinney, Jr.

Michael V. Puppio, Jr.

T. Terrance Reese

M. Joseph Rocks

Christopher Craig – Designee for Treasurer Timothy A. Reese

Charles Duncan – Designee for Senator Vincent J. Hughes

Bernie Gallagher – Designee for Representative Dan B. Frankel

Dan Ocko - Designee for Representative Dan B. Frankel

Ned Smith - Designee for Representative Robert W. Godshall

Consultants

Mike Elio, StepStone Group LLC

Anthony Johnson, RVK, Inc.

Rob Kochis, The Townsend Group

Kevin Rivchun, The Townsend Group

Matt Roche, StepStone Group LLC

Jim Voytko, RVK, Inc.

Executive Staff

Thomas Brier

David E. Durbin

Anthony Faiola

Christopher Houston

Staff

Rose Agnew

Karen Damiano-Stahler

Dino Degennaro

Patricia Dence

Linda Engle

David Felix

Brandon Halm

Pamela Hile

William Hutcheson

Meredith Jones
Barbara Kiral
Cheryl Krchnar
Lauren Lenfest
N. Joseph Marcucci
Jeffrey McCormick
Mark McGrath
Sara McSurdy
Jeffrey Meyer
James Nolan
Jay Pagni
William Riegel
Steven Rosenberry
David Sedlak
David Tarsi
William Truong

Visitors

Kim Aspenleider, Delaware Investments
Amy C. Brown, Goldman Sachs Asset Management
Chris Crevier, Neuberger Berman
Philip Falivene, BNY Mellon
Jim Kane, Unite Here
Sandy Leopold, PA Department of Treasury
Sharon McGrath
Representative Jeff C. Wheeland

Presenters

None

MINUTES of the Regular SERS Board Meeting Wednesday, December 9, 2015

A. BOARD RESOLUTION FOR RETIRING FIXED INCOME MANAGING DIRECTOR – MR. MARK G. MCGRATH

Chairman Fillman recognized Mr. McGrath as the retiring Fixed Income Managing Director and thanked him for his service to the board.

MOTION: 2015-59

At the motion of Chairman Fillman, the board unanimously agreed to recognize Mark G. McGrath 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 A).

B. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. Capital Market Report

Messrs. Johnson and Voytko presented the report provided to the board (12/09/2015 board handouts).

Presentation: 2. SERS Quarterly Performance Report (as of September 30, 2015)

Messrs. Johnson and Voytko presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 7).

Action: 1. FINAL 2016-2017 Strategic Investment Plan

Messrs. Johnson, Kochis, Voytko and Elio presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 8).

MOTION: 2015-60

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

RESOLVED: That the board approves the SERS 2016-2017 Strategic Investment Plan.

Presentation: 3. DRAFT for review & comment – Statement of Investment Policy Update

Messrs. Johnson, Voytko, Kochis and Elio presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 3).

Presentation: 4. DRAFT for review & comment – Investment Advisory Monitoring Policy Update

Messrs. Johnson, Voytko, Kochis and Elio presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 4).

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEP STONE GROUP LLC

Presentation: 1. Alternative Investments Semi-Annual Performance Report (as of June 30, 2015)

Ms. Lenfest and Mr. Elio presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 9).

Presentation: 2. Alternative Investments Recommendations for Future Interviews

- a) Advent International GPE VIII, L.P.
- b) ASF VII B, L.P. and ASF VII PA Co-Investment Fund, L.P.

Ms. Lenfest and Mr. Elio presented the reports provided to the board (12/09/2015 Board Package, Investment Report, Tabs 5 and 6) identifying Advent International GPE VIII, L.P. and ASF VII B, L.P. and ASF VII PA Co-Investment Fund, L.P. as potential investment opportunities for SERS.

It was the consensus of the board to interview representatives of these managers at the January 27, 2016 board meeting.

D. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND THE TOWNSEND GROUP

Presentation: 1. Real Estate Semi-Annual Performance Report (as of June 30, 2015)

Messrs. Kochis, Rivchun and Meyer presented the report provided to the board (12/09/2015 Board Package, Investment Report, Tab 10).

E. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – October 28, 2015

Chairman Fillman presented the report provided to the board (12/09/2015 Board Package, Administrative Report, Tab 2).

MOTION: 2015-61

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

RESOLVED: That the board approves the minutes of the October 28, 2015 board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Period Ending – September 30, 2015

Chairman Fillman presented the report provided to the board (12/09/2015 Board Package, Administrative Report, Tab 3).

MOTION: 2015-62

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

RESOLVED: That the board accepts the State Employees' Retirement System's Statement of Changes in Fiduciary Net Position for the period ending September 30, 2015.

F. EXECUTIVE SESSION

Presentation: 1. AGENDA

At 11:30 a.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT B).

G. LUNCH BREAK

H. PUBLIC MEETING RESUMES

The public meeting resumed at 1:00 p.m.

I. PERSONNEL COMMITTEE RECOMMENDATION

Action: 1. Adoption of the Commonwealth of PA's Management/Non-represented Pay Schedule
Chairman Fillman presented the information provided to the board (12/09/2015 board handouts).

MOTION: 2015-63

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

RESOLVED: That the board adopts the resolution to approve the December 9, 2015 SERS Personnel Committee Recommendation for the State Employees' Retirement System (ATTACHMENT C).

J. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Strategic Business Plan

Mr. Durbin noted that the report was provided to the board (12/09/2015 Board Package, Administrative Report, Tab 8).

K. NEXT BOARD MEETING – JANUARY 27, 2016

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for January 27, 2016.

L. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2015-64

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 1:08 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

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



RESOLUTION

WHEREAS, Mark G. McGrath is retiring after a distinguished 20-year career of Commonwealth service, sixteen of which have been devoted to the State Employees' Retirement System; and

WHEREAS, Mark G. McGrath began his SERS service as the Deputy Director of Domestic Equities and Commodities in 1999 and has served as the Managing Director of Fixed Income since 2004 while also serving as the Acting Managing Director of Public Markets since early 2014; and

WHEREAS, In his capacity as Managing Director of Fixed Income, the program has consistently ranked in the top quartile in the RVK peer ranking, outperforming its benchmark on a net-of-fees basis while achieving superior risk-adjusted returns and adding several hundred million dollars of value; and

WHEREAS, During his tenure, as the needs of the system changed, Mark G. McGrath oversaw the restructuring of the fixed income asset class from a total-return focus to one that emphasizes liquidity, capital preservation and risk control; and

WHEREAS, Under Mark G. McGrath's direction, the system designed and sourced its initial absolute return strategies, adding significant value over their respective benchmarks; now therefore be it

RESOLVED, That the Board of the State Employees' Retirement System commends Mark G. McGrath for his service, professional excellence, and dedication, and wishes him health and happiness in his retirement and any future endeavors; and be it further

RESOLVED, That the original resolution be transmitted to Mark G. McGrath, and a copy included within the Board Minutes.

December 9, 2015
Harrisburg, Pennsylvania

David R. Fillman, Chairman

Stephen S. Aichele

Glenn E. Becker

Dan B. Frankel

Robert W. Godshall

Vincent J. Hughes



Charles T. McIlhinney, Jr.

Michael V. Puppino, Jr.

T. Terrance Reese

Timothy A. Reese

M. Joseph Rocks

ATTACHMENT B

EXECUTIVE SESSION AGENDA Meeting: December 9, 2015

Executive Session

1. Notational Ballot

Account of Frank Yale (Deceased)
Docket No. 2014-03
Claim of Eleanor Yale

2. SERS Governance Project

3. Litigation Update

4. Fund Update

5. Preliminary Fund Performance and Risk Statistics

6. Manager Update

7. Investment Office Staffing Update

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
RESOLUTION 2015-63

WHEREAS, to remain consistent with pay increases approved by the Governor's Office, the SERS Personnel Committee recommends that the Board approve a one-step longevity increment; and

WHEREFORE, it is hereby **RESOLVED**, that the Board approve the December 9, 2015 SERS Personnel Committee Recommendation for the State Employees' Retirement System, a copy of which shall be filed with the minutes of this meeting (Attachment C).

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: December 9, 2015

RESOLVED, that the SERS Personnel Committee, to remain consistent with pay increases approved by the Governor's Office, recommends that the Board approve the following compensation actions for the State Employees' Retirement System, to mirror the pay actions approved by the Governor's Office.

ISSUE: January 2016 One-Step Longevity Increment

ACTION/REQUEST: Upon the effective date of the Executive Board Resolution that addresses pay increases for management employees, which is anticipated to be effective the first day of the first full pay period in 2016:
Management

Grant SERS management employees who are compensated on the July 1, 2014 Management/Nonrepresented Pay Schedule and who have been employed continuously by the commonwealth since January 31, 2015, a one-step longevity increment effective on the first day of the first full pay period in January 2016;

Grant SERS management employees who are compensated on the July 1, 2014 Management/Nonrepresented Pay Schedule who are at or above the maximum salary for their pay scale group, and who are otherwise eligible to receive longevity increments, the one-step longevity increment in the form of a one-time cash payment of 2.25% of their annual salary in effect on the day preceding the first day of the first full pay period in January 2016, rounded to the nearest dollar;

Grant SERS management employees who are compensated on the July 1, 2014 Management/Nonrepresented Pay Schedule who are in between steps for their pay scale group, and who are otherwise eligible to receive longevity increments, a one-step longevity increase by placing them on the next higher step of the pay scale group and providing a one-time cash payment of 2.25% reduced by the amount of increase in the employees' annual rate of pay, rounded to the nearest dollar; and

Grant SERS management employees who are in an inactive pay status on the effective date of the longevity increment, the appropriate increase as described above, upon return to an active pay status.

ACTION/REQUEST:
Investments

Upon the effective date of the Executive Board Resolution that addresses pay increases for management employees, which is anticipated to be effective the first day of the first full pay period in 2016:

Grant SERS investment professionals, below the level of Chief Investment Officer, who are compensated on the July 1, 2014 IS Pay Schedule and who have been employed continuously by the commonwealth since January 31, 2015, a one-step longevity increment effective on the first day of the first full pay period in January 2016;

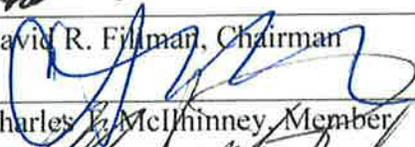
Grant SERS investment professionals, below the level of the Chief Investment Officer, who are compensated on the July 1, 2014 IS Pay Schedule who are at or above the maximum salary for their pay range, and who are otherwise eligible to receive longevity increments, the one-step longevity increment in the form of a one-time cash payment of 2.5% of their annual salary in effect on the day preceding the first day of the first full pay period in January 2016, rounded to the nearest dollar;

Grant SERS investment professionals, below the level of Chief Investment Officer, who are compensated on the July 1, 2014 IS Pay Schedule who are in between steps for their pay scale group, and who are otherwise eligible to receive longevity increments, a 2.5% pay increase effective on the first day of the first full pay period in January 2016; and

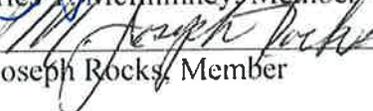
Grant SERS investment professionals who are in an inactive pay status on the effective date of the longevity increment, the appropriate increase as described above, upon return to an active pay status.



David R. Fittman, Chairman



Charles E. McElhinney, Member



M. Joseph Rocks, Member