

MINUTES of SERS Board Regular Meeting - Wednesday, September 14, 2016

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

ATTENDEES:

Members and Designees

David R. Fillman - Chairman
Stephen S. Aichele
Charles T. McIlhinney, Jr.
Michael V. Puppio, Jr.
T. Terrance Reese
Mary A. Soderberg
Christopher Craig – Designee for Treasurer Timothy A. Reese
Charles Duncan – Designee for Senator Vincent J. Hughes
Dan Ocko – Designee for Representative Dan B. Frankel
Jeff Wheeland – Designee for Representative Robert W. Godshall

Consultants

Kathlika Fontes, StepStone Group, L.P.
Anthony Johnson, RVK, Inc.
Rob Kochis, The Townsend Group
Mikaylee O'Connor, RVK, Inc.
Matt Roche, StepStone Group, L.P.
Jim Rohlinger, Empower Retirement
Jim Voytko, RVK, Inc.

Executive Staff

David E. Durbin
Anthony Faiola
Bryan Lewis
N. Joseph Marcucci

Staff

Rose Agnew
Eric Baker
Elizabeth Barczak
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Linda Engle
David Felix
Pamela Hile
Meredith Jones
Barbara Kiral
Cheryl Krchnar

Karen Lynn
Jeffrey McCormick
Sara McSurdy
Matthew Meads
Jeffrey Meyer
James Nolan
Jay Pagni
David Tarsi
Joseph Torta
William Truong

Visitors

Kim Aspenleider, Delaware Investments
Amy Brown, Goldman Sachs Asset Management
Janet Ciccocioppo, PA Department of the Auditor General
Brook Critchfield, HarbourVest Partners, LLC
Matt HoganBrien, HarbourVest Partners, LLC
Jim Kane, Unite Here
Sandy Leopold, PA Department of Treasury
John Lori, PA Department of the Auditor General
Denise Wimberly, PA Department of the Auditor General

Presenters

Monica Chase, Permira VI L.P. 1
Thomas Lister, Permira VI L.P. 1
Christine Pastore, Vista Equity Partners Fund VI, L.P.
Robert Smith, Vista Equity Partners Fund VI, L.P.

MINUTES of the SERS Board Regular Meeting Wednesday, September 14, 2016

Mr. Lewis thanked the board members for taking the time out of their schedules to meet individually with him over the past month.

A. 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 (9/14/2016 board handouts).

Presentation: 2. SERS Quarterly Performance Report (as of June 30, 2016)

Messrs. Johnson and Voytko presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 6).

B. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP, L.P.

Action: 1. Private Equity Interview: Permira VI L.P. 1

Mses. Fontes and Chase and Messrs. Felix and Lister presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 8).

MOTION: 2016-38

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

RESOLVED: That the board commits up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Permira VI L.P. 1, 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.

Action: 2. Private Equity Interview: Vista Equity Partners Fund VI, L.P.

Mses. Fontes and Pastore and Messrs. Felix and Smith presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 9).

MOTION: 2016-39

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

RESOLVED: That the board commits up to \$150 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Vista Equity Partners Fund VI, L.P., as an 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.

MOTION: 2016-40

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

RESOLVED: That the board amends MOTION 2016-39 to elect the Class B option for the split fee structure when executing partnership documents with Vista Equity Partners Fund VI, L.P.

Presentation: 1. Private Equity Recommendation for Future Interview: FSN Capital V, L.P. Ms. Fontes and Mr. Felix presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 3).

Presentation: 2. Private Equity Recommendation for Future Interview: Platinum Equity Capital Partners IV, L.P.

Ms. Fontes and Mr. Felix presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 4).

Presentation: 3. Private Equity Recommendation for Future Interview: Providence Strategic Growth II, L.P.

Ms. Fontes and Mr. Felix presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 5).

It was the consensus of the board to interview representatives of these managers at the October 26, 2016 board meeting.

C. Deferred Compensation Program (DCP) Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. DCP Quarterly Investment Performance Analysis (as of June 30, 2016) Ms. O'Connor and Mr. Nolan presented the report provided to the board (9/14/2016 Board Package, Investment Report, Tab 7).

D. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – July 27, 2016

Chairman Fillman presented the report provided to the board (9/14/2016 Board Package, Administrative Report, Tab 2).

MOTION: 2016-41

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

RESOLVED: That the board approves the minutes of the July 27, 2016 board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Periods Ending – June 30 and July 31, 2016

Chairman Fillman presented the report provided to the board (9/14/2016 Board Package, Administrative Report, Tab 3).

MOTION: 2016-42

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 periods ending June 30 and July 31, 2016.

E. EXECUTIVE SESSION

Presentation: 1. Agenda

At 11:45 a.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as attached (ATTACHMENT A).

F. LUNCH BREAK

G. PUBLIC MEETING RESUMES

The public meeting resumed at 1:05 p.m.

H. REPORT FROM CHIEF FINANCIAL OFFICER

Action: 1. Fiscal Year 2017-18 Administrative and Investment Budgets Proposal
Mr. Faiola noted that the report was provided to the board (9/14/2016 Board Package, Administrative Report, Tab 13).

MOTION: 2016-43

By motion that was moved, seconded, and approved by board members, it was
RESOLVED: That the board approves both the SERS' Administrative Budget for Fiscal Year 2017-18, substantially in the form proposed with such amendments as are permitted by the Office of the Budget, and the SERS' Investment Budget for Fiscal 2017-18 in the form proposed. The details of the proposed budgets are included in the memo "Re: FY 2017-18 Administrative and Investment Budgets" from the Chief Financial Officer to the State Employees' Retirement Board dated September 7, 2016, that was included in the board package.

Presentation: 1. DCP Committee Meeting Minutes – August 4, 2016
Mr. Faiola noted that the report was provided to the board (9/14/2016 Board Package, Administrative Report, Tab 11).

Action: 2. Empower Contract Extension
Mr. Faiola noted that the report was provided to the board (9/14/2016 Board Package, Administrative Report, Tab 8).

MOTION: 2016-44

By motion that was moved, seconded, and approved by board members, it was
RESOLVED: That the board accepts the Deferred Compensation Committee's recommendation to extend the contract of Empower Retirement, the third party administrator of the Deferred Compensation Program, for one year, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within six months.

I. PERSONNEL COMMITTEE RECOMMENDATION

Action: 1. Adoption of the Commonwealth of PA's Management/Non-represented Pay Schedule
As a result of discussion in Executive Session, the following motion was brought to the board.

MOTION: 2016-45

By motion that was moved, seconded, and approved by board members, it was
RESOLVED: That the board remains consistent with pay increases approved by the Governor's Executive Board, effective October 1, 2016, for management employees, that the board hereby approves and grants the pay actions as set forth in the September 14, 2016 SERS

Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT B).

J. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Administrative Update

Mr. Durbin noted that the report was provided to the board (9/14/2016 Board Package, Administrative Report, Tab 9).

Presentation: 2. DRAFT 2017 Board Meeting Dates

Mr. Durbin noted that the report was provided to the board (9/14/2016 Board Package, Administrative Report, Tab 10). He noted that board members should contact the Executive Office with any conflicts that the proposed dates present before the schedule is finalized at the October 26, 2016 board meeting.

K. NEXT BOARD MEETING – OCTOBER 26, 2016

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for October 26, 2016.

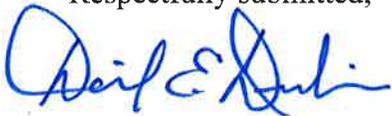
L. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2016-46

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 1:15 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES Meeting: September 14, 2016

Executive Session

1. **Notational Ballot**

Account of Thomas R. Czarnecki
Docket No. 2007-08
Claim of Thomas R. Czarnecki
2. **Pending Litigation**
3. **Securities Litigation**
4. **Personnel Committee Update**
5. **Fund Update**
6. **Preliminary Fund Performance and Risk Statistics**
7. **Investment Office Staffing Update**

ATTACHMENT B

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: September 14, 2016

RESOLVED, that the SERS Personnel Committee recommends that, to remain consistent with pay increases approved by the Governor's Office, 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: October 1, 2016 Pay Increases

ACTION/REQUEST: Upon the effective date of, and consistent with, the Executive Board
Management Resolution that addresses pay increases for management employees, which is anticipated to be effective October 1, 2016:

1. 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 October 31, 2015 and did not receive a longevity increase in January 2016 as a union-covered employee, a one-step longevity increment effective October 1, 2016; eligible employees at the top of their pay scales will receive a one-time payment of approximately 2.25% of annual salary in lieu of a pay increase;

2. Move SERS management employees from the Management/Nonrepresented Pay Schedule to the Standard Pay Schedule; employees will be slotted at the same pay scale level they will hold effective October 1, 2016; employees who will be above the maximum pay scale level before being slotted to the Standard Pay Schedule but not after being slotted to the Standard Pay Schedule will be slotted to the maximum pay scale level of the pay group; employees who will still be above the maximum pay scale level after being slotted to the Standard Pay Schedule will receive no further percentage increase from being slotted to the Standard Pay Schedule above the maximum pay scale level;

3. Grant SERS management employees a 2.75% general pay increase, effective October 1, 2016;

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

ACTION/REQUEST: Upon the effective date of, and consistent with, the Executive Board Resolution that addresses pay increases for management employees, which is anticipated to be effective October 1, 2016:

Investments

1. Grant SERS investment professionals, below the level of Chief Investment Officer, who have been employed continuously by the commonwealth since October 31, 2015 and who did not receive a longevity increase in January 2016 as a union-covered employee, a pay increase of 2.25% effective October 1, 2016; eligible employees at the top of their pay scales will receive a one-time payment of approximately 2.25% of annual salary in lieu of a pay increase; this is consistent with the one step longevity increase for management employees listed above;

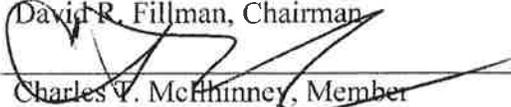
2. Grant SERS investment professionals, below the level of the Chief Investment Officer, a salary increase of 1.44% effective October 1, 2016; this is consistent with the approximate increase listed above for management employees as a result of being moved from the Management/Non-represented Pay Schedule to the Standard Pay Schedule;

3. Grant SERS investment professionals, below the level of Chief Investment Officer, a 2.75% general pay increase effective October 1, 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. Fillman, Chairman



Charles V. McFhinney, Member