

MINUTES of SERS Board Regular Meeting - Wednesday, April 26, 2017

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

ATTENDEES:

Members and Designees

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

Consultants

Steve Bresler, Empower Retirement
Shelby Dobson, Empower Retirement
Michael Elio, StepStone Group, L.P.
Craig Graby, Korn Ferry Hay Group
Anthony K. Johnson, RVK, Inc.
Rob Kochis, The Townsend Group
Brent Mowery, Korn Ferry Hay Group
Matt Roche, StepStone Group, L.P.
Jim Rohlinger, Empower Retirement
Jim Voytko, RVK, Inc.

Executive Staff

David E. Durbin
Anthony Faiola
Christopher Houston
Bryan Lewis

Staff

Rose Agnew
Eric Baker
Karen Damiano-Stahler
Dino Degennaro
Linda Engle
Brittany Erney-Muniz
David Felix

Phillip Greenberg
Jesse Helman
Pamela Hile
Meredith Jones
Barbara Kiral
Cheryl Krchnar
Karen Lynn
N. Joseph Marcucci
Katie Mathews
Jeffrey McCormick
Sara McSurdy
Matthew Meads
Jeffrey Meyer
James Nolan
M. Catherine Nolan
Jay Pagni
David Sedlak
Sharon Smith
Paul Stahlnecker
David Tarsi
Joseph Torta
William Truong

Visitors

Chris Ade, Lord, Abbett & Co., LLC
Tom Cosmer, PineBridge Investments
Jim Dunigan, PA Treasury
Marcus Friedman
Jim Kane, Unite Here
Geoff Lincoln
Elizabeth Pettis, PA Office of General Counsel
Mark Ryan, Independent Fiscal Office
Kevin Sullivan, BNY Mellon

Presenters

Doug Boains, Fairview Capital Partners
Nathan Brown, Wind Point Partners VIII, L.P.
James Clarke, Landmark Partners
Barry Griffiths, Landmark Partners
Jim Hennessey, Oak Street Real Estate Capital Fund IV, L.P.
Larissa Herczeg, Oak Street Real Estate Capital Fund IV, L.P.
Eddie Keith, Landmark Partners
Greg Mondre, Silver Lake Partners V, L.P.
Leslie Nettles, Fairview Capital Partners
Kola Olofinboba, Fairview Capital Partners
Lindsey Press, Silver Lake Partners V, L.P.

Robert Shanfield, Landmark Partners
Alex Washington, Wind Point Partners VIII, L.P.
Marc Zahr, Oak Street Real Estate Capital Fund IV, L.P.

MINUTES of the SERS Board Regular Meeting Wednesday, April 26, 2017

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 (4/26/2017 board handouts).

Action: 1. Public Markets Overview Discussion

Messrs. Johnson, Nolan, Truong, and Voytko presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 3 and board handouts).

MOTION: 2017-22

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

RESOLVED: That the board orders to authorize staff to expand BlackRock's relationship with SERS and reduce Mellon Capital Management's concentration within the global equity asset class as follows:

- a. Amend the current BlackRock contract to add a MSCI World ex U.S. Index Fund and a MSCI Emerging Markets Index Fund, which new accounts are to be comingled and lendable;
- b. Transition the assets currently in the Mellon Capital Management MSCI World ex U.S. Index Fund to the new BlackRock MSCI World ex U.S. Index Fund; and
- c. Transition the BlackRock MSCI Emerging Markets Non-Lendable Index Fund to the new BlackRock MSCI Emerging Markets Lendable Index Fund.

MOTION: 2017-23

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

RESOLVED: That the board orders to (i) amend the contract with Mellon Capital Management to add a Russell 3000 Index Fund within the Multi-Strategy asset class; and (ii) transfer \$200 million from cash into the newly established Mellon Capital Management Russell 3000 Index Fund.

MOTION: 2017-24

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

RESOLVED: That the board orders to approve the orderly transition and/or liquidation of the following managers and reallocate the assets as follows:

- a. Transition and/or liquidate the assets currently managed by Artisan Partners Limited Partnership, Morgan Stanley Investment Management Limited, and Templeton Investment Counsel, LLC within the global equity asset class, and reallocate the assets to BlackRock MSCI World ex U.S. Index Fund within the global equity asset class;
- b. Liquidate the assets currently managed by Waterfall Asset Management, LLC within the fixed income asset class, and transfer the proceeds to cash;
- c. Transition and/or liquidate the assets currently managed by MacKay Shields LLC and UBS Global Asset Management (Americas) Inc. within the fixed income asset class, and reallocate the assets to Mellon Capital Management U.S. Aggregate Bond Index; and
- d. Transition and/or liquidate the assets currently managed by Wellington Management Company, LLP within the fixed income class, and reallocate the assets to the PIMCO U.S. Treasuries portfolio within the fixed income asset class.

A board approved transition manager may be used to assist in facilitating the transitions and/or liquidations of these accounts, after which the relationship with these managers will terminate.

MOTION: 2017-25

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

RESOLVED: That the board orders to (i) redeem \$250 million from the Blackstone Keystone Fund L.P. and reallocate the proceeds to the Mellon Capital Management Russell 3000 Index Fund within the Multi-Strategy asset class; and (ii) revise the current investment guidelines of the Blackstone Keystone Fund L.P. to increase investments in opportunistic credit-driven strategies.

Presentation: 2. Asset Allocation Discussion

Messrs. Johnson and Voytko presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 2).

B. 2016 Actuarial Valuation: THE KORN FERRY HAY GROUP (SERS' ACTUARY) AND RVK, INC.

Action: 1. 2016 Actuarial Valuation – Investment Return Assumption Discussion

Messrs. Mowery, Voytko, and Graby presented the report provided to the board (4/26/2017 Board Package, Administrative Report, Tab 13).

MOTION: 2017-26

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

RESOLVED: That the board orders to change the current annual assumed rate of investment return and assumed rate of inflation and adopt an annual assumed rate of investment return of 7.25% compounded annually and an annual assumed rate of inflation of 2.6% compounded annually, with both assumptions to be effective with the December 31, 2016, Actuarial Valuation and to remain in effect until further changed by the board.

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

Action: 1. Private Equity Interview – Silver Lake Partners V, L.P.

Ms. Press and Messrs. Felix, Elio and Mondre presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 8).

MOTION: 2017-27

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

RESOLVED: That the board orders to commit up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Silver Lake Partners V, 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.

Action: 2. Private Equity Interview – Wind Point Partners VIII, L.P.

Messrs. Felix, Elio, Washington and Brown presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 9).

MOTION: 2017-28

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

RESOLVED: That the board orders to commit up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Wind Point Partners VIII-A, 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.

D. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – March 8, 2017

Chairman Fillman presented the minutes provided to the board (4/26/2017 Board Package, Administrative Report, Tab 2).

MOTION: 2017-29

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

RESOLVED: That the board approves the minutes of the March 8, 2017, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Periods Ending – January 31 and February 28, 2017

Chairman Fillman presented the report provided to the board (4/26/2017 Board Package, Administrative Report, Tab 3).

MOTION: 2017-30

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 January 31 and February 28, 2017.

E. EXECUTIVE SESSION #1

Presentation: 1. Agenda

At 11:53 a.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as attached in ATTACHMENT A.

F. LUNCH BREAK**G. PUBLIC MEETING RESUMES**

The public meeting resumed at 2:10 p.m.

H. AUDIT COMMITTEE RECOMMENDATION

Action: 1. The following motion was presented as a result of discussion in executive session.

MOTION: 2017-31

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

RESOLVED: That the board orders to accept the recommendation of the SERS Audit Committee to proceed with retaining the services of outside counsel to review the occurrence of any possible non-compliance with laws and regulations committed by SERS, or any of its agents or employees having been the subject of certain court filings and trial testimony in the matter of *United States v. Ireland*, U.S. Dist. Ct., M.D. Pa., No. 1:16-cr-203.

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP L.P. - CONTINUED

Action: 3. Non-Core Funds Discussion – Fairview Capital Partners, Landmark Partners Ms. Nettles and Messrs. Felix, Elio, Olofinboba, and Boains with Fairview Capital Partners presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 7a).

Messrs. Shanfield, Keith, Griffiths, and Clarke with Landmark Partners presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 7b).

The motion was tabled for Non-Core Funds.

I. EXECUTIVE SESSION #2

At 3:00 p.m., the board recessed and entered executive session to review contractor qualifications, bids on proposals.

J. PUBLIC MEETING RESUMES

The public meeting resumed at 3:35 p.m.

C. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP L.P. - CONTINUED

Presentation: 1. Private Equity Recommendations for Future Interviews:

Apollo Investment Fund IX, L.P.

CVC Capital Partners VII, L.P.

Insight Venture Partners X, L.P.

Messrs. Felix and Elio presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tabs 4, 5, and 6).

It was the consensus of the board to interview representatives of these managers at the June 14, 2017, board meeting.

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

Action: 1. Real Estate Interview: Oak Street Real Estate Capital Fund IV, L.P.

Ms. Herczeg and Messrs. Greenberg, Zahr, Hennessey, and Kochis presented the report provided to the board (4/26/2017 Board Package, Investment Report, Tab 10).

MOTION: 2017-32

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

RESOLVED: That the board orders to commit up to \$100 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Oak Street Real Estate Capital Fund IV, L.P., as an investment within the Real Estate 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.

L. Deferred Compensation Program (DCP): SERS INVESTMENT OFFICE AND EMPOWER RETIREMENT

Presentation: 1. Update

Mses. Engle and Dobson and Mr. Rohlinger presented the report provided to the board (4/26/2017 Board Package, Administrative Report, Tab 12).

M. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Board Dismissal

Mr. Durbin presented the report regarding uncontested matters that an Order was issued dismissing the following administrative appeal, as provided to the board (4/26/2017 Board Package, Administrative Report, Tab 7).

Account of Michael Schmitt

Docket No. 2015-01

Claim of Michael Schmitt

Presentation: 2. Administrative Update

Mr. Durbin noted that the report was provided to the board (4/26/2017 Board Package, Administrative Report, Tab 8).

Presentation: 3. Legislative Update

Mr. Durbin noted that the report was provided to the board (4/26/2017 Board Package, Administrative Report, Tab 9).

Presentation: 4. Audit Committee Meeting Minutes – March 8, 2017

Mr. Durbin noted that the Audit Committee meeting minutes were provided to the board (4/26/2017 Board Package, Administrative Report, Tab 10).

Presentation: 5. Governance Committee Meeting Minutes – March 8, 2017

Mr. Durbin noted that the Governance Committee meeting minutes were provided to the board (4/26/2017 Board Package, Administrative Report, Tab 11).

Presentation: 6. Financial Disclosure Statements

Mr. Durbin noted that the deadline for submission of Financial Disclosure Statements is on May 1.

Presentation: 7. Senate Appropriations Sub-Committee Hearing

Mr. Durbin noted that a Senate Appropriations Sub-Committee Hearing is being held on May 24, 2017, and Bryan Lewis is scheduled to attend.

N. NEXT BOARD MEETING – JUNE 14, 2017

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for June 14, 2017.

O. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2017-33

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 4:25 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

EXECUTIVE SESSION MINUTES Meeting: April 26, 2017

Executive Session

1. Notational Ballots

Account of John J. McHale, Jr.
Docket No. 2016-10
Claim of John J. McHale, Jr.

Account of Joseph J. O'Neill
Docket No. 2016-06
Claim of Joseph J. O'Neill

Account of Robert J. Mellow
Docket Nos. 2012-19 and 2012-20
Claims of Robert J. Mellow and Diane Mellow

2. Recent Decisions

State Employees' Retirement System v. Office of Open Records (Kenneth Fultz v. SERS),
Commonwealth Court No. 1603 CD 2016

3. Pending Litigation Report

4. Securities Litigation

Quarterly Monitoring Report

Tesco PLC (UK) Update

5. Fund Update

6. Consultant Update – StepStone

7. Review Recommendation of Audit Committee

8. Consultant Discussion – Hay Group