

**MINUTES of SERS Board Regular Meeting - Wednesday, January 31, 2018**

**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  
Thomas Clancy – Designee for Treasurer Joseph M. Torsella  
Christopher Craig – Designee for Treasurer Joseph M. Torsella  
Bernie Gallagher – Designee for Representative Dan B. Frankel  
Dan Ocko – Designee for Representative Dan B. Frankel  
Leo Pandeladis – Designee for Secretary Robin L. Wiessmann  
Monica Riddle – Designee for Senator Charles T. McIlhinney, Jr.  
Ned Smith – Designee for Representative Robert W. Godshall

**Consultants**

Michael Elio, StepStone Group LP  
Robert Palmeri, RVK, Inc.  
Matt Roche, StepStone Group LP  
Matthew Sturdivan, RVK, Inc.  
Jim Voytko, RVK, Inc.  
Michael Yang, NEPC, LLC

**Executive Staff**

Anthony Faiola  
Bryan Lewis  
N. Joseph Marcucci

**Staff**

Rose Agnew  
Grace Bachman  
Salvatore Darigo  
Patricia Dence  
Myisha Ebersole  
Linda Engle  
Brittany Erney-Muniz  
David Felix  
Jason Giurintano  
Phillip Greenberg  
Pamela Hile  
Barbara Kiral  
Cheryl Krchnar

Karen Lynn  
Katie Mathews  
Jeffrey McCormick  
Sara McSurdy  
Matthew Meads  
Jeffrey Meyer  
Ryan Morse  
James Nolan  
M. Catherine Nolan  
Sharon Smith  
Thomas Swope  
Joseph Torta  
William Truong

**Visitors**

Chris Ade, Lord, Abbett & Co., LLC  
Braynard Brown, Rockefeller & Co., Inc.  
Alan Flannigan, PA Department of Banking and Securities  
Michele Kreisler, PA Treasury Department  
Elizabeth Pettis, PA Office of General Counsel  
Otto Voit

**Presenters**

Susan Brengle, Eaton Vance Management  
Michael Cirami, Eaton Vance Management  
Clayton Jue, Leading Edge Investment Advisors, LLC  
Chris Fong, Leading Edge Investment Advisors, LLC  
Seth Lehr, LLR Equity Partners V, L.P.  
Walter Lindsay, Eaton Vance Management  
Emily Mendell, Institutional Limited Partners Association  
Carolyn Diaz Roberts, Leading Edge Investment Advisors, LLC  
Howard Ross, LLR Equity Partners V, L.P.  
Kila Weaver, FIS Group, Inc.  
Tina Byles Williams, FIS Group, Inc.

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### A. INTRODUCTION OF NEW SERS STAFF

Mr. Lewis introduced Mr. Ryan Morse, who started in the SERS Investment Office as the Director of Private Equity.

### B. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – December 6, 2017

Chairman Fillman presented the minutes provided to the board (1/31/2018 Board Package, Administrative Report, Tab 2).

#### **MOTION: 2018-01**

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

**RESOLVED:** That the board approves the minutes of the December 6, 2017, board meeting.

Action: 2. Minutes of Board Special Meeting – December 20, 2017

Chairman Fillman presented the minutes provided to the board (1/31/2018 Board Package, Administrative Report, Tab 3).

#### **MOTION: 2018-02**

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

**RESOLVED:** That the board approves the minutes of the December 20, 2017, board special meeting.

Action: 3. Statement of Changes in Fiduciary Net Position for Periods Ending – October 31 and November 30, 2017

Chairman Fillman presented the report provided to the board (1/31/2018 Board Package, Administrative Report, Tab 4).

#### **MOTION: 2018-03**

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 October 31 and November 30, 2017.

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

Presentation: 1. Capital Markets Report

Messrs. Voytko and Sturdivan presented the report provided to the board (1/31/2018 board handouts).

### D. Investment Presentations and Reviews: SERS INVESTMENT OFFICE, RVK, INC., STEPSTONE GROUP LP AND NEPC, LLC

Presentation: 1. Investment Fee Study Discussion

Messrs. Meyer, Voytko, Sturdivan, Yang and Elio presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 2).

Presentation: 2. 2018-2019 Investment Plan

Mr. Lewis presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 3).

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

Action: 1. Global Public Equity Interview – Leading Edge Investment Advisors, LLC

Ms. Diaz-Roberts and Messrs. Nolan, Truong, Voytko, Sturdivan, Jue and Fong presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 5).

**MOTION: 2018-04**

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

**RESOLVED:** That the board orders to invest \$200 million in the Emerging Markets Equity Strategy managed by Leading Edge Investment Advisors, LLC, as an investment within the Global Public 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. Funding for this strategy will be from the MCM Russell 1000 Index portfolio.

Action: 2. Global Public Equity Interview – FIS Group, Inc.

Mses. Weaver and Byles Williams and Messrs. Nolan, Truong, Voytko and Sturdivan presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 6).

**MOTION: 2018-05**

By motion that was moved, seconded, and approved by board members, except Mr. Becker who recused because of interactions between members of his firm and FIS several years ago, it was

**RESOLVED:** That the board orders to invest \$200 million in the Non-U.S. Small Cap Equity Strategy managed by FIS Group, Inc., as an investment within the Global Public 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. Funding for this strategy will be from the MCM Russell 1000 Index portfolio.

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

Action: 1. Fixed Income Interview – Eaton Vance Global Macro Absolute Return Advantage Strategy

Ms. Brengle and Messrs. Nolan, Truong, Voytko, Sturdivan, Lindsay and Cirami presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 7). After discussion among the board members, it was decided that this investment better fits under the Multi-Strategy asset class.

**MOTION: 2018-06**

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

**RESOLVED:** That the board orders to invest \$200 million in the Global Macro Absolute Return Advantage Strategy managed by Eaton Vance Management, as an investment within the Multi-Strategy 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. Funding for this strategy will be from the MCM Bond Index portfolio.

G. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND STEPSTONE GROUP LP

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

Messrs. Elio, Felix, Ross and Lehr presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 8).

**MOTION: 2018-07**

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

**RESOLVED:** That the board orders to commit up to \$75 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents to LLR Equity Partners V, L.P., 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.

Presentation: 1. Private Equity Semi-Annual Performance Report (as of June 30, 2017)  
Messrs. Elio and Felix presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 9).

H. EXECUTIVE SESSION

Presentation: 1. Agenda

At 12:38 p.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as provided in ATTACHMENT A.

I. LUNCH BREAKJ. PUBLIC MEETING RESUMES

The public meeting resumed at 1:55 p.m.

K. ANNUAL AGGREGATE PAY BUDGET

Action: 1. The following motion is a result of discussion in executive session.

**MOTION: 2018-08**

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

**RESOLVED:** WHEREAS, the *Compensation Policy for Investment Professional Staff* provides that an annual study will be conducted to determine current market pay for the industry; and WHEREAS, the *Compensation Policy for Investment Professional Staff* provides that the board will use the current market pay data to approve the annual aggregate pay budget to be used to provide annual pay increases for SERS investment professional staff; and WHEREAS, current market data reflects a projected 3.3% average 2018 pay increase for the investment industry; and WHEREAS, recognizing that the aggregate budget for investment professional pay increases should be above 3.3% of payroll to reward above average performance; and THEREFORE, the board orders to approve an annual aggregate pay budget of 5% of the investment professional payroll as of December 31, 2017, for staff covered by this policy.

L. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND NEPC, LLC

Presentation: 1. Real Estate Semi-Annual Performance Report (as of June 30, 2017)

Messrs. Yang and Greenberg presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 10).

Presentation: 2. Real Estate Recommendation for Future Interview – Mesirow Financial Real Estate Value Fund III, L.P.

Messrs. Yang and Greenberg presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 4).

It was the consensus of the board to interview representatives of this manager at the March 7, 2018, board meeting.

M. SERS 457 Deferred Compensation Program Committee

Presentation: 1. SERS 457 and 401(a) Update

Ms. Engle and Messrs. Nolan, Truong and Palmeri presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 11). It was noted that this committee will meet the day prior to all regular board meetings during 2018.

N. INSTITUTIONAL LIMITED PARTNERS ASSOCIATION (ILPA)

Presentation: 1. ILPA Education Session

Ms. Mendell and Mr. Elio presented the report provided to the board (1/31/2018 Board Package, Investment Report, Tab 12). Mr. Faiola noted that board members and designees who were present for this session will receive one hour of educational credit.

O. REPORT FROM CHIEF FINANCIAL OFFICER

Presentation: 1. Administrative Budget Update

Mr. Faiola presented the report provided to the board (1/31/2018 Board Package, Administrative Report, Tab 11).

P. REPORT FROM ACTING EXECUTIVE DIRECTOR

Presentation: 1. Administrative Update

Mr. Faiola noted that the report was provided to the board (1/31/2018 Board Package, Administrative Report, Tab 8).

Presentation: 2. Legislative Update

Mr. Faiola noted that the report was provided to the board (1/31/2018 Board Package, Administrative Report, Tab 9).

Presentation: 3. Audit Committee Meeting Minutes – December 6, 2017

Mr. Faiola noted that the Audit Committee meeting minutes were provided to the board (1/31/2018 Board Package, Administrative Report, Tab 10).

Presentation: 4. Board Dismissal

Mr. Faiola presented the report regarding uncontested matters that an Order was issued dismissing the following administrative appeal, as provided to the board (1/31/2018 Board Package, Administrative Report, Tab 13).

**Account of Elda J. Balmer**

**Docket No. 2016-11**

**Claim of Elda J. Balmer**

Q. NEXT BOARD MEETING – MARCH 7, 2018

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for March 7, 2018.

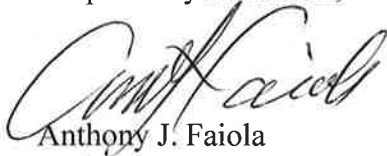
R. MOTION TO ADJOURN

Action: 1. Adjournment

**MOTION: 2018-09**

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 3:28 p.m.

Respectfully submitted,



Anthony J. Faiola  
Acting Executive Director

# ATTACHMENT A

## EXECUTIVE SESSION MINUTES Meeting: January 31, 2018

### Executive Session

1. **Litigation Updates**
2. **Fund Update**
3. **Annual Aggregate Pay Budget (Investment Staff)**