

MINUTES of SERS Board Regular Meeting – Wednesday, October 24, 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
Robert W. Godshall
Charles T. McIlhinney, Jr.
T. Terrance Reese
Mary A. Soderberg
Joseph M. Torsella
Robin L. Wiessmann
Thomas Clancy – Designee for Treasurer Joseph M. Torsella
Toni Marchowsky – Designee for Senator Vincent J. Hughes
Bernie Gallagher – Designee for Representative Dan B. Frankel
Dan Ocko – Designee for Representative Dan B. Frankel
Leo Pandeladis – Designee for Secretary Robin L. Wiessmann

Consultants

Andrew Brett, NEPC, LLC
Michael Elio, StepStone Group LP
Anthony Johnson, RVK, Inc.
Alexander Leiken, RVK, Inc.
Mikaylee O'Connor, RVK, Inc.
Matthew Ritter, NEPC, LLC
Matt Roche, StepStone Group LP
Jim Voytko, RVK, Inc.

Executive Staff

Anthony Faiola
Bryan Lewis
N. Joseph Marcucci
Terrill Sanchez

Staff

Rose Agnew
Stephen Balucha
Lena Bickle
Dhanashree Chitnis
Thomas Derr
Myisha Ebersole

Linda Engle
David Felix
Brian Gilroy
Jason Giurintano
Phillip Greenberg
Suzanne Hansel
Pamela Hile
Christopher Houston
Khalfani King
Barbara Kiral
Karen Lynn
Katie Mathews
Jeffrey McCormick
Sara McSurdy
Matthew Meads
Jeffrey Meyer
James Nolan
M. Catherine Nolan
Joel Rimby
Kathleen Ryan
Sharon Smith
Bruce Thomas
Joseph Torta
William Truong
Carly Wismer

Visitors

Chris Ade, Lord, Abbett & Co. LLC
James Bloom, Public Pension Management and Asset Investment Review Commission
Pamela Cross, PA Office of General Counsel
Suzanne Dugan, Cohen Milstein Sellers & Toll PLLC
Alan Flannigan, PA Dept. of Banking & Securities
Chris Morgan, Franklin Templeton Investments
Tony Parisi, Public School Employees' Retirement System
Brian Pifer, Office of Representative Robert W. Godshall

Presenters

Andrew Gosden, Apollo Hybrid Value Fund, L.P.
Jim Hennessey, Oak Street Real Estate Capital Net Lease Property Fund, L.P.
Larissa Herczeg, Oak Street Real Estate Capital Net Lease Property Fund, L.P.
Kristy Heuberger, LaSalle Investment Management
Steve Inglis, LaSalle Investment Management
Jason Kern, LaSalle Investment Management
Matthew Michelini, Apollo Hybrid Value Fund, L.P.
Jaime O'Hara, TSG8, L.P.
Bud Pellicchia, Callan Associates

Thomas Shingler, Callan Associates
Millie Viqueira, Callan Associates
Marc Zahr, Oak Street Real Estate Capital Net Lease Property Fund, L.P.

MINUTES of the SERS Board Regular Meeting Wednesday, October 24, 2018

A. RECOGNITION FOR RETIRING BOARD MEMBER ROBERT W. GODSHALL

MOTION: 2018-70

By motion of Chairman Fillman, the board unanimously agreed to recognize Representative Robert W. Godshall with a board resolution, read by Executive Director Terrill Sanchez, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT A).

Treasurer Torsella noted that he served at the National Constitution Center with the Representative and the Center would not be in existence without Rep. Godshall.

Chairman Fillman thanked Rep. Godshall for his service and recognized the Representative's support he has given to organized labor. He wished him good luck in his retirement.

The board recognized, Mr. Ned Smith, designee to Representative Godshall, with a board resolution (ATTACHMENT B).

B. STANDARD MOTIONS

Action: 1. Minutes of Board Meeting – September 12, 2018

Chairman Fillman presented the minutes provided to the board (10/24/2018 Board Package, Administrative Report, Tab 2).

MOTION: 2018-71

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

RESOLVED: That the board approves the minutes of the September 12, 2018, board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for the Period Ending – August 31, 2018

Chairman Fillman presented the report provided to the board (10/24/2018 Board Package, Administrative Report, Tab 3).

MOTION: 2018-72

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 August 31, 2018.

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

Action: 1. Private Equity Interview – TSG8 L.P.

Messrs. Felix, Elio, Roche and O'Hara presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 6).

MOTION: 2018-73

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella, who abstained, and Leo Pandeladis, designee for Secretary Wiessmann, who used his standing recusal, it was

RESOLVED: That the board orders to commit up to \$100 million to TSG8 L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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 – Apollo Hybrid Value Fund, L.P.
Messrs. Felix, Elio, Roche, Gosden and Michelini presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 7).

MOTION: 2018-74

By motion that was moved, seconded, and approved by board members, except Mr. Reese, Treasurer Torsella, Mr. Aichele and Mr. Becker, who voted NO, and Leo Pandeladis, designee for Secretary Wiessmann, who used his standing recusal, it was

RESOLVED: That the board orders to commit up to \$100 million to Apollo Hybrid Value Fund, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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.

Presentation: 1. Fee Discussion – Board Training Session
Ms. Engle and Messrs. Nolan, Felix, Elio and Roche presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 2).

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

Presentation: 1. Hedge Fund Seeding Discussion
Messrs. Lewis, Johnson and Leiken presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 3).

E. EXECUTIVE SESSION #1

Presentation: 1. Agenda
At 12:25 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 C.

F. LUNCH BREAK

G. PUBLIC MEETING RESUMES

The public meeting resumed at 1:30 p.m.

D. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.
(continued)

Presentation: 2. Fixed Income Discussion
Messrs. Meads, Johnson and Voytko presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 4).

H. INDEPENDENT LEGAL COUNSEL

Action: 1. Recommendation of the Independent Legal Counsel Committee
Ms. Sanchez discussed the recommendations of the committee (10/24/2018 board handout).

MOTION: 2018-75

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

RESOLVED: That the board accepts the recommendations of the Independent Counsel Committee to:

1. Establish an independent legal office, with the effective date of the transition to an independent legal office to be the earliest date the necessary back-office and administrative paperwork can be accomplished and the necessary relationships with outside counsel and the Office of Attorney General can be established, with the exact date to be determined by the Board Secretary, who shall give notice to the Governor's General Counsel pursuant to §409 of Act 2017-05;
2. Retain the chief counsel and all of the current staff lawyers at substantially their current duties, classifications and salaries, with the transfer of staff lawyers to an independent legal office being subject to reorganization and reassignment of duties as determined by the chief counsel, with the concurrence of the Board Secretary, to implement the proposed legal office organization;
3. Delegate to the chief counsel, with the concurrence of the Board Secretary, the authority to retain, hire, terminate, reclassify or promote any other counsel, either in-house counsel or outside counsel, as they deem necessary and appropriate, and subject to Commonwealth personnel and procurement rules; provided, however, that for so long as the chief compliance officer role is filled by a lawyer and is administratively housed in the legal office, that the Board retain the decision to hire and terminate the chief compliance officer after input from the chief counsel;
4. Grant salary increases at the time and in the amounts that match the salary increases granted by the General Counsel that the lawyers would have received had the Board not established an independent legal office; and that the Board adopt the attorney performance system currently utilized by the Office of General Counsel for its lawyers; and
5. Authorize the SERS Executive Office, working with its chief counsel, to perform any actions as necessary or prudent to effectuate the transition to an independent legal office, including, but not limited to:
 - a. Revising current contracts with outside counsel and Hearing Examiners, as necessary;
 - b. Developing procedures for hiring outside counsel and Hearing Examiners;
 - c. Developing procedures for contract approval by, and debt collection and criminal referrals to, the Office of Attorney General; and
 - d. Developing procedures to continue cooperation with the Public School Employees' Retirement System (PSERS) on legal issues.

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

Presentation: 1. Real Estate Interview – Oak Street Real Estate Capital Net Lease Property Fund, L.P. Ms. Herczeg and Messrs. Greenberg, Ritter, Brett, Hennessey and Zahr presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 8).

MOTION: 2018-76

By motion that was moved, seconded, and approved by board members, except for Secretary Wiessmann, who voted NO, it was

RESOLVED: That the board orders to commit \$300 million to Oak Street Real Estate Capital Net Lease Property Fund, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, 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.

Presentation: 2. Real Estate Recommendation

Messrs. Greenberg, Ritter and Brett presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tab 5).

MOTION: 2018-77

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

RESOLVED: That the board orders to approve an orderly liquidation of assets from the CBRE Clarion Securities LLC account in the Real Estate portfolio, as soon as practicably possible, with redemption proceeds to be directed to the SERS cash account.

MOTION: 2018-78

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

RESOLVED: That the board orders to approve the contribution of an additional \$160 million to the CenterSquare Investment Management REIT account in the Real Estate portfolio, as soon as practicably possible, which shall be funded from the SERS cash account.

J. EXECUTIVE SESSION #2

At 2:33 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 C.

K. PUBLIC MEETING RESUMES

The public meeting resumed at 3:41 p.m.

L. Investment Presentations and Reviews: SERS INVESTMENT OFFICE

Action: 1. General Consultant Interviews – RVK, Inc. and Callan Associates

Mses. O'Connor and Viqueira and Messrs. Meads, Johnson, Voytko, Pellecchia and Shingler presented the report provided to the board (10/24/2018 Board Package, Investment Report, Tabs 9 and 10).

This action was tabled and will be held at a future board meeting.

M. EXECUTIVE SESSION #3

At 4:46 p.m., the board recessed and entered executive session to receive legal advice and confidential performance information.

N. PUBLIC MEETING RESUMES

The public meeting resumed at 5:19 p.m.

O. GOVERNANCE PROJECT

Action: 1. Board Structure – Committee Charters and Policy Discussion

This action was tabled and will be held at a future board meeting.

P. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Introduction of new Communications and Policy Director, Thomas Derr

Ms. Sanchez noted that Mr. Derr recently started with SERS and he is attending his first board meeting.

Presentation: 2. Administrative Update

Ms. Sanchez noted that the report was provided to the board (10/24/2018 Board Package, Administrative Report, Tab 7). Act 2017-5 roll-out preparations continue to be at the top of staff's workload as the implementation date is January 1, 2019.

The 2019 board meeting calendar discussion was tabled and will be held at a future board meeting.

Presentation: 3. Legislative Update

Ms. Sanchez noted that the report was provided to the board (10/24/2018 Board Package, Administrative Report, Tab 8). She noted that SERS will be testifying at the next Public Pension Management and Asset Investment Review Commission hearing on Thursday, October 25, 2018. A link will be provided for board members to view. Education credits are available to those who attend or listen to the hearing.

Presentation: 4. Audit Committee Meeting Minutes – September 12, 2018

Ms. Sanchez noted that the Audit Committee meeting minutes were provided to the board (10/24/2018 Board Package, Administrative Report, Tab 9).

Presentation: 5. Non-Discretionary General Investment Consultant RFI Committee Meeting Minutes – September 24, 2018

Ms. Sanchez noted that the Non-Discretionary General Investment Consultant RFI Committee meeting minutes were provided to the board (10/24/2018 Board Package, Administrative Report, Tab 10).

Presentation: 6. Independent Counsel Committee Meeting Minutes – October 4, 2018

Ms. Sanchez noted that the Independent Counsel Committee meeting minutes were provided to the board (10/24/2018 Board Package, Administrative Report, Tab 11).

Q. NEXT BOARD MEETING – December 5, 2018

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for December 5, 2018.

R. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2018-79

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 5:25 p.m.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

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



RESOLUTION

WHEREAS, Representative Robert W. Godshall is culminating a distinguished public service career as the State Representative of the citizens of the 53rd Legislative District since 1983; and

WHEREAS, Representative Godshall has served on the State Employees' Retirement Board for sixteen years, having first been appointed by the House Speaker effective November 27, 2002, and has also served as a member of the Audit, Securities Litigation, General Investment Consultant Search and Real Estate Consultant Search Committees; and

WHEREAS, Throughout his tenure on the SERS Board, Representative Godshall has been conscientious in preparing for, personally attending and actively participating in meetings of the Board, and in doing so has given the Board the benefit of his knowledge and insight deriving from his public service, his community and his legislative leadership experience; and

WHEREAS, Representative Godshall's combination of dedication, wisdom, diligence, good humor and genuine concern for the welfare of the SERS Fund and the members of the retirement system will be greatly missed by his fellow Board members; therefore, be it

RESOLVED, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Representative Godshall for his professional excellence and dedication to the System and its members, and wishes him the best of health and happiness in his retirement; and be it further

RESOLVED, That the original resolution be transmitted to Representative Godshall, and a copy included in the minutes.

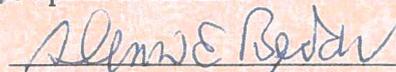
October 24, 2018
Harrisburg, Pennsylvania



David R. Fillman, Chairman



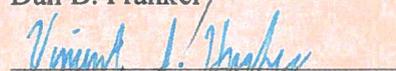
Stephen S. Aichele



Glenn E. Becker



Dan B. Frankel



Vincent J. Hughes

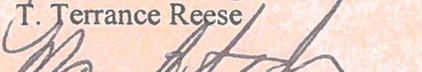




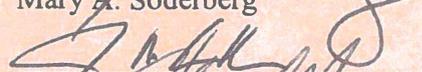
Charles T. McIlhinney, Jr.



T. Terrance Reese



Mary A. Soderberg



Joseph M. Torsella



Robin L. Wiessmann

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



RESOLUTION

WHEREAS, Edward W. "Ned" Smith was appointed by Representative Robert W. Godshall effective March 5, 2013, as his designee to the State Employees' Retirement Board; and he has served faithfully and conscientiously in that capacity; and

WHEREAS, Ned Smith's work on behalf of the citizens of the 53rd Legislative District as an aide to Representative Godshall provided the Board with a valuable citizens' perspective of the pension system; and

WHEREAS, Ned Smith has exhibited a high degree of dedication and diligence to the activities of the Board; and now therefore be it

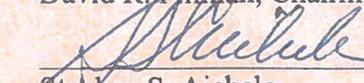
RESOLVED, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Ned Smith for his professional excellence to the System and its members, and wishes him the best of health, happiness and success in all his future endeavors; and be it further

RESOLVED, That the original resolution be transmitted to Ned Smith, and a copy included in the minutes.

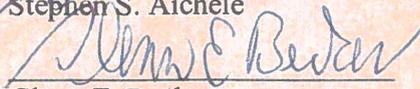
October 24, 2018
Harrisburg, Pennsylvania



David R. Fillman, Chairman



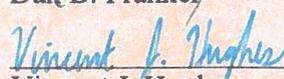
Stephen S. Aichele



Glenn E. Becker



Dan B. Frankel

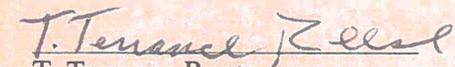


Vincent J. Hughes





Charles T. McIlhinney, Jr.



T. Terrance Reese



Mary A. Soderberg



Joseph M. Torsella



Robin L. Wiessmann

ATTACHMENT C

EXECUTIVE SESSION MINUTES Meeting: October 24, 2018

Executive Session #1

1. Notational Ballot

Account of Richard Boyd (Dec'd)
Docket No. 2018-03
Claim of Melvin Olinger, Trustee to Richard J. Boyd Trust

Account of Andrew S. Miller
Docket No. 2018-07
Claim of Andrew S. Miller

2. Pending Benefits and Administration Litigation Update

3. Fiduciary Counsel Update

4. Fund Update

Executive Session #2

5. LaSalle Manager Presentation