

news release

for immediate release

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Penn SERS Board Redefines Fixed Income Allocations *Acts on Outstanding Pension Review Commission Recommendation*

HARRISBURG – The board of the Pennsylvania State Employees' Retirement System, meeting here today, redefined the fixed income allocations for the SERS Defined Benefit Plan fund, moving toward a liability-driven benchmark, and acted on the last outstanding public pension review commission recommendation, among other business actions.

"The SERS board showed leadership and foresight by adopting a fixed income portfolio that is intended to hedge the liability; thereby, strengthening the benefit for the members. The only focus of this strategy is to secure the member's benefit," explained SERS Chief Investment Officer Seth Kelly. "This liability-driven or cash flow-driven investing makes SERS a leader in the public fund industry.

"The Board spent many hours learning about this portfolio strategy and ultimately decided it was in the best interests of SERS' members. I am very proud and honored to work for such a forward thinking group whose sole focus is on the well-being and security of the system's members," Kelly added.

Acting on one last outstanding recommendation from the Public Pension Management and Asset Investment Review Commission, the board directed staff to produce an annual report of public market investment manager contract amendments for review by the board each April. The board also received a final report of [SERS Responses to PPMAIRC Recommendations](#).

"We took a thoughtful, disciplined approach to review, consider and respond to all the recommendations included in the commission report," explained SERS Executive Director Terri Sanchez. "I'm very proud of our staff and the work they have done considering each recommendation, researching related industry standards, and thinking strategically about new approaches to address many of the recommendations as they developed responses for our board to consider. And, I am also proud of the time, attention and thoughtful discussion our Board gave to each recommendation of this legislatively established commission."

The review commission, established by state Act 2017-5, conducted an in-depth review of the commonwealth's two state retirement systems culminating in a report of more than 100 recommendations issued in Dec. 2018. The recommendations related to a range of topics including full funding, stress testing, transparency, portfolio implementation, performance and asset allocation, cost-savings options and analysis, consolidation of pension investment operations, procurement, and diversity.

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Investment Performance

Returns generated by the State Employees' Retirement Fund for the Defined Benefit Plan by asset class for the third quarter 2020 and year-to-date Sept. 30, 2020 were:

Asset Class	3 rd Quarter 2020	Year to Date 9/30/2020
Emerging Mkts Equity	11.38%	3.54%
Private Equity	10.50	4.33
U.S. Equity	8.77	3.79
International Developed Markets Equity	6.11	(5.73)
Private Credit	5.82	3.32
Inflation Protection (TIPS)	3.10	9.12
Fixed Income	1.76	3.46
Real Estate	1.01	(1.33)
Cash	0.05	0.60
Total Fund	5.78%	0.93%

All returns are reported net of fees. Both private equity and real estate returns are reported on a quarter lag and are adjusted for cash flows.

New Investments

The board also approved \$125 million in new investments:

- Within the Real Estate Asset Class, the board approved two commitments to a new, minority-owned manager for the fund that will target office opportunities in the Pacific Northwest:
 - **Up to \$30 million to Rubicon First Ascent, LP**
 - **Up to \$20 million to Rubicon First Ascent Sidecar, LP**

The commitments will help to bring the real estate allocation closer to its long-term target allocation, while concentrating exposure to top-performing strategic partners.

- Within the Private Equity Asset Class, the board approved **up to €64 million (approximately \$75 million) to PSG Europe, L.P.**, to focus on growth equity investments in software and tech-enabled service companies in Europe. The commitment continues the fund's relationship with this manager.

Investment-Related Policy Revisions

The board approved revisions to the following investment-related policies:

- [SERS' Defined Benefit Plan Investment Policy Statement](#), to provide SERS CIO with the discretion to rebalance public market holdings before a board-approved asset allocation range is breached and approving an enhanced Fixed Income structure.

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- [401\(a\) Defined Contribution Plan Statement of Investment Policy](#) and the [Deferred Compensation Plan Statement of Investment Policy](#), to clarify responsibilities among SERS departments and external entities, and to achieve greater uniformity between the two documents' format and language.
- SERS' [U.S. and International Proxy Voting Policy](#), to support: more diversity and inclusion on corporate boards; the formation of shareholder advisory committees, to facilitate communication between shareholders and management; virtual meetings, for the safety of all shareholders; and additional criteria for executive and director compensation, withholding support unless relevant factors are provided to shareholders and measurement criteria are disclosed. *(This policy not yet updated on the website.)*
- The board also revised the list of securities signatories and authorized that any two or more of the signatories may act with two representatives of the Pennsylvania Department of Treasury to sell, transfer, or request payment of any board-held security.

The board also approved a technical correction to the definition of "Prohibited Securities List" that appears in SERS' [Insider and Personal Trading Policy](#), to clarify that the list applies to personal securities transactions conducted by all parties covered by the policy.

Compensation Adjustments

The board approved a 1.7% upward adjustment to existing pay band values for SERS investment professional staff, to be effective Jan. 1, 2021. It should be noted that adjusting the bands does not result in automatic pay increases for all staff, only staff whose salaries fall below a newly established band minimum.

In addition, the board approved an annual pay increase budget of 5% of salary for investment professional staff in positions below that of the Chief Financial Officer and the Chief Investment Officer, whose pay increases will be determined in accordance with the [Compensation Policy for Investment Professional Staff](#). Again, the increase is for the pooled pay increase budget, not for individual staff.

Procurement Authority Delegation

The board delegated procurement action authority to the Executive Director to handle service, supply, and construction work procurements undertaken pursuant to the Commonwealth Procurement Code and the Department of General Services Procurement Handbook.

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Pennsylvania State Employees' Retirement System

Established in 1923, SERS is one of the nation's oldest and largest retirement plans for public employees, with more than 240,000 members. As of Aug. 31, 2020, SERS' Defined Benefit Plan had assets of nearly \$32 billion and the Defined Contribution Plan, which launched on Jan. 1, 2019, had more than \$27 million. SERS also administers a voluntary supplemental Deferred Compensation Plan with more than 57,000 participants and assets of more than \$4.1 billion. A wealth of information is available at www.SERS.pa.gov.

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