



## **SERS Board Meeting MINUTES - Wednesday, September 25, 2019**

### **ATTENDEES:**

#### **Members and Designees**

David R. Fillman – Chair

Glenn E. Becker

Dan B. Frankel

Mary A. Soderberg

Gregory C. Thall

Michael G. Tobash

Joseph M. Torsella

Robin L. Wiessmann

James Bloom - Designee for Secretary Robin L. Wiessmann

Thomas Clancy – Designee for Treasurer Joseph M. Torsella

Lloyd Ebright - Designee for Treasurer Joseph M. Torsella

Charles Erdman - Designee for Senator John M. DiSanto

Alan Flannigan - Designee for Secretary Robin L. Wiessmann

Bernie Gallagher – Designee for Representative Dan B. Frankel

Toni Marchowsky - Designee for Senator Vincent J. Hughes

Leo Pandeladis - Designee for Secretary Robin L. Wiessmann

Jill Vecchio - Designee for Representative Michael G. Tobash

#### **Consultants**

Bud Pellicchia, Callan, LLC

Tom Shingler, Callan, LLC

Christopher Waddell, Olson Hagel & Fishburn LLP

Liz Weber, Weber Business Services

#### **Executive Staff**

Alicia James

N. Joseph Marcucci

James Nolan

Terrill Sanchez

#### **Staff**

Rose Agnew

Randy Albright

Stephen Balucha

Don Bell

Jason Burger  
Dhanashree Chitnis  
Michele Crow  
Thomas Derr  
David Felix  
Jonathan Ferrar  
Brian Gilroy  
Jason Giurintano  
Vesna Gleichman  
Phillip Greenberg  
Suzanne Hansel  
Pamela Hile  
Christopher Houston  
Kevin Kiehl  
Khalfani King  
Dan Krautheim  
David Kuntch  
Alan Lin  
Karen Lynn  
Katie Mathews  
Jeffrey McCormick  
Ryan McCoy  
Sara McSurdy  
Matthew Meads  
Jeffrey Meyer  
M. Catherine Nolan  
Kara O'Donnell  
Joel Rimby  
Kathleen Ryan  
David Sedlak  
Melissa Seiders  
Sarah Souder  
Bruce Thomas  
Joseph Torta  
William Truong

**Visitors**

John Baughman, PARSE  
Ned Smith, Former SERS Board Designee

**1. CALL TO ORDER**

Chair Fillman called the meeting to order at 10:41 a.m.

**2. WELCOME AND INTRODUCTIONS**

Chair Fillman noted that Mr. Bernie Gallagher, Board Designee for Representative Frankel, would be leaving the board and the state to begin work in Washington DC. Mr. Gallagher addressed the board and thanked them for their support and assistance as serving on the board was a valuable experience for him.

### 3. ADOPTION OF THE AGENDA

#### **MOTION: 2019-67**

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

**RESOLVED:** That the board adopts the agenda for the September 25, 2019, board meeting.

### 4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes - July 31, 2019

B. Approving Statement of Changes in Fiduciary Net Position for the Period Ending - June 30, 2019

C. Approving Deferred Compensation Plan (DCP) 2nd Quarter Statement of Changes Report

#### **MOTION: 2019-68**

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

**RESOLVED:** That the board approves the Consent Calendar items, as listed, for the September 25, 2019, board meeting.

### 5. NEW BUSINESS

A. SERS Strategic Business Plan Discussion

Ms. Liz Weber, Weber Business Services, presented background information in the preparation of a three-year SERS Strategic Business Plan which will commence in October, 2019.

### 6. EXECUTIVE SESSION/LUNCH/PUBLIC MEETING RESUMED

TOPIC 1 - Notational Ballots

Account of Donald Grimaldi

Docket No. 2019-04

Claim of Donald Grimaldi

Account of Bryan K. Kerekish

Docket No. 2017-03

Claim of Bryan K. Kerekish

TOPIC 2 - Pending Benefits and Administration Litigation Update

TOPIC 3 - Report on Referrals of Prospective or Existing Investment Transaction or Contract

TOPIC 4 - Fiduciary Counsel RFP

At 11:25 a.m., the board recessed and entered executive session to receive legal advice on the above executive session agenda items. The public meeting resumed at 12:00 p.m.

### 7. COMMITTEE REPORTS AND ACTION ITEMS

A. Audit, Risk and Compliance Committee

Assistant Chair Torsella provided a report of the Audit, Risk and Compliance Committee to the board (SERS Board Handout). The report was accepted by the board and there were no motions brought to the board by the AR&C committee.

#### B. Board Governance and Personnel Committee

Chair Fillman provided a report of the Board Governance and Personnel Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motion.

#### ADOPTION OF AMENDMENTS TO SECURITIES LITIGATION COMMITTEE CHARTER

##### **MOTION 2019-69**

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

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to concur with the recommendation of the Securities Litigation Committee to adopt the amendments to the Securities Litigation Committee Charter, as set forth in the attachment (ATTACHMENT B), to be effective immediately upon adoption.

#### C. Finance and Member Services Committee

Chair Soderberg provided a report of the Finance and Member Services Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motion.

#### FISCAL YEAR 2020-21 BUDGET

##### **MOTION 2019-70**

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

**RESOLVED:** That the board accepts the recommendation of the Finance and Member Services Committee to approve, for Fiscal Year 2020-21, the following proposed budgets: (1) SERS Administrative Budget; (2) SERS Investment Budget; (3) State Employees' Defined Contribution Plan Budget; and (4) State Employees' Retirement System Deferred Compensation Plan Budget, each substantially in the same form as presented in the Chief Financial Officer's September 24, 2019, SERS FY2020-21 Budget, and each as amended as permitted by the Office of the Budget.

#### D. Investment Committee

Chair Becker provided a report of the Investment Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions.

#### PROXY VOTING SERVICES CONSULTANT

##### **MOTION 2019-71**

By motion presented by Chair Becker, that was moved, seconded, and approved by board members, with Treasurer Torsella noting that Legal Counsel has advised him that there is no conflict with his vote since a vendor submitting a proposal is the same one that serves the Treasury Department, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to hire ISS to act as its proxy voting services consultant for its Defined Benefit Plan, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals.

#### LIQUIDATION AND TRANSITION

##### **MOTION 2019-72**

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

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to (i) approve the orderly liquidation of the U.S. mid-cap portfolio managed by Iridian Asset Management

LLC, and (ii) transition the assets to SERS' cash account. A board approved transition manager may be used to assist in facilitating these transitions. Upon completion of this liquidation and transition, SERS' relationship with Iridian Asset Management LLC will terminate.

#### E. Securities Litigation Committee

Alan Flannigan, designee for Chair Wiessmann, provided a report of the Securities Litigation Committee to the board (SERS Board Handout). The following motion was presented:  
THIRD AMENDED SECURITIES LITIGATION POLICY AND SECURITIES LITIGATION COMMITTEE CHARTER

#### **MOTION 2019-73**

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

**RESOLVED:** That the board accepts the recommendation of the Securities Litigation Committee to:

1. repeal Securities Litigation Policy (2018 POL-BD-03), and
2. adopt (a) the Third Amended Securities Litigation Policy (2019 POL-BD-02), and (b) amendments to the Securities Litigation Committee Charter, as set forth in the attachments (ATTACHMENTS A AND B), to be effective immediately upon adoption.

#### 8. EXECUTIVE SESSION/PUBLIC MEETING RESUMED

##### TOPIC 1 - PPMARC Recommendations

At 12:20 p.m., the board recessed and entered executive session to receive legal advice on the above executive session agenda items. The public meeting resumed at 1:45 p.m.

#### 9. OLD BUSINESS

As a result of discussion in Executive Session, the following motion was raised:

#### **MOTION: 2019-74**

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

**RESOLVED:** That the board approves the format of the sample documents including staff memo, consultant memo and recommended template for future manager presentations to be posted on SERS' public website, as set forth in the attachments (ATTACHMENT C).

#### 10. REPORTS OF EXECUTIVE DIRECTOR AND AGENCY STAFF

A. Executive Director Sanchez noted the (ii) Proposed 2020 SERS board meeting dates were provided and asked board members to get back to her by October 15th with any discrepancy to the dates. A board retreat has been proposed for October 16, she asked that calendars be checked for board members' availability. (iii) Following are the results of the notational ballot from the July board meeting regarding the following accounts:

##### **Account of Norman J. Searfoss**

##### **Docket No. 2019-1**

##### **Claim of Norman J. Searfoss**

The State Employees' Retirement Board has **GRANTED** SERS' Motion to Dismiss and **DISMISSED WITH PREJUDICE** Claimant's appeal of the denial of his request to receive a disability retirement benefit.

**Account of Joseph J. O'Neill**

**Docket No. 2016-06**

**Claim of Joseph J. O'Neill**

The State Employees' Retirement Board has **DENIED** Claimant's appeal of SERS' denial of reinstating the Claimant's pension benefits retroactive to the date of forfeiture and avoiding the effects of an Act 140 pension forfeiture.

**Account of Anthony F. Eggleston**

**Docket No. 2017-12**

**Claim of Anthony F. Eggleston**

The State Employees' Retirement Board has **GRANTED** SERS' Motion to Dismiss and **DISMISSED WITH PREJUDICE** Claimant's appeal to receive his forfeited pension.

**Account of Anka Vilov**

**Docket No. 2018-05**

**Claim of Anka Vilov**

The State Employees' Retirement Board has **GRANTED** SERS' Motion to Dismiss and **DISMISSED WITH PREJUDICE** Claimant's appeal of the denial of her disability annuity application.

Executive Director Sanchez presented the report regarding uncontested matters in which an Order was issued dismissing the following administrative appeals, as provided to the board.

**Account of David Fetter**

**Docket No. 2019-05**

**Claim of David Fetter**

**Account of Michael J. Goldstein**

**Docket No. 2015-01**

**Claim of Michael J. Goldstein**

**Account of Raina Hilgner**

**Docket No. 2017-09**

**Claim of Raina Hilgner**

Executive Director Sanchez gave an update on the (v) Chief Investment Officer search timeline and the notice of forthcoming procurement for the CIO search RFP has been approved by the Department of General Services. She asked if board members would contact her by October 4th, if they wish to participate in the process of a CIO's search firm selection.

Executive Director Sanchez provided information on the (vi) National Association of Corporate Directors (NACD) which Secretary Wiessmann has joined. Board members are asked to review the information and if they have an interest to become a member to notify her.

**11. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER**

A. Next Board Meeting - December 3-4, 2019

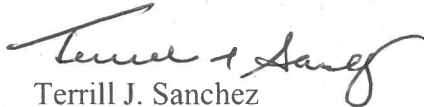
12. MOTION TO ADJOURN

**MOTION 2019-75**

By motion of Chair Fillman, it was

**RESOLVED:** That the board unanimously agrees to adjourn the meeting at 1:55 p.m.

Respectfully submitted,



Terrill J. Sanchez  
Executive Director



**Policy Name:** Third Amended Securities Litigation Policy  
**Policy Number:** 2019 POL-BD-02  
**Effective Date:** September 25, 2019  
**Reviewed Date:** N/A  
**Applies To:** SERS Board Members  
**Contact Person:** SERS Legal Office

#### I. Purpose

The State Employees' Retirement System ("SERS") provides pension benefits to members of SERS in accordance with the State Employees' Retirement Code (the "Retirement Code").<sup>1</sup> The State Employees' Retirement Board (the "Board") is empowered by the Retirement Code with the exclusive control and management of the State Employees' Retirement Fund (the "Fund").<sup>2</sup> The members of the Board stand in a fiduciary relationship to SERS members regarding the investments and disbursements of any of the moneys of the Fund, and have the duty and obligation to invest and manage the Fund for the exclusive benefit of SERS members.<sup>3</sup> As fiduciaries, the members of the Board have the duty to invest and manage the Fund with the care, skill and caution that a prudent investor would exercise under similar circumstances.<sup>4</sup>

The Board has long recognized that the Fund assets include SERS' securities litigation claims for losses to the Fund arising from misconduct by publicly-traded entities in which the Board invests. As fiduciaries, the members of the Board have a duty to take reasonable and appropriate actions to recover losses to the Fund. In furtherance of the recognition of the Board's fiduciary duties, on October 28, 1998, the Board adopted Resolution 1998-67, which established a sub-committee with authority to approve applications by SERS to serve as lead plaintiff for the class in securities class actions. On June 4, 2003, the Board adopted Resolution 2003-49, which repealed Resolution 1998-67, established a Securities Litigation Committee of the Board (the "SLC"), and gave the SLC broad powers for determining whether SERS should institute securities litigation, but specified a minimum of \$3,000,000 in estimated losses to SERS as a general requirement for participating as an active class representative in a class action. On May 31, 2006, the Board adopted Resolution 2006-53 adopting the SERS Securities Litigation Policy (the "SLP"), which established the procedures for determining when and how to actively pursue securities litigation and the selection process to secure outside litigation counsel for such purpose. On April 24, 2013, the Board adopted Resolution 2013-25, which amended the SLP (the "First Amended SLP") to: (1) establish a secondary threshold where the potential burdens of class action class representation were reduced or absent and a greater recovery was evident, such as when opting out of a pending

<sup>1</sup> 71 Pa. C.S. §5101 *et seq.*

<sup>2</sup> 71 Pa. C.S. §5931(a)

<sup>3</sup> 71 Pa. C.S. §5931(e)

<sup>4</sup> 71 Pa. C.S. §5931(a). Rest. 3<sup>rd</sup>, Trusts (Prudent Investor Rule) §227



domestic class action in order to bring an independent action against defendants (where a \$2,000,000 loss was established as appropriate for further analysis), and (2) authorize SERS to consider joining a foreign or domestic joint, group or other available securities-based action filed outside the United States (where a threshold loss of \$500,000 was established as appropriate for further analysis).

For purposes of selecting outside law firms to represent SERS in these matters, a securities litigation counsel pool was established from which law firms were to be selected when the SLC approved active participation in securities litigation. On September 16, 2015, pursuant to Resolution 2015-51, the Board adopted the Second Amended Securities Litigation Policy (2018 POL-BD-03) (the "Second Amended SLP") so as to conform the outside securities litigation counsel selection process with procedures established by the Governor's Office of General Counsel, resulting in the creation of a new securities litigation counsel pool established in conjunction with the Public School Employees' Retirement System ("PSERS").

On October 24, 2018, the Board adopted Resolution 2018-75, as amended by Resolution 2018-99, which established the SERS Office of Chief Counsel ("OCC") as an independent legal office separate from the Governor's Office of General Counsel, with the exact date to be determined by the Board Secretary, with notice to the Governor's General Counsel pursuant to § 409 of Act 2017-05. The Chief Counsel, with the concurrence of the Board Secretary, was delegated the authority to retain, hire, terminate, reclassify or promote any other counsel, either in-house or outside counsel, as they deem necessary and appropriate, subject to Commonwealth personnel and procurement rules. On December 22, 2018, upon the Board Secretary's determination, the OCC, as an independent legal office, was formally established. Similarly, effective January 1, 2018, PSERS established an independent legal office.

On November 19, 2018, the Board adopted Resolution 2018-82, which included the adoption of the Securities Litigation Committee Charter (the "SLC Charter"). Pursuant to the SLC Charter's provision that the SLC is to recommend any proposed changes to the Second Amended SLP and/or the SLC Charter to the Board, the SLC undertook a review of the Second Amended SLP and the SLC Charter. On September 25, 2019, upon the recommendation of the SLC and the Board Governance and Personnel Committee, the Board adopted Resolution 2019-73, which repealed Securities Litigation Policy (2018 POL-BD-03), adopted this Third Amended Securities Litigation Policy (this "Third Amended SLP"), and revised the SLC Charter.

The purpose of this Third Amended SLP is to set forth the Board's approach to securities litigation, as recommended by the SLC, in order to protect the best interests of the Fund and its members.

## II. Definitions

- A. **Consultant:** A litigation consultant retained by the Board to advise the Board on matters related to securities litigation.
- B. **Class Action Securities Litigation:** Where one or a small group of plaintiffs can represent an entire class of similarly situated claimant investors in an action brought against the same defendant(s). If and when legal proceedings have concluded as a result of a proposed settlement, all putative/passive members of the class of claimant investors, as defined by the terms of settlement ratified by the court, can file proofs of claim to receive their pro-rata share of settlement monies. Class Action Securities Litigation is exclusively filed in the federal courts of the United States and Canada.
- C. **Class Period:** A specific period of time in which the defendant's unlawful conduct is alleged to have occurred in a securities litigation matter.
- D. **FIFO (First In, First Out):** A method of accounting used to place a net value on the purchase and sale of securities during the Class Period whereby the securities are assumed to be sold in the chronological order in which they were purchased (i.e., the first security purchased is assumed to be the first security sold).
- E. **LIFO (Last In, First Out):** A method of accounting used to place a net value on the purchase and sale of securities during the Class Period whereby the securities are assumed to be sold in the reverse-chronological order in which they were purchased (i.e., the last security purchased is assumed to be the first security sold).
- F. **Opt-In Securities Litigation:** Where each individual claimant investor is required to either (i) bring an independent securities litigation proceeding against defendant(s) from the outset (which can be joined by a group of similarly situated claimant investors by a certain date set by the court), or (ii) join an established securities litigation previously filed against such defendant(s) by a group of similarly situated claimant investors by a certain date set by the court, in order to protect any future right it may have to make a damages claim against defendant(s). When opting into a litigation group, each claimant investor is generally required to appoint the agent(s) who initiated the case (and/or their legal counsel) to represent its claim against the defendant(s). This will usually entail the claimant investor signing an agreement directly with the agent(s) (and/or their legal counsel) and paying a proportional share of the litigation group's fees and expenses as a co-

plaintiff in the securities litigation. Claimant investors who fail to protect their claim rights through the above-referenced methods will not be entitled to receive payment of its proportional share from any resultant settlement with or judgment entered against defendant(s). Opt-In Securities Litigation is practiced exclusively in jurisdictions outside of the United States and Canada.

- G. ***Opt-Out Securities Litigation:*** Where an individual claimant investor or group of similarly situated claimant investors, who are putative/passive members of the class of plaintiffs in a Class Action Securities Litigation filed against defendant(s), elects to “opt-out” of the Class Action Securities Litigation in order to bring a separate, distinct and otherwise independent securities litigation proceeding against the same defendant(s). Opt-Out Securities Litigation is generally utilized by claimant investors that (i) are required to file an independent securities action in order to preserve certain claims that would otherwise be time-barred by the running of the Statute of Repose (which period is not stayed by the filing of the Class Action Securities Litigation in the manner in which the Statute of Limitation is stayed by such filing), (ii) assert that an expanded Class Period from that claimed by the lead plaintiff of the Class Action Securities Litigation (and eventually certified by the court in the class action if its claims survive defendants’ motion to dismiss) is more accurate/appropriate, thus expanding such claimant investor’s claim for damages against defendant(s), and/or (iii) are not satisfied with the proposed settlement negotiated by the lead plaintiff on behalf of the putative/passive class of plaintiffs in the Class Action Securities Litigation, and believe they can secure a larger recovery if they bring an independent securities action against defendant(s).
- H. ***Unrealized Losses:*** Losses calculated for those securities acquired during the Class Period and still held. The current value of these securities is netted against their purchase cost.

### III. General Guidelines

The following guidelines shall apply to securities litigation matters:

- A. The SLC Charter provides that the SLC shall have the following responsibilities:
- i. The SLC shall determine whether SERS should: (1) seek lead or co-lead plaintiff status in a Class Action Securities Litigation or take any other active role, including but not limited to, serving as a class representative, (2) initiate or join an Opt-Out Securities Litigation, or object to any portion of a proposed settlement of a Class Action Securities Litigation as a putative/passive member of the class of claimant investors, (3) initiate an

- independent, or join a group that has an established, Opt-In Securities Litigation action filed outside of the United States/Canada, and/or (4) collaborate with PSERS, other Commonwealth entities, and/or non-Commonwealth entities regarding securities litigation matters.
- ii. The OCC shall have the SLC/Board's authority to: (a) select outside legal counsel in accordance with procedures established by the OCC, and (b) approve the amount of compensation to be paid to outside legal counsel (subject to court approval, where applicable).
  - iii. For securities litigation matters in which SERS has taken an active role, the SLC shall approve the amount and terms of any settlement of securities litigation claims (subject to Office of Attorney General and court approval).
  - iv. In making the decisions described in the SLC Charter, the SLC shall comply with this Third Amended SLP (and other applicable policies and procedures) and fully consider any evaluations provided by the OCC and other claim evaluators, including but not limited to evaluations by firms in the securities litigation pool and/or consultants retained by the Board. Where necessary and appropriate, the OCC may coordinate with and seek input from the SERS Investment Office in performing securities litigation evaluations for the SLC's consideration and/or assisting selected outside securities litigation counsel in an active case.
  - v. The SLC shall collaborate with the OCC to review this Third Amended SLP and related policies, resolutions and procedures on a biennial basis. The SLC shall recommend any changes to such policies and procedures to the Board.
  - vi. The SLC shall perform such other activities related to the SLC's functions and duties as requested by the Board from time to time.
- B. In determining whether to institute securities litigation, the SLC shall consider the objectives of the Board, including, but not limited to, preservation of the Fund and collection of all amounts due to the Fund; maximizing the net recovery of SERS; and the opportunity to effect meaningful corporate governance reforms as part of any securities litigation settlement.

#### IV. Application of Policy

##### A. General Procedures

##### i. Establishment of Securities Litigation Pool

1. The OCC, with the concurrence of the Board Secretary, is authorized to work with PSERS in the establishment and

maintenance of a pool of qualified outside law firms (the "SL Pool") to serve as securities litigation counsel for the Board (and/or the PSERS board) in any legal actions undertaken pursuant to this Third Amended SLP.

ii. Securities Litigation Implementation Procedures

1. The OCC shall design certain securities litigation implementation procedures (the "Securities Litigation Implementation Procedures") to implement this Third Amended SLP and shall review and revise the Securities Litigation Implementation Procedures from time to time, as necessary or required. The Securities Litigation Implementation Procedures shall include, but not be limited to: (a) the process for determining when and how to pursue securities litigation as lead or co-lead plaintiff in a Class Action Securities Litigation, (b) the process for determining when and how to (i) pursue an Opt-Out Securities Litigation, either alone or jointly with others, or (ii) object to any portion of a proposed settlement of a Class Action Securities Litigation as a putative/passive member of the class of claimant investors, and (c) the process for determining when and how to consider initiating an independent, or joining a group that has an established, Opt-In Securities Litigation action filed outside of the United States/Canada.

iii. Securities Litigation Monitoring

1. The OCC shall monitor various securities litigation matters and the Executive Director is authorized to subscribe to a securities litigation monitoring support service on behalf of the Board to assist in such oversight, which shall include, for Class Action Securities Litigation, Opt-In Securities Litigation and Opt-Out Securities Litigation, (a) filings of various securities litigation actions, (b) terms of settlements of various securities litigation actions, (c) SERS' estimated securities-related losses calculated under the LIFO and FIFO methods, and (d) instances where SERS' estimated losses have exceeded a threshold specified by this Third Amended SLP. The securities litigation monitoring support service may be combined with other services, including, but not limited to, claims filing services in Class Action Securities Litigation matters where SERS remains a member of the class of claimant investors.

- iv. Claims Filing - The Board understands that it is important to file proofs of claim for SERS' pro-rata share of securities litigation recoveries when

SERS is a member of a class of claimant investors in a Class Action Securities Litigation.

1. Class Action Litigation Claims Filing

Proofs of Claim in Class Action Securities Litigation matters are currently filed on SERS' behalf by Bank of New York Mellon, the sub-custodian of SERS' securities ("Sub-custodian"), pursuant to an agreement with the Treasury Department. The Sub-custodian is to monitor such filings to assure that such filings are being made in an accurate and timely fashion, and that SERS is receiving its proper share of such recoveries. The Executive Director, on behalf of the Board, is authorized to engage outside service providers to provide claims filing services in Class Action Securities Litigation matters, which may be combined with other securities litigation services, including, but not limited to, securities litigation monitoring support services.

B. Consultant

- i. The Executive Director shall be authorized, subject to all necessary approvals required by law, to issue a request for proposals (either on behalf of the Board alone or jointly with the PSERS board), to enable the SLC to establish and evaluate the credentials of a Consultant to advise on matters related to securities litigation.
- ii. The Board shall seek to contract with not more than two (2) Consultants at any given time, who shall, at the request of the OCC, advise the Board on matters relating to securities litigation, including assisting the Board in analyzing its interest in both pending and potential securities litigation based upon SERS' holdings and exposure during the Class Period, including identification of the specific benefit to the Board and SERS in pursuing litigation, risk and value assessment, damage estimates, and recovery projections.
- iii. Upon receiving an assignment, a Consultant will be expected to perform an analysis and submit a report and recommendation in a prompt and judicious manner to allow the Board sufficient time to take any legal action recommended by the Consultant and/or determined to be appropriate by the Board. A Consultant shall not be eligible to be considered as potential counsel to represent the Board in any legal actions undertaken pursuant to this Third Amended SLP, nor, without express written consent of the SLC, advise the actual counsel selected to represent the Board in any legal actions undertaken pursuant to this Third Amended SLP.

**C. Loss Thresholds**

- i. For the Board to consider seeking lead or co-lead plaintiff status in a Class Action Securities Litigation lawsuit, a loss of at least \$10,000,000 must be calculated under either the LIFO or FIFO recovery methods. If it is clear that the Federal District Court in which the lawsuit is brought requires a specific loss determination method, then SERS must have suffered at least a \$10,000,000 loss under that particular method to consider seeking lead or co-lead plaintiff status.
- ii. For the Board to consider bringing its own Opt-Out Securities Litigation action, a loss of at least \$7,500,000 must be calculated under the LIFO or FIFO recovery methods. If it is clear that the jurisdiction in which the Opt-Out Securities Litigation is to be brought requires a specific loss determination method, then SERS must have suffered at least a \$7,500,000 loss under that particular method to consider bringing the action.
- iii. For the Board to consider joining in a foreign or domestic joint, group or other available Opt-In Securities Litigation, a loss of at least \$1,000,000 must be calculated under the LIFO or FIFO recovery methods. If it is clear that the jurisdiction in which the action is to be or has been brought requires a specific loss determination method, then SERS must have suffered at least a \$1,000,000 loss under that particular method to consider bringing the action.
- iv. Thresholds set forth in this section may be modified downward in instances where the SLC believes there are important policy reasons for commencing or joining a particular action even though the threshold amount has not been met.

**D. Factors to Consider in Deciding Whether to Seek Lead Plaintiff Status in Class Action Securities Litigation**

**i. Analysis of Lawsuit and Defendants**

1. What are the strengths of the lawsuit's causes of action?

What claims are or could be asserted in the action and what is the likelihood of their sustainability? Is the case vulnerable to a motion to dismiss under the Private Securities Litigation Reform Act's pleading standards?

2. What are the potential sources of recovery (insurance, deep pockets, etc.)?

Do the defendants have any funds to pay a settlement or judgment? Are there viable and collectible claims against individual officers and directors or other third parties (auditors, underwriters, etc.) that appear unlikely to be vigorously pursued without SERS' participation in the litigation?<sup>5</sup>

3. Is there a need for governance changes to address company problems?

Are needed corporate governance changes likely to be made only as part of a settlement or judgment?

4. Was there egregious activity within the company such that a personal recovery from the defendants appears to be the most expedient way of preventing similar future corporate behavior?
5. Will SERS' participation have a positive impact on reforming securities litigation in general?

Will our credibility as an institutional investor lend support to a cause of action that is legitimate but might otherwise fail?

## ii. Analysis of Other Potential Lead Plaintiffs and Counsel

1. Is the case unlikely to be pursued if SERS does not take action?
2. Will another sophisticated lead plaintiff be likely to come forward to manage the case?

Where other institutional investors appear to have similar large claims, consideration may be given to contacting them about jointly opting out of a class action matter to bring a collective independent action against defendants.

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<sup>5</sup> Consideration might also be given to pursuing a shareholder derivative action where the company is not pursuing claims it might have against third parties, if the shareholders would benefit from realizing on those claims.



3. Is SERS satisfied with the reputation and skills of potential lead counsel candidates?

Have there been indications from prior cases that likely lead counsel would seek a fee award in excess of market rates? Will participating in the suit assist in lowering attorney's fees for the class and foster healthy competition within the plaintiffs' bar?

**iii. Analysis of Whether SERS is an Appropriate Lead Plaintiff**

1. Will SERS have a conflict of interest in being lead plaintiff (e.g., a large continuing holding that could compromise its incentive to vigorously pursue the case)?

Is the potential securities class action really a nuisance suit that SERS should oppose? In such a case, SERS could add value to its holdings in the subject company by supporting its efforts to have the suit dismissed.

2. Do compromising materials appear in SERS' or its investment manager's files?

Is there a potential that the defendants may be able to mount a stronger defense against SERS than against another lead plaintiff candidate?

3. Are there unusual circumstances or facts that could complicate or undermine SERS' position (e.g., service as a lead plaintiff in more than five cases in the last three years; public criticism of the manager's decision to invest in the company on SERS' behalf, etc.)?

Has SERS applied for lead plaintiff in so many actions that it is taking the risk of becoming – or being seen as – a “professional plaintiff?”

4. Are there unique claims held by SERS that may not apply to other class members (e.g., section 18 claims for direct reliance on misstatements in 10-Ks, section 11 claims from purchases pursuant to a false registration statement, etc.), which might create a conflict of interest or support a larger recovery in an independent lawsuit?

**iv. Analysis of Resources Available to Devote to Lawsuit**

1. Are there resources available to pursue the litigation?

Is SERS willing to bear the administrative burden of court appearances, strategy sessions, the discovery process, depositions, etc.? Is SERS limited by staffing constraints? Is SERS willing to accept the possibility that the court may impose Rule 11 sanctions against it if the litigation is unsuccessful?

2. What are the capabilities and anticipated testimony of SERS' likely witnesses?
3. Is the portfolio manager willing to support SERS' position in the litigation?

Does the investment manager agree that there was wrongdoing? Will the investment manager be willing to respond to requested discovery?

**v. Analysis of Impact on SERS' Investment Program**

1. Is there potential interference with the fund's anticipated future trading strategy if material, non-public information on the defendant company were to be acquired during the litigation?

The investment manager may be restricted from trading the stock due to acquisition of inside information during the lawsuit. Can a firewall be established to allow continued trading?

**vi. Analysis of Alternatives to Becoming Lead Plaintiff**

1. Is there a less burdensome way of managing SERS' potential claims under the litigation?

Options may include doing nothing (i.e., staying a passive member of the class); attempting to get a larger claimant to become lead plaintiff; monitoring the case from the sidelines; writing a letter to the court and/or lead counsel to bring up issues being ignored; filing a motion to support or oppose a particular lead plaintiff or lead counsel candidate;

filing a notice of appearance and more actively monitoring the case; attempting to negotiate an agreement with prospective lead counsel that will require them to keep SERS informed of case developments, provide SERS with access to discovery upon request, and allow SERS to participate in settlement negotiations or be consulted on a settlement; waiting until a proposed settlement has been announced and reviewing the settlement terms carefully with the option to object to a poor settlement and/or excessive attorneys' fees; and opting out of the class to file a separate action (e.g., where SERS has a substantial section 18 claim for direct reliance on misrepresentations in a document filed with the SEC that is unlikely to be pursued as part of the class action).

2. Are there non-litigation alternatives to achieving SERS' goals?

Non-litigation alternatives to addressing the underlying cause of the company's problems are also considered (e.g., contacting appropriate law enforcement agencies about potential prosecution of wrongdoers; filing a shareholder resolution; running an alternate slate of directors; negotiating for remedial corporate governance changes such as the addition of independent directors or creation of an independent audit or nominating committee).

E. List of Actions Authorized in Support of Securities Litigation

- i. The OCC shall coordinate with SERS' Investment Office, investment managers and investment consultants as it deems necessary or desirable.
- ii. The OCC shall coordinate with, advise and represent the Board and staff in connection with investigations, discovery and trial activities as it deems necessary or desirable.
- iii. The OCC, in consultation with and approval by the SLC Chair and, to the extent required under the agreement with the law firm representing the Board in the litigation, may approve the engagement of experts, consultants and other special expenditures which such law firm may recommend.
- iv. The OCC shall coordinate and communicate with such other public funds and class members (and their counsel), as well as with state and federal agencies as it deems necessary or desirable.

- v. The OCC shall make such filings or approve such filings by the law firm representing SERS in the litigation as it deems necessary or desirable.
- vi. The OCC shall periodically report to the SLC regarding securities litigation matters, including the status of litigation in which the SLC has authorized involvement. In the event of significant strategy changes prior to or during such matters, the OCC will make additional recommendations to the SLC.
- vii. The OCC shall monitor and, when appropriate, participate in hearings regarding settlement petitions, including attorneys' fees requested in securities class action lawsuits, and object to such settlements and/or fee requests when the OCC, with the concurrence of the Executive Director, deem them to be not reasonable. The OCC shall work closely with outside counsel on cases, participate in important strategy decisions, and review important documents and pleadings. The OCC will obtain the authorization of the SLC prior to taking any legal action in appellate courts.
- viii. With the approval of the Office of Attorney General, the SLC or, with the advice of SERS' Chief Counsel, the SLC Chair may approve a settlement of a particular litigation.
- ix. Consistent with this Third Amended SLP, the Sub-custodian shall monitor and ensure that proofs of claim are filed in all applicable Class Action Securities Litigation settlements, that the appropriate cash amounts are received by SERS, and the SERS Office of Finance and Administration shall report quarterly to the SLC on the collection of proofs of claim in Class Action Securities Litigation settlements.
- x. Consistent with this Third Amended SLP, the OCC shall monitor any Opt-In Securities Litigation claims filed on behalf of the Board, that the appropriate cash amounts of the claims are received by SERS, and report quarterly to the SLC on the collection of claims in Opt-In Securities Litigation.

**Document Properties**

- a. **Document Owner:** Executive Office
- b. **Document Author:** SERS Legal Office
- c. **Summary of Changes:** N/A

<b>Date</b>	<b>Version</b>	<b>Author</b>	<b>Summary</b>
July 15, 2019	2019 POL- BD-2	SERS Legal Office	The policy the Board has established to set forth the Board's approach to securities litigation.



## PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM SECURITIES LITIGATION COMMITTEE CHARTER

### **I. PURPOSE.**

The Securities Litigation Committee's (the "SLC") purpose is to assist the board (the "Board") of the Pennsylvania State Employees' Retirement System ("SERS") in fulfilling its oversight responsibilities in the area of securities litigation, including but not limited to class actions involving securities fraud, antitrust, appraisal and/or common law-based causes of action. This Charter is supplemental to the authority previously granted by the Board to the SLC in Resolution 2019-73 adopting the Third Amended Securities Litigation Policy ("SLP"), and/or in any preceding or subsequent amending Board resolutions (collectively, the "Board Resolutions"), and does not in any way amend those Board Resolutions and SLP duly adopted by the Board. In case of conflict between this Charter and any Board Resolutions or SLP, the duly adopted Board Resolutions or SLP shall control.

### **II. AUTHORITY.**

The Board has delegated all necessary power and authority to the SLC for the SLC to perform the duties and responsibilities described in this Charter, as well as in the Board Resolutions and SLP, and as may otherwise be delegated by the Board from time to time. Except as expressly granted in Board Resolutions, SLP, and herein, nothing in this Charter shall be construed as giving the SLC the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

### **III. COMPOSITION.**

The SLC shall consist of three (3) to five (5) current members of the Board, who may be the designees of Board members, as provided in the Bylaws (the "SLC Members").

The terms of appointment for SLC Members shall be as provided for in the Bylaws.

### **IV. MEETINGS.**

The SLC shall meet upon request of the SLC Chair or a majority of the SLC Members. The SLC may invite members of SERS management, the SERS Office of Chief Counsel (the "OCC") and other SERS staff to attend meetings and provide pertinent information, as it deems necessary or desirable. The SLC Chair shall request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

### **V. RESPONSIBILITIES.**

- A. The OCC shall keep the SLC informed concerning SERS securities litigation activity.

- B. The SLC shall determine whether SERS should: (i) seek lead or co-lead plaintiff status in a class action securities litigation or take any other active role, including but not limited to, serving as a class representative, (ii) initiate or join an "opt out" securities litigation, or object to any portion of a proposed settlement of a class action securities litigation as a putative/passive member of the class of claimant investors, (iii) initiate an independent, or join a group that has an established, opt-in securities litigation filed outside of the United States/Canada, and/or (iv) collaborate with Pennsylvania Public School Employees' Retirement System, other Commonwealth entities, and/or non-Commonwealth entities regarding securities litigation matters.
- C. The OCC shall have the SLC/Board's authority to: (a) select outside legal counsel in accordance with procedures established by the OCC, and (b) approve the amount of compensation to be paid to outside legal counsel (subject to court approval, where applicable).
- D. For securities litigation matters in which SERS has taken an active role, the SLC shall approve the amount and terms of any settlement of securities litigation claims (subject to Office of Attorney General and court approval).
- E. In making the decisions described in this Charter, the SLC shall comply with the SLP (and other applicable policies and procedures) and fully consider any evaluations provided by the OCC and other claim evaluators, including but not limited to evaluations by firms in the securities litigation pool and/or consultants retained by the Board. The OCC may coordinate with and seek input, from the SERS Investment Office in performing securities litigation evaluations for the SLC's consideration and/or assisting selected outside securities litigation counsel in an active case.
- F. The SLC shall collaborate with the OCC to review the SLP and related policies, resolutions and procedures on a biennial basis. The SLC shall recommend any changes to such policies and procedures to the Board.
- G. The SLC shall perform such other activities related to the SLC's functions and duties as requested by the Board from time to time.

## **VI. REPORTING.**

- A. Following a Committee meeting, the SLC Chair shall provide a written report to the Board at the next regularly scheduled Board meeting to update the Board as to its activities, findings, recommendations and any other relevant issues. Subsequent to review by the SLC, SLC meeting minutes shall be distributed to the Board.
  - B. If a SLC meeting has been scheduled, the SLC Chair shall share the agenda for the upcoming Committee meeting with the entire Board at the Board meeting taking place immediately prior to the scheduled SLC meeting or, in the case of a special SLC meeting called without the opportunity to provide the agenda at the prior Board meeting, the agenda is to be shared with the Board as soon as practicable.
-

**VII. SELF-EVALUATION.**

- A. The SLC shall collaborate with the OCC to review this SLC Charter and the policies and procedures described in this Charter or otherwise overseen by the SLC on a biennial basis. The SLC shall recommend any changes thereto to the Board.
- B. The SLC and each SLC Member shall comply with the Board's self-assessment policies and processes and participate in any independent fiduciary reviews.

**VIII. MISCELLANEOUS.**

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Bylaws.

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## Memo

To: State Employees' Retirement Board  
From: SERS' Investment Office  
Date: September 25, 2019  
Re: Public Dissemination of Board Materials

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Following the Public Pension Management and Asset Investment Review Commission's recommendations and at the direction of the State Employees' Retirement Board, SERS' Investment Office (IO), in collaboration with SERS' specialty consultants, has developed the attached sample documents, which contain the format the IO is recommending for documents that will be posted on SERS' website and available to the public. The posted documents will contain a subset of the information found in the documents that will be presented to the Board for all new investment opportunities. The sample documents include the following:

- Staff Memo
- Consultant Memo
- Template for Manager Presentations

### Template for Staff Memo

The staff memo will include, to the extent possible, the following sections:

- Investment recommendation
- Investment rationale and risks
- Portfolio implications and market opportunity
- Manager overview, strategy and management team

### Template for Consultant Memo

The consultant memo will include the following sections:

- Recommendation
- Overview
- Diligence conducted
- Disclaimers and disclosures

Although the IO and its Specialty Consultants have the expectation that these memos be uniform, there is the possibility that some sections may be modified due to constraints placed by the compliance/legal departments of the Specialty Consultants, which will be approving all memos that are to be posted on SERS' website.

### Template for Manager Presentations

To ensure consistency, the IO has developed a presentation template, "Public Manager Presentation Template," which will be provided to all prospective managers for their use. The template includes the following:

- Firm Overview (i.e. - including the Firm History, Investment Vehicles, Organizational Structure & Investment Team)
- Market Opportunity
- Investment Strategy (i.e. - How the Investment Manager achieves success)

Please note, SERS will suggest that managers follow the template when developing the "Presentation Deck" that will be posted on SERS' website, although the various managers retain discretion to comply with their firm's policies.

Finally, despite SERS' best efforts to be transparent to the extent possible, such efforts will not preclude Right-To-Know-Law ("RTKL") requests for those documents that contain additional information that is provided to the Board. Those requests will be addressed accordingly.

## Appendix: Research

SERS Investment Office utilized the following manager presentations when developing its minimum requirements and Public Manager Presentation Template.

*Nebraska Investment Council (NIC), Genstar Capital: Introduction to Genstar Capital*

<https://nic.nebraska.gov/sites/nic.nebraska.gov/files/doc/7.%20Genstar%20Presentation.pdf>

*Nebraska Investment Council (NIC), Bridgepoint Europe VI, March 2018*

<https://nic.nebraska.gov/sites/nic.nebraska.gov/files/doc/6.d.%20%20%20%20%20%20Bridgepoint%20VI%20-%20Bridgepoint%20Capital.PDF>

*Santa Barbara County Employees' Retirement System (SBCERS), THL Credit Direct Lending Fund IV, February 27, 2019*

[https://go.boarddocs.com/ca/sbcers/Board.nsf/files/B9R6827DD31C/\\$file/12b%20-%20INV%20-%20THL%20Credit%20Direct%20Lending%20Fund%20IV%20-%20February%202019%20-%20SBCERS.PDF](https://go.boarddocs.com/ca/sbcers/Board.nsf/files/B9R6827DD31C/$file/12b%20-%20INV%20-%20THL%20Credit%20Direct%20Lending%20Fund%20IV%20-%20February%202019%20-%20SBCERS.PDF)

*Santa Barbara County Employees' Retirement System (SBCERS), An Introduction to PIMCO's Proposed Private Income Fund*

[https://go.boarddocs.com/ca/sbcers/Board.nsf/files/BBCQ3F6753C8/\\$file/09b%20-%20INV%20-%20PIMCO%20Private%20Income%20Presentation.PDF](https://go.boarddocs.com/ca/sbcers/Board.nsf/files/BBCQ3F6753C8/$file/09b%20-%20INV%20-%20PIMCO%20Private%20Income%20Presentation.PDF)

*Employees' Retirement System of Rhode Island State Investment Commission, Siris Capital Group LLC, October 24, 2018*

<http://data.treasury.ri.gov/dataset/b32b253f-b749-48f8-ac3d-6d3b66782b98/resource/d1bd092d-5081-4554-b368-d637326dfc1d/download/Presentation-to-the-ERS-of-Rhode-Island-SIC---Siris-10-24-18-vF.PDF>

*Employees' Retirement System of Rhode Island State Investment Commission, Zephyrus Aviation partnership, January 23, 2019*

<http://data.treasury.ri.gov/dataset/2019-01-state-investment-commission-report-and-materials-january-2019/resource/779debec-caac-4667-89fb-940ae88bdc36>

*Employees' Retirement System of Rhode Island State Investment Commission, Linchris Capital Partners, February 27, 2019*

<http://data.treasury.ri.gov/dataset/ffd66ee9-0ddc-44ca-a801-ad3d84094890/resource/8ca649d8-7dae-421a-9070-dc9604aabb9e/download/LinchrisInvestor-PresentationERSRI.pdf>

*Employees' Retirement System of Rhode Island State Investment Commission, Advent International GPE IX, March 27, 2019*

<http://data.treasury.ri.gov/dataset/7c2eed50-9cae-46f0-b320-34bd911d3450/resource/5665301e-a080-493f-a553-5766840e21d4/download/Advent-InternationalGPE-IXPresentation-for-Rhode-Island-State-Investment-Commission27-March-2019.pdf>

*Employees' Retirement System of Rhode Island State Investment Commission, Heitman, April 8, 2019*

<http://data.treasury.ri.gov/dataset/bfd772e4-1152-4661-8e79-3144598dac5d/resource/4f901092-0615-451c-80ab-25f2d9bde817/download/Heitman---US-Focused-RES---08-April-2019.pdf>

*Employees' Retirement System of Rhode Island State Investment Commission, Eureka Equity Partners, May 29, 2019*

<http://data.treasury.ri.gov/dataset/222f11fc-2a13-4d61-9786-8873a4c509ce/resource/246c9dd5-8918-4b6b-8fe9-2e416b7caf3/download/Eureka-Equity-Partners-Overview-Presentation-to-State-of-Rhode-Island.pdf>



**pennsylvania**  
STATE EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Memorandum

XYZ Capital Partners Fund #, LP

Private Equity Asset Class

Month ##, Year

SAMPLE

## Investment Recommendation

SERS' Investment Office Staff and SERS' Private Equity Consultant, StepStone Group, recommend that the State Employees' Retirement System Investment Committee interview XYZ Capital Partners ("XYZ", the "GP" or the "Firm") at the Month ##, year Investment Committee Meeting to consider a potential commitment of up to \$xx million to XYZ Capital Partners Fund #, LP ("XYZ #"), subject to the satisfactory completion of legal due diligence. XYZ pursues a strategy of control buyouts of North American companies. XYZ # will target investments requiring equity commitments of \$xx million to \$xx million.

## Investment Rationale

Staff identified XYZ # as a strong candidate for SERS' capital commitment as it offers:

- Long track record of strong net performance including net IRR of xx% in SERS' investments.
- Consistently strong quartile ranking against private equity competitors.
- Significant net alpha generation against the Russell 3000 Total Return Index benchmark exceeding SERS 3.0% excess return above the benchmark index.
- Long tenured and stable team of senior investment professionals that have developed a repeatable investment strategy.
- Highly consistent with SERS' PE portfolio objectives.
  - Reduce investment manager count through consolidating capital with existing managers.
  - Partner with best-in-class investment managers.

## Investment Risks

Staff identified the following potential risks of a commitment to XYZ #:

- Small investment team relative to fund size.
- Historical exposure to cyclical sectors.
- Large unrealized value outstanding.

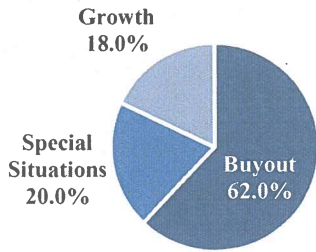
## Portfolio Implications

A commitment to the Fund would be considered a 2019 vintage allocation to a fund, which is categorized in the Private Equity asset class and Special Situations sub-asset class.

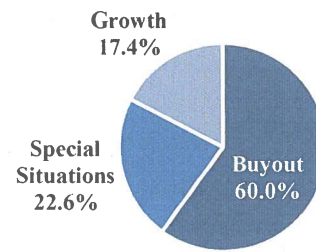
An allocation to XYZ # is consistent with the strategic initiatives of making fewer, larger commitments to top-tier managers as outlined in SERS' Strategic Investment Plan. SERS is targeting a commitment of up to \$xx million to XYZ, representing xx% of the strategic plan pacing budget for the asset class in 2019.

The following two charts show SERS' Core PE portfolio allocations by sub-strategy as of March 31, 2019 on the left and a prospective view of the allocation post a commitment to XYZ on the right. XYZ can be expected to add approximately 2.6% of market value to Special Situations over the next several years, before the effects of future cash flow or capital gains activity.

**SERS Core PE Sub-Strategy Allocation (3/31/19)**



**SERS Core PE Pro Forma Sub-Strategy Allocation**



**Sponsor Overview**

XYZ Capital Partners is a private equity firm, with over \$x billion in assets under management, focused on making controlling equity investments in North American middle market companies. XYZ was founded in 1980 by Messrs. X, Y and Z when they worked together at a previous firm. Mr. X has since retired from the Firm.

Since 1998, XYZ has completed # controlling investments across its institutional funds. XYZ has a strong track record of transforming businesses in a positive manner and has consistently outperformed its peers over the firms' 40-year history. XYZ generates superior investment returns by structurally improving the strategic position, competitiveness and profitability of portfolio companies.

As of March 31, 2019, XYZ portfolio companies have aggregate annual revenues of approximately \$x.x billion, operating facilities in # countries, and have over xx,000 employees – directly and through joint ventures worldwide.

**Investment Strategy**

XYZ invests in companies in a broad number of sectors. The firm targets companies it thinks are being undermanaged and have solid growth potential.

XYZ # will focus on opportunities requiring equity commitments requiring \$xx million to \$xx million in the North American middle market. XYZ will seek to selectively make 10-12 investments over the next several years.

The XYZ strategy is to:

- Target undermanaged companies growing in line or faster within their sectors
- Buy at an appropriate valuation
- Rationalize the cost structure
- Retain new management if necessary
- Maintain appropriate financial leverage and sufficient liquidity
- Focus on organic growth and M&A opportunities.

**Market Opportunity**

SERS Staff believes that XYZ's market opportunity is large and underserved from a private market perspective. As previously mentioned, XYZ targets investments in a range of sectors. The collective contribution of these sectors to US GDP is \$x.x trillion. While growth rates of each sector may vary, Staff believes the range of x.x% to x.x% exists, with sectors like materials and industrials towards the low end and sectors such as technology and healthcare towards the high end.

The total M&A transaction volume of the collective sectors was \$x.x billion in 2018 and has been growing annually at x.x% over the past decade. Staff believes that private equity buyers represent approximately x.x% share of the total transaction volume, according to Bloomberg data. Staff believes that against a five year run rate of \$x.x billion in expected transaction

volume in target sectors, approximately \$x.x billion of private equity dry powder exists to capture the opportunity. Given the expected transaction volume exceeds the dry powder, Staff gains comfort in the profile of XYZ's market opportunity and its ability to comfortably deploy XYZ #.

XYZ will look to deploy approximately \$x.x million per year over the next several years to fully invest the fund.

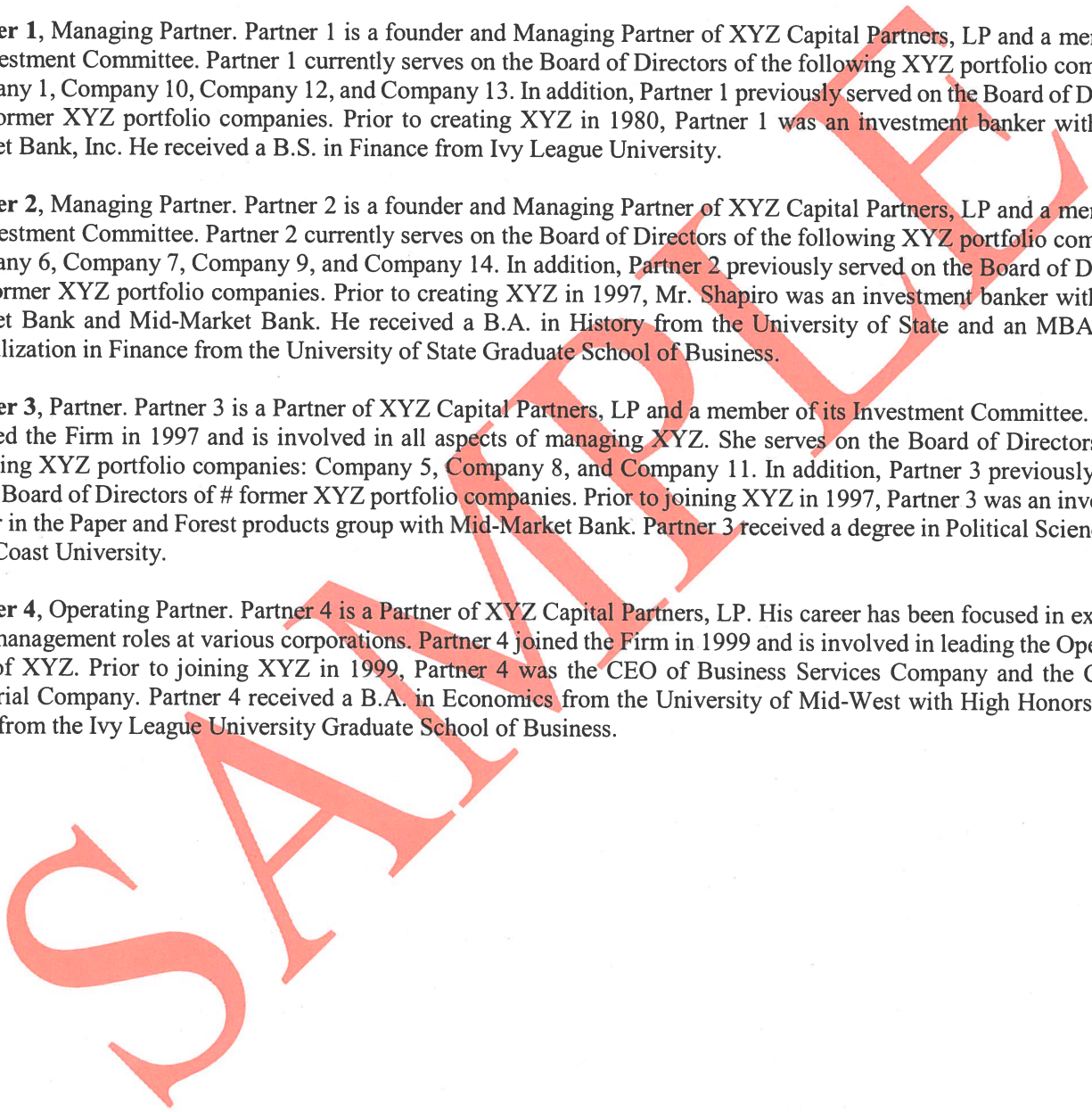
### Management Team

**Partner 1, Managing Partner.** Partner 1 is a founder and Managing Partner of XYZ Capital Partners, LP and a member of its Investment Committee. Partner 1 currently serves on the Board of Directors of the following XYZ portfolio companies: Company 1, Company 10, Company 12, and Company 13. In addition, Partner 1 previously served on the Board of Directors of # former XYZ portfolio companies. Prior to creating XYZ in 1980, Partner 1 was an investment banker with Bulge Bracket Bank, Inc. He received a B.S. in Finance from Ivy League University.

**Partner 2, Managing Partner.** Partner 2 is a founder and Managing Partner of XYZ Capital Partners, LP and a member of its Investment Committee. Partner 2 currently serves on the Board of Directors of the following XYZ portfolio companies: Company 6, Company 7, Company 9, and Company 14. In addition, Partner 2 previously served on the Board of Directors of # former XYZ portfolio companies. Prior to creating XYZ in 1997, Mr. Shapiro was an investment banker with Bulge Bracket Bank and Mid-Market Bank. He received a B.A. in History from the University of State and an MBA with a Specialization in Finance from the University of State Graduate School of Business.

**Partner 3, Partner.** Partner 3 is a Partner of XYZ Capital Partners, LP and a member of its Investment Committee. Partner 3 joined the Firm in 1997 and is involved in all aspects of managing XYZ. She serves on the Board of Directors of the following XYZ portfolio companies: Company 5, Company 8, and Company 11. In addition, Partner 3 previously served on the Board of Directors of # former XYZ portfolio companies. Prior to joining XYZ in 1997, Partner 3 was an investment banker in the Paper and Forest products group with Mid-Market Bank. Partner 3 received a degree in Political Science from West Coast University.

**Partner 4, Operating Partner.** Partner 4 is a Partner of XYZ Capital Partners, LP. His career has been focused in executive level management roles at various corporations. Partner 4 joined the Firm in 1999 and is involved in leading the Operations team of XYZ. Prior to joining XYZ in 1999, Partner 4 was the CEO of Business Services Company and the COO of Industrial Company. Partner 4 received a B.A. in Economics from the University of Mid-West with High Honors and an MBA from the Ivy League University Graduate School of Business.





NEPC, LLC

**To:** Pennsylvania State Employees' Retirement System Board Members  
**From:** NEPC, LLC ("NEPC")  
**Date:** April 2019  
**Subject:** Investment in Blue Moon Senior Housing II, LP

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### **Recommendation**

NEPC recommends that the Board of the Pennsylvania State Employees' Retirement System ("SERS") consider a commitment of up to \$50 million to Blue Moon Senior Housing II, LP and up to \$50 million to Blue Moon Senior Housing II Sidecar, LP (together, the "Fund") at the April 2019 Investment Committee meeting. NEPC has identified the following positive attributes for the Fund, among others:

- Deep operational expertise and operating partner network within senior housing
- Lower correlation to the general real estate cycle
- Senior housing sector is supported by strong demographic trends
- Attractive economic terms due to strategic relationship and co-investment vehicle

### **Overview**

Blue Moon was formed in October 2013 by Kathryn Sweeney and Susan Barlow to invest exclusively in senior housing. Ms. Sweeney and Ms. Barlow share over 70 years of institutional real estate experience.

The Fund will invest in private pay, independent and assisted living senior housing properties across the United States. The Fund's senior housing investment strategy will include acquisitions, re-positioning and development, all of which will be accomplished through the formation of joint ventures with experienced senior housing operators. The Fund will seek to invest in joint ventures with multiple operators, enabling the investment across a diverse set of senior housing property types and markets. Blue Moon is targeting a 14% to 16% net IRR and a 1.5x to 1.7x net investment multiple.

The Fund is targeting \$400 million in total investor capital commitments, and a final close is anticipated to occur by year-end 2019.

### **NEPC Due Diligence**

NEPC's Real Assets Research Team conducted due diligence on the Fund, including the following items (among others):

- Consideration of portfolio fit within the Pennsylvania SERS Real Estate Portfolio
- Consideration of the Fund relative to others in its peer universe (including strength of team, strategy, track record, and fees/terms, among other factors)
- On-site meeting conducted at the Manager's office
- A review of the Manager's track record, including both fund- and investment-level performance
- Operational due diligence review





### Disclaimers and Disclosures

- Past performance is no guarantee of future results.
- The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.
- Information used to prepare this report was obtained directly from the investment manager, and market index data was provided by other external sources. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- NEPC may provide background information on fund structures or the impact of taxes but you should contact your legal counsel or tax professional for specific advice on such matters.
- This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

In addition, it is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds, real estate and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy

## MEMORANDUM

**To:** Pennsylvania State Employees' Retirement System ("SERS") Board Members  
**From:** StepStone Group ("StepStone")  
**Date:** July 16, 2019  
**Re:** Investment in Wind Point Partners IX, L.P.

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### Recommendation

StepStone recommends that the State Employees' Retirement System Board approve a commitment of up to US\$75 million to Wind Point Partners IX, L.P. ("WPP IX" or the "Fund") at the July 30<sup>th</sup> PA SERS Investment Committee meeting. This recommendation is made solely within the context of Pennsylvania SERS' investment guidelines and is given solely for the benefit of Pennsylvania SERS.

The key investment highlights supporting the opportunity are as follows:

- Tenured senior team led by five Managing Directors with an average tenure of 16 years
- Deep Executive Advisor Partner ("EAP") network
- Established track record with attractive realized portfolio

### Overview

Wind Point Partners ("Wind Point" or the "Firm") is a Chicago-based Middle Market private equity firm focused on partnering with top caliber executives to acquire companies with a clear path to value creation. The Firm was founded in 1983 and is led today by five Managing Directors who have an average tenure of 16 years at Wind Point. The Managing Directors are supported by 13 additional investment professionals.

### StepStone Due Diligence

StepStone's due diligence on WPP IX was led by Andrew Callahan (Managing Director), Aditya Raina (Vice President), Samar Abbas (Senior Associate) and Laura Krivacek (Associate), supported by StepStone's broader private equity team. The Fund was reviewed and approved by StepStone's Investment Committee considering the context of Pennsylvania SERS' private equity investment objectives. Key diligence items included:

- Consideration of portfolio fit within the Pennsylvania SERS Private Equity – Buyout portfolio, including a review of other available opportunities
- In-person meetings with all of the Firm's senior investment professionals
- A review of the Firm's strategy and track record, including a review of drivers of historical returns
- Detailed operational due diligence

### Disclaimer

This recommendation is given solely for the benefit of Pennsylvania SERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be the same as those of Pennsylvania SERS. The scope of this recommendation is limited to the investment thesis as previously outlined. StepStone does not provide legal or other non-related investment advice.

## IMPORTANT INFORMATION

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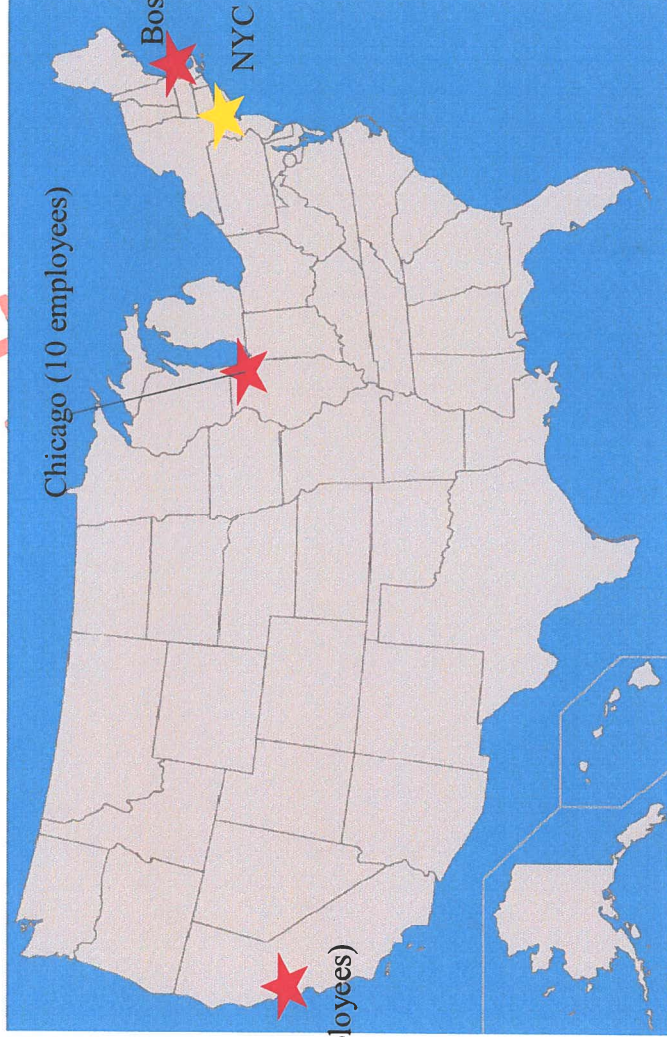
# Private Manager “XYZ Real Estate”

Presentation to the Pennsylvania State Employees' Retirement  
System Investment Committee

January 1, 20XX

## Firm Overview: History

- Founded in 1980 XYZ Real Estate has been managing institutional investment portfolios for nearly 40 years
- Highlights include: \$12 billion invested equity, aggregate gross returns of 17.5% IRR and 1.9x MOIC, 2017 North American Value-Add deal of the year, etc...
- New York headquarters with 3 additional offices (Boston, Chicago and San Francisco)



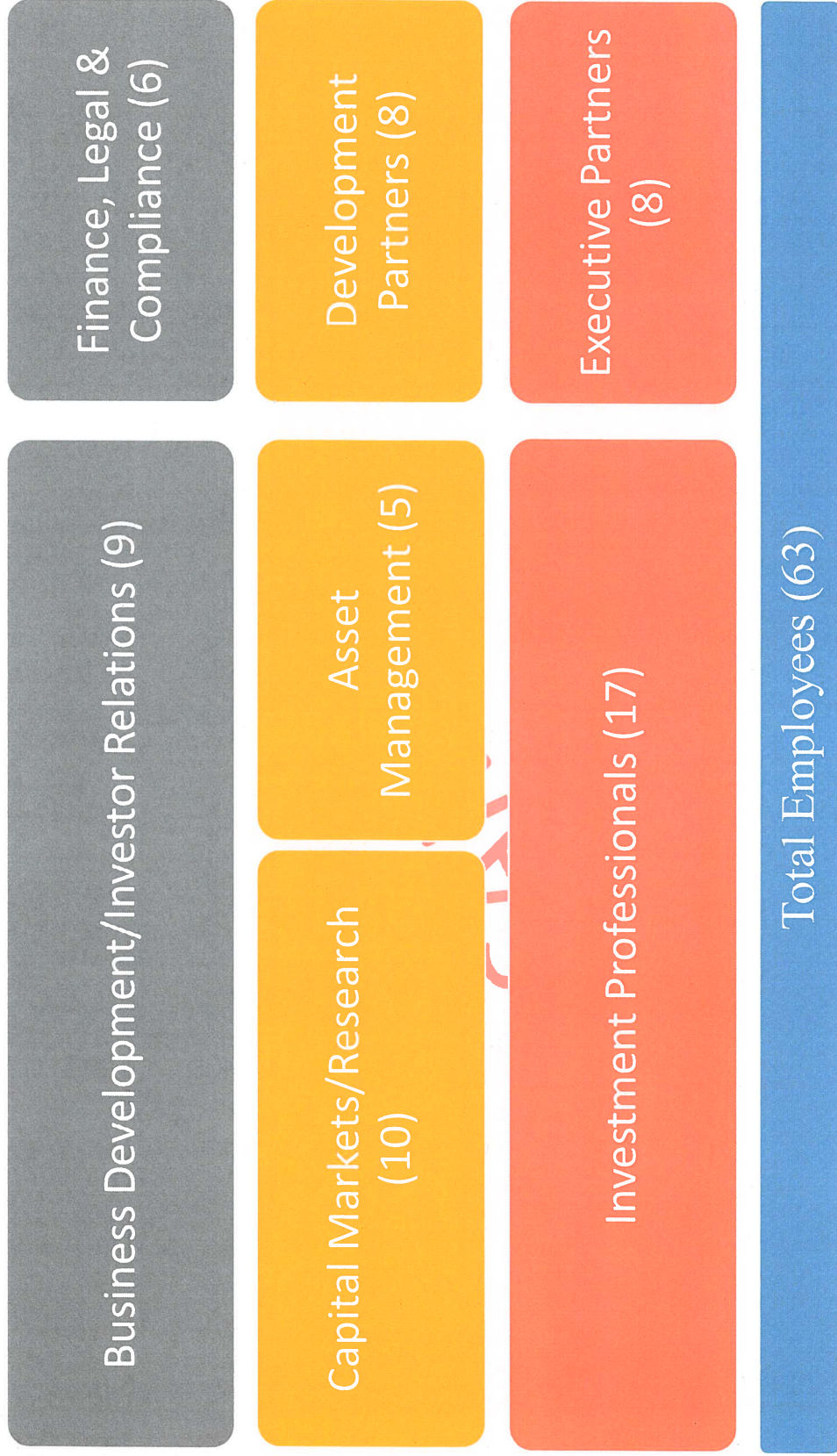
San Francisco (15 employees)

Chicago (10 employees)

Boston Office (8 employees)

NYC Office (30 employees)

## Firm Overview: The XYZ Real Estate Team



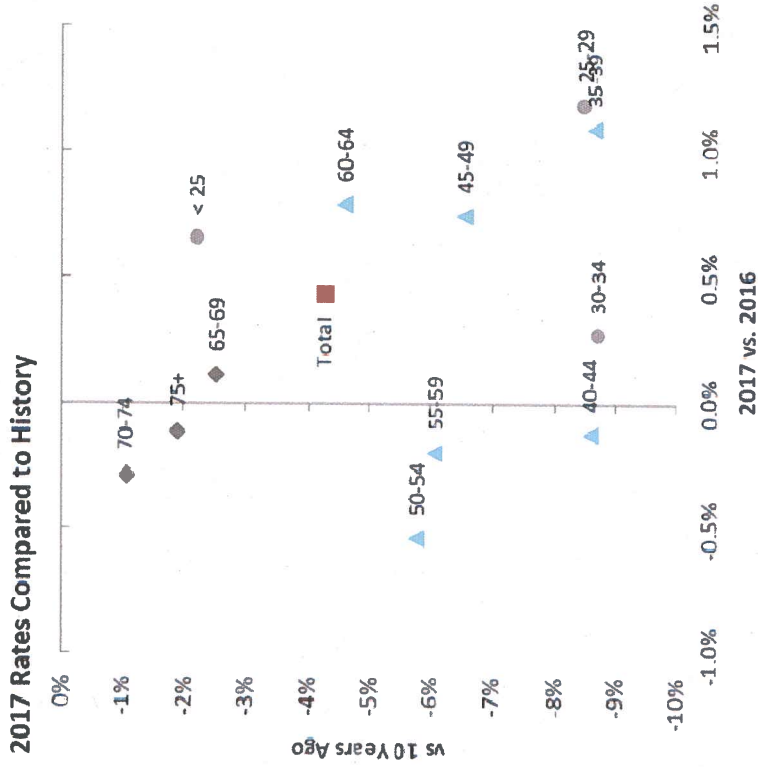
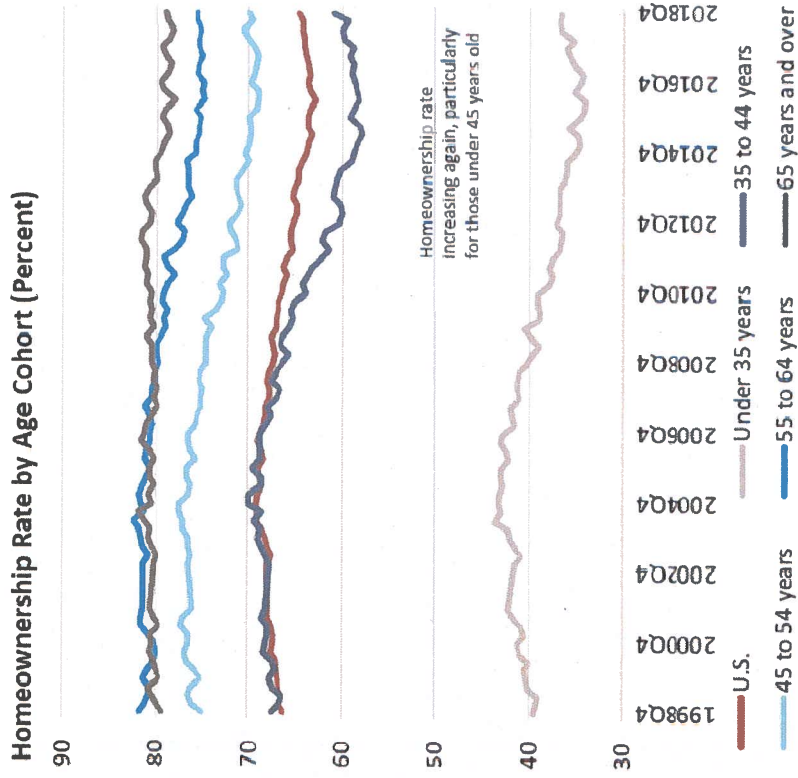
## Firm Overview: Platform

XYZ Real Estate \$12 Billion of Invested Equity		
Core Fund	Multi-Family Value-Add Fund Series	Office Value-Add Fund Series
<p>\$6.5 Billion</p> <p>A lower risk, core real estate investment strategy seeking relative value in stabilized core assets within primary and high-growth secondary U.S. Markets</p> <p>Open-End Fund Structure</p>	<p>\$4 Billion (across 5 Funds)</p> <p>Fund will focus on value add multi-family opportunities located within the U.S.</p> <p>Closed-End Fund Structure</p>	<p>\$1.5 Billion (across 4 Funds)</p> <p>Fund will focus redevelopment and development opportunities for creative office within high growth U.S. markets</p> <p>Closed-End Fund Structure</p>

# Market Opportunity: Changing Demographics warrant Changing Outlook

## Homeownership by Age

<45 year old age groups beginning to recover



Source: U.S. Census Bureau - Housing Vacancies and Homeownership (CPS/HVS)



# Market Opportunity: Targeting High Growth Job Markets

## Job Growth by Metro

Metro area leaders as of December 2018

**Largest Markets (by total employment)**

Rank	MSA Name	Empl. (000s)	YOY Growth	YOY CAGR
1	New York-Newark-Jersey City, NY-NJ-PA	9,843	1.1%	0.8%
2	Chicago-Naperville-Elgin, IL-IN-WI	4,766	1.3%	0.3%
3	Los Angeles-Long Beach-Glendale, CA	4,528	1.2%	0.6%
4	Dallas-Fort Worth-Arlington, TX	3,756	1.1%	1.7%
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	3,348	1.6%	1.4%
6	Houston-The Woodlands-Sugar Land, TX	3,159	1.1%	1.8%
7	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	2,978	1.9%	0.5%
8	Boston-Cambridge-Nashua, MA-NH	2,804	2.0%	0.7%
9	Atlanta-Sandy Springs-Roswell, GA	2,814	2.5%	1.3%
10	San Francisco-Oakland-Hayward, CA	2,468	2.1%	0.9%
11	Phoenix-Mesa-Scottsdale, AZ	2,135	3.9%	1.8%
12	Seattle-Tacoma-Bellevue, WA	2,099	3.3%	1.3%
13	Detroit-Warren-Dearborn, MI	2,027	0.7%	-0.3%
14	Minneapolis-St. Paul-Bloomington, MN-WI	2,031	1.7%	0.8%
15	Anaheim-Santa Ana-Irvine, CA	1,631	(4)	-0.3%
16	Riverside-San Bernardino-Ontario, CA	1,506	3.0%	2.5%
17	Denver-Aurora-Lakewood, CO	1,512	2.1%	1.4%
18	San Diego-Carlsbad, CA	1,493	2.9%	1.4%
19	Baltimore-Columbia-Towson, MD	1,431	3.0%	0.9%
20	St. Louis, MO-IL	1,397	1.9%	1.4%
21	Tampa-St. Petersburg-Clearwater, FL	1,360	2.3%	1.1%
22	Orlando-Kissimmee-Sanford, FL	1,321	5.1%	4.0%
23	Portland-Vancouver-Hillsboro, OR-WA	1,212	2.7%	2.3%
24	Miami-Miami Beach-Kendall, FL	1,206	2.4%	2.0%
25	Pittsburgh, PA	1,196	8	0.7%

**Fastest Growing Metros (out of the 100 largest)**

Rank	MSA Name	Empl. (000s)	YOY Growth	YOY CAGR
1	Colorado Springs, CO	305	16	5.6%
2	Reno, NV	248	12	5.2%
3	Huntsville, AL	244	10	4.1%
4	Orlando-Kissimmee-Sanford, FL	1,321	51	4.0%
5	Phoenix-Mesa-Scottsdale, AZ	2,135	80	3.9%
6	Houston-The Woodlands-Sugar Land, TX	3,159	111	3.6%
7	Las Vegas-Henderson-Paradise, NV	1,023	35	3.6%
8	Austin-Round Rock, TX	1,085	36	3.5%
9	Trenton, NJ	278	9	3.3%
10	Seattle-Tacoma-Bellevue, WA	2,099	67	3.3%
11	San Jose-Sunnyvale-Santa Clara, CA	1,149	36	3.3%
12	Dallas-Fort Worth-Arlington, TX	3,756	118	3.2%
13	Des Moines-West Des Moines, IA	379	12	3.2%
14	Raleigh, NC	640	20	3.2%
15	Cape Coral-Fort Myers, FL	270	8	3.1%
16	Lakeland-Winter Haven, FL	230	7	3.0%
17	Provo-Orem, UT	262	8	3.0%
18	Boise City, ID	331	9	2.9%
19	Salt Lake City, UT	743	19	2.7%
20	West Palm Beach-Boca Raton-DeLray Beach, FL	636	17	2.7%
21	Albuquerque, NM	401	10	2.6%
22	Cleveland-Elyria, OH	1,085	28	2.6%
23	Stockton-Lodi, CA	246	6	2.6%
24	Charleston-North Charleston, SC	364	9	2.6%
25	Atlanta-Sandy Springs-Roswell, GA	2,814	70	2.5%

Source: Bureau of Labor Statistics. Highlighted metros appear on both lists.

Investment Strategy: XYZ outperforms by executing at a high level on all fronts

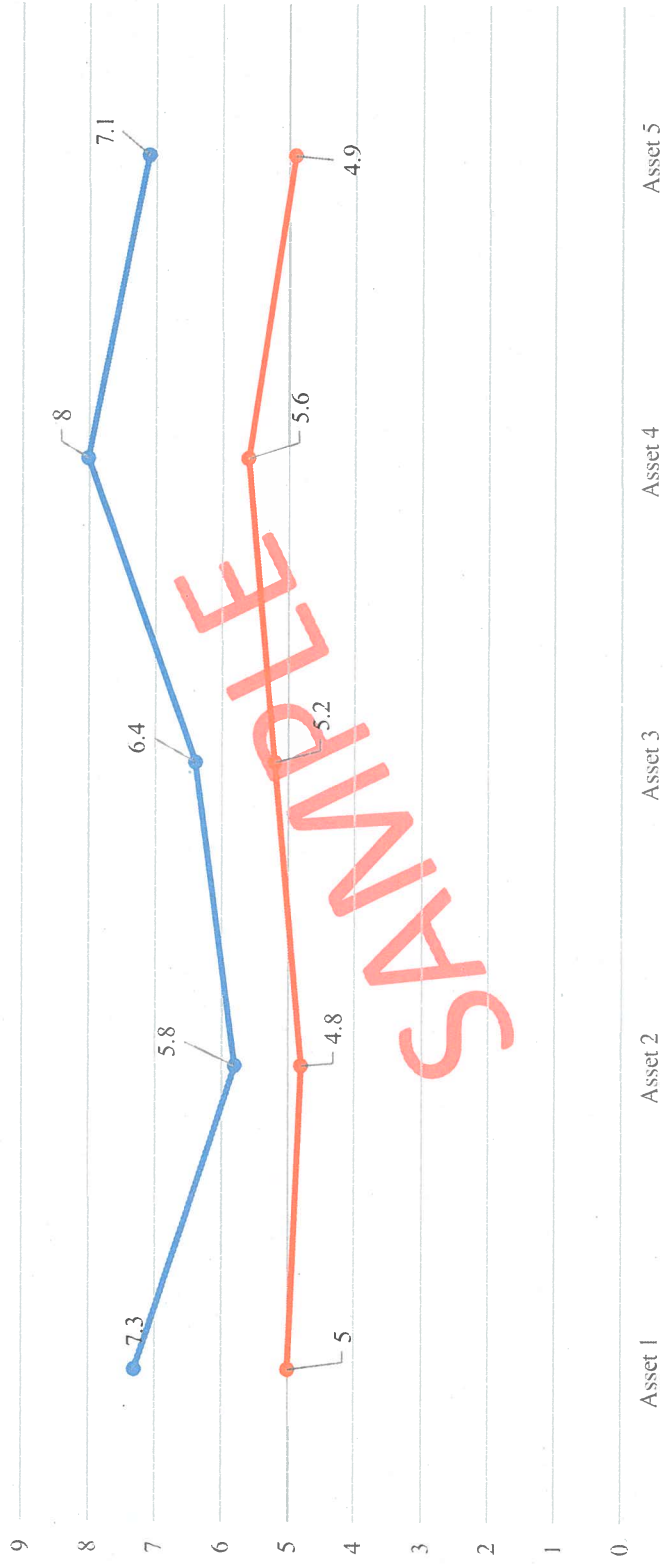
- Acquisitions follow a strict due diligence process which includes stress testing underwriting assumptions
- Asset management team completes weekly meetings with local operators to ensure proper execution of business plans
- Executive leadership reviews all assets on a quarterly basis to evaluate potential add on investments, exits or any updates to the business plan

### Annual Pipeline



# Investment Strategy: Demonstrated Value Creation via Entry vs Exit multiples

## Entry vs. Exit multiples



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