

Minutes of Investment Committee Meeting

September 29, 2020 – 1:20 PM – Teleconference

Called to Order: 1:26 p.m. by Committee Chair, Glenn E. Becker

Attendance at Committee Meeting(s):

Glenn E. Becker, Committee Chair
James Bloom – Designee for Secretary Richard Vague
Lloyd Ebright – Designee for Treasurer Joseph M. Torsella
David R. Fillman, Assistant Chair
Alan Flannigan – Designee for Secretary Richard Vague
Toni Marchowsky – Designee for Senator
Dan Ocko – Designee for Representative Dan B. Frankel
Patrick Shaughnessy – Designee for Representative Dan B. Frankel
Secretary Richard Vague
Jill Vecchio – Designee for Representative Michael G. Tobash

Other Board Members and Designees

Gregory K. Jordan
Mary A. Soderberg

Senior Staff

Randy Albright
Don Bell
Thomas Derr
Christopher Houston
Seth Kelly
Daniel Krautheim
N. Joseph Marcucci
Sara McSurdy
Terrill Sanchez
Joseph Torta

Other Staff

Rose Agnew
Katie Bates
Jason Burger
Britt Erney-Muniz
Randy Gilson
Suzi Hansel
Meredith Jones
Bill Truong

Committee Counsel

Jeffrey McCormick

Consultants

Mike Elio, StepStone Group, LP
Jay Kloepfer, Callan Associates Inc.
Britt Murdoch, Callan Associates Inc.
Bud Pellicchia, Callan Associates Inc.
Matt Ritter, NEPC, LLC
Matt Roche, StepStone Group, LP
Meg von Schroeter, StepStone Group, LP

Presenters

Orlando Bravo, Thoma Bravo
Mike Elio, StepStone Group, LP
David Felix, SERS
Jeff Meyer, SERS
Britt Murdoch, Callan Associates Inc.
Jim Nolan, SERS
Bud Pellicchia, Callan Associates Inc.
Tom Shingler, Callan Associates Inc.

Other

Jennifer James, Thoma Bravo
Trenton Riggs, Thoma Bravo
Elizabeth Yates, Thoma Bravo

1. CALL TO ORDER

Committee Chair, Glenn Becker, called the meeting to order at 1:26 p.m. He provided an introduction of Seth Kelly, new SERS CIO, to the meeting attendees. He also recognized Jim Nolan, Deputy CIO, who assumed leadership as Acting CIO prior to Seth Kelly's arrival.

2. WELCOME AND INTRODUCTIONS**3. APPROVAL OF MINUTES OF JULY 29, 2020 INVESTMENT COMMITTEE MEETING**

By motion, the Committee unanimously agreed to approve the minutes of the July 29, 2020 Investment Committee meeting.

4. OLD BUSINESS (None)**5. NEW BUSINESS****➤ SERS DEFINED BENEFIT QUARTERLY INVESTMENT PERFORMANCE ANALYSIS (AS OF JUNE 30, 2020)**

Tom Shingler of Callan provided the Defined Benefit Quarterly Performance Analysis as of June 30, 2020.

- **SERS DEFERRED COMPENSATION PROGRAM QUARTERLY INVESTMENT PERFORMANCE ANALYSIS (AS OF JUNE 30, 2020)**
Bud Pellecchia of Callan provided the Deferred Compensation Program Quarterly Performance Analysis as of June 30, 2020.

- **SERS DEFINED CONTRIBUTION PROGRAM QUARTERLY INVESTMENT PERFORMANCE ANALYSIS (AS OF JUNE 30, 2020)**
Britt Murdoch of Callan provided the Defined Contribution Program Quarterly Performance Analysis as of June 30, 2020.

- **PRIVATE EQUITY: THOMA BRAVO FUND XIV, L.P./THOMA BRAVO DISCOVER FUND III, L.P.**
Seth Kelly and David Felix of SERS provided an introduction of Thoma Bravo. Mike Elio of StepStone provided additional support in providing a summary of how the proposed Thoma Bravo funds being presented positively fit into the SERS portfolio. Orlando Bravo of Thoma Bravo then presented. After his presentation of Thoma Bravo Fund XIV, L.P./Thoma Bravo Discover Fund III, L.P., two motions by the Investment Committee were considered. The below motion, cast by David Fillman and seconded by Toni Marchowsky-Designee for Senator Vincent Hughes, was made as follows:

RESOLVED: That the Investment Committee recommend that the State Employees' Retirement Board commit up to \$50 million to Thoma Bravo Fund XIV, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a follow-on investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

The roll call vote tabulation for the motion was as follows:

| Board/Investment Committee Member | Vote |
|-------------------------------------|---------|
| David Fillman | Y |
| Dan Frankel (Dan Ocko) | Y |
| Vincent Hughes (Toni Marchowsky) | Y |
| Michael Tobash (Jill Vecchio) | Y |
| Joseph Torsella (Lloyd Ebright) | Abstain |
| Richard Vague (Alan Flannigan) | Y |
| Glenn Becker | Y |

An additional motion, cast by David Fillman and seconded by Toni Marchowsky-Designee for Senator Vincent Hughes, was made as follows:

RESOLVED: That the Investment Committee recommend that the State Employees' Retirement Board commit up to \$25 million to Thoma Bravo Discover Fund III, 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.

The roll call vote tabulation for the motion was as follows:

| Board/Investment Committee Member | Vote |
|-------------------------------------|---------|
| David Fillman | Y |
| Dan Frankel (Dan Ocko) | Y |
| Vincent Hughes (Toni Marchowsky) | Y |
| Michael Tobash (Jill Vecchio) | Y |
| Joseph Torsella (Lloyd Ebright) | Abstain |
| Richard Vague (Alan Flannigan) | Y |
| Glenn Becker | Y |

As a result, both Motions passed, and the recommendations were brought to the Board.

➤ **CIO COMMENTS: THE LIABILITY AS THE BENCHMARK**

Seth Kelly of SERS led an introductory discussion on investment liability ahead of a formal presentation, to be held during the Education Session of the 9/30/2020 Board meeting.

➤ **REBALANCING RECOMMENDATION**

Seth Kelly of SERS led a discussion on rebalancing. Tom Shingler of Callan provided support to this discussion. After this discussion, a motion by the Investment Committee, cast by David Fillman and seconded by Alan Flannigan-Designee for Secretary Richard Vague, was made as follows:

RESOLVED: That the Investment Committee recommend that the State Employees' Retirement Board accept the recommendation of the Investment Committee to implement the following transactions to rebalance public market assets (using a transition manager if necessary):

- Redeem \$100 million from the MCM Russell 1000 Index Fund (U.S. Equity), all proceeds of which to be directed to SERS' Cash Account;
- Redeem \$25 million from the MCM Russell 2000 Index Fund (U.S. Small Cap Core Equity), all proceeds of which to be directed to SERS' Cash Account;
- Redeem \$75 million from the strategy managed by Harris Associates (International Developed Markets Small Cap Equity), all proceeds of which to be directed to SERS' Cash Account;
- Redeem \$130 million from the BlackRock MSCI Emerging Market Index Fund (Emerging Markets Equity), all proceeds of which to be directed to SERS' Cash Account;
- Redeem \$50 million from Brown Brothers TIPS, all proceeds of which to be directed to SERS' Cash account;
- Contribute \$450 million to the Mellon Bond Index Fund (Core Fixed Income), the funds for which to be sourced from SERS' Cash Account; and
- Contribute \$330 million to the PIMCO U.S. Treasuries Portfolio (Core Fixed Income), the funds for which to be sourced from SERS' Cash Account.

The roll call vote tabulation for the motion was as follows:

| Board/Investment Committee Member | Vote |
|-------------------------------------|------|
| David Fillman | Y |
| Dan Frankel (Dan Ocko) | Y |
| Vincent Hughes (Toni Marchowsky) | Y |
| Michael Tobash (Jill Vecchio) | Y |
| Joseph Torsella (Lloyd Ebright) | Y |
| Richard Vague (Alan Flannigan) | Y |
| Glenn Becker | Y |

As a result, the Motion passed, and the recommendation was brought to the Board.

➤ **PPMAIRC PROGRESS UPDATE**

Jeff Meyer and Meredith Jones of SERS provided the Investment Committee with a PPMAIRC progress update. As a result of this update, two motions by the Investment Committee were considered. The below motion (PPMAIRC Recommendation #29- Public Disclosure of Travel Expenses), cast by David Fillman and seconded by Lloyd Ebright-Designee for Treasurer Joseph Torsella, was made as follows:

RESOLVED: That the Investment Committee recommend that the State Employees' Retirement Board accept the recommendation of the Investment Committee to direct the SERS Investment Office staff to begin publishing a report, similar to the sample provided

to the Investment Committee, on a prospective basis disclosing all travel or other expenses incurred by staff and/or paid for by an external investment manager, fund or consultant, beginning with the Commonwealth's fiscal year 2020/21, targeting the first report to be presented to the Investment Committee in December 2021, and at each December Investment Committee meeting thereafter. After presentation to the Investment Committee, the report is to be posted on SERS' website.

The roll call vote tabulation for the motion was as follows:

| Board/Investment Committee Member | Vote |
|-------------------------------------|------|
| David Fillman | Y |
| Dan Frankel (Dan Ocko) | Y |
| Vincent Hughes (Toni Marchowsky) | Y |
| Michael Tobash (Jill Vecchio) | Y |
| Joseph Torsella (Lloyd Ebright) | Y |
| Richard Vague (Alan Flannigan) | Y |
| Glenn Becker | Y |

An additional motion (PPMAIRC Recommendation #30-Reporting Fee Information), cast by David Fillman and seconded by Lloyd Ebright-Designee for Treasurer Joseph Torsella, was made as follows:

RESOLVED: That the Investment Committee recommend that the State Employees' Retirement Board accept the recommendation of the Investment Committee to direct the SERS Investment Office and Office of Finance and Administration to:

1. Report for each investment manager/general partner, separately as well as in the aggregate for both traditional and non-traditional investments, the fees, costs, and expenses, and in the case of non-traditional investments, carried interest, similar to the report found in the executive session materials for the most recent Investment Committee meeting. This report is to be produced on an annual basis going forward and presented to the Investment Committee in July of each year; and
2. Produce an additional report suitable for public dissemination, in accordance with confidentiality terms outlined in contractual agreements between SERS and SERS' Investment Managers/general partners, as certified by the SERS Legal Office, similar to the report provided to the Investment Committee.

The roll call vote tabulation for the motion was as follows:

| Board/Investment Committee Member | Vote |
|-------------------------------------|------|
| David Fillman | Y |
| Dan Frankel (Dan Ocko) | Y |
| Vincent Hughes (Toni Marchowsky) | Y |
| Michael Tobash (Jill Vecchio) | Y |
| Joseph Torsella (Lloyd Ebright) | Y |
| Richard Vague (Alan Flannigan) | Y |
| Glenn Becker | Y |

As a result, both Motions passed, and the recommendations were brought to the Board.

6. SPECIAL PRESENTATION (None)

7. EXECUTIVE SESSION (None)

It was deemed that the materials prepared for Executive Session did not require the Investment Committee to break for an official Executive Session. Therefore, Public Session resumed.

The following Executive Session agenda items were made available:

- a. Investment Manager Evaluation Updates
- b. SERS Cash Flow Forecast
- c. 2020 SERS Private Markets Pacing
- d. Liquidity Schedule as of July 31, 2020
- e. Private Markets Unfunded Commitments Update
- f. 2019 Investment Manager Fees and Expenses Report

8. PUBLIC SESSION RESUMES

9. COMMITTEE COMMENTS/CONCERNS/QUESTIONS

10. MOTION TO ADJOURN

By motion that was moved by Committee Chair Glenn Becker and approved unanimously by Investment Committee members, it was:

RESOLVED:

That this meeting is adjourned at 3:18 p.m.

Respectfully Submitted,

s/Seth Kelly

Seth Kelly, Chief Investment Officer