

## Minutes of Board Governance and Personnel Committee Meeting

Friday, February 25, 2022

### Attendees:

All Board Members, Designees, and SERS staff participated virtually, unless otherwise indicated.

### **Board Governance and Personnel Committee:**

David Fillman, Chair  
Treasurer Stacy Garrity  
Christopher Craig (designee for Treasurer Stacy Garrity)  
Lloyd Ebright (designee for Treasurer Stacy Garrity)  
Matt Lindsay (designee for Sen. Vincent Hughes)  
Secretary Gregory Thall  
Secretary Richard Vague  
Alan Flannigan (designee for Secretary Richard Vague)  
James Bloom (designee for Secretary Richard Vague)

### **Other Board Members:**

Glenn Becker  
Susan Boyle (designee for Rep. Paul Schemel)  
Charles Erdman (designee for Sen. John DiSanto)  
Gregory Jordan  
Dan Ocko (designee for Rep. Dan Frankel)  
Patrick Shaughnessy (designee for Rep. Dan Frankel)  
Mary Soderberg  
Jill Vecchio (designee for Rep. Paul Schemel)

### **SERS Staff:**

Rose Agnew, Executive Secretary (in person, SERS Board Room)  
Katie Bates, Administrative Officer (in person, SERS Board Room)  
Don Bell, Executive Assistant (in person, SERS Board Room)  
Kelly Bernhard, Administrative Assistant (in person, SERS Board Room)  
Jo Ann Collins, Chief Compliance Officer  
Tom Derr, Communications and Policy Director  
Randy Gilson, Director, Technical Support Division (in person, SERS Board Room)  
Pam Hile, Communications Director  
Christopher Houston, Committee Senior Staff (Administration)  
Dan Krauthaim, Chief Information Officer (in person, SERS Board Room)

Karen Lynn, Internal Audit Director  
Katie Mathews, Committee Senior Staff (HR)  
N. Joseph Marcucci, Chief Counsel  
Sara McSurdy, Chief Financial Officer  
Joe Torta, Executive Director  
Bill Truong, Deputy Chief Investment Officer  
Mark Walter, IT Generalist Administrator (in person, SERS Board Room)

**1. Call to Order**

At 9:54 A.M., Chair David Fillman called the meeting to order.

**2. Welcome and Introduction**

Chair David Fillman welcomed Committee members, designees, and other non-Committee Board members.

Following the welcome and introduction, it was announced that, due to technical difficulties, the Committee met in executive session just prior to today's meeting to discuss the items under Agenda Item 7, being the following items: Investment Professional Pay Adjustment – Investment Office and the Annual Salary Adjustments for Investment Professionals. It was further announced that any Committee action on those items would take place following New Business.

**3. Approval of Minutes**

Minutes of December 7, 2021, and January 14, 2022, Board Governance and Personnel Committee meetings.

**Motion:**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That this Committee approves the meeting minutes of the December 7, 2021, and January 14, 2022, Board Governance and Personnel Committee meetings.

**4. Old Business**

**a. SERS Fiduciary Review and Board Self-Assessment – Final Report Implementation of Recommendations**

The Committee received updates on recommendations from Funston's final report that were assigned to the Committee and took specific action regarding the SERB Educational Training Plan for Board Members and Designees.

**1. SERB Educational Training Plan for Board Members and Designees**

In furtherance of Funston recommendations 7.1, 7.2, and 7.3 and the Board Education Policy, the Committee reviewed the State Employees' Retirement Board Educational Training Plan for Board Members and Designees. Following discussion, the Committee took the following action to recommend to the Board to approve the educational training plan, to include the following additional investment education training goal, which is included in the attachment: "Understand the sources of investment fees and other expenses, as well as key elements of fund and manager fee terms."

**Motion:**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That the Board Governance and Personnel Committee recommend that the State Employees' Retirement Board approve the State Employees' Retirement Board Educational Training Plan for Board Members and Designees, as set forth in the attachment.

The roll call vote tabulation was as follows:

<b>Board Member</b>	<b>Vote</b>
<b>FILLMAN</b>	Yes
<b>GARRITY</b>	Yes
Designee:	
<b>HUGHES</b>	
Designee: Lindsay	Yes
<b>THALL</b>	Yes
<b>VAGUE</b>	
Designee: Flannigan	Yes

**b. SERS Strategic Plan – Update**

The Committee received as an information item an update on the FY 2021-2022 strategic goals.

**5. Special Presentations**

There were no special presentations.

**6. New Business**

**a. Review of 2022 Board Governance and Personnel Committee Work Plan**

The Committee reviewed the Committee work plan for 2022. Following discussion, the Committee took action to recommend to the Board to approve the work plan.

**Motion:**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That the Board Governance and Personnel Committee recommend that the State Employees' Retirement Board approve the Board Governance and Personnel Committee Work Plan, as set forth in the attachment.

The roll call vote tabulation was as follows:

<b>Board Member</b>	<b>Vote</b>
<b>FILLMAN</b>	Yes
<b>GARRITY</b>	Yes
Designee:	
<b>HUGHES</b>	
Designee: Lindsay	Yes
<b>THALL</b>	Yes
<b>VAGUE</b>	
Designee: Flannigan	Yes

## 7. Executive Session

Following New Business, the Committee took action on the following matters, which were topics of discussion during the pre-meeting executive session:

### a. Investment Professional Pay Adjustment – Investment Office

The Committee took action to approve and grant Portfolio Manager 1 Jared Snyder a 9% hourly pay increase to \$88.53 retroactive to December 20, 2021.

#### **Motion:**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That the Board Governance and Personnel Committee approve and grant Portfolio Manager 1 Jared Snyder a 9% hourly pay increase to \$88.53 retroactive to December 20, 2021.

The roll call vote tabulation was as follows:

<b>Board Member</b>	<b>Vote</b>
<b>FILLMAN</b>	Yes
<b>GARRITY</b>	Yes
Designee:	
<b>HUGHES</b>	
Designee: Lindsay	Yes
<b>THALL</b>	Yes
<b>VAGUE</b>	
Designee: Flannigan	Yes

**b. Annual Salary Adjustments for Investment Professionals**

**Investment Professionals Excluding CIO**

The Committee took action to approve salary adjustments set forth in **Annual Salary Adjustments for Investment Professionals 2022**, as attached, effective the first full pay period of March 2022.

**Motion**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That the Board Governance and Personnel Committee approve the salary adjustments set forth in **Annual Salary Adjustments for Investment Professionals 2022**, as attached, effective the first full pay period of March 2022.

The roll call vote tabulation was as follows:

<b>Board Member</b>	<b>Vote</b>
<b>FILLMAN</b>	Yes
<b>GARRITY</b>	No Does not agree with staff receiving increases when in position less than 6 months
Designee:	
<b>HUGHES</b>	
Designee: Lindsay	Yes
<b>THALL</b>	Yes
<b>VAGUE</b>	
Designee: Flannigan	Yes

**Chief Investment Officer**

The Committee took action to recommend to the full Board a pay adjustment for the Chief Investment Officer effective the first full pay period of March 2022.

**Motion**

By motion that was moved, seconded, and approved unanimously by Committee members, it was:

RESOLVED: That the Board Governance and Personnel Committee recommend to the full Board a pay increase to \$173.64 an hour for James Nolan, Chief Investment Officer SERS effective the first full pay period of March 2022.

The roll call vote tabulation was as follows:

<b>Board Member</b>	<b>Vote</b>
<b>FILLMAN</b>	Yes
<b>GARRITY</b>	Yes
Designee:	
<b>HUGHES</b>	
Designee: Lindsay	Yes
<b>THALL</b>	Yes
<b>VAGUE</b>	
Designee: Flannigan	Yes

**8. Committee Comments/Concerns/Questions**

There were no additional comments, concerns, or other questions from committee members.

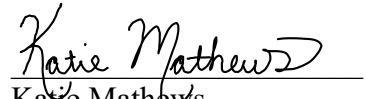
**9. Motion to Adjourn**


**Motion:**

By motion that was moved by Chair David Fillman and approved unanimously by Committee members, it was;

RESOLVED: That this meeting be adjourned at 10:18 A.M.

Respectfully Submitted,

  
Katie Mathews  
Director of Human Resources

  
Christopher C. Houston  
Deputy Executive Director for  
Administration





**pennsylvania**

STATE EMPLOYEES' RETIREMENT SYSTEM

State Employees' Retirement Board

# Educational Training Plan for Board Members and Designees

February 2022

## Educational Training Plan for Board Members and Designees

### **Purpose**

The purpose of the educational training plan (the “Plan”) is to provide further direction on a curriculum for SERS Board members and their designees to provide the necessary educational training in order for them to fulfill their fiduciary obligations to exercise that degree of judgment, skill, and care that a prudent investor would observe under similar circumstances.

Pursuant to the State Employees’ Retirement Code and the Board Education Policy (2017 POL-BD-06), all Board members are required annually to successfully complete certain mandatory training requirements. In addition, pursuant to Act 2020-128, Board members appointed to the Audit, Risk, and Compliance Committee are also required to complete a specified number of hours of training in risk assessments, internal controls, and auditing standards. The Plan will enable Board members and designees to acquire and expand their personal knowledge and improve their understanding in selected areas, including mandatory and non-mandatory training.

The Plan incorporates recommendations from the *Pennsylvania State Employees’ Retirement System (SERS) Fiduciary Review and Board Self-Assessment – Final Report* dated April 19, 2021, prepared by Funston Advisory Services, LLC, which includes:

1. Developing a core curriculum with elective offerings tied to the Board’s strategic initiatives and key decisions (with a particular focus on investment strategies, actuarial cost analysis, asset allocation, risk assessment, and retirement portfolio management);
2. Providing educational opportunities tailored to help meet the needs of each Board member regardless of experience or expertise;
3. Providing: (i) for newer Board members training on fiduciary duty, ethics, basic investment strategies, and actuarial fundamentals, and (ii) enhanced training opportunities for all Board members to learn more about investments, actuarial matters, ethics, and fiduciary responsibilities; and
4. Making best efforts to include independent third-parties in providing education.

The Plan seeks to provide Board members and designees with the skills, competencies, and qualities members should possess upon completion of annual training requirements.

### **Mandatory Training Requirements**

#### Mandatory Board Training Requirements

Pursuant to Act 2020-128, effective January 1, 2022<sup>1</sup>, and annually thereafter, all Board members and their designees are required to complete at least ten (10) hours of mandatory training in investment strategies, actuarial cost analysis, asset allocation, risk assessment, and retirement portfolio management on an annual basis. In addition, Board members and designees are also

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<sup>1</sup> For the period ending December 31, 2021, Board members and their designees were required to complete eight (8) hours of mandatory training in investment strategies, actuarial cost analysis, and retirement portfolio management on an annual basis.

## Educational Training Plan for Board Members and Designees

required to receive one hour of ethics training annually. The Mandatory Board Training Requirements will be identified in the Education Training Concepts offered to the Board.

### Mandatory Audit, Risk, and Compliance Committee Training Requirements

#### First year of Service

A newly appointed Audit, Risk and Compliance Committee voting member (Board member and designee), must complete at least sixteen (16) hours of training in risk assessments, internal controls, and auditing standards within ninety (90) days of an initial appointment to the committee.

#### Subsequent Years of Service

In order to continue serving as a voting member of the Audit, Risk and Compliance Committee following initial appointment, a Board member and designee must complete at least eight (8) hours of continuing education in risk assessments, internal controls, and auditing standards each calendar year thereafter.

The Mandatory Audit, Risk, and Compliance Committee Training Requirements will be identified in the Education Training Concepts offered to the Board.

## **Educational Training Goals**

The educational goals describe the skills, competencies, and qualities that Board members and designees should possess upon completion of an annual training program, with a focus on the following categories:

### Ethics and Fiduciary Training

Following the completion of ethical and fiduciary trainings, a Board member and designee should be able to:

- Understand the roles and duties of fiduciaries
- Be aware of potential conflicts of interest and how to avoid them
- Know some of the liabilities facing fiduciaries who fail to discharge their fiduciary responsibilities
- Be familiar with some examples of litigation involving fiduciary liability
- Be aware of ethical responsibilities that are expected of fiduciaries
- Understand their responsibilities as board members
- Understand the roles and responsibilities of investment consultants and managers, the board's actuary, legal counsel, and auditors
- Utilize best practices associated with good pension plan governance
- Understand the various fiduciary duties
- Be familiar with state and federal ethics laws that apply to public officials
- Understand the consequences of violating ethics laws
- Understand the potential conflicts of interest faced by fiduciaries

## Educational Training Plan for Board Members and Designees

- Know about prohibited transactions and interests
- Be aware of required disclosures
- Understand issues relating to confidentiality
- Be familiar with laws governing nepotism, gifts, and benefits

### Investment Training

Following the completion of investment trainings, which includes investment strategies, asset allocation, and retirement portfolio management, a member should be able to:

- Distinguish the different characteristics of stocks, bonds, and other major asset classes
- Understand the risk involved in investing in certain asset classes
- Comprehend passive and active investment management strategies
- Understand the importance of diversification
- Analyze returns, comparing with a system's assumed rate of return
- Understand the basic elements of an investment policy statement
- Understand the role of the trustee as it relates to investment decisions
- Be familiar with due diligence and investment performance evaluation processes
- Understand the role of investment consultants and investment managers
- Be aware of best practices for selecting and evaluating investment managers
- Understand the sources of investment fees and other expenses, as well as key elements of fund and manager fee terms

### Actuarial Training

Following the completion of actuarial trainings, a member should be able to:

- Explain the role of the board's actuary
- Comprehend basic actuarial terms
- Read and understand an actuarial valuation
- Understand stress testing
- Be familiar with the demographic and economic types of actuarial assumptions
- Understand market value and actuarial value of assets
- Be aware of different types of actuarial cost methods
- Understand different amortization methods
- Understand asset smoothing techniques
- Understand the amortization period
- Be aware of best practices such as funding policies
- Be familiar with the different types of actuarial reports
- Understand what should be taken into consideration for a system to increase benefits

### Risk Management

Following the completion of risk management trainings, a member should be able to:

- Be familiar with investment risk assessment
- Understand internal control concepts

## Educational Training Plan for Board Members and Designees

- Understand a Comprehensive Annual Financial Report
- Comprehend the role of auditors, including internal and external
- Be familiar with measures for ensuring security of confidential information
- Understand the importance of recordkeeping requirements
- Explain the importance of investment diversification
- Be familiar with types of investment risk and how to manage total risk
- Understand the role of due diligence in investments

### **Educational Training Concepts**

The training concepts to be offered on an annual basis, from which Board members and designees can select from to meet their individual educational training goals include, but are not limited to, the following :

- Investment Strategies\*
- Benchmarking and Performance Comparisons\*
- Strategic Asset Allocation for Investment Portfolios\*
- Assumed Rate of Return\*
- Fiduciary Duties and Responsibilities
- Environmental, Social and Governance (ESG) Investing
- Performance Measurement and Monitoring\*
- Internal Controls, Risk Assessment, and Auditing Standards\*\*
- Demographic Actuarial Assumptions\*
- Managing Investment Risk\*
- Managing Business and Operational Risk\*
- Actuarial Cost Analysis\*
- Funding and Asset-Liability Concepts\*
- Stress Testing and Risk Management\*
- Ethics\*
- Member and Participant Services

\* - Mandatory Board Training Requirements

\*\* - Mandatory Audit, Risk, and Compliance Committee Training Requirements

### **Instructional Training Methodologies**

The internal and external instructional methodologies for training opportunities will include a variety of venues and formats, with best efforts being made to include independent third-parties in providing education.

- Conference Sessions (i.e., Board Retreat)
- In Person Presentations
- Live/Virtual Presentations

## Educational Training Plan for Board Members and Designees

- Recorded Webinars
- Printed Material Reviews
- Reviewing Industry Periodicals, Books and Other Materials
- Online Coursework
- The external training opportunities will include a variety of venues.
- In Person Conferences/Presentations
- Virtual Presentations
- Webinars
- Podcasts

### **Training Session Length and site of Presentation**

The majority of internal training sessions will be no less than 30 minutes and no more than 60 minutes in length.

The goal is to provide training sessions in conjunction with regularly scheduled Board meetings (approximately 6 sessions) and Board sponsored events. (Retreat)

Pre-approved training and educational opportunities will be made available. Outside training, not on a pre-approved list, which is approved by the Chairman, can be viewed anywhere and anytime with appropriate documentation verifying attendance/participation.

### **Budget Costs**

The anticipated annual Board Educational Training Costs total \$75,000. The total cost will cover such items as attendance at outside conferences, classes, internal and external training sessions, SERS retreat sessions and presenters, materials and periodicals, memberships, and other external presenters.

**SERS Committee Work Plan Items**

	January	February	April	June	July	September	December	Special Notes
<b>Board Governance and Personnel</b>								
<b>2022</b>								
Board Chairperson appoints Committee members. Committee members elect Committee Chair and the Committee Chair appoints Assistant Chair.	X							<b>2022</b> - In the first committee meeting in even numbered years, conduct the election of committee Chairs and appoint Assistant Chairs. Also, in January of even numbered years, the Board Chairperson appoints committee members.
Recommend to the Board to approve the Committee work plan.		X						<b>2022</b> - Annually, staff liaisons, with input from the Executive Director, prepare draft work plans for review by the Committee in advance of the first meeting. The Committee shall recommend to the Board to approve the work plan.
Oversee and monitor the strategic planning process.		X	X	X	X	X	X	<b>2022</b> - Updates on the Strategic Business Plan are provided. NOTE: In 2023, work is to begin on the update to the plan.

Consider annual salary adjustments for investment professionals.		X						<p><b>2022</b> - An analysis of compensation for investment professionals including the CIO is included in the compensation and classification study for completion in 2022, which will include a review of the current <i>Compensation Policy for Investment Professional Staff</i> and <i>Performance Review Process for CIO</i> . For 2022, IO and OFM have until 1/31 to complete annual performance reviews of investment professionals so salary adjustment discussions with Committee/Board can not occur sooner than February. Salary adjustments effective first full pay in March. Can be made retroactive if Committee/Board does not act timely. Salary adjustments for CIO require Board approval.</p>
Review of recommendations from <i>SERS Fiduciary Review and Board Self-Assessment Final Report</i> .		X	X					<p><b>2022</b> - The Committee completes its review of recommendations, C.1, 1.1, 1.2, 1.4, 7.1, 7.2, 7.3, and 8.2. Along with the review of the report's recommendation C.1, a strategic plan goal of confirming the Board's position on legislative positioning will also be reviewed.</p>
Meet with Executive Director to discuss mid-year performance.					X			<p><b>2022</b> - Board (not Committee) Chairperson meets with the Executive Director by 7/31 to discuss any performance issues identified as a result of the mid-year report.</p>



<p>Review of performance review process for Board direct reports.</p>						<p>X</p>	<p><b>2022</b> - A comprehensive performance review process is developed for the Executive Director, CIO, Chief Counsel, Chief Compliance Officer, and Internal Audit Director. The Committee shall collaborate with the Audit, Risk, and Compliance Committee in the development of the process, as it pertains to the performance review of the Internal Audit Director and Chief Compliance Officer.</p>
<p>Discuss Executive Director's annual performance review and goals.</p>						<p>X</p>	<p><b>2022</b> - Completed and signed annual evaluation due to SERS-HR by 1/31. Board Chairperson drafts evaluation and goals with Board input (no meeting required; input forms emailed). Committee reviews draft evaluation and goals (can be done via email with feedback provided via email). Committee may elect to meet and discuss. If Board Chairperson and Committee cannot resolve disagreements, matter escalated to full Board. (If Needed)</p>

<p>Review investment pay bands; recommend band adjustments to Board for approval.</p>							<p>X</p>	<p><b>2022</b> - (If needed) - November or December. Ideally, full Board approves pay band adjustments the last meeting of the calendar year so changes timely implemented beginning of new calendar year. Committee work has to be done in advance, but is dependent on receipt of salary data from consultant. Salary adjustment data sent from consultant to SERS-HR typically in September or October. SERS-HR meets with SERS ED, CIO, and CFO to discuss agency recommendation to Committee. SERS-HR prepares materials. Committee discusses pay band adjustments; makes recommendation to Board. SERS-HR prepares materials. Board considers pay band adjustments and approves/denies.</p>
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Discuss Executive Director cost-of-living adjustment (COLA).							X	<p><b>2022</b> - Act 51 of 1995 grants the Governor and Cabinet annual cost-of-living increases in January. The Governor's Office may approve the same increase for other non-statutory agency heads whose salaries are set by the commonwealth's Executive Board. Since SERS Board approves the Executive Director's salary, a motion is necessary to authorize application of the COLA to SERS Executive Director should one be granted by the Governor's Office for the non-statutory agency heads.</p>
Compensation and Classification Study								<p><b>2022</b> - Periodic updates may be provided as project progresses.</p>
<b>2023</b>								

Discuss Executive Director salary adjustment.	TBD							<p><b>2023</b> - SERS Executive Director does not receive automatic pay increases. Pay must be approved by SERS Board then by the commonwealth's Executive Board. The current <i>Performance Review Process for Executive Director</i>, which is anticipated to be reviewed in the fall of 2022, provides that the Executive Director's performance review cycle is January – December with the annual performance review form due at the end of January. February is an appropriate time to discuss any possible merit-based pay increase recommendations. Pursuant to the current performance review process, the first review cycle for the current Executive Director will be for calendar year 2022.</p>
Review of compensation policies for attorneys, compliance, and investment professionals, in collaboration with the Executive Director, CFO, CIO, and Chief Counsel.	TBD							<p><b>2023</b> - Following the completion of the compensation and classification study, compensation policies for attorneys, compliance, and investment professionals are developed for possible recommendation by the Committee for SERS Board adoption.</p>
Work with Executive Director and the Office of Chief Counsel to review Board policies and procedures.		X						<p><b>2023</b> - Must be completed every two years. Next review would be 2/2023.</p>

Review: (i) Board Governance and Personnel Committee Charter, including a review of Board delegations, and Bylaws, in collaboration with the Executive Director and Chief Counsel's Office; and (ii) recommendations, if any, from other committees to revisions to their respective committee charters.		X						<b>2023</b> - Must be completed every two years. Next review would be 2/2023.
Oversee and monitor the strategic planning process	TBD							<b>2023</b> - Begin work on the update to the SERS Strategic Business Plan.
Conduct a Board self-assessment pursuant to the Board Self-Assessment Policy.	TBD							<b>2023</b> - Must be completed annually or biennially.
<b>2024</b>								
Board Chairperson appoints Committee members. Committee members elect Committee Chair and the Committee Chair appoints Assistant Chair.	X							<b>2024</b> - In the first committee meeting in even numbered years, conduct the election of committee Chairs and appoint Assistant Chairs. Also, in January of even numbered years, the Board Chairperson appoints committee members.
Work with consultant to complete review of the Board's fiduciary and governance practices pursuant to the Fiduciary Review Policy.	TBD							TBD - Must be completed every 3 or 4 years.

**Annual Salary Adjustments for Investment Professionals, Excluding CIO  
Motion Attachment**

**Annual Salary Adjustments for Investment Professionals 2022**

	<u>Name</u>	<u>Title</u>	<u>New Hourly Rate</u>
<b>FINANCE</b>	Sara McSurdy	Chief Financial Officer	\$91.70
	Michael McGeoy	Assistant Chief Financial Officer	\$70.80
	David Kuntch	Senior Investment Accountant	\$46.25
	John Gibboney	Investment Accountant	\$41.30
<b>INVESTMENT</b>	William Truong	Deputy Chief Investment Officer	\$144.55
	Jeffrey Meyer	Managing Director of Investment Operations	\$137.29
	Jared Snyder	Portfolio Manager 1	\$94.74
	Ryan Morse	Portfolio Manager 1	\$81.64
	Meredith Jones	Portfolio Manager 1	\$80.43
	Stephen Balucha *	Investment Analyst 2	\$57.30
	Jonathan Ferrar	Investment Analyst 2	\$57.30
	Alan Lin *	Investment Analyst 2	\$57.30
	Brian Gilroy	Investment Analyst 1	\$48.78

\* Employee classified as an Investment Analyst 1 with reclassification to Investment Analyst 2 currently under review. The annual pay increase recommendation noted above has been prepared factoring in, and is conditioned on, the promotion to Investment Analyst 2. If reclassification is denied, the authorized salary to be effective the first full pay period in March 2022 will be \$49.74 an hour rather than the rate noted above.