

**Penn SERS Board Approves 2020 Stress Testing Report;
Announces Investment Performance, New Investments and Rebalancing Plans
Continues Ongoing Steps Toward Increased Transparency and Best-In-Class Service**

HARRISBURG – The board of the Pennsylvania State Employees’ Retirement System, meeting here today, approved its second annual stress test and risk assessment report, and numerous actions that continue to move the agency toward greater transparency and best-in-class services for its members, participants and stakeholders.

“The board’s actions today were in perfect alignment with our new vision for SERS, which includes us becoming a leader among our peers,” explained SERS Executive Director Terrill Sanchez. “The actions move us from doing what ‘needs’ to be done – to doing the ‘very best’ for our members and participants.”

The board approved the [2020 Stress Testing and Risk Assessment](#) report prepared by SERS’ Actuary, Korn Ferry. This is the second annual report on the system’s expanded stress testing. The Pew Charitable Trusts praised the system’s first report as a “leading example,” as [announced in June](#).

The 2020 report reflects the results of the December 31, 2019, actuarial valuation and the anticipated effects of the revisions in the actuarial assumptions, including the reduction of the assumed investment return rate to 7%, that were [approved by the Board at its July 2020 meeting](#).

The board also received a report on the [19th Investigation of Actuarial Experience](#), which also reflects the assumption changes approved by the Board at its July 2020 meeting. Every five years, the actuary compares the current actuarial assumptions to the pension system’s actual experience to see if any assumptions should be adjusted to better align with actual experience.

Investment Performance

The board received a report on the returns generated by the State Employees’ Retirement Fund for the Defined Benefit Plan. Returns by asset class for the second quarter 2020 and year-to-date 2020 were:

Asset Class	2nd Quarter 2020	Year to Date 6/30/2020
U.S. Equity	22.75%	(4.58)%
Emerging Mkts Equity	20.74	(7.04)
International Developed Markets Equity	16.38	(11.16)
Inflation Protection (TIPS)	4.35	5.84
Fixed Income	3.21	1.67
Cash	0.17	0.55
Real Estate	(0.06)	(2.32)
Private Credit	(4.72)	(2.36)
Private Equity	(7.80)	(5.59)
Total Fund	8.04%	(4.58)%

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

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"While the uncertainty around COVID-19 hit investment markets hard late in the first quarter, the strong second quarter returns are working to restore the fund toward its pre-COVID level," explained SERS CIO Seth Kelly. "Early estimates show the trend of improvement continued through August."

New Investments

The board also approved two private equity commitments totaling up to \$75 million:

- Up to **\$50 million** to **Thoma Bravo Fund XIV, L.P.**, as a follow-on investment.
- Up to **\$25 million** to **Thoma Bravo Discover Fund III, L.P.**

The commitments target investments in application and infrastructure software and technology-enabled services businesses in North America.

"Thoma Bravo is a leading manager in the software industry," explained SERS CIO Seth Kelly. "Their investment process and accompanying performance, coupled with the firm's dedication to transparency makes them an excellent partner for SERS' members retirement security."

Rebalance Public Market Assets

The board directed staff to rebalance public market assets over time so that they align with the board approved target ranges. Rebalancing will involve redeeming approximately \$380 million from equity and TIPS investments, while contributing approximately \$780 million to the core fixed income and US Treasuries portfolios. This rebalancing action will bring the portfolio in line with the board-approved asset allocation.

Pension Review Commission Recommendations

The board also acted on two additional recommendations from the pension review commission created by Act 2017-5. The board directed staff to:

- Begin publishing an annual report 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.
- Report to the Investment Committee each July, the fees, costs and expenses for each investment manager/general partner, separately as well as in the aggregate for both traditional and non-traditional investments, and in the case of non-traditional investments, the carried interest; and to prepare a public report of that data, in accordance with the confidentiality terms in contractual agreements as certified by SERS Legal Office.

Agency Procurement Actions

The board authorized staff to proceed negotiating a three-year contract with **BI Solutions Inc.**, which may be extended for up to two additional one-year periods, to provide maintenance and support for the agency's proprietary member database and benefit processing system. BI solutions Inc. was selected through a competitive RFP that was open from July 16 through August 14, 2020.

The board also approved four topics to be included in the scope of work for the procurement of a consultant to assist the board in conducting a fiduciary review of the Board's performance of its duties, in accordance with the board-approved [Fiduciary Review Policy](#). The four topics are: non-economic investment requirements, asset liability matching process, legislative positioning and investment manager selection/due diligence/monitoring/termination.

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The board authorized procurement of a consultant to conduct a comprehensive compensation and classification study of the SERS investment professional positions and attorney positions, including the Chief Compliance Officer position.

Other Board and Agency Operation Actions

The board adopted the *State Employees' Retirement Board Compliance Program Charter*, effective immediately, and the *Insider and Personal Trading Policy* to be effective on January 1, 2021.

The board also approved the proposed FY 2021-22 administrative, investment, and Defined Contribution Plan budgets for submission to the Governor's Office of the Budget, and the progressive FY 2021 through FY 2023 strategic business plan to be published later this fall.

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Pennsylvania State Employees' Retirement System

Established in 1923, SERS is one of the nation's oldest and largest retirement plans for public employees, with more than 240,000 members. As of June 30, 2020, SERS' Defined Benefit Plan had assets of more than \$30 billion and the Defined Contribution Plan, which launched on Jan. 1, 2019, had nearly \$21 million. SERS also administers a voluntary supplemental Deferred Compensation Plan with more than 57,000 participants and assets of nearly \$3.9 billion. A wealth of information is available at www.SERS.pa.gov.

For more information: Pamela Hile | phile@pa.gov