Time and Attendance of Board Meeting Held Wednesday, March 06, 2013

Date: 03/06/2013

Call to Order: 9:25 AM

Call to Order By: Honorable Nicholas J. Maiale, Chairman

Next meeting of SERS Board: 04/24/2013

Time Recessed	Time Resumed	Adjournment
12:00 PM	12:45 PM	1:25 PM

ATTENDEES:

Chairman

Honorable Nicholas J. Maiale

Board Member

Robert A. Bittenbender
David R. Fillman
Dan B. Frankel
Robert M. McCord
Oliver C. Mitchell, Jr.
M. Joseph Rocks

Designee Appointed by Board Member

Charles Duncan	for Senator Vincent J. Hughes
Dan Ocko	for Representative Dan B. Frankel
Monica Riddle	for Representative Charles T. McIlhinney, Jr.
Ned Smith	for Representative Robert W. Godshall

SERS Executive Staff

Anthony Clark
David E. Durbin
Anthony Faiola
Samuel Yun

Consultant

Anthony Johnson	RV Kuhns & Associates, Inc.
Stephen Kennedy	Albourne America LLC
Rob Kochis	The Townsend Group
Michael McCabe	StepStone Group LLC
Brent Mowery	Hay Group, Inc.
James Munro	Albourne America LLC

Consultant

Robert Palmeri	RV Kuhns & Associates, Inc.
Jim Voytko	RV Kuhns & Associates, Inc.
Natalie Walker	StepStone Group LLC

SERS Administrative Staff

Rose Agnew
Todd Albaugh
Michael Beblo
Thomas Brier
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Linda Engle
Gary Green
Pamela Hile
Anthony Hines
Jennifer Hricak
William Hutcheson
Carolyn Johnstone
Meredith Jones
David Kalman
Barbara Kiral
Cheryl Krchnar
Lauren Lenfest
Karen Lynn
N. Joseph Marcucci
Brian McDonough
Mark McGrath
Elizabeth Pettis
Kyle Reinfeld
William Riegel
Steven Rosenberry
Sharon Smith
Monica Solus
Joseph Torta
William Truong
Heather Tyler
Heather Zellers

Visitor

Sandy Leopold	PA Department of Treasury

Presenter

Jay Bernstein	KPS Special Situations Fund IV, LP
John Bolduc	H.I.G. Bayside Loan Opportunity Fund III, LP
Louis Cohen	MacKay Shields
Scott Dolan	UBS Global Asset Management
John Dugenske	UBS Global Asset Management
J. C. Frey	Kayne Anderson Capital Advisors, LP
Kirk Huddles	Harvest Fund Advisors LLC
Kirk Kashevaroff	MacKay Shields
David Martinelli	Harvest Fund Advisors LLC
Steve Smith	Kayne Anderson Capital Advisors, LP
Joe Staccato	J.P. Morgan Columbus Style
Paul Swoboda	J.P. Morgan Columbus Style
Steve Wilde	UBS Global Asset Management

Minutes of Board Meeting Held Wednesday, March 06, 2013

RECOGNITION FOR BOARD MEMBER WALLACE H. NUNN

Chairman Maiale announced that Board Member Mr. Wallace H. Nunn has resigned from the Board and thanked him for his service to the Board.

Motion: 2013-06

At the motion of the Chairman, the Board unanimously agreed to recognize Wallace H. Nunn with a Board Resolution, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT A).

CAPITAL MARKET REPORT

Messrs. Johnson, Palmeri and Voytko presented the report provided to the Board (3/6/2013 Board Handout).

2012 ACTUARIAL VALUATION - INVESTMENT RETURN ASSUMPTION DISCUSSION

Hay Group Inc.
RV Kuhns & Associates

Messrs. Mowery and Voytko presented the report provided to the Board (3/6/2013 Board Package, Administrative Report, Tab 10). Hay Group will return for the April 24, 2013 meeting to present the key results of the 2012 Actuarial Valuation.

DISCUSSION ON PORTFOLIO REBALANCING POLICY

Mr. Voytko presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tabs 7 and 8). A copy of the Portfolio Rebalancing Policy, noting the discussed corrections, will be provided to the Board.

Motion: 2013-07

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

RESOLVED: That the Board adopts the SERS Portfolio Rebalancing Policy as amended March 6, 2013, subject to technical corrections.

GLOBAL PUBLIC EQUITY RECOMMENDATION FOR FUTURE INTERVIEWS

Emerging Markets Value
Kleinwort Benson Investors
Mondrian Investment Partners Limited

Emerging Markets Growth
Martin Currie Investment Management
Grantham, Mayo, Van Otterloo & Co. LLC

Emerging Markets Small-Cap
Mondrian Investment Partners Limited
GlobeFlex Capital L.P.

Mr. Green presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 5) identifying the above managers as potential investment opportunities for SERS.

It was the consensus of the Board to interview representatives from these companies at the April 24, 2013 meeting.

FIXED INCOME
J. P. Morgan Columbus Style (J. P. Morgan)
MacKay Shields
UBS Global Asset Management

Mr. McGrath presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 10).

J. P. Morgan Columbus Style (J. P. Morgan)

Messrs. Staccato and Swoboda presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 10).

MacKay Shields

Messrs. Kashevaroff and Cohen presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 11).

UBS Global Asset Management

Messrs. Wilde, Dugenske and Dolan presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 12).

Motion: 2013-08

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

RESOLVED: That the Board commits $300 million to the following managers, allocated as follows: $200 million to MacKay Shields and $100 million to UBS Global Asset Management to manage a core mandate within the Fixed Income asset class, subject to successful completion of contract negotiations. Funding will come from the Northern Trust Fixed Income Transition Management Account.

REAL ASSETS
Harvest Fund Advisors LLC
Kayne Anderson Capital Advisors, L.P.

Messrs. Kalman and Reinfeld presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 15).

Harvest Fund Advisors LLC

Messrs. Huddles and Martinelli presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 13).

Kayne Anderson Capital Advisors, L.P.

Messrs. Smith and Frey presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 14).

Motion: 2013-09

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

RESOLVED: That the Board commits $300 million to the following managers, allocated as follows: $150 million to Harvest Fund Advisors LLC and $150 million to Kayne Anderson Capital Advisors, L.P. to manage a master limited partnership separate account within the Real Assets asset class, subject to successful completion of contract negotiations, and to authorize staff to fund these commitments in an orderly manner through the following actions:

1. Fully redeem assets from the Sentinel Real Estate Fund;
2. Redeem $25 million each from:
   a. UBS Trumbull Property Fund
   b. UBS Trumbull Property Income Fund
   c. Urdang Real Estate Securities separate account;
3. Redeem approximately $64 million from the CBRE Clarion Securities separate account; and
4. Redeem approximately $100 million from the Wellington Diversified Inflation Hedge account.

PERSONNEL COMMITTEE RECOMMENDATION/MOTION

Chairman Maiale presented the Personnel Committee Recommendation.

Motion: 2013-10

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

RESOLVED: That the Board approves an order to grant a general pay increase as set forth in the March 6, 2013 SERS Personnel Committee Recommendation presented to the Board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT B).

DEFERRED COMPENSATION PROGRAM (DCP) QUARTERLY REPORT - DECEMBER 31, 2012

Mr. Faiola reported that the DCP Quarterly Report was provided to the Board (3/6/2013 Board Package, Administrative Report, Tab 6). He noted the total assets available for benefits were $2.4 billion and the program has over 50,000 participants.

DIVERSIFYING ASSETS INVESTMENTS

Hedge Fund Program Discussion

Messrs. Brier, Kennedy and Munro presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 18).

MEETING RECESS AND EXECUTIVE SESSION

At 12:00 p.m., the Board recessed and entered Executive Session to receive legal advice on Executive Session agenda items, as attached (ATTACHMENT C). The meeting resumed at 12:45 p.m.

MINUTES OF BOARD MEETING - JANUARY 23, 2013

Chairman Maiale noted that the minutes of the January 23, 2013 Board meeting were provided to the Board (3/6/2013 Board Package, Administrative Report, Tab 2).

Motion: 2013-11

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

RESOLVED: That the Board approves the minutes of the January 23, 2013 Board meeting.

CHANGES IN ASSETS AVAILABLE FOR BENEFITS FOR PERIOD ENDING - DECEMBER 31, 2012

Chairman Maiale noted that the Report of Changes in Assets Available for Benefits for the period ending December 31, 2012 was provided to the Board (3/6/2013 Board Package, Administrative Report, Tab 3).

Motion: 2013-12

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

RESOLVED: That the Board accepts the State Employees' Retirement System's Report of Changes in Assets Available for Benefits for the period ending December 31, 2012.

LITIGATION SETTLEMENT

Chairman Maiale noted that the following resolution is a result of discussion in Executive Session.

Motion: 2013-13

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

RESOLVED: That the Board authorizes the Executive Director and Chief Counsel to take such steps and execute documents deemed necessary or desirable to effectuate the settlement in the Bruno's litigation matter, as set forth in ATTACHMENT D.

ALTERNATIVE INVESTMENTS

H.I.G. Bayside Loan Opportunity Fund III, L.P.
KPS Special Situations Fund IV, L.P.

Mses. Lenfest and Walker and Mr. McCabe presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 16).

H.I.G. Bayside Loan Opportunity Fund III, L.P.

Mr. Bolduc presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 16).

Motion: 2013-14

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

RESOLVED: That the Board commits up to $50 million to H.I.G. Bayside Loan Opportunity Fund III, L.P., as a follow-on investment within the Alternative Investments asset class, subject to successful completion of contract negotiations.

KPS Special Situations Fund IV, L.P.

Mr. Bernstein presented the report provided to the Board (3/6/2013 Board Package, Investment Report, Tab 17).

Motion: 2013-15

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

RESOLVED: That the Board commits up to $50 million to KPS Special Situations Fund IV, L.P., as an investment within the Alternative Investments asset class, subject to successful completion of contract negotiations.

AUDIT COMMITTEE MEMBER APPOINTMENTS

Mr. Durbin noted that Mr. Oliver C. Mitchell and Senator Vincent J. Hughes have agreed to serve on the Audit Committee. He thanked Mr. David Fillman for his service on the Audit Committee as his term has ended.

BUDGET HEARINGS

Mr. Durbin noted that Senate and House Appropriation Committee Hearings were completed last week on February 27, 2013. Pension reform was the common topic. In the House, 22 out of 26 committee members were present for the hearing.

FINANCIAL DISCLOSURE STATEMENTS

Mr. Durbin noted that all Board Members and Designees should have received their Financial Disclosure Statement and the deadline to return them is May 1, 2013.

LEGISLATIVE UPDATE

Mr. Durbin noted that the Legislative Update was provided to the Board (3/6/2013 Board Package, Administrative Report, Tab 8).

BOARD ADJUDICATIONS

Mr. Durbin provided the Board with the following information on the results of the notational ballots regarding Board Adjudications.

Account of Delores McDowell (Deceased)
Docket No. 2011-17
Claim of Jason O'Neill Kates

The State Employees' Retirement Board DENIED Claimant's request to receive the entire death benefit payable from SERS as a result of the death of Delores McDowell. The death benefit is to be distributed in equal amounts to Jason Kates, Mattie Kates and Ricky McDowell. Board Member Dan B. Frankel recused himself.

Account of Patricia L. Yorty
Docket No. 2011-27
Claim of Patricia L. Yorty

The State Employees' Retirement Board DENIED Claimant's request that SERS pay her the annuity set forth in an inaccurate benefit estimate instead of the correctly calculated annuity required under the State Employees' Retirement Code. Board Member Dan B. Frankel recused himself and Board Member M. Joseph Rocks dissented.

NEXT BOARD MEETING

Chairman Maiale reported that the next regular meeting of the SERS Board is scheduled for April 24, 2013.

MOTION TO ADJOURN

Motion: 2013-16

By motion of Chairman Maiale, the Board unanimously agreed to adjourn the meeting at 1:25 p.m.

Respectfully submitted,

David E. Durbin
Executive Director

ATTACHMENT A

Commonwealth of Pennsylvania
State Employees' Retirement System

RESOLUTION

WHEREAS, *Wallace "Wally" H. Nunn became a member of the State Employees' Retirement Board effective May 11, 2011, by appointment of Governor Tom Corbett; and*

WHEREAS, *throughout his tenure, Wally Nunn has exhibited a clear and sincere focus on the best interests of the Commonwealth of Pennsylvania, the State Employees' Retirement System, and its members by sharing the unique and valuable perspectives he has earned as a combat veteran, a bond banker, and a political activist; and*

WHEREAS, *Wally Nunn is appreciated by Members of this Board and the staff of the State Employees' Retirement system for his candor, his work to continually foster open and productive dialog, and his steadfast adherence to principle; and*

WHEREAS, *Wally Nunn also served on the Board's Personnel Committee, where he contributed to the search for and hiring of a new executive director, among other important endeavors; now therefore be it*

RESOLVED, *that the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Wallace "Wally" H. Nunn for his professional excellence and dedication to the Commonwealth of Pennsylvania, the State Employees' Retirement System, and its members, and wishes him the best of health, happiness, and success in all his future endeavors; and be it further*

RESOLVED, *that the original resolution be transmitted to Wally Nunn and a copy included in the minutes.*

March 6, 2013
Harrisburg, Pennsylvania

Nicholas J. Maiale, Chairman

Robert A. Bittenbender

David R. Fillman

Dan B. Frankel

Robert W. Godshall

Vincent J. Hughes

Robert M. McCord

Charles T. McIlhinney, Jr.

Oliver C. Mitchell, Jr.

M. Joseph Rocks

ATTACHMENT B

SERS PERSONNEL COMMITTEE RECOMMENDATION

DATE: March 6, 2013

RESOLVED, that the SERS Personnel Committee recommends that the Board approve the following compensation action for the State Employees' Retirement System.

ISSUE: April 2013 General Pay Increase (GPI)

ACTION/REQUEST:
Management

To take effect upon approval of the Executive Board Resolution that addresses pay increases for management employees anticipated to be effective April 1, 2013:

Adopt the Commonwealth of Pennsylvania's April 1, 2013 Management/Non-represented Pay Schedule, which is expected to be approved by the Executive Board and reflect a General Pay Increase of 2.25% to all pay ranges on the current July 1, 2012 Management/Non-represented Pay Schedule. This April 1, 2013 Management/Non-represented Pay Schedule will be used for all pay related transactions occurring on or after the April 1, 2013 implementation date (examples: promotions, demotions, appointments);

SERS management employees currently compensated on the July 1, 2012 Management/Non-represented Pay Schedule who are in an active pay status shall be placed onto the new April 1, 2013 Management/ Non-represented Pay Schedule at the pay scale group and pay scale level that was in effect on the day preceding the effective date of the General Pay Increase, which will result in an expected 2.25% salary increase for SERS management employees;

Grant SERS management employees whose salary exceeds the maximum of the employees' applicable pay scale group before and after the General Pay Increase, effective April 1, 2013, a General Pay Increase in the form of a one-time cash payment of an expected 2.25% of their annual salary in effect on the day preceding the General Pay Increase effective date, rounded to the nearest dollar;

Grant SERS management employees whose salary exceeds the maximum of the employees' applicable pay scale group before the General Pay Increase, but does not exceed the maximum after the General Pay Increase, an increase to the new maximum of the pay scale group and a one-time cash payment reduced by the amount of increase in the employees' annual rate of pay; and

Grant SERS management employees who are in an inactive pay status on April 1, 2013, the appropriate increases as described above, upon return to an active pay status.

SERS' implementation of the April 1, 2013 Management/Non-represented Pay Schedule for SERS management employees shall be consistent with the provisions of the Commonwealth's Executive Board Resolution addressing management/non-represented pay increases, as approved by the Commonwealth Executive Board.

ACTION/REQUEST:
Investments

To take effect in conjunction with and conditioned upon approval of the Executive Board Resolution that addresses pay increases for management employees in April 2013:

Adopt a new Investment Pay Schedule effective April 1, 2013, which shall reflect a General Pay Increase of 2.25% for all pay ranges on the current July 1, 2012 Investment Pay Schedule. This April 1, 2013 Investment Pay Schedule will be used for all pay related transactions occurring on or after April 1, 2013 (examples: promotions, demotions, appointments);

SERS' investment professionals, below the level of Chief Investment Officer, currently compensated on the July 1, 2012 Investment Pay Schedule who are in an active pay status will be placed onto the new April 1, 2013 Investment Pay Schedule at the pay scale group and pay scale level that was in effect on the day preceding the General Pay Increase effective date, which will result in an expected 2.25% salary increase for SERS investment professionals;

Grant SERS investment professionals, below the level of Chief Investment Officer, whose salary exceeds the maximum of the employees' applicable pay scale group before and after the General Pay Increase, effective April 1, 2013, a General Pay Increase in the form of a one-time cash payment of an expected 2.25% of their annual

salary in effect on the day preceding the General Pay Increase effective date, rounded to the nearest dollar;

Grant SERS investment professionals, below the level of Chief Investment Officer, whose salary exceeds the maximum of the employees' applicable pay scale group before the General Pay Increase, but does not exceed the maximum after the General Pay Increase, an increase to the new maximum of the pay scale group and a one-time cash payment reduced by the amount of increase in the employees' annual rate of pay; and

Grant SERS investment professionals, below the level of Chief Investment Officer, who are in an inactive pay status on April 1, 2013, the appropriate increases as described above, upon return to an active pay status.

ACTION/REQUEST:
Executive Director

To take effect upon approval by the Governor's Office:

Grant the Executive Director a General Pay Increase of 2.25% to be effective April 1, 2013.

Nicholas J. Maiale, Chairman

Robert A. Bittenbender, Member

Robert M. McCord, Member

ATTACHMENT C

EXECUTIVE SESSION AGENDA
Meeting: March 6, 2013

Executive Session

1. **Litigation Update**

2. **Investment Opportunity Update**

ATTACHMENT "D"

RESOLVED: That the Executive Director is hereby authorized, subject to satisfactory negotiation of reasonable terms in his judgment, to execute a Release and/or any other documents necessary to effectuate the settlement among parties to the litigation in *27001 Partnership v. BT Securities, Inc.*, CV04-07487-JLB (Circuit Court Alabama) (referred to as "Bruno's"), containing substantially the terms considered by the Board in executive session, with such changes as the Executive Director, with the advice of the SERS' Legal Office and in consultation with the Chairman, deems necessary or desirable and the Executive Director is authorized to comply with the terms of such Release and/or any other required documents.