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**Time and Attendance of Board Meeting Held      Wednesday, March 12, 2014**

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**Date:** 03/12/2014

**Call to Order:** 9:30 AM

**Call to Order By:** Honorable M. Joseph Rocks

**Next meeting of SERS Board:** 04/30/2014

**Time Recessed**

10:30 AM

**Time Resumed**

12:25 PM

**Adjournment**

12:37 PM

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**ATTENDEES:**

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**Board Member**

David R. Fillman  
Dan B. Frankel  
Robert W. Godshall  
Charles T. McIlhinney Jr.  
Oliver C. Mitchell Jr.  
M. Joseph Rocks

**Designee Appointed by Board Member**

Christopher Craig	for Treasurer Robert M. McCord
Charles Duncan	for Senator Vincent J. Hughes
Dan Ocko	for Representative Dan B. Frankel
Gail Paduch Reinard	for Senator Charles T. McIlhinney, Jr.
Ned Smith	for Representative Robert W. Godshall

**SERS Executive Staff**

Thomas Brier  
David E. Durbin  
Anthony Faiola  
Victoria Page-Wooten

**Consultant**

Amy Heyel	Great West Retirement Services
Anthony Johnson	RV Kuhns & Associates, Inc.
Michael McCabe	StepStone Group LLC
Brent Mowery	Hay Group, Inc.
Jim Rohlinger	Great West Retirement Services
Jim Voytko	RV Kuhns & Associates, Inc.
Michelle Williams	Great West Retirement Services

**SERS Administrative Staff**

Rose Agnew  
Karen Damiano-Stahler  
Dino Degennaro  
Patricia Dence  
Linda Engle  
Pamela Hile  
Anthony Hines  
William Hutcheson  
Meredith Jones  
David Kalman  
Barbara Kiral  
Cheryl Krchnar  
Lauren Lenfest  
Karen Lynn  
N. Joseph Marcucci  
Jeffrey McCormick  
Mark McGrath  
Jeffrey Meyer  
Kyle Reinfeld  
William Riegel  
Steven Rosenberry  
David Sedlak  
Joseph Torta  
William Truong  
Heather Tyler

**Visitor**

Jim Baker	Unite Here
Walter Cohen	Obermayer, Rebmann, Maxwell & Hippel
Max Cooper	Arch Street Partners
Sandy Leopold	PA Department of Treasury
Gretchen Wischart	Office of General Counsel

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## **Minutes of Board Meeting Held Wednesday, March 12, 2014**

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### ***ABSENCE OF CHAIRMAN***

Mr. Durbin noted that with the absence of Chairman Glenn E. Becker from the board meeting, Senator M. Joseph Rocks, the board member with the most service on the board in attendance today, will act as presiding officer in accordance with board resolution 2011-43.

### ***SENATOR ROCKS' ACKNOWLEDGEMENT OF SYMPATHY***

Senator Rocks thanked the board and staff for the expressions of sympathy he received upon the recent death of his mother.

### ***SERS QUARTERLY PERFORMANCE REPORT (AS OF DECEMBER 31, 2013)***

Messrs. Johnson and Voytko presented the report provided to the board (3/12/2014 Board Package, Investment Report, Tab 6). It was announced, the SERS fund earned a net-of-fees return of 4.5% for the fourth quarter of 2013, resulting in a return of 13.6% for the 2013 calendar year, which added more than \$3.3 billion to the fund.

### ***CAPITAL MARKET REPORT***

Messrs. Johnson and Voytko presented the report provided to the board (3/12/2014 board handouts).

### ***2014-2015 STRATEGIC INVESTMENT PLAN DISCUSSION***

Messrs. Johnson and Voytko presented the report provided to the board (3/12/2014 Board Package, Investment Report, Tab 5).

### ***2013 ACTUARIAL VALUATION - INVESTMENT RETURN ASSUMPTION DISCUSSION***

Messrs. Mowery and Voytko presented the report provided to the board (3/12/2014 board handouts). The Hay Group would return for the April 30, 2014 meeting to further present the key results of the 2013 Actuarial Valuation.

### ***MINUTES OF BOARD MEETINGS - JANUARY 22, 2014***

Senator Rocks noted that the minutes of the January 22, 2014 board meeting were provided to the board (3/12/2014 Board Package, Administrative Report, Tab 2).

**Motion:** 2014-06

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

RESOLVED: That the board approves the minutes of the January 22, 2014 board meeting.

### ***CHANGES IN PLAN NET POSITION FOR PERIOD ENDING - DECEMBER 31, 2013***

Senator Rocks noted that the Statement of Changes in Plan Net Position for the period ending December 31, 2013 was provided to the board (3/12/2014 Board Package, Administrative Report, Tab 3).

**Motion:** 2014-07

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 Statement of Changes in Plan Net Position for the period ending December 31, 2013.

### ***EXECUTIVE SESSION AND MEETING RECESS***

At 10:30 a.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT A). The meeting resumed at 12:25 p.m.

### ***LEGAL UPDATE***

Senator Rocks read the succeeding statement:

During its executive session, the board was briefed by Obermayer, Rebmann, Maxwell & Hippel, the firm retained to probe informal allegations related to the system's former chief investment officer. Walter Cohen relayed the current status of the ongoing investigation and affirmed that the work will be carried out over the next several months.

### ***PERSONNEL COMMITTEE RECOMMENDATION (EFFECTIVE MARCH 1, 2014)***

Senator Rocks and Mr. Durbin presented the following Personnel Committee recommendation.

**Motion:** 2014-08

By motion that was moved, seconded, and approved by board members, except Mr. Craig, on behalf of Treasurer McCord, who voted NO because an agency appropriation including the pay increase has not yet been adopted, it was

RESOLVED: That consistent with the pay increase approved by the Governor's Executive Board, Resolution #CN-14-001 on February 20, 2014 which was made effective March 1, 2014, the board hereby ratifies, approves and grants a 2.25 percent one-step longevity pay increment effective March 1, 2014, as further set forth in the March 12, 2014 SERS Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT B).

***PERSONNEL COMMITTEE RECOMMENDATION (EFFECTIVE APRIL, 2014)***

Senator Rocks and Mr. Durbin presented the following Personnel Committee recommendation.

**Motion:** 2014-09

By motion that was moved, seconded, and approved by board members, except Mr. Craig, on behalf of Treasurer McCord, who voted NO because an agency appropriation including the pay increase has not yet been adopted, it was

RESOLVED: That contingent on the prior approval of a Governor's Executive Board, Resolution granting pay increases for management employees anticipated to be effective on or about the first full pay in April, 2014, the board hereby approves and grants a general pay increase of 2.25 percent as set forth in the March 12, 2014 SERS Personnel Committee Recommendation presented to the board, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT C).

***APPOINTMENT OF ACTING CHIEF INVESTMENT OFFICER - THOMAS F. BRIER***

Senator Rocks noted the following motion was a result of discussion in Executive Session. Senator Rocks on behalf of the board congratulated Mr. Brier for a well earned appointment.

**Motion:** 2014-10

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

RESOLVED: That the board hereby appoints Thomas F. Brier to serve as Acting Chief Investment Officer during the period of vacancy in the office of Chief Investment Officer, with all the powers and duties of the Chief Investment Officer, such appointment to continue until such time as the board appoints a new Chief Investment Officer.

***AUDIT COMMITTEE CONTRACT EXTENSION - KPMG, LLP***

Mr. Durbin presented the recommendation to the Board.

**Motion:** 2014-11

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

RESOLVED: That upon recommendation of the Audit Committee, that the board hereby exercises its option to extend under the current Contract for Audit Services dated August 29, 2011 with KPMG LLP for audit and other related services, for an additional one-year period ending June 30, 2015, and otherwise under the same terms and conditions.

***DEFERRED COMPENSATION PROGRAM QUARTERLY REPORT - DECEMBER 31, 2013***

Mr. Faiola reported that the DCP Quarterly Report was provided to the board (3/12/2014 Board Package, Administrative Report, Tab 10). He noted the total assets available for benefits were \$2.7 billion and the program has over 50,500 participants.

***BOARD ADJUDICATION***

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

**ACCOUNT OF ALLAN H. HIELBRUNN**  
**DOCKET NO. 2008-14**  
**CLAIM OF ALLAN H. HEILBRUNN**

The State Employees' Retirement Board DENIED Claimant's request to have his retirement benefit recalculated due to the interest rate charged on his frozen present value debt.

**ADMINISTRATIVE UPDATE**

Mr. Durbin presented the report provided to the board (3/12/2014 Board Package, Administrative Report, Tab 8).

**LEGISLATIVE UPDATE**

Mr. Durbin presented the report provided to the board (3/12/2014 Board Package, Administrative Report, Tab 9).

**NEXT BOARD MEETING**

Senator Rocks reported that the next regular meeting of the SERS board is scheduled for April 30, 2014.

**MOTION TO ADJOURN**

**Motion:** 2014-12

By motion of Senator Rocks, the board unanimously agreed to adjourn the meeting at 12:37 p.m.

Respectfully submitted,



David E. Durbin  
Executive Director

# ATTACHMENT A

## EXECUTIVE SESSION AGENDA

Meeting: March 12, 2014

1. **Litigation Update**
2. **SERS Indemnification Policy**
3. **Investment Office Staffing Update**
4. **Fund Update**
5. **Preliminary Fund Performance and Risk Statistics**
6. **Legal Updates**
7. **Halliburton Litigation**
8. **Notational Ballot Cases**

**Account of Leona M. Caviston (Deceased)**  
**Docket No. 2011-31**  
**Claim of the Estate of Leona M. Caviston**  
**Jennifer Rought, Administratrix**

**Account of Barry J. Hemence (Deceased)**  
**Docket No. 2012-37**  
**Claim of Alexander J. Hemence**

**Account of Ann H. Lokuta**  
**Docket No. 2010-19**  
**Claim of Ann H. Lokuta**

**SERS PERSONNEL COMMITTEE RECOMMENDATION**

**DATE:** March 12, 2014

**RESOLVED**, that the SERS Personnel Committee, to remain consistent with pay increases approved by the Governor's Office, recommends that the Board approve the following compensation action for the State Employees' Retirement System.

**ISSUE:** March 1, 2014 One-Step Longevity Increment

**ACTION/REQUEST:** To maintain consistency with the pay increase approved by Governor's Management Executive Board, Resolution #CN-14-001, effective March 1, 2014:

- Grant SERS management employees who are compensated on the January 1, 2014 Management/Non-represented Pay Schedule, and who did not receive one or more of the three scheduled longevity step increases since the 2008 pay freeze but were otherwise eligible, a 2.25% longevity increase effective on March 1, 2014, consistent with Executive Board Resolution #CN-14-001, and;
- Grant SERS management employees who are compensated on the January 1, 2014 Management/Non-represented Pay Schedule, who are at or above the maximum salary for their pay scale group, and are otherwise eligible to receive longevity increments consistent with Executive Board Resolution #CN-14-001, the one-step longevity increment in the form of a one-time cash payment of 2.25% of their annual salary in effect on February 28, 2014, rounded to the nearest dollar, and;
- Grant SERS management employees who are in an inactive pay status on the effective date of the longevity increment, the appropriate increase as described above, upon return to an active pay status.

SERS' implementation of the March 1, 2014 management pay increase for SERS management employees shall be consistent with the provisions of the Governor's Executive Board Resolution #CN-14-001 that addresses management pay increases or one-time cash payments effective March 1, 2014.

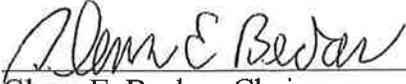
**ISSUE:**  
**Investments**

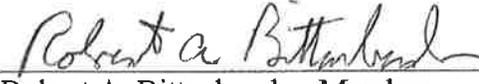
March 1, 2014, 2.25% hourly pay increase

**ACTION/REQUEST:**  
**Investments**

To take effect in conjunction with the Governor's Executive Board Resolution #CN-14-001 that addresses pay increases for management employees effective on March 1, 2014:

- Grant SERS investment professional employees, below the level of Chief Investment Officer, who are compensated on the January 1, 2014 IS Pay Schedule, and who did not receive one or more of the three scheduled longevity step increases since the 2008 pay freeze but were otherwise eligible, a 2.25% longevity increase effective on March 1, 2014, consistent with Executive Board Resolution #CN-14-001, and;
- Grant SERS investment professional employees, below the level of Chief Investment Officer, who are compensated on the January 1, 2014 IS Pay Schedule, who are at or above the maximum salary for their pay scale group, and are otherwise eligible to receive longevity increments, consistent with Executive Board Resolution #CN-14-001, the 2.25% longevity increment in the form of a one-time cash payment of 2.25% of their annual salary in effect on February 28, 2014, rounded to the nearest dollar, and;
- Grant SERS investment professional employees below the level of Chief Investment Officer, who are in an inactive pay status on the effective date of the longevity increment, the appropriate increase as described above, upon return to an active pay status, consistent with Executive Board Resolution #CN-14-001.

 3/10/14  
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Glenn E. Becker, Chairman

  
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Robert A. Bittenbender, Member

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Robert M. McCord, Member

## SERS PERSONNEL COMMITTEE RECOMMENDATION

**DATE:** March 12, 2014

**RESOLVED**, that the SERS Personnel Committee, to remain consistent with general pay increases approved by the Governor's Office, recommends that the Board approve the following compensation action for the State Employees' Retirement System.

**ISSUE:** April, 2014 General Pay Increase (GPI)

**ACTION/REQUEST:** To take effect upon approval of the Governor's Executive Board  
**Management** Resolution that addresses pay increases for management employees anticipated to be effective the first full pay in April 2014:

- Adopt the Commonwealth of Pennsylvania's April 2014 Management/Non-represented Pay Schedule, which is expected to be approved by the Governor's Executive Board and reflects a General Pay Increase of 2.25% to all pay ranges on the current January 1, 2014 Management/Non-represented Pay Schedule. This April 2014 Management/Non-represented Pay Schedule will be used for all pay related transactions occurring on or after the first full pay in April 2014 implementation date (examples: promotions, demotions, appointments);
- SERS management employees currently compensated on the January 1, 2014 Management/Non-represented Pay Schedule who are in an active pay status shall be placed onto the new April, 2014 Management/Non-represented Pay Schedule at the pay scale group and pay scale level that is 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 the first full pay in April, 2014, 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 the effective date of this pay increase, the appropriate increases as described above, upon return to an active pay status.

SERS' implementation of the April, 2014 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 effective the first full pay in April, 2014, as approved by the Governor's Executive Board.

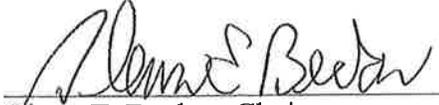
**ACTION/REQUEST:** To take effect in conjunction with and conditioned upon approval of  
**Investments** the Executive Board Resolution that addresses pay increases expected to be approved for management employees to be effective the first full pay in April, 2014:

- Adopt a new Investment Pay Schedule (IS Pay Schedule) effective the first full pay in April 2014, which shall reflect a General Pay Increase of 2.25% for all pay ranges on the January 1, 2014 Investment Pay Schedule. This April, 2014 Investment Pay Schedule will be used for all pay related transactions occurring on or after the first full pay in April, 2014 (examples: promotions, demotions, appointments);
- SERS' investment professionals, below the level of Chief Investment Officer, compensated on the January 1, 2014 Investment Pay Schedule who are in an active pay status will be placed onto the new April, 2014 Investment Pay Schedule at the pay scale group and pay scale level that is 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 the first full pay in April, 2014,

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 the effective date of the general pay increase, the appropriate increases as described above, upon return to an active pay status.

SERS' implementation of the April 2014 Investment Pay Schedule for SERS investment professional employees shall be consistent with the provisions of the Commonwealth's Executive Board Resolution addressing management/non-represented pay increases effective the first full pay in April 2014, as approved by the Governor's Executive Board.

 3/10/14  
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Glenn E. Becker, Chairman

  
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Robert A. Bittenbender, Member

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Robert M. McCord, Member