

MINUTES of Regular SERS Board Meeting - Wednesday, July 22, 2015

CALLED TO ORDER: 9:30 a.m. by Chairman Glenn E. Becker

ATTENDEES:

Members and Designees

Glenn E. Becker – Chairman
Stephen S. Aichele
David R. Fillman
Dan B. Frankel
Robert W. Godshall
Charles T. McIlhinney, Jr.
Timothy A. Reese
M. Joseph Rocks
Christopher Craig – Designee for Treasurer Timothy A. Reese
Charles Duncan - Designee for Senator Vincent J. Hughes
Bernie Gallagher - Designee for Representative Dan B. Frankel
Dan Ocko - Designee for Representative Dan B. Frankel
Monica Riddle – Designee for Senator Charles T. McIlhinney, Jr.
Ned Smith - Designee for Representative Robert W. Godshall

Consultants

Mike Elio, StepStone Group LLC
Kathlika Fontes, StepStone Group LLC
Anthony Johnson, RVK, Inc.
Rob Kochis, The Townsend Group
Kevin Rivchun, The Townsend Group
Jim Voytko, RVK, Inc.

Executive Staff

Thomas Brier
David E. Durbin
Anthony Faiola
Christopher Houston

Staff

Rose Agnew
Karen Damiano-Stahler
Dino Degennaro
Patricia Dence
Linda Engle
David Felix
Brandon Halm
Pamela Hile
William Hutcheson

Meredith Jones
Barbara Kiral
Cheryl Krchnar
Lauren Lenfest
Karen Lynn
Jeffrey McCormick
Mark McGrath
Jeffrey Meyer
James Nolan
Jay Pagni
William Riegel
Steven Rosenberry
David Sedlak
David Tarsi
Joseph Torta
William Truong

Visitors

Philip Falivene, BNY Mellon
Sandy Leopold, PA Department of Treasury

Presenters

Jose Feliciano, Clearlake Capital Partners IV, L.P.
Kevin Garland, Sterling Group Partners IV, L.P.
Camilo Horvilleur, H.I.G. Brazil and Latin America Fund, L.P.
Brad Landes, ADV Opportunities Fund I, L.P.
Jordan Peer, H.I.G. Brazil and Latin America Fund, L.P.
Michael Romano, Lightspeed India Partners, LLC
Bejul Somaia, Lightspeed India Partners, LLC

Minutes of Board Meeting Held Wednesday, July 22, 2015

INTRODUCTION OF NEW BOARD MEMBER TREASURER TIMOTHY A. REESE

Chairman Becker introduced and welcomed Treasurer Timothy A. Reese to the board. Treasurer Reese attended his first board meeting.

CAPITAL MARKET REPORT

Messrs. Johnson and Voytko presented the report provided to the board (7/22/2015 board handouts).

ASSET LIABILITY STUDY PRELIMINARY DISCUSSION

Messrs. Johnson and Voytko presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 9).

2014-2015 STRATEGIC INVESTMENT PLAN ACCOMPLISHMENTS

Mr. Brier presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 3).

SERS GLOBAL PUBLIC EQUITY - U.S. LARGE CAP EQUITY PORTFOLIO DISCUSSION

Messrs. Johnson and Voytko presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 4).

Motion: 2015-32

By motion that was moved, seconded, and approved by board members, except Chairman Becker who voted no, it was

RESOLVED: That the board converts Cornerstone Capital Management in the U.S. large cap equity portfolio into a passively-managed mandate and transition the assets to the Mellon Capital Russell 1000 Growth Index portfolio as soon as practicable. When the conversion process has been completed, the relationship with Cornerstone Capital Management will be concluded. A board approved transition manager may be used to assist in facilitating this transition.

ALTERNATIVE INVESTMENTS INTERVIEWS

ADV Opportunities Fund I, L.P.

Clearlake Capital Partners IV, L.P.

H.I.G. Brazil and Latin America Fund, L.P.

Lightspeed India Partners, LLC

Sterling Group Partners IV, L.P.

Mses. Lenfest and Fontes and Mr. Elio presented the report provided to the board.

ADV Opportunities Fund I, L.P.

Mr. Landes presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 10).

Motion: 2015-33

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

RESOLVED: That the board commits up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to ADV Opportunities Fund I, L.P., as an investment within the Alternative Investments 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.

Clearlake Capital Partners IV, L.P.

Mr. Feliciano presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 11).

Motion: 2015-34

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

RESOLVED: That the board commits up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Clearlake Capital Partners IV, L.P., as an investment within the Alternative Investments 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.

H.I.G. Brazil and Latin America Fund, L.P.

Ms. Peer and Mr. Horvilleur presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 12).

Motion: 2015-35

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

RESOLVED: That the board commits up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to H.I.G. Brazil and Latin America Fund, L.P., as an investment within the Alternative Investments 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. Staff is to provide a report to the board on the final negotiated management fees.

Lightspeed India Partners, LLC

Messrs. Somaia and Romano presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 13).

Motion: 2015-36

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

RESOLVED: That the board commits up to \$15 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Lightspeed India Partners, LLC, as an investment within the Alternative Investments 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. Staff is to provide a report to the board on the final negotiated management fees.

Sterling Group Partners IV, L.P.

Mr. Garland presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tab 14).

Motion: 2015-37

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

RESOLVED: That the board commits up to \$50 million, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, to Sterling Group Partners IV, L.P., as an investment within the Alternative Investments 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.

ALTERNATIVE INVESTMENTS RECOMMENDATIONS FOR FUTURE INTERVIEWS

Audax Private Equity Fund V, L.P.

Blackstone Capital Partners VII, L.P.

RRJ Capital Master Fund III, L.P.

Ridgemont Equity Partners II, L.P.

Mses. Lenfest and Fontes and Messrs. Felix and Halm presented the report provided to the board (7/22/2015 Board Package, Investment Report, Tabs 5, 6, 7 and 8) identifying Audax Private Equity Fund V, L.P., Blackstone Capital Partners VII, L.P., RRJ Capital Master Fund III, L.P. and Ridgemont Equity Partners II, L.P. as potential investment opportunities for SERS.

EXECUTIVE SESSION AND MEETING RECESS

At 12:55 p.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT A). The public meeting resumed at 1:45 p.m.

MINUTES OF BOARD MEETING - JUNE 10, 2015

Chairman Becker noted that the minutes of the June 10, 2015 board meeting were provided to the board (7/22/2015 Board Package, Administrative Report, Tab 2).

Motion: 2015-38

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

RESOLVED: That the board approves the minutes of the June 10, 2015 board meeting.

CHANGES IN FIDUCIARY NET POSITION FOR PERIODS ENDING - APRIL 30 AND MAY 31, 2015

Chairman Becker noted that the Statement of Changes in Fiduciary Net Position for the periods ending April 30 and May 31, 2015 was provided to the board (7/22/2015 Board Package, Administrative Report, Tab 3).

Motion: 2015-39

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

RESOLVED: That the board accepts the State Employees' Retirement System's Statement of Changes in Fiduciary Net Position for the periods ending April 30 and May 31, 2015.

PERSONNEL COMMITTEE RECOMMENDATION - PERFORMANCE EVALUATIONS

Chairman Becker noted that the following resolution is a result of discussion in executive session.

Motion: 2015-40

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

RESOLVED: That the board adopts the attached resolution (ATTACHMENT B) to approve the adoption of the Performance Review Process to rate the performance of the SERS Executive Director and the SERS Chief Investment Officer.

CONTRACT AMENDMENT - RVK, INC. FOR DEFERRED COMPENSATION PROGRAM INVESTMENT CONSULTANT SERVICES

Mr. Faiola presented the report that was provided to the board (7/22/2015 Board Package, Administrative Report, Tab 11).

Motion: 2015-41

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

RESOLVED: That the board approves an amendment to the Agreement for General Investment Consultant between SERS and R.V. Kuhns & Associates, Inc., (RVK) dated October 10, 2011, for RVK to serve as the general investment consultant for the Commonwealth's Deferred Compensation Program for \$125,000 annually and to provide expanded reporting services, if necessary, for an amount not to exceed \$30,000, subject to successful completion of contract negotiations.

BOARD ADJUDICATIONS

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

Account of Thomas R. Czarnecki

Docket No. 2007-08

Claim of Thomas R. Czarnecki

The State Employees' Retirement Board DENIED Claimant's request that SERS include his service as an "on call" physician at the Harrisburg State Hospital in the calculation of his retirement benefit. Board members Aichele, Fillman and Craig dissented and did not agree with the Board adopting the Hearing Officer's Opinion.

Account of Wayne Jones

Docket No. 2013-15

Claim of Wayne Jones

The State Employees' Retirement Board AFFIRMED SERS' decision to discontinue Claimant's temporary disability retirement benefits. It further ordered that SERS' Motion to Dismiss was GRANTED and Claimant's appeal is DISMISSED WITH PREJUDICE.

BOARD DISMISSALS

Mr. Durbin presented the report regarding uncontested matters that Orders were issued dismissing the following administrative appeals, as provided to the board (7/22/2015 Board Package, Administrative Report, Tab 7).

Account of Charlene E. Forney

Docket No. 2015-06

Claim of Charlene E. Forney

Account of Octavio E. Acevedo

Docket No. 2014-11

Claim of Octavio E. Acevedo

ADMINISTRATIVE UPDATE

Mr. Durbin presented the report that was provided to the board (7/22/2015 Board Package, Administrative Report, Tab 8).

LEGISLATIVE UPDATE

Mr. Durbin presented the report that was provided to the board (7/22/2015 Board Package, Administrative Report, Tab 9).

AUDIT COMMITTEE MINUTES - JUNE 10, 2015

Mr. Durbin presented the report that was provided to the board (7/22/2015 Board Package, Administrative Report, Tab 10).

NEXT BOARD MEETING - SEPTEMBER 16, 2015

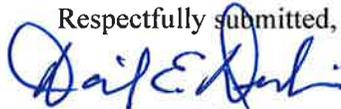
Chairman Becker noted that the next regular meeting of the SERS board is scheduled for September 16, 2015.

MOTION TO ADJOURN

Motion: 2015-42

By motion of Chairman Becker, the board unanimously agreed to adjourn the meeting at 2:00 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

EXECUTIVE SESSION AGENDA

Meeting: July 22, 2015

Executive Session

1. Notational Ballot

Account of Kenneth N. Miller

Docket No. 2013-08

Claim of Kenneth N. Miller

2. Fund Update

3. Preliminary Fund Performance and Risk Statistics

4. Personnel Committee Discussion

5. Waiver of Potential Conflict of Interest

SERS PERSONNEL COMMITTEE RECOMMENDATION

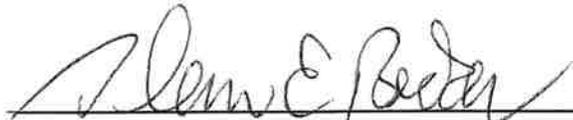
DATE: July 22, 2015

RESOLVED, that the SERS Personnel Committee recommends that the Board approve the attached *Performance Review Process* for SERS' Executive Director and SERS' Chief Investment Officer.

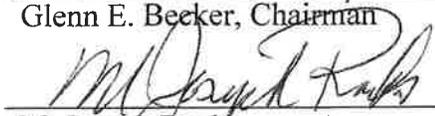
ISSUE: Formalized process to review and rate the performance of SERS' Executive Director and SERS' Chief Investment Officer.

ACTION/REQUEST: To take effect upon Board approval:

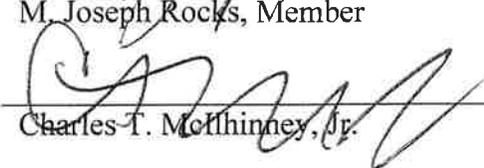
Implement the *Performance Review Process*, attached, which formalizes the process by which the SERS Board can establish performance standards and conduct the annual performance review for both Executive Director and Chief Investment Officer.



Glenn E. Becker, Chairman



M. Joseph Rocks, Member



Charles T. McElhinney, Jr.