

MINUTES of Regular SERS Board Meeting - Wednesday, October 28, 2015

CALLED TO ORDER: 9:30 a.m. by Chairman David R. Fillman

ATTENDEES:

Members and Designees

David R. Fillman – Chairman
Stephen S. Aichele
Glenn E. Becker
Dan B. Frankel
Robert W. Godshall
Charles T. McIlhinney, Jr.
T. Terrance Reese
Timothy A. Reese
M. Joseph Rocks
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

Christian Eicher, RVK, Inc.
Mike Elio, StepStone Group LLC
Kathlika Fontes, StepStone Group LLC
Anthony Johnson, RVK, Inc.
Rob Kochis, The Townsend Group
Brent Mowery, Hay Group, Inc.
Robert Palmeri, RVK, Inc.
Jim Rohlinger, Empower Retirement
Ryan Skubic, The Townsend Group
Jim Voytko, RVK, Inc.

Executive Staff

Thomas Brier
David E. Durbin
Anthony Faiola
Christopher Houston

Staff

Rose Agnew
Lena Bickle
Karen Damiano-Stahler
Patricia Dence
Linda Engle

David Felix
Brandon Halm
Pamela Hile
William Hutcheson
Meredith Jones
Barbara Kiral
Cheryl Krchnar
Lauren Lenfest
Karen Lynn
N. Joseph Marcucci
Jeffrey McCormick
Mark McGrath
Sara McSurdy
Jeffrey Meyer
James Nolan
Jay Pagni
William Riegel
Steven Rosenberry
David Sedlak
David Tarsi
William Truong

Visitors

Chris Ade, Lord, Abbett & Co. LLC
Braynard Brown, Rockefeller & Co., Inc.
Steve Leming, Penn Capital Management
Sandy Leopold, PA Department of Treasury
Benjamin Loveman, Rockefeller & Co., Inc.
Nicholas Maiale

Presenters

None

MINUTES of the Regular SERS Board Meeting Wednesday, October 28, 2015

A. APPOINTMENT OF CHIEF COUNSEL, CHRISTOPHER HOUSTON

Chairman Fillman congratulated Mr. Christopher Houston who was named SERS Chief Counsel on September 24. Mr. Houston had been Acting Chief Counsel since March, 2015.

B. THREE CHAIRMEN IN ATTENDANCE

Chairman Fillman acknowledged that three gentlemen who have held the SERS Chairman position were all present at the meeting. Messrs. Nicholas Maiale and Glenn Becker were also in attendance.

C. DISCLOSURE OF RECUSAL

Board member T. Terrance Reese disclosed his relationship with Audax and he would have recused himself if he had been present at the September 16, 2015 meeting when the vote was taken, and that he will recuse himself from any votes involving Audax that may come before the board in the future.

D. ATTENDANCE AT INVITATION OF TREASURER'S OFFICE

Mr. Brier noted that some members of the Investment Office staff and he attended a meeting with the National Association of Investment Companies, PSERS staff and Treasury staff. He thanked Treasurer Reese for hosting the meeting.

E. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

Presentation: 1. Capital Market Report

Messrs. Johnson, Voytko and Eicher presented the report provided to the board (10/28/2015 board handouts).

Presentation: 2. Asset Allocation Discussion

Messrs. Johnson, Voytko and Eicher presented the report provided to the board (10/28/2015 Board Package, Investment Report, Tab 3).

Presentation: 3. DRAFT 2016-2017 Strategic Investment Plan

Messrs. Kochis, Voytko, Eicher and Elio presented the report provided to the board (10/28/2015 Board Package, Investment Report, Tab 4).

Presentation: 4. Emerging Manager Program Discussion

Messrs. Johnson, Voytko and Eicher presented the report provided to the board (10/28/2015 Board Package, Investment Report, Tab 5).

F. DEFERRED COMPENSATION PROGRAM (DCP) DISCUSSION

Presentation: 1. Education Session on Deferred Compensation Program (DCP)

Ms. Engle and Messrs. Palmeri, Sedlak and Nolan presented the report provided to the board (10/28/2015 Board Package, Administrative Report, Tab 13).

Action: 1. Draft Statement of Investment Policy for DCP

Ms. Engle and Messrs. Palmeri, Sedlak and Nolan presented the report provided to the board (10/28/2015 Board Package, Administrative Report, Tab 14).

MOTION: 2015-55

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

RESOLVED: That the board adopts the attached resolution to approve the Commonwealth of Pennsylvania State Employees' Retirement Board Deferred Compensation Statement of Investment Policy (ATTACHMENT A).

Presentation: 2. DCP Committee Minutes – 10/15/2015

Mr. Faiola provided the 10/15/2015 DCP Committee meeting minutes (10/28/2015 Board Package, Administrative Report, Tab 11).

Presentation: 3. New Committee Member Appointment

Chairman Fillman noted that board member Treasurer Reese will be added to the DCP Committee as he agreed to serve.

G. EXECUTIVE SESSION**Presentation: 1. AGENDA**

At 11:40 a.m., the board recessed and entered executive session to receive legal advice on executive session agenda items, as attached (ATTACHMENT B).

H. LUNCH BREAK**I. PUBLIC MEETING RESUMES**

The public meeting resumed at 2:00 p.m.

J. STANDARD MOTIONS**Action: 1. Minutes of Board Meeting – September 16, 2015**

Chairman Fillman presented the report provided to the board (10/28/2015 Board Package, Administrative Report, Tab 2).

MOTION: 2015-56

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

RESOLVED: That the board approves the minutes of the September 16, 2015 board meeting.

Action: 2. Statement of Changes in Fiduciary Net Position for Period Ending - August 31, 2015

Chairman Fillman presented the report provided to the board (10/28/2015 Board Package, Administrative Report, Tab 3).

MOTION: 2015-57

By motion that was moved, seconded, and 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 period ending August 31, 2015.

K. REPORT FROM EXECUTIVE DIRECTOR

Presentation: 1. Audit Committee Minutes – 9/16/2015

Mr. Durbin noted that the report was provided to the board (10/28/2015 Board Package, Administrative Report, Tab 10).

Presentation: 2. Board Adjudication

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

Account of Babatola Fadojutimi**Docket No. 2014-07****Claim of Babatola Fadojutimi**

The State Employees' Retirement Board **DENIED** Claimant's appeal of his untimely request to elect Class A-4 membership.

Presentation: 3. Board Dismissal

Mr. Durbin presented the report regarding uncontested matters that an Order was issued dismissing the following administrative appeal, as provided to the board (10/28/2015 Board Package, Administrative Report, Tab 7).

Account of Tracy S. Fox**Docket No. 2015-14****Claim of Tracy S. Fox**

Presentation: 4. Administrative Update

Mr. Durbin presented the report that was provided to the board (10/28/2015 Board Package, Administrative Report, Tab 8).

Presentation: 5. Legislative Update

Mr. Durbin presented the report that was provided to the board (10/28/2015 Board Package, Administrative Report, Tab 9). He noted that HB 1332, the Tax Qualification bill, has passed unanimously in the House and was forwarded to the Senate. He thanked Representatives Godshall and Frankel for their assistance on this bill.

Presentation: 6. FINAL 2016 Board Meeting Dates

Mr. Durbin referenced the schedule that was provided to the board (10/28/2015 Board Package, Administrative Report, Tab 12). These board meeting dates are final for 2016: January 27, March 9, April 27, June 8, July 27, September 14, October 26 and December 7.

Presentation: 7. SERS Newsletter

Mr. Durbin noted a preview of the fall 2015 SERS newsletter has been placed at their seats. (10/28/2015 board handouts).

L. NEXT BOARD MEETING – DECEMBER 9, 2015

Chairman Fillman noted that the next regular meeting of the SERS board is scheduled for December 9, 2015.

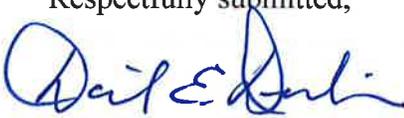
M. MOTION TO ADJOURN

Action: 1. Adjournment

MOTION: 2015-58

By motion of Chairman Fillman, the board unanimously agreed to adjourn the meeting at 2:05 p.m.

Respectfully submitted,



David E. Durbin
Executive Director

ATTACHMENT A

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
RESOLUTION 2015-55

WHEREAS, the Commonwealth of Pennsylvania is the sponsor of the Deferred Compensation Program that was established for Commonwealth of Pennsylvania officers and employees through Act 81 on November 6, 1987 ("Act"); and

WHEREAS, the Act authorizes the State Employees' Retirement Board ("Board") to establish and administer the Program, as an eligible deferred compensation plan in accordance with the Internal Revenue Code (IRC) Section 457 (b) of 1986, as amended; and

WHEREAS, on June 6, 2001, the Board approved the Commonwealth of Pennsylvania State Employees' Retirement System Deferred Compensation Statement of Investment Policy ("2001 SIP"); and

WHEREAS, SERS' Office of Finance and Administration, Investment Office, and Legal Office and the investment consultant, RVK, presented to the Deferred Compensation Committee for its consideration amendments to the 2001 SIP; and

WHEREAS, the Deferred Compensation Committee recommends that the Board approve the amendments to the 2001 SIP; and

WHEREFORE, it is hereby **RESOLVED**, that the Board approves the Commonwealth of Pennsylvania State Employees' Retirement Board Deferred Compensation Statement of Investment Policy in the form substantially similar to the one submitted to the Board, a copy of which shall be filed with the minutes of the meeting.



pennsylvania

STATE EMPLOYEES' RETIREMENT SYSTEM

Commonwealth of Pennsylvania

State Employees' Retirement Board

Deferred Compensation Program Statement of Investment Policy

Adopted by the SERS Board: October 28, 2015

Amends Adoption of: June 6, 2001

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Commonwealth of Pennsylvania
State Employees' Retirement System
Deferred Compensation Program Statement of Investment Policy

1. Introduction

The Commonwealth of Pennsylvania is the sponsor of the Deferred Compensation Program (“DCP” or “Program”) that was established for Commonwealth of Pennsylvania officers and employees through Act 81 on November 6, 1987. The Act authorizes the State Employees' Retirement Board (“Board”) to establish and administer the Program as an eligible deferred compensation plan in accordance with the Internal Revenue Code (IRC) Section 457 (b) of 1986, as amended. The Program is a voluntary participant-directed defined contribution plan and is established as a trust for the exclusive benefit of participants and their beneficiaries. Program participants are responsible for all fees of the Program.

The Program’s participants and beneficiaries are expected to have different investment objectives, time horizons, and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that can reasonably span the risk/return spectrum. Participants select the funds and asset mix options offered in the Program and bear the risk of the investment results of their selection(s).

2. Purpose of Statement of Investment Policy

The purpose of this Policy is to formalize the Board’s investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The policy outlines the following components:

- Define the purpose of the Program;
- Define the roles of those responsible for managing the Program;
- Define investment options and asset mix options for the Program; and
- Establish investment funds performance standards and the objectives, standards and processes for monitoring and evaluating investment options

3. Purpose and Objectives of Deferred Compensation Program

The purpose of the Program is to provide eligible employees with a convenient way to save on a regular and long-term basis and thereby help supplement their retirement. The objective of the Program is to allow eligible employees to defer a portion of their salary into the Program in order to supplement their income during their retirement years, promote and maximize capital accumulation by the Program participants, and enable members to meet personal retirement investment goals. It is the Board’s intent to make available an array of low-cost investment options that satisfy the following criteria:

- Each fund or asset mix option is diversified within itself;
- Each fund or asset mix option has different risk and return and/or style characteristics; and
- Each fund or asset mix option, in combination with the other fund or asset mix options, contributes to the diversification and risk return opportunities of a participant's Program account portfolio.

4. Roles & Responsibilities

The Board has delegated certain functions to Investment Staff and Administrative Staff, as well as to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty. The Board relies heavily on Investment Staff, Administrative Staff, and external contractors in order to administer the Program and carry out the Board's responsibilities. Various responsibilities are allocated among the Board, Investment Staff, Administrative Staff, Legal Staff, Investment Consultant, Investment Managers, Custodian, and Third Party Administrator, as defined below. The responsibilities of the Program's service providers are governed by the applicable services agreements as well as this Deferred Compensation Program Statement of Investment Policy.

A. Board

The Board is the Program administrator, trustee and the named fiduciary responsible for designating the DCP investment options from which a Participant can build a diversified portfolio. The Board will act in the sole interest of Program participants and their beneficiaries for the exclusive purpose of providing benefits to the participants and their beneficiaries, and defraying the reasonable expenses of administering the Program. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under the Internal Revenue Code and other governing rules and regulations that relate to the administration and investment of the assets under the Program. At all times any final decisions/actions with regard to the DCP and the results of those actions is the sole province of the Board.

The Board performs the following in conjunction with Program and statutory provisions:

- Comply with all applicable rulings, regulations, and legislation;
- Act in accordance with the provisions of all legal documents governing the DCP;
- Approve and maintain all legal documents governing the DCP, including the Plan document, Trust Declaration and DCP Statement of Investment Policy;
- Review and approve Program structure and design;
- Review and approve the hiring and termination of contractors to assist in managing the Program based on recommendations from Administrative Staff and, if applicable, the Investment Consultant;
- Review and approve investment fund selection and investment asset mix options based on recommendations from Investment Staff and the Investment Consultant;
- Review and approve hiring and termination of investment managers based on recommendations from Investment Staff and the Investment Consultant;

- Review the Program’s audited financial statements;
- Review and evaluate Program’s investment performance and costs based on recommendations from Investment Staff and the Investment Consultant;
- Oversee and monitor Investment Staff and Administrative Staff responsible for the oversight and management of the Program; and
- Approve the engagement and termination of industry experts, including but not limited to, an independent Investment Consultant

B. SERS Staff

The Board has delegated both the Administrative Staff and the Investment Staff of SERS with certain roles and responsibilities. The Administrative Staff includes the Executive Director and Office of Finance and Administration. The Investment Staff includes the Chief Investment Officer and SERS’ Investment Office. The Legal Staff includes SERS’ Chief Counsel and any attorney appointed by SERS’ Chief Counsel.

1. Administrative Staff

The Administrative Staff ensures the proper and efficient administration of the Program. The Administrative Staff is specifically responsible for the oversight of the Program’s Third-Party Administrator. These administration functions include, but are not limited to, the enrollment of employees as participants, the maintenance of accounts and other records, payment of Program approved fees, interpretation of the provisions (e.g. emergency withdrawals, allocation of benefits, etc.) of the Program, the preparation of periodic reports to participants, alternate payees, and beneficiaries and the distribution of deferred compensation to participants, alternate payees and beneficiaries. The Administrative Staff is responsible for coordinating the hiring of a Third-Party Administrator to assist in the administration of the Program subject to Board’s approval.

2. Investment Staff

The Investment Staff is charged with the coordination of all investment activities and matters within the Program. The Investment Staff is responsible to the Board to review, analyze, develop, recommend, and monitor the Program’s investment funds, investment asset mix options, and securities lending activities for the Board’s consideration and approval. To ensure that the investment goals and objectives of the Program are being fulfilled, the Investment Staff also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons. The Investment Staff is also responsible for updating and maintaining the Deferred Compensation Statement of Investment Policy and coordinating the hiring of an external Program investment consultant to assist in investment matters of the Program, subject to the Board’s approval.

3. Legal Staff

The Legal Staff ensures the lawful administration of the Program. The Legal Staff is responsible for negotiating all underlying contracts within the Program as well as confirming the legalities of program designs and implementations within the Program. The Legal Staff is responsible for answering any legal questions that arise from the Administrative Staff and the Investment Staff as well as reviewing the actions and recommendations of the Investment Managers and the Investment Consultant. The Legal Staff will consult with the Board at the Board's request.

C. Investment Managers

Each investment manager will have discretion over the management of a specific mandate as designated by the Board. The specific terms of each investment management agreement (including but not limited to separate account, commingled investment fund, and commingled investment trust) will include an Investment Strategy Statement which establishes and governs the investment guidelines and responsibilities of the investment manager. Each investment manager must select investments with the same care, skill, prudence and due diligence that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules and regulations.

D. Investment Consultant

The Board shall retain an independent investment consultant to assist in executing any and all provisions of this Deferred Compensation Program Statement of Investment Policy. While the investment consultant will act in a non-discretionary capacity, the investment consultant is to be considered a fiduciary, as defined in section 3(21) of ERISA.

The investment consultant will provide investment advice and recommendations concerning the Program structure, administration, and investment management of the Program assets consistent with the investment objectives, policies, guidelines and constraints as established in this Deferred Compensation Program Statement of Investment Policy. Specific responsibilities of the investment consultant will be established and maintained under an investment consulting agreement, though will generally include reviewing policies, investment funds, investment asset mix options, investment manager due diligence, benchmarks, ongoing due diligence, compliance monitoring as detailed in the individual management agreements, and evaluating the cost of the Program.

E. Custodian and Sub-custodian

The Custodian and Sub-custodian are expected to fulfill all the regular fiduciary duties of a custodian, pursuant to the terms of the applicable trust and custodial agreements and as required by other pertinent state and federal laws. In general, these duties include the following:

- Receive contributions and deferrals from the State and pay all benefits, as directed by the Board or its designee(s);

- Protect trust assets, ensure timely settlement of security transactions, credit all income and principal realizable by investment assets of the trust in a timely and accurate fashion, sweep excess cash from custodied Investment Manager accounts into a suitable cash management vehicle each day, and calculate the net asset value for unitized accounts or report stated net asset values for non-unitized accounts in a timely and accurate fashion;
- Report periodically to the Board or its agents and designees on all monies received or paid on behalf of the Trust and on all securities under the custody contract including all unsettled securities transactions;
- Deliver Trust assets to a successor custodian or as otherwise directed with proper instructions within a reasonable time period of termination;
- Promptly distribute all proxy materials or other corporate actions received by the Trustee/Custodian;
- Coordinate asset transfers as requested by the Board or its designee(s); and
- Provide fund accounting for investment options. Services include, but are not limited to, calculating or reporting net asset value (NAV) and posting and settling securities trades.

F. Third-Party Administrator

The Third-Party Administrator is expected to fulfill all of the contracted responsibilities including, but not limited to, maintaining individual participant investment account records and providing Participants and beneficiaries with sufficient information to manage their investments. The Third-Party Administrator is also expected to comply with the reporting requirements of the Plan Document, the requirements established and maintained under the Third-Party Administrator contract, and all pertinent federal, state, and local rules and regulations. Services may also include, but are not limited to, the provision of:

- Enrollment services in the Program for employees;
- Educational materials and programs explaining investment options in the Program;
- Advice tools and products;
- Tools to facilitate the effective exchanges and transfers to, from, and among investment options offered within the Program;
- Periodic individual statements and distributions;
- Master recordkeeping responsibilities;
- Reports in support of compliance and regulatory obligations;
- An effective and automated interface with the Custodian/Sub-custodian to initiate net trades on investment options and rebalancing transactions as directed;
- Reports and information reconciliations to the Board or its designees, and the Custodian/Sub-custodian; and
- Rebalancing Profile Funds on a quarterly basis.

5. Investment Options

To comply with the objectives of this Deferred Compensation Program Statement of Investment Policy, the Board expects the Program will offer at least one investment option which falls into each of the

following asset classes:

- Processing Account/Cash/Cash Equivalents;
- Domestic Fixed Income;
- Domestic Large-cap Equity; and
- International Large-cap Equity.

All money directed into investment options is done at the direction of each Participant. Absent any direction from the Participant, money will be directed as per the Trust Declaration. The Board may establish additional investment options at its own discretion to serve the needs of the Participants. The range of investment options will span the risk/return spectrum to allow participants to diversify their investments. Further, the Program's investment options will allow participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons, and tolerance for risk. The investment options selected should be able to be implemented at a reasonable cost to the Program and/or participants in terms of management, custody, and other costs, and have investment characteristics that can be successfully communicated to participants.

The Board will select available investment options and investment managers and add or remove such options or investment managers at any time in its discretion. The screening process for the initial selection of any investment vehicle or investment manager will consider attributes relevant to the specific asset class and search objective, as developed by the Board with the assistance of the Investment Staff.

The Investment Options currently offered in the Program are shown in **Exhibit I**.

6. Objectives, Standards and Processes for Evaluating and Monitoring Investment Options and Investment Managers

A. Investment Manager Evaluations and Selection

Pursuant to its duties as defined by Section IV.B.2 (Investment Staff) the SERS Investment Staff shall, as directed by the Board and in consultation with the Investment Consultant, search for and hire investment managers to carry out investment options. The screening process for the initial selection of any investment vehicle or investment manager will consider attributes relevant to the specific search objective in question. Investment Staff and the Investment Consultant will consider but will not be limited to reviewing the manager's strategy, quality and experience of professional staff, ownership structure, investor level breakdown, assets under management by firm and product, fees and a comparison of performance history among peers and against appropriate benchmarks. Based on this analysis, Investment Staff and the Investment Consultant will determine which investment managers would be suitable candidates for further review.

B. Investment Performance Reviews

Investment Staff will review investment options and investment manager performance, portfolio positioning, and transactions at least annually. Investment Staff will use the Deferred Compensation Program Investment Manager Monitoring Policy, attached as **Exhibit II**, as may be applicable to the Investment Options, to apply consistent criteria in evaluating investment

managers. The Board may change specific investment options or investment managers without amending this Deferred Compensation Program Statement of Investment Policy.

C. Investment Manager and Investment Option Termination

The Board recognizes that investment options or investment manager terminations have unique circumstances which may result in different action plans upon termination. Upon a decision to terminate an investment option or investment manager, the Board expects to review the circumstances with Investment Staff and the Investment Consultant to deliberately decide on a prudent and reasonable process for termination and replacement of the terminated investment option and/or investment manager. Investment Staff will notify Administrative Staff to coordinate proper notice to the participants if an investment option is terminated.

D. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the Program that are not expressly authorized by this Deferred Compensation Program Statement of Investment Policy or by specific investment manager guidelines, offering memorandum or mutual fund prospectus. Investment managers must at all times follow all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with this Deferred Compensation Program Statement of Investment Policy or specific investment manager guidelines.

The use of derivatives is to facilitate risk management, and to manage the cost of investing in publicly traded stocks and bonds. Derivatives shall not be used to magnify exposure to investments beyond that which would be allowed by the portfolio's Investment Strategy Statement if derivatives were not used. Derivatives shall not be used to create exposures to securities, indices or other financial variables unless such exposures would be allowed by a portfolio's Investment Strategy Statement if created with non-derivatives securities.

7. Exhibits

Exhibit I – Program Investment Options

Exhibit II – Deferred Compensation Program Investment Manager Monitoring Policy

8. Exhibit I: Program Investment Options as of September 30, 2015

Investment Option	Index
A. Profile Series	
Aggressive Portfolio Fund	Custom Index
Moderate Portfolio Fund	Custom Index
Conservative Portfolio Fund	Custom Index
B. Core Investment Options	
1. Equity Funds	
Stock Index Fund	S&P 500 Index
Extended Market Index Fund	Dow Jones U.S. Total Stock Market Index
EAFE Equity Index Fund	MSCI EAFE Index
2. Fixed Income Funds	
Aggregate Bond Index Fund	Barclays U.S. Aggregate Index
Stable Value Fund	
3. Balanced Funds	
60/40 Balanced Fund	60% S&P 500 Index / 40% Barclays U.S. Aggregate Index
4. Money Market Funds	
Short-term Money Market Fund	BofA Merrill Lynch 3 Month T-Bill Index
C. Self-Directed Brokerage Account	
Schwab Personal Choice Retirement Account	N/A

9. Exhibit II: Deferred Compensation Program Investment Manager Monitoring Policy



pennsylvania

STATE EMPLOYEES' RETIREMENT SYSTEM

Commonwealth of Pennsylvania

State Employees' Retirement Board

Deferred Compensation Program Investment Manager Monitoring Policy

Adopted October 28, 2015

SERS employs external investment managers to manage pension fund assets. SERS' Deferred Compensation Program Statement of Investment Policy charges the investment office with responsibility for coordinating all investment activities and matters for SERS, including the continual review and analysis of investment managers. It also allows for the use of external investment consultants to provide various investment-related services, including assistance with the analysis of investment managers.

SERS' investment office, in consultation with its external deferred compensation investment consultant, developed this Deferred Compensation Program Investment Manager Monitoring Policy ("Policy"). The purpose of this Policy is to provide the SERS Board with an enhanced communication tool to keep the Board informed of investment managers that warrant additional monitoring by SERS' investment office and external consultant.

A Deferred Compensation Program Investment Manager Evaluation List (Appendix 1) was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by SERS' investment office and external investment consultants. Although a quantitative analysis is clearly important, it is not a best practice to rely exclusively on such data when evaluating investment managers due to the imperfect nature of many indices used as portfolio benchmarks. In addition, the placement of an investment manager on the Investment Manager Evaluation List does not automatically serve as evidence of a problem with the investment manager. This can only be determined after SERS' investment office and external investment consultants enhance its ongoing monitoring.

A. Investment Manager Monitoring Guidelines and Evaluation List

The Investment Manager Monitoring Guidelines formalize the identification and application of qualitative and quantitative criteria employed by SERS with respect to the monitoring of current investment managers in the deferred compensation program. The Investment Manager Monitoring Guidelines: 1) establish clear expectations between the SERS' Board, investment office, external investment consultants, and investment managers, 2) enhance communication among the SERS' Board, investment office, external investment consultants, 3) encourage the use of prudently applied criteria to evaluate investment managers, 4) foster a long-term approach toward performance evaluation of investment managers, 5) focus the resources of SERS' investment office and external investment consultants on those investment managers most likely to require additional attention, 6) avoid costly turnover in investment manager relationships driven by a period of short-term poor performance, and 7) improve the probability that SERS will identify problematic relationships which otherwise might produce unsatisfactory investment returns.

In general, the Investment Manager Monitoring Guidelines apply to investment managers with assets that are valued at least monthly. Investment managers that are in liquidation are excluded from the Investment Manager Monitoring Guidelines.

The SERS Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles. All of the criteria identified in the Investment Manager Monitoring Guidelines are intended to provide a normal, minimum standard for retaining investment Managers.

However, the SERS Board may terminate any current investment manager for any reason whatsoever in accordance with the provisions of investment manager agreements between SERS and the external investment managers. These Investment Manager Monitoring Guidelines do not limit SERS' ability to take such action.

B. Criteria for Active and Passive Management

Addition to the Investment Manager Evaluation List

SERS' investment office, in consultation with its external investment consultant, will place an investment manager on the Investment Manager Evaluation List for any of the following reasons:

Quantitative Factors

1. The active investment manager's rolling, three-year return falls below the rolling, three-year benchmark return for four (4) consecutive quarters. This is a gross of fee comparison.
2. The active investment manager's rolling, three-year return ranks below the median of the external investment consultant's peer group for four (4) consecutive quarters (excludes investment managers with no relative peer group). This is a gross of fee comparison.
3. The passive investment manager's rolling three-year return is not in line with the rolling, three-year benchmark return. SERS' investment office, in consultation with its external investment consultant, will determine what variance from the benchmark is deemed acceptable, given the passive strategy. This is a gross of fee comparison.

The active or passive investment manager's return significantly deviates from its expected return established in its investment strategy statements (investment guidelines) with SERS. This is a gross of fee comparison.

Qualitative Factors

1. A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered:
 - Violation of investment guidelines
 - Deviation from stated investment style and/ or shifts in the firm's philosophy or process
 - Turnover of one or more key personnel
 - Change in firm ownership or structure
 - Significant loss of clients and/or assets under management
 - Significant and persistent lack of responsiveness to client requests
 - Litigation
 - Failure to disclose significant information, including potential conflicts of interest
 - Chronic violations of the SERS' Deferred Compensation Program Statement of Investment Policy
 - Any other issue or situation of which SERS' investment office, external investment consultants, and/or SERS Board members become aware that is deemed material.

Removal from the Investment Manager Evaluation List

An investment manager may be removed from the Investment Manager Evaluation List when SERS' investment office, in consultation with its external investment consultant, determines that the investment manager has satisfactorily met the quantitative or qualitative criteria for removal from the Evaluation List. Generally for active investment managers, two consecutive quarters of rolling, three-year performance above the benchmark and a ranking above the median of the external investment consultant's peer group following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons. For index fund investment managers, one period of rolling, three-year performance in line with the benchmark following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons. SERS' investment office, in consultation with its external investment consultant, will typically make a decision to recommend retention or termination twelve (12) months following placing an investment manager on the Evaluation List. At the point of decision, SERS' investment office, in consultation with its external investment consultant, may recommend renewing inclusion on the Evaluation List for an additional period of time subject to supporting due diligence.

C. Application of Criteria

1. The Investment Manager Evaluation List is a confidential internal document and will only be used for internal purposes.
2. SERS' investment office, in consultation with external investment consultants, will provide the SERS Board with a current Investment Manager Evaluation List at the same board meeting when the RVK quarterly performance is provided to the SERS' Board. The Evaluation List will include all investment managers which have been added or removed and summary of the reasons for the addition or removal.
3. The Investment Manager Evaluation List will be provided to the SERS Board in executive session.
4. When an investment manager is placed on the Investment Manager Evaluation List, SERS' investment office and external investment consultants will enhance its ongoing monitoring of the investment manager to assess whether or not genuine issues of concern actually exist.
5. If genuine issues of concern are identified, SERS' investment office and external investment consultants will assess the cause, magnitude, and likely duration of the issues.
6. If the analysis from SERS' investment office, in consultation with its external investment consultants, reveals that the issues are not of concern, the investment manager will be removed from the Investment Manager Evaluation List.
7. If the investment manager resolves the issues of concern to the satisfaction of SERS' investment office, in consultation with its external investment consultants, the investment manager will be removed from the Investment Manager Evaluation List.

8. If SERS' investment office, in consultation with its external investment consultant, determines that the issues of concern have persisted without satisfactory resolution or are unlikely to be resolved within 12 months, then a recommendation on whether to retain the investment manager will be provided to the SERS' Board.

9. In emergency situations, the Chief Investment Officer, in consultation with the SERS Board Chairman, may make investment decisions (i.e. halt trading or terminate an investment manager). Emergency situations are defined as those that are unforeseeable and in the absence of action, the Fund may be adversely impacted. In the event such action is taken, the SERS Board will be notified as soon as practical, but no later than the next scheduled board meeting.

Appendix 1: Deferred Compensation Program Investment Manager Evaluation List (TEMPLATE)



Memorandum

To SERS Board Members
 From SERS Investment Office and RVK
 Subject Deferred Compensation Program Investment Manager Evaluation List
 Date <insert date>

The following is the Deferred Compensation Investment Manager Evaluation List (“DCP Evaluation List”) as of <insert quarter-end date>. The DCP Evaluation List is compiled in conformance with the criteria established in the Deferred Compensation Program Investment Manager Monitoring Policy adopted by the Board on October 28, 2015.

The placement of an investment manager on the DCP Evaluation List does not automatically serve as evidence of a problem with the investment manager. The DCP Evaluation List was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by SERS’ investment office and external investment consultants.

Summary

Manager	Asset Class	Strategy	Assets	Event Date
1. Additions Since Last Report				
2. On Evaluation List				
3. Deletions Since Last Report				

Evaluation List

Manager	Reason	SERS Investment Office & RVK Recommendation

ATTACHMENT B

EXECUTIVE SESSION AGENDA

Meeting: October 28, 2015

Executive Session

1. Fund Update
2. Preliminary Fund Performance and Risk Statistics
3. Manager Updates
4. Reports on Decisions
5. RTKL Matter
6. Update: Samuel V. Nastari v. State Employees' Retirement System, et al.
7. Securities Litigation
8. Procurement Matter