

**PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD  
5 North Fifth Street  
Harrisburg, Pennsylvania**

**Regular Meeting**

**Minutes**

**December 11, 2009**

**9:00 A.M.**

**Board Members Present**

Ms. Melva S. Vogler, Chairman  
Ms. Stacey Connors (arrived at 10:27) for Senator Patrick Browne  
Ms. Rebecca May Cole for Representative Dwight Evans  
Mr. Glen S. Galante  
Mr. Thomas J. Gentzel  
Ms. Lisa Taglang for Representative Glen R. Grell  
Mr. John Raymond for Senator Shirley M. Kitchen  
Mr. John Lisko (arrived at 9:16) for Treasurer Robert M. McCord  
Mr. Hal Moss  
Mr. Richard N. Rose  
Mr. James M. Sando  
Ms. Patricia A. Tozer  
Ms. Sally J. Turley  
Mr. Steven Kniley (arrived at 9:06) for Secretary Zahorchak

**Board Members Absent**

Ms. Tina Byles Williams

**Staff Members Present**

Mr. Jeffrey B. Clay  
Mr. Brian S. Carl  
Ms. Barbara D. Flurie  
Mr. Gerald Gornish  
Ms. Lynette L. Lebo  
Mr. Eugene W. Robison  
Mr. Frank Ryder  
Ms. Terrill J. Savidge  
Mr. Charles K. Serine  
Mr. David Speck  
Ms. Evelyn M. Tatkovski  
Mr. Alan H. Van Noord  
Mr. Joseph E. Wasiak, Jr.

**Visitors Present**

Ms. Janet Cranna, Buck Consultants  
Mr. James Henninger-Voss, PSEA  
Ms. Beatrice Hines, PASR  
Mr. Sandy Leopold  
Mr. Ken Lupold  
Mr. Ed Quinn, Buck Consultants  
Mr. and Mrs. Wayne Seely  
Ms. Megan Shafer  
Mr. Scott A. Shafer  
Ms. Dana Spangler, Buck Consultants  
Mr. Charlie Thompson, The Patriot News

CALL TO ORDER Ms. Vogler called the meeting to order at 9:00 A.M. in the fourth floor Board Room at PSERS' headquarters.

WELCOME GUESTS Mr. Clay welcomed guests Ms. Hines; Mr. Shafer and his Counsel Ms. Shafer; Mr. Leopold and Mr. Henninger-Voss.

MINUTES APPROVED Mr. Sando moved to approve the minutes of the October 1, 2009 Board meeting. Ms. Turley seconded the motion, which passed unanimously.

EXECUTIVE SESSION At 9:02 A.M., Mr. Clay stated that "In accordance with Section 5.13 of the Bylaws of the Public School Employees' Retirement Board, we are going into an Executive Session to discuss the item listed on today's agenda, namely a benefits matter. According to Section 708(a) of the Sunshine Act, 65 Pa. C.S. 708(a), we are going into Executive Session to discuss agency matters, which if conducted in public would violate a privilege and for quasi-judicial deliberations."

Mr. Galante moved that the Board enter into Executive Session. Mr. Moss seconded the motion, which passed unanimously. The meeting returned to Regular Session at 9:17 A.M.

ORAL ARGUMENT:  
SCOTT A. SHAFER Ms. Vogler introduced the case of Scott A. Shafer and explained the oral argument procedure to be followed.

Ms. Shafer, Counsel for Mr. Shafer, argued on behalf of Mr. Shafer's exceptions.

Mr. Speck, Counsel representing PSERS, argued in support of the Hearing Examiner's recommended denial of Mr. Shafer's request.

Rebuttal argument was offered by both parties. Members of the Board questioned both sides.

EXECUTIVE SESSION At 10:31 A.M., Mr. Clay stated that "In accordance with Section 5.13 of the Bylaws of the Public School Employees' Retirement Board, we are going into an Executive Session to discuss the item listed on today's agenda, namely a benefits matter. According to Section 708(a) of the Sunshine Act, 65 Pa. C.S. 708(a), we are going into Executive Session to discuss agency matters, which if conducted in public would violate a privilege and for quasi-judicial deliberations."

Mr. Rose moved that the Board enter into Executive Session. Mr. Sando seconded the motion, which passed unanimously. The meeting returned to Regular Session at 11:20 A.M.

Mr. Sando moved to table further discussion in the Shafer case. Ms. Tozer seconded the motion. The motion passed with one NO vote from Mr. Gentzel.

### AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on December 10, 2009.

Mr. Galante stated that the Committee approved the minutes of the October 1, 2009 meeting. MINUTES APPROVED

Mr. Galante stated that the Committee held Executive Session to discuss legal matters. LEGAL MATTERS

### FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held December 10, 2009.

Mr. Rose stated that the Committee approved the minutes of the October 1, 2009 meeting. MINUTES APPROVED

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Mr. Smith gave a presentation on Performance Review; Mr. Bensur, of Wilshire Associates, gave a presentation on Wilshire Performance Review; Mr. Grossman gave a risk presentation; Messrs. Grossman and Smith gave an Absolute Return Presentation; Mr. Huttman, of Millenium, gave a Currency Presentation; Mr. Kemp gave a presentation on Securities Lending; Executive Session was held concerning Fund Issues; and Mr. Van Noord gave a preview of future meetings. PRESENTATIONS

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") adopt the proposed change to page 9 of the Investment Policy Statement, Objectives, and Guidelines pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance. Mr. Moss seconded the motion, which passed unanimously. INVESTMENT POLICY STATEMENT, OBJECTIVES AND GUIDELINES

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board"), pursuant to the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate dated December 11, 2009, take the following actions: CENTERLINE CAPITAL GROUP

- 1) Approve the proposed change of control from Centerline Capital Group to Island Capital Group for the following

investments: Centerline Diversified Risk CMBS Fund LLC ("Fund I"), Centerline Diversified Risk CMBS Fund II LLC ("Fund II"), Centerline High Yield CMBS Fund III LLC ("Fund III"), Centerline Real Estate Special Situations Mortgage Fund LLC), and the Fund III Loan Agreement;

- 2) Approve the proposed settlement structure for the Fund II "claw-back";
- 3) Approve the proposed changes to the Fund III management fee calculation and Fund III Loan terms;
- 4) Approve the proposed sale of the PSERS investment in Fund I to Island Capital Group at the current market value; and
- 5) Approve a settlement of PSERS' subordination guarantee as negotiated by PSERS' Investment Office.

The final terms and conditions of the various documents necessary to effect said actions must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Ms. Turley seconded the motion, which passed unanimously.

#### APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on December 10, 2009.

MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the October 1, 2009 meeting.

ADJUDICATION:  
RICHARD C MCNANY

Ms. Tozer moved to adopt the Opinion and Order of the Hearing Examiner and dismiss, with prejudice, the appeal of Richard C. McNany to waive collection of Health Options premium payments that were not accurately deducted from his annuity. Mr. Rose seconded the motion, which passed unanimously.

ADJUDICATION:  
BARBARA M AUKER

Ms. Tozer moved to adopt the Opinion and Order of the Hearing Examiner and deny the request of Barbara M. Auker for multiple service membership. Mr. Moss seconded the motion, which passed unanimously.

Ms. Tozer moved to adopt the Opinion and Order of the Hearing Examiner, with the noted changes, to deny the request of Ray White for a waiver of an adjustment made to his account. Mr. Gentzel seconded the motion, which passed unanimously.

ADJUDICATION:  
RAY WHITE

Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee Report from the September 24, 2009; September 29, 2009; October 19, 2009; and November 10, 2009 meetings.

EXECUTIVE STAFF  
REVIEW COMMITTEE

Ms. Tozer stated that Ms. Savidge presented an update on Benefits Processing Statistics.

BENEFITS PROCESSING  
STATISTICS

### HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on December 10, 2009.

Ms. Turley stated that the Committee approved the minutes of the August 12, 2009 meeting.

MINUTES APPROVED

Ms. Turley stated that the Committee heard a presentation regarding the 2010 HOP Operating Budget by Mr. Schafer.

PRESENTATIONS

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed Program and Administrative Budget of the Health Options Program and the Medicare Prescription Drug Program Administrative Budget for the Plan Year 2010 in the aggregate amount of \$226,079,000, as presented by Mark F. Schafer at the December 10, 2009 Health Care Committee meeting. Mr. Sando seconded the motion, which passed unanimously.

HOP OPERATING  
BUDGET

### CORPORATE GOVERNANCE COMMITTEE REPORT

Mr. Sando reported on the meeting held on December 10, 2009.

Mr. Sando stated that the Committee approved the minutes of the March 12, 2009 meeting.

MINUTES APPROVED

Mr. Sando stated that the Committee discussed a possible revision to the Securities Litigation Policy's threshold and that a proposed revision would be submitted at the January meeting. Mr. Sando also reported that the Committee held an Executive Session regarding possible litigation.

EXECUTIVE SESSION

## OLD BUSINESS

### ELECTION ANNOUNCEMENTS

Mr. Kniley, on behalf of Secretary Zahorchak, announced that Ms. Tozer has won the election of the Non-Certified Seat on the PSERB. Mr. Clay, as Secretary of Board, certified that Patricia A. Tozer has won the Non-Certified election held in November, 2009.

### ELECTIONS PROCEDURE

Mr. Moss suggested that adjustments be made to the Elections procedure to better accommodate the non-certified membership. Mr. Clay stated that the situation will be reviewed and any possible changes will be brought before the Board.

## NEW BUSINESS

### ACTUARIAL VALUATION

Ms. Vogler introduced Ms. Cranna, who introduced Ms. Spangler and Mr. Quinn, all of Buck Consultants, all of whom presented the results of the June 30, 2009 Actuarial Valuation.

### EARNINGS ASSUMPTION RATE

Ms. Cranna spoke briefly regarding the effect of any possible change made to the Earnings Assumption Rate.

### ACTUARIAL VALUATION

Mr. Rose moved that the Public School Employees' Retirement Board hereby accepts the June 30, 2009 actuarial valuation report prepared by Buck Consultants, and adopts the actuarial factors, assumptions and methodologies contained therein, which result in an employer contribution rate of 8.22% for Fiscal Year July 1, 2010 through June 30, 2011. Ms. Turley seconded the motion, which passed unanimously.

### THANK YOU

Mr. Gentzel extended appreciation to Mr. Clay for his efforts in getting the updated information out to the districts in a very timely manner. Ms. Vogler concurred on behalf of the Board.

## EXECUTIVE DIRECTOR'S REPORT

### INFORMATION AVAILABLE

Mr. Clay stated that the following information was available (See Board Book 345, Executive Director TAB):

- PAPERS Newsletter
- Projection of Contribution Rates and Funded Ratios as of 6-30-09

### RECENTLY ATTENDED EVENTS

Mr. Clay stated that since the December Board Meeting he attended the Montgomery County Intermediate Unit in Norristown; PSBA Conference in Hershey; SHASDA/South Hill Area School

District Association near Pittsburgh; Bucks County IU; PASBO Task Force ; Central Susquehanna IU #16; Blue Ridge Cable; House Republican Government Reform Task Force; House Democrats; Delco IU; Cheltenham School Board; Shippensburg University evening class; and the House Republican Caucus.

Mr. Clay stated that he is planning to attend or make presentations at a PASBO Task Force meeting on December 15; Senate Finance Committee Hearing on December 16; a live appearance on PCN TV on December 16; the Marriott Rivercenter trial in San Antonio mid-January.

UPCOMING EVENTS

Mr. Clay informed the Board that the PSERS' RA will donate 109 gifts to Dauphin County Social Services for Children and Youth, Tremont Nursing Home and the Children's Home of the Masonic Village as part of its ongoing charitable support to the community.

STAFF DONATIONS

Mr. Clay stated that a website is being created with information regarding the Rate Spike.

RATE SPIKE WEBSITE

Mr. Clay stated that since the HOP website went live in November, over 2600 people have registered on the website as of the date of this meeting.

HOP WEBSITE

Mr. Clay announced that Ms. May Cole will be leaving state service, and therefore will no longer be attending the Board meetings on behalf of Representative Evans.

MS MAY COLE

Mr. Clay informed the Board election of the Chair and Vice-Chair will take place at the January 22, 2010 Board Meeting.

NEXT MEETING

Mr. Clay stated that an Education Session will be held on the afternoon of Wednesday, January 20, 2010.

EDUCATION SESSION

#### CHIEF COUNSEL REPORT

Mr. Gornish stated that on November 30, 2009, the State Supreme Court issued an opinion that alters the analysis that each Board member, as a public official, must undertake to identify potential conflicts of interest under the Ethics Act. The Supreme Court held that a non-profit entity is a "business" as defined by the Ethics Act. In doing so, the Supreme Court reversed the Commonwealth Court, which had held to the contrary in October 2008.

ETHICS OPINION

MARRIOTT LITIGATION Mr. Gornish stated that the cross motions for summary judgment were argued on November 20, 2009 as scheduled. The Judge denied all motions. PSERS will get to present all the causes of action raised. The Judge reconsidered and denied the summary judgment obtained early in the case, which had ruled that the "right to negotiate provision" on which Marriott relies and claims PSERS breached, is not enforceable. The trial is scheduled to begin in San Antonio on January 11, 2010.

SEC INVESTIGATION Mr. Gornish informed the Board that as part of an SEC investigation of a New York firm that manages an investment fund in which PSERS has invested, SEC investigators arranged a telephone interview of PSERS' internal staff member who oversees the investment. PSERS' senior investment staff and PSERS counsel also participated. The session was entirely friendly, and the questions, relating to the representations made to PSERS by the fund, gave no indication that PSERS is suspected of any wrongdoing.

The SEC requested documents from PSERS and, at our suggestion, served a subpoena on PSERS seeking those documents. All of the documents are routine business records and correspondence, and no underlying wrongdoing or controversy is apparent.

NON-CERTIFIED ELECTION Mr. Gornish stated that superintendents and executive directors of IUs are not considered certified members. The terms "certified" and "non-certified" are terms that PSERS uses under its regulations. Statutorily, the terms are "professional" and "non-professional." Professional employees" are specifically defined in the Public School Code and go up to the position of "principal." Since the positions of superintendents and executive directors are not specifically mentioned in the Public School Code as "professional employees," they are treated as "non-professional" or as non-certified personnel for purpose of elections to PSERS.

BAILLIE CASE Mr. Gornish noted that Mr. Baillie appealed his case to the Commonwealth Court. Mr. Speck argued the case for the Board.

FINANCIAL PLANNERS USING PSERS' NAME Mr. Gornish informed the Board that, on occasion, PSERS receives information that a financial planner is using advertising materials that may mislead PSERS members into thinking either that: (1) PSERS is sponsoring the presentation; or (2) that PSERS has some affiliation with the planner's company, or endorses the company's services – none of which is accurate.



PSERS' practice is to request the financial planners add a notice of non-affiliation and endorsement by PSERS in a disclaimer printed on all communications, as follows: "Neither [name of company] nor any of its representatives is affiliated with the Pennsylvania Public School Employees' Retirement System (PSERS); and PSERS does not sponsor, authorize or endorse the financial advisory services described in this or other communications of [name of company] or its representatives." PSERS asks that the financial planner confirm their receipt of this correspondence and to signify their intent to comply by a prompt return letter, as well as make a similar announcement at the beginning of any meeting with a PSERS member.

Mr. Gornish extended his appreciation to Mr. Sando for bringing one of the cases to PSERS' attention, and encourages other Board members to refer materials of which they become aware that could mislead members to us for proper response.

#### CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation to the Board containing an Overview of PSERS' FY 2009 Comprehensive Annual Financial Report (CAFR); Lawson GL Software Upgrade; Budget Update; September 30, 2009 Financial Statements; and the 5 Year Financial Statement Projection (See Board Book 345, CFO Report TAB).

CFO REPORT

#### BOARD MEMBER COMMENTS

Mr. Gentzel spoke regarding the search, by the Evaluation Committee, for an evaluation instrument to be used for the Executive Director position. Consensus was given by the Board to allow the Committee to draft a form, similar to the State Employee Executive Review form, for review at the January Board Meeting.

EVALUATION  
COMMITTEE

Ms. Vogler wished all a happy holiday and extended appreciation, on behalf of the Board, to Ms. May Cole for her hard work and dedication to the PSERB. Ms. May Cole thanked the Board members and staff for the wonderful experience.

HOLIDAY WISHES AND  
APPRECIATION

Mr. Sando offered congratulations to Ms. Tozer on her recent re-election to the Board. Ms. Tozer expressed that she looks forward to serving another three year term.

CONGRATULATIONS

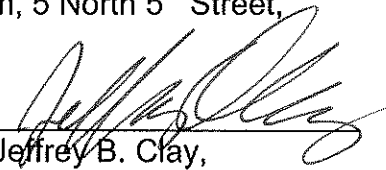
ADJOURNMENT

Ms. Vogler adjourned the meeting at 12:35 P.M.

NEXT MEETING

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on January 22, 2010, in PSERS Board Room, 5 North 5<sup>th</sup> Street, Harrisburg, PA.

Date 1/7/10

Approved   
Jeffrey B. Clay,  
Executive Director