

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

Regular Meeting

Minutes

June 22, 2012

9:32 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Senator Patrick M. Browne
Ms. Sally Keaveney for Senator Lawrence M. Farnese
Mr. Glen S. Galante
Mr. Thomas J. Gentzel
Representative Glen R. Grell
Mr. Christopher Craig for Treasurer Robert M. McCord
Mr. Hal Moss
Ambassador Martin J. Silverstein
Ms. Patricia A. Tozer
Ms. Sally J. Turley

Board Members Absent

Representative Joseph F. Markosek
Mr. Richard N. Rose
Mr. James M. Sando
Secretary Ronald J. Tomalis

Staff Members Present

Mr. Jeffrey B. Clay
Ms. Barbara Book
Mr. Brian S. Carl
Mr. Joshua Domer
Ms. Michele M. Ferencz
Ms. Beth Girman
Mr. Frank Ryder
Ms. Terrill J. Sanchez
Mr. Joshua Schlein
Ms. Evelyn Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Guests Present

Ms. Deborah Beck
Mr. Ron Conard, PASR
Ms. Joan Glass, PASR
Mr. Sandy Leopold
Mr. Andrew Silverstein
Mr. Don Steinmeier, PASR

Ms. Vogler called the meeting to order at 9:32 A.M. in the fourth floor Board Room at PSERS' headquarters.

CALL TO ORDER

WELCOME GUESTS
AND NEW EMPLOYEES

Mr. Clay welcomed guests Mr. Andrew Silverstein; Ms. Beck, a candidate for the Board; Mr. Conard, Ms. Glass and Mr. Steinmeier, of PASR; and new employees Mr. Domer, Mr. Schlein and Ms. Girman.

MINUTES APPROVED

Ms. Tozer moved to approve the minutes of the April 27, 2012 Board meeting. Ms. Turley seconded the motion, which passed unanimously.

TECHNOLOGY STEERING COMMITTEE REPORT

Mr. Clay, on behalf of Vice-Chairman Sando, reported on the meeting held on June 21, 2012.

MINUTES APPROVED

Mr. Clay stated that the Committee approved the minutes of the April 26, 2012 meeting.

PRESENTATIONS

Mr. Clay stated that Mr. Spinks presented an Update on Key Technology Issues, specifically the new phone system.

FINANCE COMMITTEE REPORT

Mr. Moss reported on the meeting held June 21, 2012.

MINUTES APPROVED

Mr. Moss stated that the Committee approved the minutes of the April 26, 2012 meeting.

PRESENTATIONS

Mr. Moss stated that Mr. Van Noord gave a Market Review and Comments; Mr. Bensur presented the Wilshire First Quarter Performance Update; Mr. Smith gave a Public Market Performance Review; Mr. Reuhl, of Aksia, spoke regarding the Aksia First Quarter Absolute Return Performance; an executive session was held regarding PSERS' In-house Program; Mr. Sheva spoke regarding AQR GRP EL 20 Offshore Fund Ltd, - Risk Parity, Radcliffe Capital Management LP – Short Duration, and MLP Manager Recommendations, which included Atlantic Trust – MLP and Salient Capital Advisors, LLC; Mr. Sheva also gave a review of Investment Guidelines; Mr. Spiller spoke regarding Blue Point Capital Partners III, L.P., Catterton Partners VII, L.P., and LLR Equity Partners IV, L.P.; Mr. Stalter gave a presentation on Brookfield Strategic Real Estate Partners, L.P.; and Mr. Van Noord presented his Preview of Future Meetings.

AQR GRP EL 20
OFFSHORE FUND LTD.

Mr. Moss moved that pursuant to the recommendations of James H. Grossman, Jr., Deputy Chief Investment Officer, Joseph W. Sheva, Senior Investment Professional, and Wilshire Associates,

dated June 6, 2012, the Public School Employees' Retirement Board (the "Board") hereby (i) invests an initial amount of \$500 million in the AQR GRP EL 20 Offshore Fund LTD., of which \$200 million will be funded by a reduction in AQR's Offshore Multi-Strategy Fund, Ltd., and (ii) the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of 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. Tozer seconded the motion, which passed with one recusal. Amb. Silverstein recused himself from the discussion and the vote.

Mr. Moss moved that pursuant to the recommendations of Mark E. Heppenstall, Managing Director, Fixed Income, Joseph W. Sheva, Senior Investment Professional, and Wilshire Associates, dated June 6, 2012, that the Public School Employees' Retirement Board (the "Board") hereby (i) retains Radcliffe Capital Management, L.P. to manage an initial amount of \$200 million in their Ultra-Short High Yield strategy and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

RADCLIFFE CAPITAL
MANAGEMENT, L.P.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of 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. Representative Grell seconded the motion, which passed with one recusal. Mr. Craig recused himself, on Treasurer McCord's behalf, from the discussion and the vote.

ATLANTIC TRUST
PRIVATE WEALTH
MANAGEMENT

Mr. Moss moved that pursuant to the recommendations of Joseph W. Sheva, Senior Investment Professional, and Wilshire Associates, both dated June 5, 2012, that the Public School Employees' Retirement Board (the "Board") hereby (i) retains Atlantic Trust Private Wealth Management to manage an initial amount of \$250 million in their Master Limited Partnership strategy and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of 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.

ALIENT CAPITAL
ADVISORS, LLC

Mr. Moss moved that pursuant to the recommendations of Joseph W. Sheva, Senior Investment Professional, and Wilshire Associates, both dated June 5, 2012, that the Public School Employees' Retirement Board (the "Board") hereby (i) retains Salient Capital Advisors, LLC to manage an initial amount of \$250 million in their Master Limited Partnership strategy and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of 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. Keaveney seconded the motion, which passed unanimously.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby adopts the proposed changes to the Investment Policy Statement, Objectives, and Guidelines (specifically Exhibits B, C and D) and the proposed Investment Objectives and Guidelines Addenda listed below for the Public School Employees' Retirement System pursuant to the recommendation of Joseph W. Sheva, Senior Investment Professional, dated June 6, 2012.

**INVESTMENT
OBJECTIVES AND
GUIDELINES**

| <u>Addendum</u> | <u>Addendum Title</u> |
|------------------------|--|
| B | U.S. Master Limited Partnership Portfolios |
| I | U.S. Core Plus Fixed Income Portfolios |
| K | U.S. High Yield Fixed Income Portfolios |
| K1 | Non-Agency Residential Mortgage Backed Securities Portfolios |
| L | Internally-Managed Treasury Inflation Protection Securities Portfolios |
| Q | Global Core Plus Fixed Income Portfolios |
| Y | Internally-Managed Short-Term Investment Pool |
| Y1 | LIBOR-Plus Short-Term Investment Pools |
| Y2 | Short Duration Non-Agency RMBS Portfolios |
| Y3 | Ultra-Short High Yield Portfolios |
| | Internally-Managed Premium Assistance Program Portfolio |

Ms. Tozer seconded the motion, which passed unanimously.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests \$50 million plus reasonable normal investment expenses, in Blue Point Capital Partners III (B), L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 21, 2012. The final terms and conditions of the investment 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.

**BLUE POINT CAPITAL
PARTNERS III (B), L.P.**

Ms. Turley seconded the motion, which passed unanimously.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests \$50 million plus reasonable normal investment expenses, in Blue Point Capital Partners III (B), L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June

**CATTERTON PARTNERS
VII, L.P.**

21, 2012. The final terms and conditions of the investment 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.

LLR EQUITY
PARTNERS IV, L.P.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests \$200 million plus reasonable normal investment expenses, in LLR Equity Partners IV, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 21, 2012. The final terms and conditions of the investment 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. Mr. Gallagher seconded the motion, which passed with one recusal. Mr. Craig, on behalf of Treasurer McCord, recused himself from the discussion and the vote.

BROOKFIELD
STRATEGIC REAL
ESTATE PARTNERS,
L.P.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$200 million plus reasonable normal investment expenses, in Brookfield Strategic Real Estate Partners, L.P., in accordance with the recommendation of William P. Stalter, Portfolio Manager, Real Estate, dated June 21, 2012. The final terms and conditions of the investment 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. Tozer seconded the motion, which passed unanimously.

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on June 21, 2012.

MINUTES APPROVED

Ms. Turley stated that the Committee approved the minutes of the April 26, 2011 meeting.

PRESENTATIONS

Ms. Turley stated that Mr. Schafer gave presentations on the Result of RPF 2012-2, about which an executive session was held, and the 2013 Fee-for-Service Plan Rates.

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") accepts the results of the Commonwealth Request for Proposals for the Medicare Prescription Drug Program Support Services and Pharmacy Benefit Management Services and enter into a contract with Optum Rx with an initial term of three (3) years beginning January 1, 2013 with options to renew the contract, upon mutual consent of the parties, annually for two additional years.

REQUEST FOR PROPOSALS

The final terms and conditions of the contract must be satisfactory to the Health Care Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing contract or by a memo to that effect appended to the implementing contract.

Mr. Galante seconded the motion, which passed, with one No vote from Amb. Silverstein and one abstention from Ms. Fox.

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the premium rates of the HOP Medical Plan effective January 1, 2013:

HOP MEDICAL PLAN BENEFITS & RATES EFFECTIVE 1/1/2013

HOP MEDICAL PLAN

| North and Central Region | 2013 |
|-------------------------------------|-------|
| Standard Rate | \$164 |
| Old Age 65 Rate | 164 |
| Age 65 Rate | 140 |
| Age 65 Rates (2 nd Year) | 145 |

| Southwest Region | 2013 |
|------------------------------------|-------|
| Standard Rate | \$195 |
| Old Age 65 Rate | 195 |
| Age 65 Rate | 166 |
| Age 65 Rate (2 nd Year) | 172 |

| Southeast Region | 2013 |
|------------------------------------|-------|
| Standard Rate | \$199 |
| Old Age 65 Rate | 199 |
| Age 65 Rate | 170 |
| Age 65 Rate (2 nd Year) | 176 |

Mr. Galante seconded the motion, which passed unanimously.

HOP PRE-65 MEDICAL
PLAN BENEFITS &
RATES EFFECTIVE
1/1/2013

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the premium rates of the HOP Pre-65 Medical Plan effective January 1, 2013:

| HOP Pre-65 Medical Plan: w/ Benefit Changes | 2013 |
|---|--------|
| Pre-65 Medical Plan | \$ 676 |
| Pre-65 Medical Plan w/ Prescription Drugs | 780 |

Mr. Gentzel seconded the motion, which passed unanimously.

BASIC MEDICARE RX
OPTION BENEFITS &
RATES

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the following benefit modifications to the Basic Medicare Rx Option effective January 1, 2013:

| The Member Pays in the Coverage Gap: | 2012 Basic Medicare Rx Option | Proposed Basic Medicare Rx Option for 2013 |
|--------------------------------------|-------------------------------|--|
| Generic Rx | 86% | 79% |

And further that the Public School Employees' Retirement Board (the "Board") approves the following premium rates of the Basic Medicare Rx Option effective January 1, 2013:

| Basic Medicare Rx Option: w/Benefit Changes | 2013 |
|---|------|
| Single | \$28 |
| Two Person | 56 |

Mr. Moss seconded the motion, which passed unanimously.

ENHANCED MEDICARE
RX OPTION BENEFITS
& RATES

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the following premium rates of the Enhanced Medicare Rx Option effective January 1, 2013:

| Enhanced Medicare Rx Option: | 2013 |
|------------------------------|-------|
| Single | \$ 82 |
| Two Person | 164 |

Ms. Keaveney seconded the motion, which passed unanimously.

PERSONNEL COMMITTEE REPORT

Mr. Gentzel reported on the meeting held on June 21, 2012.

Mr. Gentzel stated that the Committee approved the minutes of the April 26, 2012 meeting. MINUTES APPROVED

Mr. Gentzel stated that a deep executive session was held regarding the Executive Director's performance evaluation. EXECUTIVE SESSION

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on June 22, 2012.

Ms. Tozer stated that the Committee approved the minutes of the April 26, 2012 meeting. MINUTES APPROVED

Ms. Tozer moved to adopt the recommendation of the Appeals/Member Services Committee in the case of Craig M. Houliston and grant PSERS' Motion for Summary Judgment to dismiss claimant's Request for Administrative Hearing. Mr. Galante seconded the motion. The motion passed unanimously. ACCOUNT OF CRAIG M. HOULISTON

Ms. Tozer moved to adopt the recommendation of the Appeals/Member Services Committee in the case of Johnnie Jordan and dismiss Claimant's appeal with prejudice. Ms. Turley seconded the motion. The motion passed unanimously. ACCOUNT OF JOHNNIE JORDAN

Ms. Tozer moved to adopt the recommendation of the Appeals/Member Services Committee in the case of Helene W. Candeub and grant PSERS' Application and deem its exceptions as timely filed with the matter proceeding to oral argument solely on the merits of the case. Ms. Turley seconded the motion. The motion passed unanimously. ACCOUNT OF HELENE W. CANDEUB

Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee (ESRC) Report from the March 26 and April 13, 2012 meetings. ESRC REPORT

Ms. Tozer stated that Ms. Sanchez presented an update on the Benefits Processing Statistics. BENEFITS PROCESSING

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 363, Executive Director TAB): INFORMATION AVAILABLE

- Letter from PSERS and SERS to Commissioner Astrue of the Social Security Administration
- Press release from Ms. Tatkovski dated June 21, 2012

- Council of Institutional Investors Newsletter
- PSERS 2012 Employee Recognition Information
- Proposed 2013 Board/Committee Meeting Schedule

RECENTLY ATTENDED EVENTS

Mr. Clay reported that he attended the following events: a presentation at Milton Area School District on May 15; a presentation at Delaware County Intermediate Unit on May 17; a presentation at the PAPERS Conference May 23-24; and an appearance on PCN's Live Call-In show on Pension Funding on May 29.

UPCOMING EVENTS

Mr. Clay stated that he plans to attend the NAPPA Conference in Philadelphia June 27-29; and he will speak to a Shippensburg University Graduate class for principals and superintendents on July 5;

OTHER NEWS

Mr. Clay informed the Board that there will be two Health Care RFP's issued. He invited all Board members to volunteer to serve on the RFP Committees.

Mr. Clay informed the Board that the Corporate Agency Action Committee decided to join the class action suit against Olympus.

Mr. Clay discussed the pending pension reform. He will keep the Board informed of developments. No action is expected this year.

NEXT MEETING

Mr. Clay stated that the August meeting schedule will include the Summer Board Education Session at the Hilton.

CHIEF COUNSEL REPORT

LEGAL UPDATES

Ms. Ferencz provided updates on the Bank of America securities litigation and the Rivercenter/Marriott litigation.

Ms. Fox left at this time.

CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation including the Financial Statements as of March 31, 2012; School Employees' Retirement Appropriation; GASB Pension Project Update; and the Components of Total Employer Contribution Rate (See Board Book 363, CFO Report TAB).

VISITOR COMMENT

Mr. Steinmeier commented on the Mellow Bill and the impact it had on his retirement, and gave personal commentary on Act 9.

Ms. Tozer stated that she will be retiring from her position on the Board at the end of her current term.

BOARD MEMBER
COMMENT

At 10:59 A.M., Mr. Clay stated: "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 litigation matters. The Board may hold an executive session for any one or more of the reasons enumerated in Section 708(a) of the Sunshine Act (65 Pa C.S. §708(a)), including agency business which, if conducted in public would violate a privilege or lead to the disclosure of information or confidentiality protected by law, including matters related to the initiation and conduct of investigations of possible or certain violations of laws."

EXECUTIVE SESSION

Representative Grell moved that the Board enter into Executive Session. Ms. Turley seconded the motion, which passed unanimously. The Executive Session ended at 11:33 A.M. and the meeting immediately returned to Regular Session.

Chairman Vogler adjourned the meeting at 11:33 A.M.

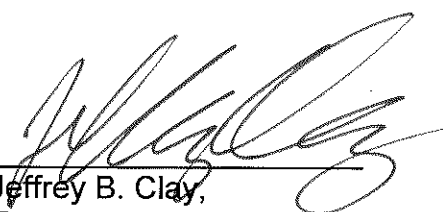
ADJOURNMENT

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on August 9, 2012, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

NEXT MEETING

Date 7/16/12

Approved


Jeffrey B. Clay,
Executive Director