

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

Regular Meeting

Minutes

October 7, 2014

10:18 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman

Ms. Deborah J. Beck

Mr. Frederick T. Berestecky

Mr. James R. Biery

Mr. Larry B. Breech

Ms. Stacey Connors for Senator Patrick M. Browne

Mr. Charles Zogby for Acting Sec. Carolyn C. Dumaresq

Representative Glen R. Grell (left @ 10:47)

Ms. Lisa Taglang for Representative Glen R. Grell (arrived @10:47)

Ms. Susan C. Lemmo

Mr. Nathan G. Mains

Mr. Bernard Gallagher for Representative Joseph F. Markosek

Ms. Jennifer Langan for Treasurer Robert M. McCord

Mr. James M. Sando

Ambassador Martin J. Silverstein

Board Members Absent

Representative Joseph F. Markosek

Staff Members Present

Mr. Fred Alcaro
Mr. Brian S. Carl
Mr. Jeffrey B. Clay
Mr. Steven Goldstein
Ms. Michele Ferencz
Mr. Donald J. Halke
Mr. John Kemp
Ms. Denise Knapp
Mr. Scott LaPlant
Mr. Eugene W. Robison

Ms. Terrill J. Sanchez
Mr. Charles Serine
Mr. Steven C. Skoff
Mr. Charles Spiller
Mr. Kelly Sprenkle
Ms. Christine Steever
Ms. Carissa Troutman
Mr. Joseph E. Wasiak, Jr.
Ms. Evelyn M. Williams

Others Present

Mr. Sandy Leopold
Mr. Tom Weeter, PSEA-R

CALL TO ORDER

Ms. Vogler called the meeting to order at 10:18 A.M. in the fourth floor Board Room at PSERS' headquarters.

WELCOME VISITORS
AND NEW EMPLOYEES

Mr. Clay welcomed guests, Mr. Weeter and Mr. Hogstad and then introduced new employee, Ms. Troutman.

MINUTES APPROVED

Ms. Langan moved to approve the minutes of the August 7, 2014 Board meeting. Ms. Beck seconded the motion, which passed unanimously.

Mr. Mains moved to approve the minutes of the September 23, 2014 Special Board Meeting (Telephonic). Ms. Beck seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

Mr. Sando, reported on the meeting held October 6, 2014.

MINUTES

Mr. Sando stated that the Committee approved the minutes of the August 5, 2014 meeting.

PRESENTATIONS

Mr. Sando stated that Mr. Grossman gave a Market Review and Comments; Mr. Kumar and Ms. Shaughnessy, of HEK, gave a presentation on the Second Quarter Performance; Mr. Ruehl, of Aksia, gave a presentation on the Second Quarter Performance; Mr. Grossman gave a condensed presentation on AG Core Plus Realty Fund IV, L.P.; Mr. Spiller gave both the Private Markets First Quarter Report and the Real Estate First Quarter Report; an Executive Session was held regarding Private Markets and Real Estate Fund Issues; Mr. Spiller gave a presentation on PSERS In-house Program; Mr. Grossman gave a condensed presentation on

BlackRock Market Advantage II, Ltd.; Messrs. Santoro and Toscano, of Deutsche Bank, presented Deutsche Bank AG Securities Lending Program; Messrs. Katznelson, Rudnick and Zerdes, of Radcliffe, gave a presentation on Radcliffe Specialty Finance Debt Strategy; Mr. Grossman proposed changes to the Investment Policy Statement, Objectives and Guidelines; and Mr. Grossman presented his Preview of Future Meetings.

Mr. Sando moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in AG Core Plus Realty Fund IV, L.P. in accordance with the recommendations of Laurann H. Stepp, Portfolio Manager, dated October 6, 2014 and Courtland Partners Ltd., dated September 11, 2014. 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, or by a memo to that effect appended to, the implementing investment contract. Mr. Mains seconded the motion, which passed unanimously.

AG CORE PLUS REALTY
FUND IV, L.P.

Mr. Sando moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$200 million, which represents an additional \$100 million from what was approved in PSERB Resolution 2014-09, in the Real Estate In-House Co-Investment and Secondary Program, in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated October 6, 2014. Representative Grell seconded the motion, which passed unanimously.

REAL ESTATE IN-HOUSE
CO-INVESTMENT AND
SECONDARY PROGRAM

Mr. Sando moved that pursuant to the recommendations of Joseph W. Sheva, Portfolio Manager, and Hewitt EnnisKnupp, dated September 12, 2014, the Public School Employees' Retirement Board (the "Board") hereby (i) invests an initial amount of up to \$500 million in the Market Advantage II, Ltd., and hereby agrees that (ii) the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit E of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time, provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

MARKET ADVANTAGE II,
LTD.

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. Mr. Breech seconded the motion, which passed unanimously.

DEUTSCHE BANK AG
SECURITIES LENDING
PROGRAM

Mr. Sando moved that pursuant to the recommendations of John B. Kemp, Managing Director, and Hewitt EnnisKnupp, dated September 12, 2014, the Public School Employees' Retirement Board (the "Board") hereby retains Deutsche Bank AG as securities lending agent subject to the Investment Policy Statement, Objectives and Guidelines, as amended from time to time.

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, or by a memo to that effect appended to, the implementing investment contract. Mr. Mains seconded the motion, which passed with two recusals from both the discussion and the vote from Ambassador Silverstein and Treasurer McCord.

RADCLIFFE SPECIALTY
FINANCE DEBT
STRATEGY

Mr. Sando moved that pursuant to the recommendations of Robert J. Devine, Senior Portfolio Manager, Fixed Income and HEK Associates, dated September 12, 2014, the Public School Employees' Retirement Board (the "Board") hereby (i) retains Radcliffe Capital Management, L.P. to manage an initial amount of \$300 million in their Specialty Finance Debt Strategy and hereby agrees that (ii) the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit E of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time 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, or by a memo to that effect appended to, the implementing investment contract. Mr. Gallagher seconded the motion, which passed with one recusal from both the discussion and the vote from Treasurer McCord.

Ms. Sando moved that Public School Employees' Retirement Board (the "Board") hereby adopts:

INVESTMENT
OBJECTIVES AND
GUIDELINES

1. Proposed changes to the Securities Lending Program Policy (pages 11-12), Exhibit D (Policy Index), and Exhibit E (Public Market Investment Manager Target Ranges), and a new Exhibit I (Securities Lending Program Policy) of the Investment Policy Statement, Objectives, and Guidelines, as amended, for the Public School Employees' Retirement System;
2. Proposed changes to Addendum P (Passive Currency Hedging Overlay Program); and
3. Elimination of Addendum Z (Securities Lending)

pursuant to the recommendation of James H. Grossman, Jr., Chief Investment Officer, dated September 17, 2014.

Mr. Biery seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Beck reported on the meeting held on October 6, 2014.

Ms. Beck stated that the Committee approved the minutes of the August 5, 2014 meeting.

MINUTES APPROVED

Ms. Beck moved in the case of Angela Brigido, that the Board adopt the draft Opinion and Order of the Board denying Claimant's Exceptions, adopting the Hearing Examiner's Proposed Opinion and Recommendation with the modifications noted, and denying Claimant's request to elect Class T-F membership. Mr. Mains seconded the motion, which passed unanimously.

Ms. Beck moved in the case of Gary L. Lose, that the Board adopt the draft Opinion and Order of the Board granting PSERS' Motion for Summary Judgment, dismissing Claimant's Appeal and Request for an Administrative Hearing, and denying Claimant's request to revoke his election of Class T-F membership. Mr. Biery seconded the motion, which passed with one no vote being from Mr. Breech.

Ms. Beck moved in the case of Susan S. Osgood, that the Board adopt the draft Opinion and Order of the Board denying Claimant's Exceptions, adopting the Hearing Examiner's Proposed Opinion and Recommendation with the modifications noted, and denying

Claimant's request to elect Multiple Service membership.
Mr. Mains seconded the motion, which passed unanimously.

Ms. Beck moved in the case of Alexander M. Peluso, that the Board adopt the draft Opinion and Order of the Board granting PSERS' Motion for Summary Judgment, dismissing Claimant's Appeal and Request for an Administrative Hearing, and denying Claimant's request to elect Class T-F membership after the statutory deadline. Mr. Mains seconded the motion, which passed unanimously.

The Committee reviewed the Executive Staff Review Committee report for July 10, 2014.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Berestecky reported on the meeting held on October 7, 2014.

MINUTES APPROVED

Mr. Berestecky stated that the Committee approved the minutes of the March 13, 2014 meeting.

2015-16 ADMINISTRATIVE BUDGET AND DIRECTED COMMISSIONS RECAPTURE PROGRAM BUDGET

Mr. Berestecky moved that the Public School Employees' Retirement Board (the "Board") approves the 2015-16 Administrative Budget, not to exceed \$43,777,000 and the 2015-16 Directed Commissions Recapture Program Budget, \$2,000,000, for the Public School Employees' Retirement System as more particularly set forth in the attached summaries. Representative Grell seconded the motion, which passed unanimously.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Mr. Berestecky moved that the Public School Employees' Retirement Board (the "Board") hereby accepts the June 30, 2014 Financial Statements and accepts the accompanying Independent Auditor Report prepared for the Public School Employees' Retirement System by SB & Company, LLC, for the year ended June 30, 2014.

RESOLVED FURTHER that the Board ratifies all payments that are reflected in the June 30, 2014 Financial Statements.
Mr. Zogby seconded the motion, which passed unanimously.

NEW BUSINESS

Mr. Clay introduced Mr. Goldstein, who gave the Board a demonstration on the Electronic Board Book from Diligent in preparation for the conversion to electronic Board packages.

BOARD BOOKS
DEMONSTRATION-
DILIGENT

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay informed the Board that the following information is available in the red file folders: minutes from the September 23, 2014 Special Board Meeting (Telephonic); Board resolutions; Chief Financial Officer Report.

INFORMATION
AVAILABLE

Mr. Clay stated that he attended the following: Mid East PASBO meeting at the Berks County IU on September 5; York Suburban School Board – other Board's invited on September 9; PCN appearance – Focus on Education program on September 10; PAPERS Fall Forum – Philadelphia on September 17-18; and the Bucks, Chester & Delaware PASBO Fall Workshop in Mt. Pocono on October 3.

UPCOMING EVENTS

Mr. Clay stated that he will be: attending the BOCC Conference in Mechanicsburg on October 22-23; and attending the Mid-state PASBO meeting in the Altoona area on November 6.

Mr. Clay gave an update on Barbara Book. Mr. Clay also gave an update on Alan & Colene Van Noord.

OTHER INFORMATION

Mr. Clay stated that ongoing items for the agency at this time are: The completion of the peak retirement season, approval of PSERS Administrative Budget, Independent Audit and financial statements, which occurred at this meeting. Still to done are the preparation of PSERS' CAFR, completion of the HOP Option Selection period, the preparation and mailing of the Annual Statement of Accounts and the completion of the Annual Actuarial Valuation.

ONGOING ITEMS

Mr. Clay stated that the next meeting will be December 8 & 9, 2014 and will include the Annual Actuarial Valuation as well as the debut of the first Electronic Board Package.

NEXT MEETING

CHIEF COUNSEL REPORT

Ms. Ferencz presented the Chief Counsel Report, which included an update on the Host Marriott Litigation and a presentation on Protections of the PSERS Board against Adverse Claims by Mr. Alcaro.

EXECUTIVE SESSION

At 11:21 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 Executive Session to discuss the item listed on today's agenda, namely agency business. 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 litigation matters."

Mr. Sando moved that the Board enter into Executive Session. Ms. Breech seconded the motion, which passed unanimously. The Executive Session ended at 12:06 P.M. and the meeting ended immediately after the Executive Session.

ADJOURNMENT

Chairman Vogler adjourned the meeting at 12:06 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 December 8 & 9, 2014, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 10/27/14 Approved


Jeffrey B. Clay,
Executive Director