

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

**Regular Meeting**

**Minutes**

**May 2, 2008**

**9:00 A.M.**

**Board Members Present**

Ms. Melva S. Vogler, Chairman  
Ms. Rebecca May Cole for Representative Dwight Evans  
Mr. Sandy Leopold for Senator Vincent J. Fumo  
Mr. Glen S. Galante  
Mr. J. Curtis Rose for Mr. Thomas J. Gentzel  
Representative Steven R. Nickol  
Mr. Richard N. Rose  
Mr. James M. Sando  
Ms. Patricia A. Tozer  
Ms. Sally J. Turley  
Mr. Leo Pandeladis for Treasurer Robin L. Wiessmann  
Ms. Mary Soderberg for Secretary Gerald L. Zahorchak

**Board Members Absent**

Ms. Tina Byles Williams  
Mr. Arthur J. Rooney II  
Senator Rob Wonderling

**Staff Members Present**

Mr. Jeffrey B. Clay  
Mr. Brian S. Carl  
Ms. Marilyn Fuller-Smith  
Mr. Gerald Gornish  
Mr. Donald J. Halke II  
Ms. Terrill J. Savidge  
Mr. Alan H. Van Noord  
Mr. Joseph E. Wasiak, Jr.

**Others Present**

Mr. Andrew Ritter,  
Office of Representative Steven R. Nickol

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

GUESTS Mr. Clay welcomed Ms. Beatrice Hines, representing PASR.

MINUTES APPROVED Mr. Richard Rose moved to approve the minutes of the March 7, 2008, Board meeting. Ms. May Cole seconded the motion, which passed unanimously.

#### RETIREMENT TOTALS

Ms. Tozer moved to approve 275 retirement applications which were processed as of April 18, 2008: 106 superannuation allowances; 93 withdrawal allowances; 32 disability allowances; and 44 automatic death benefits. Mr. Galante seconded the motion, which passed unanimously.

#### AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on May 1, 2008.

MINUTES APPROVED Mr. Galante stated that the Committee approved the minutes of the March 6, 2008 meeting.

2008 AUDIT PLAN Mr. Galante stated that the Committee received a report from Mr. William Blair, Clifton Gunderson, LLP, concerning the firm's audit plan for PSERS for the year ending June 30, 2008.

#### FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held on May 1, 2008.

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the March 6, 2008 meeting.

STAFF REVIEWS AND REPORTS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Mr. Spiller made a presentation concerning the third quarter Private Markets and Real Estate Program and Mr. Jacobs presented a review of the Emerging Manager Program.

Mr. Richard Rose moved that the Board adopt the proposed Investment Objectives and Guidelines Addenda listed below, pursuant to the recommendation of Robert E. Little, Senior Investment Analyst, dated April 18, 2008 (See Resolution 2008-29):

**INVESTMENT OBJECTIVES AND GUIDELINES**

<b><u>Addendum</u></b>	<b><u>Addendum Title</u></b>
A	U.S. Style-Oriented Large Cap
C	Equities
C1	U.S. Style-Oriented Small Cap
E	Equities
E1	U.S. Micro Cap Equities
E2	Internally Managed Indexed Equity
F	Portfolios
G	Internally Managed Alpha
M	Generation Program
N	Equity Rebalancing Program
O	Equity Option Program –
	Incremental Return
	Enhanced U.S. Mid Cap Equities
	Non-U.S. Equities
	Non-U.S. Small Cap Equities
	Emerging Markets Equities

Ms. Tozer seconded the motion, which passed unanimously.

Mr. Richard Rose moved that the Board terminate Smith Breeden Associates Inc. as an Enhanced S&P 500 Index investment manager, pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk, and Compliance, dated May 1, 2008; and that the Board retain Hyperion Brookfield Asset Management to manage the orderly liquidation of this portfolio, pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk, and Compliance, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-30). Mr. Sando seconded the motion, which passed unanimously.

**TERMINATION OF MANAGER/HIRING OF MANAGER**

Mr. Richard Rose moved that the Board invest up to \$500 million plus management fees and reasonable normal investment expenses, in Sankaty Credit Opportunities IV, L.P., in accordance with the recommendation of Mark Heppenstall, Managing Director

**SANKATY CREDIT OPPORTUNITIES, IV, L.P.**

of Fixed Income, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-31). Mr. Leopold seconded the motion, which passed unanimously.

AVENUE EUROPE  
SPECIAL SITUATIONS  
FUND, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 90.9 percent of the committed capital, but not to exceed €200 million plus reasonable normal investment expenses, in a side fund to Avenue Europe Special Situations Fund, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-32). Mr. J. Curtis Rose seconded the motion, which passed unanimously.

LANDMARK EQUITY  
PARTNERS XIV, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$150 million plus reasonable normal investment expenses, in Landmark Equity Partners XIV, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-33). Ms. Soderberg seconded the motion, which passed unanimously.

EVERGREEN PACIFIC  
PARTNERS II, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in Evergreen Pacific Partners II, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-34). Ms. Tozer seconded the motion, which passed unanimously.

MORGAN STANLEY  
REAL ESTATE FUND VII  
GLOBAL, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$400 million plus management fees and reasonable normal investment expenses, in Morgan Stanley Real Estate Fund VII Global, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the

Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-35). Ms. Turley seconded the motion, which passed unanimously.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$150 million plus management fees and reasonable normal investment expenses, in Paladin Realty Latin America Investors III, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-36). Mr. J. Curtis Rose seconded the motion, which passed unanimously.

PALADIN REALTY LATIN AMERICA INVESTORS III, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 90.91 percent of the committed capital, but not to exceed \$175 million plus reasonable normal investment expenses, in a side fund to RCG Longview Debt Fund IV, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-37). Mr. Galante seconded the motion, which passed unanimously.

RCG LONGVIEW DEBT FUND IV, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in AvalonBay Value Added Fund II, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-38). Ms. Tozer seconded the motion, which passed unanimously.

AVALONBAY VALUE ADDED FUND II, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 90.91 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in a side fund to Strategic Partners Value Enhancement Fund II, in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated May 1, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See

STRATEGIC PARTNERS VALUE ENHANCEMENT FUND II

## TECHNOLOGY STEERING COMMITTEE REPORT

Mr. Leopold reported on the meeting held on May 1, 2008.

### MINUTES APPROVED

Mr. Leopold stated that the Committee approved the minutes of the May 4, 2007 meeting.

### NEW PENSION ADMINISTRATION SYSTEM

Mr. Leopold stated that Ms. Savidge gave a final update to the Committee reporting on the New Pension Administration System from its commencement through May 1, 2008. Mr. Leopold spoke for the Board and thanked Ms. Savidge and Staff for their excellent work. He also thanked Mr. Clay for his guidance on the project.

## APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on May 1, 2008.

### MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the March 6, 2008 meeting.

### ADJUDICATIONS LARRY L. DONALDSON

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order and deny the request of Larry L. Donaldson to receive disability retirement benefits. Mr. J. Curtis Rose seconded the motion, which passed unanimously.

### THOMAS A. KLINE

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order and deny the request of Thomas A. Kline for Class T-D membership. Mr. Richard Rose seconded the motion. Mses. Soderberg, Tozer, Turley, and Vogler and Messrs. Leopold, Nickol, Pandeladis, J. Curtis Rose, and Richard Rose voted yes. Ms. May Cole and Messrs. Galante and Sando voted no. The motion passed 9 Yes and 3 No.

### ESRC

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the April 2, 2008 meeting.

### CUSTOMER SERVICE

Ms. Tozer stated that the Committee received an update from Ms. Savidge concerning customer service levels and an explanation of new protocols for processing Retirement Estimate requests.

## PERSONNEL COMMITTEE REPORT

Mr. J. Curtis Rose reported on the meeting held on May 1, 2008.

## PERSONNEL COMMITTEE REPORT

Mr. J. Curtis Rose reported on the meeting held on May 1, 2008.

Mr. J. Curtis Rose stated that the Committee approved the minutes of the August 3, 2007 meeting.

MINUTES APPROVED

Mr. J. Curtis Rose moved that the Board adopt changes to the Investment Office Incentive Compensation Plan in accordance with the recommendation of Jeffrey B. Clay, Executive Director, dated May 1, 2008. (See Resolution 2008-40). Mr. Richard Rose seconded the motion, which passed unanimously.

INVESTMENT OFFICE  
INCENTIVE  
COMPENSATION PLAN

## HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on May 1, 2008.

Ms. Turley stated that the Committee approved the minutes of the January 25, 2008 meeting.

MINUTES APPROVED

Ms. Turley stated that the Committee received reports from Messrs. Mark Schaffer and Ed Kaplan regarding the Market Comparison Report for the 2008 Health Options Program Plan (HOP); the 2008 Enrollment Report; and a proposed Medicare Advantage Private Fee-For-Service Plan and a companion Pre-65 Managed Care Plan for the HOP.

MARKET COMPARISON  
AND ENROLLMENT  
REPORTS AND  
MEDICARE ADVANTAGE  
PRIVATE FEE-FOR-  
SERVICE PLAN

## EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 331, Executive Director TAB):

AVAILABLE  
INFORMATION

- Legislative Report
- A copy of an Institutional Investor article featuring Alan Van Noord
- Letter from Naomi Wyatt, Secretary of Administration, indicating that Jerry Gornish had been nominated and was a finalist in the Governor's Excellence Awards
- Copy of an email from NASRA regarding the IRS Governmental Roundtable discussion recently held in Washington. The email notes that one of the issues discussed was that all pension plans would be required to have a tax qualification letter. Mr. Clay noted that PSERS has a tax qualification letter; SERS and the Municipal

systems do not. PSERS' letter is from 1979 with a supplement in 1982.

The Board discussed whether the three systems should hire expert tax counsel to look at the systems to identify any possible issues.

#### UPCOMING EVENTS

Mr. Clay stated that he planned to attend the following events:

- May 7, 2008 – PSEA-R in Pittsburgh, PA
- May 22, 2008 – Annual Valuation before the Public Employee Retirement Commission
- June 4, 5, and 6 – PAPERS Conference
- June 6, 2008 – PA IU Human Resources Directors at the Central Susquehanna IU
- June 13 – 18, 2008 – NCTR System Directors' Meeting in California

#### AUDITOR GENERAL AND IFS AUDITS

Mr. Clay stated that of the original Auditor General audit report stating 15 recommendations, 12 of them have been resolved, 2 are in process and 1 is pending. He stated that of the 45 recommendations in the IFS Report #1, 35 have been resolved, 6 are in process and 4 are pending and that of the 57 recommendations in Report #2, 49 have been resolved, 2 are in process and 6 are pending. He restated that of a total of 117 different recommendations, 96 are resolved, 10 are in process and 11 are pending. He said that one of the major issues still pending is the recommendation made by both is that PSERS prepare a more detailed code of conduct and ethics requirements for Board and Staff and that project is in process being led by Joe Wasiak.

#### PHILADELPHIA INQUIRER

Mr. Clay stated that Staff had received requests from the Philadelphia Inquirer concerning salary data from the years 2003-2007 for several Philadelphia charter schools.

#### ACCOUNTING DIVISION

He stated that a recommendation that three Investment Accounting positions be made subject to the Board's compensation and classification authority for investment professionals would be brought to the Personnel Committee in June for approval.

#### PSERS AND HOP LOGO

Mr. Clay stated that PSERS is in the process of registering the PSERS and HOP logos for trademark purposes.

#### MR. HALKE

He complimented Mr. Halke on pursuing and obtaining a tax refund from England in the amount of £176,000, which is approximately 350,000 U.S. dollars.

He stated that the Agency's re-budget for the 2008/2009 timeframe is due and will be filed by next week and that Staff is in the process of preparing for any possible budget impasse for the 2008/2009 fiscal year.

### OLD BUSINESS

Mr. J. Curtis Rose moved that the Board approve the following changes to its Statement of Organization, Bylaws, and Other Procedures, as recommended by Gerald Gornish, Chief Counsel, in his memorandum dated February 22, 2008:

#### Section 4.2

1. List the Committees in alphabetical order.
2. Clarify the Audit/Budget Committee's responsibilities for oversight of PSERS' audit and control functions, including oversight responsibility for the Internal Audit function.
3. Clarify that the Bylaws/Policy Committee shall make recommendations on all policies and amendments thereto with the exception of policies that come within the duties and responsibilities of another committee.
4. Clarify that the Finance Committee shall generally oversee the Fund's investments in accordance with the "prudent investor" standard.

#### Sections 5.1, 5.5, and 5.7

1. Change the reference from the Sunshine Act of 1986, which was repealed by the Act of October 15, 1998 (P.L. 729, No. 93), to the Sunshine Act of 1998 that is in effect today.

#### Section 5.13(a)

1. Add a reference to the confidential investment information excepted from disclosure in the Pennsylvania Code and in the recent amendment to the Retirement Code at 24 Pa. C.S. §8502(e).

(See Resolution 2008-27). Ms. Tozer seconded the motion, which passed unanimously.

### NEW BUSINESS

Mr. Richard Rose moved that any two or more of the persons occupying the following positions, namely the Executive Director; Deputy Executive Director, Operations; Deputy Executive Director, Benefits; Chief Financial Officer; Director of Investment Accounting; Managing Director of External Markets, Compliance and Risk Manager; and Chief Investment Officer, be and hereby are

SIGNING RESOLUTION

authorized to execute and deliver any and all contracts, instruments, or documents in the name of the Public School Employees' Retirement System or the Public School Employees' Retirement Board, and to endorse, assign, or guarantee all such contracts, instruments, or documents in the name of the Public School Employees' Retirement System or Public School Employees' Retirement Board (See Resolution 2008-28). Mr. Sando seconded the motion. Mr. Leopold requested that additional clarification be made to the resolution and that it be brought to the June meeting. Mr. Clay agreed. The resolution passed unanimously.

### BOARD MEMBER COMMENTS

#### CII SPRING MEETING

Ms. Vogler stated that she and Mr. Sando had attended the CII Spring Meeting and that the information is in the Library for perusal.

Ms. Vogler also stated that as her role as president of NCTR she has attended other events and would be pleased to share additional information with Board Members if they wished.

#### STAFF APPRECIATION DAY

Ms. Vogler thanked the Board for its generous contributions and participation in the Staff Appreciation Day which had been held the previous day. She read several thank you notes from several staff members. Ms. Vogler thanked Ms. Fuller-Smith for directing the project and thanked the following individuals for their work in making the event possible: Annetta Boyer, Barb Flurie, Shawn Eakins, Connie Easter, Bruce Gwinn, Fred Heckler, Daniel Himes, Sally Kamm, Patty Keim, Christy Leiter, Ginny Martin, Jim Noone, Maryann Pavlovic, Donna Peterson, Pat Quick, Frank Ryder, Nancy Scheib, Lon Seaman, Ross Shiraki, Jane Smith, Marna Ya, and Scott Zimmerman.

### CHIEF COUNSEL REPORT

#### PERSONNEL

Mr. Gornish stated that one of his staff attorneys, Ms. Jennifer Mills, recently gave birth to a child and that Lenann Engler would be leaving his staff to join PSERS' Private Markets area to work for Charles Spiller and that he is working to fill that position as quickly as possible.

#### QWEST

Mr. Gornish stated that PSERS had received the second installment in the Qwest in the amount of \$5.3 million, including interest, and that the final payment is due on or before June 30, 2008.

At 10:02 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 the possible litigation. According to Section 8(a) of the Sunshine Act 965 P.S. 278 (a)), we are going into Executive Session to discuss the agency business which, if conducted in public, would violate a privilege or lead to the disclosure of information of confidentiality protected by law."

EXECUTIVE SESSION

Representative Nickol moved that the board enter into Executive Session. Mr. Rose seconded the motion, which passed unanimously. The Executive Session meeting ended at 10:07 A.M. and immediately returned to Regular Session.

Chairman Vogler adjourned the meeting at 10:07 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on June 20, 2008, in the PSERS Board Room, 5 North 5<sup>th</sup> Street, Harrisburg, PA.

ADJOURNMENT AND  
NEXT REGULARLY  
SCHEDULED MEETING

Date 6/3/08 Approved   
Jeffrey B. Clay  
Executive Director