

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

Regular Meeting

Minutes

September 26, 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. Thomas J. Gentzel
Mr. Hal Moss
Mr. Andrew Ritter for 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
Senator Rob Wonderling
Mr. Everette James for Secretary Gerald L. Zahorchak

Board Members Absent

Ms. Tina Byles Williams

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara D. Flurie
Mr. Donald J. Halke, II
Mr. Richard Michlovitz
Mr. Eugene W. Robison
Ms. Terrill J. Savidge
Mr. Charles K. Serine
Ms. Evelyn M. Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Visitors Present

Mr. Hollis Gilliem
Ms. Pamela Johnston
Mr. Rich Johnston
Ms. Radika Munna
Mr. Brian Olney
Mr. Anthony Ottobre
Mr. Steven Taylor
Ms. Heddy Vynazal
Mr. Dominic Williams

Others Present

Mr. Ed Poole
for Secretary Zahorchak
Mr. William Blair
of Clifton Gunderson LLP
(telephonically)

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 AND NEW EMPLOYEE	Mr. Clay welcomed the Service Employees' International Union (SEIU) guests, and PSERS' new employee, April Keller.
MINUTES APPROVED	Mr. Rose moved to approve the minutes of the August 14, 2008, Board meeting. Ms. Turley seconded the motion, which <u>passed unanimously</u> .
SEIU GUEST SPEAKERS	SEIU guests Brian Olney, Anthony Ottobre, Radika Munna, Pamela Johnston, and Heddy Vynazal spoke regarding their concerns with PSERS' investment in a Lazard Freres Strategic Realty Investors Fund 2 related real estate partnership because of labor issues with one of its portfolio companies, Atria Senior Living Group, Inc. Senator Wonderling followed with a request for information from both the SEIU and PSERS' staff regarding the financial performance of the fund manager in question.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held September 25, 2008.

MINUTES APPROVED	Mr. Rose stated that the Committee approved the minutes of the August 13, 2008 meeting.
SEIU COMMENTS	Mr. Rose stated that the Committee was addressed by representatives of the SEIU in regard to PSERS' investment in Lazard Freres Strategic Realty Investors Fund 2 related real estate partnership.
PRESENTATIONS	Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Mr. Bensus, of Wilshire Associates, gave a performance review; as well as the preview of future meetings from Mr. Van Noord.
CARLYLE ASIA REAL ESTATE PARTNERS II, L.P.	Mr. 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 Carlyle Asia Real Estate Partners II, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated September 25, 2008. 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. Leopold seconded the motion, which passed unanimously.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$68.75 million plus reasonable normal investment expenses, in Gold Hill Capital 2008, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated September 25, 2008. 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.

GOLD HILL CAPITAL 2008
L.P.

Mr. Rose moved that the Board invest an amount equal to 90.9 percent of the committed capital, but not to exceed €100 million plus reasonable normal investment expenses, in a side fund to Apollo European Principle Finance Fund, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated September 25, 2008. 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. Rose seconded the motion, which passed unanimously.

APOLLO EUROPEAN
PRINCIPLE FINANCE
FUND, L.P.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$200 million plus reasonable normal investment expenses, in Cerberus Institutional Partners International, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated September 25, 2008. 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 unanimously.

CERBERUS
INSTITUTIONAL
PARTNERS
INTERNATIONAL, L.P.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed £120 million

HGCAPITAL 6, L.P.

plus reasonable normal investment expenses, in HgCapital 6, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated September 25, 2008. 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. Sando seconded the motion, which passed unanimously.

WESTRIDGE CAPITAL
MANAGEMENT
ENHANCEMENT FUNDS
– CLASS FUND A

Mr. Rose moved that the Board invest up to \$1.0 billion in the Westridge Capital Management Enhancement Funds – Class Fund A pursuant to the recommendation of Alan Van Noord, Chief Investment Officer, and Wilshire Associates Incorporated in their memo dated September 25, 2008. 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. Moss seconded the motion, which passed unanimously.

INVESTMENT
OBJECTIVES AND
GUIDELINES

Mr. 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 September 12, 2008.

Addendum Addendum Title

D Enhanced S&P 500 Index Fund Portfolios
P Active Currency Hedging Overlay Program
P1 Active Currency Program
Z Securities Lending Program
 Internally-Managed Health Options Program

Ms. Turley seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on September 25, 2008.

MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the August 13, 2008 meeting.

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order and deny the request of Kathy J. Hing to purchase her out of state service. Ms. Turley seconded the motion, which passed unanimously .

ADJUDICATION
KATHY J. HING

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the August 26, 2008 meeting.

EXECUTIVE STAFF
REVIEW COMMITTEE

Ms. Tozer stated that Ms. Savidge spoke regarding the updated Benefits Processing Statistics.

BENEFITS PROCESSING
STATISTICS

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on September 25, 2008.

Mr. Galante stated that the Committee approved the minutes of the June 19, 2008 meeting.

MINUTES APPROVED

Mr. Galante stated that the Committee received a report from Mr. Carl and Ms. Boyer, concerning PSERS' 2009-2010 Budget.

2009-2010 BUDGET
PRESENTATION

Mr. Galante moved that the Board approve the 2009-2010 Administrative Budget (not to exceed \$44,334,000) and the 2009-2010 Directed Commissions Recapture Program Budget (\$1,000,000) for the Public School Employees' Retirement System as more particularly set forth in the attached summaries. Mr. Rose seconded the motion, which passed unanimously.

2009-2010 BUDGET

PERSONNEL COMMITTEE REPORT

Mr. Gentzel reported on the meeting held on September 25, 2008.

Mr. Gentzel stated that the Committee approved the minutes of the August 13, 2008 meeting.

MINUTES APPROVED

Mr. Gentzel stated that the Committee heard a presentation on the proposed Bonus Ban Bill.

BONUS BAN BILL

Mr. Gentzel reported that the Committee held Executive Session regarding Executive Compensation.

EXECUTIVE SESSION

NEW BUSINESS

Mr. Clay stated that the 2009 HOP Premium Rates were mailed to the Board.

HOP PREMIUM

APPROVAL OF
FINANCIAL
STATEMENTS

Mr. Halke introduced Mr. Blair of Clifton Gunderson LLP, who joined the meeting via telephone. Mr. Blair reviewed the independent auditor's report. Discussion followed.

ACCEPTANCE OF THE
JUNE 30, 2008
FINANCIAL
STATEMENTS

Mr. Galante moved that the Board accept the June 30, 2008 Financial Statements and approve the accompanying Independent Auditor Report prepared for the Public School Employees' Retirement System by Clifton Gunderson LLP, for the year ended June 30, 2008. Further resolved, that pursuant to 24 Pa. C.S. §8521(d), the Board ratifies all payments that are reflected in the June 30, 2008 Financial Statements. Mr. Rose seconded the motion, which passed unanimously.

OLD BUSINESS

GOVERNOR'S
FUNDING PROPOSAL
PRESENTATION

Mr. Clay presented The Governor's Funding Proposal. Discussion followed, with clarification from Ed Poole, of the Governor's Office, in response to questions by Board members.

EXECUTIVE DIRECTOR'S REPORT

HOUSE BILL 1140 AND
SENATE BILL 1584

Mr. Clay introduced Mr. Ryder who gave background and a status report on House Bill 1140 and Senate Bill 1584.

RECENTLY ATTENDED
EVENTS

Mr. Clay stated that he made a presentation to the PSEA Board on September 12, 2008.

UPCOMING EVENTS

Mr. Clay stated that he plans to attend the PASR Annual Convention Banquet in Gettysburg on October 7, 2008; attend the NCTR Annual Convention in Washington DC October 11 – 14, 2008; make a PASR presentation in Greensburg, Westmoreland County on October 23, 2008; make a presentation at South Hills School District, near Pittsburgh, on October 23, 2008; and make a presentation at Carbon Lehigh Intermediate Unit (CLIU) Human Resource Meeting on November 19, 2008.

EMPLOYEE
RECOGNITION
LUNCHEON

Mr. Clay stated that the PSERS Employee Recognition Luncheon was held on September 17, 2008. Employees were recognized for years of service and outstanding service.

ACTUARIAL DATA

Mr. Clay stated that the actuarial data is being compiled for submission to the actuaries for the 2008 valuation.

STATEMENTS OF
ACCOUNT

Mr. Clay stated that the statements of account are being prepared for mailing to PSERS' active members.

Mr. Clay informed the Board that volunteers are being accepted for participation in the RFP for the Election Vendor.

RFP PROPOSAL –
ELECTION VENDOR

Mr. Clay also noted that the December meeting will include the actuarial valuation and the approval of the HOP budget.

UPCOMING MEETING
ITEMS

CHIEF COUNSEL REPORT

Mr. Michlovitz updated the Board on the Royal Dutch settlement. The settlement involves a \$90,000,000 payment to shareholders who are part of the class action and reimbursement of PSERS' expenses. Mr. Gornish was attending the hearing at the time of the Board Meeting, and expected no serious challenges to the settlement.

ROYAL DUTCH

Mr. Michlovitz informed the Board that PSERS has joined the New York State Teachers Retirement System in objecting to attorney's fees in the Mercury Interactive Court class action.

CLASS ACTION CASE

Mr. Michlovitz informed the Board that all briefs have been filed in the Union Officers case. The case will be heard by the Supreme Court on Monday, October 20, 2008 in Philadelphia.

UNION OFFICERS CASE

EXECUTIVE SESSION

At 10:51 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 Healthways 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

Mr. Sando moved that the Board enter into Executive Session. Mr. Leopold seconded the motion, which passed unanimously. The Executive Session ended at 11:01 A.M. and immediately returned to Regular Session.

Ms. Turley moved that the Board accepts the settlement offer in the litigation matter between the Board and Healthways, Inc., d/b/a Silver Sneakers, filed in the Dauphin County Court of Common Pleas, docketed at No. 2008 CV 1610CV, as outlined by Deputy Chief Counsel Charles K. Serine. The terms and condition of the settlement agreement shall be satisfactory to the Executive Director

HEALTHWAYS
LITIGATION

and the Office of Chief Counsel. Ms. Tozer seconded the motion, which passed unanimously.

ADJOURNMENT AND
NEXT REGULARLY
SCHEDULED MEETING

Chairman Vogler adjourned the meeting at 11:02 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on December 12, 2008, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 11/7/08

Approved 
Jeffrey B. Clay
Executive Director

