

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

Regular Meeting

Minutes

March 11, 2011

9:00 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Bonita Lane for Senator Patrick Browne
Ms. Debbie Reeves for Representative Joseph F. Markosek
Mr. Glen S. Galante
Ms. Beth Winters for Mr. Thomas J. Gentzel
Ms. Kathleen Bruder for Secretary Ronald J. Tomalis
Representative Glen R. Grell
Mr. John Raymond for Senator Shirley M. Kitchen
Mr. Christopher Craig for Treasurer Robert M. McCord
Mr. Hal Moss
Mr. Richard N. Rose
Mr. James M. Sando
Ms. Patricia A. Tozer
Ms. Sally J. Turley

Board Members Not Present

Ms. Tina Byles Williams

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara D. Flurie
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. Sandy Leopold

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

CALL TO ORDER

WELCOME GUEST AND
NEW EMPLOYEES

Ms. Vogler welcomed guest, Mr. Sandy Leopold. Ms. Savidge also introduced new employees, Ms. Debra Bressler, Ms. Vesna Nelson, and Mr. Timothy Still.

MINUTES APPROVED

Ms. Turley moved to approve the minutes of the January 21, 2010 Board meeting. Ms. Tozer seconded the motion, which passed unanimously.

OLD BUSINESS

FIVE YEAR
EXPERIENCE STUDY

Mr. Carl reviewed the Summary of Recommended Assumption Changes.

Mr. Sando moved that the Public School Employees' Retirement Board (the "Board") accepts the June 30, 2010 Five-Year Experience Study report prepared by Buck Consultants, adopts the demographic assumptions and option factor changes as more specifically set forth in the attached exhibits and adopts an inflation assumption of 3%, an investment rate of return assumption of 7.5% and a salary growth assumption of 5.5% to be implemented in the June 30, 2011 actuarial valuation.

RESOLVED, FURTHER, that the Board agrees to re-evaluate its investment rate of return and salary growth assumptions after receipt of the results of PSERS June 30, 2011 actuarial valuation, but prior to Board action on the PSERS planned 2012 asset allocation. Ms. Turley seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held March 10, 2011.

MINUTES APPROVED

Mr. Rose stated that the Committee approved the minutes of the January 20, 2010 meeting.

PRESENTATIONS

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Mr. Bensus gave the 4th Quarter Performance Review; Mr. Smith gave the 4th Quarter Public Market Performance Review; Mr. Ruehl, of Aksia, LLC, gave a 4th Quarter Absolute Return Performance update; Mr. Bensus reported on the Asset/Liability Study; Mr. Grossman gave a presentation on the Investment Policy Statement, Objectives and Guidelines; an Executive Session was held regarding Fund Issues; Mr. Spiller spoke regarding the Centerline Loan Tender Offer; and Mr. Van Noord gave a preview of future meetings.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed changes to Exhibits B, C, and D of the Investment Policy Statement, Objectives, and Guidelines for the Public School Employees' Retirement Board as recommended by Alan H. Van Noord, Chief Investment Officer, and William G. Bensur, Jr., Managing Director, Wilshire Associates in their joint letter dated March 10, 2011. Mr. Moss seconded the motion, which passed unanimously.

INVESTMENT POLICY
STATEMENT

Mr. Rose moved the Public School Employees' Retirement Board (the "Board") approves the sale of its share of the Centerline High Yield CMBS Fund III, LLC Loan, in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated March 10, 2011. 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 unanimously.

CENTERLINE HIGH YIELD
CMBS FUND III, LLC

CORPORATE GOVERNANCE COMMITTEE REPORT

Mr. Sando reported on the meeting held on March 10, 2011.

Mr. Sando stated that the Committee approved the minutes of the October 7, 2010 meeting.

MINUTES APPROVED

Mr. Sando stated that Mr. McCormick, of Glass Lewis, gave an Overview of Current Proxy Issues; and Ms. Engler spoke regarding Updated Proxy Guidelines.

CURRENT PROXY
ISSUES

Mr. Sando moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed U.S. and Non-U.S. Proxy Voting Policies pursuant to the recommendation of Lenann T. Engler, Senior Investment Analyst, dated February 25, 2011. Ms. Tozer seconded the motion, which passed unanimously.

PROXY VOTING
POLICIES

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on March 10, 2011.

Ms. Tozer stated that the Committee approved the minutes of the January 20, 2011 meeting.

MINUTES APPROVED

ESRC REPORT Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee Report from the January 28, 2011 meeting.

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

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on March 10, 2011.

MINUTES APPROVED Ms. Turley stated that the Committee approved the minutes of the December 9, 2010 meeting.

PRESENTATIONS Ms. Turley stated that Mr. Schafer presented a Market Comparison and an Open Enrollment Update to the Committee.

EXECUTIVE DIRECTOR'S REPORT

INFORMATION AVAILABLE Ms. Savidge, on behalf of Mr. Clay, stated that the following information was available (See Board Book 354, Executive Director TAB):

- McCord Report
- The NAPPA Report
- NY Times article – bond rating
- Wall Street Journal article – Illinois Bond Sale
- David Stawick letter
- Gornish memo re: policy review
- Board Member and Committee Lists

RECENTLY ATTENDED EVENTS Mr. Clay recently attended the following event:

- Mar 4 – PSEA Health and Welfare Committee tour at PSERS

Ms. Tatkovski and Mr. Serine recently attended the following event on behalf of Mr. Clay:

- Feb 9 - Eastern PA Association of School Personnel Administrators (EPAPSA) at the Montgomery County IU in Norristown (postponed from 1/12)

UPCOMING EVENTS Mr. Clay will attend the following events:

- Mar 16 – PASBO Convention – Pittsburgh
- Mar 21 - Budget Hearings – House and Senate
- Mar 17 –Meeting with the Government Accounting Office

It was reported that PSERS Recreation Association donated \$1600.00 to The Avenues (formerly Cerebral Palsy of Schuylkill County) as a result of the King and Queen of Hearts; PSERS' staff made a food and cash donation to the Ecumenical Food Pantry; and Office 10 conversion training will be offered to Board Members with PSERS' laptops during the April meeting timeframe.

Ms Savidge also noted that information pertaining to the following Board Member Elections would be sent out prior to the Board's April meeting:

- Active certified member
- School Board member

Finally, Ms. Savidge reported that PSERS has been notified that CMS is planning to do a Financial Audit of PSERS' federally subsidized PDP.

CHIEF COUNSEL REPORT

Chuck Serine gave the report on behalf of Chief Counsel, Gerald Gornish, who was absent, on the following matters:

The SEC had proposed a regulation to interpret the term "*municipal advisor*" in the Dodd-Frank Act, defined there as "a person who provides advice to or on behalf of a municipal entity with respect to municipal financial products." The Dodd-Frank Act excludes "municipal entities," as well as their employees, from registration. The SEC was proposing to include pension funds as "municipal entities," and to exclude employees and elected members of a retirement board from registration as a municipal advisor, but to require appointed members to register.

DODD-FRANK ACT/SEC
REGISTRATION OF
MUNICIPAL ADVISORS

Gerald Gornish submitted a comment on behalf of PSERS and PMRB opposing this concept, including a legal analysis that showed that this Board and its members are, in fact, the "municipal entity." Therefore, since "municipal entities" are excluded from registration, by definition members of the Board should be excluded from registration. We hope the SEC will adopt that legal analysis.

The Dodd-Frank Act also directed the SEC to solicit public comments and thereafter conduct a study to determine the extent to which private rights of action under the antifraud provisions of the federal securities laws should be extended to undo the Supreme Court's *Morrison* case.

DODD-FRANK ACT

In keeping with our position on this issue, PSERS participated in a recently-filed comment that was spearheaded by the North Carolina Retirement Fund, and joined in by many of the leading pension funds.

AMICUS BRIEF IN
HALLIBURTON

PSERS also joined in an amicus brief before the Supreme Court of the United States in this matter, with the consent of the Corporate Action Agency Committee. The technical issue in the case was whether a Court of Appeals' ruling requiring class plaintiffs to prove loss causation before the class certification stage is inconsistent with the Law. The issue addressed in the amicus brief, however, was to a different aspect of the Court's decision, announcing a rule regarding what a plaintiff must prove to show loss causation. The Court had suggested that a plaintiff must show that a decline in a defendant's fraudulently inflated stock price followed a very specific corrective disclosure *admitting* the falsity of prior disclosures. However, defendants do not generally admit falsity, if at all, until the very end, even though they make other disclosures which cause the stock to fall.

Since this holding was not necessary for the issue the Supreme Court is reviewing, but was included in the Court of Appeals' opinion, the amicus brief asked the Supreme Court to disregard that issue in addressing and (hopefully) rejecting the Court's opinion on class certification.

EBERHARDT

This was an appeal to the Commonwealth Court from an order of the Board denying Claimant's appeal both on the merits and because she had not filed timely exceptions to the Hearing Examiner's proposed decision. The Board had rejected her appeal on the merits, as well as on the ground that the exceptions were not timely. PSERS filed a motion to dismiss the court appeal for failure to preserve the question below. Jennifer Mills successfully argued to the Court that because Claimant failed to timely file exceptions to the proposed report, she did not properly preserve the substantive issue for consideration before the Commonwealth Court. The Court granted our Motion and dismissed the case without opinion and without reaching the merits "for failure to preserve the question below." This order has the effect of upholding PSERS' regulation regarding exceptions.

COMMENT TO CFTC

PSERS joined 2 other large public pension funds in a comment to the CFTC regarding a proposed regulation on business conduct standards for Swap Dealers and Major Swap Participants (SD/MSPs) with counterparties. Under the regulations, PSERS would qualify as a Special Entity. If a SD/MSP offers to enter into,

or enters into a swap with a Special Entity, the SD/MSP must have a reasonable basis to believe that the Special Entity has an independent representative who meets certain qualifications. The major pension fund concern is that there is an inherent conflict of interest in having the SD/MSP make the determination regarding who is qualified to represent the Special Entity, both from the standpoint of doing the trade or not doing the trade. An SD/MSP may not wish to undertake the additional cost of completing the due diligence necessary to make this determination. Our comment, therefore, endorses adopting the proposed regulation while adding an alternative approach whereby any Special Entity independent representative may take an exam to qualify so that it is not necessary to rely upon an SD/MSP for such a determination.

CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation to the Board containing the December 31, 2010 Financial Statements, Annuitant Payroll Statistics, Benefits Payments vs. Contributions, and Other Financial Management Activities (See Board Book 354, CFO Report TAB).

At 10:00 A.M., Ms. Savidge 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 items listed on today's agenda, namely 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 law; and personnel 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

Ms. Tozer moved that the Committee enter into Executive Session. Ms. Turley seconded the motion, which passed unanimously. The Executive Session ended at 10:27 A.M. and the meeting immediately returned to Regular Session.


Chairman Vogler adjourned the meeting at 10:28 A.M.

ADJOURNMENT

NEXT MEETING

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on April 29, 2011, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 4/13/11

Approved 
Jeffrey B. Clay,
Executive Director