

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

Regular Meeting

Minutes

August 11, 2011

9:00 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Senator Patrick Browne
Ms. Beth Winters for Mr. Thomas J. Gentzel
Representative Glen R. Grell
Mr. John Raymond for Senator Lawrence M. Farnese
Mr. Bernard Gallagher for Representative Joseph F. Markosek
Treasurer Robert M. McCord
Mr. Hal Moss
Mr. Richard N. Rose
Mr. James M. Sando
Ms. Kelly Logan for Secretary Ronald J. Tomalis
Ms. Patricia A. Tozer
Ms. Sally J. Turley

Board Member Absent

Mr. Glen S. Galante

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara D. Flurie
Mr. James H. Grossman, Jr.
Mr. Gerald Gornish
Ms. Maryann Pavlovic
Ms. Juliann Ruffing
Ms. Terrill J. Savidge
Mr. Joseph E. Wasiak, Jr.

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

CALL TO ORDER

Mr. Clay welcomed new employee, Ms. Juliann Ruffing.

WELCOME NEW
EMPLOYEE

MINUTES APPROVED Mr. Rose moved to approve the minutes of the June 10, 2011 Board meeting. Mr. Moss seconded the motion, which passed unanimously. Ms. Tozer moved to approve the minutes of the July 12, 2011 Special Board meeting. Ms. Turley seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

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

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the June 9, 2011 meeting.

PRESENTATIONS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Ms. Engler presented an update on the Sudan/Iran Divestment; Mr. Spiller gave the Private Markets and Real Estate Quarterly Review; an Executive Session was held regarding Private Market and Real Estate Issues. Mr. Rose reported that presentations were given regarding Robeco Investment Management; Brigade Distressed Value Fund; Cerberus Levered Loan Opportunities Fund I, L.P.; Investment Objectives and Guidelines; The Fifth Cinven Fund, L.P.; Incline Equity Partners III, L.P.; Summit Partners Growth Equity Fund VIII, L.P. and Summit Partners Venture Capital Fund VIII, L.P; and Mr. Van Noord presented his Preview of Future Meetings.

ROBECO INVESTMENT MANAGEMENT Mr. Rose moved that pursuant to the recommendations of Robert E. Little, Portfolio Manager of External Public Markets, Risk & Compliance, dated July 27, 2011, and Aksia, LLC, dated July 25, 2011, the Public School Employees' Retirement Board (the "Board") invests in the Robeco Transtrend Diversified Fund LLC, in an initial amount of \$200 million, and within the target ranges established 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>). 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.

BRIGADE DISTRESSED VALUE FUND Mr. Rose moved that pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets,

Risk & Compliance, dated July 27, 2011, and Aksia, LLC, dated July 27, 2011, the Public School Employees' Retirement Board (the "Board") invests in the Brigade Distressed Value Offshore Fund Ltd., in an initial amount of \$100 million, and within the target ranges established 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>). 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. Winters seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests \$200 million plus reasonable normal investment expenses, in Cerberus Levered Loan Opportunities Fund I, L.P., in accordance with the recommendation of James H. Grossman, Jr, Managing Director of External Public Markets, Risk & Compliance, dated July 27, 2011, and Portfolio Advisors, dated August 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. Mr. Sando seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed 100 million Euros plus reasonable normal investment expenses, in The Fifth Cinven Fund, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated August 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. Ms. Turley seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$50 million plus reasonable

CERBERUS LEVERED
LOAN OPPORTUNITIES
FUND I, L.P.

THE FIFTH CINVEN FUND
L.P.

INCLINE EQUITY
PARTNER III, L.P.

normal investment expenses, in Incline Equity Partners III, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated August 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. Ms. Tozer seconded the motion, which passed with one abstention by Treasurer McCord.

SUMMIT PARTNERS
GROWTH EQUITY
FUND VIII, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in Summit Partners Growth Equity Fund VIII, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated August 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. Mr. Raymond seconded the motion, which passed unanimously.

SUMMIT PARTNERS
VENTURE CAPITAL
FUND VIII, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$25 million plus reasonable normal investment expenses, in Summit Partners Venture Capital Fund III, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated August 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.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

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

MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the June 10, 2011 meeting.

Ms. Tozer moved to adopt the Opinion and Order to Quash the Administrative Appeal and deny the request of Gary L. Jenkins for an Administrative Hearing. Mr. Sando seconded the motion, which passed unanimously.

ACCOUNT OF
GARY JENKINS

Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee (ESRC) Report from the May 23 and June 29, 2011 meetings.

ESRC REPORT

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

BENEFITS PROCESSING

AUDIT/BUDGET COMMITTEE REPORT

Representative Grell, on behalf of Mr. Galante, reported on the meeting held August 10, 2011.

Representative Grell stated that the Committee approved the minutes of the June 10, 2011 meeting.

MINUTES APPROVED

Representative Grell stated that Mr. Johnson, of The Segal Company, spoke regarding the Claims Audit.

PRESENTATIONS

Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") accepts the May 19, 2011 Analysis and Evaluation of Claims Processing and Payment procedures for the Public School Employees' Retirement System Health Options Program prepared by The Segal Company, for the year ended December 31, 2010. Ms. Winters seconded the motion, which passed unanimously.

SEGAL CLAIMS AUDIT

HEALTH CARE COMMITTEE REPORT

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

Ms. Turley stated that the Committee approved the minutes of the June 9, 10 and July 12, 2011 meetings.

MINUTES APPROVED

Ms. Turley stated that Mr. Schafer gave an overview of the Medicare Advantage and Pre-65 Managed Care Plans Premium Rates and Benefits for 2012.

PRESENTATIONS

MEDICARE
ADVANTAGE AND PRE-
65 MANAGED CARE
PLANS –
PREMIUM RATES AND
BENEFITS
EFFECTIVE 1/1/2012

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board"), in accordance with the recommendation of Mark Schafer, Director, Health Insurance Office, dated August 3, 2011, that the Board accept the proposals from:

- Aetna,
- Capital Blue Cross/Keystone Health Plan – Central,
- Geisinger Health Plan,
- Highmark, Inc. / Keystone Health Plan West, Inc.,
- Independence Blue Cross/Keystone Health Plan – East, and
- University of Pittsburgh Medical Center (UPMC) Health Plan.

The final terms and conditions of the contracts must be satisfactory to the Director, Health Insurance Office; the Office of Chief Counsel and the Executive Director, as evidenced either by the appropriate signatures on the implementing contracts or by a memo to that effect appended to the implementing contracts. Mr. Raymond seconded the motion, which passed with three abstentions by Treasurer McCord, Representative Grell and Mr. Gallagher, on behalf of Representative Markosek.

PERSONNEL COMMITTEE REPORT

Ms. Winters, on behalf of Mr. Gentzel, reported on the meeting held August 10, 2011.

MINUTES APPROVED

Ms. Winters stated that the Committee approved the minutes of the June 9, 2011 meeting.

Ms. Winters reported that Ms. La Luz reviewed changes to the Policy Manual for Investment Professional Staff.

AMENDMENT TO THE
POLICY MANUAL FOR
INVESTMENT
PROFESSIONAL STAFF

Ms. Winters moved that, in accordance with the recommendation of the Personnel Committee of the Public School Employees' Retirement Board (Board), the Board approves the proposed amendments to the *Policy Manual for Investment Professional Staff*, effective immediately, as more particularly set forth in Exhibit A attached hereto. Mr. Rose seconded the motion, which passed unanimously.

OLD BUSINESS

Ms. Vogler stated that she met with Mr. Clay to review his evaluation as Executive Director, as well as goals for the upcoming year.

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay reported that Senator Lawrence M. Farnese has been appointed to the Board, replacing Senator Shirley Kitchen.

NEW BOARD MEMBER

Mr. Clay stated that the following information was available (See Board Book 357, Executive Director TAB):

INFORMATION
AVAILABLE

- McCord Report
- Updated member listing

Mr. Clay recently attended the following event:

- August 4 – PERC presentation

RECENTLY ATTENDED
EVENT

Mr. Clay stated that he expects to attend the following event:

- October 5 – PSEA-R presentation regarding COLA's

UPCOMING EVENT

Mr. Clay reported that Ms. Vogler has been elected by acclamation for the Active Certified Member seat.

BOARD ELECTIONS

Mr. Clay stated that three candidates have submitted proper documentation for the School Board Member election. The candidates are Mr. Richard N. Rose, Mr. Michael E. Hartline and Mr. David W. Spears. The election ballots will be mailed in November and the results will be announced at the December Board Meeting.

Mr. Clay stated that the agency will be very busy for the remainder of the year as it completes a series of recurring annual tasks, including: processing retirements, which total 37% more than last year; preparing the FY 2010-2011 financial statements for the annual independent audit; developing the 2012-2013 Administrative Budget and Directed Commission Budget for Board approval at its October 2011 meeting; producing the Comprehensive Annual Financial Report for FY 2010-2011 which will be available in December; producing and mailing the annual Statement of Accounts; completing the June 30, 2011 Actuarial Valuation; conducting the Health Options Program selection period starting in October; and getting the 1099's prepared for mailing in January, 2012.

ONGOING AGENCY
EVENTS

Mr. Clay reminded members that the Board will be hosting a staff appreciation hot dog day on Thursday, October 6.

HOT DOG DAY

STRATEGIC PLANNING Mr. Clay stated that the Board will be involved in the Strategic Planning process with the agency. Specific information will be presented to the Board at the January Educational Session.

CHIEF COUNSEL REPORT

STATUS UPDATE Mr. Gornish stated that the Office of Chief Counsel will be acquiring a new attorney in September to fill the vacancy left by the retirement of Mr. David Speck.

CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation to the Board containing the Administrative and School Employees Retirement Contribution Budget Updates; Fund Asset Value History and Projections; India Taxation; and the Year-End Schedule (See Board Book 357, CFO Report TAB).

EXECUTIVE SESSION At 9:55 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."

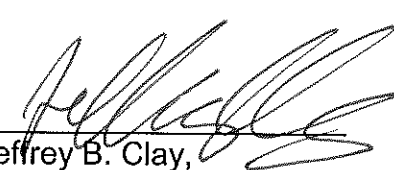
Representative Grell moved that the Board enter into Executive Session. Ms. Winters seconded the motion, which passed unanimously. The Executive Session ended at 10:05 A.M. and the meeting immediately returned to Regular Session.

ADJOURNMENT Chairman Vogler adjourned the meeting at 10:05 A.M.

NEXT MEETING The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on October 7, 2011, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 8/26/11

Approved


Jeffrey B. Clay,
Executive Director