

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

Regular Meeting

Minutes

March 7, 2008

8:30 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Rebecca May Cole for Representative Dwight Evans
Mr. Glen S. Galante
Mr. J. Curtis Rose for 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
Mr. Scott Sikorski for Senator Rob Wonderling
Ms. Mary Soderberg for Secretary Gerald L. Zahorchak (arrived at 8:35)

Board Members Absent

Ms. Tina Byles Williams
Senator Vincent J. Fumo
Mr. Arthur J. Rooney II

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Marilyn Fuller-Smith
Mr. Gerald Gornish
Mr. Richard Michlovitz
Ms. Terrill J. Savidge
Ms. Evelyn M. Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

CALL TO ORDER Chairman Vogler called the meeting to order at 8:30 A.M. in the fourth floor Board Room at PSERS' headquarters.

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

MINUTES APPROVED Ms. Tozer moved to approve the minutes of the January 25, 2008, Board meeting. Mr. Richard Rose seconded the motion, which passed unanimously.

Ms. Turley moved to approve the minutes of the February 18, 2008, Special Board meeting. Mr. Richard Rose seconded the motion, which passed unanimously.

RETIREMENT TOTALS

Ms. Tozer moved to approve 738 retirement applications which were processed as of January 11, 2007: 276 superannuation allowances; 365 withdrawal allowances; 48 disability allowances; and 49 automatic death benefits. Mr. Galante seconded the motion, which passed unanimously.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on March 6, 2008.

MINUTES APPROVED Mr. Galante stated that the Committee approved the minutes of the January 24, 2008 meeting.

FINANCIAL AUDIT Mr. Galante moved that the Board retain Clifton Gunderson to perform a financial audit for PSERS for the fiscal years ending June 30, 2008 and 2009 with renewal options for the fiscal years ending June 30, 2010, 2011, and 2012, subject to terms and conditions that are satisfactory to the Executive Director, the Chief Investment Officer, and the Office of Chief Counsel (See Resolution 2008-12). Mr. Richard Rose seconded the motion, which passed unanimously.

CORPORATE GOVERNANCE COMMITTEE REPORT

Mr. Sando reported on the meeting held on March 6, 2008.

Mr. Sando stated that the Committee approved the minutes of the January 24, 2008 meeting.

MINUTES APPROVED

Mr. Sando stated that the Committee met in Executive Session to discuss the Royal Dutch/Shell litigation.

EXECUTIVE SESSION

Ms. Soderberg arrived at this time.

Mr. Sando moved that the Board adopt the proposed U.S. and Non-U.S. Proxy Voting Policies pursuant to the recommendation of Robert E. Little, Senior Investment Analyst, dated February 22, 2008 (See Resolution 2008-13). Representative Nickol seconded the motion, which passed unanimously.

U.S. AND NON-U.S.
PROXY VOTING
POLICIES

Mr. Sando moved that the Board approve the Memorandum of Understanding dated March 4, 2008, regarding the settlement of the pending class action securities litigation with Royal Dutch/Shell, filed in the United States District Court for the District of New Jersey, in which the Public School Employees' Retirement System and State Employees' Retirement System are lead plaintiffs and class representatives, in accordance with the recommendations of Gerald Gornish, Chief Counsel, and Bernstein Liebhart & Lifshitz, LLP, counsel for the class.

ROYAL DUTCH/SHELL

FURTHER RESOLVED, that the Board delegate to the Executive Director the authority to execute any and all additional documents necessary to implement the settlement, provided that the final terms and conditions of each shall be satisfactory to the Executive Director, Chief Investment Officer, and the Office of Chief Counsel (See Resolution 2008-14). Mr. Galante seconded the motion, which passed unanimously.

BYLAWS/POLICY COMMITTEE REPORT

Representative Nickol reported on the meeting held on March 6, 2008.

Representative Nickol stated that the Committee approved the minutes of the June 21, 2007 meeting.

Representative Nickol stated that the Committee approved changes to the Statement of Organization, Bylaws, and Other Procedures and that the proposed changes would come before the Board at its next regularly scheduled meeting for action.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on March 6, 2008.

MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the January 24, 2008 meeting.

ADJUDICATIONS MACIULEWICZ

Ms. Tozer moved that the Board adopt the draft Board Opinion and Order granting PSERS' Motion for Summary Judgment and deny the requests of Thomas J. Maciulewicz and Tara Maciulewicz in the account Thomas J. Maciulewicz for an Administrative Hearing. Mr. Richard Rose seconded the motion, which passed unanimously.

ANDREWS

Ms. Tozer moved that the Board adopt the Hearing Examiner's Opinion and Order and deny the request of Albert Andrews to purchase NQPT service. Ms. Turley seconded the motion, which passed unanimously.

STAVISH

Ms. Tozer moved that the Board adopt the Hearing Examiner's Opinion and Order and dismiss the appeal of Frank J. Stavish with prejudice for multiple service membership. Mr. Sando seconded the motion, which passed unanimously.

WALLACE

Ms. Tozer moved that the Board adopt the draft Board Opinion and Order to adopt the Hearing Examiner's Opinion and Order, as modified by clarification Exceptions filed by PSERS, and deny the claim of Beverly Rawls and Phyllis Wallace to be recognized as sole beneficiaries in the case of William E. Wallace, deceased, and to grant the benefit to Marjorie F. Wallace, the secondary beneficiary under the September 13, 2006, Nomination of Beneficiaries form. Mr. Galante seconded the motion. Mses. May Cole, Tozer, Vogler, and Soderberg and Messrs. Galante, Nickol, Pandeladis, J. Curtis Rose, Richard Rose, Sando, and Sikorski voted yes. Ms. Turley voted No. The motion passed 11 Yes and 1 No.

EXECUTIVE STAFF REVIEW COMMITTEE

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the January 31, 2008 meeting.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held on March 6, 2008.

Mr. Rose stated that the Committee approved the minutes of the January 24, 2008 meeting.

MINUTES APPROVED

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Messrs. Grossman, Heppenstall, and Smith gave a report reviewing 2007 performance attribution; Mr. Heppenstall gave a bank loan review; and Mr. Bensur discussed the fourth quarter Fund performance. He stated that Mr. Van Noord and Mr. Bensur, together with staff, discussed staffs' proposed investment strategy.

STAFF REVIEWS AND REPORTS

Mr. Rose moved that the Board adopt the proposed Asset Allocation Plan for the Public School Employees' Retirement Fund as proposed by Wilshire Associates Incorporated in its presentation material dated March 6, 2008, as follows:

ASSET ALLOCATION PLAN

<u>ASSET CLASS</u>	<u>SUB-CLASS OBJECTIVE</u>	<u>OBJECTIVE</u>
Large Cap	17.90%	
SMID Cap	4.10%	
Micro Cap	<u>0.50%</u>	
U.S. Equity Exposure		22.50%
Non-U.S. Large Cap	20.65%	
Non-U.S. Small Cap	4.10%	
Emerging Markets	<u>2.75%</u>	
Non-U.S. Equity Exposure		<u>27.50%</u>
Total Public Market Equity Exposure		<u>50.00%</u>
Alternative Investments		13.00%
PTRES Portfolios	2.50%	
Private Real Estate	<u>7.50%</u>	
Real Estate (including PTRES)		<u>10.00%</u>
<u>Total Equity Exposure</u>		<u>73.00%</u>
U.S. Fixed Income	8.70%	
TIPS	5.00%	
High Yield and Opportunistic	5.00%	
Global Core Plus Fixed Income	3.30%	
Cash	<u>0.00%</u>	
<u>Total Fixed Income Exposure</u>		<u>22.00%</u>
<u>Commodity Exposure</u>		<u>5.00%</u>
	-	<u>100.00%</u>

Further resolved that the Board delegate the authority to implement the Asset Allocation Plan, including the amounts allocated to the individual investment managers that have been approved by the Board to the Chief Investment Officer, with the concurrence of the Executive Director (See Resolution 2008-15). Ms. Tozer seconded the motion, which passed unanimously.

**INVESTMENT POLICY
STATEMENT,
OBJECTIVES, AND
GUIDELINES**

Mr. Richard Rose moved that the Board adopt the proposed Investment Policy Statement, Objectives, and Guidelines (IPS), as revised, for the Public School Employees' Retirement System pursuant to the recommendation of James H. Grossman, Jr., Director of External Public Markets, Risk & Compliance, dated March 6, 2008 (See Resolution 2008-16). Mr. J. Curtis Rose seconded the motion, which passed unanimously.

**BARCLAYS GLOBAL
INVESTORS NON-U.S.
EQUITY PORTFOLIO**

Mr. Richard Rose moved that the Board adopt the proposed changes to Barclays Global Investors Non-U.S. Equity Portfolio mandate pursuant to the recommendation of James H. Grossman, Jr., Director of External Public Markets, Risk & Compliance, dated March 6, 2008. The final terms and conditions must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-17). Mr. Sando seconded the motion, which passed unanimously.

**ACTIS EMERGING
MARKETS 3, L.P.**

Mr. Richard 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 Actis Emerging Markets 3, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-18). Mr. J. Curtis Rose seconded the motion, which passed unanimously.

**PARTNERS GROUP
SECONDARY 2008, 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 Partners Group Secondary 2008, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-19). 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 \$100 million plus reasonable normal investment expenses, in CS Strategic Partners IV, L.P. in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-20). Mr. Galante seconded the motion, which passed unanimously.

CS STRATEGIC
PARTNERS 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 \$50 million plus reasonable normal investment expenses, in CS Strategic Partners IV VC, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-21). Ms. Tozer seconded the motion, which passed unanimously.

CS STRATEGIC
PARTNERS IV VC, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$75 million plus reasonable normal investment expenses, in CS Strategic Partners IV RE, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-22). Mr. Galante seconded the motion, which passed unanimously.

CS STRATEGIC
PARTNERS IV RE, 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 management fees and reasonable normal investment expenses, in Lubert-Adler Real Estate Fund VI, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-23). Ms. Turley seconded the motion, which passed unanimously.

LUBERT-ADLER REAL
ESTATE FUND VI, L.P.

BLACKSTONE REAL ESTATE PARTNERS EUROPE III, L.P.

Mr. Richard Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed €200 million plus management fees and reasonable normal investment expenses, in Blackstone Real Estate Partners Europe III, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-24). Mr. Sando seconded the motion, which passed unanimously.

CARDINAL VENTURE PARTNERS II, 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 \$50 million plus reasonable normal investment expenses, in a side fund to Cardinal Venture Partners II, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-25). Ms. Turley seconded the motion, which passed unanimously.

AISLING CAPITAL III, L.P.

Mr. Richard Rose moved that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses, in Aisling Capital III, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated March 6, 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 2008-26). Representative Nickol seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

AVAILABLE INFORMATION

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

- Legislative Report
- Copy of a letter to John R. Pippy, Chairman, Legislative Budget and Finance Committee (LBFC) from Senator Wonderling requesting that the LBFC conduct a study to document the economic and fiscal impact on business activity in the Commonwealth and its communities resulting from pension and post retirement health insurance benefits paid to SERS' and PSERS' annuitants. Mr. Clay stated that

this request was in response to an initiative that Ms. Turley had requested.

- A notice from the U.S. Securities and Exchange Commission "SEC Warns Public Pension Funds About Inadequate Compliance Procedures."
- The 2008 Board Committee Listing

Mr. Clay stated that he had attended and made presentations concerning PSERS at the following events:

ATTENDANCE AT EVENTS

- February 26, 2008 – House Finance Committee
- February 27 2008 – House and Senate Budget Hearings, together with Alan Van Noord and Chairman Vogler
- March 5, 2008 – Update at the Lewisburg IU 16

He stated that he and staff members met with individuals from the Department of Treasury on February 29, 2008 concerning annuitant payment options.

MEETING WITH TREASURY

Mr. Clay introduced Brian Carl, the PSERS' new Chief Financial Officer.

CHIEF FINANCIAL OFFICER

Mr. Clay reported that PSERS had received differing data requests from various school districts to assist them in calculating their Other Post Employment Benefits (OPEB) costs under GASB 43/45. As a result, after discussing the matter with Jay Himes, Executive Director at PASBO, PSERS, at Mr. Hime's direction, contacted Conrad Siegel, a local actuarial firm that is doing OPEB calculations for approximately 90 districts. Working with the actuaries at Siegel, PSERS has developed both a standard report to respond to the various district's requests data requests and a process on how to get the information to the actuaries doing the calculations, without compromising the integrity of the data. This report and delivery process will be used for all future OPEB data requests by PSERS' employers.

OTHER POST EMPLOYMENT BENEFITS

Mr. Clay stated that PSERS will issue a Request for Proposal for the Health Options Program to seek a provider to the Medicare Advantage Plan Fee For Service Plan. The company that is hired will take over all of the managed care components of the HOP operation. This has been recommended by Siegel and will be discussed at the HOP Strategic Planning Meeting for Plan Year 2009. which is expected to occur at the May or June 2008 Health Care Committee Meeting.

MEDICARE ADVANTAGE PLAN FEE FOR SERVICE PLAN RFP

INVESTMENT
CONSULTING
SERVICES RFP

Mr. Clay stated that the contract with Wilshire Associates for Investment Consulting Services will expire in December 2008. PSERS will prepare a Request for Proposal and expects that this will come to the Board in August. He stated that PSERS has contracted with Wilshire since 1998.

Mr. Clay noted that anyone wishing to serve on either of these RFP Committees should contact Ms. Fuller-Smith or himself.

UPCOMING BOARD
ELECTIONS

Mr. Clay stated that the Board would conduct two elections in November 2008 for an active member, which is the seat currently held by Mel Vogler, and for the school board member, which is currently held by Dick Rose. He stated that the active certified member election will be advertised in the spring issue of the Retirement Chalkboard and the school board member election will be announced through a letter addressed to the Secretaries of each School Board and that interested candidates for the elections will be directed to request a nomination packet in writing from Donna C. Peterson, Election Coordinator. The nominating petitions, affidavit, and biographical form must be received by PSERS on or before 4:30 P.M. on June 20, 2008. He stated that if anyone had questions concerning the election they could call Donna at 720-4745.

NPAS

Mr. Clay stated that Release 5 of NPAS would be up and operational on March 17, 2008, and that he would keep the Board informed of its progress.

CHIEF COUNSEL REPORT

DELEGATION

Mr. Gornish stated that PSERS had received delegation from OGC and OAG to approve Successor Funds/Parallel Funds/Follow-on Investments; Renewal Investments; Amendments. This will continue to streamline and shorten PSERS' period for completing investment contracts.

ROYAL DUTCH/SHELL

Mr. Gornish stated that Royal Dutch/Shell had already put out a release of the financial aspects of its settlement. He stated that it is currently unknown how much PSERS itself will receive, although we will be getting our expenses reimbursed. He stressed that the important part of this case from his viewpoint was that PSERS and SERS did its fair share by taking the case as class representatives and achieving over one-half billion dollars in recovery for shareholders both in the United States and globally.

Mr. Gornish stated that Jennifer Mills of his staff will be taking a maternity leave of absence in the near future. He thanked her for her exemplary services to the Office of Chief Counsel.

JENNIFER MILLS

BOARD MEMBERS' COMMENTS

Chairman Vogler thanked Veronica Thomas for her March 6, 2008, Strategic Planning presentation which she gave to the Board. She also thanked Ms. Fuller-Smith and Mr. Clay for their participation in the event.

STRATEGIC PLANNING SESSION

Chairman Vogler thanked Senator Wonderling for his initiative in responding to Ms. Turley's request for an economic impact study.

ECONOMIC IMPACT STUDY

Ms. Turley stated that she watched Messrs. Clay and Van Noord on the televised Senate and House Budget Hearings and expressed her pride in their presentation.

CONGRATULATIONS

Chairman Vogler adjourned the meeting at 9:05 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on May 2, 2008, in the PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

ADJOURNMENT AND NEXT REGULARLY SCHEDULED MEETING

Date 4/2/08

Approved 
Jeffrey B. Clay
Executive Director