

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

Regular Meeting

Minutes

January 25, 2013

9:00 A.M.

Board Members Present

Ms. Deborah J. Beck
Senator Patrick M. Browne (arrived at 9:30)
Mr. Anthony Mannino for Senator Lawrence M. Farnese
Ms. Lisa Taglang for Representative Glen R. Grell
Ms. Beth Winters for Mr. Stuart L. Knade
Mr. Bernard Gallagher for Representative Joseph F. Markosek
Ms. Jennifer Langan for Treasurer Robert McCord
Mr. Hal Moss
Mr. Richard N. Rose
Mr. James M. Sando
Ambassador Martin J. Silverstein
Ms. Sally J. Turley
Ms. Melva S. Vogler

Board Members Absent

Mr. Glen S. Galante
Secretary Ronald Tomalis

Staff Members Present

Mr. Jeffrey B. Clay
Ms. Barbara B. Book
Mr. Brian S. Carl
Ms. Michele M. Ferencz
Mr. Edward Rohrbaugh
Ms. Terrill J. Sanchez
Mr. Charles K. Serine
Ms. Kelly L. Sprenkle
Mr. Joseph E. Wasiak, Jr.

Guests Present

Mr. Ron Conard, PASR
Ms. Joan Glass, PASR
Ms. Judith Guise, PASR
Ms. Susan Jones, PSEA-R
Mr. Sandy Leopold
Ms. Angela Lutze, PSEA-R
Ms. Carol Ort, PSEA-R
Mr. Don Steinmeier, PASR

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

ELECTION OF BOARD CHAIRMAN Mr. Clay called for nominations for Chairman of the Board of the Public School Employees' Retirement Board for the year 2013. Ms. Winters moved to elect Ms. Vogler as Chairman. Ambassador Silverstein seconded the motion. No additional nominations were made. The motion passed unanimously.

ELECTION OF BOARD VICE-CHAIRMAN Mr. Clay called for nominations for Vice-Chairman of the Board of the Public School Employees' Retirement Board for the year 2013. Mr. Sando moved to elect Ms. Turley as Vice-Chairman. Mr. Rose seconded the motion. No additional nominations were made. The motion passed unanimously.

Mr. Clay turned the meeting over to Chairman Vogler.

WELCOME GUESTS AND NEW EMPLOYEES Mr. Clay welcomed guests Mr. Conard, Ms. Glass, Ms. Guise, Mr. Steinmeier, Ms. Lutze, Ms. Jones and Ms. Ort. Mr. Clay announced new employees Brittany Morgan and Anthony Spencer, who were not in attendance at the meeting.

MINUTES APPROVED Ms. Turley moved to approve the minutes of the December 6, 2012 Board meeting. Mr. Moss seconded the motion, which passed unanimously.

COMMITTEES Ms. Vogler announced the names of those chosen as Chairman and Vice Chairman of the Board Committees.

AUDIT/BUDGET COMMITTEE REPORT

Ms. Taglang, on behalf of Representative Grell, reported on the meeting held on January 24, 2013.

MINUTES APPROVED Ms. Taglang stated that the Committee approved the minutes of the September 28, 2012 meeting.

PRESENTATION Ms. Taglang stated that Mr. Halke spoke regarding the results of RFP 2012-6, Financial Audit Services Issuing Office.

HEALTH OPTIONS PROGRAM 2013 BUDGET Ms. Taglang moved that the Public School Employees' Retirement Board (the "Board") hereby accepts the results of the Commonwealth Request for Proposals for the Financial Audit Services and enter into a contract with SB & Company, LLC with an initial term of two (2) years beginning April 1, 2013 with options to renew the contract, upon mutual consent of the parties, annually for

three additional years. The final terms and conditions of the contract must be satisfactory to the Internal Auditor, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing contract or by a memo to that effect appended to the implementing contract. Ms. Turley seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Mr. Moss reported on the meeting held on January 24, 2013.

Mr. Moss stated that the Committee approved the minutes of the December 5, 2012 meeting.

MINUTES APPROVED

Mr. Moss moved to adopt the recommendation of the Appeals/Member Services Committee in the case of Joan A. Jordan. Mr. Rose seconded the motion, which passed unanimously.

ACCOUNT OF
JOAN A. JORDAN

Mr. Moss moved to adopt the recommendation of the Appeals/Member Services Committee in the case of Icilyn Wilson-Green. Ms. Turley seconded the motion, which passed unanimously.

ACCOUNT OF
ICILYN WILSON-GREEN

Mr. Moss stated that the Committee reviewed the Executive Staff Review Committee (ESRC) Reports from the October 4 and November 2, 2012 meetings.

ESRC REPORT

Mr. Moss stated that Ms. Sanchez presented an update on the Benefits Processing Statistics.

BENEFITS PROCESSING

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held January 24, 2013.

Mr. Rose stated that the Committee approved the minutes of the September 27, 2012 meeting.

MINUTES APPROVED

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments; Mr. Kemp presented a Securities Lending Update; Mr. Spiller presented both the Private Markets Second Quarter Report and the Real Estate Second Quarter Report; and Executive Session was held regarding Private Markets and Real Estate Fund Issues; Mr. Spill presented the PSERS In-house Program; Mr. Little presented the Ellis Lake Domestic Fund, L.P.–Absolute Return Program; Ms. Stepp gave a presentation on Paramount Group Real Estate Fund VII, L.P.; Mr. Stalter spoke regarding Blackstone

PRESENTATIONS

Real Estate Debt Strategy II, L.P.; Mr. Foreman gave a presentation on HgCapital 7, L.P.; Mr. Jacobs presented Triton Fund IV, L.P.; Mr. Tyler presented Morgan Stanley Private Equity Asia IV, L.P.; and Mr. Van Noord presented a Preview of Future Meetings.

PRIVATE MARKETS &
REAL ESTATE IN-
HOUSE CO-
INVESTMENT &
SECONDARY
PROGRAM

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests an additional amount not to exceed \$100 million, in the Private Markets and Real Estate In-House Co-Investment and Secondary Program, in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated January 24, 2013. Mr. Gallagher seconded the motion, which passed unanimously.

ELLIS LAKE DOMESTIC
FUND, L.P.

Mr. Rose moved that pursuant to the recommendations of Robert E. Little, Portfolio Manager, and Aksia, LLC, dated January 10, 2013, the Public School Employees' Retirement Board (the "Board") hereby (i) invests an initial amount of \$100 million in the Ellis Lake Domestic Fund, LP, and (ii) the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time, provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner. 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.

PARAMOUNT GROUP
REAL ESTATE FUND
VII, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in Paramount Group Real Estate Fund VII, L.P., in accordance with the recommendation of Laurann H. Stepp, Portfolio Manager, Real Estate, and Courtland Partners, Ltd., dated January 24, 2013. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the 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. Taglang seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$100 million in Blackstone Real Estate Debt Strategies II, LP, in accordance with the recommendation of William P. Stalter, Portfolio Manager, Real Estate, and Courtland Partners Ltd., dated January 24, 2013. 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 with one abstention. Ambassador Silverstein abstained from both the discussion and the vote.

BLACKSTONE REAL
ESTATE DEBT
STRATEGIES II, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed £75 million plus reasonable normal investment expenses, in HgCapital 7, L.P., in accordance with the recommendation of Darren C. Foreman, Portfolio Manager, Private Markets, and Portfolio Advisors LLC, dated January 24, 2013. 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.

HGCAPITAL 7, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests €100 million plus reasonable normal investment expenses, in Triton IV, L.P., in accordance with the recommendation of Luke M. Jacobs, Senior Investment Analyst, Private Markets, and Portfolio Advisors LLC, dated January 24, 2013. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the 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. Langan seconded the motion, which passed unanimously.

TRITON IV, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in Morgan Stanley Private Equity Asia IV, L.P., in accordance with the recommendation of Michael Tyler, Senior Investment Analyst, Private Markets, and Portfolio Advisors LLC, dated January 24,

MORGAN STANLEY
PRIVATE EQUITY ASIA IV,
L.P.

2013. 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. Langan seconded the motion, which passed unanimously.

NEW BUSINESS

ADDRESS CHANGE

Ms. Ferencz proposed changing PSERS' Policies to reflect the address change from a post office box to PSERS' street address. The Board agreed by consensus.

YEARLY POLICY REVIEW

Mr. Clay informed the Board that the Policy Review was completed for 2013. Ms. Ferencz certified that she reviewed policies, as noted in her memo to the Board. Mr. Van Noord also certified that he reviewed policies, as noted in his memo to the Board. (See Board Book 367, New Business TAB)

CONTINUITY OF OPERATIONS PROGRAM

Mr. Rohrbaugh presented the agency Continuity of Operations Program (COOP), which is a plan that ensures the continuation of critical PSERS functions in the event of an emergency.

HEART ACT

Mr. Serine updated the Board on the HEART Act (Heroes Earnings Assistance and Relief Tax Act).

EXECUTIVE DIRECTOR'S REPORT

INFORMATION AVAILABLE

Mr. Clay stated that the updated Board member list and 2013 Board Meeting list are available, as well as a letter from GASB (Government Accounting Standards Board) and UNITE Here, an organization representing workers in Las Vegas, NV (See Board Book 367, Executive Director TAB).

RECENTLY ATTENDED EVENTS

Mr. Clay reported that he attended the following events: December 13 – PSBA Webinar; January 2 – presentation to superintendents of Lancaster & Lebanon counties; January 4 – presentation to MCIU – Norristown; and a January 8 presentation to the Chester County IU.

UPCOMING EVENTS

Mr. Clay stated that he plans to attend the following events: February 27 – House and Senate Budget Hearings; March 1 – presentation to PASPA (PA Association of School Personnel Administrators) in Harrisburg; March 22 – presentation at the PASBO Conference in Pittsburgh.

Mr. Clay stated that the next meeting of the Committees and the Board will be March 14 and 15, 2013 and will include the Asset Allocation decision.

NEXT MEETING AGENDA

CHIEF COUNSEL REPORT

Ms. Ferencz provided updates on the Host/Marriott litigation. She also noted that her Annual Report was included in the Board package mailing and she is available to answer any questions.

LEGAL UPDATES

CHIEF FINANCIAL OFFICER'S REPORT

Mr. Carl reported on the 2012 1099's; annuity payroll growth; and other financial management activities.

Mr. Clay presented the State of the Fund report (See Board Book 367, Executive Director's TAB).

STATE OF THE FUND

Mr. Steinmeier spoke to the Board regarding the upcoming pension reform. Susan Jones thanked PSERS Board and staff for the work they do, as well as pension reform.

BOARD MEMBER COMMENTS

At 10:25 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 Executive Session to discuss the item listed on today's agenda, namely 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 quasi-judicial matters."

EXECUTIVE SESSION

Mr. Sando moved that the Board enter into Executive Session. Ms. Langan seconded the motion, which passed unanimously. The Executive Session ended at 10:58 A.M. and the meeting immediately returned to Regular Session.

Chairman Vogler adjourned the meeting at 10:58 A.M.

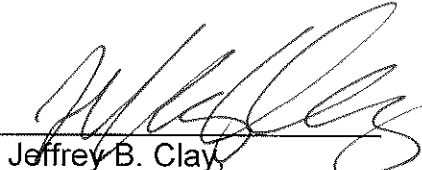
ADJOURNMENT

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on March 15, 2013, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

NEXT MEETING

Date 2/14/13

Approved


Jeffrey B. Clay,
Executive Director