

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

Regular Meeting

Minutes

August 14, 2008

9:18 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
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
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 Flurie
Ms. Marilyn Fuller-Smith
Mr. Gerald Gornish
Mr. Eugene W. Robison
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 9:18 A.M. in the fourth floor Board Room at PSERS' headquarters.

MINUTES APPROVED Mr. Rose moved to approve the minutes of the June 20, 2008, Board meeting. Ms. Tozer seconded the motion, which passed unanimously.

NEW EMPLOYEES Mr. Clay welcomed PSERS' new employees, George Garman, Trudy Plumpton and Gene Robison.

NEW BOARD DESIGNEE Mr. Clay welcomed Mr. Everette James, new designee to the Board for Secretary Zahorchak.

NEW BUSINESS

NEW BUSINESS Mr. Clay stated that a change was being made to the reporting of retirement totals. The totals would no longer be part of the Board Agenda, as from a legal perspective, it is not required. Similar information, however, would be available in public information reports every six months. The Board agreed to this change by consensus.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on August 13, 2008.

MINUTES APPROVED Ms. Tozer stated that the Committee approved the minutes of the June 19, 2008 meeting.

ELECTRONIC PAYMENT CARD INITIATIVE Ms. Tozer stated that the Committee heard a presentation regarding the Electronic Payment Card Initiative. The Committee agreed that PSERS staff should continue a dialogue with Treasury, and bring a proposal to the Committee at a later date.

BENEFITS PROCESSING STATISTICS Ms. Tozer stated that Ms. Savidge spoke regarding the Benefits Processing Statistics. The Committee requested that staff make a statistical presentation at each Appeals/Member Services Committee Meeting.

EXECUTIVE STAFF REVIEW COMMITTEE Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the July 17 and 29, 2008 meetings.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held August 13, 2008.

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

MINUTES APPROVED

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; and Mr. Spiller gave a Private Markets and Real Estate Annual Report.

PRESENTATIONS

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 Nordic Capital Fund VII, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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.

NORDIC CAPITAL FUND VII, L.P.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$250 million plus reasonable normal investment expenses, in First Reserve Fund XII, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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.

FIRST RESERVE FUND XII, 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 Beacon Capital Strategic Partners VI, L.P., with an additional \$200 million commitment available for a co-investment fund in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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.

BEACON CAPITAL STRATEGIC PARTNERS VI, L.P.

STOCKBRIDGE VALUE
FUND, L.P.

Mr. Rose moved that the Board invest an amount equal to 90.9 percent of the committed capital, but not to exceed \$150 million plus reasonable normal investment expenses, in a side fund to Stockbridge Value Fund, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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.

CABOT INDUSTRIAL
VALUE FUND III, L.P.

Mr. Rose moved that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses, in Cabot Industrial Value Fund III, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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.

MESA WEST REAL
ESTATE INCOME FUND
II, L.P.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$125 million plus reasonable normal investment expenses, in Mesa West Real Estate Income Fund II, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated August 13, 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. Galante seconded the motion, which passed unanimously.

LBC CREDIT
PARTNERS II, L.P.

Mr. Rose moved that the Board invest in LBC Credit Partners II, L.P., in accordance with the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk and Compliance, and Portfolio Advisors, LLC. Further the Committee recommends that the Board invest \$375 million plus reasonable normal investments expenses, in accordance with the recommendation of James H. Grossman, Jr. dated July 18, 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.

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 July 30, 2008.

INVESTMENT
OBJECTIVES AND
GUIDELINES

Addendum Addendum Title

- B U.S. Master Limited Partnership Index Portfolios
- I U.S. Core Plus Fixed Income Portfolios
- K U.S. High Yield Fixed Income Portfolios
- L Treasury Inflation Protection Securities Portfolios
- Q Global Core Plus Fixed Income Portfolios
- Y Short-Term Investment Pool Portfolios
- Y1 LIBOR-Plus Short Term Investment Pool Portfolios

Representative Nickol seconded the motion, which passed unanimously.

Mr. Rose moved that the Board, in accordance with the recommendation of the General Consultant Request for Proposal Evaluation Committee, select Wilshire, as the General Consultant for the period commencing December 1, 2008 through November 30, 2013, subject to the terms and conditions of the Investment Office, 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. Mr. Sando seconded the motion, which passed unanimously.

GENERAL CONSULTANT

Mr. Rose stated that Mr. Smith reported on the Portable Alpha Presentation, and Mr. Van Noord spoke regarding future meetings.

PORTABLE ALPHA
PRESENTATION

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on August 13, 2008.

MINUTES APPROVED

Ms. Turley stated that the Committee approved the minutes of the June 19, 2008 meeting.

PRESENTATIONS

Ms. Turley stated that the Committee heard presentations from Mr. Mark Schafer, and Messrs. Rick Johnson and Ed Kaplan of The Segal Co., regarding the PSERS/Highmark Negotiations.

CONTRACT ISSUES
AND TIME RESTRAINTS

Mr. Clay spoke regarding contract issues and time constraints in completing the proposed Highmark contract. Mr. Clay recommended a change in the wording of the committee resolution to provide a default option if the Highmark contract could not be completed in a timely manner, i.e. to meet the 2008 option selection period printing deadline. Ms. Vogler suggested a Special Board Meeting be held by conference call to discuss further developments, if needed.

HEALTH OPTIONS
PROGRAM MEDICARE
ADVANTAGE
AND PRE-65
COMPANION
MANAGED CARE
PLANS

As a result, Ms. Turley moved that the Board approve Staff's recommendation that all managed care participants be transferred to the new Highmark Medicare Advantage plan or pre-65 companion managed care plan, as the case may be, effective January 1, 2009, except for the current participants and all new enrollees in the Medicare Advantage and pre-65 managed care plans in the Health Options Program (HOP) Southeastern Region (Bucks, Chester, Delaware, Montgomery, and Philadelphia counties). Effective January 1, 2009, the monthly premium rates and benefits for the new Highmark Medicare Advantage plan and pre-65 companion managed care plan are as recommended in the report prepared by Mark F. Schafer, Health Care Administrator, dated August 13, 2008, subject to final contract negotiations. If the final contract negotiations result in a substantial change in either the recommended rates or benefits, or cannot be concluded successfully by 12:00 P.M. on August 25, 2008, then:

- the existing Plan Year (PY) 2008 plan structure for the HOP's Medicare Advantage plans and pre-65 companion managed care plans will remain the same for PY 2009; and
- the status of the proposed Highmark Medicare Advantage plan and pre-65 companion managed care plan will be brought back to the Board, through its Health Care Committee at its September 2008 meeting, for further action, if any.

Resolved further, that the Board re-examine, at a future meeting, the possible transition of the HOP Southeastern Region Medicare Advantage and pre-65 managed care plans' participants to the new

Highmark Medicare Advantage plan or pre-65 companion managed care plan, effective January 1, 2010.

Resolved further, during the October 1, 2008, through November 15, 2008, option selection period, all HOP participants may elect among the options available to them in their local residence area. Mr. James seconded the motion, which passed unanimously.

Ms. Turley moved that the Board approve, effective January 1, 2009, the benefits provided by the Basic and Enhanced Medicare Rx Options as recommended in the report prepared by Mark F. Schafer, Health Care Administrator, dated August 13, 2008: *2009 Premium Rates and Benefits For The HOP Medical Plan, Pre-65 Medical Plan, Legacy High and Standard Options, and Basic and Enhanced Medicare Rx Options*. Mr. Rose seconded the motion, which passed unanimously.

HEALTH OPTIONS
PROGRAM 2009 PLAN
DESIGN CHANGES FOR
THE
BASIC AND ENHANCED
MEDICARE RX OPTIONS

Ms. Turley moved that the Board approve, effective January 1, 2009, the monthly premium rates and benefits as recommended in the report prepared by Mark F. Schafer, Health Care Administrator, dated August 13, 2008: *2009 Premium Rates and Benefits For The HOP Medical Plan, Pre-65 Medical Plan, Legacy High and Standard Options, and Basic and Enhanced Medicare Rx Options*. Ms. Tozer seconded the motion, which passed unanimously.

HOP 2009 PLAN YR
PREMIUM RATES FOR
THE HOP MEDICAL PLAN
/ HOP PRE-65 MEDICAL
PLAN / LEGACY HIGH
AND STANDARD
OPTIONS / BASIC AND
ENHANCED MEDICARE
RX OPTIONS

CORPORATE GOVERNANCE COMMITTEE REPORT

Mr. Sando reported on the meeting held on August 14, 2008.

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

MINUTES APPROVED

Mr. Sando stated that the Committee heard a presentation by Mr. Clay regarding PSERS' corporate governance efforts and options.

CORPORATE
GOVERNANCE
PRESENTATION

PERSONNEL COMMITTEE REPORT

Mr. Gentzel reported on the meeting held on August 13, 2008.

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

MINUTES APPROVED

Mr. Gentzel stated that the Committee held Executive Session regarding Personnel matters.

EXECUTIVE SESSION

OLD BUSINESS

CHANGES TO THE
BOARD'S STATEMENT
OF ORGANIZATION,
BYLAWS AND OTHER
PROCEDURES

Mr. Clay informed the Board of the Policy/Bylaws Committee approval of proposed changes to the Board's By-Laws at its June Committee meeting. He also indicated that notice of the proposed Bylaws changes had been given in accordance with the Bylaws so they are ready for Board action.

Therefore, Mr. Rose moved that the Public School Employees' Retirement Board hereby approves the following changes to its Statement of Organization, Bylaws, and Other Procedures, as recommended by Jeffrey B. Clay, Executive Director in his memorandum dated June 6, 2008:

Article II, Section 2.2

Provides that a Board Designee, when acting on behalf of a Board Member, is bound by the same fiduciary standards that apply to the Board member.

Article II, Section 2.5

Provides that a Board Designee is bound by the oath of office taken by the Board Members, when the Designee is acting on the Member's behalf.

Mr. Galante seconded the motion, which passed unanimously.

NEW BUSINESS

GOVERNOR'S
FUNDING PROPOSAL

Ms. Vogler informed the Board that Mr. Clay's presentation on the Governor's Funding Proposal is being postponed to the Board's September meeting.

ELECTION OF ACTIVE
CERTIFIED MEMBER

Mr. Clay stated that the petition period for the 2008 election closed June 20, 2008. Ms. Vogler is the only candidate who submitted proper information for the Active Certified Member seat. As the only candidate, no election will be conducted. Therefore, Ms. Vogler was elected by acclamation, in accordance with section 46 of Robert's Rules of Order.

ELECTION OF SCHOOL
BOARD MEMBER SEAT
ON THE BOARD OF
TRUSTEES

Mr. Clay stated that Mr. Richard Rose and Mr. Christopher M. Jones submitted the proper information for the School Board Member seat election. The deadline for receipt of ballots is

November 26, 2008. Results will be announced at the Board's December Meeting.

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 336, Executive Director TAB):

INFORMATION
AVAILABLE

- Legislative Reports
- Audit of the Board's Flower Fund
- Client Profile from Wasatch Advisors featuring PSERS
- NASRA White Paper - Public Pensions and Market Value of Liabilities
- NCPRS The Evolution of Public Pension Plans, Past, Present, and Future

Mr. Clay stated that he recently attended the NAPPA Convention in Boston, MA on June 24 – 27, 2008.

RECENTLY ATTENDED
EVENTS

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

UPCOMING EVENTS

Mr. Clay announced that this Board Meeting is the final Board meeting for Ms. Marilyn Fuller-Smith as Board Liaison. Ms. Barbara Flurie will take over the duties of the Board Liaison. Ms. Vogler offered gratitude on behalf of the Board for Ms. Fuller-Smith's hard work over her many years of service to the Board.

BOARD LIAISON
RETIREMENT

Mr. Clay stated that a Board Orientation will be held for Mr. James before the next scheduled Board Meeting, and invited any Board members who wished to attend for a refresher to contact Barbara Flurie.

BOARD ORIENTATION

Mr. Clay informed the Board that staff has been discussing the possibility of converting to an Electronic Board Package. A small working group will be formed to research and bring its findings on this option to the Board.

ELECTRONIC BOARD
PACKAGE

Mr. Clay also noted that the alternative investments confidential information material will no longer be sent to the Board in hard copy form, effective immediately. The information will be available on the Board's secure website.

CONFIDENTIAL
MATERIAL

GFOA AWARD

Mr. Clay announced that PSERS has received the GFOA's Certificate of Achievement for Excellence in Financial Reporting award for the twenty-fifth consecutive year. Mr. Clay extended his gratitude to both Mr. Brian Carl and Mr. Wilbur Dudley for their work that made the award possible. He also extended his thanks to both the staff of the Office of Financial Management and the Investment Office for their assistance.

2009-2010 BUDGET

Mr. Clay stated that the 2009-2010 Budget will be submitted for approval by the Board at the September Board Meeting. The draft financial statements will also be presented at that time. A Special Board Meeting will be held on September 29, 2008, for the purpose of approving the financial statements.

CHIEF COUNSEL REPORT

ROYAL DUTCH

Mr. Gornish updated the Board on the Royal Dutch settlement. The Settlement Notice and Claim form have been issued reflecting a settlement for U.S. investors of \$89,508,000. Mr. Gornish stated that the Exclusion or Objection Deadline is September 11, 2008 and the claims filing deadline is November 18, 2008. The Court scheduled the final approval hearing for September 26, 2008, at 11:00 A.M. Mr. Gornish added that combined with the distribution of this settlement there will be a settlement of \$120,000,000 with the SEC that will be distributed by the same Claims Administrator.

REGULATION
AMENDMENTS

Mr. Gornish stated that the proposed amendments to PSERS regulations were published in the PA. Bulletin, and became effective on August 2, 2008. Mr. Gornish stated that they will be distributed to all hearing examiners assigned to our cases pending their publication in the Pennsylvania Code.

ADJUDICATIONS

Mr. Gornish stated that there have been six cases pending in the Commonwealth Court during 2008, three of which have been decided favorably. The remaining three cases are still on appeal.

UNION OFFICERS
CASE

Mr. Gornish informed the Board that the Union Officers case will be heard by the Supreme Court on Monday, October 20, 2008 in Philadelphia.

BOARD MEMBER COMMENTS

THANK YOU

Mr. Sando spoke on behalf of the Board and extended gratitude to Ms. Fuller-Smith for her work over the years. Ms. Fuller-Smith offered words of appreciation for the experiences the Board has provided her during her tenure.

Chairman Vogler adjourned the meeting at 10:20 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on September 26, 2008, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

ADJOURNMENT AND
NEXT REGULARLY
SCHEDULED MEETING

Date 9/15/08

Approved 
Jeffrey B. Clay
Executive Director