

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

Regular Meeting

Minutes

December 10, 2010

9:00 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Stacey Connors for Senator Patrick Browne (arrived at 9:06)
Ms. Debbie Reeves for Representative Dwight Evans
Mr. Glen S. Galante
Mr. Thomas J. Gentzel
Mr. Steven Kniley for Secretary Thomas E. Gluck
Ms. Lisa Taglang for 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 Member Absent

Ms. Tina Byles Williams

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara D. Flurie
Mr. Gerald Gornish
Ms. Terrill J. Savidge
Ms. Evelyn M. Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Visitors Present

Ms. Janet Cranna, Buck Consultants
Ms. Judith Guise, PASR
Mr. James Henninger-Voss, SERS
Ms. Jan Murphy, The Patriot News
Mr. Ed Quinn, Buck Consultants
Ms. Dana Spangler, Buck Consultants

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 GUESTS Mr. Clay welcomed guests, Ms. Judith Guise, Mr. James Henninger-Voss and Ms. Jan Murphy.

MINUTES APPROVED Mr. Rose moved to approve the minutes of the October 8, 2010 Board meeting. Mr. Sando seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on December 9, 2010.

MINUTES APPROVED Ms. Tozer stated that the Committee approved the minutes of the October 7, 2010 meeting.

EXECUTIVE STAFF REVIEW COMMITTEE Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee Report from the September 13 and 28, 2010 meetings.

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

H.B. 2497 Ms. Tozer reported that an Overview of H.B. 2497 was given by Mr. Serine, as well as a presentation on the Implementation Plans for H.B. 2497, by Mr. Rick Egenreider and Ms. Savidge, respectively.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held December 9, 2010.

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the October 7, 2010 meeting.

PRESENTATIONS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Mr. Bensur gave a 3rd Quarter Performance Review; Mr. Smith presented the Public Market Performance Review; Mr. Dubrovay, of Aksia LLC, gave a 3rd Quarter Performance Presentation; Mr. Grossman presented the Analysis of Historical Risk; Mr. Grossman spoke regarding Capula Global Relative Value Fund Limited, Caspian Select Credit International Ltd., and the Investment Objectives and Guidelines; Mr. Spiller spoke regarding Quaker Bioventures Fund I and Crestview Partners Fund II; an Executive Session was held regarding Fund Issues; and Mr. Van Noord gave a preview of future meetings.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests in the Capula Global Relative Value Fund Limited, Class F shares, in an amount not to exceed the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, and Aksia, LLC, both dated November 19, 2010.

CAPULA GLOBAL
RELATIVE VALUE FUND I

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.

Mr. Rose moved the Public School Employees' Retirement Board (the "Board") invests in the Caspian Select Credit International, Ltd., Class A shares, in an amount not to exceed the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, and Aksia, LLC, both dated November 19, 2010.

CASPIAN SELECT CREDIT
INTERNATIONAL, LTD

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. Gentzel seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed Investment Objectives and Guidelines Addenda listed below for the Public School Employees' Retirement System pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated November 19, 2010.

INVESTMENT
OBJECTIVES AND
GUIDELINES

<u>Addendum</u>	<u>Addendum Title</u>
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X2	Absolute Return Policy
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Ms. Tozer seconded the motion, which passed unanimously.

QUAKER
BIOVENTURES, LP

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests up to \$15 million plus reasonable normal investment expenses, in the Quaker BioVentures Senior Preferred Rights Offering, in accordance with the recommendation of Charles J. Spiller, Managing Director of Private Markets and Real Estate, dated December 9, 2010. 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 with one abstention from Treasurer McCord.

CRESTVIEW
PARTNERS II

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") moves the \$200 million investment currently in Crestview Partners II (PF) LP to Crestview Partners II LP in accordance with the recommendation of Charles J. Spiller, Managing Director of Private Markets and Real Estate, dated December 9, 2010. 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. Turley seconded the motion, which passed unanimously.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on December 9, 2010.

MINUTES APPROVED

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

EXECUTIVE SESSION

Mr. Galante stated that an Executive Session was held regarding Tax Qualification.

TAX QUALIFICATION

Mr. Galante moved that Whereas, by Resolution 2008-52, dated June 20, 2008, the Public School Employees' Retirement Board (the Board) authorized the Executive Director, with the advice and consent of the Office of Chief Counsel, to take such actions, including engaging one or more outside counsel through the Office of General Counsel, as he deemed necessary or desirable to address the efforts of the Internal Revenue Service (IRS) to require

public pension plans to obtain an IRS qualification determination letter; and

Whereas, by that same Resolution 2008-52, the Board required that any formal filing by PSERS with the IRS related to a tax qualification determination letter or any other process to resolve PSERS' tax qualified status be undertaken only with prior Board approval; and

Whereas, the IRS announced on November 5, 2008 that all government plans seeking a tax qualification determination letter may do so by filing in its Cycle E program by January 31, 2011; and

Whereas, PSERS has engaged outside counsel through the Office of General Counsel; and

Whereas, outside counsel, with the concurrence of the Office of Chief Counsel, has recommended that PSERS file the necessary forms with the IRS in its Cycle E filing period to obtain a tax qualification determination letter and to make a contemporaneous filing with the IRS' Employee Plans Compliance Resolution System.

Now therefore the Board authorizes the Executive Director, with the advice of the Office of Chief Counsel and outside counsel, to file all necessary forms and documents with the IRS in its Cycle E filing period to obtain a tax qualification determination letter and to make a contemporaneous filing with the IRS' Employee Plans Compliance Resolution System. Mr. Moss seconded the motion, which passed unanimously.

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on December 9, 2010.

Ms. Turley stated that the Committee approved the minutes of the August 11, 2010 meeting.

MINUTES APPROVED

Ms. Turley stated that Mr. Schafer gave presentations on the Open Enrollment Update and the 2011 HOP Budget.

PRESENTATIONS

Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed Program and Administrative Budget of the Health Options Program and the Medicare Prescription Drug Program Administrative Budget for the Plan Year 2011 in the aggregate amount of \$229,165,000, as presented by Mark F. Schafer at the December 9, 2010 Health

HEALTH OPTIONS
PROGRAM BUDGET

Care Committee meeting. Ms. Tozer seconded the motion, which passed unanimously.

PERSONNEL COMMITTEE REPORT

Mr. Gentzel reported on the meeting held on December 9, 2010.

MINUTES APPROVED

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

Mr. Gentzel stated that the Committee discussed and approved a proposed amendment to the Board's Policy Manual for Investment Professional Staff.

AMENDMENT TO THE
POLICY MANUAL FOR
INVESTMENT
PROFESSIONAL STAFF

Mr. Gentzel moved that in accordance with the recommendation of the Personnel Committee of the Public School Employees' Retirement Board (Board), the Board hereby 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. Sando seconded the motion. After some discussion, the motion passed with 10 YES votes, 3 NO votes, and 1 Abstention. The NO votes were cast by Mr. Raymond, Mr. Kniley and Ms. Reeves. Ms. Taglang abstained.

Mr. Kniley left the meeting at this time.

NEW BUSINESS

ACTUARIAL
VALUATION AND FIVE
YEAR EXPERIENCE
STUDY

Mr. Carl introduced Ms. Cranna, Ms. Spangler and Mr. Quinn, of Buck Consultants, who presented a review of the Actuarial Valuation and the Five Year Experience Study, with Mr. Carl providing a Comparison of Act 120 Projections to Previous Law (See Board Book 352, New Business TAB).

Mr. Sando moved that the Public School Employees' Retirement Board (the "Board"), hereby accepts the June 30, 2010 actuarial valuation report prepared by Buck Consultants, and adopts the actuarial factors, assumptions and methodologies contained therein, which result in an employer contribution rate of 8.65% for Fiscal Year July 1, 2011 through June 30, 2012. Mr. Rose seconded the motion, which passed unanimously.

Mr. Kniley returned to the meeting at this time.

Mr. Carl extended his thanks, echoed by Mr. Clay, for the hard work and long hours put into preparing the Actuarial Valuation and the Five Year Experience Study.

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay introduced Mr. Moss, Chairman of the Election Committee, who announced that Ms. Turley has won the election for the Annuitant Member seat, held in November 2010, with 63% of the vote. Ms. Turley's three-year term will commence on January 1, 2011. Mr. Clay, as Secretary of the Board, certified the election.

ELECTIONS

Mr. Moss stated that Mr. Sando, being the only candidate for the Active Certified Member seat, was elected by acclamation. Mr. Sando's three-year term will commence on January 1, 2011.

Mr. Clay stated that he was contacted by an annuitant member who suggested that the Election Committee make more candidate information available to members for elections. Mr. Clay reported that the suggestion will be considered and possible changes proposed to the Board's Election Policy.

Mr. Clay stated that the following information was available (See Board Book 352, Executive Director TAB):

INFORMATION AVAILABLE

- DGS Procurement Review
- The McCord Report
- PAPERS Newsletter
- The NAPPA Report
- 2011 Meeting Schedule

Mr. Clay reported that he attended the following events:

EVENTS ATTENDED

- October 12 PASA/PSBA Conference in Hershey
- October 13 OGC University in Harrisburg
- October 21 Retiree Presentation in Media, PA
- October 27 PSEA-R in Johnstown, PA
- December 7 Transition Team Meeting

Mr. Clay reported that he will attend the following events:

UPCOMING EVENT

- January 12, 2011 - Eastern PA Association of School Personnel Administrators (EPAPSA) at the Montgomery County IU in Norristown

PSERS' STAFF	Mr. Clay informed the Board that PSERS' Staff was awarded the Top New Company Award for their participation in the Heart Walk in September. He also thanked PSERS' Staff for the donation of approximately 100 Christmas gifts to Dauphin County Children & Youth and Friendly Nursing Home in Pitman, PA.
1099R'S	Mr. Clay reported that preparations are being made for the 2010 1099R's.
STATEMENTS OF ACCOUNT	Mr. Clay stated that the Statements of Account are on schedule for being mailed.
LETTER	Mr. Clay discussed with the Board the proposed letter to the General Assembly, previously discussed at the July Board Meeting. (See Resolution 2010-27) Mr. Clay recommended that the letter not be sent at this time. Ms. Vogler concurred and the Board agreed by consensus.
SPECIAL MEETING	Mr. Clay stated that there will be a Special Board Meeting on January 19, 2011 at 1:00 P.M. The topic of the meeting will be reconsideration of PSERS' Actuarial Assumptions in light of the results of the latest 5 year experience study.
JANUARY MEETING	Mr. Clay informed the Board that the elections of Board Chair and Board Vice Chair will be held at the regular January meeting. Mr. Clay stated that he will also present his State of the Fund Report at that time.
RECOGNITION	Ms. Reeves recognized Mr. Clay and his team for their hard work regarding Act 120.

CHIEF COUNSEL REPORT

RIVERCENTER / MARRIOTT LITIGATION	Mr. Gornish informed the Board that PSERS has received the briefing schedule for the appeal. Marriott's first brief is due on January 17, 2011 and the final briefs are due May 31, 2011. This means that the case will probably not be argued until the fall of 2011.
HOME ADDRESSES REVISITED	Mr. Gornish updated the Board about the PSEA case, in which the Commonwealth Court, without reaching the merits, dismissed the action brought by PSEA against OOR to enjoin it from ordering the release of public school employee addresses, because the action was not against a proper Commonwealth agency with a cognizable interest in the outcome. The Court, therefore, dismissed the action

and dissolved the preliminary injunction a single Judge had previously granted.

PSEA appealed the Commonwealth Court's dismissal of the action to the Supreme Court of Pennsylvania and sought a stay in conjunction with the appeal. Commonwealth Court turned the stay down, but the Supreme Court granted it – properly, in Mr. Gornish's opinion. Obviously, if PSEA is correct, the absence of the stay would have required all the information to be released, thereby making the appeal to the Supreme Court moot.

Mr. Gornish stated that in this matter, back in 2008, NYSTRS and PSERS objected to a 25% attorneys' fee sought by counsel for a class on a \$117,500,000 settlement in an option back-dating case. Mr. Gornish reported then that the Court granted the fee and that NYSTRS (and PSERS) lost. NYSTRS then appealed that decision to the Court of Appeals and obtained a remand on a procedural issue. After that, PSERS was asked to continue to support NYSTRS in the District Court and PSERS agreed. After our letter of support was mailed, NYSTRS and counsel for the class agreed to a settlement of 22%, and PSERS concurred. This was a \$3.5 million victory for the class.

MERCURY INTERACTIVE
CORP SECURITIES
LITIGATION

Mr. Gornish reported that this decision of the Board has been appealed to the Commonwealth Court.

EBERHARDT CASE

The Commonwealth Court granted PSERS' request to have the opinion in this case designated as a reported opinion.

WHITE CASE

Mr. Gornish reported that PSERS held securities in this company, which owned the Chicago Tribune, Los Angeles Times and other assets. It was taken private in a leverage buyout (LBO) in 2007 and PSERS tendered its stock for the LBO price of \$34/share. A year later, the company went bankrupt, allegedly because of the large amount of debt it assumed to complete the LBO. Now certain creditors are suing the company insiders, stating that the debt that was assumed to allow the buyout was unreasonable and caused the bankruptcy, and are seeking damages against all of the insiders and individuals that participated in the structuring and implementation of the LBO.

TRIBUNE CASE

In addition, they are trying to obtain a return of the money received by plain vanilla shareholders like PSERS, alleging Tribune was insolvent at the time of the LBO. They have sued several thousand shareholders as a class – anyone owning over 35 shares of stock, including PSERS. Initially, there was a subpoena served on

PSERS, asking to respond within one day, for information about our shares. We felt this was an improper method of discovery and our outside counsel filed an objection to the subpoena. PSERS is now waiting the next step, which will be after 4/1/11, when the Court makes a ruling about the case continuing. Mr. Gornish also stated that he believes PSERS' exposure is minimal.

CHIEF FINANCIAL OFFICER REPORT

CFO REPORT

Mr. Carl gave a presentation to the Board containing An Overview of PSERS' FY 2010 Comprehensive Annual Financial Report (CAFR) and the September 30, 2010 Financial Statements (See Board Book 352, CFO Report TAB).

BOARD MEMBER COMMENTS

Ms. Vogler extended her thanks to all PSERS' staff for a commendable job, as well as their generosity to charities.

EXECUTIVE SESSION

At 12:10 P.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 a litigation update. 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."

Ms. Turley moved that the Committee enter into Executive Session. Mr. Sando seconded the motion, which passed unanimously. The Executive Session ended at 12:25 P.M. and the meeting immediately returned to Regular Session.

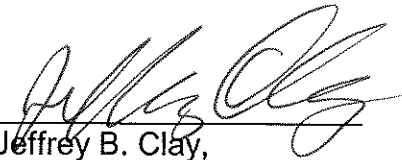
ADJOURNMENT

Ms. Vogler adjourned the meeting at 12:25 P.M.

NEXT MEETING

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on January 21, 2011, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 1/5/11

Approved 
Jeffrey B. Clay,
Executive Director