

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

Regular Meeting

Minutes

October 7, 2011

9:35 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman

Senator Patrick Browne

Mr. Anthony Mannino for Senator Lawrence M. Farnese

Mr. Glen S. Galante

Representative Glen R. Grell

Mr. Bernard Gallagher for Representative Joseph F. Markosek

Mr. Christopher Craig for 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. Thomas J. Gentzel

Staff Members Present

Mr. Jeffrey B. Clay

Ms. Barbara B. Book

Mr. David Bukowski

Mr. Brian S. Carl

Ms. Karen Hoy

Ms. Terrill J. Savidge

Mr. Charles K. Serine

Ms. Kathrin V. Smith

Ms. Kelly L. Sprenkle

Mr. Alan H. Van Noord

Mr. Joseph E. Wasiak, Jr.

Ms. Vogler called the meeting to order at 9:35 A.M. in the fourth floor Board Room at PSERS' headquarters.

CALL TO ORDER

WELCOME NEW
EMPLOYEES

Mr. Clay welcomed new employees, Mr. David Bukowski, Ms. Karen Hoy and Ms. Kathrin Smith.

MINUTES APPROVED

Mr. Rose moved to approve the minutes of the August 11, 2011 Board meeting. Ms. Tozer seconded the motion, which passed with one abstention from Mr. Galante, who was absent from the August meeting.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante, reported on the meeting held October 6, 2011.

MINUTES APPROVED

Mr. Galante stated that the Committee approved the minutes of the August 10, 2011 meeting.

PRESENTATIONS

Mr. Galante stated that Mr. Carl presented his Chief Financial Officer's Report; Mr. Rey, of Clifton Gunderson, reviewed the Independent Auditor's Report; and Ms. Boyer and Mr. Gwin presented the 2012-13 Administrative and Directed Commissions Budgets.

INDEPENDENT
AUDITOR REPORT

Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") accepts the June 30, 2011 Financial Statements and approve the accompanying Independent Auditor Report prepared for the Public School Employees' Retirement System by Clifton Gunderson LLP, for the year ended June 30, 2011. Resolved further that the Board ratifies all payments that are reflected in the June 30, 2011 Financial Statements. Mr. Rose seconded the motion, which passed unanimously.

ADMINISTRATIVE AND
DIRECTED
COMMISSIONS
BUDGETS

Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") approves the 2012-13 Administrative Budget, not to exceed \$44,490,000 and the 2012-13 Directed Commissions Recapture Program Budget, \$2,000,000, for the Public School Employees' Retirement System, as more particularly set forth in the attached summaries. Mr. Moss seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held October 6, 2011.

MINUTES APPROVED

Mr. Rose stated that the Committee approved the minutes of the August 10, 2011 meeting.

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Mr. Pease gave the Wilshire Second Quarter Performance Update; Mr. Smith spoke regarding Public Markets Performance; Mr. Reuhl reported on Aksia Second Quarter Absolute Return Performance; Mr. Spiller gave the Private Markets and Real Estate First Quarter Report; Mr. Pease presented Non-US Fixed Income Managers; Mr. Sheva presented the Investment Objectives and Guidelines; Mr. Grover, Mr. Drobny and Mr. Magnusson presented Black River Asset Management LLC; Mr. O'Reilly presented Capula Special Opportunities Fund; an Executive Session was held regarding Capula; Mr. Waxman presented TPG Opportunities Partners II L.P.; Ms. Oh presented BlackRock Emerging Markets Alpha Advantage Fund; Mr. Spiller presented Bain Capital Asia and NGP Natural Resources X, L.P.; Mr. Foreman presented Actis Global 4, L.P.; Ms. Stepp presented Five Arrows Realty Securities VI, L.P.; and Mr. Van Noord presented his Preview of Future Meetings.

PRESENTATIONS

Mr. Rose moved pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, and Wilshire Associates, both dated September 21, 2011, that the Public School Employees' Retirement Board (the "Board") (i) the Board retains AllianceBernstein LP to manage an initial amount of \$300 million in their Global Developed ex-U.S. Fixed Income strategy and (ii) that 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 (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

ALLIANCEBERNSTEIN L.P.

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.

Mr. Rose moved that pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, and Wilshire Associates, both dated September 21, 2011, that the Public School Employees'

STRATEGIC FIXED INCOME LLC

Retirement Board (the "Board") (i) the Board retain Strategic Fixed Income LLC to manage an initial amount of \$300 million in their Non-U.S. Developed Markets Fixed Income strategy and (ii) that 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 (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), 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. Sando seconded the motion, which passed unanimously.

INVESTMENT
OBJECTIVES AND
GUIDELINES

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") adopts the proposed changes to Exhibits B and C of the Investment Policy Statement, Objectives, and Guidelines and 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 September 22, 2011.

<u>Addendum</u>	<u>Addendum Title</u>
I	U.S. Core Plus Fixed Income Portfolios
Q	Non-US Developed Markets Fixed Income Portfolios
Q1	Emerging Markets Fixed Income Portfolios

Ms. Logan seconded the motion, which passed unanimously.

BLACK RIVER FIXED
INCOME RELATIVE
VALUE OPPORTUNITY
FUND LTD

Mr. Rose moved that pursuant to the recommendations of Robert E. Little, Portfolio Manager of External Public Markets, Risk & Compliance, dated September 22, 2011, and Aksia, LLC, dated September 20, 2011, the Public School Employees' Retirement Board (the "Board") (i) invests an initial amount of \$250 million in the Black River Fixed Income Relative Value Opportunity Fund Ltd., and (ii) that 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 (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), 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. Representative Grell seconded the motion, which passed unanimously.

Mr. Rose moved that pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, and Aksia, LLC, both dated September 22, 2011, that the Public School Employees' Retirement Board (the "Board") hereby recommends that (i) invests an initial amount of up to \$250 million in the Capula Special Opportunities Fund, Class A shares, provided that all due diligence is completed and is satisfactory to the Investment Office, Office of Chief Counsel, Executive Office and Aksia, and (ii) that 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 (the current version of which can be found at <http://www.psers.state.pa.us/invest/guide/index.htm>), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

CAPULA SPECIAL
OPPORTUNITIES FUND

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.

TPG OPPORTUNITIES
PARTNERS II, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests \$100 million plus reasonable normal investment expenses, in TPG Opportunities Partners II, L.P. in accordance with the recommendation of James H. Grossman, Jr, Managing Director of External Public Markets, Risk & Compliance, dated September 22, 2011, and Portfolio Advisors, dated September 16, 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.

Further resolved, that the Public School Employees' Retirement Board (the "Board") invests \$100 million plus reasonable normal investment expenses, in TOP NPL (A), L.P. in accordance with the recommendation of James H. Grossman, Jr, Managing Director of External Public Markets, Risk & Compliance, dated September 22, 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. Moss seconded the motion, which passed unanimously.

BLACKROCK
EMERGING MARKETS
ALPHA ADVANTAGE
FUND

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") authorizes investment in the Blackrock Emerging Markets Alpha Advantage Fund up to the emerging markets index weight in the internally-managed PSERS All Country World ex-US Index portfolio in accordance with the recommendation of Susan E. Oh, Portfolio Manager of Non-US Equities, dated September 23, 2011. 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.

BAIN CAPITAL ASIA

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in Bain Capital Asia Fund II, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated October 6, 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 not to exceed \$100 million plus reasonable normal investment expenses, in NGP Natural Resources X, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated October 6, 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.

NGP NATURAL
RESOURCES X, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in Actis Global 4, L.P., in accordance with the recommendation of Darren C. Foreman, Portfolio Manager, Private Markets, dated October 6, 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. Galante seconded the motion, which passed unanimously.

ACTIS GLOBAL 4, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount not to exceed \$100 million plus reasonable normal investment expenses, in Five Arrows Realty Securities VI, L.P., in accordance with the recommendation of Laurann H. Stepp, Portfolio Manager, Real Estate, dated October 6, 2011. 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

FIVE ARROWS REALTY
SECURITIES VI, L.P.

contract. Ms. Logan seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on October 7, 2011.

MINUTES APPROVED

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

ACCOUNT OF THOMAS W. BAKER (D)

Ms. Tozer moved to adopt the Opinion and Order, and deny the request of Michelle Cunningham-Baker to receive the death benefits of Thomas W. Baker, deceased. Ms. Turley seconded the motion, which passed unanimously.

ACCOUNT OF DOUGLAS P. GOERLITZ

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order (with one modification) to deny the request of Douglas Goerlitz to have his return to service considered an emergency. Mr. Moss seconded the motion, which passed unanimously.

ACCOUNT OF MURRAY A. NEEPER

Ms. Tozer moved to adopt the Opinion and Order to have the request for an Administrative Hearing, PSERS' Answer and Motion to Dismiss an Administrative Appeal and Response to the Motion to Dismiss an Administrative Appeal in the case of Murray A. Neeper. Ms. Turely seconded the motion, which passed unanimously.

ESRC REPORT

Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee (ESRC) Report from the July 29 and August 26, 2011 meetings.

BENEFITS PROCESSING

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

OLD BUSINESS

Ms. Vogler extended her appreciation to the Board for their contribution and involvement in the Staff Appreciation Hot Dog Day.

EXECUTIVE DIRECTOR'S REPORT

THANK YOU

Mr. Clay extended his thanks to the Board for the Staff Appreciation Hot Dog Day they hosted for PSERS' staff.

INFORMATION AVAILABLE

Mr. Clay stated that the following information was available (See Board Book 358, Executive Director TAB):

- Notification of Ms. Winters' appointment as Assistant Executive Director for Governmental and Member Relations for the Pennsylvania School Boards Association

Mr. Clay recently attended the following events:

- September 16 – presentation to the Education Committee of the Pittsburgh University Institute of Politics
- September 28 – Senate Finance Committee public hearing on pension funding
- October 5 – PSEA-R presentation in York/Adams County
- September 15-16 – PAPERS Conference

RECENTLY ATTENDED
EVENTS

Mr. Clay stated that he has no upcoming events scheduled for the immediate future.

UPCOMING EVENTS

Mr. Clay informed the Board that the Treasury report on Divestment will be posted to their secure website. He also stated that the GASB Letter is being prepared and will be made available to the Board when complete.

OTHER INFORMATION

Mr. Clay updated the Board on the following ongoing items:

- The Budget Audit has been completed
- The Statements of Account will be mailed in mid-November
- The Actuarial Valuation is in process and will be made available to the Board at the December meeting
- The CAFR will be completed for the December Board meeting. Mr. Clay expressed his gratitude to Mr. Carl and Mr. Halke, as well as their staff.

ONGOING ITEMS

Mr. Clay informed the Board that Donna Peterson will be retiring, effective October 21, 2011. He, as well as the Board, expressed their appreciation for her dedication over the years.

RETIREMENT

Mr. Clay informed the Board that Barbara Flurie is now Barbara Book due to her recent marriage.

NAME CHANGE

Mr. Clay stated that Ms. Vogler has provided several flashdrive versions of the Council of Institutional Investors policies she acquired at the last CII meeting. They are available for anyone who is interested.

AVAILABLE
INFORMATION

CHIEF COUNSEL REPORT

EXECUTIVE SESSION

At 10:04 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."

Mr. Rose moved that the Board enter into Executive Session. Mr. Sando seconded the motion, which passed unanimously. The Executive Session ended at 10:15 A.M. and the meeting immediately returned to Regular Session.

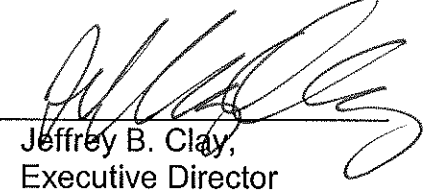
ADJOURNMENT

Chairman Vogler adjourned the meeting at 10:15 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 December 9, 2011, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 11/9/11

Approved 
Jeffrey B. Clay,
Executive Director