

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

Regular Meeting

Minutes

December 6, 2012

8:30 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Stacey Connors for Senator Patrick M. Browne
Mr. Anthony Mannino for Senator Lawrence M. Farnese
Mr. Glen S. Galante
Ms. Lisa Taglang (arrived at 8:35) for Representative Glen R. Grell
Mr. Stuart L. Knade (arrived at 8:37)
Mr. Bernard Gallagher (arrived at 8:41) for
 Representative Joseph F. Markosek
Mr. Christopher Craig (arrived at 8:33) for Treasurer Robert McCord
Mr. Hal Moss
Mr. James M. Sando
Ambassador Martin J. Silverstein
Ms. Ann Spishock (arrived at 8:38) for Secretary Ronald Tomalis
Ms. Patricia A. Tozer
Ms. Sally J. Turley

Board Members Absent

Mr. Richard N. Rose

Staff Members Present

Mr. Jeffrey B. Clay
Ms. Barbara B. Book
Mr. Brian S. Carl
Mr. Bill Dudley
Ms. Michele M. Ferencz
Ms. Cathy Gusler
Ms. Rajalakshmi Kumar
Mr. Edward Pavlovic
Ms. Maryann Pavlovic
Ms. Terrill J. Sanchez
Mr. Joseph E. Wasiak, Jr.
Ms. Diane Wert

Guests Present

Ms. Deborah Beck
Mr. Ron Conard, PASR
Ms. Janet Cranna, Buck Cons.
Ms. Judith Guise, PASR
Mr. Sandy Leopold
Mr. Steven Nickol
Mr. Ed Quinn, Buck Consultants
Ms. Dana Spangher, Buck Cons.

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

WELCOME GUESTS AND NEW EMPLOYEES Mr. Clay welcomed guests Mr. Conard and Ms. Guise; and new employees Ms. Gusler, Mr. Pavlovic, and Ms. Kumar.

MINUTES APPROVED Ms. Tozer moved to approve the minutes of the September 28, 2012 Board meeting. Mr. Moss seconded the motion, which passed unanimously.

Mr. Craig arrived at this time.

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on December 5, 2012.

MINUTES APPROVED Ms. Turley stated that the Committee approved the minutes of the September 27, 2012 meeting.

PRESENTATIONS Ms. Turley stated that Mr. Schafer gave an update on the School District of Philadelphia Post-65 Retiree Health Plan Terminations and spoke regarding the 2013 Health Options Program Budget.

HEALTH OPTIONS PROGRAM 2013 BUDGET Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") hereby adopts the proposed Health Options Program Budget and two supplemental budgets for the sponsor's Administrative and Medicare Prescription Drug Program (PDP) for the Plan Year 2013 in the aggregate amount of \$261,995,000 as presented by Mark F. Schafer at the December 5, 2012 Health Care Committee meeting. Ms. Tozer seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

Mr. Moss reported on the meeting held December 5, 2012.

MINUTES APPROVED Mr. Moss stated that the Committee approved the minutes of the September 27, 2012 meeting.

PRESENTATIONS Mr. Moss stated that Mr. Van Noord gave a Market Review and Comments; Mr. Bensur and Mr. Paese, of Wilshire, gave a 3rd Quarter Performance Review; Mr. Smith presented the 3rd Quarter Performance Review; Mr. Ruehl, of Aksia, gave a 3rd Quarter Performance Review; Mr. Kemp gave a Review of FY 2012 Investment Expenses; Mr. Stalter presented LEM Real Estate High-Yield Debt and Preferred Equity Fund III, L.P.; Mr. Little spoke regarding Sciens Aviation Special Opportunities Investment Fund

II, L.P.; Mr. Little presented the Global Agriculture Absolute Return Fund Limited, and a video conference was held, as well; Ms. Oh and Mr. Sheva gave a presentation regarding the Internally-Managed Optimal Liquid Beta Portfolio and Guidelines and Investment Policy; Mr. Spiller spoke regarding PAI Europe VI, L.P.; Ms. Stepp presented Latitude Management Real Estate Capital III, Inc.; and Mr. Van Noord presented the Preview of Future Meetings.

Ms. Taglang arrived at this time.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby adopts the proposed changes to the Investment Policy Statement, Objectives, and Guidelines (specifically Exhibit C) and the proposed Investment Objectives and Guidelines Addenda listed below for the Public School Employees' Retirement System pursuant to the recommendation of Joseph W. Sheva, Portfolio Manager, dated November 19, 2012.

**INVESTMENT
OBJECTIVES AND
GUIDELINES**

Addendum Addendum Title

G Internally Managed Optimal Beta Portfolio
Ms. Turley seconded the motion, which passed unanimously.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests \$150 million plus reasonable normal investment expenses in the Sciens Aviation Special Opportunities Investment Fund II, LP in accordance with the recommendations of Robert E. Little, Portfolio Manager, and Aksia, LLC, dated November 15, 2012.

**SCIENS AVIATION
SPECIAL
OPPORTUNITIES
INVESTMENT FUND II, LP**

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. Moss moved that pursuant to the recommendations of Robert E. Little, Portfolio Manager, dated November 15, 2012, and Aksia, LLC, dated November 15, 2012, the Public School Employees' Retirement Board (the "Board") hereby (i) invests an initial amount of \$150 million in the Global Agriculture Absolute Return Fund Ltd., and (ii) declares 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

**GLOBAL AGRICULTURE
ABSOLUTE RETURN
FUND LTD.**

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. Gallagher seconded the motion, which passed with two NO votes. Mr. Sando voted NO, as did Ambassador Silverstein, who noted, for the record, that the fees were excessive.

PAI EUROPE VI, L.P.

Mr. Moss 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 PAI Europe VI, L.P., in accordance with the recommendation of Darren C. Foreman, Portfolio Manager, Private Markets, and Portfolio Advisors LLC, dated December 5, 2012.

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. Knade arrived at this time.

LEM REAL ESTATE
HIGH-YIELD DEBT AND
PREFERRED EQUITY
FUND III, L.P.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$75 million in LEM Real Estate High-Yield Debt and Preferred Equity Fund III, LP, in accordance with the recommendation of William Stalter, Portfolio Manager Real Estate, and Courtland Partners Ltd., dated December 5, 2012.

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

Ms. Spishock arrived at this time.

Mr. Moss moved that the Public School Employees' Retirement Board (the "Board") hereby invests an amount not to exceed \$75 million in Latitude Management Real Estate Capital III, Inc., in accordance with the recommendation of Laurann H. Stepp, Portfolio Manager Real Estate, and Courtland Partners Ltd., dated December 5, 2012.

LATITUDE MANAGEMENT
REAL ESTATE CAPITAL
III, INC.

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.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on December 5, 2012.

Ms. Tozer stated that the Committee approved the minutes of the September 27, 2012 meeting.

MINUTES APPROVED

Ms. Tozer moved to deny the request for oral argument and to adopt the recommendation of the Hearing Officer in the case of Dorothy June Hairston-Brown to deny claimant's request of service credit for the years 2004-2005 through 2007-2008. Mr. Sando seconded the motion, which passed unanimously.

ACCOUNT OF D. JUNE
HAIRSTON-BROWN

Ms. Tozer moved to adopt, with certain corrections, the recommendation of the Hearing Officer in the case of Patricia A. Mussari to deny claimant's request to elect multiple service. Mr. Moss seconded the motion, which passed unanimously.

ACCOUNT OF
PATRICIA A. MUSSARI

Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee (ESRC) Report from the August 27, 2012 meeting.

ESRC REPORT

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

BENEFITS PROCESSING

NEW BUSINESS

ACTUARIAL VALUATION Mr. Carl introduced Ms. Cranna, Ms. Spangher and Mr. Quinn, who presented the Actuarial Valuation (See Board Book 366, New Business TAB). Mr. Carl then presented a Comparison of Key Projections, 2012 Valuation vs 2011 Valuation, Adjusted vs 2010 Valuation (See Board Book 366, New Business TAB).

ACTUARIAL VALUATION Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") hereby accepts the June 30, 2012 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 16.93% for Fiscal Year July 1, 2013 through June 30, 2014. Mr. Moss seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

INFORMATION AVAILABLE Mr. Clay stated that the updated Board member lists (public and private) & committee member list are available. (See Board Book 366, Executive Director TAB)

RECENTLY ATTENDED EVENTS Mr. Clay reported that he attended the following events: October 3 – PERC Hearing – pension reform; October 9 – Ms. Sanchez attended the PASR banquet on Mr. Clay's behalf; October 16 – PSBA Dinner; October 17-18 – BOCC conference presentation; October 24 – PSEA-R – Poconos presentation; November 12 – Seneca Valley SD, Harmony, PA – school board presentation; November 16 – HACC - Ed. Policy - Leadership Center (presentation was filmed by PCN); and on November 29 – PSEA Board presentation; November 30 – Tom Gentzel's retirement celebration.

UPCOMING EVENTS Mr. Clay stated that he plans to attend the following events: December 13 – PSBA Webinar presentation; January 2 – presentation to superintendents of Lancaster & Lebanon counties; and a January 4 – presentation to MCIU – Norristown.

ONGOING ITEMS Mr. Clay updated the Board regarding a number of ongoing items including the processing of Statements of Account; the Divestment Report has been published to the Board's secure web; the Actuarial Valuation has been completed; retirement season has come to a close; the CAFR is complete; the Health Options Program Option selection period is closed and the 1099's are to be processed.

Mr. Clay stated that the next meeting of the Committees and the Board will be January 24 and 25, 2013. There will also be a Board Education Session on January 23, 2013 which will include a segment on Strategic Planning.

CHIEF COUNSEL REPORT

Ms. Ferencz provided updates on the Host/Marriott litigation, including the anticipated filing of an amicus brief by one of PSERS' investment managers.

LEGAL UPDATES

CHIEF FINANCIAL OFFICER'S REPORT

Mr. Carl reported on an Overview of PSERS' FY 2012 Comprehensive Annual Financial Report (CAFR); September 30, 2012 Financial Statements; 5 Year NAV Projection; and Other Financial Management Activities.

Mr. Gallagher commended Mr. Carl and his staff for the exemplary work they do and their willingness to offer additional information when needed.

BOARD MEMBER
COMMENTS

Ms. Tozer thanked the Board for the support, humor and respect they offer to their fellow members. She commended Mr. Clay and all PSERS staff on the quality and professional work performed on a normal basis.

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 Executive Session to discuss the item listed on today's agenda, namely litigation and 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

Ms. Turley moved that the Board enter into Executive Session. Mr. Sando seconded the motion, which passed unanimously. The Executive Session ended at 10:28 A.M. and the meeting immediately returned to Regular Session.

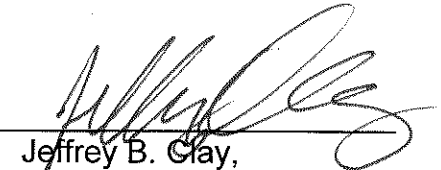
Chairman Vogler adjourned the meeting at 10:28 A.M.

ADJOURNMENT

NEXT MEETING

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on January 25, 2013, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 12/17/12

Approved 
Jeffrey B. Clay,
Executive Director