

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

Regular Meeting

Minutes

January 25, 2008

9:30 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Tina Byles Williams (via telephone)
Ms. Rebecca May Cole for Representative Dwight Evans
Mr. Glen S. Galante
Mr. Thomas J. Gentzel
Representative Steven R. Nickol
Mr. Richard N. Rose
Mr. James M. Sando
Ms. Patricia A. Tozer
Ms. Sally J. Turley
Mr. John Kemp for Treasurer Robin L. Wiessmann
Senator Rob Wonderling (arrived at 9:45 A.M.)

Board Members Absent

Senator Vincent J. Fumo
Mr. Arthur J. Rooney II
Secretary Gerald L. Zahorchak

Staff Members Present

Mr. Jeffrey B. Clay
Ms. Marilyn Fuller-Smith
Mr. Gerald Gornish
Mr. Donald J. Halke
Mr. Richard Michlovitz
Ms. Terrill J. Savidge
Ms. Evelyn M. Tatkovski
Ms. Veronica P. Thomas
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Others Present

Mr. Scott Sikorski, Office of Senator Rob Wonderling

- CALL TO ORDER Mr. Clay called the meeting to order at 9:30 A.M. in the fourth floor Board Room at PSERS' headquarters.
- CHAIR ELECTED Mr. Clay opened the floor for nominations to serve as Chairman of the Board for 2008. Mr. Gentzel nominated Ms. Melva S. Vogler. Mr. Galante seconded the nomination.
- The Board unanimously elected Melva S. Vogler to serve as Chairman of the Board for the year 2008.
- VICE CHAIR ELECTED Mr. Clay opened the floor for nominations to serve as Vice Chairman of the Board for 2008. Mr. Sando nominated Representative Steven R. Nickol. Ms. Turley seconded the motion.
- The Board unanimously elected Representative Steven R. Nickol to serve as Vice Chairman of the Board for the year 2008.
- Ms. Vogler and Representative Nickol thanked the Board.
- GUESTS Mr. Clay welcomed Ms. Beatrice Hines representing PASR and Mr. James Henniger-Voss representing PSEA.
- MINUTES APPROVED Mr. Rose moved to approve the minutes of the December 13, 2007, Board meeting. Ms. Tozer seconded the motion, which passed unanimously.

RETIREMENT TOTALS

Ms. Tozer moved to approve 731 retirement applications which were processed as of January 11, 2007: 342 superannuation allowances; 283 withdrawal allowances; 53 disability allowances; and 53 automatic death benefits. Mr. Galante seconded the motion, which passed unanimously.

AUDIT/BUDGET COMMITTEE REPORT

- Mr. Galante reported on the meeting held on January 24, 2008.
- MINUTES APPROVED Mr. Galante stated that the Committee approved the minutes of the September 28 and October 3, 2007 meetings.

Mr. Galante moved that the Board approve the proposed responses to the findings of the Auditor General Performance Audit and the IFS Fiduciary Review as presented by Jeffrey B. Clay at its January 24, 2008, meeting (See Resolution 2008-01). Mr. Rose seconded the motion, which passed unanimously.

AUDITOR GENERAL
PERFORMANCE AUDIT
AND THE IFS FIDUCIARY
REVIEW

Mr. Galante moved that the Board accept the 2006 Medical Claims Audit prepared for the Public School Employees' Retirement System by The Segal Company (See Resolution 2008-02). Representative Nickol seconded the motion, which passed unanimously.

2006 MEDICAL CLAIMS
AUDIT

Mr. Galante stated that the Committee received a report from Mr. Halke concerning the Medicare Part D Prescription Drug Program Compliance Monitoring and an update on the 2005/2006 Prescription Drug Program audit.

MEDICARE PART D
MONITORING AND
2005/2006 PDP REPORTS

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on January 24, 2008.

Ms. Tozer stated that the Committee approved the minutes of the December 13, 2007 meeting.

MINUTES APPROVED

Ms. Tozer moved that the Board adopt the Hearing Examiner's Opinion and Order and deny the request of JA for skilled nursing care benefits under the HOP Plan for care received while a resident at the SNF. Ms. Turley seconded the motion, which passed unanimously.

ADJUDICATIONS
JA

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order and deny the request of Sandra E. Turner for Class T-D membership. Representative Nickol seconded the motion, which passed unanimously.

SANDRA E. TURNER

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the December 18, 2008, meeting.

EXECUTIVE STAFF
REVIEW COMMITTEE

CORPORATE GOVERNANCE COMMITTEE REPORT

Mr. Sando reported on the meeting held on January 24, 2008.

MINUTES APPROVED Mr. Sando stated that the Committee approved the minutes of the December 13, 2007, meeting.

PROXY VOTING PROGRAM Mr. Sando stated that Mr. Little, and Mr. McCormick of Glass, Lewis & Co, updated the Committee concerning PSERS' Proxy Voting Program.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held on January 24, 2008.

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the December 12, 2007, meetings.

STAFF REVIEWS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Mr. Grossman gave a report reviewing the Securities Lending Program; and Mr. Spiller gave a report regarding Alternative Investments and Real Estate for the second quarter. He stated that managing directors of BlackRock Solutions gave a presentation.

CVC EUROPEAN EQUITY PARTNERS V, L.P. Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed €300 million plus reasonable normal investment expenses, in CVC European Equity Partners V, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated January 24, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-03). Mr. Gentzel seconded the motion, which passed unanimously.

THE HSBC PRIVATE EQUITY FUND 6, 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 The HSBC Private Equity Fund 6, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated January 24, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-04). Mr. Sando seconded the motion, which passed unanimously.

VERSA CAPITAL 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 \$150 million

plus reasonable normal investment expenses, in Versa Capital Fund II, L.P. in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated January 24, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-05). Mr. Kemp seconded the motion, which passed unanimously.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$75 million plus reasonable normal investment expenses, in Catterton Growth Partners, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated January 24, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-06). Ms. Turley seconded the motion, which passed unanimously.

CATTERTON GROWTH PARTNERS, L.P.

Mr. Rose moved that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$400 million plus reasonable normal investment expenses, in TPG Partners VI, L.P., in accordance with the recommendation of Charles J. Spiller, Director of Private Markets and Real Estate, dated January 24, 2008. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-07). Ms. Tozer seconded the motion, which passed unanimously.

TPG PARTNERS VI, L.P.

Mr. Rose moved that the Board adopt the revised Public Market Emerging Investment Manager Program Policy for the Public School Employees Retirement System pursuant to the recommendation of Luke M. Jacobs, Sr. Investment Analyst, dated January 24, 2008 (See Resolution 2008-08). Mr. Kemp seconded the motion, which passed unanimously.

PUBLIC MARKET EMERGING INVESTMENT MANAGER PROGRAM POLICY

Mr. Rose moved that the Board adopt the proposed addendum to the Investment Policy Statement, Objectives, and Guidelines for the Public School Employees' Retirement System pursuant to the recommendation of James H. Grossman, Jr., dated January 24, 2008; more specifically, Addendum K1 – Mortgage and Asset Backed Securities Portfolio (See Resolution 2008-09). Mr. Gentzel seconded the motion, which passed unanimously.

INVESTMENT POLICY STATEMENT, OBJECTIVES, AND GUIDELINES – K-1

Mr. Rose stated that the Committee accepted the Prudence/Due Diligence Study which was presented by Staff in response to Board's direction under Resolution 2007-100.

PRUDENCE/DUE DILIGENCE STUDY

HEALTH COMMITTEE REPORT

Ms. Turley reported on the meeting held on January 25, 2008.

MINUTES APPROVED

Ms Turley stated that the Committee approved the minutes of the December 12, 2007, meeting.

MEDICARE PLAN REVIEW – SCHOOL PLANS

Ms. Turley moved that the Board, pursuant to the recommendation of Mark F. Schafer, approve the following:

- PSERS should review the Medicare plan and policy offerings of all Commonwealth school districts that offer health benefits to their retirees beyond age 65. The review should include surveying data on plan carriers, plan types, benefit levels, whether self-insured or fully insured, and the number of participants currently in each plan offering. The review should be conducted periodically to assure that all plans meet any guidelines established to qualify for Premium Assistance benefits.
- PSERS should establish specific guidelines and policies regarding school district sponsored plans that qualify for Premium Assistance. The guidelines should be flexible enough to allow competition among offerings, but strict enough to avoid having new types of plans introduced without PSERS' oversight. While the guidelines should be targeted primarily to address plans available for Medicare eligible retirees, they should also address school plans for retirees prior to eligibility for Medicare.
- The review and issuance of guidelines should be completed as soon as possible during 2008 to allow school districts time to make appropriate changes before the beginning of the 2009 calendar year.
- The School District of Philadelphia ("SDP") should be directed not to allow further enrollments in the Bankers Life Medigap policy or any other individual Medigap policies until the PSERS Board considers the situation and issues guidance for school plans for Medicare retirees that will qualify for Premium Assistance.
- To avoid unnecessary disruption and mid-year transfers among SDP's plans, PSERS should continue to honor the Premium Assistance credits for those current SDP enrollees in the Bankers Medigap policy for the balance of 2008 only.

SDP and the affected retirees should be notified that the Bankers Medigap policy is under review and that their Premium Assistance will continue for this year and be subject to guidelines to be issued for future years.

- PSERS should periodically review the guidelines established for school district plans to qualify for Premium Assistance to assure they remain current with the changing Medicare insurance market place.

(See Resolution 2008-10). Representative Nickol seconded the motion, which passed unanimously.

Senator Wonderling arrived at this time.

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 329 Executive Director TAB):

- Legislative Report
- Comprehensive Annual Financial Report for the year ended June 30, 2007
- PSERS Actuarial Valuation Report for the year ended June 30, 2007

LEGISLATIVE REPORT
CAFR AND VALUATION
REPORT

Mr. Clay stated that he made a presentation to the Boyertown School Board on January 8, 2008.

ATTENDANCE AT
EVENTS

Mr. Clay stated that he planned to attend the NASRA and NCTR Legislative meetings in Washington, DC, on February 4 and 5, 2008, and that he, together with Chairman Vogler and Staff, were scheduled to appear before the House and Senate Appropriations Committees for PSERS' annual administrative budget hearing on February 27, 2008.

UPCOMING EVENTS

Mr. Clay stated that the Financial Auditing Services RFP evaluation Committee would meet on February 21, 2008.

FINANCIAL AUDITING
SERVICES RFP

Mr. Clay stated that all 196,138 Forms 1099 for the year 2007 had been processed; that 140,928 had been mailed and the remaining would be mailed on January 26, 2008.

FORMS 1099

Mr. Clay stated that Member Statements of Account for 703 employers, covering 286,880 members, have been mailed to date and an additional 6,786 Statements will be mailed by

STATEMENTS OF
ACCOUNT

February 1, 2008. He stated that there are 4,048 additional Statements, which will be sent to members as soon as the remaining twelve employers complete their reports to PSERS.

NPAS

Mr. Clay stated that Staff expects the last major implementation of NPAS to occur in March.

BOARD STRATEGIC
PLANNING MEETING

Mr. Clay stated that a Board Strategic Planning Meeting would occur during the March 6 and 7, 2008, Committee and Board meetings timeframe.

CHIEF COUNSEL REPORT

ANNUAL REPORT OF
THE OFFICE OF CHIEF
COUNSEL

Mr. Gornish stated that the 2007 Annual Report of the Office of Chief Counsel, which had been previously distributed to the Board, included its report on Securities Litigation as required by the Securities Litigation Policy.

Mr. Clay stated that he wished to publicly thank Mr. Gornish and his Staff for their excellent work and expressed his heartfelt appreciation for the exceptional working relationship Mr. Gornish and the entire Office of Chief Counsel has with all PSERS' Staff.

RULES AND
REGULATIONS

Mr. Gornish stated that PSERS received comments from the Independent Regulatory Review Commission (IRRC) regarding PSERS' proposed Amended Rules and Regulations. He stated that PSERS reviewed IRRC's comments, which were all of a non-substantive, stylistic nature, and which improved the understanding of the suggested amendments. He stated that the suggested changes were acceptable to the Executive Director, Deputy Executive Director for Benefits, and the Office of Chief Counsel and, since there was no change in substance and in accordance with the previous Board resolution dated January 26, 2007, PSERS is moving to promulgate these regulations. Mr. Gornish stated that he believes the amendments will make PSERS' interpretation of certain provisions in the Retirement Code more accessible to and useable by the public; improve PSERS' hearing procedures; and codify the Board's method of considering proposed adjudications.

Mr. Gornish thanked the many staff members at PSERS who worked and commented on the changes.

Mr. Gornish stated that in the case of Royal Dutch/Shell, Judge Pisano adopted the Report and Recommendation of the Special Master, who recommended that the claims of the Non-U.S. Purchasers should be dismissed with prejudice for lack of subject matter jurisdiction. That order dismissing the Non-U.S. purchasers has become final.

ROYAL DUTCH

On January 14, the Court entered an Order approving the payment of attorneys' fees by Shell to our Lead Counsel. The payment was made in recognition of the substantial contributions that SERS/PSERS and Lead Counsel made, in the exercise of their fiduciary obligations, in causing the settlement of the Non-U.S. Purchasers claims in The Netherlands.

He further stated that in the Memorandum of Understanding, which the Board approved, the Funds agreed to dismiss with prejudice the current and former individual defendants, and Shell agreed to stipulate to a class of the U.S. Purchasers. Two motions, stipulations and orders to accomplish these understandings will be submitted to the Court for approval prior to February 1, 2008. The next mediation is scheduled and discovery is ongoing..

Mr. Gornish stated that on January 15, 2008, the United States Supreme Court, in a 5-3 decision, decided the *Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.* case, and held that the implied private right of action for securities fraud under the Securities Exchange Act does not extend to third parties who do not make alleged misstatements or engage in deceptive conduct on which investors rely. The Court held that the investors in that case could not show reliance upon any of the defendants' actions except in an indirect chain that is too remote for liability. The Court left open the possibility that such reliance could factually be shown in an appropriate case, especially in the case of financial transactions structured by third parties. PSERS had joined in an amicus curiae brief filed in support of the investors.

STONERIDGE
INVESTMENT PARTNERS
LLC V. SCIENTIFIC-
ATLANTA, INC.

OLD BUSINESS

Senator Wonderling questioned the best time of the year to request that Staff report to the Board concerning criteria for qualitative/quantitative measures which would be put into place regarding PSERS' investments. Mr. Clay stated that this was an ongoing process; that Staff monitors investments at all times, and would continue to bring to the Board any new developments as they arise.

NEW BUSINESS

REVIEW OF POLICIES

Mr. Gornish stated that the Office of Chief Counsel had reviewed the Statement of Organization, Bylaws and Other Procedures, Rules and Regulations, the Board Automation Policy, Elections Procedures and Guidelines, External Board Appointment Policy, Travel and Education Policy, Oral Argument Policy, Public Information Policy, Retirement Code, Securities Litigation Policy, and the Vertical History of the Retirement Code in the books located in the Board Room and that they were current and up to date as of January 1, 2008.

Mr. Van Noord stated that the Investment Office had reviewed the Investment Objectives and Guidelines, Developmental Fund Program Criteria and Guidelines, Domestic and International Proxy Voting Guidelines in the books located in the Board Room and that they were current and up to date as of January 1, 2008.

BOARD MEMBERS' COMMENTS

STAFF
COMMENDMENTS

Mr. Rose stated that he had received a copy of a letter to Governor Rendell from Ms. Cynthia J. Buckley, praising Bureau of Benefits Administration Staff Member John Tucker for his exemplary service. Mr. Rose asked that Mr. Clay place a copy of the letter in Mr. Tucker's employee file.

Ms. Turley stated that she had recently called PSERS' headquarters numerous times asking for help for various annuitants and praised staff for their quick and efficient responses.


Mr. Gentzel distributed a copy of the December PSBA Bulletin which included articles concerning Pension Reform and specifically an article by Ms. Tatkovski, An Introduction to PSERS. Mr. Gentzel thanked Ms. Tatkovski and Mr. Clay.

ADJOURNMENT AND
NEXT REGULARLY
SCHEDULED MEETING

Chairman Vogler adjourned the meeting at 10:30 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on March 7, 2008, in the PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 2/11/08

Approved


Jeffrey B. Clay
Executive Director