

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

Regular Meeting

Minutes

June 20, 2008

9:00 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. Scott Sikorski for Senator Rob Wonderling
Ms. Mary Soderberg for Secretary Gerald L. Zahorchak

Board Members Absent

Ms. Tina Byles Williams
Treasurer Robin L. Wiessmann

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara Flurie
Ms. Marilyn Fuller-Smith
Mr. Donald J. Halke II
Ms. Terrill J. Savidge
Ms. Evelyn M. Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Others Present

Ms. Beatrice Hines

CALL TO ORDER Chairman Vogler called the meeting to order at 9:00 A.M. in the fourth floor Board Room at PSERS' headquarters.

WELCOME Chairman Vogler welcomed new Board member Mr. Moss.

GUESTS AND NEW EMPLOYEES Mr. Clay welcomed Ms. Beatrice Hines, representing PASR and PSERS' new employees Steve Skoff and Shirley Jones.

MINUTES APPROVED Mr. Rose moved to approve the minutes of the May 2, 2008, Board meeting. Ms. Tozer seconded the motion, which passed unanimously.

OLD BUSINESS

ORAL ARGUMENT Mr. Clay stated that the Oral Argument which had been scheduled for the June 20, 2008, Board Meeting had been removed from the Agenda but that previously, on May 28, 2008, a notational Ballot had been sent to all Board Members regarding the request for Oral Argument. He announced that (for recording keeping purposes and in keeping with the Board's Bylaws which state that the results of such Notational Ballots will be announced at the next meeting) the Notational Ballot passed with affirmative votes from Mses. Lehman, May Cole, Tozer, Turley, Vogler, and Wiessmann and Messrs. Galante, Gentzel, Rose, and Sando returning their ballots. The Board ratified the motion, with Mr. Leopold abstaining.

RETIREMENT TOTALS

Ms. Tozer moved to approve 349 retirement applications which were processed as of June 6, 2008: 42 superannuation allowances; 120 withdrawal allowances; 138 disability allowances; and 49 automatic death benefits. Ms. Turley seconded the motion, which passed unanimously.

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on June 19, 2008.

MINUTES APPROVED Ms. Turley stated that the Committee approved the minutes of the May 1, 2008 meeting.

PRESENTATIONS Ms. Turley stated that the Committee heard presentations from Mark Schafer, and Rick Johnson and Ed Kaplan of The Segal Co., regarding Medicare Advantage and Managed Care Strategy for the 2009-2010 MA-PFFS plan.

Ms. Turley moved that the Board, in accordance with the recommendations of The Segal Company and Mark F. Schafer, Health Insurance Administrator, dated June 6, 2008, approve entering into negotiations with the successful bidder to offer a single MA-PFFS plan as the sole Medicare Advantage medical option to the HOP Medical Plan for new enrollees and HOP participants making a change into a Medicare Advantage plan during the upcoming option selection period with benefits effective January 1, 2009.

MA-PFFS
IMPLEMENTATION

Further resolved, that the Board approve that effective January 1, 2010, all HOP participants enrolled in a managed care plan will be transitioned into the MA-PFFS plan (medical coverage only) or the HOP Medical Plan. (All HOP participants will be able to select the Basic or Enhanced Medicare Rx Option.)

Further resolved, that the Board approve that if the negotiations with the successful bidder for the MA-PFFS warrant, some or all HOP participants in a managed care plan may be transitioned into the new MA-PFFS plan or the HOP Medical Plan effective January 1, 2009. The accelerated transition is subject to review at the August 2008 Health Care Committee and subsequent approval by the Board. (See Resolution 2008-44). Mr. Rose seconded the motion, which passed unanimously.

Ms. Turley moved that the Board, in accordance with the recommendation of the MA-PFFS Plan and Companion Managed Care Plan Request for Proposal Evaluation Committee, select Highmark, Inc. as the MA-PFFS Plan and Companion Managed Care Plan for the period commencing January 1, 2009 through December 31, 2010, renewable for up to three one-year periods upon the mutual written consent of the parties, subject to terms and conditions satisfactory to the Health Insurance Administrator, the Office of Chief Counsel, and the Office of the Executive Director (See Resolution 2008-45). Mr. Sando seconded the motion, which passed unanimously.

MA-PFFS REQUEST FOR
PROPOSAL

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held on June 19, 2008.

Mr. Rose stated that the Committee approved the minutes of the May 1, 2008 meeting.

MINUTES APPROVED

PRESENTATIONS

Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Mr. Smith made a presentation on the Total Fund Performance Attributions and Risk Management; and Mr. Bensus reviewed Wilshire's First Quarter Performance Review.

EMERGING MARKET
DEBT INVESTMENT
MANAGERS

Mr. Rose moved that the Board hire the following local currency emerging market debt investment managers pursuant to the recommendation of Alan Van Noord, Chief Investment Officer, and Wilshire Associates Incorporated in their memo dated June 19, 2008, as follows:

Franklin Templeton Investments
Lazard Asset Management, LLC
Pacific Investment Management Company (PIMCO)
Stone Harbor Investment Partners, LP

The final terms and conditions must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-46). Ms. Turley seconded the motion, which passed unanimously.

NON-US SMALL CAP
EQUITY MANAGERS

Mr. Rose moved that the Board hire the following non-US small cap equity managers pursuant to the recommendation of Alan Van Noord, Chief Investment Officer, and Wilshire Associates Incorporated in their memo dated June 19, 2008, as follows:

Batterymarch Financial Management, Inc.
Oberweis Asset Management, Inc.
Pyramis Global Advisors
Victory Capital Management, Inc.
Wasatch Advisors, Inc.

The final terms and conditions must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-47). Mr. Leopold seconded the motion, which passed unanimously.

BGI CAPITAL
STRUCTURE
INVESTMENTS FUND
LTD

Mr. Rose moved that the Board invest up to \$300 million in the BGI Capital Structure Investments Fund Ltd. pursuant to the recommendation of Alan Van Noord, Chief Investment Officer, and Wilshire Associates Incorporated in their memo dated June 19, 2008. The final terms and conditions must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director (See Resolution 2008-48). Mr. Sando seconded the motion, which passed unanimously.

Mr. Rose moved that the Board adopt the proposed changes to the Investment Policy Statement, Objectives, and Guidelines Exhibits listed below pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated June 5, 2008.

CHANGES TO THE INVESTMENT POLICY STATEMENT, OBJECTIVES, AND GUIDELINES

<u>Exhibit</u>	<u>Exhibit Title</u>
B	Asset Allocation
C	Policy Index
D	Public Market Investment Manager Target Ranges

Further resolved, that the Board adopt the proposed Investment Objectives and Guidelines Addenda listed below pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated June 5, 2008.

<u>Addendum</u>	<u>Addendum Title</u>
H	Full Discretion Commodity Program
H1	Enhanced Commodity Index Prog
O1	Emerging Markets Small Cap Equities
Q1	Absolute Return Emerging Markets Fixed Income
Q2	Emerging Markets Fixed Income
T	U.S. Publicly Traded Real Estate Securities
T1	Non-U.S. Publicly Traded Real Estate Securities
T2	Global Publicly Traded Real Estate Securities

Further resolved, that the Board adopt the non-substantive changes to the Investment Policy Statement, Objectives and Guidelines. (See Resolution 2008-49). Ms. Tozer seconded the motion, which passed unanimously.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held on June 19, 2008.

Mr. Galante stated that the Committee approved the minutes of the May 1, 2008 meeting.

MINUTES APPROVED

PRESCRIPTION DRUG
CLAIMS AUDIT

Mr. Galante moved that the Board accept the 2005 and 2006 Prescription Drug Claims Audit prepared for the Public School Employees' Retirement System by Independent Pharmaceutical Consultants, Inc. (See Resolution 2008-50). Ms. Turley seconded the motion, which passed unanimously.

MEDICAL CLAIMS
AUDIT

Mr. Galante moved that the Board accept the 2007 Medical Claims Audit prepared for the Public School Employees' Retirement System by The Segal Company. (See Resolution 2008-51). Mr. Rose seconded the motion, which passed unanimously.

TAX QUALIFICATION

Mr. Galante moved that the Board authorize the Executive Director, with the advice and assistance 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 deems 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. It is understood that such actions may include one or more of the following: communicating with the IRS; briefing the Administration, the General Assembly and the Public Employee Retirement Commission on relevant issues and needed legislation, if any; cooperating with the efforts of national government pension plan organizations, such as the National Association of State Retirement Administrators and the National Council on Teacher Retirement, to alleviate tax compliance burdens; and coordinating any of such efforts with the State Employees' Retirement System and the Pennsylvania Municipal Retirement System.

Resolved further, that the Board direct the Executive Director to periodically report the status of PSERS' efforts to address the efforts of the IRS to require public pension plans to obtain an IRS qualification determination letter. 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, e.g. the Self-Correction Program and the Voluntary Compliance Program described in Revenue Procedure 2006-27, shall require prior Board approval (See Resolution 2008-52). Mr. Moss seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on June 19, 2008.

MINUTES APPROVED

Ms. Tozer stated that the Committee approved the minutes of the May 1, 2008 meeting.

Ms. Tozer moved to adopt the hearing examiner's opinion and order to grant the claim of Willette Gallman in the account of Sandra N. Lapcevic (deceased). Mr. Ritter seconded the motion, which passed unanimously.

ADJUDICATION
SANDRA N. LAPCEVIC

Mr. Clay informed the Committee of a change being made in how the public information lists of active and retired members will be made available for public inspection in accordance with the Right-to-Know Law.

RIGHT-TO-KNOW LAW

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the May 29, 2008 meeting.

EXECUTIVE STAFF
REVIEW COMMITTEE

PERSONNEL COMMITTEE REPORT

Mr. Gentzel reported on the meeting held on June 19, 2008.

Mr. Gentzel stated that the Committee approved the minutes of the May 1, 2008 meeting.

MINUTES APPROVED

Mr. Gentzel moved that the Board adopt the Policy Manual for Investment Professional Staff in accordance with the recommendation of Jeffrey B. Clay, Executive Director, dated June 5, 2008 (See Resolution 2008-53). Mr. Galante seconded the motion, which passed unanimously.

POLICY MANUAL FOR
INVESTMENT
PROFESSIONAL STAFF

BYLAWS/POLICY COMMITTEE REPORT

Representative Nickol reported on the meeting held on June 19, 2008.

Representative Nickol stated that the Committee approved the minutes of the March 6, 2008 meeting

MINUTES APPROVED

Representative Nickol stated that the Committee approved changes to the Statement of Organization, Bylaws, and Other Procedures and that the proposed changes would come before the Board at its next regularly scheduled meeting for action.

STATEMENT OF
ORGANIZATION, BYLAWS
AND OTHER
PROCEDURES

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 335, Executive Director TAB):

AVAILABLE
INFORMATION

- Legislative Report

- Joint Letter Requesting Delay in Application of Normal Retirement Age Regulations
- Letter from Budget Secretary to General Assembly regarding the Rate Spike

EMPLOYEE RETIREMENTS

Mr. Clay announced that June 20, 2008, is the last day of employment for Veronica Thomas, and Douglas Bonsall would be leaving PSERS at the end of the month. The Board gave both an ovation and wished them well.

RIGHT-TO-KNOW LAW

Mr. Clay stated that in accordance with the new Right-to-Know Law, a website will be maintained so that the public will have access to all Commonwealth contracts, effective July 1, 2008.

BOARD EDUCATION DAY

Mr. Clay stated that Board Education Day will be held August 12, 2008, at the Civil War Museum. Former Vice President Dan Quayle will speak on "US & Global Economy and the Impact of the US Election;" Jeffrey A. Barrack and Stephen Basser will discuss "Advocating Federal Securities Class Actions to a Jury;" Bill Indelicato will speak on the Private Market environment; Michael Humphrey will speak on the Real Estate environment, and that Janet Cranna will speak on Financial Economics.

RECENTLY ATTENDED EVENTS

- Mr. Clay stated that he recently attended:
- May 7, 2008 – PSEA-R in Pittsburgh, PA
 - May 22, 2008 – Annual Valuation before the Public Employee Retirement Commission
 - June 4, 5, and 6, 2008 – PAPERS Conference
 - June 6, 2008 – PA IU Human Resources Directors at the Central Susquehanna IU
 - June 13 – 18, 2008 – NCTR System Directors' Meeting in California

UPCOMING EVENTS

- Mr. Clay stated that he planned to attend the following event:
- June 24 – 27, 2008 – NAPPA Convention – Boston, MA

CHIEF COUNSEL REPORT

PERSONNEL

Mr. Gornish stated that he currently has a Legal staff of seven, plus two summer interns, Cynthia Helzner and Lori Kearns and that Jennifer Mills has returned from maternity leave. He also stated that Lenann Engler moved to the Investment Office, and has been replaced by Steven C. Skoff.

QWEST

Mr. Gornish stated that the final installment of \$5.4 million is due from Qwest on June 20, 2008.

Mr. Gornish stated that in the Royal Dutch case, application for approval of settlement and class certification has been filed with preliminary approval granted. He stated that a fairness hearing has been scheduled for September 26, 2008.

ROYAL DUTCH

Mr. Gornish stated that in the Union Officers case, the Supreme Court has granted the allowance of appeal and will probably hear argument on the appeal this fall/winter.

UNION OFFICERS

NEW BUSINESS

Mr. Rose moved that the Board approve the following schedule for PSERS' Committee and Board meeting dates for 2009 (See Resolution 2008-43). Ms. Turley seconded the motion, which passed unanimously.

2009 CALENDAR

January 22 and 23, 2009
March 12 and 13, 2009
April 30 and May 1, 2009
June 11 and 12, 2009
August 11, 12 and 13, 2009
October 1 and 2, 2009
December 10 and 11, 2009

Mr. Galante moved that the Board authorize any two or more of the persons occupying the following positions, namely, the Executive Director, Deputy Executive Director; Assistant Executive Director; Chief Financial Officer; Chief Investment Officer; Managing Director of External Public Markets and Risk and Compliance; and Director of Investment Accounting to execute and deliver any and all contracts, instruments, or documents that require written signatures in the name of the Public School Employees' Retirement System (the "System") or the Board, and to endorse, assign, or guarantee all such contracts, instruments, or documents in the name of the System or the Board.

SIGNING RESOLUTION

Resolved further, that (i) in the case of investment contracts, the Chief Investment Officer, Managing Director of External Public Markets and Risk and Compliance or Director of Investment Accounting must be one of the two signatories, except in exigent circumstances when none of the designated individuals is available, and (ii) in the case of all other contracts, the Executive Director, Deputy Executive Director, Assistant Executive Director, or Chief Financial Officer must be one of the two signatories,

except in exigent circumstances when none of the designated individuals is available (See Resolution 2008-42). Mr. Leopold seconded the motion, which passed unanimously.

BOARD MEMBER COMMENTS

CONFERENCE
ATTENDANCE

Ms. Turley stated that Ms. Vogler, Mr. Sando and she attended the PAPERS Conference and that the information is available in the Board Library.

FISCAL IMPACT STUDY

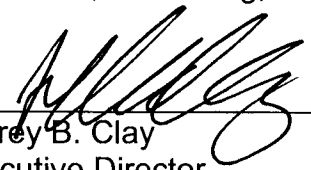
Mr. Sando expressed his appreciation to Senator Wonderling for moving Senate Resolution 309, which passed unanimously out of the Senate Finance Committee. Mr. Sikorski stated that it will move to the Senate floor and there is consensus to pass the bill during the week of June 23, 2008, and that at that point, the Legislative Budget and Finance Committee will start work on the fiscal impact study for PSERS' retirees. Chairman Vogler added her appreciation for the entire Board.

ADJOURNMENT AND
NEXT REGULARLY
SCHEDULED MEETING

Chairman Vogler adjourned the meeting at 9:50 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on August 14, 2008, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 7/23/08

Approved _____


Jeffrey B. Clay
Executive Director