

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PSERS
5 N 5th Street
Harrisburg PA 17101-1905

Toll-free: 1.888.773.7748 (1.888.PSERS4U)
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www.psers.pa.gov

April 1, 2022

Chairman Seth Grove
House State Government Committee
House of Representatives
7 East Wing
P.O. Box 202196
Harrisburg, PA 17120-2196

Dear Chairman Grove and Subcommittee members:

Thank you for inviting the management team and Board Chair of the Public School Employees Retirement System to testify today at the public hearing of the House State Government Committee's Subcommittee on Public Pensions, Benefits and Risk Management. I am Terri Sanchez, PSERS Interim Executive Director.

We are here today to discuss the topic of governance. Governance, as defined in Merriam-Webster's Dictionary, is "the act or process of governing or overseeing the control and direction" of a country or organization. If any country or organization is to survive and thrive, it is prudent for its leaders to routinely examine its governance rules, policies, and structures to ensure they remain current and incorporate leading practices and are effective. Good governance requires self-reflection as well as external examination.

In 2019, to better serve its members, beneficiaries, employees and stakeholders, the PSERS Board of Trustees called for self-reflection. As previously noted by PSERS Board Chair Santa Maria, after a competitive search process, the Board retained Funston Advisory Services to conduct a governance review. Funston delivered its [report](#) to the Board in mid-December of last year, highlights of which have been presented to you today.

I would like to note that although the Funston study was begun before, and remained independent of, the special internal investigation the Board launched over matters related to a Department of Justice inquiry, the Board announced in late December, that careful review and deliberation of recommendations in the Funston report would begin sometime after the Board received the results of its special internal investigation in January.

With PSERS internal investigation now concluded and that report having been received, the Board has now turned its attention back to the Funston report.

In general terms, included in the Funston report are 31 recommendations organized into 6 governance reforms, with each recommendation having detailed implementation steps. I am pleased to report that in the short time PSERS has been working on the recommendations, PSERS has:

- Begun work on 4 of the 6 recommended governance reforms
- Begun work on or adopted 10 of the 31 detailed recommendations
- Begun work on or adopted 21 of the 180 Implementation Steps

One of the key accomplishments is the Board's March 15th passage of Resolution 2022-25. This resolution adopted a Model Governance Manual Framework ("Framework"). This Framework serves as the new supporting structure for the board's governance documents. A copy of that resolution, along with the Framework, was included in the advance materials provided to the committee.

Along with adopting a new framework, the Board also began filling in this new framework by repealing a few longstanding bylaws regarding Committees of the Board and replacing them with several of the Funston recommendations, including reducing the number of committees from 10 to 7; providing for an election process for Committee Chair and Vice Chair; and replacing descriptions of the Committees within the Bylaws with Committee Charters.

In the last two weeks of March 2022, our seven newly constructed committees met and selected their respective chairs and vice chairs.

As directed in its Charter, the Governance and Administration Committee will assist the Board in fulfilling its fiduciary duty with regard to Governance, in this case, by shepherding the Board's review of each Funston recommendation. The Committee will review the Funston recommended *Implementation Roadmap* and either accept or edit the prioritization of this group of recommendations for review. The Committee will recommend to the full Board the priority, as well as a suggested assignment of each Funston recommendation, to the most appropriate Committee of the Board for the thoughtful review and deliberation of the Funston recommendation, and for making a recommendation to the full Board for action. Potential recommendations from the assigned Committee to the Board could include accepting the recommendation as presented by Funston with or without modification, moving consideration of the FAS recommendation to a future date, or closing the recommendation with no action.

I am delighted to assist in starting this critical process at PSERS before my time as interim executive director winds down. And I would like my Board and this subcommittee to know that PSERS has a number of capable, intelligent, professionals, such as Bev Hudson, Deputy Executive Director for Administration and liaison to the Governance and Administration Committee, who are eager to assist and support this initiative – bringing it to a successful conclusion and our organization to a new level of effectiveness.

That concludes my prepared remarks, and we are happy to take your questions.



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PSERB Resolution 2022-25
Re: PSERS Model Governance Manual Framework
March 15, 2022

WHEREAS, pursuant to Resolution 2020-43, the Public School Employees' Retirement Board (the "Board") retained Funston Advisory Services, LLC ("FAS") as the Board Governance Consultant.

WHEREAS, on November 18, 2021, FAS submitted its final report, "Transforming Governance at the Pennsylvania Public School Employees' Retirement System – An Independent Governance Review," to the Board.

WHEREAS, FAS recommended that the Board update its current Statement of Organization, Bylaws, and Other Procedures of the Commonwealth of Pennsylvania Public School Employees' Retirement Board ("Current Bylaws") by instituting a Model Governance Manual Framework.

WHEREAS, FAS recommended that the Board reorganize its committee structure.

WHEREAS, the Board wishes to begin the process of reviewing and implementing FAS' recommendations.

RESOLVED, that the Board hereby adopts the [proposed PSERS Model Governance Manual Framework \("Governance Framework"\) dated March 11, 2022 and attached hereto as "Attachment A,"](#) including the provisions contained in Article I, Sections 2.3, 4, & 8 and Article II, Sections 1 through 7.

Further **RESOLVED**, that to the extent a conflict exists between the Governance Framework and the Current Bylaws, the Governance Framework shall control.

Further **RESOLVED**, that following passage of this resolution the Chair of the Board shall appoint members to each new committee.

Further **RESOLVED**, that, at the first meeting of each Committee under Section 4.1 of the Governance Framework, each Committee shall review their charter and make recommendations to the Governance & Administration Committee.

Further **RESOLVED**, that Article IV (Committees of the Board) of the Current Bylaws is repealed.

ATTACHMENT A

Model Governance Manual Framework

PSERS MODEL GOVERNANCE MANUAL FRAMEWORK

Article I: Bylaws	Section 1: Introduction	1.1 Introduction & Statement of Purpose	
		1.2 Governing Statues and Regulations	
		1.3 Statement of Fiduciary Duties	
	Section 2: Board Composition & Powers	2.1 Composition	
		2.2 Appointment Qualifications	
		2.3 Powers	Except as otherwise provided by law and these Bylaws, all powers of the System shall be exercised by or under the authority of, and the business and affairs of the System shall be managed under the direction of, the Board.
		2.4 Term of Office	
		2.5 Vacancies	
		2.6 Designees	
		2.7 Oath of Office	
		2.8 Removal & Resignation from Office	
		2.9 Compensation	
		2.10 Attendance	
		2.11 Statement of Economic Interests	
		2.12 Delegation	
		2.13 Board Direct Reports	
Section 3: Meetings of the Board	3.1 Place of Meetings		
	3.2 Open Meetings		
	3.3 Regular Meetings		
	3.4 Special Meetings		

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		3.5 Emergency Meetings		
		3.6 Meeting Agendas		
		3.7 Annual Calendar		
		3.8 Notice of Meetings		
		3.9 Quorum and Voting		
		3.10 Public Participation		
		3.11 Executive Session		
		3.12 Voting Conflicts		
		3.13 Notational Voting		
		3.14 Rules of Order		
		3.15 Minutes of Meetings		
	Section 4: Committees of the Board	4.1 Standing Committees	<p>The Board may establish by resolution one or more standing or special committees, each to consist of two or more Members. In addition, the Chairperson may establish special advisory or review committees. Any committee, to the extent, but only to the extent, provided in an applicable resolution of the Board, committee charter or in these Bylaws, shall have and may exercise any of the powers and authority of the Board. The Board has established the following standing committees, which may be changed from time to time by Board resolution: Audit, Compliance, and Risk Committee; Benefits and Appeals Committee; Governance and Administration Committee; Defined Contribution Committee; Finance and Actuarial Committee; Health Care Committee; and Investment Committee; collectively, the "Standing Committees"). The Board shall delegate to the Standing Committees the authority to take such actions and perform such duties as expressly stated in the Standing Committees' committee charters; provided that no committee shall have the power to amend, modify or repeal a resolution of the Board or to amend these Bylaws or to take any action on matters committed by Board resolution or applicable law to the full Board under terms or provisions that make such action non-delegable.</p>	
		4.2 Ad Hoc Committees	<p>In addition to the standing committees specified in Section 4.1 (Standing Committees), the Chairperson or the Board may at any time establish an ad hoc committee of the Board and fix its duties and responsibilities for any purpose which in the judgment of the Chairperson or the Board is better served by a temporary rather than standing committee. Each such committee shall consist of such number of members as the Chairperson</p>	

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			shall determine, and the Chairperson shall also then appoint the chair and designate the other members of the Committee.
		4.3 Committee Membership	Unless designated by resolution, the Members of any committee ("Committee Members") shall be appointed by the Chairperson, with the Board's advice. The Chairperson may appoint a Member to multiple committees. The Chairperson shall appoint each Member to a committee as the Chairperson may reasonably determine.
		4.4 Committee Member Terms	Commencing March 2022, and biennially thereafter, in January of every other year, the Chairperson shall appoint the Committee Members, who shall have terms through December 31st of the following year. No Member may be appointed to both the Audit, Compliance and Risk Committee and the Finance and Actuarial Committee. In the event of a vacancy on a committee, the Chairperson shall appoint a replacement Committee Member for the balance of the term of the vacating Committee Member. Except as to membership on the Audit, Risk and Compliance Committee, there shall be no limitation on the number of full terms for which a Committee Member may be reappointed. No Member shall serve on the Audit, Compliance and Risk Committee for more than two consecutive full terms, except that a Committee Member may be reappointed to the Audit, Compliance and Risk Committee by the Chairperson following a one-year absence from the committee. Notwithstanding the foregoing, each Committee Member shall serve until his or her successor is duly appointed or until his or her earlier death, resignation, or removal, it being understood that termination of membership on the Board shall constitute a resignation from the committee.
		4.5 Committee Chairs	For elections after January 1, 2022, biennially, Committee Members shall elect a chair of the committee ("Committee Chair") at such time as the first committee meeting of the year or at such time as the Committee Chair position becomes vacant. The Chairperson may not serve as a Committee Chair, except that the Chairperson may serve as the Committee Chair for the Board Governance and Administration Committee. The Committee Chair shall take office effective as of the day of his or her election and shall serve as Committee Chair through December 31st of the following year or until the Committee Chair's successor is duly elected or such officer's earlier death, resignation, or

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			removal. If the Committee Chair does not complete his or her term, then the Committee Members shall elect an interim Committee Chair at the Committee meeting following the Committee Chair's departure from the Committee. The interim Committee Chair shall serve until the new Committee Chair takes office according to the procedures outlined above. The Committee Chair shall preside at all meetings of the committee. The Committee Chair shall have such other powers and perform such other duties as may be delegated by the Board and as described in the Committee Chair Position Description. No Committee Chair shall serve for more than three consecutive terms.
		4.6 Committee Vice Chairs	For elections after January 1, 2022, biennially, the Committee Members shall elect a vice chair of the committee ("Committee Vice Chair"). The Committee Vice Chair shall preside at all meetings of the committee in the absence of the Committee Chair. The Committee Vice Chair shall have such other powers and perform such other duties as may be delegated by the Committee Chair and as described in the Committee Vice Chair Position Description. The Committee Vice Chair shall serve through December 31st of the following year or until the Vice Chair's successor is duly appointed or such officer's earlier death, resignation, or removal. No Assistant Chair shall serve for more than three consecutive terms.
		4.7 Committee Officers	Except as otherwise provided in these Bylaws or by Board resolution, Committee Members may, in their discretion, elect such other officer(s) for the committee as they shall determine from time to time.
		4.8 Committee Governance	The term "Board," when used in any provision of these Bylaws relating to the organization or procedures of, or the manner of taking action by, the Board, shall be construed to include and refer to any committee of the Board. Any provision of these Bylaws relating or referring to action to be taken by the Board or the procedure required therefor shall be satisfied by the taking of corresponding action by a committee of the Board to the extent authority to take the action has been delegated to such committee pursuant a resolution of the Board, committee charter or these Bylaws.
	Section 5: Board Officers	Officers and Terms	
	Powers and Duties of the Chairperson		
	Vacancies		

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		Chairperson Term Limits and Succession	
		Powers and Duties of the Secretary/ Executive Director	
	Section 6: Legal Counsel		
	Section 7: Indemnification		
	Section 8: Amendments	Amendments	The Board (but not a committee thereof) shall have the power to modify, amend and repeal these Bylaws or any committee charter by a two thirds (2/3) vote of the Members present and voting at any open meeting at which a quorum is present after 15 days advance written notice to all Members. Such notice shall set forth the proposed modifications or amendments or specify the provisions proposed to be repealed. The text of each modification, amendment or repeal of the Bylaws or committee charter shall be attached to the Bylaws or committee charter (as appropriate) with a notation of the date of such modification, amendment, or repeal. At any time and from time to time, the Chairperson may direct the Executive Director/Secretary to certify and publish a restatement of these Bylaws or any committee charter, as amended as of the date of such certification.
Article II. Committee Charters	Section 1: Audit, Compliance & Risk Committee	See Attachment A.1	
	Section 2: Benefits and Appeals Committee	See Attachment A.2	
	Section 3: Board Governance & Administration Committee	See Attachment A.3	
	Section 4: Defined Contribution Plan Committee	See Attachment A.4	

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	Section 5: Finance & Actuarial Committee	See Attachment A.5	
	Section 6: Health Care Committee	See Attachment A.6	
	Section 7: Investment Committee	See Attachment A.7	
Article III. Position Descriptions	Section 1: Board Member Position Description		
	Section 2: Board Chair Position Description		
	Section 3: Board Vice Chair Position Description		
	Section 4: Committee Chair Position Description		
	Section 5: Committee Vice Chair Position Description		
Article IV. Board Policies	Section 1: Board Structure & Operations	1.1 Strategic Planning Process	
		1.2 Actuarial Services Policy	
		1.3 Board Member Indemnification Policy	
		1.4 Securities Litigation Policy	
		1.5 Election Procedures and Guidelines Policy	
	Section 2: Duties & Powers Reserved for the Board	Powers expressly reserved for the Board	
	Section 3: Delegations	3.1 Delegations to Executive Director	

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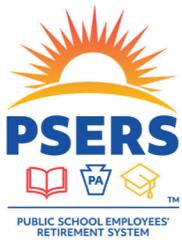
		3.2 Performance Review Process for Executive Director	
		3.3 Board-Staff Relations	
	Section 4: Code of Conduct, Ethics & Conflicts of Interest	4.1 Standards of Conduct	
		4.2 Ethical Conduct Policy	
		4.3 Recusal Policy	
		4.4 Board Confidentiality	
		4.5 Policy on Placement Agent Disclosures	
		4.6 SEC “Pay-to-Play” Rule Compliance & Reporting Policy	
		4.7 Financial Disclosure Policy	
		4.8 Insider and Personal Trading Policy	
		4.9 Referral of Investment Opportunities & Service Provider Candidates; Related Communications; Undue Influence	
		4.10 Board Travel Policy	
		4.11 Whistleblower & Reporting Policy	
	Section 5: Board Development & Evaluation	5.1 Board Self-Assessment Policy	
		5.2 Board Education Policy	
		5.3 Fiduciary Review Policy	
	Section 6: Stakeholder Relations/ Communications	6.1 Board Communications Policy	
		6.2 Stakeholder Communications	
		6.3 Legislative Communications	
		6.4 Crisis Communications	
Section 7: Performance, Risk & Compliance Oversight	7.1 EPRM Policy		
	7.2 Compliance Policy		
Section 8:	Audit Policy		

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Model Governance Manual Framework

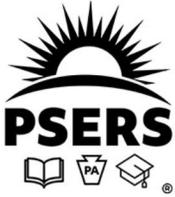
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	Independent Reassurance		
Article V. Core Functional Policies	Section 1: Asset Management	1.1 Investment Policy Statement	
		1.2 Non-U.S. Proxy Voting Policy	
		1.3 U.S. Proxy Voting Policy	
		1.4 ESG Policy	
	Section 2: Liability-related	Funding Policy	
Section 3: DC Plan	Investment Policy Statement – DC Plan		



YEAR 2022 BOARD COMMITTEE LISTING

Audit, Compliance, & Risk	Benefits & Appeals	Board Governance & Administration	Defined Contribution Plan
RYAN – Chairman	VOGLER– Chairman	BRADFORD – Chairman	RYAN– Chairman
GARRITY – Vice Chairman	MONAGHAN– Vice Chairman	VAGUE – Vice Chairman	VAGUE– Vice Chairman
<i>DAVIS</i>	<i>DITULLIO</i>	<i>MAINS</i>	<i>BROWNE</i>
<i>MAINS</i>	<i>LEMMO</i>	<i>TORSELLA</i>	<i>MAINS</i>
<i>VAGUE</i>	<i>MUTH</i>	<i>VOGLER</i>	<i>MUTH</i>
Staff Contact: Gentry	Staff Contact: Mills	Staff Contact: Hudson	Staff Contact: Mills
	Finance & Actuarial	Health Care	Investment
	BROWN – Chairman	LEMMO – Chairman	VAGUE – Chairman
	DITULLIO– Vice Chairman	DAVIS– Vice Chairman	DAVIS – Vice Chairman
	<i>ORTEGA</i>	<i>BRADFORD</i>	Committee is comprised of all Board Members
	<i>TORSELLA</i>	<i>MONAGHAN</i>	
	<i>VOGLER</i>	<i>ORTEGA</i>	
	Staff Contact: Carl	Staff Contact: Mills/Camacci	Staff Contact: Devine



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April 1, 2022

Funston Recommendation Review and Implementation Progress Report

SUMMARY INFORMATION:

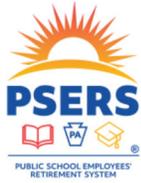
- PSERS has begun the work on 4 of the 6 Recommended Governance Reforms.
- PSERS has begun or adopted work on 10 of the 31 Detailed Recommendations.
- PSERS has begun or adopted 21 of the 180 Implementation Steps

Recommendations and implementation steps “touched”:

- (page 24) Recommendation 1.2 – Develop a unified direction on PSERS’ strategic asset allocation
 - Implementation Step 1.2.1: As soon as practical, the PSERSB should agree on a process to revisit and affirm or change the current strategic asset allocation. A two-day retreat might allow sufficient time for discussion provided that adequate advance preparation has occurred. **IN PROGRESS**
- (page 33) Recommendation 1.3 – Revise the PSERSB’s Policy Development Process
 - Implementation Step 1.3.3: Draft a comprehensive and user-friendly governance manual that incorporates all of PSERS governance policies (but not staff-level operating procedures). **IN PROGRESS**
 - Implementation Step 1.3.10: Revise the Governance Manual to be more comprehensive and user-friendly (see Exhibit 1.6 Model Governance Manual Framework). **IN PROGRESS**
- (page 50) Recommendation 1.6 - Develop a new evaluation process for PSERS Executive Director and Chief Investment Officer.
 - Implementation Step 1.6.8: The PSERB should retain a compensation consultation to conduct a comprehensive compensation survey that includes a review of ED compensation. A separate consultant specializing in investment compensation plans should be hired to review how and by what criteria investment professionals are compensated. **IN PROGRESS**
- (page 71) Recommendation 2.2 - Adopt an Enterprise Performance and Risk Management (EPRM) process for operational risk.
 - Implementation Step 2.2.15: Assign each new committee of the PSERB oversight responsibility for performance and risk, the review and approval of vital signs and tolerances for vital functions within the committee's scope. **IN PROGRESS**
 - Implementation Step 2.2.16: Assign the Audit, Compliance and Risk Committee (ACR) responsibility for oversight of the overall utilization of the EPRM process as a tool for the PSERB and the staff. **IN PROGRESS**

- (page 75) Recommendation 2.3 - Assign oversight of cyber security and information security to a specific committee of the PSERB.
 - Implementation Step 2.3.1: The responsibility for the oversight of cybersecurity should be assigned to a specific committee of the PSERB. The Committee should be briefed on PSERS cybersecurity and information security plans and, as appropriate, make recommendations to the PSERB for approval. **IN PROGRESS**
- (page 83) Recommendation 3.1 - Strengthen independent Verification and Internal Audit Capabilities.
 - Implementation Step 3.1.2: The annual Internal Audit plan should continue to be approved by the Audit, Compliance and Risk Committee to ensure it includes adequate internal audit activities and has adequate staffing or plans for outsourcing to enable the plan to be completed. **IN PROGRESS**
- (page 87) Recommendation 3.2 - Enhance the mandate of the Audit, Compliance and Risk Committee to include, among other things, provisions from Act 128 of 2020.
 - Implementation Step 3.2.1: Expand the mandate of the Audit/Compliance Committee to include Risk and rename it to the Audit, Compliance and Risk Committee (ACR). **ADOPTED**
- (page 98) Recommendation 4.1 - Clarify PSERB leadership roles, responsibilities and terms of office.
 - Implementation Step 4.1.4: The PSERB Chair should make Committee appointments based on the skills and interests of the trustees and the needs of the System. **ADOPTED**
 - Implementation Step 4.1.5: Elect the PSERB officers and appoint committee members to two-year terms. **ADOPTED with MODIFICATION**
 - Implementation Step 4.1.7: Committee chairs/vice chairs should be elected to two-year terms by each committee. **ADOPTED with MODIFICATION**
 - Implementation Step 4.1.8: Establish a term limit of two terms for the PSERB Chair and Vice Chair and three terms for committee officers. **ADOPTED with MODIFICATION**
- (page 122) Recommendation 4.8 - Streamline PSERB's committees, establish clear charters and institute new procedures.
 - Implementation Step 4.8.1: Improve the efficiency and effectiveness of PSERB's committees by consolidating the current 10 committees into 7 committees with enhanced oversight responsibilities. See Figure 4.8 and Exhibit 4.6, Proposed Committee Consolidation. **ADOPTED**
 - Implementation Step 4.8.2: Develop committee charters to include standard elements. See Exhibit 4.2, Model Committee Charter. **ADOPTED**
 - Implementation Step 4.8.3: Eliminate agency committees that include trustees, as well as ad hoc RFP committees. **IN PROGRESS**
 - Implementation Step 4.8.4: Reduce the size of each committee (e.g., not more than five members, although the Investment Committee can be larger) and schedule concurrent committee meetings to improve utilization of trustee time. **IN PROGRESS**
 - Implementation Step 4.8.6: Selection of each external consultant/advisor to the PSERB should be assigned to the appropriate PSERB committee and Ad Hoc RFP Committees should be eliminated. **ADOPTED**

- Implementation Step 4.8.7: External PSERB consultants/advisors should be evaluated annually by the relevant committee; in addition, the committee should meet with each consultant/advisor in executive session (to the extent allowed under public meetings law) at least annually without staff present. **ADOPTED**
 - Implementation Step 4.8.8: Committees should elect their Chairs and Vice Chairs. **ADOPTED**
- (page 24) Recommendation 4.9 – Streamline PSERS' Bylaws
 - Implementation Step 4.9.1: Clarify and streamline by-laws (simplify/plain language) and incorporate the approved recommendations from this review (see Exhibit 4.1, Model Bylaws Matrix). **IN PROGRESS**



PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

I. Purpose and Authority

The primary purpose of the Audit, Compliance and Risk Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to external and internal audits, compliance, risk management, special investigations, and other sources of verification and independent reassurance.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Chief Audit Officer (CAO), the Deputy Executive Director for Administration, and the Chief Counsel (CC) will be the primary staff liaisons with the Committee.

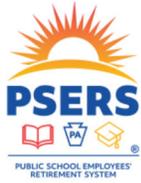
III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. With the assistance of staff, hire, evaluate, and, as appropriate, terminate and plan for the succession of the Chief Audit Officer; make recommendations on CAO compensation to the Executive Director.
2. Conduct the search for the independent external auditor, with the assistance of staff, and make recommendations to the Board. The Committee should ensure that an RFP is issued for the independent external auditor contract at least every five (5) years unless the Board chooses otherwise.
3. As necessary, with the assistance of staff, identify the need for independent advisors and/or investigators for special situations, conduct a search, and make recommendations to the Board.



PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

4. Evaluate the performance of all external audit, internal audit, compliance, and risk management service providers necessary or desirable for PSERS. The Committee should ensure that RFPs are conducted for each key service provider contract at least every five (5) years unless the Board chooses otherwise.
5. At least annually, meet individually with: the CAO; the external auditor; and the Deputy Executive Director for Administration, without other staff present, to ensure there has been no undue influence on their activities or reporting to the Committee or the Board.

B. Recommend direction and policy to the full Board

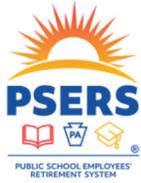
1. Annually identify anticipated audit, compliance and risk policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Review and make recommendations to the Board on all policies and any amendments governing audit, compliance or risk, with the exception of policies that come within the duties and responsibilities of another Committee.

C. Recommend approval of key decisions

1. Recommend approval of the Internal Audit Charter.
2. Recommend approval of the staffing complement for the Internal Audit Office, Compliance, and Performance and Risk Management to the Board.
3. Recommend engagement of and budget for external consultants and advisors, as appropriate, to ensure adequate resources for Internal Audit, Compliance, and Performance and Risk Management.
4. Recommend approval of the Independent Auditor's Report, Independent Audited Financial Statements, and Management Letter.
5. Recommend approval of positions on proposed legislation or regulations affecting audits, compliance, enterprise risk, or ethics.
6. Recommend approval of enterprise risk appetite and tolerances (excluding investment risk).

D. Oversee Board-approved direction

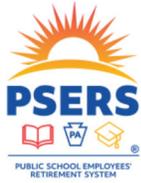
1. Oversee the Internal Audit Office, including:
 - Meet with the Chief Audit Officer to review and approve the Agency's annual audit plan and receive periodic updates on progress vis-à-vis the audit plan.
 - Ensure the annual Internal Audit Plan is adequate to meet PSERS' needs.
 - Ensure that the Internal Audit Office has adequate resources to meet its responsibilities.



PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

- Meet with the CAO to review the status of audits, review the audit findings and recommendations, management’s responses, and actions taken to implement the audit recommendations.
 - Review and approve the Internal Audit Charter.
 - Ensure there are no unjustified restrictions or limitations on the internal audit function.
 - Provide input to the Executive Director on the performance of the CAO, at least annually.
2. Oversee the auditing of all financial information, including:
- Meet with the external financial auditors each year prior to the annual financial audit to review the audit plan and to identify other areas of the operations that should be reviewed.
 - Approve the Internal Audit Office’s Annual Audit Plan.
 - Meet with the external financial auditors at the conclusion of the financial audit to review the audit results, including any recommendations, difficulties encountered, and any significant adjustments proposed by the auditors.
 - Oversee the evaluation and monitoring of the internal control system by internal and external auditors.
 - Review the findings and recommendations of the external auditors along with management’s responses and actions taken to implement the audit recommendations.
 - Review the findings and recommendations of any examination by regulatory agencies, any auditor’s observations related to compliance, management’s responses and actions taken to implement the audit observations/recommendations.
 - Provide a forum for the resolution of all disputes between management and the internal and/or external auditors regarding the financial reporting process, risk assessment, internal control and other compliance issues.
3. Oversee PSERS compliance with statutes, policies, and standard business practices including:
- Oversee the design and implementation of the Compliance Program, including the policies and procedures to help prevent and detect violations of law and to promote business ethics.
 - Review and approve the annual compliance plan and ensure that the Compliance function has adequate resources to meet its responsibilities.



PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

- Ensure the Compliance function performs compliance reviews with applicable laws, regulations, rules, board and management policies, directives and generally accepted business practices of the System.
 - Oversee key compliance and ethics activities and reports to include: enterprise program compliance, enterprise and Board policy compliance, service provider compliance, and privacy and security compliance.
4. Oversee PSERS performance and risk management activities, including but not limited to:
- Review and approve performance and risk management plans annually and ensure that the Performance and Risk Management function has adequate resources to meet its responsibilities.
 - Review the effectiveness of the Agency's system for assessing, monitoring, and controlling significant risks or exposures.
 - Oversee enterprise risk appetite and tolerances.
 - Review emerging and significant risks specific to the area of responsibility of the committee, and report those risks to the board.
5. Oversee any other PSERS audit, compliance, risk, or related activities, including:
- Oversee PSERS' policies and procedures for the receipt and handling of allegations of suspected misconduct and receive reports on a periodic and as-needed basis regarding significant reports received.
 - Oversee special investigations and whistleblower cases, as needed, on behalf of the Board.
 - Oversee ethics-related complaints, processes, and findings.

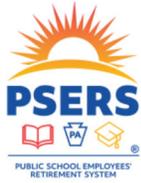
E. Obtain independent verification.

1. Periodically obtain appropriate independent verification of the performance and exception reports issued by management and to present the results to the Board.
2. Review the effectiveness of the internal audit function by having an external quality assessment completed at least every three years.

V. Reporting to the Board

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;



PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

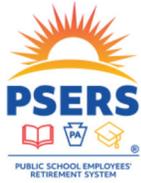
The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff, including the Office of Chief Counsel, to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Benefits and Appeals Committee Charter

Article II Section 2

I. Purpose and Authority

The primary purpose of the Benefits and Appeals Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to defined benefits administration (“System”), member services, employer services, and appeals (including appeals relating to participants of the DC Plan).

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Deputy Executive Director and Director of Defined Contribution Investments will be the primary staff liaison with the Committee.

III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Conduct quasi-judicial deliberations in formal appeals and make recommendations for Board action, including the issuance of proposed opinions and orders.
2. Conduct the search for the System consultant that directly impacts member and employer services and the administration of the System, with the assistance of staff, and make recommendations to the Board. The Committee should ensure that an RFP is issued for the System consultant contract at least every five (5) years unless the Board chooses otherwise.
3. Evaluate the performance of all System service providers that directly impact member and employer services and the administration of the System as shall be necessary or appropriate for the administration and operation of the System. The Committee should ensure that RFPs



PSERS Benefits and Appeals Committee Charter

Article II Section 2

are conducted for each key service provider contract at least every five (5) years unless the Board chooses otherwise.

B. Recommend direction and policy to the full Board

1. Annually identify anticipated defined benefit policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Recommend vital signs and metrics for member and employer services and identify tolerances for acceptable vs. unacceptable variability in performance.
3. Review, discuss, and make recommendations to the Board for their approval policies, actions, and on other matters related to the System's administration of the rights, duties, and benefits of System members and the duties of employers, including amendments to regulations deemed necessary or desirable to facilitate the administration of the System and/or to maintain or bring the System into compliance with the Retirement Code, Internal Revenue Code, and other applicable law.

C. Recommend approval of key decisions

1. Review, discuss and make recommendations to the Board on customer service issues relating to the System's members and employers, including the dissemination of information to members, employer relations, and the System's field services program.
2. Review and recommend to the Board any major information technology initiatives, in particular as they directly impact member and employer services functions and operations.

D. Oversee Board-approved direction

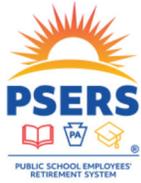
1. Oversee member and employer service levels.
2. Oversee cost effectiveness of member and employer services.
3. Oversee information technology plans and budgets, in particular as they directly impact member and employer services functions and operations.
4. Oversee management of risks related to the responsibilities of this committee.
5. Monitor and oversee ongoing effectiveness of member and employer education related to the System.

E. Obtain independent verification

1. Periodically obtain appropriate peer benchmarking studies regarding pension administration costs, services levels, and other performance and to present the results to the Board.

V. Reporting to the Board

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:



PSERS Benefits and Appeals Committee Charter

Article II Section 2

- Minutes summarizing the Committee’s deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

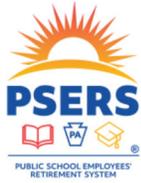
The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee’s performance as part of the Board’s self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff and the Office of Chief Counsel to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Board Governance and Administration Committee Charter Article II Section 3

I. Purpose and Authority

The primary purpose of the Board Governance and Administration Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to Board governance (including bylaws, charters and policies), trustee elections, hiring, goal-setting, evaluation and termination of the Executive Director, executive succession planning, strategic planning, Board self-evaluation, and Board onboarding and continuing education, as well as cybersecurity, information technology, human resources, and general procurement oversight.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Deputy Executive Director for Administration will be the primary staff liaison with the Committee.

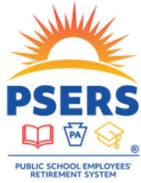
III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Conduct the Board self-evaluation process, including development of a Board self-evaluation policy. The Committee Chair should lead the process and is authorized to seek external assistance if desired.
2. Conduct the annual Executive Director performance evaluation process on behalf of the Board, seeking input from all trustees. Collaborate with the Executive Director in developing annual performance goals linked to the strategic plan and recommend to the Board for approval.



PSERS Board Governance and Administration Committee Charter

Article II Section 3

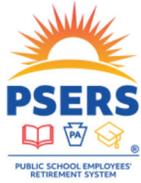
3. Make recommendations to the Board regarding selection and hiring of the independent fiduciary counsel. The Committee should ensure that an RFP is issued for the independent fiduciary counsel contract at least every five (5) years unless the Board chooses otherwise.
4. Oversee and evaluate the performance of the Board's fiduciary counsel and ensure the Board meets with fiduciary counsel without staff at least once annually.

B. Recommend direction and policy to the full Board.

1. Annually identify anticipated governance policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Review and make recommendations to the Board on all policies and any amendments thereto governing the internal operations of the Board, with the exception of policies that come within the duties and responsibilities of another committee. Collaborate with the other PSERS committees, the Executive Director, and Chief Counsel to review the bylaws and committee charters at least every three years.
3. Review and make recommendations to the Board on the manner in which elections of the elective members of the Board are conducted and on the selection of providers of goods and services deemed necessary for the conduct of such elections.
4. Collaborate with executive staff to develop Board self-assessment policies and procedures.
5. Collaborate with executive staff to develop the trustee onboarding and continuing education curriculum, including education to be provided during Board meetings or workshops and individual education opportunities. Utilize input from the Board self-assessment to refine and improve the continuing education program.
6. Review and make recommendations to the Board on delegations to the Executive Director. The delegations should be reviewed at least every three years and any proposed revisions recommended to the Board.
7. Recommend to the Board positions on proposed legislation affecting board governance.
8. Review and make recommendations to the Board on procurement management and operations related to delegations of authority, designated signatories, and general procurement procedures and practices.

C. Recommend approval of key decisions.

1. Report on and cause to be certified to the Board the results of each election.
2. Interview candidates for filling newly created or vacant senior management positions in the System and report and make recommendations to the Board.



PSERS Board Governance and Administration Committee Charter

Article II Section 3

3. As needed, make recommendations to the Board regarding selection and hiring of external Board consultants and advisors such as governance consultants.
4. As needed, collaborate with staff to oversee executive searches when the need to hire a new Executive Director arises. Recommend discipline or termination of the Executive Director, if appropriate.
5. Review and recommend to the Board any major information technology initiatives, including for cybersecurity and information security, and collaborate with the other PSERS committees that may be affected by such initiatives.

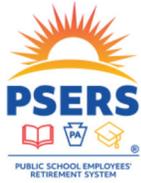
D. Oversee Board-approved direction.

1. Oversee the PSERS strategic planning process, including development of a PSERS strategic planning policy which describes the process and roles and responsibilities. Ensure that the Board participates in the strategic planning process and monitors plan implementation.
2. Oversee stakeholder relations and collaborate with staff in development of a stakeholder relations plan which identifies key stakeholder groups, who is responsible for communications at PSERS, and key messaging to be communicated.
3. Oversee organizational development, including succession planning for the direct reports to the Board and ensuring that the Executive Director has effective leadership succession planning in place for staff.
4. Oversee all matters concerning the classification, pay, and other terms and conditions of employment for employees of the Board, including total personnel complement.
5. Oversee business continuity and disaster recovery planning and processes.
6. Oversee vendors, plans, and budgets for information technology, cybersecurity, and information security.
7. Oversee procurement management and operations related to delegations of authority, designated signatories, and general procurement procedures and practices.

E. Obtain independent verification of the reliability of reports received and issued.

1. Periodically obtain staff compensation reviews with an independent compensation consultant to compare PSERS staff compensation with peers and present the results to the Board.
2. Periodically (e.g., every two or three years) obtain peer governance assessments of PSERS and provide the results to the Board.

V. Reporting to the Board



PSERS Board Governance and Administration Committee Charter Article II Section 3

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

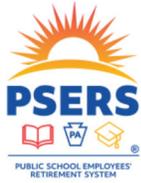
The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff, including the Office of Chief Counsel, to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Defined Contribution Plan Committee Charter

Article II Section 4

I. Purpose and Authority

The primary purpose of the Defined Contribution Plan Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to the School Employees’ Defined Contribution Plan and Trust (“PSERS DC Plan”) established by the Act of June 12, 2017 (P.L. 11, No. 5) for the exclusive benefit of participants and their beneficiaries subject to the specific terms of the PSERS DC Plan document, the Public School Employees Retirement Code (“Retirement Code”), and other applicable law.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by the designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Deputy Executive Director and Director of Defined Contribution Investments (“Director”) will be the primary staff liaison with Committee.

III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least two (2) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Conduct the search for the DC plan consultant, with the assistance of staff, and make recommendations to the Board. The Committee should ensure that an RFP is issued for the DC plan consultant contract at least every five (5) years unless the Board chooses otherwise.
2. Evaluate the performance of all plan service providers necessary or desirable for the administration of the PSERS DC Plan, including but not limited to a consultant, a third-party administrator, a trustee or trustees, a custodian, and other such service providers as shall be necessary or appropriate for the administration and operation of the plan. The Committee should ensure that RFPs are conducted for each key service provider contract at least every five (5) years unless the Board chooses otherwise.



PSERS Defined Contribution Plan Committee Charter

Article II Section 4

B. Recommend direction and policy to the full Board

1. Annually identify anticipated PSERS DC Plan policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Recommend vital signs and metrics for the DC plan and identify tolerances for acceptable vs. unacceptable variability in performance.
3. Review and recommend to the Board amendments to the PSERS DC Plan and regulations that are deemed necessary or desirable to facilitate the administration of the plan and/or to maintain or bring the plan into compliance with the Retirement Code, Internal Revenue Code, and other applicable law.

C. Recommend approval of key decisions

1. Make recommendations to the Board on decisions related to investment options, investment providers, vendors, recordkeeper, other consultants, and other plan service providers.
2. Recommend to the Board any positions regarding legislative proposals related to the PSERS DC Plan.

D. Oversee Board-approved direction

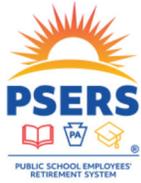
1. Oversee the implementation of investment policy statements and other policies related to the PSERS DC Plan.
2. Monitor fees and expenses that are charged to plan assets and/or paid by participants, including but not limited to investment fees, trustee fees, fees paid to other plan service providers, and PSERS' administrative fee for the ongoing administration of the PSERS DC Plan.
3. Monitor the performance, cost, and management of the PSERS DC Plan investment options, investment providers, vendors, recordkeeper, consultants, and other plan service providers.
4. Monitor the plan participation and ongoing effectiveness of member education related to the PSERS DC Plan.

E. Obtain independent verification

1. Periodically obtain benchmarking reports related to Plan performance and fees and to present the results to the Board.

V. Reporting to the Board

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:



PSERS Defined Contribution Plan Committee Charter

Article II Section 4

- Minutes summarizing the Committee’s deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

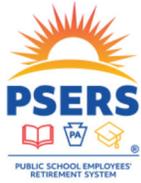
The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing the PSERS DC Plan.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee’s performance as part of the Board’s self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff and Office of Chief Counsel to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Finance and Actuarial Committee Charter

Article II Section 5

I. Purpose and Authority

The primary purpose of the Finance and Actuarial Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to budgeting and financial management of the system (including investment valuations), actuarial assumptions and contribution rates, the member shared risk contribution rate, and option factors.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Chief Financial Officer (CFO) will be the primary staff liaison with the Committee.

III. Meetings

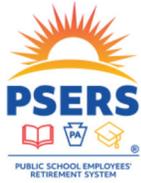
Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Make recommendations to the Board regarding selection and hiring of the independent external actuary. The Committee should ensure that an RFP is issued for the independent external actuary contract at least every five (5) years unless the Board chooses otherwise.
2. At least annually, meet individually with the CFO and the independent external actuary without other staff present to ensure there has been no undue influence on their activities or reporting to the Committee or the Board.
3. Evaluate the performance of the independent external actuary annually and provide feedback regarding performance and future expectations.

B. *Recommend direction and policy to the full Board*



PSERS Finance and Actuarial Committee Charter

Article II Section 5

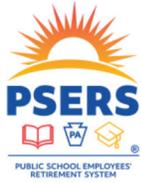
1. Annually identify anticipated financial, investment valuation, actuarial, contribution, and shared risk contribution policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Review and make recommendations to the Board on all policies and any amendments governing financial, investment valuation, actuarial, contribution, and shared risk contribution issues.
3. Review and make recommendations to the Board regarding funding risk through an asset liability management framework to guide investment strategy and actuarial policies.
4. Recommend to the Board positions on proposed legislation affecting anticipated financial, investment valuation, actuarial, contribution, and shared risk contribution policy.
5. Review and make recommendations to the Board on significant financial principles, asset liability management and funding risk methodologies, and actuarial methods.

C. Recommend approval of key decisions

1. Review and approve the annual fiscal year budget request prepared by the Office of Financial Management for the pension administrative, defined contribution administrative, directed commissions, healthcare-PSERS administrative and investment-related budgets for the next fiscal year prior to their submission to the Governor's Budget Office.
2. Review and recommend adoption of the actuarial factors, assumptions and methodologies included in the annual actuarial valuation to calculate the employer contribution rate.
3. Review and recommend certification, each December, of the total employer contribution rate for use by employers in the next fiscal year as recommended by PSERS' external actuary.
4. Every three (3) years, review and recommend certification of the member shared risk contribution rate for the next three fiscal years as recommended by PSERS' external actuary for class T-E, TF, T-G and T-H members.
5. Every five (5) years, review and recommend adoption of the actuarial factors, demographic and economic assumptions, and methodologies recommended by PSERS' external actuary and Agency staff.
6. Every five (5) years, review and recommend approval of new option factors, as needed, and the date to implement the factors in PSERS' benefits administration system as recommended by Agency staff and PSERS' external actuary.

D. Oversee Board-approved direction

1. Oversee the financial soundness of the overall PSERS System and any other programs offered, including annual review of unfunded liability, overall pension soundness and sustainability.



PSERS Finance and Actuarial Committee Charter

Article II Section 5

2. Review and evaluate periodic updates on the status of the current year budget with Office of Financial Management staff; shall review and approve for publication the System's annual fiscal year financial statements prepared by the Office of Financial Management each fall and no later than December 31st.
3. Oversee financial reporting and controls over financial reporting and processes, including the preparation of the Annual Financial Statements.
4. Oversee liquidity and cash management practices of the organization to ensure sufficient cash is available to pay benefits and other PSERS obligations.
5. Ratify all payments reflected in the annual fiscal year financial statements.
6. Review the annual valuation results for the fiscal year as presented by PSERS' external actuary each fall, but no later than December 31st.
7. Oversee organizational operations and cost effectiveness.
8. Review the results of the actuarial experience study by PSERS' external actuary every five years.
9. Meet periodically with Office of Financial Management staff to discuss other financial management activities and policies on an as needed basis as determined by the Chair, Chief Financial Officer and/or Executive Director.

E. Obtain independent verification

1. Periodically obtain appropriate independent verification of the performance and exception reports issued by consultants, advisors, and/or management and to present the results to the Board.

V. Reporting to the Board

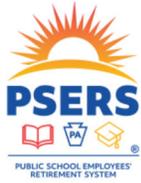
The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-



PSERS Finance and Actuarial Committee Charter

Article II Section 5

evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff, including the Office of Chief Counsel, to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Health Care Committee Charter

Article II Section 6

I. Purpose and Authority

The primary purpose of the Health Care Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to the health insurance program.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Deputy Executive Director and Director of Defined Contribution Investments will be the primary staff liaison with the Committee.

III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

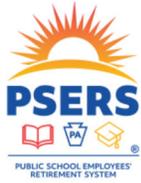
IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Conduct the search for the health plan consultant, with the assistance of staff, and make recommendations to the Board. The Committee should ensure that an RFP is issued for the health plan consultant contract at least every five (5) years unless the Board chooses otherwise.
2. Evaluate the performance of all health plan service providers necessary or desirable for the administration of the health plan annually. The Committee should ensure that RFPs are conducted for each key service provider contract at least every five (5) years unless the Board chooses otherwise.

B. *Recommend direction and policy to the full Board*

1. Annually identify anticipated health insurance policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.



PSERS Health Care Committee Charter

Article II Section 6

2. Review and recommend vital signs and metrics for health insurance and identify tolerances for acceptable vs. unacceptable variability in performance.
3. Make recommendations to the Board regarding changes to the health insurance programs and to the Premium Assistance Program, including, but not limited to, changes to the type or level of benefits offered to retirees and the scope of the health insurance programs; and shall recommend the annual administrative budgets for the health insurance and Premium Assistance Programs.

C. Recommend approval of key decisions

1. Review and make recommendations to the Board on the manner in which elections of the elective members of the Board are conducted and on the selection of providers of goods and services deemed necessary for the conduct of such elections.
2. Report on and cause to be certified to the Board the results of each election.

D. Oversee Board-approved direction

1. Monitor and review the operations of the health insurance programs which the System offers to its retirees and their dependents.
2. Monitor and review the Premium Assistance Program which the System administers for the purpose of reimbursing eligible retirees for out-of-pocket health insurance premium expenses

E. Obtain independent verification

1. Periodically obtain appropriate health plan benchmarking information which compares the PSERS health insurance program to peer programs with respect to cost and outcomes and to present the results to the Board.

V. Reporting to the Board

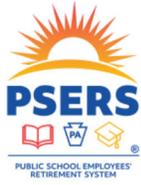
The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The Committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the Committee to improve, the self-



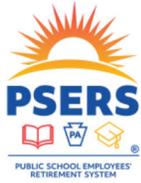
PSERS Health Care Committee Charter

Article II Section 6

evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff and the Office of Chief Counsel to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



PSERS Investment Committee Charter

Article II Section 7

I. Purpose and Authority

The primary purpose of the Investment Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to investments, including the asset allocation, investment advisors, external investment managers, internal investment managers, types of allowable investments, investment policies, and overall fund risk and performance.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of all current members of the Board, who may be represented by designees of Board members (“Committee Members”), appointed by the Board Chair, in consultation with each Board member, as provided in the Bylaws.

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Chief Investment Officer (CIO) will be the primary staff liaison with the Committee.

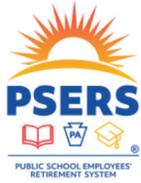
III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws. The Committee shall meet at least six (6) times every year. The Committee Chair, after consulting with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. Conduct the search for the Board general investment consultant, with the assistance of staff, and make recommendations to the Board. The Committee should ensure that an RFP is issued for the general investment consultant contract at least every five (5) years unless the Board chooses otherwise
2. As needed, make recommendations to the Board regarding selection and hiring of additional external Board independent investment consultants and advisors.
3. Evaluate the performance of the general investment consultant annually.
4. At least annually, meet with the general investment consultant, without staff present, to ensure there has been no undue influence on their activities or reporting to the Committee or the Board.



PSERS Investment Committee Charter

Article II Section 7

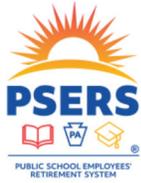
5. At least annually, meet with the other investment consultants, without other staff present, to ensure there has been no undue influence on their activities or reporting to the Committee or the Board.

B. Recommend direction and policy to the full Board

1. Annually identify anticipated investment policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Develop and recommend a statement of investment beliefs to guide investment strategies and review and update in advance of the next strategic asset allocation process.
3. Develop and recommend investment risk appetite and tolerances and review and update in advance of the next strategic asset allocation process.
4. No less than every five years review and recommend the strategic asset allocation for the Fund and the timeframe for completing implementation of any recommended changes to the allocation.
5. No less than every five years review and recommend the targeted rate of return for the fund.
6. Annually review and recommend updates to the investment policy statement, as appropriate.
7. Recommend proxy voting policies and, from time to time, policy revisions for adoption by the Board.
8. Recommend securities litigation policies and, from time to time, policy revisions for adoption by the Board.
9. Develop and recommend the PSERS beliefs and approach for Environmental, Social, and Governance (ESG) investing and the ESG program, if the Board chooses to implement one.
10. Review and make recommendations to the Board on delegations to the Executive Director or Chief Investment Officer. The delegations should be reviewed at least every three years and any proposed revisions recommended to the Board.
11. Recommend to the Board positions on proposed legislation affecting investments.

C. Recommend approval of key decisions

1. Review and recommend total fund and asset class policy benchmarks.
2. Oversee searches for new investment managers and general partners and make recommendations to the Board.
3. Receive, review and make recommendations to the Board regarding investment proposals presented as required by the Board's standard specifications.



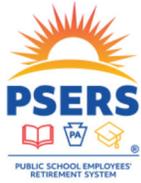
PSERS Investment Committee Charter

Article II Section 7

4. Recommend approval of the initiation or settlement of investment-related litigation involving material sums or having a substantial impact on investment goals or investment operations.

D. Oversee Board-approved direction

1. Oversee the implementation of the Board's mission statement in its relation to the investments of the Fund in accordance with the prudent investor standard set forth in 24 Pa. C.S. §8521(a).
2. Review and oversee the implementation of the Board's investment objectives and guidelines and from time to time make recommendations for their modification.
3. Oversee investment risk and compliance with investment policies.
4. Oversee asset class strategic plans and portfolio construction guidelines and meet at least annually with the asset class consultants.
5. Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet the Fund's obligations (e.g., capital calls, collateral calls, benefit payments).
6. Oversee cost effectiveness of the investment program.
7. Oversee the investment manager due diligence and monitoring standards and processes and the internal investment decision-making processes.
8. Monitor the performance of external investment managers and make recommendations to the Board in cases of underperformance or other unsatisfactory performance or risk.
9. Monitor the performance of internally-managed investment portfolios and make recommendations to the Board in cases of underperformance or other unsatisfactory performance or risk.
10. Oversee the Environmental, Social, and Governance (ESG) investing program should the Board approve one.
11. Keep abreast of and review and report on current developments in financial instruments and other asset classes as to their suitability for investment by the Fund, as well as new investment techniques which may be compatible with the Board's investment policy and practices.
12. Oversee the performance of the Investment Office and its resource complement and ensure that resources are adequate to effectively manage the fund with appropriate risk management and internal controls.
13. Inform itself about and review issues of corporate performance, corporate governance, and shareholder rights as they affect the System's legal or beneficial ownership of voting securities and the value of its investments.



PSERS Investment Committee Charter

Article II Section 7

14. Monitor the System's implementation of proxy voting policies generally and advise the Board on particular proxy voting or portfolio company matters of significance.
15. Monitor the System's implementation of its securities litigation policy generally and advise the Board on particular security litigation matters of significance.

E. Obtain independent verification

1. Periodically obtain appropriate investment performance and cost effectiveness reviews with an independent consultant to compare PSERS performance and investment management costs with peers and to present the results to the Board.
2. Periodically obtain appropriate independent verification of the performance and exception reports issued by consultants, advisors, and/or management and present the results to the Board.

V. Reporting to the Board

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The Committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the Committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff, including the Office of Chief Counsel to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.

**State Employees' Retirement System
Testimony
House State Government Subcommittee on
Public Pensions, Benefits, and Risk Management
April 5, 2022**

Chairman Miller, Chairman Grove, esteemed members of the committee – we are pleased to have the opportunity to testify and provide information regarding the efforts of the State Employees' Retirement Board and the State Employees' Retirement System to review, consider and incorporate governance best practices to improve the effectiveness of the Board and SERS staff to better serve the needs of its members and participants, with corresponding benefits for the taxpayers of Pennsylvania.

Development of Governance Policy Manual

In October 2015, Funston Advisory Services LLC was engaged by the SERS Board to perform a comprehensive governance review that identified and analyzed key considerations in formulating an effective governance structure. One key finding of this effort was the need for the drafting of a comprehensive governance policy manual to provide a framework with a specific focus on the role of the SERS board and its committees, including the development of policies and procedures to be based on industry best practices in general, and also specific to SERS' organizational structure.

The review led to the issuance by Funston of a report dated March 4, 2016 (*For the Benefit of Pennsylvania: Strengthening SERS Oversight SERS Board and Organizational Structure Review: Final Report*), which resulted in SERS creating a SERS Board Governance Policy Manual. The SERS Governance Policy Manual contains the principal policies and procedures developed and used by the Board, its committees, and SERS staff in carrying out their fiduciary duties and responsibilities to the members of the SERS Defined Benefit Plan and Benefits Completion Plan, and to the plan participants of the Defined Contribution Plan and Deferred Compensation Plan.

The Governance Policy Manual includes the following:

- Actuarial Services Policy
- Amended Bylaws, with the establishment of the following standing committees:
 - Audit, Risk and Compliance Committee
 - Board Governance and Personnel Committee
 - Finance and Member and Participant Services Committee
 - Investment Committee
 - Securities Litigation Committee
- Committee charters for the standing committees
- Board Education Policy
- Board Self-Assessment Policy
- Communications Policy
- Fiduciary Review Policy

- Performance Review Process for CIO, as amended
- Performance Review Process for SERS Executive Director
- Policy for Indemnification of Board Members, Designees, Officers and Employees
- Policy on Placement Agent Disclosures
- Position Descriptions:
 - Board Chairperson and Assistant Chair Positions
 - Board Member Position
 - Committee Chair and Assistant Chair Positions
- Recusal Policy
- Referral of Investment Opportunities and Service Provider Candidates; Related Communications; Undue Influence
- SEC “Pay-to-Play” Rule Compliance and Reporting Policy
- Securities Litigation Policy
- SERS Ethical Conduct Policy
- Board Travel Policy

Subsequent to the establishment of the Governance Policy Manual in 2018, the Board and staff have continued to expand the processes, policies, and other components of the manual, with the inclusion of the following:

- Strategic Planning Process
- Insider and Personal Trading Policy
- State Employees’ Retirement Board Compliance Program Charter
- Committee Work Plan Procedures Policy

As an outgrowth of staff work on the SERS Governance Policy Manual, a renewed focus on the SERS compliance program and improving those processes was undertaken. The purpose of the SERS compliance program is to:

- Promote and foster an organizational culture of integrity, ethical decision-making and compliance with applicable laws, policies, procedures, codes, and other legal requirements in fulfilling the Board’s mission and fiduciary responsibilities;
- Establish a compliance function, with a Chief Compliance Officer monitoring, advising, reviewing and reporting to the Board on compliance activities;
- Assure that the Board and its employees conduct business with the highest standards of ethics and integrity; and
- Establish an infrastructure that provides additional assurance that SERS’ operating divisions comply with applicable laws, policies, procedures, codes, and other legal requirements.

Consistent with the Board’s commitment to the highest ethical standards and transparency, the Compliance Program is designed to support the Board and SERS’ commitment in fostering a proactive culture of excellence and integrity in its stewardship of the system on behalf of its members and of the Defined Contribution Plan and Deferred Compensation Plan on behalf of the plan participants. The program is designed as a dynamic process, to identify and alert the Board and SERS staff of any existing or newly identified emerging ethical and legal risks.

Additionally, the Board Travel Policy was amended on December 8, 2021, to merge the Board’s Travel Policy with an administrative travel policy governing staff travel, which included the following provisions:

- Prohibits third parties from furnishing business travel arrangements
- Requires adherence to the travel and subsistence allowance monetary limits of Management Directive 230.10, from which SERS had been exempted.
- Specifies the requirements pertaining to out-of-state and international business travel

SERS 2021 Fiduciary Review and Board Self-Assessment

In furtherance of the Board Governance Policy Manual's *Fiduciary Review Policy* and *Board Self-Assessment Policy*, which both provide for periodic reviews of the Board's governance policies and practices, in January 2021, the Board again engaged Funston to review the Board's fiduciary and governance practices. This review was undertaken to improve the effectiveness of the Board in serving the needs of SERS' members and the Defined Contribution Plan and Deferred Compensation Plan participants.

Pursuant to the *Fiduciary Review Policy*, every three or four years the Board is to select and contract with a qualified independent consultant to conduct a review of the Board's performance of its duties, identify developing best practices and make recommendations to the Board for improving its governance, policies and procedures.

The purpose of the *Board Self-Assessment Policy* is to provide a process by which the Board can regularly review and assess its performance and to identify subject areas that may be appropriate for educational/training sessions, pursuant to the *Board Education Policy* and that a third party may be engaged to facilitate the self-assessment and follow-up improvement planning.

At the April 28, 2021, Board meeting, the Board approved Motion: 2021-26 to accept Funston's *SERS Fiduciary Review and Board Self-Assessment – Final Report*, which included reports and recommendations in the following areas:

1. A fiduciary and governance review of the Board's performance of its duties in the following four task areas:
 - Non-Economic Investment Requirements (in-state managers, minority and women-owned programs, etc.)
 - The Asset Liability Matching Process
 - Legislative Positioning: Reactive and Proactive
 - Investment Manager Selection / Due Diligence / Monitoring / Termination
2. A self-assessment of the Board in ten areas of governance, which included:
 - Governance Structure
 - By-laws, Charters, and Policies
 - Board Meeting and Operations
 - Powers Reserved for the Board and Delegations
 - Board Oversight and Independent Reassurance
 - Board Committees
 - Board Education and Development
 - Board Interactions with Staff
 - Evaluation of Board Direct Reports
 - External Advisors.

The Board further directed SERS staff to engage with the appropriate standing committees of the Board to: (a) review the Final Report's recommendations, and (b) make recommendations to the Board for action, as appropriate.

Funston noted in its report that the Board has made significant improvements in its governance structure, policies, and practices over the past five years since its last governance review in 2015 and should be commended for its progress.

The Board's self-assessment had high effectiveness ratings, but also identified some areas for continuing improvements in governance.

The recommendations were put into an implementation roadmap developed with SERS staff and staff is working with the Board's committees in reviewing the recommendations, many of which have already been implemented.

Governance Structure Recommendations

We do wish to highlight the following Funston recommendations, which SERS fully supports:

- **Give the SERS Board greater flexibility regarding procurement, including the ability to establish its own procurement policy.**
- **Increase the SERS Board's discretionary authority regarding budget, complement, classification, compensation and contracting, procurement process and authorities.**

The desirability of giving the SERS Board greater flexibility regarding procurement policy and greater discretionary authority regarding budget, complement, etc., has been discussed in prior forums, perhaps most notably in SERS' testimony at a hearing of the Public Pension Management and Asset Investment Review Commission, created as part of Act 2017-05.

At a hearing in October, 2018, in answer to a question from the commission about what the General Assembly can do to help SERS improve efficiencies and reduce costs, SERS executives noted that the SERS Board and agency staff stand in direct fiduciary status to the fund and that the recommendations being made were consistent with the fiduciary duties and responsibilities of the SERS' Board and staff in administering the fund for the exclusive benefit of the members, and with the skill and care that a person familiar with such matters would exercise.

Specifically, it was proposed that:

- The Board be given the decision-making authority for organization, position complement, and compensation for management employees in place of the Commonwealth's Executive Board.
 - Having maximum flexibility in the ability to increase our staffing complement will allow us to continue with the cost-saving improvements that are already underway. The addition of high quality, specialized staff in the investment and investment accounting areas will help us to improve our investment and financial operations and audit capabilities, and to reduce costs.
 - Increasing our staffing complement will also enhance our ongoing effort to implement and grow our internal asset management capabilities. We have seen the promise that this effort holds – from our own experience, and in learning about the actions taken by other elite public pension funds.

- Having control over the ability to set compensation levels allows the board to attract high quality expertise.
- The Board be given greater flexibility to more efficiently procure goods and services.
- The Board be given the ability to determine its budget, without having the Office of the Budget approve or alter the Board's budget requests.

In addition to the specific items listed above, members of the commission were reminded that there are consequences to imposing administrative limitations on the ability of the SERS Board to efficiently administer the fund and manage SERS' operations, and substantive restrictions on how the SERS Board can invest the assets of the fund. Administrative burdens or substantive restrictions can, to a greater or lesser degree, increase costs or reduce the ability of the Board to achieve desired investment returns. This applies to both current and future statutory regimes. In short, it was posited that the Board should be given maximum administrative flexibility and investment authority in its ability to satisfy its fiduciary duties and obligations.

This perspective provided three years ago to the pension review commission is consistent with the Funston recommendations listed above.

Again, thank you for giving us the opportunity to share with you the governance initiatives undertaken by SERS and the SERS Board. We welcome any questions from the members of the subcommittee.

State Government Subcommittee on Public Pensions, Benefits and Risk Management

Board Governance Project Overview

Pennsylvania
Public School Employees' Retirement System

April 5, 2022



Overview

- Funston Advisory Services LLC (FAS) and Engagement Team Introductions
- Project Scope
- PSERS Board, Advisor and Staff Engagement
- Project Phases, Timing and Board Involvement
- Final Recommendations
- Questions

Funston Advisory Services LLC (FAS) Overview

FAS has conducted numerous governance, risk, compliance and investment operations reviews of public retirement systems over the past ten years. We have also published extensively and offer an on-line governance education resource (Board Smart®) for trustees and executives.

State / Federal Systems

- California Public Employees' Retirement System
- Delaware Public Employees' Retirement System
- Employees' Retirement System of Rhode Island
- Employees' Retirement System of the State of Hawaii
- Indiana Public Retirement System
- Maryland State Retirement and Pension System
- Missouri Department of Transportation & Missouri State Highway Patrol Employees' Retirement System
- New Mexico Public Employees Retirement Association
- New York State Comptroller – Common Retirement Fund
- Ohio Police and Fire Pension Fund
- Oregon Investment Council
- Pennsylvania Public School Employees' Retirement System
- Pennsylvania State Employees' Retirement System
- School Employees Retirement System of Ohio
- South Carolina Public Employee Benefit Authority
- South Carolina Retirement System Investment Commission
- State Board of Administration of Florida
- State Teachers Retirement System of Ohio
- Teachers Retirement System of Texas
- Trust Fund for the People of the Federated States of Micronesia
- Utah Retirement Systems
- Wyoming Retirement System

County and Municipal Systems

- Fairfax County (VA) Retirement Systems
- Los Angeles County (CA) Employees Retirement Association
- Milwaukee County (WI) Employees' Retirement System
- Montgomery County (MD) Public Schools Retirement Trust
- New York City Comptroller – Bureau of Asset Management (NY)
- San Francisco Employees' Retirement System (CA)

FAS PA PSERS Engagement Team

Team Member	Role	Background Highlights
Rick Funston	Project Leader	CEO Funston Advisory Services LLC, Deloitte former National Practice Leader Governance and Risk Oversight, created concept of risk intelligence in 2001, principal author “Surviving and Thriving in Uncertainty: Creating the Risk Intelligent Enterprise” Wiley & Sons 2010, and editor “One of a Kind – A Handbook for Public Retirement System Trustees”.
Randy Miller	Project Manager	COO Funston Advisory Services LLC, Deloitte Consulting LLP, former National Partner Strategy and Operations. Has led numerous reviews of public retirement systems and leads the FAS InGov® benchmarking service.
Keith Johnson	Legal Advisor	Formerly Head of Reinhart Boerner Van Deuren s.c.'s (Reinhard Law) Institutional Investor Legal Services. Former General Counsel, State of Wisconsin Investment Board, Former President of National Association of Public Pension system Attorneys.
Jon Lukomnik	Senior Consultant	Former Deputy Comptroller New York City Bureau of Asset Management, Member of the Deloitte Audit Quality Advisory Committee, the Standing Advisory Group of the Public Company Accounting Oversight Board, and the Board of Trustees of the Van Eck family of US mutual systems (Chair Audit Committee), insurance trusts, and European UCITs. A senior fellow for the High Meadows Institute and the Pembroke Visiting Professor of International Finance at the Judge Business School, Cambridge University, during January – March 2020.
Lisa Morris	Senior Consultant	Formerly Executive Director of Ohio School Employees Retirement System. Senior consultant with Funston Advisory Services. Senior Consultant on numerous reviews.
Tiffany Reeves	Legal Advisor	Shareholder with Reinhart Boerner Van Deuren s.c. (Reinhard Law) in the Employee Benefits and Institutional Investor Services practices, having joined in 2017. Previously, Tiffany was Deputy Executive Director and Chief Legal Counsel at the Chicago Teachers' Pension system (CTPF).

Project Scope

Commissioned by the Pennsylvania School Employees' Retirement System Board (PSERSB) in 2019. The project scope included the following 8 subject areas:

1. Governance structure
2. By-laws, charters, and policies
3. Powers reserved for the Board and delegations
4. Board meetings and operations
5. Board oversight
6. Board committees
7. Board education and development
8. Evaluation of Board direct reports

The scope did not include an assessment of the establishment of a combined investment system, asset allocation or investment operations, a forensic review, an audit or an operational review.

Process

Phase 1 – Data Gathering

- Document review
- Interviews
- InGov® (a proprietary governance benchmarking tool)

Phase 2 – Analysis

- Presentations and workshops with the Ad Hoc Governance Committee
- Progress reports to the full Board

Phase 3- Report

- Preliminary Draft
- Final

The Governance Review began in November 2019, our preliminary report was completed by May 2021 and, at the request of the Board, the final report was delayed until October 2021.

Recommendations

- In total, FAS made 25 major recommendations with detailed implementation guidance.
- We used our proprietary framework of [Powers Reserved for the Board](#) to organize our recommendations.

Governing Structure / Legislation

Appointments to the PSERS Board



1. Develop alignment and improve the Board's focus on setting direction and policy and prudent delegation.



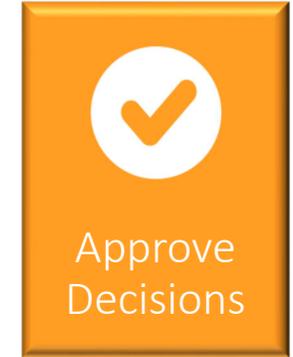
2. Improve the timeliness and insightfulness of information for decision-making and the Board's oversight of the execution of direction within policy.



3. Verify then trust. Build and restore trust by improving independent verification and independence of the Board's advisors.



4. Improve the way the PSERB and its committees conduct the business of the Board in its meetings and operations.



5. Improve the robustness and efficiency of the processes for obtaining Board approval of key decisions.

1. Develop alignment and improve the Board's focus on setting direction and policy and prudent delegation.
 - 1.1 Develop a strategic plan and improve stakeholder communications.
 - 1.2 Develop a unified direction on PSERS' strategic asset allocation.
 - 1.3 Organize and streamline policy setting.
 - 1.4 Clarify roles, responsibilities, authorities and accountabilities of the Board and professional staff.
 - 1.5 Improve the Board's evaluation process for PSERS' Executive Director / Chief Investment Officer.

2. Improve the timeliness and insightfulness of information for decision-making and the Board's oversight of the execution of direction within policy.
 - 2.1 Improve the Board's oversight through exception reporting.
 - 2.2 Improve oversight of performance and risk management.
 - 2.3 Improve oversight of cyber security and information security.

3. Verify then trust. Build and restore trust by improving independent verification and independence of the Board's advisors.

3.1 Improve independent verification / internal audit capabilities.

3.2 Enhance the mandate of the audit and compliance committee.

3.3 Investment risk and investment compliance.

3.4 Improve overall compliance.

3.5 Improve / ensure the independence of external advisors.

4. Improve the way the PSERSB and its committees conduct the business of the board in its meetings and operations.
 - 4.1 Clarify leadership roles and responsibilities.
 - 4.2 Streamline the format and content of the Board's meeting agendas, minutes, and related materials.
 - 4.3 Clarify the PSERSB's use of executive sessions as related to the Sunshine Act.
 - 4.4 Improve communications and transparency of the Board, staff and external stakeholders.
 - 4.5 Board meeting frequency and duration (excluding the current situation) is consistent with peers.
 - 4.6 Improve the functionality of the board portal to improve trustee insight and access to information.
 - 4.7 Clarify designee participation in meetings.
 - 4.8 Streamline Board committees.
 - 4.9 Streamline PSERS's Bylaws and create/refine charters.
 - 4.10 Continue to improve Board education and development.

5. Improve the robustness and efficiency of the processes for obtaining Board approval of key decisions.
 - 5.1 Improve Board oversight of investment manager hiring or termination.

6. Governance Structure / Legislation

- 6.1 Stagger member terms to the extent feasible.
- 6.2 Identify preferred experience, skills and diversity attributes that would improve overall composition of the Board.

Questions