

COMMONWEALTH OF PENNSYLVANIA  
JOINT STATE GOVERNMENT COMMISSION

PUBLIC PENSION MANAGEMENT & ASSET INVESTMENT  
REVIEW COMMISSION MEETING AND HEARING

STATE CAPITOL  
HARRISBURG, PA

IRVIS OFFICE BUILDING  
ROOM G-50

WEDNESDAY, DECEMBER 12, 2018  
9:30 A.M.

BEFORE:

REPRESENTATIVE MICHAEL TOBASH, CHAIRMAN  
TREASURER JOSEPH TORSELLA, VICE-CHAIRMAN  
JAMES BLOOM, COMMISSIONER  
BERNIE GALLAGHER, COMMISSIONER  
MICHAEL TORBERT, COMMISSIONER

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STAFF INCLUDED:

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COMMISSION

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Joint State Government Commission  
*Commonwealth of Pennsylvania*

## P R O C E E D I N G S

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CHAIRMAN TOBASH: With the hour of 9:30 having arrived, we appreciate everyone's attendance. We want to call this meeting of the Public Pension Management and Asset Investment Review Commission to order.

I appreciate everyone here in the audience. I can't acknowledge everyone. I'll acknowledge my two friends from the House of Representatives, Representatives Miller and Ryan. Thank you for being here. I see we've got some Senate and House staff. And I see that people from the systems are here. We also have House legal counsel. So welcome, and let's get things under way.

We'll go through our attendance. I see that all of our commissioners are in attendance today. I would entertain a motion to approve the minutes from our previous meeting. I believe everyone has a copy of those minutes from the meeting of October 25th, 2018.

Do I have a motion to approve those minutes as submitted?

COMMISSIONER BLOOM: So moved.

COMMISSIONER TORBERT: Second.

CHAIRMAN TOBASH: A motion by Commissioner Bloom, second by Commissioner Torbert.

Those in favor?

1 (Unanimous vote.)

2 CHAIRMAN TOBASH: Thank you.

3 Okay, so we've got a lot of work in front of  
4 us today. We've got volumes of documents and iterations of  
5 those documents. And I will again thank the Treasurer's  
6 Office and our consultant and everyone who has worked so  
7 hard, including Joint State Government, for putting the  
8 documents together.

9 Today's session, unlike our previous  
10 sessions, is really going to be a working session among the  
11 commissioners with potentially an opportunity for some  
12 comments after we wrap things up. We've had some  
13 discussions individually. I've had an opportunity to reach  
14 out to the other commissioners and just get their idea on  
15 how the process is going. I think the feedback so far has  
16 been favorable.

17 We continue to try and make this process as  
18 open and transparent and working towards a consensus  
19 document as we possibly can. I appreciate the spirit in  
20 which all of the commissioners are working together, and I  
21 appreciate the hard work that everyone has done so far.

22 So I'm just going to give a little time line.  
23 We've done extensive work. As I've mentioned many times, I  
24 am so grateful and impressed by the stature and expertise  
25 that has come to Pennsylvania to help assist us in this

1 endeavor. It has been acknowledged several times that  
2 Pennsylvania is an outlier in many areas, but I'll tell you  
3 the idea that this commission exists now and Pennsylvania is  
4 taking a look at an opportunity that we have got to perform  
5 better in something that the rest of the nation and, in  
6 fact, world faces. And that's -- even the promises that  
7 have been promised to their retirees, their employees. And  
8 it's really important work that we do. So I am personally  
9 grateful and thankful. And I take a look at the documents  
10 and there are volumes and there is much information and  
11 expertise that has gone into the work.

12           The first draft was distributed to the  
13 commissioners on November 19th, a lengthy document. The  
14 second on November 30th, the second draft. And at this  
15 time, we have got a draft in our hands. We have got some  
16 discussion to have about that draft. And as we go to work  
17 today, hopefully, we can come to an agreement on most  
18 everything in the document and get together on December 20th  
19 and have a final vote.

20           So with that said, I'll ask for comments from  
21 our vice-chair, Vice-Chair Torsella.

22           VICE-CHAIRMAN TORSELLA: Thank you, Chairman.

23           Let me just start by echoing what you said,  
24 which is a word of thanks, one, to you and to our colleagues  
25 as commissioners, all of whom I think have brought a really

1 useful perspective and rigor to this discussion, and to  
2 everyone who's been following or a part of this, to the  
3 staff at -- all of our staffs, especially Treasury's in my  
4 case, and to Joint State Government Commission, and finally,  
5 to all the witnesses who made themselves available and  
6 participated in the process. It's really something to be  
7 proud of.

8           As you indicated, we've had a series of  
9 drafts, progressively more and more complete. Final piece,  
10 which I would like to distribute, with your permission, to  
11 the commissioners is the executive summary to the drafts  
12 that we had. I thought it might be helpful. I mean, we've  
13 all read this and thought about this. I thought it might be  
14 helpful if I briefly went through it and gave an executive  
15 summary of the executive summary of our discussion.

16           But first noting the history of this  
17 commission and its importance, as you had said, in a modern  
18 public policy context. I'll pass these out. (Hands.)  
19 Second, going over the hearings that we had and the goals  
20 that were legislatively given to the commission, the report  
21 in the end identifies -- and these are, of course,  
22 estimates -- a savings that on an actuarial basis over 30  
23 years would work out to be between a range of 8.2 and  
24 9.9 billion. So meeting our minimum target and making real  
25 progress in the broader target identified in the

1 legislation.

2           Noting some caveats that this process, like  
3 as all processes, has limitations on what we can do and see.  
4 And that volume of data, the size, there inevitably are  
5 going to be mistakes that have been made, but it doesn't  
6 detract from its broad conclusions. An important caveat is,  
7 we say in the executive summary, as is said also in the  
8 draft report, that the conclusions and recommendations of  
9 this commission are not intended to cast blame on asked  
10 actors or decision makers who are making decisions in good  
11 faith. Hindsight may be 20/20, but our point in looking  
12 back is to gain insight to use to adjust how we might go  
13 forward.

14           Broadly, it points out some of the things in  
15 our charge to report widely and detailed on a variety of  
16 things that are worth noting and applauding. Both systems,  
17 in particular, noting PSERS adopting important elements  
18 around stress testing and taking steps that may be more  
19 transparent than other retirement systems on a disclosure of  
20 fees, as well as its abrasive passive-based investing  
21 strategies for public equities and its recent disclosure on  
22 carried interest. SERS, in particular, commended for their  
23 focus on costs, which is over, I believe, a 10-year period,  
24 resulted in a 50 percent reduction there for having  
25 comparatively robust benchmarks, as we've heard, and for

1 some other items.

2           And then finally noting, I think the theme  
3 that we've all heard is that there were factors at work here  
4 that were well outside the control of either system, most  
5 notably, the Commonwealth's unfortunate payment history when  
6 it comes to the actuarial determined amount.

7           Then noting the significant findings in which  
8 we think the funds need to do better. Their performance, as  
9 we heard from RCI, against a peers and against a  
10 risk-adjusted basis against a multiasset portfolio. Both  
11 funds' costs relative to peers and the various things we've  
12 heard about, areas of risk and concern in current  
13 allocations and practices.

14           Broadly and without changing the  
15 recommendations that follow in the detailed chapter, the  
16 executive summary highlights kind of six high level  
17 recommendations. First, the urgency and importance of  
18 maintaining the full payment of the arc, again, underscoring  
19 that as the uniform view of the commission. Second,  
20 establishing a central investment office. We're not  
21 replacing existing systems, it would be an agreement in  
22 addition to them to leverage the scale and benefits that  
23 come with that. Third, enacting legislation mandating  
24 annual stress testing drawn in line with Blue Ribbon Panel  
25 practices. Fourth, establishing policies in both systems in

1 favor of encouraging transparency around reporting. Fifth,  
2 specific note on repealing existing laws that may stand in  
3 the way of doing that. Sixth, moving to fully indexed  
4 public market investments in both systems, as well as the  
5 other identified cost savings, some of which have more  
6 detail. And finally, a series of measures in both systems  
7 to reexamine and reduce risks that were brought to the  
8 attention of the commission.

9           There's then some general discussion about --  
10 as well as some specific costs coming out of those  
11 recommendations -- some general discussion around the themes  
12 of the commission's work, starting with the legislation that  
13 fathered and mothered it, one, around the importance of  
14 costs and the uncertain world of investments controlling  
15 them, and two, around transparency to stakeholders as a path  
16 to better and best practice performance.

17           Finally, sort of ending where I think many of  
18 us started, a note that in the abstractions in 400-plus  
19 pages of material, the importance of all of us recognizing  
20 that behind these numbers and ratios, in fact, are real  
21 people who have served the Commonwealth with distinction and  
22 this commission is ultimately about making the retirement  
23 that we promised them more secure.

24           And then a note on kind of change, which is,  
25 for any of us, difficult. But recalling what we heard from

1 some witnesses early on in the process, even when it's  
2 uncomfortable looking at some of these issues can -- in  
3 fact, in other places has been -- a catalyst to kind of  
4 reinvigorate and reenergize a look at how we structure and  
5 organize and operate our pension systems in a way that takes  
6 us all to a better place.

7 And with that hope, Mr. Chairman, I will  
8 conclude my summary of the summary, which is a summary of  
9 400 pages. But again, I thank everyone for a really robust  
10 and helpful process here.

11 CHAIRMAN TOBASH: Thank you.

12 You know, in the conversations, I think that  
13 many of us are in a position to approve a document very  
14 similar to this. However, some feedback, we've gotten some  
15 feedback, and the largest amount of feedback we've got is  
16 from Commissioner Gallagher.

17 And I think that, again, as a working group  
18 today, I think that we should address some of the concerns  
19 and questions that you might have. So I'm going to give you  
20 the floor at this point in time, Commissioner Gallagher, to  
21 go through some of the questions you've got and we can  
22 discuss this within our group, and hopefully come to some  
23 resolution. And I think our ability to get on the same page  
24 and have a consensus document is important and we're going  
25 to do our best to do that.

1                   COMMISSIONER GALLAGHER: Thank you,  
2 Mr. Chair.

3                   Can everyone hear me? Is this on?

4                   (Nods.)

5                   COMMISSIONER GALLAGHER: Okay, very good.

6                   Thank you, Mr. Chair.

7                   And thank you, Mr. Treasurer. I think the  
8 outline that you just went over was nicely capturing the  
9 spirit of the commission and the work that's been done here  
10 at the table in this room, but also behind the scenes and  
11 that I appreciate quite a bit. Your staff has done a  
12 yeoman's job, the Joint State Government Commission's staff  
13 has done a yeoman's job, and it shows in the materials that  
14 we have.

15                   Now, you may not be aware that we have had  
16 the opportunity to review the most recent draft that was  
17 distributed a couple of weeks ago. And in our best efforts,  
18 we went through it to identify areas of commonality and  
19 areas that we just wanted to bring to the commission's  
20 attention and we'd like to discuss. We did submit that  
21 information to Treasury for their consideration. And as  
22 such, I'm not quite sure how much of that got integrated.  
23 So I'm confident a lot did, but I can't confirm that at this  
24 point. However, knowing that there's still work at hand  
25 behind the scenes, I'm optimistic much of it is being

1 integrated or considered for the commission's approval later  
2 next week.

3 We have been working very, very hard behind  
4 the scenes to also...

5 VICE-CHAIRMAN TORSELLA: Chair, if I can just  
6 clarify?

7 Yeah, the draft -- we've all gotten pieces of  
8 drafts. The draft that we have now is not the final draft.  
9 There's an ongoing process of commented integration.

10 COMMISSIONER GALLAGHER: Okay.

11 So, yeah, to that point, we also -- just to  
12 add additional perspectives to the conversation, our caucus,  
13 with approval from our leadership, thought it was important  
14 just to also find other perspectives to supplement, not to  
15 plant anything that's already been brought forward to the  
16 commission.

17 And with that, I'm going to distribute -- I  
18 know nobody at this table has had the opportunity to review  
19 and digest this. And hopefully, over the next, over the  
20 course of the week, you'll have the opportunity to do so.  
21 And we very much welcome your feedback on that.

22 We would, however, like to keep it in its  
23 entirety to some degree, which is to say to have it included  
24 as an appendix or something to that effect. And then  
25 reference at the beginning of the document, preferably on

1 page 1 or page 2, that it may be integrated to this  
2 executive summary to some degree, indicating that there is  
3 an appendices with different perspectives in addition to  
4 those that are in the larger body.

5 So if that makes sense, I'm going to  
6 distribute the document.

7 We could go through piece by piece. I don't  
8 think that's valuable to the commission's time because a lot  
9 of the issues that we had had motifs associated with them,  
10 and as such, that is, will have been throughout the  
11 document. And it would be redundant to bring it over and  
12 over again on each page in ways to find a copacetic manner  
13 with which to reflect the body's, or the commission's  
14 opinions.

15 So that being said, there's a lot of, there's  
16 a lot of strength in keeping the current document, wherever  
17 it is in its development, as is, with reference to this  
18 document as an appendices at the end of the document. So  
19 each are kept in its entirety. The thought process is kept  
20 in its integrity and as such to be submitted as one document  
21 for the commission's approval.

22 So with that being said, I'll distribute this  
23 document. I know it's not something that you can easily  
24 read in front of an audience. (Hands.)

25 CHAIRMAN TOBASH: So let's talk about some

1 logistics now. Our plan is to have another meeting on the  
2 20th, so eight days from now. And I think we've checked  
3 with all the commissioners and they're available on that  
4 day. And the idea would be to vote a final product on that  
5 date.

6 Commission Gallagher, I understand your  
7 request, that this material not be altered and include as an  
8 appendices, at a time when you're making requests that this  
9 document be altered, the main document. So why don't we  
10 take a little bit of time right now and get, similar to what  
11 the Treasurer has done, a summary of your -- you don't have  
12 to go in depth or by page -- just give us an idea of the  
13 areas that you may have found that there's a need to add  
14 additional commentary and perspective to a document that is  
15 already quite lengthy.

16 COMMISSIONER GALLAGHER: There were three  
17 basic higher level areas of review. One was with respect to  
18 data. The underlying larger report has a robust amount of  
19 data that, while I do have some expertise with respect to  
20 pension governance and the digestion of certain metrics,  
21 only those who practice this on a daily basis could truly  
22 integrate and be able to identify the positives and perhaps  
23 some negatives with respect to the perspectives shared  
24 within the document. And as such, with the assistance of an  
25 outside consultant that we engaged with, we were able to

1 identify areas that may or may not need a different  
2 perspective. It's not to take away anything from that which  
3 was shared by the current, the experts that are already  
4 embedded in the larger document, but rather to have other  
5 perspectives on how to interpret that data within. So data  
6 is one component.

7           Further to that point is, much of the data  
8 within -- there's really only one other entity, except  
9 engaging outside of this state or within the state with an  
10 expert who understands the complexities as such, are the  
11 systems themselves. However, the information was not shared  
12 with them at any point in this process, and as such, their  
13 perspectives, doing it on a daily basis, were not able to be  
14 integrated. So I think data is one overall arching issue  
15 that we identified. And you can find that interspersed  
16 throughout the almost 400-, 500-page document. So that is  
17 one component.

18           The other is --

19           CHAIRMAN TOBASH: So the idea is the data  
20 interpretation. You have a perspective in here (indicating)  
21 that data interpretation may be, you know, from different  
22 points of view, may be interpreted differently and you're  
23 pointing that out in this document.

24           COMMISSIONER GALLAGHER: Exactly. And so, I  
25 mean, just using it at different time frames, you can have a

1 different perspective on performance. So that's just to  
2 give a juxtaposition for the consumer to understand  
3 different ways of looking at the relative performance of  
4 each system to its peers and to the universe of plans out  
5 there. So that's one motif.

6           The other is there's some tone and tenor  
7 within the document which gave me, in particular, some  
8 pause, as well as others in our caucus. As a consumer of  
9 government documents, typically there's a very objective,  
10 very unemotional pros/cons approach. And I think about the  
11 Congressional Budget Office Report. This has a little bit  
12 of a stronger weight in some of the language used within,  
13 and as such, we felt like a more toned down document may be  
14 beneficial to the conversation, not to take anything away  
15 from the larger document. However, we thought it was  
16 important to lend a perspective that was a little bit, I  
17 don't know, suffice it to say, colder and just to the point.  
18 So there's that.

19           And then finally, another issue that we  
20 thought was relevant was integrating pros and cons as often  
21 as possible. As I was saying, if you look at the  
22 Congressional Budget Office Report, they are often showing,  
23 in any perspective of data, a range of perspectives that are  
24 broad in nature. And there are instances within the  
25 document that perhaps a more, a broader range of options or

1 discussion could have been added. And we attempt to just  
2 identify instances of that, not every single one.

3 So those are the three broad topics in the  
4 underlying document you've received, it will supplement and  
5 just support and add to.

6 So again, to your point, Chairman, if there's  
7 language in this document or anything in here that any  
8 commissioner would object to, then we would absolutely be  
9 amenable to that process, as well.

10 CHAIRMAN TOBASH: Okay. So that makes sense  
11 to me. Data can be interpreted differently. We all know  
12 that, understand that. That's one of the major themes in  
13 this document. Number two, the tone, you'd like us to be  
14 softer and gentler in our conversation to the general  
15 assembly and the Governor about the hard work that the  
16 systems have done. And number three, integrating pros and  
17 cons because with every action, there's sometimes an inverse  
18 reaction or an unintended consequence that takes place. And  
19 you're pointing out in this document that that very well may  
20 be the case.

21 Vice-Chairman, you know, the idea that we, if  
22 we are going to be here on the 20th, that we have an  
23 opportunity to take a look at this. And as Commissioner  
24 Gallagher has agreed, if there's a commissioner that has got  
25 some idea that, wow, there's something in here that they are

1 really not in favor of including, even in an appendix, how  
2 much time do we have to do that? What's your feeling on  
3 logistics? And how would we accomplish what we're trying to  
4 get done?

5 VICE-CHAIRMAN TORSELLA: Well, as a practical  
6 matter, I don't think we have all of the week between now  
7 and the 20th. But as a practical matter, I also think we  
8 have a little bit of time. But the spirit in which all of  
9 us have worked, I think, has been to share submissions  
10 widely and to try to hear points. And we're agreeing with  
11 some, disagreeing with others, and integrating some.

12 So if I'm understanding what Commissioner  
13 Gallagher's proposing, I think it's workable. I think it's  
14 in the same spirit with which the draftsmen shared, that  
15 there is a perspective report that he's asking to be  
16 referenced in the text and included as attachments. I don't  
17 think it's a complicated role that he's asking us -- that  
18 he's saying that he's open to amendments that, based on our  
19 review of it -- understanding that's not -- just like the  
20 reverse. So we're trying to sort of be open to some, not  
21 all, of the suggestions from Commissioner Gallagher.

22 I think that's workable. And again, what it  
23 means -- and this will not shock the commissioners who spent  
24 their Thanksgiving reading 300 pages -- what that means is  
25 all of us probably need to have a look at this fairly

1 quickly and get back to you with comments. But if the broad  
2 question on the table is, as I think it is, are each of us  
3 prepared to support a draft substantially like this, with  
4 these recommendations, with the additional changes going on,  
5 with the inclusion of Commissioner Gallagher's report  
6 referenced in the report and attached with some changes, I  
7 mean, I for one am prepared to do that. I think the report  
8 is solid, it has and will be improved by continuing  
9 feedback, some which is taken, some which isn't. And an  
10 alternative perspective is welcome and I think that that's  
11 something I'm prepared to get behind.

12 I think we can do it logistically. I think  
13 the practical matter is that I suspect we should try to have  
14 comments to Commissioner Gallagher on this in something like  
15 two days-ish, not one week-ish.

16 Is that -- I'm waiting to be contradicted by  
17 the people that have to make this work.

18 CHAIRMAN TOBASH: Okay. So I think that the  
19 idea here is this -- and I can tell you this, we are at this  
20 date, we're at the 12th of December -- and we really want to  
21 wrap it up by the 20th. And we have been as flexible as we  
22 can with dates, and we've actually pushed voting the  
23 document back from today to the 20th. But we should not be  
24 much more flexible with dates because we're going to run  
25 into a logistical problem.

1                   So the spirit of the idea here is, if there's  
2 a little bit of seasoning that needs to be added to this, we  
3 can do it. A little bit of salt and pepper to this, we can  
4 probably do that. But by the end of business tomorrow, I  
5 believe that that information should be communicated to the  
6 commissioners, to Commissioner Gallagher, if we want to do  
7 some of those changes.

8                   And, Commissioner Gallagher, to you, from you  
9 to anyone, and then we've got a short period of time to  
10 digest that and then agree or agree to disagree. But I  
11 think that we are very close. And my estimation of what you  
12 have submitted here is that, the spirit of what you have  
13 mentioned here, what you have submitted here, I'm not going  
14 to have issue with it.

15                   Can I have comments on that from our other  
16 commissioners?

17                   COMMISSIONER TORBERT: When do you want us to  
18 reply to this?

19                   CHAIRMAN TOBASH: By the end of business  
20 tomorrow.

21                   COMMISSIONER TORBERT: Tomorrow.

22                   COMMISSIONER GALLAGHER: Mr. Chairman and  
23 Vice-Chairman Torsella, I thank you for being receptive to  
24 what we recognize as being a very late addition to the  
25 conversation, as well as the latitude with respect to

1 providing additional time to get this in. We worked as fast  
2 and as diligently as we could. And recognizing that the  
3 work needs to be completed and will be completed, but we  
4 still appreciate the receptivity and the latitude you've  
5 offered during this process. So thank you.

6 CHAIRMAN TOBASH: Great.

7 You've checked with your counsel?

8 VICE-CHAIRMAN TORSELLA: Yeah. Remarkably,  
9 and typically, we've gotten almost nowhere. I think,  
10 Commissioners, we can have till Friday morning --

11 CHAIRMAN TOBASH: Friday morning?

12 VICE-CHAIRMAN TORSELLA: -- sort of opening  
13 of business, rather than...

14 CHAIRMAN TOBASH: So the end of the day on  
15 Thursday.

16 VICE-CHAIRMAN TORSELLA: So to have comments,  
17 yeah, back -- any comments on anything.

18 CHAIRMAN TOBASH: Great.

19 COMMISSIONER BLOOM: That will give us  
20 Thursday night to look at this, as well, which would be very  
21 helpful.

22 CHAIRMAN TOBASH: Friday, 9 a.m. Okay.  
23 Great. Good. Thank you.

24 COMMISSIONER BLOOM: I'd just like to ask,  
25 are there direct -- and you don't have to go into any

1 details or anything like that, Commissioner Gallagher -- but  
2 are there direct contradictions to some of the findings that  
3 we've had or are they more or less comments on the findings  
4 we've had?

5 COMMISSIONER GALLAGHER: I believe you'll  
6 find both. There are a couple of instances where an expert  
7 we engaged with had a very different conclusion, but tried  
8 to catch it respectfully.

9 However, there's a lot of alignment that I  
10 think you'll see. I think that what the Treasurer had  
11 outlined in the beginning in his opening comments, you'll  
12 find is shared. A lot of the comments concerning paying the  
13 arc and transparency, and Blue Ribbon Panel  
14 recommendations -- with one caveat -- and you'll find that  
15 there's a great deal of alignment.

16 There's just a couple of sticking points in  
17 terms of how the performance of the systems can be perceived  
18 or looked at, and through different lenses. So that kind of  
19 gives you a general sense of it.

20 COMMISSIONER BLOOM: I think that's very  
21 helpful.

22 CHAIRMAN TOBASH: Commissioner Torbert.

23 COMMISSIONER TORBERT: Just quickly. I  
24 appreciate another point of view. I'm always big on other  
25 points of view or different points of view coming from

1 investment backgrounds.

2           Going through this whole thing has been very  
3 complex. There's no question about it. These are amazing  
4 systems and it's hard for a lot of people to understand. Is  
5 there any process in, going on right now, where the systems  
6 go around the state and talk and give presentations to the  
7 different areas of the system to help them understand  
8 better? Because it's very complex and I can see where  
9 different people would have different points of view.

10           COMMISSIONER GALLAGHER: I would just layer  
11 in that the bullet systems do extensive outreach trying to  
12 educate the members about not only planning for retirement,  
13 what they need to be asking, but also helping them  
14 understand what their benefit means relative to where it is  
15 out there in the marketplace. And they're trying to give  
16 value and understand how the state appreciates the work that  
17 they do, and that this is a reflection of a change that  
18 we're seeing throughout the global economy, but also to  
19 identify the wonderful thing that we do have and how we can  
20 preserve it. So they do extensive outreach in both systems.

21           COMMISSIONER TORBERT: I think that's  
22 critical. I've always had to -- when I was investing  
23 people's money, I always wanted to try to get them in the  
24 same boat, rowing in the same direction. And the more I  
25 educated them -- because I believed that part of my job was

1 educating my clients. So I think that the more you can do  
2 that in a way that they can understand, as to what's going  
3 on, I think that's a great idea. Because it is a complex  
4 system and it's a great system.

5 COMMISSIONER BLOOM: May I have the floor  
6 again?

7 CHAIRMAN TOBASH: Certainly, Commissioner  
8 Bloom.

9 COMMISSIONER BLOOM: There was also a  
10 somewhat late addition by the Senate Democrats about  
11 diversity. I think that came on Monday, if I'm not  
12 mistaken. It might have been late last week. And I know  
13 that quite a bit of work and research by the, my caucus,  
14 went into that. It's a short document. It's seven pages.

15 And the -- I think there are some things that  
16 we can do. I don't want to get into a lot of details, but I  
17 think that if we're going to improve or have it as one of  
18 our goals, which I hope we do, diversity, that the most  
19 important part of this is we, the systems have got to  
20 aggressively -- and it says it in the report -- look for  
21 places where they can get diversity.

22 And what happens is, in generally speaking,  
23 our consultants have sort of a stable of folks they work  
24 with, they work with in different states and different  
25 places. And they're not always the same. So there is a

1 list that we can compile of minorities, women, disabled, who  
2 are in this business. And certainly, our first  
3 responsibility, the first responsibility of the systems, is  
4 always to the fiduciary, but we want to make sure that that  
5 list is expanded as much as it can be. And if it needs to  
6 go, if we need to charge the systems' consultants with  
7 working harder on finding diverse candidates, then that  
8 should be done.

9 I mean, to give you just an example of what  
10 different consultants do -- both systems are trying to get  
11 the best they can get as far as the finest and the best  
12 investments they can possibly make, okay? But if you take a  
13 look at just the private equity where there's now, I guess,  
14 with the noncore, not including the noncore which has just  
15 been sort of given to a third party -- not given, but  
16 negotiated to a third party -- it seems to me there's about  
17 200 private equity investments in each system, okay? There  
18 are only 32 overlaps of that 200. So I think what that says  
19 is that your consultants, whether it's Hamilton Lane or  
20 StepStone, are talking to different people. Otherwise there  
21 would be more than 15 percent overlap between the two  
22 systems.

23 So I'm simply pointing that out as an example  
24 that there are qualified and good women, minority-owned, and  
25 disabled general partners and money managers out there, but

1 if we just sit here and wait for them, we're not going to  
2 see them. We've got to put some pressure on our consultants  
3 to help us bring more, better selections into, or more  
4 selections that fit diversity. Otherwise, we're never going  
5 to get there, okay? It's got to be aggressive.

6 I actually had a conversation the other night  
7 with the Governor regarding this. And he and I both ran  
8 small businesses for a long time.

9 I don't know what it's like to run the  
10 cabinetry business, but I know what it was like to run a  
11 trading operation on the Philadelphia Stock Exchange, and  
12 folks were not knocking on our doors. I had to go out and  
13 recruit. I went to the Wharton School and other places and  
14 found diversity within, you know, that very small circle  
15 that you can go.

16 So I hope that's a part of the report and I  
17 hope it's part of the core results of the various  
18 suggestions or recommendations, strong recommendations, that  
19 we're making.

20 Thank you, Mr. Chairman, for giving me all  
21 that time.

22 CHAIRMAN TOBASH: You're welcome. And thanks  
23 for carrying that from your appointees.

24 I'm just going to go back to this again to  
25 understand practically how we're going to do this by Friday

1 morning at 9 a.m. We're going to give feedback through the  
2 commission to the Treasurer's Office. And on Friday, then,  
3 we are going to communicate, reconcile, and potentially  
4 alter something. We don't expect there will be anything --

5 VICE-CHAIRMAN TORSELLA: We're also going to  
6 give feedback through the commission structure to  
7 Commissioner Gallagher.

8 CHAIRMAN TOBASH: Well, exactly, so we're  
9 going to communicate within the commission's structure. So  
10 if something needs to be altered, what day do you expect the  
11 final document to go to print, or does it need to go to  
12 print?

13 VICE-CHAIRMAN TORSELLA: It does. I think  
14 that will have to be Friday.

15 CHAIRMAN TOBASH: So Friday at 9 a.m., you  
16 expect to get feedback. If there's something to the  
17 contrary of something we've got there, it's going to be  
18 communicated, reconciled, and altered on that day?

19 VICE-CHAIRMAN TORSELLA: I think  
20 substantially, there's been a lot of feedback. There's a  
21 new document to which feedback has been invited. Both those  
22 things have to end on Friday.

23 MR. CRAIG: So Friday -- our biggest  
24 challenge is the thick document and getting that reproduced.  
25 We're aiming for 20 copies to get it all -- it has to be

1 formatted, it has to look attractive. All the charts and  
2 graphs have to be of common size. We want to spell-check  
3 and grammar check and everything the document. That has to  
4 go to print by Friday. People will work over the weekend  
5 and have --

6 CHAIRMAN TOBASH: So close of business  
7 Friday?

8 MR. CRAIG: I would ask if people could  
9 possibly, to do it earlier than close of business Friday.  
10 But we will get it to print close of business.

11 CHAIRMAN TOBASH: So it comes to my earlier  
12 point that if somebody is going to read this and object, and  
13 the latest date is Friday at nine o'clock, you have precious  
14 little time to change this. I mean, I would say Thursday at  
15 noon at the latest, to give at least 24 hours to vet it if  
16 there's a question.

17 VICE-CHAIRMAN TORSELLA: Did you conspire  
18 with him?

19 CHAIRMAN TOBASH: No, but I mean --

20 VICE-CHAIRMAN TORSELLA: Chairman, it's your  
21 call on where you want to go.

22 CHAIRMAN TOBASH: We'll extend it. Instead  
23 of close of business on Wednesday, let's do Thursday at  
24 noon, because if a discussion needs to be had, I think we  
25 could have it within 24 hours of changing anything in the

1 end.

2 Is that fair? Commissioners, can you handle  
3 it?

4 COMMISSIONER TORBERT: Thursday at noon?

5 CHAIRMAN TOBASH: There's seven pages, it's  
6 only seven. And remember, it's seven more than the --

7 COMMISSIONER BLOOM: It's more than seven.

8 CHAIRMAN TOBASH: -- 400 we've got in our  
9 hand right now.

10 And then your document is a 25-page document.

11 COMMISSIONER BLOOM: The diversity document  
12 has been out for a couple of days, since Monday.

13 So if I have a question with the document  
14 that the House Democrats and Bernie has presented here,  
15 where do I take it? Do I talk to Bernie or do I talk to the  
16 Treasurer's Office who's writing this? Do I talk to the  
17 Chairman? What do I do if I have a problem with something  
18 that's in this?

19 CHAIRMAN TOBASH: So we've been communicating  
20 through the Joint State Government, but I think at this  
21 point in time, at this late hour, it's fair to say, copy the  
22 commissioners and include the Treasurer's Office, include  
23 Christopher Craig, and if you could, be so good as to  
24 include Susan Boyle, as well.

25 So why don't we distribute a little

1 communication group, all right? And if someone has  
2 questions, we'll utilize that before noon on Thursday.

3 Fair?

4 COMMISSIONER GALLAGHER: That's fine with me.  
5 Should we loop in Joint State Government Commission as --

6 CHAIRMAN TOBASH: Certainly.

7 Good?

8 (Nods.)

9 CHAIRMAN TOBASH: Great.

10 How about other comments?

11 COMMISSIONER BLOOM: Well, I'll start in with  
12 just saying a lot of folks did an awful lot of work. And  
13 Joint State Government has done -- I think Bernie said it  
14 all. I think your word was yeoman-like. I don't know what  
15 a yeoman is, but -- the Treasurer's Office and all that  
16 they've done, and I think the staff of the various caucuses,  
17 an awful lot of people put a lot of time into this.

18 And I think that the commission should also  
19 congratulate itself for the amount of work it's done and the  
20 discussions that we've had, all the one-on-one discussions  
21 we've had with each other. It's a document, I think, we  
22 should -- assuming that we can get through the 21 and 7  
23 pages, which I don't think will be a problem -- I think the  
24 document speaks for itself. And I'd like to thank  
25 everybody. It was a great honor for me to serve on this

1 commission and to continue to serve on it.

2 I might also add that, with a few exceptions,  
3 anytime I called anybody at SERS or at PSERS, I've gotten  
4 nothing but 100 percent cooperation. I spent a lot of time  
5 with Tim Grossman. He gave me three hours one day, answered  
6 a lot of my questions, and a couple we didn't quite come to  
7 a conclusion on. But I think the systems, at least from my  
8 point of view, were extremely helpful in getting information  
9 to me. I also got a call from Hong Kong from Bryan Lewis  
10 about some questions I had. There's still some questions I  
11 have that I suppose will never get answered -- won't get  
12 answered now. They'll get answered eventually.

13 And I do want to thank both you, Terri, and  
14 you, Glen, for the help that you gave me in this process.

15 One last thing is, you mentioned the Senate  
16 Democratic Caucus and diversity, it's one of the reasons I'm  
17 on this commission, is to make sure that we have a strong  
18 and active diversity program. It's personal to me, as well.  
19 I just wanted to make that point. I'm not just  
20 representing -- hopefully, I represent the caucus well, but  
21 it's also one of the things that I've seen over 30-, 40-plus  
22 years, is so much of the good old boys network in this  
23 business. And anything that we can do aggressively to stop  
24 that, or help that, and move along with diversity would be,  
25 I just think would be terrific.

1                   And that's all I had to say. And again, I  
2 thank the Chairman for giving me the opportunity.

3                   CHAIRMAN TOBASH: Great. Thank you.

4                   Commissioner Torbert?

5                   COMMISSIONER TORBERT: I'm fine.

6                   CHAIRMAN TOBASH: Good.

7                   Bernie, any closing comments?

8                   COMMISSIONER GALLAGHER: Just -- there is an  
9 area that probably warrants the commission's discussion.  
10 And it's something that we can all agree to in terms of,  
11 this commission is charged with identifying opportunities  
12 for improvement. There are some things that may be beyond  
13 the scope statutorily, but there can be a nexus to the  
14 underlying goal of reducing fees and to improve transparency  
15 and improve the bang for the buck that the state puts in,  
16 taxpayers put in, and that is with respect to consolidation.  
17 The question isn't so much the what, it's the how with  
18 respect to this. And given the robust and wide-reaching  
19 areas of discussion that this commission has had to look at  
20 and what has been a whirlwind six months, it just has  
21 absolutely been a very, very deep dive in so many  
22 directions.

23                   The far-reaching implications of putting in  
24 place a governance structure for how investments are  
25 selected and implemented and putting that dollar to work,

1 really matters much on the front end. And so there's been a  
2 model that's been presented and it's absolutely something  
3 that we welcome for consideration. But we want to throw it  
4 into the mix of getting a consultant in to help judiciously  
5 walk slowly through -- or expeditiously, depending on how  
6 the expert determines it. We may already be in a position  
7 to move quickly on it. But to bring in an outside expert  
8 that can help the general assembly and the Governor arrive  
9 at a sound investment office plan.

10                   What we have in front of us could be that  
11 plan. But if there's some way that we can modify this  
12 language, maybe in the executive summary or elsewhere in the  
13 next couple of days, that would give me a great deal more  
14 comfort in moving forward. But right now, having a specific  
15 structure, it just gives me a great deal of pause, not  
16 because of the specific structure itself, but rather, are we  
17 looking -- does the general assembly, does the Governor have  
18 enough in front of them to make a sustainable decision?

19                   So with that, I just wanted to put it on the  
20 table for the commission to consider some changes in that  
21 space.

22                   CHAIRMAN TOBASH: Comments, further  
23 discussion on that?

24                   VICE-CHAIRMAN TORSELLA: Well, I guess we can  
25 have further conversation about it.

1           I think the recommendations to the general  
2 assembly and the Governor is one that would not happen next  
3 week and it will include kind of fleshing out things beyond  
4 our level of consideration. But happy to have, in the  
5 minimal time the Chairman has given, happy to have a further  
6 conversation about the particular language.

7           CHAIRMAN TOBASH: So let me tell you what I  
8 love about this document, okay? First of all, it's a  
9 document. We do not have the authority to impose a further  
10 entity or structure upon the systems or on the legislature  
11 or the administration. We've got a document here that I  
12 think has some really broad themes. Number one, simplify,  
13 throughout the document we take a look at that. You've got  
14 a governance board that I think deserves some simplification  
15 in the information that they get to make the decisions to  
16 govern the systems. I think number two, communicate. You  
17 know, the communication that I've seen and heard from our  
18 subject matter experts warrants some changes, and I think  
19 that there's room for improvement, and then fairly compare.

20           And your point on data can be interpreted  
21 differently, there's no question about it. But I think if  
22 you come up with some industry standards from ILPA and from  
23 the Blue Ribbon Commission and you get a little bit more  
24 consistent, the comparisons will be fair. And in the  
25 market, if you're not performing as well as others, then you

1 should be better. And then you have an opportunity to  
2 change.

3           So within this document, there is also  
4 specifics, but they are specific recommendations that need  
5 to be vetted either through the systems with the way they  
6 operate or through action from the general assembly that  
7 will ultimately be debated and agreed upon by an  
8 administration.

9           So there's an awful lot in here, but it is a  
10 product that at the end of the day, I think gives board  
11 members of these systems an opportunity to look at things  
12 that maybe they haven't looked at before, maybe ask a few  
13 more questions.

14           This is not a mandate. This is a document  
15 that suggests something and the opportunity to say, "We  
16 should do it a little bit different," exists as we move  
17 forward and try to implement the entire document.

18           It is my belief that the ultimate  
19 responsibility falls on the shoulders of the general  
20 assembly. They established these systems in the 1920s,  
21 1917, 1920s. Number two, they set the benefit levels. They  
22 determined the payment structures. At the end of the day,  
23 they need to take a look at how those systems are operating  
24 within the governance structure that they have established  
25 to make sure that they are doing the very best they can.

1           And at the end of the day, the implementation  
2 of this document may, in some fashion, be a result of the  
3 systems taking a look at that and saying, "Hey, that's not a  
4 bad idea," or it may be with some actions from the  
5 administration, or the general assembly can take up some of  
6 these recommendations and try and change the structure that  
7 we operate in right now.

8           So I hear you loud and clear, but I think  
9 it's a mistake to think that we're going to walk out of this  
10 room after we vote on this document next week and say that  
11 all of a sudden we have changed everything. We haven't  
12 changed it, we have an opportunity to change it. And this  
13 document, I think, lends itself to a path where other  
14 experts have weighed in and said, "Here's some good ideas.  
15 Why don't you consider them?"

16           VICE-CHAIRMAN TORSELLA: If I may, I don't  
17 want to stop us from getting to the work that we now have as  
18 quickly as we can, but just, none of the recommendations in  
19 this go to, quote, unquote, governance. We've heard things  
20 from people who had something to say about it.

21           Recommendations and summaries don't  
22 consolidate an office based on what we've heard. There are  
23 a variety of ways that can evolve in practice. But it's  
24 important to note that that's a recommendation about  
25 striving to capture and leverage some efficiencies, which

1 has been a lot of the discussion.

2 But in any case, I know the time is ticking,  
3 so I won't take any more, Mr. Chairman.

4 CHAIRMAN TOBASH: So with that being said, we  
5 hear you, okay? And I think that the deadline of Thursday  
6 at noon will give an opportunity to specifically add some  
7 seasoning to this. We'll take a look at what you have  
8 submitted today. We'll cut it off there. Hopefully, we'll  
9 get to press Friday, midday, and we'll convene again on the  
10 20th of December at 9:30. And we'll have a document in our  
11 hand that we will be prepared to take action on.

12 Are there any further questions from any of  
13 the commissioners?

14 (No response.)

15 CHAIRMAN TOBASH: Great. With that said,  
16 I'll take a motion to adjourn today's meeting.

17 VICE-CHAIRMAN TORSELLA: So moved.

18 COMMISSIONER TORBERT: Second.

19 CHAIRMAN TOBASH: All in favor?

20 (Unanimous vote.)

21 CHAIRMAN TOBASH: Thank you. Thank you  
22 everyone who has attended and thank you everyone who has  
23 participated and for all your hard work.

24 (The meeting concluded at 10:20 a.m.)

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C E R T I F I C A T I O N

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me on the within proceedings, and that this copy is a correct transcript of the same.

*Summer A Miller*  
\_\_\_\_\_  
Summer A. Miller, Court Reporter  
Notary Public