Minutes of the

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The monthly meeting of the Ohio Public Employees Retirement Board was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 9:05 a.m., Wednesday, February 19, 2014.

Members present: Ms. Sharon Downs; Mr. Sean Loftus; Mr. David Payne, representing Mr. Robert Blair, Director, Department of Administrative Services; Mr. Matthew Schulz; Ms. Cinthia Sledz; Mr. Robert Smith; Mr. Ken Thomas; and Mr. Jim Tilling. (Mr. Frank Ciotola and Mr. John Maurer entered the meeting later.)

Member absent: Ms. Heather Link.

Also present: Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Executive Director; Ms. Sherry Chan, Chief Actuarial Officer; Ms. Carol Drake, Chief External Affairs Officer; Mr. Allen Foster, Director Benefits Administration; Mr. Greg Januszewski, Director Internal Audit; Mr. Walt Knox, Enterprise Chief Risk Officer; Mr. Chuck Quinlan, Director Information Technology; Mr. Blake Sherry, Chief Operating Officer; Ms. Jenny Starr, Chief Financial Officer; Ms. Marianne Steger, Director, Health Care; Ms. Shelley Wilson, Director Human Resources; and Mr. Matthew Green, Attorney General's Office.

Mr. Smith moved, Mr. Tilling seconded, to excuse the absence of Ms. Link.

The motion passed without dissent.

Mr. Smith moved, Mr. Schulz seconded, to approve the minutes of the meeting held January 15, 2014, and the disability report, (see Appendix to the Minutes for report).

Roll call vote was taken as follows: Ms. Downs, aye; Mr. Loftus, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Chair Sledz asked for the report from the Investment Committee.

The Board reviewed the following report from the Investment Committee meeting:

Investment Committee Minutes
February 18, 2014

The regular monthly meeting of the Ohio Public Employees Retirement Board Investment Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 9:05 a.m., Tuesday, February 18, 2014.

Members present: Ms. Sharon Downs; Mr. Sean Loftus; Mr. John Maurer; Mr. Robert Smith; Mr. Ken Thomas; and Mr. Jim Tilling. (Mr. Frank Ciotola; Ms. Heather Link; Mr. David Payne, representing Mr. Robert Blair, Department of Administrative Services; Mr. Matthew Schulz; and Ms. Cinthia Sledz entered the meeting later.)

Also present: Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Executive Director; Ms. Carol Drake, Chief External Affairs Officer; Mr. Greg Januszewski, Director Internal Audit; Mr. Walt Knox, Enterprise Chief Risk Officer; Mr. John C. Lane, Chief Investment Officer; Mr. Rick Shafer, Deputy Chief Investment Officer; and Ms. Jenny Starr, Chief Financial Officer.

I. **Action Items:**

A. Mr. Smith, Investment Committee Chair, presented the request for approval of the consultant contract extensions and modifications with NEPC, the general advisor, and Hewitt EnnisKnupp, the alternatives advisor.

Mr. Thomas moved, Mr. Tilling seconded, to recommend approval to the full Board the NEPC and Hewitt EnnisKnupp contract extensions and modifications as presented by staff.

Roll call vote was taken as follows: Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, aye; Mr. Thomas, aye; Mr. Tilling, aye; Mr. Smith, aye.

The motion passed with all ayes.

B. Ms. Suzanne Bernard and Ms. Karen Rode from Hewitt EnnisKnupp reviewed recommended changes to the benchmarks and alpha targets for private equity and hedge funds.

(Mr. Ciotola, Ms. Sledz, Mr. Payne and Mr. Schulz entered the meeting during the discussion.)

Mr. Thomas moved, Mr. Schulz seconded, to recommend approval to the full Board the modifications to the benchmarks and alpha targets for private equity and hedge funds with an implementation date of April 1, 2014 for hedge funds and October 1, 2014 for private equity as presented and reviewed with staff.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, abstain; Mr. Payne, aye; Mr. Schulz, aye; Ms. Sledz, aye; Mr. Thomas, aye; Mr. Tilling, aye; Mr. Smith, aye.

The motion passed with nine ayes and one abstention.

II. **Discussion Items:**

C. The Investment Committee annually reviews the Investment Policies. Mr. Craig Svendsen from NEPC and Ms. Bernard reviewed changes to 20 Investment Policies and presented one new Policy, Leverage Policy.

Mr. Maurer moved, Mr. Ciotola seconded, to recommend approval to the full Board the modifications to the 20 existing Investment Policies and the one new Policy, effective April 1, 2014, as reviewed and discussed with the consultants.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, aye; Mr. Payne, aye; Mr. Schulz, aye; Ms. Sledz, aye; Mr. Thomas, aye; Mr. Tilling, aye; Mr. Smith, aye.

The motion passed with all ayes.

D. Ms. Bernard and Ms. Rode reviewed the market outlook for 2014 for hedge funds, real estate and private equity.

(Ms. Link entered the meeting during the discussion.)

OPERS staff reviewed the third quarter 2013 performance and reviewed the hedge funds, real estate and private equity portfolios with the Committee.

E. The Committee had a discussion with Hewitt EnnisKnupp.

III. **Administrative/Informational Items:**

Included in the Committee packet were the following informational items:

A. Division-wide Items:
- Update on investment performance for January 2014.
- Report on the upcoming implementation of a new portfolio strategy planned for the second quarter on a new internally managed U.S. Treasury and interest rate volatility portfolio.

B. External Public Markets:
- Update on key activities in the External Public Markets group.
- Update on hedge funds activities.

C. Real Estate Items:
- Update on real estate activities.

D. Private Equity Items:
- Private equity activities update.

E. Risk Oversight:
- Update on the Investment Division's Risk Management Group and highlights of key activities since the last report in November 2013.

F. Fund Management:
- Update on the recent asset allocation activities associated with moving toward the new asset allocation Policy Targets approved by the Board.
- Update on the progress achieved in conducting internal trading for external U.S. Equity managers.
- Dashboard reports that staff uses to manage and monitor the Funds.

G. Investment Compliance:
- Report on compliance with investment policies that are set by the Board, and with portfolio guidelines

that are set by staff, for the period December 21, 2013 through January 20, 2014.

- Semi-annual report on Iran and Sudan divestment.

H. Other:

- The transactions for the month of January 2014 have been made in accordance with the Board's statutory authority and policy.

Mr. Tilling moved, Ms. Downs seconded, to adjourn the Committee meeting.

The motion passed without dissent.

The Committee meeting was adjourned at 12:05 p.m.

Mr. Smith moved, Mr. Schulz seconded, to approve the NEPC and Hewitt EnnisKnupp contract extensions and modifications as reviewed and recommended in the Investment Committee report.

Roll call vote was taken as follows: Ms. Downs, aye; Mr. Loftus, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Mr. Smith moved, Mr. Tilling seconded, to approve the modifications to the benchmarks and alpha targets for private equity and hedge funds with an implementation date of April 1, 2014 for hedge funds and October 1, 2014 for private equity as reviewed and recommended in the Investment Committee report.

Roll call vote was taken as follows: Ms. Downs, aye; Mr. Loftus, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Mr. Smith moved, Mr. Thomas seconded, to approve the modifications to the 20 existing Investment Policies and the one new Policy, effective April 1, 2014, as reviewed and recommended in the Investment Committee report.

Roll call vote was taken as follows: Ms. Downs, aye; Mr. Loftus, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Chair Sledz asked for the report from the Risk Committee.

The Board reviewed the following report from the Risk Committee meeting:

Risk Committee Minutes
February 18, 2014

The meeting of the Ohio Public Employees Retirement Board Risk Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 1:00 p.m., Tuesday, February 18, 2014.

Members present: Mr. Frank Ciotola; Ms. Sharon Downs; Ms. Heather Link; Mr. Sean Loftus; Mr. John Maurer; Mr. David Payne, representing Mr. Robert Blair, Department of Administrative Services; Mr. Matthew Schulz; Ms. Cinthia Sledz; Mr. Robert Smith; Mr. Ken Thomas; and Mr. Jim Tilling.

Also present: Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Executive Director; Ms. Carol Drake, Chief External Affairs Officer; Mr. Greg Januszewski, Director Internal Audit; Mr. Walt Knox, Enterprise Chief Risk Officer; Mr. John C. Lane, Chief Investment Officer; Mr. Rick Shafer, Deputy Chief Investment Officer; Mr. Blake Sherry, Chief Operating Officer; and Ms. Jenny Starr, Chief Financial Officer.

I. **Discussion Item:**

A. Mr. Knox made an educational presentation on Enterprise Risk Management. He discussed the risk measures, the significance of the measures and how OPERS' funds are managed. He reviewed and discussed the key risk metrics that were identified in the June 2012 Investment Risk Assessment.

Over the next couple of quarters of 2014, more measures will be introduced in greater detail. Once all the measures have been presented, staff will work with the

Executive Director, Chief Investment Officer and the Board's consultant, to identify industry standards in preparing a risk profile.

Mr. Smith moved, Mr. Schulz seconded, to adjourn the Committee meeting.

The motion passed without dissent.

The Committee meeting was adjourned at 2:20 p.m.

Ms. Lauren Gresh, Associate Counsel, reviewed rule amendments.

(Mr. Ciotola entered the meeting during the discussion.)

After discussion, Mr. Schulz moved, Ms. Downs seconded, to approve the submission to the Joint Committee on Agency Rule Review and Legislative Services Commission the amendments to the rules as reviewed and discussed with staff.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Ms. Sledz presented out-of-state travel request for Mr. Loftus to attend the IFEBP Investments Institute, March 1-5, 2014 in Clearwater, Florida.

Mr. Thomas moved, Ms. Downs seconded, to approve out-of-state travel for Mr. Loftus to attend the IFEBP Investments Institute, March 1-5, 2014 in Clearwater, Florida.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, abstain; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with eight ayes and one abstention.

Mr. Sherry, Mr. Quinlan and Mr. Ted Meisky, Assistant Director, IT Infrastructure, made a presentation on the data business continuity building.

During the September 2013 Board meeting, staff discussed an analysis of our real estate options as they pertain to business continuity and disaster recovery strategies. In addition, a $3 million capital budget placeholder was included in the 2014 budget in order to preserve our option to purchase a facility. Subsequently, a real estate search and a financial assessment comparing lease and purchase options were conducted.

Staff summarized the findings and provided a recommendation to purchase a business continuity and disaster recovery facility rather than continuing to lease. Staff was seeking approval to proceed with due diligence inspections and negotiations for the candidate building.

(Mr. Maurer entered the meeting during the discussion.)

Mr. Maurer moved, Mr. Smith seconded, to authorize staff to proceed with due diligence inspections and negotiations for the candidate building as reviewed and discussed with staff.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, aye; Mr. Payne, nay; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with nine ayes and one nay.

Ms. Chan and Mr. Randy Dzuibek from Gabriel, Roeder, Smith & Company, made a funding update presentation.

They provided a preliminary estimate of the pension and health care funding status based on the preliminary 2013 investment return.

In May and August 2014, the actuary will present the final results of the 2013 actuarial valuation for the

pension and health care funds. This report will measure all actual results for 2013 compared to the assumptions.

Using the preliminary investment return of 14.5% for the pension fund and 12.6% for the health care fund compared to the assumed rates of 8.0% and 6.7%, respectively, the impact of the actual results for this assumption is quantifiable.

The state and federal reports were included in the board packet.

The Executive Director's monthly report was provided in advance to the Board.

(Mr. Schulz left the meeting.)

Mr. Smith moved, Ms. Downs seconded, to enter executive session to discuss pending litigation.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, aye; Mr. Payne, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

(Mr. Schulz reentered the meeting during executive session.)

By acclamation, the Committee came out of executive session.

Mr. Thomas moved, Mr. Smith seconded, to approve the settlement as reviewed and discussed in executive session.

Roll call vote was taken as follows: Mr. Ciotola, aye; Ms. Downs, aye; Mr. Loftus, aye; Mr. Maurer, aye; Mr. Payne, aye; Mr. Schulz, aye; Mr. Smith, aye; Mr. Thomas, aye; Mr. Tilling, aye; Ms. Sledz, aye.

The motion passed with all ayes.

Mr. Maurer moved, Mr. Tilling seconded, the meeting be

adjourned until the next regular meeting to be held Wednesday, March 19, 2014 at 9:00 a.m. in the offices of the Board.

The motion passed without dissent.

The meeting adjourned at 12:50 p.m.