

Developmental Fund Policy Program
Of
~~Criteria and Guidelines~~
~~For the~~
The Commonwealth of Pennsylvania
Public School Employees' Retirement System

As adopted by
the Board of Trustees
on April 29, 2004

Effective
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PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM BOARD
DEVELOPMENTAL FUND PROGRAM POLICY
CRITERIA AND GUIDELINES

I. OBJECTIVES AND GOALS

The Pennsylvania Public School Employees' Retirement System (PSERS) has ~~implemented established~~ the Developmental Fund ~~in its proactive efforts to, consistent with Commonwealth of Pennsylvania policies and procedures, to~~ assist emerging minority, women, and Pennsylvania-based ~~global and domestic equity~~ investment management firms.

The Developmental Fund is an internally managed program that is administered by ~~PSERS~~ the Developmental Fund Manager (DFM) and has been operating since April 1, 1995.

~~The goal of the program is to assist emerging firms in their competitive efforts to manage assets for PSERS.~~ Each manager selected for the Developmental Fund receives an initial allocation of \$15 million with the opportunity to receive up to \$35 million ~~within the Developmental Fund.~~

II. DEVELOPMENTAL FUND CRITERIA

Managers electing to participate in the program must meet the following criteria:

- ◆ Pennsylvania investment management firms ~~Managers~~ must be headquartered or incorporated within the State ~~Commonwealth~~;
- ◆ Minority ~~and or~~ women-owned investment management firms must be approved by the Office of Minority and Women Business Enterprise in accordance with the criteria established by Executive Order No. 1987-18 and 4 Pennsylvania Code, Section 68.204;
- ◆ Firms must have verifiable, an historical, ~~3-three~~ year performance records verified by at least one consultant or accounting firm in accordance with AIMR standards;
- ◆ Firms must have at least three distinctly different clients;
- ◆ Firms must have a minimum of \$45 million and no more than ~~\$1.25~~ \$1.50 billion of total capital under management when hired (existing managers ~~are will be~~ terminated at this level ~~\$3.0 billion~~);
- ◆ At the time of hiring and with each additional funding, PSERS' allocation can comprise no more than 25% of the capital under management; and
- ◆ At the time of hiring and with each additional funding, PSERS' allocation can comprise no more than 25% of the capital of any one portfolio.

Please note: Firms applying for participation under the status of a Women and/or Minority Owned Business must contact the Office of Minority & Women Business Enterprise at (717) 787-7380 to obtain the proper certification material.

III. STAFF AUTHORITY TO HIRE/RETAIN MANAGERS

Staff has the authority to hire and fund any ~~developmental fund~~ manager meeting the criteria set forth above as long as capacity exists ~~per under~~ the Board-approved asset allocation plan. Staff approvals required to hire any ~~developmental fund~~ manager includes the Chief Investment Officer (CIO), the Director of Alternative Investments (DAI), and the ~~Developmental Fund Manager (DFM)~~.

Staff is required to obtain Board approval in ~~those instances where when~~ the CIO, DAI, and DFM locate (or have retained) an exceptional ~~developmental fund~~ manager ~~who that~~ does not meet one or more of the above criteria. In these cases, staff shall prepare a presentation documenting the specific reasons for ~~wishing to hire/retain~~ recommending the manager, ~~as well as which sections of the criteria that the manager does not meet~~. Upon approval of the Board, staff shall have the authority to fund the managers according to VI. Fundings, below.

IV. INVESTMENT GUIDELINES

Each ~~developmental fund~~ manager shall manage ~~their its~~ portfolio within the constraints of the applicable Board-approved Investment Objectives and Guidelines, ~~as amended~~.

V. INSURANCE

All of the standard insurance provisions ~~as documented~~ set forth in the Investment Objectives and Guidelines except for the minimum amounts and maximum deductibles will apply to the ~~developmental fund~~ managers until they are either managing over \$100 million for the Developmental Fund or are moved out of the Developmental Fund ~~program~~ into the main program Fund. The minimum amounts and maximum deductibles for the ~~developmental fund~~ managers are as follows:

Professional Liability Insurance (E&O Insurance)

Each manager will be required to have professional liability insurance with the following minimum amounts of coverage and maximum deductibles:

<u>Asset Size (in millions)</u>	<u>Minimum Amount of E&O Insurance</u>	<u>Maximum Deductible</u>
\$0 - \$50	\$500,000	\$50,000
\$50 - \$75	\$1,000,000	\$100,000
\$75 - \$100	\$2,000,000	\$200,000

Fidelity Bond

Each manager will be required to have a fidelity bond with the following minimum amounts of coverage and maximum deductibles:

<u>Asset Size (in millions)</u>	<u>Minimum Amount of Fidelity Bond</u>	<u>Maximum Deductible</u>
\$0 - \$50	\$1,000,000	\$50,000
\$50 - \$75	\$1,500,000	\$100,000
\$75 - \$100	\$2,000,000	\$200,000

VI. FUNDINGS

Each ~~hired-developmental fund~~-manager hired will be funded with an initial allocation of \$15 million. Each manager is then eligible for up to two additional allocations of \$10 million subject to satisfactory performance, approval of the CIO, DAI, and DFM, and sufficient capacity within the Board-approved asset allocation plan.