WILSHIRE CONSULTING

April 10, 2006

Mr. James H. Grossman, Jr., CPA, CFA
Director of External Public Markets, Risk & Compliance
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Dear Jim:

The purpose of this letter is to provide observations and a recommendation relative to the Longwood Investment Advisors, Inc. ("Longwood") small cap growth equity portfolio. As background, Longwood was introduced into the PSERS portfolio as a developmental manager in 2000 and was subsequently moved to the general investment program in 2004. Since the migration to the general investment program, Longwood's results have been below expectations. We believe that a review and recommendation is important at this time for three reasons: asset growth, investment performance and investment structure considerations.

Longwood's asset growth has been significant, particularly in the past two years, and may be negatively impacting the firm's performance. The firm's assets grew from approximately $50 million in June 1994 to $160 million when they were introduced into the PSERS developmental program in the latter part of 2000. In mid-2004, when the firm was moved to the PSERS general investment program, the assets stood at approximately $682 million. As of December 2005, the assets are just below $1.5 billion.

Longwood's performance has consistently ranked below the median relative to peer small growth equity managers. The portfolio ranks in the 69th percentile over the one-year period ending December 31, 2005 and in the 71st and 64th percentiles for the two-year and three-year periods, respectively. Relative to calendar-year universe rankings, the portfolio ranks in the 70th percentile in 2004, the 47th percentile in 2003, and the 84th percentile in 2002.

WILSHIRE ASSOCIATES INCORPORATED
210 Sixth Avenue, Suite 3720 Pittsburgh, PA 15222
TEL 412.434.1580 FAX 412.434.1584 www.wilshire.com

As we implement the elimination of the home country bias, we are evaluating sources of assets for transition to the non-US equity asset class. Small growth assets are targeted at 3.0% of the US equity composite and 0.9% of the total fund composite following the transition; presently, the small growth composite comprises approximately 3.3% of the US equity composite and 1.4% of the total fund composite. The transition calls for a decrease in small growth assets by approximately $300 million; with a current valuation of approximately $110 million, we believe that the elimination of Longwood's portfolio is suitable at this time.

Please refer to the attached presentation detailing Wilshire's observations of the Longwood small growth portfolio. In addition to illustrating the performance relative to peer managers and asset growth, you will note benchmark fit, holdings-based style and cumulative skill analyses.

Please call me if you should have questions regarding this material or if I may be of further assistance to you.

Sincerely,

Amy J. Hemphill
Senior Associate

Attachment

cc: William G. Bensur, Jr., CFA