

# Commonwealth of Pennsylvania Public School Employees' Retirement System

**DATE:** June 21, 2007

**SUBJECT:** Proposed Changes to the Investment Policy Statement, Objectives, and Guidelines and Private Market Addenda

**TO:** Members of the Board

**FROM:** James H. Grossman, Jr., CPA, CFA  
Director of External Public Markets, Risk & Compliance

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At the upcoming Finance Committee meeting on June 21, 2007, we will be asking the Committee to recommend that the Board adopt proposed changes to the Investment Policy Statement, Objectives, and Guidelines and adopt proposed changes to the Private Market addenda. The proposed changes have been black lined throughout for your convenience in reviewing the changes. The following are the substantive changes based on observations of the Investment Office Staff. If you have any questions or comments regarding these changes, please contact me at 717-720-4703.

## **Investment Policy Statement, Objectives, and Guidelines**

1. Exhibit B – updated to reduce the allocation to private markets from 11.0% to 8.5% and moved the 2.5% reduction equally between U.S. and non-U.S. public market equities. We will still target 11.0% and as the allocation increases over time, the allocation to private markets in Exhibit B will increase with a commensurate decrease in public market equities split evenly between U.S. and non-U.S. equities. This is similar to our new allocation to commodities. The major difference is that in commodities, we were pacing in a new allocation. In private markets, we can only control the commitments. We cannot control the contributions and distributions to the limited partnerships.
2. Exhibit C – adjusted policy benchmark weights to reflect the changes noted in Exhibit B above.

## **Addendum R – Pennsylvania Mortgage Program Investment Policy Statement, Objectives, and Guidelines**

1. The program has been closed to new investments. The guidelines were revised to note that the current program exists only to serviced. Any mention of underwriting new loans has been removed.

### **Addendum S – Open-End Real Estate Fund Investments**

1. Adjusted the performance objectives from a nominal return objective to a real return objective. This way, if inflation assumptions change, these guidelines will not need to be adjusted.
2. Increased permitted leverage in core funds from 35% to 50% and value-added funds from 60% to 65% to recognize market standards.

### **Addendum U – Closed-End Opportunistic and Value-Added Real Estate Investments**

1. Adjusted the performance objectives from a nominal return objective to a real return objective. This way, if inflation assumptions change, these guidelines will not need to be adjusted.
2. Added language that the investment manager must commit 10% of PSERS' commitment in a parallel fund structure.

### **Addendum V – Direct Real Estate Program**

No material changes were made.

### **Addendum W – Farmland Investment Program**

1. Noted that this program is closed to new acquisitions and in the process of liquidating portfolio. All references to acquisitions were deleted.

### **Addendum X – Private Investment and Venture Capital Policy**

1. Adjusted the performance objectives from a nominal return objective to a real return objective. This way, if inflation assumptions change, these guidelines will not need to be adjusted.
2. Added language that the investment manager must commit 10% of PSERS' commitment in a parallel fund structure.

### **Addendum X1 – Private Debt Policy**

1. Adjusted the performance objectives from a nominal return objective to a real return objective. This way, if inflation assumptions change, these guidelines will not need to be adjusted.
2. Added language that the investment manager must commit 10% of PSERS' commitment in a parallel fund structure.