Public Market Emerging Investment Manager Program Policy Of The Commonwealth of Pennsylvania Public School Employees' Retirement Board

As adopted by

the Board of Trustees

on January 25, 2008

Effective

January 25, 2008

Adopted: January 25, 2008
Date Last Reviewed by Chief Investment Officer:

PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD
PUBLIC MARKET EMERGING INVESTMENT MANAGER PROGRAM POLICY

I. OBJECTIVES AND GOALS

Consistent with the Board's fiduciary responsibilities, the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) has established the Public Market Emerging Investment Manager Program (PMEIM Program) to:

1. Locate and fund managers with successful histories of generating positive alpha with risk commensurate with the alpha generated (positive risk adjusted returns);
2. Provide a source of potential managers for the main fund; and,
3. Assist public market emerging investment management firms with positive risk adjusted returns grow through use of the System's name in the manager's marketing efforts.

The Board has allocated up to $1.0 billion to the PMEIM Program. Funding for each investment manager will come from assets allocated within the main fund similar to or most closely related to the investment manager's mandate. The maximum number of investment managers in the program at any one time shall not exceed 25. The program may run with less than 25 investment managers.

II. PUBLIC MARKET EMERGING INVESTMENT MANAGER PROGRAM CRITERIA

Investment Manager desiring to participate in the program must meet the following required criteria:

- Firms must be registered under the Investment Advisors Act of 1940 or be exempt therefrom (and will maintain such registration or exemption);
- Firms must provide transparency of positions and transactions;
- Firms must provide at least ~~monthly~~ quarterly liquidity;
- Firms, the portfolio manager, or any combination thereof must have a three-year historical, performance record verified by at least one consultant or accounting firm in accordance with Global Investment Performance Standards (GIPS);
- Firms must have no more than $1.5 billion of total assets under management when hired (existing investment managers will be terminated within a reasonable period of time from the PMEIM Program when the total assets under management exceeds $3.0 billion);
- For performance based fee accounts, the managers must have a hurdle rate and they must exceed this rate to earn the performance-based fee.

Preference will be given to investment managers deemed by Investment Office Staff (IOS) as able to meet the objectives, goals, and required criteria noted above plus having one or more of the following characteristics:

- Pennsylvania investment management firms headquartered or incorporated within the Commonwealth; and/or,
- Minority- or women-owned investment management firms 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.

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. ADMINISTRATION OF THE PUBLIC MARKET EMERGING INVESTMENT MANAGER PROGRAM

IOS has the authority to hire and fund any investment manager meeting the objectives, goals, and criteria set forth above as long as capacity exists within the PMEIM Program. IOS has authority to invest in any type of business organization or investment fund (including, without limitation, separate accounts and limited partnerships) that meets the liquidity and transparency guidelines set forth in this Policy. The PMEIM Program is prohibited from investing in investment vehicles that primarily include private equity, private debt, venture capital or private real estate instruments.

The Emerging Manager Portfolio Manager (EMPM) is responsible for administering the PMEIM Program. The EMPM will meet with managers that appear to meet the objectives, goals, and criteria of the Program. Any investment manager considered for hiring into the PMEIM Program will meet with the Internal Review Committee (IRC). The IRC will consist of the Chief Investment Officer, the EMPM, the five Investment Office Directors (External Public Markets, Risk & Compliance, Equity, Fixed Income, Trading, and Private Markets), and any other IOS deemed necessary. The purpose of the IRC is to review each manager considered for inclusion in the Program and provide feedback to the EMPM. IOS approval required to hire any manager include the EMPM, the EMPM's supervising Director, and the CIO.

IOS is required to obtain Board approval in instances when the CIO, EMPM's supervising Director, and EMPM locate (or have retained) an exceptional investment manager that does not meet one or more of the above required criteria. In these cases, IOS shall present the specific reasons for hiring the investment manager to the Board. Upon approval of the Board, IOS shall have the authority to fund the investment manager according to VI. Fundings, which is described later.

The EMPM's responsibilities also include either recommending the investment manager for inclusion in the main fund or terminating the investment manager. Investment managers hired into the PMEIM Program will continue in the program for generally three- to five-years. If the investment manager generates strong risk adjusted returns, IOS will use best efforts, in conjunction with the General Investment Consultant and the Board, to make a place in the main fund for that investment manager. IOS and the General Investment Consultant will consider things such as the investment manager's assets under management and projected ability to continue generating strong risk adjusted returns in the future. An investment manager may be terminated by the EMPM, with approval from the EMPM's supervising Director and the CIO, if that investment manager is underperforming, not generating strong risk adjusted returns, not meeting the criteria to move into the main fund, changes their investment process, has personnel turnover, or any other reason which is deemed by IOS to be in the best interests of the System.

IV. INVESTMENT GUIDELINES

Each investment manager shall manage its portfolio within the constraints of the Investment Policy Statement, Objectives and Guidelines, any applicable addendum, and any applicable amendments thereto or within the constraints of the Offering Memorandum if the System will be entering into a commingled fund structure with the investment manager. IOS shall have authority to negotiate the investment contract with the investment manager, including the investment guidelines.

V. INSURANCE

All of the standard insurance provisions set forth in the Investment Policy Statement, Objectives and Guidelines, except for the maximum deductibles, will apply to the investment manager until the investment manager is either managing over $100 million for the Emerging Manager Program or is moved out of the Emerging Manager Program into the main fund. The maximum deductible for both the Error and Omissions Insurance and the Fidelity Bond is the greater of 10% of audited retained earnings or:

Asset Size	Maximum Deductible
$0 - $50 million	$50,000
$50 - $75 million	$100,000
$75 – 100 million	$200,000

VI. FUNDINGS

Total capital allocated to any individual investment manager may not exceed $75 million during their participation in the PMEIM Program. The EMPM, the EMPM's supervising Director, and the CIO will determine the amount of the initial allocation and each subsequent allocation to each investment manager.