


# Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: July 30, 2008  
SUBJECT: Proposed Revisions to the Investment Objectives and Guidelines  
TO: Members of the Finance Committee  
FROM: Robert E. Little, CPA  
Senior Investment Analyst 

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At the August Finance Committee meeting, staff will recommend that the Finance Committee adopt the proposed Investment Objectives and Guidelines (hereafter referred to as Addenda) for:

- public market master limited partnership portfolios; and,
- public market fixed income portfolios, as revised; and,
- public market short-term cash portfolios, as revised.

The Addenda for currency, private markets, and securities lending will be brought to the Finance Committee for approval at a later date. The other Addenda (public market equity portfolios, public market commodity portfolios, public market real estate portfolios, and public market emerging markets fixed income portfolios) have been recently approved by the Committee.

The changes to the Addenda have been tracked for your convenience. Substantive changes to the Addenda are based on suggestions made by Wilshire Associates and the investment managers as well as observations of the Investment Office Staff. The Portfolio Specific Guidelines listed in the Investment Policy Statement will be updated to reflect the changes proposed in this memo. If you have any questions or comments regarding these changes, please contact me at 717-720-4707.

## **Addendum B – U.S. Master Limited Partnership Index Portfolios**

New guidelines.

A master limited partnership (MLP) is a limited partnership that is publicly traded on a securities exchange. The MLP combines the tax benefits of a limited partnership (avoidance of corporate income tax on the federal and state level) with the liquidity of publicly traded securities. MLPs are limited by U.S. Tax Code to only apply to

enterprises that engage in certain business, mostly pertaining to natural resources and transportation.

PSERS Public Market Emerging Investment Manager has identified an investment manager to hire that invests in MLPs. These guidelines will be used by that investment manager.

#### **Addendum I – U.S. Core Plus Fixed Income Portfolios**

Eliminated the restriction on 144A securities with registration rights to be registered within 180 days.

#### **Addendum K – U.S. High Yield Fixed Income Portfolios**

No material changes.

#### **Addendum L – Treasury Inflation Protection Securities Portfolios**

No material changes.

#### **Addendum Q – Global Core Plus Fixed Income Portfolios**

Eliminated the restriction on 144A securities with registration rights to be registered within 180 days.

#### **Addendum Y – Short Term Investment Pool Portfolios**

Eliminated the restriction that prevented the investment manager from owning more than 5% of the outstanding amount of any one fixed income issue. This restriction was previously removed from the guidelines via an amendment in October 2007. Note that the guidelines still contain a restriction that limits the exposure to any corporation or entity to 7% of the portfolio at market value.

Added money market funds rated Aaa/AAA or better to the list of approved portfolio instruments. This change was previously made to the guidelines via an amendment in September 2007.

#### **Addendum Y1 – LIBOR-Plus Short Term Investment Pool Portfolios**

Added money market funds rated Aaa/AAA or better to the list of approved portfolio instruments.

Eliminated the restriction that prevented the investment manager from owning more than 5% of the outstanding amount of any one fixed income issue. This restriction was previously removed from the guidelines via an amendment in November 2007. Note that the guidelines still contain a restriction that limits the exposure to any corporation or entity to 7% of the portfolio at market value.

Added permission to establish and maintain long and short positions in listed fixed income and currency futures contracts for interest rate risk management. This change was previously made to the guidelines via an amendment in August 2007.