

SUMMARY OF CHANGES TO THE INVESTMENT POLICY MANUAL

August 10, 2011

Housekeeping Changes:

1. The Introduction and Executive Summary sections have been merged. Language in the Executive Summary referencing the initiatives from 2007 was removed since the initiatives are already in place and explained in other sections of the manual.
2. The section on the Incentive Compensation Plan and any references to it have been removed.
3. The list of the Public Funds Peer Comparator Group has been moved from the body of the manual and attached as Appendix 1. Language has been added indicating the peer comparator group may be adjusted by the Board to reflect the current market as determined by future independent studies.
4. The Pay Schedule has been moved from the body of the manual and attached as Appendix 2.
5. The list of Job Classifications has been moved from the body of the manual and attached as Appendix 3. The table format was removed. Information was added to maintain record of establishment and/or revisions to the job classifications. Minor language changes were made in some instances to clarify job definitions.
6. The sections on Performance Management and Personal Trading which had been reserved have now been added as new sections. The information reflects processes/procedures that are and have been in place.
7. The Code of Conduct for Investment Operations is referenced in the Personal Trading section of the manual and has been added as Appendix 4.
8. A statement was added to explain how the median salary would be adjusted by the Chartered Financial Analyst - CFA or the Certified Public Accountant - CPA (See item 11 below) percentage increase each time a new median is determined.

Significant Changes:

9. Two new jobs have been added as part of a succession planning effort: Senior Portfolio Manager and Deputy Chief Investment Officer. Their descriptions are included in Appendix 3.
10. A new pay schedule has been prepared and included as Appendix 2. It is based on McLagan's Compensation Analysis dated May 31, 2011. It reflects the low, median, and high 2010 salary levels of the peer group. It also incorporates the two new jobs/levels.

In some cases the current salaries of PSERS' Investment Professionals are lower than the low salary levels identified by McLagan. Since it is necessary to capture every incumbent's salary in the pay schedule, the low salaries have been included (in five of the eight pay groups). Those lower pay levels are italicized and bolded, but appear outside of the quartiles. In addition, language has been added providing for the automatic annual updating of the pay schedule based on the most recent pay data obtained from the results of the yearly peer group compensation analysis.

11. A new section is recommended and has been included to recognize Investment Accounting staff for attainment of the Certified Public Accountant (similar to the CFA for Investment Professionals in the Investment Office).
12. Language has been added to reflect the Board's delegation of authority for setting salaries, appointments and promotions as it pertains to the managing directors and deputy CIO positions. The Board currently retains authority to set salaries for the managing directors, and Chief Investment Officer. It also retains authority for the selection and promotion of staff at these levels. The recommendation is for the Board to retain authority for the CIO, but delegate authority for positions below the CIO.