

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 23, 2011
SUBJECT: Blackrock Emerging Markets Alpha Advantage (EMAA) Fund Recommendation
TO: Members of the Board
FROM: Susan E. Oh, CFA 
Portfolio Manager, Non-US Equities

Staff continually looks for ways to enhance the performance of all of the indexes we manage internally. At the PSERS Finance Committee meeting in October, staff will present a proposal to change the existing Blackrock Emerging Markets Opportunities Fund to a higher net of fee alpha and a higher information ratio (IR) strategy, Blackrock Emerging Markets Alpha Advantage Fund.

PSERS All Country World (ACWI) ex US Index portfolio is managed internally by directly purchasing securities, swaps, commingled vehicles (Blackrock Emerging Market Index Fund and Blackrock Emerging Markets Opportunities Fund), and exchange-traded funds for developed and emerging markets.

The Board approved investments in the Blackrock Emerging Markets Opportunities Fund (EMOF) for a portion of the emerging markets exposure in 2006 and that fund currently has a targeted alpha of 4 to 6% and a tracking error of 4 to 6% with targeted IR of 1. Blackrock has a higher IR emerging market strategy managed in the Emerging Markets Alpha Advantage Fund (EMAA). The strategic investment objectives of this fund are as follows:

- EMAA has same investment insights as EMOF and capitalize on unique characteristics of the emerging market asset class in a systematic and risk controlled strategies
- EMAA has same tracking error as EMOF of 4 to 6% but higher targeted alpha of 4 to 7% with IR of 1.2.
- The difference is that EMOF is a long only product while EMAA is a partial long/short product (up to 160% long and 60% short) which will have average of 130/30 over time. The portfolio will be managed to an expected beta of 1.0 (will be directionally correlated with the market)

Please note EMAA is currently used for emerging market exposure for the existing active Non-US Equity mandate. EMAA has 12.72% net of fee alpha (annualized) and 2.99% tracking error with IR of 4.25 since inception of Feb 2009.

Included for your review are a PowerPoint presentation prepared by staff and the resolution recommending the investment in the Blackrock Emerging Markets Alpha Advantage Fund.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4621.