Commonwealth of Pennsylvania
Public School Employees' Retirement System

DATE: November 18, 2011

SUBJECT: PIMCO Multi-Sector Strategy Fund

TO: Members of the Board

FROM: Joseph W. Sheva, CPA JWS
Senior Investment Professional - External Public Markets, Risk, and Compliance

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At the December Finance Committee meeting, we will ask the Committee to retain Pacific Investment Management Company LLC (PIMCO) as a portfolio manager of a Multi-Sector Fixed Income Strategy Fund ("Fund"). The Fund will invest primarily via four sub-strategies: U.S. Core Fixed Income, Non-U.S. Developed Markets Fixed Income, U.S. High Yield Fixed Income and Emerging Markets Fixed Income (each a "Portfolio"). In addition, PIMCO will evaluate on a regular and periodic basis the risks that it believes will affect pricing of the Fund's portfolio, including without limitation, currency risk, interest rate risk, credit spread risk, inflation risk, market risk and issuer risk, and will seek to enter into derivatives and other financial instruments that it believes will minimize or emphasize exposure to those risks (the "Risk Overlay"). The lead portfolio manager Curtis Mewbourne, whose biographical information is included in the PIMCO presentation booklet, will be responsible for the Risk Overlay. The Fund is a Cayman Island private fund of one, with PSERS being the only investor. PSERS will have full transparency to each Portfolio and the Fund as a whole. In addition, the Fund will be liquid, offering monthly liquidity of 15 days, assuming 15 days' notice.

Staff and Wilshire completed a review of PIMCO's capabilities to manage a multi-sector strategy fund and believe that PIMCO has the resources and industry expertise to successfully manage such a mandate. PIMCO currently manages two mandates for PSERS and the intent is to move their U.S. Core Fixed Income Portfolio mandate ($467 million as of September 30, 2011) into the Fund. In addition, PIMCO was previously approved by the Board to manage a $650 million Emerging Market Fixed Income mandate. This mandate will be combined into the Fund. Our current plans are to allocation $1.0 billion in total assets, cash and existing securities, to the Fund upon contract completion. The Fund will allocate assets to the four sub-strategies in accordance with PSERS Asset Allocation Policy on a risk basis.

Included with this memo are Wilshire's recommendation memo and the resolution recommending the hiring of PIMCO.

If you have any questions or comments, please contact me at 717-720-4632.

PIMCO

Your Global Investment Authority

An Introduction on Proposed PIMCO's Multi-Sector Strategy Fund to:

Pennsylvania Public School Employees' Retirement System

8 December 2011

This is neither an offer to sell nor a solicitation of an offer to buy interest in a fund. Offers are made solely pursuant to the Private Placement Memorandum. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. You should consult your tax or legal adviser regarding such matters. Only qualified investors may invest in the Fund.

PIMCO advised funds are distributed by PIMCO Investments LLC.

A company of Allianz Global Investors

Biographical Information

Ignacio Galaz, CFA

Mr. Galaz is a vice president and account manager in the New York office, focusing on institutional client servicing. He joined PIMCO in 2000 and worked most recently as a senior associate in account management in New York and previously as a trading assistant on the short-term bond desk in Newport Beach. He has 10 years of investment experience and holds an MBA from the MIT Sloan School of Management and an undergraduate degree from Chapman University.

Curtis A. Mewbourne

Mr. Mewbourne is a managing director and head of portfolio management for PIMCO's New York office. As a generalist portfolio manager, he manages institutional accounts and mutual funds across a wide range of strategies. Mr. Mewbourne serves as a member of the global operating committee, the PM management group and the PIMCO Foundation investment committee. Prior to joining PIMCO in 1999, he was a bond trader at Salomon Brothers and at Lehman Brothers. Mr. Mewbourne was nominated for Morningstar's Fixed Income Manager of the Year award in 2010. He has 19 years of trading and portfolio management experience. He holds an engineering degree in computer science from the University of Pennsylvania.

Thomas J. Otterbein, CFA

Mr. Otterbein is a managing director in the Newport Beach office, an account manager and head of PIMCO's client facing group in the Americas. In addition to his institutional client servicing responsibilities, he serves on the firm’s Global Operating Committee. Before returning to Newport Beach in 2006, he managed the firm's Northeast client service office in New York City for five years. He has 23 years of investment experience and holds an MBA from the University of Chicago Graduate School of Business and undergraduate degrees from Carnegie Mellon University.

Agenda

PIMCO Snapshot

As of September 30, 2011

History

- Founded in 1971
- Specialty fixed income manager
- Assets under management: $ 1,350.03 B

People

1,976 employees:	581	investment professionals	
	1,395	technical and support	

Highly experienced	Average Years Experience	Average Years at PIMCO
– All investment professionals	13	6
– Senior professionals	19	9

Global Presence

Assets Under Management by Strategy

As of September 30, 2011

PIMCO's expertise spans asset classes to provide effective solutions to meet investor needs

Alternative Investments:	Absolute Return Strategies	Long/short or unconstrained bond strategies, benchmarked to LIBOR indices	$38.27
	Commodities	Commodity-linked exposures enhanced with active bond portfolios	25.96
	Real Estate	Real Estate-linked exposure backed by inflation index bonds	0.30
	CBO / CLO	Collateralized bonds / loan obligations	5.12
Asset Allocation:	Asset Allocation Strategies	Global Multi Asset, All Asset, All Asset All Authority, RealRetirement	53.36
Equities:	StocksPLUS®	Combines derivatives-based equity exposure with active bond management	12.46
	Active Equities	Pathfinder, Emerging Markets	1.98
Fixed Income:	Intermediate*	Total Return, Moderate Duration	523.07
	Cash Management*	Money Market, Short-Term, Low Duration	117.52
	Long Duration	Focus on long-term bonds; asset liability management	104.73
	Real Return	TIPS** and other inflation-hedging strategies	75.58
	Credit	Investment Grade Corporates, High Yield, Credit Absolute Return	126.58
	Mortgages	Emphasis on management of mortgage pass-throughs	43.59
	Global	Non-U.S. and global multiple currency formats	113.80
	Emerging Markets	Emerging market debt, EM local currency, active EM currency	52.52
	Diversified Income	Global credit combining corporate and emerging markets debt	19.47
	Municipals	Tax-efficient total return management	13.20
	Other		22.43
		Total Assets Under Management:	**$ 1,350.03 B**

SOURCE: PIMCO
Potential differences in asset totals are due to rounding.
* Stable Value assets have not been netted from US Total Return, US Moderate Duration and US Low Duration assets. Total Stable Value assets equal $30.1 B
** Treasury Inflation Protected Securities (TIPS)

PIMCO Continues to Enhance Services and Resources to Meet Client Needs

As of September 30, 2011

PIMCO Solutions

- Risk Factor Analysis
  - Customized analysis of target asset allocation
  - Decompose and identify sources of portfolio risk
- Solutions by Client-type, and Allocation Goals
  - Liability Driven Investing / Retirement, including Target Date
  - Inflation and Rising Rates / Portfolio and Tail Risk Hedging
- Client Analytics
  - Summary of factors and volatility
  - Breakdown of allocation and assumptions
- Product Solutions
  - Existing and customized
  - Evaluation of impact on allocation

Adding Emerging Markets Capabilities

Active Equity	Asia	Latin America
Masha Gordon *13 years experience*	Isaac Meng *15 years experience*	F. Javier Romo *9 years experience*

Firm wide Focus on Portfolio & Client Resources

- 38 new MBA hires beginning in August 2011
- Ongoing enhancement and innovation in portfolio management

PIMCO's Multi-Sector Strategy Fund Overview

Investment Objective

- Seek to generate 50 to 150bps of excess returns (net of fees) and 100 to 200bps of excess returns (gross of fees) over the PSERS Policy Benchmark over a full market cycle

Implementation

- Fund-of-One comprised of four sub-strategies designed to broaden the global fixed income opportunity set to capture attractive investment opportunities with tactical management to optimize the blend of fixed income sectors in changing market environments
- Investment guidelines to meet the Fund's investment objectives while managing the overall risk of the fund (i.e., utilizing risk factors)
- Overlay "Risk Overlay" used to help minimize or emphasize risk exposures and to manage the overall risk in the fund
- Sub-Strategies with investment guidelines designed to generate enhanced returns versus their respective benchmark

Refer to Appendix for additional investment strategy, risk, and target return information.

PIMCO Multi-Sector Strategy Fund – Key Features

- Outcome-oriented approach designed to achieve attractive returns by investing across global fixed income sectors tactically while aiming to minimize volatility:
  - Objective of improving annualized returns with comparable volatility
  - PSERS “Policy Benchmark “[1]
    - 30% Barclays Capital U.S. Aggregate Bond Index
    - 20% Barclays Capital Global GDP Weighted Developed Market ex. U.S. (Unhedged) Index
    - 35% Barclays Capital High Yield Bond Index
    - 15% Barclays Capital Emerging Markets Local Currency Gov’t (10% Country Max, Unhedged) Index
  - Generally expected to invest across all sectors of the global bond market
  - May not invest directly in equities (preferred and common stock) and event-linked bonds
  - Holdings generally expected to include direct holdings (full transparency) in the sub-strategies and “risk overlay “[2]

[1] Hypothetical investment portfolio
[2] The Investment Manager will generally evaluate on a regular and periodic basis the risks that it believes will affect pricing of the Fund's portfolio including without limitation currency risk, interest rate risk, credit spread risk, inflation risk, market risk, and issuer risk, and will seek to enter into derivatives and other financial instruments that it believes will minimize exposure to those risks.
Refer to Appendix for additional index, investment strategy, and risk information.

Multi-Sector Strategy Fund Team and Process: A Synthesis of Bottom-Up and Top-Down Inputs

As of October 31, 2011

Secular/Cyclical Forums

- Participation by all PIMCO IP's
- Provides Long and Short-Term Macroeconomics Outlook

Investment Committee

- 10 member committee
- Provides broad risk parameters for all PIMCO's portfolios

Asset Allocation Committee

- 3 member committee
- Provides risk factor-based asset-allocation framework

Top-Down Asset Allocation

Curtis Mewbourne
(18 Years Experience)

Managing Director
Portfolio Manager

Bottom-Up Sub-Strategy Expertise

Core PLUS

- Saumil Parikh
- Generalist Portfolio Manager

Emerging Markets Local

- Mike Gomez
- Co-Head of Emerging Mkts Desk

HY Credit

- Andrew Jessop
- Head of High Yield Desk

Non-U.S. Fixed Income

- Scott Mather
- Head of Global Desk

IPs: Investment Professionals

How Does PIMCO Seek to Add Value in the Multi-Sector Strategy Fund?

As of October 31, 2011

Top-Down

Bottom-Up

Active Decisions	Expected Sources of Added Value (% of total)	Current Examples (subject to discretion level and guidelines)
Asset Allocation/Sector Rotation	50 - 60%	Favor investment grade credit relative to high yield bonds. Emphasize high quality EM debt
Duration and yield curve management	10 - 15%	Curve steepening bias with an emphasis on the front-end of the U.S. yield curve
Currency Management	5 - 10%	Modest exposure to a basket of select EM currencies
Security Selection	25 - 30%	Plan to overweight credits where pricing is attractive with solid fundamentals; favor high quality issues
Exploiting market inefficiencies	0 - 10%	Negative basis trades; new issue basis
Total	**100%**	**Multiple, diversified sources of added value**

No single theme or position dominates our strategy

Refer to Appendix for additional investment strategy, portfolio structure and risk information.

“Top-Down” Sector Rotation May Add Value Through the Business Cycle

Average Sector Returns Across Business Cycles, 1988-2010*

Early Expansion	Mid Expansion	Late Expansion	Early Recession	Late Recession
Emerging Markets Debt 16.07%	Equities 20.49%	Equities 13.15%	Treasuries 10.62%	High Yield Bonds 42.51%
High Yield Bonds 15.96%	Emerging Markets Debt 16.95%	Emerging Markets Debt 9.69%	Investment Grade Corporates -1.45%	Convertibles Bonds 29.08%
Convertibles Bonds 15.16%	Convertibles Bonds 12.35%	Convertibles Bonds 9.36%	Emerging Markets Debt -6.72%	Emerging Markets Debt 25.93%
Investment Grade Corporates 9.84%	High Yield Bonds 11.20%	Treasuries 7.73%	High Yield Bonds -21.91%	Investment Grade Corporates 17.09%
Treasuries 6.62%	Investment Grade Corporates 7.78%	Investment Grade Corporates 6.83%	Convertibles Bonds -25.69%	Equities 10.82%
Equities 8.77%	Treasuries 6.49%	High Yield Bonds 4.21%	Equities -27.39%	Treasuries 3.74%

- Returns across credit sectors can vary widely through different stages in the business cycle
  - Higher quality credits typically outperform both lower quality credits and equities during the early stages of a recession
  - Lower quality credits have typically led equities coming out of a recession in the early stages of a recovery
  - Credit sectors have typically outperformed equities during both recessions and early an expansions
- <u>Key Investment Implication</u>: Dynamic allocation across credit sectors based on macroecomic variables can potentially add value within a portfolio

SOURCE: BofA Merrill Lynch, JPMorgan, National Bureau of Economic Research

* Returns as of December 31, 2010

Emerging Markets Debt is represented by the JP Morgan EM Bond Index Global, High Yield Bonds is represented by the BofA Merrill Lynch High Yield Master II Index, Convertibles Bonds is represented by the BofA Merrill Lynch All Convertibles Index, Investment Grade Corporates is represented by the BofA Merrill Lynch Corporate Master Index, Treasuries is represented by the BofA Merrill Lynch Treasury index, Equities is represented by the S&P 500 Index.

Early Expansion: Apr 91-Jun 94, Dec 01-Oct 03; Jul 09-present; Mid Expansion: Jul 94-Oct 97, Nov 03-Oct 05; Late Expansion: Dec 88-Jun 90, Nov 97-Feb 01, Dec 05-Dec 07; Early Recession: Jul 90-Nov 90, Mar 01-Jun 01, Jan 08-Dec 08; Late Recession: Dec 90-Mar 91, Jul 01-Nov 01, Jan-09-Dec-10.

Refer to Appendix for additional index, investment strategy and risk information.

How Would PIMCO Structure a Multi-Sector Fixed Income Portfolio Today?

As of November 2011

Benchmark Allocations

Index	Blended Benchmark Allocation ("Policy Benchmark" (%)
Barclays Capital U.S. Aggregate Bond Index	30.0%
Barclays Capital High Yield Bond Index	35.0%
Barclays Global GDP-Weighted Developed Market ex-US (Unhgd) Index	20.0%
Barclays Capital Emerging Markets Local Currency Gov't (10% Country Max, Unhedged) Index	15.0%

Portfolio Allocations

Representative Account	Model Portfolio Allocation (%)
PIMCO Total Return Representative Account	25.0%
PIMCO Global Advantage Representative Account	25.0%
PIMCO Emerging Local Markets Bond Representative Account	20.0%
PIMCO High Yield Representative Account	30.0%

Portfolio Risk Factors*

Key Risk Factor	Blended Benchmark	Model Portfolio	Difference
Duration	4.88	4.87	-0.01
Curve Duration	0.91	1.33	0.42
Real Duration	0.00	0.33	0.33
Credit Spread Duration	2.84	3.15	0.31
Emerging Market Duration	0.83	1.51	0.68
Corporate Spread Duration	2.01	1.65	-0.37
Mortgage Spread Duration	0.26	0.41	0.15
Mortgage Spread Duration (Agency)	0.24	0.32	0.08
Mortgage Spread Duration (CMBS)	0.02	0.02	0.00
Mortgage Spread Duration (Non-Agency)	0.00	0.06	0.06
Municipal Bond Duration	0.00	0.02	0.02
Yield to Maturity	4.9%	5.6%	0.7%

The Model Portfolio Allocation weight is shown as a hypothetical example for illustrative purposes only

* Risk factors are based on historical figures as of 11/04/2011

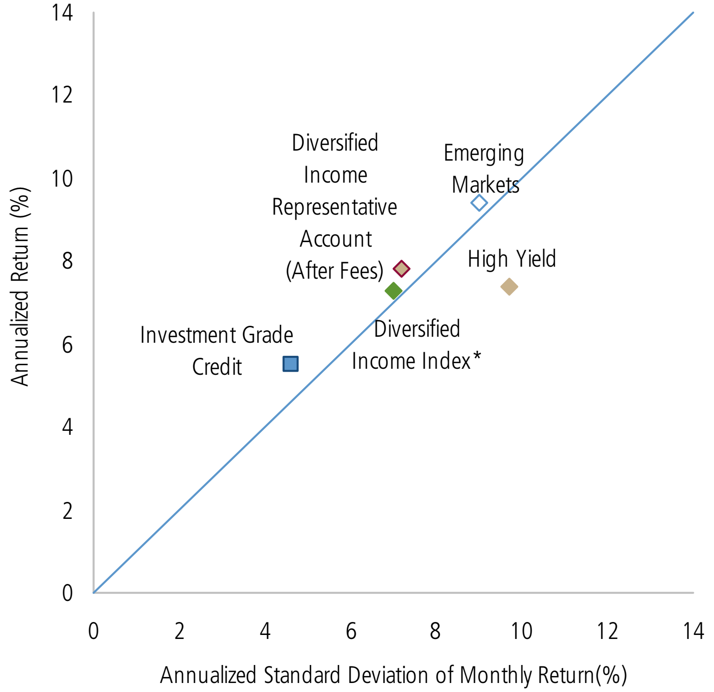
The Total Return and High Yield strategies seek to maximize total return, consistent with preservation of capital and prudent management. The Global Advantage Strategy seeks to total return which exceeds that of its benchmarks, consistent with prudent investment management. The Emerging Local Markets Strategy seeks maximum total return, consistent with preservation of capital and prudent investment management. Each of the representative account is based on the largest managed account. The representative account has different strategies, risks, and investment considerations than the PIMCO Multi-Sector Strategy Fund. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved.

Refer to Appendix for additional hypothetical example, index, and risk information.

PIMCO's Diversified Income Representative Account Has Provided Strong Risk-Adjusted Returns

- PIMCO's Diversified Income strategy may enhance returns through:
  - **Diversification** coming from allocations across imperfectly-correlated credit sectors
  - Tactical **asset allocation** across sectors that seeks to maximize risk-adjusted returns
  - Bottom up **security selection** relying on PIMCO's independent credit research

ANNUALIZED RETURNS VS. VOLATILITY OF RETURN
FROM 31 AUGUST 2003 TO 30 SEPTEMBER 2011

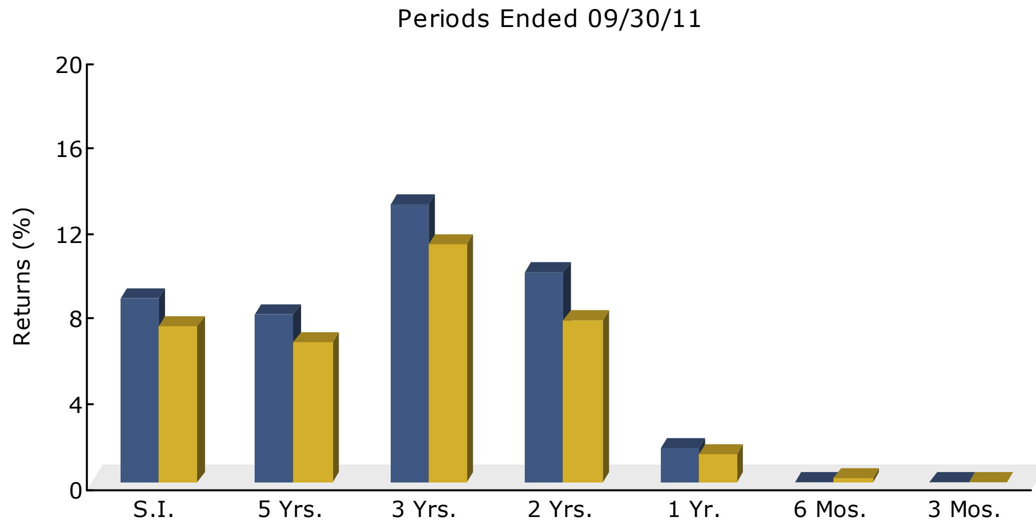


* Diversified Income Index is represented by a passive index of: 1/3 Barclays Capital Global Aggregate Credit, 1/3 Merrill Lynch High Yield BB-B 2% Constrained, and 1/3 JPMorgan Emerging Markets Bond Global. Emerging Markets is represented by the JPMorgan EMBI Global Index; High Yield is represented by the BofA Merrill Lynch BB/b 2% Constrained Index; Investment Grade Credit is represented by the Barclays Global Credit Index Hedged in USD.

The Diversified Income strategy seeks total return, consistent with prudent management. The representative account is based on the largest managed account. The representative account has different strategies, risks, and investment considerations than the PIMCO Multi-Sector Strategy Fund. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved.

Refer to Appendix for additional performance and fee, chart, index, and risk information.

How Has PIMCO's Diversified Income Representative Account Performed?



PIMCO Diversified Income - Global USD-Hedged Representative Account
(Inception:08/31/03)

	S.I.	5 Yrs.	3 Yrs.	2 Yrs.	1 Yr.	6 Mos.	3 Mos.
■ Before Fees (%)	8.6	7.9	13.1	9.9	1.5	-0.8	-2.9
After Fees (%)	7.8	7.2	12.3	9.1	0.8	-1.1	-3.1
■ Diversified Income Index (%)*	7.3	6.6	11.1	7.6	1.3	0.1	-2.1
Value Added Before Fees (bps)	129	134	193	228	28	-90	-82
Value Added After Fees (bps)	51	59	115	151	-43	-125	-99

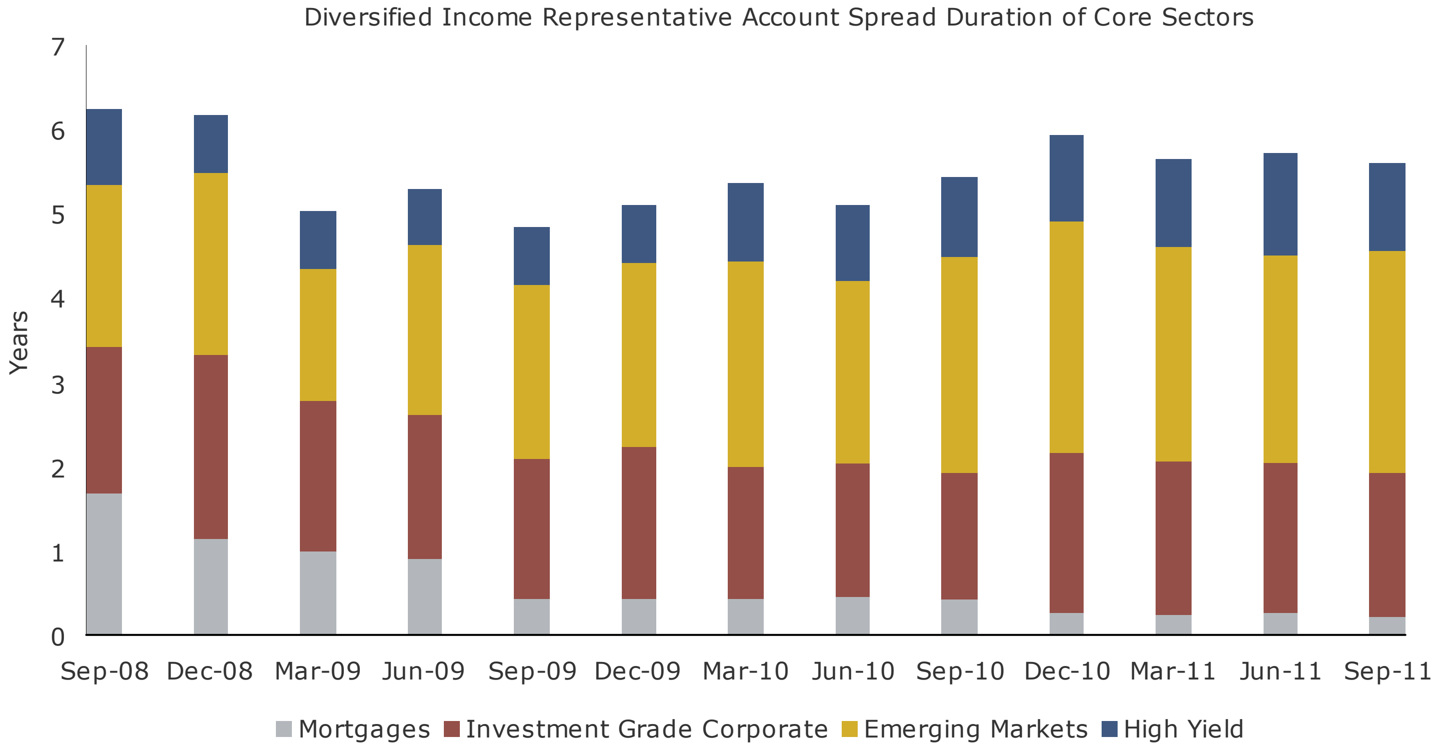
* Diversified Income Index is represented by a passive index of: 1/3 Barclays Capital Global Aggregate Credit, 1/3 BofA Merrill Lynch High Yield BB-B 2% Constrained, and 1/3 JPMorgan Emerging Markets Bond Global.

The Diversified Income strategy seeks total return, consistent with prudent management. The representative account is based on the largest managed account. The representative account has different strategies, risks, and investment considerations than the PIMCO Multi-Sector Strategy Fund. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved.

Refer to Appendix for additional performance and fee, index, and risk information.

Sector Allocation Will Vary Based on PIMCO's Assessment of Global Trends and Relative Valuations

As of September 30, 2011

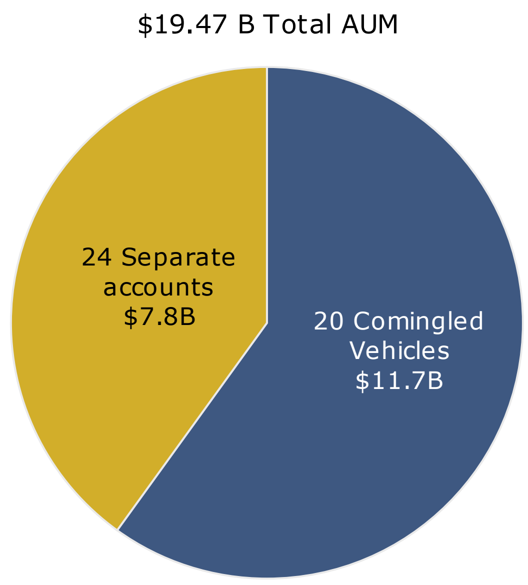


The Diversified Income strategy seeks total return, consistent with prudent management. The representative account is based on the largest managed account. The representative account has different strategies, risks, and investment considerations than the PIMCO Multi-Sector Strategy Fund. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved.
Refer to Appendix for additional portfolio structure and risk information.

PIMCO's Diversified Income/Floating Income Assets Under Management

As of September 30, 2011

- Total AUM: $19.47 B
- Diversified Income/Floating Income Structures: Multi-sector strategies that can include various asset classes and mixes with the aim to meet objectives
- Separate accounts
  - $7.8B AUM
  - 24 separate accounts for foundations, endowments, and public plan clients based in U.S., Europe, Asia, Australia
- Comingled vehicles
- $11.67B AUM
- Comingled vehicles: 20 comingled vehicles domiciled in U.S., Bermuda, Australia, and Europe



SOURCE: PIMCO
NOTE: Total Diversified Income/Floating Income Asset Under Management may be reported differently due to varying portfolio classification methodologies

PIMCO Experience Managing Customized Multi-Sector Fixed Income Portfolios

As of September 30, 2011

Client Description	Benchmark	Max Equity	Max Commodity	Tail Risk?	Size	Inception Date	S.I. (Before Fees) Return	S.I. (After Fees) Return
UK Corporation	3-Month Sterling LIBOR + 3%	0%	0%	Yes	$120 MM	01/31/04	4.1%	4.0%
Middle East Family Office	5% Return Per Annum	0%	0%	Yes	$190 MM	07/31/04	5.3%	5.2%
Sovereign Wealth Fund	3-Month Sterling LIBOR	0%	0%	Yes	$1.8 Billion	11/12/08	8.4%	7.9%

The representative accounts listed above are all customized multi-sector strategy managed by PIMCO. The representative accounts have different strategies, risks, and investment considerations than the PIMCO Multi-Sector Strategy Fund. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved.
Refer to Appendix for additional performance and fee, index, and risk information.

PIMCO Multi-Sector Strategy Fund Details – Indicative Summary Term and Features

- **Portfolio Manager :** Curtis Mewbourne will lead a team of portfolio managers
- **Vehicle Structure :** Cayman Islands, Private Fund
- **Management Fee** : 0.40% per annum of the first $600 million of the Fund's NAV, 0.35% per annum of the next $700 million of the Fund's NAV, and 0.30% on the portion of the Fund's NAV in excess of $1.3 billion
- **Administrative Fee** : 0.20% per annum of the first $500 million of the Fund's NAV and 0.15% per annum of the portion of the Fund's NAV in excess of $500 million
- **Liquidity**: Monthly with 15 days notice
- **Current Policy Benchmarks (subject to change):**
  - 30% Barclays Capital U.S. Aggregate Bond Index
  - 20% Barclays Capital Global GDP Weighted Developed Market ex. U.S. (Unhedged) Index
  - 35% Barclays Capital High Yield Bond Index
  - 15% Barclays Capital Emerging Markets Local Currency Gov't (10% Country Max, Unhedged) Index

This information is summary in nature and is in no way complete, and these terms may change materially at any time. If the Fund is launched and you express an interest in investing in the Fund, you will be provided with an offering memorandum, limited partnership agreement, subscription agreement, and other Fund documents ("Fund Documents"), which shall govern in the event of any conflict with the preliminary indicative terms above. You must rely only on the information contained in the Fund Documents in making any decision to invest.
Refer to Appendix for additional risk information.

Appendix

Performance and Fee

Past performance is not a guarantee or a reliable indicator of future results. The Fund's fees are discussed within the Private Placement Memorandum (PPM).

Chart

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

Hypothetical Example

No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Hypothetical or simulated performance results have several inherent limitations. Unlike an actual performance record, simulated results do not represent actual performance and are generally prepared with the benefit of hindsight. There are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular account, product, or strategy. In addition, since trades have not actually been executed, simulated results cannot account for the impact of certain market risks such as lack of liquidity. There are numerous other factors related to the markets in general or the implementation of any specific investment strategy, which cannot be fully accounted for in the preparation of simulated results and all of which can adversely affect actual results.

Investment Strategy

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

Portfolio Structure

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

Risk

The Fund is not subject to the same regulatory requirements as mutual funds. The Fund is expected to be leveraged and may engage in speculative investment practices that may increase the risk of investment loss. The Fund's performance can be volatile; an investor could lose all or a substantial amount of their investment. The Fund manager has broad trading authority over the Fund. The use of a single adviser applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. The Fund is not restricted to tracking a particular benchmark and is not restricted by client guidelines. There is no secondary market for the investor's interest and none is expected to develop. There are restrictions on transferring interests in the Fund and it has limited liquidity provisions. The Fund's high fees and expenses may offset the Fund's trading profits. A substantial portion of the trades executed for the Fund are in non-U.S. securities and take place on non-U.S. exchanges. The Fund may invest in non-publically traded securities which may be subject to illiquidity risk. The Fund is not required provide periodic pricing or valuation information to investors. The Fund involves complex tax structures and there may be delays in distributing important tax information.

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk. High-yield, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. Commodities contain heightened risk including market, political, regulatory, and natural conditions, and may not be suitable for all investors. Mortgage and asset-backed securities may be sensitive to changes in interest rates, subject to early repayment risk, and while generally backed by a government, government-agency or private guarantor there is no assurance that the guarantor will meet its obligations. Derivatives and commodity-linked derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

Appendix

A purchase of these interests involves a high degree of risk that each prospective investor must carefully consider prior to making such an investment. Investors should thoroughly review the Investment Considerations and Risk Factors section of the Offering Memorandum for a more complete description of these risks. Prospective investors are advised that investment in the Funds are suitable only for persons of adequate financial means who have no need for liquidity with respect to their investment and who can bear the economic risk, including the possible complete loss, of their investment.

Target Return
The target return takes into consideration, among other factors, the Fund's investment team's general experience and assessment of prevailing market conditions and investment opportunities. There are, however, numerous investment-specific assumptions that factor into the target return that may not be consistent with future market conditions and that may significantly affect actual investment results. Such assumptions include, but are not limited to (i) the Investment Manager's ability to adequately assess the risk and return potential of investments through its bottom-up research; (ii) availability of suitable relative value opportunities in each asset class; and (iii) various measurements and parameters relating to Investment Manager's expected outlook for certain global and local economies and markets.

The targeted return set forth above is not a prediction or projection of actual investment results and there can be no assurance that any targeted return for an investment or, in the aggregate, for the Fund, will be achieved. Investors should also be aware that a relatively high targeted return, such as that set forth above, entails concomitantly greater risks of adverse investment results. The targeted return set forth above is an aggregate target and is based on the targeted returns that PIMCO intends to use as selection criteria in connection with the evaluation of individual investments for the Fund. The target return of any individual investment is intended to be commensurate with the assessed degree of risk and can be lower or higher, depending on the nature of any individual investment. PIMCO's evaluation of a proposed investment for the Fund will be, in turn, based on PIMCO's internal analysis and evaluation of the investment and on numerous investment-specific assumptions that may not be consistent with future market conditions and that may significantly affect actual investment results. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in calculating the target return have been stated or fully considered. The Fund's ability to achieve investment results consistent, in the aggregate, with the targeted return set forth above depends significantly on a number of factors in addition to the accuracy of such assumptions. These factors include the Fund's ability to identify a sufficient number and mix of suitable investments to achieve full investment consistent with the Fund's asset allocation criteria and investment strategy, and the Fund's overall ability to execute its investment strategy successfully. Each of these is subject to the potential risks summarized below. In any event, the past performance of previous investments made by PIMCO is not necessarily indicative of future performance and there can be no assurance that PIMCO will succeed in identifying a sufficient number and mix of investments consistent with the targeted return objective set forth above or the Fund's investment philosophy, investment strategy and current investment allocation targets. Such targets may be adjusted in light of available opportunities or changing market conditions.

PIMCO advised funds are distributed by **PIMCO Investments LLC**.

Appendix

Index description

BofA Merrill Lynch Global High Yield BB-B Rated 2% Constrained Index tracks the performance of below investment grade bonds of below investment grade bonds of corporate issuers domiciled in countries having an investment grade foreign currency long term debt rating (based on a composite of Moody's, S&P, and Fitch). The index includes bonds denominated in U.S. dollars, Canadian dollars, sterling, euro (or euro legacy currency), but excludes all multicurrency denominated bonds. Bonds must be rated below investment grade but at least B3 based on a composite of Moody's, S&P, and Fitch. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg tickers) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. The index is re-balanced on the last calendar day of the month. The inception date of the index is December 31, 1997.

The BofA Merrill Lynch High Yield Master II Index is an unmanaged index consisting of U.S. dollar denominated bonds that are rated BB1/BB+ or lower, but not currently in default.

The BofA Merrill Lynch All Convertibles Index is an unmanaged market index comprised of convertible bonds and preferred securities.

BofA Merrill Lynch Corporate Master Index is an unmanaged index comprised of approximately 4,256 corporate debt obligations rated BBB or better. These quality parameters are based on composites of ratings assigned by Standard and Poor's Ratings Group and Moody's Investors Service, Inc. Only bonds with minimum maturity of one year are included.

The Barclays Capital U.S. Treasury Index is a measure of the public obligations of the U.S. Treasury.

The Barclays Capital High Yield Index is an unmanaged market-weighted index including only SEC registered and 144(a) securities with fixed (non-variable) coupons. All bonds must have an outstanding principal of $100 million or greater, a remaining maturity of at least one year, a rating of below investment grade and a U.S. Dollar denomination.

Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

The Barclays Capital Global Aggregate Credit Index is the credit component of the Barclays Capital Aggregate Index. The Barclays Capital Aggregate Index is a subset of the Global Aggregate Index, and contains investment grade credit securities from the U.S. Aggregate, Pan-European Aggregate, Asian-Pacific Aggregate, Eurodollar, 144A and Euro-Yen indices. The Barclays Capital Global Aggregate Index covers the most liquid portion of the global investment grade fixed-rate bond-market, including government, credit and collateralized securities. The liquidity constraint for all securities in the index is $300 million. The index is denominated in U.S. dollars.

The PIMCO Global Advantage Bond Index (GLADI) is a diversified global index that covers a wide spectrum of global fixed income opportunities and sectors, from developed to emerging markets, nominal to real assets, and cash to derivative instruments. Unlike traditional indices, which are frequently comprised of bonds weighted according to their market capitalization, GLADI uses GDP-weighting which puts an emphasis on faster-growing areas of the world and thus makes the index forward-looking in nature.

Appendix

Index description

JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged) is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

The JPMorgan Emerging Markets Bond Index Global is an unmanaged index which tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds, and local market instruments.

The S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The index focuses on the Large-Cap segment of the U.S. equities market.

It is not possible to invest directly in an unmanaged index.

Multi-Sector Fixed Income Allocation

PIMCO Multi-Sector Strategy Fund

December 8, 2011

Joseph W. Sheva, CPA

PIMCO Multi-Sector Strategy Fund

Overview of PIMCO

- SEC registered investment advisor
- Founded in 1971 as a specialty fixed income manager
- Firm has a global presence, managing approximately $1,350.03 billion as of September 30, 2011 in multiple asset classes:
  - $53.3 million in asset allocation strategies
  - In excess of $1,200 billion in fixed income, including $19.5 million in diversified income strategies.

Investment Team

- Deep and highly experienced team
  - 1,976 employees (581 investment professionals)
  - 19 years average experience for senior professionals

See Page 6 for Disclaimer

PIMCO Multi-Sector Strategy Fund

"Multi-Sector" Fixed Income Strategy

- Several Fixed Income Sub-Asset Class exposures in one investment
  - U.S.
  - Non-U.S. Developed Markets
  - High Yield
  - Emerging Markets
- "Risk Overlay" allows for nimble, best ideas, risk allocation decisions by an experienced Firm

See Page 6 for Disclaimer

PIMCO Multi-Sector Strategy Fund

Multi-Sector and "Fund of One"

- Asset Allocation Advantages:
  - Scalable and efficient: allows allocation to four Fixed Income Sub-Asset Classes with one allocation
  - Dynamic: sub-asset class weights can be changed based on Policy Index changes
  - Liquidity is not sacrificed: monthly liquidity

- Operational Advantages:
  - Streamlines contracting, operational issues and accounting
  - Transparency is not sacrificed: Fund-level and sub-sector transparency are maintained
  - Control is not sacrificed: ability to identify specific operational and accounting terms in contract

See Page 6 for Disclaimer

PIMCO Multi-Sector Strategy Fund

Strategy Investment Advantages:

- PSERS Investment Objective:
  - Generate 50 to 150bps of excess returns (net of fees) over the PSERS blended Policy Benchmark
  - Improve annualized returns with comparable volatility
- Ability to leverage PIMCO's resources and industry expertise managing multi-sector fixed income assets to achieve the objectives using the Risk Overlay

Portfolio Use:

- Staff intends to invest $1.0 billion in the PIMCO Multi-Sector Strategy Fund and include this investment on a pro-rata basis based on the Current Policy Asset Allocation in the following Fixed Income sub-sectors.

U.S. Fixed Income	30% (i.e. $300m)
Non-U.S. Developed Markets Fixed Income	20% (i.e. $200m)
High Yield	35% (i.e. $350m)
Emerging Markets Fixed Income	15% (i.e. $150m)

See Page 6 for Disclaimer

PIMCO Multi-Sector Strategy Fund

Other

- Relationships with Wilshire: None
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: PSERS Staff
- History with PSERS: PIMCO has managed Fund assets since 1987 and is deemed to be a strategic investment partner due to their vast resources and industry expertise.

See Page 6 for Disclaimer

PIMCO Multi-Sector Strategy Fund

Recommendation

Staff, together with Wilshire Associates, recommends that the Board invest in the PIMCO Multi-Sector Strategy Fund, in an amount within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract.

See Page 6 for Disclaimer

Multi-Sector Fixed Income Allocation

PIMCO Multi-Sector Strategy Fund

December 8, 2011

Joseph W. Sheva, CPA

Proposed
PSERB Resolution 2011-_____
Re: PIMCO Multi-Sector Strategy Fund Ltd.
December 8, 2011

RESOLVED, pursuant to the recommendations of Joseph W. Sheva, Senior Investment Professional – External Public Markets, Risk and Compliance and Wilshire Associates, both dated November 18, 2011, that the Finance Committee of the Public School Employees' Retirement Board (the "Board") hereby recommends that (i) the Board retain Pacific Investment Management Company LLC to manage an initial amount of $1.0 billion in the PIMCO Multi-Sector Strategy Fund Ltd. and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time (the current version of which can be found at http://www.psers.state.pa.us/invest/guide/index.htm), provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract.