


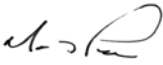


Memorandum

Date: June 6, 2012

To: James H. Grossman, Jr.
Deputy Chief Investment Officer
Pennsylvania Public School Employees Retirement System

From: William G. Bensur, Jr., CFA 
Managing Director
Wilshire Associates Incorporated

Marlin D. Pease, CFA 
Managing Director
Wilshire Associates Incorporated

Re: AQR Capital Management, LLC

The purpose of this memorandum is to provide background analysis on AQR Capital Management, LLC (“AQR”). AQR is being considered to manage a risk parity portfolio that will serve a strategic role in the PSERS investment program. Wilshire believes AQR is an institutional quality firm with a qualified investment team.

Organization

AQR is based in Greenwich, CT and is majority owned by eighteen principals with a minority ownership position by Affiliated Managers Group. The firm was established in 1998 and assets under management are approximately \$52 billion. The firm employs 265 professionals, with 110 members focused on investment, trading and research responsibilities while the remainder represent administrative / operational staff. AQR began running risk parity strategies in January of 2006. The Global Risk Premium Enhanced Liquidity strategy (“GRP-EL”) was launched in October of 2011. GRP-EL does not contain any credit risk and emerging bonds; therefore it is a more liquid version of the GRP strategy. GRP-EL is managed using a team approach. The key employees involved in the management of this strategy are the members of the investment committee and the portfolio managers. The investment committee members are Cliff Asness (Managing and Founding Principal), John Liew (Founding Principal and Head of the Global Asset Allocation Team), Michael Mendelson, Brian Hurst, Jeremy Getson, Yao Hua Ooi, and Aaron Brown. The portfolio managers are Michael Mendelson, Brian Hurst, and Yao Hua Ooi.

Investment Approach

The GRP-EL strategy is designed to maximize diversification across a broad spectrum of liquid, global market risk premium. AQR believes that risk-adjusted returns across asset classes are similar over the long term and a portfolio that is diversified equally by risk will provide higher risk-adjusted returns relative to a traditional, dollar-diversified portfolio.



A few of the distinguishing features of the GRP-EL strategy include:

- Risk diversified through time: A primary objective is to keep the portfolio consistently diversified at all points in time, maintaining equal risk weight to each of the three buckets at all times. This requires a dynamic capital allocation process to respond to changing risk environments.
- Low Cost Implementation: Algorithmic electronic trading, exchange memberships, and highly competitive methods keep transaction costs low. Extensive experience using liquid market instruments.
- Limited Deviation from Target Volatility: AQR's low-cost trading implementation facilitates shorter volatility forecasting with more frequent rebalancing. This will help the strategy remain closer to the volatility target. This should produce more consistent results with less severe drawdowns.
- Disciplined Risk Management: A systematic drawdown control process reduces risk during market turmoil, while preserving risk diversification.

Fees and Terms

- A) The proposed fixed management fee, based on 20% volatility, is 0.76%
- B) Weekly liquidity

Wilshire recommends that PSERS invest in GRP-EL to complement the existing risk parity strategy within the PSERS investment program.

Please let us know if you have any questions or would like to discuss any of these issues.