



Risk Parity Allocation

BlackRock - Market Advantage II, Ltd.

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Portfolio Manager

See Final Slide for Disclaimer

BlackRock - Market Advantage II, Ltd.

Market Opportunity – Risk Parity

- Using the basic premise that risk drives portfolio returns (so allocate risk and not capital), identify unique and/or differentiating ways to allocate assets and achieve superior risk-adjusted returns versus traditional asset allocation approaches

Fund Strategy

- Aim to create a portfolio that achieves three goals:
 - Maximizes return per unit of risk
 - Provides downside protection during periods of market stress
 - Performs well across various economic regimes
- Balancing fundamental sources of return while managing downside risk
- Invests in 12 asset classes, over 50 countries
- Liquidity – monthly with 3 days notice
- Leverage – yes, explicit leverage is used to achieve targeted volatility of 15%
- Downside Risk – will scale down total portfolio risk based on information on valuation, risk sentiment, volatility, or regimes

Investment Team

- 13 individuals, led by Ked Hogan, PhD
- BlackRock Global Investment Platform



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Value Proposition for PSERS

- The experience of BlackRock managing risks and constructing portfolios provides a unique opportunity for PSERS to diversify its risk parity allocation
- PSERS can benefit from insights gained from BlackRock Market Advantage's portfolio construction and risk management techniques as PSERS' risk system (BlackRock Solutions) provides the ability to view the Market Advantage risk factors – Economic, Credit, Emerging Markets, Liquidity, Real Rates and Inflation – across the Fund

Portfolio Use

- Include this investment as part of the Risk Parity allocation

History with PSERS

- Multiple successful investments across multiple asset classes
- Current portfolios as of August 31, 2014 include:
 - \$534 million in a non-U.S. equity portfolio
 - \$822 million in BlackRock's U.S. Extended Core GlobalAlpha Bond Fund
 - \$6.7 million in BlackRock Mortgage Investors (PE fund in liquidation)
 - \$276 million in BlackRock Capital Structure Investments Offshore Fund (an absolute return portfolio)

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Board Issues

- Placement Agent(s): No
- Political Contributions in PA: None
- Relationships with HEK: None
- Introduction Source: PSERS Staff

Recommendation

Staff, together with Hewitt EnnisKnupp, recommends (i) that the Board invest \$500 million in the Market Advantage II, Ltd., managed by BlackRock Investments, LLC and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges established in Exhibit E of the Investment Policy Statement, Objectives and Guidelines.