


Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 22, 2015

SUBJECT: Proposed Revisions to Investment Policy Statement, Objectives, and Guidelines

TO: Members of the Finance Committee

FROM: Joseph W. Sheva, CPA 
Risk Manager

At the October Finance Committee meeting, staff will recommend that the Finance Committee adopt the following changes the Investment Policy Statement, Objectives and Guidelines (IPS), as well as changes to Addendum E and discontinue the use of Addenda B1, T, T1, and T2. Below are descriptions of the material changes being recommended.

IPS

Exhibits B and C in the IPS, 10-Year Target Allocation and Current Target Allocation, respectively, were updated to separate the Infrastructure allocation from the Master Limited Partnership allocation. This change will allow for a clearer picture to manage and monitor each of these allocations.

Staff and Aon Hewitt recommend the FTSE Developed Core Infrastructure 50/50 (Hedged to USD) Index Net as the benchmark for the Infrastructure allocation in Exhibit D, the Policy Index. Publicly-traded Infrastructure is a broad asset class with no industry standard benchmark. The Index was chosen after a review of the risk/return profile, exposure detail, and ability to implement an internally-managed passive strategy, of the many available indices for publicly-traded infrastructure investments. Furthermore, the Index has no overlap to our Master Limited Partnership Index (S&P MLP). This Index provides complementary beta exposures within the Real Assets asset class of our Policy Index.

Finally, staff and AON Hewitt recommending changing the Public Real Estate Index, the FTSE EPRA/NAREIT Developed Index, from unhedged to hedged to eliminate foreign currency risk.

ADDENDA CHANGES

Staff recommends changing Addendum E from an Internally-managed Equity Index guideline to one that includes all internally-managed index portfolios. Making this change streamlines the guidelines, assisting in portfolio risk and compliance oversight. Within this internally-managed index Addendum, staff recommends the addition of risk guidelines for the passively-managed Public Real Estate and passively-managed Infrastructure strategies. The risk constraints for these two strategies follow similar constraints, including performance and positioning versus the applicable index, of the internally-managed international equity mandate. In addition, staff recommends collapsing the current internally-managed U.S. Master Limited Partnership Index guidelines, Addendum B1, into Addendum E.

In addition, staff recommends removing several Addendums. As a result of adding it to Addendum E, Internally Managed Index guidelines, Addendum B1, Internally Managed U.S. Master Limited Partnership Index is no longer required, thus can be removed. Also, it is recommended to remove Addendums T, T1 and T2, all of which are old versions of PSERS' Investment Office Staff implementation guidelines for publicly traded real estate securities. Note that Investment Office Staff plans to initially index publicly traded real estate exposures, subject to the risk guidelines in Addendum E noted above.

Blacklined and clean copies of the changes, along with a benchmark adequacy review memo from Aon Hewitt, have been included in the package for your review.

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