



PSERB Resolution 2024-67

Re: Investment Policy Statement, Objectives, and Guidelines of the School Employees' Defined Contribution Plan October 25, 2024

RESOLVED, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation of the Defined Contribution Committee and adopts the changes to the Investment Policy Statement, Objectives, and Guidelines of the School Employees' Defined Contribution Plan, attached.

***Investment Policy Statement,
Objectives, and Guidelines of
the School Employees'
Defined Contribution Plan
of
the Commonwealth of Pennsylvania
Public School Employees' Retirement Board***

As adopted by
the Board of Trustees
on **October 25, 2024**

Adopted: May 23, 2019
Revision History:
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I. Purpose and Introduction

Purpose

The purpose of this Investment Policy Statement, Objectives, and Guidelines of the School Employees' Defined Contribution Plan (the "DC Investment Policy") is to outline objectives that will guide the Board of Trustees ("Board") in its selection and monitoring of the Investment Providers and investment options for the School Employees' Defined Contribution Plan ("Plan"). The DC Investment Policy is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements. The DC Investment Policy is also intended to assure that the Defined Contribution Plan Committee ("DC Plan Committee") Staff, Investment Consultants, Investment Providers, and the Recordkeeper are given adequate guidance to administer, monitor, and implement the DC Investment Policy on behalf of the Board as may be directed or delegated.

Introduction

On June 12, 2017, the Commonwealth of Pennsylvania enacted the Act of June 12, 2017 (P.L. 11, No. 5, which created two new membership classes of the existing defined benefit plan with a defined contribution component, Class T-G and Class T-H, and a Defined Contribution only membership class. The Plan, is a standalone defined contribution plan intended to be a plan as described under IRC Section 401(a) that provides for mandatory pickup participant contributions and mandatory employer contributions at fixed rates of covered compensation and permits after-tax voluntary and rollover contributions. The Plan permits members to direct the investment of their respective accounts among available investment options.

Mission of the Board

The primary objective of the Board is to provide participants with a varied set of at least ten (10) investment options through at least three (3) investment providers that encompass a variety of risk/return characteristics among which participants in the Plan can diversify their portfolios.

Fiduciary Standard

The Board shall discharge its duties solely in the interest of the Plan participants and their beneficiaries, with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

II. Roles and Responsibilities

The Board relies on the DC Plan Committee, the Director of Defined Contribution Investments, the Investment Office Professional staff, and others in executing its investment responsibilities under the DC Investment Policy. Each entity's role is identified below:

- *Board*: The Board, through the DC Plan Committee with the assistance of staff, generally oversees the implementation of the DC Investment Policy; establishes and adopts changes to the DC Investment Policy; monitors the performance, cost, and management of the Plan investment options, investment providers, and investment consultants; oversees searches for new investment options, investment providers, and investment consultants; and ensures that proper internal monitoring is developed to oversee the investment options and investment providers of the Plan.
- *Director of Defined Contribution Investments (Director)*: The Director is responsible for the day-to-day administration of the Plan; reporting of investment results of the Plan; working with the Investment Office Professional staff, consultants, and recordkeeper to monitor the performance of the investment options and investment providers pursuant to the provisions of the DC Investment Policy, the *School Employees' Defined Contribution Plan and Trust* document, the Public School Employees Retirement Code, and other applicable law and, with the concurrence of the Investment Office Professional staff and the consultant for the Plan, make recommendations to the Board regarding investment options and investment providers.
- *Investment Office Professional Staff (IOP)*: The IOP will assist the Director in monitoring and evaluating the performance of the investment options and investment providers; developing, implementing, and monitoring the DC Investment Policy; recommending investment options and investment providers; as well as in reporting of investment results to the Director or the Board as requested.
- *Recordkeeper*: The contracted Recordkeeper of the Plan performs all administrative, recordkeeping, accounting, and reporting functions in a manner that coordinates effectively with the trade/settlement processing, custody, daily valuation, and performance reporting relating to the assets and transactions of the Plan performed by the financial institution. The Recordkeeper is responsible for the monitoring and recording of all investment transactions of the Plan participants and their beneficiaries; preparing of the reports relating to the investment activity of the Plan; overseeing the relationship with the financial institution for the Plan; and interfacing with the investment providers on investment accounting and operational issues.

III. Investment Objectives

Use of Consultants/Service Providers

The Board may, in its sole discretion, retain the services of outside consultants and other professionals. The functions of these professionals may include, but are not limited to, the following:

- rendering their recommendations and insights on plan investments as well as the policies regarding investment option selection and monitoring;

- providing reviews of the marketplace competitiveness of the Plan’s investment options;
- providing reviews of the Plan’s utilization and asset allocation; and
- providing guidance on changes to applicable law and public policy.

Selection of the Investment Options

In selecting investment options and investment providers for the Plan, the Board shall consider some or all of the following criteria, as the Board may deem appropriate:

- the option’s track record;
- performance as compared to an appropriate benchmark and/or an appropriate peer group(s);
- risk measures versus those of the benchmark and/or peer group;
- risk-adjusted return measures as compared to those of the benchmark and/or peer group;
- organizational structure and stability of fund personnel;
- manager tenure;
- the fees and expenses assessed by the investment option, as well as the impact of offering the investment option on the overall fees and expenses associated with managing the Plan; and
- qualitative characteristics, including, but not limited to, management strategy, turnover, and recent portfolio activity in view of current market conditions.

In selecting investment options and investment providers for the Plan, the following minimum criteria must be met:

- Must provide no less than ten investment options that are offered by three or more investment providers of investment options to eligible participants;
- Must provide for a variety of investment options and shall be reviewed in accordance with criteria established by the Board;

Monitoring of Investment Options

The Board shall monitor the investment options. As part of its monitoring process, the Board may consider the following:

Criteria	Measure	Goal(s)
Performance	<ul style="list-style-type: none"> ▪ 3-, 5-, & 10-year record ▪ 3-, 5-, & 10-year record 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group ▪ reasonable vs. appropriate benchmark

Risk	<ul style="list-style-type: none"> ▪ 3-year and 5-year standard deviation 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark
Risk-adjusted performance	<ul style="list-style-type: none"> ▪ 3-year and 5-year Sharpe ratio 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark
Risk-adjusted performance	<ul style="list-style-type: none"> ▪ 3-year and 5-year information ratio 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or appropriate benchmark
Expense ratios	<ul style="list-style-type: none"> ▪ Total expenses 	<ul style="list-style-type: none"> ▪ Consistent with peer group median
Investment objective/style	<ul style="list-style-type: none"> ▪ Style purity 	<ul style="list-style-type: none"> ▪ Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared

The Board may, from time to time as warranted, modify these criteria and goals, or may consider other criteria and goals, all within the Board’s sole discretion as it deems appropriate.

Investment options and/or investment providers may be placed under formal review for any reason, including:

- the investment option’s long-term investment performance on a rolling basis;
- recent changes, such as investment option restructurings or management changes designed to correct deficiencies;
- the appropriateness or relevance of an investment option’s stated peer group, since funds may be misclassified or poorly classified;
- the investment option’s adherence to a stated investment style, whether or not that investment style has been in or out of favor;
- unusual market circumstances or volatility;
- prospectus investment constraints, such as socially responsible mandates; and
- the degree to which the investment option has reduced or controlled risk, which might constrain the investment option’s ability to outperform other options.

The Board is authorized in its sole discretion to remove an investment option if, in the opinion of the Board, the investment option is no longer suited for the Plan or its participants, without regard to whether the investment was under a formal review.

The Director, with concurrence from the IOP and the consultant for the Plan, has the authority to immediately terminate and replace an investment option and/or investment provider when one or more of the following occurs:

- Violation of SEC rules or regulations or other law;
- Significant change in investment philosophy as stated in the prospectus;
- Significant increase in fees;
- Significant changes to the portfolio leading to lack of diversification and high concentration or exposure to one category, sector, and/or holding;

- Violation of established investment guidelines; or
- Material change in overall risk profile.

The Director, with concurrence from the IOP and the consultant for the Plan, shall have the authority to review share classes of investment options and adjust to reduce fees, where available.

The DC Plan Committee shall be notified at its next meeting of the occurrence of any of the foregoing and the action taken.

Selection and Monitoring of the Default Investment Options

The Board is authorized to designate the Plan's default investment options (*i.e.*, the options into which contributions will be directed on behalf of participants who do not affirmatively direct an investment option). In so doing, the Board will apply the general selection and monitoring principles described in this DC Investment Policy. In addition, the Board's selection and monitoring of default investment options shall be consistent with the United States Department of Labor's standards for the selection and monitoring of "qualified default investment alternatives."

Selection of Target Date Funds and Asset Allocation Suites

Target date funds and asset allocation suites shall be selected for the Plan utilizing the following steps as general guidelines with the understanding that the target date and asset allocation suite universe is very broad, and each target date suite and asset allocation suite of funds differs from the others. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families and asset allocation suites.

The selection process may include, but is not limited to, the steps below:

- The Board decides what the primary objectives are in relation to risk management - whether or not minimizing risk on a static scale at retirement is desired (*i.e.*, managing the glide path "to" retirement) versus maximizing to maximize savings "through" life expectancy with a more aggressive glide path after retirement;
- Consider participant demographics to help define overall risk tolerance. Factors that may be considered are average age of population, overall investment knowledge, and current plan usage of target date, hybrid funds, or asset allocation suites;
- Determine diversification of asset classes. The Board may consider a broad range of assets classes and whether or not the target date or asset allocation suite chosen should include various types of asset classes that would normally not be considered under a core line up. These asset classes typically have lower correlations to the core line up and may

include, but not be limited to, the following: real estate, commodities, high yield debt, emerging market equity and debt, inflation hedging, and long/short equity strategies;

- Inception of the target date fund and asset allocation suites should be at least three years though can consider less;
- A review of expense fees in comparison to averages and as related to overall plan cost; and
- Performance comparison to a custom style benchmark in addition to category averages.

Monitoring of Target Date Funds

The monitoring process may include, but is not limited to, the steps below. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.

- Review of the glide path to ensure consistency with reason that funds were chosen;
- Review performance relative to custom style benchmark in addition to category averages;
- Review underlying holdings in comparison to relative Morningstar peer groups or applicable strategy; and
- Review qualitative assessment on management of the funds in an effort to demonstrate consistency with overall strategy.

Selection of Fixed Interest/Stable Value Options

In selecting any fixed interest/stable value option, the Board may consider some or all of the following criteria, as the Board deems appropriate in its sole discretion (should the Board choose to offer such an option):

- financial strength ratings of the guarantor provided by the major ratings agencies;
- interest rate history and minimum guaranteed contract rate;
- contract liquidity provisions;
- current and historical market to book value ratio (stable value funds only); and
- comparison between fixed interest accounts (*i.e.*, those backed by general assets) and stable value accounts (*i.e.*, those backed by separate account).

Monitoring of Fixed Interest/Stable Value Option

The Board shall monitor any fixed interest/stable value option as frequently as circumstances warrant. As part of its monitoring process, the Board may consider some or all of the following criteria, as the Board deems appropriate in its sole discretion:

- financial strength ratings of the guarantor provided by the major ratings agencies;
- current interest rates; and
- current market to book value ratio (stable value funds only).

Proxy Voting

Proxy voting rights shall be exercised in the best interest of the participants and beneficiaries of the Plan. The Board may delegate the responsibility for promptly voting all proxies and related actions in a manner consistent with the long-term interest and objectives of the Plan. Consistent with the Board's fiduciary duty, the Board may decide not to vote a proxy or not to delegate the responsibility for voting all proxies if the expense of determining the appropriate vote or delegation of votes outweighs the benefit that a favorable outcome would provide for the Plan and its participants and beneficiaries. The Board shall keep records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.

IV. Summary Statement

This DC Investment Policy shall guide the Board and shall remain in effect until amended by the Board. Nothing contained in this DC Investment Policy shall provide to any participant or beneficiary the right to enforce the terms of this DC Investment Policy, and the Board shall have full and complete discretion as to how it selects and monitors the investment options and investment providers offered under the Plan and the application of this DC Investment Policy to any specific situation.