



Manager Recommendation Memorandum

February 20, 2024

Board of Trustees

Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street Harrisburg, PA 17101

Re: Garcia Hamilton & Associates, LP Investment Management Services for Core Fixed Income Mandate

Dear Trustees:

Verus Advisory, Inc. ("Verus"), having been duly authorized by the Board of PSERS, has evaluated the Garcia Hamilton & Associates ("GHA") Core Fixed Income strategy, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, and believes that this strategy is of institutional quality and appropriate for clients, including PSERS, that seek a high quality, diversified bond portfolio designed to capture market inefficiencies through a combination of top-down sector rotation and yield curve positioning.

Verus recommends that the PSERS Board approve staff's recommendation to hire GHA as a core fixed income investment manager for an initial allocation of up to \$500 million plus reasonable normal investment expenses and authorize the Investment Office in its discretion to invest an additional sum up to \$1 billion unless this amount exceeds the single manager limits approved by the Board as found in the Investment Policy Statement.

Verus considers GHA one of the top investment managers within core fixed income and rates this strategy IQ2, indicating a high degree of conviction. Garcia Hamilton is 100% employee owned and MBWE certified, with approximately 88% of ownership held by minority and women partners. There have not been any material changes in ownership since 2008. The firm has a long-tenured investment team, composed of twelve investment professionals having final decision-making responsibility for all portfolios. Of the investment team members, nearly three-quarters are equity-holding partners that average over a decade with the firm. Verus views the team stability and strong culture of GHA as a significant competitive advantage to peers.

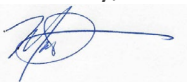
The fixed income investment process at GHA is differentiated from other core strategies primarily in that GHA does not seek to build their portfolio from the bottom-up. Rather, their focus on sector rotation with an overlay of duration and yield curve positioning provides a higher level of top-down return attribution than most peers. GHA has consistently shown discipline in their investment process, never reaching for yield or including names that do not fit their screening requirements. The team monitors risk contribution from duration, yield curve, and sector overweight's daily, which provides ample opportunity to catch unexpected issues with portfolio characteristics.

Verus and staff evaluated a wide range of potential core fixed income strategies based on qualitative factors, quantitative measures, and onsite interviews. Verus believes that GHA's Core Fixed Income strategy represents the best fit for PSERS needs for the following primary reasons:

- Culture: GHA is 100% employee-owned, limiting the potential for conflicts of interest and closely aligning the firm's objectives with those of their clients. Employees are long-tenured with low turnover, which has led to a high degree of stability in the investment team.
- Differentiated approach: The investment process utilizes a top-down approach which is unique and distinguished from most peers. The top-down strategy will work well in tandem with JP Morgan's Core Fixed Income strategy that is also being recommended to the Board.
- Portfolio fit: The GHA Core Fixed Income strategy also complements the PSERS in-house Core Fixed strategy well with a -0.36 correlation of excess returns over the Bloomberg Aggregate. The strategy also has relatively low correlation of excess returns with JP Morgan's Core Fixed Income strategy at 0.19, indicating only a slightly positive relationship.

Please feel free to contact me should you have any questions about this recommendation.

Sincerely,



Mark E. Brubaker, CFA
Managing Director