COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Currency Hedging Policy

TABLE OF CONTENTS

Revision History

Currency Hedging Policy Established	**March 6, 2020**
Policy Revised	**March 5, 2021**
Policy Revised	**April 1, 2022**

I. SCOPE

This Policy applies to investments that incorporate non-US dollar denominated securities and employ Currency Hedging within the Pennsylvania Public School Employees' Retirement System ("PSERS") Defined Benefit Fund ("The Fund").

II. PURPOSE

This Policy provides the broad strategic framework for managing investments that use a Currency Hedging strategy. The objective of the Policy is to effectively manage portfolio return volatility associated with foreign currency risk.

III. ROLES AND RESPONSIBILITIES

Roles and Responsibilities related to this Policy are identified within PSERS' Investment Policy Statement ("IPS").

IV. INVESTMENT PHILOSOPHY

PSERS seeks to diversify investments among multiple asset classes and geographies, a result of which is foreign currency exposure. Foreign currency risk is the potential for negative foreign currency return with these investments as a result of adverse movements in foreign exchange rates. Currency Hedging plays a strategic role within the Fund by providing a means to manage this risk. PSERS categorizes currency risk as being either non-US dollar Developed Market (DM) or Emerging Market (EM) as defined by MSCI. Economic theory suggests that DM currencies do not have a positive expected return and thus add uncompensated risk, and therefore PSERS prefers to hedge some proportion of this risk. The proportion of the DM currency hedge is specified for each mandate. Economic theory suggests that EM currencies generally have positive expected returns over the long term. EM currencies are also more expensive to hedge, given their greater volatility and generally higher interest rates relative to the United States. Therefore, PSERS prefers not to hedge EM currency risk.

V. ALLOCATION

Currency hedge ratios will be applied to the Fund's public markets and private markets non-US dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-US dollar DM currency exposure to be passively hedged. The currency hedges may be obtained through externally managed and internally managed approaches.

The following mandates, and their respective benchmarks, currently comprise the currency hedges PSERS employs:

Asset Class	Hedge Target	Range*	Benchmark
Public Equity	50%	40-60%	100% hedged MSCI World ex US IMI Net index minus unhedged MSCI World ex US IMI Net Index
Public Infrastructure	100%	90-110%	(100% hedged FTSE Developed Core Infrastructure 50/50 Net Tax Index minus unhedged FTSE Developed Core Infrastructure 50/50 Net Tax Index)/monthly starting Non-USD weight
Public Real Estate	100%	90-110%	(100% hedged FTSE EPRA/NAREIT Developed Index minus unhedged FTSE EPRA/NAREIT Developed Index)/monthly starting Non-USD weight
Private Equity & Private Equity Co-Investments	100%	80-120%	Custom Currency mix
Private Credit	100%	80-120%	Custom Currency mix
Private Infrastructure & Private Infrastructure Co-Investments	100%	80-120%	Custom currency mix
Private Real Estate	0%	N/A	N/A

*Should the tolerance range be exceeded, the currency hedge will be brought within range by the following month-end.

It should be noted that in addition to the above mandates included in the currency overlay program, there are or may be other mandates which are hedged. The decision to hedge may be delegated to External Managers as part of their mandate.

VI. PERMISSIBLE INSTRUMENTS

Currency Hedges may be implemented with exchange-traded or over-the-counter instruments in derivative form on DM currencies. Constraints may be applied in investment manager portfolio guidelines or comparable governing documents.

VII. PERFORMANCE OBJECTIVES

Each currency hedge mandate has a specific currency hedge benchmark associated with it. The Currency Hedging program is passively implemented so that the actual hedge for each mandate closely tracks the hedge benchmark for that mandate. Currency Hedging seeks to reduce the return volatility (standard deviation) of each mandate and of the overall Fund relative to being unhedged.

VIII. RISK MANAGEMENT

Risk is managed through a combination of quantitative and qualitative constraints. The following sub-sections identify the key risks with Currency Hedging:

A. Active Risk

Active Risk or Tracking Error is a statistical measure of the potential variability of a portfolio's return relative to that of the assigned benchmark. The currency hedges are passively implemented at the direction of IOP, so there is minimal expected Tracking Error.

B. Liquidity Risk

The program invests in highly liquid investments, such as currency forwards and futures.

C. Manager Risk

Manager risk, i.e., concentration to single manager, is considered minimal as the mandates are passively implemented at the direction of IOP.

D. Derivatives Risk

Derivatives usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Derivatives Policy.

E. Counterparty Risk

Counterparty risk will be as prescribed and evaluated in the Derivatives Policy.

F. Leverage Risk

There is minimal leverage risk since currency exposure is being hedged. Each corresponding short foreign currency exposure is generally offset by a corresponding long currency exposure within the asset class or sub-asset class being hedged.

Leverage usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Leverage Policy.

IX. MONITORING AND REPORTING

See Monitoring and Reporting section of the IPS.