COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Liquidity Policy

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Revision History

Liquidity Policy Established	**March 6, 2020**
Policy Revised	**March 5, 2021**
Policy Revised	**May 24, 2023**
Policy Revised	**May 31, 2024**

I. SCOPE

This Policy addresses liquidity management within the asset allocation of the Pennsylvania, Public School Employees' Retirement System ("PSERS") Defined Benefit Fund (the "Fund").

II. PURPOSE

This Policy provides a broad strategic framework for managing the Fund's liquidity involving investment assets, investment-related liabilities and short-term obligations including benefit payments.

III. ROLES AND RESPONSIBILITIES

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

IV. PHILOSOPHY

In general, liquidity refers to the capacity to use and, if necessary, generate cash. Since most obligations are satisfied with cash, rather than other assets.

For an asset or collection of assets, liquidity is a term used to characterize the capacity of the asset(s) to be efficiently converted into cash. "Efficiently" considers (1) the time involved in the conversion, (2) the impact to price as conversion occurs and (3) any other transactions related costs. More liquid assets generally require less time to be converted into cash, can be converted with little or no pricing impact, and involve low transaction costs. Conversely, less liquid assets generally require more time to be converted into cash and can require greater price concessions and higher transaction costs for the conversion to cash.

Liquidity is valued by the markets and less liquid assets are expected to earn a premium. Therefore, PSERS seeks to balance the long-term usage of illiquid, or potentially illiquid assets, and leverage to generate targeted returns with the ability to raise and hold cash to pay pension and investment related obligations. During periods of market dislocations in which asset liquidity becomes impaired, maintaining the long-term asset allocation is a secondary priority relative to the immediate cash flow needs for benefit payments.

The term liquidity may also be used more broadly, referring to the capacity to satisfy short-term obligations in which both asset liquidity and liabilities are considered. In this context, liquidity management refers to the process of balancing available assets relative to liabilities. It is a complex process that may be impacted by many variables, including conditions which affect asset liquidity as well as those conditions which affect liabilities. Investment-related liabilities include notional exceeding capital and unfunded commitments.

V. SOURCES OF LIQUIDITY RISK

Liquidity risk is the potential for loss resulting from the diminished capacity, or inability of the Fund to efficiently meet its benefit and investment-related payment obligations. Four broad areas of liquidity risk are considered below.

A. Employer/Employee Contribution Receipts

PSERS is funded by employee and employer contributions, which represent a significant source of liquidity. Employee contributions are set by law and employer contributions are actuarially determined and can be projected for several years in the future. Should the employer contributions be decreased in the future without a corresponding adjustment to the structural characteristics of the Fund such a change could increase liquidity risk for PSERS.

B. Benefit Payments

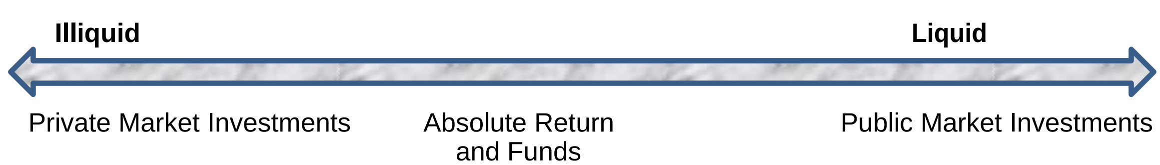
Many factors influence the liquidity risk associated with PSERS' benefit obligations. These include benefits offerings, contribution rates, and member demographics. PSERS is currently considered to be a mature plan, i.e., a plan with a lower ratio of active members to retirees, in which cash outflows (benefit payments) exceed cash inflows (contributions). Should the structural characteristics of the benefits change in the future without a corresponding adjustment to contributions, such a change could increase liquidity risk for PSERS.

C. Assets

Asset liquidity is dependent upon several factors including:

- Market conditions (trading volumes, volatility, relative values of securities) at near normal levels;
- How quickly an asset can be bought and sold (this includes contractual provisions, such as gates, which may limit the ability to transact);
- Pricing efficiency; and
- Transaction costs.

Generally speaking, and with consideration of the variables above, the level of liquidity of the investments can be characterized, under normal market conditions, along a spectrum:



D. Investment-Related Liabilities and Cash Needs

Investment-related liabilities are those obligations resulting from investment activity and include:

- Derivatives related obligations including margin collateralization and other payment obligations;
- Transactional obligations; and
- Other contractual obligations.

Potential cash needs include the following:

- Asset allocation and Fund-level rebalancing activities;
- Internally managed portfolio fundings and transitions;
- Cash related to leveraged positions;
- Externally managed public and private markets portfolio capital commitments and transitions.

These liabilities and cash needs may also be impacted by market conditions and contractual provisions.

VI. RISK MANAGEMENT

A number of approaches are used to measure and manage the Fund's liquidity risks, including a combination of controls in policies, portfolio guidelines, account structures, procedures, and operative legal and governing documents. The Fund's resulting cash flows and liquidity characteristics are monitored and reported to the Board via the Investment Committee Dashboard ("IC Dashboard"), a monthly report provided via the Board's governance platform and presented regularly at Investment Committee meetings.

A. Asset Allocation

The asset allocation is the primary determinant of the Fund's liquidity. The liquidity characteristics of different asset classes are along a spectrum, as summarized in the table in Section V.C., with additional detail provided below. Limitations on less liquid asset classes are driven by the top-down allocation and ranges which are included in the Asset Allocation within the IPS. Elements within the IC Dashboard related to the asset allocation include liquidity available by asset class at different time intervals (e.g., available liquidity within 30 days).

B. Cash Flow/Liquidity Monitoring

Liquidity reports are prepared, distributed, and monitored daily within the IO, with the Asset Allocation Committee ("AAC") meeting at least monthly to formally review these reports. Elements within the IC Dashboard related to cash flows/liquidity include the cash balance and known or anticipated cash flows (e.g., benefit payments, employer/employee contributions, and funding requests or distributions).

C. Stress and Liquidity Testing (IOP and General Investment Consultant ("GIC")

Separate from the stress test required by Section 8510, an investment-related stress test and liquidity analyses of the Strategic Asset Allocation ("SAA") shall be prepared and presented to the Investment Committee ("IC") by the GIC annually and by the IO periodically as applicable.

D. Contingency Plan

During a liquidity event – the unlikely circumstance where market conditions are severe enough such that immediate liquidity needs are greater than the liquidity normally available from the Fund's asset allocation – the CIO may take certain contingency measures, as expressly described below, to either preserve or generate additional liquidity to satisfy the Fund's liquidity needs. Given the short time typically available for executing such measures, Board approval prior to execution may not be feasible; however, the full Board, the Board's General Investment Consultant, PSERS Executive Director, and PSERS Chief Counsel will be notified by the CIO as soon as practicable after executing such measures and no later than within 24 hours. The CIO will also provide a more formal report to the full board two weeks after such measures have taken effect, or by way of the next Board meeting (should such meeting occur sooner). Any such contingency measures will be considered temporary and may not extend longer than three months without receiving Board approval. The Board, at its sole discretion, may choose to limit or extend the duration of such measures to a period shorter or greater than three months.

The contingency measures may include the following actions:

- Temporary suspension of one or more approved Target Ranges included in the IPS, to allow actual allocations to move (by way of market changes or actions directed by the CIO) beyond the range(s) stipulated in the IPS.
- Liquidating specific securities from an account irrespective of benchmark. For example, selling U.S. Treasuries from a Core Fixed Income account benchmarked to the Bloomberg Barclays U.S. Aggregate resulting in a temporary, significant overweight to the remaining issues.
- Temporary suspension of certain derivatives used for asset allocation, currency hedging, or other strategy specific purposes, even where such action may bring actual allocations outside the Target Ranges stipulated within the IPS.

VII. MONITORING AND REPORTING

See Monitoring and Reporting section of the IPS.