PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT POLICY STATEMENT, OBJECTIVES AND GUIDELINES
INTERNALLY MANAGED PREMIUM ASSISTANCE PROGRAM PORTFOLIO

I. GENERAL

The Public School Employees' Retirement Board (the Board) is vested with and exercises exclusive control and management of the Health Insurance Premium Assistance Program (Program). The Program is a medical assistance program offered by the Board. The custodian of the Program's assets is the State Treasurer of the Commonwealth of Pennsylvania. The Board, as trustee for the Program, has exclusive investment control of the Program, and shall invest the moneys in the Program as authorized by the laws of the Commonwealth of Pennsylvania. Part of this responsibility includes development of investment policy, informed selection and retention of investment advisors, and ongoing monitoring of investment results.

II. OBJECTIVES

This actively managed U.S. fixed income portfolio (Portfolio) will consist primarily of fixed income investments and cash equivalents. The Investment Manager will seek to diversify assets by obtaining broad exposure to publicly traded markets in short-term, high quality, liquid securities and money market funds. The objectives of the Portfolio are:

1. to preserve capital;
2. to maintain low price volatility relative to the Merrill Lynch 3-Month Treasury Bill Index (Index);
3. that a minimum of 25% of the Portfolio be convertible to cash on a quarterly basis within three business days of the request with minimal market impact;
4. to generate positive annual returns in excess of the Index; and
5. to maintain an information ratio of 0.30 or greater per year over a rolling 3-year period.

Quarterly performance shall be evaluated to monitor progress toward attainment of these goals. It is understood that there are likely to be short-term periods during which performance deviates from the Index.

III. PORTFOLIO RISK MANAGEMENT

The Board's expectations are that the Portfolio be actively managed within the spirit of a short-term investment pool mandate. Within this framework, the following are the portfolio risk constraints under which the Investment Manager is required to operate:

A. Interest Rate Risk

The effective or option-adjusted duration must range from zero to 0.50 year.

B. Spread Risk

The effective or option-adjusted spread duration must range from zero to 0.50 year.

C. Credit Risk

1. The weighted-average credit rating must be Aa2/AA or better.
2. Commercial paper issuers and negotiable certificates of deposits rated P-1/A-1 or better are acceptable. Commercial paper rated P-2/A-2 is acceptable provided the long-term rating is at least investment grade.
3. Securities other than commercial paper issuers and negotiable certificates of deposits must be rated A3/A- or better, with the exception that up to 2% may be invested in securities that are both rated Baa1/BBB+ and mature in 90 days or less.
4. Money market funds that are not registered with the Securities and Exchange Commission are prohibited.
5. Repurchase agreements will have terms no greater than 90 days and will be secured by at least 102% of Federal Obligations collateral.

Note: Credit ratings shall include ratings issued by Moody's, Standard & Poor's, and Fitch Investor Service (hereafter referred to as the "Credit Rating Agencies"). If each of the Credit Rating Agencies assigns a credit rating, the credit rating will be the lowest of the three ratings (for example, if Moody's rates a security Baa2, S&P rates a security BB+, and Fitch rates a security BBB-, the lowest credit rating would be considered BB+ by S&P). If only two of the three Credit Rating Agencies assign a credit rating, the credit rating will be the lower of the two. If only one of the Credit Rating Agencies assigns a credit rating, that credit rating will apply.

The rating for the internally managed PSERS Ultra Short Duration portfolio is considered Aaa/AAA for credit rating purposes.

D. Currency Risk

1. At no time may the Portfolio invest in securities denominated in foreign currencies.

E. Sovereign Risk

1. No more than 15% of the Portfolio at market value may be invested in dollar-denominated non-U.S. government securities and dollar-denominated bonds issued by non-U.S. domiciled entities. Non-U.S. exposure will be determined based on the issuer of the underlying instrument.

F. Concentration Risk

1. No more than 7% of the Portfolio at market value may be invested in the securities of any issuer (excluding issues or issuers fully guaranteed by the U.S. Government and its agencies rated Aaa/AAA and securities issued by non-US. Governments).
2. Non-convertible preferred stock and convertible bonds (bonds convertible into common stock) are prohibited.
3. No more than 5% of the Portfolio at market value may be invested in asset backed securities (defined as financial instruments collateralized by one or more types of assets including mortgages, receivables, loan paper, etc.) rated below AA3/AA-. This limit does not apply to U.S. or U.S. agency guaranteed asset backed securities.
4. No more than 10% of the Portfolio at market value may be invested in municipal securities.
5. No more than 15% of the Portfolio at market value may be invested with any one sponsor of money market funds.
6. Repurchase agreements and reverse repurchase agreements are prohibited.

G. Counterparty Risk

1. Exposures to any counterparty will not exceed 20% of the Portfolio at market value.

H. Derivatives

1. Derivative investments, including but not limited to, forwards, futures, interest only and principal only strips, options, swaps, structured notes, swaps, etc., are prohibited.

I. Mutual/Commingled Funds and Unit Investment Trusts

1. Mutual funds (both closed and open-ended), Commingled Funds, Unit Investment Trusts, ETFs, or any equivalent fund type funds are prohibited investment vehicles.

IV. BREACHES

It is recognized that the Portfolio will always be subject to fluctuations in market value and is subject to PSERS choosing to add or remove capital to/from the Portfolio, therefore there are three types of breaches as noted below:

- Market-driven breaches of the guidelines (breaches that occur due to market fluctuations) shall not be considered a violation of the guidelines as long as the Investment Manager corrects these breaches within 10 business days of the breach. A written exception is required should additional time be required to bring the Portfolio back into compliance with the guidelines.

- Allocation-driven breaches of the guidelines (breaches that occur due to PSERS adding or removing capital) shall not be considered a violation of the guidelines as long as the Investment Manager corrects these breaches within 5 business days of the allocation. A written exception is required should additional time be required to bring the Portfolio back into compliance with the guidelines.

- Active breaches (breaches that occur due to purchase and sale activity) shall be considered a violation of the guidelines and must be corrected as soon as prudently possible. Consistent patterns of active breaches may be cause for termination.

V. GUIDELINE UPDATES

A written request to the investment Risk Manager should be made if the Investment Manager believes that these guidelines significantly limit the ability of the Investment Manager to achieve the objectives of the Portfolio. Revised guidelines will be brought to the Board for review and approval.

VI. MONITORING AND REPORTING

The Board receives information necessary to fulfill its fiduciary responsibility of monitoring and overseeing this Program. The following reflects the frequency and detail of the information reported to the Board by the Investment Office Professionals:

- Notification of any compliance exceptions to the guidelines.

- On a monthly basis via Diligent, the Moneyline Report that presents the month-end net asset value for the Portfolio.

- On a quarterly basis, performance of this Portfolio.

VI. PREVIOUS GUIDELINES

Guidelines with effective dates beginning prior to the Board Approval Date are hereby null and void, except for Guideline Exceptions with approval dates prior to the Effective Date of these Guidelines. Guidelines are required to be signed by applicable Investment Office Professionals.

REVISIONS

- **06/22/2012 –** Guideline established
- **06/12/2020** – Guideline updated including formatting and a reduction of spread duration from 0.75 to 0.50 years and credit rating defining measure from middle of the 3 primary agencies to the lowest. Both changes were made to be consistent with the PSERS Defined Benefit cash guidelines.