


Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: March 15, 2007

SUBJECT: Investment Policy Statement, Objectives, and Guidelines

TO: Members of the Board

FROM: Alan H. Van Noord, CFA
Chief Investment Officer 

At the Finance Committee meeting on March 15, 2007, Jim Grossman will present for your approval some minor modifications to the Investment Policy Statement (IPS). We added seven new definitions that relate to changes made throughout the document. Other than the added definitions, the following are the changes that are recommended for approval:

1. Asset Class Rebalancing – pages 11 and 12. We request that the policy be changed to permit rebalancing of asset classes to within the Board approved ranges in Exhibit B. This differs from the current policy that only allows rebalancing up to the target allocation objective. In equities, we would almost always be above target in public market equities due to the underweighting to private markets. In addition, we request that the Board approve authority for the CIO to tactically allocate between asset classes as long as the amount allocated to each asset class is within policy ranges described in Exhibit B.
2. Investment Structure – pages 12 and 13. We request that upon implementing the investment structure that rather than using pro-forma target percentages to each Investment Manager portfolio that the Board approve the use of target ranges for each portfolio. This will continue to control the maximum amount of capital allocated to each Investment Manager within a policy range. These policy ranges are noted in Exhibit D.
3. Brokerage Commissions – pages 20 and 21. Proposed policy revision to require U.S. equity managers that trade away from the PSERS' Trading Desk to participate in the commission recapture program.
4. Exhibit B – page 31 and 32. Updated Asset Allocation to account for the 1% allocated to Commodities and the recommended increase in Real Estate exposure from 7% to 8%. These increases were accomplished by a decrease in U.S. equities by 1% and non-U.S. equities by 1%.
5. Exhibit C – page 33 – Updated policy benchmark to reflect the following:
 - a. Change in U.S. Fixed Income and High Yield benchmark from the Lehman Brothers Aggregate Index to the Lehman Brothers U.S. Universal Index. This change is the result of the Independent Fiduciary Services (IFS) fiduciary audit and the review and concurrence of Wilshire;
 - b. Change in the Global Fixed Income benchmark from the Lehman Brothers Global Aggregate Index to the Lehman Brothers Multiverse Index. This change is the result of the IFS fiduciary audit and the review and concurrence of Wilshire;

- c. Change in PTRES Index from the DJ Wilshire Real Estate Securities Index to the FTSE EPRA/NAREIT Global Real Estate Index (change was effective October 1, 2006 per PSERB Resolution 2006-52 dated August 4, 2006);
- d. Adjusted the percentages based on the changes to Exhibit B.

6. Exhibit D – pages 34 and 35. See discussion point #2 above.

In addition, we will be presenting for your approval two amended addendums to the Investment Policy Statement, Objectives, and Guidelines. They are Addendum I – U.S. Core Plus Fixed Income and Addendum Q – Global Core Plus Fixed Income. The changes to these addendums reflect the new fixed income benchmarks discussed above that were recommended by IFS and Wilshire Associates.