

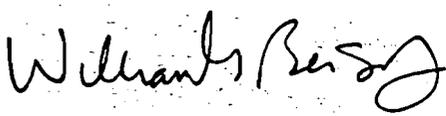
Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 25, 2008

SUBJECT: Quarterly Investment Review / Investment Manager Recommendation

TO: Members of the Board

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

William Bensur 
Wilshire Associates

At the Finance Committee meeting in September, Gerry Smith, Managing Director of Equities, Mark Heppenstall, Director of Fixed Income, and Bill Bensur from Wilshire Associates will be reviewing performance for the quarter ending June 30, 2008. For the quarter, the Fund returned (0.48%), trailing the policy benchmark return of (0.16%) by 32 basis points. This return placed the Fund at the 31st percentile during the quarter in Wilshire's database. Our one year return was (2.82%), 98 basis points behind of the policy index and at the 35th percentile in Wilshire's database. Active management continued to have a difficult time during the quarter generating much of the underperformance versus policy.

Wilshire and staff are recommending the retention of the following new portable alpha manager:

- Westridge Capital Management – the recommendation is to invest up to \$1 billion in their Enhanced S&P 500 Index product which uses index arbitrage to add value. When futures prices are too high versus the price of stocks, the manager simultaneously buys index stocks and sells the futures, earning the premium of futures over the index level by either holding to expiration date or closing the position if prices move back in line. Westridge will use leverage of up to 10 times (\$10 long/\$10 short). There is no economic leverage because they are simultaneously buying and selling the index in equal amounts. There is no equity risk associated with stock picking, industry weighting, or market timing. Westridge has been doing this strategy since April 1996 and has never generated negative alpha in the any month during that time. This strategy will be implemented in a commingled fund in two \$500 million tranches (Westridge wants to assess the market impact of the initial \$500 million before accepting the second \$500 million). Funding will come from the internally managed S&P 500 Index portfolio. Our target alpha will be \$5 million with expected risk of \$1 million.

This strategy will help diversify our existing alpha strategies and has performed very favorably during this recent credit crisis. The strategy has a low correlation with all our current active management strategies, whether they are traditional or non-traditional mandates. While this mandate will not be a large alpha contributor compared to others (i.e. our currency strategies have expected returns of \$30 million with expected risk of \$40 million), we believe that focused/limited capacity alpha strategies such as this one have a place within our portable alpha program. The fee structure for this strategy is no base fee with an incentive fee over an appropriate benchmark, will have a high water mark, and will have complete transparency.

If you have any questions or comments, please contact me at 717-720-4702.

**Proposed
PSERB Resolution 2008-_____
Re: Westridge Capital Management, Inc.
September 25, 2008**

RESOLVED, that the Finance Committee of the Public School Employees' Retirement Board (the "Board") hereby recommends that the Board invest up to \$1.0 billion in the Westridge Capital Management Enhancement Funds – Class Fund A pursuant to the recommendation of Alan Van Noord, Chief Investment Officer, and Wilshire Associates Incorporated in their memo dated September 25, 2008.

The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract.