

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: May 24, 2010

SUBJECT: Investment Objectives and Guidelines Addenda

TO: Members of the Board

FROM: James H. Grossman, Jr., CPA, CFA
Managing Director of External Public Markets, Risk & Compliance

As noted during the April Finance Committee meeting, we are continuing our annual process of bringing investment objectives and guidelines to the Board for your approval. We have continued to re-engineer our guidelines to link the various risks in the portfolio we seek to manage to the Board approved portfolio constraints. By streamlining the guidelines, we will provide the manager with clear, specific, understandable constraints for the risks we are addressing.

At the last meeting, the Finance Committee approved the guidelines for Addendum I - U.S. Core Plus Fixed Income Portfolios. At this meeting, we will be seeking approval for the following fixed income addenda:

<u>Addendum</u>	<u>Addendum Title</u>
K	U.S. High Yield Fixed Income Portfolios
K1	Mortgage and Asset Backed Securities Portfolios
L	Internally-Managed Treasury Inflation Protection Securities Portfolios
Q	Global Core Plus Fixed Income Portfolios
Q1	Emerging Markets Fixed Income Portfolios (previously Q2; however, Q1 is being eliminated as it is no longer needed)
Y	Internally-Managed Short-Term Investment Pool
Y1	LIBOR-Plus Short-Term Investment Pools
	Internally-Managed Premium Assistance Program Portfolio

Given the magnitude of the structural changes to the guidelines, we have included both the old guidelines (approved June or August 2009) and the proposed guidelines (proposed June 10, 2010) for your review.

All the fixed income guidelines include a new guideline on credit spread risk, or the risk the portfolio has to widening credit spreads. Otherwise, there are no material differences in the portfolio constraints between the old and the new versions. In general, we tried to maintain or lower the risk levels in the various guidelines.

If you have any questions or comments, please contact me at 717-720-4703.