

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 21, 2011

SUBJECT: Global Developed Ex-U.S. Fixed Income

TO: Members of the Board

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

At the October Finance Committee meeting, we will ask the Committee to retain three new non-U.S. developed market fixed income managers as follows:

- AllianceBernstein LP
- Franklin Templeton
- Strategic Fixed Income LLC

Staff and Wilshire completed a formal search with interviews of six candidates on August 31, 2011 and felt that these three managers were the best fit for PSERS' non-U.S. developed market fixed income allocation. As of August 31, 2011, PSERS was underweight its allocation to non-U.S. fixed income by approximately \$900 million. Our current plans are to allocate approximately \$300 million to each of these managers during the 4th quarter of 2011.

Included with this memo is Wilshire's recommendation memo, Wilshire's presentation documenting the Global Developed ex. U.S. Fixed Income Manager Search, and the resolutions recommending the hiring of each of these managers. Wilshire will present the results of this search at the meeting.

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

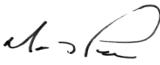


Memorandum

Date: September 21, 2011

To: James H. Grossman, Jr.
Managing Director of External Public Markets, Risk and Compliance
Pennsylvania Public School Employees Retirement System

From: William G. Bensus, Jr., CFA 
Managing Director
Wilshire Associates Incorporated

Marlin D. Pease, CFA 
Managing Director
Wilshire Associates Incorporated

Re: Global Developed Ex-U.S. Fixed Income

The purpose of this memorandum is to review the results of the Global Developed Ex-U.S. Fixed Income investment manager search and provide recommendations for implementation within this mandate. The PSERS Staff asked Wilshire Consulting to conduct a Global Developed Market Ex-U.S. Fixed Income manager search. Criteria for the search included a performance record greater than three years, a deep, comprehensive global research platform and a demonstrated ability to provide long-term risk-adjusted returns relative to the Barclays Global Aggregate Index. Six managers were on the list of finalists (AllianceBernstein, Brandywine, Capula, Franklin Templeton, ING and Strategic) and each was invited to present their strategies on Wednesday, August 31, 2011.

Wilshire recommends that PSERS retain AllianceBernstein, Franklin Templeton and Strategic to manage the Global Developed Ex-U.S. Fixed Income mandate that will serve a strategic role in the PSERS investment program. Wilshire believes that AllianceBernstein, Franklin Templeton and Strategic are each institutionally oriented firms with qualified investment teams and complementary strategies within this mandate.

AllianceBernstein

AllianceBernstein has a global presence. Their strategy integrates quantitative and fundamental research within its investment process. Credit research and economic research conducted by fixed income analysts seeks to access opportunities in securities, sectors, countries / yield curves and currencies. Annual performance objective of 50 to 100 bps over benchmark with tracking error of 75 to 150 bps



Franklin Templeton

Franklin Templeton has a global research platform. The fixed income team pursues diversified sources of alpha across securities, sectors and global markets. The team combines top-down, bottom-up and quantitative techniques to construct a diversified portfolio of low-correlated positions. The strategy is benchmark unconstrained with an expected risk and return profile of 300 to 600 bps of tracking error and 300 to 600 bps of alpha.

Strategic

Strategic is a boutique firm with offices in Washington, D.C. and London. They utilize a focused top-down strategy capitalizing on anticipated directional trends in global interest rates and foreign exchange rates. The strategy avoids illiquid, non-investment grade securities providing a low correlation with equities and relative value strategies.

Performance Summary

Excess Cumulative Periods as of June 30, 2011

Benchmark: Barclays Capital - Global Agg GDP Weighted Dev ex U.S. Index

	Quarter	One Year	Three Years	Five Years
AllianceBernstein L.P. - AllianceBernstein Global Fixed Income	0.53	-2.53	1.99	1.46
Franklin Templeton Investments - Franklin Templeton Global Bond Aggregate Unhedged	-0.22	-3.95	1.74	0.49
Strategic Fixed Income, L.L.C. - Strategic Non-Dollar Bond Fund	1.00	-0.81	8.98	8.23

Risk/Return June 30, 2006 - June 30, 2011

	Risk	Total Return	Sharpe Ratio	Sortino Ratio	Return/Risk
AllianceBernstein L.P. - AllianceBernstein Global Fixed Income	8.15	8.91	0.83	1.12	1.09
Franklin Templeton Investments - Franklin Templeton Global Bond Aggregate Unhedged	7.24	7.87	0.79	1.06	1.09
Strategic Fixed Income, L.L.C. - Strategic Non-Dollar Bond Fund	11.45	16.18	1.21	1.74	1.41
Barclays Capital - Global Agg GDP Weighted Dev ex U.S. Index	9.39	7.34	0.56	0.75	0.78

Recommendation

Wilshire recommends that PSERS invest up to \$300 million each with AllianceBernstein, Franklin Templeton and Strategic in a Global Developed Ex-U.S. Fixed Income portfolio within the global fixed income allocation of the PSERS investment program. As always, this recommendation is subject to successful contract negotiation and appropriate legal review.

Please let us know if you have any questions regarding this recommendation.