

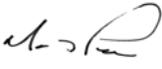


Memorandum

Date: June 5, 2012

To: James H. Grossman, Jr.
Deputy Chief Investment Officer
Pennsylvania Public School Employees Retirement System

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

Marlin D. Pease, CFA 
Managing Director
Wilshire Associates Incorporated

Re: Salient Partners, L.P.

The purpose of this memorandum is to provide background analysis and a recommendation for Salient Partners, L.P. (“Salient”) to manage an active Master Limited Partnership (“MLP”) portfolio that will serve a strategic role in the PSERS investment program. Wilshire believes Salient is an experienced, institutionally oriented firm, with deep resources and a qualified investment team.

Organization

Salient is based in Houston, TX, widely considered the MLP capital of the world. The location is ideal for actively managing a portfolio of energy infrastructure assets. Salient is the third largest money manager in Houston with approximately \$17 billion in assets under management (\$600 million in MLP assets). Salient was formed in 2002 and currently has 110 employees across the spectrum of equity, fixed income and alternative investments.

Greg Reid is the President and portfolio manager of Salient’s MLP business, with over 15 years of experience investing in MLPs at Goldman Sachs, Merrill Lynch, and RDG Capital. Ted Gardner, co-portfolio manager for the strategy, has over seven years of experience investing in MLPs as both a sell-side analyst and portfolio manager. In total, the MLP team has nine investment professionals and each of the principals has a personal investment in the MLP strategies. RDG Capital Holdings retains a 40% profits interest in the overall MLP business. Greg Reid, Ted Gardner and Cole Dawson (Chief Operating Officer) are the LPs of RDG Capital Holdings.

Investment Approach

The investment process is built around understanding how a partnership can achieve consistent distribution growth and the circumstances within each partnership that could hinder the sustainability of the distribution. The team prides themselves on their proprietary in-house research effort and the detailed modeling of each MLP’s revenue characteristics, expense structure, segment contribution, customer contract issues, commodity price hedging structures, balance sheet specifics, management decisions and potential risks to the maintenance and growth of the MLP distribution.

The team constructs detailed earnings and cash flow models on each of the approximately 80 companies in the investable MLP universe and uses multiple approaches to determine value. These approaches



include the following: dividend discount model, yield approach, DCF multiple, sum of the parts, and an EBITDA multiple. They focus their macro-factor forecasting on four principal factors that they believe drive MLP markets: equity prices, credit spreads, commodity prices, and interest rates. The MLPs assembled in the portfolio have above average growth and attractive total return prospects. A typical portfolio will include 20-25 securities, with sizes ranging from 2%-12%.

In addition to the rigorous fundamental, bottom-up analysis, the firm is strategically located in Houston, TX (60 percent of the MLP universe is located in Houston as measured by market capitalization). The team has built professional and social relationships with key industry executives, which helps drive information flow. The portfolio managers and analysts regularly attend industry conferences, analyst days, and company on-site visits. The firm believes their location adds value and key insights to the investment process.

Performance Summary

Cumulative Performance vs. the S&P MLP Index (as of March 31, 2012)

Manager	Quarter	One Year	Three Years	Five Years
Salient	4.48	13.54	43.50	15.77
S&P MLP Index	1.76	9.20	35.98	10.59

Salient has consistently outperformed the S&P MLP index, adding approximately 750 and 500 basis points of alpha over the three and five year periods, respectively.

5 Year Risk and Return Statistics (as of March 31, 2012)

Manager	Risk	Tracking Error	Sharpe Ratio	Information Ratio
Salient	21.59	6.39	0.67	0.73

Fees

Salient has proposed the following fee:

- A) 0.50% on all assets over \$150 million

The fee stated above is very competitive compared to other MLP strategies that Wilshire has reviewed.

Please let us know if you have any questions or if we may be of assistance.