

Memo

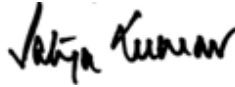
To: **Board of Trustees**

PSERS

CC: **James H. Grossman, Jr., CPA, CFA, Chief Investment Officer**

PSERS

From: Satya Kumar, CFA
Partner, Hewitt EnnisKnupp



Claire Shaughnessy, CFA
Partner, Hewitt EnnisKnupp



Date: September 12, 2014

Re: BlackRock Market Advantage II, Ltd.

Executive Summary

Hewitt EnnisKnupp (“HEK”), having been duly authorized by the Board of PSERS, has evaluated and recommends an investment in Blackrock Market Advantage II, Ltd., a risk parity fund managed to 15% volatility.

BlackRock is being considered as an additional manager to the existing risk parity portfolio as part of the funding strategy for the increased allocation to risk parity, as previously approved by the Board. BlackRock will serve a strategic role in the PSERS investment program. HEK maintains and monitors a roster of risk parity managers for our clients. BlackRock is an approved risk parity manager and is “Buy”-rated, implying it is a strategy that we would recommend to clients.

BlackRock Market Advantage Overview

BlackRock is a publicly traded company founded in 1988 with headquarters in New York, NY. The firm manages approximately \$4.4 trillion in assets. BlackRock has been managing the Market Advantage strategy since April 2009 and has total strategy assets of \$8.6 billion. The investment team consists of 13 individuals located in San Francisco, CA and is led by Ked Hogan, PhD. The Market Advantage strategy is part of a large institutional-quality platform with a strong tradition in active asset allocation strategies and a rigorous risk management culture. A key differentiating factor for BlackRock is their ability to leverage their vast investment resources and sophisticated, integrated risk management systems, which provides a meaningful advantage over smaller peers.

Philosophy & Process

Market Advantage is an innovative risk premia asset allocation strategy that provides diversification benefits when combined with other risk parity strategies. The strategy invests in a highly diversified mix of up to 12 asset classes based on target exposures to six fundamental economic risk factors. The portfolio's investments are very liquid, allowing BlackRock to adjust its market exposures during market extremes. The portfolio may short assets but is long-biased by design. The PSERS strategy has an expected volatility of 15%.

The investment process blends quantitative and fundamental insights and is research driven. BlackRock's process is built on three central tenets:

1. Systematic risk is unconditionally rewarded over the long term.
2. Investor behavior can cause prices to become dislocated from fundamental value.
3. These dislocations are easier and more meaningfully identified at extremes.

Conclusion

BlackRock's Market Advantage strategy is a differentiated risk parity portfolio that has provided consistently strong risk-adjusted performance over time. The portfolio utilizes a multi-asset risk factor model to build well diversified portfolios. The model is designed to exploit those risk factors which will be rewarded over time. Market Advantage leverages BlackRock's sophisticated risk systems and risk management is integral to its investment process. The strategy employs a dynamic risk management philosophy designed to de-risk the portfolio during market extremes. BlackRock's investment infrastructure platform is one of the best-in-class within the industry and its controls and procedures are well documented. The Market Advantage strategy provides diversification benefits to the existing PSERS risk parity portfolio. HEK recommends that the Board invest in the BlackRock Market Advantage II, Ltd portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in BlackRock Market Advantage II, Ltd., since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. HEK does not provide legal or other non-investment related advice.