

**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: November 20, 2014

SUBJECT: Public Markets In-House Co-Investment Program Recommendation

TO: Members of the Finance Committee

FROM: Robert E. Little, CPA
Portfolio Manager, Non-Traditional Investment Strategies

REL

At the December Finance Committee meeting, staff will recommend that PSERS implement a Public Markets In-House Co-Investment Program. This Program will be similar in structure to the Private Markets and Real Estate In-House Co-Investment Program approved by the Board in 2012.

Investment managers develop themes in their portfolios. The amount of risk allocated to each theme is controlled by the investment manager. Often, the investment manager would like to invest more capital in the theme, but the portfolio level risk controls prevent them from increasing the allocation to that theme. In the past, we have had existing public market investment managers present to staff opportunities for investment outside of the existing portfolio structure. This Program will allow staff to invest in these opportunities in a more timely manner where we feel it is appropriate.

Staff recommends that the Board allocate an amount not to exceed \$100 million to this Program.

Included for your review is a presentation prepared by staff and the resolution recommending the implementation of the Program. The investment guidelines that will govern this Program will be presented during the Investment Policy Statement section of the agenda.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4707.



Public Markets In-House Co-Investment Program

December 8, 2014

Robert E. Little, CPA
Portfolio Manager, Non-Traditional
Investment Strategies

Public Markets In-House Co-Investment Program

Fund Strategy

Co-Invest in unique opportunities identified by current external Public Markets investment managers

Co-Investment Team

- Chris Baker, Senior Portfolio Manager in Equities
- Jeff Burton, Portfolio Manager in Equities
- Steve Derr, Senior Portfolio Manager in Fixed Income
- Bob Little, Portfolio Manager in Non-Traditional Investment Strategies
- Susan Oh, Senior Portfolio Manager in Equities

Review Committee

- Jim Grossman, Chief Investment Officer (CIO)
- Charlie Spiller, Managing Director of Private Markets & Real Estate
- Gerry Smith, Managing Director of Equities
- John Kemp, Managing Director of Operations
- Bob Devine, Managing Director of Fixed Income

At least three of the Managing Directors plus the CIO are required to approve an investment

Public Markets In-House Co-Investment Program

Why Invest In-House?

- Extension of an existing in-house co-investment program that has operated within Private Markets & Real Estate group since 2012
- Leverage strong relationships with current Public Markets investment managers to access unique investment opportunities
- Potential for higher returns with lower base fees and performance fees on returns above a high hurdle rate
- Short timeframe to realize the investment opportunity
- Current trend in the investment industry

Reporting to PSERS' Finance Committee

- A report detailing the investments closed since the prior meeting will be provided to the Finance Committee at each meeting
- A performance update will be presented quarterly in Executive Session

Recommendation

- We recommend that \$100 million be allocated to the Public Markets In-House Co-Investment Program
- The maximum investment to any one opportunity will be \$15 million

See Last Page for Disclaimer



Public Markets In-House Co-Investment Program

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Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.

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