

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

DATE: November 17, 2014

SUBJECT: Proposed Revisions to Investment Risk Guidelines

TO: Members of the Board

FROM: Joseph W. Sheva, CPA *JWS*
Portfolio Manager

At the December Finance Committee meeting, we recommend that the Committee adopt the addition of Addenda B1 and X4, as well as the changes to Addenda K1 and Y3 of the Investment Policy Statement, Objectives and Guidelines (IPS).

NEW ADDENDA

Addendum B1 (Internally-managed U.S. Master Limited Partnership Index Portfolios)

The guideline establishes the parameters by which an internally managed MLP index portfolio would be managed. The investment objectives and risk constraint language are modeled off the internally managed index equity portfolios, specifically the S&P 600. This was deemed appropriate based on understanding and analysis of the MLP market by staff. This would provide staff the ability to add MLP exposure both strategically as well as tactically.

Addendum X4 (Public Markets In-House Co-Investment Policy)

The guideline establishes the parameters by which the internally managed Public Markets In-House Co-Investment program will be managed. This program is modeled off the current internally managed Private Markets In-House Co-Investment and Secondary Investment program that was originally approved by the Board in January 2012.

ADDENDA CHANGES

Addendum K1 (Residential Mortgage Backed Securities Portfolios)

Changes were made to this guideline to clearly present the strategy investment objectives and risk guidelines of the single manager currently managing to this mandate. The objectives were changed to better align the risk/return profile with staff views of the market opportunity. The risk guideline changes were made to balance the opportunistic nature of the strategy with risk parameters acceptable to staff, with key constraints such as duration and spread duration remaining moderate to low in risk tolerance. The proposed investment objectives and risk guidelines are in-line with other U.S. High Yield mandate guidelines.

Addendum Y3 (Ultra-Short High Yield Portfolios)

A change was made to increase the allowance of single issuer exposure from 6% to 7%. This change brings the guideline in-line with the concentration limit of other fixed income portfolios, including high yield and Libor Plus mandates, while allowing the portfolio manager to implement best ideas in this space.

Blacklined copies of the changes to each guideline have been included in the package for your review.

If you have any questions or comments, please contact me at 717-720-4632.