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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Cash Policy

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### Revision History

Cash Policy Established

March 6, 2020



## **I. SCOPE**

For purposes of this Policy, cash includes publicly-traded investments in short-term, high-quality, liquid securities and money market funds.

This Policy applies to investments in the Cash asset class as well as cash allocated to other separately-managed portfolios in other asset classes within the Pennsylvania Public School Employees' Retirement System ("PSERS") Defined Benefit Fund ("The Fund").

It excludes cash collateral managed as part of the Securities Lending Program. It also excludes cash equivalents and short duration credit portfolios managed as part of portfolios with Strategy Leverage (see Leverage Policy).

## **II. PURPOSE**

This Policy provides the broad investment framework for managing investments in the Cash asset class.

## **III. ROLES AND RESPONSIBILITIES**

Roles and Responsibilities are identified within PSERS' Investment Policy Statement ("IPS").

## **IV. INVESTMENT PHILOSOPHY**

PSERS seeks to diversify assets by obtaining broad exposure to publicly traded markets in short-term, high quality, liquid securities and money market funds. These securities and money market funds play a strategic role within the Fund by preserving principal; providing liquidity for the timely payment of benefits, commitments, and other obligations; and providing liquidity to take advantage of market dislocations in other asset classes.

## **V. ALLOCATION**

The IPS details the target and permissible range around the target for investments in the Cash asset class. Cash managed for other separately managed accounts is not included in this allocation but is included in other asset class Policies.

The asset class includes only actively managed, internally managed strategies. Active management seeks to produce risk-adjusted returns in excess of the benchmark, net of fees.

## **VI. PERMISSIBLE INSTRUMENTS**

Guidelines for each portfolio provide for eligible short-term investment instruments and vehicles. Limits on specific security types that may be purchased and held are also included in the guidelines for the individual portfolios.



## **VII. PERFORMANCE OBJECTIVES**

The Cash asset class is designed to match or outperform the asset class benchmark over the long term, while operating within risk parameters outlined in this Policy.

The performance benchmark is shown in the IPS.

## **VIII. RISK MANAGEMENT**

The primary approach to managing risk is to monitor key quantitative and qualitative risk factors relative to risk benchmarks while continuing to pursue active returns. The following sub-sections identify the key areas with risk management parameters.

### **A. Active Risk**

Active Risk or Tracking Error is a statistical measure of the potential variability of a portfolio's return relative to that of the assigned benchmark. The Tracking Error range for the Cash asset class is 0 to 75 basis points.

### **B. Interest Rate Risk**

Interest rate risk will be managed by limiting the option-adjusted duration. Limitations as well as risk management are specified in manager guidelines. In addition, imposing a Tracking Error discipline limits interest rate risk.

### **C. Credit Risk**

Credit risk will be managed by permitting only short-term U.S. government guaranteed securities and other high-quality securities and money market funds.

### **D. Liquidity Risk**

Portfolios are to be invested in publicly traded, short-term, high quality securities and money market funds which can generally be liquidated promptly without severe market impact.

### **E. Currency Risk**

Portfolios are to be invested in U.S. Dollar denominated securities.

## **IX. MONITORING AND REPORTING**

See Monitoring and Reporting section of the IPS.