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COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

External Managers' Insurance Policy



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Revision History

External Managers' Insurance Policy Established
Policy Revised

March 6, 2020
March 5, 2021



I. SCOPE

This Policy applies to External Managers within the Pennsylvania Public School Employees' Retirement System ("PSERS") Defined Benefit Fund ("The Fund").

II. PURPOSE

This Policy is intended to assure that External Managers of PSERS' assets comply with prudent practices concerning insurance.

III. ROLES AND RESPONSIBILITIES

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

IV. OBJECTIVES OF THIS POLICY

This Policy establishes minimum insurance standards that External Managers shall meet.

V. TYPES OF INVESTMENT MANAGEMENT ARRANGEMENTS

A. Separate Accounts

Separate Accounts are professionally managed portfolios in which PSERS provides all of the capital necessary to accomplish a specified investment objective. Separate Account arrangements are subject to the terms set forth in a two party agreement between PSERS and the External Manager, commonly called an Investment Management Agreement ("IMA"). The IMA is structured to meet the specific goals of PSERS, which are tailored to match PSERS' explicit investment policies and legal requirements. Separate Accounts provide greater investment discretion to and are terminable at will by PSERS.

B. Commingled Accounts

Commingled Accounts consist of assets of multiple investors, including PSERS, all of which are managed in the same manner by the same External Manager. Commingled Account arrangements are created by legal documents such as Limited Partnership Agreements ("LPA"). The LPA sets standard terms and conditions according to which External Managers will manage investors' assets. In order to invest in Commingled Accounts, PSERS must agree to the terms of the governing legal documents.



C. Fund of One

A Fund of One structure lies between a Separate Account and a Commingled Account. It is a fund structure that is created specifically for PSERS with the underlying assets owned by the fund. PSERS is an indirect investor in the underlying assets as, legally, these are 'owned' by the fund. As the sole investor in the fund, the investment mandate can be customized to PSERS' specific requirements.

D. Co-Investments

Co-Investments do not have their own insurance but are covered by the insurance in the vehicle the Co-Investment comes from.

VI. INSURANCE REQUIREMENTS FOR SEPARATE ACCOUNT EXTERNAL MANAGERS

Separate Account External Managers shall maintain and provide evidence of insurance coverage in accordance with the standards set forth in this Section VI for loss incurred by reason of acts or omissions of the Separate Account External Manager or any of their affiliates, officers, directors, members, managers, employees, or agents thereof.

A. Fidelity Insurance

1. Scope of Coverage

At a minimum, External Managers' fidelity insurance must cover:

- Acts of dishonesty including, but not limited to, employee dishonesty;
- Acts of fraud including, but not limited to, computer fraud, electronic funds fraud and wire transfer fraud; and
- Forgery and alteration
- PSERS as an additional insured



2. Amount of Insurance

Separate Account External Managers shall provide evidence of fidelity insurance in at least the amounts set forth in the following table:

Assets Under Management for PSERS	Minimum Required Limit
Up to \$100 million	\$500,000
\$100 million to \$300 million	\$1.5 million
\$300 million to \$500 million	\$2.5 million
\$500 million to \$1 billion	\$5 million
\$1 billion and above	\$10 million

Insurance obtained by non-U.S. managers in non-U.S. currencies will be converted to USD equivalent amounts to determine compliance with these policies based on the conversion rate at the effective policy date.

B. Errors and Omissions Insurance.

Separate Account External Managers shall provide evidence of Errors and Omissions (E&O) insurance in at least the amounts set forth in the following table:

Assets Under Management for PSERS	Minimum Required Limit
Up to \$100 million	\$1 million
\$100 million to \$300 million	\$3 million
\$300 million to \$500 million	\$5 million
\$500 million to \$1 billion	\$10 million
\$1 billion and above	\$20 million

Insurance obtained by non-U.S. managers in non-U.S. currencies will be converted to USD equivalent amounts to determine compliance with these policies based on the conversion rate at the effective policy date.

The External Manager confirms that it has an internal policy to allocate expenses fairly and equitably, and as a result of such policy, the Separate Account External Manager and its affiliates will bear a portion of the costs of the insurance policies required by this Section VI. The Separate Account



External Managers shall provide PSERS, within thirty (30) Business Days of the Separate Account External Manager's retention by PSERS, and on an annual basis thereafter, with copies of an insurance certificate or equivalent documentation evidencing the coverage described in subsections VI (A) and (B) above; and notify PSERS within ten (10) business days if coverage is materially altered, reduced, or canceled. In the event that the External Manager fails to provide such notice, the Separate Account External Manager shall be liable to PSERS for losses incurred by the Board that could have been covered by E&O insurance or a fidelity bond but for the cancellation or change of coverage. Insurance coverage may be in the name of the Separate Account External Manager's parent organization as long as the Separate Account External Manager is named in that policy or bond as an insured party.

The maximum deductible on both the Errors and Omissions coverage and the Fidelity Bond must be either (i) no greater than \$500,000 if the Separate Account External Manager has less than \$1 billion in firm-wide assets under management and no greater than \$1 million if the Separate Account External Manager has \$1 billion or more in firm-wide assets under management, or (ii) no greater than 10 percent of the Separate Account External Manager's retained earnings(equity) as documented in the audited financial statements which must be provided to PSERS annually in a timely fashion.

For purposes of evaluating the sufficiency of insurance coverage, PSERS considers coverage and deductible amounts of the parent company when applicable.

VII. INSURANCE REQUIREMENTS FOR COMMINGLED ACCOUNT EXTERNAL MANAGERS

Commingled Account External Managers shall use commercially reasonable efforts to procure and maintain errors and omissions liability insurance coverage relating to its funds in which PSERS invests, the level and scope of which shall be reasonably determined by the Commingled Account External Manager in good faith from time to time. Within thirty (30) business days of PSERS' retention of the Commingled Account External Manager, and annually thereafter upon PSERS' reasonable request, the Commingled Account External Manager shall provide PSERS with copies of an insurance certificate or equivalent document evidencing such coverage. Further, the Commingled Account External Manager shall notify PSERS within ten (10) business days if coverage is materially altered or reduced during the term of PSERS' investment in any funds sponsored by such External Manager. Any insurance procured pursuant to this Section must be consistent with the currency in which the fund is denominated or provide PSERS with a reasonable explanation for deviation therefrom.



VIII. INSURANCE REQUIREMENTS FOR FUND OF ONE EXTERNAL MANAGERS

Fund of One External Managers shall use commercially reasonable efforts to procure and maintain errors and omissions liability insurance coverage relating to its funds in which PSERS invests, the level and scope of which shall be reasonably determined by the Fund of One External Manager in good faith from time to time. Within thirty (30) business days of PSERS' retention of the Fund of One External Manager, and annually thereafter upon PSERS' reasonable request, the Fund of One External Manager shall provide PSERS with copies of an insurance certificate or equivalent document evidencing such coverage. Further, the Fund of One External Manager shall notify PSERS within ten (10) business days if coverage is materially altered or reduced during the term of PSERS' investment in any funds sponsored by such External Manager. Any insurance procured pursuant to this Section must be consistent with the currency in which the fund is denominated or provide PSERS with a reasonable explanation for deviation therefrom.

IX. DEFINITIONS

Definitions related to this Policy, to the extent not otherwise defined herein, are identified within PSERS' IPS.

X. EFFECTIVENESS

This Policy shall become effective on March 6, 2021.

For External Managers sponsoring a fund in which PSERS is invested as of March 5, 2021, Section VII or VIII, as the case may be, shall become effective upon investment by PSERS in a subsequent fund sponsored by such External Manager.