COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM

Public Infrastructure Policy
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Revision History

Public Infrastructure Policy Established March 6, 2020
I. SCOPE

This Policy applies to investments in the Public Infrastructure asset class within the Pennsylvania Public School Employees’ Retirement System (“PSERS”) Defined Benefit Fund (“The Fund”).

II. PURPOSE

This Policy provides the broad strategic investment framework for managing investments in the Public Infrastructure asset class.

III. ROLES AND RESPONSIBILITIES

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

IV. INVESTMENT PHILOSOPHY

PSERS seeks to diversify assets by obtaining broad exposure to publicly traded infrastructure markets. Public Infrastructure investments target stable, defensive investments with steady cash flows primarily within the energy, power, water, and transportation sectors. Public Infrastructure plays a strategic role within the Fund, by providing steady returns and cash yields, defensive growth, inflation protection, capital preservation, liquidity and diversification benefits. To maintain diversification within the asset class, the Fund pursues a global investment strategy across geographic regions, sectors, market capitalization segments, and investment styles.

V. ALLOCATION

The IPS details targets and permissible ranges around targets for investments in the following Public Infrastructure sub-asset classes:

- Infrastructure – Diversified exposure across public infrastructure (including Midstream Energy)
- Midstream Energy – Infrastructure for the gathering, transportation, processing, and storage of crude oil, natural gas, and other energy types

The asset class may include both passively and actively managed strategies, and internally and externally managed strategies. Active management seeks to produce risk-adjusted returns in excess of the benchmark, net of fees. Passive management aims to replicate an index at minimal cost and minimal Tracking Error.
VI. PERMISSIBLE INSTRUMENTS

Public Infrastructure assets may be invested in instruments that provide publicly-traded infrastructure returns. Instruments used may be exchange-traded or non-exchange-traded and may be physical securities or derivatives, and leverage may be employed. Additional security type constraints may be applied in investment manager portfolio guidelines.

VII. PERFORMANCE OBJECTIVES

The Public Infrastructure asset class is designed, in aggregate, to match or outperform the respective sub-asset class benchmarks over the long term, while operating within risk parameters outlined in this Policy.

The performance benchmark for each sub-asset class is shown in the IPS. A manager within the sub-asset class may be assigned a benchmark that is different than the sub-asset class benchmark shown in the IPS if the manager’s mandate is to one or more specific regions, sectors, and/or other benchmark component.

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 following table provides the Tracking Error ranges, in basis points, for the Public Infrastructure sub-asset classes:

<table>
<thead>
<tr>
<th>Sub-Asset Class</th>
<th>Benchmark</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>*</td>
<td>0-50</td>
</tr>
<tr>
<td>Midstream Energy</td>
<td>*</td>
<td>0-400</td>
</tr>
</tbody>
</table>

* Benchmark used for risk purposes is the same as the IPS performance benchmark for the lookback period.

B. Liquidity Risk

Investment structure impacts liquidity. Therefore, consideration is given to separate accounts and internally managed accounts over commingled accounts, given their greater control and transparency.
C. Single Security Risk

Imposing a Tracking Error discipline indirectly limits investment in any single company. Use of broad-based benchmarks also encourages security diversification.

D. Country Risk

Sub-asset classes are expected to be broadly diversified and may have deviations from the benchmark country allocations. The Tracking Error constraints in conjunction with the use of broad-based benchmarks will have the effect of limiting country concentration.

E. Sector Risk

The Public Infrastructure sub-asset classes are expected to be broadly diversified and may have deviations from the benchmark sector weightings. The Tracking Error constraints or passive index investment mandates and the use of broad-based benchmarks will have the effect of limiting sector concentration.

F. Currency Risk

Currency risk will be managed in accordance with the Currency Hedging Policy.

G. Manager Risk

The allocation to a single active External Manager mandate is limited to 2.5% of the Total Fund’s Economic Exposure, as defined in the Leverage Policy. The CIO shall have discretion on the timing of reducing any External Manager portfolio exceeding the limit. However, the CIO is not permitted to allocate additional exposure to those portfolios currently above the limit.

H. Derivatives Risk

Derivatives usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Derivatives Policy.

I. Counterparty Risk

Counterparty risk will be as prescribed and evaluated in the Derivatives Policy.

J. Leverage Risk

Leverage usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Leverage Policy.
K. Proxies

Proxy votes are considered assets of PSERS. All proxies received shall be voted in accordance with the Proxy Voting Policies.

IX. MONITORING AND REPORTING

See Monitoring and Reporting section of the IPS.