The Pennsylvania Mortgage Program (Program) was directed at small size traditional mortgage loans ranging from $500,000 to $5,000,000. The Program has since been closed to new investments. The existing portfolio continues to be serviced and delinquencies liquidated where possible.

I. PROGRAM OBJECTIVES

The purpose of the Program was to take advantage of the higher than traditional spreads available in the mortgage market with the collateral advantage of enhancing real estate liquidity within the Commonwealth of Pennsylvania. The objective of the existing portfolio is to service current loans and to foreclose and liquidate loans that become delinquent for an extended period of time.

A. Investment Allocation

The investment allocation to the Program was originally established at $100,000,000. As the loans are paid off, proceeds will no longer be available for reinvestment.

B. Program Advisor

The implementation of the Program investment strategy is assigned to the Advisor/Servicer, Laureate Capital.

C. Delegation of Authority

While PSERS has granted the Advisor/Servicer full discretion, PSERS’ Managing Director of Private Markets and Real Estate (Director) will monitor Program activity and coordinate the foreclosure and liquidation of delinquent loans. PSERS’ Chief Counsel will review all legal documentation associated with each transaction. The Advisor/Servicer will be responsible for duties related to the servicing of existing loans and the foreclosure and liquidation of delinquent loans.

D. Advisor/Servicer Qualifications

The Advisor represents and confirms that it is duly registered and in good standing as an investment advisor under the Investment Advisors Act of 1940 or is exempt therefrom (and will maintain such registration or exemption). If registered pursuant to said Act, the Advisor has furnished to the Board Part II of
the Advisor’s current Form ADV filed with the Securities and Exchange Commission pursuant to Section 203(c) of the Investment Advisers Act of 1940.

When using a Mortgage Servicer instead of an investment advisor, registration under the Investment Advisors Act of 1940 is not applicable.

II. MORTGAGE SERVICING AND REPORTING REQUIREMENTS

A. Mortgage Loan Servicing

The Advisor/Servicer’s responsibility shall be limited to the "master servicing" function. It is anticipated that the Advisor/Servicer may subcontract loan administration through its correspondent system (mortgage bankers/brokers). Services not customarily performed by master servicers or correspondents will be performed by PSERS' Staff.

B. Fees

Mortgage Servicing – The Advisor/Servicer will be paid an annual mortgage-servicing fee of $2,700 per loan on the existing portfolio and $3,350 per loan on new investments. In addition, Advisor/Servicer shall receive a monthly management fee of $1,000 plus expenses for any loan that is delinquent or involved in a workout of some sort.

Liquidation Fee – The Advisor/Servicer will be paid a fee in connection with the sale of a defaulted loan or owned property in an amount equal to (a) 1.50% of the net proceeds if sale occurs within fourteen months from the date the loan became a defaulted loan, or (b) 1.00% of the net proceeds if the sale occurs after the period identified in clause (a) above.

C. Monthly Activity Reports

- The Advisor/Servicer will provide a monthly activity report to PSERS' investment staff, listing prospective mortgage investments under consideration.
- The Advisor/Servicer will provide a monthly commitment activity report to PSERS' investment staff, PSERS' legal staff, PSERS' investment accounting staff and PSERS' standing counsel, listing the status of each outstanding commitment.
- PSERS’ standing counsel shall provide a monthly commitment activity status report to PSERS’ investment staff, PSERS' legal staff, PSERS' investment accounting staff and the Advisor.

Approved March 13, 2009

R-2
D. Annual Portfolio Report

A portfolio report shall be prepared by the Advisor/Servicer and submitted to PSERS once per year. The report will summarize each loan with a one page brief and include a recent photo of the property. The Advisor/Servicer should list any changes in the status of a property that may negatively impact the loan. This would include information regarding changes in vacancy, borrower credit, and condition of the property. The Advisor/Servicer should evaluate the property and be prepared to make a statement in their report with respect to the value of the security.

"The property securing PSERS loan has an estimated value of not less than the most recent appraisal dated                      ". To the extent the Advisor/Servicer feels the estimated value is less than the most recent appraisal, an explanation should be provided.

The Advisor/Servicer should inspect the property not less than once each calendar year. A copy of each inspection report should be sent to PSERS. The report inspection date should be listed in the Annual Portfolio Report.

E. Quarterly Mortgage Activity Report

The Advisor/Servicer will submit a quarterly mortgage activity and status report, in the form and content satisfactory to PSERS' Investment Accounting Office and the Private Markets and Real Estate Office. Included should be financial information such as principal balance, payments, delinquency, etc.