



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Securities Lending Policy



TABLE OF CONTENTS

I.	SCOPE	3
II.	PURPOSE	3
III.	ROLES AND RESPONSIBILITIES	3
	A. PSERS Retirement Board.....	3
	B. Investment Office Professionals (IOP)	3
	C. General Investment Consultant.....	4
	D. Lending Agent.....	4
IV.	INVESTMENT PHILOSOPHY	5
V.	ELIGIBLE ASSETS	5
VI.	PERFORMANCE OBJECTIVES	5
VII.	RISK MANAGEMENT	5
	A. General	5
	B. Counterparties and Limits	6
	C. Collateral and Valuation Procedures for Loans of Securities	6
	D. Repurchase Agreement Reinvestment Activity, Permissible Collateral Types, Segregation of Collateral	7
VIII.	MONITORING AND REPORTING	7

Revision History

Securities Lending Policy Established

March 6, 2020



I. SCOPE

The Board has implemented a Securities Lending Program (“Program”) for the Pennsylvania Public School Employees’ Retirement System (“PSERS”) Defined Benefit Fund (“The Fund”) that is designed to generate a consistent or growing stream of incremental income through prudent securities lending practices. The design of this Securities Lending Program Policy (“Policy”) is intended to establish that the IOP and the Lending Agent have sufficient flexibility in managing investment risks and returns associated with the operation and oversight of the Program.

II. PURPOSE

This Policy governs the securities lending activities of the Fund. It applies to the lending of securities of all asset class portfolios.

III. ROLES AND RESPONSIBILITIES

The assignment of Program responsibilities amongst the Board, IOP, General Investment Consultant, and Lending Agent is summarized below.

A. PSERS Retirement Board

The Board is responsible for:

- Approving PSERS’ Securities Lending Program Policy;
- Approving Lending Agent; and
- Reviewing reports related to the Program.

B. Investment Office Professionals (IOP)

The Board delegates authority to the CIO to implement this Policy. IOP is responsible for monitoring the Policy and recommending changes to the Board. IOP is also responsible for:

- Negotiating and executing appropriate agreements with Lending Agent;
- Managing the risk tolerances by modifying Program criteria when prudent due to evolving market conditions, changes to PSERS’ assets and/or liquidity, or other relevant factors; and
- Managing the day to day operations of the Program, including but not limited to:
 - Monitoring Lending Agent’s compliance with Program guidelines on an ongoing basis;
 - Entering and withdrawing portfolios from the Program;
 - Approving lending markets;

- Approving Counterparties with respect to loans of securities and investments of cash collateral in repurchase agreements , including the authority to approve non-traditional counterparties; and
- Approving or amending the types of permissible collateral in connection with loans of securities and investments of cash collateral in repurchase agreements and the appropriate levels of collateralization for each, in addition to those identified in this Policy, when prudent, due to evolving market conditions, changes to PSERS' assets and/or liquidity, or other relevant factors.
- Reviewing this Policy not less than annually and recommending changes to the Board;
- Conducting due diligence analysis of the Lending Agent(s), assessing criteria such as corporate strength, dedicated personnel and systems, procedures, and controls;
- Authorizing lending agent to accept various types of collateral in connection with loans of securities and investments of cash collateral in repurchase agreements and set forth the appropriate levels of collateralization for each, in addition to those identified in this Policy, when prudent, due to evolving market conditions, changes to PSERS' assets and/or liquidity, or other relevant factors;
- Ensuring that the program does not impede or interfere with the management of PSERS' investment portfolios by notifying the Lending Agent as soon as practicable of impending manager transitions, asset reallocations, and other material events in the portfolio; and
- Preserving PSERS' voting rights for loaned securities by notifying Lending Agent as soon as practicable of the desire to vote particular holdings.

C. General Investment Consultant

Make recommendations to Board and IOP regarding the Lending Agent(s), structure of the Program, and any aspect of this Policy.

D. Lending Agent

The Lending Agent is responsible for:

- Implementing and managing the Program consistent with applicable policies, agreements, and written instructions from PSERS;
- Performing its responsibilities as a fiduciary to PSERS, in a manner consistent with that of a professional securities lending agent using the care, skill, prudence and diligence under the circumstances then prevailing that a professional securities lending agent acting in like capacity and familiar with such matters would use, all in accordance with applicable federal and state laws;



- Providing written confirmation of compliance to these objectives and guidelines in the format provided by the Fund within 30 days from the end of each calendar quarter;
- Providing timely and comprehensive reporting as required by the Board and IOP;
- Paying to PSERS all revenues earned, net of any Lending Agent fees, on a monthly basis; and
- Providing information to IOP regarding the demand for securities, which may be of value to portfolio managers.

IV. INVESTMENT PHILOSOPHY

The Program actively lends securities with agreed upon terms and conditions to enhance the Fund's total earnings incrementally where market conditions permit reasonable profitability, doing so in a manner that does not interfere with the management of PSERS' portfolios and does not expose PSERS to meaningful additional risk.

Borrowers shall provide liquid collateral in exchange for the right to borrow securities consistent with this Policy.

V. ELIGIBLE ASSETS

Publicly traded assets held in separate accounts in the Fund are eligible for securities lending. The Board or IOP may restrict lending for corporate governance, investment management or other purposes.

VI. PERFORMANCE OBJECTIVES

IOP will assess the performance of the Program on a not less than annual basis. IOP will address any shortcomings in performance with recommendations to the Chief Investment Officer ("CIO").

VII. RISK MANAGEMENT

The Board has established the following Program guidelines which shall be set forth in the Agency Securities Lending Agreement between PSERS and Lending Agent, subject to further instruction from IOP where permitted in this Policy.

General

- All loans shall be terminable at will at PSERS' discretion (subject to normal settlement) unless approved in advance by IOP;
- The terms of each individual loan must be economically beneficial to PSERS;



- Lending Agent shall allocate loan opportunities to PSERS in an equitable manner in comparison to loan opportunities allocated to other Lending Agent clients;
- All public market securities will be considered eligible for lending in the Program unless otherwise determined by IOP;
- The Lending Agent shall identify on its books and records all loan, collateral and cash collateral investment positions held on behalf of PSERS.
- The Lending Agent shall manage investments of cash collateral on behalf of PSERS on a separate account basis;
- Lending Agent shall use its best efforts to preserve PSERS' voting rights for all loaned securities when requested by IOP to do so;
- Lending Agent shall cooperate in PSERS' review of Program performance, providing all information and records to PSERS so that PSERS may, in its sole discretion, reasonably determine to be necessary for the determination as to the continuation of the contract term;
- Lending Agent shall provide indemnification in a form acceptable to PSERS protecting against counterparty insolvency risk with respect to loans of securities and investments of cash collateral in repurchase agreements; and
- IOP shall establish written cash collateral investment guidelines which shall be disclosed to repurchase agreement counterparties for the purpose of demonstrating Lending Agent's authority to invest cash collateral on behalf of PSERS.

Counterparties and Limits

- Lending Agent shall monitor the creditworthiness of Counterparties and place prudent limits on the total exposure applicable to each. Notwithstanding the foregoing:
 - The maximum loan exposure to any single Counterparty shall not exceed 25% of the total of all PSERS loans made by Lending Agent.
 - The maximum exposure to any single counterparty for re-purchase agreements made with cash collateral shall be 25%; and
- No less than annually, Lending Agent shall provide an updated list of potential Counterparties for approval by IOP. PSERS reserves the right to add or strike Counterparties from the list at any time or place other specific limitations regarding loan or reinvestment transactions with any individual Counterparty.

Collateral and Valuation Procedures for Loans of Securities

- Lending Agent shall be solely responsible for the management of collateral;
- Unless otherwise authorized by IOP, only US dollar cash is permitted as collateral for any loan;

- Subject to market practice and regulation, and prior to or simultaneously with the transfer of securities to a Counterparty in connection with a loan of securities, the Lending Agent shall obtain collateral on PSERS' behalf ("initial collateral margin"). At the time of delivery by the Counterparty, the amount of cash collateral shall be not less than 102 percent of the aggregate market value of the loaned securities for domestic securities and foreign securities that are denominated in the same currency as the collateral provided by the Counterparty ("matching currency"). Furthermore, the amount of cash Collateral shall be not less than 105 percent of the aggregate market value of the loaned securities for foreign securities that are not denominated in the same currency as the collateral provided by the Counterparty ("non-matching currency");

Thereafter, the Lending Agent shall, on each business day, determine the market value of PSERS' securities subject to a loan transaction relative to collateral received in respect of such loan. The Lending Agent shall, as required, demand from the relevant Counterparty additional collateral according to specific daily margin maintenance levels and procedures set forth in the Securities Lending Agreement ("ongoing margin maintenance");

- The collateral margin shall include accrued interest and accrued rebate; and
- Lending Agent shall be permitted to calculate collateral margin at the loan level and/or at the aggregate Counterparty level.

Repurchase Agreement Reinvestment Activity, Permissible Collateral Types, Segregation of Collateral

- Investments of cash collateral in repurchase agreements shall be made pursuant to tri-party repurchase agreement collateral schedules customized to PSERS' risk tolerances. IOP shall approve in writing the permissible collateral types;
- Investments of cash collateral in repurchase agreements shall be confirmed at the trade level with Counterparties as having been made on behalf of PSERS; and
- Lending Agent shall credit cash and repurchase agreement collateral to segregated account(s) established for the benefit PSERS and held by an authorized collateral custodian. Collateral accounts shall be labeled to reflect PSERS' ownership rights over the account in the event of business disruption or a contingency situation, including the insolvency of the Lending Agent.

VIII. MONITORING AND REPORTING

See Monitoring and Reporting section of the IPS.