I. GENERAL PROVISIONS

A. PRUDENT PERSON STANDARD

The selection of private and venture capital investments will be guided by Section 8521 of the Public School Employees’ Retirement Code (“Code”), 24 Pa.C.S.

B. MAXIMUM LIMITATION

The Pennsylvania Public School Employees’ Retirement System (identified hereafter as “PSERS”, “Fund”, or “System”) Asset Allocation Policy limits the amount of the Fund’s assets allocated to private market investments.

C. IMPLEMENTATION

1. PSERS Staff Requirements

Appropriate staff will be assigned as the workload is determined. The timing and types of investments will be determined by the availability of staff.

2. Legal Counsel

PSERS will use internal legal counsel. In addition, due to the complex structure of private equity partnerships, expert outside legal counsel may be retained.

3. Investment Process

If the investment meets PSERS’ criteria for investment recommendation, it will be scheduled as an agenda item at the next possible Finance Committee meeting and, if approved, at the next Board meeting for Board approval. Documents relating to an investment approved under this process will be executed in accordance with PSERS’ standard policy; i.e., by any two of the individuals holding the positions of Executive Director, Chief Investment Officer, Deputy Executive Director, Assistant Executive

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4. **Action Plan**

On or before January 31st of each year, PSERS’ Partnership Consultant will provide the Chief Investment Officer and Managing Director of Private Markets and Real Estate (MDPMRE) with an Action Plan for the following calendar year. The purpose of the Action Plan is to provide PSERS with the Partnership Consultants’ outlook for the private investment markets as well as an overview of the Partnership Consultants’ specific investment objectives and goals for PSERS for the upcoming year. The Action Plan should address the following:

a. An overview of the Partnership Consultants’ outlook for the private and public investment market for the succeeding calendar year and for the following two years.

b. The Partnership Consultants’ recommended investment strategy for PSERS for the following calendar year. The investment strategy should specify investment types and structures, stages of investment, industry categories and other relevant investment characteristics.

c. An estimate of the number of partnerships the Partnership Consultant expects to recommend to PSERS for the following year and the amount of capital connected therewith.

5. **Procedures**

Any procedures in addition to those adopted by the Board will be developed by staff and the Partnership Consultant according to the manner of involvement the Board directs.

D. **REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT**

In the application and implementation of the Investment Objectives and Guidelines, the Chief Investment Officer has the authority to interpret the guidelines to meet individual portfolio needs and to determine the appropriateness of the investment. On material policy issues and amounts, the Chief Investment Officer and/or the Executive Director, in conjunction with the Chair of the Finance Committee and/or the Chair of the Board, will evaluate and determine the appropriateness of any investment. All interpretations of material policy issues and dollar amounts will be reported to the Finance Committee at the next regularly scheduled meeting.
The Board will review the Policy Statement from time to time to determine if modifications are necessary or desirable.

II. DIRECT PRIVATE PLACEMENTS

Direct private placements will be referred to PSERS co-investment partnerships for evaluation and will be administered like any other private equity partnership.

III. PRIVATE EQUITY PARTNERSHIP INVESTMENT POLICY

A. BACKGROUND

1. Definition

Private equity partnership investing includes, but is not limited to:

a. ACQUISITION FUNDS

Acquisitions involve the purchase of all or part of the stock or assets of a company. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company.

Such investments are sometimes made utilizing an amount of borrowed capital and a smaller portion of equity capital. Borrowed capital typically consists of some combination of senior and subordinated debt.

Characteristics common in a company identified for a restructuring through the use of borrowed capital include stable cash flows, high market share, and high profit margins, selling low or non-technology products in industries not subject to wide profitability swings. The primary purpose for acquiring a company using borrowed capital is to take a company that is currently undervalued and underperforming, provide incentive for the managers, reduce expenses, cut out the unnecessary surpluses, and return the company to its full value and efficiency.

Another form of acquisition is the purchase and subsequent control of a company or division by its employees and, in many instances, key management. Employees often give wage and work-rule concessions in return for ownership privileges. Employee buyouts are often initiated by or through employee stock ownership plans (ESOP).
b. SPECIAL SITUATION FUNDS

Special situations is a catch-all category for non-traditional investments or undervalued securities which are not otherwise categorized under either venture capital or private placement, including, but not limited to, the following types of situations:

(i) White Knight - a friendly acquirer welcomed by the management of a company that is the target of an unfriendly or hostile takeover attempt. Friendly investors often receive special provisions and concessions that can yield above-average returns.

(ii) Active Minority Positions - investments in the stock of public companies where investors encourage managements to pursue strategies that will maximize shareholders' value, also sometimes called Influence Block Investments.

(iii) Equity or Debt Infusions (including Subordinated Debt) - investments in ventures or entities that are not otherwise classified as venture capital investments.

Special situations can also include unconventional investments such as: debt arrangements; collateralizations; corporate joint ventures; credit enhancements (e.g., letters of credit, guarantees); direct acquisitions (such as spin-offs, conglomerations and consolidations); other energy investments, such as independent power production or cogeneration; factoring; lease financings; off balance sheet financings; privatization situations; small capitalization stocks; secondary market opportunities; and others yet to be recognized as opportunities.

2. Categorization of Funds

For purposes of analysis, private equity funds will be categorized as follows:

a. Preferred Investment Securities

   (i) Partnerships intending to invest in the senior debt of private equity transactions.
(ii) Partnerships intending to invest primarily in the subordinated debt of private equity transactions.

(iii) Partnerships intending to invest primarily in the equity of private equity transactions.

b. Size Categories

(i) Large: Partnerships intending to purchase companies with revenues in excess of $1 billion.

(ii) Medium: Partnerships intending to purchase companies with revenues between $250 million and $1 billion.

(iii) Small: Partnerships intending to purchase companies with revenues below $250 million.

c. Industry Categories

Partnerships intending to invest in particular industries.

B. PHILOSOPHY

1. Fund Objectives

Private equity partnership investments provide an appropriate addition to the System's portfolio. Although considered an aggressive investment, viewed from a total portfolio perspective, the risk/return tradeoff as well as the diversification potential makes this a suitable choice for the Fund.

Private equity partnership investments are compatible with the general objectives of the Fund, which include:

a. Providing a means to pay benefits to the System's participants and to their beneficiaries.

b. Investing to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.

c. Attaining an adequate real return over the expected rate of inflation.

d. Earning a return over the assumed actuarial rate of interest.

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2. **Conflicts of Interest**
   
a. **Corporate Governance**
   
   It does not appear that there are any basic conflicts of interest between private equity partnership investments and the corporate governance standards of one share, one vote.

b. **Current Holdings**

   As a limited partner in a partnership in which PSERS has no discretion, a conflict would not appear to exist. As a sole limited partner or one in which PSERS exerts some influence, conflicts could be avoided at its direction.

3. **Reasons to Invest in Private Equity Partnerships**

   a. **High Rate of Return**

   Private equity partnership total rates of return are expected to be greater than those that are expected from conventional equity investments.

   b. **Diversification**

   Private equity partnership investing has a low correlation to other investment classes and will therefore contribute to reduction of risk and the enhancement of returns on a portfolio basis.

C. **OBJECTIVES**

1. **Portfolio Investment Performance Objective**

   The performance objective for private equity partnership investments is a total real return approximating 14%-16%.

2. **Risk Management**

   a. **Standard Deviation**
The standard deviation of returns, one measure of the risk or volatility of private equity partnership investments is assumed to be similar to that of venture capital, or approximately 40%.

b. Business/Economic Related Risks include:

(i) Buyers overpaying for assets.

(ii) Company has operational problems, reducing capital available for debt service.

(iii) If interest rates rise, poorly structured, highly leveraged deals may be strained.

(iv) A severe recession might cause a business that had been acquired recently to fail under its debt load.

c. Political/Tax

Politicians and/or regulators may change the rules that helped make restructuring possible.

d. Lack of Liquidity

The time horizon for a private equity partnership is typically eight to twelve years. Private equity investments should therefore be considered an illiquid investment. PSERS is well structured for long-term investments due to the Fund’s continuing cash flow and the nature of pension liabilities. Such investments also match PSERS’s long-term liabilities for active employees.

e. Blind Pool

In partnership investments, control is vested with the general partners. Investments are generally unknown at the time the limited partners make their initial capital contributions. However, as sole limited partner, or in conjunction with other limited partners with similar goals, PSERS can have a voice in the direction a partnership takes.

3. Private Equity Partnership Portfolio Diversification

In order to reduce the risks associated with private equity partnership investments, a well-diversified portfolio is highly
desirable. Each investment should be evaluated relative to the characteristics within the existing portfolio.

The following types of diversification should be considered:

a. Preferred Investment
   (i) Senior Debt of private equity transactions
   (ii) Subordinated debt of private equity transactions
   (iii) Equity of private equity transactions

b. Size of Restructured Companies
   (i) Large companies with revenues in excess of $1 billion
   (ii) Medium companies with revenues between $250 million and $1 billion
   (iii) Small companies with revenues below $250 million

c. Sectors - investments will be diversified among industry groupings.

d. Maximum Investment - an investment by PSERS will be limited to no more than 25% of the total amount of any commingled fund, and no more than 90% when PSERS is the only investor other than the general partner.

e. Minimum Investment - PSERS will make no investment less than $50 million.

f. Time - PSERS will endeavor to invest in a consistent manner over time, unless markets are extremely over-valued.

4. Total Portfolio Diversification

Correlation with the returns of other asset classes is low and, therefore, the inclusion of private equity partnerships in the portfolio should provide an added means of diversification to the Fund.

D. CONSTRAINTS AND GUIDELINES

1. Minimum Requirements
a. The Fund will not invest in any domestic, primary blind pool, fund-of-fund, or SBIC structures.

b. Private equity dollars under management by the general partners of the partnership should be or have been substantial.

c. The general partners must have demonstrated investor acceptance by retention of other institutional clients.

d. The general partner(s) must have displayed a track record of investments transacted under a similar investment strategy to the one being considered.

e. The returns realized or projected by the general partner for previous investments must be or have been at a level consistent with a private equity investment strategy for the period of time referenced.

f. General partners must commit to provide at least 5% of the committed capital in the partnership or 10% of PSERS' commitment in a parallel fund structure.

g. The partnership should provide PSERS with a preferred return of at least eight percent (8%), compounded annually.

h. The general partner must be in a first loss position to PSERS' limited partner position. This first loss position can be achieved through a distribution schedule where the full 5% general partner contribution is subordinated to all of the limited partners; or the general partner can establish an escrow account that totals 10% of PSERS' contribution for the benefit of PSERS; or the general partner, if their resources are substantial, can issue a guarantee in an amount equal to 10% of PSERS' contribution.

i. PSERS should receive a prorata share of any co-investment opportunity offered to any limited partner.

j. The fund must agree to operate under a prudent expert standard of care and only receive indemnification if that standard is met.

k. If the fund’s general partner is a partnership, the general partner of that partnership must commit an amount equal to one-half of the required 5% commitment.
I. PSERS requires a seat on any limited partner Advisory/Valuation Committee.

m. PSERS requires expense reimbursements for attending Advisory/Valuation Committee meetings and the fund’s Annual Meetings.

n. PSERS requires a Key Person provision, if it is deemed applicable, that gives the limited partners the option to discontinue capital contributions.

o. PSERS requires a No Fault Divorce provision.

2. Evaluation Criteria

a. The primary emphasis will be on the quality and experience of the general partners.

b. Additional factors include, but are not limited to, the following:

   (i) The majority of the individuals comprising the general partner must have significant and complementary private equity and related experience and a high quality, identifiable track record.

   (ii) The general partners should have worked together previously to insure compatibility.

   (iii) There are a variety of skills investment managers need to be successful. They should possess the appropriate combination of operating, technical, financial, and private equity experience, as well as enthusiasm and the ability to motivate.

   (iv) Investment managers often have special relationships that can enhance operations, deal flow, or existing strategies. Some of these relationships might be with investment bankers, technical institutes, universities, medical research centers, corporations, or lending institutions.

   (v) The partnership's investment process is important. This includes due diligence on potential investments, analysis of the financial structure of potential
investments, and the degree of participation by the general partners in the direction of portfolio companies.

(vi) The time the general partners have available to commit to the current partnership is important.

(vii) References should be generally positive and include those not provided by the general partners.

(viii) All partnership agreement materials require a legal and logical audit. This should include a review of distribution policies, fees, profit and loss allocations, and partnership term extensions.

(ix) The willingness of the general partners to negotiate terms will be viewed favorably.

(x) The agreement should include adequate key person provisions to assure the original general partners continue to manage the partnership. In the event the original general partners leave, the limited partners should be given the option to withdraw.

(xi) Potential for co-investments.

c. A due diligence review by the staff and/or the Partnership Consultant comprising the following, when applicable:

(i) Review of whether the proposed investment falls within PSERS’ investment plan, constraints and guidelines, and if it complies with applicable investment policies.

(ii) Background check of principals.

(iii) Discussions with principals of the proposed investment.

(iv) Review and analysis of all pertinent offering documents including: (1) offering memoranda, (2) subscription agreements, (3) private placement memoranda, and (4) operative investment agreements.
(v) Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.

(vi) Review and analysis of investment:
- Concept - including entry and exit strategies
- Terms - including fees, principal participation, structure

(vii) Review of news articles regarding principals, prior investments, and concepts.

(viii) Discussions with other investors, peers, and industry associates (reference checks).

(ix) Review and analysis of performance for prior and current investments.

(x) Consideration of the percentage of capital commitment available to PSERS.

(xi) Investigation of special terms and side letter agreements with past, present, or future investors.

d. A focused review by PSERS’ Private Markets staff and/or the Partnership Consultant comprising, when appropriate, the following:

(i) Identification of key issues stemming from certain criteria or other concerns relating to particular proposed investments, including non-standard opportunities, prior to a full due diligence review.

(ii) Highlighting such issues and concerns, along with suggestions as to how they may be addressed, resolved or mitigated (through negotiation or otherwise).

(iii) Where a further review of such an opportunity is authorized and upon completion of a focused due diligence review, identification of the attractive attributes as well as the concerns relating to the proposed opportunity and possible mitigation of such concerns.
(iv) For new general partner relationships, PSERS staff will perform an on-site visit of the general partner’s office as part of the due diligence process.

At each stage of such a focused review, the MDPMRE will be furnished information regarding relevant issues early in the review process to permit flexibility in considering and deciding on such proposed opportunities.

3. **Legal Constraints**

   a. **Unrelated Business Taxable Income (UBTI) - Partnerships** should be structured to minimize UBTI.

   b. **Plan Assets -** Many partnership documents contain language that addresses ERISA’s rules concerning "Plan Assets." While these regulations do not apply to PSERS, it may be affected by such ERISA-related language.

4. **Unfriendly Takeovers**

   PSERS will maintain the right to examine transactions that might be construed as hostile takeovers, with the right to decline participation in such. Hostile takeovers shall be defined as takeovers opposed by the board of directors of the target company.

5. **Guidelines**

   a. **Method of Participation**

   PSERS will generally participate as a limited partner in professionally managed funds.

   b. **Types of Authorized Investments**

   Domestic and foreign private equity partnerships involved in:

   (i) Senior Debt
   (ii) Subordinated Debt
   (iii) Equity

   c. **Fees**

   Fees should be negotiated where prudent and without creating offsetting adverse effects.

*Approved March 13, 2009*
E. STRATEGY

1. Allocation - PSERS should endeavor to invest on a consistent basis. Annual commitments should not be budgeted, but rather meet and be responsive to the opportunities and market dynamics of the private equity industry.

2. Method of Participation - PSERS should secure a core holding in this asset class attained through investment in large, well established private equity funds, with participation in smaller partnerships or direct investments to follow.

3. Size of Partnerships - All types of private equity partnerships should be considered, including smaller partnerships, though diversity in size is recommended overall.

F. MONITORING

1. Performance

   Performance will be assessed relative to:

   a. Objectives established by the partnership or the principals managing the investment.

   b. Risks undertaken.

   c. Other similar partnership performance.

   d. The general private equity market.

   e. An internal rate of return ("IRR") and compared to vintage year peer groups.

2. Adherence to Strategy

   The actual strategy employed by the partnership or the investment will be judged relative to the stated objectives and strategies.

3. Frequency and Types of Monitoring Reports

   Reports required from private equity partnership investments will be negotiated by staff.
4. **Board Reports**

Reports on the partnership investments will be provided to the Board at least annually.

**IV. VENTURE CAPITAL PARTNERSHIP INVESTMENT POLICY**

**A. BACKGROUND**

Venture capital partnership investing, in which PSERS participates as a limited partner, is an important source of equity financing for private companies in various stages of development. Any single situation can entail a high level of investment risk, but also offers the potential for greater returns than more traditional asset classes, such as equity and fixed income asset classes. Appropriate diversification within the venture capital asset class and across the venture capital portfolio reduces the investment risk while maintaining potential for returns. Venture investing is the financing of relatively small, rapidly growing young companies that do not have access to public equity or debt financing. Funding stages range from seed, where the only company asset is an idea, through expansion, in which the company has an established product and is poised for successful growth.

**B. PHILOSOPHY**

1. **Fund Objectives**

   Venture capital partnership investments provide an appropriate addition to the System's portfolio. Venture capital partnership investments are compatible with the general objectives of the Fund, which include:

   a. Providing a means to pay benefits to the System's participants and to their beneficiaries.

   b. Investing to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.

   c. Attaining an adequate real return over the expected rate of inflation.

   d. Earning a return over the assumed actuarial rate of interest.

   e. Complying with all applicable laws and regulations concerning the investment of pension assets.
2. Reasons to Invest in Venture Capital Partnerships

There are several reasons to invest in venture capital partnerships:

a. Venture capital partnerships total rates of return are expected to be greater than those that are expected from conventional equity investments.

b. Venture capital partnership investing has a low correlation relative to other investment classes and will therefore contribute to reduction of risk and the enhancement of returns on a total portfolio basis.

c. Venture capital partnership investments provide capital to new or emerging businesses and industries and are an important factor in economic and job development.

C. OBJECTIVES

1. Portfolio Investment Performance Objective

The performance objective of venture capital partnership investments is a total real return approximating 14%-16%.

2. Risk Management

a. Standard Deviation - The standard deviation of returns, one measure of the risk or volatility of venture capital partnership investments, is approximately 40%.

b. Lack of Liquidity - The time horizon for a venture capital partnership is typically eight to twelve years. Venture capital should therefore be considered an illiquid investment. PSERS is well structured for long-term investments due to the Fund's continuing cash flow and the nature of pension liabilities. Such investments also match PSERS' long-term liabilities for active employees.

c. Business/Economic Related Risks include:

(i) Buyers overpaying for assets.
(ii) Company has operational problems, reducing capital available for debt service.
(iii) If interest rates rise, poorly structured, highly leveraged deals may be strained.
(iv) A severe recession might cause a business that had been acquired recently to fail under its debt load.

d. Political/Tax - Politicians and/or regulators may change the rules that helped make restructuring possible.

e. Blind Pool - In partnership investments, control is vested with the general partners. Investments are generally unknown at the time the limited partners make their initial capital contributions. However, as sole limited partner, or in conjunction with other limited partners with similar goals, PSERS can have a voice in the direction a partnership takes.

3. Venture Capital Partnership Portfolio Diversification

a. Stage - PSERS should diversify throughout the various financing stages of venture capital investing, generally defined as:

(i) Seed Financing - involves investing at the earliest possible time, when the entrepreneur has only a business plan and a product concept.

(ii) Start-up Financing - usually there is significant progress in product development.

(iii) First Stage Financing - product is demonstrated, capital is used to fund initial manufacturing and sales.

(iv) Second Stage Financing - capital is used as working capital for a growing company.

(v) Third Stage Financing - capital is used for major expansion, additional product development, marketing, or plant and facilities improvement.

(vi) Bridge/Mezzanine Financing - providing working capital often in anticipation of a future public offering.

b. Sectors - Investments will be diversified among industry groupings.

c. Size of Investments - Investments will be diversified among a range of partnerships of varying sizes.
d. Geography - PSERS should consider geographical diversification in investment selection. The Board shall only select private market managers who agree to conform with the Board’s requirement that private market investments made by the Fund must be reasonably likely to enhance the general welfare of the Commonwealth and meet the prudent expert standard. Prospective private equity managers will be reviewed on the basis of their historic investment track record. Contractual language which requires a minimum "best efforts" percentage for investment in the Commonwealth in an amount equal to the amount of PSERS investment will be sought and negotiated.

e. Maximum Investment - an investment by PSERS will be limited to no more than 25% of the total amount of any commingled fund, and no more than 90% when PSERS is the only investor other than the general partner.

f. Minimum Investment - PSERS will make no investment less than $25 million.

g. Time - PSERS will endeavor to invest in a consistent manner over time, unless markets are extremely over-valued.

4. Total Portfolio Diversification

Correlation with the returns of other asset classes is low and therefore the inclusion of venture capital partnerships in the portfolio should provide an added means of diversification to the Fund.

5. Job Creation

The creation of new jobs is a beneficial result of venture capital partnership investing.

6. Prudent Person Standard

The selection of venture capital partnership investments will be guided by Section 8521 (h) of the Public School Employees' Retirement Code ("Code"), 24 Pa.C.S.

D. CONSTRAINTS AND GUIDELINES

1. Minimum Requirements

a. The Fund will not invest in any domestic, primary blind pool, fund-of-fund, or SBIC structures.
b. Venture capital dollars under management by the general partners of the partnership should be or have been substantial.

c. The general partners must have demonstrated investor acceptance by retention of other institutional clients.

d. The general partner(s) must have displayed a track record of investments transacted under a similar investment strategy to the one being considered.

e. The returns realized or projected by the general partner for previous investments must be or have been at a level consistent with a venture capital investment strategy for the period of time referenced.

f. General partners must commit to provide at least 5% of the committed capital in the partnership or 10% of PSERS commitment in a parallel fund structure.

g. The partnership should provide PSERS with a preferred return of at least eight-percent (8%), compounded annually.

h. The general partner must be in a first loss position to PSERS’ limited partner position. This first loss position can be achieved through a distribution schedule in which the full 5% general partner contribution is subordinated to all of the limited partners; or the general partner can establish an escrow account that totals 10% of PSERS' contribution for the benefit of PSERS; or the general partner, if its resources are substantial, can issue a guarantee in an amount equal to 10% of PSERS' contribution.

i. PSERS should receive a prorata share of any co-investment opportunity offered to any limited partner.

j. The fund must agree to operate under a prudent expert standard of care and only receive indemnification if that standard is met.

k. If the fund’s general partner is a partnership, the general partner of that partnership must commit an amount equal to one-half of the required 5% commitment.
I. PSERS requires a seat on any limited partner Advisory/Valuation Committee.

m. PSERS requires expense reimbursements for attending Advisory/Valuation Committee meetings and the fund's Annual Meetings.

n. PSERS requires a Key Person provision, if it is deemed applicable, that gives the limited partners the option to discontinue capital contributions.

o. PSERS requires a No Fault Divorce provision.

2. Maximum Limitation

PSERS Asset Allocation Policy limits the amount of the Fund's assets allocated to venture capital investments.

3. Evaluation Criteria

a. The primary emphasis will be on the quality and experience of the general partners and members of the advisory board, if applicable.

b. Additional factors include, but are not limited to the following:

   (i) Specific objectives of the venture capital firm;
   (ii) Investment strategy;
   (iii) Relationship with the venture capital community;
   (iv) Relationship with limited partners;
   (v) Nature of value-added involvement;
   (vi) Continuity and depth of the organization;
   (vii) Potential for co-investments;
   (viii) Creativity of the venture capitalist;
   (ix) Past financial performance - risk and return;
   (x) Reasonable ratio of investors to general partners;
   (xi) Reasonable ratio of committed capital to general partners; and
   (xii) Deal flow.

Approved March 13, 2009
c. A due diligence review by the staff and/or PSERS’ Partnership Consultant comprising the following, when applicable:

   (i) Review of whether the proposed investment falls within PSERS’ investment plan, constraints and guidelines, and if it complies with applicable investment policies.
   (ii) Background check of principals.
   (iii) Discussions with principals of the proposed investment.
   (iv) Review and analysis of all pertinent offering documents including: (i) offering memoranda, (ii) subscription agreements, (iii) private placement memorandum, and (iv) operative investment agreements.
   (v) Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.
   (vi) Review and analysis of investment:
      Concept - including entry and exit strategies
      Terms - including fees, principal participation, structure
   (vii) Review of media coverage regarding principals, prior investments, and concepts.
   (viii) Discussions with other investors, peers and industry associates (reference checks).
   (ix) Review and analysis of performance for prior and current investments.
   (x) Consideration of the percentage of capital commitment available to PSERS.
   (xi) Investigation of special terms and side letter agreements with past or present investors.

d. A focused review by PSERS’ Private Markets staff and PSERS’ Partnership Consultant comprising, when appropriate, the following:

   (i) Identification of key issues stemming from certain criteria or other concerns relating to particular proposed investments, including non-standard opportunities, prior to a full due diligence review.
   (ii) Highlighting such issues and concerns, along with suggestions as to how they may be addressed, resolved or mitigated (through negotiation or otherwise).
(iii) Where a further review of such an opportunity is authorized and upon completion of a focused due diligence review, identification of the attractive attributes as well as the concerns relating to the proposed opportunity and possible mitigation of such concerns.

(iv) For new general partner relationships, PSERS staff will perform an on-site visit of the general partner's office as part of the due diligence process.

At each stage of such a focused review, the MDPMRE will be furnished information regarding relevant issues early in the review process to permit flexibility in considering and deciding on such proposed opportunities.

4. **Legal Constraints**

   a. **Unrelated Business Taxable Income (UBTI)** - Partnerships should be structured to minimize UBTI.

   b. **Plan Assets** - Many partnership documents contain language that addresses ERISA's rules concerning "Plan Assets." While these regulations do not apply to PSERS, it may be affected by such ERISA-related language.

   c. **Venture Capital Operating Company ("VCOC")** - Although PSERS is not covered by ERISA, all partnerships will either be registered as Registered Investment Advisors or meet the requirements of VCOCs under ERISA.

5. **Guidelines**

   a. **Method of Participation** - PSERS will generally participate as a limited partner in professionally managed funds.

   b. **Types of Authorized Investments** - Venture capital partnership opportunities including, but not limited to:

      (i) Domestic and foreign private small business
      (ii) Secondary market partnerships

   c. **Fees** - Fees should be negotiated where prudent and without creating offsetting adverse effects.

E. **STRATEGY**
1. **Allocation** - PSERS should endeavor to invest on a consistent basis. Annual commitments should not be budgeted, but rather meet and be responsive to the opportunities and market dynamics of the venture capital industry.

2. **Method of Participation** - PSERS should secure a core holding in this asset class attained through investment in large, well established venture capital funds, with participation in smaller partnerships or direct investments to follow.

3. **Size of Partnerships** - All types of venture capital partnerships should be considered, including smaller partnerships, though diversity in size is recommended overall.

**F. MONITORING**

1. **Performance** - Performance will be assessed relative to:
   
   a. Objectives established by the partnership or the principals managing the investment.
   
   b. Risks undertaken.
   
   c. Other similar partnership performance.
   
   d. The general venture capital market.
   
   e. An internal rate of return (IRR) and compared to cohort year peer groups.

2. **Adherence to Strategy** - The actual strategy employed by the partnership or the investment will be judged relative to the stated objectives and strategies.

3. **Frequency and Types of Monitoring Reports** - Reports required from venture capital investments will be negotiated by staff.

4. **Board Reports** - Semi-annual reports on the partnership investments will be provided to the Board.

**V. AMENDMENTS AND ACCEPTANCE**

It is the Board’s intention through the Consultants and investment staff to review manager compliance with this document quarterly, and if the guidelines are changed in any way, the foregoing will be modified.
If at any time the Managing Director or Consultants feel that the objectives cannot be met, or the guidelines constrict performance, the Chief Investment Officer should be notified in writing. The Managing Director and Consultants are encouraged to suggest changes in these guidelines at any time. By signature the Managing Director agrees to these Investment Policy Statement, Objectives, and Guidelines and shall perform in accordance herewith.

_____________________________ Pennsylvania Public School Employees’
Company Name Retirement System

_____________________________ Chief Investment Officer
Managing Director Signature

_____________________________
Managing Director Name

_____________________________
Date Accepted Date Proposed

Approved March 13, 2009 X-24