I. GENERAL PROVISIONS

A. PRUDENT PERSON STANDARD

The selection of public markets 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 public 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.

3. Investment Process

   The Public Markets Co-Investment Team will initially agree to bring the co-investment opportunity to an internal Review Committee for a vote to approve the investment. The Review Committee will consist of the Managing Directors in the Investment Office, the Deputy CIO, and the Chief Investment Officer ("CIO"). The CIO plus a majority of the other Review Committee members must approve the co-investment.
4. **Action Plan**

Co-Investments are offered by current external public market investment managers on a case-by-case basis. PSERS’ Public Markets Staff will continue to build strong relationships with external public market investment managers in the industry which should enable strong co-investment deal flow.

Co-Investment opportunities will be pursued only with current external public market investment managers.

5. **Procedures**

Any procedures in addition to those adopted by the Board will be developed by PSERS’ Public Markets Co-Investment Team.

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

In the Investment Policy Statement, the Chief Investment Officer has the authority to interpret the guidelines to meet individual portfolio needs and to determine the appropriateness of the 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. **PUBLIC MARKETS INVESTMENT POLICY**

A. **PHILOSOPHY**

1. **Fund Objectives**

Public markets co-investments provide an appropriate addition to the System's portfolio. Although potentially an illiquid 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.

Public markets co-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. Conflicts of Interest

a. Corporate Governance

It does not appear that there are any conflicts of interest between public markets investments and the corporate governance standards of one share, one vote.

3. Reasons to Invest in Co-Investments of Public Markets

a. High Rate of Return

Total rates of return for public markets co-investments are expected to be greater than those that are expected from conventional public market investments. The management fee and performance fee on co-investments will either not be charged, or will be reduced.

B. OBJECTIVES

1. Portfolio Co-Investment Performance Objective

The performance objective for public markets co-investments is a total return which represents a 3% premium above public market comparables over a 10 year period.

2. Risk Management

a. Standard Deviation

The standard deviation of returns, one measure of the risk or volatility of public markets co-investments is assumed to be similar to that of the S&P 500 Index, or approximately 16%.
b. Business/Economic Related Risks include:

(i) Buyers overpaying for assets.

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

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

c. Political/Tax

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

d. Lack of Liquidity

The time horizon for public markets co-investments is 18 months to 3 years. These co-investments should therefore be considered an illiquid investment.

3. Co-Investments Portfolio Diversification

In order to reduce the risks associated with public markets co-investments, a well-diversified portfolio is desirable. Each investment should be evaluated relative to the characteristics within the existing portfolio.

The following types of diversification should be considered:

a. Sectors - Public markets investments will be diversified among industry groupings.

b. Maximum Investment - an investment by PSERS will be limited to no more than $15 million.

c. Minimum Investment - PSERS will make no investment less than $5 million.

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

e. Initial investment commitment - $100 million
C. CONSTRAINTS AND GUIDELINES

1. Evaluation Criteria

   a. A due diligence review by the staff comprising the following, as deemed appropriate:

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

   (ii) Discussions with the investment manager of the proposed investment.

   (iii) Review and analysis of all pertinent offering documents including if applicable: (1) offering memoranda, (2) subscription agreements, (3) private placement memoranda, and (4) operative investment agreements.

   (iv) Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the investment manager.

   (v) Review and analysis of investment:

   - Theme - including entry and exit strategies
   - Terms - including fees, principal participation, structure

   (vi) Review of news articles regarding investment manager, prior investments, and concepts.

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

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

   b. Additional diligence items to be examined include, if applicable:

   (i) A summary of the investment opportunity which includes: company/asset information, company/asset research, market research that includes competitive
analysis, and internal due diligence materials generated by the general partner

(ii) Expected process timeline
(iii) Current valuation with details
(iv) Deal structure which includes all debt and equity investors; and amounts of each
(v) Expected fees and carry paid for co-investing (if any)
(vi) Debt covenant schedule and maturity profile
(vii) Capital needs of the company for the next five years
(viii) Amount senior management is investing in the deal
(ix) A list of the Board of Directors and other Advisors
(x) List of other co-investors and amounts invested by each
(xi) A copy of any third party due diligence reports
(xii) Expected value creation
(xiii) Expected holding period until an exit
(xiv) Expected mode of exit
(xv) Expected return multiple and IRR

2. **Guidelines**

   a. **Method of Participation**

      PSERS will generally participate in co-investments through a fund or other appropriate vehicle managed by a current external public market investment manager.

   b. **Fees**

      Public markets co-investments should, at a minimum, have a reduced management fee and reduced carried interest.

**D. STRATEGY**

1. **Allocation** - PSERS should endeavor to invest on a consistent basis. Initial allocation for investments will be capped at $100 million.

2. **Method of Participation** - PSERS should secure a core holding in this asset class attained through investment in well-established funds.

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

1. Performance

Performance will be assessed relative to:

a. Objectives established by the investment manager.

b. Risks undertaken.

c. The general public markets.

2. Adherence to Strategy

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

3. Frequency and Types of Monitoring Reports

Reports required from the investment manager will be negotiated by staff.

4. Board Reports

Reports on the co-investments will be provided to the Board at least quarterly.
III. AMENDMENTS AND ACCEPTANCE

It is the Board’s intention through the investment staff to review investment compliance with this document quarterly, and if the guidelines are changed in any way, the foregoing will be modified.

If at any time the Public Markets Co-Investment Team determines that the objectives cannot be met, or the guidelines constrict performance, the CIO should be notified in writing. The Public Markets Co-Investment Team is encouraged to suggest changes in these guidelines at any time. By signature the Public Markets Co-Investment Team agrees to these Investment Policy Statement, Objectives, and Guidelines and shall perform in accordance herewith.

Pennsylvania Public School Employees' Retirement System

__________________________________________  _______________________________________
Signature                                           Chief Investment Officer

__________________________________________  _______________________________________
Name                                           Chief Investment Officer Name

__________________________________________  _______________________________________
Date Accepted                                           Date Proposed

Approved December 9, 2014  X4-8