I. GENERAL PROVISIONS

A. PRUDENT PERSON STANDARD

The selection of private markets, real estate 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 and real estate 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 markets and real estate co-investments, expert outside legal counsel may be retained.

3. Investment Process

Co-Investment opportunities located in Pennsylvania from active relationships where PSERS and/or Hamilton Lane is a limited partner will first be vetted by Hamilton Lane. The opportunities recommended by Hamilton Lane will then be vetted by PSERS Co-Investment Team and presented to the Allocation Implementation Committee (AIC). The AIC will consist of the Managing Directors in the Investment Office, the Deputy Chief Investment Officers
(DCIOs), and the Chief Investment Officer (CIO). The AIC must unanimously approve the co-investment.

4. **Action Plan**

Co-Investments are offered by Fund Sponsors, where either PSERS or Hamilton Lane is a Limited Partner, on a case-by-case basis. PSERS' Private Markets and Real Estate Staff will continue to build strong relationships with General Partners in the industry which should enable strong co-investment deal flow.

Co-Investments will be sourced only from active relationships where PSERS or Hamilton Lane is already an LP (“Limited Partner”).

5. **Procedures**

Any procedures in addition to those adopted by the Board will be developed by PSERS' PM and RE staff.

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

In the Investment Policy Statement, the CIO 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 Investment 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 the AIC for evaluation and will be administered like any other private markets or real estate partnership.

III. **PRIVATE MARKETS AND REAL ESTATE PARTNERSHIP INVESTMENT POLICY**

A. **PHILOSOPHY**

1. **Fund Objectives**

Private markets and real estate co-investments provide an appropriate addition to the System's portfolio. Although considered an illiquid investment, viewed from a total portfolio perspective, the
risk/return tradeoff, the diversification potential and the low or no fees and profit share make this a suitable choice for the Fund.

Private markets and real estate co-investments are compatible with the general objectives of the Fund.

2. **Conflicts of Interest**

   a. Corporate Governance

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

   b. Current Holdings

   As a limited partner in a co-investment 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 PSERS discretion.

3. **Reasons to Invest in Co-Investments of Private Markets and Real Estate Partnerships**

   a. High Rate of Return

   Total rates of return for private markets and real estate co-investments are expected to be greater than those that are expected from conventional partnership investments. The management fee and profit share on co-investments will either not be charged, or will be reduced.

   b. Diversification

   Private markets and real estate co-investing have a low correlation to other investment classes and will therefore contribute to reduction of risk and the enhancement of returns on a portfolio basis.

**B. OBJECTIVES**

1. **Portfolio Co-Investment Performance Objective**
The performance objective for private markets or real estate co-investment 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 private markets co-investments is assumed to be similar to that of venture capital, or approximately 30%. The standard deviation of real estate co-investments is assumed to be approximately 20%.
   
   b. **Business/Economic Related Risks include:**
   
      (i) Buyers overpaying for assets.
   
      (ii) Investment has operational problems, reducing capital available for debt service.
   
      (iii) If interest rates rise, highly leveraged deals may be strained.
   
      (iv) 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 private markets and real estate co-investments is 3 to 7 years. Private markets and real estate investments should therefore be considered an illiquid investment.

3. **Co-Investments Portfolio Diversification**

   In order to reduce the risks associated with private markets or real estate co-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) private markets or real estate transactions
   (ii) Medium companies with revenues between $250 million and $1 billion

b. Size of Restructured Companies (private markets)
   (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 – Private markets investments will be diversified among industry groupings. Real estate investments will be diversified by asset type. Non-cyclical investments will be favored over cyclical investments.

d. Maximum Investment - an initial investment by PSERS will be limited to no more than $25 million, with a $10 million limit for follow-on investments.

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

4. Total Portfolio Diversification

Efforts will be made to provide diversification of the programs through selection of different types of co-investment opportunities. Diversification is primarily achieved, i.e. concentration risk limited, through the limit of $25 million per investment.

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 principals of the proposed investment.

(iii) Review and analysis of all pertinent offering documents including: (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 principals.

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

(vi) Review of news articles regarding principals, 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.

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

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

b. Additional critical diligence items to be examined include:

(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 and Hamilton Lane will generally participate as a limited partner in co-investments of professionally managed funds in which PSERS and Hamilton Lane is already an investor.

   b. **Types of Authorized Investments**

      All types of investments from active relationships will be considered, including smaller partnerships, though diversity in size is recommended overall.

   c. **Fees**

      Private markets co-investments should be subject to no or reduced management fee or profit share. Real Estate co-
investments should, at a minimum, have a reduced management fee and reduced profit share.

d. Program Structure

PSERS deal flow will be administered internally exactly as the existing in-house programs are handled. Hamilton Lane deal flow will be set up as a fund of one with Hamilton Lane administering at no additional fees except costs to set up.

D. STRATEGY

1. Allocation - PSERS should endeavor to invest on a consistent basis. The capital limit for the Private Markets and Real Estate Pennsylvania In-House Co-Investment program is $250 million. Proceeds from the sale of investments can be recycled.

2. Method of Participation - PSERS should secure a core holding in this asset class attained through active relationships.

3. Size of Partnerships - All types of investments from active relationships 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 general partners or the principals managing the investment.

b. Risks undertaken.

c. The general private and real estate markets.

d. An internal rate of return (“IRR”) and compared to other co-investment completed.

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 market and real estate co-investments will be negotiated by staff.

4. **Board Reports**

Reports on the co-investments will be provided to the Board quarterly.

V. **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 Deputy CIO, Non-Traditional Investments, Managing Director, Director of Private Markets and/or Real Estate, the Portfolio Manager of Private Markets and/or the Portfolio Manager of Real Estate determines that the objectives cannot be met, or the guidelines constrict performance, the CIO should be notified in writing. Changes to these guidelines can be recommended at any time.