PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT OBJECTIVES AND GUIDELINES
INTERNALLY-MANAGED SHORT-TERM INVESTMENT POOL

ADDENDUM Y

I. OBJECTIVES

This short-term investment pool will consist primarily of fixed income securities and cash equivalents. The objectives of this portfolio, in order of importance, are:

1. to preserve capital;
2. to maintain the Net Asset Value at $1 per share;
3. to maintain volatility relative to the 0-3 month Treasury Bill Index of no greater than 1.0%;
4. to generate positive annual returns in excess of the 0-3 month Treasury Bill Index; and
5. to maintain an information ratio of 0.00 or greater over a rolling 3-year period.

II. PORTFOLIO RISK MANAGEMENT

The Board’s expectations are that this portfolio be actively managed within the spirit of a short-term investment pool mandate and be convertible to cash within 72 hours. Within this framework, the following are the portfolio risk constraints under which the manager is required to operate:

A. Interest Rate Risk

The effective or option-adjusted duration of the portfolio must range from zero to 0.50 year.

B. Spread Risk

The effective or option-adjusted spread duration of the portfolio must range from zero to 0.50 year.

C. Credit Risk

1. The weighted-average credit rating of the portfolio must be Aa2/AA or better.
2. Commercial paper issuers and negotiable certificates of deposits rated P-1/A-1 or better are acceptable. Commercial paper rated P-2/A-2 is acceptable provided the long term rating is at least A3/A-.
3. Securities other than commercial paper issuers and negotiable certificates of deposits must be rated A3/A- or better.
4. Money market funds that are not registered with the Securities and Exchange Commission are prohibited.

5. Repurchase agreements will have terms no greater than 90 days and will be secured by at least 102% of Federal Obligations collateral.

Note: Credit ratings shall include ratings issued by Moody’s, Standard & Poor’s, and Fitch Investor Service (hereafter referred to as the “Credit Rating Agencies”). If each of the Credit Rating Agencies assigns a credit rating, the credit rating will be the middle of the three ratings (for example, if Moody’s rates a security Baa2, S&P rates a security BB+, and Fitch rates a security BBB-, the middle credit rating would be considered BBB- by Fitch). If only two of the three Credit Rating Agencies assign a credit rating, the credit rating will be the lower of the two. If only one of the Credit Rating Agencies assigns a credit rating, that credit rating will apply.

D. Currency Risk

1. At no time may the manager’s portfolio invest in securities denominated in foreign currencies.

E. Sovereign Risk

1. No more than 20% of the portfolio may be invested in dollar-denominated non-U.S. government securities and dollar-denominated bonds issued by non-U.S. domiciled entities. Non-U.S. exposure will be determined based on the issuer of the underlying instrument.

F. Concentration Risk

1. No more than 7% of the portfolio at market value may be invested in the securities of any issuer (excluding issues or issuers fully guaranteed by the U.S. Government and its agencies rated Aaa/AAA and securities issued by non-US. Governments).

2. Non-convertible preferred stock and convertible bonds (bonds convertible into common stock) are prohibited.

3. No more than 5% of the portfolio at market value may be invested in asset backed securities (defined as financial instruments collateralized by one or more types of assets including mortgages, receivables, loan paper, etc.) rated below AA3/AA-. This limit does not apply to U.S. or U.S. agency guaranteed asset backed securities.

4. No more than 10% of the market value of the portfolio invested in municipal securities.

5. No more than 15% in any one sponsor of money market funds.
6. Reverse repurchase agreements are prohibited.

G. Liquidity Risk

Positions in letter stock, private placements (excluding 144A securities), physical real estate, physical commodities, and any other positions unable to be liquidated promptly without severe market impact are prohibited.

H. Counterparty Risk

1. Counterparties to repurchase agreements must be members of the Federal Reserve System and insured by the FDIC.
2. Exposures to any counterparty will not exceed 20% of the market value of the portfolio.

III. AMENDMENTS

A written request to the Chief Investment Officer (CIO) and Deputy Chief Investment Officer (DCIO) should be made if the manager believes that these portfolio risk constraints significantly limit the ability of the manager to achieve the objectives of the portfolio. A written amendment will be issued from the CIO, or the DCIO in the CIO’s absence, if the request is approved.