

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: March 15, 2007

SUBJECT: Barclays Global Investors

TO: Members of the Board

FROM: James H. Grossman, Jr., CPA, CFA
Director of External Public Markets, Risk & Compliance

At the Finance Committee meeting on March 15, 2007, staff will recommend hiring Barclays Global Investors to manage a core plus U.S. fixed income mandate. This product consists of three separate parts:

1. BGI Fixed Income GlobalAlpha Bond Fund – this is the alpha engine for the product that uses a multitude of fixed income strategies to generate excess returns (this investment will be done through the purchase of a limited liability offshore fund);
2. An enhanced cash portfolio (currently projected to be managed in a separate account); and
3. Replication of the beta portion (Lehman Brothers U.S. Universal Index) by using derivatives (currently projected to be managed in a separate account) or other BGI commingled funds.

BGI is targeting a gross excess return of 350 bps to 425 bps over the Lehman Brothers U.S. Universal Index with a tracking error of 4.0%. A back test of BGI's excess returns against the excess returns of our current line-up of core plus fixed income managers shows a very low correlation (all were under 0.30). This product went live in July 1, 2006 and currently has \$900 million in assets under management with another \$2 billion (excluding PSERS) currently in their pipeline.

BGI has a very successful history of creating alpha-generating products. They have a very deep and experienced fixed income research team and have come up with, in our opinion, an excellent product. In addition, they have a track record of closing products that have reached their capacity constraints. BGI is being very conservative in accepting new capital in this product in order to continue to meet their alpha-generating expectations.

Therefore, staff and Wilshire are recommending an allocation to BGI's Global Alpha Bond Fund.