

Public Markets Recommendations

Composite and Investment Manager Recommendations

- On July 18th and 19th, PSERS Staff and Wilshire conducted a thorough strategy review of the public markets investments. Below are Staff's and Wilshire's recommendations as a result of those meetings.
- US Equity
 - Terminate the Mellon Equity product benchmarked to the DJ Wilshire 4500 Index due to performance
 - Terminate the Wellington Russell 2000 product benchmarked to the Russell 2000 Index due to performance
- Non-US Equity
 - Increase the percentage of internally-managed passive non-US equity from 30% to 50% of the composite
 - Terminate The Boston Company ACWI ex-US product due to performance, and in order to reduce active management in this composite
- Fixed Income
 - Terminate the Brown Brothers Harriman US TIPS fixed income product due to performance
 - Utilize the internal PSERS TIPS account for all US TIPS exposure

Non-US Equity Composite

Pareto Currency Hedge Product Recommendation

- PSERS hedges a portion of the currency risk from its non-US equity exposure
 - Designed to reduce volatility due to currency fluctuations
 - Strategic range of 30% to 50% has been approved by the Board
 - Current hedge ratio is set at 30%, as Staff expects a secular dollar-weakening environment
- PSERS has retained Pareto to implement the currency hedging strategy on the non-US equity exposure
- Pareto's guidelines currently specify that they will provide a "100% hedge" on a notional value equal to 30% of the non-US equity exposure
 - However, this assignment does not allow Pareto to outperform if the dollar strengthens
 - Essentially, one of Pareto's hands has been tied
- PSERS Staff and Wilshire recommend increasing the notional amount of Pareto's assignment while reducing their hedge ratio
 - Will not change the targeted hedge ratio – will remain at 30%
 - Designed to improve the efficiency and ability of Pareto to add value at the margin
- PSERS Staff and Wilshire recommend changing Pareto's mandate and assigning them a 75% hedge ratio on a notional value equal to 40% of the non-US equity exposure