

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 18, 2009

SUBJECT: Manager Recommendations

TO: Members of the Board

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

At the Finance Committee meeting on October 1, 2009, Staff will make some manager recommendations as follows:

Opportunistic Fixed Income Investment

- Staff and Portfolio Advisors will recommend a \$250 million investment in the Sankaty Middle Market Opportunities Fund, L.P. This Fund will endeavor to take advantage of the opportunities currently available in lending to middle market businesses given the turmoil in the credit markets. Sankaty will be presenting to the Board on this opportunity.

Active Currency Managers

During the past year, PSERS terminated two of the three active currency managers due to underperformance and a loss of confidence in their investment process. Staff and Wilshire have evaluated other active currency products and will recommend hiring two managers as follows:

- Millennium Asset Management Limited – a London-based investment management company founded in 1994 that primarily manages currency mandates. Millennium's style is differentiated from most other currency managers as they take a discretionary, fundamental approach while most other use a quantitative, technical or fundamental approach. Millennium has a long track record and would provide excellent diversification in our absolute return program; and
- Pareto Asset Management Limited – another London-based investment management company wholly-owned by BNY Mellon Asset Management Company. Pareto is a currency expert that currently manages PSERS currency hedge program and has generated alpha in excess of \$41 million for PSERS since being hired in 2006. Pareto has a number of active currency strategies that target different risk environments. The product Staff and Wilshire will recommend is the Currency Multi Strategy product, a new strategy that leverages Pareto's skills in the currency markets. The simulated return of this product has low correlations to FX Concepts, the only active currency manager currently in PSERS absolute return program, and Millennium.

Both of the active currency managers are recommended for \$1 billion, 4% tracking error mandates similar to the mandate currently being managed by FX Concepts. Consistent with the FX Concepts portfolio, each of these managers would require very little up front capital in managing their alpha generation process due to the use of forward positions.

If you have any questions or comments, please contact me at 717-720-4703.