


**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: January 9, 2014
SUBJECT: Investment Policy Statement, Objectives, and Guidelines Approval
TO: Members of the Finance Committee
FROM: Joseph W. Sheva 
Portfolio Manager

At the January Finance Committee Meeting, staff will request that the Committee adopt the proposed revisions to the Investment Policy Statement Objectives and Guidelines ("IPS").

I. Investment Policy Statement: Selection of Investment Managers

To clarify our existing general practice and remain fiduciarily consistent with the Board's deliberations at the December 9, 2013 Finance Committee meeting, Staff recommends that the Board adopt the proposal to insert the following language into this section. The added language provides an unambiguous policy with regard to proper due diligence of investment managers recommended to the Board for approval.

No Investment Manager shall be presented to the Board for approval without a recommendation from both IOS and the appropriate Investment Consultant to allocate or commit capital to the Investment Manager.

I. Investment Policy Statement: Derivatives Policy

In conjunction with the Board approving the addition of the Counterparty and Broker/Dealer Policy, described below, staff recommends removing the section of the Derivatives Policy covered by this new Policy.

Addition of Exhibit G – Counterparty and Broker/Dealer Policy

By introduction of this new Policy, staff recommends creation of a new staff-level Counterparty and Broker/Dealer Committee assigned to review and approve each Counterparty and broker/dealer used in internally-managed portfolios, establishment of minimum criteria used by external investment managers in selecting and monitoring the Counterparties and broker/dealers they use, implementation of Counterparty and broker/dealer risk controls, and related oversight tasks. All recommendations and actions by the Counterparty and

Broker/Dealer Committee will be subject to the approval of the CIO, and reported to the Finance Committee on a quarterly basis.

Exhibit F – Qualified Independent Representative (QIR) Policy

Removed Alan Van Noord as a QIR for PSERS.

Exhibit H – Definitions (previously Exhibit G)

Make the following changes to this Exhibit

- Added the Managing Director of Investment Operations to the definition of Investment Office Directors
- CBC: Counterparty and Broker/Dealer Committee – committee responsible for the monitoring of Counterparties and broker/dealers as described in the Counterparty and Broker/Dealer Policy

II. Investment Objectives and Guidelines

In order to begin to draw a distinction between accounts in which the System's Custodian Bank, currently BNY Mellon, holds all or some of the assets of the portfolio and those accounts that are contracted in a different structure (e.g. Limited Partnership, LLC, etc.), staff proposes creating three categories under section II. Investment Objectives and Guidelines. The first section, A. Separate Account Policies and Guidelines, contains objectives and guidelines in which PSERS has the direct ability to monitor through use of transparent transactional and holding records using custodial bank data. The second section, B. Absolute Return Policies and Guidelines, references the policy that governs absolute return investments, and the third section, C. Private Market Policies and Guidelines, references policies and guidelines that govern private market investments. The distinction between the second and third sections is a first step in distinguishing between investment in an open-ended Fund, such as the typical investment in an absolute return investment, and a partnership, which is the typical closed-end structure of private market investments. Staff believes that taking this minor step will allow for future discussions regarding ensuring there are consistent risk controls across each type of structure.

Included with this memo are a clean copy of the IPS, copies of pages with material changes, a power point presentation, and the resolution recommending adoption of the changes. If you have any questions regarding these recommended changes, please contact me at 717-720-4632.

Proposed Revisions to the Investment Policy Statement and Investment Objectives and Guidelines



Joseph W. Sheva, CPA
Portfolio Manager
January 23, 2014



Investment Policy Statement

- Selection of Investment Managers
 - Require both IOS and Investment Consultant positive recommendation
 - Clarify existing general practice
 - Fiduciarily Prudent best practice

- Derivatives Policy
 - Remove section covered by creation of Counterparty and Broker/Dealer Policy



Investment Policy Statement

- Add Counterparty and Broker/Dealer Policy (Exhibit G)
 - Creates Policy for newly formed Counterparty and Broker/Dealer Committee
- Definitions exhibit changes



Investment Policy Statement

- Administratively change Investment Objectives and Guidelines section
 - Separate Account Policies and Guidelines
 - Absolute Return Policies and Guidelines
 - Private Market Policies and Guidelines