

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: August 25, 2017

SUBJECT: Proposed Revisions to Investment Policy Statement, Objectives, and Guidelines

TO: Members of the Board

FROM: Joseph W. Sheva, CPA
Senior Risk Manager

At the September Investment Committee meeting, staff will recommend that the Board adopt the Investment Policy Statement, Objectives and Guidelines (IPS) revisions to sections IV. Strategic Asset Allocation, V. Performance Objectives and VII. Monitoring and Reporting as noted below.

IV. Strategic Asset Allocation - Current Target Allocation:

Staff and Aon recommend the following changes to the Current Target Allocation effective October 1, 2016:

Asset Class:	Current Target	Proposed Target	Change
Private Markets	16.00%	15.00%	-1.00%
Credit-Related	9.00%	11.00%	2.00%
Real Estate	12.00%	11.00%	-1.00%

The reduction to private markets and real estate are consistent with the long-term target allocation in the IPS, while the increase in the credit-related asset class is considered to be an enhancement to the current target allocation due to the on-going relative attractiveness of private debt investment opportunities identified by staff. The allocation change is broadly risk neutral.

V. Performance Objectives – Policy Index:

Aon and staff performed an extensive review of each performance benchmark within the Policy Index and determined that each is appropriate for measurement of performance for each of the relevant asset classes. The review did identify a minor inconsistency

concerning the performance benchmark for the emerging market equity allocation and therefore the following change is recommended:

Current Performance Benchmark	Proposed Performance Benchmark
MSCI Emerging Markets Index Net (Bloomberg ticker: NDUEEGF Index)	MSCI Emerging Markets Index IMI Net (Bloomberg ticker: MIMUEMRN Index)

The proposed benchmark is an Investable Market Index (IMI), which is consistent with PSERS' publicly-traded global equity asset class performance benchmarks that use IMI. In addition, the new benchmark is a broader representation of the emerging markets equity opportunities – an increase from 800 to 2,700 companies. The risk/return profile of the two benchmarks is similar and therefore the change is broadly risk neutral.

In addition to the above benchmark change, the Policy Index weights will be adjusted for consistency with the recommended asset class weight changes of the Current Target Allocation.

VII. Monitoring and Reporting – Oversight Updates and Reports:

Staff recommends adding the annual review of the Securities Lending Program to this section. The addition is necessary to ensure Board oversight and monitoring of the investment program is centrally documented within the IPS.

The blacklined excerpt and a clean copy of the above recommendations have been included in the package for your review. Also, staff from Aon will be present at the Investment Committee meeting to answer any questions regarding the recommendations.

If you have any questions or comments, please contact me at 717-720-4632.