

**Public School Employees'  
Retirement System**

**2009/2010 Budget Report  
to the  
House Appropriations Committee**



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February 17, 2009

Members of the House Appropriations Committee

Dear Members:

On behalf of the Public School Employees' Retirement System (PSERS), I am pleased to present the accompanying report on the financial, actuarial, and investment operations of PSERS and the budgetary projections for the 2009-2010 fiscal year. In addition, PSERS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008, is also attached.

PSERS is responsible for administering a defined benefit pension plan for over 547,000 active and retired public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment health care programs, the Premium Assistance Program and the Health Options Program (HOP) for its annuitants. Some highlights of recent activities follow:

### **Financial Highlights**

- The rate of return on investments for the fiscal year ended June 30, 2008 (FY 2008) was -2.82% and 22.93% for the fiscal year ended June 30, 2007 (FY 2007). The rate of return on investments for the calendar year ended December 31, 2008 is estimated at -29.70%.
- PSERS' total plan net assets decreased by \$4.8 billion from \$67.5 billion to \$62.7 billion from July 1, 2007 to June 30, 2008, which is PSERS fiscal year. The decrease is primarily attributable to net investment loss and payment of pension benefits and administrative expenses, combined, that exceeded member and employer contributions. PSERS estimate of total plan net assets as of December 31, 2008 is approximately \$45.4 billion.
- PSERS continues to benefit from managing almost 1/3 of its assets internally including operating its own equity trading room. For FY 2008 PSERS' internal asset management produced savings of \$4.0 million and additional excess performance of \$27.9 million.
- Total member contributions increased from \$1.0 billion in FY 2007 to \$1.04 billion in FY 2008. Total employer contributions increased from \$746.3 million in FY 2007 to \$834.9 million in FY 2008. The net increase is primarily attributable to an increase in the total (pension and healthcare) employer contribution rate from 6.46% in FY 2007 to 7.13% in FY 2008. For FY 2009 the total employer contribution rate decreased to 4.76%.
- PSERS total administrative budget request recommended by the Governor's Budget Office is \$43.2 million for FY 2010 compared to \$42.3 million available for FY 2009.

### **Funded Status**

- PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 86.0% funded as of June 30, 2008. This represents a slight increase from PSERS' 85.8% funded status as of June 30, 2007.
  - During the first half of the 1990s when PSERS' funded status was in the mid-80% range, as it is currently, the employer contribution rate ranged from 11.10% to 19.68%. This compares to the current employer contribution rate of 4.76%.

### **Investment and Pennsylvania Commitment**

- PSERS has a continuing commitment to Pennsylvania companies by contracting with Pennsylvania-based investment advisor companies and by investing in Pennsylvania-based companies where investment characteristics, including yield, risk, and liquidity, are equivalent. Data on Pennsylvania investments is contained in the accompanying report.
- Total PSERS' benefits payments increased by \$600 million from \$4.3 billion in FY 2007 to \$4.9 billion in FY 2008. The increase is primarily attributable to an increase in the number of retirees and beneficiaries currently receiving benefits. Further, since nearly 88% of PSERS' retirees reside in the Commonwealth, a substantial portion of PSERS' estimated \$4.9 billion annual payroll remains in Pennsylvania, thus benefiting the economy of the Commonwealth.

### **Changes to the Fund's Actuarial Investment Rate of Return Assumption**

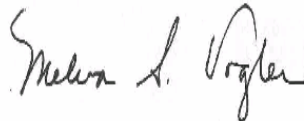
- Each year, PSERS Board reviews the Fund's actuarial assumptions with its actuaries and decides whether or not to make any changes to the assumptions going forward. While PSERS has traditionally taken a long-term perspective on its investment return assumption, the extent, speed, and global nature of the current market downturn appears to be historic and is an indicator of a turning point for the U.S. and global economy. At the same time these historic events were occurring, PSERS had one of the highest investment rate of return assumptions in the country. As a consequence, PSERS' Board of Trustees recently decreased PSERS' actuarial investment rate of return assumption from 8.50% to 8.25% effective for the June 30, 2008 actuarial valuation and further decreased the rate of return assumption from 8.25% to 8.00% for the June 30, 2009 actuarial valuation. The changes made by the Board lower PSERS' rate of return assumption to the median investment rate of return assumption used by public pension funds and provides a more realistic projection of the PSERS' future investment returns and thus the funded status of the Fund.

**Update on the Projected Large Increase in the Employer Contribution Rate in FY 2012-2013**

- One of the most widely publicized events at PSERS over the past several years has been the employer contribution rate increase that is projected to occur in FY 2012-2013. This rate increase was first projected at 27.73% in PSERS' June 30, 2003 actuarial valuation.
- Based on the June 30, 2008 valuation, the current estimate for the FY 2012-2013 employer contribution rate is 20.16%.
- The projected sharp rise in the FY 2012-2013 employer contribution rate is primarily the result of the changes made by Acts 2002-38 and 2003-40 to PSERS actuarial funding methodologies that essentially suppressed the employer contribution rate since the June 30, 2003 valuation, the recent change to PSERS actuarial investment rate of return assumption, and the unfunded liabilities created by:
  - The FYs 2001-2003 down investment markets
  - Act 2001-9 multiplier increase
  - Act 2002-38 phased COLA
  - The -2.82% investment return for FY 2008.
- Previously, PSERS' investment returns for the four years ended June 30, 2007 had reduced the projected FY 2012-2013 employer contribution rate by more than 50%, from a projected high of 27.73% to the projected rate of 11.23% as of the June 30, 2007 valuation. Over the past few months, however, the sharp downturn in the economy, combined with PSERS' -2.82% investment return for FY 2008 have essentially eliminated any past progress made in reducing the FY 2012-2013 rate increase. While a few months remain until the end of the fiscal year on June 30<sup>th</sup>, the investment losses PSERS has experienced to date will be difficult to overcome and the projected rate increase in FY 2012-2013 could exceed the original projection of 27.73%.
- There are options to address the projected large employer contribution rate increase in FY 2012-2013, but under all such options there remains a need for significant additional funding to PSERS. As in the past, PSERS is committed to providing assistance to the General Assembly to solve the projected rate increase and future funding issues of PSERS.

In conclusion, please contact Jeffrey B. Clay, Executive Director, if you have any questions or would like additional information.

Respectfully,



Melva S. Vogler  
Chairman of the Board

**2009/2010 Budget Report**

**House Appropriations Committee**

**Budget Report Date February 17, 2009**

# **2009/2010 Budget Hearing Materials**

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**Comprehensive Annual Financial Report – Follow this Link .....**  
**<http://www.psers.state.pa.us/publications/cafr/index.htm>**

# Section 1

## PSERS Overview



# Overview and Mission Statement 1





## Overview

Established on July 18, 1917, the Pennsylvania Public School Employees' Retirement System (PSERS) provides retirement benefits to public school employees of the Commonwealth of Pennsylvania.

As of June 30, 2008, the System had 272,690 active members. The annuitant membership was comprised of 173,540 retirees and beneficiaries who receive over \$300 million each month including healthcare premium assistance. The average yearly pension benefit paid to annuitants is \$21,963. PSERS had 739 participating employers on June 30, 2008.

As reported in the latest Pension and Investments survey published January 26, 2009, PSERS is the 22nd largest plan among United States corporate and public pension plans, and the 13<sup>th</sup> largest defined benefit public pension fund in the nation. As published in the Pension and Investments survey from December 22, 2008, PSERS is the 39th largest plan among corporate and public pension plans worldwide. The net asset value of PSERS' investment portfolio was approximately \$45.4 billion as of December 31, 2008.

## Mission Statement

**The Board of Trustees and the employees of the Public School Employees' Retirement System serve the members and stakeholders of the System by:**

- Providing timely and accurate payment of benefits
- Maintaining a financially sound System.
- Prudently investing the assets of the System.
- Clearly communicating members' and employers' rights and responsibilities, and
- Effectively managing the resources of the System.

# PSERS Board of Trustees 2



## **PSERS Board of Trustees**

Melva S. Vogler, Chairman

Sally J. Turley, Vice Chairman

Tina Byles-Williams

Honorable Dwight Evans  
House of Representatives

Vacant  
Senate of Pennsylvania

Vacant  
House of Representatives

Glen S. Galante

Thomas J. Gentzel

Honorable Robert M. McCord  
Treasurer of Pennsylvania

Hal Moss

Richard N. Rose

James M. Sando

Patricia A. Tozer

Honorable Rob Wonderling  
Senate of Pennsylvania

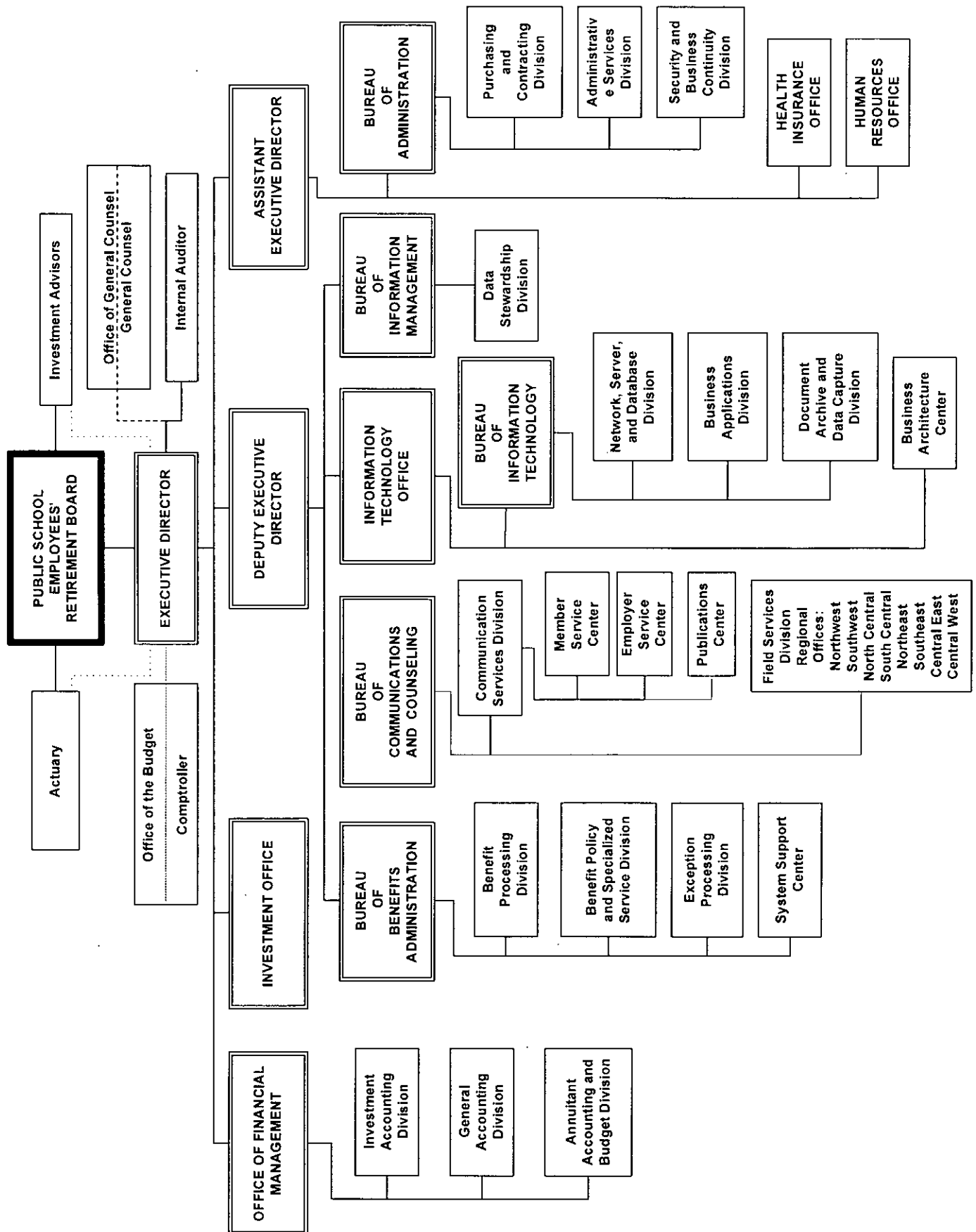
Gerald L. Zahorchak, D.Ed.  
Secretary of Education

PSERS Board Members as of February 4, 2009

# PSERS Organizational Chart 3 and Description



### PSERS Organizational Chart



## **Organizational Structure of the Public School Employees' Retirement System**

### **Executive Office**

This office is responsible for the overall management of the Public School Employees' Retirement System (PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board). Reporting directly to the Executive Director are the Deputy Executive Director, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

### **Investment Office**

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals.

### **Chief Counsel's Office**

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. The Legal staff is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

### **Internal Auditor's Office**

This office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of PSERS' internal control system.

### **Office of Financial Management**

This office is directed by the Chief Financial Officer and has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America. Oversight is provided for new systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: the General Accounting Division, the Annuitant Accounting and Budget Division, and the Investment Accounting Division.

## **Organizational Structure of the Public School Employees' Retirement System (continued)**

### **Deputy Executive Director**

The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. The organizational units directly reporting to this position include the Information Technology Office, the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management.

### **Information Technology Office**

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans and policies are aligned with, in support of, and prioritized according to agency needs and requirements, as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's information technology staff. Large information technology contracts and projects are managed by this office. This office is responsible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, processes, information systems, and the relationships among these components so that PSERS is able to: conduct its business consistently and according to established rules; understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals; fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others; more effectively identify inefficient, duplicate, or suspect processes, technologies; and account for its organization business rules and processes, information systems and technologies.

### **Bureau of Information Technology**

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Information Officer, and for providing operational support for those technologies and initiatives. The bureau is organized into three divisions: the Network, Server, and Database Division, the Business Applications Division, and the Document Archive and Data Capture Division.

### **Bureau of Information Management**

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting sections.

## **Organizational Structure of the Public School Employees' Retirement System (continued)**

### **Bureau of Benefits Administration**

This bureau is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 734 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, the Benefit Policy and Specialized Service Division, and the Exception Processing Division.

### **Bureau of Communications and Counseling**

This bureau is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations, and the public. It is organized into two divisions: the Field Services Division and the Communications Services Division.

### **Assistant Executive Director**

This position reports to the Executive Director and may provide assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

### **Bureau of Administration**

This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, the Administrative Services Division and the Security and Business Continuity Division.

### **Human Resources Office**

This office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunities and other miscellaneous programs.

### **Health Insurance Office**

This office is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering PSERS' annuitant's health insurance premium assistance benefits. The HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.



## PSERS' Regional Offices

There are eight PSERS Regional Offices strategically located throughout the Commonwealth. These offices provide services to both active and retired PSERS members and over 700 employers. Among these services are regularly scheduled retirement counseling meetings and other informational presentations on various topics relating to retirement benefits and programs. See map on next page.

### Services provided to PSERS' Members

	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
<b>Number of General Information Programs</b>	238	237	224
<b>Number of Members Attended</b>	12,881	13,458	12,663
<b>Number of Exit Counseling (small group) Sessions</b>	1,045	1,059	1,005
<b>Number of Members Attended</b>	8,037	8,415	7,904
<b>Individual Counseling Sessions</b>	1,544	1,646	1,992
<b>Telephone Calls Answered</b>	248,185	246,264	227,252
<b>Telephone Calls Out</b>	52,322	56,224	50,421
<b>E-Mail In</b>	16,703	21,513	27,403
<b>E-Mail Out</b>	14,795	20,319	23,810
<b>Benefit Estimates Calculated</b>	37,428	31,464	27,478
<b>Purchase of Service Applications Processed</b>	10,099	5,548	8,073
<b>Retirements Processed</b>			
• <i>Normal</i>	5,083	5,042	4,537
• <i>Early</i>	4,415	5,232	4,147
• <i>Disability</i>	434	397	415

*Public School Employees' Retirement System of Pennsylvania*  
**PSERS FIELD SERVICES DIVISION**  
*Serving You in the 21<sup>st</sup> Century*



**NORTHEAST**  
 Market Street Square, Suite 20  
 33 S Wilkes Barre Blvd.  
 Wilkes Barre, PA 18702-5144  
 Local (570) 828-2008  
 FAX (570) 828-4868  
 Toll Free 1-888-773-7748 ext. 5375

**NORTHCENTRAL**  
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 300 Bellefonte Avenue  
 Lock Haven, PA 17745-1903  
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 FAX (570) 893-4414  
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**NORTHWEST**  
 Penn Wood Center, Suite C  
 464 Allegheny Blvd.  
 Franklin, PA 16323-6210  
 Local (814) 437-5645  
 FAX: (814) 437-5528  
 Toll Free 1-888-773-7748 ext. 5175

**SOUTHWEST**  
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 Warminster, PA 18974-2825  
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 FAX (215) 443-3487  
 Toll Free 1-888-773-7748 ext. 5575

**SOUTHWEST**  
 900 Sarah Street, Suite 208  
 Pittsburgh, PA 15203-1106  
 Local (412) 488-2091  
 FAX (412) 488-2398  
 Toll Free 1-888-773-7748 ext. 5775



**CENTRALWEST**  
 636 Scalp Avenue  
 Johnstown, PA 15904-1640  
 Local (814) 262-7715  
 FAX (814) 262-7625  
 Toll Free 1-888-773-7748 ext. 5875

**SOUTHCENTRAL**  
 Three Crossgate Drive, Suite 101  
 Mechanicsburg, PA 17050-2459  
 Local (717) 795-9279  
 FAX (717) 795-9281  
 Toll Free 1-888-773-7748 ext. 5675

**CENTRALEAST**  
 110 West Arch Street, Suite 103  
 Fleetwood, PA 19522-1321  
 Local (610) 944-9113  
 FAX (610) 944-9275  
 Toll Free 1-888-773-7748 ext. 5475

## **Information Technology Initiative**

### **New Pension Administration System (NPAS)**

PSERS' successfully completed the implementation of the last major phase of the NPAS project, bringing this multi-year project to a close and allowing PSERS to decommission its outdated legacy mainframe system. This new system brings with it many new features and capabilities that not only helps today, but also positions PSERS well for the future. PSERS' staff is quickly learning how to make the most of the new system, improving process efficiency as well as customer service levels. PSERS plans to continue to use this tremendous opportunity to raise the bar, bringing the organization to new levels of efficiency and adaptability as it strives to serve its members in the best possible manner.

# Member Demographics 4



## PSERS' Member Demographics

<u>Fiscal Year ending June 30</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Annuitants, Beneficiaries, and Survivor Annuitants</u>	<u>Total Active/Retired Members</u>	<u>Ratio of Active/Retired</u>	<u>Overall Member Total Inactive, Active &amp; Survivor Annuitants</u>
2008	272,690	100,803	173,540	446,230	1.57 to 1	547,033
2007	264,023	109,186	168,026	432,049	1.57	541,235
2006	263,350	94,071	161,813	425,163	1.62	519,234
2005	255,465	58,720	156,519	411,984	1.63	470,704
2004	247,901	72,014	151,552	399,453	1.63	471,467
2003	246,700	65,453	145,693	392,393	1.69	457,846
2002	242,616	61,295	141,414	384,030	1.71	445,325
2001	243,311	53,979	132,716	376,027	1.83	430,006
2000	234,210	50,682	134,058	368,268	1.74	418,950
1999	223,495	46,426	132,869	356,364	1.68	402,790

### Age and Service Profile of Active Members as of June 30, 2007 and June 30, 2008

	<u>June 30, 2007</u>	<u>June 30, 2008</u>
Average Age	45.1 years	45.2 years
Average Years of PSERS Service	11.2 years	11.1 years
Average Annual Compensation	\$43,217	\$43,718

### Profile of PSERS' Annuitants, Beneficiaries, and Survivor Annuitants as of June 30, 2007 and June 30, 2008

<u>Type of Member</u>	<u>Number of Members</u>		<u>Average Annual Benefit</u>	
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>
Normal/Early Retirees	152,361	157,656	\$21,836	\$22,747
Survivor Annuitants	8,266	8,449	\$9,201	\$9,805
Disability Retirees	<u>7,399</u>	<u>7,435</u>	\$16,266	\$19,144
Total	<u>168,026</u>	<u>173,540</u>	\$20,970	\$21,963

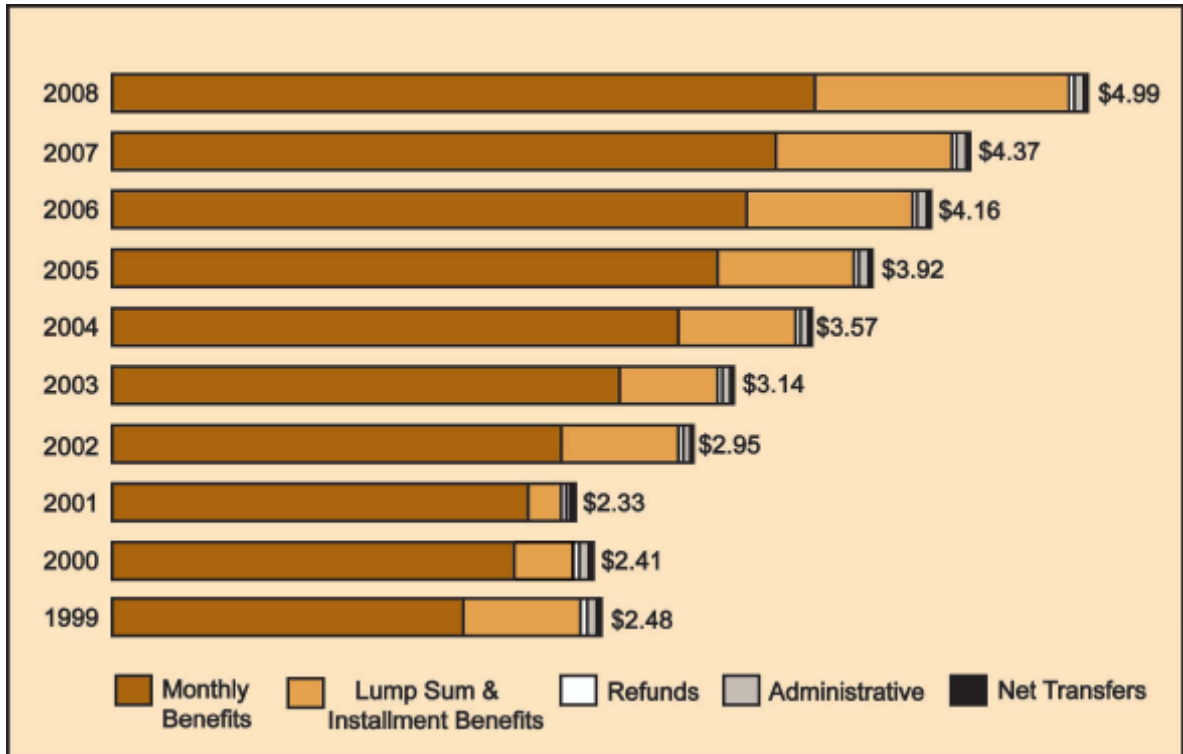
**PSERS' Member Demographics**  
(continued)

**Deductions from Plan Net Assets**  
**10 Year Trend**  
(Dollar Amounts in Thousands)

Fiscal Year	Benefits		Refunds	Administrative	Net Transfers*	Total Deductions
	Monthly Benefits	Lump-Sum and Installment				
2008	\$3,632,461	\$1,263,350	\$28,713	\$49,250	\$17,157	\$4,990,931
2007	3,440,819	855,431	18,180	50,482	6,010	4,370,922
2006	3,260,712	830,361	16,330	48,629	8,462	4,164,494
2005	3,158,661	692,089	16,233	42,645	10,859	3,920,487
2004	2,906,344	559,939	14,767	49,202	16,315	3,546,567
2003	2,591,130	485,495	13,943	42,278	12,116	3,144,962
2002	2,293,687	595,184	14,858	35,373	9,434	2,948,536
2001	2,087,868	176,228	22,369	34,854	10,867	2,332,186
2000	2,048,792	306,329	22,446	29,333	4,710	2,411,610
1999	1,834,494	591,532	20,110	27,786	10,247	2,484,169

\* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

**Deductions from Plan Net Assets**  
**10 Year Trend**



# Actuarial Information 5



## **The Actuarial Process and Pension Plan Funding**

PSERS is a defined benefit plan, meaning benefits are based on members' service and salary history, not investment performance. The plan is funded through three sources: (1) employer contributions; (2) member contributions; and, (3) investment earnings. The following information highlights the actuarial process and funding for PSERS.

### **Actuarial Process**

The actuarial process presumes that there will be a systematic flow of contributions at a specified level to pay for plan benefits and that the flow of contributions, together with investment earnings, will be sufficient to meet all benefit and expense requirements of the plan. Actuarial cost methods for funding PSERS pension plan are defined in the Public School Employees' Retirement Code. The actuary for the pension plan reviews economic and demographic experience annually and over five-year periods. The actuary's periodic valuations test the validity of the underlying actuarial assumptions versus the actual experience of the plan. That experience is also used as a basis for formulating actuarial assumptions, which are essentially highly educated predictions about what will occur in the future with respect to salary growth, investment returns, and demographic factors such as rates of retirement and death. PSERS' primary economic assumptions for 2008/2009 project an average annual investment return of 8.25% and an average annual salary increase factor of 6.00%.

It should be noted that at their January 23, 2009 meeting, PSERS Board of Trustees voted to decrease the actuarial investment rate of return assumption from 8.50% to 8.25% effective for the June 30, 2008 actuarial valuation. The Board of Trustees also voted to decrease the rate of return assumption further from 8.25% to 8.00% for the June 30, 2009 actuarial valuation. The changes made by the Board lowers PSERS' rate of return assumption to the median investment rate of return assumption used by most public pension funds and provide a more realistic outlook of the future earning's potential of the Fund.

### **Employer Contributions**

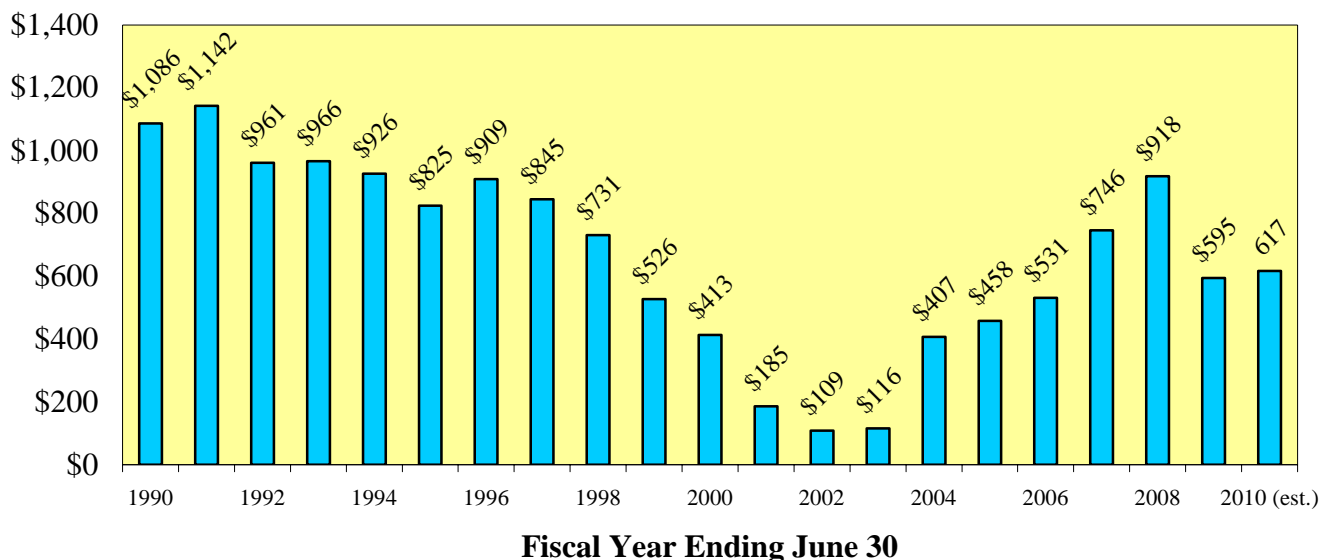
The Retirement Code vests the Board with the authority to establish the employer contribution rate. The Board, in consultation with the actuary, establishes the employer contribution rate annually, as part of the annual actuarial valuation. The employer contribution rate, which is expressed as a percentage of payroll, is composed of two items: 1) the pension contribution; and, 2) the contribution for health care premium assistance. The total employer contribution rate for the year ended June 30, 2008, was 7.13%, including 0.69% for health care premium assistance. The total employer contribution rate for the fiscal year ending June 30, 2009 is 4.76%, including 0.76% for health care premium assistance. The total employer contribution rate adopted by PSERS' Board of Trustees for the year ending June 30, 2010 is 4.78%, including 0.78% for health care premium assistance. The change in the investment rate of return assumption noted previously, did not impact the FY 2009/2010 employer contribution rate of 4.78% certified by the Board on December 12, 2008. The size of the projected employer contribution rate increase in FY 2012/2013, however was affected by the decrease in the investment rate of return assumption. The estimated FY 2012/2013 employer contribution rate increase is now 20.16% (based on the June 30, 2008 actuarial valuation), which is an increase from the most recent estimate of 16.40% published after the Board's December 12, 2008 meeting.



## The Actuarial Process and Pension Plan Funding (continued)

For the fiscal year ended June 30, 2008, PSERS' employer contributions totaled \$835 million, which includes \$81 million for healthcare premium assistance. For the fiscal year ending June 30, 2009 the employer contribution estimate is \$595 million, reflective of the 4.76 % contribution rate. The contribution rate for the fiscal year ending June 30, 2010 is 4.78% which results in a contribution estimate of \$617 million.

### Employer Contribution History (in millions)



### Member Contributions

Members of the Public School Employees' Retirement System who, prior to Act 9 of 2001, contributed to the Retirement Fund at the rate of 6.25% of their gross compensation, began contributing 7.50% in January of 2002, if they elected the higher retirement benefits. Members who contributed at the rate of 5.25% began contributing 6.50% if they elected the higher retirement benefits.

PSERS members contributed \$880 million for pension contributions for fiscal year 2007-2008, compared to \$855 million for the 2006-2007 fiscal year. Total member contributions are estimated to be \$904 million for the year ending June 30, 2009 and \$944 million for the year ending June 30, 2010. The annual increases are due to a projected increase in member payroll and due to small increases in the member contribution rate each year.

## The Actuarial Process and Pension Plan Funding (continued)

### Investment Returns

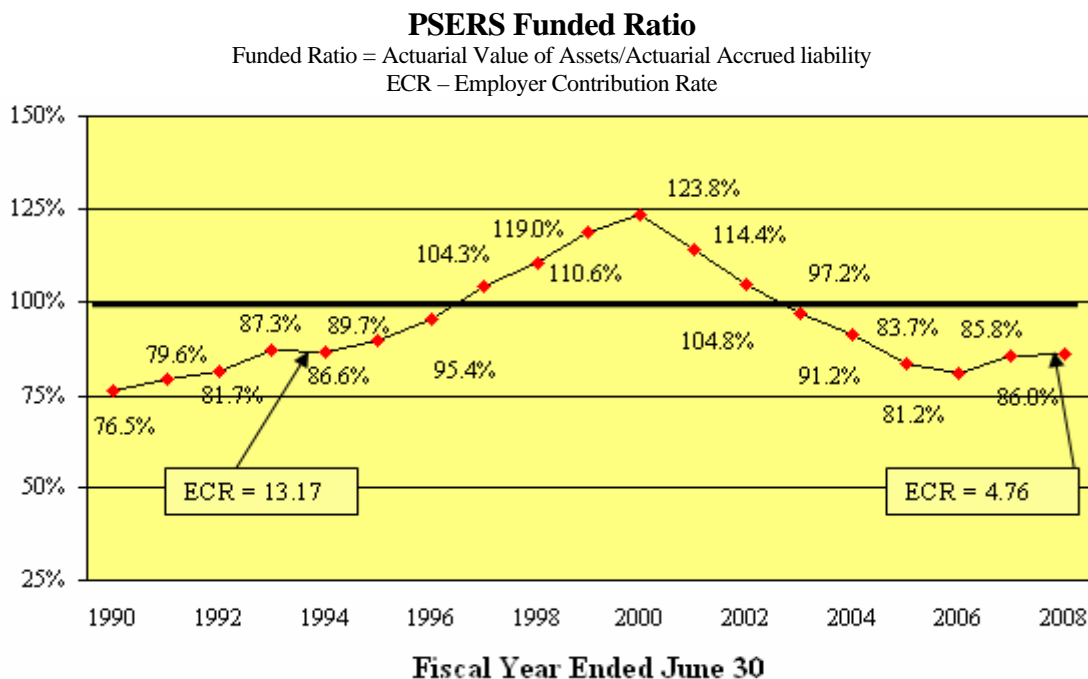
The investment rate of return (net of fees) for the fiscal years ended June 30, 2008, and June 30, 2007, was -2.82% and 22.93%, respectively. The annualized rates of investment return for the three and five-year periods ended June 30, 2008 were 11.25% and 13.21%, respectively, and the annualized rate of investment return over the past ten fiscal years was 7.76%. The net asset value of PSERS' investments was \$62.7 billion as of June 30, 2008. The preliminary investment rates of return for the one, three, five and ten-year periods ended December 31, 2008 were -29.70%, -1.88%, 3.88% and 4.15% respectively.

### Funded Status

PSERS funded status is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date for both active and retired members.

### Key Facts

- Funded Status is 86.0% as of June 30, 2008
- Funded Status was 85.8% as of June 30, 2007
- The decrease in the funded status since 2000 is the result of several factors including the unfavorable investment markets from FY 2001 to FY 2003, funding changes enacted in Act 38 of 2002 and Act 40 of 2003 and actuarial liability losses



# Employer Contribution Rate 6



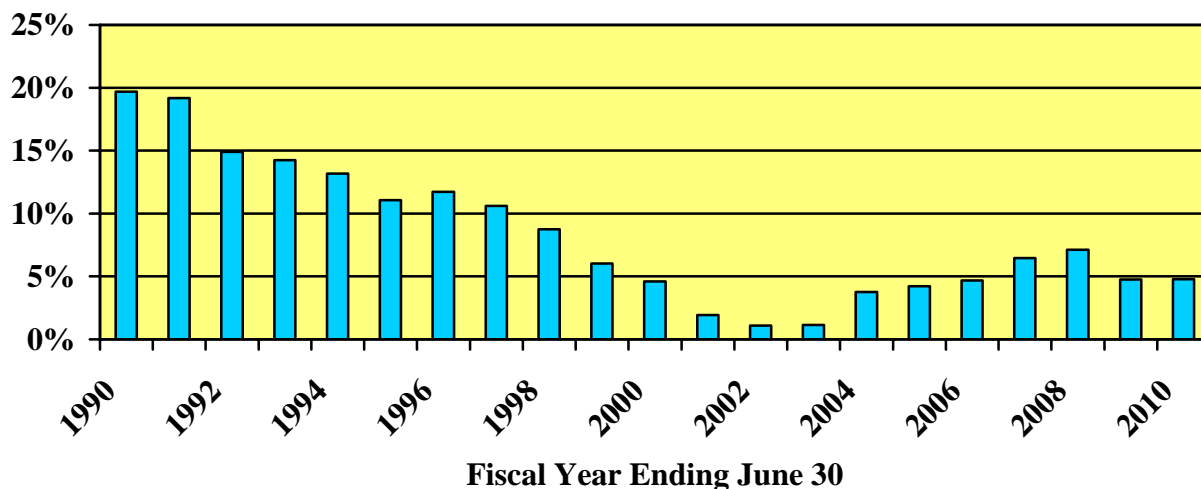
## Employer Contribution Rate

PSERS undergoes an annual independent actuarial valuation to calculate the actuarial assets and liabilities of the pension fund. Based on the actuarial valuation process, the actuary develops the recommended Employer Contribution Rate (ECR) that determines the employer contributions to the pension plan. The valuation process also measures the progress of the pension system towards funding pensions for its active and retired members.

### Employer Contribution Rate Statistics

- Highest historical ECR (1985/1986 year) 20.04%
- Lowest historical ECR (2001/2002 year) 1.09%
- Ten year average ECR (2000 to 2009) 4.00%
- Twenty year average ECR (1990 to 2009) 7.71%
- Thirty year average ECR (1980 to 2009) 11.17%
- Adopted ECR (2009/2010 year) 4.78%

### Employer Contribution Rate History (Percentage)



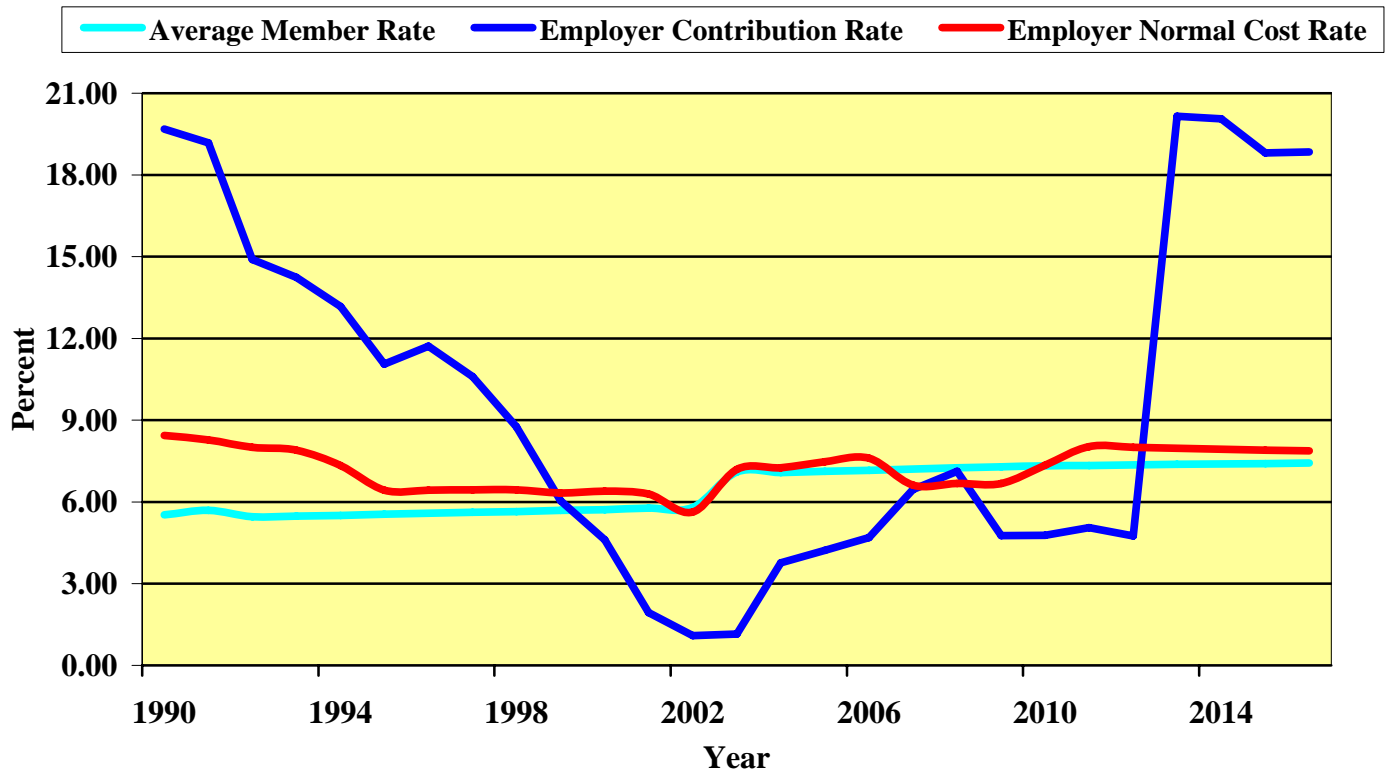
### Projected Fiscal Year 2012-2013 Employer Contribution Rate Increase

One of the most widely publicized events at PSERS over the past several years has been the employer contribution rate increase that is projected to occur in the 2012-2013 fiscal year. The rate increase was first projected in the June 30, 2003 actuarial valuation. This projection took into consideration the actuarial impact of the pension benefit enhancement enacted in 2001 (Act 9 of 2001), a major downturn in the investment markets between 2001 and 2003 and a series of legislative actions (Act 38 of 2002 and Act 40 of 2003) that changed the basic funding methodologies for PSERS and suppressed the employer contribution rate for a period of ten years.

## Employer Contribution Rate (continued)

Previously, PSERS' investment returns for the four years ended June 30, 2007 had reduced the projected FY 2012-2013 employer contribution rate by more than 50%, from a projected high of 27.73% to the projected rate of 11.23% as of the June 30, 2007 valuation. Over the past few months, however, the sharp downturn in the economy combined with PSERS' -2.82% investment return for FY 2008 has essentially eliminated any past progress made in reducing the FY 2012-2013 rate increase. While a few months remain until the end of the fiscal year on June 30<sup>th</sup>, the investment losses PSERS has experienced to date will be difficult to overcome and the projected rate increase in FY 2012-2013 could exceed the original projection of 27.73%.

### History of PSERS Employer Contribution Rates as a Percent of Payroll



# Consultants' Fees 7



## Consultants' Fees (\$50,000 and Over)

The following benefit, investment, information technology and financial professional service firms were under contract to provide services to PSERS during the fiscal year ended June 30, 2008.

<u>Firm</u>	<u>Services Provided</u>	<u>Consulting Fee</u>	
CoreSource, Inc.	Postemployment healthcare benefits administration and claims adjudication	\$ 9,155,102	*
The Segal Company	Actuarial services and consulting for HOP and prescription drug plan	2,789,611	*
Vitech Systems Group, Inc.	NPAS project development	2,358,645	*
Rx Solutions, Inc.	Administration of postemployment healthcare benefits and prescription drug plan	1,725,318	*
Portfolio Advisors, LLC	Private market consulting	1,435,000	
Financial Control Systems, Inc.	Investment accounting application service provider	673,000	
Independent Pharmaceutical Consultants, Inc.	Administration of postemployment healthcare benefits and prescription drug plan	551,192	*
Buck Consultants LLC	Pension benefit actuarial services	502,196	*
Wilshire Associates	General investment consulting	445,000	
Glass, Lewis & Co., LLC	Proxy voting	351,000	
Gunther International Ltd.	Communication and mailing services	322,968	*
Courtland Partners, Ltd.	Real Estate investment consulting	225,000	
Clifton Gunderson LLP	Financial audit of pension system and postemployment healthcare programs	117,000	*
Mercer	Investment consulting services	52,000	

\* As reported in PSERS' Comprehensive Annual Financial Report

# Legislation Information 8





## **Legislation Information**

No legislation was enacted during the 2007-2008 Legislative Session (calendar years 2007 & 2008) amending the Public School Employees' Retirement Code. The only legislation enacted by the Pennsylvania General Assembly during that time period that had any significant impact on the operations of the Public School Employees' Retirement System is Act 2008-3, which is known as the Right-To-Know Law (RTKL).

# Section 2

## Budget Request



# PSERS 2009/2010 Budget 9



## PSERS 2009/2010 Budget

	<b>Actual</b> <b><u>2007/2008</u></b>	<b>Available</b> <b><u>2008/2009</u></b>	<b>Governor's</b> <b>Recommended</b> <b>Request</b> <b><u>2009/2010</u></b>
<b>Total Personnel Expenses</b>	\$ 23,902,000	\$ 25,020,000	\$ 26,052,000
<u>Budgetary Reserve</u>		229,000	
<b><u>Operating Expenses</u></b>			
Travel	234,100	200,000	229,000
Training	101,847	100,000	116,000
Telecommunication	782,300	731,000	741,000
Electricity	46,000	60,000	60,000
Consultant Services	905,645	753,000	743,000
Legal Services/Fees	1,000	-	-
Specialized Services	408,938	443,000	483,000
Advertising	21,755	10,000	10,000
EDP Contract Service	5,311,310	6,476,000	6,203,000
Contr Maint Svcs - EDP	222,091	373,000	124,000
Contr Maint Svcs – non EDP	238,168	150,000	226,000
Contracted Repairs	66,760	132,000	130,000
EDP & Other Rental	934,568	1,190,000	1,005,000
Real Estate Rental	1,577,258	1,758,000	1,932,000
Office Supplies	333,925	400,000	388,000
Education Supplies	20,600	12,000	13,000
EDP Software	3,000	16,000	105,000
Other Computer Equipment	910,174	173,000	102,500
Furniture & Fixtures	198,745	50,000	51,000
Other Equipment & Supplies	340,068	321,000	360,000
Postage	1,491,259	1,713,000	1,615,000
Freight Charges	15,000	17,000	17,000
Printing	625,650	433,000	493,500
Subscriptions	42,905	25,000	28,500
Memberships	34,283	45,000	37,500
Conference Expense	63,000	65,000	73,000
Insurance	22,105	16,000	21,000
Interest Penalties	1,005	-	-
Other Operational Expenses	<u>1,421,541</u>	<u>1,326,000</u>	<u>1,318,000</u>
<b>Total Operating Expenses</b>	16,375,000	16,988,000	16,625,000
<b><u>Fixed Assets</u></b>			
Machinery & Equipment	-	-	-
Automobiles	-	30,000	-
EDP Computers & Peripherals	534,000	-	500,000
Office Equipment	-	-	-
Telecommunications Equipment	-	<u>30,000</u>	<u>50,000</u>
<b>Total Fixed Assets</b>	534,000	60,000	550,000
<b>Total Budget</b>	<u>40,811,000</u>	<u>42,297,000</u>	<u>43,227,000</u>
<b>Personnel Augmentations</b>	<u>842,000</u>	<u>897,000</u>	<u>957,000</u>
<b>Total with Augmentations</b>	<u>\$ 41,653,000</u>	<u>\$ 43,194,000</u>	<u>\$ 44,184,000</u>

# Directed Commissions Recapture Program Budget 10



## DIRECTED COMMISSIONS RECAPTURE PROGRAM BUDGET

The Directed Commissions Recapture Budget is a program whereby a portion of commissions incurred by PSERS through investment trading activity is returned to PSERS. These funds, which are held in a restricted revenue account at Treasury, can be used for the administration of the Fund or can be reinvested back into the asset allocation through a transfer to the PSERS Retirement Account. Expenditures paid from the Directed Commissions Recapture Program Budget have the same approval process as any other expenditure made by the Fund.

Note: For Rebudget 2008-2009 and Budget Request 2009-2010 – Investment Information Services will be included as part of the Investment Related Expense Appropriation 5003300000.

**Directed Commissions Recapture Program -  
Directed Commissions Appropriation  
#6012700000**

	<b>Actual</b>	<b>Available</b>	<b>Governor's Recommended Request</b>
	<b><u>2007-2008</u></b>	<b><u>2008-2009</u></b>	<b><u>2009-2010</u></b>
<b>Investment Information Services Total</b>	1,480,800		
<b>Budgetary Reserve</b>		1,000,000	<b>1,000,000</b>
<b>Total</b>	<b><u>1,480,800</u></b>	<b><u>1,000,000</u></b>	<b><u>1,000,000</u></b>

# Section 3

## Investment Information



# Investment Policy, Objectives, and Performance 11





## Investment Policy

The Public School Employees' Retirement Board of Trustees (the Board) is responsible for, among other things, the formulation of an Investment Policy (the Policy) for the Public School Employees' Retirement System (the System). As articulated in the Public School Employees' Retirement Code, the Board and Staff delegated with investment authority must act in a manner consistent with the Prudent Investor Standard, which requires “the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital.” 24 Pa. C.S. §8521(a). The Prudent Investor Standard recognizes modern portfolio theory and guides investment and management decisions respecting individual assets so that the trade-offs between risk and return for each asset are considered in the context of an overall investment strategy.

The System's Investment Policy, which is available at [www.psers.state.pa.us](http://www.psers.state.pa.us), reflects the many implications of the Prudent Investor Standard. The Board reviews the Policy at least annually, and may make more frequent changes as necessary. The Policy establishes clear criteria for the management of the assets by or on behalf of the Board. For example:

- The Board, PSERS' staff, investment consultants, and investment managers are assigned appropriate responsibilities and made to clearly understand the objectives and policies of the Board and the System;
- Allocation plans are prepared to guide the investment of the System's assets;
- Guidelines are established for each investment category so that asset quality, diversification, and return can be monitored;
- Investment managers are given guidance and limitations on the investment of the System's assets; and,
- The Board has created a meaningful basis for evaluating the investment performance of individual investment managers, as well as for evaluating overall success in meeting its objectives.

## **General Investment Objectives**

The System seeks to provide benefits to its members through a carefully planned and well-executed investment program. The overall investment objective of the Board is to provide adequate funding for member benefits. Realization of this overall return objective would be sufficient to achieve funding adequacy (defined as when the actuarial market value of assets is at least equal to the System's projected benefit obligations) on an inflation-adjusted basis. The Policy also identifies the following general investment objectives and constraints:

### **Return Objectives**

- The System has an overall return objective of meeting or exceeding the actuarial rate (currently 8.25%) over the long term;
- The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
- The System shall strive to achieve a return that exceeds the Policy Index.

### **Risk Objectives**

- The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector exposure, maturity date, or geographic location; and
- The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 12% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

### **Constraints**

- The System shall maintain adequate liquidity to meet required benefit payments to the System's beneficiaries;
- The System's assets shall be invested in a manner that is consistent with the System's long-term investment horizon; and,
- As a tax-exempt investor, the System's assets may be invested without distinction between returns generated from income and returns generated from capital gains.

**Investment Performance**  
**Net of Fees (unaudited)**  
**(for the period ended June 30, 2008)**

**Annualized Total Returns (%)**

<u>Asset Class</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>PSERS U.S. Equities</b>	-13.98	4.33	8.47	4.75
Dow Jones Wilshire 5000 Index	-12.53	5.02	8.73	3.59
<b>PSERS Non-U.S. Equities</b>	-9.81	15.72	19.08	8.32
MSCI All-Country World Index Ex. U.S. (1)	-8.76	14.71	18.52	7.33
<b>PSERS U.S. Fixed Income</b>	7.81	4.52	5.10	6.26
U.S. Fixed Income Policy Index (2)	6.24	3.81	3.69	5.60
<b>PSERS Global Fixed Income</b>	10.02	5.22	5.78	6.02
Global Fixed Income Policy Index (3)	12.36	5.67	5.82	6.15
<b>PSERS Commodities</b>	34.72	N/A	N/A	N/A
DJ AIG Commodity Index	41.53	N/A	N/A	N/A
<b>PSERS Real Estate (4)</b>	-5.22	19.43	21.50	14.88
Real Estate Index (5)	5.41	14.63	15.14	12.81
<b>PSERS Alternative Investments (4)</b>	19.14	25.65	24.48	13.21
Venture Economics Median Return, Vintage Year Weighted	6.23	10.34	8.81	3.54
<b>Total Fund</b>	-2.82	11.25	13.21	7.76
Policy Index	-1.84	9.17	10.81	6.24

- (1) – 30% hedged to the U.S. dollar effective July 1, 2006; previously unhedged.  
(2) – Returns presented are a blend of the Barclays Capital U.S. Universal Index, Barclays Capital U.S. TIPS Index, and the Credit Suisse High Yield Index.  
(3) – Lehman Brothers Multiverse Index effective April 1, 2007; previously was the Lehman Brothers Global Aggregate Bond Index.  
(4) – Returns reported on a one-quarter lag, except for publicly traded real estate security investments.  
(5) – Returns presented are a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index. The NCREIF Index is reported on a one-quarter lag. Prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

**Investment Performance**  
**Net of Fees (unaudited)**  
(Preliminary - for the period ended December 31, 2008)

**Annualized Total Returns (%)**

<u>Asset Class</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>PSERS U.S. Equities</b>	-41.65	-11.12	-3.42	-0.19
Dow Jones Wilshire 5000 Index	-37.23	-8.44	-1.69	-0.64
<b>PSERS Non-U.S. Equities</b>	-43.81	-5.88	3.66	3.79
MSCI All-Country World Index Ex. U.S. (1)	-44.31	-6.86	2.80	2.17
<b>PSERS U.S. Fixed Income</b>	-7.85	1.00	2.53	4.75
U.S. Fixed Income Policy Index (2)	-6.08	1.50	2.39	4.48
<b>PSERS Global Fixed Income</b>	-3.08	3.76	3.44	4.34
Global Fixed Income Policy Index (3)	3.78	6.52	4.75	5.02
<b>PSERS Commodities</b>	-42.37	N/A	N/A	N/A
DJ AIG Commodity Index	-35.65	N/A	N/A	N/A
<b>PSERS Real Estate (4)</b>	-23.17	7.26	14.84	12.21
Real Estate Index (5)	-4.83	9.12	12.37	11.32
<b>PSERS Alternative Investments (4)</b>	-3.32	18.17	20.37	12.24
Venture Economics Median Return, Vintage Year Weighted	-0.78	7.54	8.06	3.13
<b>Total Fund</b>	-29.70	-1.88	3.88	4.15
Policy Index	-25.57	-1.79	2.95	2.99

(1) – 30% hedged to the U.S. dollar effective July 1, 2006; previously unhedged.

(2) – Returns presented are a blend of the Barclays Capital U.S. Universal Index, Barclays Capital U.S. TIPS Index, and the Credit Suisse High Yield Index.

(3) – Barclays Capital Multiverse Index effective April 1, 2007; previously was the Lehman Brothers Global Aggregate Bond Index.

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# Asset Allocation 12



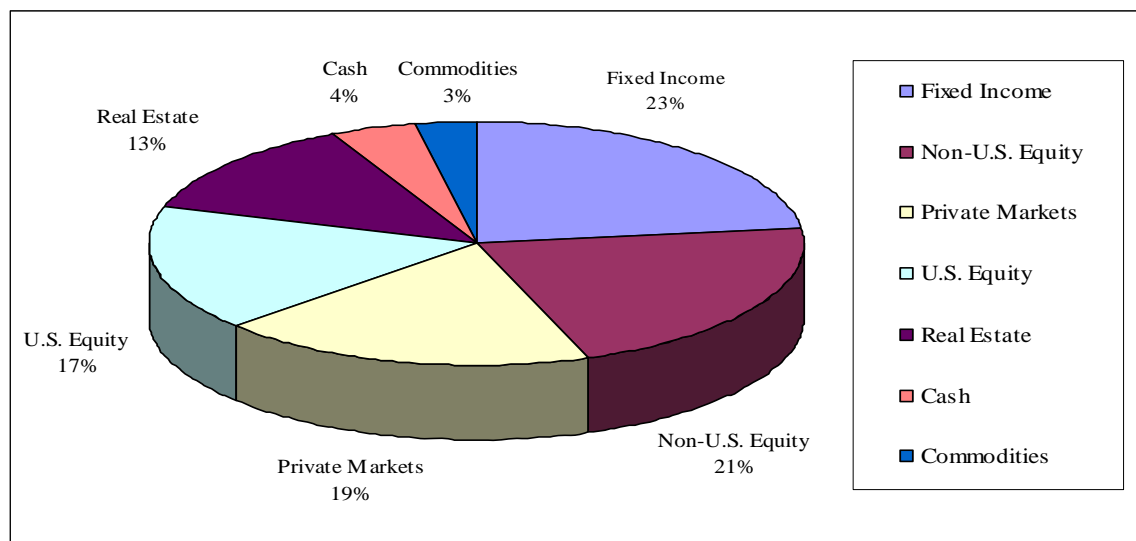
## Asset Allocation (as of December 31, 2008)

The Board reviews the long-term asset allocation targets of the System at least annually. In establishing the asset allocation plan, the Board will consult with its actuary, consultants, investment staff, and other sources of information it deems appropriate in formulating this allocation. The purpose of the asset allocation is to meet the long-term financial needs and investment objectives of the System.

The following represents PSERS' asset allocation as of December 31, 2008 (unaudited):

<u>Asset Class</u>	<u>Market Value (in millions)</u>	<u>Percentage of Total</u>	<u>Target Allocation</u>	<u>Target Allocation Range</u>
Fixed Income	\$ 10,444.8	23.0%	22.0%	12 - 32%
Non-U.S. Equity	9,719.6	21.4	23.3	18 - 28
Private Markets	8,442.8	18.6	18.5	-
U.S. Equity	7,726.9	17.0	18.2	13 - 23
Real Estate (Public and Private)	5,839.0	12.8	13.0	-
Cash*	1,840.9	4.1	0.0	-
Commodities	<u>1,401.3</u>	<u>3.1</u>	<u>5.0</u>	1 - 9
<b>Totals</b>	<b>\$ <u>45,415.3</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	

\*- Cash represents the total short-term investment fund (STIF) managed by PSERS in the PSERS Proprietary Fund. Cash is unitized and the managers in the various asset classes are allocated units of STIF. For purposes of this schedule, units of STIF are not included in the various asset classes. For example, a U.S. Equity manager may manage \$200 million, but if that manager has \$10 million in STIF, \$190 million would be included in U.S. Equity and \$10 million would be included in Cash.



**Asset Allocation**  
**(as of December 31, 2008)**  
**(continued)**

**Number of Investment Managers and Portfolios**

**Public Market Asset Classes (ex. Real Estate):**

PSERS public market equity, fixed income, and commodity asset classes used 67 external investment managers who were responsible for 70 portfolios, and 6 internal portfolio managers who were responsible for 11 portfolios. There were 7 external public market investment managers with portfolios in multiple asset classes. A further breakdown of the external and internal portfolio managers follows:

	<u>Portfolio Managers</u>	<u>Portfolios/Accounts</u>
<b>U.S. Equity investments:</b>		
External*	30	33
Internal	5	8
<b>Non-U.S. investments:</b>		
External*	23	24
Internal	1	1
<b>Fixed Income investments:</b>		
External*	18	21
Internal**	3	3
<b>Commodity investments:</b>		
External	5	5
<b>Cash:</b>		
Internal	1	1
<b>Securities Lending</b>		
External	1	1
<b>TOTAL</b>	<b>87</b>	<b>97</b>
External*	77	84
Internal	10	13
<b>TOTAL</b>	<b>87</b>	<b>97</b>

\* The Public Market Emerging Investment Manager Program consisted of 14 portfolio managers each managing a single portfolio. There were 9 U.S. Equity, 2 Non-U.S. Equity, and 3 Fixed Income portfolios in the Program.

\*\* PSERS managed \$175.9 million for the System's healthcare account.

**Private Markets and Real Estate:**

PSERS private markets and real estate (public and private markets) asset classes used 41 active external general partners to invest in 79 limited partnership interests of various private market real estate, private debt, private equity, and venture capital funds. PSERS also used 6 external and 2 internal real estate investment managers who were responsible for 7 public market real estate portfolios. Finally, PSERS had 6 external and 2 internal real estate asset managers who oversee the direct management of 6 separate real estate accounts.

# Investment Program Summary 13





## **Investment Program Summary**

### **Summary of PSERS' U.S. Equity Investments**

(as of December 31, 2008)

U.S. Equities represent one of six major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies equity investments and balances equity management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage U.S. portfolios.

#### **Policy**

U.S. Equities are utilized by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The U.S. Equity asset class is to be managed on a total return basis.

U.S. Equity investments shall consist almost entirely of publicly-traded securities listed on the New York, American, and Nasdaq Stock Exchanges or derivatives such as swaps or listed futures to replicate the performance of U.S. equity indexes such as the S&P 500 Index. Swaps and futures are employed by PSERS to equitize cash and portable alpha portfolios.

PSERS' Asset Allocation targets an eventual allocation of 18.2% of assets to U.S. Equities. It assigns (i) the investment of 80% of U.S. Equities in large capitalization stocks and 20% in medium/small/micro capitalization stocks, and (ii) 42% of U.S. Equities to be passively managed, 38% to be actively managed in portable alpha strategies, and 20% to be actively managed in stock selection strategies.

**Market Value as of December 31, 2008:** \$7,726.9 million, or 17.0% of the Fund's total market value.

**Number of External Investment Managers:** PSERS had contracts with 28 external investment managers responsible for various U.S. Equity portfolios (including 8 Public Market Emerging Manager Program managers).

**Number of Internal Portfolio Managers:** PSERS had three employees managing various U.S. Equity portfolios.

#### **Types of Investment Portfolios at December 31, 2008:**

- 87.4% large capitalization stock strategies, 9.9% medium/small capitalization stock strategies, and 2.7% in micro capitalization stock strategies
- 35.8% passively-managed portfolios, 44.3% actively-managed large portable alpha portfolios, and 19.9% actively-managed stock selection portfolios
- 35.8% was managed by internal portfolio managers and 64.2% is managed by external investment managers

**Summary of PSERS' U.S. Equity Portfolios (unaudited)**  
(as of December 31, 2008)

	Market Value (in millions)	% of U.S. Equities	% of Total Fund
<b><u>Passively Managed Portfolios</u></b>			
PSERS S&P 400 Index Fund	\$ 312.5	4.0%	0.7%
PSERS S&P 500 Index Fund	2,114.0	27.4%	4.7%
PSERS S&P 600 Index Fund	<u>319.1</u>	<u>4.1%</u>	<u>0.7%</u>
<b>Total Passively Managed U.S. Equity</b>	<b><u>\$ 2,745.6</u></b>	<b>35.5%</b>	<b>6.1%</b>
<b><u>Actively Managed Large Cap Portfolios</u></b>			
AQR Capital Management	\$ 513.7	6.7%	1.1%
Barclays Global Investors, N.A.	588.2	7.6%	1.3%
Biondo Group	9.3	0.1%	0.0%
Boston Company Asset Management	178.4	2.3%	0.4%
Bridgewater Associates, Inc.	694.6	9.0%	1.5%
Denali Advisors, LLC	11.3	0.1%	0.0%
First Quadrant, L.P.	565.0	7.3%	1.2%
Franklin Templeton	232.4	2.9%	0.5%
FX Concepts, Inc.	5.3	0.1%	0.0%
Goldman Sachs	135.2	1.8%	0.3%
Great Companies, Inc.	30.0	0.4%	0.1%
Hanseatic Management Services, Inc.	36.2	0.5%	0.1%
Hyperion Brookfield Asset Management, Inc.	242.9	3.1%	0.5%
Pacific Investment Mgmt. Co. (PIMCO)	237.0	3.1%	0.5%
PSERS Enhanced S&P 500 Index	426.0	5.5%	0.9%
PSERS Portable Alpha Overlay	88.0	1.1%	0.2%
Other (Includes PSERS Equity Rebalance)	<u>16.0</u>	<u>0.2%</u>	<u>0.0%</u>
<b>Total Actively Managed Large Cap U.S. Equity</b>	<b><u>\$ 4,009.4</u></b>	<b>51.9%</b>	<b>8.8%</b>

*Numbers may not add due to rounding.*

**Summary of PSERS' U.S. Equity Portfolios (unaudited)**  
**(as of December 31, 2008)**  
**(continued)**

	Market Value <u>(in millions)</u>	% of U.S. <u>Equities</u>	% of Total <u>Fund</u>
<b><u>Actively Managed Mid and Small Cap Portfolios</u></b>			
AH Lisanti Capital Growth, LLC	\$ 20.2	0.3%	0.0%
Boston Company Asset Management	100.6	1.3%	0.2%
Conestoga Capital Advisors	35.7	0.5%	0.1%
Emerald Advisors, Inc.	99.6	1.3%	0.2%
First Pacific Advisors, Inc.	145.6	1.9%	0.3%
Harvest MLP II	30.6	0.4%	0.1%
NorthPointe Capital, LLC	110.7	1.4%	0.2%
Opus Capital Management	25.6	0.3%	0.1%
Wellington Mgmt. Co., LLP	111.0	1.4%	0.2%
William Blair & Co.	81.7	1.1%	0.2%
Other	<u>0.1</u>	<u>0.0%</u>	<u>0.0%</u>
<b>Total Actively Managed Mid and Small Cap U.S. Equity</b>	<b><u>\$ 761.5</u></b>	<b><u>9.9%</u></b>	<b><u>1.7%</u></b>
<b><u>Actively Managed MicroCap Portfolios</u></b>			
Ativo Capital Management	\$ 15.6	0.2%	0.0%
Donald Smith & Co., Inc.	25.6	0.3%	0.1%
NorthPointe Capital, LLC	37.1	0.5%	0.1%
Oberweis Asset Management, Inc.	38.7	0.5%	0.1%
Thomson Horstman & Bryant, Inc.	32.4	0.4%	0.1%
Turner Investment Partners	<u>61.0</u>	<u>0.8%</u>	<u>0.1%</u>
<b>Total Actively Managed MicroCap U.S. Equity</b>	<b><u>\$ 210.4</u></b>	<b><u>2.7%</u></b>	<b><u>0.5%</u></b>
<b>Total U.S. Equity</b>	<b><u>\$ 7,726.9</u></b>	<b><u>100.0%</u></b>	<b><u>17.0%</u></b>

Numbers may not add due to rounding.

## **Summary of PSERS' Non-U.S. Equity Investments** (as of December 31, 2008)

Non-U.S. Equities represent one of six major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies equity investments and balances equity management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage Non-U.S. portfolios.

### **Policy**

Non-U.S. Equities are utilized by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Non-U.S. Equity asset class is to be managed on a total return basis.

Non-U.S. Equity investments shall consist almost entirely of publicly-traded securities listed on the exchanges in the countries approved by PSERS that provide PSERS with an equity interest in private sector concerns (i.e. common stock, preferred stock, convertible preferred stock, convertible bonds, etc.) or derivatives such as swaps or listed futures to replicate the performance of Non-U.S. Equity indexes such as the ACWI x-U.S. Index.

PSERS' Asset Allocation targets an eventual allocation of 23.3% of assets to Non-U.S. Equities. It assigns the investment of 75% of Non-U.S. Equities in generally large capitalization stocks of developed and emerging markets, 15% of Non-U.S. Equities in generally small capitalization stocks of developed and emerging markets, and 10% of Non-U.S. Equities in medium/small capitalization stocks in emerging markets. Non-U.S. Equities are targeted to be 57% actively-managed and 43% passively-managed.

**Market Value as of December 31, 2008:** \$9,719.6 million, or 21.4% of the Fund's total market value.

**Number of External Investment Managers:** PSERS had contracts with 23 external investment managers responsible for various Non-U.S. Equity portfolios (including 1 Public Market Emerging Investment Manager Program manager).

**Number of Internal Portfolio Managers:** PSERS had 1 employee managing a Non-U.S. Equity portfolio.

### **Types of Investment Portfolios at December 31, 2008:**

- 81.6% large capitalization stock strategies, 8.0% small capitalization strategies, 12.2% emerging market stock strategies, and (1.8)% currency hedge
- 40.6% passively-managed portfolios (managed internally) and 59.4% actively-managed portfolios (managed externally)

**Summary of PSERS' Non-U.S. Equity Portfolios (unaudited)**  
(as of December 31, 2008)

	Market Value (in millions)	% of Non-U.S. Equities	% of Total Fund
<b><u>Passively Managed Portfolio</u></b>			
PSERS ACWI x-US Index Fund	<b><u>\$ 3,947.0</u></b>	<b>40.6%</b>	<b>8.7%</b>
<b><u>Actively Managed Developed Large Cap Portfolios</u></b>			
Alliance Bernstein Inst. Investment Mgmt.	\$ 554.2	5.7%	1.2%
Baillie Gifford Overseas Ltd.	710.5	7.3%	1.6%
Barclays Global Investors, N.A.	543.5	5.6%	1.2%
John Hsu Capital Group, Inc.	42.4	0.4%	0.1%
Marathon Asset Management Limited	714.4	7.4%	1.6%
Martin Currie, Inc.	642.3	6.6%	1.4%
Mercator Asset Management	740.9	7.6%	1.6%
Shah Capital Management	<u>31.3</u>	<u>0.3%</u>	<u>0.1%</u>
<b>Total Actively Managed Developed Large Cap Non-U.S. Equity</b>	<b><u>\$ 3,979.6</u></b>	<b>40.9%</b>	<b>8.8%</b>
<b><u>Actively Managed Emerging Market Portfolios</u></b>			
Batterymarch Financial Mgmt., Inc.	\$ 143.3	1.5%	0.3%
Boston Co. Asset Management	206.8	2.1%	0.5%
Templeton Investment Counsel, Inc.	181.5	1.9%	0.4%
Wellington Management Co., LLP	164.2	1.7%	0.4%
William Blair & Co.	<u>78.9</u>	<u>0.8%</u>	<u>0.2%</u>
<b>Total Actively Managed Emerging Market Non-U.S. Equity</b>	<b><u>\$ 774.7</u></b>	<b>8.0%</b>	<b>1.7%</b>
<b><u>Actively Managed Developed Small Cap Portfolios</u></b>			
Acadian Asset Management	\$ 136.2	1.4%	0.3%
AXA Rosenberg Investment Management	174.3	1.8%	0.4%
Batterymarch Small Cap	118.3	1.2%	0.3%
Globeflex Capital, L.P.	125.5	1.3%	0.3%
Munder Capital Management	140.9	1.4%	0.3%
Oberweis Asset Management	41.1	0.4%	0.1%
Pyramis Global Advisors	63.8	0.7%	0.1%
Victory Capital Management	110.8	1.1%	0.2%
Wasatch Advisors, Inc.	182.8	1.9%	0.4%
Wasatch Advisors – Small Cap Emerging Markets	<u>95.4</u>	<u>1.0%</u>	<u>0.2%</u>
<b>Total Actively Managed Developed Small Cap Non-U.S. Equity</b>	<b><u>\$ 1,189.0</u></b>	<b>12.2%</b>	<b>2.6%</b>

Numbers may not add due to rounding.

**Summary of PSERS' Non-U.S. Equity Portfolios (unaudited)**  
 (as of December 31, 2008)  
 (continued)

	Market Value (in millions)	% of Non-U.S. Equities	% of Total Fund
<b><u>Actively Managed Currency Hedge Portfolio</u></b>			
Pareto Investment Management, Ltd.	<b><u>\$ -170.6</u></b> a	<b>-1.8%</b>	<b>-0.4%</b>
<b>Total Non-U.S. Equity</b>	<b><u>\$ 9,719.6</u></b>	<b><u>100.0%</u></b>	<b><u>21.4%</u></b>

a - The Market Value represents the cumulative net loss on unsettled foreign exchange contracts.

*Numbers may not add due to rounding.*

## **Summary of PSERS' Fixed Income Investments** (as of December 31, 2008)

Fixed Income represents one of six major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies Fixed Income investments and balances Fixed Income management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage portfolios.

### **Policy**

Fixed Income investments are utilized by the Fund primarily because of their ability to serve as a hedge against disinflation and/or deflation (in the case of nominal bonds), their ability to serve as a hedge against inflation (in the case of Treasury Inflation-Protected Securities (TIPS)), and because such investments help diversify the overall Fund. The Fixed Income class is to be managed on a total return basis.

PSERS' Asset Allocation targets an eventual allocation of 22% of assets to Fixed Income, 36% of which is designated to core/core plus strategies, 23% of which is designated to TIPS strategies, 23% is designated to high yield and opportunistic fixed income strategies, and 18% which is designated to global core/core plus strategies. Of the total Fixed Income allocation, 70% is assigned to U.S. fixed income portfolios and 30% is assigned to global fixed income portfolios. Fixed Income Investments are targeted to be 100% actively managed.

**Market Value as of December 31, 2008:** \$10,444.8 million, or 23.0% of the Fund's total market value.

**Number of External Investment Managers:** PSERS had contracts with 18 external investment managers responsible for various Fixed Income portfolios (including 3 Public Market Emerging Investment Manager Program managers).

**Number of Internal Portfolio Managers:** PSERS had 3 employees managing various Fixed Income portfolios.

### **Types of Investment Portfolios at December 31, 2008:**

- 87.6% U.S. fixed income portfolios and 12.4% global fixed income portfolios
- 42.8% core/core plus strategy portfolios, 24.1% TIPS portfolios, 20.7% collectively in the high yield, absolute return, and credit opportunity strategy portfolios, and 12.4% global core/core plus strategy portfolios
- 32.1% was managed by internal portfolio managers and 67.9% is managed by external investment managers

**Summary of PSERS' Fixed Income Portfolios (unaudited)**  
(as of December 31, 2008)

	Market Value (in millions)	% of Total Fixed Income	% of Total Fund
<b><u>Actively Managed U.S. Core/Core Plus Fixed Income Portfolios</u></b>			
Aberdeen Asset Management, Inc.	\$ 403.3	3.9%	0.9%
Barclays Global Investors, N.A.	880.5	8.4%	1.9%
BlackRock Financial Management, Inc.	619.8	5.9%	1.4%
Pacific Investment Mgmt. Co. (PIMCO)	642.1	6.1%	1.4%
Piedmont Investment Advisors	17.3	0.2%	0.0%
PSERS Active Aggregate	1,249.5	12.0%	2.8%
Pugh Capital Management, Inc.	17.5	0.2%	0.0%
Western Asset Management Co.	386.8	3.7%	0.9%
Other	<u>255.8</u>	<u>2.4%</u>	<u>0.6%</u>
<b>Total Actively Managed U.S. Core/Core Plus Fixed Income</b>	<b><u>\$ 4,472.7</u></b>	<b>42.8%</b>	<b>9.9%</b>
<b><u>Actively Managed Treasury Inflation-Protected Securities (TIPS) Portfolios</u></b>			
Bridgewater Associates, Inc.	\$ 667.8	6.4%	1.5%
PSERS TIPS Portfolio	<u>1,846.9</u>	<u>17.7%</u>	<u>4.1%</u>
<b>Total Actively Managed Treasury Inflation-Protected Securities (TIPS)</b>	<b><u>\$ 2,514.7</u></b>	<b>24.1%</b>	<b>5.5%</b>
<b><u>Actively Managed High Yield Fixed Income Portfolio</u></b>			
MacKay-Shields Financial Corporation	<u>\$ 339.1</u>	<b>3.2%</b>	<b>0.7%</b>
<b><u>Actively Managed Absolute Return Portfolio</u></b>			
Brigade Capital Management	<u>\$ 426.7</u>	<b>4.1%</b>	<b>0.9%</b>
<b><u>Actively Managed Credit Opportunity Portfolios</u></b>			
BlackRock Mortgage (Offshore) Investors	\$ 326.0	3.1%	0.7%
Hyperion Brookfield Asset Management, Inc.	331.1	3.2%	0.7%
LBC Credit Partners II, LP	18.0	0.2%	0.0%



**Summary of PSERS' Fixed Income Portfolios (unaudited)**  
 (as of December 31, 2008)  
 (continued)

	Market Value <u>(in millions)</u>	% of Total Fixed <u>Income</u>	% of Total <u>Fund</u>
<b><u>Actively Managed Credit Opportunity Portfolios (cont'd)</u></b>			
Oaktree Loan Fund	\$ 243.9	2.3%	0.5%
Sankaty Credit Opportunities Fund IV, LP	238.4	2.3%	0.5%
Stillwater Capital Partners, Inc.	50.9	0.5%	0.1%
TCW Credit Opportunities Fund, LP	<u>187.1</u>	<u>1.8%</u>	<u>0.4%</u>
<b>Total Actively Managed Credit Opportunity Fixed Income</b>	<b><u>\$ 1,395.4</u></b>	<b>13.4%</b>	<b>3.1%</b>
<b>Total Actively Managed U.S. Fixed Income</b>	<b><u>\$ 9,148.6</u></b>	<b>87.6%</b>	<b>20.2%</b>
<b><u>Actively Managed Global Core Plus Fixed Income Portfolios</u></b>			
Aberdeen Asset Management, Inc.	\$ 396.7	3.8%	0.9%
Fischer, Francis, Trees & Watts, Inc.	428.6	4.1%	0.9%
Rogge Global Partners	<u>470.8</u>	<u>4.5%</u>	<u>1.0%</u>
<b>Total Actively Managed Global Core Plus Fixed Income</b>	<b><u>\$ 1,296.1</u></b>	<b>12.4%</b>	<b>2.9%</b>
<b>Total Fixed Income</b>	<b><u>\$ 10,444.8</u></b>	<b><u>100.0%</u></b>	<b><u>23.0%</u></b>

Numbers may not add due to rounding.

## **Summary of PSERS' Commodity Investments** (as of December 31, 2008)

Commodities represent one of six major asset classes that PSERS uses to diversify the investments of the Fund. PSERS investment plan diversifies Commodity Investments and balances Commodity management styles. PSERS contracts with external investment managers to manage commodity portfolios.

### **Policy**

The Fund benchmarks its Commodity Investments to the Dow Jones-AIG Commodity Index (DJ AIG). The DJ AIG is a broadly diversified basket of 20 commodities from 4 sectors (energy, industrial metals, precious metals, and agriculture).

Commodity investments are utilized by the Fund for diversification within the portfolio and to act as a hedge against unanticipated inflation. The prices of commodities are determined primarily by near-term events in global supply and demand conditions and are positively related with both the level of inflation and the changes in the rate of inflation. However, stock and bond valuations are based on longer-term expectations and react negatively to inflation. Therefore, commodity returns have had a historically negative correlation to stock and bond returns. As such, commodities, when combined with stocks and bonds, lower the risk of a portfolio.

PSERS' Asset Allocation currently targets an allocation of 5.0% of assets to Commodity Investments, 40% of which is designated to full discretion active strategies and 60% of which is designated to core/enhanced strategies. Full discretion strategies permit the use of both commodity derivatives (futures and swaps) and commodity-related stocks to gain commodity exposure. Core/enhanced strategies use only commodity derivatives to gain commodity exposure. Commodity Investments are targeted to be 100.0% actively managed.

**Market Value of December 31, 2008:** \$1,401.3 million, or 3.1% of the Fund's total market value.

**Number of External Investment Managers:** PSERS had contracts with 5 external investment managers to manage Commodity portfolios.

**Number of Internal Portfolio Managers:** None.

### **Type of Investment Portfolios at December 31, 2008:**

- 49.4% full discretion strategy portfolio and 50.6% core/enhanced strategy portfolio
- 100.0% was managed by external investment managers

**Summary of PSERS' Commodity Portfolios (unaudited)**  
(as of December 31, 2008)

	<u>Market Value</u> (in millions)	<u>% of</u> <u>Total</u> <u>Commodities</u>	<u>% of</u> <u>Total</u> <u>Fund</u>
<b><u>Full Discretion Commodity Portfolios</u></b>			
Deutsche Asset Management	\$ 255.6	18.2%	0.6%
Wellington Management Company, LLP	<u>437.0</u>	<u>31.2%</u>	<u>1.0%</u>
<b>Total Full Discretion Commodities</b>	<b><u>\$ 692.7</u></b>	<b><u>49.4%</u></b>	<b><u>1.5%</u></b>
<b><u>Core/Enhanced Commodity Portfolios</u></b>			
Credit Suisse Asset Management	\$ 248.6	17.7%	0.5%
Neuberger Inv. Mgmt. (formerly Lehman Brothers)	244.6	17.5%	0.5%
Schroders Investment Management	<u>215.4</u>	<u>15.4%</u>	<u>0.5%</u>
<b>Total Core/Enhanced Commodities</b>	<b><u>\$ 708.6</u></b>	<b><u>50.6%</u></b>	<b><u>1.6%</u></b>
<b>Total Commodities</b>	<b><u>\$ 1,401.3</u></b>	<b><u>100.0%</u></b>	<b><u>3.1%</u></b>

*Numbers may not add due to rounding.*

## **Summary of PSERS' Real Estate Investments** (as of December 31, 2008)

Real Estate represents one of six major asset classes that PSERS uses to diversify the investments of the Fund. The primary objective of the real estate program is to invest in real property directly or indirectly through global publicly-traded real estate securities (PTRES), direct investments, commingled fund investments, limited partnerships, and direct private placements. This is done in a prudent manner to create a diversified real estate portfolio of high quality investments which will enhance PSERS' overall long-term investment performance, diversify the asset base, and reduce the volatility of returns of the total investment portfolio.

### **Policy**

The real estate program is designed to create the highest possible risk-adjusted returns in a controlled, coordinated, and comprehensive manner. Recognizing that real estate market conditions and PSERS' objectives for real estate may change over time, the program is reviewed periodically and updated as needed. The existing target allocation is 13.0% of total assets.

Investments are made through global PTRES, direct investments, commingled fund investments, limited partnerships, and direct private placements. It is PSERS' intent to liquidate any investment at the point in time when its value has been maximized. PSERS seeks to diversify its real estate portfolio by investing in a mix of Opportunistic (50%), Value Added (30%) and Core (20%) real estate investments.

**Opportunistic** real estate investing is the financing, acquisition or investment in real estate assets, real estate companies, portfolios of real estate assets, private and public REIT's that do not have access to traditional public equity or debt financing. Opportunistic real estate consists of investment strategies that seek to exploit market inefficiencies with an emphasis on total return. Opportunistic investments require specialized expertise and the flexibility to respond quickly to market imbalances or changing market conditions. Investments may include non-traditional property types and/or assets that involve development, re-development, or leasing risks.

**Value Added** real estate investing typically focuses on both income growth and appreciation potential, where opportunities created by dislocations and inefficiencies between and within segments of the real estate capital markets are capitalized upon to enhance returns. Investments can include high-yield equity and debt investments and undervalued or impaired properties in need of repositioning, re-development or leasing.

**Core** real estate investing is the financing, acquisition or investment in real estate assets, real estate companies, portfolios of real estate assets, private REITs that are broadly diversified by property type and location, focused primarily on completed, well-leased properties with modest levels of leasing risk, using relatively low leverage, and investing mainly in institutional property types and qualities allowing for relative ease of resale.

**Summary of PSERS' Real Estate Investments**  
**(as of December 31, 2008)**  
**(continued)**

**Market Value as of December 31, 2008:** \$5,839.0 million or 12.8% of the Fund's total market value. This market value represents the combination of December 31, 2008 and September 30, 2008 market values adjusted for cash flows that occurred during the fourth quarter of 2008.

**Number of External Investment Managers:** PSERS had contracts with 7 external public market real estate investment managers, 5 external directly managed real estate asset managers, and 79 external general partners to manage the real estate separate account, public securities, and pool fund portfolios.

**Number of Internal Portfolio Managers:** PSERS had 2 employees managing real estate portfolios.

**Type of Investment Portfolios at December 31, 2008**

- 4.9% Separate Account Portfolio
- 10.5% Public Securities Portfolio
- 84.6% Pooled Fund Portfolio

**Summary of PSERS' Real Estate Portfolios (unaudited)**  
(as of December 31, 2008)

<u>Separate Accounts</u>	Market Value (in millions)	% of Total Real Estate	% of Total Fund
Charter Oak Advisors, Inc.	\$ 114.4	2.0%	0.3%
GF Management, Inc.	100.1	1.7%	0.2%
Grandbridge Real Estate Capital, LLC	3.2	0.1%	0.0%
Grosvenor Investment Management U.S., Inc.	7.6	0.1%	0.0%
L&B Realty Advisors, LLP	36.3	0.6%	0.1%
Prudential Agricultural Group	<u>24.6</u>	<u>0.4%</u>	<u>0.1%</u>
<b>Total Real Estate Separate Accounts</b>	<b><u>\$ 286.3</u></b>	<b>4.9%</b>	<b>0.6%</b>

**Public Securities**

**Actively Managed Publicly Traded Real Estate Securities  
Portfolios**

Cohen and Steers Capital Management, Inc.	\$ 50.6	0.9%	0.1%
European Investors Inc.	100.4	1.7%	0.2%
LaSalle Investment Management	46.4	0.8%	0.1%
Morgan Stanley Investment Mgmt., Inc.	203.0	3.5%	0.4%
ProLogis Trust	13.9	0.2%	0.0%
Security Capital Research & Management, Inc. - Preferred Growth	114.4	2.0%	0.2%
Security Capital Research & Management, Inc.	<u>80.1</u>	<u>1.4%</u>	<u>0.2%</u>
<b>Total Actively Managed Publicly Traded Real Estate Securities</b>	<b><u>\$ 608.8</u></b>	<b>10.5%</b>	<b>1.3%</b>

*Numbers may not add due to rounding.*

**Summary of PSERS' Real Estate Portfolios (unaudited)**  
**(as of December 31, 2008)**  
**(continued)**

<u>Pooled Funds</u>	<u>Market Value</u> <u>(in millions)</u>	<u>% of Total</u> <u>Real Estate</u>	<u>% of Total</u> <u>Fund</u>
Apollo European Real Estate Fund III, L.P.	\$ 27.9	0.5%	0.1%
Apollo Real Estate Finance Corp.	73.4	1.3%	0.2%
AREFIN Co-Invest Corp.	11.9	0.2%	0.0%
AvalonBay Value Added Fund, L.P.	78.6	1.4%	0.2%
Avenue Real Estate Fund Parallel, L.P.	65.5	1.1%	0.1%
Beacon Capital Strategic Partners V, L.P.	102.9	1.8%	0.2%
Berwind Property Group, Fund IV	0.2	0.0%	0.0%
Berwind Property Group, Fund V	23.7	0.4%	0.1%
Blackstone Real Estate Partners V. TE.1, L.P.	201.5	3.5%	0.4%
Blackstone Real Estate Partners VI. TE.1, L.P.	175.5	3.0%	0.4%
BPG Co-Investment Partnership, L.P.	22.1	0.4%	0.0%
BPG Investment Partnership VI, L.P.	53.2	0.9%	0.1%
Broadway Partners Parallel Fund P III, L.P.	93.3	1.6%	0.2%
Cabot Industrial Value Fund III, L.P.	1.5	0.0%	0.0%
Carlyle Europe Real Estate Partners III-A, L.P.	65.9	1.1%	0.1%
Carlyle Realty III, L.P.	71.0	1.2%	0.2%
Carlyle Realty IV, L.P.	101.6	1.8%	0.2%
Carlyle Realty V, L.P.	188.5	3.3%	0.4%
Centerline High Yield CMBS Fund III, LLC	91.1	1.6%	0.2%
Centerline RE Special Situations Mortgage Fund, LLC	68.9	1.2%	0.2%
Cornerstone Patriot Fund, L.P.	96.2	1.7%	0.2%
CS Strategic Partners IV Real Estate, L.P.	47.2	0.8%	0.1%
CSFB Strategic Partners II RE, L.P.	24.3	0.4%	0.1%
CSFB Strategic Partners III RE, L.P.	52.6	0.9%	0.1%
DLJ Real Estate Capital Partners II, L.P.	38.6	0.7%	0.1%
DLJ Real Estate Capital Partners III, L.P.	112.4	1.9%	0.2%
DLJ Real Estate Capital Partners IV, L.P.	44.2	0.8%	0.1%
DRA Growth and Income Fund VI, L.P.	45.5	0.8%	0.1%
Filmore West Fund, L.P.	79.4	1.4%	0.2%
Five Arrows Realty Securities V, L.P.	14.8	0.3%	0.0%
Fortress Investment Fund IV, L.P.	89.6	1.5%	0.2%
Fortress Investment Fund V (Fund A) , L.P.	61.9	1.1%	0.1%
Fortress PSERS Investment, L.P.	81.6	1.4%	0.2%
Hines U.S. Office Value Added Fund, L.P.	78.1	1.3%	0.2%
JPMCB Strategic Property Fund	25.3	0.4%	0.1%

**Summary of PSERS' Real Estate Portfolios (unaudited)**  
**(as of December 31, 2008)**  
**(continued)**

<u>Pooled Funds (cont'd)</u>	Market Value <u>(in millions)</u>	% of Total <u>Real Estate</u>	% of Total <u>Fund</u>
Legg Mason Real Estate Capital, Inc.	\$ 15.2	0.3%	0.0%
Legg Mason Real Estate Capital II, Inc.	66.5	1.1%	0.1%
Lehman Brothers PSERS Real Estate, L.P.	94.2	1.6%	0.2%
Lehman Brothers Real Estate Pension Partners II, L.P.	151.2	2.6%	0.3%
Lehman Brothers Real Estate Pension Partners III, L.P.	59.8	1.0%	0.1%
LEM Real Estate Mezzanine Fund II, L.P.	26.4	0.5%	0.1%
LF Strategic Realty Investors I, L.P.	2.5	0.0%	0.0%
LF Strategic Realty Investors II, L.P.	100.0	1.7%	0.2%
Lubert-Adler Real Estate Fund II, L.P.	4.4	0.1%	0.0%
Lubert-Adler Real Estate Fund III, L.P.	40.1	0.7%	0.1%
Lubert-Adler Real Estate Fund IV, L.P.	68.2	1.2%	0.2%
Lubert-Adler Real Estate Fund V, L.P.	86.7	1.5%	0.2%
Lubert-Adler Real Estate Fund VI, L.P.	29.9	0.5%	0.1%
Madison Marquette Retail Enhancement Fund, L.P.	26.8	0.5%	0.1%
MGPA Asia Fund III, L.P.	32.0	0.6%	0.1%
MGPA Europe Fund III, L.P.	23.5	0.4%	0.1%
Morgan Stanley Real Estate Fund II L.P.	33.3	0.6%	0.1%
Morgan Stanley Real Estate Fund IV Sp. Dom. L.P.	43.8	0.8%	0.1%
Morgan Stanley Real Estate Fund IV Sp. Int'l L.P.	40.2	0.7%	0.1%
Morgan Stanley Real Estate Fund V Sp. Int'l L.P.	164.5	2.8%	0.4%
Morgan Stanley Real Estate Fund V Sp. U.S. L.P.	106.1	1.8%	0.2%
Morgan Stanley Real Estate Fund VI Sp. Int'l L.P.	190.3	3.3%	0.4%
O'Connor North American Property Partners, L.P.	101.4	1.7%	0.2%
O'Connor North American Property Partners II, L.P.	69.7	1.2%	0.2%
Paladin Realty Latin America III, L.P.	19.3	0.3%	0.0%
Peabody Global Real Estate Partners, L.P.	10.1	0.2%	0.0%
Prime Property Fund, LLC	54.8	0.9%	0.1%
PRISA	111.6	1.9%	0.2%
ProLogis North American Industrial Fund, L.P.	171.3	3.0%	0.4%
RCG Longview Debt Fund IV, L.P.	65.7	1.1%	0.1%
RCG Longview Equity Fund PA PSERS, L.P.	42.5	0.7%	0.1%
RREEF America REIT II, Inc.	11.4	0.2%	0.0%
Stockbridge Real Estate Fund I, L.P.	183.8	3.2%	0.4%



**Summary of PSERS' Real Estate Portfolios (unaudited)**  
**(as of December 31, 2008)**  
**(continued)**

<u><b>Pooled Funds (cont'd)</b></u>	Market Value <u>(in millions)</u>	% of Total <u>Real Estate</u>	% of Total <u>Fund</u>
Stockbridge Real Estate Fund II-A, L.P.	\$ 69.3	1.2%	0.2%
Stockbridge Real Estate Fund III, L.P.	28.3	0.5%	0.1%
Strategic Partners Value Enhancement Fund, L.P.	46.9	0.8%	0.1%
UBS Trumbull Property Fund, L.P.	83.9	1.4%	0.2%
Westbrook Real Estate Fund, L.P.	1.2	0.0%	0.0%
Whitehall Street Real Estate V & VI, L.P.	0.3	0.0%	0.0%
Whitehall Street Real Estate VII & VIII, L.P.	3.6	0.1%	0.0%
William E. Simon & Sons Realty Partners, L.P.	<u>53.1</u>	<u>0.9%</u>	<u>0.1%</u>
<b>Total Real Estate Pooled Fund</b>	<b><u>\$ 4,943.9</u></b>	<b><u>84.6%</u></b>	<b><u>10.8%</u></b>
<b>Total Real Estate</b>	<b><u>\$ 5,839.0</u></b>	<b><u>100.0%</u></b>	<b><u>12.8%</u></b>

*Numbers may not add due to rounding.*

## Summary of PSERS' Private Market Investments (as of December 31, 2008)

Private Market Investments represents one of six major asset classes that PSERS uses to diversify the investments of the Fund. The Private Market Investments program is a portion of PSERS asset allocation used to diversify the Fund. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by PSERS for the purpose of investing in and managing private equity and unlisted-subordinated debt positions on behalf of PSERS and other limited partners. PSERS' Asset Allocation currently targets an allocation of 18.5% to Private Market Investments. Private Market Investment sub-asset class explanations are as follows:

**Private Equity** involves investments in private companies which normally do not have technology risk associated with traditional venture capital investments. It has evolved to include the financing of more mature, profitable companies that do not have access to, or qualify for, public equity and debt funding. Private Equity strategies include:

*Buyouts* - Investment strategy is to acquire the assets of a publicly or privately held company. A subset of this category is the leveraged buyout, where financing enables companies to be acquired through the use of borrowed funds. Typically, the assets of target companies serve as collateral for loans originated in the transaction.

*Secondary Partnerships* - An investment strategy to acquire interests in established limited partnerships. Secondary investing can often be lucrative due to the fact that the partnerships are purchased at significant discounts to net asset value and the timing of the purchase frequently occurs as the acquired partnerships begin to realize profits.

**Venture Capital** is considered the financing of young, relatively small, rapidly growing companies. In traditional venture capital investments, companies have a 5-10 year investment horizon and develop technology for a particular market, such as pharmaceuticals, software, medical products, etc. Venture capital strategies are typically classified as follows:

*Seed* - An investment strategy that involves companies that are still in the conceptual stage of growth. Seed stage investing involves product viability risk.

*Early Stage* - An investment strategy involving financing portfolio companies for product development and initial marketing, manufacturing and sales activities. Typically, early stage companies have been formed, but revenues have not been realized. Early stage investment involves risks associated with defining competitive markets, developing production and marketing channels.

*Later Stage* - An investment strategy involving financing portfolio companies for rapid expansion. Risk at this stage revolves around capturing market share while increasing production and delivery capabilities and building sales volume.

*Balanced* - An investment strategy including a variety of portfolio company development stages (Seed, Early, Later, etc.).

**Summary of PSERS' Private Market Investments**  
(as of December 31, 2008)  
(continued)

**Private Debt** involves investments in the secured and/or unsecured debt obligations of private and/or public companies. This debt is typically acquired through directly negotiated or competitively bid transactions. Owners of these debt instruments typically take either an active or passive role in the management of the firm. Private Debt strategies are typically classified as follows:

*Mezzanine* - Investments in unsecured or junior debt securities with equity enhancements such as warrants or nominally priced equity.

*Distressed Debt* - Investments in the debt obligations of under-performing companies that are in need of operating or financial restructuring, and are either in or out of bankruptcy.

*Structured Products* - Investments in the debt tranche of a security that is generally leveraged and backed by a diversified pool of assets. Assets include bank debt, investment grade debt, non-investment grade debt, or mortgages.

## **Policy**

For the Private Market Investments program, PSERS long-term investment objective is to achieve a risk-adjusted total return, net of fees, that exceeds market returns for similar investments, or benchmark returns furnished by Venture Economics on a vintage year weighted basis.

**Summary of PSERS' Private Market Investments**  
 (as of December 31, 2008)  
 (continued)

**Market Value as of December 31, 2008:** \$8,442.8 million, or 18.6% of the Fund's total market value. Sub-asset class market values (unaudited) and fund percentages were as follows:

	Total Commitments <u>(in millions)</u>	Market Value <u>(in millions)</u>	Percent Allocation <u>to Total Fund</u>
Private Equity	\$ 15,711.8	\$ 5,904.1	13.0%
Venture Capital	2,046.6	716.9	1.6%
Private Debt	<u>4,011.5</u>	<u>1,821.8</u>	<u>4.0%</u>
<b>Totals</b>	<b><u>\$ 21,769.9</u></b>	<b><u>\$ 8,442.8</u></b>	<b><u>18.6%</u></b>

**Summary of PSERS' Private Market Investments**  
**(as of December 31, 2008)**  
**(continued)**

An objective of PSERS' Private Market Investments program is to maintain investment diversification by industry, geographic location, and investment strategy. Diversification levels as of December 31, 2008, are as follows:

*Industry diversification (by number of companies in each industry):*

Secondary funds	28.2%	Financial	10.1%	Transportation	3.0%
Services	12.4%	Medical	9.2%	Energy	1.7%
Industrial	11.0%	Communication	6.6%	Real Estate	1.7%
Computer	10.5%	Consumer	4.9%	Other	0.7%

*Geographical diversity (by percentage of companies located in each state):*

International	23.7%	Texas	3.8%	Maryland	1.7%
New York	18.6%	New Jersey	3.1%	Ohio	1.4%
California	15.3%	Illinois	2.8%	Michigan	1.3%
Pennsylvania	5.1%	Connecticut	2.0%	Colorado	1.1%
Massachusetts	5.1%	Florida	1.9%	Other	13.1%

PSERS' **Private Equity** program has committed a total of \$15,711.8 million to 99 partnerships through December 31, 2008. 12 of these partnerships are located in Pennsylvania. 24 of the 29 international investment partnerships are included within the private equity sector. The international investments serve to increase the diversification of this asset class while providing the opportunity of increasing total returns.

PSERS' **Venture Capital** program consists of 36 partnerships with committed capital totaling \$2,046.6 million through December 31, 2008. A significant number of the venture capital partnerships, 20 out of 36, are located in Pennsylvania. 1 of the 29 international partnerships is included within the venture capital sector.

PSERS' **Private Debt** program has committed \$4,011.5 million to 25 partnerships through December 31, 2008. Four of the 29 international partnerships are included within the private debt sector.

**Summary of PSERS' Active Private Market Investments Committed,  
Drawn, and Distributed (unaudited)**  
(as of December 31, 2008)

<u>Private Equity</u>	<u>Vintage Year</u>	<u>Capital Committed</u>	<u>Capital Drawn</u>	<u>Distributions *</u>
ABS Capital Partners II	1996	\$ 40,000,000	\$ 39,291,734	\$ 45,555,770
Actis Emerging Markets III, L.P.	2008	200,000,000	21,365,625	-71,836
Allegheny New Mountain Partners, L.P.	2004	100,000,000	75,373,873	11,240,210
Apax Europe VII, L.P.	2007	281,300,000	116,019,550	-119,052
BG Media Investors, L.P.	1997	25,000,000	24,629,069	20,000,769
Baring Asia Private Equity Fund III, L.P.	2005	122,500,000	123,263,938	136,574,109
Baring Asia Private Equity Fund IV, L.P.	2007	300,000,000	144,617,295	111,224
Blue Point Capital Partners II (B), L.P.	2007	100,000,000	38,702,391	-834,453
Blue Point Capital Partners, L.P.	2001	103,750,000	81,091,925	98,546,453
Bridgepoint Capital II (Secondary)	1998	84,714,906	81,290,641	162,520,963
Bridgepoint Europe I	1998	79,622,624	75,126,567	132,241,583
Bridgepoint Europe II	2001	437,490,000	308,986,530	509,226,332
Bridgepoint Europe III A, L.P.	2005	281,300,000	226,530,556	-
Bridgepoint Europe IV, L.P.	2008	421,950,000	-	-
Bruckmann, Rosser, Sherrill & Co.	1995	25,000,000	24,363,888	42,767,075
CS Strategic Partners IV, L.P.	2008	100,000,000	27,500,000	-486,066
CSFB Strategic Partners II, L.P.	2003	300,000,000	248,162,665	335,342,989
CSFB Strategic Partners III-B, L.P.	2005	200,000,000	164,292,639	48,567,129
CVC Capital Partners Asia Pacific III, L.P.	2008	300,000,000	68,229,074	106,557
CVC European Equity Partners V (A), L.P.	2008	421,950,000	64,497,853	-
Capital International Private Equity Fund V L.P.	2007	200,000,000	73,952,645	109,049
Catterton Growth Partners, L.P.	2008	75,000,000	19,512,169	-48,247
Catterton Partners V, L.P.	2004	100,000,000	96,711,488	44,295,663
Catterton Partners VI, L.P.	2006	130,000,000	75,954,382	3,880,755
Cinven Fund (Fourth), L.P.	2006	210,975,000	114,460,269	-
Clarity Partners	2000	203,590,000	190,696,408	113,119,460
Clarity PSERS II, L.P.	2008	31,383,333	8,878,250	-
Credit Suisse Equity Partners	1998	137,172,500	112,858,565	22,089,623
Credit Suisse Int'l Equity Partners	1997	83,000,000	75,461,399	88,801,226
Crestview Partners, L.P.	2005	150,000,000	134,040,866	6,932,230
Crestview Partners II (PF), L.P.	2008	200,000,000	-	-
DLJ Merchant Banking Partners III, L.P.	2000	300,000,000	296,628,288	373,106,260
DLJ Strategic Partners	2001	200,000,000	184,372,790	247,206,676
Deutsche European Partners IV	1999	200,000,000	182,925,445	223,056,915
Dubin Clark Fund II	2000	24,083,333	23,435,569	14,973,837
Edgewater Growth Capital Partners, L.P.	2001	59,196,500	56,828,640	32,684,212
Edgewater Private Equity Fund III, L.P.	1998	39,000,000	39,000,000	13,627,787
Evergreen Pacific Partners, L.P.	2004	50,000,000	30,457,261	3,483
Evergreen Pacific Partners II, L.P.	2008	80,954,545	1,140,514	-
First Reserve Fund XI, L.P.	2006	200,000,000	147,405,668	-

*\*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitment.*

**Summary of PSERS' Active Private Market Investments Committed,  
Drawn, and Distributed (unaudited)**

(as of December 31, 2008)

(continued)

<u>Private Equity (cont'd)</u>	<u>Vintage Year</u>	<u>Capital Committed</u>	<u>Capital Drawn</u>	<u>Distributions *</u>
Furman Selz II	1998	\$ 56,250,000	\$ 1,479,146	\$ 84,359,369
Furman Selz III	2000	100,000,000	83,771,367	176,821,659
Graham Partners	1999	56,671,214	45,390,146	40,321,467
Green Equity Investors II	1994	25,000,000	24,151,005	50,388,992
Greenpark International Investors III L.P.	2007	140,650,000	91,646,097	9,162,866
Greenwich Street Capital Partners II	1998	200,000,000	192,779,634	181,418,947
HSBC Private Equity Fund 6, L.P.	2008	200,000,000	31,788,868	-
Halifax Capital Partners	1999	50,000,000	39,469,823	52,372,972
Heritage Fund I	1994	25,000,000	24,999,999	23,298,166
Irving Place Capital Partners II, L.P.	2000	300,000,000	273,296,935	220,974,595
Irving Place Capital Partners III, L.P.	2006	150,000,000	56,529,940	-
Jefferies Capital Partners IV, L.P.	2005	100,000,000	51,927,175	-5,541,361
KKR 2006 Fund L.P.	2006	300,000,000	209,420,761	182,759
KRG Capital Fund I	1999	50,000,000	43,230,634	91,089,559
KRG Capital Fund II	2001	100,000,000	71,141,048	112,626,471
KRG Capital Fund III, L.P.	2005	88,000,000	66,794,602	3,509,805
KRG Capital Fund IV L.P.	2007	300,000,000	15,581,143	-
Landmark Equity Partners III	1993	27,085,010	27,085,010	75,002,434
Landmark Equity Partners IV	1994	10,533,687	10,242,502	15,226,383
Landmark Equity Partners XIII, L.P.	2006	100,000,000	74,003,649	18,522,154
Landmark Equity Partners XIV, L.P.	2008	150,000,000	10,500,000	-
Landmark Mezzanine Partners	1995	75,000,000	59,315,512	106,243,575
Lehman Bros. Merchant Banking Partners II	1997	158,552,133	158,552,133	200,513,826
Lehman Bros. Merchant Banking Prtnrs IV, L.P.	2007	100,000,000	24,414,021	-
Lexington Capital Partners I	1996	50,000,000	49,613,120	62,083,942
Lindsay Goldberg & Bessemer L.P.	2002	300,000,000	281,975,156	427,855,027
Milestone Partners II, L.P.	2004	29,890,000	23,311,091	15,696,071
Milestone Partners III, L.P.	2008	57,351,687	9,762,847	-
Morgan Stanley Dean Witter IV	1998	300,000,000	227,851,338	426,916,959
Navis Asia Fund V LP	2007	100,000,000	50,966,649	130
New Mountain Partners	2000	192,509,033	156,713,311	168,022,275
New Mountain Partners III L.P.	2007	300,000,000	39,932,142	296,821
New York Life Capital Partners I	1999	200,000,000	203,529,314	155,458,446
New York Life Capital Partners II	2001	200,000,000	182,244,375	380,723,927
New York Life Capital Partners III-A, L.P.	2005	200,000,000	185,887,702	10,836,186
New York Life Capital Partners IV-A, L.P.	2008	200,000,000	25,294,872	9,845
Nordic Capital VII Beta, L.P.	2008	210,975,000	40,275,188	-854,617
PAI Europe III, L.P.	2001	421,950,000	313,204,204	800,590,942

*\*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitment.*

**Summary of PSERS' Active Private Market Investments Committed,  
Drawn, and Distributed (unaudited)**  
(as of December 31, 2008)  
(continued)

<u>Private Equity (cont'd)</u>	Vintage <u>Year</u>	Capital <u>Committed</u>	Capital <u>Drawn</u>	<u>Distributions *</u>
PAI Europe IV-B2	2005	\$ 140,650,000	\$ 97,783,017	\$ 26,906,406
PAI Europe V L.P.	2007	281,300,000	34,188,018	-12,048
PNC Equity Partners I, L.P.	2001	43,154,458	38,948,908	50,957,909
PNC Equity Partners II, L.P.	2006	68,065,386	18,504,009	398,129
Palladium Equity Partners II	2000	57,750,000	53,423,763	27,524,365
Partners Group Secondart 2008, L.P.	2008	210,975,000	16,685,931	-336,347
Permira IV L.P.	2006	175,812,500	82,424,916	-
Platinum Equity Capital Partners-A II, L.P.	2007	300,000,000	111,883,457	8,408,486
Platinum Equity Capital Partners-A, L.P.	2004	125,000,000	95,474,687	176,509,594
Providence Equity Partners VI LP	2007	300,000,000	136,908,258	1,192,497
Quadrangle Capital Partners	2001	270,422,415	215,236,017	214,544,827
Quadrangle Capital Partners II L.P.	2005	250,000,000	158,368,066	12,010,189
Sterling Capital Partners, L.P.	2002	75,000,000	70,896,713	60,711,884
Sunrise Capital Partners, L.P.	1998	57,388,755	56,607,546	16,736,372
TPG Partners II	1997	50,000,000	53,834,244	88,774,937
TPG Partners V, L.P.	2006	250,000,000	204,952,602	3,648,808
TPG Partners VI, L.P.	2008	360,000,000	20,955,251	-21,100
U.S. Equity Partners	1996	75,000,000	70,245,530	64,442,845
U.S. Equity Partners II	2001	300,000,000	241,390,687	165,986,187
Wicks Communications and Media	1999	87,500,000	83,549,655	102,182,738
Willis Stein & Partners	1996	<u>25,000,000</u>	<u>25,000,000</u>	<u>53,543,217</u>
<b>Total Private Equity Investments</b>		<b><u>\$ 15,711,829,019</u></b>	<b><u>\$ 9,241,927,530</u></b>	<b><u>\$ 7,703,918,563</u></b>

*\*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitment.*

*Numbers may not add due to rounding.*



**Summary of PSERS' Active Private Market Investments Committed,  
Drawn, and Distributed (unaudited)  
(as of December 31, 2008)  
(continued)**

<u>Venture Capital</u>	<u>Vintage Year</u>	<u>Capital Committed</u>	<u>Capital Drawn</u>	<u>Distributions *</u>
Adams Capital Management	1997	\$ 12,500,000	\$ 12,500,000	\$ 22,671,838
Aisling Capital II	2006	50,000,000	32,443,116	82,187
Aisling Capital III, L.P.	2008	50,000,000	-	-
CS Stragetec Partners IV, L.P.	2008	50,000,000	7,500,000	-93,750
CSFB Strategic Partners III-VC, L.P.	2005	50,000,000	44,121,019	11,575,380
Co-Investment Fund 2000	2000	135,000,000	135,000,000	135,000,000
Co-Investment Fund II, L.P.	2006	135,000,000	39,825,000	-
Cross Atlantic Technology Fund	1999	30,141,666	29,840,250	25,277,310
Cross Atlantic Technology Fund II	2001	21,119,734	21,119,734	10,555,316
Edison Venture Fund III	1994	14,807,690	14,807,690	27,838,435
Franklin Capital Partners III	1995	15,000,000	15,000,000	9,626,580
Jefferson Partners Fund IV (PA) L.P.	2003	29,438,614	22,830,285	-9
KBL Healthcare Ventures	1999	13,593,334	13,593,333	6,563,009
LLR Equity Partners	1999	62,500,000	61,250,000	115,546,801
LLR Equity Partners II, L.P.	2004	75,000,000	63,750,000	14,294,246
LLR Equity Partners III, L.P.	2008	187,500,000	24,375,000	236,943
Landmark Equity Partners II	1992	25,000,000	25,000,000	39,012,414
Landmark Equity Partners V	1995	49,060,283	48,478,943	58,173,230
Lehman Brothers Communications	1999	12,500,000	11,442,260	5,164,360
Lehman Brothers Venture Partners 2003, L.P.	2003	75,000,000	67,132,315	14,796,205
Lehman Brothers Venture Partners V, L.P.	2007	75,000,000	16,712,568	-
NEPA Venture Fund II	1992	5,000,000	5,000,000	23,252,576
Novitas Capital, L.P.	1998	30,000,000	29,550,000	32,320,641
Novitas Capital II, L.P.	2000	75,000,000	72,187,500	6,837,257
P/A Fund	1993	30,000,000	30,000,000	66,195,394
Perseus-Soros BioPharmaceutical Fund	2001	112,206,666	94,622,185	131,525,603
Psilos Group Partners III, L.P.	2006	62,500,000	29,687,499	-5,475
Quaker Bio-Ventures	2003	69,350,000	62,415,000	136,334,005
Quaker Bio-Ventures, II L.P.	2006	100,000,000	15,999,125	593,823
SCP Private Equity Partners	1996	62,500,000	62,500,000	24,516,269
SCP Private Equity Partners II	2000	125,000,000	118,288,826	24,134,558
StarVest Partners II (Parallel), L.P.	2007	50,000,000	6,434,972	80,588
StarVest Partners, L.P.	1999	67,500,000	65,649,343	17,752,884
Sterling Venture Partners	2000	33,986,000	33,291,218	26,242,116
TDH III	1993	7,350,750	7,350,750	3,302,026
TL Ventures III	1997	<u>50,000,000</u>	<u>50,000,000</u>	<u>68,925,720</u>
<b>Total Venture Capital Investments</b>		<b><u>\$ 2,046,646,421</u></b>	<b><u>\$ 1,389,697,931</u></b>	<b><u>\$ 935,627,481</u></b>

\*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitment.

Numbers may not add due to rounding.

**Summary of PSERS' Active Private Market Investments Committed,  
Drawn, and Distributed (unaudited)  
(as of December 31, 2008)  
(continued)**

<u>Private Debt</u>	<u>Vintage Year</u>	<u>Capital Committed</u>	<u>Capital Drawn</u>	<u>Distributions *</u>
Avenue Asia Special Situations Fund II, L.P.	2001	\$ 220,000,000	\$ 220,000,000	\$ 344,758,005
Avenue Asia Special Situations Fund III, L.P.	2003	100,000,000	76,892,230	43,525,368
Avenue Asia Special Situations Fund IV, LP	2006	300,000,000	108,385,509	-95,596
Avenue Europe Special Situations Fund, L.P.	2008	281,300,000	125,909,187	74,412
Avenue Special Situations Fund II, L.P.	2000	125,000,000	125,000,000	195,141,573
Avenue Special Situations Fund III, L.P.	2002	205,156,000	151,715,376	252,429,544
Avenue Special Situations Fund IV, L.P.	2006	115,000,000	115,000,000	29,782,669
Avenue Special Situations Fund V, L.P.	2007	300,000,000	170,205,320	-1,095,120
Cerberus Institutional Partners, L.P. (Series 2)	2001	200,000,000	172,004,532	391,108,810
Cerberus Institutional Partners, L.P. (Series 3)	2003	100,000,000	81,000,000	47,186,601
Cerberus Institutional Partners, L.P. (Series 4)	2006	400,000,000	222,000,000	-284,722
GSC Partners CDO Investors III, L.P.	2001	80,000,000	80,000,000	146,903,688
GSC Partners CDO Investors IV, L.P.	2003	80,000,000	80,000,000	65,096,000
GSC Recovery II, L.P.	2000	280,000,000	279,170,771	325,501,439
GSC Recovery III Parallel Fund, L.P.	2005	200,000,000	149,400,697	-
Gleacher Mezzanine Fund, L.P.	2001	75,000,000	63,273,236	89,887,055
Gleacher Mezzanine Fund II, L.P.	2006	100,000,000	18,362,218	123,860
Gold Hill Venture Lending 03-A, L.P.	2004	50,000,000	64,798,339	13,168,950
NYLIM Mezzanine Prtnrs II Parallel Fund, L.P.	2006	150,000,000	115,199,116	4,707,470
NYLIM Mezzanine Partners Parallel Fund, L.P.	2003	75,000,000	64,141,286	57,308,548
OCM Opportunities Fund VII, L.P.	2007	75,000,000	75,000,000	-
OCM Opportunities Fund VII-b, L.P.	2008	225,000,000	67,500,000	-
Versa Capital Fund I, L.P.	2005	75,000,000	63,750,000	25,594,626
Versa Capital Fund II, L.P.	2008	150,000,000	1,500,000	-
Windjammer Senior Equity Fund III, L.P.	2006	<u>50,000,000</u>	<u>18,377,011</u>	<u>316,732</u>
<b>Total Private Debt Investments</b>		<b><u>\$ 4,011,456,000</u></b>	<b><u>\$ 2,689,943,542</u></b>	<b><u>\$ 2,031,139,911</u></b>
<b>Total Active Private Market Investments</b>		<b><u>\$21,769,931,440</u></b>	<b><u>\$13,321,569,004</u></b>	<b><u>\$10,670,685,955</u></b>

*\*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitment.*

*Numbers may not add due to rounding.*

# Investment Advisory Fees 14



**Summary of Investment Advisory Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)

	<u>Fees</u>	<u>Basis Points</u>
<b>External Management</b>		
U.S. Equity	\$ 68,780	85
Non-U.S. Equity	55,379	28
Fixed Income	33,886	32
Real Estate	79,884	87
Private Markets:		
Private Equity and Debt	113,567	93
Venture Capital	19,143	136
Commodities	<u>15,975</u>	70
<b>Total External Management</b>	<u>386,614</u>	61
<b>Total Internal Management</b>	<u>8,444</u>	4
<b>Total Investment Management</b>	<u>\$ 395,058</u>	47
Custodian Fees	495	
Investment Consultant Fees	<u>394</u>	
<b>Total Investment Expenses</b>	<u>\$ 399,136</u>	47

**Investment Advisory Fees**  
**Fiscal Years Ended June 30, 2003 - 2007**  
(Dollar Amounts in Thousands)

<u>Fiscal Year</u>	<u>Fees</u>	<u>Basis Points</u>
2003	\$179,056	39
2004	191,300	37
2005	192,677	36
2006	211,279	35
2007	313,758	41

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)

External Management fees are treated as a reduction of the investment revenue of the Fund rather than as a budgeted administrative expense.

<u>Manager</u>	<u>Location</u>	<u>Amount</u>
<b>U.S. Equity</b>		
Acorn Derivatives Management Corporation	White Plains NY	\$ 600
AQR Capital Management, L.L.C.	Greenwich CT	9,061
Ativo Capital Management, L.L.C.	Chicago IL	7
Barclays Global Investors, N.A.	San Francisco CA	2,936
Biondo Group, L.L.C. (The)	Milford PA	69
Boston Company Asset Management, L.L.C.	Boston MA	1,202
Bridgewater Associates, Inc.	Westport CT	16,183
Charter Financial Group, Inc.	Washington DC	10
Conestoga Capital Advisors, Inc.	Radnor PA	151
Connors Investor Services, Inc.	Wyomissing PA	273
Denali Advisors, L.L.C.	San Deigo CA	73
Donald Smith & Co., Inc.	New York NY	490
Emerald Advisors, Inc.	Lancaster PA	641
First Pacific Advisors, Inc.	Los Angeles CA	1,817
First Quadrant, L.P.	Greenwich CT	12,296
FX Concepts, Inc.	New York NY	6,250
Global Capital Management, Inc.	Conshohocken PA	17
Goldman Sachs Asset Management International	London UK	2,336
Great Companies, Inc.	Tampa FL	180
Hanseatic Management Services, Inc.	Albuquerque NM	204
Mellon Capital Management Corporation	San Francisco CA	2,742
Mellon Equity Associates, L.L.P.	Pittsburgh PA	40
NorthPointe Capital, L.L.C.	Troy MI	1,752
Oberweis Asset Management, Inc.	North Aurora IL	756
Opus Capital Management, Inc.	Cincinnati OH	195
Piedra Capital, Inc.	Houston TX	17
Pacific Investment Management Company (PIMCO)	Newport Beach CA	3,791
Profit Investment Management, Inc.	Silver Spring MD	12
Smith Breeden Associates, Inc.	Chapel Hill NC	1,054
Smithbridge Asset Management, Inc.	Chadds Ford PA	10
Thomson Horstmann & Bryant, Inc.	Saddle Brook NJ	757
Turner Investment Partners, Inc.	Berwyn PA	786
Wellington Management Company, L.L.P.	Boston MA	1,100
West Chester Capital Advisors	West Chester PA	12
William Blair & Company, L.L.C.	Chicago IL	960
<b>Total-U.S. Equity</b>		<b>68,780</b>

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Non-U.S. Equity</b>			
Acadian Asset Management	Boston	MA	\$ 1,260
Alliance Bernstein Institutional Investment Mgmt.	New York	NY	4,725
AXA Rosenberg Investment Management	Orinda	CA	1,918
Baillie Gifford Overseas Ltd.	Edinburgh	UK	3,649
Barclays Global Investors, N.A.	San Francisco	CA	6,598
Batterymarch Financial Management, Inc.	Boston	MA	2,904
Boston Company Asset Management, L.L.C.	Boston	MA	5,338
GlobeFlex Capital, L.P.	San Diego	CA	1,566
John Hsu Capital Group, Inc.	New York	NY	296
Marathon Asset Management Limited	London	UK	4,481
Martin Currie, Inc.	Edinburgh	UK	2,715
Mercator Asset Management, L.P.	Ft. Lauderdale	FL	3,565
Oberweis Asset Management, Inc.	North Aurora	IL	3
Pareto Investment Management, Ltd.	New York	NY	3,550
Shah Capital Management, Inc.	Raleigh	NC	169
Templeton Investment Counsel, Inc.	Nassau	Bahamas	4,942
Wasatch Advisors, Inc.	Salt Lake City	UT	3,204
Wellington Management Company, L.L.P.	Boston	MA	2,825
William Blair & Company, L.L.C.	Chicago	IL	<u>1,671</u>
<b>Total-Non-U.S. Equity</b>			<b>55,379</b>
<b>Fixed Income</b>			
Aberdeen Asset Management, Inc.	Philadelphia	PA	1,945
Barclays Global Investors, N.A.	San Francisco	CA	5,946
BlackRock Financial Management, Inc.	New York	NY	1,423
BlackRock Mortgage (Offshore) Investors, L.P.	New York	NY	1,797
Bridgewater Associates, Inc.	Westport	CT	7,880
Brigade Capital Management, L.L.C.	New York	NY	5,314
Brown Brothers Harriman & Co.	New York	NY	193
Delaware Investment Advisors	Philadelphia	PA	993
Fischer Francis Trees & Watts, Inc.	New York	NY	1,064
Hyperion Brookfield Asset Management, Inc.	New York	NY	429
MacKay-Shields Financial Corporation	New York	NY	1,613
Oaktree Loan Fund, L.P.	Los Angeles	CA	1,082
Pacific Investment Management Company (PIMCO)	Newport Beach	CA	1,980
Piedmont Investment Advisors	Durham	NC	43
Pugh Capital Management, Inc.	Seattle	WA	42
Rogge Global Partners	London	UK	1,027
Western Asset Management Company	Pasadena	CA	<u>1,115</u>
<b>Total-Fixed Income</b>			<b>33,886</b>

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Real Estate-Publicly Traded</b>			
Cohen & Steers Capital Management, Inc.	New York	NY	\$ 720
E.I.I. Realty Securities Corporation, Inc.	New York	NY	1,277
LaSalle Investment Management (Securities), L.P.	Baltimore	MD	522
Morgan Stanley Investment Management, Inc.	New York	NY	2,284
Security Capital Research & Management, Inc.	Chicago	IL	<u>1,249</u>
<b>Subtotal-Real Estate-Publicly Traded</b>			<b>6,052</b>
<b>Real Estate-Direct Ownership</b>			
Charter Oak Advisors, Inc.	King of Prussia	PA	972
GF Management, Inc.	Philadelphia	PA	131
Grandbridge Real Estate Capital, L.L.C.	Charlotte	NC	22
Grosvenor Investment Management U.S., Inc.	Philadelphia	PA	32
L&B Realty Advisors, L.L.P.	Dallas	TX	<u>32</u>
<b>Subtotal-Real Estate-Direct Ownership</b>			<b>1,189</b>
<b>Real Estate-Partnerships/Funds</b>			
Apollo European Real Estate Fund III, L.P.	Purchase	NY	2,170
Apollo Real Estate Finance Corporation	New York	NY	1,807
AvalonBay Value Added Fund, L.P.	Alexandria	VA	934
Avenue Real Estate Fund Parallel, L.P.	New York	NY	1,250
Beacon Capital Strategic Partners V, L.P.	Boston	MA	4,242
Berwind Investment Partnership IV, L.P.	Philadelphia	PA	40
Berwind Investment Partnership V, L.P.	Philadelphia	PA	201
Berwind Investment Partnership VI, L.P.	Philadelphia	PA	351
BPG Co-Investment Partnership, L.P.	Philadelphia	PA	189
Blackstone Real Estate Partners VI.TE.1, L.P.	New York	NY	5,000
Broadway Partners Parallel Fund P II, L.P.	New York	NY	1,563
Broadway Partners Parallel Fund P III, L.P.	New York	NY	2,585
Carlyle Europe Real Estate Partners III-A, L.P.	Washington	DC	3,311
Carlyle Realty Partners III, L.P.	Washington	DC	243
Carlyle Realty Partners IV, L.P.	Washington	DC	1,040
Carlyle Realty Partners V, L.P.	Washington	DC	3,000
Centerline Diversified Risk CMBS Fund II, L.L.C.	Irving	TX	638
Centerline High Yield CMBS Fund III, L.L.C.	Irving	TX	1,923
Centerline RE Special Situations Mortgage Fund, L.L.C.	Irving	TX	1,114
Cornerstone Patriot Fund, L.P.	Hartford	CT	273
CS Strategic Partners IV RE, L.P.	New York	NY	141
CSFB Strategic Partners II RE, L.P.	New York	NY	311
CSFB Strategic Partners III RE, L.P.	New York	NY	699
DLJ Real Estate Capital Partners II, L.P.	New York	NY	463
DLJ Real Estate Capital Partners III, L.P.	New York	NY	1,283

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Real Estate-Partnerships/Funds (continued)</b>			
DLJ Real Estate Capital Partners IV, L.P.	New York	NY	\$ 1,614
DRA Growth and Income Fund VI, L.P.	New York	NY	953
Fillmore West Fund, L.P.	San Francisco	CA	451
Five Arrows Realty Securities V, L.P.	New York	NY	1,009
Fortress/PSERS Investment, L.P.	New York	NY	147
Fortress Investment Fund IV, L.P.	New York	NY	653
Fortress Investment Fund V (Fund A), L.P.	New York	NY	2,294
Hines U.S. Office Value Added Fund, L.P.	Houston	TX	588
JPMCB Strategic Property Fund	New York	NY	193
Legg Mason Real Estate Capital, Inc.	Los Angeles	CA	235
Legg Mason Real Estate Capital II, Inc.	Los Angeles	CA	1,254
Lehman Brothers/PSERS Real Estate, L.P.	New York	NY	1,038
Lehman Brothers Real Estate Pension Partners II, L.P.	New York	NY	2,547
Lehman Brothers Real Estate Pension Partners III, L.P.	New York	NY	1,959
LEM Real Estate Mezzanine Fund II, L.P.	Philadelphia	PA	937
LF Strategic Realty Investors II, L.L.C.	New York	NY	844
Lubert-Adler Real Estate Fund II, L.P.	Philadelphia	PA	26
MGP Europe Fund III, L.P.	London	UK	2,793
Morgan Stanley Real Estate Fund II, L.P.	New York	NY	41
Morgan Stanley Real Estate Fund IV Special Domestic, L.P.	New York	NY	456
Morgan Stanley Real Estate Fund IV Special Int'l, L.P.	New York	NY	365
Morgan Stanley Real Estate Fund V Special Int'l, L.P.	New York	NY	1,260
Morgan Stanley Real Estate Fund V Special U.S., L.P.	New York	NY	1,199
Morgan Stanley Real Estate Fund VI Special Int'l, L.P.	New York	NY	1,876
O' Connor North American Property Partners, L.P.	New York	NY	1,105
O'Connor North American Property Partners II, L.P.	New York	NY	1,311
Peabody Global Real Estate Partners, L.P.	New York	NY	152
Prime Property Fund, L.L.C.	New York	NY	639
PRISA	Parsippany	NJ	874
ProLogis North American Industrial Fund, L.P.	Denver	CO	848
RCG Longview Equity Fund, L.P.	New York	NY	3,018
RREEF America REIT II, Inc.	Chicago	IL	341
Stockbridge Real Estate Fund, L.P.	New York	NY	1,154
Stockbridge Real Estate Fund II, L.P.	New York	NY	1,148
Strategic Partners Value Enhancement Fund, L.P.	Los Angeles	CA	825
UBS RESA	Hartford	CT	954
Whitehall Street Real Estate L.P. V & VI	New York	NY	8
Whitehall Street Real Estate L.P. VII & VIII	New York	NY	10
William E. Simon & Sons Realty Partners, L.P.	Los Angeles	CA	571
<b>Subtotal-Real Estate-Partnerships/Funds</b>			<b>72,461</b>



**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Real Estate - Farmland</b>			
Prudential Agricultural Group	Lisle	IL	\$ 182
<b>Subtotal-Real Estate-Farmland</b>			<b>182</b>
<b>Total Real Estate</b>			<b>79,884</b>
<b>Private Equity</b>			
ABS Capital Partners II, L.P.	Baltimore	MY	34
Actis Emerging Markets 3, L.P.	London	UK	2,827
Allegheny New Mountain Partners, L.P.	New York	NY	659
Apax Europe VII-B, L.P.	St. Peter Port	Guernsey	4,101
Baring Asia Private Equity Fund III, L.P.	Hong Kong	China	2,142
Baring Asia Private Equity Fund IV, L.P.	Hong Kong	China	5,976
Bear Stearns Merchant Banking Partners III, L.P.	New York	NY	945
BG Media Investors, L.P.	Wayne	PA	-19 *
Blue Point Capital Partners II (B), L.P.	Cleveland	OH	464
Bridgepoint Capital II Partnership, L.P.	London	UK	116
Bridgepoint Europe IA, L.P.	London	UK	91
Bridgepoint Europe IIA, L.P.	London	UK	1,319
Bridgepoint Europe IIIA, L.P.	London	UK	2,726
Capital International Private Equity Fund V, L.P.	San Francisco	CA	3,000
Catterton Growth Partners, L.P.	Greenwich	CT	754
Catterton Partners V, L.P.	Greenwich	CT	1,205
Catterton Partners VI, L.P.	Greenwich	CT	1,767
Cinven Fund (Fourth), L.P. (The)	London	UK	2,276
Clarity Partners, L.P.	Beverly Hills	CA	1,546
Clarity Partners II, L.P.	Beverly Hills	CA	304
Credit Suisse First Boston Equity Partners, L.P.	New York	NY	-102 *
Credit Suisse First Boston Int'l Equity Partners, L.P.	New York	NY	61
Crestview Capital Partners, L.P.	New York	NY	1,660
CS Strategic Partners IV, L.P.	New York	NY	250
CSFB Strategic Partners II, L.P.	New York	NY	976
CSFB Strategic Partners III-B, L.P.	New York	NY	500
CVC Capital Partners Asia III Pacific, L.P.	George Town	Cayman Is.	2,047
Deutsche European Partners IV, L.P.	London	UK	329
DLJ Merchant Banking Partners III, L.P.	New York	NY	739
DLJ Strategic Partners, L.P.	New York	NY	500
Edgewater Growth Capital Partners, L.P.	Chicago	IL	288
Edgewater Private Equity Fund III, L.P.	Chicago	IL	287
Evergreen Pacific Partners, L.P.	Seattle	WA	33

\*Represents reversal of amount accrued in prior fiscal year.

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Private Equity (continued)</b>			
First Reserve Fund XI, L.P.	Greenwich	CT	\$ 1,807
Furman Selz Investors III, L.P.	New York	NY	111
Graham Partners Investments (B), L.P.	Newtown Square	PA	174
Greenpark International Investors III, L.P.	London	UK	1,886
Greenwich Street Capital Partners II, L.P.	New York	NY	958
GS Mezzanine Partners, L.P.	New York	NY	-6 *
Halifax Capital Partners, L.P.	Washington	DC	15
HSBC Private Equity Fund 6, L.P.	George Town	Cayman Is.	1,307
Jefferies Capital Partners IV, L.P.	New York	NY	1,443
KKR 2006 Fund, L.P.	New York	NY	734
KRG Capital Fund IV (PA), L.P.	Denver	CO	3,457
Landmark Equity Partners XIII, L.P.	Simsbury	CT	626
Landmark Mezzanine Partners, L.P.	Simsbury	CT	6
Lehman Brothers Merchant Banking Partners II, L.P.	New York	NY	76
Lehman Brothers Merchant Banking Partners IV-P, L.P.	New York	NY	1,623
Lexington Capital Partners I, L.P.	New York	NY	5
Lindsay Goldberg & Bessemer, L.P.	New York	NY	337
Milestone Partners II, L.P.	Rosemont	PA	103
Milestone Partners III, L.P.	Rosemont	PA	229
Morgan Stanley Dean Witter Capital Partners IV, L.P.	New York	NY	411
Navis Asia Fund V, L.P.	Kuala Lumpur	Malaysia	2,552
New Mountain Partners, L.P.	New York	NY	346
New Mountain Partners III, L.P.	New York	NY	4,496
New York Life Capital Partners, L.P.	New York	NY	425
New York Life Capital Partners II, L.P.	New York	NY	650
New York Life Capital Partners III, L.P.	New York	NY	2,000
New York Life Capital Partners IV, L.P.	New York	NY	962
PAI Europe III, L.P.	Paris	France	2,088
PAI Europe IV, L.P.	Paris	France	2,269
Permira IV, L.P. 2	London	UK	2,331
Platinum Equity Capital Partners II, L.P.	Los Angeles	CA	4,272
PNC Equity Partners, L.P.	Pittsburgh	PA	108
PNC Equity Partners II, L.P.	Pittsburgh	PA	978
Providence Equity Partners VI, L.P.	Providence	RI	1,165
Quadrangle Capital Partners II, L.P.	New York	NY	546
Quadrangle Capital Partners, L.P.	New York	NY	639
Sterling Capital Partners, L.P.	Northbrook	IL	595
Sunrise Capital Partners, L.P.	New York	NY	78

\*Represents reversal of amount accrued in prior fiscal year.

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Private Equity (continued)</b>			
TPG Partners II, L.P.	Fort Worth	TX	\$ 4
TPG Partners V, L.P.	Fort Worth	TX	154
TPG Partners VI, L.P.	Fort Worth	TX	432
US Equity Partners, L.P.	New York	NY	975
US Equity Partners II, L.P.	New York	NY	208
Wicks Communications & Media Partners, L.P.	New York	NY	112
<b>Subtotal-Private Equity</b>			<b>83,488</b>
<b>Private Debt</b>			
Avenue Asia Special Situations Fund III, L.P.	New York	NY	814
Avenue Asia Special Situations Fund IV, L.P.	New York	NY	4,500
Avenue Europe Special Situations Fund, L.P.	New York	NY	401
Avenue Special Situations Fund IV, L.P.	New York	NY	1,438
Avenue Special Situations Fund V, L.P.	New York	NY	4,336
Cerberus Institutional Partners, L.P. (Series Two)	New York	NY	324
Cerberus Institutional Partners, L.P. (Series Three)	New York	NY	665
Cerberus Institutional Partners, L.P. (Series Four)	New York	NY	6,000
Gleacher Mezzanine Fund, L.P.	New York	NY	217
Gleacher Mezzanine Fund II, L.P.	New York	NY	1,321
Gold Hill Venture Lending 03-A, L.P.	Santa Clara	CA	750
GSC Partners CDO Investors IV, L.P.	New York	NY	1,707
GSC Recovery III, L.P.	New York	NY	2,500
NYLIM Mezzanine Partners Parallel Fund, L.P.	New York	NY	491
NYLIM Mezzanine Partners Parallel Fund II, L.P.	New York	NY	1,875
OCM Opportunities Fund VII, L.P.	Los Angeles	CA	1,661
OCM Opportunities Fund VII-B, L.P.	Los Angeles	CA	588
Windjammer Senior Equity Fund III, L.P.	Newport Beach	CA	491
<b>Subtotal-Private Debt</b>			<b>30,079</b>
<b>Total-Private Equity and Debt</b>			<b>113,568</b>
<b>Venture Capital</b>			
Aisling Capital II, L.P.	New York	NY	953
Co-Investment 2000 Fund, L.P. (The)	Radnor	PA	437
Co-Investment Fund II, L.P. (The)	Radnor	PA	1,859
Cross Atlantic Technology Fund, L.P.	Radnor	PA	159
Cross Atlantic Technology Fund II, L.P.	Radnor	PA	284
CS Strategic Partners IV VC, L.P.	New York	NY	94
CSFB Strategic Partners III-VC, L.P.	New York	NY	500
Franklin Capital Associates III, L.P.	Franklin	TN	90

**Investment Managers' Fees**  
**Fiscal Year Ended June 30, 2008**  
(Dollar Amounts in Thousands)  
(continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<b>Venture Capital (continued)</b>			
Jefferson Partners Fund IV (PA), L.P.	Toronto	Canada	\$ 586
KBL Partnership, L.P.	New York	NY	274
Landmark Equity Partners V, L.P.	Simsbury	CT	30
Lehman Brothers Venture Partners 2003-P, L.P.	New York	NY	844
Lehman Brothers Ventures Partners V, L.P.	New York	NY	857
LLR Equity Partners, L.P.	Philadelphia	PA	292
LLR Equity Partners II, L.P.	Philadelphia	PA	1,301
LLR Equity Partners III, L.P.	Philadelphia	PA	838
Novitas Capital, L.P.	Wayne	PA	232
Novitas Capital II, L.P.	Wayne	PA	1,500
Perseus-Soros BioPharmaceutical Fund, L.P.	New York	NY	748
Psilos Group Partners III, L.P.	New York	NY	2,092
Quaker BioVentures, L.P.	Philadelphia	PA	1,410
Quaker BioVentures II, L.P.	Philadelphia	PA	1,025
SCP Private Equity Partners, L.P.	Wayne	PA	250
SCP Private Equity Partners II, L.P.	Wayne	PA	1,176
Starvest Partners II, L.P.	New York	NY	954
Sterling Venture Partners, L.P.	Baltimore	MD	368
TDH III, L.P.	Rosemont	PA	22
TL Ventures III, L.P.	Wayne	PA	-32*
<b>Total-Venture Capital</b>			<b><u>19,143</u></b>
<b>Commodities</b>			
Credit Suisse Asset Management, L.L.C.	New York	NY	665
Deutsche Asset Management Americas, Inc.	New York	NY	5,386
Lehman Brothers Asset Management, Inc.	New York	NY	699
Schroder Investment Management North America, Inc.	New York	NY	1,141
Wellington Management Company, L.L.P.	Boston	MA	8,084
<b>Total-Commodities</b>			<b><u>15,975</u></b>
<b>Total External Management</b>			<b>\$ 386,614</b>
<b>Total Internal Management</b>			<b><u>8,444</u>**</b>
<b>Total Investment Management</b>			<b>\$ <u>395,058</u></b>

\*Represents reversal of amount accrued in prior fiscal year.

\*\*Internal Management fees include salaries and fringe benefits of \$4,597 and operating expenses of \$3,847.

# Internal Equity Trading Desk 15



## **Internal Equity Trading Desk**

One of the benefits of managing a significant amount of assets internally is that PSERS can have its own trading desk. A majority of the U.S. equity trades for the Fund are executed by PSERS' internal trading desk. Two of the internal U.S. equity managers as well as a number of the external U.S. equity managers utilize the trading desk to execute trades. The objectives of PSERS' internal trading desk include:

- to obtain best execution; and
- to pay the lowest possible commissions consistent with obtaining best execution

The trading desk provides PSERS with access to information on the markets from sell-side brokers which helps in the management of the investments of the Fund. The trading desk also provides portfolio transition management services to the System. When portfolio managers are terminated, the trading desk handles the liquidation of the portfolio or the transition from one portfolio manager to another, minimizing the costs of those transitions.

The order flow generated by the trading desk provides the System with access to initial public offerings (IPOs). IPOs can be a source of incremental returns since most generally trade higher after being issued. This IPO access generated approximately \$17 million in profits for PSERS since 1999.

PSERS' trading desk executed approximately 27,000 U.S. and Non-U.S. orders for the purchase and sale of stock, currency, futures, and options during the fiscal year ended June 30, 2008. The total dollar amount of U.S. and Non-U.S. orders traded during the fiscal year ended June 30, 2008, was approximately \$114.0 billion.

# Public Market Emerging Investment Manager Program 16



## **Summary of PSERS' Public Market Emerging Investment Manager (PMEIM) Program (as of December 31, 2008)**

The Public Market Emerging Investment Manager (PMEIM) Program is a sub-section of PSERS U.S. Equity, Non-U.S. Equity, and Fixed Income Investment classes.

### **Policy**

Consistent with the Board's fiduciary responsibilities, PSERS has established the (PMEIM) Program to:

1. Locate and fund managers with successful histories of generating positive alpha with risk commensurate with the alpha generated (positive risk adjusted returns).
2. Provide a source of potential managers for the main fund; and
3. Assist public market emerging investment management firms with positive risk adjusted returns grow through the use of the System's name in the managers marketing efforts.

The Board has allocated up to \$1.0 billion to the PMEIM Program. Funding for each investment manager will come from assets allocated within the main fund similar to or most closely related to the investment manager's mandate. The maximum number of investment managers in the program at any one time shall not exceed 25. The program may run with less than 25 investment managers.

Investment Managers desiring to participate in the program must meet the following required criteria:

- Firms must be registered under the Investment Advisors Act of 1940 or be exempt therefrom (and will maintain such registration or exemption);
- Firms must provide transparency of positions and transactions;
- Firms must provide at least monthly liquidity;
- Firms, the portfolio manager, or any combination thereof must have a three-year historical, performance record verified by at least one consultant or accounting firm in accordance with the Global Investment Performance Standards (GIPS);
- Firms must have no more than \$1.5 billion of total assets under management when hired (existing investment managers will be terminated within a reasonable period of time from the PMEIM Program when the total assets under management exceeds \$3.0 billion);

Preference will be given to investment managers deemed by Investment Office Staff (IOS) as able to meet the objectives, goals, and required criteria noted above plus having one or more of the following characteristics:

- Pennsylvania investment management firms headquartered or incorporated within the Commonwealth: and/or
- Minority and/or women-owned investment management firms approved by the Office of Minority and Women Business Enterprise in accordance with the criteria established by Executive Order No. 1987-18 and 4 Pennsylvania Code, Section 68.204

**Market Value as of December 31, 2008:** \$383.8 million, or 0.8% of the total market value of the Fund.

**Number of External Investment Managers:** PSERS had contracts with 14 external investment managers in the PMEIM Program.



## PSERS' PMEIM Portfolios

(Dollar Amounts in Millions)

(as of December 31, 2008)

(unaudited)

<u>External Manager</u>	<u>Market Value</u>
Ativo Capital	\$ 15.7
Biondo Group	9.6
Conestoga Capital Advisors	36.8
Denali Advisors	11.4
Great Companies, Inc. (formerly EDMP, Inc.)	30.9
Hanseatic Management Services, Inc.	37.5
Harvest Funds	34.4
John Hsu Capital Group, Inc.	43.1
AH Lisanti	20.6
Opus Capital Management	26.4
Piedmont Investment Advisors	17.5
Pugh Capital Management, Inc.	17.8
Shah Capital Management	31.3
Stillwater Capital	<u>50.9</u>
<b>Total PSERS' PMEIM Portfolios</b>	<b><u>\$ 383.8</u></b>

*Numbers may not add due to rounding.*

# Section 4

## Commitment to Pennsylvania



# Pennsylvania-Based Investment Managers



## Commitment to Pennsylvania-Based Investment Managers (as of December 31, 2008)

As noted above under the Investment Policy section, the members of the Board and Staff are fiduciaries and must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In creating the investment program, the Board hires external investments managers and internal investment managers. The Board has determined that it is in the best interest of the System to manage assets internally when (1) the System's staff has the proven ability to internally manage portfolios at least as well as the external investment managers, and (2) the cost of investing those assets is no greater than the cost that would have been incurred to have those assets externally managed. The Board will also consider the diversification benefits that may be achieved by allocating assets to external portfolio managers even when conditions (1) and (2) are met.

The Board evaluates external managers based on a variety of factors, including, (1) their expected future performance; (2) their investment philosophy and style; (3) their investment process; (4) their personnel; (5) cost; and (6) how their philosophy and style fits in with the existing investment structure. In selecting external managers, PSERS will favor Pennsylvania-based managers should all of these criteria be similar among two or more managers competing for a portfolio.

PSERS has shown a tremendous commitment to the financial services industry in Pennsylvania by having asset managed by firms based in Pennsylvania or by firms with offices in Pennsylvania. The following is a list of both the assets managed internally by PSERS and externally from offices located in Pennsylvania, as of December 31, 2008:

	<b><u>Market Value</u></b> <b><u>(in millions)</u></b>	<b><u>Percentage of</u></b> <b><u>the Fund</u></b>
<b>Internal Management</b>		
<b>U.S. Equity:</b>		
S&P 500 Index	\$ 2,114.0	4.7%
PSERS Enhanced S&P 500 Index	426.0	0.9%
S&P 400 Index	312.6	0.7%
S&P 600 Index	319.1	0.7%
PSERS Global Macro Overlay	88.0	0.0%
<b>Non-U.S. Equity:</b>		
MSCI ACW ex. U.S. Index	3,947.0	8.7%
<b>Fixed Income:</b>		
PSERS U.S. Core Fixed Income	1,249.5	2.8%
PSERS TIPS Portfolio	1,846.9	4.1%
<b><i>PSERS STIF</i></b>	<u>1,840.9</u>	<u>4.1%</u>
<b>Total Internal Management</b>	<b>\$ 12,144.0</b>	<b>26.7%</b>
<b>External Management</b>		
<b>U.S. Equity:</b>		
Biondo Group	\$ 9.3	0.0%
Conestoga Capital Advisors	36.8	0.1%
Turner Investment Partners, Inc.	61.0	0.1%
<b>Fixed Income:</b>		
Aberdeen Asset Management, Inc.	\$ 800.0	1.8%

## Commitment to Pennsylvania-Based Investment Managers

(as of December 31, 2008)

(continued)

	Market Value (in millions)	Percentage of the Fund
<b>Real Estate:</b>		
Berwind Investment Partnership IV, LP	\$ 0.2	0.0%
Berwind Investment Partnership V, LP	23.7	0.1%
BPG Co-Investment Partnership, LP	22.1	0.1%
BPG Investment Partnership, LP	53.2	0.1%
Charter Oak Advisors, Inc.	114.4	0.3%
GF Management, Inc.	100.1	0.2%
Grandbridge Real Estate Capital, LLC	3.2	0.0%
Grosvenor Investment Management U.S., Inc.	7.6	0.0%
LEM Real Estate Mezzanine Fund II, L.P.	26.4	0.1%
Lubert-Adler Real Estate Fund II, L.P.	4.4	0.0%
Lubert-Adler Real Estate Fund III, L.P.	40.1	0.1%
Lubert-Adler Real Estate Fund IV, L.P.	68.2	0.2%
Lubert-Adler Real Estate Fund V, L.P.	86.7	0.2%
Lubert-Adler Real Estate Fund VI, L.P.	29.9	0.1%
<b>Private Equity and Debt:</b>		
Graham Partners, L.P.	27.2	0.1%
Milestone Partners II, L.P.	29.0	0.1%
Milestone Partners III, L.P.	14.6	0.0%
PNC Equity Partners I, L.P.	15.9	0.0%
PNC Equity Partners II, L.P.	20.8	0.1%
Versa Capital Fund I, L.P.	64.6	0.1%
<b>Venture Capital:</b>		
Adams Capital Management, L.P.	2.3	0.0%
Co-Investment Fund 2000, L.P.	47.0	0.1%
Co-Investment Fund II, L.P.	30.0	0.1%
Cross Atlantic Technology Fund, L.P.	22.8	0.1%
Cross Atlantic Technology Fund II, L.P.	7.5	0.0%
LLR Equity Partners, L.P.	18.4	0.0%
LLR Equity Partners II, L.P.	62.9	0.1%
NEPA Venture Fund II, L.P.	1.1	0.0%
P/A Fund, L.P.	0.6	0.0%
Quaker Bio-Ventures L.P.	41.7	0.1%
Quaker Bio-Ventures, II L.P.	12.0	0.0%
SCP Private Equity Partners, L.P.	2.1	0.0%
SCP Private Equity Partners II, L.P.	78.7	0.2%
TDH III, L.P.	0.9	0.0%
TL Ventures III, L.P.	0.2	0.0%
Technology Leaders, L.P.	0.0	0.0%
<b>Total External Management</b>	<b><u>\$ 1,993.3</u></b>	<b><u>6.0%</u></b>
<b>Total Investment Portfolios Managed in PA</b>	<b><u>\$ 14,143.6</u></b>	<b><u>32.6%</u></b>

In FY 2008, investment manager fees paid to external firms managing PSERS' assets from offices located in Pennsylvania amounted to \$18.4 million, or 4.76% of the total external investment manager fees.

# Investments in Pennsylvania 18



## Summary of Investments in Pennsylvania (as of December 31, 2008)

Where investment characteristics including yield, risk, and liquidity are equivalent, the Board's policy favors investments that have a positive impact on the economy of Pennsylvania. The Board, in managing the investment portfolio, will also be cognizant of concentration risk to any one region, including Pennsylvania. The Fund will continue to seek investments in Pennsylvania-based companies when the investment characteristics are equivalent to other favorable investments subject to diversification considerations.

The following is a table of Pennsylvania-based investments and other statistics at December 31, 2008 (\$'s in millions):

<u>Asset Class</u>	<u>Total PA Market Value (PSERS Portion)</u>	<u>Total PA Market Value (Total Invested)</u>	<u># of People Employed</u>	<u>Payroll</u>
U.S. Equities	\$ 75.6	\$ 75.6	*	*
Fixed Income	90.0	90.9	*	*
Private Real Estate	245.9	2,542.2	1,119	\$ 19.5
Private Markets:				
Venture Capital	127.6	410.7	6,303	308.9
Private Equity	683.3	4,552.7	32,015	817.7
Private Debt	234.4	3,793.4	19,018	822.0
<b>Total</b>	<b><u>\$ 1,456.7</u></b>	<b><u>\$11,496.6</u></b>	<b><u>58,455</u></b>	<b><u>\$1,968.1</u></b>

\* - statistics for publicly traded companies not included due to the difficulty in obtaining the information.

### U.S. Equities

PSERS invests in the stock of Pennsylvania-based companies through the various U.S. Equity portfolios managed by external and internal portfolio managers. PSERS has always had substantial investments in large national firms located in Pennsylvania, a list of which is included on pages 72-73.

### Fixed Income Securities

PSERS invests in the debt of Pennsylvania-based companies through the various Fixed Income portfolios managed by external and internal portfolio managers. PSERS has always had substantial investments in large national firms located in Pennsylvania, a list of which is included on pages 74-75.

**Summary of Investments in Pennsylvania**  
(as of December 31, 2008)  
(continued)

**Private Real Estate**

PSERS has invested directly in the Pennsylvania commercial real estate market for many years. In addition, PSERS has investments in limited partnerships that have invested in Pennsylvania real estate properties as well. PSERS has committed \$312.5 million in four funds (Fund IV, Fund V, Fund VI, and a Co-Investment Fund) managed by the Berwind Property Group, located in Philadelphia. PSERS has committed \$550 million in four funds (Lubert-Adler Funds II, III, IV, V and VI) managed by Lubert-Adler, another Pennsylvania-based real estate manager. Finally, PSERS has committed \$75 million in one fund (LEM Real Estate Mezzanine Fund II) managed by LEM Mezzanine Partners, located in Philadelphia.

As of December 31, 2008, PSERS' Pennsylvania real estate portfolio contained 67.9 million square feet of office, retail, and warehouse space and 174,550 apartment, hotel and condominium units. The gross market value of the Pennsylvania real estate portfolio investments totaled \$2.5 billion, of which PSERS' ownership share was \$245.9 million. The portfolio contains numerous notable Pennsylvania real estate investments, including:

- 5 North Fifth Street - PSERS owns a 100% interest in this major downtown Harrisburg, PA, office building that contains 71,080 square feet of office space. The building is PSERS' headquarters and is fully occupied by PSERS.
- Harrisburg Mall – This mall is located in Harrisburg, PA. The Harrisburg Mall is an 838,232 square feet, three-anchor, enclosed regional mall. This investment was made by Lubert-Adler Real Estate Funds III and IV.
- King of Prussia Business Center – This office building is located in King of Prussia, PA. The King of Prussia Business Center contains approximately 175,000 square feet in 14 buildings on 12.5 acres. The King of Prussia Market is the largest suburban office market in the Philadelphia region and is in close proximity to most of the region's primary highways. This investment was made by the Berwind Property Group V.
- The National at Old City – This condominium complex is located in Philadelphia, PA. The National at Old City consists of 153 units totaling 208,919 square feet of condominium space, 11,000 square feet of retail space and 200 underground parking spaces. Lehman Brothers Real Estate Pension Partners II made this investment.

**Venture Capital**

PSERS' Venture Capital program has committed \$2,046.6 million to 36 partnerships since the inception of the program. An objective of this program is to target partnerships that demonstrate an ability to invest in Pennsylvania-based companies. Selected partnerships offer diversification according to geographic region and financing stage within Pennsylvania. From the inception of this program to December 31, 2008, 20 of the 36 partnerships were headquartered in Pennsylvania.



**Summary of Investments in Pennsylvania**  
**(as of December 31, 2008)**  
**(continued)**

A key objective of PSERS' venture capital program is to attract both national and regional funds into the Pennsylvania small business community. Venture capital investments serve to accelerate economic growth in both the business sector and the community due to an increase in employment and revenues within the Commonwealth. Following are a sample of Pennsylvania companies invested in by PSERS through the Venture Capital program:

- Ciradiant Systems, Inc., Allentown, PA – Ciradiant provides optical component developers, network equipment manufacturers, and telecom service providers with award winning test systems. Ciradiant's Optical Standards Testers generate real-world optical test signals that greatly improve network reliability and interoperability. This investment was made by Pennsylvania Early Stage Partners.
- E-Duction, Inc., Blue Bell, PA – E-Duction was launched to capitalize on a growing trend that has emerged in payment technology - payroll deduction. In 2002, E-Duction introduced the first payroll deduction card, CLEAR, that gives employees interest-free purchasing power, 365 days per year. CLEAR is an innovative employee program that allows employees to make purchases at over 33 million MasterCard acceptance locations worldwide and spread payments out over future paychecks. Pennsylvania Early Stage Partners made this investment.
- Immunicon Corporation, Huntingdon Valley, PA - Immunicon Corporation is developing and commercializing proprietary cell- and molecular-based human diagnostic and life science research products, and is providing certain analytical services to pharmaceutical and biotechnology companies to assist them in developing new therapeutic agents, with an initial focus on cancer disease management. Immunicon has developed platform technologies to identify, count and characterize a small number of rare cells in blood, such as circulating tumor cells and circulating endothelial cells that are important in many diseases and biological processes. Immunicon's products and underlying technology platforms also have application in cancer research and may have applications in other fields of medicine, such as cardiovascular and infectious diseases. TL Ventures III made this investment.
- I-trax, Inc., Chadds Ford, PA - I-trax, Inc. is a leading provider of integrated workplace health and productivity management solutions. Serving nearly 100 clients at over 200 locations nationwide, I-trax offers on-site health centers through its CHD Meridian Healthcare, LLC subsidiary, which delivers primary care, acute care corporate health, occupational health, and pharmacy care management services as well as integrated disease management, wellness, and disability management programs. I-trax provides a comprehensive solution utilizing telephonic and e-health tools to enhance the trusted relationship established by our clinicians at the worksite. CHD Meridian is focused on making the workplace safe, helping companies achieve employer of choice status, reducing costs while improving the quality of care received, and the productivity of the workforce. Franklin Capital Associates III made this investment.

**Summary of Investments in Pennsylvania**  
**(as of December 31, 2008)**  
**(continued)**

- Neuronyx, Inc., Malvern, PA – Neuronyx is focused on neurological diseases and disorders. With a multi-faceted approach to address brain diseases, Neuronyx balances the significant but long-term promise of stem cell and gene-based therapies with the more conventional development time and risk of both scientific and regulatory nature of small molecule therapies. Rather than utilizing stem cells derived from embryonic and fetal sources, Neuronyx has developed a proprietary process for isolating and expanding adult bone marrow stem cells to provide extremely large, homogenous populations with desirable therapeutic characteristics. Pennsylvania Early Stage Partners made this investment.
- Neutronics, Inc., Malvern, PA - Neuronetics, Inc. is a privately held medical device company focused on developing non-invasive therapies for psychiatric and neurological disorders using MRI-strength magnetic field pulses. Neuronetics is the leader in the development of TMS Therapy, a non-invasive form of neuromodulation. KBL Healthcare Ventures made this investment.
- Speech Vantage, Inc., Horsham, PA – SpeechVantage is a leading open systems packaged and custom speech applications and services provider that works with global enterprises to define, develop and deploy speech recognition and text-to-speech solutions that reduce operational costs, enhance customer service and provide a measurable return on investment. The company's flagship product, the OLIVE Suite of business applications, provides a speech-enabled auto attendant, a voice-activated emergency contact list, a speech-enabled password reset system, a voice-activated dialing system, and voice-activated Outlook & Lotus Notes and can be easily customized to improve customer service and reduce operational expenses. Pennsylvania Early Stage Partners made this investment.
- Traffic.com®, Wayne, PA - Traffic.com® is the leading provider of personalized traffic information for drivers coast to coast. Through the industry's most comprehensive data collection infrastructure, Traffic.com offers consumers real-time customized traffic reports in 83 U.S. markets. These personalized consumer reports are complete with predictive traffic trends, vehicle speeds, congestion levels, travel times, and delay times delivered via Web, wireless device, radio, television, and in-vehicle navigation systems. Traffic.com's® ability to distribute traffic information via specialized data feeds and across multiple platforms creates unique, powerful branding opportunities for advertisers, enabling them to expand their reach and target consumers with useful, relevant content multiple times per day. TL Ventures III made this investment.
- ZOLL LIFECOR, Inc., Pittsburgh, PA – ZOLL LIFECOR, Inc., a subsidiary of ZOLL Medical Corporation, manufactures and markets the LifeVest wearable defibrillator, which is worn by a patient at risk for sudden cardiac arrest. Sudden cardiac arrest leads to death within a few minutes if not treated by an electrical shock from a defibrillator. TheLifeVest device monitors the patient's heart continuously and, if the patient goes into a life threatening heart rhythm, delivers a shock treatment to restore the patient's heart to normal rhythm. TDH III, L.P. made this investment.

**Summary of Investments in Pennsylvania**  
**(as of December 31, 2008)**  
**(continued)**

PSERS' is generally the lead investor in many of the venture capital funds in which PSERS invests. As a lead investor, PSERS provides Pennsylvania with capital from numerous out-of-state investors. As of December 31, 2008, PSERS' Venture Capital partnerships invested in 87 Pennsylvania locations employing approximately 6,303 employees with a combined payroll of \$308.9 million. The market value of these investments is \$410.7 million, of which PSERS' share is \$127.6 million.

**Private Equity**

PSERS' is generally the lead investor in many of the private equity funds in which PSERS invests. As a lead investor, PSERS provides Pennsylvania with capital from numerous out-of-state investors. As of December 31, 2008, PSERS' Private Equity partnerships invested in 462 Pennsylvania locations employing approximately 32,015 employees with a combined payroll of \$817.7 million. The market value of these investments is \$4.6 billion, of which PSERS' share is \$682.3 million.

The following companies are a sample of Pennsylvania investments funded through PSERS private equity partnerships:

- AirClic, Newtown, PA – AirClic is a leading provider of mobile business process solutions that offer organizations real-time visibility to the "who, what, where, when, and why" of their entire field operations. Using AirClic-enabled wireless devices, managers and workers can easily and economically capture, exchange, and access critical data that represent people, assets and activity. With its unsurpassed user-adoption rate, AirClic is driving new levels of accountability and improved customer service for many of the world's leading companies. Edgewater Private Equity Fund III made this investment.
- CODi, Inc., Harrisburg, PA – CODi, Inc. is a trusted provider of lightweight, high-quality notebook computer cases and accessories to millions of users. Since 1992, CODi has been a pioneer in the notebook and tablet case industry. CODi products use only premium materials that provide a lifetime of use, even in today's demanding business environment. CODi's accumulated knowledge dealing with the "corporate road warrior" allows the company to uniquely service corporate and consumer needs with precision. CODi provides the most comprehensive business solutions by delivering cost savings without sacrificing quality. The investment was brought about through Milestone Partners II.
- EnerSys, Inc., Reading, PA – EnerSys, the world leader in stored energy solutions for industrial applications, manufactures and distributes reserve power and motive power batteries, chargers, power equipment, and battery accessories to customers worldwide. Motive power batteries are utilized in electric forklift trucks and other commercial electric powered vehicles. Reserve power batteries are used in the telecommunication and utility industries, uninterruptible power suppliers, and numerous applications requiring standby power. The company also provides aftermarket and customer support services to its customers in over 100 countries through its sales and manufacturing locations around the world. Morgan Stanley Dean Witter Capital Partners IV, L.P. made this investment.

**Summary of Investments in Pennsylvania**  
**(as of December 31, 2008)**  
**(continued)**

- Gorell Enterprises, Indiana, PA - Gorell Enterprises is a manufacturer of specially engineered, custom-manufactured windows for replacement and new-construction applications, patio doors, aluminum storm windows and doors, sunrooms, and conservatories. Gorell is well known in the industry for placing strong emphasis on designing and manufacturing strong, durable high-quality products. Gorell was the national winner of the 2006 ENERGY STAR® “Sustained Excellence” Award, given for their new window models to make homes more energy efficient as well as secure. The windows feature three panes of glass, two of which sandwich a PVB interlayer to keep the glass intact. Thick, multi-chambered frame construction, double locks add structural strength and durability. AIP windows incorporate a SolarControl Plus® Low-E coating and argon gas fill for cost-saving energy efficiency year round—and qualify them for the ENERGY STAR® label. PNC Equity Partners L.P. made this investment.
- ICG Commerce, Inc., King of Prussia, PA - ICG Commerce is a leading Procurement Services Provider exclusively focused on helping companies achieve greater control and increased value from their procurement organization. The company offers sourcing and on-going operational buying services that enable companies to better manage spending, increase sourcing effectiveness, ensure compliance, and drive continual improvements. By working with dozens of leading procurement organizations, ICG Commerce brings its execution-based and continually growing compound experience to every customer contract negotiated and transaction processed. Graham Partners Investments made this investment.
- Interface Solutions, Inc., Lancaster, PA - Interface Solutions Inc. (ISI) is a leading manufacturer of sealing systems and engineered composite materials, including a unique line of specialty papers. The organization enjoys long-established cooperative partnerships with customers in an array of worldwide markets. Recent acquisitions, expansions, and capital investments in research facilities empower ISI to offer both OEM and aftermarket customers unmatched technical and design support and application testing. ISI has an extraordinary depth of experience and engineering knowledge, with roots to predecessor companies dating back over 90 years. ISI was created as an independent, private corporation in 1999; formed from the organization previously known as Armstrong Industrial Specialties Inc. (AISI). PNC Equity Partners L.P. made this investment.
- Keystone Automotive Operations, Inc., Exeter, PA - Keystone Automotive Operations reigns as the largest distributor and marketer of specialty automotive parts in the world with more than a quarter of a million accessories and performance parts representing over 700 product lines. Keystone Automotive's main warehouse, the largest automotive aftermarket warehouse in the industry, consisting of 800,000 square-feet is located in northeastern Pennsylvania. Keystone prides itself on products and delivery capabilities. Keystone makes this evident by constantly expanding with a 185,000 square-foot hub in Kansas City, an 80,000 square-foot hub in Corona, California, and satellites in Alabama, Colorado, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, New York, New Mexico, North Carolina, Ohio, Pennsylvania, Tennessee, Texas and Canada. In today's ever changing and expanding marketplace, Keystone Automotive Operations is shaping its future and the future of the automotive aftermarket industry through careful planning,

**Summary of Investments in Pennsylvania**  
**(as of December 31, 2008)**  
**(continued)**

continued growth, and ongoing expansion. Bear Stearns Merchant Banking Partners II made this investment.

- Tangent Rail Corporation, Pittsburgh, PA – Tangent Rail Corporation serves the railroad industry with quality treated wood products and preservatives, rail grinding, switching and track maintenance services, and environmentally friendly railroad tie pickup and disposal solutions. PNC Equity Partners L.P. made this investment.

**Private Debt**

PSERS' is generally the lead investor in many of the private debt funds in which PSERS invests. PSERS has committed \$69.3 million Versa Capital Partners, LP (formerly known as Chrysalis Capital Partners L.P.) managed by Versa Capital Management, located in Wayne, Pennsylvania. As of December 31, 2008, PSERS' Private Debt partnerships invested in 180 Pennsylvania locations employing approximately 19,018 employees with a combined payroll of \$822.0 million. The market value of these investments is \$3.8 billion, of which PSERS' share is \$234.4 million.

The following companies are a sample of a Pennsylvania investments made through PSERS' Private Debt program:

- PQ Corporation, Berwyn, PA – PQ Corporation is a leading producer of silicate, zeolite, and other performance materials serving the detergent, pulp and paper, chemical, petroleum, catalyst, water treatment, construction, and beverage markets. It is a global enterprise, operating in 19 countries on five continents. Potters Industries, a wholly owned subsidiary, is a leading producer of engineered glass materials serving the highway safety, polymer additive, metal finishing, and conductive particle markets. Gleacher Mezzanine Fund made this investment.
- Rite Aid Corporation, Camp Hill, PA - Rite Aid is a United States retailer and pharmacy chain, operating over 5,100 stores in 31 states and the District of Columbia, with a strong presence on both the both coasts, and approximately 116,000 associates. Rite Aid is the largest drugstore chain on the East Coast and the third largest drugstore chain in the U.S. Rite Aid has pursued a growth through acquisition strategy acquiring the Brooks and Eckerd pharmacy chains. Avenue Special Situations Fund IV, L.P. made this investment.

## Pennsylvania-Based Publicly Traded Stocks

(as of December 31, 2008)

<u>Security</u>	<u>Shares Outstanding</u>	<u>Market Value</u>
Air Products & Chemicals, Inc.	100,643	\$ 5,059,324
Airgas, Inc.	90,170	3,515,728
Alcoa, Inc.	99,073	1,115,562
Allegheny Energy, Inc.	30,928	1,047,222
Allegheny Technologies, Inc.	11,920	304,318
Amerisourcebergen Corp.	21,839	778,779
Ametek, Inc.	34,940	1,055,537
Ansys, Inc.	94,651	2,639,816
Aqua America, Inc.	6,970	143,512
Auxilium Pharmaceuticals, Inc.	288,234	8,197,375
Brandywine Realty Trust	37,627	290,104
C & D Technologies, Inc.	307,500	962,475
Calgon Carbon Corp.	61,980	952,013
Carpenter Technology Corp.	3,300	67,782
Central European Distribution Corp.	15,756	310,393
Cephalon, Inc.	8,473	652,760
Charming Shoppes, Inc.	2,015,000	4,916,600
CIGNA Corp.	34,025	573,321
CNX Gas Corp.	81,400	2,222,220
Comcast Corp. Class A	376,696	6,358,628
Consolidated Energy, Inc.	83,731	2,393,032
Dentsply International, Inc.	18,439	520,717
Dick's Sporting Goods, Inc.	43,140	608,705
Endo Pharmaceuticals Holdings, Inc.	33,100	856,628
Environmental Tectonics Corp.	100,572	82,469
Equitable Resources, Inc.	79,999	2,683,966
eResearch Technology, Inc.	18,100	120,003
Federated Investors, Inc. Class B	10,965	185,966
FMC Corp.	25,183	1,126,436
H.J. Heinz Company	38,925	1,463,580
Harleysville Savings Financial Corp.	4,333	58,192
Herley Industries, Inc.	8,350	102,538
Hershey Company	28,032	973,832
Horsehead Holding Corp.	220,400	1,035,880
Internet Capital Group, Inc.	91,540	498,893
Jones Apparel Group, Inc.	10,328	60,522

**Pennsylvania-Based Publicly Traded Stocks**

(as of December 31, 2008)

(continued)

<u>Security</u>	<u>Shares Outstanding</u>	<u>Market Value</u>
Kennametal, Inc.	64,580	\$ 1,433,030
Kensey Nash Corp.	17,200	333,852
Koppers Holdings, Inc.	21,230	458,993
L.B. Foster Company Class A	19,636	614,214
Lannett Company, Inc.	9,700	48,500
Liberty Property Trust	103,162	2,355,188
Met Pro Corp.	24,500	326,340
Michael Baker Corp.	14,140	521,907
Mylan Labs, Inc.	37,720	373,051
Parkvale Financial Corp.	13,300	165,186
Penn Virginia Corp.	97,740	2,539,285
Pep Boys – Manny Moe & Jack	144,300	595,959
PMA Capital Corp. Class A	153,164	1,084,401
PNC Financial Services Group, Inc.	500	24,500
PPG Industries, Inc.	20,328	862,517
PPL Corp.	46,422	1,424,691
Quaker Chemical Corp.	3,430	56,424
Rex Energy Corp.	178,329	524,287
Rohm & Haas Company	327,087	20,210,706
Sovereign Bancorp, Inc.	67,397	200,843
Spectrum Control, Inc.	85,600	525,584
Sunoco, Inc.	21,667	941,648
TF Financial Corp.	13,300	256,690
Toll Brothers, Inc.	61,100	1,309,373
Triumph Group, Inc.	6,200	263,252
II-VI, Inc.	122,565	2,339,766
UGI Corp.	39,960	975,823
United States Steel Corp.	36,538	1,359,214
Universal Stainless & Alloy Products, Inc.	19,500	282,555
Wabtec Corp.	48,050	1,909,988
Wesco International, Inc.	22,180	426,521
West Pharmaceutical Services, Inc.	24,180	913,279
<b>Total</b>		<b><u>\$ 99,592,395</u></b>

## Pennsylvania-Based Corporate Bonds

(as of December 31, 2008)

<u>Security</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Par Value</u>	<u>Market Value</u>
Alcoa, Inc.	5.900	02/01/2027	10,000,000	\$ 6,577,900
Alcoa, Inc.	6.000	07/15/2013	1,050,000	949,389
Allegheny County Hospital	5.000	09/01/2018	2,000,000	1,939,600
Allegheny Technologies, Inc.	8.375	12/15/2011	80,000	85,149
Allentown PA Taxable	0.000	10/01/2022	1,800,000	580,536
Allentown PA Taxable	0.000	10/01/2023	3,170,000	930,966
Allentown PA Taxable	0.000	10/01/2024	2,605,000	698,713
Allentown PA Taxable	0.000	10/01/2025	3,660,000	898,567
Allentown PA Taxable	0.000	10/01/2026	3,655,000	820,913
Amerisourcebergen Corp. 144A	5.625	09/15/2012	1,565,000	1,465,325
Comcast Corp.	10.625	07/15/2012	32,569,000	34,590,232
Comcast Corp.	6.500	01/15/2015	2,290,000	2,250,910
Comcast Corp.	5.900	03/15/2016	1,025,000	978,691
Comcast Corp.	6.500	01/15/2017	330,000	325,944
Comcast Corp.	8.875	05/01/2017	640,000	683,424
Comcast Corp.	5.875	02/15/2018	200,000	189,520
Comcast Corp.	7.050	03/15/2033	470,000	490,252
Comcast Corp.	6.500	11/15/2035	375,000	373,215
Comcast Corp.	6.450	03/15/2037	50,000	49,756
Comcast Corp.	6.950	08/15/2037	1,300,000	1,368,965
Consolidated Natural Gas Company	6.000	10/15/2010	374,000	377,938
Consolidated Natural Gas Company	6.250	11/01/2011	13,529,000	13,597,727
Consolidated Natural Gas Company	5.000	03/01/2014	475,000	441,684
Duquesne Light Company	6.700	04/15/2012	12,134,000	11,669,510
H.J. Heinz Company 144A	15.590	12/01/2020	5,000,000	5,590,600
Harsco Corp.	5.750	05/15/2018	2,000,000	2,025,820
Hershey Company	8.800	02/15/2021	1,270,000	1,576,578
Penn National Gaming, Inc.	6.875	12/01/2011	1,270,000	1,174,750
Penn National Gaming, Inc.	6.750	03/01/2015	2,215,000	1,683,400
Pittsburgh PA Taxable	6.500	03/01/2014	2,000,000	2,089,320
PNC Funding Corp.	1.459	06/12/2009	6,500,000	6,273,800
PNC Funding Corp.	1.805	06/22/2011	5,000,000	4,994,650
PNC Funding Corp.	8.700	02/19/2049	2,300,000	1,700,137
PNC Mtg. Accep. Corp. 2000-C2 A-2	7.300	10/12/2033	6,481,032	6,449,910
PPL Capital Funding, Inc.	6.700	03/30/2067	2,260,000	994,400
PPL Energy Supply, LLC	5.400	08/15/2014	935,000	798,378
Rite Aid Corp.	8.625	03/01/2015	2,825,000	974,625
Rite Aid Corp.	9.375	12/15/2015	840,000	294,000
Rite Aid Corp.	7.500	03/01/2017	980,000	637,000
Rite Aid Corp.	9.500	06/15/2017	1,075,000	373,563
Sungard Data Systems, Inc.	9.125	08/15/2013	3,215,000	2,780,975



**Pennsylvania-Based Corporate Bonds**

(as of December 31, 2008)

(continued)

<u>Security</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Par Value</u>	<u>Market Value</u>
Sungard Data Systems, Inc.	4.875	01/12/2014	240,000	\$ 165,600
Sungard Data Systems, Inc.	10.625	05/15/2015	1,830,000	1,564,650
Susquehanna Bancshares, Inc.	6.050	11/01/2012	5,500,000	6,232,820
Susquehanna Bancshares, Inc.	4.750	05/01/2014	2,000,000	1,985,580
United States Steel Corp.	5.650	06/01/2013	505,000	<u>377,720</u>
<b>Total</b>				<b><u>\$ 133,073,102</u></b>

**Real Estate Separate Account Pennsylvania Properties**  
(as of December 31, 2008)

<u>Property</u>	<u>Location</u>	<u>Description</u>	<u>Manager</u>
5 North Fifth Street	Harrisburg	5-story office building (PSERS headquarters)	Grosvenor

**Total market value (unaudited) of Pennsylvania-based properties was \$7.6 million as of December 31, 2008.**

## Pennsylvania-Based Private Equity/Venture Capital/Private Debt General Partners

(Dollar Amounts in Millions)

(Since the inception of the program as of December 31, 2008)

<u>Partnership</u>	<u>Location</u>	<u>PSERS Maximum Capital Commitment</u>
Adams Capital Management, L.P.	Sewickley	\$ 12.5
APA/Fostin Venture Fund I (closed)	King of Prussia	20.0
CEO Venture Fund I (closed)	Pittsburgh	1.0
CEO Venture Fund II (closed)	Pittsburgh	15.0
Co-Investment 2000 Fund, L.P.	Wayne	135.0
Co-Investment Fund II, L.P.	Wayne	135.0
Commonwealth Venture Partners I (closed)	Philadelphia	20.0
Commonwealth Venture Partners II (closed)	Philadelphia	10.0
Cross Atlantic Technology Fund, L.P.	Radnor	30.1
Cross Atlantic Technology Fund II, L.P.	Radnor	21.1
Graham Partners Investments, L.P.	Newtown Square	56.7
Keystone Minority Capital Fund (closed)	Philadelphia	0.1
Keystone Venture Fund IV (closed)	Philadelphia	7.8
LLR Equity Partners, L.P.	Wayne	62.5
LLR Equity Partners II, L.P.	Wayne	75.0
LLR Equity Partners III, L.P.	Wayne	187.5
Loyalhanna Venture Fund (closed)	Pittsburgh	15.0
Milestone Partners II, L.P.	Rosemont	29.9
Milestone Partners III, L.P.	Rosemont	57.4
NEPA Venture Fund I (closed)	Bethlehem	1.0
NEPA Venture Fund II	Bethlehem	5.0
Novitas Capital I, L.P.	Wayne	30.0
Novitas Capital II, L.P.	Wayne	75.0
P/A Fund	King of Prussia	30.0
PNC Equity Partners, L.P.	Pittsburgh	43.2
PNC Equity Partners II, L.P.	Pittsburgh	56.5
Quaker Bio-Ventures, L.P.	Wayne	69.4
Quaker Bio-Ventures II, L.P.	Wayne	100.0
SCP Private Equity Partners I, L.P.	Wayne	62.5
SCP Private Equity Partners II, L.P.	Wayne	125.0
TDH III, L.P.	Rosemont	7.4
Technology Leaders, L.P. (closed)	Wayne	10.0
TL Ventures III, L.P.	Wayne	50.0
Versa Capital Partners, L.P. (f/k/a Chrysalis)	Wayne	75.0
Versa Capital Partners III, L.P.	Wayne	<u>150.0</u>
<b>Total</b>		<b><u>\$ 1,781.6</u></b>

**PSERS' PMEIM Program**  
**Minority/Women Investment Managers**  
(Dollar Amounts in Millions)  
(unaudited)

The following eight minority-owned or women-owned firms were under contract with PSERS to provide investment management services as of December 31, 2008:

<u>External Manager</u>	<u>Status</u>	<u>Market Value</u>
Ativo Capital	Minority-owned	\$ 15.7
Denali Advisors	Minority-owned	11.4
Great Companies, Inc. (formerly EDMP, Inc.)	Women-owned	30.9
Hanseatic Management Services, Inc.	Women-owned	37.5
John Hsu Capital Group, Inc.	Minority-owned	43.1
AH Lisanti Capital Growth, LLC	Women-owned	20.6
Opus Capital Management	Minority-owned	26.4
Piedmont Investment Advisors	Minority-owned	17.5
Pugh Capital Management, Inc.	Minority-owned	17.8
Shah Capital Management	Minority-owned	<u>31.3</u>
<b>Total</b>		<b><u>\$ 252.2</u></b>

*Numbers may not add due to rounding*

# Section 5

## Other PSERS Programs



# Health Options Program 19



## Health Options Program

Pursuant to the Public School Retirees' Health Insurance Act, 24 Pa.C.S. §8701 et seq., PSERS sponsors a group health insurance program called the Health Options Program (HOP) for individuals who are annuitants or survivor annuitants or the spouse or dependents of an annuitant or survivor annuitant. The HOP is funded by and for eligible participants.

PSERS issued a request for proposal (RFP) in April 2008, for a nationwide Medicare Advantage private fee for service (MAPFFS) plan to replace, prospectively, regional Medicare Advantage and companion managed care plans for individuals not eligible for Medicare. As a result the existing HOP Medicare Advantage Plans were closed to new entrants. Highmark, Inc. was the successful bidder. During contract negotiations, Highmark was able to improve its premium rates by utilizing its FreedomBlue PPO in Pennsylvania and its MAPFFS outside Pennsylvania. The benefits provided by the PPO for in and out of network providers are the same as the benefits provided by the MAPFFS.

Effective January 1, 2009, HOP offers participants a choice among Medicare supplement plans, various Medicare prescription drug plans, and a Medicare Advantage plan. Participants under age 65 and not eligible for Medicare may elect to enroll in a high deductible health insurance plan with or without prescription drug coverage or a managed care plan. These options are available to new enrollees or HOP participants electing to change coverage during the 2009 option selection period. HOP participants enrolled in a legacy Medicare Advantage plan or companion managed care plan, for individuals not eligible for Medicare, during 2008 may continue to participate in that plan for 2009. The following is a list of HOP plans:

<b><u>For Individuals Eligible for Medicare:</u></b>	<b><u>For Individuals Not Eligible for Medicare</u></b>
HOP Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
Basic Medicare Rx Option (Medicare Part D)	HOP Pre-65 Medical Plan w/ Rx coverage
Enhanced Medicare Rx Option (Medicare Part D)	
HOP Managed Care Plan by Highmark	HOP Pre-65 Managed Care Plan by Highmark
<b><u>Legacy Medicare Advantage Plans</u></b>	<b><u>Legacy Managed Care Plans</u></b>
Aetna Golden Medicare	Aetna Patriot Plan
Aetna Medicare Value	Aetna Choice
Aetna Golden Choice	Keystone Health Plan East
Keystone 65	Keystone Health Plan East
Keystone 65 Direct	Keystone Health Plan East
IBC Personal Choice 65	IBC Personal Choice
Keystone Central Senior Blue	Keystone Central
UPMC for Life Medicare	UPMC
(PacifiCare) Secure Horizons	PacifiCare
Humana	Humana

The premiums paid by participants generally vary by geographical area. The exceptions are the premiums for the Medicare Rx Options and the HOP Pre-65 Medical Plan. The following is a summary of the 2008 and 2009 premium costs in Pennsylvania for single coverage:

## Health Options Program (continued)

### For Individuals Eligible for Medicare

<b>Southeastern Region:</b> <i>Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties.</i>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
HOP Medical Plan	\$180	\$197	9%
Age 65 Rates	\$171	\$188	10%
HOP Managed Care Plan by Highmark <sup>†</sup>	N/A	\$244	N/A
<b>Legacy Medicare Advantage Plans</b>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
Aetna Value HMO (\$170 in Philadelphia Co.)	\$179	\$186	4%
Aetna HMO (\$325 in Philadelphia County)	\$314	\$332	6%
Aetna PPO (\$334 in Philadelphia County)	\$365	\$365	0%
IBC's Personal Choice 65	\$416	\$564	36%
Keystone East HMO	\$294	\$301	2%
Keystone East POS	\$313	\$321	3%

<b>Southwestern Region:</b> <i>Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties</i>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
HOP Medical Plan	\$168	\$185	10%
Age 65 Rates Single	\$159	\$176	11%
HOP Managed Care Plan by Highmark <sup>†</sup>	\$199	\$232	17%
<b>Legacy Medicare Advantage Plans</b>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
Aetna HMO	\$154-\$196	\$176	-10% to 14%
Aetna PPO	\$359-\$393	\$388	-1% to 8%
Highmark HMO	\$189	\$224	18%
UPMC HMO	\$129	\$157	22%

<sup>†</sup> Formerly called Highmark FreedomBlue PPO

<b>Northern &amp; -Central Region:</b> <i>(All other counties in Pennsylvania)</i>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
HOP Medical Plan	\$149	\$155	4%
Age 65 Rates Single	\$138	\$148	7%
HOP Managed Care Plan by Highmark <sup>†</sup>	\$188-\$199	\$220	11% to 17%
<b>Legacy Medicare Advantage Plans</b>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
Aetna HMO	\$205-\$322	\$176-\$291	-10 to -14%
Aetna PPO	\$239-\$393	\$312-\$388	-1 to 30%
Highmark HMO	\$189	\$224	18%
Keystone Central HMO	\$207	\$189	-9%
Keystone Central PPO	\$216	\$197	-9%
UPMC HMO	\$129	\$157	22%

<sup>†</sup> Formerly called Highmark FreedomBlue PPO

<b>Medicare Rx Option:</b> <i>All Counties in Pennsylvania</i>	<b>2008</b>	<b>2009</b>	<b>Increase</b>
Basic Medicare Rx Option	\$25	\$25	0%
Enhanced Medicare Rx Option	\$78	\$83	6%



## Health Options Program (continued)

### For Individuals Not Eligible for Medicare

All Counties in Pennsylvania.	2008	2009	Increase
Pre-65 Medical Plan	\$516	\$566	11%
Pre-65 Medical Plan w/ Prescription Drugs	\$616	\$682	10%
HOP Pre-65 Managed Care Plan by Highmark†	N/A	\$852	N/A

† Formerly called Highmark PPOBlue

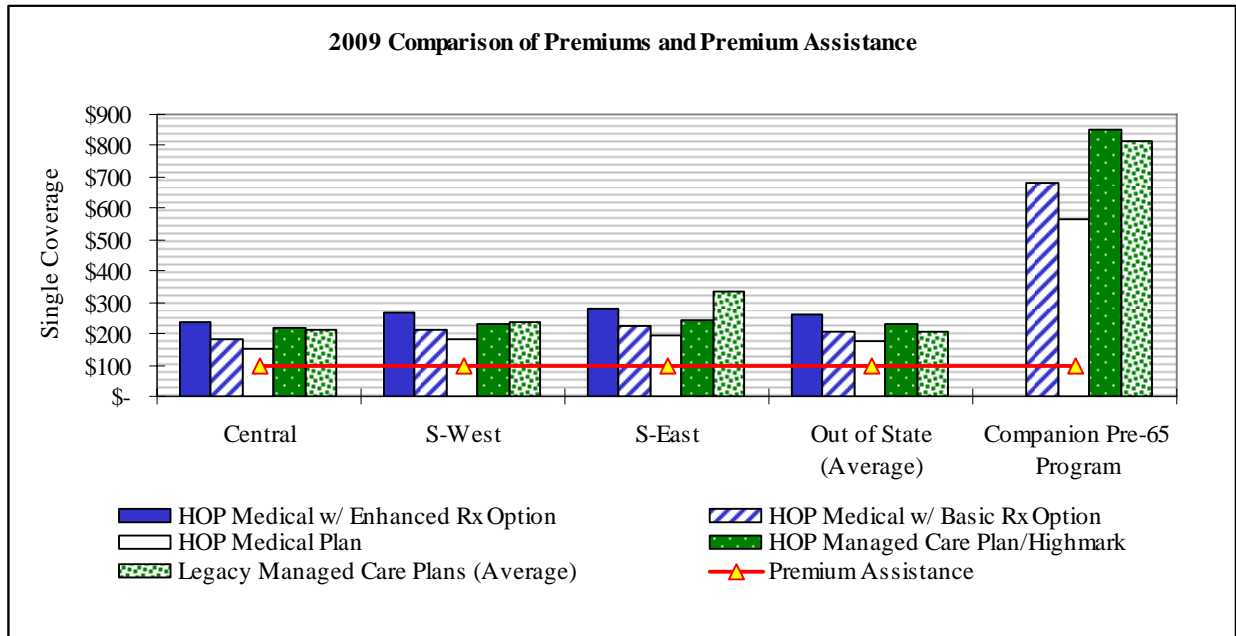
<b>Southeastern Region:</b> <i>Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties.</i>			
Legacy Managed Care Plans	2008	2009	Increase
Aetna HMO	\$740	\$743	1%
Aetna POS	\$947	\$984	4%
IBC's Personal Choice 65	\$714	\$771	8%
Keystone East HMO	\$532	\$778	46%
Keystone East POS	\$529	\$774	46%

<b>Southwestern Region:</b> <i>Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties</i>			
Legacy Managed Care Plans	2008	2009	Increase
Aetna HMO	\$718	\$710	-1%
Aetna POS	\$832	\$846	1%
Highmark HMO	\$1,007	\$1,251	24%
Highmark PPO	\$806	\$973	21%
UPMC HMO	\$950	\$1,045	10%

<b>Northern &amp; -Central Region:</b> <i>(All other counties in Pennsylvania)</i>			
Legacy Managed Care Plans	2008	2009	Increase
Aetna HMO	\$708-\$763	\$345-\$743	5%
Aetna POS	\$832-\$1,005	\$450-\$984	18%
Highmark PPO	\$806	\$973	21%
Keystone Central HMO	\$551	\$624	13%
Keystone Central PPO	\$660	\$774	17%
UPMC EPO	\$950	\$1,045	22%

## Health Options Program (continued)

The following charts illustrate the premiums paid by PSERS retirees for single coverage compared with the PSERS Premium Assistance benefit. See additional information under the Premium Assistance tab. The premiums for 2-person and family coverage would be at least twice the cost of single coverage. Premium Assistance is an offset for the PSERS retiree's premium only.



	Central	S-West	S-East	Out of State (Average)	Companion Pre-65 Program
HOP Medical w/ Enhanced Rx Option	\$ 238	\$ 268	\$ 280	\$ 262	
HOP Medical w/ Basic Rx Option	\$ 180	\$ 210	\$ 222	\$ 204	\$ 682
HOP Medical Plan	\$ 155	\$ 185	\$ 197	\$ 179	\$ 566
HOP Managed Care Plan/Highmark	\$ 220	\$ 232	\$ 244	\$ 232	\$ 852
Legacy Managed Care Plans (Average)	\$ 214	\$ 240	\$ 332	\$ 207	\$ 816
Premium Assistance	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

The current Premium Assistance benefit covers, on average, 38% of the fee-for-service premium (with the enhanced prescription drug coverage) and 43% of the managed care premium for retirees eligible for Medicare. The Premium Assistance benefit covers, on average, 14% of the premium for retirees not eligible for Medicare.

## Health Options Program (continued)

### Enrollment

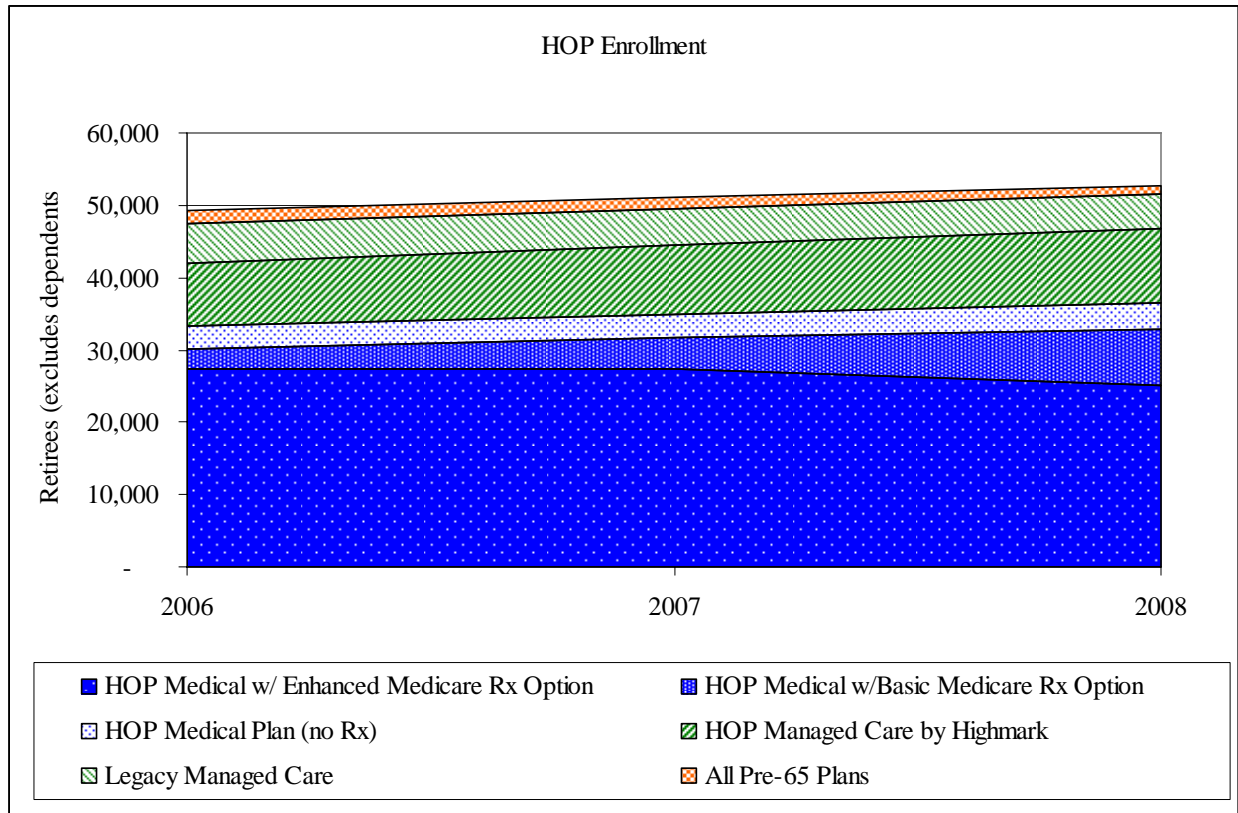
As of October 31, 2008 there are 65,104 participants (52,993 retirees plus their dependents) in the HOP. The majority of the HOP participants were enrolled in the HOP Medical Plan with Enhanced Medicare Rx Option. The total numbers of retirees by Option are:

<b>Participants Eligible for Medicare</b>	<b>Retirees*</b>
Supplement to Original Medicare & Part D Plans	
HOP Medical w/ Enhanced Medicare Rx Option	25,191
HOP Medical w/Basic Medicare Rx Option	7,761
HOP Medical Plan (no Rx)	3,530
Enhanced or Basic Medicare Rx Option (Rx only)	237
Medicare Advantage	
HOP Managed Care by Highmark	10,233
Legacy Managed Care	4,915
<b>Subtotal</b>	<b>51,867</b>
<b>Participants not Eligible for Medicare)</b>	
Fee-For-Service Plans	
HOP Pre-65 Medical Plan w/Rx (High Option)	177
HOP Pre-65 Medical Plan (Standard Option)	194
Managed Care Plans	
HOP Pre-65 Managed Care by Highmark	135
Legacy Pre-65 Managed Care Plans	620
<b>Subtotal</b>	<b>1,126</b>
<b>Total</b>	<b>52,993</b>

\* Does not include spouses and dependents

## Health Options Program (continued)

The following graph illustrates the number of retirees (not counting dependents) in the various options from 2006 to 2008:



### Funding

A majority of the premium income is deducted from the retiree's monthly retirement benefit and transferred to the plans (claims administrator for the self-funded Options). Approximately 5,000 retirees submit monthly premium payments to the HOP Administration Unit, as their monthly retirement benefits, if any, are insufficient to cover the premium cost. In addition, individuals enrolled in a Medicare Rx Option without HOP Medical Plan coverage must submit monthly premium payments.

HOP income will total approximately \$214 million during the 2009 Plan Year. A majority of this income comes from premium payments from participants. Other sources of funding are premium assistance payments (for eligible retirees only) from PSERS, Medicare prescription drug payments (for participants enrolled in a Medicare prescription drug plan) from the Center for Medicare and Medicaid Services (CMS) and investment income. The following is a breakdown of these sources of income:

Income	2009 (in millions \$)
Participant Contributions (net of Premium Assistance)	\$138
PSERS - Premium Assistance Payments	49
CMS - Medicare Prescription Drug Payments	23
Interest Income	4
<b>Total</b>	<b>\$214</b>

**Health Options Program**  
(continued)

Premium assistance payments are also made to eligible retirees who have an out of pocket premium expense from their former school district's (employer) health plan. These premium assistance payments are projected to equal \$33 million for 2009.

Contributions and interest income pay for the benefits provided to HOP participants plus administrative expenses. The following is a breakdown of the benefit expenses:

<b>Benefit Expenses</b>	<b>2009</b> (in millions \$)
Self-funded Hospital, Medical & Major Medical Benefits	\$ 90
Self-funded Prescription Drug Benefits	55
Managed Care Premiums	68
Total	\$ 213

In addition to these benefit expenses, the HOP will pay \$5 million in enrollment and administrative expenses.

As of June 30, 2008, HOP had net assets of \$89 million held in trust for the exclusive benefit of participants to pay the expenses of HOP.

# Premium Assistance Program 20



## Premium Assistance Program

In accordance with Section 8509 of the Public School Employees' Retirement Code 24 Pa.C.S. §8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The eligibility requirements for premium assistance are as follows:

- 24.5 years of credited service, or
  - 15 years of credited service if termination of service and retirement occurred on or after superannuation age, or
  - Receiving a disability annuity from PSERS;
- and
- Have an out-of-pocket premium expense from their former school employer's health plan or the PSERS sponsored Health Options Program (HOP).

### Funding

The premium assistance program is funded by contributions from the Commonwealth and school employers. For the year ended June 30, 2008, PSERS paid a total of \$85.6 million in benefit and administrative expenses for the premium assistance program. As of June 30, 2008, the premium assistance health insurance account had net assets of \$95.8 million. For the June 30, 2010 plan year the actuary has determined the premium assistance program will require contributions of \$100.4 million or 0.78% of membership payroll.

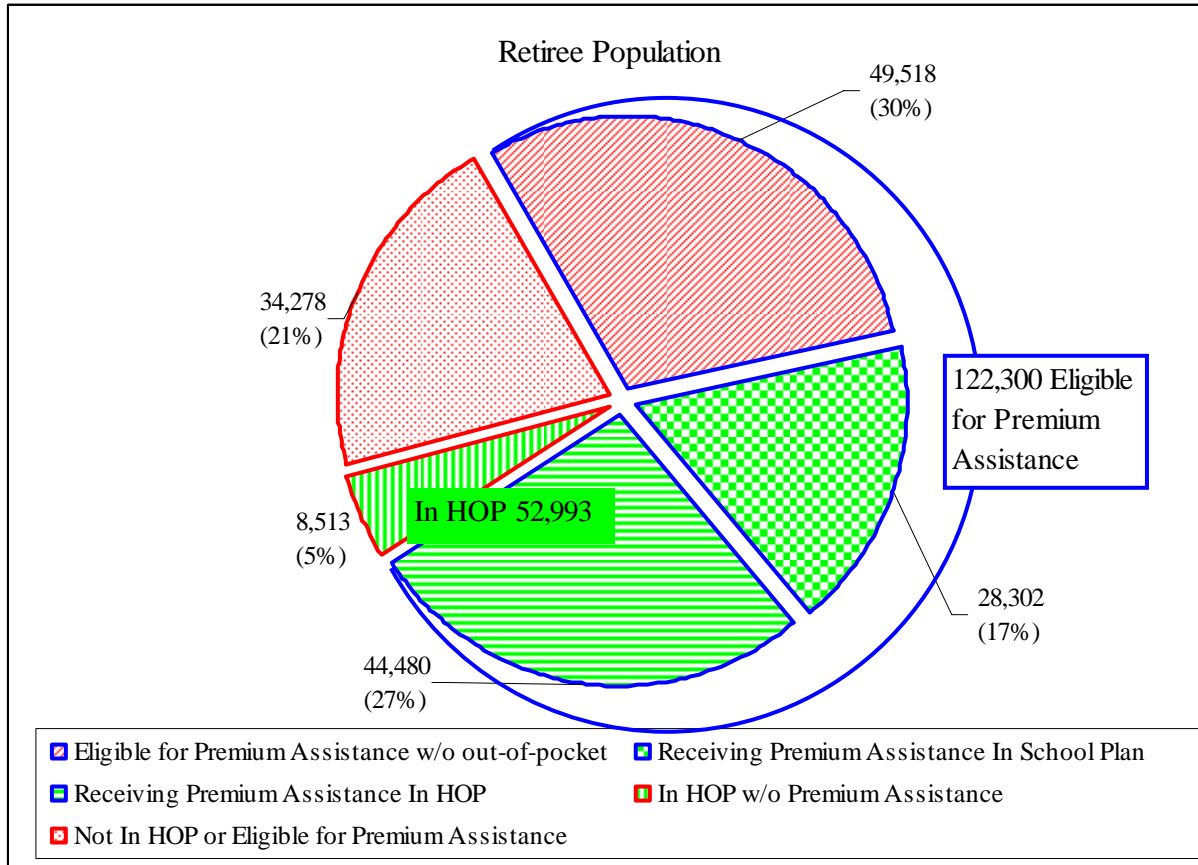
The actuarial accrued liability for Other Post Employment Benefits (OPEB) under GASB 43 is \$1.1 billion as of June 30, 2008.

### Enrollment

According to the June 30, 2008 Actuarial Valuation, PSERS had 165,091 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees 122,300 meet the service, service and age at termination of school service, or retirement type (disability) eligibility requirements for the premium assistance program. Of the retirees meeting these requirements, 49,518 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. That leaves 72,782 retirees receiving a monthly premium assistance benefit. Of the 72,782 retirees receiving premium assistance benefits, 44,480 are enrolled in HOP and 28,302 are participating in their former school employer's health plan and have an out-of-pocket premium expense.

### Premium Assistance Program (continued)

A breakdown of retirees by their premium assistance status is as follows:



June 30, 2008 Actuarial Valuation	Number	Percentage
Eligible for Premium Assistance w/o out-of-pocket	49,518	30%
Receiving Premium Assistance In School Plan	28,302	21%
Receiving Premium Assistance In HOP	44,480	24%
In HOP w/o Premium Assistance	8,513	8%
Not In HOP or Eligible for Premium Assistance	34,278	23%
<b>Total Retiree Population (excluding beneficiaries)</b>	<b>165,091</b>	<b>100%</b>
Eligible	122,300	