



Pennsylvania Public School Employees' Retirement System

PIMCO Strategy Recommendation

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PARS and GCOF Fund

Background

- PSERS has utilized PIMCO's Enhanced Index product since September 1999
 - Product utilizes short term fixed income to generate alpha
 - PIMCO overlays this alpha on S&P 500 Index futures, providing the index return plus some alpha
 - Product has generated a 0.36 information ratio since inception
 - In recent years, the effectiveness of this strategy has deteriorated due to market conditions and new entrants to this space
- Wilshire recommends converting the Enhanced Index product to the more robust PARS and GCOF strategies
 - Objective: Generate 600 basis points net-of-fee returns of uncorrelated alpha to be transported over S&P 500 Index futures (internally managed futures)
 - Rationale: Improve risk / return profile of assignment
 - Currently, the Enhanced Index product "handcuffs" PIMCO to an extent, due to guideline restrictions
 - The new strategies are better aligned with PIMCO's true strengths as a world-class fixed income provider and allow PIMCO to express its macro and micro views more efficiently

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PARS and GCOF Fund

Recommendation

- PARS Investment Strategies (PIMCO Absolute Return Strategies)
 - Interest rate level and duration strategies
 - Yield curve slope and convexity
 - Foreign exchange / Global fixed income relative value
 - Sector spread strategies
- GCOF Investment Strategies (Global Credit Opportunity Fund)
 - Primarily relative value strategies throughout the global credit market
 - Seeks to find relative value among foreign sovereign or corporate issuers, within the capital structure of companies or among different tranches of asset backed securities
- Wilshire recommends investing in a 50-50 blend of the PARS and GCOF funds
 - Provides an expected net of fee return of approximately 600 basis points
 - Expected to produce an information ratio of approximately 1.0
- Wilshire recommends funding this alpha strategy with \$300 million and having PSERS staff internally implement the beta (S&P 500 futures) portion of the strategy