

COMMONWEALTH OF PENNSYLVANIA
Public School Employees' Retirement System



DATE: July 23, 2013

SUBJECT: AllianceBernstein Factor Risk Premia Fund, L.P. Recommendation

TO: Members of the Board

FROM: Gerard Smith, CFA
Managing Director of Equities

Jane Jeong
Portfolio Manager



At the August Finance Committee meeting, staff and Aksia will recommend PSERS invest up to \$200 million in the AllianceBernstein ("AB") Factor Risk Premia Fund, L.P. This Fund utilizes AB's proprietary quantitative platform and Vadim Zlotnikov and Yun Chen's extensive equity risk factor research and experience to generate positive alpha returns over LIBOR while reducing drawdowns. Internal analysis performed by staff indicated that adding this strategy to the PSERS Internal Alpha Program ("IAP") would enhance the return of the IAP with a fractional increase in risk. This Strategic relationship will also serve as an important research conduit for the expansion of PSERS proprietary risk factor management, quantitative alpha strategies, and as a core network touch point for staying aware of leading developments, capital movements and market expectations of large sophisticated quantitative money managers.

The new opportunity we recommend to the Board will be constructed around a set of 9 systematic equity risk factors of which a handful of the most attractive factors are active at any one point in time based on the manager's discretion. Vadim Zlotnikov and his team's experience in building quantitative equity factors and systematic platform for testing and weighting the factors will provide competitive advantages for the proposed strategy. Funding for the new mandate will be made from taking a \$200 million S&P500 futures position within the internally managed S&P 500 fund. The target alpha of this fund is 4 percent over LIBOR with volatility ranging from 6 percent to 10 percent.

Included with this memo are Aksia's recommendation memo, a PowerPoint presentation prepared by staff and the resolution recommending an investment in the AllianceBernstein Factor Risk Premia Fund, L.P.

If you have any questions or comments prior to the meeting, please contact Gerard Smith at 717-720-4913 or Jane Jeong at 717-720-4919.

Manager Recommendation Memo

July 23, 2013

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North Fifth Street
Harrisburg, PA 17101

Re: AllianceBernstein Factor Risk Premia Fund, L.P.

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to the AllianceBernstein Factor Risk Premia Fund, L.P. ("AB Factor Risk Premia") in line with the limits and guidelines established by PSERS.

AB Factor Risk Premia pursues a quantitative-driven, market neutral strategy with discretionary oversight, which seeks to extract value from nine pre-determined risk factors. While the quantitative underpinning is responsible for high-level target allocations, there exists an active discretionary component whereby the manager may tilt the portfolio towards or away from a factor(s), region(s), sector(s), or even down to the security level, based on market views.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of AB Factor Risk Premia's investment strategy, including a review of their investment strategy, investment team and structure, and risk management process.
- Due diligence of AB Factor Risk Premia's operations, including an operations and infrastructure review, regulatory and compliance review, and Form ADV review.
- Evaluation of AB Factor Risk Premia's investment strategy within the context of the current investment environment.
- Appropriateness of AB Factor Risk Premia as a component of the PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in AB Factor Risk Premia, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of AB Factor Risk Premia. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the full Investment Review and Operational Review. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment vehicle.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Bruce Ruehl
Partner, Head of Portfolio Advisory, Americas



Norman Kilarjian
Partner, Head of Tactical and Relative Value Strategies