

**PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT OBJECTIVES AND GUIDELINES  
COLLATERALIZED LOAN OBLIGATION FIXED INCOME PORTFOLIOS**

**ADDENDUM I-2**

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**I. OBJECTIVES**

This actively managed collateralized loan obligation (CLO) fixed income portfolio will consist primarily of fixed income securities and cash equivalents. The objectives of this portfolio are:

1. to generate positive risk-adjusted excess returns of 50 bps or more annually versus the Bank of America Merrill Lynch 1-3 Year US Corporate Index (Index); and,
2. to generate those excess returns with an Information Ratio of 0.40 or greater.

**II. PORTFOLIO RISK MANAGEMENT**

The Board's expectations are that this portfolio be actively managed within the spirit of a Collateralized Loan Obligation Fixed Income mandate. Within this framework, the following are the portfolio risk constraints under which the manager is required to operate:

**A. Interest Rate Risk**

The effective or option-adjusted duration of the portfolio must range from zero to no more than 2.0 years in excess of the Index.

**B. Spread Risk**

The effective or option-adjusted spread duration of the portfolio must range from zero to no more than 5.5 years.

**C. Credit Risk**

1. The weighted-average credit rating of the portfolio must be A3/A- or better.

Note: Credit ratings shall include ratings issued by Moody's, Standard & Poor's, and Fitch Investor Service (hereafter referred to as the "Credit Rating Agencies"). If each of the Credit Rating Agencies assigns a credit rating, the credit rating will be the middle of the three ratings (for example, if Moody's rates a security Baa2, S&P rates a security BB+, and Fitch rates a security BBB-, the middle credit rating would be considered BBB- by Fitch). If only two of the three Credit Rating Agencies assign a credit rating, the credit rating

will be the lower of the two. If only one of the Credit Rating Agencies assigns a credit rating, that credit rating will apply.

The rating for the internally-managed PSERS Short-Term Investment Pool is considered Aaa/AAA for credit rating purposes.

D. Currency Risk

1. 100% invested in U.S. dollar denominated securities.

E. Sovereign Risk

1. No more than 20% of the portfolio may be invested in CLOs backed by non-US corporations or sovereigns.

F. Concentration Risk

1. No more than 20% of the portfolio at market value may be invested non-investment grade (rating Ba1/BB+ or lower) securities.
2. No more than 10% of the portfolio at market value may be invested in securities rated B or lower (including CLO equity which will be rated B2 for these guidelines).
3. A minimum of 60% of the portfolio will be backed primarily by U.S. senior secured loans (CLOs).
4. No more than 40% of the portfolio will be backed primarily by middle market loans (CLOs).
5. No more than 10% of the portfolio can be invested in any single CLO tranche with a maximum of 15% total exposure to any single CLO (i.e. across multiple tranches of the same CLO).

### III. DERIVATIVES

No derivatives are permitted except investments in CLOs.

### IV. AMENDMENTS

A written request to the Chief Investment Officer (CIO) and Deputy Chief Investment Officer (DCIO) should be made if the manager believes that these portfolio risk constraints significantly limit the ability of the manager to achieve the objectives of the portfolio. A written amendment will be issued from the CIO, or the DCIO in the CIO's absence, if the request is approved.