



PSERB Resolution 2025-67

Re: Investment Policy Statement, Derivatives and Leverage Policy, and Placement Agent Policy October 23, 2025

RESOLVED, that Public School Employees' Retirement Board accepts the recommendation of the Investment Committee and adopts the changes to the Investment Policy Statement, the Derivatives and Leverage Policy, and the Placement Agent Policy, attached:

- Investment Policy Statement
- Derivatives and Leverage Policy
- Placement Agent Policy

Investment Policy Statement

of

the Commonwealth of Pennsylvania
Public School Employees' Retirement Board

As adopted by
the Board of Trustees
on October 23, 2025

Revision History:

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March 5, 2021
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I. Introduction

Established on July 18, 1917, with operations commencing in 1919, the Pennsylvania Public School Employees' Retirement System (PSERS or the System,) provides retirement benefits to public school employees of the Commonwealth of Pennsylvania.

The Board

The members of the PSERS Board of Trustees ("the Board") are vested with and exercise exclusive control and management of the System, including the investment of its assets. The Board appoints staff and retains outside managers, consultants and others as needed to assist it in performing its duties, in accordance with section III of this Policy in which the Board has defined the roles and responsibilities of such parties.

Mission

To be a partner with our members to fulfill the promise of a secure retirement.

Fiduciary Standard

Pursuant to the Board's enabling legislation, the members of the Board, employees of the Board, and their agents are fiduciaries to the System's members and beneficiaries and must invest and manage the fund for exclusive benefit of the System's members and beneficiaries. 24 Pa. C. S. §8521(e). As such, they must act consistent with the duty of prudence as well as the duty of loyalty.

In performance of their duties, the trustees shall exercise "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 System shall at all times be managed in accordance with all applicable state and federal laws, rules, and regulations, as well as this Investment Policy Statement and other applicable policies of the Board.

II. Purpose

The purpose of this Investment Policy Statement (the “Policy”) is to provide clear guidelines for the management of the assets within the PSERS Defined Benefit Fund (the “Fund”) by or on behalf of the Board. This Policy establishes policies and guidelines for the investment practices of the Board. The Board shall endeavor to review and revise the Policy every three years and make changes as necessary. The Policy outlines objectives, goals, restrictions, and responsibilities to assure that:

1. The Board, Staff, Investment Consultants, Investment Managers, and the State Treasurer clearly understand the objectives and policies of the Board and the System;
2. The Investment Managers shall be given guidance and limitations on the investment of the System’s assets; and,
3. The Board has a meaningful basis for evaluating the investment performance of individual Investment Managers, as well as for evaluating overall success in meeting its objectives.

III. Roles and Responsibilities

The Board establishes roles and responsibilities for PSERS' investment program.

The Board (Board): Based on recommendations of its Investment Committee, the Board, as ultimate governing fiduciary, establishes investment policies and monitors compliance with its policies and progress made towards stated goals. The Board establishes this Policy, including the Asset Allocation, investment performance benchmarks and risk tolerances it contains. The Board also appoints the Chief Investment Officer (CIO), External Managers, and Investment Consultants. The Board monitors the performance of the implementation function it has assigned for effectiveness and compliance with its policies, may direct the CIO, Asset Allocation Committee (AAC), Allocation Implementation Committee (AIC), or the Investment Office Professionals (IOP) to bring matters before them to the Board for its consideration prior to implementation, and will require reporting of the entities identified in this section sufficient to facilitate its fiduciary requirements.

Chief Investment Officer (CIO): The CIO serves as the liaison to The Board and senior staff administrator on all investment matters. The CIO oversees the implementation of Board policies through the management of the IOP, the development and implementation of investment procedures, implementation of tactical allocations within ranges established by the Board, authorization of investment guidelines, execution of investment contracts and other documents, and negotiation of reasonable compensation for investment-related service providers. In overseeing PSERS' investments and the operations related thereto, the CIO must exercise his or her professional skill and prudence in compliance with statutory requirements, prudent investment principles, sound business practices, and all Board policies, including this Policy. The CIO may delegate power and authority to the IOP to effectuate the prudent investment, protection, and management of PSERS' investments. Subject to this policy and the direction of the Board, the CIO shall have responsibility for adhering to the standards set forth by the Board in the management and control of PSERS' investments. In exercising the CIO's duty to act prudently, the CIO may accept or reject the recommendations of the AIC that PSERS appoint or discharge External Managers, forward recommendations to the Board to appoint External Managers or take direct action to discharge them, including for example selling interests in the secondary markets, following prior notification to the Board. The CIO shall assign, modify, or discontinue the guidelines or strategies assigned to any Investment Manager, based on his or her prudent judgment and subject to contrary specific direction from the Board. The CIO shall make regular reports to the Board and provide full transparency to the Board with respect to investment activities. All IOP are accountable to the CIO. The CIO is responsible for all IOP actions relative to the management of PSERS' investments. In this regard, it is the responsibility of the CIO to be satisfied that all investment policies and directives of the Board are implemented.

Asset Allocation Committee (AAC): The AAC recommends to the CIO strategic asset allocation plans, new asset classes and benchmarks, and closely manages actual asset allocations. The AAC shall adopt procedures and maintain meeting minutes. The CIO shall choose the Committee Chair (or Co-Chairs), and the Committee Chair (or Co-Chairs) shall choose the members of the Committee with representation from Private Investments, Public Investments, Operations, and Risk Management & Compliance. The CIO shall be an observer, not a voting member.

Allocation Implementation Committee (AIC): The AIC closely monitors the performance of Investment Managers and the due diligence and analysis it receives from Investment Consultants or other sources. The AIC recommends to the CIO that PSERS appoint or discharge External Managers and the assignment, modification, or discontinuance of guidelines or strategies assigned to any Investment Manager. The AIC shall adopt procedures and maintain meeting minutes. The CIO shall choose the Committee Chair (or Co-Chairs), and the Committee Chair (or Co-Chairs) shall choose the members of the Committee with representation from Private Investments, Public Investments, Operations, and Risk Management & Compliance. The CIO shall be an observer, not a voting member.

Chief Compliance Officer: The Chief Compliance Officer within the Office of Chief Counsel serves as an ombudsman with regards to compliance with this IPS or related policies and procedures, including matters of valuation and performance reporting. To the extent that any staff member has significant concern regarding compliance with the IPS and related policies that have not been properly reported or resolved, such matters should be reported to the Chief Compliance Officer.

Investment Office Professionals (IOP): The IOP assists the CIO, AAC, and AIC in execution of their duties and the management of the System's investment program on a day-to-day basis in accordance with Board policies. The IOP assists the CIO in the development, implementation, and monitoring of the asset allocation policy, the assessment of Investment Manager compliance with applicable policies, guidelines, and contracts, the monitoring of the performance of Other Entities Supporting the Investment Program, the making of direct investments subject to strict compliance with Board policies, the performance of risk management functions, the provision of recommendations relating to AIC Investment Manager selection and discharge, and the administration of ancillary investment programs such as Securities Lending and Proxy Voting. The IOP also assists the CIO by performing operational tasks supporting these investment functions, including custodian bank relationship management, investment office technology administration, trade settlement, portfolio manager support and portfolio accounting, as appropriate.

Investment Consultants: The Board shall select and retain third-party Investment Consultants to assist it, the CIO, and the IOP by providing analysis and due diligence, advice and recommendations, education, and commentary. Investment Consultants shall report on performance, compliance, and business matters as required by PSERS, and serve as fiduciaries. Other specific responsibilities shall be set forth in the Investment Consultants' respective contracts.

Investment Managers: Subject to strict compliance with PSERS' policies, guidelines, mandates, and standards of care assigned to them, and the terms of applicable contracts, Investment Managers are assigned authority to invest and manage the specific allocations assigned to them, and shall report on performance, compliance, and business matters as required by PSERS.

Other Entities Supporting the Investment Program: The State Treasurer is the legal custodian of not only the System's assets but also those of the entire Commonwealth. The State Treasurer has subcontracted the custodian function to the Custodian Bank for the Commonwealth, including the System. The Custodian Bank holds all cash and securities (except for those held in partnerships, commingled funds, mutual funds, etc.), and regularly accounts for these holdings to the System. Other offices within PSERS, including the Offices of Financial Management and Office of Chief Counsel, as well as the Internal Audit Office, shall also support PSERS' investment processes as assigned. IOP may select and retain other entities to provide investment-related services.

IV. Investment Objectives

The Investment Objectives are:

- to generate returns to support the System's actuarial soundness so it may provide its members with benefits as required by law.
- to earn a long-term total return, net of fees and investment expenses and administrative expenses, that equals or exceeds the Actuarial Assumed Rate approved by the Board.
- to earn a long-term total return, net of fees and investment expenses, that equals or exceeds the Policy Index approved by the Board.
- to prudently manage investment risks that are related to the achievement of investment goals.

V. Investment Philosophy

The PSERS Board of Trustees believes PSERS' assets should be managed in accordance with PSERS' unique liability stream, funding sources, cash flows, and portfolio size, focusing on the prudent accumulation of wealth over the long term to meet the retirement benefit obligations established by the plan sponsor to its members.

PSERS' assets should be managed based on the following beliefs:

1. Uncertainty

- The future is difficult to forecast with any accuracy or certainty, particularly changes in the economic and market environment.

2. Asset Allocation

- The strategic asset allocation mix, more than implementation or any other factor or decision, largely determines the portfolio's overall risk and return.

3. Diversification

- Diversification is the best approach to addressing future uncertainty and therefore meeting PSERS' long-term investment objectives.
- Diversification should be across multiple dimensions:
 - By and within asset classes.
 - By geography.
 - By strategy (e.g., in Public Equity: growth and value, concentrated and diversified, quantitative and fundamental).
 - By vintage year for Private Investments (investment pacing in and out of investments helps mitigate the impact of market volatility).
- Over any given period, any number of asset classes, geographies, strategies, and vintages will underperform others; that is to be expected and accepted.

4. Risk

- For an underfunded plan or for a plan with negative cash flow (benefits paid exceed contributions received), the path of compounding of investment returns – from month to month, quarter to quarter, and year to year -- matters more than for a plan that is fully funded or has positive cash flow; for the former type of plan, peak-to-trough declines transform unrealized losses into permanent ones.
- Drawdown risk should be mitigated, especially as the environment in which drawdowns occur is likely also the environment where the Plan Sponsor's willingness and ability to make contributions to the plan may be less than in normal times.
- Liquidity should be managed to reasonably ensure that the fund can meet its obligations during periods of market dislocations.

5. Leverage

- Leverage at the total fund level can be an effective tool to enhance diversification, since asset classes, over the long-term, have similar risk-adjusted returns, different correlations to each other, and different responses to changes in the economic and market environment.
- Leverage can be a vital tool to increase or decrease total fund risk in a diversified manner.

6. Rebalancing

- Disciplined rebalancing enhances long term returns as it is an inherently contrarian process.
- Rebalancing restores strategic asset allocation as the primary driver of return and risk.

7. Portfolio Size

- Managing a large pool of assets provides investors unique access to investment opportunities not available to smaller institutional investors or individual investors.
- PSERS should use its size to its advantage to enhance its net-of-fees return and diversification opportunities.

8. Private Markets Investments

- Allocations to Private Equity, Private Credit, Private Real Estate, Private Infrastructure, and other illiquid asset classes may be justified by the illiquidity risk premium available to investors.
- Allocations to these asset classes may also be justified by the diversification benefit they provide, through exposure to sectors, businesses, and mode of corporate governance not obtainable through public markets.

9. Active Management

- Passive investing, rather than active management, is the default choice to be used for any asset class that is highly efficient or where skilled active managers are less likely to be identified.
- Certain asset classes continue to exhibit information inefficiency, where skilled active management and well-resourced investors such as PSERS can potentially persistently outperform peers and the benchmark for that asset class.
- There will be short-term periods when a skilled active manager may underperform peers and the benchmark; that is to be expected and accepted; therefore a long-term perspective will be employed.

10. Internal Management

- PSERS has developed skilled internal investment managers; as such internal investment management is preferred over external investment management in cases where internal management most likely can match or exceed the long term, net of fees, risk-adjusted returns provided by External Managers, provided the internal investment and operational resources are available to do so.

11. Investment Fees

- Investment management fees for external management are one of the few aspects of investment management that are certain and over which the investor has control.
- Investment management and performance fees should be managed to (i) maximize long term, net of fees, risk-adjusted returns, (ii) split the value added fairly between the Investment Manager and PSERS, and (iii) align the interests of Investment Manager with PSERS.

VI. Asset Allocation

A. Purpose

The asset allocation establishes a framework for PSERS that has a reasonable likelihood, in the judgment of the Board, of realizing PSERS' long-term investment objectives.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as discussed below.

B. Capital Market Assumptions

Capital Market Assumptions (CMAs) are estimates of expected returns and risks for a given set of asset classes, and expectations of the relationship (correlations) between these asset classes over long periods of time. They are issued periodically by investment consultants, asset managers, and investment banks. Inflation, real short-term interest rates, and economic data frequently provide the foundation used by CMAs for expected returns across global asset classes. These are the primary building blocks for developing equity and fixed income returns expectations, which in turn are used in setting expectations for alternative asset class returns. PSERS collects and evaluates this information when considering its long-term actuarial rates of return assumptions and in setting its Asset Allocation. For Asset Allocation purposes, the Board will generally use CMAs prepared by the Board's general Investment Consultant.

C. Targets and Ranges

The Board sets target allocations ("Targets") to various asset classes that are designed to meet PSERS' long-term investment objectives and establishes a band of minimum and maximum allowable allocations, or ranges ("Ranges"), surrounding each Asset Class Target Allocation. The purpose of Ranges is to allow flexibility to adapt to changing market conditions and to cost-effectively balance the Board's Investment Policy with the investment strategies pursued over shorter time periods. The table below sets forth Targets and Ranges for each Asset Class and sub-asset class. Allocations are in the form of Economic Exposure, which includes Asset Allocation Leverage as defined in the Leverage Policy.

ASSET ALLOCATION

(Effective December 1, 2024)

ASSET CLASS	TARGET ALLOCATION	RANGE
Equity Exposure	44.00%	+/- 5%
Public Equity	32.00%	+/- 5%
U.S. Equity	20.00%	+/- 5%
Non-U.S. Equity	12.00%	+/- 5%
Private Equity	12.00%	+/- 4%
Fixed Income Exposure	34.00%	+/- 5%
Public Fixed Income	27.00%	+/- 5%
Investment Grade	16.00%	+/- 5%
Credit-Related	4.00%	+/- 3%
Inflation Protected	7.00%	+/- 5%
Private Fixed Income	7.00%	+/- 2%
Private Credit	7.00%	+/- 2%
Real Asset Exposure	22.00%	+/- 5%
Public Real Assets	11.00%	+/- 3%
Infrastructure	5.00%	+/- 3%
Commodities	4.00%	+/- 3%
Real Estate	2.00%	+/- 3%
Private Real Assets	11.00%	+/- 3%
Infrastructure	5.00%	+/- 2%
Real Estate	6.00%	+/- 2%
Opportunistic	0.00%	0% - 5%
Net Leverage	0.00%	10 to -10%
Cash	4.50%	
Explicit Leverage	-4.50%	
	100.00%	

In setting Ranges, the following principles are applied and will be updated upon the adoption of the next Asset Allocation:

- The Public Equity allocation has a symmetrical Range equivalent to 16% of its Target rounded to a whole percentage point. U.S. and Non-U.S. ranges were set at 100% of the band set for the Public Equity allocation.

- The Public Fixed Income allocation has a symmetrical Range equivalent to 18% of its Target rounded to the whole percentage point. The Investment Grade and Inflation-linked sub-asset classes Ranges were set at 100% of the band set for the Public Fixed Income Target allocations. The Credit-Related allocation was given a Range of +/- 3%.
- The Public Real Assets allocation has a symmetrical Range equivalent to 20% of its Target rounded to a whole percentage point. The Public Infrastructure, Public Commodities, and Public Real Estate sub-asset classes Ranges were set at 100% of the band set for the Public Real Assets Target allocations.
- The Private Equity, Private Credit, Private Real Estate, and Private Infrastructure asset classes, each with a significant illiquid component, have a symmetrical Range of 30% from its Target allocation, rounded to a whole percentage point. The Ranges for these asset classes are wider to reflect the dominant influence of public market fluctuations on their proportion.
- The Range for the Opportunistic asset class reflects a lower bound of zero and an upper bound of 5%, with no target to allow for the potential of being overweight, for various reasons, during the liquidation.
- The Net Leverage Range has a Range of 10%, which allows for removal of Leverage and accumulation of a position in Cash, to —10%, which allows for additional Economic Exposure through usage of Asset Allocation Leverage (as defined in the Leverage Policy). Leverage may be deployed across any asset class in the portfolio where it is prudent to do so, based on efficient use of leverage within the constraints of the Policy Range and maximum net leverage permissible under this Policy.
- The Range for Total Equity, Total Fixed Income, and Total Real Asset Exposures will be a symmetrical 5% for each broad asset class which includes exposure to public and private asset classes. These Ranges provide overall limits to these exposures while providing flexibility to accommodate wider market swings.
- For purposes of this analysis, and with the exception of Explicitly Levered Portfolios, as defined in the Leverage Policy, cash and cash equivalents held in each Investment Manager's portfolio will be considered fully invested based on that advisor's objectives (i.e. cash in an equity Investment Manager's account will be considered as part of Public Equity in the table above).

- The Target Allocation for Public and Private Equity, Infrastructure, and Real Estate, and for Private Credit and Public High Yield are adjusted in accordance with the applicable footnote in the Asset Class and Policy Benchmark section below.

D. Rebalancing

IOP will ensure conformance with the asset allocation set by the Board through monthly, or more frequent, review. In conducting rebalancing activities, the Board expects IOP to operate under the following principles:

- IOP must initiate rebalancing transactions to bring all percentages to values inside the Ranges or promptly seek Board approval to remain outside the Ranges.
- To implement the investment strategy, IOP will manage the asset allocation nearer to or away from the Targets, but within Policy Ranges. Quarterly performance reports to the Board will also reflect actual allocations and variances from Targets.
- The spirit of this Policy is to implement the investment strategy within the Targets and asset allocation Ranges at a reasonable cost, recognizing that overly precise management of asset exposures can result in transaction costs that are not economically justified.

E. Periodic Review

The Board establishes the Asset Allocation Targets and Ranges and reviews them annually. The Board will undertake a comprehensive strategic asset/liability review designed to assess the continuing appropriateness of this Policy at least every three years or when material changes to the liabilities take place (e.g., plan design changes, material changes in underlying assumptions, etc.). Such review will consider an asset-liability study of future benefit payments, liabilities, required funding, the appropriateness of the actuarial interest rate assumption and the prospective funded status of liabilities. It may also include a study of portfolio design for optimal diversification and comparisons with peer practices.

VII. Performance Objectives

The performance objectives are to: (1) exceed the return of the Policy Index, net of fees and investment expenses; and (2) exceed the actuarial rate (currently 7.00%), net of fees and investment expenses, over a reasonably longer time horizon. The Policy benchmark combines designated market indices for Asset Classes, weighted by asset allocation Targets. The table below contains the benchmark indices, and weights, for the respective asset classes.

During periods of transition resulting from a change in the Board-approved Targets, the interim target asset allocation and associated benchmarks used to calculate benchmark performance will be established on a quarterly basis in advance of the subsequent quarter. That target mix will be based on allocations made by the CIO and reported to the Board through quarterly performance reports.

Asset Class and Policy Benchmarks

Each Asset Class shall be measured relative to its designated benchmark index. It is expected that the active management of individual Asset Classes, if any, will provide an investment return in excess of the index, net of expenses.

The Board adopts the following Asset Class Performance Benchmarks and weighted policy benchmarks, cumulatively the Policy Index, for the Asset Allocation Target Allocation to measure the performance of the System subject to footnote 1:

POLICY BENCHMARK (Effective July 1, 2025)

		Policy Weight
Equity Exposure		44.00%
	Public Equity	32.00%
	S&P 1500 TR Index	20.00% ¹
	MSCI ACWI ex USA IMI Net TR Index	12.00% ¹
	Private Equity	12.00%
	MSCI Global Private Equity Closed-End Fund Index (Frozen; USD), one-quarter lagged	12.00% ¹
Fixed Income Exposure		34.00%
	Public Fixed Income	27.00%
	Investment Grade	
	Bloomberg US Aggregate Bond TR Index	8.00%
	Bloomberg U.S. Long Treasury TR Index	8.00%

Credit-Related		
Bloomberg US Corporate High Yield Bond Index	4.00%	¹
Inflation Protected		
Bloomberg US Government Inflation-Linked Bond All Maturities TR Index	7.00%	
Private Fixed Income	7.00%	
Private Credit		
MSCI Global Private Credit Closed-End Fund Index (Frozen; USD), one- quarter lagged	7.00%	¹
Real Asset Exposure	22.00%	
Public Real Assets	11.00%	
Infrastructure		
FTSE Developed Core Infrastructure 50/50 Net TR Index	5.00%	¹
Commodities		
Bloomberg Commodity TR Index	4.00%	
Real Estate		
FTSE EPRA/NAREIT Developed, Net TR Index	2.00%	¹
Private Real Assets	11.00%	
Infrastructure		
MSCI Global Private Infrastructure Closed-End Fund Index (Frozen; USD), one-quarter lagged	5.00%	¹
Real Estate		
MSCI Global Private Real Estate Closed-End Fund Index (Frozen; USD), one-quarter lagged	6.00%	¹
Opportunistic	0.00%	
Net Leverage	0.00%	
Cash		
ICE BofAML 0-3 Month US Treasury Bill Index	4.50%	
Financing Cost of Leverage²		
3-Month Term SOFR	-4.50%	
TOTAL	100.00%	

Footnotes to New Asset Allocation Policy benchmark:

¹ Toggle Feature: As the following Private Markets asset classes economic exposure increases/decreases (e.g. due to fundings/distributions and/or the allocation increases/decreases due to total economic exposure of the Fund changing), the corresponding Public Markets asset class policy weight will be proportionately and conversely revised to reflect these changes. Adjustments to the policy weight will be completed in 50 basis point increments (adjustment will be made to the nearest 0.50%) on a quarterly basis. For example, if the economic exposure to Private Real Estate increases by 100 basis points due to a change in the market value of the total Fund in the fourth quarter, then starting with the first quarter the policy weight will include this 100 basis points increase in the Private Real Estate benchmark and the Publicly-traded Real Estate policy weight will be proportionately reduced by 100 basis points.

<u>Private Markets Asset Class</u>	<u>Corresponding Public Asset Class</u>
Private Equity	Public Equity
Private Credit	Public Fixed Income (Credit-Related - U.S. Corporate High Yield Bond)
Private Infrastructure	Public Real Assets (Infrastructure)
Private Real Estate	Public Real Assets (Real Estate)

² Financing Cost of Leverage represents the amount of leverage embedded in the asset allocation. Financing may be deployed across any asset class in the portfolio where it is prudent to do so, based on efficient use of leverage within the constraints of the policy range and maximum net leverage permissible under this Policy.

VIII. Risk Management

The Board ensures adequate risk control through the following means:

A. Diversification

Investments shall be diversified to minimize the impact of the loss from individual investments. In addition to achieving diversification by asset class, careful attention shall be paid to diversification within each asset class and sub- allocation and across managers.

B. Liquidity

Liquidity is carefully managed through adherence to the Liquidity Policy.

C. Portfolio Guidelines

Public market separate account portfolios shall operate under written guidelines and governing documents approved by CIO and the Investment Manager that are designed to ensure the portfolio pursues its return objective within the acceptable risk parameters. Other portfolios shall operate pursuant to their governing documents.

D. Risk Parameters

The CIO, in conjunction with the general Investment Consultant, shall recommend active risk (risk of achieving performance different than the Policy benchmark) parameters to the Board. The Board shall approve active risk parameters as part of PSERS' annual asset allocation review. Risk management reports shall be provided periodically to the Board.

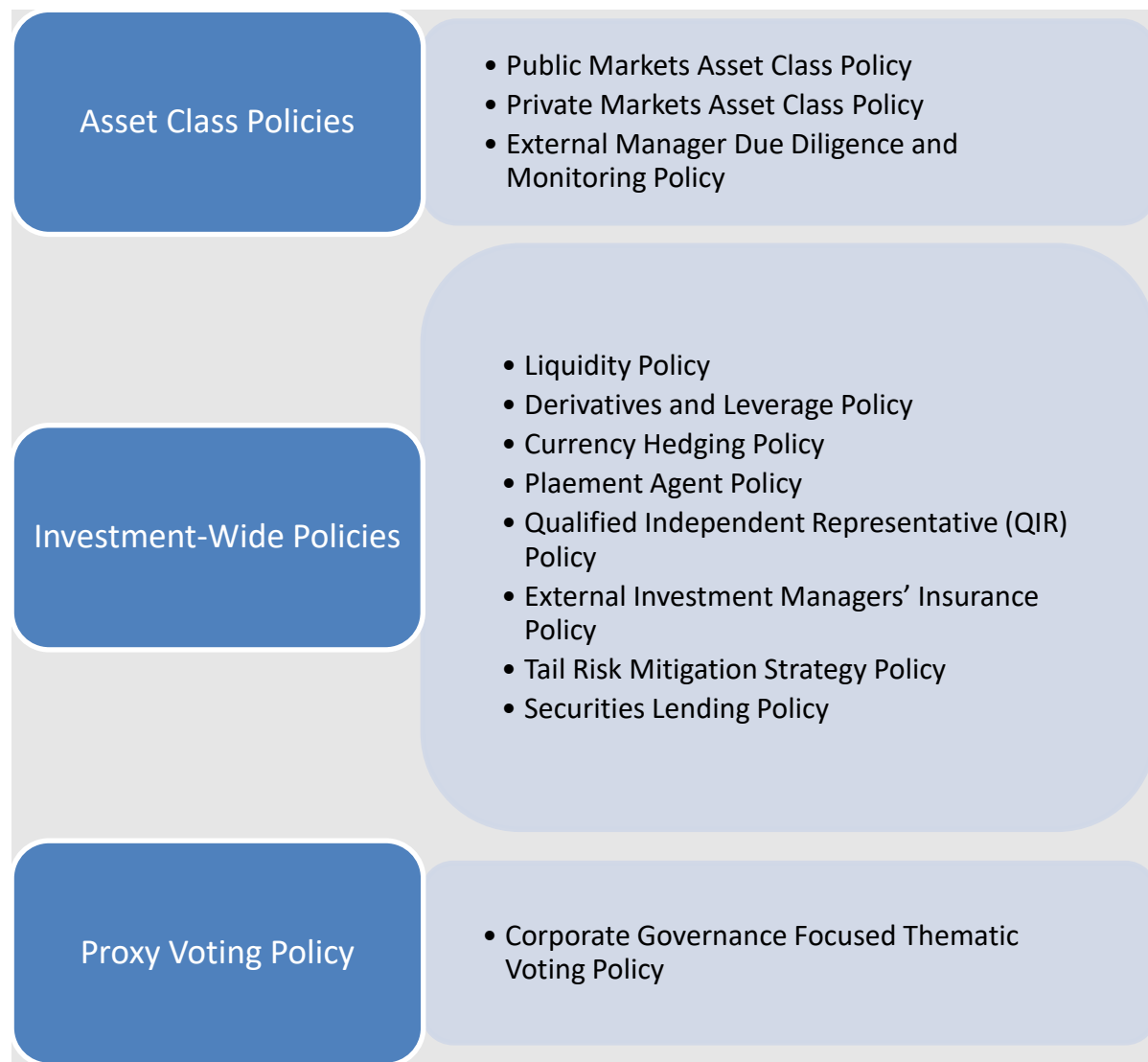
E. Risk Benchmarks

The benchmarks, including weightings and excluding additional performance goals (e.g. +100bps), adopted by the Board in the Asset Class and Policy Benchmarks section above are used as a framework for risk measurement. While Private Asset Classes do not easily lend themselves to public quantitative measures of risk, such as standard deviation and benchmark tracking error, the use of the following benchmarks for these asset classes is adopted by the Board to provide additional insights into the risks within these asset classes.

Private Equity	PSERS Public Equity Policy Benchmark
Private Credit	PSERS Public Fixed Income – Credit-Related Policy Benchmark
Private Infrastructure	PSERS Public Real Assets (Infrastructure) Policy Benchmark
Private Real Estate	PSERS Public Real Assets (Real Estate) Policy Benchmark

F. Stand-alone Policies

In addition to this Policy, the Board is responsible for reviewing and approving the following stand-alone policies. These Policies are organized into three categories: (1) Asset Class Policies, (2) Investment-Wide Policies and (3) Proxy Voting Policy. Asset Class and Investment-Wide Policies are investment-related Policies, while Proxy Voting Policy relates to governance matters. Asset Class Policies include asset classes within the Asset Allocation, whereas Investment-Wide Policies include information that typically applies to the Fund as a whole.



IX. Monitoring and Reporting

Through the mechanisms described in this section, the Board, via its Investment Committee, receives information necessary to fulfill its fiduciary responsibility of monitoring and overseeing the investment program. The Board's oversight of PSERS' investment program can be considered through a waterfall structure, from high level to the more detailed, and more frequent, degree. Updates and analysis reports are received as formal presentations to the Investment Committee or provided via the Board's intranet site (the Board's governance platform). The following reflects the frequency and detail of the information reported to the Board by IOP unless otherwise noted:

At least once every five years the Investment Committee reviews the performance of Investment Consultants through the contracting process.

At least once every three years, or more frequently as needed, the Investment Committee is provided the following information and analysis:

- The strategic Asset Allocation, including an asset/liability study and the recommended investment structure and Policy Benchmarks, presented by the general Investment Consultant.

On an annual basis the Investment Committee is provided the following information and analysis:

- Investment-related stress testing and liquidity analyses of the strategic Asset Allocation prepared and presented by the general Investment Consultant.
- A detailed review of each Asset Class.
- An annual Investment Expense Report.
- A detailed review of the Securities Lending Program.

Also, on an annual basis, the Corporate Governance Committee is provided analysis on proxy voting matters necessary to update PSERS' Proxy Policies.

Bi-annually

- Report comparing the asset allocation to peers

On a quarterly basis the Investment Committee is provided the following information and analysis:

- Fund and Policy Index performance.
- Current Asset Class tactical allocations.
- Assets managed internally vs. externally by Asset Class.
- A comprehensive performance report for the Asset Classes, including investment managers within each Asset Class, that contains the benchmarked performance as defined within the Performance Benchmark

section as prepared by the general Investment Consultant, via the Board's governance platform.

- A presentation of the general Investment Consultant's review of PSERS' total fund investment performance, via the Board's governance platform.
- And exposure reports and presentations for Private Equity, Private Real Estate, Private Infrastructure, Private Commodities and Private Credit by IOP and specialty Investment Consultants for the Private Investments, via the Board's governance platform.
- Asset Allocation Leverage report
- Moneyline Report that presents the month-end Asset Allocation of the System as compared to the Asset Allocation plan targets approved by the Board.

On a monthly basis, the Board is provided via the Board's governance platform:

- Cash Liquidity reports which include current and forecasted cash, the liquidity profile of the fund, subscription line exposure (updated quarterly), and unfunded commitments.
- Allocation Change Report that presents the allocation changes for the past month by asset class and investment manager.

In addition, the Investment Committee typically schedules several educational sessions each year to ensure it has a sound foundation upon which it carries out its duties.

On an on-going basis, the Investment Committee monitors IOP performance through the monitoring and oversight of the investment program as a whole.

X. Definitions

Acronyms: The following is a list of common abbreviations found throughout the IPS.

Acronym	Full Name
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ACWI	All Country World Index
BofAML	Bank of America Merrill Lynch
DM	Developed Markets
EM	Emerging Markets
EMBI	Emerging Market Bond Index
EPRA	European Public Real Estate Association
ETF	Exchange Traded Fund
EUR	Euro
FOF	Fund of Fund
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange
GBI-EM	Government Bond Index-Emerging Markets
ICE	Intercontinental Exchange
IMI	Investable Market Index
JPM	J.P. Morgan
LSTA	Loan Syndications and Trading Association
MSCI	MSCI, Inc.
NAREIT	National Association of Real Estate Investment Trusts
REIT	Real Estate Investment Trust
S&P	Standard & Poor's
SOFR	Secured Overnight Financing Rate
TR	Total Return
U.S.	United States
USD	US Dollar

Actuarial Assumed Rate: the investment return assumption adopted by the Board for actuarial purposes.

Applicable Investment Expenses: may include catch-up interest, management fees, organizational expenses, or other expenses payable directly by PSERS outside of its capital commitment not to exceed 15 percent of the amount approved for investment and authorized by IOS.

Asset Allocation: the decision of selecting appropriate weights between broad asset class categories (Private Markets, bonds, cash, commodities, stocks, etc.) in order to produce the desired Risk and return profile for a total fund portfolio. The Asset Allocation decision is the most important investment strategy issue for an investment program.

Benchmarks: Used by the Board to measure the investment performance (i.e. Policy Index) and risk (i.e. Risk Benchmarks) of each Asset Class. The following are indices used or referenced by the System, noting that any additional performance expectation (i.e. +100 basis points) is not depicted:

For publicly available indices a ticker is provided, and the descriptions are primarily taken from the provider factsheets or website.

EQUITY:

MSCI Global Private Equity Closed-End Fund Index (Frozen; USD): The index is representative of the Private Equity closed-end fund universe. Performance is calculated quarterly in USD. The index has a frozen history and represents unhedged returns.

MSCI All Country World Index (ACWI) ex USA Investable Market Index (IMI) (unhedged: M1WDUIM): The MSCI ACWI ex USA IMI captures large, mid- and small-cap representation across 22 of 23 DM countries, excluding the United States (US), and 25 Emerging Markets (EM) countries. With over 6,000 constituents, the index covers approximately 99% of the global equity opportunity set outside the US.

Standard & Poor's (S&P) 1500 TR Index: Combines three leading indices, the S&P Large Cap 500, the S&P Mid Cap 400, and the S&P Small Cap 600 to cover approximately 90% of the U.S. market capitalization.

FIXED INCOME:

Bloomberg US Aggregate Bond TR Index (LBUSTRUU): The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the IG, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency).

Bloomberg US Corporate High Yield (HY) Bond TR Index (LF98TRUU): The Bloomberg US Corporate HY Bond Index measures the USD-denominated, HY, fixed-rate corporate bond market.

Bloomberg US Government Inflation-Linked Bond (ILB) All Maturities TR Index (BCIT1T): The Bloomberg US Government ILB Index measures the performance of the US Treasury Inflation Protected Securities (TIPS) market.

Bloomberg US Long Treasury TR Index (LUTLTRUU): The Bloomberg US Long Treasury Index measures the performance of USD-denominated, fixed-rate, nominal debt issued by the US Treasury with a maturity greater than 10 years. Separate Trading of Registered Interest and Principal of Securities (STRIPS) are excluded from the index because their inclusion would result in double-counting. The US Long Treasury Index is a component of the US Aggregate, US Universal, Global Aggregate and Global Treasury Indices.

MSCI Global Private Credit Closed-End Fund Index (Frozen; USD): The index is representative of the Private Credit closed-end fund universe. Performance is calculated quarterly in USD. The index has a frozen history and represents unhedged returns

Bloomberg Commodity TR Index (BCOMTR): The Bloomberg Commodity TR Index reflects the return on fully collateralized rolling futures positions. BCOMTR is a highly liquid and diversified benchmark for commodity investments. The Index provides broad-based exposure to 23 exchange traded commodities across energy, industrial and precious metals, agriculture and livestock, and no single commodity or commodity sector dominates the Index.

Financial Times Stock Exchange (FTSE) Developed Core Infrastructure 50/50 Net Index (unhedged: FDCICUN): The FTSE Developed Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure sub-sectors. The constituent weights for this index are adjusted as part of the semi-annual review according to three broad industry sectors – 50% Utilities, 30% Transportation including capping of 7.5% for railroads/railways and a 20% mix of other sectors including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

FTSE EPRA/NAREIT Developed Net TR Index (unhedged: TRNGLU): The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide. Relevant activities are defined as the ownership, disposal and development of income-producing real estate. The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. By making the index constituents free- float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and ETFs.

MSCI Global Private Infrastructure Closed-End Fund Index (Frozen; USD): The index is representative of the Private Infrastructure closed-end fund universe. Performance is calculated quarterly in USD. The index has a frozen history and represents unhedged returns.

MSCI Global Private Real Estate Closed-End Fund Index (Frozen; USD): The index is representative of the Private Real Estate closed-end fund universe. Performance is calculated quarterly in USD. The index has a frozen history and represents unhedged returns.

CASH:

ICE BofAML 0-3 Month US Treasury Bill Index (G0B1): ICE BofAML 0-3 Month US Treasury Bill Index is a subset of ICE BofAML US Treasury Bill Index including all securities with a remaining term to final maturity less than 3 months.

FINANCING:

Secured Overnight Financing Rate (SOFR) 3-Month (TSFR3M): A broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. SOFR includes all trades in the Broad General Collateral Rate plus bilateral Treasury repurchase agreement (repo) transactions cleared through the Delivery-versus-Payment (DVP) service offered by the Fixed Income Clearing Corporation (FICC), which is filtered to remove a portion of transactions considered “specials.” Each business day, the New York Fed publishes the SOFR on the New York Fed website at approximately 8:00 a.m. (New York Time).

Board: The Pennsylvania Public School Employees' Retirement Board.

CDO: A collateralized debt obligation (CDO) is a structured financial product that pools together cash flow-generating assets and repackages this asset pool into discrete tranches that can be sold to investors.

CLO: A collateralized loan obligation (CLO) is a single security backed by a pool of debt. Often these are corporate loans.

Commingled Funds: Commingled accounts consist of assets of multiple investors, including PSERS. All assets within each Commingled Account are managed in the same manner by the same External Manager. Commingled Account arrangements are created by legal documents such as Limited Partnership Agreements ("LPA"). The LPA sets standard terms and conditions according to which External Managers will manage investors' assets. In order to invest in Commingled Accounts, PSERS must agree to the terms of the governing legal documents.

Custodian Bank: an institution that safekeeps cash, stocks, bonds, and other securities. The System's Custodian Bank has a contract with the State Treasurer, the legal custodian of the System.

Evergreen: A type of fund structure that has an indefinite life, where investors or limited partners are afforded the opportunity to exit the investment at predetermined periodic intervals or given a notice of predetermined length. (examples: 90 days' notice or once per year)

External Manager: a firm registered with the SEC as an Investment Advisor, or otherwise qualified if exempted from SEC registration that provides investment advisory services with respect to the management of assets within a separate account, fund, or limited partnership.

Internal Manager: an individual employed by the Board who manages an investment portfolio.

Investment Consultant: a third-party firm retained by the Board to provide advice on various investment issues ranging from general advice to advice on specialty asset classes. The System's Private Markets Investment Consultant is also referred to as specialty Investment Consultant.

Investment Guidelines: an outline of policy or conduct expected in the management of an investment portfolio.

Investment Manager: includes both Internal Managers and External Managers.

ISDA: International Swaps and Derivatives Association. ISDA is an association created by the private negotiated derivatives market that represents participating parties. This association helps to improve the private negotiated derivatives market by identifying and reducing Risks in the market.

Mark-to-Market: the valuation of a security or other instrument, transaction, or portfolio of the same to current market prices.

NPL: A non-performing loan (NPL) is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms.

Operational Risk: risks for improper monitoring of positions, bad pricing, inadequate software, system failures or human error.

OTC: acronym for over-the-counter. OTC securities, derivatives, and other financial instruments are traded in some context other than on a formal or centralized exchange such as the New York Stock Exchange, Chicago Mercantile Exchange, etc.

Securities Lending Program: an investment program designed to generate incremental income from lending securities to qualified borrowers who provide collateral in exchange for the right to use the securities.

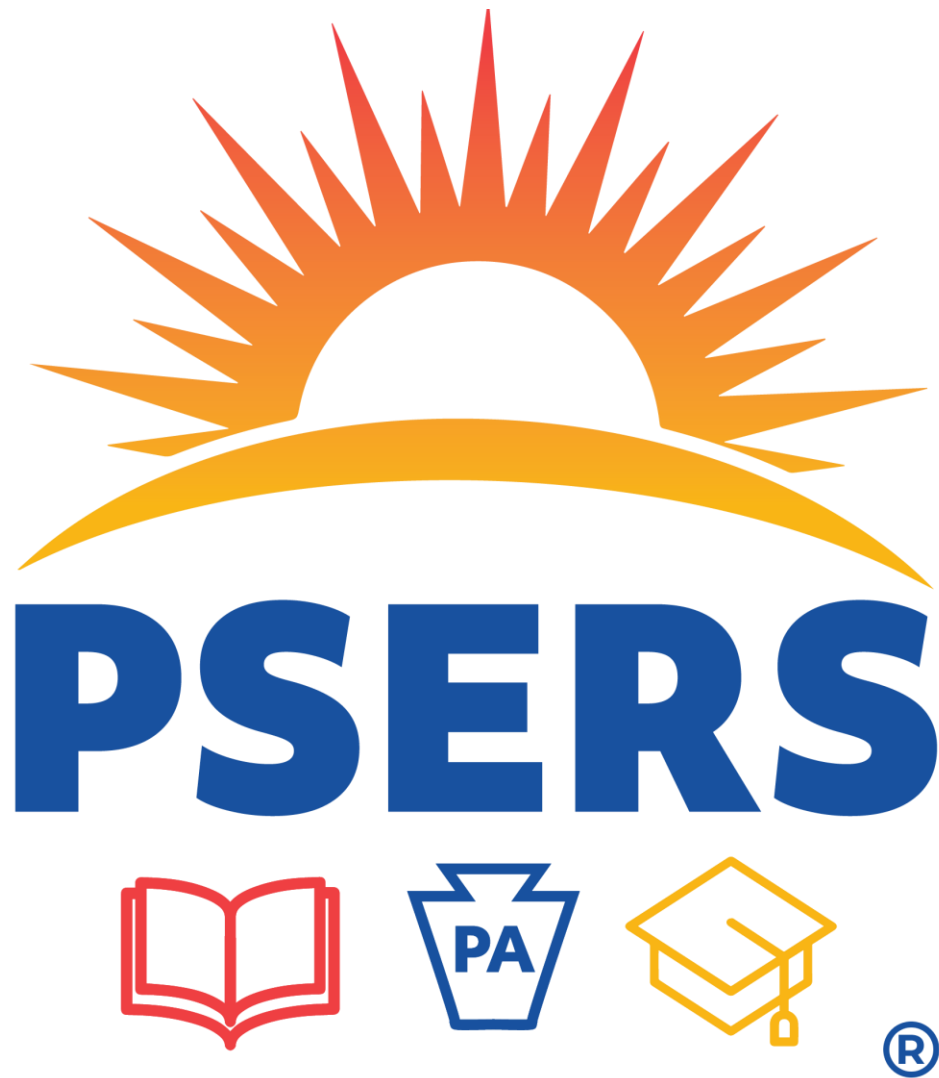
Separate Account: a privately managed account in which the System's investments are managed independent of other investors and in which assets are accounted for in a segregated investment account. Separate Accounts generally have investments generally held by the System's Custodian Bank or in a Fund-of One created by the Investment Manager.

Sharpe Ratio: a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

Staff: employees of the System.

State Treasurer: the Treasurer of the Commonwealth of Pennsylvania.

Tracking Error: is a statistical measure of the potential variability of a portfolio's return relative to that of the assigned benchmark. For purposes of Board Policies, it is defined as the realized annualized standard deviation of monthly returns relative to the Policy benchmark over the trailing 36 months. Tracking Error for an Explicitly Leveraged Portfolio, as defined within the Leverage Policy, is measured as if the portfolio was not levered.



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Derivatives and Leverage Policy



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Revision History

Derivatives Policy Established	March 6, 2020
Leverage Policy Established	March 6, 2020
Policy Revised	March 5, 2021
Policies Revised and Combined	May 31, 2024
Policy Revised	October 23, 2025



I. SCOPE

This Policy applies to the use of derivatives and leverage within the Pennsylvania, Public School Employees' Retirement System ("PSERS") Defined Benefit Fund (the "Fund").

II. PURPOSE

This Policy provides the broad strategic framework for managing the Fund's use of derivatives and leverage. Derivatives and leverage shall only be used to manage asset and risk exposures consistent with PSERS' Investment Policy Statement ("IPS"), inclusive of this Policy and other approved Investment Policies.

III. ROLES AND RESPONSIBILITIES

Roles and Responsibilities related to this Policy are identified within the IPS.

IV. PHILOSOPHY

Derivatives are financial instruments the value of which is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies).

Leverage is a condition in which the economic or market exposure of an investment exceeds the total capital deployed. The use of leverage on a single asset or asset class will amplify profits or losses on a given amount of capital, thereby increasing the volatility of returns, although leverage as part of a portfolio construct does not necessarily create additional market risk or variation in market returns.

Derivatives and leverage can be effective tools to manage asset exposures and risks in a prudent, timely, efficient, and cost-effective manner. For example, they can be used to improve portfolio diversification and reduce portfolio concentration, for implementation efficiency (i.e., speed of trade execution and lower cost), to achieve exposures that are better achieved than with physical securities, to hedge currency, to manage interest rate risk, to rebalance, and for other similar purposes.

The use of derivatives and leverage for speculative purposes is not allowed. Derivatives and leverage are considered speculative if their use is inconsistent with the IPS and its supporting Policies, portfolio guidelines, or any other governing documents.

V. PERMITTED DERIVATIVES INSTRUMENTS

PSERS may invest in the following derivative instruments, subject to specific guidelines assigned to each separately managed portfolio: futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; and any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments.

Derivatives are grouped into two categories defined by PSERS as follows:

- Category A derivatives are cleared instruments. An example of a Category A derivative is a futures contract on the S&P 500. Common characteristics of Category A derivatives are that they are generally standardized instruments which are exchange-traded, cleared through a clearinghouse, and subject to regulation.
- Category B derivatives are non-cleared instruments. These are often also known as OTC (over the counter) derivatives. An example of a Category B derivative is a total return swap on an equity index. These types of derivatives are customized, rather than standardized, for the parties engaged in a transaction not cleared through a clearinghouse. Internal trading on non-cleared instruments are prohibited until such time as approved by the PSERS Board.

VI. PERMITTED TYPES OF LEVERAGE

There are two permitted types of leverage:

- Asset Allocation Leverage, also known as Explicit Leverage, is economic exposure in excess of capital for asset allocation purposes. Asset Allocation Leverage may be deployed within any Public Markets asset class and only in separate accounts. In the Asset Allocation section of the IPS, Asset Allocation Leverage is known as Explicit Leverage. Net Leverage is defined as the sum of the allocation to Cash and the allocation to Explicit Leverage (where the allocation to Explicit Leverage is expressed as a negative number). Net Leverage is bounded by a Policy Range as stipulated in the IPS.
- Strategy Leverage is defined as economic exposure in excess of capital for purposes of achieving the target return-risk characteristics of a specific fund, portfolio, or strategy. Strategy Leverage can be taken in separate accounts and fund structures as limited by each separate account portfolio's guidelines or governing fund documentation.



Illustrative Example of Asset Allocation Leverage (Explicit Leverage)

- \$72 billion in the Fund
- \$6 billion in exposure from total return swaps across a variety of asset classes such as Gold, Commodities, TIPS, REITs, and Public Infrastructure
- \$1.5 billion of that \$6 billion in exposure is backed by assets
- \$5 billion of Cash that is not encumbered but available for investments and benefit payments
- Asset Allocation Leverage is the remaining \$4.5 billion of that \$6 billion in exposure
- Net Leverage is \$0.5 billion, which equals the \$5 billion of Cash less \$4.5 billion of Asset Allocation Leverage

Illustrative Example of Strategy Leverage

- \$1.2 billion in an actively managed, internally managed Core Fixed Income portfolio
- Portfolio in aggregate has longer interest rate duration than the benchmark
- To bring the duration of the portfolio in line with that of the benchmark, the portfolio manager enters into an interest rate hedge with \$200 million in notional exposure
- Economic exposure is \$1.4 billion
- Strategy Leverage is \$200 million

The Investment Office is authorized to use the following as permitted by applicable law in order to create Asset Allocation Leverage or Strategy Leverage:

- Derivatives strategies in accordance with the risk parameters established by the asset allocation ranges of the IPS and applicable legal restrictions
- Short sales via derivatives
- Currency hedging in accordance with the IPS and the Currency Hedging Policy
- Embedded leverage within a non-recourse fund structure
- Collateralized fundings including securities lending activities, pledges, repurchase and reverse repurchase agreements and other external funding mechanisms.

Borrowings by the Fund through the incurrence or issuing of debt under a line of credit, pension obligation bond, or other similar facility, shall not be permitted without the prior approval of the Investment Committee.

VII. RISK MANAGEMENT

The primary approach to managing risks associated with derivatives and leverage is to establish and monitor both qualitative and quantitative constraints and through usage of standardized processes. Risks include:

A. Market Risk

Market risk may result when market conditions develop differently than expected, when there are mismatches between actual market exposure and the market exposure obtained from the derivative, and when market or economic exposure is greater than capital invested. These risks are primarily mitigated through tracking error constraints, gross notional exposure limits, or other limits and constraints, as defined in the IPS, applicable portfolio guidelines, or other account level governing documents.

B. Counterparty Risk

Counterparty risk is the risk that the other party in an investment, credit, or trading transaction may not fulfill its part of the transaction and may default on its contractual obligations. Derivative counterparty risk resides primarily in Category B derivatives (i.e., OTC derivatives) and is managed as follows:

- Counterparty (or its parent guarantor if the counterparty itself is an unrated subsidiary) must be rated at least BBB- or Baa3 by at least one of the Nationally Recognized Statistical Rating Organization's.
- Posting of adequate collateral by counterparties in accordance with the terms and conditions of their respective agreements.
- Setting exposure limits to any individual counterparty and/or setting minimum counterparty diversification requirements, as stipulated in the applicable portfolio guidelines.
- Applicable swap transactions must be approved by a "Qualified Independent Representative" ("QIR") duly authorized by PSERS, as documented in the QIR Policy.
- In order to ensure that PSERS is not the "reporting party", under parts 43, 45, and 46, of the Commodity Futures Trading Commission ("CFTC") regulations, swaps, forward foreign exchange transactions, and foreign exchange swaps may only be transacted with parties that are fully Registered Swap Dealers or Provisionally Registered Swap Dealers with the CFTC.

C. Operational Risk

Operational risk is the risk of inadequate or failed processes or systems. Operational risks are mitigated through the usage of procedures, IOP oversight and effective usage of technology resources.



D. Liability/Recourse Risk

If the capital or funding requirements associated with transacting derivatives results in leverage, this may create liability/recourse to the Fund.

There are three permitted types of liability/recourse involving leverage:

1. Non-recourse leverage in fund structures – This is Strategy Leverage taken in limited liability structures, where the terms of such structures shall limit the total potential loss to the amount invested or committed to by PSERS. These structures shall not have recourse to the Fund for losses beyond this. Operating documents, including partnership agreements, subscription agreements, and similar documents, govern the maximum and types of permissible leverage.
2. Non-recourse leverage in separate accounts - This is Strategy Leverage taken in separate account structures, where the terms of such structures shall limit the total potential loss to the amount invested or committed to by PSERS. These structures shall not have recourse to the Fund for losses beyond this. Investment management agreements and account guidelines govern the maximum and types of permissible usage of derivatives and leverage.
3. Recourse leverage in separate accounts - This is leverage taken in separate account structures, where the terms of such structures allow the total potential loss to be greater than the amount invested or committed to by PSERS. Investment management agreements and account guidelines govern the maximum and types of permissible leverage.

E. Legal and Regulatory Risk

The use of derivatives exposes PSERS to legal and regulatory risks. Legal risk is the risk of inadequate or deficient legal documentation. Regulatory risk is the risk of changing or more burdensome regulatory requirements than those in place at the time the derivatives position was established. Appropriate legal and regulatory documentation is required to mitigate these risks.

The use of leverage relies on the execution of various forms of operative documents, including but not limited to trading agreements (e.g., ISDA swap agreements), partnership agreements, and investment management agreements. PSERS Office of Chief Counsel reviews contracts and operative documents, as described above, to limit the risks of inadequate documentation.

F. Collateral Risk

Securities used as collateral in derivatives transactions – whether posted by the counterparty to PSERS or by PSERS to the counterparty -- may not perform as expected. To mitigate this risk, cash and cash equivalents are preferred as collateral. Other securities (such as investment grade bonds) may be acceptable with an appropriate haircut reflective of their credit risk and interest rate duration.

In addition, the (1) reinvestment or (2) re-use (re-hypothecation) of collateral proceeds (both cash and securities) may produce leverage resulting from the added economic exposure of the reinvestment or re-hypothecation activity.

Re-investment of collateral received as part of the Securities Lending program is permitted, subject to the any policy related to Securities Lending.

G. Liquidity Risk

Liquidity risk may result from the usage of derivatives, depending on the type of derivative and its characteristics. For example, if PSERS liquidity is being otherwise drawn down by market conditions and if the mark-to-market or settlement of derivatives requires PSERS to post liquid collateral (for the mark-to-market) or provide cash (for settlement), then PSERS' liquidity draw down may be greater.

Liquidity risk associated with margin or collateralization requirements or instrument illiquidity may increase with the use of leverage. For Asset Allocation Leverage this is managed through notional targets in line with the IPS Target, the aggregate Explicit Leverage limitations within the Asset Allocation section of the IPS, and portfolio guideline constraints.

The management of liquidity risk is described within the Liquidity Policy.

H. Settlement Risk

Settlement risk is the risk of loss if a derivatives counterparty defaults and PSERS has fulfilled its trade obligations while the counterparty has not delivered the corresponding cash or security. Settlement risk is negligible for exchanged-traded derivatives since PSERS is contractually bound to a regulated exchange, not an individual counterparty, once the trade has been accepted by both trading parties. Settlement risk is mitigated for Category B derivatives (i.e., OTC derivatives) by requiring the counterparty to post collateral for amounts owed to PSERS on a timely basis as described within the relevant derivatives trading agreements.

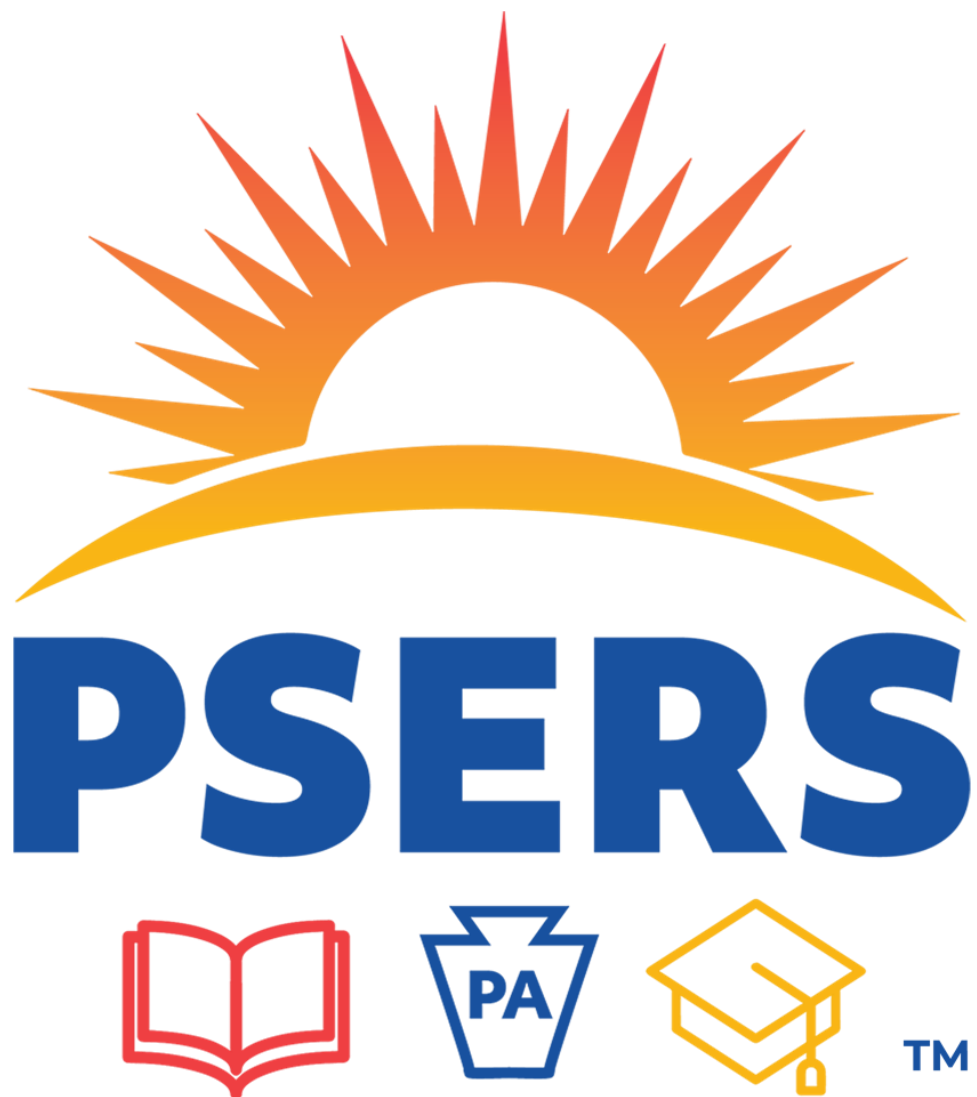


VIII. MONITORING AND REPORTING

An annual report on derivatives held in separate accounts containing the following information shall be provided to the Investment Committee:

- List of the separate accounts and asset classes in which derivatives reside.
- Indication whether each account allows recourse beyond the amounts invested in the account
- Type and purposes for which the derivatives are used (hedging, gaining asset class exposure, etc.)
- Exposure type and amounts (including notional amounts and mark-to-market balances)
- Primary counterparties and relevant initial margin and variation margin balances for Category B derivatives (i.e., OTC derivatives)
- Summary of applicable guideline provisions in place around their use.

For non-recourse leverage in limited liability fund structures, no information is required for the above-mentioned reporting.



COMMONWEALTH OF PENNSYLVANIA PUBLIC
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Placement Agent Policy

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Revision History

Placement Agent Policy Established
Policy Revised

March 6, 2020
October 23, 2025

I. SCOPE

This Policy applies to all investments made by the Pennsylvania Public School Employees' Retirement System ("PSERS" or "the System") through external Investment Managers that manage assets of PSERS' Defined Benefit Fund ("DB Fund") for transactions entered into after the effective date of this Policy.

II. PURPOSE

As fiduciaries, the members of the PSERS Board of Trustees ("Board") and Investment Office Professionals must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. The purpose of this Policy is to bring transparency to placement agent activity to ensure the integrity of the Board's decision-making process, to avoid any potential conflicts of interest (or the appearance of the same), and to help ensure that all investment decisions are made solely on their merits and in a manner consistent with the fiduciary duties of the Board. For purposes of this Policy, "Board" and "Board member(s)" include designee(s).

III. POLICY

No Placement Agents (as defined below) shall be used and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with PSERS' investments in or through Investment Managers, including without limitation any and all third party sponsors of general partners and/or managers of hedge funds, private equity funds, private credit funds, real estate funds, infrastructure funds, and public securities transactions. In addition, PSERS shall not bear any portion of placement agent fees incurred by Investment Managers or funds for the solicitation of third-party investors in connection with such investments.

This Policy shall be applied in a manner consistent with PSERS' fiduciary duty, demonstrating prudence and observing best practices. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

IV. DEFINITIONS¹

- A. Associated Party:** Any (i) partner, managing member or executive officer, or other individual with a similar status or function; (ii) employee who solicits a government entity for the investment manager and any person who supervises, directly or indirectly, such employee; or (iii) political action committee controlled by the investment manager or by any person described in (i) or (ii).
- B. Contribution:** Any gift, subscription, loan, advance, deposit of money, or anything of value made for:
1. The purpose of influencing any election for federal, state, or local office;
 2. Payment of debt incurred in connection with any such election; or
 3. Transition or inaugural expenses of the successful candidate for state or local office.
- C. Executive Officer:** Any (i) president of an Investment Manager; (ii) vice president of an Investment Manager in charge of a principal business unit, division or function (such as sales, administration or finance); (iii) other officer of an Investment Manager who performs a policy-making function; or (iv) any other person who performs similar policy-making functions for an Investment Manager.
- D. Investment Consultant:** Person(s) or firm(s), including but not limited to key personnel of such firm(s), who are contractually retained by PSERS to provide advice to PSERS on investments, Investment Manager selection, and other matters, but who do not exercise investment discretion.
- E. Investment Fund:** A private equity fund, private credit fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets.
- F. Investment Manager:** An asset management entity that is seeking to be, or is, retained by PSERS to manage a portfolio of securities or other assets for compensation, or a person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in an Investment Fund to

¹ The definitions for Associated Party, Contribution, and Official shall be interpreted consistently with how these terms are used in PSERS' "Pay-to-Play" Rule Compliance and Reporting Policy. It is noted that "Contribution" includes, but is not limited to, Contributions under any applicable limit set forth in Rule 206(4)-5 of the Investment Advisers Act of 1940.

PSERS. The Investment Manager may have full discretion to manage PSERS' assets, consistent with investment management guidelines provided by PSERS and fiduciary responsibility. The Investment Funds, the general partner and its Executive Officers and Associated Parties shall be included within this definition.

G. Official: Any person (including any election committee for the person) who was, at the time of the Contribution, an incumbent, a candidate, or a successful candidate for elective office of a government entity, if the office:

1. Is directly or indirectly responsible for, or can influence the outcome of, the hiring of an Investment Manager by the Board (e.g., without limitation, Board Members and designees); or
2. Has authority to appoint any person who is directly or indirectly responsible for, or can influence the outcome of, the hiring of an Investment Manager by the Board (e.g., without limitation, the Pennsylvania Governor, the Speaker of the Pennsylvania House of Representatives, and the President Pro Tempore of the Pennsylvania Senate).

H. Person: An individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

I. Placement Agent: Any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an Investment Manager or an Investment Fund managed by an Investment Manager, including those Persons engaged in certain jurisdictions solely for regulatory purposes, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, lobbyist, or other intermediary in connection with the offer or sale of (i) the investment management services of the Investment Manager or (ii) an ownership interest in an Investment Fund managed by the Investment Manager. Employees of an Investment Manager, including its registered broker dealer affiliate, are excluded from this definition provided they are not employed principally for the purpose of securing, or influencing the decision to secure, a particular investment transaction or investment by PSERS.

J. Placement Agent Fee: Any compensation or payment of a commission, finder's fee, bonus or any other benefit to be paid to a Placement Agent to perform sponsoring and/or brokering services on behalf of an Investment Manager, whether paid directly or indirectly, in connection with the placement/investment of specific investors (i.e. a third party investor, or group of third party investors).

K. Third Party Marketer: Any third party that performs general marketing services for an Investment Manager. If the marketer of an Investment Manager receives a Placement Agent Fee in exchange for its services, such marketer shall be considered a Placement Agent (and not a third-party marketer) for purposes of this Policy.

V. ROLES AND RESPONSIBILITIES

A. The Board

The Board is responsible for reviewing and approving this Policy and any changes to it.

B. Chief Investment Officer (“CIO”)

The CIO is responsible for implementing this Policy and suggesting revisions to this Policy.

C. Investment Office Professionals (“IOP”)

IOP are responsible for monitoring compliance with the Policy and recommending to the CIO changes to this Policy. IOP are also responsible for ensuring that Investment Management agreements, guidelines, and implementation procedures associated herewith are consistent with this Policy.

D. PSERS Office of Chief Counsel (“OCC”) and Fiduciary Counsel

OCC and fiduciary counsel (if any such counsel is retained) are responsible for advising the CIO and the Board regarding legal compliance and fiduciary duties with respect to this Policy.

VI. PROCESS

A. Prior to any recommendation to proceed with the engagement of an Investment Manager, each Investment Manager is required to provide a completed and signed Placement Agent Information Disclosure Due Diligence Questionnaire (the “Placement Agent Information Disclosure”) to PSERS in the form attached hereto as Appendix A (as may be amended from time to time). Through the Placement Agent Information Disclosure, the Investment Manager must:

1. Provide a statement confirming that neither the Investment Manager, nor any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any Person or entity to act as a Placement Agent in connection with any investment by PSERS.
2. Provide a statement whether the Investment Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any Person or entity to act as a Placement Agent in connection with raising the Investment Fund.
3. If the Investment Manager has responded that it has compensated or has agreed to compensate a Placement Agent, provide the following information in writing to PSERS IOP:
 - a. The name of the Placement Agent(s) and the relationship between the Investment Manager and the Placement Agent(s).
 - b. The name of any officer, partner or principal of the Placement Agent (and any employee providing similar services) who is a current or former PSERS Board member, employee or Investment Consultant or a member of the immediate family of any such person.
 - c. A full description of compensation of any kind provided or agreed to be provided to a Placement Agent, specifically including the nature, timing and total value thereof.
 - d. A full description of the services to be performed by the Placement Agent.
 - e. The names of any current or former PSERS Board members, employees, or Investment Consultants who suggested the retention of the Placement Agent.
 - f. The names of any current or former PSERS Board members or employees that are either employed or receiving compensation of any kind provided, or agreed to be provided, directly or indirectly by the

Placement Agent.

- g. A statement whether the Placement Agent or any of its affiliates are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar regulatory agent in a country other than the United States and the details of such registration or explanation of why no registration is required.
 - h. A statement whether the Placement Agent or any of its affiliates are registered (or are required to be registered as of a date certain) as lobbyists with any state or national government, and the details of such registration, if any.
- 4. Disclose to PSERS any Contribution made or given to Officials by the Investment Manager or any of its Associated Parties during the prior twenty-four-month period.²
 - a. If any such Contributions were made, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Investment Manager or Associated Parties (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.
- 5. Disclose to PSERS any Contribution made or given to any member of PSERS' Board, IOP or Investment Consultant by the Investment Manager or any of its Associated Parties.
 - a. If any such Contributions were made, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Investment Manager or Associated Parties (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.
- 6. Disclose to PSERS whether the Investment Manager or any of its Associated Parties has filed any report required by 25 P.S. §3260a of the Pennsylvania Campaign Finance Act (Article XVI of the Pennsylvania Election Code) during the prior twenty-four-month period.

² The Board acknowledges that an Investment Manager's responses to Sections A.4 may be used to satisfy its initial disclosure obligations under the Board's "Pay-to-Play" Rule Compliance and Reporting Policy; except that PSERS may ask the Investment Manager to update its response prior to Board consideration.

- a. If any such report was filed, provide a copy of such report to PSERS.
7. If the Investment Manager has responded that it has compensated or has agreed to compensate a Placement Agent, disclose to PSERS any Contribution, gift or other item of value made or given to any Official, member of the PSERS' Board, IOP, or Investment Consultant by the Placement Agent, during the prior twenty-four-month period.
 - a. If any such Contributions were made, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Placement Agent (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.
 8. Represent, warrant, and certify to PSERS that neither the Investment Manager nor any of its Associated Parties has made, coordinated or solicited a Contribution to any Official in violation of SEC Rule 206(4)-5 or any other applicable state or federal law.
 9. Represent, warrant, and certify to PSERS the accuracy of the information provided in accordance with this Policy, and acknowledge a continuing obligation to update any such information within ten (10) business days of any change in such information.
 10. Acknowledge and agree to PSERS that any material omission or inaccuracy in information submitted by the Investment Manager pursuant to this Policy, including failure to properly disclose, misrepresenting, misstating, or omitting a relationship between the Investment Manager and a Placement Agent, may result in any or all of the following:
 - a. Payment to PSERS by the Investment Manager an amount at least equal to the greater of the management fees paid to the Investment Manager by PSERS for the previous two years and an amount equal to the amounts paid or promised to be paid to the Placement Agent by the Investment Manager.
 - b. Immediate termination by PSERS of its agreement with the Investment Manager without penalty to PSERS.
 - c. Prohibition of the Investment Manager and/or Placement Agent from soliciting new investments from PSERS for five years following violation of this Policy.

B. PSERS IOP are responsible for the following:

1. Providing Investment Managers with a copy of this Policy, including the Placement Agent Information Disclosure, at the time that due diligence in connection with a prospective investment or engagement begins.
2. Confirming that the Placement Agent Information Disclosure has been received and is fully and properly completed prior to submitting to OCC for review to determine if the Placement Agent Information Disclosure is in compliance with this Policy.
3. Confirming that OCC has provided the Placement Agent Information Disclosure and a no objection opinion to the Board and the CIO prior to any recommendation to proceed with the engagement of the Investment Manager.
4. Confirming that the final written agreement between PSERS and the Investment Manager provides that the Investment Manager shall comply with this Policy and be solely responsible for, and PSERS shall not pay (directly or indirectly), any fees, compensation or expenses for any Placement Agent used by the Investment Manager in connection with an investment by PSERS. A provision that allows the Investment Manager to pay Placement Agent Fees or compensation in connection with an investment by any third party investor in an Investment Fund from capital contributed by PSERS with a corresponding reduction in the management fee payable with respect to PSERS' investment in such Investment Fund shall not be regarded as a payment of the Placement Agent Fee or compensation by PSERS for purposes of this Policy.

C. Prior to any recommendation to proceed with the engagement of the Investment Manager, OCC is responsible for the following:

1. Reviewing the Placement Agent Information Disclosure and determining whether the Placement Agent Information Disclosure is in compliance with this Policy.
2. Providing the Placement Agent Information Disclosure and a no objection opinion to the Board and the CIO.
3. Notifying the IOP and the attorney assigned to the transaction of their determination.

APPENDIX A:
FORM PLACEMENT AGENT INFORMATION DISCLOSURE
PLACEMENT AGENT INFORMATION DISCLOSURE

Investment Manager: _____

Investment Name: _____

The items listed below are reproduced in large part from Section VI(A) of the Policy and are to be completed following a detailed review of the Policy. The Investment Manager must complete each applicable section and have this Placement Agent Information Disclosure signed by an authorized signatory (preferably the chief compliance officer). This form may not be modified and must be answered as written. If necessary, please add additional pages to respond to questions seeking additional information. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Policy. For any requests seeking information not in the possession, custody or control of the Investment Manager, the Investment Manager must make a reasonable investigation to obtain said information and confirm so in the response.

The Investment Manager shall complete the following:

1. Has the Investment Manager, or any of its principals, employees, agents or affiliates compensated or agreed to compensate, directly or indirectly, any Person or entity to act as a Placement Agent in connection with any investment by PSERS?

☐ YES ☐ NO

2. Has the Investment Manager, or any of its principals, employees, agents or affiliates compensated or agreed to compensate, directly or indirectly, any Person or entity to act as a Placement Agent for the solicitation of third-party investors (other than PSERS) in connection with raising the Investment Fund.

☐ YES ☐ NO

3. If the Investment Manager has answered YES to either Question 1. or 2. above, provide the following information herein:

- a. The name of the Placement Agent(s) and the relationship between the Investment Manager and the Placement Agent(s).
- b. The names of any officer, partner or principal of the Placement Agent (and any employee providing similar services) who is a current or former PSERS Board member, employee or Investment Consultant or a member of the immediate family of any such person.

c. A full description of compensation of any kind provided or agreed to be provided to a Placement Agent, specifically including the nature, timing and total value thereof.

d. A full description of the services to be performed by the Placement Agent.

e. Was/is any officer, partner, principal or employee of the Investment Manager or its affiliates employed principally for the purpose of securing, or influencing the decision to secure, an investment by a particular investor?

☐ YES ☐ NO

(i) If answered YES, identify such person(s).

f. Did any current or former PSERS Board members, employees, or Investment Consultants suggest the retention of the Placement Agent(s)?

☐ YES ☐ NO

(i) If answered YES, identify such person(s).

g. Has the Placement Agent, either directly or indirectly, provided or agreed to provide any compensation or employment to a current or former: PSERS Board member or PSERS employee?

☐ YES ☐ NO

(i) If answered YES, identify such person(s).

h. Is the Placement Agent(s) or any of its affiliates registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar regulatory agent in a country other than the United States?

☐ YES ☐ NO

(i) If answered YES, provide the details of such registration.

(ii) If answered NO, explain why no registration is required.

i. Is the Placement Agent(s) or any of its affiliates registered (or are required to be registered as of a date certain) as lobbyists with any state or national government?

☐ YES ☐ NO

(i) If answered YES, provide the details of such registration.

4. Has the Investment Manager or any of its Associated Parties made or given any Contribution to an Official during the prior 24-month period?

☐ YES ☐ NO

- a. If answered YES, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Investment Manager or Associated Parties (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.

5. Has the Investment Manager or any of its Associated Parties made or given any Contribution to any member of PSERS' IOP or Investment Consultant?

☐ YES ☐ NO

- a. If answered YES, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Investment Manager or Associated Parties (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.

6. Has the Investment Manager or any of its Associated Parties filed any report required by 25 P.S. §3260a of the Pennsylvania Campaign Finance Act (Article XVI of the Pennsylvania Election Code) during the prior twenty-four-month period?

☐ YES ☐ NO

- a. If answered YES, attach a copy of such report(s) to PSERS to this Placement Agent Information Disclosure.

7. If the Investment Manager has answered YES to either Question 1. or 2. above, has the identified Placement Agent(s) made or given to any Official, member of the PSERS', IOP, or Investment Consultant any Contribution, gift or other item of value during the prior 24-month period?

☐ YES ☐ NO

- a. If answered YES, identify (i) the date of the Contribution, (ii) the person or entity making, coordinating, or soliciting the Contribution and the person's position with the Placement Agent (if the Contribution was made by an individual), the person or entity receiving the Contribution, and (iv) the Contribution amount.

8. Do you hereby represent, warrant, and certify to PSERS herein that neither the Investment Manager nor any of its Associated Parties has made, coordinated or solicited a Contribution to any Official in violation of SEC Rule 206(4)-5 or any other applicable state or federal law?

☐ YES ☐ NO

9. Do you hereby represent, warrant, and certify to PSERS herein the accuracy of the information provided in this Placement Agent Information Disclosure, and acknowledge and agree to a continuing obligation to update any such information within ten (10) business days of any change in such information?

☐ YES ☐ NO

[Remainder of Page Intentionally Blank]

10. Do you acknowledge and hereby agree that any material omission or inaccuracy in information submitted by the Investment Manager pursuant to this Policy, including failure to properly disclose, misrepresent, misstate, or omit a relationship between the Investment Manager and a Placement Agent, may result in any or all of the following:

- a. Payment to PSERS by the Investment Manager an amount at least equal to the greater of the management fees paid to the Investment Manager by PSERS for the previous two years and an amount equal to the amounts paid or promised to be paid to the Placement Agent by the Investment Manager.
- b. Immediate termination by PSERS of its agreement with the Investment Manager without penalty to PSERS.
- c. Prohibition of the Investment Manager and/or Placement Agent from soliciting new investments from PSERS for five years following violation of this Policy.

☐ YES ☐ NO

Acknowledged and agreed to by:

Signature	Date
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Authorized Signatory

Title

Name of Investment Manager