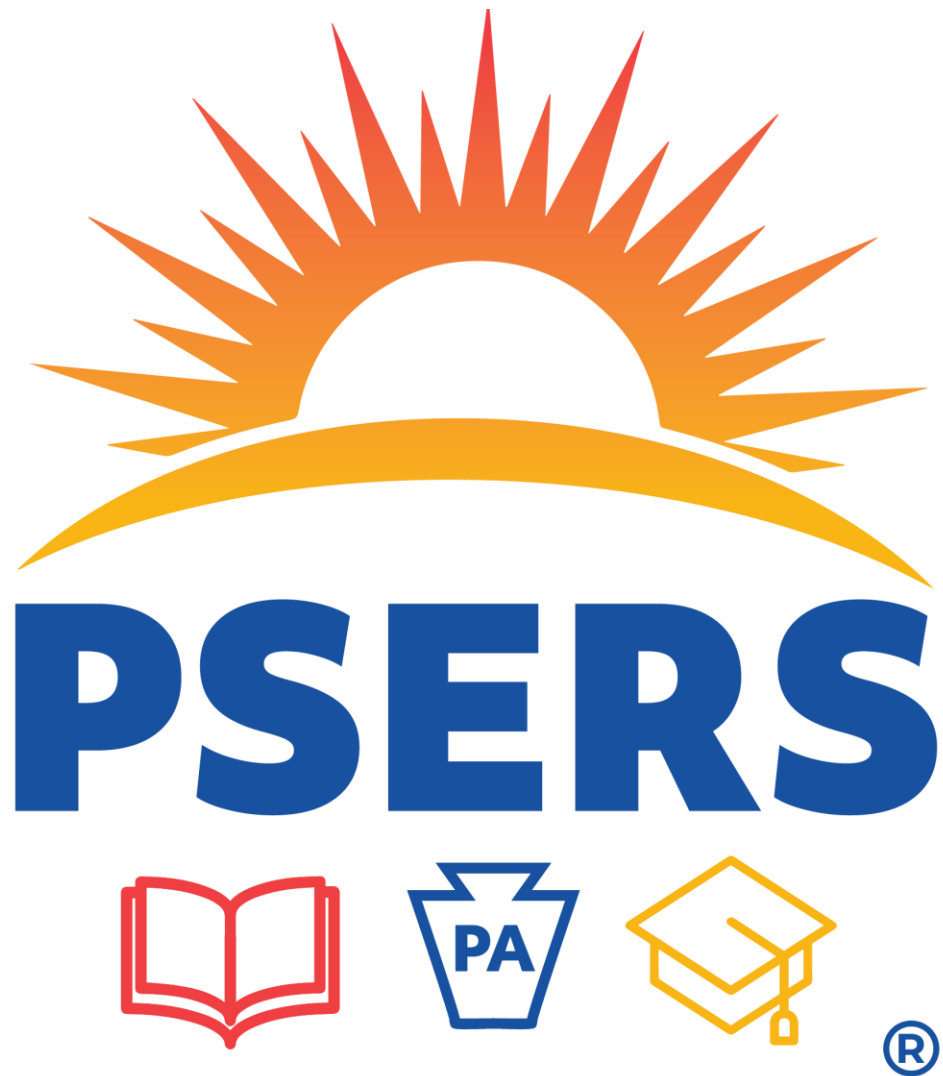


PSERB Resolution 2025-86

Re: External Manager Due Diligence and Monitoring Policy and External Managers' Insurance Policy December 12, 2025

RESOLVED, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation of the Investment Committee and adopts the changes to the External Manager Due Diligence and Monitoring Policy and External Managers' Insurance Policy, attached:

- External Manager Due Diligence and Monitoring Policy
- External Managers' Insurance Policy



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

External Manager Due Diligence and Monitoring Policy



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Revision History

Non-Traditional Investments Due Diligence

Policy Established	March 6, 2020
Policy Revised	March 5, 2021
Policy Revised	March 15, 2022

Traditional Investments Due Diligence

Policy Established	March 6, 2020
Policy Revised	March 5, 2021

Public Markets and Private Markets Due Diligence and Monitoring

Policies Combined, Renamed and Revised	August 16, 2024
Policy Revised	December 20, 2024

Insurance Section Added (Section V., Element 3)	December 12, 2025
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External Manager contracts effective on or after April 1, 2026 are subject to the insurance requirements in the External Manager's Insurance Policy, which can be accessed at [Policies | Public School Employees' Retirement System | Commonwealth of Pennsylvania](#)



I. SCOPE

This Policy applies to investments with External Managers across both Public Markets Asset Classes and Private Markets Asset Classes of the Commonwealth of Pennsylvania, Public School Employees' Retirement System (PSERS) Defined Benefit Fund (the Fund).

II. PURPOSE

This Policy provides the framework for the due diligence (underwriting) of prospective External Managers. The goals of this framework are to:

- Develop an understanding of the External Manager, its processes and investment strategy.
- Generate performance expectations, identify the factors necessary to meet those expectations, and risks that may impede meeting those expectations.
- Ascertain portfolio fit.

This Policy also provides the framework for monitoring External Managers. The goals of this framework are to:

- Determine whether the External Manager's performance, strategy, processes, and portfolio fit are still within expectations determined when originally underwritten.
- Escalate to a watchlist those Public Markets External Managers falling outside of those expectations (Note: Internal Managers shall also be subject to a watchlist).
- Report annually to the Investment Committee the utilization and status of any Private Markets use of delegated authority.
- Cease new investment with and/or terminate those External Managers falling outside of those expectations and expected to remain so.
- Provide the minimum insurance standards for External Managers.

III. ROLES AND RESPONSIBILITIES

Roles and Responsibilities related to this Policy are identified within PSERS' Investment Policy Statement (IPS).

IV. DUE DILIGENCE (UNDERWRITING) FRAMEWORK

Investment Office Professionals (IOP) are responsible for adhering to a framework for underwriting External Managers. IOP should leverage the resources of the relevant Investment Consultant throughout the underwriting process when prudent.



A. External Managers

- **Sourcing and Identification**
 - IOP identify potential External Managers through numerous sources, including internal efforts, the relevant Investment Consultant, and peer institutions.
- **Manager Analysis and Manager Interviews: Meetings, Calls and Preliminary Negotiation of Terms**
 - Thoughtful and structured interviews allow the IOP to develop performance expectations and a portfolio fit assessment for a prospective External Manager by understanding the decision makers, their philosophies, organizational structures and motivations, and the resultant impact on performance.
 - Economic and other pertinent terms are negotiated to align the interests of PSERS and the External Manager.
- **Performance Analysis**
 - IOP and the relevant Investment Consultant analyze historical results to build conviction in the merits of an External Manager's investment strategy and the execution thereof. An External Manager's relative performance is assessed against relevant benchmarks, including peer quartile rankings and public market equivalent returns when applicable.
- **Document Review**

Items to be reviewed may include the following (Note: Not all of these will be applicable or available in all cases):

 - Due Diligence Questionnaires, Placement Agent Policy, and presentation materials.
 - Historical client letters and communications, including, where applicable, a sampling of capital call and distribution notices, performance reports and holdings reports.
 - Audited financial statements of current and/or predecessor funds or partnerships (Note: Not applicable to custodied Separate Account portfolios managed via an Investment Advisory Agreement).
 - Offering materials for funds and partnerships (e.g., Private Placement Memorandum, Limited Partnership Agreement, Subscription Document).
 - Proposed investment guidelines and investment advisory agreements for custodied Separate Accounts.
- **Public Information Review**
 - IOP, in conjunction with the assigned Investment Consultant, gather and review information that is publicly available, including Form ADV, concerning the External Manager and key individuals at the firm.



- **Reference Calls**
 - IOP perform reference calls. These may include former employers/colleagues, current investors, former investors, vendors, or investment partners (Note: Not all of these will be applicable or available in all cases).
- **Operational Review and Due Diligence**
 - The assigned Investment Consultant conducts a full operational review and issues an Operational Due Diligence (ODD) memorandum
 - IOP review the completed ODD memorandum.
 - PSERS' Internal Operational Due Diligence Manager will also conduct an ODD review and summarize key findings in a memo to the AIC. .
- **IOP Recommendation**
 - IOP prepare memoranda of recommendation that address key aspects of the investment, generally including firm overview, market opportunity, portfolio fit, past performance, and identified risks.
 - The assigned Investment Consultant conducts a full investment review and issues an Investment Due Diligence (IDD) memorandum.
 - IOP review the completed IDD memorandum.
- **Review and Approval by AIC and CIO**
 - The AIC confirms that PSERS' Office of Chief Counsel (OCC) has issued the necessary Placement Agent No Objection Opinion, and votes on all External Manager recommendations.
 - Upon receiving AIC approval, the matter is elevated to the CIO for final approval, and subsequent Board recommendation if applicable.
- **Distribution of Materials to Board**
 - Following CIO approval of any matter requiring approval by or notification to the Board, the IOP and assigned Investment Consultant recommendation memoranda along with other information deemed necessary for Board members to assess the recommendation and assess possible conflicts of interest, including but not limited to known relevant political contributions, will be provided to the Board not less than 21 calendar days prior to PSERS expected commitment date.
- **Preliminary Legal/Side Letter Negotiation**
 - IOP may provide legal documents to OCC depending on the targeted funding or closing date of the investment to commence legal negotiations.
- **Board Approval (where applicable)**
 - Unless otherwise delegated by way of a previously approved Board resolution, Board approval is required for any commitment to a newly established entity, except as provided for in Sections B & C hereto.
 - Where discretion to initiate new commitments has been delegated pursuant to a previously approved Board resolution no further Board approval is required.



- However, if 33% or more of Board Investment Committee members request additional public discussion of an investment that would fall under any such prior delegation, the Executive Director and CIO will facilitate such discussion prior to binding commitments.
- Furthermore, if a specific private markets asset class is above its allocation Target by more than fifty percent (50%) of the range stipulated in the IPS or would cause PSERS to exceed its limit for a particular manager, than no such binding commitment can be initiated unless specifically approved by the Board.
- **Final Legal Negotiations**
 - Upon receipt of required approvals, IOP coordinates final legal reviews with OCC. Certain matters will be addressed via a side letter and/or investment advisory agreement to obligate the External Manager to abide by all applicable and then-current PSERS Board Policies (e.g., Placement Agent Policy) or other requirements as may be required and confirmed with OCC (e.g., disclosure of political contributions and the use of ILPA templates where applicable).
 - Once the agreements have been approved and executed by OCC, IOP, and PSERS' Executive Office, the contracts are sent, if necessary, to the Office of Attorney General for form and legality review and approval.
 - The Office of Attorney General (OAG) has delegated to PSERS execution authority for fully negotiated contracts that meet the requirements of the Office of Attorney General's delegation letter.
 - Fully negotiated contracts that do not meet the above criteria must be sent by OCC to the OAG for form and legality review and approval.

B. Co-Investments and Secondary Investments (excluding Private Markets PA Co-Invest Program)

Co-Investments and Secondary Investments in Private Markets are defined and specifically permitted in the Private Markets Asset Class Policy.

Co-Investments in Public Markets are specifically permitted in the Public Markets Asset Class Policy.

- **Sourcing and Identification**
 - IOP may be offered Co-Investments and Secondary Investments alongside existing External Managers.

- **Manager Discussions and Analysis**
 - IOP will engage in detailed discussions with the External Manager sponsoring the Co-Investment or Secondary opportunity to better understand the merits and risks of the opportunity.
- **Performance Analysis**
 - IOP analyze historical results to assess the merits of an External Manager's investment strategy and execution thereof.
- **Document Review**

Items to be reviewed may include the following (Note: Not all of these will be applicable or available in all cases):

 - Investment Committee Memorandum
 - Financial Models
 - Bank / Lender presentation
 - 3rd Party Investment Consultant Reports (i.e., quality of earnings)
 - Applicable Financial Statements
 - Offering Materials (e.g., Limited Partnership Agreement, Subscription Document)
 - Relevant investment and deal lead track records
 - Applicable legal formation documents and any other relevant legal documents.
- **Public Information Review**
 - IOP will gather and review information that is publicly available concerning the External Manager sponsoring the Co-Investment, the key individuals at the firm, and the Co-Investment entity.
- **IOP Recommendation**
 - IOP prepares a memorandum to the AIC that address key aspects of the investment, generally including an investment overview, market opportunity, portfolio fit, management track record, public information review, identified risks, External Manager concentration risk and Portfolio Co-Investment and Secondary Investment capacity; concluding with a formal recommendation.
- **Review and Approval by AIC and CIO**
 - The AIC reviews and votes on all Co-Investment and Secondary Investment recommendations. Upon receiving AIC approval, the matter is elevated to the CIO for final approval.
- **Contracting/Legal Negotiations (when applicable)**
 - Upon AIC and CIO approval, the IOP begins legal reviews with OCC. Certain matters will be addressed via a side letter when necessary.
 - The Office of Attorney General (OAG) has delegated to PSERS execution authority for fully negotiated contracts that meet the requirements of the Office of Attorney General's delegation letter.
 - Fully negotiated contracts that do not meet the above criteria must be sent by OCC to the OAG for form and legality review and approval.

C. Private Markets PA Co-Investment Program

Co-Investment opportunities located in Pennsylvania sourced from an existing External Manager will follow either the process outlined in Section IV. B. above, or will be assigned to the applicable Investment Consultant following the process outlined below.

Co-Investment opportunities located in Pennsylvania where PSERS does not have an existing External Manager relationship will be assigned to the applicable Investment Consultant following the process outlined below.

- **Consultant Recommendation**
 - PA Co-Investment Program opportunities are underwritten and recommended by the applicable Investment Consultant.
- **IOP Recommendation**
 - Reviews the Investment Consultant's recommendation and determines if it will be recommended to the AIC for approval.
- **Review and Approval by AIC and CIO**
 - The AIC reviews and votes on all PA Co-Investment Program recommendations.
 - Upon receiving AIC approval, the matter is elevated to the CIO for final approval.

V. MONITORING FRAMEWORK

The External Manager monitoring framework is comprised of the following elements:

Element 1: Reporting Review

IOP should review relevant External Manager reporting. This may include investor letters, performance, holdings and risk reports, financial statements, capital account statements, audits, Form ADV, ILPA reporting, and other PSERS-specific disclosures (Note: Not all of these will be applicable or available in all cases).

Element 2: Ethics and Compliance Affirmations

IOP should review any ethics and compliance affirmations from External Managers as required to be provided to PSERS in the governing legal documents. These may include:

- Annual affirmation of awareness of and compliance with PSERS ethics policies with regard to their interactions with PSERS and PSERS personnel
- Annual affirmation of compliance with PSERS rules, such as the prohibition on gifts



- Annual affirmation of compliance with required disclosures, code of conduct, and conflicts of interest by trustees, executives, and third parties

Element 3: Insurance

This section applies to all External Manager contracts with an effective date on or after April 1, 2026. Please note that the External Managers' Insurance Policy which remains accessible at

<https://www.pa.gov/agencies/psers/transparency/investment-program/guide.html> continues to apply to all External Managers contracts with an effective date prior to April 1, 2026.

IOP should review evidence of insurance coverage obtained by External Managers as required in the governing legal documents. This insurance shall be for loss incurred by reason of acts or omissions of the External Manager or any of their affiliates, officers, directors, members, managers, employees, or agents thereof.

Specifically, an External Manager is required to have the following:

- Commingled funds, partnerships, and funds of one: The External Manager shall use commercially reasonable efforts to procure and maintain errors and omissions liability insurance (E&O) and fidelity bond or equivalent insurance (Fidelity Bond) relating to its funds in which PSERS invests, the level and scope of which shall be reasonably determined by the External Manager in good faith from time to time.
- Separate Accounts: The External Manager shall obtain the following:
 - Fidelity Bond: At a minimum the scope of coverage shall include (i) acts of dishonesty including, but not limited to, employee and contractor dishonesty; (ii) acts of fraud including, but not limited to, computer fraud, cyber-security, electronic funds fraud and wire transfer fraud; (iii) forgery and alteration; and (iv) PSERS as an additional insured. The required minimum amount of insurance shall be:



Manager's Assets Under Management	Minimum Required Amount
≤ \$500 million	\$1 million
>\$500 million ≤ \$3 billion	\$3 million
>\$3 billion to ≤ \$10 billion	\$5 million
>\$10 billion to ≤ \$25 billion	\$10 million
>\$25 billion to ≤ \$50 billion	\$15 million
>\$50 billion to ≤ \$100 billion	\$25 million
>\$100 billion to ≤ \$250 billion	\$35 million
>\$250 billion to ≤ \$500 billion	\$50 million
> \$500 billion	\$50 million and subject to further review ²

¹ Assets Under Management is the higher of an External Manager's total assets disclosed in its most recently filed Securities and Exchange Commission (SEC) Form ADV Part 1 or Form ADV Part 2, or similar documents filed with other regulators if it is not SEC-registered, at the time insurance is issued or renewed.

² For External Managers with assets under management over \$500 billion, PSERS shall review the External Manager's insurance and may require that the External Manager submit additional information.

- E&O: At a minimum the scope of coverage shall include protection of an entity, its officers, directors and employees in the event they are sued by clients for any actual or alleged negligent act, error or omission committed within the scope of performing professional services. Such coverage also includes legal defense costs even where allegations are baseless. The required minimum amount of insurance shall be:

Manager's Assets Under Management	Minimum Required Amount
≤ \$250 million	\$1 million
>\$250 million ≤ \$500 million	\$2 million
>\$500 million to ≤ \$1 billion	\$5 million
>\$1 billion to ≤ \$10 billion	\$10 million
>\$10 billion to ≤ \$25 billion	\$15 million
>\$25 billion to ≤ \$35 billion	\$20 million
>\$35 billion to ≤ \$50 billion	\$25 million
>\$50 billion to ≤ \$70 billion	\$35 million
>\$70 billion to ≤ \$100 billion	\$50 million
>\$100 billion to ≤ \$200 billion	\$65 million
>\$200 billion to ≤ \$350 billion	\$80 million
>\$350 billion to ≤ \$500 billion	\$100 million
>Over \$500 billion	\$150 million and subject to further review ²

¹ Assets Under Management is the higher of an External Manager's total assets disclosed in its most recently filed Securities and Exchange Commission (SEC) Form ADV Part 1 or Form ADV Part 2, or similar documents filed with other regulators if it is not SEC-registered, at the time renewed. insurance is issued or renewed.



² For External Managers with assets under management over \$500 billion, PSERS shall review the External Manager's insurance and may require that the External Manager submit additional information.

- For both E&O and Fidelity Bond:
 - Deductible/Retention: The maximum deductible or retention shall be either (i) no greater than \$500,000 if the External Manager has less than \$1 billion in firm-wide assets under management and no greater than \$1 million if the External Manager has \$1 billion or more in firm-wide assets under management, or (ii) no greater than 10 percent of the External Manager's retained earnings(equity) as documented in the audited financial statements which must be provided to PSERS annually in a timely fashion. If audited financial statements are not available, PSERS may accept a signed representation from the External Manager that the deductible or retention meets the requirements of subsection (ii) or alternatively, the CIO or designee in consultation with the Chief Counsel or designee may accept a lower deductible or retention then required by subsection (i) on a case-by-case basis, which shall be contemporaneously memorialized in writing.
 - Cost of insurance: External Manager confirms that it has an internal policy to allocate expenses fairly and equitably, and as a result of such policy, the External Manager and its affiliates will bear a portion of the costs of the insurance policies required above.
 - Naming: Insurance coverage may be in the name of the External Manager's parent organization as long as the External Manager is named in that policy as an insured party.
 - Admitted Carrier: Insurance coverage shall be procured from an admitted carrier or an eligible surplus lines carrier authorized to issue such policies. The issuing carrier must be rated at least A- by A.M. Best.
 - Other Provisions:
 - External Manager shall provide PSERS, within thirty (30) business days of the External Manager's retention by PSERS, and by request thereafter annually, copies of the insurance certificate or equivalent documentation evidencing the coverage required above and any additional coverage agreed to be by contract.



- External Manager shall notify PSERS within thirty (30) business days if coverage is materially altered, reduced, lapsed, or canceled. For External Managers of separate accounts, in the event that the External Manager fails to provide such notice, the External Manager shall be liable to PSERS for losses incurred that could have been covered by fidelity insurance or E&O insurance but for cancellation or change of coverage.
- Any insurance procured must be consistent with the currency (or currencies) in which the investment is denominated or provide PSERS with a reasonable explanation for deviation therefrom.

Element 4: Manager Meetings

IOP should participate in virtual or in-person meetings with each External Manager at least annually. This may be satisfied through attendance at Annual General Meetings (for Private Markets External Managers), Limited Partner Advisory Board meetings (for Private Markets External Managers), and/or manager update meetings with IOP. Typical areas to address include firm/team/strategy changes, portfolio review and performance, market outlook, and legal/compliance/operational updates.

Element 5: Investment Consultant Dialogue

Investment Consultant(s) should function as an extension of IOP with regard to External Manager monitoring. IOP will maintain an ongoing dialogue with the relevant Investment Consultant to discuss External Manager performance and any potential areas of concern.

Element 6: Investor Consents and Amendments

From time to time, External Managers may seek consents and/or amendments from Advisory Board Members or Limited Partners as contemplated in governing legal documents (including limited partnership agreements, investment management agreements, and side letters).

IOP (from a business perspective) and OCC (from a legal perspective) will work jointly, as necessary, to review the proposed consent/amendment and recommend approval or rejection.

On occasion, IOP may wish to initiate an amendment to the governing legal documents (i.e., fee structure, exposure thresholds, key persons) and will work jointly with OCC to effectuate such amendment. Amendments may need to be reviewed by OAG if they do not meet the OAG delegation letter requirements.



Element 7: Public Markets Watchlist

If IOP determines that a Public Markets External Manager has fallen outside of expectations as originally underwritten, IOP will place that External Manager on a watchlist. Additions to a watchlist will be communicated to the Board within the Investment Office Dashboard.

Similarly, if a Public Markets External Manager that is on a watchlist is determined by IOP to be back within expectations as originally underwritten, IOP will remove that External Manager from the watchlist and the Investment Office Dashboard.

A more detailed review of the External Manager lineup in relation to watchlist criteria, including updating any decision to terminate, will be reported to the Board semi-annually in consultation with the Investment Consultant.

Element 8: Public Markets Termination

IOP will prepare a memorandum of recommendation to the AIC addressing the rationale for termination, reduction, or disposition as well as the process, timeline, and costs.

The AIC reviews and votes on the recommendation. Upon receiving AIC approval, the matter is elevated to the CIO for final consideration.

Notwithstanding recommendations from the AIC, the CIO has authority and ultimate responsibility for manager termination decisions, for cause or otherwise.

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.

CIO will update the Board on any termination as described above in Element 6.

Element 9: Private Markets Utilization of Delegated Authority

IOP will provide a semi-annual report to the Board of Private Markets utilization of delegated authority, including the following elements:

- Allocations to new entities pursuant to any outstanding delegation of authority
- Co-Investment and Secondary Investment authority and annual investment activity
- Continuing resolutions (i.e., mandates allowing staff to add new money to accounts upon AIC / CIO approval), associated performance of such mandates, and annual activity utilizing such delegated authority



VI. DEFINITIONS

All terms are defined within this document, other Policies (such as the Public Markets Asset Class Policy and Private Markets Asset Class Policy), or the IPS.



PSERS



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

External Managers' Insurance Policy



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Revision History

External Managers' Insurance Policy Established
Policy Revised

March 6, 2020
March 5, 2021

This policy remains in effect only for external parties engaged before April 1, 2026. As part of the policy transition, all contracts executed on or after April 1, 2026 with External Managers are subject to the External Manager Due Diligence and Monitoring Policy, which can be accessed at [Policies | Public School Employees' Retirement System | Commonwealth of Pennsylvania](#)



I. SCOPE

This Policy applies to External Managers within the Pennsylvania Public School Employees' Retirement System ("PSERS") Defined Benefit Fund ("The Fund").

II. PURPOSE

This Policy is intended to assure that External Managers of PSERS' assets comply with prudent practices concerning insurance.

III. ROLES AND RESPONSIBILITIES

Roles and Responsibilities related to this Policy are identified within PSERS' Investment Policy Statement ("IPS").

IV. OBJECTIVES OF THIS POLICY

This Policy establishes minimum insurance standards that External Managers shall meet.

V. TYPES OF INVESTMENT MANAGEMENT ARRANGEMENTS

A. Separate Accounts

Separate Accounts are professionally managed portfolios in which PSERS provides all of the capital necessary to accomplish a specified investment objective. Separate Account arrangements are subject to the terms set forth in a two party agreement between PSERS and the External Manager, commonly called an Investment Management Agreement ("IMA"). The IMA is structured to meet the specific goals of PSERS, which are tailored to match PSERS' explicit investment policies and legal requirements. Separate Accounts provide greater investment discretion to and are terminable at will by PSERS.

B. Commingled Accounts

Commingled Accounts consist of assets of multiple investors, including PSERS, all of which 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.



C. Fund of One

A Fund of One structure lies between a Separate Account and a Commingled Account. It is a fund structure that is created specifically for PSERS with the underlying assets owned by the fund. PSERS is an indirect investor in the underlying assets as, legally, these are 'owned' by the fund. As the sole investor in the fund, the investment mandate can be customized to PSERS' specific requirements.

D. Co-Investments

Co-Investments do not have their own insurance but are covered by the insurance in the vehicle the Co-Investment comes from.

VI. INSURANCE REQUIREMENTS FOR SEPARATE ACCOUNT EXTERNAL MANAGERS

Separate Account External Managers shall maintain and provide evidence of insurance coverage in accordance with the standards set forth in this Section VI for loss incurred by reason of acts or omissions of the Separate Account External Manager or any of their affiliates, officers, directors, members, managers, employees, or agents thereof.

A. Fidelity Insurance

1. Scope of Coverage

At a minimum, External Managers' fidelity insurance must cover:

- Acts of dishonesty including, but not limited to, employee dishonesty;
- Acts of fraud including, but not limited to, computer fraud, electronic funds fraud and wire transfer fraud; and
- Forgery and alteration
- PSERS as an additional insured

2. Amount of Insurance

Separate Account External Managers shall provide evidence of fidelity insurance in at least the amounts set forth in the following table:

Assets Under Management for PSERS	Minimum Required Limit
Up to \$100 million	\$500,000
\$100 million to \$300 million	\$1.5 million
\$300 million to \$500 million	\$2.5 million
\$500 million to \$1 billion	\$5 million
\$1 billion and above	\$10 million

Insurance obtained by non-U.S. managers in non-U.S. currencies will be converted to USD equivalent amounts to determine compliance with these policies based on the conversion rate at the effective policy date.

B. Errors and Omissions Insurance.

Separate Account External Managers shall provide evidence of Errors and Omissions (E&O) insurance in at least the amounts set forth in the following table:

Assets Under Management for PSERS	Minimum Required Limit
Up to \$100 million	\$1 million
\$100 million to \$300 million	\$3 million
\$300 million to \$500 million	\$5 million
\$500 million to \$1 billion	\$10 million
\$1 billion and above	\$20 million

Insurance obtained by non-U.S. managers in non-U.S. currencies will be converted to USD equivalent amounts to determine compliance with these policies based on the conversion rate at the effective policy date.

The External Manager confirms that it has an internal policy to allocate expenses fairly and equitably, and as a result of such policy, the Separate Account External Manager and its affiliates will bear a portion of the costs of the insurance policies required by this Section VI. The Separate Account

External Managers shall provide PSERS, within thirty (30) Business Days of the Separate Account External Manager's retention by PSERS, and on an annual basis thereafter, with copies of an insurance certificate or equivalent documentation evidencing the coverage described in subsections VI (A) and (B) above; and notify PSERS within ten (10) business days if coverage is materially altered, reduced, or canceled. In the event that the External Manager fails to provide such notice, the Separate Account External Manager shall be liable to PSERS for losses incurred by the Board that could have been covered by E&O insurance or a fidelity bond but for the cancellation or change of coverage. Insurance coverage may be in the name of the Separate Account External Manager's parent organization as long as the Separate Account External Manager is named in that policy or bond as an insured party.

The maximum deductible on both the Errors and Omissions coverage and the Fidelity Bond must be either (i) no greater than \$500,000 if the Separate Account External Manager has less than \$1 billion in firm-wide assets under management and no greater than \$1 million if the Separate Account External Manager has \$1 billion or more in firm-wide assets under management, or (ii) no greater than 10 percent of the Separate Account External Manager's retained earnings(equity) as documented in the audited financial statements which must be provided to PSERS annually in a timely fashion.

For purposes of evaluating the sufficiency of insurance coverage, PSERS considers coverage and deductible amounts of the parent company when applicable.

VII. INSURANCE REQUIREMENTS FOR COMMINGLED ACCOUNT EXTERNAL MANAGERS

Commingled Account External Managers shall use commercially reasonable efforts to procure and maintain errors and omissions liability insurance coverage relating to its funds in which PSERS invests, the level and scope of which shall be reasonably determined by the Commingled Account External Manager in good faith from time to time. Within thirty (30) business days of PSERS' retention of the Commingled Account External Manager, and annually thereafter upon PSERS' reasonable request, the Commingled Account External Manager shall provide PSERS with copies of an insurance certificate or equivalent document evidencing such coverage. Further, the Commingled Account External Manager shall notify PSERS within ten (10) business days if coverage is materially altered or reduced during the term of PSERS' investment in any funds sponsored by such External Manager. Any insurance procured pursuant to this Section must be consistent with the currency in which the fund is denominated or provide PSERS with a reasonable explanation for deviation therefrom.



VIII. INSURANCE REQUIREMENTS FOR FUND OF ONE EXTERNAL MANAGERS

Fund of One External Managers shall use commercially reasonable efforts to procure and maintain errors and omissions liability insurance coverage relating to its funds in which PSERS invests, the level and scope of which shall be reasonably determined by the Fund of One External Manager in good faith from time to time. Within thirty (30) business days of PSERS' retention of the Fund of One External Manager, and annually thereafter upon PSERS' reasonable request, the Fund of One External Manager shall provide PSERS with copies of an insurance certificate or equivalent document evidencing such coverage. Further, the Fund of One External Manager shall notify PSERS within ten (10) business days if coverage is materially altered or reduced during the term of PSERS' investment in any funds sponsored by such External Manager. Any insurance procured pursuant to this Section must be consistent with the currency in which the fund is denominated or provide PSERS with a reasonable explanation for deviation therefrom.

IX. DEFINITIONS

Definitions related to this Policy, to the extent not otherwise defined herein, are identified within PSERS' IPS.

X. EFFECTIVENESS

This Policy shall become effective on March 6, 2021.

For External Managers sponsoring a fund in which PSERS is invested as of March 5, 2021, Section VII or VIII, as the case may be, shall become effective upon investment by PSERS in a subsequent fund sponsored by such External Manager.