INVESTMENT POLICY STATEMENT

FOR

THE PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES'

RETIREMENT FUND

Board Adopted November 27, 2001 (Amended February 1, 2002)

INVESTMENT POLICY
FOR
THE PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

The Public School Employees' Retirement Board (the Board) is responsible for the formulation of investment policy for the Public School Employees' Retirement Fund (the Fund). The Fund is the largest public pension fund in the Commonwealth of Pennsylvania and the custodian of the Fund's assets is the State Treasurer of the Commonwealth of Pennsylvania. The Board, as trustee for the Fund, has exclusive investment control and management of the Fund, subject to constraints set forth in Section 8521 (Prudent Person Legislation) of the Public School Employees' Retirement Code, 24 Pa. C.S. and the laws of the Commonwealth of Pennsylvania, and the interest of the taxpayers of this Commonwealth to support this Fund. As part of the Board's function, it has the responsibility for the implementation of investment policy, retention of investment advisors, and ongoing supervision of investment results. The Board is also responsible for establishing policies with respect to fees and commissions for all managers, investment advisors, and agents to the plan assets. In order to fulfill its responsibilities, it is the intention of the Board to review the Investment Policy at least annually.

Investment policy for the Fund relates to the portfolio of all assets which comprise the total holdings of the Fund. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the Fund, as well as maximizing earnings of the Fund consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary. The reports provide in-depth analysis of the funding policies for the Public School Employees' Retirement System (the System). The investment policies herein set forth and the long-run average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash-flows to the plan and its projected benefit payments. Should either the projected finances of the System change significantly, changes in applicable Federal or State statutes dictate, or changes in the plan's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by action of the Board, if appropriate. The Investment Policy represents policy for the entire Fund, which for the purposes of investment management and control is divided into portfolios that contain similar assets or for which the Board has retained a specific investment advisor. Detailed guidelines for each of these portfolios have been constructed so that they collectively implement policy for the entire Fund.

Investment Objectives

The long term investment objectives of the Fund are:

1. Preservation of capital in real terms;

2. To maximize total returns while limiting the risk of volatility through diversification;

3. To achieve returns in excess of the policy index (the policy index is a custom index created based on the Board established asset allocation structured to generate a return that supports the growth of the projected actuarial liabilities of the Fund);

4. To achieve a real rate of return over CPI over time;

5. To provide sufficient liquidity to meet the current operating needs of the Fund.

Asset Allocation

The Board will review long-term asset allocation targets at least annually. The Board will seek the opinion of its actuary, consultants, staff, and any other sources of information it deems appropriate in formulating this allocation. The purpose of the Board's long-term asset allocation is to achieve diversification, or a combination of expected return and risk, that is consistent in meeting the near and long-term financial needs and objectives of the Fund.

The following are the long-term asset allocation targets of the Board, based on the market value of the Fund's assets:

ASSET CLASS	SUB-CLASS OBJECTIVE	12/02 OBJECTIVE	POLICY RANGE
Large Cap	28.3%		
Small Cap	9.4%		
U.S. Equity Exposure		**37.7%**	**32.7% - 42.7%**
Int'l Developed Large Cap	16.2%		
Emerging Markets	1.8%		
Non-U.S. Equity Exposure		**18.0%**	**13.0% - 23.0%**
Total Equity Exposure		**55.7%**	**45.7% - 65.7%**
Liquidity Reserve Account	3.30%		
Domestic Fixed Income	10.20%		
Global Fixed Income	4.60%		
Specialty Fixed Income	4.40%		
Total Fixed Income Exposure		**22.5%**	**17.5% - 27.5%**
Cash (including Liquidity Account)			**0.0% 0.0% - 3.0%**
Real Estate (including publicly-traded REITs)		**7.0%**	**5.0% - 9.0%**
Private Equity/Venture Capital *-Long-Term Intended Target is 8.0%*		**6.0%**	**4.0% - 8.0%**
Global Asset Allocation		**8.8%**	**5.8% - 11.8%**
		100.0%	

For purposes of this analysis, cash and cash equivalents held in each advisor's portfolio will be considered fully invested based on that advisor's objectives (i.e. cash in a domestic equity advisor's account will be considered as part of the domestic equities in the table above). Cash equivalents include fixed income securities maturing in less than one year for classification purposes.

The following are the policy ranges related specifically to the Global Asset Allocation managers:

ASSET CLASS	POLICY RANGE
EQUITIES	**50 - 100%**
• Domestic	0 - 100%
• International	0 - 100%
• Emerging Markets	0 - 40%
FIXED INCOME	**0 - 50%**

Asset Class Reallocations

Asset class allocations which fall outside the policy ranges described above will be reallocated as close as feasible to the target allocation objective within a reasonable period of time by the Chief Investment Officer. The purpose of this structured reallocation policy is to provide a disciplined approach to asset allocation. All reallocations will be reported to the Board at the next scheduled meeting.

Liquidity Reserve Policy

The purpose of the Liquidity Reserve account is to provide the Fund with a permanent exposure to high quality, highly liquid securities. This account will be used to meet the ongoing cash needs of the Fund based on current projections of inflows and outflows. The target allocation to the Liquidity Reserve account is equal to approximately 18 months of net outflows.

The Liquidity Reserve account will be replenished from overweighted asset classes (based on the 12/02 Objective noted in the Asset Allocation section above) at the discretion of the Chief Investment Officer based on current market conditions. Under normal market conditions, the Liquidity Reserve account would be replenished to the targeted 18 month reserve when the reserve is reduced to 12 months of net outflows.