

**COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM**

SERS # 00874.1

**FIRST AMENDMENT TO ADVISORY AGREEMENT
WITH BARCLAYS GLOBAL INVESTORS, N.A.**

This First Amendment made as of this 31 day of March, 2009 (the "First Amendment"), by and between the **COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM** (herein "SERS") and **BARCLAYS GLOBAL INVESTORS, N.A.**, a national banking association, with its principal office and place of business at 45 Fremont Street, San Francisco, CA 94105 (herein "ADVISOR"),

WITNESSETH:

WHEREAS, SERS and ADVISOR have previously entered into an Advisory Agreement for Enhanced Index Equity Portfolio and Collective Funds Management, SERS # 00874, dated September 1, 2006 (the "Agreement"); and

WHEREAS, SERS and ADVISOR wish to amend the Agreement to add a proxy voting procedure and amend the Investment Guidelines and Fee Schedule;

NOW, THEREFORE, in consideration of the foregoing recitals that are incorporated herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The above recitals are incorporated into this First Amendment as if fully set forth herein.
2. Section 29 is hereby added in its entirety to the Agreement:
 29. Proxy Voting. ADVISOR hereby makes a qualified delegation or transfer (a "Transfer") to SERS of ADVISOR's voting authority and responsibility for proxies on

behalf of SERS reflecting SERS' proportionate beneficial interest in one or more collective funds maintained by ADVISOR, subject to the provisions of this paragraph. SERS agrees and covenants that it will vote the proxies consistent with the SERS Board's Proxy Voting Policy (the "Policy") to the extent ADVISOR has reviewed and determined the Policy take into account the best economic interest of ADVISOR's fund participants and beneficiaries. ADVISOR shall not incur any liability as a result of the SERS' voting, or any failure to vote, proxies, unless ADVISOR's negligence, gross negligence or willful misconduct contributes to the creation of liability. As of the date of execution of this First Amendment, ADVISOR has determined that the Policy takes into account the best economic interest of ADVISOR's fund participants and beneficiaries. Notwithstanding the foregoing, both parties acknowledge that SERS shall not indemnify ADVISOR nor hold ADVISOR harmless for any of its actions or omission to act regarding the Transfer and subsequent proxy voting duties. SERS agrees to provide ADVISOR with written confirmation upon request by ADVISOR that SERS' proxy votes have been consistent with said Policy. On an annual basis, SERS will provide the Advisor with reporting of its proxy voting in the format mutually agreed upon. ADVISOR acknowledges that SERS has previously provided ADVISOR with the Policy. SERS will notify ADVISOR promptly in writing of any material changes to the Policy and shall provide ADVISOR with a copy of an amended Policy upon approval by the Board. SERS acknowledges and agrees that ADVISOR has the right to terminate this Transfer of ADVISOR's voting authority and responsibility for proxies upon ninety (90) days prior written notice of its intent to terminate, in addition to its rights to terminate the Agreement under Section 18.

3. Exhibit A is hereby removed and replaced with the attached Exhibit A.
4. Exhibit C-Fee Schedule is hereby amended and restated in its entirety and replaced with the following Exhibit C-Fee Schedule.

EXHIBIT C

EXHIBIT G

INVESTMENT GUIDELINES

For

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT
SYSTEM

The Board has determined that the investment needs of the Fund can best be met by investing a portion of its assets in the following Collective Funds:

Equity Index Non-Lendable Fund

The Equity Index Non-Lendable Fund shall be invested and reinvested in a portfolio of equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of that segment of the United States market for publicly traded equity securities represented by the larger capitalized companies. The criterion for selection of investments shall be the S&P 500 Index. When deemed appropriate by the ADVISOR, the ADVISOR may invest a portion of the Equity Index Non-Lendable Fund in futures contracts for the purpose of acting as a temporary substitute for investment in equity securities. The Equity Index Non-Lendable Fund will not engage in speculative futures transactions. The Equity Index Non-Lendable Fund will not engage in securities lending.

Alpha Tilts Fund

The Alpha Tilts Fund shall be invested and reinvested in a portfolio of equity securities with the objective of approximating the capitalization weighted total rate of return of the S&P 500 Index; provided, each fund portfolio shall be selected and maintained in

accordance with a quantitative formula designed to select stocks through optimized tilts toward particular stock characteristics based upon information selected by the ADVISOR. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of the S&P 500 Index. When deemed appropriate by the ADVISOR, the ADVISOR may invest a portion of the Alpha Tilts Fund in stock index futures contracts for purpose of acting as a temporary substitute for investment in common stocks. The Alpha Tilts Fund will not engage in speculative futures transactions. The criteria for selection of investments shall be equity securities in the S&P 500 Index and equity securities outside of the S&P 500 Index determined to be consistent with the portfolio's objectives.

6. Capitalized terms used in this First Amendment and not otherwise defined herein shall have the meanings specified for such terms in the Agreement.
7. Except as expressly provided otherwise herein, all other provisions and terms of the Agreement remain in full force and effect.
8. This First Amendment may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

[SIGNATURE PAGE FOLLOWS]

Mar. 31. 2009 10:28AM

State Employees Retirement Syst

No. 0206

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IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this First Amendment to be executed as of the date first written above.

ATTEST:

BARCLAYS GLOBAL INVESTORS, N.A.
Federal Tax Identification Number:

BY: Charla Munn 3/30/09
TITLE: Associate Date

BY: [Signature] 3/30/09
TITLE: _____ Date

Almond G. Goduli
Managing Director
BY: [Signature] 3-30-09
TITLE: _____ Date
Assistant Principal

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
Federal Tax Identification Number:

BY: [Signature] 3/31/09
TITLE: Chairman Date

Exhibit A



PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM

**Commonwealth of Pennsylvania
State Employees' Retirement Board
Statement of Investment Policy**

**Adopted April 21, 2004 and amended
October 27, 2004,
and April 25, 2007**

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**Commonwealth of Pennsylvania
State Employees' Retirement Board
Statement of Investment Policy**

I. Introduction

The State Employees' Retirement Fund ("Fund") was established in 1923 by an act of the Pennsylvania legislature. The purpose of the Fund is the accumulation of funds exclusively for the benefit of the members and beneficiaries of members of the State Employees' Retirement System ("SERS" or the "System") for the payment of withdrawal, retirement, disability, and death benefits as provided in Pennsylvania Consolidated Statutes Title 71, Part XXV ("Retirement for State Employees and Officers"). The Fund is under the exclusive control and management of an eleven member Board of Trustees ("Board"). Six members are appointed by the Governor and confirmed by the State Senate to four-year terms. Two members of the Senate are appointed by the President Pro Tempore of the Senate, and two members of the House by the Speaker of the House, and serve on the Board for the duration of the terms for which they were elected. The State Treasurer serves as a member of the Board, ex-officio.

The Statement of Investment Policy (the "Policy") was originally adopted by the Board on September 19, 1979 and was last revised by Board action on October 27, 2004.

II. Statement of Purpose of Investment Policy

This document specifically outlines the investment philosophy and practices of SERS and has been developed to serve as a reference point for the management of the System's assets. The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The assets of the SERS will be managed with the primary objective of the payment of benefit obligations to participants in the plans. The secondary objective of the Board's policy is to maximize return with acceptable risk considerations and sufficient liquidity so that employer contributions can be minimized. Therefore, it is crucial that the Board adopt a long-term plan by which the assets of the System will be managed and enhanced through prudent investments. This Policy is intended to ensure that the level of assets is adequate to cover the accumulated liabilities of the System. **This is an official policy document of SERS. Deviation from this document is not permitted without explicit written permission, in advance, from the Board.**

In developing this Policy, the Board understands and accepts its fiduciary obligations to the members of the System. These obligations are legal in nature, and are outlined in Title 71, Pennsylvania Consolidated Statutes, Section 5931, a copy of which is attached hereto as Appendix I.

III. Prudent Investor Standard

The Board's investment authority is governed by the "prudent investor" standard as set forth in Title 71, Pennsylvania Consolidated Statutes, Section 5931(a):

Control and management of fund. The members of the board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of 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 funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall have the power to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.

No provision of this Policy shall be construed in contravention of the Board's statutory investment authority found in Title 71, Pennsylvania Consolidated Statutes, Section 5931.

IV. Fiduciary Status, Duties, and Responsibilities of Board, Staff, Investment Advisors, Other Agents, and State Treasurer

SERS is one of the larger public pension funds in the United States. Due to its size and investment structure, its operational requirements are complex. In order to administer the System and carry out its investment obligations, the Board relies heavily on both staff and external contractors. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

A. Board of Trustees

Title 71, Pennsylvania Consolidated Statutes, Section 5931(e) provides, in part, as follows:

The members of the board, employees of the board, and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto.

In exercising this fiduciary responsibility, the members of the Board, employees of the Board, and agents of the Board are governed by the "prudent investor" standard and the exclusive benefit standard. The exclusive benefit standard requires these parties to act solely within the interests of the plan's participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

The Board may, when possible and consistent with its fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the exclusive benefit of the members of the System, consider whether an investment in any project or business enhances and promotes the general welfare of the Commonwealth and its citizens. Where investment characteristics, including yield, risk, and liquidity, are equivalent, the Board's policy favors investments that will have a positive impact on the economy of Pennsylvania.

The members of the Board are responsible as trustees for the proper management of the assets of the Fund. The Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System's operations. Specifically with regard to investments, the Board seeks the recommendations of the staff and consultants prior to taking action. In carrying out these duties, the Board will be responsible for:

1. Reviewing and approving each year an Annual Five-Year Investment Plan that sets forth the direction of the Fund and work plan initiatives for the coming two years. This Annual Five-Year Investment Plan shall incorporate proposed percentage allocations to asset classes, portfolio component definitions and types and proportions of assets within each asset class.
2. Approving the engagement and termination of investment advisors. Staff and consultants will identify potential candidates. Potential advisors will be evaluated based on their ability to achieve the objectives outlined in the Annual Five - Year Investment Plan and their demonstrated experience and expertise for the specific mandate. Board suggestions for potential advisors who meet these criteria will be evaluated by staff and consultants. While individual Board Members may meet with prospective advisors, all group meetings involving a quorum of Board Members for a presentation by prospective advisors shall be through formal Board meetings or Board Committee meetings. Staff and consultants are jointly responsible for carrying out the research and due diligence to identify qualified candidates, or support terminations, and make recommendations back to the Board.
3. Approving the engagement and termination of consultants.
4. Reviewing the investment performance of the Fund.
5. Reviewing and approving the Certified Annual Financial Report.
6. Reviewing and approving the annual actuarial report, assumptions and funding level and, reviewing and approving an actuarial experience study that is to be conducted no less than every five years.
7. Reviewing and approving the results of an asset liability study on a periodic basis, but not less than every five years.
8. Reviewing and adopting the proxy voting guidelines.
9. Oversight and monitoring of staff.

In discharging these responsibilities, the Board has delegated certain functions to the staff and to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty.

B. State Employees' Retirement Board Staff

The Executive Director is responsible for administrative matters relating to the operations of the System. The Investment Office (staff) and its Chief Investment Officer are charged with the coordination of all investment activities and matters within the System. The Investment Office reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The Investment Office is responsible to the Board to review and analyze the current investment climate, and to recommend adjustments with respect to this Policy that are appropriate to take optimum advantage of new conditions and strategies as they arise in the market place. To ensure that the goals and objectives of the Board are being fulfilled, the Investment Office also reviews and analyzes the philosophies, policies, and

strategies employed by the investment advisors, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons.

The Chief Investment Officer of the System is charged with the following responsibilities:

1. To manage, on a day-to-day basis, the portfolio, its components and agents;
2. To authorize receipt or payment for the acquisition or disposition of investments;
3. To act as liaison on behalf of the Board with all investment related contractors;
4. To review and analyze all investment transactions for conformity to applicable laws, regulations, each advisor's investment strategy statement and this Policy;
5. To review investment proposals presented by investment advisors and where appropriate summarize and recommend the same for Board consideration;
6. To analyze and summarize for the Board pertinent information from relevant publications, discussions, meetings, and research on current investment related topics;
7. To respond to inquiries from the Board and Pennsylvania Legislature, the membership, the press, other governmental representatives, and the public concerning the investments of the Fund;
8. To prepare the Annual Five-Year Investment Plan and perform analysis and recommendations for action to present to the Board for approval and implementation consistent with this Policy and achievement of the Board's investment objectives; and
9. To perform such other duties as may be required to implement this Policy.

C. Chief Audit Executive

The chief audit executive reports functionally to the Audit Committee and administratively to the Executive Director. The internal auditor is independent of the System's operational activity and is responsible for providing objective audit and review services for the entire System, including the Investment Office. The internal auditor's services emphasize the promotion of adequate and effective internal controls at a reasonable cost and result in suggested improvements that will lead to economies and efficiencies in the Systems' operations.

With the advent of the Sarbanes-Oxley Act of 2002, the Board recognized the need for, and to established an audit committee to provide additional oversight relating to the adequacy of internal controls applicable to financial reporting. The audit committee will meet quarterly to discuss audit related issues. The audit committee, at its discretion, may meet with the internal auditor in executive session. The audit committee may make recommendations for changes in internal controls for consideration by the Board but shall have no policy authority.

D. Investment Advisors

The Board continually seeks to employ investment advisors that possess superior capabilities in the management of assets of public retirement systems. The Fund has carefully documented

its investment processes, including those related to hiring advisors to manage the Fund's investments. Those processes are available for review on the Fund's intranet at <http://www.sers.state.pa.us/ppp/cwp/browse.asp?a=417>. Each advisor has full discretion to carry out its investment mandate subject to the investment strategy statement contained in the investment management agreement and will be expected to conduct business on behalf of the System in accordance with the mandate for which they were retained. It is the Board's policy to limit the allocation of Fund investments such that no more than 15% of the total market value of Fund assets should be invested in any one investment product offered by an investment advisor, except where management of such investments is of a passive nature (e.g., index funds). Notwithstanding any of the limitations contained in this section, no liquidation of an investment shall be required solely due to changes in market value.

Each advisor's benchmark will reflect that advisor's particular style or tactical role in SERS' investment process. Each benchmark will be clearly specified, measurable and investable. Benchmarks do not have to be published or widely recognized; they may be "customized" for a particular investment style or styles. The benchmark shall be determined in advance of funding by mutual agreement between the advisor, staff and consultant. In the event of a change in management style, agreed upon change in an advisor's strategy, availability of a better benchmark construction methodology, or changes to or additions in indices, an advisor's benchmark may be modified by mutual consent between the advisor, staff and consultant. Despite the foregoing, it is recognized that benchmarks in the investment industry may fail to capture the investment nuances of an investment advisor, which leads to tracking error relative to the benchmark.

The Board further requires those public markets investment advisors selected and working on its behalf to perform the following activities:

1. To recommend potential changes in their mandate which, in their best professional judgment, are in the best interests of the Fund to meet the investment objectives. Such recommendations include, but are not limited to:
 - a. the allocation of funds among the asset classes;
 - b. specific investment opportunities regarding the acquisition, retention, and disposition of investments;
 - c. the addition, deletion, or modification of authorized investments;
 - d. comment on corporate governance issues.
2. To execute investment transactions on behalf of the Board in a manner that maximizes the investment value of each transaction from the viewpoint of the Fund, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest total cost to the Fund.
3. To report to the Board at least quarterly through the Investment Office, with the exact frequency and format of reporting to be determined by the Investment Office, on the composition and relative performance of the investments in their designated portfolios; the economic and investment outlook for the near and long term; significant changes in the portfolio during the preceding period; and the reasons for any significant differences between the performance of their portfolios and the appropriate market indices or metrics.

4. To make themselves available as needed for meetings with the Board, staff, or agents of the Board regarding investment matters.
5. To comply at all times with all laws, regulations, contractual investment guidelines and reporting requirements as determined by staff.
6. To perform such additional activities as detailed in each advisor's investment management agreement with SERS.

E. General Investment Consultant

The Board's general investment consultant acts as a fiduciary to the Fund, providing reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The general investment consultant also analyzes and makes recommendations with respect to the Board's asset allocation and investment structure, policies, the investment advisors' implementation of policy and strategy, the appropriate investment horizon for the Fund given its actuarial characteristics, and provides such other research as may be required from time to time.

In addition to the general investment consultant, the Board may retain other investment consultants as required for specialized needs, such as for particular asset classes or unique investment projects. These specialty consultants will report to the Board on emerging trends and issues that are germane to their respective assignments and that are of concern to public pension funds generally and to the Fund in particular. Within the scope of their assignments, the specialty consultants will also analyze and make recommendations with respect to this Policy, the investment advisors' implementation of policy and strategy, and provide such other research as may be needed from time to time.

The general and specialty consultants should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board.

F. Alternative Investment Consultant

The alternative investment consultant will provide non-discretionary alternative investment consulting services. The alternative investment consultant will assist staff in performing due diligence investigations on prospective alternative investment opportunities; assist staff with identifying and accessing top-tier and first time/nascent funds; recommend specific alternative investments to SERS and maintain an alternative investment database. The alternative investment consultant will also participate in the development and refinement of alternative investment policies, objectives, strategies, benchmarking, risk assumptions and asset mix appropriate for each sub-asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The alternative investment consultant will make presentations to the Board supporting investment recommendations as they arise, and review performance at least semi-annually.

The alternative investment consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the Board.

G. Real Estate Consultant

The real estate consultant will provide non-discretionary real estate investment consulting services. The real estate consultant will assist staff in performing due diligence investigations on prospective real estate opportunities, assist staff with identifying and accessing top-tier funds, recommend specific real estate investments to SERS and maintain a real estate database. The real estate consultant will also participate in the development and refinement of real estate policies, objectives and strategies, benchmarking, risk assumptions and asset mix appropriate for each sub-asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The real estate consultant will make presentations to the Board supporting investment recommendations as they arise, and review performance at least semi-annually.

The real estate consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the Board.

H. Portfolio Evaluation Advisor

The general investment consultant, or another third party approved by the Board as a portfolio evaluation advisor, will provide quarterly investment performance evaluation and analysis to the Board. The portfolio evaluation advisor will provide to the Board comparative performance measurement against appropriate benchmarks, at the total fund, asset class, sub-asset class and advisor levels for all asset classes except real estate and alternative investments.

These benchmarks will be defined and presented in each quarterly performance report. They are hereby incorporated by reference.

I. State Treasurer

The State Treasurer serves as the custodian of the Fund, pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5931(c). In this capacity, the State Treasurer is responsible for the safe physical custody of investment instruments and the safe custody of any book-entry investment instruments that are held in depositories on behalf of the Commonwealth. As custodian, the State Treasurer is also responsible for preparing and delivering securities for settlement as authorized by the Board, attending to corporate actions, maintaining a book of record for these securities, facilitating an annual examination of these securities and books, and for preparing payment for securities transactions upon presentation of warrants properly signed and authorized. The State Treasurer may enter into a contract with a sub-custodian bank to assist in the execution of these responsibilities.

The State Treasurer is responsible for the temporary investment of cash balances until funds are required to meet disbursements or to acquire permanent investments.

J. Actuarial Consultant

Pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5902(j), the Board engages an actuary to perform a valuation of the various accounts of the SERS on an annual basis within six months of the close of each calendar year. In every fifth year, the Board shall have the actuary conduct an actuarial investigation and evaluation of the system based on data including the mortality, service, and compensation experience provided by the Board annually during the preceding five years concerning the members and beneficiaries.

V. Investment Objectives

The State Employees' Retirement Fund is a mature pension plan. The appropriate investment horizon is intermediate to long-term (ten to twenty years) with due consideration of the characteristics of the Fund's liabilities and liquidity requirements.

The objectives of the Fund are to provide benefit payments to participants and beneficiaries at the lowest cost to the Commonwealth and to fund the program through a carefully planned and executed investment program. The Fund seeks to produce the highest return on investment that is consistent with acceptable investment risks and sufficient liquidity that will permit the Fund to meet the System's benefit obligations and secondarily, control the cost of the Fund to the taxpayers. The investment program is premised on modern portfolio theory that states that taking incremental risk will be rewarded. The Board is aware that the high volatility of many classes of investments means that the reward to risk premise may not be fully realized in periods as long as ten years.

The Board, with the help of the staff and consultants, is charged with building a portfolio by carefully assessing the risk and return potential of the global capital markets, and making those investments that are institutionally investable and appear able to contribute to the Fund's long term goal.

However, investment results can be volatile. SERS' own experience has shown that periods as long as a decade may not produce predicted results. Yet avoidance of investment risk is certain to produce a cost burden for taxpayers beyond acceptable levels.

Consistent with achieving these objectives the Board has established the following goals relative to investment performance:

- Achieve a net total long term return that meets or exceeds an appropriate, composite Plan benchmark index on a five to ten year rolling time horizon. The composite benchmark index will be based on the asset allocation set forth in the Five Year Plan approved by Board annually.
- Achieve a net total return equivalent to the actuarial interest rate assumption, or preferably in excess of this rate in order to improve the funded ratio of the Fund through investment earnings and favorably impact future employer contribution rates.

VI. Investment Guidelines

The allocation of funds to various types of investment is of utmost importance in structuring an efficient portfolio designed to meet the Fund's investment objectives. In order to assure the most beneficial allocation of funds, the Board shall, with the advice of SERS' investment staff, consultants and investment advisors, adopt an Annual Five-Year Investment Plan that will be revised and updated yearly. This plan will set forth the target asset allocation and investment design for each sector of the Fund and identify work initiatives to be pursued over the near term. Furthermore, each investment advisor shall abide by specific investment guidelines that will be consistent with this Policy and the Annual Five-Year Investment Plan so as to better ensure that the

Fund's broad investment objectives will be met. The advisors' specific investment guidelines may be amended from time to time by mutual written consent of the staff and the advisor.

The Annual Five-Year Investment Plan shall serve as the controlling guide in the allocation of funds to various types of investments to provide appropriate diversification of the Fund's assets over the investment horizon. Diversification is the Board's most important risk management tool. No asset class performs well in all time periods, and different asset classes react differently during the various stages of economic cycles. Economic cycles can generally be categorized as rising or falling growth and rising or falling inflation. Many factors affect global economic cycles (e.g., fiscal, political, environmental, supplies of labor and materials) and they are often unpredictable. As a result, a well diversified investment portfolio is the best tool to achieve long-term target investment returns. If at any time the economic, fiscal, or investment environment should change significantly during the investment horizon, it shall be the duty of the staff, investment advisors, and consultants to so inform the Board and, if warranted, recommend modifications to the plan or adjustment to the allocation of investment assets.

In the application and implementation of this Policy and the Annual Five-Year Investment Plan, the Chief Investment Officer has the authority to interpret the investment strategy statements to meet individual portfolio needs and to determine the appropriateness of any investment. On material policy issues and dollar amounts, the Chief Investment Officer, in consultation with the Board Chairman, will evaluate and determine the appropriateness of any investment. All interpretations of material policy issues and dollar amounts will be reported at the next regularly scheduled Board meeting.

The Advisor's Investment Strategy Statements, the Derivatives Policy Statement, the Real Estate Statement of Investment Policy and the Alternative Investments Statement of Investment Policy compliment this Policy covering these strategies and asset classes. See §XIII hereof for a list of documents incorporated by reference into this Policy.

VII. Prohibited Transactions

Investment advisors are prohibited from entering into any transactions on behalf of the Fund that are not expressly authorized by this Policy or by specific investment advisor guidelines. All advisors and consultants shall disclose any and all economic positions that may conflict with SERS' investment objectives and guidelines. Transactions not expressly authorized by this Policy shall be subject to Section VI, paragraph 3 of this Policy.

VIII. Investment Advisor Evaluations

The Board endeavors not to make adverse retention decisions about investment advisors based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles.

The Board's time horizon to review performance trends shall normally be over full market cycles, although the trend in investment experience over other time periods may be judged important. Any extreme or unusual events or trends will be considered when evaluating intermediate and short-term investment results. Public Markets Advisor Retention Guidelines have been developed in order to assist staff in applying consistent criteria to evaluate investment advisors and are related to this Policy.

Notwithstanding the above, the staff will review advisor performance, portfolio positioning, and transactions at least annually.

IX. Corporate Governance Standards

Good corporate governance promotes responsible business practices that serve as an integral component to a corporation's long-term value creation process and are an indispensable element of an effective corporate risk management program.

SERS is committed to improve corporate governance practices of the companies within the SERS portfolio. SERS' involvement includes: the development and annual updating of the Board approved proxy-voting policy, voting proxies, active participation in groups working to improve and enhance corporate governance practices and ad hoc responses to important issues that affect the value of the portfolio, such as letters responding to regulatory and legislative proposals.

Annually, the proposed updates to the proxy voting policies shall be prepared by the Investment Office and submitted to the Board for approval. In the annual update of the policies, the Investment Office shall seek to develop best practices. Best practices shall be developed through relationships with groups working to improve and enhance corporate governance practices and input that focuses on improving corporate governance practices from other prominent plan sponsors.

In addition, SERS monitors and, where appropriate, incorporates best corporate governance practice recommendations from organizations into the proxy voting guidelines. As good corporate governance practices are not static, the annual proxy voting modifications attempt to reflect the current trends in the marketplace.

A. Proxy Voting Procedures

Stock proxies are voted in accordance with the following procedures:

1. The custodian bank forwards to SERS' proxy servicer or advisor proxy statements for securities that SERS owns, excluding securities that are on loan, or investments in the form of pooled funds and limited partnerships.
2. SERS' proxy servicer or advisor will vote all proxies in accordance with the Board's proxy voting guidelines, except those where a specific concern has been raised by a Board Member, advisor, consultant, or staff member.
3. The proxy servicer or advisor may also vote any proxy involving other issues essentially the same as those on which the Board's proxy voting guidelines are well defined.
4. With regard to proxies requiring special attention under the Board's proxy voting guidelines, as well as special issues not covered or anticipated by the proxy voting guidelines, proxies and all pertinent reference material shall be sent to the Chief Investment Officer, who will evaluate the issues with respect to the intent of the proxy voting guidelines. On issues not covered by the proxy voting guidelines, controversial, high-profile, and contested change of control issues, the Chief Investment Officer will consult with the Board's chairman to determine how such proxies will be voted. The Chief Investment Officer will then direct the proxy servicer or advisor to vote the proxies accordingly.
5. The Chief Investment Officer shall regularly report to the Board the types of special issues that are being considered or that have been voted by the Chief Investment Officer.
6. The Chief Investment Officer shall cause to be maintained by SERS' proxy servicer, or advisor, a listing of proxy votes cast in a calendar year. This report, along with all individual actions, shall be available for public inspection on SERS' Internet web site.

B. Corporate Actions

The custodian bank has standing instructions to forward notices of all corporate actions received, such as dividends, stock splits, mergers, acquisitions, spin-offs or class action suits to SERS or its investment advisors.

X. Trading and Brokerage Practices

The Board delegates the responsibility for the selection of brokerage firms to its investment advisors, provided that the investment advisors select and utilize brokers in accordance with Section IV, D-2 ("best execution") of this Policy. Notwithstanding this practice, the Board reserves the right to enter into a brokerage commission recapture programs, and to establish goals for directed commissions. Provided that the advisors' investment processes are not affected so as to adversely impact the Fund or place the Fund in a disadvantageous position relative to the advisors' other accounts, advisors may be requested to direct a percentage of their brokerage activity on behalf of SERS. The Board will select the brokerage firms that are designated to receive such directed commissions, and will communicate this information to the advisors.

The Board also seeks to have advisors direct trades through minority owned firms and reserves the right to establish proposed trading targets. However, the responsibility for the selection and use of minority brokerage firms is delegated to the investment advisors.

Finally, all things being equal, the Board seeks to have investment advisors trade through Pennsylvania-based brokers.

Efforts to monitor and control trading costs will be ongoing, and may include the periodic use of formal trading cost analyses.

XI. Public Access to Records

Records of investment transactions are maintained by the System at its office located at 30 North Third Street, Harrisburg, PA 17101. Requests for public inspection or copies of documents that are a matter of public record will be honored in a manner consistent with Pennsylvania Right-To-Know Law (RTKL), 65 P.S. §§66.1 – 66.9, and SERS' Right-To-Know-Law Policy regarding the dissemination of public information. Inquiries should be directed to SERS' Right-To-Know Law Official. This Right To Know Law Policy is incorporated by reference into this Policy.

XII. Procedures for Amending this Policy Statement

This Policy may be amended from time to time by a majority vote of the Board.

XIII. Separate Documents Related to this Policy Statement

The following documents are incorporated by reference into this Policy and as such are considered part of this Policy as though they were presented in entirety within this Policy:

1. SERS Annual Investment Plan
(adopted annually by the Board)
2. Public Markets Investment Advisor Investment Strategy Statements
(negotiated as part of the contracting process after Board appointment)
3. Real Estate Investment Policy Statement
(adopted by the Board)
4. Alternative Investments Policy Statement
(adopted by the Board)
5. Proxy Voting Guidelines
(adopted annually by the Board)
6. Public Markets Advisor Retention Guidelines
(reviewed by Board)
7. Right-To-Know Law Policy
(adopted by the Board)
8. Derivatives Investment Policy Statement
(reviewed by Board)
9. Portfolio Rebalancing Policy
(reviewed by Board)
10. Advisor, Asset Class, and Fund Benchmarks as reported in the Quarterly Performance Report
(reviewed by Board)
11. SERS Investment Policies and Procedures
(approved by Chief Investment Officer)
12. SERS Securities Litigation Policy
(adopted by Board)
13. SERS Securities Lending Policy
(reviewed by Board)

XIV. Glossary of Terms

Asset Allocation – investment choice made among broad asset classes such as equities, fixed income securities, real estate, etc.

Brokerage Commission – payment for administrative costs of trading securities; the cost for execution.

Brokerage Commission Recapture – reimbursement to the Fund for a portion of the fee paid to a broker for executing a trade.

Corporate Governance – the procedures by which a corporation conducts its affairs.

Corpus – specifically, the investment portfolio of SERS.

Fiduciary – one who can exercise discretionary authority or can control or influence important aspects of a pension plan's management.

Fixed Income Investment – a security issued by a borrower that obligates the issuer to make specified payments to a holder over a specific period. May also be referred to as "debt" or "bonds".

Net Total Return – interest or dividend income plus any realized or unrealized capital gain (or loss) on an investment, net of any capital contributions or distributions from the corpus.

Proxy – an instrument empowering an agent to vote for a shareholder.

Qualitative Oversight – analysis that evaluates important factors that cannot be precisely measured, e.g., experience, caliber of management, investment philosophy and strategy.

Quantitative Oversight – analysis dealing with measurable factors, such as value of securities, the cost of capital, historical and projected patterns of sales, costs, profitability, returns, risk. Used in tandem with qualitative oversight to arrive at sound business and financial judgments.

Risk – the uncertainty of outcome or the likelihood of not meeting an objective.

Short-Term Investment – any fixed income investment with less than one year to maturity.

Tracking Error – the annual standard deviation of an advisor's performance results from the advisor's benchmark.

EXHIBIT C

EXHIBIT G

INVESTMENT GUIDELINES

For

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM

The Board has determined that the investment needs of the Fund can best be met by investing a portion of its assets in the following Collective Funds:

Equity Index Non-Lendable Fund

The Equity Index Non-Lendable Fund shall be invested and reinvested in a portfolio of equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of that segment of the United States market for publicly traded equity securities represented by the larger capitalized companies. The criterion for selection of investments shall be the S&P 500 Index. When deemed appropriate by the ADVISOR, the ADVISOR may invest a portion of the Equity Index Non-Lendable Fund in futures contracts for the purpose of acting as a temporary substitute for investment in equity securities. The Equity Index Non-Lendable Fund will not engage in speculative futures transactions. The Equity Index Non-Lendable Fund will not engage in securities lending.

Alpha Tilts Fund

The Alpha Tilts Fund shall be invested and reinvested in a portfolio of equity securities with the objective of approximating the capitalization weighted total rate of return of the S&P 500 Index; provided, each fund portfolio shall be selected and maintained in accordance with a quantitative formula designed to select stocks through optimized tilts toward particular stock characteristics based upon information selected by the ADVISOR. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of the S&P 500 Index. When deemed appropriate by the ADVISOR, the ADVISOR may invest a portion of the Alpha Tilts Fund in stock index futures contracts for purpose of acting as a temporary substitute for investment in common stocks. The Alpha Tilts Fund will not engage in speculative futures transactions. The criteria for selection of investments shall be equity securities in the S&P 500 Index and equity securities outside of the S&P 500 Index determined to be consistent with the portfolio's objectives.