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

**ADVISORY AGREEMENT FOR ENHANCED INDEX EQUITY
PORTFOLIO AND COLLECTIVE FUNDS MANAGEMENT**

SERS # 00874

This Agreement made as of September 1, 2006, 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, pursuant to Title 71, Sections 5101, *et seq.* of the Pennsylvania Consolidated Statutes (the "Retirement Code") and specifically Section 5931(a) thereof, SERS' Board has exclusive control and management of the Pennsylvania State Employees' Retirement Fund (herein the "Fund"), with full power to invest the same, subject to terms and conditions imposed by law; and

WHEREAS, pursuant to Section 5902(b) of the Retirement Code, SERS' Board has authority to contract for such professional services as it deems advisable in order to fulfill its duties; and

WHEREAS, SERS and ADVISOR, have previously entered into an Advisory Agreement for Equity Portfolio and Collective Funds Management, M.E. #170132, dated as of October 22, 2001, as amended June 29, 2003 ("Advisory Agreement"); and

WHEREAS, the Advisory Agreement is scheduled to expire on August 31, 2006; and

WHEREAS, it is deemed in the best interest of the Fund that SERS renew the services of ADVISOR, it being recognized by SERS that the equity asset class is a component of diversifying the investments of the Fund; and

WHEREAS, ADVISOR possesses and will employ, in a fiduciary capacity, professional knowledge, experience, and expertise in enhanced index equity portfolio and collective funds management, and investment matters generally, to preserve and enhance the financial integrity of the Fund;

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

1. Engagement. SERS hereby engages ADVISOR and ADVISOR hereby accepts SERS' engagement to serve as an investment advisor and manager for and on behalf of SERS with respect to Fund assets allocated to it, and to invest and reinvest such assets for and on behalf of SERS consistent with the terms of this Agreement and such other policies and directives as may be communicated in writing to ADVISOR from time to time.

2. SERS Policies and Guidelines. ADVISOR shall abide by SERS' Statement of Investment Policy ("Policy") and Investment Strategy Statement(s) (hereinafter, "ISS" or collectively, ISS(s)), attached hereto and incorporated herein as Exhibits A and B, respectively. SERS may retitle, amend or supplement its Statement of Investment Policy from time to time in its sole discretion, and written notice thereof shall be furnished to ADVISOR. The Investment Strategy Statement may be amended from time to time upon the mutual written consent of SERS and ADVISOR. Upon any such amendment, Exhibit A or Exhibit B, as applicable, shall be replaced by the amended document and a copy shall be mailed to ADVISOR.

3. ADVISOR's Services. ADVISOR shall purchase, sell and exchange authorized securities and generally act as investment advisor and manager for and on behalf of SERS, as limited by law, for Fund assets allocated to it, provided, however, that SERS in its sole discretion may suspend ADVISOR's execution, trading and other activities for SERS' account at any time by written notice transmitted pursuant to Section 17 of this Agreement. In performing services hereunder:

(a) *Power and Authority*.

(1) ADVISOR shall have full power and authority on behalf of SERS to: (i) make purchases and sales of securities or other property consistent with SERS' policies and guidelines in

Exhibits A and B; (ii) exercise or abstain from exercising any option, warrant, privilege or right with respect to the assets; (iii) issue orders for, or make purchases or sales of, securities or other property directly with a broker, dealer or other person; and (iv) in connection with the assets, take any other action and exercise any power or authority reasonably necessary in carrying out the investment activities authorized by SERS. SERS reserves the right to redeem SERS' investment in any pooled Collective Funds and invest the proceeds into a segregated and separate account managed by ADVISOR, provided, however, that ADVISOR agrees, and further provided that SERS shall give ADVISOR sufficient advance written notice of its intent to redeem its investment and to invest in any such segregated and separate account and shall negotiate and execute any additional agreements as mutually agreed upon by both parties.

(2) ADVISOR will manage the Collective Funds attached hereto as Exhibit G subject to the "Plan of Barclays Global Investors, N.A. Investment Funds for Employee Benefit Trusts" (the "Plan"), as applicable, attached hereto as Exhibit E, with the terms of this Agreement, the Policy and ISS(s), and in the event of any inconsistency, the Plan shall govern. The Plan may be retitled, amended or supplemented from time to time as set forth therein. If SERS or any other required Commonwealth agency or official does not approve such amendment or supplementation, SERS may terminate this Agreement and withdraw its assets from the investments entered into under this Agreement, as otherwise provided by Section 18 of the Agreement. Exhibit G may be amended from time to time upon the mutual written consent of SERS and ADVISOR. Upon any such amendment, Exhibit G shall be replaced by the amended document and a copy shall be mailed to ADVISOR.

ADVISOR will manage the separate accounts, subject to the Plan, as applicable, attached hereto as Exhibit E, with the terms of this Agreement, the Policy and ISS(s), and in the event of any inconsistency, the ISS shall govern.

(b) *Involvement with Brokers and Dealers.* In the performance of said services, ADVISOR shall execute investment decisions through brokers and dealers of its choice with a view to insuring that such brokers and dealers complete the transactions in a manner most favorable to SERS. ADVISOR may utilize the execution, clearing and settlement services of a broker or dealer who is an Affiliate, provided that ADVISOR has first obtained the approval of SERS. For purposes of this Agreement, an "Affiliate" shall be any Person controlling, controlled by or under common control with ADVISOR. "Person" shall mean an individual, partnership (general, limited or limited liability), a corporation, a limited liability

company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or any other entity considered to be a "person" under applicable law. ADVISOR shall favor Pennsylvania-domiciled brokers and dealers in the performance of such activities whenever ADVISOR can do so in a manner consistent with SERS' Statement of Investment Policy.

(c) *Registration of Securities.* To the extent that the Fund is invested in a separate and segregated account, the ADVISOR, when purchasing registered securities for SERS in such separate and segregated account, shall cooperate with the Custodian in the appropriate registration of such securities. When used in this Agreement, the term "Custodian" refers to the State Treasurer, the State Treasurer's subcustodian, and agents of the State Treasurer's subcustodian. The identity and address of the State Treasurer's subcustodian shall be furnished to ADVISOR by SERS.

(d) *Meeting Attendance.* ADVISOR shall attend SERS' Board meetings as SERS shall request to apprise SERS of its investment activities. ADVISOR shall also attend special meetings and attend or conduct investment seminars when requested by SERS.

(e) *Reports.* ADVISOR shall furnish to SERS, or others, as SERS shall more specifically direct in writing hereafter, periodic reports on the status, composition, and performance of the assets managed by ADVISOR.

(f) *Information to be Furnished.* ADVISOR shall furnish to SERS upon request information concerning assets and asset classes in which ADVISOR will invest for and on behalf of SERS, including, *inter alia*, identification of purchase or sale opportunities and an overview of specific market conditions.

(g) *Compliance with Laws.* ADVISOR's conduct and actions for and on behalf of SERS shall be in compliance at all times with federal and state securities laws and regulations and all other applicable laws and regulations, including, but not limited to, those relating to the licensing of its personnel.

(h) *ADVISOR's Investments for Own Account.* Except to the extent prohibited by the Employee Retirement Income Security Act of 1974 ("ERISA"), ADVISOR, its Affiliates, and their respective partners, directors, officers, and employees shall be permitted to buy, sell or trade in any securities for its or their own account or accounts, pursuant to ADVISOR's policy on employee trading included in its most recent Code of Ethics (a copy of which is attached hereto as Exhibit F and made a

part hereof). Any amendments to the aforesaid policy shall be promptly provided to SERS. ADVISOR shall have no obligation to acquire on behalf of SERS a position in any investment which ADVISOR, its Affiliates, or their respective partners, officers, or employees may acquire for its or their own account, if in the sole discretion of ADVISOR, it is not feasible or in the best interests of SERS to acquire a position in such investment.

(i) *Class Actions.* ADVISOR shall take timely and appropriate action consistent with fiduciary obligations and in the best interest of ADVISOR's funds with respect to an action in which the Fund is or may be entitled to participate.

(j) *ERISA Limitations.* References in the preceding subsections to restrictions or limitations on ADVISOR's conduct imposed by ERISA shall be applied to ADVISOR's conduct under this Agreement without regard to the general applicability of ERISA to the Fund.

(k) *Other Contracts.* In the event that SERS redeems its investment and invests in a separate and segregated account, to the extent it is necessary for contracts to be signed by SERS (whether signed directly by SERS or by ADVISOR on behalf of SERS) pursuant to this Agreement, ADVISOR acknowledges that such contracts must be approved in advance by all Commonwealth entities whose approvals are required in accordance with the Commonwealth of Pennsylvania's contract approval process.

4. Standard of Performance. ADVISOR shall perform investment advisory and management services under this Agreement subject to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion, intelligence and investment expertise 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 their funds, considering the probable income to be derived therefrom as well as the probable safety of their capital.

5. Compensation.

6. ADVISOR's Insurance.

(a) *Limits.* The following insurance policies and bonds shall be maintained during the term of this Agreement and any extension thereof, each such policy to cover ADVISOR, its officers, employees, and those of its Affiliates providing services under this Agreement:

(1) a policy of errors and omissions insurance with an aggregate limit of liability of at least £200 million; and

(2) a blanket fidelity bond that includes employee dishonesty coverage with a limit of liability of at least £350 million per event.

(b) *Deductibles.* SERS approves a maximum deductible on the errors and omissions policy and, per event, on the fidelity bond of no greater than £50 million. ADVISOR shall promptly provide SERS with a copy of its annual audited financial statements each year during the term of this Agreement to maintain this deductible exception granted by SERS.

(c) *Scope of Coverage.* Provided such coverage is readily available in the insurance marketplace, coverage shall be comprehensive and shall not exclude coverage for liability relating to violations of law or reckless misconduct.

(d) *Proof of Insurance.* ADVISOR shall submit a "Verification of Insurance" and summary letter of Insuring Agreements from the underwriters for the Policies to SERS prior to execution, together with a signed statement from the Director of Group Insurance indicating that the Insurance

Documentation is an accurate indication of ADVISOR's insurance coverages (hereinafter referred to collectively as "Insurance Documentation"). ADVISOR represents and warrants that the insurance coverage submitted to SERS prior to execution is in full force and effect and is unmodified and that such representation and warranty will survive execution of the Agreement. SERS shall thereafter cause to be issued a written determination of compliance with the requirements set forth herein. ADVISOR shall thereafter maintain annual filings of current Insurance Documentation with SERS during the term of this Agreement and any extension thereof. If ADVISOR changes insurance carriers for the insurance required hereunder, substantially modifies coverage, or if otherwise requested by SERS, ADVISOR shall promptly submit copies of the new Insurance Documentation to SERS.

(e) *Notice Endorsements.* Notwithstanding anything to the contrary, the Agreement shall not become effective until ADVISOR provides a letter from Barclays Group Insurance signed by the Director of Group Insurance evidencing Barclays Group Insurance's agreement to provide fifteen (15) days advance written notice ("Notice Letter") to SERS of any cancellation, reduction, non-renewal or restrictive modification of ADVISOR's insurance coverage. In the event that Barclays Group Insurance does not receive at least fifteen (15) days notice from its underwriters of cancellation, reduction, non-renewal or restrictive modification, Barclays Group Insurance shall further agree in such letter that Barclays Group Insurance shall advise SERS of same within twenty-four (24) hours of when Barclays Group Insurance first receives notice thereof. Updated Insurance Documentation, in a form satisfactory to SERS, shall be attached to the Notice Letter.

(f) *Procedures; Changes.* ADVISOR, upon mutual consent, shall comply with such procedures and requirements relating to insurance and bond coverages for the protection of SERS and the Fund as SERS may convey to ADVISOR in writing. SERS, in the reasonable exercise of its discretion, may request such changes with respect to insurance coverage and bonding as it deems appropriate for the protection of SERS and the Fund by giving written notice of such changes to ADVISOR at least thirty (30) days in advance of the effective date of such changes.

(g) *Carrier Ratings.* Any carrier(s) providing ADVISOR's Policies shall have a Best's Rating of A- or better.

7. Representations of ADVISOR

(a) *General Representations.* ADVISOR represents, warrants, confirms and agrees that:

(1) it is a "fiduciary" with respect to SERS and the Fund as that term is defined in Section 3(21)(A) of ERISA, and is not subject to any of the disqualifications described in Section 411 of ERISA, irrespective of the scope of ERISA application to the Fund;

(2) it is a bank and as such is exempt from registration as an investment advisor under the Investment Advisors Act of 1940, pursuant to section 202(a)(11) of such Act (15 U.S.C. §80b-2(a)(11)); and

(3) it has substantial experience and expertise making and managing the investments contemplated by this Agreement.

(b) *Evidence of Authority.* ADVISOR shall furnish SERS from time to time with certified resolutions or other appropriate documentation evidencing the authority of its partners, officers, Affiliates and employees to act on behalf of ADVISOR.

(c) *Reaffirmation.* ADVISOR hereby reaffirms the reliability and accuracy of the written and oral representations made to SERS in the solicitation of this Agreement.

(d) *No Finder's, Solicitor's or Similar Fee.* Neither ADVISOR nor any Affiliate, nor any of their respective partners, directors, officers, or employees have employed or retained any company or person, other than a bona fide employee working solely for ADVISOR or an Affiliate, to solicit or secure this Agreement, and none of the aforementioned parties have paid or agreed to pay, and shall not pay, any company or person, other than a bona fide employee working solely for ADVISOR or an Affiliate, any fee, commission, percentage, brokerage fee, gift, or any other compensation contingent upon or resulting from the award or making of this Agreement, except where: (A) ADVISOR has disclosed, in writing to SERS, that it has engaged such a company or person to secure this Agreement, and (B) the cost of such engagement is not charged to SERS under the terms of compensation under this Agreement or any subsequent agreement. For breach or violation of this representation, SERS shall have the right to void this Agreement pursuant to Section 18(b) without liability, entitling SERS to recover all monies paid hereunder, and ADVISOR shall not make claim for, or be entitled to recover, any sum or sums due under this Agreement or for any services which it may have provided under this Agreement. This remedy, if effected, shall not constitute the sole remedy afforded to SERS for such breach or violation, nor shall it constitute a waiver of SERS' rights to claim damages or to take any other action provided for by law or pursuant to this Agreement.

(e) *ADVISOR's Website.* ADVISOR agrees that any provisions pertaining or related to indemnification, governing law or jurisdiction, confidentiality or a payment of money (whether as a fine, liquidated damage, levy, access fee or other similar imposition) contained in any current or future website or similar electronic forum/data transfer maintained or made available by or on behalf of ADVISOR shall not apply to or have any force or effect on SERS and that this Agreement shall instead control the rights, obligations and duties of the parties hereto.

(f) *Reliance.* ADVISOR acknowledges that SERS has relied and will continue to rely upon ADVISOR's representations, warranties, confirmations and agreements.

(g) *Notice of Change.* ADVISOR shall promptly notify SERS in the event any of the foregoing acknowledgments, representations, warranties or agreements herein shall no longer be true.

8. ADVISOR as Independent Contractor. ADVISOR shall perform its services hereunder as an independent contractor and shall provide worker's compensation insurance where the same is required. ADVISOR accepts full responsibility for the payment of, and shall pay when due, taxes of any nature or jurisdiction upon ADVISOR's property and income, premiums for worker's compensation insurance, Social Security taxes, all income tax deductions and any other taxes or payroll deductions required by law for its employees, servants or agents who perform services specified by this Agreement.

9. Changes in ADVISOR's Status. In the event of any actual or proposed material change in ADVISOR's status or event affecting ADVISOR, including, without limitation, (a) change in or departure of directors, officers, partners, employees or Affiliates who exercise investment discretion over SERS' account, (b) material modification of corporate or partnership structure, (c) change in actual control or management of ADVISOR, (d) material change in United States Securities and Exchange Commission ("SEC") requirements or other government or private registration, accreditation or licensing requirements affecting ADVISOR, (e) alleged violations by ADVISOR, any Affiliate providing services under this Agreement or having access to SERS' account information, or any of their respective partners, directors, officers, or employees, of the Investment Advisers Act of 1940, as amended, the federal securities laws, or comparable state law, (f) material deterioration in ADVISOR's financial condition, including but not limited to the filing of a petition in bankruptcy, (g) ADVISOR's awareness that its representations and warranties herein cease to be true, and (h) litigation alleging negligence, fraud or

breach of fiduciary duty by ADVISOR or any of its partners, directors, officers, or employees, ADVISOR shall immediately notify SERS in writing.

10. Indemnification of SERS. ADVISOR shall indemnify and forever hold harmless the Commonwealth of Pennsylvania, the Fund, SERS and its Board members, officers, agents and employees, from and against any and all losses, claims, demands, actions, or liabilities of any nature, including, but not limited to, attorneys' fees, expenses and court costs, based upon, arising out of or in connection with the negligent, reckless, willfully improper or illegal performance of services or failure to perform services under this Agreement, actions outside the scope of authority, or other breach of this Agreement, by ADVISOR, an Affiliate, their respective partners, directors, officers, employees and agents or any brokers or futures commission merchants selected by ADVISOR and performing services for or on behalf of SERS, regardless of any independent contractual arrangement SERS may have with such brokers or futures commission merchants. At SERS' option, and in its sole discretion, ADVISOR shall defend at its expense actions brought against the Commonwealth of Pennsylvania, the Fund, SERS and its Board members, officers, agents and employees arising out of or in connection with any services performed or the failure to perform services, or other breach of this Agreement, by ADVISOR, an Affiliate, their respective partners, directors, officers, employees and agents or any brokers or futures commission merchants selected by ADVISOR and performing services for or on behalf of SERS, and the costs of such defense shall be borne by ADVISOR and shall not constitute an expense of, and shall not be paid out of, Fund assets invested and managed by ADVISOR. Notwithstanding any provision to the contrary in this Agreement, the obligations of ADVISOR under this Section 10 with respect to brokers and futures commission merchants shall be applicable only if the ADVISOR negligently selected such persons to provide services under this Agreement or utilized such persons in a negligent, reckless, willfully improper or illegal manner.

11. Confidentiality. All reports and documents relating to SERS and the Fund which ADVISOR may prepare and deliver hereunder shall be confidential and shall become the property of SERS and shall not be published, circulated, or used in any manner by ADVISOR without SERS' prior written approval, except as required by law or court order. All non-public information relating to SERS, whether in written or spoken form, that SERS provides to ADVISOR or that is learned by ADVISOR in connection with providing services to SERS, shall be confidential and shall not be publicly disclosed, published, circulated, or used in any manner by ADVISOR without SERS' prior written approval, except

as may be required by law or court order. ADVISOR shall require the Affiliates, and its and the Affiliates' partners, directors, officers and employees to comply with the provisions of this Section 11 to the same extent as ADVISOR. For the avoidance of doubt, the use and public disclosure of aggregated information from which neither SERS' nor the Fund's identity can be discerned is permitted.

12. Conflict of Interest.

(a) ADVISOR covenants on behalf of itself, that it has no interest and shall not acquire any interest, direct or indirect, that would conflict in any material manner or degree with the performance of the services hereunder. ADVISOR further covenants that in the performance of this Agreement, it will not knowingly employ any person having any such conflicting interest.

(b) Notwithstanding any provision to the contrary in this Agreement, including without limitation Section 12(a), SERS hereby acknowledges that ADVISOR may utilize certain class and individual exemptions from the prohibited transactions provisions of ERISA granted by the Department of Labor, as the same may be amended from time to time, which exemptions require disclosure and/or consent by an independent fiduciary of the Fund (a "PTE" or an "Exemption"). SERS acknowledges that it has received, through one or more separate writings from ADVISOR certain disclosures as provided for under the Exemptions. SERS hereby provides its authorization for ADVISOR to engage in the following activities pursuant to such Exemptions, including through any Collective Fund in which the Fund participates:

(i) To trade through an affiliated broker-dealer in accordance with PTE 86-128, including any amendment thereto;

(ii) To acquire securities issued during the existence of an underwriting or selling syndicate in which a U.S. affiliate of ADVISOR is a member of such underwriting or selling syndicate in accordance with PTE 2001-24E;

(c) To lend securities to one or more borrowers (each a "Borrower"), and to be compensated therefor, in accordance with PTE 81-6 and PTE 82-63; to lend securities through a common

electronic platform in which ADVISOR has an equity interest, in accordance with PTE 2002-30; and to lend securities to a Borrower that is an affiliate of ADVISOR in accordance with PTE 2002-46;

(d) To the extent provided for in the Plan, to purchase and sell, in accordance with PTE 77-4, shares of registered, open-end management investment companies, including exchange-traded funds and mutual funds, managed by an affiliate of ADVISOR;

(e) To buy and sell securities in ADVISOR's cross-trading program, including as part of any transition services performed for the Fund, in accordance with PTE 92-11; and

(f) To buy, hold and sell shares of common stock of an affiliate of ADVISOR, in accordance with PTE 2000-30.

13. Other Business. SERS acknowledges that ADVISOR provides investment advisory services for other clients, and that such services do not, in and of themselves, constitute a conflict with the performance of ADVISOR's services hereunder. Provided the covenants of Section 12 above are not breached, and further provided that ADVISOR and its partners, officers, employees and Affiliates comply with the "prohibited transaction" rules of ERISA, nothing in this Agreement shall prohibit ADVISOR from rendering services similar to those provided herein for other clients. When investment opportunities occur which are consistent with the investment objectives of more than one client, ADVISOR shall not favor any one client over another. Such investment opportunities shall be allocated in a manner deemed equitable to the particular clients involved based on such factors as their respective investment objectives and then current investment and cash positions. In the event two or more clients seek identical investments at the same time, ADVISOR shall apply standardized allocation policies consistent with ADVISOR's status as a fiduciary with respect to SERS and the Fund. A copy of such policies shall be furnished to SERS within a reasonable time after execution of this Agreement.

14. Assignment or Other Transfer. The rights and obligations of ADVISOR under this Agreement, including any interest herein or any claim arising hereunder, may not be assigned by it, in whole or in part, whether to any Affiliate of ADVISOR or to any other party or parties, and whether voluntarily or by operation of law, and whether by sale, merger, division, consolidation, encumbrance or sale of stock, or otherwise, without the prior written consent of SERS, which consent SERS may grant or

withhold in its sole and absolute discretion. Any assignment or attempted assignment in contravention of this Section 15 shall be null and void *ab initio*.

15. Commonwealth Contract Provisions. In performing services hereunder, ADVISOR shall comply with the Commonwealth contract provisions attached hereto and incorporated herein as Exhibit D. For purposes of Exhibit D, ADVISOR shall be the "Contractor."

16. Maintenance, Preservation and Review of Records. ADVISOR shall maintain such records, books and accounts pertaining to services and payments hereunder in accordance with generally accepted accounting principles consistently applied. All such records, books and accounts shall be maintained and preserved for the longer of (a) the term of this Agreement or (b) four (4) years after their creation. During such period, SERS or any other department or representative of the Commonwealth of Pennsylvania, from time to time upon reasonable notice, shall have the right to inspect, duplicate and audit such records, books and accounts for all purposes authorized and permitted by law. ADVISOR may preserve such records, books and accounts in original form or on microfilm, magnetic tape, CD-ROM or any other generally recognized and accepted process.

ADVISOR shall maintain an adequate system of controls to ensure that any transactions entered into on SERS' behalf comply with all applicable laws and regulations, that the financial information reported to SERS is accurate and complete and that ADVISOR is in compliance with the terms of this Agreement at all times. At the request and in the sole discretion of SERS, ADVISOR shall produce an annual report on its policies and procedures describing ADVISOR's control structure for fiduciary and investment activities and provide ADVISOR's written assertion of effectiveness of its control structure over said matters. At the sole discretion of SERS, ADVISOR may be requested annually to provide either of the following or a similar report:

(a) An examination of ADVISOR's written assertion about the effectiveness of ADVISOR's internal control structure provided by an independent certified public accountant knowledgeable in such matters, or

(b) An independent auditor's report prepared in accordance with the provisions of Statement on Auditing Standards No. 70 – Reports on the Processing of Transactions by Service Organizations ("SAS 70"). The report will examine both the design and effectiveness of the control environment.

17. Notices. Any notice, demand, direction, instruction and other communications required or permitted hereunder shall be confirmed in writing and shall be sufficiently given for all purposes when sent (a) by certified or registered U. S. mail, postage prepaid, (b) by a nationally recognized courier service that maintains written verification of actual delivery, (c) by facsimile or email with a copy of the communication sent by first class U.S. mail, postage prepaid (provided that if the date of dispatch is not a business day, the facsimile or email shall be deemed to have been received at the opening of business of the addressee on the next business day) or, (d) by delivering the same in person to any party at the following addresses or such other addresses as may be designated from time to time by the parties:

If to SERS: COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Executive Director
Facsimile: (717) 783-7300

With copies to: COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Chief Investment Officer
Facsimile: (717) 772-3741

and

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
Attn: Chief Counsel
Facsimile: (717) 787-5751

If to ADVISOR: Barclays Global Investors, N.A.
Attn: Legal Department
45 Fremont Street
San Francisco, CA 94120
Facsimile: (415) 597-2753

18. Expiration and Termination.

(a) *Expiration.* This Agreement shall expire five years from the date first above written unless terminated earlier as provided herein.

(b) *Termination.* ADVISOR may terminate this Agreement by furnishing written notice to SERS not less than one hundred twenty (120) days prior to the effective date of termination, and SERS reserves the right to terminate this Agreement at any time, for any reason, by furnishing written notice to ADVISOR, whereupon, and in either of such events ADVISOR's fees for services under this Agreement shall be prorated and paid, provided that notwithstanding any other provision of this Agreement, SERS may withhold such payment of fees until ADVISOR has fully complied, with subsection (d) below.

(c) *Liability.* The termination or expiration of this Agreement shall not relieve ADVISOR of any liability that may be incurred in connection with its performance or failure to perform its obligations under this Agreement, which liability shall survive termination or expiration.

(d) *Final Report.* ADVISOR shall furnish to SERS, within thirty (30) days of the effective date of termination or expiration of this Agreement or the voidance of this Agreement pursuant to Section 7(d), a final report on its investment activities and the status of the Fund's assets allocated to ADVISOR in such form and format as requested by SERS' staff. Any and all of the Fund's assets in ADVISOR's possession at the effective date of termination, expiration or voidance shall be returned to SERS, or transferred as directed by SERS, immediately upon termination, expiration or voidance or as soon thereafter as is practicable considering ADVISOR's obligations to preserve and enhance the financial integrity of the Fund.

19. Applicable Law. This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Commonwealth of Pennsylvania (without regard to any conflict of laws provisions). ADVISOR hereby (a) consents to exclusive jurisdiction in any court of the Commonwealth of Pennsylvania, any federal courts in Pennsylvania, and the Board of Claims ("Board of Claims") of the Commonwealth of Pennsylvania, hereby waiving any claim or defense that such forum is not convenient or proper and (b) agrees that any claim asserted against SERS shall only be brought before and subject to the exclusive jurisdiction of the Board of Claims pursuant to Section 1721 *et seq.* of Title 62 of Pa. Statutes. ADVISOR agrees that the Board of Claims and any such court shall have *in personam* jurisdiction over it, and consents to service of process in any manner authorized by Pennsylvania law.

20. Reservation of Immunities. SERS hereby reserves all immunities, defenses, rights or actions arising out of its status as an instrumentality of a sovereign state or entity, or under the Eleventh Amendment to the United States Constitution, and no waiver of any such immunities, defenses, rights or actions shall be implied or otherwise deemed to exist by its entry into this Agreement, by any express or implied provision of this Agreement or by any actions or omissions to act of SERS or any representative or agent of SERS, whether taken pursuant hereto, prior to or after the entry by SERS into this Agreement.

21. Binding Effect. This Agreement shall inure to the benefit of and bind the parties hereto and their respective successors and assigns.

22. Amendment. No amendment or modification of this Agreement, other than as set forth in Section 2 hereof, shall have any force or effect unless it is in writing and signed by the parties hereto.

23. Counterparts. This Agreement may be executed in any number of separate counterparts, each of which shall be deemed an original, but the several counterparts shall together constitute but one and the same instrument.

24. Severability. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be held contrary to any express provision of law, or contrary to the policy of express law though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the remainder of this Agreement or the rights of the parties hereto.

25. Headings. The headings and captions in this Agreement are for convenience and reference purposes only and shall not be construed or deemed to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions hereof.

26. Entire Agreement. Except as hereinabove expressly provided, this Agreement supersedes all prior contracts and undertakings, written or oral, between the same parties concerning the same subject matter.

27. Force Majeure. Notwithstanding any other provision of this Agreement, the Policy or the ISS, neither the ADVISOR nor its officers, directors, affiliates and employees shall be liable for any loss to SERS or the Fund, caused directly or indirectly by circumstances solely beyond the ADVISOR's reasonable control, including, but not limited to, government restrictions, exchange or market rulings, actions affecting securities or commodity exchanges including suspensions of trading or extensions of trading hours, acts of civil or military authority, national emergencies, labor difficulties, fires, earthquakes, floods or other catastrophes, acts of God, wars, acts of terrorism, riots or failures of communication or power supply.

28. Affiliate Underwriting. SERS understands and agrees that, from time to time, the ADVISOR may make recommendations to purchase or sell securities, and may purchase or sell securities, in which an affiliate of the ADVISOR underwrites, deals and/or makes a market and an affiliate of the ADVISOR may perform or seek to perform investment banking services for issuers of such securities. SERS also understands and agrees that any such purchases or sales may be made for the Account if viewed as advisable by the ADVISOR in light of the funding policy and investment guidelines communicated by SERS to the ADVISOR in writing. The ADVISOR may not engage in transactions hereunder except to the extent permitted by law.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this Advisory Agreement for Enhanced Index Equity Portfolio and Collective Funds Management to be executed as of the date first above written.

ATTEST:

Barclays Global Investors, N.A.
Federal Tax Identification Number:

BY: Carol Abler
TITLE: ASSOCIATE
Date 8/10/06

BY: Juliana Hastings 8/10/06
TITLE: **Juliana Hastings**
Managing Director

BY: Angela Samson 8/10/06
TITLE: **Angela Samson**
Principal

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

BY: _____
TITLE: Chairman Date

Approved for form and legality:

The Office of Attorney General is executing this Agreement only for purposes of Board of Claims jurisdiction under §1724(a)(2) of the Commonwealth Procurement Code.

Chief Deputy Attorney General
Office of Attorney General

Chief Deputy Attorney General
Office of Attorney General

Deputy General Counsel Date
Office of General Counsel

Approved:

SERS Chief Counsel Date

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this Advisory Agreement for Enhanced Index Equity Portfolio and Collective Funds Management to be executed as of the date first above written.

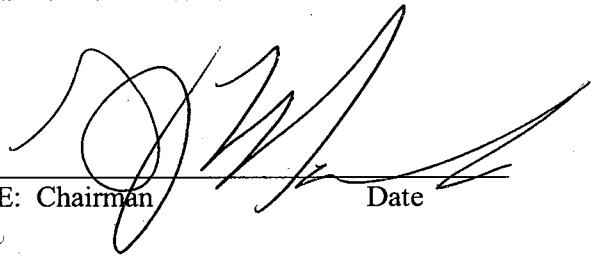
ATTEST:

Barclays Global Investors, N.A.
Federal Tax Identification Number:

BY: _____
TITLE: _____ Date

BY: _____
TITLE: _____ Date

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

BY: 
TITLE: Chairman Date

Approved for form and legality:

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Chief Deputy Attorney General
Office of Attorney General

Chief Deputy Attorney General
Office of Attorney General

Deputy General Counsel Date
Office of General Counsel

Approved:

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Federal Tax Identification Number:

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TITLE: Chairman Date

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Chief Deputy Attorney General
Office of Attorney General

Chief Deputy Attorney General
Office of Attorney General

Deputy General Counsel Date
Office of General Counsel

Approved:

SERS Chief Counsel

8/8/06

Date

RECEIVED
STATE EMPLOYEES' RETIREMENT SYSTEM
AUG 10 2006

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this Advisory Agreement for Enhanced Index Equity Portfolio and Collective Funds Management to be executed as of the date first above written.

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Barclays Global Investors, N.A.
Federal Tax Identification Number:

BY: _____
TITLE: _____ Date

BY: _____
TITLE: _____ Date

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

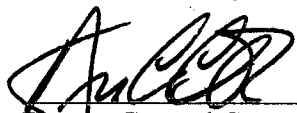
BY: _____
TITLE: Chairman Date

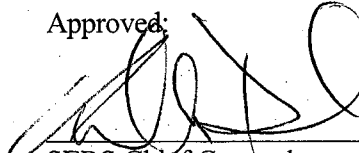
Approved for form and legality:

The Office of Attorney General is executing this Agreement only for purposes of Board of Claims jurisdiction under §1724(a)(2) of the Commonwealth Procurement Code.

Chief Deputy Attorney General
Office of Attorney General

Chief Deputy Attorney General
Office of Attorney General

 8.15.06
Deputy General Counsel Date
Office of General Counsel

Approved: 
SERS Chief Counsel 8/8/06
Date



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

**Adopted April 21, 2004
and Amended October 27, 2004**

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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 January 27, 1999.

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 entities involved in the investment process. The Board's policy is to maximize return 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 Person Investment Standards

The Board's investment authority is governed by the "prudent person" 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 person" rule 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. The Board establishes contribution rates and determines policies pertaining to the administration of the plans and benefits under their jurisdiction and responsibility. 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 actuarially determined funding level.
7. Reviewing and adopting the proxy voting guidelines.
8. 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 process and their investment style 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 law, regulation, the 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. Internal Auditor

The internal auditor reports directly to the Executive Director and, if in the opinion of the internal auditor circumstances warrant, may report directly to the Board. 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. Each advisor has full discretion to carry out its investment mandate subject to the investment strategy statement contained in the investment advisory 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 in 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 advisory 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, qualitative and quantitative portfolio oversight procedures and performance measurement. The alternative investment consultant will make presentations to the Board supporting investment recommendations and review performance 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, qualitative and quantitative portfolio oversight procedures and performance measurement. The real estate consultant will make presentations to the Board supporting investment recommendations and review performance 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. Performance evaluation at the sub-asset class and advisor levels for real estate and alternative investments will be provided semi-annually by the respective asset class consultants.

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.

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 objective of the Fund is to provide benefit payments to participants and beneficiaries at the lowest cost to the Commonwealth 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 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 long term goal. Investment results, however, 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.

The Board's desire and goal is 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.

VI. Investment Guidelines

The allocation of funds to various types of investment is of utmost importance in structuring an efficient portfolio that will meet the investment objectives. In order to assure the most beneficial allocation of funds the Board shall, with the advice of its 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 competing types of investments over the investment horizon. 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 and a reallocation 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 conjunction 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 asset classes.

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 agents 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.

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 (this excludes 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 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 related to 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

Documents referenced in this Policy that are related to this Policy include:

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)

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.

APPENDIX I

Title 71, Pennsylvania Consolidated Statutes, Section 5931, specifies the investment authority of the State Employees' Retirement Board. The relevant investment sections of this legislation are reproduced here and incorporated into the Statement of Investment Policy as Appendix I. In the event of changes in the statutes, the amended statutes shall control.

Section 5931. Management of fund and accounts

- (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.
- (b) Crediting of interest. – The board, annually, shall allow the required interest on the mean amount for the proceeding year to the credit of each of the accounts. The amount so allowed shall be credited thereto by the board and transferred from the interest reserve account.
- (c) Custodian of fund. – The State Treasurer shall be the custodian of the fund.
- (d) Payments from fund. – All payments from the fund shall be made by the State Treasurer in accordance with requisitions signed by the secretary of the board, or his designee, and ratified by resolution of the board.
- (e) Fiduciary status of board. – 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. The board may, when possible and consistent with its fiduciary duties imposed by this subsection or other 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 this Commonwealth and its citizens, including, but not limited to, investments that increase and enhance the employment of Commonwealth residents, encourage the construction and retention of adequate housing and stimulate further investment and economic activity in this Commonwealth. The board shall, through the Governor, submit to the General Assembly annually, at the same time the

board submits its budget covering administrative expenses, a report identifying the nature and amount of all existing investments made pursuant to this subsection.

- (f) Name for transacting business. – By the name of “The State Employees’ Retirement System” or “The State Employes’ Retirement System” all of the business of the system shall be transacted, its fund invested, all requisitions for money drawn and payments made, and all of its cash and securities and other property shall be held, except that, any other law to the contrary notwithstanding, the board may establish a nominee registration procedure for the purpose of registering securities in order to facilitate the purchase, sale or other disposition of securities pursuant to the provisions of this law.
- (g) Deposits in banks and trust companies. – For the purpose of meeting disbursements for annuities and other payments in excess of the receipts, there shall be kept available by the State Treasurer an amount, not exceeding 10% of the total amount in the fund, on deposit in any bank or banks in this Commonwealth organized under the laws thereof or under the laws of the United States or with any trust company or companies incorporated by any law of this Commonwealth, provided any of such banks or trust companies shall furnish adequate security for said deposit, and provided that the sum so deposited in any one bank or trust company shall not exceed 25% of the paid-up capital and surplus of said bank or trust company.
- (h) Venture capital, private placement and alternative investments. – The board in its prudent discretion may make any venture capital investment, private placement investment or other alternative investment of any kind, structure or manner which meets the standard of prudence set forth in subsection (a).
- (i) Vehicles for authorized investments. – The board in its prudent discretion may make any investments which meet the standard of prudence set forth in subsection (a) by acquiring any type of interest in a business organization existing under the laws of any jurisdiction, provided that, in any such case, the liability of the State Employees’ Retirement Fund shall be limited to the amount of its investment.
- (j) Legislative declaration concerning certain authorized investments. – The General Assembly finds and declares that authorized investments of the fund made by or on behalf of the board under this section whereby the board becomes a joint owner or stockholder in any company, corporation association or other lawful business organization are outside the scope of the original intent of and therefore do not violate the prohibition set forth in section 8 of Article VIII of the Constitution of Pennsylvania.

Exhibit B

Exhibit C

Exhibit D

**COMMONWEALTH OF PENNSYLVANIA
CONTRACT PROVISIONS**

- I. Term of Contract**
- II. Contractor Integrity Provisions**
- III. Non-Discrimination/Sexual Harassment Clause**
- IV. Contractor Responsibility Provisions**
- V. Assignment of Anti-Trust Claims**
- VI. Offset Provision**
- VII. Certification of Taxpayer Identification Number**
- VIII. The Americans With Disabilities Act**
- IX. Minority and Women Business Utilization**
- X. Recycled Content Products Provision**
- XI. Reporting of Political Contributions**
- XII. Hold Harmless Provision**

COMMONWEALTH CONTRACT PROVISIONS

I. TERM OF CONTRACT

The term of the Contract shall commence on the Effective Date (as defined below) and shall end on the Expiration Date identified in the Contract, subject to the other provisions of the Contract.

The Effective Date shall be fixed by the Contracting Officer after the Contract has been fully executed by the Contractor and by the Commonwealth and all approvals required by Commonwealth contracting procedures have been obtained. The Contract shall not be a legally binding contract until after the Effective Date is affixed and the fully executed Contract has been sent to the Contractor.

The Commonwealth reserves the right, upon notice to the Contractor, to extend the term of the Contract for up to three (3) months upon the same terms and conditions. This will be utilized to prevent a lapse in Contract coverage and only for the time necessary, up to three (3) months, to enter into a new contract.

II. CONTRACTOR INTEGRITY PROVISIONS

1. Definitions.

a. Confidential information means information that is not public knowledge, or available to the public on request, disclosure of which would give an unfair, unethical, or illegal advantage to another desiring to contract with the Commonwealth.

b. Consent means written permission signed by a duly authorized officer or employee of the Commonwealth, provided that where the material facts have been disclosed, in writing, by prequalification, bid, proposal, or contractual terms, the Commonwealth shall be deemed to have consented by virtue of execution of this contract.

c. Contractor means the individual or entity that has entered into this contract with the Commonwealth, including directors, officers, partners, managers, key employees, and owners of more than a 5% interest.

d. Financial interest means:

(1) ownership of more than a 5% interest in any business; or

(2) holding a position as an officer, director, trustee, partner, employee, or the like, or holding any position of management.

e. Gratuity means any payment of more than nominal monetary value in the form of cash, travel, entertainment, gifts, meals, lodging, loans, subscriptions, advances, deposits of money, services, employment, or contracts of any kind.

2. The contractor shall maintain the highest standards of integrity in the performance of this contract and shall take no action in violation of state or federal laws, regulations, or other requirements that govern contracting with the Commonwealth.

3. The contractor shall not disclose to others any confidential information gained by virtue of this contract.

4. The contractor shall not, in connection with this or any other contract with the Commonwealth, directly or indirectly, offer, confer, or agree to confer any pecuniary benefit on anyone as consideration for the decision, opinion, recommendation, vote, other exercise of discretion, or violation of a known legal duty by any officer or employee of the Commonwealth.

5. The contractor shall not, in connection with this or any other contract with the Commonwealth, directly or indirectly, offer, give or agree or promise to give to anyone any gratuity for the benefit of or at the direction or request of any officer or employee of the Commonwealth.

6. Except with the consent of the Commonwealth, neither the contractor nor anyone in privity with him or her shall accept or agree to accept from, or give or agree to give to, any person, any gratuity from any person in connection with the performance of work under this contract except as provided therein.

7. Except with the consent of the Commonwealth, the contractor, shall not have a financial interest in any other contractor, subcontractor, or supplier providing services, labor, or material on this project.

8. The contractor, upon being informed that any violation of these provisions has occurred or may occur, shall immediately notify the Commonwealth in writing.

9. The contractor, by execution of this contract and by the submission of any bills or invoices for payment pursuant thereto, certifies and represents that he has not violated any of these provisions.

10. The contractor, upon the inquiry or request of the Inspector General of the Commonwealth or any of that official's agents or representatives, shall provide, or if appropriate, make promptly available for inspection or copying, any information of any type or form deemed relevant by the Inspector General to the contractor's integrity or responsibility, as those terms are defined by the Commonwealth's statutes, regulations, or management directives. Such information may include, but shall not be limited to, the contractor's business or financial records, documents or files of any type or form which refer to or concern this contract. Such information shall be retained by the contractor for a period of three years beyond the termination of the contract unless otherwise provided by law.

11. For violation of any of the above provisions, the Commonwealth may terminate this and any other contract with the contractor, claim liquidated damages in any amount equal to the value of anything received in breach of these provisions, claim damages for all expenses incurred in obtaining another contractor to complete performance hereunder, and debar and suspend the contractor from doing business with the Commonwealth. These rights and remedies are cumulative, and the use or nonuse of any one shall not preclude the use of all or any other. These rights and remedies are in addition to those the Commonwealth may have under law, statute, regulation, or otherwise.

III. NONDISCRIMINATION/SEXUAL HARASSMENT CLAUSE

Each contract entered into by a governmental agency shall contain the following provisions by which the contractor agrees:

a. In the hiring of any employee(s) for the manufacture of supplies, performance of work, or any other activity required under the Contract or any subcontract, the Contractor, subcontractor or any person acting on behalf of the Contractor or subcontractor shall not, by reason of gender, race, creed, or color discriminate against any citizen of this Commonwealth who is qualified and available to perform the work to which the employment relates.

b. Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate against or intimidate any employee involved in the manufacture of supplies, the performance of work, or any other activity required under the Contract on account of gender, race, creed, or color.

c. Contractors and subcontractors shall establish and maintain a written sexual harassment policy and shall inform their employees of the policy. The policy must contain a notice that sexual harassment will not be tolerated and employees who practice it will be disciplined.

d. Contractors shall not discriminate by reason of gender, race, creed, or color against any subcontractor or supplier who is qualified to perform the work to which the contract relates.

e. The Contractor and each subcontractor shall furnish all necessary employment documents and records to and permit access to its books, records, and accounts by the contracting officer and the Bureau of Contract Administration and Business

Development, for purposes of investigation, to ascertain compliance with the provisions of this Nondiscrimination/Sexual Harassment Clause. If the Contractor or any subcontractor does not possess documents or records reflecting the necessary information requested, the Contractor or subcontractor shall furnish such information on reporting forms supplied by the contracting agency or the Bureau of Contract Administration and Business Development.

f. The Contractor shall include the provisions of this Nondiscrimination/Sexual Harassment Clause in every subcontract so that such provisions will be binding upon each subcontractor.

g. The Commonwealth may cancel or terminate the Contract, and all money due or to become due under the Contract may be forfeited for a violation of the terms and conditions of this Nondiscrimination/Sexual Harassment Clause. In addition, the agency may proceed with debarment or suspension and may place the Contractor in the Contractor Responsibility File.

IV. CONTRACTOR RESPONSIBILITY PROVISIONS

For purposes of these provisions, the term Contractor is defined as any person, including, but not limited to, a bidder, offerer, loan recipient, grantee, or subgrantee, who has furnished or seeks to furnish goods, supplies, services or leased space, or who has performed or seeks to perform construction activity under contract, subcontract, grant, or subgrant with the Commonwealth, or with a person under contract, subcontract, grant, or subgrant with the Commonwealth or its state-affiliated entities, and state-related institutions. The term Contractor may include a permittee, licensee, or any agency, political subdivision, instrumentality, public authority, or other entity of the Commonwealth.

The Contractor must certify, in writing, for itself and all its subcontractors, that as of the date of its execution of any Commonwealth contract, that neither the Contractor, nor any subcontractors, nor any suppliers are under suspension or debarment by the Commonwealth or any governmental entity, instrumentality, or authority and, if the Contractor cannot so certify, then it agrees to submit, along with the bid/proposal, a written explanation of why such certification cannot be made.

The Contractor must also certify, in writing that, as of the date of its execution of any Commonwealth contract it has no tax liabilities or other Commonwealth obligations.

The Contractor's obligations pursuant to these provisions are ongoing from and after the effective date of the contract through the termination date thereof. Accordingly, the Contractor shall have an obligation to inform the Commonwealth if, at any time during the term of the Contract, it becomes delinquent in the payment of taxes, or other Commonwealth obligations, or if it or any of its subcontractors are suspended or debarred by the Commonwealth, the federal government, or any other state or governmental entity. Such notification shall be made within 15 days of the date of suspension or debarment.

The failure of the Contractor to notify the Contracting agency of its suspension or debarment by the Commonwealth, any other state, or the federal government shall constitute an event of default of the Contract with the Commonwealth.

The Contractor agrees to reimburse the Commonwealth for the reasonable costs of investigation incurred by the Office of State Inspector General for investigations of the Contractor's compliance with the terms of this or any other agreement between the Contractor and the Commonwealth, which results in the suspension or debarment of the Contractor. Such costs shall include, but shall not be limited to, salaries of investigators, including overtime; travel and lodging expenses; and expert witness and documentary fees. The Contractor shall not be responsible for investigative costs for investigations that do not result in the Contractor's suspension or debarment.

The Contractor may obtain a current list of suspended and debarred Commonwealth contractors by either searching the Internet at <http://www.dgs.state.pa.us/debarment.htm> or contacting the:

Department of General Services
Office of Chief Counsel
603 North Office Building
Harrisburg, PA 17125
Telephone No. (717) 783-6472
Facsimile No. (717) 787-9138

V. ASSIGNMENT OF ANTITRUST CLAIMS

Contractor and the Commonwealth recognize that in actual economic practice, overcharges by Contractor's suppliers resulting from violations of state or federal antitrust laws are in fact borne by the Commonwealth. As part of the consideration for the award of this contract, and intending to be legally bound, Contractor assigns to the Commonwealth all right, title and interest in and to any claims Contractor now has or may hereafter acquire under state or federal antitrust laws relating to the goods or services which are the subject of the contract.

VI. OFFSET PROVISION

The Contractor agrees that the Commonwealth may set off the amount of any state tax liability or other obligation of the Contractor or its subsidiaries to the Commonwealth against any payments due the Contractor under any contract with the Commonwealth.

VII. CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER

Execution of this Contract constitutes certification by the Contractor that:

- A. The number appearing on the Contract is the Contractor's correct taxpayer identification number (if no number is present, Contractor is waiting for a number to be issued) and,
- B. Contractor is not subject to backup withholding because: (i) Contractor is exempt from backup withholding, or (ii) Contractor has not been notified by the I.R.S. that it is subject to backup withholding as result of a failure to report all interest or dividends, or (iii) the I.R.S. has notified Contractor that it is no longer subject to backup withholding.

VIII. THE AMERICANS WITH DISABILITIES ACT

During the term of this contract, the Contractor agrees as follows:

1. Pursuant to federal regulations promulgated under the authority of The Americans With Disabilities Act, 28 C.F.R. §35.101 et seq., the Contractor understands and agrees that no individual with a disability shall, on the basis of the disability, be excluded from participation in this Contract or from activities provided for under this Contract. As a condition of accepting and executing this Contract, the Contractor agrees to comply with the "General Prohibitions Against Discrimination," 28 C.F.R. §35.130, and all other regulations promulgated under Title II of The Americans With Disabilities Act which are applicable to the benefits, services, programs, and activities provided by the Commonwealth of Pennsylvania through contracts with outside Contractors.

2. The Contractor shall be responsible for and agrees to indemnify and hold harmless the Commonwealth of Pennsylvania from all losses, damages, expenses, claims, demands, suits and actions brought by any party against the Commonwealth of Pennsylvania as a result of the Contractor's failure to comply with the provisions of paragraph 1 above.

IX. MINORITY AND WOMEN BUSINESS UTILIZATION

Contractor acknowledges the Commonwealth of Pennsylvania encourages the participation of certified Minority Business Enterprises and Women Business Enterprises for the performance of services or the provision of materials and supplies under the Contract. To the extent that Contractor can do so in accordance with the terms and conditions of the Contract, Contractor is also encouraged to utilize certified minority and women businesses in the performance of services or the provision of materials

and supplies under this Contract. For information and assistance on certified minority and women businesses, including a current list of the same, Contractor should contact:

Department of General Services
Bureau of Contract Administration and Business Development
Room 502, North Office Building
Harrisburg, Pennsylvania 17125
Phone: (717) 787-7830
Facsimile: (717) 787-7052

X. RECYCLED CONTENT PRODUCTS PROVISION

The Commonwealth of Pennsylvania State Employees' Retirement System has determined that the recycled content products provision is not applicable to this Contract for the type of service being provided by this Contractor. This determination was based on the fact that no material type products included on the Department of General Services "List of Products and Procurement Guidelines" are being requested under this Contract.

XI. REPORTING OF POLITICAL CONTRIBUTIONS

Pennsylvania law provides, at 25 P.S. §3260a:

(a) Any business entity including but not limited to a corporation, company, association, partnership or sole proprietorship, which has been awarded non-bid contracts from the Commonwealth or its political subdivisions during the preceding calendar year, shall report by February 15 of each year to the Secretary of the Commonwealth an itemized list of all political contributions known to the business entity by virtue of the knowledge possessed every officer, director, associate, partner, limited partner or individual owner that has been made by:

(1) any officer, director, associate, partner, limited partner, individual owner or members of their immediate family when the contributions exceed an aggregate of one thousand dollars (\$1,000) by any individual during the preceding year; or

(2) any employe or members of his immediate family whose political contribution exceeded one thousand dollars (\$1,000) during the preceding year.

For the purposes of this subsection, "immediate family" means a person's spouse and any unemancipated child.

(b) It shall be the duty of the Secretary of the Commonwealth to publish sixty (60) days after February 15 of each year a complete itemized list of all contributions given under the provisions of subsection (a). This list shall be a matter of public record open to public inspection and copies made available at cost to any individual who requests them.

XII. HOLD HARMLESS PROVISION

The Contractor shall hold the Commonwealth harmless from and indemnify the Commonwealth against any and all claims, demands and actions based upon or arising out of any activities performed by the Contractor and its employees and agents pursuant to the Contract and shall, at the request of the Commonwealth, defend any and all actions brought against the Commonwealth based upon any such claims or demands.

Exhibit E

Exhibit F

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 Fund

The Equity Index 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 Fund in futures contracts for the purpose of acting as a temporary substitute for investment in equity securities. The Equity Index Fund will not engage in speculative futures transactions.

Alpha Tilts Fund

The Alpha Tilts Fund shall be invested and reinvested in a portfolio of common stocks 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 common stocks in the S&P 500 Index and common stocks outside of the S&P 500 Index determined to be consistent with the portfolio's objectives.