



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

JEFFREY B. CLAY
Executive Director
Telephone: 717-720-4749
FAX: 717-772-5372

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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number 57-18-09

We are writing to voice the Public School Employees' Retirement Board's (PSERB) concern that the Securities and Exchange Commission's proposed rule on Political Contributions by Certain Investment Advisors goes too far with the prohibition on the use of placement agents. PSERB is strongly supportive of the overall objective of the proposed rule to eliminate political influence in the selection of investments by governmental entities, but believes that the absolute prohibition on the use of placement agents will tilt the private equity market in favor of large players that have the resources to market their funds by putting medium- and small-size firms that must rely on placement agents for their marketing at a severe disadvantage.

The Public School Employees' Retirement Fund (Fund), with a current total of \$45 billion in assets, has invested more than \$33 billion in private market investments since the inception of PSERB's alternative investment program in the late 1980s. Placement agents were used in connection with approximately one third of these investments.

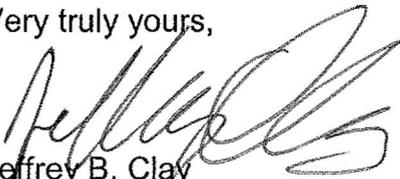
For many small- and medium-size firms, placement agents are utilized to introduce the general partner to numerous potential investors, including large institutional investors such as public pension funds. Highly competent and reputable placement agents provide valuable services, such as formulating business terms, drafting the private placement memoranda and presentation materials, completing due diligence questionnaires from prospective investors and their consultants and acting as the liaison between the general partner and the limited partners during due diligence and the closing process.

As part of its due diligence procedure, PSERB obtains disclosure of the use of placement agents by each prospective public and private market investment firm it considers. Among the information on the use of placement agents that PSERB collects is the following:

- resumes for each officer, partner, or principal of the placement agent, with a section that specifically notes whether such person is a current or former member of PSERB or its staff, or a member of the immediate family of such person;
- description of the arrangement with the placement agent, including any compensation or other considerations;
- description of the services performed or to be performed;
- whether or not the placement agent was utilized for all prospective clients or only a subset of clients;
- copy of all agreements with the placement agent;
- names of any parties related to PSERB who suggested the retention of the placement agent (including, without limitation, current and former members of PSERB or its staff, and investment consultants);
- statement of whether the placement agent is registered and, if not, why not; and
- statement of whether the placement agent is registered as a lobbyist with any state.

We believe that effective internal controls on the use of placement agents will better serve the interests of the Fund and its members than the outright elimination of placement agents. Many of the small- and medium-size firms that were introduced by placement agents over the years have produced highly successful funds, with a line of equally successful successor funds. We would hate to see a vital link between PSERB and new and potentially valuable investment opportunities broken rather than, as we endeavor to do, appropriately managed. We, therefore, request that the Commission regulate, not prohibit, the use of placement agents. We will be pleased to answer questions the Commission may have.

Very truly yours,



Jeffrey B. Clay
Executive Director