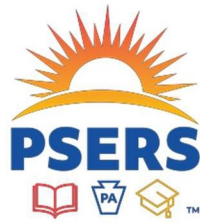


EXHIBIT 14



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

September 1, 2020

Honorable Joseph M. Torsella, State Treasurer
Treasury Department
Commonwealth of Pennsylvania
129 Finance Building
Harrisburg, Pennsylvania 17120

Dear Treasurer Torsella:

Thank you for your August 12th inquiry regarding discussions which occurred during the August 7th Board meeting on the presentation of PSERS' investment returns in various publications. I have reviewed your letter with PSERS' senior management team and Aon and I can assure you and the Board the following:

- (1) All public reporting of PSERS' financial condition has been appropriate and in accordance with all applicable accounting and professional standards;
- (2) PSERS' investment performance has been calculated in accordance with the Investment Consultant Performance Reporting Policy (ICPRP), which has been in existence since September 2015, and most recently amended 12/21/2016 (a copy is enclosed); and
- (3) PSERS' investment returns are not used in any of Buck's actuarial valuation calculations performed to determine PSERS' annual employer contribution rate. In lieu of investment returns, Buck utilizes in its calculations the Total Plan Fiduciary Net Position in the audited financial statements.

Additionally, PSERS' accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). PSERS' actuarial policies, practices and reporting are conducted in accordance with all applicable Actuarial Standards of Practice issued by the Actuarial Standards Board (ASB).

PSERS has received multiple awards for its financial reporting. The Government Finance Officers Association of the United States and Canada (GFOA) awards the Certificate of Achievement for Excellence in Financial Reporting. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. PSERS has received a Certificate of Achievement for Excellence in Financial Reporting for 37 consecutive years from Fiscal Year 1983 to Fiscal Year 2019.

PSERS staff has researched and compiled responses to your specific questions as follows:

1) Have staff previously provided records to the Board specifically identifying and explaining retroactive revisions to previously reported returns? If so, please refresh my memory and direct me to those documents.

No, due to the immaterial nature of the differences, they were not specifically discussed with the Board.

2) Why have adjustments of over two basis points occurred between the CAFR returns and returns in the Aon reports?

Aon has compared the Fiscal Year returns currently on their Performance system (PARIS) and reported in the March 31, 2020 report to the Fiscal Year returns reported in the CAFR. The table below summarizes the differences:

Fiscal Year	Aon 3/31/20	CAFR	Difference
2010	14.58%	14.59%	-0.01%
2011	20.36%	20.37%	-0.01%
2012	3.44%	3.43%	0.01%
2013	7.95%	7.96%	-0.01%
2014	14.82%	14.91%	-0.09%
2015	3.41%	3.04%	0.37%
2016	1.33%	1.29%	0.04%
2017	10.20%	10.14%	0.06%
2018	9.26%	9.27%	-0.01%
2019	6.66%	6.68%	-0.02%

For the past 10 fiscal years there are only three Fiscal Years with adjustments greater than +/- 0.05% with only one fiscal year (2015) with a difference greater than +/-0.10%. Fiscal year 2015 returns have been revised by 37 basis points.

Monthly Reporting

Due to the delayed timing in the reporting of the final net asset values (NAVs) for private market funds held in the public market composites (Absolute Return and Private Credit), the NAVs sourced from the investment manager can be very delayed and PSERS uses estimated market values for monthly reporting. If an estimated monthly NAV is not available by 20 business days after month end, the Investment Consultant (Aon) will carry forward the prior month NAV adjusted for any cash flow activity during the month, reflecting a 0% return. Cash flows are sourced from the Custodian Bank, and the Investment Consultant will make every effort to reconcile the cash flows with Investment Manager/fund administrator records and statements where available.

Quarterly Reporting

For quarterly reporting, Aon updates the previously reported monthly NAVs with final NAVs or in some cases as noted above, with the preliminary NAV as the most current valuation available from the Investment Manager/fund administrator. In cases where accounts/funds are quarterly valued, the monthly reporting reflects a return based on the last available NAV (typically prior quarter end) and cash flows for the period. The Investment Consultant's quarterly report reflects the current quarter's NAV and performance for these funds unless otherwise specified. With these NAV adjustments, any monthly reporting on composite/asset class level is preliminary and expected to be finalized with the quarterly report.

Situations where revisions to NAVs/cash flows occur after finalizing and publishing the quarterly report are reviewed on a case-by-case basis. The Investment Consultant affects these changes for the period they have occurred with such adjustments being reflected with the next monthly/quarterly performance report.

FY 2015 Reporting Adjustment

Aon has re-reviewed the returns for Fiscal Year 2015 and has verified that the revised returns as reported in the March 31, 2020 report are correct based on the new revised NAVs received for some private market funds after the fiscal year close. A combination of (1) revisions to the market values and cash flows for some Private Credit funds and (2) the opening up of the performance books during the third quarter 2019 report to restructure the composites to reflect the new Investment Policy Statement division of public and private markets resulted in the re-calculation of prior fiscal years. It was the combination of these two changes that led to changes in the performance reported by Aon. The originally reported returns in 2015 were based on the NAVs and cashflows available at the time. The adjustments reflect revised information according to policy.

3) In Aon's 3rd quarter report for 2019, why were nearly \$190 million of investment gain and loss adjustments made to valuations dating as far back as 2013?

Adjustments to the investment gain and losses in Aon's 3Q2019 report:

Quarterly Differences of Reported Gains and Losses

Quarters From Sept. 2013 to Sept. 2019

In \$000

Quarter	9/30 Values	6/30 Values	Differences	Absolute Values
Sep-13	1,390,116.47	1,389,685.21	431.26	431.26
Dec-13	1,652,703.45	1,653,594.99	(891.54)	891.54
Mar-14	1,799,515.72	1,795,946.40	3,569.32	3,569.32
Jun-14	2,126,107.48	2,129,620.59	(3,513.11)	3,513.11
Sep-14	305,918.49	305,731.96	186.53	186.53
Dec-14	73,391.93	73,636.67	(244.74)	244.74
Mar-15	1,465,859.22	1,458,105.84	7,753.38	7,753.38
Jun-15	(85,942.86)	(78,189.47)	(7,753.39)	7,753.39
Sep-15	(2,021,300.10)	(1,975,325.66)	(45,974.44)	45,974.44
Dec-15	11,691.83	(34,282.61)	45,974.44	45,974.44
Mar-16	695,895.38	686,046.88	9,848.50	9,848.50
Jun-16	1,880,401.97	1,890,250.48	(9,848.51)	9,848.51
Sep-16	1,805,042.28	1,805,042.28	-	-
Dec-16	613,829.27	613,829.27	-	-
Mar-17	1,627,829.91	1,624,051.18	3,778.73	3,778.73
Jun-17	847,229.68	848,662.44	(1,432.76)	1,432.76
Sep-17	1,651,228.38	1,650,241.65	986.73	986.73
Dec-17	1,904,074.35	1,904,995.11	(920.76)	920.76
Mar-18	77,423.55	77,178.72	244.83	244.83
Jun-18	1,127,175.16	1,126,934.56	240.60	240.60
Sep-18	679,160.88	679,645.23	(484.35)	484.35
Dec-18	(1,571,687.17)	(1,563,406.77)	(8,280.40)	8,280.40
Mar-19	2,729,082.74	2,707,952.17	21,130.57	21,130.57
Jun-19	1,733,583.09	1,750,076.39	(16,493.30)	16,493.30
Sep-19	1,133,371.89			
Totals	23,651,702.99	22,520,023.51	(1,692.41)	189,982.19
Estimated Performance Impact			-0.003%	

The table above summarizes the quarterly differences of the gains and losses from the June 30, 2019 and the September 30, 2019 Aon performance reports. As illustrated in the Differences column, the cumulative adjustment of historical gains and losses back to September 30, 2013 is (\$1,692,410) not \$189,982,190. As noted in the response to question two, adjustments have been made to the timing of cash flows and market values when finalized statements for private market funds become available. Many of these adjustments were made to correct the timing of the cash flows and the adjustments are offsetting not cumulative. The calculated performance impact of the (\$1,692,410) adjustments is 0.3 basis points cumulative over the past six years.

4) Why have Buck's actuarial reports not reflected the updated returns in communications to the system?

Buck's actuarial valuation reports were prepared using investment returns which were consistent with the investment returns Buck used in their previously issued reports. As a result, the investment returns in Buck's most current reports always agreed to and were consistent with the investment returns reported in all previous Buck reports. The investment returns from Aon are included in Buck's actuarial valuation for information purposes only. Aon's investment returns are not used in any of Buck's calculations to prepare the annual actuarial valuation of PSERS.

Although the previous reports were not incorrect, in order to reduce potential confusion over the differences in returns, the June 30, 2019 Actuarial Valuation report has been revised to include Aon's updated fiscal year returns since 2009/2010.

5) Should the CAFR or any other official accounting document be amended for years in which the fiscal year return changed by a material amount (i.e. greater than two basis points)?

No, the Fund's investment return is presented for disclosure purposes only in the notes to the financial statements and CAFR. As noted previously, PSERS' accounting and reporting policies conform to U.S. GAAP as promulgated by GASB. A revision in the investment return would not change any of the dollar amounts presented in PSERS' basic financial statements, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. As a result, the overall financial position of PSERS is not impacted by a small change in Aon's previously reported investment returns and, as such, a reissuance of an amended CAFR or actuarial valuation is not required.

6) Were the previous – now apparently incorrect – returns used to determine the annual required contributions (ARC) calculations for those years?

PSERS returns were not incorrect. Nor were there any errors by PSERS staff or consultants. Both the actuarially required contributions (ARC) used to calculate PSERS' employer contribution rate and the actuarially determined contributions (ADC) required by current accounting standards are based on the Total Plan Fiduciary Net Position in the audited financial statements and not the stated investment return of the Fund as reported by Aon.

The only instance where Aon's investment return is used by Buck is for the Member's risk share. As defined in PSERS Retirement Code, Aon's return for the 9 years ended June 30, 2020 will be used in the Member's risk share calculation which Buck will include in their June 30, 2020 actuarial valuation report. The 9-year return to be used in Buck's June 30, 2020 actuarial report will be the same as and agree to Aon's June 30, 2020 investment performance report.

7) Would you please provide a copy of any PSERS policy or protocol governing when and how performance returns are revised, when and how Board members are informed of any material performance revisions, and when and how identified errors within the CAFR or actuarial reports are corrected?

The use of "errors" is incorrect. As shown above, these are adjustments that are made as more data is reported to PSERS. The adjustments are not errors in reporting.

As noted in the first paragraph of this letter, a copy of the Investment Consultant Performance Reporting Policy (ICPRP) is enclosed. After the Total Fund Report is finalized, revisions to NAVs/cash flows are reviewed on a case-by-case basis. Currently, the policy does not address reconciliation with the CAFR or informing Board Members of revisions to fund returns. Amendments to the Policy to establish materiality thresholds and procedures for involving or notifying the Board in a formal fashion could be developed.

PSERS and Aon have worked together to create the ICPRP. The policy discusses revisions as follows:

"Situations where revisions to NAVs/cash flows occur after finalizing and publishing the quarterly report will be reviewed on a case-by-case basis. The Investment Consultant and Staff will work to determine the best way to make adjustments and document them accordingly. If there is no significant materiality to the revisions, the Investment Consultant affects these changes for the period they have occurred with such adjustments being reflected with the next monthly/quarterly performance report."

"The Private Markets Policy Benchmark is updated retroactively for the past 20 quarters in order to reflect more accurate measure of changes in constituents of such benchmark. This methodology results in a restatement of the Total Fund Policy Benchmark return from quarter to quarter; as a result, the return for a specific quarter may differ from the return for that quarter reported in an earlier report. Any material changes to the returns of the Total Fund Policy Benchmark as a result of this methodology are expected to be documented accordingly."

While it is beneficial to wait to finalize the PSERS quarterly performance report until all final market values are received from the Investment Managers, this need has been balanced with the need to provide timely reporting to the Board in advance of meetings. Staff and Aon have worked diligently to receive final valuations and achieve timely reporting of performance to the Board. This has been noted by you in the past with receiving performance reports a day before Investment Committee meetings as the books were held open to get as many final NAVs as possible.

Please let me know if you have any questions on the information provided or would like to meet to discuss the response.

Sincerely,



Glen R. Grell
Executive Director
Public School Employees' Retirement System

cc: Christopher Santa Maria, PSERS Chairman of the Board
State Representative Frances Ryan, PSERS Audit/Compliance Chairman
Jason Davis, PSERS Investment Chairman
James Grossman, PSERS Chief Investment Officer
Brian S. Carl, PSERS Chief Financial Officer