

OKLAHOMA POLICE PENSION AND RETIREMENT FUND

STATEMENT OF INVESTMENT POLICY

OBJECTIVES AND GUIDELINES

The Oklahoma Police Pension and Retirement Board has formulated a statement of investment policy which follows. Included and met therein are requirements such as the retention of money managers who must be granted full discretion and evaluation procedures for purposes of furnishing data necessary for the preparation of periodic financial statements. The investment policy of the Oklahoma Police Pension & Retirement Board has been developed from a comprehensive study and evaluation of many alternatives investigated. The primary objective of this policy is to implement a plan of action which will result in the highest probability of maximum investment return from the Fund's assets available for investment within an acceptable level of risk. The cornerstone of our policy rests upon the proposition that there is a direct correlation between risk and return for any investment alternative. While such a proposition is reasonable in logic, it is also provable in empirical investigations. The Board periodically reviews the strategic asset allocation to insure that the expected return and risk (as measured by standard deviation) is consistent with the System's long term objectives and tolerance for risk. Additionally, it is appropriate to review investment return in real terms (net of inflation) and to take into consideration the probability of investment return in the decision making process.

Because of inflation it is essential that the value added by the Fund's investment management be appropriate not only to meet inflationary effects but also to provide additional returns above inflation to meet the investment goals of the Fund. Meeting the Fund's investment goals finances an optimal package of retirement benefits for the Oklahoma Police Pension & Retirement Board and maximizes the utilization of the employees' contributions and the State's contributions.

In order to achieve maximum returns the policy of the Board may be to diversify between various investments including common stocks, bonds, real estate, private equity, venture capital, long/short equity and other hedge fund strategies, short-term cash instruments, and other investments deemed suitable.

I
Statement of Investment Policy

1. The Board will employ strategies to maximize the advantages of diversification for optimal capital protection and to implement appropriate risk acceptance strategies for optimal return on investment.
2. The Board will retain independent professional investment consultants to assist in implementing this policy.
3. The Board will establish a ratio between various asset classes which are calculated to satisfy the requirements of the investment policy.
4. The Board may review and change these investment ratios at any time; however, the Board will review and confirm or change the investment ratios annually.
5. The Board will continually evaluate the trend of investment results in relationship to investment expectations.
6. The Board will evaluate results on a total rate of return basis.
7. The Board will utilize investment managers whose demonstrated results are a matter of public filing or independent financial statements as required by the Board.
8. The Board will evaluate the value-added to the Fund over a long term time horizon relative to an unmanaged static Policy Index composed of 55% Russell 3000 Index, 10% MSCI EAFE Index and 30% Barclays Capital Universal Index and 5% NCREIF ODCE Index.
9. The Board will evaluate each investment manager value-added to the Fund as compared to each manager's relevant benchmark as well as other investment managers of the same investment style further sub-sectored into peer groups. .
10. The Board will evaluate each of the Fund's investment manager's style for compliance with the Fund's investment objectives.
11. The Board may contract with Discount Brokerage Houses to recapture commissions.
12. The Board may contract with consulting firms to measure trade and execution efficiency.
13. The Board may amend the Statement of Policy and the Statement of Strategy.

II

Statement of Investment Strategy

1. The Fund's actuarial rate of return of 7.5% nominal will constitute a minimum goal for investment return.
2. The Board will structure its present investment strategy to achieve an expected long-range total return in excess of the actuarial assumed rate, and at least 1.5% ahead of a rolling measure of inflation.
3. The Board's Policy Allocation will currently maintain approximately 65% of its assets in equity instruments, including public equity, long-short equity hedge fund strategies and venture capital and private equity strategies; approximately 30% of its assets in fixed income, which may include investment grade bonds, high yield and non-dollar bonds, convertible bonds, and certain low volatility hedge fund strategies; and 5% of its assets in real assets, including real estate. The Board will measure the return of the Total Portfolio relative to an unmanaged static Policy Index composed of 55% Russell 3000 Index, 10% MSCI EAFE Index, 30% Barclay's Universal Bond Index and 5% NCREIF ODCE Index. The Board may modify their Policy Allocation as necessary.
4. The Board will evaluate the total portfolio performance on a quarterly basis relative to its strategic Policy Index and relevant peers with an emphasis on longer term time horizons (5 to 10 year time periods) for the following factors:
 - Total Return
 - Portfolio Risk (Standard Deviation, Beta)
 - Performance of portfolio in down markets
 - Performance of portfolio in up-markets
 - Correlation of Total Portfolio Return
5. The Board will monitor the actual asset allocation percentages relative to strategic target allocations. Actual asset allocation may deviate from strategic target allocations within a specific range as defined in paragraph 8 below. If market returns carry an asset class beyond or to the limit of its allowable range, that class of assets must be reduced or raised to its policy normal level as appropriate.
6. To structure the Fund's portfolio for maximum investment style diversification and to achieve expected total return investment results, the Board:
 - may retain multiple equity portfolio managers who will be granted full investment discretion. The total return concept as it applies to this portion of the Fund means dividend income plus realized and unrealized capital appreciation. Complementary multiple management will be used in structuring the domestic equity asset mix.
 - may retain separate fixed income portfolio managers who will be granted full investment discretion. Fixed income investments will constitute a portion of the Fund's asset investment to primarily reduce the volatility risk of the total portfolio in addition

to providing low risk total returns. The total return concept as it applies to this portion of the Fund means interest income plus realized and unrealized capital appreciation.

- may retain separate equity real estate portfolio managers.
- Real estate investment will constitute a portion of the Fund's assets to provide long-term income and/or capital appreciation. Investment in this type of asset is deemed prudent for purposes of reduction of total portfolio volatility.
- may retain multiple managers of alternative forms of investment, including but not limited to venture capital and private equity and various hedge fund strategies.

Investment in these types of strategies is deemed appropriate as a complement to more traditional equity and fixed income strategies in an effort to further diversify the overall portfolio and enhance portfolio returns.

7. The Board will prepare and transmit written guidelines and expectations to the Fund's existing investment managers, at least annually.
8. The Board will evaluate each investment manager for the following areas of performance on at least a quarterly basis with an emphasis on longer term time horizons (5 to 10 year time periods):
 - compliance to the Fund's investment objectives and guidelines
 - total rate of return
 - volatility of portfolio returns as measured by standard deviation
 - performance for each portfolio segment
 - holdings based attribution
 - style characteristics
 - peer group evaluation

9. The Board has established the following strategic asset allocation and acceptable ranges:

Investment Strategy Portfolio Structure

<u>Investment Medium/Style</u>	Target Percentages Of Total Assets	Allocation <u>Range</u>
<u>Fixed Income</u>	25%	15% - 35%
*Global Fixed Income	15%	10%-20%
Low Volatility Hedge Funds	10%	5% -15%
<u>Equities</u>	60%	50% -70%
Large Cap	15%	10%-20%
Small/Mid Cap	5%	0%-10%
International Developed	10%	5%-15%
Emerging Markets	5%	0% - 10%
Long/Short Equity	15%	10% - 20%
Private Equity	10%	5% - 15%
<u>Real Assets</u>	15%	10%-20%
Core Real Estate	5%	0% - 10%
Opportunistic Real Estate	5%	0% - 10%
Commodities	5%	0% - 10%

*Global fixed income may include U.S. & non-U.S. investment grade, U.S. & non-U.S. high-yield and U.S., non-U.S. and high income convertible bonds.

The Board recognizes that transition to the above target allocations will be achieved over an appropriate period of time, based upon market conditions, manager availability, and portfolio needs and constraints.

10. The Board has full discretion to direct brokerage commissions and, as such, several clearing brokerage firms have been qualified by the Board of Trustees for this purpose. It is the desire of the Board of Trustees that portfolio managers direct a minimum target of 60% of all trades, on a dollar-weighted basis, to those brokerage firms approved by the Board of Trustees, provided that, in the opinion of the portfolio manager, it is in the best interest of the System to utilize these brokers.

In the direction of commissions and settlements of contracts the Board will adhere to the following principles:

- a. All contracts will be paid on a hard dollar basis.
- b. All Claims for services and products will be paid through Oklahoma Treasury Funds.

- c. All relationships for commission conversion will be directly between the Board and brokerage houses on a contract basis.
 - d. All credits will be returned directly by the commission conversion into the portfolio of the fund on a monthly basis.
 - e. No portfolio manager is directed to trade with any one particular brokerage firm.
 - f. A monthly report will be provided by the master custodian of per share brokerage fees charged and credits for reconciliation with monthly reports from commission conversion.
11. Proxy Voting. The Board of Trustees is mindful of its fiduciary obligations with respect to the voting of proxies of companies whose securities are owned by the Oklahoma Police Pension and Retirement System.

Because of the complexity of issues and further because of the direct impact on investment values, it is the Trustees' considered belief that the Investment Managers that are employed by the Oklahoma Police Pension and Retirement System are best suited to vote the proxies of shares held in the portfolios they manage.

Therefore, as part of the Investment Policy and Guidelines of the Oklahoma Police Pension and Retirement System, the Trustees hereby instruct their Investment Managers to vote proxies on all matters in accordance with their own guidelines and policies which are in the best interest of the System and which do not conflict with any provisions of Federal law. The results of the proxy votes should be reported, in writing, at least annually to the Board of Trustees.

12. The Board may institute a securities lending program to generate additional income for portfolio securities above and beyond that produced through dividend, interest and capital appreciation.

The Board will receive collateral equal to 102% of market value, initially, on equities and corporate bonds and 100% on government securities. Securities are priced daily and collateral adjustments (marked to market) made as required.

13. The Board will retain a pension consultant to compare the Investment Manager's performance based upon a measurement of the portfolio return vs. the amount of risk taken. The pension consultant shall provide information regarding the method of reporting performance considering the risk/return. This report should also address the price/earnings ratios, debt to capital ratios and market capitalization, etc., of the portfolios of the Investment Managers. The pension consultant should also state the method of evaluating the portfolio performance relative to the particular Investment Manager's style and to the level of activity (portfolio turnover) that the Manager has demonstrated.

14. The Board will retain a Master Trustee (Custodian) for all of the assets of the Oklahoma Police Pension & Retirement Fund and for record keeping for the Fund.

The Custodian must have the capability to accept possession of securities for safekeeping, collect and disburse income, collect principal of sold, matured or called items, provide periodic accounting statements and process and maintain a securities lending program.

The Custodian shall be able to meet as required with the Board and make reports relative to the status of the Fund.

The Custodian shall provide the following services:

- a. **Safekeeping of Securities:** To facilitate the prompt settlement of any trade, the Custodian shall be a direct participant of the Depository Trust Company. All securities processing and recordkeeping should be handled "in house" on the site of the Custodian.

The Custodian shall have the capability to price the assets monthly, provide trade date and settlement date reporting and full accrual accounting.

- b. **Collection of Income and Principal:** The Custodian shall be capable of managing the short term investment of funds by providing a funds control account with a variety of alternatives for investment and be able to implement the investment policy as established by the Board. The Custodian shall provide a cash management program wherein idle cash is automatically "swept" into a designated short-term investment fund. Also, dividend and interest income should be credited to the account on the date payable. The short term investment fund shall be invested primarily in a diversified portfolio of investment grade money market instruments including, but not limited to commercial paper, notes repurchase agreements and other evidences of indebtedness which are payable on demand or which have a maturity date not 13 months from date of purchase. The fund must maintain dollar weighted average portfolio maturity of 90 days or less. The primary objective of this fund is a high level of current income consistent with stability of principal and liquidity.
- c. **Periodic Accounting Statements:** The statements shall contain a balance sheet by fund and combined total. The balance sheet should include summary totals (cost and market) for cash, due from broker, accrued interest and dividend income, cash equivalents (detailed as to U.S. Treasury Bills, time deposits, commercial paper, etc.) fixed income securities (detailed) equity securities, due from brokers, etc. Supporting schedules for the balance sheet shall be provided by fund and combined account total. Detail transaction registers shall be required for the asset activity as follows:
 1. Schedule of Purchases
 2. Schedule of Realized Gains and Losses
 3. Schedule of Unrealized Gains and Losses
 4. Schedule of Dividend and Interest Earned and Received
 5. Schedule of Prior Period Trades Settled
 6. Schedule of Pending Trades End of Period
 7. Schedule of Security Lending Transactions

Statements of Revenue and Expense by Fund and Combined Account Totals: The Statement of Revenue and Expenses should include summary totals for revenue and expenses by the following categories:

Revenue:

1. Contributions - Separate totals for city and participant contributions.
2. Investment Income - Separate totals for interest, dividends, realized gains and unrealized gains.
3. State appropriations.
4. Insurance premium tax allocation.
5. Net proceeds from securities lending.
6. Miscellaneous

Expense:

1. Benefit payments
2. Refunds to terminated participants
3. Investment expenses
4. Miscellaneous

Supporting schedules for statement of revenue and Expense by fund and combined total and detailed transaction register will be required for the above noted categories. Additional required schedules are as follows:

1. Reconciliation of cost and market value (combined fund) from beginning of month to end of month.
 2. Summary of daily transactions (all funds).
 3. Fixed income maturity schedule.
 4. Brokerage summary
 5. General ledger
- d. Securities Lending: The Custodian shall provide a complete securities lending program including: Selection of borrowers/borrowers agreements, credit review of borrowers, earnings negotiations, loan deliveries and return/collateral safekeeping and market to market of loans and collateral. Investment guidelines for the cash collateral are included in the Appendix.

III

Summary

The Board periodically conducts a comprehensive analysis to determine the impact of various expected rates of return and associated risk levels upon pension fund costs. Based upon the investment objectives, risk tolerance, and time horizon stated throughout this document, the results of the most recent study led the Board to conclude that 65% equity / 30% fixed income / 5% real assets (as outlined on page 4 under Investment Strategy Portfolio Structure) is appropriate in its effort to meet an expected long-term rate of return of 7.5% (the current actuarial assumed rate of return). In implementing this asset allocation, the Board makes all efforts to diversify the portfolio by asset class, strategy, style, geography, market capitalization, number of securities, and other means.

The Board and its consultant will continually review and analyze the value added both by strategies and by managers. The Board evaluates returns, risk profiles, consistency with stated style and attribution of performance for each portfolio in order to determine each manager's success in meeting its expectations and their respective contribution to total Fund results.

The Board will formally review this document at least annually in order to ensure that it reflects the sentiments of the Board and the overall objectives of the Fund, and will make modifications as necessary.