



OKLAHOMA TEACHERS
RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT

AS OF APRIL 2018



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I. INTRODUCTION AND STATEMENTS OF PURPOSE, PHILOSOPHY AND ETHICS

The Board of Trustees of the Teachers' Retirement System of Oklahoma, as the governing body for the System, deems it prudent and necessary to maintain this Investment Policy Statement to act as the principal governing document for the investment of System assets.

A. Legal Authority and System Description

The System is established by statute; the legal authority and description of the System are detailed below.

Constitutional Authority

Section 62 of Article 5 of the Oklahoma Constitution was added as a result of the passage of State Question 306 on July 14, 1942. This section reads:

“The Legislature may enact laws to provide for the retirement for meritorious service of teachers and other employees in the public schools, colleges and universities in this State supported wholly or in part by public funds, and may provide for payments to be made and accumulated from public funds, either of the State or of the several school districts. Payments from public funds shall be made in conformity to equality and uniformity within the same classifications according to duration of service and remuneration received during such service.”

Statutory Authority

As a result of the passage of State Question 306, the Legislature enacted House Bill 297 in the 1943 legislative session that created the Oklahoma Teachers Retirement System (“System”). The legislation has been changed substantially in the years since its creation and is currently codified in Oklahoma Statutes Title 70, Sections 17-101 et. seq. (NOTE: In the remainder of this document, statutory references will follow the notation O.S. 70 § 17-101 to reference Oklahoma Statutes Title 70, Section 17-101.)

Purpose of System

In O.S. 70 § 17-102, paragraph 1 creates the Oklahoma Teachers Retirement System and outlines the purpose of the System as follows:

“A retirement system is hereby established and placed under the management of the Board of Trustees for the purpose of providing retirement allowances and other benefits under the provisions of this act for teachers of the State of Oklahoma.”

Board of Trustees Powers

The second paragraph of O.S. 70 § 17-102 provides the broad terms of the powers entrusted to the Board of Trustees (“Board”):

“The Board of Trustees shall have the power and privileges of a corporation and shall be known as the "Board of Trustees of the Teachers'



Retirement System of Oklahoma", and by such name all of its business shall be transacted, all of its funds invested, and all of its cash and securities and other property held in trust for the purpose for which received.”

Further powers vested upon the Board are set forth in O.S. 70 § 17-106, in part:

“(1) The general administration and responsibility for the proper operation of the retirement system and for making effective the provisions of the act are hereby vested in a Board of Trustees which shall be known as the Board of Trustees and shall be organized immediately after a majority of the trustees provided for in this section shall have qualified and taken the oath of office.”

and:

“(10) Subject to the limitations of this act, the Board of Trustees shall, from time to time, establish rules and regulations for the administration of the funds created by this act and for the transaction of its business.

Finally, O.S. 70 § 17-106.1, in part, defines the duties of the Board in relation to investment of fund assets:

“A. The Board of Trustees of the Teachers’ Retirement System of Oklahoma shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:
 - a. providing benefits to participants and their beneficiaries, and
 - b. defraying reasonable expenses of administering the System;
2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
4. In accordance with the laws, documents and instruments governing the System.”

B. Statement of Purpose

A primary purpose of this investment policy statement is to guide fiduciaries, including the Board of Trustees, System staff, investment managers, consultants and others responsible for overseeing and investing the assets of the Fund. This policy also communicates foundational tenets underlying its formulation. This policy provides specific guidance regarding investment objectives, asset allocation, risk management and the means by which investment objectives are intended to be achieved. Additional specific guidance is given in defining roles, delegated duties



and accountabilities of System fiduciaries as well as setting forth logical, disciplined procedures for making decisions.

C. Statement of Investment Philosophy

Since this policy is a communication tool for System fiduciaries, interested stakeholders as well as other external parties, the Board recognizes that it is important to articulate the underlying beliefs that are foundational in its formulation. Key aspects of the Board's investment philosophy are summarized in the following statements.

1. The Fund has an infinite time horizon and the assets should be invested and managed accordingly.
2. A central tenet in investing is the tradeoff between risk and return, meaning that the pursuit of higher expected returns is accompanied with higher expected risk. Bearing some degree of investment risk is necessary in the pursuit of investment return objectives.
3. Investment risk comes in many forms. The most common risk is the volatility of periodic returns measured by the statistical term known as standard deviation. Additionally, there are a variety of other risks to be considered. A partial list of these risks would include the risk of permanent loss of capital, the risk of not meeting objectives, illiquidity risk, credit risk, interest rate risk, inflation risk, leverage risk, concentration risk and manager risk. A primary focus of this investment policy is to balance, manage and, to the extent possible, control these various risks.
4. Funds with long term investment horizons are able to pursue higher expected returns associated with higher risk portfolios because they are able to remain invested when periodic declines in market values occur.
5. The Fund will best contribute to the primary goal of providing benefits to participants and their beneficiaries by realizing high risk-adjusted net returns.
6. The Board acknowledges that while other institutions may make investment decisions to pursue various worthy causes that may be admirable in their own right, the Board's investment decisions are made to achieve the primary goal of providing benefits to participants and their beneficiaries and defraying reasonable expenses.
7. Long-term investing success is best accomplished by adhering to a long-term strategic asset allocation rather than engaging in short term tactical market timing among asset classes.
8. Diversification among asset classes and securities is the primary means of controlling the risk of an investment portfolio.
9. The primary factor determining portfolio risk and return is how the portfolio is allocated among asset classes.
10. The decision-making process for investments should be both disciplined and logical deriving support from current academic theory and the application of rigorous analysis.



11. In less efficient markets where the probabilities of achieving net-of-fee outperformance relative to a passive market index are higher, active management is preferred. In more efficient markets where the probabilities of achieving net-of-fee outperformance relative to a passive market index are lower, low-cost index management is preferred.
12. Certain asset classes are only accessible in the form of private market interests which have very limited liquidity and normally higher costs relative to public market instruments. Investing a portion of the Fund in these illiquid asset classes is reasonable to the extent that they offer some desirable combination of the following relative to available public market asset classes: higher expected net return and/or risk reduction through diversification.

D. Statement of Ethical Standards

The Board of Trustees is committed to maintaining and promoting the highest ethical standards among Board members and among all parties involved in the administration of fund assets.

The Board expects all parties involved in the administration of fund assets, including all System fiduciaries, to conduct their activities according to the highest ethical standards adhering likewise to the principles expressed in the Board of Trustee Policy Manual Chapter 5 – Code of Conduct and Chapter 6 – Ethical and Fiduciary Conduct. Given the nature of fund management and investing, particular attention will be given to conflicts of interest. All parties involved in the administration of fund assets should be free of conflicts of interest to avoid even the appearance of not acting in the sole interests of System participants and their beneficiaries. Where any involved party becomes aware of an actual or potential conflict of interest it is their duty to disclose the conflict to the Board so that the Board may assess its seriousness.



II. STATEMENT OF DUTIES AND RESPONSIBILITIES

A. Board of Trustees

The Board of Trustees has the final decision making authority for the System. The Investment Committee of the Board has the authority to make investment recommendations to the Board. The Board evaluates and decides whether or not to take action on recommendations from the Investment Committee. The Investment Committee's authority and responsibilities are set forth in the Investment Committee Charter contained in the Board of Trustees Policy Manual.

Trustee duties and responsibilities are listed in summary as follows:

1. Adopt, and when deemed necessary, amend this Investment Policy Statement.
2. Determine delegated duties to be performed by other qualified fiduciaries in order to ensure that the Fund is properly administered and regularly evaluated to assess progress towards achieving established objectives.
3. Receive and evaluate reports, presentations and other materials provided by investment consultant(s), staff, investment managers, and other retained advisors to monitor the administration of Fund assets in accordance with policy objectives and to regularly assess progress towards achieving the goals and objectives defined herein.
4. Select and contract with qualified professional advisory organizations to perform functions deemed necessary by the Board to manage the Fund in accordance with policy. Common professional advisory organizations would include investment consultant(s), investment managers, global custodians and securities lending agents.
5. Evaluating the performance of retained professional advisory organizations and staff to assess fulfillment of duties, achievement of goals and compliance with policy guidelines.
6. Annually conduct a formal review of the performance of Investment Consultant(s), normally to be performed in the month of April.
7. Terminating the contracts with any retained professional advisory organization when deemed necessary.
8. Review all costs of investment operations at least annually.

B. Staff

A summary of the duties and responsibilities of the staff is as follows:

1. Provide the Board and the Investment Committee with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Staff is further described in Section VI.



2. Serve as the primary liaison between the Board of Trustees and the investment consultant(s), investment managers, custodian, securities lending agent and transition manager(s).
3. Implement Board decisions regarding asset allocation, investment structure, portfolio rebalancing procedures and retention of investment consultant(s), investment managers, custodian and securities lending agent.
4. Coordinate the search, selection and evaluation processes for investment consultant(s), investment managers, custodian and securities lending agent on behalf of the Board of Trustees.
5. Monitor and review the performance of the total fund, asset class composites, and investment managers to evaluate achievement of objectives and compliance with policy guidelines.
6. Monitor and review all costs of investment operations including, but not limited to, fees paid to investment consultant(s), investment managers, and custodian, as well as portfolio transactions costs.
7. Manage the liquidity in the Total Portfolio to ensure timely payment of Client benefit payments and plan expenses and the investment of contributions consistent with established asset allocation and portfolio rebalancing policies.
8. Conduct the search and selection of transition manager(s) in collaboration with the investment consultant(s) as directed by the Board.
9. Conduct due diligence in collaboration with the investment consultant(s) when investment managers fail to meet the expectations of the Board or are formally placed 'On Alert' or 'On Notice'.
10. Research and review innovative investment ideas and concepts in collaboration with the investment consultant(s) in an effort to identify potential modifications to improve the investment portfolio.
11. Monitor the performance of the total fund, asset class composites and investment managers to determine if any issues need to be addressed by the Investment Committee or the Board of Trustees.

C. Investment Consultant

A summary of the duties and responsibilities of the investment consultant(s) retained by the Board is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.



2. Provide the Board and the Investment Committee with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Investment Consultant is further described in Section VI.
3. Assist the Board in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies.
4. Assist the Board by monitoring compliance with this Investment Policy.
5. Provide assistance in investment performance calculation, evaluation, and analysis.
6. Provide assistance in investment manager searches and selection.
7. Provide assistance in custodian, securities lending agent, transition manager and commission recapture agent searches and selection.
8. Provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board.
9. Monitor the Board's investment managers and notify the Board and staff of any material changes in the investment managers' organizational structure, their personnel or if there are performance issues.
10. Certify in writing to the Board on an annual basis as of the System's June 30 fiscal year end, , the investment consultant's compliance with this Policy during the fiscal year period ending June 30.
11. Review with the staff the status and performance of current investment managers and determine if any issues need to be addressed by the staff or the Board of Trustees.
12. Provide assistance in the search and selection of transition manager(s) as directed by the Board.
13. Provide assistance in the conduct of due diligence when investment managers fail to meet the expectations of the Board or are placed 'On Alert' or 'On Notice'.
14. Explore, research, analyze and review new investment ideas and managers in collaboration with the staff in an effort to keep the system current with investment options.

D. Investment Managers

A summary of the duties and responsibilities of each separate account, public markets investment manager retained by the Board is listed below. Commingled account and private market investment managers whose investment activities are governed by subscription agreements or commingled trust documents should adhere to the duties and responsibilities contained herein to the extent possible and to the extent that they are not superseded by, or in conflict with,



subscription agreements or commingled trust documents defining the relationship with the System.

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Investment Managers is further described in Section VI.
3. Manage the Fund's assets in accordance with the policy guidelines and objectives expressed herein.
4. Prudently select investments based on thorough evaluation of all risks applicable to stated mandate.
5. Work with the custodian and the investment consultant to verify monthly accounting and performance reports.
6. Certify in writing to the Board on an annual basis as of the System's June 30 fiscal year end, the Investment Manager's compliance with this Policy during the fiscal year period ending June 30.
7. Act as a fiduciary in adopting and adhering to proxy voting policies, acknowledging that its proxy voting policies may affect the value of their respective portfolio.
8. Seek to obtain best execution in all securities transactions to minimize the costs of trading.

E. Custodian

A summary of the duties and responsibilities of the custodian bank(s) retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities.
3. Accept daily instructions from designated staff.
4. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
5. Safekeeping of securities.



6. Timely collection of interest and dividends.
7. Daily cash sweep of idle principal and income cash balances.
8. Process and maintain records of all investment manager transactions.
9. Collect proceeds from maturing securities.
10. Disburse all income or principal cash balances as directed.
11. Perform regular reconciliations of holdings and transactions with the System's retained investment managers on at least a monthly basis.
12. Work with the System's staff and the investment consultant to ensure accuracy in reporting.
13. Manage and administer the System's directed brokerage program.
14. Monitor compliance with this Investment Policies Statement, provide applicable research to ensure the validity of suspected breaches, and submit appropriate commentary offering a recommendation to the reported breach.
15. Participate in an annual review of compliance with OTRS staff, to determine the effectiveness of investment policy testing. Providing required reports to assist the System's staff and vendors with compliance with the Governmental Accounting Standards Board, the Internal Revenue Service, the Securities and Exchange Commission, the Financial Industry Regulatory Authority and other regulatory agencies.
16. Monitor, file and report on securities class action lawsuits and collect and record settlement proceeds.
17. Process and file Foreign Tax Reclaims on behalf of the System.

F. Securities Lending Agent

A summary of the duties and responsibilities of the securities lending agent retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities..
3. Arrange terms and conditions of securities loans.



4. Monitor the market value of the securities lent and mark to market at least daily and ensure that any necessary calls for additional collateral are made and that such collateral is obtained on a timely basis.
5. Direct the investment of cash received as collateral in accordance with direction from the Board, provided that such investments are consistent with guidelines provided in this document.
6. Notify the Board of any changes to the investment guidelines in the Securities and Exchange Commission's rule 2A7 for consideration by the Board.
7. Notify OTRS staff in the event that a recalled security has not been returned by a borrowing party within 10 days of the request.

G. Transition Manager

The transition managers shall manage the transition of assets from one or more investment managers or asset categories to one or more other investment managers or asset categories. Transition managers shall be selected among those approved by the Board. Transition managers shall be utilized when such employment is likely to present significant opportunities for cost savings, technical efficiencies or other benefits to the System.

A summary of the duties and responsibilities of Transition Managers retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide a pre-trade analysis, which will include, among other things, a trading liquidity analysis, portfolio sector analysis, volatility analysis, and estimated transaction costs.
3. Provide a detailed written plan of transition execution.
4. Provide a post-trade analysis, comparing the actual costs with the pre-trade estimates. The report will also include various trading statistics, benchmarking information, and detailed trade reports.
5. In all securities transactions, transition managers shall seek to obtain best execution to minimize the costs of trading.

III. PROCEDURES

A. Investment Policy Review

In order to keep the Investment Policy current, the Board will at least annually, review and modify, as deemed necessary any portions of the policy. The annual review will consider, but not be limited to, the following: objectives and guidelines, the development of asset allocation



strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies.

The Board, both upon their own initiative and upon consideration of the advice and recommendations of staff, consultants, the investment managers and other fund professionals involved with the assets, may amend policy guidelines. Proposed modifications should be documented in writing to the Board.

B. Investment Manager Policy Exceptions

Requests for an exception to invest in securities precluded by section V. A. or the applicable mandate's specific policies, should be submitted in writing to the Board of Trustees and include justification for such request, proposed process for providing quarterly reporting on attribution analysis of the contribution of the allowed exception, and a requested time period, up to three years. Exception requests will undergo a reevaluation and approval process at the end of each term.

C. Third Party Marketing and Referrals Disclosure Policy

The Teachers' Retirement System of Oklahoma requires transparency and full disclosure of all relationships in proposed and committed investments with any third parties. A "third party marketer" is a person who represents an asset management firm or any other type of investment services provider, as an independent contractor rather than as an employee of the firm, for the purpose of making presentations or securing contracts with OTRS for the firm or provider. Any such third party marketer must disclose himself or herself as a third party marketer before or at the same time as contacting any member of the Board of Trustees, employee of OTRS or the outside investment consultant for OTRS. In addition, firms submitting investment proposals for consideration by Teachers' Retirement System of Oklahoma (including any sub-managers or consultants engaged by such firms) are hereby required to disclose the identity of all third-party marketers and/or individuals by whom the firm has been referred to Teachers' Retirement System of Oklahoma and further indicate those so identified that stand to receive fees or other consideration in the event that a contract between the firm and the Teachers' Retirement System of Oklahoma is secured. Any consideration paid or benefits received, or any relationship between such firm (including any sub-managers or consultants engaged by such firms) and third party marketing entities and/or individuals, shall be disclosed. The disclosure requirements established by this Policy apply throughout the term of any contractual relationship Teachers' Retirement System of Oklahoma may have with any firm and represents a continuing obligation of disclosure. This Policy becomes effective immediately and applies to all firms currently managing Teachers' Retirement System of Oklahoma assets. All firms submitting investment proposals must make the disclosures required by this Policy prior to any action being taken on the firm's investment proposal by the Board, as well as comply with the continuing obligation of disclosure.

D. Request for Proposal Policy

70 O.S. § 17-106.1(E) provides "The Board of Trustees may retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be



chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. Subject to the overall investment guidelines set by the Board of Trustees, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers[...]"

While TRS statutes provide that investment managers must be retained on a competitive bid basis, this process is not required to conform to the Oklahoma Central Purchasing Act. The process for investment manager selection and allocation shall conform to the following process:

1. The Board shall approve all request for proposals (RFPs) issued by the System.
2. Respondents to a proposal shall comply with the procedures and conform to the standards set forth in the RFP.
3. The issuance of an RFP does not commit the Board to award a contract or make an allocation to a manager or strategy. The Board reserves the right to accept or reject any or all proposals received, to negotiate with any and all qualified bidders, and to cancel in part or in its entirety a solicitation if it is in the best interests of the System to do so.
4. The Board shall award contracts to the most suitable bidder at a specified time and place which shall be open to the public pursuant to the Oklahoma Open Meetings Act.
5. Proposals shall be evaluated by the Investment Consultant and the Chief Investment Officer. An evaluation report to identify potential managers shall be presented to the Investment Committee for recommendation to the Board.
6. Except for the purposes of seeking clarification of RFP responses, no member of the Board, staff, or Investment Consultant shall knowingly communicate concerning any matter that is material to the selection process with any party having a direct financial interest in the award of the contract, an officer or employee of that party, or a placement agent retained or employed by that party, unless the communication is part of the process expressly described in the RFP or part of any Board meeting prior to the award of the contract. Any bidder who knowingly participates in a communication that is prohibited by this subsection shall be disqualified from the contract award.
7. Due diligence shall be conducted on potential managers prior to the award of the contract. The nature of the due diligence shall be recommended to the Board by the Investment Committee with the advice of the Investment Consultant, Chief Investment Officer, and Executive Director.

Additional allocations to a previously retained manager:

1. The Board may at any time make an additional allocation to a manager currently under contract at its discretion in accordance with this Policy.



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2. Additional allocations to subsequent or follow-on closed-end funds of a manager may be made without the necessity of an additional RFP provided the investment thesis and strategy of the subsequent or follow-on fund is substantially similar to the fund that was originally allocated on a competitive bid basis. To be substantially similar a fund must have the same benchmark, the same type of assets, and the investment decisions must be made by substantially the same people as were managing the original fund/strategy. Closed-end funds are generally in the form of ownership interests in limited partnerships and may include, but are not limited to, private equity, venture capital, mezzanine and distressed debt, real estate funds, and natural resource funds.



IV. INVESTMENT GOALS AND OBJECTIVES

To fulfill the System's Mission Statement set forth in Chapter 2 of the Board of Trustees Policy Manual, the Board has a goal of earning a nominal, long-term, time-weighted, annualized, net total return of 8% on the investment portfolio while maintaining liquidity necessary to fund net benefits and operations.

To achieve the goal above the Board believes that several investment objectives need to be attained. In setting the objectives the Board follows the criteria as recommended in "A Primer for Investment Trustees" (Bailey, Jeffery, Jesse Phillips and Thomas Richards. *A Primer for Investment Trustees*. Charlottesville: Research Foundation of CFA Institute, 2011).

Specifically, investment objectives should be

- unambiguous and measurable,
- specified in advance,
- actionable and attainable,
- reflective of the Trustees' risk tolerance and consistent with the System's mission.

The Board has established several objectives for the investment portfolio that meet the criteria above. These objectives listed below are specified at the Total Fund, Asset Class Composite and individual mandate/Investment Account level.

Total Fund Investment Objectives

- Achieve or exceed on a three year rolling basis, absolute and risk-adjusted, net excess returns relative to the Total Fund Policy Index as specified in Appendix A.
- On a three year rolling basis, maintain relative risk levels equal to or below that of the Total Fund Policy Index.

Asset Class Investment Objectives

- Achieve or exceed on a three year rolling basis, absolute and risk-adjusted, net excess returns relative to the Asset Class Index as specified in Appendix A.
- On a three year rolling basis, maintain relative risk levels equal to or below that of the Asset Class Index.

Investment Account Objectives

- Achieve or exceed on a three year rolling basis, absolute and risk-adjusted, net excess returns relative to the Investment Account Index as specified in Appendix A.
- On a three year rolling basis, maintain relative risk levels equal to or below that of the Investment Account Index.



V. INVESTMENT GUIDELINES AND CONSTRAINTS

Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the allocation of their portfolios, the selection of securities, and the timing of transactions. Any exception requests to the guidelines listed herein should be communicated to OTRS staff.

A. Ineligible Investments

Due to the vast number of types of financial instruments, as well as financial engineering, the following list of ineligible investments is not considered to be exhaustive. Any instrument, to which these Investment Guidelines do not explicitly prohibit, that is not expressly allowed by the applicable mandate specific guidelines, should be requested through the exception process, detailed in section III. B, prior to investment.

1. Privately placed or other non-marketable debt, except securities issued under Rule 144A.
2. Securities denominated in non-US currency, unless provided in accordance with an applicable mandate.
3. Lettered, legend or other so-called restricted stock
4. Physical commodities and commodity derivatives
5. Short sales and purchases on margin; leverage is not allowed unless OTRS has expressly given the right to lever to a manager.
6. Direct investments in private placements, real estate, oil and gas and venture capital, unless provided in accordance with an applicable mandate.

B. Universal Cash Rule for all OTRS Accounts

All portfolios shall strive to hold no more than 5% in cash or cash equivalents at any time. In the event that cash holdings breach the 5% threshold for three consecutive days or 7% at any point in time, the manager shall submit a written notice and explanation of each such event to Investment Staff.

C. Index Portfolios

1. All index portfolios characteristics and returns are expected to closely resemble the designated benchmark.
2. Futures and options instruments are permitted solely for the purpose of cash management provided that no leverage is used.



D. Domestic Equity Portfolios

1. Domestic Equity portfolios will not concentrate greater than 25% of market value of funds under advisement in holdings of a single industry.
2. Domestic Equity portfolios will not concentrate greater than 7% of market value of funds under advisement in holdings of a single issuer.
3. Domestic Equity portfolios will not hold greater than 5% of the outstanding shares of a single issuer.
4. Domestic Equity portfolios will be limited to the purchase of shares of common stock and American Depository Receipts (ADRs) listed on a domestic exchange.
5. Futures and options instruments are permitted solely for the purpose of cash management provided that no leverage is used.

E. International Equity

1. International Equity portfolios will not concentrate greater than 25% of market value of funds under advisement in holdings of a single industry as classified by GICS.
2. International Equity portfolios will not concentrate greater than 7% of market value of funds under advisement in holdings of a single issuer.
3. International Equity portfolios will not hold greater than 5% of the outstanding shares of a single issuer.
4. International Equity portfolios will not concentrate greater than 35% of the market value of funds under advisement in issuers from the UK or Japan and 30% of the market value of funds under advisement in issuers from any other single country.
5. International Equity portfolios will invest no less than 50% of the portfolio in companies located in developed markets as determined by MSCI.
6. Futures and options instruments are permitted solely for the purpose of cash management provided that no leverage is used.
7. Foreign exchange forward contracts or currency swaps are permitted for currency hedging purposes. Posting of a “margin” deposit for these contracts is permitted in connection with foreign exchange forward contracts or currency swaps as such a deposit is not considered to be “purchases on margin” or “leverage” pursuant to Section V. A above.

F. Fixed Income

1. Fixed Income portfolios will not concentrate greater than 25% of market value of funds under advisement in holdings of a single industry. This restriction does not apply to U.S. sovereign issues.



2. Fixed Income portfolios will not concentrate greater than 5% of market value of funds under advisement in holdings of a single issuer. This restriction does not apply to sovereign issues.
3. Fixed Income portfolios will not hold greater than 5% of the issued securities of a single issuer.
4. Fixed Income portfolios will not concentrate greater than 20% in non-USD denominated obligations.
5. Fixed Income portfolios will not concentrate greater than 10% in developing or emerging markets issuers as determined by MSCI.
6. Fixed Income portfolios may hold shares of common stock converted from embedded corporate actions. At the time of conversion, managers should communicate issues converted into common shares to OTRS staff.
7. Futures and options instruments are allowed solely for the purpose of hedging interest rate risk, duration risk, or managing cash.

8. Core Plus Fixed Income

- a. Fixed Income portfolios will not concentrate greater than 25% in issues which are rated Ba1 or lower by Moody's, or BB+ or lower by Standard & Poor's.
- b. Fixed Income portfolios will not purchase issues which are rated below Caa2 Moody's, or CCC by Standard & Poor's. In the event that a credit is downgraded below this minimum, the investment manager shall immediately notify Staff and provide an evaluation and recommended course of action.
- c. Unrated securities shall be permitted provided the security is rated Caa2 or CCC equivalent by the Manager's internal rating system. In the event that a manager purchases an unrated security, it is the manager's responsibility to notify OTRS staff of the manager's internal rating within 48 hours of the purchase.
- d. The manager may not invest more than 5% of the portfolio in securities that are solely rated by the manager.

9. High Yield Fixed Income

- a. High Yield portfolios will not concentrate greater than 10% of market value of funds under advisement in holdings of unrated obligations. In the event that a manager purchases an unrated security, it is the manager's responsibility to notify OTRS staff of the manager's internal rating within 48 hours of the purchase.
- b. Investments in other funds (including REITs) not managed or advised by either the Management Company or the Investment Adviser shall not exceed five (5%) of the total



assets of the portfolio, at any time, based on the aggregate market value of such investments.

10. Active Duration Fixed Income

- a. Active duration portfolios may concentrate holdings up to 100% at any maturity along the U.S. Treasury term structure, including cash equivalent securities, and therefore are not subject to Rule V. B. above.
- b. Active duration portfolio accounts are limited to holding securities backed by the full faith and credit of the U.S. government and units of the short term investment fund of the System’s custodial bank.

G. Securities Lending

- 1. Securities lending collateral portfolios will adhere to the quality and maturity guidelines established by SEC Rule 2a-7.

H. Private Equity

- 1. Private Equity portfolios will be comprised of:
 - a. Corporate Finance Funds
 - i. Buyout and growth capital funds
 - ii. Distressed debt and turnaround funds
 - iii. Mezzanine debt funds
 - b. Venture Capital Funds; and
 - c. Any other private investment strategy approved by OTRS.
- 2. In order to achieve a diversified private equity portfolio, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

<u>Segment</u>	<u>Long-Term Allocation Ranges</u>
Corporate Finance ¹	80% - 100%
Venture Capital	0% - 20%

¹ Includes buyout, turnaround and debt related strategies

<u>Region</u>	<u>Long-Term Allocation Ranges</u>
U.S. and Western Europe	80% - 100%
Other	0% - 20%

- 3. Private Equity portfolios will make commitments of at least \$10 million.
- 4. Private Equity portfolios will not make commitments to a primary fund which exceeds an amount equal to 20% of the total amount raised for a proposed fund.



5. Private Equity portfolios will not concentrate aggregate commitments to a single investment sponsor greater than 25% of funds under advisement.
6. Prior to making a new commitment, the Manager shall provide detailed information on the opportunity, including a final memorandum summarizing all due diligence performed, to Staff, the Investment Consultant, and the Board.
7. OTRS will not invest funds into opportunities that intend to purchase remaining assets from a previous fund.
8. Private equity investments will be governed by the subscription agreement, the Limited Partnership Agreement and other related documents. In the event of a conflict between the aforementioned documents and the Investment Policy Statement, the subscription agreements, Limited Partnership Agreement and other related documents shall take precedent in the governance of the investments.
9. Private Equity portfolios that meet the following criteria will not be considered eligible for initial evaluation or potential funding commitments:
 1. Vehicles which are not backed by accredited investors, as that term is defined in Section 2 of the Federal Securities Act of 1933, as amended, (15 U.S.C. Section 77(b)) and rules and regulations promulgated under that section.
 2. Investments representing direct equity ownership in individual companies or other business entities, without the benefit of an intermediate partnership or other indirect ownership structure. However, this exception shall not include direct equity ownership which results from the distribution of securities from partnerships to OTRS. This rule does not restrict the possibility of a co-investment in Private Equity; contingent upon a third party consultant providing the recommendation and vehicle for investment.
 3. Investments which would violate resolutions passed by OTRS' Board.
 4. Investments in which the General Partner has committed to invest no personal or firm assets.

I. Real Estate

Real Estate funds will invest in a manner consistent with guidelines set forth by the applicable subscription documents. In the event of a conflict between the aforementioned documents and the Investment Policy Statement, the subscription agreements, Limited Partnership Agreement and other related documents shall take precedent in the governance of the investments. Real estate investments will be categorized as Core and Non-Core. The objectives of real estate investments are to: provide diversification benefits to the overall portfolio; provide an inflation hedge; generate stable income; produce attractive risk-adjusted return; and preserve capital. Real estate exposure shall be acquired primarily through comingled fund vehicles, both open end and closed end, and, to a lesser extent, joint venture limited partnerships and separate accounts.



1. Real estate funds will not concentrate, in any single property, an amount exceeding 25% of the total Gross Asset Value (GAV) of the overall investment fund.
2. Core real estate funds will not concentrate greater than 15% of the total GAV of the investment fund in Non-Core properties.
3. Core real estate funds will not carry leverage in excess of 35% of the GAV of the investment fund. Non-Core real estate funds will not carry leverage in excess of 65% of the GAV of the investment fund.

J. Master Limited Partnership (Energy Infrastructure)

1. Master Limited Partnership (MLP) portfolios will be limited to the purchase of investments in energy infrastructure, which include: (a) securities such as units and other ownership instruments issued by MLPs that are organized as partnerships or limited liability companies which elect to be taxed as a partnership; (b) securities that offer economic exposure to MLPs from entities holding primarily general partner or managing member interests in MLPs; and (c) equity securities in companies that focus on energy infrastructure and the midstream energy sector that includes activities such as gathering, processing, transporting and storing of crude oil, natural gas and natural gas liquids.
2. MLP portfolios will not concentrate greater than 15% of market value of funds under advisement in holdings of unregistered, privately placed securities of publicly traded MLPs at the time of purchase.
3. MLP portfolios will be permitted to invest in Initial Public Offerings and Secondary Public Offerings of MLP securities.
4. MLP portfolios will not concentrate greater than 10% of market value of funds under advisement in holdings of a single issue. A “single issue” is defined by shares in either the limited partner, or shares in the general partner; but shares in the limited partnership and general partnership should not be taken in aggregate.
5. MLP portfolios will not hold greater than 5% of the outstanding shares of a single issuer.
6. Futures and options instruments are permitted solely for the purpose of cash management provided that no leverage is used.

K. Opportunistic Investments

1. The Opportunistic Investment Asset Class will be comprised of unique investments that are not adequately classified within the other investment mandates. The mandate should allow the System to earn premium returns by investing in unique investment opportunities. The target range for the portfolio is 0% to 5% of total System investment assets. The Board shall make commitments of at least \$50 million per portfolio.



2. The Board shall not make commitments to a single portfolio greater than 20% of the total amount of the proposed portfolio.
3. The Board shall not concentrate aggregate commitments to a single investment manager's firm greater than 25% of the firm's total assets under management.
4. Prior to making a new commitment, the Consultant shall provide detailed information on the opportunity, including a final memorandum summarizing all due diligence performed, to Staff and the Board.
5. Opportunistic investments will be governed by the subscription agreement, the Limited Partnership Agreement, Investment Manager Agreement and/or other similar documents. In the event of a conflict between the aforementioned documents and the Investment Policy Statement, the opportunistic investment's governing documents shall take precedent in the governance of the investments.

L. Derivatives

Investment managers may be permitted, under the terms of individual investment contracts, to use derivative instruments as set forth in each manager's investment guidelines. A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency or index. Some examples of derivatives for purposes of this Policy are (a) contracts such as forwards, futures, put and call options, and swaps and (b) non-traditional securities with embedded options such as collateralized mortgage obligations (CMOs) and structured note products. Traditional securities with options such as convertible bonds and preferred stock are not considered derivatives under this policy, nor are warrants. Derivatives shall not be used to introduce leverage, that is, the notional value of derivatives positions cannot exceed the cash or securities values available from OTRS assets. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions. Each investment manager is required to report to the Board in their monthly report the market value and notional value of derivatives exposure in their portfolio.



VI. EVALUATION AND REVIEW

A. Investment Staff Reporting Requirements

The Investment Staff will at regular periodic Board and Investment Committee meetings report as needed on the following: asset class and manager account variances relative to targets, updates regarding changes within the portfolio including rebalancing and transition events, portfolio risk exposures, asset class structure reviews, special project reports and any other areas of investment portfolio analysis as directed by the Board.

B. Investment Consultant Reporting Requirements

The Investment Consultant will report on investment portfolio performance at regular periodic Board and Investment Committee meetings. These reports will cover the following: recent capital markets developments and consequent impacts on investment portfolio performance both gross and net of fees, asset allocation, return attribution, multi-period analyses of the performance of all investment portfolio accounts and composites relative to benchmarks and comparable universes, analyses of the risks of investment portfolio accounts and composites relative to benchmarks. The Investment Consultant will also prepare and present special reports covering the System's private markets alternatives investments as well as the System's 403(b) plan.

In addition to reporting on investment portfolio performance, the Investment Consultant will report to the Board any material recent organizational or personnel developments at the investment firms retained by the System. The Investment Consultant will also report to the Board regarding the investment firms retained by the System any significant changes in clients and assets under management.

To assist the Board in their annual review of the Investment Consultant, the Investment Consultant will provide a report covering material organizational or personnel developments at the firm as well as any significant changes in number of clients and/or assets under advisement. The Investment Consultant will also provide a certification signed by the investment consultant firm's Chief Compliance Officer or designee that the firm has for the fiscal year remained in compliance with all applicable elements of this Policy, the investment consulting agreement between the firm and the System and any other contractual instruments defining the relationship between the investment consultant and the System. The Investment Consultant will also provide any additional information or disclosures the Board determine necessary to conduct their annual review.

C. Investment Manager Reporting Requirements

Each Investment Manager will timely report to Staff and Investment Consultant any material organizational or personnel developments at their firm as well as any significant changes in number of clients and/or assets under management either for the mandate in which the System is invested or for the entire firm.



In addition to the requirements stated herein, each investment manager will provide any reports as may be required in the investment management agreement or subscription agreement between the firm and the System and any other contractual instruments defining the relationship between the investment manager and the System.

On a quarterly basis each Investment Manager will provide to Staff and Investment Consultant performance, transaction and market value data as requested in electronic or hardcopy form to assist Staff and the Investment Consultant in their roles of monitoring the investment portfolio on behalf of the Board. The data requested will be designed by Staff and Investment Consultant to correspond with the Investment Manager's particular asset class assignment.

On a yearly basis for the System's June 30 fiscal year each Investment Manager shall provide the Staff and the Investment Consultant an annual report consisting of the following:

1. A certification signed by the investment management firm's Chief Compliance Officer or designee that the firm has for the fiscal year remained in compliance with all applicable elements of this Policy, and any investment guidelines within the investment management agreement or subscription agreement and any other contractual instruments defining the relationship between the investment manager and the System.
2. For firms that cast proxy votes on behalf of the System, a summary of the firm's philosophy with respect to voting proxies along with a detailed report showing all proxy votes cast during the fiscal year.
3. A detailed report showing investment management fees and expenses charged by the firm to the System whether invoiced or deducted during the fiscal year.
4. A disclosure of any payments, monetary or otherwise, to System fiduciaries including Staff, Investment Consultant or Trustees.
5. A review of the Investment Manager's investment philosophy and process as well as a June 30 fiscal year summary of any material organizational or personnel developments at the firm as well as any significant changes in number of clients and/or assets under management either for the mandate in which the System is invested or for the entire firm during the fiscal year.



APPENDIX A - PERFORMANCE BENCHMARKS

Composite	Benchmark Index
Total Portfolio	Policy Index*
U.S. Equities	Russell 3000
International Equities	MSCI ACWI ex.US IMI
Fixed Income	Bloomberg Barclays U.S. Universal
Real Estate	NCREIF Property
Master Limited Partnerships	Alerian MLP
Private Equity	Russell 2000 + 4%
Large Cap U.S. Equities	Russell 1000
Mid Cap U.S. Equities	Russell Mid Cap
Small Cap U.S. Equities	Russell 2000
Small Cap International Equities	MSCI World ex US Small Cap

*The Policy Index is a composite index composed of the monthly asset class benchmark returns weighted by their respective strategic asset allocation targets.

Investment Manager, Account Mandate	Benchmark Index
AEW, <i>Real Estate</i>	NCREIF - ODCE
Allianz Global, <i>Int'l Equity</i>	MSCI ACWI ex US
American Realty Advisors, <i>Real Estate</i>	NCREIF - CEVA
Antheus Capital, <i>Real Estate</i>	NCREIF - CEVA
Aronson Johnson & Ortiz, <i>Mid-Capitalization</i>	Russell Mid Cap
Causeway Capital, <i>Int'l Equity</i>	MSCI ACWI Ex US Value
Chickasaw Capital Management, <i>MLP</i>	Alerian MLP
Dune Real Estate Partners, <i>Real Estate</i>	NCREIF - CEVA
EPOCH Investment Partners, <i>Int'l Equity</i>	MSCI World ex US Small Cap
Franklin Park, <i>Private Equity</i>	Russell 2000 + 4.0% per year
Frontier Capital, <i>Mid-Capitalization</i>	Russell Mid Cap Growth
Frontier Capital, <i>Small Capitalization</i>	Russell 2000 Value
Geneva Capital Management, <i>Small Capitalization</i>	Russell 2000 Growth
GreenOak Real Estate Partners, <i>Real Estate</i>	NCREIF - CEVA
Heitman, <i>Real Estate</i>	NCREIF - ODCE
Hoisington Investment Management, <i>Core Fixed</i>	Bloomberg Barclays US Treasury
Hotchkis & Wiley, <i>Mid-Capitalization</i>	Russell Mid Cap Value
Hotchkis & Wiley, <i>Large Capitalization</i>	Russell 1000 Value
L&B Realty Advisors - Golden Driller, <i>Real Estate</i>	NCREIF - CEVA
L&B Realty Advisors, <i>Real Estate</i>	NCREIF - ODCE
Landmark Partners, <i>Real Estate</i>	NCREIF - CEVA



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Investment Manager, Account Mandate

Loomis Sayles, *Core Fixed*
Loomis Sayles, *High Yield*
Lord Abbett, *Core Fixed*
Lord Abbett, *High Yield*
MacKay Shields, *Core Fixed*
MacKay Shields, *High Yield*
Neumeier Poma Investment, *Small Capitalization*
Northern Trust, *Index*
PIMCO BRAVO I, *Opportunistic Fixed Income*
PIMCO BRAVO II, *Opportunistic Fixed Income*
Sawgrass, *Large-Capitalization*
Shapiro Capital Management, *Small Capitalization*
Starwood Capital Group, *Real Estate*
State Street Global Advisors, *Emerging Mkt Sm Cap*
Swank/Cushing Capital LLC, *MLP*
Wasatch Advisors Inc., *Int'l Equity Sm Cap*
Wasatch Advisors Inc., *Small Capitalization*
Wellington Management, *Int'l Equity Sm Cap*
Wellington Management, *Int'l Equity*
Wellington Management, *Mid-Capitalization*

Benchmark Index

Bloomberg Barclays Universal
ICE BofAML US High Yield Master II
Bloomberg Barclays Universal
ICE BofAML US High Yield Master II
Bloomberg Barclays Universal
ICE BofAML US High Yield Master II
Russell 2000 Value
Indices as assigned
Bloomberg Barclays Universal
Bloomberg Barclays Universal
Russell 1000 Growth
Russell 2000
NCREIF - CEVA
MSCI Emerging Mkt Small Cap
Alerian MLP
MSCI ACWI ex US Small Cap
Russell 2000 Growth
MSCI EAFE ex US Small Cap
MSCI ACWI ex US Growth
Russell Mid Cap Growth



APPENDIX B - STRATEGIC ASSET ALLOCATION

The assets of the Plan shall be invested with a focus on meeting long-term objectives in order to fulfill the System's Mission Statement. Recognizing the goals and objectives of the System, the following strategic asset allocation target has been adopted:

U.S. Equities	38.5%
International Equities	19.0%
Fixed Income	23.5%
Real Estate	9.0%
Master Limited Partnerships	5.0%
Private Equity	5.0%
Cash	0%

While the Board of Trustees has adopted the strategic asset allocation above and the rebalancing policy below, the number of investment managers or mandates used is not specifically set forth by policy. The number and type of investment managers to be hired within an asset class shall be determined by the Board of Trustees based upon periodic analyses of asset class portfolio structures.



APPENDIX C - REBALANCING POLICY

In the event the Plan's market values change to the extent that asset class percentage allocations fall below defined minimum percentage allocations or exceed defined maximum percentage allocations, staff shall prepare a plan to rebalance the portfolio according to the guidelines shown below:

	Minimum	Low Rebalance Point	Target	High Rebalance Point	Maximum
U.S. Equity	32.5%	35.5%	38.5%	41.5%	44.5%
International Equity	14.0%	16.5%	19.0%	21.5%	24.0%
Fixed Income	18.5%	21.0%	23.5%	26.0%	28.5%
Real Estate	6.5%	7.8%	9.0%	10.3%	11.5%
Master Limited Partnerships	3.5%	4.3%	5.0%	5.8%	6.5%
Private Equity	3.5%	4.3%	5.0%	5.8%	6.5%

When allocations move outside minimum or maximum boundaries they will be rebalanced half of the way back to the target percentage. Due to the asymmetrical nature of maximum and minimum boundaries, a full rebalancing of each asset class may not be possible. In such cases, rebalancing asset classes up from their minimums shall take priority. Cash held in short-term investments with the Custodian shall be considered as domestic fixed income for rebalancing purposes. In highly stressed market environments where volatility and transaction costs are elevated, a rebalancing plan designed to reduce tracking error and transaction costs may be developed and substituted for the normal rebalancing approach defined by the boundaries above.

In rebalancing the portfolio, staff shall consider asset class liquidity in determining the timeframe over which the rebalancing should take place in an attempt to reduce transaction costs. Securities may be transferred in lieu of cash, if feasible, to achieve lower transaction costs. Staff and the investment consultant may consult with those managing the affected investment accounts to determine the appropriate incremental amounts to be transferred as well as the appropriate duration of the rebalancing. The primary goal of rebalancing will be to control risk by correcting variances from minimum and maximum asset class allocations: minimizing transaction costs and diversifying across time will be secondary goals. In the event that Plan asset market values change to correct variances from minimum and maximum asset class allocations, rebalancing programs may be halted prior to the anticipated date of completion.

Upon the development of a rebalancing plan consistent with these guidelines, staff will advise the Plan's Custodian of the upcoming changes and direct affected investment managers to implement the required purchases and sales in a manner that leaves the resulting portfolios in concert with their current strategies.



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The Staff may defer any element of the rebalancing with concurrence of the Chairman of the Board of Trustees under circumstances where percentage allocation variances outside of minimum and maximum boundaries are minimal and appear to be only temporary in nature or in the event that such rebalancing would not be in the best interest of the Plan.

Annually, staff may present an optional strategy for rebalancing all asset classes near target allocations, giving due consideration to potential transaction costs.



APPENDIX D - INVESTMENT MANAGER EXCEPTIONS TO INVESTMENT GUIDELINES

Any exception requests subsequent to the approval of these guidelines should be submitted according to the framework established in Section III, B.

Requesting firm: *Shapiro Capital*

Exception requested: Section V; *Selectively hold up to 15% of the portfolio in larger capitalization companies.*

Proposition for attribution: *Provide quarterly reporting with and without large cap holdings.*

Requested term: *Indefinite*

Requesting firm: *Wellington Management International Small Cap Equity*

Exception requested: Section V.F.4.; *Increase the maximum portfolio exposure in Japan from 35% to 40%.*

Proposition for attribution: *When the portfolio exposure in Japan exceeds 35%, provide quarterly reporting illustrating the contribution to total return.*

Requested term: *Indefinite*

Requesting firm: *Loomis, Sayles & Company (High Yield Fixed Income)*

Exception requested: Section V.F. 6.; *Establish a 5% allocation to preferred stock in the High Yield Portfolio.*

Proposition for attribution: *Attribution from the allocation reported quarterly as a component of portfolio total return.*

Requested term: *12/31/2020*



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Requesting firm: *Loomis, Sayles & Company (Core Plus Fixed Income)*

Exception requested: *Section V.F.5.; Increase the maximum portfolio concentration in developing or emerging markets from 10% to 15%.*

Proposition for attribution: *Attribution from the allocation reported quarterly as a component of portfolio total return.*

Requested term: *12/31/2020*

Requesting firm: *Hotchkis & Wiley Large and Mid Cap Equity*

Exception requested: *Section V.D.4.; Allow non-U.S. dollar denominated securities traded in local markets and securities of non-U.S. companies (including ADRs) traded over the counter in the U.S. market.*

Proposition for attribution: *Provide quarterly reporting with and without non-U.S. holdings.*

Requested term: *Indefinite*
