TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

INVESTMENT POLICY STATEMENT

REVISED JUNE, 2013

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I. **Introduction**

A. Legal Authority

<u>Constitutional Authority</u>
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."

<u>Statutory Authority</u>
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.)

<u>Purpose of System</u>
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."

<u>Board of Trustees Powers</u>
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, spells out 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. Purpose

This policy statement is issued for the guidance of fiduciaries, including the members of the Board, investment managers, consultants and others responsible for investing the assets of the Fund.

The Board, both upon their own initiative and upon consideration of the advice and recommendations of 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.

II. **Statement of Goals and Objectives**

This statement of investment goals and objectives is to set forth an appropriate set of goals and objectives for the Fund's assets and to define guidelines within which the investment managers may formulate and execute their investment decisions.

1. The primary investment goal of the overall fund is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on System assets. In addition, assets of the System shall be invested to ensure that principal is preserved and enhanced over time. The Board seeks to limit and control risks which jeopardize the safety of principal and, to prohibit investments that are not prudent.

2. The long-term goal of the System is a real rate of return (after inflation) of at least 5.0% per year to protect and enhance the purchasing power of assets. The nominal target return is 8.0% per year assuming an annual inflation rate of 3.0%. The nominal return target is based on the rate of return assumption for the System's annual actuarial valuation of plan. This assumed rate of return is based upon the Board's judgment regarding the long-term expectations for permissible asset classes within a diversified Fund, a long-term outlook for inflation, and the current and projected needs of the System.

3. The total return for the System shall meet or exceed the System's Asset Allocation Index.

4. Total risk exposure and risk-adjusted returns will be regularly evaluated and compared with a universe of similar funds for the total System and each investment manager. Total portfolio risk exposure as measured by the standard deviation of return, and other applicable measures, should generally rank in the mid-range of comparable funds.

5. Investment managers' returns shall exceed the return of their designated benchmark index and rank in the top-third of the appropriate asset class and style universes over time periods of at least five (5) years. Passive managers shall match the return of the designated index.

6. The following table specifies the benchmark and style universe for each asset class in which the System invests.

Asset Class	Benchmark	Style Universe
Domestic Large Cap Equity	Russell 1000, Growth or Value Index	Style Specific Large Cap Equity Universe
Domestic All Cap Equity	Russell 3000, Growth or Value Index	Style Specific All Cap Equity Universe
Domestic Mid Cap Equity	Russell Mid Cap, Growth or Value Index	Style Specific Mid Cap Equity Universe
Domestic Small Cap Equity	Russell 2000, Growth or Value Index	Style Specific Small Cap Equity Universe
International Equity	MSCI ACWI ex U.S, MSCI ACWI ex U.S. – Small Cap	International Equity Universe
Domestic Fixed Income	Barclays Capital Aggregate	Domestic Fixed Income Universe
High-Yield Fixed Income	Merrill Lynch High-Yield Index	High Yield Fixed Income Universe
International Fixed Income	Citi WGBI Non-US$	International Fixed Income Universe
Private Equity Real Estate	Russell 1000 + 4.0% per year NFI-ODCE	
Master Limited Partnerships	Alerian Total Return	MLP Universe
Total Fund	Allocation Index	Public Pension Fund Composite Universe

7. The Board is aware that there will be deviations from these performance targets. Normally, results are evaluated over a three to five year time horizon, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Fund.

8. The Board expects the asset classes above to generate the returns specified in the table below over long-term horizons. These return expectations are based on historical market behavior and are an important part of the Fund's asset allocation strategy. The return expectations will be updated as needed.

Asset Class	Expected Long Term Return	Standard Deviation of Returns[1]
Domestic All Cap/Large Cap Equity	8.75%	16.0%
Domestic Mid Cap Equity	9.25%	18.0%
Domestic Small Cap Equity	10.25%	21.0%
International Equity	10.00%	20.0%
Domestic Fixed Income	5.00%	4.0%
High-Yield Fixed Income	9.00%	11.0%
Private Equity	10.00%	8.0%
Real Estate	10.00%	12.0%
Master Limited Partnerships	10.00%	16.0%
Total Fund	**9.00%**	**13.5%**

1 Data Source Morningstar

III. Roles and Responsibilities

A. Board of Trustees

The duties and responsibilities of the Board of Trustees include:

1. Establish the Investment Policy Statement, including the asset allocation, in accordance with the goals and objectives outlined above.

2. Review, at least annually, and modify, as necessary, 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.

3. Provide overall direction to staff, Investment Consultant(s), Investment Managers, Custodian, Securities Lending Agent and Transition Manager(s) in the execution of the investment policy.

4. Select and retain qualified Investment Consultant(s), Investment Managers, Custodian and Securities Lending Agent to advise and manage assets in furtherance of the goals and objectives outlined above.

5. Monitor and review the performance of Investment Managers, Custodian and Securities Lending Agent to determine achievement of goals and compliance with policy guidelines.

6. Annually conduct a formal review of the performance of Investment Consultant(s).

7. When necessary, terminate Investment Consultant(s), Investment Managers, Custodian or Securities Lending Agent.

8. Review and approve the Investment Staff Annual Work Plan.

9. Monitor investment activity for compliance with Board policies and adherence by Investment Managers to strategy and direction.

10. Review overall investment performance to determine whether it meets established benchmarks.

11. Monitor all costs of investment operations at least annually.

B. Staff

The duties and responsibilities of the Investment Staff include:

1. 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).

2. Implement Board decisions regarding asset allocation, investment structure, portfolio rebalancing procedures and retention of Investment Consultant(s), Investment Managers, Custodian and Securities Lending Agent.

3. Coordinate the search, selection, evaluation and retention decisions of Investment Consultant(s), Investment Managers, Custodian and Securities Lending Agent on behalf of the Board of Trustees.

4. Monitor and review the performance of Investment Managers, Custodian and Securities Lending Agent to evaluate performance, achievement of objectives and compliance with policy guidelines.

5. Monitor and review all costs of investment operations including, but not limited to, fees paid to Investment Consultant(s), Investment Managers, Custodian, Securities Lending Agent and Transition Manager(s); fees netted against System accounts paid to Investment Managers, Custodian, Securities Lending Agent and Transition Manager(s); trading costs and foreign exchange transactions costs.

6. 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.

7. Conduct the search and selection of Transition Manager(s) in collaboration with the Investment Consultant(s) as directed by the Board.

8. Conduct due diligence in collaboration with the Investment Consultant(s) when Investment Managers fail to meet the expectations of the Board or are placed 'On Alert' or "On Notice' on the Investment Consultant's Monthly Manager Status Report.

9. Explore, research, analyze and review new investment ideas and managers in collaboration with the Investment Consultant(s) in an effort to keep the system current with investment options.

10. Review weekly with the Investment Consultant 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.

INVESTMENT STAFF REPORTING REQUIREMENTS

As Necessary (based on occurrence and on a timely basis)

1. Review any material Investment Policy compliance violations.

2. Review pertinent information regarding due diligence on Managers that have failed to meet the expectations of the Board or are placed 'On Alert' or "On Notice' on the Investment Consultant's Monthly Manager Status Report.

Monthly

1. Review presenting Investment Managers' portfolio characteristics including relevant benchmark comparisons, portfolio performance, liquidity, holdings and holdings overlap between managers.

Quarterly

1. Review all costs of trading.

2. Certify to Board that Investment Consultant has certified their compliance with all requirements of this Investment Policy Statement. Report to the Board if any Investment Consultant(s) have failed to certify their compliance, and make recommendations as to any action Board should consider.

3. Certify to Board that Investment Managers have certified their compliance with all requirements of this Investment Policy Statement. Report to the Board if any Investment Managers have failed to certify their compliance, and make recommendations as to any action Board should consider.

4. Other comments or information as required.

Annually

1. Present Investment Staff Annual Work Plan to Board of Trustees for Review.

2. Review of investment oversight process, total fund construction and evaluation of investment manager's portfolio.

3. Review all costs of investment operations including, but not limited to, fees paid to Investment Consultant(s), Investment Managers, Custodian, Securities Lending Agent and Transition Manager(s); fees netted against System accounts paid to Investment Managers, Custodian, Securities Lending Agent and Transition Manager(s); trading costs and foreign exchange transactions costs.

C. Investment Consultant

The duties and responsibilities of the Investment Consultant retained by the Board include:

1. Be appointed, and act as, a fiduciary for the System.

2. 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.

3. Assist the Board by monitoring compliance with this Investment Policy.

4. Provide assistance in investment performance calculation, evaluation, and analysis.

5. Provide assistance in Investment Manager searches and selection.

6. Provide assistance in Custodian, Securities Lending Agent, Transition Manager and Commission Recapture Agent searches and selection.

7. Provide timely information, written and/or oral, on investment strategies, instruments, Managers and other related issues, as requested by the Board.

8. Monitor the Board's investment managers and notify the Board of any material changes in the Investment Managers' firms or their staffing or performance issues.

9. Certify on a quarterly basis, in writing to the Board, the Investment Consultant’s compliance with this Statement as it currently exists or as modified in the future.

10. Reporting to the Board at their request. The Investment Consultant shall report to the Board as outlined below. Monthly reports should be submitted in writing within 15 days of the end of each month.

11. Review weekly 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. Collaborate with Staff in the search and selection of Transition Manager(s) as directed by the Board.

13. Collaborate with Staff 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’ on the Investment Consultant’s Monthly Manager Status Report.

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.

INVESTMENT CONSULTANT REPORTING REQUIREMENTS

As Necessary (based on occurrence and on a timely basis)

3. Review of Organizational Structure

   a. Organizational changes (i.e., ownership).

   b. Any departures/additions to consulting staff.

   c. Material changes in assets under advisement.

Monthly

2. Performance Review.

   a. Present total fund, asset class and Investment Manager gross returns for last month, last quarter, year-to-date, fiscal year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.

b. Present total fund, asset class and Investment Manager net of fee returns for last month, last quarter, year-to-date, fiscal year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.

c. Compare actual asset allocation to target asset allocation and make recommendations for rebalancing.

d. Present manager status summary, including any recommended changes.

3. Other comments or information as required.

Quarterly

5. Performance Review.

   a. Present total fund, asset class and Investment Manager returns for last calendar quarter, year-to-date, fiscal year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.

   b. Present total fund, asset class and Investment Manager peer group rankings for last calendar quarter, year-to-date, fiscal year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.

   c. Review and analysis of any outstanding investment manager policy exceptions.

6. Other comments or information as required.

7. Summary of Investment Guidelines.

   a. Discuss adherence to guidelines.

   b. Comments, concerns, or suggestions regarding the policy statement.

8. Certify to Board that Investment Consultant is in compliance with all requirements of this Investment Policy Statement.

9. Certify to Board that Investment Managers have certified their compliance with all requirements of this Investment Policy Statement. Report to the Board if any Investment Managers have failed to certify their compliance, and make recommendations as to any action Board should consider.

Annually

4. Review of investment oversight process, total fund construction and evaluation of investment manager's portfolio.

   a. Brief review of the Investment Consultant's oversight process.

b. Critical analysis of the performance of the total fund, with particular attention paid to asset categories and Investment Managers that underperformed their relative benchmarks and the actuarially assumed rate of return.

c. Review of the asset allocation strategy used over the past year and underlying rationale.

d. Evaluation of strategies success/disappointments.

e. Current asset allocation strategy and underlying rationale.

5. Review of revenue sources and conflict of interest disclosure.

a. Provide the board with financial information regarding annual brokerage revenues, conference fees and sponsorships, and other monies received from money managers versus consulting revenues received directly from clients.

b. Disclose all brokerage and other compensation, including conference fees, consulting fees and sponsorships, received by the consultant from the System's managers.

c. Disclose any compensation received by the Investment Consultant from any Investment Manager or other vendor it recommends hiring.

d. Disclose any affiliated Investment Management firm.

D. Investment Managers

The duties and responsibilities of each of the investment managers retained by the Board include:

1. Be appointed, and act as, a fiduciary for the System.
2. Managing the Fund's assets in accordance with the policy guidelines and objectives expressed herein.
3. Prudently selecting investments based on thorough evaluation of all risks applicable to stated mandate.
4. Working with the Custodian and the Investment Consultant to verify monthly accounting and performance reports.
5. Certify on a quarterly basis, in writing to the Board, the Investment Manager's compliance with this Statement as it currently exists or as modified in the future.
6. Reporting to the Board at their request. Each manager shall report to the Board and the Investment Consultant as outlined below. Monthly reports should be submitted in writing within 15 days of the end of each month.

7. It is the responsibility of each Investment Manager to act as a fiduciary in adopting proxy voting policies, and the manager certifies that its proxy voting policies may affect the value of their respective portfolio.

INVESTMENT MANAGER REPORTING REQUIREMENTS

As Necessary (based on occurrence and on a timely basis)

1. Review of Organizational Structure.

    a. Organizational changes (i.e., ownership).

    b. Discussion of any material changes to the investment process.

    c. Any departures/additions to investment staff.

    d. Material changes in assets under management.

Monthly

All Managers with at least monthly reconciliation and valuation will provide:

1. Performance Review.

    a. Present total fund and asset class returns for last month, calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.

    b. Present total fund net-of-fees returns for last month, calendar quarter, year-to-date, last year, last three years, last five years and since inception,

    c. Discuss performance relative to benchmarks; provide attribution analysis that identifies returns due to allocation and selection decisions.

    d. Provide portfolio characteristics.

    e. Risk and Return Attribution analysis of any granted exceptions to investment policy analysis.

2. Provide Portfolio Holdings.

    a. Present book value and current market value.

    b. List individual securities by sector.

3. Other Comments or Information.

Quarterly

1. Summary of Investment Guidelines.

a. Discuss adherence to guidelines.

b. Comments, concerns, or suggestions regarding the policy statement.

2. Certify to Board and the Investment Consultant that Manager is in compliance with all requirements of this Investment Policy Statement. Said certification shall be in writing and shall be received by the Board and Investment Consultant no later than 30 days after the end of each calendar quarter.

3. Any Manager that manages a particular mandate that does not reconcile assets and provide market value of assets on a monthly basis will provide monthly performance and holdings reporting on a quarterly basis.

Annually

1. Review of Investment Process and Evaluation of Portfolio Management Process.

   a. Brief review of investment process.

   b. Investment strategy used over the past year and underlying rationale.

   c. Evaluation of strategies success/disappointments.

   d. Current investment strategy and underlying rationale.

2. Provide, in either printed form or electronic access to, Form ADV filed with the Securities and Exchange Commission.

3. Each manager, as pertinent to their applicable mandate, will report at least annually to the Board of Trustees their respective commissions recapture program on behalf of the Teachers' System. Each advisor shall provide:

   a. A copy of its monitoring procedures.

   b. A statement demonstrating compliance with Section 28(e) of the Securities Exchange Act of 1934, and/or other applicable laws.

   c. Analysis of execution.

4. Each manager, as pertinent to their applicable mandate, will report annually to the Board of Trustees a record of proxy policies, as well as voting record for the previous 12 month period.

E. Custodian

The custodian bank(s) will be responsible for performing the following functions:

1. Be appointed, and act as, a fiduciary for the System.

2. Accept daily instructions from designated staff.

3. Notify Investment Managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.

4. Resolve any problems that designated staff may have relating to the custodial account.

5. Safekeeping of securities.

6. Timely collection of interest and dividends.

7. Daily cash sweep of idle principal and income cash balances.

8. Processing of all investment manager transactions.

9. Collection of proceeds from maturing securities.

10. Disbursement of all income or principal cash balances as directed.

11. Providing monthly statements by investment account and a consolidated statement of all assets.

12. Provide monthly exchange traded funds and cash position by investment manager.

13. Provide written statements revealing monthly reconciliation of custody and investment managers' accounting statements.

14. Working with the System's staff and the Investment Consultant to ensure accuracy in reporting.

15. 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.

16. 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.

17. Monitoring and reporting of class action suits related to securities fraud claims and proceeds and collection of subsequent proceeds.

18. Processing and filing of Foreign Tax Reclaims

F. Securities Lending Agent

The securities lending agent will be responsible for managing the securities lending program including the following functions:

1. Be appointed, and act as, a fiduciary for the System.

2. Arrange terms and conditions of securities loans.

3. 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.

4. 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.

5. Notify the Board of any changes to the investment guidelines in the Securities and Exchange Commission's rule 2A7 for consideration by the Board.

6. 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 transitions 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 employed at the discretion of the staff of the Oklahoma Teachers Retirement System. 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.

Transition Managers shall be responsible for managing transitions including the following functions:

1. Be appointed, and act as, a fiduciary for 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, which may compare the actual costs with the pre trade estimates. The report will also include various trading statistics, benchmarking information, and detailed trade reports.

IV. **Asset Allocation**

In order to have a reasonable probability of achieving the target return at an acceptable risk level, to reduce the risk of losses resulting from over-concentration of assets, and providing a stable level of earnings distributions, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on a quarterly basis and will be adjusted when an asset class weighting breaches its minimum or maximum allocation.

Asset Class	**Target Allocation**	**Minimum Allocation**	**Maximum Allocation**
Domestic All Cap Equity	**7.0%**	6.3%	7.7
Domestic Large Cap Equity	**10.0%**	9.0%	11.0%
Domestic Mid Cap Equity	**13.0**	11.7%	14.3%
Domestic Small Cap Equity	**10.0%**	9.0%	11.0%
International Lg Cap Equity	**11.5%**	10.35%	12.65%
International Sm Cap Equity	**6.0%**	5.4%	6.6%
Core Plus Fixed Income	**17.5%**	15.75%	19.25%
High-Yield Fixed Income	**6.0%**	5.4%	6.6%
Private Equity	**5.0%**	4.5%	5.5%
Real Estate	**7.0%**	6.3%	7.7%
Master Limited Partnerships	**7.0%**	6.3%	7.7%
Opportunistic	**0-5%**	0%	5%
Cash and Equivalents	**0.0%**	0.0%	0.0%
Total	**100%**	**-%**	**-%**

The Fund's Asset Allocation Index is a custom benchmark designed to indicate the returns that a passive investor would earn by consistently following the asset allocation targets set forth above. The Allocation Index can be used to separate the overall impact of active management from asset allocation.

The Asset Allocation Index is calculated by multiplying the target commitment to each asset class by the rate of return of the appropriate market index, as listed above, on a monthly basis.

V. Rebalancing Policy

A. Overall Fund Allocation

The following rebalancing procedure will be employed by the Fund: The Investment Consultant will report asset class exposures to the Board at the end of each month. If the percentage of the Fund's assets allocated to an asset class has breached its target range, the Investment Consultant shall make a recommendation to the Board of what, if any, action is recommended. After giving consideration to such recommendations the Board may take action to cause assets to be shifted between managers so as to bring the asset allocation of the "out of range" asset class back to its appropriate target.

Upon such action, the staff of the System and the Investment Consultant shall affect the changes as directed by the Board. The result of such transition shall be reported to the Board at the next scheduled meeting after the completion of the transition.

In order to accomplish a required rebalancing with as little transaction cost as is reasonably possible, the Board may take into account any cash flows which are anticipated to occur within a reasonable period of time (generally three months or less). Examples of such cash flows would be a contribution to the Fund from the State or a Manager termination. (No manager rated "On Alert" or lower shall receive additional assets without extenuating circumstances.)

B. Allocation among Equity Styles

Rebalancing of the allocation among equity styles is desirable: If rebalancing of the Fund's overall asset allocation (described above) is required, the general policy will be to rebalance among equity style weightings in such a way as to restore the balance of styles within an asset class. The Board will consider Consultant recommendations on this issue. These actions shall be reported to the Board at its next scheduled meeting.

VI. Securities Transactions

The Board of Trustees retains the right to direct brokerage commissions. When investment managers direct commissions on behalf of the Board, the direction will be contingent upon the institution being competitive in both price and execution for the specific transaction.

The Board of Trustees or its employees will only use soft dollar commissions (soft dollars) on fixed income securities which are generated as a result of concessions on fixed price offerings made to brokers on new issues and passed along to the Fund in part or whole. Such soft dollar commissions may be used only for investment related services or products.

The Board of Trustees may enter into relationships with brokerage firms who will conduct securities transactions at a discount or rebate a portion of commissions to the Fund. No portfolio manager is directed by the Board to trade with any particular brokerage firm. All relationships for commission recapture programs will be directly between the Board of Trustees and brokerage firms on a contract basis. All commission recapture credits will be returned to the Fund and will be treated as an asset of the Fund.

VII. Investment Guidelines

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 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. 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.

7. Private Equity portfolios that meet the following criteria will not be considered eligible for initial evaluation or potential funding commitments:

   a. 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.

   b. 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 provides the recommendation and vehicle for investment.

   c. Investments which would violate resolutions passed by OTRS' Board.

d. Investments in which the General Partner has committed to invest no personal or firm assets.

B. Manager Policy Exceptions

Requests for an allowance to invest in securities precluded by section A or the applicable mandate specific policies, should be submitted in writing to the Board of Trustees and include justification for request, proposed process to providing monthly reporting on attribution analysis of the contribution of allowed securities, and proposition of a one, two or three year expiration. Exception requests will undergo a reevaluation and approval process at the end of each term.

C. Universal Cash Rule for all OTRS Accounts

1. All portfolios shall strive to hold a maximum of 5% in cash or cash equivalents at any time. In the event that cash holdings breach the 5% threshold for three consecutive days the manager is required to submit a written explanation of the event to OTRS staff and the OTRS Board of Trustees. Additionally if the cash holdings breach 7% at any point in time the manager is required to submit notice and explanation of the breach to OTRS staff and the OTRS Board of Trustees.

D. 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.

E. 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.

F. 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.

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 portfolios will not concentrate greater than 30% of market value of funds under advisement in issuers from a single country excluding UK or Japan, and 35% in the UK or Japan.

5. The Manager will invest at least 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.

G. 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 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 25% in issues which are rated Ba1 or lower by Moody’s, or BB+ or lower by Standard & Poor’s.

5. Fixed Income portfolios will not concentrate greater than 20% in non-USD denominated obligations.

6. Fixed Income portfolios will not concentrate greater than 10% in developing or emerging markets issuers as determined by MSCI.

7. Fixed Income portfolios will not hold issues which are rated below Caa2 Moody’s, or CCC by Standard & Poor’s.

8. Unrated securities shall be permitted provided the security is rated Caa2/ 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.

9. The manager may not invest more than 5% of the portfolio in securities that are solely rated by the manager.

10. 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.

11. Futures and options instruments are allowed solely for the purpose of hedging interest rate risk, duration risk, or managing cash.

H. Securities Lending

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

I. High Yield Fixed Income

1. High Yield 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 sovereign issues.

2. High Yield 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. High Yield portfolios will not hold greater than 5% of the issued securities of a single issuer.

4. 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.

5. High Yield portfolios will not concentrate greater than 20% in non-USD denominated obligations.

6. High Yield portfolios will not concentrate greater than 10% in developing or emerging markets issuers as determined by MSCI.

7. High Yield 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.

8. Futures and options instruments are allowed solely for the purpose of hedging interest rate risk, duration risk, or managing cash.

9. Investments in other funds (including REITSs) 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.

J. 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:

Segment	Long-Term Allocation Ranges
Corporate Finance[1]	80% - 100%
Venture Capital	0% - 20%

1 Includes buyout, turnaround and debt related strategies

Region	Long-Term Allocation Ranges
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 OTRS' pension staff, the general 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.

K. 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.

1. Real estate funds will not concentrate, in any single property, the greater of $100 million or 25% of the total Gross Asset Value (GAV) of the overall investment Fund.

2. Real estate funds will not concentrate greater than 15% of the total GAV of the investment fund in value-added properties.

3. Real estate funds will not carry leverage in excess of 35% of the GAV of the investment fund.

L. Master Limited Partnership

1. Master Limited Partnership (MLP) portfolios will be limited to the purchase of MLP interests, which include: (a) securities such as units and other securities 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.

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.

M. Opportunistic Investments

1. The Opportunistic Investment portfolio will be comprised of unique investments that possess attractive investment characteristics but 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. Investments may fall in the following categories:

   a. Hedge Funds

   b. Infrastructure Funds

   c. Energy Related Funds

   d. Real Estate

   e. Distressed Debt Funds

   f. Debt funds; and

   g. Any other investment strategy approved by OTRS.

2. The Opportunistic Portfolio should be diversified and composed of funds that are individually attractive.

3. The Opportunistic Portfolio will make commitments of at least $50 million.

4. The Opportunistic Portfolio 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. The Opportunistic Portfolio 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 consultant shall provide detailed information on the opportunity, including a final memorandum summarizing all due diligence performed, to OTRS' pension staff and the Board.

Opportunistic 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.

N. Distressed Mortgage Fund

1. Distressed mortgage investments will predominantly target investment opportunities in less liquid segments of the mortgage market. Securities will be primarily based within the United States; however the Distressed Mortgage Fund may make investments located outside of the United States.

2. Investments in the Distressed Mortgage Fund 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

O. Bank Recapitalization and Value Opportunities (BRAVO) Fund

1. The BRAVO fund will have the broad discretion to invest principally in; i) loans and other assets originated or held by Financial Entities, ii) MBS and ABS, iii) minority/non-controlling equity and equity-linked securities, and/or debt instruments of Banking Portfolio Companies or other Financial Institutions, iv) and residential and commercial real estate. The Fund may make such investments through FDIC-assisted transactions, any other existing or future program with any other U.S. or non-U.S. government agency or through private sector transactions.

2. Investments in the Distressed Mortgage Fund 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

P. Derivatives

1. Objectives

   These derivatives guidelines identify and allow common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement. These guidelines require investment managers to request the inclusion of additional derivative instruments and strategies. The guidelines require investment managers to follow certain controls, documentation and risk management procedures.

2. Definition and Classification of Derivatives

   A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index. These guidelines classify derivatives into four separate categories distributed across two classes:

a. Derivative Contracts

   i. Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments

   ii. Option-based derivatives, including put and call options contracts.

b. Derivative Securities

   i. Collateralized Mortgage Obligations (CMOs)

   ii. Structured Notes

3. Allowed Uses of Derivatives

   a. Derivative Contracts

      i. Hedging – the investment managers are permitted to use derivatives for clearly defined hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements below.

      ii. Creation of Market Exposures – Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class.

   b. Derivative Securities

      i. Plain Vanilla CMOs – For the purpose of this policy, we will define a "plain vanilla" CMO as one which satisfies the following criteria:

         i. It can be shown that the CMO is less exposed to interest rate and prepayment risk than the underlying collateral.

      ii. Other CMOs - , which are not plain vanilla, are restricted to 10% of a manager's portfolio.

      iii. Structured Notes – Structured notes may be used so long as the exposure implied by their payment formula would be allowed if created without use of structured notes.

4. Prohibited Uses of Derivatives

   Any use of derivatives not listed in section 3. is prohibited without written approval of the Board of Trustees. By way of revocation, it is noted that the following two uses of derivatives are prohibited:

   a. Leverage – derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.

b. Unrelated Speculation – Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

5. Transaction Level Risk, Control Procedures and Documentation Requirements

For each over-the-counter derivative transaction, except foreign exchange forward contracts, investment managers are required to obtain at least two competitive bids or offers. For small-issue CMOs, it is acceptable to obtain competitive prices on similar securities. For all derivatives transactions, investment managers should maintain appropriate records to support that all derivative contracts used are employed for allowed strategies. In addition, the following requirements apply to derivative securities:

a. "Plain Vanilla" CMOs – Document that the CMO is in fact "plain vanilla", according to the definition in section 3.b.i.a.

b. Other CMOs – These CMOs must be stress tested to estimate how their value and duration will change with extreme changes in interest rates. An extreme change is one of at least 300 basis points

Q. Directed Commission

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a "best execution" basis. Additionally, arrangements to direct commissions shall only be implemented by specific authorization of the Board.

VIII. 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. 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.

IX. Appendix A – 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 VII; B.

Requesting firm: *Hoisington*

Exception requested: Section VII:E:1; *Increase maximum portfolio concentration in cash and cash equivalents from 5% to 100%.*

Proposition for attribution reporting: *Monthly reporting illustrating the contribution to total return.*

Requested term: *12/31/2013*

Requesting firm: *Loomis Sayles High Yield*

Exception requested: Section VII:G:6; *Increase the maximum portfolio concentration in non-USD from 20% to 40%.*

Proposition for attribution reporting: *Monthly reporting illustrating the contribution to total return.*

Requested term: *12/31/2013*

Requesting firm: *Loomis Sayles High Yield*

Exception requested: Section VII:G:7; *Increase the maximum portfolio concentration in emerging markets from 10% to 30%.*

Proposition for attribution reporting: *Monthly reporting illustrating the contribution to total return.*

Requested term: *12/31/2013*

Requesting firm: *Loomis Sayles High Yield*

Exception requested: Section VII:A:6; *Establish a 10% allocation to preferred stock.*

Proposition for attribution reporting: *Monthly reporting illustrating the contribution to total return.*

Requested term: *12/31/2013*

Requesting firm: *MacKay Shields Core*

Exception requested: Section VII:E:5; *Increase the maximum portfolio concentration in High Yield from 25% to 50%.*

Proposition for attribution reporting: *Attribution from the high yield allocation will be reported as a component of portfolio return.*

Requested term: *12/31/2012*

Requesting firm: *Shapiro Capital*

Exception requested: Section VII:A; *Selectively hold one or two large cap companies.*

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

Requested term: *12/31/2013*

Requesting firm: *Wellington Management International Small Cap Equity*

Exception requested: Section VII:D.5; *Increase the maximum portfolio exposure in Japan to 40%.*

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

Requested term: *12/31/2014*