

**THE TEACHERS'  
RETIREMENT SYSTEM OF  
OKLAHOMA**

***STATEMENT OF INVESTMENT POLICY,  
OBJECTIVES AND GUIDELINES***

REVISED OCTOBER 2007

## STATEMENT OF INVESTMENT POLICY

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- I.** The Teachers' Retirement System of Oklahoma (TRS) policies and procedures provide for a prudent and systematic investment process on behalf of its members, allowing for reasonable expenses of administration of the Fund, and providing for an orderly means whereby employees may be retired from active service with all pension benefits allowed by Oklahoma statutes. The Standard of Investment for the Board of Trustees in making investments shall be to exercise the judgment, 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.
- II.** The Board of Trustees diversifies investments to minimize risk. The investment objectives of the Board, as fiduciaries, are long-term rather than short-term. Board policy takes into consideration actuarial assumptions of the retirement program and any unfunded liabilities.
- III.** The Board of Trustees may appoint investment advisors to assist in the investment of the retirement funds. The investment advisors will be subject to the overall investment policies, objectives and guidelines set by the Board of Trustees, and shall have full discretion in the management of those monies of the Fund allocated to them by the Board. The Board of Trustees may direct the TRS Executive Secretary to employ appropriate investment staff to manage those monies not specifically allocated to the investment advisors.
- IV.** The proxy policy statement of the Board of Trustees reflects the fiduciary duty to vote proxies in a manner that most benefits its members. The advisors are to first consider the economic impact on the System, and should the economic impact be neutral, then the advisors should give consideration to acceptable efforts made on behalf of special interests of social conscience. The Board of Trustees retains the right to vote all proxies. Investment advisors will submit their proxy voting policy, to the Board of Trustees for their review and action.
- V.** The Board of Trustees will establish an investment committee pursuant to OAC 715: 10-21-1(4).

The Board of Trustees will establish an investment committee. The investment committee shall be composed of not more than five (5) members of the Board of Trustees appointed by the chairman of the Board of Trustees. The committee shall make recommendations to the full Board on all matters related to the choice of custodians and managers of the assets of the Fund, on the establishment of investment and Fund

management policies, objectives and guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the Board in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the Board of Trustees nor take effect without the approval of the Board of Trustees as provided by law.

# **INVESTMENT OBJECTIVES, GOALS AND GUIDELINES**

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The following objectives and guidelines are for use by the investment advisors in connection with the Teachers' Retirement System of Oklahoma. The guidelines and objectives are the basis from which the advisors will operate and upon which they will be evaluated.

## **I. GENERAL GUIDELINES**

General guidelines to which management of the funds shall adhere include the following:

- A. The assets of the Teachers' Retirement System of Oklahoma should be managed with care, judgment, and fiduciary prudence.
- B. The advisors are expected to follow an investment approach that reflects their internal policies and guidelines established to define the latitude portfolio advisors would have in developing and managing client portfolios.
- C. The Teachers' Retirement System of Oklahoma recognizes that the goals for the returns to be earned on the different classes of capital assets may not be realized. However, the goals are considered to be reasonable given historical experience covering periods with varying economic conditions and investment environments over 50 years and the belief that the United States capital markets will remain viable.
- D. The advisors will report to the Board of Trustees monthly, any holdings with values, which have dropped 20 percent from cost. For evaluation purposes, when securities are transferred from one advisor to another, the securities will be placed into the receiving advisors' portfolio at the market value at the time of transfer. When the security exceeds the 20% threshold, the advisor must provide notification to the Board of Trustees within 30 days, providing justification for continuing to hold the security. The advisors will further notify the Board monthly or upon the Board's request for current disposition.
- E. The Teachers' Retirement System of Oklahoma will inform the advisors as soon as practical of anticipated additions to or withdrawals from their portfolio. The advisors will be free to determine the most appropriate use for cash additions within the established guidelines and will similarly determine the most appropriate manner in which to raise cash for withdrawals.

F. The investment advisors shall advise each member of the Board of Trustees, the TRS Executive Secretary, and the Board's consultant immediately of any event that is likely to adversely impact, to a significant degree, the management, professionalism, or integrity of the financial position of the firm, including events such as:

- A loss of one or more key people associated with the account;
- A reassignment of responsibilities of key people associated with the account;
- A loss of one or more accounts, which represents more than 5% of the market value of the firm's total assets under management, as measured quarter to quarter;
- The appointment of a new account manager(s) to the account;
- A change in ownership or control of the firm.

## II. CODE OF ETHICS

The Board of Trustees for the Teachers' Retirement System of Oklahoma is responsible for the investment of public monies. This means that, as a fiduciary, the Board is expected to act in a manner, which any unbiased observer would see as objective and free from external influences. The Board must insure that it makes investments that are free from even the appearance of improper influences.

The Board of Trustees has the authority to retain the services of investment advisors and investment consultants. Since these entities may act on behalf of the Board of Trustees, they will adhere to the System's Code of Ethics, in connection with their dealings with the Teachers' Retirement System of Oklahoma.

- A. A Trustee or an employee of the Board of Trustees will not, knowingly, receive, directly or indirectly, any money or other valuable thing, for the performance or nonperformance of any act or duty pertaining to their office, other than the compensation allowed by law.
- B. A Trustee or an employee of the Board of Trustees will not use their official position or office to obtain direct personal financial gain for themselves, their family, or any business which they or a member of their family is associated unless such use and gain are specifically authorized by law.
- C. The Board of Trustees, and any party acting on behalf of the Board will comply with Oklahoma laws governing the responsibilities of a fiduciary.
- D. Oklahoma laws state a fiduciary, with respect to the Teachers' Retirement System of Oklahoma, shall not cause the System to engage in a transaction if the fiduciary knows or should know that such transaction constitutes a direct or indirect:

1. Sale or exchange, or leasing of any property from the System to a party in interest for less than adequate consideration or from a party in interest to the System for more than adequate consideration;
  2. Lending of money or other extension of credit from the System to a party in interest without the receipt of adequate security and a reasonable rate of interest, or from a party in interest to the System with provision of excessive security or an unreasonably high rate of interest;
  3. Furnishing of goods, services or facilities from the System to a party in interest for less than adequate consideration, or from a party in interest to the System for more than adequate consideration; or
  4. Transfer to, or use by or for the benefit of, a party in interest of any assets of the System for less than adequate consideration.
- E. Oklahoma laws state a fiduciary with respect to the Teachers' Retirement System of Oklahoma shall not:
1. Deal with the assets of the System in the fiduciaries own interest or for the fiduciaries own account;
  2. In the fiduciary's individual or any other capacity act in any transaction involving the System on behalf of a party whose interests are adverse to the interests of the System or the interests of its participants or beneficiaries; or
  3. Receive any consideration for the fiduciary's own personal account from any party dealing with the System in connection with a transaction involving the assets of the System.
- F. Oklahoma laws state a fiduciary with respect to the Teachers' Retirement System of Oklahoma may:
1. Invest all or part of the assets of the System in deposits which bear a reasonable interest rate in a bank or similar financial institution supervised by the United States or a state, if such bank or other institution is a fiduciary of such plan; or
  2. Provide any ancillary service by a bank or similar financial institution supervised by the United States or a state, if such bank or other institution is a fiduciary of such plan.

- G. Oklahoma laws state a person or a financial institution is a fiduciary with respect to the Teachers' Retirement System of Oklahoma to the extent that the person or the financial institution:
1. Exercises any discretionary authority or discretionary control respecting management of the Teachers' Retirement System of Oklahoma or exercises authority or control respecting management or disposition of the assets of the System;
  2. Renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the System, or has any authority or responsibility to do so; or
  3. Has any discretionary authority or discretionary responsibility in the administration of the System.

### III. PORTFOLIO ASSET ALLOCATION

In order to identify the basis for the asset allocation guidelines outlined herein, the Teachers' Retirement System of Oklahoma has considered the real return goals for the different classes of capital assets. These goals reflect long-term views, and the System acknowledges the possibility that they may not be realized over short or even intermediate periods.

Real return (i.e., that return in excess of inflation as measured by the Consumer Price Index) goals utilized in reaching the portfolio asset allocation decision are:

<b>Capital Assets Class</b>	<b>Long-Term Real Return Expectation</b>
Cash Equivalent, Short-Term Investments	0% to 1/2%
Diversified Portfolio of Corporate and Government Bonds	2% to 4%
Diversified Portfolio of Common Stocks	4% to 7%
Total Fund of Common Stocks, and Fixed-Income Instruments	3 1/2% to 5 1/2%

The Retirement System's assets will be multi-fund in management: Specialty advisors for the separate asset components; an equity portion comprised of common stocks and convertible securities; a fixed-income portion comprised of bonds and preferred stocks; either as separate components or balanced. Advisors shall hold no more than 5% cash without Board approval. If any advisor desires to increase the cash position above this level for any reason they are to notify the TRS Executive Secretary and Investment

Committee Chairman immediately. Real estate investment portfolio advisors will be limited to only the purchase/sell of publicly traded securities of issuers engaged in real estate business, or marketable securities secured by real estate or interest therein which would include mortgage-backed securities.

#### **IV. ASSET ALLOCATION TARGETS**

The following asset allocation has been adopted by the Board of Trustees of the Teachers' Retirement System of Oklahoma for the purpose of diversifying the investments of the System:

Domestic Equity Total	53%
Large Cap	28%
Mid Cap	15%
Small Cap	10%
Domestic Fixed-Income Total	30%
International Equity Total	17%
Total:	100%

The Board of Trustees will review the total portfolio asset allocation on a monthly basis for the purpose of rebalancing the assets when the market value of an asset class deviates ten percent or more from its target allocation.



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## INVESTMENT GUIDELINES

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The intention of establishing guidelines for investments, which are mutually agreeable to the advisor and to the Teachers' Retirement System of Oklahoma, is to assure that all securities purchased for the System meet fiduciary standards and that adequate diversification of investments is maintained. The System has imposed certain investment restrictions, which, will not be changed without written notice from the System.

### I. GENERAL INVESTMENT GUIDELINES

While these restrictions remain in effect, the System may NOT:

- A. Purchase securities on margin, or engage in the short selling of securities not owned.
- B. Participate on a joint and several basis in any securities trading account.
- C. Purchase securities of any company with a record of less than three (3) years continuous operation (including that of predecessors). "Predecessor firm" defined as a reorganization, a merger, a name change, a public offering, creation of a tracking stock, a spin-off of an internal function, separate operating division or separate holding company, where these developments result in a separately incorporated entity. A written exemption of this guideline may be granted upon request by the advisor and approval by the Board.
- D. Invest in companies for the purpose of exercising control or management.
- E. Concentrate its investment in a particular industry in excess of 25% of the total value of each advisor's individual TRS portfolio. If any advisor desires to violate the stated 25% maximum, the advisor must have the approval of the Board of Trustees. Each advisor's industry weighting will be compared specifically to each advisor's performance benchmark.
- F. Invest in real estate fee simple, but only through investment certificates or other financial instruments. Real estate shall not be held by the System as freehold or leasehold. This policy statement does not exclude the authority of the Board to purchase real estate for home office facilities to be used in administering the System, including land, equipment and office building(s), and providing that the foregoing shall not prevent the Fund from purchasing or selling publicly-traded securities of issuers engaged in any aspect of the real estate business or marketable securities secured by real estate or interest therein which would include mortgage-backed securities.

- G. Purchase or sell commodities, commodity contracts, mineral, oil, gas or other mineral explorations or developmental programs. However, the Fund may purchase the securities of companies engaged in the exploration, development, production, refining, transportation and marketing of oil, gas or other minerals. Upon authorization from the Board of Trustees, the Fund may utilize financial futures, but only for purposes of bona fide hedging and in no event for the purpose of speculation.
- H. Make loans of money or securities other than (a) through the purchase of securities in accordance with the investment objectives, (b) by lending portfolio securities under circumstances where the borrower of such securities provides cash or cash equivalents as collateral at all times in an amount at least equal to the value of the owned securities and the Fund retains the right to obtain any dividends, interest or other distribution on the securities and any increase in their market value and reserves the right to terminate such arrangement at any time, and (c) by entering into repurchase agreements.
- I. Be restricted in realizing net investment gain or losses during any period.
- J. Purchase securities, which are denominated in currencies other than that of the United States dollar with the exception of the international (non-U.S.) and global portfolios.

## **II. SECURITIES TRANSACTIONS**

The Board of Trustees retains the right to direct brokerage commissions. When investment advisors 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. Soft dollar usage by equity advisors for the benefit of the manager or the Fund is strictly prohibited.

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.

Each advisor will report at least annually to the Board of Trustees their respective commissions recapture program on behalf of the Teachers' System.

### **III. DOMESTIC COMMON STOCK GUIDELINES**

Unless otherwise indicated, the percentage limitations referred to in the following restrictions will be based upon market values at the time of valuation. When an investment advisor exceeds the thresholds described below, the advisor must provide notification to the Board of Trustees within 30 days, providing justification for continuing to hold the investment. The advisor will further notify the Board quarterly or upon their request for current disposition.

Each portfolio manager of common stocks or convertible securities will do the following with regard to their specific portfolio:

- A. Not invest more than 5 percent, at cost, or 7 percent, at market, in the securities of any one issuer. Any deviation from this policy statement must have approval from the Board of Trustees.
- B. Not invest more than 5 percent of the voting securities or more than 5 percent of the securities of any class of any one issuer. The domestic investment advisor will advise the Board of Trustees of any Securities Exchange Commission 13(d) filings of which a portion of the securities are owned by the Fund.
- C. Limit common stock purchases and purchases of American Depository Receipts (ADR's) to those issues on which the advisors' research or portfolio management personnel maintain current opinions. Purchases should be listed on a national exchange (to include NASDAQ). All ADR's will be registered under the Securities Exchange Act of 1934 and will make annual filings of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) or with the local equivalent of GAAP. In the latter case, financial statements will be audited in accordance with U.S. standards and the reports containing footnotes reconciling items to GAAP. All ADR's will be sponsored under a formal agreement with a U.S. depository. It is permissible for the international portfolio to invest in equity securities of non-U.S. issuers.
- D. Not restrict investment decisions based upon dividends or earnings for individual securities beyond those implied by the overall emphasis on quality.
- E. Domestically, convertible securities are an allowable investment for an investment manager should they request latitude to use convertibles. The manager must demonstrate to the Board that they have significant capabilities in the area and receive Board approval. Furthermore, convertible securities are restricted to the six highest classifications of

Moody's and/or Standard & Poor's. The convertible portfolio may utilize 144-A convertible securities, euro convertible securities and B rated securities in proportions not to exceed those of the First Boston Convertibles Index. The Board of Trustees expects that investment managers of convertible securities will be sensitive to the risk of conversion privilege expiration. The manager will inform the Investment Committee of securities held which approach the expiration deadline with 90 days notice.

- F. Not purchase securities, which are denominated in currencies other than that of the United States dollar with the exception of international (non-U.S.) and global portfolios.

#### **IV. FIXED INCOME GUIDELINES**

The following percentage limitations will be calculated based upon total fixed-income market value at the time of valuation. In addition, when an investment advisor exceeds the below-described thresholds, then the advisor must provide notification to the Board of Trustees within 30 days, providing justification for continuing to hold the investment. The advisor will further notify the Board quarterly or upon their request for current disposition.

Each manager of fixed-income securities will do the following with regard to their specific portfolio:

- A. Not invest 25 percent or more of the value of the fixed-income portfolio in the securities of issuers principally engaged in the same industry. This restriction does not apply to obligations issued or guaranteed by the United States Government or other sovereign non-U.S. governments within those countries, which comprise the Salomon Non-U.S. World Government Bond Index, or their agencies or instrumentalities.
- B. Not invest more than 5 percent in the securities of a single issuer, other than obligations of the United States Government or other sovereign non-U.S. governments within those countries, which comprise the Salomon Non-U.S. World Government Bond Index, or their agencies or instrumentalities.
- C. Not own 5 percent or more of the outstanding securities of any issuer, not to exclude purchase of collateralized issues of relatively small size. The domestic investment advisor will advise the Board of Trustees of any Securities Exchange Commission 13(d) filings of which a portion of the securities are owned by the Fund.
- D. Not invest in corporate bonds or debentures which at the time of purchase are rated below the highest four (4) classifications established by a rating

service recognized by the Comptroller of the Currency. A written exemption to this restriction may be given to an investment advisor by the Board of Trustees. If granted, that exemption will not exceed 20% of individual advisor holdings. If the security drops below the four (4) highest classifications, then the advisor must provide notification to the Board of Trustees within 30 days, providing justification for continuing to hold the security. The advisor will further notify the Board quarterly, or upon their request, of current disposition.

- E. Not purchase securities, which are denominated in currencies other than that of the United States Dollar. The Board of Trustees may give a written exemption to this restriction to an investment advisor. If granted, that exemption will not exceed 20% of individual advisor holdings.
- F. An advisor granted an exemption to invest in non-U.S. Dollar securities may invest in currency management and derivative securities transactions to manage risk arising from exposure to changing currency fluctuations and to settle trade or repatriate proceeds to the U.S. Dollar.
- G. Certain specific "Restricted Securities" may be used as an investment vehicle for fixed income advisors subject to the Board of Trustees approval. These would include Trust Preferred Securities and 144a securities.

## **V. INTERNATIONAL EQUITY GUIDELINES**

The advisor of the international equity funds may:

- A. Invest primarily in equity or equity type securities of companies in developed countries excluding the U.S. These equity securities will be listed on a stock exchange or traded in another recognized market and include, but are not limited to, common and preferred stocks, securities convertible or exchangeable into common or preferred stock, REITs, warrants, rights and depository arrangements. The Portfolio may invest in fixed-income securities upon approval of the Board. The Portfolio's investments may be denominated in U.S. Dollars or in non-U.S. currencies. The Portfolio may include securities eligible for resale pursuant to Rule 144A and securities in offerings that are not registered for sale in the U.S. but are listed or quoted in the securities' local markets. Instruments acquired as a result of corporate actions are permitted.
- B. Not invest more than 5% of the portfolio, at cost, or 7%, at market in the securities of any one issuer. Any deviation from this policy statement must have approval from the Board of Trustees, or
- C. Not invest more than 5% of the outstanding equity of a single issuer.

- D. Not concentrate more than 25% of the portfolio's total assets in one or more issuers having their principal business activities in a single industry, or
- E. Not invest more than 30% of the portfolio's total assets in one or more issuers in a single country, provided that in the U.K. such limit shall be 35%.
- F. At least 80% of the portfolio will be invested in companies located in developed markets as determined by MSCI.
- G. Invest in currency management and derivative securities transactions to manage risk arising from exposure to changing currency fluctuations and to settle trades or repatriate proceeds to the U.S. Dollar.

## **VI. CASH EQUIVALENTS GUIDELINES**

So long as these restrictions remain in effect, all portfolios will:

- A. Not purchase the securities of any issuer other than obligations issued or guaranteed as to principal and interest by the government of the United States, its agencies or instrumentalities, if, as a result:
  - 1. More than 5 percent of the total assets of each portfolio would be invested in securities of such issuer.
  - 2. More than 25 percent of each portfolio's total assets would be invested in the securities of issuers having their principal business activities in the same industry except for the financial services industry.
- B. Limit commercial paper investments to those rated A1 P1 by Standard & Poor's or Moody's Investor Service.
- C. So long as these restrictions remain in effect, all international non-U.S. and global funds may:
  - 1. Invest in STIF Funds at Teachers' Retirement System of Oklahoma's, custodian banks and hold cash equivalents denominated in U.S. or foreign currencies, as time deposits in U.S. or foreign banks, obligations of foreign sovereignties or deposits in U.S. or foreign banks, obligations of foreign sovereignties, or Eurodollars, as long as they are denominated in currencies within those countries which comprise the Morgan Stanley Capital International Europe, Australasia and Far East (EAFE) Index plus Canada or the Salomon Non-U.S. World Bond Index or in the U.S. Dollar. Time deposits in U.S. or

foreign banks will be limited to those institutions, which have a quality rating within the top three categories of Standard & Poor's and/or Moody's, and have a minimum of \$5 billion in assets.

- D. A separate investment policy shall be established and approved by the Board of Trustees pertaining to the portfolio's cash position managed and administered by the staff of the System.

## **VII. REAL ESTATE INVESTMENT PORTFOLIO GUIDELINES**

Real estate investments shall not be held fee simple by the Teachers' Retirement System of Oklahoma, but only through investment certificates or other financial instruments. Real estate shall not be held by the System as freehold or leasehold. This policy statement does not exclude the authority of the Board to purchase real estate for home office facilities to be used in administering the System, including land, equipment and office building(s), and providing that the foregoing shall not prevent the Fund from purchasing or selling publicly-traded securities of issuers engaged in any aspect of the real estate business or marketable securities secured by real estate or interest therein which would include mortgage-backed securities.

## **VIII. PERFORMANCE GOALS**

To evaluate the progress of the portfolio, investment performance will be reviewed at least quarterly. It is not anticipated that the goals defined below will be satisfied in every single quarter or year. It is, however, expected that performance goals will be met over a full market cycle, normally defined as a three to five year period. Analysis of performance should always be within the context of the prevailing investment environment and the advisors' particular investment style. The investment performance of the Fund will be evaluated relative to the following standards.

- A. For The Total Fund

The performance of the total Fund will be compared with the following:

- 1. Performance Measurement
  - a. An index developed by combining the returns of the S&P 500 Stock Index, the S&P 400 Mid Cap Index, the Russell 2000 Small Cap Index, the MSCI EAFE International Equity Index, the Lehman Brothers Aggregate Bond Index, and the Salomon Non-US WGBI (Unhedged) Index, as compared to the actual asset allocation.
  - b. The Consumer Price Index.

- c. An absolute annual return over a full market cycle that would compensate the Fund on a risk-adjusted basis.
- d. The results of a universe of actively managed funds as measured by a recognized third-party performance evaluator.

## 2. Goals

- a. From active management, the fund is expected to outperform the allocation by at least 1 percent per year, net of fees.
- b. The goal of the Fund is to outperform inflation by 3 ½ to 5 ½ percent, net of fees, on an annual basis.
- c. Active management is expected to generate for the Fund, returns (over a market cycle) that place it in the top one-third when ranked against comparable funds.

## B. Equity Portfolios

The performance of the aggregate domestic equity portion of the Fund will be analyzed against the following:

### 1. Performance Measurement

- a. The S&P 500 to determine the volatility, the degree to which quarterly results reflect the inherent volatility and the degree to which they reflect the selection skills of the advisors.
- b. The S&P 500 for corresponding periods.
- c. The S&P 500 for up and down segments of the market cycle.
- d. A universe of actively managed pension fund equity results as measured by a recognized third-party performance evaluator.
- e. The annualized rate of return will be compared with inflation as measured by the Consumer Price Index for the same period to determine the real rate of return earned on common stock investments.
- f. An absolute annual return over a full market cycle that would compensate the Fund on a risk-adjusted basis.

### 2. Goals

- a. From active management, the goal of the Fund is to earn at least 1 percent per year, net of fees.
- b. The goal of the Fund is to outperform inflation by 4 to 7 percent per year, net of fees.



- c. The advisor is expected to generate for TRS monies under management, returns (over a market cycle) that place it in the top one-third when ranked against comparable funds.
- d. Index Fund advisors are expected to track the respective index return with a variance of not more than +/- 0.15% per month.

## C. Domestic Equity

### 1. Performance Measurement

- a. The S&P 500 Index portfolio's structure and returns will be compared to the S&P 500 Index.
- b. The Large Capitalization Growth Equity portfolio will be compared to the Russell 1000 Growth Index and a universe of large capitalization equity portfolios.
- c. The Large Capitalization Value Equity portfolio will be compared to the Russell 1000 Value Index and a universe of large capitalization equity portfolios.
- d. The Middle Capitalization Equity portfolios will be compared to either the Target Mid Cap 750 Index or the Russell Mid Cap Index. The proper comparative index will be determined by examining each portfolio to determine which index is most appropriate as a gauge of performance. The portfolios will also be compared to a universe of middle capitalization equity portfolios.
- e. The Small Capitalization Equity portfolios will be compared to the Russell 2000 Small Stock Index and a universe of small capitalization equity portfolios.

### 2. Goals

- a. The S&P 500 Index portfolio's goal is to track the S&P 500 Index benchmark within 0.05% per year, net of fees.
- b. The Large Capitalization Growth Equity portfolio's goal is to outperform the Russell 1000 Growth Index by 1.00% per year, net of fees, and rank in the top one-third of a universe of large capitalization equity portfolios.
- d. The Large Capitalization Value Equity portfolio's goal is to outperform the Russell 1000 Value Index by 1.00% per year, net of fees, and rank in the top one-third of a universe of large capitalization equity portfolios.
- e. The Middle Capitalization Equity portfolio's goal is to outperform the Target Mid Cap 750 Index or the Russell Mid-Cap Index, by 1.50%, per year, net of fees. The portfolios will also be expected to rank in the top one-third of a universe of middle capitalization equity portfolios.

- f. The Small Capitalization Equity portfolio's goal is to outperform the Russell 2000 Small Cap Index by 2.00% per year, net of fees. The portfolios will also be expected to rank in the top one-third of a universe of small capitalization equity portfolios.

#### D. Fixed-Income Portfolios

The performance of the fixed-income portion of the Fund will be compared with the following:

##### 1. Performance Measurement

- a. The Lehman Brothers Aggregate Bond Index.
- b. The Consumer Price Index.
- c. The results of a representative sample of other non-taxable fixed-income portfolios under the advisors' management.
- d. A universe of actively managed pension fund fixed-income results as measured by a recognized third-party performance evaluator.
- e. An absolute annual return over a full market cycle that would compensate the Fund on a risk-adjusted basis.

##### 2. Goals

- a. The goal of the fixed-income portfolios is to outperform inflation by 2 - 4 percent, net of fees, annually.
- b. The advisor is expected to generate for TRS monies under management, returns (over a market cycle) that place it in the top one-third when ranked against comparable funds.
- c. The active fixed-income advisors' portfolios are expected to outperform the Lehman Brothers Aggregate Bond Index by 0.50% per year, net of fees.
- d. The passive fixed-income advisor's portfolio is expected to track the returns of the Lehman Brothers Aggregate Bond Index with a variance of not more than +/- 0.15% per month, net of fees.

#### E. International Equity Portfolios

The performance of the international equity portfolios will be compared with the following:

##### 1. Performance Measurement

- a. The return of the Morgan Stanley Capital International Europe, Australasia and the Far East (EAFE) Index.

- b. A universe of actively managed international portfolios as measured by a recognized third-party performance evaluator.

2. Goals

- a. The advisors are expected to generate for TRS monies under management, returns (over a market cycle) that place it in the top one-third when ranked against comparable funds.
- b. The advisors are expected to outperform the EAFE index by 1.50% per year, net of fees (over a market cycle).

F. Cash Equivalent Portfolios

The performance of the cash equivalent portion of the Fund will be compared with the following:

- 1. The 90-day United States Treasury Bill Index.
- 2. The Consumer Price Index.
- 3. Discretionary STIF Index.

## **IX. ACCOUNT REVIEWS**

The investment advisors will be expected to meet with the Teachers' Retirement System of Oklahoma periodically to review the investment outlook, structure of their portfolios, and past results. A general agenda for these meetings will include:

- A. A review of the investment results achieved over the prior month, quarter, year and since inception, in relation to the advisor's investment views and internal policies in effect prior to, and during the period.
- B. The advisors current outlook for the economy and capital markets over the next 6-12 months.
- C. The internal investment policies that have been adopted in response to these expectations.
- D. The appropriateness of the present portfolio under the advisors management, given the expectations and internal policy.
- E. A review of the guidelines relative to any restraints that the advisors may represent relative to their ability to fully reflect their expectations or policy.

- F. A review of the investment results relative to the longer-term investment performance standards outlined herein including actual results achieved vis-à-vis the performance indices and standards established for the total portfolio and each portfolio segment.

## **X. DISTRESSED MORTGAGE FUND**

- A. 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. The Distressed Mortgage Fund is a long-term investment and can be expected to undergo some interim volatility.
- B. Investments in the Distressed Mortgage Fund will be governed by the subscription agreement, the Limited Partnership Agreement and other related documents.
- C. The Distressed Mortgage Fund targets a total return of 10% to 15%, net of fees, per year over its lifespan. Market conditions, which may change, may affect the Distressed Mortgage Fund's long-term return potential. Performance will be monitored on a quarterly basis until the Distressed Mortgage Fund expires as described in Fund's Private Placement Memorandum.

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### **ACKNOWLEDGMENT**

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These guidelines are approved by the Teachers' Retirement System of Oklahoma and are agreed to by the advisors. It is the intention of the Teachers' Retirement System of Oklahoma to formally review these guidelines with the advisor(s) at least annually to reaffirm their continuing relevancy or revise them as appropriate. Either the Teachers' Retirement System of Oklahoma or the advisors may suggest revisions at any time if it is believed to be in the best interest of the Fund.