

## **OKLAHOMA POLICE PENSION AND RETIREMENT FUND**

### **STATEMENT OF INVESTMENT POLICY**

#### **OBJECTIVES AND GUIDELINES**

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

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

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

**I**  
**Statement of Investment Policy**

1. The Board will employ strategies to maximize the advantages of diversification for optimal capital protection and to implement appropriate risk acceptance strategies for optimal return on investment.
2. The Board will retain independent professional investment consultants to assist in implementing this policy.
3. The Board will establish a ratio between various asset classes which are calculated to satisfy the requirements of the investment policy.
4. The Board may review and change these investment ratios at any time; however, the Board will review and confirm or change the investment ratios annually.
5. The Board will continually evaluate the trend of investment results in relationship to investment expectations.
6. The Board will evaluate results on a total rate of return basis.
7. The Board will utilize investment managers whose demonstrated results are a matter of public filing or independent financial statements as required by the Board.
8. The Board will evaluate the value-added to the Fund relative to a Policy Index composed of 55% Russell 3000 Index, 10% MSCI EAFE Index and 35% Lehman Aggregate Index.
9. The Board will evaluate the investment manager value-added to the Fund as compared to other investment managers of the same investment style further sub-sectored into peer groups and to all managers within the consultant's data base.
10. The Board will evaluate each of the Fund's investment manager's style for compliance with the Fund's investment objectives.
11. The Board may contract with Discount Brokerage Houses to recapture commissions.
12. The Board may contract with consulting firms to measure trade and execution efficiency.
13. The Board may amend the Statement of Policy and the Statement of Strategy.

## II Statement of Investment Strategy

1. The Fund's actuarial rate of return of 7.5% nominal will constitute a minimum goal for investment return.
2. The Board will structure its present investment strategy to achieve an expected long-range total return in excess of the actuarial assumed rate, and at least 1.5% ahead of a rolling measure of inflation.
3. The Board's Policy Allocation will currently maintain approximately 65% of its assets in equity instruments, including public equity, long-short equity hedge fund strategies and venture capital and private equity strategies; approximately 30% of its assets in fixed income, which may include investment grade bonds, high yield and non-dollar bonds, convertible bonds, and certain low volatility hedge fund strategies; and 5% of its assets in real assets, including real estate. The Board recognizes that transition to the above target allocations will be achieved over a prudent and appropriate period of time, based upon market conditions, manager availability, and portfolio needs and constraints. The Board may modify their Policy Allocation when achieved results or events so dictate.
4. The Board will monitor the actual asset allocation percentages relative to strategic target allocations. Actual asset allocation may deviate from strategic target allocations within a specific range as defined in paragraph 8 below. If market returns carry an asset class beyond or to the limit of its allowable range, that class of assets must be reduced or raised to its policy normal level as appropriate.
5. To structure the Fund's portfolio for maximum investment style diversification and to achieve expected total return investment results, the Board:
  - may retain multiple equity portfolio managers who will be granted full investment discretion. The total return concept as it applies to this portion of the Fund means dividend income plus realized and unrealized capital appreciation. Complementary multiple management will be used in structuring the domestic equity asset mix.
  - may retain separate fixed income portfolio managers who will be granted full investment discretion. Fixed income investments will constitute a portion of the Fund's asset investment to primarily reduce the volatility risk of the total portfolio in addition to providing low risk total returns. The total return concept as it applies to this portion of the Fund means interest income plus realized and unrealized capital appreciation.
  - may retain separate equity real estate portfolio managers.
  - Real estate investment will constitute a portion of the Fund's assets to provide long-term income and/or capital appreciation. Investment in this type of asset is deemed prudent for purposes of reduction of total portfolio volatility.
  - may retain multiple managers of alternative forms of investment, including but not limited to venture capital and private equity and various hedge fund strategies.

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

6. The Board will prepare and transmit written guidelines and expectations to the Fund's existing investment managers, at least annually.
7. The Board will evaluate each investment manager for the following areas of performance on at least a quarterly basis:
  - compliance to the Fund’s investment objectives and guidelines
  - total rate of return
  - volatility of portfolio returns as measured by standard deviation
  - performance for each portfolio segment
  - holdings based attribution
  - style characteristics
  - peer group evaluation
8. The Board has established the following strategic asset allocation and acceptable ranges:

**Investment Strategy Portfolio Structure**

<b><u>Investment Medium/Style</u></b>	<b>Target Percentages Of Total Assets</b>	<b>Allocation Range</b>
<b><u>Fixed Income</u></b>	<b>30%</b>	25% - 35%
Core Bonds	12.5%	7.5% - 17.5%
High Yield/Convertibles	5.0%	0% - 10%
Low Volatility Hedge Funds	12.5%	7.5% - 17.5%
<b><u>Equities</u></b>	<b>65%</b>	55% - 75%
Large Cap	20%	15% - 25%
Small/Mid Cap	10%	5% - 15%
International	10%	5%-15%
Long/Short Equity	15%	10% - 20%
Private Equity	10%	5% - 15%
<b>*Real Assets</b>	<b>5%</b>	0% - 10%
Real Estate	5%	0% - 10%

\*Real assets currently include a timber fund and a global macro hedge fund.

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

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

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

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

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

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

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

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

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

The Custodian must have the capability to accept possession of securities for safekeeping, collect and disburse income, collect principal of sold, matured or called items, provide periodic accounting statements and process and maintain a securities lending program. The Custodian shall be able to meet as required with the Board and make reports relative to the status of the Fund.

The Custodian shall provide the following services:

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

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

- b. **Collection of Income and Principal:** The Custodian shall be capable of managing the short term investment of funds by providing a funds control account with a variety of alternatives for investment and be able to implement the investment policy as established by the Board. The Custodian shall provide a cash management program wherein idle cash is automatically "swept" into a designated short-term investment fund. Also, dividend and interest income should be credited to the account on the date payable. The short term investment fund shall be invested primarily in a diversified portfolio of investment grade money market instruments including, but not limited to commercial paper, notes repurchase agreements and other evidences of indebtedness which are payable on demand or which have a maturity date not 13 months from date of purchase. The fund must maintain dollar weighted average portfolio maturity of 90 days or less. The primary objective of this fund is a high level of current income consistent with stability of principal and liquidity.
- c. **Periodic Accounting Statements:** The statements shall contain a balance sheet by fund and combined total. The balance sheet should include summary totals (cost

and market) for cash, due from broker, accrued interest and dividend income, cash equivalents (detailed as to U.S. Treasury Bills, time deposits, commercial paper, etc.) fixed income securities (detailed) equity securities, due from brokers, etc. Supporting schedules for the balance sheet shall be provided by fund and combined account total. Detail transaction registers shall be required for the asset activity as follows:

1. Schedule of Purchases
2. Schedule of Realized Gains and Losses
3. Schedule of Unrealized Gains and Losses
4. Schedule of Dividend and Interest Earned and Received
5. Schedule of Prior Period Trades Settled
6. Schedule of Pending Trades End of Period
7. Schedule of Security Lending Transactions

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

Revenue:

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

Expense:

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

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

1. Reconciliation of cost and market value (combined fund) from beginning of month to end of month.
2. Summary of daily transactions (all funds).

3. Fixed income maturity schedule.
  4. Brokerage summary
  5. General ledger
- d. Securities Lending: The Custodian shall provide a complete securities lending program including: Selection of borrowers/borrowers agreements, credit review of borrowers, earnings negotiations, loan deliveries and return/collateral safekeeping and market to market of loans and collateral.

## **SUMMARY**

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

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

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



**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
***Large Capitalization Domestic Equity Managers***

**General Objectives**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

Assets held in commingled accounts should be managed in a style/strategy consistent with the commingled account's stated objectives and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.

**Asset Allocation**

This Fund will be structured as a domestic equity fund. You will have complete discretion to determine the proper asset allocation among the approved asset categories within the bounds of the following limitations:

	<b>Maximum Investment as a % of Total Fund</b>
Domestic Equities	100.0%
Cash and/or Cash Equivalents	5.0%

The maximum investment will be based on the market value of each asset category as compared to the market value of the total Fund. The maximum investment percentage is intended as a limit on further investments in the applicable asset category and not as a requirement to liquidate assets in the event that the maximum investment limitation is exceeded by an increase in the market value of the applicable asset category.

The maximum percentage designated for the "Cash and/or Cash Equivalents" category is intended to apply after the initial start-up cash has been invested. If, at any time, you should believe that it would be in the best interest of the Fund to raise this maximum limitation, you should contact the Board of Trustees for direction.

ADR's or stocks of foreign corporations which trade primarily on a major U.S. exchange, convertible securities and Rule 144A type securities will be considered as eligible investments. The combination of these types of securities shall not constitute more than 10% of the portfolio at any point in time.

## **Liquidity**

The Board of Trustees may have the occasional need to draw on the portion of the funds under your management for money to be used in the payment of expenses, claims, or for other funding purposes. Prior to any withdrawal, the Board of Trustees will communicate their requirements in such a manner to allow the greatest amount of time possible for planning purposes.

## **Diversification**

The Board of Trustees recognizes the need for a high level of diversification to minimize the risk of large losses to the Fund. You are charged with the responsibility of maintaining a high level of diversification within your portfolio, which will be monitored by the Board of Trustees.

The following specific limitations reflect, in part, the Board's current investment policy regarding diversification of assets:

1. No equity investment in any one issue shall be in excess of 5% of the outstanding equities of that issuer.
2. Not more than 7.5% of the equity investments at market (excluding cash or cash equivalents) shall be invested in equity securities of any one issuer.

## **Performance Expectations**

Your equity portfolio should outperform the broad based S&P 500 and/or your relevant style benchmark over a market cycle. Relative performance should be above the median over a market cycle when compared to your peer group. Although performance expectations are established for a market cycle, performance comparisons to your peer group will be on an on-going basis.

Passive portfolio allocations are expected to match the return and risk profile (as measured by the standard deviation) of their appropriate benchmarks. The enhanced index portfolio should outperform the S&P 500 Index total return by at least .50%, with a tracking error not to exceed 1.25% relative to the S&P 500 Index.

## **Performance Reviews**

The Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results.
3. Opportunities available in the equity markets.

**Voting of Proxies**

All proxies shall be voted at your discretion; however, the Board of Trustees desires to monitor the voting of the securities in this Fund.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
***Small to Mid Capitalization Domestic Equity Managers***

**General Objectives**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

**Asset Allocation**

This Fund will be structured as a domestic equity fund. You will have complete discretion to determine the proper asset allocation among the approved asset categories within the bounds of the following limitations:

	<b>Maximum Investment as a % of Total Fund</b>
Domestic Equities	100.0%
Cash and/or Cash Equivalents	5.0%

The maximum investment will be based on the market value of each asset category as compared to the market value of the total Fund. The maximum investment percentage is intended as a limit on further investments in the applicable asset category and not as a requirement to liquidate assets in the event that the maximum investment limitation is exceeded by an increase in the market value of the applicable asset category.

The maximum percentage designated for the "Cash and/or Cash Equivalents" category is intended to apply after the initial start-up cash has been invested. If, at any time, you should believe that it would be in the best interest of the Fund to raise this maximum limitation, you should contact the Board of Trustees for direction.

ADR's or stocks of foreign corporations which trade primarily on a major U.S. exchange, convertible securities and Rule 144A type securities will be considered as eligible investments. The combination of these types of securities shall not constitute more than 10% of the portfolio at any point in time.

**Liquidity**

The Board of Trustees may have the occasional need to draw on the portion of the funds under your management for money to be used in the payment of expenses, claims, or for other funding purposes. Prior to any withdrawal, the Board of Trustees will communicate their requirements in such a manner to allow the greatest amount of time possible for planning purposes.

## **Diversification**

The Board of Trustees recognizes the need for a high level of diversification to minimize the risk of large losses to the Fund. You are charged with the responsibility of maintaining a high level of diversification within your portfolio, which will be monitored by the Board of Trustees.

The following specific limitations reflect, in part, the Board's current investment policy regarding diversification of assets:

1. No equity investment in any one issue shall be in excess of 5% of the outstanding equities of that issuer.
2. Not more than 7.5% of the equity investments at market (excluding cash or cash equivalents) shall be invested in equity securities of any one issuer.

## **Performance Expectations**

Your equity portfolio should outperform the broad-based Russell 2000 or Russell 2500 Index, depending on your mandate and/or your relevant style benchmark over a market cycle. Relative performance should be above median over a market cycle when compared to your peer group. Although performance expectations are established for a market cycle, performance comparisons to your peer group will be on an on-going basis.

## **Performance Reviews**

The Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results.
3. Opportunities available in the equity markets.

## **Voting of Proxies**

All proxies shall be voted at your discretion; however, the Board of Trustees desires to monitor the voting of the securities in this Fund.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
*Non-U.S. Equity Manager*

**General Objectives**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

Assets held in commingled accounts should be managed in style/strategy consistent with the commingled account's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.

**Asset Allocation**

This Fund will be structured as a non-U.S. equity investment fund. You will have complete discretion to determine the proper asset allocation among the approved asset categories within the bounds of the following limitations:

	<b>Maximum Investment as a % of Total Fund</b>
Non U.S. Equities	100.0%
Cash and/or Cash Equivalents	10.0%

The maximum investment will be based on the market value of each asset category as compared to the market value of the total Fund. The maximum investment percentage is intended as a limit on further investments in the applicable asset category and not as a requirement to liquidate assets in the event that the maximum investment limitation is exceeded by an increase in the market value of the applicable asset category. The maximum percentage designated for the "Cash and/or Cash Equivalents" category is intended to apply after the initial start-up cash has been invested. If, at any time, you should believe that it would be in the best interest of the Fund to raise this maximum limitation, you should contact the Board of Trustees for direction.

ADR's, convertible securities and Rule 144A type securities will be considered as eligible investments. No more than 10% of the portfolio shall be committed to Rule 144A type securities.

## **Liquidity**

The Board of Trustees may have the occasional need to draw on the portion of the funds under your management for money to be used in the payment of expenses, claims, or for other funding purposes. Prior to any withdrawal, the Board of Trustees will communicate their requirements in such a manner to allow the greatest amount of time possible for planning purposes.

## **Diversification**

The Board of Trustees recognizes the need for a high level of diversification to minimize the risk of large losses to the Fund. You are charged with the responsibility of maintaining a high level of diversification within your portfolio, which will be monitored by the Board of Trustees.

The following specific limitations reflect, in part, the Board's current investment policy regarding diversification of assets:

1. No equity investment in any one issue shall be in excess of 5% of the outstanding equities of that issuer.
2. Not more than 5% of the equity investments at cost (excluding cash or cash equivalents) shall be invested in equity securities of any one issuer.
3. Not more than 35% of the assets of the Portfolio (at market value) shall be invested in any one country.
4. Not more than 30% of the Portfolio (at market value) shall be committed to the securities of one industry group.

## **Performance Expectations**

Your equity portfolio should outperform the MSCI EAFE Index and/or your relevant style specific benchmark (with reinvestment of net dividends) over a market cycle. Relative performance should be in the top one-half over a market cycle when compared to a non-U.S. equity universe. Performance will be measured in U.S. Dollar denominated returns.

Although performance expectations are established for a market cycle, performance comparisons to other non-U.S. equity managers will be on an on-going basis.

## **Performance Reviews**

The Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results with other non-U.S. equity managers.
3. Opportunities available in the non-U.S. equity markets.
4. Your adherence to your professed investment style and discipline.

### **Specific Portfolio Authorization, Limitations and Restrictions**

The Trustees require that you comply with the following limitations and restrictions:

1. You are specifically permitted to use derivative instruments such as options, forward foreign exchange contracts and futures contracts, for currency hedging and cross hedging purposes. However, the use of currency hedging instruments to establish a leveraged position is not permitted.
2. Not more than 25% of the Portfolio shall be invested in emerging market (non-MSCI EAFE Plus Canada Index countries) securities.
3. It shall be your discretion as to whether cash, cash equivalents and/or the securities held in the Portfolio are denominated in local currency or in U.S. dollars.
4. You are permitted to participate in issues not registered with the United States Securities and Exchange Commission.

### **Voting of Proxies**

All proxies shall be voted at your discretion; however, the Board of Trustees desires to monitor your voting of the securities in this Fund.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
***Long Short Equity Managers***

**General Objectives**

Absolute return with low correlation to the long only equity and fixed income portfolios. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

**Securities and Strategies Allowed:**

Within the Long/Short equity investment portfolio, the following securities and/or strategies are allowed:

- Short-Selling
  - Leverage
  - Concentrated portfolios
  - Illiquid securities
- Futures, options and other derivatives  
Traditional equity and fixed income  
Securities as well as currencies

The portfolio should make all attempts to avoid all issues relating to Unrelated Business Taxable Income (UBTI).

**Liquidity**

Generally monthly or quarterly, with advance notice required and six month to one year lock-up periods.

The Board of Trustees may have the occasional need to draw on the portion of the funds under your management for money to be used in the payment of expenses, claims, or for other funding purposes. Prior to any withdrawal, the Board of Trustees will communicate their requirements in such a manner to allow the greatest amount of time possible for planning purposes.

**Performance Expectations**

The Long/Short equity investment portfolio shall be expected to meet the following objectives over a 3-5 year time period:

- Absolute returns between 12%-15% annualized.
- Annualized volatility less than the S&P 500.
- Low relative correlation with broad equity and bond market.

## **Performance Reviews**

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines and your stated objectives.
2. Analysis and comparison of your results to stated objectives and peers.
3. Opportunities available in your relevant market and or strategy.
4. Diversification.

## **Voting of Proxies**

All proxies shall be voted at your discretion; however, the Board of Trustees desires to monitor your voting of the securities in this Fund.

**APPENDIX A**  
**Oklahoma Police Pension and Retirement System**  
**Long/Short Equity Fund of Funds**  
**Investment Policy Statement**

**Fund or Separate Account Name:** Grosvenor Long/Short Equity Fund, Ltd.

**Investment Objectives**

Investment approach:

- Broadly diversified, global equity portfolio<sup>6</sup> with superior return and risk characteristics.
- Representation across market capitalization, style, sectors and global regions.
- Relatively low correlation to global equity and bond markets.

Target Annualized Return <sup>1</sup> :	10 to 15%
Target Annualized Standard Deviation <sup>1</sup> :	Less than 8.0%
Target Sharpe Ratio:	Greater than 1.0
Target Beta to S&P 500 Index:	+0.1 to +0.4

**Portfolio Constraints<sup>2</sup>**

Target and maximum allocations as a % of equity (based on manager category assignments):

Region/Strategy	Target Range <sup>7</sup>	Maximum
Total U.S.	50-70%	80%
Long Bias: <sup>3</sup>	25-50%	60%
Neutral/Statistical arbitrage <sup>3</sup> :	0-20%	30%
Variable <sup>3</sup> :	0-20%	30%
Short <sup>3</sup> :	4-10%	15%
Total Japan <sup>4</sup> :	5-15%	20%
Total Europe <sup>4</sup> :	10-25%	30%
Total Global <sup>4</sup> :	10-30%	40%

Target and maximum allocations as a % of equity (based on estimated portfolio exposure looking through to underlying manager exposure):

Region/Strategy	Target Range <sup>7</sup>	Maximum
Long Equities	30-70%	80%
Short Equities	10-50%	60%
Net Equities	0-40%	75%
Total – Other Hedge Fund Strategies <sup>5</sup> :	0%	10%

Maximum allocation to a single manager (% of equity):

Initial position size: 7.5%

Current market value: 10.0%

Maximum number of managers: 30

No investments in Grosvenor-related single-strategy or single-region fund of hedge funds

No investments in Grosvenor-related managed accounts

No investments in Grosvenor-affiliated managers

No borrowing or leverage used at the portfolio level

### **Manager Constraints<sup>2</sup>**

No allocation to managers with greater than a 3-year lockup

Maximum allocation to managers with greater than a 2-year lockup but no greater than a 3-year lockup: 15%

Maximum allocation to managers with greater than a 1-year lockup but no greater than a 2-year lockup: 25%

### **Reporting**

Grosvenor will send investor, as soon as practicable after the end of each calendar year (i) Grosvenor's total assets under management as of such year-end, (ii) Grosvenor's assets under management in any portfolio of strategy similar to the Fund's strategy, and (iii) the number of Grosvenor clients as of such year-end (including any change from the previous year-end).

### **Monitoring Compliance**

Grosvenor will monitor the Portfolio Constraints and Portfolio Fund Constraints set forth above, no less frequently than monthly. In the event the portfolio is out of compliance, Grosvenor shall bring the portfolio back into compliance as soon as reasonably possible. Alternatively, Grosvenor will advise the Board of Trustees of the Investor and the Board's consultant in writing, as to the nature of the exception and why the exception should be allowed. In such event, Grosvenor, the Board of Trustees and the Board's consultant will work together as to what steps, if any, should be taken to allow for the exception or remedy the exception.

Additional Reporting Requirements are detailed below:

<b>Report</b>	<b>Frequency</b>	<b>Content</b>
Underlying Manager Correspondence	Weekly	Copies of all correspondence received from managers in the portfolio are compiled and sent to the investor.
Month-To-Date Reports	Weekly	Month-to-date performance reports for the portfolio are generated based on estimated returns from those managers who provide mid-month results.
Investment Monitor Detail Report	Monthly	This profit/loss report delineates performance (in percent and total dollars) for the portfolio, as well as for each manager, sub strategy and strategy, for the month and year-to-date periods.
Investment Performance Report	Monthly	Indicates, for a specific time period, monthly capital balances, net monthly profits and losses, as well as monthly, quarterly, year-to-date and since inception return information.
Press Mentions Book	Monthly	Articles about managers and general hedge fund industry news from major press sources.
Manager Performance Attribution & Exposure Report	Monthly	Reports written by Grosvenor Research Department include commentary on the performance of major capital markets. In addition, the Research Department contacts each manager in the portfolio to discuss their performance for the month and then summarizes in this report (in varying degrees of detail) the managers' profit/loss attribution and certain portfolio exposure information.
Quarterly Hedge Fund Strategy Review	Quarterly	This report includes detailed explanatory data and summary comments about the fundamental factors that affect each of the broad hedge fund strategies in which we invest.
Portfolio Risk Reports	Quarterly	Detailed portfolio of risk assessment.
Investment Objectives and Constraints	Included	Summarized portfolio objectives and constraints.
Portfolio Allocation Report	Included	Two period balance sheet indicating the amount and percent of capital allocated to each manager, sub strategy and strategy.
Historical Simulation Summary Report	Included	Summary of risk/return/market correlation characteristics of portfolio based on historical simulation over various time periods. Risk/return/market correlation statistics for

		managers and portfolio based upon historical simulation since 1/93.
Statistical Performance Report	Included	Summary of risk and return statistics for the portfolio based upon historical manager returns.
Stress Test Report	Included	Analysis of portfolio performance based on historical simulations during specific periods of stress in global capital markets.
Risk Based Allocation Report	Included	Analysis of the forward-looking risk and return characteristics of each manager and the overall portfolio.
Exposure Summary	Included	Summary of portfolio exposure based on look through to underlying manager portfolios.
Historical Exposure Summary	Included	Summary of portfolio exposure over time.
Money Manager Profiles	Semi-Annual	Summarizes the qualitative information tracked by GCM for each manager, including biographies of key personnel, a record of historical assets under management by strategy and fund and a detailed description of the investment strategy, and the identities of service providers such as auditors, prime brokers and legal counsel.
Financial Reports	Annual	Each year, Arthur Andersen provides a complete set of financial reports including: Audited Financial Statements, Audited Statement of Shareholder's Equity and a copy of Sub-Fund Reports for Year-End
Recommended Allocation Changes	Periodic	When significant changes are being contemplated, Grosvenor will prepare a letter that describes in detail the recommended portfolio changes as well as the reasons related thereof. Attached to the Recommendation Letter is a complete set of Risk Reports that show the impact of the allocation changes on the risk characteristics of this portfolio.
Research Reports	Periodic	Periodically, the Research Department of Grosvenor writes reports providing analysis and commentary on specific issues and events impacting the hedge fund industry or specific strategies and managers.
Industry Report and Strategy Review	Periodic	Periodically, the Research Department of Grosvenor writes reports discussing general industry trends and issues as well as analysis and commentary about each of the sub-strategies included in our portfolios.

Manager Summaries

Periodic

Periodically, the Research Department of Grosvenor writes summaries of individual managers discussing portfolio attribution themes over quarterly or annual time periods, exposure information and key developments within the organization.

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Notes:

1. USD returns, net of all fees and expenses, over a market cycle.
2. With respect to constraint compliance, exceptions are dealt with as soon as practical, based on the liquidity of the underlying managers.
3. Includes generalists and sector specialists.
4. Includes all sub strategies.
5. Includes strategies other than long/short equities, such as convertible bond arbitrage, fixed income arbitrage, and distressed debt securities.
6. Portfolio primarily consists of long/short equity investments that rely on a fundamental investment approach. This broad definition also includes statistical arbitrage (long/short equity securities that are, in aggregate, generally sector and mark neutral); merger arbitrage (long/short equity securities of companies involved in a merger or buy-out); and restructurings (long/short equity securities of companies involved in a restructuring of their balance sheet).
7. The target range is the expected average long-term allocation based on relatively normal market environments. Grosvenor will use discretion to opportunistically manage the portfolio to achieve its stated goals, subject to the constraints defined herein. Therefore, there may be periods of time (perhaps extended) where allocations are outside this target range.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
***Private Equity and Venture Capital***

**General Objective**

A premium to the return objective of the traditional equity portfolio to compensate for the loss in liquidity. The portfolio may consist of strategies which when combined, produce a portfolio of complementary areas of focus, industries, stages of financing, vintage year and geographic representation designed to diversify the private equity/venture capital allocation.

Benchmark for measuring value added:

- S&P 500 return plus 500 basis points over a 5-7 year time period

**Liquidity**

Generally no liquidity for the term of the investment (5-12 years).

**Securities and Strategies**

Within the Private Equity/Venture Capital investment portfolio, the following securities and/or strategies may be included:

- Seed, Early, and Late Stage Venture Capital
- Small, Mid and Large Market Buyout
- Mezzanine Debt
- Distressed Debt

Both Domestic and International investments are eligible.

Other strategies that improve the potential risk/reward profile of the private equity and venture capital profile may be included.

The private equity investment portfolio should make all attempts to avoid all issues relating to Unrelated Business Taxable Income (UBTI). All post-venture distributions will be forwarded in kind to the appropriate traditional manager to be included in their discretionary portfolio.

**Performance Expectations**

The private equity investment portfolio shall be expected to meet the following objectives over a 5-7 year time period:

- Internal rates of return greater than those available in the public equity markets.
- Low relative correlation to the broad public equity market.

- IRR of mature partnerships above median for like peers as measured by Venture Economics.

### **Performance Reviews**

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Adherence to your stated objectives.
2. Analysis and comparison of your results to stated objectives and peers.
3. Opportunities available in your relevant market and or strategy.
4. Diversification.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
*International Fixed Income Managers*

**INVESTMENT OBJECTIVES**

**Performance Objective**

The performance objective will be to earn a total return in US Dollars that exceeds the benchmark return over time by 1.25% annualized, subject to the restrictions described below to control exposure to investment risk. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

**Target Tracking Volatility**

It is expected that in order to meet the return objective, the volatility of the portfolio's incremental return compared to that of the benchmark will average over periods of three years or more 1.50% annualized.

**Benchmark**

The benchmark against which the portfolio results will be compared is the JPM Global Government Bond Index, ex-US.

The base currency is the US Dollar.

**INVESTMENT EXPOSURES**

**Eligible Markets**

The following are eligible markets:

Euro Zone:	Austria	Other:	Australia
	Belgium		Canada
	Finland		Denmark
	France		Iceland
	Germany		Japan
	Greece		New Zealand
	Ireland		Sweden
	Italy		Switzerland
	Luxembourg		United Kingdom
	Netherlands		United States
	Portugal		
	Spain		

For the avoidance of doubt, protectorates of eligible countries (e.g. Jersey) shall be considered eligible markets.

The portfolio may take interest rate, country and currency exposures in each of these markets.

### **Duration**

The portfolio's sensitivity to changes in interest rates will be measured by duration. The overall portfolio duration, including forwards, futures and delta-weighted options, may not deviate from the total duration of the benchmark by more than 3 years.

### **Market Exposures**

The contribution to duration from the following markets may not vary from the benchmark's contribution to duration by more than 3 years per market:

United States            United Kingdom            Japan            Euro Zone

The portfolio's contribution to duration from the remaining eligible markets may not exceed 1 year per market.

### **Country Exposure**

The portfolio's allocation to all issuers based in any single country may not exceed 20% of the market value of the portfolio, with the exception of the following countries:

United States            United Kingdom            Japan            Germany            France

### **Currency Exposure**

The foreign exchange exposure of the portfolio will be managed separately from the interest rate exposure.

The total foreign exchange exposure, as measured by the sum of all positive differences from the currency exposure in the benchmark, may not exceed 30% of the portfolio's market value (net asset value).

### **Net Short Currency Positions**

Net short positions in currencies are permitted.

These short currency positions should not exceed (cumulatively) 10% of the portfolio market value.

### **Issuer Diversification**

- 1) Obligations issued or guaranteed by sovereign governments in their own currencies:  
No restriction.
- 2) Obligations of issuers rated A3 or better by Moody's or A- or better by Standard & Poor's:  
Maximum 5% of the portfolio's value in the obligations of any single issuer.
- 3) Obligations of issuers rated Baa3 to Baa1 by Moody's or BBB- to BBB+ by Standard & Poor's:  
Maximum 1.5% of the portfolio's value in the obligations of any single issuer.  
Maximum 15% of total portfolio assets.

### **Derivatives**

Futures, forward positions, delta-weighted options positions and other derivatives permitted under these guidelines, are to be fully reflected in the duration, market exposure and currency limits described above.

### **Leverage**

The market value of the portfolio's gross assets net of cash equivalents may not exceed the market value of net assets by more than 20%.

Gross Assets: Comprises all assets on a commitment basis and the face value of futures positions.

Net Assets: Comprises the gross assets net of payables associated with forward settlements of bonds, futures, options, and currency positions.

Cash Equivalents: Comprises investments under 1 year in duration.

### **Credit Quality**

Investments are subject to the following limitations:

- 1) Long-term securities rated by at least one of the following agencies, or other nationally recognized securities rating organizations (NRSRO), will be rated equal to or better than:  

Moody's	Baa3
Standard & Poor's	BBB-
- 2) Short-term securities shall be rated A1 by Moody's and P1 by Standard & Poor's.

- 3) Split-rated securities are permitted and are to be categorized by the lower of the applicable Moody's or Standard & Poor's rating.
- 4) All other securities will be, in the judgement of FFTW, of equal or superior credit quality to the standards specified above.
- 5) If the rating of any security falls below the Baa3 by Moody's or BBB- by Standard & Poor's, FFTW will provide notification and recommend a course of action.

### **Eligible Investments**

- 1) Fixed income obligations issued by or guaranteed by national governments, government agencies, supranational organizations, banks and corporations, in any eligible market.
- 2) Mortgage-backed securities, including CMOs, issued or guaranteed by any government, Federal agency, or government sponsored entity in eligible markets.
- 3) Asset-backed securities in eligible markets.
- 4) Spot and forward foreign exchange contracts in currencies of eligible markets.
- 5) Certificates of deposit and bankers acceptances.
- 6) Exchange traded financial futures contracts and put and call options.
- 7) Repurchase agreements with banks meeting credit quality criteria. The collateral securing the repurchase agreements will be obligations otherwise eligible for investment, held by a custodian, with the market value monitored daily for adequate coverage.
- 8) Use of FFTW SEC-registered funds, for cash management purposes.
- 9) Use of FFTW Mortgage Total Return Portfolio, a SEC-registered fund.
- 10) Securities issued under Rule 144A and Reg. S may be used, but may not exceed 5% of the manager's portfolio.

## **Reporting**

Formal management will consist of:

- 1) Monthly statements showing portfolio holdings and valuations to be sent within ten working days after month end.
- 2) A quarterly report outlining portfolio activity and market outlook and a statement of total return.

## **Counterparty Exposure**

Forward foreign exchange contracts will be entered into only with counterparties with a short-term rating of A1 by Moody's and P1 by Standard & Poor's.

## **REVIEW AND MODIFICATION OF GUIDELINES**

Any change in these guidelines will be discussed by both parties before taking effect and once agreed will be confirmed in writing by the Company.

## **Performance Reviews**

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results.
3. Opportunities available in the fixed income markets.
4. Diversification.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
**Guidelines High-Yield/Convertibles Strategy**

**Objective**

“Enhanced fixed income” performance earned with controlled risk. Component securities should be true fixed income securities (with the exception of minimal exposure to convertible preferred securities) with respectable yield and meaningful downside protection compared to their market universes. The strategy should concentrate on High Yield & Convertible securities and fixed income obligations (including bank debt) and should be intermediate in maturity. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

**Benchmark for Measuring Value Added**

Combination Merrill Lynch Cash Pay High-Yield Master Index/Merrill Lynch All US Convertibles Index, Jefferies Active Convertible International Local Index and the Citigroup High Yield Market Index. However, the broad objective is to outperform the Lehman Brothers Aggregate Bond Index.

**Guidelines for the active portfolio**

	<u>minimum</u>	<u>baseline</u>	<u>maximum</u>
<b><u>Total High Yield Bonds:</u></b>	<b>65%</b>	<b>75%</b>	<b>85%</b>
Domestic	60%	65%	80%
European	0%	10%	25%
<b><u>Total Convertibles:</u></b>	<b>15%</b>	<b>25%</b>	<b>35%</b>
Domestic	5%	10%	20%
International	5%	10%	20%
High Income	0%	5%	10%

Investments will be made through the commingled vehicles referenced in the matrix below. The matrix below summarizes key aspects of the guidelines of such vehicles as of April 2005. To the extent that there are inconsistencies between the applicable commingled vehicles’ governing documents and the matrix set forth below, whether as a result of amendments to such vehicles’ guidelines or otherwise, the guidelines of the commingled vehicles shall supersede.

	OCM Convertible Trust	OCM International Convertible Trust	OCM Expanded High Yield Fund, L.P.	OCM High Income Convertible Fund, L.P.
Average Rating:	no limit	no limit	no limit	no limit
Individual Rating:	no limit	No CCC+ or below	No CCC+ or below	no limit
Liquidity:	max. 10% in unregistered or unlisted securities (other than those exempt from registration or Rule 144A issues)	max. 10% in unregistered or unlisted securities (other than those exempt from registration or Rule 144A issues)	max. 10% in unregistered or unlisted securities (other than those exempt from registration or Rule 144A issues)	max. 10% in unregistered or unlisted securities (other than those exempt from registration or Rule 144A issues)
Security Weighting:	max. 5% per issuer	max. 5% per issuer	max. 3% per issuer	max. 5% per issuer
Industry Weighting:	max. 20%	max. 20%	max. 20%	max. 20%
Futures Option:	not allowed	Only currency contracts and index-based contracts subject to CFTC registration are permissible	not allowed	not allowed
Cash:	max. 35% in non-convertible (including cash and equity)	max. 35% in foreign non-convertible (including cash and equity)	no limit	max. 25% in non-convertible securities or obligations (including cash and equity)

## Performance Reviews

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results.
3. Opportunities available in the fixed income markets.
4. Diversification.

**APPENDIX A**  
**Oklahoma Police Pension & Retirement System**  
**Core Bond Managers**

**General Objectives**

The objective of fixed income is to provide a positive rate of return and to dampen the overall volatility of the System. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. It is incumbent upon the manager to notify the OPPRS if and when any style or process deviations are contemplated.

**Asset Allocation**

This Fund will be structured as a fixed income fund. You will have complete discretion to determine the proper asset allocation among the approved asset and sector categories including investments such as:

1. U.S. Treasury Securities
2. U.S. Government Agency Securities
3. Mortgage-Back Pass-Through Securities
4. Asset Backed Securities
5. Non-Agency CMO's
6. Money Market Instruments:
  - a. Commercial Paper
  - b. Certificates of Deposit/Time Deposits
  - c. Bankers Acceptances
  - d. Floating Rate Notes
7. Corporate Bonds
8. Repurchase Agreements
9. Yankee Bonds

**Diversification**

The Board of Trustees recognizes the need for high levels of diversification to minimize the risk of large losses to the Fund. You are charged with the responsibility of maintaining a high level of diversification within your portfolio, which will be monitored by the Board of Trustees.

The following specific limitations reflect, in part, the Trustee's current investment policy regarding diversification of assets:

1. No fixed income investment in any one issue shall be in excess of 5% of the outstanding fixed income obligations of the issuer.
2. Not more than 4% of the total market value of the portfolio shall be invested in fixed income securities of any one issuer, except U.S. Government and Agency Obligations.

## **Liquidity**

The Board of Trustees may have the occasional need to draw on a portion of the funds under your management for money to be used in the payment of expenses, claims, or other funding purposes. Prior to any withdrawal, the Board of Trustees will communicate their requirement in such a manner as to allow the greatest amount of time possible for planning purposes.

## **Performance Expectations**

Over a market cycle, this Fund should outperform the Lehman Aggregate Index. Relative performance should be above median over a full market cycle against other bond funds as compared to by the Systems' consultant. Although performance expectations are established for an interest rate cycle, performance comparisons to other domestic fixed income managers will be on an on-going basis.

## **Performance Reviews**

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines.
2. Review and comparison of your results.
3. Opportunities available in the fixed income markets.
4. Diversification.

## **Specific Portfolio Limitations and Restrictions**

The Board of Trustees requires that you comply with the following limitations and restrictions:

1. Investment in corporate bonds shall only be in those companies rated investment grade by at least two of three rating agencies (Standard & Poors, Moody's and/or Fitch).
2. If a bond's rating is downgraded below investment grade by two of the three ratings agencies (S&P, Moody's and/or Fitch), the investment manager must notify the Board immediately in writing if he or she recommends the security should be held in the portfolio and include the proposed strategy for handling this situation.
3. The Portfolio shall be required to maintain an average credit quality of A+ or higher.
4. Average option adjusted duration of the portfolio shall stay within a range of +/- 20% of the option-adjusted duration of the relevant benchmark.
5. Investment in commercial paper or other similarly rated security shall be made only if such paper or security is rated P1 by Moody's or A1 by Standard & Poor's or better.
6. There shall be no investments in non-dollar denominated securities.



## **Performance Expectations**

*Real Estate:* For the single property currently in the portfolio a return consistent with those returns for like kind properties in the local market.

*Managed Futures:* A premium to the return associated with investment in the futures market as measured by the CSFB Tremont Global Macro Index. The CSFB Tremont Global Macro Index shall be used as a relative benchmark over a full market cycle.

*Fixed Income Surrogates:* Absolute returns of 12%-15% annualized with volatility similar to traditional fixed income and low correlation to broad equity and bond markets. The Lehman Aggregate Index shall be used as a relative benchmark over a full market cycle.

## **Performance Reviews**

The Board of Trustees will meet with your representative at least once every eighteen (18) months, or as deemed necessary by the Trustees. Your investment results will be reviewed quarterly regardless of whether your representative is present. These reviews will focus on:

1. Your adherence to our guidelines and your stated objectives.
2. Analysis and comparison of your results to stated objectives and peers.
3. Opportunities available in your relevant market and or strategy.
4. Diversification.

**APPENDIX A**  
**Oklahoma Police Pension and Retirement System**  
*Low Volatility Hedge Fund of Funds*  
*Investment Policy Statement*

**Fund or Separate Account Name:** Newport Mesa, LLC

**General Objectives**

The objective of this portfolio is to provide a premium return to traditional fixed income investments with similar volatility over a full market cycle. This portfolio is designed to provide absolute return with low correlation to the existing equity and fixed income investments of the Oklahoma Police Pension and Retirement Fund, (“the Fund”). The portfolio may consist of various strategies such as convertible arbitrage, merger arbitrage, event-driven strategies and other non-traditional investment strategies, which, when combined, produce low volatility and acts to further diversify the overall investment portfolio of “the Fund”.

**Portfolio Type**

Multi-Manager, Multi-Strategy diversified portfolio

**Performance Expectations**

The portfolio has a targeted expected return of 10-12% and a targeted standard deviation expected to approximate the standard deviation of the Lehman Aggregate Index over a full market cycle. The portfolio should exhibit little or no correlation with most debt and equity indices and should attempt to minimize correlation among the underlying managers.

Eligible strategies will include convertible bond arbitrage, equity market neutral, sovereign debt and mortgage hedging, merger arbitrage, credit hedging, distressed, long/short (long biased) and long/short (short-biased) hedge funds.

**Restrictions**

Newport Mesa, LLC, shall not borrow funds or purchase any asset that is treated as an equity interest in a partnership or other pass through entity for federal income tax purposes.

**Liquidity**

No Initial Lock-Up

Redemptions – Quarterly with 60 days notice

Contributions – Monthly with 10 days notice

## Diversification

This portfolio is expected to be diversified across a variety of strategies and managers within the guidelines set forth below.

Strategy Allocation	Target Allocation (%)	Target Allocation Range (%)
Convertible Arbitrage	33%	20-40%
Equity Market Neutral & Long/Short Equity	42%	20-45%
Sovereign Debt & Mortgage Hedging	10%	0-10%
Merger/Risk Arbitrage	7%	0-20%
Distressed & Credit Hedging	5%	0-25%
Short-Biased	3%	0-5%
Aggregate Cash	0%	0-5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The number of underlying managers in the portfolio may not exceed 55. If, at any time, the manager should believe that it would be in the best interest of “the Fund” to raise the maximum limitation above 55 managers, the manager must notify the Board of Trustees in writing and provide a recommendation and basis for modifying this guideline.

The portfolio will be diversified by strategy and by underlying managers within each strategy allocation. The allocation to any one manager shall not exceed 5% of the total portfolio at cost. In the event a single underlying manager’s allocation reaches 7% of the market value of the overall portfolio, the “manager” (PAAMCO) is required to rebalance the portfolio back to within the 5% cap.

### Portfolio Reporting Guidelines:

On a **monthly** basis, the Investment Manager shall provide the following information on this Portfolio:

- a. Beginning and end of month portfolio balances
- b. Contributions/withdrawals
- c. % return of overall portfolio (monthly, quarterly, 1, 3 and 5 years)
- d. % return by strategy (monthly, quarterly, 1, 3 and 5 years)
- e. % return by manager (monthly, quarterly, 1, 3 and 5 years)

On a **quarterly** basis, the Investment Manager shall provide the following information:

1. Adviser Level
  - a. Any changes in key personnel of PAAMCO.
  - b. Changes in assets under management for PAAMCO.
  - c. Total assets managed by PAAMCO in similar style.

- d. Clients gained or lost.
  - e. Changes in ownership of PAAMCO.
2. Portfolio Strategy Level
- a. Percentage of this portfolio allocated to each individual strategy.
  - b. Amount of leverage being used in each strategy.
  - c. Names of managers by strategy and dollars allocated to each.
3. Underlying Manager Level
- a. List of underlying managers with brief description of strategy utilized by manager.
  - b. Average amount of leverage used by each underlying manager during quarter.
  - c. Any changes in key personnel of underlying managers.
  - d. Changes in assets gained or lost by underlying managers.
  - e. Changes in investment philosophy or major strategies of underlying managers.
  - f. Changes in ownership at the underlying manager level.
4. Security Level
- a. Top 5 holdings per strategy.