

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA  
Investment Committee Meeting  
Tuesday, January 20, 2015 – 3:00 PM  
TRS Administration Board Room  
2500 N. Lincoln Blvd., 5<sup>th</sup> Floor, Oklahoma City, OK**

**AGENDA**

- 1. CALL TO ORDER**
- 2. DISCUSSION AND POSSIBLE ACTION ON INVESTMENT CONSULTANT MONTHLY REPORT**
- 3. DISCUSSION AND POSSIBLE ACTION ON MANAGER STATUS REPORT**
- 4. DISCUSSION AND POSSIBLE ACTION INVESTMENT POLICY STATEMENT REVIEW**
- 5. DISCUSSION AND POSSIBLE ACTION ON INVESTMENT DEPARTMENT REPORT**
- 6. DISCUSSION AND POSSIBLE ACTION ON INVESTMENT POLICY EXCEPTION REQUEST FROM LORD ABBETT**
- 7. DISCUSSION AND POSSIBLE ACTION TO SELECT A PROVIDER OF MASTER CUSTODY, SECURITIES LENDING AND COMMISSION RECAPTURE SERVICES OR SELECT FINALISTS TO INTERVIEW**
- 8. DISCUSSION AND POSSIBLE ACTION TO ISSUE AN RFP FOR INVESTMENT CONSULTANT SERVICES**
- 9. QUESTIONS AND COMMENTS FROM TRUSTEES**
- 10. ADJOURNMENT**

***ALL BOARD MEMBERS ARE ENCOURAGED TO ATTEND INVESTMENT COMMITTEE MEETINGS***

**INVESTMENT COMMITTEE:**

*Chair: Vernon Florence*

*Members: James Dickson, Roger Gaddis, Jill Geiger*

# December 2014 - Market Performance Update

Modest Close Another Double Digit Return Year

## Equity Total Returns

Index	Last Month	Last Year	Last 3 Years	Last 5 Years
Dow Jones Industrial Average	0.1	10.0	16.3	14.2
NASDAQ (prc chg only)	-1.2	13.4	22.1	15.9
S&P 500 cap weighted	-0.3	13.7	20.4	15.5
S&P 500 equal weighted	0.3	14.5	22.4	17.4
S&P Mid Cap	0.2	13.2	21.4	17.2
S&P Small Cap	2.9	5.8	2.2	17.3
S&P REIT	1.9	13.2	16.3	17.2
Alerian MLP	-5.6	4.8	11.9	16.7
Russell 1000 Growth	-1.0	13.1	20.3	15.8
Russell 1000 Value	0.6	13.5	20.9	15.4
Russell Mid Cap Growth	-0.3	11.9	20.7	16.9
Russell Mid Cap Value	0.8	14.8	22.0	17.4
Russell 2000 Growth	3.0	5.6	20.1	16.8
Russell 2000 Value	2.7	4.2	18.3	14.3
Russell Top 200	-0.4	13.3	20.3	15.0
Russell 1000	-0.2	13.2	20.6	15.6
Russell Mid Cap	0.2	13.2	21.4	17.2
Russell 2500	1.4	7.1	20.0	16.4
Russell 2000	2.9	4.9	19.2	15.6
MSCI World Ex US	-3.3	-4.3	10.5	5.2
MSCI World Ex US Growth	-3.2	-3.3	10.4	5.9
MSCI World Ex US Value	-3.5	-5.4	10.5	4.5
MSCI EAFE	-3.5	-4.9	11.1	5.3
MSCI Emerging Markets	-4.6	-2.2	4.0	1.8

Financial markets had a relatively quiet end to 2014. Trading volumes were markedly decreased during the holiday period. The broad U.S. equity market suffered a modest loss for December while foreign equities suffered sharper declines. Oil prices continued to slide. The U.S. Dollar surged against foreign currencies.

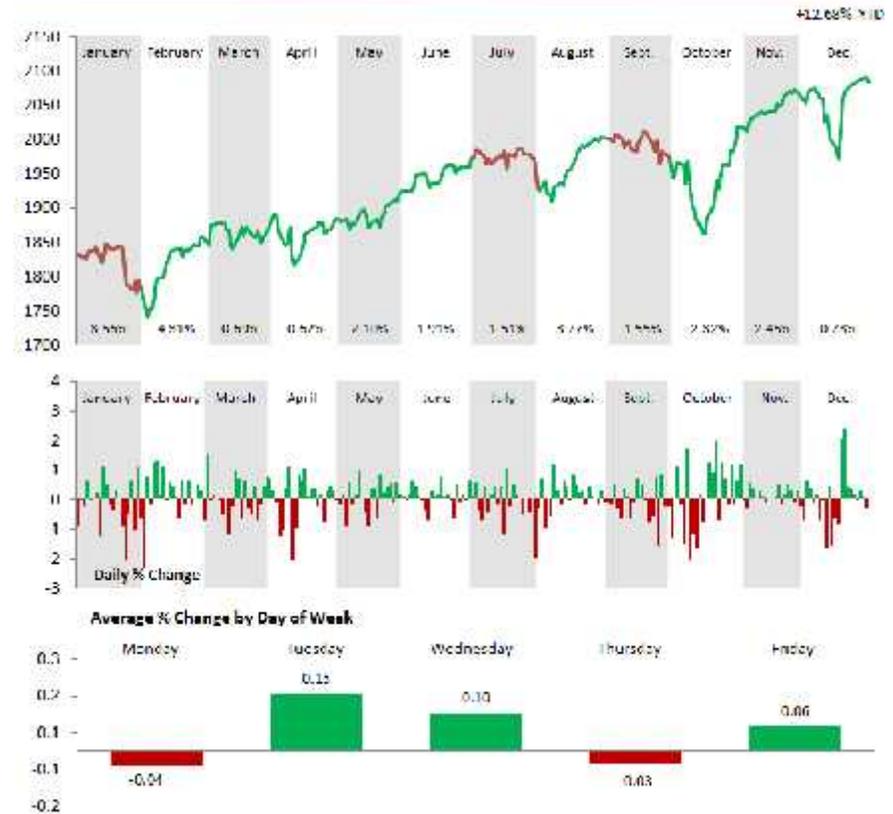
Smaller companies recovered recent losses and led the market higher. Value led growth among large and mid caps while the reverse was true for small caps. Small stock returns still trail larger companies over the past year. Developed international market equity returns were hurt by the rising U.S. Dollar. Emerging markets equities were also down for the month. MLPs moved lower on oil price fears.

The aggregate bond market posted another modest return during December. Long Treasuries posted another strong return, gaining almost 3% during the month, bringing their 2014 return to 25.1%. This earned them the distinction of top performing asset category. Cash remained flat for the month and the year.

## Bond Total Returns

Index	Last Month	Last Year	Last 3 Years	Last 5 Years
BC T-Bills	0.0	0.0	0.1	0.1
BC Long Treasury	2.9	25.1	4.2	10.0
BC US Agg	0.1	6.0	2.7	4.5

## S&P 500 in 2014



# Manager Profile - Advisory Research



Asset Class:	All Cap Domestic Equity
Status:	In Compliance
Portfolio Size:	\$475,502,016
Inception Date:	9/1/2006
Actual Allocation:	3.4%
Target Allocation:	3.5%
Annual Management Fee:	0.33%
Location:	Chicago, Illinois
Structure:	Division of Piper Jaffrey
Portfolio Management Team:	James Langer Matthew Swaim Bruce Zessar

## Notes:

ARI's all cap portfolios are composed using the firm's small cap, mid cap and large cap investment disciplines. The firm has tailored its investment processes to each market segment. The small and mid cap teams concentrate on companies selling at discounted price/book ratios. Large cap positions are based on financial strength and sustainable franchise characteristics. Shares are purchased into the portfolios when they are trading at less than 90% of the firm's estimate of intrinsic value. The firm seeks to purchase companies that represent the most attractive value opportunities regardless of their current market capitalization. Portfolios will hold 50 - 60 positions with turnover around 25%.

Represented by:	Bruce Zessar - Managing Director Matthew Swaim - Managing Director Brian Macmillan - Vice President of Business Development
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Founded: 1974

Return Profile	Since Inception	Last 5 Years	Last 3 Years	Last Year	Last Quarter	Last Month
Advisory Research	6.8	15.2	17.5	11.0	1.6	1.1
Russell 3000 Index	8.2	16.3	20.8	15.5	3.0	2.4
Russell 3000 Value Index	6.6	15.3	20.7	12.7	5.3	0.8

Risk Characteristics	Number of Holdings	Average Mkt Cap	Dividend Yield	P/E Ratio	P/B Ratio
Advisory Research	46	\$68.2 Billion	1.3%	17.7	2.1
Russell 3000 Index	3023	\$41.5 Billion	1.6%	19.0	2.7
Russell 3000 Value Index	-	\$40.1 Billion	1.9%	16.8	1.8

# Manager Profile - Epoch



Asset Class:	All Cap Domestic Equity
Status:	In Compliance
Portfolio Size:	\$507,645,760
Inception Date:	9/1/2006
Actual Allocation:	3.6%
Target Allocation:	3.5%
Annual Management Fee:	0.44%
Location:	New York, New York
Structure:	Publicly Traded (ticker: EPHC)
Portfolio Management Team:	David N. Pearl - Co-Chief Investment Officer Bill Priest - Co-Chief Investment Officer Mike Welhoelter - Quantitative Research and Risk Management
Represented by:	David N. Pearl - Executive Vice President, Co-Chief Investment Officer and Portfolio Manager Thomas Pernice - Managing Director, Client Service

## Notes:

Epoch seeks to produce superior risk-adjusted returns by constructing diversified portfolios of businesses with outstanding return profiles without a high degree of capital risk. Investments are evaluated on a private investor basis. Epoch uses a centralized decision process that composes the firm's best ideas into diversified but compact portfolios. Most of the firm's research is proprietary and based on their expectations of free cash flow growth. Analysis of a firm's operations and history guide a private market valuation based on discounted free cash flow models. Epoch meets with management either in their offices or on-site to assess their skill, honesty and integrity before purchase. Portfolios will hold 55 – 60 positions with turnover around 25%. 100% of their trading is electronic.

Founded: 2004

Return Profile	Since Inception	Last 5 Years		Last 3 Years		Last Year		Last Quarter		Last Month	
Epoch	9.1	16.6		20.7		17.1		4.7		3.6	
Russell 3000 Index	8.2	16.3		20.8		15.5		3.0		2.4	
Russell 3000 Value Index	6.6	15.3		20.7		12.7		5.3		0.8	

Risk Characteristics	Number of Holdings	Average Mkt Cap		Dividend Yield		P/E Ratio		P/B Ratio	
Epoch	60	\$97.0 Billion		1.8%		18.6		2.4	
Russell 3000 Index	3023	\$41.5 Billion		1.6%		19.0		2.7	
Russell 3000 Value Index	-	\$40.1 Billion		1.9%		16.8		1.8	

# Monthly Asset Allocation Review



Asset Class	Total Market Value	Current Percentage	New Target Percentage	Difference	Notes
All Cap/Large Cap	2,941,997,736	21.0%	17.0%	4.0%	Excess allocation bound for Private Equity and Real Estate
Mid Cap	2,103,869,643	15.0%	13.0%	2.0%	
Small Cap	1,459,504,680	10.4%	10.0%	0.4%	
<b>Total Domestic Equity</b>	<b>6,505,372,059</b>	<b>46.5%</b>	<b>40.0%</b>	<b>6.5%</b>	
Large Cap International Equity	1,381,039,339	9.9%	11.5%	-1.6%	
Small Cap International Equity	774,711,048	5.5%	6.0%	-0.5%	
International Transition Account	660,987				
<b>Total International Equity</b>	<b>2,156,411,374</b>	<b>15.4%</b>	<b>17.5%</b>	<b>-2.1%</b>	
<b>Core Fixed Income</b>	<b>2,165,878,763</b>	<b>15.5%</b>	<b>17.5%</b>	<b>-2.0%</b>	
High Yield Fixed Income	764,522,634	5.5%	6.0%	-0.5%	
MLPs	1,098,646,212	7.8%	7.0%	0.8%	
Private Equity	461,990,991	3.3%	5.0%	-1.7%	
Real Estate	677,020,279	4.8%	7.0%	-2.2%	
Opportunistic Assets	168,342,419	1.2%	0.0%	1.2%	
<b>Total Non-Core Assets</b>	<b>3,170,522,536</b>	<b>22.6%</b>	<b>25.0%</b>	<b>-2.4%</b>	
<b>Cash</b>	<b>1,339,893</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
<b>Composite</b>	<b>13,999,589,619</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Total Fund + Class Composite Summary

As of December 31, 2014

	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Calendar YTD	Last Quarter	Last Month
<b>Total Fund (Gross of Fees)</b>	<b>13,999,589,619</b>	<b>12/1/1991</b>	<b>23.1</b>	<b>9.8</b>	<b>8.1</b>	<b>12.5</b>	<b>15.5</b>	<b>8.1</b>	<b>0.3</b>	<b>8.1</b>	<b>1.9</b>	<b>-0.3</b>
<b>Total Fund (Net of Fees)</b>				<b>9.4</b>	<b>7.7</b>	<b>12.1</b>	<b>15.1</b>	<b>7.8</b>	<b>0.2</b>	<b>7.2</b>	<b>1.8</b>	<b>-0.3</b>
<i>Allocation Index</i>				9.4	7.0	11.0	13.1	7.2	0.7	7.2	2.0	-0.6
<i>Actuarial Assumption</i>				8.0	8.0	8.0	8.0	8.0	2.4	6.2	1.9	0.6
Total Domestic Equity	6,505,372,059 46.5%	4/1/1990	24.8	11.1	8.5	16.2	21.8	10.6	3.2	10.6	5.7	0.5
<i>S&amp;P 500</i>				9.9	7.7	15.5	20.4	13.7	6.1	13.7	4.9	-0.3
Total All Cap Equity	983,147,776 7.0%	9/1/2006	8.3	8.0	-	15.3	19.3	11.4	5.7	11.4	5.7	0.5
<i>Russell 3000</i>				8.1	-	15.6	20.5	12.6	5.3	12.6	5.2	0.0
Total Large Cap Active Equity	1,182,700,384 8.4%	1/1/1995	20.0	10.8	7.6	16.5	23.0	14.2	6.1	14.2	5.5	0.2
<i>S&amp;P 500</i>				9.9	7.7	15.5	20.4	13.7	6.1	13.7	4.9	-0.3
Total Mid Cap Equity	2,103,869,643 15.0%	11/1/1998	16.2	10.6	10.5	17.8	23.2	10.8	2.5	10.8	5.7	0.6
<i>Russell Mid Cap</i>				10.1	9.6	17.2	21.4	13.2	4.2	13.2	5.9	0.2
Total Small Cap Equity	1,459,504,680 10.4%	2/1/1998	16.9	9.6	8.6	14.9	21.3	5.3	-1.0	5.3	6.0	1.0
<i>Russell 2000</i>				7.7	7.8	15.5	19.2	4.9	1.7	4.9	9.7	2.9
Active International Equity	1,295,673,204 9.3%	2/1/1998	16.9	8.6	5.3	6.1	11.6	-6.9	-9.0	-6.9	-4.2	-1.9
<i>MSCI ACWI ex-US</i>				-	5.6	4.9	9.5	-3.4	-8.8	-3.4	-3.8	-3.6
Small Cap International Equity	774,711,048 5.5%	2/1/1998	16.9	15.2	-	-	15.7	-6.4	-10.4	-6.4	-3.8	-1.1
<i>MSCI ACWI ex-US</i>				-	5.9	9.0	14.2	-4.6	-9.8	-4.6	-2.2	-0.5
Core Fixed Income (ex- High Yield)	2,165,878,763 15.5%	4/1/1990	24.8	7.3	6.6	7.4	5.3	9.5	2.5	9.5	2.2	0.3
<i>Barclays Aggregate</i>				6.6	4.7	4.4	2.7	6.0	2.0	6.0	1.8	0.1
Master Limited Partnerships	1,098,646,212 7.8%	2/28/2011	3.8	19.4	-	-	21.5	18.3	-8.4	18.3	-7.8	-2.3
<i>Alerian MLP Index</i>				11.8	-	-	11.9	4.8	-9.9	4.8	-12.3	-5.6
High Yield Bonds	764,522,634 5.5%	2/1/2009	5.9	14.0	-	9.3	9.5	3.7	-2.6	3.7	-0.9	-1.4
<i>ML High Yield II</i>				14.1	-	8.9	8.4	2.5	-3.0	2.5	-1.1	-1.5
Core Real Estate	631,362,029 4.5%	4/1/2011	3.8	-	-	-	-	-	-	-	-	-
<i>NCREIF</i>				-	-	-	-	-	-	-	-	-
Non-Core Real Estate	45,658,250 0.3%	7/1/2014	0.5	-	-	-	-	-	-	-	-	-
<i>NCREIF</i>				-	-	-	-	-	-	-	-	-
Cash	1,339,893 0.0%	4/1/1990	24.8	-	-	-	-	-	-	-	-	-
<i>91 Day T-bill</i>				-	1.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0



# Equity Portfolios Summary

As of December 31, 2014

	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Calendar YTD	Last Quarter	Last Month
<b>All Cap / Large Cap Domestic</b>												
Hotchkis & Wiley Large Cap	615,184,529	4/1/1990	24.8	11.3	6.7	17.8	24.5	14.5	4.6	14.5	4.9	0.7
Russell 1000 Value	4.4%			10.4	7.3	15.4	20.9	13.5	4.8	13.5	5.0	0.6
Sawgrass	567,515,855	7/1/2006	8.5	9.4	-	16.4	20.8	13.9	7.8	13.9	6.1	-0.4
Russell 1000 Growth	4.1%			9.5	-	15.8	20.3	13.0	6.3	13.0	4.8	-1.0
ARI All Cap	475,502,016	9/1/2006	8.3	6.8	-	15.2	17.5	11.0	1.8	11.0	1.6	1.1
Russell 3000	3.4%			8.2	-	16.3	20.8	15.5	5.3	12.6	3.0	2.4
EPOCH All Cap	507,645,760	9/1/2006	8.3	9.1	-	16.6	20.7	17.1	8.6	17.1	4.7	3.6
Russell 3000	3.6%			8.2	-	16.3	20.8	15.5	5.3	12.6	3.0	2.4
<b>Passive Domestic Equity</b>												
NT Cap Weighted Passive	402,459,370	4/1/2012	2.8	17.6	-	-	-	13.6	6.0	13.6	4.8	-0.3
S&P 500 Cap Weighted	2.9%			17.3	7.7	15.5	20.4	13.7	6.1	13.7	4.9	-0.3
SSGA Eq Weighted Passive	373,690,206	4/1/2012	2.8	19.9	-	-	-	14.5	5.4	14.5	6.0	0.3
S&P 500 Equal Weighted	2.7%			19.4	9.5	17.4	22.4	14.5	5.4	14.5	6.1	0.3
<b>Mid Cap Domestic Equity</b>												
Frontier Capital	538,125,366	6/1/2002	12.6	10.8	11.6	16.0	21.1	11.9	2.9	11.9	6.9	0.0
Russell Mid Cap Growth	3.8%			9.9	9.4	16.9	20.7	11.9	5.1	11.9	5.8	-0.3
Wellington Management	472,953,370	9/1/1998	16.3	10.7	9.4	14.5	18.4	4.4	0.9	4.4	6.7	0.5
Russell Mid Cap Growth	3.4%			9.3	9.4	16.9	20.7	11.9	5.1	11.9	5.8	-0.3
AJO Partners	559,283,578	8/1/1998	16.4	11.5	10.1	18.7	23.5	13.2	4.6	13.2	4.6	-0.2
Russell MidCap	4.0%			9.6	9.6	17.2	21.4	13.2	4.2	13.2	5.9	0.2
Hotchkis & Wiley Mid Cap	533,507,329	8/1/2002	12.4	14.7	10.7	21.9	29.3	13.2	1.3	13.2	5.0	2.3
Russell MidCap Value	3.8%			12.0	9.4	17.4	22.0	14.7	3.2	14.7	6.1	0.7
<b>Small Cap Domestic Equity</b>												
Shapiro Capital Management	685,725,588	2/1/1998	16.9	10.9	11.3	17.7	23.2	8.4	-3.5	8.4	5.1	0.4
Russell 2000	4.9%			7.7	7.8	15.5	19.2	4.9	1.7	4.9	9.7	2.9
Geneva Capital	193,106,889	6/1/2013	1.6	13.8	-	-	-	-1.9	3.3	-1.9	6.7	2.0
Russell 2000 Growth	1.4%			16.9	7.8	15.5	19.2	4.9	1.7	4.9	9.7	2.9
Wasatch Advisors	193,241,255	6/1/2013	1.6	13.2	-	-	-	4.3	4.7	4.3	10.2	0.1
Russell 2000 Growth	1.4%			16.9	8.5	16.8	20.1	5.6	3.3	5.6	10.1	3.0
Cove Street Capital	104,426,757	6/1/2013	1.6	9.1	-	-	-	-3.0	-5.4	-3.0	0.8	1.2
Russell 2000 Value	0.7%			14.5	6.9	14.3	18.3	4.2	0.0	4.2	9.4	2.7
Frontier Capital	162,609,683	6/1/2013	1.6	14.8	-	-	-	6.2	-2.1	6.2	7.1	3.1
Russell 2000 Value	1.2%			14.5	-	-	-	4.2	0.0	4.2	9.4	2.7
Neumeier Poma	120,394,508	6/1/2013	1.6	18.2	-	-	-	8.5	3.9	8.5	6.5	1.3
Russell 2000 Value	0.9%			14.5	-	-	-	4.2	1.7	4.9	9.7	2.9
<b>International Large Cap Equity</b>												
Causeway Capital	519,396,975	5/1/2003	11.7	10.0	5.7	7.9	13.6	-4.0	-6.8	-4.0	-3.0	-3.1
MSCI ACWI Ex US	3.7%			9.1	-	-	14.1	4.2	-1.9	4.2	0.4	-1.9
Northern Trust Passive	860,738,170	9/1/2013	1.3	1.9	-	-	-	-3.4	-8.2	-3.4	-2.5	-3.4
MSCI EAFE	6.1%			4.4	-	-	-	-4.5	-9.2	-4.5	-3.5	-3.4
Transition Account - Northern	660,987	9/1/2014	0.3	-	-	-	-	-	-	-	-	-
-	0.0%			-	-	-	-	-	-	-	-	-
<b>International Small Cap Equity</b>												
ARI Small Cap International	203,445,135	12/1/2011	3.1	14.2	-	-	15.6	-1.2	-9.7	-1.2	-5.1	-1.2
MSCI EAFE Small Cap	1.5%			12.7	5.9	9.0	14.2	-4.6	-9.8	-4.6	-2.2	-0.5
Epoch Small Cap International	186,940,748	12/1/2011	3.1	10.6	-	-	12.5	-10.1	-14.0	-10.1	-5.6	-0.6
MSCI EAFE Small Cap	1.3%			12.7	5.9	9.0	14.2	-4.6	-9.8	-4.6	-2.2	-0.5
Wasatch Small Cap International	188,282,187	12/1/2011	3.1	16.6	-	-	17.5	-6.8	-6.5	-6.8	-0.8	-1.9
MSCI EAFE Small Cap	1.3%			12.7	5.9	9.0	14.2	-4.6	-9.8	-4.6	-2.2	-0.5
Wellington Small Cap International	196,042,978	12/1/2011	3.1	16.4	-	-	16.9	-7.4	-11.3	-7.4	-3.3	-0.7
MSCI EAFE Small Cap	1.4%			12.7	5.9	9.0	14.2	-4.6	-9.8	-4.6	-2.2	-0.5



# Fixed Income Portfolios Summary

As of December 31, 2014

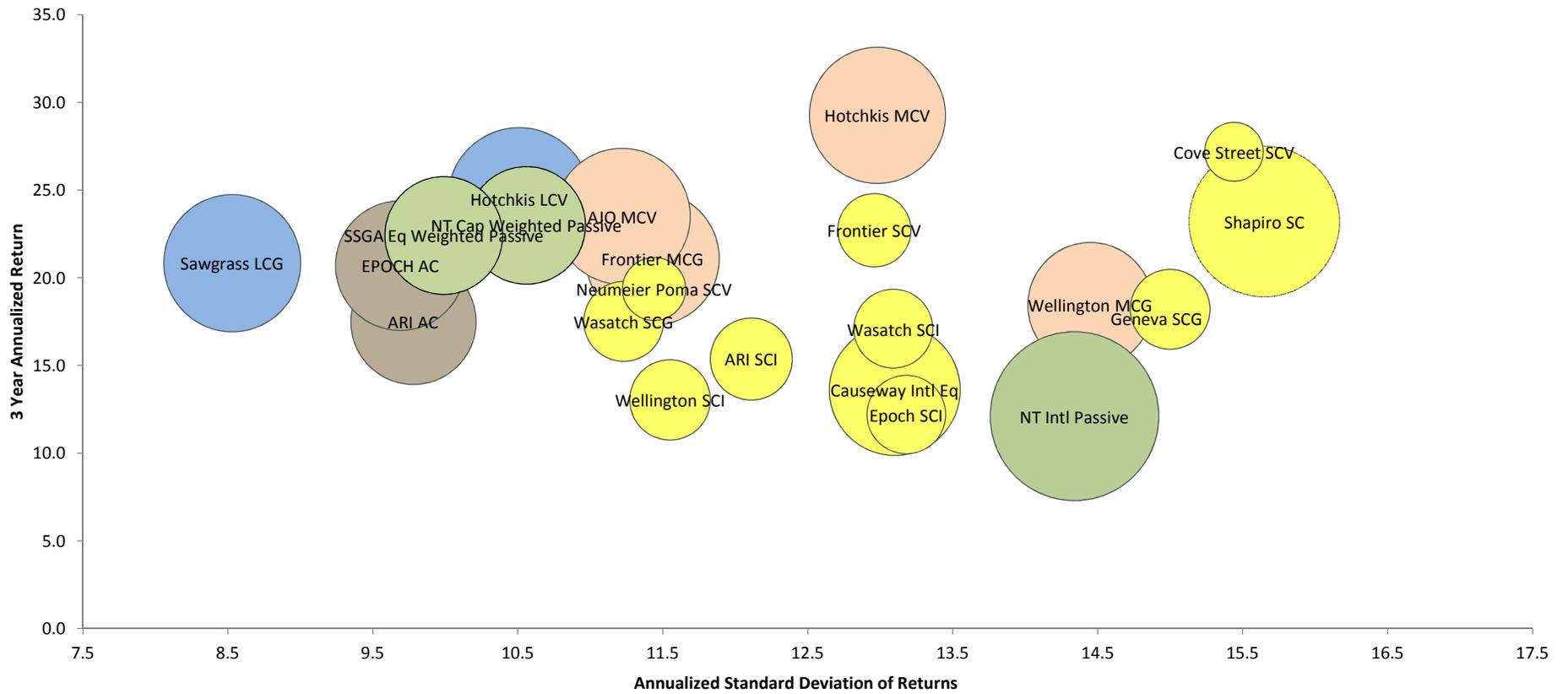
	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Calendar YTD	Last Quarter	Last Month
<b>Core Fixed Income</b>												
Loomis Sayles	615,873,687	8/1/1999	15.4	7.1	7.5	7.6	6.1	6.9	0.0	6.9	0.4	-0.7
<i>Barclays Aggregate</i>	4.4%			5.6	4.7	4.4	2.7	6.0	2.0	6.0	1.8	0.1
Lord Abbett	612,440,653	11/1/2004	10.2	6.1	6.2	6.2	4.9	6.8	1.4	6.8	1.2	-0.2
<i>Barclays Aggregate</i>	4.4%			4.6	4.7	4.4	2.7	6.0	2.0	6.0	1.8	0.1
Mackay Shields	610,196,437	11/1/2004	10.2	6.3	6.3	6.8	5.3	4.8	0.3	4.8	0.6	-0.1
<i>Barclays Aggregate</i>	4.4%			4.6	4.7	4.4	2.7	6.0	2.0	6.0	1.8	0.1
<b>Active Duration Fixed Income</b>												
Hoisington	327,367,986	11/1/2004	10.2	9.0	8.9	12.5	4.9	33.4	15.2	33.4	11.1	3.9
<i>Barclays Aggregate</i>	2.3%			4.6	4.7	4.4	2.7	6.0	2.0	6.0	1.8	0.1
<b>High Yield Fixed Income</b>												
Loomis Sayles High Yield	255,208,274	2/1/2009	5.9	14.2	-	8.9	10.7	4.5	-2.6	4.5	-0.6	-1.4
<i>Merrill Lynch High Yield II</i>	1.8%			15.0	-	8.9	8.4	2.5	-3.0	2.5	-1.1	-1.5
Lord Abbett High Yield	255,716,182	2/1/2009	5.9	14.9	-	10.3	10.0	4.0	-2.8	4.0	-1.1	-1.6
<i>Merrill Lynch High Yield II</i>	1.8%			15.0	-	8.9	8.4	2.5	-3.0	2.5	-1.1	-1.5
MacKay Shields High Yield	253,598,177	2/1/2009	5.9	13.0	-	8.7	7.7	2.7	-2.6	2.7	-0.9	-1.4
<i>Merrill Lynch High Yield II</i>	1.8%			15.0	-	8.9	8.4	2.5	-3.0	2.5	-1.1	-1.5

# Non-Traditional Portfolios Summary

## As of December 31, 2014

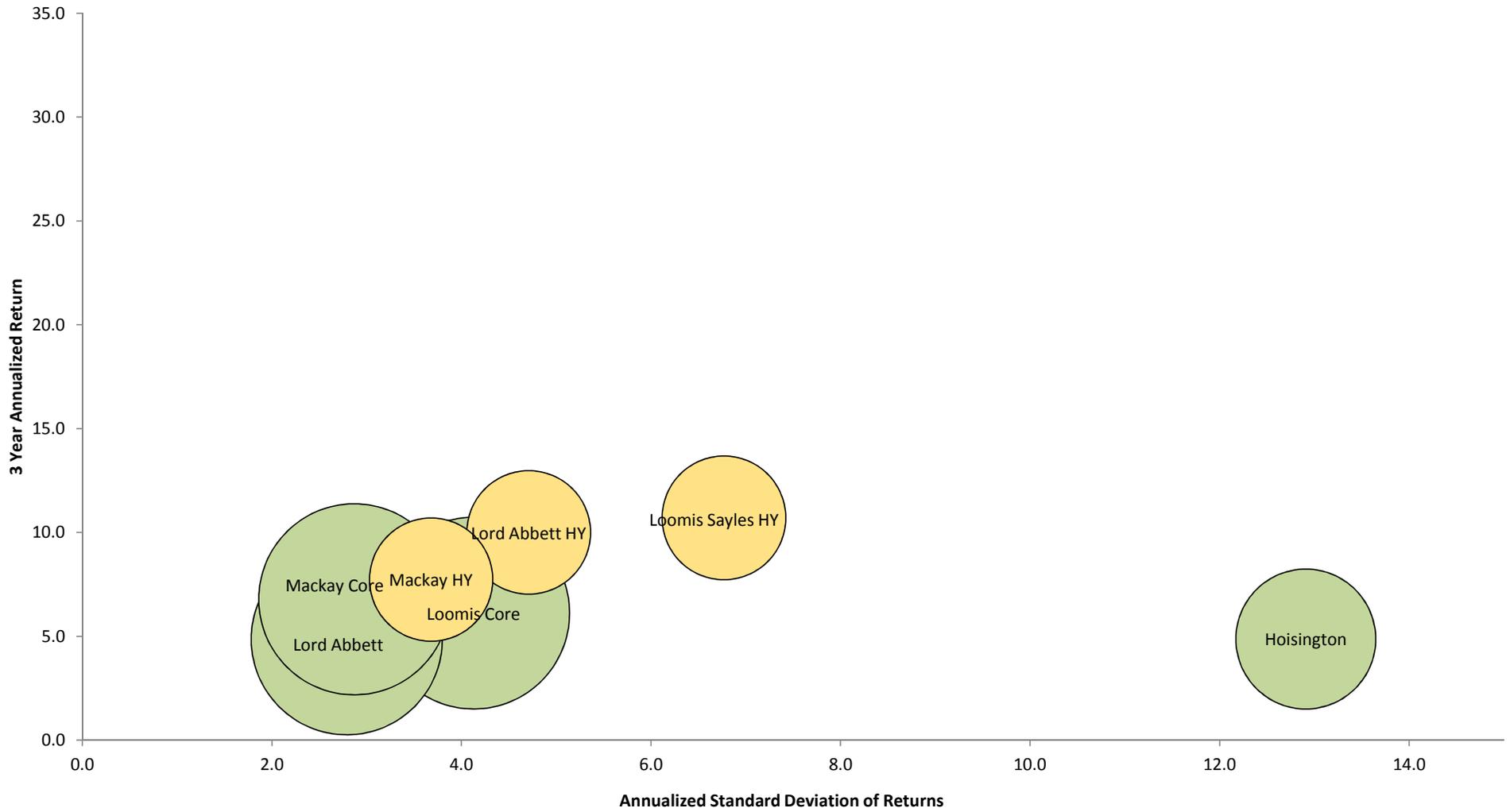
	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Calendar YTD	Last Quarter	Last Month
<b>Master Limited Partnerships</b>												
Chickasaw Capital MLP	393,704,506	2/28/2011	3.8	26.4	-	-	29.4	22.5	-8.3	22.5	-7.3	-1.6
Alerian MLP Index	2.8%			11.8	-	-	11.9	4.8	-9.9	4.8	-12.3	-5.6
Cushing MLP Management	382,138,003	2/28/2011	3.8	20.4	-	-	23.5	19.4	-8.1	19.4	-7.8	-2.5
Alerian MLP Index	2.7%			11.8	-	-	11.9	4.8	-9.9	4.8	-12.3	-5.6
ARI MLP	322,803,703	2/28/2011	3.8	14.0	-	-	15.0	12.9	-8.8	12.9	-8.5	-2.8
Alerian MLP Index	2.3%			11.8	-	-	11.9	4.8	-9.9	4.8	-12.3	-5.6
<b>Private Equity</b>												
Legacy Private Equity Portfolio	61,847,010	10/1/2008	6.3	3.6	-	10.1	15.6	14.6	3.3	14.6	1.4	1.4
Franklin Park Private Equity	400,143,981	4/1/2010	4.8	-	-	0.0	0.0	18.5	7.1	18.5	3.2	3.2
Russell 1000 +4%	3.3%			-	-	19.6	24.6	17.2	7.6	17.2	5.9	0.1
<b>Real Estate</b>												
AEW Real Estate	217,202,202	5/1/2011	3.7	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	1.6%			-	-	-	-	-	-	-	-	-
Heitman Real Estate	220,910,082	5/1/2011	3.7	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	1.6%			-	-	-	-	-	-	-	-	-
L&B Real Estate	193,249,745	4/1/2011	3.8	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	1.4%			-	-	-	-	-	-	-	-	-
Antheus Capital	10,750,005	10/1/2014	0.2	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.1%			-	-	-	-	-	-	-	-	-
Dune	11,662,556	10/1/2014	0.2	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.1%			-	-	-	-	-	-	-	-	-
GreenOak Real Estate	12,221,254	10/1/2014	0.2	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.1%			-	-	-	-	-	-	-	-	-
L&B Golden Driller	1,341,974	7/1/2014	0.5	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.0%			-	-	-	-	-	-	-	-	-
Landmark Realty	3,323,561	12/1/2014	0.1	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.0%			-	-	-	-	-	-	-	-	-
American Realty	6,358,900	12/1/2014	0.1	-	-	-	-	-	-	-	-	-
NCREIF - OEDCE	0.0%			-	-	-	-	-	-	-	-	-
<b>Opportunistic Fixed Income</b>												
PIMCO BRAVO	98,024,338	3/31/2011	3.8	24.2	-	-	29.4	31.3	14.6	31.3	4.2	0.0
Barclays Aggregate	0.7%			4.1	-	-	3.0	5.3	1.9	5.9	1.0	0.7
PIMCO BRAVO II	70,318,081	3/31/2013	1.8	18.1	-	-	-	26.6	10.3	26.6	3.7	0.0
Barclays Aggregate	0.5%			2.2	-	-	-	5.3	1.9	5.9	1.0	0.7

# Three Year Risk/Return Review - Equity Portfolios



<sup>1</sup>Actual OTRS results used when available, composite when necessary.

# Three Year Risk/Return Review - Fixed Income Portfolios



<sup>1</sup>Actual OTRS results used when available, composite when necessary.

## January Manager Status Report

Manager	Mandate	Strategy	AUM	% of Portfolio	Current Status	Reason for Status Change	Status Change Effective Date	Date of Last Review	Date of Next Review	Expectations
Geneva Capital Management, LTD	Domestic Equity	Small Cap	193,106,889	1.38%	On Alert	Acquisition	July 2014	December 2014	June 2015	Maintain continuity of management practices and results

All other managers currently rated In Compliance



LORD ABBETT

January 12, 2015

Ms. Melissa Kempkes  
Oklahoma Teachers Retirement System  
P.O. Box 53524  
Oklahoma City, OK 73152-3524

Dear Melissa:

According to the Investment Policy Statement of Oklahoma Teachers Retirement System, we are required to submit this letter through you to the Board of Trustees requesting exception under the Policy to continue to hold a security whose credit rating has been downgraded to below 'CCC.' On December 24, S&P downgraded from CCC to CCC-, a security that is held in the core plus portfolio we manage on behalf of the OTRS: MHP S.A. 8.25% bonds due 4/2/2020 Cusip: 55302TAC9 in a face amount of \$960,000. Fitch rates the debt CCC and Moody's does not currently rate the issue. As of December 31, 2014, the portfolio's exposure to this issue represented 0.11% (11 basis points) of the portfolio's market value.

MHP S.A., an investment holding company, produces and sells food products in Ukraine, operating in three segments: Poultry, Grain and Other Agricultural Operations. The company was founded in 1998 and is headquartered in Kyiv, Ukraine. The ratings action by S&P was due less to company-specific factors than to its overall assessment of the sovereign's creditworthiness and brings the rating into line with that of the country's.

Given current market conditions, we would prefer to hold the MHP position for now in the expectation that conditions in Ukraine will further stabilize. We will keep this matter under close review and might of course at some point in the future decide that a disposition becomes the better course of action.

We appreciate your and the Board's consideration of this request.

Sincerely yours,

Thomas J. McDonald III  
Client Portfolio Manager

CC: Mr. Douglas Anderson, gregory.w.group

## MEMORANDUM

**TO:** OTRS Board of Trustees and Investment Committee

**FROM:** OTRS Staff (Tom Spencer, Julie Ezell, Lisa Van Liew, and Melissa Kempkes)

**DATE:** January 16, 2015

**RE:** Master Custody/Securities Lending/Commission Recapture RFP Analysis and Recommendation

---

The Board of Trustees of the Oklahoma Teachers Retirement System issued an RFP for Master Custodian, Securities Lending and Commission Recapture Services on October 30, 2014. Responses from the following vendors were received prior to the deadline of December 18, 2014:

BNP Paribas  
BNY Mellon  
J.P. Morgan Chase Bank, N.A. (incumbent)  
Northern Trust  
State Street Bank and Trust Company

Staff and the Gregory W. Group conducted independent reviews of the submitted proposals.

The RFP required that all respondents have a minimum level of experience and qualifications in providing the desired services. All four firms, except BNP Paribas, met the following minimum qualifications, which are listed below:

- Headquartered in the United States
- Minimum of \$1 trillion in total assets under custody
- At least 250 institutional clients
- At least 30 institutional clients with \$1 billion in tax-exempt assets
- Minimum 10 years of providing custody services
- Account Administrator has minimum of five years of custody experience

BNP Paribas only has 22 custody clients and was excluded from consideration.

While not formally rejecting the proposals of the following firms, the staff has identified several negative features of two of the remaining proposals. They are documented below:

BNY Mellon

- Would not be a fiduciary for ForEx trades.
- Insists on limitations of liability for all services provided.
- Retains 3% of class action proceeds.
- Out of pocket expenses passed on to client plus 10% admin fee.
- Offers directed brokerage services rather than commission recapture services.
- Will not agree to an “MFN” clause for securities lending split.
- A little higher client to client service manager ratio than other banks.

- Didn't identify pending litigation and it was very difficult to find information on litigation. The only source was the bank's annual report which referred to unnamed pending securities lending suits as well as suits by former clients and public officials pertaining to ForEx trading practices

#### State Street Bank and Trust Company

- Not a fiduciary for Commission Recapture services or ForEx trading.
- Respondent is not bound by RFP responses and RFP not considered legally binding.
- Didn't answer request to describe indemnification on securities lending program.
- Indicated a pending ERISA class action lawsuit on Securities Lending splits which may or may not be settled. Like BNY Mellon, State Street is facing client lawsuits on ForEx trading practices as well as an action brought by the California Attorney General.
- Will not accept unlimited liability for breaches of any Securities Lending Agreement.
- If a portfolio is being transitioned and State Street isn't handling it, the bank charges \$10,000 plus \$25 per position.
- Will not agree to an "MFN" clause for securities lending split.

The OTRS Staff recommends excluding BNP Paribas, BNY Mellon and State Street from further consideration.

The staff is recommending that the Board interview J.P. Morgan (the incumbent) and Northern Trust. The pros and cons of each vendor are discussed below:

#### Northern Trust

##### **Pros:**

- Northern Trust had the OTRS contract before J.P. Morgan for many years. The bank is still familiar with OTRS.
- Northern Trust has a strong presence in Oklahoma. It has custody contracts with OPERS & OLERS.
- Northern Trust weathered the financial crisis in 2008 and 2009, and eventually made their securities lending clients whole after suffering initial losses in some of their cash collateral pools.
- Global Custody and Securities Lending are Northern Trust's signature businesses with a reputation of stability. The bank consistently derives more than 70% of its revenue from its custody/trust business.
- Northern Trust has not been sued for activities related to FX trading. A few sec. lending clients brought actions over losses they alleged were the fault of Northern. A settlement occurred in early 2014 that was in the neighborhood of \$19 million.
- Northern Trust's online reporting software appears to be more dynamic and intuitive than the incumbent's software. This includes comprehensive compliance monitoring tools that would allow staff to save time and effort researching policy breaches.
- On the surface Northern is the low bidder offering a flat rate of \$40,000 for custody services and an 88%-12% securities lending split.
- Northern represents that it can have fully audited financial reports within 3 to 5 business days after the close of the month.

##### **Cons:**

- While the bank's flat fee is low, the proposal contains a lot of expenses that would be passed on to OTRS. On class actions Northern charges 2% of the proceeds, but at least has a cap of \$1,000

per distribution. On non-U.S. direct investments there are market opening fees, and tax agent fees. There are administrative fees on ForEx activities such as wire fees.

- The Bank didn't accept without condition, several of the contract terms contained in the RFP. While not putting any subject off limits, the bank wants clarification on the audit clause, the extent of their fiduciary status, to what extent agreements are controlled by Oklahoma law, and confidentiality of OTRS data.
- Northern has much shorter document retention periods compared to the other vendors.

### J.P. Morgan Chase

#### **Pros:**

- J.P. Morgan has been under contract with OTRS for several years. The bank knows OTRS and selecting the bank would avoid the need for data and system conversions.
- J.P. Morgan Chase is one of the largest companies in the United States with a huge balance sheet.
- The securities lending indemnification covers borrower default and similar events.
- The bank has 84 public and private pension fund clients.

#### **Cons:**

- Each member of the assigned team for OTRS has more clients to serve than the other vendors. The "Client Executive" has 11 clients and the Relationship Manager has 7 clients.
- Of its top 10 largest custody clients, none of them are pension funds.
- Custody/Securities Lending is not the main focus of J.P. Morgan Chase.
- The bank has lost several significant public plans in the last few years such as the Arizona State Treasurer, the New Mexico Educational Retirement Board, Public Employees Retirement Fund of Indiana, and the Employees Retirement System of Texas.
- The bank has no commission recapture or directed brokerage program.

For a variety of reasons the staff is recommending that the Board interview J.P. Morgan. The bank is the incumbent provider. If selected the staff would not have any transition activity with a new vendor. Sometimes when parties enter into a brand new contract, past problems can be addressed and the relationship can be reset.

Based on the proposals, the staff is of the opinion that Northern Trust has presented the best option of any vendor. If the Board didn't conduct interviews, the staff would recommend the selection of Northern Trust.

Attached to this memo is an analysis that Melissa prepared showing the net financial benefit from picking Northern over the other vendors.

	BNP Paribas	BNY Mellon	JPMorgan Chase & Co	Northern Trust	State Street Global Services (SSGS)
<b>Custody Fee Proposal</b>					
Flat Fee (bps)	Waived (if SL revenues fall below a mutually agreed level, custody fees will be applied)	\$75,000	\$100,000	\$40,000	\$75,000
<b>Securities Lending</b>					
Proposed Securities Lending Split	90/10	1st \$5M: 85/15 over \$5M: 90/10	90/10	88/12	85/15
Estimated Client Revenue	\$18,096,607	\$21,323,545	\$17,901,486	\$15,834,075	\$5,049,906
<b>Additional Fees</b>					
STIF	STIF not offered	10 bps	18-59 bps	10 bps	8 bps
Class Action	-	3% of any proceeds	\$2,000 per claim per account and additional annual monitoring fees	2% of proceeds up to \$1000 per distribution w/ minimum charge of \$5	\$125 per filing of proof of claim per fund
Out-of-Pocket Expenses	Assessed	Assessed + Admin Fee of 10% (max \$250 per item)	Assessed	Assessed	Assessed
Non-US Direct Investments	out-of-pocket expenses (scrip fees, stamp duty)	out-of-pocket expenses (scrip fees, stamp duty)	out-of-pocket expenses (scrip fees, stamp duty)	mkt opening fees, tax agents, tax documentation filing, local agents (in addition to out-of-pocket)	out-of-pocket expenses (scrip fees, stamp duty)
FX Fees	-	-	-	admin fees (cost of wire transfers, corresponding bank fees)	processing fees
Transitions	-	-	-	-	\$10,000 for each event, \$25 per position (waived if they are transition mgr)
<b>Custody Fee</b>					
Total fee over 5 year contract	\$0	\$375,000	\$500,000	\$200,000	\$375,000
<b>Estimated Securities Lending Revenue over 5 year Contract</b>					
Assumes earnings remain constant over the contract (based on FY13 YE data)	\$90,483,035	\$106,617,725	\$89,507,430	\$79,170,375	\$25,249,530
<b>Total Benefit to OTRS</b>					
Estimated Securities Lending Revenue Net of Custody Fees over 5 years	\$90,483,035	\$106,242,725	\$89,007,430	\$78,970,375	\$24,874,530

# THE OKLAHOMA TEACHERS RETIREMENT SYSTEM

## REQUEST FOR PROPOSAL

#715-15-1002

### INVESTMENT CONSULTING SERVICES

The Board of Trustees of the Oklahoma Teachers Retirement System (OTRS) is soliciting proposals from investment consulting firms to provide investment and financial consulting services on a contractual basis. OTRS administers a defined benefit plan. It also has responsibility to provide a 403(b) plan that is largely outsourced to a private vendor. The current vendor of the 403(b) plan is VOYA (formerly ING). The purpose of this Request for Proposal (RFP) is to provide information about OTRS and establish the specifications and requirements for submitting a proposal. The term “Vendor” as used in this RFP shall mean the company, firm or individual submitting proposals for consideration.

OTRS reserves the right to reject any or all proposals submitted. There is no express or implied obligation for OTRS to reimburse Vendors for any expenses incurred in preparing proposals in response to this RFP. In the event that none of the proposals are satisfactory to OTRS, no selection will be made. Proposals submitted in response to this RFP become the property of OTRS and are subject to public inspection. OTRS reserves the right to modify the RFP contents and requirements at any time prior to the submission deadline.

This RFP is comprised of eleven (11) sections, and sixteen (16) pages total, as follows:

<b>Section</b>		<b>Page #</b>
I.	Proposal Cover Sheet (to be returned with Proposal)	2
II.	Mandatory Requirements for Submitting a Proposal	3
III.	Background Information	5
IV.	Scope of Assignment	7
V.	Preferred Criteria and Qualifications of the Investment Management Firm	8
VI.	Timeline	9
VII.	Communications with OTRS	9
VIII.	General Terms and Conditions	10
IX.	Questionnaire	11
X.	Fee Quote	15
XI.	Example of Client Reporting Package	16

This RFP can be found at the OTRS website at [www.ok.gov/trs](http://www.ok.gov/trs). If you are unable to download the document you can also obtain an electronic copy of this RFP through e-mail. Send your request to Donna Spurrier at [Donna.Spurrier@trs.ok.gov](mailto:Donna.Spurrier@trs.ok.gov). Include the name of the RFP and the proposal number in your request. All responses to this RFP must be submitted in accordance with the instructions contained in the RFP. Electronic responses to this RFP will not be considered.

Regardless of the manner in which the RFP document is received by the Vendor, the contents of the RFP may not be altered in any way. The Vendor’s Affidavit and all questions must be identically reproduced in the submitted proposal. Any alterations to the contents of the RFP document will be grounds for rejection from consideration or termination of a resulting contract. By submitting a proposal, it is agreed by the Vendor that any misleading or false information given may be grounds for rejection from consideration, or termination of any resulting contract whenever and however discovered.

**I. PROPOSAL COVER SHEET**

(must be signed, notarized and submitted with the original proposal)

Proposal Number	Agency Requisition Number	Proposal Deadline
# 715-15-1002 (Investment Consulting Services)	15-1002	must be received by <b>March 6, 2015</b>

Vendor Identification:

Name of Firm:	_____
Address:	_____
City/State/Zip Code:	_____
Telephone Number:	_____
Facsimile Number:	_____

**VENDOR'S AFFIDAVIT**

STATE OF \_\_\_\_\_ )  
 ) SS:  
 COUNTY OF \_\_\_\_\_ )

\_\_\_\_\_ (Print Name), of lawful age, being first duly sworn, on oath says that:

- (S)he is the duly authorized agent of \_\_\_\_\_, the vendor submitting this proposal which is attached to this statement for the purpose of certifying the facts pertaining to the existence of collusion among vendors and between vendors and state officials or employees, as well as facts pertaining to the giving or offering of things of value to government personnel in return for special consideration in the letting of any contract pursuant to the proposal to which this statement is attached;
- (S)he is fully aware of the facts and circumstances surrounding the making and submitting of this proposal and has been personally and directly involved in the proceedings leading to the submission of such proposals; and
- Neither the Vendor nor anyone subject to the Vendor's direction or control has been a party: a) to any collusion among vendors in restraint of freedom of competition by agreement to propose a fixed price or to refrain from submitting a proposal; b) to any collusion with any state official or employee as to quantity, quality or price in the prospective contract, or as to any other term of such prospective contract; nor, c) in any discussions between vendors and any state official concerning exchange of money or any other thing of value for special consideration in the award of this prospective contract; d) to paying, giving or donating or agreeing to pay, give or donate to any officer or employee of the State of Oklahoma, any money or other thing of value, either directly or indirectly, in procuring this prospective contract.
- The information contained in this proposal is true, correct and accurate as presented.

\_\_\_\_\_  
Name/Title

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_

\_\_\_\_\_  
Notary Public

(seal)

My commission expires: \_\_\_\_\_

## II. MANDATORY REQUIREMENTS FOR SUBMITTING A PROPOSAL

- A. Proposals must be received by the deadline only at the following address:

**Oklahoma Teachers Retirement System  
Investment Consulting Services Proposal  
Attention: Donna Spurrier  
2500 N. Lincoln Blvd., 5<sup>th</sup> Floor  
Oklahoma City, Oklahoma 73105**

- B. The deadline for receipt of proposals is **4:30 p.m.** Central Time, on March 6, 2015. Proposals submitted to the incorrect address or location or received after this date and time will be rejected and will not be considered.
- C. The original proposal must contain the proposal cover sheet, fully completed, signed and notarized. The Vendor shall submit an original printed version of its proposal, four (4) hard copies, and one (1) electronic versions of the complete proposal on a CD or thumb drive in PDF format that is searchable by key words. The CD or thumb drive must be clearly marked with the Vendor's name and proposal number.

The original proposal, the proposal cover sheet, four (4) hard copies, and the thumb drive must be submitted together in one completely sealed package, box or envelope. It must be clearly marked "OTRS Investment Consulting Proposal" on the outside face of the package containing the proposal in order that the receiving agent (see paragraph A above) can identify it without opening the package.

- D. Proposals may be either mailed or hand-delivered. If the proposal is sent by mail or express delivery service, the responding Vendor shall be responsible for actual delivery of the proposal to the proper address before the deadline. All timely proposals become the property of OTRS.
- E. All proposals, once opened, are considered to be public record and shall be available for viewing and reproduction by any person.
- F. In submitting this proposal, the Vendor must agree to an audit which provides that books, records, documents, accounting procedures, practices or any other items of the Vendor relevant to the proposal or the services provided thereunder, are subject to examination by OTRS and the Oklahoma State Auditor and Inspector.
- G. In an effort to clarify any issues in this RFP, OTRS will respond only to questions that are presented through e-mail. Questions should be submitted to Donna Spurrier, Business Manager at [Donna.Spurrier@trs.ok.gov](mailto:Donna.Spurrier@trs.ok.gov). All questions and answers will be consolidated into a single Q&A document.

All questions must be received by **5:00 p.m.** Central Time on **February 13, 2015**. The Q&A document will be posted on the OTRS website at [www.ok.gov/trs](http://www.ok.gov/trs) on or after **February 20, 2015**. This will be the only distribution method for the Q&A document.

- H. It is the responsibility of the Vendor to ensure compliance with all requirements and deadlines. Proposals that are not in compliance with the RFP requirements may be rejected. All proposals will be reviewed to determine if they satisfy the mandatory criteria in this RFP. Proposals not satisfying the mandatory criteria will be rejected.

- J.** All costs of preparation and presentation associated with responding to this RFP will be the responsibility of the Vendor. Vendors may be asked to make a presentation before the Board if selected as a finalist. None of the costs associated with this presentation will be reimbursed by OTRS.
- L.** The selection of investment consultants for the state retirement systems is specifically exempt from the competitive bidding procedures established by Oklahoma Statutes (see 74 Oklahoma Statutes §85.7). OTRS reserves the right to request additional information from any vendor and to accept or reject any proposal without specifying the reason for its actions. OTRS reserves the right to request additional proposals. OTRS reserves the right to renegotiate for lower fees at any time with any Vendor.
- M.** The Board reserves the right to award all, part, or none of this contract. The Board reserves the right to award contracts to more than one investment consultant if deemed appropriate and desirable.
- N.** The Vendor shall be bound by the information and representations contained in any proposal submitted. Said proposal is deemed to be a binding offer on the part of the Vendor.
- O.** Submission of a proposal in response to this RFP evidences the Vendor's acceptance of the terms and conditions within the RFP.
- P.** OTRS prohibits the payment of a finder's fee in any form. The Vendor must certify that no finder's fee or finder's commission has been paid or shall be paid to any individual or organization from the establishment of this investment consulting relationship with OTRS.
- Q.** All Vendors must:
  - 1.** Acknowledge and agree to be a fiduciary to the plan pursuant to Section 17-106.2 of Title 70 of the Oklahoma Statutes.
  - 2.** Agree that any resulting investment consulting contract and services will be subject to and interpreted by Oklahoma law.
  - 3.** Agree that this RFP and the Vendor's response will be incorporated by reference to any resulting investment consulting agreement.
  - 4.** Answer, to the best of its abilities, all questions in this RFP in a succinct manner and in the order presented. Do not add appendices to the end of this document unless specifically asked to do so. Please assume the term "current" herein refers to June 30, 2014 unless otherwise noted.
  - 5.** Fully disclose any proposed subcontracting of any of the required services.

### III. BACKGROUND INFORMATION

#### A. Legal Authorization

The Board of Trustees of the Oklahoma Teachers Retirement System (OTRS) is charged with the investment of approximately \$14 billion in combined defined benefit retirement funds for education employees in addition to the administration of a 403(b) plan. Total assets in the 403(b) plan are approximately \$210 million. The OTRS Board has previously approved a broad array of investments available to participants in that plan. The statutory provision related to the 403(b) plan is set forth in Section 17-102.3, of Title 70 of the Oklahoma Statutes.

#### B. Board Composition

OTRS is administered by a Board of Trustees composed of 14 members including the State Superintendent of Public Instruction or designee, the Director of the Office of Management and Enterprise Services or designee, and members appointed by the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the State Senate, and one non-voting member appointed by a retired educators association.

#### C. Support Services

OTRS has a current authorized staff of 52 employees. The Executive Director is the chief administrative officer of OTRS.

#### D. Allocation of Assets

The asset allocation target mix for OTRS as of June 30, 2014, is as follows:

##### TARGET MIXES FOR OTRS:

	TARGET
All Cap/Large Cap Domestic Equities	17.0%
Mid Cap Domestic Equities	13.0%
Small Cap Domestic Equities	10.0%
Large Cap International Equities	11.5%
Small Cap International Equities	6.0%
Core Fixed Income	17.5%
High Yield Fixed Income	6.0%
Cash Equivalents	0%
Real Estate	7.0%
Private Equity	5.0%
Master Limited Partnerships	7.0%

## **E. Investment Services Providers**

The investment managers listed below manage the equities, fixed income and other portfolios for OTRS. Responding Vendors should anticipate that there could be one or more searches if needed.

### **CUSTODIAN BANK and SECURITIES LENDING**

JP Morgan Chase

### **DOMESTIC EQUITY MANAGERS**

Advisory Research, Inc., All-Capitalization  
Aronson + Johnson + Ortiz, Mid-Capitalization Core  
Cove Street Capital, LLC, Small-Capitalization Value  
Epoch Investment Partners, Inc., All-Capitalization  
Frontier Capital Management, Mid-Capitalization Growth  
Frontier Capital Management Co. LLC, Small-Capitalization Value  
Geneva Capital Management Ltd., Small-Capitalization Growth  
Hotchkis & Wiley Investment, Large-Capitalization Value  
Hotchkis & Wiley Investment, Mid-Capitalization Value  
Northern Trust, Domestic Equity Index  
Neumeier Poma Investment Counsel LLC, Small-Capitalization Growth  
Sawgrass Asset Management, LLC, Large-Capitalization Growth  
Shapiro Capital Management Company, Inc., Small-Capitalization Value  
State Street Global Advisors, Domestic Equity Index  
Wasatch Advisors, Inc., Small-Capitalization Growth  
Wellington Management Company, LLP, Mid-Capitalization Growth

### **FIXED INCOME MANAGERS**

Hoisington Investment Management Company, Interest Rate Sensitive  
Loomis, Sayles & Company, LP, Active  
Lord Abbett & Company, LLC, Core+ Active  
MacKay Shields, LLC, Core+ Active

### **INTERNATIONAL EQUITY MANAGERS**

Advisory Research, Inc., Small Capitalization  
Causeway Capital Management, LLC  
Epoch Investment Partners, Inc., Small Capitalization  
Thornburg Investment Management, Inc.  
Wasatch Funds, Small Capitalization  
Wellington Management Company, LLP, Small Capitalization

### **MASTER LIMITED PARTNERSHIPS**

Advisory Research, Inc  
Chickasaw Capital Management  
Cushing MLP

### **OPPORTUNISTIC FIXED INCOME**

PIMCO BRAVO

PIMCO BRAVO II

### **PRIVATE EQUITY MANAGERS**

Franklin Park, LLC, Private Equity

REAL ESTATE  
 AEW Real Estate  
 Heitman Real Estate  
 L & B Real Estate  
 Antheus Capital  
 Dune  
 GreenOak Real Estate  
 L & B Golden Driller  
 Landmark Real Estate Partners  
 Starwood Capital Group

The 403(b) plan is currently outsourced to VOYA in a bundled arrangement with the firm providing recordkeeping services and certain investment options. VOYA provides the recordkeeping for all investment options. Participants are offered 16 mutual funds and investment options managed by various fund families. The current investment options offered through the 403(b) plan are:

<b>Name</b>	<b>Type of Investment</b>
American Funds EuroPacific Growth Fund®	Global/International
ING Fixed Plus Account III	Stability of Principal
VOYA FMR Diversified Mid Cap Portfolio	Small/Mid/Specialty
VOYA Index Solution 2015 Portfolio	Lifecycle-Index
VOYA Index Solution 2025 Portfolio	Lifecycle-Index
VOYA Index Solution 2035 Portfolio	Lifecycle-Index
VOYA Index Solution 2045 Portfolio	Lifecycle-Index
VOYA Index Solution 2055 Portfolio	Lifecycle-Index
VOYA Index Solution Income Portfolio	Lifecycle-Index
VOYA JPMorgan Small Cap Core Equity Portfolio	Small/Mid/Specialty
VOYA Invesco Equity and Income Portfolio	Large Cap Value
VOYA Large Cap Value Portfolio	Large Cap Value
VOYA Russell™ Large Cap Index Portfolio	Large Cap Value
VOYA INVESCO Growth and Income Portfolio	Large Cap Value
Loomis Sayles Investment Grade Bond Fund	Intermediate-Term Bond
American Funds The Growth Fund of America®	Large Cap Growth

Services of System vendors (e.g., investment managers, master custodian, defined contribution recordkeeper, investment consultant) are competitively bid through an RFP process. With the exception of the RFP for investment consulting services, the Investment Consultant is expected to work with Staff to conduct each of these RFP/search assignments.

#### **F. Investment Guidelines**

A copy of the current “Statement of Policy Guidelines and Investment Objectives” for OTRS is available on the OTRS website at [www.ok.gov/trs](http://www.ok.gov/trs).

#### **IV. SCOPE OF ASSIGNMENT**

OTRS is seeking the services of a general investment consultant to provide consulting advice relating to all investment activities of OTRS and the selection of investment options in the 403(b) plan. The Investment Consultant works directly with the staff, primarily the investment staff, to coordinate the presentation of routine and special topics to the Investment Committee and Board of Trustees. The Investment Consultant will be responsible for preparing and presenting all supporting materials. Currently OTRS master custodian, J.P. Morgan Chase, calculates all performance results for OTRS pension investments. The Investment Consultant will be expected to use these performance results from the custodian to produce quarterly performance reports.

The Investment Consultant will be responsible for presenting monthly and quarterly performance reviews of the defined benefit plan at the Investment Committee and Board meetings. The Investment Consultant will work with OTRS investment managers and custodian to compare and aid in the reconciliation of performance results.

The Investment Consultant will aid OTRS in monitoring compliance with the Investment Policy as well as suggesting changes thereto. The Investment Consultant will be expected to monitor and report to the investment staff any material developments impacting investment managers retained by OTRS. Additionally, the Investment Consultant will be expected to attend any special meetings as needed and to work with the investment staff to assist in the research of any special topics beyond those identified below.

OTRS retains external firms to provide various investment-related services. Currently these services include investment management, securities lending, commission recapture, 403(b) plan administration and global custodian. Other investment-related external service providers, though none is currently anticipated, may be required by OTRS.

If OTRS determines that an investment-related external services provider search is needed, the Investment Consultant will work with the investment staff to construct the RFP, evaluate responses, and prepare and present a detailed report to document the search. The report would include a detailed chronology of the search along with evaluation methodology, exhibits and recommendations. On-site visits with Staff and Board members in conjunction with searches may be requested.

The Investment Consultant will review and evaluate all of the 403(b) plan investment options at least annually. The Investment Consultant shall also assist in the selection of replacement investment options as necessary.

The Investment Consultant will provide the Consultant's Report required for the Investment Section of the annual Comprehensive Annual Financial Reports (CAFRs) for OTRS.

Once every six to seven years, the Investment Consultant works with the investment staff to coordinate OTRS preparation of and participation in the Annual Oklahoma Public Fund Trustee Education Conference. It is anticipated that OTRS will be the host retirement system around September 2016.

## V. CRITERIA AND QUALIFICATIONS OF THE INVESTMENT CONSULTING FIRM

- A. Vendors should have substantial experience consulting to public defined benefit and defined contribution plans. The following criteria will apply and exceptions will not be granted:
1. Investment consulting must represent your firm's (including all affiliates) focus and only line of business. If the vendor derives revenue from other sources of business (i.e. investment management, brokerage, or from the sale of services to investment managers, etc) it will be deemed as having failed to meet the minimum criteria.
  2. The proposed investment consultant must have acted as full service consultant to at least 3 (three) public pension plans, with at least one of those clients having \$1 billion in assets, as of June 30, 2014.
  3. The senior investment professionals in charge of the proposed consulting services must have at least ten years of institutional experience within the industry.
- B. The fee quotes set forth in the response to the RFP will be a factor in determining semi-finalists for further consideration.
- C. Investment Guidelines

The "Statement of Policy Guidelines and Investment Objectives" for OTRS may be found on the OTRS website ([www.ok.gov/trs](http://www.ok.gov/trs)).

## VI. TIMELINE

The following timeline is an estimate and may be adjusted at OTRS discretion any time during this procurement process.

TASK	DATE
Distribution of RFP	January 22, 2015
Deadline for questions submitted in writing via e-mail (no later than 5:00 p.m. Central Time)	February 13, 2015
Date for answers to questions	On or after February 20, 2015
Proposals due (no later than <b>4:30 p.m.</b> Central Time)	March 6, 2015
Finalist presentations (if necessary)	March 25, 2015
Award business	March 25 2015
Estimated contract start date (date contingent upon final negotiations)	July 1, 2015

## VII. COMMUNICATION WITH OTRS

In an effort to clarify any issues in this RFP, OTRS will respond only to questions that are presented as described in Section II.G above. Vendors are responsible for checking the website periodically for updates to the RFP. Telephone questions will not be accepted.

OTRS policy prohibits direct contact between prospective service providers and OTRS Board members, consultants, or staff during this RFP process. This does not include communication with OTRS incumbent investment consultant for normal business not related to this selection process. From the date of release of this RFP until a Vendor is selected and a contract is executed and approved, all contacts and communications regarding this RFP are restricted to the Q&A process. Exceptions include communications with the OTRS staff member identified in Section II.G and OTRS staff members who are designated to conduct negotiations, participate in presentations, and contract award and execution, while they are engaged in those activities. Violation of these conditions may result in rejection of a Vendor's proposal.

Vendors who have submitted a proposal will not necessarily be notified of the Board's decision after the final selection has been made. The announcement of the preferred Vendor, if any, may be the only form of communication between the System and the Vendors. Telephone or other inquiries concerning this proposal after the proposal deadline are discouraged.

## **VIII. GENERAL TERMS AND CONDITIONS**

### **A. Applicable Laws and Courts**

This solicitation and any resulting contract shall be governed in all respects by the laws of the State of Oklahoma, and any litigation with respect thereto shall be brought in the District Court of Oklahoma County, Oklahoma. The Vendor shall comply with all applicable federal, state and local laws, rules and regulations.

### **B. Ethics in Public Contracting**

By submitting their bids or proposals, Vendors certify that their bids/proposals are made without collusion or fraud and that they have not offered or received any kickbacks or inducements from any other Vendor, supplier, manufacturer or subcontractor in connection with their bid/proposal, and that they have not conferred on any public employee having official responsibility for this procurement transaction any payment, loan, subscription, advance, deposit of money, services or anything of value, in exchange for procuring this contract.

### **C. Qualifications of Vendors**

OTRS may make such reasonable investigations as deemed proper and necessary to determine the ability of the Vendor to perform the services/furnish the goods, and the Vendor shall furnish to OTRS all such information and data for this purpose as may be requested. OTRS reserves the right to make a site visit at the offices of the Vendor prior to award to satisfy questions regarding the Vendor's capabilities. OTRS further reserves the right to reject any proposal if the evidence submitted by, or investigations of, such Vendor show that the Vendor is not properly qualified to carry out the obligations of the contract and to provide the services and/or furnish the goods contemplated therein.

### **D. Business Continuity**

The Vendor must indicate any recent or anticipated changes in its corporate structure such as mergers, acquisitions, new venture capital, stock issue, etc. The Vendor agrees to present to OTRS a business continuation plan for the services provided in this contract in the event of a natural or other disaster.

E. Assignment of Contract

The contract shall not be assignable by the Vendor in whole or in part without the written consent of OTRS.

F. Period of Contract

It is anticipated that the initial contract will begin on July 1, 2015. Thereafter, the contract may be renewed by the Board annually for up to five additional one-year contract periods, at the Board's discretion. The Board of Trustees reserves the right to terminate the contract upon 30 days' notice, with or without cause.

G. Ownership of Data and Work Product

There is a presumption that all work product generated for OTRS under this contract, as well as all data compiled by the Vendor while performing this contract, shall become the sole property of OTRS. OTRS must be given reasonable access to all such work product or data compiled by the Vendor in the performance of this contract.

H. Limitation of Liability, Hold Harmless Clauses & Indemnity

The State of Oklahoma and its agencies are constitutionally barred from limiting the liability of a private Vendor. Agencies are similarly prohibited from holding a private entity harmless from liability or providing indemnity to a private entity. The contract between the successful Vendor and OTRS will not have any such terms.

## IX. QUESTIONNAIRE

A. Organization

1. List your firm's name, address, and year founded, as well as the name, title, telephone, email address and facsimile numbers for the individual(s) responsible for new business contacts.
2. Describe the firm's ownership structure. Discuss the financial condition of your firm based on the most recent financial statements and annual report if an annual report is published.
3. Describe the services your firm provides and disclose all sources of revenue (organized by line of business).
4. Provide an organizational chart for your firm and specifically for your investment consulting and research divisions.
5. Has your firm undergone any restructuring or had any major organizational changes during the past eight years? Do you anticipate any ownership or organizational changes during the next two years? If so, explain.

6. Describe your succession plans for the management of the firm and the continuity of leadership within the investment consulting team.
7. Over the past five years, has your organization, affiliates, parent company, officers or principals been involved in litigation, legal proceedings, or SEC investigations related to your firm's activities? If so, provide a brief explanation including the current status and/or the resolution of this action.
8. Describe the compensation/incentive structure for the consulting professionals and/or the professional staff.
9. For each of the last five years, provide the following information regarding the firm's number of investment professionals. Provide the roles of these individuals as well.

Year Ending June 30	Investment Professional Additions	Investment Professional Departures	Total Investment Professionals
2014			
2013			
2012			
2011			
2010			

10. Detail the team members who would be responsible for the OTRS consulting relationship. The answer should include a brief biography of each professional.
11. Discuss the individuals' (listed above) account responsibilities, specifically the number of accounts managed, location and dollar value of assets under management. How are new accounts assigned to each consultant at the firm?
12. Has the firm experienced turnover at the senior management level in the last five years? If so, describe the situation including reason for departures/additions.
13. Does the firm receive direct or indirect compensation from any party other than consulting clients? Disclose any existing, perceived or potential conflicts of interest in regard to your consulting advice. How does the firm manage conflicts of interest (be specific)?

**B. Consulting Services**

1. Is your firm capable of fulfilling all of the items in Section IV Scope of Assignment and be a named fiduciary of the System?
2. Detail the client profile of the firm using the format below.

A. ENTIRE CONSULTING GROUP – **Number of plans** in each category:

Size (millions \$)	Public DB Plan	Corporate DB Plan	DC Plan	Endowments/ Foundations	Other
0-500					
501-1,000					
1,001-10,000					
Over 10,000					

B. PROPOSED CONSULTANT ONLY - **Number of plans** in each category:

Size (millions \$)	Public DB Plan	Corporate DB Plan	DC Plan	Endowments/ Foundations	Other
0-500					
501-1,000					
1,001-10,000					
Over 10,000					

3. Provide the approximate firm-wide client turnover using the format below.

	2014	2013	2012	2011
# of Clients Gained				
Assets (\$MM) Gained				
# of Clients Lost				
Assets (\$MM) Lost				

4. Specify the investment professionals (up to ten) who you consider key to managing the OTRS relationship.

Key Investment Professionals				
Name	Title/Current Responsibilities	Years With Firm	Years of Industry Experience	% Time Devoted to Consulting/ Research

5. Describe in detail the investment philosophy and strategy that forms the basis for consulting advice. What is the theoretical basis for your investment philosophy?
6. How is the strategic investment policy developed?
7. Describe the decision-making structure within the firm. Is capital markets research conducted by the consultant? Who conducts manager research (specify the team)?
8. Explain your firm's position on the use of active versus passive management in the major asset classes.
9. Describe the manager research/manager selection process, including the firm's competitive advantage relative to peers. Be sure to include quantitative and qualitative considerations (i.e. criteria for screens and how the investment staff is evaluated).
10. Describe the criteria for placing an investment manager on a watch list and/or terminating the relationship.
11. Do you track the consultant's manager selection results? If not, why?
12. What are the strengths and weaknesses of your investment strategy and the research process?
13. What systems are used to analyze client portfolios?
14. How are client objectives assessed, and how is success measured?
15. Does the firm maintain in-house peer universes or is the data derived from a third party? If data is derived outside the firm, describe the service.
16. Does the firm maintain in-house investment manager universes or is the data derived from a third party? If data is derived outside the firm, describe the service.
17. Provide your most current capital market assumptions and a brief rationale for the expected return for each asset class.
18. How are guidelines monitored to ensure manager compliance?
19. Describe the firm's flexibility in customizing client reports. Provide an example of a typical client reporting package (this should be attached to section XI).
20. What is the typical turn-around time for client reporting, expressed in days after period end?
21. Provide three references for the largest public fund clients who employ your firm. Include a contact name, phone number, and the market value of the assets your firm advises for each reference at inception and currently.
22. Provide the name, contact name, and phone number of three past consulting clients that terminated your firm during the last three years, the reason for termination and the dollars advised at the termination date.

23. Is your firm an SEC registered advisor or is it exempt from registration? If applicable, submit a copy of your most recent Form ADV, Parts I and II for the firm, as well as all Investment Adviser Representative Report Summary for any advisors in your firm that will be performing any work on this account if the contract is awarded.
24. Does the firm carry errors and omissions insurance? If so, what is the level of coverage?
25. Does the firm carry fiduciary liability insurance? Is so, what is the level of coverage?

## **X. FEE QUOTE**

The fee quote set forth in the response to the RFP will be a factor in determining the successful Vendor. In responding to this RFP you are required to quote your fees according to the terms as specified in the following format. The format is a fixed fee quote and applies to all assets administered by the System. You are encouraged to have your legal counsel approve our terms prior to submitting your RFP.

The proposal should include the fee for the initial contract period of July 1, 2015 through June 30, 2016, and annual fee amounts for each of five years starting on the contract anniversary date of July 1st. This fee should be inclusive of the complete range of investment consulting services including travel and other out-of-pocket expenses and is the only fee that OTRS will pay.

The fee quote may also have an additional amount to cover travel and other out-of-pocket expenses related to due diligence trips to interview or investigate prospective investment managers. This must be quoted in a “not to exceed” amount. Any such expenses will be reimbursed by OTRS based on documented expenses. OTRS may only reimburse the vendor up to the “not to exceed” amount.

The fixed fee amount per year need not be the same amount per year. As long as the fee for each year is fixed, and the total of the fees over the possible contract term are fixed, it will be an acceptable fee proposal.

You may make the following assumptions in your fee estimate:

- The primary consultant is required as part of the contract to attend twelve (12) regularly scheduled Board meetings per year, and twelve (12) investment committee meetings which are currently held the afternoon before the Board meetings.
- Twelve monthly performance reports and four quarterly performance reports are required each year for OTRS. Base your quote using rates of return calculated by OTRS custodian for all pension accounts.
- At least one Asset Allocation Study (normally performed once every three years) with the next scheduled study to be done in May of 2018.
- Special research projects – estimate three over the next five years.
- All other anticipated projects as covered in the *Scope of Assignment* in Section IV.

State any additional assumptions required for the quote.

	Total Fee	“Not to Exceed” Expenses
Initial Contract Period (Year 1)		
Year 2		
Year 3		
Year 4		
Year 5		
Year 6		

**XI. Example of Client Reporting Package**

Attach an example of the monthly or quarterly (specify) client reporting package here.