TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
Investment Committee Meeting
Tuesday, April 15, 2014 – 3:00 PM
TRS Administration Board Room
2500 N. Lincoln Blvd., 5th 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 LORD ABBETT CLO DISCUSSION**

4. **DISCUSSION AND POSSIBLE ACTION ON CUSTODIAN CONTRACT WITH JPMORGAN**

5. **DISCUSSION AND POSSIBLE ACTION ON 403(b) CONTRACT WITH ING**

6. **DISCUSSION AND POSSIBLE ACTION ON L&B SPECIAL PORTFOLIO**

7. **DISCUSSION AND POSSIBLE ACTION ON PIMCO BRAVO CAPITAL CALLS AND RETURN HISTORY**

8. **DISCUSSION AND POSSIBLE ACTION ON L&B NON-CORE PORTFOLIO CONTRACT**

9. **QUESTIONS AND COMMENTS FROM TRUSTEES**

10. **ADJOURNMENT**

ALL BOARD MEMBERS ARE ENCOURAGED TO ATTEND INVESTMENT COMMITTEE MEETINGS

INVESTMENT COMMITTEE:
Chair: Bill Peacher
Members: James Dickson, Roger Gaddis, Jill Geiger, Vernon Florence, Gary Trennepohl

April Manager Status Report

Material Status										
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**
Thornburg Investment Management	International Equity	All Cap	471,494,254	3.49%	**On Alert**	Performance Issues	November 2013	November 2013	June 2014	Improvement in performance compared to peers and benchmark.

All other managers currently rated In Compliance

LORD ABBETT

March 4, 2014

Dear Ms. Kempkes,

As an investment-led and investor-focused organization, Lord Abbett is dedicated to developing strategies designed to take advantage of market opportunities. Accordingly, we have recently begun to include collateralized loan obligations (CLOs) and may wish to include collateralized debt obligations (CDOs) or other similar collateralized securities in some of our fixed income strategies. We believe that CLOs, which constitute a roughly $300 billion market, and CDOs, which constitute a roughly $150 billion market, represent attractive areas of value for our clients.

CLOs are asset-backed securities predominantly collateralized by loan obligations within a CLO investment portfolio. CDOs, on the other hand, are primarily collateralized by high yield bonds. Investments in both CLOs and CDOs are typically offered in various classes or tranches. In general, the risks associated with investments in CLOs and CDOs are correlated to the underlying collateral and the tranche in which the investment is made. Currently, our portfolio management team is confining itself to the senior-most tranche of any particular CLO, CDO or similar security. By virtue of their structure, Lord Abbett will have limited transparency with respect to the underlying collateral. Additionally, the liquidity of CLOs and CDOs might be less than that of most other investment-grade securities although we take the difference in liquidity into account in the analysis of their relative value. CLOs and CDOs are pooled investment vehicles that are actively managed by a collateral manager that collects a fee for its services, which fee will be indirectly borne by the vehicle's investors.

We believe that CLOs, CDOs and similar securities, as forms of asset-backed securities, constitute permitted investments under your current investment management policy and guidelines. Nonetheless, in our desire to be perfectly transparent and because we have not utilized CLOs or CDOs in our management of your portfolio in the past, we wanted to communicate our interest in investing in such securities.

We would be pleased to discuss this with you in greater detail should you have any questions or concerns. Feel free to contact me at (201) 827-2151 or drobbins@lordabbett.com. If we do not hear back from you on this matter prior to Apriol 10, 2014, we will understand that to mean that you agree that CLOs, CDOs and other similar securities are permitted under the guidelines, and we will commence to invest in such securities as attractive opportunities present themselves.

Respectfully yours,

David A. Robbins
Director, Institutional Investor Services

Lord Abbett mutual funds are managed by Lord, Abbett & Co. LLC, and shares are distributed by Lord Abbett Distributor LLC.

L&B Real Estate Fee Proposal Comparison

Non-Core Real Estate Investments

March 2014

Fee Proposal

- L&B submitted a standard model fee proposal for their non-core portfolio. Their proposals included different types of fees and expenses that related to each of the three property types under consideration. There was a fourth property type (structured finance) that the Committee elected to not pursue.

- We were tasked to request and review alternative fee proposals. The alternative proposals were meant to provide boundaries for potential fee negotiations. The specific boundaries we asked for were all management fee vs. all carried interest. L&B complied with some minor caveats.

- We were also asked to determine their willingness and/or ability to co-invest in the OTRS portfolio. They responded that they might be able to make modest co-investments on the same terms as OTRS. Other issues were discussed.

- We worked with L&B Realty to develop reasonable assumptions related to the potential investments. These related to cash outlays and project timelines. These assumption sets were used to form fee comparisons. The fee comparisons are not return forecasts. No probabilities of occurrence were assigned to any of return assumptions.

Summary of Potential non-Core Investments

Strategy	Typical Equity Contribution	Total Return Goal
Build to Core	$15 mm to $50 mm	16%
Memory Care	Approximately $9 mm	18%
Special Opportunities	?	?

Build-to-Core

Original proposal included several types of expenses paid to L&B Realty:

- Acquisition fee: 0.40% of property cost
- Construction Management fee: $100,000/year
- Incentive fee: 20% of return over 10% IRR

Carried Interest Proposal:

- Construction Management fee: $75,000/year
- Incentive fee: 20% of return over 8% IRR

Management Fee Proposal:

- Acquisition fee: 0.50% of property cost
- Construction Management fee: $100,000/year
- Disposition fee: 0.50% of property sale price

Build to Core Fee Comparison

- We reviewed the fee proposals using scenario analysis. The fee proposals were compared using a common set of assumptions with varying return outcomes.
- The projects were assumed to have three year lives and total development costs of $45 million.
- The projects each included $18.0 million in equity and $27.0 million in construction debt.

Scenario 1	Gross IRR	Total Fees	Net IRR
Original Proposal	10.0%	$480,000	9.0%
Carried Interest Proposal	**10.0%**	**$392,506**	**9.3%**
Management Fee Proposal	10.0%	$775,000	8.4%

Scenario 2	Gross IRR	Total Fees	Net IRR
Original Proposal	18.8%	$1,370,304	16.2%
Carried Interest Proposal	18.8%	$1,392,506	16.4%
Management Fee Proposal	**18.8%**	**$800,000**	**17.1%**

Scenario 3	Gross IRR	Total Fees	Net IRR
Original Proposal	25.0%	$2,170,304	21.4%
Carried Interest Proposal	25.0%	$2,192,506	21.6%
Management Fee Proposal	**25.0%**	**$820,000**	**23.4%**

Memory Care Facilities

Original proposal included several types of expenses paid to L&B Realty:

- Acquisition fee: 0.40% of property cost
- Annual Asset Management fee: 0.50%
- Construction Management fee: $100,000/property
- Incentive fee: 20% of return over 10% IRR

Carried Interest Proposal:

- Construction Management fee: $75,000/property
- Incentive fee: 20% of return over 8% IRR

Management Fee Proposal:

- Acquisition fee: 0.50% of property cost
- Annual Asset Management fee: 0.50%
- Construction Management fee: $100,000/property
- Disposition fee: 0.50% of property sale price

Memory Care Fee Comparison

- We reviewed the fee proposals using scenario analysis. The fee proposals were compared using a common set of assumptions with varying return outcomes.
- The projects were assumed to have four year lives and total development costs of just under $30 million.
- The projects each included $11.9 million in equity and $17.8 million in construction debt.

Scenario 1	Gross IRR	Total Fees	Net IRR
Original Proposal	**10.4%**	**$479,008**	**9.2%**
Carried Interest Proposal	10.4%	$481,617	9.4%
Management Fee Proposal	10.4%	$585,476	9.0%

Scenario 2	Gross IRR	Total Fees	Net IRR
Original Proposal	18.6%	$1,429,008	16.0%
Carried Interest Proposal	18.6%	$1,431,617	16.2%
Management Fee Proposal	**18.6%**	**$609,226**	**17.2%**

Scenario 3	Gross IRR	Total Fees	Net IRR
Original Proposal	25.1%	$2,329,008	21.5%
Carried Interest Proposal	25.1%	$2,331,617	21.8%
Management Fee Proposal	**25.1%**	**$631,726**	**23.8%**

Special Opportunities

Original proposal included several types of expenses paid to L&B Realty:

- Acquisition fee: 0.40% of property cost
- Annual Asset Management fee: 0.50%
- Disposition fee: 0.50% of property sale price

Carried Interest Proposal:

- Administration fee: 0.25%/year
- Incentive fee: 20% of return over 8% IRR

Management Fee Proposal:

- Acquisition fee: 0.50% of property cost
- Annual Asset Management fee: 0.50%
- Disposition fee: 0.50% of property sale price

Special Opportunities Fee Comparison

- We reviewed the fee proposals using scenario analysis. The fee proposals were compared using a common set of assumptions with varying return outcomes.
- The projects were assumed to have three year lives and total purchase prices of $45 million.
- The projects were not financed. They all included $45 million in equity and zero debt.

Scenario 1	Gross IRR	Total Fees	Net IRR
Original Proposal	10.0%	$1,580,000	9.3%
Carried Interest Proposal	**10.0%**	**$1,555,132**	**9.4%**
Management Fee Proposal	10.0%	$1,625,000	9.3%

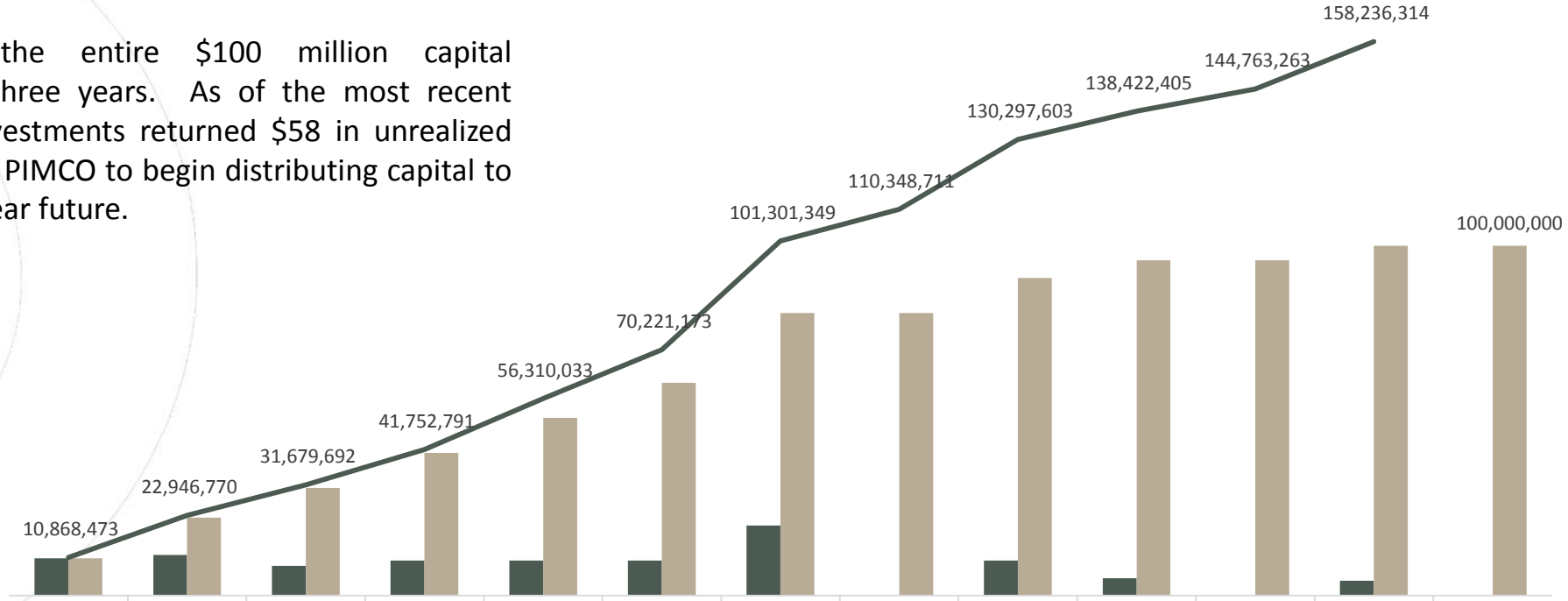
Scenario 2	Gross IRR	Total Fees	Net IRR
Original Proposal	**11.6%**	**$1,605,000**	**11.0%**
Carried Interest Proposal	11.6%	$2,555,132	10.8%
Management Fee Proposal	11.6%	$1,650,000	11.0%

Scenario 3	Gross IRR	Total Fees	Net IRR
Original Proposal	**13.2%**	**$1,630,000**	**12.5%**
Carried Interest Proposal	13.2%	$3,555,132	12.0%
Management Fee Proposal	13.2%	$1,675,000	12.5%

PIMCO BRAVO I Capital Call History

Total Capital Commitment: $100 million

PIMCO called the entire $100 million capital commitment in three years. As of the most recent valuation, the investments returned $58 in unrealized gains. We expect PIMCO to begin distributing capital to investors in the near future.



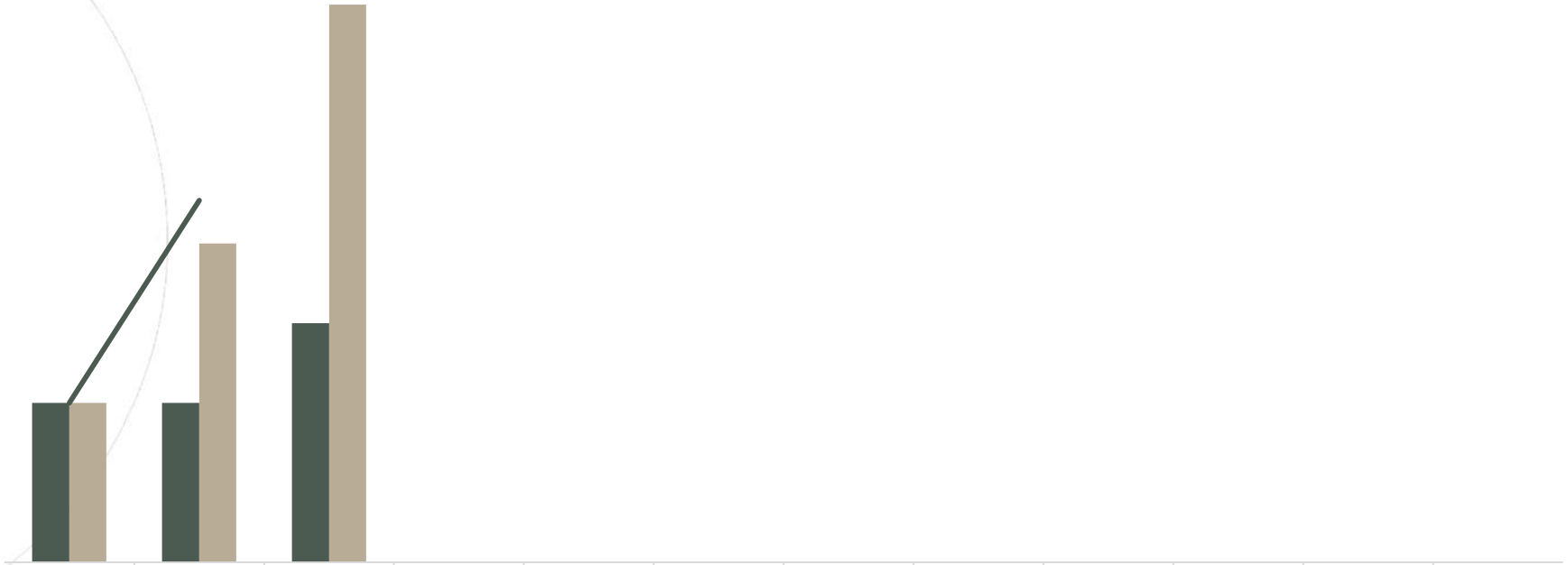
	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014
Capital Calls/Distributions	10,668,493	11,596,091	8,500,000	10,000,000	10,000,000	10,000,000	20,000,000		10,000,000	5,000,000		4,235,416	
Capital Calls/Distributions Sum	10,668,493	22,264,584	30,764,584	40,764,584	50,764,584	60,764,584	80,764,584	80,764,584	90,764,584	95,764,584	95,764,584	100,000,000	100,000,000
Total Market Value	10,868,473	22,946,770	31,679,692	41,752,791	56,310,033	70,221,173	101,301,349	110,348,711	130,297,603	138,422,405	144,763,263	158,236,314	

Oklahoma Teachers Retirement System

Gregory W Group

PIMCO BRAVO II Capital Call History

Total Capital Commitment: $150 million



	3/19/2013	12/16/2013	3/31/2014
Capital Calls/Distributions	7,500,000	7,500,000	11,250,000
Capital Calls/Distributions Sum	7,500,000	15,000,000	26,250,000
Total Market Value	7,496,327	17,027,473	