



# OKLAHOMA TEACHERS RETIREMENT SYSTEM

## INVESTMENT COMMITTEE MEETING

**DECEMBER 17, 2013**

**3:00 PM**

## MEETING MATERIALS

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

**INVESTMENT COMMITTEE MEMBERS:**

*Chair: Bill Peacher*

*Members: James Dickson, Roger Gaddis, Jill Geiger, Vernon Florence, Gary Trennepohl*

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**Investment Committee Meeting**  
**Tuesday, December 17, 2013 – 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 REAL ESTATE PORTFOLIO**
  - a. L & B**
  - b. Gregory W. Group**
- 4. DISCUSSION AND POSSIBLE ACTION ON MLP PORTFOLIO REALLOCATION**
- 5. DISCUSSION AND POSSIBLE ACTION ON LOOMIS SAYLES INVESTMENT POLICY EXCEPTION REQUEST**
  - a. Extension of Existing Exceptions**
- 6. DISCUSSION AND POSSIBLE ACTION HOTCHKIS & WILEY EXCEPTION REQUEST**
- 7. QUESTIONS AND COMMENTS FROM TRUSTEES**
- 8. 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*

# November 2013 - Market Performance Update

Equity Streak Continues Higher

Equity Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
Dow Jones Industrial Average	3.8	26.6	16.5	15.9
NASDAQ (prc chg only)	3.6	34.9	17.6	21.5
S&P 500 cap weighted	3.1	30.3	17.7	17.6
S&P 500 equal weighted	2.3	35.3	18.6	23.3
S&P Mid Cap	1.3	32.3	16.9	22.3
S&P Small Cap	4.5	43.9	20.8	22.5
S&P REIT	-5.2	6.0	11.0	20.5
Alerian MLP	0.9	21.6	15.1	28.2
Russell 1000 Growth	2.8	29.7	17.4	20.1
Russell 1000 Value	2.8	31.9	18.1	16.4
Russell Mid Cap Growth	2.2	33.9	16.8	23.5
Russell Mid Cap Value	1.1	33.3	17.8	21.7
Russell 2000 Growth	4.1	44.5	18.9	23.4
Russell 2000 Value	3.9	37.6	16.9	18.6
Russell Top 200	3.3	29.8	18.0	16.7
Russell 1000	2.8	31.0	17.8	18.3
Russell Mid Cap	1.7	33.8	17.3	22.7
Russell 2500	2.7	36.9	18.2	22.5
Russell 2000	4.0	41.0	17.9	21.0
MSCI World Ex US	0.6	22.8	9.6	13.3
MSCI World Ex US Growth	0.7	21.3	8.9	13.3
MSCI World Ex US Value	0.5	24.4	10.3	13.2
MSCI EAFE	0.8	24.8	10.5	13.4
MSCI Emerging Markets	-1.5	3.7	0.7	16.9

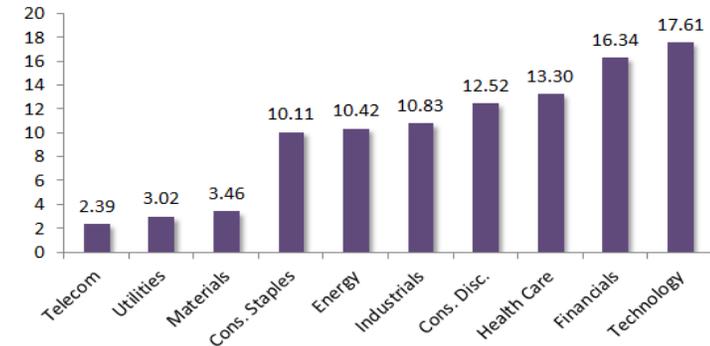
Domestic equities moved higher during November. Growth outperformed value among mid caps and small caps. Small caps outperformed. Trailing year returns were extremely strong.

International shares had a mixed month. Developed markets posted modest gains while emerging markets suffered losses. Trailing year returns were strong for developed markets.

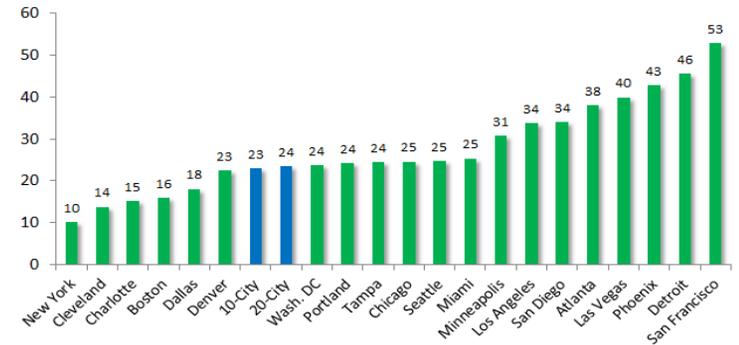
Fixed income returns were negative during November. Rising interest rates pushed bond prices lower. Trailing year returns were also negative. 91 Day Treasury Bill returns remained just above 0% for all observation periods.

Bond Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
BC T-Bills	0.0	0.1	0.1	0.1
BC Long Treasury	-2.5	-12.7	4.9	4.5
BC US Agg	-0.4	-1.6	3.1	5.3

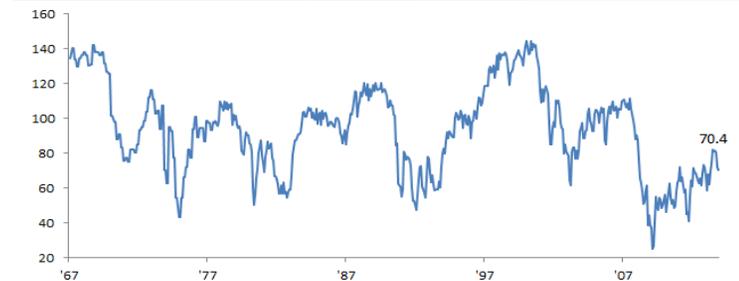
## S&P 500 Current Sector Weightings (%)



## S&P Case-Shiller: % From Lows for Each City



## Consumer Confidence: 1967 - 2013



# Manager Profile - Northern Trust



Asset Class:	S&P 500 Cap Weighted Passive
Status:	In Compliance
Portfolio Size:	\$523,246,771
Inception Date:	4/1/2012
Allocation:	4.1%
Annual Management Fee:	0.01%
Location:	Chicago, IL
Structure:	Publicly Traded
Represented by:	Jason Pasquinelli Alan Cubeles

Notes:

Capitalization weighted index replication: S&P 500 Cap Weighted

Founded: 1889

Return Profile	Since Inception	Last 10 Years		Last 5 Years		Last 3 Years		Last Year	Last Quarter	Last Month
Northern Trust S&P 500 Cap Weighted	19.4	-	-	-	-	-	-	30.2	11.1	3.0
S&P 500 Cap Weighted	18.7	7.7	17.6	17.7	30.3	11.2	3.1			

# Manager Profile - Northern Trust



Asset Class:	International Large Cap Passive	Notes:
Status:	In Compliance	Capitalization weighted index replication: MSCI EAFE
Portfolio Size:	\$418,532,256	
Inception Date:	4/1/2012	
Allocation:	3.8%	
Annual Management Fee:	0.03%	
Location:	Chicago, IL	
Structure:	Publicly Traded	
Represented by:	Jason Pasquinelli Alan Cubeles	Founded: 1889

Return Profile	Since Inception	Last 10 Years	Last 5 Years	Last 3 Years	Last Year	Last Quarter	Last Month
Northern Trust International Large Cap Passive	4.6	-	-	-	-	-	0.8
MSCI EAFE	-	7.6	13.4	10.5	24.8	11.9	0.8

# Manager Profile - State Street



Asset Class: S&P 500 Equal Weighted Passive  
 Status: In Compliance  
 Portfolio Size: \$533,537,280  
 Inception Date: 4/1/2012  
 Allocation: 4.1%  
 Annual Management Fee: 0.03%  
 Location: Boston, MA  
 Structure: Publicly Traded  
 Represented by: David Settles

Notes:

Capitalization weighted index replication: S&P 500 Equal Weighted

Founded: 1792

Return Profile	Since Inception	Last 10 Years		Last 5 Years		Last 3 Years		Last Year	Last Quarter	Last Month
S&P 500 Equal Weighted Passive	22.4	-	-	-	-	-	-	35.1	10.9	2.3
S&P 500 Equal Weighted	-	10.1	23.3	18.6	35.3	10.9	2.3			

# Monthly Asset Allocation Review



Asset Class	Total Market Value	Current Percentage	New Target Percentage	Difference	Notes
All Cap/Large Cap	2,927,032,519	22.7%	17.0%	5.7%	Excess allocation bound for Private Equity and Real Estate
Mid Cap	1,843,093,243	14.3%	13.0%	1.3%	
Small Cap	1,350,202,368	10.5%	10.0%	0.5%	
<b>Total Domestic Equity</b>	<b>6,120,328,130</b>	<b>47.4%</b>	<b>40.0%</b>	<b>7.4%</b>	
Large Cap International Equity	1,490,457,003	11.5%	11.5%	0.0%	
Small Cap International Equity	810,396,592	6.3%	6.0%	0.3%	
<b>Total International Equity</b>	<b>2,300,853,595</b>	<b>17.8%</b>	<b>17.5%</b>	<b>0.3%</b>	
<b>Core Fixed Income</b>	<b>1,977,382,362</b>	<b>15.3%</b>	<b>17.5%</b>	<b>-2.2%</b>	
High Yield Bonds	732,671,029	5.7%	6.0%	-0.3%	
MLPs	791,518,510	6.1%	7.0%	-0.9%	
Private Equity	270,108,442	2.1%	5.0%	-2.9%	
Real Estate	546,204,481	4.2%	7.0%	-2.8%	
Opportunistic Assets	159,235,496	1.2%	0.0%	1.2%	
<b>Total Non-Core Assets</b>	<b>2,499,737,958</b>	<b>19.3%</b>	<b>25.0%</b>	<b>-5.7%</b>	
<b>Cash</b>	<b>20,365,346</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.2%</b>	
<b>Composite</b>	<b>12,918,732,154</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Total Fund + Class Composite Summary

As of November 30, 2013



	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month
<b>Total Fund (Gross of Fees)</b>	<b>12,918,732,154</b>	<b>12/1/1991</b>	<b>22.0</b>	<b>9.8</b>	<b>8.8</b>	<b>16.4</b>	<b>13.6</b>	<b>23.4</b>	<b>11.4</b>	<b>8.7</b>	<b>1.7</b>
<b>Total Fund (Net of Fees)</b>				<b>9.4</b>	<b>8.4</b>	<b>16.0</b>	<b>13.2</b>	<b>23.0</b>	<b>11.0</b>	<b>8.6</b>	<b>1.7</b>
<i>Allocation Index</i>				9.5	7.7	14.7	12.3	19.4	9.5	7.8	1.3
<i>Actuarial Assumption</i>				8.0	8.0	8.0	8.0	8.0	6.6	1.9	0.6
Total Domestic Equity	6,120,328,130 S&P 500 47.4%	4/1/1990	23.7	11.0	9.1	21.1	18.1	38.2	15.9	11.8	3.2
				9.6	7.7	17.6	17.7	30.3	13.4	11.2	3.1
Total All Cap Equity	858,175,251 Russell 3000 6.6%	9/1/2006	7.3	7.2	-	18.2	17.1	33.7	13.5	10.5	3.0
				7.2	-	18.5	17.8	31.7	14.1	11.3	2.9
Total Large Cap Active Equity	1,012,073,216 S&P 500 7.8%	1/1/1995	18.9	10.5	7.9	19.3	19.6	37.7	14.9	10.9	3.7
				9.6	7.7	17.6	17.7	30.3	13.4	11.2	3.1
Total Mid Cap Equity	1,843,093,243 Russell Mid Cap 14.3%	11/1/1998	15.1	10.5	11.2	24.5	19.1	41.4	16.8	11.7	3.3
				9.7	10.2	22.7	17.3	33.8	13.4	10.1	1.7
Total Small Cap Equity	1,350,202,368 Russell 2000 10.5%	2/1/1998	15.8	9.7	9.7	22.6	16.2	43.3	18.7	14.1	3.2
				7.8	9.1	21.0	17.9	41.1	17.6	13.5	4.1
Total International Equity	2,300,853,595 MSCI ACWI ex-US 17.8%	2/1/1998	15.8	9.5	8.9	14.8	11.4	26.7	16.6	11.9	1.1
				-	8.7	14.4	8.0	18.8	14.4	11.1	0.2
Core Fixed Income (ex- High Yield)	1,977,382,362 Barclays Aggregate 15.3%	4/1/1990	23.7	7.3	6.3	8.4	5.8	-1.5	1.3	1.7	-0.6
				-	4.7	5.3	3.1	-1.6	1.0	1.4	-0.4
Master Limited Partnerships	791,518,510 Alerian MLP Index 6.1%	2/28/2011	2.8	18.9	-	-	-	32.4	5.9	7.6	2.0
				14.1	-	-	-	21.6	2.8	6.0	0.9
High Yield Bonds	732,671,029 ML High Yield II 5.7%	2/1/2009	4.8	16.4	-	-	9.6	8.5	5.0	4.3	0.4
				18.0	-	-	9.5	8.5	5.3	4.0	0.5
Core Real Estate	546,204,481 NCREIF 4.2%	4/1/2011	2.7	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-
Cash	20,365,346 91 Day T-bill 0.2%	4/1/1990	23.7	-	-	-	-	-	-	-	-
				-	1.7	0.1	0.1	0.1	0.0	0.0	0.0

# Equity Portfolios Summary

## As of November 30, 2013



	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month	
<b>All Cap / Large Cap Domestic</b>												
Hotchkis & Wiley Large Cap	526,108,597	4/1/1990	23.7	11.1	7.7	22.4	20.4	43.6	14.1	10.4	4.1	
Russell 1000 Value	4.1%			10.2	8.0	16.4	18.1	31.9	11.5	10.0	2.8	
Sawgrass	485,964,619	7/1/2006	7.4	8.5	-	18.8	19.7	31.8	15.7	11.4	3.3	
Russell 1000 Growth	3.8%			8.8	-	20.1	17.4	29.7	16.1	12.2	2.8	
ARI All Cap	428,279,128	9/1/2006	7.3	6.3	-	17.1	16.8	33.0	12.3	9.9	2.7	
Russell 3000 Value	3.3%			7.2	-	18.5	17.8	31.7	14.1	11.3	2.9	
EPOCH All Cap	429,896,123	9/1/2006	7.3	8.0	-	18.9	17.2	34.4	14.7	11.1	3.3	
Russell 3000 Value	3.3%			7.2	-	18.5	17.8	31.7	14.1	11.3	2.9	
<b>Passive Domestic Equity</b>												
NT Cap Weighted Passive	523,246,771	4/1/2012	1.7	19.4	-	-	-	30.2	13.4	11.1	3.0	
S&P 500 Cap Weighted	4.1%			18.7	7.7	17.6	17.7	30.3	13.4	11.2	3.1	
SSGA Eq Weighted Passive	533,537,280	4/1/2012	1.7	22.4	-	-	-	35.1	13.8	10.9	2.3	
S&P 500 Equal Weighted	4.1%			-	10.1	23.3	18.6	35.3	-	11.0	2.3	
<b>Mid Cap Domestic Equity</b>												
Frontier Capital	470,416,541	6/1/2002	11.5	10.5	11.5	20.8	16.5	33.1	16.5	11.3	2.9	
Russell Mid Cap Growth	3.6%			9.5	9.5	23.5	16.8	33.9	14.7	10.1	2.2	
Wellington Management	434,245,185	9/1/1998	15.3	10.9	10.1	24.0	15.5	47.1	21.3	14.8	4.1	
Russell Mid Cap Growth	3.4%			9.0	9.5	23.5	16.8	33.9	14.7	10.1	2.2	
AJO Partners	478,562,396	8/1/1998	15.3	11.2	10.7	23.4	20.3	39.2	16.8	12.8	3.3	
Russell MidCap	3.7%			9.3	10.2	22.7	17.3	33.8	13.4	10.1	1.7	
Hotchkis & Wiley Mid Cap	459,869,120	8/1/2002	11.3	14.7	12.4	30.9	24.2	46.4	13.2	8.4	2.9	
Russell MidCap Value	3.6%			11.6	10.4	21.7	17.8	33.3	11.9	10.1	1.1	
<b>Small Cap Domestic Equity</b>												
Shapiro Capital Management	605,604,702	2/1/1998	15.8	10.8	12.9	28.0	18.6	42.3	19.0	14.4	3.4	
Russell 2000	4.7%			-	9.1	21.0	17.9	41.0	17.5	13.4	4.0	
Geneva Capital	196,001,131	6/1/2013	0.5	23.1	-	-	-	-	22.9	15.7	2.7	
Russell 2000 Growth	1.5%			18.8	-	-	-	-	19.6	13.4	4.1	
Wasatch Advisors	180,989,754	6/1/2013	0.5	12.1	-	-	-	-	14.7	10.6	1.9	
Russell 2000 Growth	1.4%			18.8	-	-	-	-	19.6	13.4	4.1	
Cove Street Capital	106,692,040	6/1/2013	0.5	17.7	-	-	-	-	19.5	16.0	2.8	
Russell 2000 Value	0.8%			15.0	-	-	-	-	15.4	13.5	3.9	
Frontier Capital	150,539,860	6/1/2013	0.5	12.6	-	-	-	-	16.9	14.0	3.9	
Russell 2000 Value	1.2%			15.0	-	-	-	-	15.4	13.5	3.9	
Neumeier Poma	110,374,881	6/1/2013	0.5	19.4	-	-	-	-	18.6	13.7	5.0	
Russell 2000 Value	0.9%			15.0	-	-	-	-	15.4	13.5	3.9	
<b>International Large Cap Equity</b>												
Causeway Capital	534,615,448	5/1/2003	10.6	11.4	9.4	17.3	12.9	24.7	16.8	12.8	1.3	
MSCI ACWI Ex US	4.1%			10.4	8.3	13.9	7.5	18.2	14.3	11.1	0.2	
International Transition Account	50,747,490	-	-	-	-	-	-	-	-	-	-	
MSCI ACWI Ex US	0.4%			-	-	-	-	-	-	-	-	
Northern Trust Passive	418,532,256	9/1/2013	0.2	4.6	-	-	-	-	-	-	0.8	
MSCI EAFE	3.2%			-	7.6	13.4	10.5	24.8	14.3	11.9	0.8	
Thornburg	486,181,389	12/1/2005	8.0	7.5	-	13.9	8.2	18.6	13.7	9.9	1.9	
MSCI ACWI Ex US	3.8%			5.4	8.3	13.9	7.5	18.2	14.3	11.1	0.2	
<b>International Small Cap Equity</b>												
ARI Small Cap International	202,335,467	12/1/2011	2.0	22.3	-	-	-	28.4	16.6	12.0	0.3	
MSCI EAFE Small Cap	1.6%			21.9	9.9	19.5	12.8	31.6	19.6	12.8	0.4	
Epoch Small Cap International	203,490,784	12/1/2011	2.0	21.8	-	-	-	32.4	20.2	12.7	0.6	
MSCI EAFE Small Cap	1.6%			21.9	9.9	19.5	12.8	31.6	19.6	12.8	0.4	
Wasatch Small Cap International	198,259,375	12/1/2011	2.0	30.1	-	-	-	31.1	14.9	8.7	-0.3	
MSCI EAFE Small Cap	1.5%			21.9	9.9	19.5	12.8	31.6	19.6	12.8	0.4	
Wellington Small Cap International	206,310,966	12/1/2011	2.0	29.7	-	-	-	37.7	20.8	14.1	1.9	
MSCI EAFE Small Cap	1.6%			21.9	9.9	19.5	12.8	31.6	19.6	12.8	0.4	

# Fixed Income Portfolios Summary

As of November 30, 2013



	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month	
<b>Core Fixed Income</b>												
Loomis Sayles	577,729,608	8/1/1999	14.3	7.1	7.6	11.7	6.6	0.5	2.8	3.4	-0.2	
<i>Barclays Aggregate</i>	4.5%			5.7	4.7	5.3	3.1	-1.6	1.0	1.4	-0.4	
Lord Abbett	575,307,901	11/1/2004	9.1	6.1	-	9.2	5.2	0.0	1.6	1.8	-0.2	
<i>Barclays Aggregate</i>	4.5%			4.6	-	5.3	3.1	-1.6	1.0	1.4	-0.4	
Mackay Shields	573,430,968	11/1/2004	9.1	6.4	-	8.7	6.3	1.3	1.9	1.5	-0.2	
<i>Barclays Aggregate</i>	4.4%			4.6	-	5.3	3.1	-1.6	1.0	1.4	-0.4	
<b>Active Duration Fixed Income</b>												
Hoisington	250,913,885	11/1/2004	9.1	7.0	-	4.0	6.1	-16.6	-4.8	-1.6	-3.2	
<i>Barclays Aggregate</i>	1.9%			4.6	-	5.3	3.1	-1.6	1.0	1.4	-0.4	
<b>High Yield Fixed Income</b>												
Loomis Sayles High Yield	243,238,887	2/1/2009	4.8	16.4	-	-	8.4	7.4	4.5	4.9	0.2	
<i>Merrill Lynch High Yield II</i>	1.9%			18.0	-	-	9.5	8.5	5.3	4.0	0.5	
Lord Abbett High Yield	243,784,084	2/1/2009	4.8	17.4	-	-	10.9	10.7	5.9	4.4	0.7	
<i>Merrill Lynch High Yield II</i>	1.9%			18.0	-	-	9.5	8.5	5.3	4.0	0.5	
Mackay Shields High Yield	245,648,058	2/1/2009	4.8	15.4	-	-	9.5	7.3	4.6	3.5	0.3	
<i>Merrill Lynch High Yield II</i>	1.9%			18.0	-	-	9.5	8.5	5.3	4.0	0.5	

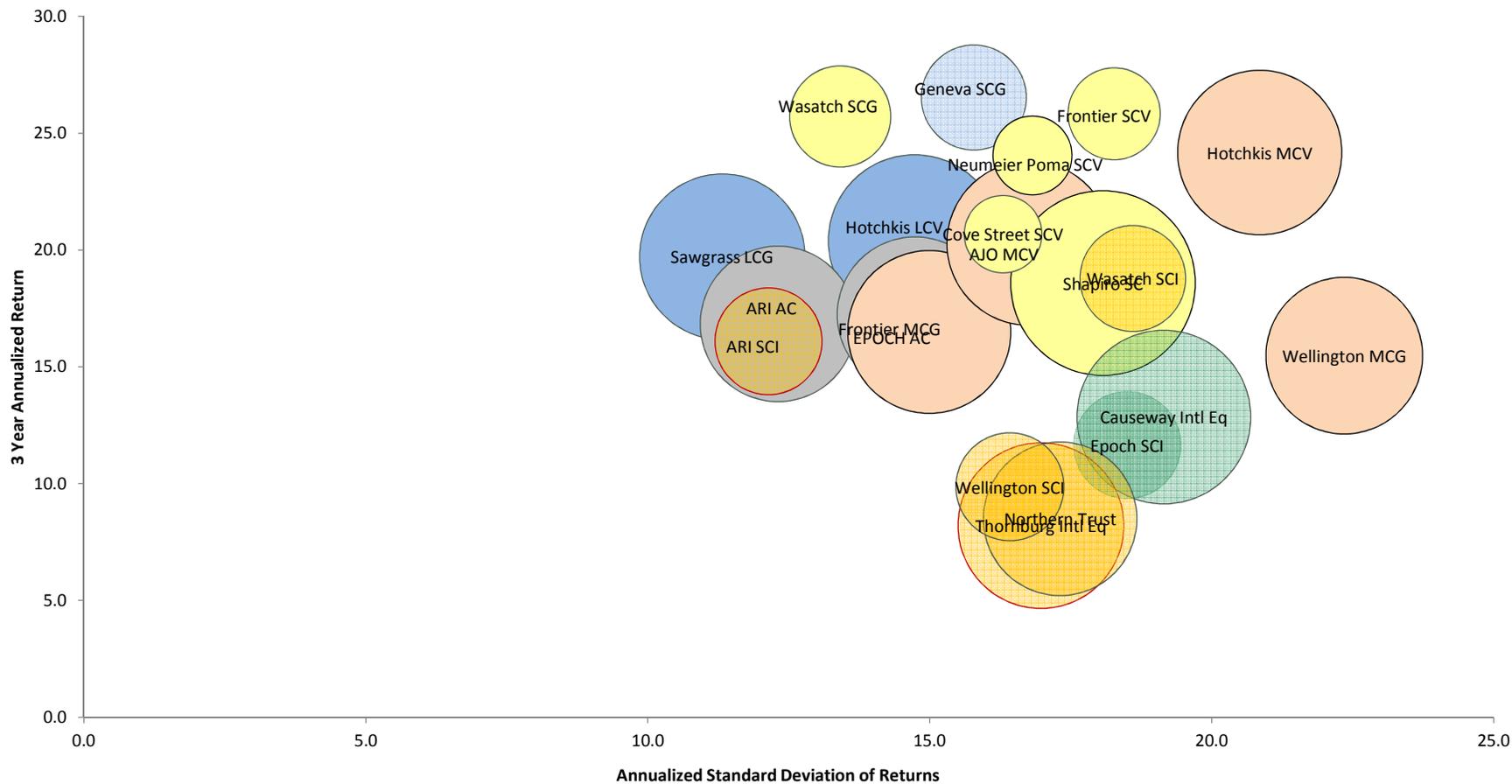
# Non-Traditional Portfolios Summary

As of November 30, 2013



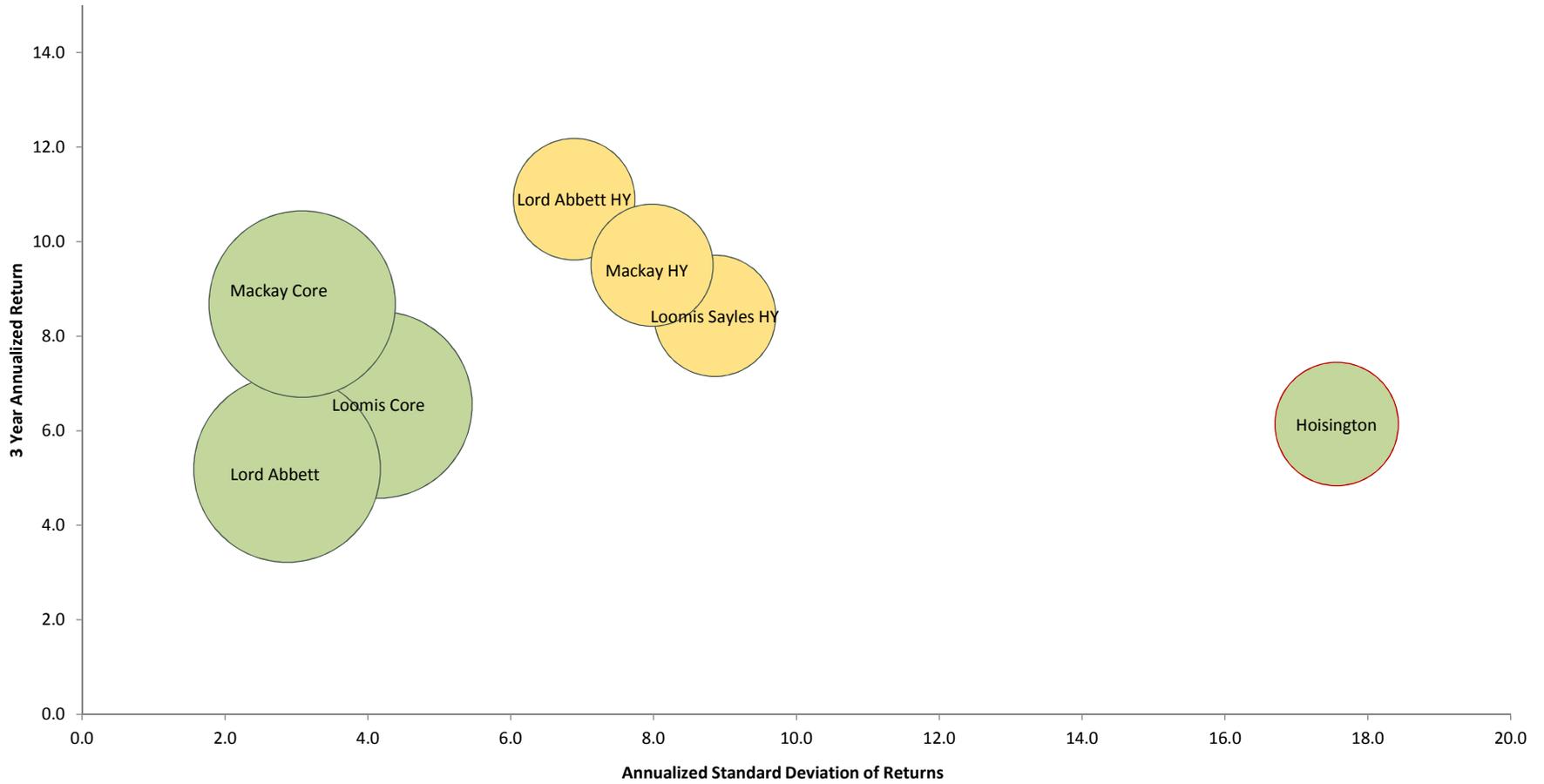
	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month
<b>Master Limited Partnerships</b>											
Chickasaw Capital MLP	235,424,701	2/28/2011	2.8	26.6	-	-	-	43.5	10.4	12.3	2.8
<i>Alerian MLP Index</i>	1.8%			14.1	-	-	-	21.6	2.8	6.0	0.9
Cushing MLP Management	202,967,179	2/28/2011	2.8	19.5	-	-	-	37.7	8.2	8.9	2.6
<i>Alerian MLP Index</i>	1.6%			14.1	-	-	-	21.6	2.8	6.0	0.9
FAMCO MLP	353,126,630	2/28/2011	2.8	13.8	-	-	-	23.4	1.9	3.9	1.1
<i>Alerian MLP Index</i>	2.7%			14.1	-	-	-	21.6	2.8	6.0	0.9
<b>Private Equity</b>											
Legacy Private Equity Portfolio	71,106,786	10/1/2008	5.2	-	-	-	-	-	-	-	-
Franklin Park Private Equity	199,001,656	4/1/2010	3.7	-	-	-	-	-	-	-	-
	2.1%										
<b>Real Estate</b>											
AEW Real Estate	182,265,413	5/1/2011	2.6	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	1.4%			-	-	-	-	-	-	-	-
Heitman Real Estate	192,671,534	5/1/2011	2.6	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	1.5%			-	-	-	-	-	-	-	-
L&B Real Estate	171,267,534	4/1/2011	2.7	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	1.3%			-	-	-	-	-	-	-	-
<b>Opportunistic Fixed Income</b>											
PIMCO BRAVO	144,763,263	3/31/2011	2.7	-	-	-	-	-	-	-	-
<i>Barclays Aggregate</i>	1.1%			-	-	-	-	-	-	-	-
PIMCO BRAVO II	7,728,304	3/31/2013	0.7	-	-	-	-	-	-	-	-
<i>Barclays Aggregate</i>	0.1%			-	-	-	-	-	-	-	-

# 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.



**L&B Realty Advisors, LLP**  
*Client Focused. Performance Driven*



**OKLAHOMA TEACHERS**  
**RETIREMENT SYSTEM**

December 17, 2013

G. Andrews Smith, CEO

Christian T. Metten, Director, Portfolio Management

Mark R. Gerigk, EVP, Portfolio Management

Paul Noland, Director, Acquisitions

# 2014 & Beyond

## Trends – The Big Picture



- Investors want enhanced returns and more control
- Expect more leverage (non-core strategies) – banks/life insurance companies are equally willing and aggressive lenders
- Mid-sized plans will move toward separate account structures and/or small “clubs” of like-minded investors
- Plans with small internal investment staffs will continue to cede discretion to their managers
- Foreign investor demand will continue to grow – the “China Effect”

# 2014 & Beyond

## Trends by Property Type



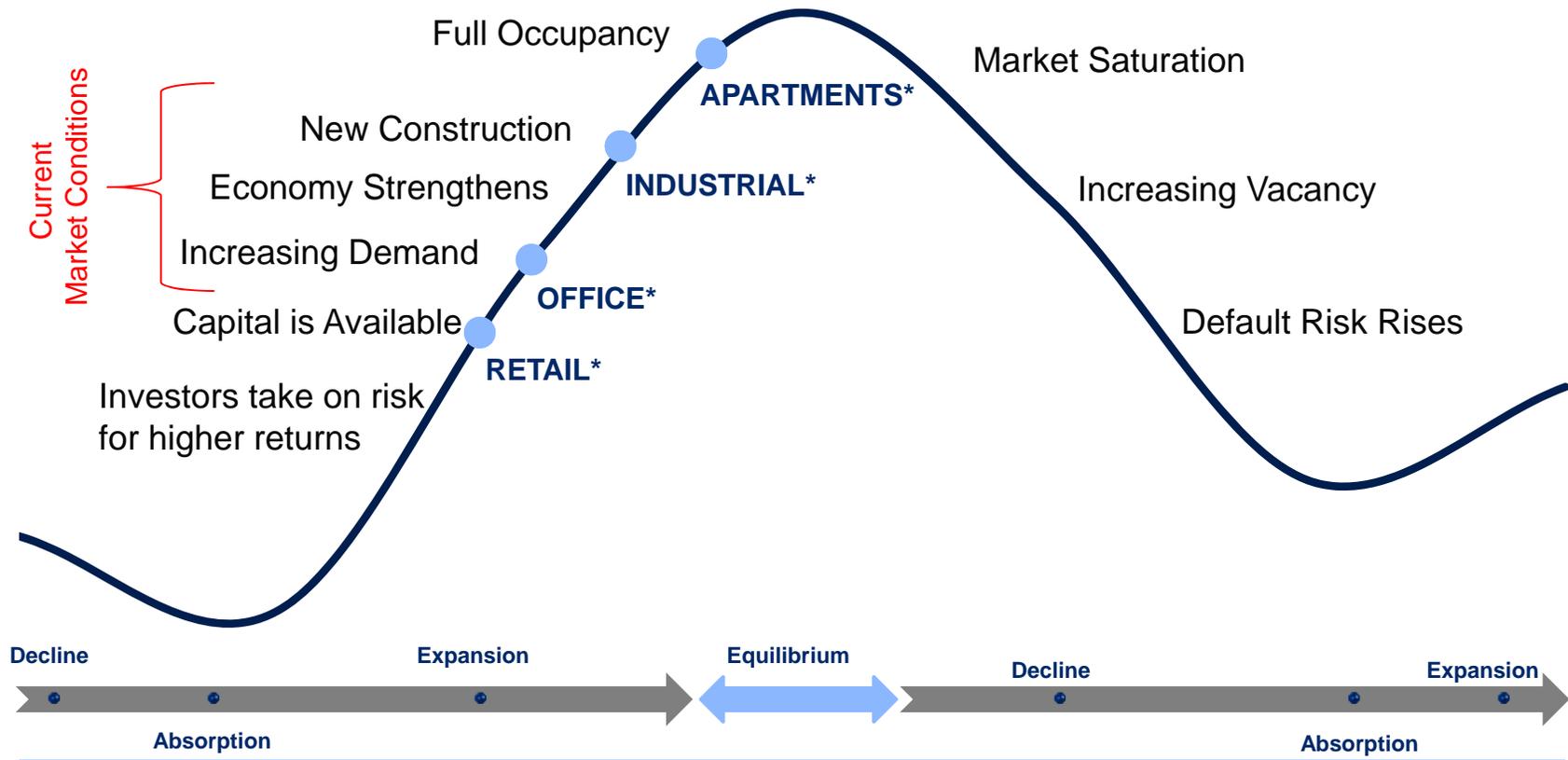
### Office and Apartments:

- Physical aspects are changing to meet the needs of baby boomers (now seniors) and millennial & student cohorts
- Cities are “in” and suburbs are “out” – desired city first, job second
- Office and home environment are integrated – sustainable and healthy work, play and social activities are motivating factors
- Walkability, public transportation, public parks and amenities make the difference

### Retail and Industrial:

- Expanding influence of Omni-channels – mobile internet devices, computers, bricks & mortar, television, radio, direct mail and coming soon, Amazon’s new drone delivery service
- Gateway cities’ supply chain becomes increasingly important as production gradually returns to the U.S.

# Market Dynamics



\*Varies market by market

# Private Investment Vehicles



	Pros	Cons
<b>Commingled Funds</b>	<ul style="list-style-type: none"><li>• Diversification</li><li>• Minimum administration</li></ul>	<ul style="list-style-type: none"><li>• Limited liquidity</li><li>• Lack of control</li></ul>
<b>Co-Investments (a/k/a “Club”)</b>	<ul style="list-style-type: none"><li>• Access to large deals and/or diversification</li><li>• Exit options</li><li>• Increased control</li></ul>	<ul style="list-style-type: none"><li>• Changing objectives of individual investors</li><li>• Less diversification relative to funds</li></ul>
<b>Separate Accounts</b>	<ul style="list-style-type: none"><li>• Maximum control</li><li>• Portfolio customization</li><li>• Increased liquidity</li></ul>	<ul style="list-style-type: none"><li>• Minimum investment amount (requires scale)</li><li>• Less diversification relative to funds</li></ul>

# Program Management



Relationship	Pros	Cons
Discretionary	<ul style="list-style-type: none"> <li>• Full manager accountability</li> <li>• Ability to actively manage</li> <li>• Faster access to deals – more opportunities</li> <li>• Minimum OTRS administration</li> </ul>	<ul style="list-style-type: none"> <li>• Corrective action taken by manager after a problem arises</li> <li>• Manager style drift</li> </ul>
Non-Discretionary	<ul style="list-style-type: none"> <li>• Adds proactive control by OTRS staff</li> </ul>	<ul style="list-style-type: none"> <li>• Increase demands for program administration (OTRS staff)</li> <li>• Limits access/speed to deals – fewer opportunities</li> </ul>

# Build To Core

## Defined



Background:	The spread between the existing cap rates for high quality core assets and the cost to build the same assets can be 150 – 250 bps. This spread creates an attractive scenario to develop core.
Opportunity:	Own high quality core assets through development with options to sell upon stabilization and produce opportunistic returns or own long-term and produce a blended return that out-performs existing core assets.
Key Risk:	Macro/Micro economic changes create a shift in values through lower market rents and/or higher cap rates.
Risk Mitigation Tool:	Partner w/proven sponsors, focus on in-fill locations in growth markets, provide extensive construction oversight "in-house" and rent and/or cap rate sensitivity analysis allows for projections to fall by as much as 20% and still achieve core yields.
Targeted Total Return:	6.0% - 9.0% returns on costs; 10% - 12% return on long-term hold; 13% - 17% return with sale upon stabilization.
Timing:	Deal by deal basis. Will cycle with changes in cap rates and market rents.

# Build To Core

## Case Study



Transaction:	Houston Galleria office tower – completed in 2013
Background:	In 2011 after several years of contemplating the project, L&B structured a joint-venture partnership on behalf of an L&B separate account client with a local developer.
Opportunity:	To build the first new office building in the Houston Galleria in over 30 years. To build a LEED-Gold, Class AA, efficient floor plate building to capture the flight-to-quality demand.
Key Risk:	Leasing the non-preleased portion (50%) of the building and managing the construction costs.
Risk Mitigation Tool:	Assembled a best in class executive committee with experience in construction and leasing.
Deal Size:	Total Construction Costs \$103M
Outcome:	The building has been very well received and is achieving the highest rents in history for the sub-market.

# Memory Care Defined



Background:	<ul style="list-style-type: none"><li>• 4.3M seniors 85 years old and up in 2000</li><li>• 20.9M in same segment expected by 2050</li><li>• 1/2 with Alzheimer's</li></ul>
Opportunity:	Limited new development since 2008 to meet the growing need for these facilities. There is a window of opportunity to build in affluent areas with a large population of "Adult Children", who are the decision makers.
Key Risk:	Development, over building and government regulation.
Risk Mitigation Tool:	1) Partner with a proven operator; 2) build in superior in-fill locations with appropriate demographics (this is a needs-driven product thus more resistant to recessionary pressures.); 3) use of guaranteed maximum contracts; 4) extensive in-house construction oversight; 5) downside protection: rents and exit cap rates may fall by 20% and still achieve core type returns; and 6) these facilities are private pay and do not rely on any governments payments for their operations.
Targeted Total Return:	10% -12% return on cost; 16% -18% long term leveraged return; and 20%+ leveraged return if sold at stabilization.
Timing:	Two to three investments, as opportunities are presented in 2014 and 2015.

# Memory Care

## Case Study



Transaction:	HarborChase of Southlake, Southlake, Texas. To be built 120 units, 1/2 assisted living, 1/2 memory care.
Background:	J/V with Silverstone Healthcare Company. Silverstone's team has 30+ years of experience in site selection design and constructing of healthcare facilities across the U.S. The operator, Harbor Retirement Associates and its management team are integral to the project and have been thoroughly vetted by L&B and our 3 <sup>rd</sup> party consultant.
Opportunity:	Provide \$10M (90% of J/V equity); Silverstone to contribute balance of equity. 60% financed by construction debt.
Key Risk:	Manage construction of project on budget, on time and obtain 95% stabilized occupancy proforma rents in 18 months.
Risk Mitigation Tool:	<ul style="list-style-type: none"><li>• Site risk – superior location and demographics</li><li>• Development risk – experienced team, guaranteed maximum contract and L&amp;B on staff development and construction services group.</li><li>• Operation risk – experienced operating team with oversight by L&amp;B, positive 3<sup>rd</sup> party feasibility study and barriers to entry in Southlake community.</li></ul>
Deal Size:	\$28M total project cost
Outcome:	Construction completion of 2Q15 with stabilization targeted for 4Q16.

# Structured Financing

## Defined



Background:	Most lenders and equity sources have strict parameters on the structure of “capital stack <sup>1</sup> .” Because of these restrictions many owners seek alternative or non-traditional financing.
Opportunity:	To provide an investment structure that is more attractive/flexible to owners and unavailable from conventional sources.
Key Risk:	Most structured financing is less secured than traditional senior debt. In the event the equity is eroded, this investment may require significant capital to protect the investment.
Risk Mitigation Tool:	When thoughtfully structured the owner’s equity provides downside protection of 10-30%.
Timing:	Deal by deal basis.

<sup>1</sup>A description of the totality of capital invested in a project, including pure debt, hybrid debt, and equity. The stack is described as containing the most risk at the top (equity), traveling down the stack to the position with the least risk (pure debt). Lenders and equity stakeholders are highly sensitive to their position in the stack.

# Structured Financing

## Case Study



Transaction:	NorthPark Center, super-regional mall in Dallas, Texas. Built in 1965, expanded in 2005.
Background:	L&B's involvement runs the gamut from evaluating the ground lessor's interest and, in turn, negotiating the sale of that interest to the ground lessee, development management of a major expansion , and structuring a loan to fund construction.
Opportunity:	Provided a \$20M loan secured by the owner/borrower's partnership distributions and management fees subject to the primary lender's construction loan. Loan terms: 10% current pay, if available, a 12.5% look-back IRR, 1% placement fee and a term of 21 months.
Key Risk:	If owner/borrower's partnership filed bankruptcy, there would be no additional collateral.
Risk Mitigation Tool:	Owner/borrower obligated to utilize its share of an "earn-out" (\$40 million) available under the primary lender's construction loan to repay the \$20 million loan. All lender earn-out requirements either had been met or 95% achieved prior to funding the \$20 million loan.
Outcome:	Loan was paid in full within 18 months of funding.

# Special Opportunities

## Defined



Background:	Difficult to replicate asset, e.g., Utica Square. Seller's estate planning needs often are paramount, e.g., seller may wish to maintain a minority interest.
Opportunity:	Premier assets such as these would provide OTRS with a sustainable high quality asset whose value would withstand the test of time.
Key Risk:	Even for a \$12.8B pension system, such as OTRS, these assets can be "lumpy" due to portfolio weighting
Risk Mitigation Tool:	For larger transactions a "Club" approach may be used. Liquidity rights built into the Club agreement would give OTRS control over exit, e.g., first right of refusal, etc.
Targeted Total Return:	Current return low compared to other strategies but a competitive long-term return
Timing:	Deal driven and both patience and tenacity a must!

# Special Opportunities

## Case Study



Transaction:	Tysons Corner Center outside Washington, D.C. – built in 1965
Background:	The original three developers reluctantly decided to cash-in (due in no small part to L&B's relentless pursuit)
Opportunity:	To expand and update the center (while keeping it open) and bringing the first Nordstrom store to the east coast (never had gone east of Utah)
Key Risk:	Managing a redevelopment/expansion on budget and on time
Risk Mitigation Tool:	Assembling best in class management team experienced with mall renovations
Deal Size:	\$167M acquisition + \$160M renovation budget (followed by additional capital events including today's development of a hotel, office building and high rise apartment)
Outcome:	What started out as a Club investment (five L&B clients) is today owned 50% by one L&B separate account client and 50% by an operator. The asset's 100% market value (via third-party appraisal) exceeds \$1.5B

# Recommended OTRS Guidelines



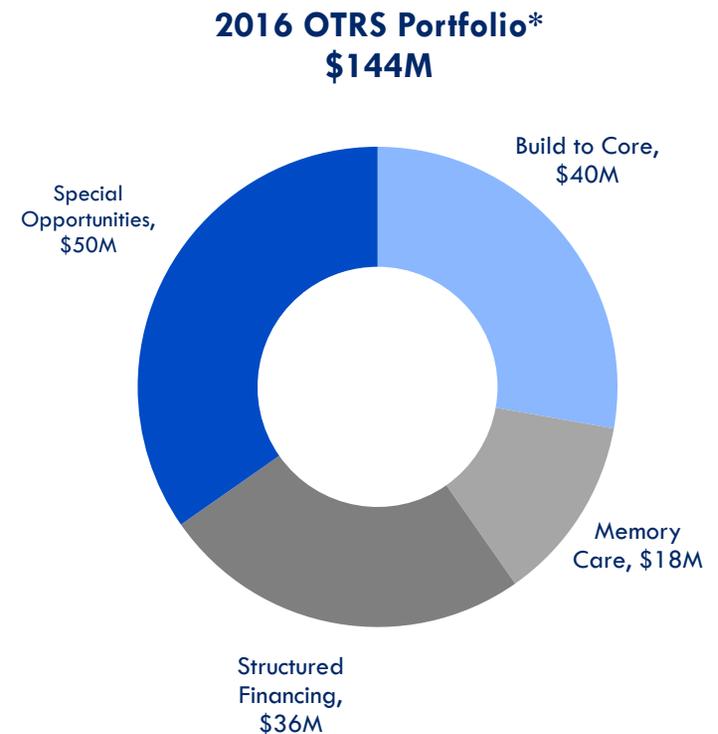
Key Features	NewCo
Discretion:	Yes
Allocation:	\$150M±
# of Assets:	5 to 7 by 2016
Investments:	Core & Alternative Core
Individual Asset Size:	\$5M to \$50M equity
Leverage Limits:	65% property 50% portfolio
Co-investment:	No (exception: special opportunities)
Projected Returns:	12%-15%* net over rolling 10 yr. periods

\*Assumes implementation of strategies on page 16, % allocated to each strategy will dictate total.

# Alternative Core Strategy Summary



Strategy	Typical Equity	Total Return Forecast	Est. Time to Invest
Structured Financing	\$5-20M	12%+/-	≤12 months
Build to Core	\$15-50M	16%+/-	≤12 months
Memory Care	\$9M+/-	18%+/-	≤18 months
Special Opportunities	TBD	TBD	As Available



\*Strictly hypothetical; investment opportunities are dependent on changing market conditions.

# Presenters' Biographies



**Mark Gerigk**, Co-Portfolio Manager, has 34 years with L&B managing discretionary client portfolios providing active oversight of the acquisition, disposition, financing and asset management functions to ensure compliance with client guidelines and investment strategy. He serves on both L&B's Investment Committee and Management Committee.

**Christian Metten**, Co-Portfolio Manager, has 13 years with L&B and is a key team member managing select client portfolios. He is responsible for coordinating the acquisition, disposition and financing of portfolios; specializing in analyzing complex transactions and developing strategies essential to optimizing portfolio returns. He is an equity partner and serves on L&B's Investment Committee.

**Paul M. Noland** Director, Acquisitions, has 10 years with L&B and is responsible for acquisitions and dispositions of properties totaling 3.5 million square feet and \$856 million in value. He is an equity partner.

**G. Andrews Smith**, CEO and Managing Partner, has 32 years with L&B and chairs the Management Committee and is a member of the Investment Committee. He serves as the firm's head of risk management.



December 5, 2013

Mr. Grant Rohlmeier  
Manager of Operations and Investments  
Oklahoma Teachers Retirement System  
2500 N. Lincoln Boulevard, 5<sup>th</sup> Floor  
Oklahoma City, OK 73152

Re: Policy Exemption Renewal Requests – High Yield Full Discretion Portfolio (K480N5)

Dear Grant:

We would like to respectfully request the renewal of the following exceptions to the current Investment Policy Statement, dated August, 2012:

- 1) Increase the maximum portfolio concentration in emerging markets from 10% to 30%,
- 2) Increase the maximum portfolio concentration in non-USD from 20% to 40%, and
- 3) Establish a 10% allocation to preferred stock.

As you know, a key component of our investment strategy in the high yield account is taking advantage of global opportunities. In addition, our view is that certain emerging markets are well positioned to capture a larger share of world economic growth.

As with other sectors of the market, preferred stocks can, at times, offer opportunities in specific credits where relative value is apparent. By employing the same fundamental research based credit picking process that we use in other sectors of the market, we believe there can be an opportunity to add value to this portfolio through the use of preferred stocks.

Thank you for your consideration regarding maintaining these additional flexibilities. Except as noted above, all other guidelines remain the same. Please sign a copy of this letter and return it to us for our records, at your earliest convenience. If you have questions or need any additional information, please let me know.

Best regards

John A. Cardinali, CFA  
VP, Client Portfolio Manager  
Tel: 617-960-4483  
Fax: 617-482-5032  
[jcardinali@loomissayles.com](mailto:jcardinali@loomissayles.com)

AGREED and ACCEPTED

By: \_\_\_\_\_  
Authorized Signatory

Date: \_\_\_\_\_

cc: Doug Anderson, Gregory W. Group



JOE EZZELL, CPA  
ASSISTANT EXECUTIVE DIRECTOR

MARY FALLIN  
GOVERNOR

STATE OF OKLAHOMA  
OKLAHOMA TEACHERS RETIREMENT SYSTEM

**Oklahoma Teachers Retirement Investment Policy Exception Form**

**Date:** December 12, 2013

**Manager:** Hotchkis and Wiley Capital Management, LLC – Large Cap and Mid-Cap

**OTRS Investment Policy:** (Copy the OTRS Policy Statement that is being reviewed) – June 2013

Section VII Investment Guidelines

- A. Ineligible Investments
  - 2. Securities denominated in non-US currency, unless provided in accordance with an applicable mandate.

**Exception Request:** (Provide the exception that is being requested from the excerpt of the OTRS Policy Statement above)

Section VII:A: Allow non-U.S. dollar denominated securities traded in local markets and securities of non-US companies (including ADRs) traded over the counter in the US market.

**Reason for Exception:** (Explain the reason for the exception)

Investing in non-US dollar denominated securities provides greater flexibility in making investment decisions, consistent with the Account's investment objectives. Non-US securities will generally be similar to a US based company that the Account is allowed to hold.

**Accepted and Approved by TRS: (for office use only)**

**Name of TRS Approving Party:** \_\_\_\_\_  
(please print)

**Title of TRS Approving Party:** \_\_\_\_\_  
(please print)

**Signature of TRS Approving Party:** \_\_\_\_\_

**Date of Approval:** \_\_\_\_\_