



# OKLAHOMA TEACHERS RETIREMENT SYSTEM

## INVESTMENT COMMITTEE MEETING

**JUNE 25, 2013**

**2:00 PM**

## MEETING MATERIALS

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

**INVESTMENT COMMITTEE MEMBERS:**

*Chair: James Dickson*

*Vernon Florence, Bill Peacher, Gary Trennepohl*

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA  
Investment Committee Meeting  
Tuesday, June 25, 2013 – 2:00 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 ASSET ALLOCATION**
- 4. DISCUSSION AND POSSIBLE ACTION ON CUSHING CAPITAL LLC**
- 5. DISCUSSION AND POSSIBLE ACTION ON MANAGER STATUS REPORT**
- 6. QUESTIONS AND COMMENTS FROM TRUSTEES**
- 7. ADJOURNMENT**

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

**INVESTMENT COMMITTEE:**

*Chair: James Dickson*

*Members: Vernon Florence, Bill Peacher, Gary Trennepohl*

# May 2013 - Market Performance Update

How is it June Already?

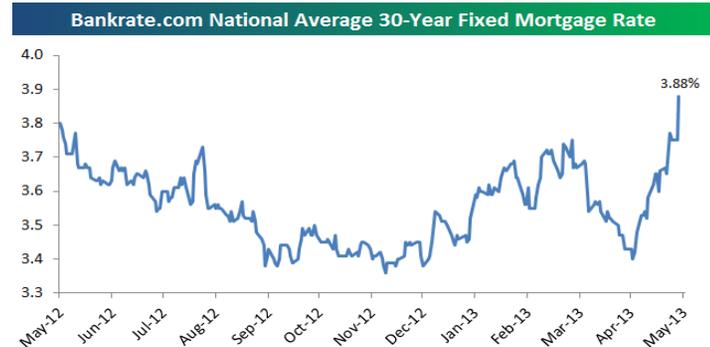
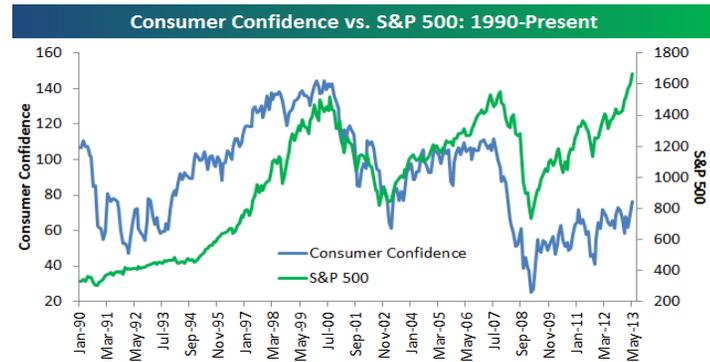
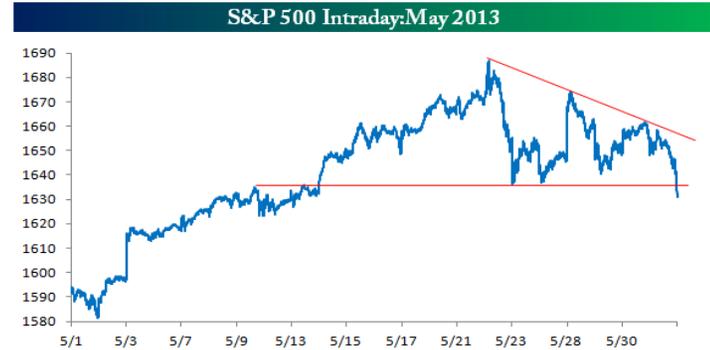
Equity Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
Dow Jones Industrial Average	2.2	25.3	17.4	6.6
NASDAQ (prc chg only)	3.8	22.2	15.3	6.5
S&P 500 cap weighted	2.3	27.3	16.9	5.4
S&P 500 equal weighted	2.7	32.8	17.8	8.5
S&P Mid Cap	2.3	30.0	17.5	7.7
S&P Small Cap	4.4	30.6	17.4	8.3
S&P REIT	-5.9	17.7	17.0	5.5
Russell 1000 Growth	1.9	22.6	17.2	6.3
Russell 1000 Value	2.6	32.7	16.6	4.7
Russell Mid Cap Growth	2.6	26.8	17.4	6.3
Russell Mid Cap Value	1.7	33.9	17.5	7.1
Russell 2000 Growth	5.1	30.9	17.5	7.7
Russell 2000 Value	3.0	31.3	14.0	6.5
Russell Top 200	2.3	26.4	16.7	5.1
Russell 1000	2.2	27.6	16.9	5.6
Russell Mid Cap	2.2	30.5	17.5	6.7
Russell 2500	3.1	31.6	17.1	7.6
Russell 2000	4.0	31.1	15.7	7.2
MSCI World Ex US	-2.2	29.6	10.3	-1.7
MSCI World Ex US Growth	-2.0	27.0	10.9	-1.7
MSCI World Ex US Value	-2.5	32.2	9.6	-1.7
MSCI EAFE	-2.4	31.6	11.0	-1.6
MSCI Emerging Markets	-2.6	14.1	5.4	-1.2

Despite a jarring pullback at the end of the month, domestic equity markets enjoyed another month of gains. Earnings growth among U.S. corporations was positive, although not exuberant. U.S. based investors in foreign equities suffered losses during May.

Domestic value equity stocks outperformed growth stocks among large caps. Mid and small cap growth outperformed value during the month. Small caps posted May's highest returns. Trailing one and three year domestic equity returns are extremely high.

Fixed income returns turned negative on the month as macroeconomic policy issues dominated trading. The Federal Reserve Chairman caused bonds to sell off by merely mentioning the eventual end to its massive stimulus programs. Most market watchers believe the U.S. economy is still far too frail to end stimulus efforts. Yield oriented investments felt selling pressure during May. Money market funds produced virtually no income.

Bond Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
BC T-Bills	0.0	0.1	0.1	0.3
BC Long Treasury	-6.2	-6.7	9.0	8.7
BC US Agg	-1.8	0.9	4.6	5.5



# Manager Profile - FAMCO MLP



Asset Class:	Master Limited Partnerships
Status:	In Compliance
Portfolio Size:	\$334,226,345
Inception Date:	2/28/2011
Target Allocation:	2.5%
Actual Allocation:	2.8%
Annual Management Fee:	0.50%
Location:	St. Louis, Missouri
Structure:	Wholly owned by Piper Jaffrey
Portfolio Management Team:	James Cunnane Quinn Kiley
Represented by:	James Cunnane Quinn Kiley Jeff Spray

## Notes:

FAMCO uses a top-down strategic style to drive long-term strategy. Views are developed for portfolio themes and individual industries. The second step of the investment process is intensive modeling/valuation of individual MLPs. FAMCO believes their combination of thorough topdown strategic mindset, rigorous valuation modeling and fundamental research yields portfolios with high probability of outperforming their benchmark.

Founded:	1994
AUM:	\$10.0 billion
MLP AUM:	\$2.8 billion

Return Profile	Since Inception	Last 5 Years	Last 3 Years	Last Year	Last Quarter	Last Month
FAMCO	14.2	-	-	31.5	5.6	-1.2
Alerian Total Return MLP Index	14.5	-	-	28.6	4.2	-2.1

Risk Characteristics	3 Year Std Deviation <sup>1</sup>	Sharpe Ratio	Current Yield	Beta <sup>2</sup>	Number of Holdings	Avg. Mkt. Cap
FAMCO	16.00%	0.79	5.3%	0.97	28	\$8.0 Billion
Alerian Total Return MLP Index	14.61%	1.43	5.7% <sup>3</sup>	1.00	-	\$11.1 Billion

<sup>1</sup>FAMCO standard deviation since inception date of 2/21/11.

<sup>2</sup>Beta measured against the Alerian MLP Index.

<sup>3</sup>Value as of 3/28/2013.

# Manager Profile - L&B Realty Advisors, LLC



Asset Class:	Core Real Estate
Status:	In Compliance
Portfolio Size:	\$164,376,355
Inception Date:	4/1/2011
Target Allocation:	1.7%
Actual Allocation:	1.4%
Annual Management Fee:	0.45%
Location:	Dallas, Texas
Structure:	Employee Owned
Portfolio Management Team:	Christian Metten Mark Gerigk

Represented by:	Christian Metten Mark Gerigk
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Notes:

The fund invests in traditional core property types, including multifamily, retail, office and industrial properties. The primary investment objective will be to protect equity and limit downside risk while assembling a diversified portfolio of appropriately priced, institutional quality, income-producing assets. The manager uses a core strategy that prudently uses leverage with a focus on the distribution of cash flow from operations. The manager will seek owners motivated to sell quality assets at prices expected to provide a desired rate of return with quantifiable downside risk. Manager will seek properties in markets affording long-term sustainable growth and avoid markets prone to excessive volatility and select assets with superior location using first hand experience and a network of strategic partners.

Founded:	1965
AUM:	\$5.9 billion

Risk Characteristics	Number of Holdings	Yield
L&B	7	2.2%

Note: All portfolio statistics as of 3/31/13.

# Monthly Asset Allocation Review



Asset Class	Total Market Value	Current Percentage	Target Percentage	Difference	Notes
All Cap/Large Cap	2,686,734,323	22.6%	17.5%	5.1%	Excess allocation bound for Private Equity
Mid Cap	1,660,947,472	14.0%	12.5%	1.5%	
Small Cap	1,143,940,676	9.6%	10.0%	-0.4%	
<b>Total Domestic Equity</b>	<b>5,491,622,471</b>	<b>46.1%</b>	<b>40.0%</b>	<b>6.1%</b>	
Large Cap International Equity	1,344,951,066	11.3%	12.5%	-1.2%	
Small Cap International Equity	437,616,926	3.7%	2.5%	1.2%	
<b>Total International Equity</b>	<b>1,782,567,993</b>	<b>15.0%</b>	<b>15.0%</b>	<b>0.0%</b>	
<b>Core Fixed Income</b>	<b>2,386,625,655</b>	<b>20.1%</b>	<b>25.0%</b>	<b>-4.9%</b>	
High Yield Bonds	625,265,881	5.3%	5.0%	0.3%	
MLPs	725,813,783	6.1%	5.0%	1.1%	
Private Equity	237,480,929	2.0%	5.0%	-3.0%	
Real Estate	514,208,798	4.3%	5.0%	-0.7%	
Opportunistic Assets	142,804,096	1.2%	0.0%	1.2%	
<b>Total Non-Core Assets</b>	<b>2,245,573,488</b>	<b>18.9%</b>	<b>20.0%</b>	<b>-1.1%</b>	
<b>Cash</b>	<b>(4,193,596)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
<b>Composite</b>	<b>11,902,235,327</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Total Fund + Class Composite Summary

As of May 31, 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>11,902,235,327</b>	<b>12/1/1991</b>	<b>21.5</b>	<b>9.6</b>	<b>9.2</b>	<b>6.8</b>	<b>13.6</b>	<b>22.5</b>	<b>19.6</b>	<b>5.8</b>	<b>0.9</b>
<b>Total Fund (Net of Fees)</b>				<b>9.2</b>	<b>8.8</b>	<b>6.5</b>	<b>13.3</b>	<b>22.1</b>	<b>19.5</b>	<b>5.7</b>	<b>0.9</b>
<i>Allocation Index</i>				9.3	8.0	5.4	12.8	19.7	16.2	4.1	0.3
<i>Actuarial Assumption</i>				8.0	8.0	8.0	8.0	8.0	6.6	1.9	0.6
Total Domestic Equity	5,491,622,471 46.1%	4/1/1990	23.2	10.6	9.5	6.5	16.5	31.0	26.4	9.8	3.5
<i>S&amp;P 500</i>				9.3	7.6	5.4	16.9	27.3	22.2	8.2	2.3
Total All Cap Equity	762,165,927 6.4%	9/1/2006	6.8	5.9	-	5.4	16.0	27.6	22.7	9.9	3.1
<i>Russell 3000</i>				5.9	-	5.7	16.8	27.9	23.1	8.1	2.4
Total Large Cap Active Equity	889,580,642 7.5%	1/1/1995	18.4	10.0	8.1	5.2	17.8	30.8	26.4	10.9	2.6
<i>S&amp;P 500</i>				9.2	7.6	5.4	16.9	27.3	22.2	8.2	2.3
Total Mid Cap Equity	1,660,947,472 14.0%	11/1/1998	14.6	9.7	12.0	8.4	17.7	31.5	28.2	9.2	3.8
<i>Russell Mid Cap</i>				9.2	10.9	6.7	17.5	30.5	26.9	7.9	2.2
Total Small Cap Equity	1,143,940,676 9.6%	2/1/1998	15.3	8.9	10.2	7.4	13.7	35.6	29.8	12.0	6.0
<i>Russell 2000</i>				6.9	9.8	7.2	15.7	31.1	24.8	8.4	4.0
Total International Equity	1,361,250,984 11.4%	2/1/1998	15.3	9.1	9.7	0.2	11.6	31.1	24.2	5.3	-0.4
<i>MSCI ACWI ex-US</i>				-	9.9	-1.2	9.6	26.4	19.3	1.7	-2.2
Core Fixed Income (ex- High Yield)	2,386,625,655 20.1%	4/1/1990	23.2	7.5	6.3	8.4	8.2	3.5	3.1	-0.5	-2.5
<i>Barclays Aggregate</i>				5.9	4.7	5.5	4.6	0.9	0.9	-0.7	-1.8
Master Limited Partnerships	725,813,783 6.1%	12/1/2008	4.5	18.8	-	-	-	38.7	35.7	7.1	-0.5
<i>Alerian MLP Index</i>				14.5	-	-	-	28.6	24.5	4.2	-2.1
High Yield Fixed Income	625,265,881 5.3%	2/1/2009	4.3	17.9	-	-	12.3	16.3	14.2	2.0	-0.6
<i>ML High Yield II</i>				19.4	-	-	11.9	14.8	12.5	2.4	-0.5
Core Real Estate	514,208,798 4.3%	4/1/2011	2.2	-	-	-	-	-	-	-	-
<i>NCREIF</i>				-	-	-	-	-	-	-	-
Cash	(4,193,596) 0.0%	4/1/1990	23.2	-	-	-	-	-	-	-	-
<i>91 Day T-bill</i>				-	1.7	0.3	0.1	0.1	0.1	0.0	0.0

# Equity Portfolios Summary

As of May 31, 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
Hotchkis & Wiley Large Cap	<b>463,874,237</b>	<b>4/1/1990</b>	<b>23.2</b>	10.8	8.6	6.1	17.9	38.1	32.5	13.4	3.5
Russell 1000 Value	3.9%			9.9	8.0	4.7	16.6	32.7	26.4	8.2	2.6
Sawgrass	<b>425,706,405</b>	<b>7/1/2006</b>	<b>6.9</b>	7.1	-	6.6	17.7	23.7	20.3	8.3	1.5
Russell 1000 Growth	3.6%			7.4	-	6.3	17.2	22.6	19.3	7.9	1.9
ARI All Cap	<b>383,381,606</b>	<b>9/1/2006</b>	<b>6.8</b>	5.1	-	6.0	15.6	28.1	22.7	9.2	2.9
Russell 3000 Value	3.2%			5.9	-	5.7	16.8	27.9	23.1	8.1	2.4
EPOCH All Cap	<b>378,784,322</b>	<b>9/1/2006</b>	<b>6.8</b>	6.6	-	4.8	16.3	27.1	22.8	10.7	3.3
Russell 3000 Value	3.2%			5.9	-	5.7	16.8	27.9	23.1	8.1	2.4
NT Cap Weighted Passive	<b>511,959,877</b>	<b>4/1/2012</b>	<b>1.2</b>	17.0	-	-	-	27.1	22.2	8.2	2.3
S&P 500 Cap Weighted	4.3%			16.0	7.6	5.4	16.9	27.3	22.2	8.2	2.3
SSGA Eq Weighted Passive	<b>523,027,877</b>	<b>4/1/2012</b>	<b>1.2</b>	20.7	-	-	-	32.6	27.7	9.0	2.8
S&P 500 Equal Weighted	4.4%			-	-	-	-	32.8	-	8.9	2.7
Frontier Capital	<b>417,929,231</b>	<b>6/1/2002</b>	<b>11.0</b>	9.7	12.2	7.6	16.5	23.2	21.4	6.6	2.2
Russell Mid Cap Growth	3.5%			8.7	10.2	6.3	17.4	26.8	24.4	8.3	2.6
Wellington Management	<b>360,015,715</b>	<b>9/1/1998</b>	<b>14.8</b>	9.9	10.5	5.0	13.2	27.5	26.2	10.2	6.1
Russell Mid Cap Growth	3.0%			8.4	10.2	6.3	17.4	26.8	24.4	8.3	2.6
AJO Partners	<b>416,569,813</b>	<b>8/1/1998</b>	<b>14.8</b>	10.5	11.3	7.7	19.1	33.1	28.9	9.3	3.4
Russell MidCap	3.5%			8.7	10.8	6.7	17.5	30.5	26.9	7.9	2.2
Hotchkis & Wiley Mid Cap	<b>466,432,713</b>	<b>8/1/2002</b>	<b>10.8</b>	13.9	13.6	13.4	22.1	42.8	35.7	10.7	3.9
Russell MidCap Value	3.9%			11.2	11.1	7.1	17.5	33.9	29.2	7.5	1.7
Shapiro Capital Management	<b>513,625,681</b>	<b>2/1/1998</b>	<b>15.3</b>	10.0	13.3	10.6	16.7	34.7	30.7	13.4	6.3
Russell 2000	4.3%			-	9.8	7.2	15.7	31.1	24.5	8.4	4.0
Geneva Capital	<b>157,453,108</b>	<b>6/1/2013</b>	<b>0.0</b>	-	-	-	-	-	-	-	-
Russell 2000 Growth	1.3%			-	-	-	-	-	-	-	5.1
Wasatch Advisors	<b>158,849,111</b>	<b>6/1/2013</b>	<b>0.0</b>	-	-	-	-	-	-	-	-
Russell 2000 Growth	1.3%			-	-	-	-	-	-	-	5.1
Cove Street Capital	<b>90,954,615</b>	<b>6/1/2013</b>	<b>0.0</b>	-	-	-	-	-	-	-	-
Russell 2000 Value	0.8%			-	-	-	-	-	-	-	3.0
Frontier Capital	<b>130,643,697</b>	<b>6/1/2013</b>	<b>0.0</b>	-	-	-	-	-	-	-	-
Russell 2000 Value	1.1%			-	-	-	-	-	-	-	3.0
Neumeier Poma	<b>92,414,299</b>	<b>6/1/2013</b>	<b>0.0</b>	-	-	-	-	-	-	-	-
Russell 2000 Value	0.8%			-	-	-	-	-	-	-	3.0
Causeway Capital	<b>474,091,667</b>	<b>5/1/2003</b>	<b>10.1</b>	10.7	10.3	1.1	13.6	32.6	24.1	4.3	0.5
MSCI ACWI Ex US	4.0%			9.4	8.8	-1.1	11.5	32.2	23.5	3.8	-2.3
International Transition Account	<b>424,300,194</b>	<b>2/1/1996</b>	<b>17.3</b>	-	-	-	-	-	-	-	-
MSCI ACWI Ex US	3.6%			5.1	8.8	-1.1	11.5	32.2	23.5	3.8	-2.3
Thornburg	<b>446,552,080</b>	<b>12/1/2005</b>	<b>7.5</b>	6.8	-	1.1	10.6	24.1	19.3	3.5	-0.3
MSCI ACWI Ex US	3.8%			4.2	-	-1.1	11.5	32.2	23.5	3.8	-2.3
ARI Small Cap International	<b>107,535,224</b>	<b>12/1/2011</b>	<b>1.5</b>	20.2	-	-	-	33.4	26.8	2.7	0.0
MSCI EAFE Small Cap	0.9%			18.6	11.4	1.5	13.1	30.5	25.5	3.1	-2.3
Epoch Small Cap International	<b>104,159,987</b>	<b>12/1/2011</b>	<b>1.5</b>	17.0	-	-	-	28.2	25.5	4.2	-0.9
MSCI EAFE Small Cap	0.9%			18.6	11.4	1.5	13.1	30.5	25.5	3.1	-2.3
Wasatch Small Cap International	<b>115,113,846</b>	<b>12/1/2011</b>	<b>1.5</b>	33.6	-	-	-	41.2	37.3	8.0	-0.7
MSCI EAFE Small Cap	1.0%			18.6	11.4	1.5	13.1	30.5	25.5	3.1	-2.3
Wellington Small Cap International	<b>110,807,870</b>	<b>12/1/2011</b>	<b>1.5</b>	26.4	-	-	-	36.4	31.4	7.0	-1.1
MSCI EAFE Small Cap	0.9%			18.6	11.4	1.5	13.1	30.5	25.5	3.1	-2.3

# Fixed Income and Non-Core Portfolios Summary

As of May 31, 2013



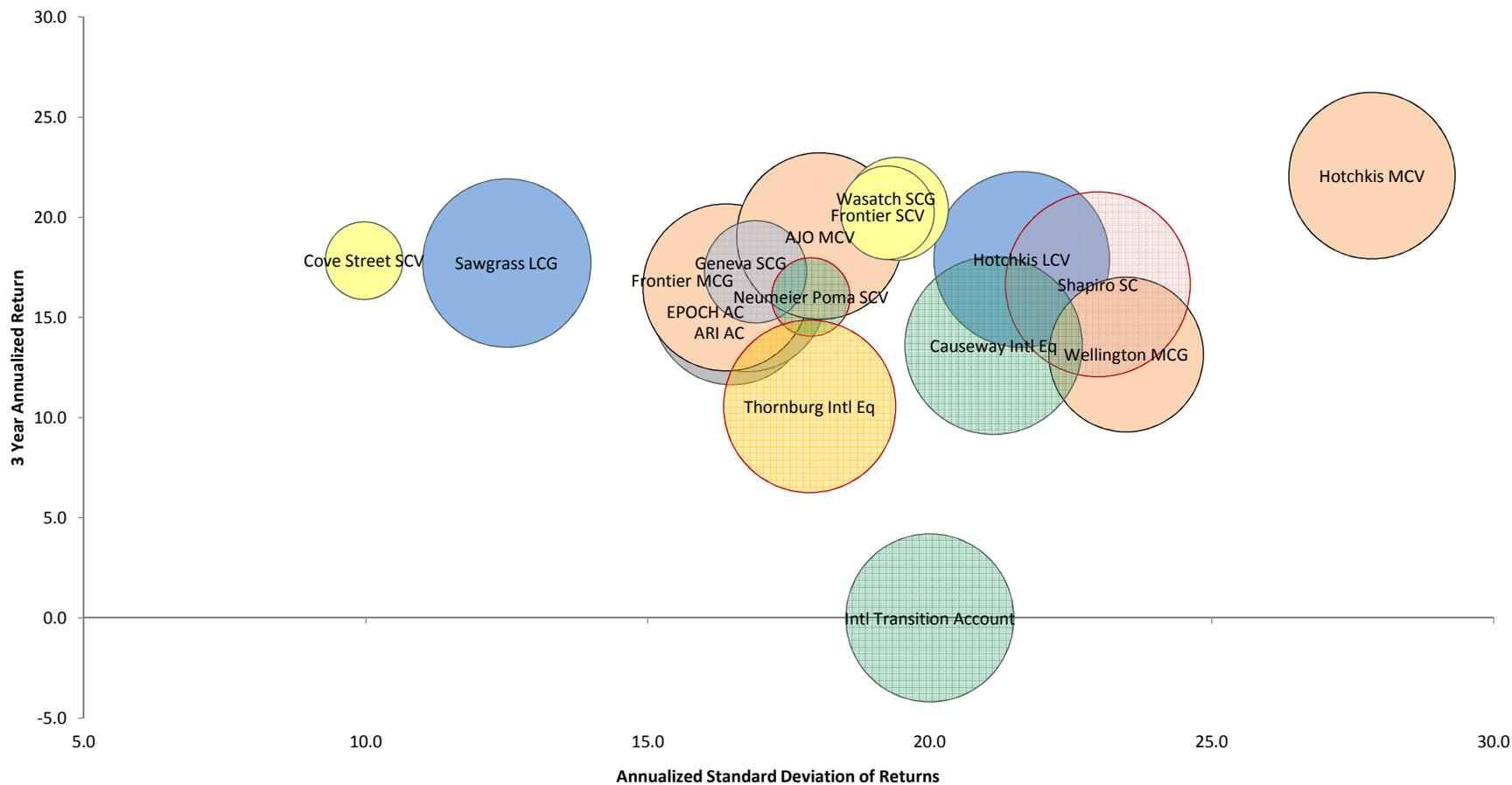
	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month
Loomis Sayles	<b>624,405,961</b>	<b>8/1/1999</b>	<b>13.8</b>	7.4	7.7	10.2	9.4	6.9	5.6	-0.3	-2.4
<i>Barclays Aggregate</i>	<b>5.2%</b>			5.9	4.7	5.5	4.6	0.9	0.9	-0.7	-1.8
Lord Abbett	<b>591,423,510</b>	<b>11/1/2004</b>	<b>8.6</b>	6.6	-	7.9	7.1	4.8	4.4	-0.2	-1.6
<i>Barclays Aggregate</i>	<b>5.0%</b>			5.0	-	5.5	4.6	0.9	0.9	-0.7	-1.8
Mackay Shields	<b>606,782,465</b>	<b>11/1/2004</b>	<b>8.6</b>	6.8	-	8.6	8.5	6.9	6.1	0.3	-1.3
<i>Barclays Aggregate</i>	<b>5.1%</b>			5.0	-	5.5	4.6	0.9	0.9	-0.7	-1.8
Hoisington	<b>273,258,188</b>	<b>11/1/2004</b>	<b>8.6</b>	8.5	-	10.1	10.7	-9.8	-8.2	-3.6	-8.1
<i>Barclays Aggregate</i>	<b>2.3%</b>			5.0	-	5.5	4.6	0.9	0.9	-0.7	-1.8
Stephens	<b>290,755,532</b>	<b>11/1/2004</b>	<b>8.6</b>	4.9	-	5.0	3.3	1.0	0.9	-0.4	-1.0
<i>Barclays Aggregate</i>	<b>2.4%</b>			5.0	-	5.5	4.6	0.9	0.9	-0.7	-1.8
Loomis Sayles High Yield	<b>206,728,626</b>	<b>2/1/2009</b>	<b>4.3</b>	18.3	-	-	11.8	19.6	16.5	1.6	-0.9
<i>Merrill Lynch High Yield II</i>	<b>1.7%</b>			19.5	-	-	11.9	14.8	12.5	2.4	-0.5
Lord Abbett High Yield	<b>211,645,076</b>	<b>2/1/2009</b>	<b>4.3</b>	18.7	-	-	13.4	16.8	15.2	3.0	-0.3
<i>Merrill Lynch High Yield II</i>	<b>1.8%</b>			19.5	-	-	11.9	14.8	12.5	2.4	-0.5
Mackay Shields High Yield	<b>206,892,179</b>	<b>2/1/2009</b>	<b>4.3</b>	16.6	-	-	11.6	12.6	10.9	1.5	-0.4
<i>Merrill Lynch High Yield II</i>	<b>1.7%</b>			19.5	-	-	11.9	14.8	12.5	2.4	-0.5

# Non-Traditional Portfolios Summary

As of May 31, 2013

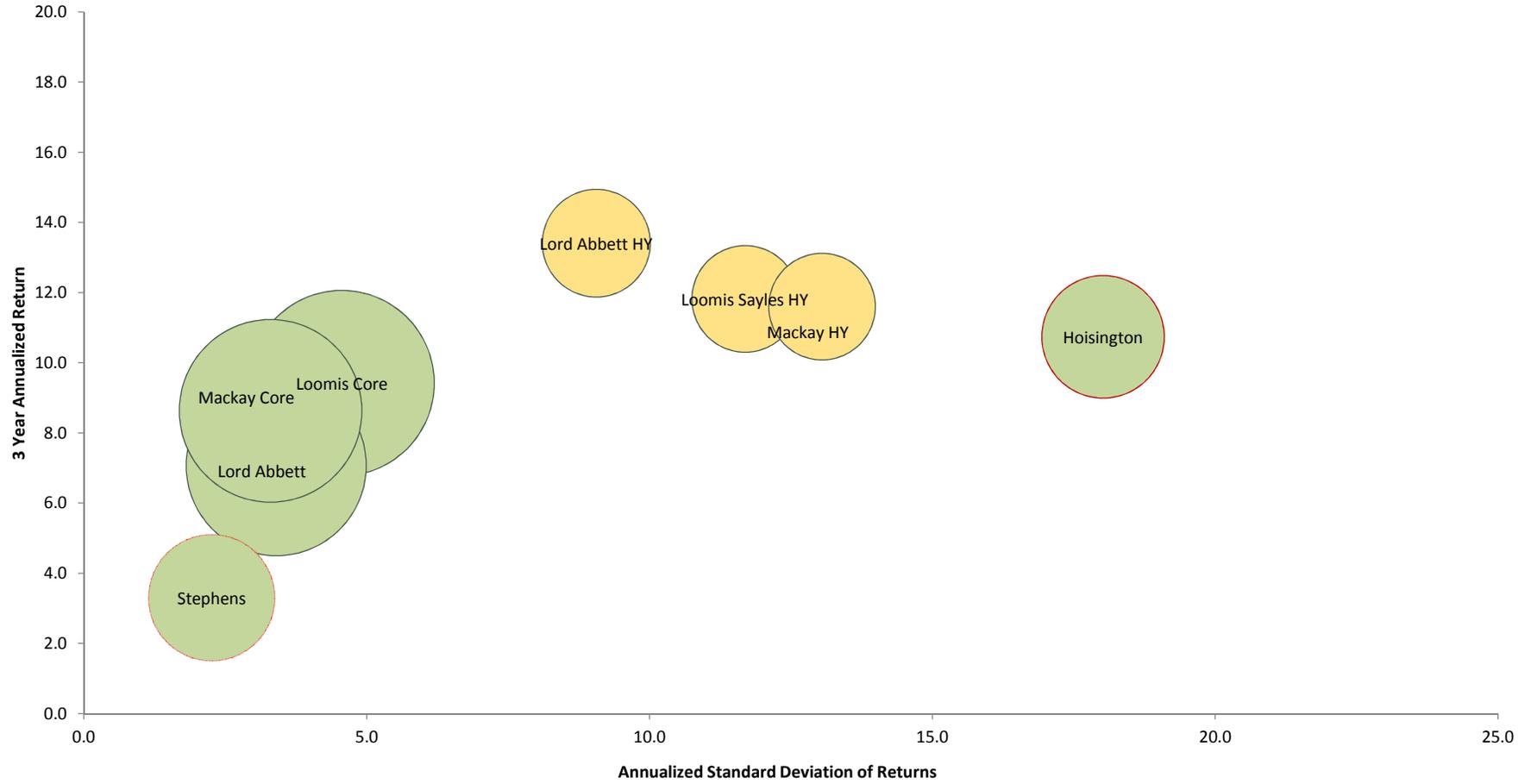
	Market Value	Inception Date	Time Since Inception (Years)	Since Inception	10 Years	5 Years	3 Years	1 Year	Fiscal YTD	Last Quarter	Last Month
Chickasaw Capital MLP	<b>208,208,842</b>	<b>2/28/2011</b>	<b>2.3</b>	26.4	-	-	-	49.8	46.0	8.3	-0.4
<i>Alerian MLP Index</i>	<i>1.7%</i>			14.5	-	-	-	28.6	24.5	4.2	-2.1
Cushing MLP Management	<b>183,378,597</b>	<b>2/28/2011</b>	<b>2.3</b>	18.9	-	-	-	40.6	41.1	8.8	0.5
<i>Alerian MLP Index</i>	<i>1.5%</i>			14.5	-	-	-	28.6	24.5	4.2	-2.1
FAMCO MLP	<b>334,226,345</b>	<b>2/28/2011</b>	<b>2.3</b>	14.2	-	-	-	31.5	27.3	5.6	-1.2
<i>Alerian MLP Index</i>	<i>2.8%</i>			14.5	-	-	-	28.6	24.5	4.2	-2.1
Legacy Private Equity Portfolio	<b>72,836,747</b>	<b>10/1/2008</b>	<b>4.7</b>	-	-	-	-	-	-	-	-
Franklin Park Private Equity	<b>164,644,182</b>	<b>4/1/2010</b>	<b>3.2</b>	-	-	-	-	-	-	-	-
Total Private Equity %	<b>2.0%</b>										
AEW Real Estate	<b>171,755,602</b>	<b>5/1/2011</b>	<b>2.1</b>	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	<i>1.4%</i>			-	-	-	-	-	-	-	-
Heitman Real Estate	<b>178,076,841</b>	<b>5/1/2011</b>	<b>2.1</b>	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	<i>1.5%</i>			-	-	-	-	-	-	-	-
L&B Real Estate	<b>164,376,355</b>	<b>4/1/2011</b>	<b>2.2</b>	-	-	-	-	-	-	-	-
<i>NCREIF - OEDCE</i>	<i>1.4%</i>			-	-	-	-	-	-	-	-
PIMCO Distressed Mortgage II	<b>39,961</b>	<b>12/1/2008</b>	<b>4.5</b>	-	-	-	-	-	-	-	-
<i>Barclays Aggregate</i>	<i>0.0%</i>			-	-	-	-	-	-	-	-
PIMCO BRAVO	<b>135,297,603</b>	<b>3/31/2011</b>	<b>2.2</b>	-	-	-	-	-	-	-	-
<i>Barclays Aggregate</i>	<i>1.1%</i>			-	-	-	-	-	-	-	-
PIMCO BRAVO II	<b>7,466,532</b>	<b>3/31/2013</b>	<b>0.2</b>	-	-	-	-	-	-	-	-
<i>Barclays Aggregate</i>	<i>0.1%</i>			-	-	-	-	-	-	-	-

# Three Year Risk/Return Review - Equity Portfolios



1 Actual OTRS results used when available, composite when necessary.

# Three Year Risk/Return Review - Fixed Income Portfolios



1 Actual OTRS results used when available, composite when necessary.



# OKLAHOMA TEACHERS RETIREMENT SYSTEM

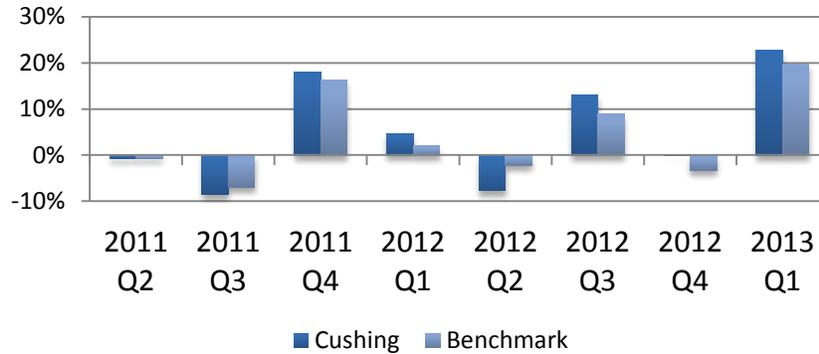
**Date:**

**Purpose:** Due Diligence Review - Cushing MLP Asset Management LP (Subsidiary of Swank Capital)

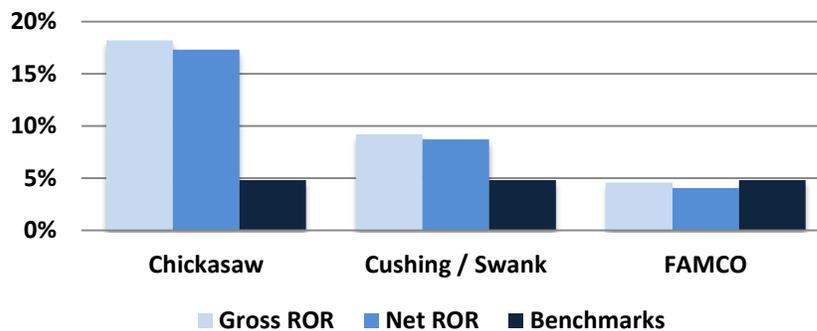
**Manager Profile:** As of 4/30/13

Inception Date:	2/28/11
Strategy:	Non-Traditional/MLP
OTRS Assets Under Management:	\$182,464,110
% of OTRS Portfolio:	1.8%
Portfolio Assets Under Management:	\$289 million
Firm Assets Under Management:	\$2,700 million
Annualized Return Since Inception:	19.4%

## Cushing Quarterly Returns



## MLP Performance 2012



**Background:** On Thursday, May 23<sup>rd</sup> 2013, the Securities and Exchange Commission filed a complaint against Daniel Bergin (Bergin), an equity trader at Cushing MLP Asset Management LP (Cushing) for front-running and insider trading.

**Highlights of Complaint:**

- Bergin is accused of defrauding Cushing and its clients by using Cushing's confidential trading information to trade on and ahead of Cushing's client trades.
- He concealed his trading activity by failing to disclose his trades or the existence of his wife's brokerage accounts and falsely completed at least 6 internal reports regarding their existence.
- On at least 400 occasions since 2011, Bergin placed same day trades in his wife's undisclosed brokerage account. In over 130 of those, he was front-running client accounts.
- Bergin reaped illegal trading profits of at least \$1.7 million.
- Bergin had been a trader at Cushing since 2008 and made \$360,000 in salary and bonus annually.
- Cushing's Code of Ethics and Personal Trading Policy was designed to prevent persons who have access to client portfolios from engaging in fraud in connection with personal trades. The Code of Ethics prohibited him from using inside information for personal profit.
- Bergin regularly failed to disclose his personal trading accounts.
- The SEC's complaint names Bergin's wife Jacqueline Zaun as a relief defendant for the purpose of recovering Bergin's illegal trading profits in her accounts. In order to halt Bergin's ongoing scheme, the SEC requested and U.S. District Court Judge Barbara Lynn granted an emergency court order freezing the assets of Bergin and Zaun.

**Work Performed:** OTRS staff and Consultants engaged in a number of conference calls regarding the complaint. Additionally, the team held a conference call with Libby Toudouze (Portfolio Manager) and Barry Greenberg (Compliance Officer) at Cushing. Subsequent to the conference call, the team decided to visit Cushing onsite to discuss the complaint in greater detail.

The goals of the onsite visit were:

- To determine the degree to which Cushing was implicated in the complaint

- To determine the degree to which OTRS was harmed by the fraudulent activity
- To develop an overall understanding of Cushing's attitude toward the complaint and a feel for the climate
- To determine to what extent OTRS should be engaged with Cushing as an Asset Manager

**Findings:**

1. Cushing was forthright and prepared to discuss all aspects of the SEC complaint.
2. Cushing indicated they were unaware of any pending investigation prior to the release of the Complaint on May 23<sup>rd</sup> 2013, after which they discovered the claim due to a press inquiry and not by the SEC.
  - a. The SEC visited Cushing under the guise of a regular compliance review. It was during this visit that they obtained their information from Cushing
  - b. The SEC indicated the complaint was an expedited case in order to retrieve relief from Bergin's assets and accordingly was not willing to share information regarding the case with Cushing
  - c. OTRS Team contacted the SEC and this claim was corroborated
3. Cushing is not a party implicated in the SEC complaint; however they have not received their final report from the SEC exam due to the pending investigation.
4. On learning of the complaint, Cushing promptly terminated Mr. Bergin's employment and advised he hire his own legal counsel.
5. Prior to Mr. Bergin's termination, Cushing employed 2 traders.
  - a. Cushing has indicated they have received many resumes and applications for employment subsequent to the complaint's filing and intend to have the position filled in the immediate future
6. Cushing has in place an adequate Code of Ethics policy and an active compliance activity. The charges against Mr. Bergin derive from his deceit and unethical behavior with both the SEC and Cushing.
  - a. Cushing provided a copy of their ethics and personal trading policy

7. OTRS third party trading cost analysis indicates Cushing has the second most negative market impact in the OTRS portfolio. Cushing was surprised to hear this as they indicated they have procedures in place to regularly review trading costs and execution. They agreed to review our information and plan to discuss their findings in the future.
  - a. Cushing provided meeting minutes and a policy guideline of their most recent Quarterly Brokerage Review Committee discussion
8. Cushing indicated they have not lost any accounts due to Mr. Bergin's activities.
9. Cushing indicated they are searching for a third party consultant to review their processes and offer recommendations to improve any processes needing rework.
10. Cushing agreed to provide the following information as it becomes available
  - a. Confirmation of Mr. Bergin's replacement – completed 6/13/13
  - b. Confirmation of the consultant when hired
  - c. Projection of adverse costs to OTRS assets if material
  - d. Results from completed SEC Exam

**Conclusion:** Cushing adequately provided answers and color to the SEC complaint. They satisfactorily addressed the team's concerns and have been quick and cooperative in providing additional information as it has been requested. It is the team's opinion that Cushing does not have a culture with loose ethics or policies; rather they were a victim of a rogue employee operating in his self-interest.

**Recommendation:** Due to the nature of the complaint and its pending status, Cushing should be put on an elevated status. OTRS team should keep regular contact with Cushing as the investigation continues.

## June 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
Stephens Capital Management	Fixed Income	Duration Management	\$ 292,139,349	2.51%	Terminated	Performance	March 2013	March 2013	N / A	Transition the Portfolio and re-allocate within fixed income.
Epoch Investment Partners	Domestic Equity	All Cap Value	\$ 366,403,912	3.14%	Alert	Personnel / Organizational Issues	October 2012	March 2013	June 2013	A smooth transition through the change in ownership with no material impact on portfolio construction and investment philosophy.
Epoch Investment Partners	International Equity	Small Cap Value	\$ 102,030,612	0.88%	Alert	Organizational Issues	October 2012	March 2013	June 2013	A smooth transition through the change in ownership with no material impact on portfolio construction and investment philosophy.
Wellington Management	Domestic Equity	Mid Cap Value	\$ 336,758,907	2.89%	Alert	Performance	October 2012	March 2013	June 2013	A material change in portfolio performance to be determined at the discretion of OTRS Investment Committee and Board of Trustees. The portfolio manager asserted that a 500 basis point outperformance of the benchmark by June of 2013 should be expected.