OKLAHOMA TEACHERS RETIREMENT SYSTEM

INVESTMENT COMMITTEE MEETING

OCTOBER 23, 2012

3:00 PM

MEETING MATERIALS

ALL BOARD MEMBERS ARE ENCOURAGED TO ATTEND INVESTMENT COMMITTEE MEETINGS

INVESTMENT COMMITTEE MEMBERS:

Chair: James Dickson

Vernon Florence, Bill Peacher, Michael Simpson, Gary Trennepohl

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TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
Investment Committee Meeting
Tuesday, October 23, 2012 – 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 SMALL CAPITALIZATION DOMESTIC EQUITY SEARCH**

3. **DISCUSSION ON RELATIONSHIP BETWEEN TRUSTEES AND VENDORS**

4. **DISCUSSION AND POSSIBLE ACTION ON MONTHLY MANAGER PRESENTATION FORMAT**

5. **DISCUSSION AND POSSIBLE ACTION ON PERSONNEL CHANGE AT EPOCH INVESTMENT PARTNERS INTERNATIONAL SMALL CAP PORTFOLIO**

6. **DISCUSSION AND POSSIBLE ACTION ON PERSONNEL CHANGE AT LOOMIS SAYLES & COMPANY HIGH YIELD PORTFOLIO**

7. **DISCUSSION AND POSSIBLE ACTION ON INVESTMENT CONSULTANT MONTHLY REPORT**

8. **QUESTIONS AND COMMENTS FROM TRUSTEES**

9. **ADJOURNMENT**

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INVESTMENT COMMITTEE:
Chair: James Dickson
Members: Vernon Florence, Bill Peacher, Michael Simpson, Gary Trennepohl

Small Capitalization Domestic Equity Portfolio

October, 2012

Search Timeline

1. RFP Released: **Late August, 2012**
2. RFP Responses Returned: **September 28, 2012**
3. RFP Responses Catalogued and Classified: **October 11, 2012**
4. Initial Background/Organizational Cuts: **October 12, 2012**
5. Performance Analysis Started: **October 16, 2012**

Total Submissions: **174**

Growth:

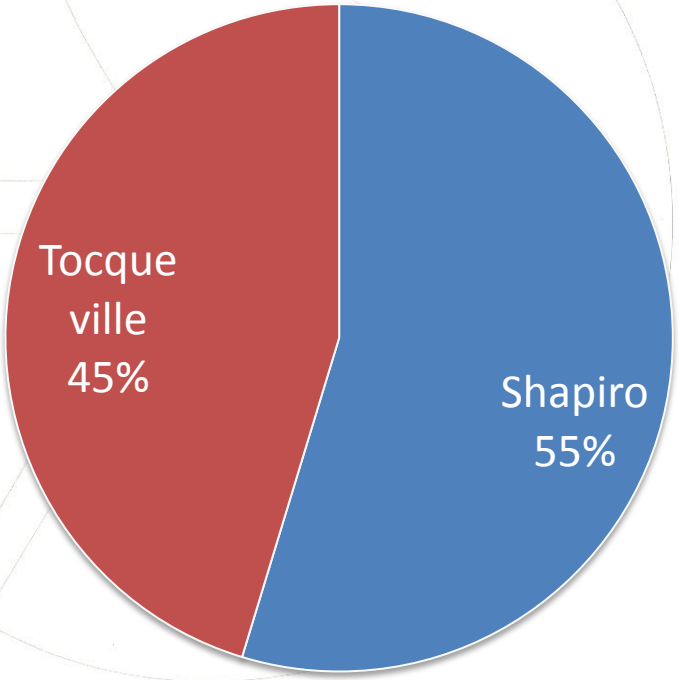
Core:

Value:

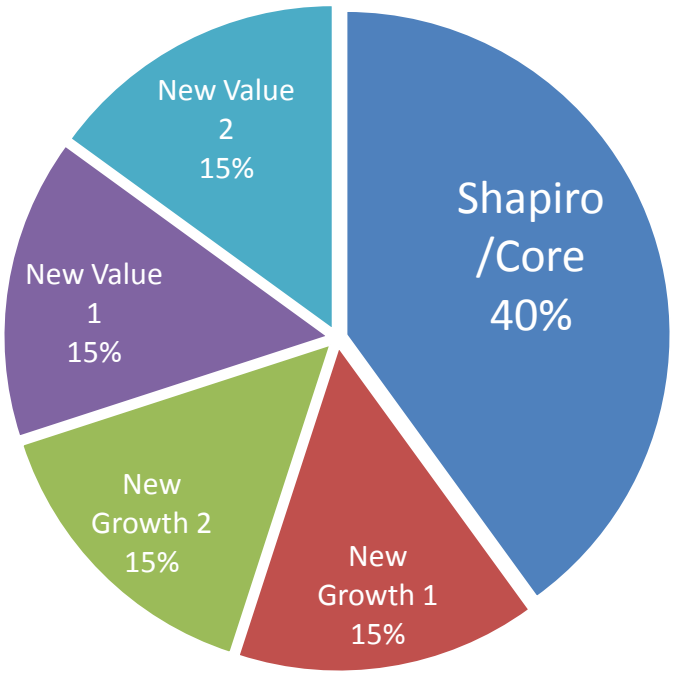
Small Cap Portfolio Structure

Small Cap Target Allocation is 10%

June 30, 2012: Structure



Potential Future Structure



Shapiro Capital Small Cap Style Analysis

Holdings Based Classification of Portfolio Style

Trailing Periods Performance as of 6.30.2012

	Value	Core	Growth
Large	0%	**0%**	0%
Middle	7%	**24%**	0%
Small	25%	**38%**	5%

Average – Five Years ended 6.30.2012

	Value	Core	Growth
Large	0%	**0%**	0%
Middle	16%	**18%**	9%
Small	18%	**25%**	12%

Shapiro Capital Small Cap Style Analysis

Based on Actual Portfolio Holdings of Composite

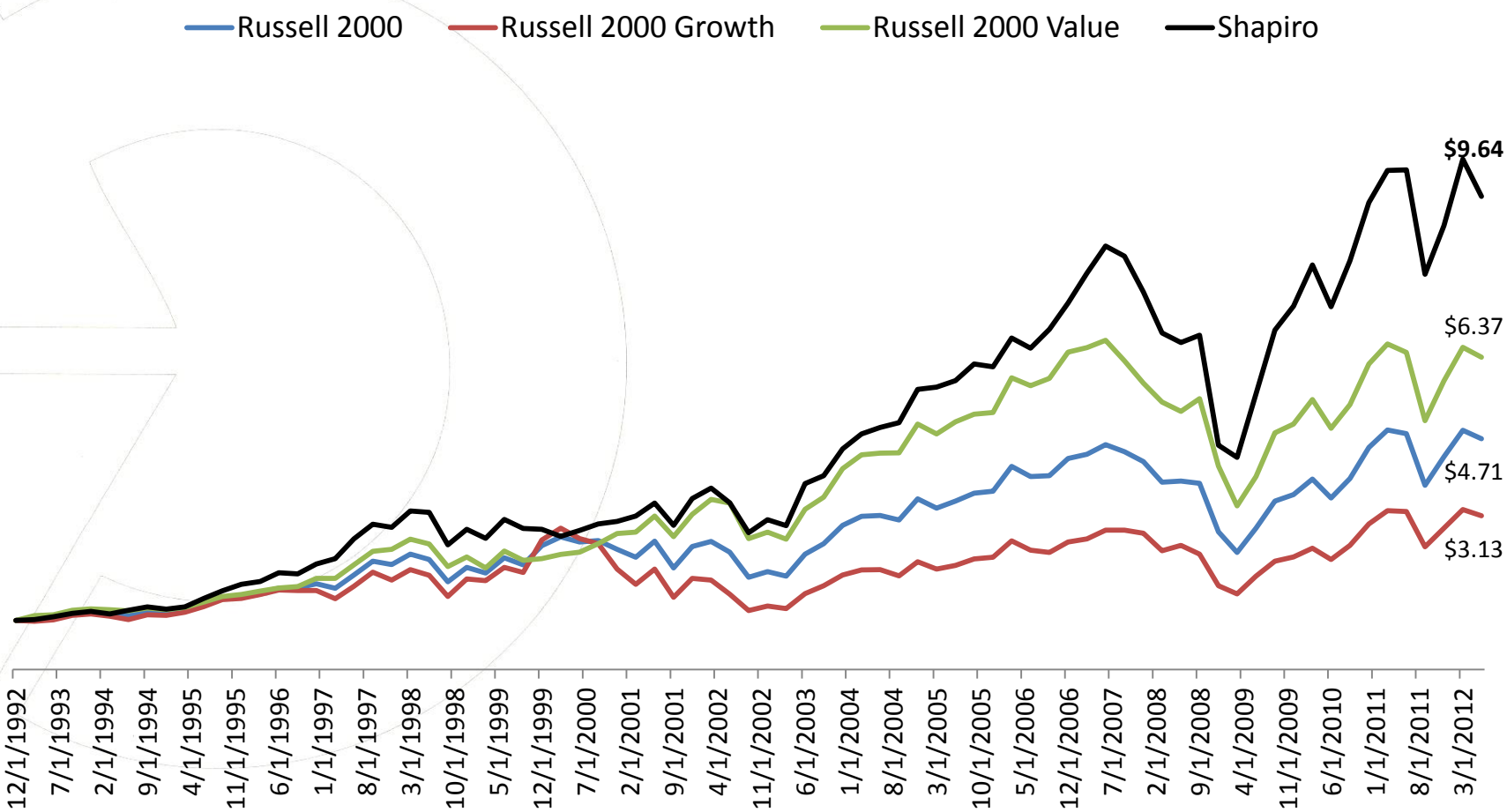
- The table at right depicts how Shapiro's returns have correlated to the major small cap style indexes.
- The boxes showing Shapiro's correlations display two numbers. The top number shows return correlations from 1q1993 to 2q2012. The lower number shows return correlations from 3q2007 to 2q2012 (trailing five years).
- The data indicates that since inception, Shapiro showed higher correlations to small cap value and small cap core. Over the past five years, Shapiro's was most highly correlated with the core segment of the small cap market.

Correlation Matrix

	Russell 2000	Russell 2000 Growth	Russell 2000 Value	Shapiro Small Cap Value
Russell 2000	1.00	0.96	0.92	0.90 0.96
Russell 2000 Growth	0.96	1.00	0.79	0.80 0.95
Russell 2000 Value	0.92	0.79	1.00	0.92 0.94
Shapiro Small Cap Value	0.90 0.96	0.80 0.95	0.92 0.94	1.00 1.00

Shapiro Capital Small Cap Performance History

Growth of a Dollar: Composite vs. Small Cap Indexes



Equity Transition Update

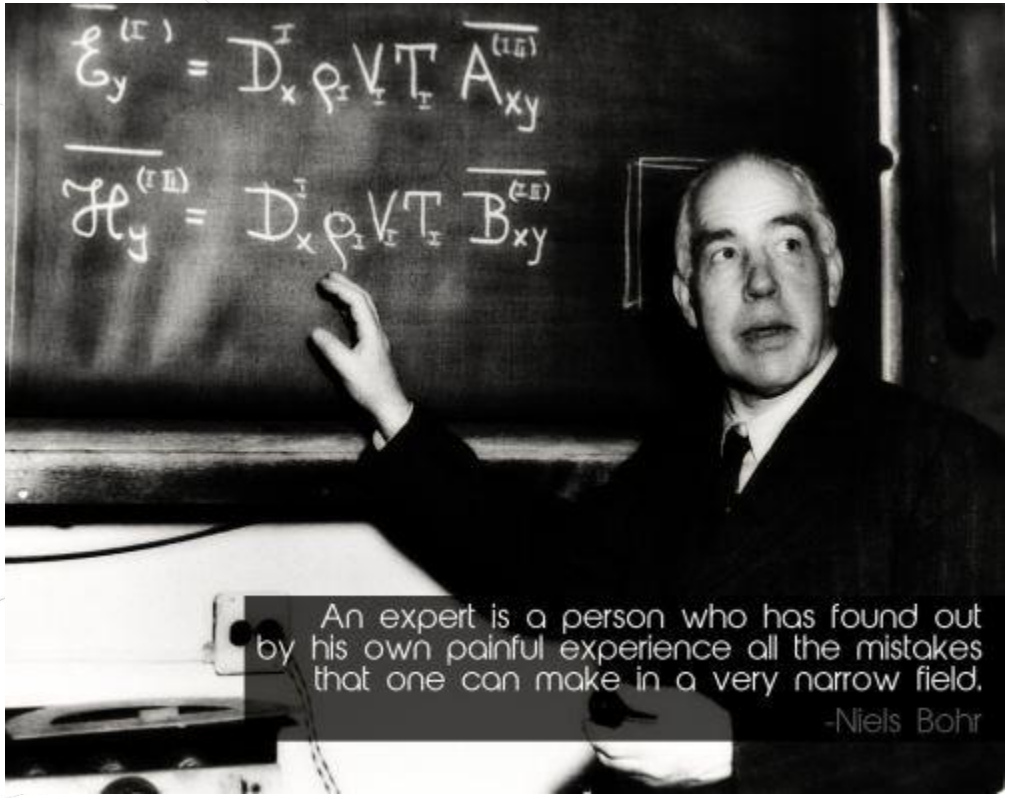
- AJO continues to manage the transition of the legacy small cap portfolio using dark trading pools and other passive trading methods to minimize market impact and maximize the proceeds from the portfolio.

- As of October 16th, the transition was 73% complete. Total amount traded were **$298,552,676**.

- The proceeds are being invested in the iShares Russell 2000 ETF. As of October 16th, the market value of this temporary portfolio was **$316,982,248**. The remaining positions amounted to **$97,050,795**.

- The third quarter corporate earnings reporting season recently started. Trading volume was markedly increased during the second quarter earnings season. AJO will continue to liquidate the portfolio using the current methods until instructed differently.

Small Cap Stock Investing Expertise…



Small Cap Manager Selection Criteria

More Important

- Capacity
- Liquidity Management
- Proprietary Investment Advantage
- Quality
- Stability
- Experience
- Reasonable Fees
- Diversifying Properties

Less Important

- Long Track Record
- Large Assets Under Management
- Extended Product Line
- Style Purity
- Capitalization Purity
- Excellent Recent Returns

Search Process

- Develop RFP/Questionnaire
  - Highlight important issues
- Release Three RFP/Questionnaires Publicly
  - Small Cap Core
  - Small Cap Growth
  - Small Cap Value
- Review Responses Individually
- Review Acceptable Responses versus Existing Portfolios
- Present Short List to Investment Committee
- Due Diligence Meetings
- Final Presentations/Selection by Full Board
- Transition to New Structure

Manager Monthly/Quarterly Report

DRAFT for Standardized Manager Reports

Performance Summary Page

This page will detail the portfolio's market value, cost value, realized gains, unrealized gains and cash flow over a variety of time periods. The page will also show historical returns, gross and net of management fees, versus relevant benchmarks. Returns will be displayed in a table starting with since inception and moving to shorter annualized time periods, then last quarter, and finally last month.

Organizational Review

- Review of organizational changes over the past year.
- Review of investment team changes over the past year.

Investment Philosophy

- Succinct summary of manager's investment philosophy.
- Review of how investment process executes the investment philosophy. Applicable investment process ONLY.
- Summary of the managers assets under management. Both total firm and product assets under management will be listed.

Portfolio Review

- Standardized portfolio profile showing sector allocations and relevant portfolio characteristics.
  - Equity: P/E, P/B, Dividend Yield, Beta, R2, Number of Holdings, Annual Turnover.
  - Fixed Income: Duration, Maturity, Average Credit Quality, Yield to Maturity, Number of Holdings, Annual Turnover.
- Compliance: managers will be required to affirm that they are in full compliance with all applicable OTRS investment policies.
- Managers will also review any exceptions they have been granted under OTRS investment policy statement.
- Managers will formally request any exceptions to investment policy that would benefit OTRS' portfolio.

Performance Attribution

- Textual and quantitative performance attribution for the trailing quarter and one year.

Holdings Review

- Review of two individual securities from the portfolio.
- Best performer.
- Worst performer.
- Listing of all securities held in the portfolio listing market value, cost value, initial date of purchase, unrealized gains and yield.

Portfolio Outlook

- The manager will BRIEFLY cover their outlook for the market and how their portfolio is positioned to prosper.
- The manager will also BRIEFLY cover their previous year's outlook and how it affected performance.

Presentation Format

- Two managers each month.
- Grouped by asset category.
- Thirty minute presentations each.
- Presentations preceded by Gregory W Group monthly report and introduction of each manager.

- The lead portfolio manager will be **required** to present during their regular meeting with the OTRS Board.

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October 1, 2012

James R. Wilbanks, Ph.D.
Executive Director
Oklahoma Teachers Retirement System
2500 North Lincoln Boulevard, 5th Floor
Oklahoma City, OK 73105

RE: International Small Cap Update

Dear Dr. Wilbanks,

Thank you for your time this morning - it was nice speaking with you.

As promised, I am following up with a summary of the key points from our conversation about your international small-cap portfolio at Epoch. Emily Baker, a co- portfolio manager on our international small-cap team, will be retiring from the investment management business and leaving Epoch at the end of the year. After recently returning from maternity leave, with the team fully resourced and with the recent strong relative performance, she feels now is an opportune time to make the transition.

Eric Citerne, Michael Welhoelter and Bill Priest will continue to be portfolio managers on the strategy. Eric Citerne has managed the portfolio jointly with Emily since 2010 and served as the lead portfolio manager during Emily's maternity leave earlier this year. Michael Welhoelter and Bill Priest have been portfolio managers on this strategy since its inception, with Bill being the original architect of the strategy. Bill will continue to contribute to the ISC team primarily through his portfolio manager oversight and development of macro views/ investment themes as the co-chair of the Investment Policy Group.

We believe the team is in a strong position in terms of portfolio management and research coverage. We have hired five experienced analysts over the past year, three of whom — Matt Chan, Tim Sledge and John Morgan — work specifically on the international small-cap team. Please find attached an overview of the team post Emily's retirement along with bios for the group.

We look forward to our next review and the opportunity to introduce you to John Morgan, the newest member of the team. In the meantime, please let me know if you need additional information or if we can be helpful in any way. Thank you for your continuing confidence in Epoch and for the opportunity to manage this portfolio on your behalf.

Best regards,

Tom Pernice
Managing Director, Client Service

International Small Cap: Investment Team

Research

Fundamental Analysis

U.S.
Janet Navon (31)
David Pearl (29)
John Reddan (27)
David Siino (14)
Jeffrey Smith (21)
Chris Wolters (22)
Justin Howell (10)

Global & Non-U.S.
Bill Booth (16)
Matthew Chan (13)
Eric Citerne (21)
Michael Jin (16)
Josepha Kaufman (17)
John Morgan (16)
Bill Priest (47)
Eric Sappenfield (27)
Tim Sledge (18)
John Tobin (31)
Kera Van Valen (10)

Client Portfolio Managers
Andrea Tasker Glogoff (18)
Richard Watt (30)
Gretchen Amidon (13)

Quantitative Analysis & Risk Management

Mike Welhoelter (26)
Jason Root (15)
Ken Hightower (15)
Matt Herman (5)

Macro Analysis

Investment Policy Group

Bill Priest (47)
Andrea Tasker Glogoff (18)
Janet Navon (31)
Tom Pernice (30)
John Reddan (27)
David Pearl (29)
Eric Sappenfield (27)
Richard Watt (30)
Mike Welhoelter (26)

Trading

Mark Strauss (26)
Doug Van Gorp (11)

International Small Cap Team

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Bill Priest (47)
Matthew Chan (13)
Ken Hightower (15)
John Morgan (16)
Tim Sledge (18)
Richard Watt (30)
Gretchen Amidon (13)

Portfolio Managers

Eric Citerne (21)
Mike Welhoelter (26)
Bill Priest (47)

**Lead portfolio manager. Number in parentheses denotes years of experience.*

International Small Cap: Investment Team Biographies

Eric Citerne, CFA, CPA – *Managing Director, Portfolio Manager & Senior Research Analyst*
Eric is a portfolio manager for Epoch's International Small Cap and Global Small Cap strategies. Eric joined Epoch in 2008 from Evergreen Investment Management where he served as Vice President, Director and senior analyst, responsible for the investment of their international small cap and mid cap strategies. Eric was also a Vice President and analyst at Harbor Capital Management in Boston where he helped manage their international large cap portfolio. Prior to Harbor, Eric spent three years as a senior equity analyst at the Teacher Retirement System of Texas and three years as a financial analyst at the Public Utility Commission of Texas. Eric holds a BBA from University of Texas in Austin as well as an MBA from Southern Methodist University in Dallas. He holds the Chartered Financial Analyst designation and is a Certified Public Accountant.

Michael A. Welhoelter, CFA – *Managing Director, Portfolio Manager & Head of Quantitative Research & Risk Management*
Mike is Epoch's Chief Risk Officer and heads Epoch's Quantitative Research and Risk Management team. He is also a portfolio manager on all of Epoch's strategies. He is responsible for integrating risk management into the investment process. Prior to joining Epoch in 2005, he was a Director and portfolio manager in the Quantitative Strategies Group at Columbia Management Group, Inc. In this role, he managed over $5 billion in mutual funds and separately managed portfolios. Prior to joining Columbia Management Group, he was at Credit Suisse Asset Management Group ("CSAM"), where he was a portfolio manager in the Structured Equity group, overseeing long/short market neutral and large cap core products. Before joining CSAM, he was a portfolio manager and quantitative research analyst at Chancellor/LGT Asset Management. Mike holds a BA degree in Computer and Information Science from Colgate University. He is a member of the New York Society of Security Analysts, the Society of Quantitative Analysts and holds the Chartered Financial Analyst designation.

William W. Priest, CFA – *Chief Executive Officer, Co–Chief Investment Officer & Portfolio Manager*
Bill is Chief Executive Officer and Co-Chief Investment Officer of Epoch Investment Partners. He is a portfolio manager for Epoch's global equity investment strategies and leads the Investment Policy Group, a forum for analyzing broader secular and cyclical trends that Epoch believes will influence investment opportunities. Prior to co-founding Epoch in 2004 with David Pearl, Tim Taussig and Phil Clark, Bill was a Co-Managing Partner and portfolio manager at Steinberg Priest & Sloane Capital Management, LLC for three years. Before joining Steinberg Priest, he was a member of the Global Executive Committee of Credit Suisse Asset Management ("CSAM"), Chairman and Chief Executive Officer of CSAM Americas and CEO and portfolio manager of its predecessor firm BEA Associates, which he co-founded in 1972. During his 30 year tenure at BEA and CSAM, he developed the firm into a well-recognized investment manager with over $100 billion under management. Bill is the author of several published articles and papers on investing and finance, including the books, *The Financial Reality of Pension Funding Under ERISA* and the more recent, *Free Cash Flow and Shareholder Yield: New Priorities for the Global Investor* which details the underpinnings of our investment approach, published by John Wiley & Sons. He holds the Chartered Financial Analyst designation, is a former Certified Public Accountant and a graduate of Duke University and the University of Pennsylvania Wharton Graduate School of Business. He is a Director of Globe Wireless, InfraRedX and a member of the Council on Foreign Relations.

Matthew W. Chan, CFA – *Director, Senior Research Analyst*
Matt is a non-U.S. equity research analyst with a primary focus on Asian equities. Prior to joining Epoch in 2011, Matt was a global equity research analyst at Neuberger Berman, where he worked on Neuberger's developed and emerging market funds. Previously, Matt was a management consultant with McKinsey & Company and a semiconductor analyst with Merrill Lynch. Prior to Merrill Lynch, Matt was an analyst in the Technology Mergers & Acquisitions group at Robertson Stephens. Matt holds an AB in Applied Mathematics and Economics from Harvard University and a Masters of Engineering Management and an MBA from Northwestern University. He holds the Chartered Financial Analyst designation.

Kenneth N. Hightower, PhD, CFA – *Director, Quantitative Research & Risk Management*
Ken is an analyst on the Quantitative Research and Risk Management team. Prior to joining Epoch in 2007, he spent four years as a global equity quantitative analyst for Federated Global Investment Management. Before Federated, Ken worked for the SAS Institute as a Technical Associate for the econometrics and times series group. In addition, he taught econometrics classes at The University of North Carolina at Chapel Hill. Ken holds an AB in Mathematics and Economics and a PhD from The University of North Carolina at Chapel Hill. He holds the Chartered Financial Analyst designation.

International Small Cap: Investment Team Biographies

John Morgan – ***Managing Director, Senior Research Analyst***
John is a senior non-U.S. equity research analyst. Prior to joining Epoch in 2012, John spent 16 years at Putnam Investments where he was a senior vice president and co-manager of the Global Natural Resources Fund, which invested in energy, materials and industrials companies. He was also the senior chemicals and basic materials analyst for Putnam's international and global funds. Before joining the international team in 2006, John was the North American energy and basic materials analyst for Putnam's domestic funds. He holds a BA from Denison University and an MBA from The Johnson School at Cornell University.

Timothy Sledge, CFA – ***Vice President, Research Analyst***
Tim is a non-U.S. equity research analyst with a primary focus on the financial services sector. Prior to joining Epoch in 2011, Tim was a principal and sector research team leader at Bessemer Trust Company, where he worked on Bessemer's global financials team. Previously, Tim was a junior analyst with Sanford C. Bernstein, covering the insurance sector. Prior to Sanford C. Bernstein, he was a manager of institutional research at Davis Advisors. Tim holds a BA in Economics and English from the University of Pennsylvania. He holds the Chartered Financial Analyst designation.

Richard Watt – ***Managing Director, Global Portfolio Management***
Richard leads non-U.S. and global equity product management. Prior to joining Epoch in 2007, Richard spent four years as Executive Vice President of U.K.-based Schroders Investment Management where his responsibilities included consultant relations, client service and sales for domestic and international equity, fixed income and alternative products. Prior to Schroders, he worked at Credit Suisse Asset Management as Head of Emerging Markets and President of CSAM's closed-end investment funds responsible for managing a variety of investment products for clients located globally. Richard has held positions as a portfolio manager with Gartmore and Kleinwort Benson, in London in emerging market equities. He began his career in Edinburgh, Scotland in 1982. He holds an MA Joint Honors Degree in History and Politics from the University of Edinburgh.

Gretchen Amidon, CFA - ***Director, Global Portfolio Management***
Gretchen is a client portfolio manager for the global and non-U.S. equity strategies. Prior to joining Epoch in 2012, Gretchen spent five years with Neuberger Berman as product specialist for the global equity strategy, responsible for communicating investment policy, process and results to institutional and sub advisory channel clients, and consultants. Prior to Neuberger, she was an analyst covering various sectors including real estate with UBS Investment Research and Prudential Financial Equity Group. Gretchen holds a BA in Psychology from the University of Massachusetts and an MBA from Suffolk University. She holds the Chartered Financial Analyst designation.